

Tacoma Power Financial Update & Initial 2021-22 Revenue Requirement

Public Utility Board

22 July 2020



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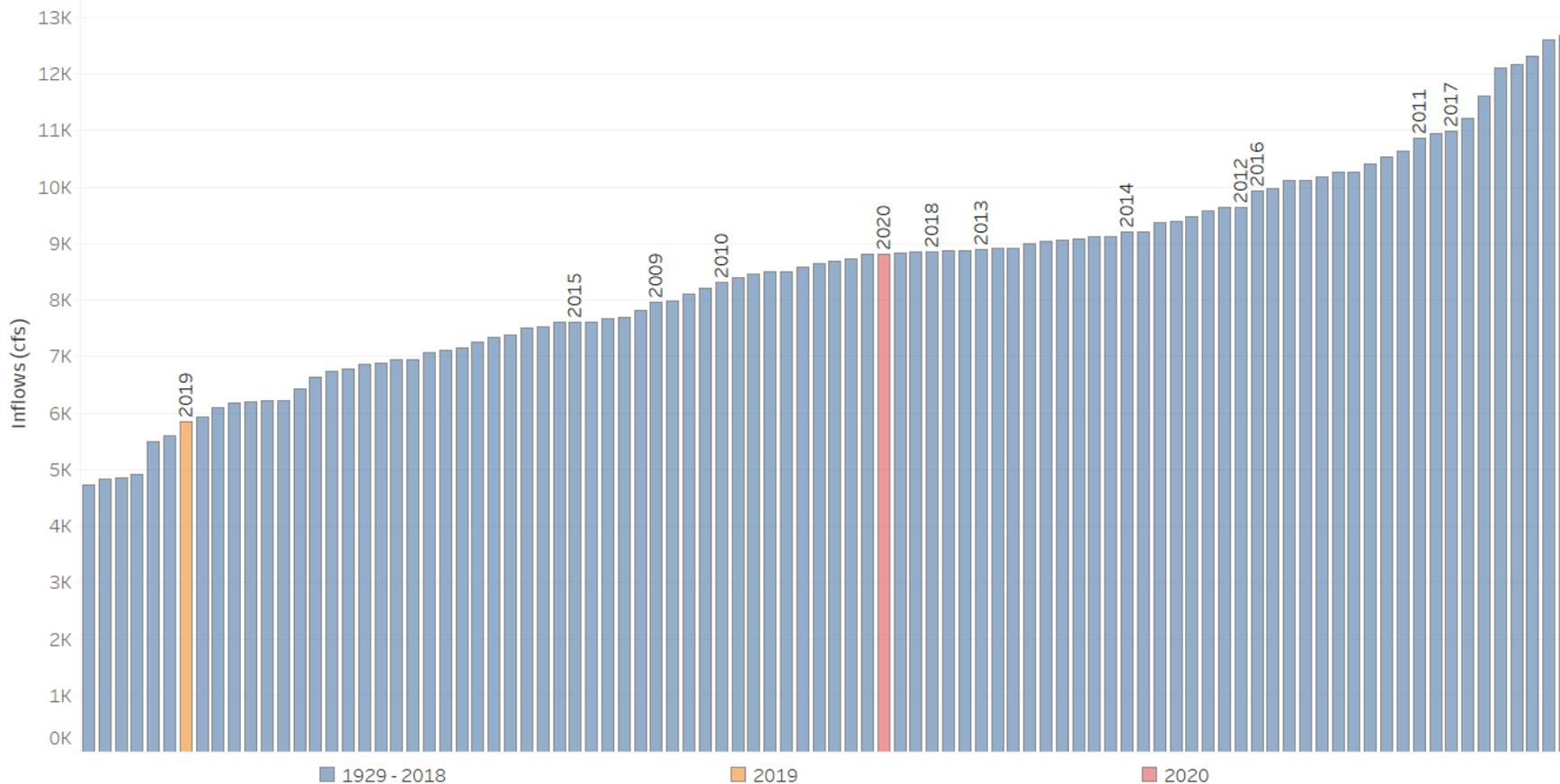
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Section 1

Introduction

2019 was a challenging financial year for the Power utility due primarily to critical water conditions

