

Charlotte-Mecklenburg Utilities
Rate Study Stakeholder Advisory Group
Meeting #4: November 17, 2010 at 6 p.m.
Environmental Services Facility on Westmont Drive

Present: Ken Szymanski, Buddy Murrow, Jim Duke, Bruce Andersen, George Beckwith, Angeles Ortega-Moore, Chris Matthews, Elaine Piraneo, Natalie Kennedy Beard, Jim Patterson, Alison Royal-Combs, Andy Munn, Craig Dargan

Absent: David Merryman

Staff and Consultants: Barry Gullet, Steve Miller, Vic Simpson, Mickey Hicks, John Mastracchio, Rick Giardina, Meg McElwain, Cam Coley, Kim Eagle, Regina Cousar

Media: Andrew Batten, Reporter from Carolina Weekly Newspaper Group

John Mastracchio, from Red Oak Consulting, welcomed the Stakeholder Advisory Group (SAG) members and asked for feedback from the group on their thoughts and opinions on the rate structure options, since there had been time for them to digest the information they received at the last meeting. John Mastracchio gave an overview of the agenda for the evening. He also gave a recap from the last meeting.

Mr. Mastracchio advised that the goal of the meeting is to find a consensus on the things that generally the group has agreed upon or has a majority opinion on and then identify any issues where there was a lot of differencing of opinion that the group has, and then draft a document that summarizes the work that the SAG has done. The document would be circulated to the SAG members for feedback and then would be used during the presentation to the Restructuring Government Committee and the Charlotte City Council.

Mr. Mastracchio began the presentation by reviewing the preliminary rate structure options that were discussed in the last meeting. He pointed out that adding the availability charge would recover 20% of the fixed capital costs/ debt service of the system. It would recover the cost on a fixed basis and not by consumption. This would improve revenue stability for CMU and prevents having immediate rate increases when the demand fluctuates. He covered the four remaining rate structure options.

Mr. Mastracchio reviewed how the different options compare to the criteria that was determined to be most important to the SAG and CMU Leadership exercises that ranked rate criteria. He then provided a summary of the public comments received and noted that the most comment was in support of lowering the sewer cap or using the average winter use. The rest of the comments were split fairly evenly.

Mr. Mastracchio then opened the floor for feedback on the options that have been presented.

SAG Member Angeles Ortega-Moore expressed that the public feedback and public meeting turnout was low and she has observed that the people who voice their opinion the loudest are the ones who are unhappy. She expressed that the Latin America community does not often come out to meetings and does not have access to the internet to leave public feedback. Mr. Mastracchio asked Meg McElwain to give an update on some of the efforts used to recruit people to attend the public meetings. Ms. McElwain said that some of the grassroots efforts that were used included contacting the Latin American Chamber of Commerce and other civic groups, churches, neighborhood associations, paid advertising, public service announcements on GOV TV and outreach through the Stakeholder Advisory Group to their constituent groups.

Option 1 - Fixed Availability Charge:

A discussion was held regarding the fixed availability charge option. Mr. Mastracchio stated that someone who uses no consumption in a billing period should consider that there are fixed costs in the system to connect the water service to their home. This fixed fee allows recovery of some of these fixed costs. Mr. Mastracchio also stated that when the consulting team evaluates the cost of service, we look at the different cost responsibility of each customer class (residential, commercial, industrial) and make sure that it lines up with the revenue generated by class. When we look at the availability charge, we look at the residential class and make sure the revenue generated through both the volumetric and fixed charge components aligns with the cost of service for that class. We also look at the inter-class equity. We are looking at the cost of service and the class by class equity closely so that we maintain equity by class.

Mr. Mastracchio stated that the fixed charge would be based on meter size. The reason why a lot of meters use meter sizes is because the data is available by customer and a lot of time utilities don't have data on how many fixtures are in a house, so they base it on meter size.

