

MINUTES

RATE ADVISORY COMMITTEE

SAWS Headquarters, 2800 U.S. Hwy 281 North, San Antonio, TX 78212

Customer Center Building (Tower II), Conference Room #145

Seventh Meeting, February 4, 2020, 5:30 p.m.

RAC Members Present:

Frances Gonzalez – Chair

Steven Wurgler (District 3)

Genevieve Trinidad (District 4)

Daniel Meza (District 5)

Mike Chapline

Patrick Garcia

Ramiro Cabrera (District 6)

Tamara Benavides

Steve Richmond

James Smyle (District 7)

Joseph Yakubik (District 9)

Andy Diaz

Victoria Keeler

Vance Weynand

RAC Members Absent:

Alex Birnel (District 1)

Velma Willoughby-Kemp (District 2)

Patricia Wallace (District 8)

Raine Tanner (District 10)

Stephanie Reyes

Vance Weynand

Raftelis Consultants:

Rick Giardina

Angie Flores

Justin Rasor

Kelli Epp (KLE Communications)

SAWS Staff Present:

Robert Puente, President/CEO

Jaime Castillo, Chief of Staff

Doug Evanson, Sr. Vice President/CFO

Mary Bailey, VP, Customer Experience

Donovan Burton, VP, Water Resources

Gavino Ramos, VP, Communications

Keith Martin, Corporate Counsel

Cecilia Velasquez, Controller

Phyllis Garcia, Treasurer

Karen Guz, Director, Conservation

Lou Lendman, Budget Manager

Michael Graef, Communications Manager

Benjamin Kidd, Sr. Financial Modeler

Patricia Arriola, Financial Analyst

Ben Benzaquen, Sr. Financial Analyst

Rob Walker, Financial Analyst

Vanessa Andrade, Financial Analyst

CALL TO ORDER BY CHAIRPERSON

Vice-Chair Joseph Yakubik called the meeting to order at 5:42pm. Chair Frances Gonzalez joined the meeting by phone.

DINNER & DELIBERATION

Joseph Yakubik opened the discussion by highlighting the decision points to be addressed at the meeting and acknowledged San Antonio City Councilman John Courage (District 9) who was in the audience.

Joseph Yakubik said that SAWS staff has the rate manuals from the American Water Works Association (AWWA) and Water Environment Federation (WEF) available for any RAC member who wanted to access them.

Joseph Yakubik said he has asked for the cost of service analysis report discussed at a previous meeting. Rick Giardina stated that the full cost of service analysis report will be part of the Rate Study final report and that the RAC will be provided a draft copy of cost of service analysis portion of the final report to review prior to its finalization.

Mike Chapline said he agreed with information Mary Bailey provided in an email regarding cost of service and that any deviation from cost of service should be defensible.

Ramiro Cabrera said that one class should not subsidize another.

Victoria Keeler said she is interested in the discussion about the possibility of separating out into a new class multi-family customers from the General Class and the pros and cons of doing so.

Frances Gonzalez said she wants to echo Victoria Keeler's comment that she is interested in hearing staff's perspective on separating out a new multi-family class. She also asked Mike Chapline to elaborate on his comment regarding defensibility of any deviation from the cost of service in a new rate structure.

Mike Chapline repeated that every deviation should be defensible and that the difference between the cost of service for a given rate class and the associated rates revenue should be at or near zero unless there is a defensible reason for a difference.

Frances Gonzalez suggested that there may be a valid reason to allow for a variance from cost of service when the committee considers how the cost of service structures line up with the RAC's values.

Mike Chapline said he believes one class should not subsidize another unless there is a compelling, defensible reason. Frances Gonzalez said she would like to take a closer look at the definition of subsidy in this context. Ramiro Cabrera said he believes that rate structures may take into account other pricing objectives prioritized by the committee beyond cost of service.

