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Tacoma Power
Rates for 2025-2026 Biennium

Jing Liu | Rates, Planning & Analysis

July 10, 2024

Prologue

BPA Cost Update and Impact on Tacoma Power's System Average Rates

BPA Cost Increase

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What happened?

BPA surprised the region with a larger than expected cost increase for their 2026-2028 rate period:

- **13% on Power**
- **14% on Transmission**

Our May 22 proposed 5% system average rate increase reflected a 5% increase for both BPA Power and Transmission.

What does this mean to us?

Our BPA costs will be higher than expected – so we will need to adjust our retail rates to recover the unexpected costs.

Reasons for BPA Cost Increase

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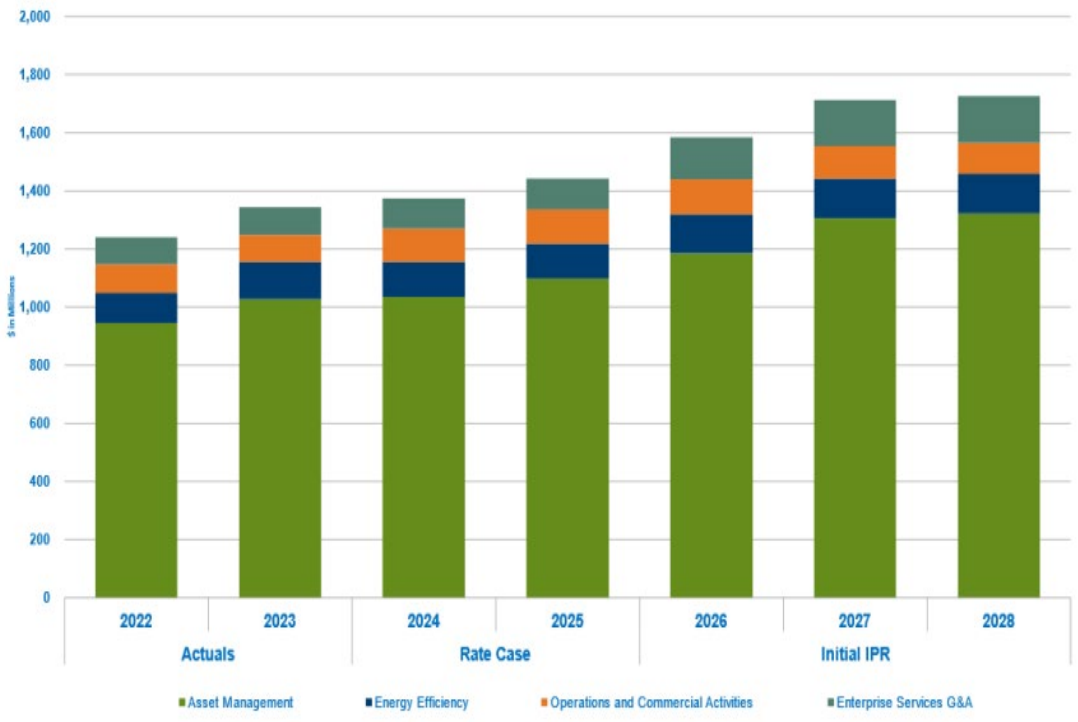
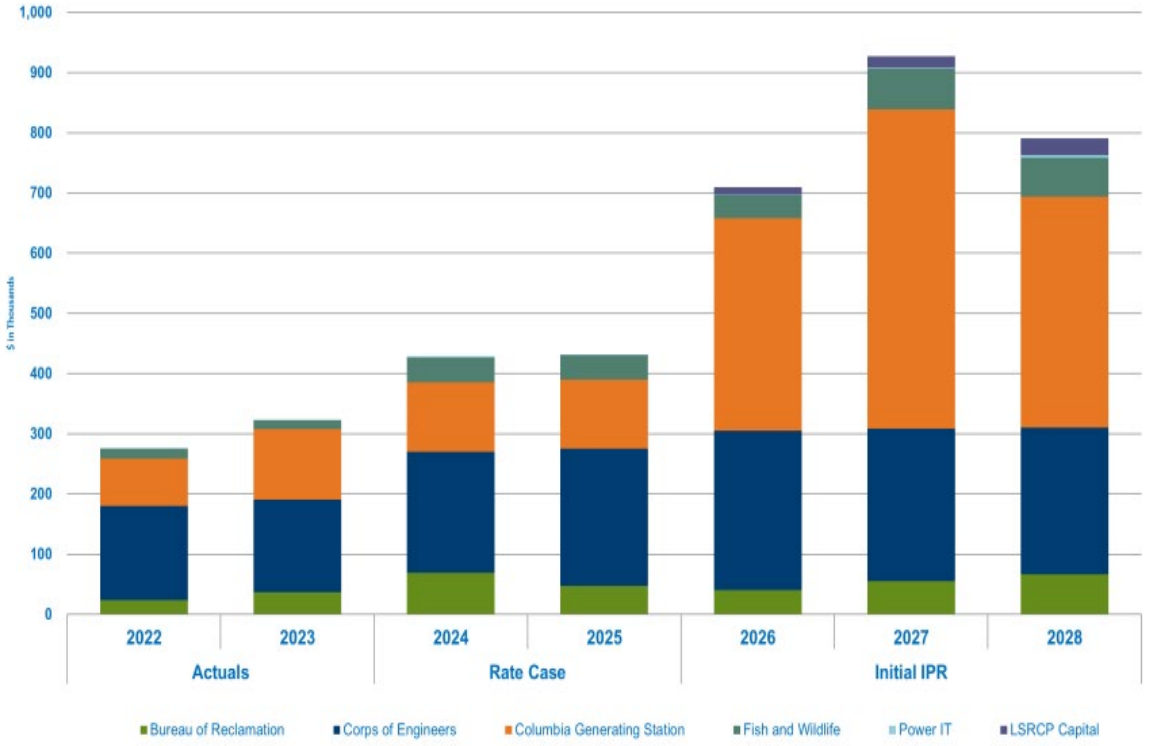
BPA Power Expense Summary



BPA Power Capital Summary



- Maintenance need for generating and transmission assets
- Rising costs due to inflation and supply chain issues

- Information technology and cyber security
- Grid hardening
- Environmental stewardship
- Workforce

Cost Increase for Tacoma Power

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	Initial Budget	Revised Budget
BPA Power Cost	**$116 million** (5.1% annual increase)	**$121 million** (12.6% annual increase)
BPA Transmission Cost	**$19 million** (5% annual increase)	**$19 million** (5% annual increase)
Cost Increase		**$83 million increase for 2025 - 2034** $10 million increase for 2025-2026; $8 – 10 million annual increase thereafter

Recommended: 5.3% Annual Rate Increases in 2025 & 5.3% in 2026

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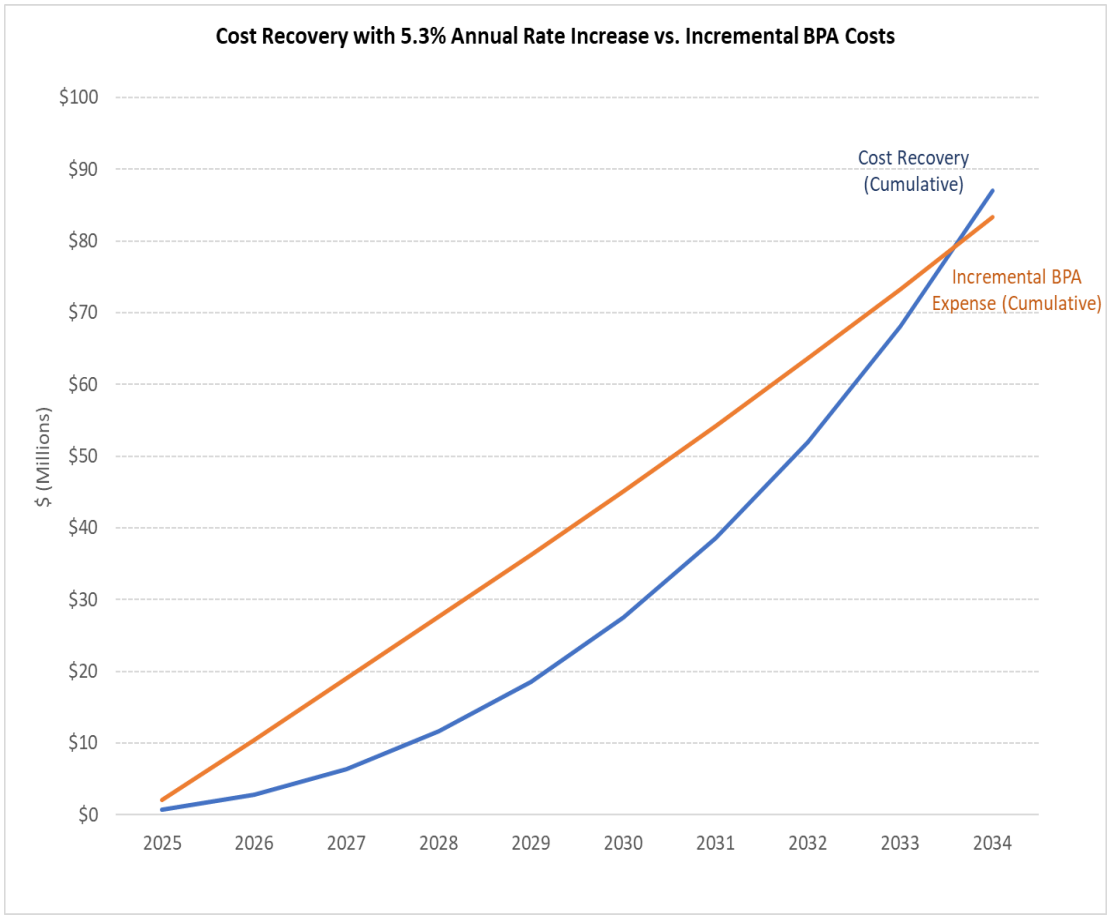
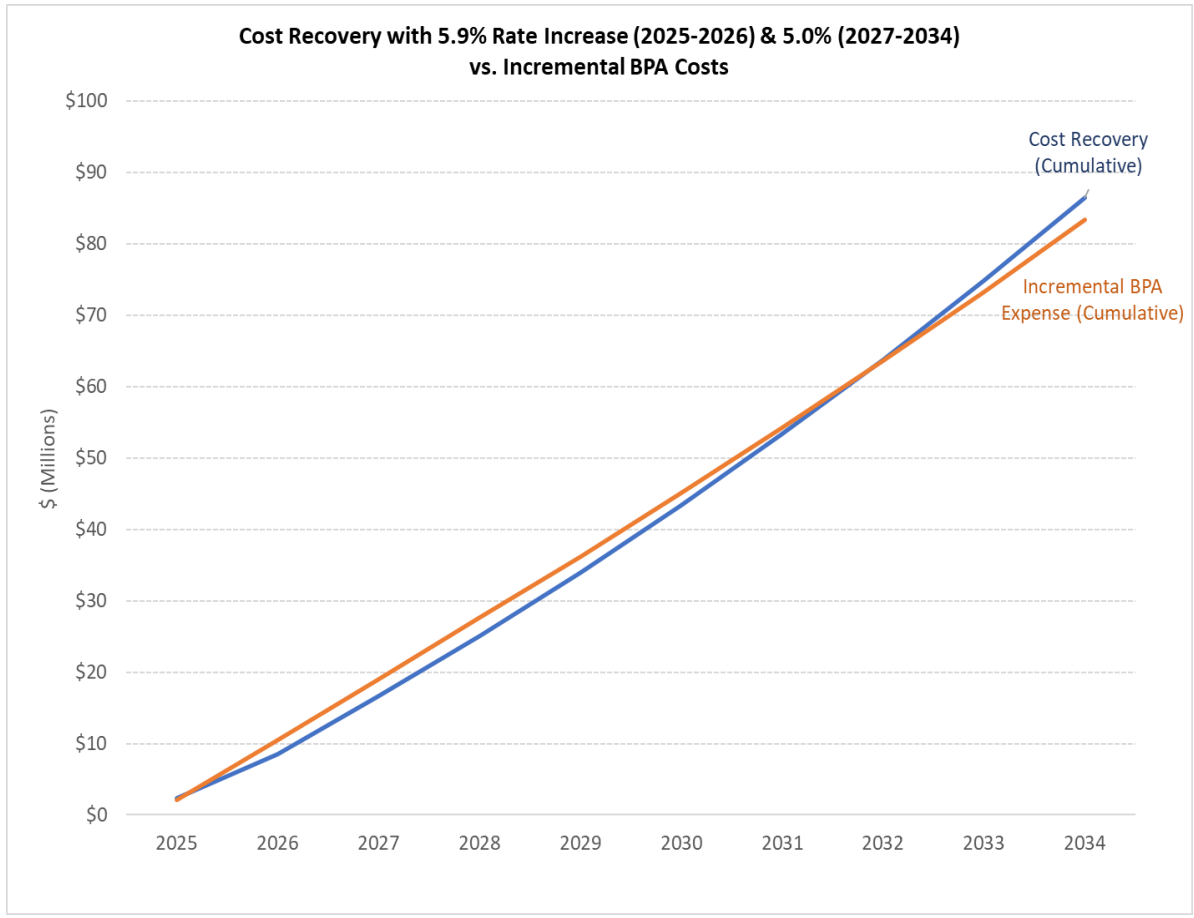
Option A: 5.3% 2025-2034 (Recommended)