SAG Member Jim Duke suggested that taking a fixed cost and spreading it across all users is just good business practice. When water conservation rates were established, it raised water costs by over 100% and doubled people's water bills. The economic impact was great. He talked to a woman who says that she is still trying to figure her water bill out. Her bill is \$900.00. Another SAG member stated that if you have a \$900.00 water bill then the person's net worth must be so high that they should not be concerned with a \$900.00 water bill. Another SAG member spoke up that a \$900.00 water bill means the customer is using extremely large amounts of water to irrigate a large space or has a leak in their system. Mr. Duke interjected that his point is that when the lion share of people pay fixed costs then it makes sense and this little 16 ccf trigger point for the 4th tier is causing issues for people and he runs into it all the time. Rick Giardina clarified that 16 ccf or less accounted for 99% of the customers. Rick Giardina asked for comments from others who have had a chance to reflect on the discussions in the past few weeks.

SAG Member Ken Szymanski, recommended that the consulting team look a several of the options and combine them to find a suggested rate structure. Mr. Mastracchio advised that this is what the consulting team planned to do so that they can address each of the criteria in some way and get the best solution for this community. Mr. Mastracchio advised that there has been some consideration by the consulting team given to phasing the fixed charge in over a period of several years.

SAG Member George Beckwith asked Mr. Mastracchio to give details and comparison on what the lowest bill a customer could receive would be. This would be for someone with no monthly usage and only the availability fee charged:

- Under current structure the lowest bill a customer could receive = \$4.80
- With the new availability charge = \$10.72

SAG Beckwith voiced that he likes the idea of the availability charge. He would prefer that it be a lower amount. There was some discussion among the group that the concern was that people on the lowest income level in the community would be the hardest hit.

SAG Member Duke stated that he thinks the utility should act like a business; is this a utility that provides a service to everyone or is there a component of it that is a welfare operation where we subsidize who can't pay? If that is the case, then we need to address it and say "yes, that is what we do." But, if we are a business, then it should not matter. Mr. Mastracchio stated that those are legitimate questions and that the people who will answer those will be the elected officials. Mr. Duke stated that in the political environment that we are in, we are going to have some component of our rates that allow for subsidy.

Mr. Giardina said that this speaks to one of the criteria that was highly ranked by the SAG and that was affordability. He also stated that there was no "perfect" rate structure, but that the consulting team was trying to find a balance based on the criteria that the SAG, the CMU Leadership Team, the Elected Officials and the Community have said were important to them and in some cases there were competing objectives. This is a business, but it is not a for profit enterprise. The goal is to break even.

SAG member Allyson Royal Combs asked if the SAG should look at it from a pure business standpoint or should we look at it from a both points of view? The consulting team reminded them that the group was brought together because they represent diverse interests and bring different opinions to the table. The SAG member should look at it from the perspectives that they individually bring to the table and the rate study team's objective is to find a balance of the different issues and options that they have. The goal is not for the SAG to reach a unanimous decision. It is anticipated that the City Council will have diverse opinions on this as well and they will be interested in what the SAG and the community had to say and that will help them make a decision.

SAG member Angeles Ortega Moore voiced her support for the availability fee but expressed concern about how equitable the proposed charge really is. She discussed how water is a luxury in the country that she comes from and that she understands that there needs to be a service fee for providing water service to residents of Mecklenburg County. She asked the consulting team to consider residents who

are already conserving water because they cannot afford their water bill to go over a certain dollar amount. She wonders how the almost \$6.00 increase in the availability fee will impact those users.

SAG member Elaine Piraneo expressed that all utility companies like telephone, power, etc, are all charging basic fees just to provide the service. In her experience, the availability charge that CMU is proposing is the lowest of all those basic service fees. She asked the consulting team to consider a “lifeline” rate that would be similar to the phone company’s 911 service fee, that only provides the service in the case of an emergency and this would help those who could not afford the full service. She expressed that she was definitely in favor of the availability fee.

SAG Member Jim Duke pointed out that everyone has that 911 service and that CMU pays for it. The water emergency service is provided through the fire hydrants that allow the fire department to connect in the event of a fire.

SAG Member Bruce Andersen asked if phasing in the fee is something that is open for discussion. Mr. Mastracchio advised that it was something that was open for discussion and consideration.

Mr. Mastracchio moved that the group begin talking about option #2.

