



**DISTRICT OF COLUMBIA  
WATER AND SEWER AUTHORITY**

**Board of Directors**

*DC Retail Water and Sewer Rates Committee*

*Tuesday September 27, 2016*

9:00am

- 1. **Call to Order** .....Rachna Butani, Vice Chairperson
- 2. **Review 2016 Potomac Interceptor Cost of Service Study (Attachment A)** ..... Mark Kim
- 3. **DC Retail Water and Sewer Rates Committee Workplan** ..... Mark Kim
  - [FY 2016 Completed DC Retail Rates Committee Workplan \(Attachment B\)](#)
  - [FY 2017 Proposed DC Retail Rates Committee Workplan \(Attachment C\)](#)
- 4. **Other Business** ..... Mark Kim
- 5. **Executive Session**
- 6. **Agenda for October 25, 2016 Committee Meeting (Attachment D)**..Rachna Butani, Vice Chairperson
- 7. **Adjournment**

**FOLLOW-UP-ITEMS – DC Retail Water and Sewer Rates Committee Meeting (June 28, 2016)**

- 1. In the resolution section NOW THEREFORE BE IT RESOLVED THAT, add a numerical comment that the DC Retail Water and Sewer Rates Committee asked the Finance Committee to evaluate the proper steps to make sure that an expansion of the CAP program could be financially undertaken with reserved cash or RSF. (Mr. Hawkins) Status: Complete
- 2. Board requests the F&B Committee to consider the RRC’s recommendations regarding the use of net surplus funds for FY 2016 to: a) hold all or a portion of the funds in cash; or b) authorize use of all or a portion of the funds to lessen impacts of the escalating CRIAC fees; or c) designate all or a portion of the funds to increase funding for PAYGO capital funding. (Mr. Hawkins) Status: Complete

\* The DC Water Board of Directors may go into executive session at this meeting pursuant to the District of Columbia Open Meetings Act of 2010, if such action is approved by a majority vote of the Board members who constitute a quorum to discuss: matters prohibited from public disclosure pursuant to a court order or law under D.C. Official Code § 2-575(b)(1); contract negotiations under D.C. Official Code § 2-575(b)(1); legal, confidential or privileged matters under D.C. Official Code § 2-575(b)(4); collective bargaining negotiations under D.C. Official Code § 2-575(b)(5); facility security under D.C. Official Code § 2-575(b)(8); disciplinary matters under D.C. Official Code § 2-575(b)(9); personnel matters under D.C. Official Code § 2-575(b)(10); proprietary matters under D.C. Official Code § 2-575(b)(11); decision in an adjudication action under D.C. Official Code § 2-575(b)(13); civil or criminal matters where disclosure to the public may harm the investigation under D.C. Official Code § 2-575(b)(14), and other matters provided in the Act.



## 2016 Potomac Interceptor Cost of Service Study and Rate Update

District of Columbia Water and Sewer Authority

# DC Retail Water and Sewer Rates Committee Meeting

## September 27, 2016

# Agenda

- 1. Background**
- 2. Objectives and Methodology**
- 3. Study Results**
- 4. Explanation of Significant Rate Changes**
- 5. Recommendations**

# Background

- **The 86<sup>th</sup> U.S. Congress authorized the design and construction of the Potomac Interceptor (PI) on June 12, 1960**
- **DC Water charges the “PI Customers” (Dulles, National Park Service (NPS), Navy, Vienna) for wholesale wastewater treatment services pursuant to separate but similar Agreements signed in the 1960s**
  - These PI Customer Agreements are separate from the IMA agreements and the Loudoun County Sanitation Authority Agreement – no duplication of cost recovery
  - Under the Agreement, the PI Customers’ rates are to be adjusted periodically (three year or greater intervals)
  - Charges are based on a proportionate allocation of capital and operating costs and are to be recovered through a rate per million gallons of wastewater flow
  - PI Customers are billed quarterly, based on measured flow

