



Rochester Hills Minutes City Council Work Session

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*Erik Ambrozaitis, Jim Duistermars, Barbara Holder, Greg Hooper,
Linda Raschke, James Rosen, Ravi Yalamanchi*

Wednesday, June 28, 2006

7:30 PM

1000 Rochester Hills Drive

CALL TO ORDER

President Rosen called the Rochester Hills City Council Work Session Meeting to order at 7:34 p.m. Michigan Time.

ROLL CALL

Present: Erik Ambrozaitis, Jim Duistermars, Barbara Holder, Greg Hooper, Linda Raschke, James Rosen and Ravi Yalamanchi

Others Present:

*Jane Leslie, City Clerk
Roger Rousse, Director of DPS/Engineering*

PLEDGE OF ALLEGIANCE

PUBLIC COMMENTS

None.

ADMINISTRATION

2006-0482

Request for Approval of the Memorandum of Understanding Regarding the Northern Oakland-Northern Macomb Connection between the City of Detroit, Board of Water Commissioners and the City of Rochester Hills

Attachments: Agenda Summary.pdf; Memorandum of Understanding.pdf; 0482 Resolution.pdf

Mr. Roger Rousse, Director of DPS/Engineering, explained that Council would not be asked to make a decision on these Detroit Water & Sewerage Department (DWSD) issues, but he felt this provided a good opportunity for Council to meet several DWSD representatives and learn about the DWSD and a proposed new connection that would impact the City. He provided the following information about the DWSD:

- The DWSD is the third largest sewer and water utility in the nation.
- The DWSD provides water to approximately one million people in Detroit, and three million people in neighboring southeastern Michigan communities.
- The 1,215 square miles of water service area includes Detroit and 125 suburban communities, providing water service to approximately 43% of the state's population.
- The DWSD is a branch of the City of Detroit government and is governed by a

seven-member Board of Commissioners appointed by the Mayor of Detroit.

- The five water treatment plants pump an average of 650 million gallons of water each day.

Mr. Victor Mercado, Director of the DWSD, introduced the various individuals who would be addressing Council:

- **Mr. Bob Walter**, Senior Assistant Corporate Counsel for DWSD
- **Mr. Charlie Fleetham**, Facilitator from Project Innovation
- **Mr. Ramesh Skula**, Assistant Director of DWSD's Engineering Department
- **Mr. Borat Doshi**, Project Engineer for DWSD
- **Mr. Raphael Chirolla**, Rates Section Supervisor for DWSD
- **Mr. George Ellenwood**, Public Affairs Manager for DWSD

Mr. Fleetham explained that he is a facilitator who has been contracted by DWSD to help design and facilitate a customer outreach, the purpose of which is as follows:

- 1) Work with customers to identify problems, issues and concerns.
- 2) Help DWSD and customers organize work teams that would tackle these problems and issues.
- 3) Funnel these in a communications program to all customers and the DWSD Board of Commissioners.

He explained that this effort began in 2003 and one of the issues that came to light during this process was a connection project between northern Oakland and northern Macomb communities.

Mr. Shukla provided the following presentation regarding the connection routes considered for this project:

Routes Considered:

- Route 1: 31 Mile Road from Grand Trunk Western Rail Road (GTWRR) to Lapeer Road (M-24)
- Route 2: 32 Mile Road from Grand Trunk Western Rail Road to M-24
- Route 3: 33 Mile Road from McKay Road to M-24, which has some narrow rights-of-way and was not further studied
- Route 4: 34 Mile Road from McKay Road to M-24

Orion Township objected to the use of Clarkston Road under proposed Route 1. This route was modified from 31 Mile Road to Orion station as Route 5. This route was further modified due to Oakland Township concerns for the crossing at Adams Road and Silver Bell Road. The recommended route is now 5A (Buell Road)

Evaluation of Routes:

Route 1: 31 Mile Road from GTWRR to M-24

Starting from the existing 96-inch water main at GTWRR/east of Van Dyke, west along 31 Mile Road and Predmore Road to Rush Road, to Letts Road to Rochester Road; south along Rochester Road from Letts Road to Stoney Creek Road and westerly along Stoney Creek/Clarkston Road to M-24

