

MINUTES
RATE ADVISORY COMMITTEE
Seventh Meeting, September 16, 2014
5:30 pm

RAC Members Present:

Carroll Jackson, Chairperson
Mark Guerrero
Roberto Anguiano
Mario Hune
Howard Peak
Ken Lawrence
Jorge Garcia
Mark Perry

Daniel Meza
Allison Cohen
John Davis
Larry Underwood
Michael Moore
Gerardo Noriega
Allyson McKay

RAC Members Absent:

Manuel Pelaez-Prada
James McNamara

SAWS Board of Trustees Member Present:

W. Reed Williams

Black & Veatch Consultants:

Richard Campbell
Robert Chambers
Jeff Dykstra

SAWS Staff Present:

Robert Puente, President/Chief Executive Officer
Doug Evanson, Sr. Vice President/Chief Financial Officer
Kelley Neumann, Sr. Vice President, Engineering
Donovan Burton, Chief of Staff
Stacey Isenberg, Chief of Internal Audit
Mary Bailey, Controller
Lou Lendman, Budget Manager
Stephen Turner, Sr. Financial Modeler
Patricia Arriola, Financial Analyst
Robert Walker, Financial Analyst
Anne Hayden, Communications
Mario Aguilar, Communications

City of San Antonio Staff Present:

Marion Gee, Public Utilities Office
Morris Harris, Public Utilities Office
Pam Monroe, Public Utilities Office

Citizen to be Heard Present:

Jerry Morrisey
Steve Hixon
Annalisa Peace
Meredith (Mary) McGuire

Chairman Jackson opened the meeting at 5:30 pm, gave a brief description of the meeting's planned agenda and introduced the following citizens that had signed up to speak at the start of the meeting.

Mr. Jerry Morrissey commented on the proposed tiered residential rate structure discussed at the previous RAC meeting. He stated that it appears the proposed additional tier would actually increase the cost for those in block one and that it would shift costs from the higher consumption second and third blocks. He believes that this will not encourage conservation but increase in more landscape water use. Mr. Morrissey also commented on the Vista Ridge project. He is concerned about the affordability and equity of cost allocation of proposed project. Additionally, he pointed out that in the current rate structure that the Water Supply Fee is tiered for residential customers, but not tiered for General Class or Wholesale customers. Finally, with respect to the Affordability Program, he stated that if customers want to participate they have to initiate an application with City to obtain eligibility. He is concerned that otherwise eligible customers are not properly informed about the availability of the program; SAWS needs to do a better job to identify potential eligible customers and actively encourage their participation.

Mr. Steve Hixon stated that he feels that SAWS has done a wonderful job in its conservation programs. However, he stated his concern over the number of houses being built over the Edwards Aquifer Recharge Zone (EARZ). He stated that SAWS and San Antonio need to limit the growth over this sensitive area. He feels it is a great idea to bring in additional water, but the increase in water supplies would be counter-productive if it increased the potential of polluting the aquifer itself. He does not want new development over the EARZ to harm the aquifer for his grandchildren.

Ms. Annalisa Peace, representing the Greater Edwards Aquifer Alliance (GEAA), stated that the group is unanimously opposed to the Vista Ridge Water Supply Project if the new supplies are going to be used to facilitate new development on the EARZ and the Contributing Zone. She requested that SAWS seek to amend its Certificate of Convenience and Necessity (CCN) to exclude the EARZ and the Contributing Zone in the City of San Antonio's Extraterritorial Jurisdiction (ETJ) to include Comal County. Ms. Peace also recommended that fees be assessed to households and businesses over the EARZ to recover directly the total costs of EARZ sewer line camera and smoke testing. Additionally, she stated that GEAA strongly supports more tiered rate structures that assess much higher water rates for the biggest residential water users.

Dr. Mary McGuire, representing the Alamo Group of the Sierra Club, also stated her group's opposition to the Vista Ridge Project. She expressed skepticism that the acquisition of Vista Ridge water, at an extremely expensive price, is necessary or even good for whole community. Specifically, her organization urges that any rate change should be based on five principles (taken from Dr. McGuire's handout to the committee):

1. All rates should be linked with measurable protection of the Edwards Aquifer from drawing down and from development-caused pollution;
2. Rates should be set so that they promote conservation year round and at all levels of consumption;

3. All rates and fees must be kept low enough that they do not impoverish the City's middle and lower classes (i.e., housing plus utilities costs should not exceed 30% of household income). Any lifeline rate must extend to all households living at 125% of the poverty line.
4. The demand rate proposed at the previous RAC meeting must not penalize all those who do not want to pay for the Vista Ridge water, and who would never demand so much water that SAWS would even consider investing in this mistaken venture.
5. Those who make necessary the acquisition of water we do not otherwise need should have to pay for all of the cost of that water.

