

Results of Facilities Charge Update Analysis May 2, 2013 Operating Board Meeting

Background:

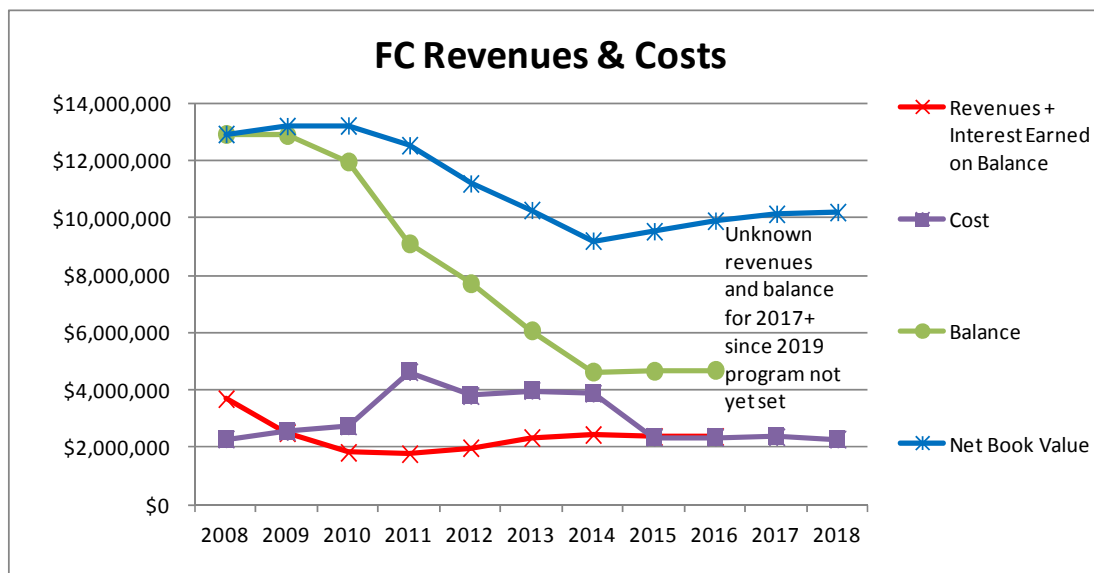
The current Facilities Charge of \$783/ERU is a weighted average of the per ERU price for the 1% conservation program and the 2011-2013 conservation program. Without new action by the Operating Board, the cost per ERU would be updated to include another three year interval of the regional conservation program (2014-2016). The Board has requested an analysis of this automatic update as well as an update that would include a five year interval (2014-2018). It is worth noting that the five year interval would coincide with the remaining years of the 2013-2018 conservation program targets and funding that the Operating Board set in 2011.

Results of three year analysis:

Because of the large number of unsold \$783/ERU Facilities Charges, the averaged cost would only increase by \$27/ERU, which translates into an increase of \$30 for a 1” or smaller connection. (See last page for a comparison of all connection sizes.)

	ERUs	Price/ERU
Current Facilities Charge (combined 1% and '11-'13 conservation)	Projected 30,960 remaining as of 12/31/2013	\$783
2014-2016 conservation	5,374	\$968
New Facilities Charge	36,334	\$810

The cost pool balance for 12/31/2012 is \$7.7M and should drop to \$4.6M by the end of 2014, which is the last year that there are significant amortization costs for the 1% program. After that, the balance is projected to be relatively stable at that level. The next update would include the 2019+ program, which has not yet been established by the Operating Board.

