

Serving our customers



Tacoma Power Financial Update & 2027-28 Revenue Needs

Public Utility Board
May 27, 2026

Agenda

1. Background

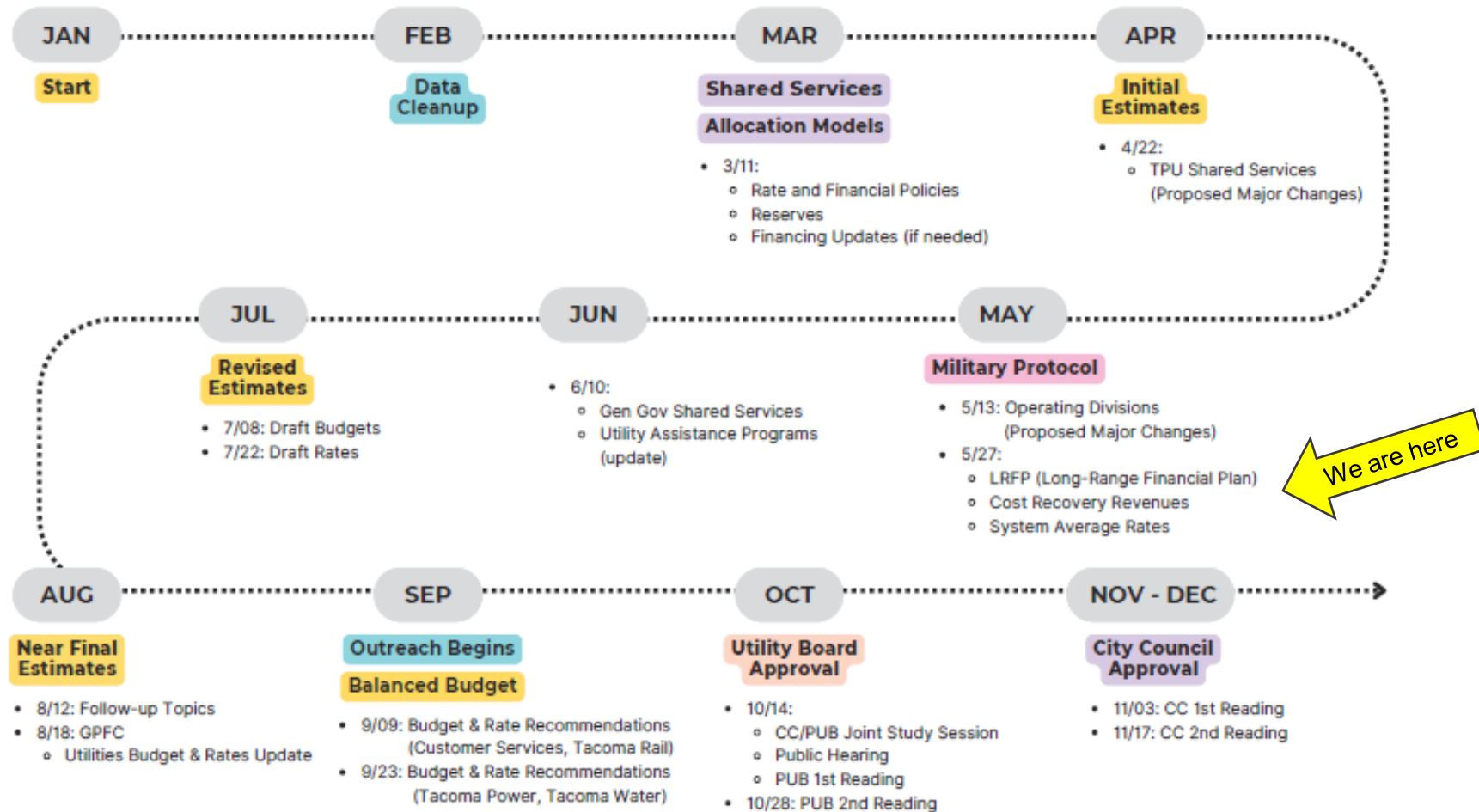
2. Rate Increase Options

3. Scenarios – Not Recommended

4. Rate Mitigation Measures

5. Peer Utility Rate Comparisons

Budget & Rates Timeline



Before we start, a reminder...

This is a snapshot in time.

The amount of revenue we will receive each year is uncertain.

The amount of power that will be consumed by our customers is uncertain.

Actual rate increases may fall outside of this range and are dependent upon market conditions, financial performance, and the actions we may take in future years.

As has happened before -

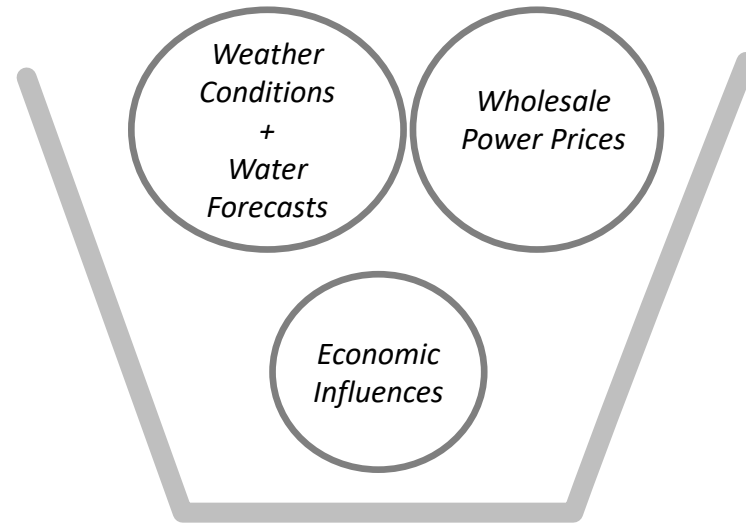
These projections will change.



March 31, 2024

Long-Range Financial Plans (LRFP) are available at mytpu.org

Planning for Uncertainties



Risks



- Climate Change
- Customer Demand Volatility
- Wholesale Power Market Volatility



- Economic Cycles and Inflation
- Policy or Regulatory Changes
- Seismic & Other Adverse Events

Scenarios:

- Standard Planning Scenarios**
 - Adverse water in 2027 and 2028
 - Critical water in 2027 and 2028
 - Very low wholesale prices
 - Loss of largest customer in 2027
 - Recession in 2027 through 2028
- Additional Scenarios**
 - Higher retail rate increases in 2027 and 2028
 - Lower retail rate increases in 2027 and 2028

Updated assumptions compared to last biennium

Revenue Assumptions – lower

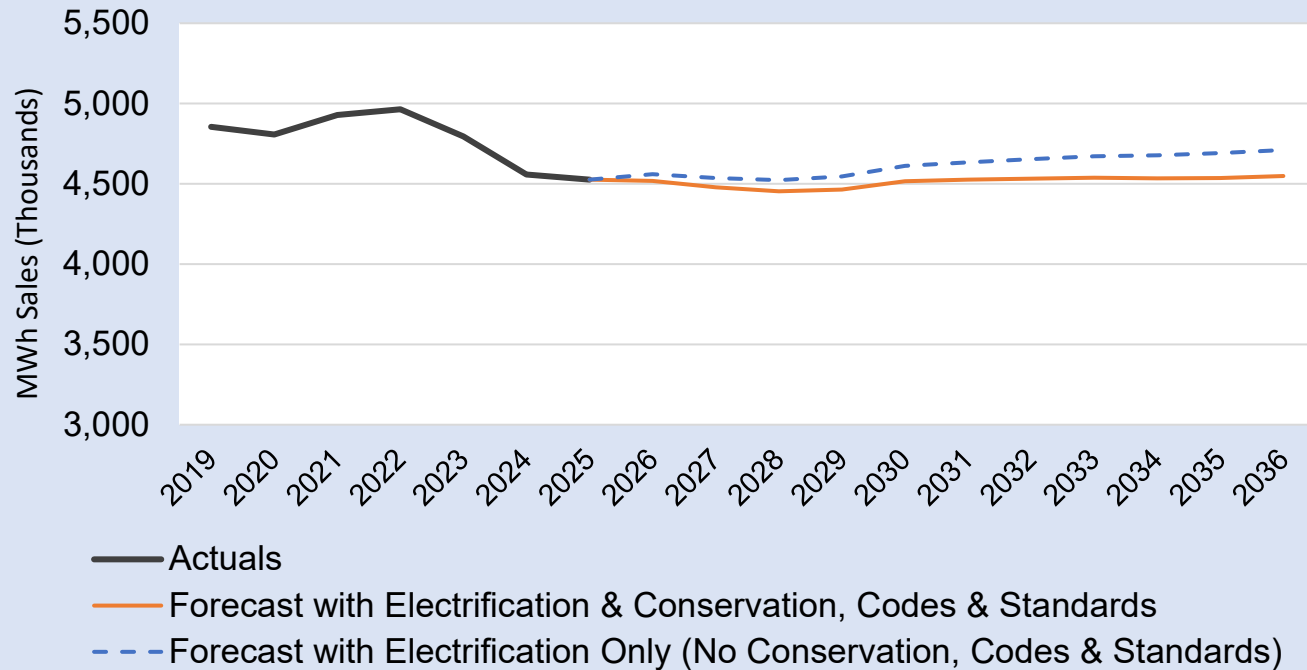
- 2026 retail sales and revenue forecast **flat** over the next 10 years
- Wholesale revenues are forecasted to be **much lower** than previous budget

Expense Assumptions – higher

- Lower purchased power costs
- Reduced debt service
- Holding 2027/2028 capital costs in line with 2025/2026 budget
- Reduced relicensing costs
- Net increase in Supplies, Services and Other Charges
- Significant increase in personnel expenses more than offsets all reductions

