



**TO:** Elizabeth Pauli, City Manager  
**FROM:** Jackie Flowers, Director of Utilities, Tacoma Public Utilities  
**COPY:** Government Performance and Finance Committee  
**PRESENTER:** Sean Senescall, Tacoma Water, Finance and Analytics Manager  
Lyna Vo, Tacoma Water, Utilities Economist  
**SUBJECT:** Tacoma Water Wholesale Pricing and Policy Revisions  
**DATE:** March 19, 2019

**PRESENTATION TYPE:**  
Informational Briefing

**SUMMARY:**

This memorandum provides a brief overview of Tacoma Water's wholesale customers and our work on proposed pricing and policy change recommendations for the class. There is no recommendation request at this time, but we are looking for conceptual support as we continue this work and return later this year.

**BACKGROUND:**

Tacoma Water serves about 17 wholesale customers in the region. We have obligated about 18 million gallons per day (MGD) of supply to the wholesale class, but only 2.5 MGD are consumed annually. In 2018, the wholesale class generated approximately \$3.1 million in revenue, or 4% of total revenue, and 2.5 MGD of demand, or 5% of total demand.

**ISSUE:**

Wholesale revenue and demand have been declining while ongoing costs to maintain our supply obligation remain. Tacoma Water seeks to increase net revenue and balance supply obligation by proposing wholesale pricing and policy changes. These changes include restructuring the wholesale rate design and providing options such as market pricing and reverse capacity amortization:

- **Rate design** would increase the fixed rate while decreasing the variable rate;
- **Market pricing** would require a take-or-pay agreement, pricing water against a wholesale customer's own source of supply or a competitor's rate; and
- **Reverse capacity amortization** would allow wholesale customers to reduce their contracted capacity if they opt of out taking water.

Collectively, the new rate structure and contract features are designed to increase net revenue for the benefit of our customers, which includes retail customers. This will ultimately keep our rates lower and attempt to solve equity issues within the wholesale class and beyond.

**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:**

This is an information briefing only. There is no recommendation.