Dr. McGuire also stated that the tier threshold be set lower and be further lowered annually toward a target of no more than 100 gpcd by 2020. She also stated that in order to promote community resilience in the face of severe drought, the SAWS should prepare residents to further reduce usage. Additionally, she stated that all consumers should be encouraged to "waste not, want not" by having the block rate based on a 3 month average, so when drought necessitates a reduction in their tier threshold, those who save water in the earlier months will carry over their "credit". The thresholds of each block above the bottom should be reduced automatically when the aquifer level drops below defined downward increments.

Mr. Jackson thanked the speakers and introduced Trustee W. Reed Williams who briefed the committee on the Vista Ridge Water Supply Project. The project would deliver 50,000 acre-feet of water annually via pipeline from Burleson County to San Antonio under a thirty year contract with the Vista Ridge Consortium beginning as early as 2020.

Mr. Williams first described the pre-conditions the Board of Trustees has set as necessary for the project to be successful. First, there has to be a new rate structure that includes a lifeline water rate for low water consumption customers so that they are not adversely impacted by the higher cost of Vista Ridge water. Second, approval of the project must go hand-in-hand with continued sensitive environmental stewardship of the Edwards Aquifer Recharge Zone. The third condition is that project must not diminish San Antonio's established culture of water conservation, which sets an example to the nation as a whole.

Mr. Williams then listed the risks of the project. The first risk he discussed was the long term availability of water from the Vista Ridge Consortium under uncertain regulatory conditions. This risk is mitigated somewhat by the insistence in the contract that SAWS not be required to pay for water that is not made available in circumstances such as cutbacks made by the local groundwater district. The second risk involves the cost and timing of the actual construction and subsequent operation of the line. The Vista Ridge Consortium is responsible for all up front construction costs. As for operations, SAWS will work closely with the consortium to keep operating costs to a minimum, to include arranging for the lowest cost electricity as possible. The third risk is the commercialization of the project. SAWS will not need the full 50,000 acre-feet of water at the beginning of delivery. To help mitigate initial project costs, SAWS will seek to sell the excess water to municipalities located near the pipeline at the same cost per acre-

foot incurred by SAWS. SAWS will have complete commercial control of the pipeline once it is in operation. The fourth risk is in the financing of the project. The Vista Ridge Consortium will issue investment grade bonds initially to finance construction. Since the amount of the annual payment SAWS will make for the Vista Ridge water will be driven by the relatively higher bond interest rate the consortium will have to pay, SAWS will study the possibility of issuing its own bonds at the lower interest rate that SAWS can command to buy the Vista Ridge bonds thereby lowering the overall project cost.

Mr. Williams then described the timetable for the Vista Ridge project in terms of three phases. Phase I is the Development Phase and is expected to last from 18 to 30 months from the estimated Commercial Close of the contract in the fall of 2014. The purpose of Phase I is to provide time for both parties to perform their due diligence to ensure that all contract commitments can be met. During this period, either party can opt out of the contract altogether. If a party does opt out, that party must pay the contract-related expenses incurred by the other party up to that point in time; if SAWS opts out during Phase I, the expenses it would have to reimburse would be capped at \$40 million. Among the commitments to be addressed during Phase I will be to seek City Council approval to adjust SAWS water rates to ensure that the revenue stream needed under the contract terms is in place when delivery commences. Also, Vista Ridge will conduct additional tests to verify the amount of water in Burleson County available for the contract. Additionally, during Phase I, SAWS will seek out other potential municipal customers for the excess water not needed by SAWS initially coming from the Vista Ridge pipeline. Phase I culminates with the Financial Close of the contract. Phase II, or the Construction Phase, then will commence for a period of about 42 months. Water delivery will commence at the end of Phase II. Phase III, or the Operation Phase, will then proceed over the next 30 years. At the end of Phase III, SAWS will take formal possession of the pipeline and will continue to be able to lease water at a lower, market-based average cost from the Burleson County water rights owners.

