Wholesale Rate Setting

Preview of 2015-2020 Capital Facilities Plan and Asset Costs for Rate Study

April 3, 2014 Presentation

Water Supply Operating Board

Seattle Public Utilities

Attachment 4

Overview

- **Refresher on Asset Costs in Rates**
  - CFP is input to rate study
- **2015-2020 Capital Facilities Plan**
  - Significant Changes and Highlights
- **Preliminary Regional Asset Cost Projections for Rates**

Seattle Public Utilities

Rate Setting for Seattle Regional Wholesale Contracts

Regional revenue requirement is determined by three things:

- O&M expenses (Supply and Transmission)
- **Asset costs (Supply and Transmission)**
- True Up balance

Allocate revenue requirement between Block and F&P customers

- Block customers are Cascade, Northshore, and Renton Conservation block
- Seattle's distribution system is an F&P customer for rate setting purposes

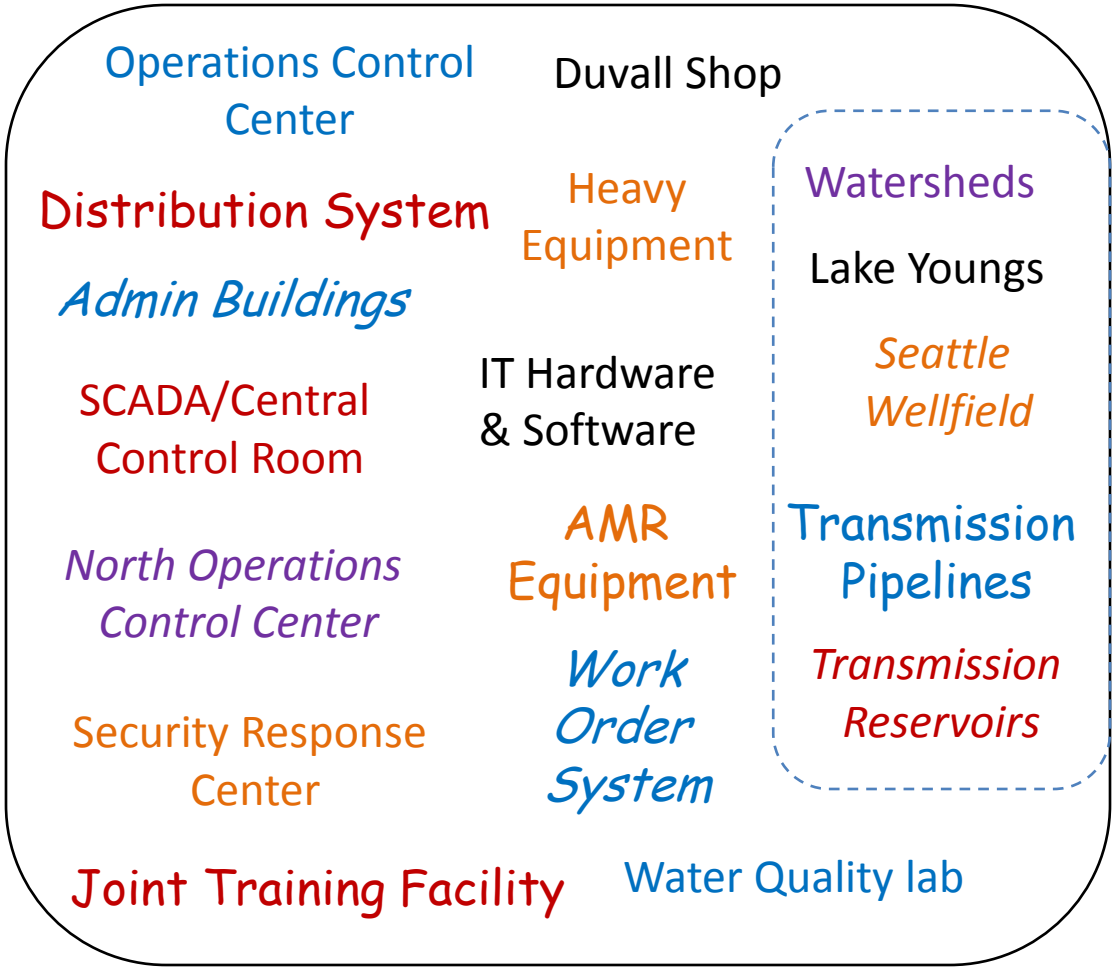
Divide by F&P demand

- F&P demand is defined in contracts as 98% of water produced minus block usage

= Rate per unit

Seattle Public Utilities

Regional Assets



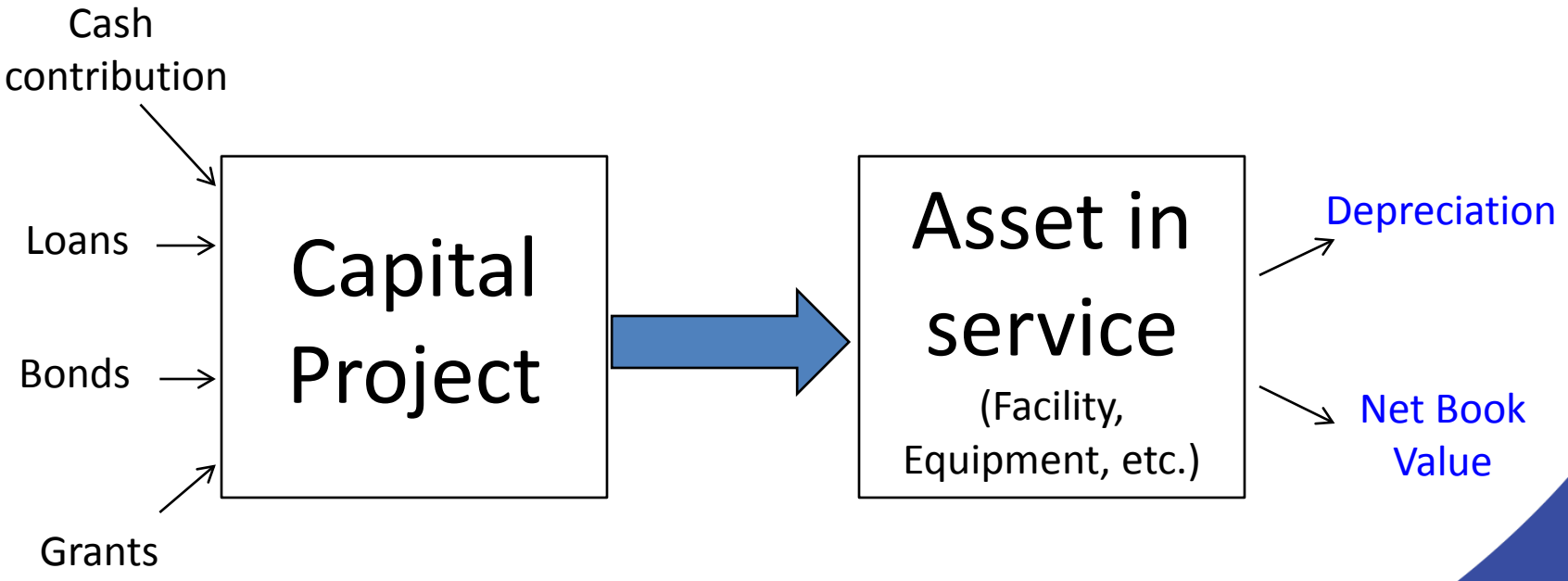
Basis for Regional Asset costs

Per contract:
Existing Supply
Existing Transmission
Subregional

Seattle Public Utilities

Regional Assets

The cost of a newly constructed asset is included in wholesale rates after the asset is placed in service, not while it is a capital project



Seattle Public Utilities

Utility Basis Cost – What is it?

