



**DISTRICT OF COLUMBIA WATER AND SEWER
AUTHORITY
BOARD OF DIRECTORS**

DC Water Retail Water and Sewer Rates Committee

Tuesday September 27, 2011

MEETING MINUTES

COMMITTEE MEMBERS

Howard Gibbs, Acting Chair
Howard Croft
Alethia Nancoo
Alan Roth
Brenda Richardson - Teleconference

DC WATER STAFF

Olu Adebo, Chief Financial Officer
Randy Hayman, General Counsel
Linda Manley, Board Secretary
Yvette Downs, Director of Finance and Budget

Others In Attendance

Jon Davis, Raftelis Financial Consulting Inc.

Call to Order

Acting Chairman Gibbs called the Committee meeting to order at 9:07 am.

Monthly Updates

Howard University

Mr. Randy Hayman, General Counsel, reported that Howard University made some payments (\$64K in June 2011 and approximately \$95K in August 2011) and will continue to pay their current sewer bills going forward, while a cooperative resolution is being worked out on the significant arrearage.

Ms. Brenda Richardson inquired if the University made payment arrangements, are they disputing the amount of arrearage, and is there a deadline to resolve completely.

Mr. Olu Adebo explained that the University has paid all current bills since July but have not worked out the arrearage of \$5.4M which accumulated since 2004. DC Water provided copies of the deeds to Howard University to show that there was not an exchange transaction between the District of Columbia or the Washington Aqueduct and the University. Howard officials are still reviewing the deeds and researching the bills that accumulated from 2004. The Authority sent a reminder last week that it has been several months since the current sewer bill issue was negotiated and there is a need to move forward on settlement of the prior year bills. In addition, they were reminded that DC Water will begin billing for both water and sewer services which will almost double their current bill starting in October. The University committed to get back to DC Water soon.

Soldiers Home

Mr. Hayman reported that the Authority will have a legal opinion completed in November regarding the exemption status of the Soldiers Home account. It is Soldiers Home position that they should get free water and sewer services in exchange for the underground reservoir on their property. Soldier's Home has been cooperative and continues to provide additional information so it can be decided how to best resolve all of the issues.

Mr. Howard Croft asked about the quantity of money involved, the number of soldiers living at the Home. Mr. Adebo noted that this dispute involves approximately \$5M. While the number of current residents is not known by DC Water personnel, it was noted by the Home that the number of residents increased after Hurricane Katrina. Mr. Howard Gibbs requested further description regarding the original 1938 agreement. Mr. Adebo explained that unlike Howard University, Soldiers Home has both an agreement and a physical asset that we can identify that is associated to us. The real contention in this issue is whether it affords only free water services; or free water and free sewer services. In addition, Soldiers Home has plans to expand use of the land that may involve non-Home tenants and DC Water is contemplating the addition of another reservoir on their site. We are taking steps and hopefully will renegotiate a fair exchange for the asset we have on their property.

Mr. Gibbs inquired whether the cost of the appraisal or the appraised evaluation of the property was more than anticipated. Mr. Adebo noted that one of the initial price quotes for cost of the appraisal was approximately \$60K. However, staff worked with the engineers to get a more reasonable quote which came in significantly below the previous estimate and is now estimated to be less than \$10K. We plan to proceed to have the site appraised soon.

Town of Vienna

Mr. Hayman reported that the Authority is in the process of drafting a settlement agreement for execution.

Discussion on DC Water Customer Segmentation Review

Mr. Jon Davis, Raftelis Financial Consultants reminded the committee that they were provided a 12 month (May 2010 to April 2011) data review for monthly billing on each customer in the system in July 2011. This report revealed that DC Water's customer usage patterns are different than typical water utilities. Some of the customer categories in the billing system had higher peak to average usage ratios which led an examination of the possibility of pricing differentials for those categories by reviewing more data.