Option B: 5.9% 2025-2026 & 5.0% 2027-2034



Recommended: 5.3% Annual Rate Increases in 2025 & 5.3% in 2026

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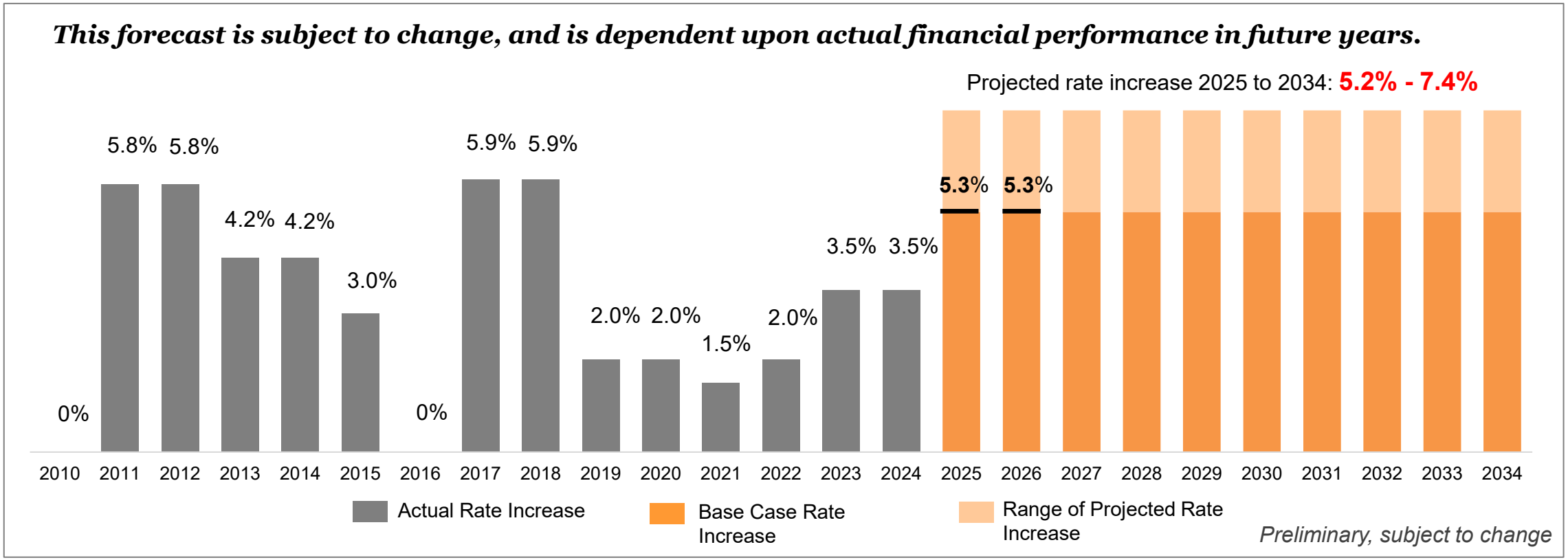

The **Electric Rate & Financial Policy** was modified in 2018 to explicitly support adequate and gradual rate increases.

Guiding Principles GP-3 on Rates, Outcome 3 states "Planned gradual and consistent utility rate changes that are stable and predictable over the long term and mitigate sudden or large changes within customer classes."

Agenda

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01

Introduction

- *Timeline*
- *Ratemaking Process*
- *Retail Class Summary*

02

Cost-of-Service Results

- *2025/2026 Cost-of-Service Analysis Result*

03

Rate Design & Special Rates

- *Residential Rate Design*
- *Commercial & Industrial Rate Design*

04

Other Rates and Fees

- *T&D Inspection and Permitting Fees*
- *Electric Vehicle Public Charging*
- *Electro Fuel*

01 Introduction

- *Timeline*
- *Ratemaking Process*
- *Policy Guidance*
- *Retail Class Summary*

Timeline

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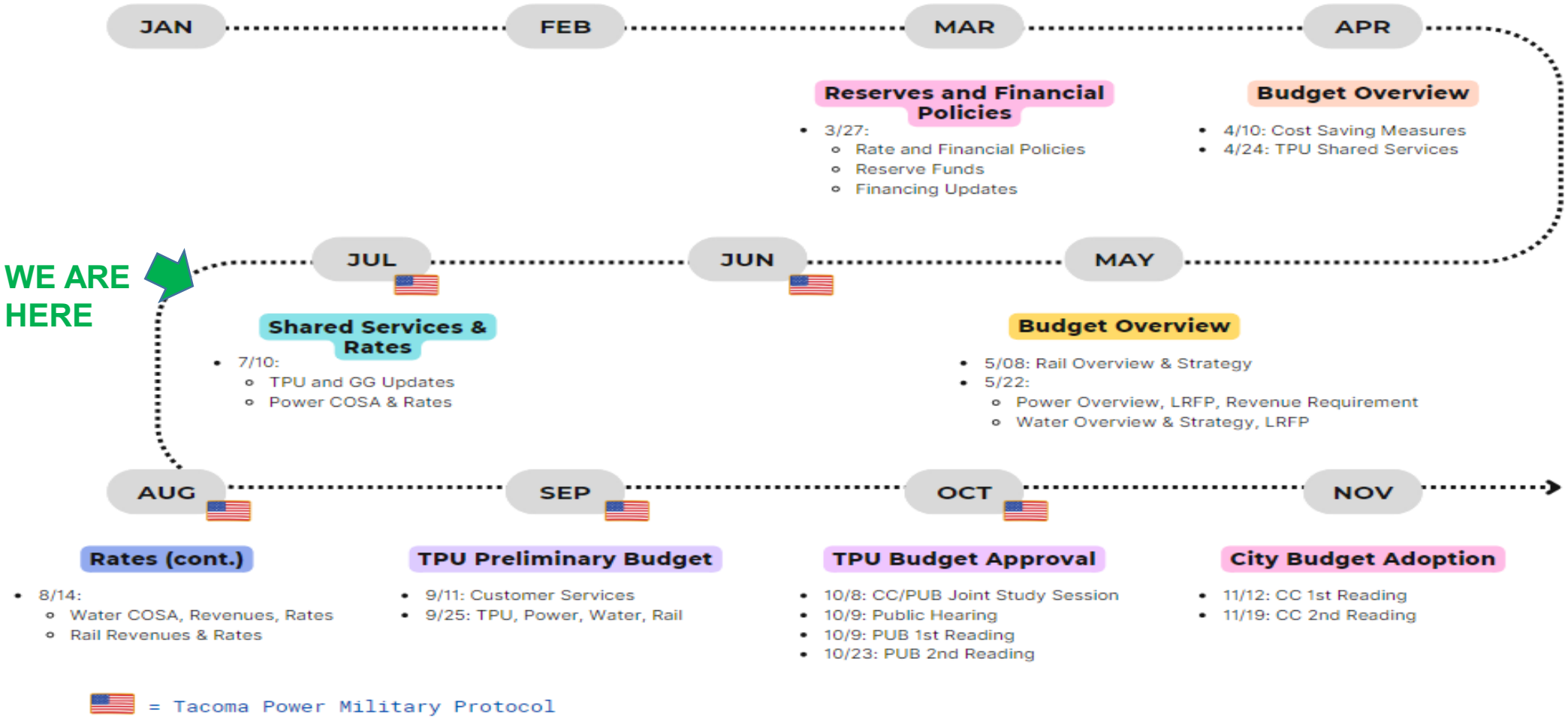
Budget and Rates Timeline



Policy Guidance

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Board Guiding Principles

GP2
Financial Sustainability

Financial Sustainability

Provide safe, affordable, and reliable power over the long term by maintaining sustainable budget, financial, and asset management practices.

