

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the August 8, 2002 Meeting

Page 1

A regular meeting of the Carson City Utilities Advisory Committee was scheduled for 5:30 p.m. on Thursday, August 8, 2002 in the Cooperative Extension Conference Room, 2621 Northgate Lane, Suite 12, Carson City, Nevada.

PRESENT: Chairperson Ron Knecht
Vice Chairperson Glen Martel
Craig Mullet
Larry Osborne
James Polito
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
Katherine Ong, Consultant
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 A QUORUM (1-0001) - Chairperson Knecht called the meeting to order at 5:35 p.m. Roll was called; a quorum was present. Members Degenkolb, Langson, and Riggs were absent.

B. APPROVAL OF MINUTES - July 11, 2002 (1-0025) - Vice Chairperson Martel moved to approve the minutes, as presented. Member Osborne seconded the motion. Motion carried 5-0.

C. PUBLIC COMMENT (1-0039) - Mr. Hoffert advised that Tom Edison, of Edison Landscaping, indicated he would like to provide comments at this meeting. He noted that Mr. Edison was not yet present and requested Chairperson Knecht to return to this item upon his arrival.

D. MODIFICATION OF THE AGENDA (1-0073) - Member Polito suggested addressing item F-1 following item F-3 and the Committee members agreed.

E. DISCLOSURES (1-0097) - Vice Chairperson Martel advised of providing his usual status report to the Board of the Builders Association of Western Nevada, and of discussions with Mr. Werner regarding implementation of the storm water management program. Chairperson Knecht advised of participating in a telephone conference with Mr. Heath, Mr. Hoffert, Mr. Providenti, and Mr. Bonow regarding the progress of the Committee's work.

F. PUBLIC MEETING ITEMS:

F-1. REVIEW AND ACTION REGARDING POSSIBLE MODIFICATION OF THE COMMITTEE'S WORK PLAN (3-0330) - Addressed as part of item F-2.

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the August 8, 2002 Meeting

Page 2

F-2. PRESENTATION, DISCUSSION AND POSSIBLE ACTION REGARDING OVERVIEW OF WATER AND WASTEWATER UTILITY RATE STRUCTURES AND CALCULATION METHODS (1-0146) - Mr. Heath advised of the survey conducted by Mr. Hoffert to compare utility rates among neighboring counties. A report was distributed to the Committee members and staff, and Mr. Hoffert reviewed the same. Mr. Werner and Mr. Hoffert responded to questions regarding the separate districts within Douglas County. Chairperson Knecht commended Mr. Hoffert on the report and, in response to a question, Mr. Hoffert advised he will continue to compile information. Chairperson Knecht requested Mr. Hoffert to compute a typical monthly bill based on usage patterns for residential and commercial customers. Member Polito pointed out that residential customers in Douglas County's East Valley, North Valley, and North County are paying higher rates, above 8,000 gallons, than the commercial customers. Mr. Hoffert discussed the usage patterns of residential and commercial customers in Washoe County. He advised that Lyon County is in the process of revising sewer connection charges. Chairperson Knecht thanked Mr. Hoffert and his staff for the information.

Mr. Heath provided background information on Mr. Bonow's presentation. Mr. Bonow reviewed the tasks which came out of the recent conference call with City staff and Chairperson Knecht, as follows: (1) Whether the existing rate structures can accomplish the objectives expressed by the Committee and endorsed by the Board of Supervisors; and (2) if not, what alternatives can be implemented to accomplish the objectives. Mr. Bonow explained that the materials provided by the consultants focus on the water utility because nine of the ten objectives apply to both water and wastewater. The one objective which applies only to wastewater is the "winter average" concept. The water utility is more complex because it doesn't have the same flat charge components as the primary basis for revenue. [Member Mullet arrived at 5:50 p.m.]

