



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

Board of Directors

***PUBLIC HEARING ON
Proposed Retail Rate & Fee Increases
for Fiscal Year 2012***

*Wednesday May 11, 2010
6:30 p.m.*

*Metropolitan Washington Council of Governments
777 N. Capitol St., NE
First Floor Training Room*

1. Call to Order Alethia Nancoo, Acting Chair
2. Opening Statement Alethia Nancoo, Acting Chair
3. DC Water Management Presentation George Hawkins, General Manager
Olu Adebo, Chief Financial Officer
4. Presentation by Independent Consultant..... Edward Markus and Myron Olstein
Amawalk Consulting
5. Public Witness
 - Pre-registered Speakers
 - Other comments (time permitting)
6. Closing Statement Alethia Nancoo, Acting Chair
7. Adjournment

DC WATER AND SEWER AUTHORITY - PUBLIC HEARING
PRE-REGISTRATION - PUBLIC COMMENTS ON PROPOSED RETAIL RATE & FEE INCREASE FOR FY 2011
 Council of Governments
 777 North Capitol Street, NE - Washington, DC
 May 11, 2011 @ 6:30 p.m.

Name	[Check if present]	Individual	Organization	Date Rec'd	Time
1. Rebecca Hammer 1200 New York Ave, NW, #400		No	Associate Advocate, Water Program Natural Resources Defense Council	05/10/11	9:33 a.m.

**PROPOSAL TO AMEND 21 DCMR CHAPTER 40 ON
RETAIL RATES AND FEES**

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

WILLIAM M. WALKER, CHAIRMAN



**OPENING STATEMENT OF ALETHIA NANCOO, ESQ.
BOARD MEMBER
DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

**WEDNESDAY, MAY 11, 2011 AT 6:30 P.M.
METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
777 NORTH CAPITOL STREET, NE**

Good evening. My name is Alethia Nancoo, and I am a member of the Board of the District of Columbia Water and Sewer Authority (DC Water). I am chairing this hearing on behalf of Chairman William Walker, who was unable to attend tonight.

We are here to receive public comment on DC Water's proposed Fiscal Year 2012 rates and then make a recommendation to the full Board on the rates and fees DC Water will charge its customers in the District for water and sewer services.

I thank you for joining us this evening, and for taking the time to share your comments with this committee on the proposed changes in rates and fees.

Joining me this evening are (list Board members in attendance...) and Board Secretary Linda Manley.

Ms. Manley, please call the roll to establish the required quorum for tonight's hearing.

(Ms. Manley calls roll)

This public hearing provides our customers the opportunity to learn how the money they spend for water and sewage treatment services is being used to maintain and upgrade the city's water and sewer systems as well as meet federally mandated regulations for safe drinking water and environmental protection.

Before this committee, for its consideration, is a management proposal to adjust the current water and sewer rates that will become effective with the first billing in October if approved.

Under this proposal, the combined water and sewer volumetric rate would increase \$0.41 per Ccf. (or about \$0.55 per 1,000 gallons of water.) The Clean Rivers impervious surface area charge (IAC) would increase from a monthly fee of \$3.45 per ERU to \$6.87 per ERU. (Equivalent Residential Unit = 1,000 sq. ft. of impervious surface.) In addition to these adjustments, the Right of Way/Payment In Lieu of Taxes (PILOT) fee, charged by the District government, will increase from \$0.63 per Ccf to \$0.68 per Ccf. This fee, which appears as a separate line item on bills, is passed directly on to the District. If adopted, the rate adjustments will increase the typical residential customer's monthly bill by approximately \$6.50 per month. Even with this increase, a gallon of water (excluding DC charges) will still cost a penny.

The proposed rate and fee adjustments were published in the D.C Register on March 4, 2011, and DC Water has hosted numerous public, community and civic associations meetings to ensure that customers have an opportunity to review and comment on the proposals.

Rate adjustments are always difficult decisions and the board has analyzed the proposed increases in many contexts including the Authority's financial needs and the impact of rate increases on consumers. In 1997, shortly after DC Water's creation, the Board adopted a 42 percent rate increase to compensate for ten years with no rate increases and a massive amount

of aging and deteriorating water and sewer infrastructure due to the lack of maintenance and investment. Since that time, there have been gradual increases in retail rates – ranging from 2.5 to 9.0 percent. The Board has consistently voted to keep rates reasonable and affordable in order to minimize the impact on retail customers. If there is excess revenue that DC Water generates, it is placed in a Rate Stabilization Fund that is used to lower customer rate increases in the future or used for “pay-go” financing, to avoid additional borrowing. Either way, these revenues are used to reduce future costs to our customers.

You should also know that the DC Water Board does not “rubber stamp” proposed rate increases. In fact, eleven of the fifteen adjustments proposed by management since DC Water’s creation have been modified by this Board. In each of these cases, the Board’s decision was significantly influenced by feedback from customers and a thorough review of spending requirements in the Authority’s ten-year financial plan.

All rate increase proposals are meticulously deliberated by the District representatives who make up the Retail Rates Committee with consideration of the revenue needs to cover operations, capital improvements, interest payments, and federal mandates.

Understanding the requirements of maintaining reliable and high quality water and wastewater services in extremely hard economic times, DC Water expanded its assistance in October 2008 to those most in need by increasing the customer assistance program to include the first 4Ccfs of both water and sewage free of charge for those customers that qualify and in FY 2011 is proposing to expand its assistance program to include the first 4Ccfs of PILOT and ROW.

For the record, DC Water is an independent agency of the District Government – created in 1996 under an agreement between the District of Columbia, Montgomery and Prince George’s counties in Maryland, Fairfax and Loudoun counties in Virginia and the United States Congress. DC Water operates one of the world’s largest advanced wastewater treatment plants at Blue Plains and provides water and sewer services to all residences, institutions and businesses in the District of Columbia.

DC Water also provides wastewater treatment services to a population of nearly 1.6 million in the suburban counties. These adjoining jurisdictions are our wholesale customers. They pay for the services DC Water provides without any subsidy from District customers.

As the law requires, retail rates for water and sewer services to the 130,000 metered customers in the District are set by only those members of the DC Water Board of Directors who represent the District of Columbia.

Before we begin and hear from the public and the Authority management, I will review the ground rules for this hearing:

- Individuals presenting testimony have up to five (5) minutes to speak.
- Representatives of an organization or group have a total of ten (10) minutes to address this committee.

- Those testifying should clearly state their name, name of organization (if any) and their address.
- Witnesses representing an organization should give a brief description of the organization, its services and its location.

Please keep in mind that we are here to listen to comments on the rate proposal only. If there are individual questions or concerns about a particular service or billing matter, management and staff are here to talk with you after the meeting.

Again, I extend my gratitude for the presence this evening of customers and interested citizens who have come to learn about and comment on the retail rate proposal for Fiscal Year 2012.

The Board gives equal consideration and weight to written comments that will be reviewed as we receive them. Written comments can be submitted to the Office of the Board Secretary, DC Water, 5000 Overlook Avenue, SW, Washington, DC 20032. You may also e-mail comments to Imanley@dcwater.com.

In order to have written comments included as part of the *official record*, they must be received no later than June 10, 2011.

The Board, however, will accept and consider comments through the time that final action is officially taken on any rate adjustments.

A final decision on the proposed rate increases will be made by only the members of the Board who represent the District of Columbia at the Board's regularly scheduled meeting on the first Thursday in July. (July 7, 2011)

DC Water General Manager George Hawkins will make a brief presentation on the proposed rate adjustment, followed by a presentation by a group of independent rate consultants. Then we will begin to hear public comments on the proposal. First, we will hear from individuals who have pre-registered to present oral testimony. After hearing from those witnesses, and time permitting, we will call on others who may have signed up this evening to present comments.

CLOSING:

In closing, I join my District colleagues on the DC Water Board in extending our appreciation for your presence here this evening.

