



DISTRICT OF COLUMBIA

Board of Directors

PUBLIC HEARING ON Proposed Retail Rate & Fee Increases for Fiscal Year 2013

*Wednesday May 9, 2012
6:30 p.m.*

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

1. Call to OrderWilliam M. Walker, Chairman
2. [Opening Statement](#)William M. Walker, Chairman
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 StatementWilliam M. Walker, Chairman
7. Adjournment

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 WILLIAM M. WALKER, ESQ.
BOARD MEMBER
DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY**

**WEDNESDAY, MAY 9, 2012 AT 6:30 P.M.
METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
777 NORTH CAPITOL STREET, NE**

Good evening. My name is William M. Walker and I am the Chairman of the Board of the District of Columbia Water and Sewer Authority (DC Water). We are here to receive public comment on DC Water's proposed Fiscal Year 2013 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 \$0.47 per Ccf. (or about \$ 0.63 per 1,000 gallons of water.) The Clean Rivers impervious surface area charge (IAC) would increase from a monthly fee of \$6.64 per ERU to \$9.73 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 \$0.64 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 about one penny per gallon.

The proposed rate and fee adjustments were published in the D.C Register on February 17, 2012, 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 water and sewer 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, twelve of the sixteen 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 expanded 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 2013.

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 hearing transcript*, they must be received no later than June 8, 2012.

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 5, 2012)

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 will be posted on DC Water's website tomorrow. 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 9 2012 AT 6:30 P.M.
METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
777 NORTH CAPITOL STREET, NE**

Good evening Chairman Walker, 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 over 1,000-strong workforce I call Team Blue, in delivering a life-giving service to more than 18 million people who live, work and visit the nation's capital every year.

The following are my prepared remarks on the proposed DC Water retail rates for Fiscal Year 2013, which begins October First.

The proposal before you tonight is to adjust the retail rates and fees, new pretreatment fees, fire protection fees and ground water in FY 2013 in accordance with the chart before you:

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



2012 Town Hall Meetings Feedback

Questions and Comments	
IAC	5
Finance & budget	7
Billing	19
General	15
Hydrants	1
Project-related concerns	17
Water quality	13
Infrastructure	8
Lead	1
Clean Rivers Project	8
CSOs	3
Water pressure	1
CAP	3

	Very Effective	Somewhat Effective	Not Effective
How effective was this meeting?	59	15	1

"I feel better knowing the direct costs affecting my water bill."

	Yes	No	N/A
Do you have a better understanding of DC Water?	73	4	9
Do you have a better understanding of DC Water	59	13	11

"Thanks a million for the great info on what DC Water is doing"

"This is good community outreach. Keep it up."

"Great presentation. Education on the issues and work is tremendously helpful."

	Units	Actual FY 2011	Actual FY 2012	Proposed FY 2013
DC Water Retail Rates Water	Ccf	\$ 3.10	\$ 3.24	\$ 3.45
DC Water Retail Rates Sewer	Ccf	\$ 3.79	\$ 3.96	\$ 4.22
DC Water Clean Rivers IAC	ERU	\$ 3.45	\$ 6.64	\$ 9.73
DC Water Customer Metering Fee		\$ 3.86	\$ 3.86	\$ 3.86
District of Columbia PILOT Fee	Ccf	\$ 0.49	\$ 0.49	\$ 0.52
District of Columbia Right of Way Fee	Ccf	\$ 0.14	\$ 0.15	\$ 0.16

These rate adjustments are necessary in order to provide the revenues necessary to support the authority expenditures in FY 2013 that are estimated to be \$456.8 million. This represents a \$41.4-million increase over the revised Fiscal Year 2012; the major drivers include 26.1% increase in debt service to support our Capital Improvement Plan and a 4.2% 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 broke ground on the first tunnel last 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.

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.

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.

In an effort to recover costs and appropriately charge for all services, DC Water is proposing to increase the fire protection service fee to \$770 per hydrant. This charge is paid to DC Water by the government of the District of Columbia for fire protection services including the delivery of water for firefighting, maintaining and upgrading public hydrants, and fire hydrant inspections. The increased fee more accurately reflects the true cost of these services provided by DC Water. In addition, the Authority has also proposed an increase in the groundwater fee for new construction projects to \$2.33 per Ccf. This fee accounts for groundwater discharged into the District's wastewater sewer system during construction activities. DC Water has also proposed new pretreatment fees for the industrial users. Designated industrial users of the wastewater system currently take advantage of the permitting, sampling, and inspection services provided by DC Water's pretreatment group. This new fee will recover the costs to the Authority for providing this service.

The Board proposed the new retail water and sewer rates in February for public comment. Our rate proposal takes the average residential customer bill up \$6.50

a month – to \$72.12. 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.

Residents were again informed of the town hall meetings through the use of automatic “robo” calls to invite any person who had contacted us in the last year to the meeting associated with their address. This strategy continued to be successful in attracting robust public participation, including a number of DC Councilmembers, ANC Commissioners and community leaders.

At the town hall meetings, 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 2013. I fielded questions from the crowd and answered whenever possible, and at times referred the questioner to additional staff with us in the room. A total of 180 participants elected to sign in at the town hall meetings.

