

# Tacoma Power Financial Update & Initial 2021-22 Revenue Requirement

Public Utility Board

22 July 2020



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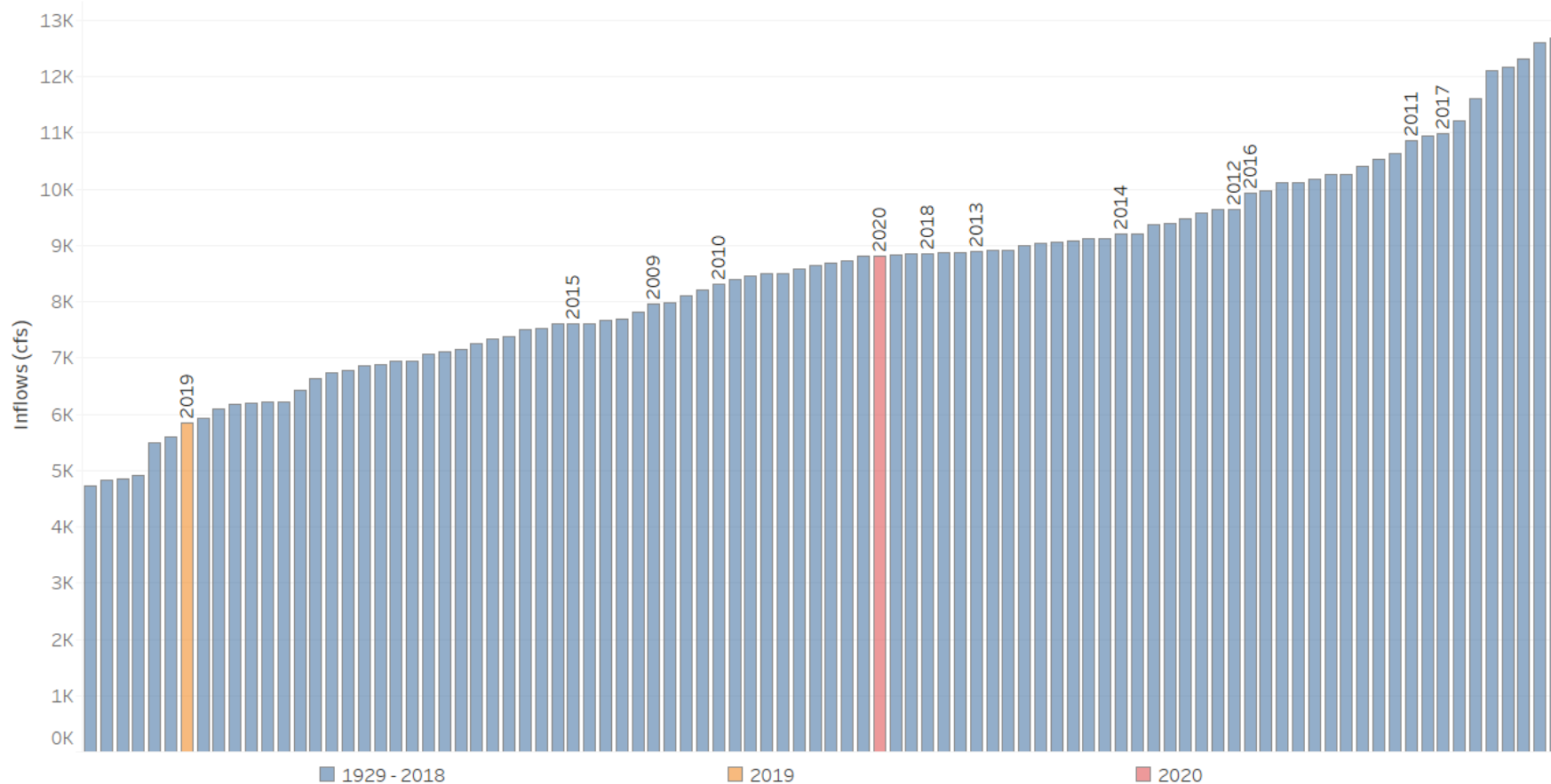
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## Section 1