Mr. Anguiano asked Mr. Williams if SAWS has received data assuring the adequacy of the water supply in Burleson County. Mr. Williams stated that he is assured of the water availability and explained that the consortium will do more tests during Phase I to provide greater certainty. He added that the aquifer in Burleson County (Carrizo Aquifer) does recharge, just not as fast as the Edwards Aquifer. Mr. Anguiano also asked if the City Code would have to be changed to authorize SAWS to sell water out to other entities from the pipeline. Mr. Williams stated that he did not think so since SAWS already sells water to other entities.

Mr. Hixon asked if the consortium would have access to the power of eminent domain to facilitate pipeline construction; Mr. Williams said that the consortium would establish a public water supply corporation with such power. Ms. Peace expressed concern that the availability of so much water could prompt other entities receiving excess water from SAWS to seek variances from current water regulations to encourage development in otherwise heavily regulated areas. Mr. Williams stated that he thought the excess water would meet the needs of mostly existing customers, not new customers.

Dr. McGuire stated her concern over the extent water rates would have to increase in order to pay for the project. She asked if there would be a limit to the amount of the rate increase. Mr. Williams said that if we buy the water and are not able to sell excess to other entities, SAWS staff has estimated that water rates could increase by 16% by 2020. He added that higher rates for water reflect its true value; lower rates encourage waste. Additionally, water from the Vista Ridge pipeline will take pressure off of the Edwards Aquifer. Dr. McGuire countered by saying that United Nations environmental experts have recommended that all communities localize water sources and avoid the use of pipelines to import water from sources far away. She suggested that SAWS look at more localized solutions such as rain water collection and use of storm water run-off. Mr. Williams believes that the Vista Ridge project is localized because SAWS would be helping our neighbors in the region by making excess water from the pipeline available to meet near term needs. Mr. Williams thanked the committee for the opportunity to make his presentation.

Mr. Jackson then moved to the next items on the agenda regarding the water delivery and water supply Cost of Service Analysis and alternative rate scenarios to be presented by the Black & Veatch consultants.

Before the consultants began their presentation, Ms. Bailey clarified that the rate design that Black and Veatch will be describing does not yet reflect the impact of the Vista Ridge Project. Mr. Evanson put the Vista Ridge Project in perspective by contrasting the \$110 million annual payment SAWS would pay for the 50,000 acre-feet of water from Vista Ridge with the total \$250 million amount in operations and maintenance expenditures that SAWS made for the whole year of 2013. Dr. Perry asked that since SAWS would be receiving additional water, would SAWS have to increase the capacity of its wastewater treatment plants. Mr. Evanson assured the committee that the treatment plants will have sufficient capacity to support future growth and will be able to accommodate increased consumption anticipated from Vista Ridge water supplies.

Before going into their presentation, Mr. Campbell informed the committee that Mr. Bill Zieburz no longer works for Black & Veatch; he emphasized that there would be no disruption in Black & Veatch's support to the rate study effort.

The Black & Veatch consultants Richard Campbell, Robert Chambers and Jeff Dykstra then began their presentation on the Cost of Service Analysis and on alternative rate scenarios.

The consultants first addressed their Cost of Service Study. With regard to slide 13 in their presentation, Dr. Perry asked about the significance of peaking factors in the Cost of Service Study. Mr. Chambers indicated that the different peaking factors established for each customer class represent measures of each class's maximum demand on the total water system on a given day and on a given hour of a day. These factors facilitate the allocation of cost of service to each class.

In reference to the summary on slide 16 of the presentation, Mr. Evanson discussed examples of those classes in which existing revenues do not align with the allocated cost

of service. Of particular note is the finding from the analysis that Recycled Water rates recover only 46.8% of the cost of Recycled Water service. While the low rates charged encourage use of Recycled Water in lieu of potable water, the overall cost still has to be recovered from other customer classes. Since General Class and Irrigation customers exclusively use Recycled Water service, the over-recovery of revenue shown on slide 16 from the General Class and Irrigation customers helps to subsidize Recycled Water service costs.

Dr. Perry asked about the differences between the Water Delivery and the Water Supply cost of service summaries. Mr. Evanson answered by stating that the Water Delivery core business involves costs of the transmission and distribution of water, while the Water Supply core business involves the costs of acquisition and development of alternative water sources. SAWS has separate rates to recover costs of the Water Delivery core business and the Water Supply business, respectively.

