

# 2021-2022 Budget & Rate Proposal

City of Tacoma | Tacoma Public Utilities  
Joint Study Session | October 6, 2020

## AGENDA



- Strategic Directives
- Public Outreach
- Proposed Rate Adjustments
- Challenges and Mitigations
- Utility Reserves
- Residential Monthly Rate Comparisons
- Affordability and Enhanced Assistance
- TPU Budget
- New Rate Structures and Adjustments
- Summary



# STRATEGIC DIRECTIVES



**Planning is aligned with Public Utility Board Strategic Directives**  
**- Includes City Priority to Advance Racial Equity**



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# PUBLIC OUTREACH



**Extensive Outreach and Communications are underway**

## Virtual Engagements & Meetings

- Neighborhood Councils & Block Groups
- Franchise Cities/Local Government Partners
- Chambers of Commerce/Economic Development Organizations
- Key Account Customers and Business Districts
- Public Hearing with Utility Board – Held September 23

## Communications through multiple channels

- Feedback received

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## TPU PROPOSED RATE ADJUSTMENTS



SD2  
Financial  
Stability



SD3  
Rates



### TACOMA RESIDENTIAL AVERAGE MONTHLY BILL IMPACT

UTILITY	SYSTEM AVG. INCREASE	2021	2022
Tacoma Power	2.0%	+\$1.84 (Apr)	+\$1.88 (Apr)
Tacoma Water	2.0%	+\$0.81 (Jan)	+\$0.83 (Jan)
Dual Service Total		+\$2.65	+\$2.71

Tacoma Rail\*: 3% increase to short line tariff rates in Jan. 2021 and Jan. 2022

\* Rail customers only

\*\* Rail's major rate payers are: BNSF, Union Pacific and US Oil

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## ALL RESIDENTIAL PROPOSED RATE ADJUSTMENTS



SD2  
Financial  
Stability



SD3  
Rates

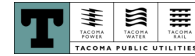


### TACOMA RESIDENTIAL AVERAGE MONTHLY BILL IMPACT

UTILITY	SYSTEM AVG. INCREASE	2021	2022
Wastewater	2.0%	+\$0.47	+\$0.77
Surface Water	2.0%	+\$0.55	+\$0.52
Solid Waste	2.0%	+\$0.85	+\$0.94
Tacoma Water	2.0%	+\$0.81	+\$0.83
Tacoma Power*	2.0%	+\$1.84	+\$1.88
<b>Grand Total</b>		<b>+\$4.52</b>	<b>+\$4.94</b>

\*Power proposed rate increases go into effect April 1<sup>st</sup>, after high electricity usage season

# TACOMA POWER



## 2019/20 FINANCIAL CHALLENGES

- 2019 Critical water year
- Lower wholesale revenues combined with higher purchased power costs
- COVID-19 has inhibited our ability to recover due to lower sales
- (\$26.4) million shortfall through August 2020
- Inflation

## ACTIONS TAKEN TO MITIGATE RATE IMPACTS

- Used \$10 million of Rate Stabilization fund
- \$22 million in operating & maintenance expenses and capital spending reduced in 2020
- \$13.8 million in revenue-funded capital projects shifted to debt funding in 2020
- 2021/22 budget reductions include \$7 million in professional services and \$1 million in training & travel
- 2021/22 Capital portfolio held at 2019/20 level, \$29.5 million shifted to debt funding

