

## UTILITY ADVISORY COMMITTEE



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**Meeting Highlights -- Tuesday, March 10, 2009**

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Committee members Present: Sharon Schilling; Laura Whitehouse; Deena Monteiro; Sarah Valasquez; Allan Schroeder; and John McCubbin

**1. Welcome**

Sharon Schilling, Utility Advisory Committee (UAC) Chair opened the meeting, welcomed everyone and informed the group the Tom Gould would be making a presentation and that Susan Abbott had decided to no longer participate on the UAC.

Sarah Rubin, the Center for Collaborative Policy (CCP) facilitator, walked the group through the meeting agenda.

**2. Review February 10, 2009 Meeting Highlights**

Ms. Schilling asked the group to review the February 10th meeting highlights. Other than one spelling correction the group did not have any comments on the meeting highlights.

**3. Recap of Action Items**

Christal Love and Ms. Rubin, CCP, walked the group through the status of the action items.

Sarah Velasquez and Deena Monteiro both identified action requests that had been mistakenly left off of the list. CCP committed to adding both actions to the action item request report.

Laura Whitehouse brought up the idea to bring Nora Laikam, City of Fresno, out to Council Member's in-district meetings to share information about what services the Department of Public Utilities (DPU) can provide. Ms. Schilling suggested the group send each Council Member and Mayor a hard copy of the meeting summary with a cover letter explaining the purpose of the meeting. The UAC members were willing to call their member and inform them of the group's progress. CCP agreed to add Ms. Laikam's contact information to action item list to help with this process.

Jackie Grazier, JSA, passed out a list of public service announcements (PSAs) that had been run as of the March 10th meeting. She explained that JSA had been running the PSAs a week out from the meeting. There was a question about the purpose of the PSAs. Ann Kloose, City of Fresno, explained that they are to raise awareness and invite people to come to UAC meetings.

Ms. Whitehouse asked if the Fresno Bee had ever done an in-depth story on the UAC. Ms. Kloose replied that the initial commission received a lot of press.

Ms. Love provided the group with a March 12th facility tour update, asked for and received a head count.

Ms. Whitehouse gave an overview of what happened at the water tour the previous Thursday. She explained what she did and how much she learned while on the tour. She stressed that all UAC members should take the tours. She stated that she had no idea that there were so many areas in town being treated for contaminated groundwater. She felt the tour was very worthwhile.

Ms. Love committed to updating the MS Project Gantt chart.

#### **4. Process with Metered Rates Cont.**

Tom Gould, Consultant from HDR, presented a water rate study he had conducted for the City of Fresno. Ms. Rubin asked the UAC members to introduce themselves. Mr. Gould said he preferred to go through the PowerPoint handout and take questions as they come up.

Mr. Gould explained that this presentation is part of a larger study. He said that water rates were designed to keep the DPU revenue neutral.

Ms. Velasquez asked what the term rate neutral meant. Mr. Gould explained that the total amount of revenue should be collected as was collected under the flat rate structure.

Mr. Gould walked the group through his PowerPoint presentation:

#### ***Slide 4: Rate Design Criteria & Considerations***

Mr. Gould explained that the rate design criteria came from rate manuals. He implied that the City may not necessarily achieve all of the criteria, and said that tonight the group was going to discuss how the criterions are balanced.

John Watkins, City of Fresno asked if there any criteria priorities. Mr. Gould explained that HDR did not rank the criteria, but in general the first two criteria carry a little more weight.

#### ***Slide 5 Conceptual Overview of Variable Charge Structures***

Mr. Gould explained that with the uniform rate the cost per unit of consumption does not increase or decrease with additional units of consumption. He explained that a declining block rate structure is rarely used these days. A more common rate structure is the inverted block rate structure. He explained that under a seasonal rate structure, customers would have a different winter charge rate vs. a summer charge rate. He explained that he was going to focus on a uniform rate and inverted block rate structure in this presentation.

Ms. Monteiro brought up that at the February UAC meeting DPU staff suggested using uniform rates for the first year and then moving to an inverted block structure and asked Mr. Gould what he thought of that idea.

Mr. Gould agreed with the concept of moving from a uniform rate structure to an inverted block rate structure. He said the challenge will be for the City to estimate how much residents will consume.

Ms. Monteiro asked if one year would be enough time to implement the uniform rate structure before moving to the inverted block rate structure. Mr. Gould replied that he was not sure but thought that two years would provide enough time.

Mr. Gould said there would be a large enough sample size in 2010 to move into an inverted rate structure after 2 years. He said it depended on how many years it takes to get the meters installed.

Ms. Monteiro asked if there were arguments to staying on a uniform rate structure as opposed to switching to an inverted rate structure. Mr. Gould replied that there could be a perception that a uniform rate was not conservative enough.

