MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Aa3 rating on Tacoma Power's (WA) revenue bonds; stable outlook

25 Jul 2018

New York, July 25, 2018 -- Moody's Investors Service ("Moody's") has affirmed the Aa3 rating on Tacoma Power's (WA) electric system revenue bonds, consisting of the outstanding Series B ($147 million outstanding at the end of fiscal 2017), Series C ($24 million), 2013A ($127 million) and 2013B ($36 million). The outlook is stable.

RATING RATIONALE

The Aa3 rating reflects Tacoma Power's well-balanced credit profile, which incorporates a low-cost and zero-emission power supply portfolio from a combination of owned and purchased hydroelectric resources; large and diverse service area, with more than 175,000 retail customer accounts; demonstrated historical willingness to raise rates, which will remain important to credit quality in the context of level-to-declining retail load and low wholesale prices; and debt service coverage and liquidity metrics that have historically been solid and are expected to remain so on a forward looking basis. Further supporting the rating are competitive retail rates and conservative management.

The rating also incorporates hydrology risk, albeit mitigated in part by conservative planning standards; reliance on wholesale market revenues, which includes administration of an energy hedging program, for a material portion of revenues; and average demographic trends and wealth levels in the utility's retail service area, which may constrain willingness to raise rates.

RATING OUTLOOK

The stable outlook reflects Moody's expectation that the utility's debt service coverage ratio (adjusted) will exceed 2.0 times and that internal liquidity will exceed 200 days cash on hand. The stable outlook also incorporates Moody's expectation that Tacoma Power will implement rate changes to maintain forecasted financial performance.

FACTORS THAT COULD LEAD TO AN UPGRADE

Electric retail revenues represent more than 90% of total revenues on a sustained basis in combination with 2.0 times debt service coverage ratio (adjusted) and substantially more than 250 days cash on hand on a continuing basis

Substantial improvement in the service area's economic strength

FACTORS THAT COULD LEAD TO A DOWNGRADE

Debt service coverage ratio below 2.0 times (adjusted) and internal liquidity below 150 days cash on hand on a sustained basis

Energy hedging program is not conservatively executed

Substantial decline in service area's economic strength

LEGAL SECURITY

The utility's bonds have a pledge of Tacoma Power's net revenues and requires that the utility set rates to maintain 1.25 times debt service coverage. The additional bonds test similarly requires rates be set to maintain 1.25 times debt service coverage. Furthermore, the utility's bonds have a pooled debt service reserve sized to the lesser of 125% of average annual debt service or one year of maximum debt service net of US government subsidy payments such as Build America Bond subsidies. Currently, the debt service reserve includes a $24.3 million surety from Assured Guaranty Municipal Corp. (A2/stable) that represent 87% of the total reserve. The remaining reserve is funded with approximately $4 million of cash since $12 million of reserve funds were used to repay the 2005B bonds.

USE OF PROCEEDS

N/A

PROFILE

Tacoma Power is a division of the City of Tacoma, Department of Public Utilities (Tacoma Public Utilities). TPU consists of Tacoma Power, Tacoma Water and Tacoma Rail and is governed by a five-member Public Utility Board appointed by the City Council.

Tacoma Power serves approximately 177,000 customers in the City of Tacoma and Pierce County. The utility earns revenues from retail electric service (77%), wholesale power sales (13%), and cable/internet services (6%) offered under Click!.

The utility's owned generation consists of a portfolio of hydroelectric assets that generated 3.4 million MWh, or 45% of total sales, in 2017.

METHODOLOGY

The principal methodology used in this rating was US Public Power Electric Utilities With Generation Ownership Exposure published in November 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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