

MINUTES
RATE ADVISORY COMMITTEE
Thursday, July 23, 2009
5:30 P.M.

RAC Members Present:

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| Gil Coronado | Kathie Estrada |
| Mike Harris | Keith Kindle |
| Allen Townsend | Liz Tullis |

RAC Member Absent:

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| Fred Arce | Antonio Gallardo |
| Ron Morales | Steve Patmon |
| Joe Soules | |

SAWS Staff Present:

Frank Stenger-Castro, Vice President/General Counsel
Stacey Isenberg, Vice President, Customer Service
Charles Ahrens, Vice President, Water Resources/Conservation
Dan Crowley, Director, Financial Planning
Karen Guz, Director, Conservation
Emma Bridges, Director, Customer Service
David Maxwell, Director, Engineering
Stephen Turner, Senior Financial Modeler
Lou Lendman, Senior Financial Analyst
Pat Arriola, Financial Analyst
Larry Zermeno, Financial Analyst
Robert Walker, Financial Analyst
Carlos Mendoza, Financial Analyst
Laura Raffaniello, Financial Analyst
Jennifer Holmquist, Public Affairs
Elliott Fry, Conservation

City of San Antonio Representatives Present:

Morris Harris, Public Utilities Office

Consultants Present (by telephone):

Peiffer Brandt, Raftelis Financial Consultants
Rocky Craley, Raftelis Financial Consultants
Harold Smith, Raftelis Financial Consultants

Citizens Present:

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| Mary Q. Kelly | Stephen Lazor |
| John Merrifield | Bruce Reppert |
| Ian Wellborn | |

Agenda Item #1, Call to Order by the Chairperson

Mr. Kindle, committee chairperson, called the meeting to order.

Agenda Item #2, Citizens to be Heard

One individual was signed up to speak.

Mr. Ian Wellborn, Chairman of the SAWS Community Conservation Committee, spoke in support of efforts to develop a conservation-oriented rate structure. Mr. Wellborn stated that he disagreed with the position that the current flat rate for the Water Supply Fee is more equitable. He feels that consumers using more water, within higher Water Delivery rate tiers, should pay more for water supply acquisition efforts. Mr. Wellborn added that the need for possibly adjusting the Water Supply Fee rate structure to meet changing circumstances was not foreseen at the time of the fee's establishment. He stated that it is important to understand the necessity of making adjustments to plans when changing circumstances warrant and he is in favor of a tiered Water Supply Fee.

Agenda Item #3, Staff Opening Remarks

Mr. Dan Crowley welcomed the committee and attendees. He noted that this meeting would continue the discussion of various rate alternatives that began at the July 9 committee meeting. He added that the rate alternatives presented on July 9 were the result of direction from staff and the committee to the consultant to produce alternatives based on cost-of-service considerations. As staff noted on July 9, there were aspects of the alternatives that were consistent with staff rate development objectives and some that were not. Mr. Crowley added that there remain no pre-decided outcomes and that all opinions were valued in the rate structure development process.

Mr. Crowley also directed the committee's attention to a document distributed to the committee members entitled "Water Rate Structures in Colorado" prepared by Western Resource Advocates. It contains a useful primer on different rate structures and aspects about rates that should be considered in developing new rate structures. Water management conditions in Colorado are very similar to those being encountered in Texas. A copy of this document is provided at Attachment 1.

Agenda Item #4, Conservation Program Presentation

Ms. Karen Guz made a presentation entitled "Conservation Outdoor Usage Challenge". A copy of the briefing is given at Attachment 2. The presentation addressed the various ways to implement water conservation measures community-wide and showed recent trends that have made serious consideration of the different options important at this time. During and after the presentation, the following questions and comments were raised:

- Mr. Townsend asked if the requirement by some mandatory homeowners associations (HOA's) for member homeowners to water their lawns created a

problem for the Conservation Department. Ms. Guz said that once the importance of conservation is explained to such HOA's, frequent understanding and cooperation results.

