

Water Fund 2016-2017 Rate Proposal

Seattle Public Utilities and Neighborhoods Committee

April 14, 2015

Seattle
 Public
Utilities

Topics

- **Strategic Business Plan**
- **Water System & Recent Investments**
- **Water Fund Financial Data**
- **2016-2017 Rate Proposal**

Strategic Business Plan Update

Strategic Business Plan Update

Rate proposal and current projections within SPU target of 4.6% average annual increases for SBP.

<u>SBP</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2014-20</u>
Water	0.0%	5.2%	5.2%	4.1%	4.4%	2.6%	3.6%
Wastewater	0.8%	3.9%	1.8%	2.8%	7.2%	8.1%	4.1%
Drainage	9.8%	10.1%	8.1%	7.8%	8.1%	8.0%	8.6%
Solid Waste	4.2%	3.5%	6.0%	4.0%	2.9%	2.4%	3.8%
Combined	2.7%	5.0%	4.7%	4.2%	5.5%	5.2%	4.6%

<u>Current Projection</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2014-20</u>
Water	0.0%	1.7%	2.7%	4.5%	4.6%	5.2%	3.1%
Wastewater*	0.8%	4.0%	4.6%	2.0%	7.4%	6.0%	4.1%
Drainage*	9.8%	10.3%	10.5%	7.5%	11.2%	7.7%	9.5%
Solid Waste**	5.1%	3.8%	3.0%	3.6%	5.0%	2.7%	3.9%
Combined	2.9%	4.2%	3.9%	5.0%	6.8%	4.8%	4.6%

Note: As SPU is currently developing its 2016-2018 drainage and wastewater rate study, the latest rate increases are not final and may change before the rate proposal is submitted at the end of May.

Strategic Business Plan Update

Changes that increase rates:

O&M

- Street Restoration (\$1.7M/yr)
- Apprentice Program (\$0.7M/yr)
SBP Action Plan Item

CIP

- Transportation Projects (\$15M)
- 430 Pipeline Repair (\$11M)

Changes that decrease rates:

Consumption

- Increased consumption in 2014
- Higher forecast through 2020

Revenue

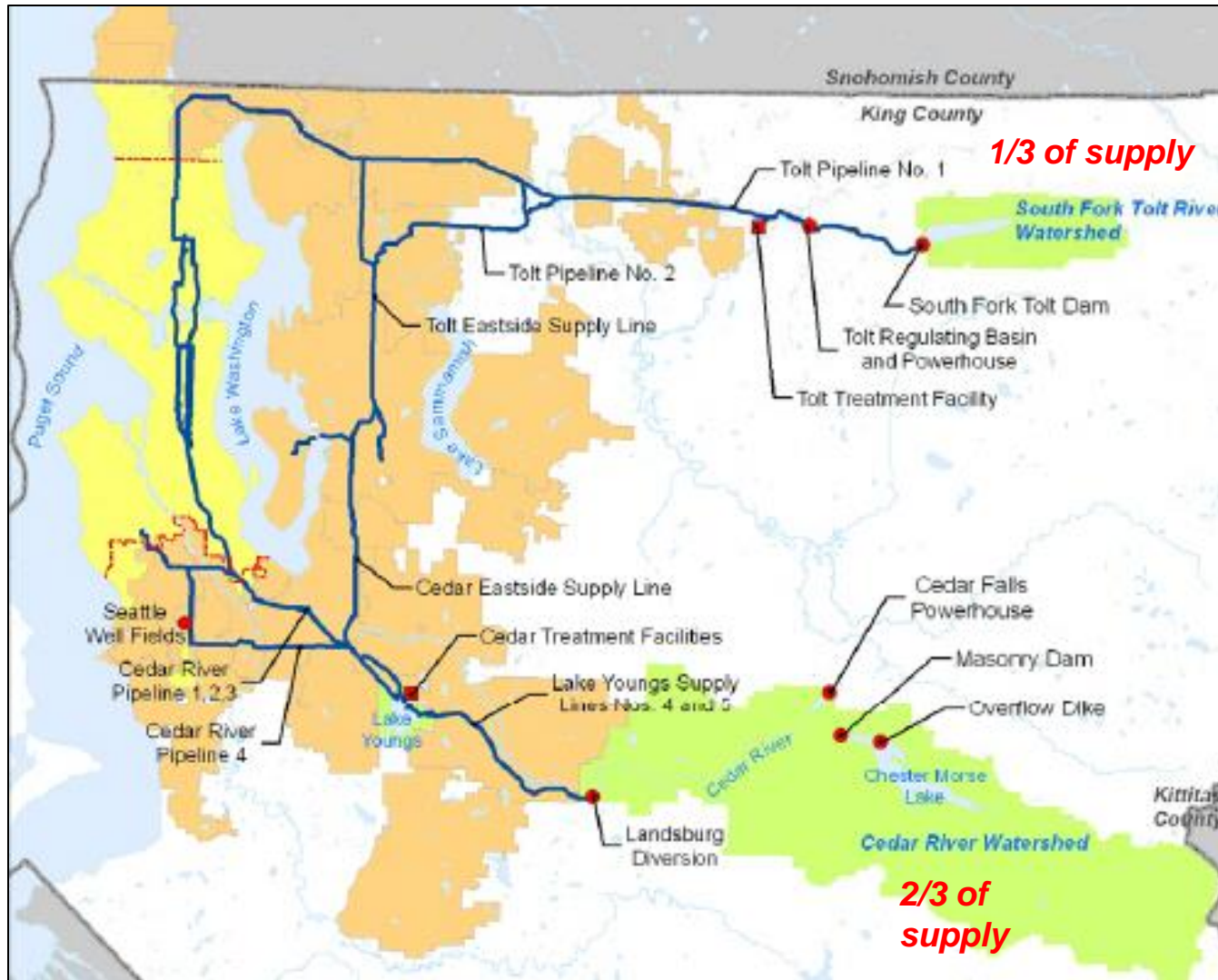
- Wholesale revenue (\$1.5M)
- Tap fees (\$2M)

