



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Retail Rates Committee

*Thursday, July 28, 2005
Immediately following Joint Meeting of the
Finance and Budget and Audit Committees*

MEETING MINUTES

BOARD MEMBERS

Glenn Gerstell
David J. Bardin
Howard Gibbs
Stephanie Nash
Brenda Richardson

WASA STAFF

Jerry Johnson, General Manager
Paul Bender, Chief Financial Officer
Avis M. Russell, General Counsel
Michelle Cowan, Director of Finance and Budget
Linda Manley, Secretary to the Board

Glenn Gerstell called the meeting to order at 10:20 a.m. Chairman Gerstell noted that because this meeting is part of the formal process whereby the Authority sets retail rates for its customers, the meeting had been formally announced to the public, and that it was being recorded. Chairman Gerstell asked that the Secretary call the roll in order to ensure that a quorum was present. The Secretary called the roll, and with four members being present, quorum was established.

Proposed Rate and Fee Changes

Paul Bender, CFO, briefly reviewed the agenda, explaining that the first item to be discussed was the fifteen-month schedule for all rate-related actions. Mr. Bender noted that the primary items for the Committee's consideration were the three rate and fees-related proposals for FY 2006:

1. Six percent increase in retail water and sewer rates
2. Increase in right of way/payment in lieu of taxes (PILOT) fee
3. New fire service meter fees

Based on the Committee's recommendation, those actions will be presented for final action by the Board at its September meeting. Any retail rate fee changes, if adopted, would go into effect on October 1, 2005.

Mr. Bender explained that on the proposal for new fire service meter fees, staff recommends that the Committee defer action until fall, as staff is pursuing other alternatives for recovery of fire protection costs. He explained that many commercial customers do not have a meter serving their fire line and would therefore escape paying any costs of fire service protection, while customers who do have fire meters would pay. Staff is working to develop a more equitable basis for charging each customer for a similar amount of fire protection.

Mr. Bender noted that the District's stormwater rate will need to be adjusted by FY 2007 as the estimated costs for stormwater permit compliance will almost double from close to \$4 million per year to the \$7 million range.

Mr. Bender provided a more detailed overview of the proposals before the Committee:

1. Retail water rate increase from \$1.83 per Ccf to \$1.94 per Ccf;
2. Retail sewer rate increase from \$2.76 per Ccf to \$2.93 per Ccf; and
3. Right of way / PILOT fee increase from \$0.36 per Ccf to \$0.42 per Ccf to recover the full cost of the payments WASA makes to the District government.

Mr. Bender reported that if these changes were adopted, the typical residential customer's monthly bill would increase by \$2.83 per month, or approximately 6.5 percent, assuming average monthly consumption of 8.33 Ccf, or 6,231 gallons per month. This includes \$2.33 for retail rates changes and \$0.50 for the right of way/PILOT fee increase.

Mr. Bender noted that the Board-adopted ten-year plan assumed rate increases in the six percent range over the next two years, and then an increase [in the seven to eight percent range] through FY 2010 due primarily to the lead program. Rate increases are expected to stay at that level after FY 2010 due to the CSO LTCP, assuming no additional federal funding beyond what WASA has already received.

Mr. Bender noted that his understanding of the Board's decision in January to advertise a six percent rate increase for FY 2006 was driven by a desire to achieve a "levelizing" of rate increases. He also noted that the rate stabilization fund balance currently stands at \$27.5 million, and that it would be fully utilized by the end of the current ten-year planning period.

Chairman Gerstell asked if management had any estimate of whether an additional contribution to the rate stabilization fund would be made in FY 2005. Michelle Cowan responded that because of better than projected financial performance, she anticipated that a contribution in the \$5 million or less range was likely, but not as high as \$8 to \$10 million.