# Objectives and Methodology

# Study Objectives

- **Determine costs of providing services to the Potomac Interceptor (PI) Customers**
  - True-Up for FY 2014 through 2016
  - Estimate costs of services and PI Customer flows for FY 2017 through 2019
  - Establish a rate for cost recovery for the FY 2017 through 2019

# Cost of Service Methodology

## Capital Cost Allocation:

$$\frac{\text{Annualized Capital Cost}}{\text{Reserve Capacity}}$$

=

Capital Cost Share

+

## Operating Cost Allocation:

$$\frac{\text{Annual Operating Expenses}}{\text{Annual Wastewater Flows}}$$

=

Operating Cost Share

Total PI User Costs

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Wastewater Flow (MG) = Rate / MG

# True-up and Cost of Service Study Results



# Operating Expenses Eligible for Inclusion in the PI Cost of Service

## ➤ Eligible operating costs are those related to:

- Wastewater treatment O&M
- Maintenance Services
- Sewer Services
- Distribution and Conveyance System
- Administration

Description	FY 2015 Actual	FY 2015 Eligible %	FY 2015 Eligible \$
<b>Operations</b>			
WWT Operations	\$73,078	95.0%	\$69,424
WWT - Process Engineering	7,030	95.0%	6,679
Maintenance Services	18,902	94.0%	17,768
Water Services	21,974	0.0%	-
Sewer Services	13,978	0.5%	70
Customer Service	17,009	0.0%	-
DDCS	45,543	12.5%	5,693
Engineering & Tech	23,040	0.0%	-
Clean Rivers	2,487	0.0%	-
Permit Operations	<u>2,075</u>	0.0%	<u>-</u>
<b>Subtotal Operations</b>	<b>\$225,116</b>		<b>\$99,633</b>
Administration	\$65,916		\$19,927
WSSC Biosolids	<b>\$2,730</b>		<b>\$2,730</b>
<b>Total (in \$000s)</b>	<b>\$293,762</b>		<b>\$122,290</b>

# Capital Expenses Eligible for Inclusion in the PI Cost of Service

- **Beginning in 2012 and 2013, there was a significant rise in eligible capital costs, such as:**
  - Nitrogen and biosolids projects at the WWTP
  - Tunnel / dewatering pump station projects

Fiscal Year	Potomac Interceptor	Potomac PS	Blue Plains WWTP	Montgomery County Composting Facility	Common to All CSO-Related	Common to All Sanitary Sewers
~ A portion of costs from 1985 to 2010 also eligible, but not shown here ~						
2011	\$ -	\$ -	\$125,879,000	\$ -	\$ 4,866,549	\$ 6,169,651
2012	-	-	253,305,000	-	5,987,308	6,683,662
2013	-	-	309,897,429	-	13,531,218	36,059,222
2014	-	-	315,943,137	-	19,918,688	20,098,132
2015	-	-	192,476,210	-	14,129,533	18,692,148
2016*	-	-	169,632,108	-	22,663,506	14,995,187

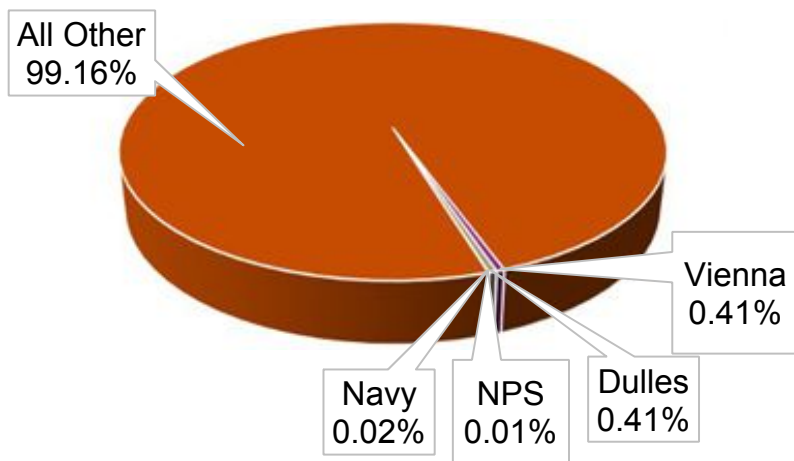
\*Estimated.

