

September 16, 2022

MEMORANDUM

To: Transportation and Seattle Public Utilities Committee
From: Brian Goodnight, Analyst
Subject: CB 120417: Automatic Wastewater Treatment Rate Pass-Through

On September 20, 2022, the Transportation and Seattle Public Utilities Committee will consider and possibly vote on [Council Bill \(CB\) 120417](#) related to the automatic pass-through of treatment rates from external wastewater treatment providers. This bill relates to the drainage system, and a second bill is needed to make similar policy changes for the wastewater system. Unfortunately, due to an error in the drafting of the original wastewater bill's title ([CB 120418](#)), a replacement bill had to be drafted (CB 120421) but was not ready in time to make the committee's September 20 agenda.

This memorandum provides relevant background information on drainage and wastewater rates and summarizes the proposal to modify the process for handling wastewater treatment rate changes.

Background

The Council typically considers rate-setting legislation for one of SPU's three utilities each year, with rates being set for a three-year period. The subject of this legislation is the drainage and wastewater utility, and the Council most recently updated drainage and wastewater rates for the 2022–2024 period in September 2021, via [Ordinance 126432](#) for drainage and [Ordinance 126433](#) for wastewater.

Drainage and wastewater rates work in tandem to provide SPU sufficient revenue to manage the stormwater and wastewater collection and treatment systems. The systems are physically interconnected in parts of the city through combined pipes that handle both stormwater and wastewater. Most of the collected wastewater and some of the collected stormwater then flow to King County's wastewater treatment facilities for treatment before being released into Puget Sound.

The City has a long-term contract with King County for the treatment of wastewater, and the charge for this service is the largest operating expense for the Drainage and Wastewater Fund. Both the drainage rates and the wastewater rates are impacted by these treatment charges, which are commonly referred to as "pass-through" charges due to the City's inability to directly influence their amount. Historically, King County approved revised treatment rates on a biennial basis. If the County revised the treatment rates in a year where the Council was not already scheduled to consider drainage and wastewater rate legislation, SPU would transmit standalone legislation to the Council to incorporate the County's revised treatment rates and pass-through the charges to SPU ratepayers. Council most recently approved this type of

wastewater treatment pass-through in November 2020 via [Ordinance 126215](#) (drainage) and [Ordinance 126216](#) (wastewater).

Proposed Legislation

King County has recently modified its approach to instituting treatment rate increases, switching from a biennial to an annual cycle. This change will result in smoother growth of drainage and wastewater rates, but will also increase the administrative burden for the City by having to process standalone treatment rate pass-through legislation more frequently.

CB 120417 would modify the process for handling County revisions to wastewater treatment rates by allowing SPU to incorporate treatment rate changes without legislative approval, thus mitigating the administrative burden resulting from the County's change in process. Drainage rates are made up of two components: a treatment rate and a system rate. The proposed legislation would remove the specific treatment rates from the Seattle Municipal Code and replace them with a provision stating that the treatment rate shall be the rate required to pay the drainage share of the wastewater treatment cost that is paid to external treatment providers. (The treatment rate for drainage also incorporates SPU's tax liability on the treatment rate revenue and utility discount program credits.)

Additionally, the proposed legislation sets a threshold amount of \$500,000 for determining whether a change to the wastewater treatment rate is material and should be passed through to customers via rates. If the changes are deemed to be material, SPU will adjust the treatment rate component of drainage rates to ensure that the modified charges are collected from or credited to customers over a 12-month period from the onset of the rate adjustment.

The proposed process is similar to the process that Seattle City Light uses to account for revised power and transmission rates from the Bonneville Power Administration ([SMC 21.49.081](#)).

Lastly, wastewater rates are composed of the same treatment rate and system rate components as the drainage rates, and a similar policy change is necessary to implement the automatic pass-through of treatment rates for the wastewater system. CB 120421 would make these changes for the wastewater system.

Next Steps

If the Committee recommends passage of the legislation to the Council on September 20, then the Council could take final action on CB 120417 as soon as September 27.

The companion bill for the wastewater system, CB 120421, is scheduled to appear on the September 20 Introduction and Referral Calendar to be referred to the full City Council for consideration on September 27.

cc: Esther Handy, Director
Aly Pennucci, Deputy Director