MWRA ADVISORY BOARD MEETING
SEPTEMBER 18, 2008
BOSTON WATER AND SEWER COMMISSION
980 HARRISON AVENUE, BOSTON, MA – 11:30 A.M.
MINUTES APPROVED AT THE NOVEMBER 20, 2008 MEETING

Thirty-nine people were in attendance, including nineteen voting members: Peter Castanino, BELMONT; John Sullivan, BOSTON; Joe DiVito, BRAINTREE; John Sanchez, BURLINGTON; Ed Sullivan, CANTON; Andrew DeSantis, CHELSEA; J. R. Greene, GUBERNATORIAL APPOINTEE; Ed Demko, HINGHAM; Bill Hadley, LEXINGTON; Jay Fink, LYNN; Bruce Kenerson, LYNNFIELD; Cassandra Koutalidis, MEDFORD; Katherine Haynes Dunphy, MILTON; Peter Smyrnios, PEABODY; Ted McIntire, READING; Richard Stinson, WAKEFIELD; Walter Woods, WELLESLEY; Earl Forman, WESTON; Bob Angelo, WESTWOOD.

Also present: Andrew Pappastergion and Joseph Foti, MWRA BOARD OF DIRECTORS; Ian Bowles and Kathy Baskin, EXECUTIVE OFFICE OF ENERGY AND ENVIRONMENTAL AFFAIRS; Phil Jasset, UCANE; Mary S. Booth, WSCAC; Fred Laskey, Michael Hornbrook, Ria Convery, Rick Trubiano, Denise Breiteneicher, Christopher Lam, Marian Orfeo, Rachel Madden and Kathy Soni, MWRA STAFF; Joe Favaloro, Cornelia Potter, Matthew Romero, Christine Hevelone-Byler and Mary Ann McClellan, MWRA ADVISORY BOARD STAFF.

A. WELCOME

Chairman Katherine Haynes Dunphy called the meeting to order at 11:43 a.m.

B. APPROVAL OF THE MINUTES FROM THE MAY 15, 2008 AND JUNE 19, 2008 ADVISORY BOARD MEETINGS

A Motion was made **TO APPROVE THE MINUTES FROM THE MAY 15, 2008 AND JUNE 19, 2008 ADVISORY BOARD MEETINGS.** It was seconded and passed by unanimous vote.

C. REPORT OF THE EXECUTIVE DIRECTOR

MWRA Advisory Board Executive Director Joseph Favaloro stated that the Water and Sewer Retail Rate Questionnaires were sent out in early August in a more user-friendly format; he requested that members ensure that their community's surveys are returned in a timely manner.

Next month staff will be bringing forward the legislative package to be deliberated by the legislature over the next two years. All bills must be filed by December. Initiatives include expansion of the "Bottle Bill" to include bottled water, with the funds being dedicated to water and sewer infrastructure repairs.

D. **PRESENTATION: PERSPECTIVES FROM THE CHAIRMAN OF THE MWRA BOARD OF DIRECTORS** – Ian Bowles, Secretary of the Executive Office of Energy and Environmental Affairs

Ian Bowles, Secretary of the Executive Office of Energy and Environmental Affairs (EOEEA), stated that Governor Deval Patrick has been a good advocate for sustained funding of the Commonwealth Sewer Rate Relief Fund, also known as Debt Service Assistance (DSA). In this difficult fiscal climate, the Secretary stated that he was not aware of any decisions or discussions at this stage about DSA but acknowledged that he knows this is a real concern for the MWRA communities.

Secretary Bowles stated that Joe Favaloro has been a tireless, some would say relentless, advocate for system expansion, which is a priority for the Advisory Board communities. There are some opportunities to align system expansion and the fiscal benefits that would provide for ratepayers with some of the state's environmental objectives in terms of taking water in distressed basins, increasing stream flow and promoting "smart growth" zoning. There have been creative discussions between EOEEA and the MWRA.