We realize that rate increases are never a popular action to take. This Board, however, stands by its commitment to provide our nation's capital with reliable and safe water and sewer services and infrastructure and to make any necessary rate increases gradual and affordable.

The management proposal and independent rate consultants' report is posted on DC Water's website. Thank you again for your time and your comments.

**PROPOSAL TO AMEND 21 DCMR CHAPTER 40 ON
RETAIL RATES AND FEES**

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

WILLIAM M. WALKER, CHAIRMAN



**TESTIMONY OF GEORGE S. HAWKINS, ESQ.
GENERAL MANAGER
DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

**WEDNESDAY, MAY 11, 2011 AT 6:30 P.M.
METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
777 NORTH CAPITOL STREET, NE**

Good evening Chairperson Nancoo, members of the board, staff and customers. My name is George Hawkins, and I am the General Manager of the District of Columbia Water and Sewer Authority I am joined here today by the Chief Financial Officer of the Authority, Mr. Olu Adebo. It is my privilege to lead the 1,000-strong workforce I call Team Blue, in delivering a life-giving service to more than 16 million people every year.

The following are my prepared remarks on the proposed DC Water retail rates for Fiscal Year 2012, which begins October First.

The proposal before you tonight is to adjust the retail rates and fees in FY 2012 in accordance with the chart before you:

[copy of chart below will be on display for Board/public view]

	Units	Actual FY 2010	Actual FY 2011	Proposed FY 2012
DC Water Retail Rates Water	Ccf	\$ 2.51	\$ 3.10	\$ 3.29
DC Water Retail Rates Sewer	Ccf	\$ 3.61	\$ 3.79	\$ 4.01
DC Water Clean Rivers IAC	ERU	\$ 2.20	\$ 3.45	\$ 6.87
DC Water Customer Metering Fee		\$ 2.01	\$ 3.86	\$ 3.86
District of Columbia PILOT Fee	Ccf	\$ 0.43	\$ 0.49	\$ 0.53
District of Columbia Right of Way Fee	Ccf	\$ 0.14	\$ 0.14	\$ 0.15

These rate adjustments are necessary in order to provide the revenues necessary to support the operating activities in FY 2012 that are estimated to be \$422.4 million. This represents a \$19-million increase over the revised Fiscal Year 2011; the major drivers include debt service to support our Capital Improvement Plan and a 3.8% increase in operating and maintenance expenses.

As I noted in my budget message, we must face the need to re-invest in our marvelous, but aging infrastructure. Our capital improvement plan calls for spending \$3.8 billion over the next 10 years, the bulk on projects covered under environmental mandates or designed to ensure safety of both our customers and employees. These include our long-term control plan, now called the Clean Rivers Project, which will nearly eliminate combined-sewer overflows into the Anacostia and Potomac Rivers and Rock Creek. We hope to break ground on the first tunnel this spring, along with our new digester. This latter project will turn waste into fuel, making DC Water the largest generator of renewable electricity in the metropolitan area. This project will generate enough clean energy to power the equivalent of 8,000 homes, reduce our carbon footprint by 40 percent and save more than \$20 million in operating costs annually beginning in FY 2015.

As you know, another major mandate facing DC Water is the Enhanced Nutrient Removal Facilities (ENRF). This project will cost nearly a billion dollars, and will help us meet our newest federal permit requirements for nitrogen to protect the Chesapeake Bay. I hope everyone at this hearing tonight will consider joining us next Tuesday for the groundbreaking ceremony at Blue Plains, at 11 a.m.

The remaining capital spending goes to water and sewer infrastructure. This will allow us to replace our water and sewer mains – the median ages of which are 77 and more than 85 years old. Some pipes in the District went into the ground before the Civil War.

I do want to take this opportunity to point out some good news about our infrastructure. The independent Insurance Services Office (or ISO) recently rated the District's water supply system as Class 1 for fire protection – the highest possible rating. This puts us in the very top of more than 48,000 fire protection districts in the country. The Fire Department received a very high rating as well, and we look forward to working with Chief Ellerbe to make the already-strong coordination between our departments even stronger.

All of these efforts take resources. The resources we need will have an impact on this proposal as well as future rates. No increase in rates is a welcome one, especially in trying economic times. But the cost of maintaining and replacing our aging infrastructure continues to rise and federal mandates and regulations continue to increase in number and cost, while the available federal funding is actually decreasing.

The Board proposed the new rates in February for public comment. Our rate proposal takes the average residential customer bill up \$6.50 a month – to \$66.79. With this information, it was up to us to make the case to our customers. Again this year, we hosted a series of town hall meetings in every ward, working closely with each ward councilmember and the ANC commissioners and civic groups.

On the recommendation of Board Member Brenda Richardson, we also used automatic “robo” calls to invite any person who had contacted us in the last year to the meeting associated with their address. More than we anticipated, this outreach approach was successful and yielded far more attendance than we have had in the past, including an impressive number of ANC Commissioners and other community leaders.

I made an initial presentation about DC Water, our budget process and an outline of a bill for the average single family customer – including full costs for the last three years and the proposal for 2012. In all but two cases, the Ward Council Member attended and offered an introductory presentation and often helped in the question and answer session. I fielded questions from the crowd and answered whenever possible, and at times referred the questioner to additional staff with us in the room.

Across all eight wards, we received similar feedback about billing issues, water quality, the customer service experience, and the impervious area charge. We also heard questions about the lead in water, fire hydrants, the Long Term Control Plan, job opportunities, elderly

customers and the coordination of road construction with our projects. We noted that the public input process culminates in a formal hearing by the Board. As a result, a number of the customers who came to the town halls mentioned that they planned to give testimony today.

Throughout this process, the Board has continued to drive home the concern of affordability of this life giving service: water. A recent review of similar and local utilities discussed with the Board suggests that the average DC residential bill is around the median of water bills in other cities. Also, a newly published AWWA 2010 Rate Survey places DC Water in the average affordability index when compared to other utilities. That is comparing the residential bill of a customer using 7,480 gallons to the median household income of that area. The survey notes that the average for all systems is 1.48% of the median income and has DC Water listed as 1.45%...and we know that our average residential customer uses nearly 2,500 fewer gallons than this amount used for comparison in the survey!

Despite this positive affirmation of affordability, we must remain sensitive to the needs of our customers in hard economic times and for who the median income remains well above their reality. With this in mind, we have two growing programs to provide aid to those who need it most.

Through the Customer Assistance Program or CAP, the Authority provides eligible customers more than 2,500 gallons of water and sewer service each month at no charge. Since it began, participation in CAP has continued to increase. In FY 2010, a total of 6,458 households received a discount on their monthly bills. In February 2010, the Board expanded the CAP discount to include the Payment in Lieu of Taxes and Right of Way to qualifying low-income customers effective October 1, 2010. The District Department of the Environment, Office of Energy, establishes eligibility for this and similar programs for several other utilities in the area.

In addition, the Authority offers assistance to families in need through the Serving People by Lending a Supporting Hand program (S.P.L.A.S.H.), in times of emergency. The program is administered by the Greater Washington Urban League. Every dollar received by the Authority is distributed to eligible customers. We raise funds for this program primarily from customers rounding up their bills to the nearest dollar, but are exploring ways to generate even more donations in the future.

Madame Chairperson, this concludes my prepared remarks. As always, I want to thank you and the other Board members for your careful attention to the financial underpinnings of the authority as well as the deliberative review of retail rates in Washington DC. I look forward to answering any questions you may have.