Capital Financing

- Lower interest rates than forecast
- Potential bond refunding

Water System & Recent Investment

Seattle's Regional Water System



Seattle Retail Service Area

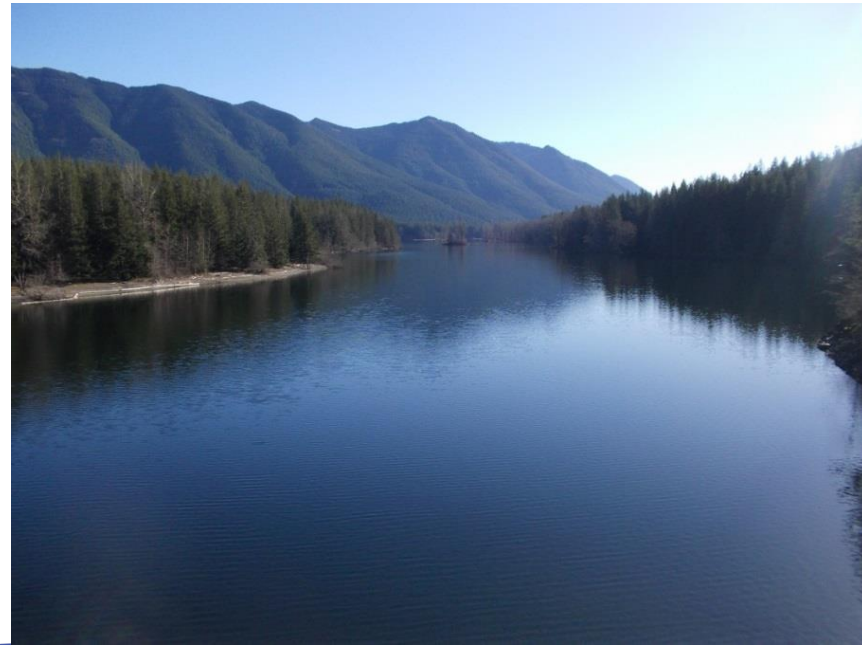
Wholesale Customers

Watersheds

Water Resources

Water Supply in Low Snowpack Years

- **Low snowpack in this past winter**
- **Water supply outlook continues to be good**
 - No need for curtailment that would decrease water revenues
- **System operations used to offset low snowpack**
 - Store more water during flood season, balancing against flood management
 - Rely on rainfall to finish refilling reservoirs in the spring
- **Frequent monitoring, modeling, and operational attention**



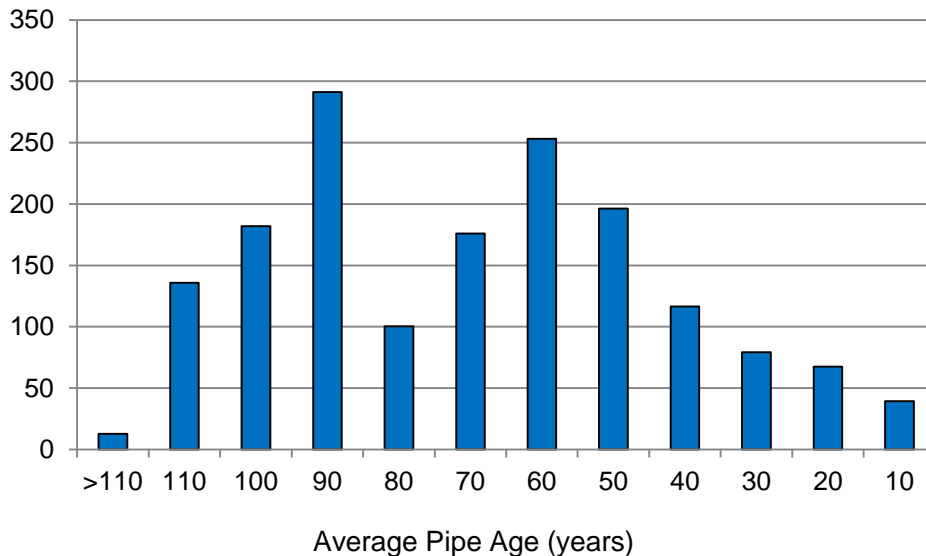
Looking Back - Water System Investment Over 2+ Decades

