

As voted by the Board of Trustees and in accordance with the notice of the meeting, the monthly Workshop Meeting of the Board of Trustees of the Portland Water District was held in the Nixon Training Center at the general offices of the District, 225 Douglass Street, Portland, Maine on June 13, 2016. In attendance from staff were Messrs. Miller, Crovo, Kane, Wallace, Johnson, Firmin and Koza and Meses. Katsiaticas and Demers. Attending from the public was Mr. David Fox, Senior Consultant from Raftelis Financial Consultants, Inc.

All Trustees were present except Trustee Cleaves.

President Cote convened the meeting at 6:40 p.m.

Trustee Cote announced that the scholarship committee chose Jennifer Sawtelle as the scholarship recipient this year. She is majoring in environmental science at USM. The scholarship will be awarded at a business meeting.

2. Lead Testing Protocol.

Jim Wallace, Director of Water Operations and Mike Koza, Regulatory and Security Advisor, provided a presentation on lead testing protocols used by the District.

Jim Wallace noted that the lead and copper rule is different for us than any other rule we deal with. The purposes of the rule is to determine how corrosive the District's water is - which means testing is done in private customer homes. Sampling is out of PWD's control - it is performed by the customer. Mr. Wallace mentioned the recent Guardian media outlet article about lead testing, where the Guardian classified the District as a "cheat". The Guardian alleged that the District cheated by instructing customers to remove aerators, fill water bottles slowly and to flush pipes before testing. In response to the Guardian article, EPA clarified the guidance it had given water utilities and further explained the guidance it was giving to utilities.

Mike Koza took over the presentation, addressing the Guardian's concerns. PWD did instruct it's customers to pre-flush before testing. It was allowed by the EPA. In February, 2016, the EPA changed its guidance and recommended that pre-flushing not be conducted. As a result, the District has removed it from its instructions.

With respect to aerators, this as never been an issue for PWD. PWD has never instructed its customers to remove aerators.

PWD did have instructions asking that water bottles be filled gently; this was consistent with EPA guidance issued in 2002. This was changed by the EPA in February of 2016, so PWD no longer asks that the bottles be filled gently.

Mr. Koza then provided a copy of the instructions that are given to those customers that are taking lead samples. PWD is following all EPA protocols.

President Cote asked if PWD checked the piping in the houses where samples are taken. Mr. Koza replied that high risk homes - those between 1982-1986 are tested. Mr. Wallace also stated that records, where available, had been reviewed to show where lead service lines existed.

Trustee Siviski asked how many homes were sampled. Mr. Koza stated that fifty homes are tested every 3 years. Ideally, the same 50 homes are sampled each testing cycle – usually 45 of them are the same. Some customers drop out voluntarily. Samples are taken in a June through September window.

1. Water Rates Design.

Mr. David Fox, Senior Consultant from Raftelis Financial Consultants, Inc. led a discussion to determine the expectations, issues and priorities of the Board related to the water rate study.

Mr. Fox had a detailed power point presentation for the Board. Raftelis Consultants, Inc. (RFC) is based in Massachusetts. They are partnered with Woodcock & Associates to provide the water rate design study to PWD. He provided some background on the firm and its history and services.

The goal of rate setting is to have sufficient revenues to pay the bills, accomplish PWD objectives and be consistent with best industry practices.

The next step is to determine revenue requirements and demand projections. Mr. Fox explained financial planning considerations including reserve levels, low income discounts, debt policy and covenants, policy to deal with growth or decline within the customer base, and the capital program financing.

Cost of service allocation is the next consideration. Making sure that each class of customer pays their fair share based on the services they receive. Mr. Fox provided the Board several allocation considerations when looking at the water cost of service.

Mr. Fox then explained the next step - designing the rate structure. These considerations included fixed vs. variable charges, traditional vs. conservation rate designs, and evaluation of alternative rate structures. He explained the differences between fixed charges and variable charges, and provided typical charges for fixed charges (for example, minimum charge, capacity charge by meter size, customer charge, service charge by meter size).

Traditional vs. conservation rate design was then discussed. Traditional is flat, declining block rates. Conservation rate designs include seasonal rates, inclining rates (the more you use, the more you pay) and individualized or budget rate structure (usually seen in the Southwest where water is scarce).

The last step is to assess effectiveness of addressing pricing objectives. This includes analyzing customer impacts, comparison with other communities, affordability of service and looking at the price elasticity of demand.

