



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

Board of Directors

DC Retail Water and Sewer Rates Committee

Friday December 19, 2014

9:30am

- 1. **Call to Order**Alan Roth, Chairman
- 2. **FY 2015 Cost of Service Study and Alternate Rate Models Review (Attachment A)** Mark Kim
- 3. **DC Retail Water and Sewer Rates Committee Workplan** Mark Kim
 - **FY 2015 Proposed DC Retail Rates Committee Workplan (Attachment B)**
- 4. **Other Business** Mark Kim
- 5. **Executive Session**
- 6. **Agenda for January 27, 2015 Committee Meeting (Attachment C)**Alan Roth, Chairman
- 7. **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.

FOLLOW-UP-ITEMS – DC Retail Water and Sewer Rates Committee Meeting (September 23, 2014)

- 1. Prepare CAP customers average usage analysis. (**Mr. Gibbs**) Status: January 2015



DC WATER

Retail Rates Committee

Cost of Service & Rate Structure Study

Draft Findings | December 19, 2014

AGENDA

- 2015 Cost of Service Study
 - Revenue Sufficiency Findings
 - Comparison of Revenues and Expenses
 - Cost Drivers and Trends

- Affordability and Alternative Rate Structures
 - FY 2016 Rates, Fees and Charges
 - Rate Structure Alternatives
 - Infrastructure Fee
 - Customer Class Based Water Rates
 - Lifeline Water Rates
 - Alternative Rate Structures
 - Average Residential Customer Bill

- Next Steps

2015 Cost of Service Study

DC Water conducts a Cost of Service (COS) Study every three years – RFC performed the COS Study in 2009 and 2012.

Study Components

1. Revenue Sufficiency Analysis – Do the proposed rates recover adequate revenue to meet expenditures?
2. Cost of Service Analysis / Rate Equity – Are proposed existing rates equitably recovering the costs of providing service?
3. Alternative Rate Structure Analysis – Are there alternative rate structures that may more effectively meet DC Water’s highest priority pricing objectives?

Objectives of the COS Study

- In 2010 RFC did a pricing objectives exercise that prioritized:
 1. Revenue Sufficiency – Rates should recover revenue necessary to operate and maintain the utility in perpetuity
 2. Cost of Service Recovery – Rates should be supported by industry practice and ensure that customers pay their fair share
 3. Simplicity – Rates and charges should be easy for our customers to understand
- Given recent increases in customer bills, DC Water would like to prioritize **affordability** as a consideration in developing its rate structure alternatives

Revenue Sufficiency Findings

RFC projects revenue based on rates and units of service (number of accounts, billed consumption, and impervious ERUs)

- Revenues under proposed rate increases, with the addition of an Infrastructure Fee, are sufficient to fund utility cash needs in FY 2016.
- Reserve funds can be maintained at target levels.
- Debt service coverage is adequate to meet required bond covenants.

Comparison of Revenues & Expenses (FY 2016)

	DC Water		
	<u>Financial Plan (1)</u>	<u>RFC Model</u>	<u>Delta</u>
Revenue			
Operating	\$ 542,222,732	\$ 541,718,037	\$ (504,695)
Non-Operating	27,982,336	27,982,336	-
Total: Revenue	<u>570,205,068</u>	<u>569,700,373</u>	<u>(504,695)</u>
Expenses			
Operating (2)	\$ 324,202,158	\$ 324,202,036	\$ (122)
Debt Service	174,765,568	174,765,568	\$ -
Total: Expenses	<u>\$ 498,967,726</u>	<u>\$ 498,967,604</u>	<u>(122)</u>
<i>Net Cash Available for PAYGO</i>	<u>\$ 71,237,342</u>	<u>\$ 70,732,768</u>	<u>\$ (504,574)</u>
<i>Capital & Other Cash Needs</i>			

(1) Financial Plan provided by DC Water Staff (dated 12.04.14)

(2) Includes PILOT and ROW fee.

