



**Independent Rates Oversight Committee (IROC)
Meeting of September 16, 2019**

1. Roll Call

Chair Tiffany Mittal called the full IROC meeting to order at 9:33 a.m. Erika Mc Neill conducted roll and a quorum was declared. Attendance is reflected below:

Members:	Present	Absent
Tiffany Mittal, Chair	X	
Robert Weichelt, Vice Chair		X
David Akin	X	
Christopher Dull		X
Gordon Hess	X	
Jeff Justus	X	
Jack Kubota	X	
Luis Osuna		X
Jim Peugh	X	
Linh Quach		X
<u>Ex-Officio Members:</u>		
Jerry Jones, Metro JPA		X
Jim Peasley, Metro JPA Alt.		X
Tony Heinrichs, City-10	X	

City representatives present at dais: Shauna Lorange, Director of Public Utilities and Tom Zeleny, Chief Deputy City Attorney.

2. Non-Agenda Public Comment – None.

3. Approval of Draft Minutes from Meeting of August 19, 2019

ACTION: Chair Mittal asked for a motion to approve the minutes with minor updates. Motion by Member Peugh to approve. Second by Member Akin. Motion passed unanimously 6-0.

4. Chair Updates – Tiffany Mittal, Chair

- Member Hess met with the Office of the Independent Budget Analyst to finalize the scope of work for the Cost of Service Study (COSS) Independent Consultant.
- Ad Hoc Committee met on September 9th to discuss the FY19 Annual Report.

5. Mayor and Council Staff Comments – None.

6. City Staff Updates – Shauna Lorange, Director

- Director Lorange informed IROC that future meetings would be focused on providing in-depth information about the COSS.
- Director Lorange and Chair Mittal are scheduled to meet at the end of September to discuss plans for future meetings.
- Today’s meeting will be focused on the Capital Improvement Program (CIP) from the Public Works (PW) Department.
- PUD will provide IROC with the necessary background information to assist with the COSS and to help determine what options to evaluated.

Member Peugh expressed his concerns about the actual CIP needs, maintenance, and expenses. He expressed that he would like this process to be more clear and less political. Director Lorange assured him that it is her goal to make this process clearer by providing IROC and the public with all the information available so there are no concerns.

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7. **Presentation: FY19 Capital Improvement Program (CIP) Year-End Report** – Mark Nasar, Deputy Director and Tung Phung, Senior Civil Engineer
- 5-Year CIP
 - Needs and Assessment
 - Planning, Design, and Construction
 - Rehabilitation, Replacement, and Expansion
 - Water Pipeline Improvement Program
 - Focus on Cast Iron and Asbestos Cement Pipe
 - Sewer Pipeline Improvement Program
 - Facility Program
 - Water Pipeline Improvement Program
 - FY19 Accomplishments
 - Constructions Contracts Awarded = 18.28 miles
 - Construction Completed = 29.72 miles
 - Cumulative Accomplishments (FY16 -FY19)
 - Construction Contracts Awarded = 137.20
 - Sewer Pipeline Improvement Program
 - FY19 Accomplishments
 - Constructions Contracts Awarded = 47.51 miles
 - Construction Completed = 41.74 miles
 - Cumulative Accomplishments (FY16 -FY19)
 - Construction Contracts Awarded = 174.89
 - Program Highlights
 - Water & Sewer Pipeline – Water & Sewer Group 966
 - Cost \$6.1M
 - Directional drilling pipe installation in an environmentally sensitive area
 - Alvarado Trunk Sewer Ph IV & Water Main Relocations
 - Total Cost \$56M
 - Replace and upsize trunk sewer to improve capacity and condition
 - Hodges Reservoir- Hypolimnetic Oxygenation System
 - Total Cost \$6.2M
 - Improves water quality & fish habitat by adding pure oxygen gas to the reservoir to make up for the loss from algae bacterial decay
 - Miramar Clearwell Improvements
 - Total Cost \$120M
 - Upsize and replacement of 2 existing clearwells to meet seismic and service requirements
 - MOC Complex & Bayview Reservoir Project
 - Total Cost \$3.8M
 - Installation of solar photovoltaic systems on the rooftops & in the parking lots to power the Metro Operations Center. Installation is also on top of the concrete Bayview Water Reservoir to power the Bayview Water Pump Station.
 - MBC Cooling Water System Chiller Upgrade
 - Total Cost \$4.3M
 - Replacement and upgrade of the existing chillers and water pumps
 - Water & Sewer Program Expenditures
 - Sewer Goal \$80,740,929
 - Sewer Actual \$96,068,336
 - Water Goal \$167,737,314
 - Water Actual \$177,093,932
 - Project Awards
 - Pump Station 65 Capacity Upgrade
 - American Public Works Association – Project of the Year
 - Upas Street Pipeline
 - American Public Works Association – Outstanding Project
 - American Society of Civil Engineers – Outstanding Project
 - University Avenue Pipeline
 - American Society of Civil Engineers – Merit Award

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Member Kubota inquired about developers having to pay for oversizing. Mr. Phung responded that when there is a new development, if the developer is adding additional flow that requires sewer to be upsized, they do pay for their share of capacity to the sewer system. If the sewer needs to be upgraded, the developer will pay for that upgrade.

