

Tacoma Power Financial Overview and 2023 Financing Plan

City of Tacoma | Tacoma Public Utilities | Tacoma Power
Government Performance and Finance Committee

April 4, 2023





OVERVIEW



Overview

Staff from Tacoma Power will brief the Government Performance & Finance Committee (GPFC) on Power's financials from 2022 and its financial plan for 2023.

Summary

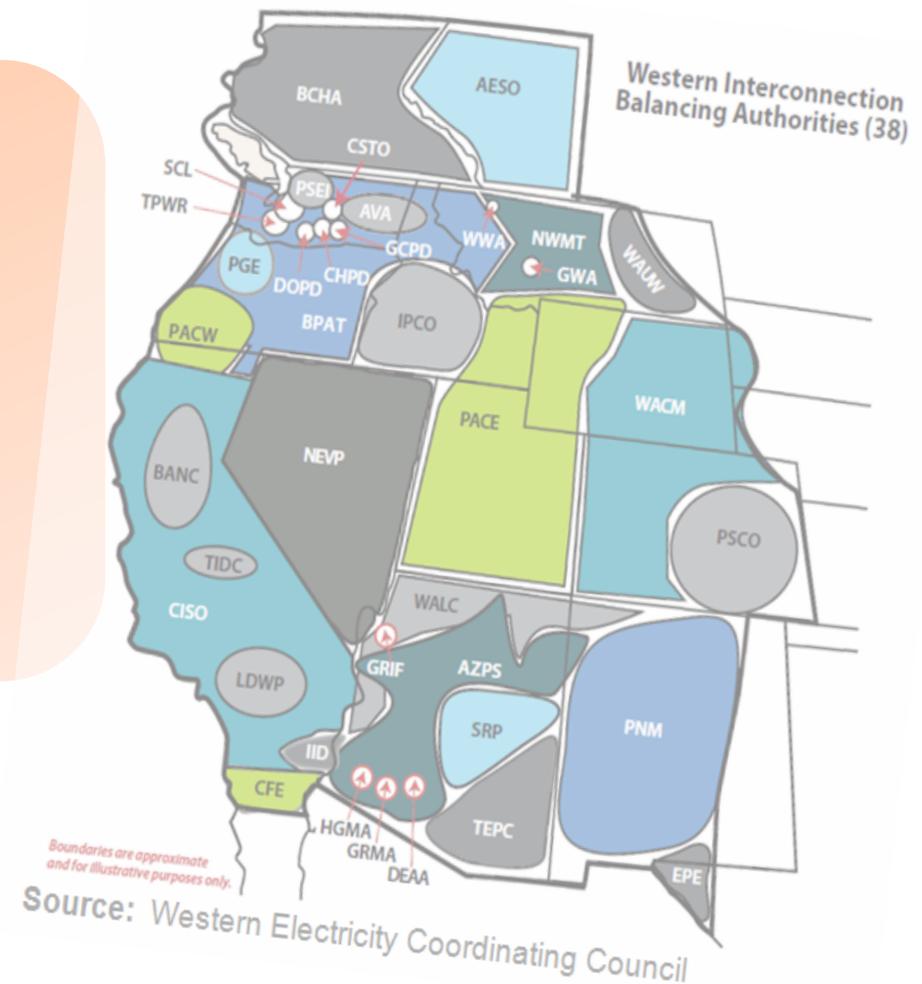
This briefing will provide some background on the current state of Power's financials and its outlook for the next year. As Tacoma Power plans its long-range finances, several near-term actions will need to be made in 2023 to help set up a successful plan going forward.

Issue

Staff will discuss topics including the planned use of additional wholesale revenues, the Rate Stabilization Fund (RSF), provide some initial background on Power's KeyBank short-term financing facility in anticipation of returning in April to seek approval for an amendment to that note, Power's plans to amend its other short-term financing facility with Wells Fargo and finally Power's plan to issue bonds in the fall.

