City of Tacoma
Public Utility Board
Friday, November 8, 2019
Environmental Services Building (West Room)
9850 64th St W, University Place WA 98467

Budget/Financing for 2021/2022 biennium – topic agenda

Estimated time	Topic
11:00 – 12:00	**Public Process** • Recap of last year • Discussion on what went well, areas for improvement • Draft 2020 calendar
1:00 – 2:00	**Finance** • Financial plans • Scenarios • Revenue/load forecast
2:00 – 3:00	**Budget** • Value initiatives & budget efficiencies • Current variance reporting • Preview of items for upcoming biennium
3:15 – 4:00	**Rates** • Trends, observations and policy considerations • Reserves

Public Utility Board Special Meeting

Handouts: Budget/Financing for 2021/2022 Biennium

November 8, 2019

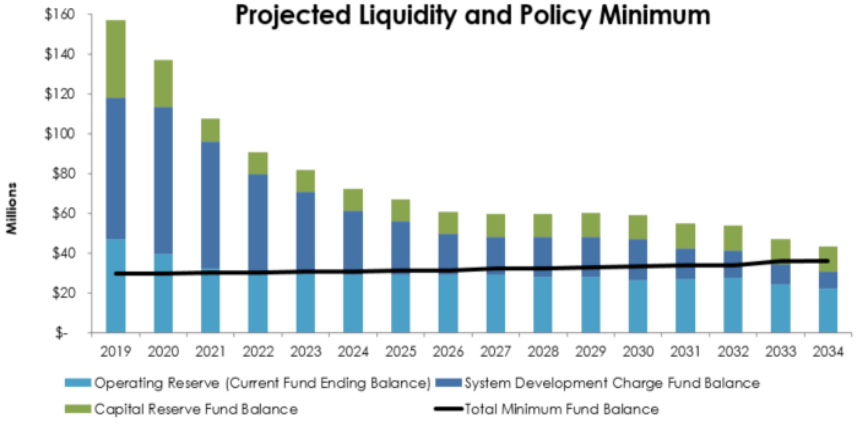
11:00-4:15

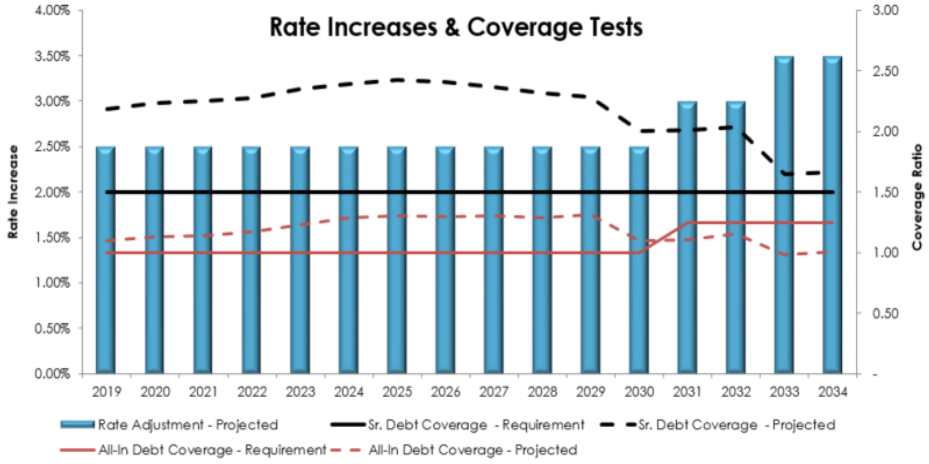
Finance

Tacoma Water Long Range Financial Plan Summary

Water Projected Rate Adjustments

Scenario	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Base Case: Current Demand Forecast	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**3.0%**	**3.0%**	**3.5%**	**3.5%**
Wholesale Revenue Growth	2.5%	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.5%	2.5%	2.5%	2.5%	2.0%	2.0%
Loss of Large Customer	2.5%	2.5%	4.0%	4.0%	4.0%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.5%	3.5%	3.5%
High Case CIP	2.5%	2.5%	2.5%	2.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.5%	3.5%



