

MINUTES
RATE ADVISORY COMMITTEE
Thursday, July 9, 2009
5:30 P.M.

RAC Members Present:

Fred Arce	Gil Coronado
Kathie Estrada	Antonio Gallardo
Mike Harris	Keith Kindle
Ron Morales	Steve Patmon
Joe Soules	Allen Townsend

RAC Member Absent:

Liz Tullis

SAWS Staff Present:

Douglas Evanson, Senior Vice President/CFO
Kelley Neumann, Senior Vice President/Strategic Resources
Stacey Isenberg, Vice President, Customer Service
Charles Ahrens, Vice President, Water Resources/Conservation
Dan Crowley, Director, Financial Planning
Emma Bridges, Director, Customer Service
David Maxwell, Director, Engineering
Phyllis Garcia, Manager, Finance
Lou Lendman, Senior Financial Analyst
Keith Martin, Corporate Counsel
Jennifer Holmquist, Public Affairs
Dana Nichols, Conservation
Phil Weynand, Conservation
Elliott Fry, Conservation

City of San Antonio Representatives Present:

Xamara Caballero, City Council District 3 Staff
Charles Mazuca, City Council District 7 Staff
Alfred Chang, Public Utilities Office
Morris Harris, Public Utilities Office
Marisela Vasquez, Public Utilities Office

Consultants Present:

Rocky Craley, Raftelis Financial Consultants
Harold Smith, Raftelis Financial Consultants
Rhonda Harris, Pro-Ops

Citizens Present:

Mary Q. Kelly
John Merrifield
Bruce Reppert

Stephen Lazor
Jerry Morrissey
Ben Youngblood

Agenda Item #1, Call to Order by the Chairperson

Mr. Kindle, committee chairperson called the meeting to order. He stated that a long, detailed presentation was on the agenda and asked that committee members withhold any questions until the end of the presentation. Additionally, he stated that the next committee meeting scheduled for July 23, 2009 would be set aside for full discussion of the issues raised in the presentation. While there would be some time at the conclusion of this meeting for some initial questions, he asked the committee to end the meeting as scheduled by 7:30 pm. There were no objections from the committee members.

Agenda Item #2, Citizens to be Heard

Three individuals were signed up to speak.

Ms. Mary Q. Kelly spoke first. Ms. Kelly served on the SAWS Board of Trustees at the time the original Water Supply Fee was established. She stated that the creation of a separate Water Supply Fee grew out of the wish to clearly show ratepayers the cost impact of acquiring needed new water supplies. She acknowledged that the Water Supply Fee was originally established as a flat volumetric rate applicable to all classes of water customers, but she added that the Board was aware of the need to review and update the fee structure in the future, to include the possibility of creating a tiered fee structure.

Mr. Ben Youngblood spoke next. Mr. Youngblood serves on the Edwards Aquifer Authority Board of Directors and served twice as a member of the Rates Advisory Committee in 1997 and 2003. He also participated in the deliberations concerning the creation of the Water Supply Fee. Mr. Youngblood indicated that the Water Supply Fee rate structure was created to share the burden of financing the acquisition of new water supplies equally among all classes of customers. He recommended that the committee not abandon the equity concept in contemplating any changes to the Water Supply Fee structure. With respect to the Water Delivery rate structure, he stated that any rate set below the average cost of water would result in the customer who pays such a rate being subsidized by those higher use tiers who pay rates set at higher than the average cost of water.

Mr. Jerry Morrissey was the last speaker. He reiterated his support for a tiered Water Supply rate since people using more water create more demand for additional water supplies. He expressed disappointment that the consultant-recommended Water Supply rate structure, to be presented at this meeting, did not have enough of a cost differential

between the first and second tiers of the proposed two-tier structure. Mr. Morrissey added that he would support lower Water Supply rates for efficient water users.

Agenda Item #3, Staff Opening Remarks

Mr. Doug Evanson welcomed the committee and expressed appreciation for the time commitment of the members. He stated that at this meeting the committee would see preliminary concrete rate numbers for the first time. However, he added that there is no fully developed SAWS staff recommendation at this point, and that the consultant recommendations presented at this meeting are influenced primarily by cost of service factors and the committee's pricing objectives. He also acknowledged that there were objections to the consultants' recommended rates among those SAWS staff who wish more aggressive rates on higher consumption residential customers. Further staff input is expected which will take into account fully the committee's input as the process goes forward. Mr. Evanson indicated that the consultant recommendations are presented as they are in order to assure the committee of a fully transparent rate development process. Additionally, he stated that the consultant recommendations represent simply a starting point for deliberations, and that staff invites all viewpoints for use in consideration of the ultimate rate structure recommendations.

Mr. Crowley also welcomed the committee and attendees. He presented the slides given at Attachment 1 which showed the proposed schedule for the next four committee meetings and responded to Mr. Coronado's request for information from the June 4 meeting asking for a comparison of the number of employees in the water and wastewater functions between the City of Los Angeles and SAWS.

Agenda Item #4, Preliminary Rate Calculations – Water Delivery and Water Supply

Mr. Harold Smith, Raftelis Financial Consultants presented the briefing given at Attachment 2. This presentation described different rate structure options for water delivery and water supply. Mr. Smith emphasized that the alternatives presented merely represent a point of departure for future discussion .

Mr. Lendman followed up Mr. Smith's presentation by showing the two slides given at Attachment 3 which, in response to a request from Mr. Soules sent prior to the meeting, provided specific estimates of monthly residential charges for specific levels of consumption under the different rate scenarios presented by Mr. Smith.

