

MINUTES
RATE ADVISORY COMMITTEE
April 1, 2014
5:30 pm

RAC Members Present:

Carroll Jackson, Chairperson
James McNamara
Roberto Anguiano
Mark Guerrero
Mario Hune
Ken Lawrence
Gerardo Noriega
Manuel Palaez-Prada
Allyson McKay
Jorge Garcia
Mark Perry
Howard Peak
Allison Cohen
John Davis
Larry Underwood
Michael Moore

RAC Members Absent:

Hilario Garcia
David Kubitz

SAWS Board of Trustees Member

Present:

W. Reed Williams

Black & Veatch Consultants:

Robert Chambers
Richard Campbell

KBC Consultants:

Kaye Bealer
Tony Catania

SAWS Staff Present:

Steve Clouse, Senior Vice President/Chief Operating Officer
Douglas Evanson, Senior Vice President/Chief Financial Officer
Mary Bailey, Controller
Lou Lendman, Budget Manager
Mario Aguilar, Communications
Stephen Turner, Sr. Financial Modeler
Patricia Arriola, Financial Analyst
Marcy Gonzalez, Financial Analyst
Carlos Mendoza, Financial Analyst
Robert Walker, Financial Analyst

City of San Antonio Staff Present:

Morris Harris, Public Utilities Office
Alfred Chang, Public Utilities Office
Marisela Vasquez, Public Utilities Office

Citizen Present:

No Citizens signed up to speak

Chairman Jackson welcomed the RAC members and introduced three new members, Allison Cohen, John Davis, and Michael Moore. Each member introduced themselves to the committee. Mr. Jackson also introduced Mr. Underwood, who was unable to attend the first two meetings. Mr. Jackson reminded the committee members that attendance is important and that the committee's by-laws state that if a member misses three meetings, the member could be removed from the committee.

There were no citizens signed up to speak.

Mr. Jackson then introduced the Black and Veatch consultants.

Rate Consultants Robert Chambers and Richard Campbell introduced consultants from K Bealer Consulting, Inc.; Kaye Bealer and Tony Catania. Mr. Campbell and Mr. Chambers then gave their presentation entitled, "Rate Setting Process".

Questions and comments that were offered during the presentation were as follows:

- Mr. Hune asked, as the committee goes through the rate design process, if costs would be broken down by cost of water by source. Mr. Chambers explained that the rate study would break down costs by functions, and then further allocate those costs by customer class to ensure that each class bears the cost of serving that class. Mr. Jackson stated that costs for each water source had two components: operating costs and capital costs. Mr. Hune pointed out that alternative, non-Edwards Aquifer water sources have higher costs associated with them and that this is an important consideration. Dr. Perry suggested that new customers might be required to bear the greater cost of new water supplies. Mr. Campbell suggested that the process for developing impact fees is more appropriate to isolating the costs of individual sources of water supply and for coming up with a way of recovering the added costs of new sources from new customers. Mary Bailey added that the base excess method of water rate structure design will identify peak demand needs, and that the higher costs of alternative water supplies could be allocated to the costs of meeting peak level demand. Doug Evanson stated that staff will be providing the committee with the costs per acre-foot of the various alternative water supply sources being studied by SAWS.
- Mr. Pelaez-Prada asked if there are classes of customers that receive discounted rates such as school districts or the hospital district. Doug Evanson stated that SAWS does not have any special discount classes at this time. In the past, SAWS has had a special discount class for economic development purposes, but it was only in effect for a limited time. Mr. Pelaez-Prada asked what class does the school districts fall into and Doug Evanson answered that they fall under the General Class rate structure as do hospitals.
- Mr. Hune asked for a definition of the meaning of "Extra Strength" wastewater. Mr. Chambers described this as wastewater with a higher concentration of suspended solids which typically result from industrial activity.
- Doug Evanson pointed out that while SAWS has seasonal rates other entities have higher water rates during periods where drought restrictions lessen water availability. Consequently, higher rates are assessed by these entities during these

periods both to maintain revenue stability during periods of lower water consumption and to encourage more conservation.