● ● ● Why we participate in the wholesale market

- ✓ **Supply variability:** we buy and sell to meet our operational constraints and license requirements.
- ✓ **System reliability:** we maintain balance between our customer demand and our generation.
- ✓ **Hydro uncertainty:** we sell our surplus power, and as needed buy to meet customer demand.

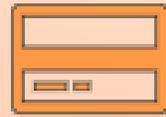


Wholesale market participation risks are addressed through the energy risk management program



Market Risk

The risks associated with a lack of sufficient market participants willing and able to transact at a time when Tacoma Power is in the market.



Counterparty Credit Risk

The practice of providing credit to trading partners based on their financial health and stability.



Volumetric Risk

Uncertainty associated with our generation and load usage from our customers, and the corresponding surplus available to sell into the wholesale market.

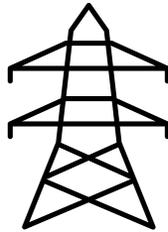


Price Risk

Once generated, electricity cannot be stored. This and other complex factors lead to very high volatility in power prices.

Forward hedging addresses price volatility and market

● ● ● liquidity risks for Tacoma Power



Physical Products

- ✓ Physical delivery of power
- ✓ Addresses unfavorable price movements
- ✓ Addresses volumetric uncertainty
- ✓ Declining market participation

Financial Products

- ✓ Exchange of cash flows
- ✓ Addresses unfavorable price movements
- ✓ Provides operational flexibility
- ✓ Robust market participation

What is the Rate Stabilization Fund (RSF) and how do we use it?



What is the RSF?

The RSF holds surplus revenue from selling power in the wholesale market that we have set aside to use in the future.

We use it to meet financial metric requirements and keep rates as low as possible over time.

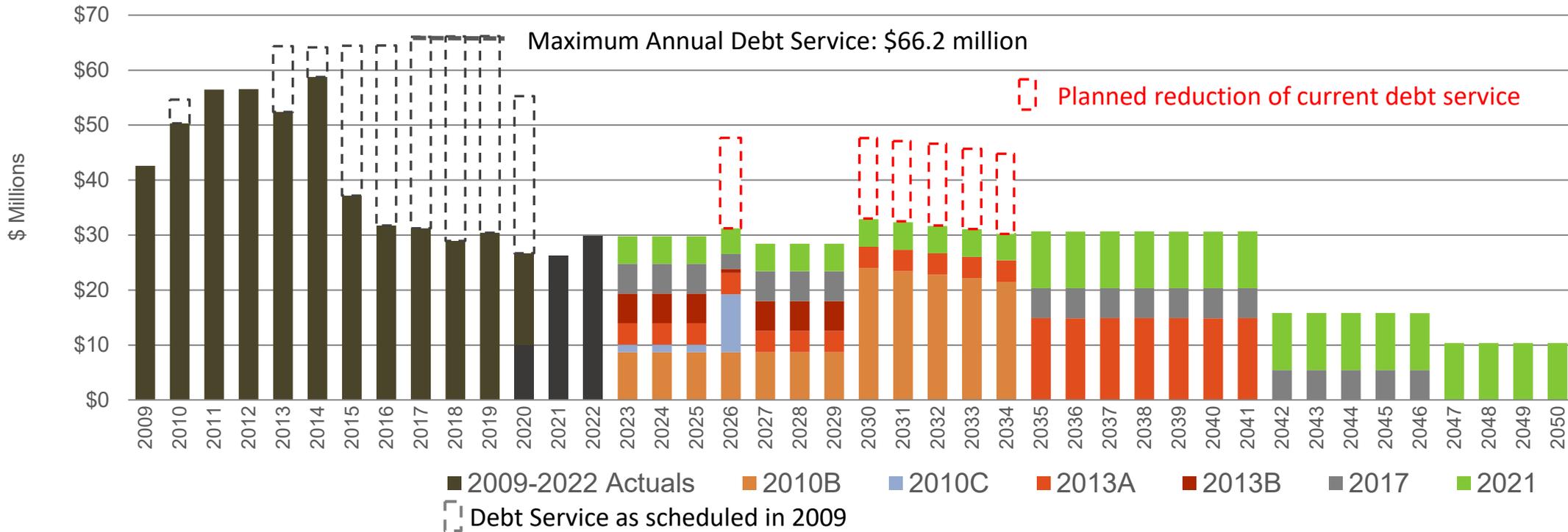
RSF can help stabilize rates

1. \$95 million transferred to the RSF in 2022
2. Continue to mitigate the financial impact of dry water years
3. May apply toward debt service spikes in 2026 and 2030 through 2034
4. Provide a revenue cushion when wholesale prices go down again

