

Customer Review Panel Summary of SPU's Efficiencies Savings Approach May 10, 2017

Background. In the Strategic Business Plan (SBP) and day-to-day operations, SPU strives to:

- Keep rates affordable by managing costs while delivering quality services; and
- Be more efficient in our work to provide customers with the best value for their money.

In SPU, we use the following terms for the different types of savings:

Category	Definition	Examples
Cost Savings	Cost cuts or deferrals that lead to reductions in the budget.	Reducing consultant costs; deferring a capital project to later years.
Efficiencies • Quantifiable • Unquantifiable	Improved productivity and reduced wasted effort.	<ul style="list-style-type: none"> • Staff productivity • Technology improvements
Avoided Costs • Quantifiable • Unquantifiable	Costs that are not incurred but are not "efficiencies".	<ul style="list-style-type: none"> • Capital investments that result in less maintenance • Move Seattle opportunity projects

2015-2020 Approach. The 2015-2020 SBP included the following savings assumptions and these dollars were removed from the budget and rate path:

- Cost savings: \$3.7M in O&M cuts and \$100M in CIP reductions/deferrals; and
- Efficiency savings: A target of \$1.9M in 2015, gradually increasing to a cumulative total of \$8.7M in 2020.

To date, SPU had fallen short of our efficiency targets. The efficiency savings relied largely upon reallocating vacant positions which proved to be more difficult than expected.

	2015	2016	2017	2018	2019	2020
SBP Savings Targets	\$1.9M	\$2.4M	\$4.2M	\$5.6M	\$7.1M	\$8.7M
Actual Savings to Date	\$1.6M	\$1.96M				

2018-2023 Approach. With the 2015-2016 lessons learned in mind, SPU has taken a different approach to achieving savings in the 2018-2023 Plan. We have worked hard to maximize cost savings to reduce the budget and rates:

- \$171M in reductions to go from 6.8% to 5.6%;
- \$105M in additional reductions/deferrals resulting in a 0.3% rate reduction; and
- \$94M - \$210M in Scenarios 1 and 2 (reductions and scaling back on new investments).

In addition to cost savings, we are always looking for ways to be more efficient, and to mature our culture, systems and methods to improve productivity. However, we are not proposing efficiency savings targets in the 2018-2023 rate path and instead committing to cost savings.

SPU’s approach is different than City Light’s, and both CBO and Council staff are comfortable with the two methods. City Light includes efficiency targets in its Strategic Plan. Below is an excerpt from their Plan, which also shows a difference in how we define types of savings. For example, City Light includes lower financing costs as an efficiency while SPU refers to this as a cost saving. Despite our different approaches, we share the goals of keeping costs and rates as low as possible and being more productive.

Efficiency Table	
In 2015, City Light achieved \$18.5 M in efficiencies:	
Current diversion	\$1,105,820
Fleet Reduction	\$530,000
Lower financing costs	\$9,347,000
Steel stay pole reinforcement	\$879,262
Fuel savings from on-board truck generators	\$307,800
Renegotiation of leases and permits	\$860,338
Staff reduction/reallocation	\$347,000
Credit and Collection efficiencies	\$608,280
Inventory reduction	\$106,121
Environmental Grants	\$2,566,399
Other operational efficiencies	\$1,841,980
Total	\$18,500,000

Next Steps on Efficiencies. SPU has several efforts under way to improve productivity/reduce waste and to quantify the associated savings.

We are in our second year of implementing a cohesive, department-wide **performance measures** system. This approach aims to mature our culture and move us from counting activities to measuring outcomes. We are also showing the clear link between performance measures, the SBP, and continuous improvement (which includes efficiencies). A few notable accomplishments and work in progress include:

- At the end of 2016 all divisions had developed metrics;
- A group of employees across SPU have been trained on performance measures, formed the Performance Results Team (PRT), and are helping build capacity in the department;
- The PRT members assisted the SBP action plan owners develop metrics for their action plans and will continue to help refine the metrics; and
- We are designing a dashboard in which the SBP focus area goals serve as the top-tier measures.

In addition to building capacity for performance measures, we are also building capacity for **continuous improvement**. As noted in our SBP quarterly reports, in 2015 we realized a 50% increase in sewer cleaning. Last year the Source Control staff applied Lean techniques to their work with impressive results. Currently, process improvement activities are done in an ad hoc manner. Although many work groups are improving the way they work, we believe we can generate even better results with a more holistic, centralized approach. Going forward, we plan to set corporate standards, provide a menu of techniques, and offer resources for continuous improvement activities in the department. This will be lead out of the General Manager’s Office.

To assist with performance measures and continuous improvement, we are assigning staff to **quantify efficiencies** -- to identify, measure and report on efficiencies in SPU. This will be applied to SBP action plans, business process improvements, and other projects and activities that are expected to result in efficiencies, avoided costs, and cost savings. We are building a method to quantify (e.g. xx hours reduced) and monetize (\$yy saved) our efficiencies.

As SPU shared with the Panel, several of the proposed SBP action plans are expected to result in cost savings and/or efficiencies. Examples include:

- Increased sewer repairs – reduced cost of lining versus replacement;
- Green fleet – reduced fuel costs; and
- South and north operations complexes – reduced windshield time and improved productivity.

We will quantify these savings/efficiencies and report them out via the SBP quarterly reports and the performance measures dashboard. Finally, when cost savings do accrue, we will modify proposed budgets and rates to reflect the savings. For example, as we expand our green fleet program and reduce our fuel consumption, we will reduce our proposed fuel budget accordingly.

SPU is taking a comprehensive approach to managing costs and being more efficient so that we provide the best value to our customers. We are striving to be transparent with employees, customers and elected officials. This is a work in progress and will continue to be modified and improved.