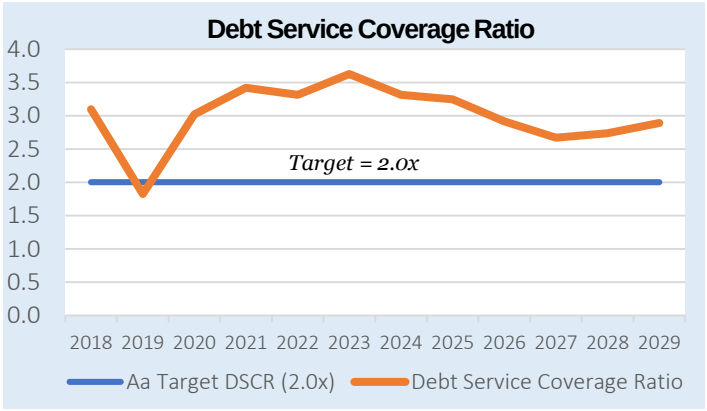


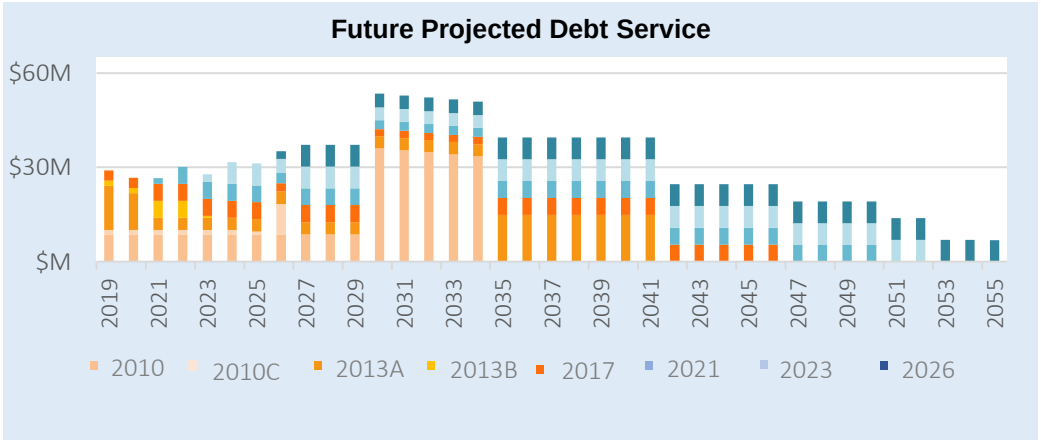
Finance

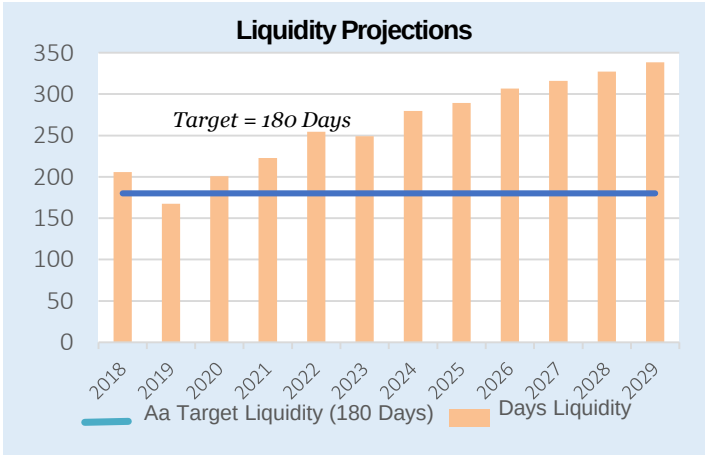
Tacoma Power Long Range Financial Plan Summary

