

Quick Guide to how FCs are arrived at

1. What is regional conservation target? Operating Board
2. What is regional conservation spending? Both Operating Board and Seattle
3. Recover costs through FCs or rates? Operating Board
4. What is an ERU? Seattle
5. What is cost per ERU? Follow formula in contract

Excerpts from Contracts (Section numbers may vary)

Operating Board

II.E.2. Conservation Above the 1% Program. Utility acknowledges that water conservation beyond the 1% Water Conservation Program may be required as condition of State or federal regulations, court orders, settlements or agreements made to avoid litigation, fines or penalties, or as otherwise determined to be reasonably necessary by the Operating Board. The Operating Board may adopt reasonable additional conservation measures and targets for such purposes.

IV.C1.b. New Supply Cost Pool.

iii. The Operating Board shall determine the portion of the New Supply Resource costs that shall be recovered through FCs or through new supply rates.

Note: an Operating Board subcommittee met from December 2009 to February 2010 and considered many options, including FCs vs. rates. The Operating Board adopted their recommendation at their May 2010 meeting, resulting in the current \$783/ERU Facilities Charge.

Seattle

IV.E.8. Facilities Charges.

If Seattle establishes FCs as authorized herein, then such charges shall be calculated as follows:

- a. ERU Definition. Seattle shall develop a definition of an Equivalent Residential Unit (“ERU”) based on, meter size as set forth in Exhibit VI, number of residential units, water use, or other basis which shall be consistent with accepted industry standards. The Operating Board shall have the right to review and comment on the definition and Seattle shall consider the Operating Board's comments.

...

c. Annual Calculation of ERUs. Until such time as Seattle develops another basis, the calculation of ERUs in any year shall be the annual growth in the number of meters installed by Water Utility during the year taking into account the size of each meter.

...

e. Rate Setting. The structure of FCs or water rates charged to the holders of Full and Partial Requirements Contracts shall be determined by Seattle, at its sole discretion, except that the price may not, without the consent of Water Utility, be set to collect more than the costs forecast under Section IV hereof and Rate of Return on Investment. FCs shall be calculated as set forth on page 1 of Exhibit VI.

Specified in Contracts

Exhibit VI. Calculation of ERUs as a Part of Facilities Charges

The ERU Fee is:

- the flat debt service payment required to finance the facility providing the ERU over the lesser of (i) the facility life or (ii) the period over which new demand will fully utilize the facility's supply
- divided by -
- The number of new ERU's of demand expected in each year.

Seattle's Average Cost of Debt shall be used as the interest rate in this calculation. In the event that several new supply facilities are added simultaneously, the facilities may be considered together as providing a total new supply capacity for a total construction cost.

...

At the time a new supply facility is added, the ERU price for this supply shall be calculated. This ERU price shall then be averaged with the then-current ERU Fee. This average shall be weighted by the number of unpurchased ERU's available at the then-current ERU fee and the number of new ERU's being added at the new ERU price. This weighted average shall be the new ERU Fee, and the number of ERU's available at the fee shall be the sum of the unsold ERU's at the previous fee and the ERU capacity of the new facility.