

TACOMA POWER
2019 - 2020
BUDGET PREVIEW

Chris Robinson, Superintendent

May 23, 2018

AGENDA



Expenses are Increasing



Revenues are Declining



Strategic Solutions



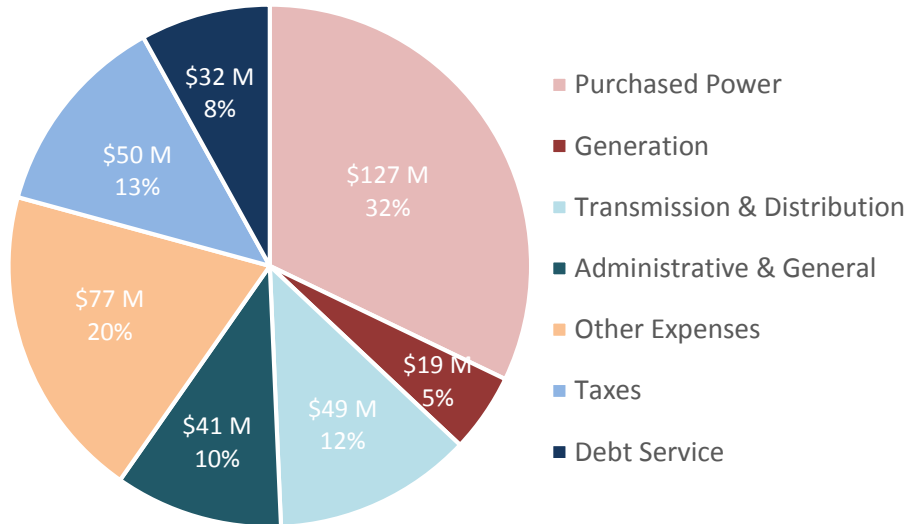
Long-Range Financial Plan



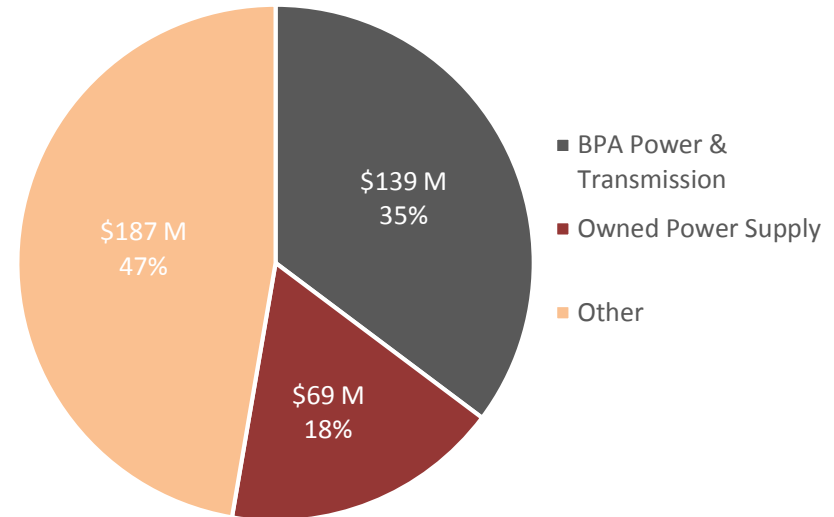
