APPROVED 1-11-17

MINUTES
City of Tacoma
Public Utility Board Study Session
December 14, 2016
3:00 p.m.

Mr. Patterson called the Public Utility Board study session to order at 3:00 p.m. at the Public Utilities Administration Building.

Present: Bryan Flint, Woodrow Jones, Mark Patterson, Karen Larkin, Monique Trudnowski (arrived 3:48)

Moss Adams Auditors Entrance Conference

Olga Darlington, Auditor of the Moss Adams Auditing Firm, provided an overview of the pending 2016 financial audit. Ms. Darlington detailed the phases of the audit, timeline, scope of services, responsibilities for both auditors and management under auditing standards, risk assessment/areas of emphasis, and new accounting standards. Areas of emphasis include billing and revenue structure, power costs, plant assets, and net pension liability and related balances. The audit will take approximately six to seven weeks and there will be an exit presentation upon completion of the audit.

Tacoma Power and Water Rates

Director Gaines made introductory remarks. Ray Johnson, Rates and Energy Risk Manager, and Christina Leinneweber, Utilities Economist, presented the Tacoma Power rates information. Sean Senescall, Rates and Financial Planning Manager, and Bill Zimmerman, Utilities Economist presented the Tacoma rates information. Mr. Johnson provided an overview of the three steps to the rate making process: 1) Revenue requirement (identifies revenues needed to sustain operations, based on budget); 2) Cost of Service (COSA) Analysis (determines total to be paid by the customer class); 3) Rate design (constructs rates to collect revenue requirement).

Power COSA: Mr. Johnson detailed the COSA results and the proposed rate adjustment by customer class and outlined the different class rates (high voltage general, large/small general service, and H1 street lights/traffic signals). As review, Mr. Johnson revisited the expenditures and budget drivers. The bill comparison for small general service and general service was shared.

Power Policy/Residential Rate Design: The residential rate design staff proposal is to put 100 percent of the increase into the customer charge. The rationale is to reduce seasonal bill variability and enhancing financial stability. A rate design study, the objective of which was to determine which rate design will minimize the negative impacts of the proposed rate increase, was conducted. The study findings were summarized. Rate design cannot insulate all low-income customers from rate increases and increasing the customer charge mitigates the worst impacts from a rate increase as it avoids burdening some customers with very large bill increases and avoids concentrating rate increases in the already expensive winter season. Bill assistance was then summarized. The rate design complements the bill credit assistance plan in that assistance and bill increase are spread evenly throughout the year. The assistance increase fully offsets the proposed rate increase in 2017 and partially offsets the cumulative increase in 2018.

Power Policy/Click! Under-Recovery: Click! cost under-recovery has historically been allocated to all rate classes as a proportion of their revenues. Historically, most Power costs related to Click! have been borne by distribution customers, which are primarily residential. The 2017-2018 budget shows a much larger under-recovery of Click! costs. Two options for allocating this under-recovery were presented: 1) allocation proportional to revenue (represents base case consistent with what has been shown up to this point); 2) allocation by meter count (lower rate increases for CP, HVG, general service and street lighting classes and higher rate increases for residential and small general). A graphical representation of each option was then shared.

Power/ Streetlights: The current street light rate design consists of unmetered street lights and traffic signals being charged a flat rate per month. Metered lights and signals are charged on a per-kWh basis. Unlisted, unmetered lights are charged per kW of connected load based on hours of use. The proposed rate design is to charge all lights per kW of connected load based on hours of use and to remove the subsidy for the H2 class. The benefit is that the rate design will be simpler and easier to administrator, creates a similar rate design between all lighting rate schedules, and allows for changing technology. Lastly, the addition of a new rate class, called H3, is proposed. This is for utility-owned, municipally-maintained street lights and the street light replacement project which will replace approximately 16,400 aging street lights with new LED technology.

Water COSA: Mr. Senescall detailed a graph illustrating the annual costs of service shifts with level of service change. The reasons for differences in class rates were then summarized. There are declining demands and increasing treatment costs for commercial large volume. There is high account growth outside the city and low account growth inside the city for public fire protection. There is steady account growth and few new costs for private fire protection. A graphical illustration of customer class overall revenue requirement was then detailed. As review, Mr. Senescall then revisited the budget drivers.

Water Bill Comparison/Bill Assistance: Graphs illustrating average monthly bills for residential and commercial general inside the city limits were detailed. The rate design complements the bill assistance plan. Assistance and the bill increase are spread evenly throughout the year. The assistance increase fully offsets the proposed increase in 2017 and partially offsets the cumulative increase in 2018.

