

CARSON CITY UTILITIES ADVISORY COMMITTEE

Minutes of the October 10, 2002 Meeting

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A regular meeting of the Carson City Utilities Advisory Committee was scheduled for 5:30 p.m. on Thursday, October 10, 2002 in the Community Center Sierra Room, 851 East William Street, Carson City, Nevada.

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

STAFF: Andy Burnham, Development Services Director
Larry Werner, City Engineer
David Heath, Finance Director/Risk Manager
John Bonow, Consultant (via conference call)
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 5:30 p.m. Roll was called; a quorum was present. Member Langson was absent. Member Mullet arrived at 5:35 p.m.

B. ACCEPTANCE OF CLERK'S MINUTES - September 12, 2002 (1-0010) - Member Osborne moved to accept the minutes of the Carson City Utilities Advisory Committee meeting of September 12, 2002, as presented by staff. Vice Chairperson Martel seconded the motion. Motion carried 7-0.

C. PUBLIC COMMENTS (1-0028) - None.

D. MODIFICATION OF AGENDA (1-0040) - Vice Chairperson Martel requested that the action items be addressed prior to the discussion items. Member Polito suggested further modifying the agenda to address item F-3 prior to item F-2 as the consultant had been unavoidably detained.

E. DISCLOSURES (1-0056) - Member Degenkolb advised of a meeting with Assistant Fire Chief Steve Mihelic to discuss item F-1. Chairperson Knecht advised of a brief conversation with Mayor Masayko, who expressed the view that the marginal cost item from last week's agenda may need to be revisited because certain capital costs were not included.

F. PUBLIC MEETING ITEMS:

F-1. PRESENTATION BY CONSULTANT REGARDING FIRE PROTECTION COSTS AND COST ALLOCATIONS (1-1843) - Mr. Bonow suggested two general approaches, one of which would dovetail very well with the cost allocation methodologies previously described and adopted under

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item F-2. He inquired of staff as to the method by which costs for public fire hydrants are accounted in the utility system and whether the costs are borne by the customers or recovered through the City's tax base. Mr. Werner advised that the costs are recovered through the utility. In response to a further question, he advised that public hydrants and the public system is included in the cost of operating the system. Private hydrants and stand pipes are charged separately to individual customers.

Mr. Bonow referred to the Detail of Customer Class Cost Allocation handout, and advised that the various terms used therein could be readily applied to public and private fire protection units. He explained that two assumptions have to be made in allocating costs of fire protection using the base/extra capacity method: how much of the normal, average water use in the City throughout an entire year is due to fire flows, and how much of the maximum day demand reflected in the size of the system is due to the assumed rate of flow for the maximum day that would be allocated to fire protection. In response to a question, Mr. Werner advised that the 20% of the system capacity reserved for fire flows is storage only. Mr. Bonow explained that a method is needed to determine costs associated with fire protection and how to allocate them to the customer base. The costs are not rooted so much in the base as very little water, on average over a given year, actually flows through the system due to fire suppression. Average water use attributable to fire protection is, therefore, quite low. The maximum day flows attributable to fire protection are quite high, however, because of the large amount of water that needs to flow through the system to suppress a fire. The number of costs allocated to the base due to fire protection are quite small and, in most examples, less than 2% of the annual flow. Most of the costs are due to maximum day system sizing. Mr. Bonow acknowledged that the amount of flow is relative to the total. He explained that the maximum day demand inherent in the system-wide demand has, as a component, a much larger relative piece due to fire protection. He suggested that, given the dynamics of fire protection and flows being one of the bases of determining where the costs materialize, most of the costs should be allocated to maximum day demand or the extra capacity.

