



3628 South 35th Street

Tacoma, Washington 98409-3192

TACOMA PUBLIC UTILITIES

April 19, 2019

Erik Martin, County Manager
Lewis County
351 NW North St
Chehalis, WA 98532

SUBJECT: Escalation method for the Mitigation Payments from Tacoma Power to Lewis County

Dear Mr. Martin:

This letter is a proposal to you to replace the Portland–Salem CPI-U (Discontinued) Consumer Price Index (CPI) with the West Size Class A CPI to calculate the escalation rate for our payments to Lewis County per our Mitigation Payment Agreement (Agreement) dated March 23, 2000.

Tacoma Power (Tacoma) provides annual payments to Lewis County (County) [Tacoma and County (Parties)] under the Agreement. The current Agreement between the Parties expires at the end of the second license for the Cowlitz project, April 2037 or no later than December 2041.

The Agreement terms and conditions of compensation were established in 1972 and 1987, and subsequently renegotiated in 2000. The payments are calculated with an escalation index based on a CPI to account for economic variability within the Oregon/Washington region (Region).

The payment escalation rate for this Agreement is based upon the Discontinued CPI, which was canceled in 2018 by the US Bureau of Labor and Statistics (BLS). The BLS maintains the Consumer Price Index (CPI) indices throughout the country and adjusts indices based on criteria to ensure representative economic indicators are reflected in each region.

Tacoma has analyzed the CPI performance trends from 2009-2017 in the Region. These include the Discontinued CPI, West Size Class A CPI (*population of 2.5M or more*) and the West Size Class B/C CPI (*population of 2.5M or less*). Until 2013, the Discontinued CPI was aligned relatively well with other indices in the Region. Since then, these indices have diverged slightly, but have outperformed the national CPI for US cities (Figure 1 – see attached).

Based upon the analysis of the CPI trends, Tacoma recommends using West Size Class A as a replacement to the Discontinued CPI for calculating future escalation rates as it pertains to the Agreement. The West Size Class A CPI has followed a similar trend to the Discontinued CPI over the past several years and is the closest fit to the historical performance trend of the Discontinued CPI of the remaining indices in the region.

Erik Martin
April 19, 2019
Page 2 of 2

Since January of 2018, Tacoma has applied an adjusted rate identified in the Agreement to calculate the [2018 and 1st quarter 2019] payments while the analysis of the data and trends was completed. (Table 1. – see attached) The adjusted rates resulted in a net underpayment of **\$47,119.21** for this period. Given the analysis is now completed, we propose providing an adjusted additional payment of **\$47,119.21** to Lewis County to reconcile the payments with West Class A CPI; and use this CPI for future payment calculations throughout the remaining term of the Agreement.

If this proposal is acceptable to Lewis County, Tacoma requests a formal response from Lewis County within 30 days of this letter. Once the Parties have agreed to the terms of this proposal, Tacoma will draft an amended agreement for signatures by the Parties to memorialize the change.

If you have questions, please contact me at (253) 502-8196, or Travis Nelson, License Implementation Coordinator, at (253) 502-8861.

