



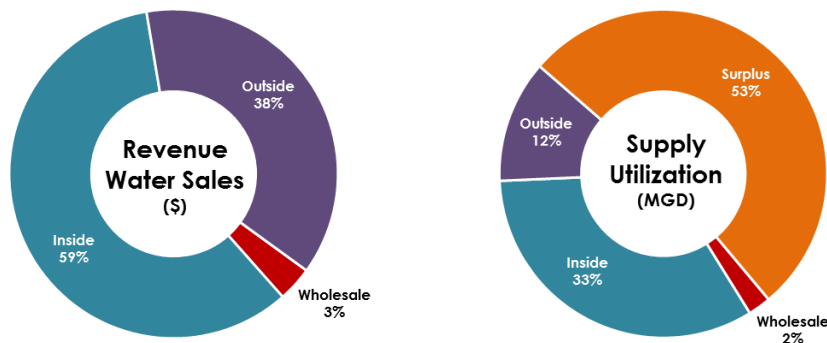
# Wholesale Pricing & Policy Initiative

*Objective: To increase net revenue in the wholesale market while responsibly managing supply risk.*

Sean Senescall, Finance and Analytics Manager | Lyna Vo, Utilities Economist  
Government Performance and Finance Committee | March 19, 2019

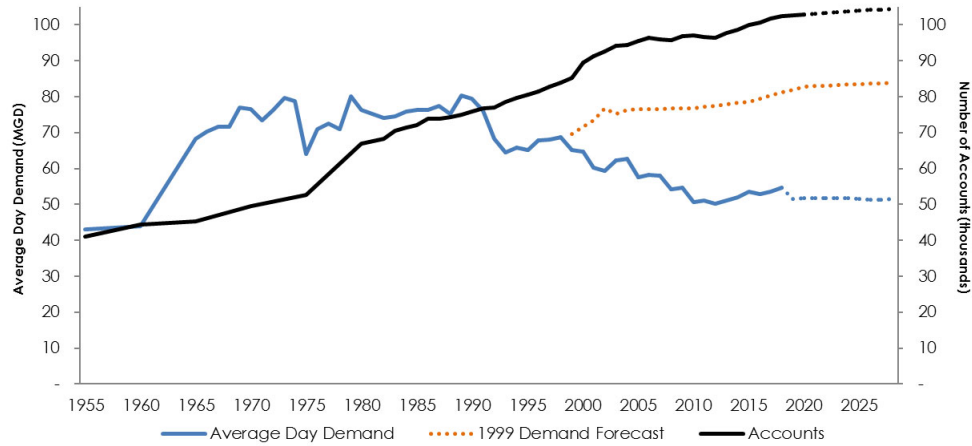
## Wholesale: A Small % of Sales & Demand

*The percentage of wholesale sales and demand relative to retail inside and outside City of Tacoma customers.*



## Water Demand Continues to Decline

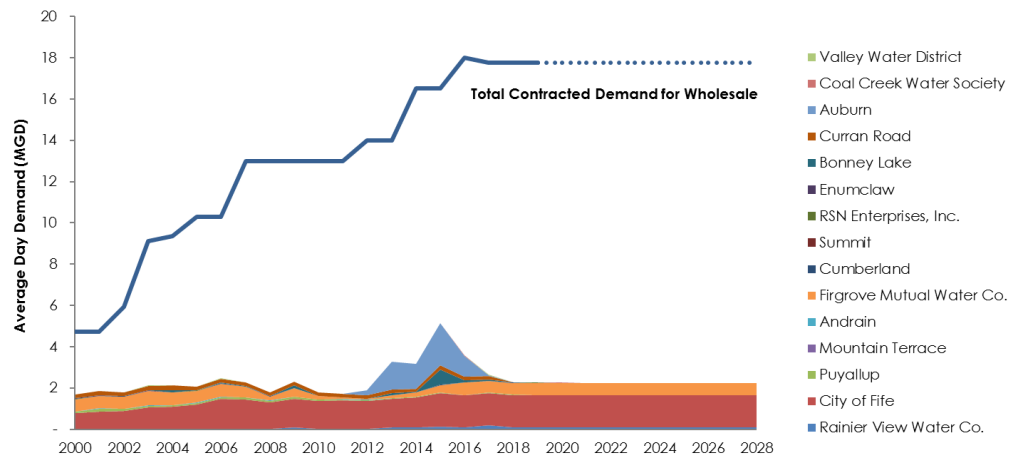
*The trajectory of our actual and projected demand and accounts over time.*



