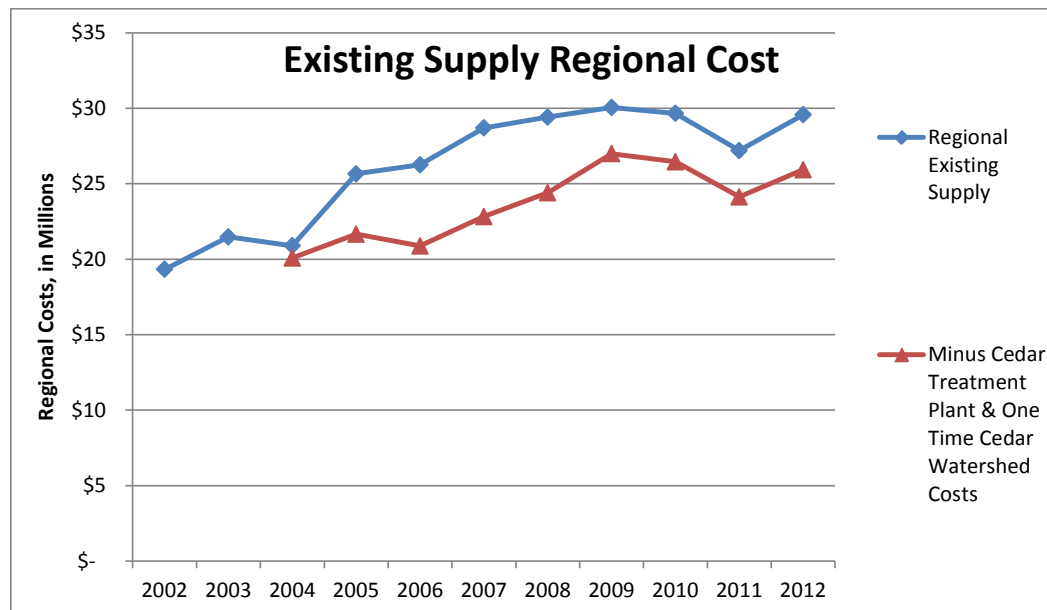


Operating Board – March 6, 2014 Meeting
Wholesale Rate Study 101
Tabled Topics

1. Why did Existing Supply O&M increase more steeply from 2002 to 2008?

The regional cost of Existing Supply increased from 2004 to 2008 for several reasons. In 2005, the Cedar Treatment Plant began its first full year of operation, adding \$2.2M in annual cost. In addition, 2005 through 2008 included one-time costs related to the Cedar River Watershed BPA, HCP, and Muckleshoot agreements. These costs totaled \$2-3M per year. (The BPA costs were related to a powerline easement through the watershed. The payment SPU received from BPA in 2003 was considered regional revenues, and the costs in subsequent years were considered regional costs.)

The chart below shows the total regional Existing Supply costs, and the costs after removing the Cedar Treatment Plant O&M and the one-time Cedar River Watershed costs described above.



2. Regional Assets – See Attachment 3

3. Sub-Regional Assets – See Attachment 3

Separate meetings will be scheduled with the NW and SW Sub-Regional customers

- a. NW Sub-Regional Customers (Olympic View and North City Water Districts) April 2014*
- b. SW Sub-Regional Customers (WD 20, 125, 45, 49, Highline) – June 2014*

4. Donated Assets – What about assets that were already paid for by others?

Assets or portions of assets that are donated or funded by grants, connection charges, or other contributions in aid of construction are called donated assets or contributed plant. SPU tracks donated assets or portions of assets separately from non-donated assets. Donated assets are not included in regional or sub-regional costs. As of 2012, the Net Book Value of donated assets that would have been considered Existing Supply or Existing Transmission if they had not been funded by others was \$3.6M and \$7.9M respectively.

5. Asset Life -

How are asset lives handled?

Asset lives are determined by SPU's accounting department in consultation with Project Managers and Project Engineers. The general guidelines are:

Buildings and fixtures	10 to 50 years
Earthen source of supply developments	100 years
Transmission and distribution pipelines, reservoirs, and tanks	15 to 100 years
Water mains	33 to 57 years
Pumps, wells, and treatment equipment	10 to 50 years
Machinery and equipment	3 to 20 years
Computer systems	3 to 11 years

