



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

*Retail Rates Committee
Tuesday March 22, 2011
9:30 a.m.*

MEETING MINUTES

COMMITTEE MEMBERS

David J. Bardin, Chair
Howard C. Gibbs, Vice-Chair
Alan Roth

DC Water Staff

George Hawkins, General Manager
Olu Adebo, Chief Financial Officer
Linda R. Manley, Board Secretary
Randy Hayman, General Counsel
Yvette Downs, Director of Finance and Budget
Charles Kiely, Assistant General Manager
Len Benson, Acting Chief Engineer
Lauren Preston, Director Customer Service

Call to Order

Chairman Bardin called the Retail Rates Committee meeting to order at 9:06am.

DC Water Retail Rates Peer Comparison (Attachment A – 13 slides; on the web site)

CFO Adebo highlighted the goal of selecting groups of peer water/sewer utilities with which to compare DC Water's rates from year to year. He introduced Amawalk Consultant Ed Markus, who summarized methodologies and results after Mr. Bardin observed:

- Amawalk's comparisons are for Single Family Residential (SFR) customers only, using DC Water's average of 669 cubic feet (6.69 Ccf) consumption, although other utilities' average consumption may vary widely from DC Water's.
- The study does not compare rates to Non-residential customers.
- The study is a snapshot in time, focused on recent rates.
- Altogether, Amawalk examined publicly-available rates information for three dozen utilities and prepared monthly bill comparisons. The highest (Portland, Oregon) was twice DC Water's and the lowest (Chicago, Illinois) a third of DC Water's.

Amawalk selected systems serving the 30 largest U.S. cities as a starting point. Then it added some cities with Combined Sewer Overflow (CSO) abatement programs, such as Cleveland and St. Louis. Next, it removed utilities such as Chicago with significant revenue offsets (independent of the utility system such as property tax). Finally, a separate comparison of DC Water charges to regional utilities in MD, PA, and VA was compiled.

- The results provided three charts: Large national utilities; CSO utility comparisons; and regional utility comparisons.

Mr. Bardin noted that DC Water's SFR bill came quite close to the average bill for each of

the three sub-groups and well as for all utilities considered. The consultant concluded:

- DC Water charges are slightly above the average compared to others on a large national city basis (after elimination of utilities with known offsets to user fees).
- Charges are slightly below average to about average among the utilities with CSO programs.
- No two utilities are identical.
- Data is subject to interpretation (timing of rate adjustments, rate structures, PILOT or other contributions to municipalities, etc.).

Amawalk's full, 28-page report, dated March 15, 2011, *Comparative Rates and Charges for Water, Wastewater & Stormwater Systems*, is available from Ms. Manley.

Mr. Roth asked the consultants to rank DC Water and identified peer utilities by median or per capita income of the community served or some similar measure of affordability in each community. He asked whether the CSO group peers prepare 5-year rate projections as does DC Water and sought analyses that avoid mere "snapshot" for this group. Mr. Markus said it would look to see whether such data are available.

Mr. Bardin asked that Alexandria, VA be considered for future inclusion. He noted also that Richmond, VA has its own CSO program and that WSSC and Fairfax, VA contribute to DC Water's CSO program.

Usage for Residential/Non-Residential (Attachment B – 4 slides; on the web site)

Mrs. Downs presented volumetric usage comparisons for residential and non-residential customers over four years, FY2008 through FY2010.

- The FY2010 data covered 104,070 residential accounts with annual usage of 8,318,421 Ccf and 19,756 non-residential accounts with annual usage of 30,001,77f Ccf.
- FY 2010 non-residential usage was divided into four quartiles and average usage was 126.56 Ccf (12,656 cubic feet) per month – almost 19 times the residential average.

Mr. Roth asked that the characteristics, profiles and demographics of the non-residential customer base be provided for the four quartiles identified. Staff noted that the data are not readily available and they would look into the complexity and timing of such research.

Mr. Bardin complimented staff on the wealth of data in the first three slides.

- He noted that residential customer usage decreased about six percent and non-residential customer usage declined about 11 percent over the four years analyzed.

The volumetric comparisons excluded ERUs.

- Mr. Bardin therefore asked for more work on the last slide, which tried to compare dollars billed annually to a customer using 126.56 Ccf a month at Fall 2010 rates of DC Water, WSSC, and other nearby utilities.
- The DC Water dollars omitted IAC charges which the other utilities do not have.
- Mr. Bardin asked staff to find a way to stitch together volumetric and ERU data for non-residential customers. This is harder, he recognized, than the case of residential customers who are mostly charged for one ERU.

Progress Report on Developing/Updating Miscellaneous Fees & Charges

Miscellaneous Fees and Charges (Attachment C - 16 slides; on the web site)

Ms. Downs reviewed the background of ongoing rate and fee structure discussion. In FY 2010, Board and staff workshops led to identification of priorities and a new Board policy on rate setting. Activities identified for review in FY 2011 and 2012 included the various miscellaneous fees currently charged by DC Water and other fees that may be appropriate to institute after review and analysis. Mr. Jon Davis, of Raffelis Financial Consultants, updated the committee on the FY 2009 Cost of Service Study and its recommendations and the status of the current analysis of Miscellaneous Fees & Charges. He discussed implementation time frames and impacts.