# 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

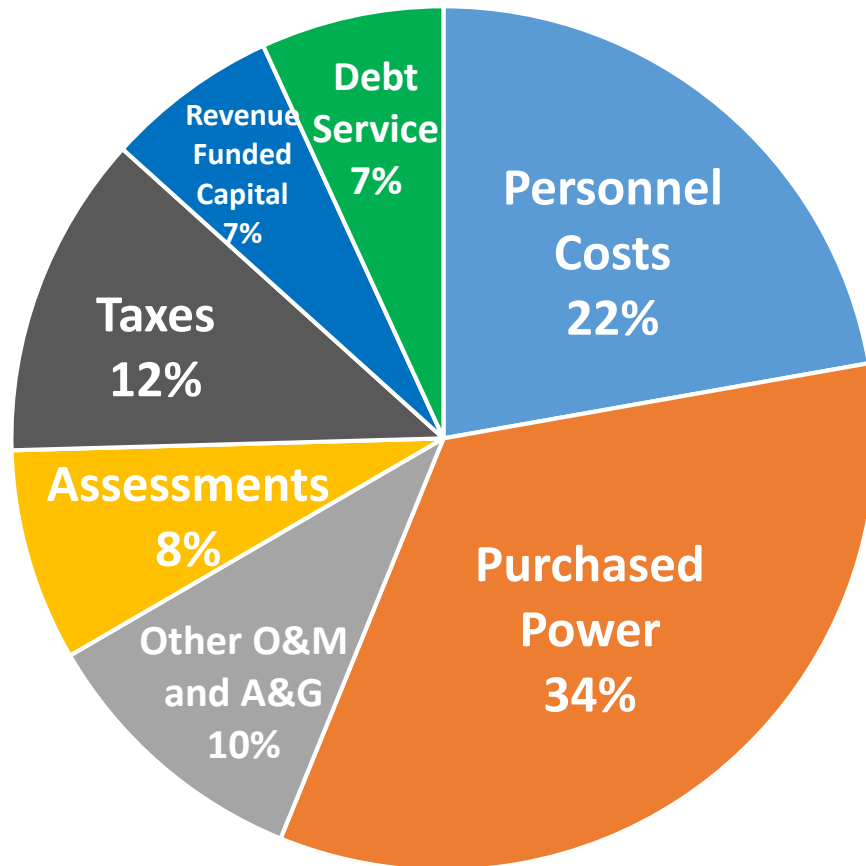


The utility usually has a year or two to recover financially after Critical water conditions, such as those experienced in 2019.

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:

