



**City of Tacoma
Public Utility Board Meeting
September 14, 2016; 6:30 p.m.
Tacoma Public Utilities Auditorium
(3628 South 35th Street)**

Call to Order

Roll Call

- A. Approve Minutes of Previous Meetings**
- B. Comments by the Public**
- C. Consent Agenda**
- D. Regular Agenda**

Tacoma Power

- D-1 Resolution U-10874 - Approval of a Click! All-In business and funding plan to provide retail telecommunication services.

H. Reports of the Director

- H-1 Current fund cash projections for Power, Water, Rail
- H-2 June 2016 financials for Power, Water, Rail, Fleet, Self-Insurance Fund



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RESOLUTION NO. U-10874

1 A RESOLUTION relating to Click! Network; approval of an All-In business and
2 funding plan to provide retail telecommunication services.

3 #1. WHEREAS the City Council of Tacoma delegated authority to the
4 Public Utility Board and the Department of Public Utilities ("TPU"), Light Division
5 (dba "Tacoma Power"), to implement and manage a broadband
6 telecommunications system ("Click! Network" or "Click!", as authorized through
7 City Council Substitute Resolution No. 33668, approved April 8, 1997, and
8 Public Utility Board Amended Substitute Resolution U-9258, approved April 9,
9 1997), and
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11 #2. WHEREAS the 1997 business plan contemplated that the revenues
12 associated with telecommunications services related to city government
13 communications, CATV service, transport of signals to service providers
14 offering telecommunications services, and internet access services would pay
15 for the costs of such services and would provide an additional revenue stream
16 to Tacoma Power to help offset the construction and operations costs
17 associated with the telecommunications system, and
18

19 #3. WHEREAS many of the functions of the telecommunications system
20 envisioned in the 1997 business plan have been achieved in their entirety since
21 the infrastructure improvements were completed in 1999 including: conventional
22 substation communication functions, distribution automation, city government
23 communications functions, CATV service, transport of signals for service
24 providers offering telecommunications services (the last three functions are
25 "Click!") and internet access services (through third party providers), and
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#4. WHEREAS other contemplated functions have been partially achieved for certain electric customers through the Gateway meter program, which include: remote turn on/off for electric customers, automated meter reading (electric), and provision of information to customers that is relevant to their energy purchasing decisions, and

#5. WHEREAS the customers of the fully implemented uses of the telecommunications system (city government communications functions ("I-Net"), CATV service, transport of signals for service providers offering telecommunications services) have shared in part of the capital costs of constructing the telecommunications system as well as the operation and maintenance of the infrastructure to the benefit of electric customers who would have paid 100% of these costs, and

#6. WHEREAS the telecommunications system continues to provide interconnectivity, advanced control and power management between electrical substations, which provides safe, reliable and efficient use of electrical resources for the benefits of all Tacoma Power customers, and

#7. WHEREAS the existing business plan and current cost allocations for Click! functions do not generate sufficient revenues to fund current expenses and capital improvement costs related to these functions, and

#8. WHEREAS, on an ongoing basis, Tacoma Power will continue to use portions of the telecommunications system for conventional substation and other communications, distribution automation, etc., and



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#9. WHEREAS, for a period of time, portions of the telecommunications system will continue to be utilized by Tacoma Power to support the Gateway meter program, which serves over 15,000 Tacoma Power customers, and

#10. WHEREAS future advanced meter infrastructure may use portions of the fiber network facilities of the telecommunications system and may, in part, rely on the HFC infrastructure to fully implement the remaining functions described in the 1997 business plan, and that if and when such future uses occur, Tacoma Power should pay a share of the costs of the telecommunications system related to such uses, and

#11. WHEREAS, following a nine month review by the Click! Engagement Committee, a committee comprised of representatives of the City, TPU and citizens appointed by the City, the Engagement Committee described the community benefits of an enhanced Click! telecommunications system and an outline of the features of such a system, and

#12. WHEREAS Tacoma Power has determined, in part as a result of the Click! Engagement Committee work, that to increase revenues, Click!'s retail products must be enhanced to include retail internet services and voice over internet phone services that can be bundled with the current CATV services (Click! would continue offering wholesale data transport services and city governmental communications functions), and

#13. WHEREAS the studies by the Click! Engagement Committee and Tacoma Power's financial analysis demonstrate that continuing to provide CATV services in support of retail internet services makes the sale of such



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services a more competitive overall product and improves the financial sustainability of Click!, and

#14. WHEREAS the studies of the Click! Engagement Committee, Tacoma Power's financial analysis, and industry experts conclude that high speed internet access of 1 gigabit will be the standard for the next generation. Click! needs to make capital improvements to the current telecommunications system infrastructure to achieve these or greater speeds and to keep the competitiveness of Click! internet services in the community, and