Independent Review of the Proposed Rates for FY 2012

DC Water Public Hearing
May 11, 2011



Amawalk
Consulting Group LLC



Outline

- Objectives of Independent Review
- Review Methodology
- Historical Budget vs. Actual Results
- Summary of FY 2012 Rate Proposal
- Why is a Rate Increase Necessary?
- How Does DC Water Compare?
- Affordability of the Rates
- Assumptions/Factors to Consider
- Conclusions



Objectives of the Independent Review

- Ensure that the proposed water and sewer rate structure and the Clean Rivers Project Impervious Area Charge (IAC) would generate sufficient revenues to meet operational and capital project financing needs in FY 2012.
- Ensure that water and sewer rates and the IAC rates are sufficient to meet funding requirements for all current and long-term liabilities and debt obligations.
- Ensure that the proposed rates that have been developed are consistent with the Board of Directors' rate-setting policies.
- Review the assumptions in DC Water rate model for the equitable allocation of costs and retail rates.
- Present the results of this review to the Board of Directors and testify at the public hearing about the efficacy of the proposed rates.
- This is the third year that Amawalk has conducted the Independent Review. In addition to having the pleasure of working with DC Water, Amawalk serves as Rate Advisor to New York and Financial Feasibility Consultant to the Boston Water and Sewer Commission.

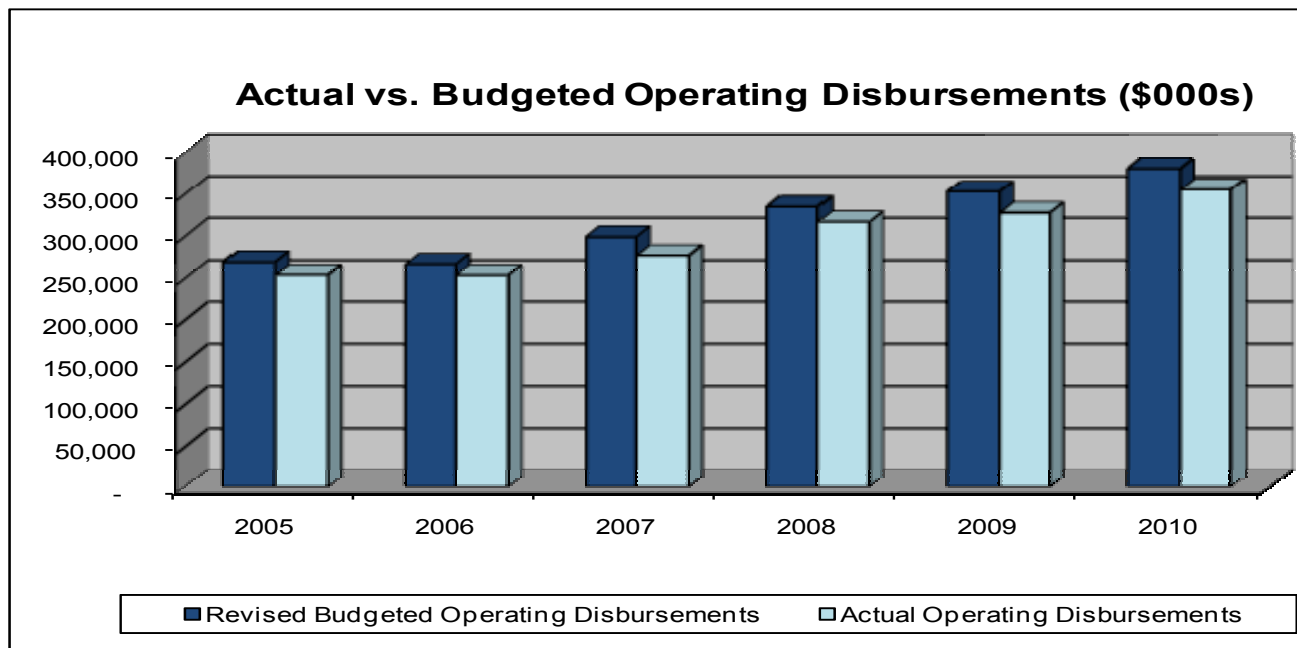


Review Methodology

- Review background documents including, but not limited to, the following:
 - Revised FY 2011 and Approved FY 2012 Operating Budgets;
 - Year-to-date operating cash flow and construction cash flow;
 - FY 2010-2019 Capital Improvement Program (CIP);
 - Official Statement for the Fiscal Year 2010A Bonds;
 - Cost of Service Study;
 - FY 2010 Comprehensive Annual Financial Report;
 - Financial Statements; and
 - Applicable Board Resolutions and the Public Hearing Presentation Document.
- Review the DC Water FY 2011 and FY 2012 Financial Plan spreadsheets and Fiscal Year 2011 year-to-date results.
- Compare DC Water rates, budgeting and rate-setting practices with Board policies, industry practices and the experience of other water and sewer systems.
- Conduct meetings with representatives of DC Water to gather data, review questions and discuss preliminary observations. Part of our assessment focuses on the progress in billing and collecting the IAC.
- Prepare a report to DC Water summarizing: the work performed, the findings of our analysis, factors to consider in rate-setting and our conclusions.

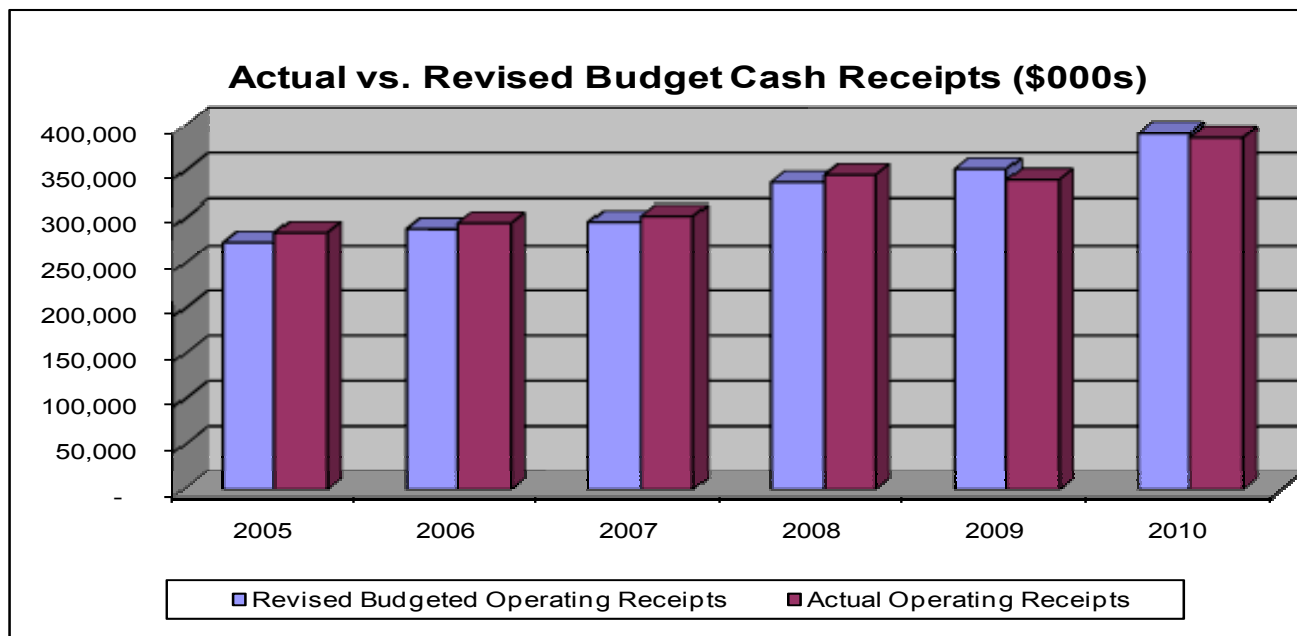
Historical Costs: Budget vs. Actual

- Actual expenditures for FY 2005 – FY 2010 have been about 5% - 7% lower than budgeted amounts. Underspending can free-up cash which may be used to offset declines in revenue (where applicable), cover unforeseen increases in costs and/or mitigate rate increases.
- FY 2011 year-to-date actual expenditures (through 3/31/11) are about 10% below the budget on a straight-line basis. It is currently anticipated that full year expenditures will be below budget, consistent with historical experience.
- While not a guarantee of future results, this track record offers a degree of comfort that expenditure estimates are prudently developed.