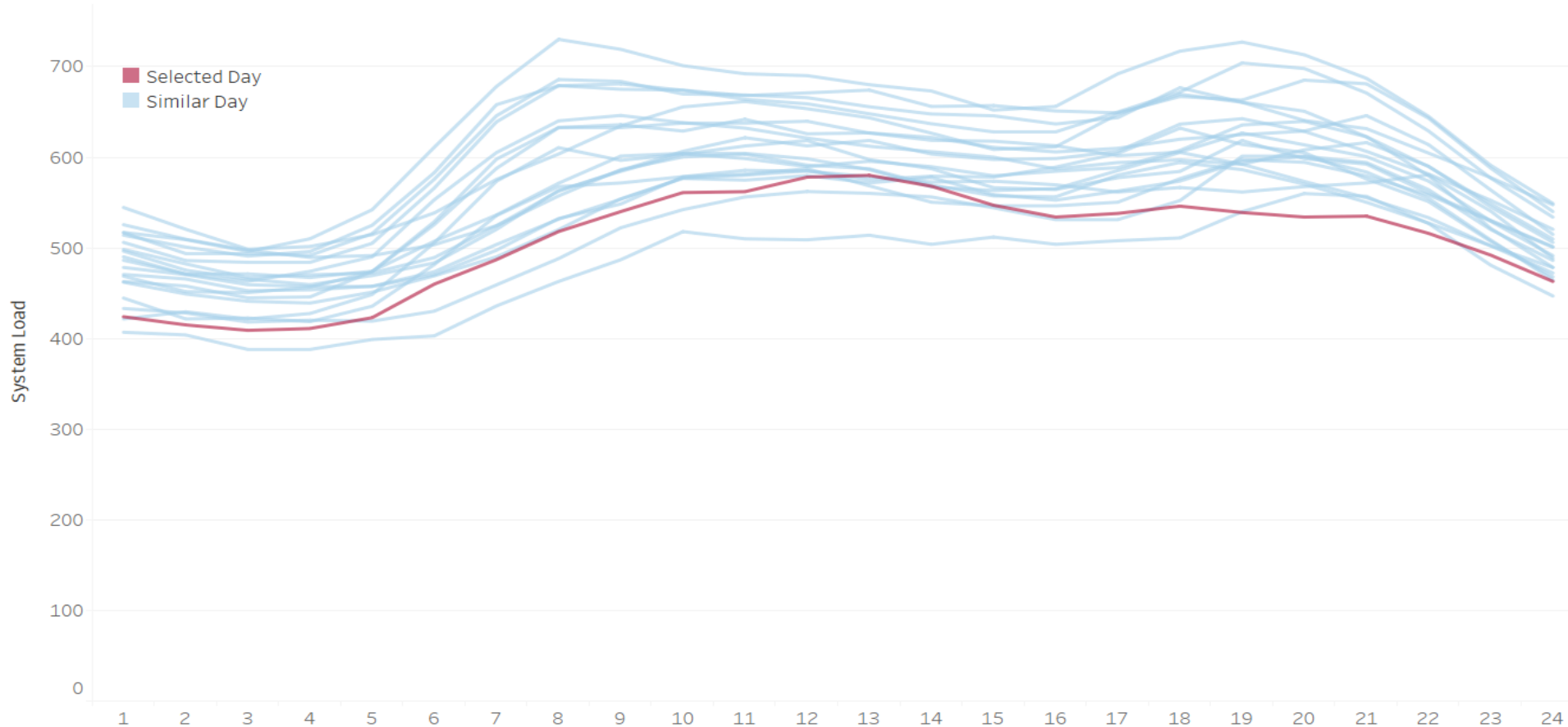
- 10% reduction in O&M costs from proposal
- Capital spend held constant with 2019/20
- Shift to 60/40 debt-funded capital

# 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 23<sup>rd</sup>, retail loads dropped significantly compared to pre-COVID days with similar weather.

