

CARSON CITY UTILITIES ADVISORY COMMITTEE
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A regular meeting of the Carson City Utilities Advisory Committee was scheduled for 5:30 p.m. on Thursday, July 11, 2002 in the Cooperative Extension Conference Room, 2621 Northgate Lane, Suite 12, Carson City, Nevada.

PRESENT: Chairperson Ron Knecht
Vice Chairperson Glen Martel
John Degenkolb
Ryan Langson
Craig Mullet
Larry Osborne
James Polito
James Riggs
Jeffrey Smeath

STAFF: Andy Burnham, Development Services Director
Larry Werner, City Engineer
Tom Hoffert, Utilities Operations Manager
David Heath, Finance Director/Risk Manager
Nick Providenti, Accounting Manager
John Bonow, Consultant (via teleconference)
Kathleen King, Recording Secretary

NOTE: A tape recording of these proceedings is on file in the Clerk-Recorder's Office and is available for review and inspection during regular business hours.

A. CALL TO ORDER AND DETERMINATION OF QUORUM (1-0001) - Chairperson Knecht called the meeting to order at 5:39 p.m. Roll was called; a quorum was present.

B. APPROVAL OF MINUTES - June 13, 2002 (1-0015) - Vice Chairperson Martel moved to accept the minutes, as presented. Member Mullet seconded the motion. Motion carried 9-0.

C. PUBLIC COMMENT (1-0038) - None.

D. MODIFICATION OF AGENDA (1-0050) - Mr. Hoffert referred to the modified work plan included in the agenda materials. Chairperson Knecht suggested discussing it under item F-2.

E. DISCLOSURES (1-0086) - Vice Chairperson Martel advised of providing an update to the Builders Association of Western Nevada at the monthly board meeting, and that the board members are looking forward to reviewing the rate models and the proposed increases. Member Mullet advised of providing a status report to the Chamber of Commerce Manufacturer's Committee at their luncheon meeting yesterday. He further reported on a presentation by City staff on the storm water management program, and relayed comments from industrial users regarding the disparity in water and sewer rates and the storm drainage fee. He suggested agendaing a presentation on the storm water management program for a future meeting. Member Smeath advised of providing an update to the Chamber of Commerce Board. Chairperson Knecht advised of his attendance at the July 3rd Board of Supervisors meeting, together with Vice Chairperson Martel and Member Osborne. He provided an overview of the comments he made to the Board.

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F. PUBLIC MEETING ITEMS:

F-1. STAFF BRIEFING ON CURRENT STATE OF UTILITIES SECURITY MEASURES

(1-0207) - Mr. Hoffert and Mr. Werner provided an overview of, and responded to questions regarding, security measures and policies which have been implemented for utility facilities. Mr. Hoffert discussed an Environmental Protection Agency mandate for large utility facilities, and advised that Carson City has been proactive in beginning the process to identify vulnerabilities and measures which can be implemented in both the short and long term future to secure the facilities. In response to a question, he discussed anticipated federal mandates for water and wastewater facilities. He advised that funding has not been allocated for systems smaller than those which serve populations of 100,000. He acknowledged that cost estimates have been provided to the Governor for funding the mandates. Mr. Werner discussed the efforts of the City Manager to obtain direct funding allocations for the capital city. Mr. Hoffert reviewed security measures implemented prior to September 11, 2001 and routine tests conducted on the water supply. He and Mr. Werner responded to questions regarding tests conducted on the wastewater system. Mr. Hoffert responded to questions regarding internal security measures and cost/benefit analyses.

F-2. REVIEW COMMENTS FROM JULY 3RD BOARD OF SUPERVISORS MEETING REGARDING UTILITY RATE OBJECTIVES (1-1105)

- Mr. Hoffert distributed to the Committee members and staff written comments from the Board of Supervisors and the City Manager, a revised copy of the utility rate objectives, and an amended work plan. Chairperson Knecht discussed an additional comment by Mayor Masayko regarding consideration of alternative revenue requirements levels. He advised Mayor Masayko that the Committee has been discussing alternative revenue requirements as well as operations, planning, and financing.

