DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Meeting of the
Finance and Budget Committee

Thursday, June 23, 2005
9:00 a.m.

MEETING MINUTES

BOARD MEMBERS	WASA STAFF
Glenn S. Gerstell	Jerry Johnson, General Manager
Paul Folkers	Paul Bender, Chief Financial Officer
Beverly Warfield	Avis M. Russell, General Counsel
	Linda Manley, Secretary to the Board
	Michelle Cowan, Director of Finance & Budget

Chairman Gerstell called the meeting to order at 9:15 a.m.

Lead Litigation Update

Jerry Johnson reported that the plaintiffs in the lead class action lawsuit filed a stipulation for discontinuance yesterday, effectively withdrawing their lawsuit against WASA. As soon as the judge signs the stipulation, Mr. Johnson will advise the Board.

Financial Report

Michelle Cowan, Director of Finance & Budget, presented the May 2005 financial overview and stated that there are no significant changes to report this month. At the end of May, with 67 percent of the year complete, operating receipts are two percent ahead of budget primarily because of the one-time impact of conversion from quarterly to monthly billing.

Operating expenditures totaled $169.7 million (including debt service and the right of way and PILOT fees), below the year-to-date budget. Ms. Cowan reported that the President signed the supplemental appropriation of $2.8 million for WASA for operating costs associated with the lead abatement program.

Continuing with a more detailed discussion of operating budget performance, Ms. Cowan reported that she expects savings in personnel services costs where year-to-date costs are 61 percent of the budget with 67 percent of the year completed. Year-to-date savings are the result of higher than budgeted vacancies in the major operating departments where many recruitments are underway. Ms. Cowan also noted that year-to-date costs in contractual services and debt service are running less than budget. Contractual services spending is approximately three percent below budget. In debt service, performance on WASA's $295 million of auction rate securities continues to be strong when compared to budget. The average rate on the variable rate bonds has been two percent as compared to the budgeted rate of four percent, and as a result we could realize savings of approximately $3 to $4 million.

Ms. Cowan reported on two areas of where spending pressures are evident: chemicals and utilities. We are experiencing higher chemical costs as a result of higher chemical price contracts secured through the Metropolitan Washington Council of Governments. Spending in May and June has increased significantly, however, at this point in the fiscal year, anticipated savings in other categories should cover any overspending in this budget category. The utilities category is another area of potential overspending if prices continue at the same levels experienced in June.

Ms. Cowan reported that capital disbursements totaled $20.3 million in May, the second highest monthly level experienced this fiscal year. With 67 percent of the fiscal year complete, year-to- date capital spending through May totaled $134.0 million, or 45 percent of the original Board-approved disbursements budget. As a result, staff has revised year-end spending projections downward to $240.8 million, or 81 percent of the original Board-approved budget.

Ms. Cowan reported total cash balances at the end of May were $219.4 million. The cash balance includes $74.5 million for the special Congressional appropriations for the Combined Sewer Overflow Long Term Control Plan (including interest); and, $27.5 million for the rate stabilization fund. The operating reserve balance totaled $117.4 million, and is in excess of the Board's policy requirement of $97.7 million. In May, WASA received quarterly payments for both on capital and operating from the wholesale customers driving the month-end cash balance up; we expect it to decline in June.

Electricity Update

Paul Bender, Chief Financial Officer, discussed the status of current prices and WASA's next procurement for electricity services. Mr. Bender reported that daily spot electric prices have averaged $48/MWH since we signed our contract with Hess. After declining since April, prices have increased in late May and June due to a commensurate rise in oil prices, corresponding gas prices and warmer weather, with prices for the first two weeks of June averaging $61/MWH.

We will need to average less than $45/MWH for the remainder of FY 2005 to meet our $20.1 million electric budget. Our FY 2006 budget is $22.1 million. If prices continue at current levels, we expect that we would exceed our FY 2005 budget by approximately $500,000, and our FY 2006 budget by approximately $2 to $2.5 million. We are taking this into account as we develop the revised FY 2006 budget that we will present to the Board in the fall.

Electric procurement for beyond January/February 2006

Mr. Bender provided an overview of the seven proposals received in response to WASA's RFP for electric services beginning in 2006, including a presentation on the pros and cons of each proposal. Mr. Bender stated that the evaluation committee ranked the Amerada Hess proposal the highest of the seven proposals because it was both the lowest cost and provided a flexible bidding process for all future block power purchases.

Mr. Bender reported on several key terms of the proposed five-year contract. The contract amount is $112 million for five years, and assumes pricing approximately 10 percent higher than current futures market pricing. By providing contract authority for the five year term, WASA will always have the ability to lock in blocks of power for up to five years in the future. Mr. Bender noted that the contract also provides for automatic one-year rolling extensions at the mutual agreement of both parties. In addition, WASA and the provider have the right to terminate the contract with six months' notice after completion of the first year, which is effectively a minimum eighteen month term.

Chairman Gerstell asked if the minimum contractual commitment that WASA is entering into is for eighteen months, and how much this represented in dollar terms. Chairman Gerstell also asked for clarification of the rationale for approving a five year contract totaling $112 million in light of the minimum initial eighteen month term. Mr. Bender explained that the initial eighteen month term represents approximately $30 – $33 million in dollar terms. He also explained that if the Board only authorized eighteen months of contract authority, then WASA would be unable to lock in future blocks of power beyond the eighteen month term. Chairman Gerstell asked management to periodically report back to the Board on the electricity contract and include this requirement in the Board resolution authorizing the contract.

Chairman Gerstell asked what percentage of WASA's total electricity is accounted for in the proposed electricity contract. Mr. Bender responded that the contract provides for 7 out of approximately 50 - 55 accounts or 99 percent of WASA usage, with approximately 90 percent of the usage attributable to the Blue Plains plant.

Paul Folkers asked whether WASA received consulting guidance and recommendations throughout the bidding process. Mr. Bender responded that two different consulting firms assisted with this procurement: a law firm that specializes in retail/wholesale electric procurements and is very familiar with the electric market and PJM / Pepco issues. In addition, WASA's rate consultant, PB Consult, worked with WASA in developing the block bidding process concept and in analyzing the proposals.

Given the flexibility that the proposed contract would afford the Authority, the possibility of achieving significant savings in electricity procurement, and the nature of the minimum commitment for 18 months the Authority would be assuming with respect to electricity it would be purchasing in any event, the Committee indicated its assent to the proposed contract and recommended that the Board approve it at its next meeting.

Hearing no further business from the Committee members, Mr. Gerstell asked the Committee and executive staff to remain for executive session.