Audit Results Presentation

Tacoma Public Utilities
Public Utility Board

Presented by Olga A. Darlington, CPA, Partner

June 24, 2020
To the Members of the Public Utility Board

• Tacoma Public Utilities - Power, Water, and Rail Division

Thank you for your engagement of Moss Adams LLP. We are pleased to have the opportunity to meet with you to discuss the results of our audit of the financial statements of the Power, Water and Rail Divisions as of and for the year ended December 31, 2019.

The accompanying presentation, which is intended solely for the use of the Board and Management, and not intended to be and should not be used by anyone other than these specified parties, presents important information regarding the Divisions’ financial statements and our audit that we believe will be of interest to you.

We conducted our audit with the objectivity and independence that you expect. We received the full support and assistance of Divisions’ personnel. We are pleased to serve the utilities as independent public accountants and look forward to our continued relationship.

Olga A. Darlington
Moss Adams LLP
Financial statements are presented fairly and in accordance with US GAAP – following pronouncements promulgated by the Governmental Accounting Standards Board (GASB).

Tacoma Public Utilities - Power, Water, and Rail Divisions – reports dated May 18, 2020

- No material weaknesses in internal control
Area of Audit Emphasis

Internal Control Environment
- Cash receipts/revenues, cash disbursements/payables, payroll, power trading, treasury, financial close and reporting;
- Our IT team of specialists tested the IT general computer controls that support the various financial reporting systems;

Treasury
- Coordination with State Auditor’s Office testing of cash and investment balances for existence, valuation, restrictions and classification; evaluation of fair value;

Capital Assets
- Consideration of capitalization policies, as well as testing of additions, retirements, overhead application, and depreciation;
- Interest on debt is no longer being capitalized to construction projects in accordance with GASB 89, implemented in 2019.
Debt Activity

- Debt repayments, arbitrage liability, discounts and premiums, compliance with debt covenants; third party confirmations with financial institutions;
- No new debt issued in 2019

Net Pension and OPEB Liability

- Recognition of share of the liability for future pension and OPEB obligations as part of TERS plan;
- Employer liability and related deferred inflows/outflows including employee census and contributions made to TERS

Revenues and Expenses

- Vouching of cash receipts and timing of revenue recognition;
- Third-party confirmations with largest commercial power purchasers for Electric Division;
- Detail testing of large line haul transactions for Rail Division;
- Analytical testing of revenue and expenses
Our Responsibility Under Auditing Standards

1. To express our opinion on whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, and conform to US GAAP. However, our audit does not relieve you or management of your responsibilities.

2. To perform an audit in accordance with generally accepted auditing standards issued by the AICPA and Government Auditing Standards issued by the Comptroller General of the United States and design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement.

3. To consider internal control over financial reporting as a basis for designing audit procedures but not for the purpose of expressing an opinion on its effectiveness or to provide assurance concerning such internal control.

4. To communicate findings that, in our judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.
Required Audit Communications

**Planned Scope and Timing of Audit**
- The planned scope and timing of the audit was communicated through management’s communication to PUB in a planning letter dated December 2, 2019, and was included in the engagement letter dated October 15, 2019;
- Our audit was performed according to the planned scope

**Accounting Estimates**
- Note 2 discloses the Divisions’ significant accounting policies:
  - Allowance for doubtful accounts
  - Unbilled revenues
  - Depreciable lives and estimated residual value of utility plant
  - Actuarial valuations for pension and OPEB amounts
Consultation with Other Accountants
• None known

Disagreements with Management
• No disagreements or difficulties in performing the audit

Potential Effect of Any Significant Risks and Exposures
• The Divisions are subject to potential legal proceedings and claims that arise in the ordinary course of business.
• Commitments and contingencies are disclosed in notes to the financial statements.
Audit Adjustments and Passed Audit Adjustments

Audit Adjustments

- None

Passed Audit Adjustments

- One passed audit adjustment:
  - Water Fund – management’s entry to record donated assets that were omitted in error which would have increased capital assets and contributions in aid of construction by $647,143.
New Accounting Standards

GASB 83 – Asset Retirement Obligations
• Addresses accounting and financial reporting for certain asset retirement obligations;
• Implemented in 2019 financial statements

GASB 84 – Fiduciary Activities
• Addresses guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported;
• Effective for 2020 financial statements

GASB 87 - Leases
• Addresses accounting and financial reporting for leases recognizing that leases are financings of the right to use an underlying asset;
• Effective for 2021 financial statements

GASB 88 - Debt Disclosures
• Addresses accounting and financial reporting related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt
• Implemented in 2019 financial statements
Thank you!

