

# TPU Rate Proposals

## 2019/2020 Biennium

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## 01 Introduction

- + *Public Outreach*
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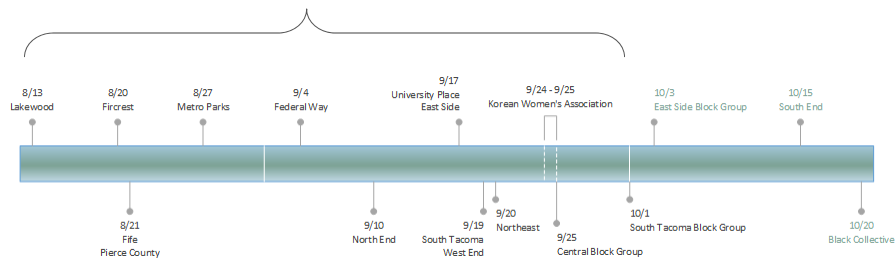
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### Introduction

## Public Outreach Timeline

Where we've been...



...and where we'll go.

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## Introduction

# Public Outreach Communications

## Rate proposal communications

### ▪ Complete

- July *Utilities and You* newsletter story
- Updated web page and banners
- E-mail list sign up online
- Bill message
- Handout for public meetings
- Translated versions of handouts
- Updated public meeting info online and social media

### ▪ Upcoming

- October *Utilities and You* newsletter update
- Video
- E-mail notification to customers
- Newsletter content for business customers and other orgs
- Lobby messaging
- Materials for Oct 10 evening session (to be posted in advance)

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## Introduction

# Public Outreach Themes

**Rate proposal has been generally well-received.**

### ▪ Common Themes from Franchise Jurisdictions:

- Desire for more representation for outside-City customers
- Questions about AMI rollout and related cybersecurity/data privacy risks
- Request for more outreach to low-income customers.

### ▪ Common Themes from Tacoma Neighborhood Councils:

- No major issues or concerns

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## Introduction

## Low-Income Assistance

### Customer Solutions staff increasing community outreach/engagement

- **Two different utility bill payment programs are available for eligible households. Both programs are based on household income up to 150% of federal poverty guidelines:**
  - **Discount Rate Program** – 30% discount on all utility services for customers 62 years of age or older OR receiving qualifying disability income.
  - **Bill Credit Assistance Plan** – Eligible households can achieve monthly or bimonthly bill credits up to \$564 per year with on-time utility payments.
- **Financial Education Available:**
  - Customers enrolled in the Discount Rate Program or the Bill Credit Assistance Plan are eligible to attend a financial education program through an authorized community partner. Successful completion will achieve an additional one-time utility bill credit up to \$160.

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## Introduction

## Low-Income Assistance

### Discount Rate Program

Division	2017/2018			2019/2020	
	2017 Actual	2018 Actual YTD	2018 Projected	Projected Discounts	
Power	\$1,829,574	\$1,366,883	\$1,794,922	\$2,188,898	\$2,188,898
Water	\$337,960	\$258,019	\$343,436	\$350,000	\$350,000

### Bill Credit Assistance Plan (BCAP)

Division	2017/2018		2019/2020
	Budget	Remaining	Proposed Budgets
Power	\$2,000,000	\$1,713,452	\$2,500,000
Water	\$275,000	\$218,643	\$325,000

Biennium-to-date, Power has spent \$2,872,745 on low-income conservation measures.  
Water has spent \$23,147.

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## Introduction

# Approval Timeline

### October 2nd

- GPFC Power, Water and Rail Rates Presentation

### October 10th

- Public Utility Board Budget & Rates Public Review

### October 16th

- Joint Council/Public Utility Board Study Session Budget & Rates Presentation

### October 24th

- Public Utility Board approval of preliminary budget & rates

### November 13th

- City Council first reading of budget & rates

### November 20th

- City Council second reading of budget & rates

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02

## Rates Process

- + *Principles of Ratemaking*
- + *Ratemaking Process*

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## Rates Process

## Principles of Ratemaking



## Legal

- Fair
- Just
- Reasonable
- Non-Discriminatory



## Industry-Standard

- Revenue Stability
- Cost-Causation
- Economic Efficiency
- Equity
- Bill Stability



## TPU Principles

- Affordability
- Environment
- Public Involvement

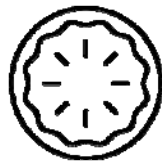
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## Rates Process