- **Tolt and Cedar Water Treatment Facilities** (\$192M, 1998-2005)
- **Reservoir Covering Program** (\$125M, 2004-2012)
- **Transmission Pipelines**
- **Seismic Upgrades**
- **Upgraded Operations Control Center** (\$23M, 1997-2008)
- **Habitat Conservation Plan** (\$71M CIP, 2000-Present)
 - Certainty on use of Cedar River under the Endangered Species Act

Transmission and Distribution Watermain Rehabilitation/Replacement

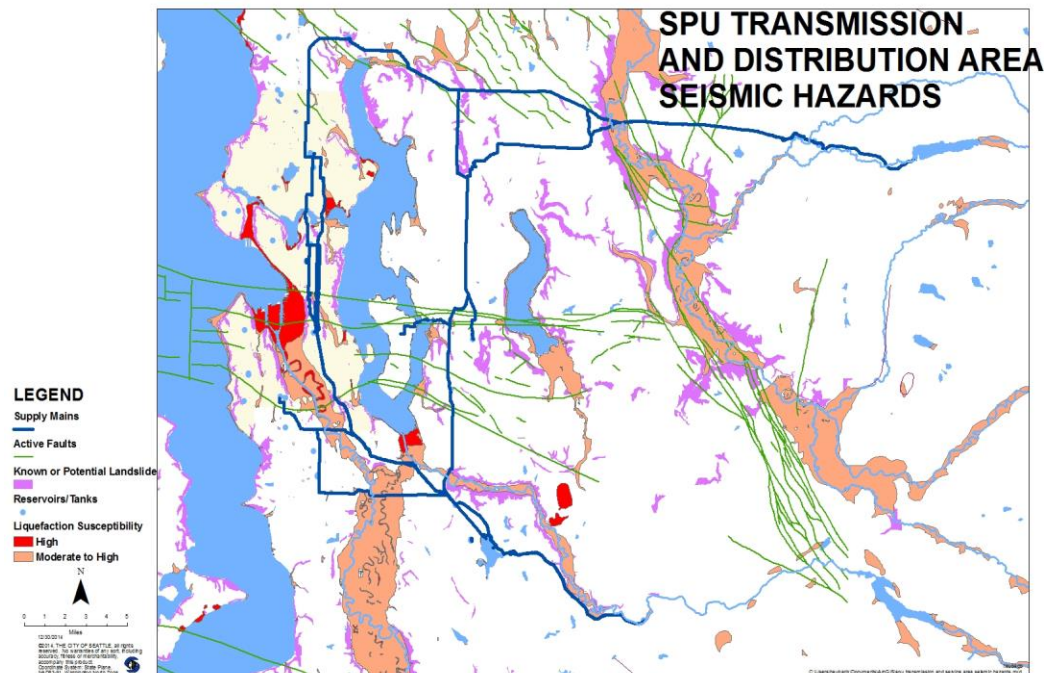
- Aging pipes
- Identify candidates for rehabilitation or replacement before failure

Miles of Water Pipe In Service by Age



Transmission and Distribution Seismic Study of Water System

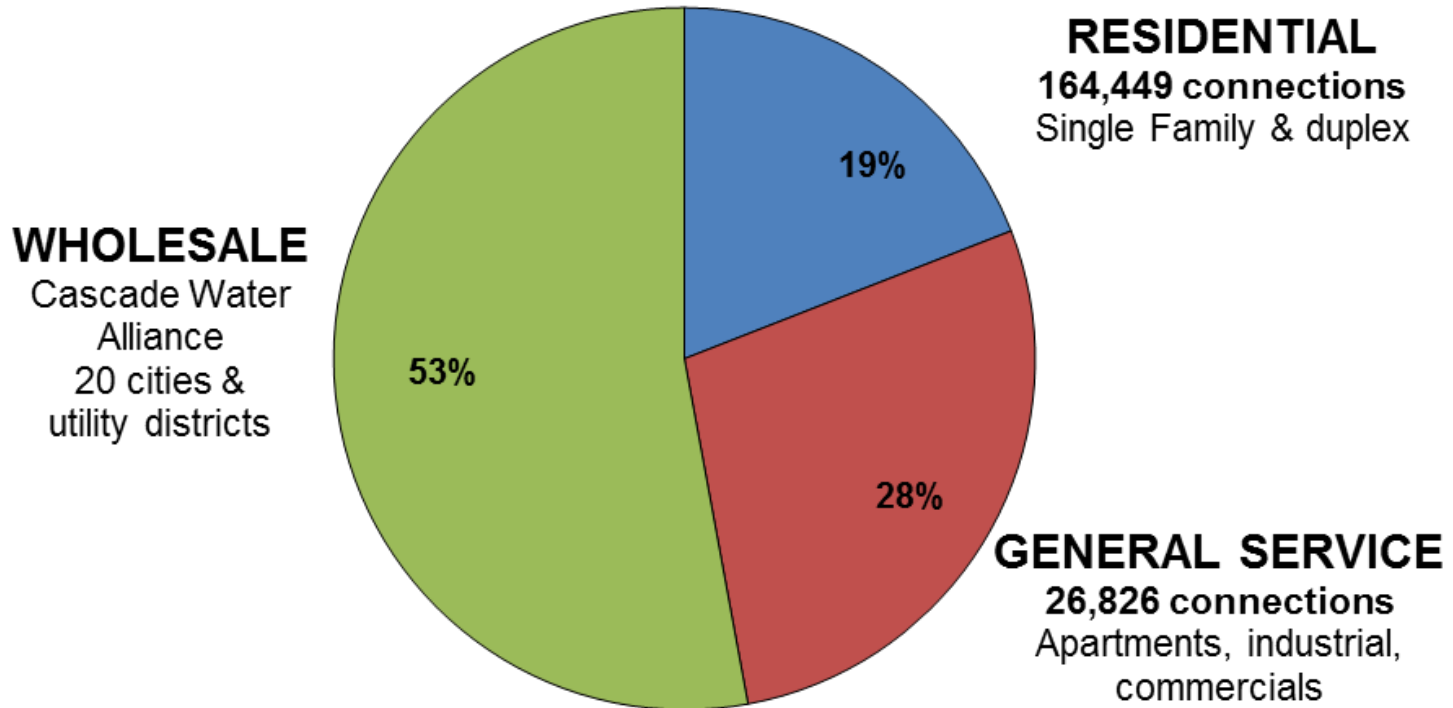
- Study planned 2015-2016 (*SBP Action Plan Item*)
- Understand performance of water system after major earthquake
 - Newer fault zones affect previous analysis (including Seattle Fault zone)
- Establish performance goals post-EQ
- Improve system to meet goals



