

# Tacoma Power Budget Overview

May 22, 2024

# Introduction

## **State of the Utility**

Opportunities & Pressures

## **Budget Drivers**

Budget Drivers

## **Personnel**

Prioritizing Operational FTE Requests; Personnel Costs

## **Non-Personnel O&M**

Supplies, Other Services & Charges; Purchased Power; Taxes; Assessments

## **Capital Program**

Capital Program; 2025/2026 Large Capital Projects

## **Customer Value First**

Power's Focus

# Opportunities & Pressures

## Opportunities

- Efficiencies & Long-Range Planning
- Debt Restructuring
- Diversification of Resources
- New Markets
- Infrastructure Modernization Investments

## Desired Outcome



"We **deliver clean, reliable services** essential to quality of life."

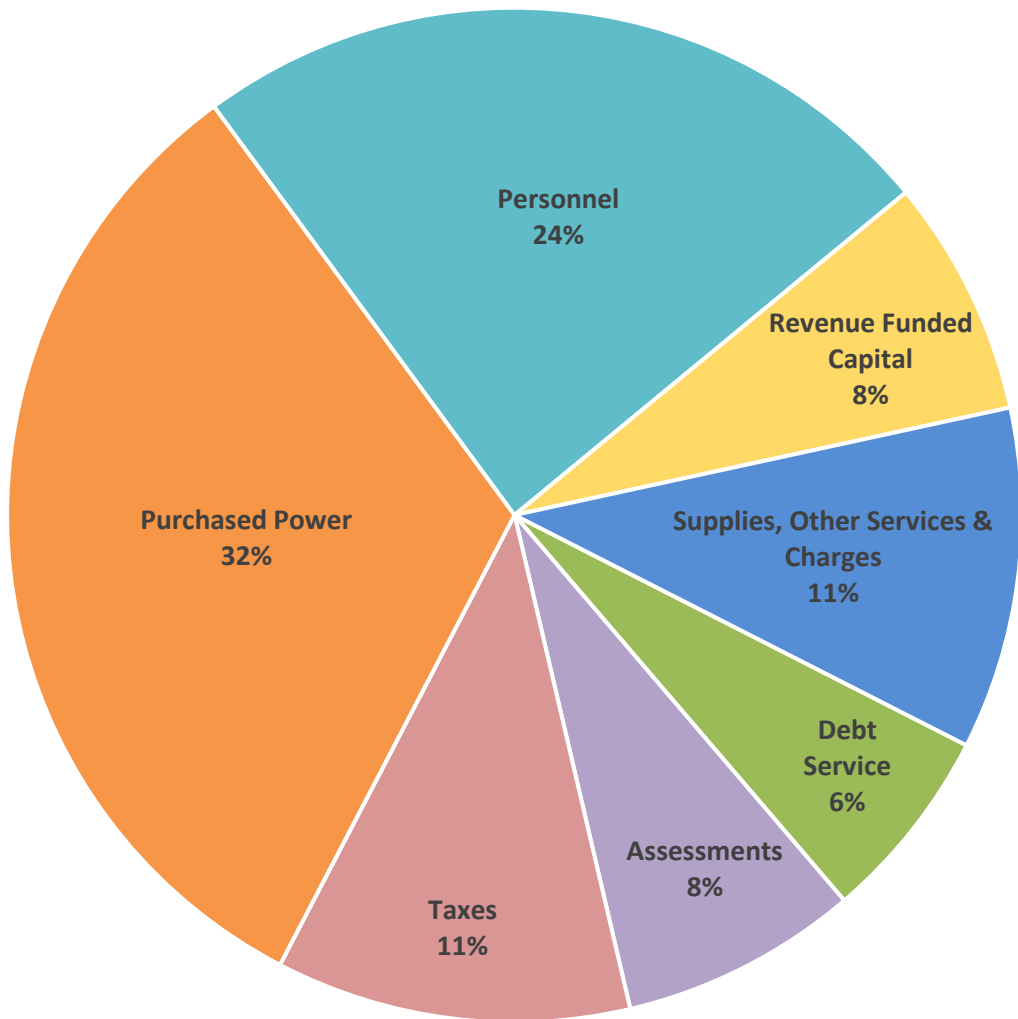
"We will be a **trusted community partner**, where employees are proud to **deliver equitable, affordable utility services.**"

## Pressures

- Increased Material, Contract Services and Labor Costs
- Increased Regulatory Requirements
- Resource Adequacy
- Hydro Relicensing
- Dam Safety Program
- Wildfire Risk & Mitigation
- General Tech Investment (SAP Now!)



# Budget Drivers



2023/2024 Budget

## Most Control

- Position Management (FTEs)
- Supplies, Other Services & Charges

## Limited Control

- Personnel costs
- Capital Investment Plan (CIP)
- Assessments for Shared Services
- Debt Service

## Least Control

- Purchased Power
- Supply Chain & Inflation
- Taxes

# Prioritizing Operational FTE Requests

*Our prioritized 2025/2026 FTE requests reflect Power’s response to customer demand and necessary investments in infrastructure.*

## Transmission & Distribution (T&D)

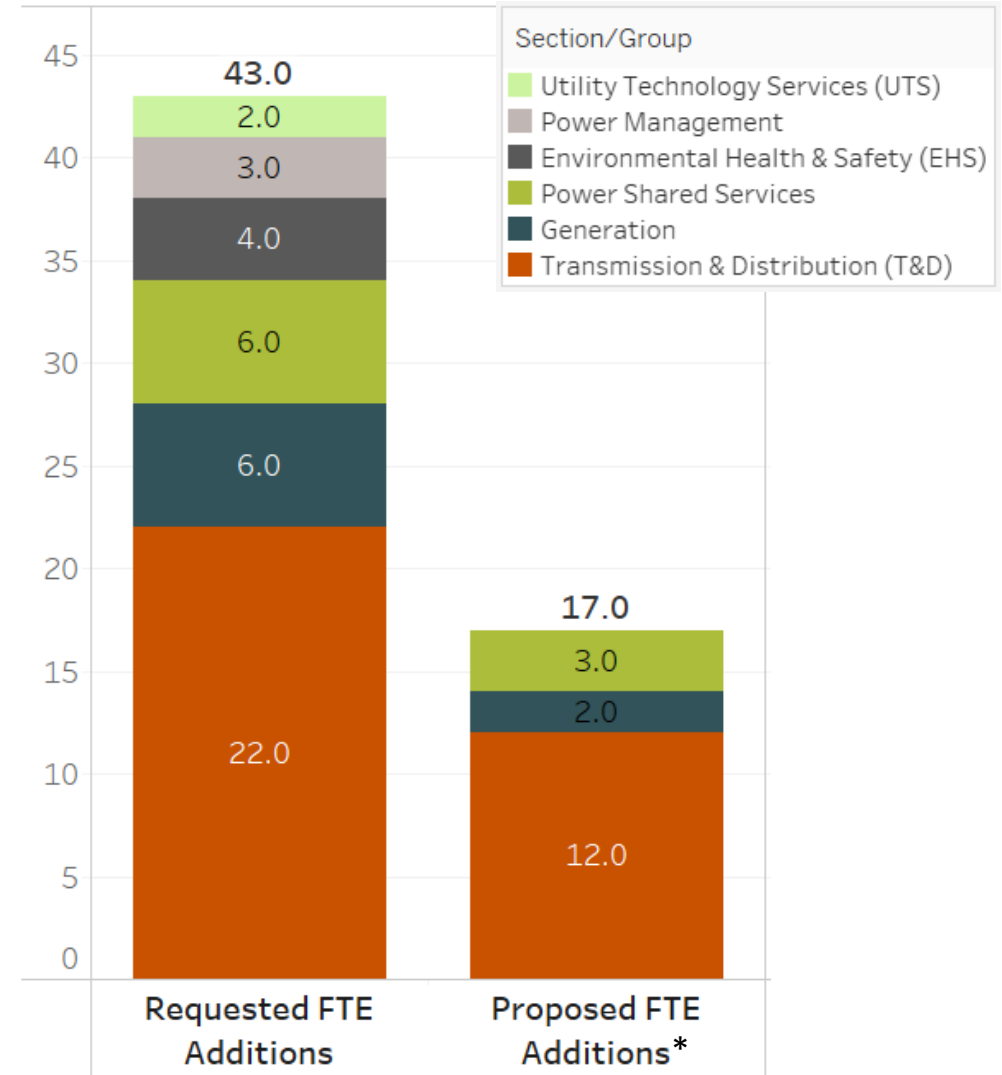
- 7 Line Electricians
- 1 Senior Wire Electrician
- 1 T&D Protection & Controls Engineer
- 1 Engineering Products & Services Supervisor
- 1 Senior GIS IT Analyst
- 1 Senior Warehouse Technician

## Generation

- 1 Electrical Engineer, PE
- Rightsizing 2 Hydro Grounds Maintenance Workers

## Power Shared Services

- 3 Pre-Apprentices



\* Additions compared to 2024 FTEs

# Personnel Costs

24% of budget



## 2025/2026 Budget

- Market wage pressure
- Wage increases for represented staff
- Class & Comp increases incorporated
- Increase in Worker's Compensation rates due to under collection
- Medical benefits are expected to increase

# Strategic Objective: Financial Stability

*Power-wide target of no more than a 6% biennial increase for Supplies, Other Services and Charges for 2025/2026.*

