Representative Policy Board
Finance Committee
South Central Connecticut Regional Water District
Meeting Transcription
Monday, June 14, 2021 at 5:00 p.m.

Tim:

Hello all. It's 5:00. I know we're down a few members, or at least one, but we have a quorum so here we go. Today is the 14th. It is the regular meeting of the finance committee of Monday, June 14th, beginning at 5:00. With that, we'll start with a safety moment. The safety moment was delivered electronically and it speaks to June 5th as the American Hiking Society's National Trails Day. But every day is a trails day if you're on the trail, and then the moment here is just to reflect upon what you can do to make a trail better. Also just using them for health purposes and every other good thing about it. And of course we have wonderful networks of trails, so that's a good different safety moment, but I guess we should always be careful on trails.

Tim:

Given that, we're going to move along to the approval of the minutes for May 10th, 2021. Can I have a motion? [crosstalk 00:01:57]. We have a motion. [crosstalk 00:02:00] second.

Charles:

Second. Charles.

Tim:

We have a second. Any discussion? It seems substantially correct. I don't see any issues with it. Don't hear any. So we'll call for a vote to approve. All those in favor.

Group:

Aye.

Tim:

The ayes have it. So with us, with item number three, we have a presentation from a presenter, Mary Ann Dickinson. Mary Ann will tell her story before she introduces, but she did mention to me she used to be a part of the Regional Water Authority, and she has experience in all sorts of things, and she's going to share her message with us shortly. So I'm going to turn that over to you, Mary Ann, if you just want to give us a little what you told me just for interest, and then we'll start with your presentation.

Mary Ann:

Sure. Thank you very much, Tim. As Larry knows, I used to work for the Regional Water Authority in the late 80s, early 90s, and one of the last times I think I appeared before any RPB committee was to get approval for the Household Hazardous Waste Collection Center that's out in the backyard. We got that approved in 1990 and launched it and got all the municipalities to contribute funding to it. And I think that was the last time I appeared before the RPB, so I was just sharing that with Tim as a story.

Tim:

Thanks for that.

Mary Ann:

Larry was still at what was then called Bridgeport Hydraulic. Rochelle had asked if I would do a presentation that was very similar to the one that we gave at the Rates Workshop in March, and so it's an introductory presentation on what we at the Alliance for Water Efficiency see utilities are experiencing with regards to rates and declining demand. And so I will go ahead and share my screen. Hopefully everybody can see it coming up. Is that good? Everybody have that? [crosstalk 00:04:06].

Mary Ann:

The program that the Alliance for Water Efficiency developed is called Financing Sustainable Water, because we were very conscious of the fact that as demand declines for a whole series of reasons, including water conservation, it has a financial impact on water utilities and it's one that we felt we needed to be sensitive to and that we needed to create materials and help for water utilities to navigate this.

Mary Ann:

Just to start off first, utility financial management. It's now harder than it's ever been in the past. Declining demand is not something that utilities for decades ever experienced. They were always growing. The demand was always growing. That's not what has happened in the past almost 20 years now. This is a chart that the National Association of Water Companies put together that really, I think, shows very dramatically how demand has been reducing from an all time high in 1988 to even lower than it is showing here on the chart. This chart ends at 2010, they haven't updated it since then, but in 2016 the demand is even lower than that.

Mary Ann:

When your demand reduces, your residential water sales reduce. Suddenly you're facing a dilemma in terms of meeting your needed revenue requirement. Although reduced demand is a good thing, I mean, we are still the highest water using per capita using country in the west, in the world, in terms of developed countries, we are very definitely, and in undeveloped countries, we're the highest in the world. And so reducing our perceived water waste is a good thing, but of course it has side effects and that's something we recognize, that lower demand means reduced sales revenue. If your revenue reduces far enough, you can end up not fully collecting your fixed costs, which is a terrible situation to find yourself in. And those costs are both the short run variable costs, which are, if you have to acquire water, purchasing water pumping, and the energy for pumping and distribution of the water, and then chemicals to treat the water. But mostly it's the long run capacity costs for supply, transmission, storage, and treatment. Those costs are bonds that have to be met. Those are payments that have to be met.

Mary Ann:

Sometimes, in many utilities, it's 80% of their costs are fixed, not variable connected to how much water is sold. So revenue stability has now become a really big issue all across the country. We are seeing utilities struggling to make sure they can meet their revenue requirement and still be sustainably delivering water to their customers. And because it's so hard, conservation becomes a scapegoat.

General managers say things like, "I can't afford to do conservation. I'm barely meeting my revenue requirement as it is." And so this is a problem that we wanted to make sure utilities were aware of, because if you leave it untreated, long-term unstable revenue collection can affect your bond ratings, which of course nobody wants.

Mary Ann:

Here's an example of something that happened in Texas. City of Fort Worth got their bond rating downgraded by Fitch and they ended up losing a fair amount of money, which was deemed, in the Fitch Report, due to water conservation. But Fort Worth doesn't really have a water conservation program, it was just a declining demand that's happening everywhere, and they just weren't planning properly for it. They weren't projecting their sales properly and they were always short, and the bond agencies noticed it and said, "We're going to reduce your bond rating."

Mary Ann:

This is not a good situation. We want to make sure it doesn't happen. So what are the factors that go into this whole revenue stability discussion? Yes, demand is reduced from water conservation, from efficient fixture replacement that happens automatically because the plumbing and appliance codes nationally have gotten very strict so as people remodel their bathrooms, remodel their kitchens, the appliances and plumbing fixtures they're buying are much more efficient than they were in the past and that alone can sometimes be as much as 1% per year reduction in demand if there's a lot of renovation in your service area. It happens a lot, particularly with the older houses.