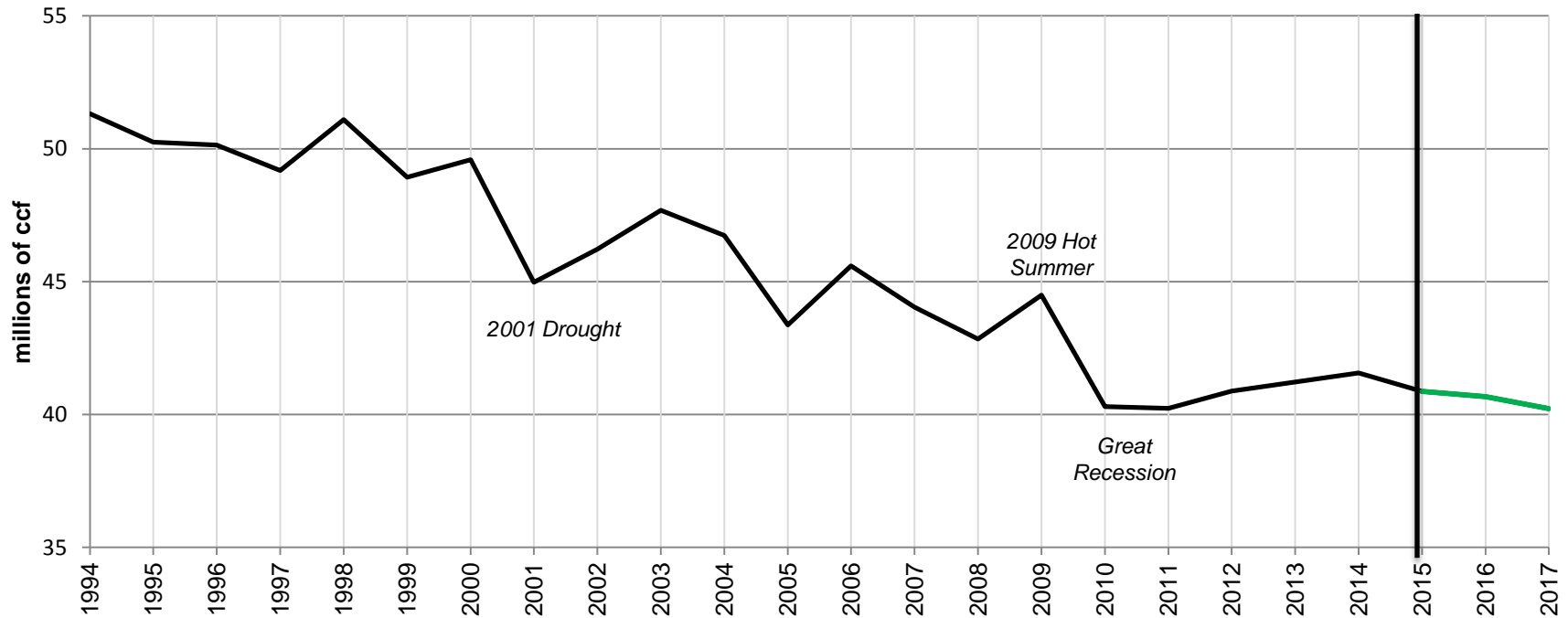
Water Fund Financial Data

Water System Customers

2014 Billed Water Consumption
55.6 million ccf (hundred cubic feet)



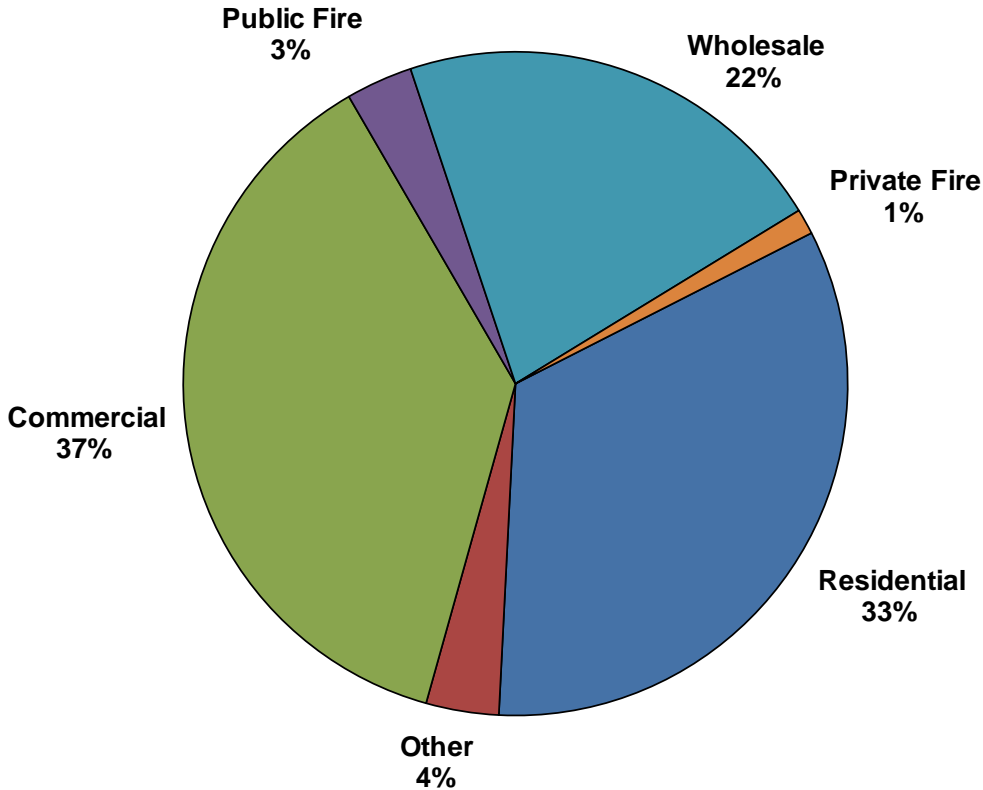