#15. WHEREAS all financial models studied by the Click! Engagement Committee and Tacoma Power nonetheless show that the market price that can be charged for these enhanced Click! services and the market penetration that can be achieved will be insufficient to cover all of the costs associated with the operations and maintenance of the telecommunications system and the capital improvements necessary to update the HFC to allow for 1 gigabit service, and

#16. WHEREAS the internet related uses of the current Click! telecommunications system and an enhanced Click! telecommunications system would provide Tacoma Power customers benefits by giving them access to advanced customer services options, such as power use monitoring, outage reporting, scheduling of services, bill paying, and electrical appliance control, and

#17. WHEREAS, in planning for an uncertain and unknown future, there may be other potential functions related to the supplying of electricity to customers not considered in the existing business plan that might also make



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use of the telecommunications system infrastructure including: cyber security, electric car charger locations and metering, enhanced customer information products (power usage by time of day, behavior based saving programs, outage communications, energy audits, participation in Evergreen Options), and

#18. WHEREAS the Board has a duty to ensure that Tacoma Power ratepayers pay in their power rates only those costs that are directly and reasonably related to the provision of electric service, and

#19. WHEREAS the Board has a duty to ensure that Tacoma Power and Click! are in compliance with legal and statutory requirements, and

ALT A #20. WHEREAS, *although the Board supports the vision and goals described in recitals #11 – #17 above, the Board nonetheless finds that those visions and goals benefit the public generally and are not sufficiently related to the provision of electric service to support funding solely from Tacoma Power electric rate revenue, and*

ALT A #21. WHEREAS *the Board also concludes that many of the community goals set out for Click! by the Click! Engagement Committee can be met through a partnership between Click! and a third-party private partner that would provide the capital and operational funding necessary to enhance the Click! telecommunications system, and*

ALT B #20. WHEREAS *Tacoma Power has excess power generation capacity within its service territory. In the past, Tacoma Power has benefitted greatly by selling this excess capacity in the wholesale power markets to the benefit of all retail electric customers. Over the past few years, wholesale power*



1 *prices and sales have dropped substantially. In support of Tacoma Power's*
2 *strategic business plan, Tacoma Power wants to make up this lost revenue by*
3 *looking at ways to increase its retail power sales through economic growth in*
4 *the community. Communities across the nation have benefited economically*
5 *from competitive access to internet services in their communities. Tacoma*
6 *Power's continued operation and maintenance of the telecommunications*
7 *system for internet access purposes assists in making the internet services*
8 *competitive in Tacoma Power's service area, which increases economic growth*
9 *that leads to greater retail power sales, and*

11 **ALT B #21.** *WHEREAS, in order to preserve the functionality and value*
12 *of the telecommunications system for the benefit of Power customers, the*
13 *Board has determined there should be a supplemental level of funding from*
14 *Power to the telecommunications system based on direct services reasonably*
15 *related to the provision of electric services as innumarated herein, and*

17 **#22.** *WHEREAS the Board nonetheless finds it wasteful and*
18 *unproductive to abandon or leave unutilized the HFC components, which are*
19 *currently used to provide Click! functions (including CATV and internet access*
20 *services) and, in order to preserve the functionality and value of the Click!*
21 *telecommunications system, the Board determines it prudent to provide a*
22 *supplemental level of funding from Tacoma Power to the telecommunications*
23 *system for a limited period of time until a stable source of funding from an*
24 *alternate source can be secured, and*

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#23. WHEREAS the Board concludes that the City and the general public also benefit from Tacoma Power maintaining and updating the telecommunications system and therefore non-Tacoma Power ratepayer sources of funds should be identified to assist in paying a portion of the costs associated with these activities that are unmet through revenues generated from the sale of enhanced Click! products, and

#24. WHEREAS the Board has determined that along with enhanced product offerings, the new business plan should also grant Click! management flexibility to change product offerings, prices, and marketing strategies without prior Board or Council approval so as to effectively compete with private companies offering similar products and services, and

#25. WHEREAS the Board finds it to be in the best interests of its electric customers and the citizens of Tacoma that a new business plan be approved for Click! functions; Now, therefore,

BE IT RESOLVED BY THE PUBLIC UTILITY BOARD OF THE CITY OF TACOMA:

Sec. 1. Click!'s proposed high-level "All-In" business plan (the "Business Plan") attached as Exhibit A to this resolution, is approved, with such approval conditioned on approval of the Business Plan and the funding and other provisions of this resolution by the Council on or before [November 30] 2016.