Mr. Bonow advised that data was compiled for each monthly meter reading over the last two years for each customer in the City. Four main conclusions have been reached: (1) Under the existing water rate structure, the City can accomplish all of the rate objectives. There is no need to present a fundamentally new rate structure. Mr. Bonow clarified that he was distinguishing rate structures from actual rate levels. The three main areas are meter charges, tiered rates for commodity charges, and connection fees. (2) Because the rate structure is in place doesn't mean there is not a fundamental revenue imbalance. Total revenues are not in balance with total costs, and the City is running operating deficits on an ongoing basis which will worsen. Mr. Bonow stated that the City will use up the "luxurious fund balance cushion," which has sustained it since 1993, in the next couple of years and be at a cash deficit in the water utility. (3) The solution is as much political as financial. The City conducted a rate review in 1989 which used the base extra capacity method for calculating rates, an accepted method then as now. Out of that review came a set of recommendations to adjust rates to properly cover allocated costs. Since 1989, the rate adjustments have not taken place. The 1993 rate adjustment resulted in a wash in terms of total revenue, and the City has been behind since 1989. Mr. Bonow explained that the rate structure was sound and appropriate, but the necessary steps to adjust rates were not followed. He commented that this item is as much observation as conclusion, but that it is "the heart of the matter." He explained that if the structure is in place to accomplish the objectives, decisions need to be made within that structure to appropriately increase revenue. (4) Reallocate costs. Water connection fees are intended to cover expansion-related debt service. However, using that calculation method and means of allocating costs, the connection fee should be approximately twice as high as it is today. The City has been living off the fund balance and having the existing user base subsidize expansion, by that definition. If revenues were sufficient, a potential solution would be reallocation of costs. However, even if costs were reallocated and the disparity between

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the August 8, 2002 Meeting

Page 3

residential and commercial customers was reduced, the fact that revenues are insufficient would still need to be addressed. Because costs are reviewed as part of the City's budget process, it is a matter of increasing revenue to satisfy the costs.

In response to a question, Mr. Bonow stated that a "game plan" was developed in 1989 but not followed. He noted that the study was adopted and implemented as a prescribed method for moving forward. He responded to additional questions regarding the initial calculation which established a connection fee and increases over the following years. He acknowledged that the calculation was diligently outlined but not diligently implemented. Discussion took place regarding the issue of anticipated growth as a component of the 1989 study, infrastructure investments based on the anticipated growth, and existing costs for both water and sewer which are included in the annual connection fee calculation. Mr. Bonow acknowledged that the formula should capture increases, additional debt service, etc. Mr. Werner provided background information on the infrastructure and plant expansion investments made in the late 1970s/early 1980s. In response to a question, he advised that the earlier problem had been not spending at all. The City acquired the water system in 1976; up to that point, it was owned by Southwest Gas.

In response to a question, Mr. Werner clarified that the investment in the ground was only 20% in anticipation of growth. Mr. Bonow advised that given the amount of expansion-related debt sold since 1989, even without the burden of the debt sold prior to 1989, the City would still be short. Repair, replacement, fundamental upgrades, or expansion debt properly allocated to growth prior to 1989 would still, given this formula, present a situation of insufficient connection fees relative to need as per the 1989 study. Mr. Werner acknowledged that one of the important elements of the formula is an allocation of costs between the existing system and future expansion. He advised that the connection fee also includes the customer's share of buying in to the plant that was built up to that point. Mr. Bonow acknowledged that as fewer connections are made, the same costs have to be spread across a smaller customer base. Member Mullet commented that sufficient revenue needs to be collected to offset costs in any given year regardless of the number of connections. Mr. Bonow pointed out that using debt as the sole financial mechanism for expansion-related capital provides some cushion against rate shock on connection fees. It doesn't mean that, if connections fluctuate wildly, there isn't still an analogous problem.

Member Osborne commented that, after the so-called agreement to adjust rates, no one prodded the elected officials to review or adjust rates. Mr. Heath advised that the calculated connection fee was not adopted at the same time the Guastella study was adopted. It may have been adjusted in some way but not to the level the definition provided. Member Osborne agreed with an earlier comment that the growth rate was anticipated to be higher than it actually was. Member Smeath pointed out that an alternative revenue source will have to be identified once Carson City reaches its eventual build out and the plant still needs to be expanded. Mr. Heath advised that the City has been compressing debt service and the Board of Supervisors has made a point of limiting the amortization period to build out. As the debt service is compressed, the costs become more concentrated and difficult to deal with. Discussion took place regarding recovery of costs through user rates. Mr. Bonow discussed the spectrum of recovering costs between now and build out which will have a dramatic impact on connection fees.

