



Independent Rates Oversight Committee (IROC)

July 20, 2015
MINUTES

1. **Roll Call**

Chairman Justus called to order the joint meeting of the Finance Subcommittee and the full IROC at 8:32 a.m. Monica Foster conducted roll and a quorum was declared. Attendance is reflected below:

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

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

2. **Non-Agenda Public Comment**

None.

3. **Approval of Draft Minutes of June 15, 2015**

Chair Justus asked for a motion to approve the Draft Minutes of June 15, 2015.

ACTION: Member Peugh moved to approve as submitted. Member Kubota seconded. Minutes passed 4 (in favor), 0 (oppose), 2 (abstained – Justus, Mittal).

4. **Chair Updates** – *Chairman Justus*

- Commented on water rebates of Metropolitan Water District (MWD). Once the rebates were available, the money was exhausted in 9 hours, which was a record of provided rebates. He identified that there is a waiting list, but advises those to not start their projects at home until informed, sometime in the November timeframe. He indicated the City’s rain barrel rebates are active at this time, however the grass replacement and micro irrigation has been exhausted. There is free green waste for pick up for those who can prove residency.

5. **City Staff Updates**

Announcements – Halla Razak

- In response to the drought, the City is continuing to work hard with outreach, and working with other agencies to coordinate efforts.
- In May, the City’s water use was down by 26%, and in June was down by 24%.

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- Working closely with the City in reducing water use; however, Park and Recreation does not have access to real data use, so they increased their conservation and so the water use was substantially lower. The commitment is to bring the water use below what it was in 2013 by 16%, and it is definitely being achieved.
- Water enforcement and complaints continue, and partnering with Storm Water has been beneficial. There have been many violations issued, and over 120 citations given. This effort and outreach has made a great a difference in water use. She feels that customers are making serious adjustments to their water use as well, which also impacts the revenue.
- Pilot program underway where bins are collecting water from flushing pipelines using Vactor trucks. She then presented a televised news story that ran recently.
- Recent rain has brought rain to the reservoirs and she is waiting for the exact numbers.
- Continuing to work hard on the Pure Water Program, and staying in touch with the EPA.

Senate Bill (SB88) related to water conservation violations – Tom Zeleny

- Described the Bill, referring to the enforcement provisions that IROC had interest in learning about. He pointed out an interesting point that stated that if another water agency cannot serve its customers anymore because of depletion of their water, that the State has the authority to order another agency to serve those customers, with some exceptions.
- Described a current State conservation effort measure most likely directed toward the multitude of water districts around the state that may or may not have regulations in place to enforce conservation measures, giving the ability to assert civil liability on people who violate conservation regulations. He indicated he suspects this is measure would give them the authority to adopt conservation measures, and impose fines and penalties.
- Described the Municipal Code, which the City uses that has 2 processes: administrative tickets much like a parking ticket ranging from \$100-\$1000, and there can be appeals; second process is the administrative civil penalty, which is for larger violations with a set hearing, and fines up to \$2,500 per day, capping out at \$250,000 whether or not it is a residential customer or not.

Director Razak added that the legislature is the busiest it has ever been on water matters which puts a lot of pressure on all water agencies to be as engaged as possible due to the changes of laws and rules. The City is continuing to engage with legislative staff, and partnering with other agencies through the entire process.

Chairman Justus noted that Item 9 of the SB 88 contents contains a Bond Act which provides a sum of \$810M to be available for the Regional Water Management Plan and responding to climate change contributing to Regional Water security. He asked if the Pure Water Program qualifies for any of these funds and if the Department was trying to get any of the available funding.

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Director Razak indicated that the Department's Grants section has been quite active; however she does not have the information available and will get back to him with the information.

6. **Mayor and Council Staff Comments**

None.

7. **Cost of Service Study (COSS)**

Public comment:

Kevin Koeppen, Finance Manager, Otay Water District (Otay), commented that in Otay's opinion of the pricing proposal, it is an attempt to rehabilitate the Raftelis Report (Report) from several years ago. He distributed a Raftelis Recycled Water Pricing Study (attached), which included their objections. He pointed out that the City's North and South recycling distribution systems are significantly different operationally, and significantly different costs of service and zone pricing should be used. He indicated the difference exists because Otay is responsible for maintaining the distribution in the south. He added that by implementing the proposed unitary rate, the City of San Diego will be placing a portion of the North City Distribution's O&M costs onto Otay customers. He indicated that Otay is not opposed to a rate increase; however they are opposed to one that is not fair or equitable to its customers.

