

# Tacoma Power Budget Overview

## *2021/2022 Biennium*

Chris Robinson | Power Superintendent

23 September 2020

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# Budget Assumptions



- Wholesale revenue forecast provided by Power Management
- Adverse water conditions for 2021 and 2022
- Capital budget developed through business case review
- Capital spending planned to be approximately 40% revenue-funded and 60% bond-funded
- \$150 million bond issuance planned for 2021
- 2% annual rate increases effective on April 1st of 2021 & 2022



# Budget Risks & Mitigation Efforts



	Risks	Mitigation
<b>Weather</b>	<ul style="list-style-type: none"> <li>• Stream flows/ hydro-availability</li> <li>• Temperature/ loads</li> </ul>	<ul style="list-style-type: none"> <li>• Adverse water planning</li> <li>• Rate stabilization fund</li> <li>• Long-range financial planning</li> </ul>
<b>Customer Demand</b>	<ul style="list-style-type: none"> <li>• Loss of large customer(s)</li> <li>• Economic downturn</li> <li>• Prolonged pandemic impacts</li> </ul>	<ul style="list-style-type: none"> <li>• Economic development</li> <li>• Expense reductions</li> <li>• Second line of credit</li> </ul>
<b>External Cost Factors</b>	<ul style="list-style-type: none"> <li>• Wholesale market power prices</li> <li>• BPA rate increase</li> <li>• New/expanded regulatory mandates</li> </ul>	<ul style="list-style-type: none"> <li>• Wholesale risk management program</li> <li>• Regional coalitions</li> <li>• Federal &amp; State policy engagement</li> </ul>
<b>Political Risks</b>	<ul style="list-style-type: none"> <li>• Customer acceptance of needed rate increases</li> </ul>	<ul style="list-style-type: none"> <li>• Stakeholder engagement</li> <li>• Enhanced low-income support</li> </ul>

# COVID: Actual-to-Date Load

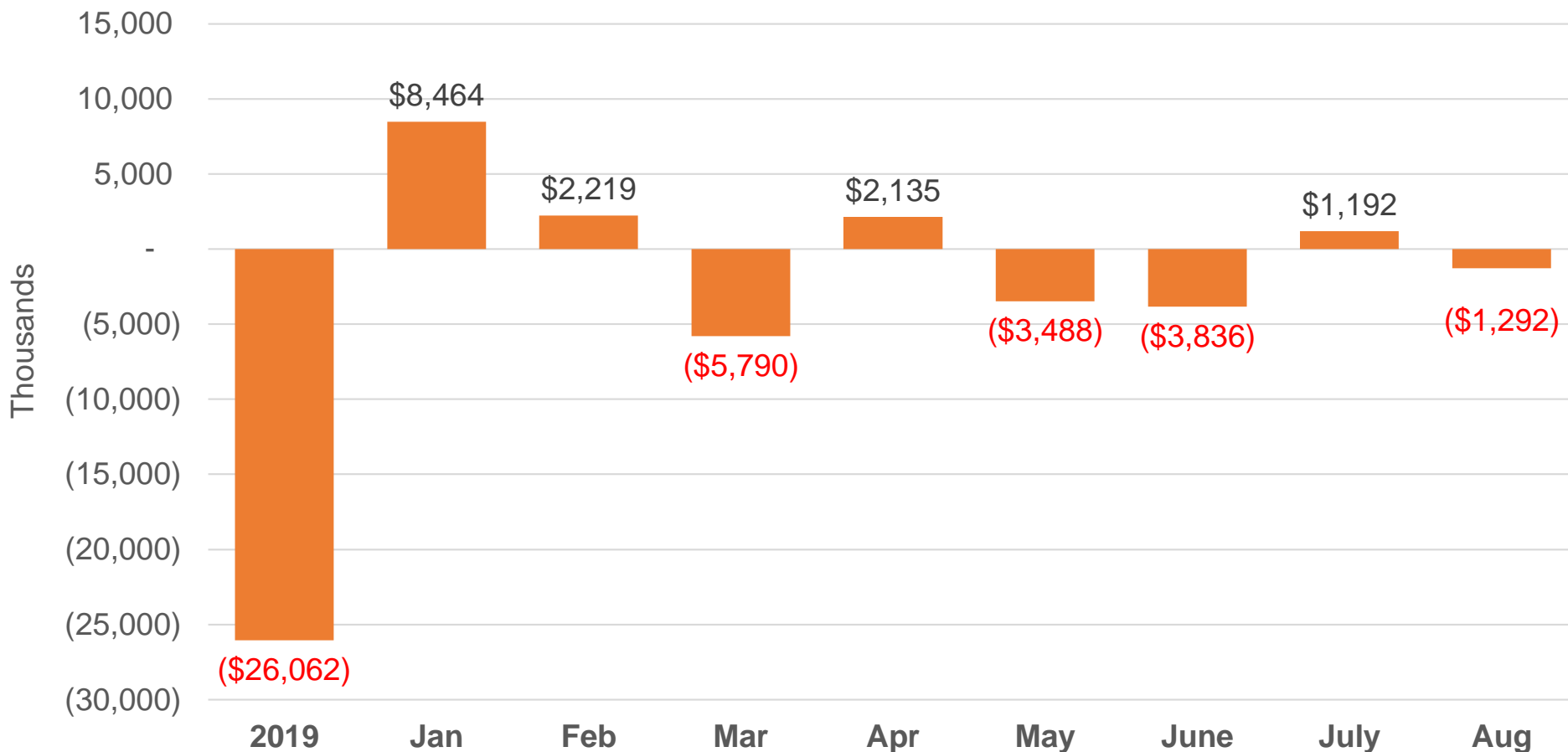
- Observed retail loads declined under stay-at-home and phased-restart orders, compared to the pre-COVID forecast.
- Customer demand appears to be rebounding as people adapt. The utility continues to monitor the changing situation.

2020	January	February	March	April	May	June	July	August
<b>Weather-Normalized Actual Load</b>	681	657.6	596.6	520.2	454.4	461.7	460.2	479.5
<b>October 2019 Forecast Load</b>	679.3	643.3	607.5	549.8	482.3	479.8	486.4	489.4
<b>Forecast Variance</b>	0.25%	2.21%	-1.80%	-5.38%	-5.79%	-3.77%	-3.07%*	-2.02%

\*In the month of July, a contract industrial customer conducted its annual maintenance process, which significantly impacted forecast variance. For this reason, forecast variance reported in that month excludes contract industrial loads. When contract industrial loads are included, forecast variance increases to 5.39%.

# 19/20 Net Operating Revenue Shortfall

Actual Net Operating Revenues\* less Budget



Total 2019/20 biennium Net Operating Revenue\* shortfall through August = **(\$26.4)** million

\* Includes the Rate Stabilization Fund transfer and the Gross Earnings Tax

# 2020 Reductions

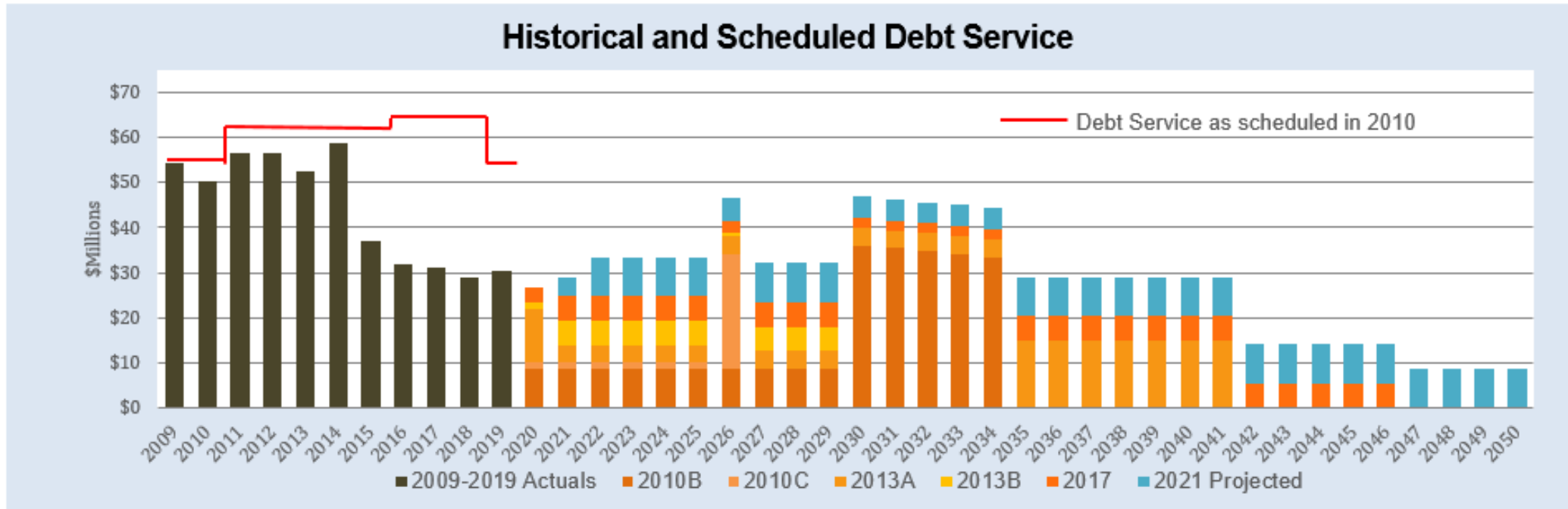


**\$22 million in O&M and capital spending was reduced to mitigate the fiscal impacts of the COVID pandemic immediately after a critical water year:**

- 40 positions to remain vacant - \$5.4 million
- Professional and Contracted Services - \$5 million
- Deferral of Extraordinary Maintenance work- \$1 million
  - \$640k in seismic studies due to PEER earthquake data not being released
  - \$368k in deferral of maintenance and contract costs associated with smaller projects
- Training and Travel reduction - \$0.9 million
- Miscellaneous expenses - \$4.3 million including:
  - \$2.3 million in budget reduction for utilities conservation related to impacts of COVID pandemic in both the business and residential sectors
  - \$190k in efficiencies at TPU facilities to reduce water, wastewater and solid waste expenses
  - \$662k in reduced licenses and permits
- Deferral/cancellation of revenue funded capital projects - \$6.1 million

**Additionally, \$13.8 million in revenue-funded capital projects was shifted to debt funding.**

# Manage Debt Profile to Minimize Long-Term Rates

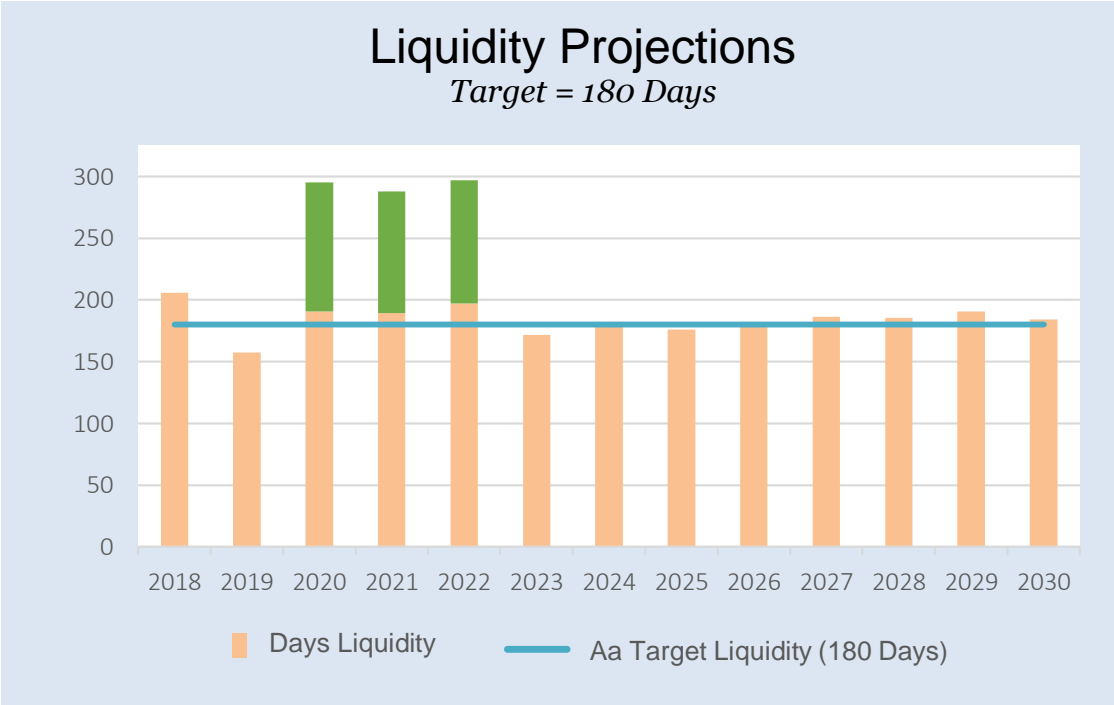
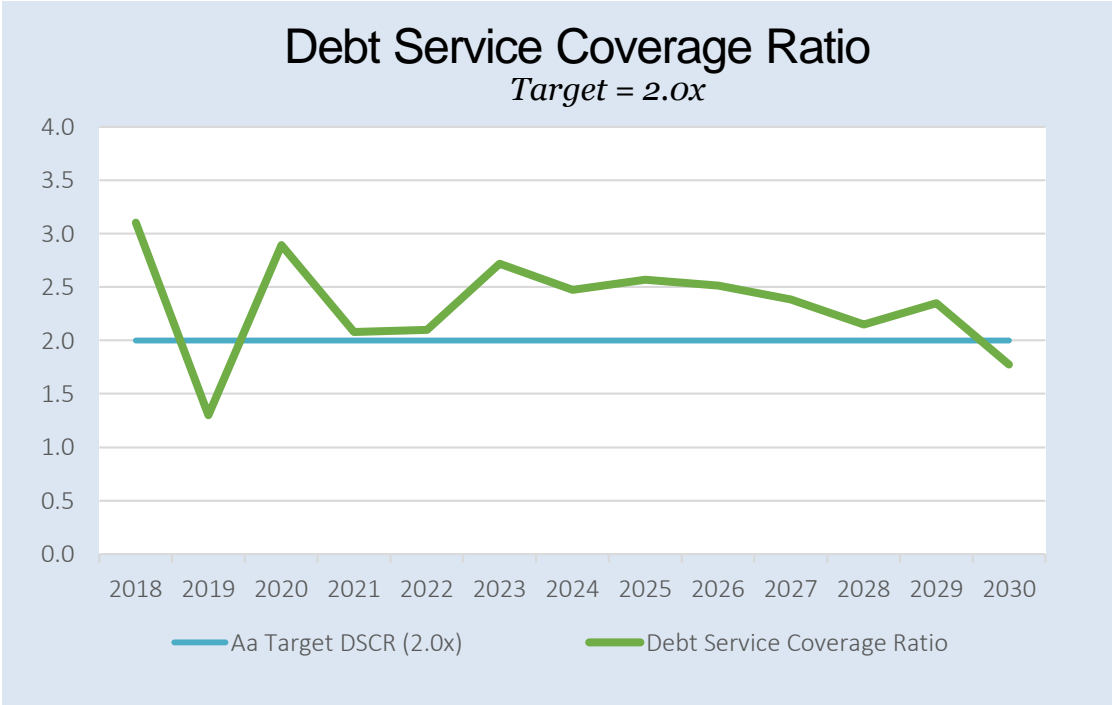