Mary Ann:

Then there's the active preservation programs where utilities are actually paying their customers incentives to conserve water, and of course that has the effect of reducing demand. But then whenever there's a recession, and we saw this really happen during your session of 2008 when industrial shifts were laid off and homes were foreclosed, water use went drastically down, and so that's a recessionary effect. Of course in COVID it's probably going in the other direction as people are at home, but the recession is a factor in reducing demand.

Mary Ann:

Then there's the hydrology. If you've got a dry year, your peak demand is very high because everybody's irrigating their lawns that are parched, but in wet years your demand is reduced. So if you get a wet year, and you planned to actually sell a lot of that irrigation tail block revenue, then you don't get it and then you're short.

Mary Ann:

Then there's infrastructure costs. We're seeing, with the lack of federal investment in infrastructure over the past several decades, utilities have been delaying and deferring needed infrastructure repair and now it's all coming home to roost and it's increasing the costs that have to be met now on the revenue requirement.

Mary Ann:

Then there's a rise in other fixed costs, insurance, labor, energy, those are all costs that are part of increasing that shortfall between what the demand gives you in water sales and what your actually costs are.

Mary Ann:

Then there's the subject of inflation. Right now we're not experiencing a lot of inflation, but in the past we have, and we're sure to in the future as well.

Mary Ann:

What does this result in? Here's a chart that's put out by the Institute of Public Utilities at Michigan State University, this is Jan Beecher's work, and what she's basically showing you are how water and sewer rates are climbing as compared with other utilities and how it compares with the consumer price index, which is that gray line there.

Mary Ann:

You can see that water and sewer, whereas they might've been bundled very closely with other utilities in the past, they're starting now to really escalate very high and rate increases are really happening all across the country because they've been deferred for so long, in many cases, and also costs are rising, so utilities have to adjust their water and sewer collections.

Mary Ann:

This is now becoming a very obvious trend. It's one that frightens a lot of utility managers because rate cases are painful. I spent a number of very painful years on a water board in my local water district and I was the tie-breaking vote at a very high rate increase. Rochelle and I were talking this morning about how high those rates are. And I did not survive. As the tie-breaking vote, I was fingered as the one that made it happened. 10 years later, everybody says it's a good thing because we were able to not run out of water, but back then it was pretty ugly. So these are difficult things.

Mary Ann:

When you're thinking about the energy bill, you always assume that the water bill is going to be cheaper than the energy bill, but that's rapidly not going to happen in the future. We already have the city of Santa Fe, where their water and energy bill are about the same. And you'll see here a number of other cities where in certain times in the future, the water and sewer bill is going to equal what the energy bill is. And this is not something that consumers have been used to.

Mary Ann:

What about water efficiency? How does conservation and water efficiency impact rates? This is a simple rate diagram. RWA has a great rate consultant, Raftelus, advising you, so this is probably something that they've actually shown you as well, but the setting of rates starts with the definition of your cost and your cost of service study, and then it informs what the rate structure should look like to meet those costs. And then what you're proposing as rates and adopt as rates then affects the demand that the consumers have. If your rates are very high, they might respond in demand to reduce their water usage to save money, which then impacts what your system design is. If the demand is going up because your rates are low, then you have to make sure you have the capacity to handle it. Then that feeds back into the costs.

Mary Ann:

It's this circular pattern and you're never, never done. You're always having to evaluate where you are at this moment in time, and whether your existing rate structure does enable you to recover your costs and give proper signals to your customers.

Mary Ann:

We believe at the Alliance for Water Efficiency, that conservation is part of the solution because it is a long-term cost reducer to a utility that is growing. I don't think RWA is growing quite as much as some utilities elsewhere in the country, but when a utility is growing, conservation is a way to meet that growing demand without increasing capacity, either in water supply, water treatment, or wastewater treatment.

Mary Ann:

Wastewater treatment in particular has been a capacity constraint for utilities east of the Mississippi and water conservation has helped them a lot with that. And the revenue loss that is happening in utilities is often due to other drivers. It's not necessarily just because of water conservation, it's all those other things we discussed a minute ago. But conservation pencils out because if you run the numbers, every gallon that's saved is one that doesn't have to be pumped or delivered, so if you can compute what the energy costs are and the treatment costs are of that variable treatment cost, water conservation can be justified for your system if it reduces those costs and makes a measurable impact.

Mary Ann:

As I say, a utility that's not growing is not going to experience as much need for conservation as one that is growing rapidly. But that is basically the equation that we use. We consider it an investment, but you have to plan for it. The short-term effects of revenue and stability have to be planned for it, you can't just launch into programs and not assume it's not going to have an impact on demand.

Mary Ann:

We've done a number of projects to estimate how funding water conservation programs reduces long-term investment. So there are a number of reports that I can send Rochelle and she can distribute to you, that basically show that customer rates have stayed lower in the future due to avoided infrastructure capacity increases, but if you don't have to increase your capacity, if you're not seeing that in the next 20 to 30 years, then conservation's not going to pencil out for you the way it has in some of these other communities where we did this analysis.

