

**SPU Strategic Business Plan Customer Review Panel
Draft Meeting Summary
Tuesday, April 29, 2014**

Attendance:

Panel Members			
Suzie Burke		Tara Luckie	x
David Gault	x	Noel Miller	x
Dave Layton	x	Carl Pierce	
Laura Lippman	x	Walter Reese	x
Bruce Lorig			
Staff and Others¹			
Ray Hoffman, SPU	x	Brian Surratt, Mayor's Office	
Nancy Ahern, SPU	x	Meg Moorehead, City Council Central Staff	X
Martin Baker, SPU		Saroja Reddy, City Budget Office	X
Melina Thung, SPU	x	Karen Reed (facilitator)	X
		Diane Clausen, SPU	X

Review and Approval of Agenda.

April 29 agenda approved without discussion or changes.

Review and Approval of Meeting 23 Summary.

Summary of meeting 23 approved without discussion or changes.

Panel Information Requests. SPU Staff reviewed the various responses to the Panel's information requests. Ray described the graphic on age of water and wastewater pipe.

Q: Is the 60 year old pipe inferior to the 100 year old pipe? **A:** Sometimes. Some of the best performing materials are the oldest materials. For example, in the late 50s-60s, put in plastic pipe which did not end up having the expected life span.

Q: In the asset management baseline efforts, is SPU coming up with a better way to predict the optimal rate of replacement for pipe? **A:** Yes, just developed a 6-year transmission and distribution plan for water, to set replacement schedules. Still working on how that workload will grow over time; don't want to replace too early; but also don't want to have everything come at once. One indicator we are watching is the leak rate per hundred miles of pipe; this has been fairly constant over the last several years.

Q: What constitutes a leak? **A:** Typically when it surfaces, and someone calls it to our attention.

Q: How much pipe are you able to replace each year? **A:** Do not have an answer for how much pipe we could replace each year, if this was our major focus. In reality, we have done very little pipe replacement over the last 10-20 years; maybe about 1 mile per year (in total, have about 1700 miles of water distribution pipe). Now, we know we need to start ramping up. We have modest

¹ Only those individuals sitting at the head table are included on this list. A number of other staff and consultants attended the meeting.

replacement plan for the next six years, since our system is currently performing well. But, we continue to do system modeling and track performance statistics to help us decide when to accelerate replacement. For example, if we saw a doubling in our leak rate, this would be a sign that we need to ramp up. For the last decade or so, we have been in the 8 breaks per 100 miles of pipe fairly consistently.

Ray then described the table showing the comparative costs of Consent Decree compliance for various jurisdictions.

Comment: Would be interested in normalizing the CSO data per customer or per capita.

Response: We will do this.

Council Communications Items. Noel gave a summary report of the April 23 SPUN Committee presentation, and noted the schedule for the Special Council Committee meetings. At the April 23rd committee meeting, the focus of the presentation was on the baseline, and why it is increasing more than inflation. Meg then spoke to creating the Council Special Committee of all nine Councilmembers; beginning in May to review the City Light Strategic Plan, then continuing July-September with SPU's Strategic Business Plan.

Efficiency Targets and Priority Actions. Ray Hoffman, Laura Southard, and Melina Thung described SPU's proposed efficiency strategy through 2020.

When discussing the "field productivity" initiative, Ray introduced the union representatives in the room (Marty Yellam of Local 32 and Ian Gordon of Local 1239). They indicated their support of working cooperatively to achieve efficiency goals.

Q: Drug testing? Do you do this? **A:** Yes. For example, anyone who holds a commercial drivers license is subject to random drug testing. We also have a "fit for duty" procedure, where you can perform a drug test on any employee if he/she appears visibly impaired. The recent legalization of marijuana will have its own set of issues, as a drug test for this drug may show a residual presence in the employee but impairment may or may not be an issue.

Q: Regarding procurement, are there current policies/procedures that hamper your efforts? **A:** Don't have a full answer on this yet, but HDR did recommend bringing in-house additional procurement efforts. We can work with FAS to explore options here – for example, Vladimir is working with FAS now on procedural relief for small capital projects. **Comment:** Recommend including this in your list of potential efficiencies.

Q: What do you mean by saying you will not contract out for cost saving purposes? Are you saying there are no potential savings here, or are you saying there are potential savings but you will not pursue them? **A:** At this point, the latter. There may be some opportunities for savings from contracting out, but our first opportunity is to show what we can do in-house. **Comment:** From a ratepayer point of view, seems like you should save money if you can.

