

**DISTRICT OF COLUMBIA**

**WATER AND SEWER AUTHORITY**

# Board of Directors

DC Retail Water and Sewer Rates Committee

## Tuesday, April 26, 2016

9:30 a.m.

MEETING MINUTES

**Committee Members in Attendance**

Rachna Butani, Acting Chairperson

Matthew Brown

Howard Gibbs

Obiora “Bo” Menkiti

Ellen Boardman

**DC Water Staff**

George Hawkins, General Manager

Mark Kim, Chief Financial Officer

Henderson Brown, General Counsel

Gregory Hope, Principal Counsel

Alfonzo Kilgore, Exec. Assist. Secretary to the Board

Brian McDermott, Director Permit Operations

Syed Khalil, Manager Financial Planning

April Bingham, Manager Customer Service

**Consultant**

Jon Davis, Raftelis Financial Consultant, Inc.

**Call to Order**

Acting Chairperson Butani called the DC Retail Water and Sewer Rates Committee meeting to order at 9:30 a.m.

**System Availability Fee – Public Comments (Attachment A)**

Mr. Kim briefed the Committee on the history of the proposed System Availability Fee (SAF). He stated that management first proposed a Development Impact Fee (DIF) at the DC Retail Water and Sewer Rates Committee meeting held on February 24, 2015. Subsequently, DC Water conducted additional analysis in March 2015, which indicated that the fee name, fee business processes, and fee definitions needed additional revisions and therefore, the DIF Notice of Public Rulemaking (NOPR) was not published. On December 18, 2015, the DC Retail Water and Sewer Rates Committee recommended the proposed SAF to the Board, which approved the SAF NOPR in their meeting held on January 7, 2016. The SAF NOPR was published in the DC Register on January 22, 2016. The public comment period ended on February 22, 2016. On February 23, 2016, the DC Retail Water and Sewer Rate Committee met and agreed to extend the SAF public comment period for an additional 15 days through March 11, 2016.

Mr. Kim stated that many utilities across the country and in the DC metropolitan region have implemented a fee assessed to new development (or redevelopment) to recover the investment in available system capacity, which includes:

* Water supply and treatment
* Water storage and distribution
* Wastewater and stormwater conveyance
* Wastewater treatment

He further noted that the proposed SAF is designed to recover the proportionate share of system costs for new developments or redevelopments that require additional system capacity and is based upon meter size and average flow per meter size.

Mr. Gibbs asked for clarity on the meaning of “additional system capacity” and whether the Authority was assuming that additional system capacity would be installed based on the fact that a new meter connection is being requested. Mr. Kim responded that additional system capacity only referred to existing excess capacity that was currently available and that the SAF was not designed to cover the costs of building new capacity. Mr. Gibbs asked if customers would be paying into a system that has already been built. Mr. Kim said, “Yes, exactly.”

Mr. Kim explained the SAF methodology:

1. **Calculation of SAF – Net System Assets Value**

* The SAF is a one-time fee based upon prior capital investments made by DC Water in certain system assets;
* Only “trunk and treatment” assets were used in calculating the SAF (i.e., water and wastewater treatment plants, water transmission mains, and wastewater interceptors);
* The assets were valued at replacement cost less accumulated depreciation and outstanding debt service principle;
* The net system asset value is calculated at a cost per gallon per day (GPD) based on total system capacity; and
* The capacity for any new account (development or redevelopment) will be based on the meter size and GPD for that meter size.

Chairman Brown inquired as to how the net system asset value was calculated and what portion of Blue Plains cost was factored in the calculation. Mr. Kim stated that there are multiple ways to get at net asset value for DC Water because we have a shared facility both on the drinking water side where we have other wholesale customers who purchase water as well as on the wastewater side where we have our jurisdiction partners that contribute towards the capital assets. Mr. Kim explained that the methodology DC Water used to calculate the total net system asset value was based upon total system assets, less depreciation and unamortized principal, divided by the total system capacity to arrive at the cost per gallon per day (GPD).