Power Projected Rate Increases

Scenario	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
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%	2.0%
Critical Water in 2021	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Loss of Large Customer	2.0%	2.0%	2.0%	2.0%	2.0%	3.0%	4.0%	2.0%	3.0%	2.0%	2.0%
Lower Wholesale Prices	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
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%	2.0%

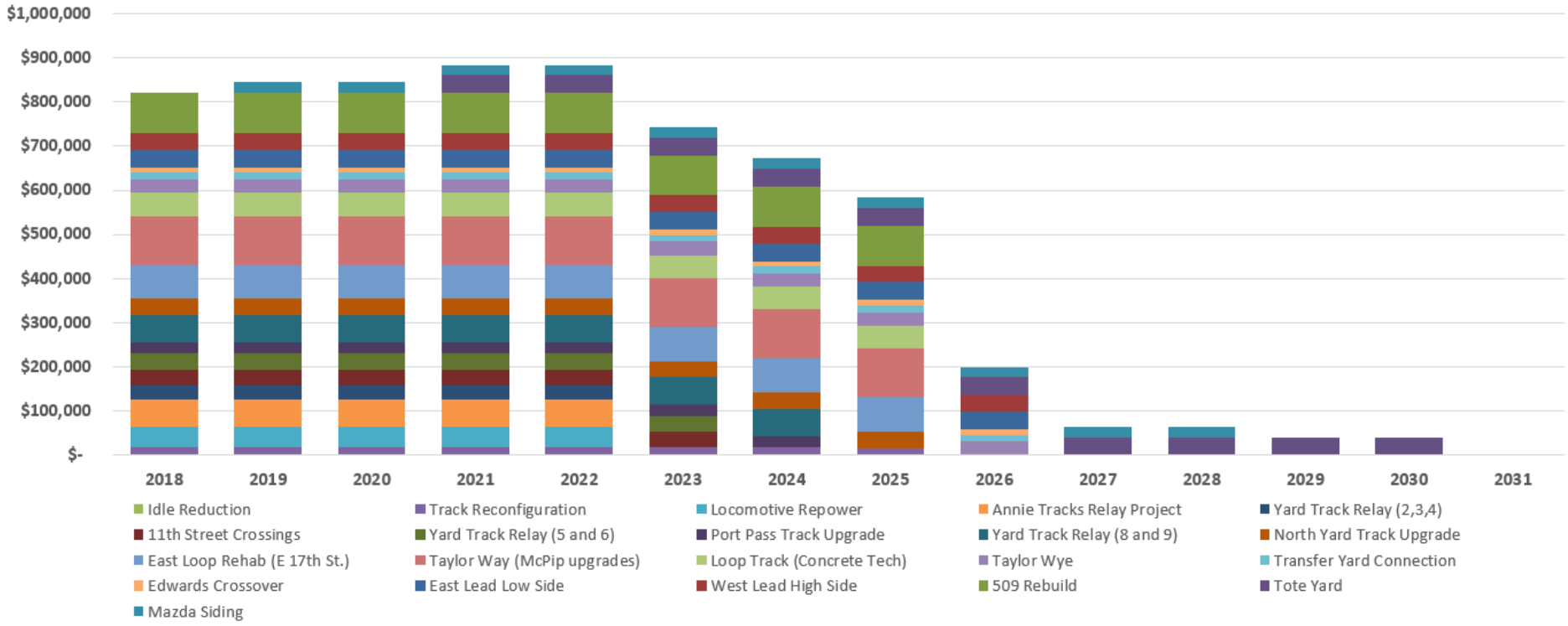






Finance

Tacoma Rail 0% Loans Summary

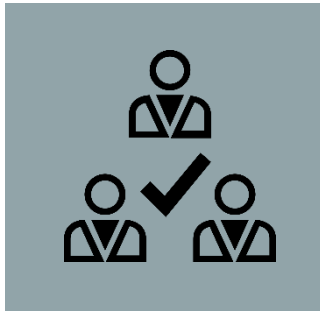


Long Term Investments to Deliver Value

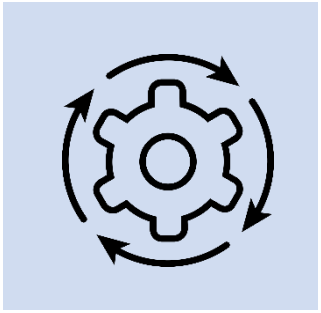
- Asset Management Budget PMO

- Alignment with our vision and strategic objectives
  - Identification of uncertainty and risks
  - Consistent and systematic framework
  - Integrated and informed decision making
- Identification of efficiencies in business processes