Average Annual Tacoma System Inflows
Water Year 1929 through 2020

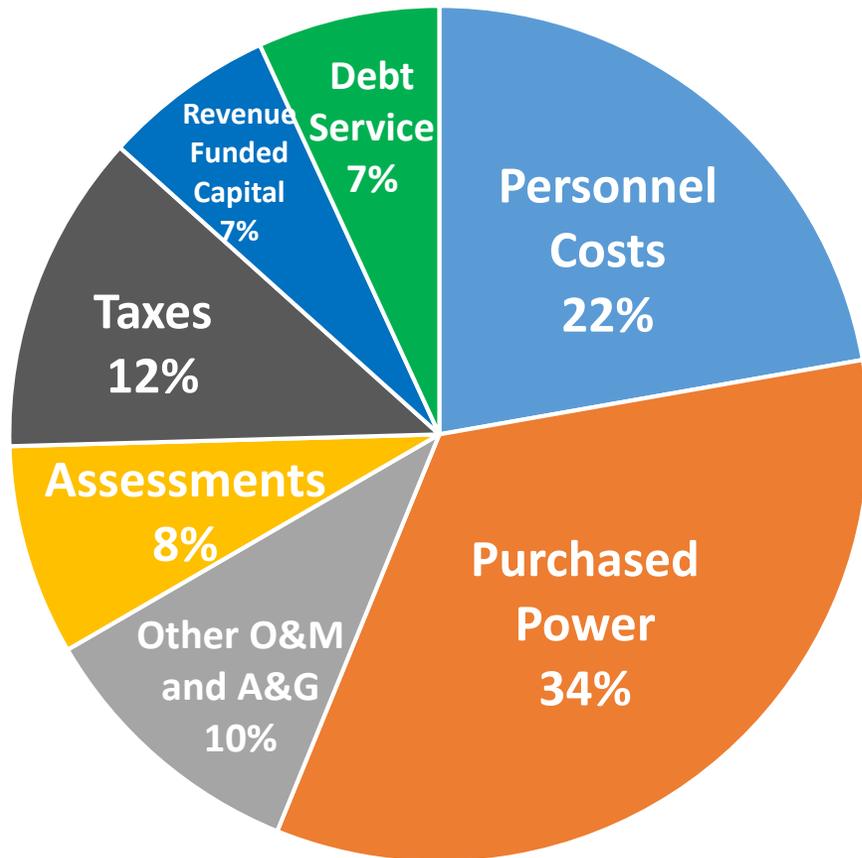


The utility usually has a year or two to recover financially after Critical water conditions, such as those experienced in 2019.

Instead, 2020 became the year of the global COVID pandemic.

Power has worked to maintain the same rate trajectory as last year's Long-Range Finance Plan

Preliminary Budget & Revenue Requirement 2021/22



The preliminary budget request includes:

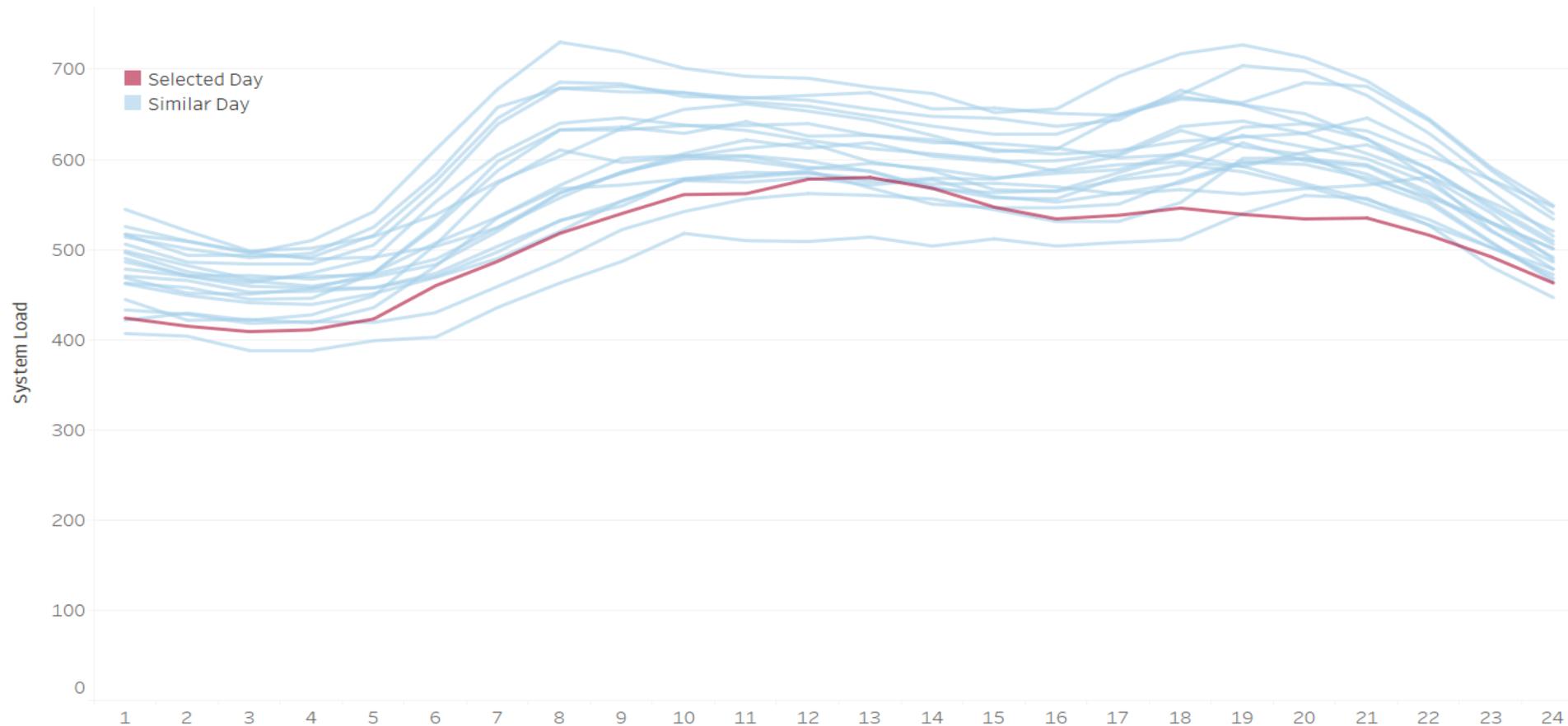
- 10% reduction in O&M costs from proposal
- Capital spend held constant with 2019/20
- Shift to 60/40 debt-funded capital