# Cost Share Basis

## Capital Cost Allocation:

### Reserve Capacity Share

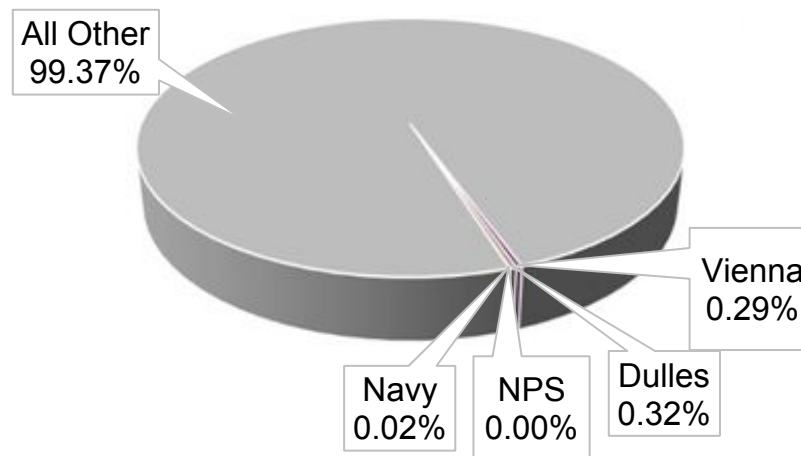
Capacity Share for Blue Plains WWTP



## Operating Cost Allocation:

### Annual Wastewater Flow Share

FY2015



# FY2014-FY2016 True-up Evaluation Results

Description	Vienna	Dulles	NPS	Navy
<b>FY2014 (Actual)</b>				
Recoverable Costs	\$1,097,182	\$805,982	\$23,384	\$48,706
Amount Paid	<u>1,089,914</u>	<u>823,819</u>	<u>29,682</u>	<u>53,112</u>
Difference	\$7,267	(\$17,837)	(\$6,299)	(\$4,406)
<b>FY2015 (Actual)</b>				
Recoverable Costs	\$1,180,321	\$821,172	\$24,513	\$51,590
Amount Paid	<u>1,151,459</u>	<u>726,327</u>	<u>29,382</u>	<u>52,394</u>
Difference	\$28,863	\$94,845	(\$4,869)	(\$804)
<b>FY2016 (Estimate)</b>				
Recoverable Costs	\$1,248,550	\$892,238	\$25,846	\$55,112
Amount Estimated to be Paid	<u>1,141,950</u>	<u>726,232</u>	<u>29,532</u>	<u>52,560</u>
Difference	\$106,599	\$166,007	(\$3,686)	\$2,552
<b>Total Underpayment (Overpayment)</b>				
	<b>\$142,729</b>	<b>\$243,015</b>	<b>(\$14,853)</b>	<b>(\$2,658)</b>

# **WASTEWATER RATE PROJECTIONS (FY2017-FY2019)**

# FY2017 – 2019 Projected Rates

Description	Vienna	Dulles	NPS	Navy
<b>Estimated Cost of Service</b>				
FY2017	\$1,203,467	\$1,243,527	\$22,290	\$60,602
FY2018	1,240,497	1,287,232	22,979	62,377
FY2019	<u>1,247,665</u>	<u>1,301,326</u>	<u>23,069</u>	<u>62,759</u>
Total (FY2017-FY2019)	\$3,691,629	\$3,832,084	\$68,339	\$185,738
FY2014-FY2016 True-Up Adjustment	<u>142,729</u>	<u>243,015</u>	<u>(14,853)</u>	<u>(2,658)</u>
Total after True-Up Adjustment	\$3,834,359	\$4,075,099	\$53,486	\$183,080
<b>Rate Calculation for FY2017-FY2019</b>				
Total after True-Up Adjustment	\$3,834,359	\$4,075,099	\$53,486	\$183,080
Projected Flows FY2017-2019 (MG)	923.09	1,044.63	13.70	54.75
Projected Rate (per MG)	\$4,153.85	\$3,901.00	\$3,904.14	\$3,343.92
<b>Rate Adjustment for FY2017-FY2019</b>				
Current Rate (per MG)	\$3,729.00	\$2,158.00	\$6,467.00	\$2,880.00
Increase (Decrease)	\$424.85	\$1,743.00	(\$2,562.86)	\$463.92
Increase (Decrease) %	11%	81%	-40%	16%

