

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the October 4, 2002 Meeting

Page 1

A meeting of the Carson City Utilities Advisory Committee was scheduled for 4:00 p.m. on Friday, October 4, 2002 in the Community Center Sierra Room, 851 East William Street, Carson City, Nevada.

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

STAFF: Andy Burnham, Development Services Director
Tom Hoffert, Utilities Operations Manager
David Heath, Finance Director/Risk Manager
Mark Forsberg, Chief Deputy District Attorney
John Bonow, 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) - Vice Chairperson Martel called the meeting to order at 4:00 p.m. Roll was called; a quorum was present. Chairperson Knecht arrived at 4:05 p.m. Members Langson and Mullet were absent.

B. ACCEPTANCE OF CLERK'S MINUTES - August 16, 2002 (1-0007) - Member Osborne moved to accept the minutes of the August 16, 2002 Carson City Utilities Advisory Committee meeting, as presented. Member Smeath seconded the motion. Motion carried 6-0.

(1-0077) Chairperson Knecht distributed a written supplement to the Committee members and staff. Member Osborne advised that Mr. Forsberg had been present to address issues surrounding this item; however, after the minutes were approved, he left the meeting. He suggested that any further discussion may need to be agendaized for a future meeting. Chairperson Knecht advised of having discussed the procedure for addressing minutes with Mr. Hoffert and Clerk-Recorder Alan Glover. He advised that the Committee will no longer approve the minutes and that he will not sign them. Mr. Glover has advised of the opportunity for Committee members to submit a supplement to the minutes which requires no action by the Committee. In response to a request for clarification, Member Osborne explained that the supplement is submitted as part of the record; "anybody can submit information if they wish to be a part of our testimony." Chairperson Knecht advised that the Committee members have the option of orally supplementing the record or submitting a written supplement at the time the minutes are addressed.

C. PUBLIC COMMENT (1-0016) - None.

D. MODIFICATION OF AGENDA (1-0021; 1975) - Chairperson Knecht suggested modifying the agenda to address item F-4 following item F-1.

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the October 4, 2002 Meeting

Page 2

E. DISCLOSURES (1-0026) - Member Smeath disclosed that he has kept the Chamber of Commerce Board of Directors informed of the Committee's activities and the possibility of rate increases. He further informed the Board of Directors that he would convey any questions to the Committee or that they can appear at a meeting to address the Committee directly. Vice Chairperson Martel advised of having updated the Board of the Builders Association of Western Nevada at the last regularly scheduled meeting. He also advised the BAWN Board to address questions to him or to the Committee directly.

F. PUBLIC MEETING ITEMS:

F-1. PRESENTATION BY CONSULTANT REGARDING ALLOCATION OF COSTS AMONG THE CUSTOMER CLASSES (1-0041) - Mr. Bonow referred to the materials included in the agenda packets regarding cost allocation among customer classes. He advised that, in general, governmentally-owned utilities allocate costs based on cost causation. For water, the closest proxy is to analyze the usage patterns of customer classes. An assumption is made that if a class is using more water, more demand is placed on the system and the size of the system is driven by that aggregate use. [Chairperson Knecht arrived at 4:05 p.m. and Vice Chairperson Martel passed the gavel.]

(1-0134) Mr. Bonow directed the Committee members to the 1999 and 2000 consumption data included in the agenda materials, and explained that the information was based on the account-by-account data for calendar years 1999 and 2000. The information depicts the ratio of the maximum month to the minimum month of consumption throughout the year. The residential and quasi-residential class indicates a five-fold increase from the low month to the high month. The commercial class indicates the least variable from low to high with an approximately 2.5-fold increase. The municipal class indicates a twenty-fold increase. The state class, which has certain customers not billed through the system, indicates a three-fold increase. The federal class indicates a ten-fold increase; the total of the average is a four-fold increase. In response to a question, Mr. Hoffert advised that City government, the school district, and parks are included in the municipal class. The quasi-residential class includes motels with a certain number of dwelling units (three-plex to approximately ten units). Mobile home parks are treated as quasi-residential or residential depending upon the meters and how the original account was established. Mr. Bonow pointed out that the quasi-residential class is extremely small in terms of both the number of customers and the consumption. In each month, the quasi-residential class averaged less than 1 million gallons per month compared to other customer classes which averaged almost 400 million gallons per month. Mr. Bonow reviewed the ratio between the 1999 and 2000 graphs and noted the similarity. He observed the consistencies and slight variations among the customer classes depending upon the year, and noted that this highlights the need to consider an average year.

