

Independent Rates Oversight Committee – IROC

March 15, 2010

MINUTES

1. **Roll Call**

Chairperson Billings brought the meeting to order at 10:12 a.m. Monica Musaraca called the roll and a quorum was declared. Attendance is reflected below:

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

2. **Non-Agenda Public Comment**

There were no non-agenda public comments.

3. **Approval of Minutes from 2/16/10**

Chairperson Billings asked for a motion to approve the Minutes of February 16, 2010, with no corrections. Committee Member Stallard-Rodriguez moved to approve, Committee Member Peugh seconded, with one abstention (Billings), all others were in favor to approve the Minutes with no corrections.

Chairperson Billings noted there was a typo on this month’s Agenda - Item 3, title currently reads: “...1/19/10” and should have read: “...2/16/10”.

4. **Chair Updates – Chairperson Billings**

- Thanked Committee Member Peugh for performing the Acting Chairperson role while he was excused last month.
- Recently met with Council Member Faulkner and Eduardo Luna, City Auditor, regarding the Performance Audit exploring IROCs efforts to date to identify performance benchmarks, also in the contents of the Bid to Goal Program. IROC is aware the Audit Committee has given additional resources to the City Auditor and welcomes our input, specifically will not take the Audit Plan to the Audit Committee for approval, without IROC’s preview and input.
- Asked Ernie Linares to invite Eduardo Luna, City Auditor, to the April 19 IROC meeting. Mr. Linares stated he will send the invitation.
- Met with Michael Shames of UCAN, they are looking to hire more of the administrative support rather than a water expert. This may be around the Rate Case timeframe. At this time, IROC will close the effort.

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- Sub-metering will go to City Council next month. Congratulated all for their efforts.

5. City Staff Updates , Jim Barrett, Director

- City was successful in extracting acceptable language from the Coastal Commission with regards to the Permit at Pt. Loma. Agreed the City will return with the results of the Wastewater Recycling Study in approximately 2 years and report on the findings, to inform the Commission how and to what extent the City intends to implement the recommendations in the Report, or alternatives to the recommendations in the Report. He congratulated Tom Zeleny, Deputy City Attorney, as our legal support to get the correct language crafted, and worked with the Coastal Commission staff.
- Following Alex's brief, he announced with mixed emotions, his departure from the City of San Diego. His last day with the City of San Diego will be March 26, 2010. He has accepted a position as Assistant General Manager at the Coachella Valley Water District. Alex Ruiz will be filling in until further notice. He thanked IROC and stated he appreciates the commitment, support, and hard work put in to the IROC and Department.

Alex Ruiz, Assistant Director

- In regard to Performance Metrics, Bid to Goal Program, we have engaged stakeholders in tours of our wastewater facilities periodically. He reminded the IROC they are invited to attend these tours at any time.
- NR&C Updates:
 - IPR: Continue to provide updates. Going to Council soon on the pad and canopy which will be installed as part of the EDR component, and will provide space for the build-out of the IPR demonstration project.
 - Cost of Service Study: Continue to work on.
 - Water Rate Recalibration: Will be presenting today as Item 11.
- Two contentious items to be heard at the upcoming NR&C meeting are: the Children's Pool issue, as well as the Golf Fees issue. These will take up much of the meeting. We may not have much of a briefing at the upcoming meeting.
- Bid to Goal Audit Update: Will be presenting in front of the Audit Committee on Monday, at 10:00. IROC is welcome to observe. We continue to work on the Bid to Goal Program for the Water fund side. Also taking to the Audit Committee, will be the request to approve the use of AKT, external auditor, to provide the audit of both performance and financial information for the 2009 year, which is still pending.
- The Executive Team will be holding a local, informal reception for Jim Barrett, and gave details. IROC is welcome to attend.

