



TACOMA POWER

TACOMA PUBLIC UTILITIES

LONG-RANGE FINANCIAL PLAN

Rates, Planning & Analysis

May 23, 2018



City of Tacoma

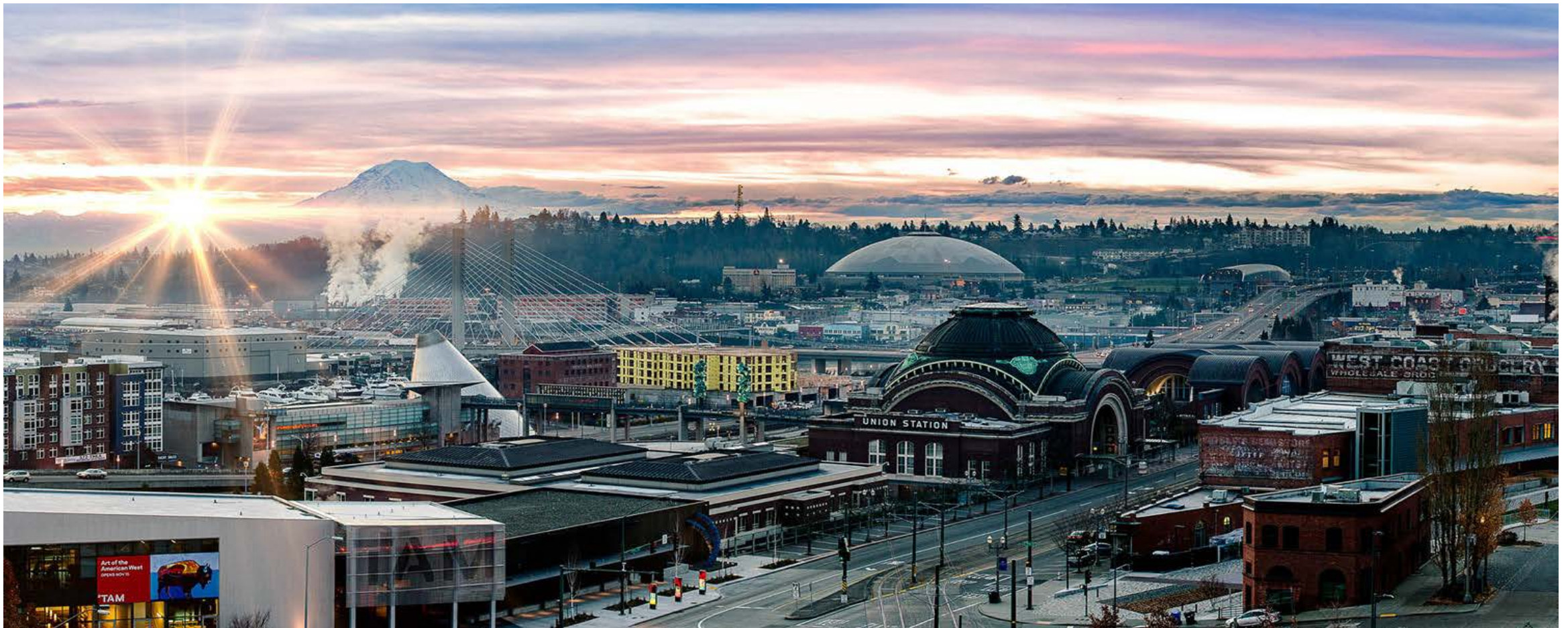
W A S H I N G T O N

The City of Tacoma, Washington (the “City”), Light Division, doing business as Tacoma Power (“Tacoma Power”), is a municipal corporation under the Constitution and laws of the State of Washington. Tacoma Power of the City’s Department of Public Utilities operates the City’s electrical generation, transmission and distribution facilities and its telecommunication system.

A Note Of Caution:

The information included in this Long-Range Financial Plan is limited in scope and does not include all of the information relevant to bonds or notes issued by Tacoma Power, or all of the financial information relevant to Tacoma Power. This Long-Range Financial Plan is provided for information and convenience only, is not a guarantee of results, and is dated and speaks only as of its date. Tacoma Power does not undertake to update, and expressly disclaims any duty to update, this document. Unaudited financial information used in this document, such as for fiscal year 2018, is preliminary and subject to change. This Long-Range Financial Plan makes forward-looking statements by using words such as “project,” “forecast,” “intent,” “may,” “will,” “should,” “expects,” “believes,” “anticipates,” “estimates,” or others. Any forward-looking statement or projection, however, is subject to uncertainties and inevitably some assumptions regarding future trends will not be realized and unanticipated events and circumstances may occur. A variety of risks and uncertainties affecting Tacoma Power’s business and financial results -- such as general economic and business conditions and various other factors that are beyond our control -- could cause actual results to differ materially from the projected results stated in the forward-looking statements in this Long-Range Financial Plan.

Further, this Long-Range Financial Plan is not an offer to sell or a solicitation of an offer to buy Tacoma Power bonds or notes. Any investment decisions regarding Tacoma Power bonds or notes should only be made after a careful review of the complete official statement for those particular bonds or notes. Copies of the official statements related to Tacoma Power’s bonds are available at <http://bit.ly/tpwr-investorinfo>, or www.emma.msrb.org. The information contained in such official statements is dated as of specific dates, speaks only as of those dates, may be out of date due to the passage of time or subsequent events, and may include forward-looking statements. Tacoma Power is not undertaking to update, and expressly disclaims any duty to update, the information.



Welcome!

We wrote this document to help you understand many of the key issues affecting the power industry, power utilities, and the future financial performance of Tacoma Power. The purpose of this Long-Range Financial Plan (LRFP) is to help serve as a guide for maintaining low rates while also preserving the utility's financial strength and flexibility. Our goal is to make financial decisions that allow us to provide safe, reliable, and environmentally responsible electric and telecommunications services now and into the future. Making short-sighted decisions, without considering the long-term implications, can put this goal at risk.

This LRFP is available for our customers, employees, the Public Utility Board, City Council, members of the public, and any stakeholder who is interested in learning a little more about us.

This Long-Range Financial Plan

The LRFP is one element of our annual strategic planning process. It identifies and discusses financial risks and opportunities facing the utility in the next ten years. Once we identify the risks and opportunities, we create financial scenarios and a “base case” scenario of the most likely financial outcome. By creating a base case and potential financial scenarios, we can outline strategies to manage future challenges with the objective of providing the most value for the utility's ratepayers at the lowest possible cost.

The strategic planning process is also guided by our biennial budget, rate design, and specific financial policies and goals that are part of Tacoma Power's Electric Rate and Financial Policy discussed further in this document.



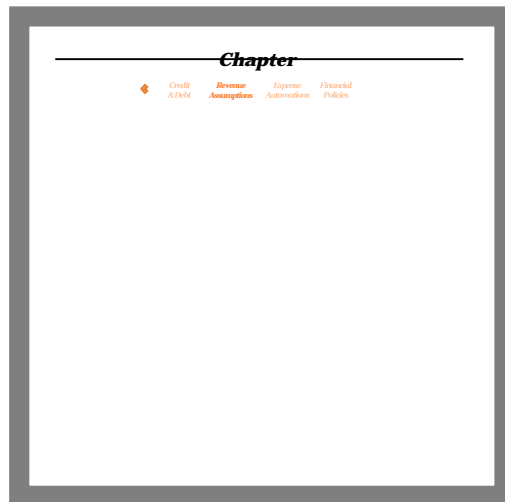
An important factor to keep in mind is this document is for informational purposes only, and is not a guarantee of results. Tacoma Power's financial position and the information (including key assumptions) used throughout the document changes (improves or degrades) every day. Our current forecast for this document goes through 2028, but that does not mean that the projections for each of the years preceding will not have changed by the time you read through it.

For this reason, the LRFP is dynamic and continually changing. We expect to update this LRFP annually and make it available on our website:

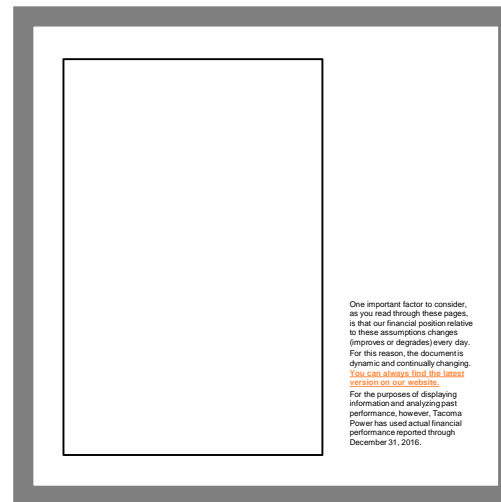
<http://bit.ly/tpwr-lrfp>

For the purposes of displaying information and analyzing past performance, Tacoma Power has used unaudited financial performance reported through March 31, 2018.

Bread Crumb Trail



Glossary Links



How to Use This Document

Use these navigational tools throughout the document to improve your overall experience

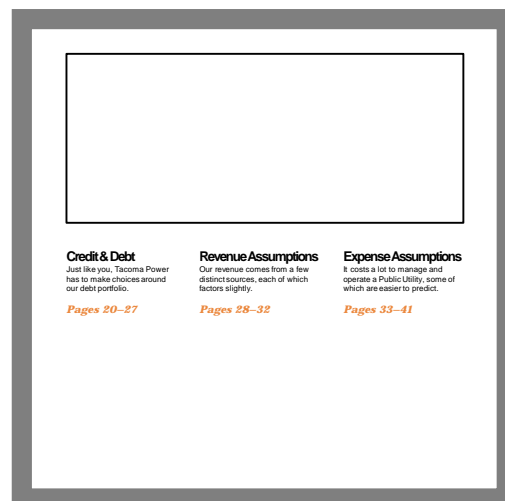
Bread Crumb Trail

Prevents you from getting lost in the document. Click on the chapter headings to jump forward or back, or use the back arrow to return to the top

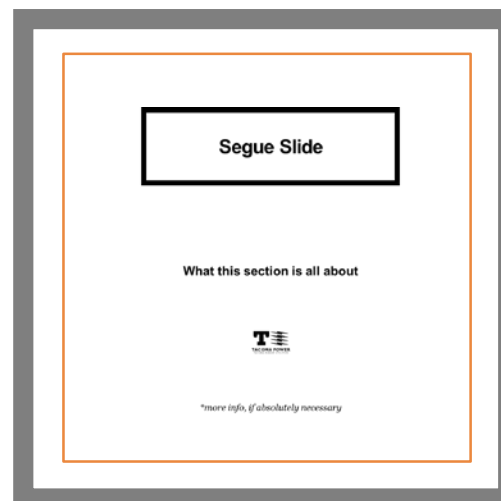
Glossary Links

Gives you quick access to the glossary to help clarify any unfamiliar terms

Jump Markers



Segue Slides



Jump Markers

Hyperlinks that let you jump directly to sections of interest

Segue Slides

Bold chapter dividers that make it easy to scrub through the document to find what you need

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Rate Projections
Financial policies
Reserves
Credit ratings
Historical actions
Opportunities
Risks

If you're reading a digital version, click the links to jump instantly to that section of the document

1. The Highlights

The "executive" version, for people who only need the highlights

Pages 7-18

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Start here if you're new to long-range financial plans

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3. Background

Learn all about the policies, projected revenues and expenses that went into this plan

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The base model against which we analyzed and compared every scenario in the Long-Rang Financial Plan

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The various internal and external factors that impact Tacoma Power

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Section 1 The Highlights

An executive summary of
the 2018 Long-Range Financial Plan



Before you start

The electric utility business is complicated

On the [first page](#) you learned that this document more simply describes a number of complicated subjects. We hope to make them easier to understand and demonstrate their unique relationship to one another. Before we get into any of the details, here is a quick overview of how our business operates.

Our mission is to provide safe, reliable, and environmentally responsible electric and telecommunications services now and into the future.

To fulfill this mission, we sell electric and telecommunications services to customers in the City of Tacoma and Pierce County. Selling these services provides us with revenue. As a cost-of-service utility, we charge our customers based on what it costs to provide the services they need. We generally match our revenues to our expenses when we set budgets. When we collect more revenue in a given year, we use that surplus to reduce the amount collected from customers in future years. We also take proactive steps to account for the risks inherent in our business and develop strategies to plan for the future. This LRFP helps us with that.

Many customers don't know that whenever they turn on a light or plug in an appliance, a generator connected to the electric grid must increase its output to provide the needed electricity. This happens in real-time. Providing these services is a 24-hour a day and 365-day a year business. We don't want our customer's lights to ever go out and if they do, we do everything we can to get the lights back on.

The amount of revenue we will receive each year is uncertain. We can't predict how often you will turn your lights on and off or how much electricity you will use. [Section 3](#) has more detail about how we try to plan for this uncertainty in revenue.

Our customer's power comes from [hydroelectric](#) dams that we operate and maintain, or power we purchase through contracts with other power providers. Almost all of our generators create electricity by passing water through a generator. The water comes from rainfall or snow that melts and drains into reservoirs or lakes behind a dam. Trying to predict how often and when it will rain adds another layer of complexity to our business. See [Section 5](#) for more detail on how we plan for this uncertainty.

In providing power services the utility incurs a number of expenses. These are such things as the staff that work here or the trucks and tools used to maintain the electric system. The electric utility business is [capital](#) intensive. This means we have large assets that are expensive to construct, operate, and maintain. Tacoma Power has over \$1 billion in assets and some have been around for a long time. To fund repairs and replacement, we use a combination of cash and [bonds](#). This allows us to spread the payments over the life of the asset, instead of paying in full, up-front. Receiving the best interest rates when we issue bonds requires us to maintain a certain level of cash and the ability to generate sufficient revenue to cover our expenses. In this LRFP, you will find more about how we manage all of these details and how they impact the rates our customers pay.

Financial metrics

What are financial metrics?

The word "metrics" refers to measurement. Financial metrics are one way to measure how well we are managing our resources. Each financial metric conveys a message about one aspect of the utility from a financial perspective. Metrics can be used to compare performance across utilities, identify strengths or weaknesses, and set targets for financial strength. Tacoma Power primarily looks at the three metrics below when projecting future rate increases and has targets, listed in the chart to the right, for maintaining our financial strength. You can find more detail about them in [Section 4](#).

Tacoma Power Metrics	2013	2014	2015	2016	2017
<i>Days of Liquidity</i> (Target: >180 Days)	312	335	215	236	210
<i>Debt Service Coverage Ratio</i> (Target: >2.0x)	1.88x	1.90x	2.01x	2.31x	2.82x
<i>Debt Ratio</i> (Target: <50%)	39%	37%	29%	26%	29%

Days of Liquidity

Liquidity is another way to describe the amount of operating cash we have available. We measure this by the number of days cash we have available to operate the utility. This helps determine Tacoma Power's ability to cover necessary expenses.

Debt Service Coverage Ratio

The debt service coverage ratio measures how many times we can pay the annual interest and principal payments on our debt, or bonds, with our available cash flow for a given year. We target having at least twice as much cash flow needed to pay our annual debt obligations each year.

Debt Ratio

The debt ratio is the proportion of our assets that are financed by debt, or bonds. The lower the percentage, the lower the amount of [debt service](#) payments we are required to make. This provides us with financial flexibility.

Financial metrics

Why are financial metrics important?

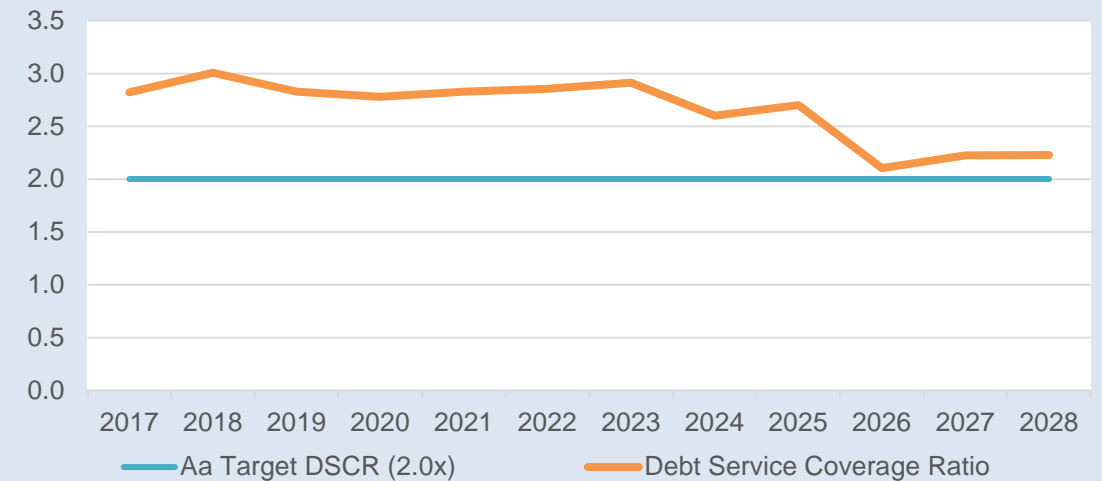
Financial metrics, such as our [debt service coverage ratio](#) and [days liquidity ratio](#) are important because they indicate our ability to meet our financial obligations as a business. Financial metrics are comparable across other utilities and are used by [rating agencies](#) as part of their rating process when they rate us. Some rating agencies have more stringent requirements than others and we adjust our calculations to be better than the minimum levels. We target metrics that keep us in the AA rating category.

We use these ratings when we issue bonds to help pay for capital improvements. Investors buy Tacoma Power bonds and we pay those bonds back over a period of up to 30 years. (See our existing debt repayment profile on [page 46](#).) To get the best interest rates possible when we issue bonds, we must maintain healthy financial metrics. Our credit rating impacts the interest rates paid on borrowed funds. As a result, the better our [credit rating](#) is, the less we will likely pay when we issue debt. Being financially healthy, like we currently are, benefits customers and provides flexibility to address unexpected challenges.

The charts to the right illustrate a possible projection for our future debt service coverage levels and liquidity levels. These are subject to various assumptions, including projections for rate increases, expenses, and revenues which you are explained further in [Section 4](#).

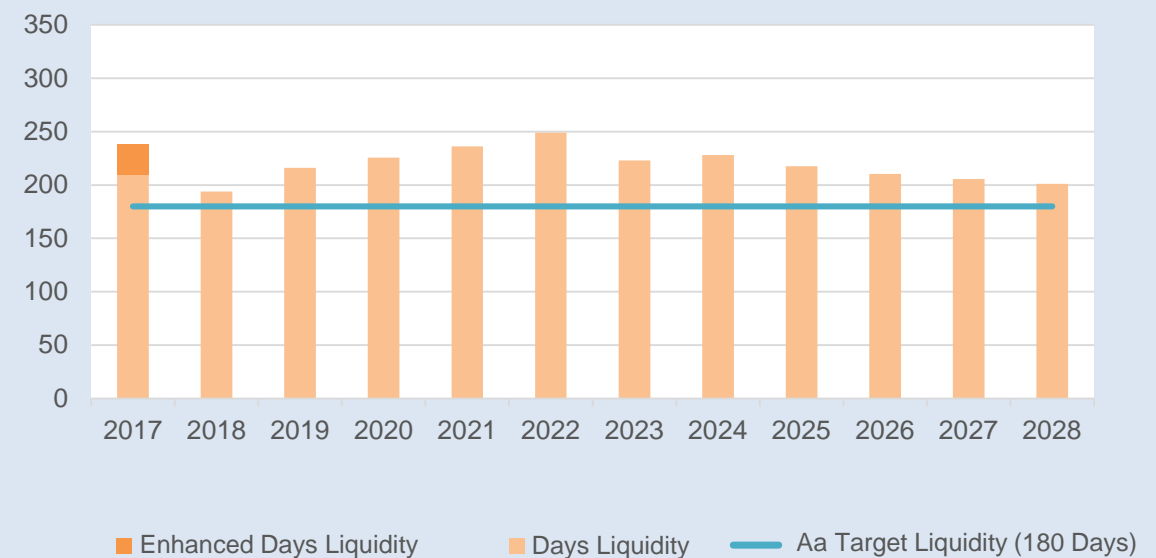
Debt Service Coverage Ratio

Target = 2.0x



Liquidity Projections

Target = 180 Days

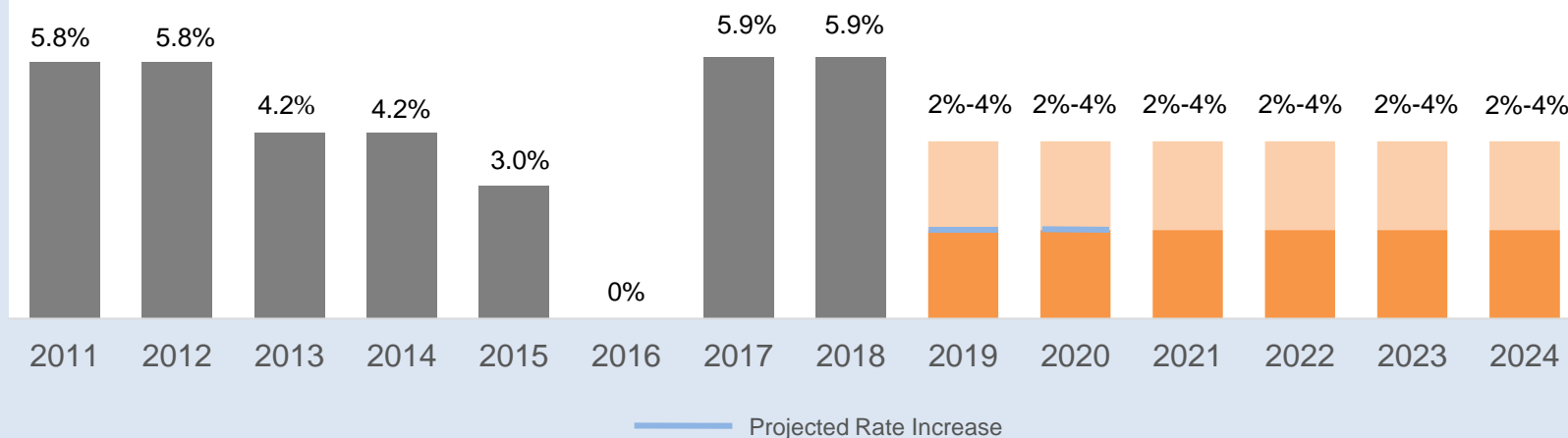


Before explaining anything else, we've put our current projections of rate increases for the next six years here, right up front. This document explains how we came up with these projections.

Historical & Projected 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 further out in time we forecast, the more uncertainty there is. We have modeled some scenarios addressing potential future conditions that may impact us. The results of these scenarios indicate that doing a 0% rate increase in the next biennium would place upward pressure on future rate increases. The results of several scenarios can be found later in the document, in [Section 6](#).

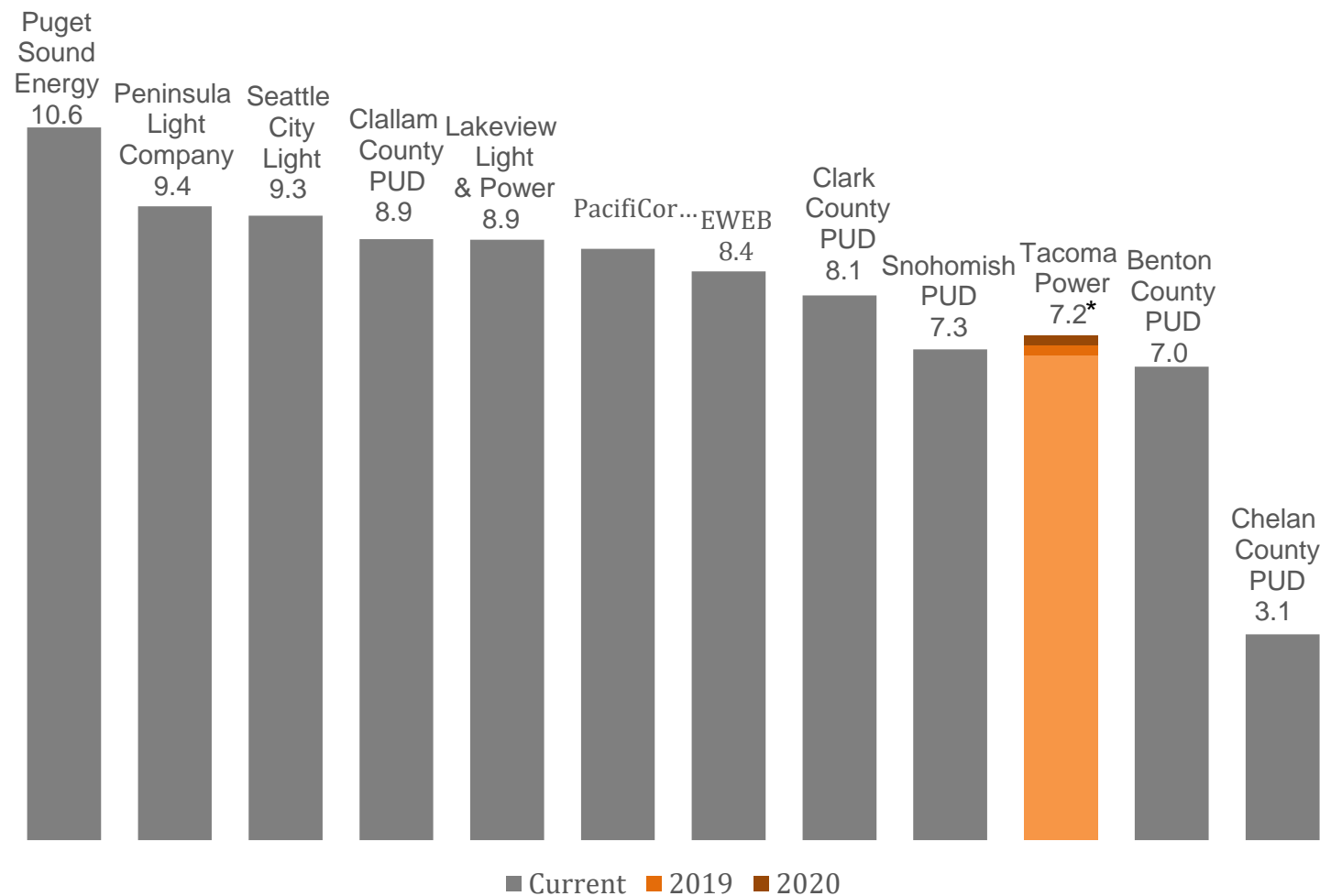
These projections like other parts of this plan will change. Actual rate increases may fall outside of this range and are dependent upon market conditions, financial performance, and the actions we may take in future years. You can read about some of the actions already underway starting on [page 18](#).

* If you are not familiar with any of these terms, there is a [Glossary](#) in the back that defines some of these key concepts

Rates Remain Low and Competitive

How do our rates compare to other power providers in the Northwest?

Comparative System Average Rates (cents/kWh)



* Shaded area is the potential additional cents per kWh from a 2% annual rate increase in 2019 & 2020.

Our rates remain low relative to our peers. This table compares monthly electric rates of major public and private utilities in our region to those of Tacoma Power.

We are a municipal utility that establishes rates only to recover costs, not to create a profit. We set rates with the goal of minimizing rate impacts to customers while maintaining the safety and reliability of the electric system. Tacoma Power has been able to maintain low rates in comparison to state and national averages. Most other utilities face many of the same challenges described in later sections of this document and we expect to remain price competitive in the future. Rates are established by the Public Utility Board and approved by the Tacoma City Council.

Why must rates go up?

Your next logical question might be, “how did you come up with those rate increases?” Or perhaps, “Why would the rates need to go up at all?”

We can’t just point to one factor. Determining what a rate increase needs to be takes a thorough understanding of how the utility works and what it needs to operate successfully.

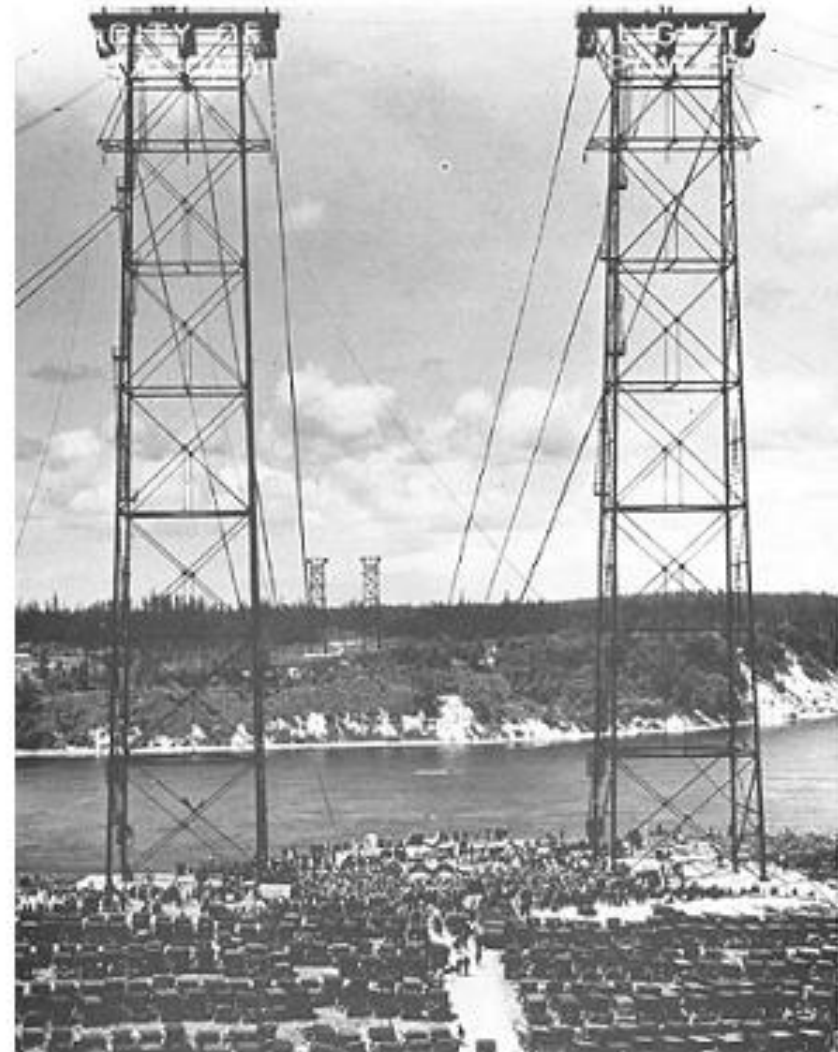
Here are a few of the many factors that impact future rates. These examples and others need to be considered when determining what the rate increases need to be:

Increases in Operating Expenses and Purchased Power Expenses

See [Section 3](#) on the [Background](#) to get a better understanding of these.

