



APPROVED 10-10-18

MINUTES
City of Tacoma
Public Utility Board Study Session
September 26, 2018
3:00 p.m.

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

Present: Karen Larkin, Bryan Flint, Christine Cooley, Mark Patterson (arrived 4:30)

Excused: Woodrow E. Jones, Jr.

Tacoma Power: Click! Rate Adjustment

Tenzin Gyaltzen, Click! General Manager began with background. For the current biennium, Click! is expected to post a deficit of approximately \$6.5M. A preliminary draft budget for the 2019/2020 biennium projected a deficit of approximately \$9.9M. Click! Network financial deficits have historically been funded by Tacoma Power. Cable TV rate increases were not implemented in 2015 and 2016; the 2017 Cable TV rate increase was implemented, but 2018 was postponed. On an a la carte basis, Click! Cable TV rates are under market and no wholesale internet rate increases were implemented in the last decade. Challenges were then outlined by Mr. Gyaltzen. The Superior Court decision prohibits the use of Tacoma Power funds to pay for Click! deficits. The city's general fund is not in a position to support Click! deficits. The transition to a public/private partnership is expected to take 12 to 18 months and it is unclear whether Tacoma Power can fund Click! business transition costs such as retention and severance for employees. These conditions require Click! to present a fully self-funded budget. Potential solutions are to raise cable TV rates, raise wholesale internet rates, or reduce O&M and capital costs. Mr. Gyaltzen then reviewed graphical representations of budget adjustments in the form of reduced capital and full-time employees, proposed 2019/2020 budget, cable and wholesale internet rate tables, and market rate comparisons. In summary, the proposed 2019/2020 budget entails drastic cost cuts and revenue enhancements. Labor and capital cuts are necessary, but not sustainable long-term. Augmentation of contract labor was achieved as a result of a letter of agreement with IBEW Local 483. Raising cable TV and wholesale Internet Service Provider (ISP) rates is necessary. The proposed transition budget temporarily resolves legal and budgetary constraints. The proposed budget should not be viewed as a viable financial model. The next steps in this process include a presentation to the City Council's Government Performance and Finance Committee and then Board and

Council consideration. Notification to the ISPs and customers would follow. The targeted effective date is January 1, 2019.

Customer Service: Low-Income Program Budget Update

Francine Artis, Assistant Customer Services Manager, reviewed the utility bill payment assistance budgets. Labor and O&M costs for Customer Solutions are paid through the normal allocations for Customer Services. None of the expenses are included in the budgets for the bill assistance programs. Ms. Artis then provided an overview of the outreach and engagement activities conducted on rates. Onsite enrollments have been held and staff has participated in community events put on by Mercy Housing, Greater Lakes Mental Health, Hilltop street fair, and neighborhood council meetings. Upcoming outreach events include Habitat for Humanity, Tacoma Housing Authority, Eastside Community Center grand opening, and the Fife harvest festival.

Tacoma Power: Budget

Chris Robinson, Power Superintendent began by outlining Tacoma Power's top priorities, which are: Put safety first; Support Click! Network; Leadership development: Listen to our community leaders; and Participate in new market opportunities. Strategic initiatives include: Listen to our community and customer focus; Financials; Care for our environment; and Focus on employees. Budget risks include Bonneville Power Administration (BPA) rate increases; wholesale market power prices; weather; and regulatory mandates. Mitigation steps include adverse water planning; wholesale energy risk management program; use of reserves; financing; and rate adjustments. Superintendent Robinson reviewed the preliminary O&M budget, which entailed information on purchased power, personnel, taxes, revenue-funded capital, assessments, and capital projects. Superintendent Robinson then reviewed the preliminary revenue budget, which included information on retail, wholesale, and Click! revenue. In summary, a 3.8 percent rate increase for the next biennium is recommended. The budget supports the strategic plan and operational needs. The largest budget drivers (purchased power, taxes, and assessments) are non-discretionary. Short and long-term efforts to manage costs and revenue requirements include wholesale revenues, debt restructuring, vacancy rates, revenue requirements based on historical spending and having an asset management and project management office. Superintendent Robinson concluded by reviewing tables illustrating revenue, expenses, capital budget, assessments, and taxes.

