



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

*Retail Rates Committee
Thursday, April 27, 2006
9:30 a.m.*

MEETING MINUTES

BOARD MEMBERS

Glenn Gerstell
David J. Bardin
Steven G. McLendon

WASA STAFF

Jerry Johnson, General Manager
Olu Adebo, Acting Chief Financial Officer
John Dunn, Chief Engineer
Avis M. Russell, General Counsel

Mr. Gerstell called the meeting to order at 10:16 a.m. and asked that David Bardin continue to chair the meeting after his departure. Mr. Gerstell stated that this meeting was open to the public, was being recorded and had been publicized in the Authority's customary manner. He also stated that the objective of the meeting was to address a number of retail rates-related matters such as groundwater billing alternatives, cost of service study and CSO/stormwater rates alternatives.

Olu Adebo introduced members of WASA's rates consulting team:

- Dan Lanning (over 30 years of experience in the rates industry, including work with AWWA and is the author of several rates books in the water and wastewater utility industry)
- John Cromwell (economist with over 25 years of experience in the industry and work with the USEPA and the District and in the water and wastewater industry)
- Chris Woodcock (author of numerous rates books), and
- Stephen Kuhr (several years of rates consulting for WASA)

Since Board members received the presentations and had sufficient time to thoroughly review each one, Chairman Gerstell suggested that the consultants focus their discussions with the Committee on areas where Board input is needed or slides where additional explanation is required.

Cost of Service Study Update

Dan Lanning led the discussion of WASA's current Cost of Service Study for FY 2008. The consultants plan to provide the Committee with specific recommendations and timetables in July 2006. Mr. Johnson added that the previous cost of service study is the basis for the FY 2007 rates proposals.

Referring to page 9 of the Cost of Services presentation, Mr. Lanning continued with an explanation of three cost pools that consultants are reviewing for potential rate restructuring:

- Fire protection services – a charge currently exists for public fire protection services and WASA should investigate also charging for private fire protection services
- Inflow/infiltration and fixed service – this wastewater charge is being considered and is currently used by a number of wastewater utilities throughout the country and it includes groundwater. Mr. Bardin asked whether consultants would distinguish groundwater that is deliberately pumped by a facility into sewers as contrasted with groundwater that infiltrates because of structural openings and pressure opportunities. Mr. Lanning responded that the consultants would adhere to whatever direction the Board provides in terms of groundwater to ensure there is no duplications of revenue collections. If the groundwater is pumped and charged as outlined in the ordinance, this will result in a deduction from the inflow/infiltration cost pool. Mr. Bardin pointed out that as of July, when the consultants plan to report back to the Committee, the Board would not have decided whether, at what level, and when to charge for groundwater pumped into the combined sewers. Indeed, the consultants' cost analysis might be a factor the Board would consider. Accordingly, he requested that the consultants analyze costs of handling pumped groundwater as an alternative to assuming collection of the proposed rates. Staff and consultants agreed to do so.
- Readiness to serve charge – includes AMR cost recovery and consultants would like to review other customer accounting costs that involve readiness to serve.

In order to avoid confusion and simplify the decision-making process, the consultants are recommending one rate alternative for water based on cost per customer class. On the wastewater side, the consultants are proposing two rate structure alternatives, one based on class rates and a second alternative rate structure that excludes the irrigation of water, instead of using 100 percent of the water metered, which is currently done. The consultants plan to distinguish multi-family buildings as a separate class, not commingled with office buildings, universities, etc.

In referencing the wholesale customers and their usage of Blue Plains' facilities under the current IMA, Mr. Bardin asked if the current cost of service study analyzes WASA's revenues from the wholesale customers and evaluates reasonableness of the cost allocations. Mr. Johnson responded that the current cost of service study was only intended to address retail rates and there will be separate financial analysis that will be conducted in the context of the IMA to review the wholesale charges under the IMA.

Nonetheless, Mr. Bardin requested a side study indicating whether revenues under the IMA differ significantly (higher or lower) from results of applying the cost allocation methods used in the cost of service study. The side study will test both (a) the cost of service methods and (b) the accuracy of WASA statements that it collects the cost of service from its wholesale customers. Staff and consultants agreed to provide a side study.

Mr. Adebo indicated that staff and consultants would pursue alternative rate structures as discussed and report back to the Committee in July with findings and proposals.

Groundwater

Mr. McLendon asked whether the consultants would like to report any findings concerning groundwater rate implementation.

In response to Mr. McLendon's question, Mr. Cromwell discussed observations from other cities that may impact implementation of a groundwater fee in the District. A two-tiered hybrid strategy for groundwater rate implementation would address the problems presented by other approaches. The study will evaluate alternative methods of groundwater cost recovery and apply them to a broader infiltration/inflow/groundwater cost pool.

