



Independent Rates Oversight Committee (IROC)
September 21, 2015
MINUTES

1. Roll Call

Chairman Justus called to order the full IROC meeting at 9:30 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

Joe Beachem, Chief Financial Officer of Otay Water District commented on the proposed recycled water rates. He stated that the Metro JPA voted to support zone rates, and that some Council members were favorable to Otay’s concerns and the position on equity of zone rates, and inequity of the unitary rate. He shared some of the Council member’s questions at a recent Council meeting regarding the proposed rates, as well as stated that Otay’s concern is that IROC may have inaccurate information, and need better clarification of the information received. He added that there are several options to keep costs lower, but Otay believes the proposed option is unfair to the southern customers.

Rita Bell of Otay Water District shared information she read in a recent newspaper article related to the proposed recycled water rates, and clarified some points in the article and that Otay disagrees with some of the information given by the City. She also gave examples of recent Councilmember’s comments regarding validity to Otay’s concerns. She then relayed that a zone rate is the only way to ensure that the South Bay customers do not send their dollars to benefit northern customers.

Member Welch asked if Otay makes a profit from the water they sell to their customers. Mr. Beachem indicated no. He added that with the tremendous amount of money spent to put the infrastructure in, costs are not recovered until the City recovers their costs.

Member Welch asked what Otay charges their customers for recycled water. Ms. Bell stated \$3.59, and it costs Otay \$.80. She indicated that there are O&M costs, and debt on the infrastructure which is part of this. Mr. Beachem added there is a firm that performs

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evaluations. Once they determine the costs are recovered, the credits are cut off. There is not a profit made at this time.

Vice Chair Hess indicated that at the last IROC meeting his suggestion was to see not necessarily a zonal rate or a unitary rate, but to separate the costs out between supply and distribution costs. This way, entities are receiving the services they are being charged for.

Member Kubota asked if the bulk of Otay's distribution system is put in by the developers. Mr. Beachem indicated this may be a fair way to put it; however there is an audit every 3 years and this is considered in setting the rates and recovering the costs.

Mr. Kubota asked Mr. Beachem if, as far as the original agreement is concerned, there is a departure from the agreement. Mr. Beachem concurred.

3. Approval of Minutes from Meeting of 7/20/2015

Chair Justus asked for a motion to approve the Draft Minutes of July 20, 2015.

Chair Justus noted that Item 3 of the Draft Minutes should read: "Chair Justus asked for a motion..." rather than "*Vice Chair Hess asked for a motion...*"

ACTION: Member Peugh moved to approve with said correction. Member Kubota seconded. Motion passed 5 (in favor), 0 (oppose), 2 (abstained – Hess, Welch).

4. Approval of Minutes from Special Meeting of 8/10/2015

Chair Justus asked for a motion to approve the Draft Minutes of August 10, 2015.

ACTION: Member Welch moved to approve as submitted. Vice Chair Hess seconded. Motion passed 6, 0, 1 (abstained – Peugh).

5. Chair Updates – *Chairman Justus*

- He and Member Kubota attended last Tuesday's Council meeting and spoke on behalf of IROC. Council did not have to act on the Prop. 218 item, they did provide recommendations to staff. He noted that Member Peugh, and former IROC members Dull and Billings also spoke in support.
- The Ad-hoc meeting established for the Annual Report met at his office recently and they are diligently working on finalizing the Report. Next meeting is October 2, and they hope to present the Draft in the near future, in a similar format as last year. He indicated that Vice Chair Hess agreed to assist in the Executive Summary which will be renamed.

6. City Staff Updates

- Conservation numbers for the month of August were exemplary, which includes the entire service area. Water use was dropped by 21.2% following a drop of over 28%. Keeping close communication with the State, and noted that there are quite a few agencies not able to meet the mandate; however the City of San Diego is.

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The City of San Diego as an agency, has done an amazing job itself with over 40% lower use in the last couple of months, and the Park and Recreation is increasing their watering a little bit to keep the turf alive. This is a gradual process.

- The health of the sewer system must continue, she shared that with the drought, roots are desperate for water and are growing into the sewer lines which cause partial blockages. We must increase the maintenance of the pipelines, as other agencies are, so there is not an increase of sewer spills.
- Last Tuesday, went to Council to get the approval to proceed with mailing the Prop. 218 Notice. It became evident there was not an approval needed, however the feedback and thoughts on the mailing were beneficial and they are in the process of being printed and mailed. A scheduled public hearing should be by November 17.

7. **Mayor and Council Staff Comments**

None.

8. **FY15 Capital Improvement Program (CIP) – Year End Report**

Rania Amen, Engineering & Program Management Deputy Director, and Richard Leja, Right of Way Deputy Director of Public Works, presented an update on the infrastructure CIP and its accomplishments over FY15. Ms. Amen reviewed detailed year-end reports, and recent program milestones, noting that there were 26 miles of water pipelines awarded and 40 miles of sewer mains completed. She also noted that among the recent highlights, Public Works has the lead on continued implementation of the second phase of CIP Streamlining.

