

Water Fund 2018-2020 Rate Proposals

**Presentation to the Council Committee for
Civil Rights, Utilities, Economic
Development & Arts**

Seattle
 Public
Utilities

August 8, 2017

Topics

- Overall Context
- Water System
- System Trends and Projections
- 2018-2020 Retail Rate Proposal
- 2018-2020 Wholesale Rate Proposal

Overall Context

Overall Context:

Strategic Business Plan vs rate studies

- What the Strategic Business Plan does
 - Adopts a 6-year plan of investments and goals
 - Endorses a 6-year rate path
- What rate studies & legislation do
 - Adopt rates by ordinance – for a 3 year period, sets the actual rates customers will pay

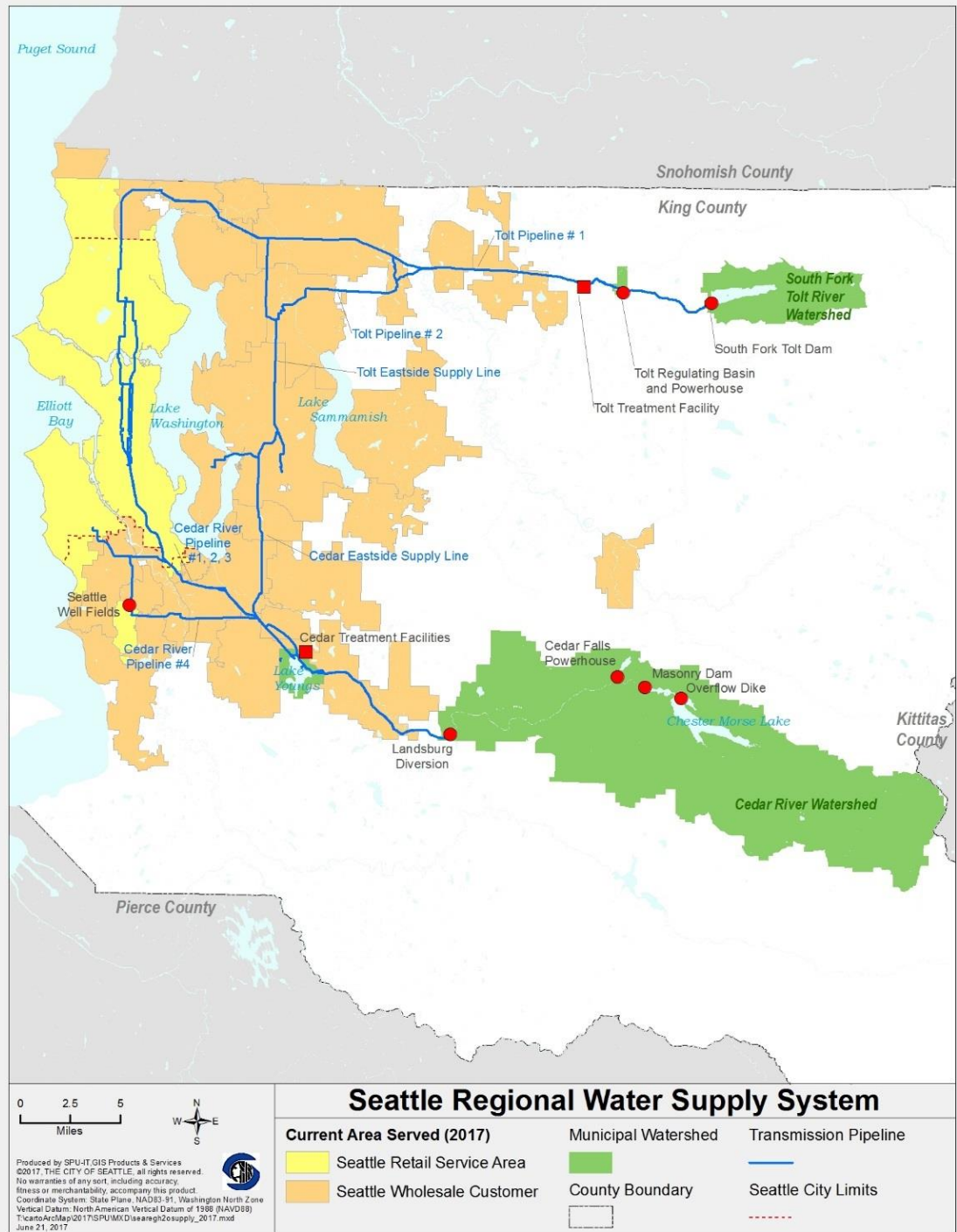
Water System

Seattle's Regional Water System

Seattle's water system provides drinking water to 1.4 million people in Seattle area.

