JOINT MEETING OF THE
INTEGRATED RESOURCE PLANNING ADVISORY COMMITTEE
AND FINANCIAL SUBCOMMITTEE
MEETING SUMMARY

March 11, 2013, 4:00 p.m.

Colorado River Conference Rooms, Southern Nevada Water Authority
100 City Parkway, Seventh Floor, Las Vegas, Nevada

IRPAC Members Present	Tom Burns	Bob Kasner
	Yvanna Cancela	Jennifer Lewis
	Kirk Clausen	Bobbi Miracle
	Thalia Dondero	John Restrepo
	Bob Ferraro	Scot Rutledge
	Mike Forman	David Scherer
	Garry Goett	Danny Thompson
	Carol Jefferies	Virginia Valentine
IRPAC Members Absent	Joyce Haldeman	Otto Merida
	Warren Hardy	Phil Ralston
	Katherine Jacobi	
Financial Subcommittee Present	Brian McAnallen	Gay Shoaff
	Jarmilla McMillan-Arnold	Tom Warden
	Terry Murphy	Joe Woody
Financial Subcommittee Absent	Jay King	
Staff Present:	John Entsminger	Zane Marshall
	Rick Holmes	Frank Milligan
	Greg Walch	Julie Wilcox
	Ken Albright	Andy Belanger
	Kevin Fisher	Katie Horn
Others Present:	Guy Hobbs	Thomas Toepfer

PUBLIC COMMENT

There was no public comment.

SUMMARY OF ACTIVITIES

The Southern Nevada Water Authority's (SNWA's) Integrated Resource Planning Advisory Committee (IRPAC) and member agency financial subcommittee (Financial Subcommittee) met on Monday, March 11, 2013. The meeting began at 4:07 p.m.

Approve the February 11, 2013 meeting summary. There being no comments or questions, the meeting summary was approved by the committee.

Review funding and revenue scenarios. Facilitator, Dave Ebersold, outlined the meeting goals:

- Review customer types for comparisons and select specific customer types for ongoing comparisons
- Review previous rate examples
- Review additional rate examples
- Discuss rate examples and appropriate next steps

At the February meeting, the committee asked for a comparison of total revenues for residential customers versus non-residential customers prior to the implementation of the infrastructure surcharge and after. Using September 2011 and 2012 examples, John Entsminger, SNWA Senior Deputy General Manager, stated that there was virtually no impact to the revenue shares after the implementation of the infrastructure surcharge. In a cooler month, such as November, non-residential customers paid approximately 2 percent more of the revenue share after the infrastructure surcharge was implemented.

Bob Kasner stated that based on the information provided, there was not a big shift in the revenue stream from residential to non-residential customers, yet he had heard that business bills doubled or tripled after the infrastructure surcharge was implemented. Mr. Entsminger said that on a percentage basis, businesses were impacted to a greater extent than residential customers. In aggregate, however, because there are many more residential accounts, the overall revenue stream was not materially affected by the implementation of the infrastructure surcharge.

Guy Hobbs of Hobbs, Ong & Associates added that the information provided depicts the Las Vegas Valley Water District's (LVVWD's) revenue from all sources, not just the infrastructure surcharge which comprises only a portion of the overall bill. John Restrepo noted that by looking at the aggregate revenue, the impact of the infrastructure surcharge to individual businesses may be muted.

David Scherer said smaller businesses with a high consumptive use, large customer base, and fire protection requirements are impacted the most. Therefore, he wants to see the committee consider the fairness attribute in dealing with this customer class.

Mr. Entsminger advised that in creating examples and scenarios, there are limits to the LVVWD's ability to create typical bills for customer groups. For example, customers are categorized by water use and land use codes. However, some customers do not have a specific land use code, such as non-profits and car washes. Accounts for specific non-profits or car washes can be pulled, but the LVVWD cannot pull all non-profits or car washes and provide a generalized bill. Additionally, many land use codes are extremely broad, such as schools. Mr. Entsminger explained that a bill for an elementary school with limited turf will vary from a high school with three large sports fields. What staff has done is generally categorize residential and non-residential uses by meter size and then expand that list with targeted constituencies within the community.