Cost Drivers & Trends

- Capital costs are increasing due to regulatory requirements and infrastructure rehabilitation, particularly for wastewater and CSO mitigation
- Operating and Maintenance expenses have increased closely with inflation
- Per capita consumption has continued to decrease causing overall billable consumption to decline

Affordability and Alternative Rate Structures

FY 2016 Rates, Fees and Charges

Rate Component	Financial Plan	Cost of Service	% Difference	\$ Difference
Water Volumetric	\$4.13	\$3.74	(9.4%)	(\$ 0.39)
Sewer Volumetric	\$5.05	\$5.44	7.7%	\$ 0.39
Metering Fee	\$3.86	\$3.86	-	-
Clean Rivers IAC	\$20.30	\$20.30	-	-
District Fees:				
PILOT/ROW	\$0.64	\$0.64	-	-
Stormwater	\$2.67	\$2.67	-	-
Infrastructure Fee	\$ 5.02	\$ 5.02	-	-

- Proposed rates are based on DC Water's Financial Plan projections
- Cost of Service rates are adjusted based on how costs are incurred
- District Fees includes PILOT, ROW and Stormwater
- The new Infrastructure Fee will be addressed later in the presentation

Rate Structure Alternatives

In order to provide alternatives that may better balance DC Water pricing objectives, including customer affordability, we have developed some *revenue neutral* options:

- Infrastructure Fee – This will be a new component on the customer bill targeted specifically at renewal and replacement of aging water infrastructure in the retail service area
- Class-based Volumetric Rates – Rate differentiation by class is based on the peaking demands by each customer class
- Lifeline Rates – This alternative provides a lower water rate for the first 4 Ccf of SFR water use to reflect that it constitutes baseline use by residential customers without peaking costs

Infrastructure Fee

Meter Size	Monthly Fee
5/8"	\$ 5.02
3/4"	\$ 5.88
1"	\$ 7.70
2"	\$ 66.72
3"	\$ 194.89
4"	\$ 500.03
6"	\$ 1,112.86
8" and Greater	\$ 4,216.61

- Fixed monthly fee set to recover costs of 1% capital replacement program
- Meter size differentials set based on average flow for each meter size
- Fee can be set to provide credit (0%, 50%, or 100%) to CAP customers

Customer Class-based Water Rates

Customer Class	Monthly Peaking Factor
Residential	1.15
Multi-Family / DC Housing	1.16
Non-Residential	1.39

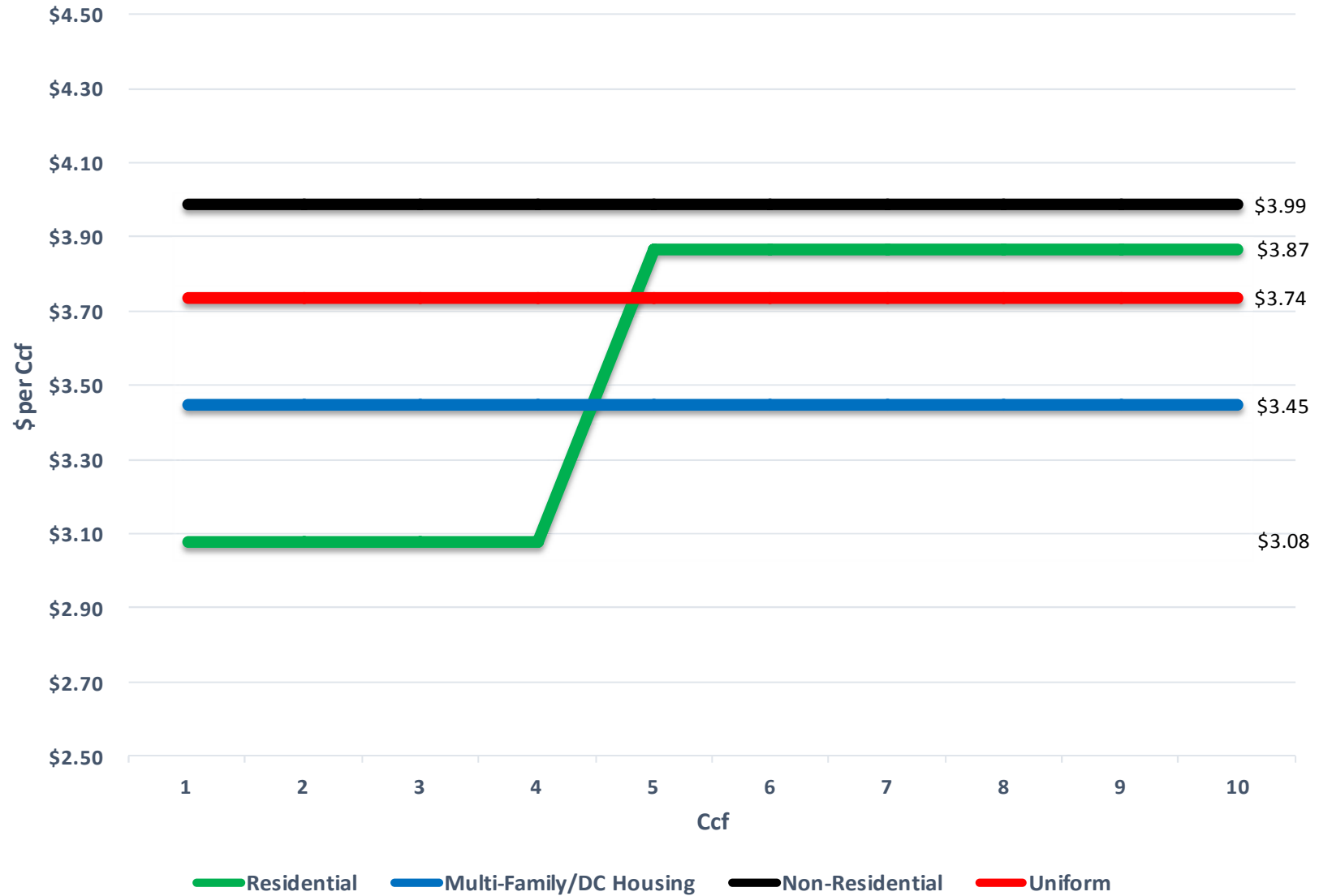
- Although the peaking differentiation between customer classes is small, justification exists for establishing class-based volumetric rates
- As an alternative, Residential and Multi-Family may be grouped together with the same water volumetric rate