In response to a question, Mr. Bonow advised that the alternative would be to abandon the method of allocating costs using base/extra capacity and to allocate those costs to customers system wide using some alternative method. He explained that utilities often choose not to cover the cost of fire protection out of the customer base but rather charge the City for the cost of the fire hydrants, the respective flows, and the related system capacity because it is a public service that is generally City wide. He advised that there is a whole spectrum of alternatives which involve charging customers, charging the municipality, and recovering the revenue through water rates, etc. The only concern then is quantifying the alternative, and Mr. Bonow suggested using base/extra capacity or some alternative method in order to determine how much cost to allocate to the City. He commented that there is a wide school of thought on this issue and explained some of the methods used by other jurisdictions. Member Polito suggested that the discussion raises questions, such as whether to separate out fire protection costs for the purpose of the study and, if so, where to allocate them; and once a determination is made whether or not to assign the costs to the customer base, would a method consistent for allocating all other costs be used. He further inquired as to why the Committee is separating out fire protection costs. Mr. Bonow suggested that Committee members have, from the first meeting, decided that fire protection is an area of focus. He recalled that Member Degenkolb believed this to be a primary cost determinate in the City.

Member Degenkolb advised that the basic water distribution system is actually determined by fire demands not by customer water use. He advised that Carson City's grade, for insurance purposes, is class 2. If the City had a poor water supply and the distribution system available for fire fighting purposes didn't meet

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insurance industry requirements, insurance rates would dramatically increase. Member Degenkolb noted that during a fire emergency, the Fire Department has first priority to make demand on the water supply. He further noted that developers usually install fire hydrants; the City rarely does. As new areas are developed, the size of the mains to be installed are pre-determined based on a prediction of fire costs. Hydrant spacing is determined by the fire rating bureau. Member Degenkolb expressed the opinion that since the costs are definitely part of the water distribution system, they should be included in the study. He expressed objection to monthly charges on sprinkler systems, and advised that significant changes have been made to the Building Code regarding sprinkler requirements. He advised that requiring sprinklers to be installed in such buildings as hotels is a matter of life safety, not property protection. The developer pays to have the sprinkler system installed but it will most likely never have to be used. Member Degenkolb expressed the opinion that a monthly charge for these types of sprinkler systems is "double jeopardy." He displayed the Building Code requirements, and advised that sprinkler systems are now required in large schools because of Chicago's Lady of Angels fire in 1958. He acknowledged that this is a public expense, but suggested that it is unfair to impose a monthly charge on the school district for installation of the sprinkler system when, in all probability, it will never be used. Sprinkler systems are also required in hospitals and nursing homes. Member Degenkolb suggested that expansion of the Fire Department has not had to occur proportionately to development in Carson City because of sprinkler system requirements. Discussion took place regarding the method by which to allocate the cost of storing water for the purpose of fire protection.

In response to a question, Mr. Werner explained that in "breaking the system apart," there is an added increment specific to storage for fire protection. When considering a residential area, fire flows become the issue because the focus is delivering a certain number of gallons over a certain period of time. When considering the overall system and the main distribution system, peak flow without fires becomes the issue. "It's a combination of the above." Mr. Werner discussed various scenarios for accomplishing fire protection in a new development, and maintenance of the fire protection system. He acknowledged the difficulty in charging a customer on a monthly basis for a sprinkler system. On one hand, the City maintains fire hydrants and, on the other hand, sprinkler systems reduce impact to the water system. Chairperson Knecht noted that fire protection costs are incurred one way or another by the building owner, but there is also an associated system cost for hydrants or sprinklers. He referred to Member Degenkolb's earlier comments that private building owners are already paying for fire protection facilities which serve their building. On the other hand, if capacity costs are not assigned to the building itself, how would they be allocated to the rest of the customer base. Discussion took place regarding the public benefit of fire protection.

Member Mullet commented that a sprinkler system installed by a building owner offsets the need for fire personnel to respond to the building. He agreed with Member Degenkolb's earlier comment that imposing a monthly charge on a building owner for a sprinkler system is "double jeopardy." He acknowledged that installation of a sprinkler system reduces insurance rates, but reiterated that it also saves some of the effort required by the Fire Department. In response to a request for clarification, Mr. Werner advised that sprinkler system requirements are based on building size. He noted, however, that sprinkler systems can be installed in private homes. Member Mullet suggested that storage for fire protection service is more of a capital cost than an operating cost, and expressed the opinion that the cost should be allocated to the base. Without the summer peak, he noted that the portion of fire protection storage "as a peak would be proportionately larger on the total system in the winter months than ... in the summer months and, all of a sudden [the] fire protection requirements would probably establish the system size more than the peak."