Mr. Hobbs provided the committee with residential samples (by meter size) and non-residential samples (by category such as high rise, restaurant, fast food restaurant, golf course, park, hotel/casino, etc.). For the non-residential samples, Mr. Hobbs said that the land use codes do not allow him to select examples the way the residential meter sizes do. Therefore, the committee will need to identify specific properties to be used as examples of possible impacts. Mr. Hobbs reminded the committee that typical bills were derived by looking at the average usage within each category and finding a specific bill that matched. The committee decided to identify the customers whose bill range in the middle 80 percent, which represents the majority of customers within the category, and take the median of the 80 percent to demonstrate typical impact rate scenarios. Additionally, the midpoint of the upper 10 percent would be used to represent what the upper range might typically look like.

Mr. Kasner asked how much of the SNWA's revenue is consumption based. Thomas Toepfer, Public Financial Management, said it is 13 to 15 percent. Mr. Hobbs promised to provide more detail at a future meeting.

The committee agreed to use the following properties for scenario modeling purposes:

Customer Type	Specific Property	Addresses Provided By
Hospital	Sunrise and St. Rose Hospital, San Martín Campus	
Self-Storage Facility	Storage One	Bobbi Miracle
Commercial High-Rise		Bobbi Miracle
Commercial Office Park		Bobbi Miracle
Mobile Home Park		Guy Hobbs
Residential High Rise	Ogden and Queensridge	
Large Warehouse		David Scherer
Small Warehouse		David Scherer
Free-Standing Restaurant	Lawry's	
Standalone Fast-Food Restaurant		
Government Building	Clark County Regional Justice Center	
Hotels/Casinos	Bellagio, El Cortez, and Suncoast	

Mr. Hobbs explained the impacts that can be expected under the various scenarios and reminded the committee of the examples provided at the February 11, 2013 meeting:

1. Commodity Charge increase

2. Infrastructure Charge increase
   a. No increase to firelines
   b. Increase to firelines

3. Hybrid: Commodity Charge and Infrastructure Charge increases
   a. No increase to firelines
   b. Increases to firelines

Mr. Hobbs showed a slide titled *Impacts of Rate Examples on Single-Family Residential*, which is a visual representation of the potential impacts under the three scenarios. Using a baseline charge of $34, the chart showed what the rate increases might be under each scenario in years 2016 and 2017.

Single-Family Residential	**2016**	**2017**
Commodity	$38	$41
Infrastructure (without firelines)	$41	$45
Infrastructure (with firelines)	$40	$44
Hybrid (without firelines)	$40	$43
Hybrid (with firelines)	$40	$43

John Entsminger noted that the baseline charge of $34 was derived from using the median of the 80 percent of average users. Mr. Hobbs then showed similar charts showing the impacts to a high school, a mall, and a commercial laundry.

Mr. Hobbs began an introduction of four new rate scenarios for the committee's consideration.

- Adjusting firelines to track with CPI (3 percent)
- Rate increases to begin in 2014 to reduce the spike in 2016 and 2017

2. Infrastructure Charge increase
   c. Increase existing fireline charge by 3 percent inflation
   d. Increase existing fireline charge by 3 percent inflation and gradual increases to the Infrastructure Charge beginning in 2014
3. Hybrid: Commodity Charge and Infrastructure Charge increases
   c. Increase existing fireline charges by 3 percent inflation
   d. Increase existing fireline charge by 3 percent inflation and gradual increases to the Infrastructure Charge beginning in 2014

Example 2C

Referring to a chart titled *Example 2C: Increase Infrastructure Charge (with increase to firelines by 3% annual inflation)*, Mr. Hobbs noted that residential 5/8-inch and 3/4-inch meters increase from $5 to $10.95 in 2016. In 2017, the rate increases to $15.24. The rate then begins to slowly decrease in 2018 and 2019. Referring to a non-residential 3-inch meter with a fire meter, the rate of $40.41 stays consistent from 2013 to 2015. The rate increases to $41.62 in 2016, $42.87 in 2017, and by 3 percent annually for the duration of the rate-setting period. Mr. Hobbs noted that 3 percent is a proxy for whatever rate the committee decides upon.