Lifeline Water Rates

- Provides the first 4 Ccf of water to all Residential customers at a lower rate since no peaking costs would be recovered through this baseline usage
- This provides some benefit to low-volume Residential users, while spreading the cost of peaking to higher volume Residential Customers

Water Volumetric	Uniform	Class-Based (w/o lifeline)	Class-Based (w/ lifeline)
Residential - 0-4 Ccf	\$ 3.74	\$ 3.45	\$ 3.08
Residential - >4 Ccf	\$ 3.74	\$ 3.45	\$ 3.87
Multi-Family / DC Housing	\$ 3.74	\$ 3.45	\$ 3.45
Non-Residential	\$ 3.74	\$ 3.99	\$ 3.99

Rate Structure Alternatives



Residential Customer Monthly Bill

	Current (FY 2015)	Uniform	Class Based w/o Lifeline	Class Based w/Lifeline
DC Water and Sewer Retail Rates	\$ 57.67	\$ 61.41	\$ 59.47	\$ 59.12
DC Water Clean Rivers IAC	16.75	20.30	20.30	20.30
DC Water Customer Metering Fee	3.86	3.86	3.86	3.86
DC Water Infrastructure Fee	-	5.02	5.02	5.02
Subtotal: DC Water Rates & Charges	\$ 78.28	\$ 90.59	\$ 88.65	\$ 88.30
Increase / Decrease		\$ 12.32	\$ 10.38	\$ 10.03
District of Columbia PILOT	\$ 3.08	\$ 3.14	\$ 3.14	\$ 3.14
District of Columbia Right of Way Fee	1.14	1.14	1.14	1.14
District of Columbia Stormwater Fee	2.67	2.67	2.67	2.67
Subtotal District of Columbia Charges	\$ 6.89	\$ 6.95	\$ 6.95	\$ 6.95
Total Amount Appearing on DC Water Bill	\$ 85.17	\$ 97.54	\$ 95.60	\$ 95.25
Increase / Decrease Over Prior Year		\$ 12.37	\$ 10.43	\$ 10.08
Percent Increase in Total Bill		14.52%	12.24%	11.84%