## The Long View:

- Managing debt service has produced significant savings to date.
- \$150 million bond issuance assumed for 2021.
- A bond call in 2023 and a defeasance in 2025 are desirable to manage debt service and keep rates low. **This will require cash to pay down the debt spikes seen here.**



# Base Case Financial Metrics



*Assumes 2 percent average rate increases in 2021 and 2022, 2.7 percent average rate increases in 2023 through 2028, and 6.9 percent average rate increases in 2029 and 2030. Required to maintain financial metrics.*



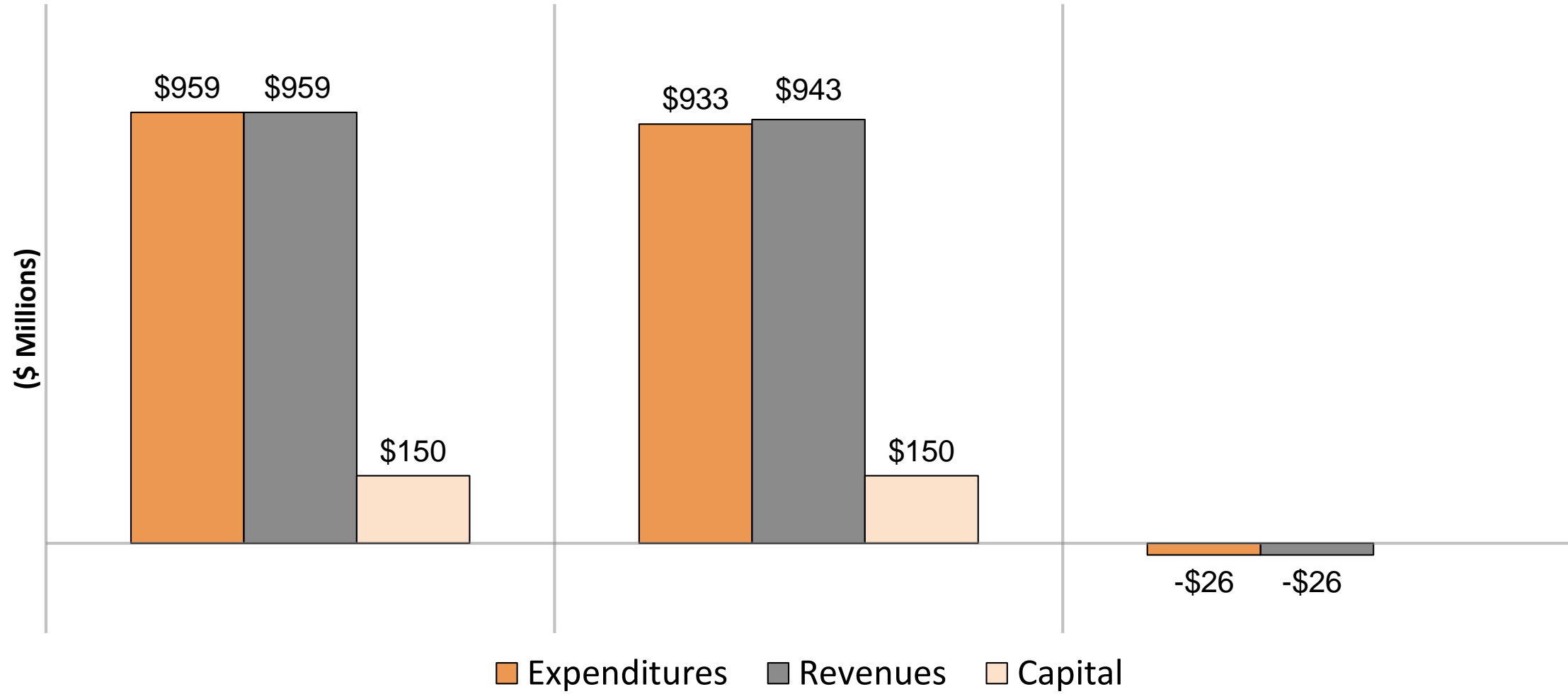
# High-Level Budget Comparison



### 2019/2020 Budget

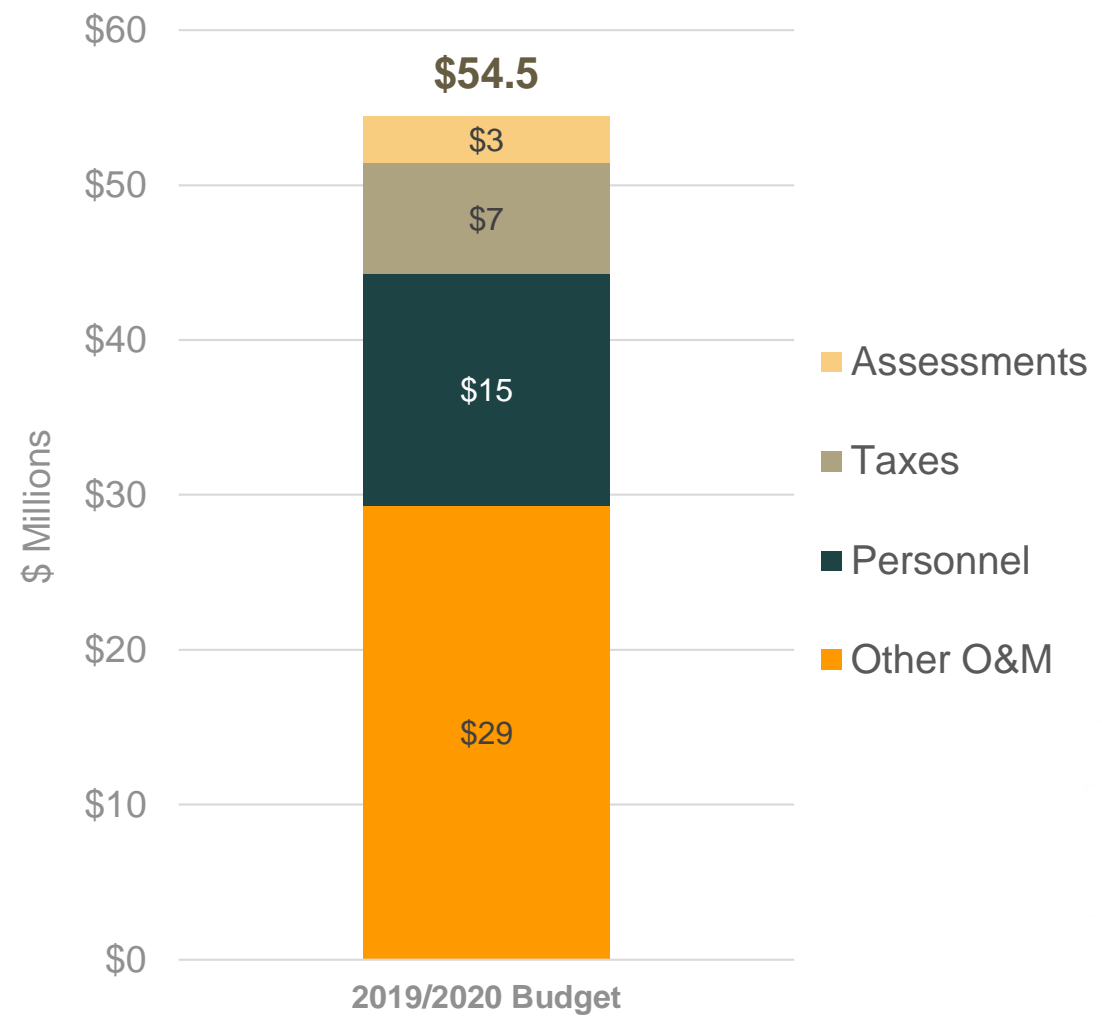
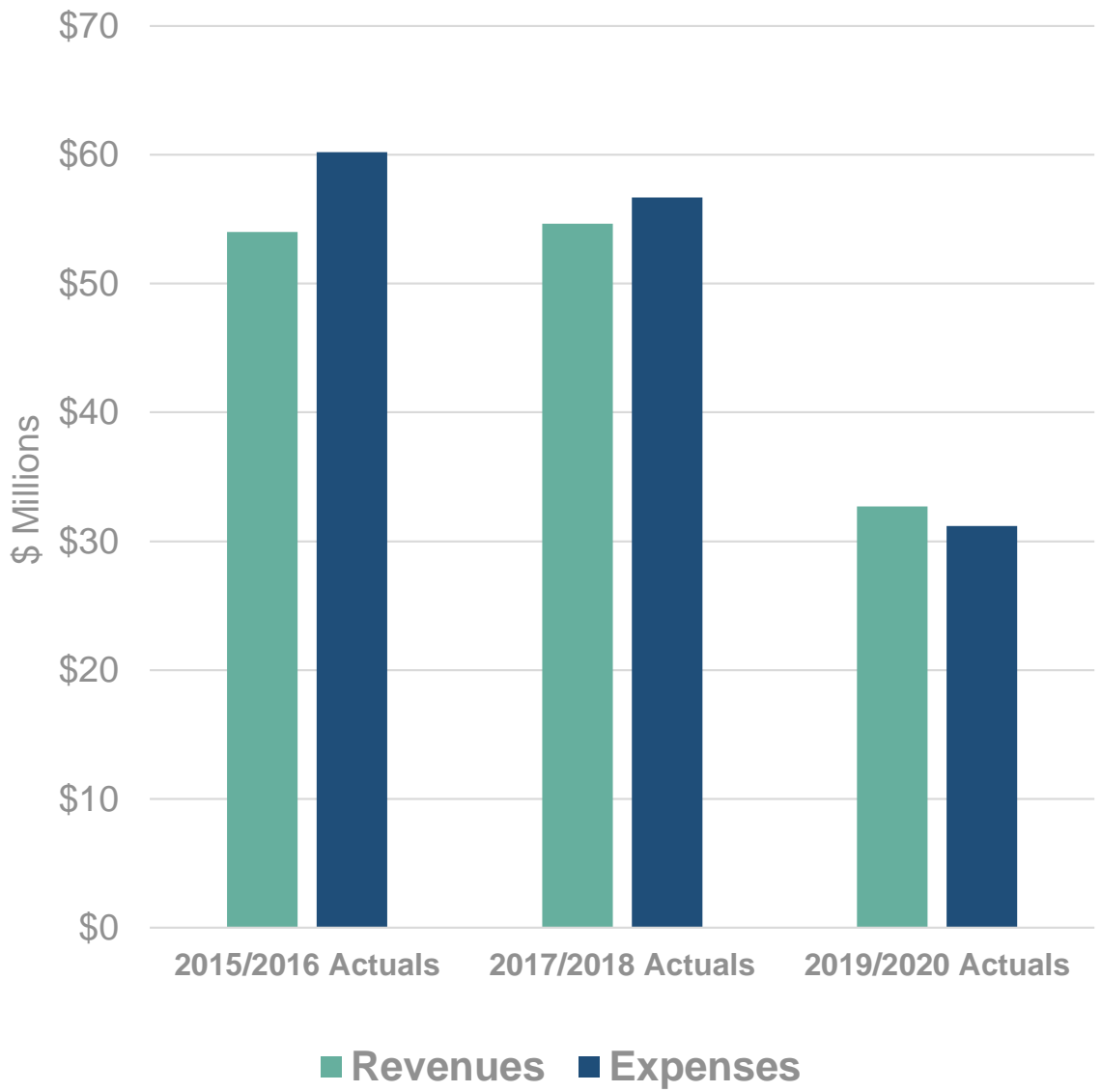
### 2021/2022 Budget