(DISPLAY SLIDE WITH TOWN HALL PARTICIPANT FEEDBACK)

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, the Long Term Control Plan, infrastructure, and finance and budget issues. We noted that the public input process culminates in this formal hearing by the Board.

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 slightly higher than the median of water bills in other large cities. Also, a newly published American Water Works Association (AWWA) 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 1.37% of the median income and has DC Water listed as 1.39%.

Despite this 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, in addition to a discount on the right of way (ROW) and Payment in lieu of Taxes (PILOT) fees on their bill. Since it began, participation in CAP has continued to increase. In FY 2011, a total of 6,025 households received a discount on their monthly bills. 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.

Mr. Chairman, this concludes my prepared remarks. As always, I want to thank you and the other Board members for your careful attention to the financial

Testimony of George S. Hawkins, Esq. · May 9, 2012

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 2013

DC Water Public Hearing
May 9, 2012



Amawalk
Consulting Group LLC



Outline

- Objectives of Independent Review
- Review Methodology
- Historical Budget vs. Actual Results
- Summary of FY 2013 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 (CRIAC) would generate sufficient revenues to meet operational and capital project financing needs in FY 2013.
- Ensure that water and sewer rates and the CRIAC 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 fifth 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.

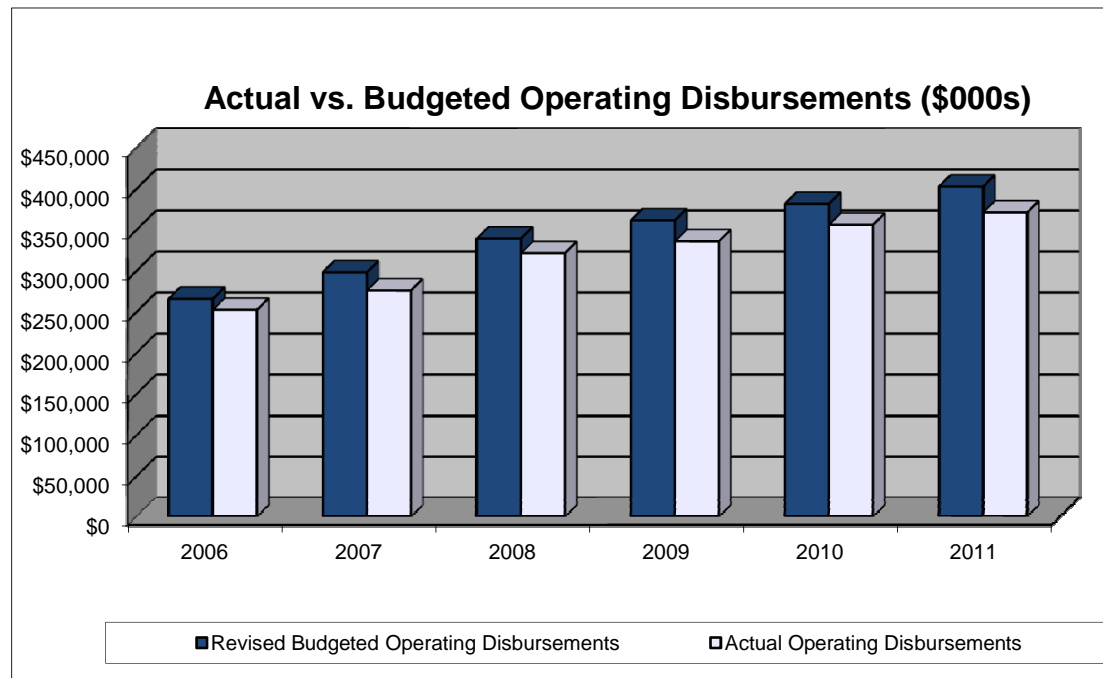
Slide 2

Review Methodology

- Review background documents including, but not limited to, the following:
 - Revised FY 2012 and Approved FY 2013 Operating Budgets;
 - Year-to-date operating cash flow and construction cash flow;
 - FY 2011-2020 Capital Improvement Program (CIP);
 - Official Statement for the Fiscal Year 2012 Bonds;
 - FY 2011 Comprehensive Annual Financial Report;
 - Applicable Board Resolutions and the Public Hearing Presentation Document.
- Review the DC Water FY 2012 and FY 2013 Financial Plan spreadsheets and Fiscal Year 2012 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 interviews 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 CRIAC.
- 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

