



**TO:** Elizabeth Pauli, City Manager  
**FROM:** Jackie Flowers, Director of Utilities, Tacoma Public Utilities  
**COPY:** Government Performance and Finance Committee  
**PRESENTER:** Chris Robinson, Tacoma Power Superintendent  
**SUBJECT:** TPU Power Rates Proposal 2019-2020  
**DATE:** October 2, 2018

**PRESENTATION TYPE:**  
Informational Briefing

**SUMMARY:**

Tacoma Power requests a recommendation from the Government Performance and Finance Committee for two rate adjustments effective April 1, 2019 and April 1, 2020.

**BACKGROUND:**

Tacoma Power's revenue requirement analysis for the twenty-four month Rate Period (April 1, 2019 through March 31, 2021) indicates a revenue shortfall of approximately \$22 million at current rates. The main drivers for this shortfall include general inflationary increases in operating and capital expenses such as technology upgrades, regulatory compliance, and cybersecurity enhancements. The proposed rate increases are designed to generate additional revenue required to pay forecasted expenses and meet financial metrics (debt service coverage and liquidity).

In preparation for this request, Tacoma Power has sought public input through public presentations at Neighborhood Council and City Council meetings in communities served by Tacoma Power. A public hearing will be held by the Public Utility Board on October 10, 2018 and the first reading by the City Council is scheduled for November 13, 2018.

**ISSUE:**

Tacoma Power needs to recover additional rate revenues of approximately \$22 million over the April 1, 2019 to March 31, 2021 Rate Period through the proposed rate adjustments. System-wide average adjustments to Power rates are two increases of 2% in both 2019 and 2020. This is broken out by class in the table below:

Proposed Increase in Revenue Requirement by Class			
Rate Class		Rate Increase (April 1, 2019)	Rate Increase (April 1, 2020)
Residential	A	0.9%	0.9%
Small General	B	0.7%	0.7%
General	G	4.0%	4.0%
High Voltage General	HVG	3.1%	3.1%
Contract Industrial	CP	2.2%	2.2%
Street & Highway	H1	4.0%	4.0%
Traffic Signals	H1	0.0%	0.0%
Private Off-Street	H2	4.0%	4.0%



This proposal also adds a new pilot rate schedule, Schedule Electric Vehicle Fast Charge (Schedule FC). This new tariff is aligned with the Tacoma City Council Request for Resolution in Support of Electric Vehicle Initiatives. Schedule FC is derived from Tacoma Power's Small General Service and General Service rate schedules. The pilot is designed to transition participating electric vehicle fast charging stations into their applicable cost of service rate schedule over a 13-year transition period.

**ALTERNATIVES:**

The proposed rate increases are designed to generate additional revenue required to pay forecasted expenses and meet financial metrics (debt service coverage and liquidity) as part of Tacoma Power's Long-Range Financial Plan for the next six years. If these rate adjustments are not implemented by the planned effective date of April 1, 2019, Tacoma Power will most likely experience revenue shortfalls leading to higher projected rate increases in the future.

**FISCAL IMPACT:**

Tacoma Power's revenue requirement analysis for the twenty-four month Rate Period (April 1, 2019 through March 31, 2021) indicates a revenue shortfall of approximately \$22 million at current rates. The main drivers for this shortfall include general inflationary increases in operating and capital expenses such as technology upgrades, regulatory compliance, and cyber security enhancements.

**RECOMMENDATION:**

Tacoma Power requests a recommendation from the Government Performance & Finance Committee for two rate adjustments effective April 1, 2019, and April 1, 2020.



**TO:** Elizabeth Pauli, City Manager  
**FROM:** Jackie Flowers, Director of Utilities, Tacoma Public Utilities  
**COPY:** Government Performance and Finance Committee  
**PRESENTER:** Chris Robinson, Tacoma Power Superintendent  
**SUBJECT:** TPU Power Policy Document Proposed Changes  
**DATE:** October 2, 2018

**PRESENTATION TYPE:**  
Informational Briefing

**SUMMARY:**

This memorandum provides a detailed overview of recommended changes to Tacoma Power's Electric Rates and Financial Policy. All major policy changes are addressed by section, with an explanation of the changes and why Tacoma Power feels it is necessary to alter the current language.

