

Independent Rates Oversight Committee (IROC)

May 20, 2013

MINUTES

1. **Roll call**

In Chairwoman Welch’s absence, Vice Chairman Billings chaired this meeting. He called to order the regular meeting of the IROC at 9:02 a.m. Monica Foster conducted roll call, and a quorum was declared. Attendance is reflected below:

Members:	Present	Absent
Gail Welch, Chair		X
Don Billings, Vice Chair	X	
Christopher Dull		X
Andy Hollingworth	X	
Jeff Justus	X	
Jack Kubota	X	
Jim Peugh	X	
Irene Stallard-Rodriguez	X	
Todd Webster	X	
Ex-Officio Members:		
Luis Natividad, Metro JPA	X	
Ken Williams, City 10	X	

City representatives present: Ann Sasaki, Assistant Public Utilities Director; Tom Crane, Assistant Director; Tom Zeleny, Deputy City Attorney

2. **Non-Agenda public comment**

None.

3. **Approval of Draft Minutes of April 15, 2013**

Vice Chairman Billings asked for a motion to approve the minutes as submitted.

ACTION: Member Hollingworth moved to approve, Member Justus seconded. Motion passed 6 (in favor) - 0 (opposed) – 1 (abstained, Stallard-Rodriguez).

4. **Chair updates** – Vice Chairman Billings

There were no updates to report.

5. **City Staff updates**

Ann Sasaki, Assistant Director:

- Noted that Marsi Steirer received the Excellence in Water Leadership Award from the Association of California Water Agencies in recognition of her contributions to enhance, protect and development water resources in California. As part of this award a \$2,500 charitable donation was made in her name to the San Diego River Park Foundation.
- The City settled its Administrative Civil Liability with the Regional Water Quality Control Board for the September 8, 2011 sewer spill at Pump Station 64. The settlement is for \$1.24 million, with half of the fine to be paid in cash and the other half to be applied to the purchase and installation of emergency backup generators.

Luis Generoso, Water Resources Manager

Independent Rates Oversight Committee (IROC)

May 20, 2013

MINUTES

- Mr. Generoso shared a presentation of the winning videos from the San Diegans Waste No Water film contest. He indicated that winners were announced May 15th at the IMAX Theater of the Reuben H Fleet Science Center after previewing all finalist videos. New this year is the voting for Viewers' Choice Award, which runs through May 31st. To view the videos and vote for your favorite, please visit the San Diegans Waste No Water Facebook page, or visit www.sandiego.gov/water, and click on the link (first picture on the photo carousel).

Stan Griffith, Assistant Director:

- Wastewater Collections Division has dramatically reduced sewer spills from 365 to as low as 30, and over 2100 miles of sewer main cleaning each year, as well as innovative things done to have access to canyons to reduce spills. Because of the many accomplishments, the California Water Environment Association recently presented the City with a Collection System of the Year Award, for systems that are 500 miles and above. This recognizes the City as the best collection system in the entire state of California.

Terrell Powell, Water Utility Supervisor:

- There were 19 sewer spills vs. 17 same time last year. Also, 912 miles of pipe have been cleaned, with an average time to reach the spills of 21 minutes.

Stan Medina, Deputy Director, Construction & Maintenance, Water:

- There have been 30 fire hydrant knock-overs vs. 40 the last calendar year. Water main breaks were 49 vs. 35 the same time last year. He indicated of the 49 breaks, 26 of them were Asbestos Cement main breaks.

6. Mayor and Council Staff Comments

None.

7. City 10 – County Water Authority Update, Ken Williams

- In regard to the Metropolitan Water District (MWD) lawsuit still in the motions and discovery stage. There was a decision by the judge compelling MWD to disclose information related to the system used to determine rates. Trial date is targeted for November, 2013.
- In regard to the County Water Authority's Cost of Service Study, they are currently in the stage of validating the current rates and charges. The consultant indicated there have been no significant findings. Next step, the Board will vote at the June meeting to accept these findings.
- The water outlook for this year, precipitation is coming to an end. It has been a dry year for the second year in a row. Storage levels remain good, no adverse impact for this year.
- The Bay Delta is still being discussed; there has been no solid direction that has emerged. It could be another 6 months before anything definitive happens.