● ● ● Manage debt profile to minimize long-term rates



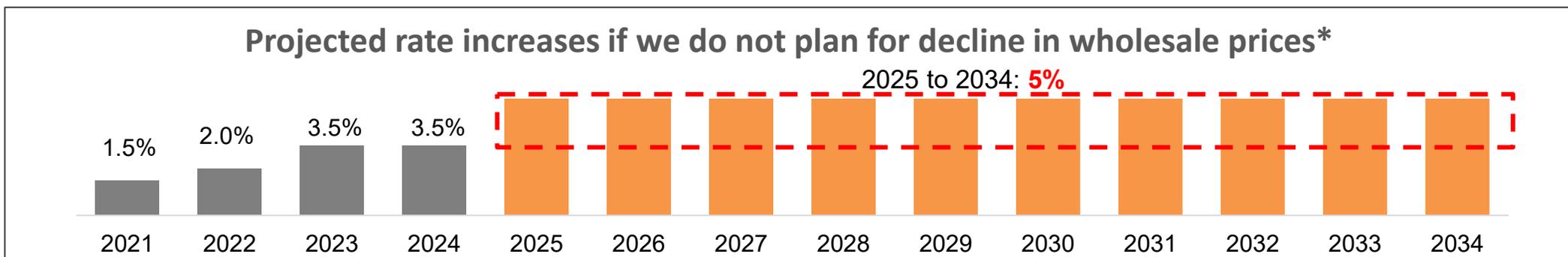
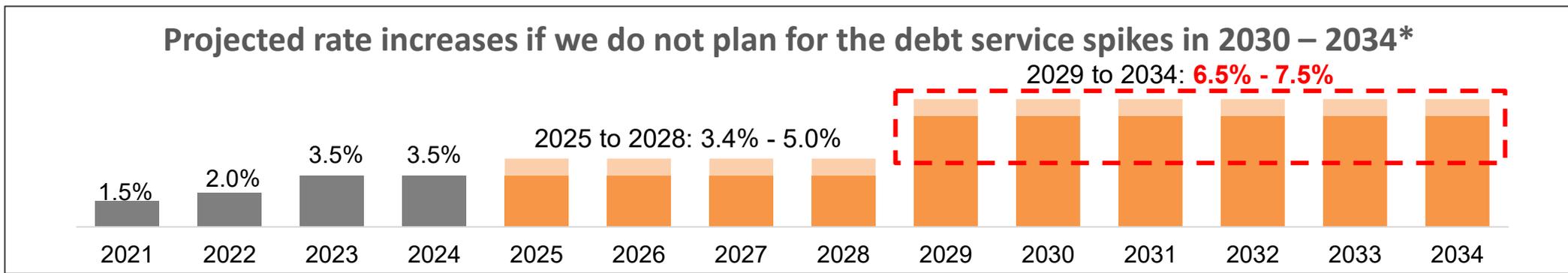
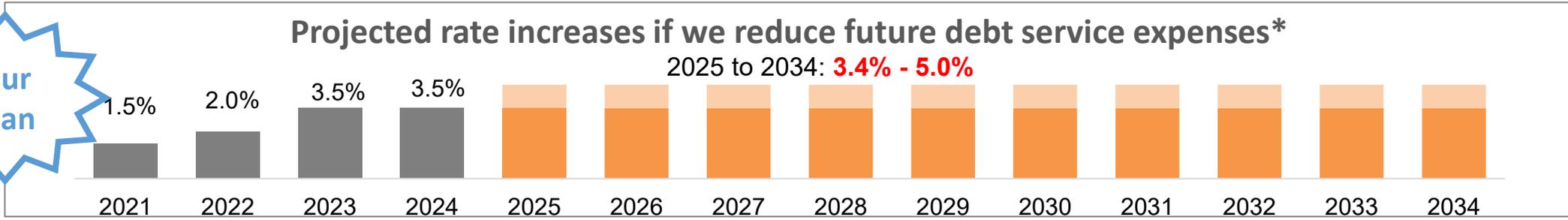
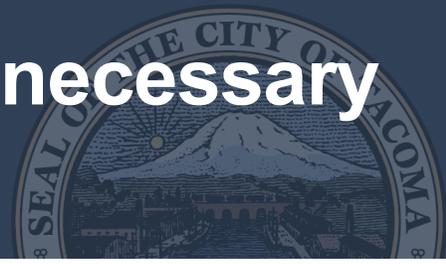
Historical and Current Debt Service



