

MINUTES
RATE ADVISORY COMMITTEE
Tenth Meeting, January 12, 2015
5:30 pm

RAC Members Present:

Carroll Jackson, Chairperson
Mark Guerrero
Manuel Pelaez-Prada
Mario Hune
Howard Peak
Ken Lawrence
Mark Perry

Larry Underwood
Allison Cohen
Roberto Anguiano
James McNamara
Michael Moore
Gerardo Noriega
Allyson McKay

RAC Members Absent:

Jorge Garcia
John Davis
Daniel Meza

SAWS Board of Trustees Member Present:

W. Reed Williams

Black & Veatch Consultants:

Richard Campbell
Robert Chambers

KBC Consultants:

Tony Catania

SAWS Staff Present:

Robert Puente, President/CEO
Donovan Burton, Chief of Staff
Doug Evanson, Chief Financial Officer
Mary Bailey, Controller
Lou Lendman, Budget Manager
Patricia Arriola, Financial Analyst
Robert Walker, Financial Analyst
Benjamin Benzaquen, Sr. Financial Analyst
Mario Aguilar, Communications
Veronica Godley, Director of Environmental Lab Services

City of San Antonio Staff Present:

Morris Harris, Public Utilities Office
Jeff Pullin, Public Utilities Office
Alfred Chang, Public Utilities Office

Citizen to be Heard Present:

Jerry Morrisey

Chairman Jackson opened by giving a brief description of the meeting's planned agenda and announced that only one citizen had signed up to be heard - Mr. Jerry Morrissey. Mr. Morrissey commented that he supports a proposed residential wastewater rate structure that would provide a low lifeline wastewater rate for low sewer users. He stated that this scenario is consistent with the water lifeline rate discussed at prior committee meetings.

The Black and Veatch consultants then made their presentation on the following four items:

1. Conceptual wastewater system rate structure
2. Water and wastewater wholesale rates
3. Recycled water rates
4. Multi-family customer class designation

Proposals regarding the wastewater rate structure were discussed first. Changes made in underlying wastewater cost allocation assumptions since the October 2014 RAC meeting were described on slide 7. Mary Bailey stated that the cost allocation assumptions now give more weight to the higher cost of maintenance of smaller (<10") sewer lines by shifting costs to the customer bills cost allocation category. Previously, sewer costs were allocated by volume only. Given that residential gallons-per-capita-per-day (GPCD) has continued to decline, a purely volumetric basis for cost allocation would logically continue to move costs away from residential customers (on a per customer basis) to higher using commercial and industrial customers. Given that the costs of maintenance of sewer lines themselves continues to increase despite the lowering of volume, it is more equitable to allocate more costs to residential customers of the maintenance of the collection system the majority of which (<10") serves residential customers.

Mr. Moore asked to receive more detail from a representative in SAWS collection system maintenance department on the distribution of costs between large sewer lines and smaller sewer lines.

The consultants proceeded to describe two different wastewater rate structure scenarios. Both scenarios would change the current flat service availability charge to one that changes based upon the size of a wastewater customer's water meter. Scenario 1 applies a single tier volumetric rate, while Scenario 2 includes a two-tiered volumetric rate structure that would assess a lower rate on the first 2,992 gallons of usage.

With regard to slide 11 which compares SAWS wastewater charges with other Texas cities, Ms. Bailey corrected Note C which stated incorrectly: "San Antonio (SAWS) currently has a minimum flow allowance which includes the first 2,244 gallons." Instead of "2,244 gallons", the amount should be "1,496 gallons".

With regard to slide 15 (Scenario 1), Ms. Bailey clarified how the proposed \$7.20 wastewater service availability charge for an account having a 5/8" water meter was derived. Specifically, the \$7.20 results after subtracting from the current flat \$11.93

wastewater service availability charge the amount of \$4.73 which represents the current volumetric cost of the first 1,496 gallons used by a sewer customer.

On slide 16 (Scenario 2), Ms. Bailey pointed out that the proposed two tier wastewater volumetric rate mimics the water lifeline rate structure discussed at previous RAC meetings.

Mr. Hune asked how the volumetric rate is calculated. Ms. Bailey stated that it represents those costs left to be recovered that have not been recovered by the service availability charge.

Ms. McKay asked if all customers get the benefit of the lower first tier lifeline rate. Doug Evanson said yes. Ms. Bailey stated that 47% of residential usage will be billed at the lower first tier rate.