6. **Adoption of the FY09 IROC Annual Report**

Chairperson Billings stated the objective today is to approve the Draft Report for publication subject to additional non-substantive changes that may come as a result of management's fact checking which is underway. Mr. Barrett stated he can confirm by close of business today. Chairperson Billings reminded the Committee this is the FY09 Report, therefore be mindful that any current items should be put forth to the FY10 Report. He then asked for any substantive issues at that time. They are reflected below:

Section II, Item 6 - Pension Costs, second paragraph – (Peugh): Do not recall taking a position on defined benefits vs. defined contribution. Other IROC members concurred.

IROC collaborated and agreed to delete the remainder of the paragraph beginning with "...and to consider the advantages of exiting..."

Section III, Item 2 – SAP Conversion, page 28 – (Hollingworth): The Department has addressed his concerns, this section may be deleted.

IROC agreed to delete this section.

Section III, Item 2 – (CIP reporting language), page 22-23 – (Hollingworth): under CIP Program Oversight, add language indicating IROC intends to look at documentation regarding updated project estimates, such as (1) estimated cost to complete; (2) schedules for completion; (3) change orders.

IROC concurred. Committee Member Hollingworth will provide substantive language to Chairperson Billings.

Section III, Item 4 – Allocating Costs Equitably and In Support of Program Goals, - page 35 – (Webster): Brief mention of Irvine Ranch rate tier model. Request to strengthen language for IROC's recommendations regarding this and other rate models.

IROC concurred. Committee Member Webster will provide substantive language to Chairperson Billings.

Addition to Report, – (Welch): Add brief language regarding reclaimed water and the distribution system to summarize ongoing discussions.

IROC concurred. Committee Member Welch will provide substantive language to Chairperson Billings.

Section II, Item 1. Conservation, third paragraph, page 7 - (Alex Ruiz) – correction to the second line sentence containing "...not reduced at least 8 percent year over year." Should read, "...not reduced at least 8 percent from 2005-2007 average level.

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Chairperson Billings asked IROC to send any other non-substantive edits, corrections, and formatting necessary to finalize the Report to him as soon as possible. He thanked the IROC for their hard work and effort, and stated he will await the other edits/recommended language from IROC, then will follow thru with Ad Hoc, department management, then finally to publication and distribution to IROC at next month's meeting.

Chairperson Billings asked for a motion to approve the Draft Report with the changes noted and any non-substantive changes made counter upon final review. Committee Member Peugh moved, seconded by Committee Member Hollingworth, all unanimously in favor.

7. **Discussion: Reappointment of IROC Chair/Vice Chair positions**

Chairperson Billing reminded the Committee he is termed out of the Chair position in May, when the next Chairperson is elected. Next meeting of May 17, IROC should be in a position to have identified candidates for the Chair and Vice Chair positions. Tom Zeleny, Deputy City Attorney, suggested nominations be made through the next IROC meeting. It was decided all should forward their nominations to Chairperson Billings, who in turn can present at the May 17 meeting, thus not precluding anybody else from being nominated at that meeting. The meeting would then be turned over the new Chairperson.

Chairperson Billings added, the Mayor's Office has identified 2 candidates for the vacancies on IROC, and will proceed through Council, but does not have the dates at this time.

8. **Sub-Committee Reports**

a. **Finance – Subcommittee Chair Hollingworth**

- Department has informed the Subcommittee, at the end of this year are projecting a surplus in both Water and Wastewater funds. If so, \$62M this FY for Wastewater, and \$4M for Water. The Subcommittee will look into a possible policy on how to deal with this situation.
- Department surplus property program and amount of revenues generated.
- Monthly look at Operating actual vs. Budget and CIP. This appears to be on schedule and budget.

b. **Environmental & Technical – Subcommittee Chair Peugh**

- Report on water pipe break. Very interesting and great information gained. However, learned there is no way to systematically detect weakness, which would have led to this.
- Discussed Water Division's lands. 32 acres of watershed is primarily to protect the water quality and reservoirs. There is no additional income. There are no internal funds for buying critical watershed land, all acquisitions are made from grants.

