



2025-2026 COSA and Rate Design

City of Tacoma | Tacoma Public Utilities

Government Performance and Finance Committee

September 17, 2024

1

Cost of Service Analysis (COSA)



Allocates utility expenses equitably by assigning them to those who cause the costs



Provides bill stability and prevents large rate spikes by phasing in adjustments



The cost of service methodology is a well-tested industry standard

2

2

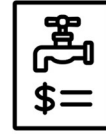
Rate Design



Rate design is how the utility goes about collecting the cost to serve each class from each class



Rate design is a push and pull of competing objectives



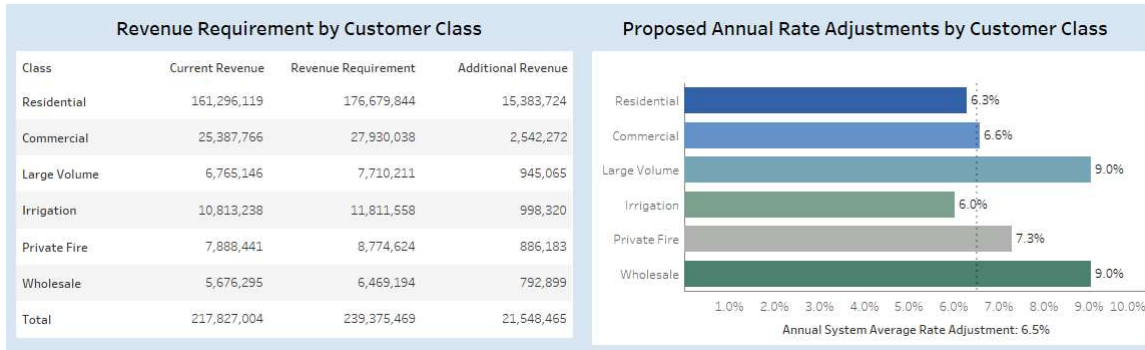
Fixed cost recovery ratio does not necessarily correlate with higher bills



Tacoma Water



Revenue Requirement & Cost of Service



- Tacoma Water is recommending a 6.5% system average rate increase
- Increases are phased in using principles of gradualism
- Our recommendation is to continue applying the adjustment to both the fixed and variable components of rates (where applicable)

Rate Design

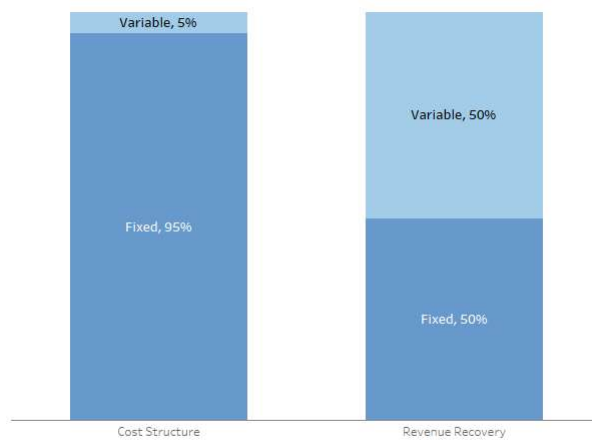
Mismatched Costs and Revenues

Water utilities exist in a capital-intensive business environment

Over 95% of costs are “fixed” in the very short-run; power, treatment, and solids handling are the only variable costs on this time horizon


Rate design can be used to contribute to revenue stability, improve equity across customer classes, and send a conservation signal

Water System Cost and Revenue Recovery Structure



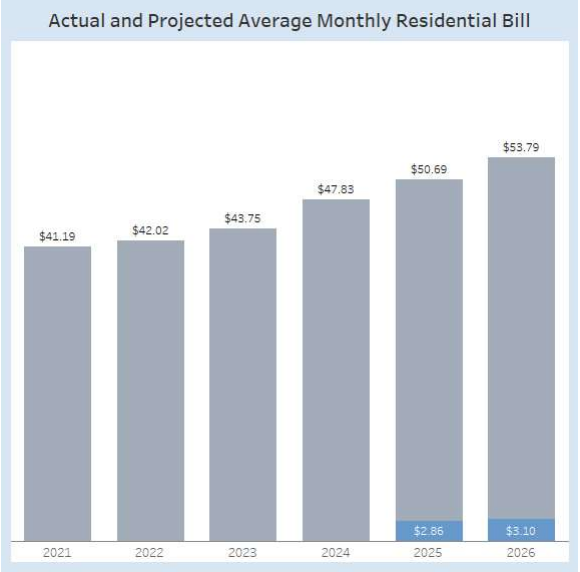
Cost represents expenses in terms of percentage.
Revenue represents anticipated water sales in terms of percentage.

