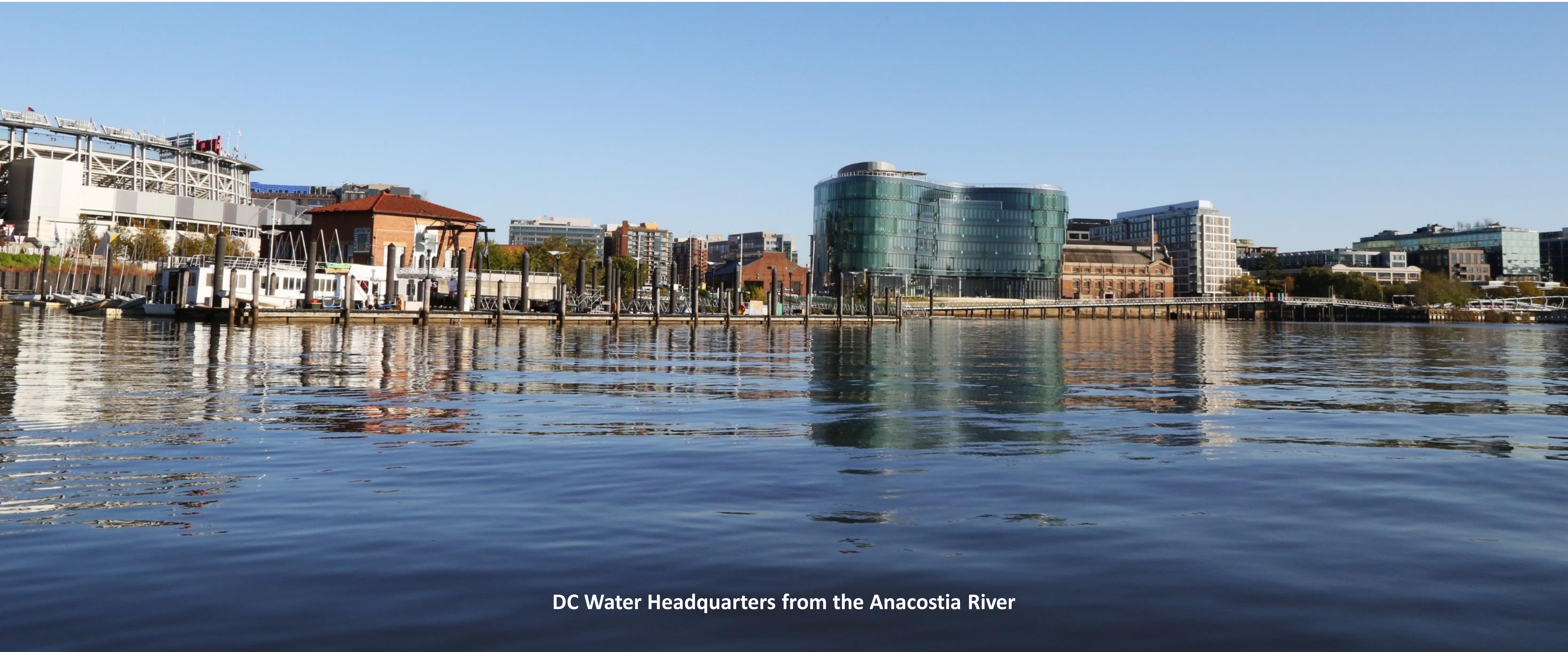
Responses to Comments and Recommendations on Proposed Rates

May 31, 2022

Matthew T. Brown, Chief Financial Officer

District of Columbia Water and Sewer Authority



DC Water Headquarters from the Anacostia River

Purpose

- Provide responses to public comments and OPC recommendations on proposed rates

DC Water

- DC Water’s goal is to provide safe and affordable water for everyone
  - $629 million will be spent to remove all lead lines by 2030
  - The $2.9 billion Clean Rivers Program will help make the Anacostia and Potomac Rivers swimmable and fishable again
  - Customer Assistance Programs help customers who cannot afford their bills
- DC Water’s budget invests in people and infrastructure
  - The 1,100 members of Team Blue work every day to provide excellent customer service
  - Chemicals and energy are major expenses, about $56.2 million is anticipated in the budget
    - Portions of the District are a combined sewer system, despite reductions in water consumption chemical and energy use is fairly constant because of rainwater that is captured and conveyed to Blue Plains for treatment; unit costs are up
  - Debt service of $234.7 million makes up 34 percent of the total operating budget – this pays for bonds issued to invest in our infrastructure and provide equity between generations of ratepayers

water is life®

Multi-Year Rate Proposal for FY 2023 and FY 2024

- Rates and charges that remain the same:
  - Customer Metering Fee
  - Water System Replacement Fee (WSRF)
  - Right-of-Way Fee at $0.19 per Ccf
- Proposed rate changes:
  - Water and sewer rates increase 9.50% for FY 2023 and 3.25% for FY 2024
  - Proposed CRIAC decrease of $0.26 to $18.14 per ERU in FY 2023 and increase of $3.72 to $21.86 per ERU in FY 2024
  - PILOT Fee for FY 2023 and FY 2024 will increase by $0.03 and $0.02 per Ccf respectively
  - Proposed Groundwater Rate increase of $0.59 to $3.42 for FY 2023 and increase of $0.08 to $3.50 for FY 2024
  - Proposed High Flow Filter Backwash Sewer Rate increase of $0.18 to $3.21 for FY 2023 and increase of $0.09 to $3.30 for FY 2024

- Cost of Service Study aligned with rate proposal
- Combined rate increases lower than last year's forecast

Change in Average Household Charge	Fiscal Year 2023	Fiscal Year 2024
Recommendation	6.0%	5.4%
Previous Forecast	6.7%	8.8%

Public Outreach

- DC Water met with stakeholders at various community outreach events
- Held two in-person Town Halls
- Held two on-line Town Halls
- Virtual briefing to members of AOBA
- Virtual briefing to Constituent Services Directors for Councilmembers
- Virtual briefing to Mayor's Office of Community Relations staff (MOCRS)
- Virtual briefing to local non-profit community partners

- The meetings were widely publicized through numerous channels, including:
  - Councilmember Offices
  - Advisory Neighborhood Commissions (ANCs)
  - MOCRS
  - Email
  - DCWater.com website
  - Twitter, Facebook and Instagram
  - Nextdoor
  - Paid digital and print advertising
  - What's On Tap monthly customer newsletter

Public Participation

- DC Water appreciates all who have participated in the budget and ratemaking process, including the Board, OPC, and the public from the time that the budget was introduced in January 2022
- We all share the goals of providing safe and affordable service for our customers
- This document provides responses to OPC comments, and responses to formal comments received from other stakeholders as part of the ratemaking process
  - We have concurred with some of the recommendations
  - Some of the recommendations will require additional time and consideration
  - Some of the recommendations we cannot concur with
    - We need to better understand how some recommendations are in the long-term interest of DC Water and customers
  - We will continue to work with all stakeholders and OPC going forward to learn how some recommendations may be beneficial as we work together

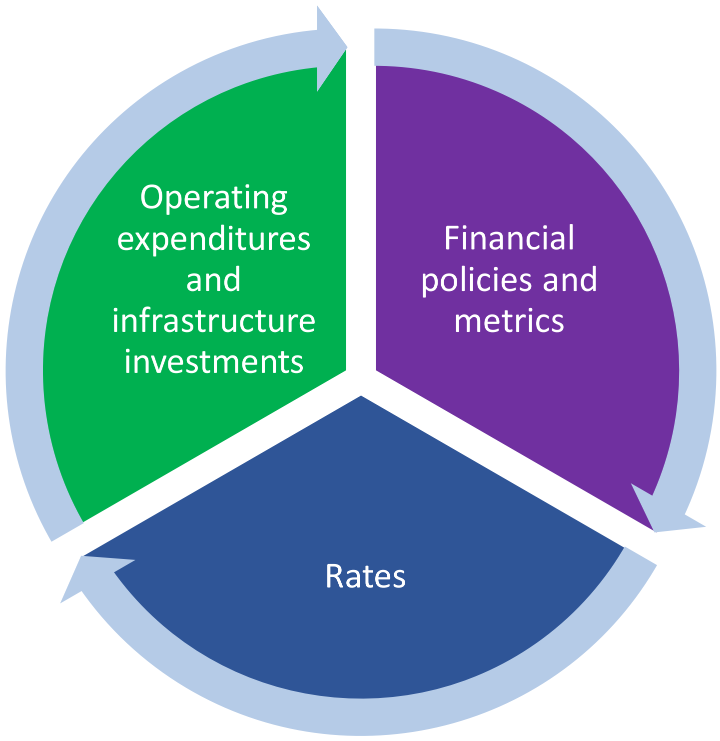
Case for a Rate Adjustment

Operating Costs Grow 4.3 percent in the FY 2023 Budget

- Budgets for overall cost increases, including employee benefits and union agreements
- Increase in headcount to drive efficiencies, expand programs and achieve savings by reducing reliance on consultants for day-to-day activities
- Market uncertainties with chemicals, energy and insurance costs
- Held the line on overall contractual services for third consecutive year
- Over the ten-year period, debt service costs increase from $234.7 million in FY 2023 to $374.0 million in FY 2031