Mr. Bonow reviewed the 1999 and 2000 graphs depicting Maximum/Average Monthly Use by Customer Class. He noted the decrease in variability among the customer classes in that the volume of water used throughout the year is closer to the maximum end of the spectrum than to the low end of the spectrum. The average is much closer to a higher monthly consumption than to the minimum monthly consumption. The maximum use over the average use, for the system as a whole in 1999 and 2000 respectively, is approximately 1.65 to 1.83 which is still quite significant. Without the variance, the City could have a much smaller system. Mr. Bonow advised that the average monthly use is 250 million gallons which doesn't reflect the delivery size of the system. The system is about twice as big and even larger than that because it has to accommodate the maximum usage month. The factors that drive costs are not just absolute use, but when the use occurs and how much.

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the October 4, 2002 Meeting

Page 3

Mr. Bonow referred to the Determination of Noncoincident Capacity Factors table, and explained that the purpose was to determine the relative demand each customer class places on the system. He suggested that usage is a good proxy for the amount of costs borne by the system. In response to a comment, he referred to the AWWA Manual, and explained that coincident use is a determination of the maximum usage month for residential or commercial customers. The result may not be the same. Adding up the maximum use for each of the six general customer classes and layering them would indicate a larger system than the City actually has. The reason for this is the demand is not coincident; not every customer has the same maximum daily demand or the same maximum month. Another way to explain "noncoincident" is system-wide demand without regard to which customer uses which maximum on which day. In response to a question, Mr. Bonow reviewed the 1999 and 2000 Water Consumption graphs and advised that although they indicated a slight variability, it was not enough to move away from a system-wide approach.

Mr. Bonow reviewed and discussed the Determination of Noncoincident Capacity Factors table. In response to a question, he advised that the maximum day send out is 23.8 million gallons. Chairperson Knecht inquired as to the advisability of calculating the allocations on an average day in the maximum month versus the maximum day itself. Mr. Bonow advised that as long as the impacts on a maximum day are relatively the same per class as the impacts on the average day, there may be no reason to complicate the analysis with that level of depth. He suggested that, in order to explain the process to the elected officials and the public, as long as the maximum day and the average use within the "heavy month" are relatively the same among the customer classes, "we don't need to be more complicated than that." Mr. Hoffert distributed an updated version of the Determination of Noncoincident Capacity Factors and Mr. Bonow reviewed the same. He advised that considering the adjusted capacity factors would only be worthwhile if they were substantially different from the maximum day capacity factors. Relative to one another, the factors are not substantially different. In response to a question, Mr. Bonow advised that, if the maximum day capacity factors were used rather than the average day in the maximum month capacity factors, the adjustment in allocation would be approximately 6.5% to 7%.

Member Polito referred to the differences between the municipal, state, and federal capacity factors and noted they appeared to be substantial between the two methods in that, under the average day for maximum month method, there would be less costs allocated to the municipal, state, and federal classes. The effect may be to shift a greater portion of costs to the residential and commercial classes. He inquired as to which method more accurately reflects cost causation. Mr. Bonow advised that the costs actually allocated based on the adjustment are quite small, given the relatively small amount of usage of the municipal, state, and federal classes. He expressed the view that, if an agreement could be reached regarding the other factors which are part of the lower calculation, the adjusted capacity factors would be more accurate. However, the method also includes many other factors that have not been discussed and are, most likely, nothing more than assumptions in the end. Mr. Bonow advised he has no way to substantiate the adjusted capacity factor numbers and, because of the unknown nature, recommended steering away from the method.