Average Monthly Bill (Residential)



- The recommended changes result in an increase of \$2.83 per month in 2025 and \$3.05 per month in 2026 for the average inside-city residential customer
- Assumes a City of Tacoma customer with 5/8" meter, 6 CCF (4,488 gallons) of consumption during Winter months and 9 CCF (6,732 gallons) of consumption during summer months
- BCAP automatic credit will increase by \$1 for a total of an \$8 automatic credit and a \$5 achievable credit

Actual and Projected Average Monthly Residential Bill




Year	Average Monthly Bill	BCAP Credit
2021	\$41.19	\$0.00
2022	\$42.02	\$0.00
2023	\$43.75	\$0.00
2024	\$47.83	\$0.00
2025	\$50.69	\$2.86
2026	\$53.79	\$3.10

7

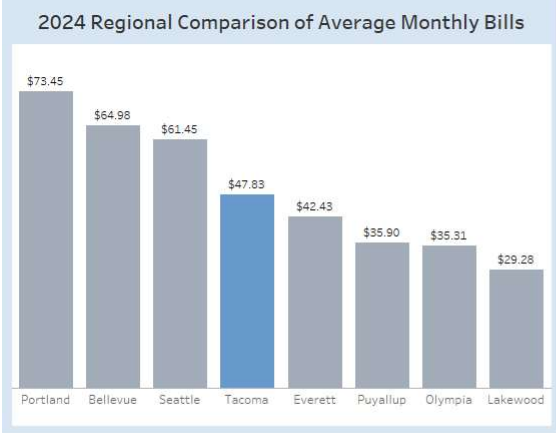
7

Tacoma Water Retail Rates are Competitive



“In our view, the water rates are competitive with those of neighboring cities.”
 - S&P Credit Opinion, December 2023

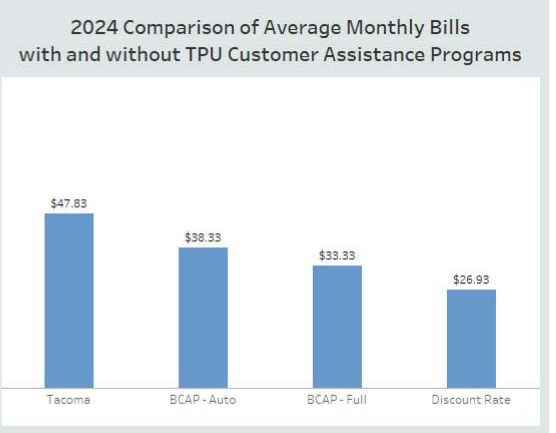
2024 Regional Comparison of Average Monthly Bills



City	Average Monthly Bill
Portland	\$73.45
Bellevue	\$64.98
Seattle	\$61.45
Tacoma	\$47.83
Everett	\$42.43
Puyallup	\$35.90
Olympia	\$35.31
Lakewood	\$29.28

This comparison assumes a single family consumes a monthly average of 6 CCF (4,488 gallons) in winter months and 9 CCF (6,732 gallons) in summer months, with a 5/8" meter.

2024 Comparison of Average Monthly Bills with and without TPU Customer Assistance Programs



Program	Average Monthly Bill
Tacoma	\$47.83
BCAP - Auto	\$38.33
BCAP - Full	\$33.33
Discount Rate	\$26.93

For BCAP customers, the monthly average is less, with 6 CCF in winter months and 7 CCF in summer months. For Discount Rate customers, the monthly average is also less, with 4 CCF in winter months and 6 CCF in summer months.