This route was revised due to complaints received from the residents along Rush Road and Letts Road. This route was revised to continue to 31 Mile Road/Predmore to Rochester Road; and then south in Rochester Road from 31 Mile Road/Predmore Road to Stoney Creek Road and westerly along Stoney Creek/Clarkston Road to M-24

Length of route: 11 miles

Approximate construction cost: \$55.5 million

Route 5: Route 1 mentioned above was modified from 31 Mile Road to Orion Station

From the existing 96-inch water main at GTWRR/east of Van Dyke along west in 31 Mile Road/Predmore Road to Rochester Road; south in Rochester Road from 31 Mile Road/Predmore Road to Stoney Creek Road and westerly along Stoney Creek to Adams Road, south in Adams Road from Stoney Creek to Silver Bell Road, west in Silver Bell Road to M-24, south in M-24 from Silver Bell Road to Brown Road, west in Brown Road from M-24 to Giddings Road.

Length of route: 15.5 miles

Approximate construction cost: \$80 million

Recommended Route: Route 5A

From the existing 96-inch water main at GTWRR/east of Van Dyke head west in 31 Mile Road in Washington Township to Dequindre; turn south on Dequindre then enter Oakland Township at Inwood and Dequindre; then west in Inwood to Hadden; south in Hadden to Buell; then west in Buell to Adams; south in Adams to Gunn; west in Gunn to Kern Road; south in Kern to Silverbell; west in Silverbell Road to M-24; south in M-24 from Silver Bell Road to Brown Road; west in Brown Road from M-24 to Giddings Road

Approximate length of route: 15.8 miles

Approximate construction cost: \$72 million

Benefits to the Existing Customers

- 1. The existing customers will see pressure improvement within this area.*
- 2. Since there is improvement in pressures and flows fire protection will be improved.*
- 3. The existing dead end main in Brown Road and Giddings Road will be looped.*
- 4. This will provide redundancy to the system to feed from either direction from north to south and from south to north in case of an emergency.*
- 5. Potential to serve new customers (Addison Township, Bruce Township, Oxford, Oxford Township, Oakland Township).*

Mr. Mercado, Mr. Shukla, Mr. Walter and Mr. Rouse responded as follows to questions and concerns raised by Council members:

- Determining this route was a cooperative effort between DWSD and its customers.*
- The prime objective of this project was to maximize working with DWSD customers.*
- Non-participating communities through which the new route will pass have raised no objections to the new water main.*
- DWSD does need the permission of all communities through which this new water main will pass.*

- *This new water main will run off the north/south main along Van Dyke.*
- *The new main is designed to loop the whole system.*
- *The new main will improve water pressure to the entire area.*
- *A booster pump will be placed at 31 Mile Road and Van Dyke.*
- *This new water main will make DWSD more competitive and provide a redundancy to the system that is not currently available.*
- *This new redundancy will provide more reliable water service.*
- *The new main will not solve all of Rochester Hills' water problems, as some problems are within the City's internal water system.*
- *It is difficult to anticipate the positive impact of water conservation programs as they are dependent on cooperation and enforceability.*
- *It is more advantageous and more equitable to determine water rates by measuring the average distance from all five water plants as a function of the rate calculation.*
- *DWSD in conjunction with customer representatives on their Technical Advisory Committee (TAC) are working to develop a water rates methodology "to try to get away from the peaking factor issue."*
- *The philosophy of the DWSD for the past four years has been as a more customer-focused entity.*
- *The Water Rates Work Group, which is comprised of approximately a dozen suburban water system representatives, has been reviewing the rates allocations for two years trying to determine a more rational rate model.*
- *There is a proposal to replace the distance and elevation factors with a hydraulic grade line.*
- *The size of the water main pipe does not dictate the cost of the project; the greatest cost is a result of the excavation.*
- *It is hoped that this project will better serve the existing customers while attracting new customers which should lower the cost for existing customers.*
- *DWSD spends approximately \$450 million annually for its capital improvement program.*
- *DWSD believes it is important to include the affected communities in the discussions of this project to ensure that they understand the purpose and reasons for this new water main.*
- *None of the thirteen communities involved in this project have expressed disapproval of the plan.*
- *The Michigan Department of Public Health is looking for redundancy in the water system.*
- *Rochester Hills will connect to this new main through its Walton Road connection, which feeds 45% of the City including the areas currently experiencing low pressure problems.*

- Connection to this new main should stabilize the pressure and provide redundancy in case of a failure in one of the other connections.