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# TACOMA WATER



## FINANCIAL CHALLENGES

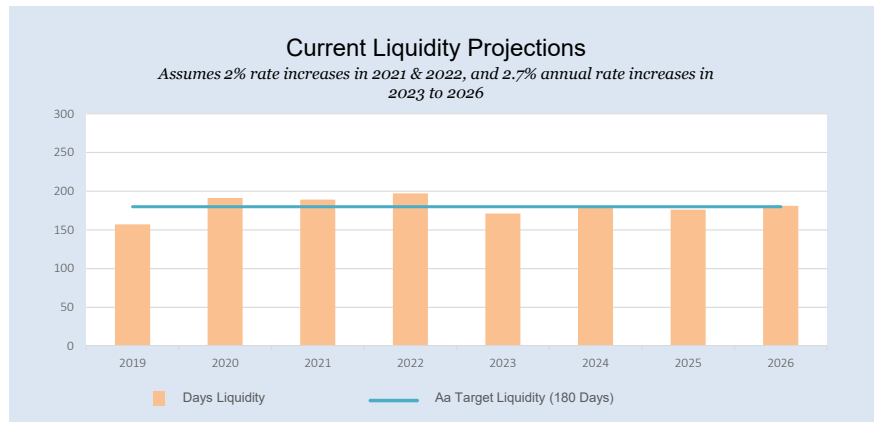
- Delayed cash flow and increased uncollectible bills due to COVID-19
- COVID-19 ongoing economic impacts uncertain
- Construction & general inflation impacts
- Increases in shared service costs, taxes, bad debt & credit card fees
- Increased support for Customer Assistance and establishment of new customer grant & loan program

## ACTIONS TAKEN TO MITIGATE RATE IMPACTS

- \$6 million operating & maintenance expense reductions in 2020 added to reserves
- Increase personnel vacancy factor to \$4.8 million through prioritized hiring
- Controllable operating & maintenance expenditures reduced nearly \$3 million for 2021/22
- 2020 capital projects deferred, and 2021/22 Capital budget reduced or deferred by \$17.8 million
- 67% of increased revenue requirement funded from existing reserves
- All capital expenditures in 2021/22 funded from existing reserves

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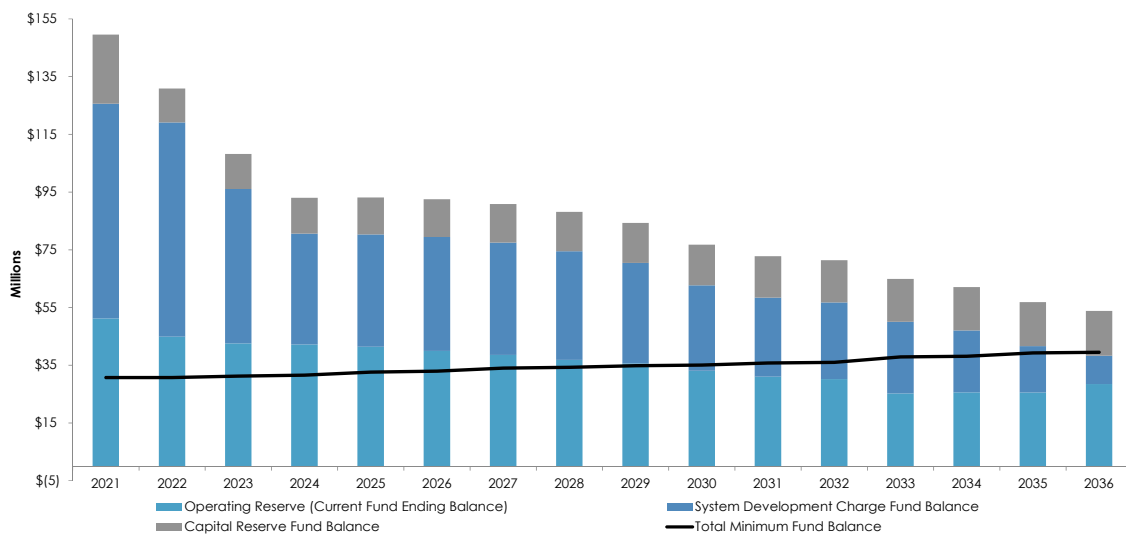
# POWER RESERVES



Actual data through June 2020.

