DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Retail Rates Committee
Thursday September 24, 2009
11:00 a.m.

MEETING MINUTES

COMMITTEE MEMBERS
David J. Bardin, Acting Chairman
Joseph Cotruvo

WASA STAFF
Avis Russell, Interim General Manager
Olu Adebo, Chief Financial Officer
Yvette Downs, Budget & Finance Director
Meena Gowda, Acting General Counsel
Debra Mathis, Executive Assistant to the Board Secretary

Call to Order

Acting Chairman Bardin called the Retail Rates Committee meeting to order at 11:43 am. The Committee was provided with the following two presentations prior to the meeting (the former with the hard copy agenda package, the latter by subsequent email):

- IAC Presentation – Multi Tier Residential Impervious Area Billing [16 slides]
- Cost of Service Study [20 slides, to be included in the October 1 Board package]

Impervious Surface Area Charge (IAC) Project Update

Single Family Residences Multi – Tier Update (Attachment A)

Interim General Manager, Avis Russell introduced the subject and CFO Olu Adebo presented staff's detailed rate structure plan and related work program over the next few months. The current impervious area charge (IAC) structure bills each *residential* property a uniform 1 Equivalent Residential Unit (ERU) per property. All *non-residential* customers are billed the number of ERUs that relate to the amount of impervious area on each property. One ERU represents 1000 square feet of impervious area. DC's Department of the Environment (DDOE) has based its fee structure on the IAC for its storm water fees which are collected by DC WASA on behalf of the City.

Mr. Adebo stated that WASA evaluated various single family IAC multi – tier options from one ERU to specific identification of impervious property of all customers. Mr. Adebo noted that WASA management ultimately decided to propose a six tier structure to address various concerns of the Board, public comments and integration with the current billing system. The recommended tier structure (and approximate number of properties in each tier) is as follows:

- Tier 1 100-600 sq feet of impervious area .6 ERUs (18,563 properties)
- Tier 2 700-2000 sq feet of impervious area 1.0 ERUs (77,514 properties))
- Tier 3 2100-3000 sq feet of impervious area 2.4 ERUs (5736 properties)
- Tier 4 3100-7000 sq feet of impervious area 3.8 ERUs (2499 properties)
- Tier 5 7100-11000 sq feet of impervious area 8.6 ERUs (167 properties)
- Tier 6 11100- and more sq ft impervious area 13.5 ERUs (4 properties)

Mr. Bardin asked, Is it fair to say that on slide 10 the first three tiers of each scenario appear to be the same in all the iterations and that the real question is where to define the breakpoints for the top tier(s)? Mr. Adebo replied, that when you get to the larger size properties, it is necessary to define an appropriate break point for properties with impervious area over three thousand square feet. Mr. Adebo explained the multi – tier structure options and work done to arrive at the six tier structure. It was noted that the total number of ERU's would increase under this proposal by about 9,000 (close to 9 percent).

Mr. Adebo updated the Committee on the coordination with the District Department of Environment (DDOE) relating to this multi-tier proposal. Mr. Bardin asked about the impact for the average CAP customers. Mr. Adebo replied that WASA will have to pull that data as a follow up for next month's meeting.

Mrs. Downs updated the Committee on the timeline of the multi – tier implementation. Mrs. Downs informed the Committee that WASA plans to incorporate this structure in the upcoming budget proposal for FY 2011. Mrs. Downs explained that there are some 13,000 properties that are near the breakpoint in some of the suggested multi – tier categories. Analysis is on-going and will be completed by December 2009 to ensure that the existing data is sufficient and that the software changes necessary for this implementation can be completed by July or August 2010.

Mr. Bardin suggested to Mr. Adebo that the new General Manager and Board consider approving the multi-tier structure in a rulemaking process paralleling, but separated from the FY 2011 ratemaking process. He also suggested that the ratemaking timeline be moved forward to allow the Retail Rates Committee to meet two or three times before final recommendations in July.

Ms. Russell noted that the Board could chose to do the rulemaking earlier than the ratemaking and that the statutory requirement for a live public hearing before the DC members of the Board applies only to changes in rate levels, but not to changes in rate structures. Mr. Adebo noted that the Committee has the whole year to do the rate making in any committee meeting once the rate is proposed.

Mr. Bardin also asked Mr. Adebo to look into the public outreach process to see how WASA can develop something more useful to the public and better utilize staff resources because so few people attend. Dr. Cotruvo suggested that future phases of adjustments of the IAC rate consider a change to the structure and methodology using ratio of pervious to impervious area of a property as a factor.

Mr. Bardin inquired about the status of the incentive program being developed by DDOE in coordination with WASA. Mrs. Downs mentioned that WASA has met with DDOE on several occasions and it is in a rough draft form. DDOE is required to have something submitted to the City Council by March 2010 and WASA will continue to work toward that goal with them.