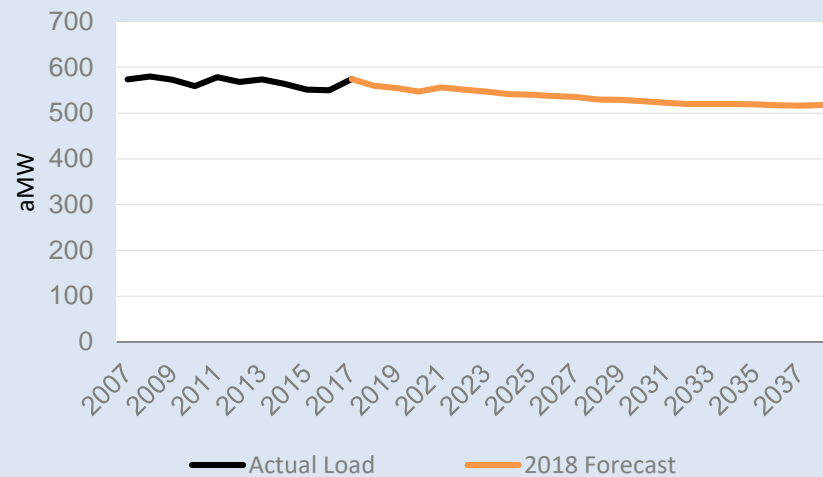
Decreases in Wholesale Revenue due to changing market conditions

See [Section 5](#) on the [Risks](#) to get a better understanding of some of the things affecting our revenue.



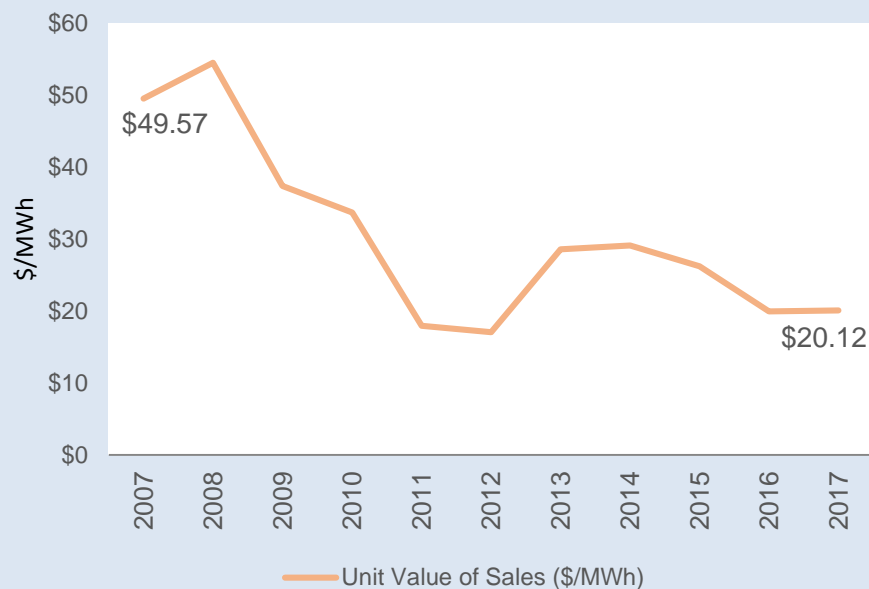
This is a picture of the 1926 commissioning of the transmission lines connecting to our Cushman hydro project. Our utility has operated since 1893 and has a lot of infrastructure to maintain. We maintain and replace our assets with steady capital investments. You can find out more about that those capital investments in [capital expenses of Section 3](#). For determining how we fund capital investments, see [Section 7](#).

Load Forecast with Conservation



*This chart shows a downward projection for our load. **Load** refers to energy consumption. Our system average load is projected to decline at a rate of approximately 0.8% per year.*

Annual Value of Wholesale Electric Sales (\$/MWh)



This chart shows a downward trend in the value for each MWh sold, from \$49.57/MWh in 2007 to \$20.12/MWh in 2017.

Declining Retail and Wholesale Revenue

The charts to the left show two major impacts to our revenue: declining retail and wholesale revenue. (Read more about each of them in the explanation on revenues in [Section 3](#).) The top chart illustrates how our most recent **load forecast** has changed in the last year. We see increases in conservation and declines in customer consumption, driving a decrease in our expectations for overall load.

The bottom chart illustrates the declining value for each MWh of electricity sold in the wholesale electric markets. The more wholesale revenue we have, the more we can reduce future rate increases. There are many drivers for this decline which you can read about in the [Section 5: risk factors](#).

Can we change the projected rate increases?

Managing the future

The cost of electricity in Washington is just about the lowest of any state in the nation. Additionally, our customers have access to clean, renewable, and reliable electric service at a cost lower than many of our local peers (see [page 13](#) and [page 25](#) for a comparison).

Despite the low rates we currently have, we don't feel any better about the projected rate increases than you do. We devote a lot of time and effort into developing and executing strategies to mitigate risk, reduce expenses, and increase revenues.

The data in this LRFP feeds directly into Tacoma Power's Strategic Plan. The picture on the right is our Strategy Map – a high level summary of our Strategic Plan. In that plan, we are working on executing strategies we believe will help us reduce future rate increases. A few of the objectives that directly relate to these strategies are Optimize Wholesale Revenue and Maintain Our Financial Strength.



Active Debt Management

Managing Debt Service has produced significant savings

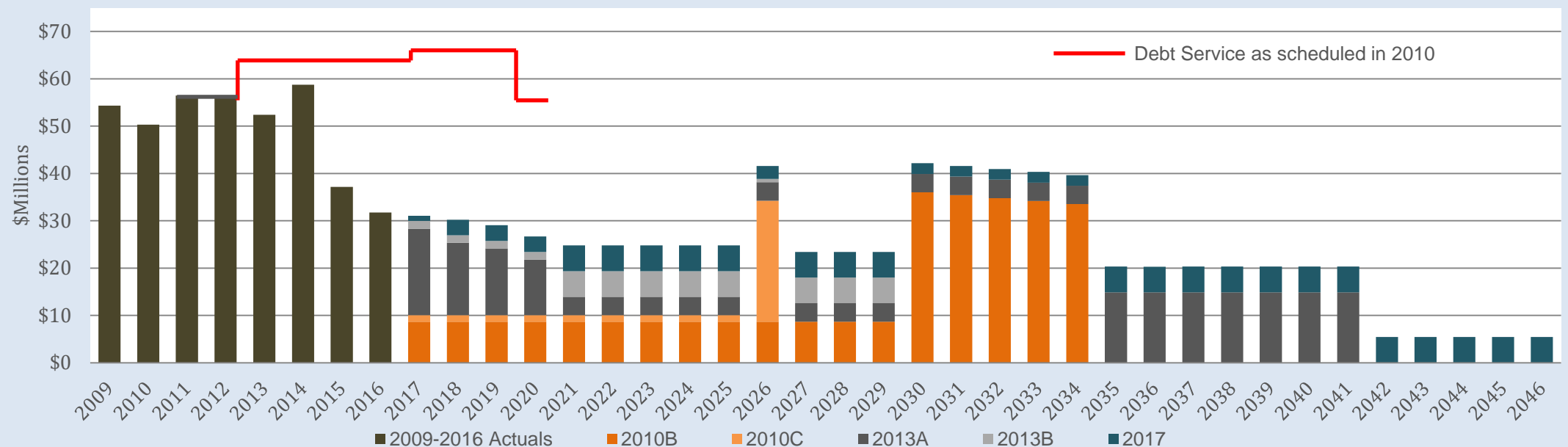
Tacoma Power sells bonds to help fund capital improvements. Much like a home mortgage, we can structure this debt to pay it back over 30 years or other intervals. You can see from our existing profile below that bonds we have issued in different years has been structured in different ways. We actively manage this debt profile and have made a number of changes since 2009.

Between 2009 and 2013, Tacoma Power [defeased](#) \$79 million and refunded \$137 million in outstanding bonds. In 2015,

Tacoma Power used \$122 million in cash to call the 2005B Bonds. You can read more about this on [page 48](#). In fact, in 2010 our debt service payment in 2018 was projected to be over \$66 million. After the many changes we have implemented in the last few years, our debt service payments this year will be less than \$31 million.

This represents significant savings for Tacoma Power's customers. In 2016, we were able to not have a rate increase at all and this is largely because of the reduced debt service payments.

Historical and Scheduled Debt Service



Actions

The Strategic Plan mentioned previously includes initiatives to manage expenses, such as our Strategic Asset Management Initiative and our Capital Project Portfolio Management Office Initiative.

Other initiatives, such as our Managing Rates Initiative and the Concurrent Consideration of Budget and Rates, are things we are doing now to find efficiencies and improve our processes. A brief summary of these and other actions we can take to minimize future rate increases are provided to the right and in more detail in [Section 8: Making it Happen](#).

Managing Rates Initiative *(in progress)*

Tacoma Power's Rates, Planning, and Analysis group has established a process to meet with every section and identify a list of cost savings or revenue enhancement initiatives the utility can implement. The list of opportunities will be prioritized and executed according to a developed timeline.

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Concurrent Consideration and Approval of Budget and Rates *(in progress)*

Tacoma Power will develop a new process for the concurrent adoption of rates and the 2019/2020 budget. Our previous process involved adoption of a budget first, and then receiving approval of the rates to support the budget at a later date. There are many steps involved in the budget and rates approval process that will need to be adjusted moving forward.

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Strategic Asset Management *(in progress)*

Tacoma Power is launching a strategic asset management program to lower the overall cost of managing our physical infrastructure. The objective is data driven and risk-based asset spending decisions with a focus on whole life cost planning. The results of the program include optimized maintenance programs and infrastructure replacement plans developed with objective, repeatable analysis. The strategic asset management program will provide input for both O&M and Capital spending programs. We expect the Asset Management Program will help reduce the size of our Capital budgets and future O&M.

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Capital Portfolio Management Office *(in progress)*

The development of a Capital Project Portfolio Management Office will provide utility project managers with centralized data and common tools regarding capital projects. We will use common project management techniques to facilitate more informed decision making at Tacoma Power.

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Section 2

LRFPs for Beginners

A simple guide to long-range financial plans,
why they're important, and how they work



The Basics

Why an LRFP?

A Long-Range Financial Plan (LRFP) is an important document used by businesses to guide their decision-making over a span of multiple years. It helps keep the business aligned with its broader goals and helps prepare for future impacts.

This LRFP influences budget planning, investments, and other aspects of financial strategy. It's also an important tool for communicating these decisions to stakeholders, customers, and other groups.

We have used the preparation of this document as a tool to conduct research and analysis and develop potential scenarios that may affect our business. We use what we learn from that analysis to improve business decisions.

It is our intention to use the LRFP as a key input in our Rate and Budget review and approval process. We plan to update this LRFP annually and share with policy makers and the public.

What goes in an LRFP?

A long-range financial plan typically includes:



**Research
and trends**



**Strategic
planning**



**Decision-
making
tools**

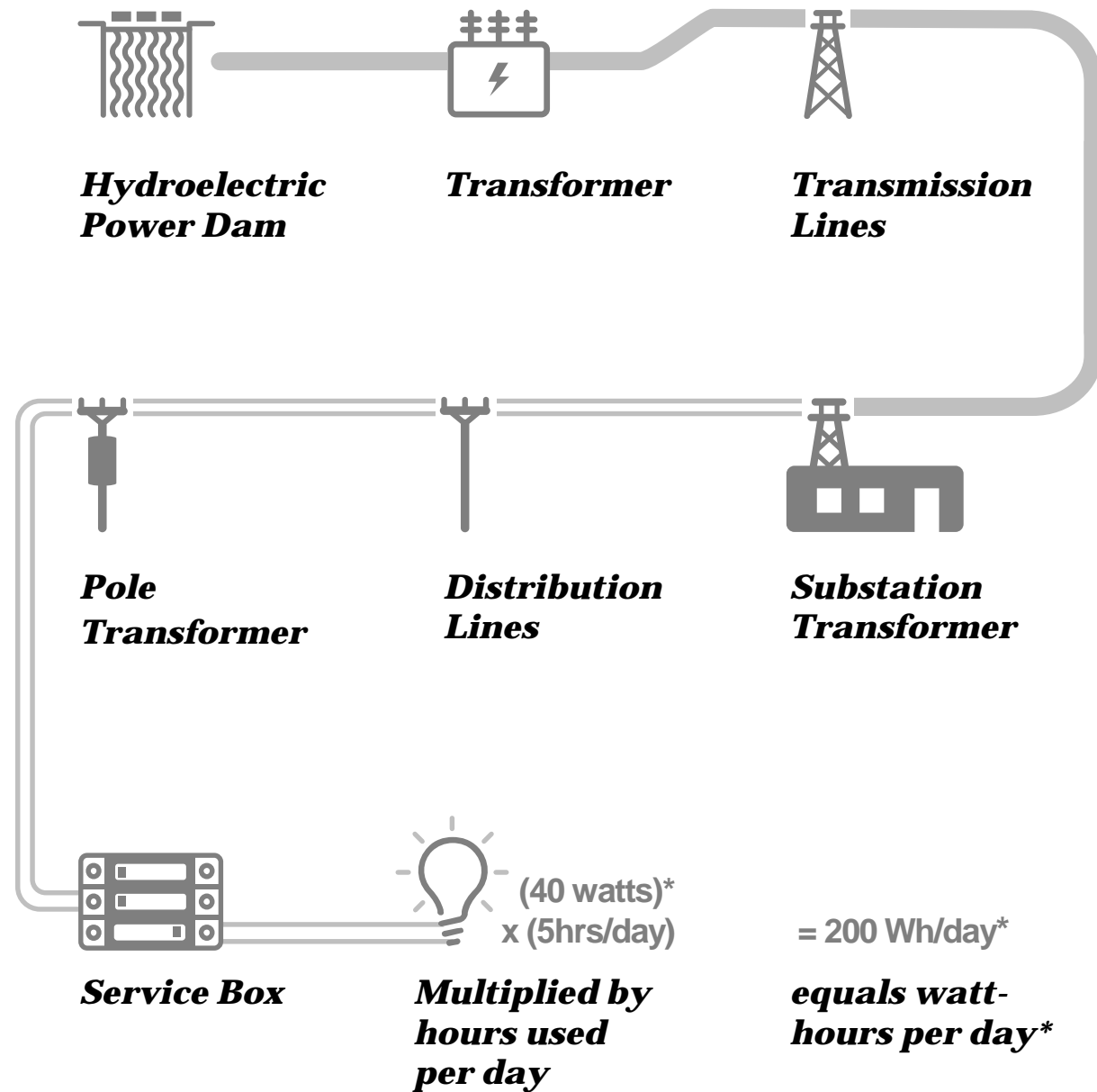


**Action
steps**

How does electricity work?

What happens when I flip on my light switch?

Electricity is delivered to the circuit, supplying power to various devices.



How do you measure electricity?

The math to determine your watt-hour usage is very simple.

*We usually measure electricity in kilowatt-hours (kWh) which is the same as one thousand watt-hours. On an annual basis this may turn into megawatt-hours (MWh) or one million watt-hours. An average residential customer uses approximately 958 kWh a month.

Who exactly is Tacoma Power?

What kind of company is Tacoma Power?

Actually, Tacoma Power is not a company in the legal sense. Tacoma Power was established in 1893 when the citizens of Tacoma voted to buy the privately owned Tacoma Light & Water Company. Local citizens believed public ownership and local control would provide a higher quality of service. Tacoma Power is a city-owned department that provides electricity to approximately 179,000 customers in the City of Tacoma and surrounding area, including the local military base.

What's the difference between a Public Utility and an Investor-owned Utility?

Publicly owned utilities are “non-profit” utilities managed by locally elected officials and public employees. Their rates are set to recover costs and not to return a specific profit margin. Investor-owned utilities are privately owned by investors, and set rates to recover costs plus a reasonable return to be earned by their investors.

Who Runs Tacoma Power?

Tacoma Power is the light division of Tacoma Public Utilities (TPU) and is governed by a five-member [Public Utility Board](#). The Tacoma City Council appoints the volunteer board members and they serve staggered five-year terms, unpaid. Board meetings and discussions are open to the public for comment and televised live on TV. The City Council has final authority over Tacoma Power's budgets, rates, financing, and other matters.

Who is responsible for the day-to-day operations?

The Board and Council appoint the Director of Utilities as the Chief Executive Officer to oversee the operations of Tacoma Public Utilities including Tacoma Power, Tacoma Water, and Tacoma Rail. Jackie Flowers was appointed TPU Director effective August 1, 2018. In 2015, Chris Robinson was appointed as the Superintendent and Chief Operating Officer of Tacoma Power. He oversees the day-to-day operations of Tacoma Power with a seven-member Senior Leadership Team.

Supporting our customers

How much electricity does Tacoma Power produce in a day?

Average use per household is 11 [megawatt-hours](#) per year. For all customers, Tacoma Power produces approximately 4.7 million megawatt-hours per year. Our power supply is 90 percent hydroelectric power. 40 percent of our power supply is provided by our own hydroelectric power facilities. The remaining power supply is purchased through long-term contracts with other power supply companies, such as the Bonneville Power Administration.

What programs are available for people ready to conserve or reduce electricity use?

Tacoma Power offers programs for conservation and customer-owned electricity generated by [renewable resources](#), such as solar and wind. Customers with eligible generation systems may receive up to \$5,000 annually. In addition to this financial incentive, annual electricity production from the renewable energy system would offset electricity the customer would otherwise purchase from the utility, lowering their electricity bill. You can find out more about our conservation programs at knowyourpower.com

How does Tacoma Power support low-income customers?

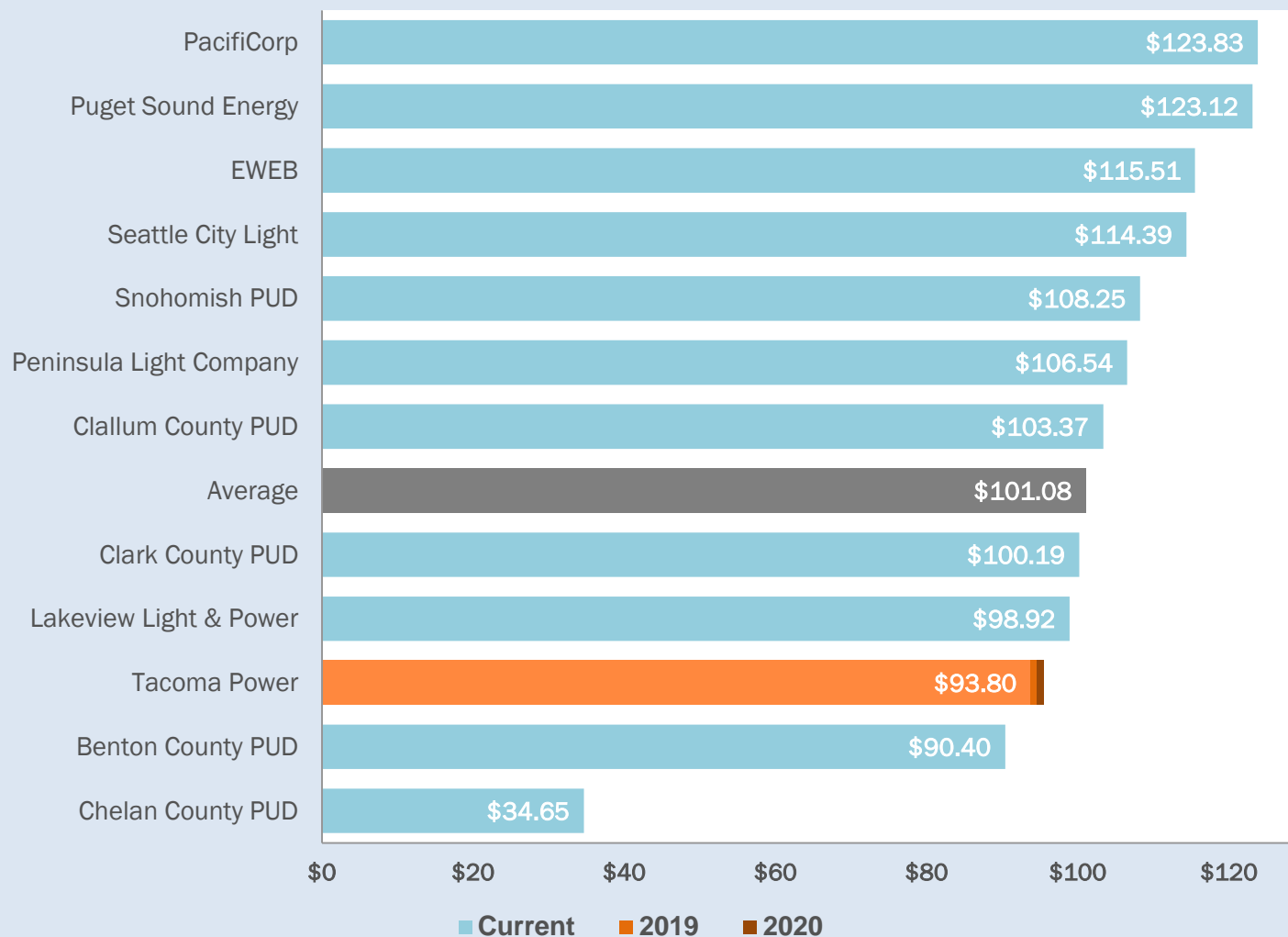
Tacoma Power offers financial assistance programs to low-income customers that live in a home with permanent electric heat. Qualifying low-income customers can receive up to a 30 percent discount on their power bill. You can find out more about our bill payment assistance programs at <http://bit.ly/tpwr-billassist>

How does Tacoma Power support the surrounding community?

The utility supports more than 40 annual giving and volunteering opportunities for employees. We help with the most pressing community needs by building houses, repacking food, and helping seniors stay safe, warm and dry in the homes they own. The volunteer program promotes a highly engaged workforce by developing employees' leadership skills and awareness of the community. See more on our community involvement page: <http://bit.ly/tpwr-community>

How is my electric bill determined?

Residential Electric Bill Comparison



Assumptions: Average Price per kWh, adjusted for Tacoma Power Average Consumption

How are rates set?

Rates are set to cover all operating and maintenance expenses, debt service, taxes, and a portion of capital additions and improvements made to the Electric System. Tacoma Power recommends rate adjustments with a goal of minimizing impacts to customers while maintaining the safety and reliability of the power system.

How often are rates updated?

Rate forecasts are updated every other year when the City of Tacoma prepares the biennial budget. Budget-setting is a year-long process. It includes things like reviewing and projecting revenues, prioritizing expenses, and identifying ways to operate as efficiently as possible.

Who approves the rate increase?

The Tacoma Public Utility Board sets the electric rates for Tacoma Power, subject to final approval by the Tacoma City Council.

What about the actual bill?

Clearly labeled bill information

**Address(es)
served on
this account**

**Summary of
charges from
Tacoma Public
Utilities**

**Summary of
charges from
Environmental
Services (Tacoma
residents)**

**The Warm
Home Fund is
an easy way
to donate to
people in need**

TACOMA PUBLIC UTILITIES
MyTPU.org/MyAccount
(253) 502-8600
3628 S. 35th St. | Tacoma, WA 98409

Account # 123456789
Amount Due \$443.93
Due Date 9/12/16

EDGAR ALLAN DOE
For service address: 123 Amity Ave. | Tacoma, WA 98409

Billing period – Jun. 24 to Aug. 23
(60 days)

Electricity	\$161.13
Average cost per day \$2.68	
Drinking water	\$79.24
Average cost per day \$1.32	
Environmental Services	
Wastewater	\$93.48
Average cost per day \$1.56	
Solid waste & recycling	\$61.14
Average cost per day \$1.02	
Surface water	\$48.94
Average cost per day \$0.82	
Total Current Charges	\$443.93

Previous Amount Due \$484.96
Payments -\$484.96
Balance \$0.00

Current Charges Due 9/12/16 \$443.93
Amount Due \$443.93

What do you think of the new design?
Whether you love it or hate it, we want to know what you think about your redesigned utility bill. Please visit MyTPU.org/Billsurvey to share your thoughts.

Take action
Log on to: MyTPU.org/MyAccount to update your phone number.
Current information will help us provide better service during power outages and other events.

Pay online at MyTPU.org/MyAccount
or make check payable to City of Tacoma and mail to:
P.O. Box 11010 • Tacoma, WA 98411-1010

Account # 123456789
Amount Due \$443.93
Due Date 9/12/16

Amount Paid \$

Check if your payment includes a donation to the low-income assistance program. Thank you!

Amount \$

EDGAR ALLAN DOE
123 AMITY AVE
TACOMA WA 98409

Sample bill

**Easy-to-
read billing
summary**

**Account
updates and
important
notifications**

**Detachable
stub for you to
easily mail
your payment**

Do all customers pay the same amount?

There are different customer types and ways in which the customers use the Tacoma Power system. The majority of our customers are considered residential customers, but there are also small commercial, large commercial, high voltage, and industrial customers too. Each type of customer pays a different amount based on how much it costs the City to make and deliver electricity to where those customers receive it.

What's really driving our costs?

Electricity prices generally reflect the costs to build, generate, purchase, finance, maintain, and safely operate the electricity grid. Tacoma Power has been able to maintain low rates in comparison to state and national averages, while at the same time covering all operating and maintenance expenses, and providing reliable services that customers want and need.

Credit: How does it work for Tacoma Power?

Maintaining an electrical system is expensive and comes with high capital costs. Utilities fund these systems, in part, by selling [bonds](#) to individual and institutional investors. In order to evaluate the value of these bonds, investors look to credit rating agencies like Moody's Investors Service, S&P Global Ratings (S&P), and Fitch Ratings for analysis.

Similar to how the [credit rating](#) agencies provide a credit rating used by lenders when you buy a car or house, each of these rating agencies has its own methodology, process, and scale for rating a utility like Tacoma Power. The rating agencies consider historical and projected financial performance, but their analysis goes beyond financial information and into items like economic indicators, reserve funds, power supply contracts, and management decisions. You can find out more about all of these things in the later details of this document.

Moody's has published information about their rating methodology which you can read more about on [page 45](#).

Rating agencies are interested in different things

	Moody's*	S&P	Fitch
<i>Investment Grade</i>	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-
<i>Non-Investment Grade Speculative</i>	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
		D	DD
			D

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.



Section 3 Background

**A look at the history, trends, research, policies,
and other factors that went into this Financial Plan**





The Foundation

These are the sections that are the backbone of the LRFP's integrity.

We've grouped them into three sub-sections:

Expense Assumptions

It costs a lot to manage and operate a utility. Some of those expenses are easier to predict and manage than others.

Pages 32–39

Revenue Assumptions

Our revenue comes from a few distinct sources. Each of these factor into our financial planning in slightly different ways.

Pages 40–44

Credit, Debt, & Reserves

Just like you, Tacoma Power has to make choices about how to manage its debt in order to maintain a strong credit rating.

Pages 45–54

Tacoma Power Expense Overview

Purchased Power and Renewable Energy Credits

Approximately 60% of Tacoma Power's electricity comes from power that we purchase from others. Most of this is through a long-term contract with the Bonneville Power Administration. We also purchase Renewable Energy Credits (RECs) to help comply with the Energy Independence Act on [page 70](#).

Personnel

Personnel costs include more than just the wages for our employees. These costs also include medical, benefits, and increases in wages.

Capital

Capital projects are funded by a combination of bonds and available revenue. Each biennium, the utility determines the appropriate amount to fund from each source.

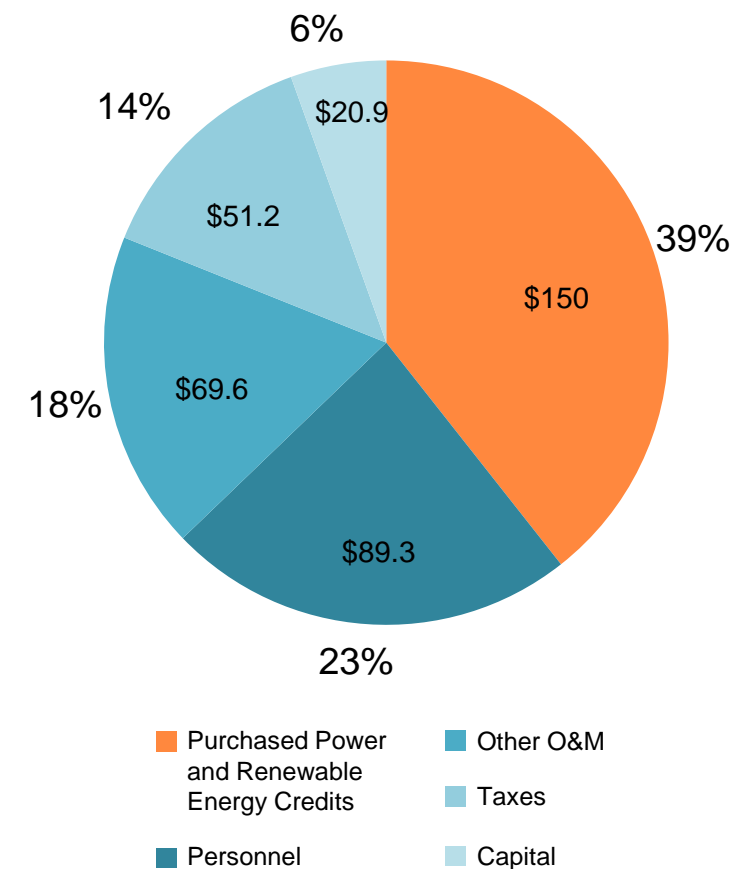
Taxes

Tacoma Power is subject to a 7.5% City Gross Earnings Tax and a 3.873% State Public Utility Tax.

Other O&M

The majority of remaining expenditures are captured in Other Operations and Maintenance costs. This includes things like office supplies, safety equipment, legal and professional service contracts, allocations to general government, non-capital project expenses, and administrative costs not directly attributed to personnel.