Acting Chairperson Butani, asked whether the wholesale wastewater customers are being charged SAF for any new capacity. Mr. Kim responded, “No, the wholesale customer’s share of the O&M and capital costs are being driven by the IMA agreement and that they will have paid their proportionate share of the system cost through their regular IMA bills.”

Acting Chairperson Butani stated that there is public concern over the SAF and asked whether this new fee would put more pressure or burden on small project developers? Mr. Kim explained that the existing built capacity of the system has been paid for and is being paid for only by current and past customers, and that the SAF is designed to recover the proportionate share of costs only for requests for new service or additional capacity that have already been paid for by other customers. He noted that there are two distinct aspects to system capacity: (1) what does it cost to construct the asset? and (2) what does it cost to maintain the asset? The SAF addresses the first aspect, namely the cost to construct the asset, whereas the recently adopted Water System Replacement Fee (WSRF) addresses the second aspect of maintaining the asset once it is constructed. Accordingly, the SAF for customers who request additional capacity is not disproportionately burdening small developers, large developers or any other customer class. DC Water is not asking for developers to pay for the asset value of the entire system, which is in excess of $5 billion. Instead, this SAF is projected to raise approximately $7.7 million of revenue, which is a proportionate share of the incremental or marginal usage of excess system capacity that other customers have already paid for through their water and sewer rates.

Mr. Menkiti inquired if the SAF will help create new customers who will continue to pay into the system. Mr. Kim responded, “Yes.” Mr. Menkiti also asked if the SAF was analogous to an initiation fee to join the system, and whether DC Water has enough capital to pay for future increases in system capacity. Mr. Kim responded that the analogy was appropriate and that the SAF fee, together with the WSRF, will help to mitigate future water and sewer rate increases which will be necessary to fund the cost for building future expansions of system capacity.

1. **SAF Based Upon Meter Size**

* The SAF fee schedule is scaled based on meter size and average water use for customers of the same meter size within the DC Water system;
* Scaling for the SAF is consistent with methodology used for the recently adopted WSRF;
* The SAF methodology is consistent with industry standards published by American Water Works Association (AWWA) and Water Environment Federation (WEF); and
* Other utilities, such as WSSC, have adopted a SAF based upon the number of fixtures.

1. **Meter Size Versus Fixture Count**

* Water meter size is a function of fixture count as well as mechanical demands and system requirements;
* Fixtures count alone may not capture all of the water demand; however, the meter size computations do so more precisely; and
* In addition, the SAF is only based upon peak demand flow and excludes fire service demand.

Mr. Menkiti asked how the demand for fire suppression would be determined and how it would be separated in the SAF computation. Mr. McDermott responded that applicants provide the fire demand in their permit along with the domestic demand. He also noted that for large projects the fire service line and the domestic service line are almost always separated and that the SAF will only be assessed to the domestic service line meter size. Mr. McDermott also noted that for smaller projects (meter sizes of 2” or less), which may only have a single line providing both domestic and fire demand flow, the SAF will also be based only on the domestic demand. Ms. Boardman followed up with an additional question to confirm that the SAF will only be charged for domestic demand and not fire suppression, which Mr. McDermott confirmed.

1. **Ability To Right-Size Water Meters**

* DC Water will allow property owners to “neck-down” water lateral lines to smaller water meter sizes;
* The service pipe should be sized for velocity and head loss and the meter sized to match the peak demand flow; and
* Reductions by one standard pipe size will be approved, reductions greater than one pipe diameter would be by exception.

1. **SAF Credits For Existing Connections**

* A SAF credit will be given if development/redevelopment projects are removing existing connections for the water and sewer system;
* The net SAF due will be equal to the difference between the property’s new SAF and the SAF determined by the old meters being removed; and
* Accordingly, projects that do not require a marginal increase in system capacity will not be assessed a SAF.