### ***Slide 6 2007 California-Nevada AWWA Rate Survey***

Mr. Gould described the rate survey done by AWWA, and said it gave a sense of where the industry is in California.

### ***Slide 7 Defining a Conservation-Based Rate Structure***

Mr. Gould explained the California Urban Water Council Best Management Practices (BMPs). He explained that to be defined as a conservation rates structure, it must collect 70% of revenue from the variable charge portion of the rate.

Henry O'Brian, City of Fresno, said in order to work with Bureau of Reclamation the City needed to adopt the BMPs. Robert Andersen, City of Fresno, wondered if Bureau of Reclamation did not require rates more than 10% in order to meet 70%

### ***Slide 9 City's Present Rate Structure***

Mr. Gould asked the group to focus on the commercial customers; he said that the City is headed towards a rate structure similar to what you are seeing in commercial rates. He explained that the difference in the charge is due to the difference in the size of the meter.

### ***Slide 10 Development of Proposed Rate Options***

Mr. Gould explained the first process is to estimate the rate consumption for each resident.

### ***Slide 11 Estimating Residential Consumption***

Mr. Gould explained the box on left side estimated residential consumption and average single family amount. Mr. Gould said that he worked with the City to calculate the estimated consumption amount. For the right hand box, he took total usage and divided it by number of residents. The outcome of this calculation is that the average family home uses 25 hundred cubic feet (ccf) per month.

Ms. Monteiro asked if it was possible to know what size household 25 ccf serves. Mr. Gould replied that on average 25 ccf would serve a 3 person home. Mr. McCubbin asked how important family size was compared to lot size. Mr. Gould replied that lot size and outdoor use have a greater impact on water usage than family size.

Mr. Schroeder asked if 25 ccf was what HDR based their rate structure calculations on. Mr. Gould replied that it was. Mr. Schroeder asked if Mr. Gould knew what the loss of revenue will be with each decline of CCF. Mr. Gould replied that he didn't but we could do that calculation.

### ***Slide 13 Development of Rate Options***

Mr. Gould presented the development of the different rate options. He said the uniform rate was the best structure to use during the transition period.

### **Break**

The group took a 5 minute break.

### ***Slide 13 Development of Rate Options (cont)***

Mr. McCubbin asked that if the big determinant of water use is lot size, are the condo dwellers going to subsidize the residents with large lots. Mr. Gould replied that residents with larger lots are going to pay more on the volumetric use structure than someone on a smaller lot.

Ms. Rubin asked if the group wanted to continue in the same question and answer format; they said they did.

### ***Slide 14 Option 1- Uniform Rate Structure***

First option: uniform rate structure. Under this rate structure, fixed monthly charge, and the 61 cents per ccf charge. Flat rate plus volumetric rate.

### ***Slide 15 Option 1 Bill Comparison***

Mr. Gould said that this side compares the present bill against the proposed bill. He explained that the cross over point on this graph is at 25 ccf (the bill amount would be \$28.56). If the resident used less than 25 ccf their bill would be less, if they used more, their bill will be more than \$28.56.

### ***Slide 16: Option 2 two-block***

Mr. Gould illustrated that the volumetric charge is split into two blocks: approximately 50% of consumption occurring in the first block, 50% in the second block.

### ***Slide 17 Option 2 Bill Comparison***

Mr. Gould explained that under this rate option, the structure pushes revenue generation towards high use customers, less so on low use consumers.

### ***Slide 18 Option 3 Three Block***

Mr. Gould explained that the three block option was a lot like option 2, but the consumption tiers are split into three parts: from 0-4, 4-10, 10 or more.

### ***Slide 20: pro's and con's of Option 1***

Mr. Gould presented the following Pros:

- Customers may view as a fairest way to charge for water
- Easiest for City to administer
- Easiest for customers to understand
- More revenue stability for planning purposes

Mr. Gould presented the following Cons:

- Of the options resented, lowest incentive to conserve water usage
- May not be perceived by some as conservation based

### ***Slide 21: pro's and con's of option 2***

Mr. Gould presented the following Pros:

- Recognized indoor vs. outdoor use
- Greater incentive to conserve water
- Outdoor use more discretionary than indoor use
- Drought surcharges can be developed around outdoor use

Mr. Gould presented the following Cons:

- More complicated structure
- More difficult for customers to understand, but not overly complex
- Less revenue stability than uniform rate structure

Ms. Monteiro asked how to distinguish between indoor and outdoor use. Mr. Gould replied that 0-10 is usually indoor use (3 person household) and 10 and up adds in outdoor use.

