



Water Department

Water Commission
7:00 p.m. - January 4, 2016
Council Chambers
809 Center Street, Santa Cruz

Minutes of a Water Commission Meeting

Call to Order: Chair D. Baskin called the meeting to order at 7:02 p.m. in the City Council Chambers.

Roll Call

Present: D. Baskin, D. Schwarm, A. Schiffrin, D. Stearns, W. Wadlow, and L. Wilshusen, G. Mead

Absent: None

Staff: R. Menard, Water Director; H. Luckenbach, Deputy Director/Engineering Manager; T. Goddard, Administrative Services Manager; Dave Culver, Chief Financial Officer; A. Poncato, Administrative Assistant III

Others: There was one member of the public.

Presentation: There were no presentations.

Statement of Disqualification: There were no statements of disqualification.

Oral Communications: There were no oral communications.

Announcements: Ms. Menard introduces Mr. Culver, temporary Chief Financial Officer, to Commission.

Consent Agenda

1. City Council Actions Affecting Water
2. Approve the December 7, 2015, Water Commission Minutes

Commissioner Schiffrin moved the consent agenda. Commissioner Mead seconded.

VOICE VOTE: MOTION CARRIED

AYES: All.

NOES: None

Items removed from Consent Agenda

3. Urban Water Management Plan Update and discussion of this item was deferred until later in the agenda.

General Business

1. Cost of Service Analysis and Rate Structure Design – Presentation and Discussion

Ms. Menard introduced Sanjay Gaur of Raftelis Consulting to provide a presentation on the cost of service analysis and the work done to date on rate structure design.

Commission Questions/Comments:

In prior discussions related to the San Juan Capistrano case, we were told that rates had to be based on the cost of service and that tiered rates to incentivize conservation could not be used.

Does what has been presented tonight meet the cost of service test?

- Response: Yes. The San Juan Capistrano case doesn't prohibit tiered rates. It requires that the rate charged in each case reflect the actual cost of service. In addition, you could justify steeply inclining block rates that would incentivize conservation by, for example, placing all the costs for a supplemental supply in the highest tier.

How aggressive can we get?

- We cannot establish tiered rates under the current legal framework that are not based on what it costs to deliver the level of services in that. However, if you wanted to be really aggressive, in theory at least, you could set a penalty rate and this rate could move around based on the drought condition.

Will the decision about what is going to be included in the Capital Improvement Program have any impact on the cost of service for various customer classes in terms of changing the methodology for how that is determined, or can the same analysis that is being done for one set of revenue requirements be the same for another? In other words, once we have a methodology for the cost of service it won't matter what the revenue requirements are. Different revenue requirement levels would affect what the cost is but not the way it's going to be distributed?

- Yes, that is exactly what the idea is.

One of the uncertainties is the cost of a supplemental supply, given that the cost ranges for new sources are extreme. Would the same methodology apply to determining how the cost would be distributed regardless of which supply project or combination of supply projects is chosen?

- This cost of service analysis is intended to be used for rate setting for the coming five years and after five years, we should redo the analysis and use that updated analysis to allocate costs based on those results. During the next five years, we will be doing mostly technical study and project development and will not be constructing a new water supply project. So, by the time we update the cost of service analysis in 5 years, we will have a much better feel for what the cost of a new supply project will be, which should help us forecast the revenue requirements more accurately.

Where are soft costs like studies and habitat conservation allocated?

- These costs would be included in Base Delivery category.

How are you incorporating the analysis that David Mitchell did for us to determine whether the impact of rate increases is on lessening sales?

- We have not reached that point yet, but when we get there we will look into his study and take his information into account.

Can you describe maximum day and maximum hour, please? The maximum hour seems very high in terms of the percentage.

- There are different assets that are designed to meet certain system performance criteria. Max hour, for example, is often in the morning when most people are using water. Max day, for example, includes the capacity of the treatment plant to produce all of the water that may be needed in a given day. These are things that drive the sizing of the infrastructure and so the characteristics of your systems in terms of peaking in particular, both diurnal and seasonal peaking, determine how big you have to build things. Infrastructure or facilities that have to be bigger to meet max hour or max day are allocated to customers whose demands need to be met under those circumstances.

Can you explain the difference between transmission and distribution?

- A transmission line is a backbone piece of infrastructure like the Ocean Street trunk main. A distribution line is like the piece of pipe that is in front of your home. Distribution facilities are typically sized for both domestic consumption as well as fire flows. Transmission facilities are typically designed to move a large amount of water to get it to different parts of the system.

So you are taking all the assets in the system and assigning them to one of these categories?

- Yes and sometimes an asset can be divided into multiple categories as some assets are designed for both peak and base. A treatment plant is a good example of this: A portion of a treatment plant's capacity is used for meeting base demand, and a portion of the plant is used to meet peak demand. If demand were flat, you wouldn't need to size the plant for peaking, therefore, the portion of the cost of the facility associated with peaking needs to be borne by those customers whose use peaks.

How does this relate to allocation of cost between customers and classes?

