



Independent Rates Oversight Committee (IROC)
 Special Meeting
August 10, 2015
MINUTES

1. Roll call

Chairman Justus called to order the Special meeting of the IROC at 8:02 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 <i>arrived at 8:10</i>	x	
Jim Peasley, Metro JPA Alternate	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. Recycled Water Pricing Study Update

Lee Ann Jones-Santos, Assistant Public Utilities Director provided additional information on the recycled water rates as requested by IROC. She recapped that in FY2013, following the proposed rate increase, based on the administration there was minimal outreach. Since then, Black & Veatch validated the information in the modified Cost of Service Study (COSS) for Recycled Water and has provided a peer review letter which is attached to the action moving forward to City Council.

She described the City’s recycled water system and pointed out within this COSS, the City is charging less than it would cost to provide this resource, because of the benefits to the Water and Wastewater ratepayer. She noted that this COSS has the O&M expenditures for the production, distribution system, the tertiary component of the wastewater treatment system, and the CIP program for the 5-year period is a minimal expense. She added that offsetting revenues help bring down the actual expenditure which include the MWD and CWA credits the City receives for recycled water sales.

Ms. Jones-Santos reviewed and described the existing recycled water rate of \$0.80, showing the proposed rate at \$1.73 and the proposed potable irrigation rate at \$5.67. She then described results of the Pricing Study. She reviewed detailed charts showing the

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modified Cost of Service calculation. Calculated totals are broken down by year with a 5-year average proposing the \$1.73. She added that also proposed with recycled water, is the conducting of the review of funds. In June of 2017, the assumptions made in terms of revenues and expenditures will be looked at for possible adjustments to the recycled water rate.

She pointed out that the base and meter charges are also included in the proposal going forward, noting that for the meter sizes of 2" and above, the base fee is reduced and the 1" meter size is being increased which is part of the evaluation by Black & Veatch and Raftelis.

Ms. Jones-Santos provided and reviewed the proposed unitary (\$1.73) and the zone rates for North City (\$2.14) and South Bay (\$1.17). She indicated that there are 7 customers in the South Bay and over 600 connections in North City which are City of San Diego rate payers purchasing recycled water from the City. Last, she included slides showing the overall cost comparison for the City and all other agencies in our area that provide recycled water, and opened for questions.

Vice Chair Hess asked for information on the review process. Ms. Jones-Santos indicated that a review of funds was done before the 2014-15 potable rate increases were taken forward. She indicated that it will be an outside consultant again, who will review the actual revenues and expenditures the assumptions were made upon, how this compares, and if any recommendations need to be brought forward. She noted that this presentation has been brought forward to IROC and City Council for review. Vice Chair Hess asked if other customers have similar contracts as Otay (Take-or-Pay). Ms. Jones-Santos indicated Olivenhain and Poway both have contractual obligation contracts but are not Take-or-Pay contracts.

Member Welch asked for more information related to the modified Cost of Service calculations slide in the presentation. Ms. Jones Santos elaborated on the data and indicated that as evaluations are made there are several parts, which can consist of the ins and outs of revenues and expenditures such as CIP, cash, credits, if take or pay is reduced, O&M treatment, total sales, etc. She added that it would be helpful with the assumptions made, to do the review of funds at the same time as the potable rates.

Ex-Officio Member Williams added that a good description would be that the City remains with a "postage stamp rate" [unitary rate]. Ms. Jones-Santos concurred and added there has always been a unitary rate for recycled water and also the same type of rate for water and wastewater customers which is acceptable and legal under Prop. 218, and other requirements.

Ex-Officio Member Williams asked that when Otay comments later on in this item, can they discuss why they [Otay] were satisfied with the "postage stamp" rate previously but now there is difficulty accepting it.

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Chair Justus asked if the capacity fees for recycled water are the same as the State and County fees that are charged if you are getting a standard potable meter. This is her recollection, but she would have to confirm. He asked (slide 9) for the percentage of 1” meter customers, which show charges are proposed to go up. Ms. Jones Santos indicated she has requested this data in order to do additional outreach, but she does not have it at this time and will get back to him.

