

Tacoma Power 2021-22 Revenue Requirement & Rate Proposals

Public Utility Board

26 August 2020

Agenda

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Section 1

Overview

2021-22 Pricing Proposals for PUB Discussion

Already Introduced (May 27th PUB Meeting):

- ✓ Residential Prepayment rate
- ✓ Shore Power rate
- ✓ Distributed Generation (DG) rate
- ✓ Non-Firm rate
- ✓ New Large Load rate

For Discussion Today:

- Open Access Transmission Tariff (OATT) update
- New business service fees update
- Rate component attribution of increase

Long-Range Financial Plan—Forecast Sensitivities

Scenarios:

- **Second wave of pandemic shut-downs in 2021**
- **Loss of large load in 2021**
- **Critical water in 2021**
- **Adverse water in 2021 and 2022**
- **Economic rebound**
- **Low wholesale prices**



**Standard
Planning
Scenarios**

Actual-to-Date Load Variances

Observed retail loads have declined under stay-at-home and phased-restart orders, compared to the pre-COVID forecast.

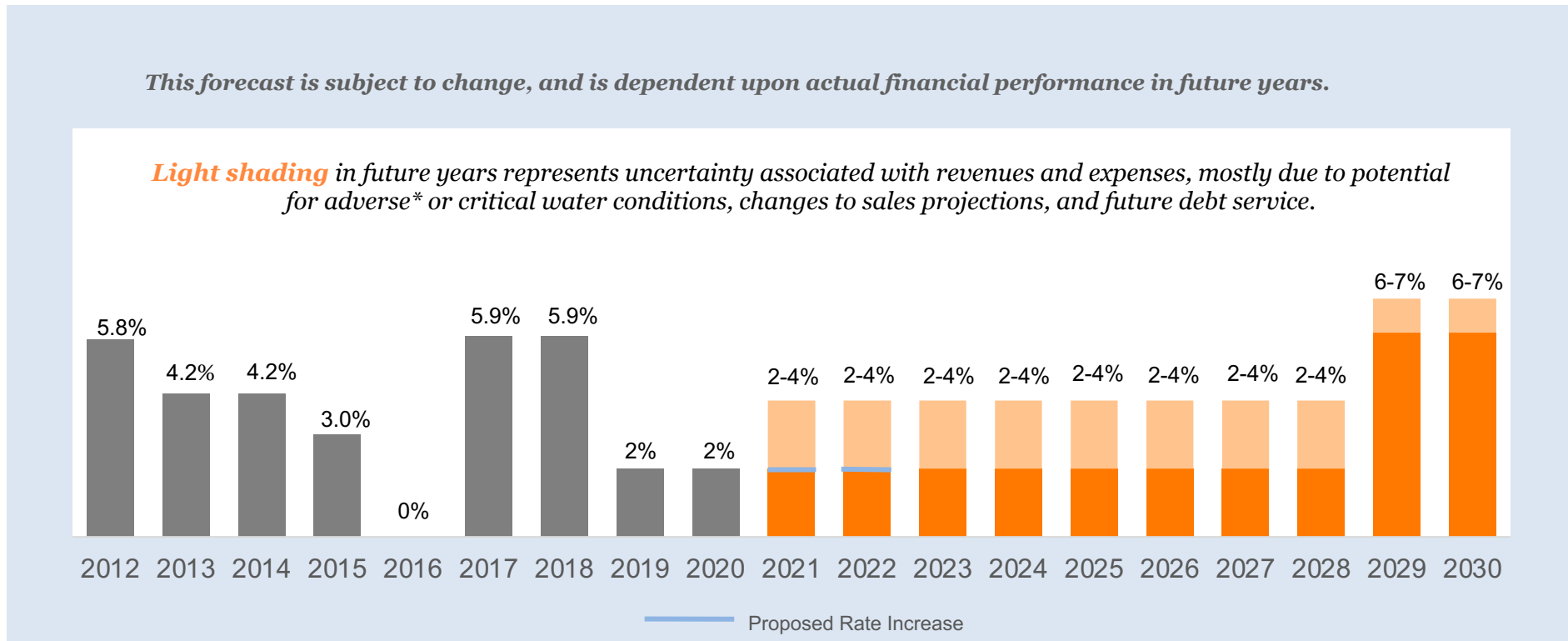
2020	January	February	March	April	May	June	July
Weather-Normalized Actual Load	681.0	657.6	596.6	520.2	454.4	461.7	460.2
October 2019 Forecast Load	679.3	643.3	607.5	549.8	482.3	479.8	486.4
Forecast Variance	0.25%	2.21%	-1.80%	-5.38%	-5.79%	-3.77%	-3.07%*

*In the month of July, a contract industrial customer conducted their annual maintenance process, which significantly impacted forecast variance. For this reason, forecast variance reported in that month excludes contract industrial loads. When contract industrial loads are included, forecast variance increases to -5.39%.