Patrick Garcia said that the committee is not familiar with the substantive rules of the Texas Public Utility Commission (PUC) and that it may be helpful to have more knowledge of the way in which the PUC evaluates utility rate structures. Joseph Yakubik said the upcoming presentation does include some information related to those rules, but that if other questions arise, the committee should request additional information. Patrick Garcia continued by saying that the organization he represents (San Antonio Manufacturing Association or SAMA) has three principles when evaluating utility rate structures including that one customer class should not subsidize another class.

CITIZENS TO BE HEARD

Four people signed up to speak.

Cosima Colvin – She lives in Beacon Hill neighborhood. She owns a multi-family property and lives in one of the units. She compared metered water use and her water bill at the time she bought the property to her current water bill. The amount of her bill over the years has increased despite less water use. She said her tenants are hardworking people, living paycheck to paycheck. She is forced to raise rents due to rising utility costs and property taxes. She looked into getting a leak detector, but she does not qualify for the rebate because she is a General Class customer.

Jack Elder – He lives in District 3. He came to show his water bill which he considers too high for a very low water usage amount. He said that one day he hopes his usage represents the average use of San Antonio.

Meredith McGuire – She represents the Sierra Club and she provided a handout for the committee. She said that SAWS has a history of transferring the financial burden from businesses to residential rate payers. She said the lifeline water rate instituted from the last rate study did not help citizens much. Families that were too large to stay below the threshold were penalized. Between 2009 and 2019, she claims, the General Class had its volumetric rate decreased twice. She urged the committee to change the basis for assessing water supply fee rates from the method currently used.

John Courage – He is the City Councilman for San Antonio District 9. He noted an item on the agenda regarding the appropriate method for allocating water supply cost. He noted that SAWS is planning new automated meters soon. He said the question is when will the new meters be implemented and what will be the impact when customers have the ability to measure hourly consumption of water. When CPS Energy installed their automated meter infrastructure, many people's bills increased because of more accurate readings. If SAWS is able to install automated meter infrastructure within the next five years, how does that impact the RAC's work and decisions? He said he believes this is a key issue and any new rate structure should take it into consideration. If it happens after five years, it may be an important tool to inform development of the next rate structure.

MISSION STATEMENT AND GROUND RULES

Joseph Yakubik reviewed the mission statement and ground rules.

He then moved to consideration of the minutes from the January 14 RAC meeting.

Frances Gonzalez said she had a question about the minutes on page 3. There is a comment from Raine Tanner. Should the sentence include that SAWS would own the conservation easements after the transfer of the program? Mary Bailey said if SAWS buys a conservation easement, it will own the conservation easement. It will become an asset of SAWS.

James Smyle thanked staff for adding the Parking Lot information in response to his questions sent to staff in December.

Patrick Garcia asked if the answers are current with Parking Lot questions. Lou Lendman said there are two pending items listed in the matrix.

Tamara Benavides motioned to approve the minutes and James Smyle seconded the motion. The minutes were unanimously approved.

MEETING OBJECTIVES

Mary Bailey highlighted the meeting objectives and items to be decided by the committee including the key decisions needed related to water cost of service. She reviewed criteria the committee will use to make these decisions including the ranked pricing objectives.

Mike Chapline noted that the RAC ranked cost of service as a very important objective.

WATER COST OF SERVICE – KEY DECISIONS

Mary Bailey reviewed the pricing objective “must haves” which are financial sufficiency and legality. She reviewed the rate standards provided by the AWWA M1 Manual and the Texas Water Code. She reviewed the rate options for Outside City Limits (OCL) customers as provided by the M1 Manual.

Joseph Yakubik said he reviewed Mary Bailey’s presentation to at the SAWS Board meeting held on January 14. In it, she had noted the growth of the OCL customer base. He said if that area is where the growth is, should not those customers pay higher rates for service to areas that are away from the central city? Mary Bailey said OCL customers peak their usage a little more than ICL customers.

Ramiro Cabrera stated his belief that the additional water supply developed with the water supply fee resources is going to serve OCL growth. Both the delivery cost and the supply costs to serve the OCL are higher. Mary Bailey said there is growth within the city as well, and that growth is not entirely in the OCL. Also, there are impact fees assessed to new development to reimburse the system for the extension of infrastructure into the OCL. It is important to

understand that SAWS went to get Vista Ridge to supply water for the customers of today as well as for those coming tomorrow. Those customers of tomorrow are not in place yet, but the costs for Vista Ridge have to be allocated today. As the customer base grows, those costs will be spread out even further.

