



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

BOARD OF DIRECTORS

*DC Retail Water and
Sewer Rates Committee
Tuesday July 27, 2010
11:00 a.m.*

MEETING MINUTES

COMMITTEE MEMBERS

Chairman William Walker
David J. Bardin, Chair
Howard C. Gibbs, Vice-Chair
Howard Croft
Alan Roth
Joseph Cotruvo
F. Alexis Roberson

DC Water Staff

George Hawkins, General Manager
Olu Adebo, Chief Financial Officer

Linda R. Manley, Board Secretary
Charles Kiely, Assistant General Manager Customer Service
Avis Russell, General Counsel
Yvette Downs, Director of Finance and Budget

Call to Order

Chairman Bardin called the Retail Rates Committee meeting to order at 11:01 am. Noting that Board members had previously received all the agenda attachments, he asked Mr. Adebo to summarize the pending calendar for retail rate adjustments.

Calendar for FY 2011 Rate Adjustments (Attachment A)

Mr. Adebo stated that in February the Board (with only D.C. members participating in the decision) approved for publication the proposed FY 2011 water and sewer rate and fee charges. In March, DC Water published for rulemaking those rate and fee adjustments. Between April and July DC Water undertook extensive outreach to educate customers about rates and about services that the Authority provides, including the CIP program and the assistance programs. On June 9, 2010, the Board held a public hearing with testimony by an independent rates consultant, management, staff and public witnesses. Agenda attachment C recaps the notices and comments, with a transcript of the public hearing as its Tab M. After today's discussion of final rates and fees for FY 2011, he anticipates that the Board will take them up at its September 2, 2010 meeting. Staff would then have to implement the new rate and fees by October 1, 2010. He said the Authority is on schedule.

Impervious Surface Area Charge Residential Six – tier Rate Structure Update

IAC Residential Six – tier Rate Structure

Mr. Kiely updated the committee on the IAC Six – Tier Residential Rate Structure project. Database conversion and system development work was going according to plan. Project testing will start on August 1, 2010 and continue through August 12, 2010. DC Water is on track to implement the IAC Six – tier Rate Structure on October 1, 2010 and at the moment management sees no impediment to timely implementation.

He stated that billings are processed on a cycle basis -- done every twenty work days. To ensure that impacted customers are timely notified Mr. Kiely said that starting August 1, 2010, letters will be mailed to residential customers who under the new structure will be assessed > 1 ERU. Those customers who will be assessed < or = 1 ERU will be communicated to via a bill message. Mr. Kiely stated that about 350 letters will be sent out per day through August 5, 2010. ERU means “equivalent residential unit”. Under the current, one-tier structure, each residential customer is now billed for 1 ERU of impervious area (in contrast to commercial customers, billed for their particular ERUs). As shown on Attachment F, the pending proposal would change that as follows:

Tiers	Square feet of impervious area	ERU	# of properties
Tier 1	100-600	0.6	18,563
Tier 2	700-2000	1.0	77,514
Tier 3	2,100-3,000	2.4	5,736
Tier 4	3,100-7,000	3.8	2,499
Tier 5	7,100-11,000	8.6	124
Tier 6	11,100 and more	13.5	47

Mr. Bardin asked whether staff had identified all 18,563 customers with 600 sq ft or less of impervious area on their property. Mr. Kiely said, Yes.

Two of the seven Action Items

Approval of proposed IAC Residential Six –tier Rate Structure (Attachment F)

Mr. Bardin asked whether there had been any public objections to the proposed change in the IAC residential structure. Staff reported none. The General Manager recommended passing this action item forward to the Board for final approval. The Committee agreed.

Approval of proposed expanded Customer Assistance Program (CAP) (Attachment G)

Mr. Bardin then asked the Committee to consider the last action item, Expansion of the Customer Assistance Program. CAP now applies only to volumetric sewer and water rates but not to the volumetric Payment in Lieu of Taxes (PILOT) and Right of Way (ROW) fees. The program exempts the first Four Hundred Cubic Feet (4 Ccf) of consumption. The pending proposal would also exempt the first 4 Ccf from PILOT and ROW fees. Mr. Bardin asked Mr. Adebo what the customer impact would be if the Board approved attachment G. Mr. Adebo referred to attachment B, slides 18 (bar graph), 17 (table), showing average monthly bills for CAP customers and slides 16, 15, showing average monthly bills for all residential customers. “Average” means a customer using 6.69 Ccf. In FY 2011 CAP

discounts would total \$30.08, reducing the monthly bill from \$60.19 to \$30.11 – assuming both expansion of the CAP program and approval of all the pending rate and fee changes. In FY 2010 CAP discounts now total \$24.48. CAP expansion alone would save customers using 4 Ccf or more four times the total PILOT/ROW fee, proposed to rise 6 cents to \$0.63 per Ccf (Attachment E), or \$2.52 per month.

Mr. Gibbs asked how much this change will cost. Mr. Adebo said in total CAP will cost the Authority approximately \$1.9 million annually, including water and sewer discount plus PILOT and ROW. This proposed expansion alone would cost about \$180,000.