- Mr. Kindle asked about the impact on conservation efforts of the "Mission Verde" development standards passed by the City Council this year. Specifically, the standards require the installation of certain water-efficient fixtures in all new construction starting in 2010. Ms. Guz stated that SAWS was delighted with the standards, adding that they will greatly increase more efficient use of water in new residences built under the rules.
- Ms. Estrada, in her capacity as Executive Director of the Air Force Village I retirement community, stated that she supports the continuing efforts of the Conservation Department. She added that her operation has experienced significant water use efficiencies as a result of the department's assistance. Ms. Estrada stated that Air Force Village I is expected to save 30% in water usage over a two year period.
- Mr. Kindle reminded the committee that it has made Conservation/Demand Management its top priority pricing objective. Based on the much lower increase in water usage (5.9%) by General Class customers from 2007 (a wet year) to 2008 (a dry year) relative to the much higher increase in usage (23.9%) during the same period, he added that developing a rate structure that discourages discretionary residential water usage in particular makes sense. Additionally, Ms. Guz emphasized that rate-related measures to discourage irrigation consumption (which increased by almost 50% from 2007 to 2008) also need to be considered.
- Mr. Kindle indicated that he felt that the consultant's recommended rates presented on July 9 do not send enough of a conservation message for top tier residential water customers. Charges for users in the top two tiers should increase, not decrease.
- Mr. Harris asked about the status of the gallons per capita per day (GPCD) measurement in the current year. Ms. Guz stated that, so far, conservation regulatory measures implemented under the current drought conditions have been successful in keeping the community from slipping into Stage 3 drought restrictions. Under the current restrictions which prohibit weekend watering, in fact, the aquifer level has been increasing slightly after weekends. Based on current trends, it is possible that the GPCD for 2009 could fall to 136 as opposed to the 139 level measured in the dry year of 2008, which is a better result than anticipated.
- Mr. Kindle noted that he attended a drought management presentation made by SAWS to the business community on July 22 which highlighted the successes made so far. He added that SAWS leads the nation in water conservation efforts.

Agenda Item #5. Discussion of Preliminary Rate Calculations – Water Delivery and Water Supply

Mr. Kindle opened up a discussion on the presentation (Attachment 3) made on July 9 by the consultants which summarized various preliminary water delivery and water supply rate calculations. The purpose of the discussion was to solicit from committee members their questions, comments and suggestions for other alternatives for the committee to consider. The primary Rate Calculation Issues resulting from this discussion are summarized in Attachment 4.

- Mr. Coronado asked about the feasibility of making changes to the various alternatives previously proposed. Mr. Crowley stated that staff can make changes based on input and recommendations of the committee.
- Ms. Estrada suggested that the residential Water Delivery tier block cut-offs be adjusted with Blocks 1 and 2 matching the consultant's recommendation and having the cut-off's for Blocks 3 and 4 modified to reflect the current rate structure.
- Mr. Harris asked the following questions regarding the Water Supply Fee:
 1. Since its inception in 2001, how much revenue has been collected in the Water Supply Fee? Please indicate what percentage was collected by each stakeholder group.
 2. What expenses has the Water Supply Fee been used for since 2001, i.e., purchase of water rights, studies, project construction, etc.
 3. Is the Water Supply Fee used to pay for any administrative costs not directly related to the purchase of water supply projects? For example, are any SAWS staff costs charged to the fee?

Staff presented the Water Supply Fee Fiscal Information given at Attachment 5 which addresses the first and second questions. With respect to question 3, Mr. Lendman indicated that Water Supply Fee revenue pays an allocated share of administrative costs calculated based on the impact of water supply acquisition efforts on overall SAWS organization expenses. Additionally, Mr. Lendman stated that employee positions working in support of water supply acquisition efforts are supported with revenue from the Water Supply Fee.

In response to a question from Mr. Kindle regarding the financing of water supply projects, Mr. Crowley stated that revenue from the Water Supply Fee funds expenses on an annual basis for water supply project debt service and water supply project operating expenses. He added that the rate of the fee has been based on these projected annual spending needs. Funds for future projects not yet initiated are not accumulated over time.