Mr. Hume asked if the Cost of Service Analysis addressed the District Special Project's (DSP) costs. Ms. Bailey said that the Cost of Service Analysis is focused on SAWS-only costs for now. The overall Rate Study will begin to incorporate DSP issues in the analysis once the costs of the Vista Ridge Project can be fully accounted for in the study. Mr. Evanson pointed out that it is fortunate that the Rate Study effort happens to come at a time to help address the major issues of Vista Ridge cost recovery and DSP convergence. Dr. Perry asked about wastewater issues and Mr. Evanson stated that wastewater cost of service and alternative wastewater rate issues will be addressed at a later date.

Mr. Evanson also pointed out that slide 16 also shows that the biggest revenue over-recovery involves the Irrigation Class. This is the result of recommendations from the last rate study process that ended in 2010 when the RAC at that time strongly recommended higher costs for high Irrigation users than for normal Residential and General Class water customers.

After completing the Cost of Service Analysis portion of the presentation, the consultants presented three alternative scenarios where each scenario builds on the previous one:

Scenario 1 – Conceptual Rate Design

- *Standardized Meter Charges across all classes
- *Demand Charge – Residential and Irrigation Classes are assessed based on a customer's actual usage compared to the prior year's customer class average usage.
- *Separate Multi-Family water rate class
- *Multi-family, General, and Wholesale Classes are assessed based on a customer's actual usage compared to their calculated average annual consumption or "base use".
- *Lifeline Supply Rate block rate for first 2,244 gallons (Block 1) of consumption that is lower than the existing first block rate

Scenario 2 – Same as Scenario 1 except no Standardized Meter Charges and No Demand Charge

Scenario 3 – Same as Scenario 2 except for an additional residential Block 2 fixed charge that is applied to residential consumption as it advances into Block 2 that effectively reverses the cost savings of the lower volume charge in Block 1.

In summarizing the rate design recommendations on slide 18, Mr. Chambers stated that the combination meter charges and drought rates will be addressed at a later date.

Regarding the Conceptual Design recommendation to establish a “Lifeline Supply” rate for low consumption customers, Col. Lawrence pointed out that many persons live in older homes with aged plumbing that leaks significantly. These customers might otherwise be able to take advantage of a Lifeline Supply rate if their plumbing could be repaired. Mr. Evanson stated that customers in the SAWS affordability program need to be monitored for spikes in water usage that might be caused by leaky plumbing so that plumbers can be sent to repair the leaks.

When the proposed residential rate blocks on slide 20 were discussed, Dr. McGuire stated that the proposed first Lifeline Supply rate block of 2,244 gallons was too small for a large family. Ms. Bailey stated that the SAWS affordability program provides discounts that increase depending on both the family’s income level and family size.

In reference to slide 21 which presented the proposed block structure for the General Class and new Multi-Family Class, Ms. Bailey contrasted the higher proportion usage amounts in these classes observed in the lower blocks with higher proportion of usage in the higher rate blocks typical of the Residential Class. This occurs because General Class customers (which currently include Multi-Family customers) do not vary significantly in the consumption from year to year as do other rate classes.

Mr. Hune asked to clarify the flat charge distinctions between rate Scenarios 1 and 3. Ms. Bailey stated that Scenario 1 features a higher demand charge for the Residential Class that would be assessed when a customer exceeds the prior year average consumption amount for the Residential Class. The average Residential Class consumption can change from year to year. For General Class customers under Scenario 1, the higher demand charge would be assessed if their own average individual consumption levels are exceeded. Scenario 3 does not have a demand charge, but does feature a fixed fee assessed when residential usage advances into Block 2. If a customer’s use exceeds the upper limit of the Lifeline Supply initial rate block (2,244 gallons per month), then the customer is assessed a fee that ensures that the customer will pay the full second block rate for the first 2,244 gallons of consumption, thereby offsetting any potential savings from remaining in the first block. Scenario 2 is essentially the same rate structure as the Scenario 1 Conceptual Design, but does not include standardized meter charges and no demand charges.

During the discussion of slide 25 which shows the proposed cost of service recovery levels by class from the Conceptual Rate Design, Ms. Bailey pointed out that the General Class and Irrigation Class proposed rates are shown as over-recovering costs for their respective classes in order to support the Recycled Water Class which has rates that do not recover the cost of service. She added that placing the balance of Recycled Water Class costs not covered by Recycled Water rates on the General and Irrigation classes is a significant policy question on which the RAC is asked to provide input for the Board of Trustees.