## Short-Term: Large Load Reduction

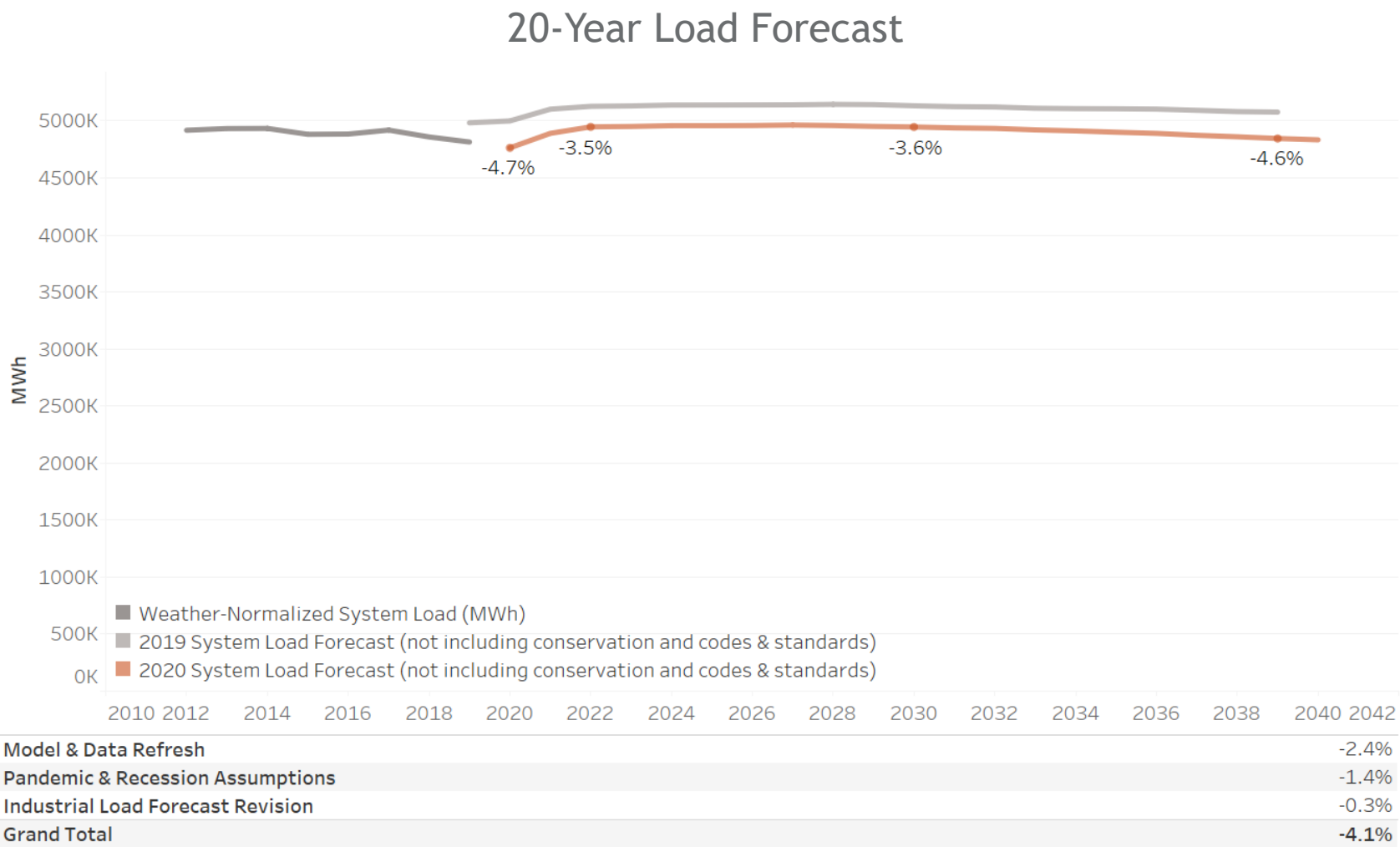
Observed retail loads have **declined** under stay-at-home and phased-restart orders, compared to the pre-COVID forecast.

