

SPU Baseline, Part 1

**August 6, 2013 Presentation to Customer Review Panel:
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Baseline Discussions

What We Did Last Time (July 15)

- Definition of baseline
- What the baseline does NOT include
- Why the baseline doesn't just increase with inflation
- Overview of cost categories, using 2013 as starting point

Baseline Discussions

What We'll Do Today (Aug 6)

- Reminder of definition, cost categories
- First exploration of discretionary expenditures
- Discussion of baseline service levels

What We'll Do Next Time (Aug 20)

- Review actual baseline numbers & assumptions
- Discuss affordability
- Receive initial Panel feedback

Baseline Discussions & The Big Picture

What Happens After That, In the Fall of 2013

- Review baseline prioritization results; identify lower-priority programs for possible reductions
- Review list of possible efficiencies
- Review list of possible initiatives
- Discuss alternative rate path packages

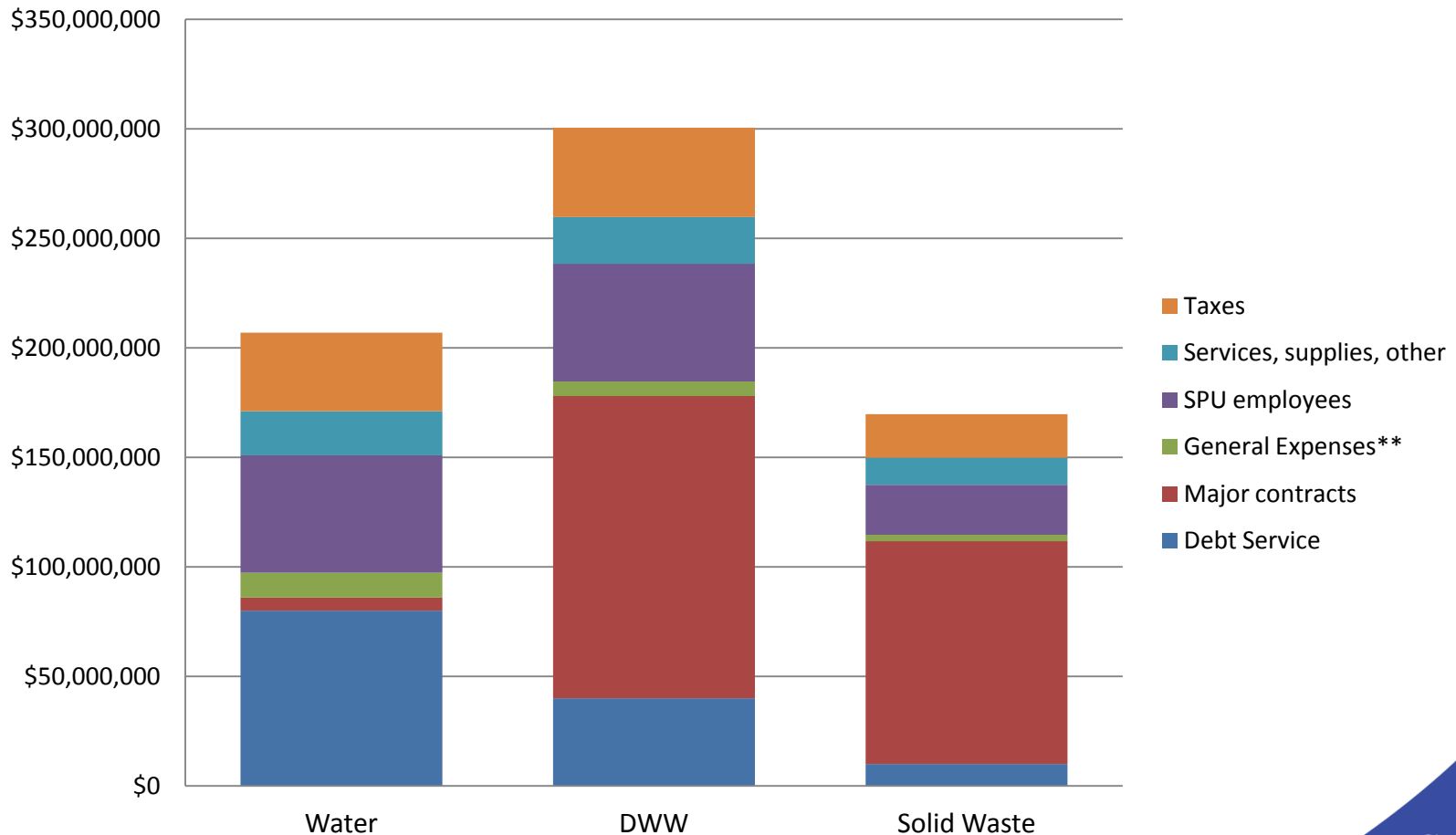
Review: Definition of Baseline

The change in annual rate revenues, or average annual rates, needed to maintain existing service levels plus meet firm regulatory requirements.

