

APPROVED 3-8-17

MINUTES
City of Tacoma
Public Utility Board Meeting
February 22, 2017
6:30 p.m.

Mr. Patterson called the Public Utility Board meeting to order at 6:30 p.m. at the Public Utilities Administration Building.

Present: Mark Patterson, Monique Trudnowski, Woodrow Jones, Karen Larkin, Bryan Flint

The meeting was quorate.

Minutes of the Previous Meetings

Ms. Trudnowski moved that the minutes of the previous meetings be adopted; seconded by Mr. Jones. Voice vote was taken and carried. The minutes were declared adopted and made part of the record.

Recognitions

There were no recognitions.

Comments from the Public

Public comment was taken from the following individuals:

1. Kit Burns made comments in opposition of LED street lights and asked for further examination of LED lighting effects on biological and vision systems.
2. Sherry Bockwinkel made comments in favor of a second public hearing on water rates.
3. Michael Lafreniere made comments in favor of having agenda packets with regular meeting materials posted in advance of the meeting with the agenda.
4. Donna Walters made comments in opposition of large commercial plants and their effects on water supply.
5. Dana Rush made comments in opposition of LED street lighting that negatively affect dark skies.
6. Alan Oldstudent made comments in support of a delay in voting for the rate proposals to seek more input from the public.
7. Jude Shrode read a portion from the water rate and financial policy highlighting customer involvement.

Consent Agenda

There were no items on the consent agenda.

10000 Regular Agenda

Departmental

D-1 Resolution U-10907 – Award contracts and approve purchases:

1. Award five-year contract to Petrocard Systems, Inc., for mobile and cardlock fueling services (\$14,882,698.32, includes two additional one-year renewal options, plus applicable sales tax);
2. Increase contracts to Associated Petroleum Products, Inc., and Wilson Oil, Inc., dba Wilcox & Flegal for purchase of bulk fuel including a keep-full delivery service (\$10,016,191.13 for a cumulative total of \$20,032,382.26, plus applicable sales tax; and \$1,113,163.80 for a cumulative total of \$2,226,327.60, plus applicable sales tax, respectively);
3. Award contract to HDR Engineering, Inc., for updating the Water System Plan and associated work (\$229,985.99, sales tax not applicable).

Ms. Trudnowski moved to adopt the resolution; seconded by Mr. Jones.

In response to a Board inquiry regarding item number three regarding linkages of the Water System Plan (WSP) to the Integrated Resource Plan (IRP), Heather Pennington, Deputy Water Superintendent, answered that HDR is the same company working on the IRP. The difference between the WSP and the IRP is that the WSP has been put together every six years and going forward will be done every ten years. The WSP looks at growth in the service area and the water available to meet that growth and it shows competency to regulators. The WSP also looks at how we operate and maintain the system and the ability to take water from sources and provide it to customers and potential growth and capability to deliver. It includes a capital plan for the future that may identify any infrastructure that may need to meet projections. The IRP is a subset to the larger WSP.

In response to a Board request on item number three to describe the public outreach process for the IRP, Ms. Pennington stated that the IRP is an effort to understand the sources and examine how they will work together to meet needs. The plan is to form a stakeholder group and have them participate in the development process. Outreach efforts are being coordinated with the Public Affairs Office. Director Gaines added that the idea of the stakeholder group is to have representative group that represents all segments of the public and that includes "Save Tacoma Water". Bob Mack, Deputy Director for Public Affairs, added that if the stakeholder outreach resembles what Tacoma Power used, the stakeholder group receives comments from the broader public at the end of the stakeholder meetings once the entire draft was complete. The purpose of the stakeholder group is eliminated if the public has the same access as stakeholders to the product. Staff is interested in Board comments on that point.

Voice vote was taken and carried. The resolution was declared adopted.

D-2 Resolution U-10908 – Amend the gross earnings tax deduction ordinance TMC 6A.100.040.

Ms. Trudnowski moved to adopt the resolution; seconded by Mr. Jones.

Bill Berry, Power Rates, Planning, and Analysis Manager, summarized the resolution. Currently, the Gross Earnings Tax (GET) for street lights is only applicable to the energy portion of the rate and any separate charges for street light operations and maintenance.

The portion of the revenue that is subject to the tax is currently included in the rate charged and collected from the City for street lights and then returned to the City in the form of a tax payment through internal accounting making it revenue neutral. This language clarifies that all street lighting rates and charges are deductible from the GET. In addition, there is a current provision that allows a deduction from revenue collected that is subject to the GET for the sale of Contract Industrial (CI) service power when the rate charged exceeds the CI power rate schedule. This provision is left over from the non-portfolio program Tacoma Power offered CI customers in the 1990's. No CI customer is presently in this program so the change will not impact current customers. The recommendation is that all revenues collected by Tacoma Power from the sale of power to CI customers should be subject to the tax. In addition, removing this provision will prevent any confusion about the applicability of the GET to the proposed new resource adder for new CI customers, which are subject to the new large load policy update.

