

Koryzno, Edward (Treasury)

From: Cline, Richard (Treasury)
Sent: Tuesday, April 16, 2013 11:14 AM
To: Koryzno, Edward (Treasury)
Cc: Byrne, Randall (Treasury); Vandegrift, Drew (TREASURY)
Subject: RE: KWA and City of Flint

Importance: High

Ed/Randy,

Here are some observations and comments regarding the "Final Offer" from DWSD to Flint.

- The proposal is for 30 years, which is standard for DWSD.
- While the letter from DWSD is addressed to the City of Flint, the entire proposal seems addressed more to KWA and appears designed to apply to KWA as a collective entity.
- The proposal offers to allow the purchase of treated water directly from DWSD's Lake Huron WTP.
- It is unclear if the rates proposed by DWSD remain in-effect for 30-years.
- There is a statement in the cover letter "*Service commitments and usage definitions would be negotiated in the same manner as employed that have resulted in new contracts for other customers.*" This is very vague and implies further negotiation after approval of DWSD's offer. This raises concerns as to if additional costs might become a point of negotiation.
- There is an ill-defined comment that KWA can participate in facility operation and capital investment through a joint committee. More information would be needed on this prior to making a final decision.
- Broadened representation for Flint/Genesee County on the DWSD Governing Board is also implied but not defined. More information would be needed on this prior to making a final decision.

DWSD provides two scenario's for consideration.

- Scenario 1
 - Water purchases can be either *pressurized* or *unpressurized*. These terms are not defined and the impact of selecting an option could potentially impact delivery/transmission costs. I have concerns about proceeding without more clarity on the potential impacts of these options.
 - DWSD indicates that this scenario is a "supply only" rate schedule. Only water treatment costs would be recovered. DWSD would absorb all other delivery costs. It is not clear if this would remain in-effect for 30-years.
 - Capital and operating revenue charges are calculated based upon KWA's usage relative to the entire demand upon the Lake Huron WTP. Again, it is unclear if this is a fixed cost for 30-years.

- Emergency water service would be provided via the Potter and Baxter connection. It is assumed, but not specified, that the primary connection would be via the Imlay City connection.
- KWA would have the ability to construct and own its own transmission lines. It is assumed, but not specified, that no new connection points would need to be constructed to implement Scenario 1.

- Scenario 2

- This is a “full service” rate option. DWSD provides all production and transmission services through the Potter/Baxter connection. It should be noted that this connection was determined to be more expensive than the Imlay City connection by TYJT.
- Transmission rates will be calculated only on those costs necessary to supply KWA. No additional transmission rates will be charged. Again, it is unclear if this extends for 30-years.
- Capital and operating revenue charges are calculated based upon KWA’s usage relative to the entire demand upon the Lake Huron WTP. Again, it is unclear if this is a fixed cost for 30-years.
- Emergency water services are not identified under this scenario.

DWSD provides a summary table of their unit costs but how these figures are arrived at are not clear, so analysis is difficult.

Attachment 1 lists the rank-ordered options (from cheapest to most expensive) identified by TYJT. DWSD Scenario 2 is listed as the least expensive option.

- How the total cost of this option is arrived at is unclear.
- It should be noted that Scenario 1 is *not listed* in *Attachment 1*.
- The previously identified, but unexamined, parallel line option raised by TYJT is listed as the 9th most expensive option. This option is not discussed in the DWSD proposal, so it is unclear how the total cost was arrived at.

The scenarios provided by DWSD could be cheaper than the KWA option, but this proposal lacks specificity and without delaying a final decision and conducting more analysis it is difficult to determine.

It is worth noting that if DWSD is able to provide these “advantageous rates” to Flint/KWA and expand decision-making representation to them, then it should be expected that other DWSD customers will desire similar terms.

It is peculiar that Scenario 1 notes that KWA would have the option to build and own its transmission lines. If no additional connection points are needed to implement this scenario, then why would KWA need to construct new lines (unless this refers to future expansion).

Scenario 2 seems to make KWA a “standard” DWSD customer with, perhaps, some more favorable rates and terms.

Scenario 1 references using the Potter/Baxter connection as an emergency connection. Given the history of back-up connections to DWSD, why is this point presented as almost a “non-issue?” Why then was it not previously implemented for Flint before this time? Also, why is the issue not addressed in Scenario 2?

A complete analysis of this proposal likely will require more information and additional time to complete.