Mr. Pat Garcia, an observer associated with the San Antonio Manufacturers Association (SAMA), asked if the SAWS Sewer Flat Rate Program would be affected by the proposal. Ms. Bailey stated that the new rates, if approved, would be applied to the net usage that is currently billed to Flat Rate Program participants.

Mr. Pelaez-Prada asked for staff's preference between Scenarios 1 and 2. Mr. Evanson stated that staff prefers Scenario 2 because it will provide more fixed fee revenue and provides for a lifeline rate that has the added benefit of encouraging more water conservation.

Mr. Williams stated that he did not think Scenario 2 was progressive enough to encourage true conservation. Ms. Bailey agreed, but the multi-tiered water rates being considered are intended to encourage more conservation than the Scenario 2 wastewater rate structure. Mr. Evanson expressed concern that more and higher cost tiers in the wastewater rate structure might adversely affect wastewater revenues. He added that 47% of wastewater usage already goes through 2,992 gallons and that 90% of usage goes to 6,000 gallons. Mr. Williams expressed satisfaction with the explanation.

An observer of the meeting suggested that commercial and industrial water rates should be tiered as well. Richard Campbell pointed out that tiers are intended to discourage discretionary residential water consumption not water usage needed for business.

Mr. McNamara stated his discomfort with the principle of using less water and having to pay more for it. Mr. Campbell stated that water system costs still have to be recovered whether less or more water is used. Mr. McNamara stated that conservation is an important value in and of itself.

Col. Lawrence asked how many apartment complexes are in the 6" water meter range. Ms. McKay stated that most of complexes she represents are in that range. Ms. Bailey stated that most of the complexes system-wide are in the 3" to 4" meter size range.

Further questions were raised about the appropriateness of using water meter size as the basis for assessing the wastewater service availability charge. Dr. Perry summed it up by stating that water meters are the best proxies for expected sewer service demand levels.

Mr. Hune stated that he struggles with the concept that a person who inherits a property with already existing large meter will have no choice but to pay a higher wastewater service availability charge. Ms. Bailey pointed out that at least such a person will not have to pay the higher impact fees involved if the property is already developed. Ms. McKay pointed out that she has never seen an apartment complex ask to swap out an existing large meter with a smaller meter.

Mr. Pelaez-Prada stated that he was comfortable with Scenario 2, although he felt it to be a bit complex.

Ms. Bailey stated that, assuming Scenario 2 is acceptable, all future discussions of combined water and sewer charges under new rate structures would assume the Scenario 2 wastewater rate structure as the sewer charge basis. This does not mean that application of Scenario 2 cannot be revisited at a later date.

Mr. Jackson affirmed that he is hearing general committee agreement with use of Scenario 2. There were no objections.

The consultants then turned to a review of proposals regarding Wholesale water and sewer rates.

Mr. McNamara asked for the number of current Wholesale water customers. Ms. Bailey stated that there are very few such customers currently (8 as of 2014).

Mr. McNamara asked if SAWS billed on behalf of the Wholesale connecting customers or if they did their own billing. Ms. Bailey stated that the situation varies by customer. He further asked if the retail customer served by the SAWS Wholesale customer sees the same rates as a SAWS retail customer. Ms. Bailey answered by saying that each Wholesale customer charges different water rates to its retail customers. If SAWS bills on behalf of a Wholesale customer, SAWS bills using the Wholesale customer's rates, not SAWS retail rates.

Ms. Bailey pointed out that the proposed Wholesale water and sewer rate structures no longer include a distinction between inside and outside City of San Antonio limits rates.

With regard to slide 28, Dr. Perry expressed agreement with the proposal to not have graduated meter charges for Wholesale wastewater customers, especially since Wholesale sewer customers are not also SAWS Wholesale water customers.

Going forward Ms. Bailey stated that, in the early years of Vista Ridge production, SAWS intends to market unused Vista Ridge water to other entities along the Vista Ridge pipeline route. These customers would be Wholesale customers with whom SAWS would wish to enter into take-or-pay contracts designed with rates set to fully recover the

cost of the Vista Ridge water as base usage. If such a customer exceeds base water usage, then SAWS will apply the highest block rate that SAWS charges at the time in order to discourage unplanned-for Vista Ridge water consumption. Current Wholesale water customers would be grandfathered under the Wholesale water rates being considered by the RAC today.

Mr. Rey Chavez, SAMA president who was observing the committee meeting, asked if SAWS would negotiate contracts with potential Wholesale water customers to accommodate new growth (e.g. City of Elmendorf). Ms. Bailey stated that yes, SAWS would be willing to negotiate on that basis. SAWS is, in fact, in negotiations with Elmendorf at this time.