Mike Chapline said it gets back to cost of service. He stated his belief that if it costs more to provide services to the OCL, it is allocated accordingly in the cost of service model.

Joseph Yakubik said that a SAWS customer with a San Antonio mailing address does not necessarily mean the customer is ICL or even OCL. There are franchise agreements with certain suburban cities and those residents pay ICL rates. Mary Bailey said SAWS does not have franchise agreements with every suburban city and not every agreement requires ICL rates. It can vary.

Mary Bailey said the question to consider is how should we allocate those costs? She reviewed the history of the allocation of costs associated with the water supply fee. Up until 2015, water supply costs had been allocated at base. In 2015, the rate consultant used at the time changed the water supply allocation to one based on peaking factors.

James Smyle said he agrees with the concern that there is no differential for water supply between OCL and ICL. He stated his view that ICL customers for example are not driving the need for water from Vista Ridge. He said ratepayers have to deal with high Vista Ridge water costs that need to be allocated. Allocating Vista Ridge costs across the board using the base usage assumption impacts water affordability for lower use customers and lower income households. Mary Bailey said OCL customers will be paying more for the Vista Ridge water as they demand more. The committee can address the Vista Ridge cost issue in the rate design process. She said we need to be careful about proposing different rates for customers in place before Vista Ridge implementation vs. post-Vista Ridge.

Ramiro Cabrera agreed that the rate design process could address that.

Mike Chapline stated that the OCL vs. ICL water cost differential is currently addressed with higher water delivery rates for OCL customers. He said it sounds like SAWS is already recovering higher costs for OCL water service. Mary Bailey said yes, but all ICL and OCL water customers still have to begin paying for Vista Ridge water this year.

Joseph Yakubik asked if there are any water supply sources that will be cancelled in the future. Mary Bailey said there is a contract with the Guadalupe-Blanco River Authority (GBRA) for Canyon Lake water which we anticipate will be terminated. There is also an existing contract for Trinity Aquifer water inherited through BexarMet that will expire in 2027 which SAWS needs to evaluate for possible renewal. Donovan Burton said that the water supplied under the Canyon Regional Water Authority contract will start to diminish over time based on contract terms.

Rick Giardina stated that use of the base-only cost allocation method for water supply was most commonly used by water utilities in rate design. Joseph Yakubik asked for clarification on what

quantifies “most commonly” – how many is most? Rick Giardina said in his experience most utilities allocate supply costs based on base.

Mary Bailey then presented data on the allocation of water supply costs by class.

Patrick Garcia asked if the revenue is based on tiered rates. Mary Bailey said that the revenue for this allocation comes from water supply fee tiered rates only. In addition to paying water delivery rates, Residential, General Class, Wholesale and Irrigation Class customers pay water supply fee rates which vary and with each having different usage tiers that correspond to the water delivery rate tiers for each class.

Joseph Yakubik said his analysis of the water supply base-only vs. base/max day/max hour allocation assumption issue hinges on which choice yields the most affordable rates. He points out that the base/max day/max hour assumption yields the most affordable solution. Mary Bailey reiterated that SAWS staff believes the base-only allocation assumption is most legally defensible for the water supply cost allocation

Mike Chapline said if base-only is more defensible, can an adjustment be made elsewhere during rate design to address the difference between irrigation cost of service and revenue received? Mary Bailey said yes, we can make adjustments to address that issue and others.

James Smyle questioned the premise that peak water usage does not drive water supply cost. He said, if the base-only allocation assumption is selected, he believes that decision shifts over \$15.5 million of costs from General Class and recycled customers to residential and irrigation customers. If we go with base/max day/max hour the shift of costs drops to \$10 million and it is more consistent with the affordability pricing objective.