Next Steps

Expenses are Increasing

OPERATING EXPENSES



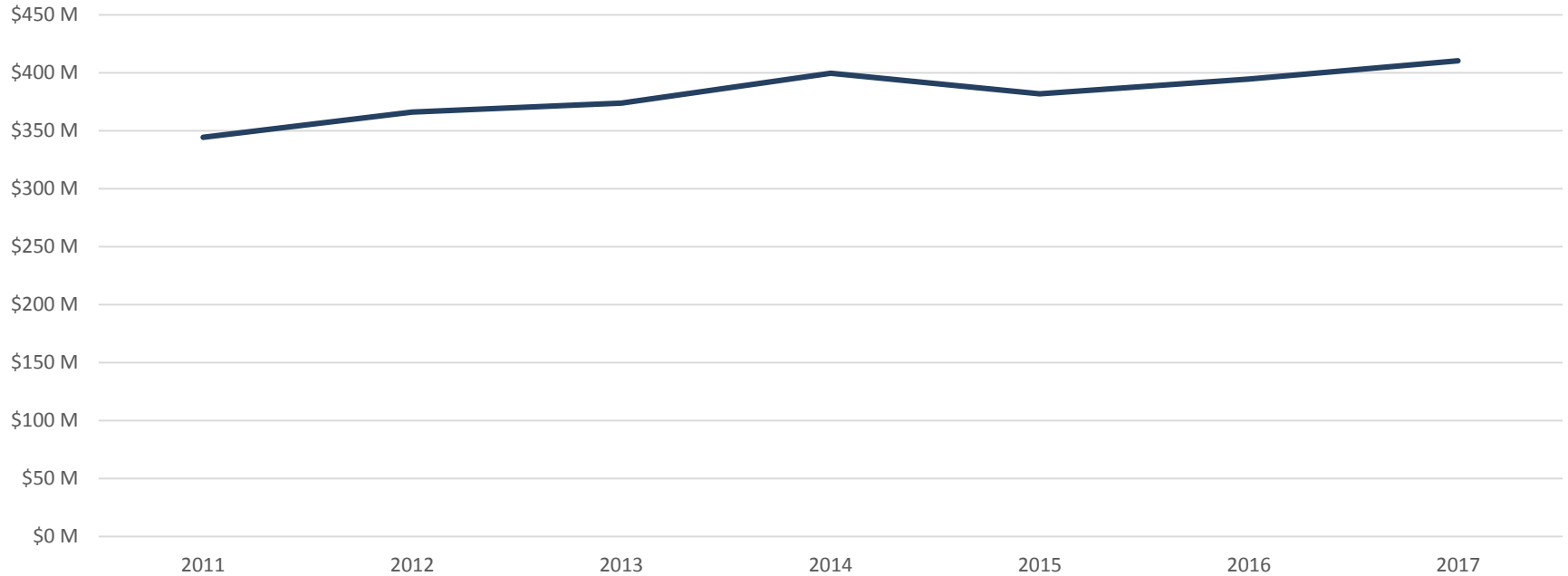
POWER SUPPLY EXPENSE



* Source: 2016 Tacoma Power Annual Financial Report

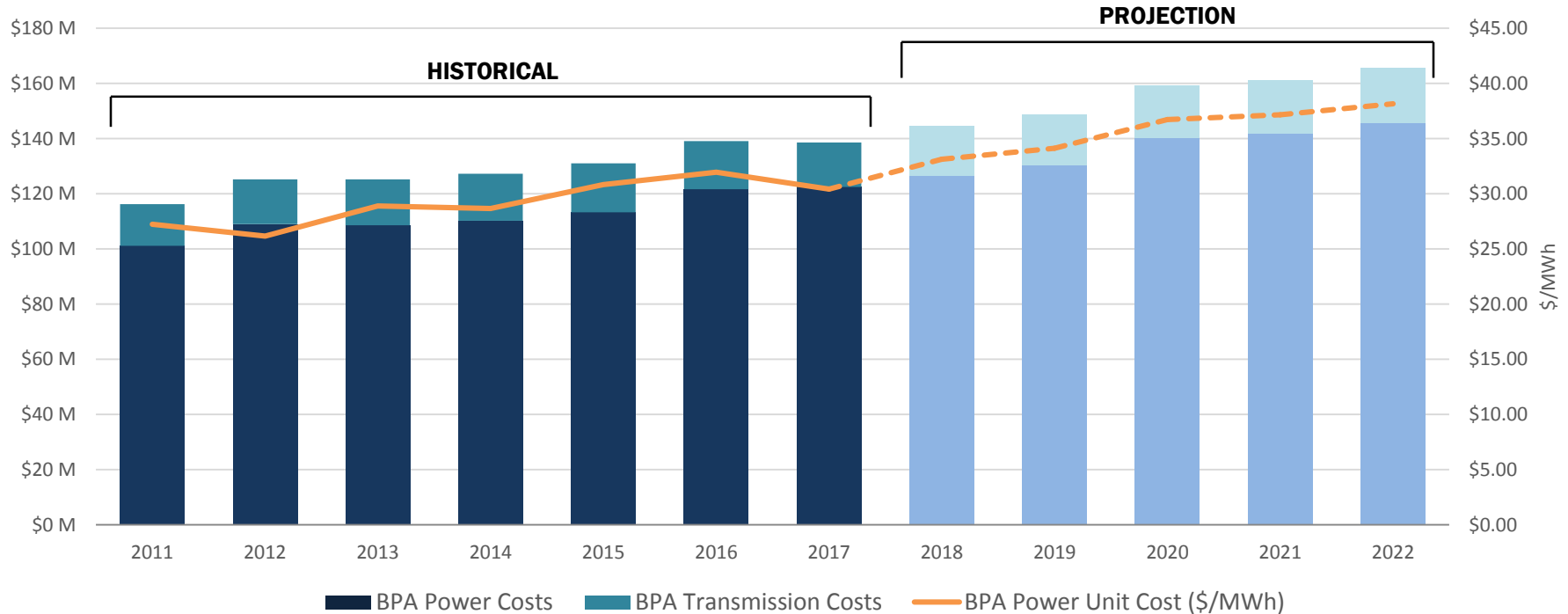
* Source: 2016 Production Unit Cost Report (FERC)