8. Public Utilities FY2014 Proposed Budget

Lee Ann Jones-Santos, Deputy Director, gave a brief overview and presentation of the proposed budget. She indicated that earlier this month, Public Works, Engineering presented to the Budget and Finance Review Committee, the CIP Budget. The Director (Roger Bailey) presented the Operating Budget. She indicated that on May 22, the Mayor's revised budget proposals will be discussed.

Independent Rates Oversight Committee (IROC)

May 20, 2013

MINUTES

Next, she reviewed the General and Non-General Fund Department Summaries. The major change for the General Fund is an increase of approximately \$254,000 for the San Dieguito River Park Joint Powers Authority. She then described changes for the Water and Wastewater funds consisting of reductions and increases. Ms. Jones-Santos noted the proposed May Revision includes proposals for personnel expenditure additions of \$1.2M for a transfer of staff in the Facilities Maintenance, an addition of staff for the Customer Support Division; and non-personnel expenditure of \$7.4M for condition assessments. She added it is proposed to add a \$12.4M reduction in water sales revenue to align the budget to actual receipts of revenue.

Ms. Jones-Santos then offered additional information such as the Department revenue and expenditures, a breakdown of some of the components within the budget such as supplies, contracts, and debt expenditures. The Department continues to adjust the budget to the historical expenditure trends for revenues and expenditures for Water and Wastewater.

Vice Chairman Billings indicated this item was previewed at the Finance Subcommittee meeting held earlier today. He asked for confirmation that the proposed budget has been previewed with Council Committees and members. Ms. Jones-Santos stated it has been presented to the Budget Review Committee, which all Council Members attend. Written questions are sent beforehand, as well as questions entertained at the actual meeting. This Wednesday, the May Revision will be evaluated, and the budget will be approved on June 10, in time to go live with the July 1, 2014 fiscal year.

Mr. Hollingworth referred to slide 12 and asked if the GGSB budget has any indirect charges that are not included in the line item, from other City departments. Ms. Jones Santos indicated there would be charges that apply through Service Level Agreements, and could have billings from Departments that may provide services. This would be reviewed by Public Utilities staff in advance. He then asked if there were management charges that are not included in the line item. Ms. Jones-Santos indicated not that she is aware of. However, there is also a component of the Mayor and Council Offices (included in the GGSB line item), but these are allocated to all City departments, not just the Public Utilities Department. This is also reviewed by Financial Management.

Member Peugh asked if the FY14 Budget includes the proposed calendar year County Water Authority rate increase. Ms. Jones-Santos indicated no, it does not, City policy is to not include the rate increase since it is not approved by the CWA Board at this time. Member Peugh commented, in regard to the fixed and commodity charges, if materials going forward could show the split to compare with the graphs illustrating where the money is used. Ms. Jones-Santos indicated this can be visited in the Finance Committee, but when the revenue is deposited into the fund, it is not broken down.

ACTION: Vice Chairman Billings asked for a motion to support moving forward with the presented proposed FY14 Budget. Member Stallard-Rodriguez moved, and Member Peugh seconded. Motion passed 7-0-0.

9. Dedicated Reserve and Efficiency Savings Update (DRES)

Independent Rates Oversight Committee (IROC)

May 20, 2013

MINUTES

Lee Ann Jones-Santos mentioned this item was covered in detail at the Finance Subcommittee meeting today. She recapped and gave a brief update of the FY2010 and FY2011 Operating Budget calculations, pointing out the DRES Policy established in FY2008. She then reviewed slides #9 and #10, the Water DRES Reserve and the Wastewater DRES Reserve balances FY2008-FY2012.