Rita Bell, Finance Manager of Otay, commented that 2 years ago City staff presented to IROC the Raftelis Pricing Study. She indicated that since then, Black & Veatch has not been asked to perform a Cost of Service Study (COSS), but to review the prior study and present it to IROC. She stated there has been a lack of stakeholder input, limited time to review, and a "flawed notion" of a unitary rate. Last presentation, IROC questioned the merits of the unitary rates structure due to inequity. City staff brought forward a zone rate structure which was much more fair and equitable. Ms. Bell provided a handout (attached) and reviewed the comparisons of percentage of recycled water sold, and revenues collected from Otay as well as a rate comparison chart. She stated that Otay does not object a rate increase, but wants to pay a fair share and that staff should be directed to implement a rate structure which is fair to all customers.

Director Razak began the item and indicated that the Department and Black & Veatch have been working extremely hard for many months on the COSS. When the Department was ready to present to IROC in April, the Governor came out with his Executive Order, as a result the revenue assumptions needed to be reviewed again. She added that many discussions have taken place with the Mayor's office, and the Department is comfortable with the results that will be shared with IROC today.

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Lee Ann Jones-Santos, Assistant Director, Seth Gates, Deputy Director of Finance, and Brian Jewett, Principal for the Cost of Service, presented the proposed rate increases including rate structure recommendations. Mr. Jewett pointed out that in the audience from his team were Ann Bui, and Alberto Morales.

Mr. Jewett presented an overview entitled “Rates 101”. He described in depth, the 3 main elements: Revenue Requirements; Cost of Service, which is very important with the Prop. 218 requirements; and Rate Design. The objective is to develop rates adequate to recover the total revenue requirements, complying with Prop. 218 which he described. He reviewed the mechanics of rate setting and described the Rate Study focus and key issues.

Lee Ann Jones-Santos, Assistant Director of Public Utilities then described the Department’s excellence in serving customers, such as reviewing operating and capital expenses, with optimum service levels. With efficiencies and energy savings, the Department is able to save \$12.1M per year. She noted with continued investments in infrastructure, the Department has reduced water main breaks by 43% since FY2013, and wastewater spills by 24% and this investment in infrastructure continues in the COSS. She then reviewed water supply and the reliance on purchased water, increasing water costs, and the importance of investing in Pure Water.

She then described the finances of the Water fund. She explained the Cost of Service process which includes meeting legal requirements, financial targets, and review of financials with rate setting drivers. She then described the original timeline of the COSS, which changed due to the Drought Mandate.

Ms. Jones-Santos indicated that the water rate recommendations effective January 1, 2016 include the State mandated water use restrictions, CWA rate increases passed down from MWD that include the Carlsbad Desal Project, Pure Water, reserve requirements, rate structure recommendation, and recycled water. She walked through the proposed water rate increases and timelines in detail. She also reviewed water consumption and meter charges for single family residential, and other class bill impacts.

She indicated that included in the proposed rate increase is a Rate Structure request. Being brought forward is the request to pass-through the CWA rate increases for a 5-year period, not to exceed 7% and the rate increase is based on the actual pass-through from CWA. She noted that 2016 is already approved by CWA; however 2017-2020 is not. Also requested is the authority to pass-through the actual rate increase coming from CWA, it will be in the Prop. 218 Notice and presented to the Committee on the Environment as well as the public, for additional outreach.

She then reviewed the proposed Recycled Water rate increases. Black & Veatch was asked to validate the numbers, so there is accurate information on volumes and revenues

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collected. She noted that the Recycled Water Pricing Study is a modified COSS, so it takes ongoing debt service, and looks at ongoing O&M and CIP, it does not look at the past. She added that all customers share the expenditures for the entire system, and this is standard.