Retail Sales Actuals & Forecasts

Actual Sales + 2026 Sales Forecast with Electrification
with and without conservation, codes & standards

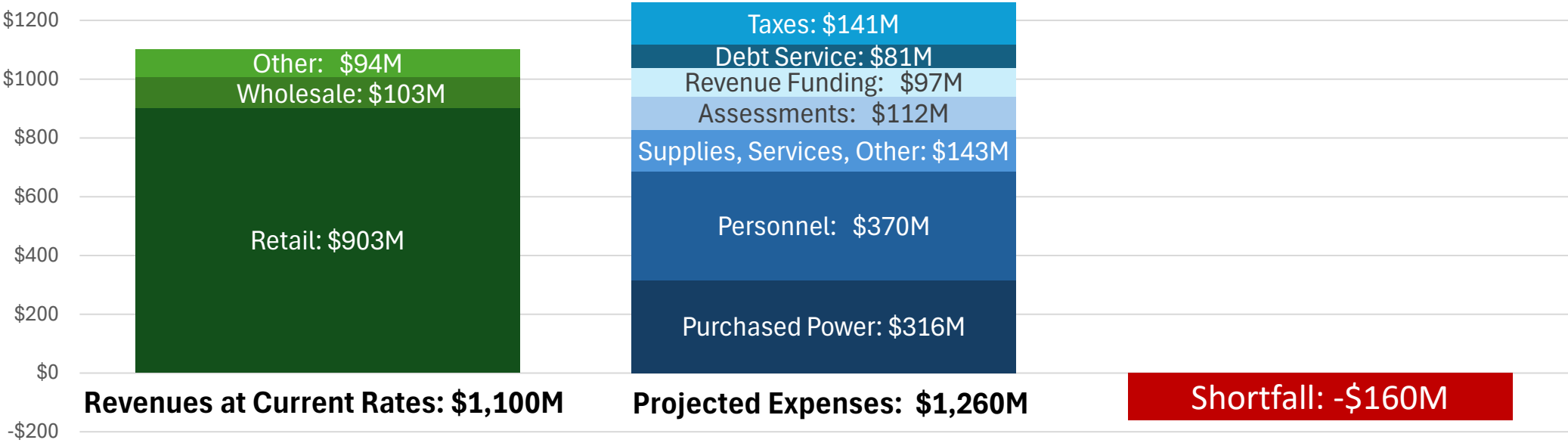


Modest growth in retail loads without conservation. Load is flat after assumed energy conservation programs.

3. Determination of recommended average rates

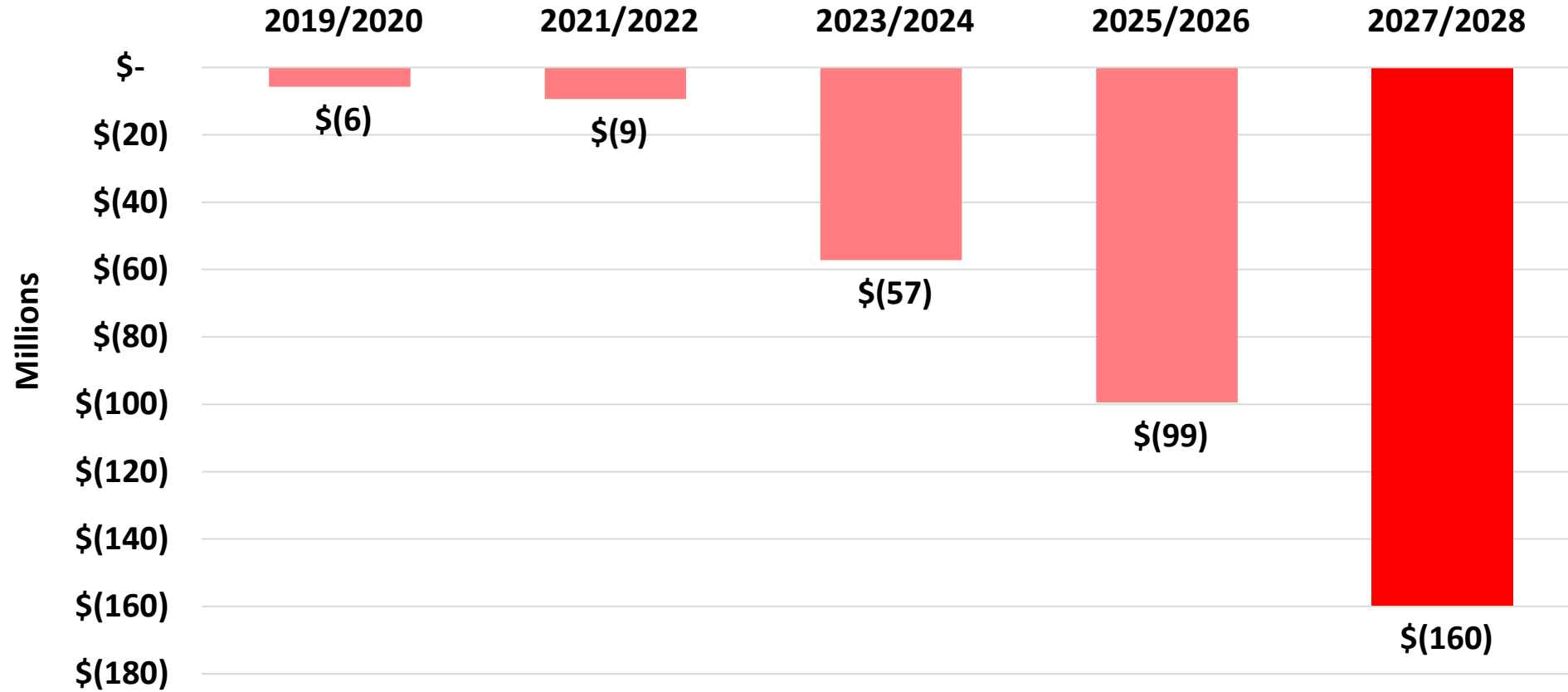


2027/2028 Biennium Revenue Shortfall Forecast

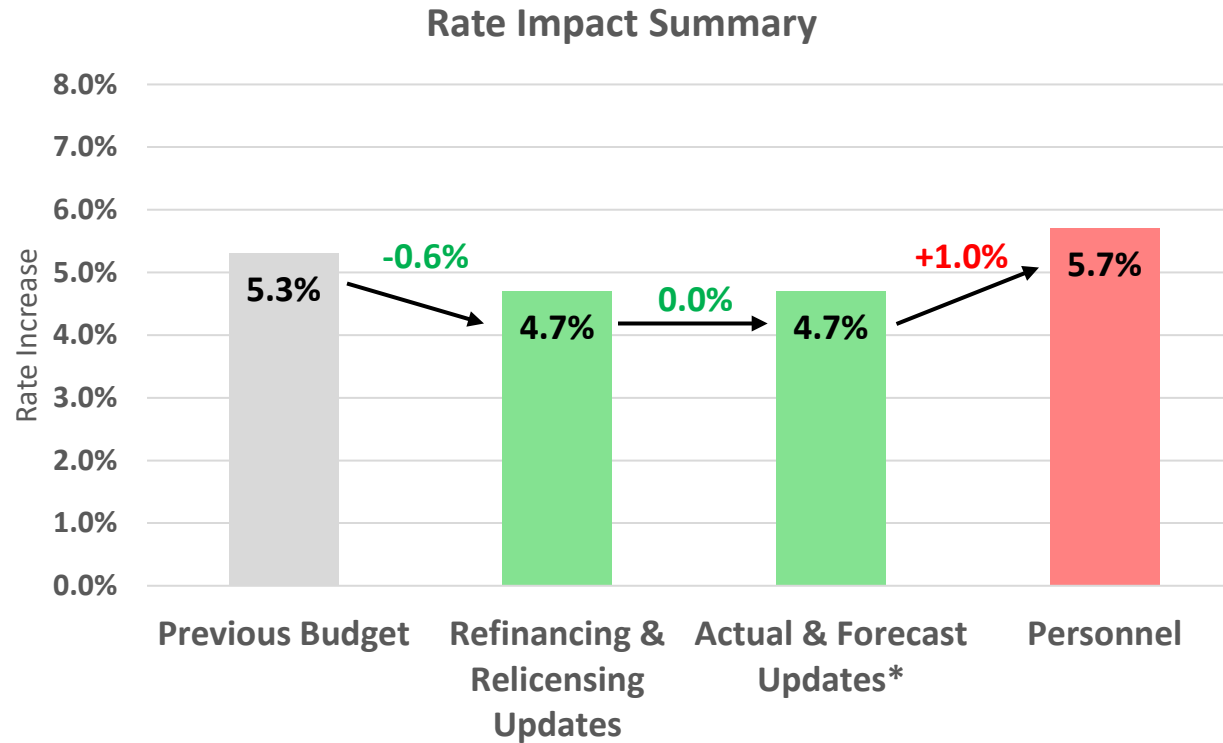


Revenue Shortfall Comparison

Biennium Budget Revenue Shortfall - BEFORE Rate Increases



Rate Progression Since 2025/26 Budget



- Previous Budget rate trajectory was 5.3%
- Decrease to 4.7% from refinancing Bonds and refining relicensing assumptions
- Other updates and forecasts* did not impact rate trajectory
- April 2026 personnel cost update pushed long-range rate path to 5.7%

