



TPU Rate-Making Principles

City of Tacoma | Tacoma Public Utilities

Government Performance and Finance Committee

May 3, 2022



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Overview



Background

Tacoma Power and Tacoma Water perform rate-making on a biennial basis to determine the **sufficiency of current rate levels** and suitability of current rate structures.

Summary


Throughout the rate-making process, Tacoma Power and Tacoma Water adhere to legal, industry-standard, and TPU principles. These principles are highlighted in the development of the revenue requirement and the cost-of-service analysis.

Issue


The GPFC requires a foundational understanding of the rate-making process and principles to better inform forthcoming utility budget and rate proposals. Subsequent presentations will provide additional foundational information for this purpose.

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Basic Principles




Legal

- Fair
- Just
- Reasonable
- Non-Discriminatory



Industry-Standard

- Revenue Stability
- Cost Causation
- Economic Efficiency
- Equity
- Bill Stability




TPU Principles


- Affordability
- Environment
- Public Involvement

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Tacoma Public Utilities Principles



Protection of the Natural Environment


Including:

- **Stream** protection
- **Fishery** resources
- **Wildlife** habitat



Clean Hydropower

Statutory recognition of hydropower as a **renewable, emissions-free** resource

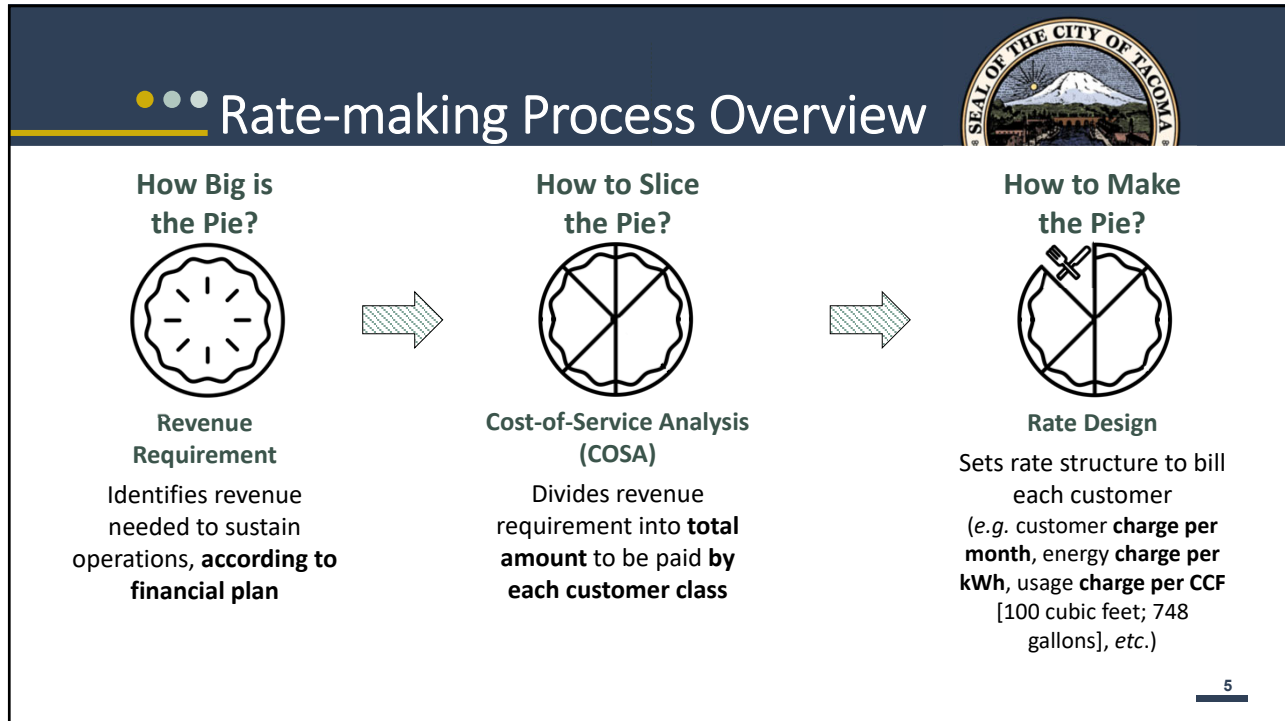


Carbon Reduction

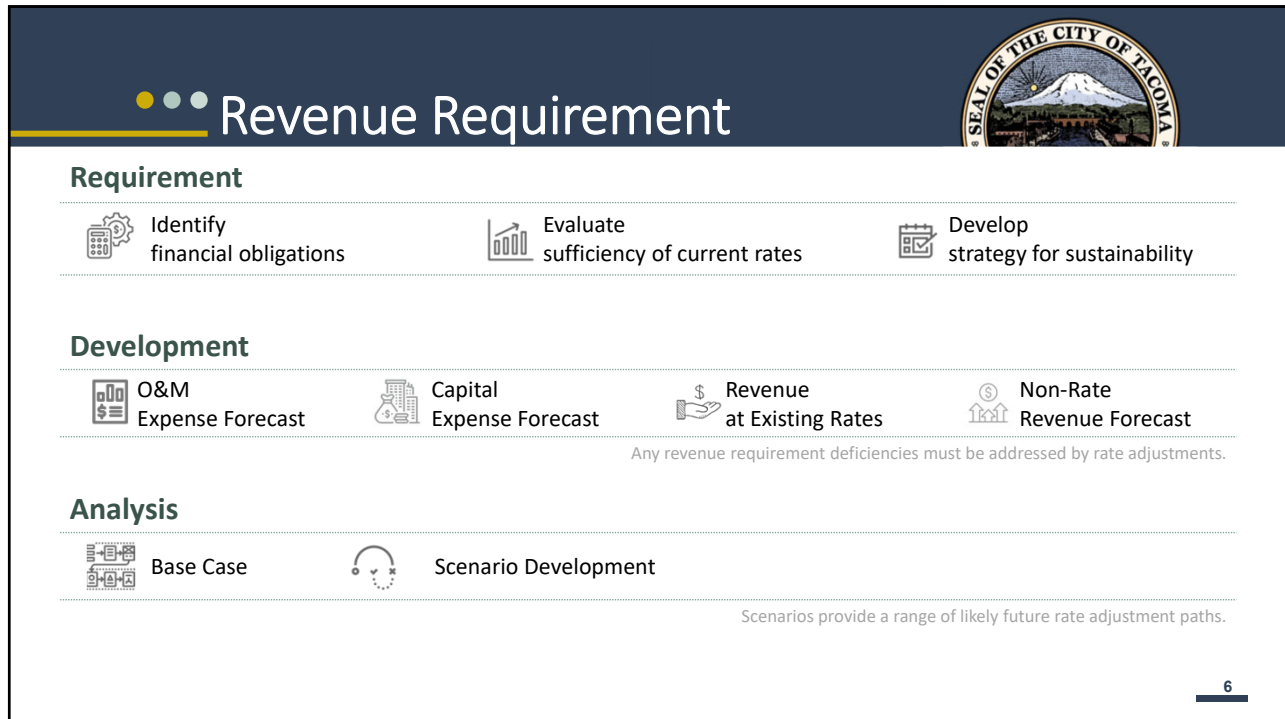
- Resolution U-11258: Board direction to **reduce carbon footprint of facilities and vehicles**
- Emissions reductions to be the most **efficient** for the **least cost**
- Sensitive to **rate pressures**, especially on **lower-income customers**

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SEAL OF THE CITY OF TACOMA

Cost-of-Service (COSA) Overview

What Proportion of Utility Cost is Caused by the Class?

Customer Characteristics

- Put similar customers together in **classes**
- Update **data**: usage, customer count, etc.

COSA Model

- Functionalization**: What utility function is associated with this cost? (e.g. distribution)
- Classification**: What customer characteristic drives this cost? (e.g. usage at peak, number of customers)
- Allocation**: How much of the costs should be assigned to each customer class?

- Dollar value** to be collected from each rate class
- Utility prices** that collect revenues based on contribution to utility cost

