

Baseline, Part 2

Discussion with Customer Review Panel

August 20, 2013

Seattle
 Public
Utilities

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
 - Overall
 - For each line of business

Baseline Forecast: % Rate Changes 2015-2020

Average Annual Change over 6-year period = 4.5%

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Avg Annual Change</u>
Water Retail Rates	2.9%	3.6%	5.4%	3.5%	6.3%	4.1%	4.3%
Wastewater Rates	1.2%	1.1%	0.7%	8.3%	6.2%	2.3%	3.3%
Drainage Rates	9.8%	6.3%	8.9%	9.2%	9.8%	9.6%	8.9%
Solid Waste Rates	4.3%	3.4%	5.9%	2.8%	2.8%	2.8%	3.7%
Average Overall	3.6%	3.1%	4.5%	5.7%	5.9%	4.1%	4.5%

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	Average Annual Change
Water	\$40.06	\$41.50	\$43.74	\$45.27	\$48.12	\$50.09	4.29%
Wastewater	\$51.13	\$51.69	\$52.05	\$56.37	\$59.86	\$61.24	3.26%
Drainage	\$29.18	\$31.02	\$33.77	\$36.89	\$40.52	\$44.42	8.94%
Solid Waste	<u>\$42.67</u>	<u>\$44.12</u>	<u>\$46.72</u>	<u>\$48.03</u>	<u>\$49.37</u>	<u>\$50.75</u>	3.66%
Total	\$163.04	\$168.33	\$176.28	\$186.56	\$197.87	\$206.50	4.75%
Monthly Change	\$6.10	\$5.29	\$7.95	\$10.28	\$11.31	\$8.63	\$8.26

Baseline Forecast:

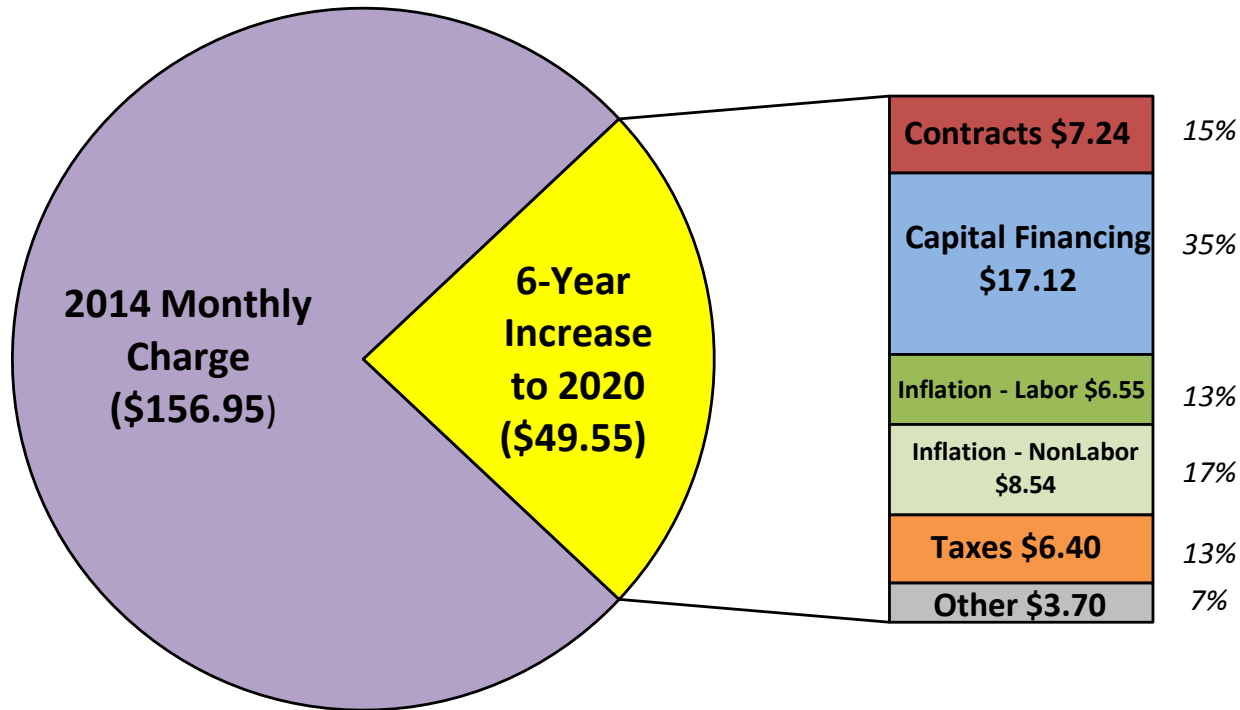
Total Monthly Charges for Example Customers

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).