Mary Ann:

Because the basic principle here is, and this is a stylized diagram that comes from the AWWA M52 manual. It's basically showing you that if you've got demand increasing over time, and again this is stylized because nothing really looks like that in a real system, that's the solid line. And then if you do water conservation, this is the demand line, the dotted line, after conservation. And so it does mean it stretches your existing capacity further, and enables you to downsize that capacity increase when you're able to do it.

Mary Ann:

All of this has an economic value which can be computed, and the Alliance for Water Efficiency has a model that does that. And that model was used, I mentioned we had done some studies. Here's Westminster, Colorado. This is a study that we did there, where, typical to most utilities, the citizens are complaining. "Why should we conserve when you're just going to jack up a rates anyway?" And so they took a look at Westminster. They've been doing water conservation programs since 1980, and they looked at what their marginal costs for future infrastructure would have been if they hadn't done conservation.

Mary Ann:

What they figured out was that they basically have saved the customers 80% in connection fees and 91% in rates compared to what they would have been without conservation. But remember, Westminster is a very rapidly growing community in Colorado so this is where conservation really helped pencil out.

Mary Ann:

What's RWA's story? Every utility is different, as I mentioned, with different drivers, and you'll need to take a look at what the key questions are to look at as you undertake your next rates case and take a look at whether water efficiency helps you here or not, where your costs are coming from and where your future cost rises are going to be coming from, and what your cost of capital improvements might be in a future that you could avoid if you reduce your demand, and that's something that needs to also be figured out. Short variable cost, treatment and energy that's associated with new deliveries of water, that's all part of that analysis.

Mary Ann:

If you did invest in efficiency, what your return on investment, does it pencil out? As an organization, we don't advise utilities to do conservation because it's feel good, we advise them to do it because it makes economic sense for the utility and we feel very, very strongly about that.

Mary Ann:

We have spent a fair amount of time helping utilities quantify what that benefit is to them, and so we've built a model, we call it the Water Conservation Tracking Tool, which provides a look forward analysis. And here's a screenshot from the tracking tool. And it looks like that chart I just showed you a minute ago from the M52 manual. This top line would have been the baseline growth line for the utility. The red line is what you're saving just from the codes and standards that if you do nothing, this is just a federal law taking effect. And then the blue line reduction would be where you would be if you invested in active conservation programs.

Mary Ann:

It maps all this out for you. It maps out what your change in peak would be. It maps out what your unit cost is of conservation. So it really helps you figure out whether conservation pencils out and make sense. It also evaluates how it helps you meet your revenue requirement. So if your revenue requirement is set and you [inaudible 00:18:41] conservation program at a pay as you go basis, you'll have some rate shock here. You'll have to increase your rates to cover not only the cost of the program, because you're paying out of operating expenses, but also the reduction in demand and reduction in water sales.

Mary Ann:

Eventually that tapers off, as you can see. It's so much nicer if you [inaudible 00:19:01] finance that conservation, it reduces that short-term shock and that [inaudible 00:19:06] and gives you time to adjust your rates so that you can get to the point where here you're able to do a rate case and basically recover those costs. This model helps you figure out how conservation either hurts or helps you in meeting your revenue requirement.

Mary Ann:

After we built this model that got us into thinking more about the whole rates issue, and we created a program that we got some grant funding for called, Financing Sustainable Water. And, as I mentioned before, it focuses on the whole issue of revenue instability. That it's a feature of all rate structures. It's not because a utility isn't doing a good job, it's that there's so many things beyond its control that are factors in that revenue stability analysis.

Mary Ann:

What we recommend is that we've put together a whole series of tools, which I'll show you in a minute, that help utilities guide through this process. Water efficiency, we think you should identify at the start whether it's something you want or don't need. Because, as I say, one size does not fit all. Every system is going to be different. The analysis is going to be different for every one of the utilities that are looking at this topic.

Mary Ann:

But the real issue is embracing the uncertainty of rate design. We love to talk about average water years and average rate increases, and really the averages don't help you because the uncertainty goes way up and down and if you recognize that uncertainty it'll help you with a decision-making. And so it's a lesson to also help your customers understand. They don't really ever get why water isn't just free to begin with. I mean, it rains from the sky, right? Why isn't it just free?

Mary Ann:

I've worked at regional. We actually did a conservation program for a while, it was mandated by the state of Connecticut at the time. I was telling Rochelle the story. And I would hear customers say, "Why should I do conservation? It should be free. Why am I even paying for it?"

Mary Ann:

The real answer is, well, if you want to go to [inaudible 00:21:12] with your bucket and take a bucket home, yeah, that could be free. But if you want us to deliver tons of water, treated drinking water, to your house, that's what you're paying for. And so helping customers understand why the costs are going up and why the rates have to be adjusted to cover them, that's part of the messaging challenge. But we also believe in some financial policies that can help support fiscal sustainability, and I know RWA has those.

Mary Ann:

I mentioned we created a program and there are some basic building blocks in this program. One is a handbook called Building Better Rates in an Uncertain World, and it's really designed for not just utility managers, but for board members. It's written in a way that I think anyone can understand what the principles are that we're trying to get across. And the copies are available in hard copy form and we also make it freely available in free and PDF form.

Mary Ann:

We also developed a model, a sales forecasting and rate model, that helps identify what the challenges are in upgrading and changing your rates and rate structure. And it does have a Monte Carlo simulation model, so it does a lot of simulations to model that uncertainty, like, for example, precipitation, that's one of those uncertainties. And so that model is available free of charge and Rochelle has it. We've actually worked with her and in staff to do a couple of model runs, and all of it's housed on a website called financingsustainablewater.org. Everything on that website is available to utility managers and the public for free.

