2021-2026 Baseline Rate Path

First Presentation to the CRP

February 26, 2020
Purpose of this Presentation

Provide a first look at SPU’s baseline rate path and discuss drivers

• Summary of the Adopted 2018-2023 SBP Rate Path
  • Summary of the current rate path after updated Solid Waste rates
• Present the range of 2021-2026 rate path projections
• Discuss some levers that affect the rate path
• Next steps
# Adopted 2018-2023 SBP Rate Path

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Adopted 2018-2023 SBP Rate Path with Revised SW Rates

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Approved rate legislation that is currently in effect
Range of 2021-2026 Rate Path Projections

- **High Path:**
  - 2021: 4.9%
  - 2022: 4.9%
  - 2023: 4.9%
  - 2024: 4.9%
  - 2025: 5.0%
  - 2026: 6.0%

- **Low Path:**
  - 2021: 4.0%
  - 2022: 4.0%
  - 2023: 4.0%
  - 2024: 4.0%
  - 2025: 4.0%
  - 2026: 4.0%

- **SBP:**
  - 2021: 5.2%
  - 2022: 5.2%
  - 2023: 5.2%
  - 2024: 5.2%
  - 2025: 5.2%
  - 2026: 5.2%
Major Rates Assumptions

• Water Fund
  • Slightly declining demand (retail)
  • Low tap revenue growth
  • Updated wholesale revenues

• Drainage and Wastewater Fund
  • Slight declining demand
  • Treatment costs +4.0-4.5%/year

• Solid Waste Fund
  • Contract costs +4.0%/year
  • No bond issuances

• All Funds
  • Lower bond interest rates
  • UDP is 3% of retail rate revenue
  • No changes to the regulatory environment
Drivers Affecting the Rate Path Going Forward

• CIP accomplishment rate
  • Previous SBP had higher rate than SPU is projecting going forward
• Higher than anticipated cash balances in 2020
  • Driven by recent underspending
Rate Driver – CIP Accomplishment Rate

• Past assumptions were more conservative – 97.5%
  • Spending was trending up
  • Projections were growing for major new investments
• New assumptions are more pragmatic – 85%
  • Spending has trended down
  • Adjusted assumptions for Transportation projects
• Rippling effect of lower accomplishment rate
  • Decrease in cash required for CIP
  • Decrease in debt issuances and debt service payments
# Rate Driver - Cash Balances ($M)

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<th>2020</th>
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<th>2019 Actual</th>
<th>2019 Difference</th>
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<td>($M)</td>
<td>Targets</td>
<td>Targets</td>
<td>Actual</td>
<td>Difference</td>
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Rate Driver – Cash Balances Continued

• SPU began 2020 with cash balances well in excess of the internal financial targets.

• SPU is exploring ways to use the cash balances including:
  • Using cash balances to pay for CIP rather than issuing debt in order to bring down the rates.
  • Maintain higher cash balances in the event of an emergency.
  • Use some of the cash to refinance debt in the near-term for long-term savings.
Going Forward

March CRP Meeting
Follow-up from previous meeting + updated rate path with expenditure scenarios

April CRP Meeting
Follow-up from previous meeting + updated rate path scenarios