Chairperson Knecht suggested that the Committee would like to see at least one other allocation than the one used as the reference allocation; one that recognizes the different outlook for growth and makes an allocation of costs toward existing users so that the Committee can understand the options and effects of reallocations. In response to a question, Mr. Bonow advised that there is an infinite range of reasonable

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the August 8, 2002 Meeting

Page 4

allocations. Member Polito suggested referring to the objectives for guidance on this point, and read objective 5 into the record. He further suggested that there should be at least one model where the cost is known if expansion is charged according to what the formula states so that existing customers are not subsidizing expansion. In response to a comment, Mr. Werner explained that for future expansions, staff considers allocations based on what is necessary for existing customers, either increased standard requirements, increased treatment levels, or increased capacity. The units and the costs are broken down by those categories. In response to a question, Mr. Werner advised that developers are required to pay for expansion. Most of the pipeline projects done in the community are replacement projects. In response to a further question, Mr. Werner explained that the City participates in some upsizing which is funded by the capital projects program. He discussed replacement of pipes in the downtown core. He acknowledged that there are not a great deal of common and joint costs which have to be allocated; that most of the costs are directly allocated to one function or another.

Mr. Bonow commented that allocation of expansion costs vis-a-vis replacement or upgrade costs seems to be fairly easily defined from staff's perspective. There isn't a lot of gray area and that makes the initial decision much easier. Once the costs are known, the issue is whether they will be funded by pay-as-you-go capital or financing, or whether the entire burden of the funding be placed on new users. Member Polito suggested developing one scenario based on pure cost allocation and then other scenarios based on preserving and eliminating subsidies. Mr. Bonow referred to the charge given the consultants to follow the game plan developed thirteen years ago to see what would happen; where the City would need to be today if the structure was not altered and the rules were followed. He reiterated that the plan is acceptable on its face so rates would be adjusted accordingly, subsidies between customer classes would dissolve and, on day one, there would be consistency and satisfaction of the objectives.

Mr. Bonow reviewed the Outstanding Fiscal Year Debt Service payable from the Water Utility. He pointed out that even though capital infrastructure with a useful life of thirty years is being installed, because of the direction to not amortize debt beyond the current build out projection, there is no debt service that matches the useful life. This has two implications: (1) Lower total payments but higher annual payments, and (2) A period of time when the City will be debt free with no real need for major capital other than replacement. The City will go from a period of intense capital development to a period of having a good system in place which is relatively new. In response to a question, Mr. Bonow discussed the need for a forward-looking projection that goes well beyond 2-5 years, in terms of capital, and tries to incorporate actual replacement costs at points in the future. A decision needs to be made regarding whether to build reserves to fund the replacements with cash when needed, or to debt finance the costs and have the existing user base shoulder the burden of the debt repayment. Either scenario is accepted practice but planning needs to take place because the first option is not available without cash reserves. Chairperson Knecht commented that the very long life typical of water and sewer plants allows for covering the problem by building up reserves without rate increases and possibly with a rate decrease at that time. There are a number of years after build out before replacement expenditures increase. Mr. Bonow agreed depending upon the amount of adequate revenue available at the starting point and that the method of paying for the capital is adhered to diligently. He discussed maintenance and interim replacement allocations, current capital replacement schedules in the City, and the friction between accounting depreciation and capital replacement costs. He advised that a plan needs to be developed for the actual costs and how to fund them, and that the consultants have established a 36-year projection.

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the August 8, 2002 Meeting

Page 5

Member Osborne expressed a concern with regard to financing future improvements. He discussed the incremental increases in requests for bonds over the years. In response to a question, Mr. Heath expressed a preference for building up a reserve in spite of NRS restrictions on government interest earnings. He acknowledged there are other pressures which could require debt financing. He recommended always “paying as you go,” funding the estimation of future costs in an even fashion and, when it comes time to replace infrastructure, the necessary funding is available. Member Osborne noted that these are issues to keep in mind when determining a rate methodology. Chairperson Knecht agreed with the financial prudence of building up reserves but, from the viewpoint of Carson City residents and businesses, expressed the opinion that “pre-payment” may not be the way to go. Member Polito discussed the difference between constructing a healthy utility and financing. Mr. Bonow advised that there are two collateral issues “which are a little less financial.” Pay-as-you-go approaches require financial discipline to build up funding. As the cash accumulates, however, there seems to be a less pressing need to increase rates. Member Osborne expressed appreciation for Chairperson Knecht’s comments, but pointed out that the City doesn’t pay the differential interest between 15% and 7%.