June 2020 Retail Load Forecast Update

Retail Loads Have Dropped Significantly

Hourly Load

with 4/22/2020 highlighted among similar days; similarity determined by temperature variates



After the “Stay Home, Stay Healthy” order on March 23rd, retail loads dropped significantly compared to pre-COVID days with similar weather.

Short-Term: Large Load Reduction

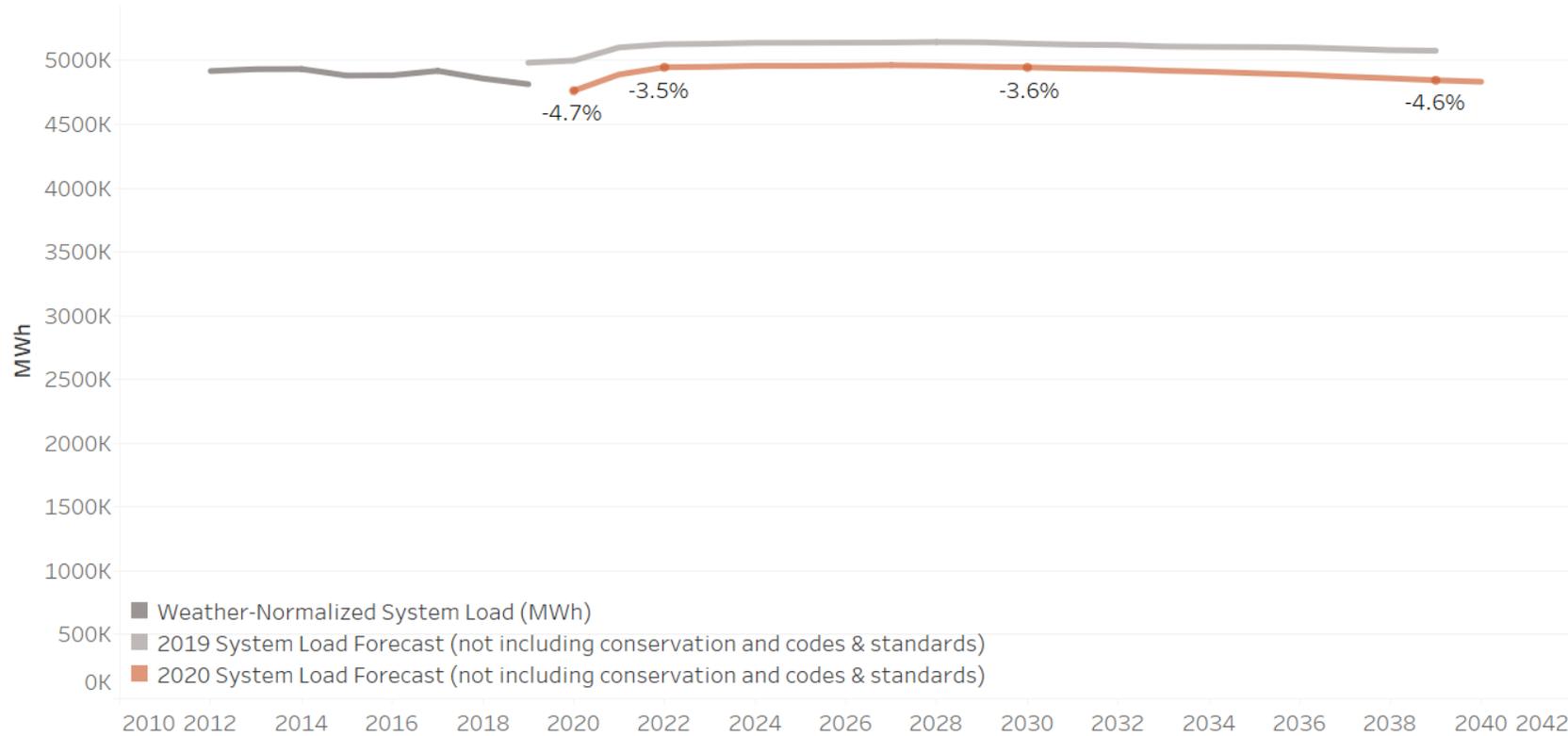
Observed retail loads have **declined** under stay-at-home and phased-restart orders, compared to the pre-COVID forecast.