Mr. Bardin asked whether the DDOE incentive program would require WASA to do something that it is not now doing. Mr. Adebo replied that some of the earlier ground rules that WASA agreed to are that WASA will take care of all the administration that relates to the actual billing and collection of anything that is part of the bill, and DDOE will administer the actual incentive program including the quantifying, validation and site visits. Mr. Bardin asked that WASA come back and give an update to the committee. Mr. Adebo replied an update can be given to the Committee in December 2009. Mr. Adebo mentioned for the record that the multi – tier presentation has also been provided to environmental agencies.

2009 Retail Cost of Service Study

2009 Cost of Service Study (Attachment B)
Mr. Adebo introduced the Raftelis Financial Consultants (RFC), Inc and Shina Omakanwaye & Associates. Mr. Adebo informed the Committee that WASA undertakes a Cost of Service (COS) study every three years.

Mr. Stannard, RFC Project Director, gave an overview of the four principal COS study components: (1) Revenue Sufficiency Analysis; (2) Cost of Service Analysis / Rate Equity; (3) Alternative Rate Structure Analysis; and (4) Miscellaneous Charge Analysis.

Mr. Davis, RFC Project Manager, began with the independent COS Study for a FY 2011 test year, using WASA's Financial Plan with some forward projections of costs and of units of service. He summarized the revenue sufficiency results and assumptions. Dr. Cotruvo noted that included in the "other" operating revenues category (slide 6) were amounts transferred from the Rate Stabilization Funds (RSF) which are subsidizing the annual operations; consequently, WASA ran deficits repeatedly, but compensated by using past revenues. Mr. Stannard noted that in FY 2011 there is no transfer from RSF assumed.

Mr. Davis explained the COS analysis and rate equity component. Committee discussion focused on COS Results (slide 9). A major highlight concerns ratio between volumetric (per Ccf) water rates and volumetric sewer service rates: The COS analysis comes up with a water:sewer ratio of 45%:55%, in contrast to the financial plan's past ratio of 41%:59%. Discussion also noted that the different volumes ("units of service") to be billed reflect, among other things, that WASA bills some customers for only water or only sewer services. Also, changes in the CSO LTCP cost pool and in total numbers of ERUs bearing those costs will affect increases in IAC – which are non-volumetric rates. In response to Mr. Bardin's question regarding the meter fee, Mr. Davis noted that the current $2.01 rate (for a 5/8" meter) was based on the original capital cost recovery for AMR metering system and based on full AMR program bond funding and that the COS $1.83 calculation reflects only cost incurred to date (FY 2008) and by FY 2011. RFC is not recommending a change in the meter fee under the existing rate methodology.

Mr. Bardin asked that the Board package include a copy of the COS slides and that a copy of the full report be shared with all the Board members who want it. Mr. Adebo replied that once the report is finalized WASA will make it available to all Board members.

Mr. Davis reviewed some rate structure alternatives and a review of various miscellaneous fees for adequacy. Mr. Davis described the potential to expand the meter fee under a new alternative methodology and the pros and cons of such a change. Mr. Bardin asked RFC to add the impact to the average CAP customer on slide 14. Mr. Bardin asked whether any of this analysis would be reflected in the upcoming budget proposal. Ms. Russell replied it has not been decided yet.

Mr. Davis reviewed the potential for future development impact fee alternatives. Mr. Adebo mentioned that staff and previous COS studies had identified an opportunity in this area which needed to be explored and in fact two years ago DCWASA tried to undertake an analysis. It was a little more involved because it actually requires one to go into the system to evaluate how much of the system serves current user needs and how much of the system is extra capacity for future development. Mr. Adebo agrees with the RFC analysis and noted that additional data evaluation and analysis would be needed if WASA chose another path. Mr. Davis noted that some of WASA's neighboring peers have some of the highest development impact fees in the country.

Mr. Davis noted that WASA's miscellaneous fees appear to be adequate when compared to other utilities, with a few exceptions. Exceptions include: Meter purchase and installation fees for the larger meter sizes should be reviewed to ensure adequate cost recovery. Also, DCWASA may choose to implement volumetric – based "waste hauling" fees (e.g., for taking Port-a-John wastes at Blue Plains) to align cost of treatment with the cost recovery mechanism. WASA fees for this service are some of the lowest in the area. A brief discussion of potential fees for private fire protection systems was held. However, Mr. Davis stated that private fire protection customers are not identified in the Customer Information and Billing System and many of the connections may not be metered. Mr. Davis completed the report with a discussion of fats, oil and grease (FOG) fee which is not currently part of the miscellaneous fee structure.

Other Business

There was a brief discussion on how much bond money or pay-as-you-go funds would be required if WASA were to replace one percent of infrastructure year after year.

Adjournment

Hearing no further business, Acting Chairman Bardin adjourned the meeting at 1:58pm.