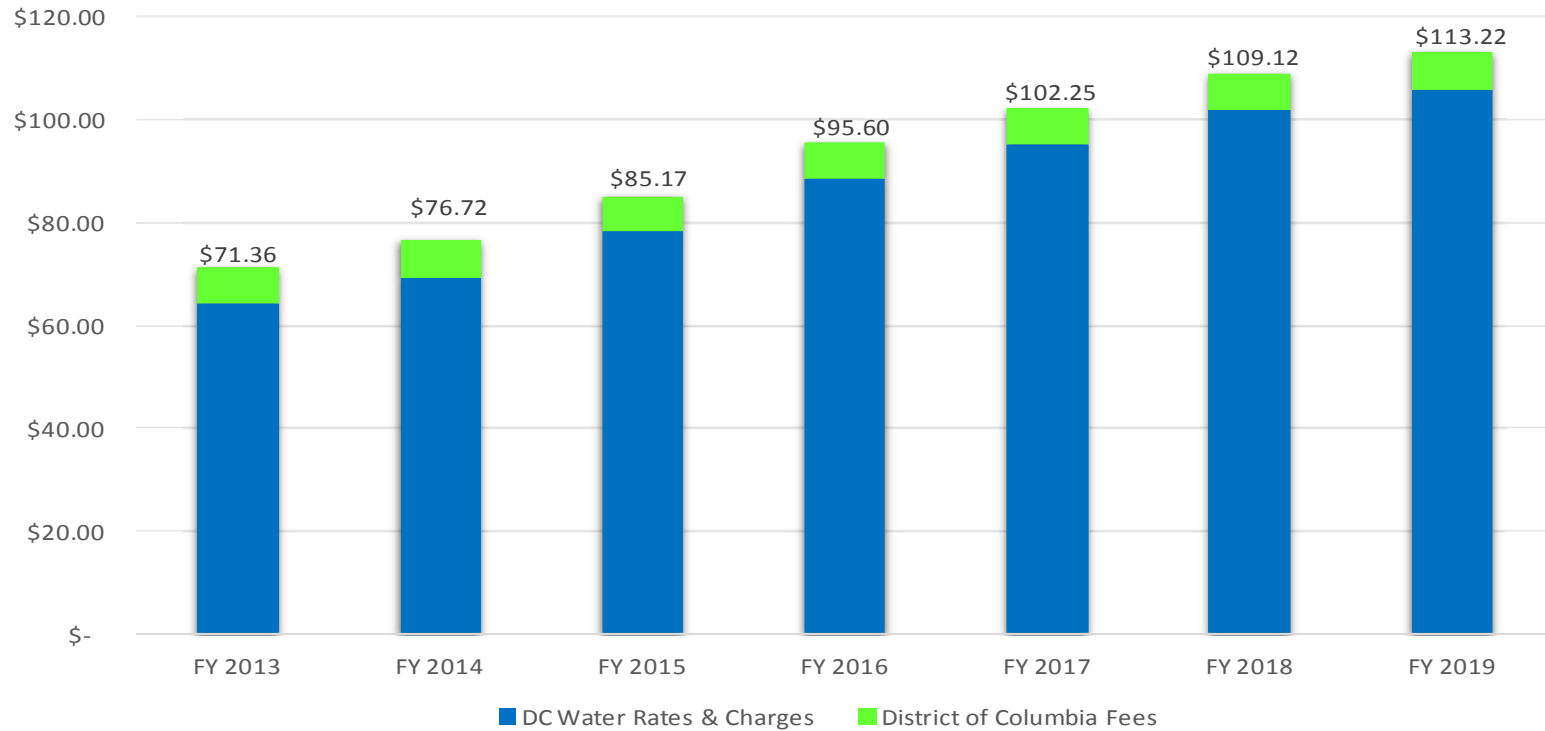
* Assumes 6.69 Ccf consumption, 1 ERU and 5/8" meter

Residential CAP Customer Monthly Bill

	Current (FY 2015)	Uniform	Class Based w/o Lifeline	Class Based w/Lifeline
DC Water and Sewer Retail Rates	\$ 57.67	\$ 61.41	\$ 59.47	\$ 59.12
DC Water Clean Rivers IAC	16.75	20.30	20.30	20.30
DC Water Customer Metering Fee	3.86	3.86	3.86	3.86
DC Water Infrastructure Fee	-	5.08	5.08	5.08
Subtotal: DC Water Rates & Charges	\$ 78.28	\$ 90.65	\$ 88.71	\$ 88.36
Increase / Decrease		\$ 12.37	\$ 10.43	\$ 10.08
District of Columbia PILOT	\$ 3.08	\$ 3.14	\$ 3.14	\$ 3.14
District of Columbia Right of Way Fee	1.14	1.14	1.14	1.14
District of Columbia Stormwater Fee	2.67	2.67	2.67	2.67
Subtotal District of Columbia Charges	\$ 6.89	\$ 6.95	\$ 6.95	\$ 6.95
Total Amount Appearing on DC Water Bill	\$ 85.17	\$ 97.60	\$ 95.66	\$ 95.31
Increase / Decrease Over Prior Year		\$ 12.43	\$ 10.49	\$ 10.14
Percent Increase in Total Bill		14.59%	12.31%	11.90%
Less: CAP Discount (4 Ccf per month)	\$ (37.00)	\$ (39.28)	\$ (38.12)	\$ (36.64)
Infrastructure Fee	\$ -	\$ (5.08)	\$ (5.08)	\$ (5.08)
Total Amount with CAP Customer Discount	\$ 48.17	\$ 53.24	\$ 52.46	\$ 53.59
Increase / Decrease Over Prior Year		\$ 5.07	\$ 4.29	\$ 5.42
CAP Customer Discount as a Percent of Total Bill		-45.45%	-45.16%	-43.77%