Mr. Hoffert advised that the Board of Supervisors expressed a desire to be involved in policy making, and a preference that the Committee approach them with questions or clarifications on issues prior to getting "too far into the process." He further advised that the Board requested the Committee to televise the meetings for the benefit of the public. He subsequently contacted Craig Swope, of CAT-10, who will make arrangements to have a cameraman available according to the Committee's work schedule. Mr. Heath commented that the primary concern of the Board of Supervisors is to not be "left out of the process until the very end and have a recommendation come forward that they can't live with or feel they would have to reject." He anticipates being able to present a good indication of costs and alternatives for recovery at the September 5, 2002 Board meeting.

Vice Chairperson Martel and Member Osborne commented on their impressions of the Board's comments. Member Osborne discussed the concerns presented by Supervisor Williamson, and pointed out that a majority vote approved the utility rate objectives. Chairperson Knecht commented that the majority vote indicated the Committee "is on the right track" and should continue to broadly consider policy issues and determinants. In response to a question, Chairperson Knecht explained Supervisor Livermore's concerns over total revenue requirements for storm sewer, water/wastewater, and other areas.

Mr. Hoffert reviewed the revision to utility rate objective 6 pursuant to the input provided by the Board. In response to a question, Mr. Werner advised that the Board was informed of previous discussions which took place between the Committee members and staff. He explained that an accounting will be needed for every non-residential customer to determine whether or not water bills can be averaged during the winter months which will then establish the maximum charge. Development Services staff will meet with

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Information Services staff to determine how to apply the formula to all customers within the system. Extensive discussion took place regarding varying peak usage times for commercial customers and the intent of the Board of Supervisors in recommending consideration of the “winter average.”

In response to a question, Chairperson Knecht commented that the word “consider” in the revision to objective six was well chosen and reflective of the Board of Supervisors’ comments. Mr. Hoffert explained that the Board is familiar with the winter quarter average concept because it is a method currently applied in establishing sewer rates. Mr. Werner acknowledged that the Committee will be translating winter average into an appropriate concept and applying it to the commercial sector. The concept will then be used as a point of comparison to consider one scenario under the concept and the other under the separate metering scenario. Mr. Hoffert suggested that the commercial sector will have to be divided into business types and a determination made as to their peak and low flows. Mr. Werner agreed and explained that the concept of winter average includes an understanding that the customer reaches a point where the City no longer charges a sewer fee for the portion of water used.

Mr. Bonow commented that the concept of considering winter average “in the extreme” requires a demand curve analysis, i.e., how much water does each individual customer use each month whether commercial or residential. Each customer has a different low point throughout the year which translates differently in terms of overall system sizing, delivery needs, etc. Mr. Bonow suggested that, at some point, the Committee may need to help the Board of Supervisors “bridge that gap between looking at people either as individual classes or customers and the system as a whole because the costs are related to the system as a whole.” [Member Langson left the meeting at 6:38 p.m. A quorum was still present.]

In response to a question, consensus of the Committee was that additional clarification from the Board of Supervisors was not necessary before the September meeting. Discussion took place regarding ways to consider various business types and their seasonality, and Mr. Werner clarified that the issue is to not pay sewer for water used in irrigation. Without considering seasonality, there is no way to separate it. Mr. Werner acknowledged that the concept of winter average was to get back to water use that loads the sewer versus water use that doesn’t.

F-3. DISCUSSION AND DEVELOPMENT OF RATE METHODOLOGY STRATEGIES

(1-2327) - Mr. Heath requested input from the Committee members regarding items to agendaize for the August meeting relative to the September 5th presentation to the Board of Supervisors. He suggested that costs should be defined and recovery methods considered. Mr. Bonow pointed out that if it can’t be articulated in words, it can’t be modeled. He suggested articulating how to calculate the rates or scenarios the Committee “ends up wanting to craft.” He acknowledged that the objectives will be part of that but, for a winter average approach, homogenizing residential and non-residential customers will beg the question of whether the right data is available to make that type of analysis possible. He suggested agendaizing this type of discussion to ensure that the Committee can determine data availability, and then better outline what the Committee will be able to do by September 5th.