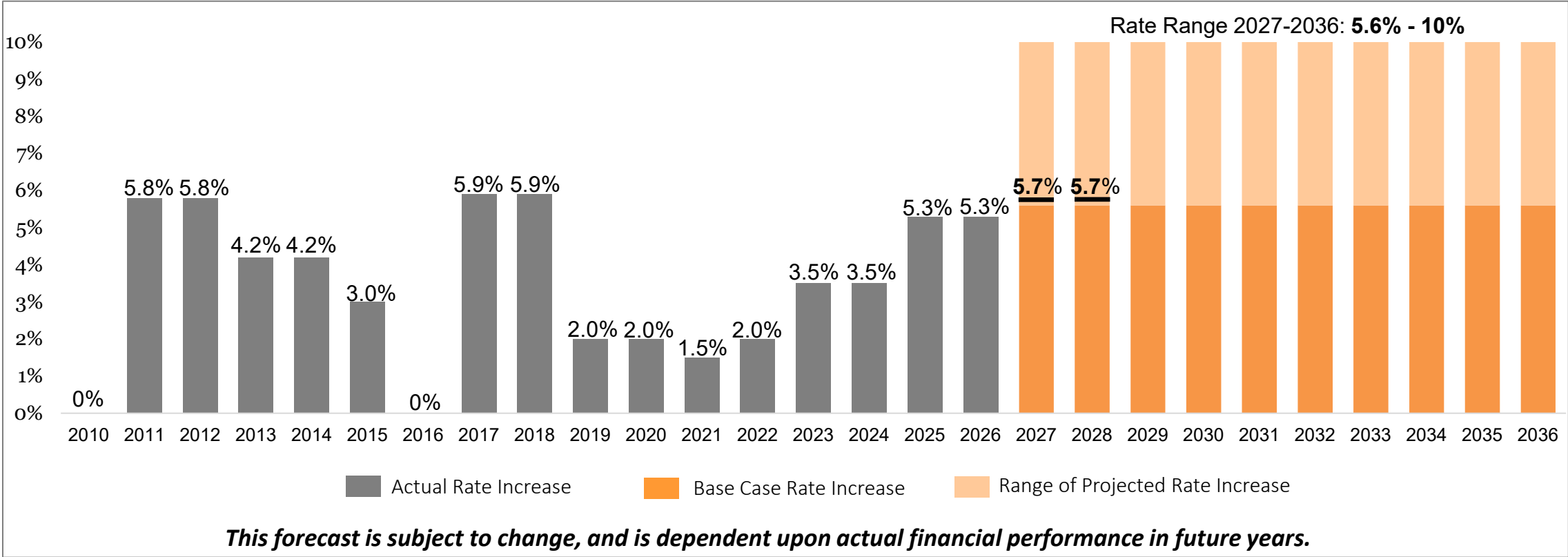
**Actual & Forecast Updates include actual results through March 2026 and changes to forecasts for retail load & revenue, wholesale revenue & purchased power, other operation & maintenance expenses, capital spending plans, and assessments.*

Rate Increase Options

Option A: 5.7% annual rate increases

Status quo smooth rate increases for 2027 to 2036: **5.7%**

Policy Decision



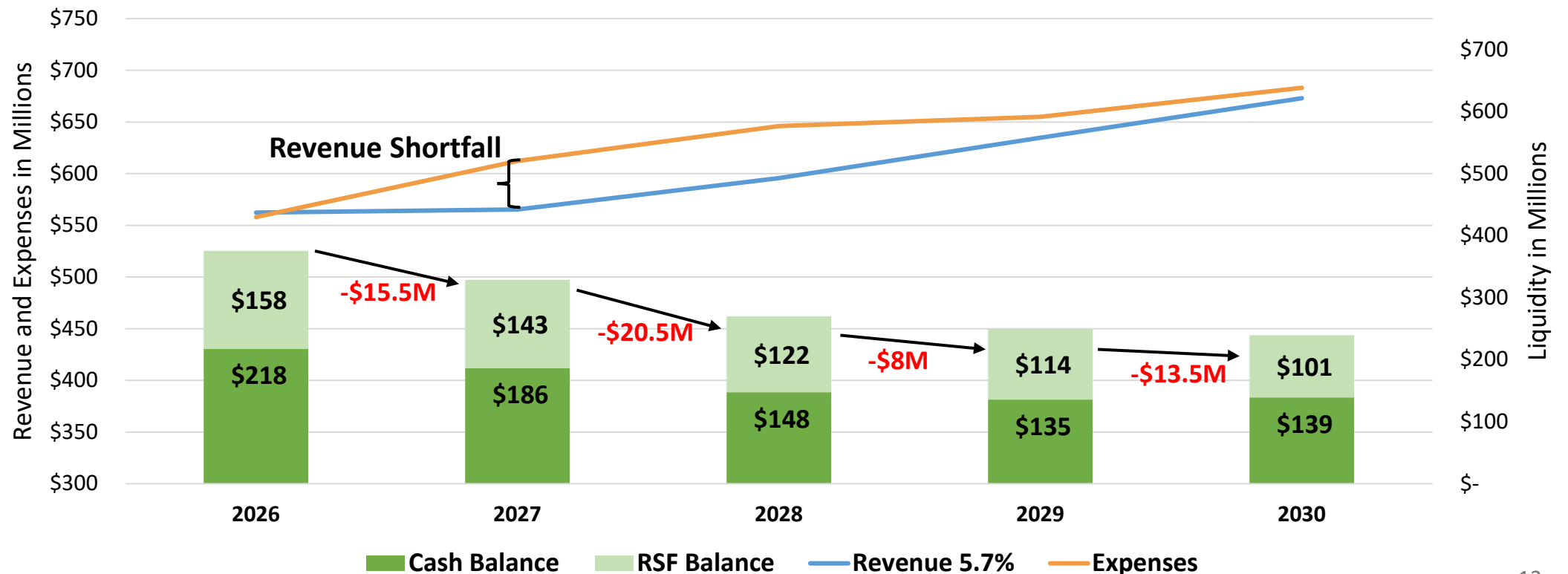
The **Electric Rate & Financial Policy** supports gradual rate increases.

Guiding Principle: Resource Stewardship and Sustainability states “Maintain responsible fiscal management to ensure fair, affordable pricing.”

Option A: Smooth Rates

- Revenue shortfall persists for multiple years
- Must use cash to pay for expenses and Rate Stabilization Fund (RSF) to increase revenue to maintain debt service coverage ratio
- Limits flexibility and could result in large rate increases if something unexpected happens

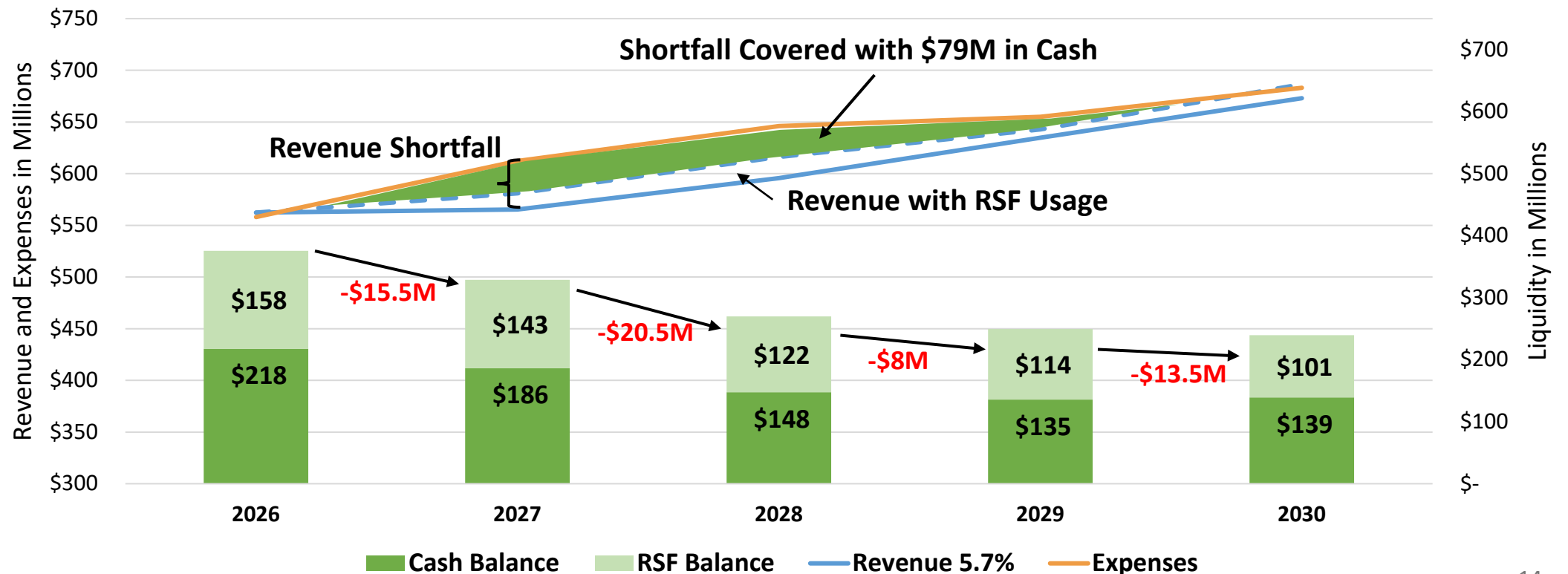
Effect of Revenue and Expenses on Liquidity at 5.7% Rate Increases