1. **Sample Redevelopment Scenario With SAF Credit**

* A non-residential redevelopment project will demolish 20 residential properties with 1” meters and require a new single 4” meter
* New 4” SAF = $289,782
* Less SAF credit = $78,880 (20x $3,944)
* Net SAF due = $210,902

Mr. Menkiti requested clarification on accounts that have been inactive during the prior 12 months and Chairman Brown asked how the period was determined. Mr. Kim stated that management is recommending a “grace period” to permit a SAF credit to be granted for properties that have been recently inactivated in the 12 month period prior to the application being approved. Mr. Kim further stated that staff considered the alternatives of recommending no grace period as well as longer periods than 12 months, and concluded that a 12 month period was reasonable given limitations in system data and administrative burden. Acting Chairperson Butani expressed her concern about the sufficiency of the 12 month period considering the time it typically takes from buying and closing a property until getting a permit for its re-development.

Several committee members asked questions regarding inactive account status, and Ms. Bingham explained the process that Customer Services follows to classify an account as inactive. She also noted that even if an account is “inactive” and the meter is removed from the property, the Authority continues to bill any applicable fixed fees such as the CRIAC.

Mr. Kim exhibited the slide showing the proposed SAF schedule and noted that there is a significant difference between the average consumption (GPD) of a 1” Residential customer versus a 1” Non-Residential customer which is reflected in the fee schedule. Mr. Kim also noted that since there are only a small number of meters greater than 6” and that the average usage of this group was inconsistent, a SAF was established for all meters greater than 6” and based upon the average usage (GPD) of this entire group.

Mr. Kim provided the details of projected SAF revenue by meter size, which total approximately $7.7 million. All SAF revenue would be allocated for Pay-Go capital contributions towards the system’s “trunk and treatment” assets. Accordingly, this revenue would help to mitigate future required water and sewer rate increases since any SAF revenue would be used to lower future debt service costs.

Mr. Kim turned to an overview of the public comment period and explained that DC Water received 26 public comments on the SAF, with the majority coming from real estate development firms. The comments were summarized by staff into several categories: General; Methodology; Rulemaking Process; Exemptions; Fee Schedule; and Timing/Effective Date. He presented a brief summary of the comments, including excerpts from various comments in each of the categories.

Mr. Kim then presented a slide comparing the proposed SAF with the SAF of other regional utilities and concluded that the Authority’s proposed SAF was lower, and in most instances significantly lower, than the current fees assessed by nearly every other regional utility. He noted that the fee comparisons were based on meter size and that some utilities do not publish their fees for larger accounts or scale their fee differently. In addition, Mr. Kim noted that WSSC was not included in the chart because its fee was based upon the number of fixtures and not meter size.

Mr. Kim returned to an overview of the public comment period and noted that there appeared to be a common misunderstanding that DC Water was increasing its Plan Review Fees from $2,500 to $38,000 (SAF) for a 2” meter. Mr. Kim stated that the Plan Review Fee is not increasing and that it is a separate administrative charge to review a permit application and completely different from the SAF. Mr. Kim also clarified that the SAF is not a tax or a penalty, and that DC Water is not trying to shift the burden from one customer class to another but is seeking to have each customer class to bear its proportionate share of building the system’s existing capacity.

Mr. Menkiti stated that one of the questions he heard was on the binary nature of the fee and that there is a question about the proportionality of the fee for a smaller project versus the size of the project and that this issue does not seem to be fully addressed by using meter size.

Mr. Kim responded that while there is no perfect measure of proportionality, the Authority did take into account the issue of proportionality and did consider the potential impacts on small developers though the introduction of SAF credits, 12-month grace period for inactive account, SAF installment plan, and the ability to right size meters by permitting “necking down” the laterals.

In conclusion, and in light of the public comments received, Mr. Kim presented to the committee the following SAF recommendations:

* + **Delay SAF effective date:**
    - 6/01/2016 (FY 2016) – current proposal
    - 1/01/2018 (FY 2018) – 1.5year extension
  + **Extend SAF installment plan period:**
    - 12/31/2019 (FY 2020) – current proposal
    - 12/31/2020 (FY 2021) – 1 year extension

Mr. Gibbs asked for clarity on the recommendation to extend SAF installment plan period. Mr. Kim replied that prior to 12/31/2020, any customer required to pay the SAF is able to request the SAF installment plan (4 equal payments over a 12-month period). Mr. Gibbs inquired about the rationale for discontinuing the installment plan after 12/31/2020 and Mr. Kim explained that the intent was to make an accommodation to lessen the upfront impact of the SAF, particularly for existing projects in the pipeline coming online just before the effective date that did not have prior notice of the SAF. In future projects, the SAF will be incorporated into the project’s financing.