Mary Bailey stated that staff believes that the cost allocation assumption option that most closely aligns with the SAWS method for acquiring water should be selected. She said that staff is recommending that water delivery costs be allocated with peaking costs in mind since water delivery costs include the maintenance of water pumping, transmission and distribution infrastructure are directly affected by peak usage. With regard to water supply costs, staff recommends determining cost allocations by base usage only since those costs pay for acquisition of supplies without regard to peak usage considerations. She emphasized that selection of the cost allocation basis must be defensible to the Texas PUC if there is a challenge and staff feels that their recommendations for the basis for cost allocation selection are the most justifiable in the event of a challenge.

Mary Bailey then reviewed the recycled water system and history of rates. She showed recycled rates compared to potable rates by class.

Joseph Yakubik said he is a low volume user and his average cost is much higher per 1,000 gallons when you factor in the fixed fees. Mary Bailey agreed. Doug Evanson said, yes, the variable cost of water is relatively low, but the most significant costs are in the infrastructure and delivery of water which is why the fixed fees are relatively high.

Joseph Yakubik noted as an example that Toyota is paying \$1.65 per 1,000 gallons and other customers are paying the rates indicated. So, when equity is considered, consideration must be given to identifying those who are the recycled customers and what they are paying relative to other classes of customers. Doug Evanson referred to comments by Vance Weynand in the previous meeting that if the gap in price between recycled water and potable water closes too much, companies are less likely to use it.

Mike Chapline asked about the cost of service. Mary Bailey said recycled customers are underpaying cost of service by roughly \$5.6M. To match cost of service, recycled rates would need to increase 178%.

Mary Bailey reviewed recycled water usage by customer type: Education, Federal/Local Government, Golf Course, Healthcare, Manufacturing, Military and Other. She then reviewed the recycled water rate adjustment approved for 2020.

Tamera Benavides asked what is included in “other.” Mary said it includes miscellaneous companies like USAA and other smaller companies.

Mary Bailey then presented options for reallocating the shortfall between recycled water lower revenues and higher costs.

James Smyle said recycled water rates clearly need to go up. The question is how much it should go up without adversely impacting the use of recycled water. He asked if SAWS has considered a survey of these customers to understand their price point threshold? He said it seems that the water is so cheap, there is no incentive to conserve.

Ramiro Cabrera added that he believes the affordability pricing objective applies to everyone, including businesses.

Mary Bailey reviewed the SAWS staff recommendation related to recycled water which is to reallocate recycled water shortfall to residential and irrigation class based on irrigation use in each class.

Mike Chapline said he agrees with reallocation and asked if there is an alternative to expand that first tier to make it more affordable and to ensure that those low volume users do not bear too much of this cost.

Steve Wurgler reviewed the rationale and questioned whether recycled water frees up potable water to be used for irrigation.

Daniel Meza asked if there is data that shows the rates of recycled water in other cities. Rick Giardina said the justification for charging less than the cost of service is that recycled water customers free up potable water and reduce the demand for new water sources.

Joseph Yakubik said this is what we did with Vista Ridge. We have more water than we need at a high cost, yet SAWS is still subsidizing recycled water. He said he does not believe the logic for this is consistent.

As Mary Bailey started to summarize all the cost allocation alternatives, Victoria Keeler asked about the cost of service impact from establishing a separate multi-family class. Mary Bailey stated that on its own, using 2020 revenue projections, a separate multi-family class would generate 7.7% less revenue than required to support the 2020 cost of service, thereby requiring a higher rate increase for multi-family alone than for the rest of the General Class.

Joseph Yakubik said the staff recommendations assume the allocation of water supply cost 100% to base-usage only. Mary Bailey proceeded to review alternative cost of service allocations under different assumptions.

Ramiro Cabrera suggested that all of the recycled water cost shortfall could be allocated to other classes and not just to irrigation. It should be fair and equitable.

Rick Giardina pointed out that many of the adjustments being discussed can be addressed in the rate design stage of the Rate Study which is where the RAC can have its most significant impact on the overall process. Before that can happen, however, we have to settle upon the cost of service assumptions.