She indicated that this will go before the Committee on the Environment on August 5 to propose the timeline of presenting to City Council. During that time, it will be requested to have the approval to send to customers, the Prop. 218 Notice will include detailed information about the proposed rate increase, and instructions on how to protest. She then listed the various forms of outreach that has been underway, as well as future outreach to the community, which will continue until presentation at City Council in November.

Last, she reviewed data tables that were provided, and walked through the format and how they connect to the provided presentation.

Member Peugh asked Ex-Officio Member Spriggs if the Metro JPA has a position on the presented materials and information, or Otay's comments. Mr. Spriggs indicated that this has not yet been presented, nor has the materials been reviewed in depth. Therefore, he cannot comment at this time. In terms of Otay's comments, he indicated it raises some challenging points of concern.

Chairman Justus asked Ms. Jones-Santos if Otay is the only water district receiving recycled water from the system as a purchaser rather than being a typical end-user; and does the City sell potable water to other water agencies with a similar fashion of having a stabilized rate that is equal to all customers.

Ms. Jones-Santos indicated that the presentation has been sent to Metro JPA, and a meeting will be set. She clarified that the Recycled Water Pricing Study is a 'modified' Cost of Service. She added that not all costs are related to recycled water, but are shared with Water, Wastewater, and Recycled Water customers. She then referenced previous talking points, indicating that the true cost of producing recycled water includes the operating and capital costs of going forward for treatment and distribution, and all costs are allocated as all revenues are offset by that to all customers within the system, and it is confirmed that it is valid to provide a uniformed rate to all customers. Mr. Jewett concurred.

Member Peugh asked in regard to potable water use customers, does the increase cover the cost of using the purple pipe system. Ms. Jones-Santos indicated there are justification and a benefit to all rate payers for recycled water. The system has been brought current, and with the San Juan Capistrano lawsuit it was deemed that water and

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wastewater customers outside of recycled customers do benefit from utilities offering this commodity.

Member Peugh commented that in his opinion it seems it is a risk to reduce the Rate Stabilization Fund, which is a tool to allow the Department to survive if there are limitations. Director Razak indicated there have been many discussions with other water agencies. The Rate Stabilization Reserve is specifically structured to stabilize the rates and able to assist in times like this. The importance of a 5-year Rate Case is to show to the rating agencies, the Department's commitment to fill the reserves into the future. Ms. Jones-Santos described some of the in-depth discussions with City Finance. Member Peugh commented that the last iteration of outreach to ratepayers was very thorough, and he thought the Department did a great job.

Member Mittal shared her concerns with the proposed increases to the multi-family sector, which is substantially higher than the single-family, and asked for more information. Ann Bui of Black & Veatch described the way the unit costs are developed, which does not change according to customer class. The determination is how many units they have. She indicated that the multi-family class is a flat rate, so in some ways this is not a direct comparison. Ms. Jones-Santos gave examples, and also pointed out more information included in the presentation. There are a variety of other components that will continue to be evaluated going forward.

Chairman Justus asked if there are any low-income reductions given to multi-family residents. Director Razak indicated that the Department is engaged robustly, in developing programs to assist low income customers. She noted a voluntary program in Riverside where customers can sign up to "round-up" your bill or pay a small amount toward a fund to use to subsidize low income customers. This type of program is exciting, is being developed and will be rolled out soon.

Member Mittal acknowledged the flat-rate for multi-family class, and asked if there has been a consideration for tiered pricing to accommodate those multi-family customer class who may have a much smaller scale of units opposed to much larger (i.e. 4 units vs. 500 units). Ms. Jones-Santos indicated this was not studied in this COSS.

Member Peugh asked if the average usage per unit could be calculated for the multi-family customers. Ms. Bui indicated, not at the moment, that there is such a wide number of multi-family units, this type of calculation would require a robust field validation process, including density in order to capture this correctly. Ms. Jones-Santos explained how the detailed process of developing tiers is very intricate. Chairman Justus asked if the data tables for the multi-family customer class can be briefly explained in order to get a better understanding. Mr. Jewett and Ms. Jones-Santos walked through and explained the detailed provided data tables.

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Member Mittal asked what the rationale is for charging the same base fees regardless of the customer class, however the rates are not calculated the same. Ms. Jones-Santos indicated that it has been determined that from customer feedback, the preference is a lower base fee with the control of the use of their water through monitoring especially with all of the conservation that the City has done. Member Mittal recommended that the Department look into this more in the future. Her point being that for large multi-family complexes this can be very costly.