Example 2D

Under Example 2D, the rate increase would be implemented in 2014 to reduce the spike in 2016. Referring to 5/8-inch and 3/4-inch residential meters on a chart titled *Example 2D: Increase Infrastructure Charge - New Rates Effective 2014*, Mr. Hobbs explained that the rate begins at $5 in 2013 and increases by $2 each year through 2017. From 2018 through 2021, the rate remains flat at $13.55. Mr. Entsminger said that one of the concerns heard from the business community after the last rate increase was rate shock—the rates were raised quickly and all at once. He stated that Example 2D would provide some certainty in the schedule and soften rate shock.

Referring to Example 2D, Mr. Scherer noted that 2014 and 2015 rates are higher than Example 2C, but the rates even out in 2016 and then are less than Example 2C in years 2017 through 2021. Mr. Hobbs added that in Example 2C, the charge tops out at $15.24 for single-family residential. In Example 2D, the charge tops out at $13.55. Mr. Kasner said that a gradual increase would be less of a shock to customers and be more appealing to credit agencies. Mr. Hobbs agreed.

<u>Example 3C</u>
This hybrid scenario increases the Commodity Charge and Infrastructure Charge to fund revenue shortfalls equally (50/50), increases the fireline charge by 3 percent annually, and removes the $5 cap from single-family residential customers' infrastructure charge.

<u>Example 3D</u>
This hybrid scenario is similar to Example 2C but the rate increase would be implemented in 2014 to reduce the spike in 2016.

Mr. Hobbs then showed a bar chart titled *Impacts of Rate Examples on Single-Family Residential (Median Use)*, which illustrated the impact of all nine scenarios. Mr. Hobbs said there is little or no difference between some of the Examples in years 2016 and 2017. He suggested that more than two years should be represented. He also noted that nine scenarios is a lot for the committee to consider.

Mr. Forman said he would like to see fewer scenarios, but also suggested a sensitivity analysis be conducted on some of the other variables, such as population growth, sales tax revenues, and water sales. Mr. Hobbs agreed and said those tweaks will be done when the number of scenarios is more manageable.

Next, Mr. Hobbs showed bar graphs depicting the impacts of the rate examples on a high school, mall, and commercial laundry. Mr. Ebersold noted that on all three graphs Example 1 - Commodity Charge has the highest impact to this customer. The lowest impact occurs when the increase is all on the Infrastructure Charge (Examples 2A, 2B, 2C, and 2D), and a balance seems to be reached by the hybrid examples (3A, 3B, 3C, and 3D). Mr. Hobbs showed similar graphs for a mall and a commercial laundry.

Mr. Ebersold asked the committee to provide input on the material Mr. Hobbs provided. Mr. Kasner said that relying on the Commodity Charge might have a negative effect and a positive effect. The negative effect is the reliance on a volatile revenue source. The positive might be that users will have an incentive to use less water. Mr. Rutledge added a rate based all on the Infrastructure Charge takes away the incentive to conserve water.

Mr. McAnallen asked for a breakdown of the number of active meters by size. Mr. Entsminger said that information can be provided but only for customers of the Las Vegas Valley Water District (LVVWD).

Bobbi Miracle noted that the recent fire meter charges created the most concern. She cautioned that an annual 3 percent increase (CPI increase) for a fire meter that will rarely ever be used, might continue to cause concern. In response, Mr. Hobbs explained how the examples treat the firelines in three different ways. The first approach does not increase the fire line rate above the dollar amount currently being paid per month per meter. The second approach increases the rate by the cost of inflation. The third increases the firelines by the same percentage as the Infrastructure Charge. During the last process, fire meter rates started at 40 percent, dropped to 35 percent, and then a 50 percent credit was implemented making it a net 17.5 percent charge of the Infrastructure Charge.

Mr. Restrepo confirmed that the LVVWD represents 67 percent of all retail customers.

Mr. Ebersold asked the committee if it recognizes an approach that does not make sense to consider further and/or can be removed. Mr. Forman said that for purposes of encouraging conservation, increasing only the Infrastructure Surcharge does not make sense. He suggested the committee consider the Commodity Charge increase or one of the hybrid methods. Mr. Goett said he is not sure that raising the Commodity Charge means customers will use less water. Mr. Restrepo added that the goal is to find a relatively stable source of revenue to pay off the debt. He stated that the hybrid approach Example 3D strikes a reasonable balance between consumption and stability. From a policy standpoint, Mr. Restrepo said it is good to have a blend or hybrid, and he recommended Example 3D. Mr. Ebersold clarified that Mr. Restrepo recommends a hybrid method, ramping (as opposed to shocking), and inflation indexing the fireline charge. Mr. Scherer said he is opposed to inflation indexing the firelines (at any rate of increase) because it negatively impacts small businesses.

