



## DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

### Board of Directors

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

Tuesday, September 23, 2014

9:30 a.m.

### MEETING MINUTES

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

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

#### **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 9:35 a.m.

#### **Update on 2015 Cost of Service/Rate Structure Analysis**

Chairman Roth stated that Mark Kim, CFO would be presenting an update on the 2015 Cost of Service Study and Rate Structure Analysis. Mr. Kim gave a brief overview of the 2015 Cost of Service Study and its Objectives. The Cost of Service Study is performed every three years. Mr. Kim noted that the scope of the study had been expanded this year to address the issue of affordability in the following areas:

- Alternative rate structure
- Review of current affordability program
- Additional fees and charges

Mr. Kim then provided the committee with the proposed timeline for the rate setting process and stated that the preliminary recommendation on proposed FY 2016 rates, charges and fees would be presented to the committee at the November meeting.

Mr. Kim stated that on September 4, 2014, the Board approved the General Principles of Affordability for Low-Income Customers Resolution to:

- Consider rate impacts on low-income customers
- Explore affordability alternatives for low-income customers
- Develop a more innovative rate structure

Mr. Kim stated that the goal was to develop alternative rate structures designed to recover DC Water's cost of service in a fair and equitable manner by taking into consideration the burden on low-income,

economically disadvantaged customers. Mr. Kim explained that the 2015 Cost of Service Study methodology involves analyzing customer consumption patterns coupled with demographic and geographic data from the US Census Bureau data and incorporating rate structure recommendations. Mr. Kim and Mr. Davis of Raftelis Financial Consulting, Inc. presented a summary of the analysis:

Income Analysis by Ward:

Mr. Kim showed a chart from the 2012 US Census Bureau Data on Income by Ward of the District of Columbia.

Consumption Analysis by Income:

Mr. Kim explained a chart showing Consumption Analysis by Income and highlighting the top and bottom deciles of residential customers in the District. The analysis showed that the majority of customers in the bottom decile of income used 4 Ccf or less water. Mr. Hawkins noted that this validated the Board's decision to set the cut-off for the CAP program discount at 4 Ccf.

Impervious Area Charge Analysis by Income:

Mr. Kim showed a chart of the Clean Rivers Impervious Area Charge Analysis by Income, which demonstrated that about 95 percent of customers in the bottom decile have 1 ERU or less, and about 35% have 0.6 ERU or less. Mr. Kim noted that since the majority of lower income users had less than 1 ERU, this effectively served as an institutionalized CAP program on the IAC charges. Mr. Mallett suggested that the discount programs should be made more transparent to beneficiaries and policy makers.

Peak Demand Analysis by Customer Class:

Mr. Kim mentioned that peak usage was one of the factors driving system costs and noted that the class peaking factor provides a basis for developing class based rates. Mr. Hawkins noted that most water utilities were dealing with the industry-wide trend of declining consumption. Mr. Kim noted that even with declining consumption, the system infrastructure had to be built to handle peak demand, and the key was to identify the customers responsible for driving peak demand costs. Mr. Hawkins noted that despite falling consumption, more effort would be placed on conservation for low-income customers. Mr. Davis stated that the non-residential customers were primarily responsible for the peaking cost; hence, it may be possible to come up with a volumetric rate class that had lower rates for single and multi-family customers. Chairman Roth inquired as to how peaking factors would be applied to customer rate classes. Mr. Kim explained that peak water usage is the extent to which a customer, or class of customers, regularly exceeds average usage. The excess usage of a class of customers puts extra demand on the system, and therefore, a higher rate is justified for that class. He further added that it would be defensible to charge different rates to customer classes based on peaking factors. The Committee discussed the potential impacts of the use of peaking factors on the various customer classes and the potential feasibility of developing additional classes over time as more data is gathered and experience is gained. Mr. Mallett asked the staff to provide a comparison of class rate structure with other regional water utilities.

Alternative Fees and Charges:

Mr. Kim outlined the following three potential Alternative Fees and Charges.

Redevelopment Impact Fees:

An impact fee would recover the incremental costs of providing service to new development projects. Mr. Kim noted that every utility in the area except DC Water assessed this fee.

Cross Connection Fees:

Mr. Davis gave a brief summary of the proposed Cross-Connection Fee, noting that it would recover the costs of protecting the potable water distribution system from contamination or pollution due to backflow of contaminants at the water service connection. Ms. Boardman suggested that this fee should more precisely be considered a “penalty” instead of a “fee” since improper cross-connections posed a health risk. The Committee agreed that the staff should investigate this option further and report back with a more in-depth proposal.

1% Main Replacement Program Fees/Infrastructure Surcharges:

Mr. Kim stated that an infrastructure surcharge would not be introduced this year, but noted that WSSC had recently introduced a similar fee to defray the costs of their Capital Improvement Program (CIP). He noted that with declining consumption, DC Water had to better align its fixed and variable costs with its fixed and volumetric revenue streams.

Review of Customer Assistance Program (CAP):

Mr. Kim explained that 17% of the District’s 261,000 households are below the Federal Poverty Level (approximately 42,000 households). Assuming 80% of these fall into Multi-Family/DC Housing Authority designations, 10,000 Residential accounts could still be CAP eligible candidates. As of September 2013, approximately 5,206 accounts were designated to receive CAP. Accordingly, management believes that there is still a sizable portion of residents who could potentially benefit from CAP.

Mr. Kim showed a CAP Affordability Analysis chart for the CAP customers and stated that a monthly bill of \$46.47 is affordable for incomes greater than \$13,941 per year based upon US EPA guidelines for affordability. Approximately 97 percent of DC households earned more than this amount. Mr. Kim suggested that the lesson to be drawn from this data is that expanding participation in the DC Water’s current CAP program would probably be more fruitful than increasing the subsidy level to existing CAP customers.

DC Retail Water and Sewer Rates Committee Workplan

Mr. Kim updated the Committee on the FY 2014 and FY 2015 Workplan.

Action Items

The Committee recommended to the full Board approval of the terms and conditions for a renewed Right-of-Way (ROW) MOU with the District of Columbia and that the General Manager be authorized to execute the MOU. This would provide for renewal of the existing ROW agreement for a term of 10 years, from October 1, 2014 to September 30, 2024, at a fixed annual fee of \$5.1 million. DC Water has also agreed to pay the District \$5.1 million from fees collected and held in escrow for FY 2014.

Other Business

No other business to discuss.

Executive Session

The committee did not move to go into executive session.

**Adjournment**

The meeting was adjourned at 11:25 a.m.

**FOLLOW-UP ITEMS – DC Retail Water and Sewer Rates Committee Meeting (September 23, 2014)**

1. Prepare CAP customers average usage analysis. (Mr. Gibbs) Status: Fall 2014