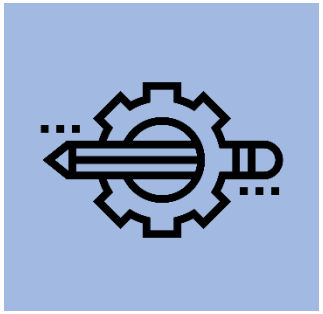
Efficiencies – Revenue/Financial



Resourcing



Operations

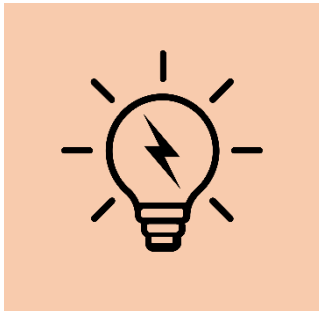


Streamlining

Technology

Efficiencies

Revenue/Financial



Revenue Innovations

Active Debt Management

Power Utility Ratemaking - Basic Principles

Rates are set to recover costs

- Costs largely fixed
- Today, the price of electricity based on amount consumed (not fixed)

Customers are generally grouped into classes based on similar cost profiles

- Size
- Usage Patterns

Costs are allocated to classes based on their share of the system costs

- Generally deemed equitable (“user pays” principle)
- Effort to minimize subsidies within and across classes

Why is this an issue now?

- Declining retail use
- Changing industry landscape

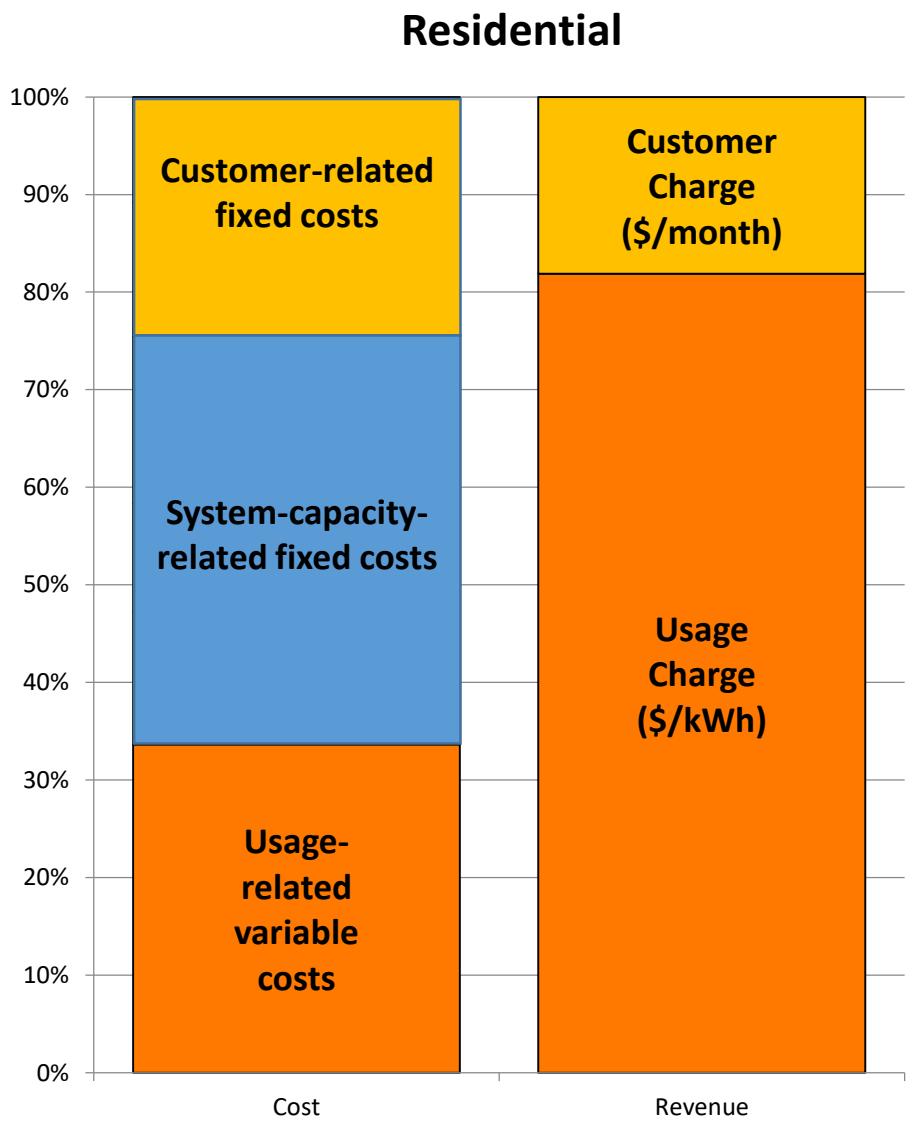
Tacoma Power Residential Class Ratemaking Considerations