***Bills based on inside-city residential rate schedule**

8

8

Water Service Construction Charges-Update

TACOMA WATER
TACOMA PUBLIC UTILITIES

In 2019 Water refreshed the fixed fee charges

- New charges went into effect 1/1/20
- Current 5-year schedule goes until 2024

Team was formed with staff from Maintenance & Construction, Customer Experience and Financial Stewardship

- Goal was to adjust charges on water service installations to adequately recover expenses
- Cap increases to no more than 50% of existing rates for the first year and implemented gradual step increases where applicable
- Develop a 5-year schedule indexed to an annual escalation factor of 3%

9

9

TACOMA POWER
TACOMA PUBLIC UTILITIES

Tacoma Power

10

Tacoma Power's Retail Rates are Competitive

2024 Western Washington Monthly Residential Bill Comparison*

Utility	Monthly Bill (\$)
City of Seattle	\$138
Mason County PUD	\$132
Puget Sound Energy	\$130
Clallam County PUD	\$119
Stromholm County PUD	\$117
Tacoma Power	\$106
Peninsula Light Co.	\$104
Clark County PUD	\$104

* Average bill based on utility published residential rates at 965 kWh consumption.

2024 Comparison of Average Monthly Bills with and without TPU Customer Assistance Programs

Program	Average Monthly Bill (\$)
Tacoma Power	\$105.93
BCAP-Auto	\$80.63
Discount Rate	\$68.85
BCAP-Full	\$59.63

* Average monthly bill comparison based on residential rates at 965 kWh consumption.

11

Proposed Rate Adjustments

2025/2026 Proposed Annual Rate Increase

Rate Class	Proposed Annual Rate Increase (%)
Residential	6.5%
Small General	6.1%
General	3.2%
High Voltage General	4.4%
Contract Industrial	8.7%
Street & Highway Lighting	6.9%
Traffic Signals & Lights	5.4%
Private Off-Street Lighting	10.4%
System Average	5.3%

Preliminary, subject to change.

12

What is Driving the Rate Increase?

Cumulative Increases since 2019

Year	Handy Whitman Index	CPI	Tacoma Power System Avg Retail Rates
2019	0%	0%	0%
2020	~5%	~2%	~3%
2021	~18%	~6%	~4%
2022	~35%	~15%	~6%
2023	~48%	~20%	~10%

Cost increases since 2019

- Distribution Transformer costs up 282%
- Multiplex wire up 137%
- Utility poles up 48%
- Vehicle costs up 25%
- +20% increase in some Represented wages

More than \$300 Million new known upcoming expenses

- Debt Service Spikes
- BPA anticipated 13% rate increase
- Hydro relicensing of 3 dams
- Dam Safety Seismic Mitigation
- Grid modernization projects
- SAP Now!

Emerging Issues, costs unknown

- Post 2028 BPA contract
- Wildfire Liability Risk
- Changing Wholesale Markets and Volatility

13

Peer Utility Rate Increases

UTILITY	RATE INCREASE %	
	2024	2025
Portland General Electric	17.0%	10.9%*
Clark PUD	14.0%	TBD
Pacific Power	12.9%	6.5%*
Avista	12.6%*	11.7%*
Seattle City Light	9.5%	5.4%*
Snohomish PUD	5.8%	TBD
Tacoma Power	3.5%	5.3%*
Grant PUD	3.5%	TBD
Chelan PUD	3.0%	3.0%*
Puget Sound Energy	1.26%	6.74%*

After raising rates by 17% in 2024, PGE requests further hikes for 2025

Clark Public Utilities rates will jump 14.5 percent as of March 1

Pacific Power Increases Rates, Citing Rising Costs And Wildfire Mitigation

Avista Utilities set to raise Washington electricity rates
June 30, 2023 | Updated Fri, June 30, 2023 at 7:18 p.m.

Weather challenges, demand increases, and rising costs result in changes to customer electricity rates
by Seattle City Light on October 12, 2023

