



Board Action Memorandum

TO: Jackie Flowers, Director of Utilities
COPY: Charleen Jacobs, Director and Board Offices
FROM: Chris Robinson, Tacoma Power Superintendent
Ying Hall, Power Section Manager
MEETING DATE: October 26, 2022
DATE: October 7, 2022

STRATEGIC DIRECTIVE ALIGNMENT (select as many that apply):

Please indicate which of the Public Utility Board's Strategic Directives is supported by this action.

- | | |
|--|---|
| <input type="checkbox"/> SD1 – Equity & Inclusion | <input type="checkbox"/> SD8 – Telecom |
| <input checked="" type="checkbox"/> SD2 – Financial Sustainability | <input type="checkbox"/> SD9 – Economic Development |
| <input checked="" type="checkbox"/> SD3 – Rates | <input type="checkbox"/> SD10 – Government Relations |
| <input type="checkbox"/> SD4 – Stakeholder Engagement | <input type="checkbox"/> SD11 – Decarbonization/Electric Vehicles |
| <input type="checkbox"/> SD5 – Environmental Leadership | <input type="checkbox"/> SD12 – Employee Relations |
| <input type="checkbox"/> SD6 – Innovation | <input type="checkbox"/> SD13 – Customer Service |
| <input type="checkbox"/> SD7 – Reliability & Resiliency | <input type="checkbox"/> SD14 – Resource Planning |

SUMMARY:

Tacoma Power requests approval by the Public Utility Board for two rate adjustments that would become effective on April 1, 2023, and April 1, 2024.

BACKGROUND:

Tacoma Power's revenue requirement analysis indicates that the utility needs to increase retail revenue by approximately \$41.4 million for the twenty-four month rate period starting April 1, 2023. This translates to a system-wide retail rate increase of 3.5 percent in 2023 and 3.5 percent in 2024. The utility has experienced substantial inflationary increases in operating and capital expenses such as materials, personnel, city assessments, and technology upgrades. The proposed rate increase is designed to generate additional revenue to meet financial metrics (debt service coverage and liquidity), operational needs and avoid future rate shocks. Tacoma Power has made efforts to keep the rate increase at a level that is as low as is consistent with the Public Utility Board's Strategic Directive SD-3 regarding rate stability. We have prioritized new budget additions and reduced our initial Operation & Maintenance (O&M) and Capital planned spending to mitigate increases in our 2023/2024 biennial budget. We plan to utilize Tacoma Power's current cash reserves and anticipated wholesale sales revenue to ensure that the retail rate increases are limited to the requested system-average increase of 3.5% in 2023 and 2024. In addition, Tacoma Power will increase investment in the Bill Credit Assistance Plan (BCAP) program and support program enhancement to offer more financial assistance to income-constrained customers. The enhanced BCAP will significantly reduce bill payments for income-qualified customers and more than offset the proposed rate increases for participating customers. The enhancement is also designed to help mitigate future rate increases for income-constrained Power customers.



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Tacoma Power conducted a Cost-of-Service Analysis (COSA) for the 2023/2024 biennium to determine how to raise the \$41.4 million additional revenue among different rate classes. Because rate classes have different usage characteristics, the cost of providing services to each class will differ. Consequently, the rate increases allocated to each class will differ. The proposed annual class rate adjustments effective April 1, 2023 and April 1, 2024, respectively, are the following: residential class 3.9 percent, small general class 1.5 percent, general class and Shore Power 5.0 percent, and street and highway lighting class 7.0%. There are no proposed rate adjustments for the following rate classes: traffic signals and lights, private off-street lighting, high voltage general, contract industrial, New Large Load, Electrofuel and Electric Vehicle Fast Charging.

As part of the COSA process, Tacoma Power adjusts the detailed rates for each rate class based on the proposed rate increase percentage. For example, the COSA indicates that Tacoma Power will need to raise residential rates by 3.9 percent in order for the residential revenue to cover its allocated cost. The COSA also indicates that the fixed customer charge is below the fixed costs associated with providing the functions such as service drop and meter, meter reading, billing and collection, and customer information and services. Therefore, Tacoma Power proposes to collect the 3.9 percent residential rate increase by increasing the monthly fixed customer charge by \$3.70 in 2023 and an additional \$3.70 in 2024. Separate analysis was conducted for each rate class to develop their specific rate structures.

This proposal is in alignment with industry ratemaking standards and best practices, as well as the Public Utility Board's Strategic Directives of Financial Sustainability (SD-2) and Rates (SD-3), and supports Tacoma Power's Long-Range Financial Plan. Board Directive SD-2 directs the utility to produce rate and financial plans that support an "AA-level bond rating, or better, to facilitate access to lower-cost financing and produce sustainable debt service expenses. Board Directive SD-3 notes that the utility "values planning gradual and consistent utility rate changes that are stable and predictable over the long term".

Tacoma Power also proposes a change to the fee for additional poles in Chapter 12.06.300 Private Off-Street Lighting Service (Schedule H-2). The increased fee better reflects the current cost. To ease the fee increase, Tacoma Power proposes a five-year transition to the cost-based fee for new poles. At the end of the five years, the pole fees for Private Off-Street Lighting customers will be comparable to the same fees for other customers.

In addition, Tacoma Power proposes to eliminate the out-of-date contract requirement in Chapter 12.06.225 High Voltage General Service (Schedule HVG). Since Schedule HVG is closed to new customers after April 1, 2021, the contract requirement is no longer needed to control the access to this rate schedule.

In preparation for this request, Tacoma Power has actively sought public input through public presentations with various neighborhood and city councils in communities served by Tacoma Power as well as interested community organization. Tacoma Power has presented overviews and proposals on revenue, budget and rates to the Board at different stages of the budget and rates development since early 2022. Adoption of the rate proposal by the Public Utility Board is scheduled for October 26, 2022. The first reading by the City Council is scheduled for November 15, 2022.



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IF THE ACTION REQUESTED IS APPROVAL OF A CONTRACT, INCLUDE LANGUAGE IN RESOLUTION AUTHORIZING \$200,000 INCREASE IN ADMINISTRATIVE AUTHORITY TO DIRECTOR? No

ATTACHMENTS: List any attachments (contracts, policies, agreements, etc.).
Proposed Amendments to Chapter 12.06 of the Tacoma Municipal Code

CONTACT:

Primary Contact: Ying Hall, Power Section Manager

Supervisor's Name: Chris Robinson, Tacoma Power Superintendent

Presenter (if different from primary contact):

Additional staff requiring a Zoom presentation link: