

Independent Rates Oversight Committee – IROC
August 21, 2008

Special Meeting

MINUTES

1. **Roll Call**

Chairperson Billings asked Monica Musaraca to call the roll at 10:03. At 10:10 a quorum was declared. Attendance is reflected below:

Member	Present	Absent
Donald Billings, Chair	X	
Larry Clemens <i>arrived at 10:10</i>	X	
Linda Cocking		X
Jack Kubota	X	
Barry Newman	X	
Jim Peugh		X
Charles Richardson		X
Irene Stallard-Rodriguez	X	
Todd Webster	X	
Gail Welch		X
ExOfficios		
Augie Caires, Alternate (for Scott Tulloch)	X	
Yen Tu	X	

2. **Non-Agenda Public Comment**

- Mr. Don Wood, Water & Energy Committee Chairman for Citizens Coordinate for Century 3, introduced himself and his background. He commented on the issue of increasing rates and the possibility of restructuring rates. He offered his ideas of looking at the existing rate structure and refining it to encourage customers to use water more efficiently. He mentioned Net Zero Water – new development, new growth concept. Mr. Wood expressed the importance of urging staff and City Council to look at new construction offset fees.

3. **Proposed Noticing for Rate Increases Associated with the CWA Pass-through and Indirect Potable Reuse Demonstration Project**

Alex Ruiz, Assistant Water Director, gave a presentation discussing the proposed noticing requirements related to Prop. 218 for both to fund the CWA pass-through rate increase and the IPR Demonstration Project. With regard to the increases, Mr. Ruiz stated they are asking City Council to hold a public hearing on September 8 to consider authorization on the noticing for both rate adjustments. Adjustments will recover the increase the CWA adopted at its June 2008 Board meeting which go into effect for its member agencies on January 1, 2009. He then described what the rate increase entailed giving some background of the proposed fees. Mr. Ruiz went over a spreadsheet of proposed base fees based on meter size, as well as proposed CWA pass through increases

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in regard to customer classification giving an example of the typical single family dwelling monthly bill.

Marsi Steirer, Deputy Director, spoke and told the Committee that associated with the Demonstration Project, their consultant had prepared a detailed cost estimate and in order to come to a full scale 1 million gallons a day (MGD) demonstration project, the cost would be \$11.8M. She stated the rates have been calculated to raise revenue to cover the project costs over approximately 18 months, after the revenue is collected, the rate increase ends. She then gave some background on the Demonstration Project and Reuse Study. She talked about the multiple barriers approach, explaining each process along the way from tertiary treatment to potable water supply. Ms. Steirer briefly described the work effort associated with bringing all of this together. Lastly, she went over a Demonstration Project Tasks & Budget list, which totals the \$11.8M.

Mr. Ruiz thanked Ms. Steirer and her team for the dedicated work, which was a significant effort to come up with this budget to deliver this project. He reminded the IROC the Water Department has been consistent in indicating to the IROC and City Council that there was no money to fund this project in the Rate Case, and specifically indicated when the City asked the public to support the rate increases in 2007, the rate increase did not include any money for this project. Mr. Ruiz then described the proposed temporary Demonstration Project related fee increases, which is fully on the commodity fee and is consistent with the AWWA principles in terms of rate setting practices. He stated if both the CWA and the IPR rate increases are approved, it would result in an additional 3.08% increase and if only the IPR was approved, it would result in a slightly higher percentage increase of 3.26%.

He outlined the current as well as the two increases for both CWA and the Demonstration Project in relation to all customer classes. Mr. Ruiz summarized the impact to monthly bills if both CWA and the Demonstration Project were passed in comparison to only one or the other increase being approved. Mr. Ruiz referred to attachments 1 and 2 to the package, presenting two versions of the 218 notice. Attachment 1, which the Water Department recommends, provides more information is more transparent and gives customers additional options and provides for a protest vote for customers on both of the rate increases independently. Attachment 2 is an alternative version being provided which has only one protest vote and one rate increase that the customers can protest together as a whole, which is not a recommended approach. Mr. Ruiz stated the noticing process would be sent to all property owners and customers before September 19, 2008. If there are a majority of protests from property owners, then we would be precluded from increasing rates.

In Summary, the requested action is to support the noticing process outlined in Attachment 1 to allow customers clarity. It is the intent to go before City Council on

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September 8, to request support for the noticing process outlined. If approved the notices would be sent out, and a public hearing would be set in November, at which time Council will vote on the actual rate increases as outlined.

