



# ADMINISTRATIVE REPORT

Date: November 10, 2011

Agenda Item No.: 3

Meeting Date: November 16, 2011

**To: COST OF SERVICE AND RATE DESIGN CITIZEN ADVISORY COMMITTEE**

**From: SHANA EPSTEIN, VENTURA WATER GENERAL MANAGER**

**Subject: PRICING OBJECTIVE WORKSHOP RESULTS**

## **RECOMMENDATION**

It is recommended that the Committee validate the pricing objective results and accept RFC's presentation of the rate structure implications from those results.

## **SUMMARY**

At the first meeting of the Committee, Raftelis Financial Consultants (RFC) introduced the concept of pricing objectives. The Committee spent a week evaluating and prioritizing the pricing objectives as individuals. Those submittals were given to RFC and the results of that exercise are attached in a progress report that was presented to the City Council on November 14, 2011.

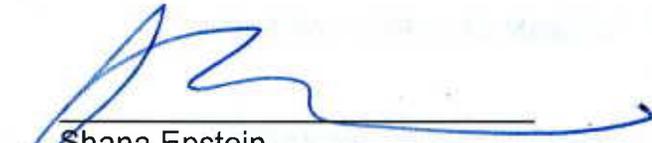
On November 16, 2011, RFC will give the Committee an in depth report on the collective prioritization of the committee's results; committee's plus three public attendees results and what the rate structure implications are related to the overall results.

## **DISCUSSION**

On October 12, 2011, the Committee met for its first formal meeting. At this time, RFC defined the 11 pricing objectives that are the basis for establishing rate structures. In addition, RFC presented six sub-objectives of Conservation/Demand Side Management pricing objective. The Committee was tasked with ranking these objectives of levels of importance after public comment was received. The Committee requested a week to complete and then submitted individually. Attached are the collective results as presented to the City Council on November 14, 2011. Staff requested that City Council receive the report so that the City Council stay connected with this process. The results clearly

identified Cost of Service Allocation as the most important objective with no close contender. This outcome demonstrates the Committee's commitment to customers paying their fair share of the service.

On November 16, 2011, RFC will give a more detailed presentation of the results and the implications. The Committee will have time to discuss those results with RFC and listen to any public comment before accepting the results.



Shana Epstein  
Ventura Water General Manager

#### ATTACHMENT(S)

- Pricing Objectives Workshop Outcomes Administrative Report dated October 27, 2011

CITY OF VENTURA

---

# ADMINISTRATIVE REPORT

---

Date: October 27, 2011

Agenda Item No.:

Council Action Date: November 14, 2011

**To: RICK COLE, CITY MANAGER**

**From: SHANA EPSTEIN, VENTURA WATER GENERAL MANAGER**

**Subject: PRICING OBJECTIVES WORKSHOP OUTCOMES**

## **RECOMMENDATION**

It is recommended that the Council receive a progress report on the Cost of Service and Rate Design Citizen Advisory Committee's outcomes from the Pricing Objectives Workshop.

## **PREVIOUS COUNCIL ACTION**

On August 1, 2011, staff recommended a professional services agreement between the City and Raftelis Financial Consultants (RFC) to complete a cost of service and rate design study and the creation of a citizen advisory committee to be involved in the process of completing that same study.

## **SUMMARY**

One of the initial steps of the cost of service and rate design study is a pricing objectives workshop, which was held on October 12, 2011. This process allows vetting of the different goals and values of establishing a rate structure for water and wastewater customers. The outcome is a prioritization of 11 main objectives and six demand management sub-objectives. The purpose of sharing the results of this workshop with the City Council prior to the conclusion of the study is to maintain open communication between the committee and the City Council while key assumptions are being established.

## DISCUSSION

On October 12, 2011, the Cost of Service and Rate Design Citizen Advisory Committee (the Committee) met for the first time. The majority of the meeting was a presentation by RFC, which included a detailed description of the Rate Study and the Pricing Objectives Workshop. The Committee was presented the existing rate structure as it was defined from a similar study done in the early 1990s prior to the passage of Proposition 218. RFC raised potential imbalances in the existing rate structures that will be evaluated in the cost of service study. Current issues facing Ventura Water were identified such as aging infrastructure, reduced potable water supply and additional potable and wastewater water treatment needed.

