



## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Board of Directors

*DC Retail Water and Sewer Rates Committee*  
Tuesday, July 22, 2014

9:30 a.m.

### MEETING MINUTES

#### **Committee Members in Attendance**

Alan Roth, Chairperson  
Ellen Boardman  
Rachna Butani  
Howard Gibbs  
Robert Mallett  
Brenda Richardson

#### **DC Water Staff**

George Hawkins, General Manager  
Mark Kim, Chief Financial Officer  
Randy Hayman, General Counsel  
Linda R. Manley, Board Secretary

#### **Call to Order**

Chairman Roth called the DC Retail Water and Sewer Rates Committee meeting to order at 9:40 a.m.

#### **FY 2015 Management Recommendation on Retail Rates**

Chairman Roth stated this is the single most important meeting of the DC Retail Water and Sewer Rates Committee (Committee) that we have each year in advance of the full Board meeting on rates for the next fiscal year. This Committee is comprised of all of the District of Columbia Board members and alternates, and only District representatives on the Board vote on the recommendation that the Committee sends forward. Chairman Roth informed the committee that DC Water Board Chairman and City Administrator Allan Lew, together with General Manager Hawkins and DC Chief Financial Officer Jeffrey DeWitt, have been having significant discussions on the PILOT and ROW. These discussions could affect the recommendations made today and lead to them being further amended at the September Board meeting.

Mr. Kim updated the Committee on management's proposal for FY 2015 rates:

	<b>FY 2014 Rates</b>	<b>FY 2015 Recommended Rates</b>	<b>Increase (\$)</b>	<b>Increase (%)</b>
Water (Ccf)	\$3.61	\$3.88	\$0.27	7.5%
Sewer (Ccf)	\$4.41	\$4.74	\$0.33	7.5%
CRIAC(ERU)	\$11.85	\$16.75	\$4.90	41.4%
PILOT (Ccf)	\$0.53	\$0.61	\$0.08	15.0%
ROW <sup>(1)</sup> (Ccf)	\$0.17	\$0.17	-	-

(1) There is no increase in the Right-of-Way fee, which remains same at \$0.17 per Ccf {\$0.22 per 1,000 gallons}.

The FY 2015 Retail Water and Sewer Rates recommendation are volumetric in nature, and they reflect an increase of 7.5 percent. The main drivers of these increases are the decline in consumption and an

increase in Personnel and Debt Service costs. Mr. Kim stated that in order to limit the increase to 7.5 percent; DC Water is planning to withdraw \$17.5 million from the Rate Stabilization Fund (RSF). DC Water will have to withdraw funds from the RSF for the next three fiscal years to maintain rates at the levels management is proposing. Without the RSF withdrawals, necessary rate increases would be 13 to 14 percent. Management's target is to maintain a reasonable single digit level as opposed to a very big increase in rates. This is particularly important now because DC Water is at the very peak of the capital spending in the CIP program.

Ms. Butani inquired about the RSF balance. Mr. Kim explained that currently the RSF balance stands at \$28.9 million in FY 2014. In FY 2014, DC Water will withdraw \$6.5 million from RSF, leaving a balance of \$22.4 million. In FY 2015, DC Water projects to withdraw \$17.5 million from RSF, which would leave a balance of \$4.9 million. Mr. Gibbs asked where the funds will come from to fund the RSF in the remaining years. Mr. Hawkins stated that DC Water has established a Cash Financed Capital Construction (CFCC) fund. The CFCC is designated for Pay-Go or RSF to be used at the end of the year if needed.

Mr. Kim next explained the proposed CRIAC increase for FY 2015. He stated management is recommending an increase of \$4.90 to the CRIAC, from \$11.85 per ERU in FY 2014 to \$16.75 per ERU in FY 2015. This is the largest projected increase in the CRIAC, because DC Water is at the peak of spending for the Clean Rivers Project. The current Ten-Year Financial Plan totals \$3.8 billion, almost \$1.25 billion of which will be spent on the Clean Rivers Project. In FY 2015, the CRIAC will represent the single largest dollar and percentage increase, which is directly related to spending. A glance at the CRIAC projections going forward:

- FY 2015 – 41 percent increase
- FY 2016 – 23 percent increase
- FY 2017 – 12 percent increase
- FY 2018 – mid single digit increase

Mr. Hawkins explained that in FY 2014 DC Water lowered the planned increase in the CRIAC. This was mainly due to the downsizing of the debt financing last year. Expenditures were also slower than anticipated.

