Operating Board
July 7, 2011

2012-2014 Wholesale Water Rates Response to individual questions

1. *Role of Independent Rate Consultant*

Scope:
The current scope of the independent rate consultant is to verify that the Wholesale Rate Study is in compliance with the terms of the contract. The main bulk of the work is to check the main steps below.

- Verify that assets, CIP, and O&M activities are identified and categorized in accordance with the contract: regional, subregional, Seattle retail only, special rate making assets (AFUDC on treatment plants)
- Verify that asset and O&M costs are calculated in accordance with the contract: calculation of future depreciation and Net Book Value for current CIP projects, calculation of utility basis cost for existing and future assets, calculation of Rate of Return, calculation of O&M cost using index activities
- Verify that costs are allocated between customers in accordance with the various contracts: portion of regional costs to Fixed Block, Declining Block, Renton, portion of subregional costs to wholesale versus Seattle, transfer of revenues from Facilities Charge cost pool
- Verify that Seattle-as-wholesale demand is calculated in accordance with the contracts
- Verify that rates are designed in accordance with the various contracts: growth charge expiration

The reviewer is also to:

- Identify and disclose other rate making assumptions used to develop rates (inflation, demand, ratio of peak:off-peak, etc.), and provide comments as appropriate
- Summarize any changes from the previous rate study
- Use judgment to identify any other significant items of interest to wholesale customers

The reviewer is not currently engaged to create an independent demand forecast or budgetary projections.

Review of Report:
In accordance with the contract, the draft review report is sent to individual utilities for their comments before final issuance.

2. Discrepancy between rate driver tables

There was a discrepancy between the rate driver tables in earlier handouts and the more detailed table provided at the July 2nd Operating Board Meeting. The July 2nd handout was developed using the "more correct" overall average rate (the overall annual average of peak, off-peak, and growth charge rates), and produced slightly different results.

3. Effect of a one cent decrease in base rates

The effect of a one cent decrease in rates in 2012 only would mean a decrease in regional revenues by $420,875. Holding all else constant, there would be a corresponding deficit in the true up balance as of 12/31/2012. This would grow with interest to approximately $461,000 by the end of 2014, when it would be included in the 2015-2017 revenue requirement.

Alternatively, 2012 regional costs would need to be cut by $420,875 in order for there to be no future effect via the true up.