Watersheds on Tolt River and Cedar River, plus Seattle Well Fields, can generate an average firm yield of 172 million gallons per day, and a maximum of 335 million gallons per day.

To deliver water SPU maintains 160 miles of transmission pipelines, nearly 1,700 miles of distribution mains, and 320 million gallons of treated water storage.



Our Promises to Customers

SPU uses a number of service targets as key indicators of quality and success. Here are a few examples

Regional System – Retail and Wholesale

- Supply drinking water that meets or exceeds Department of Health regulations
- Provide in-stream water for fish and meet other tribal, regional, state, and federal commitments
- Achieve goals for water conservation & leakage loss
- Respond to 90% of high priority drinking water problems within one hour
- Meet pressure and flow requirements for state requirements and wholesale drinking water contracts

Are We Meeting Our Service Targets?

Performing Well in Most Areas

- Extremely high quality drinking water that we will continue to maintain and protect
- Abundant supply of water – enough until 2060 and beyond – for people and fish, and manage it carefully
- Transmission and distribution system that is very reliable
- Respond quickly when problems arise
- Meet our conservation and leakage loss goals

Areas for Improvement

- Resourcing for deferred valve and hydrant maintenance
- Resourcing for accuracy testing of large retail water meters

Capital Improvements

Winding Down a Period of CIP Focus on Discrete Assets

- Habitat Conservation Plan
- Treatment plant upgrades
- Reservoir Covering
- Morse Lake Pump Plant



Installing seismic-resistant pipe on S Spokane St

Focusing CIP Attention on Buried Pipes

- Aging infrastructure
- Seismic planning
- Utility impacts from street projects

Operations & Maintenance

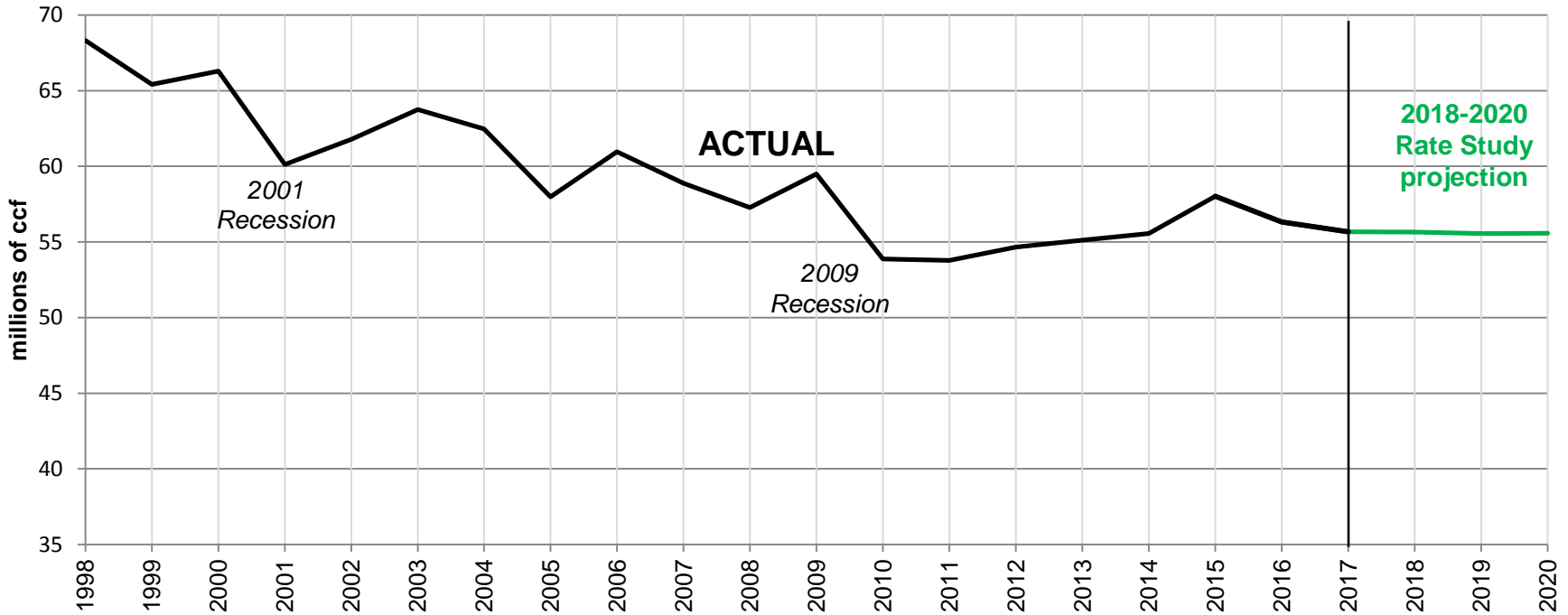
O&M:

- Deferred through economic downturn
- Continued deferral during economic boom
- O&M needs going forward
 - Catching up with deferred valve and hydrant maintenance
 - A several year effort



System Trends and Projections

1998-2020 Total Billed Water Consumption

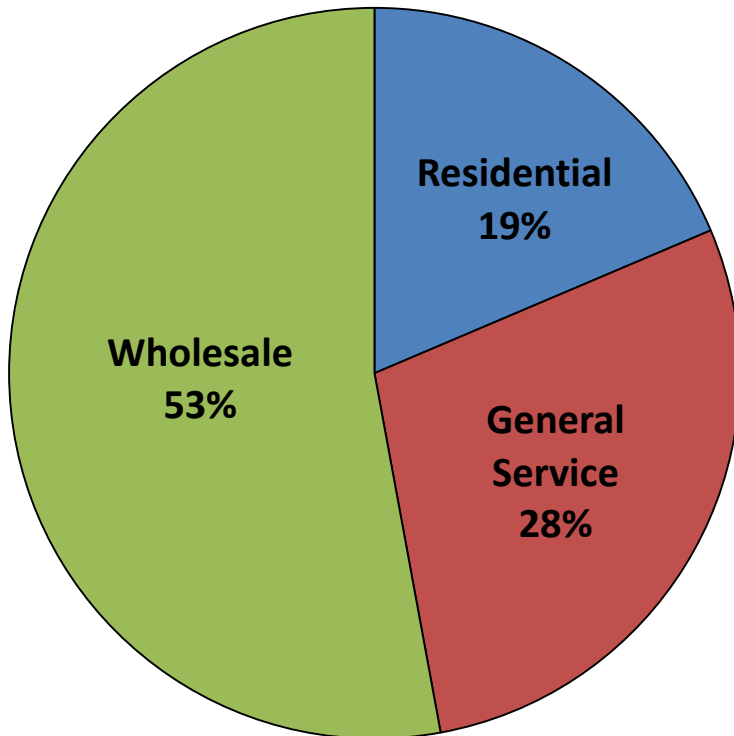


Consumption is leveling off as conservation efforts offset population growth.