Chairman Roth asked Mr. Kim to respond to a question submitted by a member of the public about the relationship of the recent century bond issuance to the proposed increase in the CRIAC rate. Mr. Kim updated the Committee on the bond deal and debt financing. DC Water will close on about \$450 million of debt, \$350 million of it in the form of a historic green century bond issuance. The century bond transaction is solely to fund the Clean Rivers Project. A very innovative financing was done to spread out the costs of the project over a longer period of time, which is beneficial to our rate payers. However, this was a \$350 million bond deal for a \$2.6 billion project, a relatively small portion of the overall amount. To the extent that this transaction generates cash flow savings for rate payers, DC Water will propose to use the cash flow savings to fund the RSF. The CRIAC is designed to capture the costs related to the Clean Rivers Project. DC Water needs a certain total amount of revenue from all rates, fees, and charges. If DC Water unilaterally lowered the CRIAC we would need a corresponding dollar for dollar increase in another charge to achieve the same amount of revenue.

Ms. Richardson asked whether management is working on a parallel track to make sure that our customer assistance programs are focused on affordability. Mr. Kim replied that he would be bringing a presentation back to the Committee meeting in September on affordability issues and programs.

Mr. Kim turned next to the PILOT and ROW fees. Mr. Kim stated management recommends a \$0.08 increase for the PILOT fee in FY 2015, a 15 percent increase. The PILOT fee is a pass-through fee for the District. The reason for the increase in the PILOT fee, like the increase in water and sewer rates, is a decline in consumption greater than projected a year ago. (Of the 8 cent increase, 3 cents is attributable to the consumption decline.)

Mr. Mallett noted that our rate structure creates a “double whammy” – in other words, while we encourage conservation, that in turn leads to higher rates per CCF, which is especially bad for the PILOT. Mr. Kim responded that the FY 2015 Cost of Service Study will address the current rate structure. DC Water is consistent with industry norms with its rate structure of 30 percent fixed and 70 percent volumetric. DC Water’s cost structure is about 70 percent fixed and 30 percent volumetric. The paradox under this rate structure is the more you conserve the more you are penalized.

Chairman Roth updated the Committee on the PILOT/ROW negotiations with the District. He indicated that in a telephone discussion with Chairman Lew prior to the Committee meeting, Mr. Lew had expressed the belief that DC CFO DeWitt is personally committed to resolving these issues and that Mr. Lew believed it was possible that could be accomplished prior to the September Board meeting. Chairman Roth asked that in deference Chairman Lew’s request, we allow time before the September Board meeting to see how the negotiations with the CFO turn out rather than taking action at this Committee meeting to address these issues.

Mr. Kim displayed for the committee the proposed FY 2015 Average Residential Customer monthly bill and CAP monthly bill. Mr. Gibbs stated that a prior presentation suggested the average CAP customer used more than 8 Ccf. Mr. Kim replied, that staff will follow-up with an updated CAP analysis next RRC meeting. **[Follow Up]**

### **Action Items**

Chairman Roth asked the committee whether it wished to recommend action item 1A, FY 2015 Rate and Fee Changes, to the full Board in September. Mr. Gibb questioned whether the ROW language should be eliminated from the recommendation because there is no increase for FY 2015. Mr. Hayman replied that he would research the issue and present action item 1A in the appropriate form for the September Board meeting. Ms. Richardson asked whether there could be language included in the rate resolution regarding the Board’s concern for affordability. Ms. Boardman suggested a separate resolution for that purpose. The Committee members discussed the various elements they would like to see included in such a resolution and asked Mr. Hayman to propose a draft for their review, with an eye toward consideration at the September Board meeting together with the Rates and Fees resolution. **[Follow Up]** The committee then decided based on a consensus recommendation to move action item 1A, FY 2015 Rate & Fee Changes, to the full Board in September.

### **Retail Water and Sewer Rates Committee Workplan**

Mr. Kim updated the committee on the DC Retail Water and Sewer Rates Committee Workplan. Every three years, DC Water undertakes a Cost of Service Study (COS) on the authority’s actual costs to make sure rates are set proportionate to costs. The FY 2015 COS Study scope has been expanded to ensure that rates are cost of service based. The consultant will allocate net revenue requirements among various cost drivers. In the past COS studies, costs were allocated among cost drivers such as water volumetric, sewer volumetric, metering fees, and the CSO long-term control plan. In this COS study, water volumetric costs will be further allocated to customer peaking and sewer volumetric costs. DC Water’s goal is to update the committee with a set of recommendations on the current rate structure and alternative models on the pros and cons to see if there is a better rate structure for DC Water and rate payers focusing on affordability. The COS will take approximately six months. Currently, DC Water is in the data gathering phase. Next will be the analysis phase and ultimately the recommendation phase. By the end of next year, DC Water would present to the committee a set of robust alternatives for consideration and have the options for the committee to choose to start in FY 2016 with a different rate structure.

### **Other Business**

No other business was discussed.

**Executive Session**

The Committee did not move to go into executive session.

**Adjournment**

The meeting was adjourned at 11:18 a.m.

**FOLLOW-UP ITEMS – DC Retail Water and Sewer Rates Committee Meeting (July 22, 2014)**

1. Prepare a General Principles of Affordability for Low-Income Customers Resolution. (Ms. Richardson) Status: September 2014
2. Prepare CAP customers average usage analysis. (Mr. Gibbs) Status: Fall 2014