Vice Chair Billings commented that during the Finance Subcommittee meeting earlier, it was mentioned to develop an explicit policy for use of funds that are deposited in DRES. One option would be to take a snapshot of DRES at the beginning of a new Rate Case, and attempt to have the Rate Case spend out the funds accumulated prior.

Ms. Jones-Santos stated the next steps are to draw the Water side funds down in 2014 as well as complete an Operation & Maintenance comparison from the 2012 CAFR. This will be coming to the Finance Subcommittee and full IROC soon.

10. Cost of Service Study (COSS) Scenarios Presentation:

Lee Anne Jones-Santos gave a brief overview on the COSS process and current status. She indicated today's presentation would be a review of updated revenue requirements, focusing on Water, which has the proposed adjustment. She stated the next steps will be to provide a rate design workshop with IROC which is scheduled for June 24, 2013. She indicated that the goals are: to present to NR&C late June/early July to discuss revenue requirements; a second meeting late July to discuss rate design; as well as potentially bring a draft 218 Notice with a target to present to Council on September 9 with the proposed rate increase.

Ann Bui indicated there are a number of policy type issues they are looking for some guidance on, as well as any feedback on the Rate Design aspect. She will be limiting the number of options examined to meet the timeframe.

Brian Jewett followed detailed handouts and began by describing the 3 key performance indicators (1.Cash flow; 2.Level of reserves; 3.Debt service coverage) to ensure the financial viability of the Water and Wastewater Enterprise funds. These three elements are required and end goals during this COSS analysis. He noted that desalination, Indirect Potable Reuse, and the Pt. Loma waiver are not included in this 2-year rate case.

Mr. Jewett recapped the 5 main revenue requirement components which are Revenue, Operating Budget, Capital Program; Reserves; and Financing Sources. With revenue requirements, it is required to have sufficient revenues to meet all obligations, meet legally required debt covenants, and provide reserve funding.

Vice Chairman Billings asked if the affordability aspect can be included in future presentations. Ms. Bui pointed out that as the Rate Design aspect is presented, this will be discussed. Vice Chairman Billings asked with respect to rating agencies, how the rating agencies would view the risks of any underinvestment in capital assets. Ms. Bui indicated the Condition Assessment being done over the next 2 years should be providing significant information allowing us to refine the level of reinvestment made into the system.

Independent Rates Oversight Committee (IROC)

May 20, 2013

MINUTES

Ms. Bui brought attention to a graph showing historical numbers from 1996 going forward, in terms of the amount of water the City has purchased from County Water Authority (CWA), against the effective dollar per acre-foot. She pointed out over the past several years, even though consumption has declined the effective dollar per a/f has risen substantially for a number of reasons. Vice Chairman Billings commented he would like to see similarly, is the Public Utilities Department internal cost tracked against quantity of water delivered.

Mr. Jewett then reviewed slide #9, Water Cash Flow, and pointed out in regard to the debt coverage ratio, they felt it would be best to go from the aggregate 1.0 to 1.25 to provide a cushion for contingency. He reiterated that the shown cash flow scenario assumes cash financing all of the CIP for FY14 and FY15, exhausting the DRES fund. Mr. Jewett then provided a graph of ranges of purchased water costs with Desal including high and low Desal costs. Ms. Bui indicated there is a wide variance due to not having the actual costs thus far. There will be an impact to rates, and would like feedback from IROC how to address. Deputy Attorney Zeleny will be providing legal input.

Mr. Jewett then gave the same cost breakdown, CIP, and cash flow overviews for the Wastewater side. He noted cash flow requirements are being met, and this shows cash financing all CIP in FY14 and FY15 as well. He indicated the debt financing outlook is the rating agencies are applying due diligence criteria more stringently, they want to be convinced about the health and sustainability of the utility and the sustainability is determined only after a thorough review of a utility's internal components.