What do we mean when we say *maintain existing service levels*? We mean that actual service quality (as opposed to targeted service quality) neither degrades nor improves.

Review: 2013 O&M Cost Categories

2013 O&M Spending Plan



**General Expense = city central costs, claims, G&A credit, etc.

Major Take-Away from O&M Cost Categories Slide

From SPU's perspective, most of SPU's O&M costs are "fixed" in the short-run

Debt service, major contracts, general expense, and taxes comprise more than half of each line of businesses' O&M

- 64% of water O&M
- 75% of drainage & wastewater O&M
- 79% of solid waste O&M

Focus on SPU Branch O&M Costs

Remaining costs (“Branch costs”) are mostly SPU labor costs, but also include supplies, consultant and other services, and miscellaneous other expenses

Two categories of “Branch costs”

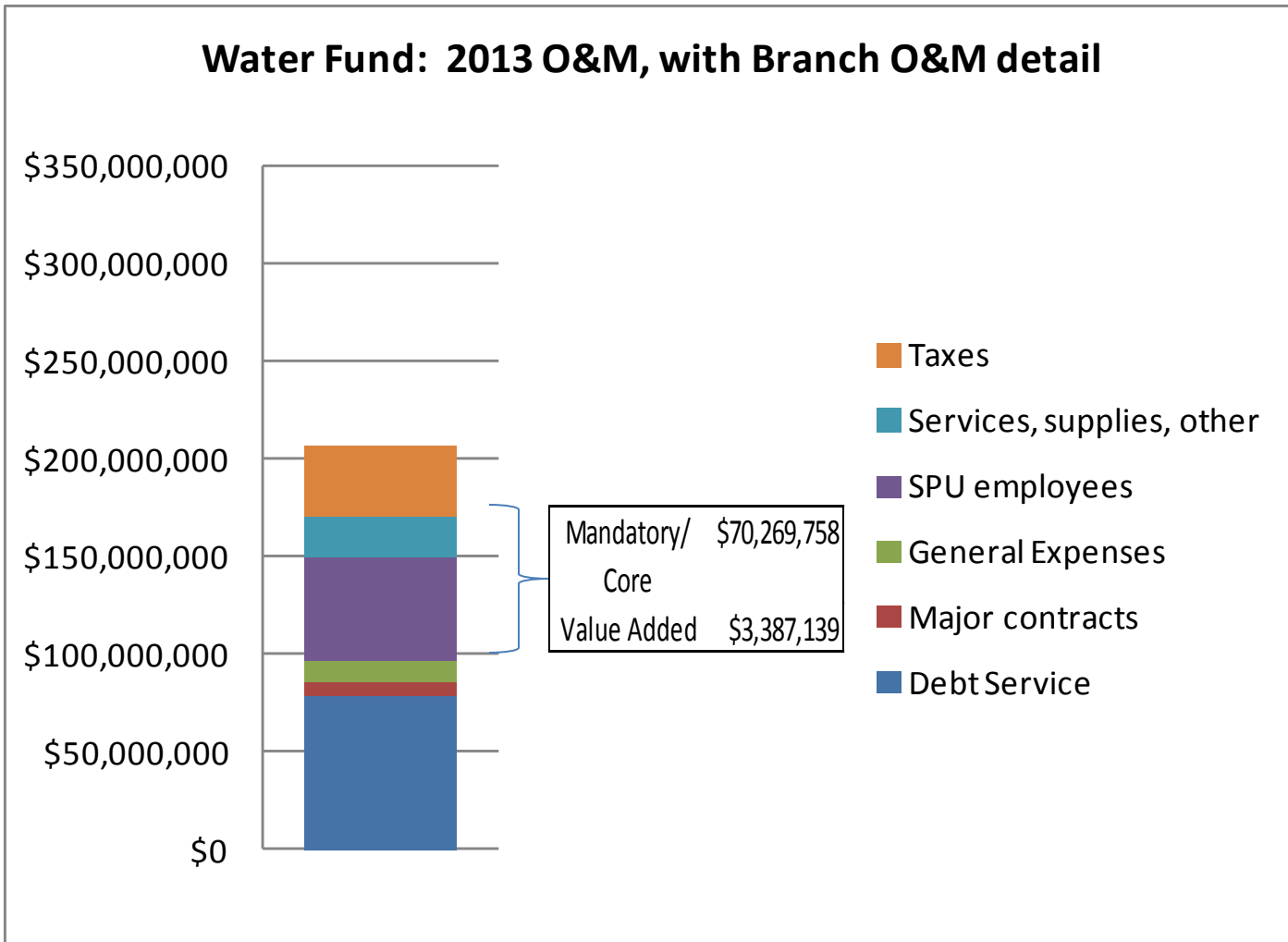
- *Mandatory or Core*: activities that are essential to directly or indirectly providing core utility services and/or meet regulatory requirements (e.g., system operations & maintenance, planning & scheduling, customer billing)
- *Value added (or discretionary)*: activities that enable us to operate more effectively, efficiently, and sustainably, and/or add value to the organization and our customers

