

## Summary of 2015 True Up Results Provided at July 7, 2016 Operating Board

- Wholesale Statements “true up” the wholesale share of actual water system costs and actual wholesale revenues. Any net surplus or deficit is carried forward with interest and lowers or raises rates in the future.
- Seattle Public Utilities prepares the wholesale statements, and Moss Adams applies the specific procedures to test their accuracy.
- Under the 2001 contract, Seattle is considered a wholesale customer.

### Rate Based Cost Pools (Full & Partials)

- 2015 was the first year of the 2015-2017 rate study, which was completed in early 2014.
- The results for 2015 were impacted by multiple factors:
  - Revenues were \$5.8M higher than rate study projections due to hot dry weather as well as a \$2.5M transfer from the Facilities Charge Cost Pool
  - Existing Supply O&M is higher than rate study assumptions due to mobilization of the Morse Lake Pump Plant
  - Existing Transmission O&M is higher than rate study due to continued work on the Tolt Slide area as well as an increased emphasis on maintaining the pipeline rights of way
  - The Other Adjustments amount is the impact of the Water Supply Curtailment on the allocation of costs between Block contract customers and Full and Partials. Block customers receive a cost reduction during curtailments to reflect that the overall system is using a portion of their block amount

	Rate Study Projection, March 2014	2015 Actuals	Effect on True Up Balance
2014 Year End balance	\$12,668,921	\$11,467,962	(\$1,200,959)
Interest on above	582,770	516,058	(66,712)
+ Revenues	72,093,635	77,935,387	5,841,752
- O&M Expense			
Existing Supply	(24,777,523)	(28,354,733)	(3,577,210)
Existing Transmission	(7,465,573)	(10,707,923)	(3,242,350)
New Supply	(762,906)	(879,392)	(116,485)
- Asset expense			
Existing Supply	(25,518,332)	(25,597,935)	(79,603)
Existing Transmission	(14,608,647)	(14,377,987)	230,660
+/- Other Adjustments	0	(880,942)	(880,942)
<b>= 2015 Year End balance</b>	<b>\$12,212,344</b>	<b>\$9,120,494</b>	<b>(\$3,091,850)</b>

Note: \$1M translates to 0.7-0.8 cents/ccf over a 3-year rate study

- The subregional cost pool balances for 2015 range from slightly higher to significantly higher than projected.

Balances (in \$1,000)	Projected 2015 Balance from 2015-2017 Rate Study	2015 Actual Year End Balance
Southwest Subregion	(481)	(444)
East Subregion, Segments 3	(14)	25
East Subregion, Segments 4	(103)	13

### **Results of Block Allocations**

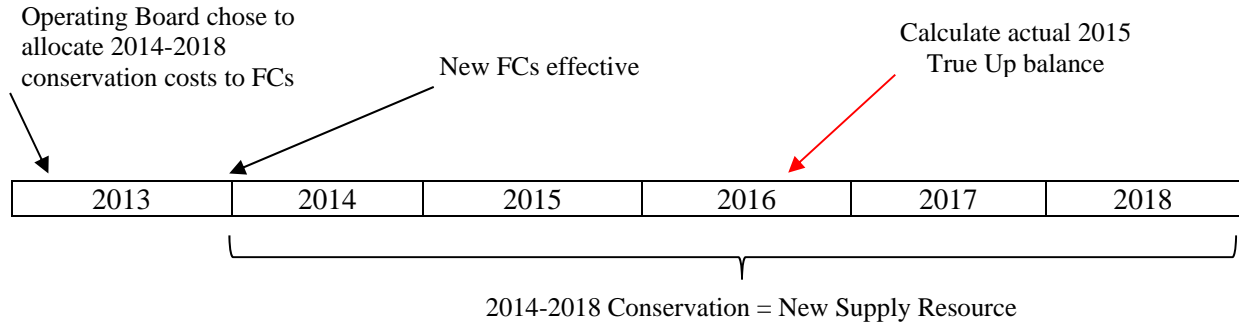
- The Fixed Block contract (Northshore Utility District) does not have a year end balance in the tables above because their surplus/deficit is settled annually. NUD ended 2015 with a deficit of \$388k, which, along with interest, will be added to their 2017 block cost.
- The Declining Block contract (CWA) also does not have a year end balance in the tables above because their surplus/deficit is settled annually. CWA ended 2015 with a deficit of \$1.5M, which, along with interest, will be added to their 2017 block cost.
- Renton's New Supply Conservation Block ended 2015 with a surplus of \$32k which will earn interest and reduce their 2017 block cost.

### **Facilities Charge Cost Pool (Full & Partials)**

#### *Background*

- As per the contract, the FC balance remains in the cost pool unless the balance exceeds the Net Book Value of the New Supply Resources (Regional Conservation), in which case a transfer is made to rates, or becomes negative, in which case a loan is made from rates.
- Also as per the contract, the FC rate is not adjusted in response to the true up balance. FC rates are the project cost of creating a unit of additional supply. The rate is adjusted when adding or removing a New Supply Resource that has a different project cost per unit of additional supply.
- In 2010, the Operating Board recommended and Seattle implemented that annual Facilities Charge costs be recognized using the utility basis for assets added in 2010 and before, and the cash basis for assets in 2011 and after.

- 2015 was the second year of the 2014-2018 period of regional conservation that the Operating Board defined in early 2013 as a New Supply Resource. At that time, the FC cost pool was not expected to have a surplus balance until after 2018.



- An updated analysis of the FC balance during 2015-2017 rate study did not predict a surplus and transfer to New Supply rates until 2017.

### Results

- As compared to the rate study, revenues were higher and costs were lower causing a \$2.5M transfer to New Supply rates in 2015. This trend is expected to continue.

	Rate Study Projection, March 2014	2015 Actuals	Effect on True Up Balance
2014 Year End balance	\$7,114,054	\$7,782,246	\$668,191
Interest on above	327,246	350,201	22,955
+ Revenues	3,625,430	4,342,108	716,678
- Asset Expense (net of NUD and Renton share)			
1% program (Utility basis)	(738,903)	(743,329)	(4,427)
2015 Regional Conservation (Cash basis)	(1,652,956)	(1,029,115)	623,840
+/- Other Adjustments	0	0	0
= 2015 Year End balance before transfer	\$8,674,872	\$10,702,110	\$2,027,238
Regional Conservation Net Book Value	9,660,116	8,246,909	1,413,207
Transfer to New Supply Rates	0	(2,455,201)	2,455,201
<b>= 2015 Year End balance after transfer</b>	<b>\$8,674,872</b>	<b>\$8,246,909</b>	<b>\$427,963</b>

- Stepping through the impact:
  1. Lower spending caused the cost (dark blue line) to be lower than the rate study (dashed portion of dark blue line).
  2. Revenues (red line) increased as compared to \$3.6M in rate study (not shown on graph).
  3. These factors *would have* made the cost pool balance (green line in both graphs) increase as compared to the rate study (dashed portion), *BUT*:
    - a. This lower spending also decreased the cost pool assets' Net Book Value (light blue line) as compared to the rate study (dashed portion).
    - b. As per the contracts, the amount of cost pool balance over Net Book Value was transferred to the rate based portion of the New Supply cost pool.