As part of their presentation, the consultants described the rate structures for all of the different SAWS and DSP rate blocks. They also provided detailed examples of different rate designs from different parts of the country showing how other water utilities have addressed water supply availability issues similar to those facing SAWS. The consultants also described the findings of Black & Veatch's recent national rates survey of the top 50 water utilities. Questions and comments following this part of the presentation included the following:

- Mr. Williams asked that as part of the process going forward that costs be shown on both a per-acre-foot and a per 100 gallons basis to facilitate comparison with costs per acre-foot typically shown for large water supply projects.
- Dr. Perry stated that the Bexar County Water Control & Improvement District #10 (WCID #10) has different rates for different stages of drought restrictions and asked if SAWS has such differential rates. Doug Evanson stated that, other than the Drought Stage IV surcharge that is currently available, there are no differential drought rates.
- Mr. Moore asked how SAWS deals with lower revenue resulting from periods of high rainfall. Doug Evanson stated that SAWS has to rely more on fixed revenue sources and call upon reserves to make up the difference.
- Mr. McNamara asked whether multi-family customers were included in the commercial class. Doug Evanson confirmed this and indicated that some other communities do have a separate class for multi-family customers. Lou Lendman reiterated that this is something that the rate study needs to examine. Mr. McNamara asked the consultants if there was data on water usage with respect to the various General Class sub-classes (e.g. commercial, industrial and multi-family). Mr. Chambers affirmed that the rate study will be looking at the different usages of these sub-classes so that costs of service to these groups can be more precisely allocated.
- Mr. McNamara then asked whether the study would attempt to group seemingly disparate users having similar water usage characteristics into potential new classes. Mr. Chambers stated that similar usage characteristics among users would be examined. Mr. Williams stated that he did not think that the study would attempt to analyze usage data in the way suggested by Mr. McNamara since it would deviate from the established class framework with which SAWS was more familiar.
- Additionally, Mr. McNamara asked when the SAWS rates and DSP rates would be integrated. Doug Evanson stated that the legislative deadline is 2017, and reiterated that if SAWS and DSP cannot be integrated by 2017 without disadvantage to SAWS customers, that SAWS can go back to the Texas Legislature and seek an extension. The extension could be up to three years to complete the integration (2020). Mr. Evanson commented that he is hoping the rate study will result in at least a plan for achieving integration.
- Col. Lawrence asked why the SAWS winter averaging time period could not be extended. Doug Evanson responded by saying that extending the winter averaging period would inevitably push the added month of an extended period

into a warmer weather period of higher usage, and would tend to increase the winter average to the detriment of customers. Monthly meter readings for all customers have to be spread out over each of the days of every month to capture usage throughout the large San Antonio area. The current four-month period is needed to capture three appropriate lower winter-time usage readings for the winter average. In any event, in light of other negative feedback received from many customers, re-examining the winter average calculation is something the rate study should examine.

- Mr. Moore asked why sewer charges nation-wide appear to be higher than water charges. Doug Evanson and Steve Clouse pointed out that federal regulatory requirements for wastewater collection and treatment have become more stringent over time thereby increasing sewerage costs relative to those of water treatment and distribution.
- Mr. McNamara asked about the factors that impact projected rate increases. Doug Evanson stated that the charge of the committee is not to set the level of water and sewer rates, but to provide input into how rates are to be structured so that costs are fairly allocated to various classes of customers. That being said, he indicated that the largest drivers in recent rate increases have been the capital costs associated with addressing the requirements of the federal wastewater consent decree and acquiring new water supplies, as well as the increasing costs of maintaining existing infrastructure. Additionally, he offered to provide the committee with information given to the Board of Trustees and the City Council that projects rate adjustments and the projected amount of additional debt over each of the next five years.
- Dr. Perry asked about the financial relationship of SAWS to the City of San Antonio. Specifically, he wanted to know if there was any intermingling of funds between the two entities. Doug Evanson stated that other than the 2.7% of gross revenue that SAWS is required to remit to the City by ordinance which is similar to a franchise fee, there is no intermixing of the finances of SAWS and the City.

Lou Lendman then gave a presentation entitled “Follow-up Items from the 2nd RAC Meeting” in order to respond to questions raised from committee members from the second RAC meeting in March. He presented slides showing the breakdown of the number of customers in each class and subclass for SAWS and DSP, respectively. He then showed comparisons of monthly water and sewer charges for typical apartment complex consumption among the top ten cities in Texas. Information was also presented on Texas cities having separate inside-city-limits and outside-city-limits rate structures. Additionally, maps were provided showing the delineation of the service area of SAWS relative that of the DSP and the distribution of high consumption water users throughout the San Antonio area

Questions and comments that were offered during the presentation were as follows:

- Ms. Cohen asked for clarification of the apartment customer number. Mary Bailey stated that the number represented the number of meters, not the number of apartment units. Ms. Cohen then asked to see the actual number of apartment units being served in addition to the number of apartment meters.

- Mr. Davis requested a historical breakdown of the number of meters by class served by SAWS and DSP.
- Dr. Perry asked for a breakdown of the eight wholesale water customers.

The meeting was adjourned by Mr. Jackson at approximately 7:35 P.M.