# FY2017 – 2019 Projected Rates

- **Inclusion of prior period true-up adjustments in the projected rates contributes to significant rate variability**
- **Excluding them will stabilize the rate adjustments**

Description	Wastewater Rates (\$ per MG)			
	Vienna	Dulles	NPS	Navy
Estimated Rate for 2017-2019 (Incl. 2014-2016 True-Up Adjustment)	\$4,154	\$3,901	\$3,904	\$3,344
Estimated Rate for 2017-2019 (Excl. 2014-2016 True-Up Adjustment)	\$3,999	\$3,668	\$4,988	\$3,392
Calculated Actual Rate for 2014-2016 (Excl. 2010-2013 True-Up Adjustment)	\$3,705	\$3,334	\$4,516	\$3,111
Difference	8%	10%	10%	9%
Annualized Difference	2.6%	3.3%	3.5%	3.0%

# FY2017 – 2019 Projected Rates

## ➤ Projected Rates With and Without the Prior Period True-up Adjustment

Description	Vienna	Dulles	NPS	Navy
<b>Current Rate (per MG)</b>	\$3,729.00	\$2,158.00	\$6,467.00	\$2,880.00
<b>Rates for FY2017-FY2019 (with True-Up Adjustment)</b>				
Projected Rate (per MG)	\$4,153.85	\$3,901.00	\$3,904.14	\$3,343.92
Increase (Decrease) \$	424.85	1,743.00	(2,562.86)	463.92
Increase (Decrease) %	11%	81%	-40%	16%
<b>Rates for FY2017-FY2019 (without True-Up Adjustment)</b>				
Projected Rate (per MG)	\$3,999.23	\$3,668.37	\$4,988.32	\$3,392.47
Increase (Decrease) \$	270.23	1,510.37	(1,478.68)	512.47
Increase (Decrease) %	7%	70%	-23%	18%



# Payment Options

- **2016 PI COS study includes enhancement of payment options:**
  - The cost recovery rates for FY 2017 - FY 2019 calculated:
    1. By including the prior period true-up adjustments; and
    2. Without applying the prior period true-up adjustment. The one-time true-up (over/underpayment) for FY 2014 - FY 2016 will be credited/debited in FY 2017
- **PI COS was circulated to the PI Customers for review / comments and providing their preferred payment option**
- **Payment option preferred by PI customers:**

PI Customers	Option
Dulles	2
Navy	1
NPS	2
Vienna	1

# Recommendations

# Recommendations

- **Consider excluding prior year true-up amounts from the rate projections and handle separately**
- **Adopt proposed rates**
  - Effective from October 1, 2016 to September 30, 2019
- **Monitor billed vs. actual cost annually**
  - Track differences and where substantial, inform the affected PI customers