- The customer classes that peak a lot should pay more while those that do not peak as much should pay less.

Can you talk about fire protection costs in terms of distribution?

- Distribution system pipes are sized to distribute water at flows needed for firefighting. Pipes are sized to move a lot of water to hydrants very quickly and very seldom do the domestic services using any distribution line use the full capacity of that line.

So the size of the line is determined by fire flow?

- Yes, almost entirely.

On the O&M Allocation, you have water supply listed separately but I don't see it listed separately on the Asset Allocation.

- The water supply on the asset allocation spreadsheet is within the categories called reservoir and collection.

Is that analysis going to change when we put in newer supplies online? For example, cost allocations for upgrades to the North Coast pipeline. We are going to have new supplies brought on that will be high costs attached it.

- The North Coast pipeline costs are included in the collection asset category. We've looked at pipeline sizing and determined that changing size (downsizing the replacement pipeline) is not warranted at this time.

Could we put the ASR in that allocation and treat it as an underground reservoir?

- Yes.

Don't we want to set up a framework now that provides consistency and then build upon it so that when we get 5 years down the road we have a framework that fits where we are going?

- Yes, but in terms of some of the tweaking of what specific projects look like and how we may allocate it, we may not need to do that work in the next three months.

Please explain the difference between base supply and base.

- Base supply is associated with the water that is needed and base is the infrastructure, meaning the pipes and the pumps.

What is the meant by Revenue Offset?

- Revenue offset is miscellaneous revenue that we collect, which is non-rate revenue. For example, interest paid on fund balances.

In terms of water use, how important is the number of dwelling units in a multi-family project compared to the amount of open space in a multi-family project? Typically the earlier multi-family units that were built had more open space, so they tend to have higher water usage because of the additional landscaping. The newer multi-family units have almost no outdoor space, so in terms of normal water use isn't that a more meaningful measure to base tiers on than the number of dwelling units on a multi-family account?

- The dwelling unit strategy works really well when focused on indoor water use. If you have a property with separate irrigation meters, then the irrigation use is charged on a different rate structure, using dwelling unit's works very well. It is more complicated when indoor water and outdoor irrigation water are on the same account.

How does the proposal for new single family tiers compare to what we were allocating for people to use during water restrictions?

- Allocation for single family households was 10ccf. The potential revised tiers for single family accounts would establish 4 tiers with a usage of 10 ccf or greater being charged at the tier 4 rate. What we noticed during rationing was that most single family accounts were using between 4 and 6 ccf during the last couple of summers. This makes us think that the amount of water use by single-family customers in tier 4 (10 ccf and greater) won't be huge.

Just to be clear, was it was the tiered rates that led to the reduction in use?

- Likely, it was a combination of a number of things. The econometric demand forecast work that was done in the Water Supply Advisory Committee established a price elasticity of demand for each customer classes based on actual customer usage data from 2000 – 2013. As you know, a series of rate increases were put in place beginning in late 2004 and significantly increasing rates between 2004 and 2011. And at the same time, tiered rates for single-family customers were changed from 3 tiers to 5 tiers. Together these two factors probably had a lot to do with the beginnings of the downward shift of single family, a trend that the drought has taken to the next level.

What is our thinking about how much revenue to collect in the fixed versus the variable part of the bill?

- We're still working on this, but we are thinking about a couple of options that would give us the revenue stability we need to finance our capital improvement program.

Can you please clarify the chart on page 17 so it indicates whether it includes distribution of capital costs or not?

- Capital Costs are not distributed in the creation of the charts because the charts use asset values of existing infrastructure and don't take into account future costs.

Since there are multifamily units with any number of units you can imagine, do you break them into blocks or are they prorated by the number of units?

- The billing system uses the number of units indicated on the account to calculate costs for usage in each of the tiers.

Final Comments and Requests for Follow Up: Additional Comments

- The suite of projects that we are going to be working on, excluding the water supply projects, is mostly rehabilitation and replacement projects related to the basic infrastructure. In general, these projects will fall into the base supply, some into peaking and possibly some into meters.
- Commissioner Schiffrin supports rate structures that create separate funding approaches for capital versus operating costs.
- It would be helpful to show the percentage of single family bills that would fall into the new proposed tiers, similar to the chart on page 31 that distributes single family consumption using the old tiers. In order to help people understand this information, there should be a notation that the Water Commission has asked that both a uniform and tiered rate structure be evaluated for commercial customers on the list on page 29 of the presentation.

Commissioner Wilshusen moved to receive the information. Commissioner Mead seconded.

VOICE VOTE: MOTION CARRIED

AYES: All.

NOES: None

2. Draft Water Commission Work Plan for Calendar Year 2016

Ms. Menard provided the presentation summarizing the Commission Work Plan for Calendar Year 2016 and responded to Commission questions. Commission Questions/Comments

Commissioner Wilshusen moved to accept the report. Commissioner Sterns seconded.

VOICE VOTE: MOTION CARRIED

AYES: All.

NOES: None

3. Water Supply Augmentation Strategy, Initial Work Plan

Ms. Luckenbach provided the presentation summarizing the Water Supply Augmentation Strategy and responded to Commission questions.

