



DISTRICT OF COLUMBIA WATER AND SEWER BOARD OF DIRECTORS

DC Retail Water and Sewer Rates Committee

Tuesday July 24, 2012

MEETING MINUTES

COMMITTEE MEMBERS

Howard C. Gibbs, Chairperson
Joseph A. Cotruvo
Alan Roth
Alethia Nancoo

DC WATER STAFF

George Hawkins, General Manager
Randy Hayman, General Counsel
Olu Adebo, Chief Financial Officer
Linda R. Manley, Board Secretary

Call to Order

Chairman Gibbs called the Committee meeting to order at 9:32 a.m.

Monthly Update

Howard University

General Counsel Randy Hayman provided an update on the two delinquent accounts associated with Howard University and the Soldier's Home. With regards to Howard University, the on-going disputed delinquent amount of \$5.4M is being negotiated. Mr. Hayman has been trying to reach out to the new General Counsel, Kurt Schmoke, at Howard University to continue negotiations.

Soldiers Home

Soldier's Home representatives have sent letters each month contesting their monthly billing of approximately \$25,000. Mr. Hayman indicated that the contested amount is pending contingent upon resolution of DC Water's negotiations with Soldier's Home representatives. Mr. Hayman reported that he was attempting to schedule a meeting with Soldier's Home within the next two weeks to negotiate and to seek resolution of this matter.

FY 2012 Cost of Service Study Review

Mr. Adebo introduced the consultants present, Mr. John Davis, David Fox, and Mr. Bart Kreps, from Raffelis Financial Consultants, Inc. (FRC), who provided the Committee with a briefing on the FY 2012 Cost of Service Study. Mr. Davis explained that the Cost of Service (COS) Study Components included:

1. Revenue Sufficiency Analysis – Do the proposed rates recover adequate revenue to meet expenditures?
2. Cost of Service Analysis/Rate Equity- Are proposed existing rates equitably recovering the costs of providing service?

3. Alternative Rate Structure Analysis – Are there alternative rate structures that may more effectively meet DC Water’s highest priority pricing objectives?

In supporting the analysis, Mr. Kreps explained that DC Water’s existing rates and charges were being assessed and taken from DC Water’s Revised Financial Plan (FY 2013 projections). The Operating and Capital costs and Units of Service were independently forecasted, based on DC Water’s historical and projected budgets, capital improvement plans, usage patterns and the number of accounts. Revised Operating Expense costs are estimated at approximately \$280 million. Projections through FY 2020 will be refined once the new Financial Plan is available in August 2012. With respect to the Units of Service, Mr. Kreps indicated that a one percent decrease in consumption was assumed due to many factors such as broader consumption awareness, economical pricing usage impact, and better efficiency fixtures.

RFC indicated that according to their findings, financing for the Capital Plan (CIP) and Debt Service are consistent with DC Water’s FY 2013 projections.

Revenue Sufficiency Analysis

In discussing Revenue Sufficiency findings, Mr. Kreps reported that revenues under proposed rate increases were sufficient to fund cash needs in FY 2013, reserve funds could be maintained at target levels, and debt service coverage would be adequate to meet required bond covenants.

Dr. Cotruvo shared concerns that carry over funds from prior years are used to subsidize the current year operating plan and if these funds were not transferred DC Water would operate in the red each year. Mr. Adebo stated DC Water projects to raise more revenues in excess of expenses in each year in the financial plan. Excess revenues are transferred into the Rate Stabilization Fund or to Paygo. In past years, DC Water has minimized rate spikes with the transfers from the Rate Stabilization funds, and has also used Paygo funds to reduce the debt service costs of capital projects.

Cost of Service Analysis/Rate Equity

Another component analyzed was the COS Analysis/Rate Equity taking into account DC Water’s existing rate structures for the Water Volumetric, Wastewater Volumetric, Metering Fee, and the Clean Rivers Impervious Area Charge. Net Revenue requirements were divided by units of service in order to calculate cost of service-based rates. The calculated unit cost for water, wastewater, meter, and CRIAC were \$3.30, \$4.44, \$3.86, and \$8.85, respectively. However, the proposed rates for water, wastewater, meter, and CRIAC would be \$3.42, \$4.18 \$3.86, and \$9.57, respectively. In the findings, Fire Protection revenues were allocated as an offset to the water volumetric charge causing a shift away from water rate increases to wastewater rate increases. Also, the trajectory of the CRIAC may need to be updated to reflect new estimated cash projections. The Committee engaged in extensive discussions concerning the problem with the disparity in the cost allocations among Water, Wastewater, Meter, and CRIAC. Mr. Adebo responded that there would be cost shifting, and the costs would be reset every three years if there was any issue.

