



Independent Rates Oversight Committee (IROC)

June 16, 2014
MINUTES

1. **Roll call**

Chairwoman Stallard-Rodriguez called to order the regular meeting of the IROC at 9:35 a.m. Monica Foster conducted roll call and a quorum was declared. Attendance is reflected below:

Members:	Present	Absent
Gail Welch, Chair	X	
Don Billings, Vice Chair		X
Craig Chapman		X
Christopher Dull	X	
Gordon Hess	X	
Jeff Justus		X
Jack Kubota	X	
Tiffany Mittal	X	
Jim Peugh	X	
Irene Stallard-Rodriguez	X	
Ex-Officio Members:		
Luis Natividad, Metro JPA	X	
Ken Williams, City 10	X	

City representatives present at dais: Halla Razak, Director; Tom Crane, Assistant Director; Tom Zeleny, Deputy City Attorney

2. **Non-Agenda public comment**

No members from the public commented.

3. **Approval of Draft Minutes of May 19, 2014**

Chairwoman Stallard-Rodriguez asked for a motion to approve the May 19, 2014 Minutes.

ACTION: Upon motion by Member Peugh, seconded by Member Welch, motion passed 7-0-0.

4. **Chair updates** – Chairwoman Stallard-Rodriguez

None.

5. **City Staff updates** – Halla Razak, Director

- Capital Improvement Program (CIP) cash flow and execution – There are many challenges, and she has initiated discussions with James Nagelvoort, Public Works Department Director and his staff. John Gavares, Strategic Support Services Manager facilitated a partnering session and interviewed those involved. She shared the outcome, and indicated that both departments share similar issues, and that it is a “system” challenge. The processes can be streamlined and they will be working hard on this effort together to create a system that works efficiently and effectively.

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- Guann Hwang, Deputy Director of Engineering & Capital Program Management will be leaving the Department in October. It has been approved by the Mayor's office to fill this position before it is vacant so he can be shadowed during the transition period to get this system plan and streamlined process in place.
- Branding effort: A video has been put together that was shared with all of the Department employees at the recent Branding launching event that took place last week, 1700 employees got together in two separate meetings. This will be shared with IROC today. The purpose of the event was to rally the employees, meet as a team, and streamline visions about belonging to the Department. The four pillars of the new Brand are Quality, Value, Reliability, and Customer Service. The new slogan selected and surveyed amongst the employees and outside constituents was unveiled and is "Quality, Value, Reliability - in Every Drop". (The video mentioned followed Item 9 below, and IROC members thoroughly enjoyed.)

Chairwoman Stallard-Rodriguez asked how much water was used in the latest fire. Bob Mulvey, Assistant Director indicated that he recollects approximately \$174,000 worth of water, but does not have the volume amount but this information will be emailed to the IROC members.

6. **Mayor and Council Staff comments**

None.

7. **City 10 – San Diego County Water Authority (Water Authority) Update** – *Ken Williams, Cathy Pieroni*

- MET Lawsuit: no changes since last meeting.
- San Vicente Dam Project: began filling of the dam; once filled this will provide a supply of water for the region during drought periods.
- Carlsbad Desal Plant: still on target to open September, 2015.
- Pumped Power Project: staff presentation on today's agenda. Next step is a vote next week at the next Board meeting to approve a \$1.2M expenditure.
- MET water rates will increase by an average of 1.5% and will be incorporated into the Water Authority rates that are proposed to increase by an average of 3% on January 1, 2015.

He then introduced Cathy Pieroni, Principal Water Resources Specialist, who attends the Water Authority Board meetings and briefs staff, as well as the City-10. Director Razak added that Ms. Pieroni does an outstanding job, and is the go-to person for the City-10.

Ms. Pieroni reminded IROC that she had recently reported the status of the MWD rates and charges to the Finance Subcommittee. Once MWD's rates and charges are decided upon each April by its Board of Directors, that information is incorporated into the Water

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Authority's budget as an expense and reflected in the Water Authority's recommended rates and charges that are presented to its Board of Directors each June for consideration.

She gave a brief background of the recent financial policy decision-making efforts at the Water Authority, including the Board's Fiscal Sustainability Task Force and meetings of the member agency general managers and finance officers who looked at options for incorporating Desal costs into rates and charges. These efforts came to a conclusion at the March Board meeting. The Board wanted more time spent in fiscal year 2015 to work through issues and take a more integrated approach. Director Williams, on behalf of the City-10, made the motion to establish a one-year approach to pay for the cost of desalinated seawater and defer final decisions until additional work to be completed in FY 2015. By majority vote, this was the direction taken by the Water Authority's Board.