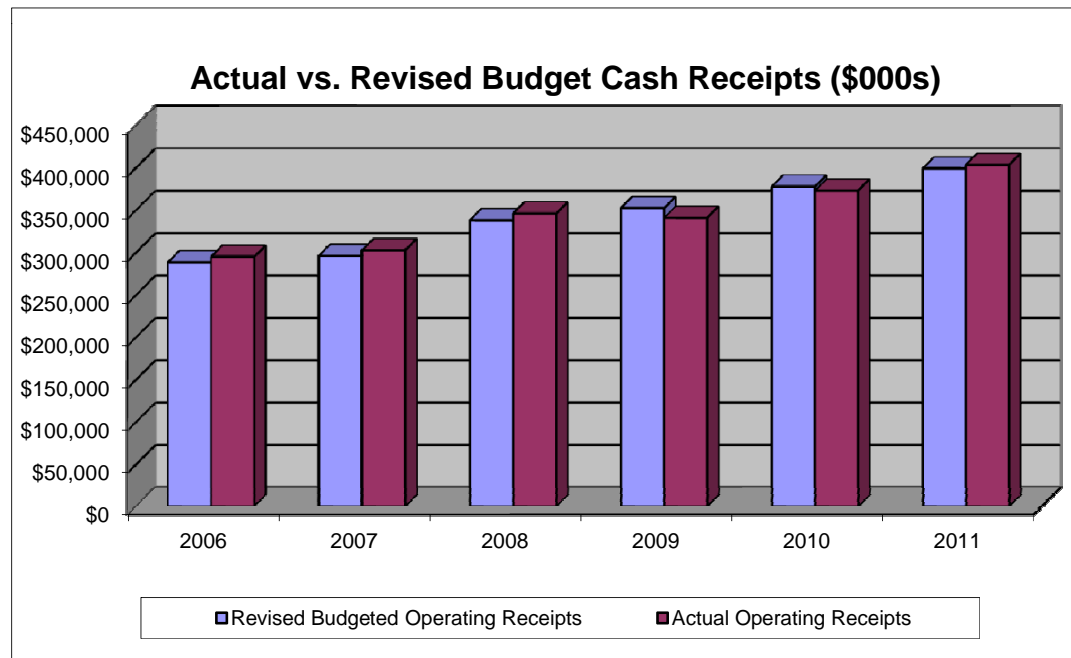
- Actual expenditures for FY 2006 – FY 2011 have been about 5% - 7% lower than budgeted amounts in each year. Underspending can free-up cash which may be used to offset declines in revenue (where applicable), cover unforeseen increases in costs and/or mitigate rate increases.
- FY 2012 year-to-date actual expenditures (through 3/31/12) are about 11% 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.



Slide 4

Historical Receipts: Budget vs. Actual

- Actual cash receipts for FY 2006 – FY 2011, in aggregate, were 0.4% higher than the budgeted amounts for this six year period.
- Actual cash receipts for FY 2011 were 1.2% higher than budgeted.
- FY 2012 year-to-date actual cash receipts (through 3/31/12) are about 4.5% lower than DC Water's budget expectations
- This track record offers a degree of comfort that revenue estimates are prudently developed.



Slide 5

Summary of FY 2013 Rate Proposal

	FY 2012	FY 2013
Water	\$3.24 per Ccf	\$3.45 per Ccf
Sewer (Excluding CRIAC)	\$3.96 per Ccf	\$4.22 per Ccf
Combined	\$7.20 per Ccf	\$7.67 per Ccf
CRIAC	\$6.64 per ERU	\$9.73 per ERU

- DC Water proposes a 47 cent per 100 cubic feet (Ccf) increase in combined water and sewer charges for FY 2013 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 CRIAC would increase by \$3.09 per month per ERU from \$6.64 per ERU to \$9.73 per ERU as shown in table above. A six-tier CRIAC rate structure for residential customers is used by DC Water to enhance the equitable distribution of the cost of service.

Summary of FY 2013 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 \$0.15 to \$0.16 per Ccf and an increase of 3 cents per Ccf to the Payment in Lieu of Taxes (PILOT) fee due to the DC government from \$0.49 to \$0.52 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 \$65.62 to \$72.12, an increase of \$6.50 or about 21 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 2013 but the value of the CAP discount to eligible ratepayers will increase with the proposed changes in rates.
- DC Water is considering a proposal to introduce wastewater pretreatment 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

Compliant ?	Description	Legal Covenant	Performance Target	FY2011 Projection Performance	FY2012 & 13 Targets
☑	Senior Debt Service Coverage	120%	140%	321%	278% & 232%
☑	Operating Cash Reserves	N/A	Greater of 120 days of O&M costs or \$125.5 million	Average daily balance of \$140.2 million	Greater of 120 days of budgeted O&M costs or \$125.5 million
☑	Investment Performance	N/A	Exceed 3-month Treasury Bill rate by at least 15 basis points (bps)	Exceeded by 54 bps	> Merrill Lynch 3 month and 1-3 year US Treasury Index by at least 25 bps
☑	Water and Sewer Rates	Revenues must be sufficient to cover: operating expenses, senior and sub debt service, amounts necessary to maintain DSRF and ORF levels, and any annual PILOT payments	Each customer will be charged for the actual cost to provide each service, and rate increases will be reliable 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
☑	Rate Stabilization Fund (RSF)	N/A	Help to avoid spikes in rate increases for retail customers	Utilized \$9.5 million of the RSF, leaving a remaining balance of \$16.7 million. Full Utilization of RSF in FY 2020	Projected at \$22.45 million at end of FY 2012.

During FY 2011, DC Water met or exceeded the financial goals set by the Board and the FY 2011 – 2020 financial plan. Senior debt service coverage, reserve levels, and budget performance met or surpassed Board policies.

