

FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	CBO Analyst/Phone:
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Legislation Title:

AN ORDINANCE relating to water services of Seattle Public Utilities; revising water rates and charges for service to wholesale customers, and amending Seattle Municipal Code Chapter 21.04.440.E in connection therewith.

Summary of the Legislation:

This ordinance would adjust water rates to wholesale water customers of the Seattle Regional Water Supply System consistent with the provisions of the Full and Partial Requirements Contract for Supply of Water between SPU and these utilities.

Background:

SPU's contracts describe the procedures for cost allocation and development of rates for wholesale customers. The current wholesale rates were set in 2011 for 2012 through 2014. SPU has a new wholesale rate study covering 2015 through 2017. An independent rate consultant reviewed the rate study for compliance with the contracts and it has been presented to wholesale customers at the Water Supply Operating Board. This ordinance reflects the results of that rate study.

The wholesale rate is decreasing due to demand that has increased faster than costs since 2011 when wholesale rates were last set. Since rates are calculated as costs divided by demand, a higher demand results in a lower rate. Also, the contracts have a mechanism that tracks accumulated surpluses (or deficits) of annual revenues as compared to annual costs so that there is no over (or under) collection of revenues from wholesale customers over time. The contracts require the surplus or deficit balance be used to lower or raise rates in the next rate study. There is currently a surplus due to higher demand in 2013 and 2014 than that projected and used for setting rates for 2012-2014. As per the Contracts, this surplus is being applied to decrease rates over 2015 through 2017 with the goal of decreasing the surplus to zero by the end of 2017.

Other surcharges and discounts that apply to certain wholesale customers are also being adjusted according to their particular contracts, with some surcharges increasing and some decreasing.

Please check one of the following:

This legislation does not have any financial implications.

This legislation has financial implications.

Anticipated Revenue/Reimbursement Resulting from this Legislation:

Fund Name and Number	Department	Revenue Source	2014 Revenue	2015 Revenue
Water Fund 43000	Seattle Public Utilities	Wholesale Water Rates	\$ 0	\$ (1,442,700)
TOTAL			\$ 0	\$ (1,442,700)

Revenue/Reimbursement Notes:

This legislation would decrease wholesale rates for the regional cost pool and therefore decreases revenues below what they would be without the legislation. Only one area, the Southwest Subregion, has an accumulated revenue deficit and requires an increase in rates to offset this deficit. The net decreases in revenue in 2016 and 2017 are \$2.3M and \$3.3M. However, there are two items to note about this rate decrease:

- Wholesale *demand* has increased to the point that, even with this *rate* decrease, wholesale revenues are higher than what were projected in the Strategic Business Plan
- The wholesale contracts have a feature that ensures no under or over collection of revenues from wholesale customers over time. Since the current rates were set assuming lower demand and therefore are over-collecting revenues as compared to allocated costs, a surplus will continue to accumulate until rates are decreased.

Other Implications:

- a) **Does the legislation have indirect financial implications, or long-term implications?**
No
- b) **What is the financial cost of not implementing the legislation?**
The primary cost of not implementing this legislation is that the cumulative surplus from wholesale customers would continue to grow, resulting in a larger decrease in rates in the future.
- c) **Does this legislation affect any departments besides the originating department?**
No other departments are affected.
- d) **What are the possible alternatives to the legislation that could achieve the same or similar objectives?**
There are no alternatives that would achieve the same or similar objectives.
- e) **Is a public hearing required for this legislation?**
No
- f) **Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?**
No

g) Does this legislation affect a piece of property?
No

h) Other Issues:
None

List attachments to the fiscal note below:

Exhibit A – 2015-2017 Wholesale Rate Study (by SPU)

Exhibit B – 2014 Independent Review of the 2015-2017 Wholesale Water Rate Study (by Cuthbert Consulting)