Infrastructure Investment – Addition of $1 billion

- $6.4 billion over ten years, an increase of almost $1 billion over previously approved plan
- $647 million budgeted next year to continue investments in DC Water's ageing infrastructure including the LeadFree DC Program to remove all lead service lines by 2030
- Prioritized projects using an asset management approach and other criteria (including mandates, health and safety, potential failure, and good engineering)
- $2.0 billion in new debt to be leveraged through FY 2031 to pay for infrastructure improvements



Case for a Rate Adjustment

- Comments received suggest that a rate increase is not needed, and instead DC Water should borrow more money to fund infrastructure improvements (adjust coverage) and use "rainy day" reserve (cash on hand) funds
- The financial metrics in the Financial Plan are deliberate and not arbitrary; they have been recognized by Rating Agencies as a financial strength and a reason that DC Water can borrow at low rates
- The recommendations to borrow more (reduce coverage to 1.6x) and spend rainy day funds would:
  - Increase borrowing over the next two years by 28%, from $462.5 million to $589.9 million, driving up debt service costs
  - Increase the percent of revenue spent on debt service (for FY 2023 & FY 2024 combined) by 2.9 percentage points from 29.7% to 32.6%
  - Drop financial metrics in the Financial Plan below Board policy levels
    - From FY 2025 to by Board policy
    - FY 2031 combined coverage would range from 1.49 to 1.58 without a higher rate increase than what is planned; the Board policy is 1.6
      - Increase, for the same period, debt service as a percentage of revenue to 35.0% to 39.5%; the management target is 33%
    - DC Water would not maintain the 250 days of cash required

Case for a Rate Adjustment

- Comments also suggest that there is a difference between the balance of the Rate Stabilization Fund and what is shown in the Financial Plan and that those funds could be used to offset a rate increase
  - The balance of the Rate Stabilization Fund is $46.1 million (see April 20, 2022 Monthly Financial Report)
  - At the end of the fiscal year, after the planned $10.5 million withdrawal the balance will be $35.6 million
  - $35.6 million is the same balance in the Board-approved Financial Plan
  - There is no difference in fund level between the balance and the Financial Plan target that could be used to offset a rate increase
- Comments further suggest that DC Water's financial practices cost ratepayers money
  - There are no savings to be had for ratepayers in aggregate by delaying payment for capital costs through additional borrowing; rather, this strategy lowers costs for current ratepayers at the expense of future ratepayers and limits future financial flexibility
  - DC Water's strong financial position saves ratepayers money by reducing borrowing costs and enabling access to financial and insurance products that are more costly or unavailable to lower-rated utilities
  - DC Water budgets revenue as a "floor" and expenditures as a "ceiling"; this ensures that DC Water is resilient and can confront challenges like we did during COVID
  - DC Water is a non-profit: if we do better than the budget the Board allocates those funds to reduce future borrowing costs and that is reflected in future rate proposals

Case for a Rate Adjustment

- The chart below demonstrates the substantial financial impact of lower credit ratings under normal and stressed market conditions per $100 million of debt issuance, noting that DC Water has plans to issue at least $2.0 billion of new money debt in the next ten years and maintains over $3.5 billion of outstanding debt, some of which could be refinanced in the future
  - Low-cost debt funding is vital to continued refinancing efforts that have generated hundreds of millions of dollars of present value debt service savings over the past ten years
- Costs shown measure incremental interest costs incurred for a fixed amount of borrowing at various rating levels versus DC Water's current rating level, but do not measure the full interest costs related to proposed additional borrowing
  - Additional borrowing compounds added costs

	Average Credit Spreads				Maximum Credit Spreads			
Rating	Yield Differential vs. AAA Rating	Annual Cost Differential (per $100 million)	Total Cost Differential (Through Maturity)	PV at 3.50%	Yield Differential vs. AAA Rating	Annual Cost Differential (per $100 million)	Total Cost Differential (Through Maturity)	PV at 3.50%
AAA	-	$ -	$ -	$ -	-	$ -	$ -	$ -
AA+	0.10%	100,000	2,000,000	$1,421,240	0.20%	200,000	4,000,000	$2,842,481
AA	0.15%	150,000	3,000,000	$2,131,860	0.35%	350,000	7,000,000	$4,974,341
AA-	0.25%	250,000	5,000,000	$3,553,101	0.65%	650,000	13,000,000	$9,238,062
A+	0.35%	350,000	7,000,000	$4,974,341	0.95%	950,000	19,000,000	$13,501,783
A	0.45%	450,000	9,000,000	$6,395,581	1.30%	1,300,000	26,000,000	$18,476,124
A-	0.55%	550,000	11,000,000	$7,816,822	1.60%	1,600,000	32,000,000	$22,739,845

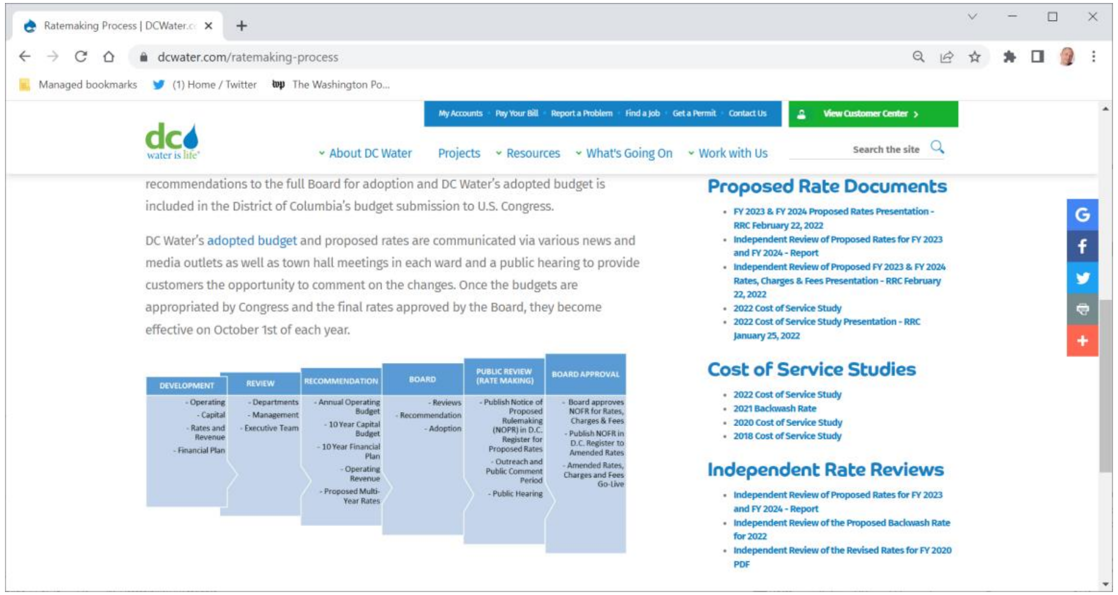
Source: PFM

Case for a Rate Adjustment

- DC Water's prudent approach to borrowing is designed to provide generational equity among ratepayers without compromising future financial flexibility or incurring unnecessary costs
  - Borrowing allocates a portion of current capital costs to future ratepayers for capital improvements expected to remain in use at the time repayment occurs, but increases total costs due to interest expenses incurred
- Financial strength has allowed DC Water to spread repayment of once-in-a-generation capital costs aggressively and equitably, providing relief to current ratepayers
  - Financial Plan contemplates the issuance of $2.0 billion of new debt; only ~$825 million of existing bonds are scheduled to be repaid through FY2031
  - Existing debt includes a $350 million century bond will not be repaid until 2114 and represents the only century bond within the municipal utility sector
  - Commitments to generational equity in the debt portfolio are more aggressive than they could be at a lower rating level., with century bond market not available to lower-rated issuers and escalating credit premiums required for maturities >30 years.
- Weakening of financial metrics could compromise access or increase costs for financial products that provide savings to DC Water ratepayers
  - Liquidity products that support low-cost variable rate debt, the commercial paper program and the ROCIP program are more expensive and ultimately unavailable at lower rating levels
  - EMCP program that provides low-cost and flexible variable rate funding does not require a liquidity provider (generating additional cost savings), but is not available to lower-rated utilities
  - $294 million forward starting Series 2022A refunding locked in low 2020 interest rates for July 2022 borrowing and will provide millions in incremental savings to any other available option, but is not an available option for lower-rated utilities