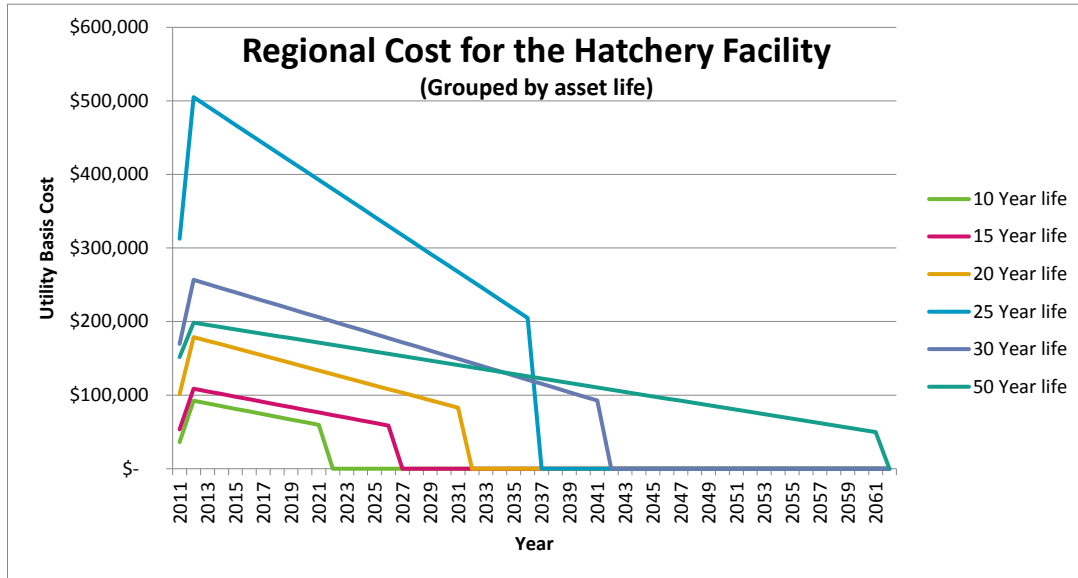
Example: Cedar River Fish Hatchery

The fish hatchery is a recently closed project that consisted of a variety of structures. The project was closed in 2011 into 16 different types of assets with a variety of life spans:

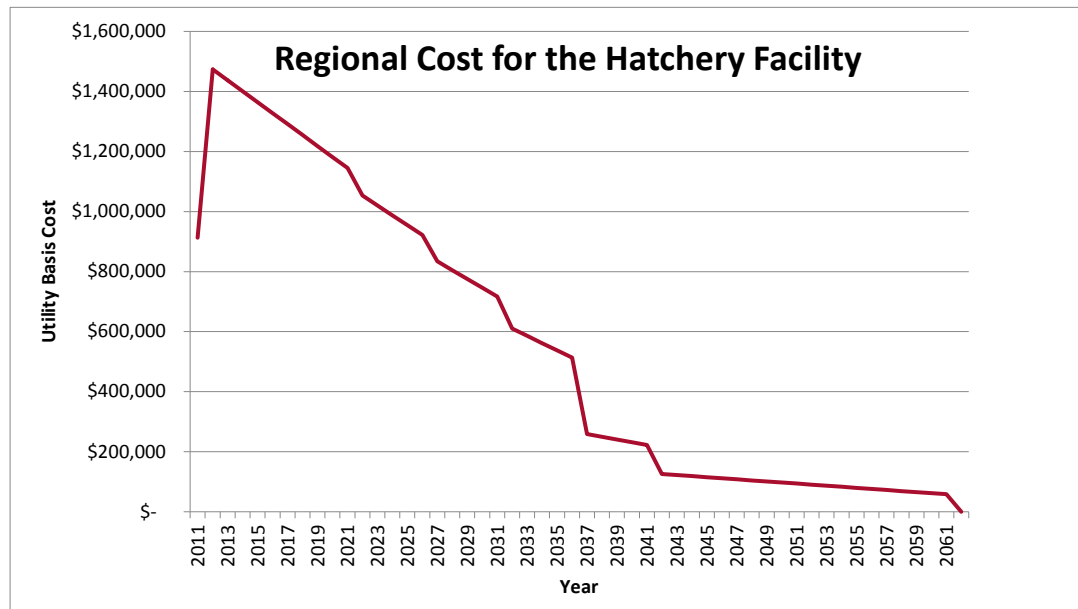
Asset	Life (years)	Cost
Building Equipment (HVAC, plumbing, etc.)	25	\$ 3,795,965
Building Interior	20	1,419,217
Building Roof, 25 year	25	24,041
Building Roof, 50 year	50	254,181
Building Shell	30	1,275,066
Building Structure (Foundation)	50	2,234,415
Other Equipment (heat exchanger, chiller, etc.)	15	838,500
Other Equipment (Generator)	20	238,462
Other Equipment (Crowders, fume hood, etc.)	25	1,190,059
Other Equipment (Incubators, fry tanks)	30	1,449,023
Other Structure (Fish detention)	50	425,066
Pipe, Other	25	1,012,197
Parking lot	30	56,675
Pumps (Fire pump, jockey pump)	25	113,089
SCADA	10	595,801
Security (Fencing, gates)	15	40,352

