

Independent Rates Oversight Committee – IROC
November 15, 2010
MINUTES

1. Roll Call

Chairperson Peugh brought the meeting to order at 10:03 a.m. Monica Foster called the roll and a quorum was declared. Attendance is reflected below:

| Member | Present | Absent |
|--------------------------|----------------|---------------|
| Jim Peugh, Chair | | |
| Don Billings | | X |
| Tony Collins | | |
| Christopher Dull | | X |
| Andy Hollingworth | X | |
| Jack Kubota | X | |
| Irene Stallard-Rodriguez | X | |
| Todd Webster | | X |
| Gail Welch | X | |
| | | |
| ExOfficios | | |
| Augie Caires, Metro JPA | X | |
| Ken Williams, City 10 | X | |

(arrived at 10:10)

Others in attendance: Roger Bailey, Director of Public Utilities; Alex Ruiz, Assistant Public Utilities Director; Tom Crane, Assistant Public Utilities Director; Tom Zeleny, Deputy City Attorney; Mark Robak, Metro JPA Alternate, Brent Eidson, City Policy Advisor

2. Non-Agenda Public Comment

There were no non-agenda public comments.

3. Approval of Minutes from 10/18/2010

Chairperson Peugh asked for a motion to approve the Draft Minutes of October 18, 2010. Committee Member Welch moved, Committee Member Kubota seconded, all others in favor of approving the minutes as submitted.

4. Chair Updates – Chairperson Peugh

- Attended Strategic Planning meeting for Public Utilities Department. Process based on a model Effective Utility Management. Overview will be provided at the next IROC Agenda.

5. City Staff Updates , Alex Ruiz, Assistant Director

- Will be moving forward with noticing the Pass Through Rate Increase, to request the City Council to approve the notice be sent to our customers. The notice of public hearing will be November 2., Subject to approval will be issued and sent to all customers no later than December 8. Public Hearing at Council will be scheduled for January 24, 2011 at 2:00 pm.
- Workshop will be scheduled in December for Rate Case setting.
- Next NR&C Meeting will be held the first week of December. This will be the last NR&C meeting for Council Member Frye. We are continuing to exceed the 8% reduction allotment for the balance of this fiscal year.

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There may be La Nina effect, which causes cool surface temperatures in the Eastern Pacific which could cause a dryer winter for this region.

- Will be receiving the Recycled Water Study by the end of December, will discuss with IROC at a future date.

Sewage Spill Update, *Stan Griffith, Deputy Director, Wastewater Collections*

- Two fairly small spills since the last report occurring on November 4 and 5, both caused by roots. There have been only 29 spills compared to 36 spills this time last year. First time in the history of the Department, we had a spill-free month in October, we are quite pleased. Additionally, there were 60 days between spills.

Water Main Breaks, *Jim Fisher, Assistant Director, Water Ops*

- Year to Date for water main breaks: 40 compared to last year at 37.

6. Public Utilities Department Reserves Policy

Lee Ann Jones-Santos, Interim Deputy Director, Finance & Information Technology presented. She referred to her provided handouts and presentation, describing the purpose of the Reserve Policy. She indicated it is to identify City operation and functions which reserves should be established and maintained as well as establish target reserve levels and methodology for calculating reserve levels. They provide a time frame for meeting targets and establish criteria for us of the reserves, processing to replenish. She noted the City is currently looking to revise the Reserve Policy.

Ms. Jones-Santos summarized the Water and Wastewater Reserves which are similar noting that funding is separate, so the reporting is separated. She noted the Reserves must stay within its own fund. She referred to her handouts and listed the Reserves for both Water and Wastewater funds which included Appropriated, Operating, Capital, Rate Stabilization, Secondary Purchase (Water side only), and Dedicated Reserve from Efficiency and Savings (DRES), also including the required approvals.