The Pricing Objectives Workshop defined the eleven main objectives and six demand management (water efficiency) objectives. Below are the eleven objectives and their definitions:

- **Cost of Service Based Allocations:** the rate structure should ensure that each customer class is contributing equitably towards revenue requirements based upon the costs of providing service to each customer class.
- **Minimization of Customer Impacts:** the rate structure should be developed such that adverse rate impacts on each customer class are minimized.
- **Equitable Contributions from New Customers:** New customers should be responsible for the capital costs of providing service.
- **Economic Development:** The rate structure should incorporate a preferential rate that may be used to attract economic development to Ventura.
- **Rate Stability:** The rate structure should minimize dramatic rate increases or decreases over the planning period.
- **Affordability:** The rate structure should not overly burden low volume customers.
- **Simple to Understand and Update:** The rate structure should be easy for City customers to understand, utilizing a moderate level of education tools. In addition, the rate structure should be able to be effectively maintained by City staff in future years.
- **Ease of Implementation:** The rate structure should be compatible with City's billing system. In addition, the rate structure should allow for the continuation of existing management and system reports.
- **Defensibility:** The rate structure should be consistent with the rate setting methodologies provided by American Water Works Association and applicable laws, in order to ensure that rates are defensible if challenged in court.
- **Revenue Stability:** The rate structure should provide for a steady and predictable stream of revenues to the utility such that the utility is capable of meeting its current financial requirements.

- **Conservation (Water Efficiency)/Demand Management:** The rate structure should encourage water conservation as well as assist in managing system demand.

The six sub-objectives for this objective are as follows:

- Reward Economically Efficient Water Users
- Surcharge Nonessential and Non-efficient Usage
- Communicate Conservation Consciousness
- Reduce Peak Consumption
- Reduce Seasonal Consumption
- Reduce Total Consumption

The Committee took a week to study these objectives and then individually turned in their prioritization worksheet. A blank worksheet is attached to this report. Each committee member defined each objective as most important, very important, important or least important. The community members present at the meeting who wanted to speak on this item were heard and three community members ranked the objectives as well. RFC compiled the Committee's responses and the most important objective for the Committee was Cost of Service Based Allocation. Please see the order of importance for the eleven objectives below:

Classification	Rank	Pricing Objectives	Total Score
Most Important	1	Cost of Service Based Allocations	11
	2	Rate Stability	18
Very Important	3	Revenue Stability	19
	4	Conservation	19
	5	Defensibility	19
Important	6	Minimization of Customer Impacts	21
	7	Simple to Understand and Update	22
	8	Equitable Contributions from New Customers	22
	9	Economic Development	25
Least Important	10	Ease of Implementation	26
	11	Affordability	26

The demand management sub-objectives were ranked by the Committee in importance as follows:

- Reward Economically Efficient Water Users
- Surcharge Nonessential and Non-efficiency Water Use
- Communicate Conservation Consciousness
- Reduce Total Consumption
- Reduce Peak Consumption
- Reduce Seasonal Consumption

The consultants will use the results of this Pricing Objectives exercise to identify and assess alternative rate structures that would best meet these goals. That analysis will be presented at the next Committee meeting on November 16, 2011.

### **CITIZEN ADVISORY GROUP REVIEW**

The members of the Cost of Service and Rate Design Citizen Advisory Committee are John Mundy (Chair), Irene Henry (Vice Chair), Clint Crowell, Diane de Mailly, Sarah LeClaire, Robert McCord, Marty Melvin, Don Mills and Alejandro Robles. The committee will review the results of the workshop at their next meeting on November 16, 2011.

### **PUBLIC COMMUNICATIONS / PUBLIC ENGAGEMENT**

The Pricing Objectives Workshop was advertised in the newspaper and radio. The October 12, 2011 meeting was attended by 25 people from the community.

### **FISCAL IMPACTS**

The information presented in this report is not meant to quantify fiscal impacts related to the pricing objectives. Financial implications of rate changes and pricing structures will be presented in later administrative reports.

### **ALTERNATIVES**

The City Council as an alternative may encourage the committee to consider other pricing objectives.

---

Shana Epstein, General Manager  
Ventura Water

Reviewed as to fiscal impacts

---

Jay Panzica  
Chief Financial Officer

FORWARDED TO THE CITY COUNCIL

---

Office of the City Manager

ATTACHMENT

A Classification Worksheet (Blank)