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Because of Nevada's arid climate, landscaping becomes the peak requirement in the summer which diminishes the fire protection side of the system. Member Mullet reiterated the suggestion that fire protection costs should be allocated to the base and spread equally among all customers.

Mr. Werner responded to questions regarding monthly charges to customers with sprinkler systems. Member Degenkolb advised that the entire community benefits in terms of lower fire insurance rates when developers install sprinkler systems. He reiterated an earlier comment that if sprinkler systems are required to be installed for life safety as opposed to property damage, the building owner should not have to pay the monthly charge. Mr. Werner acknowledged that the monthly sprinkler system charge is required by City ordinance and is part of the fee structure being reviewed in this study.

In reference to earlier comments regarding capital costs associated with storage capacity being allocated to the base, Mr. Bonow clarified that capital costs are in both the base and the extra capacity as the Committee is using those terms. He explained that "in that definition," very little would be in the base because the costs are due to flow requirements associated with the 20% storage, not with the average used throughout the year that drives the 20%. He acknowledged that it is a capital cost, but that it would be allocated to extra capacity and not to the base. In response to a question regarding who bears the cost of public safety, Mr. Bonow suggested four alternatives: The first would be to not allocate the cost to anything associated with the water utility but recover it from the City's tax base. The three alternatives on the water utility side are to recover the cost at the site, to recover it by the customer class, or to recover it system wide. He explained that in the non-utility alternative, the revenue requirement is no longer associated with the water utility and all costs allocated to fire protection would be charged to the City's general fund. Recovering costs associated with fire protection from the water utility would require a decision whether or not to use one of the three previously stated methods.

Member Polito pointed out that there are public and private aspects to fire insurance in that it covers property and casualty. He suggested that there should be some difference in allocated costs based on the varying characteristics of structures. Member Smeath pointed out that residential fire hydrants benefit the neighborhoods they serve and the associated costs are spread across the customer base. Installing sprinkler systems in commercial buildings reduces the need for fire hydrants around those buildings. Member Smeath suggested that the water which flows into a sprinkler system, once it is activated, should be covered by the first monthly water bill since the water in the pipes "isn't really going anywhere until it's used." In response to a question, he advised that connection fees are paid when sprinkler systems are installed. Member Mullet commented that utility costs for larger structures are relative, i.e., the total cost for water usage by a multi-story high rise will be more than the residential structure next door. He suggested that if the cost is built into the base, the residential customer will pay only one fraction of the commercial customer. Member Degenkolb commented that a sprinkler system should not be considered separately; "it's the same as ... domestic water." If a fire occurs or the sprinklers are activated for some other reason, the commercial customer would pay for water at the same rate. He inquired as to why the commercial customer "should have to keep on paying for something that isn't used." He suggested that a person would be safer in a high rise, sprinkled building than they would be in their home.

Member Osborne indicated that he has always had a problem with the separate monthly charge, and expressed appreciation for Member Degenkolb's comments. He expressed the opinion that the cost should be allocated to the base system. Mr. Werner advised that, at the time of the Guastella study, there were 17 private fire hydrants in the City and 1500 public fire hydrants. Also at that time, the City was collecting

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\$19,000 a year from private connection fees. He estimated the total revenue from private fire hydrants and sprinkler systems to be less than \$100,000, and suggested that it may be just as simple to allocate the costs to the base. Member Polito expressed agreement with an earlier comment that allocating the cost system wide would result in customers paying based on consumption. Chairperson Knecht discussed cost causation, cost allocation, and public and private benefit. Discussion took place regarding the method for allocating fire protection costs.

In response to a question, Member Smeath advised that the Committee was directing Mr. Bonow to allocate fire protection costs system wide rather than differentiating them. Member Osborne commented that the direction to the consultant is within the parameters of the action previously taken. Mr. Bonow acknowledged that he had sufficient direction with which to proceed.

F-2. DISCUSSION AND ACTION TO APPROVE A COST ALLOCATION METHODOLOGY AMONG CUSTOMER CLASSES (1-1579) - Mr. Bonow referred to the two-page Cost Allocations to Customer Classes document distributed prior to the start of the meeting, and reviewed the same. Member Polito discussed the importance of flexibility in determining a cost allocation methodology. Mr. Bonow responded to questions and discussion took place regarding the handout. Chairperson Knecht referred to the handout and noted that discretion and implementation detail would be left to the consultant, and that the Committee would have final modification discretion. Mr. Bonow acknowledged that adoption of the information contained in the handout was not adoption of a particular test year, month, or value. He commented that the Detail of Customer Class Cost Allocation was open for adjustment, but the general method needed to be determined.