Committee Member Hollingworth stated he had an in depth review with the Reserve Policies earlier today in the Finance Subcommittee meeting. He then distributed a document he drafted titled, "Department Reserve Analysis". He mentioned there are funds in both the DRES and the Rate Stabilization Reserve he believes could be used to potentially either fund future rate increases or finance the Capital Improvement Program (CIP). He stated based upon his review earlier, it is unclear to him as to whether the Rate Stabilization Reserves are dedicated to maintaining the debt coverage ratios. He referred to past memorandums from the Chief Financial Officer. He indicated he discussed with Roger Bailey, he would A) like the Department to give IROC their position as to why the reserves need to be retained and what they would be used for, and B) afterwards, would like to invite IROC to do its first Council Mayoral Advisory Committee as to what the monies should be used for (i.e. CIP or to fund the 2012 increase).

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Mr. Ruiz clarified there were a couple of memorandums referred to in the earlier Finance Subcommittee. The later memorandum which superseded the first, it was proposed that the Rate Stabilization Fund be used as described by Ms. Jones-Santos. This was not approved by City Council as of yet, due to other elements of the memorandum, and many questions by Council regarding the use and designation of the funds. He indicated we are awaiting the Reserve language to be approved by Council sometime soon. He stated he will come back in December describing the Rate Stabilization Fund as Committee Member Hollingworth has indicated, and our analysis of what the use of the DRES or Rate Stabilization Fund would mean to the overall financial condition to the funds.

Committee Member Kubota added he believes more pipelines need to be repaired and replaced as a priority. Making sure the CIP does not suffer.

Ex Officio Member Williams commented it is not clear to him how viable it is to use the funds. He asked if it is indeed viable to use these funds in the way Committee Member Hollingworth request? Mr. Bailey indicated a Rate Workshop will be forthcoming in December, so this and other aspects can be covered, which will bring clarity. He added to keep in mind, the entire list of items we have to do, including the cost of the CIP, so we can then figure out how these projects can be funded. The Workshop will be very informative.

Committee Member Hollingworth indicated he feels, for example, with the amount of \$66,000,000 in the DRES not budgeted to a specific project, makes it available to mitigate the rate increase in his opinion. He would like to suggest IROC should make a recommendation to the Mayor and Council as to how these monies should in fact be used. Chairperson Peugh stated this can be complicated, and he would like to see how it balances out with all options, before making a recommendation without knowing what the long term implications may be.

7. Sub Committee Reports:

a. Finance – *Subcommittee Chair Hollingworth*

- Discussed Reserves, Department now has a monthly report available, and will share next meeting. He hopes to provide Management Advisory Letter #3 to discuss.
- SAP – Data problems have been fixed.
- Discussed the affects Prop 26 may have on the ability to assess fees, which require a 2/3 vote. May not have an effect on the Department, but in regard to the recent lawsuit, he will be requesting from CWA to look into the “required” 2/3 vote.
- Discussed the Effects of Prop D on the Department are unknown. He believes the major effect could be if there are cuts in other areas in the City, particularly E&CP, outside consultants may need to be obtained. Mr. Ruiz then replied this is not expected to happen at this time, with E&CP.

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- b. **Environmental & Technical – Subcommittee Chair Webster**
Nothing to report at this time.
- c. **Public Outreach, Education & Customer Service – Subcommittee Chair Welch**
Nothing to report at this time.
8. **Metro/JPA – Report Out - Chairperson Peugh**
Nothing to report at this time.
9. **Presentation: Otay II Pipeline Water Main Failure**
Jim Fisher, Assistant Director of Water Operations presented. He referred to his handouts and gave a brief history of the pipeline. Its main purpose of this critical pipeline is to transmit water from the Otay Water Treatment Plant to the mid-city area for San Diego. The dual purpose is also to provide potable water to the southern area, and as an emergency backup plan from north to south, if the Plant was not operating.
- He indicated on October 23, 2010 a small leak was detected. That Saturday, crews excavated and a 3-foot hole was discovered in the pipeline, as a result of exterior corrosion. He then shared photos of the pipeline and repair work. Installation of the repairs took approximately 5 days and total cost of the repairs was \$100K to replace the 30' of pipe.
- He mentioned 8 miles of the pipeline had been replaced over the past 20 years, with approximately 10 miles to go with an estimated cost of \$60M which is not currently programmed within the CIP. He then reviewed illustrations of the pipeline. He recapped future work needed for all main replacement averaging a replacement of 43 miles per year at a cost of approximately \$80M per year, for life.
- Ex Officio Member Caires asked what the current goal is in FY11. Mr. Fisher indicated the current goal is to put out to construction 35 miles of pipeline. Chairperson Peugh asked in regard to the Otay II pipeline, if there are any techniques to inspect the inside of the pipe. Mr. Fisher stated the corrosion and operation engineers are always looking out ways to further assess this pipe, as it is a very old pipe.
- Questions were raised by members regarding the costs and priorities of pipe replacement, Mr. Bailey indicated these questions and more will be answered at the upcoming Rates Workshop, where we can get into more detail. Mr. Fisher noted to put things into perspective, there are only 63 miles of water mains in the system more than 70 years old, and are approximately 730 miles in the system more than 50 years old. Ex Officio Member Caires this is good information to know, and added this will give us a heads up, as to what is coming down the line.