In response to a Board inquiry related to the collection of the GET for street lighting, Mr. Berry answered that the practice has been to not collect GET on the entire amount and this update makes language consistent with existing practices in order to eliminate the revenue neutral internal accounting previously described.

Michael Lafreniere made comments in favor of having these documents on line in advance of the meeting so that he can make a more informed public comment.

Voice vote was taken and carried. The resolution was declared adopted.

D-3 Resolution U-10909 – Amend and revise Chapters 12.06 and 12.01 of the Tacoma Municipal Code regarding electric regulations and rates, and approve changes to the Tacoma Power Electric Rates and Financial Policy.

Ms. Trudnowski moved to adopt the resolution; seconded by Mr. Jones.

Bill Berry, Power Rates, Planning, and Analysis Manager, summarized the resolution. Tacoma Power's revenue requirement analysis for the 24 month rate period (April 1, 2017 through March 31, 2019) projects a revenue shortfall of approximately \$58.7M at current rates. The main drivers for this shortfall are the lower wholesale and retail revenues. To a lesser extent, increases in the GET, assessments, and personnel costs also contribute to the shortfall. This resolution provides two system average 5.9% electric rate increases to become effective April 1, 2017 and April 1, 2018. The rate increases are distributed to different customer classes based on cost-of-service analysis (COSA). This resolution also adds two new rate schedules: H3 street lighting service is a new tariff for utility-owned, municipally-maintained street lighting services; and Evergreen Options is a voluntary rate tariff for customers who want to buy qualified alternative energy resources. Additionally, the resolution updates Tacoma Power's electric rate and financial policy to include an updated new large load policy. Finally, the resolution clarifies the authority of the Director to grant waivers and adjust late fees and charges and who is responsible for paying the cost of any energy, investigation, and meter resealing charges related to tampering.

Board Member Flint offered the following amendment to U-10909: Amend exhibits A1 and A2 by removing the end dates associated with the proposed rate changes for all rate classes except high voltage general service so that the April 1, 2017 proposed rate

10002 changes remain in effect until changed by future Board and City Council Action; seconded by Ms. Larkin.

Board Chair summarized that the effect of the motion is to delay the 2018 rate increase until the Board and Council consider other changes.

Public comment was taken on Mr. Flint's amendment:

Sherry Bockwinkel made comments in favor of delaying this for two weeks as this amendment wasn't made available in advance.

Donna Walters made comments in favor of starting the rate process over and placement of a citizens' ratemaking advocate.

Alan Oldstudent made comments favoring a delay in voting to allow placement of a citizens' ratemaking advocate.

Kit Burns inquired if the cost for LED street light replacement was in the budget. Director Gaines answered in the affirmative and clarified that the cost will be paid by the city.

Dana Rush made comments favoring citywide conservation efforts, namely in schools, instead of raising rates.

Director Gaines made comments agreeing about conservation efforts and stated that Tacoma Power has one of the most aggressive energy conservation programs and has budgeted \$15M in conservation incentives. Director Gaines is interested in getting more customers familiar with TPU's conservation programs.

Director Gaines commented on the matter of public notice. The Board has a chronology of all points of time the public had opportunity during the rate process including open meetings, study sessions, and neighborhood council meetings. The public process has been the same as in previous rate proceedings.

In response to a Board inquiry regarding language in the original resolution regarding the renewable energy program, Director Gaines answered that the language allows our customers in good standing to purchase Renewable Energy Credits (RECs). The price of RECs fluctuates and the cost of RECs may have declined. The proposal is to do things beyond buying RECs to support the program. The money in excess of costs of RECs would be used for local renewable energy projects.

In response to a Board request for clarification on language in exhibit B for waiver of late payments for low income customers and Tribes, Bill Fosbre, Chief Deputy City Attorney, answered that the language gives authority to the Director to waive only late payments for the low income, disabled, or Tribes that may be eligible.

In response to a Board request for clarification of the large load definition, Director Gaines stated that is usually over 20 MW and the intent is to come before the Board on a case-by-case basis.