The Long View:

Managing debt service, through bond defeasances & repayments, have produced significant savings to date. Defeasances in 2026 and 2030-2034 are assumed to manage debt service and keep rates low.

Reducing future debt service expenses necessary to avoid high future rates



* These forecasts are subject to change, and are dependent upon actual financial performance in future years.

Background:

● ● ● Tacoma Power's use of short-term financing



Wells Fargo Note Purchase Agreement (NPA)

Capital spending initially paid for by short-term line of credit with Wells Fargo

Successfully utilized the NPA to interim finance capital project expenses since 2015.

Tacoma Power issues long-term bonds to repay the amounts borrowed under the Wells Fargo NPA.

Benefits

- Match financing of capital projects with expenditures
- Lower financing costs vs long-term bonds
- Helps manage liquidity balances

Background:

● ● ● Tacoma Power's use of short-term financing



KeyBank Note Purchase Agreement

KeyBank agreement provides financial flexibility

It can be either a:

- revolving line of credit for emergency purposes, or
- letter of credit for collateral purposes

Tacoma Power anticipates using the KeyBank agreement as a letter of credit to enable financial hedging in the wholesale power market

Benefits

- Preserves financial flexibility
- Low financing costs

● ● ● 2023 Financing Plan - approval requests



KeyBank
Note Purchase Agreement

Request to amend KeyBank NPA index



2023 Bond Issue

Expect to issue bonds end of 2023



Wells Fargo
Note Purchase Agreement

Request to extend Wells Fargo NPA

● ● ● 2023 financial plan draft schedule



Proposed Scheduled

2023 Tacoma Power Financing Plan

March	22 nd	Board overview
April	4 th	Government Performance & Finance Committee (GPFC) overview

KeyBank amendment request

April	12 th	Board Study Session
	18 th	Government Performance & Finance Committee (GPFC) presentation
	26 th	Board approval
May	9 th	City Council first reading
	16 th	City Council second reading

Bond Issuance and Wells Fargo extension request

Aug		Issue RFI to select underwriters for bond issuance
		Begin negotiations with Wells Fargo to extend NPA

