

# Water Rate and Financial Policy

Presented by Jodi Collins for the Public Utility Board on March 27, 2024

# Purpose and Guiding Objectives



## Purpose

**The Water Rate and Financial Policy gives direction to planning decisions and helps ensure that Tacoma Water provides an adequate supply of safe, clean water to all customers efficiently, reliably, and at the lowest possible cost consistent with prudent utility management.**

## Guiding Objectives

- a. Water Rates Should Ensure Adequate Supply.**
- b. Water Rates Should Be As Low As Is Responsible.**
- c. Water Rates Shall Be Fair and Equitable.**
- d. Water Rates Should Be Based on Long-Term Financial Planning and Adjusted Gradually.**
- e. Water Rates Should Be the Product of Customer Involvement.**

**WATER RATE AND FINANCIAL POLICY  
TACOMA PUBLIC UTILITIES  
WATER DIVISION**

**November 2022**

Adopted by Public Utility Board Resolution U-11328 on June 29, 2022  
Adopted by City Council Resolution No. 41064 on November 15, 2022



# Policy Summary



Revenue Requirement	Cost-Based	Stable Rates	Financial Metrics	Rate Adjustments	Affordability
<ul style="list-style-type: none"> <li>Regular reviews with full study every two years</li> <li>Study includes projected revenue, expenses and capital improvements</li> </ul>	<ul style="list-style-type: none"> <li>Cost-of-Service Study determines the cost of serving each customer class</li> <li>Allocates class responsibility for projected expenses of the system</li> </ul>	<ul style="list-style-type: none"> <li>Water Rates Should Be As Low As Is Responsible</li> <li>Water Rates Should Be Stable and Understandable</li> <li>To the extent possible, apply gradualism in rate adjustments</li> </ul>	<ul style="list-style-type: none"> <li>60 days of current budgeted expenditures</li> <li>Capital: \$2M minimum in SDC Fund 1% of original plant in Capital Reserve</li> <li>Senior Debt Service Coverage above 1.50x</li> <li>All In Debt Service Coverage above 1.25x</li> </ul>	<ul style="list-style-type: none"> <li>Sufficient to meet Tacoma Water budgets</li> <li>Revenue collected to maintain financial sufficiency</li> <li>Short and long-run rate impacts presented</li> <li>Minimize long-run costs to rate-payer</li> </ul>	<ul style="list-style-type: none"> <li>Special consideration for low-income, senior, and disabled customers</li> </ul>

# Reviewing and Testing our Policy



## Quantitative Review

---

- In 2020, we developed a risk reserve analysis model, providing rigor behind our recommended reserve levels\*
- Staff conducts annual updates to incorporate actual results and updated forecasts to retest policy sufficiency
- We recommend maintaining our current policy levels for minimum reserve requirements

\* Our work with the risk reserve analysis model is discussed in more detail in our [Tacoma Water Long-Range Financial Plan \(LRFP\)](#)

## Qualitative Review

---

- In 2018, we enhanced our policy addressing the needs of low-income customers
- In 2022, we updated language to highlight long-term financial planning, gradualism, equity, affordability, and climate change in our policy as areas of focus
- In 2024, we compared our policy against updated PUB Guiding Principles
- We recommend adding language to highlight water quality, personnel, and planned use of reserves

# Recommended Changes



## A. Water Rates Should Ensure Adequate Supply

---

### Recommendation

Expand objective to include water quality

### Proposed Updated Objective A.

Water Rates Should Ensure Adequate Supply *[Water Quality and Robust Supply]*

### Proposed New Subsection A.9.

*Water rates will be designed to preserve and protect water quality. This includes the maintenance of sources of supply, infrastructure, facilities, and personnel to meet or exceed regulatory requirements.*

## B. Water Rates Should Be As Low As Is Responsible

---

### Recommendation

Minor language changes to enhance policy

### Proposed Revised Subsection B.2.

Tacoma Water will secure the least costly means of financing for capital improvement projects based on evaluation of the Utility's financial position and capital needs. Financing mechanisms may include the use of revenue funding, ~~unallocated~~ operating or capital reserves, low interest loans, revenue bond funding and other means as deemed prudent.

