



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Retail Rates Committee
Friday December 18, 2009
11:00 a.m.

MEETING MINUTES

COMMITTEE MEMBERS

David J. Bardin, Acting Chairman
Joseph Cotruvo
Howard Gibbs
Alan Roth

WASA STAFF

George Hawkins, General Manager
Avis Russell, General Counsel
Olu Adebo, Chief Financial Officer
Linda R. Manley, Board Secretary

Call to Order

Acting Chairman David Bardin called the Retail Rates Committee meeting to order at 11:55 am. The Committee focused on action items and ways to improve presentations to the Board, stakeholders, and the general public. It also received updates on certain matters in progress.

FY 2011 Rate and Fee Proposal

Review of Retail Revenues and Rates (Attachment A)

Mr. Adebo presented to the committee the FY 2011 retail revenues, rates and fee proposals. The presentation included two alternative proposals for the water and sewer rate increase. The alternatives were based on a set of strategic choices, which had potential operational and customer rate impact. Acting Chairman Bardin then recapped the list of fee and rate changes included in the proposal. The Committee generally favored going forward with the higher of the two alternative budgets presented by management, at least as a point of departure, with one major exception: At least through FY 2011, the Committee favors foregoing pay-go financing as feasible in order to soften rate impacts. Funding Aqueduct capital projects by long-term debt instead of pay-go, for example, could save retail ratepayers approximately \$5.5 million in FY 2011.

Mr. Roth asked what costs are recovered through the customer metering fee (one of the fees proposed to increase). Mr. Adebo replied that the current metering fee of \$2.01 only recovers the cost of meter replacement. In line with the Board's strategic decision to increase fixed fees and reduce the Authority's exposure to fluctuations in volumetric consumption, the 2009 Independent Cost of Service Study recommended (among other things), that the customer metering fee be expanded to recover all costs, including

operating and capital, associated with installing, operating, maintaining, and replacing meters. The current proposal will uncouple the meter operations costs (approximately 35 percent of the customer service operating budget), which previously was recovered through the volumetric water and sewer rate and recover these costs through the fixed metering charge. Mr. Adebo further stated that the independent consultants also had an alternate proposal which essentially recovered not just the capital costs associated with meter replacements but the full customer service department costs. Since this alternative would have essentially quadrupled the metering fee (an increase of \$6.63 compared to the proposed increase of \$1.85 on a typical residential customer meter 5/8 inches meter) staff did not recommend that alternative at this time.

Mr. Hawkins stated that staff will break out the customer metering fee by various sizes as an attachment to the final board resolution. Mr. Bardin observed that current metering fees range from \$2.01 per month for the smallest, 5/8" meter to \$209.94 per month.

Mr. Bardin asked that the committee move forward to the full Board for consideration the proposed FY 2011 increases to the water and sewer rates totaling \$1.10 per Ccf (revised downward for the pay-go minimized option); Impervious Area Charge from \$2.20 to \$3.45 per Equivalent Residential Unit per month; customer metering fee from \$2.01 to \$3.86 for 5/8" meters and commensurately for larger meters; and Payment in Lieu of Taxes (PILOT) fee from \$0.43/Ccf to \$0.51/Ccf. The Committee requested that staff revise the water and sewer rates, respectively, to reflect the Committee's recommendation of funding the Washington Aqueduct capital projects and DC WASA capital equipment FY 2011 via debt rather than pay-go financing in order to soften rate impacts.

Committee Discussion

After discussion of various alternatives and impacts regarding customer assistance options, the digester project and changes to the existing PILOT and ROW fees, the committee recommended that the Board urge and direct the General Manager to resume intense negotiation on the Payments in Lieu of Taxes (PILOT) to the City. Since the initial MOU in early 1998, WASA has paid well over \$150 million to the City, entirely borne by retail ratepayers. The MOU formula increases the PILOT amount each time WASA raises its retail water service charge. Since 2007, the Board has directed the General Manager to withhold the increases, continuing to pay the City at pre-2007 levels. Nonetheless, the Board has raised the PILOT fee to retail ratepayers at the MOU formula rate. The Committee discussed whether the Board should once again initiate rate making to raise the PILOT fee, as management proposes, and decided to recommend that the Board do so. One Committee member would have recommended not initiating a PILOT fee increase. No Committee member spoke in favor of actually paying the City more than the pre-2007 level.

The Committee discussed ways to improve DC WASA's presentation of rates (and related budgetary) information to all interested persons. Some suggestions included the following:

- Mr. Roth suggesting seeking more understandable terms than "impervious area charge" and "metering fee".
- Discussion identified more opportunities to improve content, context, format, and timing of presentations to public. For example, replace 8.33 Ccf as the "average" or "typical" monthly consumption by retail residential customers of WASA. The average consumption per residential customer per month appears to be lower and the median consumption much lower.

- Mr. Bardin sought revisions to the 10-year Financial Plan that would divide the plan in two parts; one voted on by the entire voting Board and a second part approved by DC Board members only. He also suggested showing the Plan's assumed units of service (e.g., Ccf and per 1000 gallons, and ERUs).

The Committee requested that the 10 year IAC rate projections be updated in January 2010 assuming that President Obama has signed the Consolidated Appropriations Act by that time with additional CSO LTCP Congressional appropriation.