2020	January	February	March	April	May	June	July (To-Date)
Weather-Normalized Actual Load	681.0	657.6	596.6	520.2	454.4	461.7	448.9
October 2019 Forecast Load	679.3	643.3	607.5	549.8	482.3	479.8	486.4
Forecast Variance	0.25%	2.21%	-1.80%	-5.38%	-5.79%	-3.77%	-7.72%

Tacoma Power continues to monitor the changing situation.

Long-Term: Anticipated Load Decline

20-Year Load Forecast



Long-term retail loads are currently forecast to decline by about 4%.

Model & Data Refresh	-2.4%
Pandemic & Recession Assumptions	-1.4%
Industrial Load Forecast Revision	-0.3%
Grand Total	-4.1%

Cost Savings Achieved To-Date

2020 Reductions

\$22 million in O&M and capital spending was reduced to mitigate the financial impacts of the COVID pandemic on the heels of a critical water year:

- 40 positions to remain vacant - \$5.4 million
- Professional and Contracted Services - \$5 million
- Deferral of Extraordinary Maintenance work- \$1 million
- Training and Travel reduction - \$0.9 million
- Miscellaneous expenses - \$4.3 million
- Deferral/cancellation of revenue funded capital projects - \$6.1 million

Additionally, \$13.8 million in revenue-funded capital projects was shifted to debt funding.

2021/2022 Preliminary O&M Budget

Overall, a 10% reduction in Personnel and Other O&M costs from pre-COVID 21/22 budget plan