With regard to the proposed Wholesale rate structure, described on slides 28 and 29, Dr. Perry expressed support for the proposal.

Mr. McNamara asked if Wholesale water customers are able to set their own prices for the sale of water provided by SAWS. Ms. Bailey said yes, within regulatory limits.

There appeared to be general agreement with the Wholesale water and sewer rate structures being proposed.

The consultants then turned to a discussion of their proposals concerning Recycled Water rates.

On slide 34 which presented a comparison of allocated Recycled Water costs and revenues, Ms. Bailey clarified that the existing revenues did not include revenue SAWS receives from CPS Energy for Recycled Water. The reason is that the water for CPS Energy is provided in an entirely different manner than for other Recycled Water customers who receive their service via dedicated pipelines. Additionally, the City ordinance which created SAWS mandates that the CPS Energy payments for Recycled Water cannot be used as revenue to offset operations and maintenance costs.

Mr. Garcia asked if the Recycled Water system is looped. Ms. Bailey affirmed that the system is looped. Mr. Garcia asked if the looping of the system has increased the number of recycled water users. Mr. Evanson said that it did add some customers, but added that SAWS needs to be encourage customers who will use Recycled Water all year round and not just during the summer time.

The consultant's recommendations concerning Recycled Water rates included future 10% annual increases to gradually begin to recover the costs of the service up to 75% of General Class potable water rates. Mr. Williams expressed concern that too aggressive of an approach to achieve more cost recovery may discourage Recycled Water consumption. He added that the \$11 million current annual cost to operate the system is an investment that reduces use of potable water. Ms. Bailey stated that staff will revisit the Recycled Water rate issue with the RAC at a later date.

The consultants then addressed the question of establishing separate Multi-family rate water and wastewater classes, respectively. Ms. Bailey summed up the issue by stating that all calculations made to date have shown that if separate Multi-family classes are established for water and wastewater, Multi-family customers currently paying General Class rates will pay slightly more. Furthermore, there is no convincing evidence that that usage by current Multi-family customers is being subsidized by other General Class customers to any significant degree.

Mr. McNamara asked how the costs of apartment usage are being recovered. Ms. McKay stated that the cost is passed on to apartment tenants. Some newer complexes have individual apartment meters, but mostly apartments have to spread the cost of usage at a given apartment complex evenly among the tenants. Mr. McNamara then asked how far is the community away from being able to bill all individual apartment dwellers directly. Ms. Bailey said that we are very far. It would be very costly to implement a meter system for all individual apartments.

Mr. Pelaez-Prada stated that he thought the process of examining the possibility of a separate Multi-family class was a valuable exercise. He asked for staff's recommendation. Ms. Bailey answered by saying that the less complex our rate structure is the better. While there are minor differences in costs among the General Class subclasses, none of them warrant establishment of a whole new and separate class for any of the subclasses.

Dr. Perry made a motion to keep Multi-Family customers within the General Class. Mr. Hune stated that he sees no compelling reason to change. Mr. McNamara stated that his goal is fairness and not convenience. He believes that more work on establishing a separate Multi-family class and metering individual apartment units might result in more equity. Dr. Perry pointed out that in those cities that had a separate Multi-family rate class, there were in fact small differences between the Multi-family rate charges and other commercial rate charges for comparable usage.

Mr. McNamara asked if more revenue could be had from a separate Multi-family class. Ms. Bailey said that there was not significant enough of a difference between the nature of Multi-family users and other General Class users to make creating a separate Multi-family class worthwhile.

Mr. Williams stated that the purpose of setting of separate classes is to prevent cross-subsidization. He asked if there is cross-subsidization between Multi-family customers and other General Class customers. Mr. Noriega asked what the threshold was for determining that cross-subsidization exists. Mr. Evanson pointed to slide 41 and said if the difference in cost recovery between Multi-family customers and the other General Class customers was more than 10%, a case could be made for cross-subsidization could be made. As shown in slide 41, this is not the case.

Mr. Jackson called for a vote on Dr. Perry's motion and the committee voted unanimously to leave Multi-family customers in the General Class.

The remaining agenda item for this meeting was to be a continuation of the discussion from the November 2014 RAC meeting on Special Services Fees. There was not sufficient available time, however, for that discussion at this meeting. Ms. Bailey stated that staff is working actively with SAMA to answer their questions on certain of the Special Services Fees proposals. Staff will report to the RAC at a later meeting the results of the dialogue with SAMA.

Mr. Jackson adjourned the meeting at 7:35pm.