- The audit progressed in an orderly fashion; requested schedules were received on a timely basis.

- All personnel across all departments were courteous, responsive, and fulfilled all of our requests in a timely manner.

- ‘Tone at the Top’ and attitude from management was one of helpfulness and openness in response to audit requests and discussion points.
## Deployment Customer Communications Plan - DRAFT

<table>
<thead>
<tr>
<th>General Awareness</th>
<th>Initial Deployment Area (IDA)</th>
<th>Residential Deployment</th>
<th>Commercial Deployment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Web Content - Constant</td>
<td>Virtual Open House</td>
<td>45, 30, 14 Days - Install Letter</td>
<td>60 Days - Install Letter</td>
</tr>
<tr>
<td>Web Banner Ads</td>
<td>Installation Videos</td>
<td>7 Days - Install Reminder Postcard</td>
<td>Scheduling Call from Meter Shop</td>
</tr>
<tr>
<td>U* Article, Jan 2020 issue</td>
<td>45, 30, 14 Days - Install Letter</td>
<td>2 Days - Auto Dial Call (from MIV)</td>
<td>45-7 Days Outreach from Account Executives</td>
</tr>
<tr>
<td>E-newsletter</td>
<td>7 Days - Install Reminder Postcard</td>
<td>Completed Door Hanger</td>
<td>Reminder Call (as needed)</td>
</tr>
<tr>
<td>U* Articles, July &amp; Sept 2020 Issues</td>
<td>2 Days – Reminder Call</td>
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<tr>
<td>Bill Insert July/Aug 2020</td>
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<tr>
<td>Bill Insert Sept/Oct 2020</td>
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<tr>
<td>Community Outreach</td>
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<tr>
<td>Social Media</td>
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</tbody>
</table>

Communication materials will be available in multiple languages.

5 specific residential customer communications **before** meter installation.
The electric and water meters at the service address above will be upgraded within the next two months to improve your utility service. The upgrade will give you increased privacy, control, convenience, automated meter reads, monthly billing, faster response to outages, and more efficient move-in/move-out services.

**Why Am I Receiving This Notice?**
Ordinarily, as part of the terms and conditions for utility service, we assign the meter and related equipment at reasonable times. (Tacoma Municipal Code sections 1206.051(b) and 1210.3250) This notice is a courtesy to ensure you’re aware of the upgrade and brief interruption to service.

**What to Expect**
- Your electric and water meter upgrades might require two separate visits.
- Installations will occur Monday through Friday, between 8 a.m. and 6 p.m.
- You’ll receive more information as your installation date approaches.
- A certified installer from Tribus, a TPU authorized contractor, will knock on your door, but won’t need to enter your home. The installer will carry an ID badge and will wear proper protective gear to prevent the spread of COVID-19. If you have questions about an installer, call 253-xxx-xxxx.
- You don’t need to be home, unless you must provide access to the meter.
- Focus on animals before installation.
- The installer will need access to your meters and you’ll experience brief interruptions to your water and power during the upgrade—but no reversals for details.

Communication materials will be available in multiple languages.
Communication materials will be available in multiple languages.
Ongoing Community Outreach

- Tacoma’s Neighborhood Councils
- Tacoma City Council
- Black Collective
- Neighborhood Block Groups
- Community Organizations
- Franchise Cities
- Pierce County
- Joint Municipal Action Committee
Customer Communications

before, during, and after meter installation.
Upcoming Target Dates

IDA Communications Begin: July/August
IDA Meter Installations: September/October
Mass Meter Communication Begin: November/December
Mass Meter Installations: Q1 2021 - Q3 2022
Questions?

MyTPU.org/AdvancedMeters
Our Energy Future Series

June 24 IRP Update

Rachel Clark
Resource Planning Manager
IRP Analysis Update

Stakeholder Engagement Update
Where are we with the IRP?
Section 1: IRP 101 Review

Review of IRP Analysis Process

- Needs Assessment
  - Do we have enough resources to meet our load under *most* conditions?