% Expenses by Type
(FY 2017, \$M)





Purchased Power and Renewable Energy Credits

Tacoma Power purchases a portion of the power needed to serve our customers through [Power Purchase Agreements](#). Each agreement has different terms and conditions that determine things such as the length of the agreement and the cost associated with it. The largest of these agreements is with Bonneville Power Administration (BPA) and does not expire until 2028. BPA has a formal rate case process every two years to determine the costs its customers will pay.

Another large portion of expenses in this category are transmission purchases. Tacoma Power has contracts that allow for the transfer of power through high-voltage transmission lines to Tacoma Power customers. These purchases also support our ability to buy and sell wholesale power.

Similar to the Power Purchase Agreements, the transmission contracts have different terms and conditions that determine things such as the length of the agreement and the costs associated with them.

Finally, Tacoma Power purchases Renewable Energy Credits (RECs) as a means of helping to comply with Washington State's [Renewable Portfolio Standard](#) and supporting the development of new renewables, such as wind or solar power, in the region. Tacoma Power needs to supply 9% of its [load](#) from qualified renewable sources in 2017. Our current compliance with this requirement is detailed on [page 70](#).

Power Purchase and REC Expense Components	% of Expenses in 2017
BPA Contract Purchases	79%
Priest Rapids Contract	0%
Columbia Basin Hydro	4%
Portfolio Purchases	5%
Transmission	11%
Renewable Energy Credits	1%

*Overview of
Tacoma Power's
power purchase
agreements*

**2017 Purchased Power
and REC Expenses** **\$149,995,334**

Personnel Expenses

With more than 179,000 customers across more than 180 square miles of service area, Tacoma Power requires a significant investment in staff and resources to make sure our customers will have low-cost, reliable electric services for years to come.

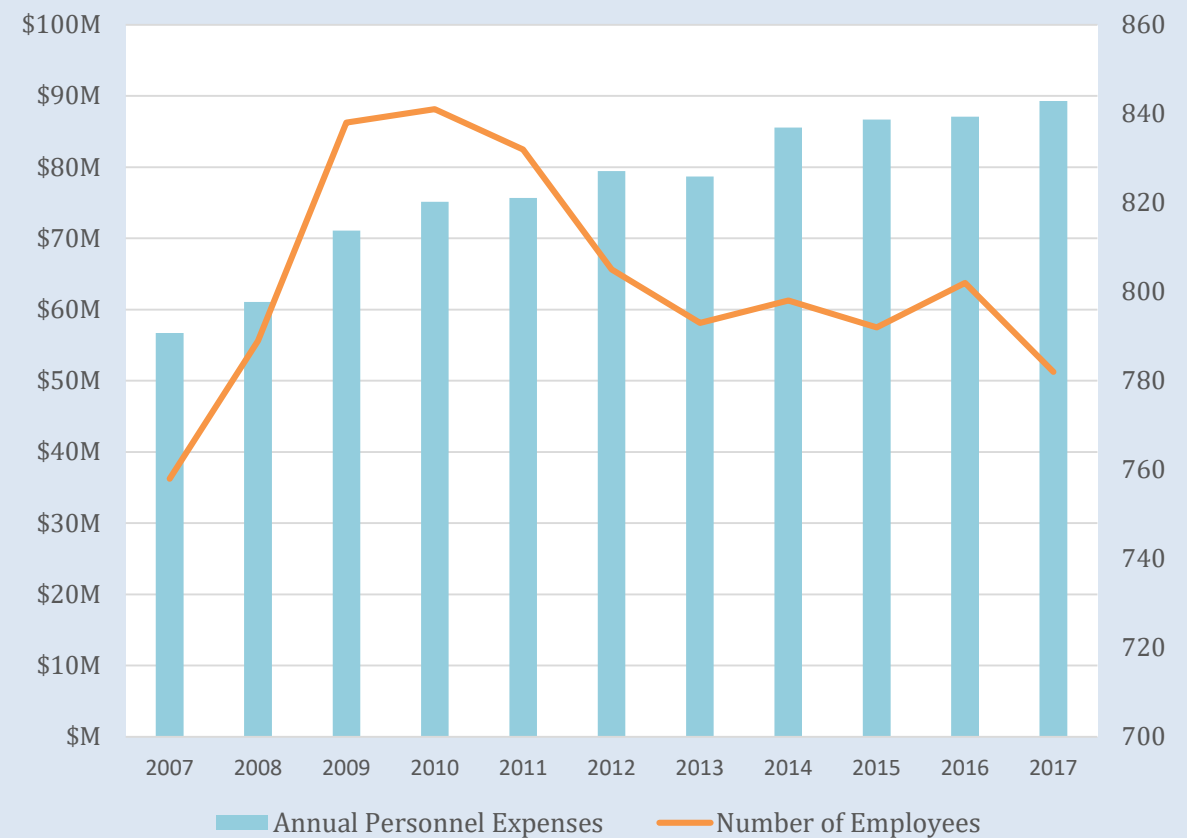
Currently we have approximately 814 employees. The number of full-time staff positions changes depending on the needs of the utility. In a given year, our plans to complete specific projects (or even the priority of those projects) can change from previous years. Our needs may even change depending on the season of the year. For example, we hire several temporary workers in the summer months to help operate our park facilities.

In this LRFP, we have forecast personnel expenses using the last five years as a proxy for future trends. This includes more than just salary. We also consider such things as increasing medical and benefit expenses, changing labor contract requirements, as well as anticipated wage increases for employees.

Over the last five years, personnel expenses have increased an average of 2.4% per year.

Annual Personnel Expenses

2017 Personnel Expenses: 87,102,103





Capital Expenses are a large part of our annual budget.

Construction projects are capitalized (recorded as an asset on our balance sheet) when we place that asset in service. These assets have a defined benefit in future years and depreciate over time. For example, when a new power pole is placed in service, it is expected to be there for 40 years or more. When the asset is capitalized, the benefits are spread out over the 40-year life of that asset. Tacoma Power has over \$1 billion in assets and having been around since 1893, we have quite a few aging assets that must be repaired or replaced.

Capital Expenses include such things as:

Buildings

Technology

Infrastructure



Capital Expenses, cont.

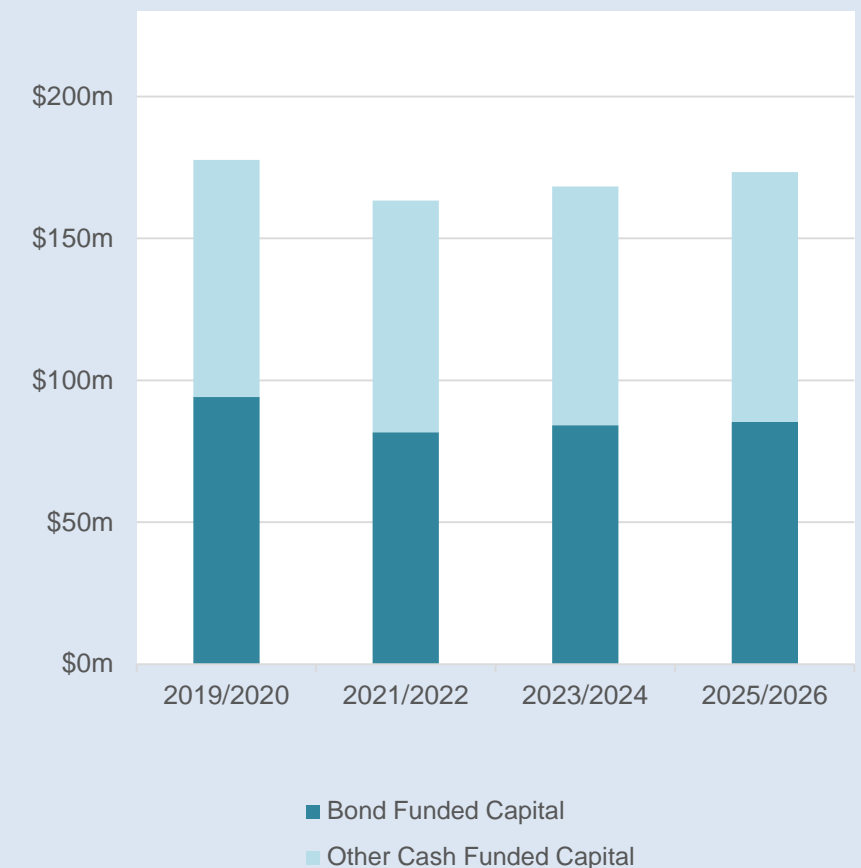
Tacoma Power's fish facilities are a good example of capital projects in the last biennium. To help meet the licensing requirements for owning and operating our hydroelectric dams, we built two new fish hatcheries near the Cushman hydroelectric facility. In fact, we have several restoration or habitat improvement projects that have either just been completed or are in process at each of our facilities.

A portion of our capital assets are in a special class referred to as [Additions and Replacements](#) (A&R). These are items necessary for the ongoing upkeep and maintenance of existing assets. An example of an A&R would be to replace a power pole that has reached the end of its life.

Most major projects are funded with long-term bonds, while assets with a shorter life or recurring additions and replacements are typically funded with revenue from Tacoma Power's cash fund. The graph to the right shows our current projections for capital expenses in the future. See [Section 7](#) for more detail on how we make this determination.

Each year, we forecast our ten-year capital plan by analyzing current and future projects that we're likely to pursue. The actual capital budget in each biennium is reviewed and projects are ranked by priority through the work of a [Capital Steering Committee](#) (CSC). The CSC meets regularly to review progress on capital projects, discuss new capital projects and determine the best way to fund these projects.

Current planned capital improvements





Preliminary Capital Expenses for 2019–2020

There are over 100 projects in our portfolio of capital improvements for the 2019 / 2020 biennium. This is typically referred to as our [Capital Improvement Program \(CIP\)](#).

Current projects in the program include:

Fish Facility Improvements

Dam Seismic Upgrades

Aging Transmission Tower Replacements

Energy Management System Upgrade

Technology Upgrades

The following table is an overview of all of the projects submitted for the 2019/2020 biennium.

Project Type	Estimated Cost	Project Focus Description
Regulatory Projects	\$14,713,000	Federal & State mandates including FERC, NERC/WECC and I-937. Projects include Dam safety related to seismic upgrades, Energy Conservation program, and compliance with environmental regulations for disposal of spoils
Natural Resources	\$7,447,000	Construction of fish collection and passage systems to establish and support fish runs upstream of the Hydroelectric dams as required by FERC
Prevent Asset Failure	\$7,336,000	Hydro facility and equipment maintenance and Transmission & Distribution structures and equipment replacement
Prevent Asset Failure and Asset Upgrades	\$27,492,000	Modernization and improvement of equipment to prevent failure and meet current needs
System Reliability and Upgrades	\$9,587,000	Upgrade and redesign of the Distribution system, Transmission system, and Substation facilities
Technology Projects	\$16,729,000	Upgrade of existing technology tools and platforms, and development and installation of new technology systems
Additions and Replacements	\$54,665,000	Ongoing replacement of infrastructure necessary for the operation of power system
Other	\$11,754,000	Facility improvements, service division projects and unanticipated capital
Total	\$149,723,000	



Other Operations & Maintenance Expenses

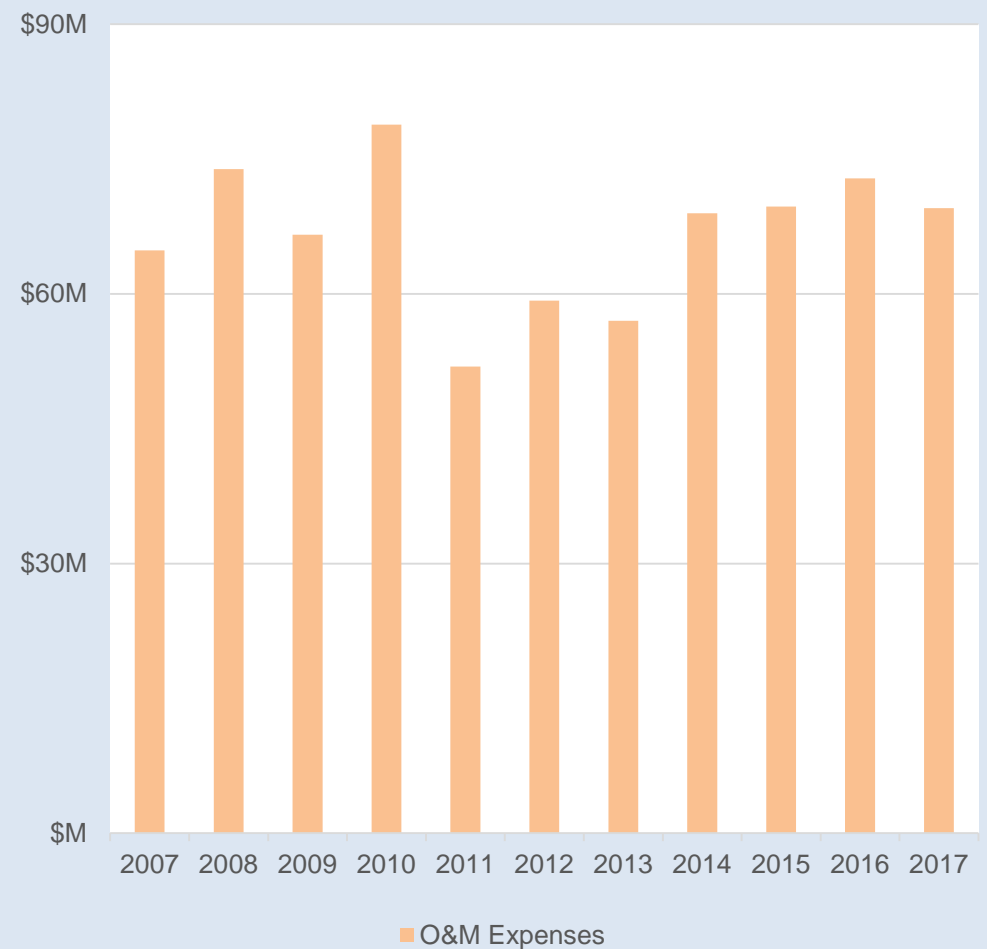
Another expense category is Other Operations and Maintenance expenses (OO&M) which are funds used to cover the continual operations of Tacoma Power. OO&M expense examples include professional service contracts, legal fees, office supplies, and non-capital project expenses.

OO&M varies from year-to-year and is influenced by the type of projects we pursue. Some projects rely heavily on the assistance of outside organizations while others can be accomplished with current staff. Some projects are considered capital projects, funded by issuing bonds that are paid back with future dollars. Other projects rely solely on OO&M expenses to be completed using current funds, or cash.

Over the last five years, personnel expenses have increased an average of 3.7% per year.

Annual Other O&M

Other O&M Expenses 2017: \$69,551,268





Taxes

Yes, we have to pay taxes too. There are two primary taxes Tacoma Power pays. The first is called Gross Earnings Tax, and the current rate is 7.5% of the utility's gross earnings. We pay this tax to the City of Tacoma and it is approximately \$30 million per year. The amount changes up or down depending on how much revenue Tacoma Power earns each year.

The Gross Earnings Tax is a source of revenue for the City of Tacoma to help the City maintain infrastructure and provide services critical to the quality of life, health, and safety of

residents. An increase of 1.5% was approved by voters in 2015. That additional 1.5% will help the City of Tacoma to make needed street repairs around the City.

Secondly, Tacoma Power is subject to a State Public Utility Tax of 3.873%. This is approximately \$18 million per year.

Since our customers pay 100% of our costs, taxes are also a part of the rates we charge.





Tacoma Power Revenue Sources

Retail Rates

The vast majority of Tacoma Power's revenue comes from the retail rates we charge our customers, which are based on different rate classes. Revisions and updates to rates and rate classes are approved by the Public Utility Board and Tacoma City Council.

Click! Network

Click! Network's cable and broadband services produce revenue that help offset telecommunication expenses each year.

Other Revenues

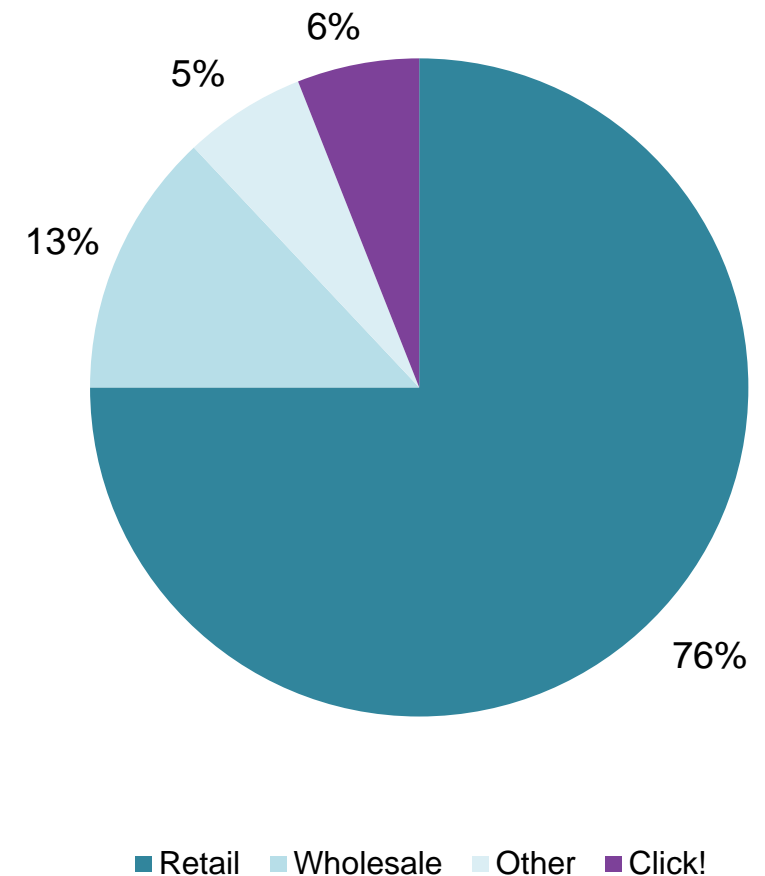
Revenue received from all other Tacoma Power operations includes such things as parks and camping fees, service fees, electric property rental fees, and wholesale transmission sales.

Wholesale Revenue

We also generate revenue by selling surplus energy into the wholesale electric market. The amount we receive for these sales depends upon the time and quantity of energy sold as well as the market price of electricity. Similar to how the price of other commodities like natural gas, oil, or gold move up and down, the price for electricity changes constantly.

These variations can result in significant differences in the amount of wholesale revenue received each year. We explain some of the things that affect the market price for electricity in the [risks section](#).

% Revenue by Source
(FY 2017)





Customer Classes:

Different Customers Need Different Types of Services

Tacoma Power is a “[cost of service](#)” utility, which means that we charge our customers for what is needed to maintain, operate, and deliver electric services to where our customers need them. Staff performs a [Cost of Service Analysis](#) to determine the appropriate portion of revenue to recover from each customer class based on the types of services and infrastructure needed to deliver power to them.

Approximately seventy-five percent of our revenue comes from retail sales, and these consist of several different [customer classes](#). These classes allow for a general allocation of the appropriate costs based on the different service needs of each customer type. For example, the electric services needed to operate a traffic light are very different than the needs of Joint Base Lewis-McChord or a residential customer. Another example is how our industrial customers do not use the distribution portion of our electric system so their rates do not include the costs to operate and maintain this portion of our system. Each customer rate class has different rate structures and methods to calculate the monthly bill.

Customer Classes	% of 2017 Retail Revenue
Residential	49.1%
Small General	8.5%
General	29.4%
High Voltage General	5.7%
Contact Industrial	6.5%
Street and Traffic Lighting	0.4%
Private Off-Street Lighting	0.4%
2017 Total Retail Sales	\$342,455,128

This table illustrates the percentage of total retail revenue contributed by each customer class for retail revenues in 2017.

Forecasting Retail Growth

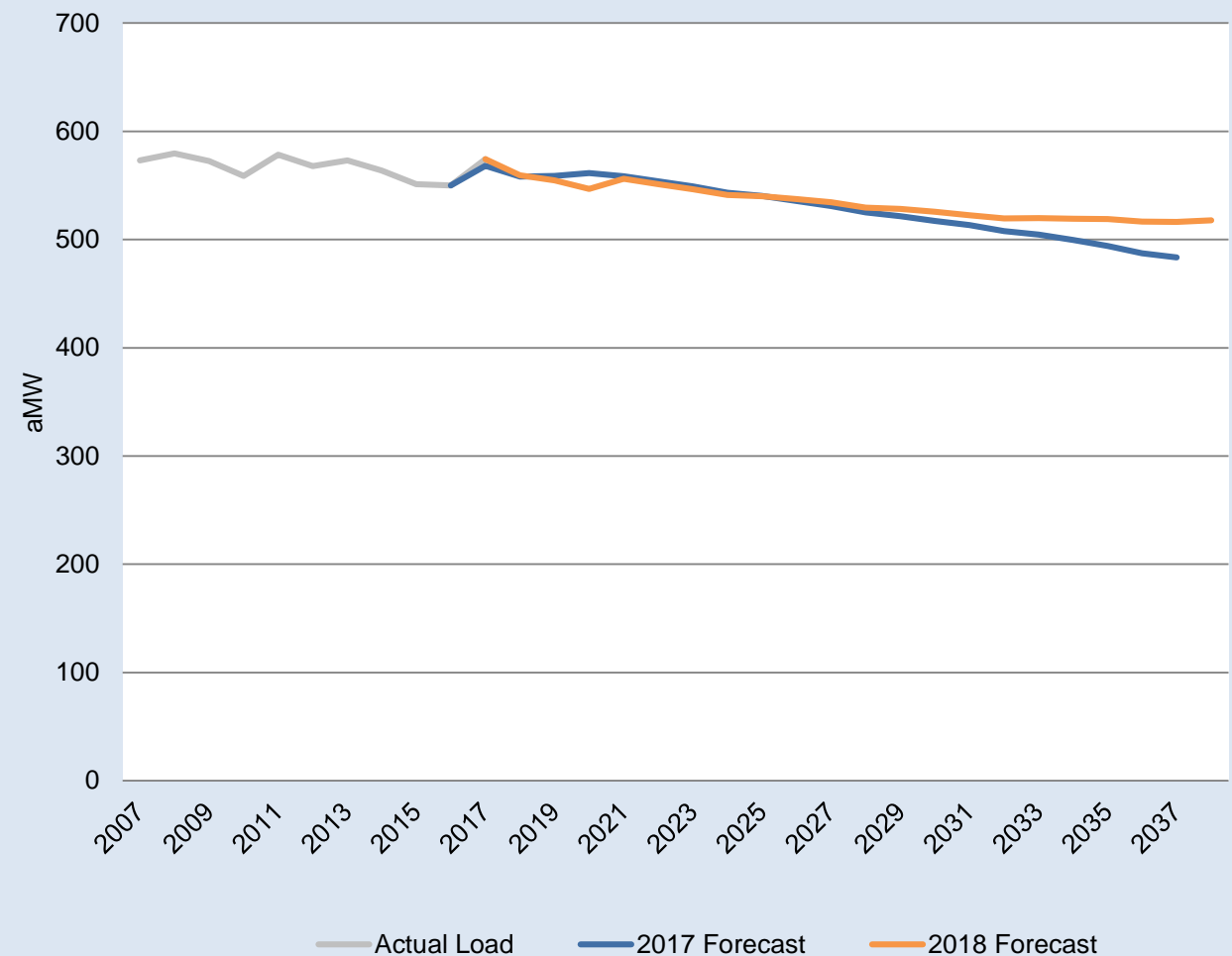
In order to forecast future revenue, we produce an annual load forecast. Load is the amount of power consumed by our customers, sometimes also referred to as demand. You can see from the chart that the latest forecast is lower than previous forecast. We're currently forecasting the slowest growth rate in the last decade.

The orange line in the chart below represents our current forecast, including conservation, for retail loads. The black line represents the actual load each year, while the blue line is our previous forecast. We use this forecast for the base case analysis described in the next section.

In total, Tacoma Power's system average load is projected to decline at a rate of approximately 0.8% per year. This includes the utility's most recent information on the probability of new loads entering the service area.

Several factors could change the current trajectory, such as the overall economic conditions of the area, availability of incentives for developing industries, or new large loads.

Historical Load Forecasts with Conservation





Reducing Rate Increases with Wholesale Revenue

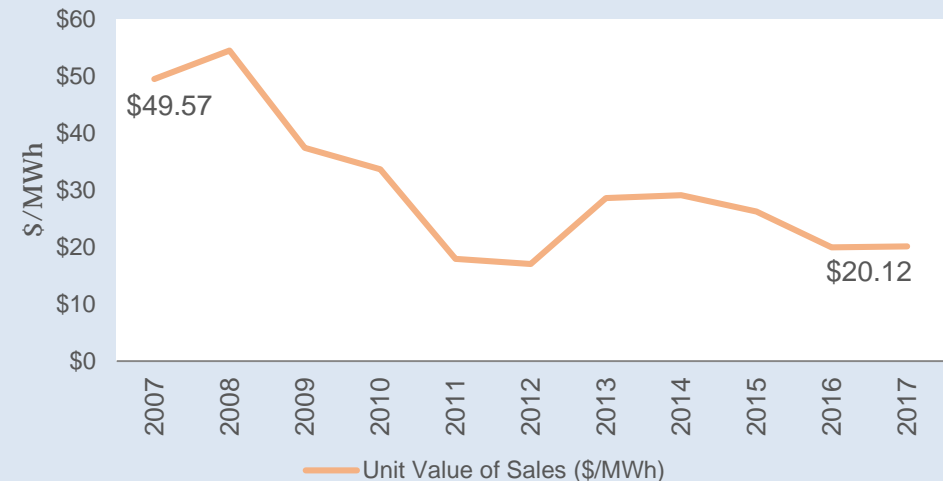
Sometimes we have an opportunity to sell surplus electricity in the wholesale electric market. We can have surplus for many reasons. One such situation would be after a significant rainfall event and we need to reduce the elevation of the reservoir behind the dam to meet safety requirements. We generate more power than our retail customers need, so we have “surplus”. We sell this surplus power to other electric companies or market participants that purchase it from us at the current market price.

This is one of the ways we keep retail rates lower than they otherwise would be. We use the revenue from surplus sales to offset future rate increases. Unfortunately, as you can see, our revenue from this source has been decreasing.

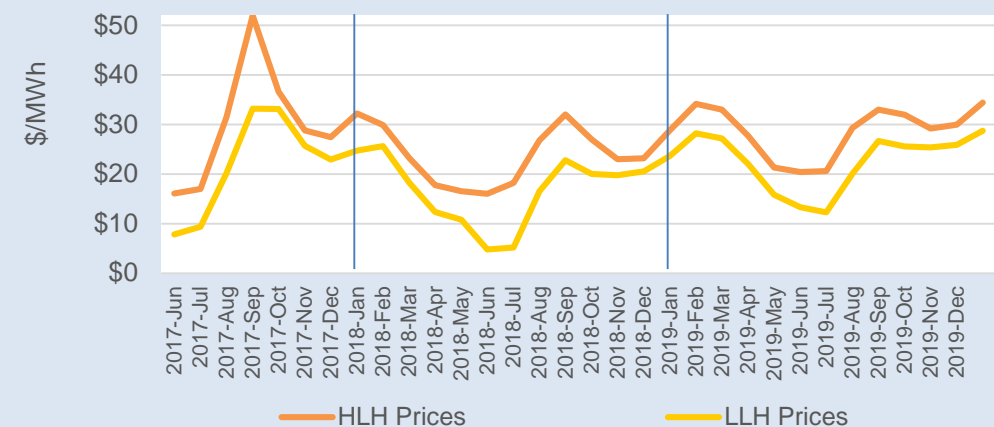
The potential value here is dependent on two factors that are out of our control: how much surplus electricity we have, and the price the market is willing to pay for that electricity. That makes forecasting our wholesale revenue a challenge.

Thirteen percent of our total revenue came from wholesale sales in 2017. Ten years ago, in 2007, 24 percent of our revenue came from wholesale sales. This decrease is primarily because the average value for each MWh sold has been declining for several years. A portion of the reason for this decline is further explained in [Section 5](#). The lower illustration shows a recent price forecast for [Heavy and Light Load Hours](#), HLH and LLH respectively.

Annual Value of Wholesale Electric Sales (\$/MWh)



Price forecast for Heavy and Light Load Hours (HLH and LLH), respectively





Click! Network Revenue

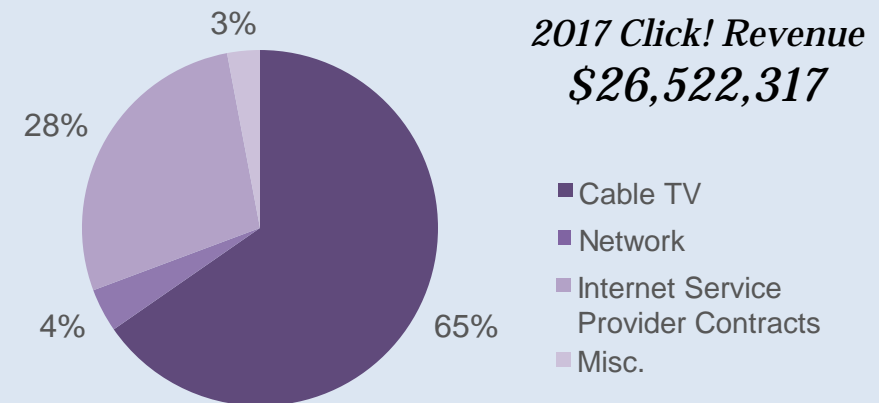
Click! Network is a multi-service broadband telecommunications provider and an operating section of Tacoma Power.

Click! is one of the largest municipally-owned and operated telecommunications systems in the country. Click! generates revenue from retail cable TV and wholesale high-speed internet services.