GP3
Rates

Rates

Rates will be adequate, fair, just, gradual, and as low as they can responsibly be.

Electric Rate and Financial Policy

Cost Analysis for Tacoma Power Services

Regular reviews will be performed to determine the adequacy of rates, and a full revenue requirements study will be performed every two years.

Cost-Based Rates

Rates charged to each class of customer will generally be set to reflect the costs of providing their service.

Ratemaking Process

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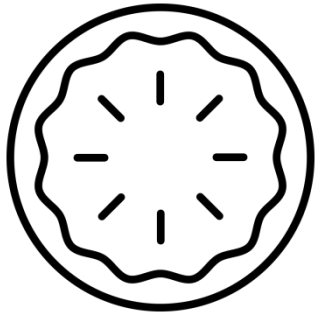
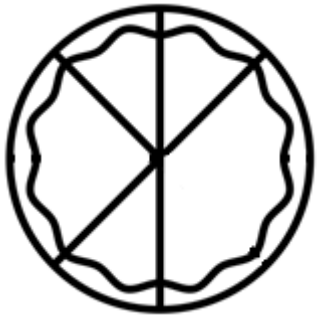
How Big is the Pie?



Revenue Requirement

Identifies revenue needed to sustain operations, **according to financial plan**

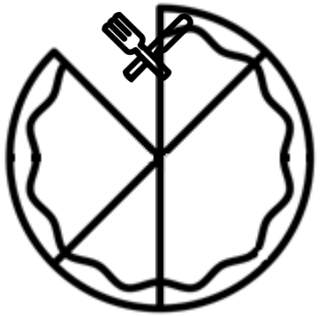
How to Slice the Pie?



Cost-of-Service Analysis (COSA)

Divides revenue requirement into **total amount** to be paid **by each customer class**

How to Serve the Pie?



Rate Design

Sets rate structure to bill each customer (*e.g.* customer **charge per month**, energy **charge per kWh**, *etc.*)

Retail Customer Class Overview

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- single family and multi-family residences
- 171,000 accounts
- $200 million annual revenue

Residential

- small businesses, such as flower shops, nail salons, small offices
- 18,000 accounts
- $32 million annual revenue

Small General Service

- large businesses such as schools, restaurants, hospitals
- 2,600 accounts
- $136 million annual revenue

General Service

- 8 large customers directly on the transmission system
- $27 million annual revenue

High Voltage General

- large manufacturers directly on the transmission system
- $9 million annual revenue

Contract Industrial & New Large Load

- streetlights and traffic signals
- 1,500 accounts
- $800,000 annual revenue

Streetlights & Signals

- rental street and area lighting
- 3,300 accounts
- $2.6 million annual revenue

Private Off-Street Lighting

2023 Annual Figures

02

Cost-of-Service Results

2025/2026 Cost-of-Service Analysis

Tacoma Power is a Cost-of-Service Utility

- Rates set based on the **cost to serve customers**.
- Customer classes are groups of customers with similar **usage characteristics** that influence cost, such as **infrastructure** requirements and **consumption** patterns.
- A **cost-of-service analysis (COSA)** determines the cost of serving each Customer Class:
  - Standard utility practice
  - Conducted every budget cycle
  - Reviewed by third-party consultant
- The last COSA was conducted in **2022**.

Proposed Rate Adjustments

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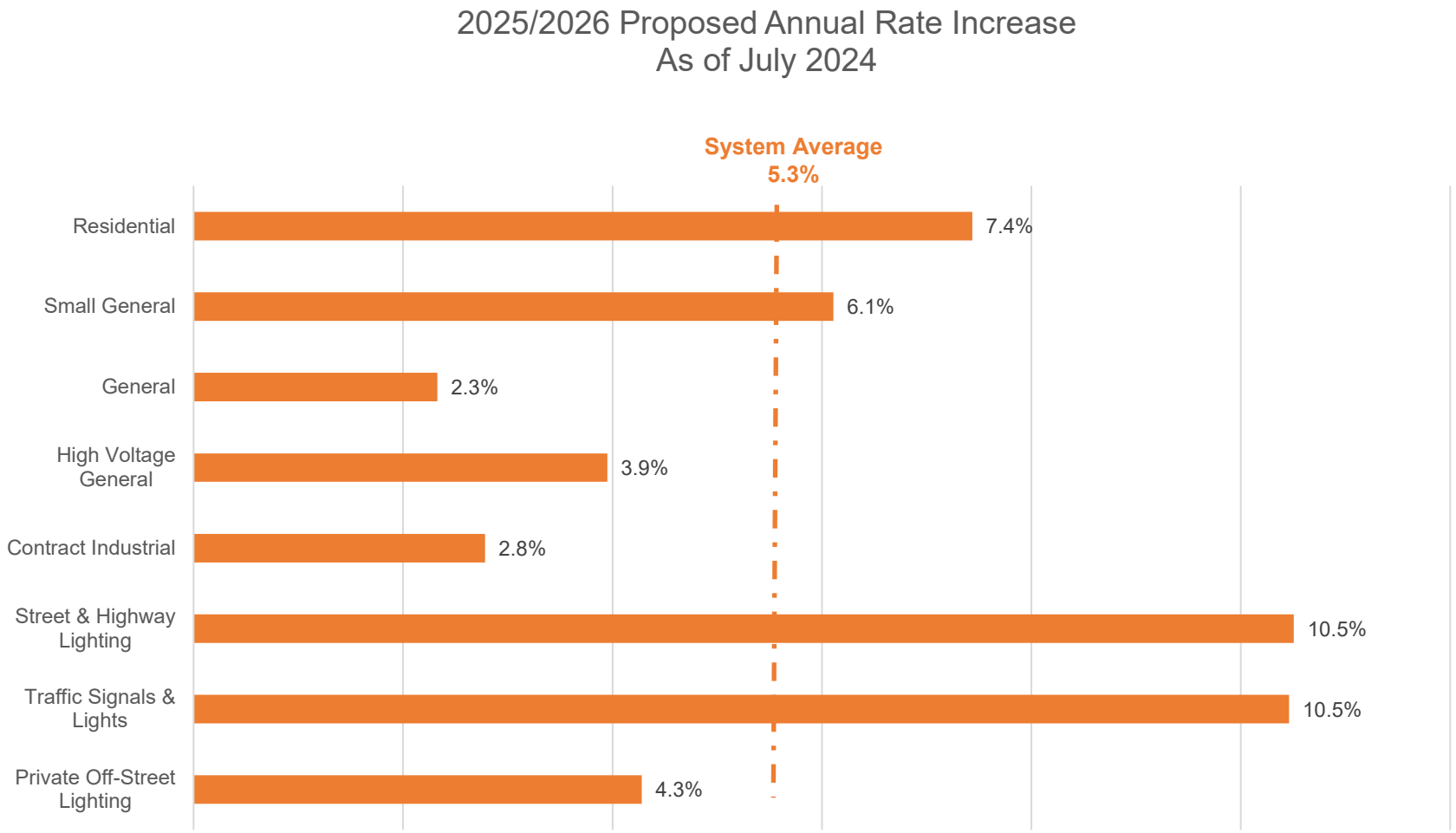

Preliminary, subject to change.

Drivers for Residential Rate Increase

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COSA indicates that we need to raise residential revenue by **7.4%** each year.

Main Drivers:

- Cost increase mostly from **fixed Transmission and Distribution costs**
  - Higher capital costs in 2025/2026 due to continuing projects and higher material and labor costs
  - Significant ongoing cost pressures for Transmission and Distribution materials:
    - Distribution Transformer costs up 282%
    - Multiplex wire up 137%
    - Utility poles up 48%
- Residential class is responsible for **51%** of distribution cost due to its usage characteristics, but their energy usage (kWh) is only **40%** of the system total
- 2025/26 residential load projections are **2.3% lower** than 2023-2024 projections

03 Rate Design

- *Residential Rate Design*
- *Commercial & Industrial Rate Design*
- *T&D Inspection and Permitting Fees*

Ratemaking Process

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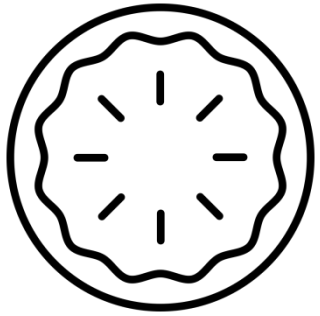
How Big is the Pie?



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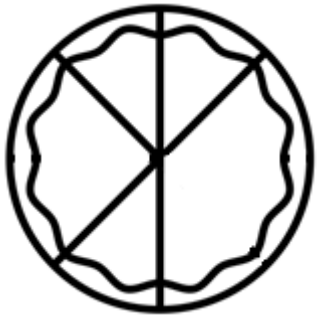
Identifies revenue needed to sustain operations, **according to financial plan**

How to Slice the Pie?



Cost-of-Service Analysis (COSA)

Divides revenue requirement into **total amount** to be paid **by each customer class**

How to Serve the Pie?