Mr. Leja shared 4 recent APWA award winning projects: Recycled Water Systems Upgrade, Scripps Ranch Pump Station, Scripps Ranch Reservoir Slope Repair, and Sewer Pump Station 13 Improvements. He then reviewed graphs with dashboard information including mileage awarded and the accomplishment of program goals. He described bar charts showing FY15 Water and Wastewater expenditures showing original 2012 projection estimates, reflecting the adjustment of the goals regarding external factors (exceeded the goals), as well as actual expenditures.

He noted that handouts have been revised per IROC's request, and gave brief summary of the changes that incorporate more detailed information. Ms. Amen indicated a robust CIP program continues in line with the Department's mission to improve the water delivery, quality, and to protect public health as well as the environment. Goals will continue with awarding 35 miles of water main replacement, as well as replacing 45 miles which includes rehabilitation on some. She noted that the CIP programs go hand in hand with the condition assessment program and system repairs and maintenance. Mr. Leja added that in regard to the FY16 goals, in the first 45 days, 7 miles of pipeline replacement has been delivered which is a great accomplishment.

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Member Welch indicated that she recognizes the great collaboration between City staff and the Infrastructure & Operations subcommittee, with increased visibility in reporting which helps IROC oversee the progress and expenditures. Member Peugh asked when the flushing water is saved from the system, how this is reused. Ms. Amen indicated that it is captured by the Vactor trucks, and it is used to flush sewer mains.

Vice Chair Hess expressed his appreciation for the detailed presentation and asked if the State Revolving Fund (SRF) Loan savings per project information on Slide 4, are loans that are required to be paid back, or if the savings is calculated in terms of a lower interest rate. Ms. Amen indicated they are loans that are paid back but with a lower interest. Ms. Jones-Santos concurred and added that the savings calculation is based on if it were bonds vs. SRF loans.

Chair Justus asked if the Dashboard information was available to the public at this time. Director Razak indicated that the Department is working with the Department of Performance and Analytics to create a process (open data) to making this type of information publicly available online in the very near future.

Chair Justus asked Mr. Leja if he knows why Geotech in DSD takes so long to get permission to do sample borings, to obtain information to move forward with the project. Mr. Leja indicated he cannot speak on behalf of DSD. However, we understand that more detailed environmental investigations are now required due to a new interpretation of the underlying permit requirements. He added that a streamlining measure shared with IROC last presentation, was to bring that CEQA clearance into the Public Works Department, which will be beneficial to address some portions of these issues in the future.

9. Update on the Pump-Storage at San Vicente Reservoir

Bob Mulvey, Assistant Director, and Brent Bowman, Senior Chemist, presented. Mr. Mulvey indicated that the electric power grid is going through a major transformation, as California is embarking on a major effort to replace gas, nuclear, and electrical power plant resources with solar and renewable power which will lower emissions from power grid but will create new challenges. New technologies will be needed to help manage the power supplies.

Mr. Mulvey indicated that together with San Diego County Water Authority (SDCWA), a series of steps are planned to evaluate the economic and technical viability of the project, reviewing the financial viability, and the benefit to the rate payers. He indicated that this project has potential to generate significant revenue to offset future water rates. He described the project functions, and noted that the City of San Diego and SDCWA have equal share of all decision making and voting rights. This reservoir is to be used as water supply resource first, and power generation second.

Mr. Mulvey described the 3 revenue sources as being capacity payments; ancillary services; and arbitrage. He then shared and reviewed a detailed forecast for net generation using a “duck curve” technique. He then briefly described California’s

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Renewable Mandate and Climate Action Plans, and reviewed a map pointing out the 4 potential upper reservoir sites, noting that Alternative B is the optimum site at this time. He also added that there will be studies done to determine the environmental impacts of the sites to narrow down the final optimum site.

Mr. Mulvey indicated that in 2014, Black & Veatch completed an economic feasibility study concluding that the project has upside economical potential. Hydrological consultants continue to review the impact of the project on the Pure Water Program and IPR. So far, the results are encouraging. He then described authorized costs to date, reviewed the City/SDCWA Agreement, and project milestones.

He indicated that the preliminary application document has been submitted as required, and they are now in the process of procuring an owner's advisory team to develop marketing and project delivery methods to take forward to the City Council and SDCWA Board for proceeding in building the project.

Member Welch asked how the Pure Water Project will not be impacted. Mr. Mulvey indicated that this project essentially mixes the reservoir so there is not a stratification layer present the entire year. The modeling is targeted to determine whether there is still sufficient detention time in the reservoir so we can continue to permit IPR.

Vice Chair Hess asked why Alternative B is the optimal site. Mr. Mulvey stated that Alternative B was chosen because it is closest to the San Vicente Reservoir which requires the least amount of piping.