Commission Questions/Comments

Isn't there a test going on with Soquel Creek on the whole in lieu concept?

- We are working to finalize CEQA if California Fish and Wildlife lets us finish the process to be able to start a trial in February, assuming we have water.

What is this trial period really going to try?

- It is going to do is a variety of things but mainly it is going to attempt to deliver 100 million gallons at about 1 million gallons a day over a period of 90-100 days and it's going to test water quality issues and operational issues. We will be able to collect and monitor data to see what is happening to water levels around the wells that are taken offline. Overall, the trial will give us information and the ability to better understand how an in lieu water exchange would work. It will also be the basis for us to start working on whatever partnership agreement we can work out with them.

This means, we are going to sell them water so they have to pump less and they are going to monitor whether or not they have recovered any water which in a year, can they do that?

- We will be able to see something. It will give us some data about what we have seen.

Does this tie into the modeling work they are doing on the aquifer?

- The data collected will be used to help calibrate the model.

Do we divert water to them after we have pumped as much water as we can to Loch Lomond?

- The structure of the agreement said that we can't do it unless we are full or spilling or we project there is 90% chance of being full. There are other conditions in the terms of the agreement that would basically have us not do it at all in the event that we are putting our customers at risk of future curtailments due to not having adequate supply to meet their needs during the peak demand season.

So it wouldn't necessarily start in February unless we have an abundance of rain in January?

- Yes.

Requests for follow-up:

- Reports on the trial run with Soquel Creek are requested.

Commissioner Schiffrin moved the staff recommendation with the added direction that when this returns in the quarterly report the information requested by the commissioners be included.

Commissioner Wadlow seconded.

VOICE VOTE: MOTION CARRIED

AYES: All.

NOES: None

4. Water Efficient Landscape Ordinance

Mr. Goddard provided a very brief presentation summarizing the Water Efficient Landscape Ordinance changes that are being required as a result of new direction from the State of California and responded to Commission questions.

Commission Questions/Comments

How does this deal with our customers in the county outside of the city?

- County Board supervisors are about to finalize its own landscape ordinance. Our ordinance applies to everywhere we serve water, not just within the city limits. The county defers to water suppliers, like the city, to perform this function where we supply water.

Follow-up:

- Mr. Baskin will meet with Mr. Goddard to discuss his questions and comments on the draft ordinance and a revised draft will be sent out in advance of the next meeting. Ms. Menard then suggested that, assuming no further comments, the item be placed on the consent agenda for the February 1, 2016, agenda.

Commissioner Schiffrin moved that per the Ms. Menard's suggestion, the Water Commission Chair meets with staff to review the ordinance. Any changes that are made will be sent out to the Commission members with a request that they respond to any concerns and that the item is placed on the consent agenda for the next scheduled Water Commission meeting. Commissioner Wilshusen seconded.

VOICE VOTE: MOTION CARRIED

AYES: All.

NOES: None

Consent Item #3 – Update on Urban Water Management Plan Work Plan

Mr. Goddard gave a very brief overview of the work plan for the update of the City's Urban Water Management Plan. Commissioners discussed the pros and cons of having the Water Commissioners review and comment on the plan chapters as it is being developed. After this discussion, the Commission agreed that, because so much of the plan would be incorporating work done in the Water Supply Advisory Committee's process that there was really very little that could be added by

having the Water Commission be actively involved in the review of plan chapters as they are developed.

Subcommittee/Advisory Body Oral Reports

Directors Oral Report No action shall be taken on this item.

- A comment was made about not seeing the reservoir coming up in part because we are still taking water out of the systems, but the ground is getting saturated and we are expecting the current storm to improve our water situation.
- Ms. Menard will be presenting information about the Water Supply Advisory Committee recommendation and to the Board of Directors for the Soquel Creek Water District on January 19, 2016, and again to the Scotts Valley Water District on January 14, 2016. She will be doing outreach to the two boards over the next few weeks.
- There is a lot of work happening with the groundwater sustainability agency. The next meeting of the Soquel Aptos Groundwater Management Committee will be on January 21, 2016. At this meeting, they will be making final recommendations to the partner agencies on the joint powers agreement. The one question Ms. Menard has is whether or not this agreement will trigger a CEQA review because the groundwater sustainability plan is exempt from CEQA, like the urban water management plan, but something I read recently indicated that it was an open question about the JPA agreements were subject to CEQA.
- In respect to the earlier conversation we had about rates and proposition 218, a group of people from ACWA have been creating a ballot initiative on revisions to the portion of proposition 218 that would allow for there to be conservation rates that aren't based on cost exactly. It would also allow for water utilities, or utilities that have to operate under the provisions of proposition 218, to set rates in such a way that you could do lifeline rates or low-income subsidies, which are currently illegal.

Adjournment Meeting adjourned at 10:42 pm. The next regular meeting of the Water Commission is scheduled for February 1, 2016, at 7:00 p.m. in the Council Chambers.

Respectfully submitted,

Staff