Option 2: Lowering the sewer cap or bill based on average winter consumption

Mr. Mastracchio advised that there was a lot of support for this option in the public comment and public meeting phase of the project. He asked the group if they were for or against lowering the sewer cap.

SAG member Andersen - Supported this option.

SAG member Duke - As long as Barry Gullet gets the money he needs to run CMU

Mr. Mastracchio offered details on this option. The volumetric component of the sewer charge currently recovers about \$148 million and it’s based on a consumption base of 34 million. So, that is how you get the \$4.31 unit charge. When you lower the sewer cap, your consumption base is lower because you are billing less water consumption, so if you lower the sewer charge, that rate has to go up in order to be revenue neutral. So when we lower it from 24 to 16, it would increase that unit charge from \$4.31 to approximately \$4.42 and if you were to use average winter consumption, that \$4.42 would go up to approximately \$4.51, or somewhere in that range. The unit charge goes up, but between 16 and 24 are where the big bill impacts will be.

SAG member Craig Dargan expressed that if you are in the category that uses between 16 and 24 ccf, then this would be a big impact on those users and he is against that option.

Mr. Giardina clarified that a large percentage, the vast percentage of people who use between 16 and 24 ccf are using it for outdoor irrigation so that the intent of lowering the sewer cap is to promote

equity for this class so that they are not paying sewer fees for water that is not going into the sewer system.

SAG member Piraneo asked if businesses are allowed to have separate irrigation meters like residents are and Mr. Mastracchio answered that they are allowed to have separate irrigation meters.

Mr. Giardina pointed out that CMU has customers who are using water that never goes into the sewer system and that this is an attempt to make the rate structure more equitable for those customers. A SAG member pointed out that equity did not rank high on either of the scoring exercises that were done by the SAG or the CMU Leadership Team. Mr. Mastracchio clarified that equity scored moderately high by both the SAG and the CMU Leadership Team.

There was discussion that using the average winter consumption for sewer charges is a good idea, but there will be a vast range of differences between households when it comes to this. Some of those include people who leave their home in Charlotte-Mecklenburg and go to a vacation home. Mr. Mastracchio advised that the consulting team and CMU Leadership have looked at the current CMU billing system and realize that there will be different issues that arise, but that the current billing system is capable of billing the sewer charges based on average winter consumption.

Mr. Mastracchio talked about some discussions that occurred about a flat sewer rate. He said that there are some constraints around doing this based on rulings and guidelines set by the EPA. Flat rate structures are very rare and it's not considered an industry best practice. He does not recommend this for CMU. He also addressed the seasonal tier rate that was discussed at the last meeting. He advised that the benefits of this potential option probably don't outweigh the additional implementation issues.

Next, Mr. Masstracchio described the customer impacts of combining options 1-4.

Questions from SAG re: slide 14: Who is the "Bulk" option that is listed?

Answer: Bulk applies to some neighboring counties like York County, Concord/ Kannapolis that CMU sells water to. Bulk is based on the Tier 3 rate. They resell the water to their customers.

Mr. Mastracchio gave details on the Smart Irrigation Control Incentive for irrigation only customers. If an irrigation only customer who has a separate irrigation meter were to invest in a smart sensor that helps with conservation, then those customers would be billed at the Tier 3 rate.

Mr. Mastracchio pointed out that the tiers are based on peak usage.

SAG member Duke asked if there was really a desire in the community to lower the Tier 1 rate? SAG Patterson expressed that he believed that lowering the Tier 1 rate would take the "sting" out of the new availability fee if it is implemented.

SAG member Duke asked if these proposed changes were based on information the consulting team had received from elected officials. Mr. Giardina stated that all comments presented to the SAG at this point have come from the public.

SAG Member Andy Munn asked about the delinquent accounts that CMU has each month, and whether CMU ever calculates at what usage level the customers are. There was discussion among the SAG members about the number of delinquent accounts that CMU has every month.

Mr. Mastracchio advised that there is still time for public input, but after the SAG meeting tonight, the public input opportunities are going to be at the Restructuring Government and City Council meetings noted on slide 34 in the meeting schedule.