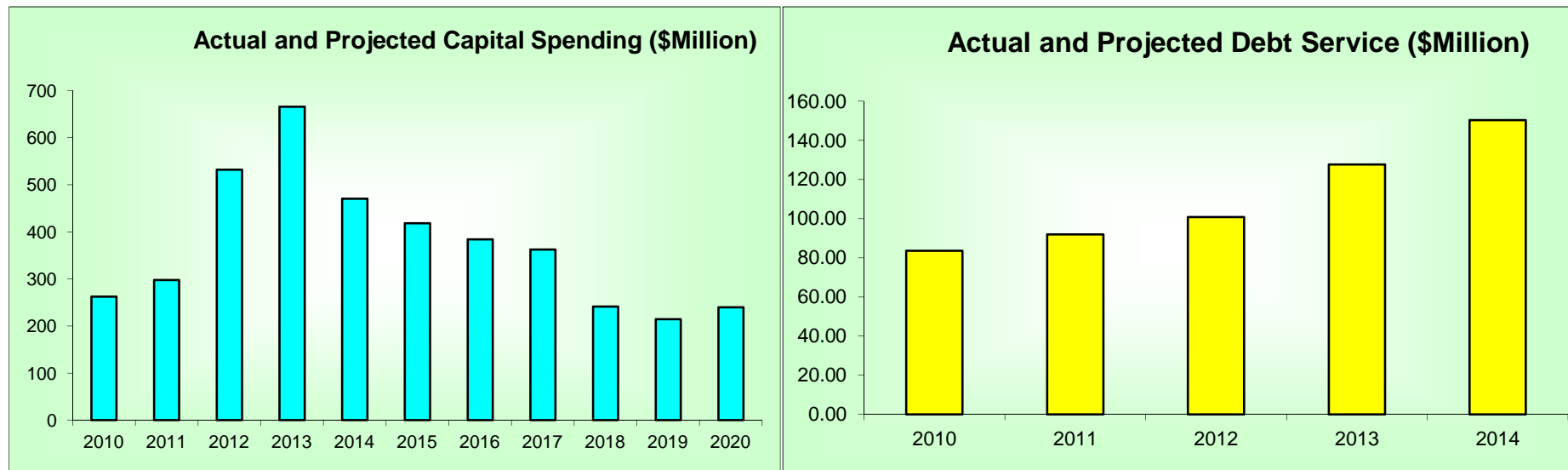
Slide 8

Why is a Rate Increase Necessary?

- There are three principal factors driving the proposed increase in rates:
 - Increased capital spending which is being funded primarily through the proceeds of bonds, resulting in an increase in principal and interest payments (debt service) on DC Water's bonds;
 - Increases in operating expenses; and
 - Water conservation by customers – most revenues are derived from water consumption-based charges
- The following slides provide additional information regarding each of these factors.

Why is a Rate Increase Necessary – Capital Investment

- DC Water is investing in its water and sewer infrastructure to ensure that high quality services are provided on a reliable basis.
- 43.7% of DC Water's planned capital improvements are legally mandated.
- Debt service payments increase by \$26.85 million from FY 2012 to FY 2013 in the financial plan.
- Debt service is an increasing % of total disbursements: 29% in FY 2013.
- The rate increase takes into account current and long-term obligations.



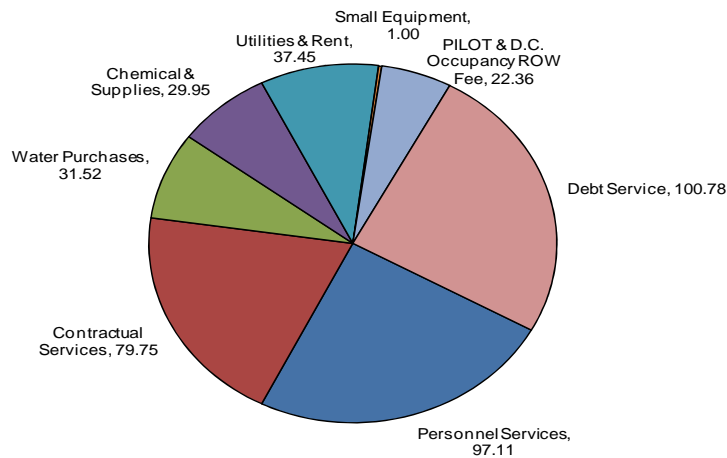
Note: The actual and projected debt service above excludes the debt service savings from the Series 2012 Bonds which advance refunded the Series 2003 Bonds. See Slide 14 for details. Slide 10

Why is a Rate Increase Necessary – Expenses/Debt Service

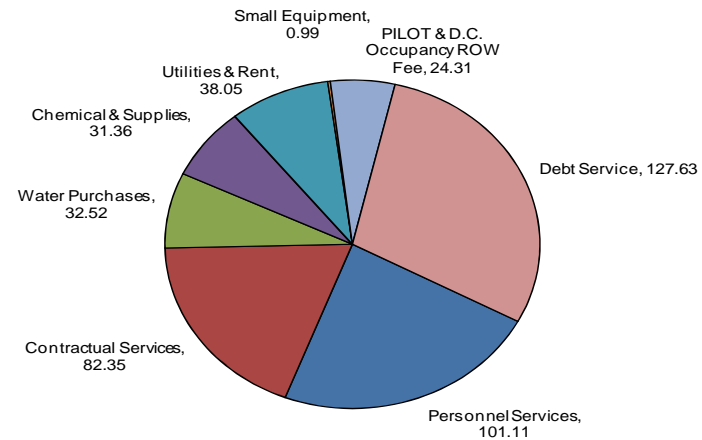
- The largest increase in costs is for debt service. Debt service is expected to increase by \$26.9 million or 26.6% for FY 2013.
- Total O&M expenses for DC Water (cash basis) are expected to increase by \$9.6 million or 3.5% for FY 2013.

