

**DISTRICT OF COLUMBIA**

**WATER AND SEWER AUTHORITY**

# Board of Directors

DC Retail Water and Sewer Rates Committee

## Tuesday, January 27, 2015

9:30 a.m.

 MEETING MINUTES

**Committee Members in Attendance**

 **DC Water Staff**  DC WATER STAFF PRESENTM

Alan Roth, Chairperson

Matthew Brown

Rachna Butani

Howard Gibbs

Robert Mallett

Obiora “Bo” Menkiti (via Telephone)

Brenda Richardson

 Mark Kim, Chief Financial Officer

 Randy Hayman, General Counsel

 Linda R. Manley, Board Secretary

**Call to Order**

Chairman Roth called the DC Retail Water and Sewer Rates Committee meeting to order at 9:38 a.m.

**FY 2016 Proposed Rates, Charges and Fees**

Mr. Kim stated that there were two agenda items for discussion: management recommendations on the FY 2016 Proposed Rates, Charges and Fees, and Proposed Ten Year Financial Plan FY 2015 – 2024. Mr. Kim gave a presentation to the committee on the FY 2016 proposed rates, charges and fees. Across the board, water rates are either flat or down for every residential customer class, which is reflective of a fundamental shift in the underlying expenditures being weighted more heavily towards the wastewater side. Consequently, sewer rates must increase accordingly. Staff also recommends shifting a larger portion of the fee structure from variable to fixed fees. With respect to the fixed fees, DC Water has the Clean Rivers Impervious Area Charge (CRIAC) and is proposing to introduce a new Water System Replacement Fee (WSRF). The WSRF is designed to cover the cost of the replacement of 1 percent of the aging water lines annually. Chairman Roth asked if there was any change to the proposed rates as compared to last month’s presentation. Mr. Kim mentioned that there was a change to the WSRF as a result of refined data. The WSRF is now proposed at $6.30 monthly versus last month’s preliminary estimate of $5.02. Chairman Roth asked whether the WSRF was calculated to cover the portion of the water capital program necessary to deal with the 1 percent renewal and replacement rate for water mains. Mr. Kim replied in the affirmative, stating that the fee would raise approximately $40 million.

Customer Class-Based Volumetric Rate Structure

Mr. Kim reaffirmed the staff’s recommendation to move to a water only customer class-based rate structure. He referred to the chart showing a summary of the monthly peaking factors of the three customer classes. The low and the high peaking factors of the residential and non-residential customers is great enough to justify a separation of those classes for rate making purposes. Since peaking factors for residential and multi-family customers are so close, management is recommending the same rate for these two classes. As discussed at the previous meeting, DC Housing is proposed to be treated as multi-family because the data shows its characteristics to be so similar.

Lifeline Residential Water Rate System

Mr. Kim similarly reaffirmed the recommendation of a lifeline water rate for residential customers by discounting the first 4 Ccf of “core consumption”. This is designed to introduce an incentive for conservation for residential customers as well as to create a more progressive rate structure. The lifeline water rate structure provides an economic benefit to low-volume residential customers while spreading the cost of peaking to high-volume residential customers. Mr. Kim then explained the rates for different classes under class-based rate structure. Mr. Gibbs asked how the 4 Ccf core consumption for residential customers was determined. Mr. Kim replied that based on analysis of the mean and median consumption of residential customers, 4 Ccf residential core consumption was a reasonable breakpoint.

Water System Replacement Fee

Mr. Kim updated the committee on the recommended monthly Water System Replacement Fee to recover the costs of the 1% renewal and replacement program for water service lines. He explained that the fee would be based upon meter size and average flow; and that the authority’s CAP customers would receive a 100% credit for this fee. Ms. Richardson inquired as to whether most of the the low-income CAP customers were seniors [**Follow-up**]. Mr. Kim stated that about 4%of the Authority’s single-family residential customers were CAP customers. Mr. Mallett noted that the addition of this fixed fee, together with the other components of the customer bill, meant that the bottom line for District ratepayers was rising, and he expressed concern that there was no relief in sight for District ratepayers with their water bills. Chairman Roth shared the concern but noted that the largest single component of customer bills, and the fastest growing, stems from the Clean Rivers Program mandated by federal consent decree, and that the new fee is intended to pay for a decision the Board had made to speed up the replacement of our aging basic infrastructure from once every 300 years to once every 100 years.

