

**MINUTES OF A REGULAR MEETING OF
THE TORRANCE WATER COMMISSION**

1. CALL TO ORDER

The Torrance Water Commission convened in a regular session at 7:05 p.m. on Wednesday, January 27, 2016 in the West Annex Meeting Room at Torrance City Hall.

2. ROLL CALL:

Present: Commissioners Chim-Lieu, Craft, Marshall,
McGee, Nishinaga, See, and Chairperson
Kawai.

Absent: None.

Also Present: Public Works Director Beste,
Deputy Public Works Director Knapp,
Senior Administrative Analyst Schaich,
Water Operations Superintendent Berndt, and
Metropolitan Water District Director Lefevre.

3. FLAG SALUTE

Chairperson Kawai led the Pledge of Allegiance.

4. AFFIDAVIT OF POSTING

MOTION: Commissioner Chim-Lieu moved to accept and file the report of the City Clerk on the posting of the agenda for this meeting. Commissioner McGee seconded the motion; a roll call vote reflected unanimous approval.

5. APPROVAL OF MINUTES

5A. MINUTES OF DECEMBER 15, 2015

Commissioner Nishinaga offered the following clarification to the minutes: Page 4, 7B, paragraph 2: "When Commissioner Nishinaga questioned the actuality of the anticipated El Nino event, MWD Director Lefevre stated..."

MOTION: Commissioner See moved to approve the December 15, 2015 Water Commission meeting minutes as amended. Commissioner Marshall seconded the motion; a roll call vote reflected unanimous approval.

6. ORAL COMMUNICATIONS FROM PUBLIC

The Commission welcomed guest Charles Deemer.

7. OLD BUSINESS

7A. CONSIDERATION OF RECOMMENDATIONS REGARDING TORRANCE MUNICIPAL WATER RATES FOR THE FIVE YEAR PERIOD FISCAL 2016 THROUGH FISCAL 2020

Senior Administrative Analyst Schaich provided a PowerPoint presentation on the Comprehensive Water Rate and Cost of Service Study. He recalled that the Commission heard presentations by the City's rate consultant, Sudhir Pardiwala, at the October and December 2015 Commission meetings, and concurred with the findings and preliminary recommendations. He noted that the first draft of the Study is included in agenda materials and, with the Commission's endorsement, the Study would be presented to City Council for initial review and approval to proceed with the Proposition 218 process.

He reviewed a list of additional revenue requirements to: fund distribution and infrastructure improvements and replacements; cover incremental operations and maintenance cost increases; offset the impact of reduced water sales; provide long-term funding to complete water resource diversification projects; and gradually build up financial reserves. He stated that current reserves are under \$2 million and should be \$20 million by industry standards. He explained that reserves are necessary for rate stabilization, an emergency fund, and to have cash on hand to purchase or lease water rates.

Senior Administrative Analyst Schaich stated that Torrance Municipal Water (TMW) borrowed \$6 million from the General Fund and also received a \$3.1 million grant; therefore, the debt schedule for proposed single-family residence (SFR) has been reduced to \$16 million. He stated that the City loan would be repaid at the end of FY 2017 with low interest funding from a State Revolving Fund loan or from reserves. He noted a change in the increased inflation rate for MWD purchased water from 5% to 7% per year. He discussed steps in the water rate development process: develop overall financial plan; cost-based rate setting methodology; establish Cost of Service (COS) for TMW; and rate design and rate structure in accordance with COS and Proposition 218.

He presented the updated Water Financial Plan and described a chart of pay-as-you-go projects. He explained that these projects are primarily water main replacements, and that water resource projects, such as the North Torrance well field, would be funded from a State Revolving Fund. He explained charts of 2016 Revenue Requirements and Total Projected Water Revenue Adjustments for FY 2016-2020. He stated that revenue adjustments for FY 2016 and 2017 would be a 9.5% increase, followed by a 5.5% increase for FY 2018, 2019, and 2020.