Case for a Rate Adjustment

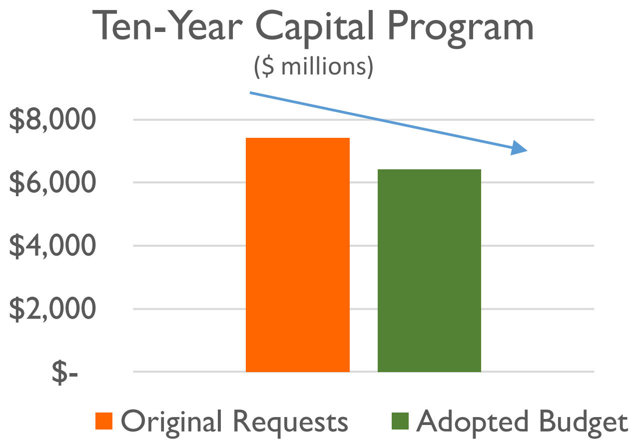
- DC Water's committee and board meetings and budget materials are public, and DC Water welcomes the opportunity to engage with OPC and other stakeholders during the deliberative budget process
  - We enjoy our regular meetings with OPC and believe that this work could be accomplished within those meetings
  - All budget and ratemaking materials are available at dcwater.com/ratemaking-process

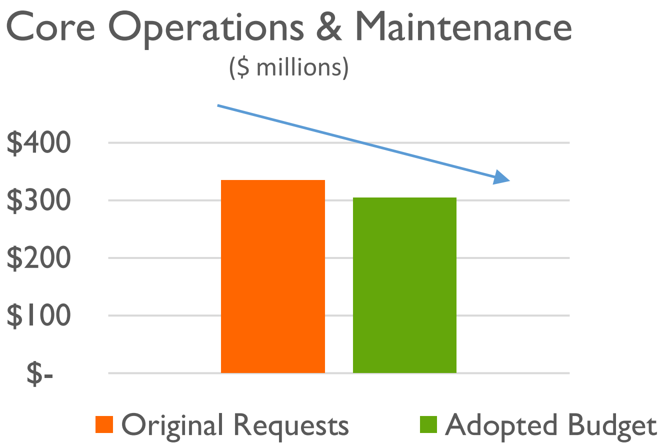


OPC Recommendation 1

- **Recommendation 1:** Use this rate setting process to reexamine the O&M budget, capital budget, and financial policies to maintain the existing rates and withdraw the proposed rate increases
- **DC Water Response:**
  - DC Water does not concur with this recommendation
  - The Board approved the Financial Plan and Financial Policies to maintain our bond ratings, saving customers money on debt service while maintaining financial resilience
    - A reduction in the proposed rates would compromise system safety, reliability, and resilience
  - DC Water underwent a rigorous budget development and Board-review process that prioritizes projects and strategic initiatives for the FY 2023 budget
    - Alternative operating and capital budget scenarios, risks and opportunities, and related rate impacts were evaluated by management

DC Water Budget Process Produces Value for Ratepayers





Establishment of Rates

Board Committee Review

Operating and Capital Costs to Environmental Quality and Operations, Finance and Budget, and DC Retail Water and Sewer Rates Committee;

Cost of Service Study

Presented to Rates Committee and published on the website; Also submitted to the Mayor and DC Council

Independent Review of Rates

Presented to Rates Committee and published on the website; Also submitted to the Mayor and DC Council

Public Feedback

Publication of the rate proposal in the *D.C. Register* for public comment; Public Hearing to receive comments on the rate proposal; Review of comments received and DC Water's response to comments

Recommendation from the DC Retail Water and Sewer Rates Committee and General Manager

DC Water's rigorous budget process balances the level infrastructure investment with customer rates

Recommendation 1 DC Water Response, continued:

- DC Water's budget process prioritizes expenditures and provides a balance between cost and the amount of capital investment and level of services provided
  - Fully funding budget requests would have increased customer rates (average residential household) by 18.5%, or an additional 12.5% over the 6.0% recommendation in FY 2023 and an additional 2.0% over the 5.4% recommendation in FY 2024
- The recommendation to use cash reserves or borrowing (lowering the coverage ratio would reduce PAYGO by $120.85 million in FY 2023 and FY 2024 and increase borrowing and debt service requirements), both of which would erode DC Water's financial position and saves money for DC Water and ratepayers
  - Rating agencies have communicated that "Rate adjustments that are not sufficient to support sustained revenue growth and hold debt service coverage by net revenue close to current levels " would jeopardize our rating, almost certainly leading to an increase in borrowing costs including on current variable rate debt
- DC Water has $3.8 billion of debt outstanding and will need to borrow another $2.0 billion from FY 2023 through FY 2031 consistent with the Board-adopted Financial Plan; maintaining our bond ratings will save ratepayer money as we issue additional debt
- Additional information regarding financial metrics is provided in the response to Recommendation 4

- **Recommendation 1, continued:**
  - DC Water's Operating Budget process:
    - Reviews and prioritizes requests base on criteria including regulatory requirements or mandates, health and safety, Board policy, process improvement (e.g., cost avoidance, key performance measures, industry best practices) and new revenue generation
    - Aligns expenditures with strategic plan priorities
  - Capital budget prioritization uses an asset management approach that considers consequence and likelihood of asset failure and other criteria (including mandates, health and safety, potential failure, and good engineering)
  - DC Water routinely examines financial policies
    - The Financial Policies were revised and adopted on October 7, 2021
      - Require 250 Days of Cash and 1.6X coverage as a minimum in the budget and the Financial Plan
    - The Investment Policy was revised and adopted on January 6, 2022

DC Water's Budget Priorities

Aligns with imperatives and themes of new Blueprint 2.0

LEAD FREE DC

Fully funds removal of lead service lines by 2030

Achieves rate increases lower than previous forecasts

Holds the line on overall contractual services for three consecutive years

DC WATER CARES

Continues customer assistance programs for those impacted by COVID

Funds the consent decree modification for green and gray infrastructure for the Clean Rivers program

Allocates additional funds to address aging water and sewer systems

dc works
A LOCAL HIRING INITIATIVE

Expands the apprentice program for residents to learn skills and prepare for new jobs

Invests in critical infrastructure at the Aqueduct

ESG report highlights progress towards meeting climate, equity, and governance goals

OPC Recommendation 2

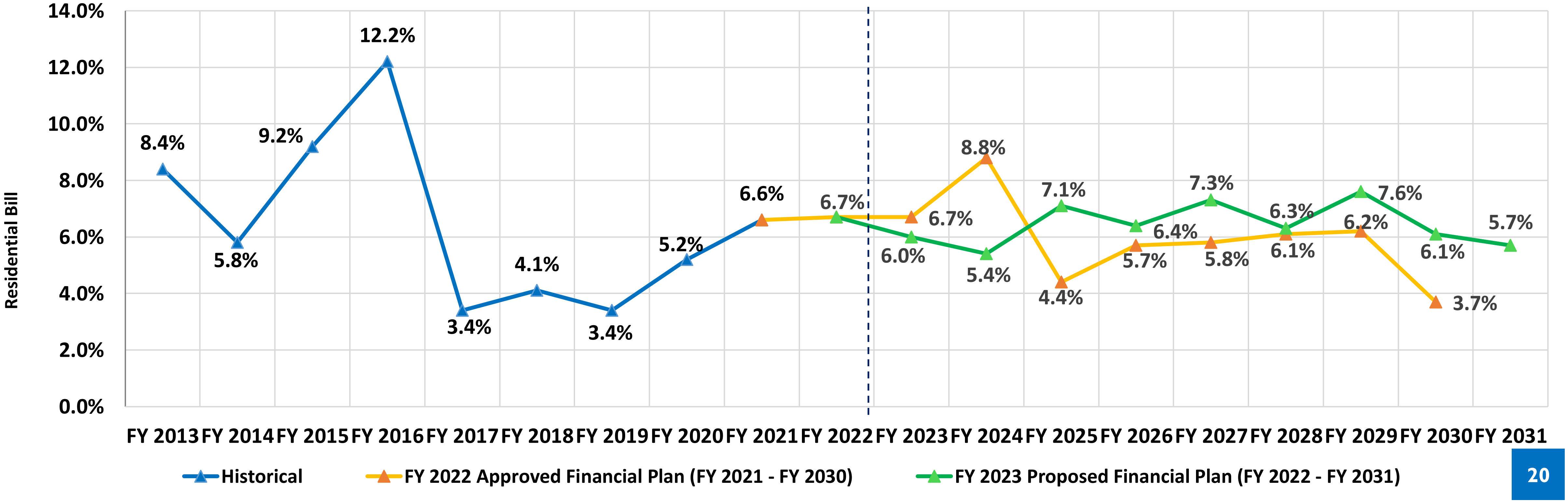
- **Recommendation 2:** Institute a reconciliation and true up process at the end of the first year of the two-year budget to review and refine the planned rates for the second year to prevent collecting unnecessary revenue
- **DC Water Response:**
  - DC Water does not concur with this recommendation
    - DC Water would not be able to adjust rates consistent with this recommendation
    - DC Water closes its books several months after the fiscal year ends and completion of the financial audit occurs in December; only at that time are final revenue and expenditure figures available (three months after the fiscal year starts in October)
    - Moreover, after the rates are developed the rate-setting process requires approximately seven months from Board consideration of the rates to the notice of final rulemaking (which implements the rates)