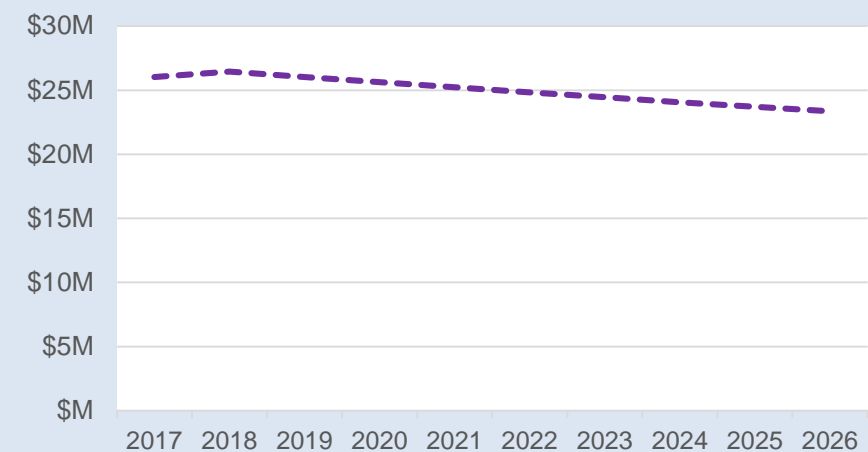
The chart to the upper right shows the breakdown between different cable and internet revenue components.

Click! is developing a new business plan for future operations. The revenue forecast in the lower right chart is based on the current operational model of Click!. It shows a gradual decline in total revenue and may change as the business plan develops. Click! represents approximately 6% of Tacoma Power's total revenue per year and this revenue offsets a large portion of Click!'s operational expenses.

Click! Revenue Components



Revenue Forecast





Tacoma Power Credit Ratings

Recall from [page 27](#), Tacoma Power is rated by three different rating agencies. Moody's Investors Service is one of the rating agencies that have published their methodology for analyzing utilities like Tacoma Power. Understanding their methodology helps interpret the rating agency process and align financial metrics with the agency's rating scale.

The items in the table to the right comprise the financial strength portion of Moody's rating. The financial strength components constitute a 30% weight toward the final rating and the scale is for a rated public power utility with generation.

In 2015, Tacoma Power used cash reserves to call the \$122 million debt service of the 2005B series of Bonds. This reduced our outstanding debt and helped improve our financial strength. The next few pages further illustrate how this transaction impacts the utility.

For more detail on how we set targets in these areas and manage to them, see the discussion of days liquidity and debt service coverage ratio in the [next section](#).

The 2015 financing plan helped improve Tacoma Power's financial strength.

	Aaa	Aa	A
<i>Adjusted Days Liquidity</i>	≥ 250 Days	249 to 150 Days	149 to 90 Days
<i>Adjusted Debt Service Coverage Ratio</i>	≥ 2.5 x	2.49 x to ≥ 2.0 x	1.99 x to ≥ 1.5 x
<i>Debt Ratio</i>	< 25%	25% to < 50%	50% to < 75%

Adjusted Days Liquidity: Ratio of Current Days Cash on Hand, and the ability to cover expenses with cash.

Debt Service Coverage Ratio: Ratio of cash flow available to pay debt service, relative to the annual debt service owed.

Debt Ratio: Ratio of total debt outstanding as a percentage of total Assets.

Tacoma Power	2013	2014	2015	2016	2017
<i>Days Liquidity</i>	312	335	215	236	210
<i>Debt Service Coverage Ratio</i>	1.88x	1.90x	2.01x	2.31x	2.82x
<i>Debt Ratio</i>	39%	37%	29%	26%	29%



Debt Repayment Schedule

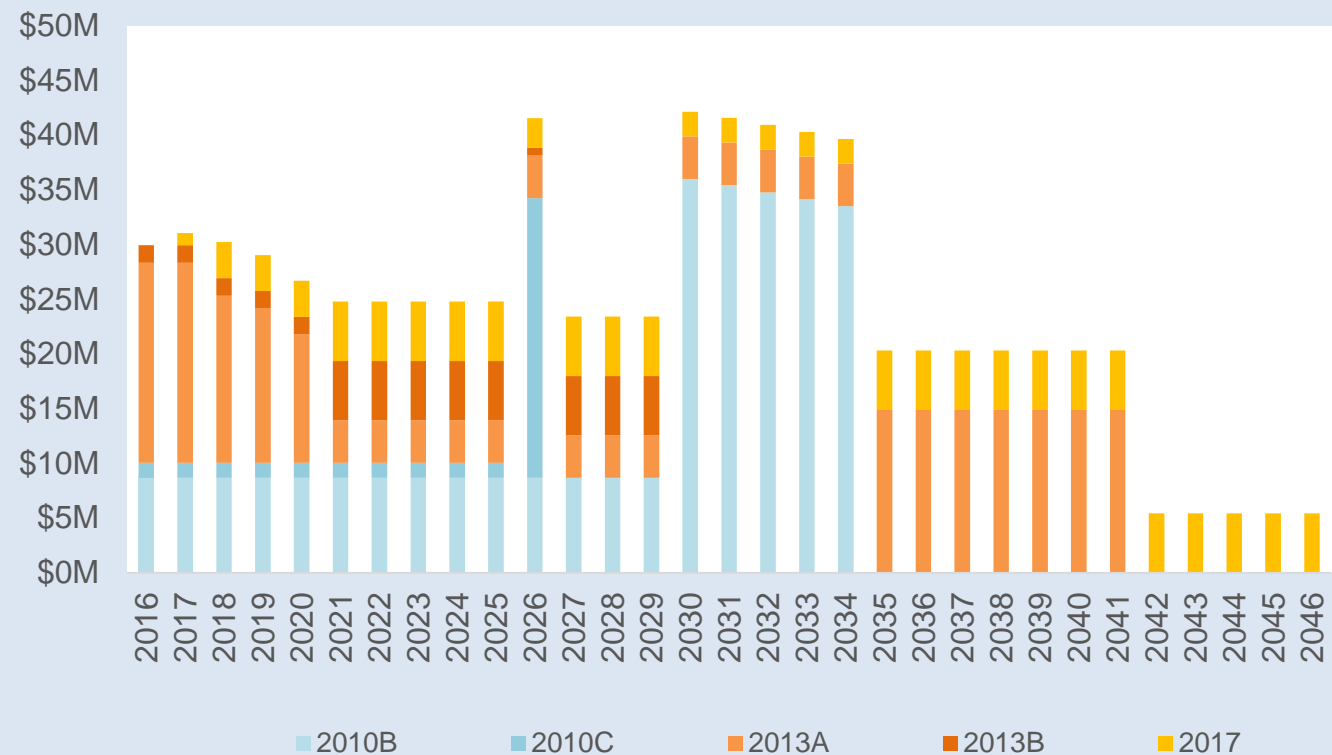
You'll probably notice that this chart isn't quite as flat as a 30-year mortgage. We'll discuss those spikes in the next few pages and again in [Section 7: Funding the Plan](#).

We sell bonds to investors to help fund capital expenditures. You'll notice in the chart that there are A's, B's, and C's after the year the bond was issued. This means that when we issued the bonds we sold them in different tranches, or as separate portions with different terms, conditions and purposes.

When we make payments on our bonds, we pay a principal payment and an interest payment. These payments are due on January 1 and July 1 each year. The chart shows the combined annual principal and interest payments by bond. Closely managing the timing and payments of this portfolio maintains our financial strength.

Debt Service Overview

This chart shows the combined principal and interest payments due by Bond and arranged by year.*



* Debt Portfolio shown on an [accrual](#) basis. The combined principal and interest payments due in the chart do not include subordinate bonds or notes, including payments under the Wells Fargo Agreement.



What is a financing plan?

A [financing plan](#) outlines steps to fund the most recently approved budget; maintaining and improving our financial strength.

Implementing a Financing Plan can lead to many important results, such as:

Increases or reductions to our total outstanding debt.

Changes to debt service payments, both timing and amounts.

Identification of future challenges, such as spikes in the debt repayment schedule that need to be addressed.

Ability to finance capital projects. Both on an interim basis or through long-term bonds.

The next few pages show how some of the last two financing plans have impacted the utility.



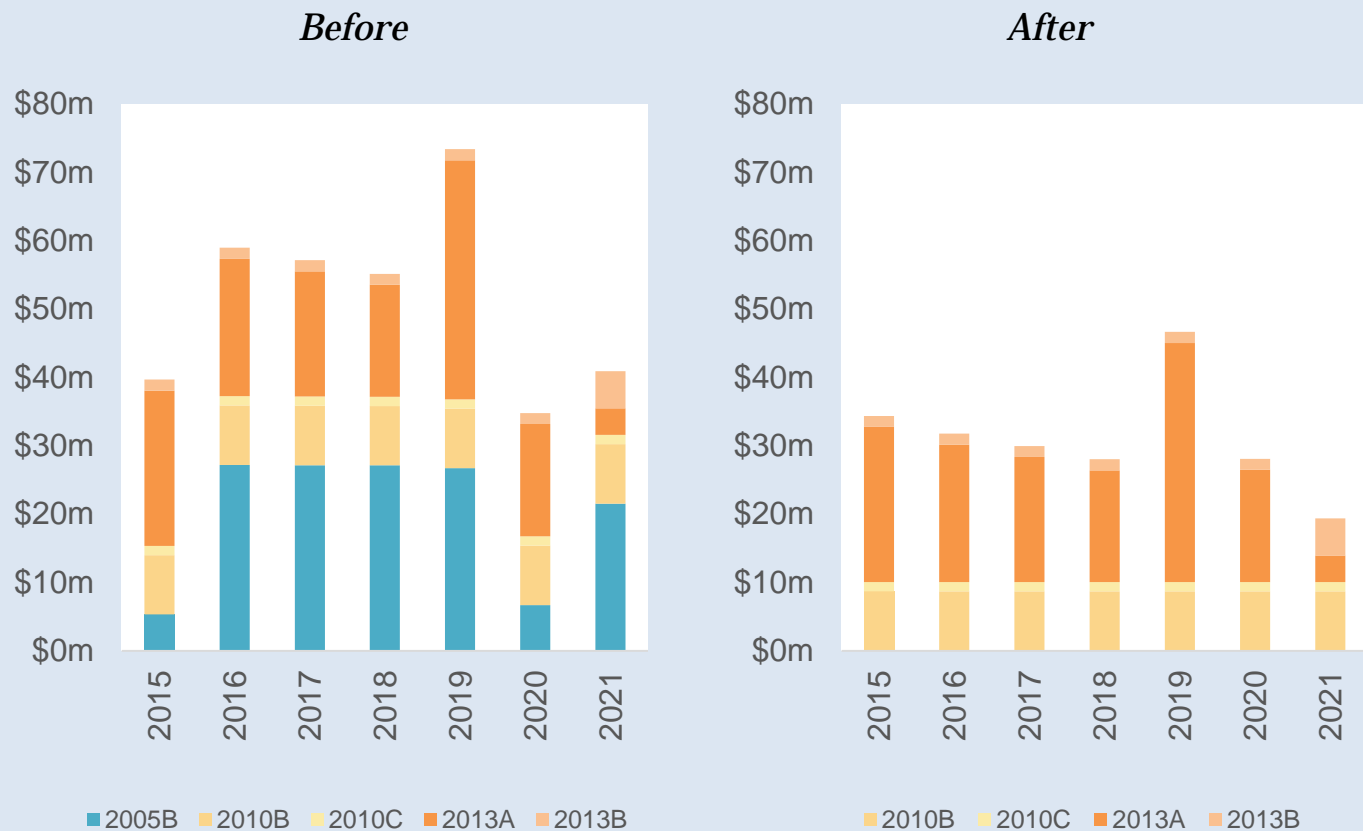
Reducing Outstanding Debt

We called the remaining 2005B Bonds on July 1, 2015 using cash reserves totaling \$122,135,000.

This is an example of how Tacoma Power has used surplus revenue from wholesale power sales to benefit our customers.

The debt reduction in 2015 lowered the amount needed to maintain our Debt Service Coverage Ratio and reduced the size of future rate increases. In 2016 we were able to keep our rates constant with a 0% rate increase, despite the pressures of declining revenues and increasing expenses.

The 2015 Financing Plan reduced Tacoma Power's outstanding debt by 24%





Spikes in the Debt Repayment Schedule

The spikes are from the specific terms and conditions associated with the year a bond must be repaid.

The first spike is related to a large principal payment due on January 1, 2020, for the 2013A Bonds. Tacoma Power issued the 2013 Bonds in two tranches (2013A and 2013B). The bonds were used to fund capital improvements during the 2013/2014 biennium and refund previous long-term bond issues.

This single-year large principal payment, due in 2020, represented a notable challenge in our debt repayment schedule. We would need to significantly increase our revenue in that single year to maintain a reasonable debt service coverage ratio. In order to deal with this spike, Tacoma Power received approval from the Public Utility Board and City

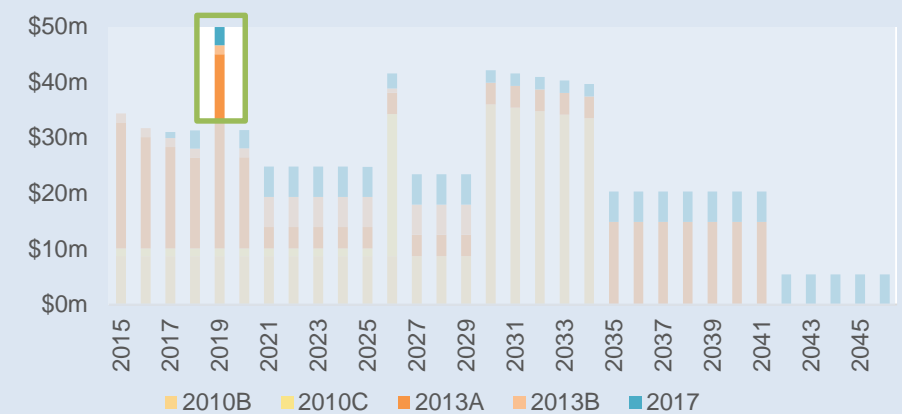
Council and defeased \$27.155 million in debt service payments.

The next repayment spikes begin in 2026, all related to the 2010 Bonds which were issued through a government program called Build America Bonds (2010B) and Clean Renewable Energy Bonds (2010C).

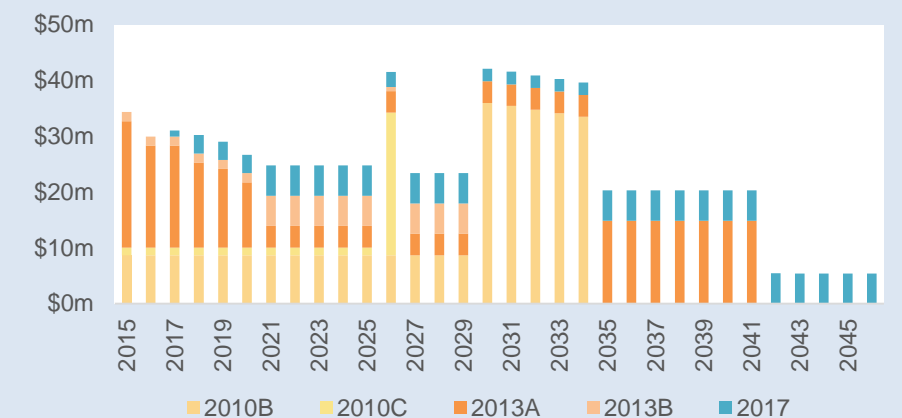
We have already started thinking about how best to address these spikes and have incorporated a strategy in this Long-Range Financial Plan.

Opportunities and Challenges in Existing Debt Service

Before the defeasance in October 2017



After the defeasance in October 2017





Short-term Debt

The chart on the previous slide doesn't show all of our debt. Currently, we have \$250,000 outstanding in short-term debt which is less than one percent of our total debt portfolio

When did we start taking on short-term debt? It was part of a plan to diversify and reduce our overall debt. In 2015 we implemented two short-term variable rate Note Purchase Agreements to provide up-front interim financing for capital projects and additional liquidity if needed.

That plan included paying the remaining outstanding principal and interest payment on the 2005A Bonds and exercising an option to call the remaining 2005B Bonds. We used funds available in our reserve funds to complete this process.

\$100 million Note Purchase Agreement with Wells Fargo

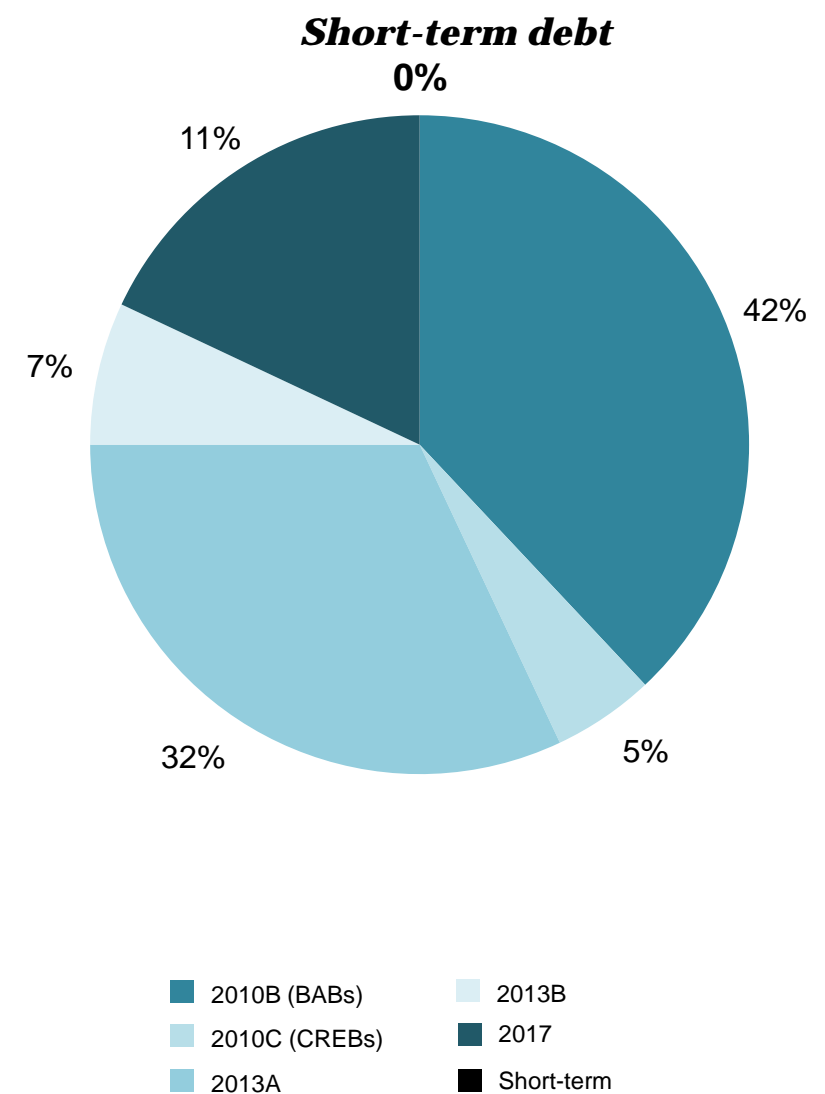
In 2015, we issued a short term 3-year line of credit from Wells Fargo in the amount of not to exceed \$100,000,000 outstanding at any time. This agreement provides up-front interim financing for capital projects and defers the issuance of long-term bonds. As of December 31, 2016, Tacoma Power had drawn \$80,250,000 under this line of credit. Proceeds of long-term bonds issued in 2017 were used to pay \$80 million back to Wells Fargo. In May 2018, we extended this line of credit an additional 3 years.

\$25 million Note Purchase Agreement with Key Bank

In 2015 we also issued a short-term 3-year line of credit with Key Bank to serve as an additional source of liquidity. Tacoma Power never made a draw on this line of credit, and it expired by its terms in May 2018.

How the short-term debt compares with the long-term bonds

Debt Service Percentage of Total as of December 31, 2017



Short-term Debt: Wells Fargo

Historically, we've used the proceeds of long-term bonds to fund capital improvements, but that strategy can result in long periods of time before the funds are fully spent. (Sometimes projects get delayed or priorities change after bonds have been issued.)

That's not ideal, because Tacoma Power is paying interest to bondholders on the borrowed money. Although unspent funds earn a small amount of interest while they are waiting to be spent, it's often less than the interest expense we are paying on the bonds themselves.

This funding Agreement with Wells Fargo was put in place in 2015. It gives us the opportunity to pay a low fixed-rate commitment fee on the unspent funds and a variable-rate fee on the funds that are spent. The combined rate of these fees is lower than the difference between the interest we previously earned on unspent bond funds and the interest we paid to bond holders.

Here's why that's a good strategy: Tacoma Power expects to spend approximately \$100 million on bond-funded [Capital Improvement Projects \(CIP\)](#) in each future biennia. When we've drawn the full amount we need for these projects using the Wells Fargo agreement, like a line of credit, we'll issue long-term bonds to reimburse the Agreement with Wells Fargo. This fixes the interest rate for the remaining life of those capital projects. Then we can use the line of credit (again) to fund the CIP approved for future biennia.

*In other words, this Agreement helps keep us from paying unnecessary interest on funds we're not ready to use yet. Between 2015 and 2017, we estimate approximately **\$8.9 million** was saved as a result of this Agreement.*

Wells Fargo Drawdown Direct Purchase Agreement

Commitment Amount:
\$100,000,000

***Drawn Amount:**
\$250,000

Start Date:
**May 12, 2015; extended on
May 11, 2018**

Term:
Due August 8, 2020

Purpose:
**Interim Financing of
Capital Projects**

*Our variable rate Note
Purchase Agreement with
Wells Fargo allows us to
fund capital projects on an
interim basis.*

*Tacoma Power used the proceeds from the 2017 Bond issuance to return the drawn amount of \$80,250,000 back to \$250,000 on September 1, 2017.



Reserve Accounts

Bond Reserve Fund

When issuing bonds in previous years, Tacoma Power established a Bond Reserve Fund. The fund was created to pay for outstanding bond interest and principal payments in the event that the utility is unable to pay from revenues. The Bond Reserve Fund does not contribute to any of Tacoma Power's financial metrics, like days liquidity discussed in the [next section](#).

The fund may contain a combination of cash, investments, and [surety policies](#) and the size of the fund must remain sufficient to meet the Reserve Account requirements until the bonds are paid for. The determination for the size is based on the lesser of the following two requirements:

1. the maximum annual debt service payment in the debt portfolio, or
2. 125% of average annual debt service payments in our debt portfolio.

Tacoma Power's Bond Reserve Fund is sufficiently funded through 2020 when an existing surety policy will expire. Further analysis on this issue will be included in future versions of the LRFP.

Rate Stabilization Fund

The Rate Stabilization Fund (RSF) provides Tacoma Power with additional flexibility to meet financial needs. The fund was created using surplus wholesale revenue in 2010 and helps prevent the need for large rate changes outside of our normal rate setting processes.

Unlike the Bond Reserve Fund, the RSF does contribute to our financial metrics. The fund only contains cash from surplus revenue and that revenue has been deferred until the year it is transferred from the RSF into our Current Fund, the general account used to manage our operating expenses. The balance of the fund is considered part of our total Days Liquidity balance, as listed in the [next section](#).

Every year Tacoma Power evaluates the size of the fund to determine whether it should be increased or decreased. To-date, Tacoma Power has not drawn on the RSF. However, in 2001 the utility needed more than twice the current balance to address challenges in the wholesale electric market due to the energy crisis. We do not know when the next energy crisis will impact us, but this fund helps us be more prepared for the unknown.

Historical Rate Stabilization Fund Balance

2009	2010	2011	2012-2017
\$0	\$10,000,000	\$36,000,000	\$48,000,000



Bringing it all together

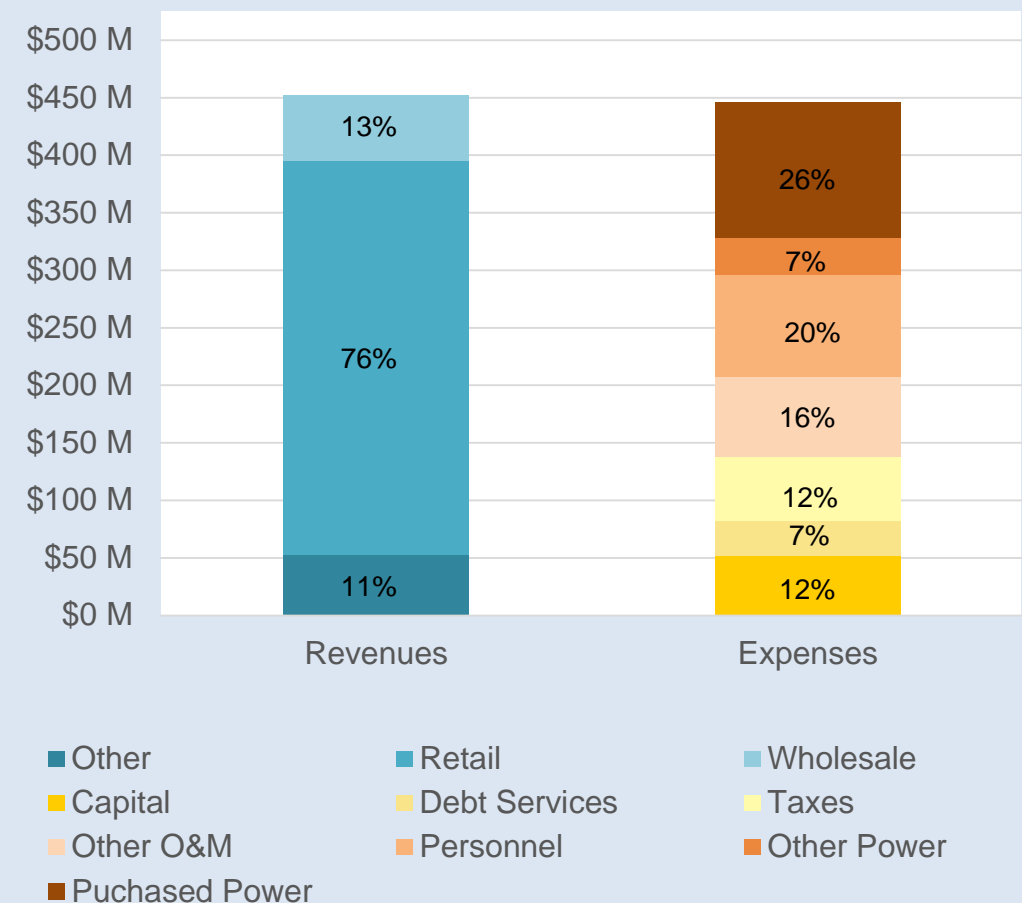
This slide brings all of the components explained in the background section into a side-by-side comparison. Revenues in 2017 are \$452.6 million and expenses are \$446.3 million.

We always plan to collect more revenue than Operations and Maintenance expenses. We need positive net revenue to pay debt service and taxes, and to fund a portion of our capital expenses. For example, we used some of our accumulated cash reserves for the defeasance described on [page 49](#). These actions allow the utility to make the rate increase lower for customers than it otherwise would be.

It is a balancing act to keep the right amount of cash available to manage the operations of the utility and hold sufficient reserves to mitigate the many risks associated with our business. This is something we are always actively managing.

We use a financial model to analyze each component, compare assumptions, and determine a range of possible different financial outcomes. The model projects cash flows and other critical financial metrics over a 10-year time horizon. We can update the model to examine changes, test assumptions, or run scenarios that may impact the utility.

2017 Revenue & Expense Assumptions



Section 4 Base Case

The model against which we analyzed
and compared every scenario in the LRFP.



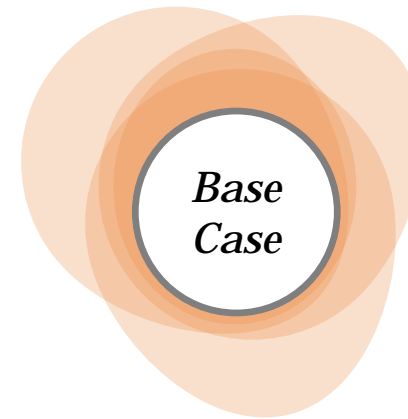
The Base Case

One of the purposes of the LRFP is to look at possible impacts of changes that may occur in the future. In order to do that successfully, we need a foundational example to compare our changes to. We call that example a [Base Case](#).

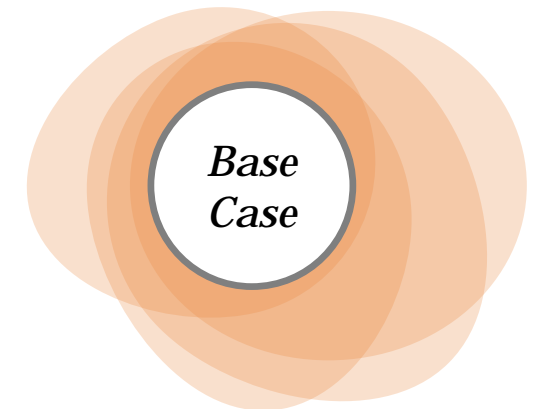
Think of it as the control in a scientific experiment. In a document where we will change and adjust different components of the plan ([Scenarios](#)) to understand the resulting outcomes, the Base Case is the thing that doesn't change; **it's the foundation of the Long-Range Financial Plan**. The pictures to the right are a simple illustration of how the base case is always at the core and numerous other factors change around it to produce different scenarios.

In this LRFP, the Base Case is the combination of Tacoma Power's financial performance through March 2018 and the background information you read about in the previous section.

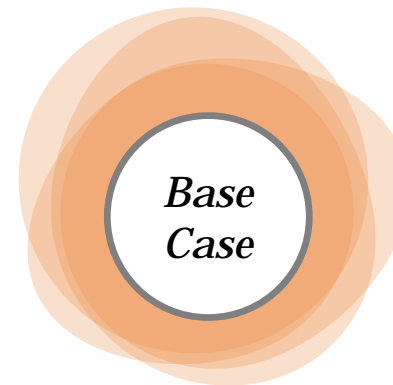
The analysis of scenarios and risks described in the following sections get compared with the Base Case to provide a relative rate increase. This results from using projections for liquidity and debt service coverage to indicate what rate increases are needed to maintain financial targets.



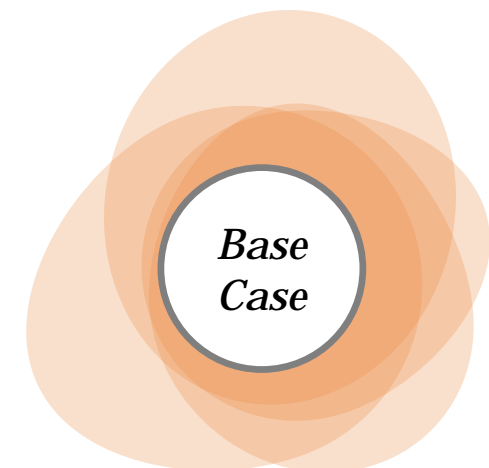
Scenario 1



Scenario 2



Scenario 3



Scenario 4

Liquidity

In order to understand how managing financial metrics influences rate increases, it is important to explain the two metrics we use as guides. We have minimums that we must maintain but also have targets that are well above the minimums.