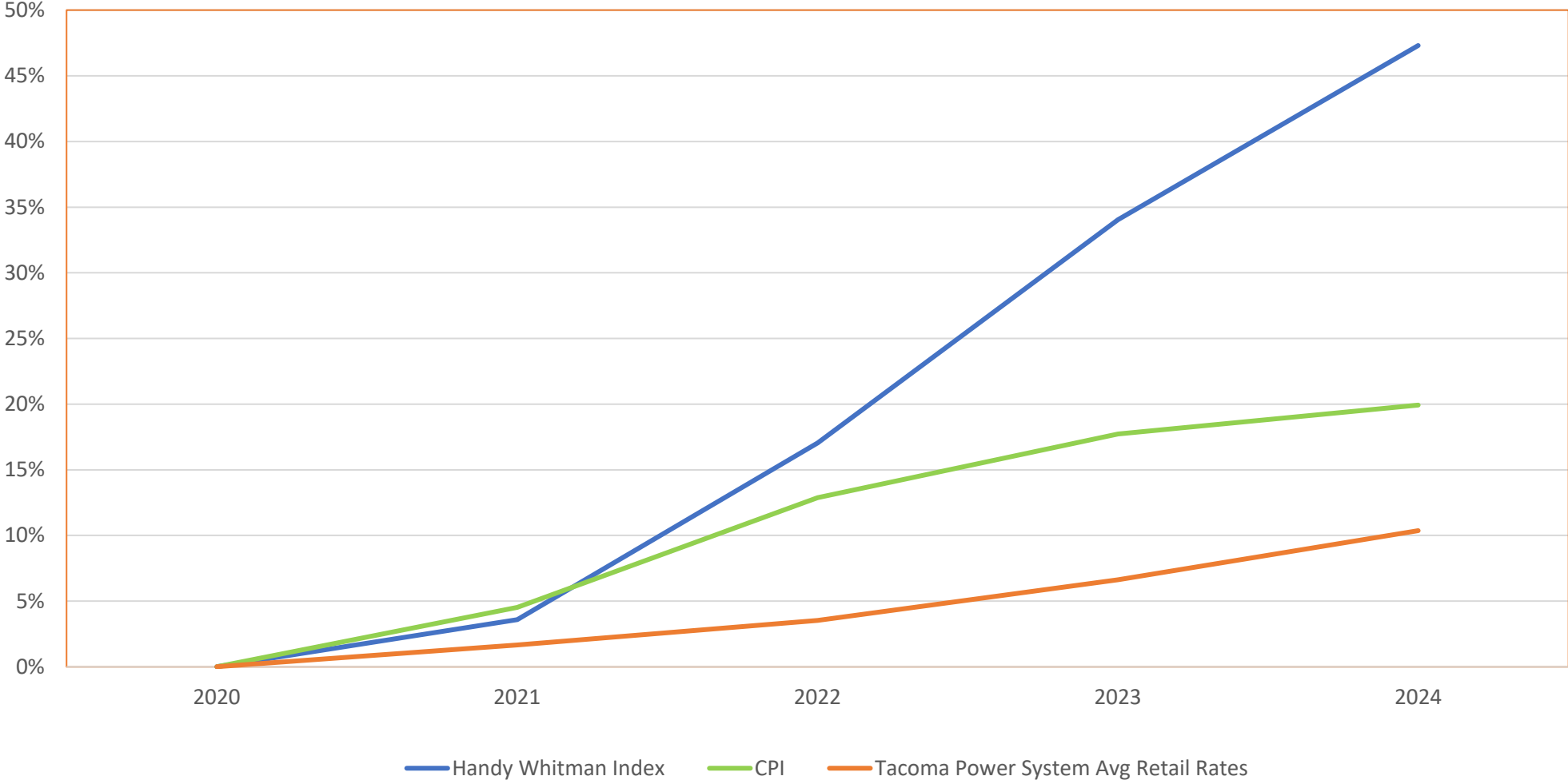
## 2023 Accomplishment

### Optimization of Hydro-Maintenance Schedules at Mossyrock and Cushman

- Adjusted maintenance timing increased availability of generating units
- Reduced future outages related to routine unit maintenance by half
- Resulting operational efficiencies led to cost savings in 2023 and will continue into future years

# Material Costs Continue to Increase

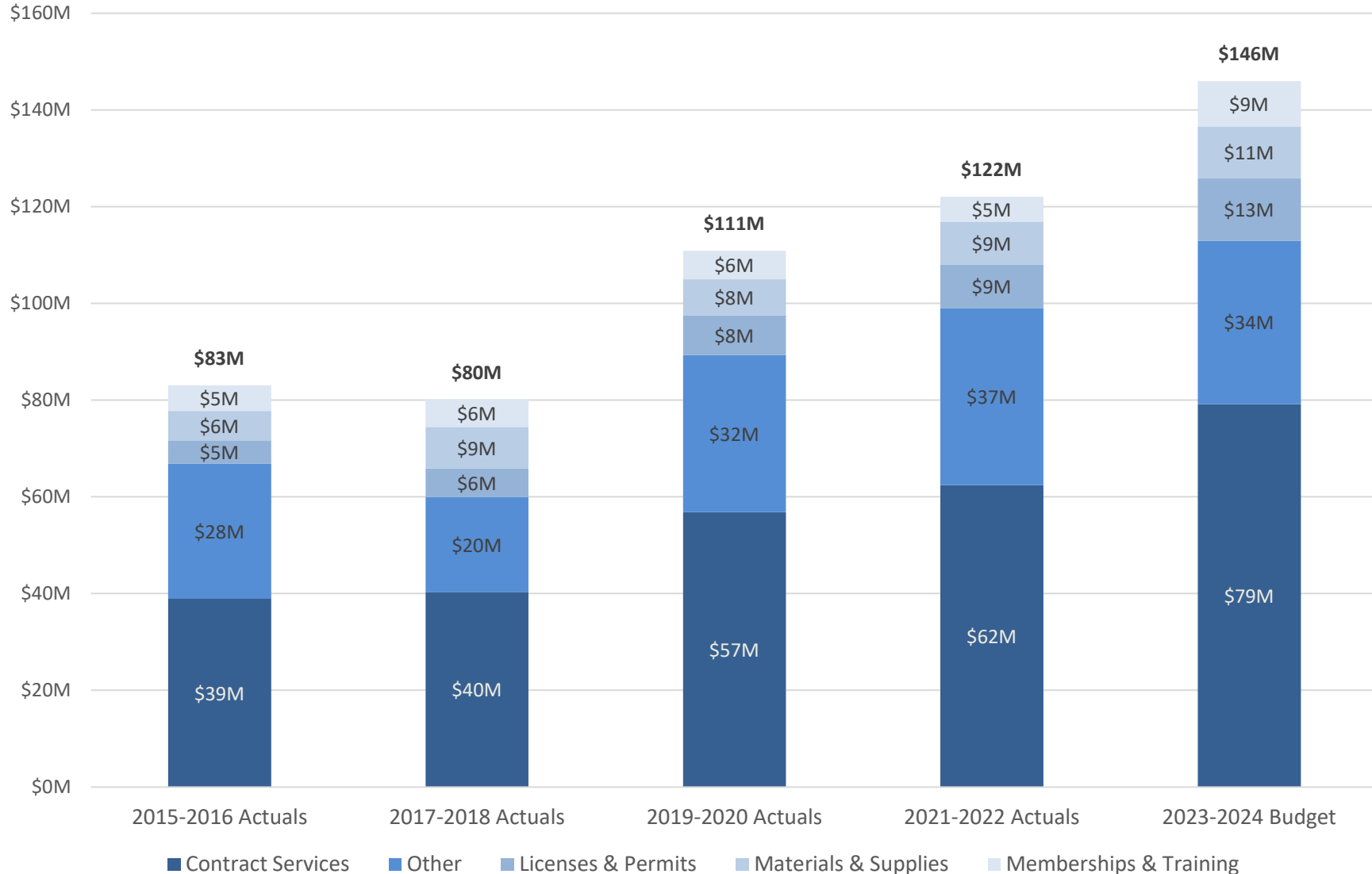
### Cumulative Increases since 2020





# Supplies, Other Services & Charges

11% of budget



## 2025/2026 Budget

- Evaluating new work for 2025/2026
- Prioritizing across Power and discussing efficiencies
- Managing increased costs in materials and contracts

\*Excludes Capitalized A&G credit

# Purchased Power

32% of budget



## 2025/2026 Budget

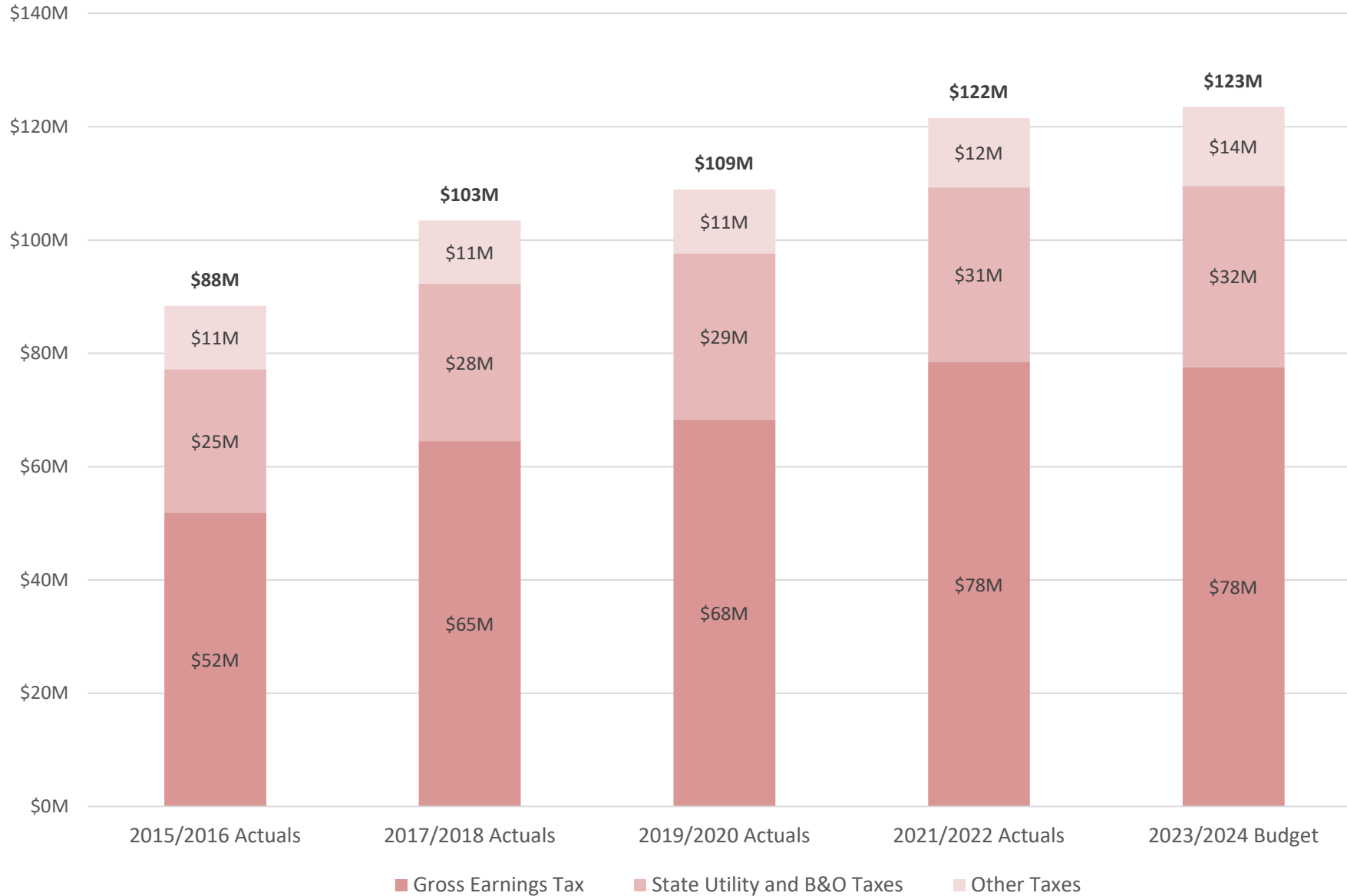
- Lower BPA Power costs due to loss of WestRock