Dr. Cotruvo expressed some concern about linking the CAP benefit specifically to the PILOT and ROW, and he asked if this would affect the negotiating position with DC on those issues. General Manager Hawkins said he did not think it would conflict. Chairman Walker shared Dr. Cotruvo's concerns.

Mr. Roth asked General Counsel Russell: If it turns out that we can accomplish the same end result for the CAP customer by raising the exemption on the water and sewer charges to 4.5 Ccf, as opposed to 4 Ccf, without an expansion to the PILOT/ROW fees, would it be in order under rule making processes that the Board withdraw or defeat this resolution and replace it with a 4.5 Ccf exemption? Ms. Russell said the Authority cannot impose a rate or a fee that is above what the proposed rule making has noticed. Mr. Bardin stated that there was no notice of any change in the 4 Ccf as it applied to the volumetric water and sewer rate. Mr. Adebo stated that the Committee and the Board are trying to expand the CAP program's value to eligible customers; and while there are many ways to accomplish this goal, expansion of the program by exempting 4 Ccfs of the PILOT and ROW fees would be consistent with how the Board has expanded the program over time -- first through water, then sewer, and next, if approved, through PILOT and ROW.

Mr. Bardin suggested that committee members email Ms. Manley indicating other options they want explored for future CAP expansion and for now the Committee move the General Manager's recommendation forward to the Board. The Committee agreed.

Due to this discussion and subsequent emails, Mr. Adebo will prepare a new item for the Committee's FY 2011 Work Plan covering possible modifications and alternatives to the CAP in light of its history, current status, and goals.

FY 2011 Rate and Fee Proposals

Alternatives and Management Proposal (Attachment B)

Mr. Adebo stated that based on actual financial performance to date through June, 2010 staff has now updated its estimates of financial performance for the rest of the fiscal year. This information (current year financial performance), coupled with any major changes in financial assumptions for FY 2011 will help inform the decision making process for the final FY 2011 rates and fee changes. Mr. Adebo then proceeded to review the FY 2010 financial performance and management's proposal for rate and fee changes. On slide 3, Mr. Adebo indicated that in FY 2010 management projects that the Authority will end the year (on cash basis) with about \$15-20 million above the \$125.5 million operating reserve requirement. This result assumes the Authority fully draws down the \$28 million in Rate Stabilization

Fund (RSF) that was anticipated in FY 2010. Mr. Adebo then proceeded with a detail discussion of the major drivers of the financial performance. He indicated that the Authority anticipates ending the year below its revenue projections at about -0.3 percent (unfavorable) or a \$1 million less than the anticipated revenue projections; while operating expenditures are projected to be about \$18 million less (favorable) than budget. Mr. Adebo then went through the next few slides, describing in detail a line by line comparison of FY 2010 projections versus budget.

Next, Mr. Adebo briefed the committee on changes in assumptions made to the In FY 2011 approved budget and financial plan. He stated that the Authority continues to experience larger than anticipated decline in consumption, ranging between 3 – 4 percent in FY 2010. The current FY 2011 budget only anticipated a 1 percent decline in consumption compared to FY 2010 consumption. Based on current trends in consumption, the FY 2011 revenues have been lowered (additional 2%) to reflect the lower consumption experience in FY 2010. The \$4.2 million in assumed reduction in revenues in FY 2011 is essentially the additional 2 percent reduction in Ccf coupled with 1 percent the Authority originally started with.

Mr. Roth asked if there is any way of knowing whether the decline in consumption was uniform across all customer types or primarily driven by some customers? Mr. Adebo said that the Authority is able to discern consumption trends by customer type. In FY 2010 Commercial customers are showing the highest decline in consumption, of about 3 percent compared to previous year, while Residential customer consumption declined by about 1.5 – 1.8 percent compared to previous year.

Mr. Hawkins then summarized of different options for using the \$15 million – \$20 million projected surplus. Mr. Hawkins noted that in all options a portion of the surplus will need to be refunded to wholesale customers ranging from \$3.8 million - \$5.0 million pursuant to contractual true-up provisions. Also, an additional \$8.5 million (\$2.6 million had been previously anticipated) would be needed from the RSF (bringing total RSF use to \$11.1 million) to provide contingency funding for 3 potential activities: (1) \$3.2 million to provide funding to cover the Federal share of the IAC charges which is currently being disputed; (2) \$4.2 million to provide funding for the additional anticipated consumption decline; (3) \$2.0 million to cover the decline in developer charges.

Mr. Bardin said that the Finance and Budget Committee had learned at its meeting the previous week that the Authority has run deficits in terms of generally accepted accounting principles (GAAP), as contrasted with cash accounting, and will do so in FY 2010, too. In his judgment, leaving part of the budgeted \$28 million in the RSF instead of taking it all out in late FY 2010 but then returning a portion in early FY 2011 (consistent with past practice) may offer a better way to present results – without circumscribing Board retail rates options.