Wholesale & Retail Water Consumption

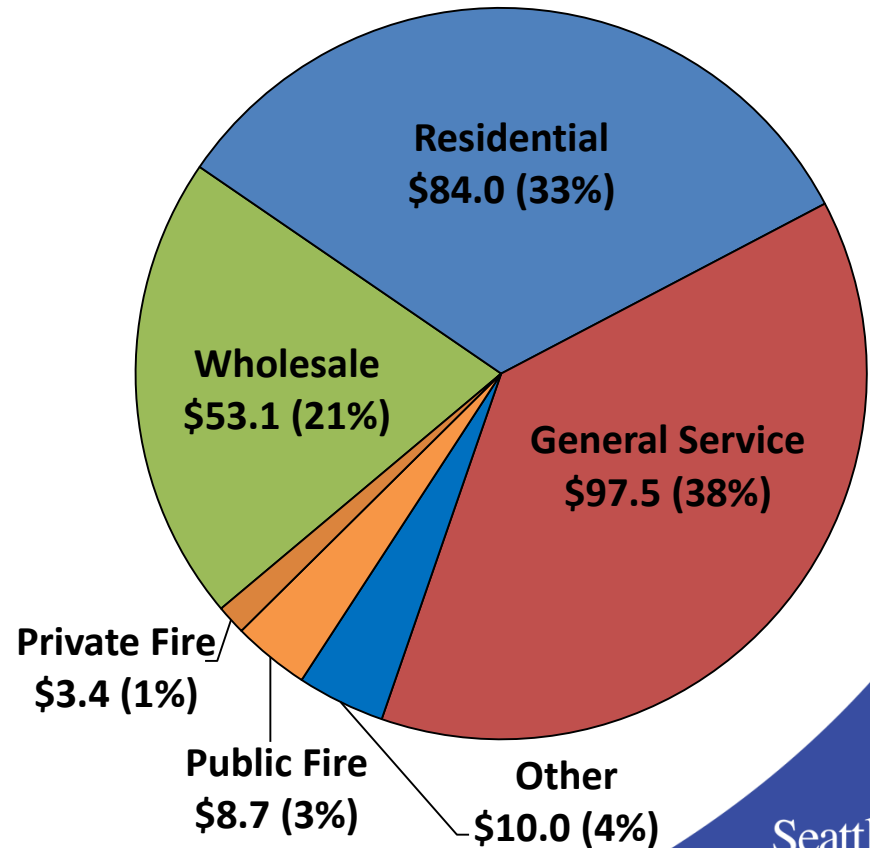
2016 Billed Water Consumption

56.3 million ccf (hundred cubic feet)



