



**TO:** Elizabeth Pauli, City Manager  
**FROM:** Jackie Flowers, Director of Utilities, Tacoma Public Utilities  
**COPY:** City Council and City Clerk  
**SUBJECT:** Proposed Rate Ordinance –Amend and revise TMC Chapter 12.06 regarding Electric Rates  
**DATE:** November 19, 2024

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**SUMMARY AND PURPOSE:**

Tacoma Power requests approval by the City Council for two rate adjustments that would become effective on April 1, 2025, and April 1, 2026, respectively.

**BACKGROUND:**

**This Department's Recommendation is Based On:** Tacoma Power's revenue requirement analysis indicates that the utility needs to increase retail revenue by approximately \$66.7 million for the twenty-four month rate period starting April 1, 2025 (\$49.5 million for the 2025/2026 budget period). This translates to a system-wide retail rate increase of 5.3 percent in 2025 rate year and 5.3 percent in 2026 rate year. The utility has experienced substantial inflationary increases in operating and capital expenses such as materials and supplies, salaries and benefits, construction costs, and technology upgrades, including the SAP project. Additionally, Tacoma Power anticipates over \$300 million in expenses related to debt service spikes, power cost increases, hydro facilities' relicensing, hydro project seismic safety mitigation, and grid modernization within the next ten years. The proposed rate increase is designed to generate additional revenue to meet financial metrics, operational needs, and avoid drastic rate fluctuations in the future. Tacoma Power has made efforts to keep the rate increase at a level that is as low as is responsible, aligned with the Public Utility Board's Guiding Principle on rates. We have prioritized new budget additions and significantly reduced our Operation & Maintenance and Capital planned spending to mitigate increases in our 2025/2026 rates. We also plan to utilize Tacoma Power's current cash reserves to limit the requested annual system-average increase of 5.3% in 2025 and 2026. In addition, Tacoma Power will increase automatic credits, equal to the monthly customer fixed charge, in the Bill Credit Assistance Plan (BCAP) program to offer more financial assistance to income-constrained customers. The increased BCAP credits will reduce bills by an additional \$36 per year in 2025 and another additional \$36 per year in 2026 to partially offset the proposed rate increases for participating electric customers.

Tacoma Power conducted a Cost-of-Service Analysis (COSA) for the 2025/2026 biennium to determine how to raise the \$66.7 million additional revenue among different rate classes. The cost of providing services to each rate class will vary because rate classes have different usage characteristics. Consequently, the rate increases allocated to each class will differ. The following are the proposed annual rate increases for different customer classes based on the COSA, effective April 1, 2025 and April 1, 2026, respectively.



Proposed Increase in Revenue Requirement by Class		
Rate Class		Annual Rate Increase (two-step, levelized)
Residential	A	6.5%
Small General	B	6.1%
General	G	3.2%
High Voltage General	HVG	4.4%
Contract Industrial	CP	8.7%
Street Lighting	H1 Street	6.9%
Traffic Signals	H1 Traffic	5.4%
Private Off-Street Lighting	H2	10.4%

In addition, Tacoma Power proposes minor administrative amendments to the Tacoma Municipal Code to add clarity in the description of the local distribution credit eligibility on Schedule General Services, and to remove the word “grandfather” on Schedule A-2 to be gender-neutral.

**COMMUNITY ENGAGEMENT/ CUSTOMER RESEARCH:**

In preparation for this request, Tacoma Power has actively sought public input through numerous public presentations to the neighborhood councils of Tacoma, city councils in communities served by Tacoma Power, community organizations, and other stakeholders throughout our service territory. Tacoma Power has presented overviews and proposals on revenue, budget, and rates to the Public Utility Board, Government Performance and Finance Committee, and the City Council at different stages of the rates development process.

**ALTERNATIVES:**

Presumably, your recommendation is not the only potential course of action; please discuss other alternatives or actions that City Council or staff could take. Please use table below.

Alternative(s)	Positive Impact(s)	Negative Impact(s)
1. No rate adjustment	Lower rates in the short term for Tacoma residents and other Tacoma Power customers	<ul style="list-style-type: none"> <li>Higher rate increases in the long term</li> <li>\$66.7 million dollar shortfall in the 2025/2026 rate period</li> <li>May fail to meet financial metrics or critically impact the operational needs of the utility. Failure to</li> </ul>



		meet financial metrics may lead to adverse impacts on Tacoma Power's credit ratings.
2.		
3.		

**EVALUATION AND FOLLOW UP:**

Tacoma Power monitors budget-to-actual performance monthly, constantly updates financial forecasts for the ten-year financial planning window and prepares and presents Quarterly Outlook reports and Cash Projections to the Public Utility Board.

**STAFF/SPONSOR RECOMMENDATION:**

Tacoma Power recommends two system-average rate adjustments, the first of 5.3 percent system average increase effective April 1, 2025, and the second of 5.3 percent system average increase effective April 1, 2026. The rate increases for each rate class are different based on cost-of-service analysis results.

**FISCAL IMPACT:**

The proposed rates will increase Tacoma Power's retail revenue by approximately \$49.5 million for the 2025/2026 budget period (January 1, 2025 to December 31, 2026.)

Fund Number & Name	COST OBJECT (CC/WBS/ORDER)	Cost Element	Total Amount
1. 4700-Power		Retail Revenue	\$49.5 million
2.			
<b>TOTAL</b>			



**What Funding is being used to support the expense?**

N/A

**Are the expenditures and revenues planned and budgeted in this biennium's current budget?**

YES

Yes, Tacoma Power is currently planning for additional revenue of \$49.5 million for the 2025-2026 budget period (January 1, 2025 through December 31, 2026), and approximately \$66.7 million dollars for the rate period (twenty-four-month period from April 2025 through March 2027).

**Are there financial costs or other impacts of not implementing the legislation?**

YES

If the ordinance is not adopted, Tacoma Power will be unable to achieve its adopted financial policy objectives.

**Will the legislation have an ongoing/recurring fiscal impact?**

YES

Retail rates are ongoing revenue.

**Will the legislation change the City's FTE/personnel counts?**

NO

No additional personnel needed.

**ATTACHMENTS:**

- Proposed Amendments to Chapter 12.06 TMC