Ms. Pieroni also reviewed Board decisions associated with the Water Authority's Transitional Special Agricultural Water Rate (TSAWR) Program. The Board elected to continue the TSAWR through CY 2015, paying for it out of the Water Authority's Rate Stabilization Fund. Long-term continuation of this discount should be in the larger fiscal sustainability/desalination rates discussion. She noted that the agricultural customers (does not include agencies) that sign up for this program will be given a discount in the cost of their water, in exchange of a greater level of interruptability of service from the Water Authority in times of mandatory restrictions.

Ms. Pieroni then referred to charts, and gave a brief overview of the CWA historical rate increases and total fixed costs. Last, she briefly reviewed the proposed FY 2015 "all in" M&I water rate breakdown.

Member Peugh asked what the price per acre foot would be for the desalinated seawater. Ms. Pieroni indicated that an update from the CWA has not been received with regard to the final cost, as the facility is still under construction. She can provide that information later, after the completion of the construction which is expected in the Fall of 2015. He also would like to know the breakdown of how much of the cost will go to treated water vs. untreated water customers. Ms. Pieroni indicated there are no final decisions at this point and this will be discussed at a later time. Director Razak added that as the Desalination costs were being studied, many other questions were generated and other avenues discussed, so this process has taken a lot longer than anticipated.

Member Hess commented that he understands that sustainability is an issue; he asked if the amount that goes on to the treatment charge is an issue. Director Razak stated with this will be addressed as this process continues.

Member Peugh asked about cost offsets for recycled water and irrigation water use. Director Razak indicated that Lee Ann Jones-Santos is in the process of finalizing the cost of service for the reclamation water. Ms. Pieroni added that the CWA has a drought

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allocation plan, that if recycled water is produced and water is conserved, member agencies that have made these investments get an extra allocation of water from the Water Authority during periods of mandatory restrictions, not to exceed 5%.

8. City Audit Update

Chris Kime, Audit Manager, provided the Office of the City Auditor's May 14 Department Reserves Audit Report, and gave a presentation of the 3rd Public Utilities audit year to date. He indicated that the objectives for this audit were to determine if the reserves were efficient, documented, monitored, and reported. He gave a brief background and noted that the City's reserve policy related to the Department's reserves was last revised December 2011. He then listed and described the 3 Findings, and their Recommendations. He indicated that the three Recommendations to improve the financial administration of the Department were agreed to by management.

He added that there were three audits done this year, the fourth audit for the Department's overhead rates is planned for 2015 unless IROC feels there is a higher priority.

Member Peugh asked if the amplitude of reserves was analyzed, in the science, climate, and statistics of reserves. Mr. Kime indicated yes, to a limited extent. Reserves are looked at and adjusted based on conditions.

Member Welch asked what the time frame is for accepting future audit recommendations. Mr. Kime stated the due date would be approximately the beginning of July.

9. San Vicente Hydropower Project

It was noted by Tom Zeleny, Deputy City Attorney that Member Dull abstained from this item due to his firm's involvement in the project.

Bob Mulvey, Deputy Director, along with Kevin Davis, Black & Veatch, and David Moore, Clean Energy Capital, presented. Mr. Mulvey indicated a lot of work has gone into the project over the past several months to understand the feasibility of moving forward. Meetings have been underway with the CWA's Hydropower Task Force, regulators, Cal ISO group, as well as the California Public Utilities Commission that regulates energy. He then gave a brief overview of the project and financial considerations.

Mr. Mulvey noted that the electric grid is ever changing, and renewable energy sources are a very important part of the electric power grid to achieve goals. He described the benefits of pumped storage how power demands on the system change throughout the day and how this pumped storage project can go from pumping to generation, almost instantaneously. He explained that a reservoir would be constructed above the San Vicente Reservoir, and during the low energy-demand hours, water would be pumped to the upper reservoir using low cost energy. Once the demand is high, the water would be brought back down through a hydro-electric plant to generate power to meet the steep demand. He then reviewed the energy market projections up to the year 2020 displayed as the "duck curve" due to the shape of the charted fluctuation.

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Mr. Mulvey then gave background of the project and reviewed the City/County Water Authority Agreement. He noted this is a multi-year effort, where the CWA will be the lead on CEQA/NEPA compliance and permitting, FERC permit holder, and contract for necessary economic studies, design, and construction activities. The City will be the lead on limnology study modeling of possible impacts to potable reuse. Both parties will invite representatives of other parties to participate and review.