### Budget to Budget Increase (Decrease)



Expenditures Revenues Capital

# Click! Network



**2019/2020 Budget: \$54.5 million**

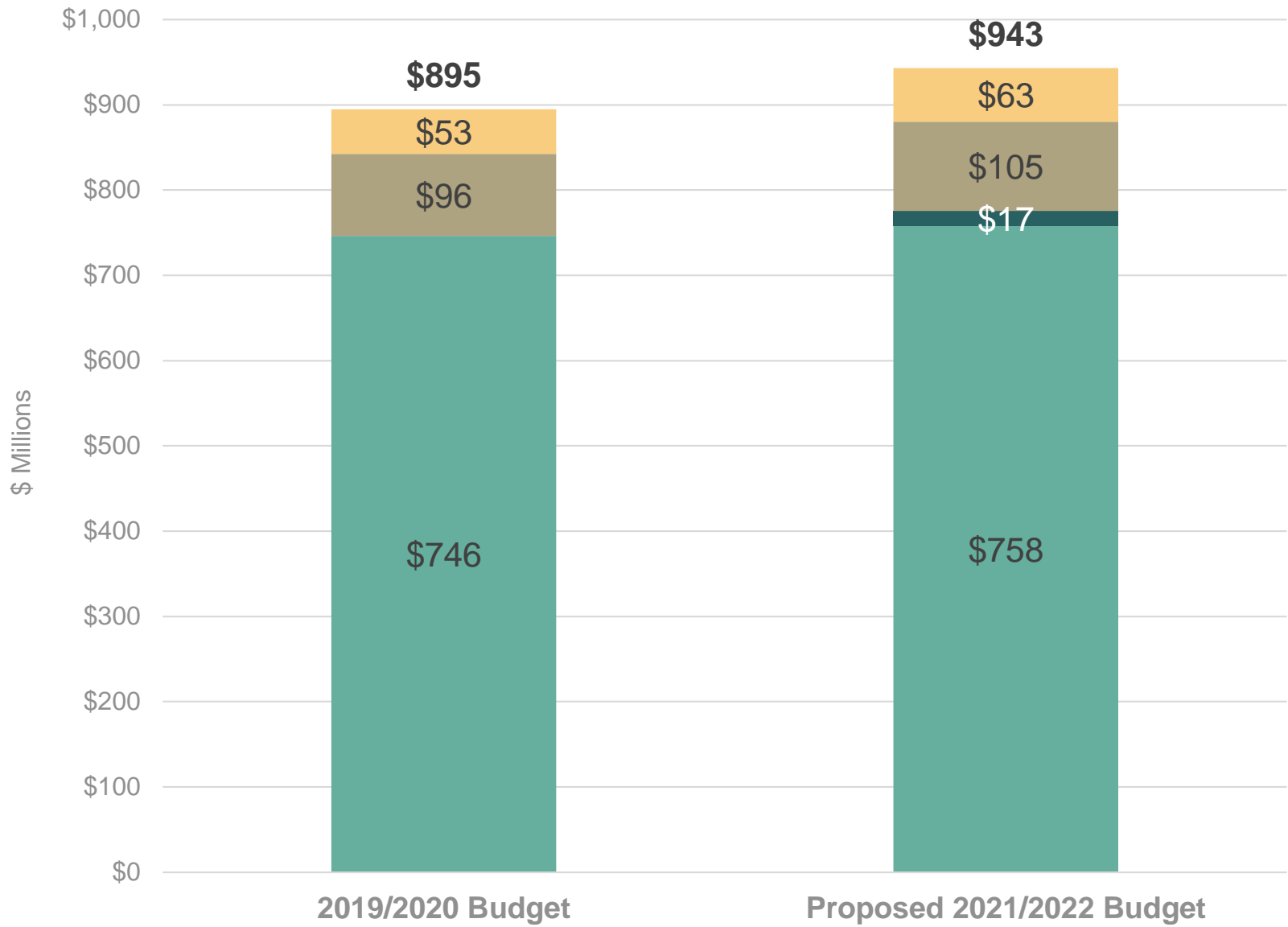
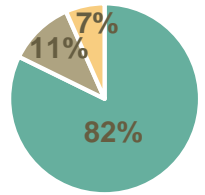
01

# Preliminary Revenue Budget

+ *Revenue Summary*

+ *Wholesale Revenue*

# Preliminary Revenue Budget

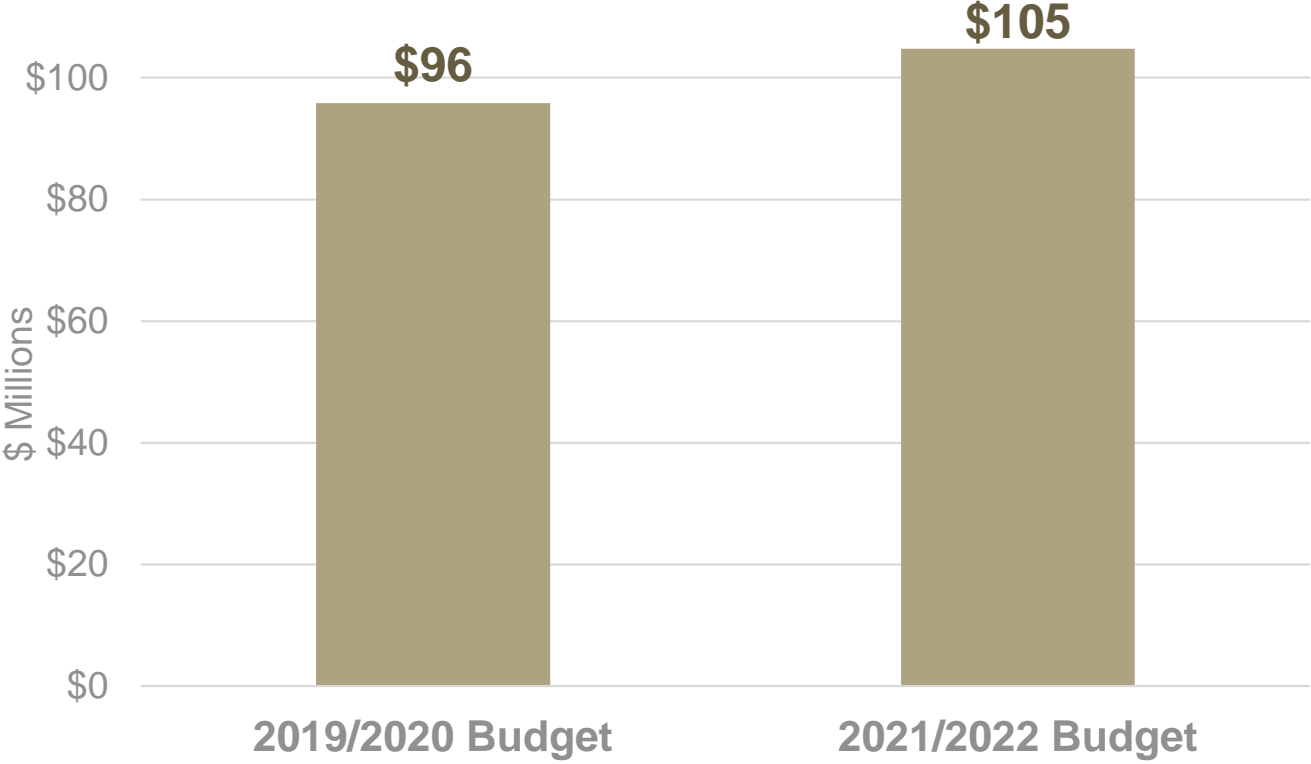
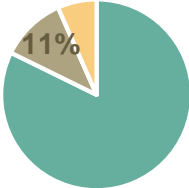


■ Retail Revenue ■ 2% Retail Rate Increase ■ Wholesale Revenue ■ Other Revenue

- 2021/2022 Retail Revenue budget is \$29 million more than the 2019/2020 Budget
- Assumes a 2% rate increase on April 1, 2021 and April 1, 2022
- Retail revenue includes moderate recession assumptions for 2021



# Revenue Budget: Wholesale



- 2021/2022 budget is \$9 million more than the 2019/2020 Budget
- 2021/2022 budget assumes higher prices in the wholesale market and 4aMW in additional sales
- \$10 million in Non-Traditional Product Revenue budgeted for 2021/2022

Wholesale Revenue	2019/2020 Budget	2021/2022 Budget	Budget to Budget	% Change
<b>Dollars</b>	\$95,840,208	104,798,779	\$8,958,571	9.3%
<b>aMW</b>	211.3	203.7	-7.6	-3.6%
<b>\$/MWh</b>	\$25.89	\$29.37	\$3.48	13.4%

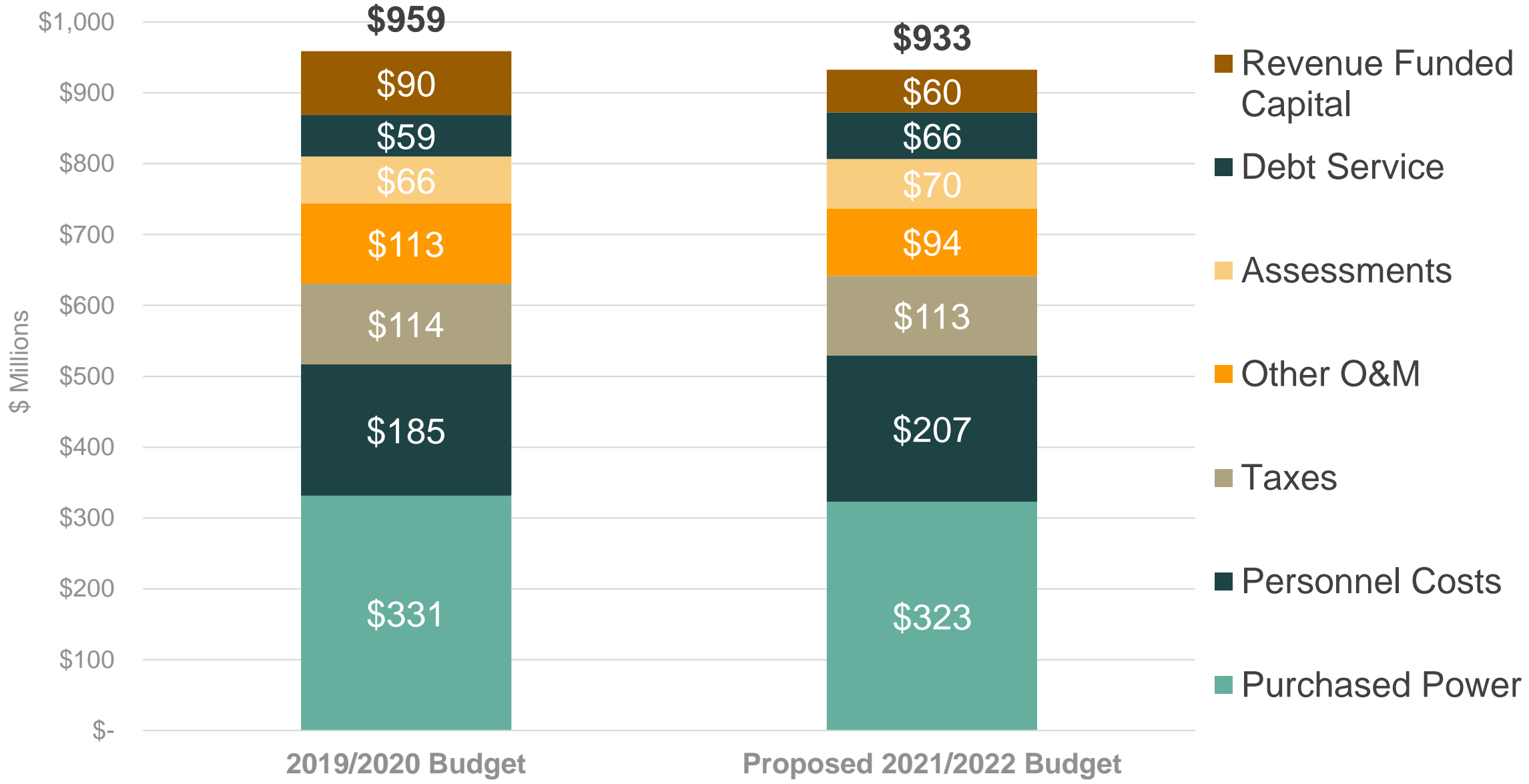


02

# Preliminary O&M Budget

- + *Purchased Power*
- + *Personnel*
- + *FTEs*
- + *Taxes*
- + *Other O&M*
- + *Assessments*
- + *Revenue Funded Capital*
- + *Capital Projects*
- + *2021/22 Reductions*