- Annual Cost for an asset is the sum of:
  - That year's depreciation
  - A "return on assets " (Net Book Value) based on the Water Fund's average cost of debt

Utility Basis Cost =

Depreciation + (Net Book Value * Rate of Return)

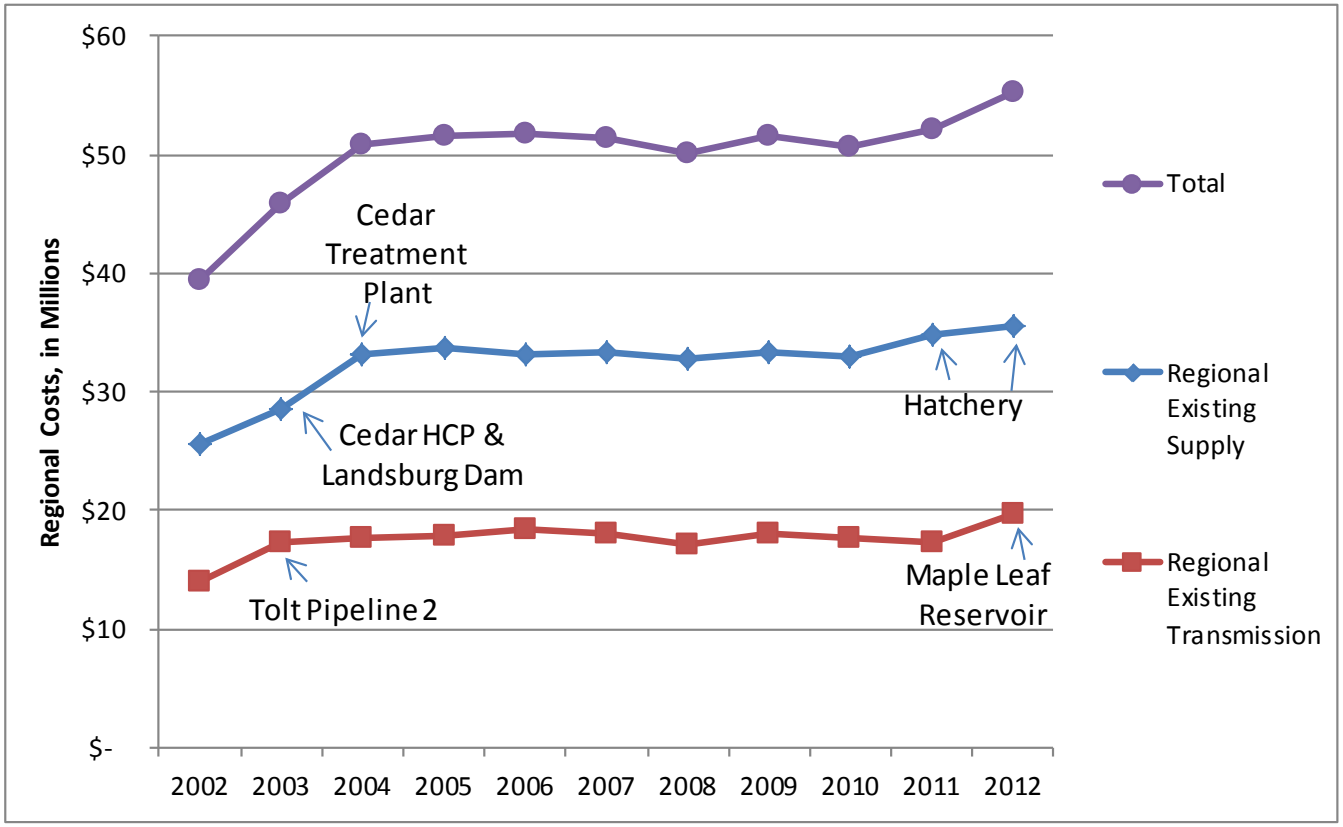
Seattle Public Utilities

Asset Life

- Asset depreciated on the straight-line method over estimated useful life
- For rate setting and for projects not yet in service:
  - Assume weighted average life
  - Assume on-line date and cost estimates from latest CIP
- When project goes into service:
  - Life assigned to individual assets, not entire project
  - Actual on-line dates and true costs are used
  - Used in true-up and future rates
- See handout for typical life of assets and example