Total Expenses are Increasing



Average Annual Increase: 3.0%

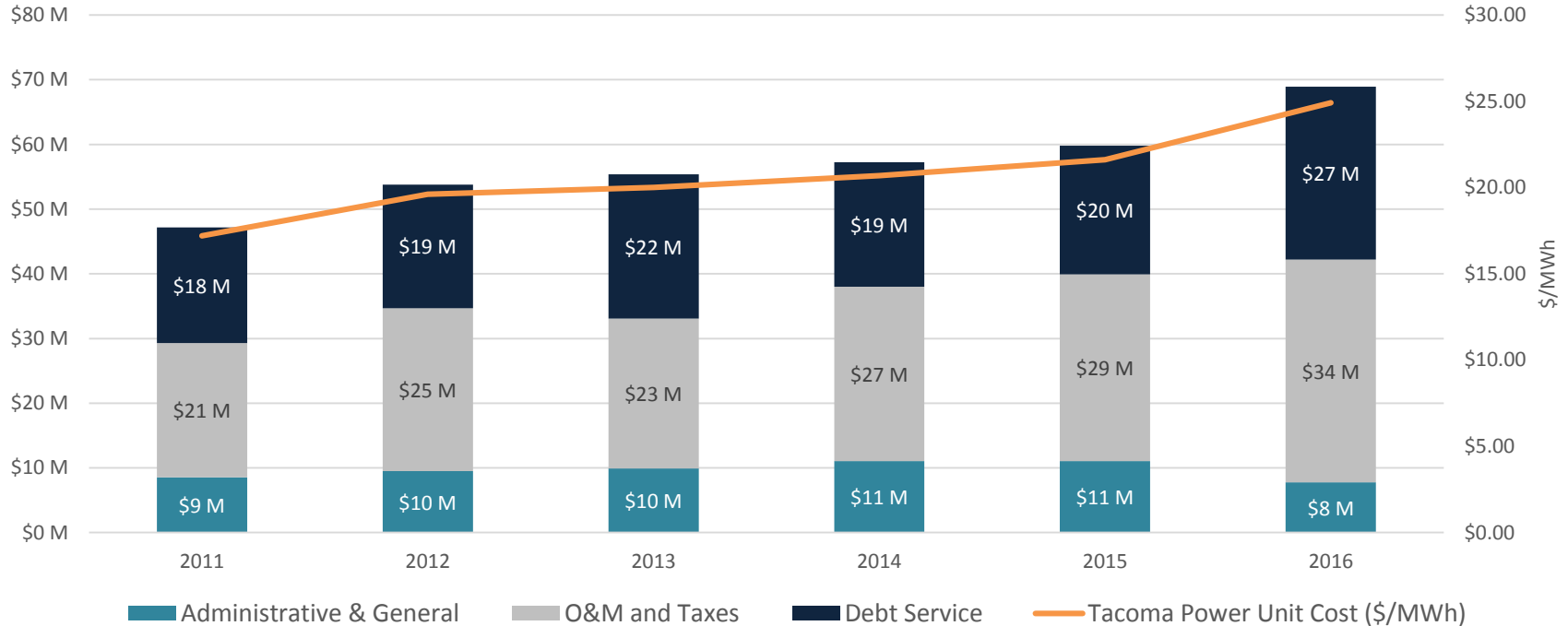
Purchased Power & Transmission



Average Annual Increase for 2011 – 2017: 3.0%

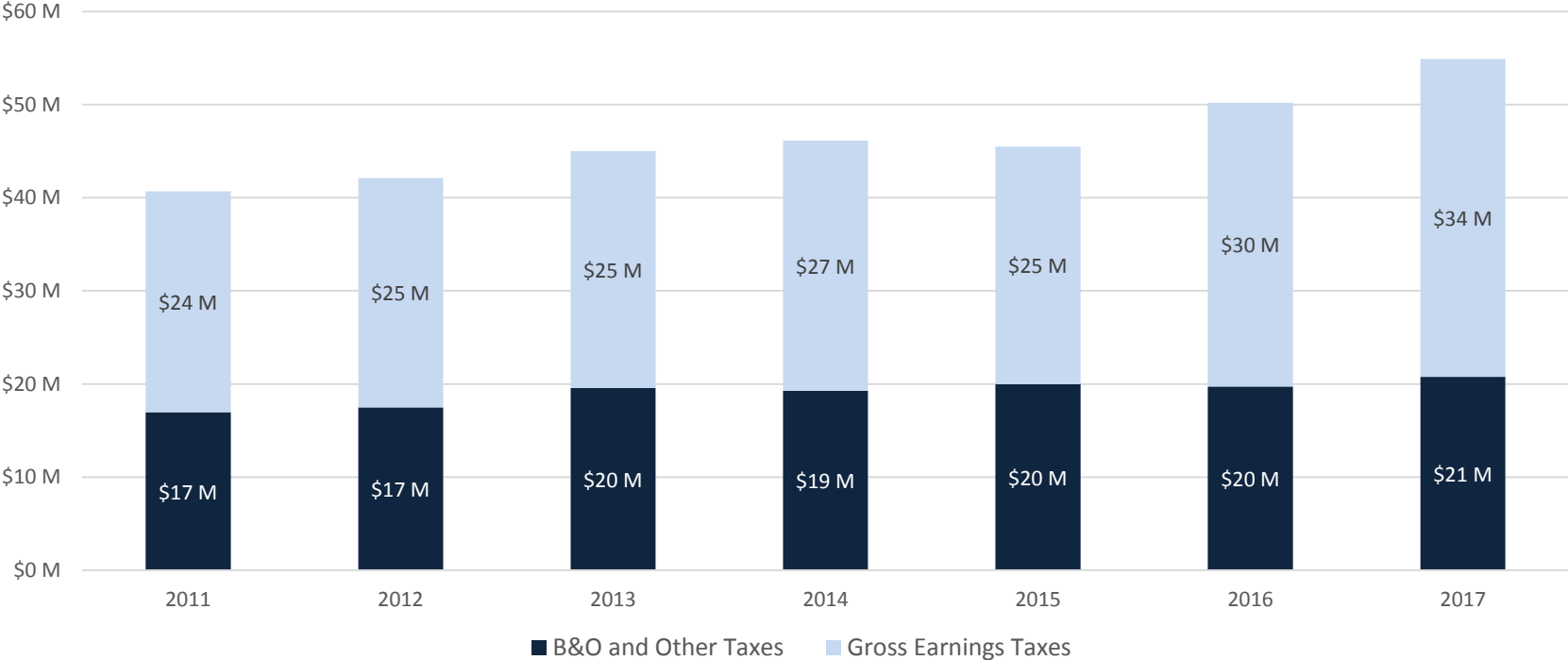
Average Annual Increase for 2018 – 2022: 3.7%