# Preliminary O&M Budget

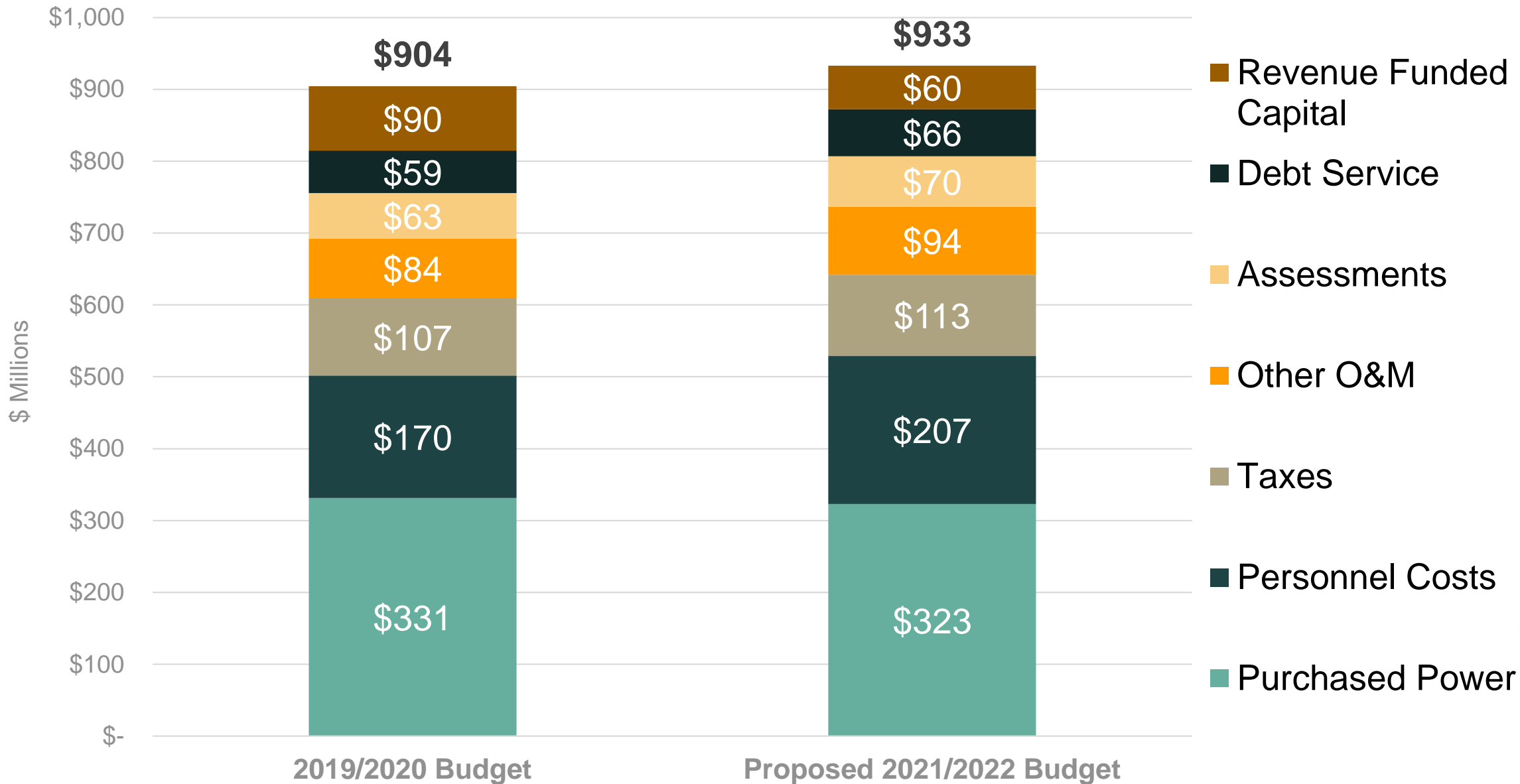


- SD1 Equity and Inclusion
- SD2 Financial Stability
- SD4 Stakeholder Engagement
- SD6 Innovation
- SD7 Reliability and Resiliency
- SD12 Employee Relations
- SD13 Customer Service
- SD14 Resource Planning



# Preliminary O&M Budget

EXCLUDES CLICK! NETWORK 2019/2020 BUDGET



- SD1 Equity and Inclusion
- SD2 Financial Stability
- SD4 Stakeholder Engagement
- SD6 Innovation
- SD7 Reliability and Resiliency
- SD12 Employee Relations
- SD13 Customer Service
- SD14 Resource Planning

# 2021/2022 Budget Reductions



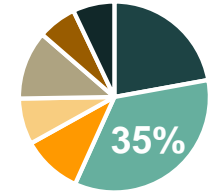
## Overall, a 10% reduction in Personnel and Other O&M costs from pre-COVID 21/22 budget plan

- \$35 million in reductions:
  - Reduced Personnel costs
  - Reduced professional services contracts
  - Reduced EIM budget

## Enables Tacoma Power to accommodate cost increases in other areas and still maintain 2% overall increase

- Plan to absorb \$7.4 million increase to medical benefits costs
- Plan to absorb increases in other non-controllable costs
  - Assessments - \$6.8 million increase  
(*General Government & TPU service division*)
  - Bad Debt - \$4.6 million increase
  - Credit Card Fees - \$2.5 million increase
- Family Need contributions - \$1 million increase

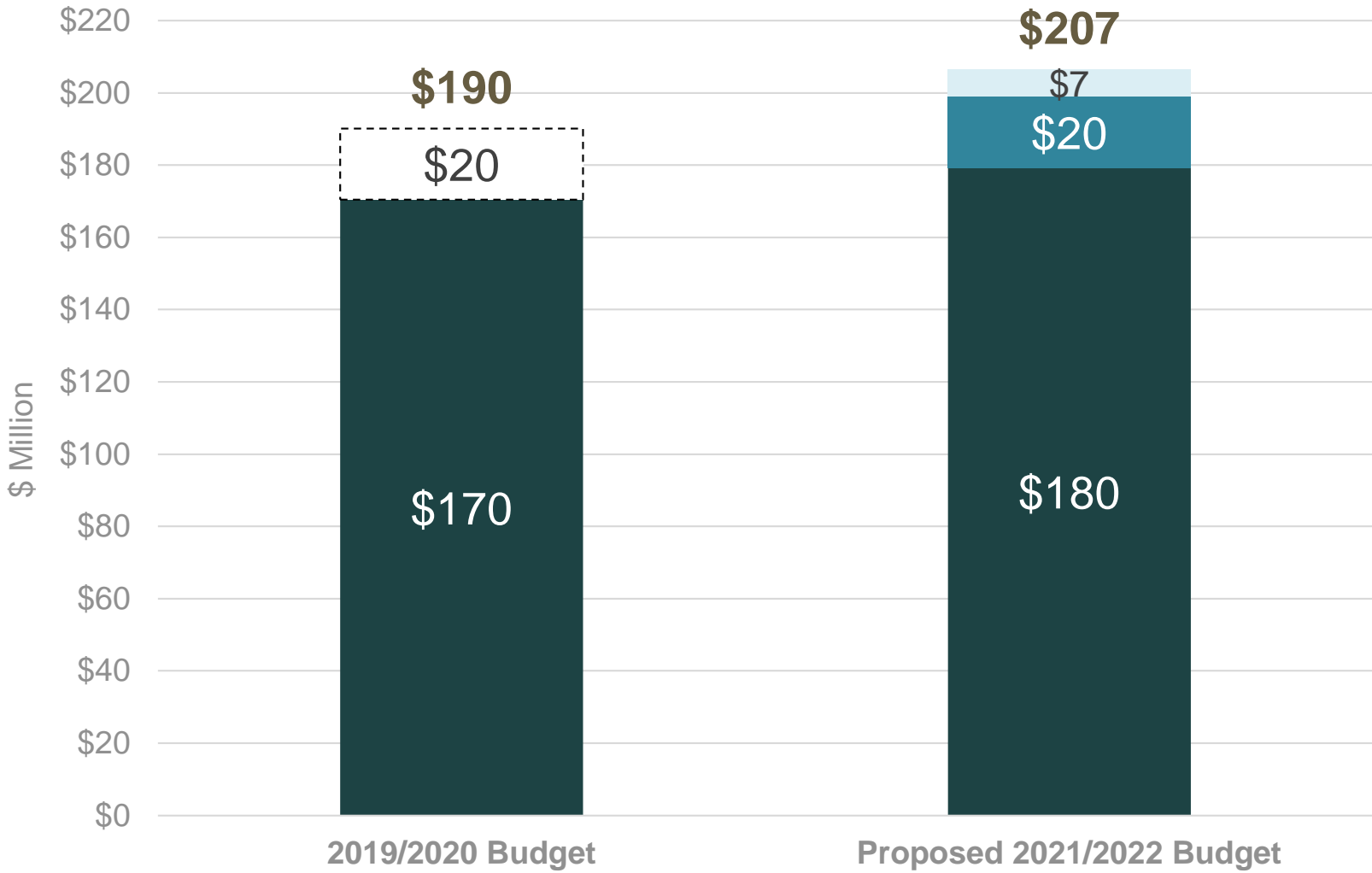
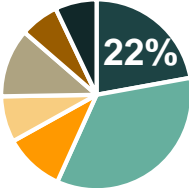
# O&M Budget: Purchased Power



- Decrease from 2019/2020 due to planned Bonneville Power Administration (BPA) rate increases that did not occur
- Anticipating 2.5% BPA Power rate increase
- Anticipating 5% BPA Transmission rate increase

Purchased Power	2019/2020 Budget	2021/2022 Budget	Budget to Budget	% Change
BPA Power	\$244,745,737	239,369,141	(\$5,376,596)	-2.2%
BPA Transmission	46,617,820	44,024,285	(2,593,535)	-5.6%
Other Power Contract Costs	15,030,651	15,249,688	219,037	1.5%
Portfolio Purchases	17,729,860	17,825,952	96,092	0.5%
RECs	7,166,866	6,300,000	(866,866)	-12.1%
<b>Total Purchased Power</b>	<b>\$331,290,934</b>	<b>\$322,769,066</b>	<b>(\$8,521,868)</b>	<b>-2.6%</b>

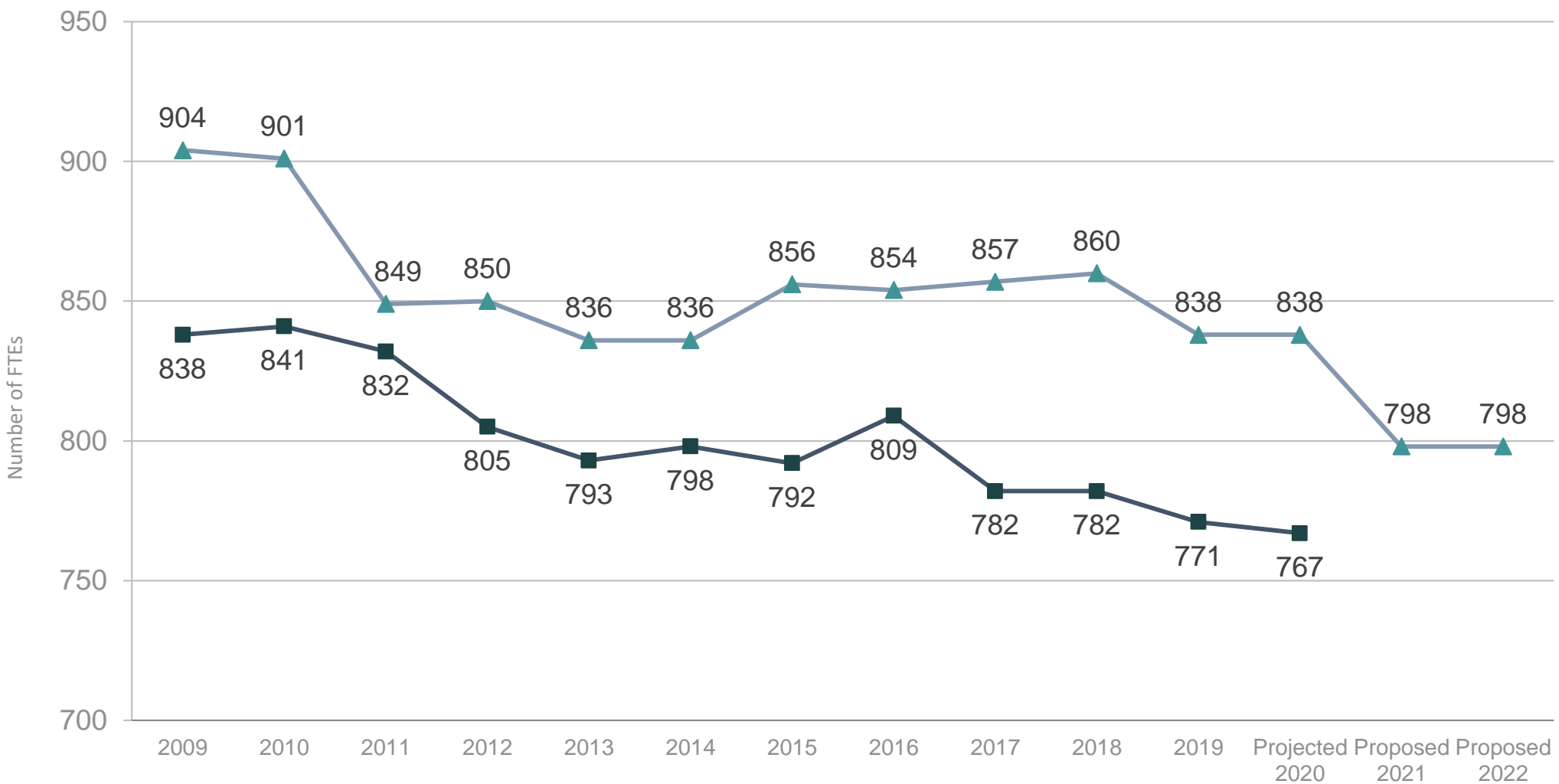
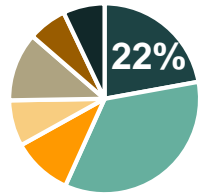
# O&M Budget: Personnel