- Portfolio Analysis & Selection
  - Which set of resources best meet our needs, risk tolerance and values?

- Action Items
  - What are our next steps?
We do not have enough resources if we don’t renew our BPA contract in 2028

Load across different weather years

Generation after CBH contracts expire

Generation after BPA contract expires
## Portfolio List

### Renew BPA Slice/Block

- Tacoma Power Hydro + BPA Slice
- Tacoma Power Hydro + BPA Slice + renew CBH *(continue current portfolio)*
- Tacoma Power Hydro + BPA Slice + 60MW 2023 Solar
- Tacoma Power Hydro + BPA Slice + 60MW 2028 Solar
- Tacoma Power Hydro + BPA Slice + 100MW WA Wind
- Tacoma Power Hydro + BPA Slice + 100MW Gorge Wind
- Tacoma Power Hydro + BPA Slice + 150MW Pumped Storage at Cowlitz
- Tacoma Power Hydro + BPA Slice + 150MW 3rd Generator at Cowlitz
- Tacoma Power Hydro + BPA Slice + 50MW Demand Response

### Renew BPA with Shapeable Block

- Tacoma Power Hydro + BPA Block
- Tacoma Power Hydro + BPA Block + renew CBH
- Tacoma Power Hydro + BPA Block + 60MW 2023 Solar
- Tacoma Power Hydro + BPA Block + 60MW 2028 Solar
- Tacoma Power Hydro + BPA Block + 100 MW WA Wind
- Tacoma Power Hydro + BPA Block + 100 MW Gorge Wind
- Tacoma Power Hydro + BPA Block + 150MW Pumped Storage at Cowlitz
- Tacoma Power Hydro + BPA Block + 50MW Demand Response (DR)

### No BPA Renewal

- Tacoma Power Hydro + 650MW WA Wind + 650MW Gorge Wind + 100MW MT Wind + 300MW DR
- Tacoma Power Hydro + 700MW WA Wind + 700MW Gorge Wind + 100MW MT Wind + 250MW DR + 150MW Pumped storage
- Tacoma Power Hydro + 700MW WA Wind + 700MW Gorge Wind + 100MW MT Wind + 250MW DR + 150MW Cowlitz Generator
- Tacoma Power Hydro + 700MW WA Wind + 700MW Gorge Wind + 100MW MT Wind + 200MW DR + 100MW Small Nuclear
- Tacoma Power Hydro + 650MW WA Wind + 650MW Gorge Wind + 100MW MT Wind + 100MW DR + 200MW Natural Gas
How do we evaluate portfolios?

**Section 1: IRP Analysis Update**

**Criteria for Comparing Portfolios**
- Expected costs
- Financial risk
- Carbon Emissions

**Pass/Fail Criteria**
- Resource Adequacy
- CETA compliance
Section 1: IRP Analysis Update

How do our metrics relate to our Strategic Directives?

**Equity & Inclusion**
- TPU is committed to achieving equity and inclusion in its workforce, service delivery, policy decision making, and community/stakeholder engagement.

**Financial Sustainability**
- TPU will secure its commitment to provide safe and reliable power, water, and rail services over the long term by maintaining sustainable budget, financial, and asset management practices.

**Rates**
- TPU strives to ensure rates will be adequate, fair, just, and reasonable.

**Stakeholder Engagement**
- TPU is committed to engagement with customers to understand their needs and improve service that informs decision-making.

**Environmental Leadership**
- TPU is committed to being stewards of the region’s natural resources, and a leader in the preservation of those resources while maintaining our excellent delivery of services.

**Innovation**
- TPU is committed to fostering a culture of innovation to meet these challenges today and into the future.

**Relevant Metrics**
- Portfolio cost (keep rates low for financially disadvantaged customers)
- Equity metric to be developed for next IRP

**Relevant Metrics**
- Resource adequacy
- Portfolio cost
- Financial risk

**Not a criterion for resource decisions**
- Stakeholder input sought in portfolio selection
- Metrics of engagement to be developed to gauge success of public process

**Not currently a criterion for resource decisions**
- CETA compliance
- Portfolio carbon emissions

- Can be considered qualitatively
Who knows what will the world look like in 20 years?