● ● ● Appendix

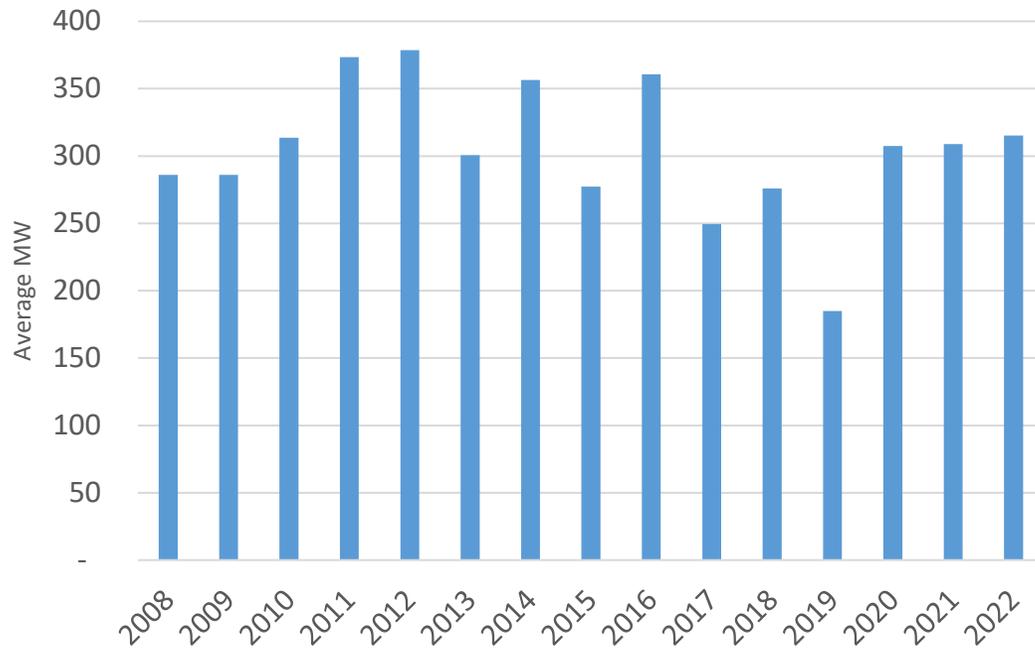


Tacoma experiences significant generation &

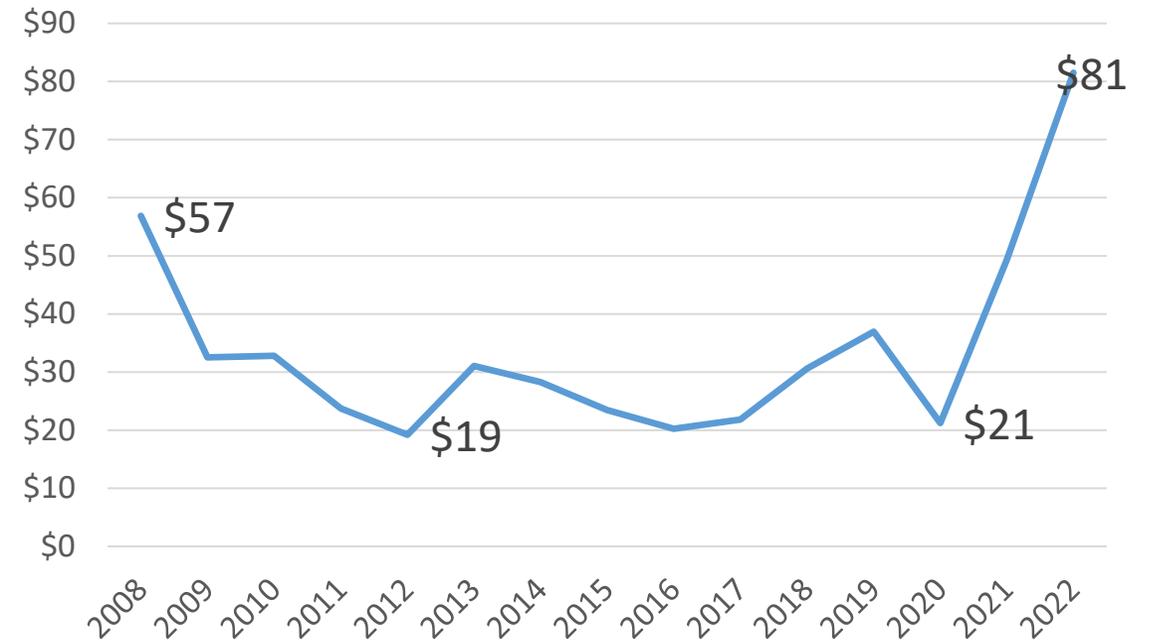
● ● ● wholesale power price volatility



