



WSSC Special Meeting to Examine Rate Structure Options September 13, 2017

Introductory Comments by WSSC Chief Financial Officer Joseph Beach

Good morning Madam Chair, Madam Vice Chair and Commissioners. For the record I am Joseph Beach, Chief Financial Officer for WSSC. With us today are our outside experts: Mr. Chris Woodcock, Messrs. Bill Stannard and Harold Smith from Raftelis Financial Consultants, Ms. Pam Lemoine and Ms. Ann Bui from Black & Veatch, and Mr. Jay Sakai from 4Tenets Consulting. In addition, Ms. Crystal Knight-Lee, WSSC's Director of Customer Service, will participate in the workshop today and the General Counsel's Office will be available to assist in answering your questions.

This is the fourth in a series of workshops intended to assist you in selecting proposed new rate structures to transmit to Prince George's and Montgomery County Governments this fall to obtain their input on policy priorities in adopting a final rate structure.

At the last workshop on August 15, you requested additional information to assist you in your review of proposed rate structures including: an analysis of rate structures and customer affordability programs in other, comparable utilities; additional analysis on the impact of water and sewer rate structures on customer affordability and best practices in customer affordability programs; additional information on the basis for recommended rate structure options; and examples of customer class rate structures if WSSC is granted the authority to have customer classes.

We have attempted to respond to all of these requests and today will present our findings to you and are prepared for an in-depth discussion of these topics. The discussion on customer affordability programs will extend into the regular meeting on September 20 when Scott Rubin, an additional expert on customer affordability programs, will present to you. Jay Sakai will give you a preview of that presentation during the discussion on customer affordability today.

However, before we begin the presentations, I want to brief the Commission on an issue we have recently identified with our existing Customer Information System billing system, which will impact our ability to implement all but one of the proposed new rate structures in FY19.

The Commission's existing billing system is a COBOL-based mainframe system developed more than 25 years ago. Based on a previous, high-level technical assessment, we thought we could reconfigure this system so it could be used to issue bills under a proposed new rate structure while we worked to develop and deploy a new, modern billing system solution. In essence, we were optimistic we could develop a billing patch to use in the interim until the new, modern billing system went online in July 2019. However, recent testing of the proposed new 3-tier and 4-tier rate structures revealed significant technical limitations with the current system when billing through the tiers at each consumption level.

Changing how we bill - from billing at the highest consumption level to billing through the tiers - requires bigger data fields and the use of decimals since we will have to bill at quantities of less than one thousand gallons at each tier level of consumption. However, our existing system has limited data field capacity - only six bytes long. The unit of measure for this field is thousand gallons, with no ability to use decimals.

So why didn't we know about these existing billing system limitations before testing? Quite honestly, we should have. Unfortunately, this system is quite old and lacks the proper documentation and staff support – we only have two people who actually work on this existing system. All the more reason why we are moving forward with the billing system upgrade.

We looked at potential options to fix this data field limitation. However, they either resulted in a significant loss of revenue, approximately \$23 million per year, or rounding customer bills, which would result in a significant number of customers being over or under billed.

Let me point out that a uniform rate, which is one of the options that you will see today, could be implemented in the existing billing system for July 1, 2018. However, a phase-in to a uniform rate is not possible to implement beginning July 1, 2018, because phasing requires tiers, with the same technical limitations of billing through the tiers that I just described. While it is technically possible to implement a uniform rate for one year, July 2018 to June 2019, and then implement a tiered option beginning July 2019, there would be significant rate shock for some customers if we go immediately to a uniform rate, which you will see when we get to customer impacts. Moreover, the impact and confusion of changing from a 16-tier rate structure to a uniform rate for just one year and then switching to a 3rd tiered structure the following year cannot be underestimated. It would be difficult, if not impossible, for customers to absorb that kind of change and for WSSC to implement it. In other words, a decision to implement a uniform rate in July 1, 2018, should only happen, in our view, if the Commissioners decide that a uniform rate is the final choice for the future rate structure.

We have transmitted an addendum to the technical and legal memorandum that was included in your August 3, 2017, meeting materials and was referenced in the presentations that day. This addendum describes in more detail the testing and the consequences of the testing. After hearing today's presentations on the rate structure options and the recommendations from management at the September 20th meeting, we recommend that the Commission continue its work with a slightly revised schedule for reviewing and adopting a new rate structure for implementation in FY20 - unless the Commission wants to move to a non-phased uniform rate on July 1, 2018.

Management believes that based on your countless hours of work to date, the Commission will be able to transmit proposed new rate structures for County Council review this fall and that by June of 2018 you will be able to approve a resolution indicating your intent to adopt a specific new rate structure for implementation in FY20. This will show continued good faith to our customers – honoring their attendance and feedback throughout our extensive public outreach process, as well as compliance with the Public Service Commission Order. The additional time also will allow us to thoroughly test the new billing system and determine best practices related to affordability programs used across the country with the goal of developing enhanced programs here to assist WSSC customers in need.

I'd be happy to answer any questions related to the limitations of the existing billing system and our recommendations.

We will begin today's session with a presentation by Crystal Knight-Lee and Jay Sakai of 4 Tenets Consulting for a review of water rate affordability and customer assistance programs.

After that, Mr. Woodcock will review and discuss alternative rate structures that the experts have developed based upon the guidance you provided at the August 3rd workshop.

With that, I will turn the program over to Ms. Knight-Lee and Mr. Sakai to begin today's presentations.

###