Seattle Public Utilities

Regional Asset Cost – History



Seattle Public Utilities

Draft 2015-2020 CFP

Significant Changes and Highlights

Seattle Public Utilities

Projects to be Removed from 6-Year CFP

- Review of project needs led to postponements beyond 2020, will be revisiting scope and timing at a later date

Landsburg Flood Passage Improvements

- Was $2.6M, 2017 on-line date

Lake Youngs Facilities Development

- Was $2.6M, 2020 on-line date

Tolt/Duvall Facilities Development

- Was $650K, 2020 on-line date

Seattle Public Utilities

Projects with Lower Cost Projections

- Refined program delivery and better cost estimates resulting in lower cost projections:

Cathodic Protection Program

- Was >$1M every year
- Now $300K one year for planning, $1M next year to implement

Cedar Falls Facilities Development

- Was $18.1M
- Now $14.3M

Seattle Public Utilities

New Projects

- Operational issues created need for a new project:

Sockeye Broodstock Weir

- Existing weir in Cedar River at Renton creating operational constraints and does not provide required broodstock to Sockeye Hatchery*

*Hatchery is required mitigation for not allowing sockeye above the Landsburg Dam. Mass spawning sockeye above the dam presents some water quality concerns.

Sockeye Hatchery Broodstock Collection Weir

Weir Operations in Lower Flows in September

Seattle Public Utilities

Sockeye Hatchery Broodstock Collection Weir

Weir Operation in High Flows – Professional Divers Cleaning the Weir

Seattle Public Utilities

New Projects

- Operational issues created need for a new project:

Sockeye Broodstock Weir

- Existing weir in Cedar River at Renton creating operational constraints and does not provide required broodstock to Sockeye Hatchery
- Options analysis to be performed in 2014
- Estimated cost $2.9M, 2019 on-line date

Seattle Public Utilities

New Projects

- Review of rights-of-way and roads identified needed improvements:

Tolt ROW/Road Improvements

- Makes safety improvements to Tolt transmission right-of-way corridors (e.g., new guardrails, fencing)
- $201K, 2015 on-line date

Lake Youngs Road Improvements

- Decommissions unneeded roads, and improves core roads and road drainage infrastructure
- $98K, 2015 on-line date

Seattle Public Utilities

Cost Increases

- Refined project designs led to cost increases:

Landsburg Facilities Development/Chlorination

- Projects were combined and are now under construction
- Was $12.7M, Now $15.2M

Special Cases

- Projects likely to receive reimbursements:

Maple Leaf Reservoir Seismic

West Seattle Reservoir Seismic (SW Subregion)

- For rates, assuming no reimbursement
- At true-up, will capture actual accounting for projects, with any reimbursements shown as revenues

Key Project Updates

Morse Lake Pump Plant Project

- Total project cost is unchanged
- 60% Design under review by SPU
- Expect substantial completion in 2016, but may be as early as late 2015

Tolt Slide Improvements

- Update to be provided later in today's meeting
- Brief OB in July

Regional Asset Costs For Rates

Preliminary Projections

Seattle Public Utilities

Rate Setting for Seattle Regional Wholesale Contracts

Regional revenue requirement is determined by three things:

- O&M expenses (Supply and Transmission)
- **Asset costs (Supply and Transmission)**
- True Up balance

Allocate revenue requirement between Block and F&P customers

- Block customers are Cascade, Northshore, and Renton Conservation block
- Seattle's distribution system is an F&P customer for rate setting purposes

Divide by F&P demand

- F&P demand is defined in contracts as 98% of water produced minus block usage

= Rate per unit

Seattle Public Utilities

Regional Asset Cost – History & Projections

Under Development
Will be added for meeting

Seattle Public Utilities

Summary

Seattle Public Utilities

Questions?

Seattle Public Utilities