Tacoma Power continues to monitor the changing situation.

2021-22 Revenue Requirement & Long-Range Financial Plan Scenarios

Base Case Forecast: 2 percent Rate Increases Proposed for 2021 & 2022

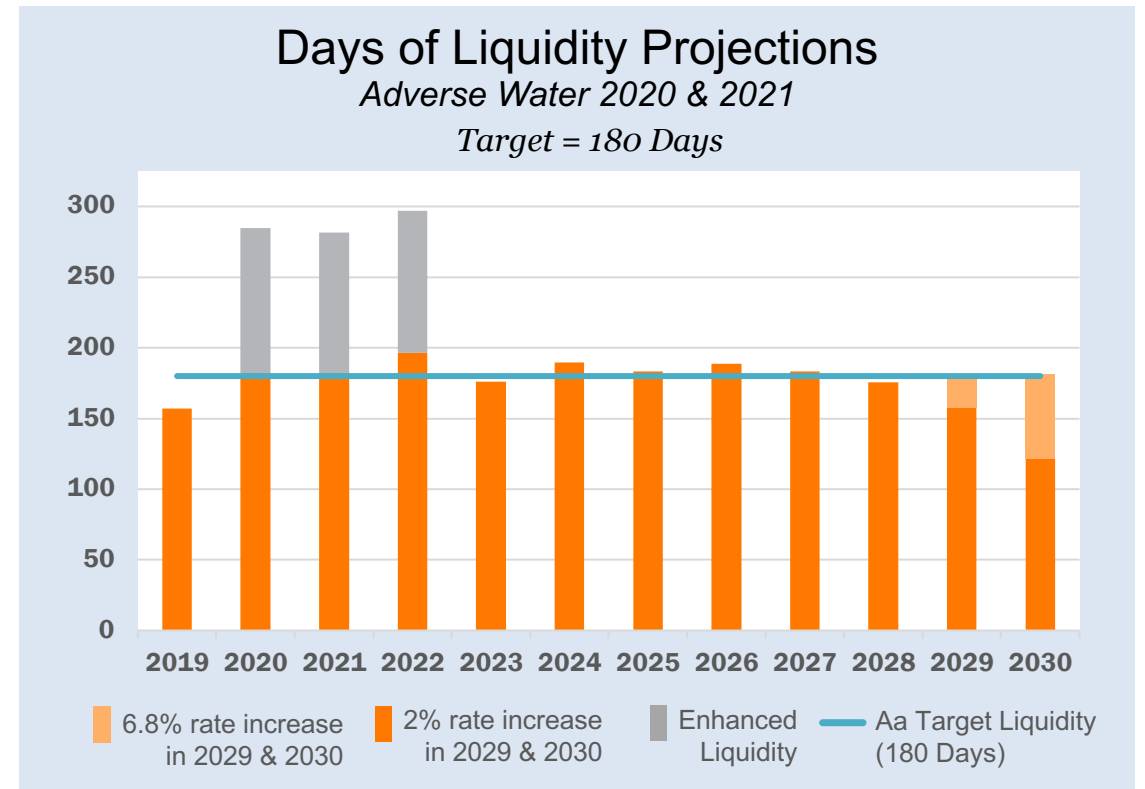
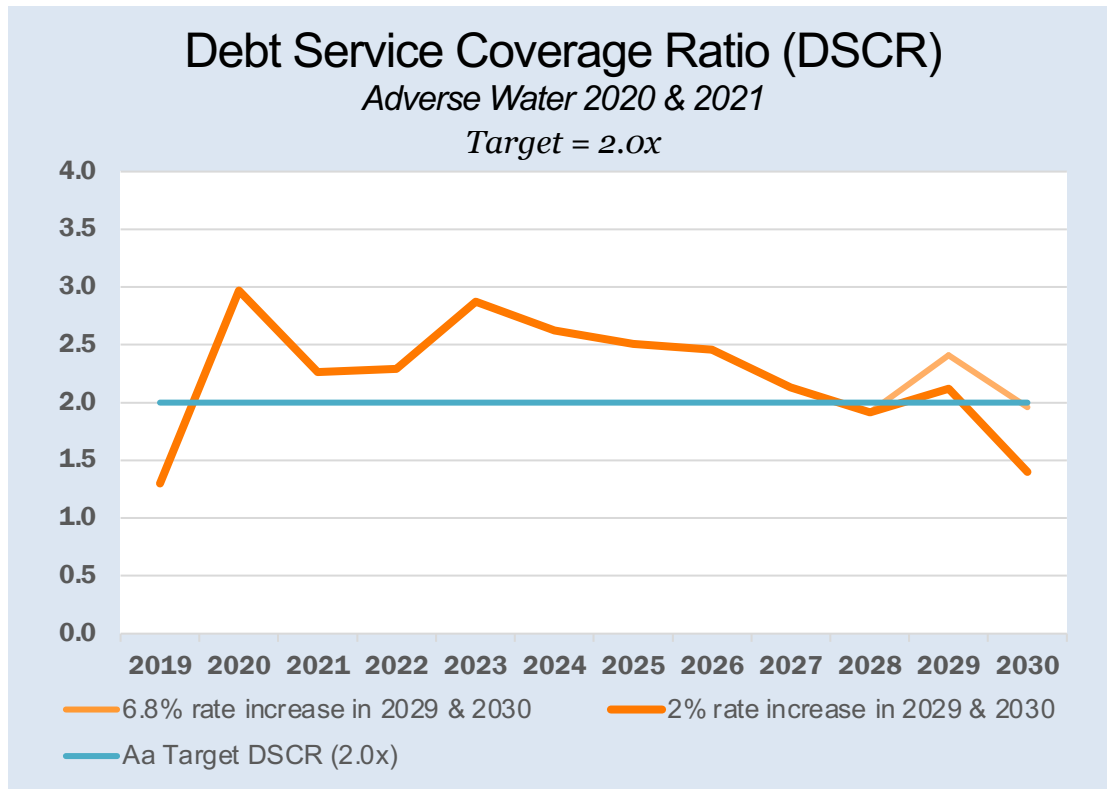