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Committee Member Hollingworth asked if the Department has a formal deferred maintenance program, taking inventory of infrastructure and schedules out deferred maintenance. Mr. Fisher indicated as shown in the provided graph from last IROC meeting, there are plans that look out 20 years for system needs.

10. Wastewater Collections Efficiency Studies

Stan Griffith, Deputy Director of Wastewater Collections reported a number of efficiency studies. He provided copies of his presentation to refer to. He noted there were 8 studies identified within the Division and briefly described them. The studies included: sewer pipe cleaning frequency, closed circuit television crews, non-right of way main cleaning, location of the division/vactor dumping, FEWD data input, CMMS, Engineering support, and motive fleet coordinator. He noted other areas are continually being looked at to gain efficiencies.

Mr. Griffith then reviewed the efficiency status of each study. He noted the sewer pipe cleaning frequency goal is to eliminate backlog, this will take some time and effort. He hopes to reduce sewer spills down to zero. He added we have avoided approximately \$900,000 in CY 2009 for responding to spills compared to CY 2000. These accomplishments reduce impacts on the environment, improves morale and teamwork in the workplace as well as the work ethic and commitment to excellence, and more.

He noted in regard to the Division vactor dumping, we are working in conjunction with the overall facilities Masterplan, exploring increased capability at Chollas yard, and have entered into an agreement with the County to fuel vehicles at their operation center as opposed to driving to Rose Canyon.

He then briefly discussed the FEWD Data input status. Chairperson Peugh asked if there is a grease blockage, can it be tracked where it may have come from? Mr. Griffith indicated yes, the spills are analyzed, as well as the restaurants in the area. Also explored was having a more involved partnership and relationship with the FEWD establishments.

Other focus on the presentation was the Engineering study. As a result, one (1) Senior Civil Engineer position was eliminated. We will provide cross training among the operation engineers and will ensure flexibility in providing support based on workloads. He continued to say they are constantly looking at other areas to gain efficiencies.

Mr. Kubota asked about the impact of infiltration and inflow. Ann Sasaki, Assistant Director of Wastewater Operations, indicated Engineering and Program Management division is looking at this, there have been questions raised with all of the new construction and new sewers. During the Winter period, 13 temporary meters are set, to see where the inflow is coming from. However it is important

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that we have rain to obtain good data. Last year good data was obtained, but so far it has been inconclusive.

11. Follow-Up Discussion from the IROC Strategic Planning Ad Hoc meeting of 10/17/10: Protocol for issuance of IROC communications; Key Agenda items facing IROC; Work products for FY11; and IROC Independence

- Chairperson Peugh indicated the need for a protocol for IROC communications. He stated when there is a written communication issued from an IROC member, it is important to make it clear from whom the communication is coming from.
- Chairperson Peugh indicated it would be beneficial to have members of City Council invited to the IROC meetings to comment at regular meetings. Brent Eidson, Policy Advisor, was present in the audience. He reminded the Committee that he intends on attending the meetings as often as possible, at least quarterly. He indicated they do review the Agendas in advance, and work cooperatively with the Department staff.
- Chairperson Peugh spoke about the letter from the San Diego County Taxpayers Association included in the packet which is urging IROC to perform annual performance and financial audits as called for in the IROC Ordinance. Vice-Chair Hollingworth added he feels some of their proposals are worthy, and he believes that IROC should consider their views. He would like to give stakeholders a comfort knowing there is adequate oversight, public monies are being spent effectively and efficiently and water rate increases are justified. Chairperson Peugh concurs, however, would like to address as technical input. Vice-Chair Hollingworth suggested the IROC adjust its operations to provide the constituents a higher level of comfort.