Chairperson Knecht referred to a previous request for sample allocations using the demand/commodity method, focusing on 1-3 large components. Mr. Bonow acknowledged that the request is still part of the production agenda, but explained that until the real costs associated with the City's depreciation and rate base components were determined, the calculations would be misleading. Chairperson Knecht requested Mr. Bonow to focus on the "two or three largest items just so we get some sense, in general terms, of the effect."

Chairperson Knecht suggested the following motion: **to adopt, as the cost allocation methodology on which the further modeling and cost allocation and rate design will be based, the base and excess methodology as outlined in the Cost Allocation to Customer Classes and Detail of Customer Class Cost Allocations handout, and within the context of the discussion at this meeting. Member Smeath so moved. Member Mullet seconded the motion. Motion carried 7-0.**

F-3. REVIEW OF RATES AND CHARGES OPTIONS, INCLUDING USER CHARGES AND CONNECTION FEES; ACTION TO DIRECT CONSULTANT IN DEVELOPING RATE METHODOLOGY SCENARIOS (1-0080) - Discussion took place regarding the purpose for this agenda item. Mr. Bonow advised that the mechanisms currently used by the City to recover revenue include, on the water side, a monthly consumption charge and a meter charge. The consultants have previously determined that utilizing those two fundamental types of rates is sufficient to meet the objectives outlined by the Committee in prior meetings. In response to a question, Mr. Bonow clarified that the charges would be based on the amount of water consumed and the type of meter connected, together with other fixed costs associated with customer billing and collection. He acknowledged that a two-part tariff is an adequate tool for accomplishing the objectives established by the Committee and the Board of Supervisors. He clarified

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that the level of rates and charges by customer class “is a different matter altogether.” [Member Mullet arrived at 5:35 p.m.]

Chairperson Knecht suggested that Mr. Bonow begin working on quantifying rates under a two-part tariff. Mr. Werner concurred. Mr. Bonow clarified that the tariffs referred to by Chairperson Knecht are “broad types.” He advised that the City currently has a tiered rate structure on the consumption charges, and suggested continuing to consider utilizing a tiered structure as part of the types of rates employed for water. He inquired as to the intent of the Committee to vary from the existing structure and consider an alternative. He suggested that to do so would be to move away from some of the policy directives employed in the past which incent conservation. Discussion took place with regard to the same, and Member Polito noted that comments from the Board of Supervisors at the September 5, 2002 meeting indicated they were interested in perpetuating the existing system. In addition, he noted the Board of Supervisors’ comments indicated an interest in eliminating the subsidies between residential and commercial classes. He suggested retaining the tiered structure, exploring possible alternative scenarios regarding the tail block covering marginal costs, examining scenarios to reduce subsidies across classes but increasing the magnitude of the last block. He expressed support for retaining the tiered structure and considering how to use it to achieve certain objectives.

Member Mullet suggested that the industrial tier needs to be blended and the industrial rate eliminated. He expressed support for retaining the tiered structure, but suggested that a small, industrial customer would “fit into the lower tier and graduate up.” He recalled a concern on the part of the Board of Supervisors to be mindful of the larger, residential customer who may be penalized for landscaping planted years ago. Chairperson Knecht suggested, on behalf of institutional customers which may be penalized by an ascending block structure, diminishing the steepness of the ascending rate. He commented, “from a general public policy and economics point of view, ... that an ascending block rate is most appropriate and most economically efficient ... when the marginal cost is higher than the revenue requirement average rate.” He suggested considering more of a flat rate which “is what used to be used to support declining block rates.” He further suggested giving serious consideration to less steeply graduated ascending block rates. In response to a question, Mr. Bonow suggested that if the number one goal is to have each customer class bear its fair share of the total costs, then the method by which the tiers are structured has less to do with equity among customer classes than it does within a customer class addressing the high end users versus the low end users of that same class. He expressed the opinion that regardless of how many blocks there are or the pace of growth in terms of per gallon charge within each block, the City’s objectives in eliminating perceived inequities between residential and other users can be accomplished using the existing structure. If the goal is to incent conservation or accomplish revenue recovery within a class, the blocks for each class can be adjusted separately or across the board to manage the high end versus the low end users. Chairperson Knecht thanked Mr. Bonow for the explanation and expressed agreement.

