TACOMA POWER
2019 - 2020
BUDGET PREVIEW

Chris Robinson, Superintendent
May 23, 2018
AGENDA

Expenses are Increasing

Revenues are Declining

Strategic Solutions

Long-Range Financial Plan

Next Steps
Expenses are Increasing

**OPERATING EXPENSES**
- Purchased Power: $127 M (32%)
- Generation: $32 M (8%)
- Transmission & Distribution: $77 M (20%)
- Administrative & General: $49 M (12%)
- Other Expenses: $50 M (13%)
- Taxes: $41 M (10%)
- Debt Service: $19 M (5%)

**POWER SUPPLY EXPENSE**
- BPA Power & Transmission: $139 M (35%)
- Owned Power Supply: $187 M (47%)
- Other: $69 M (18%)

* Source: 2016 Production Unit Cost Report (FERC)
Total Expenses are Increasing

Average Annual Increase: 3.0%
Purchased Power & Transmission

Average Annual Increase for 2011 – 2017: 3.0%

Average Annual Increase for 2018 – 2022: 3.7%
Owned Generation

Average Annual Increase: 8.0%
Taxes

Average Annual Increase: 5.2%
Personnel

Average Annual Increase: 3.9%
Capital Expenses

Average Biennial Increase: 7.4%

Additions & Replacements
Aging Infrastructure Upgrades
Natural Resource Requirements
Pooled Contingency
Advanced Metering Infrastructure
Conservation Portfolio
Technology

Capital Expenses

2011-2012 Actuals: $126 M
2013-2014 Actuals: $120 M
2015-2016 Actuals: $159 M
2017-2018 Actuals/Projected: $155 M
2019-2020 Projected: $162 M
2017 REVENUE COMPONENTS

- **Retail Sales**: $341 M (76%)
- **Wholesale Sales**: $22 M (5%)
- **Other**: $27 M (6%)
- **Click!**: $57 M (13%)

Total Revenue: $341 M
Wholesale Prices Decline

Average Annual Decrease: 5.5%
Wholesale Percent of Total Revenue

Wholesale Revenue
Other Revenue
Wholesale % of Total
Wholesale % of Total Trend

Market Drivers

HENRY HUB NATURAL GAS PRICES

WESTERN STATES RENEWABLE PRODUCTION

Source: US Energy Information Administration
Retail Demand

Average Annual Increase for 2006 – 2017: 0.4%

Average Annual Decrease for 2018 – 2022: 0.8%
Most Costs are Fixed in the Short-term

Cost per MWh Served

(Total Expense/Total MWh Billed)

Average Annual Increase: 5.3%
Tacoma Power Strategy

TOP PRIORITIES NOW
Put Safety 100% First | Support Click! Network | Leadership Development
Listen to our Community Leaders | Participate in New Market Opportunities
Managing Expenses

- Implement Asset Management Roadmap
- Stand-up Construction Project PMO
- Prioritize O&M Cost Saving Initiatives
- Create Utility Analytics Strategy
Managing Revenue Challenges

- Review Policies & Procedures that Impact Economic Development
- Create Economic Incentive Alternatives
- Underground Electric Facilities
- Pursue New Wholesale Products & Services
- Develop Transportation Electrification Proposals
How are we developing our budget?

Capital
- Business Cases
- Risk Analysis
- Capital Steering Committee Review
- Project Presentations
- Preliminary Recommendation
- Final Approval

FTE
- FTE Requests
- Work Plan Review
- Preliminary Recommendation
- Final Approval

Other O&M
- Budget Requests
- Justification Review
- Preliminary Recommendation
- Final Approval
Preliminary Budget Information

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<tr>
<th>PRELIMINARY CAPITAL REQUEST</th>
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2019-2020 Projected

- Technology
- Natural Resource Requirements
- Advanced Metering Infrastructure
- Additions & Replacements
- Pooled Contingency
- Conservation Portfolio
- Aging Infrastructure Upgrades
Preliminary Revenue Requirement: $746.5 Million

Separate from budget, based on historical spend, inflation, and new projects

Objectives:
- Minimize the rate increase
- Reduce the revenue requirement to actual spend projection
Projected Rate Increases: 2019-2020

Additional shading in future years represents uncertainty associated with revenues and expenses, mostly due to potential for adverse or critical water conditions.
NEXT STEPS

Budget Development

- Capital program
- O & M

June 27th

- Study Session: Cost of Service Review

September 26th

- Study Session: Budget Presentation

October 9th

- Joint Council/PUB Study Session Presentation

October 24th

- Public Utility Board approval of preliminary budget