- Any possible adverse effects that could result from the new water main will be identified and addressed during the final design phase.

President Rosen thanked the presenters noting that Council now has a better understanding of this project.

Discussed

2006-0483

New Detroit Water and Sewerage Department (DWSD) Model Contract

Attachments: Agenda Summary.pdf; Model Contract DWSD.pdf

Mr. Charlie Fleetham, Facilitator from Project Innovations, noted that the following presentation had been delivered to 71 communities in six different sites across the region and **Mr. Bob Walter**, Senior Assistant Corporate Counsel for the Detroit Water & Sewerage Department (DWSD) assisted Mr. Fleetham with the **Technical Advisory Committee Model Contract Presentation:**

Presentation Objectives

- Inform DWSD water customers about new Model Contract
- Collect feedback and suggestions
- Open door to collaborative dialogue

DWSD Water Master Plan Technical Advisory Committee (TAC) Partnering Agreement

- The TAC is the steering team for DWSD and its customers

Customer Outreach Program Objectives

- Enhance customer input
- Establish collaborative problem solving teams and process
- Disseminate solutions and information to all customers
- Feedback to DWSD Board of Water Commissioners on policy issues

TAC Organization and Information Flow

Technical Advisory Committee

- Feedback to Customers
- Feedback to DWSD Water Board on Policy Issues
- Feedback to Stakeholders
- Contracts Work Group
- Rates Work Group
- Customer Service Work Group
- Emergency Preparedness Work Group
- Elected Official Task Force

Technical Advisory Committee Contracts Work Group Goal - February 17, 2004

"Develop a Model Contract that reflects modern operating, political, market and environmental conditions."

Contract Work Group Members

*Fred Bionde, Washington Township
Doug Bucholz, OCOC
Bharat Doshi, DWSD
Tim Faas, Canton Township
Charlie Fleetham, Project Innovations
Bart Foster, The Foster Group
Gary Fujita, DWSD
Kurt Giberson, Dearborn
Steve Hohensee, Washington Township
Vyto Kaunelis, Wayne County
Gary Kirsh, Washington Township
Laurie Koester, DWSD Law Dept.
Sanjeev Mungarwadi, DWSD
Jim Murrery, Chelsea City
John Schandavel, SOCWA
Sam Smalley, Dearborn
Robert Walter, DWSD Law Dept.
Don Weaver, Northville Township*

Contracts Work Group Activities

- *Contracts Work Group established - March 2004*
- *Issue List identified - May 2004*
- *Development approach adopted Divergence . . . Convergence . . . Emergence Phases of Work*
- *2004 Customer Satisfaction Survey provided input*

Contracts Work Group Activities

- *Introduced concept of customer defined flow limits and DWSD pressure range commitments at 12/2004 TAC*
- *TAC approved work group completion and roll out plan on 09/2005*
- *TAC approved 80% Model Contract on 2/14/06*
- *Model Contract introduced into Northern Macomb/Northern Oakland connection project*

Contracts Work Group Plan

- *Present Model Contract to DWSD customers*
- *Consider feedback/suggestions and modify model*
- *Present Model Contract to TAC in Sept. 2006 for approval*
- *Support negotiation process - Oct. 2006 to Oct. 2008*

Critical Issues to Solve

1. On going communication
2. Length of the contract
3. Early termination - stranded costs
4. Defining customer service area
5. Providing desired pressures
6. Establishing maximum flow rates
7. Resolving issues of exceeding ranges/limits
8. TAC role in the contract
9. Rates (fairness, volatility, transparency)
10. Meter and meter pit ownership and maintenance
11. Co-mingling of water sources
12. Construction standards

Issue: On Going Communication**Model Contract Preamble**

"Whereas, the Board implemented a voluntary partnering effort with its water customers, of which the Technical Advisory Committee is a central part . . ."

