

**Minutes
Seattle Water Supply System Operating Board
June 2, 2011
2:30– 4:30 p.m.**

**Mercer Island Council Chambers
9611 SE 36th Street
Mercer Island, WA 98040**

<u>Board Members</u>	<u>Board Alternates</u>	<u>Wholesale Utility Representatives</u>	<u>SPU Attendees</u>	<u>Other Attendees</u>
Matt Everett Dave Hilmoe Nancy Ahern Ray Hoffman Steve Moye Walt Canter Ron Little	Terry Smith Ron Speer John Thompson	Margaret Wiggins Charlotte Haines Mark Parsons Terry Olson Mike Harris Ken Howe Glenn Boettcher Francie Lake Byron Murgatroyd Ron Ricker Ron Sheadel Dick Swaab Stu Turner Steven Leniszewski Jerry Thornton Jim Rick Gary Coy Lynn Danielson	Terri Gregg Joan Kernsar Julie Burman Sherri Crawford Matt Hennen	

1. **Welcome and Introductions**

2. **Minutes/Agenda**

May 5, 2011 minutes were approved with 1 minor change. Requested to change page 2 to the System Operations Planning and Scheduling Outlook presentation that bypassing Lake Youngs will occur when the cyclotella bloom levels reach .5 not 1.0.

The agenda for the June 6, 2011 meeting was approved.

3. New Business

Review 2012-2014 Wholesale Rate Proposal

Ray Hoffman, SPU Director began the meeting with the following opening comments: Rate increases are not enjoyable especially when they are this substantial. SPU is in the same boat as everyone else where we are struggling to hit financial targets and meet increasing regulations and requirements. Over the last 20 years SPU's water utility operation has gone from a \$20 million per annum to an \$80 million per annum. The HCP, reservoir covering, Operation Center, WQ lab, Tolt treatment plant, etc., were all major and necessary investments that have contributed to the increase. On this same note, we are down by 25% in regional consumption and expenses are up. We have worked at being cost effective where we can be and we have communicated the situation to all the decision makers. We continue to provide extremely high quality drinking water for a low price.

Ron Speer, District Manager Soos Creek Water & Sewer District and Ron Sheadel, District Manager Cedar River Water and Sewer District requested time to talk about early negotiations. Ron Speer shared there are a lot of new faces here at the Operating Board and SPU since negotiations began. Chris Potter, SPU's Sr. Economist at the time of negotiations ran lots and lots of numbers and showed how new water/old water subsidized the rates for years for folks who were not using new water. Ron explained we saw this "train wreck" coming for years and expressed high regard for SPU. Ron Sheadel confirmed that we saw this coming 10-12 years ago and we had looked at many different ways to avoid this impact.

Sherri Crawford, SPU Finance Division Director gave the presentation on the 2012-2014 Wholesale Rate Proposal explanation of rate drivers (Table 1). First, the projected regional costs for 2012 were lower than 2011 costs from the rate study, lowering the increase needed for 2012. Regional costs are based on regional assets and regional O&M in the contract exhibits. Asset costs are recovered on a utility basis, which means they are not included in the rates until an asset is in service. O & M cost are regional costs for activities that support regional assets.

Second, the expiration of the "growth charge subsidy" is responsible for 10.5% of the increase and each Wholesale customer has a unique mix of water demand under each rate (Table 2). The customers who paid the growth charges were subsidizing the rates and as the growth charges go away the customers who did not pay growth charges are seeing the overall 28-29% proposed increase.

Finally, the other 10.5% is a reduction in demand. The rate proposal is always looked at in the second year of the previous rate setting. This 2012-2014 rate proposal began in 2010 which presents challenges especially in this economy.

Ray Hoffman commented that demand for the next three years is being set significantly below the previous forecast because we are seeing growth disappear due to the economy.

Dave Hilmoie, Drinking Water Division Director gave a presentation and handouts on Efficiencies and Steps taken to Minimize Rate Increases and an update on the draft 6-year CIP. Highlights on the efficiencies SPU achieved over the past 20 years included a summary of key water system investments as well as a reduction in labor and O&M costs seen in 2010-2012.

Following the presentations, Nancy Ahern, Operating Board Chair led the Q & A session that covered numerous aspects of the proposed rate increase. This included topics such as the demand projection assumption in the forecast, the number of years the rate would be spread over, the effect of future conservation programs, the dissatisfaction on the rate proposal option picked in April, i.e., the members did not caucus before decision was made and the role of the independent rate consultant.

During the discussion Operating Board Member Matt Everett moved to call for a caucus. Motion was seconded by Walt Canter. Board approved and Chair called for a 5 minute caucus.

Following the caucus, Operating Board Member Walt Canter recommended to reconfirmed "Option 2" (the rate path voted on at the April 7, 2011 Operating Board meeting). Chair called for a second; no second.

Operating Board Member Matt Everett moved to recommend SPU reconsider the proposed 2012-2014 rates, to not be as conservative on the demand forecast and asked for SPU to look for potential reductions in regional conservation. Chair called for a second; no second.

Operating Board Member Walt Canter moved for another caucus. Motion seconded by Matt Everett. Operating Board Chair called for a one minute caucus.

Operating Board Member Matt Everett moved to recommend SPU reconsider the rates, to not be as conservative on the demand forecast and asked for SPU to look for potential reductions in regional conservation. Motion was seconded by Steve Moye.

By a vote of 3-yea's, 0-opposed, 3-abstained, the Motion passed.

The discussion resulted in some follow-up information that SPU will bring to the Operating Board at the next meeting:

1. Response to several specific questions:
 - a. the effect of a 1 cent reduction on rates;
 - b. the inconsistency between the percentages on page 9 of the April 8 memo and Table 1; and
 - c. effect of CWA on the rate.
2. The assumptions that went into the rate projections related to the demand forecast -- is there any flexibility?
3. Identification of possible reductions in regional conservation.

Material presented:

- **2012-2014 Wholesale Rate Proposal - Explanation of Rate Drivers**
 - **What it would take to lower rates and by how much?**
 - **Efficiencies and steps taken to Minimize Rate Increases**
 - **2012-2017 6-year draft CIP**
 - **Wholesale Rate Increase Questions and Responses**
4. **Executive Summaries and Other Business**
No executive summaries or other business was performed
 - **Future Meetings**

July 7th
 5. **For the Good of the Order**
 6. **Public Comment Period**

No comments provided.
 7. **Meeting Adjourned @ 4:30 PM**

Approved by:

Chair, Nancy Ahern

Date

Seattle Water Supply System Operating Board