

Independent Rates Oversight Committee (IROC)
Meeting of January 17, 2023



1. Roll Call

Chair Linh Quach called the full IROC meeting to order at 9:30 a.m. Roll Call was conducted, and a quorum was declared. Attendance is reflected below:

| <u>Members:</u> | <u>Present</u> | <u>Absent</u> |
|------------------------|----------------|---------------|
| Linh Quach, Chair | X | |
| David Akin, Vice Chair | X | |
| Luis Osuna | | X |
| Jim Peugh | X | |
| Jack Kubota | X | |
| Jeff Justus | X | |
| Tiffany Mittal | X | |
| Gordon Hess | X | |

Ex-Officio Members:

| | |
|------------------------|---|
| Jerry Jones, Metro/JPA | X |
|------------------------|---|

Some of the City representatives present included Lisa Celaya (Executive Assistant Director of Public Utilities) and Bonny Hsu (Deputy City Attorney).

2. Non-Agenda Public Comment – None.

3. Approval of Draft Minutes from Meeting of November 21, 2022 – Linh Quach, Chair

ACTION: Chair Quach called for a motion to approve the minutes. Motion by Vice Chair Akin. Second by Member Peugh. Motion passed with 6 in favor, 1 abstained.

4. Chair Updates – Linh Quach, Chair

- Chair Quach announced the resignation of IROC Member Tiffany Mittal effective immediately.
- The Committee thanked Member Mittal for her nine years of service and dedication to IROC.

5. Mayor and Council Staff Comments – None.

6. PUD Updates – Lisa Celaya, Executive Assistant Director, Public Utilities

- PUD is currently recruiting for an Assistant Director for the Technical Support Branch.
- Council approved an agreement with the City and East County JPA related to the East Mission Gorge Pump Station.
- Jacobs has been selected as the Program Manager for the AMI project.
- With the recent rain, there has been an increase in stored water by about 10,000 acre feet. El Capitan and Lake Hodges both rose by 4 feet in elevation. Lake Hodges is currently over its height restriction of 275 feet and the valve is being left open to mitigate the height restriction.

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7. **Presentation: Water Systems Valves and Fire Hydrant Maintenance Programs Update** – Ken Morgan, Deputy Director, Public Utilities
- How Valves Are Used Within Our System
 - Isolation for CIP, construction, main breaks/leaks, maintenance, and troubleshooting system problems
 - Pressure Regulation, Reduction & Sustaining Valves
 - Pressure Relief Valves
 - Check Valves
 - Hydrants
 - There are about 107,395 valves in our system
 - Valve Maintenance Program Audit Report Update
 - Office of the City Auditor conducted a performance audit for distribution valve maintenance practices of PUD in 2012
 - An additional internal PUD report was submitted in 2019 for guidance with large diameter valves
 - The reports had several recommendations to improve the efficiency of the programs
 - AWWA Manual M44 recommends that all valves should be cycled from full open to full close and back to open at least once every 5 years
 - System Asset Types and Schedules
 - Types of Valves/Number of Valves/General Type/Maintenance Cycle
 - Transmission Valves
 - 12,572
 - Butterfly and Large Gate Valves
 - 5-year
 - Distribution Valves
 - 76,914
 - Gate Valves
 - 5-year
 - Air Vacuum/Relief Valves
 - 2,755
 - Varies
 - 5-year
 - Blow-off Valves
 - 4,564
 - Mostly Gate Valves
 - 5-year
 - Pressure Reducing/Relief Valves
 - 946
 - Varies
 - 5-year
 - Recent Distribution Asset Activity (from 1/8/22 – 12/10/22)
 - Type of Asset/Number of PMs/Total Number of Asset Types/Percentage of Total Number/Target Annual Average Percentage
 - Transmission Valves
 - 525
 - 12,572
 - TBD
 - 20%
 - Distribution Valves
 - 20,837
 - 76,914
 - 27%
 - 20%