Option A: Smooth Rates

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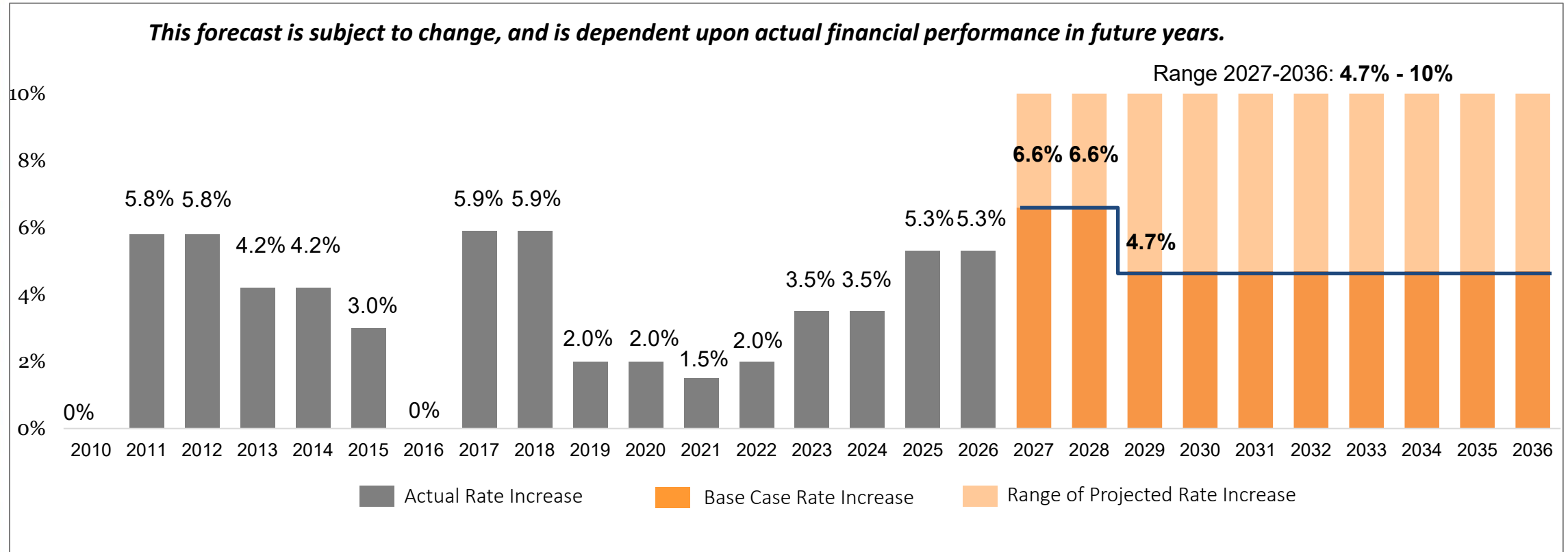
Effect of Revenue and Expenses on Liquidity at 5.7% Rate Increases



Option B: 6.6% Next Biennium, 4.7% Thereafter

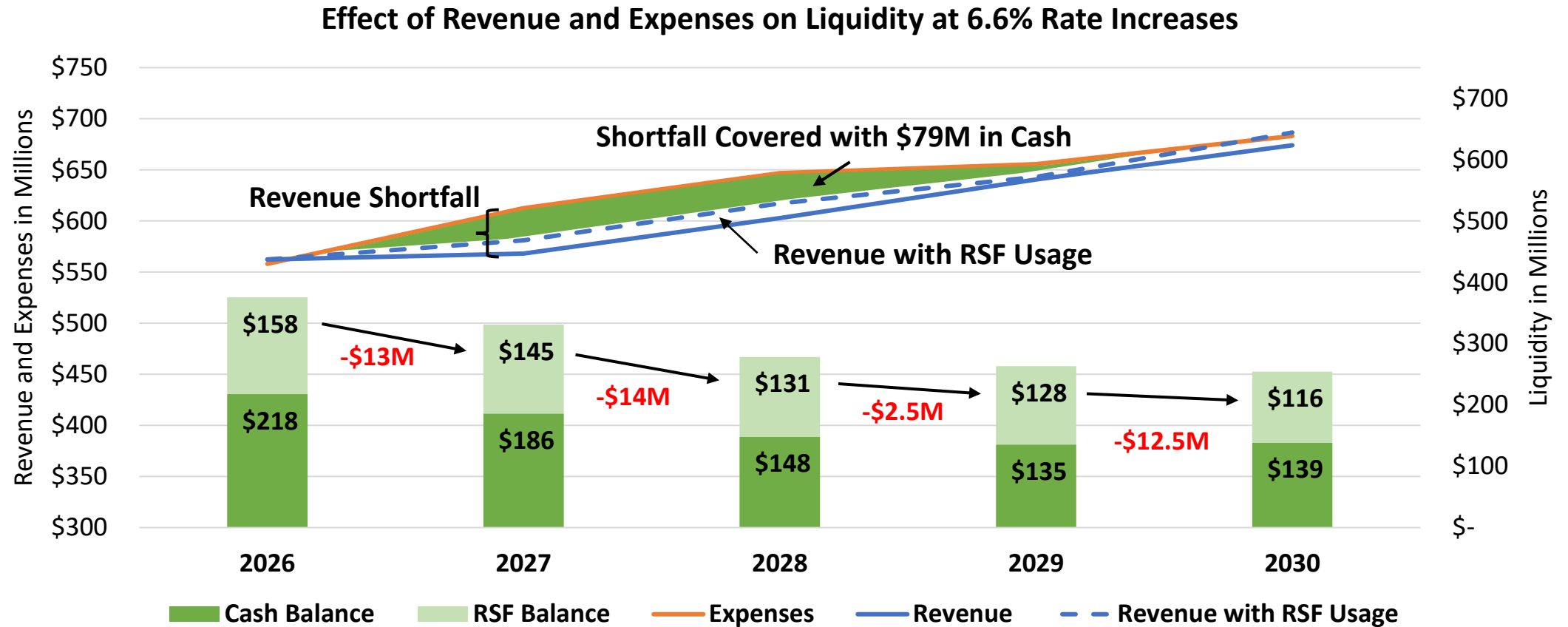
Higher **6.6%** rate increases in 2027 & 2028 to recover higher expenses and lower forecasted future rate projection to **4.7%**.

Policy Decision



Option B: Higher 2027/28 Rates

- **Higher 6.6% rate increases** in 2027/28 resulting in forecasted **4.7% after 2028**
- Slightly mitigates gap between revenues and expenses
- Uses less Rate Stabilization Fund in 2027/28 than Option A



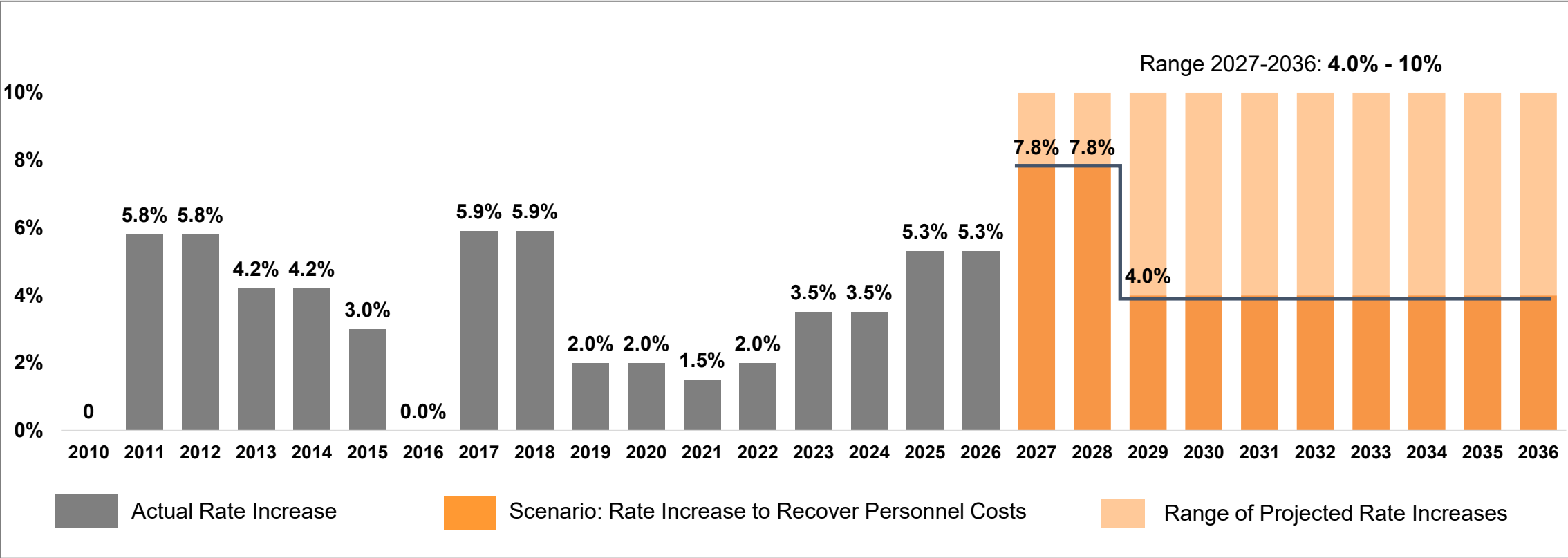
Option C: Fully Recover Biennium Personnel

Expense Increases

Policy Decision

Higher **7.8%** rate increases in 2027 & 2028 to fully recover personnel expense increases in biennium

