Reminder of the Big Picture

*What Is Happening In the Fall of 2013*

- Review baseline prioritization results; identify lower-priority programs for possible reductions
- Review list of possible efficiencies
- Review list of possible initiatives
- Discuss alternative rate path packages

*The Baseline is the starting point for the above work*
Reminder of Baseline Definition

**Definition of baseline**: The change in annual rates, or annual rate revenues, needed to maintain existing service levels plus meet firm regulatory requirements.

**What does “maintain existing service levels” mean?**
Actual service quality (as opposed to targeted service quality) neither degrades nor improves.
Baseline Discussions

What We’ve Covered in Prior Two Meetings

• Definition of baseline
• What the baseline does NOT include
• Why the baseline doesn’t just increase with inflation
• Overview of cost categories, using 2013 as starting point
• Discussion of value-added (discretionary) costs
• Discussion of baseline service levels
Baseline Discussions

What We’ll Do Today (Aug 20)

• Describe the Baseline Forecast – rates, bills, major drivers

• Discuss major baseline assumptions and vulnerabilities

• Discuss the concept of affordability
Baseline Forecast

• Baseline % Rate Changes 2015-2020

• Typical Residential Baseline Charges 2015-2020

• Example Commercial Baseline Charges 2015-2020

• Major Reasons for Baseline Increases 2015-2020
  o Overall
  o For each line of business
Baseline Forecast:
% Rate Changes 2015-2020

Average Annual Change over 6-year period = 4.5%

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</thead>
<tbody>
<tr>
<td>Water Retail Rates</td>
<td>2.9%</td>
<td>3.6%</td>
<td>5.4%</td>
<td>3.5%</td>
<td>6.3%</td>
<td>4.1%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Wastewater Rates</td>
<td>1.2%</td>
<td>1.1%</td>
<td>0.7%</td>
<td>8.3%</td>
<td>6.2%</td>
<td>2.3%</td>
<td>3.3%</td>
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<tr>
<td>Drainage Rates</td>
<td>9.8%</td>
<td>6.3%</td>
<td>8.9%</td>
<td>9.2%</td>
<td>9.8%</td>
<td>9.6%</td>
<td>8.9%</td>
</tr>
<tr>
<td>Solid Waste Rates</td>
<td>4.3%</td>
<td>3.4%</td>
<td>5.9%</td>
<td>2.8%</td>
<td>2.8%</td>
<td>2.8%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Average Overall</td>
<td>3.6%</td>
<td>3.1%</td>
<td>4.5%</td>
<td>5.7%</td>
<td>5.9%</td>
<td>4.1%</td>
<td>4.5%</td>
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**Baseline Forecast:**  
**Typical Residential Baseline Charges 2015-2020**

*Typical residential monthly charges increase from $163 in 2015 to $207 in 2020 – an average $8.26 monthly increase per year*

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<tbody>
<tr>
<td>Water</td>
<td>$40.06</td>
<td>$41.50</td>
<td>$43.74</td>
<td>$45.27</td>
<td>$48.12</td>
<td>$50.09</td>
<td>4.29%</td>
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<tr>
<td>Wastewater</td>
<td>$51.13</td>
<td>$51.69</td>
<td>$52.05</td>
<td>$56.37</td>
<td>$59.86</td>
<td>$61.24</td>
<td>3.26%</td>
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<tr>
<td>Drainage</td>
<td>$29.18</td>
<td>$31.02</td>
<td>$33.77</td>
<td>$36.89</td>
<td>$40.52</td>
<td>$44.42</td>
<td>8.94%</td>
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<tr>
<td>Solid Waste</td>
<td>$42.67</td>
<td>$44.12</td>
<td>$46.72</td>
<td>$48.03</td>
<td>$49.37</td>
<td>$50.75</td>
<td>3.66%</td>
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<tr>
<td>Total</td>
<td>$163.04</td>
<td>$168.33</td>
<td>$176.28</td>
<td>$186.56</td>
<td>$197.87</td>
<td>$206.50</td>
<td>4.75%</td>
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<tr>
<td>Monthly Change</td>
<td>$6.10</td>
<td>$5.29</td>
<td>$7.95</td>
<td>$10.28</td>
<td>$11.31</td>
<td>$8.63</td>
<td><strong>$8.26</strong></td>
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Baseline Forecast:
Total Monthly Charges for Example Customers

Chart below shows total monthly charges for example customers. Average annual changes range from 4.3% for a downtown hotel (with most charges on water and solid waste) to 5.9% for a large industrial customer (with most charges on water and drainage).

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</thead>
<tbody>
<tr>
<td>Residential</td>
<td>$163</td>
<td>$168</td>
<td>$176</td>
<td>$187</td>
<td>$198</td>
<td>$207</td>
<td>4.7%</td>
</tr>
<tr>
<td>Convenience Store</td>
<td>$657</td>
<td>$680</td>
<td>$718</td>
<td>$750</td>
<td>$784</td>
<td>$814</td>
<td>4.4%</td>
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<tr>
<td>Downtown Hotel</td>
<td>$13,419</td>
<td>$13,845</td>
<td>$14,506</td>
<td>$15,221</td>
<td>$16,065</td>
<td>$16,687</td>
<td>4.3%</td>
</tr>
<tr>
<td>Large Industrial</td>
<td>$39,000</td>
<td>$40,689</td>
<td>$43,267</td>
<td>$45,892</td>
<td>$49,219</td>
<td>$52,190</td>
<td>5.9%</td>
</tr>
</tbody>
</table>
Baseline Forecast: Combined Monthly Charge for Typical Residential Customer for all Lines of Business Major Reasons for Increases 2015-2020

Total combined monthly charge increase from $156.95 in 2014 to $206.50 in 2020.

- Contracts $7.24 (15%)
- Capital Financing $17.12 (35%)
- Inflation - Labor $6.55 (13%)
- Inflation - NonLabor $8.54 (17%)
- Taxes $6.40 (13%)
- Other $3.70 (7%)

What does the increase pay for?
Major Assumptions/Vulnerabilities

See companion word document for an exploration of assumptions and vulnerabilities
Affordability

• Some thoughts on affordability definitions
• 5 ways to improve affordability
• Looking beyond 2020: Panel request for information on when costs level out?
• General question to Panel
Affordability: Some Thoughts on Definitions

• General definition addresses concept that everyone should be able to meet basic needs

• There are varying definitions; no “magic metric”

• Council discussed affordability last year during SPU rate reviews
  o Looked at rate caps (no increases above inflation; no increases above inflation plus 2%)
  o Chose instead to look holistically at costs and services, via a Strategic Business Plan
Affordability: 5 Ways to Improve Affordability

• *Keep Costs Down* – provide services as efficiently and effectively as possible; reduce or eliminate low priority activities

• *Set Predictable Charges* – customers can more easily budget for charges that are predictable

• *Offer Conservation Programs* – offer programs to customers that allow them to use less of the service or product

• *Subsidize “subsistence” usage levels* – structure rates to promote affordability at low consumption levels

• *Support to lower income customers* – offer rate assistance to customers least able to pay
Affordability: Looking Beyond 2020
Capital Costs Level Out by 2025
Affordability: Question to Panel

Initial observations/reactions to baseline rate increase levels?