Senior Administrative Analyst Schaich described the Cost of Service methodology used to allocate costs to customer classes. He stated that base costs are costs to serve water under average conditions, extra capacity costs are costs to serve under peak conditions, and customer costs are costs such as meter reading, billing, and customer service. He stated that rates are required to be proportionate to the cost of providing services and factors such as the cost of different sources of water, peaking, and conservation costs are used to differentiate the rates of tiers. He discussed the rate methodology used to allocate supply sources by the number of accounts, noting that each customer account would be allocated the same amount of the lowest cost source of water and that SFR would receive the bulk of the low cost water.

He compared the current water rate structure with proposed water rates. He noted the consolidation from four tiers to three and the reduction of monthly tier widths to encourage conservation: 0-7 hcf, 8-12 hcf, and 13+ hcf. He pointed out that SFR average monthly use is 12 ccf. He described increases in fixed monthly meter charges, recycled rate, pumping, and readiness-to-serve monthly fire protection charges. He noted that the Low Income Senior and Disabled customer class would retain the current discount.

In response to Commissioner Craft's inquiry, staff explained that All Other Standard Customers refer to all but two contract rates with ExxonMobil and California Water Service Company.

Responding to Commissioner Chim-Lieu's inquiry, staff stated that pumping charges are for approximately 2,200 customers in the high elevation hillside area.

Senior Administrative Analyst Schaich described tables of Proposed Commodity Water Rates, noting that 56% of SFR usage falls in Tier 1, 24% in Tier 2, and 21% in Tier 3. He provided the percentage of bills--31% in Tier 1, 33% in Tier 2, and 36% in Tier--as well as usage, cost of water supply, and peaking costs in each tier. He noted that Tier 1 is mostly low cost water and that the delivery cost is the same for all customers regardless of usage. He showed the Five Year Water Revenue Projections of internal increases and pass through, noting that 4.4% of the internal increase is due to reduced sales. He stated that projections show that FY 2018, 2019, and 2020 internal increase would be 0% based on CPI. He also explained charts of water cost only versus internal increase revenue adjustments.

Responding to Commissioner Marshall's inquiries, Public Works Director Beste stated that the Goldsworth expansion is expected to be online in one and a half years, and that any revenue exceeding their projections would go into reserves.

Commissioner Nishinaga asked if there was a master schedule for foreseeable future projects, and Public Works Director Beste responded that projects are identified in the Five Year capital budget; however, there are many variables that make long-range planning difficult.

Senior Administrative Analyst Schaich concluded his presentation with a review of SFR customer impacts, noting that low usage customers (7 ccf) would see a 15% reduction in their bills, and median usage (12 ccf) a 2% reduction in their bills. He pointed out that there would be a 7% increase for high usage of 20+ ccf. He noted that, based on COS analysis, the commercial class would see rates increase significantly due to higher usage and higher cost of water. He showed a monthly bill comparison with other local water agencies, noting that most agencies are contemplating rate adjustments due to reduced water sales.

He discussed the Proposition 218 notice that would go to 26,500 customers and public hearing for adoption of the Five Year Rate Plan. He noted that, if adopted, the plan would go into effect at the end of this fiscal year. He added that there would be some minor changes to the Study and called attention to the list of specific recommendations on the last page of the material of record. He noted that the Study

would also include a Demand Reduction Surcharge Provision to temporarily offset revenue losses due to future rationing, adding that they do not anticipate using it.

Charles Deemer commented that the surcharge might need to be implemented in the event of an earthquake.

Commissioner Chim-Lieu expressed concern that there would be two 9.5% increases in a ten-month period, and Public Works Director Beste pointed out that the bills would be lower for customers who have done a good job of conserving water.