Sec. 2. The Clerk of the Board is directed to forward this Resolution and the Business Plan to the City Council for immediate consideration. Upon approval of the Business Plan and the funding and other provisions of this resolution by Council, TPU staff is directed to complete the more detailed aspects of the Business Plan.

Sec. 3. TPU's request that Click! Management be delegated authority to make changes to products, prices, and marketing strategies contained within the Business Plan without further approval by the Board and City Council is approved, and the Council is requested to concur in such approval.



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Sec. 4. As of January 1, 2017, Click!’s revenues and expenses shall be placed and accounted for in a separate fund within the Tacoma Power division budget. Expenses shall be determined on a “cash flow” basis incurred by Click! after January 1, 2017.

Sec. 5. Tacoma Power’s request to borrow [\$12 Million - \$14.0 Million] at [___] % annual interest rate for a period of 10 years from the City’s general fund or other City designated source of funding for required capital improvements to provide enhanced product offerings and to be repaid solely from Click! product revenues is approved, and the Council is requested to approve such loan and the terms related to the repayment of these funds and appropriate said funds.

ALT A - Sec. 6. Tacoma Power’s request to transfer the following annual amounts to the Click! fund from Tacoma Power electric revenues, to appropriately compensate Power’s beneficial use of the telecommunications system infrastructure is approved. The Board will adjust these amounts periodically based on updated cost allocation studies.

2017	\$6,120,000
2018	\$6,120,000
2019	\$4,700,000
2020	\$4,700,000
2021*	\$2,051,000
2022*	\$2,122,062
2023*	\$2,262,130
2024*	\$2,331,140
2025*	\$2,401,514

*The amount currently estimated to be the costs allocated for Tacoma Power’s actual use of Click! Network resources.

ALT A - Sec. 7. The Council is requested to approve and provide a biennial appropriation of funds from the City’s general fund or other City designated source of funding for use by the Click! fund to pay all Click! operating, maintenance, taxes, capital costs and debt service in excess of the amounts provided by Tacoma Power under Section 6 above. The City’s appropriation under this Section 7 is currently estimated to be the following amounts:

2017	\$2,775,801
2018	\$4,913,619
2019	\$6,427,402
2020	\$4,074,560
2021	\$6,650,593



1	2022	\$6,875,159
2	2023	\$7,036,145
	2024	\$7,212,832
3	2025	\$7,511,423

4 **ALT B - Sec. 6.** *Tacoma Power's request to transfer the following annual*
5 *amounts to the Click! fund from Tacoma Power electric revenues, to*
6 *appropriately compensate Power's past, current and future beneficial uses of*
7 *the telecommunications system infrastructure and to pay all Click! operating,*
8 *maintenance, taxes, capital costs and debt service in excess of the amounts*
9 *provided by the City under Section 7 below, is approved. Tacoma Power's*
10 *transfer from electric revenues under this Section 6 is currently estimated to be*
11 *the following amounts:*

9	2017	\$6,120,000
10	2018	\$6,730,000
	2019	\$6,430,000
11	2020	\$6,590,000
	2021	\$6,755,000
12	2022	\$6,924,000
	2023	\$7,097,000
13	2024	\$7,275,000
14	2025	\$7,457,000

15 *The Board will adjust these amounts periodically based on updated cost*
16 *allocation studies.*

17 **ALT B - Sec. 7.** *The Council is requested to approve and provide a*
18 *biennial appropriation of funds from the City's general fund or other City*
19 *designated source of funding for use by the Click! fund in the following*
20 *amounts:*

19	2017	\$1,700,000
20	2018	\$1,742,000
	2019	\$1,786,000
21	2020	\$1,831,000
	2021	\$1,876,000
22	2022	\$1,923,000
	2023	\$1,971,000
23	2024	\$2,020,000
24	2025	\$2,071,000

25 *The Council will adjust these amounts periodically based on updated cost*
26 *allocation studies.*



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Sec. 8. There is no commitment of supplemental funding for Click! beyond 2025 from either the Council or the Board. In 2020, staff will prepare a report to the Board and Council detailing business plan objective achievements and financial status of Click! to determine any adjustments in future funding.