Rate Design

Sets rate structure to bill each customer (*e.g.* customer **charge per month**, energy **charge per kWh**, *etc.*)

Residential Rate Design Options

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Residential Schedule A	CURRENT RATE	RECOMMENDED RATE		COSA
		2025	2026	
Customer Charge	$ 25.30	$ 29.55	$ 33.80	$ 33.81
Variable Charge				
Energy	$ 0.045351	$ 0.045351	$ 0.045351	$ 0.032606
Delivery	$ 0.038207	$ 0.041690	$ 0.045490	$ 0.053792
Total Variable	$ 0.083558	$ 0.087041	$ 0.090841	$ 0.086398

Option 1 Half and Half

Policy Decision

← $4.25 increase on customer charge

← 0.35-0.38 ¢ per kWh increase on delivery charge

Residential Schedule A	CURRENT RATE	RECOMMENDED RATE		COSA
		2025	2026	
Customer Charge	$ 25.30	$ 32.55	$ 39.80	$ 33.81
Variable Charge				
Energy ($)	$ 0.045351	$ 0.045351	$ 0.045351	$ 0.032606
Delivery ($)	$ 0.038207	$ 0.038207	$ 0.038207	$ 0.053792
Variable	$ 0.083558	$ 0.083558	$ 0.083558	$ 0.086398

Option 2 All on Fixed

← $7.25 increase on customer charge

← No change on delivery charge

Preliminary, subject to change.

Tension in Residential Rate Design

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Policy Decision

Option 1 - Half and Half	Option 2 - All on Fixed
$4.25 increase on fixed customer charge	$7.25 increase on fixed customer charge
Small increase on variable charge	No increase on variable charge

Considerations	
Increases BCAP automatic credit by $4.25	Increases BCAP automatic credit by $7.25
Small rate increase for BCAP customers	No rate increase for BCAP customers
Fixed charge equals COSA result	Fixed charge above COSA result
Slight benefit to very low-usage customers	Slight benefit to very high-usage customers
GP2 Financial Sustainability – slightly less revenue stability	GP2 Financial Sustainability – more revenue stability
GP3 Rates – Cost of Service	GP3 Rates – higher BCAP discount
GP5 Environmental Sustainability – no change in variable charge supports decarbonization	GP5 Environmental Sustainability – no change in variable charge supports decarbonization more

Preliminary, subject to change.

Option 1 – Half and Half

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Fixed Customer Charge: $4.25 increase
***Variable Charge*:** 4.2% increase in 2025 and 4.4% increase in 2026

Policy Decision

	Current	2025	2026
 **Customer Charge** ($ per Month)	$25.30 *current*	$29.55 *+$4.25*	$33.80 *+$4.25*
 **Energy Charge** ($/kWh)	4.5351¢ *current*	4.5351¢ *no change*	4.5351¢ *no change*
 **Delivery Charge** ($/kWh)	3.8207¢ *current*	4.1690¢ *+0.3483 ¢*	4.5490¢ *+0.3800 ¢*

Customer charge indicated by **cost-of-service** is **$33.81**

Total volumetric charge will increase from **3.4¢** to **3.8¢** per kWh

Preliminary, subject to change.

Option 1 – BCAP

Rate Increase Is Mitigated by BCAP Credits *(Bill Credit Assistance Program)*

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AUTOMATIC CREDIT
automatic credit **equal to customer charge**

+

PLUS ACHIEVABLE CREDIT
additional credit for **on-time, in-full** payment

=

NO IMPACT
on bills ***if*** increase is put **in customer charge**

$4.25 increase in fixed charge translates to about $510,000 additional BCAP funding each year

Preliminary, subject to change.

Option 1 - *Effective* Rates for BCAP Customers: Small Rate Change

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Policy Decision

	Current	2025	2026
 **Customer Charge** ($ per Month)	$0 *Due to $25.30 automatic credit*	$0 *Due to $29.55 automatic credit*	$0 *Due to $33.80 automatic credit*
 **Energy Charge** ($/kWh)	4.5351¢ *current*	4.5351¢ *no change*	4.5351¢ *no change*
 **Delivery Charge** ($/kWh)	3.8207¢ *current*	4.1690¢ *+0.3483 ¢*	4.5490¢ *+0.3800 ¢*

Customer charge *completely offset* by automatic BCAP credit

Small increase in delivery charges to BCAP customers

$21 credit based on payment behavior available to cover these charges

Preliminary, subject to change.

Option 1 – Regular vs. BCAP Bills

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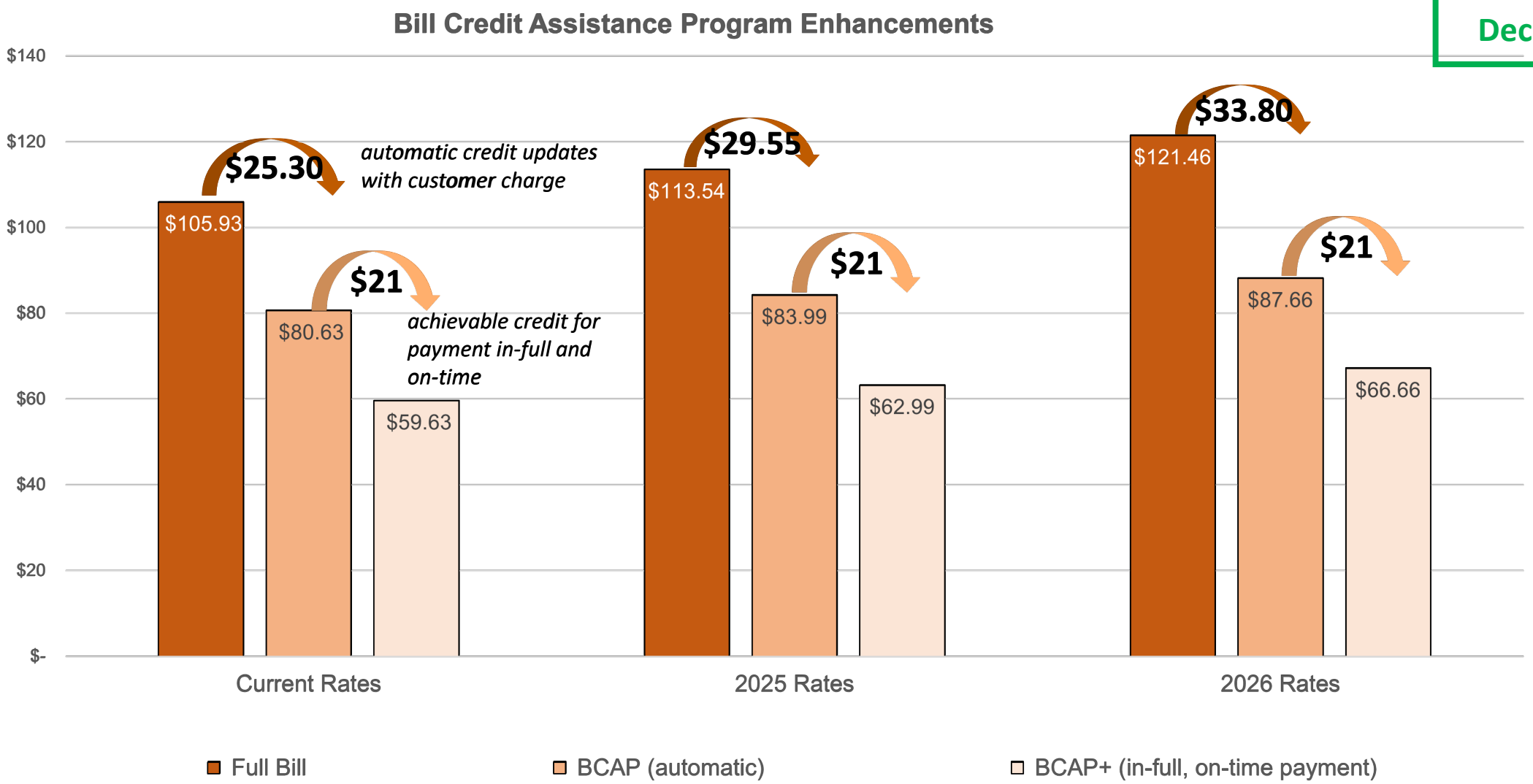
Policy Decision



Preliminary, subject to change.

Option 1 – Avg Residential Bill Impact

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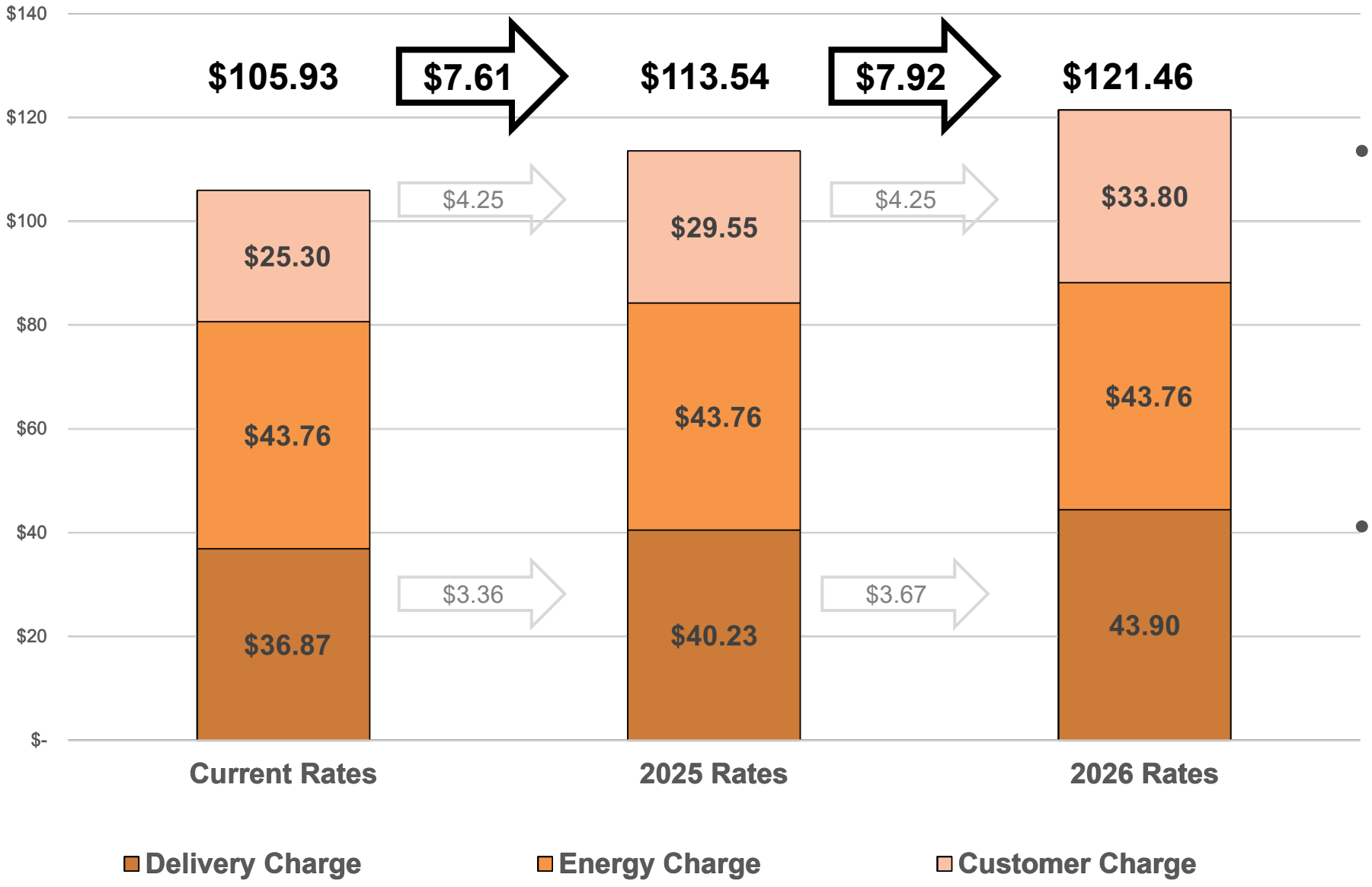
Policy Decision