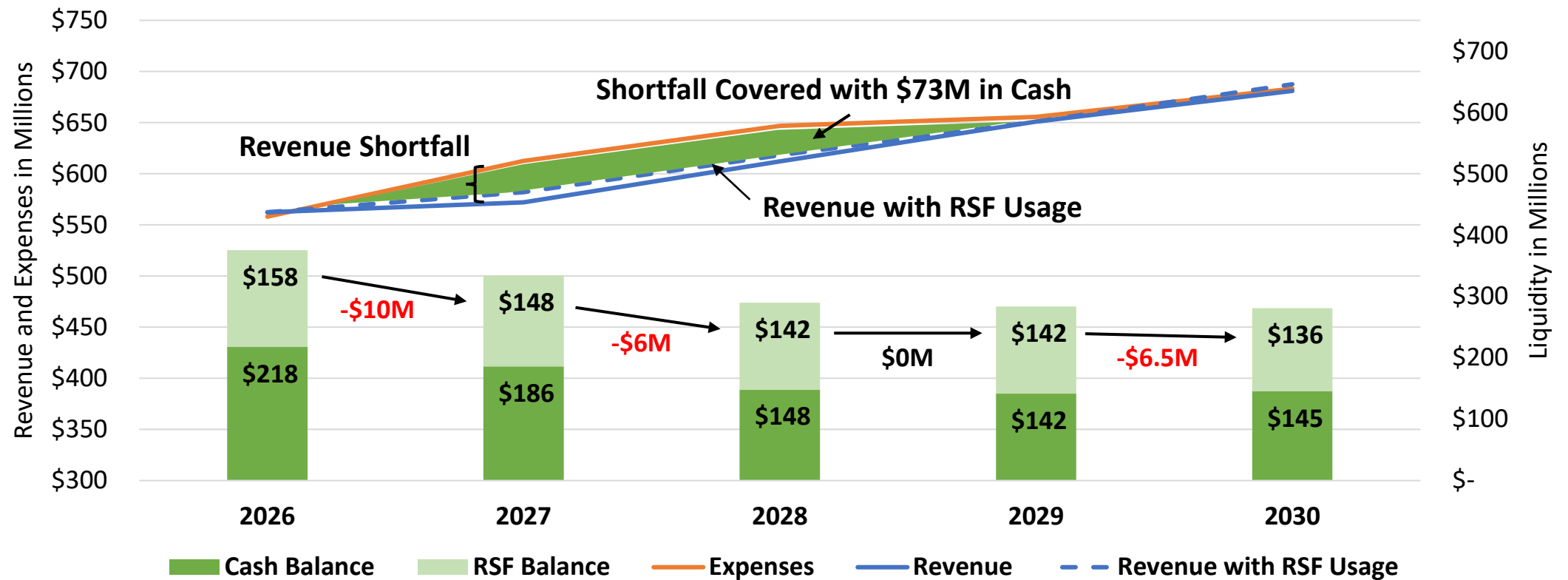
This forecast is subject to change, and is dependent upon actual financial performance in future years.



Option C: Fully Recover Personnel Increases

- **Higher 7.8% rate increases** in 2027/28 resulting in forecasted **4.0% after 2028**
- Further reduces gap between revenues and expenses
- Uses less Rate Stabilization Fund in 2027/28 than Option A or B

Effect of Revenue and Expenses on Liquidity at 7.8% Rate Increases

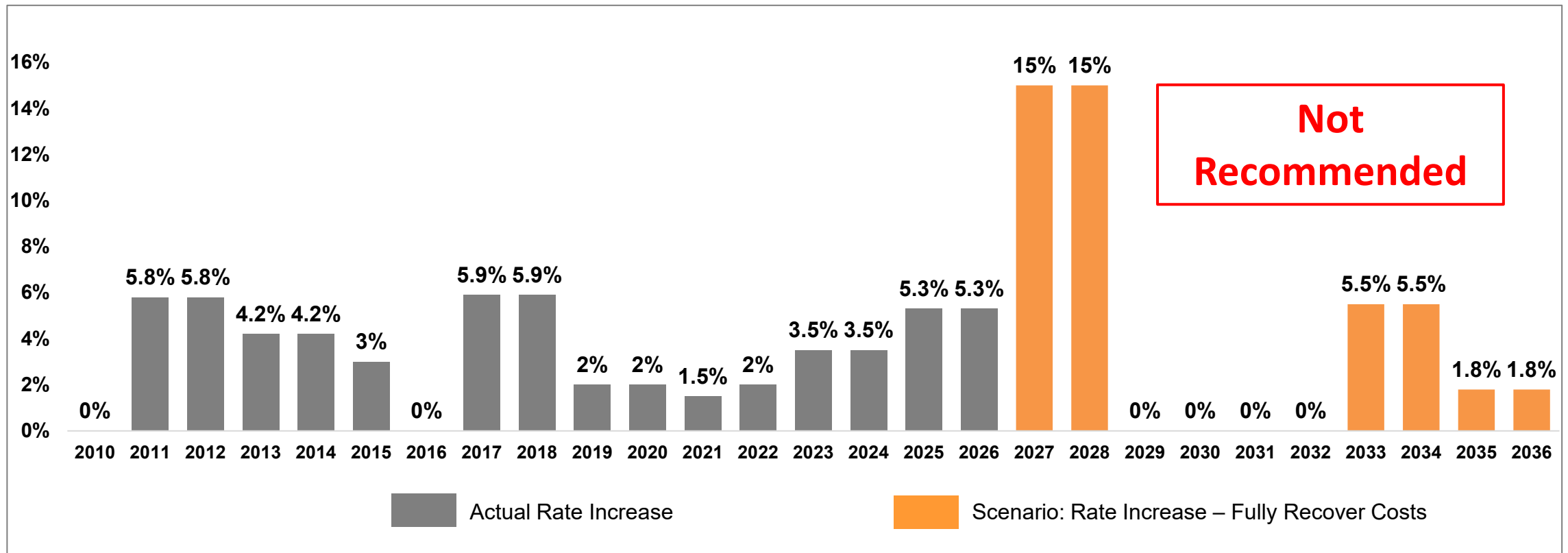


Scenarios – Not Recommended

Scenario 1: Forecasted Rate Increase to Fully Recover Future Revenue Shortfalls

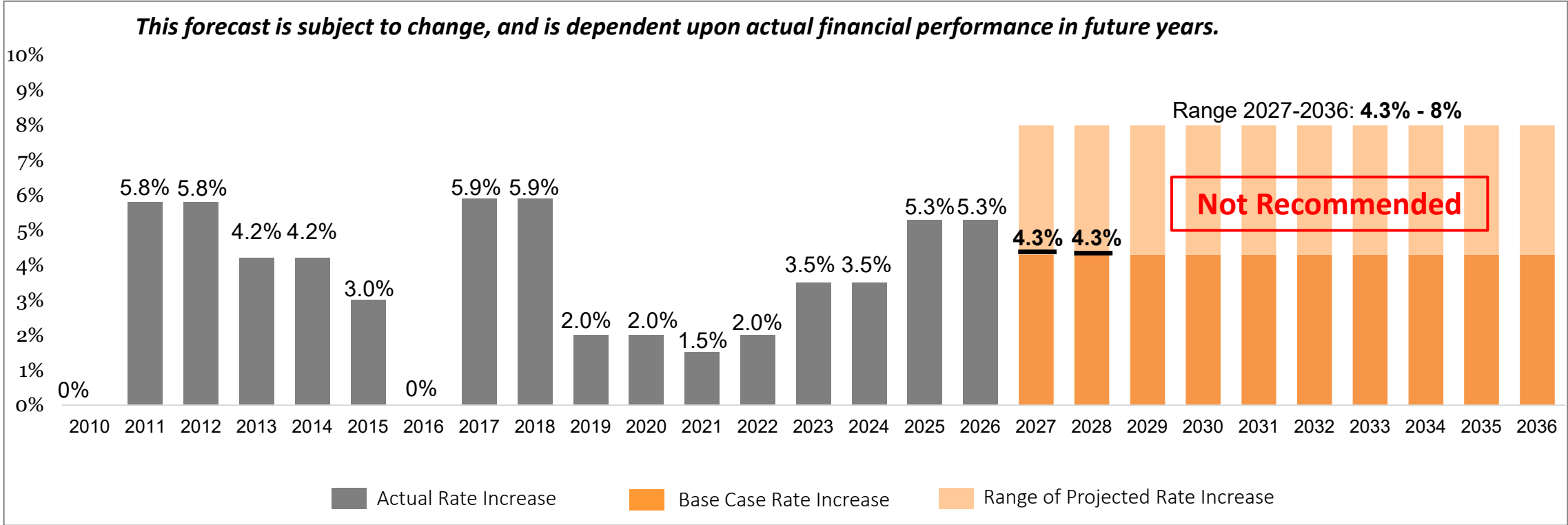
- Higher **15%** rate increases in 2027 & 2028 to fully recover forecasted total revenue shortfall
- Would not require RSF withdrawals or reductions in cash

This forecast is subject to change, and is dependent upon actual financial performance in future years.