Residential Customer Monthly Bill

Mr. Kim presented an average monthly customer bill assuming 6.69 Ccf of consumption, 1 ERU and 5/8” meter. He mentioned that the new structure would generate a higher percentage of revenues through fixed fees and create a more stable revenue base for DC Water. He further explained that average single-family Residential customers could reduce their monthly bills from $96.53 to $69.77 by reducing consumption to 4 Ccf. Mr. Mallett reiterated his concerns with the average customer bill nearing $100 dollars. Ms. Richardson suggested the authority needs to do more outreach and educate customers who were having a difficult time paying their bills. She suggested using the Mayor’s TV channel to spread the word about the affordability programs available. Mr. Lisle stated that the Authority would do more outreach about its affordability programs. Ms. Butani noted that customers under this plan could save money by reducing consumption.

CAP Customer Monthly Bill

Mr. Kim informed the committee the CAP customer monthly bill under the proposed FY 2016 rate structure is 45% less than the residential customer monthly bill. Mr. Kim noted that the new structure allowed customers to meaningfully reduce their bills by reducing consumption. He explained that by reducing consumption to 4 Ccf, the CAP customers could reduce their monthly bill from $53.59 to $26.83 per month.

Ten Year Financial Plan FY 2015-2024

Mr. Kim gave a brief overview of the following Financial Plan objectives:

* minimizing rate increases while meeting all financial obligations
* satisfying all indenture requirements and Board policies
* maintaining the DC Water’s current credit ratings of AA+/Aa2/AA

Mr. Kim explained the Financial Plan projections for water and sewer volumetric rates going forward would be moderated by switching to a fixed revenue based structure. Last year’s Financial Plan showed 7.5% rate increases for many years. We would be able to bring the water and sewer rate increases down by increasing the fixed portion of the bill. Mr. Kim mentioned that the Clean Rivers IAC was the fastest growing component of the bill, which was beyond DC Water’s control. He further stated that retail customers would have more control over the water and sewer portion of the bill. If they reduced their consumption, they could effect savings.

Renaming Infrastructure Fee

The committee considered alternative names submitted by staff for the infrastructure fee to pay for the 1% water main renewal and replacement program. Mr. Kiely explained the abilities and limitations of the current billing system in the context of this consideration. After a brief discussion, the name “Water System Replacement Fee” received the most positive feedback. (The fee is referred to by that name or the acronym WSRF throughout these minutes.)

Mr. Gibbs commended Mr. Kim and the staff for its excellent work in developing the proposed new rate structure. Chairman Roth and other members of the committee echoed those sentiments.

Recommendations

Mr. Kim made the following recommendations:

* Adopt proposed FY 2016 rates, charges and fees for publication in the DC Register to begin the FY 2016 rate-making rulemaking process
* Adopt FY 2015 – FY 2024 Financial Plan

**Action Items**

Chairman Roth and the committee members recommended the following two actions items to the Board for approval in their meeting to be held on February 5, 2015.

1. FY 2016 Retail Rates, Charges and Fees for publication in the DC Register to begin the FY 2016 rate-making rulemaking process
* Customer Class-Based Volumetric Rates
* Lifeline Water Rate for Residential Customers
* DC Housing Authority recoded into Multi-family class
* Establish Water System Replacement Fee
* Amend CAP program to give 100 percent credit for Water System Replacement Fee ($6.30 per month)
1. Ten Year Financial Plan FY 2015-2024

**DC Retail Water and Sewer Rates Committee Workplan**

Mr. Kim presented the committee workplan and mentioned that the following alternative revenues and fees would be discussed at the next meeting:

* Presentation of Cost of Service Study for Fire Protection Fee
* Development Impact Fee
* Cross Connection Program Fee (TBD)

**Other Business**

No other business was discussed.

**Executive Session**

The committee went into executive session to discuss an update on Soldier’s Home.

**Adjournment**

The meeting was adjourned at 11:38 a.m.

**FOLLOW-UP ITEMS – DC Retail Water and Sewer Rates Committee Meeting (January 27, 2015)**

1. Prepare CAP customers average usage analysis. (Mr. Gibbs) Status: February 2015
2. Are most of the low-income CAP customers seniors? (Ms. Richardson) Status: February 2015