Ms. Boardman returned to the issue of establishing a grace period for inactive accounts and asked for Mr. Kim’s assessment of a proposal to extend the period from 12 months to 24 months to alleviate the concerns raised during the committee meeting. Mr. Kim stated that the underlying premise of the SAF is that if you are a current “active” customer, then you are already paying your proportionate share of building the system’s capacity and should receive credit for any capacity that you are returning to the system for use by others. Mr. Kim continued that as soon as you become inactive, by definition you stop contributing and should be subject to the SAF for any new request for additional system capacity in the future. Notwithstanding and in consideration of the concerns raised by the committee members, Mr. Kim stated that a 24 month inactive account grace period was a reasonable accommodation and that it would not impose an undue administrative burden or be impacted by system limitations. Mr. Menkiti stated that 24 months seems reasonable for those meters that have been intentionally disconnected by the developer; however, 24 months does not seem reasonable for those meters being disconnected by DC Water. After some discussion, Acting Chairperson Butani proposed to extend the inactive account period from 12 to 24 months to allow for a longer period of development time. The consensus of the committee was to extend the inactive account period to 24 months.

**Action Item (Attachment B)**

**Approval of New System Availability Fee Effective January 1, 2018.**

Accordingly, Mr. Kim recommended approval of the SAF subject to: (1) delay the SAF effective date to 01/01/2018; (2) extend the SAF installment plan period to 12/31/2020; and (3) establish the inactive account period for determining SAF credits to 24 months.

The Committee approved the action item.

In conclusion, Chairman Brown stated that DC Water has undertaken enormous changes to its rate structure over the past year to better align its revenues with its cost structure, to promote affordable and fair rates for its customers, and to establish new fees such as the WSRF and today’s SAF to fund the construction and maintenance of the system’s critical infrastructure assets. Chairman Brown complimented Mr. Kim and his team on the excellent work that has been done and urged DC Water to include the projected SAF revenue into the forthcoming FY 2018 budget proposal. Mr. Kim thanked Chairman Brown and the entire team, and stated that projected SAF revenues would be included in the FY 2018 budget proposal and the Authority’s 10-year Financial Plan.

**Water System Replacement Fee - 1.5” Meter Update (Attachment C)**

As a follow up briefing from the previous committee meeting, Mr. McDermott provided an overview of the remaining analysis performed of 1.5” residential meters to determine fire flow demand.

* To date staff has reviewed 1,634 of the 1.5” residential customers meters accounts
  + 487 were confirmed to be Combined water services (30% of all accounts)
  + Out of the 1,634 addresses investigated Permit Operations Department found scanned plans for approximately 451 addresses of which 385 (85%) were combined
  + ECIS data notes that confirmed about 102 more as combined
* Permit Operations Department about 100% of the addresses and found that 30% of those were confirmed as combined domestic and fire suppression services

Mr. McDermott concluded that:

* Of the 451 plans sets we found 85% were combined fire and domestic
* If we could have found plans for the other addresses it seems likely that most 1.5” services would also be combined
* Therefore, it was appropriate for the board to administratively reduce WSRF for 1.5” residential services in the same manner that the reduction was made for the 2” residential services

Acting Chairperson Butani thanked Mr. McDermott and concluded that the results confirm that it was right decision for those customers.

**DC Retail Water and Sewer Rates Committee Workplan (Attachment D)**

Mr. Kim stated that staff is on track with the work plan and that there is no committee meeting next month due to the public hearing scheduled for May 11. The next rates committee meeting is scheduled for June 28, 2016.

**Other Business**

No other business

**Executive Session**

No executive session

**Agenda for June 28, 2016 Committee Meeting (Attachment E)**

**Adjournment**

The meeting was adjourned at 11:20 a.m.