Scenario 2: 4.3% Rate Increases

- Used \$49.5 million of the RSF in 2027 & 2028 (nearly a third of the \$158 million balance) to achieve financial metrics
- Starting in 2029, forecasts show a need to cut approximately \$25 million in ongoing annual expenses
- This equates to approximately 10% reduction in force = 90 employees
- Higher risk of significantly large rate increases in the future, not fiscally responsible
- **Unable to maintain reliable operations under reduction in force**

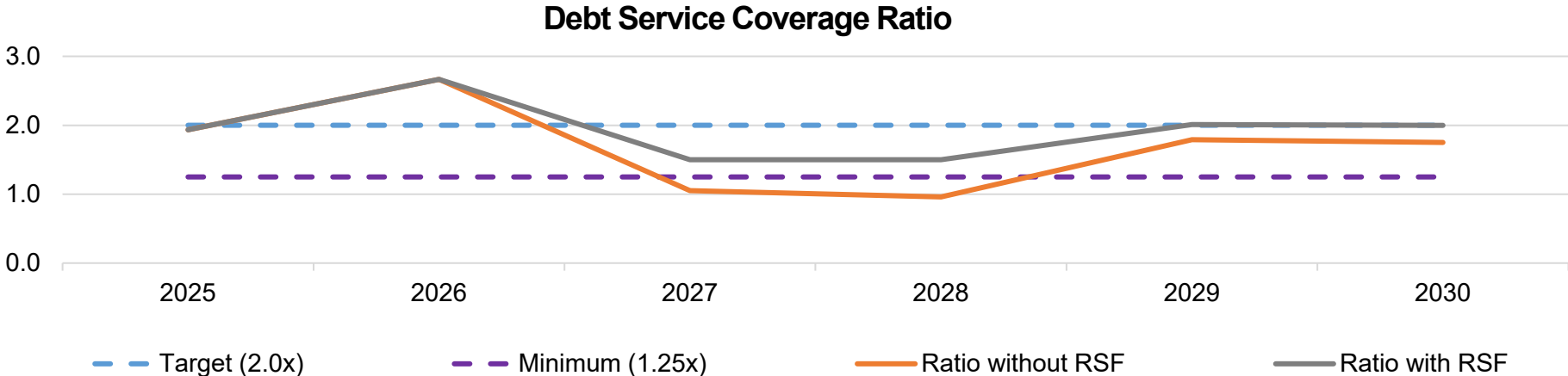


Measures Taken to Reduce Rate Pressure

- **Reductions** in Supplies, Services and Other expenses
 - **Start, Stop, Continue** exercise
 - Reduced existing operational supplies and services costs by **\$22.8M** (equal to ~2.0% rate reduction in 2027 & 2028)
- Refined relicensing estimates of three hydro projects, **decreased estimates by ~\$100M**
- **Net-zero** FTE target
- **Maintaining** capital budget close to 2025/2026 levels
- Refinancing 2010 Bonds to **reduce debt service** expenses

Rate Stabilization Fund (RSF) used to Reduce Projected Rate Increases

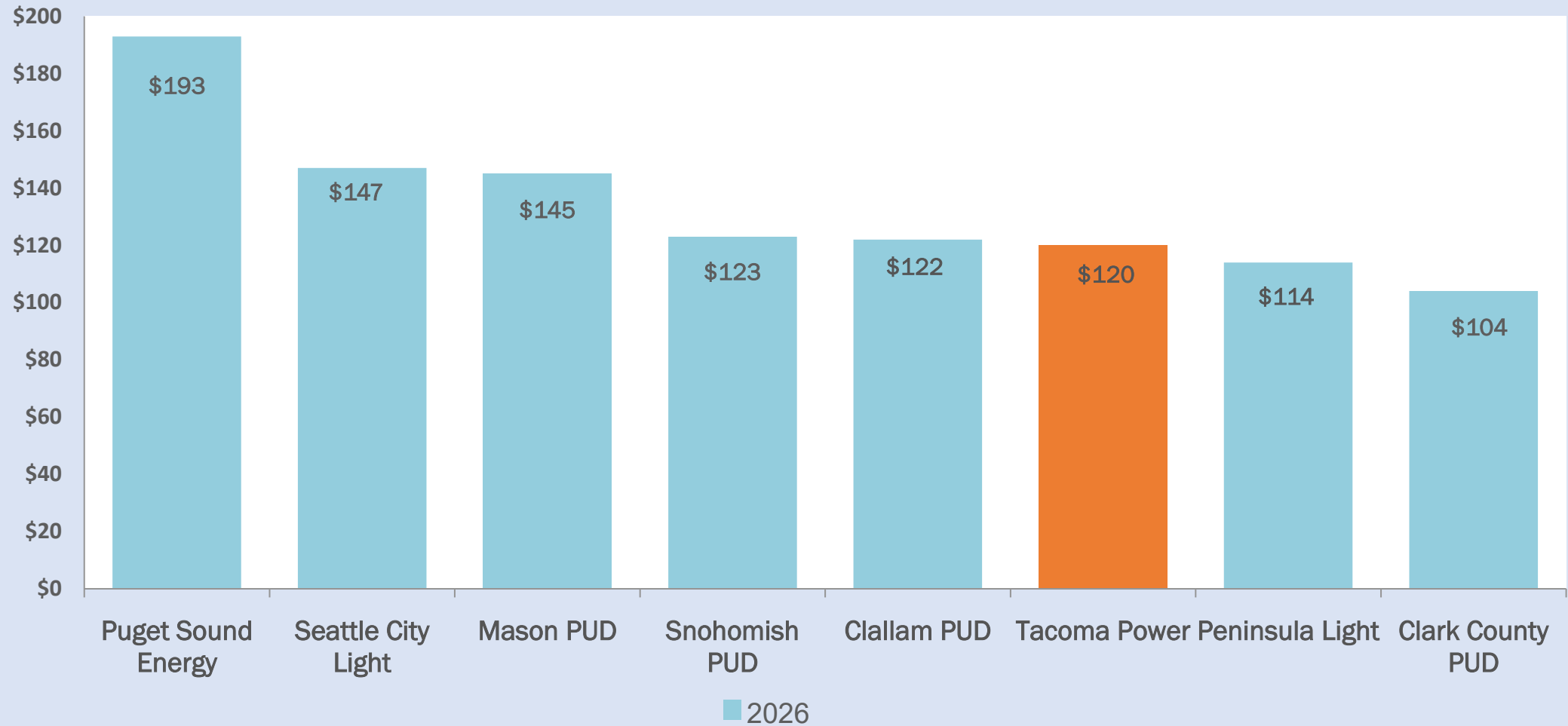
- Use of RSF required in Option A, Option B, or Option C
- Without RSF use, projected violation of bond covenant debt service coverage requirements
- Projected use brings RSF balance near \$100 million core balance target by 2030



Historical & Projected Rate Stabilization Fund Balances (year-end)											
\$ in millions	2010	2011	2012	2019	2021	2022	2027*	2028*	2029	2030	Balance (2030)
A: 5.7%	+ \$10	+ \$26	+ \$12	- \$10	+ \$25	+ \$95	- \$15.5	- \$20.5	- \$8	- \$13.5	\$101
B: 6.6%	+ \$10	+ \$26	+ \$12	- \$10	+ \$25	+ \$95	- \$13	- \$14	- \$2.5	- \$12.5	\$116
C: 7.8%	+ \$10	+ \$26	+ \$12	- \$10	+ \$25	+ \$95	- \$10	- \$6	0	- \$6.5	\$136

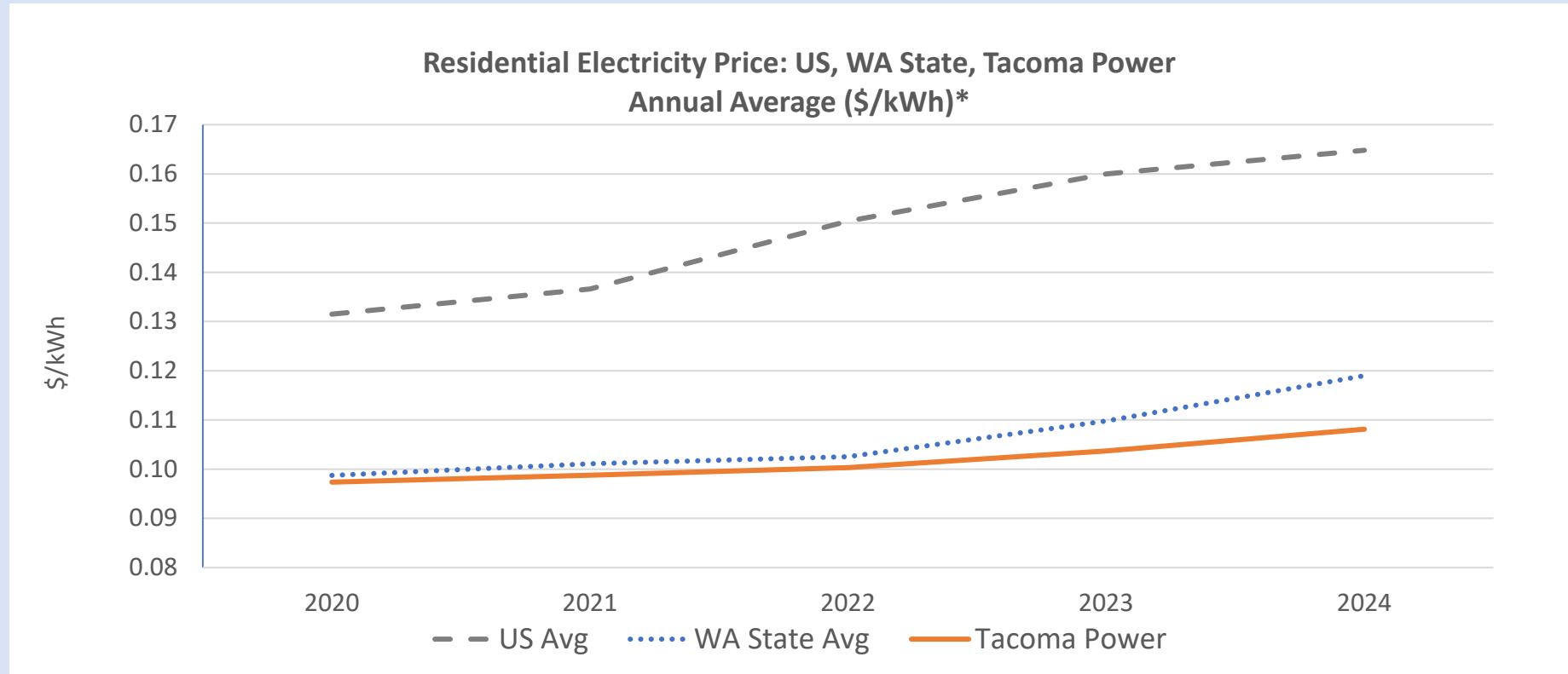
* Projected use of the RSF under adverse water conditions.