## Ratemaking Process

## How Big is the Pie?



## Revenue Requirement

Identifies revenue needed to sustain operations, according to financial plan



## How to Slice the Pie?



## COSA

Divides revenue requirement into total amount to be paid by each customer class



## How to Eat Each Slice ?



## Rate Design

Sets rate structure to collect revenue from each customer in each class

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## 03 Power

- + Revenue Requirement
- + Cost-of-Service Results
- + Rate Design

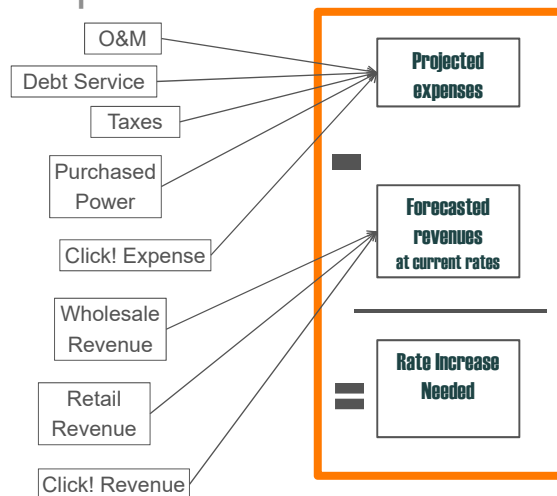
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### Revenue Requirement

## Revenue Requirement Calculation

The Tacoma Power Revenue Requirement forecast is based on a set of assumptions about future revenues and spending. These assumptions influence our projection of the amount needed in the next biennium to cover all of the utility's expenses. This biennium's revenue requirement was set in June 2018.



Source: Tacoma Power Revenue Requirement Assumptions, 2019/2020 Biennium

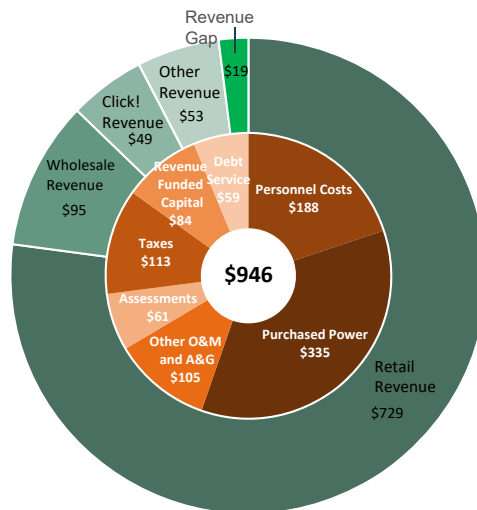
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## Revenue Requirement

## Total Revenue and Expenditures

(\$ in Millions)



## Revenue Gap

- \$16.5M from annual 2% rate increase
- \$2.5M from cash

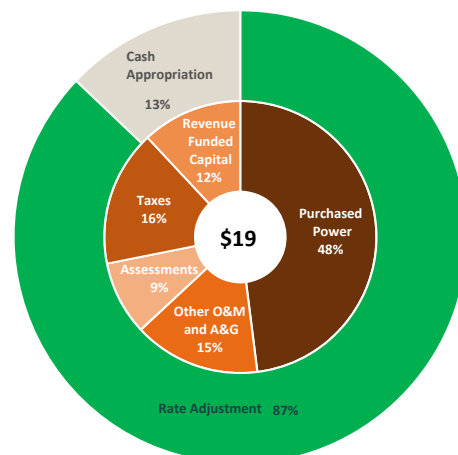
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## Revenue Requirement