Section 1: IRP Analysis Update

- Policy
  - Accelerated decarbonization?
  - Fish regulation changes?
  - FERC licensing?

- Loads
  - Electrification?
  - Industrial loads?
  - Retail competition?

- Markets
  - Capacity markets?
  - Organized market?

- Prices
  - High or low?
  - Volatile or stable?

- Technology
  - Renewable hydrogen?
  - Molten salt storage?
  - Battery alternatives?

- Fuel
  - Bad water year?
  - Climate change impacts?
  - Gas pipelines?
Section 1: IRP Analysis Update

Scenarios of the future

- Cruise Control (Base Case)
- Carbon Policy Accelerates
- Technology Solves Everything
- Reliability Reigns

Tacoma Power Load

Average Mid-C Price and Volatility 2020-2040

- Scenario 1: Policy
- Scenario 2: Technology
- Scenario 3: Base Case
- Scenario 4: Reliability

Price and STDev

- $41, 45 (Scenario 1: Policy)
- $10, 19 (Scenario 2: Technology)
- $32, 67 (Scenario 3: Base Case)
- $36, 35 (Scenario 4: Reliability)
How do we account for uncertainty?

Section 1: IRP Analysis Update

Process repeated for other scenarios
Section 1: IRP Analysis Update

Other factors

Sensitivities we will run on preferred portfolio

✓ Climate change
  Would our preferred portfolio still meet our needs under climate change?
  Climate change to be addressed more thoroughly in next IRP

✓ New large load
  How much of a very large new load could be served by preferred portfolio?
  How big would the gaps be and what times of year would they occur?

✓ Loss of a large industrial load
  How much surplus power would we have if we were to lose a large load?

✓ BPA resource dedication
  What if BPA Administrator were to not allow us to reduce what we get for a resource acquired in 2028?
## Section 1: IRP Analysis Update

### What’s next?

<table>
<thead>
<tr>
<th>Topic</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Resource planning 101</td>
<td>August 28 (complete)</td>
</tr>
<tr>
<td>2 Resource adequacy</td>
<td>October 9 (complete)</td>
</tr>
<tr>
<td>3 Our current portfolio &amp; resource options</td>
<td>October 23 (complete)</td>
</tr>
<tr>
<td>4 Small nuclear reactors</td>
<td>November 13 (complete)</td>
</tr>
<tr>
<td>5 Energy storage</td>
<td>December 4 (complete)</td>
</tr>
<tr>
<td>6 Pump storage hydro</td>
<td>January 7 (complete)</td>
</tr>
<tr>
<td>7 IRP Update</td>
<td>June 24 (today)</td>
</tr>
<tr>
<td>8 Preview of findings and recommendations</td>
<td>July 22</td>
</tr>
<tr>
<td>9 Approve IRP (BOARD MEETING)</td>
<td>August 12</td>
</tr>
<tr>
<td>10 Submit IRP</td>
<td>Before September 1</td>
</tr>
<tr>
<td>11 Public-friendly summary document</td>
<td>October 1</td>
</tr>
</tbody>
</table>
How have we engaged with stakeholders?
Section 5: Stakeholder Update

Engagement Plan

Public Workshops
• Working group as core participants
• Open to the public
• Email updates to working group & other interested parties

IRP Web Landing Page
• Refresh live on Jan 10
• Updated regularly with workshop information, materials, recording
• Comment form

TPU Homepage Card Row
• Feb-June: Encourage participation in workshops
• July: Post draft IRP for public comment

TPU Web Events Calendar
• Workshops posted

Social Media
• Posts to promote workshops
• Possible mini-survey for folks to weigh in on future energy sources
Section 6: IRP Update

Working Group Membership

Residential Customers
- Tacoma-Pierce County Black Collective
- South End Neighborhood Council

Small Business
- Cross District Association

Large Business
- Emerald Queen Casino
- Multicare

Large Industrial
- WestRock
- Praxair
- US Oil & Refining Co

Franchise Cities
- University Place

Other Large Customers
- Joint Base Lewis-McChord
- Puyallup Tribe of Indians
- Port of Tacoma

Environment & Sustainability
- NW Energy Coalition (regional)
- Sustainable Tacoma Commission (local)