LRFP Scenario Rate Forecasts

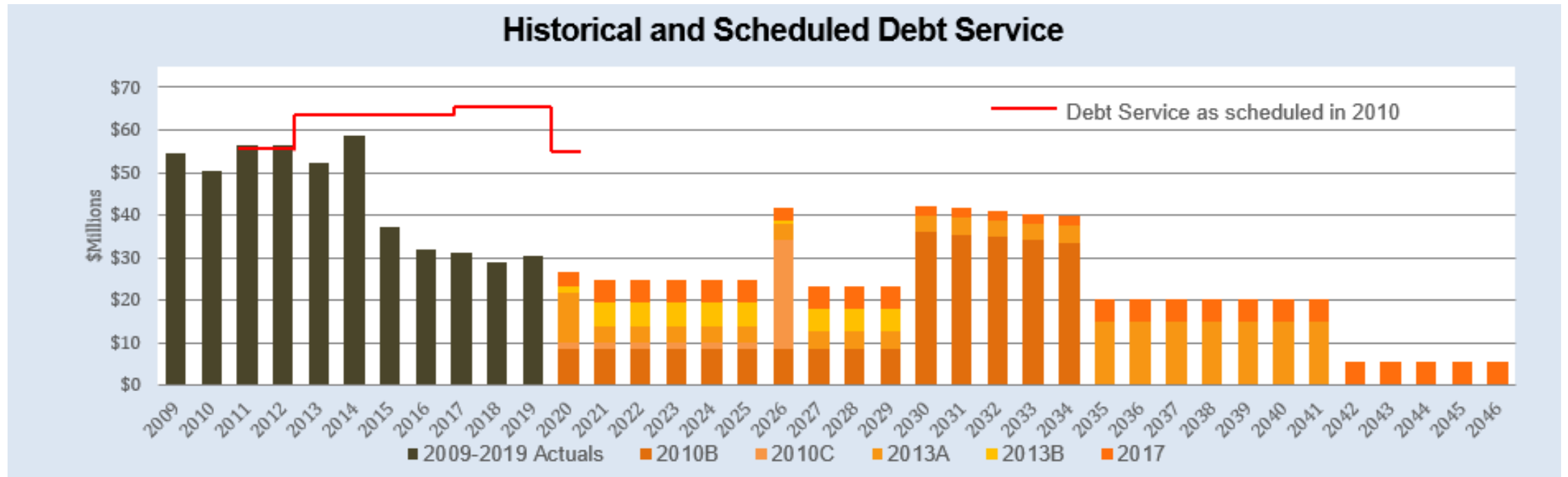
Scenario	Projected Rate Increases											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Base Case: Average Water Conditions	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	6.0%	6.0%
Budget - Adverse Water in 2021 & 2022	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	6.8%	6.8%
Critical Water in 2021	2.0%	2.0%	2.0%	2.0%	6.0%	2.0%	2.0%	2.0%	2.0%	2.0%	4.5%	4.5%
Loss of Large Customer	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	3.0%	3.0%	7.0%	7.0%
Lower Wholesale Prices	2.0%	2.0%	2.0%	2.0%	5.0%	2.0%	2.0%	2.0%	3.0%	3.0%	4.0%	5.5%
Second Wave Pandemic in 2021 & 2022	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	3.8%	7.5%	7.5%