Fixed Cost Recovery

- Sales figures are declining, which means fixed cost recovery drives rate increases
  - 66% of costs are fixed
  - 18% of revenues are fixed

Policy Issues

- Today, higher-usage customers pay more than their share of the utility's fixed costs
- Individual customer bill impacts, especially low-income bill impacts, are a key concern
- Rate design changes impact policy objectives, such as the promotion of:
  - energy efficiency,
  - electric vehicle, and
  - solar energy adoption

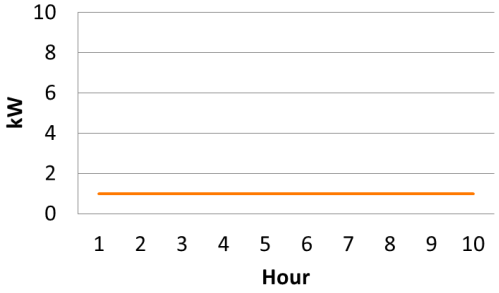


Load Factor Measures the Efficiency of a Load

How do you use 10 kWh?

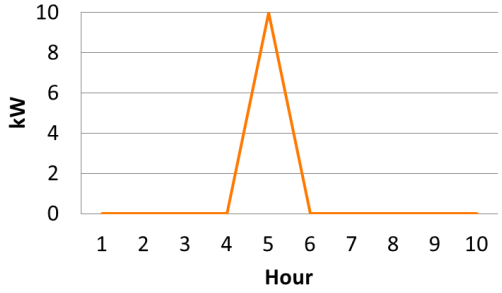
Average Usage compared to ***Usage at Peak Consumption***

1 kW per hour for 10 hours



High-load-factor customers use most of their capacity at all time.

10 kW for 1 hour



Low-load-factor customers have excess capacity for much of the time.

Tacoma Power Nonresidential Ratemaking Considerations

- G class is broad and diverse. There is no "typical" G customer, yet there is one rate for all of them
- Some G class customers are bigger than some HVG customers. Size may be a better class distinction than voltage
- Customers with a higher load factor (*average usage ÷ maximum usage*) are less costly to serve and so should arguably pay a lower average rate
- Fixed cost recovery is also an issue for this class