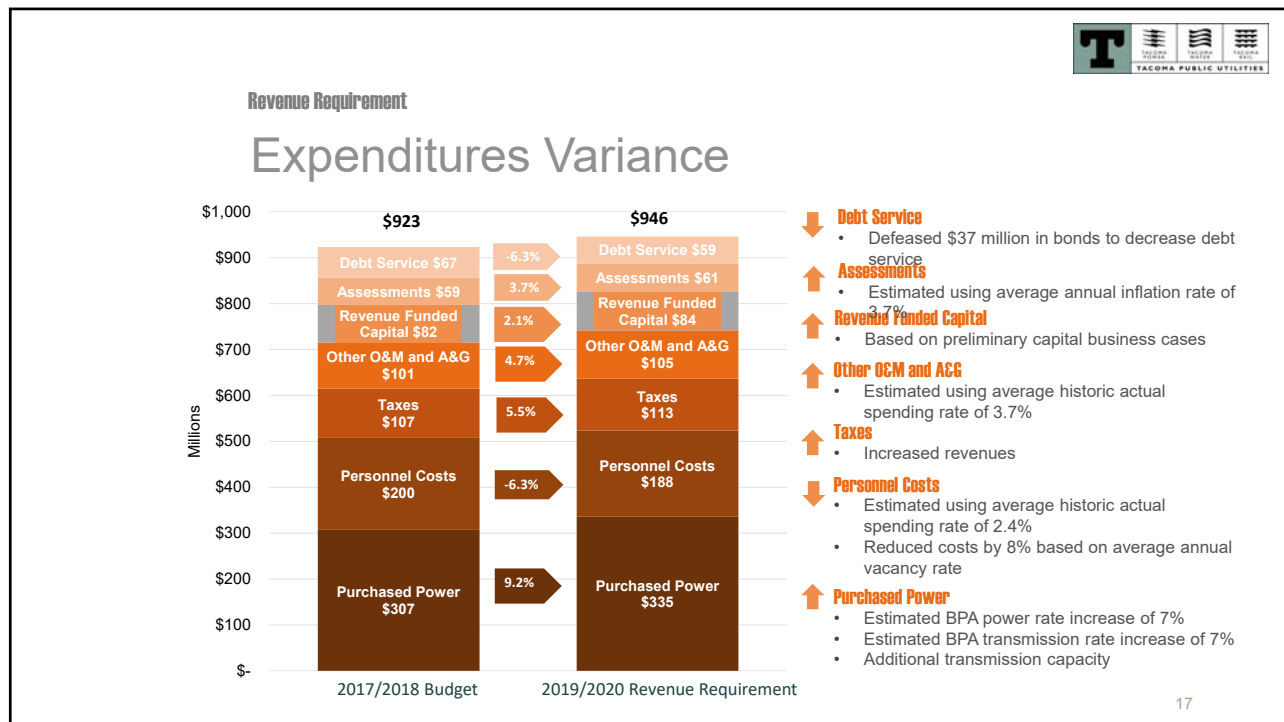
## Revenue Gap


(\$ in Millions)



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## Revenue Requirement

### Click! Network Budget and Rate Increases

- Preliminary 2019-2020 Click! budget deficit of \$10M
- Use of Tacoma Power funds for Click! is under legal challenge
- Proposed budget for the 2019-2020 biennium includes both cost cuts and rate increases
  - Cuts in FTEs and Capital
  - Cable TV rate increase of 9.8% for 2019, 18% for 2020 (on average)
  - Wholesale ISP rate increase of \$5.00 per tier, per year
- Cable TV rate increases were not implemented for 2015, 2016 and 2018
- Even with the proposed rate increases, Click! Network prices will still be under market
- This is a transitional budget (not sustainable long-term)

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# Cost-of-Service Analysis

## Tacoma Power Customer Classes (2017 Data)

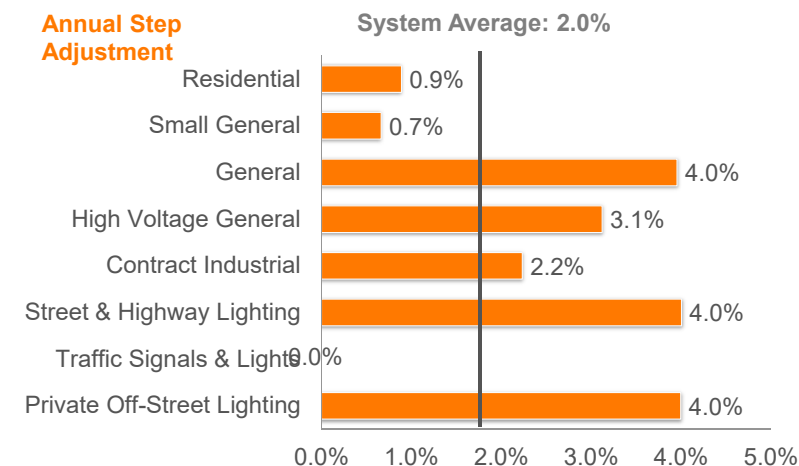


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# Cost-of-Service Analysis

## Adjustment by Class



Preliminary, subject to change.




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## Rate Design

## Residential Customer Rates

Place 50% of increase in customer charge, 50% of increase in delivery charge.

	Current	2019	2020
 <b>Customer Charge</b> (\$ per Month)	\$16.50 <i>current</i>	\$16.90 <i>+40¢</i>	\$17.30 <i>+40¢</i>
 <b>Energy Charge</b> (\$/kWh)	4.5351¢ <i>current</i>	4.5351¢ <i>no change</i>	4.5351¢ <i>no change</i>
 <b>Delivery Charge</b> (\$/kWh)	3.4435¢ <i>current</i>	3.4891¢ <i>+1.3%</i>	3.5353¢ <i>+1.3%</i>

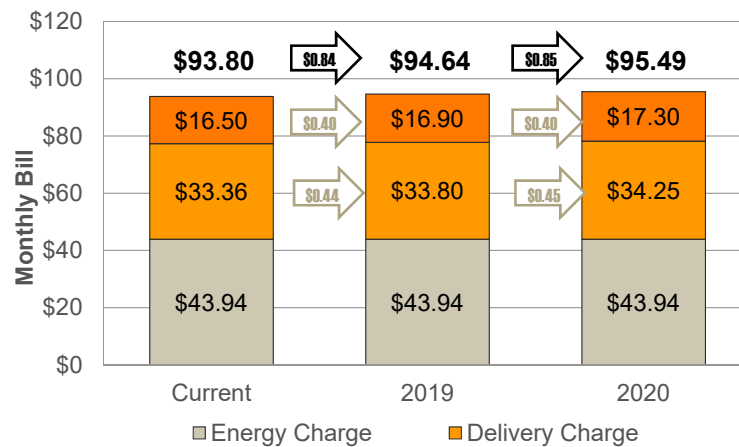
Preliminary, subject to change.