Mr. Giardina stated that for the last 20 minutes of the meeting, he would like to hear from the members of the SAG. In summary, he believes that the consulting team has given the SAG an option that includes all the things that they expressed are important to them. Mr. Mastracchio stated that one thing the consulting team did not discuss tonight but still wanted to get SAG feedback on is the capacity fee adjustment.

SAG Szymanski, stated that his concern was how the capacity fee changes would impact development over the next 5 years in Mecklenburg County. Mr. Giardina responded to this and said that the way to deal with the uncertainty is not by increasing or decreasing the fees but by having CMU include that in their financial projection and plan by either adding amounts in or being very conservative in their projections. CMU Leadership discussed that there have been changes in capacity fees over the past few years and that is because there has been a slow-down in development in the area.

Mr. Mastracchio advised that the current capacity fees are calculated by looking at the equity built up in the system. It's the equity that customers have paid into the system. There are other ways of calculating capacity fees like looking at timing of when new customers connect to a system. There are several industry accepted standards, but there also are some limitations in NC that would need to be taken into consideration.

Mr. Giardina opened the floor for the final polling. SAG Chris Matthews started the discussion by expressing his opinion:

“Capturing more dollars up front is good and provides revenue stability. Encouraging conservation is good. A lifeline subsidy is needed. Fixed availability fee is something that I am in favor of because it helps capture costs up front. Not in favor of lowering the sewer cap because I think its not really objective, but prefer the winter time average. Lowering the lifeline, Tier 1 rate is in general a good thing. Modifying the irrigation tiers does the strongest toward pushing toward conservation because it impacts the Tier 3 rate the most. People who use water at this tier need to recognize that this is where the most usage occurs. I think we should raise capacity fees because it is the cost of coming into a community and tapping into the system. It does not have to be a huge increase, but CMU is already on

the lower end so I don't see why we can't increase that fees. I am not in favor of phasing the changes in because it will confuse people. It appears that under this scenario a lot of people's bills are going to go up, but they will not go up tremendously."

SAG Andy Munn strongly disagreed with raising the capacity fees.

SAG Duke countered that and voiced his support of raising capacity fees.

SAG Andersen fully agreed with SAG Matthews' thoughts and supports the increase in capacity fees.

SAG Piraneo agreed with SAG Matthew's thoughts and expressed concern over the fact that her neighborhood is responsible for utility infrastructure under the roads in her development and that she disagrees with this practice. The developer put the infrastructure in and now her neighborhood is forced to cover the costs.

SAG Allyson Royal-Combs advised that she opposed raising the capacity fees because it raises the cost for a developer to come into the Charlotte-Mecklenburg community.

SAG Munn asked how much they are looking at raising the capacity fees and Mr. Mastracchio advised that the consulting team does not know the answer to that question at this time. They have not gone through detailed calculations at this point because they did not know if this was a viable alternative. It could range from 0 to 50% but at this point he does not have a hard number.

SAG Murrow stated that raising Tier 3 would raise the cost to irrigation customers, however they will be saving because they cap the sewer fees. He thinks it's important to explain that because it sounds like we have raised the cost, when really CMU wants to encourage irrigation customers to put in separate irrigation meters. If we really want to encourage conservation then CMU needs to incentivize it and not penalize it. He asked the consulting team to consider a water conservation tier. This encourages everyone to stay in this level of usage.

Mr. Mastracchio advised that this is difficult because every lot size is different and every customer is different so that it would be difficult to create equity with this.

SAG Szymanski voiced that he favored a combination of options 3, 4 and a new option that includes a new rebate program for water smart appliances.

SAG Natalie Beard supports SAG Matthews' thoughts and advised that communication will be key in educating on whatever the final decision will be.

Mr. Mastracchio and Mr. Giardina closed the meeting by thanking the group and stating that they will produce a document that summarizes the work of the SAG and also outlines the items that they support

and the items that they had difficulty with. They will circulate this document to the group and ask for feedback and agreement.

Barry Gullet also thanked the SAG members and commended them on the work they have done. He stated that he had worked with a number of stakeholder groups during his career and that the level of engagement this group provided was impressive and much appreciated.

The meeting adjourned at 8:15 p.m.