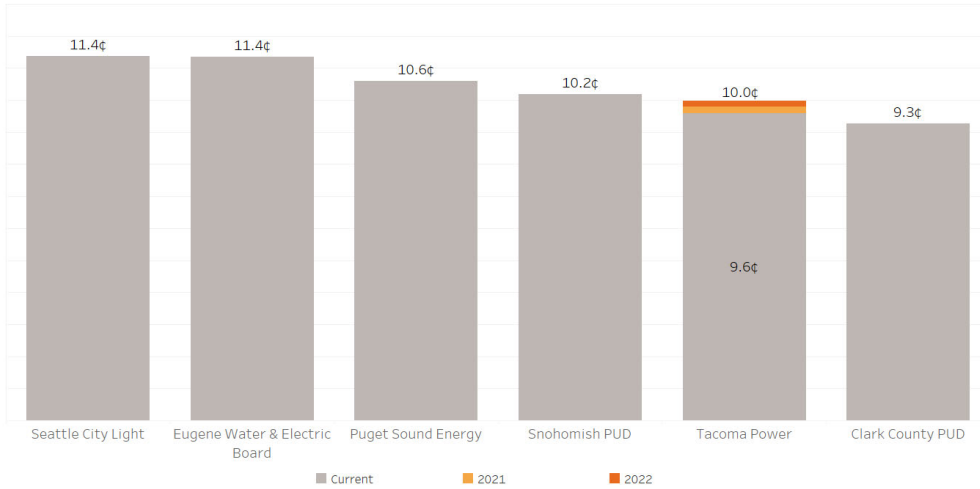
<b>Projected Tacoma Power Metrics</b>	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
ACTUAL Days of Liquidity	312	312	335	215	236	210	206	157							
2019 projected Days of Liquidity								207	198	204	215	217	224	230	251
Current projected Days of Liquidity								191	189	197	171	178	176	181	

# WATER RESERVES



## POWER Residential Rate Comparisons

Average Price per kWh for Residential Consumers



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## WATER Residential Rate Comparison

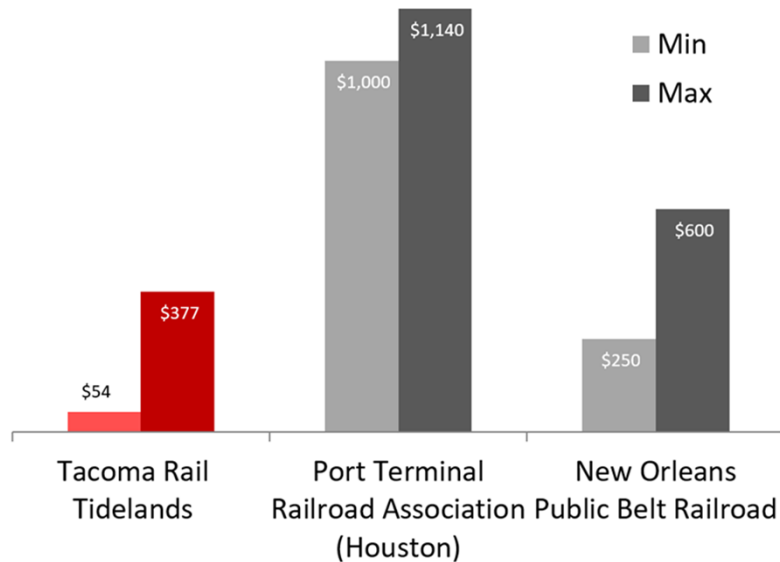
2020 Average Monthly Water Bill for a Single Family Residential Customer



Assumptions for an average single family customer are 6 CCF in winter months and 9 CCF in summer months with 5/8" meter inside the City of Tacoma.  
The blue bar projects the impact of 2% annual rate adjustments in 2021-2022.