Owned Generation



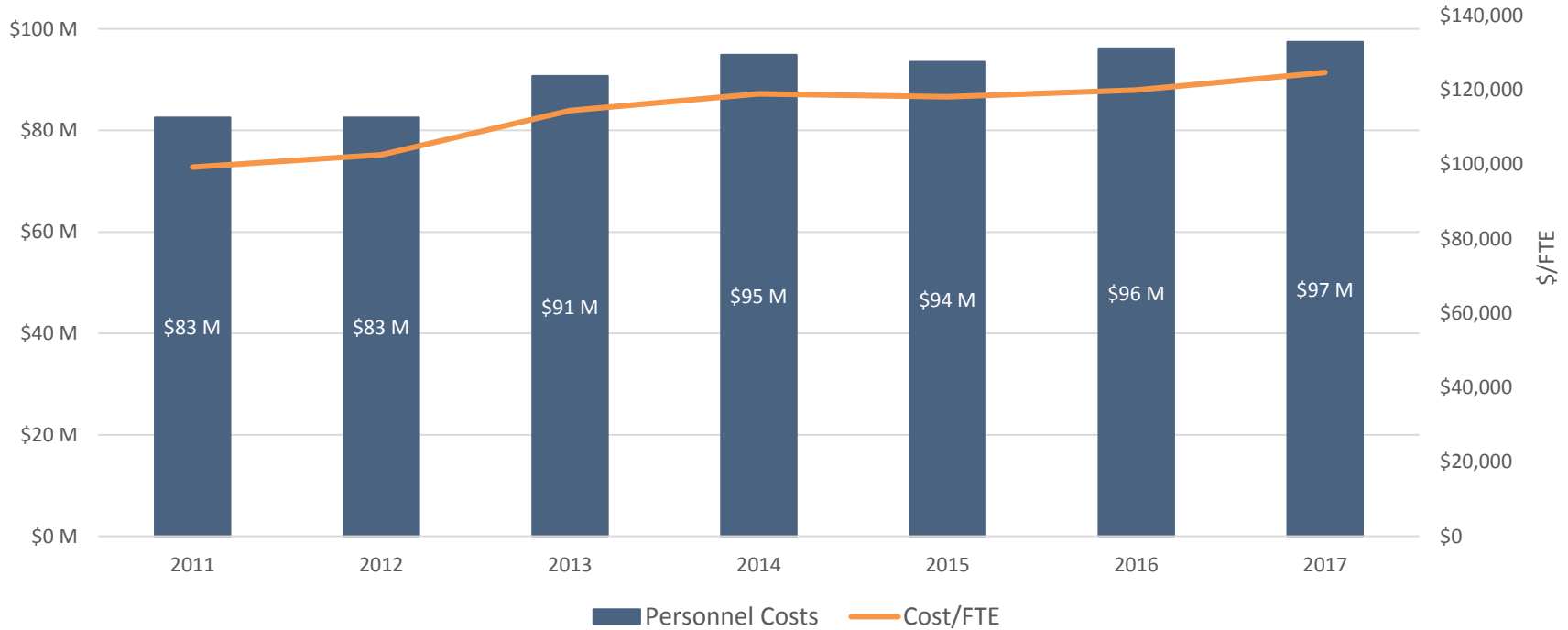
Average Annual Increase: 8.0%

Taxes

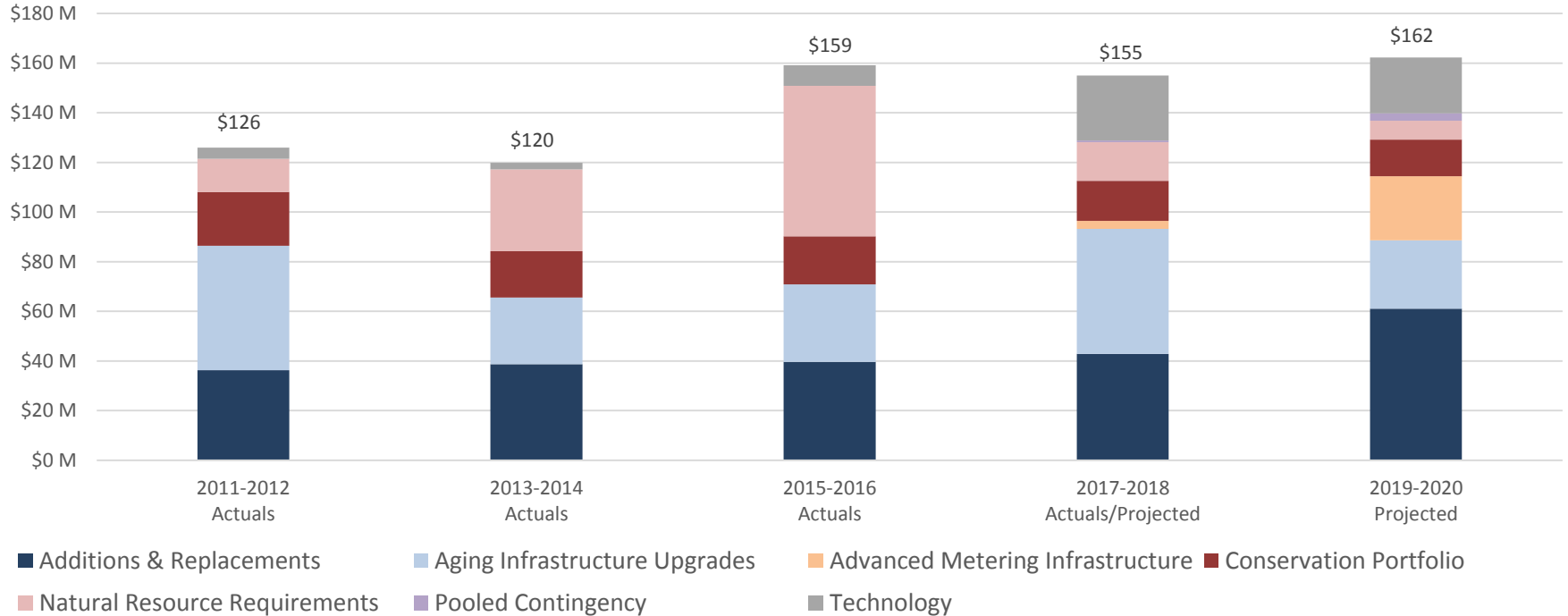


Average Annual Increase: 5.2%

Personnel

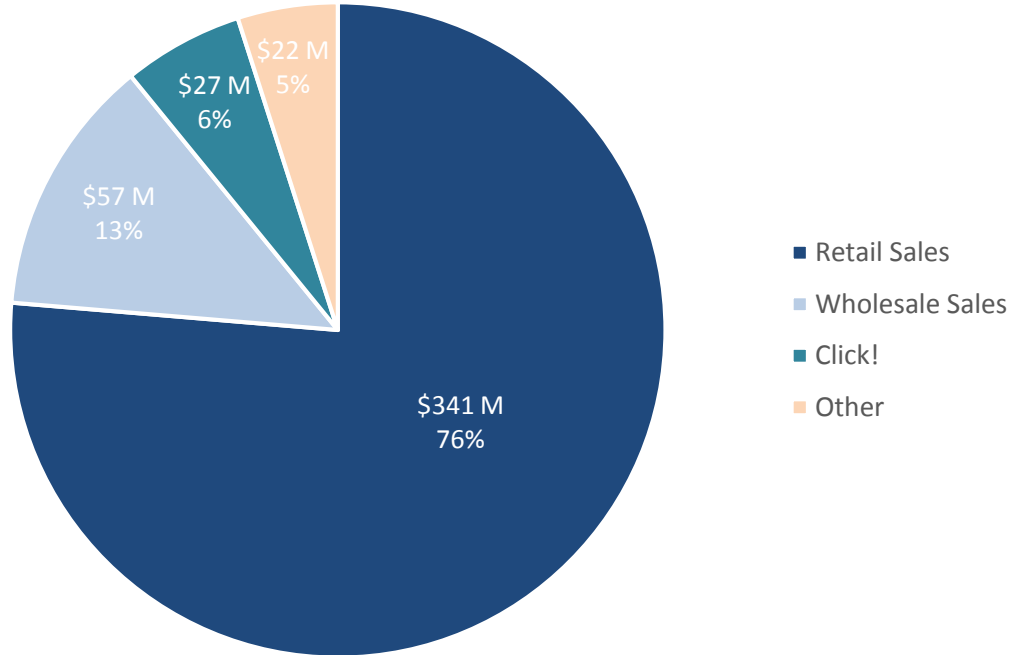


Capital Expenses

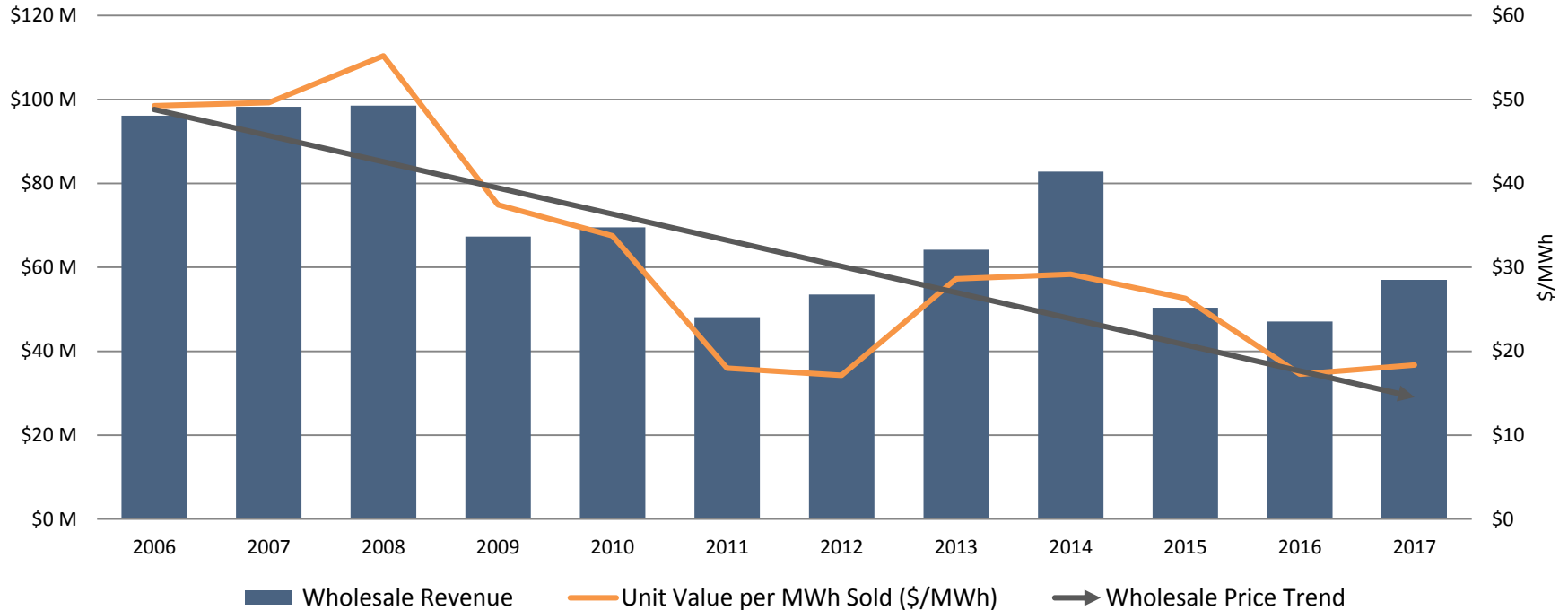