The first metric is **Days Liquidity**. This is an organization's ability to cover operating expenses over a period of time. Tacoma Power's target is to continually maintain enough liquidity to operate the utility for 180 days. This target helps us maintain AA-level financial metrics. Any forecast that tells us we'll miss this target is something we will want to fully understand and explore, potentially leading to a rate increase.

Here's how we calculate liquidity:

We add together all unrestricted cash and investments, including the Rate Stabilization Fund and acceptable Bank Lines

We multiply that number by 365 days

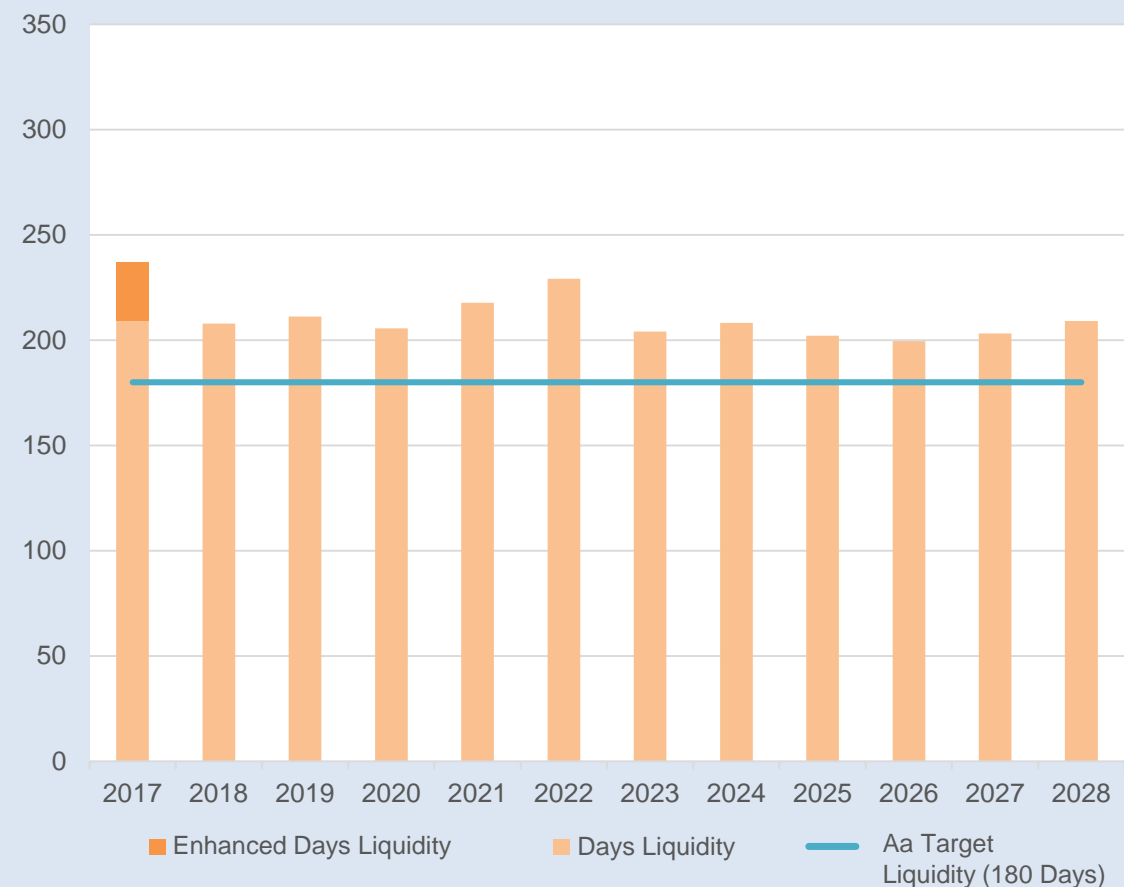
We then divide that total number by our annual operating expenses

That gives us the number of days of liquidity

As you can see from the chart, we are well above our target in the base case. These values change as we look at different scenarios on the following pages.

Historic and Base Case Projections of Days Liquidity

Target = 180 Days



In the chart, the darker portion of the 2017 bar represents the additional liquidity we gained from an agreement with Key Bank Agreement. This agreement expired on May 8, 2018.

Adjusted Debt Service Coverage

Another primary driver for rate increases is Tacoma Power's [Debt Service Coverage Ratio](#), a measurement of our ability to repay annual debt obligations using Net Revenue.

Net Revenue is simply the revenue we have left over after we pay operating expenses.

Debt Service Coverage is our ability to pay our debts after we've paid our other operating expenses. We have a legal obligation to maintain Net Revenue at a level that equals 1.25 times (1.25x) our debt service payments but we target maintaining 2.0x to support our existing bond ratings. If a projection shows that we wouldn't be able to maintain a 2.0x coverage ratio effectively, we would likely recommend a rate increase.

Here's how we calculate coverage:

We subtract our total expenses from our total revenue to determine Net Revenue

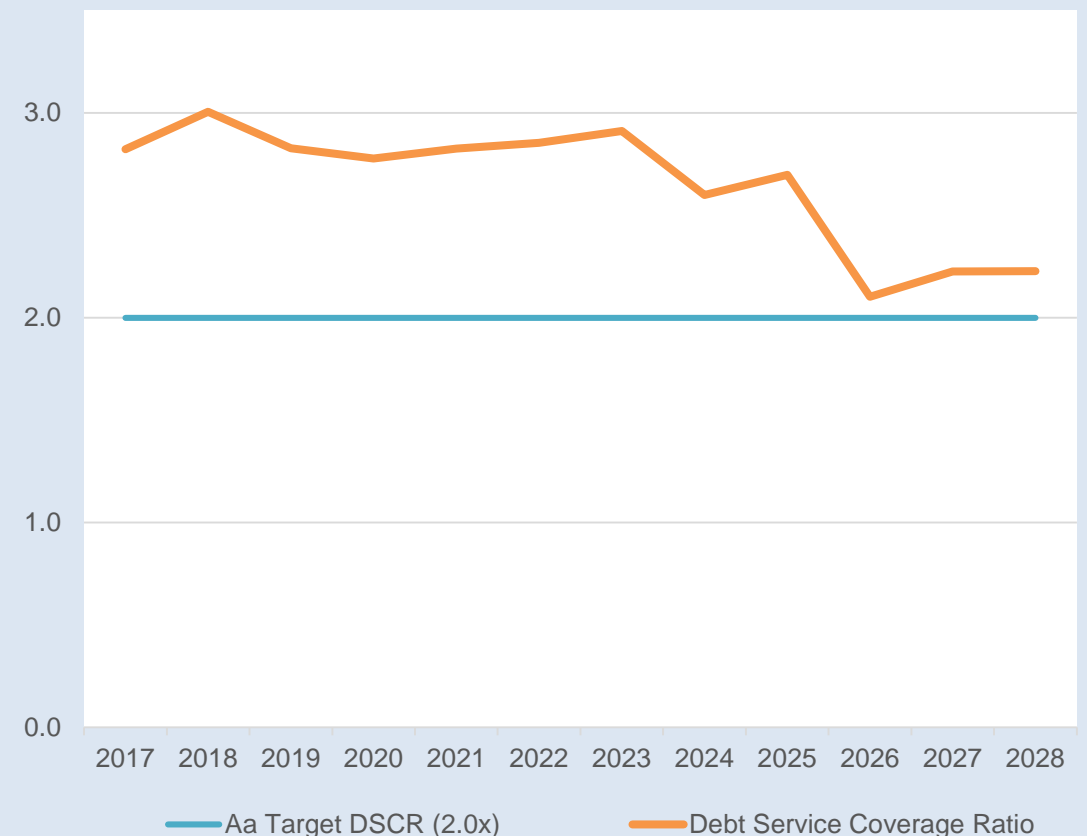
We subtract transfers for Gross Earnings Taxes from Net Revenue

We divide that number by our debt service payments due in that year, on an accrual basis, to determine the ratio of Net Revenue to Debt Service

As you can see from the chart, we are above our target with this metric in the [Base Case](#) as well. Just like the [Days Liquidity](#) metric, these values change as we look at different scenarios on the following pages.

Historic and Base Case Projections of Adjusted Debt Service Coverage Ratio

Target = 2.0x



Projecting Rate Increases

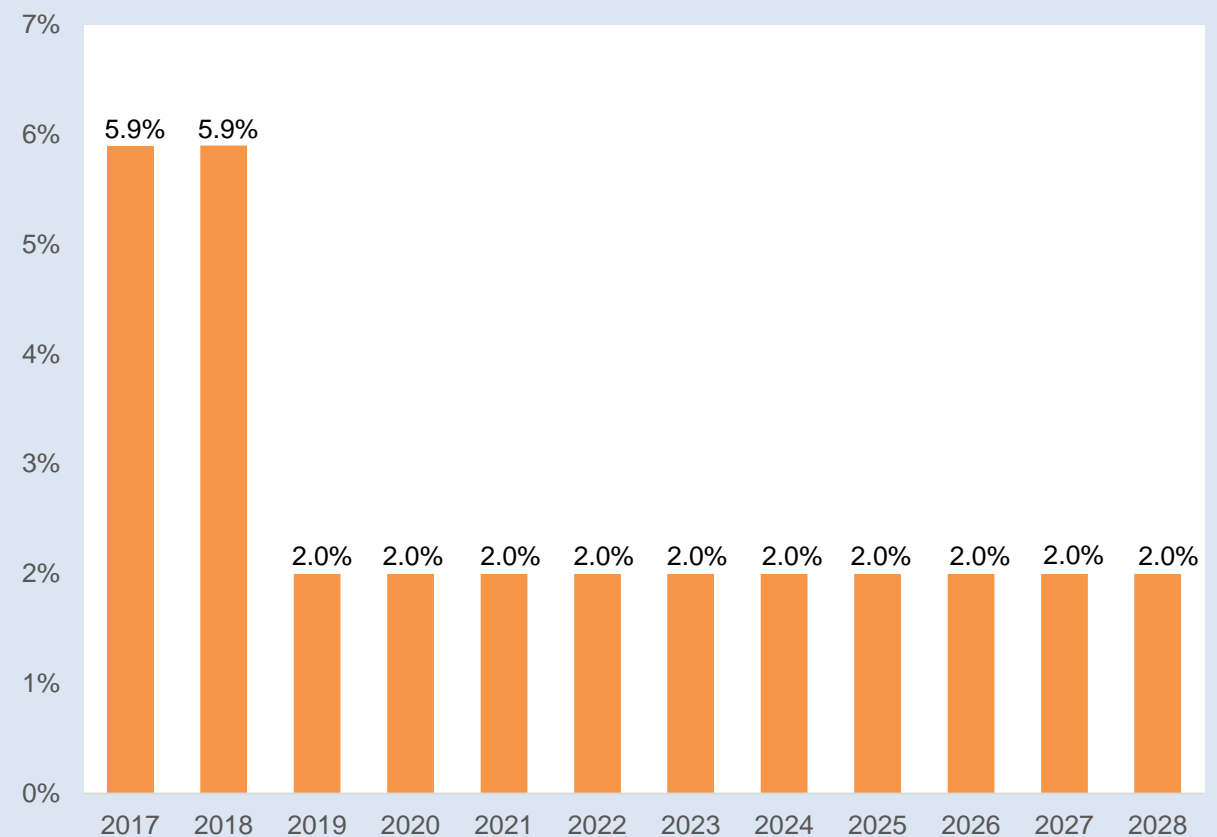
If we plug all the projections from the background section into the model and assume average water conditions, we derive the picture to the right in order to maintain Tacoma Power's target liquidity and debt service coverage in future years.

In the next section, we are going to test the sensitivity of these projections by changing some of the inputs into the model. The projected rate increases will increase or decrease depending on the element changed, but the changes will always be compared with the Base Case rate increases shown here.

It is important to remember that these are only projections and have not been recommended or approved by anyone. Something can happen today that significantly impacts these projections, but at the time that this LRFP was published, this was our best forecast for the future.

Historic & Base Case Projected Rate Increases*

Average water conditions



** As of March 2018*

Section 5 Risk Factors

**There are things we can control and things we can't control.
In a Long-Range Financial Plan, we try to quantify and
predict as many of those things as we can.**



Internal and External Risk Factors

Risk can have an adverse impact on our finances, so it's essential to understand both the internal and external factors. Even though some factors may be out of our control, we can still develop effective strategies to address and mitigate the impacts.

In many cases, it is these risks that we use to change the inputs of our financial model so that we can analyze the potential range of outcomes.

We cannot list all the risks in this plan, but this summary should provide a good overview of the most significant ones. Additional risks, but not all risks, relevant to the utility are listed in our 2017 Official Statement which is available at <http://bit.ly/tpwr-investorinfo>

Risk factors can include:

External

Weather
Wholesale Price Volatility
Economic Downturn
Regulatory Changes
Environmental Regulations
Customer Expectations

Internal

Compliance with Regulatory Mandates
Technology Changes
Aging Infrastructure
Aging Workforce

In this chapter, we'll investigate:



Internal & External Risk



Weather



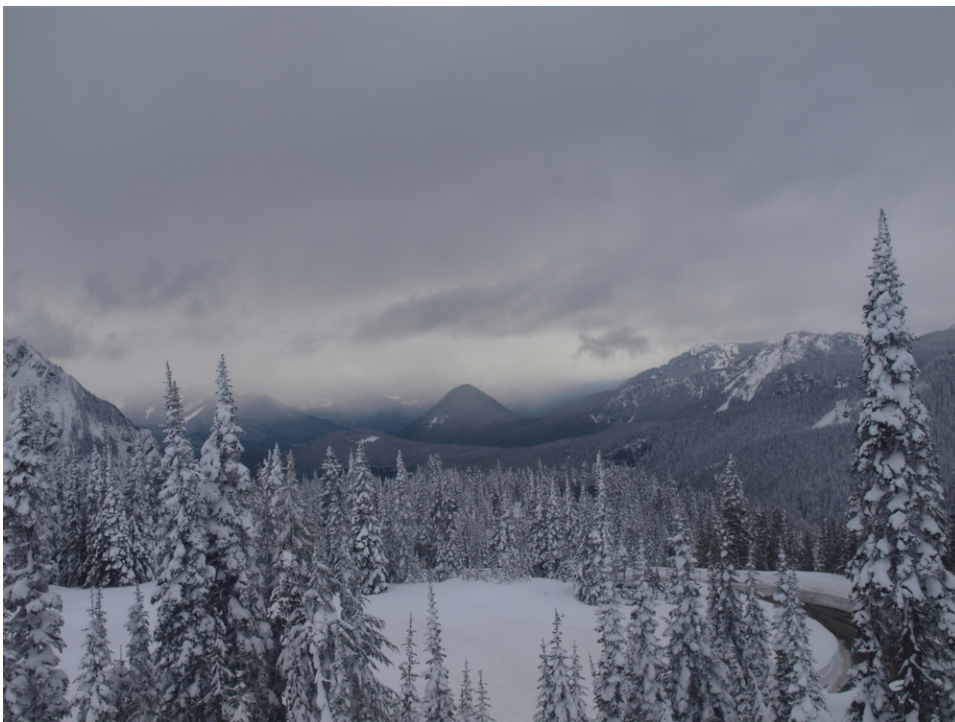
Policy or Regulatory Impacts



Market Changes



*Mt. Rainier
March 2015*



*Mt. Rainier
March 2017*

Weather Risk

Weather is a big external risk factor, and one that is very challenging to predict.

Weather conditions significantly impact both how much electricity our customers demand and the price of electricity in the wholesale power market. In extremely cold or hot weather, people naturally increase the use of heating and cooling systems, creating more demand for energy. This changes the amount we sell or purchase in the wholesale market.

Weather also influences natural gas prices. As with electricity, the price of natural gas also fluctuates with supply and demand. Because natural gas turbines are widely used to generate electricity, these generators are often the least-cost resource in setting the electricity price in the wholesale electric market.

Tacoma Power must be prepared to meet our customers' needs during prolonged periods of extreme hot or cold. In addition to those extreme events, we also need to predict overall changes in weather patterns from one year to the next. That's no small task.

The pictures illustrate how different the snowpack can be from year to year.

* Photos used with permission from the US National Park Service.

Hydrology, by Overall Inflow

Hydrology relates to the study of the movement of water. We need to know a lot about hydrology because most of the electricity we provide to our customers relies on water.

Tacoma Power receives the majority of its power supply from hydroelectric dams.

These dams, in turn, rely on streamflow into the reservoirs behind the dam to generate electricity.

Stream flows are dependent on rainfall and snowpack, and this can vary significantly from year to year (as we saw on [page 64](#)).

Yearly variations in snowpack each year leads to different amounts of runoff in the spring and early summer.

To help us predict the amount of power we'll get from hydroelectric dams, we use a historical record

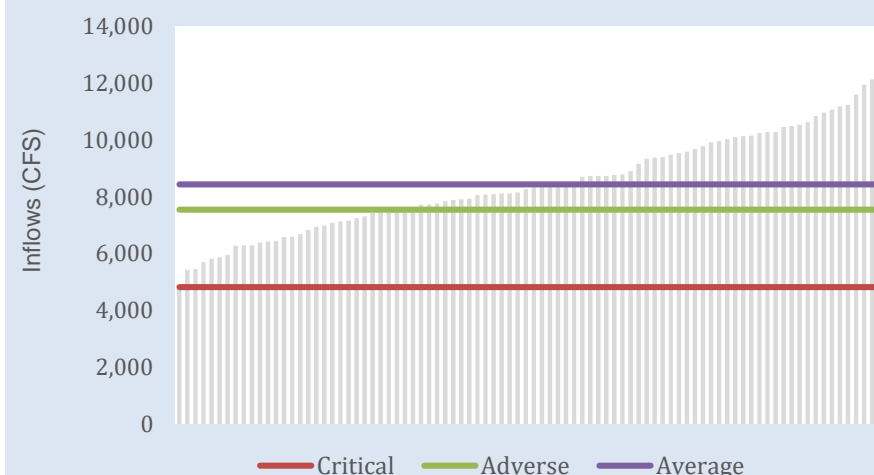
to forecast the probability of future events. Some of these records date back to 1929 or earlier.

The lowest point on our chart, called a Critical Water year, is determined by the amount of water that came into the reservoir during the lowest year on record. There's a very low probability that this will happen again, so we often use this as a planning standard. In other words, if we can meet customer needs during a year with a lowest-in-history level of water inflows, then there's a good chance we can meet customer needs all year long. Recall, customer needs at any one moment have to match with what our generators are producing in that same moment.

Similarly, we use an Adverse Water year and an Average Water year for planning and forecasting our financial performance.

Total Tacoma System Inflows

*Annual Average 1929–2017
(sorted from least to most)*



Water Planning Standards

Critical: Inflows similar to lowest recorded historical year.

Adverse: Inflows similar to lowest 25% of recorded historical years. We expect this outcome to occur one out of every four years.

Average: Inflows similar to the average of all previously recorded historical water flow years. We expect this outcome to occur one out of every two years.

Hydrology, by Basin

On the previous page, we looked at hydrology risk on a system-wide basis, especially how Tacoma Power manages the variability with different planning standards.

We operate several different hydroelectric projects:

Cowlitz
Cushman
Hood Street
Nisqually
Wynoochee

We also receive power through Long-Term Power Sales Agreements with:

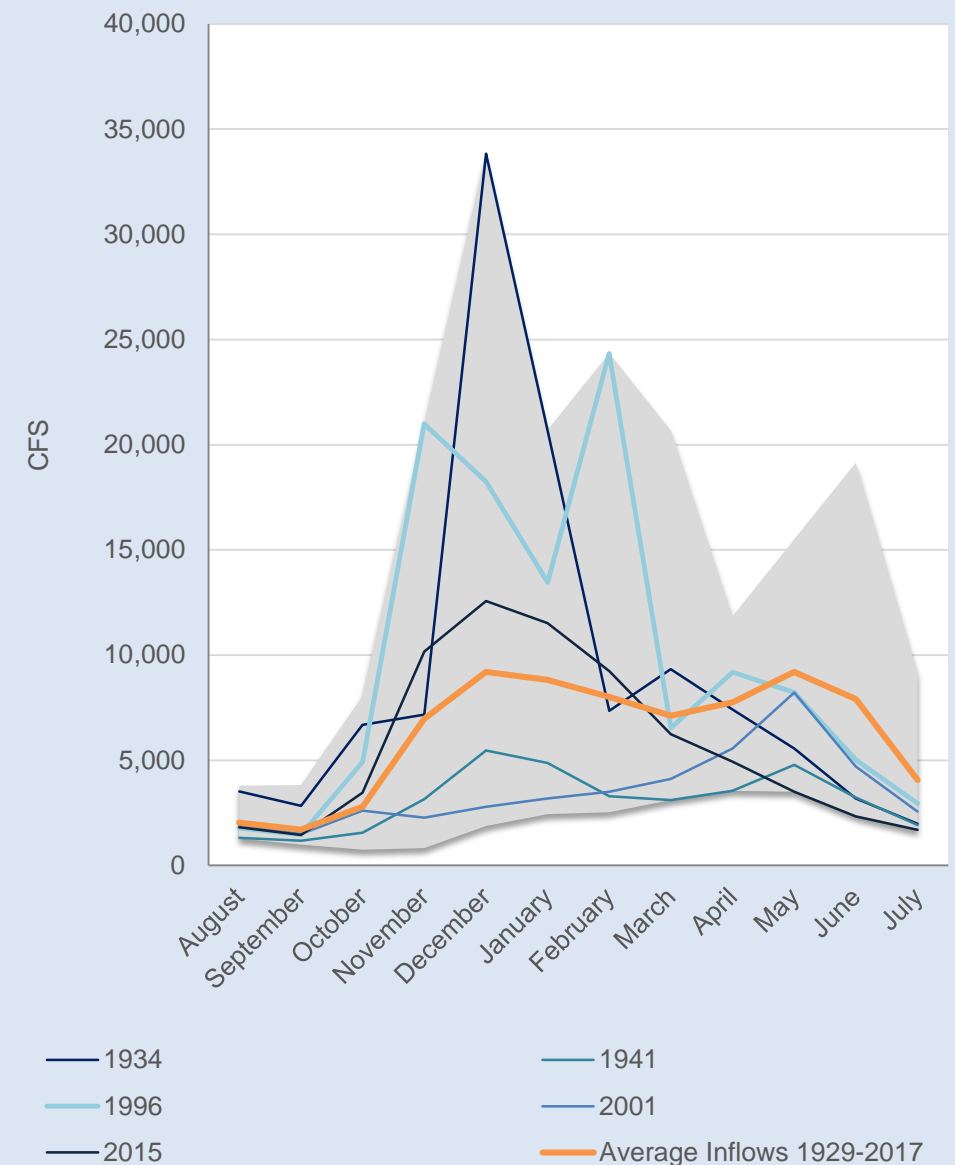
Bonneville Power Administration
Grant County PUD
Columbia Basin Hydropower

All of these projects can have significant variability of inflows from one project to another or from one season to the next, depending upon temperature, rainfall, and snowfall throughout the year.

The chart to the right illustrates the monthly variability of inflows into just one project: the utility's Cowlitz Basin (Mossyrock Dam). The orange line illustrates the average inflows and the shaded grey area depicts the range of historical occurrences. Sometimes years like 2015 occur, whereby there were several drier than expected months, and the overall range is expanded.

This variability by project, along with other licensing requirements, should give you an idea of the complexity involved with forecasting hydrology.

Cowlitz Basin Inflow Variability

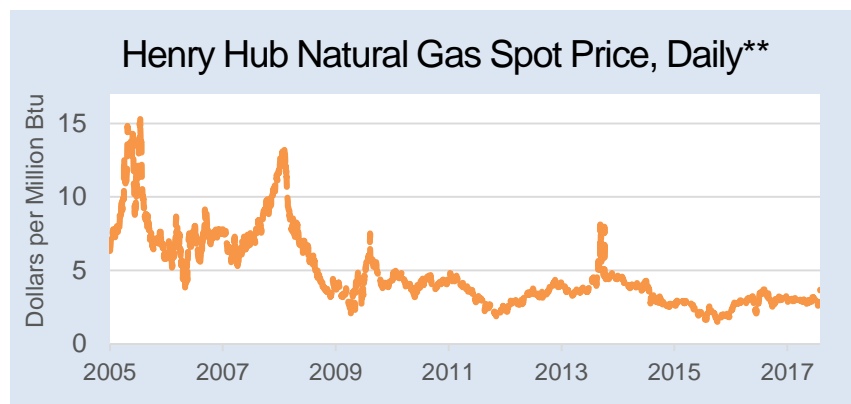
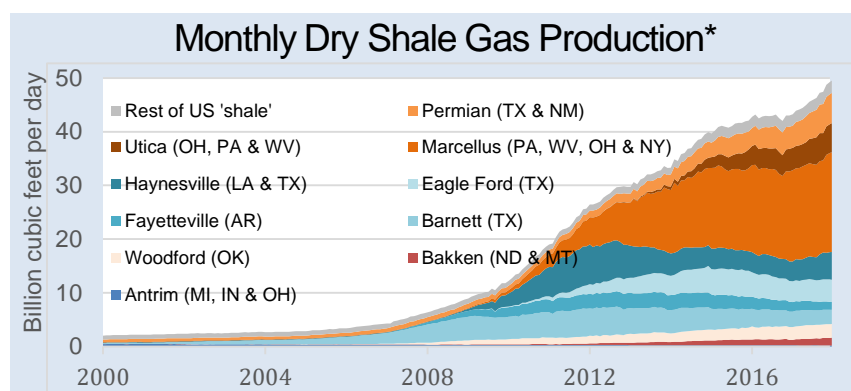
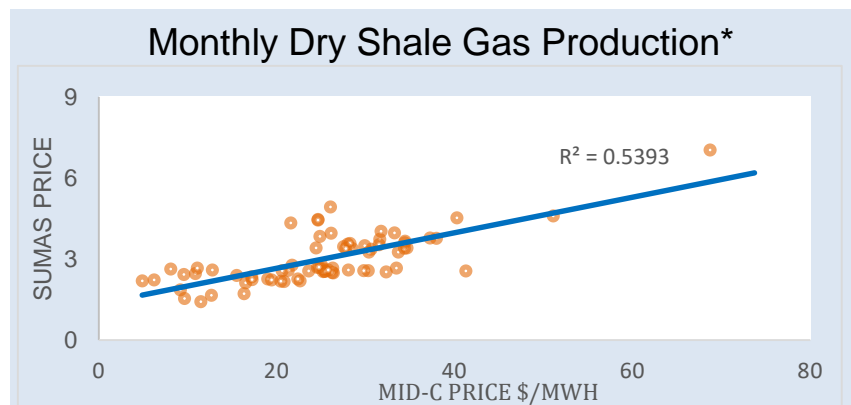


Natural Gas

As noted, Tacoma Power sells surplus power into the wholesale market. The price of natural gas may have a significant impact on the price of electricity in the wholesale power market.

The chart at the upper right illustrates the close correlation between the price of natural gas at [Sumas](#) and the price of electricity at the [Mid-Columbia](#) trading hub. It's not a perfect correlation. There are periods of time, or seasons, when reservoir inflows are higher than normal and the oversupply of generation can also have a heavy influence on power prices—but the connection is strong enough to help us make predictions.

We incorporate the natural gas price forecast into our model for determining anticipated revenues from wholesale electric sales.



These charts help in providing a reasonable explanation for the current depression of wholesale power prices compared to previous years.

***Shale gas** production has ramped up significantly in recent years and has added to the total amount of natural gas in the marketplace.*

That increase in natural gas production, starting in 2006, corresponds with a downward trend in natural gas prices during the same period.

* Source: EIA's Natural Gas Weekly Update. State abbreviations indicate primary state(s).

** Source: U.S. Energy Information Administration ([see glossary](#)).

Evolution of the Wholesale Market

As the energy market turns its attention toward [renewable resources](#), we must consider its resulting transformation (and its additional complexities) in our LRFP.

Washington voters approved a policy initiative to generate at least 15 percent of its major utility energy needs with qualifying renewable resources by 2020. Many other states have similar initiatives. California has a goal of meeting 50 percent of its energy needs with renewable power by 2030.

As utilities acquire renewable resources, their power supply portfolio evolves. New renewables often replace coal, nuclear, or thermal resources. Many of these resources operate without the relative consistency throughout the day as traditional “baseload resources.” Baseload resources are ones that operate at the same level in all hours of the day. They don’t fluctuate very much and are relatively easy to manage on an hourly basis. Solar or wind resources only operate according to how much sun there is or how hard the wind is blowing, so we call them “intermittent resources.” These resources are more difficult to manage due to their fluctuation in power supply.



