



TO: Elizabeth Pauli, City Manager
FROM: Jackie Flowers, Director of Utilities, Tacoma Public Utilities
COPY: City Council and City Clerk
SUBJECT: Proposed Rate Ordinance – Amend and revise TMC Chapters 12.06 regarding Electric Rates
DATE: November 6, 2020

SUMMARY AND PURPOSE:

Tacoma Power requests approval by the City Council for two rate adjustments that would become effective on April 1, 2021, and April 1, 2022.

BACKGROUND:

This Department’s Recommendation is Based On: Tacoma Power’s revenue requirement analysis for the twenty-four month rate period requires a revenue increase of approximately \$19 million. The utility has experienced general inflationary increases in operating and capital expenses such as personnel, assessments and technology upgrades. The proposed rate increases are designed to generate additional revenue to maintain financial metrics (debt service coverage and liquidity) and avoid future rate shocks.

This proposal is in alignment with industry ratemaking standards and best practices, as well as the Public Utility Board’s Strategic Directives of Financial Sustainability (SD-2) and Rates (SD-3), and supports Tacoma Power’s Long-Range Financial Plan. Board Directive SD-3 notes that the utility “values planning gradual and consistent utility rate changes that are stable and predictable over the long term”. Board Directive SD-2 directs the utility to produce rate and financial plans that support an “AA-level bond rating, or better, to facilitate access to lower-cost financing and produce sustainable debt service expenses.”

COMMUNITY ENGAGEMENT/ CUSTOMER RESEARCH:

In preparation for this request, Tacoma Power is seeking public input through virtual public presentations at Neighborhood Council and City Council meetings in communities served by Tacoma Power, as well as presentations or written material delivery to interested community organizations such as the Hilltop Action Coalition, the Black Collective, and the Korean Women’s Association.

Tacoma Power demographic analysis suggests that many of Tacoma Power’s customers are able to afford low, stable rate adjustments. However, there remain customers who are more negatively impacted by rate increases. Therefore, this proposal also includes increases to Tacoma Power’s low-income elderly and disabled (LIE/D) discount rate.

2025 STRATEGIC PRIORITIES:

Equity and Accessibility: (Mandatory)

Research on the existing beneficiaries of Tacoma Power’s assistance programs shows that most funds are spent in areas identified as having lower opportunities as measured on the City’s Equity Index. Increasing customer assistance will improve conditions in these areas.

Economy/Workforce: Equity Index Score: Moderate Opportunity
Increase positive public perception related to the Tacoma economy.



Livability: *Equity Index Score:* Moderate Opportunity
Increase positive public perception of safety and overall quality of life.

Explain how your legislation will affect the selected indicator(s).

Tacoma Power’s mission is to provide safe, reliable electric service in an environmentally-responsible way. Reasonable, stable rate adjustments ensure Tacoma Power can continue to meet its mission for the long-term and ensure safety and quality of life for the community it serves. Adherence to the utility’s financial plan prevents retail rate shocks and deterioration of services by ensuring Tacoma Power can maintain financial ratings in a capital-intensive industry.

ALTERNATIVES:

Presumably, your recommendation is not the only potential course of action; please discuss other alternatives or actions that City Council or staff could take. Please use table below.

Alternative(s)	Positive Impact(s)	Negative Impact(s)
1. No rate adjustment	Lower rates in the short-term for Tacoma residents	<ul style="list-style-type: none"> • Higher rates in the long-term for Tacoma Power retail customers • \$19 million shortfall from 2021/2022 rate period financial plan

EVALUATION AND FOLLOW UP:

Tacoma Power monitors budget-to-actual performance at least monthly, constantly updates forecasts for the ten-year financial planning window, and prepares and presents Quarterly Outlook reports and monthly Cash Projections to the Public Utility Board.

STAFF/SPONSOR RECOMMENDATION:

Tacoma Power recommends two rate adjustments, the first of 1.5 percent effective April 1, 2021, and the second of 2.0 percent April 1, 2022.



FISCAL IMPACT:

Please provide a short summary of the fiscal impacts associated with the grant, agreement, policy action, or other action.

Fund Number & Name	COST OBJECT (CC/WBS/ORDER)	Element	Total Amount for Calendar Year 2021-2022
1.4700-Power		Retail Revenue	\$14 million
TOTAL			\$14 million

What Funding is being used to support the expense?

Are the expenditures and revenues planned and budgeted in this biennium’s current budget?

YES
Yes. Tacoma Power is currently planning for additional revenue of approximately \$14 million for the 2019/2020 Budget period (January 1, 2019 to December 31, 2020), and \$19 million for the Rate Period (the twenty-four month period beginning with rates effective April 2021).

Are there financial costs or other impacts of not implementing the legislation?

YES
If the ordinance is not adopted, Tacoma Power will be unable to achieve its adopted financial policy objectives.

Will the legislation have an ongoing/recurring fiscal impact?

YES
Retail rates are on ongoing revenue.

Will the legislation change the City’s FTE/personnel counts?

NO
No additional personnel needed.

ATTACHMENTS:

- Proposed Amendments to Chapters 12.06 TMC