Regional Cost of the Hatchery

Regional costs are determined on a Utility Cost Basis, which is annual depreciation plus the product of Net book Value and the Rate of Return (currently 6.1%). The chart below shows the regional costs for the hatchery with the assets grouped by asset life, since showing all 16 asset types as individual lines made the chart unreadable.



The sum of these is the total annual regional cost for the facility:

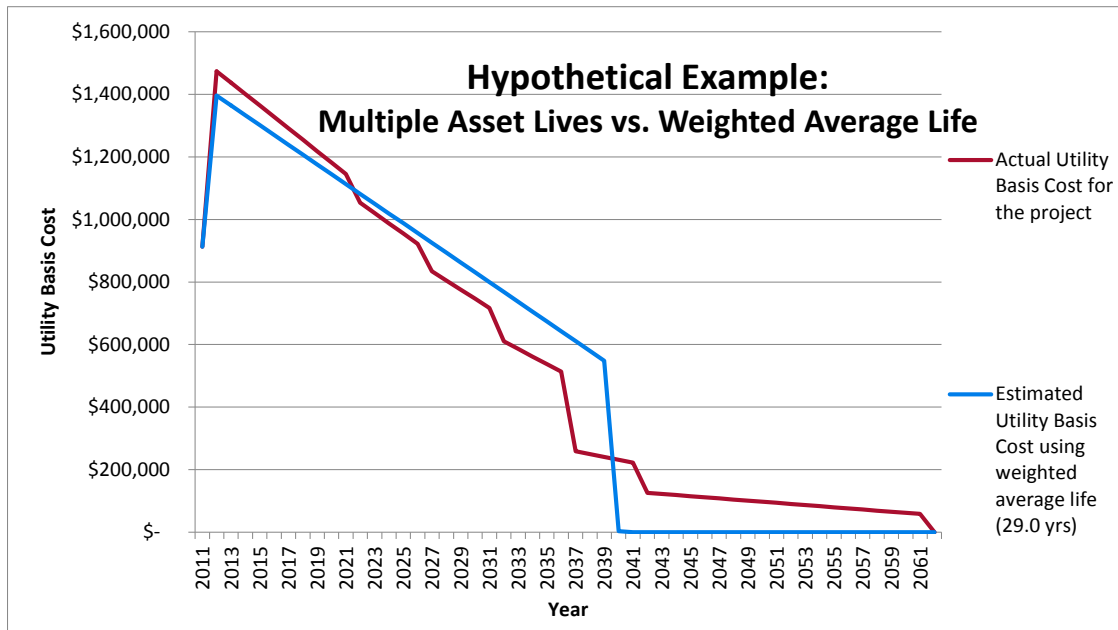


Average asset life for use in the wholesale rate study

For all assets that closed in 2013 and prior, actual depreciation and New Book Value are used for the rate study. However, for projects expected to close within 2014-2017, a single asset life is assumed for the project, and this single life is applied to the full cost.

As an example only, the regional cost of the hatchery was calculated with a single average life. The difference in the first several years is small, considering that the overall regional asset cost is \$55M in 2012. Also, any differences between the rate study estimate and actual costs will be captured by the true up.

	2011	2012	2013	2014
Actual Utility Basis Cost for the project	\$ 912,689	\$ 1,473,679	\$ 1,437,235	\$ 1,400,792
Estimated Utility Basis Cost using weighted average life (29.0 yrs)	\$ 912,689	\$ 1,396,168	\$ 1,364,759	\$ 1,333,351
Difference	\$ -	\$ 77,511	\$ 72,476	\$ 67,441



6. MLPP project - When will this project be completed and hit rates?

The project is scheduled to be substantially complete and in service in 2016, although it may be completed as early as late 2015. If completed earlier, total project costs may be lower; cash flow shown in CFP does not reflect the earlier completion date. For the rate study, costs are assumed to begin in 2016.

7. Conservation – June 3, 2014 meeting

- a. *A conservation refresher on what was agreed to and important dates to remember*
- b. *How the timing of the WUE goal relates to rates and when will the opportunity for further discussions occur?*

8. Debt Refinance – Explanation of debt refinance (variable and fixed) – May 1st, 2014 meeting