1994-2017 Total Billed Water Consumption



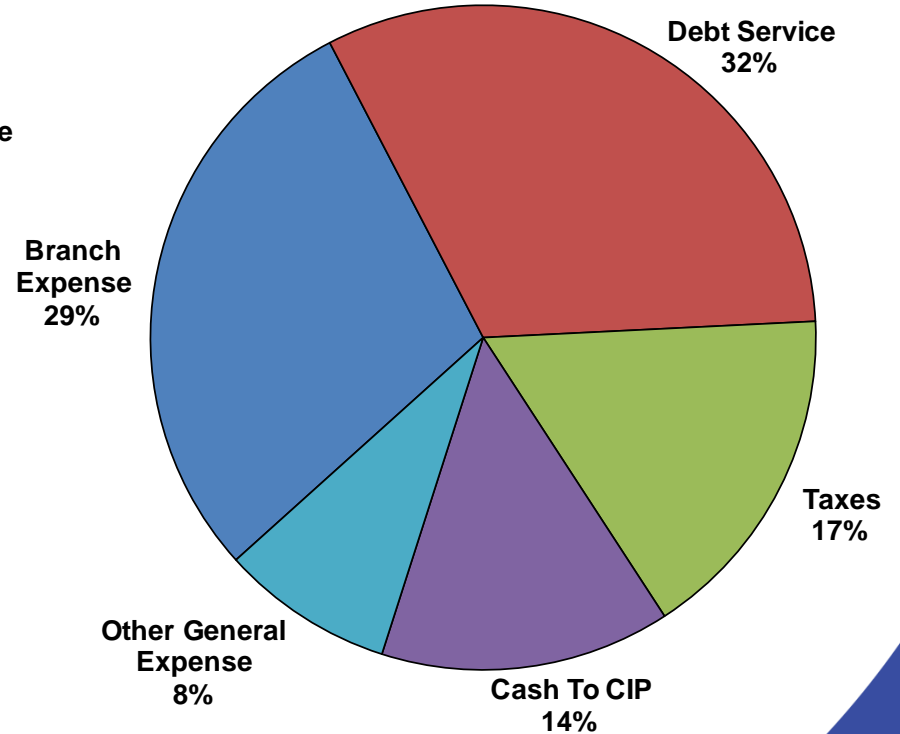
Retail consumption is projected to start leveling off while wholesale consumption is projected to continue to decline

