

Independent Rates Oversight Committee – IROC

October 12, 2009

MINUTES

1. **Roll Call**

Chairperson Billings called the meeting to order at 10:04 a.m. Monica Musaraca called the roll and a quorum was declared. Attendance is reflected below:

<b>Member</b>	<b>Present</b>	<b>Absent</b>
Donald Billings, Chair	X	
Tony Collins	X	
Christopher Dull	X	
Andy Hollingworth	X	
Jack Kubota		X
Barry Newman		X
Jim Peugh	X	
Irene Stallard-Rodriguez		X
Todd Webster	X	
Gail Welch	X	
<b>ExOfficios</b>		
Scott Tulloch, Metro JPA		X
Augie Caires, Alternate	X	
Ken Williams, City 10	X	

2. **Non-Agenda Public Comment**

There were no non-agenda public comments.

3. **Approval of Minutes from 9/14/09**

Chairperson Billings asked for a motion to approve the Minutes of September 14, 2009. Committee Member Webster moved to approve with no corrections, Committee Member Peugh seconded, all were in favor to approve the Minutes.

4. **Chair Updates – Chairperson Billings**

No updates.

5. **City Staff Updates – Alex Ruiz, Ann Sasaki**

Alex Ruiz

- Briefed the NR&C on the status of Indirect Potable Reuse, development of the new Rate Structure and the Cost of Service (COS) and Water Conservation. For the conservation, the September figures show there was a 10% Citywide reduction from last year, the target was 8%. Residential customers were down 12.9%, commercial and industrial customers down 4.9% and irrigation was down 20%. He stated going into the cooler months, there tends to be less excess irrigation outdoors, so should not expect as much savings. However, over the next months it expected there will be a lower amount of conservation because of the compounding factor.

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In regard to the COS, moving forward with a rate recalibration effort. The model, which was developed by Raftelis, is complete and is more flexible taking into account a variety of inputs for what-if scenarios as to where those tiered consumption bands should be. By the end of this calendar year will present to IROC alternative Fixed Tiered Structures for customers. Next years discussion will be the consideration of an Irvine Ranch Model or a water based budget approach, as we go thru and complete the COS analysis, concluding in December, 2010. He noted the only difference between the rate recalibration and what a water based budget approach would be is that under a recalibration effort there are 6 tiers which are fixed for every customer; under a water based budget approach, each property will be a different allocation based upon demographic considerations of that property in an effort to get to an efficient allotment for that property.

Chairperson Billings commented that the Irvine Model seems problematic for several reasons. He asked if there could be a briefing from administrators of the Irvine Model. Committee Member Peugh added he would like to know more about the other rate models as well, including the legislation portion. Mr. Ruiz stated there has been some survey work done on the tier structures, etc. and would be glad to engage in these discussions. Chairperson Billings asked if the breakdown of user class between indoor and outdoor is possible. Mr. Ruiz stated the flows at Pt. Loma are down considerable. Chairperson Billings stated because of the different factors such as rate increases and this being a cooler winter, which could decrease water use, he would like to know what is driving the trend, so there isn't false confidence. Mr. Ruiz stated he recalls a study by Renwich & Greene which was an economic analysis as to the various drivers that lead to demand reduction. They included variables isolated for income, landscape, air temperature, rain, etc. He can share that with the group.

Committee Member Peugh mentioned the City Council's "Water Day" and a list of things to address, he asked Mr. Ruiz for more information. Mr. Ruiz stated Councilmember Hueso solicited input from the other Councilmembers, the factors they would like to consider in a global approach to water supply. In response to that, he received recommendations on sub-metering, water harvesting, pricing structure approaches and others. The meeting occurred last Monday and most of the focus was on whether or not the Irvine Ranch Model makes sense for the City of San Diego. He stated this meeting gave the council members an opportunity to express their concerns about the water supply issue and the need to have a global approach.

Ann Sasaki

- At Coastal Commission last Wednesday the Permit Modification was approved by the Commission on an 8-4 vote. There were some conditions placed on the permit as it relates to the recycled water study. She stated this study is underway, and the results are anticipated in approximately 18

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months. There are also some conditions with the EPA before the Permit Modification can be finalized, and we are working with them.

Mr. Zeleny added it was a very interesting condition, the original condition was that the City report back. However, when it was repeated by the Executive Director of the Commission, it changed where the City report back on “how the City would implement the results of the study”, which is entirely different. The Mayor was very clear that the City cannot commit to implementing the results of the study that has not been completed yet, nor present to the rate payers or City Council. He added there should be another meeting for the Commission to adopt findings in support of that condition. Under the Coastal Act, they do have the authority to encourage water conservation so this may ultimately be the foundation of the findings in support of the condition.