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



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**

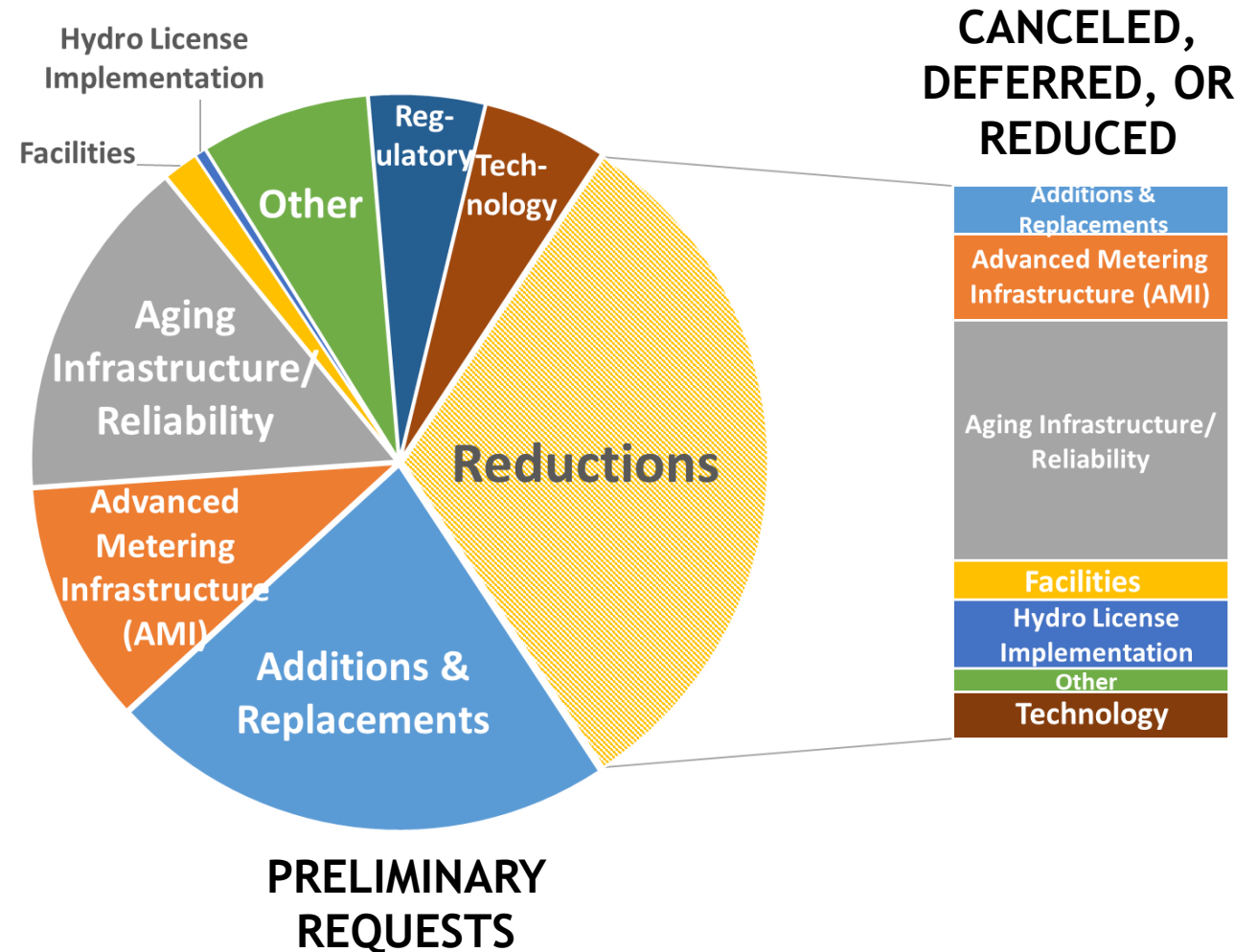
- \$37 million in reductions from pre-COVID budget plan:
  - Reduced Personnel cost
  - Reduced software and professional services contracts
  - Reduced EIM budget
- Plan to absorb \$7 million increase to medical benefits costs
- Plan to absorb increases in other non-controllable costs
  - Assessments - \$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
- Cancellations

