



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY
BOARD OF DIRECTORS**

DC Water Retail Water and Sewer Rates Committee

Tuesday July 26, 2011

9:30 A.M.

MEETING MINUTES

COMMITTEE MEMBERS

David J. Bardin, Chair
Howard Gibbs, Vice-Chair
Howard Croft
Brenda Richardson
Joseph Cotruvo

DC WATER STAFF

George Hawkins, General Manager
Olu Adebo, Chief Financial Officer
Randy Hayman, General Counsel
Linda Manley, Board Secretary
Yvette Downs, Director of Finance and Budget

Others In Attendance

Jon Davis, Raftelis Financial Consulting Inc.

Call to Order and Agenda Adjustment

Chairman Bardin called the Retail Rates Committee meeting to order at 9:32 am.

He adjusted the agenda and began with item 6 to allow the General Counsel and General Manager time to address a pressing matter unrelated to the Committee. Mr. Bardin noted that the full agenda and its Attachments (A – I) are on the DC Water website for public review. See <http://www.dewater.com/news/publications/DCRWSR%20Committee%20Material%2007-26-11.pdf>

Update on DC Water Customer Class Segmentation Review (Attachment G – 27 slides)

Mr. Adebo introduced Mrs. Yvette Downs and Jon Davis, Raftelis Financial Consulting Inc. (RFC), to the Committee. Ms. Downs updated the Committee on the yearlong discussions on retail rates, goals and priorities of DC Water including the revised rate setting policy approved in January 2011. In 2009, RFC performed a Cost of Service study which resulted in several recommendations, one of which was to determine if additional customer classes should be defined for the purpose of cost allocation and rate setting. Currently, DC Water has two customer classes: Residential and Non-Residential.

Studies of possible segmentation of the Non-residential customer class are more advanced as to water customer matters than studies as to sewer customer matters.

Water Customer Segmentation

Ms. Downs noted that the water industry uses Customer Class Segmentation to classify customers further, typically on the basis of general service characteristics and demand patterns. Most water utilities have three principal classes of customers: Residential;

Commercial; and Industrial. Demand patterns of various customers differ depending on their peak use characteristics – e.g. peak-day and peak-hour. Typically, classes or sub-groups with higher peaking are allocated costs based on system peaking costs, primarily driven by electricity and system capacity costs.

Mr. Davis outlined promising work to date on peaking factors of some sub-groups and how data being assembled and analyzed may justify rate differences – if the Board deems such differences to be good policy. He explained RFC’s study methodology and preliminary findings. DC Water’s Customer Information System (CIS) already identifies some customer sub-groups within the two defined customer classes, Residential and Non-residential. Some examples include: Commercial, Multi-Family, and Federal. RFC reviewed 12 months of CIS data, covering May 2010 to April 2011, to determine if there were any peaking differences among eight customer sub-groups studied. RFC’s Consumption Analysis showed each sub-group’s average monthly usage, its monthly usage as a percentage of total usage, and its maximum monthly usage, maximum peaking factor and most frequent peak month. A sub-category’s “peaking factor” is its peak month usage divided by its average month usage.

Based on the data, Federal customers had the highest peaking factor and Multi-Family customers had the lowest peaking factor. (Attachment G, slide 7, table) Dr. Cotruvo requested an added column showing lowest month average. Mr. Bardin suggested renaming the first column Customer “Category” instead of “Class” and adding a footnote explaining the Exempt sub-group category. (This table as revised is shown here below).

Customer Category	Average Monthly Usage (kgals)			Max Month		Max Month Peaking Factor	Min Month	
	Per Category	% of Total	Per Account	Usage (kgals)	Month		Usage (kgals)	Month
Commercial	675,409	34.15%	102	922,739	July	1.37	504,539	Feb.
Residential	567,402	28.69%	7	711,140	July	1.25	472,563	Feb.
Multi-Family	513,168	25.95%	91	576,451	July	1.12	454,149	Feb.
Federal	90,992	4.60%	858	144,365	Aug.	1.59	64,753	Feb.
Municipal	62,252	3.15%	212	77,321	July	1.24	48,212	Feb.
Housing	52,808	2.67%	64	61,424	July	1.16	45,636	Nov.
Exempt*	15,059	0.76%	717	20,605	Aug.	1.37	8,480	May
DC Water	682	0.03%	114	1,718	June	2.52	297	Feb.

* Exempt refers to those accounts which are not billed for water usage by DC Water.

Month-by-month usage for each sub-group was graphed in Slide 8 of Attachment G.

Mr. Davis said next steps are to: review two prior years of data to confirm stability of the usage patterns; dig into the data to analyze whether potentially significant subdivisions could be established; explore water implementation considerations for segmentation options.