Sincerely,



Keith Underwood
Natural Resources Manager

Attachment

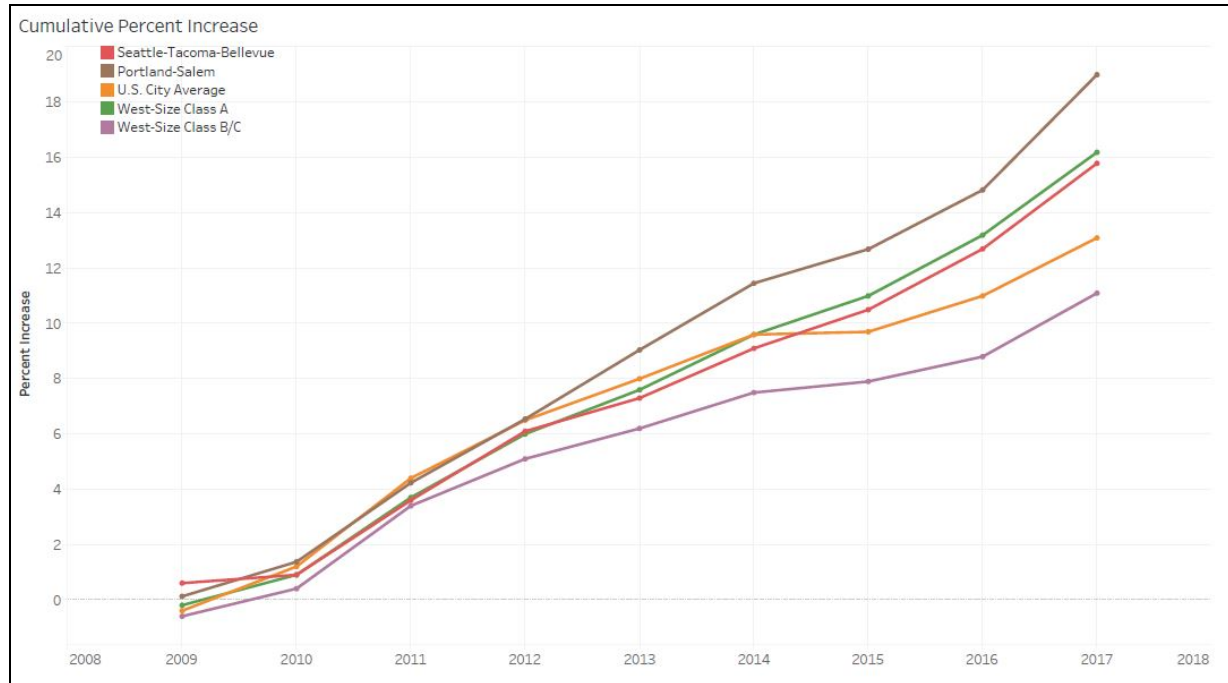
TN:mcp CPI Recommendation Letter - Lewis County Payments 04.19.19

c: Lewis County Commissioners, Lewis County
Chris Mattson, Tacoma Power
Trina Morris, Tacoma Power
Travis Nelson, Tacoma Power
Terry Ryan, Tacoma Power

Consumer Price Index Analysis Results and Payment Summary

Supporting documentation for April 19, 2019 letter to Lewis County Manager

Figure 1: Comparison of the affected CPI series with CPI series for the U.S. City Average and West Size Class A regions



Source: <https://www.bls.gov/regions/west/factsheet/2018cpirevisionwest.pdf>

Table 1: Mitigation Payments 2017 – Q1/2019

	Amounts Paid			Revised Calculation			Adjustments to prior Payments	
	CPI applied	Annual	Quarterly	Correct CPI	Annual	Quarterly		
2017	2.14% ¹	\$ 1,562,666.69	\$ 390,666.67	2.14% ¹	\$ 1,562,666.69	\$ 390,666.67	\$ no change	2017
2018	2.00% ²	\$ 1,598,920.00	\$ 398,480.00	4.17% ³	\$ 1,627,898.40	\$ 406,974.60	\$ 33,978.40	2018
2019	2.00% ²	\$ 1,625,798.40	\$ 406,450.00	3.10% ⁴	\$ 1,678,363.25	\$ 419,590.81	\$ 13,140.81	Q1-2019
							\$ 47,119.21	Adjustment

¹ - 2.14% CPI-U Portland Salem (end of 2016) - applied to 2017 payment

² - 2.0% - Estimate applied to 2018 payment as minimum for contract

³ - 4.2% CPI-U Portland Salem for 2017 adjusted March 2019 and applied to 2018

⁴ -3.1% 2018 West Size Class A CPI Applied to 2019 (proposed CPI for remainder of agreement)