Personnel
  Vacancy Credit
  Vacancy Credit
  Medical Increase

- No vacancy credit assumed for 2021/2022
- 8% Vacancy Rate (\$20 million) assumed for 2019/2020
- 2021/2022 medical benefits increase of \$9,392 per FTE (30.2%)

# O&M Budget: FTEs

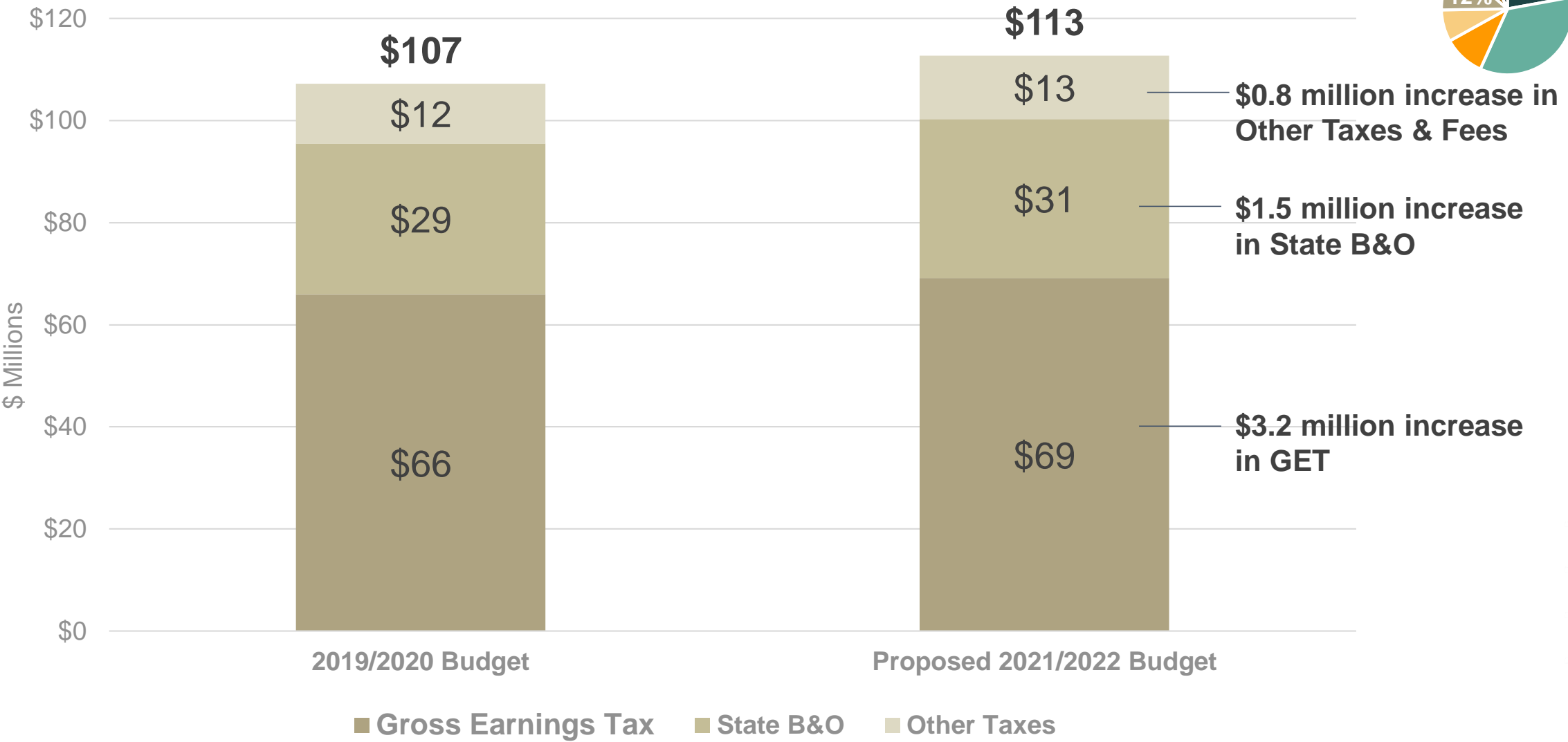
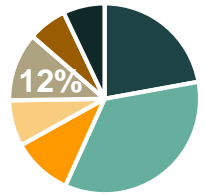


▲ Budgeted FTEs    ■ Actual FTEs

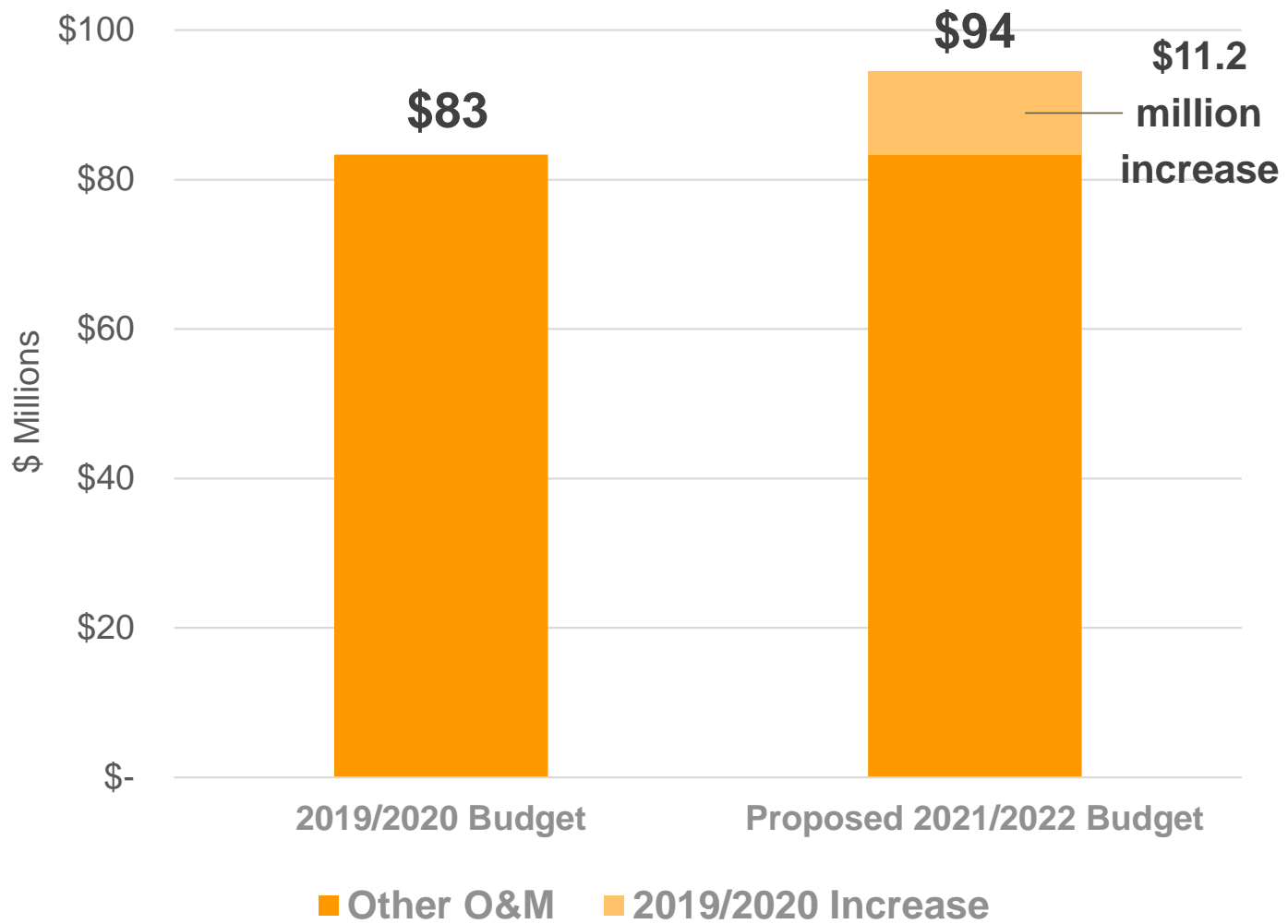
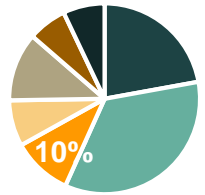
Purchased Power    Personnel Costs    Taxes    Other O&M    Assessments    Revenue-Funded Capital



# O&M Budget: Taxes



# O&M Budget: Other O&M



Notable Cost Drivers	2021/2022 Change
Uncollectibles (Bad Debt)	\$4.6 million
Credit Card Discount Fees	\$2.5 million
Family Need Contribution	\$1.0 million
Energy Imbalance Market	\$7.2 million
Customer Engagement Portal	\$2.8 million
Street Improvement Project	\$1.1 million
REDUCTIONS	
Professional Services	(\$7.2 million)
Training	(\$0.6 million)
Travel	(\$0.4 million)

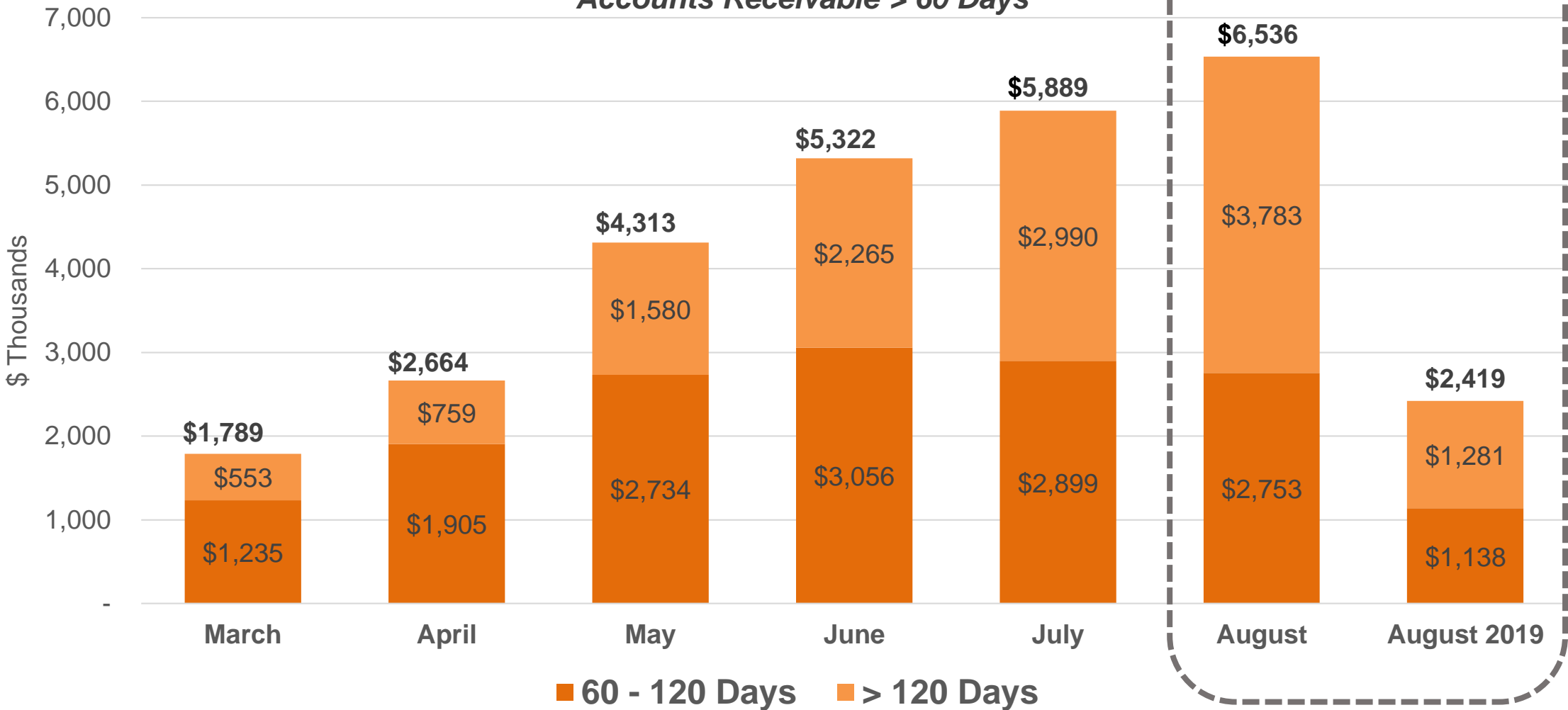
Purchased Power   Personnel Costs   Taxes   **Other O&M**   Assessments   Revenue-Funded Capital