Mr. Adebo expects that RFC will have meaningful factual results in time for the Committee’s September meeting. Management expects to present policy options and recommendations at the April 2012 Committee meeting. If there are recommendations for Board action at that time, staff will put forward a proposed implementation program for FY2013 and/or later.

Sewer Customer Segmentation

Mr. Davis summarized the Sewer Customer Segmentation. Typically this is based on discharge strength characteristics: Monitored and Non-Monitored. Mr. Davis briefly discussed the Standard Industrial Classification (SIC) Codes (*Slide 17*), Biological Oxygen Demand (BOD) Discharges (*Slide 19*), and Utility Customer Segmentation Examples (*Slide 22*). Data provided were generic, not specific to DC Water and its customers. Additional testing will be required to determine potential customer impacts and costs, with no timetable yet set.

Monthly Updates (Attachments A – 2 pages – and B – 13 slides)

The General Counsel, Mr. Hayman, provided Monthly Updates on Howard University and Soldiers' Home Delinquent Accounts. Mr. Bardin asked the General Counsel to add specific target dates to the items listed in future reports. Chairman Bardin also requested staff to ensure the monthly update is provided to the Committee in August although there is no Committee meeting that month.

Mr. Hawkins recommended the Town of Vienna Potomac Interceptor (PI) User Cost Settlement (Attachment B – slide 12). Discussion clarified that Vienna's \$250,000 net settlement payment would be for past periods, ending in 2007, and that current bills and payments are not in controversy. Mr. Hawkins acknowledged the General Counsel and the Chief Financial Officer's office for their diligent and hard work on the settlement. The Committee concurred with the settlement proposal and the General Manager's plan to share it as information with the Board prior to execution.

Chairman Bardin asked the General Counsel and Mr. Hawkins to weigh whether the wholesale business arrangement with Vienna could and should be changed to eliminate the three-year lag and follow the IMA model instead, as had been done earlier with Loudoun County. He also asked for analogous reexamination of contracts with three small PI retail customers (Dulles Airport, Navy R&D, and National Park Service) to eliminate the three-year lag.

Discussion of Low-Impact Development (LID) (Attachment C – OGC memos of July 14 and January 25, 2011; D.C. Law 17-370)

This agenda item and the next item involved discussion as to (1) statutory provisions for incentives to reduce impervious surface areas and (2) policy goals to reduce surface runoff.

Mr. Hayman explained the Office of General Counsel's interpretation of the existing incentives law:

- The law does not require incentives to take the form of percentage discounts.
- The law does not forbid DC Water incentive programs that deviate from District Department of the Environment (DDOE) incentive programs under the same law.

Chairman Bardin asked Mr. Hayman to respond to additional legal questions in a one-page memorandum dated July 25, 2011, which he distributed. Mr. Hayman agreed to provide written answers within three weeks. OGC answers, and such additional legal analysis as Mr. Hayman deems appropriate, will accompany the August monthly update report for the Committee which will be made available to all Board members by Ms. Manley.

Mr. Bardin said the law calls for incentives to reduce impervious surface area and does not

refer to reducing surface runoff, by means of best management practices or otherwise. Some practices reduce both impervious area and surface runoff. But he questioned whether rain barrels or cisterns reduce impervious area.

Mr. Gibbs said that he could not offer legal interpretation, but believed reducing stormwater runoff should become the practical goal.

Ms. Richardson asked if it's possible for DC Water and DDOE to provide rain barrels for Ward 8 to reduce the stormwater flow on public lands managed by a Garden Club. General Manager Hawkins stated that DDOE has a program for that and he will review that possibility with them.

Dr. Cotruvo noted that the law's provision for incentive programs that reduce surface areas that are impervious focuses on small entities in contrast to streets and sidewalks that account for a quarter or more of the total impervious surface area. He felt that tracking, verifying and managing incentives for actions by small properties would be very infeasible and costly and also of very limited effect. Incentives for large entities would be more practical and much more appropriate.

Mr. Bardin questioned effectiveness of a rate discount such as DDOE had designed and staff had proposed that DC Water also implement. He pointed to staff's example of discounting a 20 ERU property (20,000 square feet of impervious surface) by 5.2 ERU resulting in a monthly discount of \$13.88. See Attachment E, slide 9. If our goal is to modify behavior, could an incentive program designed "out of the box" do better than discounts to encourage measures such as installation of large cisterns to harvest rainwater and possibly reuse gray water, thereby reducing flows to the sewers and Blue Plains as well as purchases from the Washington Aqueduct. Mr. Hawkins had said that it would take very large scale cistern installations to offer a credible substitute for LTCP Potomac tunnel capacity. If that is our policy goal, Mr. Bardin asked whether convincing District Government (DDOT) to make space readily available for large cisterns under streets and sidewalks would be a better incentive than discounts discussed to date.

Mr. Bardin also raised the question whether DC Water incentive programs should deviate from DDOE's to take account of differences in their missions and mandates.