Historical Receipts: Budget vs. Actual

- Actual cash receipts for FY 2005 – FY 2008 were somewhat higher than budgeted amounts.
- Actual cash receipts for FY 2009 and FY 2010 were 3% and 1% lower than budgeted, respectively.
- FY 2011 year-to-date actual cash receipts from retail customers (through 3/31/11) are relatively consistent with DC Water's budget expectations.
- This track record offers a degree of comfort that revenue estimates are prudently developed.



Summary of FY 2012 Rate Proposal

	FY 2011	FY 2012
Water	\$3.10 per Ccf	\$3.29 per Ccf
Sewer (Excluding IAC)	\$3.79 per Ccf	\$4.01 per Ccf
Combined	\$6.89 per Ccf	\$7.30 per Ccf
IAC	\$3.45 per ERU	\$6.87 per ERU

- DC Water proposes a 41 cent per 100 cubic feet (Ccf) increase in water and sewer charges for FY 2012 as shown in table above.
- Monthly metering charges would stay the same under the proposal. The typical single family residential customer with a 5/8" meter is currently charged \$3.86 per month.
- The IAC would increase by \$3.42 per month per ERU from \$3.45 per ERU to \$6.87 per ERU as shown in table above. A six-tier IAC rate structure for residential customers was introduced in 2011 to enhance the equitable distribution of the cost of service.



Summary of FY 2012 Rate Proposal

- DC Water bills and collects certain fees on behalf of the District of Columbia. The rate proposal includes an increase of 1 cent per Ccf in the Right of Way (ROW) fee due to the DC government from \$0.14 to \$0.15 per Ccf and an increase of 4 cents per Ccf to the Payment in Lieu of Taxes (PILOT) fee due to the DC government from \$0.49 to \$0.53 per Ccf. These rates are needed to recover the amounts due to the DC Government.
- Based on the above, the total monthly charges for average residential customers that use 6.69 Ccf of water per month would change from \$60.29 to \$66.79, an increase of \$6.50 or about 22 cents per day.
- Effective October 1, 2010, the CAP discount was expanded to include ROW fees and PILOT fees. The usage allowance for CAP will remain the same for FY 2012 but the value of the CAP discount to eligible ratepayers will increase with the proposed changes in rates.
- DC Water has approved for public comment a proposal to adjust various miscellaneous fees and charges to better reflect the cost of service and to be competitive with the charges of other water and sewer utilities in the region.

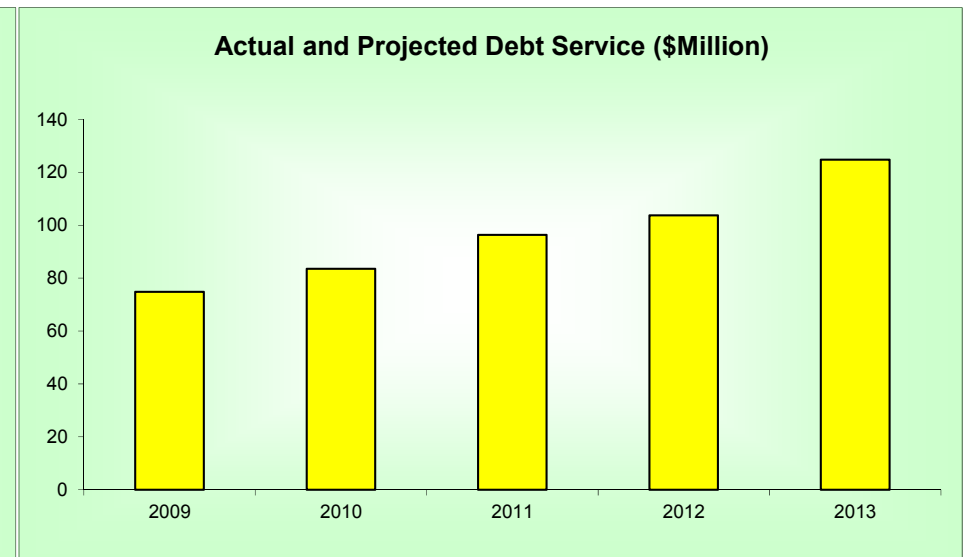
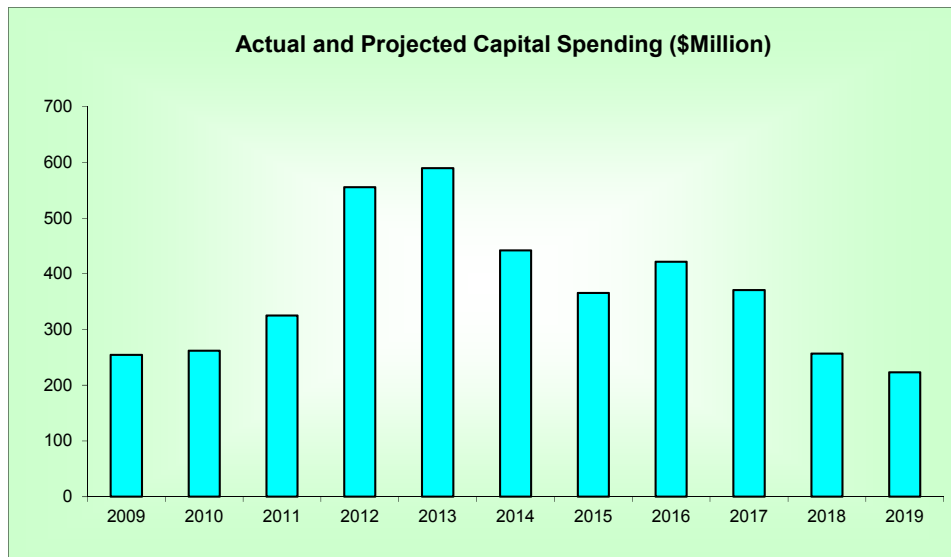
Compliance With Board Policies

Complied	Description	Performance Target	FY 2010 Actual Performance	FY 2011 & FY 2012 Targets
✓	Senior Debt Service Coverage	140%	275%	Exceed 140%
✓	Operating Cash Reserves	Greater of 120 days of O&M costs or \$125.5 million	Average daily balance of \$137.4 million	Greater of 120 days of O&M costs or \$125.5 million
✓	Investment Performance	Exceed the 3 month Treasury Bill rate by at least 15 basis points	Exceeded by 41 basis points	Exceed Merrill Lynch 3 month and 1-3 year US Treasury Index by at least 25 basis points
✓	Water and Sewer Rates	Each customer will be charged for the actual cost to provide each service, and rate increases will be gradual and predictable	Future rate increases are driven by financial impact of the capital program and full utilization of the RSF; the development of a 10-year financial plan allows DC Water to meet these key goals of full cost recovery and predictability	Same as Performance Target; full cost of service study is to be performed in FY 2012
✓	Rate Stabilization Fund (RSF)	Help to avoid spikes in rate increases for retail customers	Utilized a net of \$11.9 million of the RSF, leaving a remaining balance of \$16.7 million. Utilization of \$9.5 million from the RSF reduced the FY 2011 retail rate increase by about 3.1%.	Target is \$8.2 million at end of FY 2011 and \$10.2 million at the end of FY 2012.

During FY 2010, DC Water met or exceeded the financial goals set by the Board and the FY 2009 – 2018 financial plan. Senior debt service coverage, reserve levels, and budget performance met or surpassed Board policies.

Why is a Rate Increase Necessary?