Issue: Length of ContractArticle 2: Contract Term, Renewal and Termination

- Thirty-five years
- Automatic renewals at twenty-five years
- DWSD is sole supplier to Customer Service Area

Work Group Rationale

- Reduces uncertainty
- Promotes system stability

Issue: Early Termination - Stranded CostsArticle 3: Early Termination Costs

- Calculated by applying the adjusted prevailing rate to minimum usage requirements for remaining life of the contract
- Specific constructed facilities for customer will result in additional costs

Work Group Rationale

- Promotion system stability

Minimum Annual Volume = 50% of Customer's projected annual volume from July 1 to June 30

Work Group Rationale

- 50% of revenue supports O&M component of rates
- Wet year will not invoke 50% minimum

Issue: Defining Customer Service AreaArticle 4: Service Area

- Customer's distribution of water limited to Service Area
- Customer may supply water beyond service area with DWSD approval
- Water Distribution Points changed or added with DWSD approval

Issue: Providing Desired PressuresArticle 5: System Pressure: Maximum Flow Rate; Minimum annual volume

- The Board shall, to the extent practicable, deliver water at the Water Distribution Points at a pressure range adequate to meet the reasonable requirements of Customer. The pressure to be provided by the Board to Customer's Water Distribution Points shall be no less than ____ pounds per square inch and no more than ____ pounds per square inch ("Pressure Range").

Issue: Establishing Maximum Flow Rates

- Rates to be established in conjunction with customers.
- The flow rates will be reviewed on a five-year basis.
- Maximum flow rates will eliminate the peaking factor, thus, significantly reducing rate volatility.

Issue: Resolving Issues of Exceeding Ranges/LimitsFailure to meet Pressure Ranges

- Meet and develop corrective action plan
- DWSD relieved from obligation if customer exceeds Max Flow Rate

Options if Customer exceeds Max Flow Rate

- A. Customer acts to reduce flow rate
- B. Customer negotiates new flow rate
- C. DWSD recalculates customer's rate

Issue: TAC Role in the ContractArticle 6: Governance - Decision Making

- The Board and Customer acknowledge and agree that the TAC is formed to facilitate a cooperative working partnership between the Board and its customers to facilitate a cohesive regional water system planning effort.

- TAC reviews/evaluates flow rates, pressure ranges every five years
- DWSD presents annual report to TAC on all non-compliance events
- DWSD continues annual rates roll out process

Issue: Rates

Article 7: Rates; Estimate of Usage

- DWSD establishes reasonable rates in relation to costs incurred
- DWSD provides technical data used to calculate rates (Rates Roll Out Process)
- DWSD and customers agree on process for estimating usage when meter fails

Issue: Rates

Strategy: Rates Work Group defining best approaches; will converge with Contracts Work Group

- Continued development of information to enhance understanding of rates
- Potential adjustments to cost allocation approaches (for example, should system control costs be treated same as Booster Stations)
- Potential adjustments to rate methodology (for example, use hydraulic grade line)
- Look at different rate models (for example, level of service concepts)

Issue: Meter and Meter Pit Ownership and Maintenance

Article 8: Maintenance and Ownership of Meters and Other Appurtenances

- DWSD already owns all of the meters
- DWSD would like to maintain the meter pits
- Some customers suggested that maintenance protocols be written into the contract

Issue: Co-mingling of Water Sources

Article 17: Co-mingling of Water Sources; Emergency Exception

- Except in emergencies, no co-mingling with DWSD water
- During emergencies, with DWSD approval, co-mingling may be permitted

Issue: Construction Standards

Article 22: Construction Standards

- The Board shall have the right to review and approve Customer's construction plans for meter pits for new Water Distribution Points, pump stations, reservoirs and water towers.

Work Group Recommendation:

- The TAC assigns a work group the task of determining optimal approach to maintaining/implementing regional construction standards.

Summary: Three Pillars of the Model Contract

1) DWSD and the customers will establish desired pressure ranges for service, and DWSD will strive to deliver water within those ranges.

2) The customer will agree to establish and not to exceed a maximum flow rate over a ten-year period. Those flow rates will become part of each individual customer's rate calculation, replacing the need for annual peaking factors. Both pressure ranges and maximum flow rates will be renegotiable after five years.