3

## Customers Haven't Grown Into Capacity

*Historical and forecasted underutilization of contracted capacity by wholesale customers.*



4

# We Need to Modernize Our Rate Design

*The new pricing model attempts to modernize rate design to adapt to changing conditions.*

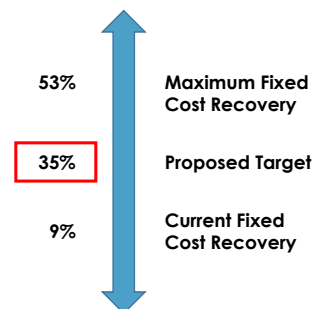
Current Pricing	Proposed Pricing	Potential Impact to Customers
<ul style="list-style-type: none"> <li>Designed to recover about 9% of wholesale costs through a monthly ready-to-serve charge</li> <li>91% of cost recovery is through a variable rate per CCF</li> <li>Ready-to-serve charge is allocated to customers based on meter size</li> </ul>	<ul style="list-style-type: none"> <li>Restructures embedded cost pricing to recover 35% of fixed costs through a monthly ready-to-serve charge</li> <li>65% of the remaining cost recovery would be through a variable rate per CCF</li> <li>Ready-to-serve charge is allocated to customers based on peak capacity</li> </ul>	<ul style="list-style-type: none"> <li>Increase in charges: Auburn, Black Diamond, Bonney Lake</li> <li>Decrease in charges: Fife, Firgrove, Valley WD</li> <li>Neutral: Coal Creek, Mountain Terrace, RSN Enterprises</li> </ul>

5

# Proposal Represents Balanced Approach

*A 35% fixed cost recovery balances our business objectives of revenue stability and equity with efficient price signal.*

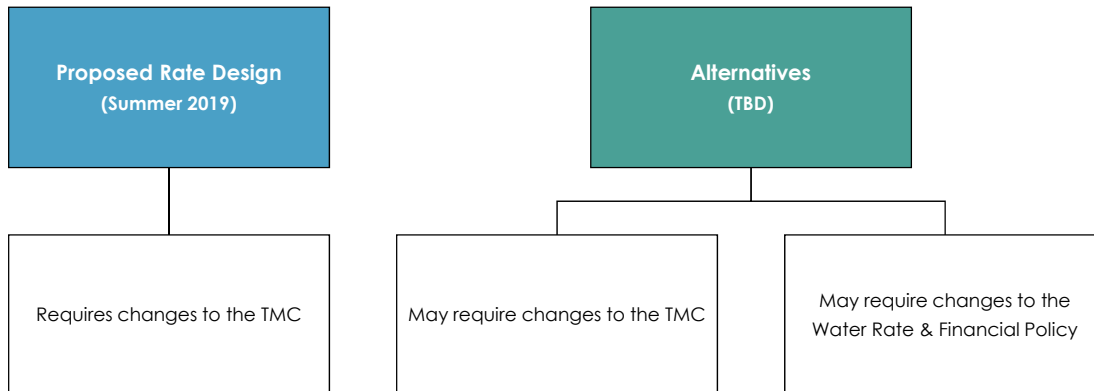
Rate Design Comparison		
Cost Recovery	Current Rate Design	Proposed Rate Design
Variable Cost Recovery	2,505,392	1,790,726
Fixed Cost Recovery	249,571	964,237
Total Wholesale Cost of Service	\$2,754,963	\$2,754,963
Winter Rate	\$2.04	\$1.46
Summer Rate	\$2.55	\$1.83