* Assumes 6.69 Ccf consumption, 1 ERU and 5/8" meter

Average Residential Customer Bill



Percent Increase	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
W&S Rate Increase	5.5%	5.5%	7.5%	6.5%	6.5%	6.0%	6.0%
Total Bill	8.7%	7.5%	11.0%	12.2%	6.9%	6.7%	3.8%

Next Steps

Preliminary Recommendations

- Adopt customer class-based rate structure:
 - Same rate for Residential and Multi-family
 - Reclassify DC Housing customers into Multi-family
 - Different rate for Non-residential
- Adopt Infrastructure Fee:
 - Fixed charge to recover costs to maintain 1% water and sewer line replacement program
 - Charge based upon meter size
 - Charge to be added to existing fixed Metering fee
 - Exempt CAP customers from this fee

Preliminary Recommendations

- Consider lifeline rate structure:
 - Discount on first 4 Ccf water to all residential customer
 - Promotes conservation and provides benefit to low-volume residential customers
 - Allocates system peaking cost to high volume customers

FY 2015 Proposed Committee Workplan

Objective/ <i>Activities</i> /Task	Date of Activity	Completed	Responsible Department
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1. Develop Realistic Retail Rate Revenue Projections and Alternative Retail Revenue Sources			
<i>a. Propose and establish Retail Rates in FY 2016</i> <ul style="list-style-type: none"> i. RRC preliminary recommendation on FY 2016 rates ii. FY 2016 Budget workshop iii. RRC final recommendation on proposed FY 2016 rates iv. Board approval v. Publish Proposed Rates in DCMR vi. Public Outreach vii. Public Hearing viii. RRC final recommendation to approve FY 2016 rates ix. Board Approval on FY 2016 rates x. Publish Final Rates in DCMR 	<ul style="list-style-type: none"> December 19, 2014 January 8, 2015 January 27, 2015 February 5, 2015 February 20, 2015 April 2015 May TBD, 2015 June 23, 2015 July 2, 2015 July 17, 2015 		<ul style="list-style-type: none"> Rates and Revenue General Counsel External Affairs Board Secretary General Counsel

2. 2015 Cost of Service Study Water & Sewer			
<i>a. Final 2015 Cost of Service Study Water & Sewer</i>	January 27, 2015		Rates and Revenue

3. 2015 Cost of Service Study Fire Protection Fee			
<i>a. Fire Protection Fee COS</i>	January/February 2015		Rates and Revenue

4. Delinquent Accounts			
<i>a. Soldiers Home Negotiations</i>	Monthly, as needed		General Counsel

FY 2015 Proposed Committee Workplan			
Objective/ <i>Activities</i> /Task	Date of Activity	Completed	Responsible Department
5. Strategic Plan			
a. Develop Alternative Revenue Sources and Achieve Realistic Revenue Projections (DC Water Strategic Plan Framework) i. <i>Identify and evaluate potential revenue generating initiatives annually</i>	On-going updates to Committee		Rates and Revenue
6. DCGIS FY 2014 Flyover			
a. <i>Update Committee on FY 2014 Flyovers</i>	February 2015		Customer Service



D.C. WATER AND SEWER AUTHORITY
BOARD OF DIRECTORS
RETAIL WATER & SEWER RATES
COMMITTEE MEETING

TUESDAY, January 27, 2015; 9:30 a.m.
AGENDA

Call to Order	Committee Chairman
Monthly Updates	Chief Financial Officer
Committee Workplan	Chief Financial Officer
Other Business	Chief Financial Officer
Agenda for February 24, 2015 Committee Meeting	Committee Chairman
Adjournment	

*Detailed agenda can be found on DC Water’s website at www.dewater.com/about/board_agendas.cfm