Preliminary

Base Case Debt Service Coverage and Liquidity Metrics



Manage Debt Profile to Minimize Long-Term Rates



The Long View:

Managing debt service has produced significant savings to date.

Planned \$150 million bond issuance in 2021.

A bond call in 2023 and defeasance in 2025 are desirable to manage debt service and keep rates low.

Tacoma Power has AA-level credit ratings¹

High ratings enable:

- access to financing (e.g. KeyBank agreement)
- lower interest rate on bonds

Electric Rate & Financial Policy:

- requires debt-service coverage ratios and days cash on hand consistent with current rating
- mandates low and consistent rate increases to minimize customer impact
- approved by TPU Board and City Council

Strategic Directive SD-2 on Financial Sustainability:

- **Outcome 4:** “AA-level bond rating, or better, to facilitate access to lower-cost financing and produce sustainable debt service expenses.”
- **Outcome 7:** “Financial management of debt service over the long term to maintain reasonable debt-service requirements and meet debt service coverage ratios.”

Rating agencies are interested in different things

	Moody's*	S&P	Fitch
<i>Investment Grade</i>	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
	A1	A+	A+
	A2	A	A
	A3	A-	A-
	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
Baa3	BBB-	BBB-	
<i>Non-Investment Grade Speculative</i>	Ba1	BB+	BB+
	Ba2	BB	BB
	Ba3	BB-	BB-
	B1	B+	B+
	B2	B	B
	B3	B-	B-
	Caa1	CCC+	
	Caa2	CCC	
	Caa3	CCC-	CCC
	Ca	CCC	
	C		DDD
		D	DD
			D

This table compares the different rating scales for the three credit rating agencies, with Tacoma Power's current rating highlighted.

— Target — Current Tacoma Power Rating

* Moody's current rating for Tacoma Power only applies to Bonds issued before 2017.

¹ Fitch Ratings affirmed Tacoma Power's AA- rating on August 14, 2020. The full report is included in the Board packet and [available online](#).

2021-22 Pricing Proposals

2021-22 Pricing Proposals for PUB Discussion

For Discussion Today:

- **Open Access Transmission Tariff (OATT) update**
- **New business service fees update**
- **Rate component attribution of increase**

Update Open Access Transmission Tariff (OATT)

Tacoma Power has chosen to provide transmission service to third parties under a standard rate, the Open-Access Transmission Tariff. This rate is based on the cost of providing transmission service.

The OATT was last updated in 2012, using 2009 data. Since that time:

- Costs have escalated.
- Tacoma Power is accounting for use of more of the transmission system for itself.
- Transmission customers are taking a new mix of services

Because the rate has not been updated in many years, some percent increases are high. On an annualized basis, however, most changes are around 3%.

Some legal language changes may also be incorporated into the OATT at the same time the rates are changed, to facilitate usage with the EIM.