Member Peugh asked for information related to the incentive for conservation. Ms. Jones-Santos commented that this is built into the budget and the rates being brought forward. Conservation will not change in the City of San Diego, messaging and outreach will continue, as well as enforcement on the mandate.

Public Comment:

Rita Bell, Finance Manager of the Otay Water District commented that the CWA recently won a lawsuit against the MWD for unfair rates and indicated that though there may be acceptable practices on setting rates, but the benefits need to be looked at. She added that CWA does have exceptions, for example, so there are ways to give exceptions. She added that today's presentation seemed to focus on complex rate setting and nexus between cost and benefit, but urges IROC to request staff to return with a zone rate study, which will be fair and equitable to its customers.

Mr. Zeleny clarified in the context of Recycled Water Rates, in the litigation between the CWA and MWD the rates were not overturned because they were "not fair or inequitable", that they were overturned because they weren't based on the cost of service. When MWD determined a wheeling rate from the Imperial Valley to San Diego, they used as their basis for the cost of service, the cost of moving water from Sacramento down to Los Angeles, while using a completely different system to determine the costs, therefore the court found this unreasonable. He described examples of facilities and agencies that use the "postage stamp" method in regard to water rates, which is common.

Kevin Koeppen, Finance Manager of the Otay Water District commented that it was mentioned that the North and South systems share in the costs. He clarified that the North system does not share in the O&M costs of the South distribution system operated by Otay. However, the unitary rate today will result in Otay's constituents paying for 100% of Otay's O&M costs related to the South distribution and a portion of the North distribution system. He requested that Otay adequately assess the equity of the proposed rate, as well as see the zone cost information provided to the IROC.

Member Stallard-Rodriguez asked why the zone rate information is not being provided, as it was in the past. Director Razak indicated the Recycled Water Study has been looked

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at for many years, and she briefly described the process. Ms. Jones-Santos added that when this was taken to the Natural Resources & Culture Committee in 2013, on public time, many Council Members commented their support of the “postage stamp” methodology, and this is being brought forward today.

Action: Chairman Justus asked if members had a motion. Member Kubota moved to approve the staff recommendation, but move forward with the idea of presenting both the unitary rate and the two zone rate as an option to the Committee of the Environment, and have the concept of two zone rates for recycled water return to IROC for further discussion. Member Peugh seconded. Motion passed 6-0-0.

8. Should IROC and its Subcommittees go Dark in August

Chairman Justus asked for a motion. Member Stallard-Rodriguez moved to have IROC and its subcommittees go dark in August. After discussion, the motion was withdrawn by Member Stallard-Rodriguez.

Action: Chairman Justus then moved to have a special full IROC meeting only to present the Cost of Service Study, later in August/early September; but have all subcommittees go dark in August. Member Kubota seconded. Motion passed 6-0-0.

9. City 10 – County Water Authority Update – Ken Williams

- MET Lawsuit Phase 1, San Diego already won
 - Ruling on Phase 2
 - Next steps: LA will most likely appeal which can take up to 3 years
- El Nino
 - Forecast by National Oceanic and Atmospheric Administration is an 85% probability for El Nino

10. Subcommittee Reports

a. Finance

None.

b. Infrastructure and Operations – Jim Peugh, Chair

- Main breaks and sewer spills presentation, which was very impressive to learn that public water spills are down to almost nothing.
- Pure Water Program presentation by John Helminski, with a brief review of the preliminary CIP plan – the acceleration of the program is great
- Annual Report discussion

c. Outreach and Communications – Jack Kubota, Chair

- Report from the Water Conservation Drought Management team, discussed the vigorous program
- Discussed submetering of high rise buildings, and learned about exemptions
- AMI program going great, full steam ahead

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11. **Metro/JPA Report Out** – *Ed Spriggs*
None. No meeting was held.

12. **Proposed Agenda Items for Next/Future IROC Meeting**

- COSS update
- Pure Water Update including outreach

13. **IROC Members' Comments**
None.

Meeting adjourned at 12:20 p.m.

Minutes submitted by: Monica Foster

Attachments: Public Speaker's handouts