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- Update on moving ahead with the Automatic Meter Infrastructure.
- Mr. Zeleny spoke about funding for San Dieguito River JPA.

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

- The last meeting was cancelled due to a lack of quorum. No report at this time.

9. **Metro/JPA Report Out – Mr. Caires, JPA**

- Update on Bid to Goal and Modified Permit as usual.
- Discussed list of items and projects/programs JPA should track which Rod Greek provided. Mr. Greek can provide a copy to IROC at request.
- At Finance Committee, discussed the Metro Refunding status and Exhibit E audit as well as came to an agreement on the debt service coverage and operation reserve issue. Participating Agencies will be funding their share of the reserve necessary for debt financing. This was approved.
- In process of completing first Strategic Plan, about 80% done.

10. **Recycled Water Overview**

Marsi Steirer, Deputy Director, briefly described the scope planning. She introduced Jennifer Casamassima, Recycled Water Program Manager, who presented. Ms. Casamassima gave an overview of the long term vision, which included the Urban Water Management Plan, Long-Range Water Resources Management Plan, 3 phases of the Water Reuse Program, the Recycled Water Study, and the Recycled Water Master Plan. She then briefly described the North City Water Reclamation Plant (NCWRP) and the South Bay Water Reclamation Plant (SBWRP).

She described the NCWRP plant peak capacity, currently the plant is bringing in about 22.5 mgd of wastewater. The SBWRP currently brings in approximately 9.5 mgd. She went over the map of the entire distribution system with the 2 reclamation plants, showing a chart on beneficial reuse data, which she noted we have gone up tremendously in use for recycled water. She added due to the water conservation messaging, that the demand this calendar year, has gone down, and meter numbers have gone up.

Ms. Casamassima pointed out the many recycled water meters serving the City of San Diego, and showed the Top 10 Customers of 2009 where City of San Diego Park and Recreation Department is ranked #1, and the Environmental Services Department is ranked #10.

She referred to her provided handouts and presentation, the planned expansion identified in both 2000 and 2005 Master Plans. She reviewed the maps and designated areas, as well as the costs for the remaining project. This is approximately \$17.6 million in total project costs and would be approximately 10

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miles of pipeline, and about 1 mgd capacity for Phase 2. She added there are Title 16 monies to cover 25% of eligible costs and \$1.5 million in the Integrated Regional Water Management Plant monies from State Prop. 50, and additionally receive an incentive for every acre-foot of recycled water sold, through 2023. She then reviewed the recycled water extension and retrofit projects.

Last, she spoke about other opportunities for expansion such as a plan pilot recycled water tanker truck program providing water to sites; cooling tower conversions; infill customer connections; single-family residential irrigation systems - pursuing Master Reclamation permit language change from Regional Water Quality Control Board.

Committee Member Welch asked in regard to page 4 of the slides handout, Beneficial Reuse Data, where it was mentioned demand has gone down, how much of the reclaimed water use is irrigation vs. other industrial uses such as cooling towers, etc. Ms. Steirer replied approximately 98% of the customers use it for irrigation purposes. The messaging for conservation goes hand in hand with the downturn in numbers. Committee Member Welch asked as we get into the next Fiscal Year with regard to IPR vs. Reclaimed Water, she would like to know more about the costs.

Committee Member Webster stated the City parks and golf courses do not seem to receive recycled water, and is it potentially possible to take treated water going to Pt. Loma and direct it to these parks, and have the economics been studied? Ms. Casamassima stated yes, Recycled Water is looking at opportunities to expand the use of recycled water city-wide, and IROC should see some recommendations in the years to come. Mr. Barrett added the City had conducted a study years ago on how to expand the use of this water, which included the parks and golf courses. The Masterplan was taken to Council a couple of years ago, recommending the expansion of the purple pipe. We were told to explore IPR in lieu of Purple Pipe.

