

**DISTRICT OF COLUMBIA**

**WATER AND SEWER AUTHORITY**

# Board of Directors

DC Retail Water and Sewer Rates Committee

## Friday, December 18, 2015

9:30 a.m.

 MEETING MINUTES

**Committee Members via Conference Call**

 **DC Water Staff**

Alan Roth, Chairperson

Matthew Brown

Rachna Butani

Howard Gibbs

Kendrick Curry

Ellen Boardman

Ana Harvey

George Hawkins, General Manager

Mark Kim, Chief Financial Officer

Randy Hayman, General Counsel

Alfonzo Kilgore Stukes, Executive Assistant

Syed Khalil, Financial Planning Manager

Brian McDermott, Director Permit Operations

**Consultant via Conference Call**

Jon Davis, Raftelis Financial Consultants, Inc.

**Call to Order**

Chairman Roth called the DC Retail Water and Sewer Rates Committee meeting to order at 9:33 a.m.

**System Availability Fee Update (Attachment A)**

Mr. Kim briefed the Committee on a proposed System Availability Fee (SAF). He stated that this fee was previously presented to the Committee as a proposed “Development Impact Fee” and, based upon comments received from the Committee, has been revised accordingly and renamed the System Availability Fee. Mr. Hope noted that the SAF is required to go through a Rulemaking Process, which requires Public Notice but not a Public Hearing.

Mr. Kim stated that many utilities have implemented a similar fee assessed to new development (or redevelopment of existing properties) to recover prior investments in available excess system capacity. The proposed SAF will be assessed to recover costs specifically associated with:

* Water supply and treatment;
* Water storage and distribution;
* Wastewater and stormwater conveyance; and
* Wastewater treatment.

He further noted that the proposed SAF is designed to recover the proportionate share of system costs for new developments or redevelopments and is based upon meter size and average consumption.

Mr. Kim explained that the recently adopted Water System Replacement Fee (WSRF) is a recurring monthly fee, which is prospective and charged to all existing customers to help defray and recover the cost of ongoing maintenance and replacement of the District’s water distribution system. In contrast, the proposed SAF is a one-time retrospective fee that would be assessed to new customers (or existing customers expanding their service) to recover the prior investments made by DC Water in trunk and treatment assets that have created the excess capacity to serve future customers (or increased demand).

The SAF would be assessed for any new premise, building or structure that requires a metered water service connection to the Authority’s potable water and/or sanitary sewer systems. It would also be assessed for renovation or redevelopment projects for any premise, building or structure that requires a metered water service connection to the Authority’s potable water and/or sanitary sewer systems.

Mr. Gibbs asked if the funds collected from the SAF would be targeted for a specific use or flow to the General Fund. Mr. Kim stated that SAF revenues have not been incorporated into the FY 2016 or FY 2017 budgets and recommended that the Authority gather at least a year’s worth of collections data in order to project more accurate estimates of future SAF revenues. He noted that the Authority’s intent is to incorporate SAF revenues into future budgets, which would eventually flow into the Authority’s General Fund.

Mr. Roth asked Mr. Kim to explain how assessing this “retrospective fee” on future customers to recover monies already paid by customers in the past did not constitute a double recovery by the Authority – or how, even if the monies are used to lower future rates, the beneficiaries would end up being different customers than those who previously paid the monies in through their past water and sewer rates. Mr. Kim and Mr. Davis responded that Mr. Roth’s questions raised important policy issues related to rate setting theory and practice for the industry. The fee is premised on the basis that over time and across customers, the SAF is designed to achieve a fair and equitable balance between the investments made by prior customers to serve future customers even if a particular customer may leave the system and no longer benefit from lower future rates. The WSRF is designed to address the Authority’s future system needs; and, together with the SAF, these fees do not constitute a double recovery as they address different types of capital investments made at different times.

Mr. Kim exhibited the slide showing the proposed SAF schedule. Residential customer accounts with a 1” inch or smaller meter size will be charged a one-time fee of $3,944, whereas the Multi-Family and Non-Residential customer accounts with a 1” inch or smaller meter size will be charged a fee of $4,455. The higher fee for Multi-Family and Non-Residential customer accounts is based upon the higher estimated usage of these customer classes compared to Residential customers for the same size meter.

Mr. Roth inquired whether in light of the Board’s experience this past summer in discovering that many recently built but relatively modest single-family townhomes have 2” meters for fire suppression per DC Code requirements, the proposed fee schedule could be creating a problem by expecting a developer to pay nearly ten times ($38,661) what it costs a residential customer with a 1” meter. Mr. McDermott, Director of Permit Operations, responded to Mr. Roth’s question and explained that the proposed SAF regulations take into account the DC Code requirements for fire suppression and that the fee is only based upon peak demand. Mr. McDermott noted that the proposed subsection 112.11(c) reads: “[t]he SAF meter size shall be computed for the peak water demand, excluding fire demand.”

Mr. Kim presented a slide comparing the proposed SAF with what other utilities charge across the region and concluded that the Authority’s proposed SAF is lower, and in most instances significantly lower, than the current fees assessed by nearly every other regional utility for Residential and Non-Residential customers. He noted that the fee comparisons were based on meter size and noted that some utilities do not publish the fee for larger accounts or scale the fee differently. In addition, Mr. Kim noted that WSSC is not included in the chart because its fee is based upon number of fixtures and not meter size.

Mr. Kim referred the Committee to the “Sample System Availability Fee” slide showing various development and redevelopment scenarios, and then explained the calculation of the SAF with credits for removed capacity.

Mr. Kim noted that the preliminary SAF revenue projections of $7.7 million were internal estimates only and based on the historic number of new permits issued less a projected allowance for redevelopment credits.

Mr. Roth asked if DC Water could consider exempting non-profit or charitable organizations from the SAF. Mr. Hope stated that under the statute, DC Water has the authority to consider various proposals for exemptions. The Committee discussed at length the possibility of providing exemptions for certain types of charitable organizations and other 501(c)(3) nonprofits. The committee agreed to revise the SAF resolution to incorporate in the request for comments on the proposed regulations a specific request for comments on a proposal to provide exemptions for charitable organizations and affordable housing.

**Action Item (Attachment B)**

Mr. Kim referred the Committee to the following action item.

**Action Item #1:**

The Committee recommended adoption of SAF for the Board approval:

* Approval of Proposed System Availability Fee (SAF) effective April 1, 2016

**DC Retail Water and Sewer Rates Committee Workplan (Attachment C)**

Mr. Kim briefly updated the Committee on the FY 2016 Proposed DC Retail Rates Committee Workplan.

**Other Business**

No other business

**Executive Session**

No executive session

**Agenda for January 26, 2016 Committee Meeting (Attachment D)**

Mr. Kim indicated that he anticipated no new business that would require a January meeting. The Committee agreed to cancel the January 26, 2016 meeting.

**Adjournment**

The meeting was adjourned at 10:47 a.m.

**FOLLOW-UP ITEMS – DC Retail Water and Sewer Rates Committee Meeting (December 18, 2015)**

1. Revise the SAF resolution to incorporate in the request for comments on the proposed regulations a specific request for comments on a proposal to provide exemptions for charitable organizations and affordable housing. (Mr. Roth) Status: January 2016