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

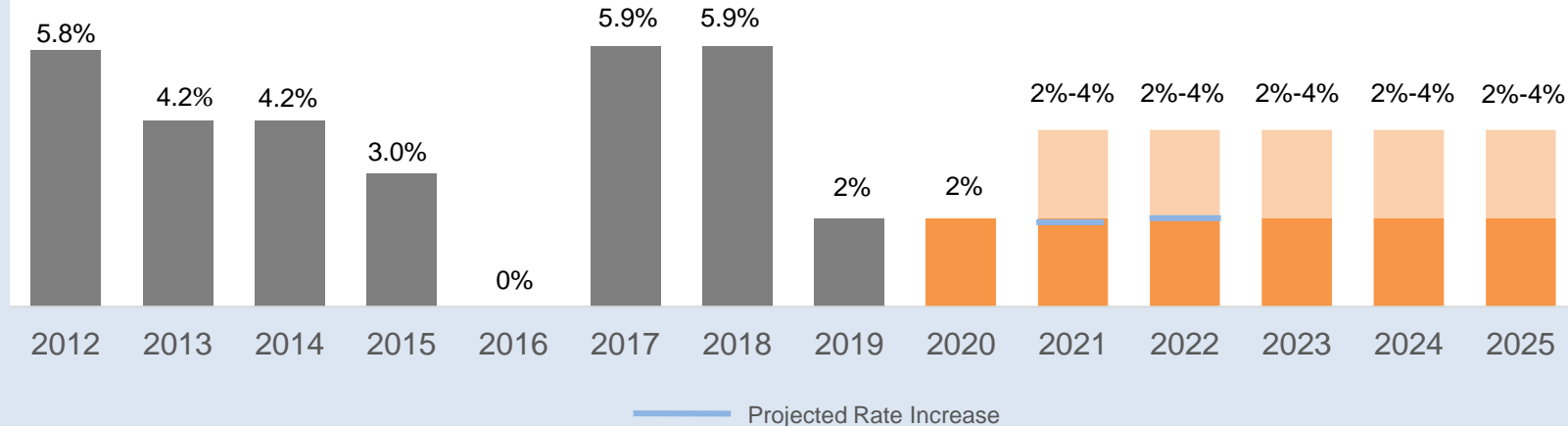


# Initial 2021-22 Revenue Requirement Forecast

# Base Case: Annual 2 percent rate increases

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

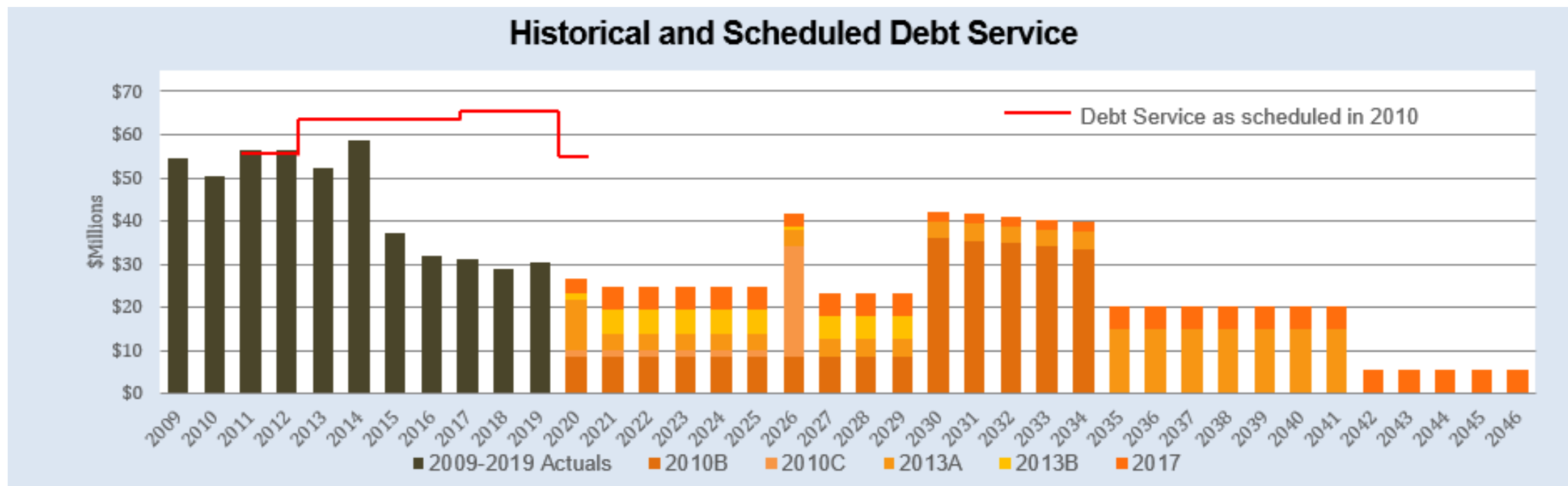
*Light shading in future years represents uncertainty associated with revenues and expenses, mostly due to potential for adverse\* or critical water conditions, changes to sales projections, and future debt service.*