Chair Justus clarified that (slide 8) the credit values from MWD and CWA go back to customers through a reduced rate, including Otay which they would get an additional credit because of a negotiation for them to receive the credits rather than the City receiving them and passing them through to Otay. Ms. Jones-Santos concurred.

Member Mittal asked for clarification on the base meter charges, showing the proposed meter charges fluctuating substantially, and is this based on number of connections. Ms. Jones-Santos indicated yes, as well as the ability to provide service to the customers in each class. She added that the information has not been updated for some time, and indicated the numbers are similar to the original Raftelis report in 2013. She added that the base fee is a monthly fee and is not charged per volume. She indicated there will be plenty of outreach to these customers. Director Razak indicated that original price was set up as 90% of potable which was the norm in the industry. Due to the lack of reclaimed customers connected to the system, Council made the decision to lower the rate to \$0.80. Now that the pricing study of the cost and actual service has been conducted these adjustments were necessary. Moving forward there is a good nexus of the meter size and the cost of service, etc.

Ex-officio Member Peasley asked, on behalf of Ex-officio member Spriggs, in regard to the proposed rates, is it correct to assume that with combining the systems together, that the South Bay customers will be subsidizing the North City system. Ms. Jones-Santos indicated it is considered one system, just like the potable rate customers; and feel we [City] are not proposing anything that is inequitable to any customers; in addition if a South Bay zone was charged it would unfairly burden North City customers.

He asked if the South Bay and North City recycled water systems are physically connected. Ms. Jones-Santos stated this is her understanding, and added that they do not need to be connected in order to be treated as a unitary system. It was discussed with the Metro Commission in the overall optimized system, that it was one system. Ex-officio Member Peasley asked if Otay has any benefit from the North City system, and no nexus between the proposed charge and the service provided. Director Razak indicated from the City’s perspective, there is a definite benefit from the Pt. Loma treatment. She mentioned that specific reclamation capacity is provided by requirement of the Pt. Loma Waiver. This is part of the umbrella of the unitary system.

Ex-officio Member Peasley asked if Otay built the vast majority of the distribution system that goes near the gate of the South Bay Plant. Ms. Jones-Santos indicated she was not involved with that process, and could not comment. She understands there is a 1-

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mile pipeline to the Otay system, and they connect and distribute water to their customers. Ex-officio Member Peasley indicated in his opinion, during negotiations, there were 2 distinct agreements with many differences. He asked, back when the negotiations were made, did the City create the systems with no intent to combine the rate structure for the systems in the future. Director Razak indicated that at that time, they were well aware of the possible postage-stamp [unitary] rate with no discussions of plans to bifurcate the North and South and it was agreed to the terms of using a postage-stamp.

Ex-officio Member Peasley asked if Prop. 218 states that there must be nexus between the service you receive and the cost you pay (in relation to Otay's charges). Tom Zeleny, Deputy City Attorney, commented that Prop. 218 indicates that you cannot charge more than the cost to provide a service as a system overall and to the individual parcels. There are several different reasonable ways to calculate the cost to provide service to a parcel, which is at the discretion of the Mayor and City council as to the reasonable way to proportion the costs. He reiterated that the facilities combined are considered "one system". Ex-Officio Member Peasley expressed that in his opinion, having a unitary rate on the recycled water system is fundamentally unfair.

Public Comment:

Kevin Koeppen of Otay Water District (Otay) spoke on behalf of Rita Bell, Joe Beachem, and Polly Chan of Otay Water District. He indicated that the proposed recycled water rate is not equitable to the citizens served by the Otay Water District because of the unitary rate. He described the North and South Bay's distribution systems as separate systems, and believes Otay's customers are not using nor benefiting from the City's North distribution system as the Otay citizens use, benefit and are paying 100% of the annual costs related to the South Bay recycled water distribution system.

Mr. Koeppen provided a handout (attachment 1) outlining average annual net recycled revenue requirements based on figures provided in the zonal COSS. He pointed out the large differences between the South Bay and North City zonal rates. They reflect that with Otay's revenue requirements included, the zonal rates for the South Bay and North City are almost equal. He added there is a \$1.2M estimated annual subsidy that the South Bay citizens will pay under the proposed unitary structure which they believe is unsustainable and unsupportable. He suggested that having separate rates for the North and South Bay is the only equitable rate solution. He reiterated that Otay is not against a rate increase; however, is against inequitable rate increases to the South Bay customers.