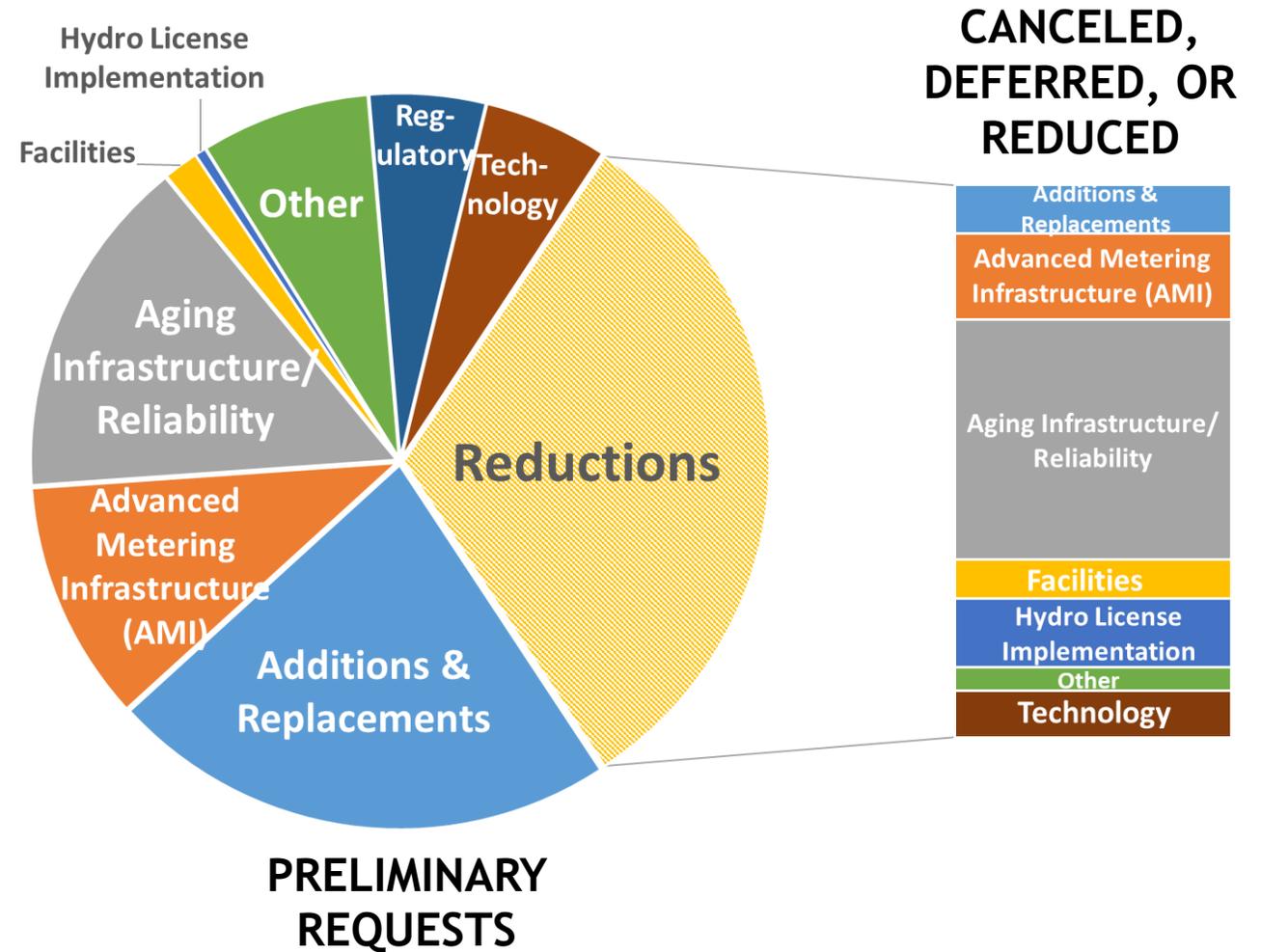
- \$37 million in reductions from pre-COVID budget plan:
 - Reduced Personnel cost
 - Reduced software and professional services contracts
 - Reduced EIM budget
- Plan to absorb \$7 million increase to medical benefits costs
- Plan to absorb increases in other non-controllable costs
 - Assessments - \$7.6 million increase (General Government & TPU service division)
 - Bad Debt - \$2.5 million increase
 - Credit Card Fees - \$1.6 million increase
- Family Need contributions - \$1M increase

2021/2022 Capital Plan Scrutinized for Savings

\$55 million reduction from initial requests achieved

- Deferrals
- Reduced and refined cost estimates
- Cancellations

Final recommended capital budget equals the 19/20 capital budget.