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## RAIL Short line Tariff Rates



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## CUSTOMER ASSISTANCE

### 2020 Emergency Assistance Program

- COVID-19 pandemic response
- Moratorium on involuntary disconnections implemented
- Credits for utility services available to eligible households
- Approximately \$2.0M in utility bill assistance provided
- Around 11,000 households assisted

### Ongoing Assistance and Program Enhancements

- Payment arrangements to ease past-due impacts
- Budget billing
- Monitor affordability metrics
- **Assistance program** enhancement considerations:
  - Expand assistance eligibility criteria
  - Increase assistance levels (bill credits and discount rates)

[MyTPU.org/BudgetBilling](https://MyTPU.org/BudgetBilling)

[MyTPU.org/Assistance](https://MyTPU.org/Assistance)

SD1  
Equity and  
InclusionSD4  
Stakeholder  
EngagementSD13  
Customer  
Service

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## PAYMENT ASSISTANCE ENHANCEMENTS



SD1  
Equity and  
Inclusion



SD4  
Stakeholder  
Engagement



SD13  
Customer  
Service



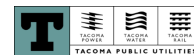
Recommendations by Utility	Power	Water	Solid Waste	Surface Water	Wastewater
Reset Monthly BCAP	\$21 → \$21*	\$7 → \$9	\$7 → \$10	\$4 → \$5	\$8 → \$11
Expand BCAP Eligibility	150% federal poverty level → 60% of area median income				
Increase Discount Rate	30% discount on bill → 35% discount on bill				

\* Power's current BCAP credit already exceeds the 20% average monthly bill target and is expected to continue to meet or exceed it in 2021/2022.

Recommended increases are based on meeting 20% of average monthly bill target across all utilities.

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## PROPOSED ELIGIBILITY EXPANSION



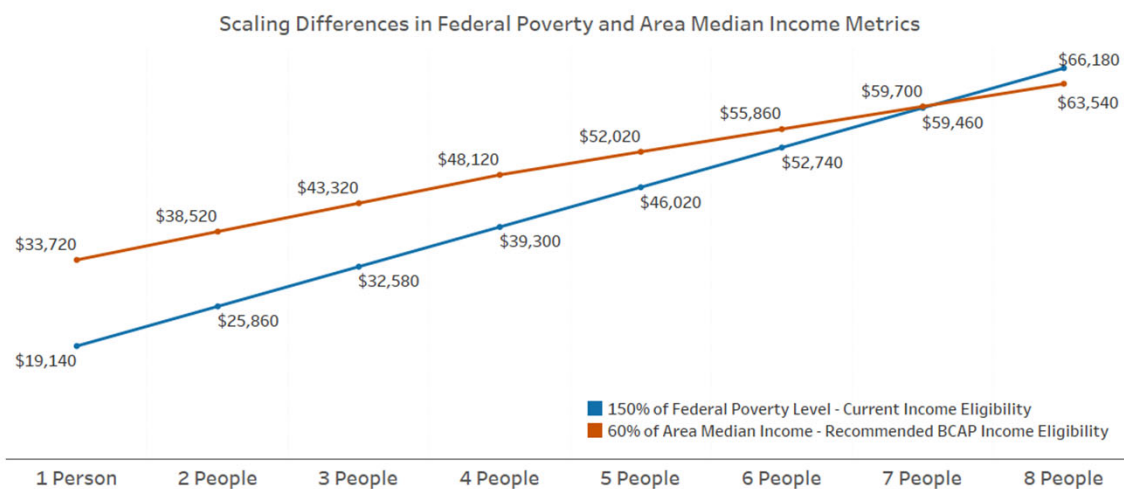
SD1  
Equity and  
Inclusion



SD4  
Stakeholder  
Engagement



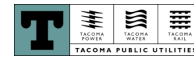
SD13  
Customer  
Service



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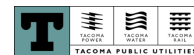
# TPU BIENNIAL BUDGET