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## Rate Design

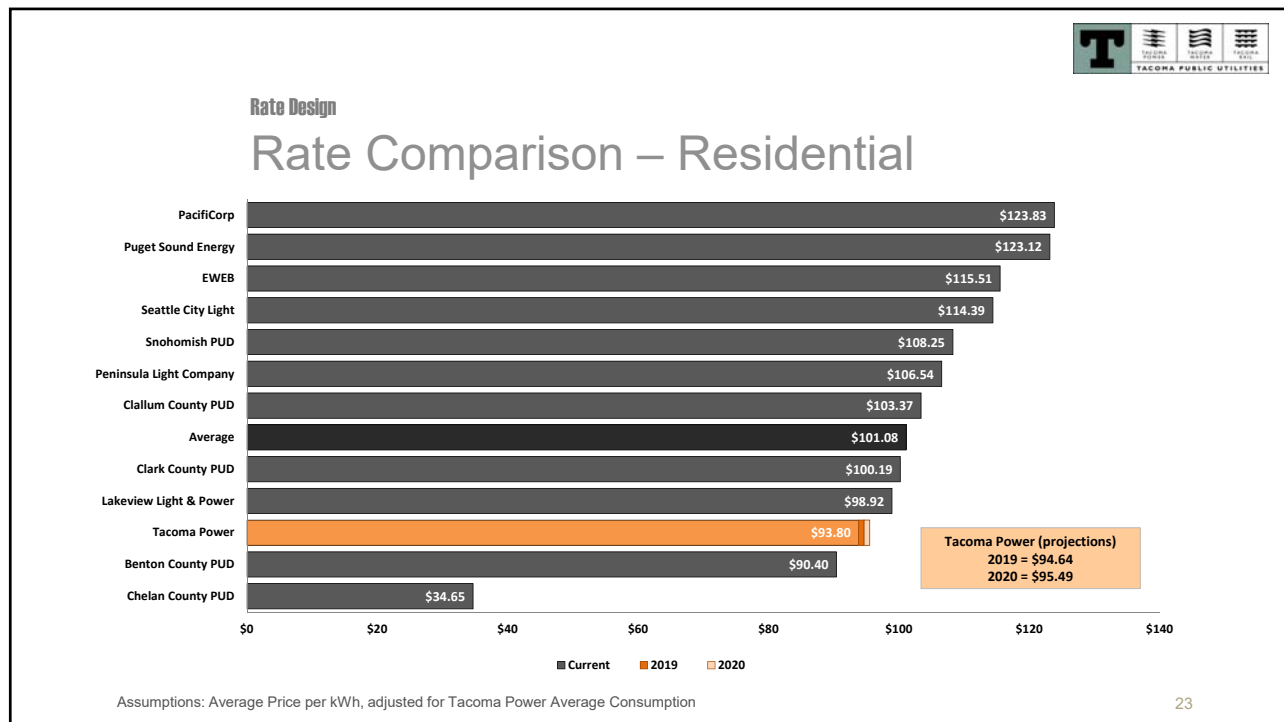
## Average Residential Bill




Assumptions: Based on average residential customer consumption (969 kWh per month)

Preliminary, subject to change.


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## Rate Design

# New Pilot Rate for DC Fast Charging Stations



**Fast Charge Service (Schedule FC)**

- Proposed pilot rate will assist Tacoma Power in preparing its system to meet expected demand for fast charging stations and is consistent with Tacoma City Council initiatives concerning electric vehicles.
- Slowly transitions charging stations to regular class rates over time
- Modeled after Public DC Fast Charger Optional Transition Rate adopted by PacifiCorp in Oregon and Washington

**To qualify for the rate, Electric Vehicle Charging Stations must...**

- Be broadly available to the general public
- Have at least one DC fast charger

**Pilot is limited to...**

- 13 Years, January 1, 2019 – December 31, 2031
- 25 public DC Fast Charging Stations, on a first-come, first-served basis

**Bi-annual reports to Public Utility Board**

- Locations of participating stations
- Aggregated utilization and sales statistics

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## 04 Water

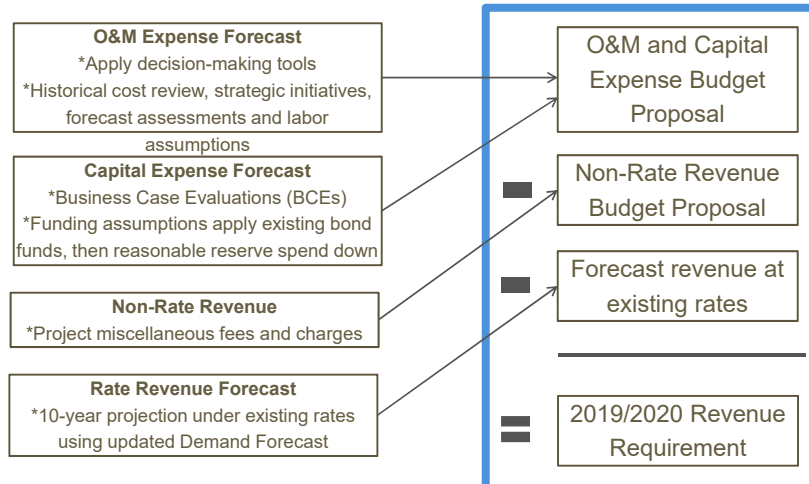
- + Revenue Requirement
- + Cost-of-Service Results
- + Rate Design

