Tacoma Power Financial Update & Initial 2021-22 Revenue Requirement

Public Utility Board

22 July 2020
Agenda

Introduction

2020 Load Forecast

Cost Savings To-Date

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Initial Revenue Requirement

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

The utility usually has a year or two to recoverfinancially 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

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

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.

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

Tacoma Power continues to monitor the changing situation.
Long-Term: Anticipated Load Decline

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

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.”

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

<table>
<thead>
<tr>
<th>Investment Grade</th>
<th>Moody’s</th>
<th>S&amp;P</th>
<th>Fitch</th>
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<td>AAA</td>
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<table>
<thead>
<tr>
<th>Non-Investment Grade Speculative</th>
<th>Moody’s</th>
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<tr>
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<td>CCC-</td>
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<td>D</td>
<td>D</td>
<td>D</td>
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* Moody’s current rating for Tacoma Power only applies to Bonds issued before 2017.
Base Case Financial Metrics

Debt Service Coverage Ratio
*Target = 2.0x*

Liquidity Projections
*Target = 180 Days*
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
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
We are here.

Rates and Budget Timeline

- **3/1/2020**
  - 4/6 Rail Budget Preview
  - 5/5 LRFP and Rate and Financial Policy Review

- **4/22**
  - Water Budget Preview
  - May - Sep: Military Protocol

- **5/27**
  - Power Rate Policy

- **6/27**
  - PUB COSA and Class Rates Review
  - Power Financial Update & Preliminary Revenue Requirement

- **7/21**
  - PUB Affordability

- **7/26**
  - PUB Financial Update & Final LRFP

- **8/26**
  - PUB Joint Study Session Affordability

- **9/9**
  - PUB Water and Rail Budget & Rate Review

- **9/23**
  - PUB Budget & Rate Review
  - Water: COSA and LRFP

- **10/6**
  - PUB Public Hearing

- **10/13**
  - PUB Preliminary TPU Budget & Rates
  - PUB 1st Reading

- **10/28**
  - PUB TPU Budget & Rates Adoption

- **11/17**
  - City Council 1st Reading

- **11/24**
  - City Council 2nd Reading

- **12/31/2020**

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**Tacoma Public Utilities**
## 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

<table>
<thead>
<tr>
<th>Bill Credit Assistance Program (BCAP)</th>
<th>Low-Income Elderly/Disabled Discount Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strengthen the Net</strong></td>
<td><strong>Widen the Net</strong></td>
</tr>
<tr>
<td><strong>Recommended Change</strong></td>
<td><strong>$21 → $21 monthly credit amount</strong></td>
</tr>
<tr>
<td><strong>Justification</strong></td>
<td><strong>Current credit is 23% of average monthly bill ($92.75 in 2019).</strong></td>
</tr>
<tr>
<td><strong>Cost Increase due to Change</strong></td>
<td><strong>None</strong></td>
</tr>
<tr>
<td><strong>Total Program Cost</strong></td>
<td><strong>+$87,900</strong>*</td>
</tr>
<tr>
<td><strong>Budget</strong></td>
<td><strong>Same as 19/20 Budget.</strong></td>
</tr>
</tbody>
</table>

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