

September 11, 2017

MEMORANDUM

To: Civil Rights, Utilities, Economic Development and Arts Committee
From: Peter Lindsay, Council Central Staff
Subject: Council Bill 119051 – Wholesale Water Rate Ordinance

Bill Synopsis

SPU supplies drinking water not only to City of Seattle residents, but to regional municipalities and water districts also known as wholesale customers. Wholesale customers typically own and operate separate water delivery systems and assets, yet they 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 regional water supply system.

Council Bill 119051 would revise existing wholesale water rates and service charges for Seattle Public Utilities' (SPU's) wholesale customers from 2018 to 2020. SPU proposes to adjust water rates for regional wholesale drinking water customers to reflect updated costs for debt, operating costs, capital improvement spending and a one-time \$12 million contract payment by the Cascade Water Alliance (CWA). Due to the proposed changes, SPU anticipates increased revenue of about \$1.3 million in 2018 compared to 2017 revenue projections. Wholesale rates for contract customers will increase up to 5.7 percent during off-peak periods—September to May—and up to 6.3 percent during peak periods – May to August. In addition to the change in contract rates, SPU is increasing facility connection charges—a one-time new service fee for new wholesale retail customers—to pay for the cost of new water supply investments including regional water conservation targets.

Current wholesale water rates were passed by Council in 2014 to cover the three-year period 2015-2017. According to SPU's rate study, wholesale water rates are increasing due to increases in system costs allocated to wholesale customers such as operations, maintenance and accommodating new wholesale retail customers. Individual contracts guide the procedures for cost allocation and rate design for wholesale customer. Consequently, some customers will experience different rates depending on the details of their respective contract.

Wholesale water rates are a model input for determining retail water rates for Seattle residents and higher than anticipated wholesale revenues directly off-set the amount revenue required from retail customers. Council Central Staff reviewed the proposed ordinance and find no significant issues or concerns. A Central Staff analysis of retail water rates is attached to Council Bill 191050.