In response to an additional question, Mr. Bonow clarified that the system is based on a maximum day basis because that is the volume which has to be addressed. In theory, the system is based on a maximum hour or maximum minute basis, but it is certainly not weekly. Mr. Bonow explained there is no way of considering, with any degree of certainty, each meter which contributed water to the maximum usage day. Meters are read once a month and there is no daily usage record. Until there is a minute-by-minute electronic reading, there is no way to substantiate numbers in terms of the actual impacts of which customer class is behind the particular maximum day demand. Chairperson Knecht suggested that Mr. Bonow's

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the October 4, 2002 Meeting

Page 4

comments supported the average day for the maximum month method because of the data available. Mr. Bonow advised that the detail available on customer data stops at monthly information. System-wide data is available daily, but there is no available daily contribution data. Member Osborne agreed with continuing with the chosen model, but suggested that it will be important for the Board of Supervisors and the public to know the Committee considered an alternative method. Mr. Bonow acknowledged that the data is not available to implement the method with practical certainty.

Chairperson Knecht observed that better data could be available in the future with time of use metering, and inquired as to the efficiency of changing to time of use metering. Mr. Bonow expressed the opinion that unless and until radio telemetry and a billing system which reflects customer-by-customer activity is used, "you're going to find yourself always back in the realm of assumptions." Good, hard data is available on a monthly basis and Mr. Bonow suggested staying with what the data and infrastructure support. Mr. Hoffert advised that the Carson City Utilities Department just completed a three and a half year project to change every meter in Carson City to a radio telemetry unit. The project cost \$2.7 million and resulted in a revenue increase which paid for itself. Mr. Hoffert advised of talking with utility department representatives in several California counties, who informed him of reasons for converting to time of use metering such as establishing daily usage patterns in drought prone areas. The same counties are now slowly converting away from the time of use meters because of costs associated with labor and maintenance. Chairperson Knecht commented that time of use metering results in precise field data which requires a rate design and cost allocation methodology that "lives up" to the precision of the measurement methodology. In response to a question, Mr. Hoffert advised that Utilities Department staff can read a meter any time. He acknowledged that reading the meter requires being within a certain distance of it; that it cannot be read from the water/sewer plant.

Mr. Bonow responded to questions regarding the calculations reflected in the Determination of Noncoincident Capacity Factors table. He advised that the maximum month on a system-wide basis was identified in consideration of the average for a particular class in that month. (1-0835) Chairperson Knecht noted the consensus of the Committee to proceed with the average day of the maximum month allocation method. Mr. Hoffert advised that the intent of this meeting was to present information to the Committee in order that action can be taken at the next regular meeting to confirm the cost allocation methods.

Mr. Bonow referred to the Equivalent Meter Cost Ratios included in the agenda materials. He advised that there is a different type of customer cost which has traditionally been driven by meter size. He explained that there are two ways of considering the cost of meter installation and maintenance. One is the cost of installing the meter based on its size, and the other is simply a certain assumed cost which includes multiples based on the size of the meter. He reviewed the cost ratios, and advised that the information is important for customer cost allocations outside billing and collection elements. He acknowledged that the figures reflected represented his assumptions based on his experience. He further acknowledged that he used a life cycle cost for the meter reflective of both installation and maintenance. (1-0867) Mr. Bonow advised that the purpose of the Equivalent Meter Cost Ratios was to describe the cost of meters and weight them accordingly based on their size. He indicated that staff will be evaluating those factors, but advised that they are factors which impact the meter charge component of the monthly bill. He acknowledged that the cost ratio will be used to allocate a component of the costs and explained that the information was provided as a meter maintenance component. In response to a question, he suggested that the ratio could be used to charge for existing or future plant because hopefully costs are the basis for allocating those charges. He advised that some jurisdictions use capacity factors or cost factors based on meter size as a

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the October 4, 2002 Meeting

Page 5

component of the calculation. He acknowledged that a capacity ratio or a combined installation and operation/maintenance cost ratio could be used to allocate an operation and maintenance cost item.