11. Water Rate Recalibration Update

Alex Ruiz, Assistant Director, recapped on past information, and provided a brief update. He stated he was expected to have more definitive information at this time. He stated the situation, with regard to supply, is better than last year and we are still awaiting the final evaluation of snowpack and precipitation. He added we do not believe there is pressure to increase beyond the current restrictions in place. He explained if it were proposed to have a recalibrated rate structure on rates, we would have to make sure the lowest tier pricing was supported by a Cost of Service analysis. After consultation with the City Attorney's office, we must take a very fine look to make sure it can be supported. This would, in turn, take a more detailed analysis of the Cost of Service elements done in 2007.

Mr. Ruiz stated, given the supply situation and the fact that the Cost of Service Study is still pending the results of the Master Plan, we should continue to monitor the supply situation and consider any rate readjustments within the context of our Cost of Service Study going forward. This will give an opportunity

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for stakeholder meetings and workshops to go over the Cost of Service details. In summary, he stated we do not believe rates will need to be recalibrated for a short term solution, but will need to discuss the longer term solution and the Cost of Service Study. He added, he wants to integrate the various initiatives in place, any approach to restructure water rates must include timing for AMI and updating the customer information billing system within the SAP which is due for September 2011.

Chairperson Billings asked if there is an early look at the 8% reduction goal and how it will be adjusted? Mr. Ruiz stated not quite yet, are still awaiting more information and analysis.

Ex-Officio Member Williams asked in regard to the “legal constraint” for the Cost of Service for the lower tier, does the constraint make the tiered structure non-workable? Mr. Ruiz stated not in itself. It needs to be verified there is a reasonable approach as to why the cost to deliver that amount of water to that customer is at the level stated.

Tom Zeleny, Deputy City Attorney, added under AB 2882, this Bill gives water agencies authority to define their Cost of Service by moving all conservation related efforts to the higher tiers. Some examples are Purple Pipe, IPR Project, enforcement, education and outreach.

Committee Member Peugh asked if the cost of water can be based on the cost of local water, which is lower. Mr. Barrett responded by stating if this is in regard to the rationale that Irvine Ranch used when they set their lowest tier, the cost of pulling water out of the ground. The comparison is that Irvine Ranch has approximately 70% ground water and 30% imported water, therefore can effectively pass on this lower rate to its customers. The City of San Diego does not have the same situation to use the same rationale.

12. Water Supply Outlook and Water Conservation Update

Luis Generoso, Water Resources Manager, went over the latest snow pack and precipitation levels, stating we are slightly above norm at this time. Reservoir storage has a slight increase as well, but still far from what we really need. He referred to his slides pointing out the predicted rainfall for the next couple of months. Wholesaler allocations will be announced in April or May for FY11.

He then noted our current situation, looking at bill consumption, we are averaging 11.2 decrease compared to last year. He added for the full year, should only be using approximately 60% of our allocation.

In regard to the water waste investigation taken place, he stated in the beginning there were quite a few complaints for excessive use, but due to the change of hours and more proactive work, this has tapered off. There have been no citations that carry a fine, we are getting corrective action.

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Mr. Luna mentioned the City of San Diego is in the process of receiving an award for “No Time to Waste, No Water to Waste” campaign from the Association of Environmental Professionals.

Committee Member Peugh commented in regard to the anomaly of the good winter we are having, he suggested to help with future recalibration efforts, it would be wise to plan now and get things understood, well in advance. Mr. Barrett concurred.

13. Proposed Agenda Items for Next Scheduled IROC Meeting

- What the future legal and legislative environment would look like. Tom Zeleny, Deputy City Attorney stated he would check with the Policy staff in the Mayor’s Office.

14. IROC Members’ Comments

Mr. Kubota stated the Public Hearing for Submetering set for last week was postponed until April, but is looking very promising.

Adjournment of IROC

At 12:30 Chairperson Billings adjourned the meeting, all were in favor and the meeting was adjourned.

Recording Secretary: _____
Monica Musaraca