Alternative Rate Structure Analysis

In discussing the Rate Structure Alternatives, Mr. Davis identified opportunities for changes to the water and sewer rate structures that might better fit DC Water’s key pricing objectives. Those three rate structures were: 1) Meter Fee/Base Charges 2) Class-Based Volumetric Differentiation and; 3) Wastewater High Strength Surcharges. Mr. Adebo asked Mr. Davis to include the 4th alternative,

Development Impact Fees. Mr. Davis said that DC Water could increase the metering fee to all customers by \$6.93 per month, which would result in a one-time reduction to the water and sewer volumetric rates by about 15 cents each. The Committee members expressed concern about whether the charge would also result in adverse impacts to low and average volume users. Mr. Adebo explained that these rate structures were just the alternatives, and not the rate proposals.

Customer Segmentation

Mr. Davis explained that DC Water could develop different volumetric rates by customer class/category based on the different demands that each placed on the system. Differentiation may be based on class/category peaking characteristics for water or discharge strength contributions for wastewater. The review comprised of three years of data for the five different categories of customers which demonstrated consistent peaking characteristics. Data analysis supports further customer segmentation based on peaking. Data analysis and results for discharge strength indicated that domestic strength wastewater treatment costs are included in wastewater volumetric rate, while high strength customers (above domestic strength) may be assessed surcharges based on their strength surcharge. Additional data analysis and further customer segmentation is needed and DC Water must undertake further steps prior to implementation. Mr. Davis provided data comparisons for various customers including industrial and restaurants to assess the surcharge based on the customer's strength contribution. These costs would be included in the allocations of treatment to remove various wastewater pollutants such as: Total Suspended Solids ("TSS"), Chemical/Biological Oxygen Demand ("CBOD"), Total Phosphorous ("TP"), and Total Nitrogen ("TKN"). He explained how the surcharges were calculated based on allocated costs.

For the water customer class/category, Mr. Davis identified five different categories: Residential, Multi-Family/DC Housing, Commercial, Federal, and Municipal. Peaking factors were used as a way to determine the consistent peaking characteristics from different customer class/category and to provide some insight of how the water volumetric rates could be set based on the peak usage component.

Dr. Cotruvo asked about the meaning and difference between Residential and Multi-Family. In response, Mr. Adebo explained that any facility of less than 4 units would be defined as Residential, and 4 or more units would be defined as Multi-Family. Mr. Adebo also stated that DC Water has been using the Office of Tax and Revenue-records, which are based on occupancy, to determine customer categories.

After Committee discussion and consideration, it was agreed that additional issues must be considered before these segmentations alternatives could be fully implemented. These issues include data analysis, customer impact and policy consideration, administration, legal and rate considerations. Mr. Adebo concluded that DC Water has already begun looking into implementation issues such as what capabilities DC Water has with regard to data analysis, assessing customer impact, administration, and legal consideration.

Mr. Adebo asked if the Committee had any direction for DC Water Staff regarding what had been discussed. Mr. Adebo also indicated that in the next meeting in September or November, staff would create three (3) Customer Classes, Residential, Multi-Family/DC Housing, and Commercial, and would propose the rates with two options, a blended rate and differentiated rate.

DC Water Strategic Plan Discussion

Dr. Cotruvo asked staff to add the Rate Design to the Strategic Plan in order to explore and address rate setting policy and potential impacts to low income customers. In response, Mr. Adebo stated that Rate Setting would be a tool as opposed to the Rate Setting Policy. With the Rate Setting Policy in place the rate setting structure can be formulated. Chairman Gibbs asked Dr. Cotruvo to send his comments to Adam Clampitt.

Agenda for September 25, 2012 Committee Meeting

Chairman Gibbs had no comments.

Adjournment

The meeting was adjourned at 12:03 p.m.

Follow-Up Items – Retail Rates Committee Meeting (July 24, 2012)

1. 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
2. Review of the Potomac Interceptor contracts to see if there are opportunities to modify contracts to be similar to the IMA contracts (Mr. Bardin) Status: Defer Pending Final IMA
3. DC Water Staff to provide a comprehensive plan with all the data analysis, and rate proposal. Staff to re-create three (3) Customer Classes, and propose the rates with two options, a blended rate and differentiated rate for presentation to the Committee at their meeting in September or November. (Dr. Cotruvo)
4. Add a rate design item to the Strategic Plan in order to explore and address rate setting policy and potential impacts to low income customers. (Dr. Cotruvo)
5. Provide a legal opinion on the DC Laws requiring a discount program for both the DC Water and DDOE impervious area based fees (Mr. Roth) (Completed)
6. Review the presentation of “average” use by CAP customers compared to the average residential customer given that the averages are not the same (Mr. Roth) (Completed)