### Proposed Revised Subsection B.4.

Rates shall be set at levels such that projected current fund (fund 4600) cash balances will be equal to *[more than]* 60 days of current budgeted expenditures.

# Questions?

Contact Jodi Collins ([jlcollins@cityoftacoma.org](mailto:jlcollins@cityoftacoma.org)) or Lyna Vo ([lvo@cityoftacoma.org](mailto:lvo@cityoftacoma.org))





# Rail Rate and Financial Policy

2024

**TACOMA RAIL**  
TACOMA PUBLIC UTILITIES

# Purpose and Guiding Objectives



## Purpose

---

The Tacoma Rail Rate Policy provides for rates adequate to ensure the operation, maintenance, and construction of the Department's railway system while providing safe, reliable, cost effective, and reliable service to customers within Tacoma Rail's service area.

## Guiding Objectives

---

Rail rates should:

- a. Be cost based and adequate to recover costs
- b. Be stable
- c. Ensure sufficient resource planning and acquisition for reliable service while being as competitive as possible
- d. Have a customer involvement and review process

TACOMA PUBLIC UTILITIES  
TACOMA RAIL

RAIL RATE POLICY  
AMENDED  
January 2023



# Policy Summary



Revenue Requirement	Cost-Based	Stable Rates	Financial Metrics	Rate Adjustments
<ul style="list-style-type: none"> <li>• Rates reviewed every two years at a minimum</li> <li>• Full revenue requirement study performed every two years</li> </ul>	<ul style="list-style-type: none"> <li>• Utilize an average embedded cost-of-service methodology</li> <li>• Allocates class responsibility for projected expenses of the system</li> <li>• Fuel surcharges shall be based on actual costs over an established threshold</li> </ul>	<ul style="list-style-type: none"> <li>• To the extent possible, rate adjustments will not exceed general inflationary trends</li> <li>• The term of debt financing will not be longer than the useful life of the capital project</li> <li>• Volume Investment Fund</li> </ul>	<ul style="list-style-type: none"> <li>• Minimum cash balance of <b>60 days</b> of current budgeted expenditures</li> <li>• The limit of debt to total assets shall be set up to a maximum of <b>40%</b></li> <li>• Debt service coverage ratio shall be at least <b>1.5x</b></li> </ul>	<ul style="list-style-type: none"> <li>• Rates based on best estimates of rail volume</li> <li>• Rates will be designed to meet the changing needs of the customer</li> <li>• Rate classes may be established by blending customers</li> <li>• The character and volume of service is used to apportion costs, developing rates, and tariff revisions</li> </ul>

# Recommended Changes



## **A. Rail rates should be cost based and adequate to recover Tacoma Rail's costs.**

---

### **Recommendation**

Minor language changes to enhance policy

### **Proposed Revised Subsection A.5.**

The minimum working cash balance shall be sufficient enough to cover **[more than]** 60 days of current budgeted expenditures as outlined in Public Utility Board Policy 3.6, dated August 1992.



# Questions?

Contact Dan McCabe ([dmccabe@cityoftacoma.org](mailto:dmccabe@cityoftacoma.org))