**BACKGROUND:**

Tacoma Power's Electric Rate & Financial Policy gives direction to future short-term and long-term planning decisions, and helps ensure that reliable service is provided to all customers at the lowest possible cost consistent with prudent utility management.

The Public Utility Board conducted reviews of Tacoma Power's Electric Rate & Financial Policy and Tacoma Water's Water Rate & Financial Policy as part of the rates process on May 9, 2018 and August 8, 2018. The proposed policy changes provide better alignment between the respective rate and financial policies of Tacoma Power and Tacoma Water.

**ISSUE:**

The following are the proposed changes to Tacoma Power's Electric Rate & Financial Policy:

- **I.G. Rate Setting Objectives. Low-Income Customers.**  
**Current Language:** *"The needs of low-income electric customers will be considered when establishing rate levels."*  
**Proposed Change:** *"The needs of low-income, senior, and disabled water customers will be considered when establishing rate levels, providing bill assistance, and offering financial education."*  
**Explanation:** We propose modernizing the existing language to address low-income, senior, and disabled programs available through utility assistance programs. The same language will be used in Tacoma Power's Electric Rate and Financial Policy and Tacoma Water's Water Rate and Financial Policy. This will modernize the existing language for customers who may benefit from utility assistance programs and enable better alignment between Tacoma Power and Tacoma Water's policies.
- **I.[J.] Rate Setting Objectives. [Rate Stability.]**  
**Current Language:** *None*



**Proposed Change:** *“To the extent possible, rate adjustments should be as level across years and not exceed general inflationary trends.”*

**Explanation:** We propose modernizing the existing language to set a rate setting objective to maintain rate stability. This reflects the approach for long-term financial planning in Tacoma Power’s Long-Range Financial Plan and enables better alignment between Tacoma Power and Tacoma Water’s policies.

- **IV.B.3.[h.] Financial Targets and Rate Setting Practices. Rate Setting for Traditional Retail Electric Services. Rate Design.**

**Current Language:** *None*

**Proposed Change:** *“Rate adjustments may be phased-in over a limited time period and may be used if a disproportionate change in rate levels is expected for certain classes. Inter-class revenue requirements adjustments significantly in excess of the system average may be allocated proportionally to the remaining customer classes. A gradual approach may be used for the subsidized class to set subsequent rate increases until cost-of-service rates are reestablished.”*

**Explanation:** We propose modernizing the existing language to describe a phased-in approach for rate adjustments if a disproportionate change in rate levels is expected for certain classes. This enables better alignment between Tacoma Power and Tacoma Water’s policies.

**ALTERNATIVES:**

This is an information briefing only. There are no alternatives presented.

**FISCAL IMPACT:**

This is an information briefing only. There is no fiscal impact.

**RECOMMENDATION:**

Tacoma Power requests a recommendation from the Government Performance & Finance Committee for proposed changes to Tacoma Power’s Electric Rate & Financial Policy as detailed above.



**TO:** Elizabeth Pauli, City Manager  
**FROM:** Jackie Flowers, Director of Utilities, Tacoma Public Utilities  
**COPY:** Government Performance and Finance Committee  
**PRESENTER:** Scott Dewhirst, Tacoma Water Superintendent  
**SUBJECT:** TPU Water Rates Proposal 2019-2020  
**DATE:** October 2, 2018

**PRESENTATION TYPE:**  
Informational Briefing

**SUMMARY:**

Tacoma Water requests a recommendation from the Government Performance and Finance Committee for two rate adjustments effective January 1, 2019 and January 1, 2020.