O&M Expenditure (\$ M)	FY 2012 Revised Budget	FY 2013 Approved Budget	Change	Change (%)
Personnel Services	97.1	101.1	4.0	4.1%
Contractual Services	79.7	82.4	2.6	3.3%
Water Purchases	31.5	32.5	1.0	3.2%
Chemicals & Supplies	29.9	31.4	1.4	4.7%
Utilities & Rent	37.4	38.0	0.6	1.6%
Small Equipment	1.0	1.0	0.0	-0.2%
Total	276.8	286.4	9.6	3.5%
PILOT/ROW Fees	22.4	24.3	1.9	8.7%
Debt Service	100.78	127.63	26.9	26.6%
Total Operating Disbursements	399.91	438.32	38.4	9.6%

FY2012 Projected Total Operating Disbursements
(Cash Basis in \$Million)

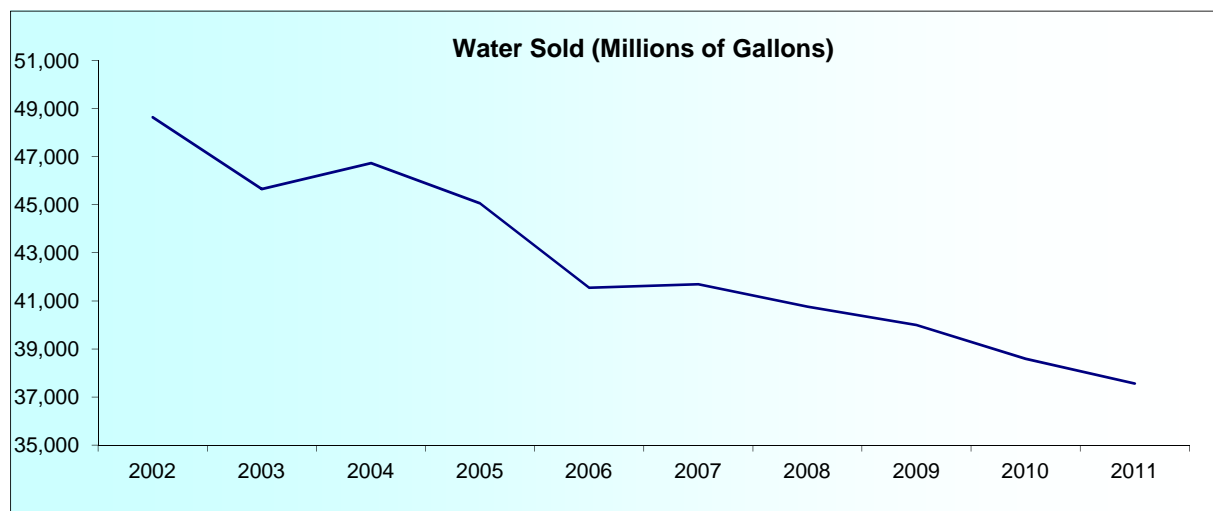


FY2013 Projected Total Operating Disbursements
(Cash Basis in \$Million)



Why is a Rate Increase Necessary – Conservation Efforts

- About 63% of DC Water's total cash receipts in FY 2013 is expected to come from retail charges excluding transfers from the RSF and revenues from the federal government.
- Long-term retail water demand has been slowly declining; year-to-year changes are uneven depending on weather and other factors.
- Year-to-date water sales through 3/31/12 are 4.9% lower than the previous year, greater than the assumed 2.2% decline for FY 2012.
- Areas outside the District as well as in New York and Boston are also experiencing long-term declines in consumption.
- It is assumed that water usage declines by 1% in FY 2013 compared to the assumed FY 2012 demand.