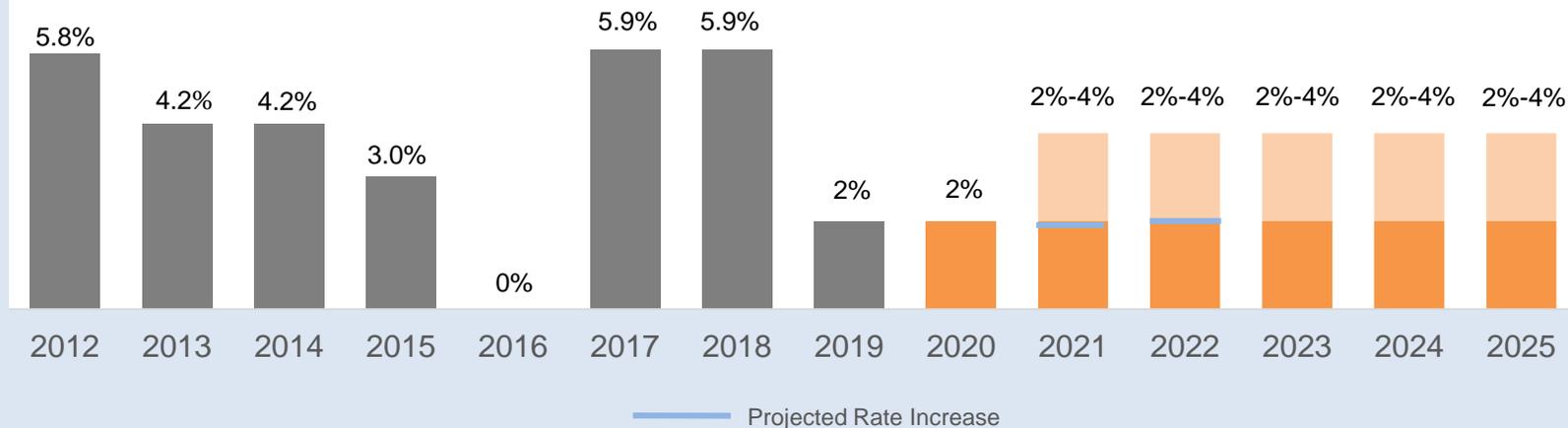


Initial 2021-22 Revenue Requirement Forecast

Base Case: Annual 2 percent rate increases

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

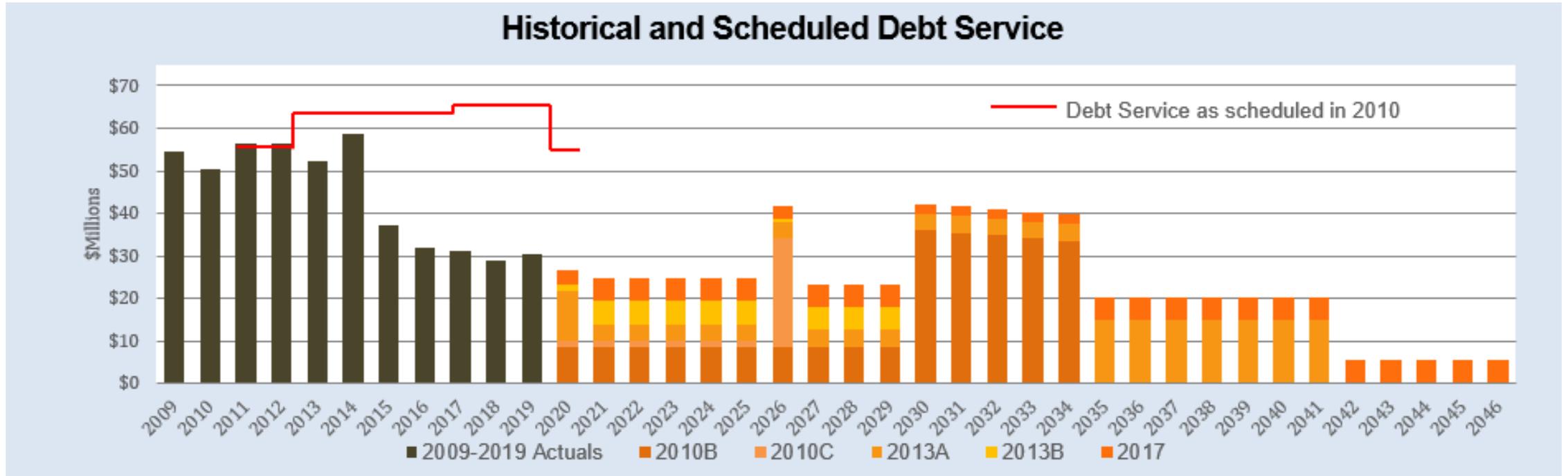
Light shading in future years represents uncertainty associated with revenues and expenses, mostly due to potential for adverse or critical water conditions, changes to sales projections, and future debt service.*



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

Strategic Directive SD-3 on Rates, Value 4 states “TPU values planning gradual and consistent utility rate changes that are stable and predictable over the long term and avoid sudden or large changes within customer classes.”

Manage Debt Profile to Minimize Long-Term Rates



The Long View:

Managing debt service has produced significant savings to date.

A bond call in 2023 and defeasance in 2025 are desirable to manage debt service and keep rates low.

Tacoma Power has AA credit ratings

High ratings enable:

- access to financing (e.g. KeyBank agreement)
- lower interest rate on bonds

Electric Rate & Financial Policy:

- requires debt-service coverage ratios and days cash on hand consistent with current rating
- mandates low and consistent rate increases to minimize customer impact
- approved by TPU Board and City Council

Strategic Directive SD-2 on Financial Sustainability:

- Outcome 4: “AA-level bond rating, or better, to facilitate access to lower-cost financing and produce sustainable debt service expenses.”
- Outcome 7: “Financial management of debt service over the long term to maintain reasonable debt-service requirements and meet debt service coverage ratios.”