Preliminary Open-Access Transmission Tariff (OATT)

OATT Schedule	Schedule Name	Current (per MWh)	2019	Increase	As %	% Annual
1	Scheduling, System Control, and Dispatch	\$0.82	\$1.06	\$0.24	29%	2%
2	Reactive Supply and Voltage Control	\$0.08	\$0.14	\$0.06	75%	7%
3	Regulation and Frequency Response	\$0.34	\$0.52	\$0.18	53%	1%
5	Spinning Reserve	\$14.45	\$20.48	\$6.03	42%	2%
6	Supplemental Reserve	\$14.45	\$20.48	\$6.03	42%	2%
7	Point-to-Point	\$2.99	\$3.95	\$0.96	32%	3%

Initial Revenue Impact Estimate :
\$1.75 to \$2 million additional annual wheeling revenue to Tacoma Power

Preliminary and subject to change.

New Business Service Fees Update

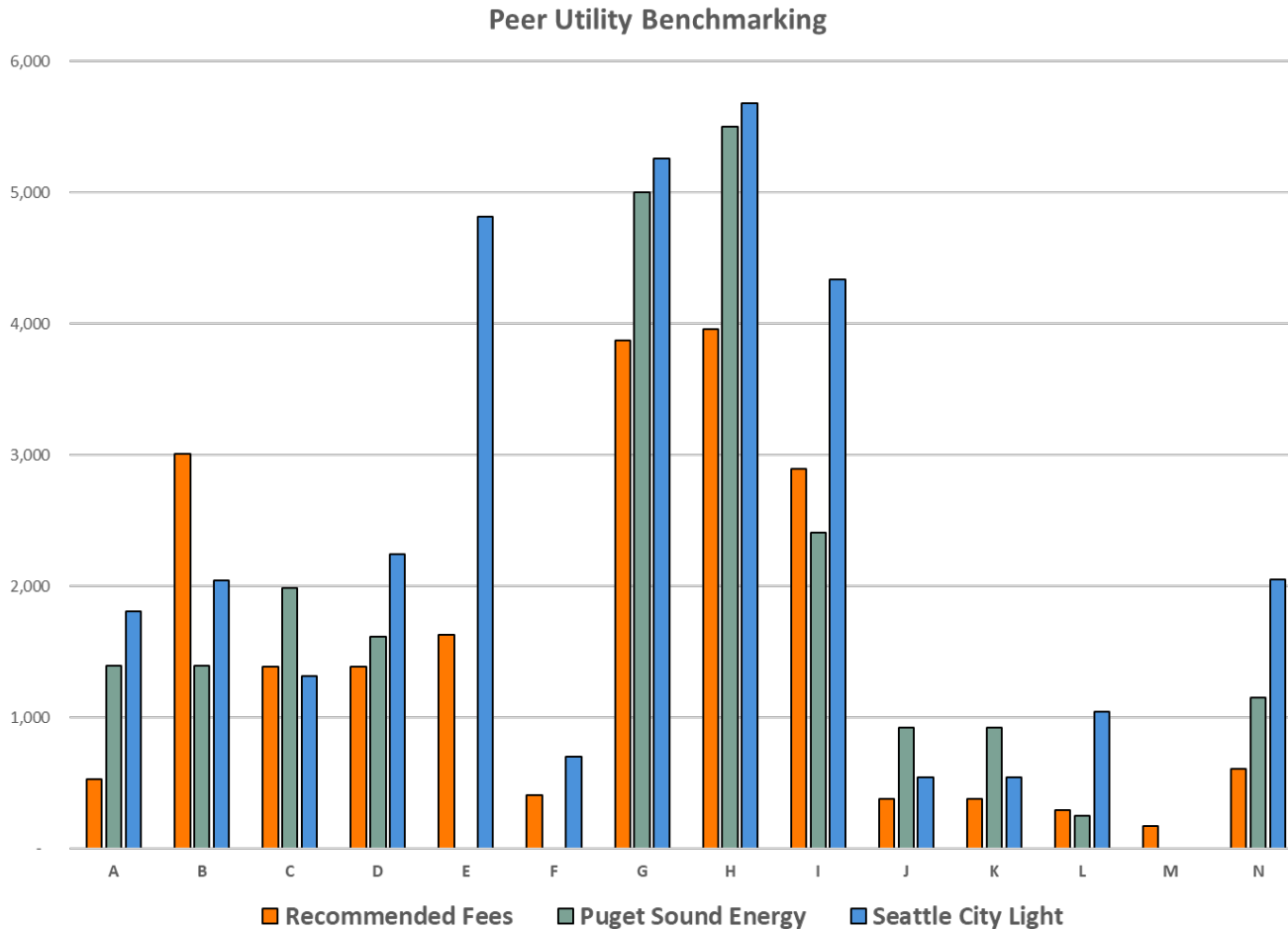
Tacoma Power charges standardized fees for common new services work. These fees were last updated in 2009. Costs have increased such that fee revenue no longer covers costs.