David Bardin asked if any contribution or usage of rate stabilization fund was expected for FY 2006; Mr. Bender replied that neither was anticipated. Mr. Bardin asked if the Board approved only a portion of the proposed rate increase, whether that would change the rate stabilization fund balance. Mr. Bender replied that assuming no change in assumptions from the Board-adopted ten-year plan (particularly in capital spending) and performance at the same financial targets as originally anticipated in the ten-year plan, a drawdown of rate stabilization funds would be required as cash reserve requirements are driving rates. Mr. Bender noted that as part of the budget process, management would be revisiting FY 2006 assumptions for capital spending, which could change near-term projections, but would not substantially alter the need for rate increases in the long-term as the CIP remains the same or potentially greater than last year.

Howard Gibbs asked management to prepare a chart showing the impact on the rate [monthly customer bill] of the proposed rate increases through completion of the ten-year plan.

Chairman Gerstell asked staff to summarize the public reaction to the rate and fee proposals, and noted that he had attended one or two community meetings as well as the public hearing. He noted that attendance at the public hearing was sparse, and that the commentary on the rate increase was limited, with one or two attendees noting that WASA should in fact raise rates, and some of the comments were on non-rate issues.

Mr. Bender stated that WASA held thirteen community meetings, far more than ever before, most of which were at ANC meetings. This provided a much larger, built-in audience, averaging 20 to 30 people per meeting. The reaction was mostly positive as customers have heard the same message from WASA for the past eight years regarding the magnitude of the capital improvement program. Mr. Bender noted that most of the questions were not on the proposed rate increase, but more on project implementation, particularly on the lead service line replacement program.

Mr. Bardin brought the Committee's attention to the e-mails written by WASA customers and asked that staff respond individually to each. In particular, he noted that one e-mail raised interesting issues regarding water conservation and WASA's rate structure that should be further evaluated over the long run. Chairman Gerstell noted that he personally responded to each e-mail as well.

Chairman Gerstell asked the Committee for their view on the proposals. He stated that he supported forwarding the retail rate and right of way / PILOT fee proposals to the Board in September for several reasons, including that WASA has a demonstrated need for rate increases due to its massive, \$2.1 billion CIP. He also noted the Board's policy of gradual rate increases, and implementing a six percent increase now would help avoid higher rate increases in the future. Finally, WASA's customers have not raised significant objections to an increase during the public comment process.

Mr. Bardin stated that he was amenable to staff's proposal to delay action on fire service meter fees pending a more comprehensive review, and asked that staff integrate the work being done on fire hydrants by Water Services as well as fire safety needs with the fee analysis. In regards to the right of way / PILOT fee, he agreed it was needed.

Mr. Bardin stated that on the retail water and sewer rate increases, he was generally concerned about WASA's rate structure in that it charges the same rate for each Ccf of water used, and did not encourage conservation as much as other rate structures potentially could. He raised WSSC's inverted block structure as an example of a potential conservation-oriented structure. He asked management if they could prepare an analysis where the incremental revenue requirement for residential customers associated with the proposed six percent increase in the sewer rate would be charged to usage in excess of the typical usage by customer assistance program customers, and any consumption under that would be exempted from the six percent sewer rate increase. Jerry Johnson replied that staff had received his request, but that the analysis had not been completed. He indicated that the surcharge would be substantial even using rough orders of magnitude; Ms. Cowan noted that the incremental revenue requirement for the sewer rate increase for just residential customers was approximately \$1.4 to \$1.6 million.

Mr. Bardin stated that two other areas of concern regarding the sewer rate structure were 1) groundwater - building owners who pump groundwater into the combined sewer system and do not pay for their share of costs except during construction; and 2) streets - which total 34 percent of land area in the combined sewer area, and related runoff is sent to Blue Plains. He noted that in both of these cases, the cost to treat this flow was being spread across all retail customers, District-wide. Mr. Bardin concluded that while he could support the water rate increase because of the lead program and other critical work in the water system, he was not prepared to vote for the sewer rate increase until more analysis is completed on alternative rate structures. He asked the General Counsel for an opinion as to whether or not the Board could consider an inverted-block structure at the September Board meeting even though it wasn't specifically advertised as such in the D.C. Register. Mr. Johnson replied that from prior discussions, it couldn't be considered without additional advertisement, although the General Counsel would look into the matter.