- 2025/2026 bill projected based on **average usage of 965 kWh** per month
- Actual bills **vary based on usage**

Preliminary, subject to change.

Option 2 – All on Fixed

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Fixed Charge: $7.25 increase
***Per-kWh Charge*:** No change

Policy Decision

	Current	2025	2026
Customer Charge ($ per Month)	$25.30 *current*	$32.55 *+$7.25*	$39.80 *+$7.25*
Energy Charge ($/kWh)	4.5351¢ *current*	4.5351¢ *no change*	4.5351¢ *no change*
Delivery Charge ($/kWh)	3.8207¢ *current*	3.8207¢ *no change*	3.8207¢ *no change*

2026 customer charge **above cost-of-service** result **$33.81**

No change in total volumetric charge

Preliminary, subject to change.

Option 2 - Avg Residential Bill Impact

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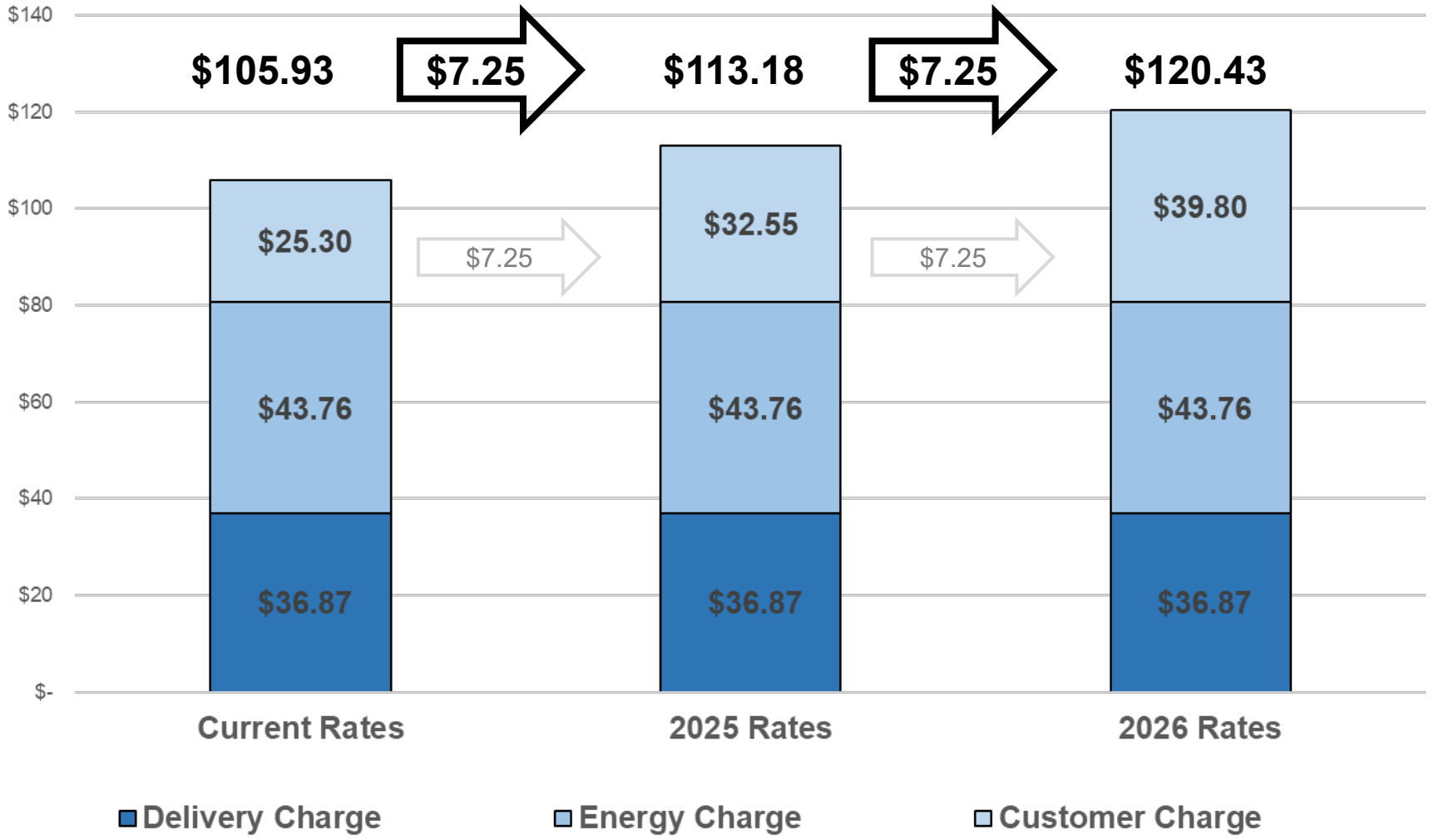
Policy Decision



- 2025/2026 bill projected based on **average usage of 965 kWh** per month
- Actual bills **vary based on usage**

Preliminary, subject to change.

Option 2 – BCAP

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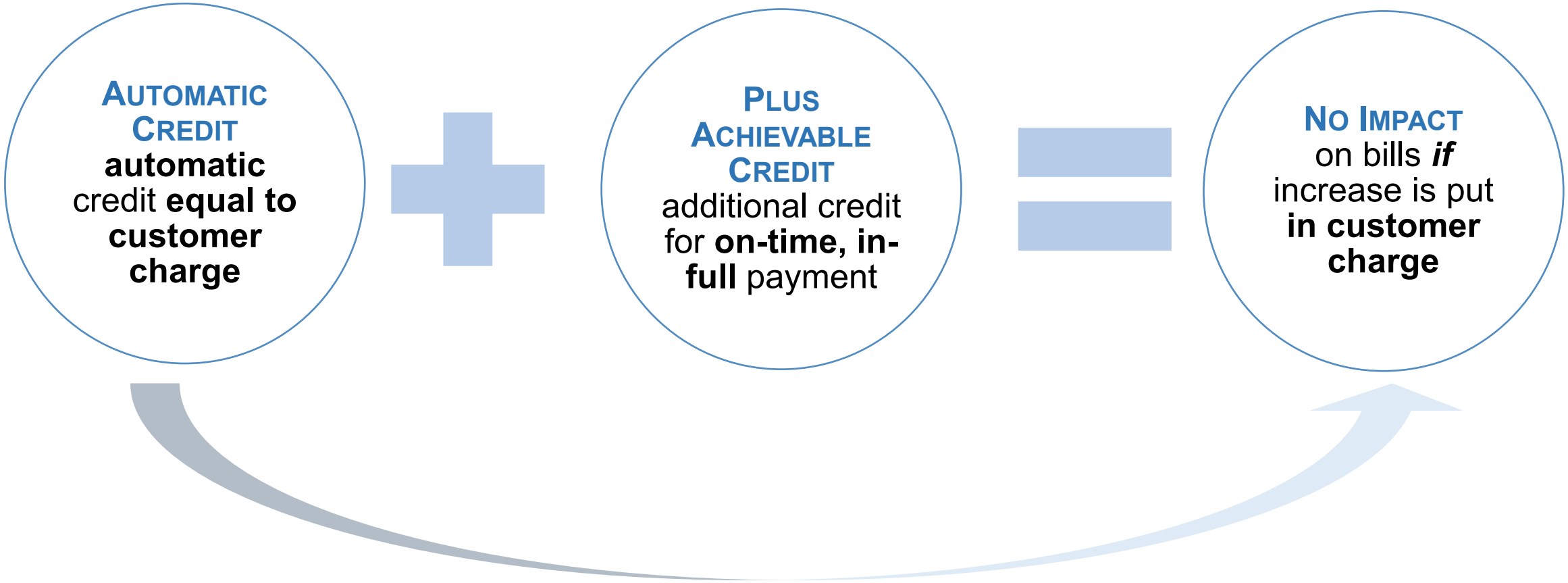
Rate Increase Is Completely Offset by BCAP Credits *(Bill Credit Assistance Program)*



$7.20 increase in fixed charge translates to about $870,000 additional BCAP funding

Preliminary, subject to change.

Option 2 - Effective Rates for BCAP Customers: No Rate Change

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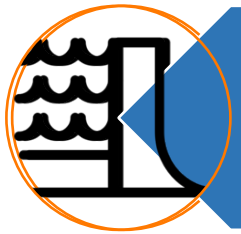
Policy Decision

	Current	2025	2026
 **Customer Charge** ($ per Month)	$0 *Due to $25.30 automatic credit*	$0 *due to $32.55 automatic credit*	$0 *due to $39.80 automatic credit*
 **Energy Charge** ($/kWh)	4.5351¢ *current*	4.5351¢ *no change*	4.5351¢ *no change*
 **Delivery Charge** ($/kWh)	3.8207¢ *current*	3.8207¢ *no change*	3.8207¢ *no change*

Customer charge *offset* by automatic BCAP credit

No rate change for energy & delivery charges to BCAP customers.

