



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

*DC Retail Water and Sewer Rates Committee
Wednesday December 15, 2010
9:30 a.m.*

MEETING MINUTES

COMMITTEE MEMBERS

David J. Bardin, Chair
Howard C. Gibbs, Vice-Chair
Alethia Nancoo
Alan Roth
Howard Croft
Joseph Cotruvo

DC Water Staff

George Hawkins, General Manager
Olu Adebo, Chief Financial Officer
Linda R. Manley, Board Secretary
Randy Hayman, General Counsel
Yvette Downs, Director of Finance and Budget
Charles Kiely, Assistant General Manager

Call to Order

Chairman Bardin called the Retail Rates Committee meeting to order at 9:37am. He thanked Committee members for their inputs into planning a 2011 calendar of regular meetings, asking Ms. Manley to take over final coordination. In general, the calendar reserves the fourth Tuesday of each month, with an exception for months when Joint Meetings may be scheduled, and locates some meetings at 810 First Street NE and some at Blue Plains.

FY 2012 Rate and Fee Proposal

Review of Retail Revenues and Rates (Attachment A)

Although much of the presentation repeats material previously distributed, CFO Adebo noted that Attachment A includes a revised FY 2012 rate proposal from the October proposal, reflecting \$1.4 million less in expenditures than the original proposed amount for FY 2011 and \$4.0 million less than proposed for FY 2012.

Action Items

The Committee moved four of the five Action Items to the Board as follows:

Revised Rate Setting Policies Resolution (3A)

The Committee completed editorial mark up. Mr. Gibbs proposed and the Committee agreed to revise the fourth WHEREAS clause to refer to striving to achieve a reasonable balance between "...costs, cost allocations, customer impacts, and other considerations..." in reaching rate decisions. The operative language as edited would read:

It is the policy of the Board of Directors of DC Water in setting retail rates, including charges and fees, pursuant to its statutory authority to strive to achieve the following:

1. Rates that, together with other revenue sources, cover current costs and meet or exceed all bond and other financial requirements as well as goals set by the Board.
2. Rates that yield a reliable and predictable stream of revenues, taking into account trends in costs and in units of service.
3. Rates based on annually updated forecasts of operating and capital budgets.
4. Rate structures that are legally defensible, based on objective criteria, and transparently designed.
5. Rate structures that customers can understand and DC Water can implement efficiently and efficaciously.
6. Rate increases, if required, that are implemented transparently and predictably.

To the extent annual revenues exceed costs, the Board's policy will continue to utilize all available options to mitigate future customer impacts and annual rate increases, including transferring some or all of such excess funds to the Rate Stabilization Fund.

Chairman Bardin asked that the Resolution be moved to the Board for consideration at the January meeting as revised by the Committee.

Customer Impacts from Rate Increases Resolution (3B)

The Committee completed markup of a resolution by which the Board would direct the General Manager to investigate ways to mitigate rate increases and their impacts on retail customers. Originally, Management identified three areas for investigation. Committee members added two more areas and, with other revisions, the text now includes the following five areas for investigation:

1. To investigate the full range of opportunities to develop new sources of revenue for DC Water;
2. To investigate any opportunities or options to expand programs designed to provide financial support to low income customers;
3. To investigate the potential for developing new rate classes or categories that will allow a varied scale of rate charges;
4. To investigate whether the current cost allocation methodologies provide accurate and equitable treatment of retail customers in the District of Columbia with respect to operating and capital costs of joint-use facilities;
5. To investigate whether environmental mandates that any level of government now imposes on DC Water, as well as consent decrees to which DC Water is a party, will unduly burden District of Columbia ratepayers and to pursue appropriate relief from Executive, Legislative, and Judicial Branches;

Chairman Bardin asked that the Customer Impacts from Rate Increases resolution be moved to the Board for consideration at the January meeting as edited by the Committee.

Ten Year Financial Plan FY 2010 – 2019 (3C)

Chairman Bardin turned to the Ten Year Financial Plan FY 2010 – 2019, asking CFO Adebo to address its significance. CFO Adebo provided some history on the Ten Year Financial Plan, including the fact that the Plan had not historically been approved by the Retail Rates Committee until one or two years ago. At the request of Chairman Bardin, the Retail Rates Committee was added to the review and recommendation process for the Financial Plan as the water and sewer retail rate increase projections were shown on the Plan. Generally, the Ten Year Financial Plan serves as a tool to proactively plan and monitor the financial goals, needs and progress of the organization.

Chairman Bardin noted that Management has changed its October presentation to reduce the projected increase in FY 2012 retail revenues over those in 2011 from \$39 million to \$29 million in the current presentation -- \$10 million less.

Committee discussion focused on (a) projected receipts from retail customers and (b) Mr. Roth's concern whether Plan projections of rate increases accurately conveyed impacts on the retail customers.