Mr. Newman asked if grants are being considered, or have been sought from any sources for potable reuse. Ms. Steirer stated yes, and they are in the process of looking at identifying other sources, now that the correct level of a detailed work plan is available, it can be put into grant applications and can move forward from here. Chairperson Billings asked for clarification in regard to the amount to the public outreach portion of the budget. Ms. Steirer stated the amount was decided upon due to her professional judgment as well as based upon the level of effort that was associated with the outreach activities that were undertaken as part of the Reuse Study. Due to the amount of work and dedication associated with the public outreach, this estimate was 2 full time people. Mr. Ruiz added Orange County did spend approximately \$4.25M in their outreach campaign, which was about 1% of the total project cost, which is typical for upfront costs. Public outreach was encouraged, being one of the prime reasons why customers were comfortable with it going forward. Chairperson Billings concurred with the importance of the matter. Ms. Tu asked if the 2 positions are outsourced, Marsi stated that both are contract employees, housed with the City only. She also mentioned work would begin immediately after approved.

Mr. Webster asked how much more additional, a single family dwelling unit would be for this 2009 rate increase. Mr. Ruiz checked his notes and stated the July 1, 2009 rate would be \$61.03 per month and July 1, 2010 would be \$63.57. Mr. Webster also asked hypothetically, if the CWA increase is not approved by City Council, what would this mean to the Water Department? Mr. Ruiz stated it would be a significant hit (\$18M over the first year – for every year going forward), and are going to be charged more money effective Jan. 01 for the water we buy. The longer we wait to recover those costs, the bigger the hit to the department. Mr. Webster then asked for a copy of the notes from the DPH meeting held in March. Ms. Steirer will provide them to IROC.

Chairperson Billings asked, in regard to the purification process, what the quality of the water is prior to the final step of drinking water. He asked what actual quality improvement is achieved through this, as an example of the ground water process in Orange County? Ms. Steirer stated there is natural filtration, and it is treated again at a water filtration plant. Mr. Barrett gave his opinion in that the quality of water coming out of the advanced water treatment plant (AWT) would not be considerably different from the water coming out of the full scale advance water treatment plant in Orange County. The difference between putting it down through the dirt in Orange County, and allowing it to reside in a surface water reservoir, he thinks is unknown. He believes that different from the Orange County process which only required a Regional Water Quality Control Board permit, the City's process will require in addition to this permit, a Department of

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Public Health permit as well. He added that no other agency the state of California is currently discharging advanced treated recycled water into a drinking water reservoir; also we have requested that upon completion of the Demonstration Project, a certification of the process must be received, in order to proceed with the full scale project.

Mr. Barrett then asked Tom Richardson, RMC Consultant, to answer why the detention time is important. He stated the fundamental issue with the reservoir is a fail safe mechanism. There are different monitoring and response techniques, and it is important for the City to comply with the regulations set by the California Department of Public Health. One of the differentiators is whereas the water goes through the ground in Orange County and is pumped directly to the residents, we have an added degree of safety with placing this water in a surface storage reservoir and then treating it at a conventional water treatment plant. Mr. Newman voiced concerns of the idea of reused water and the quality of it. Mr. Barrett assured that it is not the City of San Diego that is setting the regulations that need to be met in order to do this, it is the State of California's Department of Public Health (DPH). Mr. Webster added, from a scientist's point of view, the water coming from this plant will meet the Federal Safe Drinking Water Act Regulations, as well as the State Title 22 Primary and Secondary MCLs. He mentioned participation at the DPH workshop, his comments were related to looking at direct potable water reuse. He stated he feels the water coming from this plant will be very safe based on the current regulations.

Chairperson Billings asked in regard to the noticing process, if there is experience in the dual noticing. Mr. Ruiz and Mr. Barrett answered by stating yes, this is the third instance of noticing for 2 items, there were single protest forms, with individual boxes to check.

Agenda Public Comment

- Leslie Gaunt, Legal Intern representing San Diego Coast Keeper, expressed their support for dual noticing and the rate increases. She thanked Committee and the City for their efforts.
- Sara Honadle, member of the San Diego Coast Keeper, also speaking on behalf of Surfrider Foundation – San Diego Chapter. She thanked the IROC for their efforts and expressed appreciation. She gave support to the reuse study and expressed her disappointment in the Mayor not finding other funding mechanisms, but appreciates the leadership and dedication of the IROC. She feels it shows a great responsibility to the citizens of San Diego and addresses the ongoing water needs.
- Mr. Don Wood gave his historical comments regarding the Water Desalinization Plant in Chula Vista built in the 1960's. In regard to the potential rate increases over the next few years, he expressed the importance of the IROC taking this opportunity to refine the rates and move toward universal tiered rates. He then gave examples of other agencies who use this system, and how well it works for

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them. He feels non-residential customers should be given the opportunity to pay lower unit cost rates if they find innovative ways to use water more efficiently. He urges the IROC to look at a way to legally adopt tiered rates for all customer classes.