After Mr. Lendman spoke, Mr. Kindle gave each committee member the opportunity to ask a question or make a statement concerning Mr. Smith's presentation.

- Mr. Soules stated that he would not be able to attend the July 23 meeting and asked to have the opportunity to speak further on the various rate options at the meeting scheduled after July 23 (August 6). Staff assured Mr. Soules that he would have that opportunity. In the meantime, Mr. Soules reiterated his concern over the fact that the Water Supply rate was intended to be a single volumetric

rate applied to all levels of consumption. He pointed again to the statement on the SAWS website which states that: "This fee directly funds the acquisition of new water supplies to reduce San Antonio dependence on the Edwards Aquifer. The rate is the same for all customers and all types of users."

- Mr. Evanson followed Mr. Soules by stating the wording on the SAWS website relative to the Water Supply Fee did not mean a promise to maintain the fee as a single volumetric rate indefinitely.
- Additionally, Mr. Soules indicated that the charges shown in Mr. Lendman's slides (Attachment 3) for the Conceptual Design option would be higher than similar rates assessed by Houston and Dallas which have higher income levels. Such charges, he added, when combined with SAWS' plan from the 2009 budget to increase rates in each year over the next five years, would strain local economic conditions. Mr. Soules urged that the committee factor in the potential economic impacts of their rate recommendations.
- Mr. Kindle pointed out that the grades shown on the Pricing Objectives Scorecard on slide #50 of Attachment 3 appeared to have been subjectively applied by the consultant. Mr. Smith agreed, but added that the grades reflect how the consultants applied the pricing objectives in developing their recommendations.
- Mr. Smith acknowledged that the changes in block cutoffs in the various alternatives sometimes created an anomaly whereby the customers at the upper end of a newly defined block had lesser increases in charges, if not reduced charges altogether, for higher levels of consumption within the newly defined block. Ms. Estrada suggested that future alternative rate scenarios seek to mitigate this effect. Mr. Kindle also expressed his concern for this situation. Mr. Smith agreed to address this in future alternatives.
- Mr. Arce stated that he was a SAWS employee at the time the Water Supply Fee was enacted and that he was unaware of any promise made then to keep the fee as a single volumetric rate indefinitely.
- Mr. Arce also asked how impact fees were factored into the rate study analysis. Mr. Crowley stated that the costs for growth-stimulated increased capacity for water and sewer are largely covered by impact fees, which involve a fee system separate from the committee's review altogether. He acknowledged that growth-related costs not fully covered by impact fees had to be absorbed by rate revenue.
- Additionally, Mr. Arce asked how the differential between Inside the City Limits (ICL) and Outside the City Limits (OCL) rates was addressed. Ms. Estrada also inquired about this differential. Mr. Crowley stated that the same differential used currently has been carried forward in the alternatives presented by the consultant.

- Mr. Townsend stated his wish to see a greater difference between the proposed tier one and tier two water supply rates in order to better encourage conservation. In response, Mr. Kindle suggested using the added revenue from the proposed irrigation rates in the consultants' recommended alternative as a possible way to reduce the tier one water supply rate further.
- Mr. Kindle asked why some parts of SAWS staff have objections to the consultants' recommended alternative. Mr. Evanson stated that the Conceptual Design alternative probably had more appeal because the rate structure in this alternative would encourage greater conservation. Mr. Crowley stated that the Conceptual Design rate structure is also more supportive of SAWS' recently updated Water Management Plan. Mr. Evanson added that it might be appropriate for the Conservation Department to make a presentation at the next meeting so that the committee could have the benefit of this perspective.
- Mr. Soules stated that the Conceptual Design alternative would penalize large property owners simply because they own large lots which require larger amounts of water to maintain. It is not correct, Mr. Soules stated, to characterize these water users as "water wasters". As he further stated, those General class customers who must use large amounts of water to operate their businesses are not considered "water wasters".
- Mr. Kindle asked if Bexar Met was going to benefit from the apparent lower Wholesale class rates included in the consultants' recommended rate structure. Mr. Crowley stated that water is only provided to Bexar Met under an emergency interconnect agreement basis, not on a Wholesale basis. The rates for the emergency interconnect arrangement with Bexar Met are governed under a separate City Council ordinance altogether and have no bearing on regular rates.
- Mr. Stephen Lazor was recognized by the chairperson and stated that the added irrigation revenue anticipated by the consultants' recommended alternative would likely be less than expected. He stated that large General Class customers who are assessed currently for assumed irrigation amounts would respond to the new rates by obtaining new engineering reports in order to justify lower amounts of assumed irrigation and, therefore, have to pay less. Mr. Crowley pointed out that the possibility of high drought surcharges being imposed once Stage IV of the Drought Plan is declared would more likely encourage such General Class customers to obtain separate irrigation meters to avoid altogether having to pay the drought surcharge on assumed irrigation consumption. Mr. Smith stated that the elasticity of higher water rates relative to consumption will need to be factored into the development of new alternatives that seek higher, conservation-oriented water rates.
- In preparation for the July 23 meeting, Mr. Kindle asked that the committee members send any further questions or comments to Lou Lendman by Thursday, July 16. This will allow time for staff to prepare materials addressing those

questions or comments for distribution to the committee members in advance of the July 23 meeting. Mr. Townsend asked that all committee members receive copies of any questions or comments sent by individual committee members before the July 23 meeting.

Agenda Item #5, Adjournment

There being no other business to conduct, Mr. Kindle adjourned the committee after Agenda Item #4.