OPC Recommendation 2

- **DC Water Response, continued:**
  - Multi-year rate setting is a common practice in the water and wastewater industry
  - DC Water already does a true up with each rate setting process when the Financial Plan is revised
    - The FY 2023 Financial Plan included FY 2022 debt service savings that were used to offset future borrowing
  - If DC Water does better than the budget, funds are allocated by the Board of Directors as part of a projection process in the third quarter of each year; Board policy authorizes the use of these funds for capital projects and infrastructure improvements
    - Funds from FY 2020 were used to create new programs for customers who were impacted by COVID (Multi-Family and Residential Assistance Programs); a process like what is suggested could have prohibited these programs from being funded and implemented
  - Meaningful rate setting is a thoughtful, deliberate, expensive and time-consuming process; adding an additional annual process would likely increase costs for DC Water and our customers

Historical and Projected Combined Rate Increases

- FY 2023 and FY 2024 recommended rates are less than previously forecasted in part due to debt service savings from applying PAYGO (using cash for capital expenditures instead of debt)
- In FY 2025 and beyond, forecasted rates are higher than previously estimated because of additional projects in the 10-year Capital Improvement Plan (CIP)



OPC Recommendation 3

- **Recommendation 3:** Expand the Rate Stabilization Fund policy to include the target amount and identify triggers for use of the Rate Stabilization Fund. Determine the correct amount for the fund based upon probabilities of unexpected future costs and establish the circumstances in which the fund would be used

- **DC Water Response:**
  - DC Water concurs that an examination of the Rate Stabilization Fund (RSF) policy with the Board is appropriate
  - In FY 2023, a review of the RSF is planned to be included in a consultant study of the operating reserves; and that study and the recommendations will be presented to the Board for consideration
  - DC Water regularly reviews its financial policies and will work with the Retail Rates and Finance and Budget Committees to review this policy and consider OPC's recommendations
  - To the extent that DC Water considers expansion of Customer Assistance, funds in this Fund could be used for that purpose
  - The balance of the Rate Stabilization Fund is $46.1 million (see April 20, 2022 Monthly Financial Report)
    - At the end of the fiscal year, after the planned $10.5 million withdrawal the balance will be $35.6 million
    - $35.6 million is the same balance in the Board-approved Financial Plan

OPC Recommendation 4

- **Recommendation 4:** Use some combination of the reduction in revenue requirement from returning to a 1.6 Debt Service Coverage ratio, the excess cash from reducing days of cash on hand to 120 days, and/or using the Rate Stabilization Fund to withdraw the proposed FY 2023 and FY 2024 rate increases, leaving the rates at the FY 2022 levels
- **DC Water Response:**
  - DC Water does not concur with this recommendation
  - Our strong bond ratings save our customers money each year and make DC Water more resilient in the event of unexpected situations. They also provide DC Water access to the financial markets so that we can take advantage of opportunities like we did with the Forward Direct Purchase that save ratepayers money
  - DC Water's Board-approved and management financial policies (coverage, liquidity, and percent of revenue used for debt service) have been maintained since 2015 and have been recognized by rating agencies in bond ratings that provide savings for our customers and ensure access to financial markets
    - The policies establish "floors" for these financial metrics, not targets or maximums
  - DC Water has maintained 250 days of cash and at least 1.6x coverage since 2015, a weakening of DC Water's financial position when there is already a projected $2 billion of borrowing would result in increased borrowing costs for customers and a reduced ability of DC Water to deal with unexpected costs

OPC Recommendation 4

- **DC Water Response, continued**
  - The recommendation (to decrease coverage to 1.6) would increase borrowing over the next two years would increase 28%, from $462.5 million to $589.9 million
  - Debt service costs would increase in future budgets
  - The percent of revenue spent on debt service (for FY 2023 & FY 2024 combined) would increase by 2.9% from 29.7% to 32.6%
  - Financial metrics in the Financial Plan will not meet Board policy
    - From FY 2025 to FY 2031 the combined coverage would range from 1.49 to 1.58 without a higher rate increase than planned
    - Similarly, for the same period the debt service as a percentage of revenue would range from 35.0% to 39.5%
  - Without meeting these financial metrics and Board policy in the financial plan, it will be difficult to maintain AAA rating

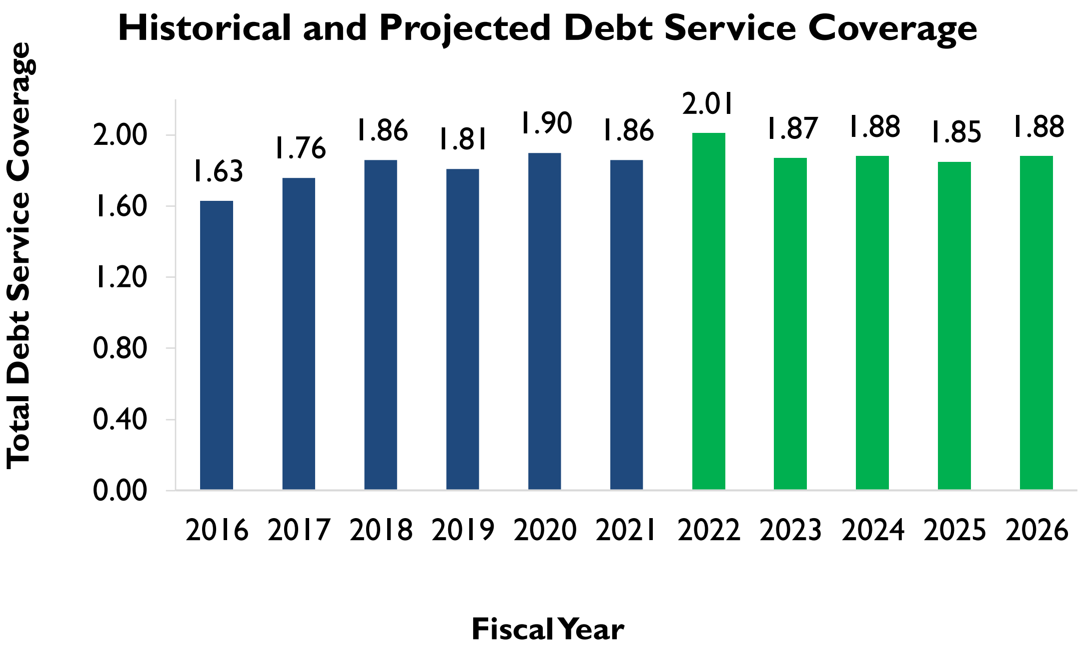
OPC Recommendation 4

DC Water Response, Continued:

- Financial targets and conservative budgeting to maintain high bond ratings are, in part, recognition of DC Water's ability to confront and respond to challenges
  - Despite $24.2 million revenue loss in FY 2021 and the more than 124% increase in customer delinquencies, DC Water maintained its bonds ratings and completed $400 million bond transaction
- If we increase borrowing we will pay more for debt service
  - Those funds would be better used keeping water safe and affordable
- The interest rates that we pay are a reflection of our bond rating
- Cash on hand is our "rainy day" fund – spending those funds would jeopardize DC Water's ability to provide safe and affordable water service in the event of a catastrophe, like another pandemic, a recession, spiking inflation, or a large unexpected expenditure