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Avg Annual Change</u>
Residential	\$163	\$168	\$176	\$187	\$198	\$207	4.7%
Convenience Store	\$657	\$680	\$718	\$750	\$784	\$814	4.4%
Downtown Hotel	\$13,419	\$13,845	\$14,506	\$15,221	\$16,065	\$16,687	4.3%
Large Industrial	\$39,000	\$40,689	\$43,267	\$45,892	\$49,219	\$52,190	5.9%

Baseline Forecast: Combined Monthly Charge for Typical Residential Customer for all Lines of Business

Major Reasons for Increases 2015-2020



What does the increase pay for?

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

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
 - Looked at rate caps (no increases above inflation; no increases above inflation plus 2%)
 - Chose instead to look holistically at costs and services, via a Strategic Business Plan

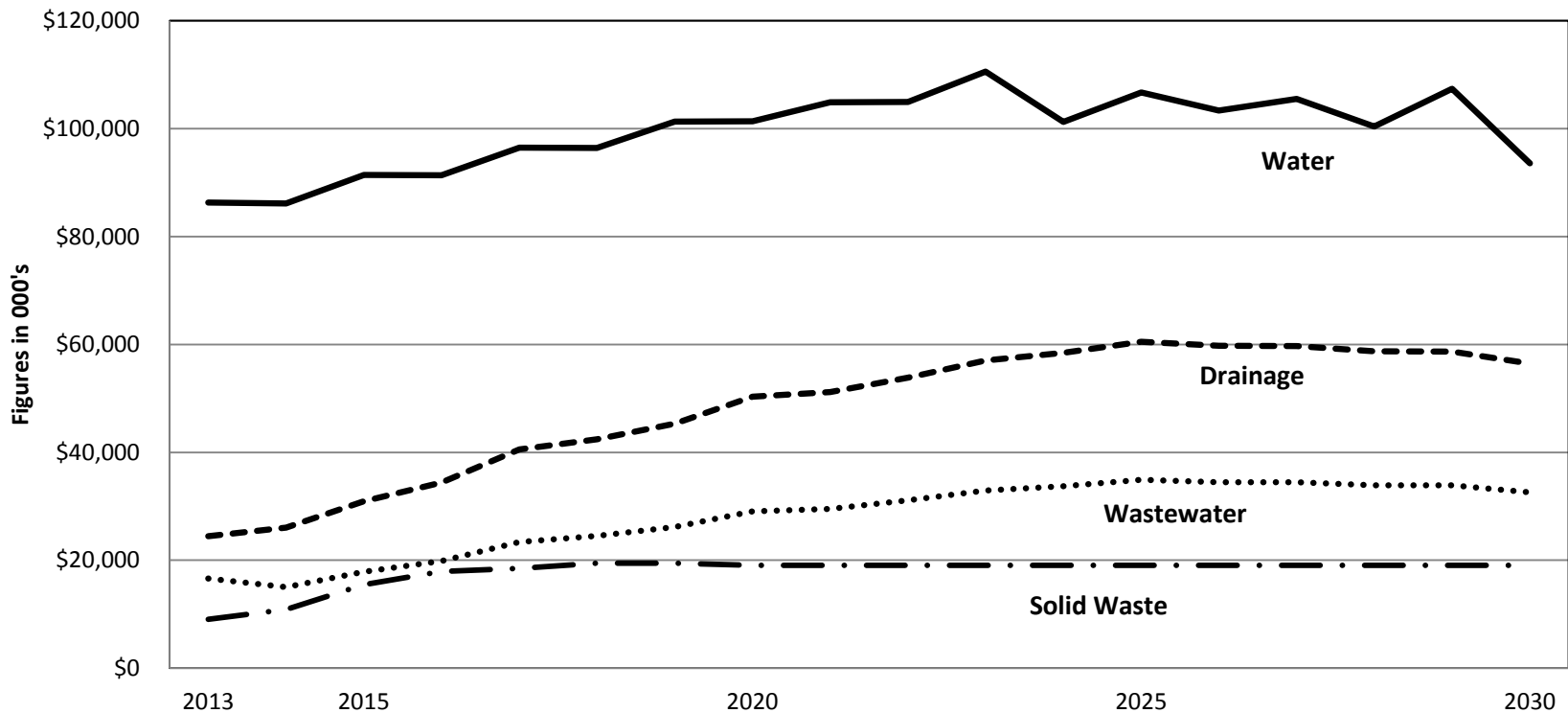
Affordability: 5 Ways to Improve Affordability

- *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

Debt Service Payments 2013-2030



Affordability: Question to Panel

Initial observations/reactions to baseline rate increase levels?