6. **Change regular scheduled IROC Meetings to meet on THIRD Monday of each month**

Chairperson Billings stated this item was brought up in order have the opportunity of Jim Barrett’s attendance at the IROC meetings. He added the Finance Subcommittee has also agreed to move their meetings to the third Monday of each month. He asked for a motion to change the regularly scheduled IROC meetings from the second Monday of each month, to the third Monday of each month. Committee Member Hollingworth moved, Committee Member Welch seconded, all were in favor.

7. **Acceptance of the Public Utilities Response to the FY08 IROC Annual Report**

Tom Crane, Assistant Director, provided handouts for his presentation. He gave an overview of the order of events that lead to the Public Utilities Department’s (Department) response of the FY08 IROC Annual Report (Report) and noted this Report served to focus Department Senior Management across all program issues.

He stated FY2010 activities are focused on importing programs and studies between Water and Wastewater Branches. We are focusing on bringing the best practices of both Departments together so real efficiencies and consistencies of operations are achieved. He stated the Department agrees with all 12 listed Key Recommendations by IROC and recommended acceptance of the Department’s Response Report. He then pointed out the 12 Key Recommendations and gave brief descriptions of them. He then asked for questions on any particular items.

Committee Member Hollingworth asked about the sub-metering initiative. Alex Ruiz, Assistant Director, stated this initiative has been lead by Councilmember Emerald. She had convened an AdHoc Committee of the NR&C to look at the opportunity for sub-metering. He did not attend, and does not have the specifics of their presentation given last week. He said the Public Utilities Department does

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support sub-metering, it will lead to greater conservation on the part of the tenants, however we do not have any other position other than to support.

Committee Member Hollingworth asked if sub-metering may apply to existing construction. Luis Generoso, Water Resources Manager, stated the recommendation brought forth by staff to NR&C was that sub-metering would be required by all new construction plus retrofits, such as condo conversions where 50% of the interior plumbing is changed, unless vertical plumbing. There are other modifications as well for some horizontal plumbing scenarios. Committee Member Hollingworth then asked if the Department supports at point of sale, to require the seller to submeter at that point and incur the cost? Mr. Generoso stated that was not a recommendation at the meeting.

Committee Member Welch stated she encourages the City to document and track those efficiencies that created those greenhouse gas reductions. She added San Diego received one of the Greenest Cities awards and she is very proud. She feels there are a lot of opportunities here for the City to continue to earn credits.

Committee Member Peugh referred to Item #4 (Allocating additional resources to further reduce breaks/spills) in relation to the miles of main replacement. He expressed his concerns and stated he hopes there will be a way to express clearly what the overall impact on the City is, especially for the public to have an understanding. Chairperson Billings concurred.

Committee Member Webster stated, in regard to Item #3 (Preparing Alternatives to Address the PLWTP Variance Issue in the Future), that he had serious concerns that the City's Water and Wastewater Departments are inadequately preparing for that time when a waiver will not be granted in the future. The inevitable outcome will be that secondary treatment to meet the 30/30 rule of the Clean Water Act for TSS/BOD will need to be implemented at the Point Loma facility. Though the Recycled Water Study will be of value to understand how flows can be reduced at the Point Loma Plant, it will have to be clearly understood how well such reductions in flow will translate to reductions in solids loading, which may or may not allow the 30/30 rule to be achieved. As the need for such secondary treatment may be a very real possibility in the near future, he asked that the City take proactive steps now to begin further detailed investigation of feasible options to effectively expand the Point Loma Plant while attempting to minimize the projected \$1.5 billion dollar price. Chairperson Billings concurred and urges the Department to have a planning scenario explicitly which would assume the requirement to move to secondary at the end of the 5 years.

Chairperson Billings noted that Recommendation #7 (Use of Rate Structures to Enforce Water/Wastewater Conservation) is recognized but felt the recommendation really was about changing that pricing so it was either not static, and didn't move with the other rates, and it be raised to more accurately reflect the cost of providing the commodity including infrastructure. Mr. Crane stated in

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regard to the first bullet (Water, recycled water, and wastewater rate models – 2009) there is a recycled rate study going to recover the cost of producing the recycled water. Mr. Ruiz agreed, and added the Report is expected by the end of this calendar year. Chairperson Billings thanked staff and complimented them on Report.

Chairperson Billings asked for a motion to accept the Report. Committee Member Peugh moved, Committee Member Hollingworth seconded, all were in favor of accepting the Report.