Ms. Bailey then handed out a comparison of monthly water charges at various levels of consumption calculated at current SAWS rates and at the rates suggested by Scenarios 1, 2 and 3. The alternative scenario rates are based solely on 2014 SAWS revenue requirements and do not take into consideration the revenue requirements of the Vista Ridge Project or DSP considerations. While the comparison shows that high consumption users would actually pay less under the alternative scenario rates as they are now, Ms. Bailey pointed out that once the Vista Ridge revenue requirements are factored into the development of alternative rate scenarios, the comparison differences will not have the same results.

With regard to slide 29, Ms. Bailey emphasized that the suggested Multi-Family Class rates, which are higher than suggested General Class rates, reflected the revenue requirements of multi-family customers alone. Currently, the multi-family customers are included in the General Class. Ms. Bailey also pointed out that in Scenarios 2 and 3, the water rates for Multi-Family, General and Irrigation classes are the same. The differences between the two scenarios are in the Residential Class rates alone.

As part of the discussion of multi-family customers, Dr. McGuire asked how multi-family customer usage could be metered to help them conserve water. Ms. Bailey pointed out that most apartment complexes are master-metered. Some newer complexes do sub-meter their tenants. Mr. Evanson contrasted this to the CPS Energy practice to individual meter and bill apartment customers for electricity. Dr. McGuire indicated that she thought the accuracy of sub-metering among various apartment complexes was not consistent creating possible inequities in billing among tenants in those complexes. Mr. Evanson said it would be very expensive to implement a consistent apartment sub-metering system throughout the community. Ms. Bailey pointed out that an apartment dweller using a comparable amount of water as a residential homeowner does not have to pay the full meter service availability charge that the homeowner does.

Mr. Meza asked if San Antonio Housing Authority (SAHA) properties had to pay regular General Class rates. Ms. Bailey confirmed that SAHA pays the same General Class water and sewer rates as any private apartment complex. Typically, she added, all complexes pay the SAWS bills based on the master meter-measured usage and pass along the costs to their tenants to recover the SAWS bill costs in one form or another.

At the conclusion of the consultants' presentation, Mr. Evanson stated that the scenarios presented are merely the first round of alternatives to be brought to the RAC. Ms. Bailey added that the scenarios are revenue neutral based on 2014 revenue requirements and do

not yet reflect Vista Ridge Project revenue requirements. DSP requirements must also still be overlaid on the final rate design. She also emphasized that staff very much would like the committee's feedback and suggestions for the alternative scenarios.

Mr. Meza stated that the briefing was very technical and not suitable for presentation at public meetings. He would like to see the alternatives presented more simply and compared to existing rates at varying levels of consumption reflecting charges in each of the rate blocks. Ms. Bailey stated that the objective is first to determine the impact of Vista Ridge and then roll in DSP requirements on the alternatives before preparing a presentation for the public. Additionally, she said, the presentation would be comparing only one rate structure that will have been approved by the RAC.

Ms. Bailey also reminded the committee that the scenarios presented thus far do not include any seasonal rates. The consultants are recommending that seasonal rates be discontinued. Also to be presented later are proposed drought-specific rates or, in other words, rates that would only be implemented in various defined and declared stages of drought. Col. Lawrence asked if all charges for water, to include Edwards Aquifer Authority (EAA) and Texas Commission on Environmental Quality (TCEQ) fees have been included in the scenarios. Ms. Bailey confirmed that this is the case.

Ms. Bailey additionally stated that the Conceptual Design proposal to standardize all meter charges did not work because standardizing increased the monthly charge for lower consumptions too much for those rate classes that had lower meter charges. She added that the Demand Charge in the Conceptual Design is too confusing and probably technically impossible to implement in the SAWS billing system.

Mr. Hune warned that the block construction in the rate design should not place too much revenue reliance on higher tiers since that will contribute to revenue instability. As pointed out earlier, the scenarios presented by the consultants actually move the revenue burden to lower blocks for just that reason.

Owing to the lateness of the hour, Mr. Jackson asked the committee to be prepared to give feedback on the scenarios presented at the next RAC meeting now scheduled for Tuesday, October 21. At that meeting, the consultants will also present their wastewater rate recommendations. SAWS staff handed out a revised meeting schedule and stated the RAC meetings would be extended into 2015, possibly through the first quarter of the year. The committee then discussed the specific schedule for next three meetings: October 21, November 18 and a meeting in January. Mr. Jackson asked committee members to let staff and him know if they had schedule conflicts.

Mr. Jackson ended the meeting by thanking committee members for agreeing to the longer projected timeline for the Rate Study. He added that he received positive feedback from all of the members he has spoken to about the extended timeline.

Mr. Jackson adjourned the meeting at 7:52 pm.