# Rate and Financial Policy

**Recommended Revisions in 2024**



# Purpose and Policy Outline

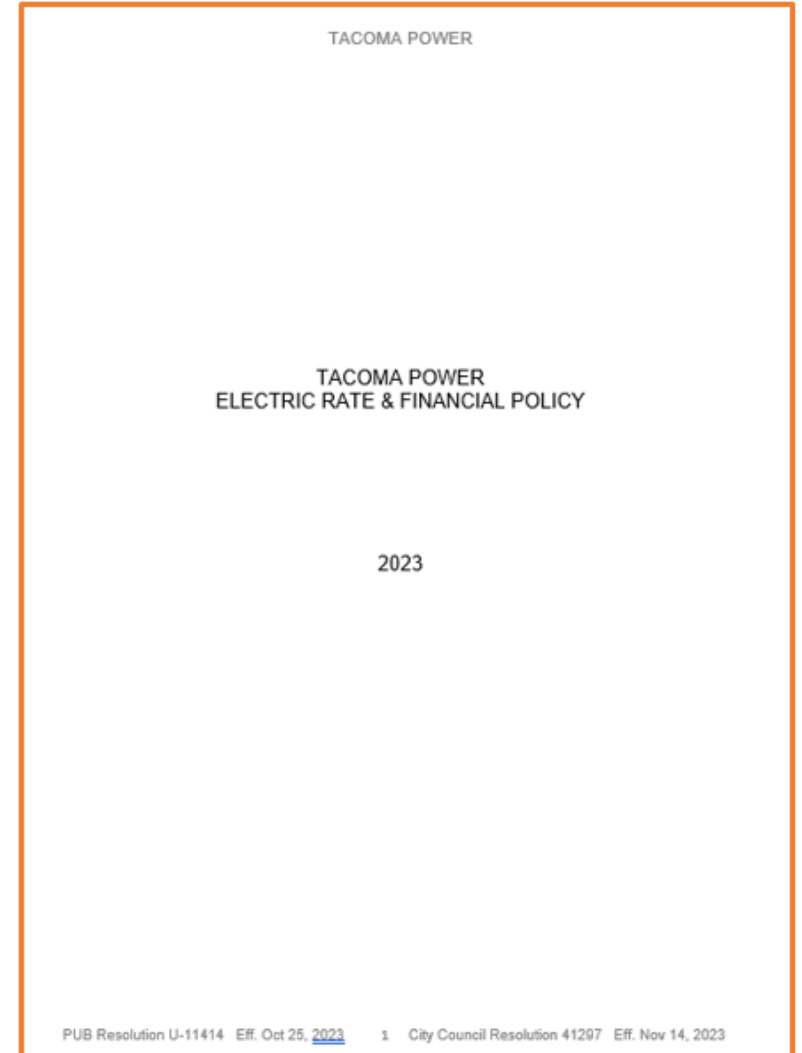


## Purpose

**Tacoma Power’s Electric Rate and Financial Policy gives direction to future short-term and long-term planning decisions and helps ensure that reliable service is provided to all customers at the lowest possible cost consistent with prudent utility management.**

## Elements

- I. Rate Setting Objectives**
- II. Rate Review Process**
- III. Rate Setting Policies**
- IV. Financial Targets and Rate Setting Practices**
- V. Rate Stabilization Fund**



# Policy Summary



Revenue Requirement	Cost-Based	Stable Rates	Financial Metrics	Rate Adjustments	Affordability
<ul style="list-style-type: none"> <li>• Monthly reviews with full study every two years</li> <li>• Study includes projected load, hydro conditions, revenues, expenses and capital improvements</li> </ul>	<ul style="list-style-type: none"> <li>• Cost-of-Service Study determines the cost of serving each customer class</li> <li>• Allocates class responsibility for projected expenses of the system</li> </ul>	<ul style="list-style-type: none"> <li>• Power rates should be stable and not exceed general inflationary trends</li> <li>• To the extent possible, apply gradualism in rate adjustments</li> </ul>	<ul style="list-style-type: none"> <li>• <b>90 days</b> of current budgeted expenditures</li> <li>• Debt Service Coverage above <b>1.50x</b> based on adverse water revenue projections</li> <li>• Debt Service Coverage above <b>1.80x</b> based on average water revenue projections</li> <li>• Liquidity levels set to maintain or improve current debt ratings at AA-level</li> </ul>	<ul style="list-style-type: none"> <li>• Sufficient to meet Tacoma Power budgets</li> <li>• Revenue collected to maintain financial sufficiency</li> <li>• Short and long-run rate impacts evaluated</li> </ul>	<ul style="list-style-type: none"> <li>• Special consideration for low-income senior and/or disabled customers</li> </ul>



# Reviewing and Testing our Policy



## Quantitative Review

---

- In 2010, we funded a Rate Stabilization Fund\* (RSF) to stabilize rates and maintain AA-rated utility metrics.
- Staff conducts annual updates to incorporate actual results and updated forecasts to retest the sufficiency of the RSF and financial metrics.
- We have evaluated our RSF balance through several analyses and comparisons to peer utilities.
- We recommend adding language to reflect a target core Rate Stabilization Fund balance amount.