## Anticipated biennial BPA rate increases

- 5% - BPA Power
- 5% - BPA Transmission

# Taxes

11% of budget

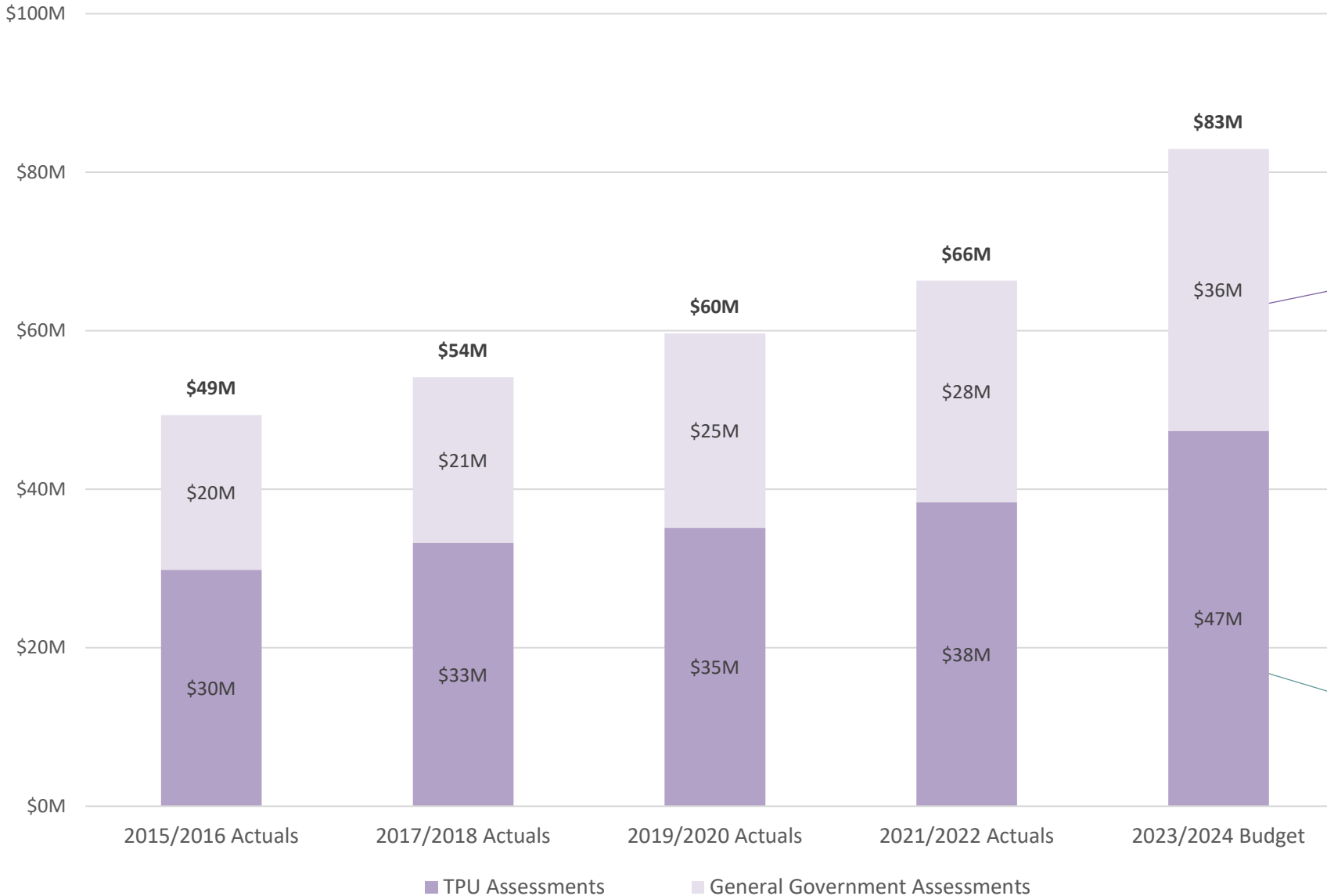


2025/2026 taxes will increase as a percentage of our revenue increase

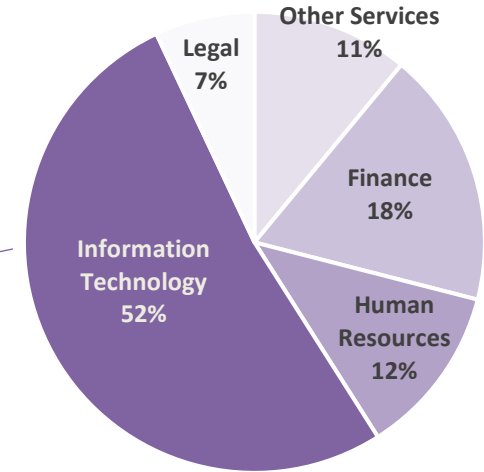


# Assessments for Shared Services

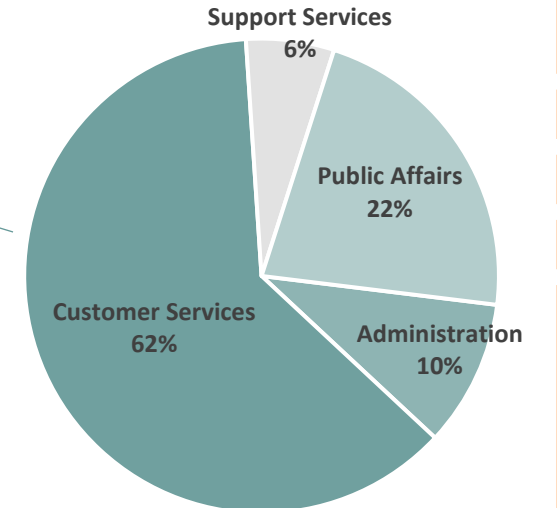
8% of budget



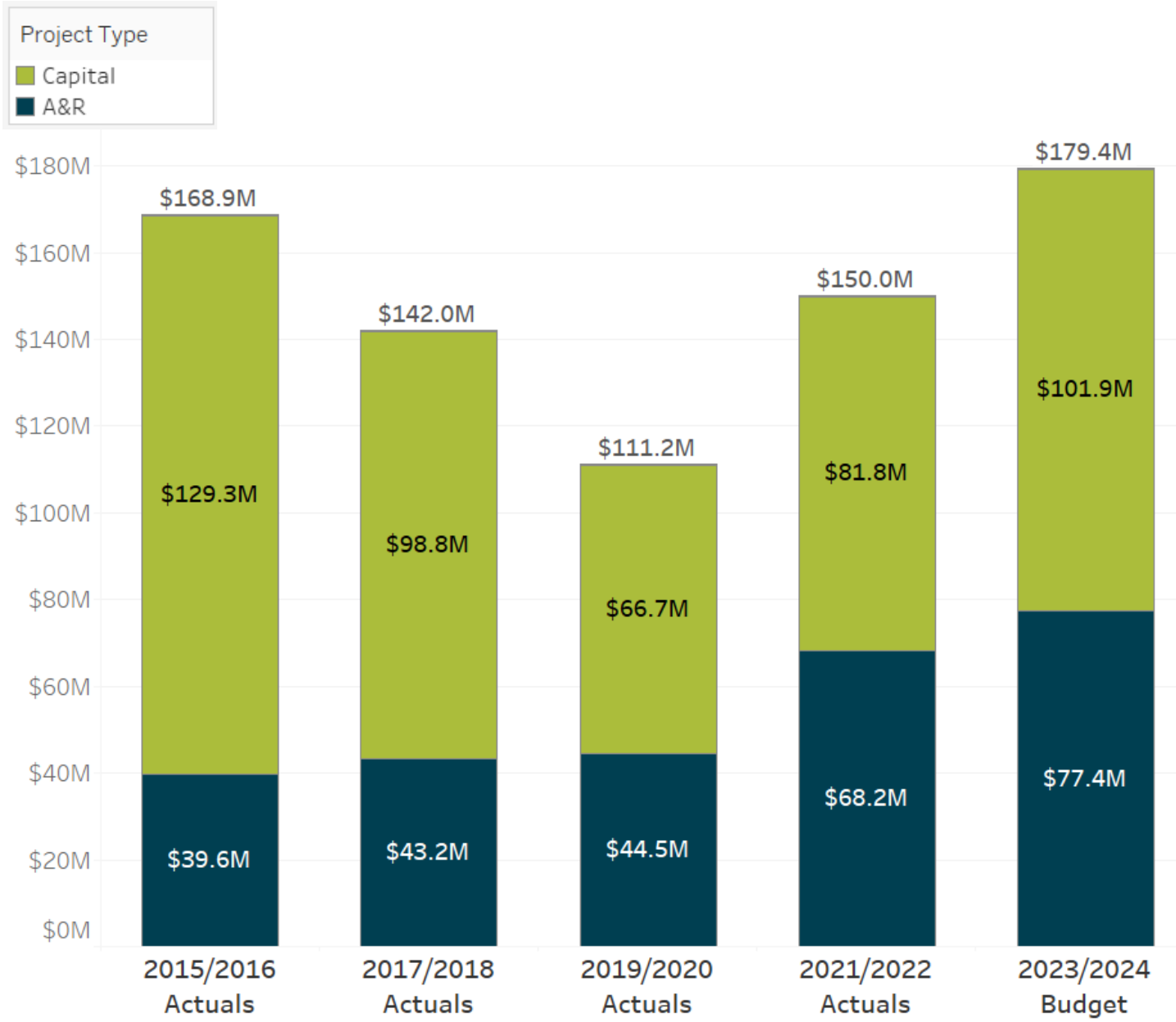
## GG Assessments



## TPU Assessments



# Capital Program



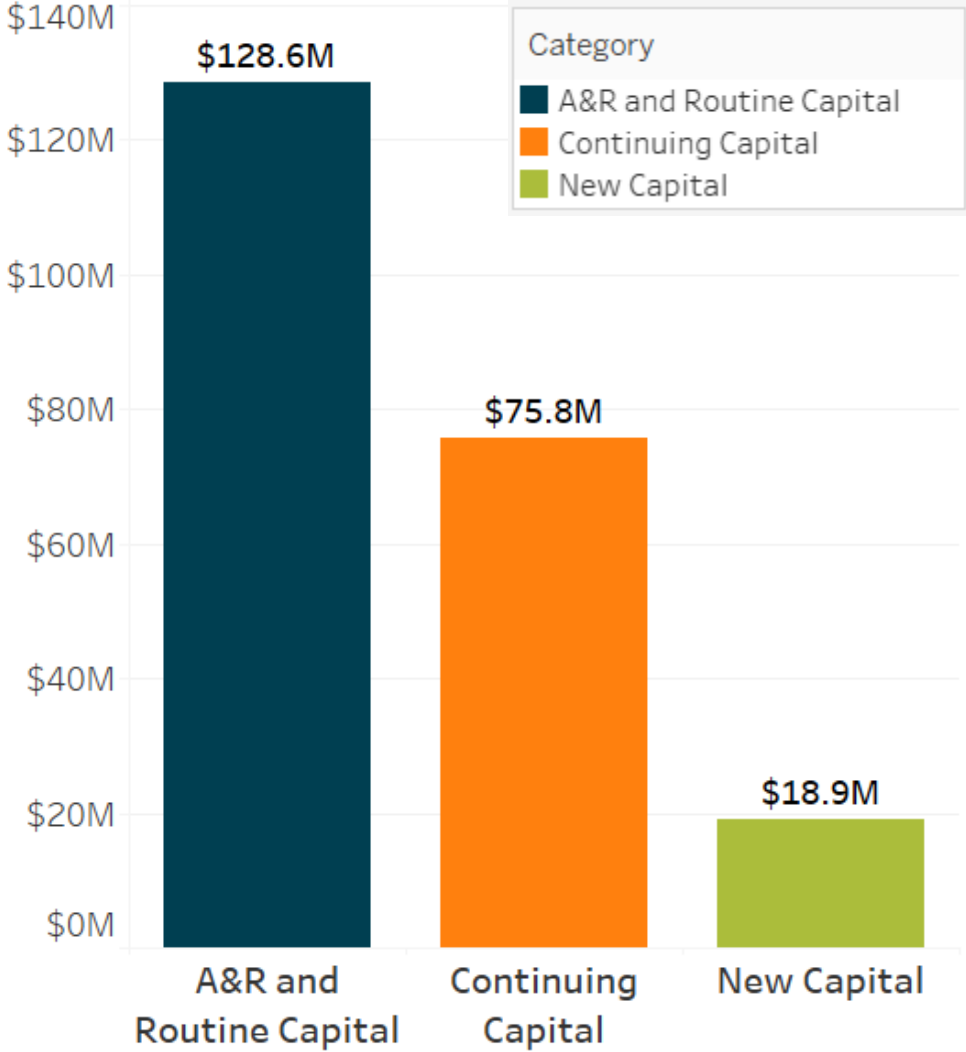
## 2025/2026 Budget

- Increases in material and labor costs
- Several continuing projects entering construction phase
- Active portfolio management, minimizing new project additions
- Identifying resource constraints
- Evaluating potential risks to scope and schedule, including regulatory compliance requirements and milestones



# Large-Dollar Capital Projects for 2025/2026

Additions & Replacements (A&Rs) and Routine Capital	2025/2026 Preliminary Estimate
Overhead Distribution & Transmission A&R	\$28,119,000
Fleet Replacement A&R	\$20,000,000
Distribution Transformer A&R	\$16,643,000
Customer Energy Program	\$9,500,000
Continuing Capital	
TPU Admin Complex Storage & Parking Facility	\$16,950,000
Automated Distribution Mgmt System (ADMS)	\$10,572,000
Cushman #2 U31, U32 Rebuild	\$10,000,000
South Service Center Storage	\$6,350,000



List includes all projects estimated to be budgeted for \$5M or over in 2025/2026

*Preliminary Estimates, Subject to Change*

***“Customer Value First”*** is intrinsic to Tacoma Power’s culture.

Power is laser-focused on affordability and keeping rates as low as possible for as long as possible.

While we are focused on managing the costs that we have some control over, such as:

- Potential FTE increases
- Balancing Capital and O&M
- Large Capital expenses within ten-year window

There are other factors impacting our budget and long-range financial planning:

- Dramatic increases in material and construction related costs
- Anticipated large expenses from dam safety upgrades, debt service spikes, SAP Now!, Grid Modernization
- Wholesale market uncertainty

*Serving our customers*

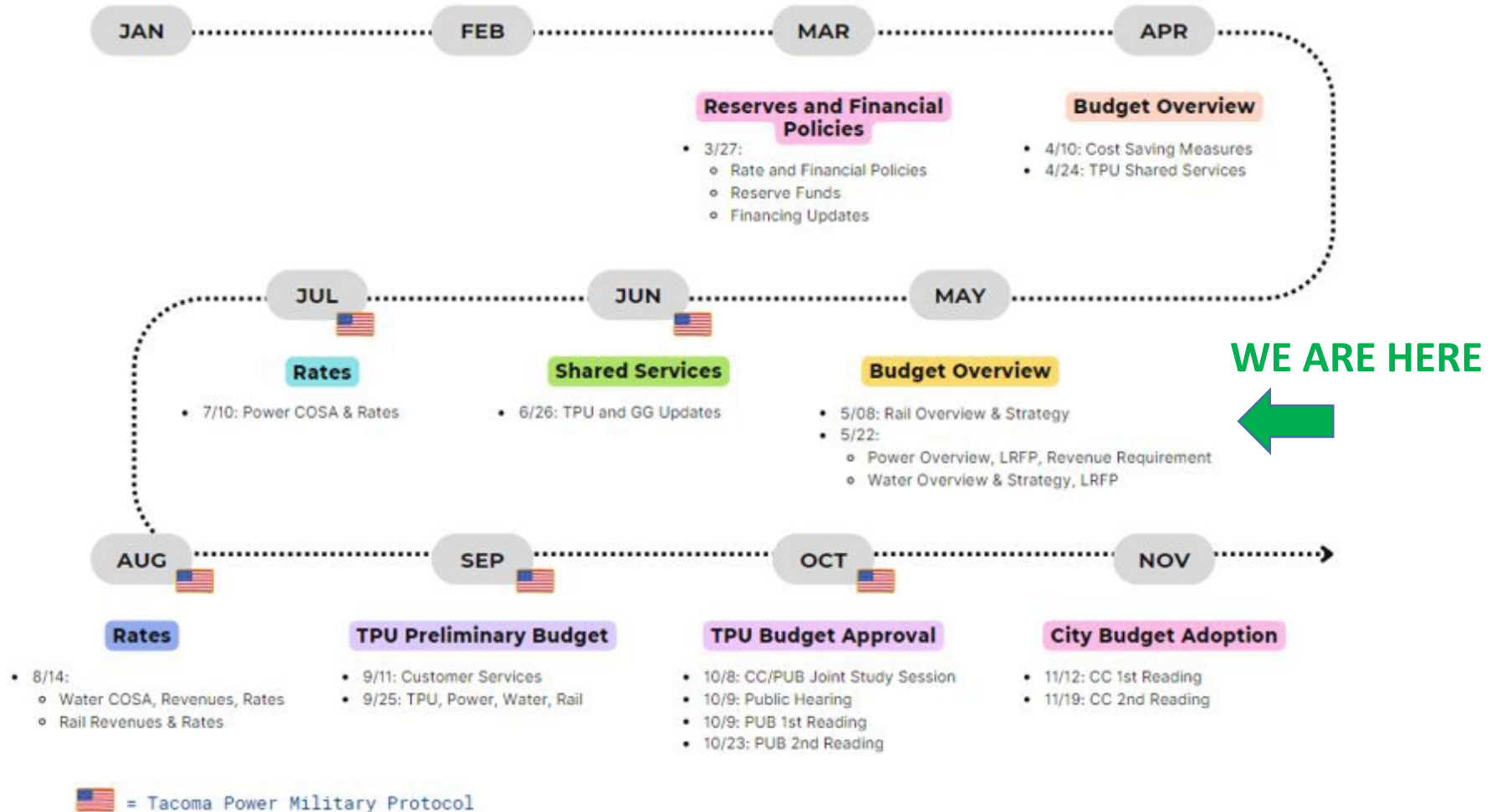


# Tacoma Power Financial Update & 2025-26 Revenue Requirement

**Public Utility Board  
22 May 2024**



## Budget and Rates Timeline



# Long-Range Financial Plan



*March 31, 2024*

Tacoma Power's Long-Range Financial Plan (LRFP) is available at [mytpu.org](https://mytpu.org) once published. The draft 2024 LRFP is available here: [Draft Tacoma Power 2024 Long-Range Financial Plan 05.22.2024](#)

## Before we start, a reminder...

### **This is a snapshot in time.**

The amount of revenue we will receive each year is uncertain.

The amount of power that will be consumed by our customers is uncertain.

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.

As has happened before -

### **These projections will change.**

## Board Guiding Principles

**GP2**  
Financial  
Sustainability



### Financial Sustainability

Provide safe, affordable, and reliable power over the long term by maintaining sustainable budget, financial, and asset management practices.

### Rates

Rates will be adequate, fair, just, gradual, and as low as they can responsibly be.



## Electric Rate and Financial Policy

Outlines objectives and policies when setting rates including financial targets and the Rate Stabilization Fund usage.