3) The TAC will annually review contract incidents regarding pressure ranges and flow limits. The TAC will also review the process of establishing and maintaining pressure ranges and maximum flow limits every five years.

How will replacing Peaking Factors with negotiated contract capacities effect my community?

Strategically, it will:

- Marry the long-term capacity planning efforts of DWSD and customers.
- Tie costs of service to the level of service.
- Mitigate the annual volatility in water rates, since fluctuations in annual demand factors will not directly impact rates.

Simulation Results and Observations

- Moving to the new concept will have a one-time impact on several customers. Note: Using one year of data for the simulation exacerbates this variance.
- Year to year volatility from the average impact will be significantly reduced.

Mr. Walter noted that a second two-page agreement will also be given to communities served by the new connection asking them to agree to the following:

- 1) The Board will initiate the design of the project prior to the communities signing a long-term contract.
- 2) Construction of the project will not begin until the customers to be served by this new project have signed a long-term contract.

Mr. Walter explained that the only commitment that the DWSD is requesting is that customers start negotiations with the DWSD in October of 2006. He stressed that this agreement does not obligate the customer to agree to a contract, only to begin negotiations.

Mr. Victor Mercado, Director of the DWSD, emphasized that this agreement protects both DWSD and the customers as it ensures that communities will not leave the system prior to construction, thus obligating fewer communities to bear an increased cost burden for the project.

Mr. Mercado, Mr. Walter, Mr. Raphael Chirolla, Rates Section Supervisor for DWSD, **Mr. Fleetham** and **Mr. Roger Rousse**, Director of DPS/Engineering for Rochester Hills, responded as follows to questions and concerns raised by City Council:

- It is anticipated that there will be an increase in new customers as a result of the new water main, which could potentially lower the unit cost for existing customers.
- The model contract for service is used in other municipalities as well as in the private sector.
- The industry is trying to standardize contracts, however, the needs and concerns of water customers vary from region to region.
- The Oakland/Macomb extension will be beneficial to Rochester Hills.
- This expansion mirrors the expansion of the entire system in terms of how it is being financed.
- Future discussions for Rochester Hills must examine the proposed model contract to determine its likely effect on water rates.
- Rochester Hills has a fairly stable water consumption rate.
- DWSD cannot determine Rochester Hills' rate yet, as it must take into account all other participating communities to determine the rate.
- The TAC accepted the possibility that their communities' rates may increase in the first year of the new contract; they concluded that an increase the first year was secondary to being able to plan for system redundancy, stability and pressure over a ten-year period.
- Many of DWSD's customers are operating on a year-by-year basis as their contracts have expired.
- DWSD's desire for some long-term stability in the system is driving this template as many customers' contracts have expired or will expire soon.
- The other driving force is the desire for continuity and standardization of contracts among all customers.
- This contract is also an attempt to do away with unpopular peaking factors and the current way rate factors are set.
- It has been a driving force of Detroit's new administration to increase customer communication.
- DWSD strives to secure all of its facilities, which began as a response to the Y2K issue and has continued in the wake of 9/11.
- The "minimum take" is set at 50% of the customer's average annual consumption, which is the amount allocated to operation and maintenance of the current system facilities.

President Rosen noted that the information presented "makes good sense from a management perspective," specifically noting that a remedy for the rates volatility would likely be welcomed by all participating communities. He indicated that the DWSD would be working with Mr. Rousse over the next several months to work out all of the details of the new contract.

Discussed

(Recess 9:28 p.m. - 9: 35 p.m.)

COMMENTS & ANNOUNCEMENTS

Ms. Holder reminded everyone that the Festival of the Hills would be taking place the following evening on Thursday, June 29th.

ANY OTHER BUSINESS

None.

NEXT MEETING DATE

Regular Meeting - Wednesday, July 12, 2006 at 7:30 p.m.

ADJOURNMENT

There being no further business before Council, President Rosen adjourned the meeting at 9:37 p.m.

*JAMES ROSEN, President
Rochester Hills City Council*

*JANE LESLIE, Clerk
City of Rochester Hills*

*MARGARET A. MANZ
Administrative Secretary
City Clerk's Office*

Approved as presented at the November 29, 2006 Regular City Council Meeting.