Coverage and PAYGO

- Coverage is a core financial metric that reflects the financial health of a utility and measures the funds that are available to pay debt service after operating costs are met
  - *Funds representing excess coverage are used as PAYGO or cash to fund the capital program*
  - *A reduction in PAYGO would require additional borrowing to cover capital budget expenditures for infrastructure improvements*
- Coverage in the budget and the financial plan is consistent with recent results that have led to high bond ratings and lower borrowing costs
- Higher coverage indicates greater flexibility to tolerate financial stress from unexpected expenditures or a shortfall in revenues while still assuring repayment of debt
- Maintaining this metric in the Financial Plan is deliberate and not arbitrary; it has been recognized by Rating Agencies as a financial strength and a reason that DC Water can borrow at low rates

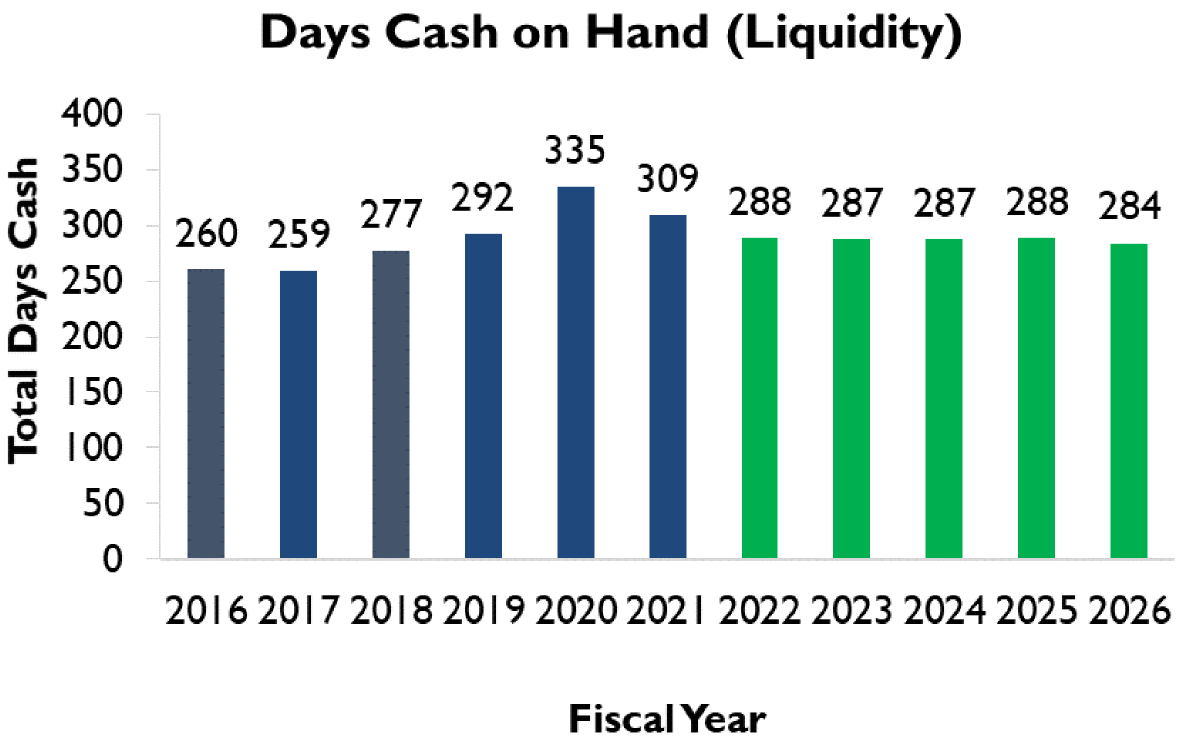


Higher 2022 coverage projection is the result of a Rate Stabilization Fund withdrawal to establish 250 days of cash outside of that Fund

- *In calculating debt service coverage, withdrawals from RSF are counted as revenues; deposits to RSF are subtracted from revenues*

Liquidity

- Liquidity is measured in the number days of unrestricted operating cash
    - *Liquidity is the number of days that DC Water could cover operating costs without additional revenue*
- Higher liquidity indicates greater flexibility to deal with unexpected expenditures or a shortfall in revenues
- DC Water has maintained a minimum of 250 days of cash since 2015, which is required by Board policy
- Certain rating agencies expect > 250 days of cash for utilities rated in the highest category
- DC Water's unrestricted liquidity is low when compared to its highly rated peers
- Maintaining this metric in the Financial Plan is deliberate and not arbitrary; it has been recognized by Rating Agencies as a financial strength and a reason that DC Water can borrow at low rates



Liquidity as measured by credit rating agencies includes unrestricted reserves in addition to Rate Stabilization Fund balance.

Financial Metrics

Metrics	Indenture Requirement	Board Policy	Management Target	Financial Plan
Days of Cash on Hand (excluding RSF)	60 days	250 Days	–	250 - 253 Days
Combined Coverage Ratio	–	1.6X	–	1.85X – 2.04X
Senior Coverage	1.2X	–	–	5.39X – 7.67X
Subordinate Coverage	1.0X	–	–	2.16X – 2.54X
Debt Service as a % of Revenue	–	–	33% of Revenue or Less	29.5% - 33.0%
Rate Stabilization Fund (RSF)	–	–	–	

Financial Metric Medians by Credit Rating

- DC Water liquidity and coverage ratios are lower than water and sewer sector medians
- DC Water's implementation is not "hyper conservative", our debt service coverage and days cash on hand metrics are low when compared with other highly rated credits

US Municipal Water and Sewer Sector Financial Metric Medians by Credit Rating (All Rated Credits)										
	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
All-in debt service coverage - most recent year (2021)	2.4x	2.4x	2.2x	2.0x	1.8x	1.6x	1.5x	1.2x	1.2x	1.1x
All-in debt service coverage – three-year average (2019-2021)	2.4x	2.4x	2.2x	2.0x	1.8x	1.5x	1.4x	1.3x	1.2x	1.2x
Days' cash on hand - most recent year (2021)	640	610	575	500	459	374	367	226	175	65
Days' cash on hand – three-year average (2019-2021)	670	600	566	493	438	360	334	198	160	90

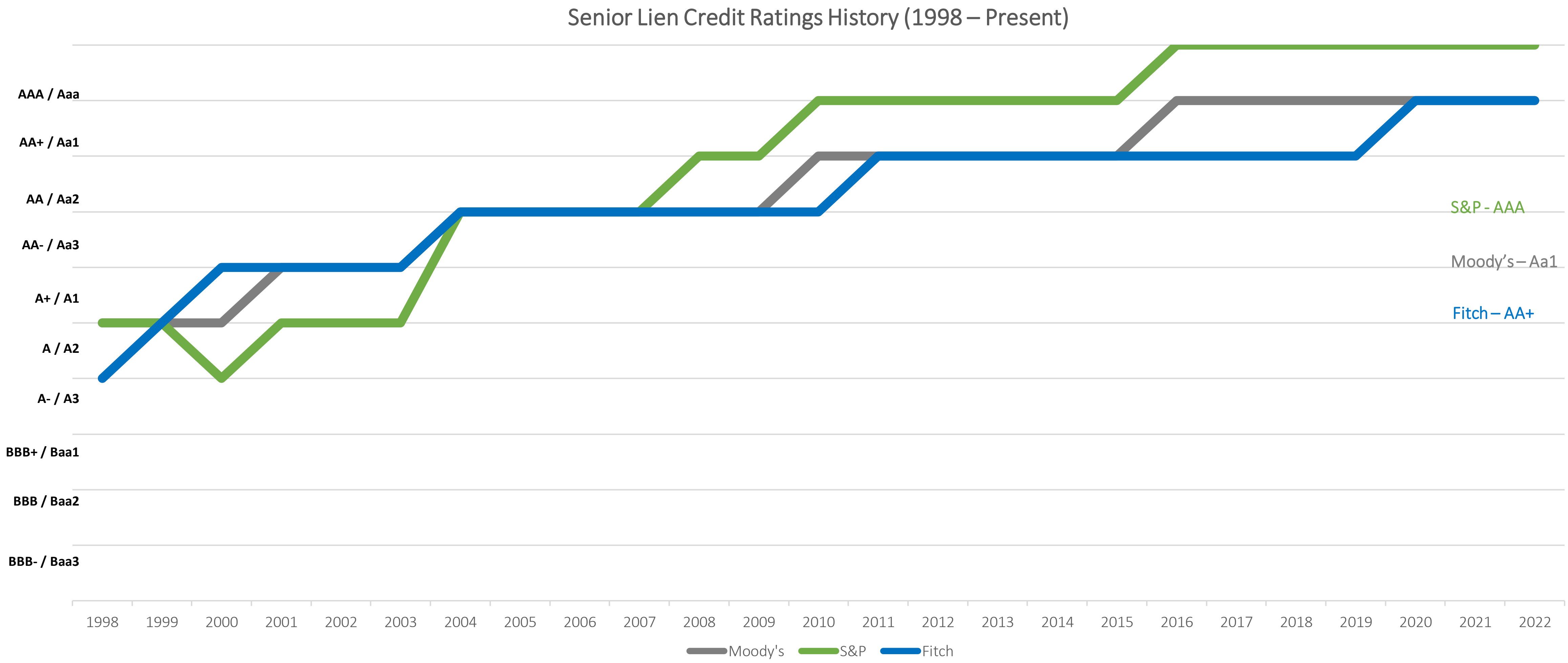
DC Water and Peer Financial Metrics

- DC Water liquidity and coverage ratios are lower than many similarly rated peers
  - These are not the only criteria, but are an important part of the overall rating

