



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

BOARD OF DIRECTORS

Finance and Budget Committee

Thursday, February 24, 2005

*Immediately following
the Audit Committee Meeting*

MEETING MINUTES

BOARD MEMBERS

Glenn Gerstell
Anthony Griffin
David Lake

WASA STAFF

Jerry Johnson, General Manager
Michelle Cowan, Director of Finance and Budget
Linda Manley, Secretary to the Board

Chairman Gerstell called the meeting to order at 10:10 a.m.

Financial Overview

Michelle Cowan, Director of Finance and Budget, reported that at the end of January, with 33 percent of the fiscal year complete, financial performance is on track with budget. Revenues are slightly ahead of budget; operating expenditures are slightly below budget and capital disbursements are below original projections.

Operating Receipts

With 33% of the fiscal year completed, we have collected 35 percent of our budget. The difference between the original projection and actual receipts is attributable to the impact of WASA's transition from quarterly to monthly billing for large commercial accounts. All other revenue categories are on track with budget with no significant issues to report.

Operating Expenditures

Ms. Cowan reported that with 33 percent of the fiscal year complete, year-to-date operating expenditures totaled \$81.2 million (including debt service and PILOT/ROW) or 29 percent of the Board-revised operating budget of \$278.1 million. Approximately 80 percent of WASA's operations and maintenance budget (excluding debt service and PILOT/ROW) is accounted for in three areas: personnel services, contractual services and water purchases from the Aqueduct. All three of these areas are running less than budget. Ms. Cowan reported potential concerns in the chemicals and supplies category. Ms. Cowan reported WASA, like many other utilities in the area, is experiencing

issues with the new prices of many of our chemical contracts with the Council of Governments (COG). The price increases on all of the chemicals that were included in that process were significant, ranging from 10 to 80 percent. From a budget perspective, we have historically intentionally included contingency to accommodate variations in prices and in chemical volumes resulting from changes in flows. Based on historical analysis of volumes, as well as the new prices that are now fixed for the next six months, we will be at budget or potentially as much as \$1 million over budget in the supplies and chemicals category.

Ms. Cowan noted that the other area of potential risk is utilities, where year-to-date spending is at 30 percent of budget with 33 percent of the fiscal year completed. (Ms. Cowan provided an overview of power pricing later in the meeting).

Year-to-date debt service payments total \$15 million, or 27 percent of budget with 33 percent of the fiscal year completed. All of the savings are due to the auction rate securities program, or \$295 million of our approximately \$800 million outstanding debt, which is floating rate. Even though short-term rates have been increasing, we are still only paying 1.70 percent fiscal year-to-date versus the budgeted interest rate of 4 percent in FY 2005.

Capital Expenditures

Ms. Cowan reported that capital spending is lower than originally projected. Capital disbursements in January totaled \$13.6 million, with year-to-date capital spending totaling \$69.3 million, or 23 percent of budget with 33 percent of the fiscal year complete. Our capital budget for this year is \$298 million, last year we spent \$238 million and in FY 2003 we spent \$204 million. The two largest areas of the FY 2005 capital budget are Blue Plains, totaling \$122 million, or 41 percent, of the budget and water projects, totaling \$90 million, or 30 percent. Blue Plains spending is running approximately 10 percent behind budget. Spending in the Water Services area is 22 percent of the capital budget with 33 percent of the year complete. We have experienced invoicing delays in several projects, including the lead service line replacement program and the Bryant Street pumping station project. There are also invoicing delays associated with the automated meter replacement program (AMR) because we do not pay bills until the meter has been operating for 60 days. We believe spending will pick up by the end of the year in the Water Services area.

Staff will be conducting an updated analysis of capital spending after the conclusion of the second quarter and in time for the rates process.

Cash Reserve and Investments

Ms. Cowan reported that the current cash balance is \$209.2 million including Combined Sewer Overflow appropriations. The operating reserve totals \$106.6 million above Board reserve requirements and projected to remain at or above those levels through year-end. The January yield on the Authority's investment portfolio was 2.33 percent as compared to the three-month Treasury bill return of 2.37 percent, and we are about 4 basis points behind. Interest earnings for the month of January totaled approximately \$106,938.

Electricity Procurement Update

Ms. Cowan distributed charts showing average monthly, annual, and daily pricing at PJM Western Hub. We started our new contract for Blue Plains power with Amerada Hess on January 22, 2005 and locked in pricing for 23 percent of the year and we are floating on 77 percent of the year.

Last month we reported that prices had spiked. In January, prices averaged \$50 per MWH; prices declined in February to \$41 per MWH. Year-to-date we are at \$45 per MWH, which is higher than

the full-year average for 2004. Ms. Cowan noted that for the last five years, the months of January and February have historically been the highest priced months along with July and August. The Board-authorized contract and FY 2005 budget assume an average of \$42 per MWH for the full year. While pricing has been high year-to-date, it is lower than the same time period in 2004, and historically prices have declined in the spring months. Ms. Cowan emphasized that pricing can be volatile due to oil prices, weather and other factors.

Mr. Griffin asked what happened in July 1999. Ms. Cowan explained that the pricing spike related to a capacity issue affecting the East Coast. One of several major nuclear power providers, the Seabrook Nuclear Plant, became inoperable during a period of extremely hot weather.

Ms. Cowan reported that we are set up to buy additional blocks for the rest of the year. Both Hess and our independent consultant monitor futures prices on a daily and weekly basis. Currently, future prices for the balance of the year are approximately \$45 per MWH, higher than the contract and budget authorization.

Next, Ms. Cowan updated the Board concerning the purchase of a cap for \$75 to \$80 on an average monthly basis. WASA has identified three firms that can provide a cap; the type of cap that we prefer is not one that is typical in the market. We prefer a cap that would allow us to "look back" every month; if average monthly pricing exceeded \$75 they would pay us the difference between the actual price and \$75. If average monthly pricing is less than \$75, we would not pay them anything but the upfront premium. The three firms have provided indicative quotes in the \$100,000 to \$200,000 range which are cost effective based on an analysis of historical pricing. Because it is an unusual product, each firm is working it through their own legal and risk management structures. Mr. Griffin asked how we picked \$75 as the cap level. Ms. Cowan responded that we took a look at where the worse case has ever been, which was in 1999.

Mr. Gerstell asked how much staff is in contact with other utilities around the nation in a deregulated environment to determine if we are using similar methodologies. Ms. Cowan said that beyond WSSC we have not spoken with anyone else as of yet, but plan to. We did talk with two small water utilities in New Jersey that purchase through Hess as part of the RFP process. One is a small town near Morristown that follows a similar process as WASA in that they locked in 20 percent and rely on Hess for monitoring prices.

Ms. Cowan reported that we met with WSSC to discuss future potential power arrangements with them. WASA's current agreement expires in December. WSSC's process involves Constellation who runs auctions for WSSC for purchases of future blocks of power. This differs from WASA's current agreement where we have to buy from Hess and do not do auctions each time we want to purchase a new block. We also discussed the other components of power pricing that are beyond generation, such as capacity. We are both following the same strategies and approaches.

Chairman Gerstell adjourned the meeting at 10:29 a.m.