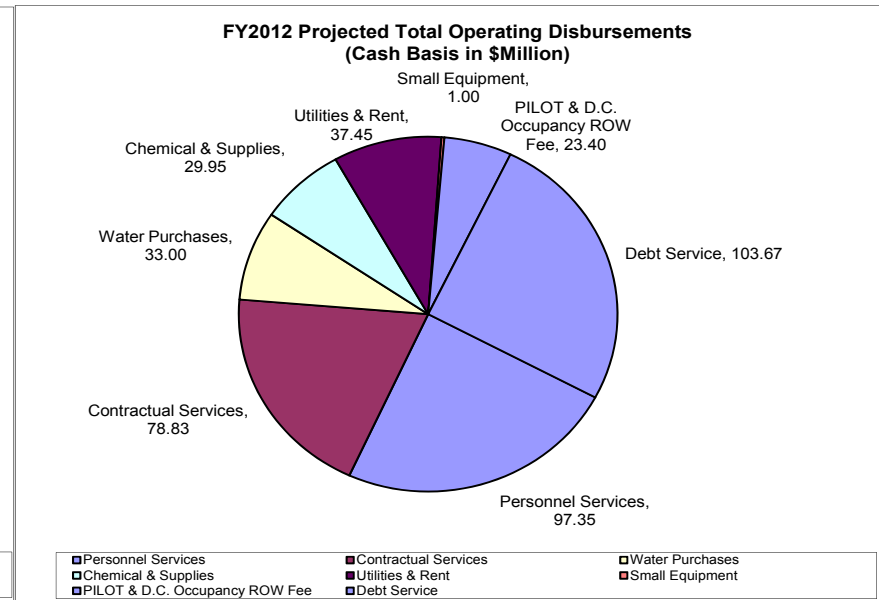
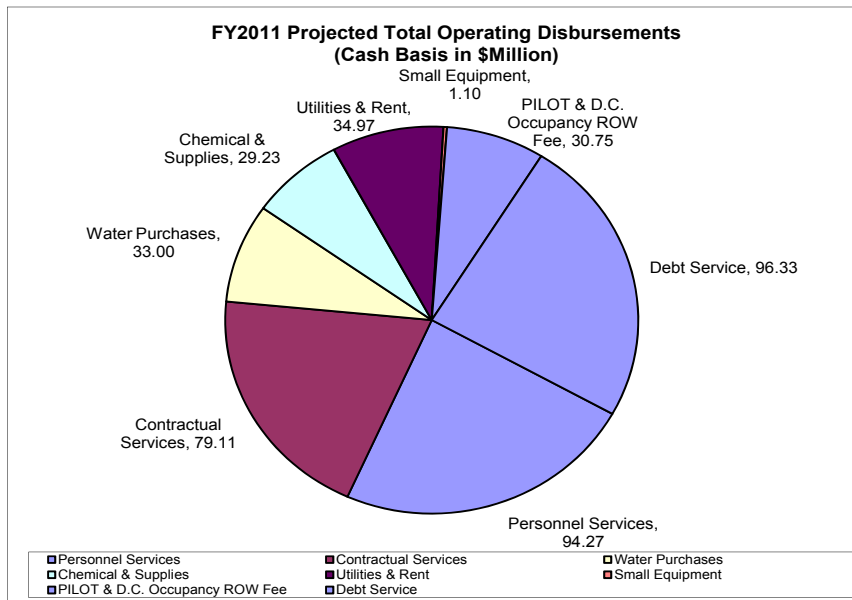
- DC Water is investing in its water and sewer infrastructure to ensure that high quality services are provided on a reliable basis.
- 44% of DC Water's planned capital improvements are legally mandated.
- Debt service payments increase by \$7.3 million from FY 2011 to FY 2012.
- Debt service is an increasing % of total disbursements: 26% in FY 2012.
- Rate increase takes into account current and long term obligations.
- Previous rate increases of DC Water were kept artificially low through use of the RSF; the RSF is almost fully depleted.



Why is a Rate Increase Necessary?

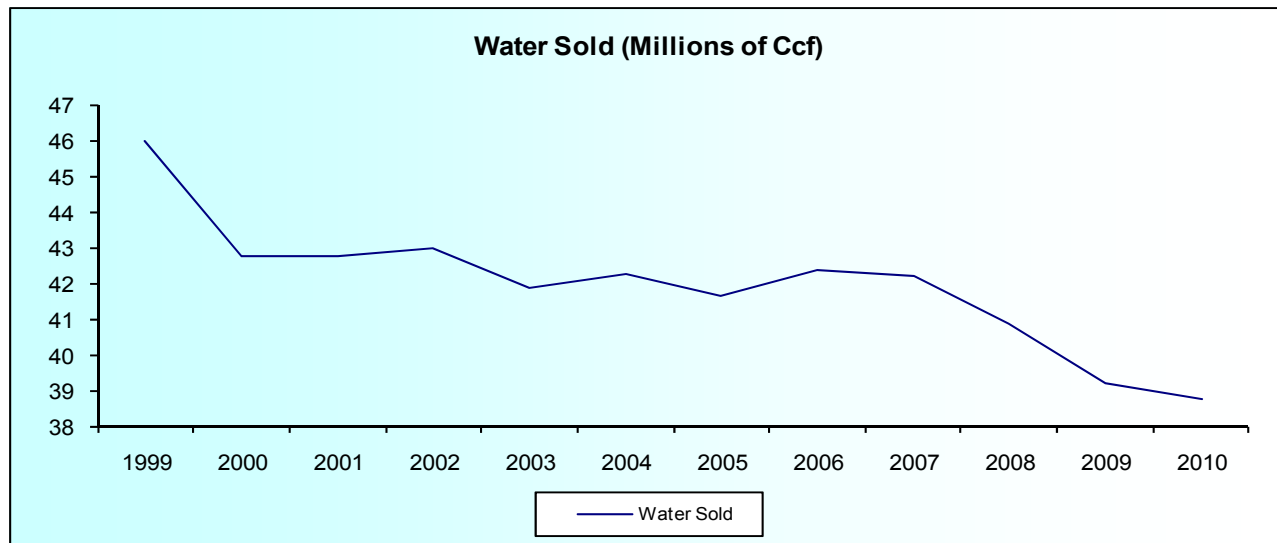
- Total operating disbursements for DC Water (cash basis) are expected to increase by \$5.9 million or 1.5% for FY 2012. PILOT/ROW fees in FY 2011 include the payment of previously collected fees. Excluding the change in PILOT/ROW fees, the increase is \$13.2 million or 3.3%.
- The largest increases in costs are for debt service and personnel services.

O&M Expenditure (\$ M)	FY 2011 Revised Budget	FY 2012 Approved Budget	Change	Change (%)
Personnel Services	94.3	97.4	3.1	3.3%
Contractual Services	79.1	78.8	-0.3	-0.4%
Water Purchases	33.0	33.0	0.0	0.0%
Chemicals & Supplies	29.2	29.9	0.7	2.4%
Utilities & Rent	35.0	37.4	2.5	7.1%
Small Equipment	1.1	1.0	-0.1	-9.1%
PILOT/ROW Fees	30.7	23.4	-7.3	-23.9%
Total O&M	302.4	301.0	-1.5	-0.5%
Debt Service	96.3	103.7	7.3	7.6%
Total Operating Disbursements	398.8	404.6	5.9	1.5%



Why is a Rate Increase Necessary?

- Over 62% of DC Water's revenue in FY 2012 is expected to come from water/sewer charges based on retail water use.
- Long-term retail water demand has been slowly declining; year-to-year changes are uneven depending on weather and other factors.
- Although year-to-date 2011 water sales (through 3/31/11) are 0.4% higher than the previous year, the long-term trend is declining water consumption.
- Recent changes in demand in areas outside the District as well as in New York and Boston are similar.
- It is assumed that water usage declines by 1% in FY 2012 compared to FY 2011.





Why Are Adjustments Necessary to the Rate Structure?