In response to a question, Chairperson Knecht suggested that, in light of concerns regarding equity issues and financial prudence, the Committee should be considering a long-term inflation index to rate making as the policy approach. Mr. Bonow advised that the existing models either have rates calculated to whatever level is required given the formulas in place, or to prescribe rates based on inflation or any other measure to consider the difference. There is such a near term need for revenue that in two years, even if the City eliminated the subsidy issue, a “bottom line question” remains where the total revenue needs to be increased. In response to a question, Mr. Bonow estimated that the City will “run out of cash” in approximately three years depending upon capital schedules. Substantial revenue increases are needed just to cover costs, not even to build up adequate reserves to cover operations and maintenance. The City needs a stable base before an inflation index would be viable.

Mr. Bonow reviewed the Water Utility Consumption by Customer Class (1999), showing the seasonality of consumption in thousands of gallons. He pointed out that seasonality is extreme but not the same for every rate class. Without seasonality, the system would be sized much lower in terms of capacity to deliver water. Mr. Bonow advised that this is very instructive because capacity is expensive. An additional issue is the costs behind this type of consumption and how they are currently being recovered within the existing rate structure. Mr. Bonow discussed incremental cost increases, and advised that “the highest load drives the size of the system.” He pointed out that the system is very stressed in July according to the chart; however, there is a method for recovering that cost. One of the components of the rate structure is the commodity-based charge: the more you use, the more you pay. The reason that the first 5,000 gallons has a lower per thousand gallon charge than the amount above 50,000 is that it is much more expensive to provide a system that will deliver 50,000 gallons. The more water used, the more expensive it becomes because at some point it translates into system requirements. Costs can be linear from a planning standpoint, but consideration has to be given to how large the system needs to be and, if the usage doesn’t reach the maximum with certain margins of safety, commodity charges will have to be increased. “If the consumption isn’t there, you need to charge more per gallon to recover the same amount of costs.”

In response to a question, Mr. Bonow advised that most of the system costs are fixed. If no water flowed through the system, there would be debt-related costs, salaries, employee benefits, and certain services and supplies. Electricity and certain chemicals would be included in variable cost categories. Mr. Werner acknowledged that when the system is stressed, costs are still reasonably below the commodity rate. Mr.

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the August 8, 2002 Meeting

Page 6

Burnham acknowledged that the fixed, capital-related costs are the "cost drivers." Mr. Bonow advised there are two main components in monthly service charges: one is a meter-based, fixed charge and the other is flow-based on gallon-by-gallon increments. He suggested that it may be interesting to see what would happen if the fixed meter charge covered all fixed costs. The reason costs are below the commodity rate is that the per-gallon charge for the monthly bill covers some of the fixed costs. Mr. Werner pointed out that costs per gallon to provide higher peak flows to individual users will be subsidized by the lower volume users if a fixed cost rate is established. Mr. Bonow advised that a basis of comparison is needed. He suggested taking the approach of not confusing fixed and variable costs, but consider what it costs to have the system available to customers "whether or not they turn on the tap." That could be recovered from the meter charge which is the fixed component.

Mr. Bonow referred to the Average Monthly Bills for 5/8" Meter Customers chart and emphasized that it does not address allocating adequate revenue to the bottom line. It simply addresses the current cost allocation method between residential and commercial customers and eliminating the perceived subsidy. In response to a question, Mr. Bonow advised that the method behind the chart is that actual consumption for each account by class is known as well as the total costs for delivering water. The chart attempts to equate the amount of water used relative to delivery costs, whether the costs are fixed or variable. Mr. Bonow provided an overview of the chart.