Member Mullet suggested that the new storm water rates will be an issue for some of the commercial/ industrial customers which have large facilities. He discussed incentives offered to such users, including gravel-based parking areas, etc. He suggested considering how industrial customers could be encouraged to landscape in such a way that would conserve water during peak usage months but also satisfy development requirements. He pointed out that industrial customers will be faced with a “very heavy storm water rate” in addition to the subsidy they are paying for water and sewer. He suggested this may encourage installation of a second meter, but reiterated the importance of balancing the issues. Member Polito referred to comments made at the October 4th meeting regarding the purpose of the study which

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showed “supposedly increasing marginal costs.” He suggested that the study analyzed two very large blocks which provided no information regarding “what’s really happening to the marginal costs at the end.” He cautioned that the work provided at the last meeting doesn’t necessarily support a flat or leveling out of the tiered structure. He suggested that using the report will require more detail, “something more akin to a true marginal cost analysis than these large incremental blocks.” Chairperson Knecht agreed, in principle, and advised that the Mayor “thought it was understated.” He suggested that if the report is substantially understated, there may be some support for a higher tail block. He indicated that the key fact seemed to be that the marginal cost was under \$.50 and the rate was three times that much. He suggested there is a large gap to close before a higher tail block rate could be supported. Member Riggs recalled that the Board of Supervisors requested the Committee to consider rate shock, and expressed the opinion that the recommendations of the Committee will need to be longer range. In response to a question, he suggested that retiering classes will be more long range. Chairperson Knecht commented that rate shock can occur in reallocation within or between classes.

Mr. Bonow referred to earlier comments regarding mandatory landscaping and suggested that attempting to structure rates to address a City policy may “muddy things a little bit.” He further suggested that the focus should be on recovering costs based on the cost allocation methodology. He expressed the view that generating revenue requirements based on mandatory planning decisions or behavior of certain customers on a voluntary basis “is initially beside the point.” He expressed understanding that these issues are important from a political or policy point of view. “From a cost causation point of view, the reason that you have that peaking is somewhat beside the point.” He requested clarification as to whether the Committee was interested in attempting to make a policy decision beyond cost recovery through the rate design. In response to a question, Mr. Bonow clarified that his comments were based on discussions to date regarding the costs borne by the utility and the methodologies for allocating those costs, using the base/extra capacity method. “In using that method, the reason those costs materialize; whether they are based on mandatory planned landscaping or voluntary lawn watering seem to be beside the point.” In response to a comment, Mr. Bonow expressed the opinion that revenue stability or recovery of costs on an adequate level is the number one goal for the calculation portion of the study. The costs and the way they are allocated are not based as much on policy-driven or voluntary behavior, but on water use regardless of the motivation. Chairperson Knecht suggested that considering recovery of fixed costs and assuring revenue stability is another reason that, all other things being equal, “front loaded ... declining block or flat rate cost structures instead of backloaded ascending structures would be favored.” Mr. Bonow disagreed, and suggested that this would add a higher level of revenue assurance but may not be consistent with the goals of ensuring revenues are generated from the areas costs are being generated. He commented that it would be difficult to draw the distinction that a declining block structure is better than an ascending block structure. He acknowledged that front loaded revenues result in a greater assurance that revenues will actually materialize, regardless of peak usage.

Member Osborne acknowledged that the Committee should be attuned to the issue of rate shock. He suggested that the foremost goal is to develop a recommendation to the Board of Supervisors that will solve the existing problem. He indicated that the Committee can make suggestions to the Board regarding how to implement the recommendations, but noted that it will ultimately be their decision. Chairperson Knecht requested input from the Committee members regarding commitment to ascending block rates or whether to also concurrently explore the possibility of more slowly ascending or a flat rate structure. Member Riggs expressed support for a “slower phased” tiered structure. In response to a request for clarification, Mr. Bonow explained that water use which results from mandatory landscaping or from voluntary outdoor

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watering by residential customers is simply water use. Whether it's driven by Planning Commission or Code requirements or "the desire to have a green lawn in front of your house," from the water utility's isolated perspective, it doesn't matter. It creates a burden on the system and associated costs which need to be recovered. Mr. Bonow clarified he was not suggesting a special rate because that would acknowledge a need to address a portion of water use that is based on requirements imposed by other City departments. He acknowledged that the issue is important. Member Riggs empathized with the commercial customers, but suggested that it is "part of the cost of doing business." In response to a question regarding whether or not to address City imposed requirements, Mr. Bonow suggested that such direction has not been provided under the current scope of this study. He noted that the direction is not included in any of the objectives; it would simply be a way of addressing what may be a particular customer concern. Member Smeath suggested that this concern would be more appropriately addressed by the Planning Commission. He acknowledged that equity issues are appropriately addressed by this Committee, but pointed out that the water utility does not impose the City's development requirements. He suggested that the inequity to be addressed by the Committee is that which exists between residential and commercial customers, "as opposed to the inequity of what the City is making the commercial [developers] do."

In response to a question, Member Smeath expressed support for the existing tier structure and for allowing the consultant to consider alternatives if information becomes available which indicates the tail blocks are way out of line. He commented he has not seen any evidence that "we're too far out of line." In response to a request for clarification, he reiterated his preference to use the existing tier structure. Vice Chairperson Martel expressed the opinion that the Committee "is heading down the right road," and unless there is some gross error in the angle of the ascending tier structure, there is no reason "to spend any more time on that." Member Osborne suggested that once a methodology is established, it can be used to set different tier rates and levels, including the tail block. He suggested no major changes are necessary other than adjusting tiers using the established methodology. Member Mullet commented that mandatory landscaping doesn't do anything for an industrial user's business. He expressed support for an ascending tiered structure and, expressed the hope that the model developed will allow for changes to the rates to determine the effect on the larger base. He suggested that rate shock will be less obvious if rates are spread over a larger base. He expressed the opinion that the adjustment needs to be made as quickly as possible. Mr. Bonow acknowledged that it would not be difficult to produce an alternative rate schedule with a slower ascending block characteristic. He explained that the mechanism for generating revenue for a particular class can be easily changed as long as the structure is created which indicates the consumption for each class and the costs allocated to each class. Once a determination is made as to how much cost a particular class should bear, the mechanism for generating that revenue has a wide range of latitude. In response to a request for clarification, Mr. Bonow reviewed the process for determining the impacts in terms of charges within each customer class depending upon the amount of water customers within that class use over a given period of time. The second element is that if the amount of revenue from a particular class seems to be too high, the Committee would be back in the position of having to determine whether or not to recover those costs from some other class which would get away from the idea of eliminating inequity. Chairperson Knecht expressed support for sticking with the current number of blocks and range, and the relative ascending levels. Mr. Bonow acknowledged that there is no "gross error" with the number of tiers, the angle of the tiers, or the relative difference. He advised that the existing structure is not out of line with the number of blocks and the relative cost per thousand gallons within those blocks as seen in other jurisdictions. Member Polito reviewed the Committee's work schedule and suggested that, although there are many scenarios he would like to examine, the Committee needs to move forward to determine rates.

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In response to a question, Mr. Bonow advised that as long as the method for allocating costs among customer classes is not changed, it is not a particularly onerous amount of work to consider alternatives because there will be the same amount of revenue requirements for each customer class. The method by which revenue is generated within each class is not a complex operation as long as the same costs to be borne and the same flow data is consistent. It is not particularly difficult to consider variations as long as the fundamentals don't change. Member Polito suggested prioritizing the types of scenarios the Committee would like to consider. He referred to discussions during the September Committee meeting regarding the two "bookend" rate schedules. He suggested that the Committee is at the point where prioritizing the work schedule is necessary in order to present rates to the Board of Supervisors. He expressed the opinion that the subsidy/no subsidy scenarios are more important than exploring different tiered structures. He expressed a preference for Mr. Bonow to provide information on subsidy rates and no subsidy rates using the existing tiers. Mr. Bonow advised that the events which have unfolded since the September meeting in terms of what the Committee has agendaized have caused the focus on the "bookend" rate schedules to be somewhat lost. He agreed that the bookend rate schedules would be instructive and acknowledged that they could be produced. Consensus of the Committee was to request Mr. Bonow to produce rate designs that focus on the two bookends.