Kevin Davis, Black & Veatch, then reported the engineering attributes, and work of their firm to evaluate the project. He reviewed slides displaying representation of the San Vicente Reservoir, and the 4 upper alternative reservoir locations throughout the region. He indicated that each was evaluated, looking at various options for building dams, water storage and tunnels. He then reviewed the key findings, and noted that the cost of the project is approximately \$1 billion, which is consistent with similar projects.

The next steps are to look at the limnology study to make sure this system does not adversely impact the water quality for the Pure Water San Diego program, as well as do an inlet/outlet study that the CWA is leading, linked with the limnology study and water quality. The power market will continue to be looked at.

Mr. Davis identified the key risks associated with this project, which are institutional risks that will be coordinated with the Native American owned property with regard to land acquisition; environmental permitting; regulatory; cost uncertainty; and schedule delays such as construction changes, and/or regulatory permitting compliance.

David Moore, Clean Energy Systems, then described the financial analysis and review portion of the project. He indicated that the areas of focus were the revenue projections for the model, financing assumption, financial metrics, and partnering strategies for further commercial development of the project. He then reviewed detailed charts showing gross revenue projections of the project. He pointed out that the projection is between \$106 million-\$184 million, for the first year of operations in 2022. Last, he reviewed the Black & Veatch financial analysis summary, with regard to the value of the facility, vs. its cost.

Member Peugh asked what the energy efficiency is for this project due to energy lost in the inefficiency of motors and generators with moving water. Mr. Moore indicated that it is assumed there is more than 70% efficiency.

Member Welch asked if it can generate renewable energy credits or offset the greenhouse gas emissions. Mr. Moore indicated that the primary benefit is the avoidance of additional fossil fuel generation. This is a resource that can generate 500 megawatts on demand without any electric emissions. Mr. Mulvey indicated that currently, the project does not qualify for renewable energy credits; it takes more energy to pump the water up than is actually recovered. Until the project can be tied to a solar source, there is no guarantee of the use of cleaner power when it is pumping. However, Pumped Storage is a perfect complement to solar power and promises to become increasingly important as electric utilities incorporate more renewable energy into their electric power portfolios. Pumped Storage not only allows utilities to store solar over-production, but provides

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much needed grid stability – the ability to accurately match power production to grid demand.

Member Mittal asked how many million acre/feet will the reservoirs hold, and how much water can be pumped up at one time vs. dispersed back into San Vicente. Mr. Mulvey indicated the upper reservoir holds approximately 6,000-7,000 acre feet, compared to the lower reservoir of 250,000 acre feet. About 2000 cubic feet per second will be moved, with approximately a 25-30 foot tunnel pipeline. The elevation of the upper reservoir will vary about 40 feet per day, where the lower reservoir will only vary a couple of feet.

She also asked about the coordination with the Indirect Potable Reuse (IPR) as far as the pump station that is going into San Vicente, with the possibility of the pump station going directly into the reservoir. Mr. Mulvey indicated the City is working very closely with the Task Force; there is a clear understanding that if the IPR project is compromised by this project, then this project is a no-go. In terms of the coordination, Jeff Pasek, Watershed Manager who oversees the modeling for San Vicente, is working with Black & Veatch. Limnology studies will be done to be certain there is no conflict. Member Hess added that Direct Potable Reuse would be beneficial.

Director Razak gave a brief recap of the project, noting that the City 10 has been closely engaged, making sure all steps are taken. Bob Mulvey, Deputy Director, and his team are leading the City's perspective on moving forward. Currently, it is being looked into to create an Agreement between the City and the San Diego County Water Authority that only looks at the feasibility portion, which each agency would cover its own staff time. After the study is complete, questions can be addressed. She noted that if this project goes forward, it will replace the amount of power that the San Diego region gets from the San Onofre Power Plant. She indicated her goal is to bring rates down, and this kind of facility with the possible revenue generations, would definitely help the rate payers.

Member Peugh asked if there is a possible water quality impact on San Vicente Reservoir, due to the movement in the upper reservoir rather than allowing it to settle. Mr. Moore stated this will be looked at during the limnology study. He added that all of the water would not be moved, there will be approximately 20 feet of water that stays in the reservoir.