Board Member Flint then spoke to his amendment. It is the desire of some Board Members to have a fuller understanding of policy decisions like adding the rate

adjustment to the fixed charges versus the variable charge, the effect on customers, how that incentivizes conservation, and if it is in line with the power strategic plan. The policy implications and phasing in of the rate adjustments can also benefit from a fuller Board discussion. In addition, Mr. Flint would prefer discussion about consolidating the budget and rate process and having more robust public outreach. The intent is not to put off decision making and not meet revenue obligations. 10003

Board Member Trudnowski commented that she can't make fully-informed comments as she just saw the amendment. In response to a Board inquiry from Ms. Trudnowski, Mr. Berry answered that the effect on Power's bond ratings depends on how long the 2018 vote is delayed. Ms. Trudnowski reiterated all of the public outreach efforts and called out language that offsets rate increases for low-income and disabled customers. Board Member Trudnowski stated that she is unable to support the amendment.

In response to an inquiry from Board Member Larkin regarding language relating to tampering and injury to city equipment, Mr. Fosbre answered that currently language allows TPU to charge the customer for any power stolen through tampering but not the cost to repair the damage. Also, if the customer has vacated, TPU is unable to charge the owner. These changes allow for that. There have been occurrences of power theft and the customer absconded and the utility was left with the costs of meter repairs; hence this clarification language.

Board Member Larkin made positive remarks about the H3 street lighting language in the policy. Clay Norris, Power Manager, remarked that the estimated saving in approximately two years will be 10.5M kwh per year. In response to an inquiry from Board Member Larkin regarding if the RECs are above and beyond what's required by law, Director Gaines stated that yes, all utilities are required to offer programs such as this for customers who want a clean power supply.

In response to an inquiry from Board Member Larkin regarding the rate adjustment offset for low income customers. Director Gaines answered that there are offsets in the first and second year and the amount of assistance for low income has been increased.

Board Member Larkin stated that she is in favor of Mr. Flint's amendment so that there is more time to discuss policy issues for 2018. It isn't the amount of the rate increase because TPU has adequately shown the needs for the funds. It is about how it is structured among customer classes and customer charges. The exception for HVG is because there is major HVG customer who favors a one-time increase instead of two.

In response to a request from Board Member Jones for a description of the COSA for residential and industrial customers, Mr. Berry answered that we are a cost of service utility so we try to charge each customer class the costs incurred to provide them service. Different customers are different in terms of how they use the systems. Residential requires cost of distribution whereas industrials have their own substations and take their voltage directly. They don't use the distribution system so the allocated costs are different for that reason. There was an intense COSA with a consultant.

In response to an inquiry from Board Member Jones as to how long the COSA has been used, Director Gaines answered that it is the way electric utilities in this country set rates almost exclusively going back to the early 1900's.

10004 Board Chair Patterson stated that he will oppose the amendment. There does need to be further discussion on the ratemaking policy. The customer charges are the last bit of the system that gets power into homes. Previous COSAs haven't allocated that to the customer itself and that's been going into the variable charge. Because some low income ratepayers can use more electricity they're paying more variable charge. The proposed rate structure applies those charges to the customers it belongs to; it is important for equity and fairness. There does need to be a discussion about future structure but they have less of an impact than having the wrong rate payers pay for utility charges. Also, do not favor a delay in bonding capacity.

A voice vote on the amendment to U-10909 was taken and failed with Board Members Patterson, Trudnowski, and Jones voting no and Board Members Flint and Larkin voting yes.

A voice vote on original resolution U-10909 was taken and carried with a unanimous vote.

D-4 Resolution U-10910 – Amend and revise Chapter 12.10 of the Tacoma Municipal Code regarding water regulations and rates and approve changes to the Tacoma Water Rates and Financial Policy.

Ms. Trudnowski moved to adopt the resolution; seconded by Mr. Jones.

Sean Senescall, Rates and Financial Planning Manager, summarized the resolution. Tacoma Water has conducted a COSA and received expert review of that analysis by FCS Group, a professional rate consulting firm, in order to ensure that the proposal is in alignment with industry ratemaking standards and best practices. The proposal has been presented by Tacoma Public Utilities staff at neighborhood council meetings, two Public Utility Board study sessions, and one public hearing. In addition, staff conducted outreach with various commercial customers, business districts, the park district, and jurisdictions outside the city that receive retail or wholesale service. Public comment will also be taken at the first reading of the rate ordinance before the City Council on March 7. Tacoma Water's adopted 2017-2018 biennial budget indicates a revenue shortfall of approximately \$7.9M if rates are left at current levels. This rate increase is necessary to generate revenue to address that shortfall in support of the adopted budget. Expense increases driving this shortfall are related to increasing debt service payments, declining wholesale and retail revenues, increasing assessments and taxes, and cost escalation. Included in this rate proposal is a rate design change for parks and irrigation customers that reduces the fixed component of the rate while increasing the variable component in order to strengthen the seasonal price signal and reduce administrative costs.

