



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

*Retail Rates Committee
Thursday, July 27, 2006
(Immediately Following the Finance
& Budget Committee Meeting)*

MEETING MINUTES

BOARD MEMBERS

Glenn Gerstell, Chairman
David J. Bardin
Robert C. Bobb
Joseph Cotruvo

WASA STAFF

Jerry Johnson, General Manager
Olu Adebo, Acting Chief Financial Officer
Avis M. Russell, General Counsel
Linda Manley, Board Secretary

Chairman Glenn Gerstell called the meeting to order at 9:45 a.m. and in his opening remarks noted that this meeting is part of the formal process whereby the Authority sets retail rates for its customers. The Authority formally announced this meeting to the public and it is a recorded session. The Chairman noted that there were no members of the public present, nor had any preregistered to indicate their proposed attendance. Chairman Gerstell asked that Board Secretary Linda Manley call the roll in order to determine the presence of a quorum; and, with four members being present, a quorum was established. Next, the Chairman asked management to continue with their presentation of rate and fee proposals for consideration by the Committee.

Schedule for Rate & Fee Proposals

Referring to the twelve month schedule for all rate-related actions (Attachment 1), Mr. Johnson reported that we are on schedule for all rates and fee-related activities through the month of July. According to the schedule, the full Board will take final action on the proposed rate increase in September, with the new rates to be in effect October 1, 2006.

FY 2007 Stormwater Rate Update

Next Mr. Johnson provided an update on the rate increase required to fund the stormwater program. Management has written Carol Schwartz, Chairman of the Committee on Public Works and the Environment, to advise that there is a need to adjust the stormwater rate for FY 2007. WASA currently generates approximately \$3.1 million through its stormwater rates and beginning October 1 there will be a revenue need of approximately \$7 million. The District's storm water runoff system flows into approximately 600 outfalls on the Anacostia and Potomac rivers and other waterways and the composition of these storm water flows are regulated by the terms of the District's stormwater permit. The stormwater rate adjustment for FY 2007 would provide sufficient revenues to cover budgeted cost and ensure continued compliance with the stormwater permit.

Mr. Bardin asked whether or not a written argument exists regarding the purported dual jurisdiction for setting stormwater rates. The dual jurisdiction argument purports that although the District of

Columbia Council (the Council) set the initial stormwater rates through legislation, the Board and/or the Council could adjust the rates. Mr. Johnson responded that he has not received any written documentation supporting dual jurisdiction matter and that WASA should consider sending a third letter to advise the Council of the need to take necessary action.

Next, Mr. Bardin asked General Counsel Avis Russell for her opinion concerning the dual jurisdiction matter. Ms. Russell responded that the statute assigns responsibility for stormwater rate adjustments to the Council. Mr. Bardin asked Ms. Russell to contact the General Counsel for the Council who handles stormwater matters to seek a better understanding of the Council's position and to attempt to resolve the stormwater rate adjustment matter.

FY 2007 Groundwater Sewer Service Rate Proposal

Next, Mr. Johnson continued with an overview of the groundwater issue. WASA's cost of service study and the Greeley and Hansen sewer system assessment findings have provided additional information. There is a phenomenon in Washington, D, which is the result of a large portion of the City constructed on filled and swampy areas. This phenomenon when coupled with the existence of a high water table in the downtown area of the City results in a number of buildings pumping groundwater into the combined sewer system, which is in turn conveyed to the Blue Plains wastewater treatment plant. In providing a historical perspective, Mr. Johnson explained that in 2001, WASA met with limited success in pursuing metering for groundwater billing. At the same time the D.C. Council implemented legislation to prohibit WASA from continuing its groundwater metering program. The current Board directive is for management to explore billing for groundwater with the basic premise that every ratepayer should pay for services provided.

After his overview, Mr. Johnson introduced John Cromwell of Stratus Consulting, WASA's rate consultant who studied the groundwater issue and developed an approach to bill for groundwater flows treated at the Blue Plains Plant.

Mr. Cromwell referred to Attachment 3 and discussed the groundwater study results and billing proposal; the wastewater quantity assessment study provided current wastewater flow data that helped the rates consultants to evaluate the impact to WASA's revenues from potential groundwater billings. Next, Mr. Cromwell provided an overview of major contributors to groundwater flow that reaches the Blue Plains wastewater treatment plant and followed with a review of the proposed billing strategy and implementation schedule. The basis for the proposal is on sound cost-causer/cost-payer principles consistent with the Board's directives. Mr. Cromwell discussed both the pros and cons of the current groundwater billing proposal, including start-up and running costs, uncertainty in the flows and the resulting revenue stream and collections issues.

He noted that most jurisdictions that have groundwater problems do not separately charge for groundwater services, because the cost of doing so, coupled with some of the arbitrariness in making decisions on who and how to charge, make such charges of questionable net benefit. Nonetheless, he said that if the Authority concluded it wished to charge for groundwater services, there were several rational and potentially appropriate approaches it could pursue. Specifically, these alternate groundwater billing approaches could include:

- Philadelphia, Pennsylvania's approach which focuses individual arrangements for major groundwater contributors;
- pursuing groundwater diversion projects; and,
- developing programs to discourage or prohibit new groundwater sewer connections.

In conclusion, Mr. Cromwell outlined a proposed groundwater billing implementation schedule.

Mr. Bardin thanked the management and the consultants for a very helpful report and asked for information on metering devices that may be of assistance if WASA pursues that as a mechanism for measuring and billing groundwater flows. Mr. Bardin also stressed the importance of equity issues and encouraged the Committee to consider phasing in the groundwater billing much in the same way as the automated meter reading program.