Mr. Bonow referred to the Units of Service Determination table, which incorporates the capacity factors from page 5 into the reality for the test year in terms of how much flow the system absorbed by class. He reviewed the figures depicted in the table and responded to questions regarding the calculations. Mr. Bonow referred to the Unit Costs of Service, and advised that he has not yet finalized with the City Finance Department the depreciation costs for the water utility as applied to the test year. He noted that, other than the O&M Expense, the Total Cost column reflected in the table was representative of examples provided in the AWWA Manual not Carson City costs. He reviewed the table and the calculations. At the request of Chairperson Knecht, Mr. Bonow provided an explanation of the method for allocation of costs to cost categories. He referred to the Cost Allocation Items for Carson City Utilities table and provided an overview of the same in conjunction with the Unit Costs of Service Operation and Maintenance allocations. He responded to questions regarding the method used to allocate the costs. He acknowledged that the key allocations on the Cost Allocation Items page, beyond the direct allocations, are the allocations of purchase power and services which are both allocated in the average to maximum percentage components between base and maximum. He further acknowledged that these allocations, together with the direct allocations, drive all the residual allocations. The Administrative and General costs are allocated based on what has been done up to that point.

Mr. Bonow referred back to the Unit Costs of Service table, and explained that it uses the efforts undertaken with the Cost Allocation Items table and allocates the costs exactly the same for each category in total. He reviewed the allocations and calculations. He referred to the Cost Distribution to Customer Classes table and explained the method for determining the allocated cost of service for each customer class. He advised that the same method applies to the extra capacity, meters and services, and billing and collecting categories. The total of the allocations for a certain customer class results in the total cost of service for that class for the year. Mr. Bonow explained that the method is applied to each customer class on a stand-alone basis to the point of the fire protection service category. He noted that the discussion agenda for the next meeting will be interesting because there are two very different schools of thought on how fire protection service costs should be allocated. He advised that the total costs of service for each of the six customer classes have been allocated and then for fire protection based on the methods described. He explained that the information is presented in a building block format and that if one of the pages isn't clear, the conclusion will also not be clear. Chairperson Knecht commended Mr. Bonow on a fine job of presenting the information.

Mr. Bonow responded to questions regarding the method by which the direct fire protection service figure reflected in the Cost Distribution to Customer Classes table was determined. He explained that fire flows cannot be measured but the capacity can be estimated. A certain proportion of the extra capacity in the system is a reserve capacity for fire protection. He acknowledged that there are certain measures commonly used to determine how much of the system is used for fire protection in terms of capacity. In response to a question, he referred to the operation and maintenance allocation to fire protection reflected in the Cost Allocation Items for Carson City Utilities table (page 7). He explained that hydrants are completely allocated to fire protection, together with a "smattering of other categories." Using the top down method of allocation, some of the overhead is allocated to fire protection. He reviewed the fire protection allocations on page 7 and page 2 (the Unit Costs of Service table). Depreciation expense is allocated to fire protection based on the same method as it is allocated to all other cost categories whether

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the October 4, 2002 Meeting

Page 6

from the base or from extra capacity. Mr. Bonow advised that the estimated 1 million gallons allocated to fire protection becomes the basis for allocating other facility costs to fire protection. So fire protection costs are based on the same ratios as all other maximum capacity costs are allocated for the other customer classes.