Sec. 9. If the Council fails to approve the above requests by or before [November 30, 2016], then the Board directs Tacoma Power and Click! staff to commence a search for and negotiate with potential third party(s) (public or private) to develop an alternative business plan for Click! that would retain ownership of the telecommunications system by Tacoma Power and reflect operation by a public/private partnership with the objectives of (i) achieving as many of the community objectives laid out by the Click! Engagement Committee as possible, and (ii) minimizing or eliminating the projected cash losses laid out in the proposed Business Plan. *[Upon receipt of an alternative business plan that is acceptable to the Board, the Board will relinquish the City Council delegations of authority related to Click! as provided in the 1997 resolutions, and, based on TPU's authority under the City Charter to manage surplus capacity of utility assets, will enter into any agreements required to implement the alternative business plan.]*

Approved as to form and legality:

William C. Ashe
Chief Deputy City Attorney

Clerk

Adopted _____

Click! All-In Compete Business Plan

Key Business Plan Elements:

- Click! is expected to provide retail cable modem internet, voice over internet protocol, commercial broadband services, and other advanced telecommunications services in addition to retail cable television service to residential and commercial customers.
- Click! is expected to provide bundled service of cable television, internet and phone services.
- The Click! network is expected to continue operating as an Open Access Network.
- Click! is expected to maintain its existing wholesale relationships with the Internet Service Providers (ISP), including Rainier Connect, Net-Venture and Advanced Stream. No buy out of the ISPs' businesses is assumed. Wholesale internet pricing offered to ISPs will need to be addressed.
- Click! is expected to maintain its existing wholesale relationships with the Master Service Agreement (MSA) holders, including Rainier Connect, Optic Fusion, twtelecom, Integra, CenturyLink, Spectrum Networks and Noel Communications. No buyout of the MSAs' businesses is assumed. Wholesale broadband pricing offered to ISPs will need to be addressed.
- Click! is expected to remain a unit of Tacoma Power within Tacoma Public Utilities and be governed by the Tacoma Public Utilities Board. More independent and flexible governance is a key element of the plan.
- Tacoma Power is expected to pay 6% of the total O&M costs as its proportionate share for utilizing the telecommunications network. Tacoma Power's proportionate share of O&M costs may change over time as its use of the telecommunications network changes.
- Click! is expected to upgrade its hybrid fiber coaxial (HFC) network to 1 Gigahertz, deploy DOCSIS 3.1 technology, and, over time, build new plant extension with fiber-to-the-home (FTTH) technology.
- Click! is expected to offer Gigabit and multi-Gigabit service to residential customers.
- Click! is expected to continue offering Gigabit and multi-Gigabit Metro Ethernet services to commercial customers.
- Click! is expected to continue maintaining and supporting the City's Institutional Network (I-Net).
- Click! is expected to offer discounted residential Cable TV and Phone services to payment challenged customers based on existing Federal poverty guidelines (up to 100% of the income threshold) that have been adopted by Tacoma Public Utilities.
- Click! is expected to offer a \$14.95 internet service for qualified low income customers, of which \$9.25 of the charge is expected to be covered by the new Federal Lifeline program leaving a customer out-of-pocket cost of \$5.70 per month.
- Click! is expected to achieve labor cost and operating savings by negotiating work rule changes, providing employee training and contracting out new and certain existing functions.
- Click! is expected to conduct door-to-door Sales Burst campaigns during the first and third years of the new business plan period, which are expected to generate between 4,000 and 6,000 new customers.

Click! All-In Compete Business Plan

Financial and Customer Summary (Low/High Growth):

Base - Assumptions		Year 2 - 2017	Year 5 - 2020	Year 10 - 2025
Homes Passed		113,950	113,950	113,950
# of Retail Internet Customers	L	10,416	26,215	31,379
	H	10,750	28,919	35,713
# of Wholesale Internet Customers	L	17,333	5,695	3,754
	H	17,333	4,556	3,003
Internet Market share	L	24.4%	28.0%	30.8%
	H	24.6%	29.4%	34.0%
# of Phone Customers	L	1,800	4,566	5,399
	H	2,173	6,058	7,557
Phone Market share	L	1.6%	4.0%	4.7%
	H	1.9%	5.3%	6.6%
# of Cable Customers	L	19,035	18,544	13,831
	H	19,185	19,378	15,136
Cable Market share	L	16.7%	16.3%	12.1%
	H	16.8%	17.0%	13.3%
# of employees	L	89	101	104
	H	91	106	110
Cumulative Capital investment	L	\$16.0M	\$29.5M	\$49.3M
	H	\$16.1M	\$30.0M	\$50.2M
Annual Cash Flow/Subsidy	L	(\$19.5M)	(\$4.9M)	(\$5.7M)
	H	(\$19.6M)	(\$4.4M)	(\$4.2M)
Cumulative Cash Flow	L	(\$19.5M)	(\$39.5M)	(\$65.6M)
	H	(\$19.6M)	(\$38.6M)	(\$58.7M)
NPV	LH	(\$19.5M)	(\$36.6M)	(\$56.5M)
		(\$19.6M)	(\$35.9M)	(\$51.2M)

- It is anticipated that Click! will continue to operate in a deficit situation for the foreseeable future.
- The viability of this business plan is contingent upon securing external funding.