Slide 12

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

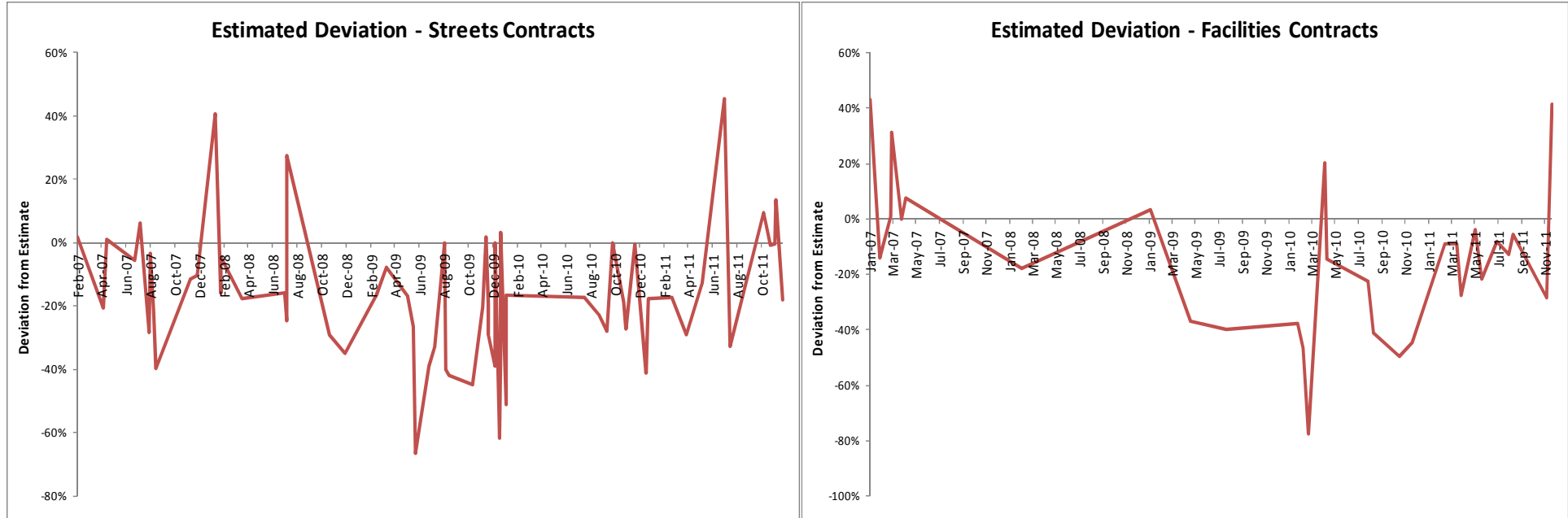
- Traditionally underspending its operating budget and applying the savings to the RSF or capital construction (which reduces the need for borrowing & the resulting debt service on additional bonds).
- Locking in electricity prices based on its analysis of market conditions.
- Examining methods of optimizing energy use.
- Adding some new DC Water personnel in lieu of retaining more expensive contractor staff to support the CIP.
- Analyzing techniques to optimize the use of and purchasing strategies for chemicals.
- Evaluating options to optimize planning for certain capital projects.
- Assessing the adequacy of the allocation of charges to IMA customers.
- Evaluating potential innovative sources of revenue.

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

- Seeking opportunities to refund outstanding debt when market conditions offer the potential for future debt service savings – DC Water recently issued bonds to advance refund its Series 2003 Bonds, resulting in debt service savings of approximately \$1.2M per year over the life of the bonds.
- Proposing the increase of miscellaneous fees & charges to better reflect the cost to provide those services & thereby reducing the amount of revenue to be raised from general rates and charges.
- Seeking USEPA grants and other federal appropriations to reduce the capital costs that have to be funded by ratepayers. DC Water expects to use a total of \$311.4 million in federal grants and appropriations towards the FY 2011 – FY 2020 CIP including a cumulative federal appropriation towards the LTCP of \$168.6 million as of March 2012.

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.
 - Actual bids, on average, were lower than estimates: FY 2011: 14% lower for facilities contracts and 8% lower for streets contracts; FY 2010: 35% lower for facilities contracts and 32% for streets contracts.