**8. Support of Indirect Potable Reuse Demonstration Project (IPR) – Project Management and Outreach Contract**

Marsi Steirer, Deputy Director, began by summarizing the provided Natural Resources and Culture Committee (NR&C) memo monthly update on IPR/Reservoir Augmentation Demonstration Project, dated October 1, 2009. She pointed out work has begun on the reservoir model calibration. She then added City staff provided comments to the draft report the Independent Advisory Panel (IAP) wrote, based on their May 2009 workshop on the Demonstration Project. In September 2009, the report was finalized and sent to the Calif. Department of Health for review and comment. Ms. Steirer stated the City anticipates receiving their comments later this month. This will then be provided to City Council, IROC, and others. Last, this will be very important because the last big contract going forward is associated with the Advanced Water Treatment Demonstration Project.

Ms. Steirer began her presentation listing the Project's objectives. She stated a very detailed scope of work had been developed and was shared with the Environmental & Technical as well the Public Outreach Subcommittees while finalizing. She then gave a brief project description and background. Ultimately, three firms in the competitive process were interviewed in July 2009, and in August RMC Water and Environment firm was selected as Prime, with Katz & Associates as the Subconsultant who will be doing the public outreach. The City is scheduled at NR&C on October 28, 2009 and hope to make it to City Council before recess in December.

She then went over the Project's task and budget list which was presented to City Council last year. She pointed out the three key elements associated with this particular contract are: Project Management (\$1,688,000), Pipeline Alignment (\$50,000) and Public Outreach (1,700,000). She then gave an overview of the public outreach work associated with this, which is about the same level of effort made for the Re-use Study.

Ms. Steirer requested IROC's support for this Agreement as the City moves forward to City Council.

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Committee Member Hollingworth asked if the Public Outreach portion of the award was also bid upon much like construction bids. Ms. Steirer stated no, it is different than a construction process. She then briefly went over the competitive process, the inclusion of professional staff members, as well as how the budget fit into this. Committee Member Hollingworth asked her to explain the staffing included in this budget. Ms. Steirer stated it would cover about 2 full time staff which is 1 ½ on site as well as others from the firm coming and going providing the level of support needed. Chairperson Billings added in order to make the investment it is important to not only demonstrate the technical matter, but that the public understand what it does, and have it framed properly. He encourages and supports the Department's focus on public outreach and education aspect. He also stated the IROC has reviewed the budget as well as City Council approving. Committee Member Peugh concurred and is accepting of the presentation.

Chairperson Billings asked for a motion to support the Contract, Committee Member Peugh moved, Committee Member Welch seconded, with Committee Member Hollingworth opposing and adding he feels the \$1.7M is excessive based upon his experience with public works contracts; all others were in favor to support the Contract.

**9. Committee Reports**

a. Finance – Subcommittee Chair Hollingworth

- Extensive discussion today regarding the Metropolitan Water District (MWD) proposed contract to be heard tomorrow morning in L.A.
- Discussed methodology the Public Utilities Department uses to review pending MWD and CWA rate increases, received a lot of good information.
- Finance Subcommittee would like to suggest to the full IROC that Mr. Shames of UCAN utilize some money to develop benchmarking standards for both MWD, CWA and Public Utilities so future rate increases can be tracked, to see if they are reasonable based upon their cost structure.
- Updated on the Public Utilities, still working on SAP to track operating expenditures as well as methods of tracking costs of schedule on the Capital Improvement Program.

Chairperson Billings reminded the Committee to get involved much earlier in the process with pass-through rate increases, to avoid special meetings in the future.

b. Environmental & Technical – Subcommittee Chair Peugh

- Discussed the IROC Annual Report, worked on a list to consider adding, but will wait until more information is brought up today.

c. Public Outreach, Education & Customer Service – Subcommittee Chair Welch

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- Reminded IROC that City Council is invited to attend IROC meetings, and are likewise invited to collaborate with City Council on issues needed. Committee Member Kubota did receive a congratulatory letter from Council Member DeMaio for the extension of his assignment with IROC, and invited Jack to meet with him. She will join in. There may be opportunity to meet with Councilmember Frye as well and extended the offer to others that wish to collaborate.
- Discussed IT projects within the Customer Service Division.
- Updates on the Pt. Loma Modified Waiver, rate increases, Cost of Service Study
- Discussed use of excess methane at Pt. Loma and possible brief to full IROC.
- Next meeting will discuss Annual Report and Metropolitan Wastewater permits and discharge of pharmaceuticals and what is allowed for each industry.

Chairperson Billings suggested this subcommittee stay on top of IPR public outreach contract to give IROC a sense of the performance metrics and the effectiveness of the contractor, and making sure people understand what this project is and how important it is.

**10. Metro/JPA Report Out – Chairperson Billings**

No updates.

**11. Presentation on Replacement of Customer Billing System**

Ms. Jane Arnold, Program Manager, began by giving the Customer Information System (CIS) SAP Implementation overview. She mentioned the Public Utilities will be replacing the following existing systems and processes with SAP Public Utilities Modules for CIS, Installation Order System (IOS) and Field Services & Investigations (FS&I).