Alex Ruiz then asked for the IROC's support in noticing for the rate increases as outlined. Mr. Newman moved, Mr. Webster seconded, with members Cocking, Peugh, Richardson, and Welch absent, all were in favor.

4. Update on Declaration of Water Emergency – Water Watch Voluntary Conservation

Mike Bresnahan gave a brief update on some of the public outreach efforts taken since the Mayor's announcement on prohibiting water waste. He announced the publication of legal notice on both the SD Union-Tribune and the SD Daily Transcript, explaining the requirements of a Water Watch. Also printed on all outgoing bills was a message about the emergency declaration and the need to conserve water. Also mentioned was the Water Waste Complaint hotline (619) 515-3500, several news stations aired the message. Mr. Bresnahan talked about several community events where staff is available for answering questions, as well as the webpage being updated to provide information to customers. Last, he mentioned Jim Barrett's attendance at the Water Forum hosted by Congress Member Susan Davis on August 11, where many questions and discussions were centered on drought response actions and ideas.

Chairperson Billings inquired about the results. Mr. Bresnahan stated in his judgment, it will be unknown for a couple of months, due to the number of customers and reading cycles. He would like to see a full 2 months cycle where he can tell with hard data, what the impact has been.

Alejandra Gavaldon provided additional efforts the Mayor and his staff will be taking. She reminded the IROC that it takes a lot of time and effort to get the word out. She mentioned that the CWA has been doing this for over a year on the 20-Gallon challenge, which the Mayor has been an excellent partner. She added the Mayor's outreach team is constantly in the community, communicating the message. The remainder of the critical months, the Mayor will be having monthly water meetings with key stakeholders, organizations and top water users to give them regular updates, continue opportunities to partner with them, and also discuss critical water policy issues we will be facing. She is anticipating 8 community forums on water issues beginning late September through October. These dates will be forwarded to the IROC soon.

6. Summary of Water Department DRES Balance

This item was heard out of order and was placed at item 3, due to waiting for an expected Committee member. Rod Greek thanked the IROC for the opportunity to present this

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item. He stated he plans to bring a full report of the DRES balance for FY08 by mid October. Mr. Greek went over a spreadsheet which was included in the package, pointing out it is only related to the CIP portion of operations. The analysis of the O&M side is not complete. The O&M component will have a significant impact on the final determination of the balance in DRES at June 30, 2008.

The report was split out into two sections. One section for Annual Allocations which contain annually budgeted amounts. Any remaining funds that are not carried forward at the end of the fiscal year were de-appropriated. The second section listed project specific line items. These projects were closed out during Fiscal Year 2008. The funds remaining in the projects were de-appropriated.

Mr. Greek noted that for the Capital Program, beginning in FY2008, the capital projects are bond financed at 80%. Bond funds can only be used for actual expenditures and are not available to transfer to reserve accounts such as DRES. Of the de-appropriated amounts from the Annual Allocations, 20% was transferred into the DRES. Prior to FY2008 Capital Projects were bond financed at the 70% level. Therefore, the project specific line items in section two of the report resulted in 30% of the de-appropriated amount being transferred to DRES. He stated due to the unknown impact of the O&M calculation for FY08 and with the concern of future project cost escalations for projects identified in the current rate case, the funds need to be remain in reserve rather than made available for the IPR project which was not an identified need under the rate case.

Mr. Neman voiced his opinion of understanding the desire to insulate funds for probable future project cost escalations, but feels the IPR is very critical to the future and in need of funds. Mr. Greek again expressed concern that the O&M analysis is not complete and this will be a larger impact on the DRES than the CIP portion.

7. IROC Members Comments

Mr. Newman commented on some of his beliefs such as ensuring that all the districts served by the CWA go into mandatory conservation, immediately have building codes for individual meters from multi-tenant properties, not in the future. He feels double piping should be required in all new construction, whether commercial, residential, or industrial, as well as landscaping limitations. He stated that we are in a drought environment and he urges the CWA and Mayors office to recognize that we are in an emergency right now, therefore it needs to be dealt with now, not in the future.

Ms. Tu stated in May, CWA approved a \$1.7M ad campaign about conservation, hopefully some are seeing and hearing about this campaign on television and radio. She added they have had 2 conservation summits, including not only stakeholders but also landscape industry, landscape architects, homeowner associations. She offered to check their website. There should be some policy changes as well as best practices. Mr. Caires

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thanked the IROC for support of the IPR Demonstration Project, and said the issue will be taken to the JPA for support as well. He expressed his opinion that this is a major step toward large scale IPR in the future.

Adjournment of IROC

At 11:35 Chairperson Billings called for a motion to adjourn, Mr. Newman moved and Mr. Webster seconded, unanimously the meeting was adjourned.

Recording Secretary: Monica Musaraca