Average Biennial Increase: 7.4%

2017 REVENUE COMPONENTS

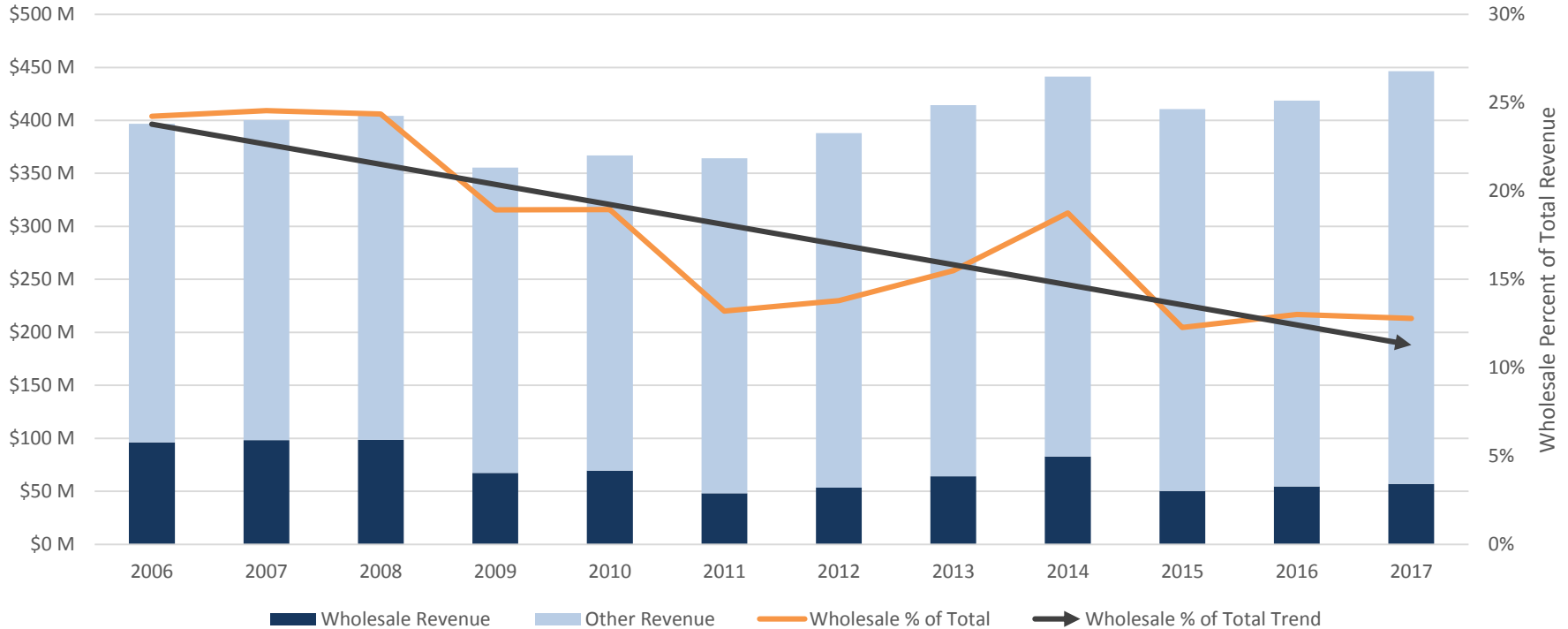


Wholesale Prices Decline



Average Annual Decrease: 5.5%

Wholesale Percent of Total Revenue



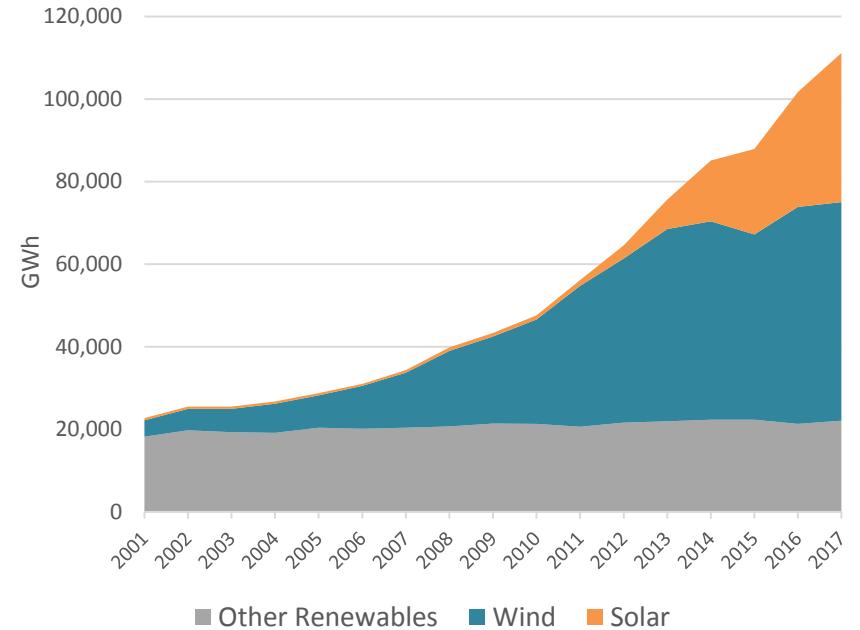
Market Drivers