Focus on SPU Branch O&M Costs

Next several slides shows Branch O&M Costs for each line of business, broken out by *Mandatory/Core* and *Value Added*.

Then the specific activities within the *Value Added* category are detailed out.

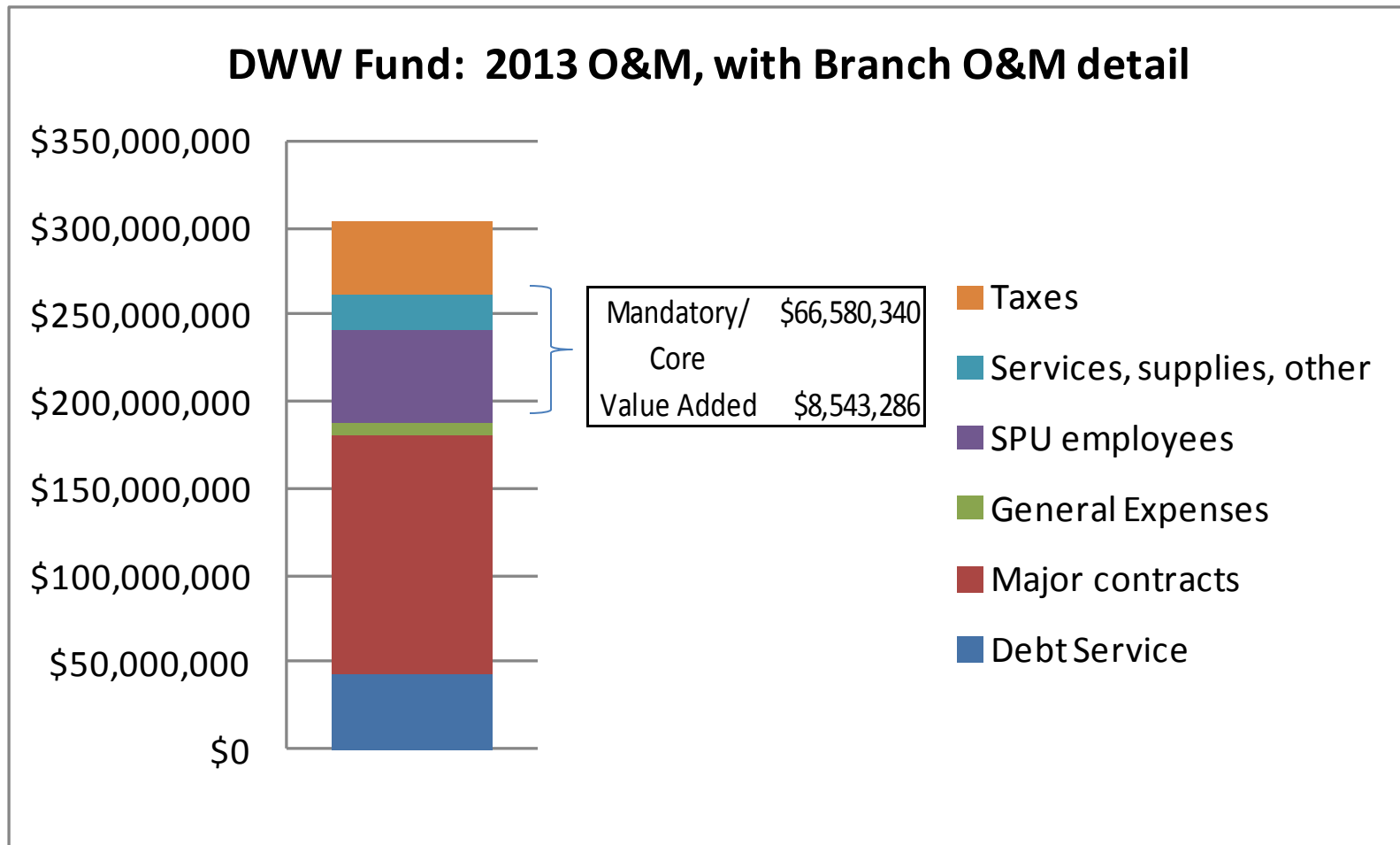
2013 Branch O&M for Water: Split of Branch costs by Mandatory/Core & Value Added



