



APPROVED 2-26-20

Minutes  
City of Tacoma  
Public Utility Board - Special Meetings  
Tuesday, February 4, 2020  
Environmental Services Building (West Room)  
9850 64<sup>th</sup> St W, University Place WA 98467

Chair Larkin called the special meeting of the Public Utility Board to order at 8:39 a.m. in the West Room of the Environmental Services Building in University Place, Washington.

**Present:** Bryan Flint, Christine Cooley (departed 11:20 a.m., returned 2:25 p.m.), Carlos Watson (arrived 8:50 a.m.; departed 1:40 p.m.), Karen Larkin, Mark Patterson

The meeting was quorate.

Chair Larkin led introductions and made welcoming remarks. Director Flowers made opening comments and provided an overview of the day's agenda.

Rate and Financial Policies

Christina Leinneweber, Sr. Utilities Economist, provided an overview of Power's electric rate and financial policy highlighting the revenue requirement, cost-based rates, financial metrics, low-income program, and new large loads. Power may come with policy change recommendations in April. The utility is in the process of evaluating the current risk of incremental resource costs from a new large load, especially in consideration of the strategic directive to promote economic development. The result may be to propose modifying or removing the existing rates and financial policy to reflect updated cost and risk perspectives, and/or to create a new large load tariff in the Board-approved rate schedules. Discussion ensued with the Board providing input that this policy ties into other topics like sustainability, customer service, etc. and rates is the key element TPU has to affect other policy goals. Other policy goals should be reflected into the rates and financial policy discussions.

Jodi Collins, Assistant Water Division Manager, provided an overview of Water's electric rate and financial policy highlighting the revenue requirement, cost-based rates, financial metrics, rate adjustments, and low-income programs. Water may come with policy change recommendations in April as it is in the process of engaging with the Government Finance Officers Association to develop a risk-based model to understand the impact of primary risks to reserves. This could result in changes to target levels currently set aside in rate and financial policies. Once the modeling is complete, staff will provide an update, which may include recommendations.

Dan McCabe, Rail Chief Information and Financial Officer, provided an overview of Rail's revenue requirement, cost-based rates, and financial metrics. Rail may also come with policy change

recommendations in April. The railroad is in the process of evaluating the potential need for special funds. It will utilize established rate policies from Power and Water as guidance in establishing Rail's policy recommendations. The result may be the creation of a new Rail rate stabilization fund and/or to create a new Rail capital reserve fund.

### Rail Tariffs

Mr. McCabe outlined Tacoma Rail's three tariffs for the Tacoma Municipal Belt Line (TMBL) and the Mountain Division (TRMW). The freight tariff TMBL 8807I defines line haul switch charges and miscellaneous switch charges. Freight tariff TRMW 8807I defines line haul switch and miscellaneous switch charges. Demurrage tariff TMBL 6004C defines demurrage charges for both TMBL and TRMW. Demurrage is the undue detention of a rail car and is \$60 per day excluding Saturday, Sunday, and holidays. Mr. McCabe walked the Board through major line haul rate type characteristics for intermodal, unit trains, and commercial trains. Line haul rate types and history and fuel surcharges were then summarized.

### Fixed and Variable Rates/Low-Income and Policy Impacts

Chair Larkin provided an overview of industry articles on the subject of applying fixed versus variable rates in rate design. Board Members agreed this is a debated issue with different approaches.

Erin Erben, Assistant Power Section Manger, presented Power's ratemaking basic principles: Rates are set to recover costs; customers are generally grouped into classes based on similar cost profiles; and costs are allocated to classes based on their share of the system costs. Ms. Erben reviewed how Power arrived at the current rate design and summarized discussion points from the last budget cycle. These include cost of service, low-income, bill stability, and equity. Ms. Erben then reviewed how rates coordinate with the Board's strategic directives, detailed customer cost breakdown, residential/non-residential ratemaking, and utility fixed charged comparisons. Ms. Erben then addressed fixed charge policy topics including carbon reduction, conservation incentives, and bill stability. Ms. Leinneweber then addressed the fixed versus variable charges as it pertains to TPU's low-income customers. Approximately one-third of customers in Tacoma Power's service area are low-income.

Lyna Vo, Utilities Economist, presented Tacoma Water's goals to rate design: adequate supply; low rates as is responsible; fairness; stable and understandable; and be a product of customer involvement. Ms. Vo walked the Board through the evolution of current rates by reviewing the current rate design methodologies for different classes. Sean Senescall, Water Division Manager, then shared a graphical representation of declining demands for Tacoma Water. Ms. Vo then walked the Board through cost structure, rate recovery ratios, and cost structure/recovery.