**BACKGROUND:**

Tacoma Water's revenue requirement analysis for the twenty-four month budget period (January 1, 2019 through December 31, 2020) indicates a revenue shortfall of approximately \$6.4 million at current rates. The main drivers for this shortfall include general inflationary increases for expenses such as personnel, as well as increases for assessments including additional support for the low-income program. The proposed rate increases are designed to generate additional revenue required to pay forecasted expenses.

In preparation for this request, Tacoma Water has sought public input through public presentations at Neighborhood Council and City Council meetings in communities served by Tacoma Water. A public hearing will be held by the Public Utility Board on October 10, 2018 and the first reading by the City Council is scheduled for November 13, 2018.

**ISSUE:**

Tacoma Water needs to recover additional rate revenues of approximately \$6.4 million between the January 1, 2019 and December 31, 2020 in order to support the proposed 2019-2020 biennial budget. System-wide average adjustments to water rates are two steps of 2.5% per year. This is broken out by class in the table below:

Proposed Increase in Revenue Requirement by Class		
Rate Class	Rate Increase (January 1, 2019)	Rate Increase (January 1, 2020)
Residential	2.9%	2.9%
Irrigation	1.0%	1.0%
Commercial General Service	2.2%	2.2%
Large Volume Commercial & Industrial	0.1%	0.1%
Wholesale	-3.0%	-3.0%
Private Fire Protection	5.1%	5.1%
Pulp Mill	2.5%	2.5%

**ALTERNATIVES:**

These rate adjustments were assumed in the proposed 2019-2020 budget for Tacoma Water, which will be requested to be approved by the Public Utility Board and City Council. If these rate adjustments are not



implemented by the planned effective date of January 1, 2019, Tacoma Water would lack sufficient projected rate revenue to support its proposed budget.

**FISCAL IMPACT:**

Tacoma Water's revenue requirement analysis for the twenty-four month budget period (January 1, 2019 through December 31, 2020) indicates a revenue shortfall of approximately \$6.4 million at current rates. The main drivers for this shortfall include general inflationary increases for expenses such as personnel, as well as increases for assessments including additional support for the low-income program.

**RECOMMENDATION:**

Tacoma Water requests a recommendation from the Government Performance and Finance Committee for two rate adjustments effective January 1, 2019 and January 1, 2020.



**TO:** Elizabeth Pauli, City Manager  
**FROM:** Jackie Flowers, Director of Utilities, Tacoma Public Utilities  
**COPY:** Government Performance and Finance Committee  
**PRESENTER:** Scott Dewhirst, Tacoma Water Superintendent  
**SUBJECT:** TPU Water Rate and Financial Policy Proposed Changes  
**DATE:** October 2, 2018

**PRESENTATION TYPE:**  
Informational Briefing

**SUMMARY:**

This memorandum is to provide a detailed overview of the various policy change recommendations for Tacoma Water's Water Rate and Financial Policy. All major policy changes are addressed by section, with an explanation of the changes and why Tacoma Water feels it is necessary to alter the current language.

**BACKGROUND:**

Tacoma Water's Water Rate and Financial Policy gives direction to future short-term and long-term planning decisions and helps ensure that reliable service is provided to all customers at the lowest possible cost consistent with prudent utility management.

The Public Utility Board conducted reviews of Tacoma Power's Electric Rate and Financial Policy and Tacoma Water's Water Rate and Financial Policy as part of the rates process on May 9, 2018 and August 8, 2018. The proposed policy changes provide better alignment between the respective rate and financial policies of Tacoma Power and Tacoma Water.