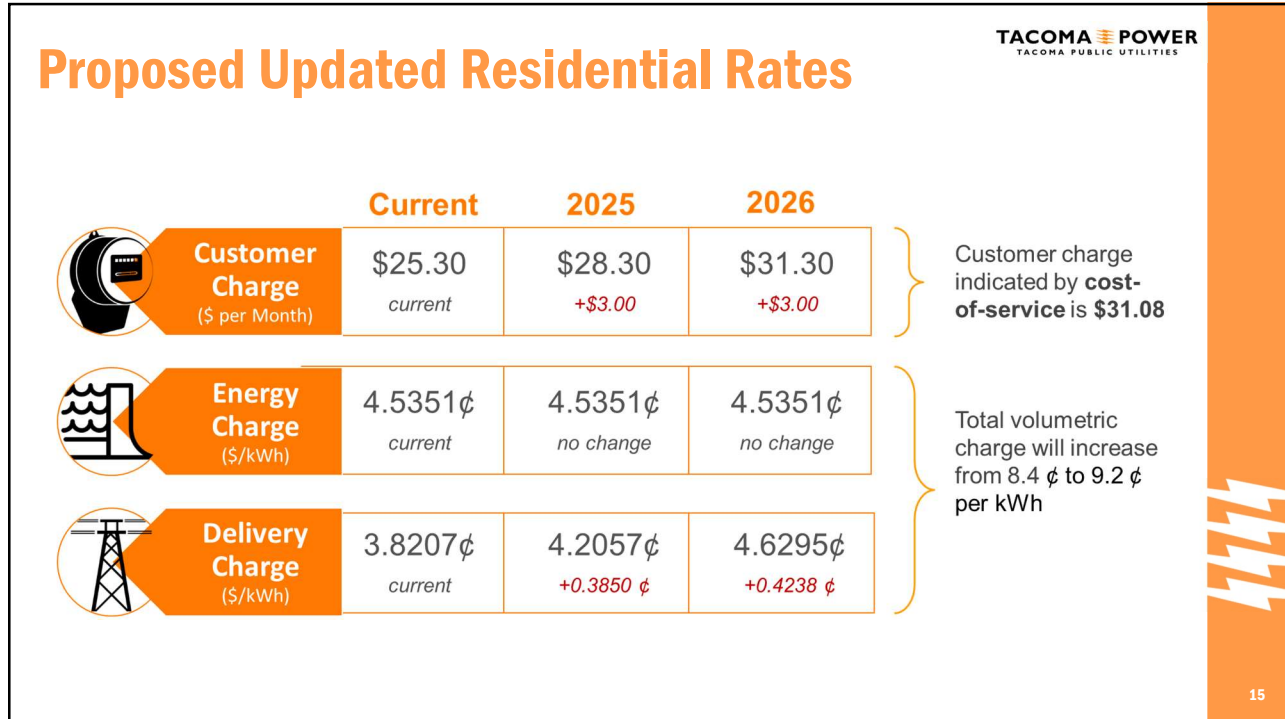
City Light rates in Seattle to increase by nearly 10% next year

Chelan PUD customers face five years of 3% rate increases

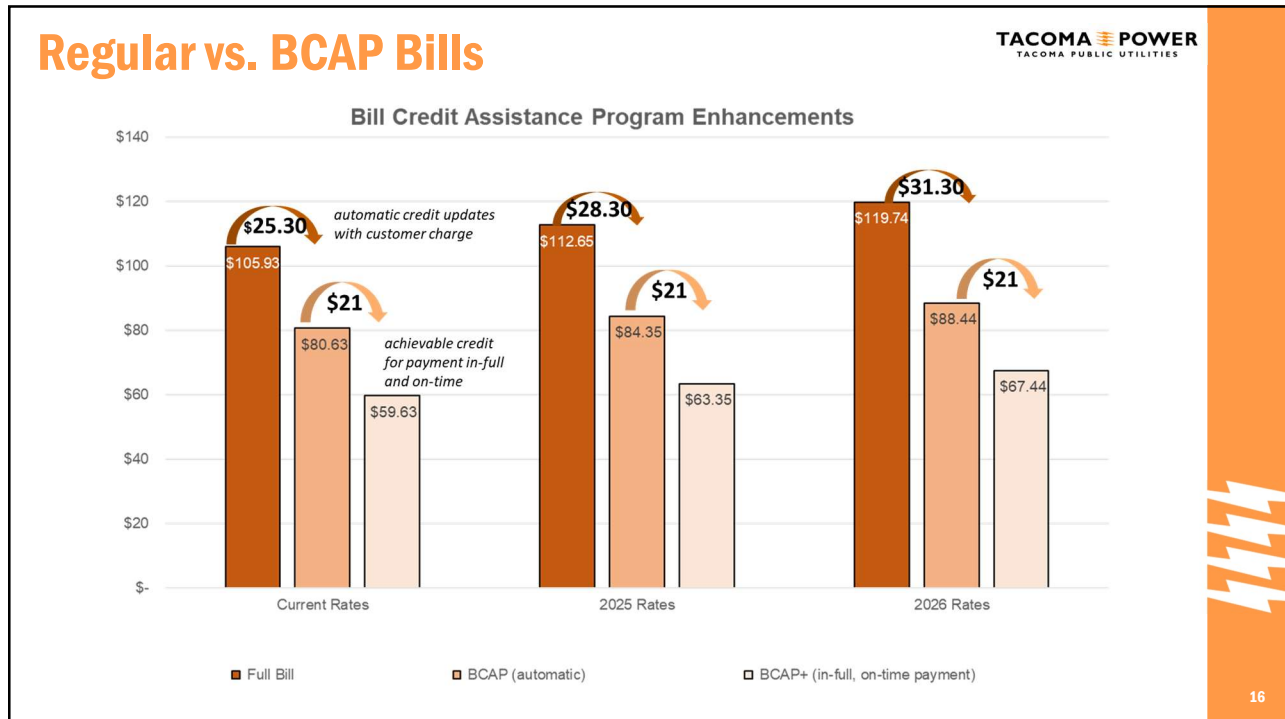
Puget Sound Energy proposes hefty rate hikes to pay for hydro and wind power
Feb. 26, 2024 at 6:00 am | Updated Feb. 26, 2024 at 6:00 am