Value-Added 2013 O&M Expenditures: Water

<i>Environment & Public Health</i>	
Public/Cultural Programs	\$575,298
Resource Conservation	\$469,248
Climate & Sustainability	\$189,998
<i>Operational Excellence</i>	
General Program Management - Asset Management	\$408,025
Technology Asset Mgmt	\$356,447
System Integration Admin - Asset Managment	\$209,587
Risk & Quality Assurance	\$186,889
Economic Svcs	\$184,461
General Program Management - Social Equity	\$177,063
Asset Management Tech Services	\$143,585
Asset Management & Economics Services Admin	\$127,062
Social Equity	\$101,948
All Other	\$257,528
Total	\$3,387,139

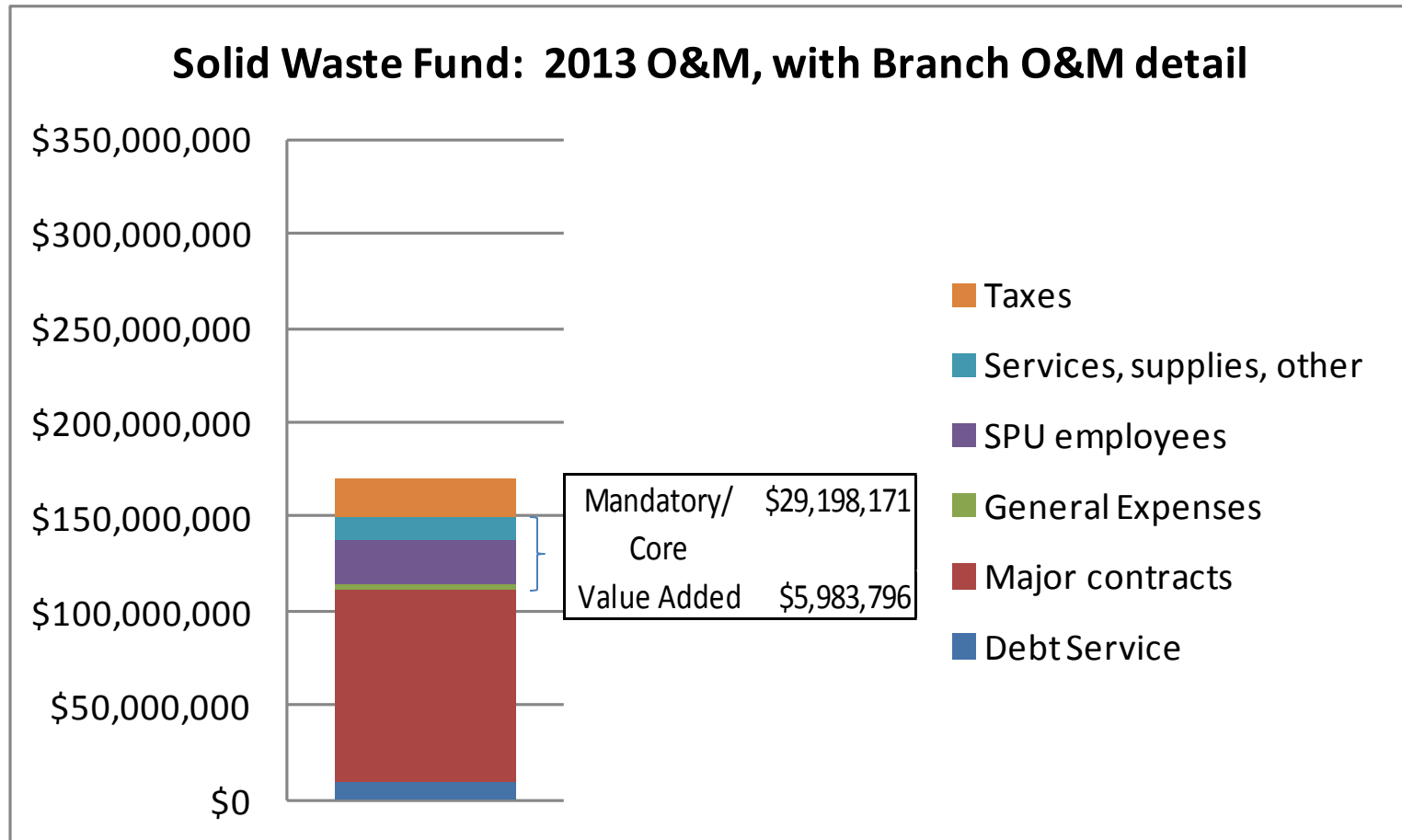
2013 Branch O&M for DWW: Split of Branch costs by Mandatory/Core & Value Added



