

WASHINGTON SUBURBAN SANITARY COMMISSION

MINUTES OF THE COMMISSION MEETING

**Wednesday, September 13, 2017
Laurel, Maryland**

Chair Thomasina V. Rogers called the meeting to order at 10:11 a.m. in the Auditorium of the Washington Suburban Sanitary Commission (hereinafter "WSSC") Richard G. Hocevar ("RGH") Building, 14501 Sweitzer Lane, Laurel, Maryland, 20707, with due notice having been given to all members of the Commission and the public. In addition to Chair Rogers, Commissioners Fausto R. Bayonet, Omar M. Boulware, Howard A. Denis, T. Eloise Foster and Chris Lawson, were present at the meeting, reflecting the presence of a quorum. Also in attendance were WSSC General Manager Carla A. Reid, General Counsel Amanda Stakem Conn, Corporate Secretary Sheila R. Finlayson, Esq., who recorded the minutes of the meeting, Chief Financial Officer (CFO) Joseph F. Beach, Customer Service Director Crystal Knight-Lee, Rate Structure Setting Expert Chris Woodcock, Rate Structure Expert Harold Smith of Raftelis Financial Consultants, Inc. and Maryland Water Conservation Expert Jay Sakai of 4Tenets Consulting.

OPEN SESSION

Pledge of Allegiance. Chair Rogers opened the meeting by welcoming everyone and asking Commissioner Bayonet to lead the pledge of allegiance. The Chair then asked for a Moment of Silence in observance of the many victims and families affected by the Hurricane Disasters in the United States and the Caribbean in addition to paying tribute to those affected by the September 11th tragedy.

Agenda Approval. Commissioner Boulware moved to adopt the Commission's Special Public Meeting Agenda of September 13, 2017, as drafted. Commissioner Denis seconded the motion. The motion carried unanimously with six affirmative votes.

Purpose of Special Meeting. Chair Rogers stated the purpose of the special meeting, as follows:

[Chair Rogers] This morning, the WSSC continues the process of revamping our water and waste water rate structure. This is our fourth special meeting devoted exclusively to this rate structure process. And our role as Commissioners is to help establish the record on which the new rate structure will be based. In that regard, we have been hearing from some of the best experts on water rates, fees, financing, pricing and policy considerations - all in the context of a landscape that did not exist 25 years ago when our existing rate structure was put in place. We have also had the benefit of ongoing briefings from our in-house experts in all areas relevant to the rate process.

At the last Special Rate Structure Meeting on August 15, 2017, instead of hearing from management and interacting with the experts, we six Commissioners engaged in a very robust and far reaching dialogue from the dais about our readiness to move forward in the rate structure design process based on the expert testimony and other evidence we had heard. We all agreed that there was an issue of readiness and asked Management to provide additional information on the numerous issues we raised during our discussion.

Most notable among them were:

- The interface of a new rate structure, set to go into effect in 2018, and our new billing system, set to roll out in 2019.*
- The need for input from a consumer advocate.*
- The affordability of rates under a revamped system. The essence of that concern was reflected in two questions raised in our 2nd Special Meeting on August 3rd: (1) whether we are facing an affordability problem with a new rate structure, and (2) if so, how can we successfully implement and pay for the solution - whether in the rate structure or in our assistance programs.*

Today, we are eager to proceed with this very important undertaking as we continue to hear from management and our experts and engage our conversation around these and other readiness issues outlined in the August 15th Special Meeting.

Rate Structure Review Process Briefing. The Chair then recognized WSSC CFO Joseph Beach to provide an introduction of today's session along with an update on the interface of WSSC's billing system to the rate structure.

Introductory Comments on WSSC Billing System. Mr. Beach stated the following:

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, Mr. 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 Spring 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.

Water Rate Affordability and Customer Assistance Programs - Mr. Jay Sakai and Ms. Crystal Knight-Lee presented together, reporting from a power point contained in the posted advance materials and incorporated herein by reference. Specific details can be found in the presentation handout and corresponding segment of the archived meeting video, and both are referred to for that purpose.

In summary, Mr. Sakai and Ms. Knight-Lee reviewed affordability concepts and best practices in addressing affordability; the key elements to effective customer assistance programs; demographic profile of WSSC's customer base; current rates impact on low-income households; challenges with renters and other hard to reach customers, and WSSC's current customer assistance programs and plans for improvement.

Rate Structure Alternatives - Next, Rate Structure Design Expert Chris Woodcock, presented five rate structure alternatives, developed by management and the experts based on Commissioner and customer feedback, identified pricing policy priorities and other information. Mr. Woodcock reported from a power point contained in the posted advance materials and incorporated herein by reference - "Rate Structure Options." Specific details can be found in the presentation handout and corresponding segment of the archived meeting video, and both are referred to for that purpose.

Mr. Woodcock's presentation is summarized as follows:

- Constraints in Designing New Rate Structure

- PSC decision
- Law re customer classes
- Billing system limitations
- Only looked at volume portion of bill

- Rate Structure Options
 - inclining block structures determined to be best at addressing pricing policies: Revenue Stability, Conservation/Demand Management, Rate Stability, Affordability
 - no one best in class; must design structure to suit WSSC needs, customer needs
 - every option moves closer to cost-of-service than current rates

- 5 options identified
 - Uniform flat rate
 - 3-tier inclining block - two options - A & B
 - 4-tier inclining block - two options - A & B

- Bill Impact of Options
 - Basis for rate design is 3-person single family household
 - All options reflect billing through tiers
 - Address affordability separately through tailored programs

- Key Considerations
 - WSSC customer base overwhelmingly residential
 - 55 gallons per day - average per capita consumption in WSSC service area
 - Customer classes (residential and non-residential)

- Summary
 - All 5 viable options however uncomfortable with uniform rate
 - All 5 considered best in class

- All 5 legally defensible

Following presentations, Chair thanked experts for their excellent work and the extraordinary time spent in helping Commissioners to get to this point.

Public Comments. Mr. Ronald Wineholt, Vice President of Government Affairs, Apartment and Office Building Association of Metropolitan Washington (AOBA), was present again to provide comments on the rate structure proposals, CAP and classifying rates, expressing his strong objection, on behalf of AOBA, to rate structure options 3B and 4B and to classified rates. Mr. Wineholt, however, shared his willingness and desire to partner with WSSC on CAP.

ADJOURNMENT

There being no additional business, the Chair called for a motion to adjourn, to which Commissioner Foster moved to adjourn the meeting. Commissioner Denis seconded the motion. The motion carried unanimously with six affirmative votes.

At 1:04 p.m., the meeting was declared adjourned.

Respectfully submitted,

//signed//

Sheila R. Finlayson, Esq.
Corporate Secretary