Discussion ensued with the Board requesting a follow-up meeting with staff on this topic and for staff to be prepared by examining both sides of the issue for the Board to decide which methodology is best for Tacoma Power and Tacoma Water.

### Demand-Side Management

Ms. Leinneweber addressed demand-side management and environmental policy promotion through pricing and reviewed the shore power rate, demand response/interruptible rate, residential pre-pay, and time of use. A pilot program was proposed for demand response/non-firm. There are two drivers for utilities to pursue demand-response programs. One is to create an alternative to acquiring supply-side resources, either for cost or environmental reasons. The other is to improve customer satisfaction through offering bill control and service-level options. Since demand-side resources can be seen as substitutes for generation resources, current

thinking is to let the Integrated Resource Plan (IRP) process define the need and the value of such resources. Rate options would be created that offer cost savings opportunities based on IRP findings to help ensure cost-based ratemaking and internal consistency. Defining the program as a pilot will allow the utility to make adjustments based on learnings while setting appropriate expectations with customers.

#### Commercial/Industrial Classes

Ms. Erben addressed non-residential ratemaking considerations for High Voltage General (HVG) and Contract Price (CP). For CP, there is a contractual requirement that scheduled power demands match actual load, or the customer is subject to penalties. CP is historically lower than the HVG rate for high-load factor customers and very large loads with a minimum contractual demand of 8MW. There is confusion regarding eligibility for new and existing customers, especially new large load rate provision for new customers. Given the limited number of customers served and that the customers are generally similarly situated, it is sensible to consolidate and standardize the two rate options. The alternative is to sunset these rate options and set up a new set of general service rate schedules that logically flow from one to another. Bill impacts of this consolidation are being assessed and stakeholder/customer conversations are planned. Ms. Erben then addressed New Large Loads (NLL). The current NLL policy provision applies only to 8-20 MW customers. Economic Development and Power Management are both engaging with potential customers that could bring loads greater than 20MW. There are no clear provisions in place; there is a need for indicative pricing for customers over 20MW and address this potential customer group in conjunction with industrial and general service customer class rate provisions. The current NLL policy provision is based on a now-outdated IRP. The NLL policy should be more adaptive to changes in utility conditions and could be a formula using the latest resource cost prices as determined by the IRP. The utility may still require a negotiated price for extremely large loads over some size to be determined based on expected utility length, transmission constraints, and other factors. Ms. Leinneweber then summarized commercial and industrial rates as it pertains to Joint Base Lewis McCord (JBLM). The current participation protocol, issues from the last budget cycle, coincident peak allocation were summarized.

Mmes. Vo and Leinneweber spoke to post-Advanced Meter Project opportunities. Customers have expressed interest in monitoring usage in real time. As customers are better able to understand how behavior affects bills, they may be more likely to respond to messaging from the utility. In addition, staff expects to be able to use advanced meter data to identify customer groups previously unrecognizable. Cost allocation methods can be better aligned and rate offerings can be tailored for these groups after they are identified. Water changes are expected to be minimal at first, but subdivisions will be likely. Parks and irrigation may be separated into two rate classes and customers may realize savings from other utilities such as Environmental Services. Advanced Meters opens up new possibilities for retail power rate options and time of use is expected to be an offering for power post implementation.

#### Long-Range Financial Planning

Ms. Collins provided an overview of how Tacoma Water builds a financial plan. Tacoma Water has a possible refunding opportunity. Staff recommends a bank loan refunding Series 2010A water revenue bonds with KeyBanc to achieve approximately \$945,000 NPV or approximately 5.31 percent savings. Ms. Collins then provided a status of installed advanced meters to date. All meters installed are part of maintenance and growth and are advanced meter compatible. They are non-communication until the modules are installed. These modules will be installed once the network is built out; mass deployment will begin in December 2020. There will be an advanced meter update at the February 26 Board study session. Ms. Collins concluded by sharing a video illustrating how Tacoma Water is saving ratepayer funds with asset management.

Bill Berry, Rates, Planning, and Analysis Manager, provided an overview of Tacoma Power's financial metrics and rating agency metrics from 2015 to 2019. Rate increase projections and water condition scenarios to 2029 were reviewed.

Adjournment

There being no further business, the Public Utility Board special meeting was adjourned at 3:33 p.m. until Wednesday, February 12, 2020 for a study session beginning at 3:00 p.m. at Tacoma Public Utilities, followed by the regular meeting at 6:30 p.m. at Tacoma Public Utilities.

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Karen Larkin, Chair

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Mark Patterson, Secretary