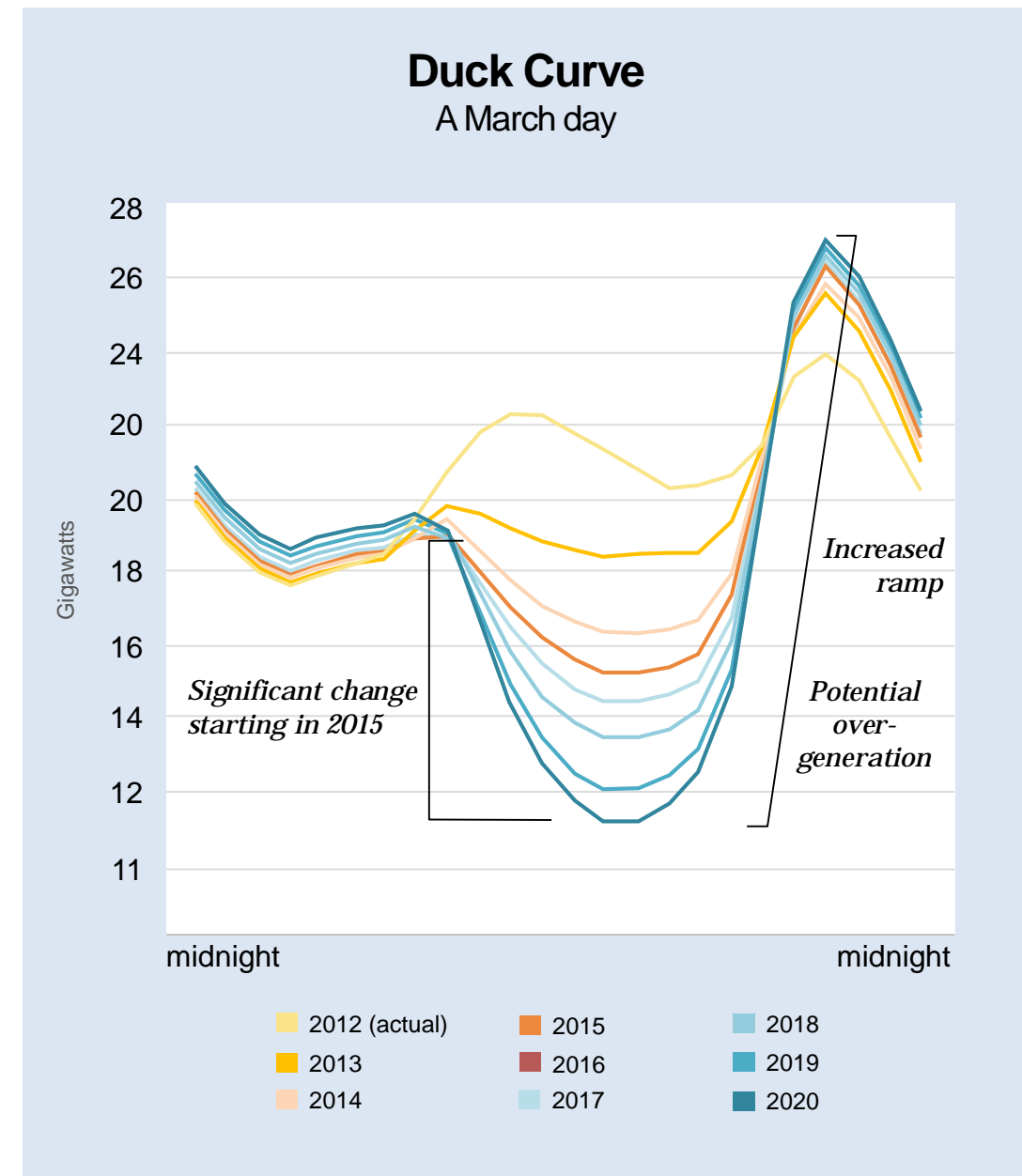
Evolution of the Wholesale Market (Cont.)

A few years ago the California Independent System Operator (CAISO), an entity that oversees the operation for portions of the California power system, published a paper forecasting the effects of increasing solar generation. This curve became known as the “Duck Curve” because the shape of the load resembles a duck. The curve illustrates how newly constructed solar resources will reduce the amount of load served during the daytime hours when solar energy is produced. As the sun sets and people return home from work, the demand for power steeply increases. The demand for electricity is increasing while the resources supplying the need are turning off. As more solar resources are constructed, the supply and demand difference gets steeper. In order to meet the needs of the electricity grid, a different type of resource will need to work in coordination with the solar generation.

In addition, the value of power during the daytime hours will be much less than it is today. A resource that can start up quickly and meet peak demands will likely be more valuable than it is today.

This is only one example of how the market is transforming, but it provides a good illustration of its many complexities.

As new resources are constructed and added to the power supply of the region, new challenges emerge. Those challenges have an effect on the supply and demand for wholesale power. In some cases, these new resources may fundamentally change the market forever.



Regulatory Changes

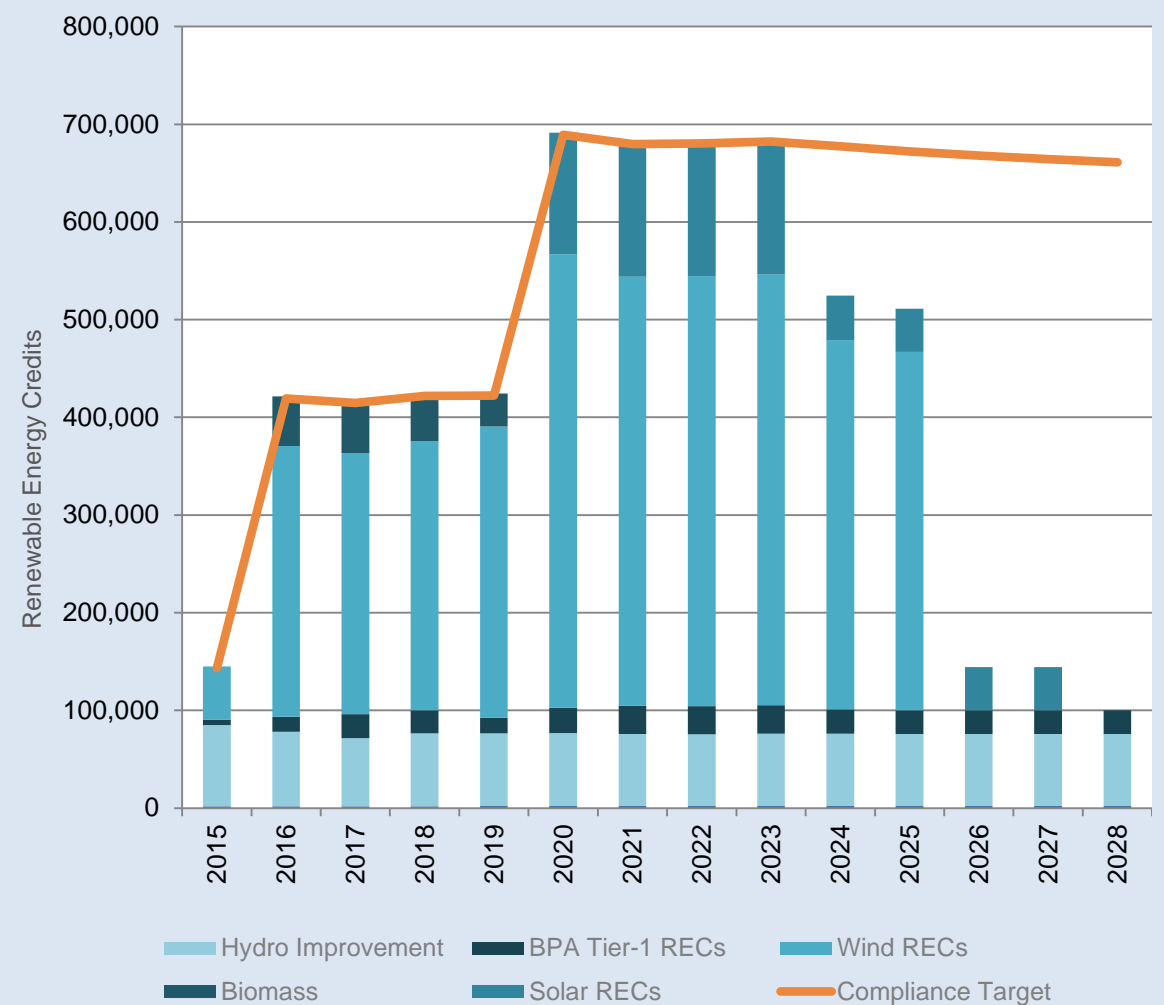
Regulatory changes represent another risk factor. They can occur at the national, regional, state, or local level, and Tacoma Power actively participates in each of these forums. The utility proactively advocates for the interests of customers and endeavors to shape changes that may impact finances or operations.

The adoption of the Energy Independence Act or Washington Ballot Initiative-937, is an example of a recent regulatory change that has impacted the utility. Among other things, the Act requires that by 2020 Tacoma Power obtain 15 percent of its customer's electricity needs from qualifying [renewable sources](#). The requirement escalates in incremental steps, requiring 3 percent, 9 percent, and 15 percent by 2012, 2016, and 2020, respectively.

When qualifying renewable resources generate electricity they not only produce power but they also get credit for producing renewable energy. This credit is a Renewable Energy Certificate or REC. The State of Washington has an approved list of resources that meet the criteria to receive RECs. New hydro projects or improvements to hydro projects qualify to receive RECs, but existing hydro prior to 1999 does not qualify.

The chart illustrates Tacoma Power's compliance with this requirement. Note that if we have extra RECs at the end of the year, we are able to transfer surplus RECs from one year to the following year. This strategy has allowed us to be fully in compliance with the Energy Imbalance Act since its inception.

Current Renewable Compliance Status



Reliability Standards

The Reliability Standards developed by the North American Electric Reliability Corporation (NERC) are another major area of regulatory compliance. NERC oversees and regulates the reliability of the electric system in North America. NERC Reliability Standards define the reliability requirements for planning and operating the North American bulk power system (BPS). The standards apply to all users, owners and operators of the BPS and focus on performance, risk management, and system capabilities.

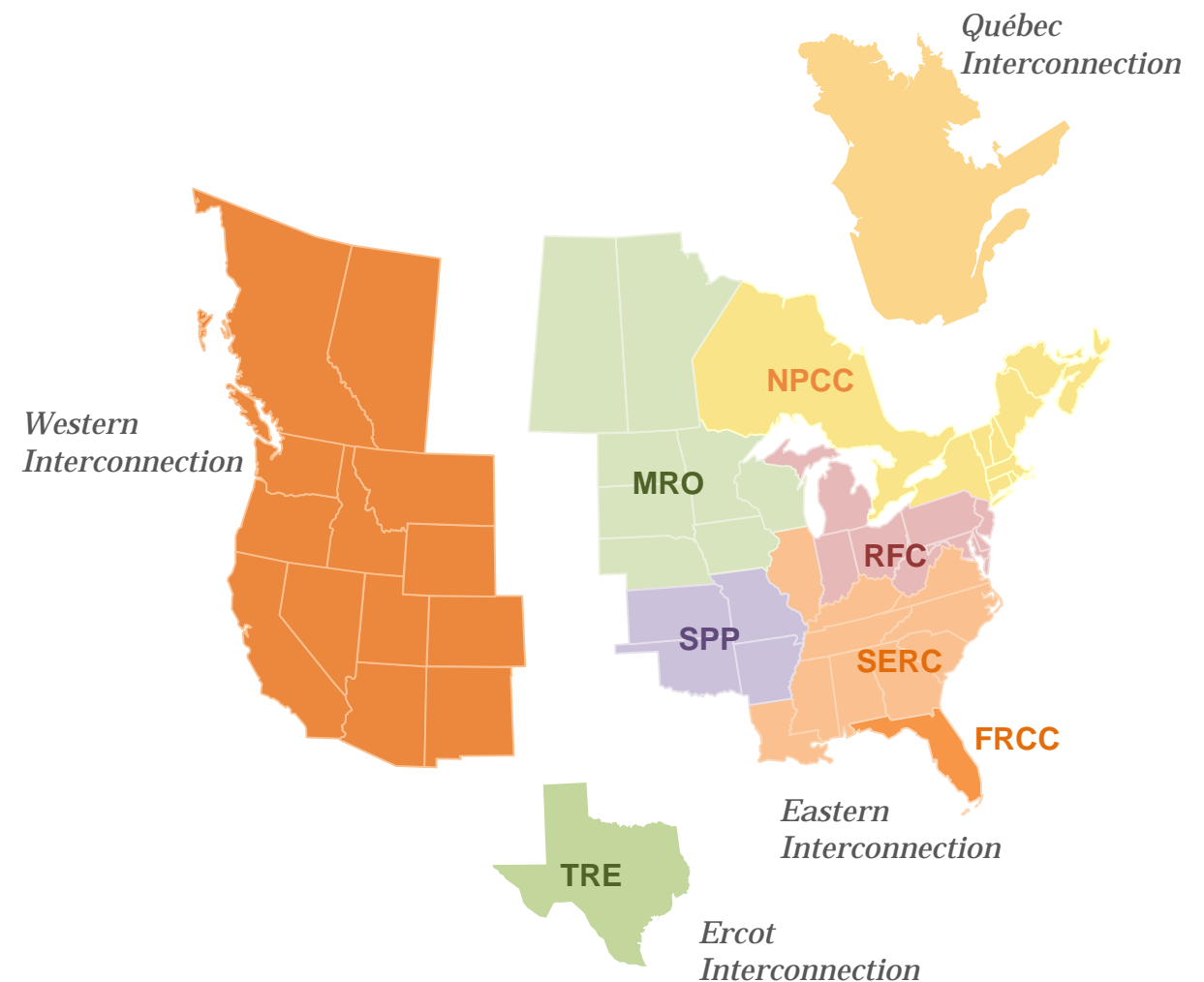
NERC defines a reliable bulk power system as one that is able to meet the electricity needs of customers even when unexpected equipment failures reduce the amount of available electricity.

NERC is divided into regions, and Tacoma Power is a member of the Western Electricity Coordinating Council (WECC). WECC is the regional entity responsible for monitoring and enforcing standards in the western interconnection.

Reliability Standards are continually evolving as new threats emerge or better information about existing standards arise. It is important to remain in compliance with the standards because entities found to be in violation of specific standards can face fines of as much as \$1 million dollars a day.

The purpose of the standards is to ensure grid reliability so that major blackouts like the one that occurred in 2003 do not happen again.

NERC Interconnections



As of June 2007, mandatory and enforceable NERC Reliability Standards became effective and applicable to Tacoma Power in its capacity as an owner operator, and use of the BPS.

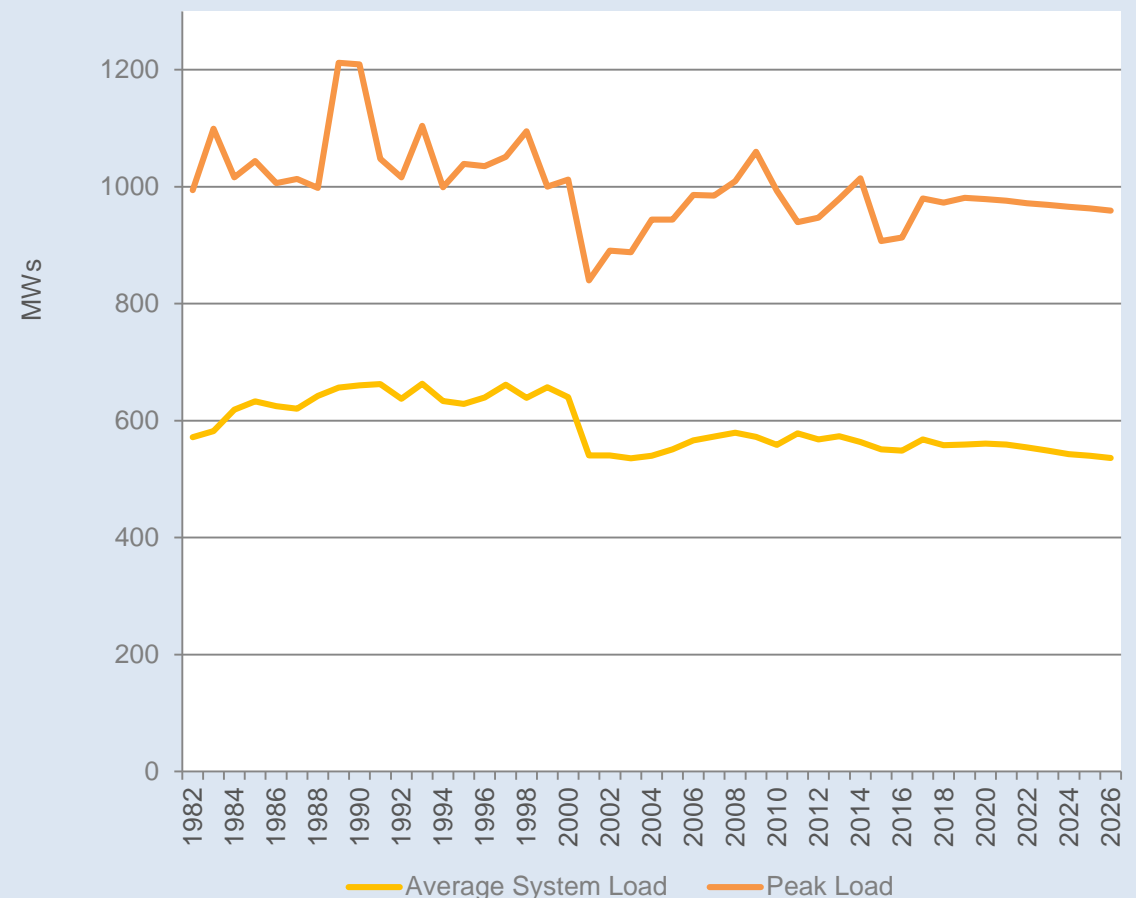
Economic Downturn

Over 75 percent of Tacoma Power's revenue comes from selling power and energy to electric retail customers. In an economic downturn, or recession, the economy slows down and Tacoma Power's retail load can be at risk. A slower economy often results in little to no new business growth. That means it's less likely for new businesses to start or for existing businesses to grow. In extended recessionary periods, existing businesses can actually shrink or be forced to shut their doors. Depending on the size of the customer, loss of retail loads can have a significant impact on Tacoma Power.

At one point in the utility's history, several large industrial customers had to close their businesses. Since Tacoma Power is a cost-of-service utility, those costs had to then be recovered from fewer customers. Whenever this happens, rates must be increased or costs must be reduced through such things as layoffs or reduction in services provided.

The chart to the right illustrates the actual and projected growth and decline of average and peak customer loads since 1982.

Tacoma Power System & Peak Loads



Decreasing Retail Loads

Nationally, electric companies are experiencing a decline in consumption. There are many different reasons for this but one that resonates with many people has to do with changing technology. As the picture below illustrates, the common everyday light bulb has changed significantly over time. It is difficult to buy a traditional incandescent bulb anymore and often LED bulbs are cheaper for consumers when given the option.

What happens when you replace an incandescent bulb with an LED is that you end up using less electricity. This is a good thing and we actually help people do this! Check out the existing list of programs at knowyourpower.com that our customers can take advantage of.

However, for an organization that sells electricity this means that Tacoma Power receives less revenue every time a customer installs a more efficient light bulb. It's not just light bulbs though. There are insulation upgrades, heating upgrades and many other ways customers are reducing their consumption. In fact, building standards and codes are being updated all the time and more efficient buildings and infrastructure are replacing less efficient buildings.

Additionally, customers are becoming more aware and interested in ways to modify their energy consumption and save money. All of this adds up to a steadily declining retail load forecast. This was one of the reasons for our last rate increase in April 2017 and a challenge we will be continuing to address moving forward.





Section 6 Impact Analysis

How different scenarios will likely impact the bottom line.



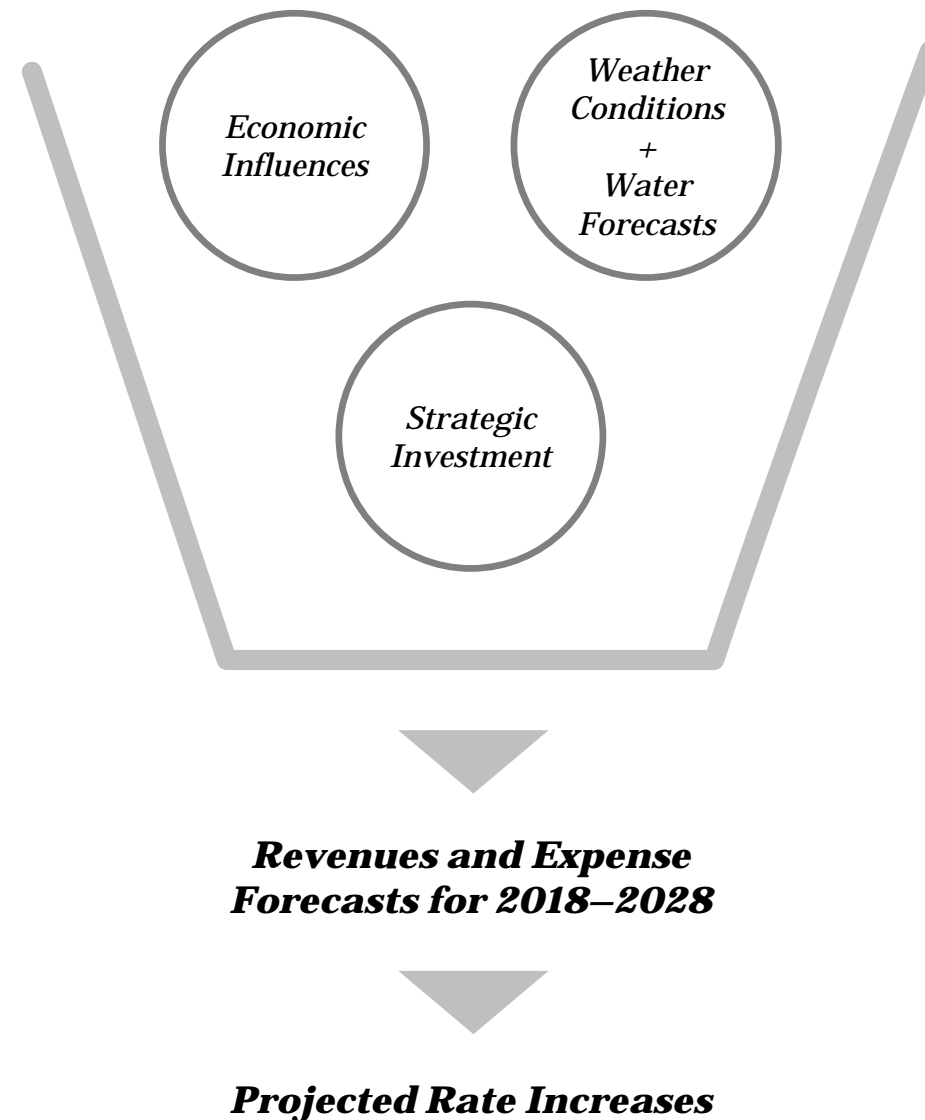
Financial Risk Analysis

Given the risk factors you read about in the previous section, Tacoma Power faces financial variability and uncertainty during the period covered by this LRFP. Analyzing the sensitivity from the risk factors can help improve Tacoma Power's ability to manage the financial impact of these risks. Let's think of those risks in three categories:

*One of the foremost risk categories is **weather conditions**, which creates the potential for diminished revenue.*

***Economic influences** in the region can either increase revenues through new business developments or reduce usage through the loss of customers.*

*Finally, Tacoma Power is reviewing **strategic investment** decisions and alternatives. These may result in changes to the magnitude and timing of cash flow needed to sustain the financial strength of the utility.*



Financial Risk Analysis (Cont.)

The table to the right summarizes how the impacts of some of these various risks can affect our rate increases.

The first scenario is what we call the Base Case, as previously described in the [Base Case](#) section. The next scenario includes a small change to the Base Case. It shows the impact if the water conditions were at critical inflow levels. Notice how the biggest impact occurs in future years, but there are more things happening in this scenario than what can be seen through looking at the rate changes here. In each of the scenario pages that follow specific details and an explanation are provided to help you understand some of the different components that are unique to that individual scenario.

The scenarios displayed here and in this section are not intended to represent all of the scenarios that we developed and analyzed. However, they provide you with the ability to see some of the various moving components and the effect of possible events. These scenarios also provide a range of possible outcomes that we feel relatively confident about given our current forecasts and other analyses.

Scenario	Projected Rate Increases									
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Base Case:										
Average Water Conditions	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Critical Water in 2021	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	3.5%	3.1%	2.0%	2.0%
Loss of Large Customer	2.0%	2.0%	3.0%	3.0%	3.0%	3.0%	4.0%	4.0%	2.0%	2.0%
Lower Wholesale Prices	2.0%	2.0%	2.0%	2.0%	4.4%	4.0%	2.5%	2.5%	2.0%	2.0%
Adverse Water in 2021 & 2022	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
No Rate Increase in 2019 & 2020	0%	0%	2.0%	2.0%	6.2%	2.0%	4.0%	2.0%	2.0%	2.0%

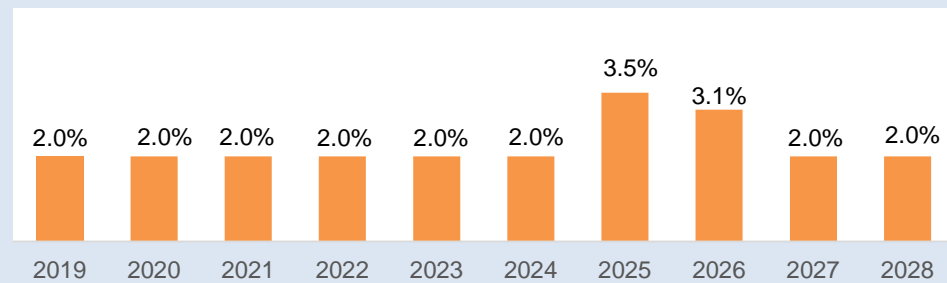
Critical Water Conditions

Tacoma Power is affected by the variability of snowpack and precipitation. Multiple years of dry weather and water shortages can have a significant impact on the financial strength of the utility through reduced revenues. This scenario demonstrates how one year of Critical water inflows in 2021 may impact Tacoma Power financially.

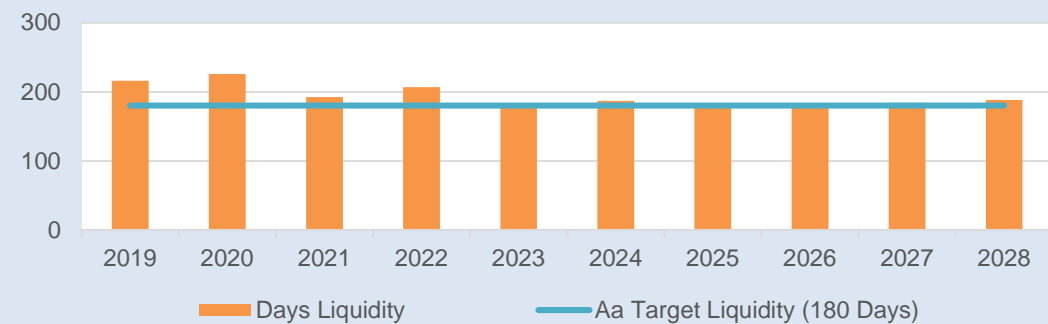
When Tacoma Power has a critical water year, there are much lower inflows into the reservoirs that we rely on to generate electricity. Under this scenario, most of the electricity that is generated needs to be used to serve our customer's needs. Tacoma Power does not have very much electricity to sell into the wholesale market, thereby reducing the amount of wholesale revenue the utility receives.

Illustrated in the Debt Service Coverage Ratio chart, the ratio falls well below the target in that year. We would likely use the Rate Stabilization Fund in such a year. In this case, we would use approximately \$16 million to get our Debt Service Coverage Ratio to 2.0 times debt service (shown as the green line in the chart to the right). The Rate Stabilization Fund would then be replenished over the next two biennia. You won't see the impact in the liquidity chart because the Rate Stabilization Fund is included in our Days Liquidity calculation.

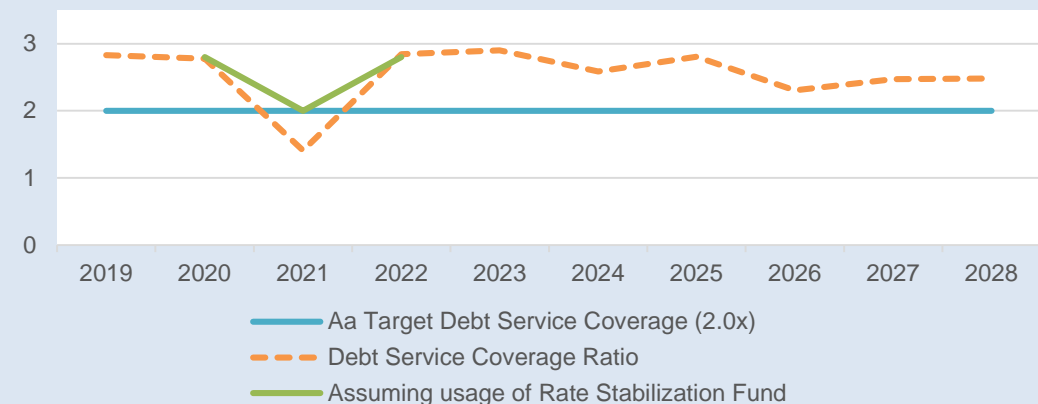
**Projected Rate Increase
Critical Water in 2021**



**Days Liquidity Ratio
Critical Water in 2021**



**Debt Service Coverage Ratio
Critical Water in 2021**



Loss of Large Customer

Losing a large retail customer due to local economic influences is one of the potential external risk factors facing Tacoma Power.

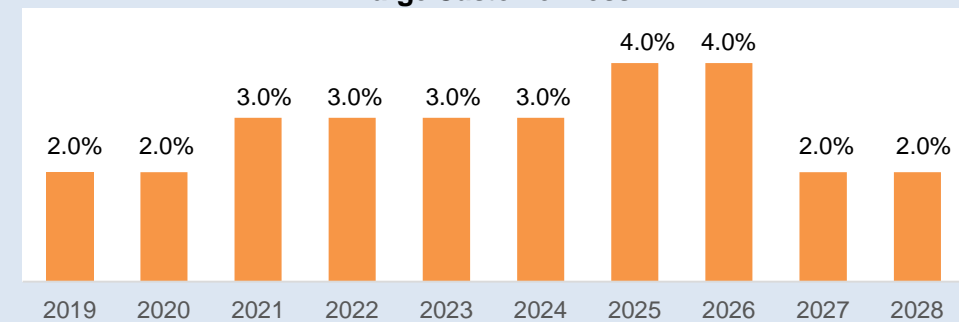
Under typical economic scenarios, retail sales represent 75 percent of total revenue.

If Tacoma Power were to lose a large retail customer, it makes sense that the amount of retail revenue earned would decrease. This would result in a decline in net revenues for Tacoma Power and affect rate increases in future years.