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### Revenue Requirement

## Revenue Requirement Calculation

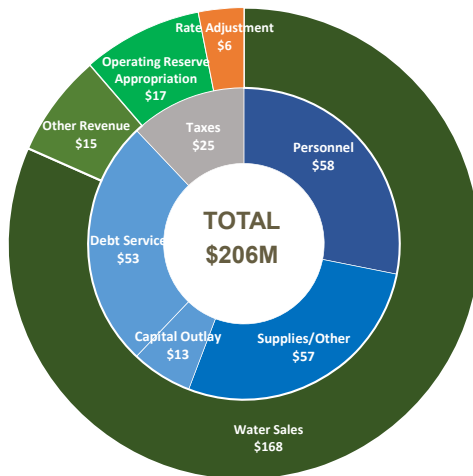


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## Revenue Requirement

## Revenue and Expenditures



**Projected Revenue and Expenditures are \$206M in 2019/2020**

- Increase from 2017/2018 budget is \$23M
  - Reserve spend down ~ \$16.9M
  - Rate adjustment ~ \$6.4M

\* Does not include \$22M transferred from Capital Reserve Fund to pay for capital.

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## Revenue Requirement

## Revenue and Expenditures



**Expenditures are increasing by \$23M in 2019/2020**

- Personnel
  - ~ \$2.7M additional FTEs
  - ~ \$0.8M salaries and benefits escalation
- Supplies & Other
  - ~ \$1.7M assessments (low-income assistance)
  - ~ \$1M RWSS debt service
  - ~ \$1M non-capital technology projects
- Taxes
  - ~ \$2.2M
- Capital Outlay from Operating Fund
  - ~ \$13.1M
- Debt Service
  - ~ \$0.2M

**Increased expenditures funded from reserves and rate adjustments**

- Rate Adjustment
  - ~ \$6.4M (2.5% system average)
- Operating Reserve Appropriation
  - ~ \$16.9M from the Operating Fund

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### Cost-of-Service Analysis

