



**DISTRICT OF COLUMBIA  
WATER AND SEWER AUTHORITY**

Board of Directors

*Meeting of the Governance Committee*

**November 13, 2019**

**9:00 a.m.**

**Meeting Location: 125 O Street, SE, Washington, D.C.  
2<sup>nd</sup> Floor-Board Room**

**AGENDA**

- 1. Call to Order** ..... **Ellen Boardman, Chairperson**
- 2. Blue Drop Update** ..... **Thomas L. Kuczynski**  
..... **Interim President of Blue Drop, LLC**
- 3. Executive Session \***
- 4. Adjournment**

\*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.

# Governance Committee Update

November 13<sup>th</sup>, 2019



# Rational for Rapid Assessment

## Drivers for the rapid assessment

- DC Water funded Blue Drop as a standalone not for profit to market products and services of the utility to generate non-rate payer revenue
- Blue Drop has reached the end of the 3 year start-up period
- The President of Blue Drop resigned effective November 1, 2019
- Significant change has occurred at DC Water over the 3 year period
- New opportunities may exist while old opportunities may not be viable
- DC Water wanted an independent perspective as input to the decision making process for determining the future state of Blue Drop



# Inputs to the Assessment

## **Conducted 20 interviews across DC Water, Blue Drop and external parties**

Tom Kuczynski, VP of Information Technology and Interim President Blue Drop

Matthew Brown, CFO

Biju George, EVP, Operations & Engineering

Wayne Griffith, EVP, Performance

Maureen Holman, EVP, Administration

Tera Fong, Director, Performance Integration & Delivery

Chris Peot, Director, Operations & Engineering

Saul Kinter, Business Development Program Manager

James Fotouhi, Technician & Distribution

Debra Silimeo, Blue Drop Board Member

Robert Mallett, Blue Drop Board Member

Doug Adams, WIPRO (Pipe Sleuth partner)

Bobby Howells, Urban Zink (Bloom Customer)

Kyle Hutchinson, Hutchinson Design Group (Events Partner)

Andrew Bliss (Consulting Customer)

Chris Sturm (Consulting Customer)

Alan Heymann, President

Kim Marshall, Vice President, Facilities

Francesca Valente, Vice President, Bloom

April Thompson, Marketing Director, Bloom

## **Reviewed documentation from Blue Drop**

Blue Drop enabling documentation

Contracts and agreements

Financial Statements

Marketing and Sales Materials

Sample work product(s)

Blue Drop & DC Water Board Updates

Blue Drop Strategic Plan (Compass)

Blue Drop performance statistics

Blue Drop organization structure

Feedback from Blue Drop Customers



# Assessment of Start-up Period

## ● Mission and Strategy

- Blue Drop was envisioned to be a flexible, nimble organization whose benefits would generate revenues for DC Water, however, within DC Water the perception is that Blue Drop has not lived up to that goal
- Since conception, Blue Drop's mission has remained consistent to focus on: generating revenue that provides rate relief to DC Water's customers and advancing innovative technologies & strategies
- While the mission has been consistent, Blue Drop's strategic focus areas have shifted – initially Blue Drop focused on Bloom and consulting; currently, the strategy focuses on Bloom, IP monetization and facilities rentals
- The current strategic offerings provide the potential to create cost savings and revenue generation, in addition to improving DC Water's reputation within the water industry and the DC community

## ● Go-to-Market

- The Go-to-Market approaches of the offerings align with the mission; however their effectiveness is greatly limited:
- Bloom: Blue Drop provided a limited amount of support for farm sales although they are currently the majority of Bloom sales
- IP: lack of engagement with DC Water to explore the monetization of potential IP, lack of set innovation evaluation procedures and limited engagement with current IP contracts
- Facilities: the lack of contract outlining responsibilities, liability assignment, deposit amounts and reimbursement to DC Water resources

## ● Processes and organization

- For Bloom, IP and facilities, the processes (including roles, responsibilities, priorities and achievable targets) are not clearly defined and value creation is heavily reliant on DC Water resources
- The staffing organization of Blue Drop is not fully aligned to the mission, with IP monetization, cell tower monetization, and serving the agricultural customers for Bloom sales remaining largely unsupported

## ● Governance

- The legal and managerial structure of Blue Drop allows it to be flexible and nimble in generating revenue
- The Blue Drop Board appears to provide limited advisory input, and could be more valuable if it is reconfigured to include more members with direct experience to provide greater input into operations, strategy, and financial oversight