To minimize customer impacts that might be large, a phase in approach to mitigate the impact may be considered.

Financial and pricing objectives will guide the process. The Board will need to set its priorities.

Issues to be considered by the Board include:

Conservation/demand management- does the District want to manage demand.

Rate stability- PWD wants a stable, programmatic set of rate adjustments to avoid volatile swings in rates.

Revenue Stability- ensure revenues are predictable and stable, and ensure that revenues match expenditures.

Rates that are simple to understand and update- promotes easy communication with customers, minimizes burden on customer service staff

Affordability- should the District help economically disadvantaged customers if they can not afford the essential services provided by PWD.

Cost of Service Based Allocations - is every customer class paying their fair share.

Minimization of Customer Impacts - avoid large cost increases, phase in large impacts if necessary.

Ease of Implementation - can the current billing software handle the rate structure change.

Economic Development - legal and political risks, comparability with neighboring utilities.

Mr. Fox then turned the discussion over to the Board and asked for the Trustees to express their concerns and to provide him guidance on what the Board believes is important in rate design.

Mr. Fox explained the current rate structure of PWD in response to a question from Trustee Swinton.

Trustee Libby stated that the last cost of service study found residential customers were subsidizing commercial customers. For the last 10 years, the Board has been trying to equalize the rates. He asked what Mr. Fox thought of the Board's efforts, given that he represented the Board might consider closing the gap in 3-5 years. Mr. Fox stated until the study progresses he cannot comment on how successful the Board has been in closing the gap. Trustee Libby noted that a couple of PWD's large customers are in danger of closing. Mr. Fox stated that they will perform a risk analysis to take that into consideration when making recommendations to the Board. Trustee Libby noted that Portland had several large food processors, and named several of them. He stated it was important to consider a significant proportion of food processors and breweries are part of PWD's commercial base.

Mr. Fox indicated he was aware of the significant proportion.

Both President Cote and Trustee Libby indicated that conservation was not high on their list of considerations. Mr. Fox noted that PWD did not have a risk of a shortage of water.

Trustee Lunt voiced displeasure with PWD's present affordability program. He asked where Mr. Fox would start in his analysis of the issue. Mr. Fox stated that first, what is unaffordable would need to be defined. Mr. Fox noted parcel ID's or zip codes would be examined to determine if certain parcels would be more susceptible to unaffordable rates. He also explained other considerations that would go into the affordability analysis.

The General Manager explained the current affordability programs of the District. One is a grant program; the other is administered by a third party and is a life line program where rates are reduced.

Trustee Levinsky asked what percentage of customers take advantage of the lifeline program. Mr. David Kane indicated that the number of people participating in the life line program has been declining, and it costs the District less than \$50,000 per year.

Trustee Garrison asked that sewer rates be examined as that is important to our customers, and that the sewer rates should be kept in mind when determining what the impact on the customers will be when water rates are changed.

Trustee Libby agreed and noted that sewer rates in Portland will double or triple over the next decade to deal with CSO issues. Awareness of these rates is important when determining customer impact.

Trustee Lunt followed up and said sewer rates to affect every community the same way, and that it will create different customer classes if sewer rates are considered. President Cote noted that studying sewer rates was not part of the rate design scope of services.

Not changing the present rate structure is an option.

Mr. Fox asked what about revenue stability. Trustee Levinsky said it would be hard to spend more money because we can only do so many projects; PWD is already doing a lot of projects.

Mr. Fox indicated it might make sense to increase fixed charges.

Trustee Lunt asked to see increase in fixed cost percentages and what is gained from volume metrics.

Trustee Garrison noted that different structures work differently for different customer types.

Trustee Levinsky noted that given Trustee Libby's concerns about large customers, it makes sense to get PWD's reserves up to 25%.

Trustee Siviski asked if PWD had seen significant growth as a result of breweries and hotels. The General Manager noted that PWD's top ten customers make up less than 10% of PWD's water revenue. This is a good position for PWD to be in—this is not always the case with other utilities.

Mr. Miller also noted that PWD is recently deregulated by the PUC. We are being closely watched. If there is a significant adverse customer reaction to a new rate design, the deregulation may be at risk as customers could complain to the PUC.

Mr. Fox explained what considerations would come into play if rates were geared to encourage economic development. The Trustees indicated they were not interested in designing rates for this reason.

3. Other Business.

None

4. Adjourn.

Meeting was adjourned at 8:00 p.m.

Submitted by,

Donna Katsiaficas
Clerk