Rita Bell of Otay Water District commented by giving a brief history of why the recycled water systems exist and the contracts involved. She provided several handouts (attached) and discussed the AWWA water reuse rates and charges survey. She commented that the City should set the recycled water rate at a more reasonable level and avoid the significant increase on recycled water customers. She added that the zone rates in the South Bay, if correctly calculated, would have Otay repaying the City for their tertiary costs and the distribution system costs as it currently does. She indicated that North City should have higher zone rates because much of the costs are related to operation and debt

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associated with a court ordered optimized distribution system. She added that rate increases should be phased in so North City, HOA, golf courses, and office buildings have time to build higher recycled water rates into their business models.

Ms. Bell requests that the updated calculations based on actual costs be available for review. She indicated that she has asked staff to provide the historical and forward looking list of assets and associated debt to understand the capital costs and calculations. Last, requests IROC to support the zone rate methodology and recommend to the Committee on the Environment and City Council to implement the zone rate structure with a phase-in period which is fair to customers. Ms. Bell then provided a letter from the General Manager of Otay for the record.

Joe Beachem of Otay commented that zonal rates are an equitable recovery of the City's costs. Second, he noted that without Otay building the distribution system and coming into the City's geographic area, the City would have a treatment plant that could not have recovered its costs. He also noted that he believes the City has angst with Otay receiving credits; however the City receives credits for the north district, and Otay receives credits where they built the system, which is needed to recover costs. Last, he pointed out that the southern customers will have an injustice if the unitary rate moves through. Mr. Beachem indicated rate setting is difficult, very focused on equity and the zone rates are defensible and supportable, and the unity rate is problematic.

Mr. Beachem responded to Ex-Officio Member Williams' question related to why Otay was satisfied before with the rate but not now. He indicated this is because the rate set at that time made it barely cost recoverable. Currently, the economy is significantly different, the drought has reduced water sales, and the environment is different.

Rick Hopkins of the City of Chula Vista commented that they [City of Chula Vista] share the same concerns, are coming late to the discussions, and agree there is an inequity. He indicated he would appreciate further discussion with the City to develop a progression that is equitable and fair.

Ms. Jones-Santos commented that in regard to Member Mittal's question on the number of meters in different classes. She indicated that there are: 8% - 1"; 14% - 1.5"; 68% - 2"; and spread out amongst the larger ones. Chair Justus pointed out that approximately 90% of the customers are getting a sizeable reduction or remaining the same for the most part. She concurred.

Chair Justus asked what the cost differences are to maintain our distribution system vs. maintaining the North City infrastructure, and with comparing the zonal rates for South Bay, and apply this to the North City, are we equal in the value of plant infrastructure. Ms. Jones-Santos indicated that most of the O&M costs is maintaining the system and providing service, validating cross connection, and functionality, etc. Jennifer Casamassima, Program Manager, indicated there are several differences between the two systems which makes it complicated to compare. The City's is much more complex with

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dual plumb customers, use of cooling towers, urinals, both potable water and recycled water present, etc.

ACTION: Vice Chair Hess moved to support the zonal rate system water supply vs. water distribution cost allocation. Member Stallard-Rodriguez seconded the motion. Motion failed: 3 (in favor) -5 (opposed) -0 (abstain).

4. FY2015 Annual Report Discussion and Proposal for Ad-Hoc Committee

Chair Justus commented that the annual report needs to be completed as it is in various stages between the subcommittees. He suggested that the Chairs of each of the Subcommittees, as well as himself, form an Ad-hoc Committee.

ACTION: Member Stallard-Rodriguez made a motion to set the Ad-hoc Committee which would consist of previous Chairs as well as the full IROC Chair being: Jim Peugh, Gordon Hess, Jeff Justus, and herself. Vice Chair Hess seconded. Motion passed 8-0-0.

5. IROC Members' Comments

None.

Meeting adjourned at 9:00 a.m.

Minutes submitted by: Monica Foster

Attachments: Public Speaker's handouts