CFO Adebo agreed to provide, prior to the January 6 Board meeting, a supplemental chart or graph integrating increases in all of the various rate and fee components in a format that would permit a Board member to see clearly the total monthly amount that an average customer could expect to pay, from FY2010 through FY2019, based on DC Water's current financial projections, and the current PILOT formula in the MOU, and any other components. When Mr. Adebo pointed out that definition of "average customer" might change over those years, Mr. Roth requested that staff use the current 6.69 Ccf per month per residential customer so that Board members could understand what lies ahead based on the definition with which they are already familiar.

On that basis, the Committee moved the Plan forward to the Board, subject to receipt of the supplemental data and to review by the Finance and Budget Committee, with Mr. Roth objecting because he was not convinced the percentage figures being presented in the Plan for rate increases were accurate. By his rough calculation, the average customer's total monthly bill would more than double over the 10-year period from FY 2010 to FY 2019, suggesting much higher annual percentage increases (including more frequent double-digit increases) than those the Plan displayed.

Approval of Initiating the Proposed Rates and Fee Adjustments (3D)

Chairman Bardin took up the proposed rates and fee adjustments for FY2012. The Committee discussed Management's proposals and additional written comments comprising the "Committee Chair's Mark". That Mark noted:

- Management's recommendations for volumetric water and volumetric sewer rates ,combined, now reduce the increase to an effective 7 percent increase rather than the 8 percent adjustment proposed in October 2010.
- Management's other proposed increases remain as in October, namely:
 - 8 percent increase in the PILOT fee;
 - 7 percent increase in the Right-of-Way (ROW) fee; and

- 99 percent increase in the Impervious Area Charge to recover costs of the Combined Sewer Overflows Long-Term Control Plan.
- DC Water has two classes of retail customer (“Residential” and “Non-Residential”).

The Mark proposed:

- Expressing the volumetric rates separately for the two customer classes (even if proposed rates for the two classes are the same);
- limiting to 6 percent the proposed increase in volumetric sewer and water rates (combined) for residential customers while adopting Management’s 7 percent for all other customers (reducing planned revenue increases by \$650,000); and
- not initiating an increased PILOT fee at this time.

Mr. Roth distinguished between an open mind to the concept of ultimately setting different rate increases for different customer classes at the end of the process or in future years and proposing a specific distinction now in proposed FY2012 volumetric rates. The General Manager also recommended deferring for thoughtful study any specific changes to the rate structure for volumetric rates. General Counsel Hayman had not completed his research as to PILOT and ROW legal issues, which continues. Preliminary research identified a framework of statute and regulations that may govern a ROW fee. As to PILOT, DC Water may not pay any tax, but may pay for goods and services under its Enabling Legislation.

Committee consensus although not unanimous was to move forward to the Board all of Management’s proposals to increase certain rates and charges, with a structural change to which the General Manager agreed: Rates will be separately set forth for each of DC Water’s two Customer Rate Classes, Residential and Non-Residential. That will allow participants in the Public Hearing process to advocate different rate levels, but will leave the Board free to decide at the end of the process whether to reduce any of the following increases for the Residential Customer or for the Non-Residential Customer Class or both:

Rate or Fee	Increase	From	To
Water Service rate	\$0.22 / Ccf	\$3.10 / Ccf	\$3.32 / Ccf or \$4.44 / 1000 gals.
Sewer Service rate	\$0.26 / Ccf	\$3.79 / Ccf	\$4.05 / Ccf or \$5.41 / 1000 gals.
PILOT fee	\$0.04 / Ccf	\$0.49 / Ccf	\$0.53 / Ccf or \$0.71/ 1000 gals.
ROW fee	\$0.01 / Ccf	\$0.14 / Ccf	\$0.15 / Ccf or \$0.20 / 1000 gals.
IAC (monthly)	\$3.42 / ERU	\$3.45 /ERU	\$6.87 / ERU

The Committee noted Management’s inclusion of both Ccf (hundred cubic feet) and 1,000 gallons unit costs within the rate proposal.

Chairman Bardin asked that Management’s Proposed Rates and Fee Adjustments be moved to the Board for consideration at the January meeting noting the increased rates for each customer class of residential and non-residential.

Impervious Area Incentive Program – Impervious Area Charge (IAC) Discounts (3E)

The committee did not move forward the Impervious Area Incentive Program to the Board for initiation of rule making in January due to the need for further evaluation to understand the District Department of the Environment (DDOE) stormwater discount fee rulemaking and the legal, policy, and revenue implications of initiating a parallel DC Water rule making proceeding to offer discounts to certain IAC bills. Chairman Bardin said that Item 3E as

now drafted did not seem specific enough for a Board rule making. He asked General Counsel Hayman to produce a written explanation of legal requirements and options for DC Water as regards IAC discounts.

General Manager Hawkins agreed to revisit the Impervious Area Incentive Program in January.

IAC Discounts – LID Incentive Program Legal Requirement

General Counsel Hayman spoke to some legal issues. As noted, the program will be discussed at the January Committee meeting.

Retail Rates Committee Workplan (Attachment B)

The Committee deferred consideration of work plan and proposed dates staff has added.

Other Business

N/A

Adjournment

Hearing no further business, Chairman Bardin adjourned the meeting at 11:49am.