Member Degenkolb advised that Nevada's Uniform Fire Code requires every building over 55' in height to be sprinklered. The rest of the country requires sprinklers for every building over 75' in height. He commented on the requirement of sprinkler system installation with a monthly charge "for a system you hope never works and, if it does work, saves a lot of money that would be spent in fire suppression." In response to a question, Mr. Hoffert advised that the City currently charges for fire sprinkler service to any building based on the size of the water line. He advised that the Guastella study indicates the allocation of the unit cost by size of the water line based on flow capabilities of the line. Mr. Bonow advised that the Guastella study does not address foregone costs that would be part of the basis for determining the amount of value preserved in a sprinklered building versus a non-sprinklered building. The charge presently has nothing to do with the value of the building. In response to a further question, Mr. Hoffert advised that charging for fire sprinkler service has been the practice in the City for more than 23 years. Member Degenkolb inquired as to the fairness of charging industry for mandated sprinkler system installations which save the City tremendous amounts of money. He suggested the reason the Fire Department is not larger is because of sprinkler system requirements. He advised he would talk to Fire Department officials before the next meeting. Mr. Hoffert advised that the Fire Chief and the Chief Building Official set the fire requirements for Carson City based on building construction materials, firefighting capabilities, etc. There are residential fire services in Carson City, and Mr. Hoffert pointed out that costs and revenues associated with private fire hydrants need to be considered as the cost allocation method is developed. Chairperson Knecht advised that the Committee is taking a cost allocation approach to rate design where costs incurred by the City are allocated to various uses and users. The factors discussed by Member Degenkolb are very important in public policy and rate design, but focus more on value of service which are not included in a cost allocation rate design approach. Mr. Bonow remarked that there is some worth to the cost avoidance portion of Member Degenkolb's concerns. He advised that consideration of pipes connected to a sprinklered building or to a hydrant serving the same building without sprinklers and the costs associated with the infrastructure are fairly similar. One could argue, however, that there are avoided costs with the installation of sprinklers as opposed to relying on public hydrants. Chairperson Knecht acknowledged that this represents a cost factor for the City; however, the question returns to the system boundaries of the study which have been drawn around the water system and not City operations.

Mr. Bonow responded to questions regarding base and extra capacity unit costs of service. He explained that the extra capacity cost is based on a rate of flow of thousand gallons per day for the amount that is above the average use for the system. He suggested "it is a difficult leap" to go from a thousand gallons to a thousand gallons per day and all the intuition which has to accompany it regarding the comparability of \$53 per thousand gallons per day and 88 cents per thousand gallons. He suggested the two are not comparable. He indicated that the figures reflect the typical order of magnitude with some variation. Many areas of the country don't have the seasonal impacts Carson City does and therefore don't have as much burden on the extra capacity side. Carson City's system is almost twice as large by simple measures than it would be with average, regular usage every month. He advised that \$53 per thousand gallons per day is on the high side because of the extensive range in the high to average use.

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the October 4, 2002 Meeting

Page 7

[Chairperson Knecht recessed the meeting at 5:50 p.m. and reconvened at 6:01 p.m. Member Riggs left the meeting at 5:50 p.m. A quorum was still present.]

F-2. PRESENTATION BY STAFF ON DEBT FINANCING REVENUE REQUIREMENTS SCENARIOS (1-2591) - Mr. Heath reviewed the City's statutory debt limit and debt capacity projections which were included in the agenda materials. He explained that the sewer and water projects currently on the books, in terms of additional capacity, have been deducted from the projections. In response to a question, he advised that pure revenue bonds are still within the overall debt capacity. In response to a further question, he advised that the City cannot have pure revenue bonds in addition to general obligation bonds. Discussion took place regarding additional bonds secured by revenues of the utility.

Mr. Heath provided an overview of the twenty year revenue requirement scenarios for water and sewer. In response to a question, he explained that the scenarios mitigate rate shock in the beginning. Fifteen to 20 years later, there is "maybe a percentage differential" between internal and financing which represents the interest component of the financing. There is no strain on revenue needs, things are normalized in the beginning, and replacement costs are stretched out. An imbedded interest cost is built in but it is not burdensome. Discussion took place regarding the details of the scenarios.