- Mr. Kindle referenced the charts in the July 9 presentation made by the consultants (Attachment 3), slides 28 and 29. Specifically he expressed concern that the charges under the Conceptual Design and the consultant's recommended structure, respectively, for customers using beyond 17,000 gallons per month would be lower than they are under the current rate structure. He emphasized his opposition to lower charges for such higher consumption residential customers. Mr. Smith responded by saying that the proposal by Ms. Estrada with respect to changing the tier block cut-off's would help address this anomaly.
- Mr. Kindle also asked about the great disparity in rates shown on slide 41 (Calculated Rates for Water Supply) in Attachment 3, particularly between Alternatives 1 and 2, Blocks 3 and 4. Mr. Smith stated that Alternative 2 rates were driven by future water supply project costs, an assumption not included in the other alternatives on this slide.
- Mr. Kindle suggested that a possible alternative rate structure that should be considered is the establishment of one tiered rate structure to fund both Water Delivery and Water Supply requirements. Mr. Crowley stated that the separation of the rates was done originally to make clear to individual customers the impact of funding water supply acquisition projects. Mr. Harris asked if other cities do this. Mr. Crowley stated that he was only aware that El Paso has a similar mechanism and that most cities fund both water supply and delivery costs in a single rate structure.
- Mr. Kindle stated that he did not think the separation of the Water Delivery and Water Supply rates was well understood in the community and that it was confusing to explain to customers. Combining the two rate structures would be easier to communicate, according to Mr. Kindle. Mr. Stenger-Castro stated that he observed that the City Council originally wanted the separation to reflect the fact that new supplies of non-Edwards Aquifer water would be needed, and that the Water Supply Fee was established to provide transparency to customers regarding the cost of additional water supplies.
- Mr. Townsend stated that he sees "no educational value" in continuing the separation between the Water Delivery and Water Supply rates. He added that simplicity is needed. He also indicated that there needs to be a higher differentiation between blocks to send a clearer conservation message.
- Mr. Kindle stated that he would be looking for a rate alternative that fell between that suggested by the consultants and the Conceptual Design alternative. Mr. Townsend asked why the consultant suggested a rate structure that resulted in rates not much different from those in the current rate structure. Mr. Smith stated that the consultants attempted to moderate the conservation objective with the preferences being advocated by vocal committee members prior to July 8. He

added that the consultants appreciated the input that the committee was providing at this meeting.

- Ms. Tullis stated that she also wants an alternative rate structure closer to the Conceptual Design with more focus on larger water consumers. Mr. Kindle stated that the current rate structure is not encouraging enough conservation and, given its closeness to the current rate structure, the consultant's recommendation would likely not encourage greater conservation.
- Regarding the General Class, Mr. Crowley stated the staff's preference for a new alternative that would not decrease charges for General Class customers, a result that would appear to come from the Conceptual Design rate structure. Mr. Kindle agreed that the City Council would have concerns over such an outcome. Mr. Crowley pointed out that the committee may make recommendations based on public policy considerations in addition to cost of service reasons.
- With respect to the General Class alternatives, Mr. Smith pointed out that the consultant's recommendation from July 9 would not result in charges less than current rates through Tier 4-level consumptions. Very few General Class customers have consumptions at the current Tier 5 level.
- Mr. Kindle stated his desire for a General Class rate structure that did not penalize water consumption related to regular commercial/industrial production needs. He added that the focus for discouraging commercial/industrial-related discretionary usage should be on Irrigation rates.
- Ms. Estrada asked about the possibility of eliminating the "assumed irrigation" rates charged to mostly General Class customers whose pre-December 2000 in-ground irrigation systems were grandfathered from a December 2000 ordinance requiring separate irrigation meters. Ms. Guz stated that it would be very expensive and disruptive to existing infrastructure to retrofit the grandfathered systems. She acknowledged, however, that staff dislikes the apparent inequities created by the "assumed irrigation" arrangement. Staff is actively looking at ways to address this issue.
- Ms. Estrada indicated her opposition to combining the Water Supply Fee and the Water Delivery rate structures, stating that she felt that the separation does communicate clearly the significant resources needed to develop new water supplies.

At the conclusion of the discussion, Mr. Crowley stated that staff would take the input received at this meeting from the committee and develop new alternatives for committee consideration at the next committee meeting.

Agenda Item #6, Adjournment

There being no other business to conduct, Mr. Kindle adjourned the committee after Agenda Item #5.