MOTION: Commissioner Craft moved to support the findings and recommendations in the Torrance Municipal Water Rate Study for the Five Year Period fiscal 2016 through fiscal 2020, with the addition of the Demand Reduction Surcharge Provision and Internal Increase adjustment based on CPI in fiscal 2018, 2019, and 2020. Commissioner Nishinaga seconded the motion; the motion passed on a 6-1 roll call vote (Commissioner Marshall voting no).

7B. STATUS REGARDING WATER CONSERVATION IN THE MUNICIPAL SERVICE AREA

Senior Administrative Analyst Schaich provided an update on water conservation savings. He reported that TMW continues to realize significantly lower potable usage compared to its 20% reduction target, with 22% below the baseline period on a cumulative basis. He stated that in December total potable water use declined by approximately 18% compared to the 2013 baseline year. He explained that in winter months the target is not achieved due to less discretionary use, primarily outdoor watering. He noted that the Governor has indicated that he will extend his Executive Order through October 2016.

Commissioner Nishinaga shared a January 27 Los Angeles Times article stating that there has been a total of only 3.77 to 4.82 inches of precipitation from October 1 to present in Los Angeles, Fullerton, and Ventura Counties.

8. NEW BUSINESS - None.

9. METROPOLITAN WATER DISTRICT DIRECTOR'S REPORT

MWD Director Lefevre distributed his January 27 report to Mayor and Council Members regarding MWD activities. He reported that the MWD Board adopted the 2015 Integrated Resources Plan (IRP) that is updated every five years. He noted that the MWD service area needs to find 200,000 acre-feet (AF) of new water and discussed plans to enter into an agreement with Bard Water District to fallow their land seasonally. He informed the Commission that the State Water Project has been shut down since November due to a leak and noted that the allocation has been increased from 10% to 15%.

He was pleased to announce that the snowpack in the Northern Sierras is at a five year high with 125% of average and the Upper Colorado snowpack is 105% of normal. He commented that the reservoirs are not being recharged as quickly as they need to be, with most only 2/3 of last year's levels at this time. He stated that Oroville Reservoir is at 39% of capacity and Diamond Valley Lake is 79,000 AF less than 2015.

He reported that the State Water Resources Control Board is meeting on April 7 to start the approvals for the two new diversions from the north end of the Delta. He announced a tour of MWD of Orange County next week, six scheduled budget workshops beginning February 9, and his plans to organize a new inspection tour to the Salton Sea.

10. **WEST BASIN WATER ASSOCIATION REPORT** - No report.

11. **MONTHLY DEPARTMENT REPORT**

Water Operations Superintendent Berndt distributed a Monthly Department Report for December 2015. He reported that production of potable water for the month was 1,294.8 AF, a decrease of approximately 6% compared to December 2014. He noted that total water production in 2015, including recycled water, was nearly 23% below last year. He stated that there was a surge of 26 main breaks in November and December and attributed them to extremely cold water being introduced into the distribution system. He distributed a chart of Water Main Breaks from 1974 to 2015. He reported that the Desalter has been fully operational for the last seven months and announced the expansion kickoff event on February 11.

In response to Commissioner Nishinaga's inquiry, he stated that there are 320 miles of water main.

12. **ORALS**

12A. Commissioner Marshall stated that he overall supports the Water Rate and Cost of Service Study; however, he voted "no" to recommend approval because of the Demand Reduction Surcharge Provision. He stated that he does not feel comfortable approving something he has not seen and added that he probably should have amended the motion.

12B. Commissioner McGee asked staff to provide more information about the water main replacement program.

12C. Commissioners commended staff for their excellent presentations and congratulated Commission Nishinaga and Chairperson Kawai on their reappointments.

13. **ADJOURNMENT**

MOTION: At 9:28 p.m., Commissioner Marshall moved to adjourn the meeting to Wednesday, February 24, 2016 at 7:00 p.m. in the West Annex Commission meeting room. Commissioner Craft seconded the motion; a roll call vote reflected unanimous approval.

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Approved as submitted February 24, 2016 s/ Rebecca Poirier, City Clerk