(\$ in millions)	2021 - 2022 Budget Proposal
O&M Expenses	
Tacoma Power	\$806.7
Tacoma Water	151.7
Tacoma Rail	69.6
Total Operations & Maintenance Expenses	1,028.0
Debt Service	
Tacoma Power	65.8
Tacoma Water	50.6
Tacoma Rail	1.8
Total Debt Service	118.2
Capital Outlay (Revenue Financed)	
Tacoma Power	60.2
Tacoma Water	79.3
Tacoma Rail	7.0
Total Capital Outlay	146.5
<b>Total Operating Divisions</b>	<b>\$1,292.7</b>

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## Tacoma Power NEW RATE: Prepay



### Providing Customer Benefits from AMI

- Customers pay for electricity before it is used
- Voluntary program available to residential customers as soon as smart meters are available
- PAYGO pilot was very popular with customers
- Same per-kWh rate as regular Residential
- Monthly charge becomes daily charge

SD6  
InnovationSD13  
Customer  
Service

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## Tacoma Power NEW RATE: Shore Power



### Tacoma Power supports Port electrification

- Instead of burning dirty bunker fuel in Port, ships will plug in
- Change in rate design, not reduced rate or subsidy
- Per-kWh charge easier for Port administration
- Additional retail load & revenue
- Improved air quality
- \$0.11713 per kWh in 2021 and \$0.11944 per kWh in 2022



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## Tacoma Power NEW RATE: Electrofuel Non-Firm



### First-in-Nation Rate for Clean Alternative Fuels

- For renewable hydrogen production
- Tacoma Power can curtail 15% of hours with 10 minutes of notice, to take advantage of high wholesale market prices or respond to system events
- Pilot rate based on Industrial tariff with a 65MW cap



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## SUMMARY



SD2  
Financial  
Stability



SD3  
Rates



SD7  
Reliability and  
Resiliency



SD13  
Customer  
Service



- Continue to provide reliable service and protect customer health and safety
- Measures taken to keep budgets and rates below inflation
- Keep rate increases low and predictable and avoid large changes
- Enhanced assistance programs to help the most vulnerable

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## APPENDIX



- Tacoma Power
  - Monthly bill impacts – low, avg, high usage
  - Alternate Rate Scenario
  - Top Ten Customers
- Tacoma Water
  - Monthly bill impacts – low, avg, high usage
  - Alternate Rate Scenario
  - Top Ten Customers
- Tacoma Rail
  - Details of proposed rate increase
  - Proposed Rate Policy Changes

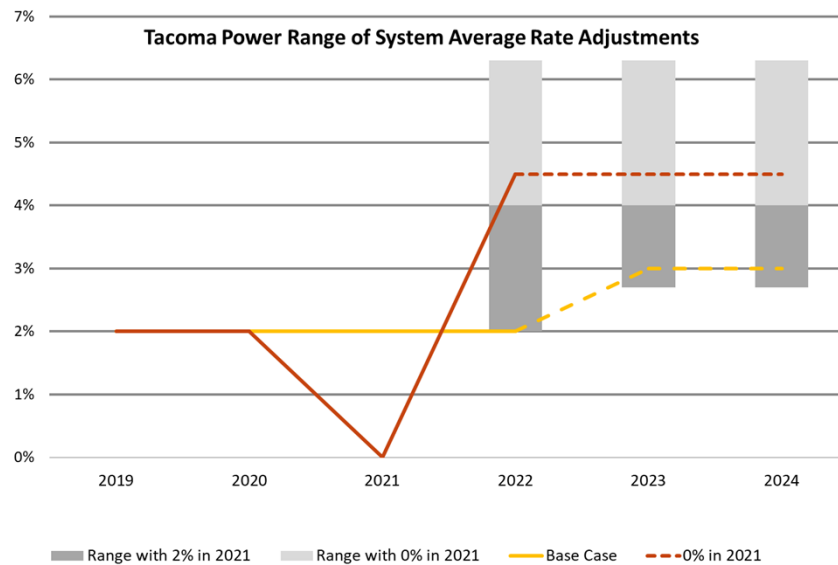
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## MONTHLY POWER BILL IMPACTS



