



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 15, 2022

SUMMARY AND PURPOSE:

Tacoma Power requests approval by the City Council 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.

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 Section 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 Section 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.

COMMUNITY ENGAGEMENT/ CUSTOMER RESEARCH:

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.

Tacoma Power's demographic analysis suggests that many of Tacoma Power's customers are able to afford low, stable rate adjustments. However, there remain customers who are more negatively impacted by rate increases. Tacoma Power's 2023/2024 budget includes funding for an enhanced Bill Credit Assistance Plan to mitigate the impact of the proposed rate increases on income-constrained customers, as discussed above.

2025 STRATEGIC PRIORITIES:

Equity and Accessibility: (Mandatory)

Research on the existing beneficiaries of Tacoma Power's assistance programs shows that most funds are spent in areas identified as having lower opportunities as measured on the City's Equity Index. Increasing customer assistance will improve conditions in these areas.

Economy/Workforce: Equity Index Score: Moderate Opportunity
Increase positive public perception related to the Tacoma economy.



Livability: Equity Index Score: Moderate Opportunity

Increase positive public perception of safety and overall quality of life.

Improve access and proximity by residents to diverse income levels and race/ethnicity to community facilities, services, infrastructure, and employment.

Decrease the percentage of individuals who are spending more than 45% of income on housing and transportation costs.

Explain how your legislation will affect the selected indicator(s).

Tacoma Power’s mission is to provide safe, reliable electric service in an environmentally-responsible way.

Reasonable, stable rate adjustments ensure Tacoma Power can continue to meet its mission for the long-term and ensure safety and quality of life for the community it serves. Adherence to the utility’s financial plan prevents retail rate shocks and deterioration of services by ensuring Tacoma Power can maintain financial ratings in a capital-intensive industry.

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	<ul style="list-style-type: none"> • Higher rates in the long-term for Tacoma Power retail customers • \$41.4 million shortfall from 2023/2024 rate period financial plan • May fail to meet the financial metrics or the operational needs
2.		
3.		

EVALUATION AND FOLLOW UP:

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

STAFF/SPONSOR RECOMMENDATION:

Tacoma Power recommends two system-average rate adjustments, the first of 3.5 percent system average increase effective April 1, 2023, and the second of 3.5 percent system average increase effective April 1, 2024. The rate increases for each rate class are different based on cost-of-service analysis results.



Tacoma Power also recommends an increase to new pole fee for Private Off-street Lighting Service customers with a five-year transition period.

FISCAL IMPACT:

The proposed rates will increase Tacoma Power’s retail revenue by approximately \$30.7 million for the 2023/2024 budget period (January 1, 2023 to December 31, 2024).

Fund Number & Name	COST OBJECT (CC/WBS/ORDER)	Cost Element	Total Amount
1. 4700-Power		Retail Revenue	\$30.7 million
2.			
TOTAL			\$30.7 million

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 approximately \$30.7 million for the 2023/2024 Budget period (January 1, 2023 to December 31, 2024), and \$41.4 million for the Rate Period (the twenty-four month period beginning April 2023 and ending March 2025).

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 on 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