

Tuesday, 7 P.M.

January 26, 1999

**UTILITY RATE REVIEW COMMITTEE
MINUTES**

Public Safety Building

Newberg, Oregon

Members Present:

Paula Fowler, Chair
Kelli Highley
Dan Schutter

Myrna Miller
Barry Babin
Debbie Sumner

Matson Haug

Members Absent: Rebecka Radcliffe

Others Present:

Mike Soderquist, Community Development Director
Randy Naef, Utilities Manager
Katherine Tri, Finance Director
Bob Tomlinson, CH2M HILL Consultant

1. Call to Order

The meeting was called to order at 7:00 p.m. by Chair Paula Fowler.

2. Roll Call

Roll call was noted by Kathy Tri.

3. Approval of Minutes

Haug/Highley moved to approve the minutes of the January 12, 1999 meeting.
Motion passed unanimously.

4. Water Rate Discussion

Bob Tomlinson reviewed the cost allocation process. He indicated that it was a three step process: review functionalization (categorize cost by function), classification (appoint functional costs to service characteristics, such as base flow, peak day, meters and customers), and allocation of service characteristic costs to customer classes.

Mr. Tomlinson then discussed water system costs by service characteristics. User charge revenue requirements were split among demand (average demand and peak demand), customers, meters (number of meters and size), general administration and fire. Newberg does not have special charges for fire within the water system. Next he reviewed the water costs by allocation parameters. These included average demand, maximum day demand, meter services and customer costs. He then reviewed the tables:

O&M1: The inflationary factor in this table was changed from 4% to 3.5%.
Wage related costs remained at 4%, while others, such as

professional services and operating supplies, had either no inflation or a higher inflation rate. The over all impact of these changes was to reduce the projections. A question was asked about beeper pay. Kathy Tri and Randy Naef indicated that the staff receives a flat amount to carry the beeper. Because it is a flat amount, it was not increased.

- O&M 2: This table summarized the detailed line item projections by program. These numbers were less due to the change in the CPI. The committee discussed the reserve for contingency. Bob Tomlinson will take this line out since it does not need to be replaced each year by rates. Randy Naef discussed the major differences between the budget and actuals. In 1998-99 increases included a full time utility engineer (in 1997-98 the position was open much of the fiscal year), meter replacement program, and increased operating supplies for the corrosion control program. In Distribution a laborer was added for hydrant and meter maintenance and to handle water quality issues. Dan Schutter suggested the staff provide a history of budget to actuals. Debbie Sumner indicated that this committee is not the budget committee and can't change the budget. Bob Tomlinson suggested not sharpening the pencil too much because there needs to be enough to protect the system in case of an unforeseeable event.
- Rev 1: This table projected the non-rate revenue for five years. These revenues are projected at 3.5%.
- Rev 2: This table divided the net revenue requirements from rates. The total amount will come down from \$9.8 to \$8.8 when the cash reserve is removed.
- COS 1: This table splits the program costs by function. Mat Haug asked if these splits were frozen over the next five years. Bob Tomlinson said that they should be reviewed every couple of years and there could be some change over time. Kelli Highley asked about the split of Distribution. It was suggested that the staff split out meter reading services from other meter services.
- COS 2: This table allocated the dollars based on the percentage distribution in COS 1.
- COS 3-6: These tables projected COS 2 over the next four years.
- COS 7: This table summarized the five year projection by function.
- COS 8: This table allocated function cost to service characteristics. General Administration was the weighted average of the other functions.

- COS 9: This table allocated the O&M costs by service characteristics for the five year period. The bottom of the table summarized the five year period.
- COS 10: This table allocated the percent of service characteristics to customer class. Average flow is based on actual data of class characteristics (USE 7); max-day flow was based on USE 10 meter services is based on USE 2; and billing services was based on USE 5. Residential equaled approximately 44% of base and max day flows and 66% of meter costs. The irrigation class will change these percentages.
- COS 11: This table allocated O&M costs to customer classes, with a five year summary at the bottom of the page. Single family residential equaled 49% of O & M; commercial was 16%; and multi-family was 15.4%. The irrigation accounts will change the max-day quite a bit.
- COS 12: This table allocated fixed assets by function. This table is used to look at the total system, current and future. Myrna Miller asked if the meters were included. Kathy Tri indicated that only the large meters would be included; however, she did not think these meters were capitalized. Their cost is in O&M. Bob Tomlinson said that if they were, they would be in distribution.
- COS 13: This table allocated the costs by fixed assets.
- COS 14: This table matched the SDC capital projects list and allocated the projects by function.
- COS 15: This table allocated the capital improvement plan costs by function. The total on this table equaled the \$13.8 million in future capital projects.
- COS 16: This table totaled the current fixed assets and future capital improvement plan costs by functions.
- COS 17: This table allocated resources for capital costs, less non-rate revenue, by function. The non-rate revenue included SDC revenue.
- COS 18: This table allocated capital costs by service characteristics. General Administration is divided by the weighted average.
- COS 19: This table allocated the capital costs by service characteristics over the five year period.
- COS 20: This table allocated the capital costs to customer classes based on service characteristics. Single family equaled 43% of capital costs; multi-family equaled 16.8%; and commercial equaled 18%.

COS 21: This table allocated total costs (O&M and capital) to customer classes. Single family equaled 48.6%; multi-family equaled 15.4%; commercial equaled 16.9%; George Fox equaled 1.7%; and public agencies equaled 7.3%. Bob Tomlinson pointed out that the irrigation class will change these percentages.

Bob Tomlinson indicated that at the next meeting the committee would review rate design and he will be presenting tables based on the current rate structure: billing base, meter and flow/volume. The flow rate will vary by customer class. The City's current rate is structured as a conservation rate since there is no allowable volume in the base rate. However the committee will have a chance to look at a block rate structure. This is a more aggressive approach to conservation. He will also present sample bills by different levels of usage. He noted that there is an elasticity of demand (more charged, less water used) and the City could come up short of revenue if the rate structure is too aggressive. Mat Haug asked about seasonal rates. Debbie Sumner reminded the committee that no matter what rate structure is chosen a certain amount of revenue must be raised. Bob Tomlinson indicated that he will do revenue projections for each scenario. He added that there are several ways in which to do a block rate. He gave several examples and added that a policy decision will be whether or not to consider a block rate for industry. He noted that industry is generally excluded from a block rate structure.

Paula Fowler stated that she would like to see the City adopt a different rate for outside users. Bob Tomlinson indicated that after the rates are presented the committee can propose deviations and an outside user rate would be a deviation. He added that it is not unusual to see an outside rate 1.5 times the in-city rate. He suggested the committee members review the paper handed out to them.

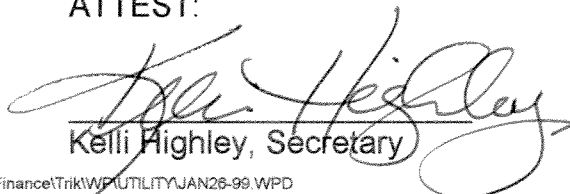
Myrna Miller asked how do you determine blocks. Bob Tomlinson said that you look at break points in customer class usage.

5. Adjournment

The committee discussed how many more meetings would be needed. Staff felt that two more meetings would be sufficient. The meeting was adjourned at approximately 8:25 p.m. until the next meeting at 7:00 p.m. on February 9, 1999 at the Public Safety Building.

Approved by the Utility Rate Review Committee on this 23rd day of February 1999.

ATTEST:


Kelli Highley, Secretary