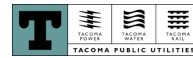
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## ALTERNATE SCENARIO: POWER



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## ALTERNATE SCENARIO: POWER



### RATE SCENARIO WITH 0% IN 2021: IMPACT TO RESIDENTIAL CLASS

	Number Of Customers	Lost Revenue in 2021
Inside City Of Tacoma	87,306	\$1,817,495
Outside City Of Tacoma	74,909	\$1,818,459

Although 46% of Tacoma Power Residential accounts are outside the City of Tacoma, they pay about 50% of the retail residential revenue for the Residential class, due to higher average usage.

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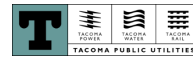
## TOP TEN POWER CUSTOMERS BY REVENUE



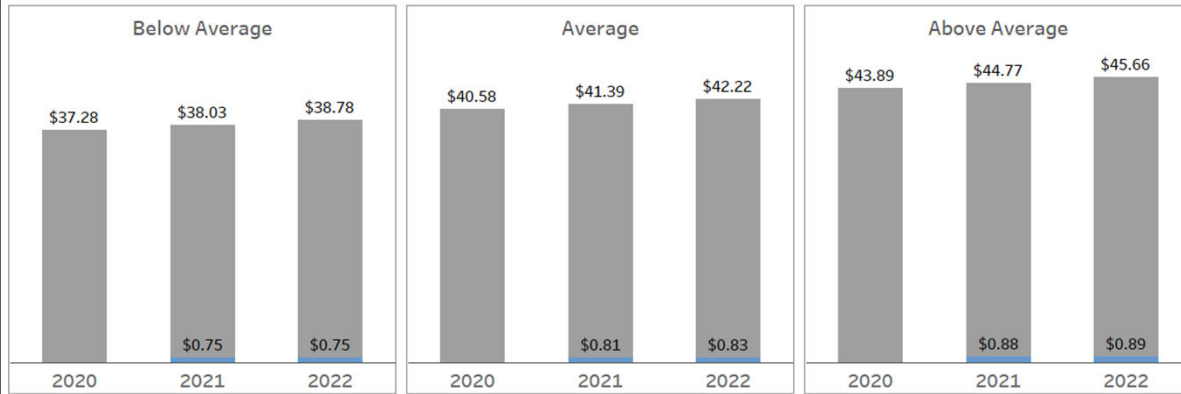
CUSTOMER	RATE CATEGORY	ANNUAL BILL (2019) AS % OF TOTAL RETAIL REVENUE
WestRock	Industrial	4.3%
Fort Lewis	Industrial	3.2%
Praxair, Inc.	Industrial	1.6%
MultiCare Health System	Commercial	1.0%
Tacoma School District	Commercial	1.0%
McChord Air Force Base	Industrial	1.0%
Puyallup Tribe of Indians	Industrial	0.9%
State of Washington Government Agencies	Commercial	0.9%
City of Tacoma	Commercial	0.9%
Pierce County Government	Commercial	0.7%

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# MONTHLY WATER BILL IMPACTS



Projected Monthly Water Bills for Single Family Residential Customers Based on Consumption



