

## **May 2, 2006 MWRA Advisory Board System Expansion Committee Meeting**

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**April 4, 2006 System Expansion Committee meeting attendees:** Katherine Dunphy, Town of Milton; Lou Taverna, City of Newton; Ed Bretschneider, Wastewater Advisory Committee; Andrew DeSantis, City of Chelsea; Paul Lauenstein, NepWRA/WSCAC/Town of Sharon; Eileen Simonson, Water Supply Citizens Advisory Committee; Timothy MacDonald, City of Cambridge; Walter Woods, Town of Wellesley; Bruce Kenerson, Lynnfield Water District; Pamela Heidell and Leo Norton, MWRA; Joseph Favaloro and Ryan Ferrara, MWRA Advisory Board.

### **MWRA System Expansion Fee Structures**

#### **Schedule of Entrance Fee Payments**

**Current Policy:** MWRA's policy for Admission of New Communities requires an entrance fee be provided, which covers the new community's share of the paid off value of MWRA's water system as currently in place. The policy, however, is silent as to whether the entrance fee is paid at the time of admission or in installments, with interest, over a number of years. In recent years, Stoughton has chosen to pay off the entrance fee over a twenty-year period, with interest, while the Dedham-Westwood Water District, using a much smaller amount of water than Stoughton and is paying off the entrance fee over five years with interest. Ed McIntire expressed at the April System Expansion Committee Meeting, Reading's intent to pay their entrance fee up front, sometime before May 1, 2006.

**Question to MWRA Advisory Board System Expansion Committee:** An entrance fee paid over a number of years might be favored by communities seeking admission, but may not address MWRA's current revenue needs. Should MWRA's system expansion policies explicitly define entrance fee payback periods?

**Committee Feedback:** The Committee expressed general agreement the system expansion entrance fee should be paid up front, in a lump sum. Pam Heidell suggested the policy should explicitly say the payment is required upfront, unless the MWRA Board of Directors approves an alternate payment scheme. If the Board approves an alternate option of paying off the entrance fee over a longer period, it should require the payback time-frame and interest charge terms of the loan causes no disadvantage to the Authority.

For such circumstances, Joseph Favaloro suggested MWRA charge the interest rate equivalent of the average cost of MWRA's fixed rate debt at the time of application plus an additional 25 basis points. Eileen Simonson thought the percentage rate charge should be higher. The Committee requested Leo Norton and the MWRA Finance Department staff review the implications of the additional 25 basis points charge and consider recommending other alternatives.

The System Expansion Committee went on to unanimously approve the following motion: *MWRA strongly encourages all system expansion entrance fee payments to be made up-front, in one lump sum payment, unless otherwise approved by the MWRA Board of Directors. If the proponent is unable to provide payment on an up-front basis, the applicant may request that an alternative entrance fee payment schedule be made at an interest rate equivalent to the average cost of MWRA's fixed rate debt at the time of application plus an additional 25 basis points over a period as defined within the vote of the MWRA Advisory Board and MWRA Board of Directors on the proponent application.*

Note: the Committee reserved the right to revisit their vote on the schedule and interest terms of the entrance fee payments based upon the feedback provided by MWRA staff at the May 2<sup>nd</sup> meeting.

### **Standby Fees (From the April 4 Issues Overview Document)**

**Current Policy:** Standby water service is intended to meet emergency or unscheduled service outages or a reduction in supply. MWRA does not currently assess a “readiness to serve” or “standby charge” for either non-MWRA water communities that maintain local emergency interconnections to MWRA water communities for the purpose of mutual aid (most common) or for non-MWRA communities that have direct connections to MWRA (uncommon, but in a few instances direct connections have been constructed for foreseeable challenges, such as the connection made by Reading after the gasoline tanker spill on I-93 or to Tri-Town in anticipation of reservoir dredging). MWRA charges are currently triggered only when the connection is used and water is conveyed.

**Question to MWRA Advisory Board System Expansion Committee:** The question of whether to assess standby charges was discussed during the deliberations of the 2001-2002 MWRA Advisory Board System Expansion Committee. The Committee chose to reject the concept of standby fees based on concerns such as the ability to charge a standby fee for local interconnections between MWRA and non-MWRA communities, the capacity to categorize the standby circumstances and to refrain from penalizing the standard waterworks practice of providing mutual aid. Should standby fees be assessed by MWRA considering MWRA is increasingly viewed as a backup source?

**Committee Feedback:** The Committee requested a copy of the memorandum Pam Heidell of the MWRA prepared for the 2001-2002 System Expansion Committee meetings regarding the type of standby fees other water and sewer providers have in place.