### Sections

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

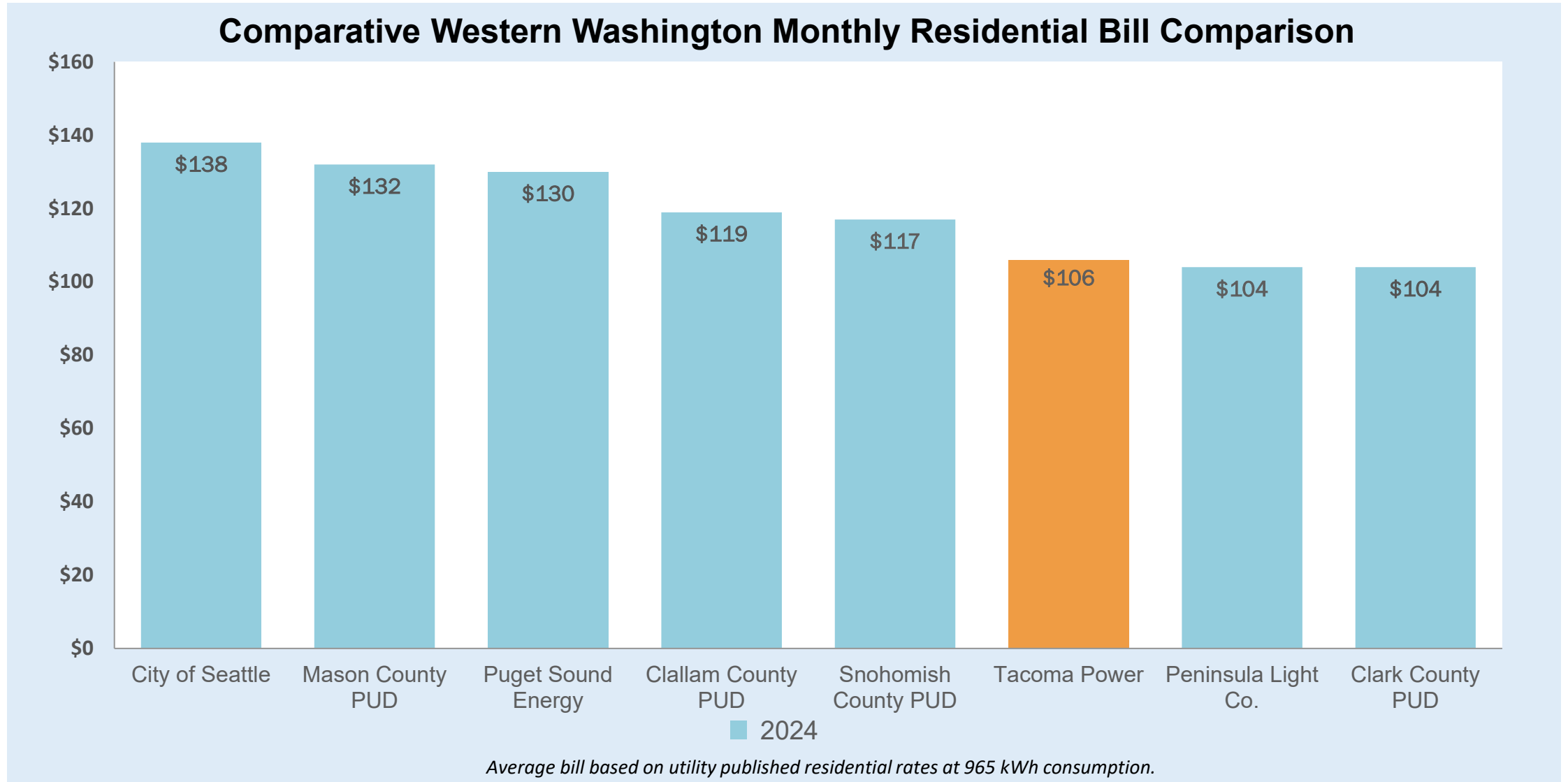
# Determination of recommended average rates



## The Long View:

Long-Range Financial Plan stabilizes rates while achieving minimum financial metric targets.

# Residential Bill Comparison

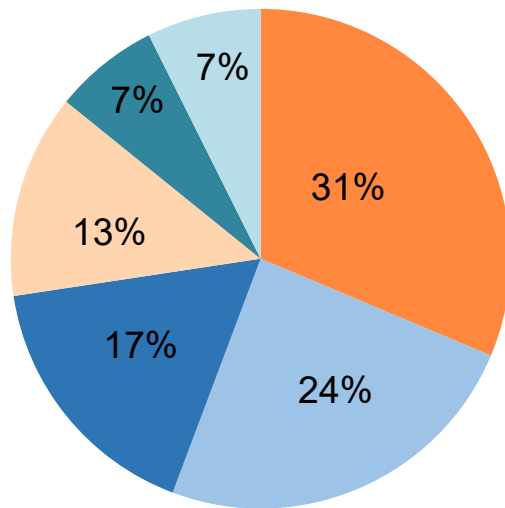


# LRFP Foundational Elements

**These elements form the foundation of the LRFP and are used to inform our base case and budget.**

## Expense Assumptions

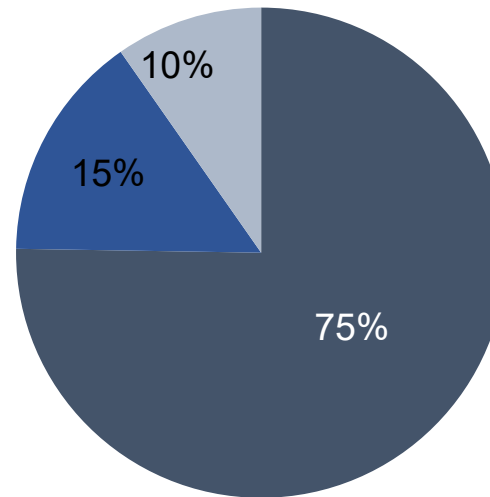
As of December 31, 2023  
(unaudited actuals)



- Purchased Power
- Personnel
- Other O&M
- Debt Service
- Taxes
- Revenue Funded Capital

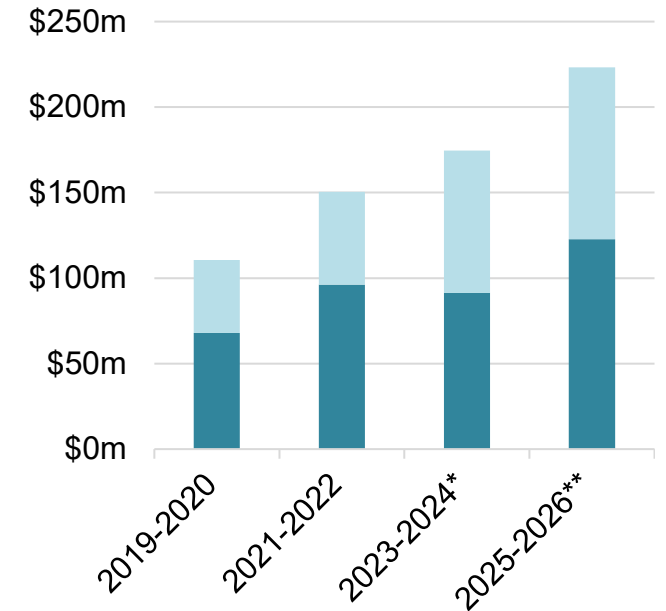
## Revenue Assumptions

As of December 31, 2023  
(unaudited actuals)



- Retail
- Wholesale
- Other

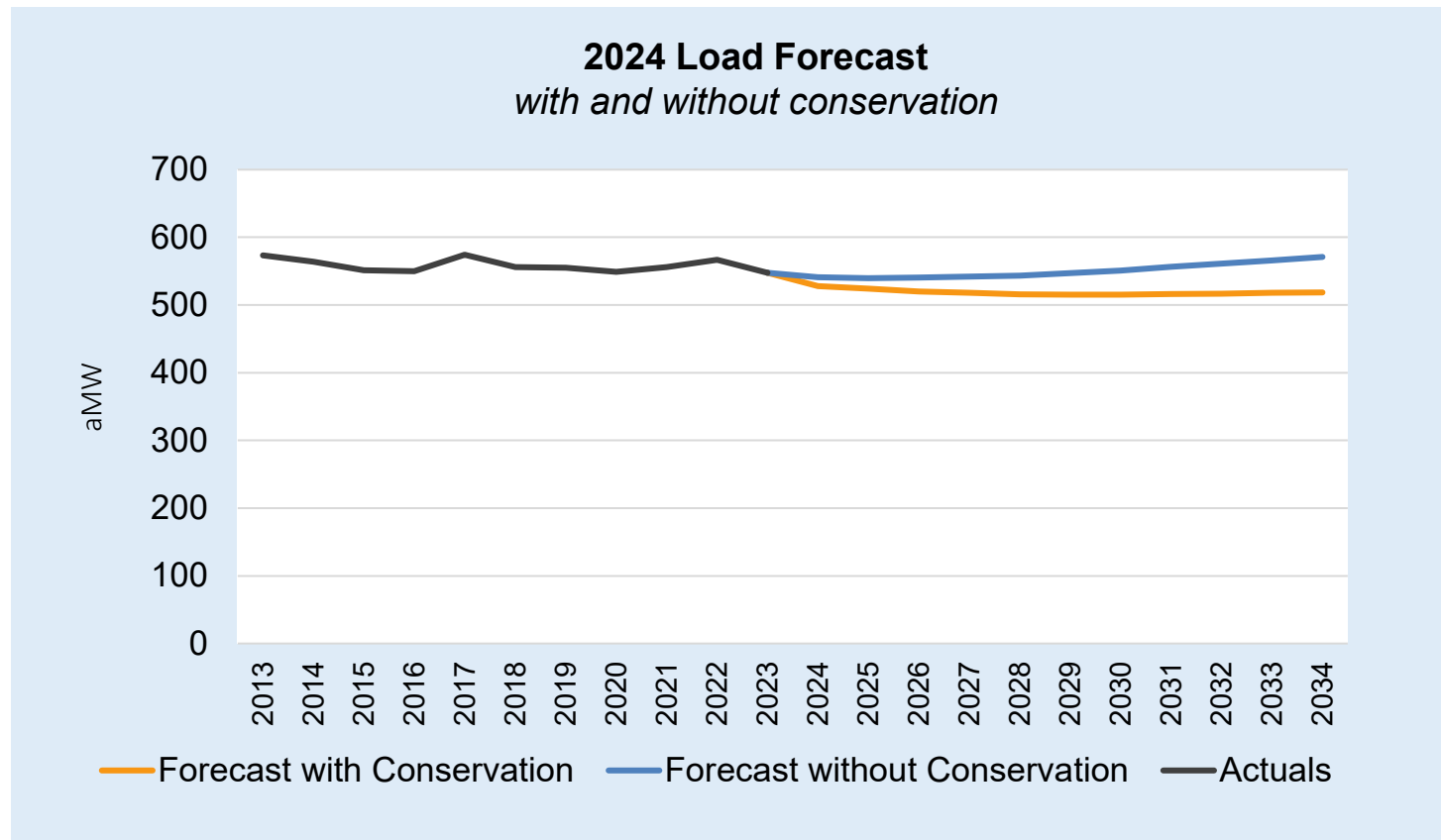
## Credit, Debt, & Reserves



- Bond Funded Capital
- Revenue Funded Capital

\* Projections as of March 31, 2024  
\*\* Preliminary Estimate, Subject to Change