F-3. PRESENTATION BY STAFF ON THE DATA OF MARGINAL COSTS FOR SUMMER PEAK VERSUS TAIL BLOCK RATE LEVEL (1-3070) - Mr. Hoffert referred to the September 16, 2002 memo included in the agenda materials and reviewed the same. Chairperson Knecht noted that the information provided indicates there is no problem with undercollecting on the resource cost in terms of the tail block rate. Mr. Hoffert referred to the assumptions used in the memo, and advised that they are extremely close to the numbers provided by Mr. Bonow in his test year example, although the calculations were done independently.

F-4. PRESENTATION BY STAFF REGARDING WATER AND SEWER CONNECTION FEES (1-2000) - Mr. Heath referred to the Calculation of Connection Fees - Water and Sewer included in the agenda materials, and advised that it reflects the current methodology used which dates back to the Guastella study. He explained that relative to the AWWA Manual, it would be termed as an equity buy in approach. The Manual provides two different approaches, equity buy in and incremental cost. He reviewed the details of the incremental cost approach and advised that the City does not have the wherewithal or the data to utilize this approach at this time. He reviewed the calculations, and advised that the intent is to determine some measure of plant replacement value. He reviewed the base connection fees for water and sewer and discussed the information provided by the survey Mr. Hoffert conducted of base connection fees in neighboring counties. He discussed the City Manager's concern over economic development in relation to connection fees.

In response to a question, Mr. Heath advised that all utility accounting is GASB-34 compliant, and that GASB-34 will not affect the method of accounting used. In response to a question regarding the purpose for total debt service and the estimated capital acquisition, Mr. Heath explained that at the time of the Guastella study, it was decided all future expansion would be funded using debt service. Prior to that time, some of the plant acquisition was funded internally. This is the reason for the distinction between the two items; there is no double accounting. Mr. Heath indicated that the Calculation of Connection Fees outlines the issues the Committee and staff have been considering. He advised he is open to suggestions regarding determination of the equity amount. He suggested using an income approach to value the plant at this

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the October 4, 2002 Meeting

Page 8

point, and indicated there are a number of other ways to value current replacement. He suggested that the “lower half of the equation makes sense in terms of trying to determine an ERC number,” and from there a determination regarding connection fees will need to be made.

In response to a request for clarification, Mr. Heath indicated that the real question is the basis upon which to provide capacity to a new customer. Member Polito inquired as to whether replacement cost is higher or lower than original cost, and the appropriateness of requiring a customer to buy in at a cost different from that of older customers. Chairperson Knecht suggested that replacement cost will be a difficult concept because the question is “what would we do today?” He indicated that original costs are low but replacement involves existing infrastructure and new technology. Member Polito suggested there may be an inconsistency which could be resolved by having new customers pay a connection fee based on original cost that would be lower than a replacement cost. Chairperson Knecht suggested also recognizing the condition of the existing system new customers would be buying into by considering replacement cost less depreciation. Member Polito inquired as to what the fee would be using a book cost measure. Mr. Heath advised that it would most likely be lower than the current connection fee charge. Vice Chairperson Martel noted that the previous 3% growth estimate was not met, that in all likelihood it will not be met, and build out will occur in the relatively near future. He pointed out that connection fees cannot be relied upon to continue funding replacement in 15-20 years. Mr. Bonow commented that growth planning has the greatest cost impact because planning for 3% growth that actually occurs at 1%, by definition, creates an imbalance requiring existing users to subsidize growth. He suggested that part of the question is, not only the revenue which needs to be generated, but also the costs which will be affected by “what you put in the ground each year” as it impacts the book value.