Selected Peer	Type	Moody's Rating (Senior)	S&P Rating (Senior)	Fitch Rating (Senior)	Total Operating Revenues ($000s)	Total Annual Debt Service ($000s)	Debt Ratio	Long Term Debt ($000s)	Total Debt Service Coverage	DS as a % of Total Operating Revenues	Days Cash on Hand
Atlanta, GA	Water & Sewer	Aa2 (Stable)	AA- (Stable)	AA (Stable)	453,149	204,747	43.5%	3,038,793	1.7x	45.2%	1,098
Charlotte, NC	Water & Sewer	Aaa (Stable)	AAA (Stable)	AAA (Stable)	458,669	142,074	32.4%	1,460,786	2.0x	31.0%	498
Dallas, TX	Water & Sewer	Aa2 (Stable)	AAA (Stable)	AA+ (Negative)	675,180	222,946	48.3%	3,178,441	1.4x	33.0%	245
DC Water	**Water & Sewer**	**Aa1 (Stable)**	**AAA (Stable)**	**AA+ (Stable)**	**770,557**	**204,878**	**47.5%**	**3,675,500**	**1.9x**	**26.6%**	**309**
Louisville MSD, KY	Sewer	Aa3 (Stable)	AA (Stable)	AA- (Stable)	329,418	149,018	58.1%	2,151,241	1.6x	45.2%	357
Metro St. Louis Sewer District, MO	Sewer	Aa1 (Stable)	AAA (Stable)	AA+ (Stable)	427,145	119,302	41.1%	1,667,066	2.1x	27.9%	585
NE Ohio Regional Sewer District	Sewer	Aa1 (Stable)	AA+ (Stable)	-	352,075	103,764	51.1%	1,849,027	2.3x	29.5%	1,218
NYC Water	Water & Sewer	Aa1 (Stable)	AAA (Stable)	AA+ (Stable)	3,655,991	519,700	88.4%	31,046,798	3.8x	14.2%	266
San Antonio, TX	Water & Sewer	Aa1 (Stable)	AA+ (Stable)	AA+ (Stable)	794,917	200,904	3,904,558	2.3x	25.3%	48.1%	519

Credit Ratings

- As finances have strengthened, credit ratings have increased



Moody's

- The Aa2 ratings incorporate an excellent rate management track record, strong liquidity, and healthy coverage of debt service supported by steady revenue growth. The ratings also reflect a large and healthy service area supported by considerable wealth and institutional presence. The ratings further recognize that the authority will need to continue its pattern of aggressive rate increases in order to accommodate its substantial capital plan and future borrowing.

- The stable outlook incorporates the expectation that the authority will manage rates effectively to maintain healthy liquidity and sound debt service coverage while generating new revenue over the longer term to support capital improvements.

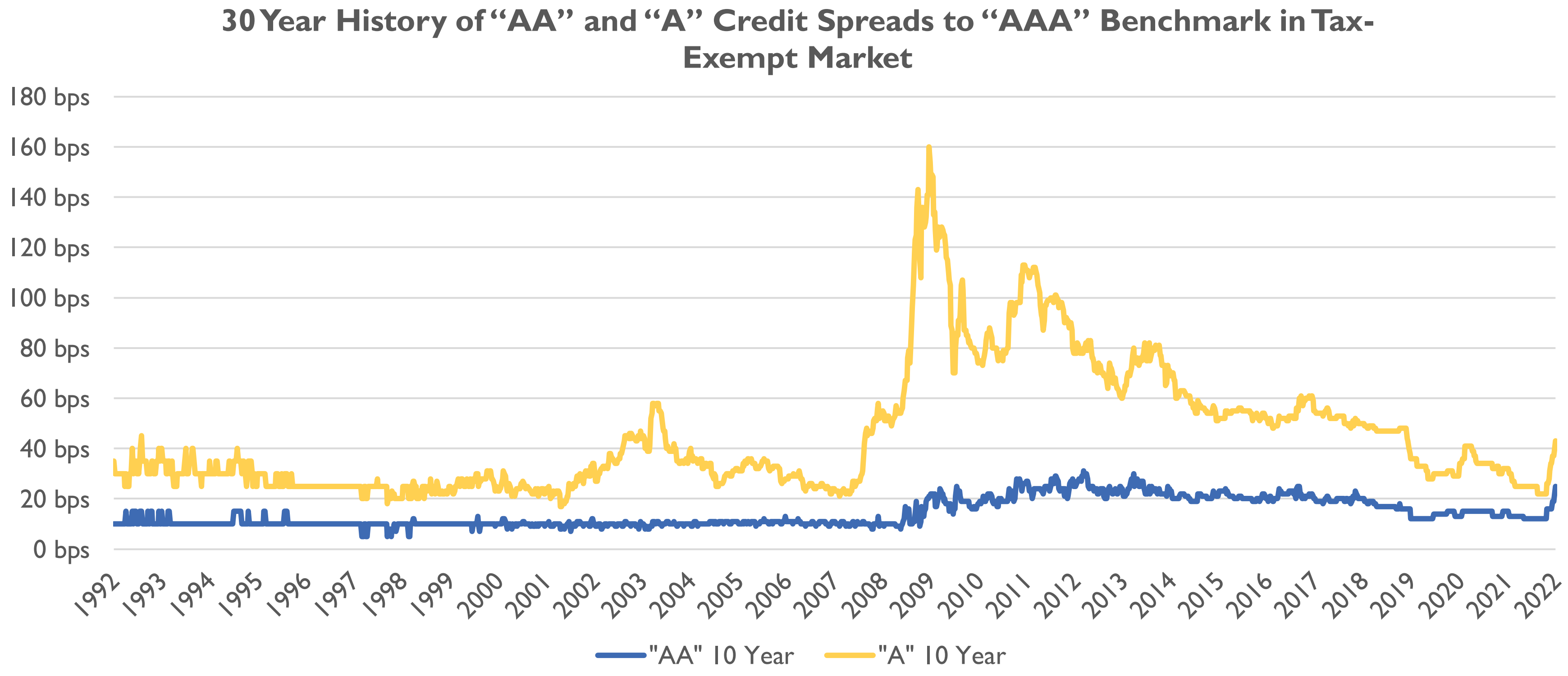
- FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS: Rate adjustments that are not sufficient to support sustained revenue growth and hold debt service coverage by net revenue close to current levels AND - Sustained declines in operating liquidity, or a change in regulations or water quality that necessitates much more borrowing.

- "DC Water's financial profile remains a strength. Coverage is consistently above management's budgeted target of at least 1.6x... Management's financial forecast indicates DSC will remain above 1.8x through the remainder of the forecast period."
- "Coverage, liquidity, pay-as-you-go capital, and rate stabilization reserve fund goals have been established and met. The board recently approved stronger coverage and cash targets, in excess of any indenture requirements, demonstrating its commitment to strong internal targets."