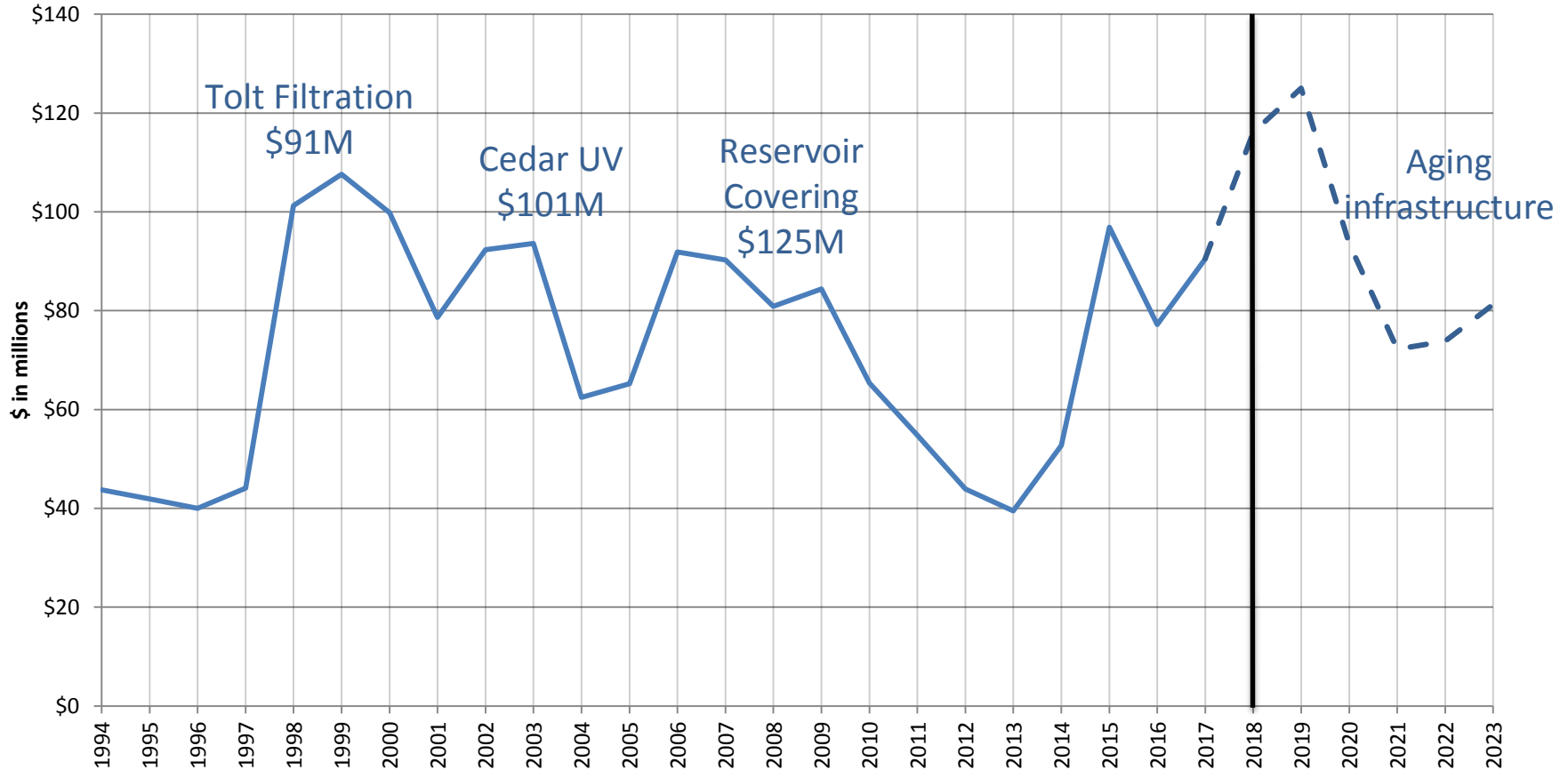
2016 Operating Revenue

\$256.7M



1 ccf = 748 gallons

Capital Expenditures



- 2018-2023 includes projects related to aging infrastructure including partnering with transportation and facilities.
- Future years beyond 2023 will likely include building capacity for elements such as seismic resiliency.

Strategic Business Plan & Water Rates

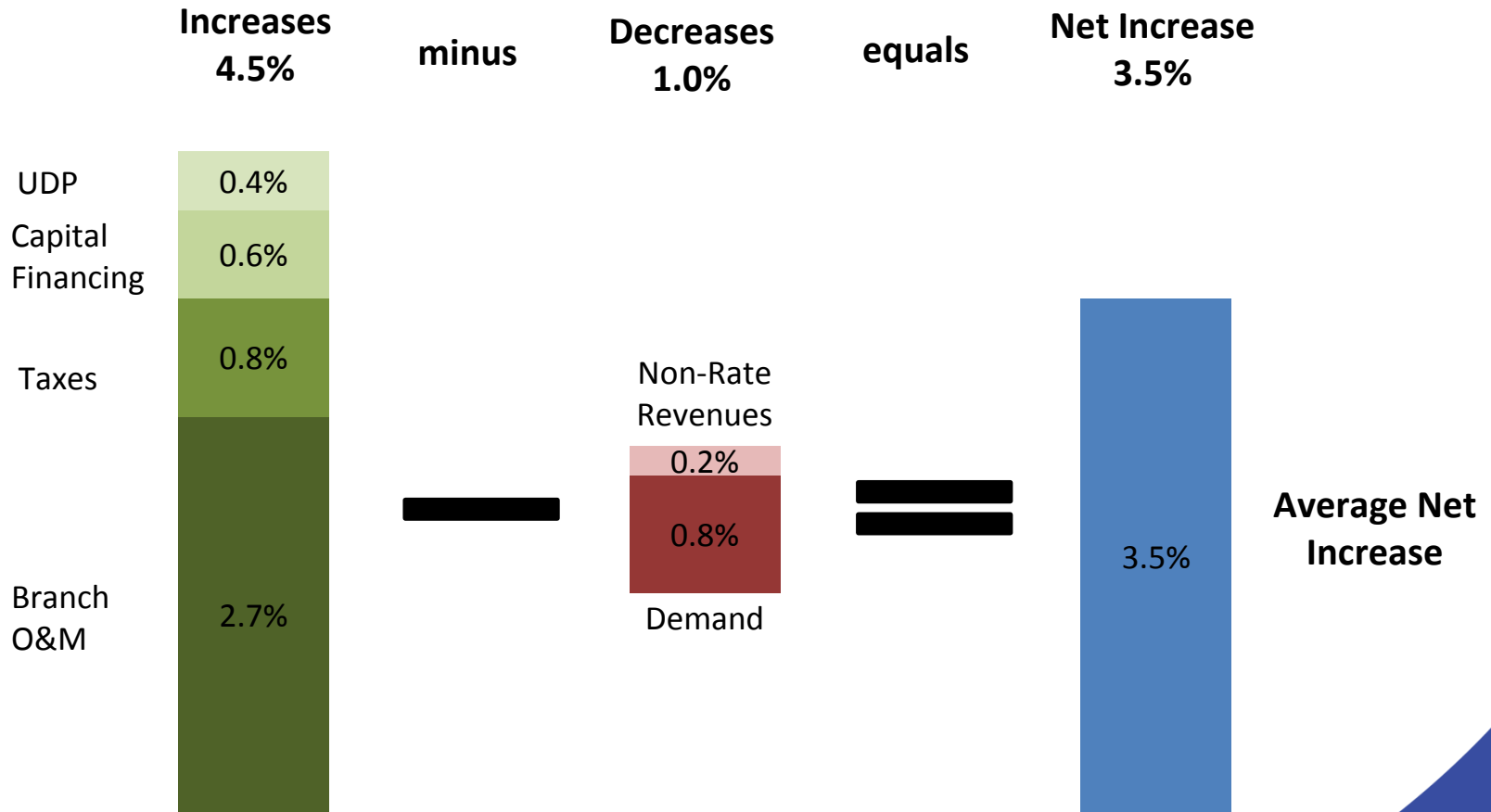
Updates in wholesale rate assumptions lowered revenues needed from retail rates