Value-Added 2013 O&M Expenditures: DWW

<i>Services to Others (non-rate funded)</i>	
Services for Seattle Department of Transportation	\$2,678,366
Services for Others (Non-SPU projects)	\$796,928
Services for Others (General Fund services)	\$583,157
Services for City Light	\$324,582
Chargeback IT (services for other departments)	\$312,735
Services for Others - General Fund Standard Specifications	\$114,344
<i>Environment & Public Health</i>	
Environmental Partnerships	\$332,817
Resource Conservation	\$225,035
Climate & Sustainability	\$129,198
<i>Operational Excellence</i>	
Capital Portfolio Management	\$984,436
System Integration Admin - Asset Management	\$378,415
General Program Management - Asset Management	\$345,161
Technology Asset Mgmt	\$244,143
Risk and Quality Assurance	\$167,327
General Program Management - Social Equity	\$154,867
Asset Management Tech Services	\$134,970
Asset Management & Economic Services Admin	\$119,438
Economic Services	\$115,259
Project Delivery Work for Other SPU Branches	\$105,555
All Other	\$296,553
Total	\$8,543,286

2013 Branch O&M for DWW: Split of Branch costs by Mandatory/Core & Value Added



Value-Added 2013 O&M Expenditures: Solid Waste

Services to Others (non-rate funded)

Environmental Partnerships (Graffiti, Litter, Community Cleanup) \$3,025,172

Environment & Public Health

Resource Conservation (mostly waste reduction) \$1,405,031

Operational Excellence

Economic Services \$462,573

General Program Management - Asset Management \$432,933

General Program Management - Social Equity \$184,291

All Other \$473,796

Total \$5,983,796

Major Take-Away from Value Added Slides

Most Value Added expenditures either (a) have associated non-rate revenue streams, or (b) improve SPU's efficiency & effectiveness

Level of investment in value added activities (and mandatory/core activities, for that matter) is always open for review and assessment

As SPU staff prioritize the baseline, they will be assessing how O&M and CIP activities & projects support the prioritization criteria – this work will be ready for Panel review in the fall

Discussion of Service Levels

See word document handout for each line of business:

- Service Levels
- Targets
- Mandatory or discretionary
- Baseline Performance
- Comments

This information is provided per the Panel's request to understand baseline service levels, and possible service/cost tradeoffs.