Chairman Gerstell noted that Mr. Bardin made a number of good points that he was open to looking at in more detail over the next year. He noted that while WASA's rate structure was not as

conservation-oriented as WSSC's, it was not completely regressive in that the more customers use, the more they pay. Chairman Gerstell asked the other members for their opinion on the rate increase.

Brenda Richardson stated that she was inclined to support the Chairman's position and in particular was interested in a more gradual increase now rather than drastic increases later. She noted that one caveat was water conservation, and we should start looking into a more conservation-oriented rate in the future.

Mr. Gibbs stated that he agreed with both the Chairman and Mr. Bardin and that both raised important policy issues. He stated that he didn't think that now was the appropriate time to consider significant changes in the rate structure, but they should be addressed so that by the next cycle the Board could modify its approach.

Stephanie Nash stated that she supported the Chairman's position, but that Mr. Bardin's point about groundwater in the Federal Triangle area needs to be looked at.

Mr. Bardin stated that he would abstain on the issue for now so that the Committee could move on in the agenda, and he reserved the right to oppose parts of the rate increase at the Board meeting in September.

Chairman Gerstell asked for a motion on the proposed water and sewer rate increases and the right of way / PILOT changes, which was moved by Brenda Richardson and seconded by Stephanie Nash. Three Board members were in favor, and one member abstained.

CSO Rate Considerations

Dave Earley, WASA's independent rate consultant, provided a updated analysis concerning three policy decisions needed from the Board in order to finalize a rate structure to recover the costs associated with the CSO LTCP, particularly related to a runoff-based structure:

1. Citywide versus Inside CSO Area
2. Total Land Area versus Impervious Land Area
3. Streets Billed Separately versus Streets Embedded

With three policy areas to be decided on and two choices for each policy area, there are eight possible rate structures to be considered. Mr. Earley discussed the rate impact in 2006 and 2024 by customer class for each of the eight possibilities and responded to questions posed by the Committee.

After discussion by Committee members, Chairman Gerstell stated that he would like to see further analysis and policy discussion on the issue. In general, he is interested in a rate structure that recovers costs as objectively as possible and only on those parties who are directly associated with or cause the costs. In line with this, he is inclined to support an inside CSO area rate rather than city-wide. Chairman Gerstell asked the General Counsel to provide the Committee with written guidance on any legal requirements for the Board to enact a rate that make invidious distinctions, e.g., where some customers pay one rate and other customers pay a different rate.

Mr. Bardin agreed with the Chairman's request for legal guidance. He noted that he also was inclined toward an inside CSO area fee, and that he strongly favored a rate based on total land area rather than impervious area, at least for the early years of implementation. Mr. Bardin asked that the Committee and management begin thinking about an implementation schedule, and that he favored implementing a new rate on October 1, 2006, while the rate impact is relatively small, which

would mean beginning the public comment process relatively soon. Mr. Bardin also urged staff to somehow take groundwater issues into account as it evaluates rate structures.

Mr. Gerstell stated that he generally agreed with Mr. Bardin's thought that implementing a rate when costs were relatively small would be easier, although he noted that it may take more than a year to work through all of the issues. He restated that staff should generally assume that the Committee was leaning toward an inside CSO area fee; that the General Counsel should evaluate the legal feasibility of implementing such a structure; and then asked the General Manager to outline tasks associated with securing agreement from the federal and District governments on recovering their share of costs associated with streets, as outlined in the presentation. Because they would be paying for such a significant portion of the costs, the Committee needs to understand the agreements needed to feasibly implement this structure.

Hearing no further business from the Committee, Mr. Gerstell adjourned the meeting at 11:45 a.m.