HENRY HUB NATURAL GAS PRICES

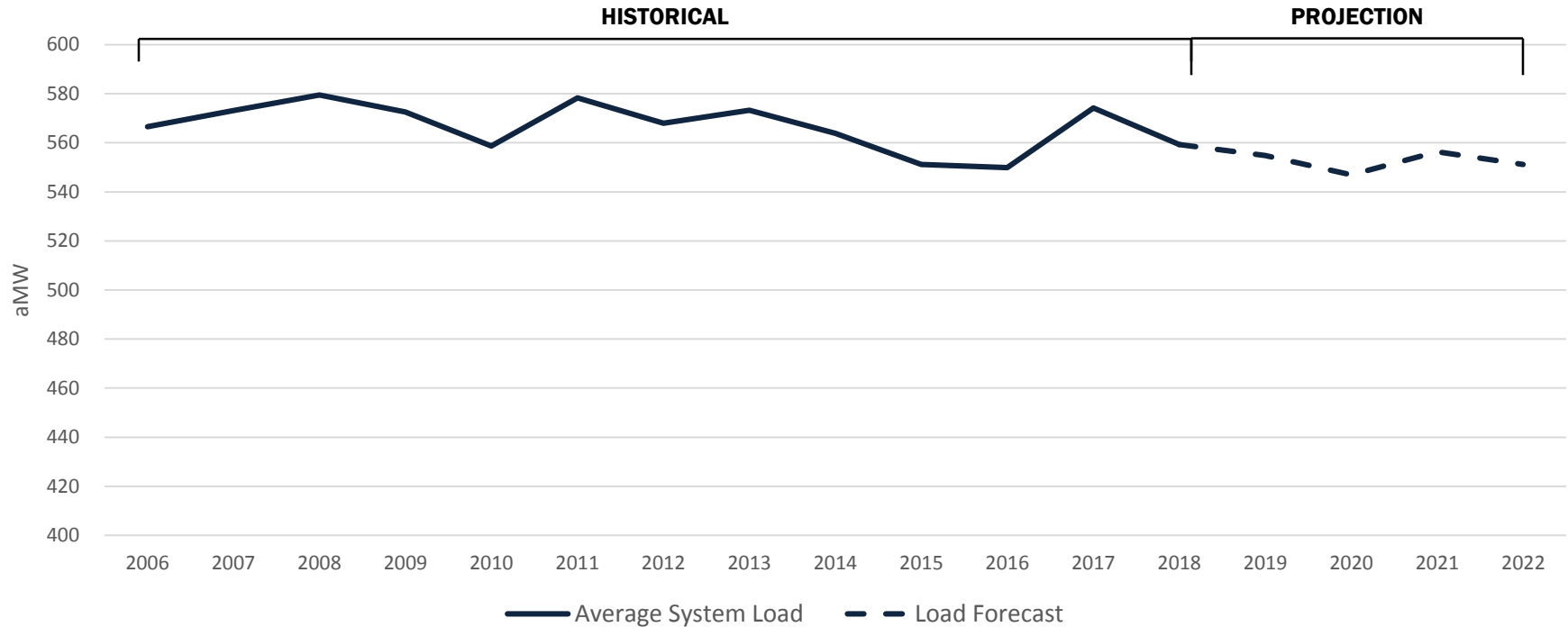


Source: US Energy Information Administration

WESTERN STATES RENEWABLE PRODUCTION



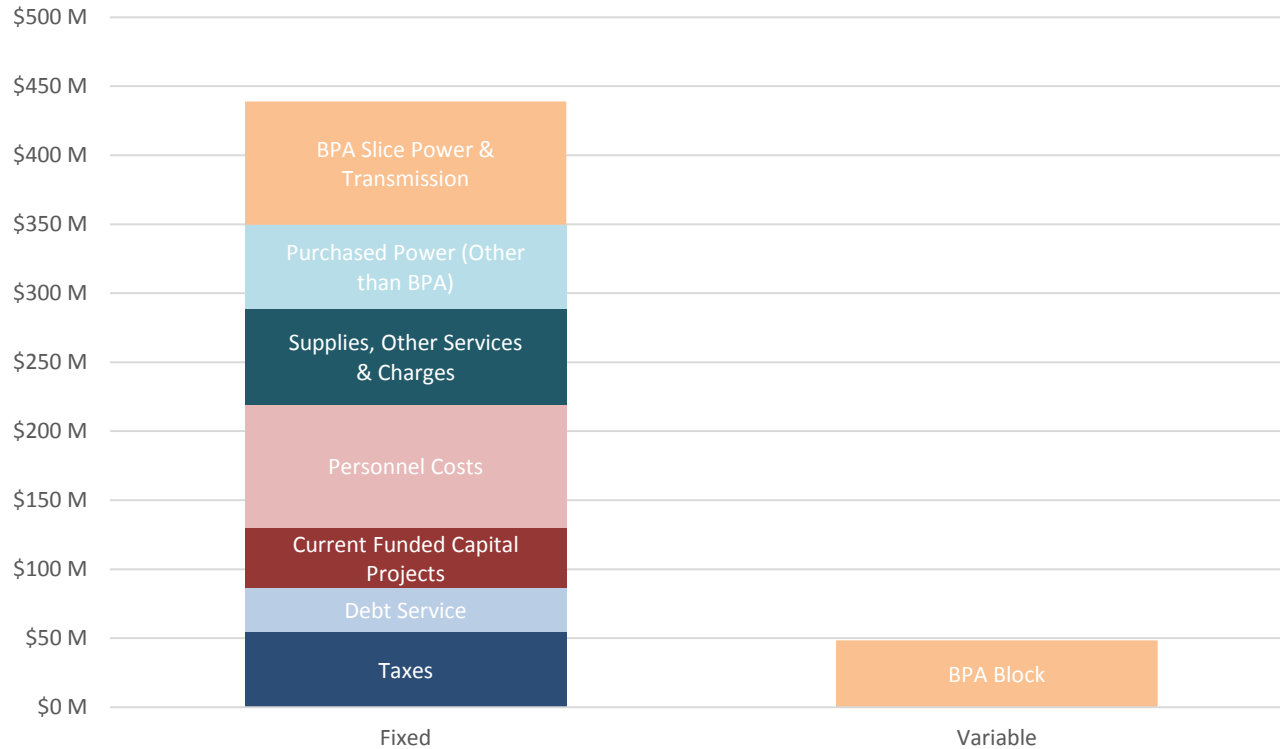
Retail Demand



Average Annual Increase for 2006 – 2017: 0.4%