Board Member Larkin made a motion to amend U-10910 as follows: Amend exhibit A, page 11, section 12.10.400.B.1 by adding the following sentence to the end of the section – all wholesale contractual agreements with market-based pricing shall be approved by the Tacoma Public Utility Board and Tacoma City Council.

Public comment on the amendment was taken:

Michael Lafreniere made comments that the water rate policy calls for a professional rate expert for the residential class and that he favors using financial reserves to offset rates.

Sherry Bockwinkel made comments favoring utilizing surplus for the revenue shortfalls, more public outreach and clarification on public fire protection costs inside and outside the city.

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Donna Walters made comments in favor of starting the rate process over.

Director Gaines remarked that Water's reserve fund has been discussed at study sessions. Tacoma Water has reserves beyond minimums and there is a plan to spend that down. Rational has been provided to the Board.

Water Superintendent, Linda McCrea, stated that both operating and capital water reserves are in a good position. The rate increases in the past biennium covered the costs of the filtration project. In the strategic plan, the reserves are being used and spent down to minimums over the next ten years. Ten million in operating reserves is being used to offset the rate increase and funding capital by using reserves and bond funding.

Board Member Larkin commented that she had many meetings with staff to understand the volatility and need for reserves and importance of consistency and predictability in rates. If reserves were used, we would pay for that in volatility and there could be a wide range of increases year-to-year from zero to 15 percent for example.

In response to a request from Board Member Jones to describe response to emergency situations, Superintendent McCrea answered that we reinvest in Water's old infrastructure and there is an asset management program in place to maximize asset life. Some pipes go back to the late 1800's. Last year Tacoma Water was able to respond very quickly to some sampling from services not connected to customers that had higher lead results but were still in compliance with the lead and copper rule. Tacoma Water is still offering testing for customers and has a program in the budget to remove any existing lead gooseneck connections. Board Member Jones stated that this illustrates that safety is a big part of the budget.

Board Member Trudnowski commented that there is a cost to operating and maintaining assets and staying safe and having safe drinking water costs money. We need to be prepared for emergencies. In response to a request from Board Member Trudnowski regarding the utilization of third party consultants, Director Gaines stated staff researched the water rate policy and the language about the consultant was put in a very long time ago because the Board may want to have consultant advice during the rate making process. Every time the water utility adjusts rates, there is engagement with an outside consultant for fairness and equity throughout the COSA process. The Board is the ratepayer advocate so it is the Board's decision as to whether or not they engage a consultant. That consultant would advise the Board, not the public.

Board Member Flint stated he would support Board Member Larkin's amendment. In response to a request from Board Member Flint related to the cost differential for public fire protection inside and outside the city limits, Mr. Senescall answered that public fire protection is on the customer bill as a hydrant service fee. The outside the city fee is higher than inside the city due to the relative density of hydrants outside the city. The reason for the higher increase inside the city is due to the difference in customer growth because that cost is a fixed cost. We're seeing customer growth outside the city which spreads that cost across more people resulting in a lower fixed charge.

Board Member Flint commented that understanding the complexities of the rate making process takes time and encouraged stakeholder participation in the water IRP. Mr. Flint made positive remarks about staff's discipline in the rate making process and that there are rate pressures beyond our control.

Board Chair Patterson stated that this vote is the tail end of a long process that began last year during the budget. The COSA is done as equitably as possible and it can change year-to-year. Chair Patterson also extended appreciation to staff for the hard work on the budget and ratemaking.

A voice vote to amend Resolution U-10910 was taken and carried unanimously.

A voice vote to adopt Resolution U-10910 as amended was taken and carried unanimously. The amended resolution was declared adopted.

D-5 Resolution U-10911 – Amend and revise the definitions, Sections 3.A.ii and 13.D.iii of the Tacoma Water Customer Service Policy.

Ms. Trudnowski moved to adopt the resolution; seconded by Mr. Jones.

Sean Senescall, Rates and Financial Planning Manager, summarized the resolution which recommends language and terminology between the Customer Service Policy and the Tacoma Municipal Code to be consistent in regards to interruptible supply and backflow prevention.

Michael Lafreniere made a public comment in favor of having meeting materials posted in advance

Sherry Bockwinkel made comments in favor of the Board reading the Water rate policy yellow book and the open public meetings act.

Voice vote was taken and carried. The resolution was declared adopted.

H. Reports of the Director

There were no reports from the Director.


I. Comments by the Board


There were no additional comments from the Board.

J. Adjournment

There being no further business or comments, the Public Utility Board was adjourned at 8:33 p.m. until Wednesday, March 8, 2017 for a study session beginning at 3:00 p.m., followed by the regular meeting at 6:30 p.m.

Approved:


Mark Patterson, Chair


Woodrow E. Jones, Jr., Secretary