## Tacoma Water Customer Classes (2017 Data)

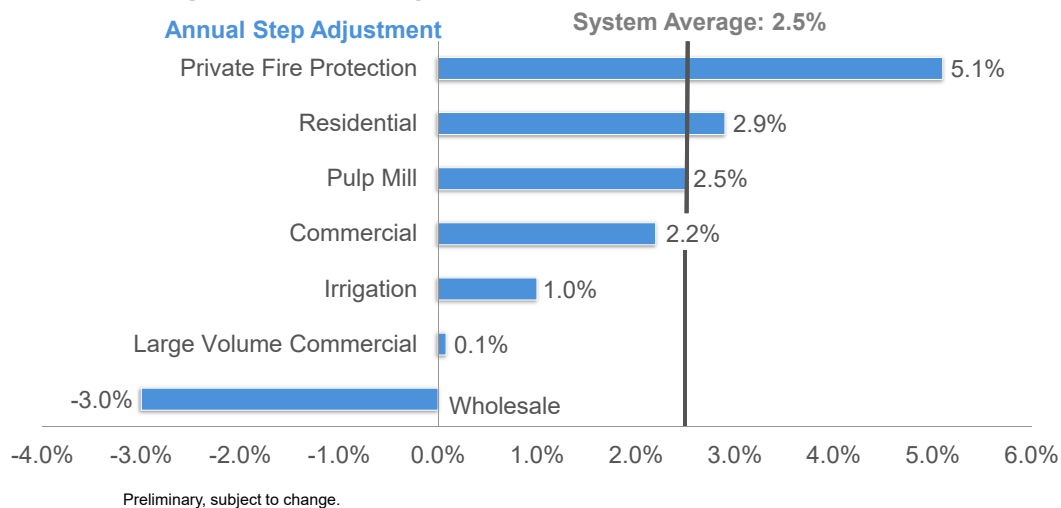


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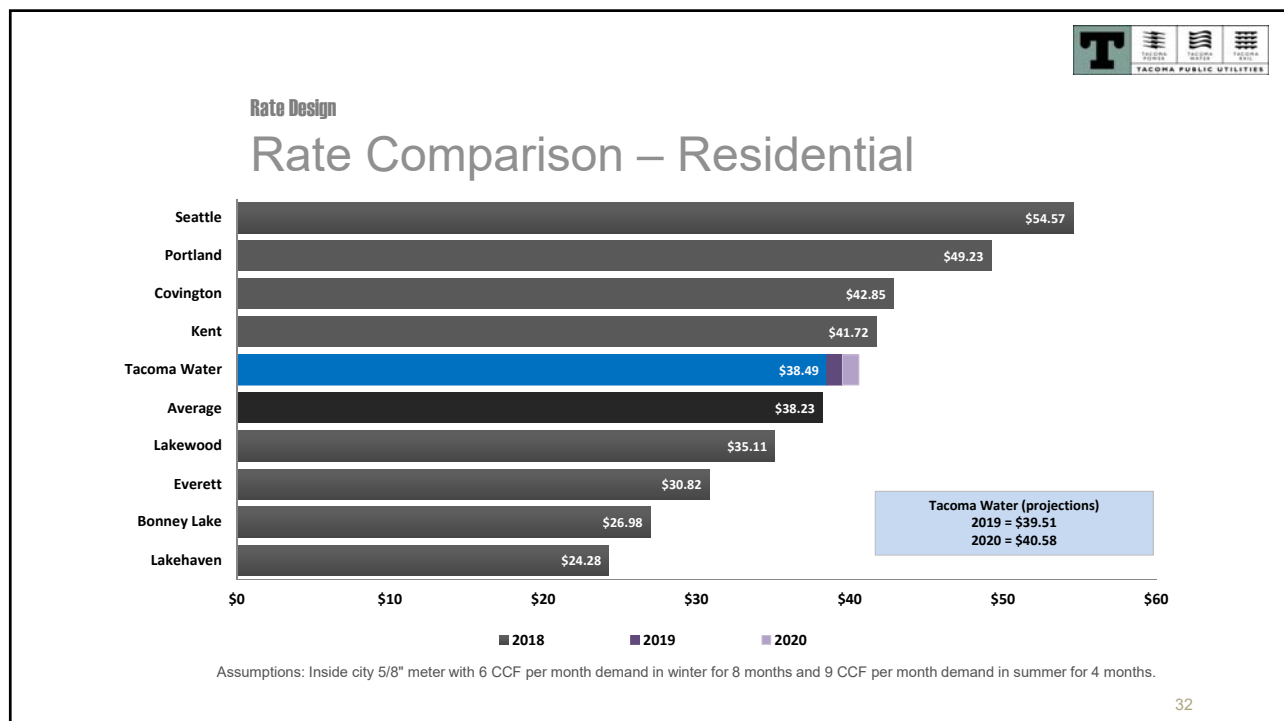
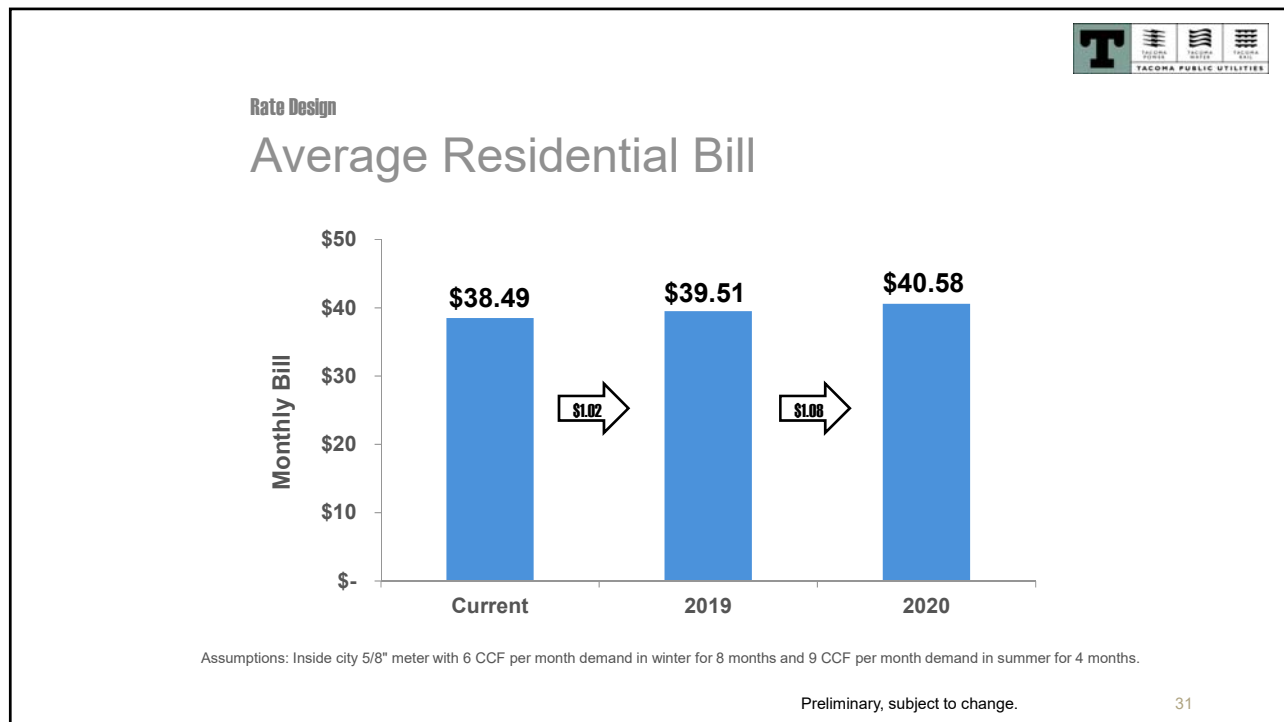