Mr. Roth noted his preference to focus on those fee adjustments that provide the greatest potential for revenue impact and can be implemented near-term. Mr. Davis noted that a list of recommendations for FY 2012 fees as well as a time line for future analysis will be presented to the Committee for action at the April 26, 2011 meeting. Mr. Bardin asked that data be identified as residential and non-residential when appropriate.

Conceptual Scenarios to Scale Back the Proposed FY 2012 Retail Rate Increases **(Attachment D - 13 slides; on the web site)**

General Manager Hawkins opened the discussion and deferred to CFO Adebo to review various alternatives for rate containment that the Committee may want to consider in the future. Mr. Bardin said the goal is to engage the Committee on scenarios that might lead further scaling back proposed FY 2012 retail rate increases, but he observed that pending retail rates proposals already reflect scaling back by Management of about \$10 million below its initial proposals in October and further scaling back by the Board's FY2012 Budget decision in February. CFO Adebo noted that the current FY 2012 rate proposal will raise an additional \$26 million from the combination of all rate adjustments. A \$2.6 million cut of operating budget allocated to retail rate payers (or \$40 million of capital) amounts to about one percentage point less of increase. Three general ways to scale back revenue requirement are:

- Reduce operating expenses
- Reduce or defer capital expenditures
- Increase revenues from other sources

Consistent with the principle that DC Water will be a good steward of rate payer funds, the Committee anticipates that Management will present Revised FY2012 Budget proposals in May and June that reflect opportunities for general efficiencies in carrying out DC Water projects and programs. Committee members focused on benefits and risks of targeted measures, some being identified in Attachment D, and will consider the options in preparation for the upcoming Public Hearing and subsequent rate discussions. They opposed deferred maintenance and did not advocate across the board or draconian cuts.

Monthly Update on Howard University and Soldier's Home Dispute Negotiations

Mr. Adebo reported that since FY2007 the Authority has challenged the basis for free water services to Howard University and the Soldiers' Home, which are not currently billed. The Authority reinvigorated the challenge in FY2010. Starting in FY2004 the Authority has billed for other services (primarily sewer), but neither customer has paid. The Authority is working aggressively to resolve the issue. Mr. Adebo (in coordination with General

Counsel Hayman) will provide this and future monthly updates in writing, which the committee can take up by exceptions.

For FY2010, the amounts at issue were as follows (rounded to the nearest \$1000):

	HOWARD UNIVERSITY	SOLDIERS' HOME	TOTAL
Billed amount	\$835,000	\$1,078,000	\$1,913,000
Water (not billed)	\$478,000	\$563,000	\$1,040,000
	\$1,313,000	\$1,641,000	\$2,953,000

Revenue lost from these customers is recovered through rates charged to other retail customer accounts.

Examine and Discuss Notice of Proposed Rate Increases

Notice of Proposed Rulemaking for FY 2012 (Attachment E – 3 pages; on the web site)

General Counsel Hayman reviewed the notice of proposed rulemaking published in the DC Register for March 4, 2011, which defines and limits retail rate changes the Board may adopt for FY 2012. As to each rate, the Board may finally approve all, some, or none of the proposed increase. The Board may not exceed the proposed increased rate. If the Board disapproves a proposal entirely, the existing, underlying rate will remain in effect.

For the first time this year, the notice states proposals separately for DC Water’s two retail rate classes: residential and non-residential. The Board will vote as to each.

The proposed increase in Payment in Lieu of Taxes (PILOT) fee of 4 cents per Ccf states for the first time that it is to pay for “public goods and services received from the District of Columbia”. Mr. Bardin suggested that there would have to be a record as to cost of such goods and services to justify the proposed increases to both residential and non-residential customers. He noted that if the Board does not approve the proposed increase to 53 cents per Ccf, the current 49 cents per Ccf PILOT fee would remain in effect.

There are also nomenclature and housekeeping changes this year.

Review Names & Titles of Certain Bill Items

Mrs. Preston discussed the billing impact of revising the current title of Impervious Area Charge (IAC) to the Clean Rivers Impervious Area Charge. This change will not impact any of the research tools or the database, nor will it change the ERU calculation basis. It will better align the purpose of the fee with project: the Clean Rivers Project. It will also help with public education to differentiate the DC Water fee from the stormwater fee as both are based on impervious area. If approved, the labels on the website will be updated, along with customer publications and the bill format (both front and back). These are minor, cosmetic adjustments and will not cost much to complete.

