

**DISTRICT OF COLUMBIA**

**WATER AND SEWER AUTHORITY**

# Board of Directors

DC Retail Water and Sewer Rates Committee

## Friday, December 19, 2014

9:30 a.m.

 MEETING MINUTES

**Committee Members in Attendance**

 **DC Water Staff**  DC WATER STAFF PRESENTM

Alan Roth, Chairperson

Ellen Boardman

Matthew Brown

Howard Gibbs

Brenda Richardson - via Teleconference

Bo Menkiti – via Teleconference

George Hawkins, General Manager

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 9:34 a.m.

**Update on 2015 Cost of Service Study**

Chairman Roth stated that Mark Kim, CFO would be presenting an analysis of the 2015 Cost of Service Study and Alternative Rate Structures addressing affordability concerns. Mr. Roth then thanked Mr. Gibbs (Former Chairman) for successfully separating out the different classes of customers. Mr. Kim explained that the staff is not asking for any action from the Committee today, but the purpose of this meeting is to brief the Committee and to seek guidance, feedback, and reactions to the work the staff has done and to finalize recommendations in order to propose them in the next RRC meeting to be held in January. Mr. Kim acknowledged his staff led by Syed Khalil who had done a phenomenal job in managing his team internally, together with Reginald Lipscomb and Suzette Stona, and thanked them for their hard work and for making this presentation. He then introduced Jon Davis and his team, Bart Krepts and David Fox, from Raftelis Financial Consultants, Inc. (RFC).

Mr. Davis gave a brief overview of the 2015 Cost of Service Study and its Objectives and mentioned that the Cost of Service Study was conducted every three years. He explained the following components of the study:

* Revenue Sufficiency Analysis
* Cost of Service Analysis / Rate Equity
* Alternative Rate Structure Analysis

In FY 2010, RFC did a pricing objectives exercise that prioritized:

* Revenue Sufficiency – Rates should recover revenue necessary to operate and maintain the utility in perpetuity
* Cost of Service Recovery – Rates should be supported by industry practice and ensure that customers pay their fair share
* Simplicity – Rates and charges should be easy for our customers to understand

He noted that with recent increases in customer bills, DC Water would like to prioritize ***affordability*** as a consideration in developing its rate structure alternatives, which to some extent requires a trade-off with simplicity.

Mr. Davis stated that the Revenue Sufficiency findings are based on rates and units of service (number of accounts, billed consumption, and impervious ERUs). He summarized his findings as follows:

* Revenues under proposed rate increases, with the addition of a proposed Infrastructure Fee to be discussed (see below), 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*

Mr. Davis stated that the DC Water Financial Plan figures for Revenues and Expenses are very close to the RFC Model. The difference ($504,695) is due to the different approach used in the two models. Mr. Kim noted that as an independent consultant, RFC used its model to validate the results of our Financial Plan model and found that for a $570 million revenue target, there is less than one tenth of one percent difference between the two models. This validation shows the efficiency and accuracy of DC Water’s Financial Plan projections.

Revenues matched closely in the two models and revenue needs increase fairly significantly over the years due to the following cost drivers:

* 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*

Mr. Kim gave a high level overview of the FY 2016 Proposed Rate, Fees and Charges as projected by the Financial Plan vs. rates as adjusted pursuant to the Cost of Service Study based on the rate components: Water Volumetric, Sewer Volumetric, Metering Fee, Clean Rivers IAC, District Fees (PILOT, ROW and Stormwater), and proposed Infrastructure Fee. He noted that the FY 2016 proposed rates are based on the proposed DC Water’s Financial Plan projections and the Cost of Service rates are adjusted based on how costs are incurred.

Mr. Kim explained that in 2016 there would be a fundamental shift in some costs. Based on forecast and observation, the trend showed greater spending on wastewater side as compared to water side affecting our rate structure. He further added that there would be a shift in spending on projects outside of Blue Plains, for example, the Clean Rivers Project. This would put increased pressure on the District rate-payers.