Member Peugh asked about the investment, with other ways to store energy. He asked if other technologies may come along and make this project obsolete before it is fully benefited, and will there be trouble with wheeling rates. Mr. Mulvey indicated that there are always competing technologies, and this will continued to be studied, that there are always possibilities and opportunities. He indicated in reference to wheeling rates, that the project now does not require new transmission lines which could add costs, but this can be determined through the study over the next 18 months, but it is doubtful.

Member Chapman asked if in the future there could be an additional site added due to the benefits possibly gained from this project. Mr. Mulvey indicated that the current project is large with 500 megawatts, and is a major investment in generation capacity. Phasing is being considered for this project in due to its vastness. In the future, that may be a possibility. Member Kubota asked if details of the timeline can be provided sometime, showing the steps along the way. Mr. Mulvey concurred.

Member Welch asked for an idea of the costs associated with the construction of the project vs. revenue. Mr. Mulvey indicated that the Black& Veatch study shows approximately \$1 billion with a revenue benefit of about \$2-3 billion over 20 years. Director Razak added that the City and SDCWA fully recognize that energy generation is not the norm for us. This is strictly an energy project, and will simply help the City manage rates, which is the main focus as well as green energy, and credits needed for

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Pure Water. She indicated that Dr. Victor is an expert with working with energy companies, valuing investments, etc. has been extremely helpful in helping navigate relationships, meeting with other energy providers, and assisting with questions to ask so we can fully understand the process. The market is ever changing, and we want to get the maximum benefit for the rate payers in a prudent way. There is more analysis and a lot more discussions in store to get where we are going.

Member Chapman asked if there is an ideal starting time for this project. Mr. Mulvey indicated that the preliminary license expires in 2019, and the timing in the market is very important. That is unknown at this time, as it may be beneficial to begin in several years from now, but that may not be the case once that time comes.

10. Discussion: FY15 IROC Annual Report Preparation

Chair Justus mentioned the Ad-hoc Committee will be meeting on October 2, and will bring the recommended draft back to IROC.

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

- Reminder of the Carlsbad Desal Project is moving along and expected to open in November; it is on budget and on time.
- SDCWA is in the process of adding water to the San Vicente Dam, which was removed for upgrades. At this point it is approximately 90,000 ac/ft and expected to be up to 240,000 ac/ft. This is essentially our 6-month emergency water supply.
- There is a strong sense that El Nino will occur, and may be stronger for southern California than northern California.

12. Subcommittee Reports

a. Finance – Gordon Hess, Chair

- Financial update by Lee Ann Jones-Santos and staff. Discussed refinancing existing Bond debt which can save \$20M. The section is spending a lot of time on the Rate Case.
- Briefed the Subcommittee on his recent attendance at the International Desalination Association World Congress in San Diego. Presentations included those from Australia and the Middle East which was very interesting. He mentioned that Jack Kubota and Don Billings were also in attendance.

b. Infrastructure and Operations – Jim Peugh, Chair

- Discussed CIP that was heard earlier today.
- Received an update on the 24" Point Loma pipe break. Very impressive that staff was on site within 20 minutes.
- Discussed the Annual Report Subcommittee section.

c. Outreach and Communications – Jack Kubota, Chair

- Presentation on the AMI, which was excellent and will be brought to the full IROC next meeting.
- Discussed the Annual Report.

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13. **Metro/JPA Report Out** - Tom Zeleny

- Discussed the Recycled Water Rate. Commission voted in favor of a zonal rate with 2 agencies opposing.

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

- Draft IROC FY15 Annual Report
- AMI – Highrise/Multifamily
- Status Rate Case
- Vacancies on IROC – Draft letter to the Mayor’s Office

15. **IROC Members’ Comments**

- *This comment was mentioned after Item 9.* Chair Justus welcomed Wilson Kennedy, IROC Coordinator, for coming on board with the IROC, as David Bryant is no longer in this position. He thanked David Bryant for his diligent services over the years and look forward to seeing him during presentations.
- Member Peugh commented that the explanation made to the Council Members recently on why it is in everyone’s interest to go forward with the rate increase, was complicated and the public may not understand the true message. He suggests the messages should be more identifiable to the average rate payer.

Tom Crane indicated that when there are questions or concerns that need clarification, the team makes adjustments to the presentations, which includes public outreach comments. Member Peugh looks toward more improvements in simplifying the message. Member Kubota concurred, and would like the public to know it is a valuable commodity, which also includes use of the fire-hydrants, etc.

16. **Meeting Adjourned with a Voluntary Viewing of Equipment from the Operations Yard (Wastewater Collections Division)**

Meeting adjourned at 11:40 p.m. Immediately following, those who were interested attended a voluntary viewing of equipment from the Operations yard held onsite. Tour leads were Terrell Powell, Water Utility Supervisor of Main Cleaning, and Larry Cooper, Senior Water Utility Supervisor of Construction.

Minutes submitted by: Monica Foster