- The strength of the authority's water and sewer system (the system)revenue defensibility is rooted in its unlimited and independent ability to raise user charges for both the retail and wholesale customer bases, situated in a robust and expanding economic area. In addition, the authority's operating burden is very low and the life cycle ratio is moderate with adequate capital investment
- Fitch projects leverage to remain stable, in the 6x bandwidth, as continued rate increases offset the impact of increased capital spending and debt issuance over the next five years

Interest Rates

- As interest rate rise amidst volatility in the financial markets, the borrowing cost differential between highly rated and lower rated borrowers is widening
- Maintaining our high bond rating will be even more important to providing safe and affordable service going forward in an uncertain interest environment
- Tax-exempt credit spreads increase during financial distress

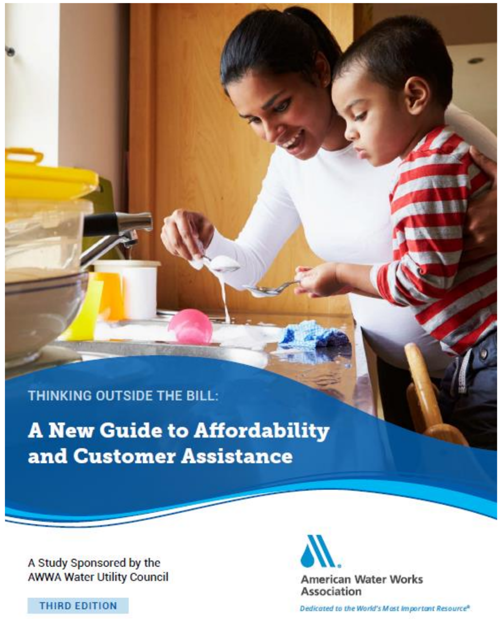


OPC Recommendation 5

- **Recommendation 5:** DC Water and the District should consider options to provide assistance to low-income tenants to provide indirect equitable discounts on water and sewer costs, perhaps as a DC Water funded local income tax rebate
- **DC Water Response:**
  - DC Water does not concur with the recommendation to fund a local income tax rebate
  - The Customer Assistance Programs are available to tenants in single family homes
  - DC Water is also supporting the District's efforts in implementing the LIHWAP program
  - DC Water is a leader in providing assistance to tenants with programs set up during COVID, including the Multi-Family Assistance Program (MAP) that provides up to $2000 credit on the owner bill that passes to the qualified tenant as rental relief
    - There are administrative costs and complexities associated with the program
    - DC Water is examining how we might make this emergency program an on-going program for tenant rental relief
      - Funding for an on-going program would need to be identified because it is not included in the current ratemaking

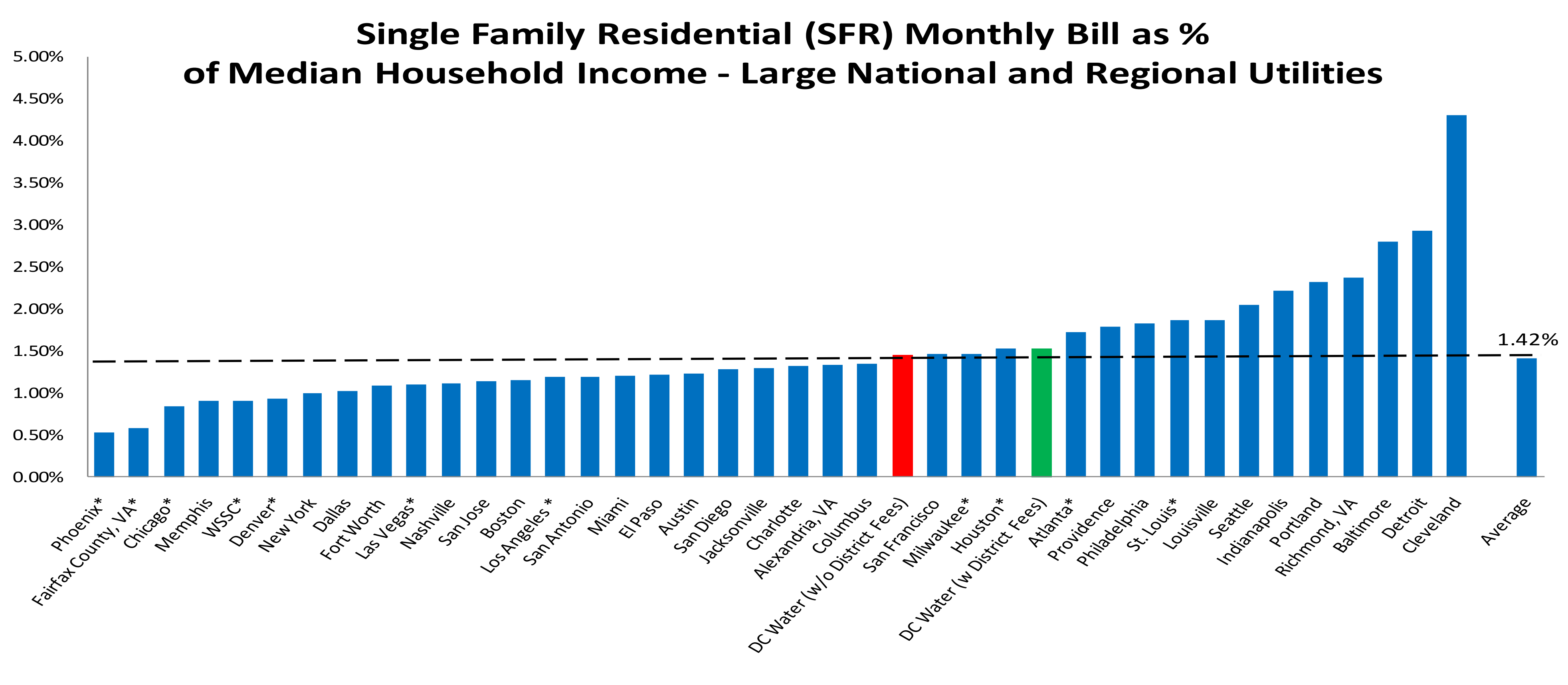
OPC Recommendation 6

- **Recommendation 6:** DC Water and the District should consider adjusting the income thresholds to shift the available assistance from higher income customers to lower income customers, perhaps by adopting the federal low-income thresholds
- **DC Water Response:**
  - DC Water concurs that Customer Assistance Programs should provide the greatest benefits to those with the greatest need, and would like to better understand the recommendation and to continue to work on outreach to eligible customers
  - CAP eligibility is based on Federal low-income guidelines for the Low-Income Home Energy Assistance Program, or 60% State Median Income
  - DC Water has three customer assistance programs for residential customers
    - CAP – 60% state median income,
    - CAP2 – 80% area median income, and
    - CAP3 – 100% area median income
      - The District of Columbia established the income requirements for CAP3 and pays for that program entirely
      - DC Water cannot shift these funds to lower income thresholds
  - DC Water assistance programs are among the most robust in the water and wastewater utility industry and were recently highlighted in an AWWA publication "Thinking Outside the Bill"



Comparative User Charges as % of Median Household Income – Large National & Regional Utilities

- DC Water's rates remain affordable



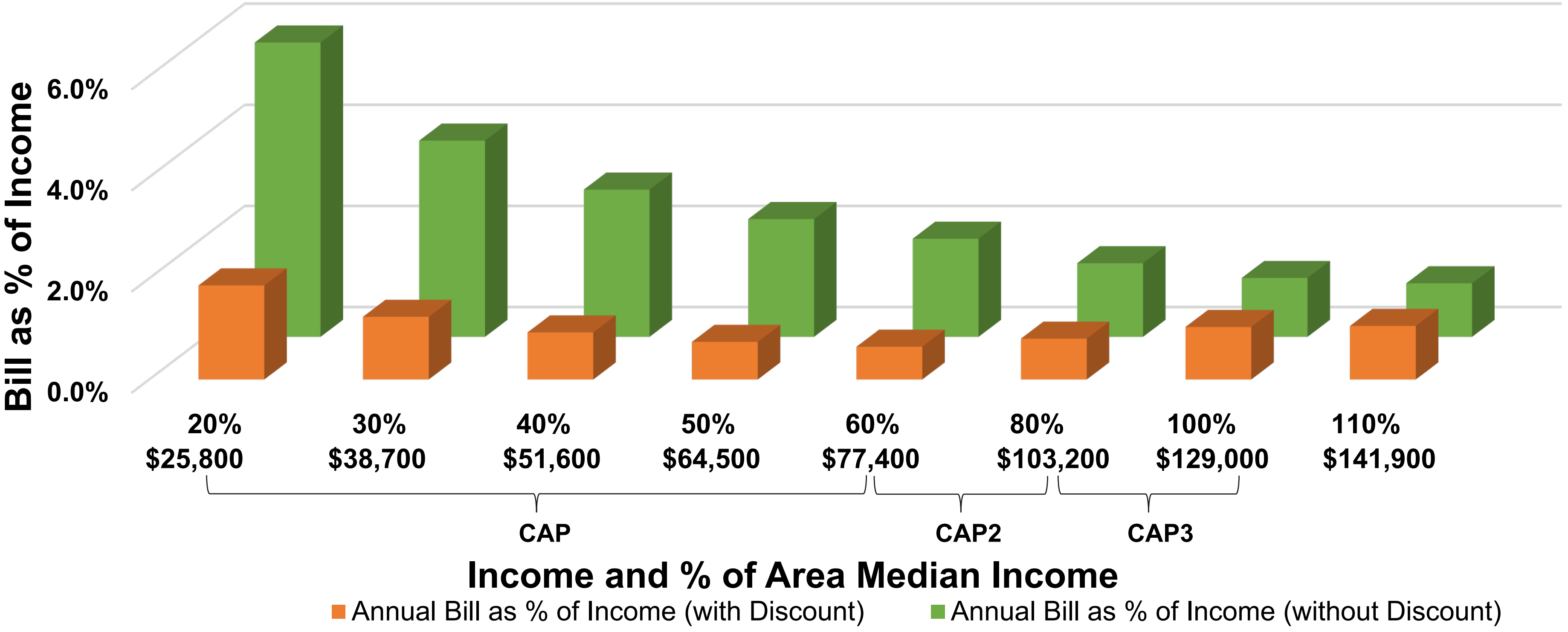
- Assumes average residential consumption of 5.42 Ccf, or 4,054 gallons, per month. Ccf = hundred cubic feet, or 748 gallons.