Now is an important and exciting time for some change in terms of the alignment of energy and environmental issues. The single biggest energy bill for municipalities, in terms of municipal budgets, is for water operations. If your community has single-speed pumps moving all that water around, relative to drinking water and wastewater, you are missing major energy efficiency opportunities and savings for your towns and citizens. DEP and the Department of Energy Resources launched a pilot program in this regard and would like to see it expand dramatically. There are a lot of better ways to save energy and ratepayers' funds through investing in energy efficiency. The new statutory framework that is in place under the Green Communities Act may create some major opportunities for aligning cost savings from energy use with the benefits provided in terms of lower emissions.

Chairman Dunphy asked what the role of the federal government is in providing incentives for municipalities, states and alternative energy corporations to move ahead with other opportunities other than imported oil. Secretary Bowles said the federal government has long subsidized fossil fuels in a variety of forms, including production and investment tax credits for renewable power that are set to expire this year. There is a major congressional debate going on, with the Massachusetts congressional delegation leading the charge, to try to make sure there are no stacked disincentives for expanding renewables. Important changes have been made in Massachusetts, Connecticut and Rhode Island and a number of other states in the legislative statutory framework to promote energy efficiency and renewable power. A similar review of federal policies has not been seen. Generally, there has been an infrastructure-heavy federal energy policy where there is a lot of focus on transmission and power plants and not enough focus on end-use power efficiency.

Mary Booth of WSCAC said the MWRA has provided us a wonderful example of the benefits of cutting consumption and fixing leaks. Is there similar low-hanging fruit in the energy arena? Secretary Bowles said yes; Massachusetts is right behind New York as the second most energy-efficient state in the nation in terms of gross state product per energy unit consumed. If people would have home energy audits, they might find that the 20-year old refrigerator in the basement accounts for 20% of the electric bill. Buying a brand new refrigerator would not only save 20% on the electric bill but the actual per unit cost of energy goes down as well because of the way the power market is structured.

Cassandra Koutalidis said the City of Medford is interested in geothermal but there doesn't seem to be much incentive from the state in terms of tax credits, incentives, grants – why not? Secretary Bowles said when the utility business was restructured eleven years ago, funds were set aside for renewable electricity, not for solar-thermal or geothermal. The thermal side of the equation got short changed statutorily in terms of what those monies and subsidies can be spent for; legislation just passed changes that, opening up the potential for some direct subsidy for thermal products or combining power for geothermal for solar-thermal. Geothermal is still relatively in its infancy in Massachusetts; the state would like to see it expand, perhaps in the context of a Green Communities Program that the Commonwealth is going to launch this fall under that legislation.

Ed Sullivan said one of the most frustrating things any community or entity has today is the permitting process, whether you are trying to build or repair your infrastructure or you are trying to build a wind farm, there seem to be so many overlapping agencies and contradictory rules and regulations. How can we solve this or at least speed up the process? Secretary Bowles said to get into the benefits of the state jurisdiction for renewable siting, it has to be a large (100 megawatt) power plant. Virtually all fossil-type fuels are larger than 100 megawatts and virtually all renewable plants are not. It is a built-in disincentive on some level. The Green Communities Program tries to give carrots and sticks to the towns that are willing to make commitments to energy efficiency by providing monies to flow behind that as an incentive. The more the towns pick sites in their own communities to site renewable power, the easier it is for the state to try to help out.

The Commonwealth has made some changes to the wetlands appeals process. Governor Patrick wants to uphold the nation's strongest environmental laws in a timely fashion that will give environmental quality outcomes but still provide predictability. There were some substantial changes made in the adjudication process when appealing a wetlands permit and the more communities say here is a place in our community where we are willing to change our zoning and eliminate height restrictions, it will make the process better. It is a work in progress.

Walter Woods said a few years ago there were articles in the newspapers about a shortage of electric power. Is something being done to increase electric energy or will rates continue to skyrocket? Secretary Bowles said he would distinguish between supply and rates. The supply problem is non-existent; rates are a different matter. Rates are directly tied to natural gas prices because nuclear power, hydro and coal are base loaded and run all the time. The marginal plants that turn on as they move up that marginal power curve on a hot August afternoon are virtually all natural gas plants. The clearing price for power is set day-in and day-out by natural gas. When more hydro, wind and biomass facilities are built up, there will be a much lower marginal cost for production for those energy resources.

