

New Supply Capital Cost Recovery **(aka Rates vs. FCs)**



Presentation to Operating Board

March 7, 2013

New Supply Cost Recovery

- **Why are we discussing Facilities Charges AGAIN?**
- **Contracts: Definitions, Authorities, Calculations**
- **History/Future?**

Why Again?

- **Operating Board allocates costs of New Supply assets to rates and/or FCs.**
- **Last decision by the Operating Board (May 2010) covered conservation through 2013, and created mechanism to update for 2014-2016 unless “results warrant a re-examination or change by the Operating Board”**

Definitions, Authorities, and Calculations

- **Contract recital: “As a general philosophy for cost sharing purposes, the parties desire to adopt the principle that ‘growth should pay for growth.’ ”**
- **Under the F&P contracts, conservation is designated as a New Supply cost**

Definitions, Authorities, and Calculations

- **Operating Board has authority to decide if New Supply Assets are paid for by either**
 - Rates
 - Facilities Charges
- **Facilities Charges are based on Contracts, and are not the same as retail connection charges under RCW 35.92.025 or RCW 57.08.005**
- **Water Utilities and Seattle are “free to choose the method of incorporating FCs or new supply rates into their own retail rate and charges”**

Definitions, Authorities, and Calculations

- Calculation of ERU “price” for each upcoming New Supply Resource is set once, defined by contracts as:

$$= \frac{\text{Cost (translated into an equivalent annual debt payment)}}{\text{Annual ERU demand}}$$

- When a new Resource is added, the price for the new Resource is averaged with the existing unsold ERUs

Definitions, Authorities, and Calculations

- **The True Up does not adjust the per ERU rate, it only establishes what will happen if the FC balance gets too high or too low:**
 - Too high (actual cost lower OR actual demand faster): surplus lowers New Supply rates
 - Too low (actual cost higher OR actual demand slower): borrow from New Supply rates
- **For True Up, Seattle can choose to recognize cost under either Utility Basis (linked to depreciation life) or Cash Basis, or on an alternative basis with the approval of the Operating Board**

History

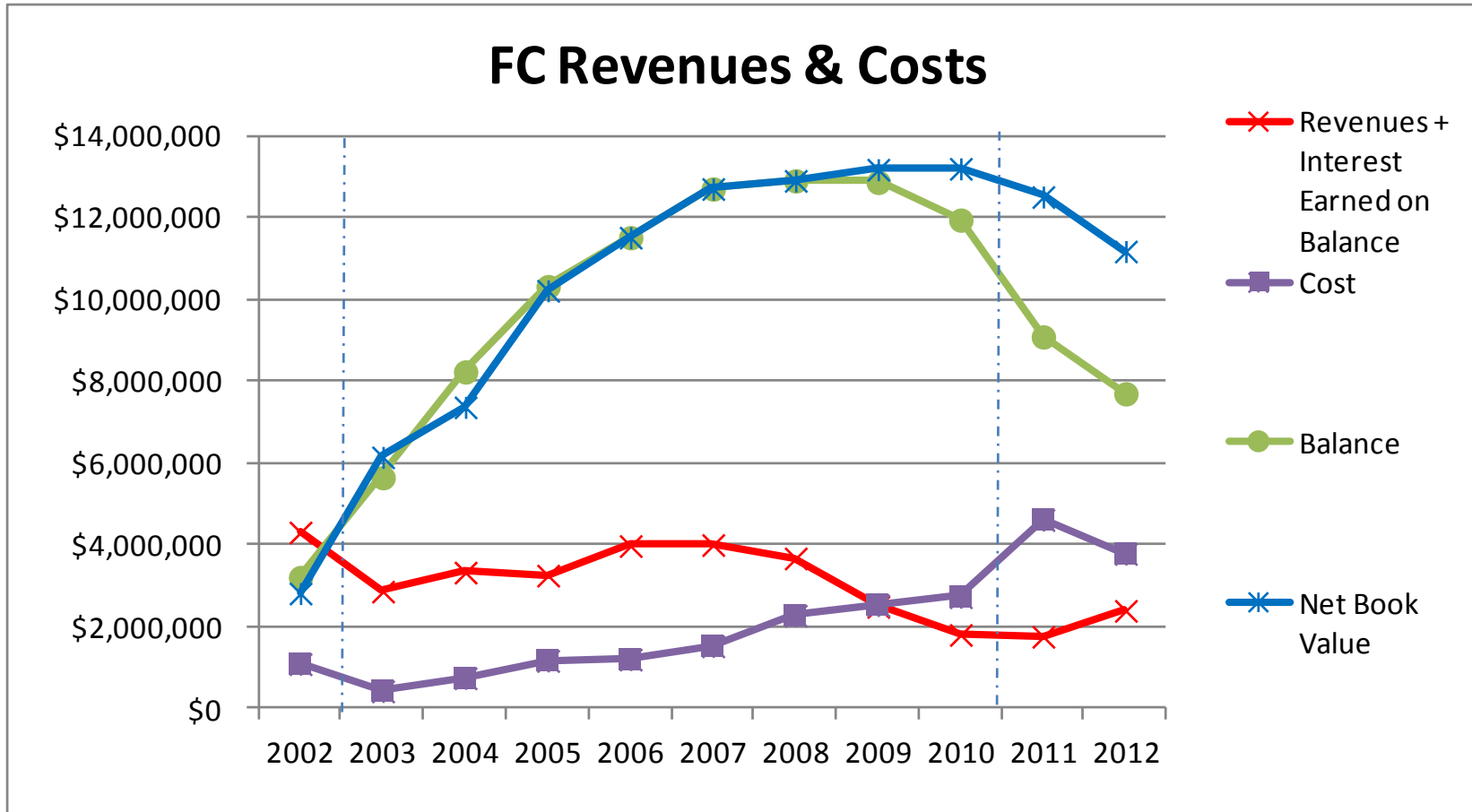
- **2002: FCs established, and included Tacoma Second Supply and the 1% conservation program (2002-2010)**
- **2003: Updated ERU based on withdrawal from TSS, FC included only the 1% conservation program**
- **January 2006: Operating Board adopted a 15 MGD regional conservation goal for 2011-2030.**

History

2009-2010 Operating Board subcommittee recommended and Operating Board approved in May 2010:

- 2011+ conservation is allocated to the Facilities Charge cost pool
- Each 3 year increment be considered a “Facility” or “Resource”
- Recommend that Seattle continues to recognize the costs of the 1% program on a utility cost basis
- Recommend that Seattle recognizes the cost of the 2011+ program on a cash basis
- This procedure is automatically used for each three year increment unless results warrant a re-examination or change by the Operating Board
- Request that Seattle provide additional context to the Operating Board about the Facilities Charge cost pool as part of the True Up out briefing
- The Operating Board revisit and change the procedures as needed

History



History/Future?

- **October 2011: Operating Board adopted conservation program goal and budget for 2013-2018**
- **Based on the 2010 Operating Board decision, the Facilities Charge would be automatically updated for 2014-2016 using the above goal and spending**
 - The per ERU amount is not likely to change significantly
 - The True Up balance is not likely to change significantly because of the balance between revenue and cost
 - However, the decreasing upper limit of the True Up balance (the NBV of conservation assets) may shift some of the surplus to decrease New Supply Rates.