

**DISTRICT OF COLUMBIA**

**WATER AND SEWER AUTHORITY**

# Board of Directors

DC Retail Water and Sewer Rates Committee

## Tuesday, June 23, 2015

9:30 a.m.

MEETING MINUTES

**Committee Members in Attendance**

**DC Water Staff**

Alan Roth, Chairperson

Matthew Brown

Rachna Butani

Howard Gibbs

Robert Mallett

Brenda Richardson – Teleconference

George Hawkins, General Manager

Mark Kim, Chief Financial Officer

Randy Hayman, General Counsel

Linda Manley, Board Secretary

**Call to Order**

Chairman Roth called the DC Retail Water and Sewer Rates Committee meeting to order at 9:38 a.m.

**FY 2015 Cost of Service Study**

Mr. Kim presented the final Cost of Service Study to the Committee for review and approval. He stated that this is essentially the same study presented in draft form in January 2015. This study served as the basis for the proposed FY2016 rate proposal.

Regarding comments made in the public hearing that some utilities provide different rates for religious and non-profit organizations, Mr. Mallett inquired as to how other local utilities handle these types of customers. Mr. Kim said that staff will research this issue and present its findings at the next committee meeting.

**Management Recommendation on FY 2016 Retail Rates and Implementation Status Update**

Mr. Kim presented an overview of the proposed FY2016 rates. He explained the changes in the rates, charges and fees as illustrated in the table below:



Mr. Mallett inquired about the comments received in the Town Hall meetings related to water and sewer rate increases and the new fixed fee. Mr. Hawkins responded that most of the customer comments expressed support for the new lifeline water rate. In addition, DC Water received favorable comments on the Water System Replacement Fee. Mr. Hawkins noted that the Town Hall participants expressed greater concern about the higher increases in the CRIAC, and stated that most of challenges/concerns were from people who felt that they would have a hard time paying their bills because they were on a fixed income.

In response to a question from Mr. Gibbs, Mr. Kim explained that the CRIAC increases are now more transparent for DC Water’s customers. Prior to FY 2009, the CRIAC was embedded as part of the sewer rate.

Mr. Kim stated that in the near future there may be an increase in the Customer Metering Fee for two reasons: (1) Customer Information System upgrade and (2) replacement of old meters. Mr. Gibbs commented that this system is old and DC Water cannot put it on hold any longer. Mr. Mallett expressed his concern about the affordability of such an increase.

Mr. Kim then referred to the Right-of-Way fee and PILOT stating that the MOU signed with the District in 2014 resulted in not only a reduction in the total PILOT fee, but also lowered the required annual PILOT fee increases. Mr. Mallett asked if the new rate structure was revenue neutral or revenue positive. Mr. Kim responded that the proposed changes to the rate structure were designed to be revenue neutral.

Mr. Kim then described the new Water System Replacement Fee (WSRF), which is a fixed monthly fee set to recover the costs of the 1 percent renewal and replacement program for water service lines. The fee is based on meter size and average flow. The vast majority of Residential customers have a meter size of 1” or less. On average, the 1% renewal and replacement program is estimated to cost $40 million annually. In addition, management is proposing that DC Water’s CAP customers receive 100% credit for this fee.

Mr. Kim updated the committee on the detailed analyses by customer classes and meter sizes that was conducted to assess the projected impact of the proposed FY2016 rates upon DC Water’s customers. He stated that he has a very high degree of confidence that the rate design is valid and will achieve the desired objective. Mr. Kim further noted that there is a normal distribution of DC Water customers under the proposed rate structure, with a small percentage of customers who are outliers and may experience an unusually high or low impact under the proposed rate structure. In particular, customers with relatively larger meters and higher than average consumption may see the largest dollar ($) increase in their bills. In addition, customers with relatively larger meters and lower than average consumption may see the highest percentage (%) increase in their bills. Finally, customers with zero consumption will see the largest percentage (%) increases in their bills (e.g., back-up meters and seasonal meters). Some potential mitigation strategies are:

* Provide customers with the opportunity to assess consumption and potentially downsize their meters; and
* Customers to determine if they need a back-up service with the possibility to disconnect and consolidate meters.

Chairman Roth referred to the AOBA’s testimony from the May public hearing. AOBA testified that its survey showed that the bill for some of its members will increase by nearly 50 percent in FY 2016 as a result of the WSRF. Mr. Roth inquired whether AOBA had followed up with DC Water staff to provide any further data or comments on its member survey. Mr. Kim replied that AOBA had not done so.

Chairman Roth inquired if staff had undertaken its own analysis of potential impacts on the Non-Residential customers referenced in AOBA’s testimony. Mr. Kim confirmed that staff did and that it was part of the implementation analysis. This analysis was done for all of DC Water’s customer classes, including Non-Residential. Based upon the analysis, approximately 6% of the Non-Residential customer class, which includes Federal, Municipal and Commercial customers are projected to experience a significant increase. However, nearly half of those accounts showed zero consumption which is unusual for this customer class. Mr. Kim noted one caveat in the analysis was that it was based upon one month’s data as a sample set (July 2014), which is typically the highest usage month. Excluding these zero consumption customers, approximately 2.5% of the Non-Residential customer class is projected to experience a significant impact. Mr. Roth inquired if this analysis also included the Federal and Municipal categories, and Mr. Kim confirmed that it did and that the total number of Non-Residential customer accounts in the sample was approximately 11,000.