Ms. Roberson asked for the customer bill impact from implementing the proposed rate and fee changes. Mr. Hawkins answered that the average residential bill will rise to \$60.19 per month in FY 2011 from the current \$51.53, or an increase of \$8.66. He also noted that the average CAP customer bill would go up to \$30.11 per month in FY 2011, from \$27.05 in FY 2010, or an increase of \$3.06. These averages are based on 6.69 Ccf monthly usage.

Ms. Roberson asked, what the average customer bill would be if DC Water did a buy down of about 1 percent of the volumetric sewer and water rate, reducing the increase from 12.5

percent to 11.5 percent. Chairman Walker and Mr. Bardin calculated reductions of about 50 cents a month taking the total bill down from \$60.19 to about \$59.69. [1% of \$60.19 total bill in FY 2011 = \$0.60; 1% of \$40.94 volumetric sewer and water bill in FY 2010 = \$0.41.]

Review and Consider Public Comments (Attachment C)

Mr. Bardin distributed a one-page summary of some public comments and asked Ms. Manley to include it in the record of this Committee meeting.

Mr. Bardin thanked both Ms. Manley and Mr. Adebo for the materials provided on the rulemaking process and activities, including written comments and testimony from the Board's public hearing that Chairman Walker chaired on June 9, 2010. Mr. Bardin urged the General Manager to intensify pursuit of measures to ease rate burdens on customers generally, with sensitivity to residents living on fixed incomes and limited means. The Committee was open to exploring long-term ways to provide relief for customers, such as more Congressional funding. Mr. Bardin asked the General Manager to prepare and circulate to the Committee a draft resolution along those lines for possible consideration at the September Board meeting.

Five remaining Action Items

FY 2011 Rate & Fee Changes (effective October 1, 2010) (Attachment E)

The Committee agreed to move all five of the following actions forward to the Board, as recommended by the General Manager.

- a) An increase in the volumetric Retail Water rate from \$2.51 to \$3.10 per Ccf
- b) An increase in the volumetric Retail Sewer rate from \$3.61 to \$3.79 per Ccf
- c) An increase in the annual Impervious Surface Area Charge (IAC) from \$26.88 to \$41.40 per ERU, to be billed monthly at \$3.45 per ERU
- d) An increase in the Right of Way/Payment in Lieu of Taxes fees from \$0.57 to \$0.63 per Ccf
 - i. Proposed change would affect only PILOT fee component, leaving Right of Way fee component unchanged
- e) An increase in the Customer Metering Fee from \$2.01 to \$3.86 for the standard 5/8" meter and varying proportionately according to other meter sizes

Review and Update BOD Resolution for Rate Setting

Rate Setting Pricing Objective Discussion (Attachment D)

Mr. Adebo introduced both presenters to attachment D: Ms. Downs (staff), Jon Davis & Rocky Crawley (RFC) as the presenters for the rate setting policy. He stated that this is a very important step in setting clear objectives and fostering better understanding of the direction the Authority is going. The board and committee over time has expressed a lot of interest in different types of rate structures and discussed different priorities including the recent discussions about how the Authority fees and charges compares to other similar entities. Mr. Adebo stated that the first step in helping the Authority prioritize how to proceed was by revisiting Rate Setting Policies articulated in the 1997 Resolution #97-124.

He indicated that the presentation today was primarily educational and should allow needed input from the Committee. He also stated that there will be a rate setting workshop on Tuesday, June 28, 2010 with Raftalis (RFC), CFO staff and key Authority stakeholders to further inform the priority setting process. Mr. Davis then began by introducing himself and his firm and their extensive experience in water and sewer rate setting, and then Ms. Downs updated the Committee on the rate policy design process by listing key areas.

- Define Goals and Objectives “Pricing Objective”
- Understand Utility and Service Area Characteristics
- Weigh and Prioritize Goals and Objectives
- Evaluate Rate Structure Components and Alternatives
- Formalize Updated Rate Policy
- Develop and Implement Administrative Guidelines

After an extensive presentation which also involved Committee discussion and feedback, Ms. Downs concluded by listing the next steps:

- 1) Prioritization of Pricing Objectives
 - a) Committee and Board feedback (July 2010)
 - b) Staff recommendation (September 2010)
- 2) Formalize Rate Setting Policy Review
 - a) September/October 2010

Dr. Cotruvo stated that one of the directions the Authority should consider is to desensitize revenues from reductions in consumption which seems to be the trend. Also, as related to the infrastructure the Authority should think of earmarking the cost to maintaining and upgrading it and find some ways to reflect that in rates, rather than having it funded incrementally from general revenues. This could improve the customers’ understanding and support for rate increases.

Mr. Bardin called attention to issues discussed in earlier parts of the meeting, including issues raised by committee members as to the CAP. He also pointed out that some public comments during the current rate cycle speak to rate design priorities, such as the proposal for more rate class differentiation than the current “Residential” or “Commercial” seem to provide.

Mr. Bardin asked Ms. Manley to send Board members an email coupled with attachment D stating that attachment D was presented and discussed with the Committee, but staff will work with consultants and report to the Committee at its September 28, 2010 meeting.

Emerging Issues

Other Business

Adjournment

Hearing no further business, Chairman Bardin adjourned the meeting at 1:47pm