Rating agencies are interested in different things

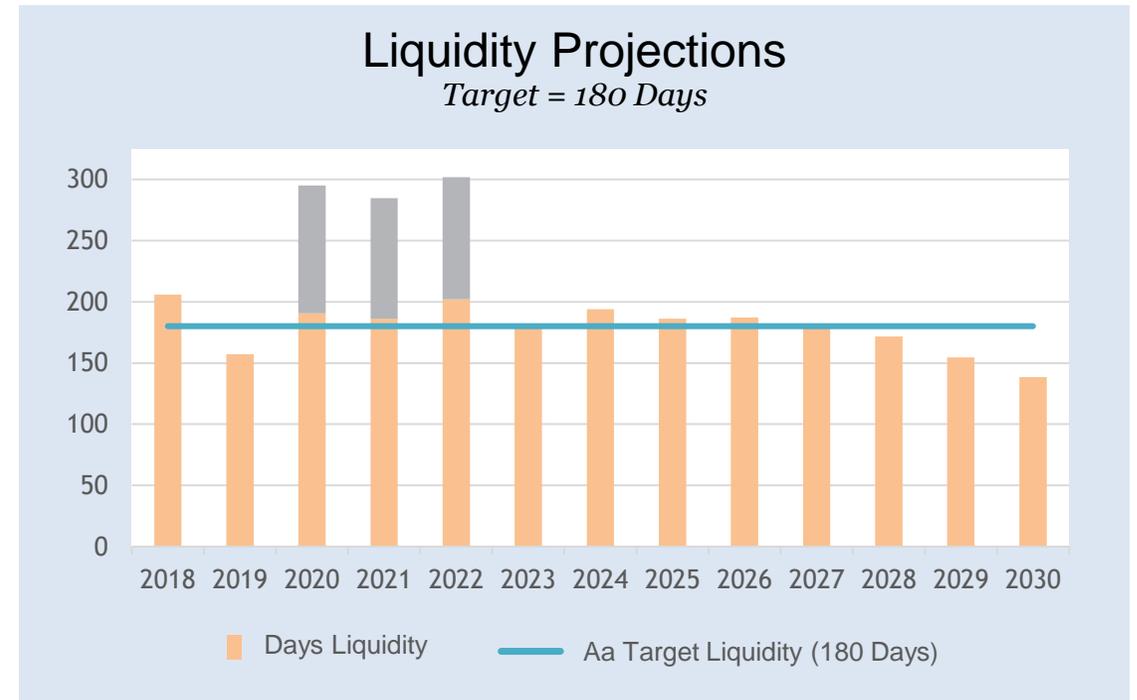
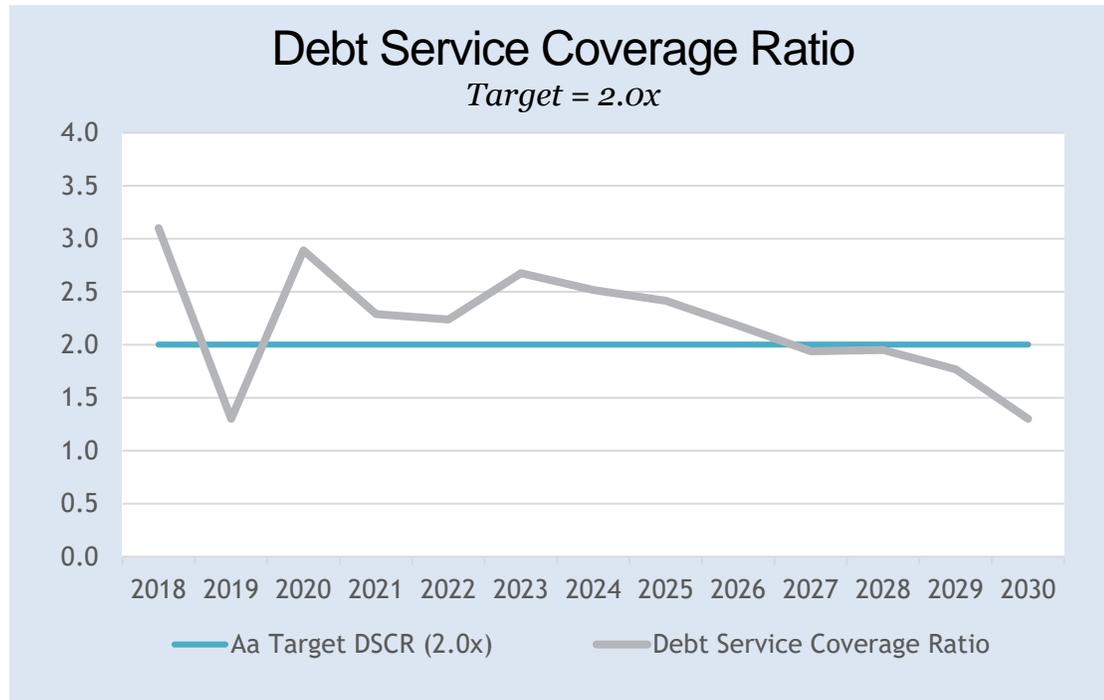
	Moody's*	S&P	Fitch
<i>Investment Grade</i>	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
	A1	A+	A+
	A2	A	A
	A3	A-	A-
	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
Baa3	BBB-	BBB-	
<i>Non-Investment Grade Speculative</i>	Ba1	BB+	BB+
	Ba2	BB	BB
	Ba3	BB-	BB-
	B1	B+	B+
	B2	B	B
	B3	B-	B-
	Caa1	CCC+	
	Caa2	CCC	
	Caa3	CCC-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

