



Independent Rates Oversight Committee (IROC)  
**Meeting of January 21, 2020**

**1. Roll Call**

Chair Tiffany Mittal called the full IROC meeting to order at 9:31 a.m. Wilson Kennedy conducted roll and a quorum was declared. Attendance is reflected below:

<u>Members:</u>	<u>Present</u>	<u>Absent</u>
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 Christine Leone, Chief Deputy City Attorney.

**2. Non-Agenda Public Comment** – None.

**3. Approval of Draft Minutes from Meeting of December 16, 2019**

**ACTION:** Chair Mittal asked for a motion to approve the minutes. Motion by Member Hess to approve with minor modifications. Second by Member Akin. Member Dull abstained. Motion passed 8-0.

**4. Chair Updates** - *Tiffany Mittal, Chair*

- Thank you to all the members who participated in drafting the FY19 IROC Annual Report
- We plan to adopt the Annual Report today, so we can submit to the City and PUD

**5. Mayor and Council Staff Comments** – None.

**6. City Staff Updates** – *Shauna Lorange, Director of Public Utilities*

- Today, we will provide you with an educational background on our current rate structure
- In 2015, there was a lawsuit on the legality of the past tiers of our water rates that will be going to court soon. You may see me waving if I have a comment because I need to make sure everything we say here is appropriate and correct. Depending on the result of that case, the way we design rates in our upcoming COSS may be impacted.
- The RFP process for AMI is on hold until after we meet and confer with the unions

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7. **Presentation: COSS – Rate Structure Options (\*Public Comment\*)** – *Kevin Koeppen, Assistant Chief of Finance, Otay Water District and Joe Beachem, CFO, Otay Water District*

- Speaking on behalf of the Otay Water District regarding the recycled water rates that the City of San Diego charges Otay
- Otay believes the unitary recycled rate is unreasonable because it results in Otay customers paying for both North City and South Bay
- Otay has a lawsuit against the City of San Diego related to this recycled rate
- Otay urges the City to adopt a zonal rate when recycled water rates are adjusted
- Mr. Koeppen submitted a letter to Chair Mittal on this topic for the record
- Mr. Beachem supports approval of the zonal rate to go back to the equity that was created in the original agreement

**Presentation: COSS – Rate Structure Options** – *John Wright, Raftelis Senior Manager and Todd Cristiano, Raftelis Senior Manager*

Cost of Service Overview

- Proposition 218 – A Cost of Service Mandate
  - An agency cannot collect revenue beyond what is necessary to provide service
  - Revenues derived by the charge shall not be used for any other purpose other than that for which the charge was imposed
  - The amount of the fee may not exceed the proportional cost of service for the parcel
  - No charge may be imposed for a service unless that service is actually used or immediately available to the owner of the property
  - A written notice of the proposed charge shall be mailed to the owner of each parcel at least 45 days prior to the public hearing, when the agency considers all written protests against the charge
- Rationale for Cost of Service
  - Different types of customers generate different costs because their usage characteristics vary
  - Cost of Service analysis allows the City to recover the cost to provide service to each customer class from that customer class
  - Each customer class “pays its own way”
  - Maximizes fairness and equity
  - Avoids cross subsidies between customer classes
- Steps in the Cost of Service Process
  - Determine the amount of revenue required to service all customers (financial planning)
  - Analyze customer usage level of service characteristics
  - Identify the appropriate customer classes (similar usage patterns)
  - Allocate costs to customer classes based on their characteristics (industry standard practice)
  - Design rate structures that comply with Proposition 218
- Common Customer Classes and Usage Characteristics – Water System
  - Classes
    - Single Family Residential; Multi-Family Residential; Commercial; Industrial; Irrigation; Wholesale; and Recycled/Reuse
  - Characteristics
    - Base Demand; Peak Demand (maximum day/hour); Meter Size; and Fire Flow Requirements
- Common Customer Classes and Usage Characteristics – Wastewater System
  - Classes
    - Residential; Non-Residential; and Wholesale
  - Characteristics
    - Volume; Oxygen Demands; Suspended Solids; and Other Loadings

