Operating Board

Wholesale Rate Study 101

Tabled Topics

**How are consumption and revenue adjustments for prior years included in the rate study?**

*Once an adjustment is finalized, it is captured during the true up process and affects the projected 2014 year-end balance that is the starting point for the 2015-2017 rate study.*

*The adjustment is a two-step process since Seattle’s consumption as a wholesale customer (in other words, the consumption of Seattle’s distribution system rather than the retail sales to its customers) depends on wholesale metered consumption. From the contracts:*

**III. E Metering Equipment**

….Until such time as Seattle determines it to be economical to install metering devices to measure the amount of water delivered from the Seattle Regional Water Supply System to the Seattle Retail Distribution System, the amount of water delivered to the Seattle Retail Distribution System shall be measured indirectly by subtracting the metered water delivered to all of Seattle’s wholesale customers from 98% of the total amount of water exiting Seattle’s sources of supply as measured by the supply meters.

*Showing this as a diagram:*

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*Example*

*The first step occurs outside of the true up process. Reviewing the consumption adjustment procedure at a high level, the adjustment to a specific customer is based on the difference between SPU Billed Water and SPU Delivered Water. SPU Delivered Water is based on the formula:*

SPU Delivered Water = Sales to Customers - Other Water Sources

 (1-Agreed NRW%)

*The following are example inputs for illustration only, and note that actual calculations can result in positive OR negative adjustments:*

Sales to Customers = 1,000,000 ccf

Other Sources = 0 ccf

Agreed to Non-Revenue Water percentage = 4%

SPU Billed Water = 950,000 ccf

SPU Delivered Water = [1,000,000/(1-0.04) – 0] = 1,041,666 ccf

Prior Year Adjustment = 1,041,666 ccf – 950,000 ccf = **91,666 ccf**

This is then broken down by month to determine peak and off-peak portions.

*For the second step in the process, the true up captures the additional revenues from above, and re-calculates the demand and revenues for Seattle-as-wholesale. Because wholesale demand is subtracted from the sources of supply to determine Seattle-as-wholesale, Seattle’s demand adjustment is always the opposite of the wholesale adjustment. However, because different rates apply to different customers (growth charge, block customers, etc.), the changes in revenue are not identical and the net revenue adjustment is not zero.*

*Continuing the example above:*

|  |  |  |
| --- | --- | --- |
|  | Volume Adjustment | Revenue Adjustment |
| Actual wholesale customer | 91,666 ccf | $ X |
| Seattle-as-wholesale | (91,666) ccf | $ (Y) |
| Total | 0 ccf |  $ X+Y |

*The overall revenue adjustment is included in the revenue portion of the true up report, and affects projected 2014 year-end balance that is the starting point for the 2015-2017 rate study.*