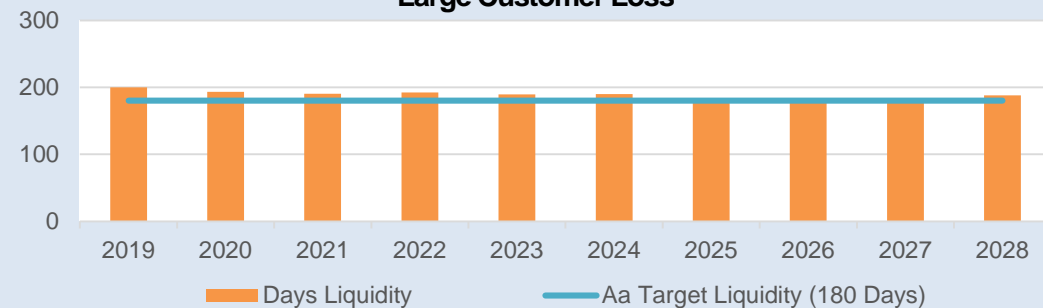
The opposite of this scenario could also have just the opposite effect. If Tacoma Power were to acquire a new large customer, such as a new large industrial customer, new apartment spaces, or retail businesses moving to the Tacoma service area, net revenues for the utility would increase. This would lead to lower rate increases in the near-term and future years.

The Base Case assumes the use of \$33 million to call bonds in 2023. This Loss of a Large Customer scenario does not include the bond call because reduced liquidity would require a 13% rate increase in 2023.

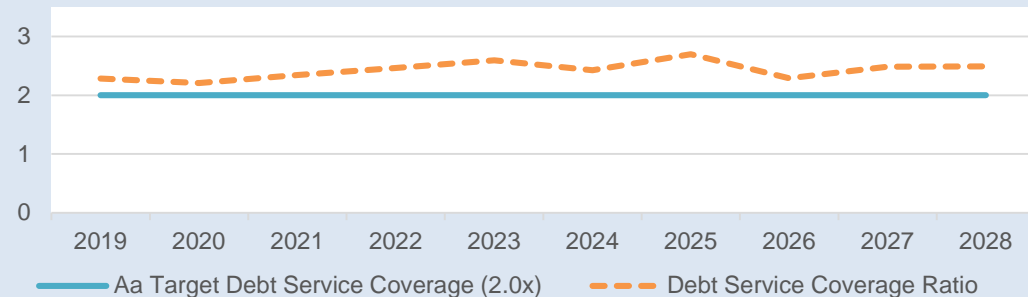
**Projected Rate Increase
Large Customer Loss**



**Days Liquidity Ratio
Large Customer Loss**



**Debt Service Coverage Ratio
Large Customer Loss**



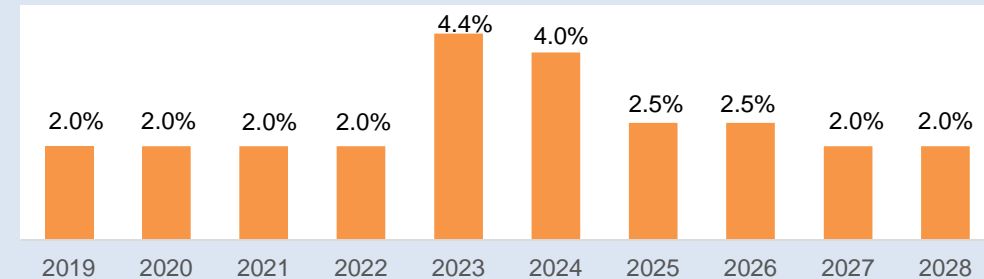
Lower Wholesale Prices

Most of the time we talk about adverse in terms of the water inflows into our system. However, we less often discuss the effect of wholesale market prices being something less than the current forecast. Our wholesale revenue is a product of the amount available to be sold and the wholesale market price that power is sold for. For this reason it also makes sense to look at the effect of lower than expected market prices.

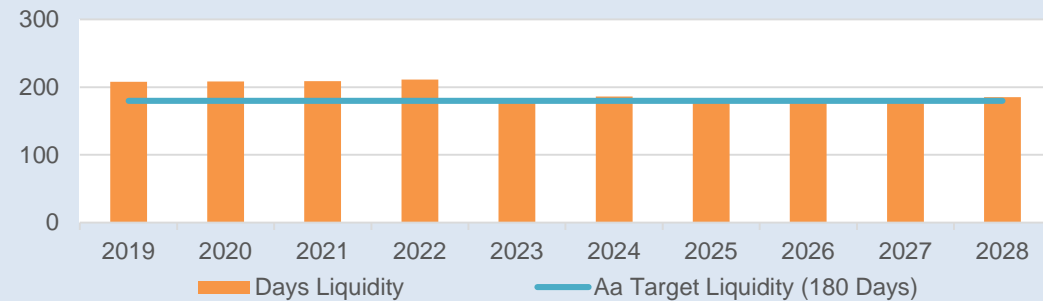
In this scenario we assumed the market prices were at the 25th percentile of the forecast used in the base case. This results in a fairly significant impact to Tacoma Power beginning in 2023. The projected rate increases between 2023 and 2026 are higher than in the base case.

It is unlikely for prices to fall this much but some of the risks explained about the transformation of the market on [page 69](#) are likely to push prices in this direction.

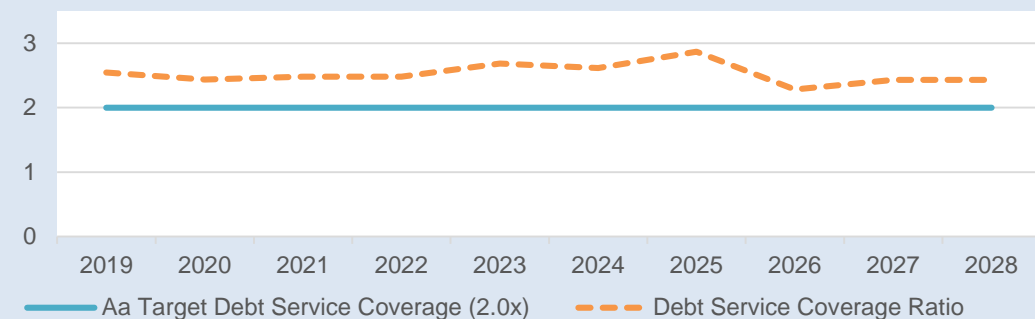
**Projected Rate Increase
Adverse Prices**



**Days Liquidity Ratio
Adverse Prices**



**Debt Service Coverage Ratio
Adverse Prices**



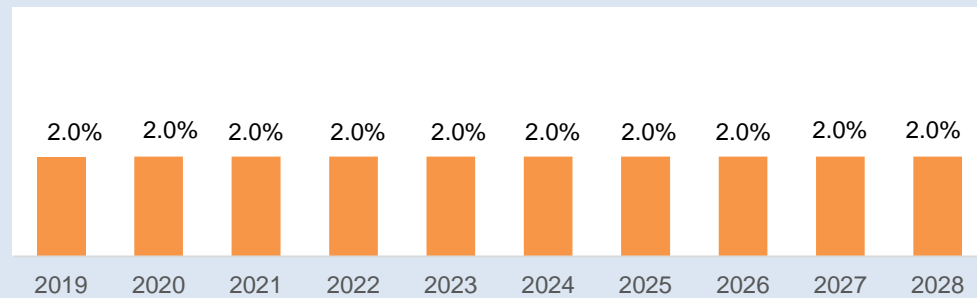
Adverse Water Conditions in 2021 and 2022

This scenario represents how we traditionally plan for water conditions when we set biennium budgets. We kept the water conditions over the remainder of the 2019 and 2020 biennium at average water and then forecast the rate increases necessary to maintain our financial metrics, given adverse water conditions in 2021 and 2022.

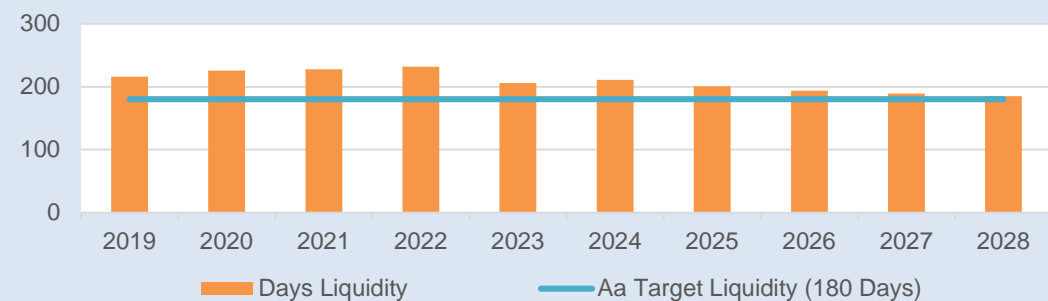
Due to many of the changes Tacoma Power has made to manage its financial performance in the last few years, like calling the outstanding 2005B Bonds, there is more flexibility in the near-term to absorb the impacts of two adverse water years in a row.

While this is also a relatively low probability type of event, the combination of prices and water conditions in the 2015/2016 biennium resulted in wholesale revenue levels equivalent to this very condition. The decline in wholesale revenue during the previous biennium is one of the items that contributed to a need for two 5.9 percent rate increases.

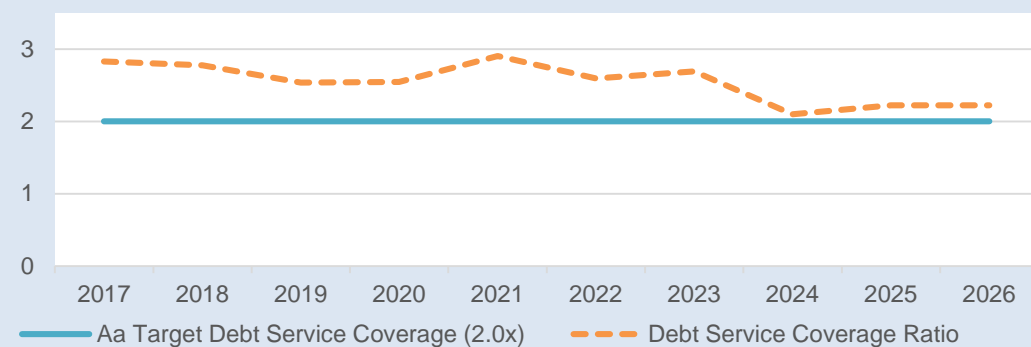
Projected Rate Increase
Adverse Water in 2021 & 2022



Days Liquidity Ratio
Adverse Water in 2021 & 2022



Debt Service Coverage Ratio
Adverse Water in 2021 & 2022

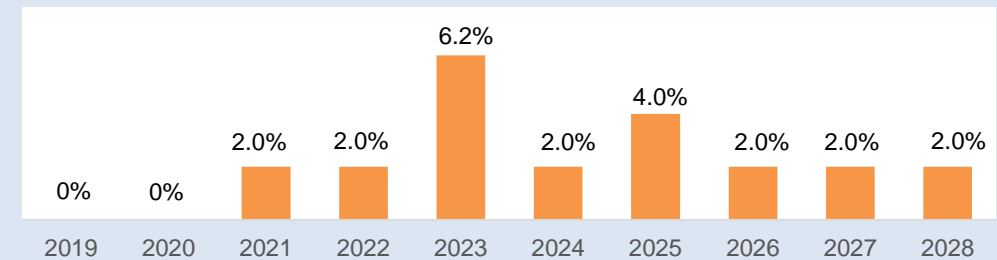


No Rate Increases in 2019 and 2020

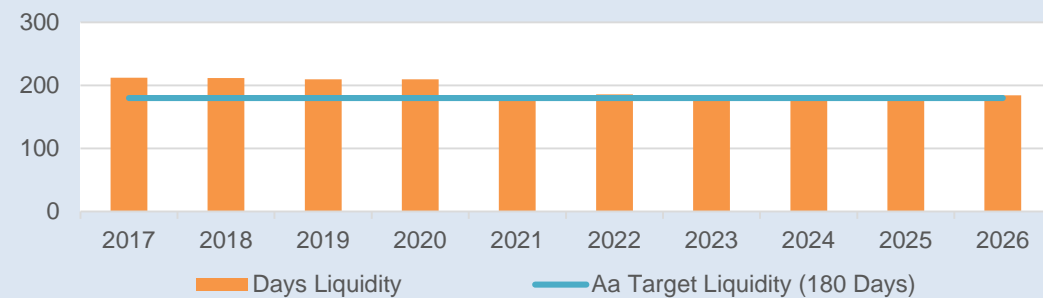
This final scenario illustrates the effect of a low rate increase in the 2019/2020 biennium. While Tacoma Power has sufficient room to accommodate this under the current forecasts, the tradeoff is that there will need to be higher rate increases in future years.

Tacoma Power prefers to have low and stable rate increases so that the impact to customers can be more easily managed and planned for. The result of not having a rate increase in 2019 and 2020 is that rate increases in future years will possibly be volatile.

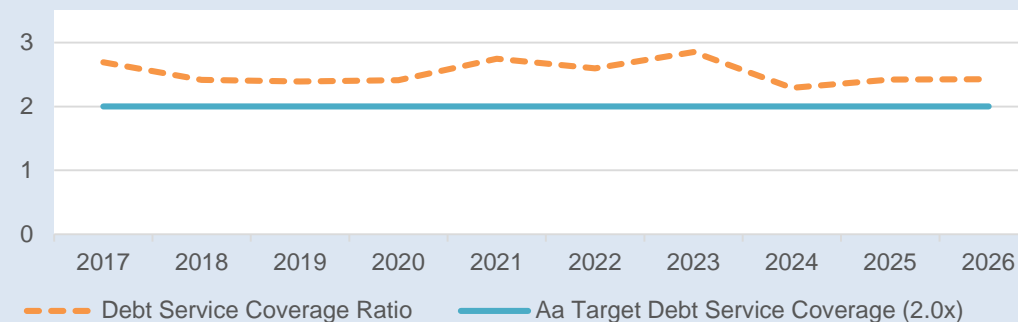
Projected Rate Increase
No Rate Increases in 2019 & 2020



Days Liquidity Ratio
No Rate Increases in 2019 & 2020



Debt Service Coverage Ratio
No Rate Increases in 2019 & 2020



Section 7 Funding the Plan

Carefully considering everything in the LRFP,
what is most likely to happen, and how do we plan to pay for it?



Electric Rate & Financial Policy

What's in the Policy?

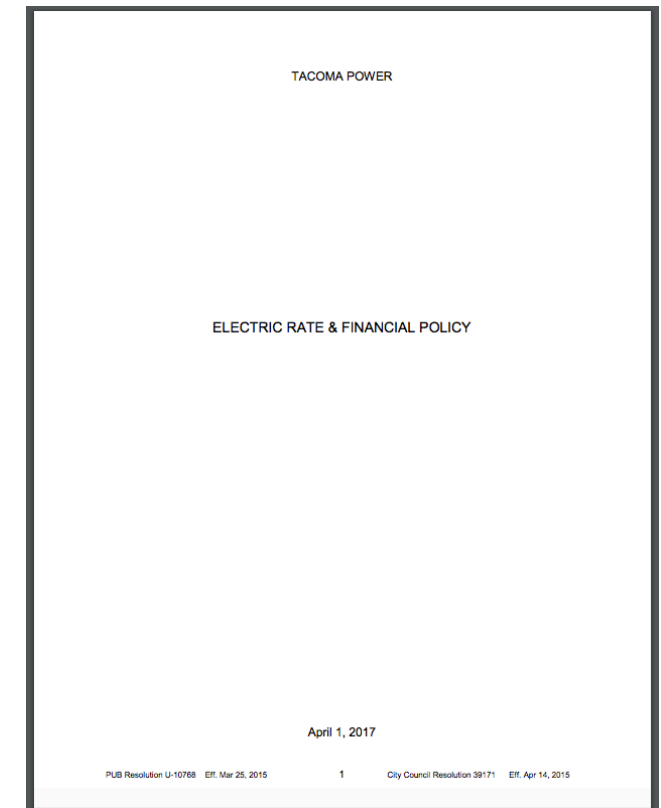
Our Electric Rate & Financial Policy provides guidance for managing the financial performance of the utility and is approved by our TPU Board and City Council. Related to many of the elements discussed in the LRFP, you will find the following sections in the Electric Rate & Financial Policy document:

- I. Rate Setting Objectives*
- II. Rate Review Process*
- III. Rate Setting Policies*
- IV. Financial Targets and Rate Setting Practices*
- V. Rate Stabilization Fund*

Section IV provides guidance on what it means for Tacoma Power to maintain sound financial metrics that support our current and future financing needs, support maintenance or improvement of credit ratings and minimize the cost of funds and risks associated with borrowing. This section also specifies our assumption to use Adverse water conditions for wholesale revenue during the budget planning period.

Section V includes information about the Rate Stabilization Fund. We use this fund as a means to manage potential volatility associated with our operating environment and can draw on the fund to mitigate the need for large rate changes from one year to the next. If you would like to know more about the Rate Stabilization Fund, check out [page 52](#).

The latest version of our Electric Rate and Financial Policy can be found on our website at the following link: <http://bit.ly/tpwr-erfp>



Cash Fund or Bond Fund?

We typically fund capital projects using either the money we receive from issuing bonds or from revenue collected. Our Electric Rate and Financial Policy states, “Under normal circumstances, major capital projects will be financed primarily with debt and fifty percent of all other capital requirements will be financed through rate revenues.” We make a determination at the start of each biennium about approximately how much of our capital budget should be funded with bonds or cash. However, we also look at actual spending and financial performance during the biennium and make adjustments as required.

Many of the assets Tacoma Power owns have long useful lives and we typically try to fund those assets with bond funds. If an asset is anticipated to be used for 30 years, we would expect that customers 30 years from now share in paying for the benefits that asset provides. Funding our long-term assets with bonds allows us to align the life of the assets with our payment of them.

Assets with a shorter life are often funded with revenue. However, it is a balancing act because as more debt is used to pay for assets, debt service expenses increase and put stress on future power rates.

Funding Guidelines

Major projects:

100% bond funded

Remaining projects:

50% bond funded & 50% revenue funded

The table below shows how actual capital spending has been funded. We have generally followed the guidelines in our Electric Rate and Financial Policy. However, there are times when we have used more revenue to pay for capital expenses. For example, we funded 100% of our 2017 capital project expenses with revenue and project to revenue-fund the majority of our 2018 capital projects as well.

Historical Cash and Bond Funding Ratios

	Revenue Funded Capital	Bond / Debt Funded Capital	Total Capital
2013/2014	38%	62%	\$120,439,200
2015/2016	32%	69%	\$159,437,900
2017/2018	100%	0%	\$138,887,000*
Average Funding	56%	44%	

* Estimated 2018 capital spending is projected to be funded with revenue and proceeds of draws on the short-term line of credit.

Leveling Out Existing Debt Service

Remember those spikes in our [debt service](#) chart? One of the first things we want to do is level those out.

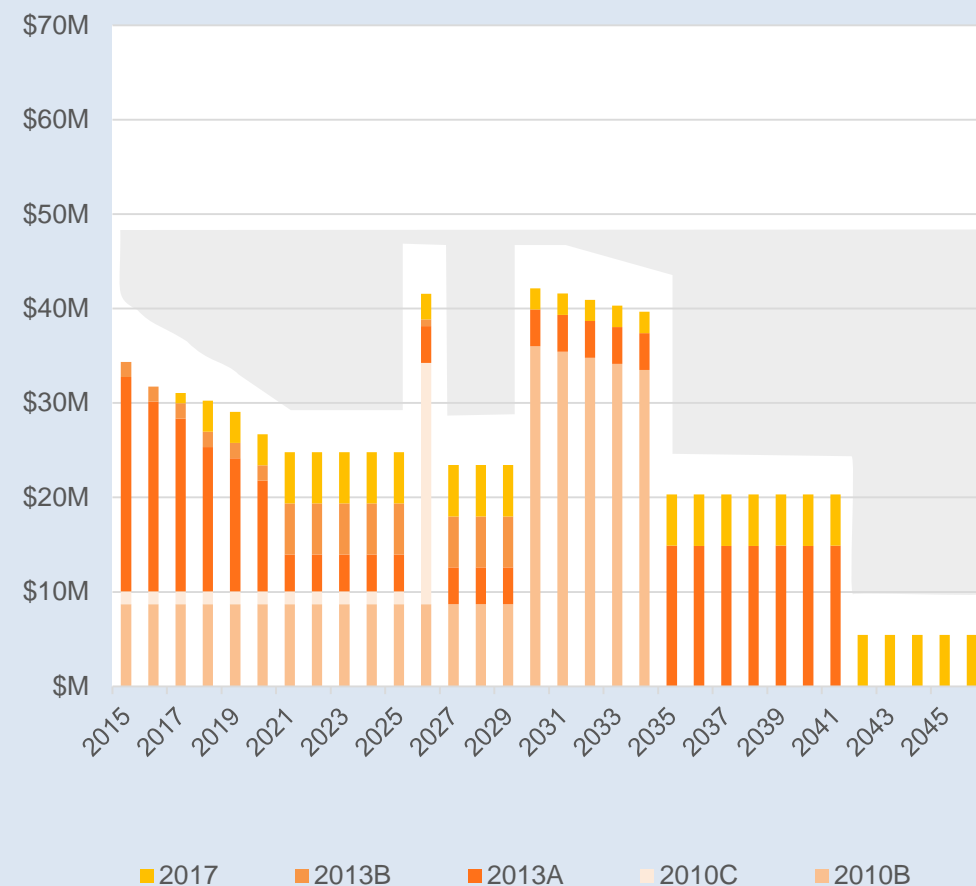
The gray area on the chart represents the gaps we can fill with debt in future years; not that it has to be filled up in all of those years. We will also be extending this chart beyond 2045 as we add capital projects that have a life beyond the next 25 years. The placement of debt is a primary consideration when issuing future bonds and a key part of our strategic investment decisions.

The placement of debt is affected by interest rates:

- If interest rates on existing bonds are higher than current rates, then we may want to pay principal and interest sooner.
- If interest rates are lower when we issue bonds, it would be financially beneficial to push debt service payments out further.

Another assumption included in the LRFP that allows for leveling of the existing debt service is the call and defeasance of bonds beginning in 2023. On July 1, 2023, we may redeem approximately \$32.5 million of outstanding Bonds. We also could defease up to \$15,000,000 in 2025 of other outstanding Bonds. Both the bond call and defeasance will help stabilize rates and Tacoma Power's financial metrics in future years. Any such redemption or defeasance is preliminary and subject to Board and Council approval.

Current Debt Service Profile



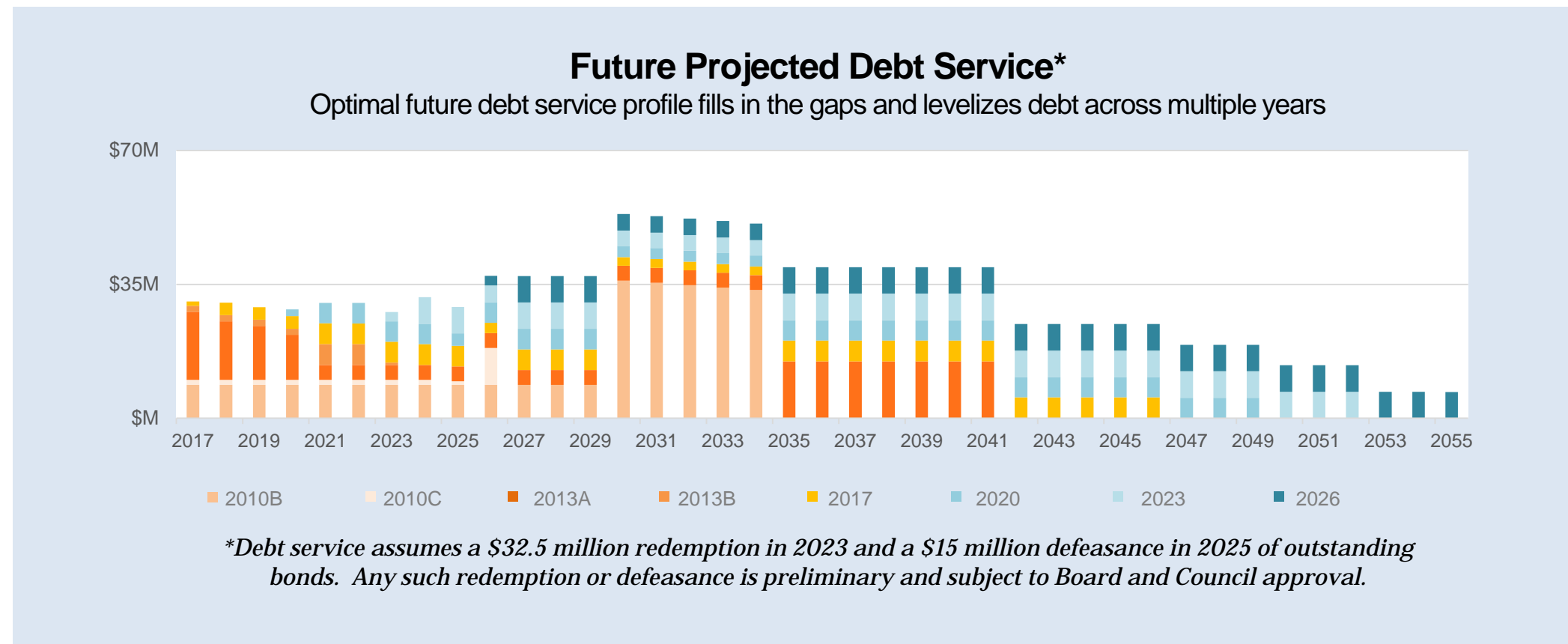
Tacoma Power has [defeased](#) and [called](#) bonds in the past and could do so in the future. No decision has been made about future bond repayments or retirements.

Projected Debt Service

In our expected scenario, the LRFP assumes the issuance of approximately \$100 million in long-term fixed-rate bonds in 2020, 2023, and 2026 with payments that are spread over 30 years. These funds will repay spending on capital projects during the prior biennium.

The graph below illustrates the base case future bond issuances that will refund spending on capital projects targeted in future biennia.

The combination of the existing bond issues and projected future bond issues will be structured to level out the future debt service as described on the previous slide.



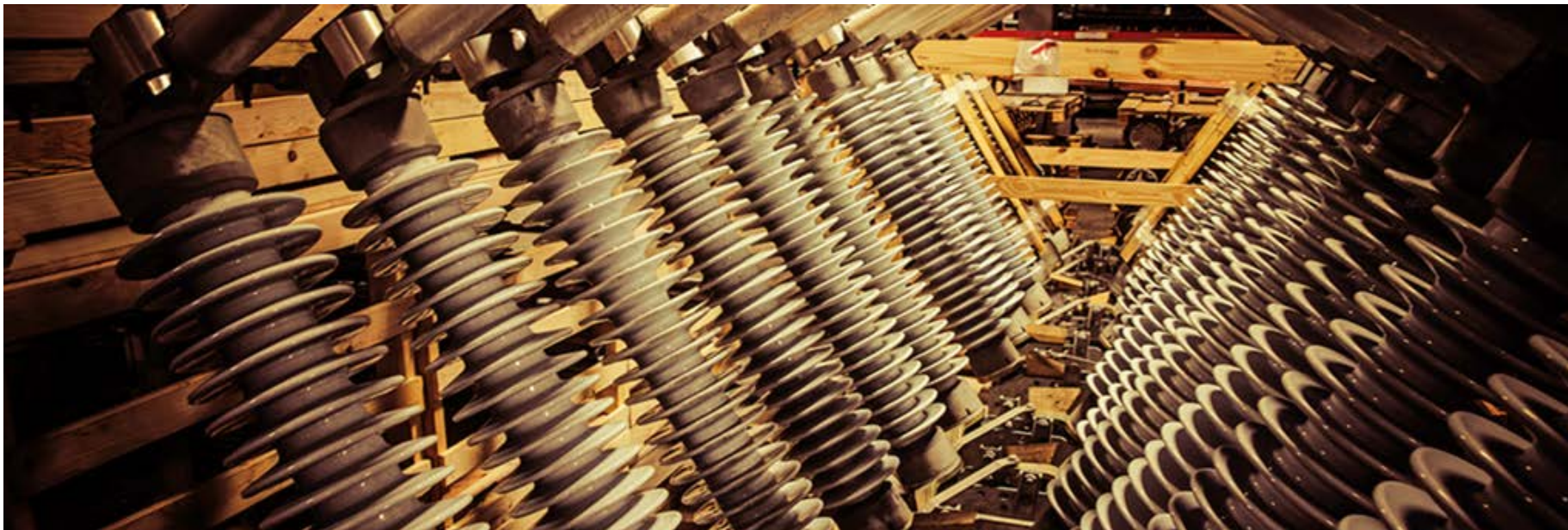
* Not included in the graph is the debt service due on the short-term line of credit from Wells Fargo that is currently used to manage the initial spending on bond-funded capital projects.



Section 8 Making it Happen

The key objectives Tacoma Power
will pursue over the next year





The following pages describe four actions we are taking to minimize our costs, maximize our revenues, and minimize the rates necessary to provide safe and reliable electricity. As part of our LRFP development, we would like to quantify our efforts to lower costs and improve processes. We plan to show the impact of our action items through the use of metrics in the future.

1. Managing Rates

Tacoma Power actively engages in activities to minimize costs and maximize revenues which are described on the next page.

2. Concurrent Approval of Budget and Rates

We will be using the LRFP forecasts instead of our budget to develop estimates of the revenue required to pay for expenses.

3. Strategic Asset Management

The Strategic Asset Management program will improve the cost evaluation of installation, operating, maintaining, and disposal of assets to make sure the overall lowest cost option is chosen.

4. Project Management Office

While the asset management program will identify assets for replacement, the PMO will make sure they get replaced in a timely and efficient manner. The Asset Management and PMO programs will be closely linked together.

Action #1

Managing Rates

Some of the actions mentioned previously are longer-term strategies to increase efficiency and reduce costs across the utility. However, there are many other initiatives we have undertaken to reduce costs and increase revenues in the near-term as well.

Recently, we launched a strategic initiative to identify cost savings and new revenue initiatives in each section of Tacoma Power. Some of the items require small changes to the way we approach our work but other items will require time and planning to implement and move forward with the changes. Some examples of these initiatives are listed below.

Cost Savings and Revenue Enhancement Initiatives:

Debt Restructuring reduces debt by \$31 million a year

Review and Repurpose Vacancies results in a \$10 million reduction in personnel costs annually

Fleet Program Changes will reduce the number of vehicles, saving \$4 million in replacement costs and even more in overhead and maintenance costs.