10. Solar Initiatives

Guann Hwang, Deputy Director of Engineering and Program Management, and David Weil, Deputy Director, Deputy Director for Environmental Services, presented. Mr. Hwang mentioned that this project was originated by former Mayor Filner and carried over to the new Mayor Faulconer. He gave background of the initiative, mentioning that after analysis of all Department assets, two sites were selected for installation – Bayview Water Pump Station & Reservoir in La Jolla, as well as the Metro Operation Complex in Kearny Mesa. He described the Request for Qualifications process and the timeline of a series of presentations, with a goal of awarding the contract, and issue the Notice to Proceed for design in February 2015 with a start date for construction in the May 2015 timeframe.

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Mr. Hwang discussed the financial information showing an annual energy cost savings of \$298,000 and a return of investment 8%. He then reviewed requested actions of City Council, to authorize a transfer of funds, approve a shortlist of design-builders, approve not-to-exceed aggregate value, and authorize the issuance of a Request for Proposal and award of a task order for the two site projects. The benefits of the project are to generate and utilize renewable energy, own these credits, avoid greenhouse gas emissions, and benefit the City's climate action plan goals.

Ex-Officio Natividad asked if the RFP will be for both locations as one package, or will it be awarded separately. Mr. Hwang indicated it will be awarded as one package.

Member Hess asked for clarification of the RFP process, for the shortlisted firms. Mr. Hwang indicated there are still discussions that need to take place to finalize the decision, however currently there are two concepts. One concept is to have one as-needed contractor, further solar work would issue task orders to this contractor. The second concept would be to use the shortlist and issue an RFP for further projects. Member Hess commented that the second concept seems to be the better process to get better prices. Member Mittal concurred with Member Hess.

Member Mittal asked if the selected firm(s) could potentially front some of the cost to partner with the City to receive some of the revenue. Mr. Weil stated in this process, the City will own the systems and benefit from all of the cost savings. A financial analysis was done to look at both options, and it was more financial viable for the City to own the entire system.

ACTION: Member Kubota motioned to support the project, and seconded by Member Dull. Motion passed 7-0-0.

11. Should IROC and its Subcommittees go Dark in August

ACTION: Chairwoman Stallard-Rodriguez asked if there is a motion to support all August IROC meetings to go dark for recess. Member Kubota moved for full IROC and its subcommittees to go dark in August, seconded by Member Dull. Motion passed 7-0.

12. Subcommittee Reports

a. Finance – Gordon Hess, Chair

There was no meeting. He commented himself and Member Justus attended a second City strategic planning meeting, the third and final meeting is Friday. He added they were extremely productive and beneficial.

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b. Infrastructure and Operations – Jim Peugh, Chair

- Presentation of the analysis of the health of the kelp forest off of the Pt. Loma Outfall, and an overview of the program with Scripps.
- Report of the Groundwater Project.
- Presentation of the Solar Initiatives.
- Discussion of the Portable Water Reservoirs Condition Assessment
- Reviewed objectives and deliverables of the Department

c. Outreach and Communications – Irene Stallard-Rodriguez, Chair

- None.

13. Metro/JPA Report Out

Director Razak reported that the County Water Authority General Manager and staff presented a presentation on issues and challenges that are facing the Water Authority, such as fiscal sustainability, challenges with the drought, etc. She also reiterated her support for Pure Water. For future water supply source planning, she indicated that member agencies are planning and will be constructing facilities to produce local water supplies. Reports on the Pure Water are positive.

14. Proposed Agenda Items for next/future IROC meeting

- AMI Update

Member Hess asked for an update on the Recycled Water Pricing Study. Lee Ann Jones-Santos indicated there is a final draft of the Report and currently working with the Mayor's office to get the approval to move forward. At that point, outreach would begin.

The Industrial Wastewater Control Program Audit is with Black & Veatch, is being reviewed by Brown & Caldwell at this time, and a draft is not available. Once these two items are ready it will be looped back to the Wastewater Cost of Service Study.

Chairwoman Stallard-Rodriguez indicated to have the items to her or David Bryant by end of June.

15. IROC Members' Comments

Member Kubota commented that the Union Tribune reported recently that Mayor Faulconer will be launching a new San Diego Works program, and asked for some details on how this is being pursued. He also commented in regard to the video shown earlier on the Branding effort, if this will be seen by the public he urges the video to include visuals on how the Department plays a key role in emergency services for the Fire Department, to make sure the public is informed that their bill includes the fire hydrant use in their area.

Meeting adjourned at 12:00 p.m.

Minutes submitted by: Monica Foster