Water Rate Design/Outside Differential: Per biennium, $5M is collected from customers outside the 20 percent outside rate differential. Updated study findings on the subject indicate that water service costs are sensitive to density. The analysis supported a reduction to a three percent outside differential and removal of the differential from the Service Development Charge (SDC) outside Tacoma. Four alternatives for consideration are: 1) status quo; 2) decrease by one percent per year to three percent; 3) decrease by two percent per year to three percent;

remove the differential immediately and entirely. Graphical representations of each alternative were then detailed.

Water Rate Design for Parks and Irrigation: Currently the cost for parks and irrigation is approximately $50,000. Alternatives are: 1) status quo; 2) reduce the ready-to-serve charge by 16 percent per year to zero starting in 2017; 3) reduce the ready-to-serve charge by 100 percent starting in 2017. Metro Parks is the largest user within the class and will experience an additional cost of $870 per month in 2018. Metro Parks owns the water system within the park and Tacoma Water is in discussions with Metro Parks to transfer and sub-meter the system.

The rate process schedule going forward includes stakeholder (municipals and neighborhood councils) briefings, additional Board study sessions and a public hearing, Board consideration, a presentation to the Government Performance and Finance Committee, and then Council consideration. The target rate effective date is April 1, 2017.

Tacoma Power: Click! Rates

Tenzin Gyaltsen, Click! General Manager, made introductory remarks. This presentation focuses only on the Cable TV service. Cable TV rates were last increased by ten percent in July 2014. The recommended Cable TV rate increase of 17.5 percent in 2015 was approved by the Board, but not the Government Performance and Finance Committee due to pending policy direction on the Click! business plan. A 10 percent Cable TV rate increase was planned for 2016 but not advanced for approval due to pending policy direction. Revenues have declined, costs have risen, and significant under-recovery of costs Cable TV persists. The cable TV customer base has declined while programming and labor costs have risen. Competitor rates now are 17.5 percent to 32.1 percent higher than Click!. The 2017/2018 rate proposal consists of two cable TV rate increases during the 2017/2018 biennium occurring in March of each year with approval to offer short-term promotional pricing and approval to continue offering the 20 percent low income discount. Staff is seeking approval of both the 2017 and 2018 proposed rate increases simultaneously. Charts illustrating the proposed cable TV rates, rate increase history, market rate comparison, and sample bill comparisons were detailed. Next steps in the Click! rate process is Board consideration at the January 11, 2017 meeting; Government Performance and Finance Committee review on January 18, 2017 followed by Council consideration on January 24 and 31, 2017. If approved, a 30-day customer notification will be conducted in February of 2017 and 2018 with effective dates on March 1, 2017 and 2018. Board Members discussed the timing and pros and cons of potential rate increases with the timing of the business plan implementation.

Tacoma Power: Utility Undergrounding

Clay Norris, Power Manager, outlined challenges utilities face with undergrounding: undergrounding is expensive for the utility and property owners; poles have other uses like telecommunications; and equity issues as to who pays are challenging. Mr. Norris detailed the pros, cons, and rationale of three alternatives: 1) TPU adopt a policy to co-fund commercial projects contingent on City of Tacoma actions. For commercial LIDs, Tacoma Power pays 20 percent of conversion costs. City of Tacoma requires customers in the LID to convert their service connection. City of Tacoma requires other utilities (telecom) in the LID to convert to underground. This option provides more funding assistance than supported by engineering analysis and can be done quickly and would support development in the Brewery District and other locations. Aesthetics are not improved unless service connections are underground; 2)

TPU works with the City to target a geographic area for undergrounding with separate rates. Specific areas (such as downtown) have a rate adder to recover utility undergrounding costs. City requires customers in the area to convert their service connection at their expense. City requires other utilities (telecom) in the area to convert to underground. Co-funding through LIDs alone is unlikely to make a material difference of the aesthetics of down; 3) TPU investigates the feasibility of a loan program for customer service connections. Up-front costs of conversion are a challenge for customers and may create a barrier to undergrounding projects.

Adjournment

The study session was adjourned at 6:05 p.m. until the next regularly scheduled study session on Wednesday, January 11, 2017 at 3:00 p.m.

Approved:	Approved:
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Mark Patterson, Chair	Woodrow E. Jones, Jr., Secretary