## Retail Revenue Forecasts including Electrification Assumptions & with / without Conservation Assumptions

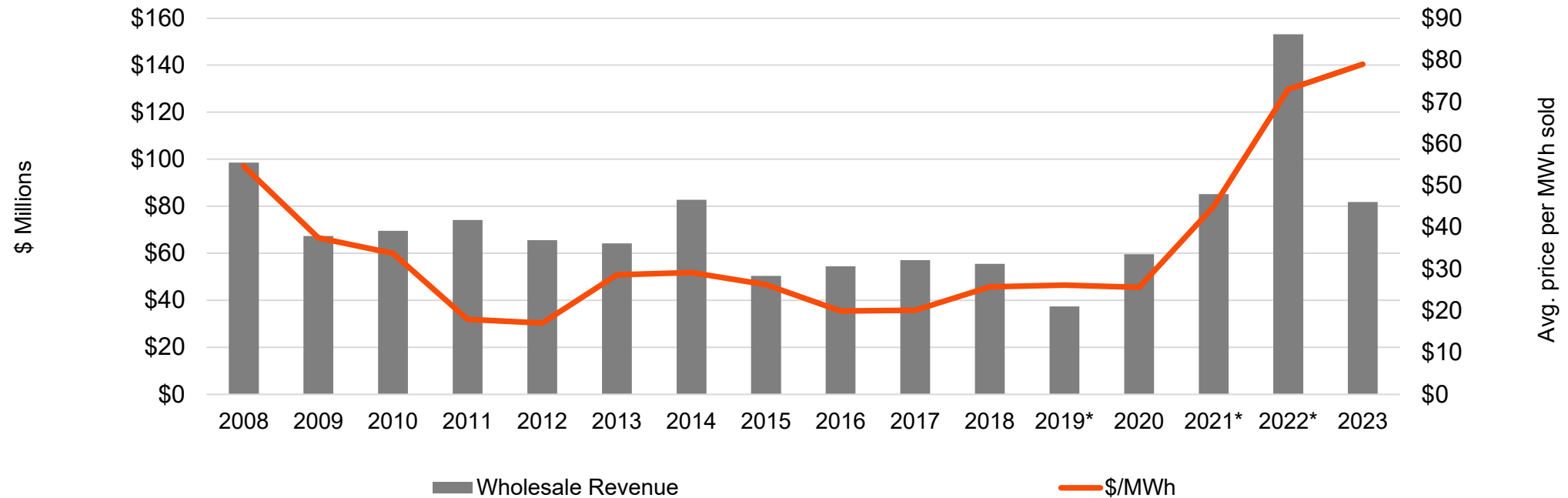


- Continuing conservation offsets electrification load growth
- New retail load forecasts increase retail revenue by approximately \$82 million over ten years when compared to the 2023/2024 budget load forecast



# Volatile Wholesale Revenues

Wholesale revenues fluctuate between 8% to 26% of total revenues due to unpredictable weather and wholesale market power prices.

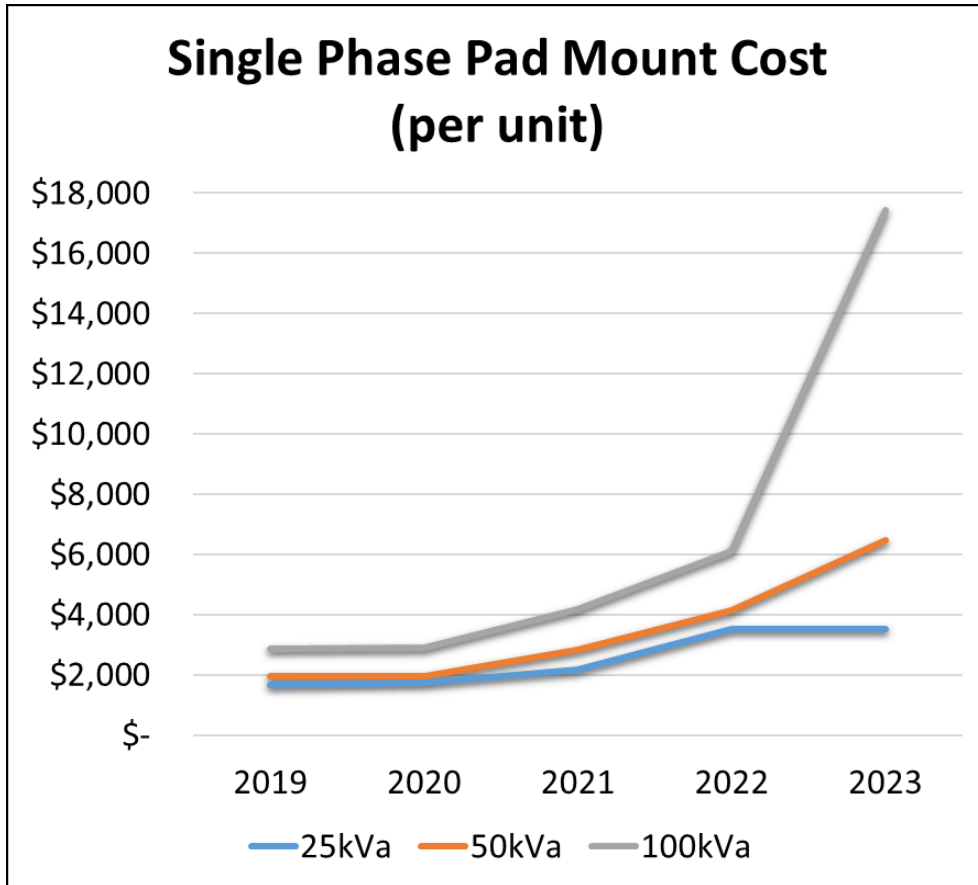


\* Does not include wholesale revenue transferred in or out of the Rate Stabilization Fund.

WHOLESALE REVENUE AS A % OF TOTAL REVENUE BALANCES (YEAR-END)																
	2008	2009	2010*	2011*	2012*	2013	2014	2015	2016	2017	2018	2019*	2020	2021*	2022*	2023
<b>WHOLESALE REVENUE %</b>	24%	19%	19%	20%	17%	15%	19%	12%	13%	13%	12%	8%	12%	17%	26%	15%

# Cost Pressures Increasing

## Distribution Transformer Cost Increases



**282%** Average Price Increase  
Pre- to Post-Pandemic

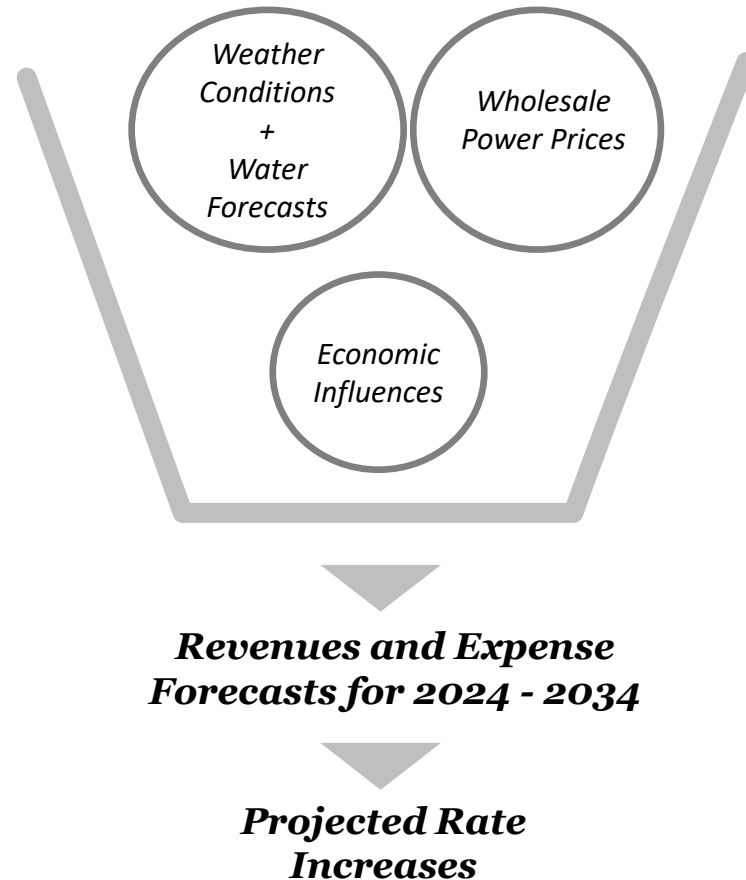
## Cost increases since 2019

- Distribution Transformer costs up 282%
- Multiplex wire up 137%
- Utility poles up 48%
- Vehicle costs up 25%
- +20% increase in some Represented wages

## More than **\$300 Million** future expenses identified

- Debt Service Spikes
- Hydro relicensing of 3 dams
- Dam Safety Seismic Mitigation
- Grid modernization projects
- SAP Now!