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- Air Vacuum/Relief Valves
 - 471
 - 2,755
 - 17%
 - 20%
- Blow-off Valves
 - 1,125
 - 3,355
 - 33.5%
 - 20%
- Fire Hydrants
 - 7,634
 - 25,747
 - 30%
 - 20%
- Valve Program Components
 - Identify Valve locations-list and confirm in the field
 - Prioritize Valves based on established criteria
 - Access and exercise valves based on set schedule
 - Identify defective and/or inoperable valves
 - Schedule and complete the needed repairs/replacements
 - Document the work performed and update the database
- Valve Maintenance Program
 - Advantages
 - Valve locations will be known
 - Better able to shut down in emergencies
 - Reduces leak run time which reduces loss of water and damage to municipal infrastructure
 - Reduces area/residents affected by breaks and outages
 - Helps to maintain the quality of the water
 - Challenges
 - The initial planning is very critical and time consuming
 - Properly coordinating between what is in the system vs what really exists
 - Being able to consistently locate the valves
 - Valves will be broken and cause operational issues
 - The water quality can be negatively impacted
 - There is usually a disruption to residents
 - Out process does not completely close distribution valves
- Transmission and Distribution Valves rated based on risk levels
 - High risk valves are more critical based on outage impacts
 - High risk valves should be maintained more frequently
 - Moderate to low-risk valves can be maintained within typical frequencies
 - Moderate to low-risk valves are in areas with reduced outage impacts
- Risk Level/Maintenance Cycle/Number of Valves/Percent of Total
 - High (Transmission Valves)
 - 3 years
 - 2,514
 - 15%
 - Moderate-Low (Transmission Valves)
 - 5 years
 - 10,058
 - 85%

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- High (Distribution Valves)
 - 3 years
 - 11,537
 - 20%
- Moderate-Low (Distribution Valves)
 - 5 years
 - 65,377
 - 80%
- Other Critical Valve Related Activity
 - Inspect all recently paved/repaves streets to locate potentially buried valves
 - Identify and document buried/missing valves
 - Raise identified buried valves, update GIS and the database
- Questions
 - Member Kubota asked how it can be ensured that if there is a blow-out, it can be isolated and not result in having to close off the system.
 - Deputy Director Morgan stated they have the ability to identify the need for replacement within the first few turns.
 - Member Kubota asked who is responsible for recording the paving work that is marked by utilities.
 - Deputy Director Morgan stated the contractor doing the paving is primarily responsible, but the Water Distribution Division follows-up to make sure the work is done.
 - Member Kubota asked if there is an issue with the older transmission mains.
 - Deputy Director Morgan stated the crews will do a test shut down prior to the work being done. When the mains are replaced, new valves are being put in.
 - Member Hess asked about the status of the GIS for valve replacement.
 - Deputy Director Morgan stated they have been working through a system of consistently updating the field locations of their assets through CIP Projects and work done by the division.
 - Member Peugh asked if the location of all the valves is known.
 - Deputy Director Morgan responded there are valves where the location is unknown, but there is a process in place to make sure that locations are updated effectively.
 - Member Peugh asked about the assessment of high-risk valves.
 - Deputy Director Morgan responded that there is a consultant's report and PUD is expanding on it in a way that is consistent with operations.
 - Member Peugh asked if there is staff and funding to follow the 3- and 5-year maintenance schedule.
 - Deputy Director Morgan responded that they are moving toward balancing staff and identifying effective ways to maintain valve infrastructure.
 - Member Peugh asked if the database has been updated.
 - Deputy Director Morgan responded that it has, and that SOP training and standardization is helpful to identify problem areas.

