

MINUTES
RATE ADVISORY COMMITTEE
May 13, 2014
5:30 pm

RAC Members Present:

Carroll Jackson, Chairperson
Mark Guerrero
Roberto Anguiano
Mario Hune
Manuel Pelaez-Prada (via phone)
Ken Lawrence
Jorge Garcia
Mark Perry
Howard Peak
Allison Cohen
John Davis
Larry Underwood
Michael Moore

RAC Members Absent:

Hilario Garcia
James McNamara
Allyson McKay
Gerardo Noriega

Black & Veatch Consultants:

Bill Ziebertz
Robert Chambers

SAWS Board Member

W. Reed Williams

SAWS Staff Present:

Steve Clouse, Senior Vice President/Chief Operating Officer
Douglas Evanson, Senior Vice President/Chief Financial Officer
Kelley Neumann, Senior Vice President, Strategic Resources
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
Pamela Monroe, Public Utilities Office

Citizen to be Heard Present:

NONE

Chairman Jackson opened the meeting by raising the issue of a certain RAC member not attending several recent committee meetings. The committee by-laws state that the committee has the right to remove any member that has missed three or more meetings. Mr. Jackson indicated that he wished to continue the discussion at the end of the meeting.

Mr. Manuel Pelaez-Prada was unable to attend the meeting personally, but was able to participate via telephone.

There were no citizens that signed up to speak.

The Black & Veatch consultants Bill Zieburtz and Robert Chambers made their presentation entitled “Rate Design Study Analysis Priority Setting Workshop”.

Mr. Zieburtz described the purpose of the workshop which is to elicit from the committee members their rate design objective priorities which will help guide the rate study process. He encouraged all the members to participate in the discussions. Mr. Zieburtz presented ten rate objectives to be prioritized.

1. Financial Sufficiency	6. Cost of Service Based Allocation
2. Revenue/Rate Stability	7. Conservation
3. Drought Management	8. Minimize Customer Impact
4. Economic Development	9. Affordability for Economically Disadvantaged Customers
5. Simple to Understand/Update	10. Ease of Implementation

Mr. Zieburtz described each objective and asked the committee members for feedback.

1. **Financial Sufficiency** – Dr. Perry believes that the rates need be able to generate enough revenue to support operations consistently in years of both high and low precipitation
2. **Revenue/Rate Stability** – Dr. Perry pointed out that revenue and rate stability do not necessarily represent the same concept. Keeping rates stable in the face of changing weather conditions, for example, may result in unstable water rate revenue. In light of this discussion, it was agreed that the rate stability concept should be considered as part of the Minimize Customer Impact objective.
3. **Drought Management** – Mr. Zieburtz clarified that the drought management objective refers to how SAWS responds to pumping restrictions established by the Edwards Aquifer Authority under various drought stages. Mr. Williams stated that the SAWS drought management program is essentially a water rationing program for customers. He added that the challenge is whether the committee wants to recommend use of higher rates to further discourage consumption under drought conditions or continue to emphasize rationing.

- 4. Conservation** – The objective as described by Mr. Zieburtz represents pricing that encourages permanent reductions in water usage through more efficient use of water. Countering this description, Mr. Williams stated that conservation is really a codified and planned set of activities to discourage water use, not an increased water pricing reaction to drought conditions. Examples of the planned activities include distribution of low-flow toilets and enforcement of irrigation restrictions by part-time law enforcement personnel. The drought management concept represents the pricing response to drought. Mr. Williams stated that he did not believe that increased pricing effectively encourages conservation. Doug Evanson respectfully disagreed citing lower usage observed after the establishment of tiered water supply fee rates in 2010. Mr. Williams agreed that pricing may have a role in influencing conservation. Dr. Perry stated that the bottom line is who pays for the conservation programs. Ms. Bailey stated that the means to fund these programs is included in the current rate structure, and we need input from the rate study to see if there are more appropriate ways to fund the programs.
- 5. Economic Development** – Col. Lawrence stated that we need to be concerned about the retention of businesses in addition to the need to encourage new business growth. Mr. Zieburtz pointed out that setting special rates to incentivize economic development projects runs the risk of assessing rates that do not recover the full cost of service for the customer.
- 6. Simple to Understand/Update** – This objective emphasizes simplicity in rate structure design to facilitate customer understanding and future updates. The objective runs counter to the complex rate structures required under drought management objective to discourage consumption.
- 7. Cost of Service Based Allocation** - Under this objective, the importance of equitable cost of service recovery from each class of customers is emphasized. Adherence to this objective is inconsistent with the establishment of alternative rate structures for economic development or affordability purposes which, by definition, do not fully allocate costs to affected customers.
- 8. Minimize Customer Impact** – This objective involves minimizing the effect of rate structure changes on the bills of customers. Mr. Zieburtz reminded the group that the rate stability concept discussed earlier should be considered as part of this objective.
- 9. Affordability for Economically Disadvantaged Customers** – Doug Evanson reminded the committee that addressing affordability issues is a frequently expressed concern of City Council. He further asked the question whether the rate structure is the appropriate mechanism to provide measures of relief to economically disadvantaged customers or should specific programs be emphasized and improved. Mr. Williams stated that he did not buy the affordability logic of the last rate structure change that lowered monthly costs to low consumption users since the change benefited more than just economically disadvantaged customers. Low rates at low usage tiers potentially benefit all customers. He stated his belief that the targeted programs to help economically disadvantaged customers would be better. Mary Bailey stated that SAWS has an affordability program benefiting customers who qualify under federal income guidelines. The challenge is identifying more potentially qualifying customers

effectively, since the funds set aside for the current program are not being fully utilized. She added that we would like the rate study to provide ideas for improving the current program.