D2 IMA CIP Allocations Discussion (Memo to GM, 2 pages + 1 page History; on the web site)

Chairman Bardin said he committed to the General Manager, who had to leave, that this Committee will reserve policy issues to its April 26 meeting and will discuss only factual

information today. He welcomed Chief Engineer Benson and insights he brings, turning to his memorandum to the General Manager dated March 16, 2011, from which we learn that the “D2” pipeline rehabilitation project relates to a Consent Decree. The memo identified a single Board member as the source of the inquiry it addressed. But this Committee’s January 25 minutes, which Mr. Benson had not seen, summarize the issues as follows: *“The committee weighed concerns about transparency to the Board of cost allocations ... summarized in a one-page handout presented by Chair Bardin. Pointing to a change in a rehabilitation project’s allocation since last year’s CIP approval, he noted that Management had aired that change before the Blue Plains Regional Committee (BPRC), but not the Board. The Committee requested a written report for its next meeting addressing a number of questions. The General Manager agreed to have a report, but noted that all the answers may not be available in time for that Committee meeting.”*

Mr. Bardin gave Mr. Benson a copy of the minutes (which are on the web site) and of the more detailed one-page handout they reference (available from Ms. Manley) which asked for documentation and raised policy questions, including: *“Is Management treating the BPRC as endowed with powers of decision rather than merely a discussion forum?”*

Mr. Roth and Mr. Benson found numeric errors in the March 16 memorandum and the chronological history attached to it.

Mr. Benson agreed to replace his March 16 memorandum, correcting errors, amplifying information, confirming answers provided orally, and providing documentation as to the D2 IMA CIP Allocations.

- The D2 project appears to involve four out of 9 or 10 “effluent” or “influent” pipes – these being the final carriers of sewage into the Blue Plains Waste Water Treatment Plant (after the last pump station or juncture point).
- Documentation will include CIP Project Sheets for every year in which D2 appears.
- Documentation will also include contract review Fact Sheets as to this project and minutes of the April 2, 2009 Board meeting in which the General Manager told the Board that the maximum “swing” between higher and lower cost allocations to Suburban customers under consideration might be \$6 million.

Mr. Benson sketched out alternative cost allocation approaches as to the pipes in question. But discussion avoided the policy issues until the April meeting.

Asked who represented DC on the BPRC at September and December 2010 meetings referred to in the March 16 memo, Mr. Benson noted that Dr. Karimi of DDOE, Ms. Jasper of DC Government and Mrs. Choke were the people assigned by the previous Mayor to participate. Asked whether staff could obtain any minutes of these meetings to establish what was agreed to, or at least identify attendance at each meeting which discussed Project D2, Mr. Benson said he would inquire as to the availability of such documentation.

Mr. Bardin asked for the FY 2012 budgets for payments to the Metropolitan Washington Council of Governments and how much of these costs is allocated to retail rate payers. Mr. Adebo replied that he will review the budget and get back to the Committee.

Retail Rates Committee Workplan (Attachment F - 2 pages; on the web site)

Chairman Bardin asked staff to update the Committee monthly on Howard University and Soldier's Home collection activities in writing. Mr. Bardin asked how unresolved settlement of Potomac Interceptor customer payments, particularly the Town of Vienna, impact revenue requirements imposed on DC retail customers, if at all.

FY 2012 Proposed Rates & Fees Change Schedule (Attachment G – 2 pages; on the web site)

The schedule was reviewed with no significant comments. Key dates are May 11 Board Public Hearing on proposed retail rate increases and June 28 Committee meeting to vet those proposed increases and miscellaneous fee adjustments. The plan is for Board actions on July 7 with any approved changes becoming effective October 1, 2011.

Agenda for April 26, 2011, Committee Meeting

A draft agenda for the April meeting was reviewed. Ms. Manley noted that another format for use in publication for the DC Register would be provided.

Adjournment

Chairman Bardin said he would consult with Finance & Budget Committee Chair Firestine whether the two committees could meet jointly on May 26 for preliminary discussion of Revised FY012 Budget issues; if so, he would plan to cancel the May 24 of this Committee.

Hearing no further business, Chairman Bardin adjourned the meeting at 12:24pm.

FOLLOW-UP ITEMS – Retail Rates Committee Meeting (March 22, 2011)

1. Update the Committee monthly in writing on the status of negotiations with Howard University and Soldiers' Home (Chairman Bardin) Status: Ongoing/Monthly
2. Does failure to resolve past payments issues as to Potomac Interceptor customer, The Town of Vienna impact retail rate payers? (Mr. Bardin) Status: April 2011
3. Replace Mr. Benson's March 16, 2011, memorandum, as explained in the Committee's meeting minutes. (Mr. Bardin) Status: April 2011
4. How much of FY012 budgets for payments to MWCOG get paid for by retail ratepayers? (Mr. Bardin) Status: April 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 2011
6. Combine ERU with volumetric data for Non-residential customers in a way that enables better understanding of rate impacts. (Mr. Bardin) Status: TBD
7. Additional rankings and analyses of DC Water and peer utilities. (Mr. Roth) Status: TBD