8. Presentation: Cost of Service Study – Adam Jones, Deputy Director, Public Utilities

- Executive Summary/Background
 - November 10, 2022 Public Utilities released the Water COS Study in conjunction with the PUD Five Year Financial Outlook
 - Study proposed rate adjustments governed by CA Proposition 218, which requires that the cost of service not exceed the government cost to provide the service
 - Costs were last studied in FY 2015 and last full rate increase was FY 2020
 - One-time revenues provided flexibility to delay rate adjustments

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- Rate History
 - FY 2017 – 7.2%
 - FY 2018 – 6.9%
 - FY 2019 – 2.2%
 - FY 2020 – 6.3%
 - FY 2021 – 0.0%
 - FY 2022 – 3.0%
 - FY 2023 – 2.5%
 - FY 2024 – 9.3%
 - FY 2025 – 7.6%
- City rate increase mitigated last three fiscal years
 - Use of Local Water Resources
 - Reducing Personnel Expenses in FY 2021
 - Stadium and Metropolitan Water District settlement
- Water Infrastructure
 - Service Area of 404 square miles for 1.4 million people
 - 3,300 miles of pipeline, 49 pump stations, nine reservoirs, three treatment plants
 - 85-90% of water imported into the City
- Cost of Service Process
 - Determine Total Revenue Required to run the Utility
 - Breakout Cost Based on Function
 - Calculate Customer Demands on System
 - Match Customer Demands with Costs
 - Cost of Service by Customer Class
- Water Sales
 - Customer use still below FY 2015 water level (190,629)
 - COS Study assumes reduction in future sales due to conservation
- Revenue Requirement – Capital
 - Water System Capital Assets (Millions)
 - Pipelines
 - Replacement - \$4,899.4
 - Acquisition - \$2,382.7
 - Storage
 - Replacement - \$1,564.8
 - Acquisition - \$622.3
 - Water Treatment
 - Replacement - \$1,204.1
 - Acquisition - \$757.4
 - All Other Assets
 - Replacement - \$683.7
 - Acquisition - \$474.7
 - Pure Water
 - Replacement - \$23.8
 - Acquisition - \$23.8
- Revenue Requirement – Operating
 - 1 water main break per 100 mi.
 - Better than industry standards
 - 566,239 acre feet of storage
 - 378 million gallons treated daily
 - 136 pressure zones serving elevations between 0-1600 feet
 - Over 270,000 customer accounts

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- Customer Rate Adjustments
 - Fireline Monthly Service Charge
 - Meter Monthly Service Charge
 - Water Commodity Rates
- Customer Impacts
 - Single family residential
 - Commodity Rate
 - Current (1/1/2023) - \$81.07
 - COSS (11/1/2023) - \$95.03
 - 1/1/2025 - \$103.06
- Regional Comparison
 - Water Rate Comparison – 9 HCF ¾” Meter
 - Lakeside - \$56.92
 - San Dieguito - \$56.96
 - Sweetwater - \$60.70
 - Santa Fe - \$65.98
 - Otay - \$69.33
 - Carlsbad - \$71.89
 - Yuima - \$77.03
 - Vallecitos - \$78.28
 - Oceanside - \$80.48
 - San Diego (1/1/2023) - \$81.06
 - Helix - \$82.06
 - Olivenhain - \$82.75
 - Poway - \$88.97
 - Average - \$91.39
 - Vista - \$91.43
 - San Diego COSS (11/1/2023) - \$95.03
 - Ramona - \$97.51
 - Valley Center - \$102.77
 - Escondido - \$103.05
 - Rincon del Diablo - \$110.32
 - Fallbrook - \$110.41
 - Padre Dam - \$122.46
 - Rainbow - \$135.65
 - Del Mar - \$170.53
- Single Family Tiers
 - Single family residential tiered rate structure
 - Proposed Rate Structure (HCF)
 - Tier 1 (0 to 5)
 - Tier 2 (6 to 11)
 - Tier 3 (Above 11)
 - Tier 4 (N/A)
 - Existing Rate Structure (HCF)
 - Tier 1 (0 to 4)
 - Tier 2 (5 to 12)
 - Tier 3 (13 to 18)
 - Tier 4 (Above 18)
 - Patz Litigation