* Proposed

14



15



16

Updating Other Rates and Fees



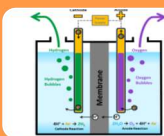
T & D Inspection and Permit Fees

- Fee update to cover increased costs.
- Propose \$8 increase on non-commercial inspection fees; 5% increase on commercial inspection fees.
- Update reconnection fees



EV Public Charging Rate

- Increase rate from \$0.21/kWh to cover higher operating costs
- Level 2: \$0.25/kWh
- DC Fast Charging: \$0.40/kWh



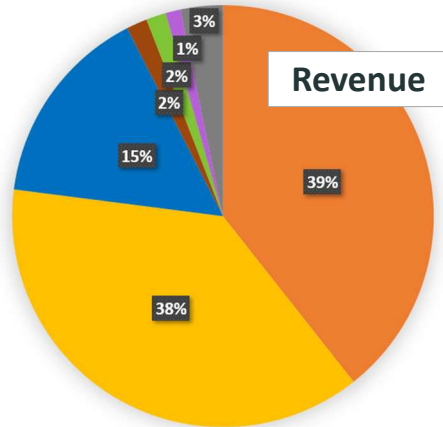
Electro Fuel (EF) Rates

- Market conditions have increased the cost for providing power to very large load customers
- Structure EF rate based on Schedule VLL where very large load customers pay for the incremental power supply costs
- Offer demand response option

Tacoma Rail

Primary Rate Payers

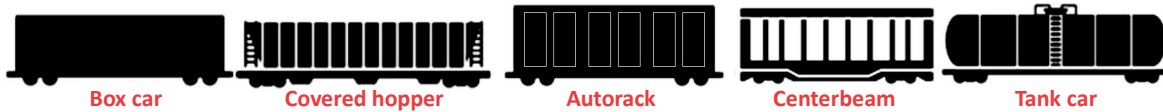
- **Line haul traffic**
 - BNSF Railway
 - Union Pacific Railroad
 - U.S. Oil Refining
- **Miscellaneous switching**
 - Local customers requesting additional service
- **Locomotive servicing**
 - BNSF Railway
 - Union Pacific Railroad
- **Demurrage**
 - Undo detention of a railcar
 - Local commercial customers
 - Excludes autorack railcar traffic



- BNSF Railway Company
- Union Pacific Railroad
- U.S. Oil & Refining Co.
- Emerald Services Inc.
- MacMillan Piper Inc.
- Northwest Container Service Inc.
- All Others <\$200K Each

Line Haul Railcars vs Platforms

- Railcars can have multiple platforms
- A platform is a location within a railcar that is separated by articulations
 - Mostly limited to intermodal railcars
- Examples of single platform railcars:



- Examples of multiple platform railcars:



Line Haul Rate Analysis

• Intermodal

- Less labor intensive
- More volume
- Yard management
- Higher track wear
- Service windows
- Fewer destinations
- Do not incur demurrage
- Loaded & empty rate