E. **PRESENTATION: ENERGY INITIATIVES AT THE MWRA** – Fred Laskey, MWRA Executive Director

MWRA Executive Director Fred Laskey stated Secretary Bowles has a firm grasp on the energy front. The Authority has launched a strong energy effort by forming a Committee that involves every MWRA division and department. The MWRA consumes a lot of energy, especially electricity. The Authority has two wastewater treatment plants, twelve wastewater pump stations, four headworks, five Combined Sewer Overflow (CSO) facilities, ten water pump stations and two water treatment plants. Ozone, by its nature, is energy aggressive.

The MWRA spends about $20 million per year on energy; 62% of the MWRA's energy budget is expended at Deer Island. It is interesting to note that 48% of the MWRA's energy is electricity that is purchased; the second largest amount is renewable energy (43%) that is made in-house in a sense. The Authority also uses natural gas and diesel. The drive is to improve those numbers. The renewables are worth about $3.4 million, including credits for energy made at Deer Island and sold. The MWRA is on a demand-response program, which means it can take certain steps and get paid for it. Hydro is also made at Oakdale and Cosgrove.

The byproduct of the sewage treatment is methane. At Deer Island, 97% of methane generated is utilized to create steam. The steam heats the plant and avoids the purchase of $15 million in fuel oil and electricity is created with it through the steam turbine generators (STGs).

In Clinton, 70% of the plant's heat comes from the methane and a study is in the works on installing a micro-turbine to make electricity in the summertime when the methane is vented.

On wind power, the MWRA is either in the implementation process or the study process. Wind power is the wave of the future. The Authority is studying 15 locations looking for the most cost-effective places to site wind turbines. MWRA has received the most grants of any entity from the Mass Technology Collaborative (MTC).

MWRA has received approval for two wind turbines at Deer Island. The Request for Proposals is on the street. MTC has provided $400,000 in a subsidy.

An ideal location for a wind turbine is Nut Island in Quincy. The tower would be about 330 feet and it would generate 3.7 million kilowatt hours. MTC provided $500,000 for design and construction.

Governor Patrick and Secretary Bowles were at Deer Island for the dedication of solar panels, which are functioning well.

Staff is also looking at the John J. Carroll Water Treatment Plant (CWTP) as a potential site. Additionally, the potential of siting a solar farm on space that was left over for the now unnecessary filtration portion of the plant is also being studied.

Deer Island has two hydro-electric generators. As the treated effluent drops down into the outfall tunnel, it is run through the turbines and it generates 5.8 million kilowatts; this electricity is used at the plant and provides a cost avoidance of about $600,000.

At Oakdale, where the Quabbin tunnel flows into the west side of the Wachusett Reservoir, 10 million kilowatt hours were generated in FY08, resulting in about $880,000 in electricity that is sold into the grid. Further, where the water flows out of the Wachusett into the Cosgrove Tunnel, 3.4 million kilowatt hours are generated, which is also sold into the grid and equals about $148,000.

There is a three-phased energy audit going on at Deer Island, working closely with NStar. The new energy bill has a requirement that the utilities spend a lot of money on energy efficiency and energy audits. NStar has a lot of money available for energy audits and energy conservation methods under this new bill and is looking for places to spend it. Facility by facility, staff is going forward with energy audits. It is shocking how much money can be saved through these energy audits.

The Executive Order 484 that the Governor has established calls for agencies to have 15% of their energy use be renewable by 2012; the MWRA has already met that goal at 18%. The goal is that by 2030, 30% of energy use will be renewable.