Results

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SEAL OF THE CITY OF TACOMA

Cost-of-Service (COSA) Diagram

What Proportion of Utility Cost is Caused by the Class?

Functionalization

Financial & Operational Data (FERC & NARUC)

Classification

Cost Driver Information

Allocation to Customer Classes

Demand & Account Data

Fixed vs. Variable Cost Information

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    graph LR
      subgraph Functionalization
        TE[Total Expense] --> P[Production]
        TE --> T[Transmission]
        TE --> D[Distribution]
        TE --> AG[A&G]
        TE --> CS[Customer Service]
      end

      subgraph Classification
        P --> DPR[Demand, Peak Related]
        T --> DPR
        T --> EBR[Energy, Base Related]
        D --> DPR
        D --> EBR
        AG --> CR[Customer Related]
        CS --> CR
      end

      subgraph Allocation
        DPR --> DPR_R[Residential]
        DPR --> DPR_C[Commercial]
        DPR --> DPR_I[Industrial]
        EBR --> EBR_R[Residential]
        EBR --> EBR_C[Commercial]
        EBR --> EBR_I[Industrial]
        CR --> CR_R[Residential]
        CR --> CR_C[Commercial]
        CR --> CR_I[Industrial]
      end


      DPR_R --> RC[Residential Class]
      DPR_C --> CC[Commercial Class]
      DPR_I --> IC[Industrial Class]
      EBR_R --> RC
      EBR_C --> CC
      EBR_I --> IC
      CR_R --> RC
      CR_C --> CC
      CR_I --> IC


      RC --> RD[Rate Design]
      CC --> RD
      IC --> RD
  
```


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Using COSA Results






 Residential
 \$\$\$\$


 Commercial
 \$\$


 Industrial
 \$\$\$


 Fire Protection
 \$


 Wholesale
 \$\$


 Street Lighting
 \$


The utility may deviate from these results if:

- One class receives a much larger/smaller increase than the average
- Strategic directive considerations
- An increase would harm some customers in a class more than others
- Non-financial considerations (e.g. environmental incentives, economic development)

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Next Steps



GPFC Presentation Topic	Date
Rate and Financial Policies and Strategic Directives	June 7, 2022
Fixed/Variable Rate Design	June 21, 2022
Utility Burden/Customer Assistance	July 19, 2022
Outreach Efforts and Plans	August 2, 2022
Latest Update on Preliminary Budget and Rates	September 20, 2022
Final Rates Proposal prior to Council Consideration	October 4, 2022

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