- **Fees do not reflect general cost escalation over 10+ years.**
- **The Washington State Department of Labor and Industries changed electrical service disconnect and reconnect rules in 2017. The new ruling exacerbated the total fixed-fee under-recovery.**
- **In the 2018/2019 period, under-recoveries averaged about \$640,000.**

Utilizing a sample of actual cost from SAP, staff audited and averaged actual costs for each type of service work, then adjusted the results for anticipated cost changes, such as wage increases that are already embedded in union contracts.

Fee under-recoveries increase costs to the general rate base.

New Business Service Fees Update



Because the fees have not been updated in many years, the full-cost update increases range from 15% to 180%. However, they are still competitive with peer utilities.

In order to prevent cross-subsidization of fee work by the general ratebase, Tacoma Power’s long-term goal should be to raise fees to levels sufficient for full cost recovery. Whether or not this is done immediately or in a multi-phase process is a policy decision.

New Business Service Fees Update

Fee Description	Current Fee	Actual Average Cost	Increase	as %
A Connect New 200A Service to an Existing SSB	\$275	\$530	\$255	93%
B Install and Connect New 200A Service and SSB to an Existing Transformer	\$1,075	\$3,010	\$1,935	180%
C Connect New 320A, Single-Phase Service to an Existing Overhead Secondary	\$675	\$1,385	\$710	105%
D Connect New 200A, Three-Phase Service to an Existing Overhead Secondary	\$1,395	\$1,630	\$235	17%
E Connect 200A, Single-Phase Temporary Service to Existing Overhead	\$275	\$410	\$135	49%
F Install New 200A Service, SSB, Conduit, and Wire to an existing Power Pole	\$2,150	\$3,875	\$1,725	80%
G Install New 320A Service, SSB, Conduits, and Wire to an existing Power Pole	\$2,495	\$3,960	\$1,465	59%
H Install New 200A Service and Wire to Existing Power Pole in Customer Conduit	\$1,060	\$2,895	\$1,835	173%
I Connect Street Light Circuit to an OH or UG Secondary Service	\$185	\$380	\$195	105%
J Connect Unmetered Cable/DSL Service to OH or UG Secondary Service <i>OH = overhead, UG = underground</i>	\$185	\$380	\$195	105%
K Maintenance of Cable/DSL Service to OH or UG Secondary Service	\$185	\$295	\$110	59%
L Install Communications Conduits while Installing an SSB	\$140	\$170	\$30	21%
M Install a Rental Light Pole on Private Property	\$532	\$610	\$78	15%

Allocation of Rate Increase to Rate Components

- **No COSA was performed in preparation for this rate proceeding**
- **All customer classes proposed to receive the same percent increase (2%)**
- **The COSA prepared in 2018 suggested that there is some under-recovery for certain classes in fixed charges and demand charges**
- **The same class revenue percent increase can be put into the fixed charge, the variable charges, or both**

Options for Rate Components of Residential

A. 100% to monthly charge

- **Customer Charge: +\$1.85 per month each step**

B. Same percentage to all rate components (2%)

- **Customer charge: +35¢ per month each step**
- **kWh charge: +0.16¢ each step**

C. Half in monthly charge; half in variable charge

- **Customer charge: +95¢ per month first step, +90¢ per month second step**
- **kWh charge: +0.10¢ first step, +0.11¢ second step**

D. 100% to kWh charge

- **kWh charge: +0.20¢ each step**

Options for Rate Components of Residential

	Current Rates	All Fixed 2021	Step One		All Fixed 2022	Step Two	
Energy + Delivery (per kWh)	8.0704 ¢	8.0704 ¢	0.0000 ¢	0%	8.0704 ¢	0.0000 ¢	0%
Fixed (per month)	\$17.30	\$19.15	\$1.85	11%	\$21.00	\$1.85	10%
	Current Rates	Proportion 2021			Proportion 2022		
Energy + Delivery (per kWh)	8.0704 ¢	8.2318 ¢	0.1614 ¢	2%	8.3964 ¢	0.1646 ¢	2%
Fixed (per month)	\$17.30	\$17.65	\$0.35	2%	\$18.00	\$0.35	2%
	Current Rates	50/50 2021			50/50 2022		
Energy + Delivery (per kWh)	8.0704 ¢	8.1671 ¢	0.0967 ¢	1%	8.2725 ¢	0.1054 ¢	1%
Fixed (per month)	\$17.30	\$18.25	\$0.95	5%	\$19.15	\$0.90	5%
	Current Rates	All Variable 2021			All Variable 2022		
Energy + Delivery (per kWh)	8.0704 ¢	8.2689 ¢	0.1985 ¢	2%	8.4717 ¢	0.2028 ¢	2%
Fixed (per month)	\$17.30	\$17.30	\$0.00	0%	\$17.30	\$0.00	0%