*Rate Structure Alternatives*

Mr. Kim noted that, in order to provide alternatives that may better balance DC Water pricing objectives, including customer affordability, the study recommended 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 (a shift from historically uniform rates, but a further evolution that began when DC Water divided customers into classes based on use characteristics)
* Lifeline Rates – This alternative provides a lower water rate for the first 4 Ccf of single-family residential (SFR) water use to reflect that it constitutes baseline use by residential customers without peaking costs, similar to what many other utilities provide

*Infrastructure Fee*

Mr. Kim noted that the infrastructure fee is proposed to be a fixed fee on customer bill. This fee is designed to recover the costs of water infrastructure. It is targeted and sized to recover projected costs to maintain the 1 percent replacement program of water mains and the charge is based on meter size. It can be set to provide credit (0%, 50%, or 100%) to CAP customers. For a typical 5/8” meter size customer the monthly infrastructure fee is $5.02. Mr. Davis mentioned that there is ongoing discussion on the exact number of meters in each size category. The final numbers may change the infrastructure fee slightly. Mr. Gibbs commented on the proposed name of the fee, recommending that it communicate more about why the new fee is being charged. Mr. Roth agreed and suggested a change from Infrastructure Fee to something along the lines of Aging Pipe Replacement Fee.

*Customer Class--based Water Rates*

Mr. Kim mentioned that peak usage was one of the factors driving system costs and that the class peaking factor provides a basis for developing class based rates. He explained that peak water usage is the extent to which a customer, or class of customers, regularly exceeds average usage as seen in chart below:



Although the peaking differentiation between customer classes is small, justification exists for establishing class-based volumetric rates. The peaking factors for both Residential and Multi-Family are almost identical, but it is higher for Non-Residential. The conclusion based on analysis of data is to have separate rates for Non-Residential than other customers. Peaking factor differential for Residential and Multi-Family is close enough to give same rate for these classes.

Since usage characteristics of DCHA are more closely aligned with Multi-Family than Non-Residential customers, it will be more appropriate to reclassify DCHA out of Non-Residential into Multi-Family class.

*Lifeline Water Rates*

Mr. Kim noted that a new alternative rate is being introduced. This system identifies and discounts core water consumption needs and places a higher rate on non-core needs. Lifeline rates apply to Residential customers only. This new lifeline water rate 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. A Uniform Rate ($3.74) provides same rate to all customers. If moved to a Class-Based w/o lifeline, Residential and Multi-Family / DC Housing will have the same rate ($3.45) while Non-Residential will pay a higher rate due to peaking ($3.99). The Class-Based w/lifeline showed Residential customers with an average of 0-4 Ccf will pay less ($3.08) and for consumption greater than 4 Ccf will pay ($3.87). The Multi-Family and Non-Residential customers will pay $3.45 and $3.99 respectively.



He mentioned that DC Water currently has one volumetric rate for all classes of customers whereas the Class-based with lifeline showed a different rate structure for all classes of customers based on peaking demand. Mr. Kim showed the Committee charts of a typical Residential customer monthly bill and CAP customer monthly bill. He explained that CAP customers benefit by conserving water under the Class-based Lifeline rate. Their monthly bill of $53.59 at 6.69 Ccf drops to $26.83 at 4 Ccf usage, which represents 60.86 percent discount for CAP customers as a percent of total bill.

That calculation also assumed a 100% credit for CAP customers on the proposed Infrastructure Fee. The committee discussed with Mr. Kim and the General Manager the potential pros and cons of allowing only a 50% credit for that fee, and asked the staff to examine the issue further and report back in January with a recommendation.

Mr. Kim noted that the Committee will be asked to take action in January on the preliminary recommendations below:

* 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 percent water line replacement program
	+ Charge based upon meter size
	+ Charge to be added to existing fixed Metering fee
	+ Exempt CAP customers from all or a portion of this fee
* Consider lifeline rate structure:
	+ Discount on first 4 Ccf water to all residential customer
	+ Promotes conservation and provided benefit to low-volume residential customers
	+ Allocates system peaking cost to high volume customers

Chairman Roth commended the staff on great work. Mr. Gibbs said that this was one of the best presentations he has ever seen.

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

Mr. Kim updated the Committee on the FY 2015 Proposed Committee Workplan. He stated that the workplan is on track.

**Other Business**

No other business to discuss.

**Executive Session**

The committee did not move to go into executive session.

**Adjournment**

The meeting was adjourned at 11:03 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: January 2015