From: Baird, Richard (GOV)
Sent: Friday, January 30, 2015 6:20 PM
To: Muchmore, Dennis (GOV)
Subject: Fwd: Flint - Random Thought
Attachments: Detroit_DWSD Flint Water Service 2015 Tr Jan 2015.pdf

Sent from my Verizon Wireless 4G LTE DROID
---------- Forwarded message ----------
From: "Daddow, Robert" <daddowr@oakgov.com>
Date: Jan 30, 2015 4:41 PM
Subject: Flint - Random Thought
To: 'Sue McCormick' <mccormick@dwsd.org>, Nicolette Bateson <bateson@dwsd.org>
Cc: "poissong@oakgov.com" <poissong@oakgov.com>, "Baird, Richard (GOV)" <bairdr@michigan.gov>

Sue / Nikki – today I chatted with Rich Baird on the Flint matter given that they continue to have on-going water quality problems. Numerous articles are being written on this matter and I suspect it is getting a bit tense in Flint over this critical issue. They are balking at the cost of the DWSD water – which I understand may be a bit more expensive for them simply because of the distance and elevation – completely understandable. The attached letters indicate $847K per month at a standard commodity rate (which I now am beginning to realize is one of the volume flow issues giving rise to the situation we are in with all communities; but we'll leave that alone for the moment).

The attached letter suggest that they can re-connect to the DWSD using the same rates offered to other communities through June 30, 2015. This seems fair and would not exacerbate the already sensitive issue of the sizable rate increases the suburban and retail customers are now facing. Notwithstanding that matter, Mr. Baird inquired of some means of lowering the rate to encourage Flint to return to the DWSD fold on a marginal costing approach that covers some portion of the fixed costs but may be slightly lower than the amount offered in the letter.

The optics of this matter to the suburban customers now facing a 9% to 14% rate increases are troublesome (sans any provision for the balance sheet issues and with little or no provision for the Detroit retail customers likely collection issues arising from these rate increases – which is going to make this summer even more troublesome when the shut offs start circa March / April). How can a reduction occur in the Flint rate covering fixed costs such that additional volumes actually would serve to reduce what would otherwise be the present proposals on the table? Theoretically, it can be justified but it is steeped in cost accounting but if we can't seem to differentiate 'rates' versus 'revenue requirement' how the heck can we justify something even more complicated to the residents or suburban customers? Perhaps I have answered my own question – it might be able to done and prove to be beneficial, but politically its DOA. The political barrier seems to be too high a hurdle – and the approach already taken of offering to reconnect at the rates and flow previously charged is the only rational approach possible without sending what is already a very sensitive public off the deep end.

Just musing on a Friday afternoon, but I think I answered the question that Rich and I chatted about in the last part of the paragraph above.