Mary Ann:

Because fundamentally we want to try and change the way we're thinking about rates. We've traditionally always focused rates on solely on cost recovery and not on future issues, and we're now finding that our system costs are changing much more quickly than they used to in the past and so the way we historically did rates are not reflecting today's cost consequences the way they may do in the past. And so we want to make sure that rates are giving the customers the correct information on their consumptive decisions. And that's one of the issues in this rates handbook.

Mary Ann:

You see here that you have table of contents of it. Those are all the topics that are discussed in the handbook. And, as I mentioned, it's available free of charge as an electronic copy, but the AWE sells copies of it if you'd like to distribute copies to other members of your board.

Mary Ann:

I know you know all this, because you're the finance committee of the RPB, but building a rate structure that also recognizes water efficiency is a standardized building block process and these are the steps that you go through to figure out how you should set your rates and how those should be modified, and determining your revenue requirements based on your cost of service study is probably the most important piece of it, and making sure you're allocating costs in the right places so that when you design that rate structure, it's using the best, most up-to-date information that you have.

Mary Ann:

Then you set objectives in the beginning. The rate structure that you've come up with as a draft, does it match those? What will be your strategy for taking it out for approval? There are a number of questions that always come up in this kind of analysis, especially if you're looking at the fact that it's uncertain what you might be facing in the next 10 years, customer consumption variability, how does weather and drought effect that? If I change my rates, what happens to the demand? If I make them too high is demand going to go way down, too far down? What if we have another drought in Connecticut? What are the pricing mechanisms I need to use for what stages of drought? And what's the likelihood of a shortfall in revenue? And I'm not talking about a shortfall in supply, I'm talking about a shortfall on revenue. This is the big thing everybody's afraid of. And so what's the probability that it's going to happen? That the rate structure you're designing is not going to make it in some future year very, very soon after you've adopted it.

Mary Ann:

What's the long-term fiscal sustainability over, say, a five-year time horizon? And importantly, can your customers afford water service? Is there a way to analyze affordability? So this rate model that we've put together actually does all of those things, and it does model water demand variability, it assigns elasticity to it, it does a customer bill analysis based on your proposed rate structure, how it might change, the average customer bill, and how it affects meeting your revenue requirement. It also gives you an affordability assessment based on mean household income and helps you assess your long-term fiscal sustainability.

Mary Ann:

But I think the most interesting thing that it does, that was new in the right world, I think, is that it actually does these simulations that show how close you are to, what percentage of the time are you able to collect the revenue that you're hoping you're going to collect to meet your revenue requirement?

Mary Ann:

Here's a screenshot from the rate model. It shows you a little bit of what I've been discussing. And again, you have that model of regional, and Rochelle's been working with it so hopefully it's been helpful to you as you assess how you're going to put together your upcoming rate case.

Mary Ann:

Also, it provides an opportunity for figuring out drought pricing so that you maintain your revenue neutrality, that you don't lose money when drought comes, because you end up in a situation where you've now predicted correctly what rate adjustments need to be made when you go into drought stages.

Mary Ann:

These are all things the model will do. But having a good analysis is one thing, but communicating it to your customers is quite another, and we have not had great luck in this communication site.

Mary Ann:

Here are a couple of headlines. The one I particularly like is this one in the middle here that says, conservation driving up water rates. This is a Louisville water company, the Louisville Journal Courier. This was their big Sunday story. But Louisville doesn't have a conservation program, and if you read the entire article, which I did, you had to get to column eight before you found out that they lost a really big industry that was almost 20% of their revenue. And if you lose a big industry, an industry moves out, that's a huge loss in your revenue and that's really what forced up the change, but it doesn't play as well in the press as saying, "Oh my gosh, this is a double digit rate increase." Even if it's only $10 a month increase, it's still a double digit rate increase. So we have some communication issues.

Mary Ann:

We know revising rates is uncomfortable and very politically sensitive, politically unpopular. A customer never wants their bill to go up. But we do think that there are ways to do this so that you can build some positive relationships with customers and they understand that you're building a sustainable system for the future, investments for the future, that will keep that water flowing safely to them in the future.

Mary Ann:

Adjusting on a regular basis, which I know you do, but many utilities wait 10 years or so before they go to the next one. My favorite quote from a general manager was, "Oh yeah, we need to raise our rates but I'm retiring in two years, I'm leaving it for the next guy." And so then becomes a very big issue and a very difficult consumer discussion.

Mary Ann:

But the point is not to blame conservation for this. That doesn't help the political value of your rate increase to say, "Well, it's because you conserved, so we're going to punish you by raising your rates." It doesn't make any sense to do that. If 1% per year is being reduced automatically just because of federal laws, you don't want to send the wrong message to the customer that what they did locally was not a good thing.

Mary Ann:

What we have tried to do to help with this is we've created a couple of videos which are available to you to use. You could put them on the RWA website. They're two three minute videos. This is the first one, it's called Communicating the Value of Water, and basically it says to the customer, like the story I just told about from the reservoir it's free, but to deliver it to you, this is what you're paying for. So there's a little meter in the right-hand corner of the video and as the water is pumped from groundwater and goes through the system, it circles around until it becomes the customer's average water bill, and it shows how those costs are connected to those infrastructure and system costs. So it's very good a video. We can even customize it, put the RWA logo on the utility employee shirts and customize it to make your average water bill the average water bill in the video. So those are things that can be done. But basically as it is now the video is free.