*Executive-proposed water rates:
Retail Rate Study compared with Strategic Business Plan*

	Rate Study Period			Following Three Years		
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Rate Study	3.0%	3.5%	4.0%	5.2%	4.2%	5.1%
Strategic Business Plan	3.5%	4.1%	5.2%	5.3%	4.1%	5.6%

2018-2020 Retail Rate Proposal

Retail Rate Drivers: Average 3.5% Rate Increase Per Year From 2018-2020



Retail Water Rate Structure

- No rate structure changes from prior years
- Monthly Base Meter Charge
 - “Fixed” portion of revenues not affected by weather or consumption
 - Based on meter size
 - Represents about 21% of total billed revenue
- Consumption Rates
 - **Peak** (May 16 - Sep 15) vs. **Off-peak** (Sep 16 – May 15)
 - Residential block rates in peak period

Proposed Retail Rate Summary

	<u>2017</u> <u>Adopted</u>	<u>2018</u> <u>Proposed</u>	<u>2019</u> <u>Proposed</u>	<u>2020</u> <u>Proposed</u>
Base Service Charge (\$ per month)				
<u>Residential & Commercial</u>				
3/4" meter	\$15.15	\$16.25	\$17.55	\$18.90
1" meter	\$15.60	\$16.75	\$18.10	\$19.50
1 1/2" meter	\$24.10	\$25.85	\$27.90	\$30.05
2" meter	\$26.65	\$28.60	\$30.90	\$33.30
3" meter	\$98.80	\$105.95	\$114.45	\$123.25
4" meter	\$141.50	\$151.80	\$163.90	\$176.55
 Commodity Charge (\$ per ccf)				
<u>Residential</u>				
Off-peak (Sep 16 - May 15)	\$5.15	\$5.25	\$5.37	\$5.53
Peak (May 16 – Sep 15)				
Up to 5 ccf per month	\$5.29	\$5.40	\$5.53	\$5.68
Next 13 ccf per month	\$6.54	\$6.68	\$6.82	\$7.01
Over 18 ccf per month	\$11.80	\$11.80	\$11.80	\$11.80
 <u>Commercial</u>				
Off-peak (Sep 16 - May 15)	\$5.15	\$5.25	\$5.37	\$5.53
Peak (May 16 – Sep 15)	\$6.54	\$6.68	\$6.82	\$7.01

Change in Typical Monthly Water Bills

	Typical ccf* per month	2017 Typical Bill	2018 Proposed Change	2019 Proposed Change	2020 Proposed Change	2020 Proposed Bill
Residential	5	\$41.13	\$1.62	\$1.91	\$2.13	\$46.79
Convenience Store	15	\$99.80	\$2.85	\$3.25	\$3.95	\$109.85
Small Office Building	52	\$322	\$8	\$9	\$11	\$350
Apartment Building (90 Units)	195	\$1,215	\$30	\$33	\$42	\$1,321
Medium Hotel	1,307	\$7,625	\$164	\$182	\$240	\$8,211
Large Industrial	3,327	\$18,454	\$380	\$432	\$575	\$19,841

*1 ccf = 100 cubic feet = 748 gallons

2018-2020 Wholesale Rate Proposal

Wholesale Rate Setting & Proposed Rates

- Long-term contracts dictate wholesale rate setting calculation, require review by:
 - Water Supply Operating Board
 - Independent consultant
- Wholesale rates increasing 5-6% per year, primary driver is increasing O&M on regional assets
- Rates will vary slightly between some wholesale customers due to slight variations in individual contracts

Summary

Retail Rates

- Within SBP Update
- Reflect updated revenue sources

Wholesale Rates

- In line with contracts
- Average 5-6% per year increase