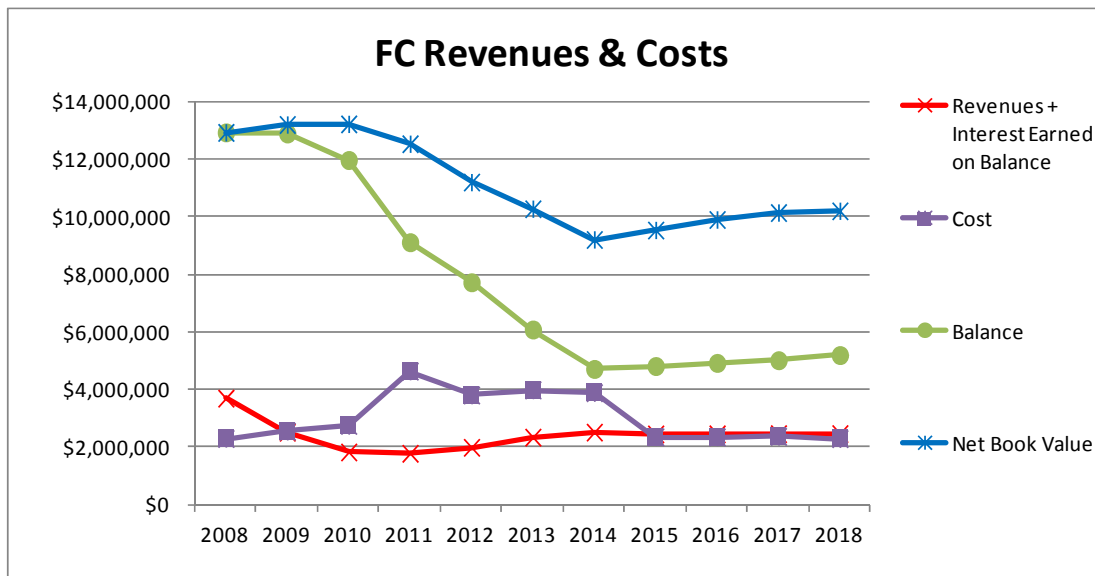


Results of five year analysis:

The results of a five year interval are similar to the three year interval, with an increase of \$53/ERU or \$59 per 1” and smaller connection.

	ERUs	Price/ERU
Current Facilities Charge (combined 1% and '11-'13 conservation)	Projected 30,960 remaining as of 12/31/2013	\$783
2014-2018 conservation	8,956	\$1,020
New Facilities Charge	39,916	\$836

The effect on the cost pool balance is also very similar with a range of \$4.5M-\$5.0M over 2014-2018.



The Details (Basis & Assumptions):

- The conservation program is based on the 2011 Operating Board decision for conservation target and funding over 2013-2018. After removing the portion paid for by Northshore and Renton blocks (11.9%), this program results in total capital spending of \$4.9M over three years to create 5,374 ERUs for the three year interval, and total capital spending of \$8.3M over five years to create 8,956 ERUs for the five year interval.
- An ERU is defined as 6.0 ccf/month, which is the weighted average of SFR consumption for all Full and Partial customers including Seattle over 2009-2011. (Reminder that this definition of an ERU is different than others, such as what DOH considers an ERU.)
- The new ERU charge is the weighted average of the price per ERU for 2014-2016 (3 year) or 2014-2018 (5 year) conservation and the projected remaining 30,960 ERUs at the current price of \$783.

- 2012 was the first year where all Full and Partial customers were paying Facilities Charges. The 2012 demand of 2,664 ERUs was used going forward for all calculations.
- Costs for conservation will continue to be recognized under the utility basis for the remaining, unamortized 1% program costs, and on a cash basis for conservation after 2010.

Connection Size	ERUs	Current @ \$783/ERU	3 year update @ \$810/ERU	5 year update @ \$836/ERU
1 inch and smaller	1.12	\$ 877	\$ 907	\$ 936
1-1/2 inch	5.00	3,915	4,050	4,180
2 inch	8.00	6,264	6,480	6,688
3 inch	22.00	17,226	17,820	18,392
4 inch	31.00	24,273	25,110	25,916
6 inch	66.00	51,678	53,460	55,176
8 inch	112.00	87,696	90,720	93,632
10 inch	169.00	132,327	136,890	141,284
12 inch and larger	238.00	186,354	192,780	198,968