## Planning for Uncertainties



## Internal Risks



- Compliance with Regulatory Mandates
- Technology Changes
- Aging Infrastructure
- Aging Workforce

## External Risks



- Climate Change
- Weather Fluctuations
- Customer Demand Volatility
- Wholesale Power Market Volatility
- Economic Cycles and Inflation
- Policy or Regulatory Changes
- Environmental Regulations
- Seismic Events
- A Pandemic

## Scenarios:

- Adverse water in 2025 and 2026
- Critical water in 2025 and 2026
- Wholesale price collapse
- Loss of large load in 2025
- Recession in 2025 through 2026
- Lower retail rate increases in 2025 and 2026

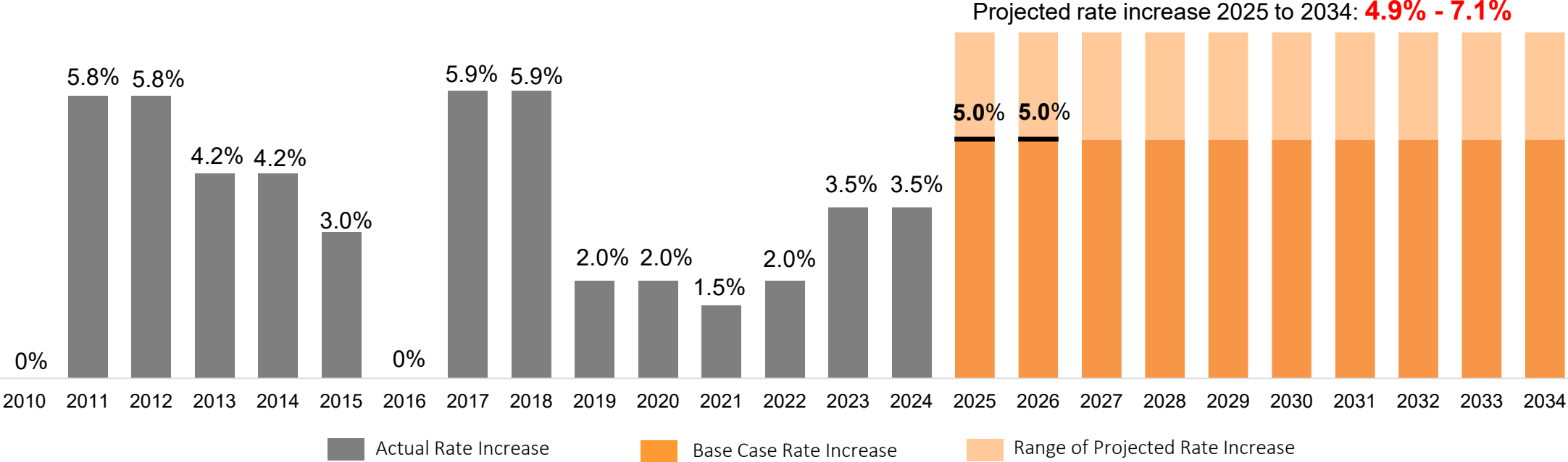


**Standard  
Planning  
Scenarios**

# Recommended: 5.0 Percent Annual Rate Increases in 2025 & 2026

Policy Decision

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

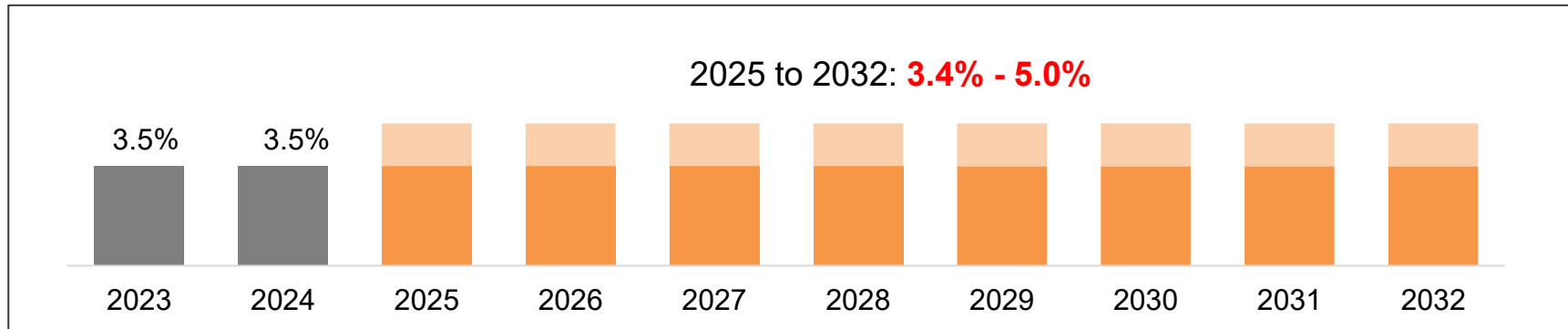


The **Electric Rate & Financial Policy** was modified in 2018 to explicitly support adequate and gradual rate increases.

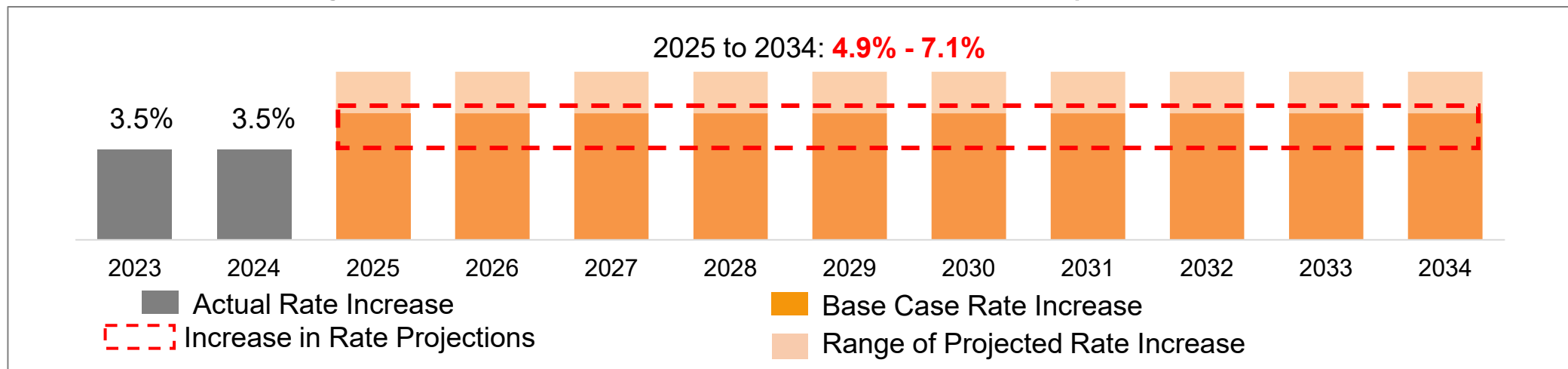
**Guiding Principles GP-3 on Rates**, Outcome 3 states “Planned gradual and consistent utility rate changes that are stable and predictable over the long term and mitigate sudden or large changes within customer classes.”

# Future Expenses Impacting Liquidity and Short-term Rates

**2022** Projected rate increases without new future expenses



**2024** Projected rate increases with new future expense increases



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

# Assumptions Impacting the 2025 / 2026 Average Rate Forecast

## Updated assumptions compared to last biennium

### Revenue Assumptions

- 2024 Load Forecast with electrification assumptions
- Higher wholesale prices assumed 2025-2026

### Expense Assumptions

- 7% annual increase in shared services costs (based on historic average)
- Additional personnel costs related to market wage increases
- Higher capital costs in 2025/2026 due to continuing projects and higher material and labor costs
- > \$300 million in new expenses assumed for:
  - Relicensing of three hydro dams
  - SAP Now!
  - Dam seismic mitigation and safety upgrades
  - Grid modernization

# Adverse Water: Annual 5.0 percent Rate Increases

Scenario	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Base Case: Average Water Conditions	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%
<b>Budget:</b> Adverse Water in 2025 & 2026	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>
Critical Water in 2025 & 2026*	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%
Loss of Large Customer in 2025	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
Lower Wholesale Prices 2025-2034	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Economic Downturn in 2025 & 2026	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%
Lower average rate increases in 2025 & 2026 **	2.0%	2.0%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%

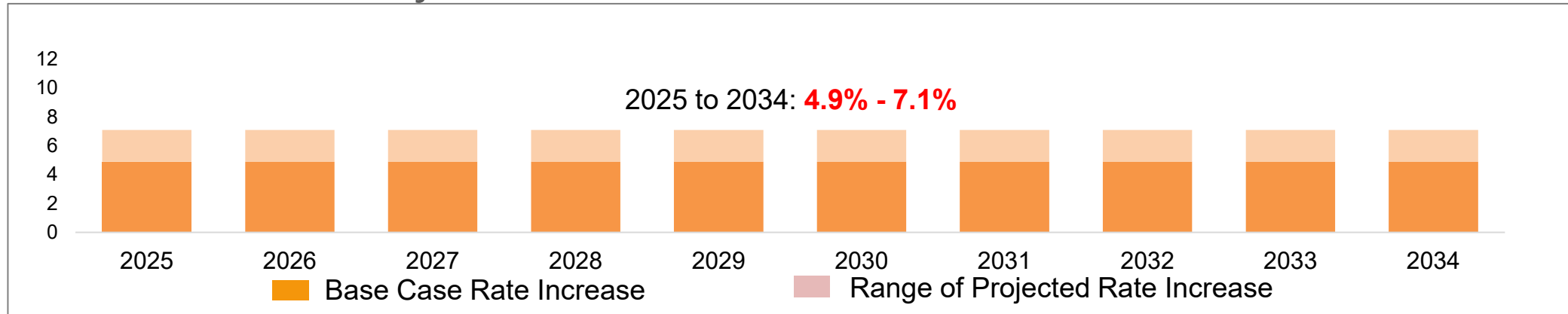
\* Rate Stabilization Fund use of \$31 million in 2025 and \$29 million in 2026.

\*\* Rate Stabilization Fund use of \$12 million in 2025 and \$25 million in 2026.