Base Case Financial Metrics



Section 5

Next Steps

August Update: Forecast Sensitivities

Scenarios:

- Second wave of pandemic shut-downs in 2021
- Loss of large load in 2021
- Critical water in 2021
- Adverse water in 2021 and 2022
- Economic rebound
- Wholesale price collapse



Standard
Planning
Scenarios

Special Items for PUB Discussion

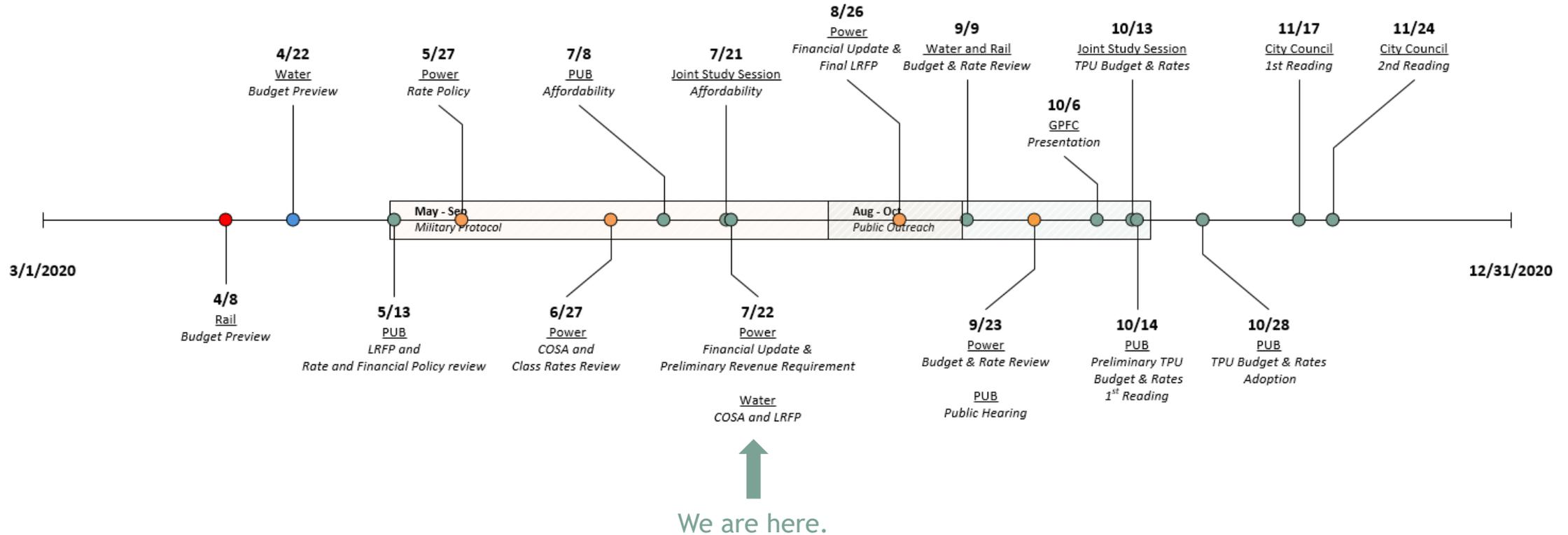
Already Introduced (May 27th PUB Meeting):

- ✓ Residential Prepayment rate
- ✓ Shore Power rate
- ✓ Distributed Generation (DG) rate
- ✓ Non-Firm rate
- ✓ New Large Load rate

Upcoming:

- Sunset HVG and CP classes (close to new customers)
- Open Access Transmission Tariff (OATT) update
- EV charging usage fee update
- Grinder pump rate update
- New business service fees update

Rates and Budget Timeline



Increased Rate Assistance to Mitigate Increase

Feedback from July 8th will be used to provide alternative metrics and additional demographic data at a future Board meeting or Study Session.

2021/2022 Biennium	Bill Credit Assistance Program (BCAP)		Low-Income Elderly/Disabled Discount Rate
	Strengthen the Net	Widen the Net	Strengthen the Net
Recommended Change	\$21 → \$21 monthly credit amount	150% Federal poverty level → 60% of area median income	30% discount on bill → 35% discount on bill
Justification	Current credit is 23% of average monthly bill (\$92.75 in 2019).	Area median income reflects the cost-of-living in the Tacoma area.	Relieve cost pressure on uniquely vulnerable populations.
Cost Increase due to Change	None	+\$87,900*	+\$640,000
Total Program Cost	\$247,800*		\$4,480,000
Budget	Same as 19/20 Budget.		Reduction in expected retail revenue.

*at current participation rates (7%). If participation doubled, BCAP total cost would rise to \$495,500.