Mr. Jewett briefly reviewed the Water and Wastewater debt service coverage slides for FY14-FY15, as well as the projected revenue adjustments for Water. He indicated that with the proposed revenue adjustments, the coverage ratios are looking healthier, going above the minimum requirements in the first year. Again, the suggested aggregate target is 1.25. Ms. Bui mentioned this proposal will go forward to NR&C with IROC's recommendation, and importantly rates will be designed against this proposal.

Vice Chairman Billings commented there are advantages to using cash that would have an impact on rates, and this will remain complex. He indicated he supports using cash before issuing new debt. Ms. Bui noted they have an opportunity to examine the current 80/20 policy. Member Peugh commented that slide 2 should include adequacy of the system. He also is concerned with, and asked if money for the future Waiver is included. Ms. Jones-Santos indicated this 2-year COSS does not include it; however there is an internal team that is actively strategizing the Waiver.

Next, Ms. Bui gave an overview of the focus and considerations of the COSS. She reiterated when the cost of service and rates are designed, all costs needed must be fully recovered. She indicated it is also very important to minimize customer impacts, and maximize customer understanding and acceptance. Transparency of costs is the key. She reviewed the cost allocation objective and how it is accomplished. She showed examples of Water and Wastewater cost functions and cost causative parameters, or drivers of

Independent Rates Oversight Committee (IROC)

May 20, 2013

MINUTES

costs. She then gave sample calculations of unit costs and the costs are distributed to customers.

Last, Ms. Bui reviewed Rate Design. The objective is to develop rates adequate to recover the total revenue requirements. She indicated with regard to developing customer class tiers, they look at how different customer classes use water, or consumptive patterns. She noted that weather normalization is not implemented at this time. She then described a plot graphs to determine showing customer usage, and bill frequency to help determine where the tiers should be broken up.

Ms. Bui described the existing rate structure, pointing out there are 2 elements, a meter charge and a commodity charge with single family residential customers having 3 tiers. A detailed chart was described, laying out the demand for water from FY07-FY12 for all classes. She noted the decline in terms of the per unit basis being consumed, due to recent water restrictions and a great deal of savings has been achieved. Continuing the conservation message is the key. Rate structure options for single family residential customers and irrigations customers were then discussed, comparing the current structure vs. options. She noted that adding a 4th tier has its pros and cons, and can also be inserted on the front end or the back end of the current tiers.

Vice Chairman Billings asked if there is anything in the rate setting literature within other entities, where if you use less than a target figure, could there be a benefit or credit. Ms. Bui indicated she has not seen this. Ex-officio Member Williams asked two questions for clarity on what the nexus is between the higher rates for more usage, and how this is justified; and how much can you charge legitimately? Mr. Jewett indicated this seems to pertain to the 218 Notice and stated we must remain reasonable. Ms. Bui explained that different sources of water have different costs, so there are many scenarios that drive rates. Member Hollingworth commented he would suggest keeping the same tiers currently used, and if conservation is needed, the differential between tiers should be increased.

Member Peugh suggested adding “conservation” to the Rate Design objections, and also suggested a system close to the City of Davis. This system is moving toward 3 categories of charges rather than two: fixed charge, consumption charge, and a system charge, covering CIP and based on water consumption. He indicates this will encourage water conservation. Ms. Bui commented she understands that this system referred to is known as the “consumption based rate”, which also has a peak-demand element based on the 6th month average of the prior peak year’s peak period, which establishes the following year’s fixed rate. The variable element would be the true usage of which is approximately 30% of the bill. This would have to be analyzed. Mr. Peugh asked to keep this in mind for alternatives.

Vice Chairman Billings asked IROC members to send any questions or alternatives they have to Ernie Linares. Last, Ms. Bui pointed out with respect to the irrigation customers’ high usage, the alternatives thus far are keeping the structure the same, develop a tiered rate structure, and to consider a water budget-based rate system. These are being discussed with staff.