2014 Water Fund Revenue Sources & Uses

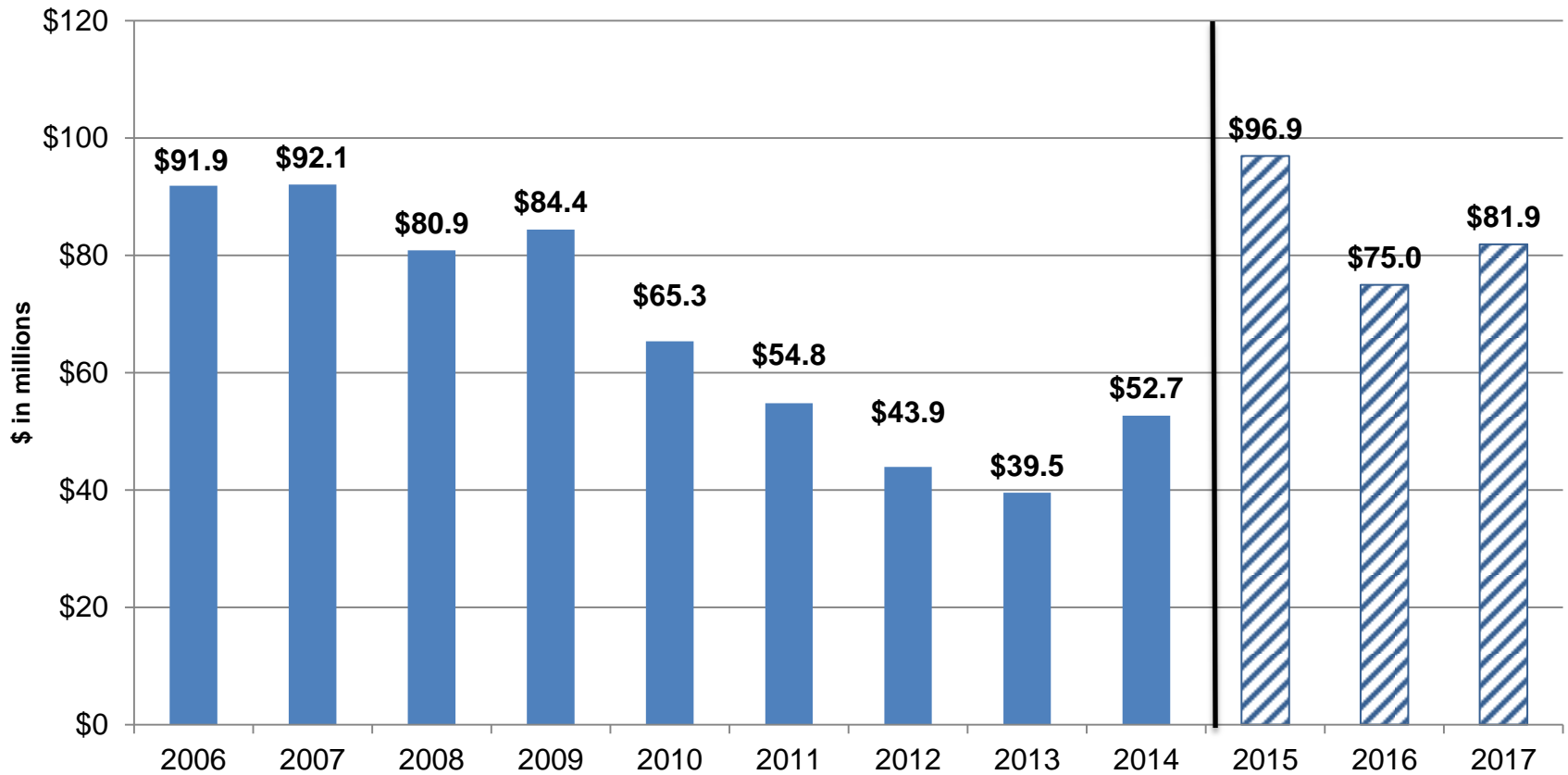
Operating Revenue



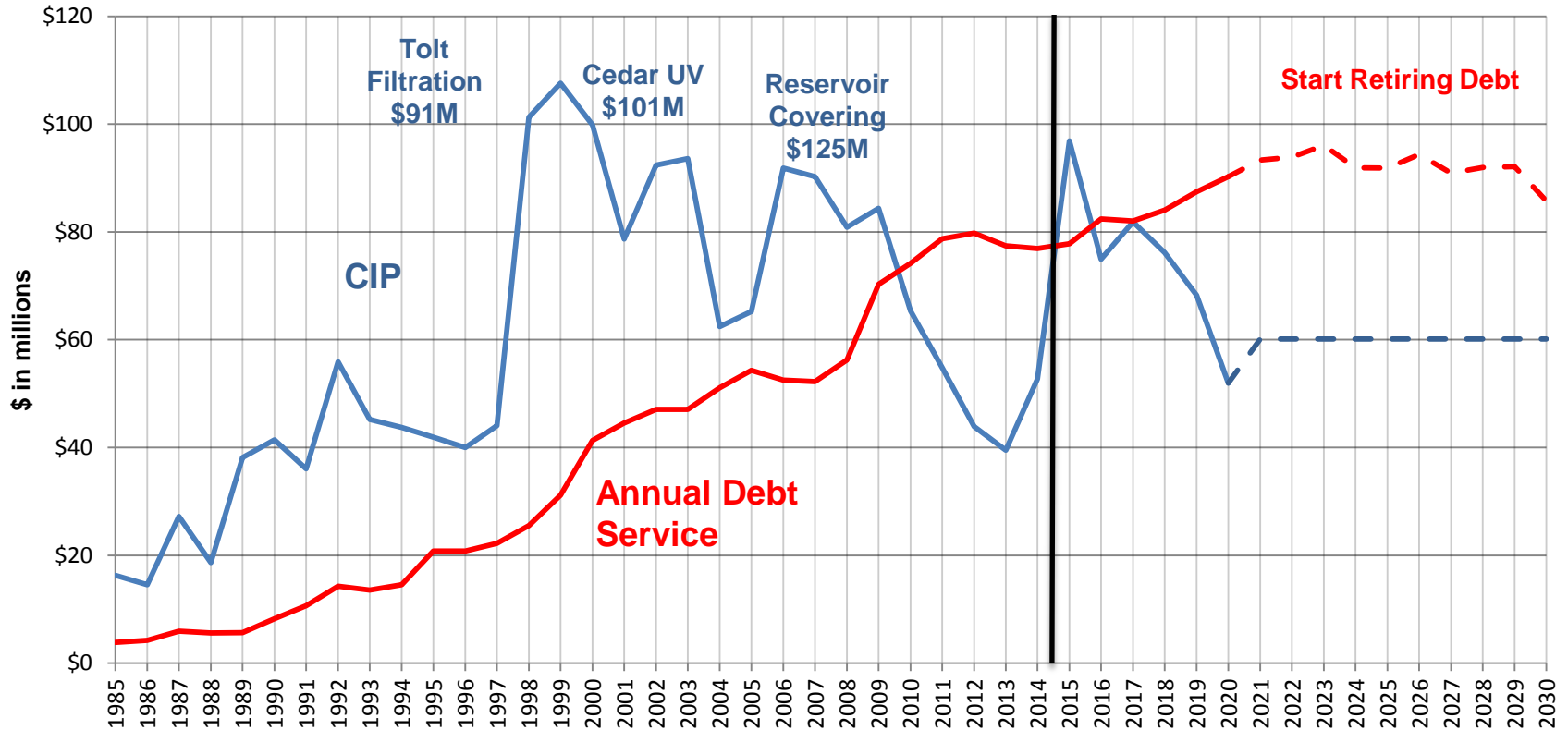
Operating Expense



Water Fund Annual CIP



Capital Improvement Program vs. Annual Debt Service



2016-2017 Rate Proposal

Water Rate Structure Objectives

- **Revenue sufficiency and stability**
- **Customer equity**
- **Customer understandability**
- **Promotion of conservation**
- **Affordability for low income**
- **Economic efficiency**

Water Rate Structure

- **Monthly Base Meter Charge**
 - “Fixed” portion of revenues not affected by weather
 - Based on meter size
 - Represents about 21% of total billed revenue
- **Consumption Rates**
 - **Peak** (May 16 - Sep 15) vs. **Offpeak** (Sep 16 – May 15)
 - Residential block rates in peak period

