

**Notes from July 11 Meeting of the Water Rate Design Team**

Issue Area	Definitions Ideas/Questions	General Questions/Comments	Alternatives to Explore
Financial Stability	<p><u>Draft definitions:</u></p> <ul style="list-style-type: none"> <li>▪ Utility covers costs &amp; meets financial policies</li> <li>▪ Utility has adequate degree of revenue certainty</li> <li>▪ Probability of recovering revenue requirement = X%.</li> <li>▪ Revenue is insensitive to demand variability</li> </ul> <p><u>Questions:</u> What level of uncertainty/instability is OK? Can we come up with actual numbers/percentages?</p>	<p><u>Questions:</u></p> <ul style="list-style-type: none"> <li>▪ How important is this objective? To whom? And why? And should we care (questions for all issue areas/objectives)?</li> <li>▪ Why did Tacoma have such revenue problems, when their rates heavily emphasize meter charges?</li> </ul> <p><u>Comments:</u></p> <ul style="list-style-type: none"> <li>▪ Drivers for revenue instability:               <ul style="list-style-type: none"> <li>→ Weather variability (unpredictable summer consumption); business cycles (water consumption and non-rate revenue such as new taps)</li> <li>→ Trends (e.g., impact of price on demand)</li> </ul> </li> <li>▪ Some instability is OK if you have strong financial policies</li> </ul>	<p><u>Non-rate alternatives:</u></p> <ul style="list-style-type: none"> <li>▪ Expand rate stabilization fund (RSF)</li> <li>▪ Allow for rebates if SPU over-collects</li> <li>▪ Be more flexible in cost reductions</li> <li>▪ Develop more conservative demand forecast, with any over-collection going to the RSF</li> <li>▪ Increase flexibility to respond to changing costs</li> </ul> <p><u>Rate design alternatives:</u></p> <ul style="list-style-type: none"> <li>▪ Commodity charge changes: reduce/eliminate seasonal block; reduce/eliminate inclining block</li> <li>▪ Meter charge: consider increasing and/or including some base ccf consumption charges within meter charge</li> <li>▪ Charge per customer rate only; no additional charge for water usage</li> <li>▪ Increase cash financing of the CIP</li> </ul>
Water as a Basic Right	<p><u>Draft definition.</u> Everyone has a right to subsistence level of water</p> <p><u>Questions:</u></p> <ul style="list-style-type: none"> <li>▪ Does “right” mean “free”? If so, free to everyone?</li> <li>▪ How do we define “subsistence”? Do vegie gardens count?</li> </ul>	<p><u>Questions:</u></p> <ul style="list-style-type: none"> <li>▪ Who should pay for any subsidy of subsistence water?</li> <li>▪ Do commercial customers have a right to a basic level of water?</li> <li>▪ Is cheap good enough? Is a penny per gallon cheap enough? What about when we include wastewater costs – is subsistence water then too expensive?</li> <li>▪ What do we owe to future generations in terms of setting them up to have a cheap level of subsistence water for all?</li> </ul> <p><u>Comments:</u> We should not subsidize the wealthy (i.e., we should not have a lower-cost lifeline rate for all)</p> <p><u>Info needed:</u> Need info on customer usage – how many use &lt; 5 ccf; &gt; 18 ccf? Can we link this usage info with income levels?</p>	<p><u>Eliminate lifeline block</u>, in order to not apply a “subsistence subsidy” to those not economically disadvantaged.</p> <p><u>Create free lifeline subsistence block</u> for all or for economically disadvantaged</p> <p><u>Decrease size of lifeline block</u> to more closely mirror average subsistence use per household</p> <p><u>Create customized “water max” for each customer</u>, where winter water use would be considered a proxy for subsistence water usage; in the summer, this usage level would be one lower rate tier; usage above this level would be charged a higher rate</p>

Economic Efficiency	<p><u>Draft definition.</u> Incremental customer cost per ccf = incremental cost to SPU, environment, society</p> <p><u>Questions:</u> How do we define incremental (marginal) cost? SPU cost? Regional cost (i.e., next new source = Lk Tapps)? Retail-wholesale cost shifting in SPU system? Long-run vs short-run? How long is long? How do we define/price cost to environment and to society? Do these costs exist?</p>	<p><u>Questions:</u></p> <ul style="list-style-type: none"> <li>▪ What if Cascade comes back into the fold? Should we price with this in mind?</li> <li>▪ What would happen to demand if we decreased the commodity charge a lot? Could we estimate this by looking at how demand changed for utilities moving from non-metered to metered usage?</li> <li>▪ Do we want to consider the marginal cost of water only, or water and wastewater?</li> <li>▪ Are there possible customers to which we could sell our “excess” water?</li> <li>▪ Can we charge to make a profit (you want Seattle water, you pay for it)?</li> </ul>	<p><u>One uniform seasonal commodity rate</u> for all customers</p> <p><u>Change peak season timeline</u> from May 16-Sept 15 to somewhat later time period, depending on actual seasonal uptick and cost drivers</p>
Conservation			
Customer Equity			
Others TBD			