



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Retail Rates Committee

July 1, 2004

9:00 a.m.

MEETING MINUTES

BOARD MEMBERS

Glenn S. Gerstell
Lucy Murray
Alexander McPhail
Michael Hodge
David Bardin
Alexis Roberson
Stephanie Nash

WASA STAFF

Jerry Johnson, General Manager
Michael Marcotte, Deputy General Manager
Wendy Hartman Moore, Interim General Counsel
Olu Adebo, Controller
Linda R. Manley, Secretary to the Board

Mr. Gerstell called the meeting to order at 9:05 a.m.

Proposed Five Percent Retail Rate Increase

Mr. Gerstell asked for the General Manager's report concerning the proposed five percent rate increase. Chairman Gerstell noted that the rate increase was initially proposed in October 2003 and that WASA has held several community meetings and a public hearing concerning the rate proposal. The Board will take action on the proposed rate increase in September, with rates effective October 1.

Dave Earley, the Authority's independent rate consultant, reviewed summary information previously discussed with the Board. The FY 2004 Cash Flow Summary provides a current picture of the Authority's financial situation. Mr. Earley also provided a comparison of several annual rate scenarios as compared to the base-line 10-year financial plan, which extends to 2012. The analysis considered the impact of a 6-year accelerated lead service replacement program and a 10-year program. In providing additional information concerning potential changes to the base 10-year plan, Mr. Earley explained the financial impact of accelerating the Combined Sewer Overflow Long-term Control program (CSO LTCP) by moving to a 25-year schedule as compared to the 40-year schedule assumed for the 10-year financial plan.

Mr. Earley also referenced a report that was provided to the D.C. Auditor during the bond document preparation phase, which provides a good summary of his analysis of the Authority's revenues for fiscal years 2004 and 2005. Based on that work and the expenses

that are being incurred for lead and the associated 2004 financial results, Mr. Earley provided a letter of recommendation, from an independent point of view, supporting the proposed 5 percent water and sewer rate increase for FY 2005.

Chairman Gerstell expressed his appreciation that Mr. Earley was in a position to independently validate management's assumptions and projections. Chairman Gerstell noted that WASA is about to issue \$280 million in revenue bond debt and in order to maintain WASA's high credit rating it is important that projections are accurate and that WASA is able to fulfill its financial obligations thereby enabling WASA to provide excellent service to this region.

Mr. Johnson added that WASA sponsored several sparsely attended community-based meetings and a public hearing to provide customers with an opportunity to voice any concerns they have on the proposed rate increase. All comments received were provided to the Board. It continues to be WASA's management recommendation to implement a 5 percent rate increase.

Chairman Gerstell asked for any comments concerning the charges per foot for lead service line replacements considered at the last Committee meeting. Mr. Johnson reported that the comment period closed on June 27. Wendy Moore confirmed that all comments received were provided to the Board. Chairman Gerstell stated that the Board would also take action concerning the proposed fees at its September meeting.

Customer Discount Alternatives

Chairman Gerstell acknowledged a proposal by a number of Committee members to consider a potential discount or alteration in the rate in light of the lead issue.

Mr. Johnson reported that staff did take a look at a number of options in response to the Committee's suggestion and noted that if management were to make any one of the changes it would require a ratemaking process.

Dave Earley reviewed six customer discount options that could be applied to either 118,000 active customers or 97,000 active single-family residential customers. The first option is a one-time free service for 1,000 gallons, which would pose a \$6.15 discount, with an approximate cost to WASA of \$.75 million. Other options include deferring the 5 percent rate increase for one month, which has a variety of impacts depending upon customers' usage, but would yield approximately \$2.00 in savings, with a \$1 million impact to WASA. Another option would provide 10 gallons per day, which would result in approximately \$1.84 customer savings per month, with an impact to WASA of \$2.6 or \$2.1 depending upon the customer group. Finally, Mr. Earley explained that the Authority's CAP program allows up to 4 ccfs of service at no charge to qualifying customers. If the CAP credit were applied the result would be a savings of \$18.36 per month, with an impact to WASA of \$2.2 million or \$1.8 million.

Alexis Roberson inquired concerning the cost to administer any of the options. Mr. Johnson responded that the impact would be a negligible, one-time type of effort that would require some computer programming to modify the billing for a cycle.

David Bardin offered his support of a 5 percent increase and explained that although it would be nice to forgo a rate increase, increasing capital costs, lead-related costs, and the potential depletion of WASA's rate stabilization fund warrant Board consideration of the rate increase. In addition, Mr. Bardin stated that he would consider a one-time credit to customers as a way of acknowledging that the water, provided to WASA from the Washington Aqueduct under the oversight of the U.S. Environmental Protection Agency, has caused customers some anguish. Mr. Bardin expressed regret that WASA did not do a better job communicating with customers concerning the lead issue and believes a one-time credit would be WASA's way of acknowledging customer's concerns with the lead issue.

Chairman Gerstell agreed with Mr. Bardin and added that customers were advised to flush their taps up to 10 minutes for those with known lead lines, which some customers consider a waste of water. Chairman Gerstell stated his belief that a 1,000-gallon discount would be a fair and reasonable approach and serve as an acknowledgement and a good will gesture to WASA's customers. In addition, Chairman Gerstell explained that the proposed rate increase would increase the residential customer's average monthly bill from \$38.41 by \$1.83 to a new average bill amount of \$40.24, which is consistent with the Board's policy of providing gradual and predictable rates.

Alexis Roberson stated that while she does agree with the 5 percent rate increase proposal, she does not agree with the proposal to provide customers a discount relative to the lead issue. Although she understands the intent of the proposal, Ms. Roberson questioned whether the \$1 million discount had already been factored into WASA's rate increase proposal. Dave Earley responded that the \$1 million is a modest reduction from \$10 million to \$9 million in income.

Lucy Murray asked if the discount proposes any legal or ratemaking problems to which Wendy Moore responded that there are no legal or ratemaking problems.

Committee Vote on Recommended Rate Increase and Customer Discount

After discussion, the Committee members voted to recommend a 5 percent rate increase for Board action in September and to endorse providing all 118,000 active customers with a one-time discount of 1,000 gallons with no water and sewer charges. Customer and Community Services Chairman, Alexander McPhail, asked that his Committee be given an opportunity to review the six current options and perhaps offer additional alternatives for Board consideration in September. Chairman Gerstell requested that Mr. McPhail report back concerning any additional options for consideration at the Board's September meeting.

Mr. Gerstell adjourned the meeting at 9:40 a.m.