As a result of the analysis, DC Water is recommending a modification of the proposed Water System Replacement Fee (WSRF) for certain Residential customers with 2” meters. The vast majority of Residential customers have a 1” or smaller meter. However, Residential customers who wish to install fire protection (e.g., sprinkler systems) are required by DC code to install a 2” meter. Therefore, in order to promote public safety and to remove a financial disincentive for these customers, management recommends commencing a separate rulemaking with regard to the WSRF, with proposed text as follows:

“Special Provision 112.11: Residential customer, whose premises is served by a single two inch (2”) meter used for both Demand Flow and Fire Flow, shall be charged a monthly Water System Replacement Fee (WSRF) set forth in section 112.10 for a one and one-half inch (1.5”) meter.”

Ms. Butani commented that in Montgomery County all residents are required to have some kind of fire suppression system. She asked if there was any discussion with DCRA about whether the District is going to move to that policy. Mr. Mallet added that it is required for new construction. Mr. Hawkins stated that the staff will investigate and report back to the committee.

**Action Items**

Mr. Kim referred the Committee to the following action items.

Action Item #1: FY 2016 Approval of Proposed Retail Rates, Charges and Fee (effective October 1, 2015).

1. Approval of Proposed Customer Class – Based Volumetric Rates
2. Approval of Proposed Lifeline Water Rate for Residential Customers
3. Approval of Proposed Clean Rivers Impervious Area Charge (CRIAC)
4. Approval of Proposed Water System Replacement Fee (WSRF) to Recover the Cost of the 1 percent Renewal and Replacement Program for Water Service Lines
5. Approval to amend CAP Program to give 100 percent credit for Water System Replacement Fee (WSRF)

Action item #2: Proposed Amendment for the Water System Replacement Fee (WSRF).

Action item #3: Approval of proposed District of Columbia Fire Protection Service Fee (FY2015, FY2016, and FY2017).

Mr. Roth asked Mr. Kim to refresh the committee’s collective memory on the Fire Protection Service Fee which was presented to Retail Water and Sewer Rate Committee at its February 2015 meeting. Mr. Kim stated that DC Water has an MOU with the District of Columbia to maintain and upgrade public fire hydrants in the District. The agreement states that the District will reimburse DC Water for actual costs of providing this service. DC Water undertakes a cost of service study every three years to establish the appropriate fee and to “true up” the actual costs of providing the service over the past period. Mr. Gibbs inquired as to what is the intent of this statement sentence, “plus the cost of fire hydrant inspections performed by the DC Fire and Emergency Medical Services” and whether we are paying the fire department to inspect the fire hydrant. Mr. Kim stated that he will seek clarification on this issue and report back the committee.

There was a brief discussion about the WSRF modification, and it was noted that a separate Notice of Proposed Rulemaking was required. The Retail Water and Sewer Rates Committee will hold a subsequent meeting on or about September 3, 2015 to approve the final WSRF modification.

The Committee unanimously recommended all three action items to the Board for approval.

**FY 2016 Rate Design Implementation Project Status**

Mr. Kim updated the committee on the status of the rate implementation and reviewed major milestones before the “go-live” date of October 1, 2015. He acknowledged the Customer Service, Legal, External Affairs, Engineering, IT and Finance teams for their hard work and dedication.

Ms. Butani asked a question regarding our communication plan for the proposed rate structure changes. Ms. Pamela Mooring (External Affairs) discussed DC Water’s proposed communication strategy, which includes town hall meetings, monthly billing inserts, DC Water’s website, social media as well as a planned public service announcement. The Committee members then had an extensive discussion on the bill inserts. Ms. Butani suggested that DC Water mail a separate letter to its customers informing them about the new rate structure.

Mr. Roth complemented Mr. Kim on the excellent presentation and thanked staff for their efforts.

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

Mr. Kim proposed reviewing the committee’s workplan at the next DC Retail Water and Sewer Rates Committee meeting. He mentioned that the workplan is currently on schedule.

**Executive Session**

Executive session was held to discuss Soldiers’ Home.

**Adjournment**

The meeting was adjourned at 11:05 a.m.

**FOLLOW-UP ITEMS – DC Retail Water and Sewer Rates Committee Meeting (June 23, 2015)**

1. Religious or nonprofit institutions – how do other local utilities handle these customers?  Do they receive a discount or subsidy on their water rates?  On what grounds? (Mr.Mallett)
2. Residential construction for fire suppression – is it mandatory on all new construction?  Check with DCRA and Permits. (Ms. Butani)
3. Communications plan – External Affairs should draft a letter from the GM to customers announcing the new rate structure, and possibly include sample bill with call out boxes showing the changes. (Ms. Butani)