Mr. Hobbs added that one of the three fire meter scenarios is a rate of 17.5 percent, which is the most onerous approach for the fire meter situation. Mr. Hobbs said that if the committee finds this method objectionable, eliminating it would take away two of the examples. Mr. Scherer restated that businesses with firelines are impacted—not residential homes. Gay Shoaff said that businesses with firelines get a break on their insurance. In looking at the information provided, she sees rate shock for the residential consumer over the next few years if the scenario only increases the Infrastructure Surcharge.

Mr. Ebersold reminded the committee that a recommendation does not need to be made now. However, he said the field of options needs to be narrowed so the committee can explore the nuances of the examples. Mr. Ebersold said he heard the committee say that examples that affect just the Infrastructure Surcharge (Examples 2A, 2B, 2C, and 2D) can be eliminated. Several committee members agreed.

Mr. McAnallen said that since the committee was just presented with four of the examples, he would prefer to have the committee wait to remove any options until the April meeting. Terry Murphy agreed. Mr. Forman stated that the committee will be wasting a month unless it comes back in April prepared to reduce the options by five or more.

Mr. Ebersold asked the committee to outline objectives for the April meeting. Mr. McAnallen said the next meeting can begin with a discussion of which scenarios should be removed from consideration. Mr. Rutledge added that in addition to the LVVWD Revenue Comparisons chart provided at this meeting, he wants to see a comparison of usage for residential and non-residential customers.

Mr. Kasner said that although he initially thought he needed a month to review all the scenarios, he changed his mind. Upon reflection, he said it would be a mistake to raise rates and not incentivize consumers to conserve via the Commodity Charge. Therefore, he would be comfortable eliminating the examples that just affect the Infrastructure Charge.

Ms. Murphy noted that businesses are required to have firelines for safety purposes. Therefore, she thinks those businesses should bear the full burden of the fire meter charges. Mr. Scherer pointed out that a restaurant owner, for example, is required to install a fire meter for the safety of his customers. Therefore, the customers benefit from it and should share in the cost. If not, business owners will have to increase prices to cover the cost of the fire meters. Ms. Miracle added that per building codes, the requirement for a fire meter varies by the size of the building.

Mr. Hobbs noted that there are three approaches to handling the firelines. He has not heard anyone argue in favor of increasing the fireline rate proportionate to the Infrastructure Charge and, therefore, suggested that Examples 2B and 3B could be eliminated. Also, the Commodity Charge-only approach (Example 1) might cause a cascading effect of potential rate increases at the retail level to compensate for the lower amount of consumption that occurs.

Mr. Ebersold stated that the committee has received a lot of information regarding the general principles underlying three major variants of the rate structure:

1. Commodity-only
2. Infrastructure-only
3. A Hybrid method

Mr. Rutledge asked staff to develop additional hybrid options. Mr. Entsminger suggested a hybrid approach of 25 percent fixed/75 percent commodity and vice versa.

Mr. Kasner asked if there is any information available on how raising the Commodity Charge affects elasticity. Mr. Toepfer said that an increase of 1 percent to the bill will result in a decrease in consumption of a third of a percent in the wholesale water bill. Mr. Hobbs said he will provide information to the committee regarding how an increase in the Commodity Charge affects the retail side.

Mr. Scherer asked if the Southern California Metropolitan Water District (MET) has a hybrid rate. Mr. Entsminger said MET charges 100 percent on wholesale delivery charge. He explained that the LVVWD's wholesale delivery charge is $293, and MET's is more than $900. Mr. Scherer asked if that would be practical for the SNWA to consider. Mr. Entsminger that the SNWA's wholesale delivery charge is used for operating expenses only and is billed to the member agencies.

Mr. Ebersold stated that the committee will meet in April ready to eliminate examples from further consideration. Staff will revise hybrid scenarios and will fill out matrix of business types based on addresses provided by committee members.

PUBLIC COMMENT

There was no public comment.

ADJOURNMENT

The meeting was adjourned at 6:08 p.m.