Ms. Arnold gave an overview of the goals and objectives such as providing exceptional levels of customer service, long-term stability of the customer information, to lower cost of ownership and maximizing existing infrastructure, to provide for accommodating growth through technology and to provide innovation and excellence. She stated what is very important as well is to provide a cost effective and environmentally sound product. She then went over the projected budget forecast of \$20.4M, which assumes 50% backfill for City staff (excluding PMO, SDDPC). She added this forecast was based upon a very sound detailed analysis which incorporates working at the different modules being implemented for specifically customer billing.

Ms. Arnold went over the scope (CIS, IOS and FS&I Systems/Processes) and cost categories of the total budget amount which will include labor; change management and training & education; system integrator travel & expenses; projected hardware and infrastructure (estimate); project facilities and project

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contingency planning. She then touched on the implementation project phases for the 18 month forecast, with an estimated system Go-Live projected for September 2011 based upon the modules implemented interfacing with the OneSD architecture. She concluded with adding the City's goal is to maximize resources that are assigned to the Project but also wants to make certain were current positions are not over-leveraged in assigned duties. She then asked for Questions.

Committee Member Welch asked if after implemented, this create a more efficient staff, a reduction in staff or an addition to staff to run this software? Ms. Arnold stated it is looking at efficiently applying the members of staff to the Project. She cannot state whether this will call for a reduction in staff at this time. Committee Member Welch gave her idea of an exceptional level of customer service, which is a goal in this Project. Ms. Arnold concurred. Committee Member Welch asked to what extent will customers be able to see an impact analysis on the bill when there are increases? Mr. Bresnahan stated this is not part of the functionality of the system, therefore cannot get this finite information from the website, or a customer service clerk at this time. Mr. Ruiz added there is a "Bill Calculator" available on the website which based upon the type of meter you have etc., can forecast what your bill can be with all the known rate increases established so far.

Committee Member Welch asked if there are any incentives to completing this project on time, or are there penalties for not meeting schedule? Mr. Ruiz introduced Mike Guay, ERP Implementation Consultant. This part of Contract negotiations with the system integrator has not yet occurred, however, the selected vendor must agree to a contract type which is either a Time and Materials – Not to Exceed or a Firm Fixed Price Contract. Payments will be remitted based upon a milestone billing schedule with associated deliverables. The vendor must agree to accept a payment schedule with a final acceptance milestone of at least 10 percent (10%) of the entire contract. At this point, there would not be a penalty but the system integrator would not be paid until the milestone deliverables were completed.

Committee Member Dull asked if there would be parallel testing done in case of problems with the new system crashing. Mr. Guay said yes, the final preparation period is 4 months long, which includes the parallel testing.

**12. Discussion of the development of the FY09 IROC Annual Report**

Chairperson Billings reminded the Committee the order of events from last year's Annual Report preparation. He stated an Ad Hoc Committee is composed which consists of the Chair of IROC and the Chair's of the 3 Subcommittees. He said this process has already begun for the FY09 Report. He provided a timeline in order to approve at the February meeting. An approval from IROC must be gained by the January meeting to circulate through the Department for fact validation. He suggested having it written by the end of this year in order to meet the deadlines. He stated the last Annual Report was fairly large and encourages

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IROC to create a less ambitious document this time. In terms of format, it should have two parts, one to follow-up on the recommendations of Management Response contained in the FY08 Report; and secondly identify new items. He proposed having a more measureable document so there would be financial statements and audit reports etc. be more of a subject.

He stated IROC now has a full 12 month record in FY09, he encourages each Subcommittee to refer to their Agendas and Minutes for that time period and pull out those items considered relevant, as well as summarize the activities in terms of areas covered, actions taken and follow up items so the Report can be not only recommendations, but memorialize the activities conducted. He asked the IROC to repeat the creation of the Ad Hoc which will consist of himself and the 3 Subcommittee Chairs or their designee. He asked them to let him know their availability for a first meeting, within the next couple of weeks.

**13. Proposed Agenda Items for Next IROC Meeting**

- Irvine Ranch Model
- Pt. Loma excess Methane
- Bid to Goal
- State Water Legislative Session Update

Mr. Ruiz stated he would invite Brent Eidson from the Mayor's Office to attend if possible, to cover the State Water Legislative Session Update. Committee Member Hollingworth asked to have the floor analysis or Committee analysis on each piece of Legislation that is passed. Mr. Ruiz stated he would do his best.

**14. IROC Members' Comments**

None.

**Adjournment of IROC**

At 12:06 Chairperson Billings motioned to adjourn, all were in favor, the meeting was adjourned.

Recording Secretary: \_\_\_\_\_  
Monica Musaraca