- Board policy requires that rates and charges be equitable and reflect the cost of providing service.
- The results of a recent cost of service study show that DC Water's costs of providing miscellaneous services are higher than the amounts being charged. As a result, DC Water is proposing adjustments to various miscellaneous charges to better reflect the cost of service and to be competitive with the charges of other water and sewer utilities in the region. While this proposal is not the subject of this Public Hearing it is considered for purposes of revenue sufficiency.
- An increase is proposed to the Clean Rivers IAC to reflect the expected increase in debt service costs associated with capital investments for Combined Sewer Overflow (CSO) abatement facilities. The use of six tiers in the IAC rate structure, which was introduced in October 2010, is intended to enhance the equitable distribution of the cost of service.



What Steps Are Being Taken by DC Water to Mitigate Rate Increases?

- Traditionally underspending its operating budget and applying the savings to the RSF or capital construction (which reduces the need for borrowing & debt service).
- Locking in electricity prices based on its analysis of market conditions.
- Examining methods of optimizing energy use.
- Adding some new DC Water personnel in lieu of retaining more expensive contractor staff to support the CIP.
- Implementing a freeze on salaries and wage increases in FY 2012.
- Analyzing techniques to optimize the use of and purchasing strategies for chemicals.
- Seeking USEPA grants and other federal appropriations to reduce the capital costs that have to be funded by ratepayers. DC Water has been successful in obtaining a total of \$276.0 million in federal grants towards the cost of active capital projects including a cumulative federal appropriation towards the LTCP of \$150.65 million.
- Evaluating options to optimize planning for certain capital projects.



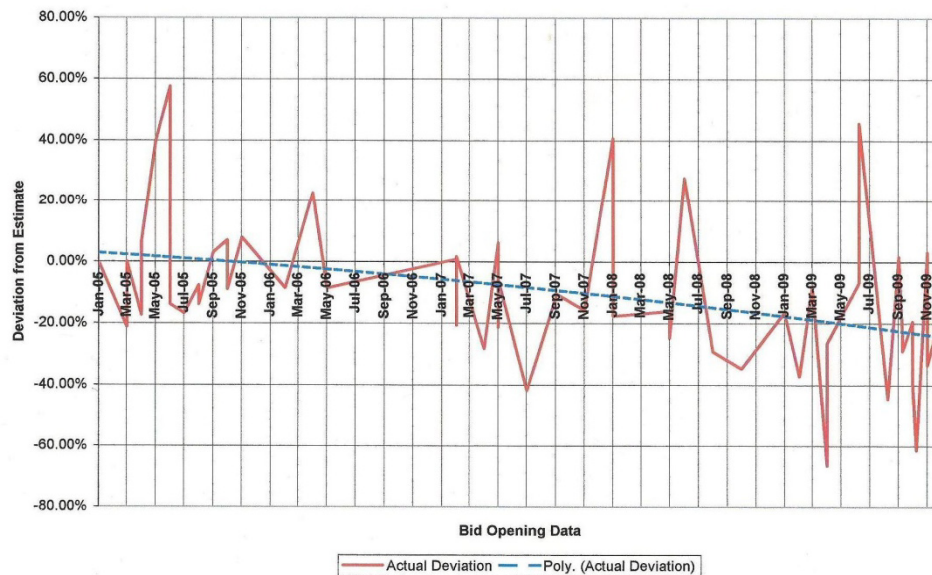
What Steps Are Being Taken by DC Water to Mitigate Rate Increases?

- Proposing the increase of miscellaneous fees & charges to better reflect the cost to provide those services & reduce by about \$1.5 million annually the amount of revenue to be raised from general rates and charges.
- Assessing the adequacy of the allocation of charges to IMA customers.
- Seeking new grant funding opportunities.
- Evaluating potential innovative sources of revenue.
- Utilizing the remaining moneys in the Rate Stabilization Fund.

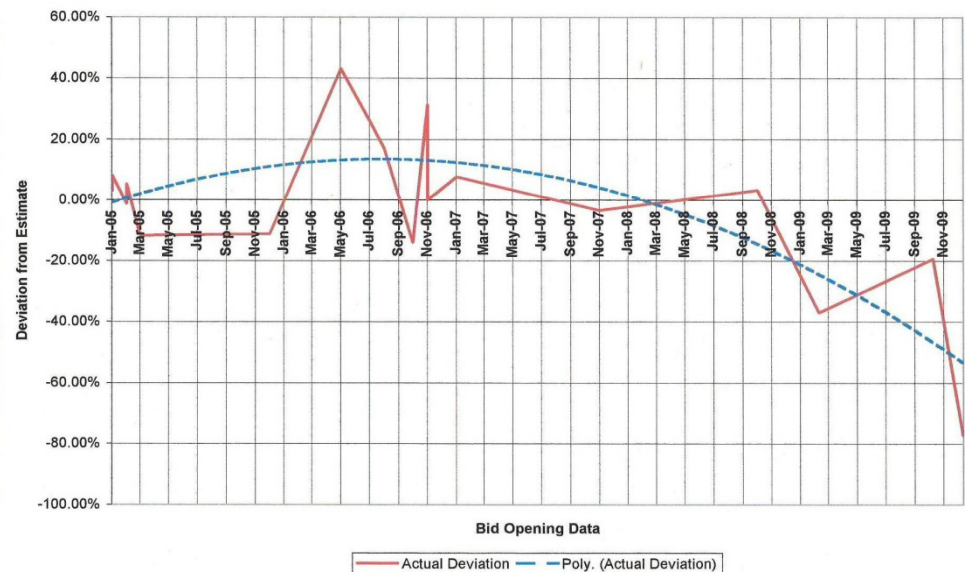
What Steps is DC Water Taking to Mitigate Rate Increases?

- DC Water has been successful in managing its capital contract costs and is taking advantage of an improving construction market. Recent bid prices are typically below engineering estimates. The graphs below illustrate the trends in bid prices versus estimates.