- SD1 Equity and Inclusion
- SD2 Financial Stability
- SD4 Stakeholder Engagement
- SD5 Environmental Leadership
- SD6 Innovation
- SD7 Reliability and Resiliency
- SD13 Customer Service

# COVID: Accounts Receivable



**Power Retail Sales**  
*Accounts Receivable > 60 Days*

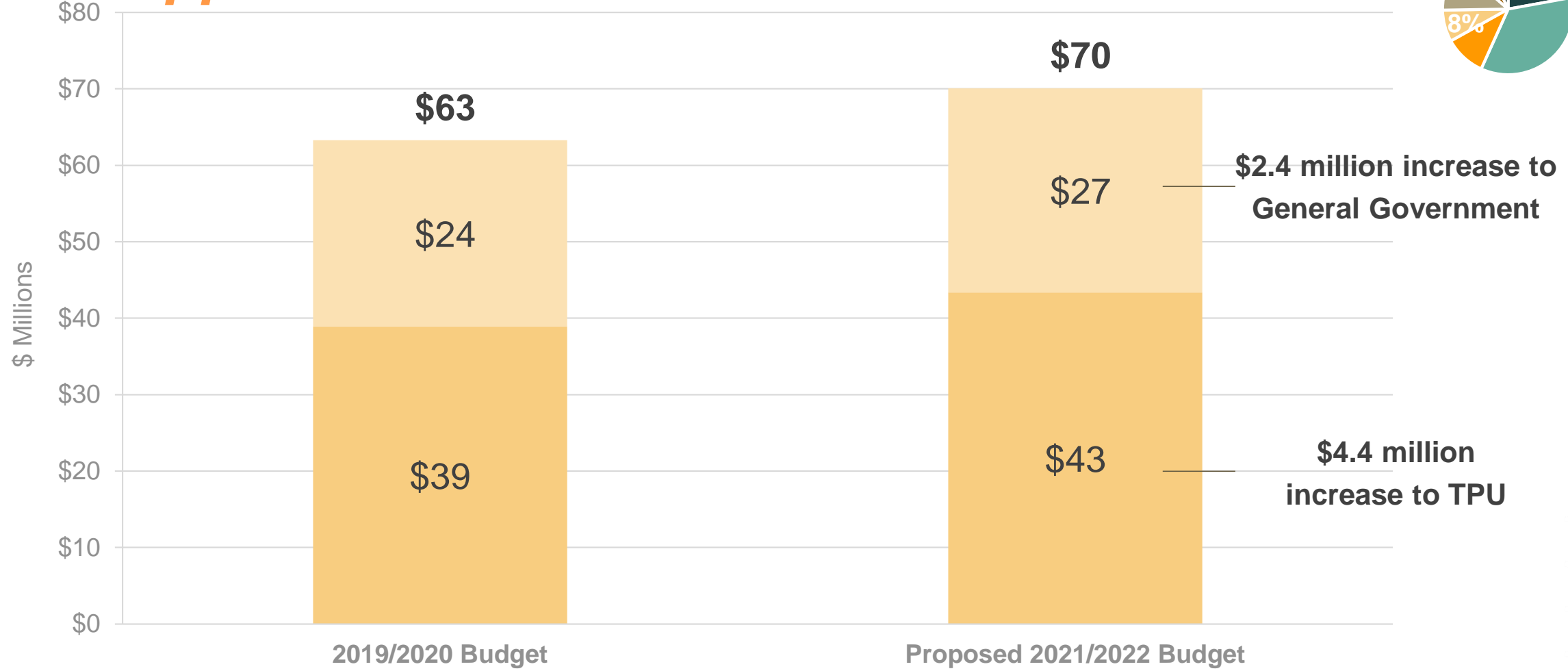
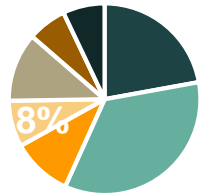


Purchased Power   Personnel Costs   Taxes   **Other O&M**   Assessments   Revenue-Funded Capital





# O&M Budget: Assessment for Support Services



■ TPU Assessments ■ GG Assessments

Purchased Power Personnel Costs Taxes Other O&M **Assessments** Revenue-Funded Capital

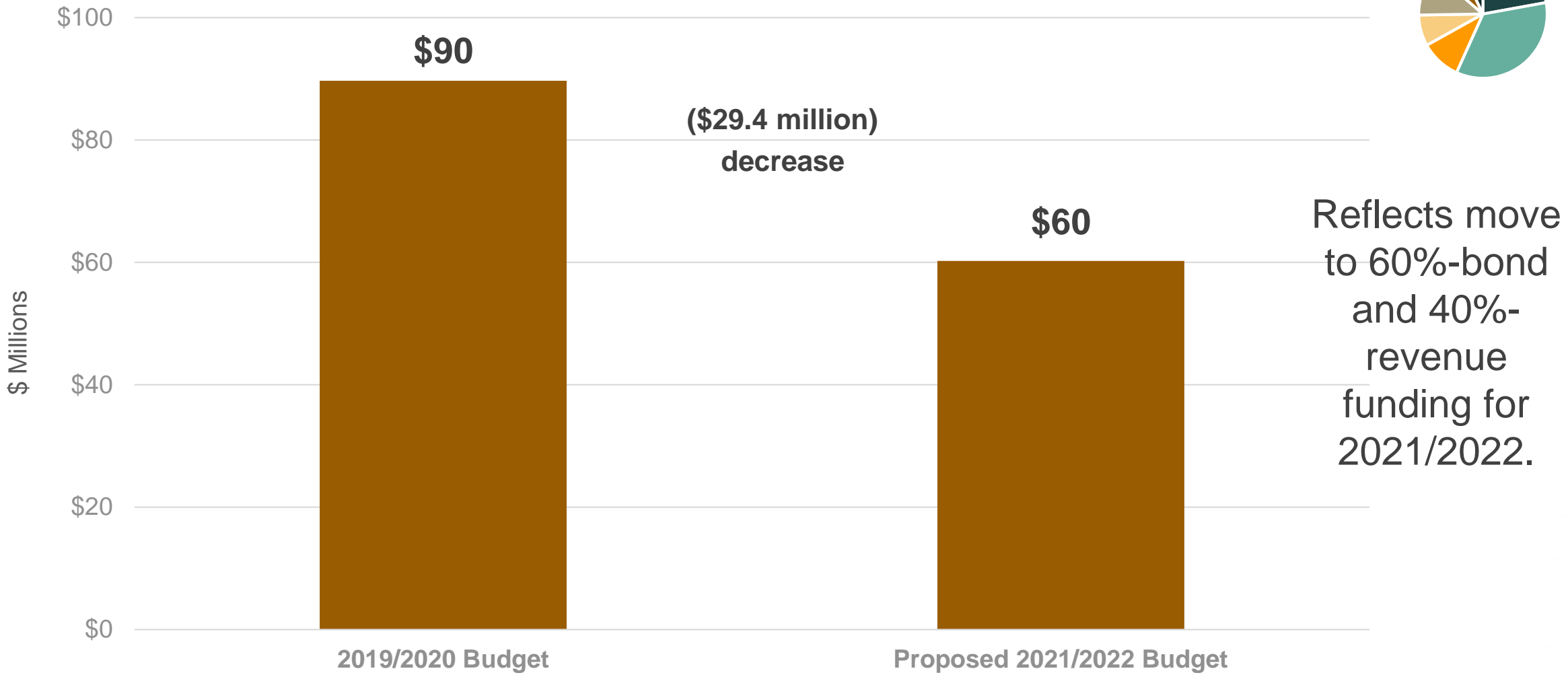
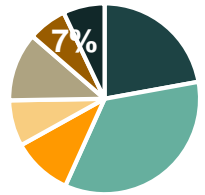
**SD2**  
Financial Stability

**SD4**  
Stakeholder Engagement

**SD10**  
Government Relations



# O&M Budget: Revenue-Funded Capital

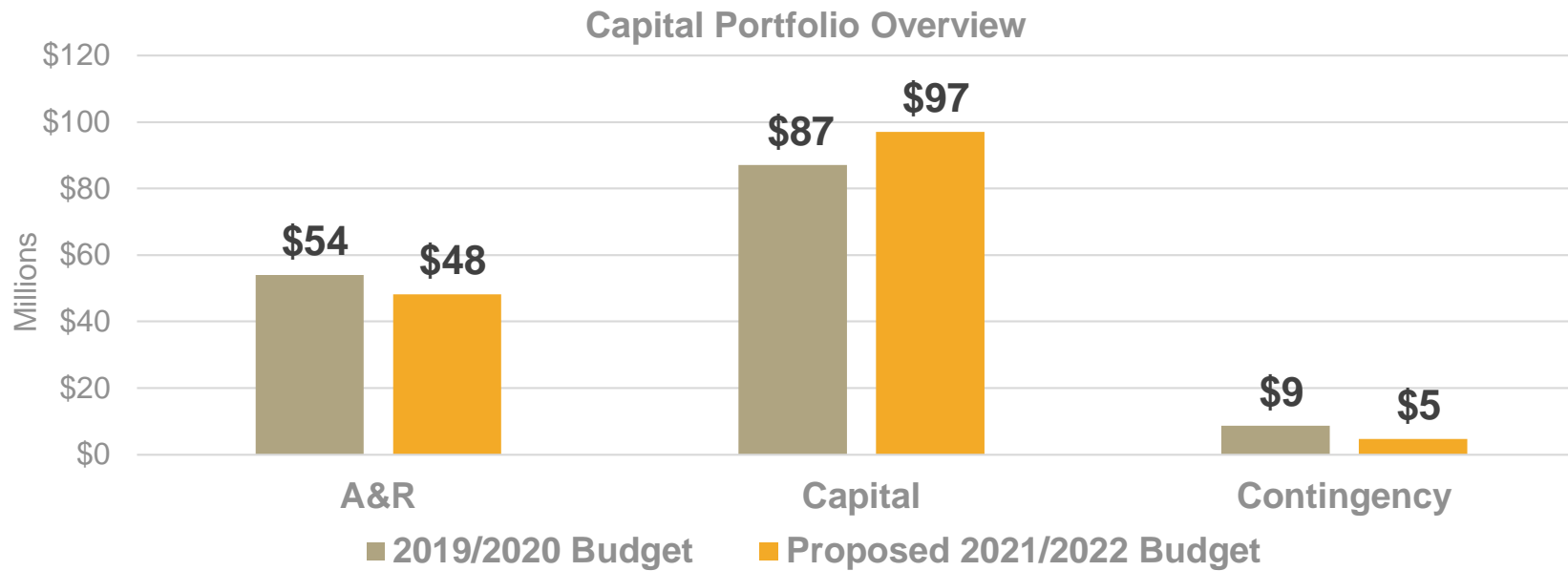


■ Revenue Funded Capital

Purchased Power   Personnel Costs   Taxes   Other O&M   Assessments   **Revenue-Funded Capital**

- SD2 Financial Stability
- SD5 Environmental Leadership
- SD6 Innovation
- SD7 Reliability and Resiliency
- SD13 Customer Service
- SD14 Resource Planning

# Total Capital Budget



Major Project Categories	2021/2022 Budget	% of Capital Budget	Change from 2019/2020
Aging Infrastructure Upgrades	\$32,659,000	22%	\$12,569,000
Advanced Metering Infrastructure (AMI)*	22,918,000	15%	(1,407,000)
Other Capital	19,571,000	13%	10,670,000
Technology	11,109,000	7%	(5,620,000)
Regulatory	11,000,000	7%	(3,713,000)
Facilities Improvements	3,343,000	2%	(188,000)
License Implementation	1,064,000	1%	(6,383,000)
Additions & Replacements	48,234,000	32%	(5,753,000)
<b>TOTAL</b>	<b>\$149,898,000</b>		<b>\$175,000</b>

\*Power-only portion

# Budget Summary

- **2.0% overall retail rate increase for 2021/2022 budget**
- **Budget supports the strategic directives and utility operational needs**
- **FTEs reduced except for AMI and EIM implementation requirements**
- **Many budget drivers are non-discretionary for Tacoma Power**
  - Debt Service
  - Taxes & Assessments
  - Write-offs & Credit Card Fees
  - Medical Benefits
- **Actions taken to manage costs and reduce revenue needs**
  - Cost reductions implemented for 2020 and 2021/2022
  - Debt funding a greater proportion of capital over same period
  - Budget realigned with revenue requirement