Chris Cate, San Diego County Taxpayers Association, spoke clarifying the intent of the letter, which was not to move the Committee in any certain direction. He stated they feel the IROC's main function is to complete the performance and financial audits, as promised under the 2007 Rate Case. He then added, time permitting move forward on some of the other policy aspects that can provide the greatest impact to San Diego rate payers. He added time is limited so to expand your scope to include all of these different policy areas, may impact the ability to complete the deliverables outlined within the IROC ordinance.

Ex Officio Member Williams indicated it is his point of view he agrees with the recommendations from the Taxpayers Association. He feels there is value in focusing certain efforts rather than having it so broad. He pointed out the view of the Taxpayers Association captures the spirit of the reason IROC was formed.

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Vice-Chair Hollingworth would like to consider including review of the County Water Authority's finances. Vice-Chair Hollingworth asked for clarification of the paragraph following bullet 2 in the memo, regarding the inclusion of reviewing operations and capital budgets of San Diego wholesale water suppliers. Mr. Cate spoke and indicated they wanted to point out, assuming the IROC has completed all of its items, should significant time remain, focusing on this effort would be beneficial. He noted there are several things MWD and CWA will be adopting that have impacts on the City of San Diego rate payers.

Chairperson Peugh shared his reservations about, "conducting or commission annual efficiency study of Public Utility Department", and asked Mr. Cate for clarification. Mr. Cate stated that the task of overseeing the Performance Audits was the terminology meant. The recommendation that comes from the City Auditor's study would be to be overseen by IROC as well as the implementation.

Committee Member Kubota suggested continuing this item until the newest IROC Member is present Chairperson Peugh concurred.

- Chairperson Peugh asked Vice-Chair Hollingworth to elaborate on how his suggestion of a Management Advisory letter would be useful. Vice-Chair Hollingworth indicated this is a formal way of communicating the Department, Council, or Mayor, and in doing so shows we are actively fulfilling our duties. He also suggested to save time, a Committee member could forward a draft Advisory Letter to the Chair, and the two can come to an agreement on the wording. Chairperson Peugh asked Tom Zeleny, Deputy City Attorney, for his input. Mr. Zeleny indicated the official advisory body is the collective wisdom of the full IROC. However, any individual may write a letter, and it is up to the discretion of the Department how they want to react or respond. Chairperson Peugh added it is very important then, to make it clear it is represented by that individual, and avoid speaking for others who may not be aware or in concurrence. Committee Member Stallard-Rodriguez concurred with Vice-Chair Hollingworth.

Committee Member Kubota suggested, with all of the ideas present on this item, the entire IROC should collaborate with a facilitator. He stated this would bring all ideas to the table and could be very productive. Mr. Crane added this would be great idea, if IROC needed assistance with the facilitation the Department would be glad to assist in any way.

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12. **Should IROC reformat its meeting schedule to accommodate a 3 hour monthly meeting time beginning in January 2011, move Finance Subcommittee time and day slot, and move Public Outreach, Education, and Customer Service Subcommittee time and day slot?**

A schedule was provided offering potential options to meeting days/times for future meetings. Comments and suggestions were taken from members as to which day and timeframes worked best from the options given. Mr. Ruiz added the Workshops are an option periodically as well, to focus on key items.

Chairperson Peugh asked for a motion to approve a schedule option, Committee Member Stallard Rodriguez moved to accept option A as modified by Committee Member Welch's suggestion to extend the full IROC by 30 minutes, and if more time is needed at that time, an extension can be suggested. Committee Member Collins seconded. With Vice-Chair Hollingworth opposing, the remaining 5 members were in favor of the motion.

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

None.

14. **IROC Members' Comments**

None.

Adjournment of IROC

At approximately 12:22 Chairperson Peugh adjourned the meeting.

Recording Secretary: _____
Monica Foster