Mr. Bonow reviewed the ERU-Based Monthly Meter Charge Comparison - Residential Customers. In response to a question, he explained that he had considered actual costs from 1999 and 2000 and chose 1999. He also considered staff's determination of the percentage of fixed and variable costs. He responded to additional questions regarding costs associated with various meter sizes. Mr. Werner clarified that customers don't determine the choice of meter size. The City's Engineering staff determines meter size in relation to the flow rate needed. In response to a further question, Mr. Bonow advised there are twelve 4" meters in the City for residential customers and no 6" meters. There is one 10" meter for a commercial customer - the State Correctional Facility - and several 6" meters for commercial customers.

Mr. Bonow referred to the Approximate Monthly Consumption Charge for 5/8" Meter - Residential Customer chart and reviewed the same. He advised that the levels indicated reflect only the consumption portion of the bill, not the meter charge. He acknowledged that it would be possible to combine the two charts for a total bill comparison. He explained that because there are fewer variable costs than the current rate structure manages, the commodity portion of the bill would decrease. He acknowledged that a cash flow deficiency still exists in all the charts.

Mr. Bonow referred to the Approximate Monthly Consumption Charge for 1" Meter - Commercial Customer chart. In response to a question, Mr. Hoffert advised that the average size for a commercial meter is 1 1/2" to 2". Mr. Bonow reviewed the chart. He encouraged the Committee, as it moves forward, to adhere to the objectives and the scope of the work plan in order to avoid qualitative issues which are not the direction of the Committee.

In response to a question, Mr. Bonow expressed a preference for using base excess capacity as a baseline structure for calculating rates; to draw the line at the minimum level of use and determine what is the minimum system necessary in the lowest water year. This establishes the base which needs to be preserved; everything above the baseline is excess capacity. Mr. Bonow clarified that the approach is to recover costs based on the minimum water month and then determine how to cover costs associated with

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the August 8, 2002 Meeting

Page 7

the existing system and needs to be preserved and improved above that consumption level. In response to a question, he explained that there will still be fixed and variable costs in a minimum water month. The fundamental structure is base excess capacity. Both the base and the excess capacity have fixed and variable cost components and, at some point, there will be a blending of components. Mr. Bonow strongly recommended pursuing the base excess capacity approach. He acknowledged there are alternative methods, but advised that the number one goal, consistent with the objectives, is cost recovery. In response to a question, he explained that under the base excess capacity approach or a purely fixed variable cost approach, the right amount of revenue will be recovered from each customer class. He acknowledged that the "right amount of revenue" refers to a level of revenue that corresponds to a particular level of costs. In response to a further question, Mr. Bonow advised that only if the same costs are allocated under both methods will the same revenue be generated under both methods. Discussion took place regarding the differences between the methods. At the request of Member Polito, Mr. Bonow referred to the side-by-side examples of the methods included in the AWWA manual. Mr. Bonow discussed the distinctions between base and excess costs and advised that there will be intra-class subsidies.

In response to a question, Mr. Bonow advised that sufficient variance exists within an agreed upon rate structure to provide the two or three scenarios discussed by the Committee and the Board of Supervisors. He indicated that a variety of scenarios can be developed from a prescribed rate structure. He expressed a preference to avoid a multitude of fundamentally different rate structures, and to focus on some of the other qualitative decisions. He advised that the Guastella study used base excess capacity, and that 98% of municipal water utilities in the United States use base excess capacity. He discussed the differences between municipal and private water systems as pertaining to rate setting. He explained the reason for using a fixed variable cost approach to develop the charts. In response to a question, Mr. Bonow advised that fixed variable is an academic, "very easy to implement" method which will get to the necessary bottom line, but that it doesn't analyze the nuances of how costs are allocated among customer classes and it doesn't plan for the future.