Tacoma Power: Rates

Power Superintendent, Chris Robinson, provided an overview of the rate process, providing background and details on the revenue requirement, cost of service analysis (COSA), rate design (new and existing classes) and rate and financial policy. Tacoma Power's revenue requirement is a forecast of the amount needed to cover all of the utility's expenses and meet financial plan goals. The requirement forecast from the June 27, 2018 Board presentation remains unchanged. The recommended two percent system-average rate increase in 2019/2020 is designed to meet debt service coverage

ratio targets, manage cash levels, and minimize rate spikes in the future. A graphical representation of the COSA results and increases by class was detailed. Rate and financial policy updates are: low-income and senior/disabled assistance programs (addresses programs available through utility assistance programs); rate stability (sets an objective that seeks to stabilize rates and better align with Water's rate and financial policies); and class rate increase cap (addresses caps for class rate increases and enables better alignment with Water's rate and financial policies). Public outreach on rates was then reviewed. In general, the rate proposal has been well received. The various means of communications were reviewed. Negotiations with Joint Base Lewis McChord on rates focused on three issues: classification of Tacoma Power owned hydroelectric production cost; classification of BPA power cost, and allocation of demand-classified production cost. Tacoma Power has recommended studying this issue and producing a full report and recommendation for use in the 2021/2022 rate case. The rate recommendations assume no change to allocation methodology for the current rate case. Next steps in the rate process include a presentation to the Council's GPFC committee, public hearing on the budget and rates on October 10, followed by a joint Council and Board study session on TPU budget and rates on October 16. The entire budget will be brought forward for Board consideration on October 24, followed by Council consideration on November 13 and November 20, 2018.

Representatives from Joint Base Lewis McChord (JBLM) provided input on the impact of Tacoma Power's rate proposal on JBLM. In attendance were Kyle Smith (attorney for the Department of the Army), Dr. Larry Blank (Economics Professor at New Mexico State University and the Center for Public Utilities); Shawn Kelly (consultant from Exeter Associates hired by the Department of Defense); and James Averkamp (JBLM Public Works Directorate).

Mr. Smith distributed a handout summarizing a study conducted this past summer by the University of Washington Tacoma that estimates the economic impact of JBLM as \$8.3B to \$9.2B on the community.

Dr. Blank, outlined the steps in COSA (Cost of Service Analysis): functionalization, classification, and allocation. Dr. Blank stated JBLM is not disputing the first two, but there is disagreement on allocation. JBLM recommends the Board consider a change from the COSA method used by Tacoma Power in developing the rate proposal. JBLM's recommend demand allocation: generation assets, regardless of technology, are built/purchased to serve peak loads; customers with low load factors tend to drive more of the spike in peak months; Tacoma Power is a winter-peaking utility, driven by the increased heating load of residential customers; use of a 4-CP methodology for Tacoma Power follows accepted industry standards. Dr. Blank shared graphical representations of information to support this position.

Board Member Cooley thanked the attendees for taking the time to share their input with the Board and would like to see a study on this by Tacoma Power before a decision

is made. Dr. Blank added that the study should include load research. Board Member Patterson stated that Tacoma Power's rate design can be researched, but not in time for the next biennium budget. Mr. Patterson stated that Tacoma Power is committed to conducting more research. Board Member Flint affirmed that JBLM is very important and understands their concerns; however, their presented scenario could cause a tripling of the rate increase for residential customers and that can't be supported by him. Board Member Larkin shared that Tacoma Power wants an appropriate COSA model and it is worth conducting an evaluation; however, it won't be done for the next rate cycle. Board Member Larkin states she supports Tacoma Power staff taking a deeper dive on this issue.

Adjournment

The study session was adjourned at 5:54 p.m. until the next regularly scheduled study session on Wednesday, October 10, 2018 at 3:00 p.m.

Approved:

Approved:

Woodrow E. Jones, Jr., Chair

Bryan Flint, Secretary