10. Ease of Implementation – This objective emphasizes the need to minimize rate structure changes that would require costly changes to the current billing system.

Mr. Ziebertz finished the presentation reemphasizing that many of the objectives conflict with each other and urged the committee members to keep that in mind as they completed their surveys.

Staff handed out to each of the committee members a survey form designed to obtain input on each member’s rate objectives priorities. The committee members were given time to fill out the forms and submit them back to staff.

Staff tallied the results from the completed surveys. The results were presented to the committee as shown below:

Classification	Rank	Objective	Score
Essential	1	Financial Sufficiency	58
	2	Revenue/Rate Stability	53
	3	Cost of Service Based Allocations	52
Very Important	4	Drought Management	46
	5	Conservation	44
	6	Economic Development	35
Important	7	Minimize Customer Impact	33
	8	Ease of Implementation	30
Least Important	9	Affordability for Economically Disadvantaged Customers	27
	10	Simple to Understand/Update	27

The discussion of the outcome focused on the ranking of the affordability objective. Mr. Hune mentioned that this is a big issue with City Council members and that it will take some education to help them understand that the affordability issue cannot be addressed effectively through a general rate structure change. Doug Evanson asked if essential lifeline water use should be priced low for everybody. Dr. Perry suggested that specific programs designed to address affordability issues for economically disadvantaged persons need to be differentiated from the benefits of a low lifeline water rate.

Mr. Moore, referencing an earlier discussion of affordability program underutilization, asked why should this program be expanded if it is not being used effectively now. Doug Evanson stated that we need to find ways to reach more qualified people. He added that staff hopes to get ideas from the rate consultant from the consultant’s experience working with other cities on these types of issues.

Staff then presented a comparison of the RAC prioritization results with those obtained from the same survey given to the SAWS Board of Trustees at the Board Policy & Planning Meeting on April 21, 2014. The comparison presented is shown below.

	RAC Results		Board
Classification	Rank	Objective	Rank
Essential	1	Financial Sufficiency	1
	2	Revenue/Rate Stability	3
	3	Cost of Service Based Allocations	2
Very Important	4	Drought Management	5
	5	Conservation	4
	6	Economic Development	6
Important	7	Minimize Customer Impact	9
	8	Ease of Implementation	10
Least Important	9	Affordability for Economically Disadvantaged Customers	7
	10	Simple to Understand/Update	8

In response to the above results, Mary Bailey indicated that one primary conclusion to be drawn from the RAC’s prioritization is that committee feels that assistance to economically disadvantaged customers should be directed not through the rate structure, but through other specific programs. Col. Lawrence asked what the policy is for continued non-payment of SAWS bills. Mary stated that we do cut-off service for customers who refuse to make progress payments on their bills. SAWS Customer Service tries to accommodate customers having difficulty making payments as much as possible.

Mr. Hune stated that he knows that some customers simply want to take advantage of SAWS payment accommodations and game the system to their benefit to save money. The key part to successful affordability programs is to make sure that you are helping the right people. The City’s Department of Human Services has a program to try to identify citizens who are adversely affected economically. The City has have been working with CPS Energy and SAWS to make more citizens aware of the affordability programs both utilities offer. The City allows citizens to apply for the affordability programs from both utilities at one main location, making it easier for those who need the assistance.

In response to a question from Mr. Davis, Mary Bailey mentioned that SAWS also has a program called Project Aqua that provides customers having bill payment problems financial assistance once a year to pay their bill. Frequently, however, by the time a customer requests the help the customer is already behind on bill payments over several months or may even have had service cut-off altogether. By the time a customer has reached that point, the program can no longer be of assistance.

Mr. Zieburtz asked for further thoughts about the survey results. Mr. Hune stated that the affordability objective could have been better defined. He also stated that one thing the committee needs to understand is that if SAWS is in a good place financially as a result of the rate study process, the impact of projected SAWS rate increases over the next five years could be mitigated somewhat and that would help keep charges more affordable for everybody. Doug Evanson stated the rate design study and process is more about who pays to cover the utility's costs, not about increasing overall revenues. Mary Bailey pointed out that future rate increases are driven more by the costs of capital projects for needed water supply development and federally mandated sanitary sewer overflow (SSO) remediation.

Due to time constraints; the scheduled presentation for staff to present follow-up items from previous RAC meetings was not made. The presentation will be sent separately to the committee members. The next RAC meeting is scheduled for July 1, 2014.

Mr. Jackson returned to the issue of the one RAC member who has missed four consecutive meetings. Staff reported that they have been unable to contact the member by phone or e-mail. The member is a City Council nominee and a DSP customer. It was agreed that the nominating Councilperson will be notified and asked if she would like to contact the RAC member to see if he wishes to continue or if she wishes to appoint a replacement.

Mr. Jackson closed the meeting at approximately 7:35pm.