• Commercial

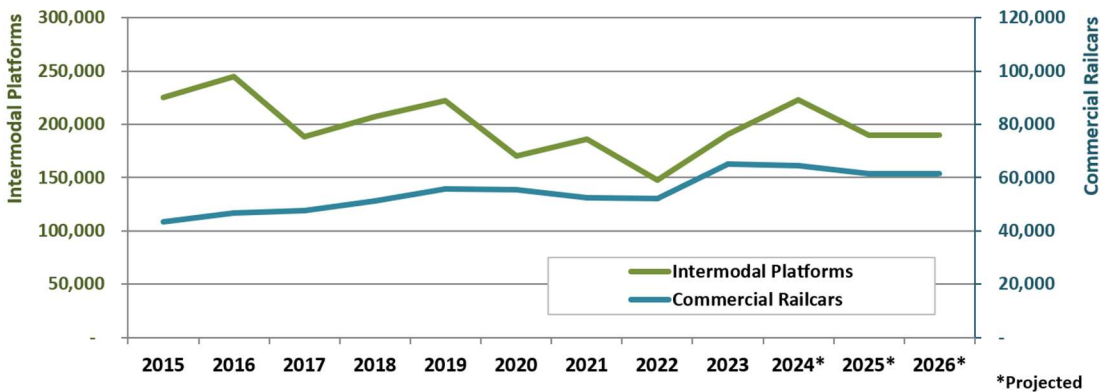
- Labor intensive
- Lower volume
- Less track utilization
- Lower track wear
- Daily service
- More destinations
- Subject to demurrage
- Loaded rate

• Unit Trains

- Hybrid of intermodal & commercial
- Oil spill response plan & drills
- Loaded rate

Line Haul Volumes

- Intermodal volumes increases
- Commercial volumes increases
 - Import automobiles



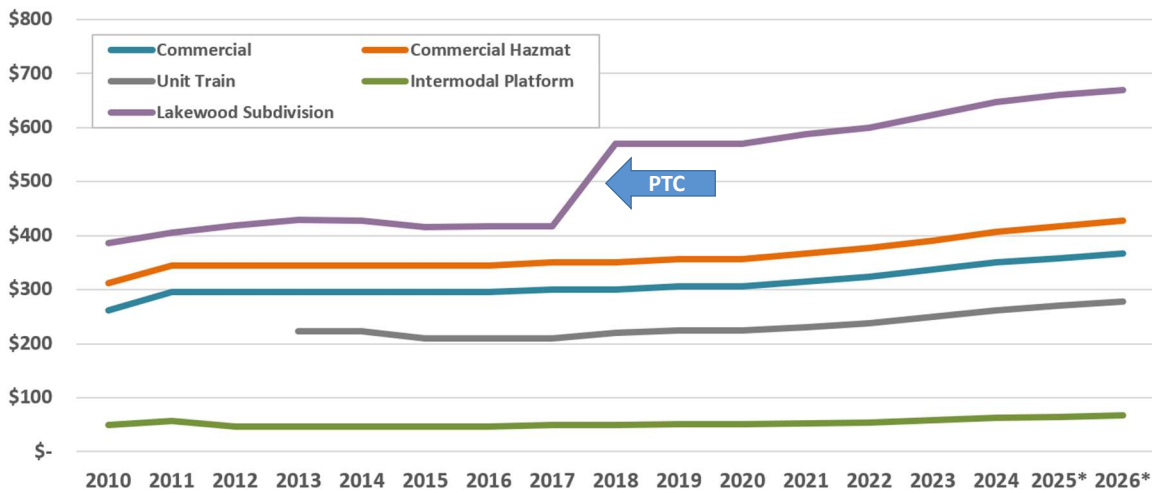
Preliminary Rate Impact

- **Demurrage tariff**
 - Last adjusted in 2023
 - Rate change from \$65 to \$70 per day
- **Line haul rates**
 - Last adjusted in 2024
 - Rate adjustments per year (see chart)
 - 3% intermodal
 - 3% single spot unit trains
 - 2.5%
 - Tidelands commercial
 - Multiple spot unit trains
 - 2% capital division
- **Miscellaneous switching tariff rates**
 - Last adjusted in 2023
 - Inter-terminal, intra-terminal, intra-plant
 - Rate adjustment of 3% for 2025

Proposed Line Haul Rates

	2024	Proposed Rates	
		2025	2026
Intermodal	\$ 63.00	\$ 65.00	\$ 67.00
Commercial			
Tidelands Division	350.00	358.00	367.00
Tidelands Division Hazardous	407.00	417.00	428.00
Capital Division	647.00	660.00	669.00
Unit Train			
Single Spot	262.00	270.00	278.00
Multiple Spot	350.00	358.00	367.00