Residential Bills under Alternative Rate Designs

SMALL USER				LARGE USER			
270 kWh	Current Rates	2021 Rates	2022 Rates	2,000 kWh	Current Rates	2021 Rates	2022 Rates
All Fixed	\$39.09	\$40.94	\$42.79	All Fixed	\$178.71	\$180.56	\$182.41
		+\$1.85	+\$1.85			+\$1.85	+\$1.85
		4.7%	4.5%			1.0%	1.0%
Proportional	\$39.09	\$39.87	\$40.67	Proportional	\$178.71	\$182.28	\$185.93
		+\$0.78	+\$0.80			+\$3.57	+\$3.65
		2.0%	2.0%			2.0%	2.0%
50/50	\$39.09	\$40.30	\$41.49	50/50	\$178.71	\$181.59	\$184.60
		+\$1.21	+\$1.18			+\$2.88	+\$3.01
		3.1%	2.9%			1.6%	1.7%
All Variable	\$39.09	\$39.63	\$40.17	All Variable	\$178.71	\$182.68	\$186.73
		+\$0.54	+\$0.55			+\$3.97	+\$4.06
		1.4%	1.4%			2.2%	2.2%

Average Bill is \$92.23 under current rates, \$94.09 under 2021 rates (all designs), and \$95.93 under 2022 rates (all designs).

Options for Rate Components of Small General

A. 100% to monthly charge

Customer charge: +\$2.95 per month first step,+\$3.00 per month second step

B. Same percentage to all rate components

- Customer charge: +45¢ per month first step,+50¢ per month second step
- kWh charge: +0.16¢ each step

C. Half in monthly charge; half in variable charge

- Customer charge: +\$1.50 per month each step
- kWh charge: +0.09¢ first step,+0.10¢ second step

D. 100% to kWh charge

- kWh charge: +0.19¢ each step

Options for Rate Components of Small General

	Current Rates	All Fixed 2021	Step One		All Fixed 2022	Step Two	
Energy + Delivery (per kWh)	7.9823 ¢	7.9823 ¢	0.0000 ¢	0%	7.9823 ¢	0.0000 ¢	0%
Fixed (per month)	\$23.50	\$26.45	\$2.95	13%	\$29.45	\$3.00	11%
	Current Rates	Proportional 2021			Proportional 2022		
Energy + Delivery (per kWh)	7.9823 ¢	8.1432 ¢	0.1609 ¢	2%	8.3047 ¢	0.1615 ¢	2%
Fixed (per month)	\$23.50	\$23.95	\$0.45	2%	\$24.45	\$0.50	2%
	Current Rates	50/50 2021			50/50 2022		
Energy + Delivery (per kWh)	7.9823 ¢	8.0759 ¢	0.0936 ¢	1%	8.1725 ¢	0.0966 ¢	1%
Fixed (per month)	\$23.50	\$25.00	\$1.50	6%	\$26.50	\$1.50	6%
	Current Rates	All Variable 2021			All Variable 2022		
Energy + Delivery (per kWh)	7.9823 ¢	8.1721 ¢	0.1898 ¢	2%	8.3661 ¢	0.1939 ¢	2%
Fixed (per month)	\$23.50	\$23.50	\$0.00	0%	\$23.50	\$0.00	0%