Daniel Meza asked about the timing of the implementation of rates coming from the rate design stage. Mary Bailey said the RAC is making recommendations for a new rate structure to be implemented in 2021. As Rick Giardina stated, rate design is where the RAC can have the biggest impact on addressing the pricing objective priorities such as affordability.

Joseph Yakubik asked whether the RAC had to make a decision about the water delivery and water supply costs of service at this meeting, or if it can wait until a future meeting. Mary Bailey said a decision can wait, if necessary, but the committee has a lot more work to do.

Ramiro Cabrera stated if the committee is going to address affordability in rate design, he would prefer the differentials in the underlying costs of services be spread as evenly as possible.

Joseph Yakubik said Frances Gonzalez proposed via text message to him that a subcommittee of the RAC meet to review the alternatives separately. Mary Bailey said if that is what the committee chooses to do, they must meet this week and there must not be a quorum of the overall RAC present. Joseph Yakubik made a motion to form a sub-committee to put forward four options. Victoria Keeler seconded. The committee voted for it, with the exception of Mike Chapline who said he thinks SAWS did that work already, and this subcommittee's work would fall outside the bounds of the RAC's charge.

James Smyle then asked Rick Giardina what recycled water costs are in proportion to what potable water costs are in other cities. Rick Giardina said recycled water costs are typically about 60% to 75% of potable water costs.

Joseph Yakubik asked if the vote on creation of the subcommittee was finalized. Mary Bailey said the previous vote was premature since it was made before comments from committee members were permitted and that the committee should vote again on the motion.

Patrick Garcia asked if the back-up slides that staff presented can be made available and Mary Bailey said yes.

Tamara Benavides asked for clarification on the recycled water issue. Mary Bailey said the RAC can make a recommendation to the SAWS Board that recycled rates be increased gradually by some percentage every year until we reach a target cost recovery percentage goal, or that SAWS staff survey recycled customers to understand their price point increase tolerance. Tamara Benavides then asked Mary Bailey to explain the next step in rate design.

Joseph Yakubik asked for another vote on the creation of the subcommittee. James Smyle said he would agree with Mike Chapline's previously stated concern if SAWS staff could quickly prepare analyses from multiple RAC-desired allocation scenarios; if time will be needed to prepare the analyses, then he concurs with creating a subcommittee to review alternatives. Mike Chapline said he thinks staff has already done the work of preparing alternatives for the RAC to consider, but he would be in favor of creating the subcommittee. Mary Bailey asked if staff could have a list of subcommittee member names identified before the meeting ends. Joseph Yakubik said that no, Frances Gonzalez wants the subcommittee invitation extended via email to the entire RAC because there were so many people not present at this meeting. Mary Bailey asked if there will be a minimum number of participants. Joseph Yakubik said the number target is at least 4 volunteers. Andy Diaz asked what areas these people will represent. Joseph Yakubik said the goal is 4 to 5 volunteers. Victoria Keeler clarified that the subcommittee should summarize the alternatives to 2 to 3 for the entire RAC to consider.

Joseph Yakubik made another motion and Ramiro Cabrera seconded. Nine members voted in favor, which is a majority of those present. The motion passed to create a sub-committee.

Mary Bailey then briefly presented information relative to breaking out the multi-family class from the General Class. SAWS staff recommended that the RAC continue to model the cost of service for multi-family customers separate from the General Class as well as modelling the General Class retaining multi-family customers to allow for evaluation of whether to break out multi-family during the rate design process. She reviewed multi-family vs. general cost of service and rates per 1,000 gallons.

Mary Bailey reviewed the topics for the upcoming meetings on February 18 and March 17. She asked the committee to think about what elements they want to see addressed in the rate design process. Staff and consultants will create some alternatives that address those issues. She also said the committee would be asked if more should be done in the affordability program, and if so, from where the resources for additional affordability assistance should be obtained.

STATUS OF FOLLOW UP ITEMS

Joseph Yakubik asked if there are any pending items that should be addressed. None were identified.

ADJOURNMENT

Joseph Yakubik moved for adjournment at 8:09 p.m. and the committee approved the motion.