At the March 2<sup>nd</sup> meeting, Pam provided a handout that updated the information provided in the April 2002 memorandum. Of the eight entities contacted, only two have stand-by-fees. More of the utilities appeared to use premiums for emergency/out-of-district customers.

Joseph Favaloro stated his feeling was a stand-by-fee should be assessed on large connections where the neighboring community maintains their tie to the MWRA as an insurance policy. The one entity that falls under this category is Tri-Town (Braintree, Holbrook and Randolph), which has a large pipe connection to the MWRA Waterworks System.

Jay Fink expressed his concern about assessing a standby fee because communities need to rely upon one another for mutual support in response to water emergencies.

Katherine Haynes Dunphy stated we run a risk where if MWRA assesses a stand-by-fee to a neighboring community, the community will correspondingly expect there to be water available when needed. MWRA may have to reserve millions of gallons of water as part of safe-yield planning to ensure there will be adequate supply for communities paying MWRA relatively insignificant standby fees.

The Committee asked for additional information from MWRA to identify the costs associated with maintaining inter-connections and the affiliated administrative burden. This information will be presented at the next System Expansion Committee meeting.

Note: Pam Heidell will present the information regarding the cost of maintaining inter-connections to non-MWRA communities. The System Expansion Committee will then vote on whether to assess a standby fee to communities with interconnections to the MWRA Waterworks System.

### **Premium Fee for Emergency Use**

**Current Policy:** MWRA's policy for emergency withdrawals contains a rate structure for emergency water supply withdrawals that includes a premium charge added to the MWRA prevailing rate. Charges increase for additional periods of water withdrawal. Each "period" is defined as six-months.

**Question to MWRA Advisory Board System Expansion Committee:** Should MWRA consider increasing premium charges for emergency use?

**Committee Feedback:** Eileen Simonson indicated most emergency use occurs during the summer. Non-member communities should pay more to use MWRA water during the summer high-use period.

Joseph Favaloro commented MWRA is already assessing significant surcharges for emergency use and the System Expansion Committee should give significant consideration to increasing the premium fees for emergency use.

Committee members expressed general agreement a smaller surcharge should be assessed to communities with genuine water emergencies. Communities facing chronic water emergencies, however, should be provided with a clear price signal to encourage the community to address their water supply issues in an expedient manner.

*The System Expansion Committee voted unanimously to maintain the status quo for emergency use fees for Periods One through Four but to increase the charges for periods five and beyond as follows: Periods Five through Seven – 130% of MWRA prevailing rate plus 130% of the annual payment associated with the asset value contribution payment (entrance fee equivalent) amortized with interest*

over 15 years. Premium charges shall increase for each subsequent three emergency supply agreement period beginning with period eight as follows:  
Premium charges for Periods 8-10 is 140%  
Premium charges for Periods 11-13 is 150%  
Premium charges for Periods 14-16 is 160%  
Premium charges shall increase by 10% for each subsequent three emergency supply agreement period.

### **Formula and Basis for the Entrance Fee for New Communities Seeking Admission to MWRA**

**Current Policy:** MWRA's entrance fee formula is based on a five-year average of water consumption, both for the applicant community and the MWRA system as a whole. Typically, applicant communities are seeking MWRA supply to supplement their local sources during peak use periods (or low river flow conditions). An applicant's peak day demand from MWRA is usually considerably higher than their demand averaged out over a year or five years.

**Question to MWRA Advisory Board System Expansion Committee:** The current policy prescribes the entrance fee is based on annual averages and not typical or peak day withdrawals; some communities are obtaining more capacity than the current entrance fee basis would suggest. Should the entrance fee structure be revisited to better reflect costs associated with providing water during high demand periods?

**Committee Feedback:** Pam Heidell stated that MWRA staff discussed revising the entrance fee to reflect seasonal use. The consensus view among staff was the entrance fee formula shouldn't be overly punitive and that the incremental costs of providing water during the summer versus the winter are relatively insignificant.

Leo Norton of the MWRA Finance Department then introduced a concept, outlined in a handout, which allocated 25% of the net asset value to Peak Use and the remaining 75% of the net asset value to Average System Use.