$21 credit based on payment behavior available to cover these charges.

Preliminary, subject to change.

Option 2 – Regular vs. BCAP+ Bills

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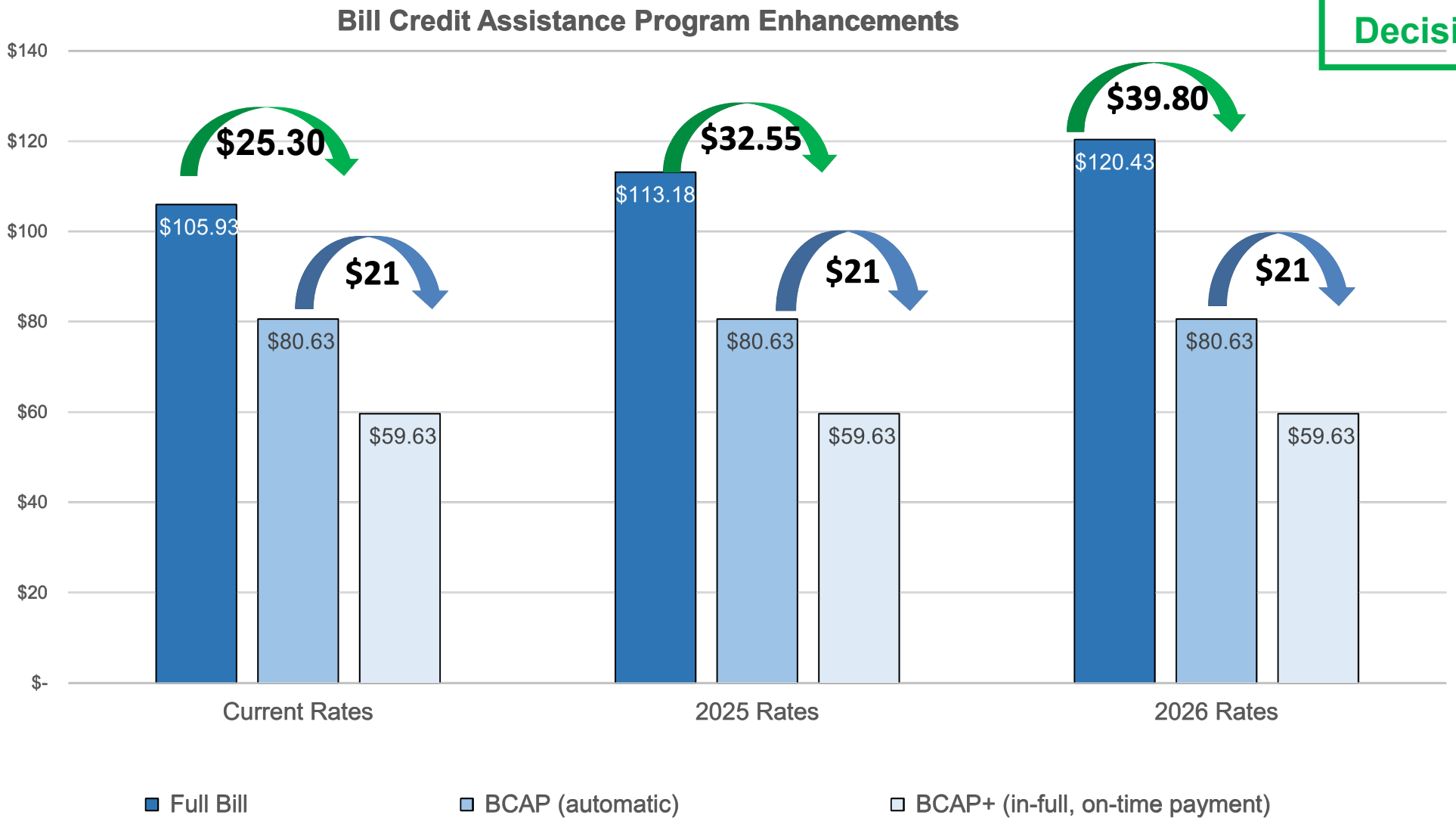
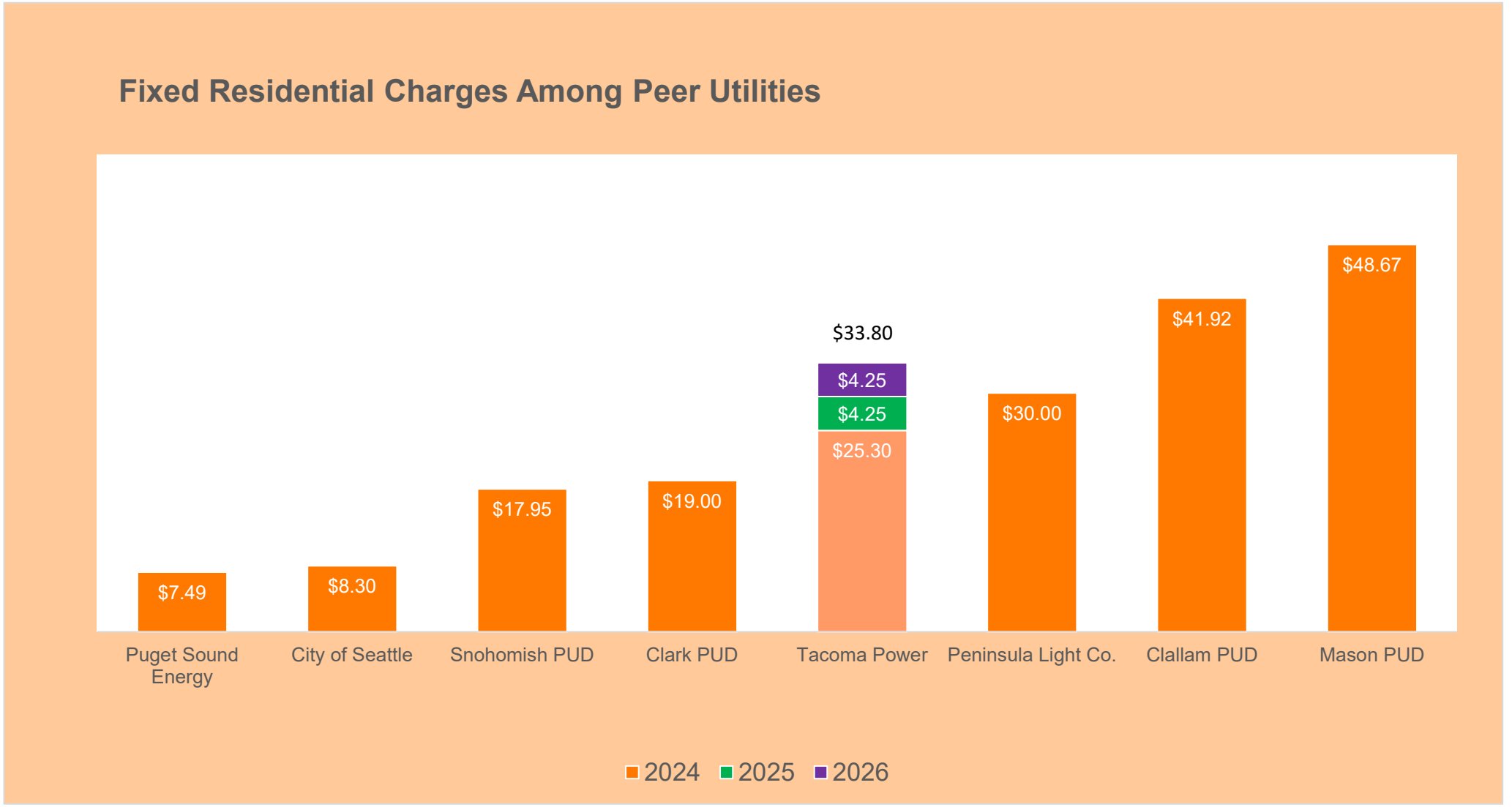
Policy Decision



Preliminary, subject to change.

Residential *Fixed Customer Charge* Comparison (Option 1)



Residential *Fixed Customer Charge* Comparison (Option 2)