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Water Cost Allocations

- Water Cost Drivers
  - Utility Infrastructure is designed, built, and operated to meet the peak demands imposed by customers
    - Infrastructure and operating costs would be significantly lower if there were no peak demands
    - Customers that impose higher maximum day and maximum hour demands are allocated more costs
    - Customers with higher peak demands pay a higher rate (\$/HCF)
- Wastewater Cost Allocations
  - Wastewater Cost Drivers
    - Wastewater treatment plant processes are the key cost driver
      - It costs more to treat higher strength wastewater discharges
      - Customers with higher strength wastewater discharges are allocated more costs
      - Customers with higher strength loadings pay a higher rate (\$/HCF)

Water Rate Structure Background

- Common Pricing Considerations
  - Conservation; Funding Mechanism; Affordability; Equity and Allocation Methodologies; and Administration
- Balancing Competing Pricing Considerations
  - Utility Financial Sufficiency; Revenue Stability; Defensibility; Administrative Ease; Affordability; Cost of Service Equity; Conservation; and Customer Understanding
- Consumption Tiers and Proposition 218
  - Proposition 218 requires both customer class cost allocation and consumption tiers to be justified based on cost of service

Wastewater Rate Structure Background

- Basic Rate Structure (strength not recognized)
  - All customers pay the same commodity rates
  - No significant differences in strength loadings
- More Complex Rate (strength recognized)
  - Different commodity rates for one or more customer classes based on assumed or actual strength loading (San Diego)
- Extra Strength Surcharges
  - Used in conjunction with basic or complex rate structures
  - Surcharges paid by high strength dischargers based on their actual tested loadings
- Wastewater Rate Structure Considerations
  - Water Consumption
    - Residential customers billed on winter average water consumption?
    - Non-residential customers billed on monthly water usage?
  - Measuring strength loading characteristics
    - Industry Standards by SIC Code?
    - Actual tested strength loadings?
  - Estimating “return flows” to the wastewater reclamation facility

Rate Structures

- San Diego’s Current Water Rate Structure

Customer Class	Commodity	Fixed
Single Family Residential	4 Tiers	Monthly Meter Fee that Varies by Meter Size
Multi-Family Residential	Uniform Commodity Rate for All Consumption	"
Commercial / Industrial	"	"
Irrigation	"	"
Temp Construction	"	"

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- San Diego's Current Wastewater Rate Structure
  - Single Family Residential
    - Commodity rates are assessed based on winter average water consumption during the previous year (November through April)
  - Multi-Family Residential
    - Commodity rates are assessed based on actual billed water consumption with a 95% return flow assumption
  - Non-Residential
    - Rates reflect strength loadings based on Standard Industrial Classification codes (i.e., customers pay based on their assumed strengths)

**8. Discussion: Adopt FY19 IROC Annual Report & Recommendations and the Standardized Report for City Boards & Commissions**  
*- Tiffany Mittal, Chair*

**ACTION:** Chair Mittal asked for a motion to adopt the FY19 IROC Annual Report and recommendations without any substantial changes. Motion by Member Dull to approve. Second by Member Kubota. Motion passed 9-0.

**9. City 10 - County Water Authority – *Tony Heinrichs, City 10 Representative***

- After a nationwide search, Ms. Sandy Curl was appointed as the General Manager of the County Water Authority (CWA) in November 2019
- CWA is trying to reach a settlement in the litigation with the Metropolitan Water District
- If a settlement is not reached, the trial is scheduled for mid-2020
- Rainbow/Fallbrook detachment issue; both Boards have approved the filing of detachment forms
- Otay Water District filed a lawsuit against Rainbow for not complying with the California Environmental Quality Act (CEQA)

**10. Metro/JPA – Report Out – None.**

**11. Proposed Agenda Items for Upcoming IROC Meetings - *Tiffany Mittal, Chair***

- COSS – Fixed vs. Variable
- Deliverables:
  - Chair Mittal is interested in knowing what the estimated peaks were for different customer classes
  - Chair Mittal mentioned that aggregate multi-family peaking information could be obtained from the San Diego County Apartment Association
  - PUD will provide IROC with a Pure Water Update

**12. IROC Members' Comments – None.**

**13. Meeting adjourned: 11:54 a.m.**

Minutes submitted by: Wilson Kennedy