



Suzanne R. Coffey, P.E.
Chief Executive Officer
735 Randolph Street, Suite 1900
Detroit, Michigan 48226
Phone: 313-964-9501

Memorandum

To: HONORABLE BOARD OF DIRECTORS

From: Suzanne R. Coffey, CEO

CC: William Wolfson, Deputy CEO
Nicolette Bateson, Chief Financial Officer and Treasurer

Date: August 26, 2024

RE: Oakwood Interconnect Project Cost Allocation

On July 10, 2024, at the GLWA Operations and Resources Committee meeting, Chief Operating Officer Navid Mehram presented a construction contract for what is commonly known as the Oakwood Interconnect Project (Item 2024-237, Contract No. 2304897, Northwest Interceptor to Oakwood CSO Sewer). After considerable conversation about the project itself and about the status of the project's cost pool assignment as "to-be-determined", the Committee requested that GLWA Administration develop a cost allocation recommendation and present both the Item and its recommended cost allocation to the Full Board for its consideration at a future date¹.

In response to the request, GLWA Administration convened a group of Member Partners to consider perspectives and develop a recommendation. The roster for the group was developed including Member Partners who have either engaged formally in the contestation of the cost allocation for this project and/or were part of the Sewer SHARES Think Tank group who collaborated to settle these types of disputes in the past. The parties in the group were representatives from Wayne, Oakland, and Macomb Counties, and the City of Detroit. GLWA led three in-person meetings and conducted several phone conversations with the parties to understand various perspectives and options. The parties were dedicated to the matter and thoroughly engaged. Multiple options were discussed and evaluated.

¹ A copy of this memorandum will be attached to the file for GLWA Resolution 2024-237

The principal points of discussion and conclusions are summarized below.

1. The parties agreed that the Oakwood Interconnect Project is a good project and that GLWA should move forward with its construction.
2. The parties understood and agreed to the technical points noted below.
 - a. The project's primary benefit is to lower the level of wastewater in GLWA's Northwest Interceptor during wet weather events.
 - b. The project provides emergency back-up service to GLWA's Water Resource Recovery Facility.
 - c. The project is not a combined sewer overflow control project. It will not reduce untreated flow or correct any given outfall for GLWA's design event.
3. At the beginning, and throughout the discussions, the parties were not fully aligned with cost pool assignment(s) and/or cost allocation for the project.
4. The parties agreed that the dispute of the project's cost allocation should be resolved timely, such that it preserves GLWA's ability to receive a \$20M grant from the State Revolving Fund loan program. That timing requires GLWA Administration to present a recommendation to its Board of Directors by the end of August 2024.
5. The parties agreed that whatever the resolution of the cost allocation dispute for this project, it would not set a precedent for future projects and that any future projects whose cost allocation has been contested would be taken up separately.
6. Oakland and Macomb County representatives requested, and GLWA agreed for this project alone, that the value of the asset and related depreciation, for the purpose of calculating charges via GLWA's Cost of Service Study, would be the *actual cost of the asset less grant funding*. Wayne County and Detroit representatives did not dispute this treatment of the project for calculating charges.

7. Macomb, Oakland, and Wayne County representatives requested that GLWA reopen the discussion of including an element of peak flow in its wastewater cost allocation method. Detroit indicated that if that is to occur, the CSO cost allocation of 83/17 would need to be included in the conversation as it has an element of peak flow in its development. In response to the request, GLWA has committed to again exploring the possibility of including an element a peak flow in its wastewater cost allocation method as a follow-on project.
8. GLWA’s Administration recommends the following cost allocation for this project.

<i>Cost Allocator</i>	<i>Allocation Method</i>	<i>%</i>
Current Conveyance Cost Pool	Total Volume	50%
Current Treatment Cost Pool	50% Sanitary Vol/50% Total Vol	25%
Current CSO Cost Pool	83% Detroit/17% Others	0%
New Wet Weather Cost Pool	Wet Weather Volume (proxy for peak)	25%
Total Project Cost		100%

This recommendation emerged from several options that were considered and discussed by the parties. The parties recognize that the asset values being considered represent less than 2% of the overall GLWA asset inventory, and that the alternative allocation options being discussed would not materially impact hypothetical Sewer SHARES or charges. In fact, GLWA Administration’s recommendation would result in no change in hypothetical Sewer Charge calculations from the originally published single cost pool allocation assigned to this project which was GLWA’s current Conveyance Cost Pool.