## Attachment B

FY 2016 Completed Committee Workplan			
Objective/Activities/Task	Date of Activity	Completed	Responsible Department
1. Develop Realistic Retail Rate Revenue Projections and Alternative Retail Revenue Sources			
<ul style="list-style-type: none"> <li>a. <i>Propose and establish Retail Rates in FY 2017 &amp; FY 2018</i> <ul style="list-style-type: none"> <li>i. FY 2017 &amp; FY 2018 Budget presentation to Board</li> <li>ii. RRC recommended proposed FY 2017 &amp; FY 2018 rates</li> <li>iii. Board approved proposed FY 2017 &amp; FY 2018 rates</li> <li>iv. Published Proposed Rates in DCMR</li> <li>v. Public Outreach</li> <li>vi. Public Hearing</li> <li>vii. FY 2017 &amp; FY 2018 Rate Proposal special committee meeting</li> <li>viii. Public comment period ends</li> <li>ix. RRC final recommendation to approve FY 2017 &amp; FY 2018 rates</li> <li>x. RRC propose recommendation for expansion of CAP to CRIAC, review impact of CRIAC on various customer segments, focus efforts on employment opportunities for District residents through Water Works program, and work to reduce FY 2018 rate increase below 5%</li> <li>xi. Board Approved FY 2017 &amp; FY2018 rates</li> <li>xii. Published Final Rates in DCRegister</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>November 5, 2015</li> <li>November 17, 2015</li> <li>December 3, 2015</li> <li>January 1, 2016</li> <li>April 2016</li> <li>May 11, 2016</li> <li>June 9, 2016</li> <li>June 13, 2016</li> <li>June 28, 2016</li> <li>June 28, 2016</li> <li>July 7, 2016</li> <li>July 22, 2016</li> </ul>	<ul style="list-style-type: none"> <li>√</li> <li>√</li> <li>√</li> <li>√</li> <li>√</li> <li>√</li> <li>√</li> <li>√</li> <li>√</li> <li>√</li> <li>√</li> <li>√</li> </ul>	<ul style="list-style-type: none"> <li>Rates and Revenue</li> <li>General Counsel</li> <li>External Affairs Board Secretary</li> <li>General Counsel</li> </ul>
2. Alternative Charges (Carry over item from FY 2015)			
<ul style="list-style-type: none"> <li>a. <i>System Availability Fee (SAF)</i> <ul style="list-style-type: none"> <li>i. Mgt. recommended proposed System Availability Fee</li> <li>ii. BOD approved SAF NOPR</li> <li>iii. Published SAF NOPR in DC Register</li> <li>iv. Public outreach</li> <li>v. Public comment period</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>December 18, 2015</li> <li>January 7, 2016</li> <li>January 22, 2016</li> <li>January 22, 2016</li> <li>Jan. 22 – Feb. 22, 2016</li> </ul>	<ul style="list-style-type: none"> <li>√</li> <li>√</li> <li>√</li> <li>√</li> <li>√</li> </ul>	<ul style="list-style-type: none"> <li>Rates and Revenue</li> <li>General Counsel</li> <li>External Affairs</li> </ul>

FY 2016 Completed Committee Workplan			
Objective/Activities/Task	Date of Activity	Completed	Responsible Department
2. Alternative Charges (Carry over item from FY 2015), Continued			
vi. Published SAF notice of extension of public comment period in DC Register	March 4, 2016	√	General Counsel
vii. Public outreach period extended	Feb. 22 – Mar. 11, 2016	√	External Affairs
viii. Public comment period extended	Feb. 22 – Mar. 11, 2016	√	
ix. RRC reviewed comments and made recommendation on SAF	April 26, 2016	√	
x. BOD approval of SAF NOFR	May 5, 2016	√	General Counsel
xi. Published SAF NOFR in DC Register	June 17, 2016	√	
xii. Go-live	January 1, 2018		
3. Delinquent Accounts			
a. <i>Soldiers Home Negotiations</i>	Monthly, as needed		General Counsel
4. Water System Replacement Fee			
a. <i>Evaluate data on the 1,500 residential customers with 1.5" meters including how many have fire suppression meters and reassess the WSRF in FY 2016.</i>	February 23, 2016 April 26, 2016	√ √	Customer Service/ Permitting
5. Potomac Interceptor Cost of Service			
a. <i>Potomac Interceptor Cost of Service (FY 2017 – FY 2019 rates are proposed)</i>	September 27, 2016	√	Rates & Revenue
6. Strategic Plan			
a. <i>Develop Alternative Revenue Sources and Achieve Realistic Revenue Projections (DC Water Strategic Plan Framework)</i>	On-going updates to Committee	√	Rates and Revenue
i. Identify and evaluate potential revenue generating initiatives annually			