03

# Rates Update

- + *Class Overview*
- + *Items to Date*
- + *Rate Comparison*
- + *Additional Rate Items*
- + *Outreach*

# Retail Customer Class Overview

- single-family and multifamily residences
- 162,000 accounts
- \$180.5 million revenue

## Residential



- small businesses, such as flower shops, nail salons, small offices
- 16,500 accounts
- \$29.7 million revenue

## Small General Service



- large businesses such as schools, restaurants, hospitals
- 2,600 accounts
- \$107.9 million revenue

## General Service



- 8 large customers directly on the transmission system
- \$23.6 million revenue

## High Voltage General



- 2 large manufacturers directly on the transmission system
- \$23.7 million revenue

## Contract Power



- Streetlights and traffic signals
- 900 accounts
- \$600,000 revenue

## Streetlights & Signals



- Rental street and area lighting
- 3,200 accounts
- \$1.5 million revenue

## Private Off-Street Lighting



# Rate Items Reviewed to Date

## Discussed May 27:

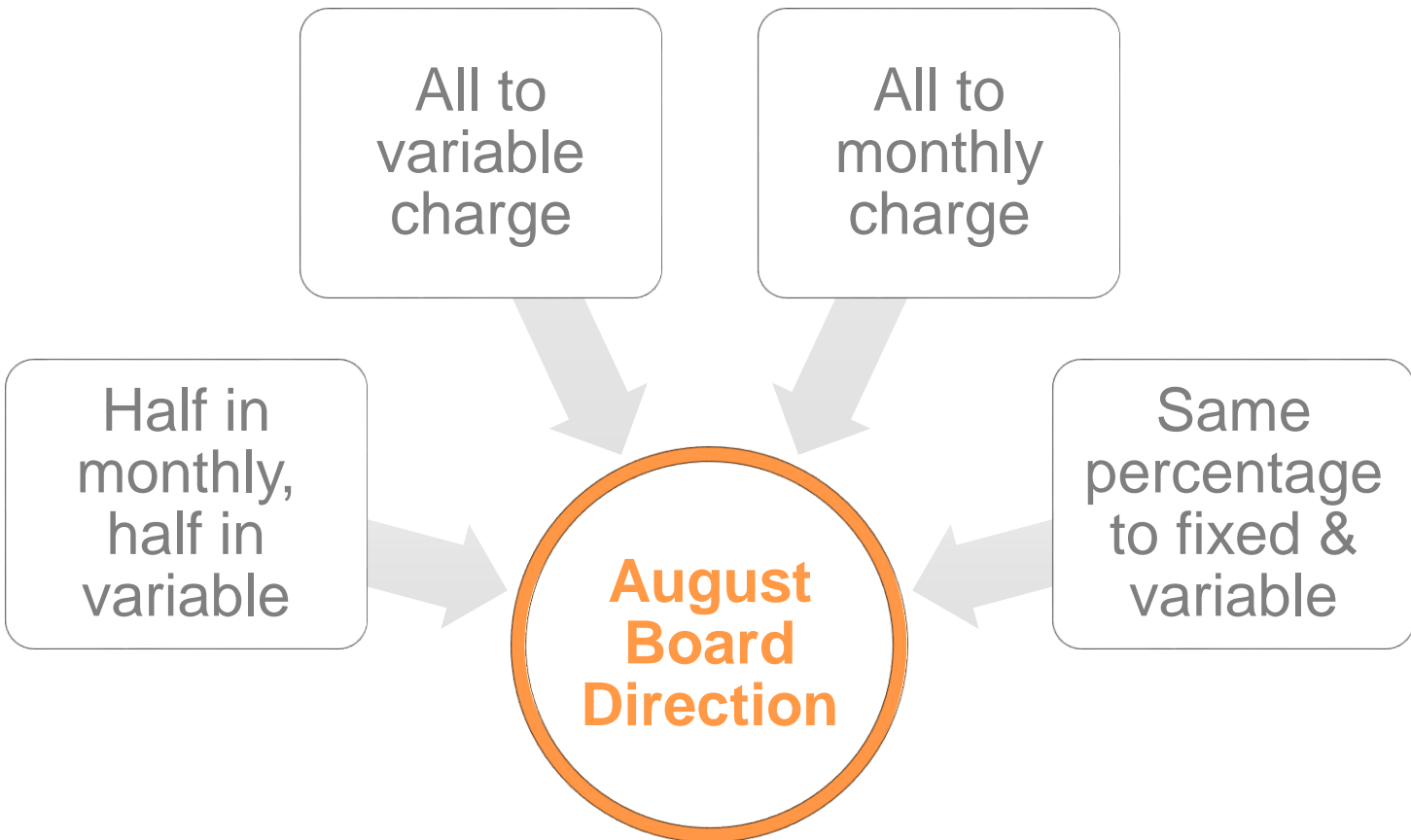
- Residential Prepayment rate
- Shore Power rate
- Distributed Generation (DG) rate
- Non-Firm rate
- New Large Load rate

## Discussed August 26:

- Open Access Transmission Tariff (OATT) update
- New business service fees update
- Rate component attribution of increase



# Rate Components






PUB stated a preference for same percentage applied to fixed and variable rate components (2%), consistent with class attribution



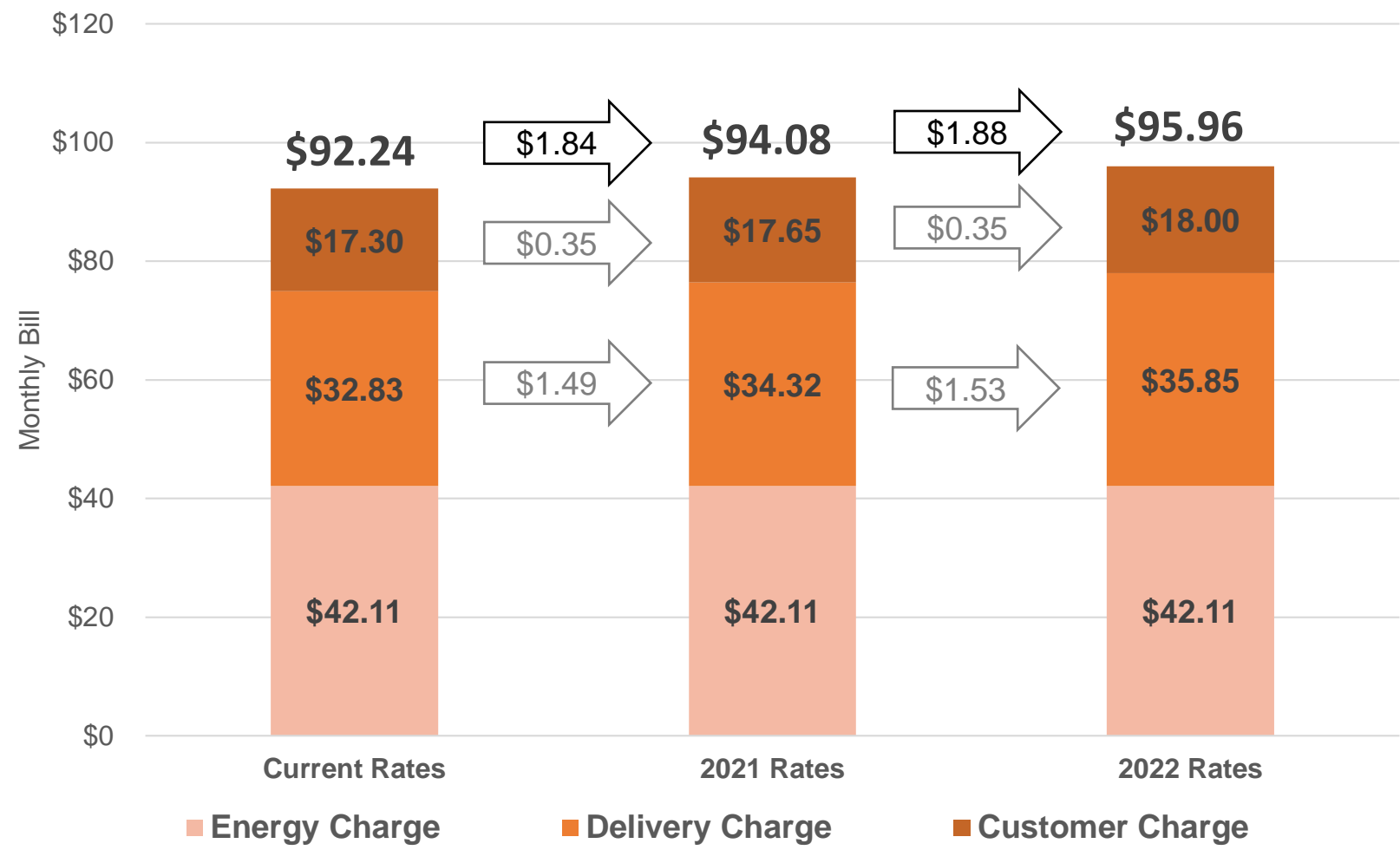


# Proposed Residential Rate Design

	Current	2021	2022	
 <b>Customer Charge</b> (\$ per Month)	\$17.30 <i>current</i>	\$17.65 +35¢	\$18 +35¢	} Monthly fixed customer charge increasing 2%
 <b>Energy Charge</b> (\$/kWh)	4.5351¢ <i>current</i>	4.5351¢ <i>no change</i>	4.5351¢ <i>no change</i>	
 <b>Delivery Charge</b> (\$/kWh)	3.5353¢ <i>current</i>	3.6967¢ +4.6%	3.8613¢ +4.5%	} Combined variable per-kWh charge increasing 2%

Preliminary, subject to change.

# Average Residential Bill Impact



- Average 2021/2022 projected bill
- Actual bills vary based on usage

*Preliminary, subject to change.*

# Proposed Commercial & Industrial Rate Design



Schedule B	Small General		
	Current	2021	2022
<b>Customer Charge</b>	<b>\$ 23.50</b>	<b>\$ 23.95</b>	<b>\$ 24.45</b>
Energy Charge	4.4616¢	4.4616¢	4.4616¢
Delivery Charge	3.5207¢	3.6816¢	3.8431¢
<b>Total per-kWh Charges</b>	<b>7.9823¢</b>	<b>8.1432¢</b>	<b>8.3047¢</b>

Schedule G	General		
	Current	2021	2022
<b>Customer Charge</b>	<b>\$ 80</b>	<b>\$ 81.60</b>	<b>\$ 83.25</b>
<b>Energy Charge</b>	<b>4.9961¢</b>	<b>5.0960¢</b>	<b>5.1989¢</b>
<b>Delivery Charge</b>	<b>\$8.51</b>	<b>\$8.68</b>	<b>\$8.85</b>

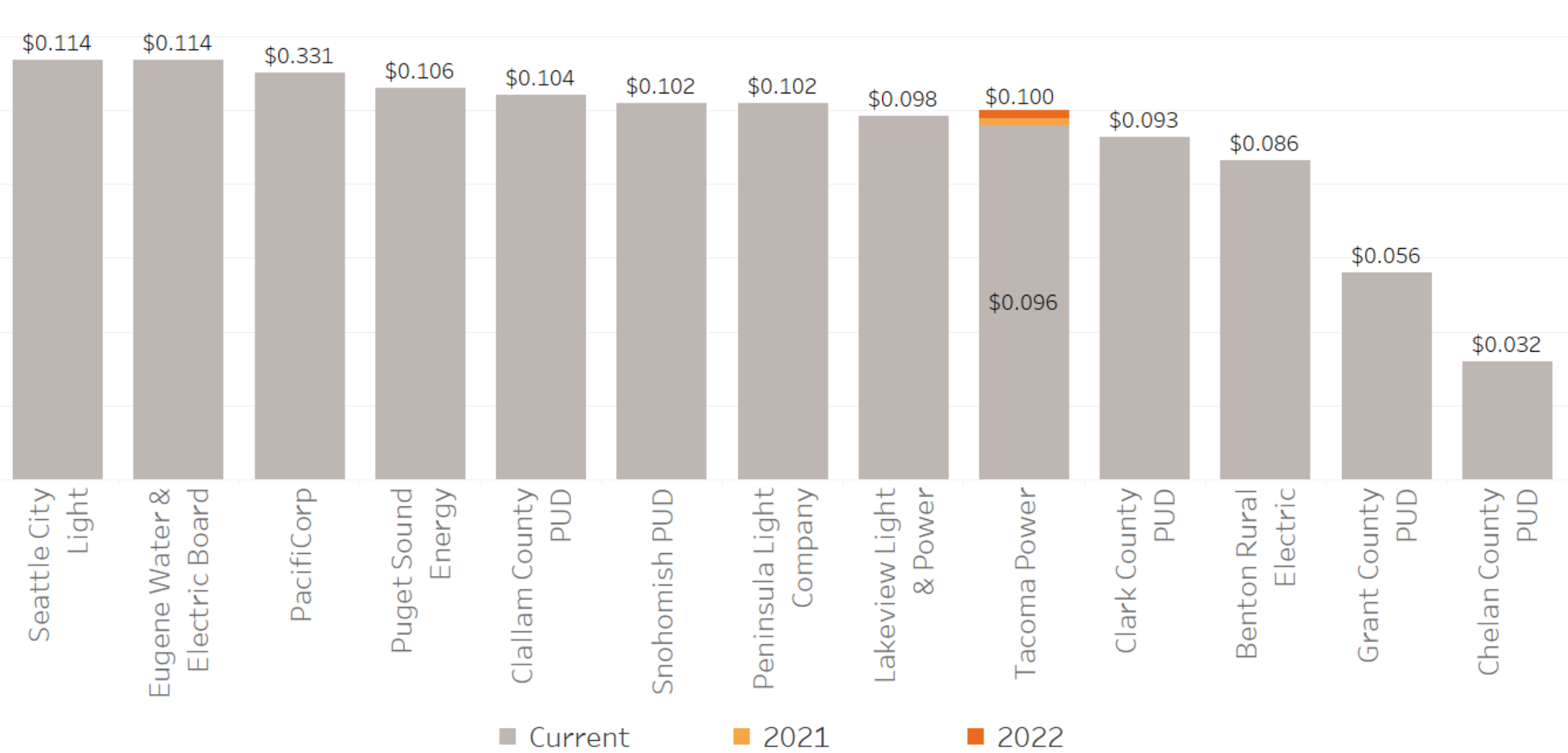
- Industrial classes (HVG and CP) also receiving 2% class increase
- Lighting classes will see 2% proportional increase in all bill elements



# Residential Rate Comparison



Average Price per kWh for Residential Consumers



Source: Energy Information Administration, Form 861, 2019 (Early Release) | Impact of 2021 and 2022 adjustments are estimated by escalating prior year data by 2%.