In response to a question, Mr. Heath suggested that in order for Mr. Bonow to develop rate schedules, the revenue requirement will have to be known as well as some assumption regarding connection fees. Mr. Bonow advised that there are two types of capital, one which either refurbishes or services the existing rate base and the other which accommodates expansion of the system. Funding decisions on both need to be made in order to decide whether or not a large amount of near term funds for a pay-as-you-go approach are needed or a smaller amount initially, but longer over time, in terms of revenue generated to support debt. Member Polito expressed the understanding that a large part of the study is determining the capacity factors. He inquired as to the difficulty in plugging in revenue requirements numbers once the spreadsheet is developed. Mr. Bonow acknowledged that Member Polito's understanding was correct, and commented that part of the usefulness of the model is to make capital funding decisions "and quickly say, 'What if?'" He acknowledged that the pay-as-you-go and debt financing scenarios could be run through the bookend rate schedules as long as a clarification is reached regarding what is being financed. Mr. Heath assured Mr. Bonow that the requested information would be provided. In response to a question regarding connection fees, Mr. Heath explained that a determination regarding connection fees directly affects the user fee rate requirements. Discussion took place regarding determination of a connection fee value. [Vice Chairperson Martel left the meeting at 6:34 p.m. A quorum was still present.]

Mr. Heath referred to the FY 2004 Projection Calculation of Connection Fees - Water & Sewer Book Value Adjusted by the Engineering News Record Construction Index and the Annual Construction Cost Indexes and reviewed the same. He noted that the Engineering News Record Index yields a lower water connection fee and a higher sewer connection fee; however, the two figures are much closer to regional averages. Mr. Heath responded to questions regarding the calculation method, and discussion took place with regard to establishing a connection fee "starting point" and concerns regarding estimations of future growth. In response to a question, Mr. Werner reviewed the figures depicted and discussion took place regarding the FY 2004 projected connection fees. He explained that the residential customer class is not the largest contributor to connection fees. He discussed commercial modifications/expansions and such projects as Carson-Tahoe Hospital which will add a significant number of ERUs to the system. In response to a question, he advised that population projections can be provided, together with an associated estimate on commercial/non-residential projections. Chairperson Knecht summarized the discussion, and Mr. Bonow

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acknowledged that he had sufficient direction with which to proceed. Member Polito noted that the two bookends will differ in terms of one preserving the existing subsidies between classes and the other eliminating them. Member Osborne suggested that staff and the consultants spend their time developing a model which can be presented each year to the Board of Supervisors for review and possible rate adjustment. Member Mullet concurred. Mr. Bonow reviewed his understanding of the bookend which preserves the existing subsidy, and discussion took place with regard to the same.

Chairperson Knecht suggested the following motion: **to direct the consultant and staff to make the four bookend runs, two of which would be under the financing scenario, two of which would be under the pay as you go method; the bookends to be defined, in one case, as within the context of the cost allocation preserving the existing percentage subsidies and, in the other case, eliminating them; implicit in the direction would be to use the water and sewer connection charge net revenue yield for FY 2004 as discussed during this meeting.** Mr. Bonow acknowledged his understanding of the direction. **Member Osborne so moved. Member Smeath seconded the motion. Motion carried 7-0.**

[Chairperson Knecht recessed the meeting at 6:57 p.m. and reconvened at 7:06 p.m.] Mr. Werner acknowledged that the next meeting is scheduled for November 14th and that a report to the Board of Supervisors is scheduled for November 21st. Discussion took place regarding the time table in which the requested work could be provided to the Committee members.

G. ADJOURNMENT (1-3306) - Member Mullet moved to adjourn the meeting at 8:22 p.m. Member Riggs seconded the motion. Motion carried 7-0.

The Minutes of the October 10, 2002 meeting of the Carson City Utilities Advisory Committee are so accepted this 12th day of December, 2002.

RON KNECHT, Chair