Mary Ann:

We've also done one on, why are my water rates going up? If I conserved, why aren't they going down? The consumer always thinks, "Well, if I've conserved, why isn't my rate going down?" Well, your bill is probably going down, and even in a rate increase you'll probably still pay less than a customer who is not conserving, but that doesn't mean that the overall system rates don't go up to cover the increased cost that the system is experiencing.

Mary Ann:

Again, this video, another three-minute video, graphics video, it talks about the investment that a utility is making and how the rates go into that utility investment. So here's the water what you pay for. Here's the question? Why are my water rates going up? And so I urge you to take a look at those and use them if you find that their helpful.

Mary Ann:

But we also think that just in engaging the public early on in your process, helping them understand, maybe pulling together a taskforce of community leaders that can help support the need for the rate increases when they need to occur, and securing that buy-in early on is really important, it helps get to yes, not only from your votes at the authority and the RPB, but in the communities that you serve, making sure that those customers are not calling up your customer service reps and yelling about how the water bill is going up and what's going on here.

Mary Ann:

In order to help you make the public as partners, we've put together on the Financing Sustainable Water website a lot of communications information for how you can involve the public. The handbook that I mentioned also has a whole chapter on how you involve the public in rate making and making sure you keep the dialogue going and fine tuning your messages, those are all important.

Mary Ann:

What we want to do is change the conversation. We don't want to be blaming conservation, we want to be talking about the need for long-term investment in the system and that's what the rate increases go towards, and explaining to the customer the drivers of drought and water quality issues that need to be addressed, infrastructure that needs to be replaced. All of these topics are ones that consumers can understand if you take the time to do it. That's one of the things we put on the Financing Sustainable Water website, is a water rates messaging plan, and so you can take a look at that.

Mary Ann:

We put together a lot of materials for this rates workshop that we gave to the state of Connecticut on March 16th and 17th, and I want to thank Rochelle for working with us. She was on a panel of local officials that we had on our second day of the workshop. Everything was recorded. Everything is available free of charge. It's all posted at this link that you see above, and here's a screenshot of the page, Connecticut Rates Workshop, 2021. It's posted on our Financing Sustainable Water web page and it's all freely available for you to take a look at if you're interested. There's a lot more presentations than what I just did here, this is just a little snippet of it, but there's a good presentation on the rate model that Bill Christiansen of the Alliance for Water Efficiency walks through what that rate model is and does, and so that's one thing that you might find interesting.

Mary Ann:

But I think the panel of local officials on the second day was really a great discussion because it really talked about what the issues are that are facing Connecticut utility managers in this issue of stabilizing and keeping rates revenue neutral.

Mary Ann:

Here's my name and email address. I'm happy to be of any help I can to you all. I have retired from the Alliance for Water Efficiency as CEO, but I still hang around as a technical advisor, so they're letting me keep my email, which is awfully nice of them because I'm still doing stuff like this in retirement. So happy to help. It's a pleasure to be speaking before the RPB committee. And thank you for giving me the opportunity.

Tim:

Well, thank you, Mary Ann. That was a very, very helpful and informative presentation. And with that, are there any of our members that have any specific questions, or any staff that would want to make a contribution to the conversation? I hear audible inaudible silence.

Mary Ann:

Oh, dear. I hope I didn't put everybody to sleep.

Tim:

No, it was a very fulsome explanation. I wonder, some of those things you describe, presentations before political boards and things like that, I think that's one thing that's absent from the state of Connecticut's issues in all of this. This seems to be done in a public policy way, that's really not the right term, but it's a little different in Connecticut, is it not? I mean, you don't have political organizations that are making these decisions whether they go up or down with rates, it's a regulatory authority. Am I correct in that?

Mary Ann:

Well [crosstalk 00:36:03].

Rochelle:

It's a mix.

Mary Ann:

You're an elected body, so in a way you are a local official in that regard. I mean, I think of [crosstalk 00:36:13] as government officials.

Tim:

Well, okay, then that's a measure of clarity there. But I guess what I'm saying, with all due respect to the process, I think as a body that you describe it as political or whatever, we really rely heavily on staff to come to some of these determinations, and I wonder if we, as an organization, should be maybe more a party to some of these rate workshop materials, so I think we can get a more fulsome understanding. Not that staff doesn't really bring it to our attention, we know some of these issues that confront us and we certainly weigh in on the rate case issues. But I guess I just don't know what real significant role we play, other than just something you got to do. We see the numbers.

Suzanne:

Tim, this is Suzanne. I think from a governance point of view, the role of a oversight board and the role of the board, the RWA, is not to step in and do what the management team does, is to rely on them to do what they do. I think our job, and your job, although I don't mean to tell you what the RPB's job is, is to make sure that the assumptions that drive these cases are fair and reasonable, make sense, and represent, I think, cost consciousness in terms of their ability to be very fiscally responsible, that the data sources for usage and other things are realistic and reliable, and that the strategy going forward that puts together the whole picture, meaning the bond ratings, the revenue, the debts that we have that are other than our bonds through pensions and other things, are all being accounted for properly, and once that's done, the formula works or doesn't work. But that's all their work. Our job is just to make sure, as they present it, that what they're presenting, in my view, is reasonable, good basis, and sustainable at the time.