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

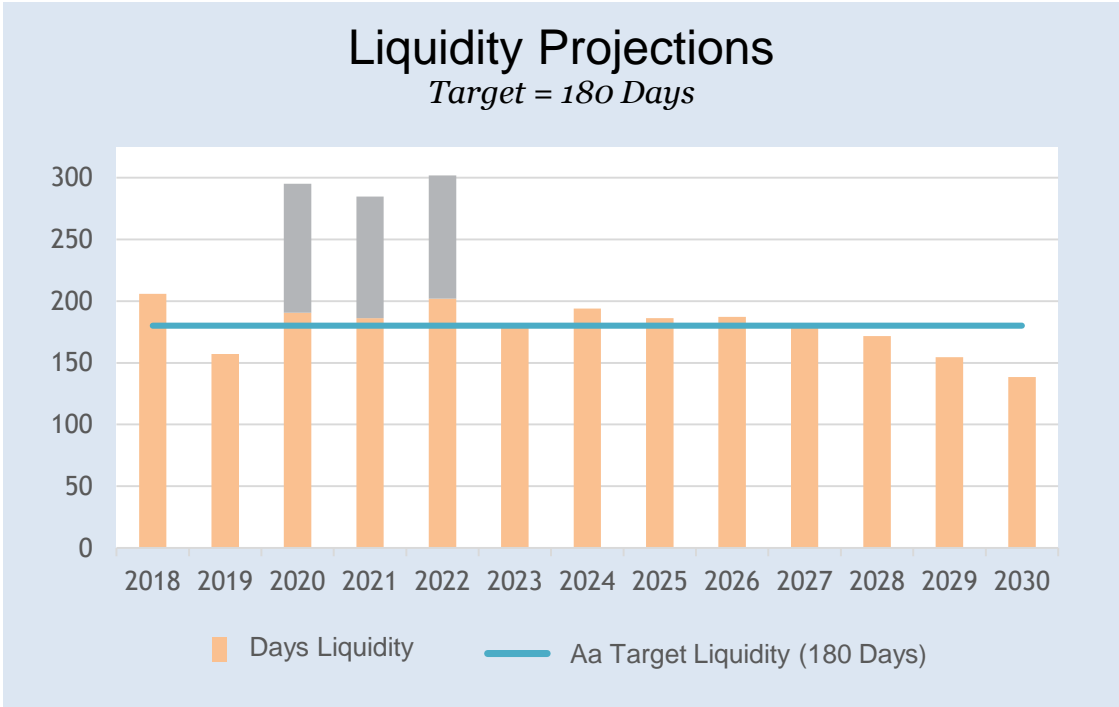
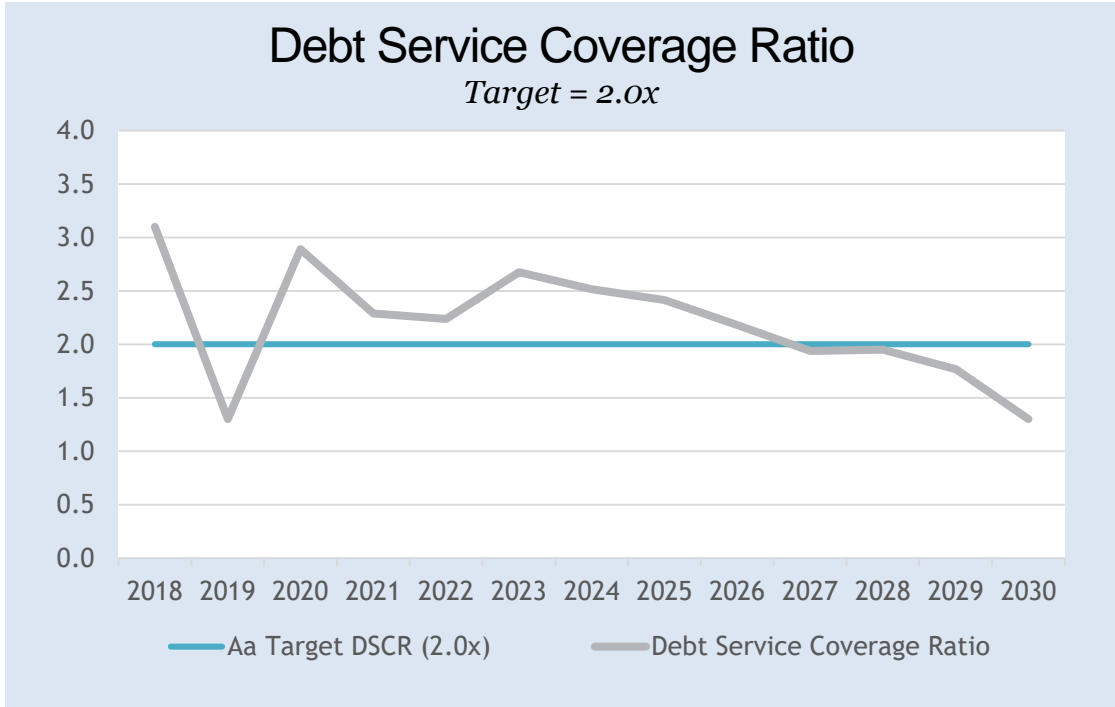
	Moody's*	S&P	Fitch
Investment Grade	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
	A1	A+	A+
	A2	A	A
	A3	A-	A-
	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
	Baa3	BBB-	BBB-
Non-Investment Grade Speculative	Ba1	BB+	BB+
	Ba2	BB	BB
	Ba3	BB-	BB-
	B1	B+	B+
	B2	B	B
	B3	B-	B-
	Caa1	CCC+	
	Caa2	CCC	
	Caa3	CCC-	CCC
	Ca	CCC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