Capital Business Case Review Process helps inform spending on capital projects and resulted in a \$30 million reduction in the 2019/2020 biennium capital budget.

New Power Management Revenue Opportunities increase revenue through the sales of non-traditional innovative power products by approximately \$5 million annually.



Action #2

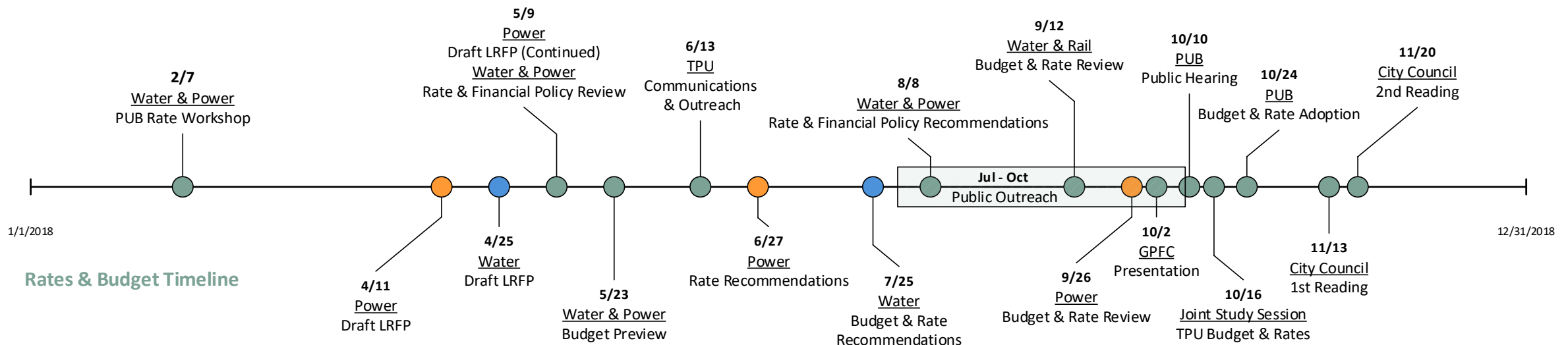
Concurrent Consideration and Approval of Budget and Rates

During the 2017/2018 budget and rate process, it was requested that rate increases be approved concurrent with the biennial budget. Historically the budget has been approved and then rate increases are recommended to the Public Utility Board and City Council for approval. The new process will recommend the Public Utility Board and City Council approve both at the same time.

To accomplish this, assumptions about future revenues and expenses will be used to guide decision making. The forecast of revenues required to pay for expenses, is also known as the Revenue Requirement Forecast.

In developing this LRFP, we forecast the revenue requirement and the potential rate increases over ten years. We discuss the driving factors influencing the rate increases necessary to pay for the forecasted expenses. The first two years of the base case in this LRFP represents the Revenue Requirement Forecast and indicates that a two percent annual rate increase in 2019 & 2020 will be necessary to pay for expected expenses. We are in the process of reviewing these rates with the Board and the public shown in the timeline below.

There are benefits to setting rates based on estimates of future revenues and spending. The revenue requirement will be informed by historical actual spending, which will allow us to minimize rate increases. This new methodology to establish our biennial budget and rates concurrently is still underway and will reduce the approval process time for the Board and Council.



Action #3

Strategic Asset Management

Tacoma Power is launching a Strategic Asset Management program. We have been doing asset management for as long as we have owned assets but we believe we can do it in a better and more efficient manner that will provide significant benefits to the utility and our customers.

The objectives of Tacoma Power's strategic asset management program focus on making decisions about our assets that keep costs low while providing the level of service our customers expect.

To meet these objectives, the program is developing strategies and work plans for our infrastructure based on whole life cost analysis. This means the total cost over the life of the asset is evaluated to make sure it's as low as possible. For example, when procuring new equipment we consider more than just the purchase price. The asset management approach is to evaluate the cost of installation, operating, maintaining, and disposal to make sure the overall lowest cost option is chosen.

We expect this new program to help us develop efficiencies across the organization, standardize approaches to managing assets, and transfer knowledge when employees transition to new positions. It is expected to take us several years to mature to where we want to be but we anticipate a number of long-term cost savings to the utility.



Action #4

Capital Portfolio Management Office

Tacoma Power's capital improvement budget for this biennium is more than \$190 million. That represents many different types of capital projects. Some only take a few months to complete while others will take the entire biennium. Some of the projects are only a few thousand dollars and others are millions of dollars. It takes excellent project management skills and tools to coordinate the staff and materials to complete all of these projects.

A recent gap analysis on existing project management practices across the utility identified a number of areas that we believe we can improve. Similar to our approach in developing a strategic asset management program, we are in the process of developing a Capital Portfolio Management Office (PMO). In fact, these two programs will be closely linked together.

Our asset management program will identify assets for replacement and the PMO will make sure they get replaced in a timely and efficient manner.

This program is just getting started but it will provide project managers across the utility with guidance for how to implement and use best practices in project management tools and techniques. The PMO will report information regarding capital projects and provide metrics that facilitate more informed decision making for project managers and the leadership of Tacoma Power. This is a long-term strategy for reducing expenses as the program will allow for better budget planning, increased efficiency, and cost savings.





Section 9 Glossary

Defining a few key terms



Glossary

Accrual method

Under the accrual basis of accounting, expenses are matched with the related revenues and/or are reported when the expense occurs, not when the cash is paid.

Additions and replacements (A&R)

Costs to improve existing assets. Capital additions can take the form of replacing or adding new parts that may increase useful life or potential performance.

Administrative & general (A&G)

Expenses necessary to operate a business, which are not related to materials, labor, or sale of goods or services, such as office supplies, rent, and janitorial services.

Adverse water

The amount of water that came into the Tacoma Power reservoirs during the lowest 25% of recorded historical years on record. This amount of water flow occurs one out of every four years.

Asset life analysis

The process of identifying and documenting all the costs expected over the life of an asset. This includes equipment and facilities. This information is needed to make decisions on the acquisition and ongoing use of assets.

Average water

The amount of water that comes into the Tacoma Power reservoirs on a regular basis. This amount of water flow occurs one out of every two years, or fifty percent of the time.

Base case

A set of financial expectations that represent a “best guess” of the current financial outcomes if unexpected happens. The base case assumes that there will not be major policy changes, unforeseen disasters, or other game-changing events.

Biennium

A specified period of two years and the cycle of Tacoma Power’s budgeting efforts.

Base case analysis

Comparing the Base Case forecast with alternative scenarios. It shows the relative effects of scenario changes to the “Base Case” version of the future.

Bonds

A debt security where an investor loans money to a corporation or government for a defined period of time at a variable or fixed interest rate. Bonds are used by corporations, municipalities, and governments to raise money and finance a variety of projects and activities.

Bond call

When an issuer calls its bonds, the issuer buys back the bonds from the investors prior to the bonds’ maturity date. The issuer pays investors the call price (usually the face value of the bonds) together with accrued interest to date and, at this point, the issuer stops making interest payments.

Capital

Assets or property having value owned by a person or organization.

Capital Improvement Program (CIP)

A four to ten year plan that identifies capital projects and equipment purchases. It provides a planning schedule and options for financing the plan.

Capital Steering Committee (CSC)

A committee of individuals that leverages their experiences, expertise, and insight to make informed decisions and drive the capital program. The CSC prioritizes potential capital projects, and monitors the project status to ensure that the business objectives are adequately addressed.

Glossary cont.

Conservation

Energy conservation is the effort made to reduce the consumption of energy by using less of an energy service.

Cost of service analysis (COSA)

The process of allocating utility expenses among the different classes of customers. Not all customers use the same resources. The COSA ensures users pay for their share of the costs they impose on the utility in the form of rates.

Cost of service utility

A utility where customers are charged rates based on what it costs to provide service.

Credit rating

An estimated ability of an organization to fulfill their financial commitments.

Critical water

The amount of water that came into the Tacoma Power reservoirs during the lowest year on record.

Customer classes

Customer classes are the broad rate groups used to allocate costs to customers. Examples are residential, commercial and industrial.

Days liquidity ratio (days cash on hand)

The number of days that an organization can continue to pay its operating expenses, given the amount of cash available.
$$(\text{Unrestricted Cash} \times 365 \text{ Days}) / (\text{Total Operating Expenses})$$

Debt service

The cash that is required to cover the repayment of interest and principal on a debt for a particular period.

Debt service coverage ratio (DSCR)

A measure of the cash flow available to pay current debt interest, principal and lease payments.

$$\text{DSCR} = (\text{Operating Revenues} - \text{Operating Expenses}) / \text{Debt Service}$$

Debt ratio

The ratio shows the percentage of debt used to finance a company's assets.
$$\text{Debt Ratio} = \text{Total Debt Service Owed} / \text{Value of Total Assets}$$

Defease

Setting aside funds to pay for the interest and principal owed on debt. This removes the liabilities from the balance sheet of the borrower.

Financial plan

A financial plan is a comprehensive evaluation of the utility's current and future financial state by using currently known variables to predict future revenues, expenses, asset values and debt service plans.

Heavy load hours

Heavy load hours are defined as the morning through evening hours when energy demand is highest. Heavy load hours are typically 6 a.m. to 10 p.m., Monday through Saturday.

Henry Hub

A natural gas distribution hub and trading point in the North America natural gas pipeline system, located near Erath, Louisiana. Henry Hub is also the standard delivery point for the NYMEX natural gas futures contract in the US. The contracts are traded 18 months into the future and are used as a primary financial hedging tool in the marketplace. When you hear someone say, "Natural gas is trading for \$XX," they're referring to the Henry Hub price for the current month's contract.

Hydroelectric

The generation of electricity using flowing water to power a generator.

Glossary cont.

Hydrology

The scientific study of the movement, distribution, and quality of water, including the water cycle and water resources.

Light load hours

Light load hours include the later night time and early morning hours when energy demand is the lightest. Light load hours are typically 10p.m. to 6 a.m., Monday through Saturday and all day Sunday.

Load

Generic term for something in the electric system that draws power, such as lights and appliances.

Load forecast

Load forecasting is a technique used to predict the energy needed to meet the demand and supply of power. The accuracy of forecasting is of great significance for the operational and managerial loading of a utility company.

Megawatt-hours

A unit for measuring power that is equivalent to one million watts. One megawatt is equivalent to the energy produced by 10 automobile engines. A megawatt hour (MWh) is equal to 1,000 Kilowatt hours (KWh) used continuously for one hour.

Mid-Columbia trading hub

Mid-C is a power trading hub for the Northwest U.S. comprising the control areas of three public utility districts in Washington that run hydroelectric projects on the Columbia River. The three PUDs are Grant, Douglas and Chelan.

Power purchase agreements

A contract between two parties, one which generates electricity (the seller) and one which is looking to purchase electricity (the buyer).

Public Utility Board

The five-member board that oversees the management and operations of Tacoma's electric, water, and rail utilities.

Rating agency

A credit rating agency rates a borrower's ability to pay back debt by making timely interest payments and the likelihood of default.

Renewable Resources

A resource which can be used repeatedly and replaced naturally. Examples include oxygen, fresh water, solar energy and biomass.

Renewable Portfolio Standard

Initiative 937 in Washington state calls for electric utilities that serve more than 25,000 customers in the state of Washington to obtain 15% of their electricity from new renewable resources by 2020 and to undertake all cost-effective energy conservation.

Scenarios

A potential future situation that creates risk or provides an opportunity.

Shale gas

Natural gas trapped within shale formations. Shales are fine-grained sedimentary rocks that can be rich sources of petroleum and natural gas.

Sumas

Northwest Sumas, located in Washington on the border with Canada, forms the primary natural gas trading hub for consumers in the Pacific Northwest (Washington, Oregon, and Idaho).

Surety

Surety is the guarantee of the debts of one party by another. The party that guarantees the debt, known as the surety, is often an organization assuming the responsibility of paying the debt in the event that the debtor is unable to make the payments.

Wholesale

"Wholesale" is the sale of electricity to other power providers, and not regular customers.

More Information & Contact Info

This document is a product of Tacoma Power's Rates, Planning & Analysis Team

After making it this far, you may have additional questions. We aimed to produce a document that informs, increases transparency, and starts essential conversations around some of the things we're thinking about. If you direct your questions to the email below, we will get back to you.

Rates, Planning & Analysis Manager

PowerFinance@cityoftacoma.org

Tacoma Power Website

Investor Relations Page

<http://bit.ly/tpwr-investorinfo>

Tacoma Power Homepage

<https://www.mytpu.org/tacomapower>

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Section 10 Appendix

Maybe you want to see a few more of the numbers?



Base Case

Page 57

Projections (\$ in Millions)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
System Average Rate Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Retail Sales of Electricity	\$371.12	\$375.14	\$385.48	\$390.56	\$395.74	\$401.18	\$407.83	\$414.43	\$421.13	\$427.12
Revenues from Wholesale Sales	58.04	60.66	64.47	66.78	69.31	72.39	68.82	71.48	71.76	74.50
Other Operating Revenues	50.68	51.72	51.18	51.27	51.42	51.24	51.40	51.43	52.76	53.31
Total Revenues	\$479.84	\$487.53	\$501.12	\$508.62	\$516.47	\$524.82	\$528.05	\$537.34	\$545.65	\$554.93
Operations & Maintenance	\$338.10	\$348.06	\$353.82	\$359.41	\$371.34	\$377.61	\$383.82	\$392.76	\$403.10	\$411.17
Operating Taxes	21.88	22.14	24.08	23.08	23.44	23.80	24.23	24.66	25.17	25.67
Total Operating Expenses	\$359.98	\$370.20	\$377.89	\$382.49	\$394.78	\$401.42	\$408.05	\$417.42	\$428.27	\$436.84
Gross Earning Taxes	35.43	36.00	35.81	37.82	38.41	39.04	39.28	39.98	32.79	33.40
Revenue Available for Debt Service	\$ 84.43	\$ 81.32	\$ 87.42	\$ 88.31	\$ 83.28	\$ 84.36	\$ 80.72	\$ 79.94	\$ 84.59	\$ 84.68
Net Debt Service on Bonds	\$ 29.85	\$ 29.27	\$ 30.94	\$ 30.93	\$ 28.60	\$ 32.45	\$ 29.91	\$ 38.01	\$ 38.01	\$ 38.00
Adjusted Debt Service Coverage Ratio*	2.83	2.78	2.83	2.85	2.91	2.60	2.70	2.10	2.23	2.23
Adjusted Days Liquidity	216	226	236	249	223	228	218	210	206	201

* Adjusted Debt Service Coverage Ratio reflects our coverage after the transfer of 7.5% Gross Earnings Taxes to the City of Tacoma

Critical Water in 2021 Scenario

Page 79

Projections (\$ in Millions)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
System Average Rate Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	3.50%	3.10%	2.00%	2.00%
Retail Sales of Electricity	\$371.12	\$375.14	\$385.48	\$390.56	\$395.74	\$401.18	\$411.85	\$423.56	\$431.93	\$438.08
Revenues from Wholesale Sales	58.04	60.66	19.93	66.78	69.31	72.39	68.82	71.48	71.76	74.50
Other Operating Revenues	50.68	51.72	51.18	50.84	50.98	50.79	50.95	51.01	52.42	53.06
Total Revenues	\$479.84	\$487.53	\$456.59	\$508.18	\$516.03	\$524.37	\$531.62	\$546.05	\$556.11	\$565.64
Operations & Maintenance	\$338.10	\$348.06	\$356.54	\$359.41	\$371.34	\$377.61	\$383.82	\$392.76	\$403.10	\$411.17
Operating Taxes	21.88	22.14	24.08	23.06	23.42	23.78	24.37	24.99	25.58	26.09
Total Operating Expenses	\$359.98	\$370.20	\$380.61	\$382.47	\$394.76	\$401.40	\$408.19	\$417.76	\$428.68	\$437.26
Gross Earning Taxes	35.43	36.00	32.47	37.79	38.38	39.00	39.55	40.63	33.41	34.04
Revenue Available for Debt Service	\$ 84.43	\$ 81.32	\$ 43.51	\$ 87.92	\$ 82.89	\$ 83.97	\$ 83.89	\$ 87.67	\$ 94.02	\$ 94.33
Net Debt Service on Bonds	\$ 29.85	\$ 29.27	\$ 30.94	\$ 30.93	\$ 28.60	\$ 32.45	\$ 29.91	\$ 38.01	\$ 38.01	\$ 38.00
Adjusted Debt Service Coverage Ratio*	2.83	2.78	1.41	2.84	2.90	2.59	2.80	2.31	2.47	2.48
Adjusted Days Liquidity	216	226	192	207	182	187	180	180	184	188

* Adjusted Debt Service Coverage Ratio reflects our coverage after the transfer of 7.5% Gross Earnings Taxes to the City of Tacoma

Loss of Large Customer Scenario

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Projections (\$ in Millions)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
System Average Rate Increase	2.00%	2.00%	3.00%	3.00%	3.00%	3.00%	4.00%	4.00%	2.00%	2.00%
Retail Sales of Electricity	\$ 352.86	\$356.59	\$368.98	\$377.41	\$386.06	\$395.13	\$408.19	\$422.86	\$432.37	\$438.43
Revenues from Wholesale Sales	58.04	60.66	64.47	66.78	69.31	72.39	68.82	71.48	71.76	74.50
Other Operating Revenues	50.60	51.49	50.85	50.80	50.82	50.88	50.98	51.01	52.41	53.06
Total Revenues	\$ 461.51	\$ 468.74	\$ 484.29	\$ 494.99	\$506.19	\$ 518.40	\$ 527.99	\$ 545.35	\$ 556.54	\$ 565.98
Operations & Maintenance	\$ 338.10	\$ 348.06	\$ 353.82	\$ 359.41	\$ 371.34	\$ 377.61	\$ 383.82	\$392.76	\$403.10	\$411.17
Operating Taxes	21.16	21.40	23.42	22.55	23.04	23.55	24.23	24.97	25.60	26.10
Total Operating Expenses	\$ 359.26	\$ 369.47	\$ 377.24	\$ 381.96	\$ 394.38	\$ 401.17	\$ 408.05	\$ 417.73	\$ 428.70	\$ 437.27
Gross Earning Taxes	34.07	34.61	34.54	36.80	37.64	38.56	39.28	40.58	33.44	34.07
Revenue Available for Debt Service	\$ 68.18	\$ 64.66	\$ 72.51	\$ 76.23	\$ 74.17	\$ 78.67	\$ 80.67	\$ 87.04	\$ 94.40	\$ 94.64
Net Debt Service on Bonds	\$ 29.85	\$ 29.27	\$ 30.94	\$ 30.93	\$ 28.60	\$ 32.45	\$ 29.91	\$ 38.01	\$ 38.01	\$ 38.00
Adjusted Debt Service Coverage Ratio*	2.28	2.21	2.34	2.46	2.59	2.42	2.70	2.29	2.48	2.49
Adjusted Days Liquidity	200	194	190	192	189	190	180	180	184	188

* Adjusted Debt Service Coverage Ratio reflects our coverage after the transfer of 7.5% Gross Earnings Taxes to the City of Tacoma

Lower Wholesale Price Scenario

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Projections (\$ in Millions)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
System Average Rate Increase	2.00%	2.00%	2.00%	2.00%	4.40%	4.00%	2.50%	2.50%	2.00%	2.00%
Retail Sales of Electricity	\$370.88	\$374.88	\$385.21	\$390.29	\$401.71	\$415.73	\$426.71	\$435.74	\$443.50	\$449.80
Revenues from Wholesale Sales	46.99	48.00	50.72	52.06	53.99	56.36	53.55	55.61	55.78	57.88
Other Operating Revenues	50.63	51.59	50.99	50.98	51.01	50.77	50.93	51.01	52.41	53.04
Total Revenues	\$468.50	\$474.47	\$486.93	\$493.33	\$506.71	\$522.85	\$531.19	\$542.35	\$551.69	\$560.72
Operations & Maintenance	\$336.10	\$345.97	\$351.43	\$356.82	\$368.64	\$374.80	\$380.94	\$389.77	\$400.08	\$408.05
Operating Taxes	21.87	22.12	24.06	23.06	23.66	24.35	24.94	25.46	26.03	26.54
Total Operating Expenses	\$357.97	\$368.09	\$375.49	\$379.88	\$392.30	\$399.15	\$405.88	\$415.24	\$426.10	\$434.60
Gross Earnings Taxes	34.59	35.03	34.74	36.67	37.68	38.89	39.52	40.36	33.15	33.75
Revenue Available for Debt Service	\$ 75.94	\$ 71.34	\$ 76.69	\$ 76.78	\$ 76.73	\$ 84.81	\$ 85.79	\$ 86.76	\$ 92.44	\$ 92.37
Net Debt Service on Bonds	\$ 29.85	\$ 29.27	\$ 30.94	\$ 30.93	\$ 28.60	\$ 32.45	\$ 29.91	\$ 38.01	\$ 38.01	\$ 38.00
Adjusted Debt Service Coverage Ratio*	2.54	2.44	2.48	2.48	2.68	2.61	2.87	2.28	2.43	2.43
Adjusted Days Liquidity	208	208	209	211	180	186	181	181	183	186

* Adjusted Debt Service Coverage Ratio reflects our coverage after the transfer of 7.5% Gross Earnings Taxes to the City of Tacoma

Adverse Water in 2021 & 2022 Scenario

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Projections (\$ in Millions)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
System Average Rate Increase	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Retail Sales of Electricity	\$371.12	\$375.14	\$385.48	\$390.56	\$395.74	\$401.18	\$407.83	\$414.43	\$421.13	\$427.12
Revenues from Wholesale Sales	58.04	60.66	55.04	56.67	69.31	72.39	68.82	71.48	71.76	74.50
Other Operating Revenues	50.68	51.72	51.18	51.19	51.24	51.06	51.22	51.24	52.57	53.12
Total Revenues	\$479.84	\$487.53	\$491.69	\$498.42	\$516.29	\$524.63	\$527.86	\$537.15	\$545.46	\$554.74
Operations & Maintenance	\$338.10	\$348.06	\$353.95	\$359.47	\$371.34	\$377.61	\$383.82	\$392.76	\$403.10	\$411.17
Operating Taxes	21.88	22.14	24.08	23.08	23.43	23.80	24.22	24.65	25.17	25.67
Total Operating Expenses	\$359.98	\$370.20	\$378.03	\$382.55	\$394.77	\$401.41	\$408.04	\$417.41	\$428.27	\$436.84
Gross Earnings Taxes	35.43	36.00	35.10	37.06	38.40	39.02	39.27	39.97	32.77	33.39
Revenue Available for Debt Service	\$ 84.43	\$ 81.32	\$ 78.56	\$ 78.81	\$ 83.12	\$ 84.20	\$ 80.55	\$ 79.77	\$ 84.42	\$ 84.51
Net Debt Service on Bonds	\$ 29.85	\$ 29.27	\$ 30.94	\$ 30.93	\$ 28.60	\$ 32.45	\$ 29.91	\$ 38.01	\$ 38.01	\$ 38.00
Adjusted Debt Service Coverage Ratio*	2.83	2.78	2.54	2.55	2.91	2.59	2.69	2.10	2.22	2.22
Adjusted Days Liquidity	216	226	228	232	206	211	201	194	189	185

* Adjusted Debt Service Coverage Ratio reflects our coverage after the transfer of 7.5% Gross Earnings Taxes to the City of Tacoma

No Rate Increases in 2019 & 2020 Scenario

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Projections (\$ in Millions)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
System Average Rate Increase	0.00%	0.00%	2.00%	2.00%	6.20%	2.00%	4.00%	2.00%	2.00%	2.00%
Retail Sales of Electricity	\$366.61	\$363.32	\$370.51	\$375.40	\$390.88	\$401.48	\$413.50	\$422.87	\$429.71	\$435.82
Revenues from Wholesale Sales	58.04	60.66	64.47	66.78	69.31	72.39	68.82	71.48	71.76	74.50
Other Operating Revenues	50.67	51.64	51.03	50.99	51.00	50.78	50.94	51.01	52.41	53.04
Total Revenues	\$475.32	\$475.62	\$486.01	\$493.17	\$511.20	\$524.65	\$533.26	\$545.36	\$553.88	\$563.35
Operations & Maintenance	\$338.10	\$348.06	\$353.82	\$359.41	\$371.34	\$377.61	\$383.82	\$392.76	\$403.10	\$411.17
Operating Taxes	21.70	21.67	23.49	22.48	23.24	23.80	24.43	24.97	25.49	26.00
Total Operating Expenses	\$359.80	\$369.74	\$377.31	\$381.89	\$394.58	\$401.41	\$408.25	\$417.73	\$428.59	\$437.17
Gross Earnings Taxes	35.09	35.12	34.67	36.66	38.02	39.03	39.67	40.58	33.28	33.91
Revenue Available for Debt Service	\$ 80.42	\$ 70.77	\$ 74.03	\$ 74.62	\$ 78.61	\$ 84.22	\$ 85.34	\$ 87.05	\$ 92.01	\$ 92.28
Net Debt Service on Bonds	\$ 29.85	\$ 29.27	\$ 30.94	\$ 30.93	\$ 28.60	\$ 32.45	\$ 29.91	\$ 38.01	\$ 38.01	\$ 38.00
Adjusted Debt Service Coverage Ratio*	2.69	2.42	2.39	2.41	2.75	2.60	2.85	2.29	2.42	2.43
Adjusted Days Liquidity	212	212	209	210	180	186	180	180	182	184

* Adjusted Debt Service Coverage Ratio reflects our coverage after the transfer of 7.5% Gross Earnings Taxes to the City of Tacoma

Scheduled Debt Service

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Year	2010B (BABs)	2010C (CREBs)	2013A	2013B	2017	Total *
2017	\$ 8,691,824	\$ 1,364,276	\$ 17,757,100	\$ 1,616,110	\$ 1,095,600	\$ 30,524,910
2018	\$ 8,691,824	\$ 1,364,276	\$ 15,279,100	\$ 1,616,110	\$ 3,286,800	\$ 30,238,110
2019	\$ 8,691,824	\$ 1,364,276	\$ 14,094,350	\$ 1,616,110	\$ 3,286,800	\$ 29,053,360
2020	\$ 8,691,824	\$ 1,364,276	\$ 11,731,100	\$ 1,616,110	\$ 3,286,800	\$ 26,690,110
2021	\$ 8,691,824	\$ 1,364,276	\$ 3,892,600	\$ 5,411,110	\$ 5,436,800	\$ 24,796,610
2022	\$ 8,691,824	\$ 1,364,276	\$ 3,892,600	\$ 5,411,360	\$ 5,434,300	\$ 24,794,360
2023	\$ 8,691,824	\$ 1,364,276	\$ 3,892,600	\$ 5,411,110	\$ 5,436,550	\$ 24,796,360
2024	\$ 8,691,824	\$ 1,364,276	\$ 3,892,600	\$ 5,412,860	\$ 5,438,050	\$ 24,799,610
2025	\$ 8,691,824	\$ 1,364,276	\$ 3,892,600	\$ 5,408,813	\$ 5,433,550	\$ 24,791,063
2026	\$ 8,691,824	\$ 25,549,276	\$ 3,892,600	\$ 736,750	\$ 2,693,050	\$ 41,563,500
2027	\$ 8,691,824		\$ 3,892,600	\$ 5,411,750	\$ 5,438,050	\$ 23,434,224
2028	\$ 8,691,824		\$ 3,892,600	\$ 5,408,000	\$ 5,435,800	\$ 23,428,224
2029	\$ 8,691,824		\$ 3,892,600	\$ 5,412,750	\$ 5,436,800	\$ 23,433,974
2030	\$ 36,001,824		\$ 3,892,600		\$ 2,260,550	\$ 42,154,974
2031	\$ 35,445,302		\$ 3,892,600		\$ 2,260,550	\$ 41,598,452
2032	\$ 34,789,416		\$ 3,892,600		\$ 2,260,550	\$ 40,942,566
2033	\$ 34,164,289		\$ 3,892,600		\$ 2,260,550	\$ 40,317,439
2034	\$ 33,517,046		\$ 3,892,600		\$ 2,260,550	\$ 39,670,196
2035			\$ 14,882,600		\$ 5,435,550	\$ 20,318,150
2036			\$ 14,878,100		\$ 5,436,800	\$ 20,314,900
2037			\$ 14,881,350		\$ 5,435,050	\$ 20,316,400
2038			\$ 14,880,600		\$ 5,435,050	\$ 20,315,650
2039			\$ 14,881,800		\$ 5,436,300	\$ 20,318,100
2040			\$ 14,877,600		\$ 5,438,300	\$ 20,315,900
2041			\$ 14,882,400		\$ 5,435,550	\$ 20,317,950
2042					\$ 5,437,800	\$ 5,437,800
2043					\$ 5,434,000	\$ 5,434,000
2044					\$ 5,433,200	\$ 5,433,200
2045					\$ 5,435,000	\$ 5,435,000
2046					\$ 5,434,000	\$ 5,434,000

* Debt Service is shown based on the amount that is accrued in each year. Actual payments of the amount accrued may occur in the following year.

Projected Capital Improvement Program Expenditures

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Project Expenditures *	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
(\$000)										
Power Supply	\$11,286	\$11,286	\$11,625	\$11,625	\$11,973	\$11,973	\$12,333	\$12,333	\$12,702	\$12,702
Transmission and Distribution	25,540	25,539	\$26,306	\$26,306	\$27,095	\$27,095	\$27,908	\$27,908	\$28,745	\$28,745
Utilities Technology	10,201	10,200	\$10,506	\$10,506	\$11,146	\$11,146	\$11,825	\$11,825	\$12,544	\$12,544
Telecommunications	1,238	1,237	\$1,275	\$1,275	\$1,313	\$1,313	\$1,352	\$1,352	\$1,393	\$1,393
Conservation	7,356	7,357	\$12,164	\$12,164	\$13,021	\$16,420	\$15,692	\$15,692	\$15,798	\$15,798
General Plant	19,241	19,242	\$19,819	\$19,819	\$20,413	\$20,413	\$21,026	\$21,026	\$21,656	\$21,656
Total Project Expenditures	\$74,862	\$74,861	\$81,694	\$81,694	\$84,961	\$88,360	\$90,135	\$90,135	\$92,839	\$92,839

* Does not include inflation estimates



TACOMA POWER
TACOMA PUBLIC UTILITIES