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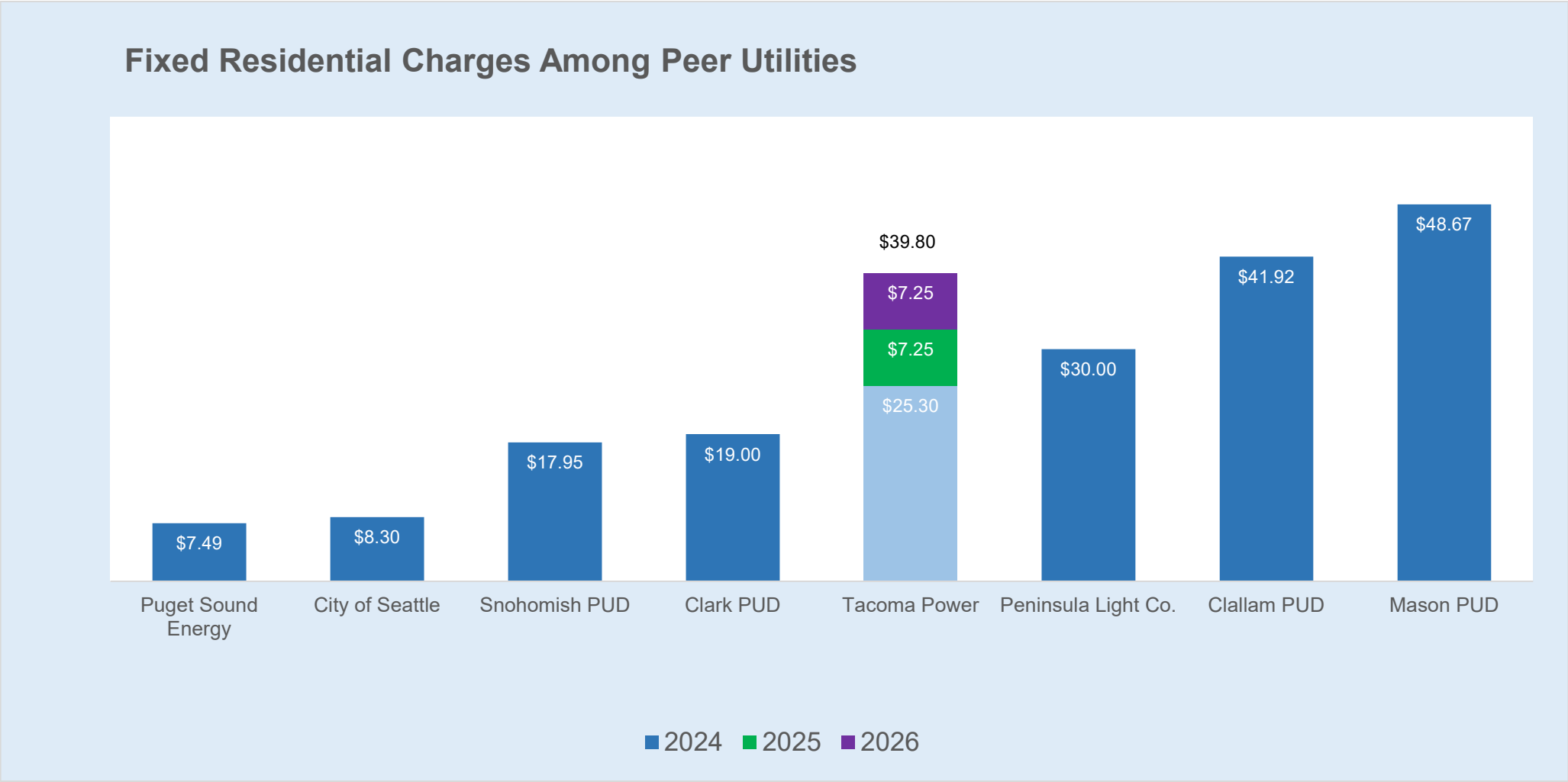
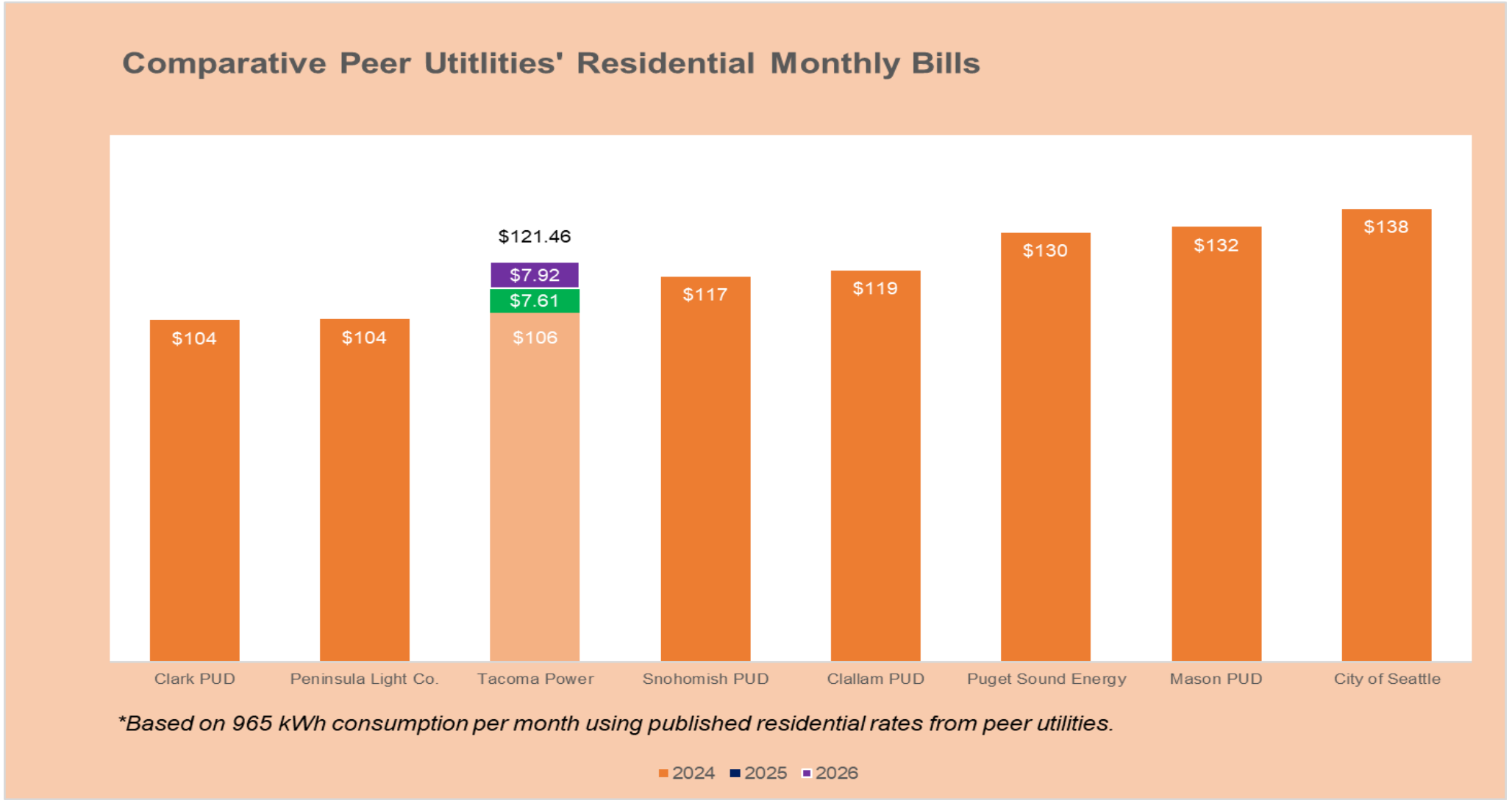


Residential Total Bill Comparison – Option 1



Residential Total Bill Comparison – Option 2

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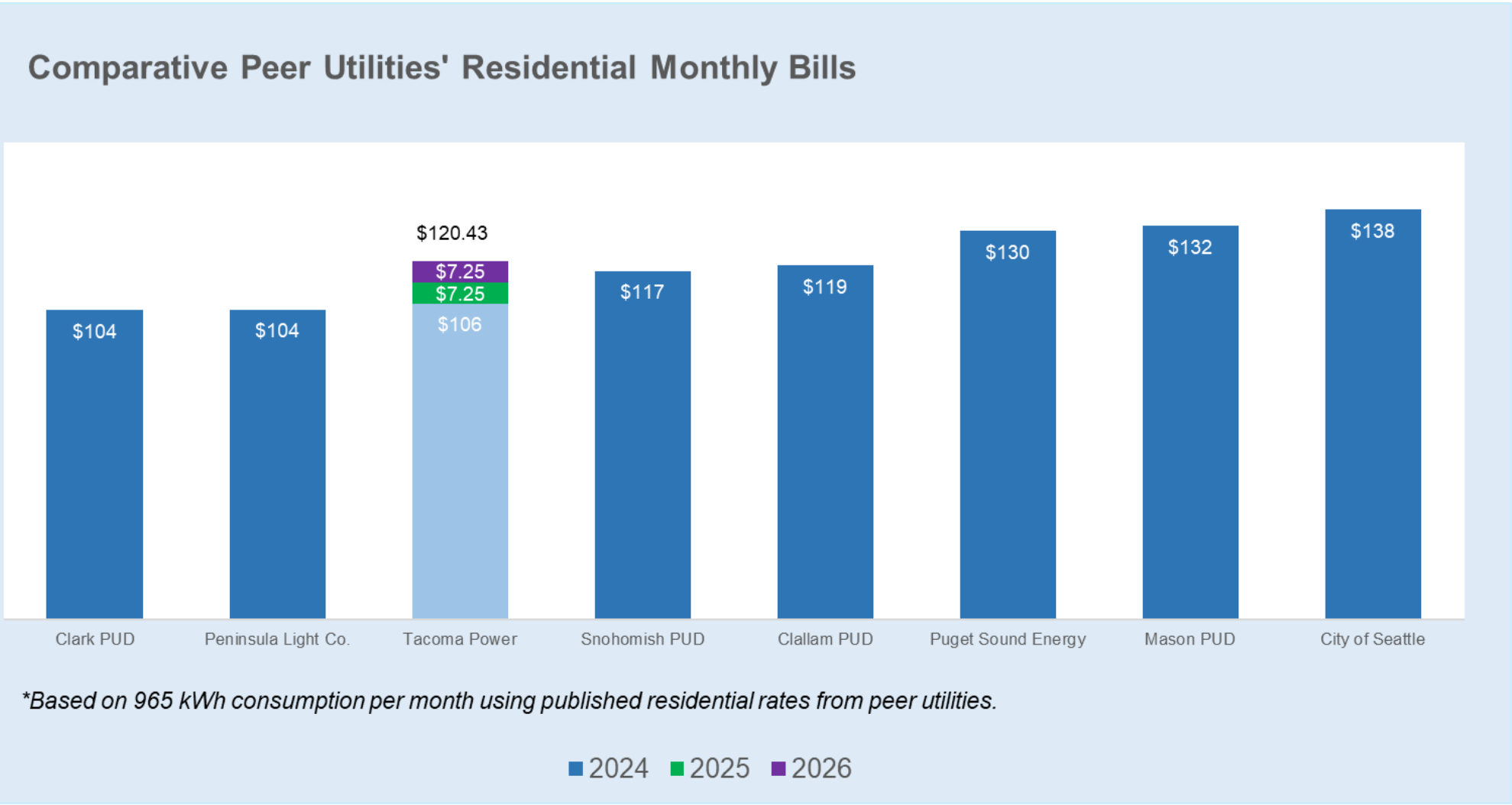

Proposed Rate Increases from Peer Utilities

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UTILITY	2025 Proposed System Rate Increase	2025 Proposed Residential Rate Increase
Pacific Power (OR)	16.9%	21.6%
Avista	12.6%	13.8%
Portland General Electric	7.4%	7.2%
Puget Sound Energy	6.7%	6.9%
Pacific Power (WA)	6.5%	6.5%
Seattle City Light	5.4%	TBD
Tacoma Power	**5.3%**	**7.4%**