Since that time, two additional years (May 2008 to April 2010) of data have been compiled and analyzed. Mr. Davis noted that the data analysis revealed that the commercial and federal customers typically have higher peaking ratios than the residential or multi-family customers. Also, the data indicate that peaking patterns for multi-family and DC Housing Authority customers are similar to the residential customer

peaking patterns. Peak usage has extra costs associated with it and to some extent the rate structure should reflect the additional cost. Changes to the rate structure that reflect impacts of peaking patterns will ensure that customer impacts upon the system are more equitably allocated.

Mr. Davis further indicated that the data analysis identified opportunities for further customer segmentation within customer categories. Specifically he suggested that multifamily and DC Housing Authority customers may be combined into a new customer class. Currently from a class perspective, DC Water has only single family residential and non-residential customers. Another segmentation opportunity may be in the area of water-only (or irrigation) customers as they have very high peaking ratios. However, there are only a handful of water-only meters.

Mr. Davis then outlined three rate structure alternatives given the peaking analysis:

- (1) individualized demand management rates based on each customer's winter average use
- (2) class based rate differentials based on class peaking characteristics
- (3) maintain the status quo

These rate alternatives could be reviewed and considered during the FY 2012 Cost of Service Study. The Committee deliberated on the topic and recommended that no action should be taken at this time. The Committee did recommend that the FY 2012 Cost of Service Study examine whether creating new customer categories would be justified based on actual cost impacts.

Evaluating Future Strategies for Unbundling Volumetric Rates

Ms. Yvette Downs, Director of Finance and Budget reported that 75 percent of our costs are projected to be fixed while only 25 percent of the revenues are projected to be recovered from fixed rates. This leads to revenue risk in financial forecasting and budgets. The percentage of fixed costs continues to grow in the current ten year plan primarily due to debt service. Mr. Davis reviewed the analysis of DC Water rates measured against other large utilities. This benchmarking indicates that DC Water historically has been below the national median and 14 percent of the average customer bill (using 5000 Ccfs) represents fixed rates. By 2019, that average customer bill will increase to approximately 32% fixed (primarily due to the impervious area charge). The benchmarking average for large utilities appears to be in the range of 20-40 percent. So, DC Water has already implemented a plan that will increase the fixed portion of retail rate revenue while leaving DC Water within the national average range.

FY 2012 Fire Protection Cost of Service Study Update

Mr. Adebo provided an update on the fire protection service fee. The most recent fee was implemented in April 2010 at \$680 per hydrant, for over 9,000 public hydrants and, the annual assessed rate to the District of Columbia is approximately \$6.1 million. As a matter of practice and policy, DC Water has undertaken a cost of service study every three years. The last cost of study was performed in 2008 which formed the basis for the current fee. A draft of the FY 2012 study has been received from the consultants

and staff plans to complete internal reviews in the next couple of weeks. The report will be finalized in December and if required, the rate making process will begin in January.

Retail Rates Committee Workplan

Mr. Adebo provided an update on all of the Committee workplan projects completed in FY 2011 and a draft plan for Committee work in FY 2012.

Emerging Issues/Other Business

No discussion

Agenda for Next Committee Meeting (Attachment G)

Acting Chairman Gibbs reviewed the pro-forma agenda for the October 25th meeting. After discussion regarding the Joint Committee Meeting planned for October 27, 2011 on the FY 2013 Budget Proposal, it was decided that the Committee would not meet separately on October 25th.

Adjournment

Hearing no further business, Acting Chairman Gibbs adjourned the meeting at 11:05am

FOLLOW-UP ITEMS – Retail Rates Committee Meeting (October 25, 2011)

1. Provide an example of the updating required and quality controls available to reconcile non-residential data found in the DCGIS 2005 flyover information and a more recent update to the flyover data. This example should be provided at a future Retail Rates Committee meeting (Mr. Bardin) Status: FY 2012
2. Review of the Potomac Interceptor contracts to see if there are opportunities to modify contracts to be similar to the IMA contracts (Mr. Bardin)
3. Provide a list of customers names in water only category (Nancoo)
4. Provide a copy of the 2011 rate setting policy(Howard Gibbs)
5. Provide summary of DC municipal regulations regarding DC Water's activities on private fire hydrants in the District of Columbia (Howard Gibbs)