Discussion took place regarding the action to be taken by the Committee to select a method, the benefits of the base excess capacity method, and the need for the Committee members to be well informed and educated on the elements of the method selected. Mr. Bonow pointed out that the existing system is base excess capacity and that it includes a subsidy. The structure doesn't beget the outcome; it provides the tools. Mr. Bonow suggested that base excess capacity is the best set of tools, but is not a rigid prescription for setting rates. The City has a base excess capacity of cost allocation and usage now; the problems exist because the tools have either not been or mis-used. Member Polito pointed out that subsidy is not a function of the method but a function of departure from the method. Either method, applied strictly, will not result in a subsidy. He suggested having the consultant move forward using the base excess capacity method, but not necessarily taking formal action at this meeting. The Committee members concurred. Mr. Hoffert commented that the Committee's discussion and deliberations will be important to present to the Board of Supervisors at the September 5th meeting. Vice Chairperson Martel expressed a preference for making a recommendation to the Board of Supervisors, receiving their input, and "be[ing] on track again next meeting." In light of the discussion, Mr. Bonow clarified that the industry terms are base excess capacity and marginal cost. Fixed and variable are types of costs, not structures. Base excess capacity and marginal cost studies are methods for establishing rates.

In response to a comment, Mr. Bonow advised that he would not be able to support a marginal cost study based on his experience of municipal water and wastewater utilities because the 98% use of base excess

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the August 8, 2002 Meeting

Page 8

capacity is accepted practice for sound reasons. In response to a question, he referred to the extensive discussions regarding marginal cost studies which have taken place at previous meetings. The one distinction is that marginal cost studies address the concept of equity return which does not exist in municipal systems. Chairperson Knecht discussed his experience in conducting allocated embedded cost studies and marginal cost studies for gas and electric utilities. He requested Mr. Bonow to explain why a marginal cost study is inherently associated with a return on equity. Member Polito pointed out that these discussions had already taken place and referred to Objective 3 which states that the study should incorporate elements of the forward-looking approach. Mr. Bonow read a portion of the objective into the record, and Member Polito advised that the reason for blending the two approaches was to decide the argument of marginal versus embedded cost studies. Mr. Bonow explained that his intent was to incorporate the forward-looking nature of the marginal cost study into the analysis; the fact that it is not just looking at a snapshot of today but preparing for tomorrow. He requested inclusion of the term "forward-looking" because this was the element most important for prudent planning. He advised he would gladly discuss with the Committee the side-by-side comparison of marginal cost and embedded cost or base excess capacity studies. He agreed that the rate of return concept and the analogous concepts of recovering debt service are inherent in the marginal cost approach. He advised that the concept of return on investment, which is the term used exclusive of debt service or at least in addition to it in marginal cost studies, is not a term he feels comfortable employing in municipal finance on the water and wastewater side. The methods of calculating rates based on marginal cost are rather straightforward, but trying to explain them to a broad audience can be difficult. It is much more productive to explain the terms related to embedded cost or base excess capacity methods. Mr. Bonow stated that, based on this point, he prefers not to use a marginal cost approach to the exclusion of other methods. Based on his experience, he indicated he does not feel capable of explaining to the Board of Supervisors or any other constituent representative the marginal cost approach. He reiterated the suggestion of discussing the methods listed side-by-side in the AWWA manual.

Chairperson Knecht clarified he was not asking the consultants or the Committee members to choose one method to the exclusion of any others. He suggested proceeding along both tracks in order to implement his understanding of the Committee's intent. Mr. Bonow explained his understanding of the objective to pursue one method that incorporated elements of both, not parallel tracks which are duplicate efforts that have very little common modeling other than the identification of costs. Additional discussion took place regarding the direction of the Committee, and Member Polito reiterated his recommendation that the consultant move forward using the base excess capacity method. He suggested that the Committee members review the AWWA manual and return to the next meeting to discuss the differences between the methods. Member Smeath reiterated his concern that the Committee members be able to understand and communicate the reasons for selecting a certain method. Vice Chairperson Martel reiterated his preference for choosing a method that represents the best planning tool. He agreed with scheduling an additional meeting prior to the September 5th Board of Supervisors meeting. Member Osborne reiterated his concern regarding taking formal action at this meeting. He suggested keeping the options open to ensure that an alternative method isn't overlooked, and agreed with scheduling an additional meeting to review examples. Chairperson Knecht suggested that the consultant continue between now and the next Committee meeting to work on the base excess cost allocation method proposed without any notion that it is the final method to pursue. He indicated that it would be useful to present the results to the Board of Supervisors on September 5th. He suggested scheduling an additional meeting in August to review whatever results can be developed by then.