Independent Rates Oversight Committee (IROC)

May 20, 2013

MINUTES

Member Hollingworth suggested having Black & Veatch electronically provide the outline of alternative rate structures. Ms. Bui concurred. Ms. Jones-Santos asked the members to keep in mind that this is a 2-year COSS. She indicated what they would like to take forward to NR&C and Council is only a couple of scenarios, so please send any comments or suggestions to Ernie Linares as soon as possible.

11. 3rd Quarter Capital Improvements Program Report

Guann Hwang, Deputy Director, Darren Greenhalgh, Deputy Director, and Angela Colton, Program Manager, presented the 3rd Quarter CIP Report. Mr. Hwang indicated that through the past several meetings with the subcommittees, some format changes are incorporated, but not all at this time.

Mr. Greenhalgh provided familiar detailed handouts, and briefly reviewed dashboard information of Program highlights for Water and Wastewater, and a list of outstanding award winning projects. He then mentioned and described the CIP process improvements which are: the implementation of eCon for the contract development process, and the increase in the project funding limit for Annual Allocations. He then gave an update on the FY13 awarded cast iron water mains, and the Water planned vs. actual expenditures (unaudited), as well as an update on the FY13 completed sewer main miles and the planned vs. actual expenditures (unaudited).

Greenhalgh pointed out the changes to the Forecast vs. Actual Expenditures Report. He indicated the financial and the project schedule have been combined, showing on one line for ease to follow. Also, project budgets that changed more than \$1M, or projects that have a more than 6-month delay in schedule, are highlighted so they can be seen at a glance. Last, he pointed out the Change Order log, which only consisted of 4 this quarter.

Member Hollingworth commented that his recommendations to incorporate would be changes that would allow the program to be monitored as a whole. For example, he indicated he would like to see summations on the first 2 columns, and a Project to Date Actual vs. Budget as a whole. Mr. Greenhalgh took note, and indicated he will come back with recommendations. Mr. Hollingworth asked what TBD meant on the spreadsheet. Mr. Greenhalgh indicated these are new projects in the process of establishing what the baseline would be, which takes time and will be included once the information is available. Vice Chairman Billings commended City staff for their great efforts.

12. Subcommittee Reports:

a. Finance – Andy Hollingworth

- Went into more detail, the finance related items heard in this full IROC meeting

b. Infrastructure and Operations – Jim Peugh

- Discussed the Purple Pipe infill
- Presentation on North Park and San Ysidro pipe breaks and isolation of
- Discussed the CIP data that was heard in this full IROC meeting

c. Outreach and Communications – Irene Stallard-Rodriguez

Independent Rates Oversight Committee (IROC)

May 20, 2013

MINUTES

- Update and presentation from Brent Eidson, on launching of the new Customer Service page on the Department website. Much improved and user friendly
- Discussed a new bill insert to help customers understand their bill. She noted this will be put out in 3 consecutive billing cycles, although she would like to see it included in more
- New customer advocate, David Akin will be on board
- She indicated she is scheduled for a ride-along tomorrow and Friday of this week

Vice Chair billings suggested a bill insert showing an easy to read graphic of “where does your dollar go” to help customers understand at a glance, what their money is spent. Member Stallard-Rodriguez stated that they did discuss this in the meeting as well. Tom Crane and Ms. Jones-Santos indicated they have a graphic of a dollar bill that is split up by percentages that he will share with the Committee. Member Peugh commented that customers need to understand that they are paying for not only water, but the system as well.

13. **Metro/JPA Report out**
None.

14. **Proposed Agenda items for next IROC meeting**

- County Water Authority presentation
- Metropolitan Water District presentation
- Use of Funds
- AMI Implementation presentation
- IPR Waiver – (future agenda)

15. **IROC Member’s Comments**

- Member Kubota commented that he accompanied Chair Welch at the NR&C meeting recently, and she did an incredible job. He indicated the Committee is very interested in IROC’s input and recommendations.

Meeting adjourned at 12:12

Minutes submitted by: Monica Foster