Note: Reflects rates and fees in place as of December 1, 2021. Some cities use property tax revenue or other revenues to pay for part of the cost of water, wastewater, or stormwater services, as indicated by * in the graph above. In such situations, the user charge will not reflect the full cost of water, wastewater or stormwater services.

Equitable

- CAP provides discounts to households up to 100% Area Median Income
- Those with lower incomes receive a greater benefit
- Programs assist with affordability for households below area median income

Annual Bill as a % of Income
(wih and without CAP Discount)



OPC Recommendation 7

- **Recommendation 7:** DC Water and the District should consider providing a discount on the District water and sewer fees for lower income customers and increasing the fees for higher income customers
- **DC Water Response:**
  - DC Water concurs with this recommendation
  - For the CAP program the PILOT and the ROW are not charged for the four CCFs of water and sewer service that are discounted
  - Similar discounts for CAP2 could be considered in the future, revenue for this is not included in the current rate proposal
  - A discount on the Stormwater fee would need to be discussed with and provided by the District of Columbia

OPC Recommendation 8

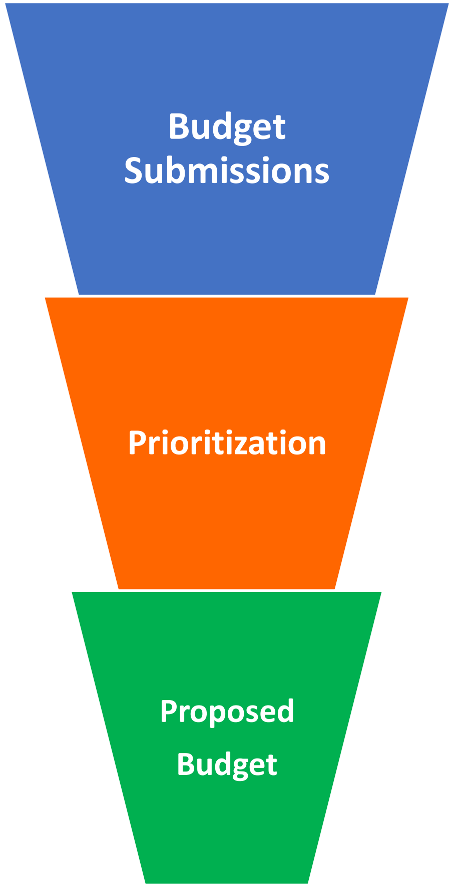
- **Recommendation 8:** Add a low use tier and a high use tier with appropriate peaking factors for residential water rates. This would result in a four-tier system with break points at approximately two, four, and nine Ccf per month usage
- **DC Water Response:**
  - DC Water does not concur with the recommendation
  - Water rates are based on cost of service principles and economic equity
    - Rates represent the cost of providing water and sewer services
  - We understand that a rate lower than the lifeline rate would not cover the cost of service; the impact of a higher rate for nine Ccf would need to be assessed for its impact on low-income households
  - Rates are differentiated among water customer classes (residential, multi-family, non-residential) based on the demands placed on the systems
    - Water rates are differentiated based on peaking – DC Water rates employ class-based peaking supported by an analysis done as part of the Cost of Service Study

OPC Recommendation 9

- **Recommendation 9:** Expand the use of customer classes to sewer rates and mirror the recommended four tier water rate system for sewer rates with appropriate Peaking Factors to recognize the varying impact on Extra Capacity costs
- **DC Water Response:**
  - DC Water does not concur with the recommendation
  - Water rates may be differentiated among classes based on the demands placed on the systems, but wastewater rates may not
  - Water rates are differentiated based on peaking – DC Water rates employ class-based peaking supported by an analysis done as part of the COS Study
  - Wastewater peaking results from inflow and infiltration and is primarily correlated to the combined sewer system in the District
    - Sewer system peaking is not correlated to metered water use – the unit of service for the volumetric rate structure
  - Wastewater rates are differentiated based on strength per industry standards
  - All DC Water retail customers are assumed to have domestic strength
  - Exceptions include Waste Haulers, Groundwater dischargers, and the Washington Aqueduct which all have COS-based rates reflecting their discharge strength

OPC Recommendation 10

- **Recommendation 10:** DC Water should increase its cost containment efforts; and the O&M budget, the capital budget, and financial policies should undergo more rigorous review processes similar to this rate making process
- **DC Water Response:**
  - DC Water concurs that budget processes should prioritize both operating and capital expenditures. Financial policies should be reviewed regularly
  - DC Water's committee meetings and budget materials are public, and DC Water welcomes the opportunity to engage with OPC and other stakeholders during the deliberative budget process
    - We enjoy our regular meetings with OPC and believe that this could be accomplished within those
    - All budget and ratemaking materials are available at dcwater.com/ratemaking-process
  - Approximately 73% of DC Water's core operations and maintenance costs are fixed (union agreement for 67% of the workforce, chemicals, energy and purchase of drinking water), with some of these costs subject to market volatilities
  - For the third consecutive year, DC Water has held the line on overall contractual services while undertaking new operating and strategic programs to improve service delivery to our customers



OPC Recommendation 10

- **DC Water Response, Continued:**
  - The capital program also undergoes a rigorous review, prioritization and risk assessment process including how to balance critical infrastructure needs with customer affordability given that some of our capital programs are mandated (e.g. Clean Rivers program by the Consent Decree)
  - Additional information is provided in the response to Recommendation 1
  - DC Water regularly review financial policies and recommends revisions to the Board
    - The Financial Policies were revised and adopted on October 7, 2021
    - The Investment Policy was revised and adopted on January 6, 2022

Other Comments

- **Comment:** Anacostia Watershed Society spoke about programs funded by DC Water, and had no specific rate comments
  - **Response**: DC Water appreciates the comments

Other Comments

- **Comment:** Proposed rates be also presented with prior 5-year prices and percentage of increase not just current and future rates to give a clear trend and accurate rate analysis for the residents.
  - **Response:** This information is provided in other presentations. All budget and ratemaking materials are posted on our website, please see: https://www.dcwater.com/ratemaking-process
- **Comment:** Rates [should] be centered around sustainability, discount incentives for installing low-flow toilets, and greywater toilets be incentivized. Households should be rewarded for reducing water use and not just via high prices but through discounts offered monthly for lowering water use. The same should apply for household, commercial and multi-unit properties.
  - **Response:** DC Water's rate structure promotes a discount for water with our Lifeline rate. Our lowest rate is charged for the first 4 CCs, about 3,000 gallons. For more information please see https://www.dcwater.com/lifeline-rate
- **Comment:** Houses should be rewarded via monetary discounts by being river friendly with their landscaping including new builds and updating yard landscaping to be water flow friendly
  - **Response:** DC Water offers a discount of 20% on the Clean Rivers Impervious Area Charge for the kinds of initiatives mentioned. For more information please see https://doee.dc.gov/riversmartrewards
- **Comment:**. I see a river fee but it is unclear what it is for and how it is used. These items should be clear and options for citizens to help improve more available, easily accessible, and readily available via many avenues of ways to help
  - **Response**: The Clean Rivers Impervious Area Charge pays for our $2.9 billion program that is improving the quality of the Anacostia and Potomac Rivers and the Rock Creek. For more information please see https://www.dcwater.com/impervious-area-charge and https://www.dcwater.com/cleanrivers

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