Slide 15

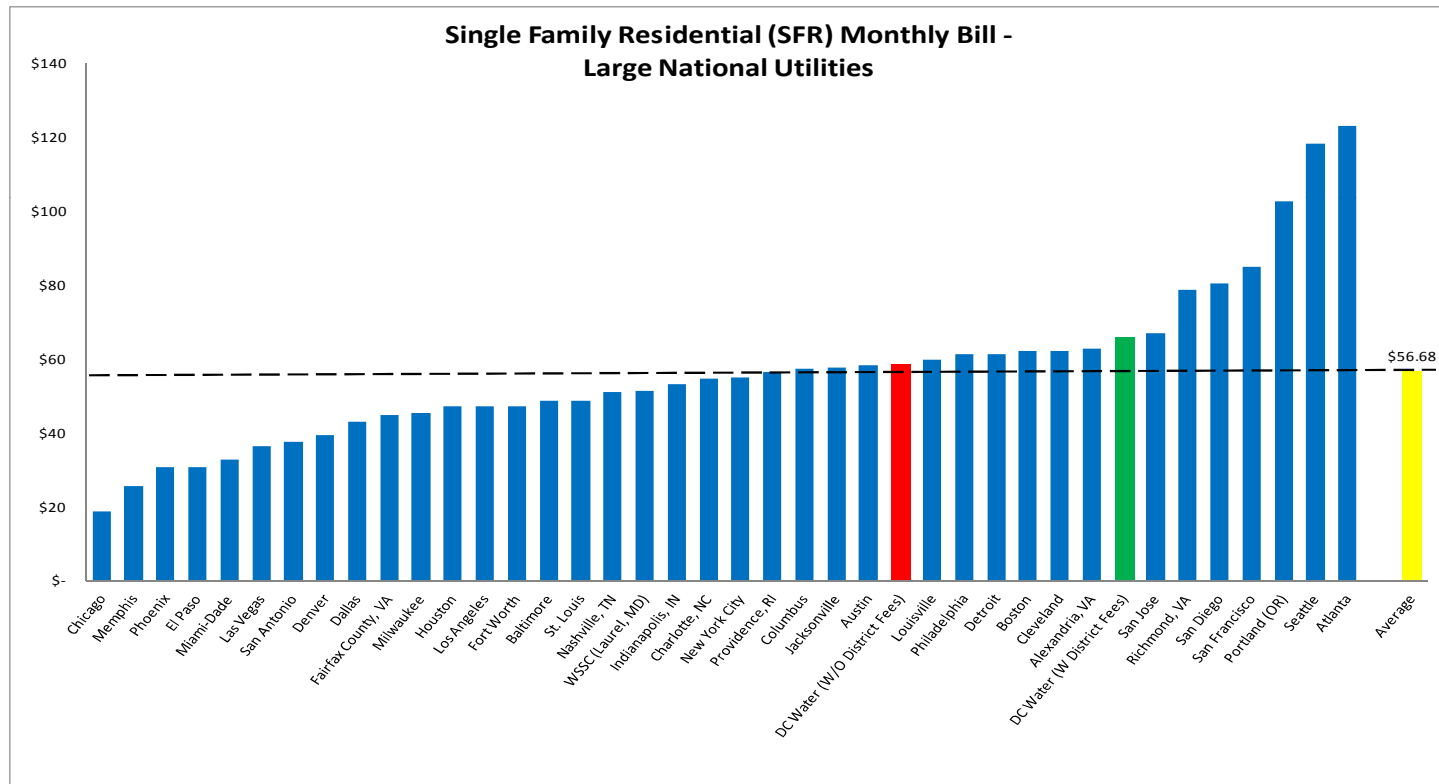


How Does DC Water Compare? – CIP

- Water & sewer systems across the country are spending significant capital dollars to meet regulatory standards and maintain system dependability.
- DC Water is in a similar situation: federal mandates are the principal drivers behind a CIP that expects to require an average of \$521 million per year in spending for the four year period of 2012 through 2015. For the five year period of 2016 through 2020, the average CIP spending per year is expected to decline to \$288 million.

How Does DC Water Compare? – Annual Average Residential Bill

- DC Water's charges for single family residential customers are comparable or a little higher to that of other large cities. DC Water total charges include pass-through charges for DC government for stormwater & 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.

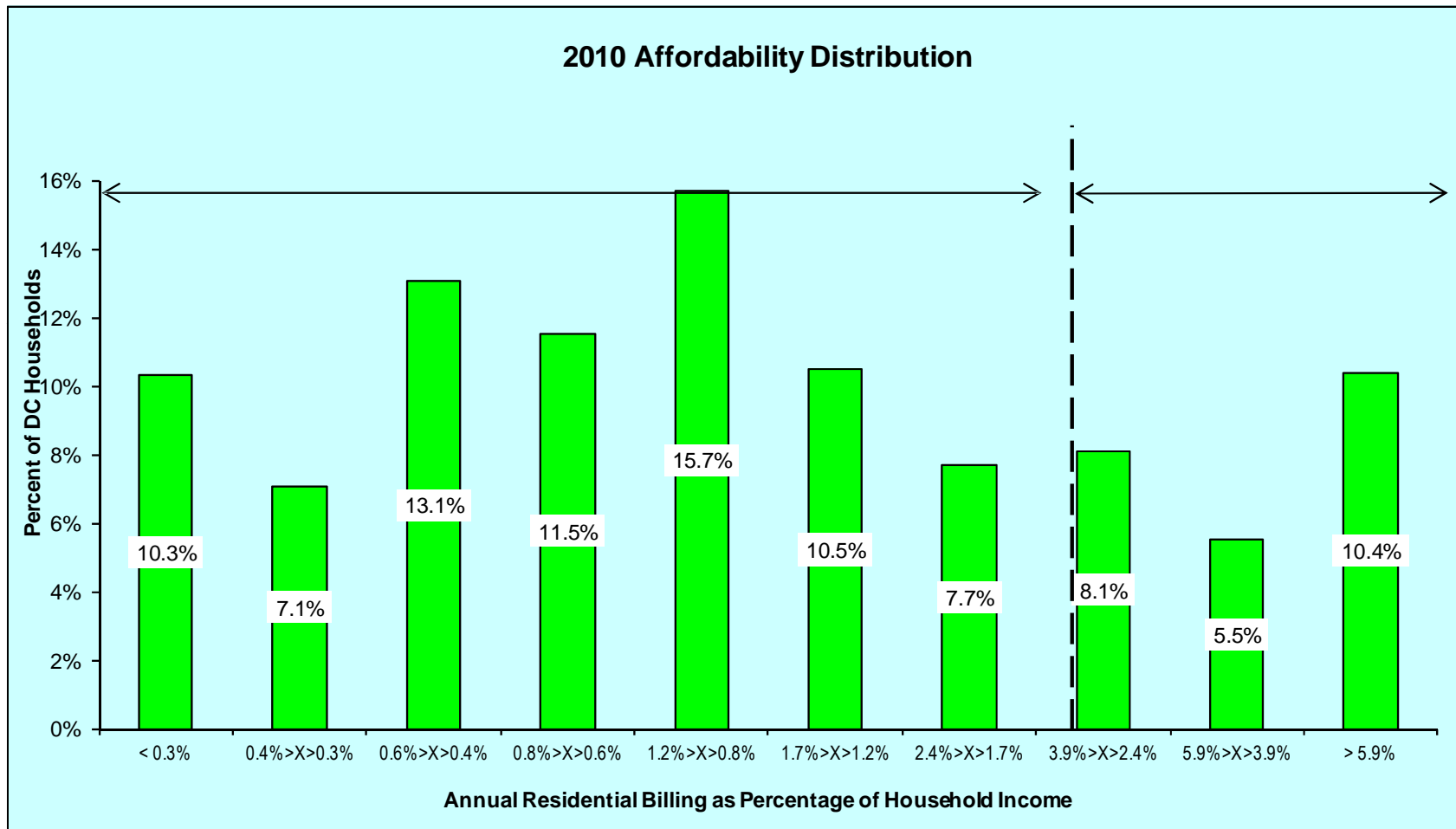
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Affordability of Water/Sewer Charges