Tim:

That's beautifully framed, actually, Suzanne. Thank you for that. Because I didn't mean to undermine the role that we actually have here, but it is one that is reliant upon management completely, and we have to be as informed as we possibly can be. And this contributes to that. There's no question that this presentation also contributes to that. Management is actually digging all the time for the best ways to conserve and spend the public's money as wisely as possible. So thank you for that. Was there anyone else?

Rochelle:

I was maybe just going to mention, I think one of the things that we also do, which may be somewhat unique to RWA, we go through that 10-year model update, which, as Suzanne mentioned, puts all the pieces together, it does some additional scenarios to help inform what we're seeing, sharing what some of the assumptions are, so when there's external factors that maybe change those assumptions, at least we can better understand that and share that with both the governing boards.

Tim:

Well, I think what's another thing that's really interesting that really caught my ear was the fact that there would be a political structure that would actually not want to look at rates just because they were afraid of raising them. To stay uninformed or hiding the information they have just seems irresponsible. I couldn't imagine, and have never witnessed, any of that behavior with this organization. [crosstalk 00:40:26]. But it's really, truly interesting to know that it does and can happen.

Tim:

We know, like with Yale, for example, announcing the fact that they're going to flushless toilets and everything else, we could be in a situation where we lose, I don't know if it's 20% of our water revenues, but that could be a significant thing, and planning for that and everything else becomes a major important issue over time. I guess we too could face issues. Larry, anything to add to the bucket of information?

Larry:

We thought it was important that Mary Ann present this as a way of just starting to socialize the concept, and Mary Ann, good job and great to see you again.

Mary Ann:

Same here.

Larry:

We thought it was important to socialize this concept because in Connecticut the environmental community is still interested in implementing the stream flow regulations for groundwater, and there may be a time when we have to put more water over the dams in order to ensure the lifecycle of aquatic life continues, and that may mean that we have to have a rate structure that promotes conservation, say, during the summer, so we have water available to meet our stream flow requirements and put water over the dam.

Larry:

Rochelle and I thought that this would be a good long range conversation to start thinking about this and what it might look like. And while we certainly have excess capacity today, and certainly would seem to, for the foreseeable future, we may have to do some things in parts of our system that we may not contemplate now or may not think that we would have to do at a future date. So this was as much of a way to spark some thinking and conversation on an important topic.

Larry:

The Department of Public Health, they are strong advocates of utilities promoting conservation. There is regulatory requirements that require utilities to promote conservation, and the Department of Energy and Environment Protection, they're interested in utilities conserving water as well. So lots of reasons why it's important to socialize this topic.

Tim:

Thank you for that, Larry. Anyone else with a question, follow on, or comment?

Charles:

My only comment would probably go along with Larry's comments about long range planning and that type of thing. And the point I thought was particularly interesting was, I almost hate to use the word spin, but the way the marketing attack or comments where we would suggest to the customer that if they conserve their water usage in these times, especially whether it be inflation or just cost of producing quality water, that would be a way for them to either maintain their bill at the present rate, or defray ongoing increases. Reduce the quantity versus the cost per gallon type thing.

Charles:

That's going to be very real, whether it be inflation or just the cost of producing everything going forward, there's going to be natural rate increases across the board. People will be faced with it, and the way they keep their costs down is to use less water. That's a good a reason as any. That's what's going to drive them.

Prem:

That's a good point, Charles. This is Prem here. I've been listening to the conversation. I just wanted to add to what all of you are saying. I think Mary Ann mentioned something about one model doesn't fit all, so even the [inaudible 00:44:51] scenario that we had versus what we have in our side, conservation has been a pretty pivotal topic when you go to the west side versus we talk about abandons on the northeast side.

Prem:

The point I wanted to really make was think about this on not only from a conservation side, but on the water rates we talk about different strategies. This was one of the strategies they use on the rest versus when you start thinking on our side, you think about other revenue sources that we have with this [inaudible 00:45:22] for example, our wholesale water sales, for example.

Prem:

We got to have the balance in terms of that water rate increases, and we need to really understand what it means for our customer to keep the [inaudible 00:45:33] low. The problems are real. Whether it is the infrastructure problem we've got, or even the cyber, the most recent one. There's a cost that's involved in keeping those things up, and when you start thinking our strategy has been pretty strong, with all your comments as well.

Prem:

I'm thinking our future strategy in the commercial business is going to be a key one, so we can keep our water rates lower. So conservation is important, and I even talk about it with my peers on the west side. I've seen it pretty much a lot of times, they're very focused on conservation versus in our perspectives it's important, but we also have abandons, to Larry's point. We've got to figure that balance out so we can keep the rates lower.

Prem:

I know RWA is doing everything possible, so I just wanted to spin that off as additional information. It's [inaudible 00:46:22] strategy. So something to add on top of it for water rates.

Mary Ann:

And that balance is really important. It's the reason we came up with this program, because we knew water conservation programs would die altogether if we didn't address this revenue volatility issue. And it's very, very important to utility stability, so that's why we care about it and we care about the balance and the connections being made in the right places.

Prem:

Exactly.

Rochelle:

We're actually beginning to work with our cost of service consultant, not really for this upcoming rate application, but to do some additional analysis working with all our data and really dive into that and see what a possible future structure might look like.

Tim:

Thank you for that. Anything else on this topic? Well, Mary Ann, you want to stay on, you're welcome. If not, we certainly appreciate your presentation.

Mary Ann:

Thank you.

Tim:

It's generous food for thought.