**Attachment B**

FY 2016 Completed Committee Workplan			
Objective/Activities/Task	Date of Activity	Completed	Responsible Department
7. Expand CAP to Include CRIAC Credit			
a. <i>Evaluate expansion of CAP to include CRIAC credit retroactive to October 1, 2016</i>			Rates & Revenue Budget & Finance
i. F&B Committee recommend proposed CAP credit for CRIAC to eligible customers	September 27, 2016	√	
ii. Board approval to expand CAP credit for CRIAC	October 6, 2016		
iii. Publish NOPR to expand CAP credit in DC Register	October 21, 2016		General Counsel
iv. F&B final recommendation on proposed CRIAC credit	December 16, 2016		
v. Board approval of CRIAC credit for CAP customers	January 5, 2017		
vi. Publish final NOFR to expand CAP credit for CRIAC in DC Register	January 20, 2017		General Counsel
vii. Go-Live	January 20, 2017 (retroactive to October 1, 2016)		

**Attachment C**

**FY 2017 Proposed Committee Workplan**

Objective/ <i>Activities</i> /Task	Date of Activity	Completed	Responsible Department
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1. Expand CAP to Include CRIAC Credit			
a. <i>Evaluate expansion of CAP to include CRIAC credit retroactive to October 1, 2016</i> <ul style="list-style-type: none"> <li>i. F&amp;B Committee recommend proposed CAP credit for CRIAC to eligible customers</li> <li>ii. Board approval to expand CAP credit for CRIAC</li> <li>iii. Publish NOPR to expand CAP credit in DC Register</li> <li>iv. F&amp;B final recommendation on proposed CRIAC credit</li> <li>v. Board approval of CRIAC credit for CAP customers</li> <li>vi. Publish final NOFR to expand CAP credit for CRIAC in DC Register</li> <li>vii. Go-Live</li> </ul>	September 27, 2016  October 6, 2016  October 21, 2016  December 16, 2016  January 5, 2017  January 20, 2017  January 20, 2017 (retroactive to October 1, 2016)	√	Rates & Revenue Budget & Finance    General Counsel   General Counsel

2. Conduct a Review of the Impact of the CRIAC on Various Customer Segments			
a. <i>Conduct a review of the impact of the CRIAC on various customer segments including low-income customers who do not qualify for CAP, non-profit organizations and small businesses owners</i> <ul style="list-style-type: none"> <li>i. CRIAC overview to RRC</li> </ul>	TBD		Rates and Revenue

3. Delinquent Accounts			
a. <i>Soldiers Home Negotiations</i>	Monthly, as needed		General Counsel

4. Retail Rates Committee Review on Rate Setting Policy			
a. Retail Rates Committee's Review of Rate Setting Policy	TBD		Rates and Revenue

FY 2017 Proposed Committee Workplan			
Objective/ <i>Activities</i> /Task	Date of Activity	Completed	Responsible Department
5. Alternative Charges			
a. System Availability Fee (SAF) Go-live	January 1, 2018		Permits
6. DCGIS FY 2014 Flyover			
a. <i>Update Committee on FY 2014 Flyover</i>	October 25, 2016		Customer Service
7. Independent Consultant Reports			
a. <i>Renewal &amp; Replacement Reserve Study</i>	April 2017		Rates and Revenue
b. <i>Operating Reserve Study</i>	April 2017		





**Attachment D**

**D.C. WATER AND SEWER AUTHORITY  
BOARD OF DIRECTORS  
RETAIL WATER & SEWER RATES  
COMMITTEE MEETING**

**TUESDAY, October 25, 2016; 9:30 a.m.  
AGENDA**

<b>Call to Order</b>	Committee Chairman
<b>Monthly Updates</b>	Chief Financial Officer
<b>Committee Workplan</b>	Chief Financial Officer
<b>Other Business</b>	Chief Financial Officer
<b>Agenda for November 15, 2016 Committee Meeting</b>	Committee Chairman
<b>Adjournment</b>	

\*Detailed agenda can be found on DC Water's website at [www.dewater.com/about/board\\_agendas.cfm](http://www.dewater.com/about/board_agendas.cfm)