ESTIMATE DEVIATION - STREET CONTRACTS

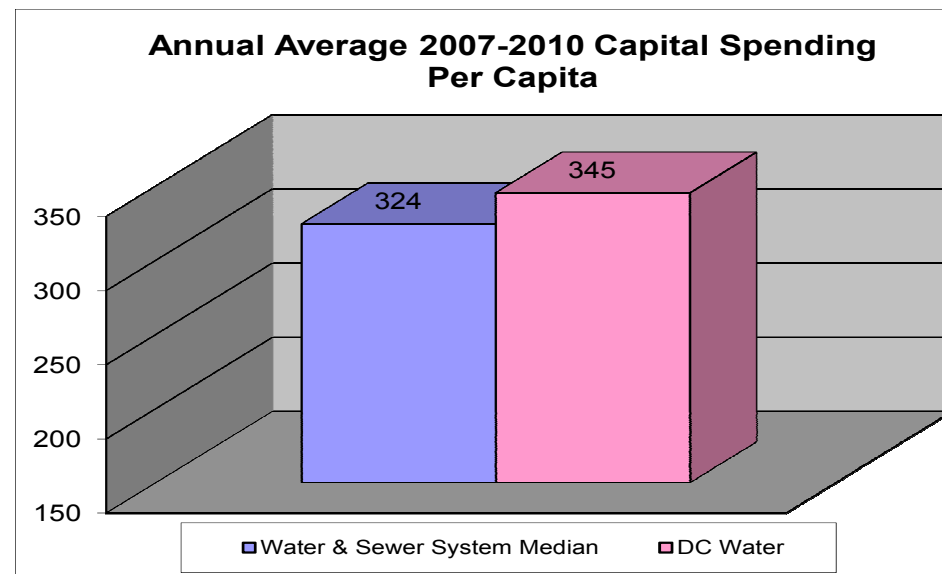


ESTIMATE DEVIATION - FACILITIES CONTRACTS



How Does DC Water Compare? – Per Capita CIP

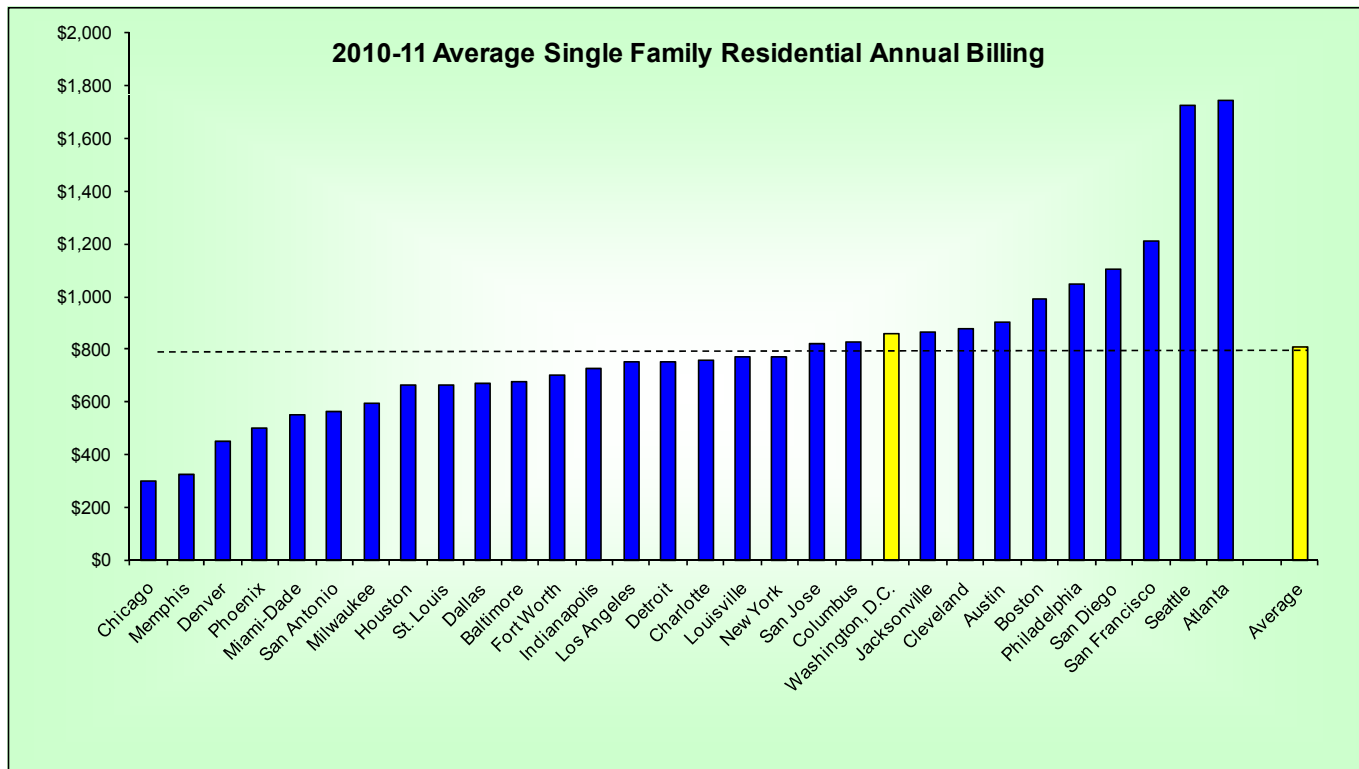
- Water & sewer systems across the country are spending significant capital \$ to meet regulatory standards and maintain system dependability
- DC Water is in a similar situation: annual average per capita capital spending for DC Water is about \$ 345 for the FY 2007 – FY 2010, comparable to industry median over this four-year period.



Source of Other Cities' Data: Fitch Rating, 2010 Water and Sewer Sector Retail Median and Outlook, April 2010

How Does DC Water Compare? – Annual Average Residential Bill

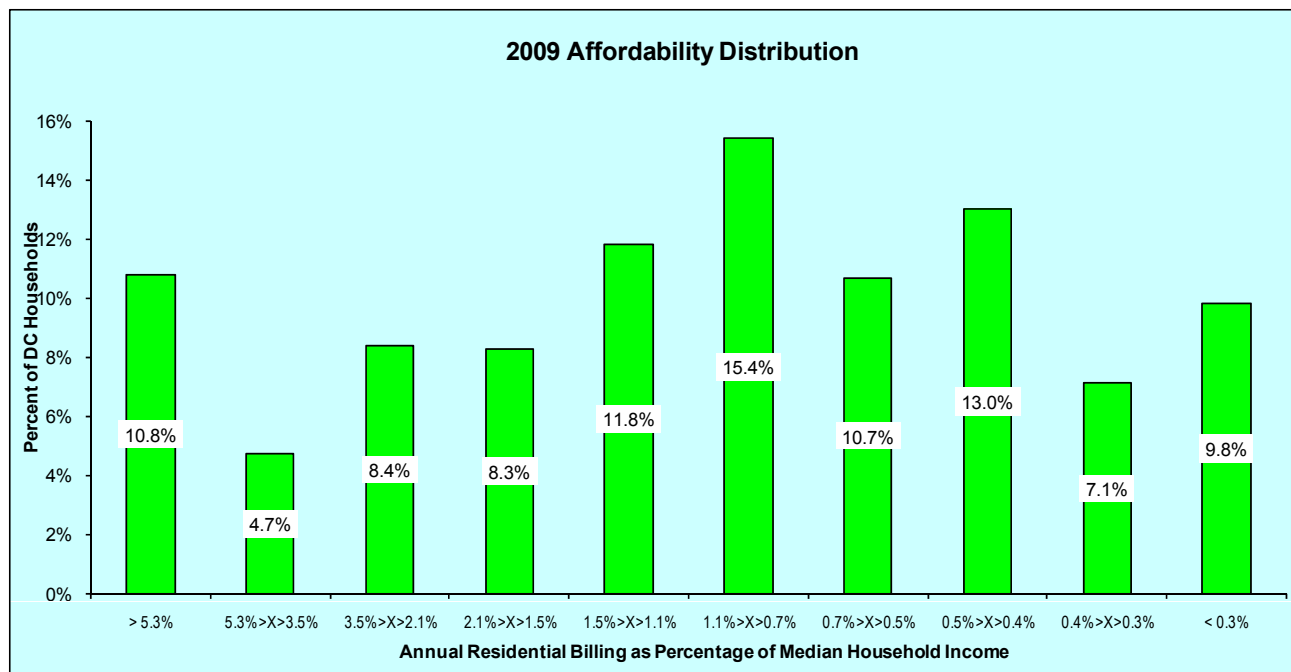
- DC Water's charges for single family residential customers are comparable to that of other large cities. DC Water total charges include pass-through charges for the DC government for stormwater and ROW/PILOT fees.



Note: Some cities use property tax revenue or other revenues to pay for part of the cost of water, wastewater, or stormwater services. In such situations, the user charge will not reflect the full cost of water, wastewater or stormwater services.

Affordability of Water/Sewer Charges

- DC Water's charges are competitive with other major cities in terms of affordability. Charges greater than 2% to 4% of median household income are typically viewed as a strain on household budgets. The majority of DC Water's customers are below the 2% level as shown below.
- About 24% of DC Water households have charges > 2.1% of income.
- DC Water's CAP program helps customers whose water/sewer bills are a high percentage of income.



Source: 2007-9 American Community Survey, assuming residential consumption of 6.69 Ccf monthly and excluding District stormwater charges. Income data from 2009 represents the latest available data.