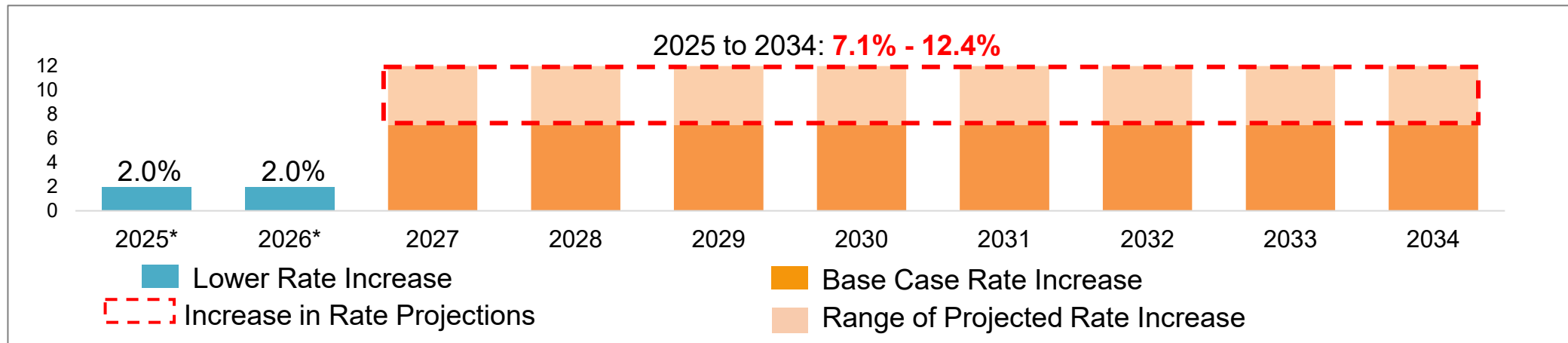


# Lower (2%) Rate Increases in 2025 & 2026 Effect on Rate Trajectory

2024 Projected Base Case rate increases - recommended



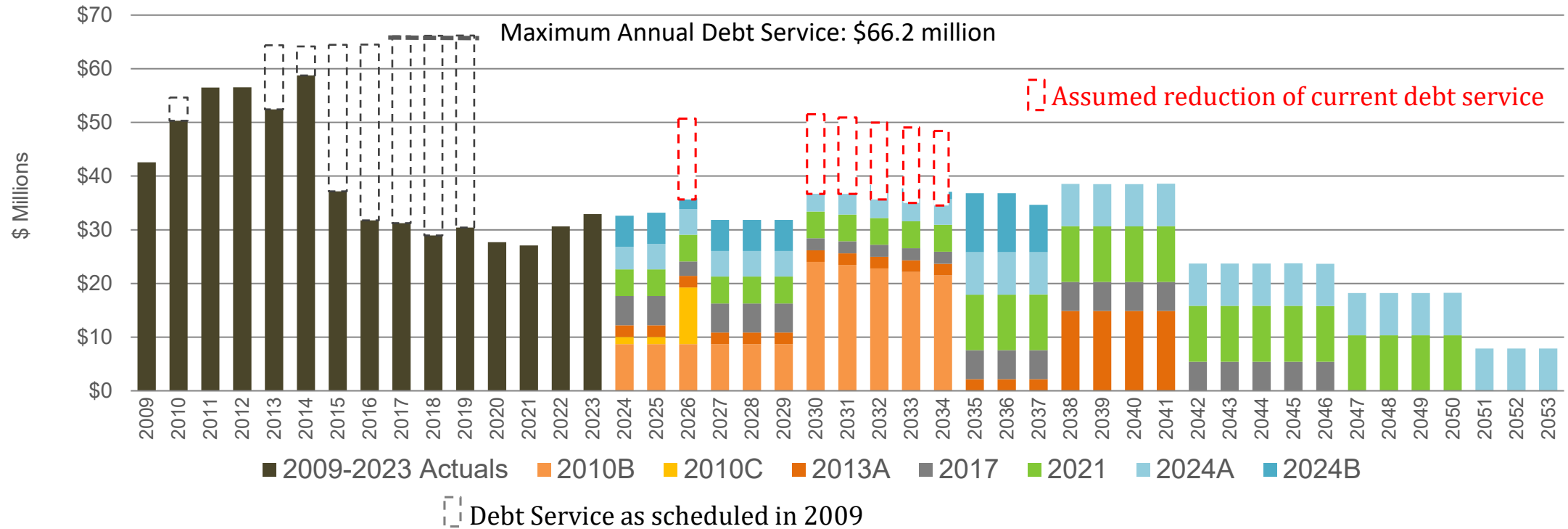
2024 Projected rate increases with lower short-term rates



\* Critical Water scenario in 2025 and 2026 required the use of \$92 million of the Rate Stabilization Fund.

# Manage Debt Profile to Minimize Long-Term Rates

**Historical and Current Debt Service**

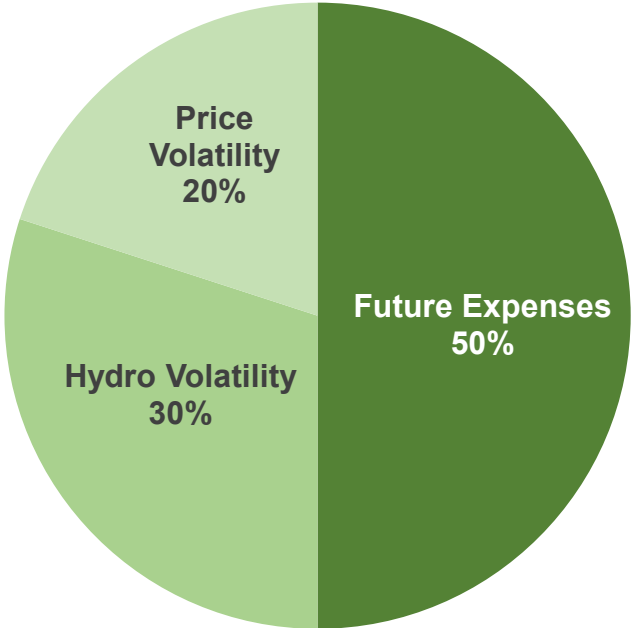


## The Long View:

Managing debt service has produced significant savings to date.

Bond defeasances in 2026 and 2030-2034 are assumed to manage debt service and stabilize rates.

# Using the Rate Stabilization Fund to Mitigate Future Financial Risks



■ Future Expenses ■ Hydro Volatility ■ Price Volatility

RATE STABILIZATION FUND BALANCES (YEAR-END)								
\$ IN MILLIONS	2010	2011	2012	2013 - 2018	2019	2021	2022	2023
<b>+ADDITION / - WITHDRAWAL</b>	+\$10 M	+\$26 M	+\$12 M	\$0	-\$10 M	+\$25 M	+\$95 M	\$0
<b>BALANCE</b>	\$10 M	\$36 M	\$48 M	\$48 M	\$38 M	\$63 M	\$158 M	\$158 M

**Questions?**

## Climate Change Trifecta

- Utility Sector Energy Transition to non-carbon fuel sources
  - Solar Exceeds Load in Certain Hours
  - Wind & Solar Potential is located far from PNW Load Centers
- Electrification
  - NW Region Electric Demand is increasing but Generating capacity is decreasing
- Extreme Weather Events
  - The 2024 MLK Cold Weather Event
- Wildfire Risks
  - \$26 billion proposed in California and \$185 million proposed in Oregon for mitigation

## Challenging Cost Dynamics

- Current power supply cost inflation very high but much less expensive than new power supply option

# Peer Utility Rate Increases

UTILITY	RATE INCREASE %	
	2024	2025*
Pacific Gas & Electric (PG&E)	18.5%	TBD
Portland General Electric	17.0%	7.4%
Clark PUD	14.0%	TBD
Pacific Power	12.9%	16.9%
Avista	12.6%	7.8%
Seattle City Light	9.5%	5.0%
Snohomish PUD	5.8%	TBD
<b>Tacoma Power</b>	<b>3.5%</b>	TBD
Grant PUD	3.5%	TBD
Chelan PUD	3.0%	TBD
Puget Sound Energy	1.7%**	17.0%

\* Proposed

\*\*8.7% in 2023

**CPUC unanimously approves new PG&E rate hike to cover wildfire mitigation projects**

After raising rates by 17% in 2024, PGE requests further hikes for 2025

Clark Public Utilities rates will jump 14.5 percent as of March 1

**Pacific Power Increases Rates, Citing Rising Costs And Wildfire Mitigation**

**Avista Utilities set to raise Washington electricity rates**

June 30, 2023 | Updated Fri., June 30, 2023 at 7:18 p.m.

**Weather challenges, demand increases, and rising costs result in changes to customer electricity rates**

by Seattle City Light on October 12, 2023

**City Light rates in Seattle to increase by nearly 10% next year**

**Chelan PUD customers face five years of 3% rate increases**

**Puget Sound Energy proposes hefty rate hikes to pay for hydro and wind power**

Feb. 28, 2024 at 6:00 am | Updated Feb. 28, 2024 at 6:18 am

# Tacoma Power Challenges

## Future expenses identified

- Debt Service spikes
- Hydro relicensing of 3 dams
- Dam Safety Program
- Grid modernization projects
- SAP Now!

The totality of these expenses expected to be **> \$300** million over the next ten years

## Future risks & emerging issues

### Post 2028 BPA Contract

- likely not as effective in meeting resource needs so we will need to procure more power supply

### Wildfire liability risk

- 2 largest Oregon utilities requesting \$185 million investments in wildfire projects

### Increasing market volatility

- [Seattle City Light raises rates after it burns through cash reserves](#)
- [Clark PUD uses RSF to address \\$17.7M shortfall](#)

## Overall Industry

- Retain current federal hydro production assets
- Develop additional generating capacity
- Transmission siting and permitting reforms
- Further development of organized markets (and maybe an RTO).
- Generating technology advancement
- Demand side management

## Tacoma Power

- Maintain adequate financial reserves (add to our rate stabilization fund when possible)
- Maintain AA ratings
- Steady retail rate increases
- Infrastructure modernization investments (prepare for the future)
- Obtain the best BPA contract terms possible
- Influence policy to benefit our customers
- Support development of organized markets
- Mitigate rate increases for income-constrained customers



# Maintaining AA credit rating to Minimize Financing Costs

- **High ratings enable:**
  - Access to financing (e.g. Keybank agreement)
  - Lower interest rate on bonds
  
- **Electric Rate & Financial Policy:**
  - Requires debt-service coverage ratios and days cash on hand consistent with current rating
  - Mandates reasonable and consistent rate increases to minimize customer impact
  - Approved by TPU Board and City Council
  
- **Guiding Principle GP-2 on Financial Sustainability:**
  - Outcome 4: “Maintain financial metrics that support bond ratings AA or better which facilitate access to the lowest-cost financing and produce sustainable debt service expenses with adequate and relevant reserve level.”
  - Outcome 6: “Financial management of debt including loans, revenue bonds, and grants over the long term to maintain reasonable debt-service requirements and meet debt service coverage ratios.”

Rating agencies are interested in different things

	Moody's*	S&P	Fitch
<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.