**ISSUE:**

The following are proposed changes to Tacoma Water's Water Rate and Financial Policy:

- **III.B.3. Policies. Water Rates Should Be As Low As Is Responsible.**  
**Current Language:** *"Senior Debt Service Coverage will be maintained above 150%, exceeding Tacoma Water's bond covenant requirement of 125%. All In Debt Service Coverage will be maintained above 125%."*  
**Proposed Change:** *"Senior Debt Service Coverage will be maintained above 1.50, exceeding Tacoma Water's bond covenant requirement of net revenue at least 1.25 times annual senior debt service. All-In Debt Service Coverage will be maintained above 1.25 except when cash reserves are budgeted to meet the annual revenue requirement, when it will be maintained above 1.00."*  
**Explanation:** We propose a reduction in All-In Debt Service Coverage from 1.25x to 1.00x during periods of spending down cash reserves to formalize our commitment to carefully monitor our debt service coverage and to demonstrate that our gross revenues will be sufficient to cover all of our expenses.
- **III.C.16. Policies. Water Rates Shall Be Fair.**  
**Current Language:** *"A discounted water rate will be considered to help low-income/elderly and low-income/handicapped water customers."*



**Proposed Change:** *“The needs of low-income, senior, and disabled water customers will be considered when establishing rate levels, providing bill assistance, and offering financial education.”*

**Explanation:** We propose modernizing the existing language to address low-income, senior, and disabled programs available through utility assistance programs. The same language will be used in Tacoma Power’s Electric Rate and Financial Policy and Tacoma Water’s Water Rate and Financial Policy. This will modernize the existing language for customers who may benefit from utility assistance programs and enable better alignment between Tacoma Power and Tacoma Water’s policies.

**ALTERNATIVES:**

This is an information briefing only. There are no alternatives presented.

**FISCAL IMPACT:**

This is an information briefing only. There is no fiscal impact.

**RECOMMENDATION:**

Tacoma Water requests a recommendation from the Government Performance & Finance Committee for proposed changes to Tacoma Water’s Water Rate and Financial Policy detailed above.





**TO:** Elizabeth Pauli, City Manager  
**FROM:** Jackie Flowers, Director of Utilities, Tacoma Public Utilities  
**COPY:** Government Performance and Finance Committee  
**PRESENTER:** Dale King, Tacoma Rail Superintendent  
**SUBJECT:** TPU Rail Rates Proposal 2019  
**DATE:** October 2, 2018

**PRESENTATION TYPE:**  
Informational Briefing

**SUMMARY:**

Tacoma Rail requests a recommendation from the Government Performance and Finance Committee for rate adjustments effective January 1, 2019.

**BACKGROUND:**

Tacoma Rail's revenue requirement analysis for the 2019/2020 biennium budget indicates a revenue shortfall of approximately \$1.2 million at current rates. The main drivers for this shortfall include intermodal rail traffic decreases, flat commercial traffic forecasts and general increases in inflationary costs, assessments and regulatory compliance. The proposed rate increases are designed to generate additional revenue required to pay forecasted expenses and adhere to Rail's financial policies.

In preparation for this request, Tacoma Rail has been communicating the proposed rate adjustments with key stakeholders including BNSF, Union Pacific, Port of Tacoma and US Oil. A public hearing will be held by the Public Utility Board on October 10, 2018 and the first reading by the City Council is scheduled for November 13, 2018.

**ISSUE:**

Tacoma Rail needs to recover additional rate revenues of approximately \$1.2 million through proposed rate adjustments for the upcoming biennium starting January 1, 2019. Proposed adjustments to Rail rates are an increase of 2% in 2019 to base rates for intermodal, commercial and unit train line hauls.

**ALTERNATIVES:**

The proposed rate increases are designed to generate additional revenue required to pay forecasted expenses and adhere to Rail's financial policies. If these rate adjustments are not implemented by the planned effective date of January 1, 2019; Tacoma Rail will most likely experience revenue shortfalls leading to deferred investment in track and locomotive assets. A delayed rate adjustment may require a higher rate adjustment in the future.

**FISCAL IMPACT:**

Tacoma Rail's revenue requirement analysis for the 2019/2020 biennium budget indicates a revenue shortfall of approximately \$1.2 million at current rates. The main drivers for this shortfall include intermodal rail traffic decreases, flat commercial traffic forecasts and general increases in inflationary costs, assessments and regulatory compliance.



**RECOMMENDATION:**

Tacoma Rail requests a recommendation from the Government Performance and Finance Committee for rate adjustments effective January 1, 2019.