\*Our plans to use the Rate Stabilization Fund are discussed in more detail in our [Tacoma Power Long-Range Financial Plan](#) (LRFP).

## Qualitative Review

---

- In 2018, we enhanced our policy addressing the needs of low-income customers and formalized our Long-Range Financial Plan with a long-term view on gradual rate adjustments.
- In 2022, we updated language to highlight long-term financial planning, gradualism, equity, affordability, and climate change in our policy.
- In 2023, we updated language around our large load customers related to rates and cost-of-service analysis.
- In 2024, we compared and aligned our policy with updated Board Guiding Principles.
- We recommend adding language to reflect resource planning to meet short and long-term customer needs in consideration of Guiding Principle 14.

# Recommended Changes



Power rates should reflect resource planning to meet or exceed long term customer needs

## **Proposed Revised Subsection IV.B.1.a**

The projected load forecast for the rate review process shall include the consumption effects of price, and local economic and demographic conditions *[, and other projected impacts to future consumption.]* Projected retail revenues will be based on average weather assumptions.

## **Proposed Revised Subsection IV.B.1.c**

Both the short-term and long-term rate impacts of conservation programs *[, electrification assumptions,]* and generating resource development will be considered when establishing current funding levels.

## **Proposed New Subsection IV.B.1.d.**

*Power rates will be designed to ensure sufficient and reliable power supply and transmission. This includes the procurement and maintenance of sources of supply, infrastructure, facilities, and personnel to meet or exceed regulatory requirements.*

Power Rate Setting Practices  
- minor language changes

## **Proposed Revised Subsection IV.A.1.**

Rates will be set at levels to provide projected cash balances equivalent to a minimum of *[more than]* 90 days of current budgeted expenditures.

## **Proposed Revised Subsection IV.A.3.**

The Utility will plan to a minimum Debt Service Coverage Ratio of ~~1.8~~ *[2.0]* based on net revenues including surplus sales estimated using median *[average]* water availability or at higher levels consistent with sound financial practice in the electric industry.

# Recommended Changes (cont.)



## GP2 Financial Sustainability:

“TPU planning methods should incorporate conservatism and gradualism ... to ensure long-term financial stability and anticipate unexpected future events with adequate cash reserves ...”

---

### **Proposed Revised Subsection V.B.1**

*[Upon the availability of excess wholesale revenues, Tacoma Power will target a core balance of \$100 million in the Fund. Core balance is defined as the revenues set aside to mitigate the variability in hydro supply and wholesale market prices only. The Fund Total Balance can be higher to reserve revenues for other operational purposes. In addition,]* at the conclusion of each fiscal year, Tacoma Power will evaluate the adequacy of the *[core balance]* amount in the Fund for meeting the forecast difference between critical and adverse water conditions over the next two fiscal years. *[The core balance target threshold will be re-evaluated on a periodic basis, at a minimum upon significant operational or market changes that impact wholesale revenues.]*





**Questions?**

**Appendix**

## RSF Policy Language Allows Financial Flexibility

### Current Financial Policy Language

- Can apply the RSF for any need to reduce future rates
- Maintain AA-level rating
- Debt Service Coverage Ratio (2.0x)

### Application Guidelines

1. Annual evaluation of RSF adequacy
  - Using critical water forecasts
2. If inadequate
  - Budget to bring up to adequate level over  $\leq 4$  years
- 3.– 6. Deposits into RSF:
  - After expenses paid (O&M, Debt Service, & GET)
  - Debt Service Coverage Ratio  $\geq 1.5x$