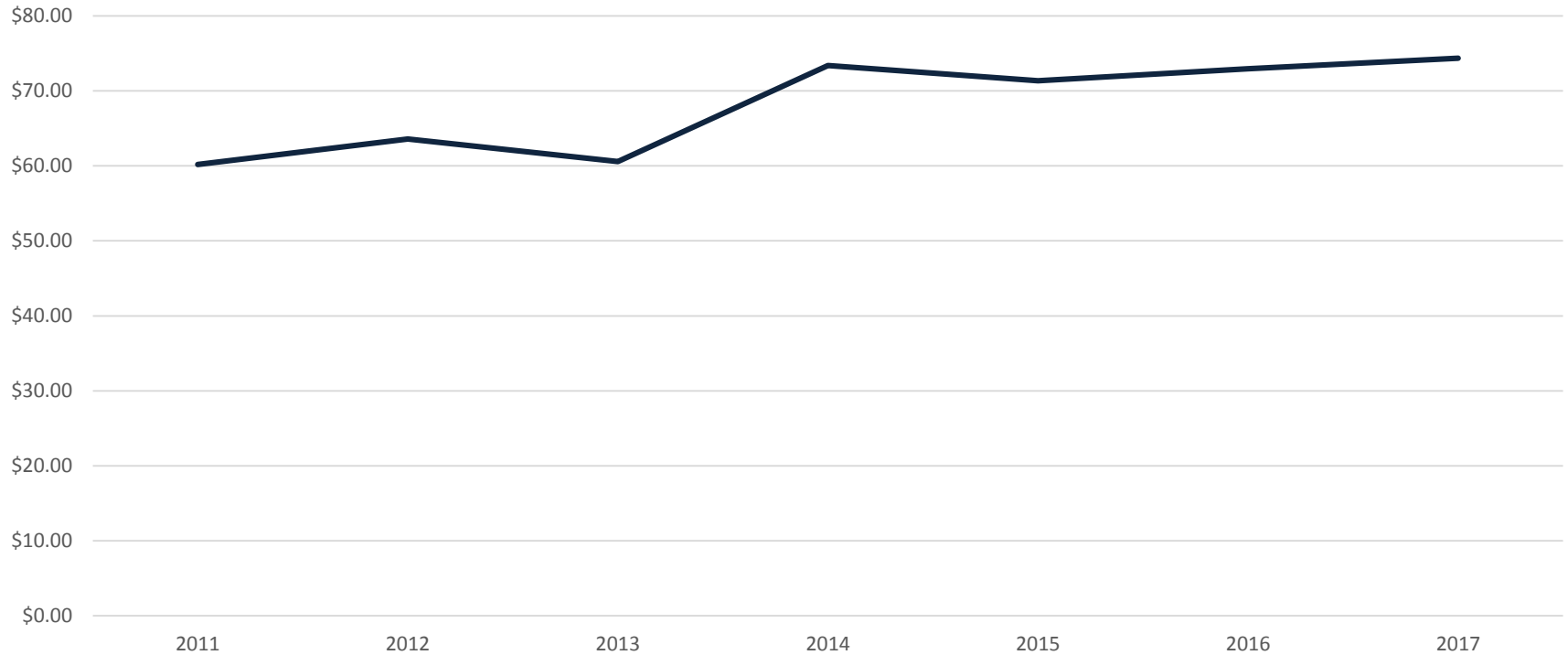
Average Annual Decrease for 2018 – 2022: 0.8%

Most Costs are Fixed in the Short-term



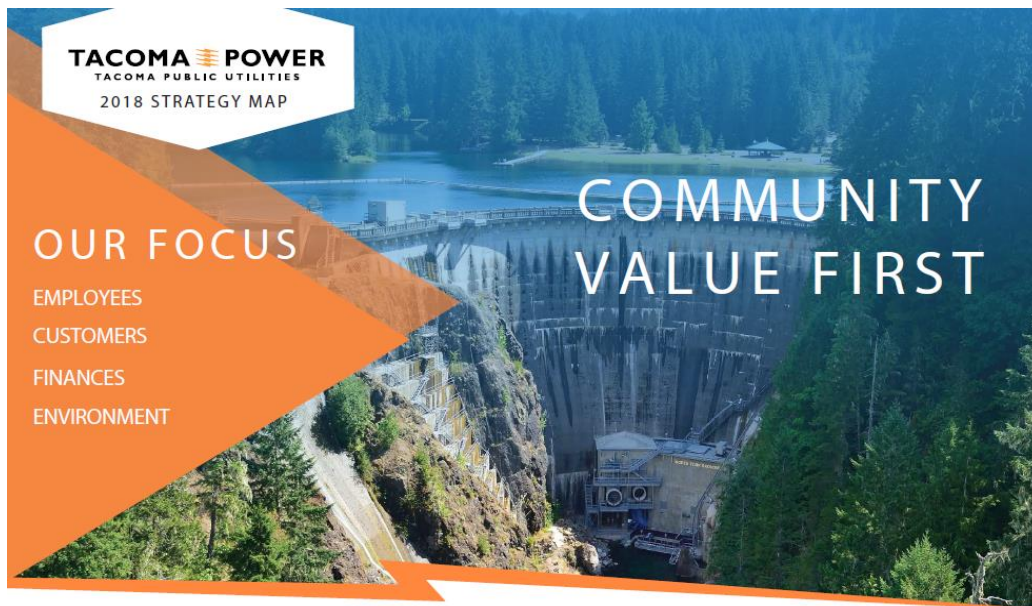
Source: 2017 Tacoma Power Financial Report

Cost per MWh Served (Total Expense/Total MWh Billed)