In response to a question regarding the compounded 6% per year, Mr. Heath explained that it is an arbitrary number, the purpose of which was to capture growth and the cost of plant replacement. Member Polito suggested there may be other cost indices to consider. Chairperson Knecht suggested using the Handy Whitman Indices. Mr. Bonow suggested an alternative approach to the various indices, namely the Engineering News Record Regional Index which is probably more appropriate to the building community. He further suggested that the 6% on the debt side may have been an average cost of borrowing number. It may have been by design or happenstance that the 6% numbers are the same, and he agreed with Mr. Heath that they are arbitrary on some level. Regardless of the approach, whether net depreciated book value or another method is used, the depreciation rate for the inflator on both the pay-as-you-go capital costs and the debt side, will be the central focus after a decision is made as to the base. The depreciation rate will have the greatest effect on the result. In response to a question, Mr. Heath indicated that information on a net depreciated book value indexed or inflated using another index could be presented to the Committee at the next meeting. Discussion took place regarding the information requested and, in response to a question, Mr. Heath expressed a preference for the more forward looking approach. He discussed an additional consideration of the cost of continually purchasing water rights to accommodate new customers. Member Polito reiterated an earlier inquiry regarding whether new customers should be paying for past costs or future costs. In response to a question, he expressed the preference for new customers to provide a contribution that pays for past costs incurred for the existing plant, and every customer to pay future costs through rates. The new customer should “buy-in” through the connection fee which places them on equal footing with every other customer. In response to a question, Mr. Bonow observed that there is less commonality on this point than almost any other in utility rate making because of two primary factors. The first is the mentality of growth paying for itself and the degree to which entities can get close to that ideal. The second point is determining how the cost of growth is measured. A number

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the October 4, 2002 Meeting

Page 9

of entities don't have the type of forward-looking costs to be able to determine what will be needed to build out. The absence of costs make it difficult to spread the costs in any basis. Chairperson Knecht commented that Mr. Heath's idea to adopt a forward-looking approach is a good one. [Member Degenkolb left the meeting at 6:24 p.m. A quorum was still present.]

Member Smeath suggested considering Member Polito's recommendation that new customers should be required to buy-in since growth projections have been off for such a long period of time. Chairperson Knecht suggested that, in order to get a true forward look, an adjustment will need to be made from the 3% assumption to a more realistic assumption, and then determine what should be done going forward using the more realistic projection. Mr. Bonow observed that the issue of future costs compared to the growth rate over time is a function of whether or not a master plan is in place that covers the period of time to build out. Without that, there will always be questions regarding the next increment of capital requirements. He suggested that this highlights the need to have a master plan to accommodate adjustments which may take place between now and build out. He suggested that "at build out it should work out." Chairperson Knecht suggested that it will be very difficult to make adjustments "if you're making these long term plans and commitments," to track what growth is occurring. Mr. Bonow referred to Member Polito's suggestion, and advised that the net depreciated book or a similar factor is known which takes some of the guesswork out of what will be built. Then some agreement can occur on a base of costs spread against an unknown number of connections. If those connections materialize, good; if not, it will eventually be reflected in a lower pace of book value growth.

F-5. DISCUSSION OF ISSUES AND CONCERNS BROUGHT UP BY CITIZENS CONCERNING THE UTILITY RATES AND PRACTICES (1-3255) - Mr. Hoffert provided background information on this item. Member Osborne commented that Mr. Hoffert, as manager of the Utilities Department, handled the issue appropriately. Vice Chairperson Martel suggested that this matter was appropriately addressed outside the Committee's purview, and Mr. Hoffert explained the reason for agendaing the item. Vice Chairperson Martel referred to the Committee's discussion, some time ago, regarding separate metering for commercial customers and discussed the Committee's disposition of the issue. Chairperson Knecht commented that the Committee reviewed the Utility Department policy, found it to be sound, and that the customer had an unfortunate and expensive lesson with regard to the same. Mr. Hoffert advised that the customer in question was provided alternatives and a financial evaluation on a payback based on her water usage history for the site. In response to a question, he reviewed the process for informing commercial and high water use customers and providing written material regarding their options.

G. ADJOURNMENT (1-3410) - Chairperson Knecht thanked City staff for their endeavors and diligence. Vice Chairperson Martel moved to adjourn the meeting at 7:00 p.m. Member Osborne seconded the motion. Motion carried 5-0.

The Minutes of the October 4, 2002 meeting of the Carson City Utilities Advisory Committee are so accepted this 14th day of November, 2002.