Chairperson Knecht suggested scheduling an additional meeting in the latter part of August. Mr. Bonow offered to meet with staff to articulate the different approaches to reflect the comments received to date and the objectives agreed to and revised by the Board. In response to a question, he indicated he could work with staff to develop a draft within 1-2 weeks. He clarified that inherent in his suggestion is staff’s ability to determine the type of data available. Discussion took place regarding the Committee’s work plan, the

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need for additional meetings, the possibility of developing subcommittees, and the time table for noticing and preparing documentation for special Committee meetings. Mr. Hoffert reviewed available dates in August, and discussion took place with regard to the same. Chairperson Knecht indicated he would work with staff to notice additional meetings in a timely manner.

In response to a question, Mr. Bonow advised he would provide staff his understanding, based on the discussion to date, of the mechanics and the actual form of the various methods for calculating rates in terms of required information, the process in terms of mechanics, the type of method to be used for calculating rates, and outline a certain number of different versions reflecting all the comments made to date about how to conduct the rate study. He acknowledged the information will be mapped back to the utility rate objectives in a matrix approach. Vice Chairperson Martel expressed a concern regarding the time table for reviewing the outlines presented by Mr. Bonow. Member Osborne requested staff and the consultant to provide the information to the Committee members as soon as possible prior to the meeting at which it will be discussed. Chairperson Knecht requested staff to include him in any conference call with Mr. Bonow. He suggested three different dimensions: (1) marginal versus embedded; (2) winter average versus "something else"; and (3) at least two different revenue requirement levels, one the projected, expected and the other lower by some increment. He suggested alternative studies in terms of eliminating cross subsidies but, after numbers are applied, reviewing the results and making a determination as to whether completely eliminating cross subsidies is too extreme. Member Polito commented that the objectives will have to be incorporated at some point. Mr. Bonow characterized the objectives as "something akin to a base case." He explained a base case as being "on day one as near as is practical given all these things thrown into the hopper, all of the objectives are satisfied. You're not phasing in the removal of this cross customer class subsidy. You're doing everything in the first year. It's going to reflect all the hard choices on day one and call that something of a base case." He suggested that without a base case, it will be difficult to get direction regarding phasing or meeting objectives over time.

Mr. Werner advised that capital programs may be "doable," but including discussion regarding operation of the utility will require adding a year to the program because of the need to consider staffing levels, service levels, etc. Chairperson Knecht suggested considering programmatic cuts as an alternative. Mr. Werner reiterated his concern that the time necessary to understand the programs would be longer than the defined scope of the Committee's work plan. Chairperson Knecht explained his intent was to request staff to provide information on capital and operations expenditures. Mr. Werner advised that staff presents this information on an annual basis to the Board of Supervisors during the City's budget process. He suggested "leaving it there," and that it would be beyond the Committee's scope to include a review of utility operations. Member Polito supported Mr. Werner's position, and commented that "it is different than setting rates." Member Osborne pointed out that the Mayor mentioned this but that it was not included in the objectives.

Mr. Werner advised that several months ago Mayor Masayko discussed the philosophical issue of water conservation; whether the City should actively enforce water conservation to keep the cost of infrastructure and supply/unlimited demand down or supply any amount of water the customer is willing to pay for. He acknowledged this referred to policing costs versus the cost of expanding the system. He explained that the system was constructed to keep demand down in an effort to target a water conservation program. The philosophy has changed to consider building a system to meet whatever demand the community wants which will, in turn, result in a rate impact. In response to a question, Mr. Werner advised that staff presents to the Board of Supervisors annual operating costs after tests are conducted on every part of the system to

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determine the need for improvement or elimination of programs. Member Polito suggested waiting until the September 5th meeting, developing different revenue requirements as part of the process, and running them through the models. Mr. Werner acknowledged there are ways to do that but reiterated the necessity of first understanding the system.