Member Akin commented that he thought the ideas PW had to streamline the process were great. He wanted to know if they were experiencing any pushback from City Council. Mr. Nassar stated that they were not experiencing pushback, but City Council is requesting more details. PW is working to provide full transparency for all their actions. PW will take the CIP Report to Council in October for approval. They are finalizing the measures and making all the municipal draft changes. Member Akin stated that he was impressed with the replacement of the pipelines over the last few years. The maintenance was neglected in the past. He stated that PW has done a great job catching up and should be commended.

Chair Mittal inquired if the system was healthy. She wanted to know how to define a healthy system and how the lifespan of the pipes are tracked. Mr. Nassar responded that the Enterprise Asset Management (EAM) System inventories all the components of the system and assigns them a risk level. EAM assesses the facility and assigns it a priority rating depending on the likelihood of failure. He stated they rely on EAM to let them know the best timing to replace the pipe. It is also a tool that guides maintenance of these facilities.

Chair Mittal questioned what percentage of CIP projects are delivered via a private contractor versus in-house. Mr. Nassar stated the majority of small pipelines are done in-house while the larger transmission mains are delivered by consultants.

8. Presentation: Overview of the Cost of Service Study and Rate Setting Process – Charles Modica, Deputy Director and John Wright, Raftelis Manager

Rate Study Pyramid –

- Step 1: Identify Financial & Pricing Objectives
- Step 2: Identify Revenue Requirements & Demand Projections
- Step 3: Allocate Costs
- Step 4: Design Rate Structure
- Step 5: Assess Effectiveness in Addressing Pricing Objective

Rate Study Process –

- Rate Setting Framework
 - Financial goals and policies
 - Pricing objectives
- Financial Plan
 - Evaluation of CIP and financing options
 - Cash flow analysis for financial sufficiency
- Cost of Service & Rate Design
 - Cost of allocations
 - Rate design
 - Rate calculations
 - Customer impact analyses
- Final Rate Adoption
 - Report
 - Prop 218 Notice
 - Public Hearing
- How Can We Mitigate Financial Risk?
 - Rate revenue instability
 - Fluctuations in capital expenditures
 - Emergency with asset failure
 - Volatility in working capital
- How Do We Use Debt?
 - Use of debt financing – growth related capital versus repair and replacement of capital
 - Legally required debt service coverage levels
 - Target debt service coverage levels
 - Goal of achieving and/or maintaining a certain credit rating
 - Percentage of debt in capital structure

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- Financing Strategy
 - Rate increases
 - Debt Financing
- Revenue Sources
 - Rates
 - Non-Operating
 - Growth
- Expenses
 - O&M
 - Capital
 - Debt Service
- Financial Policies
 - Reserve Targets
 - Debt Coverage

What is the Revenue Requirement?

- The level of revenue required from rates to meet annual expenditures, target reserves, and debt service coverage
- Revenue requirement = total utility annual costs
- Natural outcome of the financial planning process
- Steps in developing a revenue requirement
 - Select test year – year in which rates will be implemented
 - Select calculation method – cash basis or utility basis?
 - Accumulate costs
 - Summarize results for cost allocation

Key California Legislation Affecting Utility Rates

- Cost of Service Requirements
 - Proposition 218 (Article XIIC and XIID of California Constitution)
 - Proposition 26
 - California Government Code 54999
- Water Conservation
 - Article X of California Constitution
 - SB 606 + AB 1668 – calculated efficiency and reporting (55 GPCD by 2022)
 - New SWRCB regulations call for each agency to self-certify that they have adequate supplies for three years assuming drought of 2012-2015 and set conservation standards equal to their projected supply shortage

Steps to Navigate Legal Issues -

- Develop a rate structure that mirrors your Agency cost structure challenges
 - Have internal dialogue on what are your short and long-term costs
- Clearly identify and document these costs
 - Connect the dots between City cost and rate structure
- Provides strong nexus to justify rates
 - Develop administrative record walking reader through calculations
 - Educates Elected Officials / Public on cost factors and rationale
 - Project Team should be able to discuss the logic in layman's terms

Cost of Service – Why is Cost of Service Important?