### Cost-of-Service Analysis

## Adjustment by Class



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## Rate Design

# Public Fire Protection: Hydrant Service

## Fee

### Inside City Customers



- Until 2015, public fire protection costs were recovered from General Government.
- In 2015-2016, Tacoma Water began recovering these costs directly from ratepayers through a "Hydrant Service Fee" on their bills.
- In 2018, customers inside the City of Tacoma were charged \$2.54 per month to recover these costs.
- In 2019 and beyond, Tacoma Water will recover public fire protection costs from the fixed component of the rate, and remove "Hydrant Service Fee" as a separate line item on the bill.

### Outside City Customers



- \$4.5 million of public fire protection costs were not recovered from outside city customers during a period from 2009-early 2013.
- In early 2013, Tacoma Water began recovering these historical costs, as well as ongoing public fire protection service costs, directly from ratepayers through a "Hydrant Service Fee" on their bills.
- In 2018, customers outside the City of Tacoma were charged \$5.13 per month to recover these costs.
- In 2019 and beyond, Tacoma Water will recover public fire protection costs from the fixed component of the rate, and remove "Hydrant Service Fee" as a separate line item on the bill, and retire the "Historical Service Component" for outside city customers.

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## Rail

- + *Line Haul Rates*
- + *Cost-of-Service Analysis*
- + *Rate Design*

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### Line Haul Rates

## Primary Rate Payers

**Line haul rates are 85% of 2018 operating revenue**

**2018 line haul rate payer breakdown**

BNSF: 47%

UP: 29%

US Oil: 19%

Other: 5%

**Line haul rate methods**

Tariff

Contract



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### Cost of Service Analysis

## Line Haul Rate Analysis

### Intermodal

Less labor intensive  
More volume  
Yard management  
Higher track wear  
Service windows  
Fewer destinations  
Do not incur demurrage

