Tuesday, 7 P.M. **February 9, 1999**

UTILITY RATE REVIEW COMMITTEE MINUTES

Wastewater Treatment Plant **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
Duane Cole, City Manager

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

Several changes were made to the minutes. Miller/Highley moved to approve the minutes of the January 26, 1999 meeting as corrected. Motion passed unanimously.

4. Water Rate Discussion

Mr. Tomlinson began reviewing the handouts which included all the tables in the model. He then highlighted the changes. All the pertinent tables now include a new class for irrigation meters. There were 64 irrigation accounts which were primarily in the commercial, industrial, university and public agency classes. They accounted for 5.3% of the total water use which was fairly significant. The class also affected the peaking factor significantly and was greater than expected. Mat Haug asked how the conservation program worked with the irrigators. Randy Naef responded that the City had identified the largest users and worked with them. Most the largest accounts are included in the irrigation class. The City conservation ordinance states that the City will work with the irrigators to cut back; if the emergency continues, all City users will be asked to cut back.

Other changes included:

O&M1:	The meter readers ($58,000) were transferred to Billing Services. The staff indicated that the reserve was already funded; it was taken out of the rate calculation.
O&M 2:	He indicated that estimated actual was approximately 95%; so the rates are projected to recover 95% of costs.
Rev 1:	Connection charges had been missed and were added.
Rev 2:	The $1.5 million in current year capital was removed since it had no rate impact.
COS 1:	In this table the staff reviewed the percentage splits and recommended changing the Administration splits to more accurately reflect time spent on each function area. The split for the transfer was also changed to more accurately reflect the depreciation schedule. Kelli Highley asked about the fire truck fee. Kathy Tri explained how the utility billing system dealt with the fire fee.
COS 21:	This table summarized the allocation of total costs by customer class, including the new irrigation class which equaled 8.3%. The rate tables will design rates to collect the proportionate costs from each class.
Rate 1:	This table converted gallons (USE 7) to hundred cubic feet (ccf). 7.48 gallons equals 1 ccf.
Rate 2:	This table divided the total five year revenue requirements (COS 21) by the five year demand in ccf (Rate 1) to create a five year average volume rate by class. The system rate equaled $1.55/ccf. Multi family was lowest at $1.23 and irrigation was highest at $2.43/ccf. Mr. Tomlinson pointed out that the maximum day peaking factor caused the irrigation class to be high. Barry Babin pointed out that it costs more to serve high end users.
Rate 3:	This table estimated the revenues generated by the volume rate. This table ensured enough revenue will be raised over a five year period.
Rate 4:	This table added the meter charge, which made the volume rate decrease for each class.
Rate 5:	This table computed the monthly billing charge and meter charge. The billing charge was computed by dividing billing costs by the number of bills. The charge increased from the current $1.83 to $2.60. The meter charge was computed by dividing the meter costs by the number of equivalent meters (Use 4) for the 3/4" meter and factored up for the larger meters using the AWWA factors. The 3/4" meter costs, which most single family accounts have, increased from $.65 to $1.81 per month.
Rate 6:	This table computed the five year average of the service charge, meter charge and volume rate to determine annual revenue. Over the five year period, $3,581 will be over collected. Mr. Tomlinson pointed out that this is very close.
Rate 7:	This table was the annual incremental volume rate plus customer charge to determine annual revenue requirements.

Rate 8: This table summarized the current and proposed rates. Bob Tomlinson pointed out that he assumed a 1.5% of residential volume charge for outside users. He explained that 1.5% is typical and justified. He reminded committee members of the "White Paper" that was handed out several weeks ago on this topic. He explained that it is reasonable to charge outside users more because the City takes on the liability to serve and the liability on debt. He also stated that it is more defensible to put the charge in the volume rate.

Kelli Highley stated that she was comfortable to have the additional charge in the volume rate. Myrna Miller stated that this is more of a political issue. Dan Schutter pointed out that the outside users peaking factor was lower than single family (Use 9). He asked if the 1.5% was appropriate based on the peaking factor. Bob Tomlinson pointed out that the 1.5% is getting away from the cost of service model for one class. He stated that 1.5% to 2% were common. Paula Fowler pointed out that the outside users are using the City resource and this is probably a political issue. Debbie Sumner questioned why outside users should be punished since some of the users had had City water for 25 to 40 years. She agreed the City should recoup its costs but that these customers should not be punished.

Bob Tomlinson pointed out that on Table Use 21, the total allocated costs were $514,620 and the five year average collected was $794,300 or 1.54% difference.

Rate 9: This table computed typical bills. Generally, the bills decrease. Low end users will see an increase in bills because fixed costs will be higher. The average costs for single family will decrease by 4.1%. The industrial accounts will see an increase as will the irrigation accounts. He estimated that the University accounts may come out about the same. Mike Soderquist mentioned elasticity of demand. Bob Tomlinson stated that he looked at that and the irrigation accounts would be affected the most.

Mat Haug asked if it were cheaper to domesticate irrigation meters if the rate is less. Randy Naef stated that the City reviews who gets irrigation meters. Mat Haug stated that he was uncomfortable with who decides if a builder gets an irrigation meter. Dan Schutter stated that the University has added irrigation meters and this is a good trend. However, if the irrigation rate is too high, it becomes a disincentive to separate meters. Bob Tomlinson stated that it is a question of equity and conservation.

Rate 10: This table is a regional comparison of regional water bills for 10 ccf.

Rate 11: This table began the review of block rates. Bob Tomlinson stated that the current rate structure is a conservation rate structure. He presented a two block rate proposal which targets the highest

users. He stated that too many blocks makes it hard to understand and explain to customers. He recommended exempting industrial customers. Barry Babin expressed concern with having a block rate for apartments which tend to have lower income residents.

Rate 12: This table projected water demand by rate block.

Rate 13A & 14A : These tables included the proposed block rate which was 10% higher. Bob Tomlinson stated that block rates will over collect revenues; consequently, the block 1 volume rate needed to be reduced by about 2%("B" tables).

Rate 15A: This table showed typical bills.

Rate 16: This table was the regional bill comparison.

Rate 13B, 14B, 15B: These tables showed the adjusted base rate with a block rate. The base rate decreased 2%.

Mat Haug expressed that the block scheme may not get the results because of the reduced rate. If the CIP comes on line, the peaking problem will go away. Mike Soderquist stated that the City still needs a conservation program. Bob Tomlinson agreed that the rates do not send a conservation message. Paula Fowler stated that conservation is "touchy feelly" and that technology is built into plumbing products making many household more water efficient. Bob Tomlinson stated that the current rate is a good rate and that the block rate would not work for conservation for a couple of years. He added that this is a unique situation because rate are projected to decrease. Kathy Tri stated that the staff would look at some University accounts to determine impact of the the irrigation rate. Barry Babin expressed concern over the proposed SDC charge. He felt the additional revenue from rates should be shifted to defray SDC costs.

Kathy Tri reviewed the rate setting procedure. She indicated the Committee must hold a public hearing on the rates before they can go the City Council. She suggested the Committee set the public hearing at the next meeting.

5. Adjournment

The meeting was adjourned at approximately 9:02 p.m. until the next meeting at 7:00 p.m. on February 23, 1999 at the Wastewater Treatment Plant.

Approved by the Utility Rate Review Committee on this ___ day of _____, 1999.

ATTEST:

_____
Kelli Highley, Secretary