- Equitably distributes costs to customer classes based on their usage and customer characteristics
- Those who cause the cost pay the cost
- Effectiveness in recovering total revenue requirements
- Used to develop rate structures that send the appropriate price signal
- Legally defensible
- Does the cost differ to provide service to different customer classes?

Cost Calculated via the Cost of Service Process -

- Cost of service provides two types of unit cost data
 - Volume-related costs - \$ per HCF
 - Customer-related costs - \$ per account

Cost of Service Study Steps -

- Step 1: Assign revenue requirements to functional areas of the system – The Where

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- Step 2: Allocate costs to cost components (base, max day, max hour, customer or flow, chemical oxygen demand, suspended solids) - The Why
 - Step 3: Distribute costs to customer class based on their class usage characteristics - The Who
- Balancing Competing Pricing Objective -
- Revenue Stability
 - Financial Stability
 - Administrative Ease
 - Defensibility
 - Affordability
 - Conservation
 - Equity
 - Consumer Understanding

Member Hess inquired if Raftelis did the previous COSS. Mr. Modica stated in the past they were prepared by Black & Veatch.

Member Akin mentioned that he attended about twenty hours of continuing legal education on California rate making. It was difficult to understand. He also attended a conference at UCLA with attorneys that specialize in California rate making and many of them understood it better, but it is incredibly complicated. He just wanted the Committee to understand that the consultants will not be able to explain that rate study to the Committee to a point the everyone completely understands it. He reiterated it is complicated and full of details. He encouraged IROC not to feel frustrated with the COSS presentations.

9. **Discussion: FY19 IROC Annual Report Preparation** - *Tiffany Mittal, Chair*
- The AD Hoc Committee meeting was held on September 9th.
 - Reviewed goals from the FY19 Work Plan to identify any gaps.
 - Discussed the following:
 - How do we ensure the Work Plan items are addressed in the Annual Report?
 - How do we measure success?
 - How do we track and maintain key performance indicators?
 - Each Subcommittee Leader on the Ad Hoc Committee will have an overall theme of accountability to contribute to the big picture and to provide value to the department by working together as a team.
10. **City 10 - County Water Authority** - *Tony Heinrichs, City 10 Representative*
- Rainbow and Fallbrook Districts want to break away from CWA
 - There are jurisdiction issues and Rainbow might be partially located in Riverside County
 - Expected to go to litigation; CWA hired an Attorney to represent its interest
 - If the Districts separate from CWA, they may be required to pay an Exit Fee
 - There is a possible statutory requirement that can be enforced
 - Rainbow and Fallbrook Districts disagree with paying an Exit Fee
 - Rainbow and Fallbrook Districts intend to go to Eastern Municipal Water District to be their sole water provider
 - This would have rate impacts to the City of San Diego
 - CWA is in the final stages of the selection process for a new General Manager
 - Selection expected to be made by November
 - Chair Mittal requested a presentation on CWA's COSS and 5-Year Outlook
11. **Metro/JPA - Report Out** - *None.*

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12. **Proposed Agenda Items for Upcoming IROC Meetings** - *Tiffany Mittal, Chair and Wilson Kennedy, IROC Coordinator*
- COSS
 - Refresher on how Pure Water costs are allocated (Water and Wastewater)
 - Impact of legislation on PUD
 - Deliverables:
 - PUD will provide IROC with the Citywide Water Facilities Master Plan Update (request fulfilled on 9.17.19).
 - PUD will provide IROC with the Asbestos Cement Water Main Replacement Program Master Plan (request fulfilled on 9.17.19).
 - PUD will provide IROC with the article entitled “California’s Clean Energy Conundrum” (request fulfilled on 9.17.19).
 - PUD will let IROC know who sets the Rate Setting Policy.
 - PUD’s Finance Division will let IROC know how Rate Setting customer feedback is handled and implemented.
 - Tony Heinrichs will let IROC know if the County Water Authority can provide a presentation on their COSS and 5-Year Outlook.
 - PUD will provide IROC with a summary of Pure Water costs for both Water/Wastewater.
 - PUD will provide IROC with the impact of legislation to PUD.
 - PUD will provide IROC with a Condition Assessment Update.
 - PW will provide IROC with ATI Summary PPT & Mark-ups via PUD.
13. **IROC Members’ Comments** – *None.*
14. **Meeting adjourned: 12:06 p.m.**

Minutes submitted by: Erika Mc Neill