Average Annual Increase: 5.3%

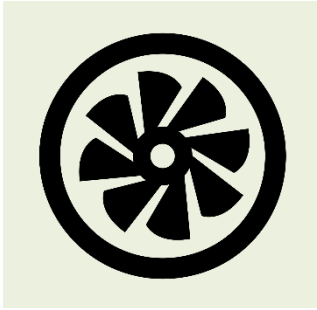
Tacoma Power Strategy



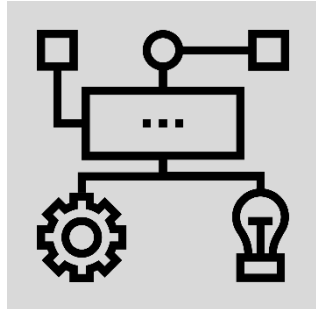
TOP PRIORITIES NOW

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

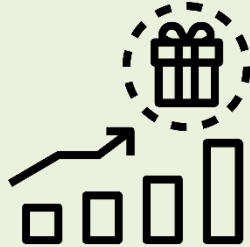


Create Utility Analytics Strategy

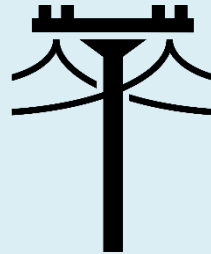
Managing Revenue Challenges



Review Policies &
Procedures that Impact
Economic Development



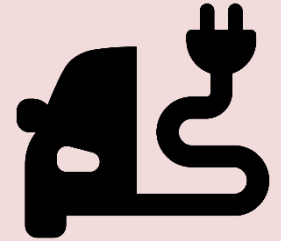
Create Economic
Incentive Alternatives



Underground
Electric Facilities

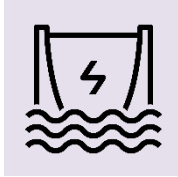


Pursue New
Wholesale Products &
Services



Develop
Transportation
Electrification
Proposals

How are we developing our budget?



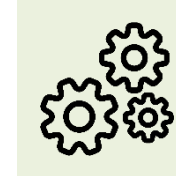
Capital

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



FTE

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

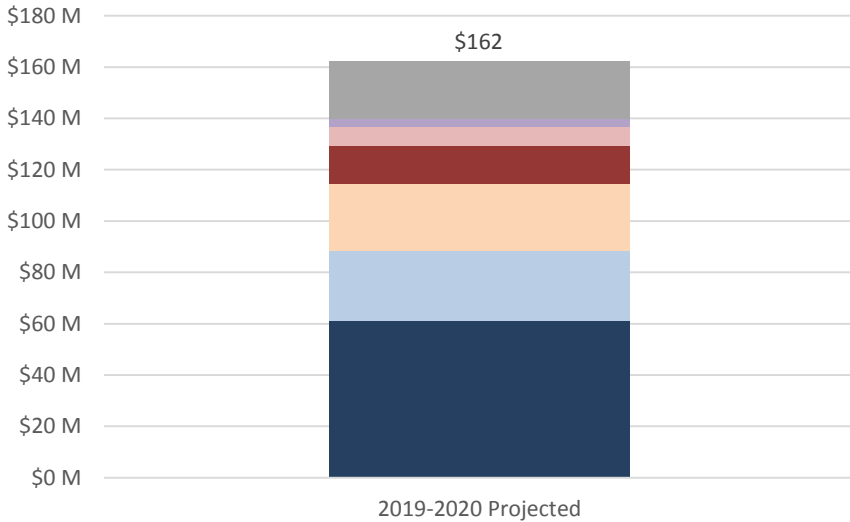


Other O&M

- Budget Requests
- Justification Review
- Preliminary Recommendation
- Final Approval

Preliminary Budget Information

PRELIMINARY CAPITAL REQUEST



PRELIMINARY FTE REQUEST

AMI	4
Digital Modernization	10
Environmental Projects	6
Wholesale Market Opportunities	4
Operational Efficiencies	8
Utility Operations	17
Total	49

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

Budget & Revenue Requirement Decoupled

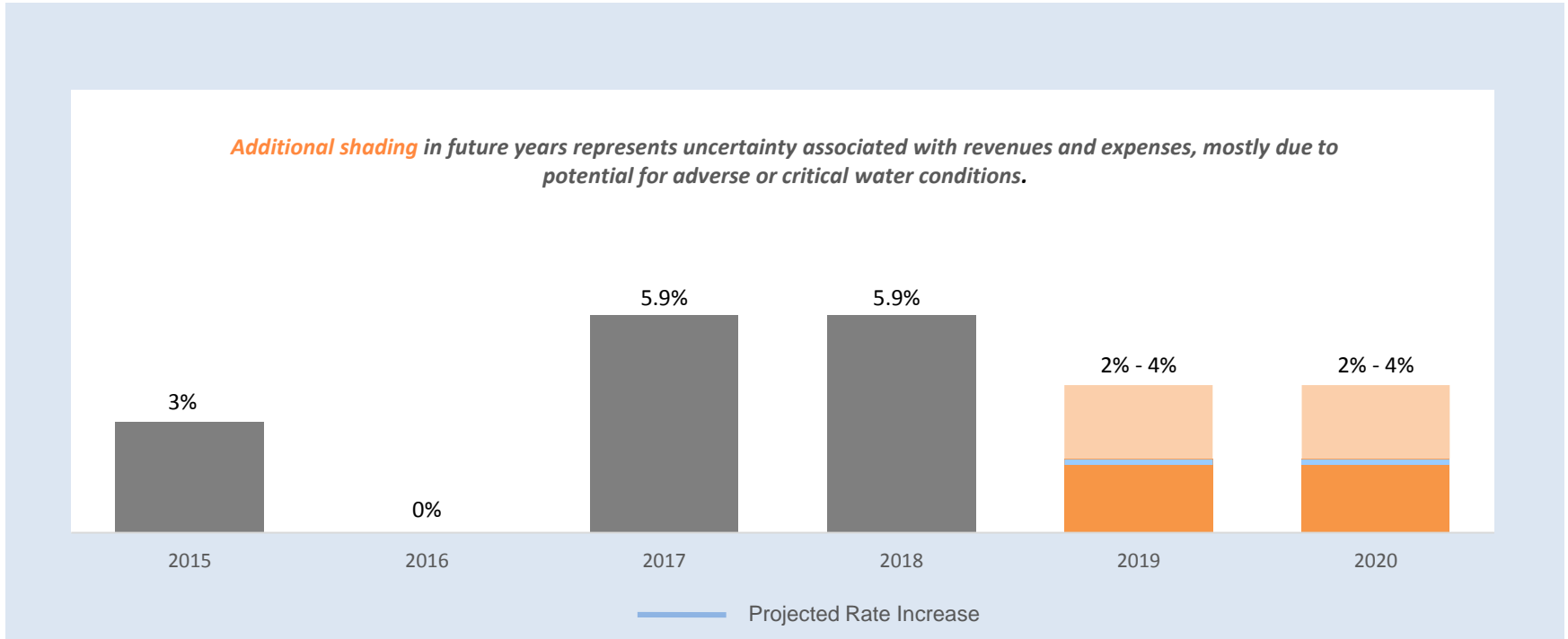


Preliminary Revenue Requirement: \$746.5 Million
Separate from budget, based on historical spend, inflation, and new projects

Objectives:

- **Minimize the rate increase**
- **Reduce the revenue requirement to actual spend projection**

Projected Rate Increases: 2019-2020



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