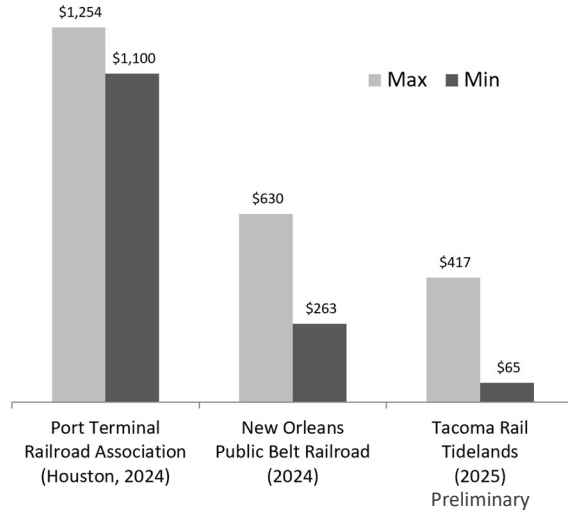
Rates Over Time



*Preliminary

Other Tariff Rates

- Northwest Seaport Alliance (NSA)
 - July 10th, 2024
 - Rate increases of 5% - 12%
- Other tariff based short lines:



Appendix

Infrastructure Cost Increases

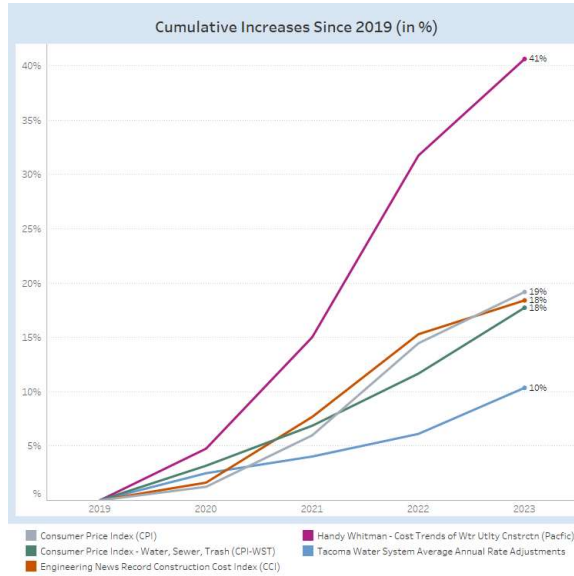
Construction and Other Inflation

The utility generally faces different inflationary pressures than consumers. While customers primarily observe the Consumer Price Index (CPI) as an indicator for inflation, the Handy Whitman is a better indicator for a capital-intensive utility. Long-term financial planning allows the utility to weather periods of high costs in the short term and spread the impact over time.








Ongoing Impacts

The rate of inflation continues to level off, however cost decreases are unlikely, resulting in a new, higher 'normal' cost environment. Our Capital Improvement Plan (CIP) is considerably higher in part due to this higher escalation.