F. **COMMITTEE REPORTS**

Executive Committee – Katherine Haynes Dunphy

❖ **ACTION ITEM: NOMINATION AND ELECTION OF FY09 EXECUTIVE COMMITTEE**

Chairman Dunphy offered the proposed slate for the FY09 Executive Committee and asked if there were nominations from the floor. Hearing none, the following slate was submitted for consideration by the full Advisory Board:

Chairman:	Katherine Haynes Dunphy, Milton
Vice Chair of Finance:	Bernard Cooper, Norwood
Vice Chair of Operations:	Jay Fink, Lynn
Secretary:	Edward Sullivan, Canton
Treasurer:	John Sullivan, Boston
At-Large Members:	Carol Antonelli, Somerville
	Lawrence Barrett, Stoughton
	Brian Carlisle, Quincy
	Andrew DeSantis, Chelsea
	William Hadley, Lexington
	Timothy MacDonald, Cambridge
	Edward D. McIntire, Reading
	Zigmund Peret, Wilbraham
	John Sanchez, Burlington
	Louis Taverna, Newton
	Walter Woods, Wellesley
	(1) Vacant

A Motion was made **TO ADOPT THE PROPOSED FY09 MEMBER SLATE AS THE FY09 EXECUTIVE COMMITTEE.** It was seconded and passed by unanimous vote.

❖ **POWERPOINT PRESENTATION: THE YEAR THAT WAS; THE CHALLENGES AHEAD**

Mr. Favaloro said as we do each year at the first Advisory Board meeting of the new fiscal year, staff wants to revisit the year just past and outline the challenges ahead. A new five-year spending cap was established in the CIP; this has been a success story from the Authority's perspective, as well as the Advisory Board's, to provide sustainable and predictable levels of spending. The Authority is now on its second five-year cap and it is working.

For the first five years the Authority somewhat underspent its CIP. A committee was formed to evaluate the challenges that did not allow the Authority to spend up to the levels that were set in the cap. Some tweaks were made to contingency and other components of the budget and as the next five years come into play, it remains to be seen if the Authority will spend the approximately $200 million per year it has budgeted.

On the CEB side, there is always a back and forth between the Authority and the Advisory Board. Working closely with the Authority, recommendations that the Advisory Board brought forward, the overall rate increase was 4.45%, with the assumption of $11.25 million in DSA. Through the efforts of the Advisory Board and the Authority, the DSA number was increased to $15 million for the MWRA.

GASB 45, new accounting standards regarding other post-retirement benefits, has provoked a lot of discussion between the Authority and the Advisory Board. Reasonable compromises were made. From the Advisory Board's perspective, the funds were kept out of an irrevocable trust, which allows the Authority a multitude of options as clarity comes to the issue of what to do with future healthcare costs for employees. The Authority, at least for the foreseeable future, will not be making contributions into GASB but will be making them into the pension fund, which is another outstanding long-term liability.

Legislatively, DSA was approved for the MWRA at $15 million and statewide at $20 million. DSA has become a rollercoaster. For FY08, the MWRA got $23 million. For FY09, the governor included $15 million in his budget for DSA; the House also included $15 million, however, through debate in the House, the number was raised to $20 million; the Senate's version of the budget included $10 million; Conference Committee resulted in a statewide $20 million appropriation; Governor Patrick vetoed the DSA back down to $15 million, which he thought was the appropriate level; the Legislature overrode the Governor's veto and brought it back up to $20 million. So in one fiscal year, there were seven different tightropes. The end result is the MWRA got less in FY09 than it did in FY08.

The collapse of the insurance market had impacts on the Authority's variable rate debt. To the Authority's credit, it was able to get out of the sub-prime market, where rates for variable rate debt were in the 2% range prior to the problem and skyrocketed to 8% to 10% at some points during that time. The Authority was able to "scrub" all the bond insurance, which ironically was purchased to achieve more attractive rates.

For CSOs, rising costs continue to be on the table for discussion. Even though the MWRA received variances over the next fifteen years for the Mystic and the Charles, the cost of CSOs continue to be a pressing discussion on how to get our hands around a number that continues to just grow and grow every year.

There are real concerns that at some point in this fiscal year that the Governor and the legislature may be forced to cut the FY09 Budget. Back in 2003, faced with the same dilemma, the Commonwealth cut DSA from $58 million to zero. The impacts of this loss forced the MWRA to have mid-year assessment increases for the cities and towns. With that in mind, Advisory Board staff urged the Authority to not include the additional $3.75 million of DSA in the community assessments until they are sure if there will be 9c cuts.

