

CRC Summary Meeting Notes

Meeting: Portland Water Conservation Rate Structure CRC
Meeting Date: September 20, 2012
Meeting Time: 2:00 pm
Location: Chinook Conference Room, Portland Building
Attendees: Hossein Parandvash, City of Portland
Edward Campbell, City of Portland
Cecelia Huynh, City of Portland
Lorna Stickel, City of Portland

CRC Members

John Davis (CRC Chairperson)
Roger Cole
Ann Widmer
Janis Adler
Jesse Stegman

Other Attendees

Gary Fiske (Consultant)
Tom Chesnutt (Consultant)
Trudy Cooper (Facilitation/Documentation)
Jamison Cavallaro (Facilitation/Documentation)
Neelam Jain (WebEx)

The third Portland Water Conservation Rate Structure Study Citizen Review Committee (CRC) meeting was held on Thursday, September 20th at 2:00 p.m. in the Portland Building. The primary purpose of this third meeting was to solicit feedback from the CRC on *Task C Technical Memorandum* as well as the final draft evaluation criteria list for the Study and the retail customer demand modeling issues for future *Task B Memo*. (NOTE: *Task Memos* are prepared by the consultant team.) The meeting agenda is attached. Other handouts provided prior to and during the meeting included:

- Task C Memo: Evaluation of Current PWB Retail Rate Structures by Gary Fiske
- Evaluation Criteria Definitions List by Gary Fiske
- August 23, 2012 CRC Meeting #2 (Draft) Summary Notes by Jamison Cavallaro

Introduction and Housekeeping

Hossein Parandvash opened the meeting at approximately 2:00 PM. Everyone introduced themselves during the opening discussion.

Hossein Parandvash thanked the consultants and CRC for the progress made thus far. CRC Meeting #2 Meeting Summary Notes were reviewed and Lorna Stickel suggested a minor revision under Key Points on page three for bullet two. She suggested that it read, "This Study

relates to a PWB requirement to evaluate water (conservation) rate structure as one of the five-year benchmarks within the approved Water Management and Conservation Plan (WMCP) for 2015-2020.” The bullet as written states, “This Study relates to the Water Bureau’s water efficiency efforts in relation to the 5-year benchmarks of the Water Management and Conservation Plan (WMCP) for 2015-2020.” All were in favor of the suggested revision.

CRC DECISION

- o August 23, 2012 CRC Meeting (Draft) Summary Notes approved with suggested revision.

I. STUDY Feedback // Key Points // Decisions Made

A. Task C Technical Memorandum

Gary Fiske gave a PowerPoint presentation about *Task C* Technical Memorandum about (current retail rate structure) data, analysis, assumptions, and conclusions. The introduction of *Task C* Memo reads as followed:

“One of the determinants (but not necessarily the only determinant) of the need for additional conservation is the degree to which future demands are projected to outstrip available supplies. The analysis thus begins with a comparison of projected future water demands and supplies. In addition, the analysis (within the memo) addresses:

- o Anticipated economic costs and benefits;
- o Impacts on low and fixed-income customers;
- o Provision of appropriate economic signals to customers; and
- o Risk of revenue instability.”

Using graphs and charts from the memo within the Powerpoint presentation, Fiske explained that current low-end supplies of approximately 220 Million Gallons a Day (MGD) minus the forecasted Year 2030 high-end demand (approx. 189 MGD Avg. Peak-Season Daily Demand) would result in a projected 2030 surplus of at least 31 MGD during peak-season. Fiske cited the PWB’s customer demand forecasts, which are based on demand-driver scenarios for both normal and 1967 Weather. The discussion soon transitioned to rates as Fiske addressed the degree to which current rates are transmitting appropriate price signals and highlighted his summary from the memo:

“In summary, it can be argued that the current rate structure is not transmitting the proper economic signal to customers; rather, it is encouraging customers to consume at a level that is below that which is economically efficient. This is largely due to a combination of high fixed costs, low production costs, and projected demands that are significantly less than current supplies.”

Fiske ended the first portion of the presentation by emphasizing that his conclusion about price signals is a generalization not exclusive to Single or Multi-Family Residential, Commercial/Industrial, or Wholesale customers. He fielded questions and reiterated the importance of an in-depth understanding of average cost vs. marginal cost. He also cited Technical Memo A and C for more details regarding residential customers’ total water utility bill in relation to average price and marginal price.

The discussion among the consultants, staff, and CRC then focused on revenue stability and the administrative cost of alternative rate structure/billing system implementation. Several times during the presentation, meeting attendees discussed another key conclusion from the *Task C Memo*, which states the following:

“A corollary of the sufficiency of future supplies is that the economic benefit of conservation to the Bureau and its ratepayers is small. Thus, the economic benefit of any alternative rate structure that may encourage conservation is small and these benefits may or may not exceed the incremental administrative costs of this new rate structure. Even if the benefits do exceed the costs, the net benefit is likely to be small.”