In response to a question, Mr. Werner advised that the policing budget is "very minor." The main budget considers whether or not to install 16" or 24" pipes which translates to 10 million or 30 million gallons of storage. Three additional wells will be brought on line in the near future which will increase the capital program based on the need to meet the public's demand. Mr. Werner explained that the winter average is 4.5 to 5 million gallons per day. Today's calculations revealed 21 million gallons; last year's were 17-19 million gallons. Mr. Werner advised that population has not increased proportionately; the numbers reflect increased use. He acknowledged that staff has been directed to design for the worst case scenario. Chairperson Knecht suggested that staff consider the possibility of designing for a one-in-ten or one-in-twenty year scenario as an alternative policy. Mr. Werner advised that this was the policy up to last year, and staff advised the Board of Supervisors that the new policy results in a "rate decision." Chairperson Knecht commented that planning and rate making based on an "all events policy is very unusual and typically not economically wise." Mr. Hoffert clarified that the new policy is not "all events" but a step up in programs to create a greater margin of safety for planning purposes.

Mr. Bonow commented that most of the discussion has been on the cost side which is variable and could be incorporated into any scenario. The rate and rate methodology are relatively independent in most cases. In response to a question, Mr. Bonow expressed the understanding that the method for calculating rates seems to have a fundamental base which is an embedded cost study element that incorporates, where possible and where appropriate, elements of a marginal cost study. The methodology for calculating the rates is 1-2 in number, which will be the basis for using costs to develop rates. The next phase would be to utilize the different approaches to determine how rates will be calculated, namely the winter average, etc. The consultants and staff can describe for the Committee a number of scenarios to satisfy the various objectives, one being something along the lines of a strict revenue requirement study based on actual monthly costs, one being a winter average study, and alternatives along those themes, all of which, in a qualitative sense, would reflect an assessment of how well the different scenarios would be able to help the City satisfy the different rate objectives. Mr. Bonow committed to working with staff to provide a set of well-described scenarios in terms of required costs, the rate approach, the calculation, and a qualitative assessment of how well the scenario would satisfy the rate objectives across the board. In response to a request for clarification of Mr. Bonow's reference to a qualitative assessment, he provided an example of a way to measure the degree to which each objective is being satisfied. Mr. Heath commented that the winter average concept is the best example of an objective which is not feasible, and this will need to be pointed out to the Board of Supervisors. Chairperson Knecht thanked Mr. Bonow. Mr. Bonow advised he would work with staff and e-mail his assessment of what the consultants are being asked to deliver in the next couple of weeks.

G. INTERNAL COMMUNICATIONS AND ADMINISTRATIVE MATTERS

G-1. FUTURE AGENDA ITEMS (2-0707) - Chairperson Knecht requested staff to provide a summary of, and background information on, dual metering. Mr. Hoffert suggested agendizing the matter as review and discussion regarding commercial water usage versus sewer billing concepts and how this may be applied to the Committee's future consideration of establishing rates. Member Polito suggested

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agendizing review and action regarding possible modification of the Committee's work plan. Vice Chairperson Martel suggested agendizing this item for each meeting. Chairperson Knecht advised he would issue additional meeting notices as necessary. Member Polito requested staff to reagendize item F-3. Chairperson Knecht requested staff to agendize discussion and possible action regarding equity issues.

H. ADJOURNMENT (2-0873) - Vice Chairperson Martel moved to adjourn the meeting at 7:36 p.m. Member Smeath seconded the motion. Motion carried 8-0.

The Minutes of the July 11, 2002 meeting of the Carson City Utilities Advisory Committee are so approved this 8th day of August, 2002.

RON KNECHT, Chair