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the August 8, 2002 Meeting

Page 9

Discussion took place regarding whether or not to present preliminary numbers to the Board of Supervisors, together with methodological issues, at the September 5th meeting. Chairperson Knecht acknowledged that it is premature to present the methodological debate in numerical terms to the Board of Supervisors. He suggested alerting the Board to the fact that a substantial overall revenue increase will be needed in the next couple years, and requesting their input. Assuming the Board can come to a decision on that matter, the Committee will need guidance over elimination of the interclass subsidy which is an issue separate from the methodological issue. Member Polito suggested waiting to bring the subsidy issue to the Board of Supervisors until supporting figures are available. Vice Chairperson Martel discussed his understanding of the Board's previous direction that the Committee return with a recommendation, at the September 5th meeting, regarding the methodology for arriving at the goal. He acknowledged that the presentation needs to focus on the method and not on elimination of the subsidy. He noted that the Committee will need to take formal action on a method and present it to the Board. He agreed with waiting to address numbers until after the September 5th meeting, and the Committee members concurred. Mr. Hoffert pointed out that the Committee's charge is to determine a methodology for allocating costs to recover them, not to establish rates. The Committee will present various ways to accomplish the revenue requirements to keep the utility whole. In response to a comment, Mr. Werner assured the Committee members that the Board of Supervisors is aware of the revenue shortage and that the cash flow is going negative. He advised that the Board's comments indicated they didn't want to be surprised by a newspaper headline that the Committee was recommending a large increase before they had a chance to hear the Committee's recommendations directly.

Chairperson Knecht reviewed the Committee's direction, and Vice Chairperson Martel suggested that the next meeting take place between now and the 20th of August. Mr. Hoffert reviewed available dates, and discussion took place regarding the same. Member Polito expressed a concern that there will not be enough time to read the manual and understand the differences between the methods. He suggested advising the Board of Supervisors that the Committee is exploring the base excess capacity method but, before recommending any approach, wants to know the numbers behind it and have a full understanding of some alternative methods and the numbers behind those. Member Osborne suggested that the Committee will be able to accomplish this at the interim meeting. He pointed out that without the interim meeting, the Committee will certainly not come any closer to a decision.

Mr. Bonow advised that the Committee can represent to the Board of Supervisors that the existing rate structures will accomplish the objectives. This will highlight the fact that it is not as much the rate structure as the action taken or not taken by the Board of Supervisors that creates the issues which are now being addressed. Mr. Bonow suggested that much of the disagreement and questions during this meeting were issues of semantics. The AWWA Manual contains consistent, side-by-side comparisons of the two concepts discussed. He pointed out that the fact there are only two real methods covered in the manual is important. He described the two methods as "book ends"; everything else is a blending. He acknowledged that he will be attending the September 5th Board of Supervisors meeting. He further acknowledged that elements of a marginal cost analysis are "still on the table." He suggested that the debate has been over what is meant by the elements and, from his perspective, it is the forward-looking nature of the marginal cost study which does not rely on cost averaging over the last few years to establish a base from which to trend forward.

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the August 8, 2002 Meeting

Page 10

Mr. Hoffert acknowledged his understanding of the Committee's direction to the consultant and that an additional meeting will be scheduled on August 16th. **Member Smeath moved to hold an additional meeting to discuss rate methodology on August 16th at 3:00 p.m. in a location to be determined by staff. Vice Chairperson Martel seconded the motion. Motion carried 6-0.**

F-3. DISCUSSION OF ISSUES/CONCERNS BROUGHT UP BY CITIZENS CONCERNING UTILITIES RATES/PRACTICES - Deferred.

G. INTERNAL COMMUNICATIONS AND ADMINISTRATIVE MATTERS

G-1. FUTURE AGENDA ITEMS - Previously covered.

H. ADJOURNMENT (3-0490) - Member Osborne moved to adjourn the meeting at 9:10 p.m. Member Polito seconded the motion. Motion carried 6-0.

The Minutes of the August 8, 2002 meeting of the Carson City Utilities Advisory Committee are so approved this 12th day of September, 2002.

RON KNECHT, Chair