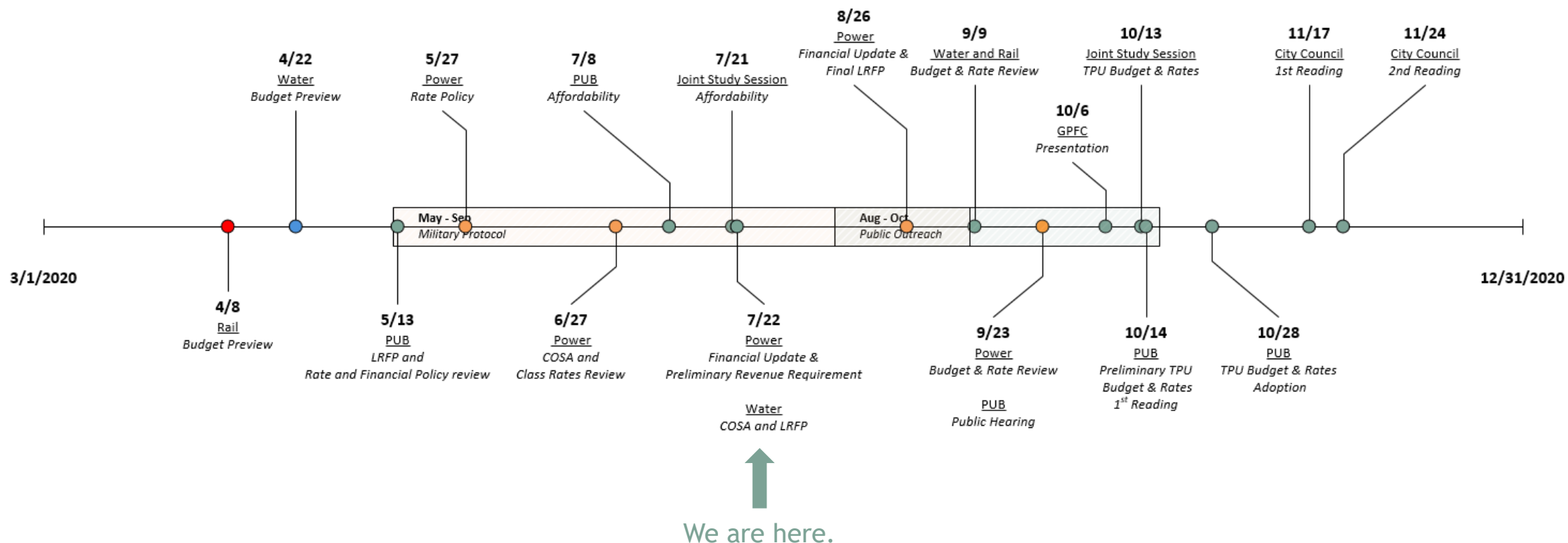
## Already Introduced (May 27<sup>th</sup> PUB Meeting):

- ✓ 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 8<sup>th</sup> 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.*