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- Benefits to our Customers
 - Resiliency improvements at treatment plants producing millions of gallons of water a day across 3,300-mile distribution system
 - Investing in customer support to address routine customer concerns quickly and effectively solve complex items
 - Replacing 40 miles of pipelines each year to reduce pipeline failures
 - Borrowing \$733.5 million for Pure Water at 1.38%, saving over \$300 million in avoided interest costs to reduce water imports by 33,600 Acre Feet
 - Increasing onsite renewable power from 1,910 KW to 2,766 KW reducing greenhouse gas emissions and long-term costs
- Next Steps and Outreach
 - Public Outreach
 - IBA Review and Report
 - Council Meeting to Set Public Hearing
 - Proposition 218 Notice to Customers
 - Council Consideration/Public Hearing
 - Proposed Effective Date of Increase
- Questions
 - Vice Chair Akin asked if there a Plan B in case the courts rule against the tier structure.
 - Deputy Director Jones stated that there is a non-tier version that was prepared as back-up.
 - Vice Chair Akin asked why three tiers were chosen instead of four.
 - Deputy Director Jones stated the three-tier system looked consistent with average customer usage across the breaks.
 - Member Peugh asked if there is a measure of the overall aging of the system.
 - Deputy Director Jones stated that they are utilizing the Enterprise Asset Management System and there will be an integrated master plan with both water and wastewater to look at system holistically.

9. **Discussion: Discuss and Adopt the FY21 IROC Annual Report and Recommendations** – *Linh Quach, Chair*

- Motion by Vice Chair Akin to adopt the FY21 IROC Annual Report. Second by Member Kubota. Motion passed with 5 in favor, 0 opposed, and 1 abstained.

10. **Discussion: Discuss and Adopt the FY22 IROC Annual Report and Recommendations** – *Linh Quach, Chair*

- Tabled until the next full IROC meeting.

11. **Metro/JPA Report Out** – None.

12. **Proposed agenda Items for Upcoming IROC Meetings** – None.

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13. **IROC Members' Comments** – *IROC Members*

- Proposed agenda items carried over from the July 2021 minutes:
 - Once collections resume, Chair Akin and Member Kubota would like to have a combined presentation on the Customer Support Division/Office of the City Treasurer collection process and the status/timing of the lifting of water shutoff restrictions.
- Proposed agenda items carried over from the August 2021 minutes:
 - Finance Subcommittee – Once collections resume, a deep dive into the Office of the City Treasurer collections process.
 - O&C Subcommittee – Once in-person training resumes, an update on the Management/Field Academies.
- Proposed agenda items carried over from the March 2022 minutes:
 - Chair Akin would like an update on the Water Meter Services Division. This should include an update on AMI, the meter shop, and field crews (*tentatively scheduled for 06/20/2023*).
 - Members Hess and Peugh requested updates on the following COSS-related items:
 - The level of infrastructure replacement and staffing the COSS is based on for both water and wastewater. -from Member Peugh
 - Update on current System Condition Studies in preparation for the next COSS. -from Member Peugh
 - Update on the number of unfilled positions, hiring success, and PUD functions effected by unfilled positions; and an update on whether the COSS will provide resources to fill the unfilled positions. -from Member Peugh
 - Update on how these items are addressed in the COSS: Water sales; reservoir levels; budget status; Pure Water costs & progress; County Water Authority & MET rates; lawsuit updates; impact of changes with Fallbrook and Rainbow; and the Urban Water Management Plan. -from Member Hess
 - It would be helpful to understand why the last COSS was inadequate according to the judge and what the options are to address these deficiencies should the City lose its appeal of the decision. There must be other data requirements or options that could address the rates in a legal manner. -from Member Hess
- Proposed agenda items carried over from the April 2022 minutes:
 - Member Kubota asked for information on Demineralization Facilities and Recycled Water Systems.
- Proposed agenda items carried over from the May 2022 minutes:
 - When costs are known, Member Peugh would like a Lake Hodges Dam funding update.
- Proposed agenda items carried over from the June 2022 minutes:
 - Member Kubota would like to know how the Brine Line Project will affect rate payers.

14. **Meeting adjourned: 11:23 a.m.**

Minutes submitted by Megan O'Brien