Mary Ann:

Thank you for inviting me. Appreciate it.

Tim:

Appreciate it a lot. Thank you.

Rochelle:

Thank you. Bye. [crosstalk 00:47:39].

Tim:

We move along to four, which is a discussion regarding RPB compensation, the retro payment, and with this, Larry, I think you're just going to probably bring us up to speed on this. I know it's on the agenda because I guess we're getting to a point where this may be forthcoming. What's your recommendation?

Larry:

Well, we have money in the budget to cover that. Management, as you know, we were able to close out the fiscal year in a strong financial position, so we restored the second half of the merit increases for employees by giving them a lump sum payment, so all of the non-union employees have received their annual merit increase either in the form of a partial increase or a lump sum payment, so certainly looking at the RPB retro payment would be appropriate at this point in time. And as I said, Rochelle has money in the budget for that. I think it's around $7,500 or something like that, so it's a relatively modest amount of cost.

Rochelle:

It's about 7,350. And we actually, knowing that it was going to get paid out at some point, we actually have provided for it, even though we haven't actually made the cash outlay yet.

Tim:

That does require a recommendation from this body to the full RPB, correct?

Larry:

Correct.

Tim:

One would think. So discussion from the members, are we in agreement this would be a timely thing to do, appropriate? And with that, any discussion? So I don't know that we [crosstalk 00:49:33] is that it?

Jay:

I was going to make the motion for us to recommend to the RPB board. Yes. [crosstalk 00:49:51].

Rochelle:

Just a question about [crosstalk 00:49:55].

Tim:

Rochelle had a question.

Rochelle:

Sorry to interrupt. I just had a question. Would you propose this along with the second quarter payment?

Tim:

That would probably make it simpler for you, right? Just operationally.

Rochelle:

It would, yes. [crosstalk 00:50:16].

Tim:

Well, if we can just punctuate the motion with that fact, then I'm sure, Jay, you could add that piece.

Jay:

That would be fine by me, yes. [crosstalk 00:50:31]. That would be fine by me.

Tim:

So we have a motion that recommends that the compensation be forthcoming and that it be forthcoming with the... What quarter is that? Is that the first quarter? The next payment cycle.

Rochelle:

It actually would be the second calendar quarter.

Tim:

The second calendar quarter. Okay, fine.

Rochelle:

Paid in July.

Tim:

Paid in July. [crosstalk 00:51:07]. Well, that's essentially what we're doing with the first part of the motion. So that being said, we're looking for a second. We have a second, I assume. Vin has seconded that.

Vin:

Sorry, I was on mute.

Tim:

So with all that, I'll call for a vote. All those in favor.

Group:

Aye.

Tim:

Opposed? Motion carries with those present. So we'll move that all along. Very good and thank you. Now we're going to move along to five, which is consider an act on possible recommendation to RPB for extension of zero interest rate through July 20, 2021. Rochelle, do you want to actually specifically speak to this?

Rochelle:

Yes. Thank you.

Tim:

Thank you.

Rochelle:

You might recall that on the last resolution that was approved, the authorization was actually through May 31st, 2021, and I know this is a little retrospective, but we are asking for an extension to go through July 20th, 2021, and with management discretion, if you're agreeable to this, to extend it further if there's an executive order that further extends the emergency.

Rochelle:

I just want to give some additional background. So there was an Executive Order 12B that came out [inaudible 00:52:58] actually on May 20th, and although a lot of the executive orders that had to do with COVID-19 were terminated, and some even earlier than that, the urgency though was actually extended to July 20, 2021. And the reason for asking for this extension, and possibly longer if there is a further executive order, also has to do with what we're monitoring with what our sister utilities are doing.

Rochelle:

The utilities that are regulated by PURA, for example, Connecticut Water and Aquarion, they have extended those payment plans that were required by PURA. They were required to put in place up to 24-month payment plans to pay off balances, and within that period of time there would not be any interest charges. Also, although Aquarion right now is the only water utility that has actually been approved by PURA to actually shut for nonpayment, they also are continuing this payment plan. They're also under various orders in what they have to provide to PURA regarding their shuts and the participation in such in these payment plans.

Rochelle:

We did want some flexibility. As a utility, we were not required to put in place these particular payment plans, but we want to do the right thing by our customers. Our other thought is that at the time that we start shutting for nonpayment, that would be the time that we would re-institute charging interest on the balances, and at this point we're recommending that we do that coincident with the termination of the last executive order. Again, that would end July 20th, 2021.

Rochelle:

It's relatively minimal from an overall financial impact. We did go all fiscal 21 without charging interest or billing interest. Interest is one of the first things we adjust. So our recovery on the interest bill is actually the lowest of all our various billings, so we think doing the right thing by the customers for just a little bit longer will have a minimal financial impact, and so we're asking for approval through July, 2021, or, with management discretion, longer if there is an executive order that further extends the emergency.

Tim:

That seems pretty clear, Rochelle. And we've discussed this as a matter before, as you indicated. Any questions from my colleagues on this? Because we'll be looking for a motion to recommend to the full RPB, correct? You would like that?

Rochelle:

Correct. I think Jennifer, you have a draft of the proposed solution.

Jennifer:

I do. I'll bring it up. Hang on one moment.

Tim:

So good to have a draft so we don't have to do stuff on the fly. Oh, it's even got all the whereases. Yeah, that's perfect.

Jennifer:

You're going to be reading it, Tim.