Small General Bills under Alternative Rate Designs

SMALL USER				LARGE USER			
500 kWh	Current Rates	2021 Rates	2022 Rates	3,000 kWh	Current Rates	2021 Rates	2022 Rates
All Fixed	\$63.41	\$66.36 +\$2.95 4.7%	\$69.36 +\$3.00 4.5%	All Fixed	\$262.97	\$265.92 +\$2.95 1.1%	\$268.92 +\$3.00 1.1%
Proportional	\$63.41	\$64.67 +\$1.25 2.0%	\$65.97 +\$1.31 2.0%	Proportional	\$262.97	\$268.25 +\$5.28 2.0%	\$273.59 +\$5.35 2.0%
50/50	\$63.41	\$65.38 +\$1.97 3.1%	\$67.36 +\$1.98 3.0%	50/50	\$262.97	\$267.28 +\$4.31 1.6%	\$271.67 +\$4.40 1.6%
All Variable	\$63.41	\$64.36 +\$0.95 1.5%	\$65.33 +\$0.97 1.5%	All Variable	\$262.97	\$268.66 +\$5.69 2.2%	\$274.48 +\$5.82 2.2%

Average Bill is \$147.19 under current rates, \$150.13 under 2021 rates (all designs), and \$153.13 under 2022 rates (all designs).

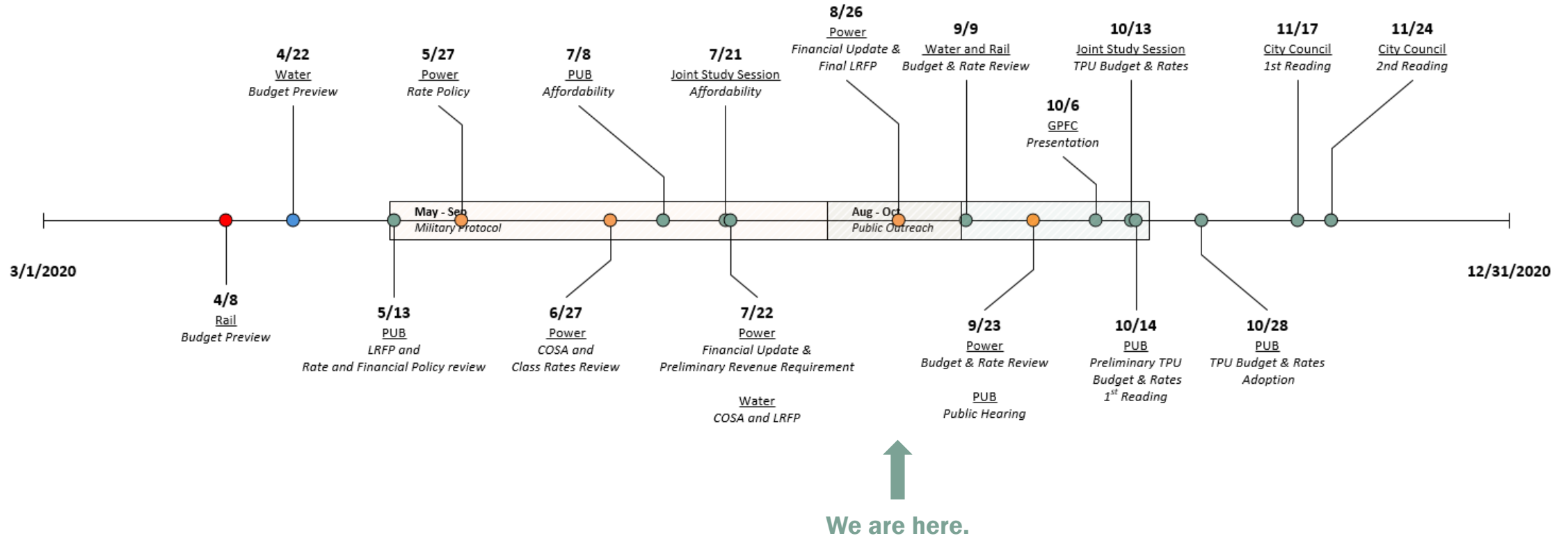
Alternatives for Large Commercial & Industrial

- **Schedule G**
 - The monthly charge was brought to 2018 COSA level last biennium (\$80.00)
 - Recommend to keep the customer charge flat, or not raise it more than 2%
 - Remainder of rate change in energy (per kWh) and delivery (per kW)
- **Schedule HVG/CP**
 - Increase all rate elements proportionately

Section 4

Next Steps

Rates and Budget Timeline



Open Questions or Feedback from the PUB

Introduced May 27th:

- ✓ Residential Prepayment rate
- ✓ Shore Power rate
- ✓ Distributed Generation (DG) rate
- ✓ Non-Firm rate
- ✓ New Large Load rate

Discussed Today:

- ✓ Open Access Transmission Tariff (OATT) update
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