# New Services Fees – Alternative Proposal

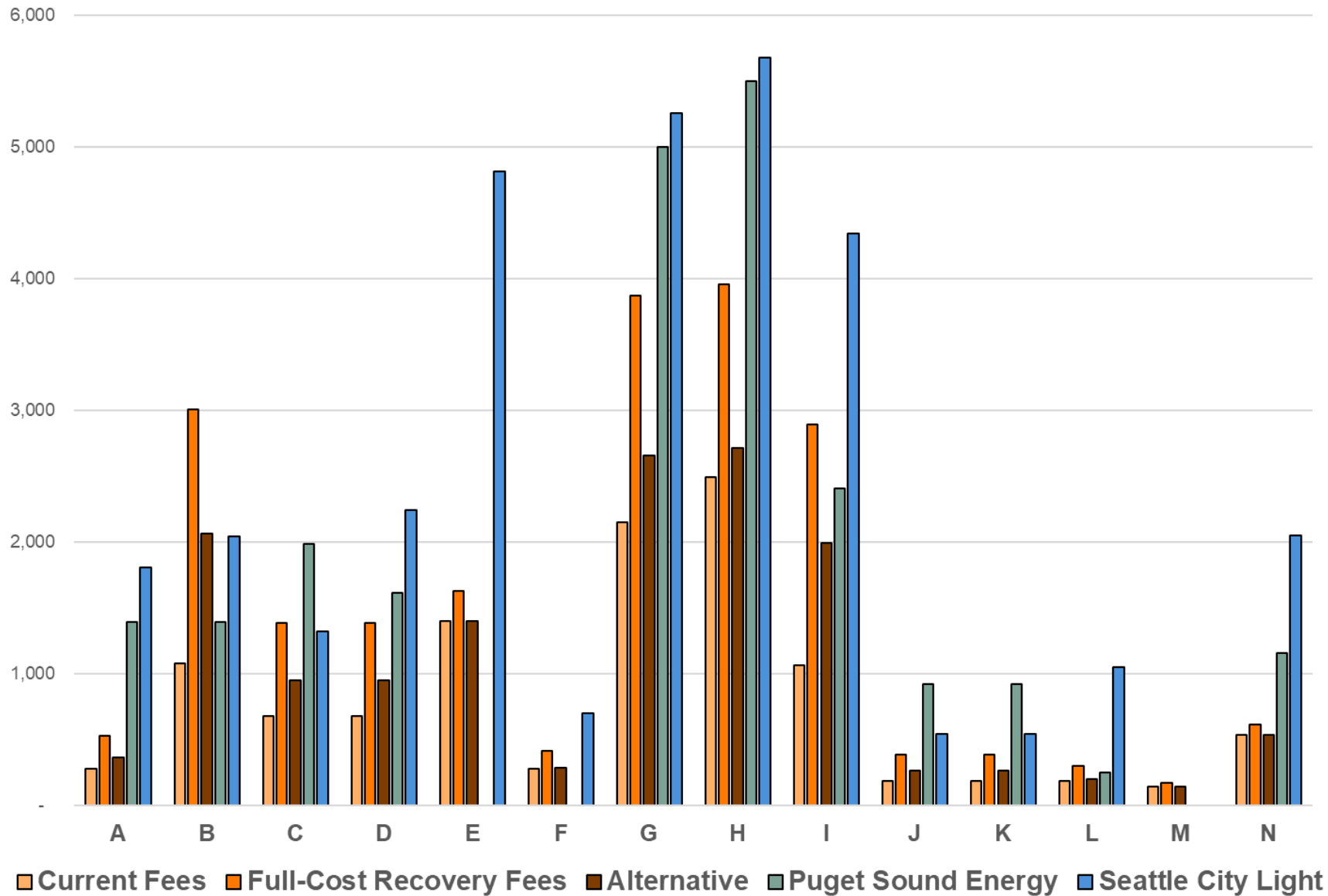
Fee Description	Current Fee	Actual Average Cost	Fee Proposal	Increase	as %
<b>A</b> Connect New 200A Service to an Existing SSB	\$275	\$530	\$365	\$90	33%
<b>B</b> Install and Connect New 200A Service and SSB to an Existing Transformer	\$1,075	\$3,010	\$2,065	\$990	92%
<b>C</b> Connect New 200A, Single-Phase Service to an Existing Overhead Secondary	\$675	\$1,385	\$950	\$275	41%
<b>D</b> Connect New 200A, Single-Phase Service to an Existing Overhead Secondary	\$675	\$1,385	\$950	\$275	41%
<b>E</b> Connect New 200A, Three-Phase Service to an Existing Overhead Secondary	\$1,395	\$1,630	\$1,395	\$0	0%
<b>F</b> Connect 200A, Single-Phase Temporary Service to Existing Overhead Secondary or SSB	\$275	\$410	\$280	\$5	2%
<b>G</b> Install New 200A Service, SSB, Conduit, and Wire to an existing Power Pole	\$2,150	\$3,875	\$2,660	\$510	24%
<b>H</b> Install New 320A Service, SSB, Conduits, and Wire to an existing Power Pole	\$2,495	\$3,960	\$2,715	\$220	9%
<b>I</b> Install New 200A Service and Wire to an Existing Power Pole in Customer-Provided Conduit	\$1,060	\$2,895	\$1,990	\$930	88%
<b>J</b> Connect Street Light Circuit to an Overhead or Underground Secondary Service	\$185	\$380	\$260	\$75	41%
<b>K</b> Connect Cable/DSL Service to an Overhead or Underground Secondary Service	\$185	\$380	\$260	\$75	41%
<b>L</b> Connect Cable/DSL Service to an Overhead or Underground Secondary Service.	\$185	\$295	\$200	\$15	8%
<b>M</b> Install Communications Conduits in addition to Power Conduits while Installing an SSB	\$140	\$170	\$140	\$0	0%

OH = overhead, UG = underground



# How Tacoma Power Fees Compare

Peer Utility Benchmarking



# Rate Proposal Outreach



**August – September**  
*Schedule outreach activities*

**September – November**  
*Virtual engagements*

**August – January**  
*Communications*



# 04 Appendix



# REVENUE

(\$ millions)	Current	Proposed	Increase (Decrease)	
	2019/2020 Budget	2021/2022 Budget	Budget to Budget	
<b>Operating Revenue</b>				
Retail Sales	\$ 729.9	\$ 758.4	\$ 28.5	3.9%
Anticipated Rate Increase	16.5	17.1	0.6	3.2%
<b>Total Retail Sales</b>	<b>\$ 746.4</b>	<b>\$ 775.5</b>	<b>\$ 29.1</b>	<b>3.9%</b>
Wholesale Sales	95.8	104.8	9.0	9.3%
Other	39.7	49.2	9.5	23.8%
<b>Total Operating Revenue</b>	<b>\$ 881.9</b>	<b>\$ 929.5</b>	<b>\$ 47.6</b>	<b>5.4%</b>
<b>Non-Operating Revenue</b>	<b>12.9</b>	<b>13.5</b>	<b>0.6</b>	<b>5.2%</b>
<b>Total Revenue</b>	<b>\$ 894.8</b>	<b>\$ 943.0</b>	<b>\$ 48.2</b>	<b>5.4%</b>
Current Fund Appropriation	9.2	(10.3)	(19.5)	–
<b>Total Revenue &amp; Available Funds</b>	<b>\$ 904.0</b>	<b>\$ 932.7</b>	<b>\$ 28.7</b>	<b>3.2%</b>

# EXPENSES

(\$ millions)	Current	Proposed	Increase (Decrease)	
	2019/2020 Budget	2021/2022 Budget	Budget to Budget	
<b>Expenditures</b>				
Personnel Costs	\$ 170.4	\$ 206.5	\$ 36.1	21.2%
Purchased Power	331.3	322.8	(8.5)	-2.6%
Other O&M	83.3	94.5	11.2	13.4%
Assessments	63.3	70.1	6.8	10.8%
Capital Outlay	89.7	60.2	(29.5)	-32.8%
Debt Service	59.1	65.8	6.7	11.4%
Taxes	107.3	112.8	5.5	5.1%
<b>Total Expenditures</b>	<b>\$ 904.4</b>	<b>\$ 932.7</b>	<b>\$ 28.3</b>	<b>3.1%</b>

<b>Capital Outlay</b>				
Revenue Funded	\$ 89.7	\$ 60.2	(\$ 29.5)	-32.8%
Debt Funded	60.0	89.6	29.6	49.3%
<b>Total Capital</b>	<b>\$ 149.7</b>	<b>\$ 149.8</b>	<b>\$ 0.1</b>	<b>0.1%</b>

# CAPITAL BUDGET

(\$ millions)	Current	Proposed	Increase (Decrease)	
	2019/2020 Budget	2021/2022 Budget	Budget to Budget	
<b>Capital Projects</b>				
AMI	\$ 24.3	\$ 22.9	(\$ 1.4)	-5.8%
Aging Infrastructure Upgrades	20.1	32.6	12.5	62.6%
Technology Projects	16.7	11.1	(5.6)	-33.6%
Regulatory	14.7	11.0	(3.7)	-25.2%
Additions & Replacements	54.0	48.2	(5.8)	-10.7%
Other Capital Projects	19.9	24.0	4.1	20.6%
<b>Total Capital Projects</b>	<b>\$ 149.7</b>	<b>\$ 149.8</b>	<b>\$ 0.1</b>	<b>0.1%</b>
<b>Capital Funding Sources</b>				
Revenue Funded	\$89.7	\$60.2	(\$29.5)	-32.8%
Debt Funded Bonds	60.0	89.6	29.6	49.3%
<b>Total Capital Funding Sources</b>	<b>\$ 149.7</b>	<b>\$ 149.8</b>	<b>\$ 0.1</b>	<b>0.1%</b>

# ASSESSMENTS

(\$ millions)	Current	Proposed	Increase (Decrease)	
	2019/2020 Budget	2021/2022 Budget	Budget to Budget	
IT	\$ 13.2	\$ 13.5	\$0.3	2.5%
HR	3.7	4.0	0.3	7.1%
Legal	1.5	1.8	0.3	19.8%
Finance	4.6	5.0	0.4	8.0%
Other	1.3	2.4	1.1	82.7%
<b>Total GG Assessments</b>	<b>\$ 24.3</b>	<b>\$ 26.7</b>	<b>\$ 2.4</b>	<b>9.7%</b>
Customer Services	\$ 23.0	\$ 26.0	\$ 3.0	13.1%
Public Affairs & Communication	8.5	9.3	0.8	9.7%
Administration & Support	7.5	8.1	0.6	8.2%
<b>Total TPU Assessments</b>	<b>\$ 39.0</b>	<b>\$ 43.4</b>	<b>\$ 4.4</b>	<b>11.5%</b>
<b>Total Assessments</b>	<b>\$ 63.3</b>	<b>\$ 70.1</b>	<b>\$ 6.8</b>	<b>10.8%</b>

# TAXES

(\$ millions)	Current	Proposed	Increase (Decrease)	
	2019/2020 Budget	2021/2022 Budget	Budget to Budget	
Taxes to the General Fund	\$ 66.0	\$ 69.2	\$ 3.2	4.9%
State Utility Taxes	29.6	31.1	1.5	5.1%
Other Taxes (including Franchise Fees)	11.7	12.5	0.8	6.8%
<b>Total Taxes</b>	<b>\$ 107.3</b>	<b>\$ 112.8</b>	<b>\$5.5</b>	<b>5.1%</b>