Economic Justice
- Tacoma Community House
- Sound Outreach

External Expertise
- NW Power & Conservation Council
- Rebecca Sliger (Tacoma Community College)
- Ruth Ann Scoles Schonbachler (Independent)

Other Participants
- Bonneville Power Administration
- Citizens for a Healthy Bay
- Kaiser Permanente
- Renewable Northwest
- Clearway Energy
Section 5: Stakeholder Update

IRP Workshops

- **February 24 (in-person)**
  - Workshop 1: IRP Overview
  - 15 participants

- **March 11 (webinar)**
  - Workshop 2: Present key inputs, Present and discuss metrics, Present and discuss scenarios
  - 13 participants

- **April 27 (webinar)**
  - Workshop 3: Review current situation, Present and discuss resource alternatives
  - 13 participants

- **June 29 (webinar)**
  - Workshop 4: Present analysis results, Present and discuss preferred portfolio, Discuss action items, Stakeholder process debrief

Survey Results:
- **Scenario Survey**: 15 participants
- **Satisfaction Check-in Survey**: 13 participants
- **Overall Satisfaction Survey**: 13 participants
I. **Purpose**

Tacoma Public Utilities (TPU) is committed to building and strengthening respectful and mutually-productive relationships with tribal, federal, state, and other local units of government so that public policy benefits TPU rate-payers/customers and fosters the outcomes set out in TPU’s strategic Directives.

II. **Values**

1. As one of the nation’s largest publicly-owned, municipal utilities, TPU values the relationship it has with tribal, federal, state, and other local units of government.

2. TPU believes in developing, preserving, and enhancing government-to-government relationships built on trust, responsiveness, and collaboration based on mutual interests.

3. TPU recognizes the sovereign status of Native American Tribal Nations and is committed to consulting with those Nations on a government-to-government basis.

4. As part of one municipal entity, TPU is committed to strong collaboration and proactive communication with the City of Tacoma’s General Government.

5. TPU is committed to regular, proactive outreach with its government partners with the intention of listening, sharing relevant information, and identifying opportunities for collaboration when possible.

6. TPU is committed to working with tribal and local government partners to proactively share and communicate about TPU programs that benefit their communities.

7. TPU is committed to communicating and working with tribal and government partners near outlying TPU facilities and lands.
III. Outcomes

1. Ongoing government-to-government consultation with sovereign Native American Tribal Nations will ensure long term stewardship of TPU managed resources in mutually beneficial ways and prevent drawn-out negotiations and legal battles.

2. TPU’s policy initiatives are in alignment with the City of Tacoma’s General Government. TPU and General Government staff collaborates and actively communicates on a regular basis to achieve alignment. Where interest diverge, active communication and collaboration fosters understanding and mitigates negative impacts to both entities of Tacoma municipal government.

3. Policy decisions at the federal, state and local level protect the long-term investment that Citizens of Tacoma and TPU ratepayers have made in the infrastructure, operational capacity, financial stability and intellectual capital of TPU.

4. TPU is seen as a leader locally, regionally, and nationally in strategically developing policy positions and initiative that benefit TPU, and the industries and communities in which it operates.

5. TPU’s ongoing relationship with franchise cities insures collaboration and smooth negotiation on franchise agreements and issues of mutual concern.

6. TPU staff routinely seeks collaborative engagement and input from government partners during strategy planning processes, such as Integrated Resource Planning.

7. When full alignment is not possible, TPU will transparently acknowledge differences, communicate challenges and seek to maintain strong, trusting relationships with government partners.

8. TPU will be able to avoid costly legal fights with other government entities, except where absolutely necessary to protect vital interest or determine president, and seek solutions through negotiation.

IV. Measurement

1. TPU staff will internally track government relations activities, including necessary follow-up.

2. TPU staff will provide consistent updates to government partners regarding projects, rates, and programs.

3. TPU staff will regularly provide the Public Utilities Board, TPU executives, and staff with information about government relations activities and any potential recommended policy changes and/or impacts relating to a government partner.
V. Reporting
Frequency: Quarterly

1. Staff will report of active policy initiatives and significant policy issues at the Federal, state and local level to the Board on a quarterly basis.

2. Once before, once during, and once after the Washington State legislative session.