Residential Bill Comparison



Average bill based on utility published residential rates at 965 kWh consumption.

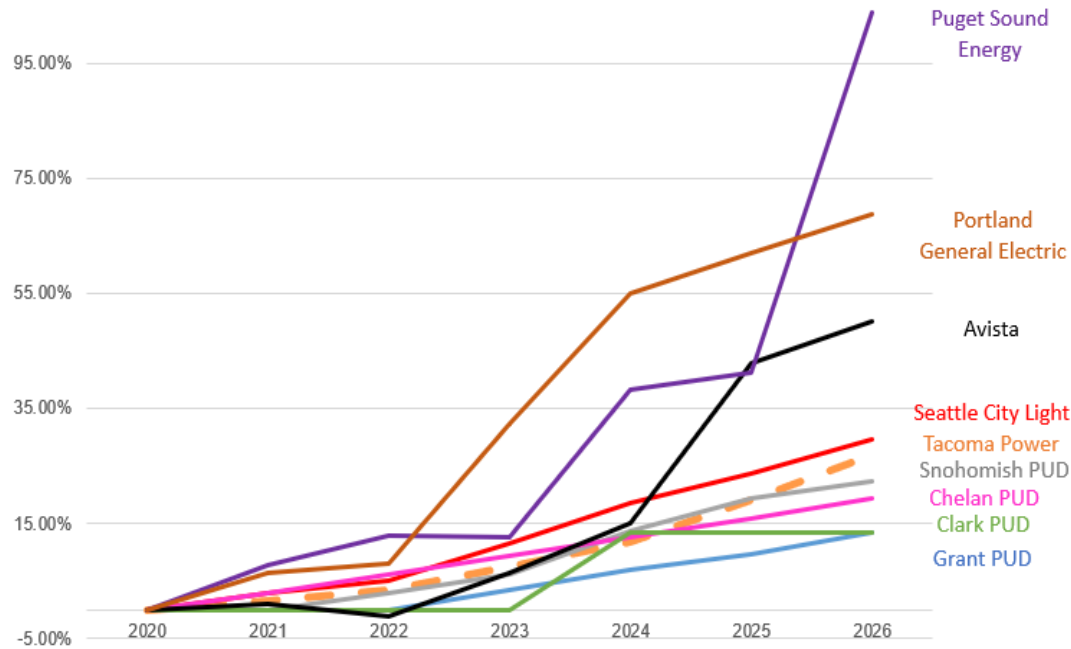
Residential Electricity Price Comparison



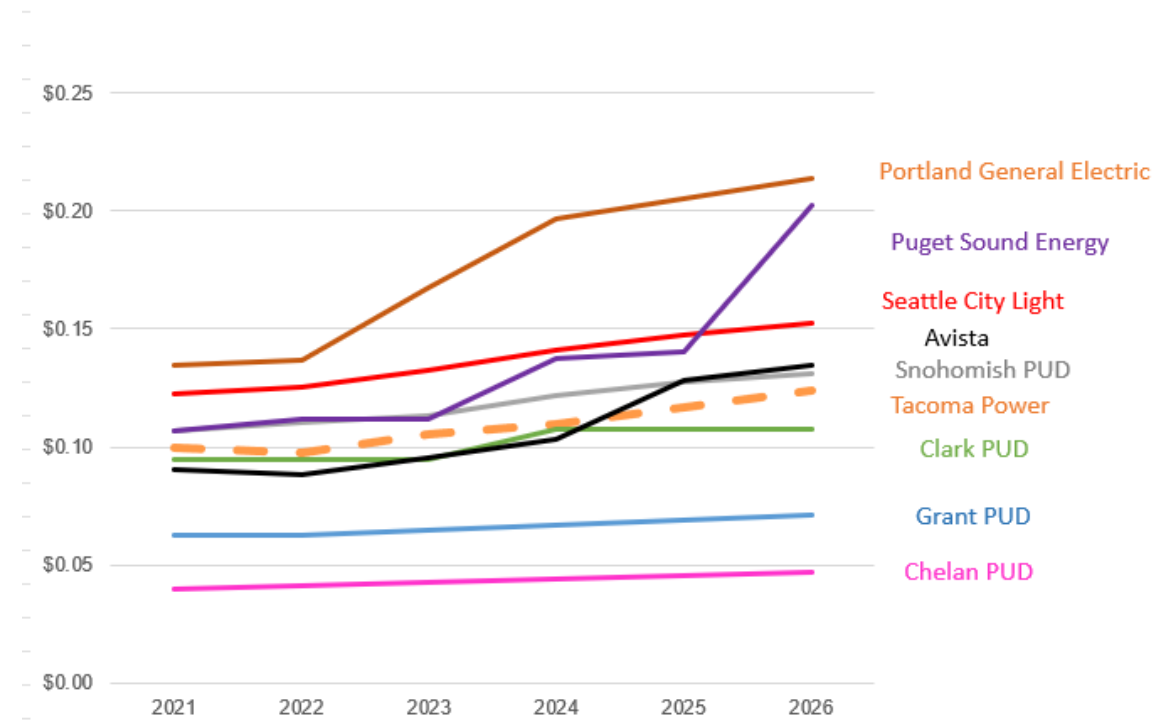
*Source: U.S. Energy Information Administration, Form EIA-861, "Annual Electric Power Industry Report"

Prices Among Peer Utilities are Also Increasing

Cumulative Residential Rate Increases since 2021



Residential rates per kWh since 2021*



*Based on 965 kWh of consumption

Peer Utility Rate Increases

Utility	2026 System Rate Increase	2027 Proposed System Rate Increase	2028/2029 Proposed System Rate Increase
Avista	7.51%	13.9%	4.7%/3.5%
Clallam PUD	3.75%	3.75%	TBD
Grant PUD (Core)	3.2%**	3.5%**	3.5%/3.5%**
Grant PUD (Non-Core)	8.2%**	8.5%**	8.5%/8.5%**
Pacific Power (WA)	5%	10.5%	TBD
Portland General Electric	5%	TBD	TBD
Puget Sound Energy	7.5%	15.2%	3.7%/8.7%
Seattle City Light	5.4%	9.5%*	7-10%*
Snohomish PUD	2.5%	0%*	TBD
Tacoma Power	5.3%	TBD	TBD

*Expected

**Core customers: Residential, Agricultural, Small Business; Non-Core Customers: Large Business, Industrial, Large Loads

Snohomish County's utility district 2026 budget includes rate increases

Avista seeks to raise residential price for electricity by about 25% by 2030

Puget Sound Energy proposes more power rate increases

Grant PUD Approves Rate Increase; Core Customers Up 3.5%

Rates going up for Portland General Electric, Pacific Power customers

Seattle power bills still lower than U.S. average — but climbing fast

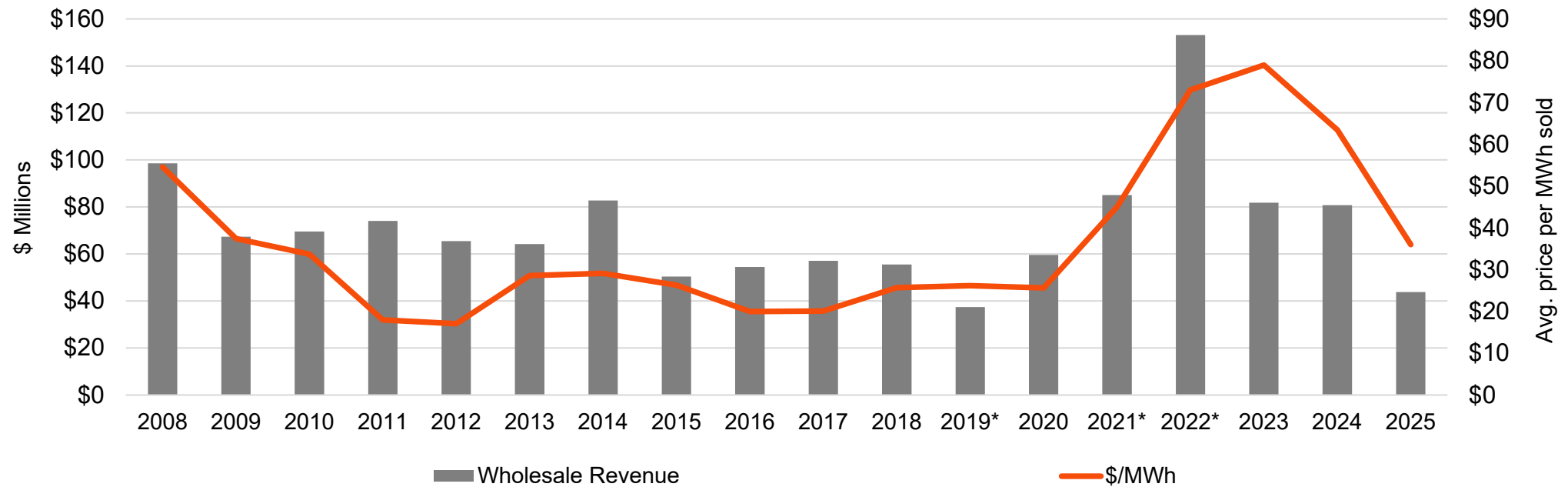
- In 2025, Power worked to reduce costs and limit FTEs while prioritizing needs of new programs such as:
 - Markets+
 - Hydro projects relicensing
 - ADMS (Automated Distribution Management System)
- Increased personnel expenses and lower anticipated wholesale revenues have resulted in a \$160 million revenue gap, the largest we've seen
- Continued practice of levelizing new expenses over 10-years deemed to be longer prudent given size of revenue gap
- Result: sustained base case high rate increases over ten years, potential for very high increases
- Higher rate increases in 2027/28 would better align revenues with higher near-term expenses and decrease likelihood of higher rates afterward
- Tacoma Power's proposed rate increases are in-line with other peer utilities

Thank you

Appendix

Volatile Wholesale Revenues

Wholesale revenues fluctuate between 8% to 26% of total revenues due to unpredictable weather and wholesale market power prices.