One Committee member expressed doubts as to effects of management's proposal to revise downward the approved FY 2010 budget (which Congress had, coincidentally, appropriated just days earlier). He wondered to what extent the proposal was merely an accounting device, or actually sought to slow down programs and projects, or simply noted savings already realized or unavoidable delays, or embraced a shift of some cost responsibility from wholesale customers to retail rate payers. The Committee did not have time to explore those issues.

The Committee also recommended that the Board initiate rulemaking to expand the Customer Assistance Program (C.A.P.) discount for qualifying low-income customers to exempt up to 4 Ccf per month from volumetric PILOT and ROW fees starting in FY 2011. CFO Adebo confirmed that the combined annual value and budget cost of such expansion would come roughly under \$200,000 for about 6,000 C.A.P. customers and would shift a fraction of a cent of costs to non-discounted Ccf. WASA should utilize the more correct lower figure for average retail customer use and compare the C.A.P. to that figure. Mr Bardin asked staff to prepare materials for Board consideration of the Committee's recommendations.

IAC Six-Tier Residential Rate Structure Update

Mr. Adebo updated the committee on the IAC six-tier residential rate structure. Acting Chairman Bardin asked whether DC WASA is ready to go forward and implement the six-tier residential rate structure by October 1, 2010. Mr. Adebo replied, yes and staff will brief the committee on the ongoing progress. Mr. Adebo mentioned DC WASA has put the team together to start the implementation by October 1, 2010. The project leads are Mr. Kiely and Mr. Lodhi. Future updates will be presented by Mr. Kiely and Mr. Lodhi. Mr. Roth asked that DC WASA look to a more appealing name to describe the IAC charge. Mr. Cotruvo asked that staff provide information on what percent of typical customer bill will the IAC fee be by FY 2018. Mr. Adebo replied, it would be a big percentage, but staff will provide information subsequently to the committee. Acting Chairman Bardin asked that the committee move to the full Board the proposed six-tier residential rate structure. Mr. Gibbs asked whether the six-tier rate structure reflects an anticipated increase in ERUs. Mr. Adebo replied yes and that the IAC reflects the increase in ERUs.

IAC Credit Program Update

Mr. Adebo updated the committee on the IAC credit program. DC WASA has been working with the District Department of Environment (DDOE) on the IAC Credit Program. There is still a lot of work to be done and DC WASA will continue to update the committee over the next couple of months. The project team has been meeting to understand the legislative requirements and timing of the implementation. Mr Bardin asked whether DC WASA has anything in the budget proposals to fund this Credit Program. Mr. Adebo replied that DC

WASA estimates approximately \$500,000 to fund the IAC Credit Program. Resources have not been budgeted to implement the IAC Credit Program for FY 2011. Mr. Bardin asked Mr. Hawkins to look at the IAC Credit Program, its funding and timing, and update the Committee.

DC Fire Protection Fee (Attachment B)

The General Manager provided an update on the discussions with DC regarding the fire protection service and fee given that action on the proposed rate adjustment was deferred at the last Board meeting at the request of Board member Albert. DC WASA has been charging and collecting almost \$2.0 million annually from the City. Due to the increased operating and capital costs associated with the FY 2007 MOU, DC WASA requires an increase of \$4.2 million to an annual fee of \$6.1 million. The assumptions in the budget and proposed rates reflect the additional revenue in FY 2010 and FY 2011. Mr. Adebo mentioned for clarification that no action is currently required by the committee on this item, since the committee already took action last month and recommended the increase in the fee to the full Board. Mr. Adebo stated that DC WASA has been in contact with the City Administrators Office and met with staff in an attempt to respond to any and all questions they have on the study that supported the fee increase. Mr. Hawkins stated that the City Administrators Office is questioning the methodology and DC WASA has responded. The general sense is the City is strongly questioning the higher fee for fire hydrant cost. Acting Chairman Bardin asked about impacts if DC WASA did not receive the additional \$4.2 million in FY 2010 and FY 2011 what would happen. Mr. Adebo replied that DC WASA will have a revenue gap of \$4.2 million in both FY 2010 and FY 2011 (\$8.4 cumulative gap) that DC WASA will have to make up through rate increases or service reductions. Mr. Bardin asked whether DC WASA will have a recommendation by the January 2010 Board meeting. Mr. Hawkins replied we will have a status of where DC WASA is and may well have a recommendation.

Action Items

Proposed Rates and Fee Adjustments

(Attachment C)

The committee approved to move to the full Board the proposed FY 2011 rates and fee adjustments alternative 1 with revision for the pay-go amounts.

(Attachment D)

The committee did not recommend the alternative 2 proposed FY 2011 rates and fee adjustments.

Approval of Single Family Six-tier Rate Structure (Attachment E)

The committee approved to move to the full Board the proposed FY 2011 single family six-tier rate structure.

Recommendation for Change in Fire Protection Fee Regulations (Attachment F)

The committee did not take any action on the recommendation for change in fire protection fee regulations. This action was taken at the previous month's committee meeting.

Committee recommendations for C.A.P. expansions

The committee recommends Board initiation of rule making to expand C.A.P. discounts for up to 4 Ccf a month to cover any volumetric PILOT fee and ROW fee, beginning FY2011.

Adjournment

Hearing no further business, Acting Chairman Bardin adjourned the meeting at 12:52pm