After some discussion, the Committee expressed general agreement to support the MWRA's blended entrance fee formula proposal. The System Expansion Committee voted to support the following formula:

*The MWRA will charge an entrance fee to new communities joining its Waterworks System so that a new community will pay its fair share of the cost of the Waterworks System in place at the time the user joins. The entrance fee recovers the new user's proportional share of the Waterworks System's Asset Base, which has already been paid for by the existing users of the system. The net asset value charge will be determined through allocating 25% of the net asset value to peak use and the remaining 75% to average use. System Average Use and Peak Use will be based upon the prior five calendar year average of water consumption. The formula is as follows:*

*Average Use*

New user's projected MWRA 'average use' water needs X Net Asset Value of Total  
System 'Average Use' Annual Average Waterworks System  
75% of Net Asset Value Allocated to Average Use

*System Peak Use*

New user's projected MWRA 'peak use' water needs X Net Asset Value of Total  
System 'Peak Use' (May-October) Six Month Average

25% of Net Asset Value (NAV) Allocated to System Peak Use

Average Use (at 75% of NAV) + System Peak Use (at 25% of NAV) = Total Entrance Fee

The System Expansion Committee put off their formal approval of the proposed changes to the community entrance fee until the following meeting so the committee could review the proposed motion. Walter Woods expressed his intent to abstain from voting on this topic.

**Operations and Maintenance Fee**

**Current Policy:** In 1997, the MWRA Board of Directors approved an Operations and Maintenance (O&M) rate for partially supplied communities that increase their water purchased during the construction of their water treatment facilities mandated by the requirements of the Safe Drinking Water Act. The policy allows debt service expenses to be excluded from the water charge since the impacted communities would receive limited benefit from the capital expenditures reflected in the capital-financing portion of MWRA's prevailing rate during the construction period.

**Question to MWRA Advisory Board System Expansion Committee:** MWRA is essentially serving as a backup source for communities renovating their treatment facilities. Should MWRA eliminate the O&M fee reflecting the standby status of the MWRA supply?

**Response to System Expansion Committee:** The Committed asked staff to calculate the difference between what the City of Cambridge paid when they used the O&M rate versus what they would have paid for the wholesale rate.

MWRA staff researched the topic and determined Cambridge was billed at the O&M rate for 5 quarters beginning in FY99. The savings associated with the lower rate was \$1.4M.

The FY06 wholesale water rate is \$2,168.56, while the FY06 O&M charge is \$957.83, per million gallons respectively. The O&M rate is 55.8% lower than the wholesale water rate.

**Committee Feedback:** A vote was then taken at the March 2, 2006 System Expansion Committee Meeting to recommend the abolition of the O&M Rate as approved by the MWRA Board of Directors at their July 16, 1997 meeting. A majority voted in favor of the motion with three parties abstaining (Pam Heidell (MWRA), Timothy MacDonald (City of Cambridge) and Martin Pillsbury (MAPC)) and Ted McIntire (Reading) opposed.

Walter Woods stated he would ask for reconsideration of the vote to eliminate the O&M charge at the May 2, 2006 meeting of the System Expansion Committee.

### **Other Issues of System Expansion Committee Members**

Following is a listing of issues raised by Pam Heidell regarding the current System Expansion policies for discussion at future System Expansion Committee meetings:

- It is conceivable that existing MWRA communities, particularly those partially supplied communities that are subject to DEP Water Management Act permits, might seek to substantially increase their withdrawals in the future. With the exception of some marginal increases due to normal population growth, should they be assessed some asset value contribution fee for increased withdrawals? What withdrawal amount should be the baseline against which increased withdrawals are calculated?
- The Entrance Fee for new sewer connections, other than some residential locations, is based on the new user's share of the costs of the sewer system relative to the total system flow. However, there is a provision in the policy that the entrance fee per residential location shall not be based on less than the statewide cost to replace a faulty septic system. The septic system replacement cost is derived using the DEP's estimated cost in 1996 (\$6,200) as inflated by Boston construction indices. For multiple residential developments, the entrance fee is based on the number of units multiplied by the statewide average cost to replace the septic system, unless otherwise established by the Board.

The current system leads to inequity, in that the commercial or institutional user pays far less per gallon of flow (based on share of asset value, the cost per gallon is approximately \$5) than does the residential user. Should the policy be revised to say that the entrance fee should be based on either the new user's share of the costs of the sewer system relative to total system flow, or shall not be less than the statewide cost to replace a faulty septic system, whichever is the greater of the two?

- The "Conditions" section of the Policy for Emergency Water Supply Withdrawals says that "Agreements shall contain the following conditions as appropriate" and then states "including outdoor water bans..." Past emergency agreements have included outdoor water use restrictions, but have not required outdoor water bans. In reality, if DEP did not require outdoor water bans in its emergency declaration, MWRA would not either. Should the policy be revised to state outdoor water use restrictions shall be commensurate with the DEP requirements contained in the Emergency Declaration?

Note: Pam Heidell will be providing Bernie Cooper with an overview of the terms by which new member communities joined the system.