Mr. Bardin asked that staff and consultants consider phasing in charges for pumped groundwater, for example an option to start with Metrorail stations only in this rate cycle and defer office buildings with deep or large basements for a year, as well as exempting single-family homes altogether. He also suggested that most of the resulting revenues might be earmarked for future projects to separate pumped groundwater from the combined sewer system. Staff and consultants agreed to present those options. There was also some discussion of pros and cons of WASA owning meters for measuring pumped groundwater.

Mr. Bardin pointed out that apart from retail ratemaking the Board might later consider a rulemaking to separate and off load groundwater now being pumped into the combined sewer systems by a deadline to be set a reasonable number of years in the future.

Combined Sewer Overflow

Mr. Bardin asked the consultants if they need any additional guidance in their study of combined sewer overflow cost recovery.

Mr. Cromwell answered that the consultants have been working on a detailed implementation plan for an impervious area fee. Data availability is a consideration and the consultants requested the Committee's input on the recommended approach. Hundreds of cities have implemented impervious area fee systems to recover costs of stormwater management programs. Only Detroit uses an impervious area approach to support a CSO control program as a result of a court ordered settlement involving a dispute over cost sharing with the suburbs. CSO control programs are much more costly than stormwater management programs and most cities recover costs of CSO control programs through wastewater rates or property taxes. The consultants considered the following impervious area cost recovery mechanisms for the District of Columbia:

- Impervious area versus land area
- A two part impervious area fee system
- Citywide impervious area fee

The citywide impervious area fee is most suitable to the District of Columbia because the sewer system is not so easily separable. These rates allocation method avoids boundary disputes for CSO versus sanitary sewer system and confusion and allows stormwater and CSO cost recovery on the same basis. The citywide fee meets multiple objectives and will simplify its administration of the fee.

Mr. Bardin emphasized the importance of using an objective measure to administer the fee irrespective of the potential cost shifting among customer groups.

Mr. McLendon asked for an explanation of impervious area and potential pushback from the communities. In the subsequent discussion, both Committee members and consultants stressed the importance of communication with the communities and timing implementation of impervious surface rates before annual costs skyrocket. Mr. Cromwell explained that the concept of impervious area refers to the paved surfaces, which generate more runoff into the storm sewers or the combined sewers. Paved surfaces include roads, alleys, steps, monuments, and sidewalks. In addition, rooftops are also impervious to rainfall. Both storm sewers and combined sewers have regulatory programs, which foreshadow large costs in WASA's future.

Mr. Johnson explained that we have a cost that the utility is going to incur no matter what we do because we have a \$2 billion CSO program that we have to implement. The city of Lynchburg, VA, set up an arrangement with the Department of Environmental Quality and the U.S. Environmental Protection Agency (EPA) to push their sewer rate up to a level just beyond the two percent required

by EPA as the affordability threshold. This arrangement proved costly even though Lynchburg was successful in securing some state and federal monies to assist with their CSO control program. Lynchburg has intentionally elected to keep their rates bundled in their overall wastewater charge.

WASA is considering a mechanism that might more fairly distribute the cost of CSO abatement to the properties that are utilizing it. One option under consideration would leave CSO bundled in the wastewater rate. WASA would continue to raise the wastewater rate, as was the case in Richmond, VA and they now have the highest wastewater rates of any jurisdiction in the Commonwealth as a result of that decision. WASA also has a stormwater rate and if we can bill both CSO and stormwater on the same basis it might make more sense in terms of the fairness of cost distributions among businesses and residents in the District of Columbia.

Mr. Cromwell discussed the experiences of other cities such as Denver, Colorado and Montgomery County, Maryland that have implemented CSO rates. Consultants are pursuing two courses of study for CSO cost allocation. One of the alternatives, a parcel-by-parcel system similar to what Denver uses, presents data gathering concerns. A second alternative, the equivalent residential unit (ERU), an approach that Montgomery County, MD and many other cities use would work well in the District. The ERU approach simplifies the rates by defining classes of similar residential dwellings that are each assigned a rate based on the typical amount of impervious area.

Mr. Bardin asked the consultants to include separately, for the sake of transparency, an analysis of runoff costs due to streets, alleys and rights of way and ways of treating streets in their proposed CSO rate design analysis, even if they recommend that such runoff costs be redistributed to other property classes. Staff and consultants agreed to do that. For the sake of administrative feasibility, Mr. Bardin also requested a phase-in plan that would defer implementation for over 100,000 single-family homes and apartment houses until after implementation for the smaller class of other commercial and governmental properties. After further discussion, the Committee asked the consultants to proceed with their study and report back to them in July with proposals and recommended next steps.

Mr. Bardin adjourned the meeting at 11:15 a.m.