

"Federation Corner" column  
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## **WSSC and the Loch Ness Monster**

by Wayne Goldstein

This Loch Ness Monster is so real, yet so elusive, the reader will have to swim through a lot of words to hope to see it. Originally, I was going to call this "WARNING! WSSC Wants to Rip YOU Off!" The ripoff appears to be the "Ready to Serve Charge -Infrastructure Renewal Fee", a fee of at least \$20 per month that WSSC wants to begin to collect from every customer - starting this July - to pay for the replacement of water pipes that broke in record numbers in 2007. With a proposal to collect \$408 million in water and sewer charges, WSSC also wants approval to collect another \$163 million - an additional 40% - through this new charge. This enormous and unprecedented increase is justified by statements such as "[WSSC General Manager Andrew] Brunhart said there were more than 2,100 pipe bursts last year, leaving customers without water and tying up traffic during repairs. He said, 'There will be more breaks until we get ahead of the aging pipes.'" ... Brunhart tells WTOP the reliability of the water services to homes and businesses is going to be jeopardized if the maintenance is not done." "[WSSC spokesman Mike] McGill says about 20 miles of pipes have been replaced this year, at a cost of \$1 million per mile."

There are 200 pages worth of WSSC budget and Utility-Wide Master Plan documents that appear to contradict these statements. In the master plan, under "Summary and Ranking of Recommended Programs/Initiatives" there are a series of high and medium priority items. There are nine high priority items followed by twenty medium priority items, twenty-nine in all. #1 - a pipe inspection program. #6 - "It is also recommended that WSSC focus on sewer rehabilitation..." #17 - "The replacement of small diameter water mains (1 to 6 inch) that are subject to internal tuberculation should be a priority for WSSC." #18 - "Water mains that are 8 to 10 inches in diameter are also candidates for replacement."

Mr. Brunhart and the rest of WSSC seem to focus relentlessly on water pipe beaks in public statements of the last two years, although water pipe replacements are only ranked as 17th and 18th in importance by WSSC. There are other inconsistencies in these documents. WSSC spokesman McGill claims that it costs \$1 million per mile to replace a pipe. However, the master plan states that it would cost more than \$750 million to replace 370 miles of the smallest, 1 to 6 inch diameter water pipes, an apparent price of more than \$2 million per mile. The only other mention of miles of pipes needing work are 1310 miles of 6 to 10 inch diameter pipe. Barely 30% - 1680 miles - of the 5500 miles of water pipe are specifically mentioned for action in this document, yet it was reported that WSSC wants "to speed the replacement of 10,800 miles of underground water and sewer pipes." There is also a mention that "1,300 [miles] are more than 50 years old", but the impression given by WSSC is that the entire system is in jeopardy and massive replacement of pipes is necessary as soon as possible.

Despite this seeming WSSC obsession to use every major water pipe break as an opportunity to warn of the imminent need to accelerate pipe replacement, one of the measures it uses to rate itself is: "Maintain 20% utilization of resources to supporting application break/fixes. Percentage of resources spent on application break/fixes." It was 15% in FY'07, 18% estimated for FY'08, and 10% projected for FY'09, well below the benchmark of 20%.

WSSC used to do much relining of water pipes to extend their useful life, but the budget document states: "Beginning in FY'01, the emphasis was shifted from cleaning and lining water mains to the more permanent solution of water main replacement." This change to a far more expensive approach, without explanation of its better value, is puzzling, as is: "New lines serviced by the plant... caused increased water discoloration... In order to maintain the high level of water quality our customers expect, it is important to accelerate water main replacement." Is WSSC's rush to accelerate pipe replacements driven by its desire to minimize discolored water complaints?

WSSC also wants to reduce the amount of bond debt it holds by prepaying bonds in advance and by minimizing how much debt it issues to cover capital costs. The "Infrastructure Renewal Fee" is described as PAYGO, which is "the funding of capital expenditures with cash instead of debt." Thus, in order to help WSSC achieve certain financial conveniences, its customers are supposed to immediately assume the very large burden of paying capital costs upfront in cash instead of through traditional bond financing. One goal is to "Reduce the amount of rate-supported water and sewer debt to 30% or less of total water and sewer operating expenditures." This scheme would be similar to paying off a 30-year home mortgage in just a few years, although WSSC also states: "In this manner, the initial high cost of capital improvements is spread over time and paid for by future customers who will benefit from the facilities, as well as by current customers. It is through this... process that the size of the Capital Improvements Program impacts the size of water and sewer bond issues, which in turn impacts customers' water and sewer bills." This statement is contrary to WSSC wanting to collect enough money in the next 10 years to meet the pipe infrastructure needs through its "30-year infrastructure capital investment projection." WSSC includes the option of 10-year leveling of \$380 million per year and 15-year leveling at \$350 million per year, followed by much lower levels of funding needed in the remaining part of the 30-year period. However, by adding up all 30 years' worth of proposed expenditures and dividing by 30, the yearly average is around \$300 million.