### ***Slide 22: pro's and con's of option 3***

Mr. Gould presented the following Pros:

- Similar to the two tier structure
- Identifies essential needs block for lifeline water service
- Flexibility to adjust top tiers for surcharges and not impact low use customers

Mr. Gould presented the following Cons:

- Most complicated rate structure
- Less revenue stability than uniform rate structure

Ms. Whitehouse commented that the numbers were not significantly different. Mr. Gould explained that they purposely kept blocks narrow so people don't see huge differences in

their water bills right away. Mr. Andersen explained the City is trying to be conservative because they do not know how much water people will use with water meters.

***Slide 23 Ability to Transition from Uniform to Tiered Rates***

Mr. Gould explained that this slide talks about the ability to transition from uniform to tiered rates.

***Slide 25 Purpose of Drought Surcharges***

Mr. Gould explained that the drought surcharge would go into place only when a drought is declared. The drought stages are defined by the Urban Water Management Plan. He said there is a certain amount of conservation that will occur on a voluntary basis. He did not assume the only tool to encourage conservation would be the surcharges.

***Slide 26 How do Customer's Respond to Price***

Mr. Gould explained that as price goes down people conserve less, as price goes up people conserve more. However, water is price inelastic. Water in Fresno is relatively cheap and there no substitute to water. He said that price is not always the driving force of consumption, but that outdoor use is sensitive to price.

***Slide 27 Overview of Drought Surcharges***

Mr. Gould explained that drought surcharges are not meant to meet all reduction needs. The challenge for the City is to figure out how many people will respond to price changes and how many will respond to voluntary reductions.

***Slide 28 Residential Drought Surcharges***

Mr. Gould explained that the fixed charges will still apply and will stay the same. The volumetric rate changes. As the drought stage goes up, the rate changes.

Ms. Monteiro asked how the City plans to easily transition people into metered rates if they are throwing drought surcharges in as well. Mr. Gould replied that a good policy question for the City to consider is whether to wait until all meters are installed until they apply the drought surcharges.

***Seeking Consensus***

As time remaining was short Ms Rubin checked in with the UAC members to see if there was consensus on an approach for the water meter rate recommendation. Two members had proposals, and there were many comments and questions.

Proposals

One Step Approach	Two Step Approach
1) 1/1/2010 change from the current flat rate structure to structure ultimately desired (tiered)	2) from 1/1/2010 through 2013: uniform rate structure 3) December 2013 transition to a multi-block structure (2 or 3 tier)

	4) Start drought surcharge policy January 1, 2010 for both flat rate and metered rate residents.
	City should collect data on metered residents beginning 1/1/2010.

Questions and Comments:

- Mr. Schroeder asked if the City moves from a uniform rate to a tiered rate would it have to go back through the 218 process? Can it adopt a multi year rate plan without going back through the 218 process?
- Mr. McCubbin stated that he did not think it would be good to go from a flat rate to a uniform rate to a tiered rate. The City should change from its current structure to a new rate structure without multiple changes by Jan 1 2010.
- Ms. Monteiro replied that Mr. McCubbin's proposal did not allow time to educate customers and would not be fair.
- Ms. Whitehouse stated that she had been in Fresno for 19 years, and since arriving there had been talk about water meters. She said that she thought a lot of people are lackadaisical because they can be.
- Mr. Schroeder agreed with Mr. McCubbin's approach; and agreed with Ms. Monteiro because of equity concerns but felt there should be three tiers rather than two. He said he would like to see Mr. McCubbin's proposal recommended but did not think it would be equitable.
- Mr. Watkins added that it would be difficult for the City staff that set the water rate billing system to go straight to a tiered rate structure.
- Ms. Kloose said she admired Mr. McCubbins proposed system, but the problem is that it would be very risky and hard to maintain revenue neutrality.
- Ms. Valasquez wondered why the group was trying to get consensus before hearing the City's recommendation.
- Mr. Andersen replied that last month staff disclosed that they wanted to go to uniform rate initial and then move to tiered rate structure after at least 1 year.

Ms. Rubin sought consensus on the slightly revised approach. 4 members were generally in favor of the 2 step approach; provided it use a 3 tier structure.

- Ms. Valasquez wanted more detail and discussion before a more formal decision would be made.
- Mr. McCubbin said there was too much detail that still needed to be discussed.

Ms. Rubin explained that as time was running out the group needed to discuss taking the issue up further at a subsequent meeting. The group agreed to meet in two weeks, Tuesday, March 24, 2009 from 6:00 to 9:00 pm.

The group then focused on additional tasks for the next meeting.

- Mr. Gould: Numbers for the new suggested drought rate structure (for metered and non metered residents).
- DPU: Timeline on what the City expects as far as revenue / data information and therefore when subsequent 218s will be needed.

There were no public comments.

**Additional Attendees:**

Henry McLaughlin, City of Fresno

Ann Kloose, City of Fresno

Robert Andersen, City of Fresno

John Roberts, City of Fresno

Jackie Grazier, JSA

Sarah Rubin, CCP

Christal Love, CCP