

August 14, 2018

MEMORANDUM

To: Civil Rights, Utilities, Economic Development, and Arts Committee
From: Brian Goodnight, Council Central Staff
Subject: Council Bill 119308: Southwest Subregion Wholesale Water Rate

At its August 14 meeting, the Civil Rights, Utilities, Economic Development, and Arts Committee will consider [Council Bill 119308](#) revising the wholesale water rate surcharge for the Southwest subregion.

Background

Seattle Public Utilities (SPU) manages and operates a water system that supplies drinking water to retail customers within Seattle and to wholesale customers, which includes nearby cities, water districts, and the Cascade Water Alliance. Wholesale customers typically own and operate separate water delivery systems and assets, but still rely on SPU to provide maintenance, oversight, and investment in the regional water supply system. Wholesale water rates reflect a portion of the cost to maintain and upgrade elements of SPU's water supply system.

The City's wholesale water contracts further divide the water supply system into regional assets and subregional assets. Regional assets include the pipelines from the Cedar River and Tolt watersheds, and the pipelines that make a circular loop through Seattle and the eastside. Subregional assets include the additional infrastructure required to deliver water to wholesale customers that are not reached by the regional assets, and customers within the subregions are assessed an additional surcharge to fund the subregional infrastructure. There are three subregions: East, Northwest, and Southwest.

Bill Summary

In November 2017, the City Council approved [Ordinance 125445](#) that revised and established regional water rates for wholesale customers for 2018 through 2020, as well as the surcharge rates for the East and Northwest subregions. The legislation did not adjust the surcharge rate for the Southwest subregion, however, due to the need to replace metering equipment that was thought to be faulty, as well as a pending options analysis on a capital project that is a significant rate driver for the subregion.

Earlier this year, SPU completed the water rate study for the Southwest subregion. The study, and Council Bill 119308, propose reducing the Southwest subregion surcharge from the current \$0.16 per hundred cubic feet (ccf) to \$0.07 per ccf. One reason for this surcharge reduction is a correction of estimated wholesale water usage for the 2014-2016 period. SPU had previously used a methodology that overstated the amount of water being used by wholesale customers

relative to retail customers, and therefore was overcharging the subregion's wholesale customers. Additionally, the previous surcharge rate was anticipating a planned reduction in purchasing from one of the wholesale customers, which did not occur and has now been delayed beyond the timeframe of the study period.

The water rate study performed by SPU proposes a five-year rate period covering 2019-2023, rather than recommending a surcharge rate that only considers the next two years. The longer period allows for a smoothing of the subregion surcharge rate and minimizes fluctuations from one year to the next, a strategy that all five of the subregion wholesale customers support. Consistent with the legislation passed last November, however, Council Bill 119308 only codifies the Southwest subregion surcharge for 2019 and 2020. The department has indicated that when the entire package of water rates is studied again in 2020 (for the 2021-2023 period), the Southwest subregion surcharge can be reviewed for accuracy and adjusted if necessary.

cc: Kirstan Arestad, Central Staff Director
Dan Eder, Central Staff Deputy Director