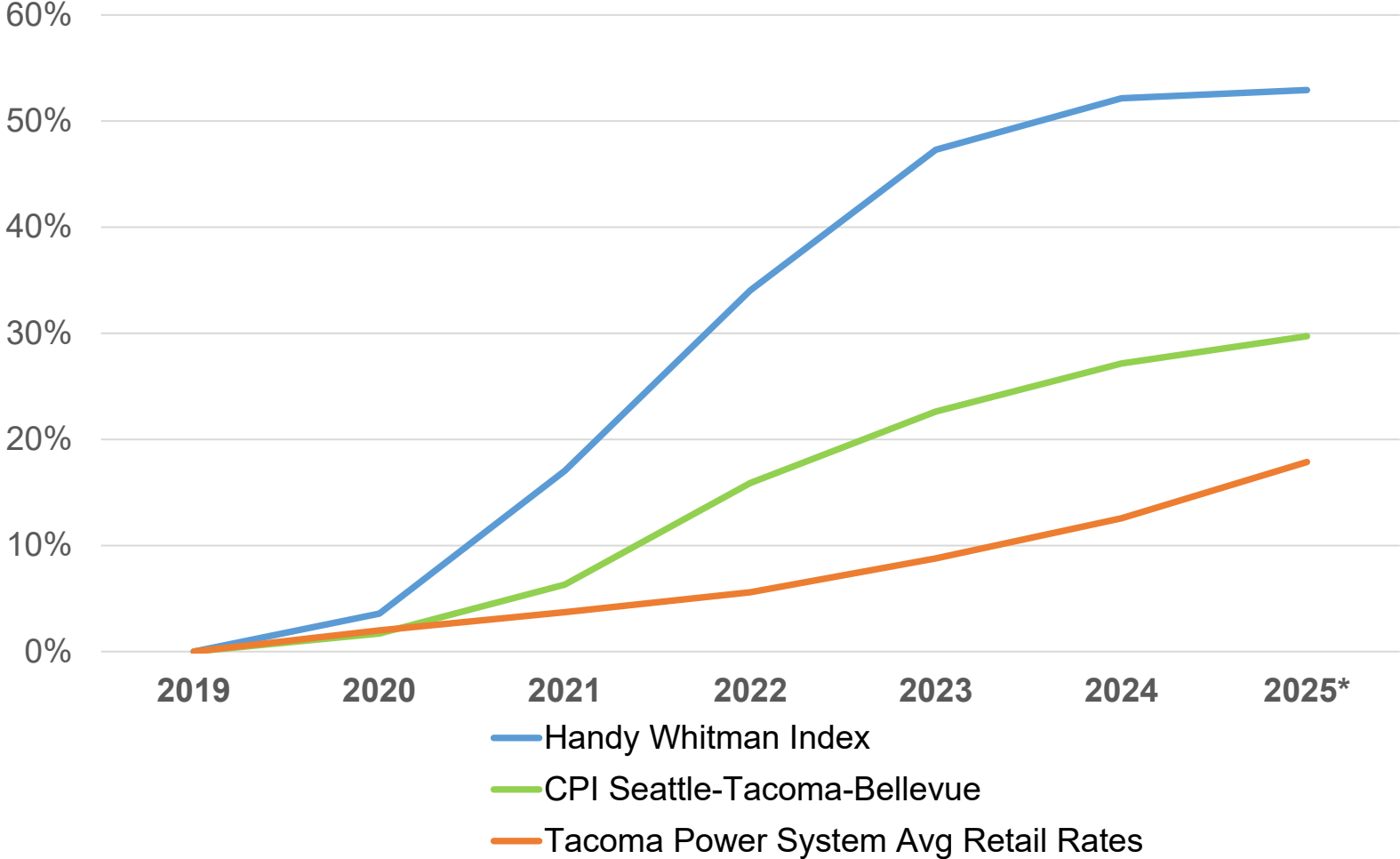
* Does not include wholesale revenue transferred in, or out of, the Rate Stabilization Fund.

WHOLESALE REVENUE AS A % OF TOTAL REVENUE BALANCES (YEAR-END)																		
	2008	2009	2010*	2011*	2012*	2013	2014	2015	2016	2017	2018	2019*	2020	2021*	2022*	2023	2024	2025**
WHOLESALE REVENUE %	24%	19%	19%	20%	17%	15%	19%	12%	13%	13%	12%	8%	12%	17%	31%	15%	15%	9%

** Unaudited

Cost Pressures (still) Increasing more than System Average Rates

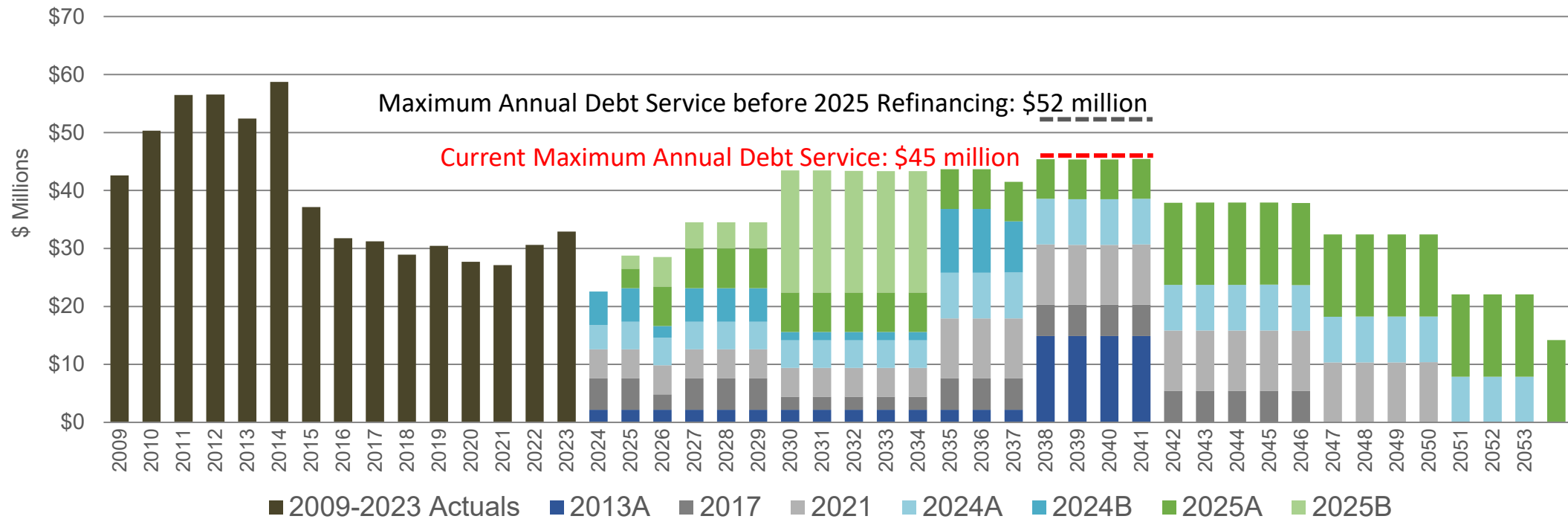
Cumulative Increases since 2019



* As of July 2025

2025 Refinancing Reduced Future Debt Service Spikes to Stabilize Rates

Historical and Projected Debt Service after 2025 Financing



The Long View:

Managing debt service has produced significant savings.

Maintaining AA credit rating to Minimize Financing Costs

- **High ratings enable:**
 - Access to financing
 - Lower interest rate on bonds
- **Electric Rate & Financial Policy:**
 - Requires debt-service coverage ratios and days cash on hand consistent with current rating
 - Guides consistent and as low as responsible rate increases to mitigate customer impact
 - Approved by TPU Board and City Council
- **Guiding Principle: Resource Stewardship and Sustainability**
 - “Maintain responsible fiscal management to ensure fair, affordable pricing.”

Rating agencies are interested in different things

	Moody's*	S&P	Fitch
<i>Investment Grade</i>	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
	A1	A+	A+
	A2	A	A
	A3	A-	A-
	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
	Baa3	BBB-	BBB-
<i>Non-Investment Grade Speculative</i>	Ba1	BB+	BB+
	Ba2	BB	BB
	Ba3	BB-	BB-
	B1	B+	B+
	B2	B	B
	B3	B-	B-
	Caa1	CCC+	
	Caa2	CCC	
	Caa3	CCC-	CCC
	Ca	CCC	
	C		DDD
		D	DD
			D

This table compares the different rating scales for the three credit rating agencies, with Tacoma Power's current rating highlighted.

— Target — Current Tacoma Power Rating

* Moody's current rating for Tacoma Power only applies to Bonds issued before 2017.