Q: Can the City pursue outreach across multiple departments, to improve customer service and save money? **A:** Yes. Mayor Murray has directed SCL, SPU, City Light, and the Human Services Department to work together on affordability issues, especially around low income rate assistance. One idea is to link up with the food stamp program. Also has significant interest on the Council side.

Q: On labor savings, are we saying that we are adding new stuff, but are finding savings within our existing work so that rates don't increase above baseline levels? **A:** Exactly.

Q: When you are proposing the 2015 budget, will you ask for additional FTE? **A:** Yes. But by 2020, we'll be back to where we are now in 2014 (at 1432 positions).

Q: How will this be shown in the SBP? **A:** Busy drafting plan now; plan will be in layers – from very high level to very detailed for the person who is more interested.

Q: What happens when you don't meet your goals? E.g., what if you are above 1432 positions in 2020? **A:** Depends on the accountability agreements between the Department Director and the elected officials. Expect annual tracking; budget review every year.

Rate Paths Discussion. Ray discussed SPU's general approach to rate path options.

Comments: Rate levels shouldn't be shock to the public, since they are consistent with the Outreach earlier this year. Consider changing the title of the highest option to "moving faster; moving smarter." Consider front-loading rates, so that we can show a decline over time in the increases.

Request: Come back with rate detail, by year and by LOB. Consider front-loading rates, so that we can show a decline over time in the increases. If drainage rates are the outlier (significantly higher than the other rate increases), then maybe show these separately.

Facilitator: Three options vs one – does Panel approve this approach? **Comments:** Yes. One option is really no option.

Q: What's your gut forecast beyond 2020? Could you say that, fundamentally, the increases beyond 2020 are closer to the rate of inflation? **A:** Yes. We are not kicking the can down the street with these rate proposals.

Action Plan Ballot Results. The facilitator walked the Panel through the balloting results.

Comments: Scale of Action Plans is very variable – many are tiny; others are big – the big things seem identifiable; the littler stuff harder to decide upon. And in some cases, there are no resources requested for an Action Plan, it is simply called out because it is an important direction for SPU. Need to trust at some level that the utility is making appropriate recommendations. Consider moving some costs into the baseline; and/or trimming the big items (90% instead of 100%? What do you give up?). Generally, there is Panel consensus to support all the Action Plans.

Q: When you've talked with the Council and the mayor re: taxes, what has been their response? **A:** At the SPUN Committee meeting, they didn't say "no way," but at the same time they asked where we would delete from the GF budget. The Mayor recognizes it is an issue; but our business plan will only address SPU issues, not utility tax issues. Of course, the Panel will decide what they include in their letter to Mayor and Council.

Q: So might the 4.6% be much higher for drainage and much lower for water? **A:** Yes; the 4.6% is an annual average across all lines of business. Each line of business will be somewhat different than the average. We must keep our funding sources separate by law, and meet financial policies separately for each fund. In the SBP, we will have melded average for the LOBs, and what it is for each LOB.

Q to Panel: When SPU comes back to the Panel at the next meeting with the rate run details, do you want an option that reduces Action Plans sufficient to shave off at least 0.1% from the annual rate path increase? **A:** No. The numbers are the numbers; leave it as is. Panel hopes that the big projects are correctly sized in the first place and acknowledges that it must trust the Utility in this regard.

Panel Subcommittee Presentations. Noel described the write-ups from the two subcommittees. Regarding rate policies, the subcommittee developed a series of cost allocation and rate design questions for SPU to consider as they develop rate studies over the next several years – there may be some sort of comment along these lines in the final Panel letter. Regarding utility taxes, the subcommittee has developed a general position statement; Noel will work on summarizing this statement into a paragraph that can be included in the Panel letter.

Q: Have property taxes and sales taxes that fund General Fund costs. What does Utility tax fund? **A:** All goes into a big pool, not earmarked, all used to fund General Fund costs. **Comments:** For transparency purposes, maybe we should call this out on the utility bill. Or, the City should limit and specify the types of items to which utility tax revenues can be applied.

Next Meeting – Tuesday, May 6

- Action Plans – continue to discuss as necessary
- Review of rate path alternatives
- Develop list of other Panel issues for comment letter

The meeting was adjourned at 4:25.

Follow up Items for Staff:

1. Normalize the CSO cost comparative data to show cost per customer, or per capita.
2. Include in the list of potential efficiencies a review of procurement policies and procedures.
3. Provide detail by LOB and by year for the rate path options. Look at smoothing annual changes within each LOB. Consider front-loading, so that rate increases can decline over time. Consider showing DWW separately.