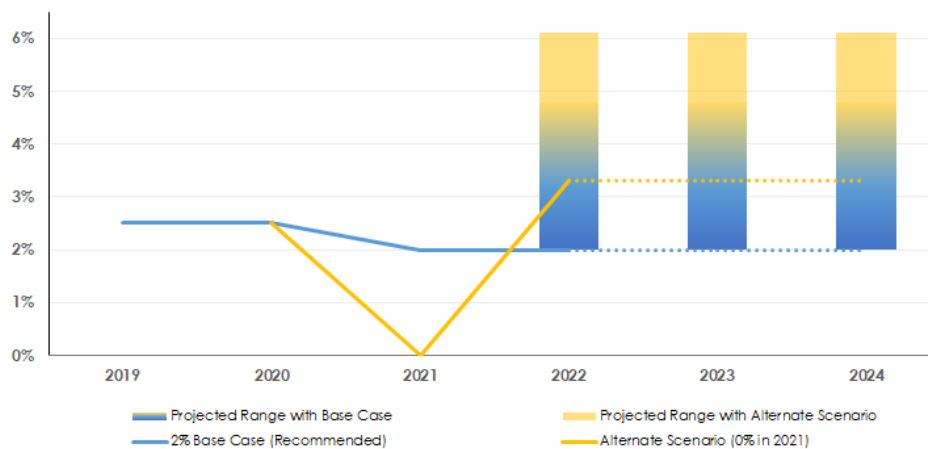
Projections for an average customer assume 6 CCF in winter months and 9 CCF in summer months. Projections for below and above average customers assume  $\pm 20\%$  from average usage.

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## ALTERNATE SCENARIO: WATER



Range of System Average Rate Adjustments



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## ALTERNATE SCENARIO: WATER



### RATE SCENARIO WITH 0% IN 2021: IMPACT TO RESIDENTIAL CLASS

	Number Of Customers	Lost Revenue in 2021
Inside City Of Tacoma	60,814	\$633,329
Outside City Of Tacoma	40,363	\$554,222

Although 40% of Tacoma Water Residential Customers are outside the City of Tacoma, they pay about 47% of the revenue requirement for the Residential class.

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## TOP TEN WATER CUSTOMERS BY REVENUE



CUSTOMER	RATE CATEGORY	ANNUAL BILL AS % OF RETAIL REVENUE (2019)
WestRock	Industrial	7.8%
Metro Parks District	Commercial (General Service, Parks & Irrigation, Private Fire)	1.0%
Frederickson Power	Commercial (Large Volume)	0.9%
Niagara Bottling, LLC	Commercial (General Service, Large Volume)	0.5%
US Oil & Refining	Commercial (General Service, Large Volume, Private Fire)	0.5%
James Hardie Bldg Products Inc	Commercial (General Service, Large Volume, Private Fire)	0.4%
Tacoma School District	Commercial (General Service, Parks & Irrigation, Private Fire)	0.4%
Boeing Co	Commercial (Large Volume, Parks & Irrigation)	0.2%
Multicare Health Systems	Commercial (General Service, Parks & Irrigation)	0.2%
St Joseph Medical Center	Commercial (General Service, Parks & Irrigation, Private Fire)	0.2%

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## RAIL Proposed Rate Adjustment Details



- Demurrage tariff
  - Last adjusted in 2018
  - No proposed changes
- Line haul rates
  - Last adjusted in 2019
  - Rate adjustments of 3% per year
    - See chart
- Miscellaneous switching tariff rates
  - Intermodal intra-terminal rate
    - 2020: \$75 (current rate)
    - 2021: \$78
    - 2022: \$81
  - All other
    - Last adjusted in 2010
    - Special switch, inter-terminal, intra-terminal, intra-plant
    - Rate adjustment of 3% for 2021

	2020	Proposed Rates	
		2021	2022
Intermodal	\$ 51.00	\$ 52.50	\$ 54.00
Commercial			
Tidelands Division	306.00	315.00	324.00
Tidelands Division Hazardous	356.00	366.50	377.00
Capital Division	570.00	587.00	600.00
Unit Train			
Single Spot	224.00	231.00	238.00
Multiple Spot	300.00	309.00	318.00

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## RAIL Proposed Rate Policy Changes



- Create a sub fund for operating surpluses for unanticipated rail volume growth
- Sub fund to be used for:
  - Workforce stability during unanticipated economic downturns
  - Locomotive upgrades & rail infrastructure
  - Grant or debt matching opportunities

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