Energy costs – how do you plan for the unpredictable? One of the largest line items in the Authority's budget is for energy. Market uncertainties further impact the Authority. There could be as much exposure as $2.9 million that they had not assumed.

The other developing movement is more state control over quasi-state and independent authorities. The governor and legislature are now requiring the authorities to show the administration their borrowing plans and investment portfolios. The Authority has its own "A" rating and should not be lumped in with all authorities. Once a year, the Authority has to do a report to the legislature on the past year and the challenges moving forward. The Advisory Board has asked the Authority to write the report as if it were going to Senator Mark Montigny, the most vocal legislator favoring more state control, to lay out what the Authority has done right and the challenges ahead.

The Authority is now at day number 1,128 without a new NPDES permit. Under the conditions of the old permit, monitoring as a component is nearly $3 million. There is a strong expectation that a good amount of the monitoring will not be part of the new permit. Additionally, when the new permit goes into affect, new treatment impacts will add about $1.3 million in chemicals; it is a give and take. Last June the Executive Committee allowed Advisory Board staff to find an attorney in the event that the conditions within a new NPDES permit are so grievous that we would want to consider taking action.

Upper Blackstone's NPDES permit had language in it on nitrification and other components and DEP refused to sign off on the NPDES permit. EPA and DEP usually walk hand in hand, but this time DEP said "no".

The projected ten-year rate revenue requirement will be anywhere from $6.9 billion, with Debt Service Assistance, or $7.1 billion without DSA.

Water usage is going down dramatically. For the first time ever, all but two MWRA communities, fully- and partially-supplied, had significant reductions in water for the year; overall usage is down 6.2%. From an environmental perspective, it is wonderful news, but water usage going down impacts the cash registers of all the cities and towns. A community's predictions of the amount of water it will use are the basis for generating what the rate will be on the retail side. If communities can't meet those numbers, they will begin to have a revenue problem. Strictly from a revenue perspective, this is not good news. It is an opportunity to discuss system expansion.

Finance Committee – Bernard Cooper

❖ **UPDATE: CIP/CEB**

FY08: Cornelia Potter said the Authority spent nearly $565 million in FY08 and had revenues of nearly $575 million, for a surplus of almost $10 million. Much of that surplus was from the receipt of the Reading entrance fee, which had not been included in the budget assumptions for FY08. That surplus was used to defease debt and reduce future debt service payments.

On the capital side, the Authority spent $197 million or $31 million below the budgeted amount, which is a variance of 13%, closer to the budgeted amount than in previous years but far lower, particularly on the waterworks side of budgeted capital spending. The CSO Program accounted for 56% or $110 million of the total $197 million of capital spending in FY08. All wastewater spending accounted for 75% of the capital spending.

FY09: In the first two months of the year, the Authority has accrued $94 million on all current expenses, including nearly $50 million for the capital financing expense; $35 million for Direct Expenses and $10 million for Indirect Expenses.

On the capital side, through August, spending came to nearly $50 million, including nearly $35 million for wastewater projects and $14 million for waterworks system improvements. As for the whole of fiscal 2008, 56% of all year-to-date spending supports the CSO Control Program.

On the borrowing side, the Authority has announced that it is beginning the process of issuing just over $550 million in debt later this fall. It will include $125 million in new money and $427 million in refunding bonds, including $77 million to redeem some outstanding commercial paper and $350 million to refund existing debt and ease some future debt service payments.

Operations Committee – Jay Fink

- **UPDATE**

Mr. Favaloro said the joint WAC/WSCAC/Operations Committee meeting is now scheduled for November 6 to discuss joint initiatives. Additionally, the Operations Committee will be meeting during the first week of December to review three-year flow averaging, a component of the sewer rate methodology, led by Walter Woods.

G. **ADJOURNMENT**

A MOTION WAS MADE TO ADJOURN THE MEETING AT 1:24 P.M. It was seconded and passed by unanimous vote.

Respectfully submitted,

Edward Sullivan, Secretary