Mr. Gerstell also noted that the report is helpful but there is not enough information to make a rational decision on proceeding with the groundwater billing program based on the information available at this time. However, Mr. Gerstell suggested that WASA management contact entities that pump large volumes of groundwater and conduct a PILOT study. The PILOT study would sample entities on a voluntary basis to secure additional groundwater flow data. He suggested that since it would be relatively easy to verify that METRO was a major source of groundwater to the Authority's system, and was perhaps one of the largest such sources, it might make sense to start with them.

Mr. Cotruvo agreed with Mr. Gerstell and noted that the issues are equity, transaction costs and revenue potential and noted that he is not prepared to implement the groundwater billing in October 2006; however, he does not want to ignore the matter. Mr. Bobb asked the Committee to consider the costs of groundwater billing implementation versus the revenue potential and equity across customers.

Mr. Gerstell asked Ms. Russell to research the legal matters associated with billing customers for groundwater based on certain predetermined specifications.

Mr. Johnson summarized the Committee's discussion as follows:

- Management should attempt to collect from individuals who are major dischargers of groundwater into the sewer system
- Look at legal considerations for discouraging illegal discharges into the sewer system and for future developments
- In order to provide additional information, conduct a PILOT study that will sample entities on a voluntary basis

After additional discussion, Mr. Bobb made a motion, with a second by Mr. Gerstell that the Committee proceed with the work plan as discussed. The Committee asked management to provide an update during the budget reviews with the Board in October.

FY 2007 Proposed Rate and Fee Changes

Linda Manley distributed copies of the comprehensive report on proposed rate and fee increases for fiscal year 2007. This report outlines all of the activities undertaken by WASA to communicate with retail customers concerning the proposed 7 percent increase to be effective October 1, 2006.

Based on future rates and fees analysis and a review of WASA's revenue needs over time, Mr. Johnson recommended adoption of a 6 percent rate increase for FY 2007 in lieu of the previous 7 percent rate increase proposed. The current rate proposal is consistent with Board policy to ensure more gradual and predictable rate increases and would lower the proposed FY 2007 rate adjustment from 7 percent to 6 percent. The current proposal assumes a deposit to WASA's rate stabilization fund of the \$22.4 million payment and buying down the projected FY 2007 rate increase to 6 percent by using \$7.9 million of excess cash or rate stabilization fund (RSF) from FY 2006. A \$4 million transfer was previously projected for FY 2007 along with rate increase to meet revenue requirements.

Mr. Johnson reported that management prepared a real-time presentation that will allow the Committee to suggest various rate increases and immediately see the impact on the Authority's ten year financial plan. Olu Adebo provided an overview of the rate simulation model and Committee members used the opportunity to review the impact of various rate proposals. After Committee review and discussion, Mr. Johnson reported that in September management will provide the Board with a revised financial plan, which would include the FY 2006 year-end deposit to the rate stabilization fund.

Mr. Bardin proposed no rate increase in FY 2007 with subsequent rate increases as needed in future years based on capital spending plans and the impact on WASA's ten year financial plan. This would reflect an effort to afford relief to many of the retail rate customers who bore the rate increases for the period of time that the WSSC payment remained outstanding. It was noted that the current customers did not overlap perfectly with the group of customers who arguably paid more than they might have in years past when the WSSC payment was delinquent.

Mr. Bobb stated that he is not in favor of the 6 percent rate increase but favors tying the rate increase either to the consumer price index or the producer price index and using the \$22.4 million WSSC payment to smooth rates into the future.

Mr. Gerstell explained that WASA's rate requirements are not driven by costs of inflation and other general economic factors-and so therefore using price index is not really relevant -- but the requirements are based on our spending program and our debt service. The issue is really borrowing requirements over the next eight years and the debt service we will have to pay which does not have much to do with external costs.

Mr. Johnson noted that WASA's capital program is the key cost driver for rate increases to support the ten year financial plan. Based on staff research conducted on a monthly basis, capital costs are increasing dramatically around the world as the demand for steel in China and in other foreign countries increase, the costs for concrete has increased dramatically. Although WASA has a spending plan it is not absolutely stable and fixed. Management's experience has shown some inflation in WASA's construction costs and the 6 percent rate increase proposal considers all of these factors.

Mr. Bobb noted that a number of WASA's projects appear to be lagging based on the current spend rate, and Pay-As-You-Go is a prudent source of financing for WASA's capital projects. Mr. Bobb also asked whether management has considered all of the various options for refinancing or restructuring WASA's debt. Certain operating costs are going to increase. Mr. Gerstell responded that the Authority's debt program is very well managed. WASA has a well monitored and carefully considered structure which includes both variable and fixed debt. In addition, the rating agencies look very closely at WASA's rate forecasts. Mr. Cotruvo added that he supports a rate increase that would lessen rate shock to customers in future years.

After further review and discussion of various rates alternatives and resultant impacts, the Committee endorsed a 5 percent rate increase to be effective October 1, 2006 (FY 2007). Mr. Johnson noted that WASA adjusts the PILOT portion of the Pilot/ROW fee on an annual basis based on the rate increase.

Mr. Gerstell asked Ms. Manley to schedule another meeting to discuss results of the cost of service study and the impervious surface rate structure proposal.

Mr. Bardin asked that the consultants use their allocation technology to review and allocate rates based on the costs of serving wholesale customers and to determine whether or not the consultant's costs with may differ from what the IMA produces. Dan Lanning responded that he looked at the IMA cost allocations and the cost of service study utilizes some of those costs

because they were reasonable ways to allocate the costs so some of the costs will be the same. The cost of service study did not recalculate the IMA; we took the revenue from wholesale customers and credited it against the revenue requirement and conducted the cost allocation on a retail basis. Mr. Bardin asked to speak with the consultants to further assess the methodology used in allocating various costs.

Hearing no further questions, Chairman Gerstell adjourned the meeting at 11:45 a.m.