PacifiCorp customers in Washington to see monthly bill increase

Avista Seeks to Raise Washington Electric Rates by 19%, Natural Gas Rates by 8%

Jan 19, 2024 Updated Jan 19, 2024

Pacific Power seeks 17% Oregon rate hike

After raising rates by 17% in 2024, PGE requests further hikes for 2025

Puget Sound Energy proposes hefty rate hikes to pay for hydro and wind power

Feb. 28, 2024 at 6:00 am | *Updated Feb. 28, 2024 at 6:18 am*

City Light rates in Seattle to increase by nearly 10% next year

Seeking policy guidance

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Policy Decision

Option 1 - Half and Half
$4.25 increase on fixed customer charge
Small increase (0.35/0.38¢ per kWh) on variable charge

OR

Option 2 - All on Fixed
$7.25 increase on fixed customer charge
No increase on variable charge

Schedule Small General & General Rate Design

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Revenue Increase: *6.1%*
Fixed Charge: $7.10 increase
Delivery Charge**:** 0.2 cents per kWh increase

Schedule B	Small General		
	Current	**2025**	**2026**
Customer Charge	**$ 28.95**	**$ 36.05**	**$ 43.15**
Energy Charge	4.4616¢	4.4616¢	4.4616¢
Delivery Charge	3.8014¢	3.9740¢	4.1544¢
Total per-kWh Charges	**8.2630¢**	**8.4356¢**	**8.6160¢**

Revenue Increase: 2.3%
Fixed Charge: $1.50 increase
Delivery Charge**:** $0.7 per kW increase

Schedule G	General		
	Current	**2025**	**2026**
Customer Charge	$82.80	$84.30	$85.80
Energy Charge	5.8014¢	5.8014¢	5.8014¢
Delivery Charge	$9.44	$10.11	$10.83

Preliminary, subject to change.

Schedule HVG and CP Rate Design

Revenue Increase: *3.9%*
Delivery Charge**:** $1.1/$1.4 per kW increase

Schedule HVG	HVG		
	Current	**2025**	**2026**
Customer Charge	$1,750.00	$1,750.00	$1,750.00
Energy Charge	4.5729¢	4.5729¢	4.5729¢
Delivery Charge	$ 5.21	$ 6.33	$ 7.70

Revenue Increase: *2.8%*
Demand and Delivery Charge**:** $0.88/0.96 per kW increase

Schedule CP/NLL	CP/NLL		
	Current	**2025**	**2026**
Customer Charge	$5,155.00	$5,155.00	$5,155.00
Energy Charge	3.4198¢	3.4198¢	3.4198¢
Demand Charge	$ 5.25	$ 5.67	$ 6.12
Delivery Charge	$ 4.61	$ 5.07	$ 5.58

Preliminary, subject to change.

Lighting Schedules Rate Design

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Schedule H1
Street Lighting and Traffic Signals
Revenue Increase: 10.5% each year, $245,000
Fixed Charge: $1 increase
***Delivery Charge*:** 0.3 cents per kWh increase

Schedule H2
Off-Street Lighting
Revenue Increase: 4.3% each year, $254,000
Schedule H2 Charges *vary by types of lighting fixture*

Reasons for a bigger increase for lighting schedules:

- Catching up with historical under-recovery from lighting schedules
- GP3 – Rates: Planned gradual and consistent utility rate changes that mitigate sudden increases within customer classes
- Financial impact from lighting revenue is relatively small

Preliminary, subject to change.

04 Other Rates and Fees

- T&D Permit & Inspection Fees
- Electric Vehicle Public Charging Fees
- Electro Fuel Rate Schedule

T&D Permit & Inspection Fees

- Permit and Inspection fees in TMC 12.06A.250 address costs associated with permit processing, plan review, and physical inspection of customer work.
- Disc/Reconnect fees in TMC 12.01.010.B(4) and C(2) address costs for crew time to perform work.
- TMC 12.01.010.B(4) was not updated with C(2) and is being brought to same level
- Last Permit & Insp. increases was approved in 2022, disc/reconnect in 2020 (stepped over 4 years)
- The costs have increased in general and with the addition of one full-time Inspection employee.
- Fees need to recover costs so that other customers do not subsidize the costs.

Proposed T&D Increase

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- Targeted permit revenue increase to cover a projected deficit of $340k in 2025 and 2026 rate years combined.
- Target Disc/Reconnect fee to cover actual crew costs

- Propose $8 increase on non-commercial inspection fees and 5% increase on commercial inspection fees.
- Propose Disc/Reconnect increase by 13%

- Proposed increases are moderate and only intended to cover costs

EV Rate: Basic Principles

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1. **Affordable** rate that aligns with **cost-of-service**
   - Public charging costs vary widely
   - Need to recover the cost of energy and network fees
2. **Encourage** charger use
   - A core group of regular users is key to making chargers financially viable
   - A high rate that limits use will never recover costs and inhibit EV adoption
3. Provide **equitable** access
   - Serve multifamily households and garage orphans without home charging
   - Affordable charging options in neighborhoods without access to public charging

EV Public Charging Rate

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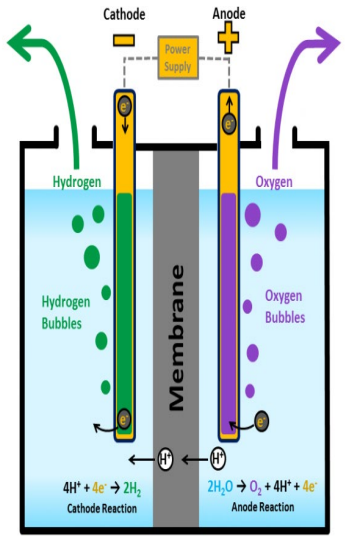
Current fee is 21 cents per kWh: The current charging fee was set in 2022. Tacoma Power had 35 charging ports in service at end of 2023. Tacoma Power will have 85 charging ports by the end of 2026, including new DC Fast Charging stations in downtown Tacoma.

Cost has increased from 2022 estimate: We base the rates on Small General rates and add network fees, maintenance cost and relevant taxes. Cost to replace cut cords and vandalized stations has led to higher operating cost estimates.

We intend to implement separate rates for Level 2 and Level 3 charging: Moderate increase on Level 2 charging. Price differential for DC Fast Charging.

Electro Fuel Rates - Background



- Created in 2021 when the market energy rate is below our system average rate for Contract Industrial rate schedule
- A derivative of Schedule Contract Industrial at embedded cost, without demand charge (free capacity)
- Curtailment requirement: a minimum of 15% of hours at 10-minutue notice
- Limited to 65 MW total

Key changes since Schedule EF was established

Market

- High wholesale market prices
- Limited power supply options; high costs

BPA Contract

- Uncertainty around the next BPA contract
- Potential loss of the Slice product

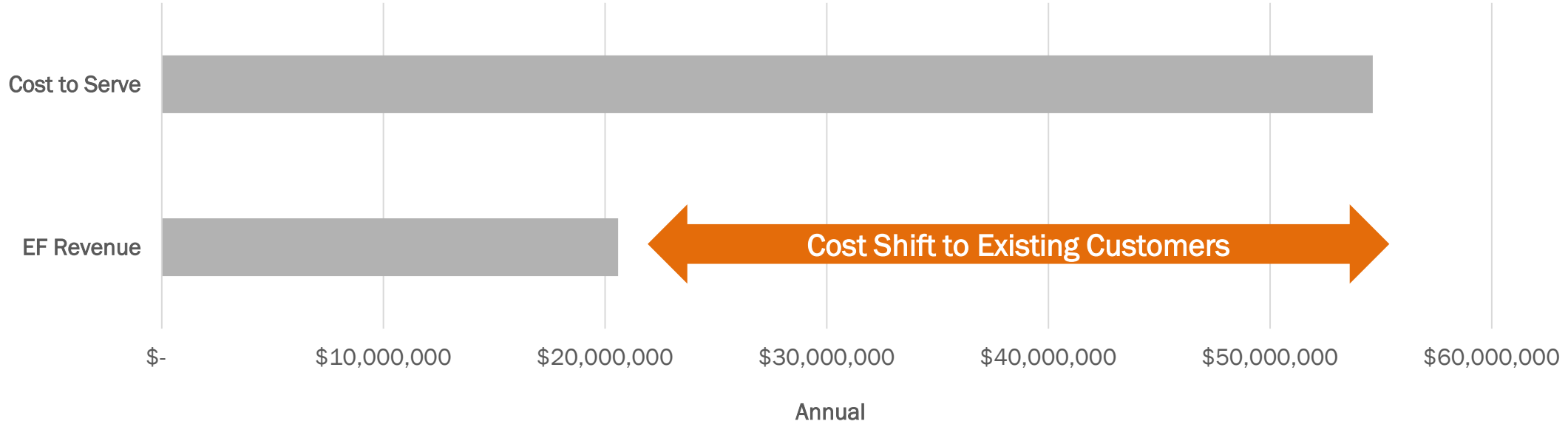
Regulatory

- Washington Climate Commitment Act (CCA)
- Western Resource Adequacy Program (WRAP)

Policy & Rate Design

- Changes to Tacoma Power large industrial rate schedules for loads above 10 aMW
- Updates to Electric Rate & Financial Policy prohibiting cost-shifting

Electro Fuel Rates – Risk of Cost Shifting



- If the Electro Fuel load exceeds 10 aMW over 12-month period, Tacoma Power can't use power from BPA to serve the new load. Market purchase cost has been very high in recent years.
- Capacity has become valuable with anticipated electrification.
- Tacoma Power risks substantial revenue deficit of serving large demand customers under the exiting Electro Fuel rates.
- Estimated cost shifting: 7 -10 % rate increase.

Electro Fuel Rates – Proposed Changes April 26, 2024

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Current	Proposed
Benchmark at Schedule CP rate (average system cost)	Benchmark at Schedule VLL (marginal cost)
Shift high power supply cost for the large customer to existing small customers	Passes through new power supply resource acquisition costs to new large customers
Stringent interruptible conditions	Tailor demand response program to VLL customers

Align with existing rate schedule structure

Protect existing customers by eliminating potential cost shifting

Cost-causation Principle

Technology neutral