Proposed Rate Summary

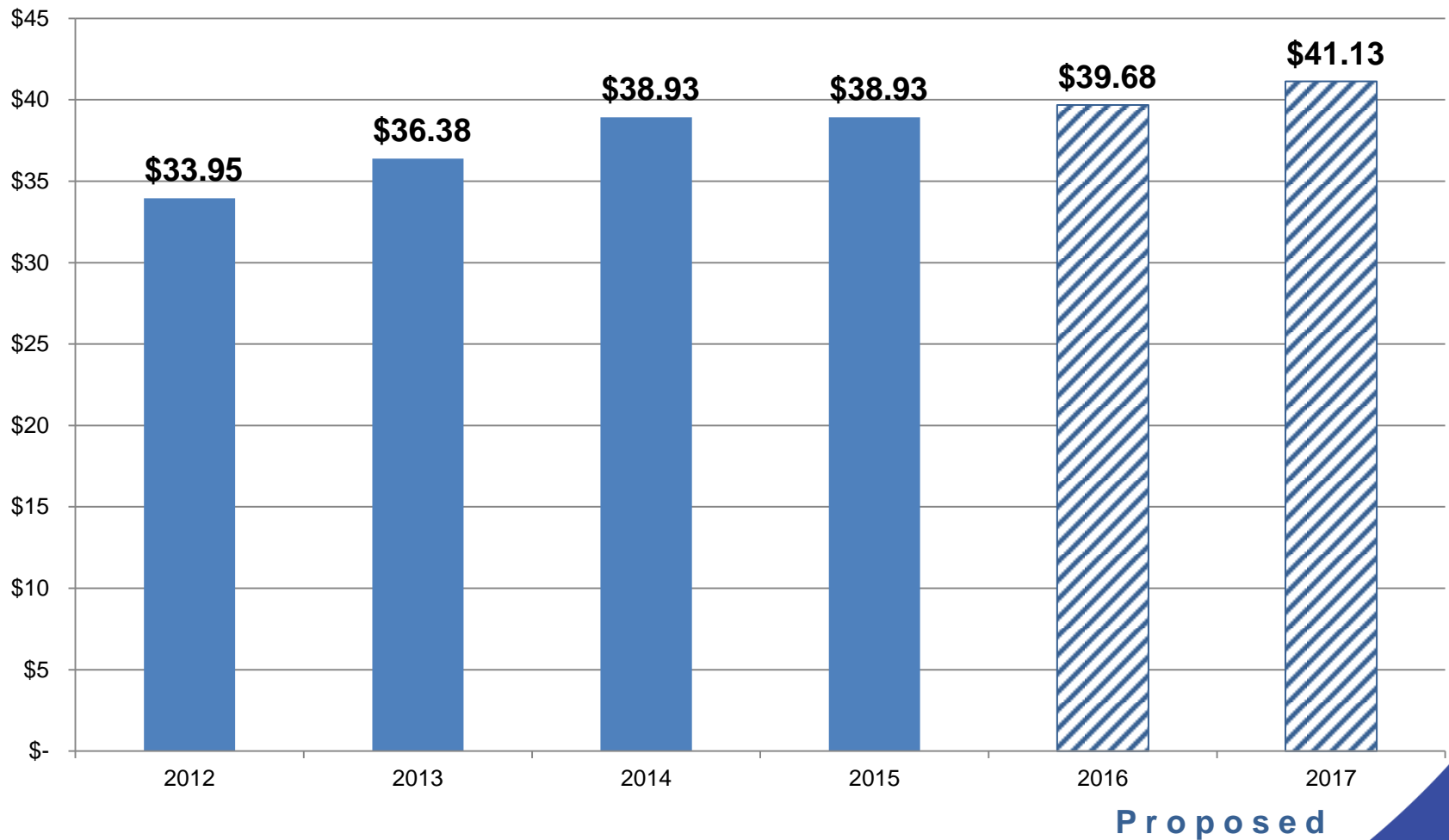
	2014 <u>Adopted</u>	2016 <u>Proposed</u>	2017 <u>Proposed</u>
Base Service Charge (\$ per month)			
<u>Residential & Commercial</u>			
3/4" meter	\$13.75	\$14.15	\$15.15
1" meter	\$14.20	\$14.60	\$15.60
1 1/2" meter	\$21.85	\$22.50	\$24.10
2" meter	\$24.20	\$24.90	\$26.65
3" meter	\$89.65	\$92.25	\$98.80
4" meter	\$128.45	\$132.15	\$141.50
Commodity Charge (\$ per ccf)			
<u>Residential</u>			
Offpeak (Sep 16 - May 15)	\$4.99	\$5.06	\$5.15
Peak (May 16 – Sep 15)			
Up to 5 ccf per month	\$5.13	\$5.20	\$5.29
Next 13 ccf per month	\$6.34	\$6.43	\$6.54
Over 18 ccf per month	\$11.80	\$11.80	\$11.80
<u>Commercial</u>			
Offpeak (Sep 16 - May 15)	\$4.99	\$5.06	\$5.15
Peak (May 16 – Sep 15)	\$6.34	\$6.43	\$6.54

Change in Typical Monthly Water Bill

	Typical ccf* per month	2015 Typical Bill	2016 Proposed Change	2017 Proposed Change
Residential	5	\$38.93	\$0.75	\$1.45
Convenience Store	15	\$95.80	\$1.55	\$2.45
Small Office Building	52	\$310	\$5	\$7
Apartment Building (90 Units)	195	\$1,172	\$18	\$26
Medium Hotel	1,307	\$7,379	\$106	\$139
Large Industrial	3,327	\$17,884	\$249	\$321

*1 ccf = 100 cubic feet = 748 gallons

Typical Residential Monthly Water Bill



Financial Policies

(\$ in millions)	Target	Actual 2012	Actual 2013	Actual 2014	Projected 2015	Proposed 2016	Proposed 2017
Debt Service Coverage	1.70 x	1.72	1.89	1.93	1.91	1.70	1.78
Cash Financing of CIP	15% Min	59%	61%	66%	59%	48%	36%
Cash Financing of CIP	20% over rate period		62%			42%	
Year-End Operating Cash	1 Mo. Oper Exp	\$12.4	\$29.0	\$42.1	\$25.0	\$15.0	\$14.7
Net Income	Positive	\$8.9	\$28.2	\$31.5	\$29.2	\$20.1	\$23.5
RSF Withdrawal (Deposit)		(\$3.4)	(\$7.0)	(\$8.2)	\$0.0	\$0.0	\$8.3

All financial policies projected to be met in rate period.

Current SPU Bond Ratings

	S&P	Moody's
Prime Maximum Safety	AAA	Aaa
High Grade High Quality	AA+ WATER / DWW AA Solid Waste AA-	Aa1 WATER / DWW Aa2 Aa3 Solid Waste
Upper Medium Grade	A+ A A-	A1 A2 A3
Lower Medium Grade	BBB+ BBB BBB-	Baa1 Baa2 Baa3
Non Investment Grade	BB+	Ba1

Summary

Proposed rates for 2016-2017:

- Within the SBP overall 4.6% average annual rate increase target.
- Reflect recent changes in O&M and CIP while maintaining SBP service levels.
- Reflect increases in demand forecasts and related non-rate revenue growth (wholesale and tap revenues).
- Meet or exceed all financial policies each year.