Tim:

Well, I can also see that essentially we're carrying forward with the form, simply adding extension dates and all that good stuff to it, right? It seems like a fairly...

Charles:

You want me to move it without reading the whole thing, or what are we going to do?

Tim:

Yeah. Basically Rochelle's explained it, it seems to be in the body of the text, now the therefore be it resolved, essentially, is reflective of the intention today. So yeah, if you'd like to move that, Charles, I'd be happy with that. And then we can have a second.

Charles:

[crosstalk 00:57:16] read the whole thing, because in a screenshot it doesn't move up and down. [crosstalk 00:57:23]. I'll move it.

Vin:

I'll second.

Tim:

Thank you, Vin. Any further questions? I'll call for a vote on that. All in favor.

Group:

Aye.

Tim:

Opposed? Motion carries. So this will go to the full board for its consideration Thursday. Thank you, Rochelle.

Rochelle:

Thank you.

Tim:

Now we move to the quarterly report, item six on RPB approved projects.

Rochelle:

I'm going to just cover the highlights, but if there are any additional questions definitely let me know. So first on the Ansonia-Derby tank, we got good news at the very end of May. Actually on May 26th, the appellate court denied the appeal that our plaintiffs had made, so at this point the project is restarting, reinitiated, with the first things that need to be put in place is going back and reinitiating the work that Murtha was doing relative to the various documents, as well as getting things in place for the site of the tank and the lease with the city [inaudible 00:58:45]. So that will be a key project in fiscal 22. The current anticipated completion date is about November of 2022, so that would be within fiscal 23.

Rochelle:

The next project is the System-Ride Radio Telemetry, RTU, Upgrades. This project is also one that is continuing into fiscal 22. You might recall that this is a planned DWSRF project that we're going to get some DWSRF financing for. This project is now scheduled for completion in August of 2021, which is within fiscal 22.

Rochelle:

The Branford Hills Service Area Improvement project that was approved in April of 2020, basically this project is now complete as of the end of the fiscal year.

Rochelle:

The North Sleeping Giant Wellfield Facility Improvements, this was a project that was improved in June of 2020. Basically the update is that the project is underway, it is progressing, and it's targeted to be completed within fiscal 22.

Rochelle:

The West River Water Treatment Plant, this is the most recently approved project. It was approved in March of 2020. This was where there was basically a combining of the different aspects of the project for efficiencies. And the anticipated completion date is September 2020. There was [inaudible 01:00:35] recently held a mandatory pre-bid meeting and [inaudible 01:00:41] actually before the meeting going through the list of contractors and companies that participated in that bid meeting, and I'm really pleased that there were numerous companies that participated in that June 3rd pre-bid meeting. So that's a good sign that we can get some competitive pricing for this major project. Well in excess of 10 potential bidders participated in that meeting.

Rochelle:

That's all my comments, unless there's particular questions.

Tim:

Rochelle, I just have one associated with the Ansonia-Derby Tank. Obviously that thing has had some tailwind problems and all kinds of issues. Does management anticipate any cost variability in something like this, where things have been put off and materials may have been delayed in purchase, or we feel pretty good about that? I know there's always contingencies, but with inflation bearing on us in different ways, any thoughts on that or something you can get back to us on?

Rochelle:

Well, what I will check, I believe that because at the time that this was bid, we also knew that there could be a delay, I believe that we locked in the contractor. I do need to check on if that lock in is still in place. Hopefully it is.

Tim:

Right, because there's been a lot of time delay in this.

Rochelle:

Yeah. And there's definitely been inflation in the marketplace.

Tim:

It's too bad we didn't do this case in England where the plaintiff could be sued for the delay. Well, that's too bad. We can't do it in England. They have a better system than us sometimes. Any other questions?

Tim:

This will move us along to item seven, which is the notification of committee for chair election to be held July 2020. But actually we're going to do it in 2021, correct? What am I seeing there?

Jennifer:

It is 2021, yes.

Tim:

Okay, fine. So I'll change that zero to a one. So that's simply a notification, I gather, that if anyone wants to be chairman they make their case next month, is that how it goes? How's that work?

Jennifer:

Yeah. Anybody who's interested can just contact you or me, and then next month everybody will just vote on any candidates who are interested.

Tim:

Okay, fine. That's perfect. Thank you much. Well, here we are, we're about to adjourn. I know we all got a note from Larry this morning regarding Beth Nesteriak and her leaving the body on July 9th. Larry, that was terrible news in many respects, and I know you know it and you expressed it so well in your last sentence. But certainly it's the expression of all of us. It's just too bad. It's just too bad.

Larry:

Well, that's [crosstalk 01:04:13] blood being truly thicker than water. And she said today, again, that now was the time, her husband needs help in running his business. She's a co-owner of this engineering business already, and so she'll now go in and co-lead it and help him with management and strategy and staffing issues. So she is answering her entrepreneurial spirit by taking this challenge on. So our loss, certainly his gain.

Tim:

Right. And hoping her public utility experience doesn't hamper her in that more capital infested world she's going into.

Larry:

That'd be right.

Tim:

Little differences sometimes. Well, I just didn't want to go unsaid on that. It was surprising to read and disappointing as well. Anything else? There's no new business. So I'll ask for a motion to adjourn.

Charles:

So moved.

Jay:

Make the motion.

Tim:

Thank you, we have a motion and a second. All in favor, aye.

Group:

Aye.

Tim:

Thank you all. See you Thursday. [crosstalk 01:05:26].