Affordability Programs

- DC Water provides referrals to customers that need assistance and uses two programs that provide financial assistance.
- Customer Assistance Program (CAP)
 - In FY 2010, the CAP provided \$919,156 in assistance to 6,107 customers.
 - Through the first six months of FY 2011, the CAP has provided 5,402 billing credits totaling \$526,496 in assistance.
 - Effective October 1, 2010, the CAP assistance was expanded to include ROW fees and PILOT fees.
 - Some utilities use lifeline rates which provide discounted service to all customers for the first units of usage; DC Water's program is targeted to low income ratepayers.
- Serving People by Lending a Helping Hand Program (SPLASH)
 - In FY 2010, SPLASH received contributions of \$94,767 and provided assistance to about 300 customers.
 - Through March 31, 2011, SPLASH has provided \$41,178 in assistance to 130 households.



Assumptions/Factors to Consider Concerning FY 2012 Rates

- Year-to-date revenues through March 31, 2011 are approximately equal to the expectations for this period. Year-to-date expenditures are \$13.0 million or 10% below the projected amount for the same period. It is anticipated that actual expenditures for the full year will be below budget consistent with historical trends which will provide a greater than expected surplus at the end of the year.
- DC Water has an excellent track record in bill collection. The depth of the economic recession raises the risk that there may be some slippage in the timeliness of bill payment or the ability to collect on some bills, with a resulting impact on revenues.
- Multi-year projections and the rate stabilization fund are tools that DC Water uses to smooth out rate increases and minimize rate shock. Given this perspective and the limited balance in the stabilization fund, if the Board decides to adopt a rate increase that is lower than the increase that is proposed, it will be important to consider the effects of the resulting lower base revenues on the potential water and sewer rate increases in FY 2013 and FY 2014, currently projected at about 6.5% and 6.0%, respectively, and the projected increases in the IAC to \$10.06 and \$15.02 per ERU, respectively.

Assumptions/Factors to Consider Concerning FY 2012 Rates

- Prior to any deposits to the fund from possible underspending in FY 2011, it is currently anticipated that DC Water's rate stabilization fund will have a balance of \$8.2 million at the end of FY 2011 leaving a limited contingency in FY 2012 should adverse circumstances be encountered.
- DC Water has used withdrawals from the RSF to mitigate part of the required increase in rates in recent years. The following table illustrates the net withdrawals from the RSF in each year, the revenues less disbursements (RLD) in each year which exclude transfers from the RSF and the RLD as a percentage of annual revenues.

Year	Transfer from Rate Stabilization Fund	Revenues Less Disbursements (RLD) *	RLD as a % of Annual Revenues *
2008	24.9	4.7	1.5%
2009	29.0	-11.2	-3.5%
2010	28.0	3.3	1.0%
2011	9.5	-9.4	-2.4%

* Shown without the effects of the transfers from the Rate Stabilization Fund
All transfers and the RLD are in \$ millions



Assumptions/Factors to Consider Concerning FY 2012 Rates

- The federal government, which owns about 20% of the impervious area in the District, has advised DC Water that it will pay the IAC. DC Water successfully reversed a prior federal position that it was exempt from paying such charges.
- DC Water began billing the IAC in the last five months of FY 2009. The total IAC revenue collected was \$8.0 million for FY 2010. For the first six months of FY 2011, DC Water collected \$7.5 million in IAC revenue; the budgeted IAC revenue for the year is \$14.9 million. The IAC revenue, together with the revenue from the fixed charges for meters, decouples a portion of DC Water's revenue from the reliance on water consumption.



Conclusions

- DC Water's proposed water, sewer and impervious area rate projections have been reasonably developed, reflect the anticipated revenue requirements of the System, adheres to Board policy and is comparable to other utilities.
- The proposed increase in the PILOT/ROW rates is necessary to keep pace with required payments due to the District. DC Water bills and collects these fees on behalf of the DC Government.
- The ability to generate a significant surplus in FY 2012 may be diminished somewhat the relatively small increase in budgeted expenses between FY 2011 and FY 2012.
- There are potential risks of additional increases in non-labor costs for chemicals, fuels and related items given the relatively high price of crude oil at the time of this report.



Conclusions

- Declines in water consumption have a direct impact on retail water and sewer revenues. YTD FY 2011 (through March 2011) results have shown a 0.4% increase in consumption. However, the long-term trend in consumption is declining. If the decline in consumption continues or usage declines at a faster rate, FY 2012 revenues could be impacted and future rate increases may need to be higher than currently projected.
- The proposed changes in the miscellaneous fees and charges are reasonable and are expected to enhance the equitable distribution of the cost of service in accordance with Board policies.
- It would be prudent to consider these risks and circumstances in DC Water's rate-setting deliberations.

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Review Comment

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Subject Proposed rates are not justified

Comment The proposed rates are not justified and have no nexus between assumptions in the 2012 DC water budget. The budget is scheduled to increase roughly 4.7% yet the water and sewer rates are increasing 42% and 6%. The Impervious area charge is increasing 99% this year alone. Compared to Sept 2010 it is increasing a staggering 212%. The IAC is budgeted to grow from the current \$3.45 to \$29.76 in 7 yrs. The Council needs to act to reduce costs.

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

NOTICE OF PUBLIC HEARING

Wednesday, May 11, 2011

6:30 p.m.

Council of Governments
777 North Capitol Street, NE
Washington, D.C. 20002
First Floor Training Room

The Board of Directors of the District of Columbia Water and Sewer Authority, in accordance with Section 216 of the Water and Sewer Authority Establishment and Department of Public Works Reorganization Act of 1996, effective April 18, 1996, (D.C. Law 11-111; D.C. Official Code § 34-2202.16), will conduct a public hearing at the above-stated date, time, and place, to receive comments on proposed rules, which, if adopted, would amend Sections 4100, "Rates for Water Service," and 4101, "Rates for Sewer Service," of Chapter 41, "Retail Water and Sewer Rates," and Sections 112, "Fees," and 199, "Definitions," of Chapter 1, "Water Supply," of Title 21, "Water and Sanitation," of the DCMR. The Agenda for the Public Hearing is provided below.

The proposed rules were published in the March 4, 2011 edition of the *D.C. Register*, at 58 DCR 1655.

Each individual or representative of an organization who wishes to present testimony at the public hearing is requested to furnish his or her name, address, telephone number and name of organization (if any) by calling (202) 787-2330 or emailing the request to Lmanley@dcwater.com no later than 5:00 p.m., Monday May 9, 2011. Other persons wishing to present testimony may testify after those on the witness list. Persons making presentations are urged to address their statements to relevant issues.

Oral presentations by individuals will be limited to five (5) minutes. Oral presentations made by representatives of an organization will not be longer than ten (10) minutes. Statements should summarize extensive written materials so there will be time for all interested persons to be heard. Oral presentations will be heard and considered, but for accuracy of the record, all statements should be submitted in writing. The hearing will end when all persons wishing to make comments have been heard.

Written testimony may be submitted by mail to Linda R. Manley, Secretary to the Board, District of Columbia Water and Sewer Authority, 5000 Overlook Ave., S.W., Washington, D.C. 20032, or email Lmanley@dcwater.com. Such written testimony is to be clearly marked "Written Testimony for Public Hearing, May 11, 2011" and received by 5:00 p.m. Monday, May 9, 2011.

**PUBLIC HEARING ON
Proposed Retail Rate & Fee Increases
for Fiscal Year 2012**

Wednesday, May 11, 2011

6:30 p.m.

AGENDA

- 1. Call to Order..... William Walker, Chairman
- 2. Opening Statement William Walker, Chairman
- 3. DC Water Management Presentation..... George Hawkins, General Manager
On Proposed FY 2012 Retail Rate & Fee Increases Olu Adebo, CFO
- 4. Presentation by Independent Consultant..... Edward Markus and Myron Olstein
On Proposed FY 2012 Retail Rate & Fee Increases Amawalk Consulting
- 5. Public Witnesses
 - Pre-registered Speakers
 - Other comments (time permitting)
- 6. Closing Statement William Walker, Chairman
- 7. Adjournment William Walker, Chairman