Update on Clean Rivers IAC (Impervious Area Charges)

Status Update on IAC Incentive Program (Attachment E – 11 slides)

Mr. Adebo focused Committee attention on Slide 10, "DC Water Policy Decisions" calling for three Board determinations:

- Whether to implement a credit/incentive program (and if so to what extent based on Board policy resolution and/or DC Law);
- Funding level for any program; and
- Implementation date and whether prospective only or retroactive also.

Dr. Cotruvo cautioned of a danger of adverse revenue impacts, because reducing IACs to some customers would have to be fully offset by greater revenues from others to avoid impairing recovery of DC Water's Long Term Control Plan costs. That would require very tight

management and could be imperiled by retroactivity.

Ms. Richardson asked Mr. Adebo to clarify slide 6 “Program Proposed Policies” bullet two:

- **Incentives would be initially provided to Non-Residential customers only**
 - Residential customers would be phased in after the first year

Mr. Adebo noted that it was a matter of scale for DDOE. The majority of the impervious area is non-residential, yet the number of customers for DDOE to initially review and approve is much lower if they focus on the non-residential customers only.

Mr. Bardin said no effort has been made toward giving the low income customers incentives to reduce impervious surface area, which the law requires of DC Water but not of DDOE. He said the Committee should address that mandate before recommending DC Water incentives for Non-Residential customers. Mr. Adebo responded if it's the Boards' decision, staff will be willing to look into incentive programs and move in that direction regarding residential customers. Mr. Hawkins noted the issue raised by the last phrase of the mandate to DC Water: “The Authority shall offer financial assistance programs to mitigate the impact of any increases in retail water and sewer rates on low income residents of the District *including a low-impact design incentive program.*” [Italics added.]

Committee members discussed with Mr. Hawkins, Mr. Adebo, and Mr. Hayman what should be DC Water's policy objectives.

Responding to Chairman Bardin, General Manager Hawkins agreed to take a fresh, comprehensive look at the issues and options. He suggested results of his examination could be ready in time for the Committee's October meeting.

Preliminary Update on Clean Rivers IAC Customer Complaints (Attachment F – 2 pages)

Eric Hunt, Impervious Area Billing Supervisor, updated the committee on Clean Rivers IAC Utility Contact calls and appeals, as requested by the Committee at its last meeting. He noted that DC Water has not seen many hearings on appeals as most issues have been resolved by property visits through the first step of the existing procedures which identify protocols for review by staff. Clean Rivers IACs issues account for about 1.3 percent of DC Water's customer contacts. Between May 2009 and June 2011 four impervious area surface disputes were resolved by formal hearings. Responding to Mr. Bardin's question, Donna Lewis, Manager Customer Services, said this was a small fraction of other sorts of formal hearings.

Retail Rates Committee Workplan (Attachment H)

The Committee requested that workplan item 2 (Implement LID Incentive Program) be updated to reflect Committee's requests and commitments of General Counsel and General Manager:

- Further legal evaluation of the D.C. Law on incentives by OGC in August; and
- Fresh and comprehensive look by General Manager at all LID incentives issues and options, whether by IAC discounts or otherwise, reported to Committee in time for its October meeting, including LID incentives for low Income residents.

Action Items (Attachment D – 1 page)

At management's request, Chairman Bardin deferred Committee consideration of the remaining the FY 2012 Rate & Fee Changes (Attachment D) for the September 2011 meeting.

Emerging Issues / Other Business

No discussion.

Agenda for Next Committee Meeting (Attachment I)

Chairman Bardin approved the *pro forma* agenda for the September 27th meeting.

Adjournment

Hearing no further business, Chairman Bardin adjourned the meeting at 12:06 pm.

FOLLOW-UP ITEMS – Retail Rates Committee Meeting (September 27, 2011)

1. Provide specific target dates to items in the General Counsel's monthly updates report and ensure it is provided in the month of August. (Mr. Bardin)
2. Provide additional General Counsel opinion as to low-impact design / development (LID) incentives law, including answers to questions in July 25, 2011, memo. (Mr. Bardin) Status: August for distribution by Ms. Manley
3. Provide General Manager's fresh and comprehensive look at issues and options for LID incentives. (Mr. Bardin) Status: October Committee meeting
4. Revise the Committee work plan as noted. (Chairman Bardin) Status: September, 2011
5. Provide an example of the updating required and quality controls available to reconcile non-residential data found in the DCGIS 2005 flyover information and a more recent update to the flyover data. This example should be provided at a future Retail Rates Committee meeting (Mr. Bardin) Status: FY 2012
6. Review 4 small Potomac Interceptor contracts to see if there are opportunities to modify contracts to eliminate the three-year lag, similar to the IMA (Mr. Bardin) Status: TBD