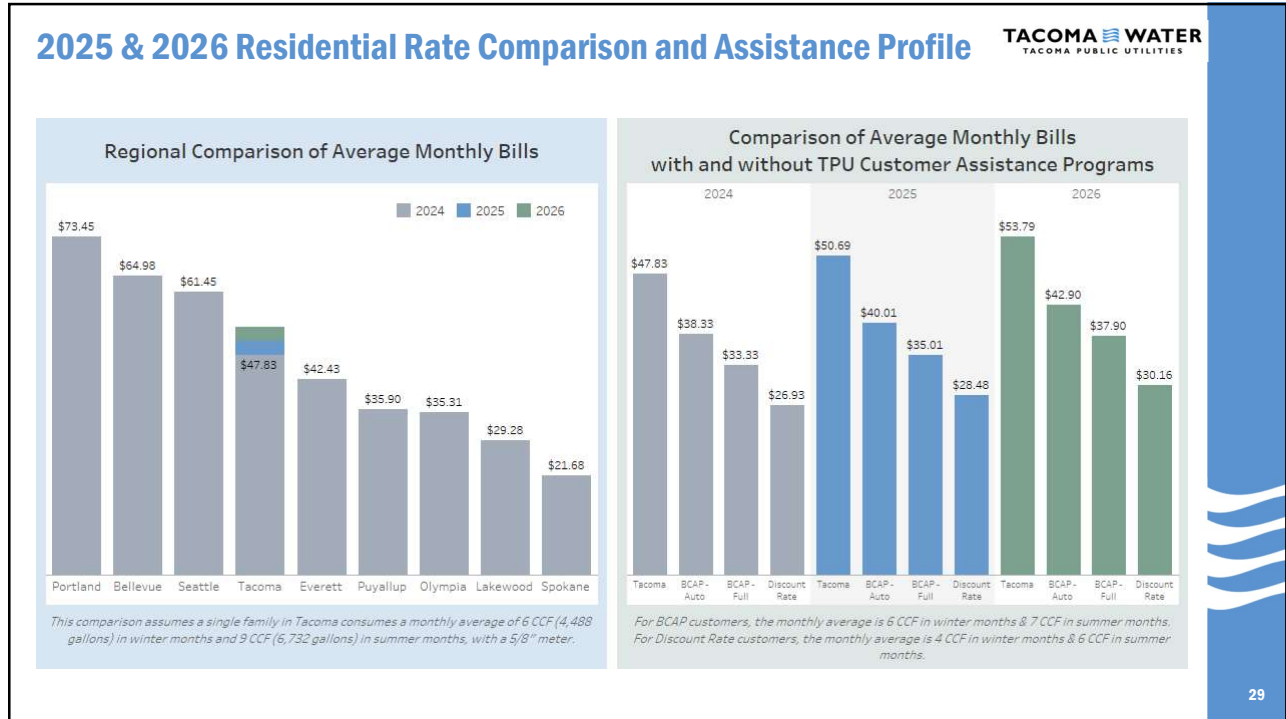
Interest rates for the next several years are expected to be near their highest levels in over a decade, resulting in higher financing costs for our upcoming capital plan.



Tacoma Water Customer Classes

<ul style="list-style-type: none"> • Single-family and multifamily residences • 101,722 accounts • \$72.2M revenue <p>Residential</p> 	<ul style="list-style-type: none"> • Small & medium sized businesses such as flower shops and small offices • 4,689 accounts • \$12.7M revenue <p>Commercial</p> 	<ul style="list-style-type: none"> • Large industries which use more than 65,000 CCF per year, such as U.S. Oil and Boeing • 7 accounts • \$3.0M revenue <p>Large Volume</p> 	<ul style="list-style-type: none"> • Dedicated irrigation meter for primarily outdoor use such as Point Defiance Park • 1,175 accounts • \$5.2M revenue <p>Irrigation</p> 
<ul style="list-style-type: none"> • Warehouses with large fire sprinkler systems • 1,623 accounts • \$4.5M revenue <p>Private Fire</p> 	<ul style="list-style-type: none"> • Other utilities such as City of Fife and Firgrove Mutual Water Company • 18 accounts • \$2.5M revenue <p>Wholesale</p> 	<ul style="list-style-type: none"> • WestRock in the Tideflats • 1 account • \$7.1M revenue <p>Pulp Mill</p> 	

Data based on 2023 audited financial statements



Other Power Schedules

Schedule B	Small General		
	Current	2025	2026
Customer Charge	\$28.95	\$35.05	\$41.15
Energy Charge	4.4616¢	4.4616¢	4.4616¢
Delivery Charge	3.8014¢	4.0384¢	4.2902¢
Schedule G	General		
	Current	2025	2026
Customer Charge	\$82.80	\$82.80	\$82.80
Energy Charge	5.8014¢	5.8014¢	5.8014¢
Delivery Charge	\$9.44	\$10.37	\$11.39
Schedule HVG	HVG		
	Current	2025	2026
Customer Charge	\$1,750.00	\$1,750.00	\$1,750.00
Energy Charge	4.5729¢	4.5729¢	4.5729¢
Delivery Charge	\$ 5.21	\$ 6.45	\$ 7.99

Other Power Schedules (continued)

Schedule CP/NLL	CP/NLL		
	Current	2025	2026
Customer Charge	\$5,155.00	\$5,155.00	\$5,155.00
Energy Charge	3.4198¢	3.4198¢	3.4198¢
Demand Charge	\$ 5.25	\$ 6.22	\$ 7.37
Delivery Charge	\$ 4.61	\$ 6.27	\$ 8.53

Schedule H1 Street Lighting and Traffic Signals

Revenue Increase:

6.9% increase for street lighting
 5.4% increase for traffic signals
 Total \$180,000 increase for the biennium

Schedule H2 Off-Street Lighting

Revenue Increase:

10.4% each year
 Total \$393,000 increase for the biennium