



TO: T.C. Broadnax, City Manager
FROM: Sean Senescall, Water Rates & Financial Planning Manager
William A. Gaines, Director of Utilities/CEO
COPY: City Council and City Clerk
SUBJECT: Resolution - Water Rate Policy amendments to enable market wholesale pricing –
April 8, 2014
DATE: March 13, 2014

SUMMARY:

Tacoma Water seeks City Council adoption of specific changes to the Department of Public Utilities, Water Division’s “Water Rate and Financial Policy” document to facilitate the development of term-limited, market-based Wholesale water rates.

STRATEGIC POLICY PRIORITY:

By enabling the development of market-based rates, Tacoma Water will have an opportunity to create a market where none existed before. While there is the opportunity for significant financial upside as a result, there is also an opportunity to more effectively and sustainably manage our regional water resources with other Puget Sound water utilities through increased dialogue around infrastructure and water supply planning and investment.

- Strengthen and maintain a strong fiscal management position.
- Encourage and promote an open, effective, results-oriented organization.

BACKGROUND:

In its April 2012 Strategic Plan, Tacoma Water identified the marketing of currently available excess water supply as a key initiative to optimize developed resource and infrastructure. Most Wholesale customers have alternative water resource choices for part or all of their water supply needs. While Tacoma is not supply constrained, it is in the ratepayers' interest to optimize sales to Wholesale customers. This increased revenue will offset overall utility expenses, and to the extent this is successful, reduce rate impacts to retail ratepayers.

This request was considered by the Government Performance and Finance subcommittee of the City Council on February 19, 2014, and was forwarded to the full City Council for approval. It was also approved by the Tacoma Public Utility Board on March 26, 2014.

ISSUE:

Multiple utilities in the King and Pierce County region have purchased Wholesale Water, but many of these utilities are not utilizing that purchased water, instead choosing to utilize their own supplies to avoid the higher commodity cost associated with the Tacoma supply. In some cases, currently connected customers are opting to make investments in regionally unnecessary additional water supplies to avoid what they determine to be more expensive Tacoma supply. This situation has resulted in stranded investment, at least for the near term (next 20 years) future.

ALTERNATIVES:

Tacoma Water has evaluated a range of economic alternatives to market pricing of water. This includes complex auction concepts, a single, reduced Wholesale rate that would be made uniformly across all customers, and individualized rates based on the system-specific needs and constraints of each customer. Analysis shows that system-specific drivers vary significantly, and require individual, tailored contracts.



The estimated cost of doing nothing could be up to approximately \$6 million of net revenue per year.

RECOMMENDATION:

Through approval of the proposed changes to the rate and financial policy, Tacoma Water can proceed with detailed analysis of the financial and supply characteristics of interested wholesale customers, and proceed with negotiations that could result in term-limited, market-priced wholesale agreements.

FISCAL IMPACT:

There is no direct fiscal impact of this change, but because it enables market wholesale pricing, it could result in an increase in net revenues that will be itemized in detail if and when individual agreements are brought back for review and approval by the Public Utility Board and City Council.