Concerning the Loch Ness monster, WSSC calls these infrastructure projections "Nessie Curves." This phrase was created in 2001 when an Australian foundation released a study of the best way to decide how and when to rehabilitate or replace aging water and sewer pipes. The researchers observed that if a lot of pipe was installed in a narrow time period, it might have to be repaired or replaced in another narrow time period 75 to 100 years in the future. A graph showing this concentrated peak of construction activity created a "...rising wave shape [that] suggests why the curve is named after the Loch Ness Monster." It is similar to the expected rise in Social Security costs when the Baby Boomers retire. It was in anticipation of this "Nessie Curve" of tremendous future needs that Social Security was "saved" in the '80s by increasing the contribution rate and income limits and by delaying benefits for several years beyond 65.

It is clear that all water utilities must anticipate and prepare for their Nessie Curve that may be coming soon or is already here. Unfortunately, it appears that WSSC is using its Nessie Curve as an excuse to panic the government and the public into giving it too much money too soon for what WSSC appears not to see as anything more than of moderate concern, well below many other more routine, but more pressing, planning matters. WSSC promises to put the money into a separate fund for pipe replacement only, but if much of this money just sits for decades collecting interest, this is money that should have been kept by the customers. If the PAYGO approach to paying large fees can ever be justified at all, it should be pay-as-you-go, not pay-in-advance. The inconsistencies between WSSC's public and document statements even suggest an effort by it to deceive with a campaign of disinformation.

The proposed \$20 monthly fee, along with the existing \$3.67 monthly fee ostensibly to cover the cost to read the meter and prepare and send a bill, are regressive fees that penalize those who aggressively conserve water, perhaps as a result of limited incomes. One study warns: "The broader issue involved in rate shock ties back to the pivotal role of safe drinking water in promoting public health. Whenever the sensitive subpopulations we are striving to protect are also among the low income segment of the population and are forced to forego medical care or nutrition in order to pay their utility bills, we could be doing more harm than good. The fact that we are now entering a significantly more expensive replacement era in water infrastructure makes it all the more difficult to maintain the right balance in this aspect of public health. By some comparisons, it may appear that water is still cheap and there is room to increase water rates.

"But such comparisons are not relevant to low-income households. The only comparison that matters in these households is the size of the incremental increase. If it is large enough to trigger a budget substitution that negatively affects family health... then we may be losing ground." According to one news account about WSSC's

proposed fee: "Some people, however, said the additional costs will be hard to handle... 'It's scary,' said Dan Thomas, who needs utility assistance. 'It's an either-or choice. You turn your lights off, you turn your gas off or you buy food or you get your medicine. Take your pick.' It does not appear that WSSC feels much obligation to such customers other than to allow affluent customers to donate to its assistance fund."

Another study recommends that water utilities set very low rates for those who use little water in order to help the needy. This gives them incentives to conserve enough water to stay below the usage cap for this very low rate. While WSSC already uses "conservation pricing" that encourages lower water usage by charging progressively higher rates for higher use, it undermines this approach with its exorbitant flat fees, whether to prepare a bill or for accelerate pipe replacement. These so-called "Ready to Serve" fees should be folded into the rate structure to encourage even more conservation at higher usage rates. WSSC already protects itself from either "too-successful" water conservation or unexpected capital costs by collecting a little more than it knows it needs.

WSSC is trying to convince us that this Loch Ness monster is almost upon us and that we must pay a lot more so that WSSC can protect us from it. However, the facts instead show that this Nessie is almost as much a figment of WSSC's imagination as is the Nessie in Scotland. We need to make WSSC far more transparent and accountable by requiring it to write a budget based on actual present and future needs, not one based on what appears to be the opportunistic manipulation of an important concern.

The public has until February 19th to tell WSSC what it thinks of its budget. Email your comments to Ms. Sheila Cohen, WSSC Budget Group Leader, at [scohen@wsscwater.com](mailto:scohen@wsscwater.com)