- 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.
- About 76% of DC Water households spend less than 2.4% of their household income on water and sewer charges as shown in the chart on the next slide. Of the 24% that show charges greater than 2.4%, it is anticipated that many of those households are renters that do not pay a water/sewer bill directly.
- For those households that directly pay a water/sewer bill, DC Water's CAP program helps customers whose water/sewer bills are a high percentage of their household income.

Affordability of Water/Sewer Charges



Source: 2010 American Community Survey, assuming residential consumption of 6.69 Ccf monthly and excluding District stormwater charges. Income data from 2010 represents the latest available data.

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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 2011, the CAP provided \$1,380,207 in assistance to 6,025 customers.
 - Through the first two months of FY 2012, the CAP has provided billing credits totaling \$60,898 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) - administered by Greater Washington Urban League
 - In FY 2011, DC Water provided assistance to over 300 customers totaling \$100,030.
 - Through the first two months of FY2012, DC Water has receive contribution of \$16,666.

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Assumptions/Factors to Consider Concerning FY 2013 Rates

- Year-to-date revenues through March 31, 2012 are \$9.6 million or 4.5% below the expectations for this period. Year-to-date expenditures are \$15.2 million or 11.0% 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 (i.e., 5% to 7% below budget) which will provide a greater than expected surplus at the end of the year.
- Multi-year projections and the RSF are tools that DC Water uses to smooth out rate increases and minimize rate shock. Given this perspective and the balance in the RSF (which is reasonable but not unlimited), 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 2014 and FY 2015, currently projected at about 5.0% and 6.5%, respectively, and the projected increases in the CRIAC to \$14.52 and \$17.66 per ERU, respectively.

Assumptions/Factors to Consider Concerning FY 2013 Rates

- Prior to any deposits to the fund from possible underspending in FY 2012, it is currently anticipated that DC Water's RSF will have a balance of \$22.45 million at the end of FY 2012; such funds will provide flexibility in FY 2013 should adverse circumstances be encountered.
- DC Water began billing the CRIAC in the last five months of FY 2009. The total CRIAC revenue collected was \$8.0 million for FY 2010 and \$15.7 million for FY 2011. YTD FY 2012 (through March 31, 2012) DC Water collected \$14.6 million in CRIAC revenue; the budgeted CRIAC revenue for the year is \$29.7 million. The CRIAC revenue, together with the revenue from the fixed charges for meters, are not reliant on water consumption and therefore offer a protection against revenue fluctuation due to changes in water consumption.
- 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. However, thus far, DC Water has maintained its collection rate.

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Conclusions

- DC Water's proposed water, sewer and impervious area rate projections have been reasonably developed, reflect the anticipated revenue requirements of the System, adhere to Board policy and are 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.
- 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 2012 results (through March 31, 2012) show a 4.9% decrease in consumption. If the decline in consumption continues or usage declines at a faster rate, FY 2012 and FY 2013 revenues could be impacted and future rate increases, including FY 2013, may need to be higher than currently projected. DC Water's RSF and potential underspending in 2012 expenses can provide some flexibility in case of an adverse revenue impact due to higher than expected decline in consumption.
- Ongoing changes in miscellaneous fees and new charges 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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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 9, 2012 @ 6:30 p.m.						
Name	Ward	[Check if present]	Individual	Organization Represented	Date Rec'd	Time
1. David J. Bardin	3		Yes		05/01/12	9:33 a.m.
2. Veronica Burwell	8		Yes		05/03/12	11:11 a.m.
3. John Bunn	8		No	Congress Heights Main Streets 3127 M L King Avenue, SE	05/04/12	7:35 a.m.
4. Nicola Whiteman, Esq.	2		No	Apartment and Office Building Association of Metropolitan Washington	05/07/12	3:31 p.m.
5. Yvette McCoy	4		Yes		05/07/12	5:18 p.m.
6. Rebecca Renard	8		Yes		05/09/12	7:22 a.m.