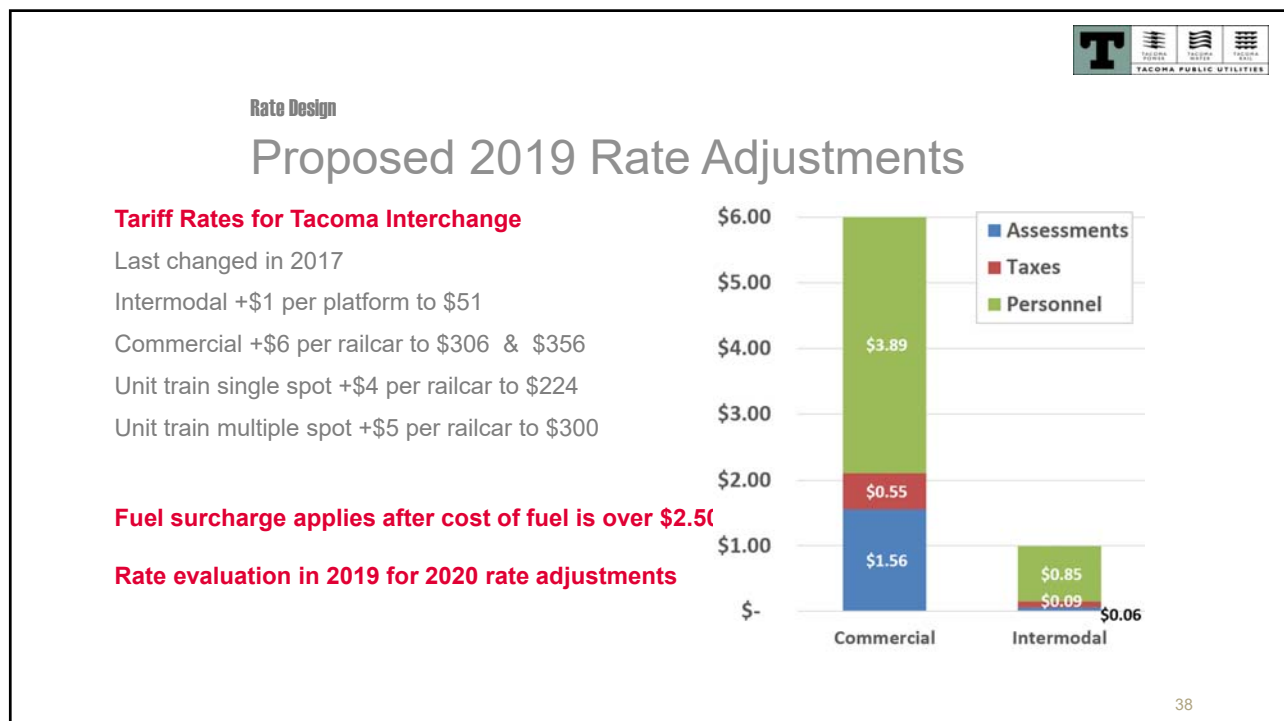
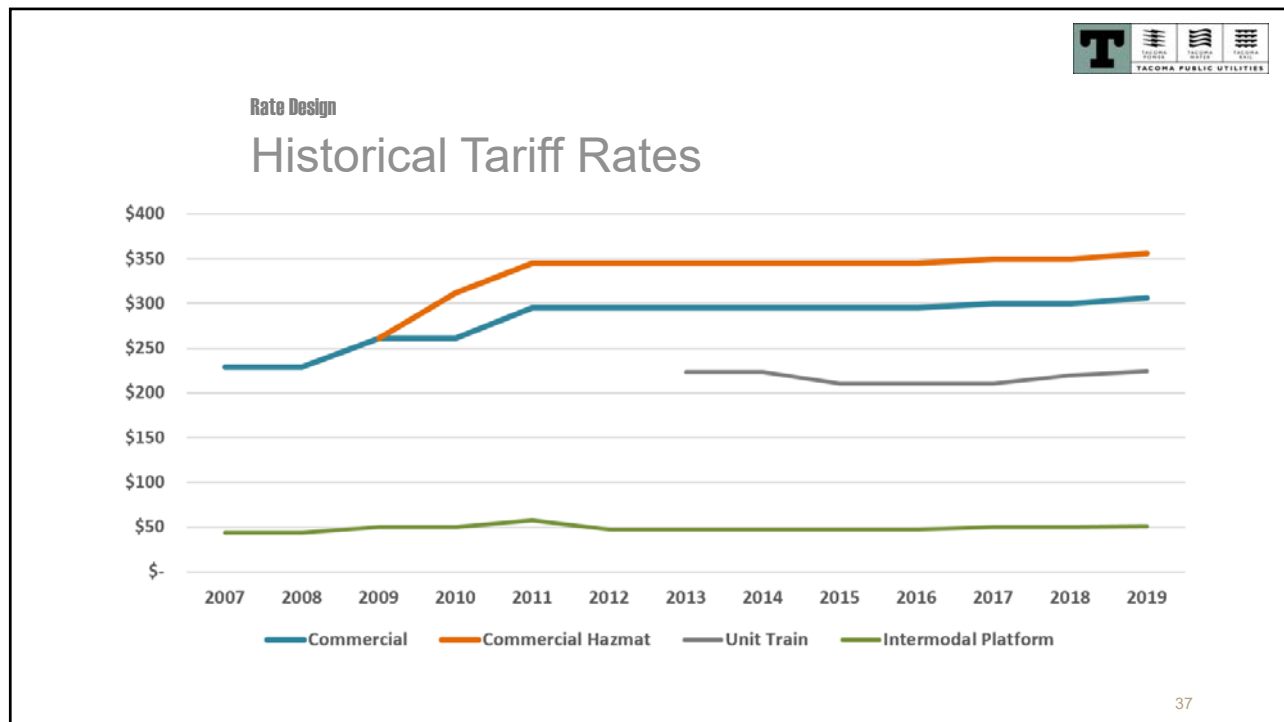
### Commercial

Labor intensive  
Lower volume  
Less track utilization  
Lower track wear  
Daily service  
More destinations  
Subject to demurrage

### Commercial Unit Trains

Less labor intensive  
More volume  
Yard management  
Higher track wear  
Service windows  
Fewer destinations  
Subject to demurrage  
Increased regulatory requirements

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## 06 Policy Changes

+ Policy Changes for Water/Power Alignment

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### Policy Changes

## Water/Power Alignment

### 1. Low-Income and Senior/Disabled Assistance Programs (Water, Power)

Addresses programs available through utility assistance programs. *"The needs of low-income, senior, and disabled water (electric) customers will be considered when establishing rate levels, providing bill assistance, and offering financial education."*

### 2. Debt Service Coverage (Water)

Reduce All-In Debt Service Coverage from 1.25x to 1.00x during periods of spending down cash reserves to formalize commitment to carefully monitor debt service coverage and to demonstrate that gross revenues will be sufficient to cover all expenses. *"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."*

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## Policy Changes

# Water/Power Alignment

### 3. Rate Stability (Power)

*Sets an objective that seeks to stabilize rates and better align with Water's rate and financial policies. "To the extent possible, rate adjustments should be as level across years and not exceed general inflationary trends."*

### 4. Class Rate Increase Cap (Power)

*Addresses caps for class rate increases and enables better alignment with Water's rate and financial policies. "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."*