# Proposed Next Steps

- **Mission**
  - Re-align on the mission between DC Water's leadership and Blue Drop's President, and then communicate Blue Drop's mission effectively throughout both organizations
- **Strategy**
  - Establish business cases for each possible revenue stream (Bloom, IP, events, energy and nutrient credits, cell towers) to assess which offerings are best positioned to meet the mission, and subsequently build implementation approaches with corresponding implementation timelines
- **Go-to-Market and Processes & Organization**
  - Bloom: Unify the team by developing a sales approach that defines and targets key market groups and clearly defines roles, responsibilities and obligations between Blue Drop and Operations team
  - IP: Establish an enterprise wide system that evaluates potential IP and supports its value creation
  - Facilities: Establish agreements with DC Water and third parties to minimize the reliance on DC Water resources, finalize contract obligations between DC Water and Blue Drop, and facilitate payment mechanisms to repay DC Water for event expenses
  - Develop a centralized Go-to-Market approach and an organizational structure to support within Blue Drop to capture additional revenue from cell phone towers and energy & nutrient credits
- **Governance**
  - Greater transparency between Blue Drop, DC Water and the both boards will better equip Blue Drop with the strategic leadership and supporting resources it needs to succeed



# Value potential is important

Value potential	Offering	Strategy	Assessment
●	IP	<ul style="list-style-type: none"> <li>Revenue gained through Blue Drop's handling the marketing and commercial sales of IP (e.g. Pipe Sleuth, Smart Fountain), with DC Water providing a demonstration site for successful application of technologies</li> </ul>	<ul style="list-style-type: none"> <li>✓ Builds DC Water's reputation as an innovator</li> <li>✓ Strong technology offerings that present large opportunity for capturing value</li> <li>✗ Unclear responsibilities have resulted in limited involvement of Blue Drop to date and potentially hindered impact</li> </ul>
●	Bloom	<ul style="list-style-type: none"> <li>Land application of biosolids generated at Blue Plains WWTP currently costs DC Water \$45/ton</li> <li>Cost savings are achieved by diverting Bloom away from land application with reduced hauling costs and sometimes a small amount of revenue is generated through sale of Bloom</li> </ul>	<ul style="list-style-type: none"> <li>✓ Significant cost savings, providing real value to DC Water</li> <li>✗ Current arrangement does not have shared value creation incentives between Blue Drop and DC Water</li> <li>✗ Lack of strategy to what customer groups to target based on overall value creation</li> </ul>
●	Facilities	<ul style="list-style-type: none"> <li><b>Events:</b> Offering roof and interior areas of DC Water HQ as an events venue</li> <li><b>Cell towers:</b> Allow for cell towers to be placed on DC Water's property</li> </ul>	<ul style="list-style-type: none"> <li>✓ Use of existing facilities to capture value</li> <li>✓ Event space rental builds DC Water's reputation as helping ratepayers</li> <li>✗ Expensive to resource with large overhead and capped value (events)</li> </ul>
●	Other	<ul style="list-style-type: none"> <li>Explore other potential revenue streams such as energy credits, nutrient credits, merchandise</li> </ul>	<ul style="list-style-type: none"> <li>✗ Currently unclear value proposition and resource allocation</li> </ul>
●	Consulting	<ul style="list-style-type: none"> <li>Peer-to-peer advisory services for improving customer service operations and building leadership skills</li> <li>Not focused on operational improvements, technical know-how information sharing</li> </ul>	<ul style="list-style-type: none"> <li>✓ Built on DC Water's strength for consumer engagement</li> <li>✗ Limited market appetite, low margins and strong competitors</li> </ul>



In addition to Bloom, the financial performance of Blue Drop could be improved by understanding the revenue potential of each product and/or service. Additionally, it's important to identify other IP assets that could provide an additional source of revenue.

For each item, further analysis is needed to:

- ↳ Quantify potential revenue
- ↳ Identify costs
- ↳ Identify risks and liabilities



**IP**  
Monetizing DC Water proprietary technology



**Cell towers**  
Leveraging DC Water land and resources



**Events**  
Utilizing HQO



**Energy credits**  
Capturing value from renewable energy generated



**Nutrient credits**  
Selling credits to utilities not meeting EPA discharge limits



# Next Steps

- Identify and assess other potential products and services including additional IP
- Develop process for driving the innovation pipeline
- Determine potential product mix for Blue Drop and develop forecasts for market size and revenue potential
- Determine organization structure and resource requirements to successfully market the product and service portfolio
- Develop long-term strategy for Blue Drop and relationship to DC Water
- Determine long-term governance structure for Blue Drop to ensure successful execution of its mission
- Determine short and long-term goals for success
- Provide greater transparency into operations