Then, Fiske led the group in a discussion about administrative costs by pointing out that it could be expected that rate structures that are more complex than the current uniform rate are likely to have higher administrative costs.

The CRC asked the consultants whether they knew approximately how much more costly a different structure would be to administer. For example, the question was presented as to whether an alternative PWB rate design would be 10% or 50% more costly to administer than the present or pre-2006 structure/billing system. Neither the consultant or Bureau staff could answer this question because of the unavailability of data.,

Similar to the discussion on price signals, the discussion that transpired regarding revenue stability/adequacy included all customer classes not exclusively revenue from residential classes.

CRC DECISION

- None.

KEY POINTS

- 1967 weather conditions yielded the highest expected peak-season demand.
- City of Tacoma uses a guiding rule of “Not to Exceed 60%” for Fixed SFR revenue as a percent of total SFR revenue.
- Comment by Adler and others: 9,350 households currently receive Low-Income Assistance Program discounts on their bill. How many total households are eligible?
- Comment: Wholesale accounts/contracts can provide a degree of revenue stability. From a revenue stability planning perspective, how substantive and/or significant are current revenues from wholesale vs. retail customers?,

B. Overview of Work in Progress: Task B Technical Memo and Alternative Rate Designs

The consultants, Fiske and Chesnutt, provided PowerPoints to provide updates of their work in progress. In CRC Meeting #2, the consultants explained that *Task B* focuses on modeling of various determinants such as weather, the economic cycle, and other drivers of long term growth--population, income, price, water efficient technology, land use planning and customer ethic/behavior. Today, they moved forward with more overview information. (NOTE: Task B Technical Memorandum has not yet been completed, but is in progress. The work of Task B is centered on modeling that statistically analyzes these determinants

Tom Chesnutt presented information about demand analysis. Chesnutt highlighted ingredients needed for planning such as level, shape, uncertainty, response, and water savings achieved. He reminded the meeting attendees that per-capita and aggregate water demand is down in Portland and nationally. Then he explained that his work to date on this study’s demand model, after

controlling for weather and employment, leads him to seek causes for the remaining declining trend in demand. He showcased a graph of “Estimated Passive Conservation” based on 20-years of plumbing code updates as well as new and natural turn-over in the city’s stock of housing units, employment buildings/facilities. For example, hotels built within the past 20 years installed low-flow faucets, showers, and toilets. Other examples to quantify passive conservation include land use planning rules and associated zoning ordinances. Such policies enacted over the last few decades encourage single-family residential lots (usually 5,000 sq. ft. and smaller), accommodate apartments and similar densities/building heights through multi-family zoning uses both outright and conditional use, and urban growth boundaries to meet urban growth management goals that apply in Oregon as implemented through Metro and local planning requirements.

During the overview, a discussion transpired about seasonal use (i.e. peak months --- approx. 122 days) and seasonal rates.

Mr. Fiske presented an overview of rate design alternatives to be considered in the analysis.

- Uniform Rates
- Increasing Block Rates
- Seasonal Rates
- Seasonal Block Rates
- Higher/Lower Fixed Charges
- Customer-specific, Budget-based (e.g. household size, lot size, etc.)

Fiske and Chesnutt suggested that some rate structure design types will be modeled quantitatively and others qualitatively. Some will undergo quantitative and qualitative modeling and others qualitative only. The meeting attendees understood that that model might take some time to populate and calibrate. The consultants explained that the next step is to work more closely with staff on the design and approach for modeling each structure. The CRC can expect to receive more refined information about the above listed structures at the next CRC meeting. Chesnutt mentioned that the consulting team might not have the models ready to show by the next meeting, but intend to have more to show about their work in progress.

Gary Fiske distributed a handout describing the proposed final set of evaluation criteria, which included basic definitions for each of the 10 criteria. The list included the following (in no particular order):

- Conservation impact relative to current rate structure
- Cost/difficulty of implementation
- Intra-class equity
- Public understanding
- Public acceptance
- Potential revenue impacts (revenue stability/adequacy)
- Ease of updating
- Legality
- Affordability
- Support of sustainable growth

Fiske reminded the CRC that the list facilitates an analysis of trade-offs among alternative rate structures and that there will be no attempt to weight the 10 criteria.

CRC DECISION

- Tentative approval of the list of design types. More definition is needed to approve list.

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- Final approval of the evaluation criteria list.
- The public acceptance of criteria is a placeholder and will be looked at in more detail as the metrics for measurement are proposed and applied.

Next Meeting Date

Hossein Parandvash summarized the ideas, comments, other key points, and decisions made during the meeting. The next CRC meeting will be held on Thursday, October 18 at 2:00 p.m., Chinook Room, 14th floor, Portland Building.

Issue Date September 25, 2012

Prepared for PWB by Jamison Cavallaro