6

## Upcoming Request of City Council

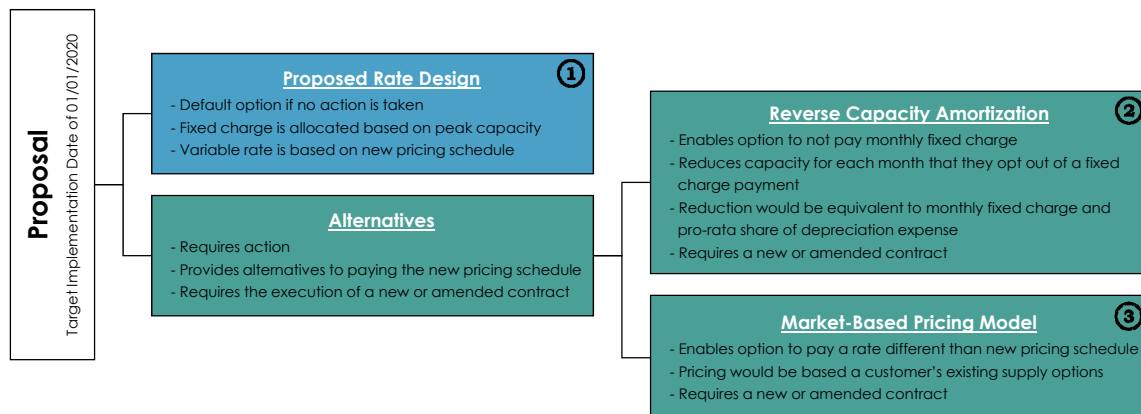
Formal recommendation will be requested in Summer 2019 for a target implementation date of 1/1/2020.



7

## Wholesale Customers Have Choices

The flow chart of options for wholesale customers to aid in their decision-making.



8

## Potential Opportunity

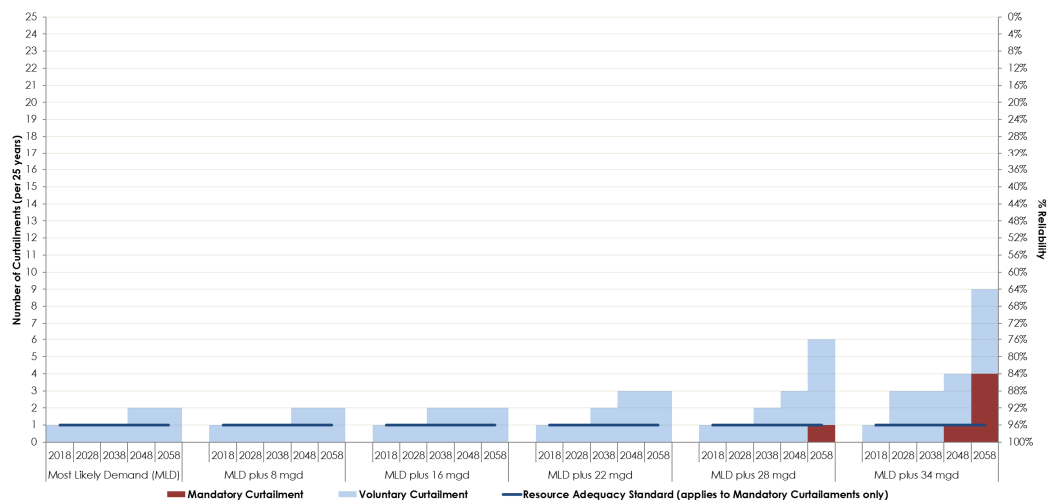
An illustrative example of potential revenue opportunity against the status quo.

Annual Forecast Comparison			
Scenarios	Forecasted Wholesale Revenue	% of Total Expected Revenue	Expected GET Revenue
Status Quo	\$2,000,000	3.2%	\$160,000
Pricing & Policy Revisions	\$5,600,000	6.5%	\$448,000
<b>Potential Opportunity</b>	<b>\$3,600,000</b>	<b>3.3%</b>	<b>\$288,000</b>

9

## Responsibly Managing Supply Risk

The impact of incremental water sales and responsibly managing supply risk.



10

## Timeline of Upcoming Initiative Milestones

*Next steps include meeting with key stakeholders to communicate proposal, incorporate feedback, and request approval.*

Feb 2019	Mar 2019	Today	Jun 2019	Jan 2020
PUB SS	Wholesale Customers	GPFC	PUB & City Council	PUB & City Council
Informational	Informational	Informational	Approval Request	Implementation
We presented our recommendations on wholesale pricing and policy revisions to the Public Utility Board.	We presented our pricing and policy revisions to wholesale customers.	We are presenting our recommendations to the GPFC.	We intend to request approval on our changes to wholesale pricing and policy.	We have a target implementation date of 01/01/2020.

11

## Requesting Feedback on Initiative Work

*We are asking for feedback and support on our general approach so that we can move forward with our work.*

Contact	Title	Phone	Email
Sean Senescall	Finance and Analytics Manager	(253) 502-8913	<a href="mailto:SSenescall@cityoftacoma.org">SSenescall@cityoftacoma.org</a>
Lyna Vo	Utilities Economist	(253) 441-4942	<a href="mailto:LVo@cityoftacoma.org">LVo@cityoftacoma.org</a>

12