Tacoma Owned Generation

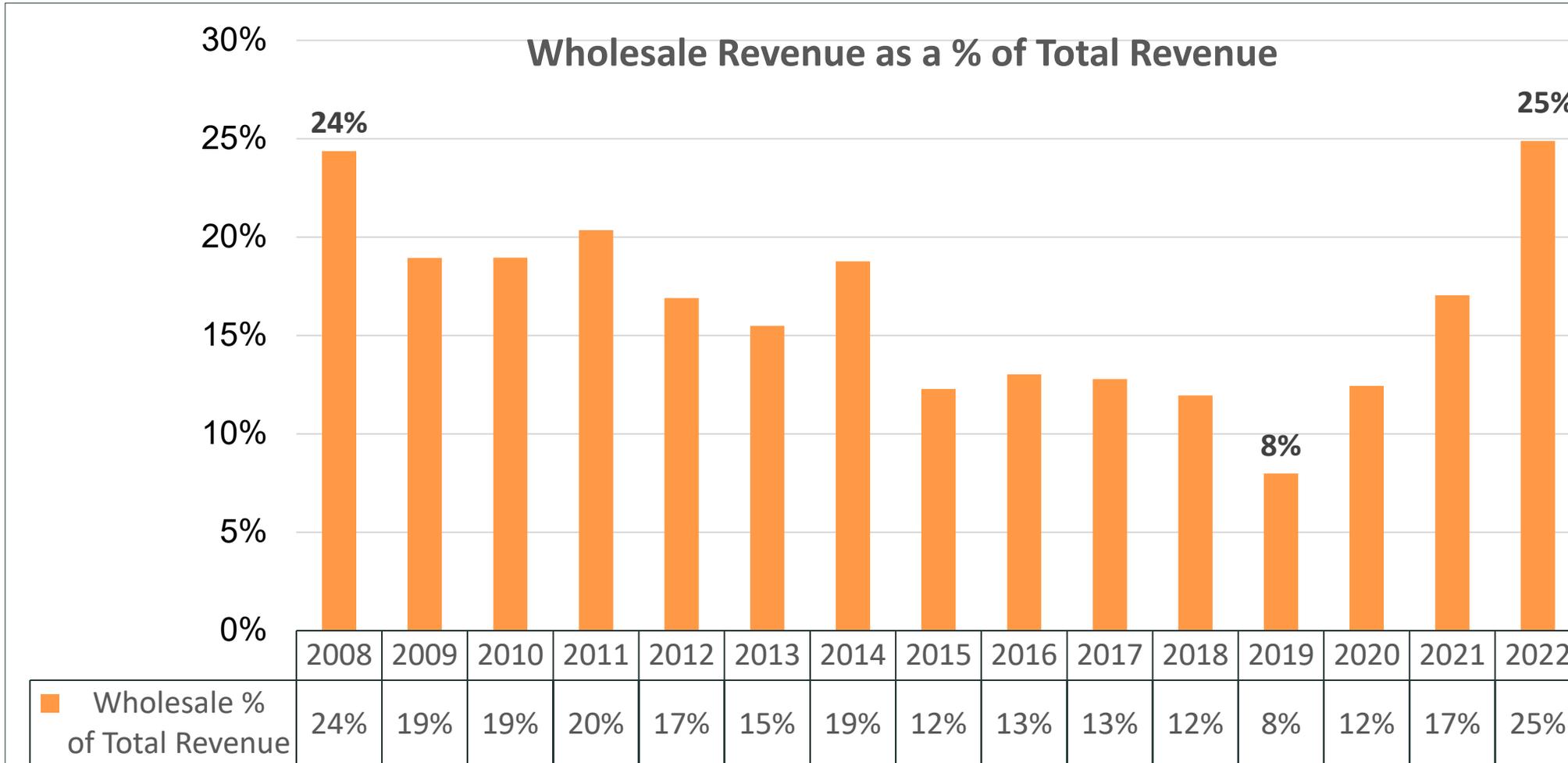


Wholesale Power Prices - Average Spot Price



Wholesale revenue contribution

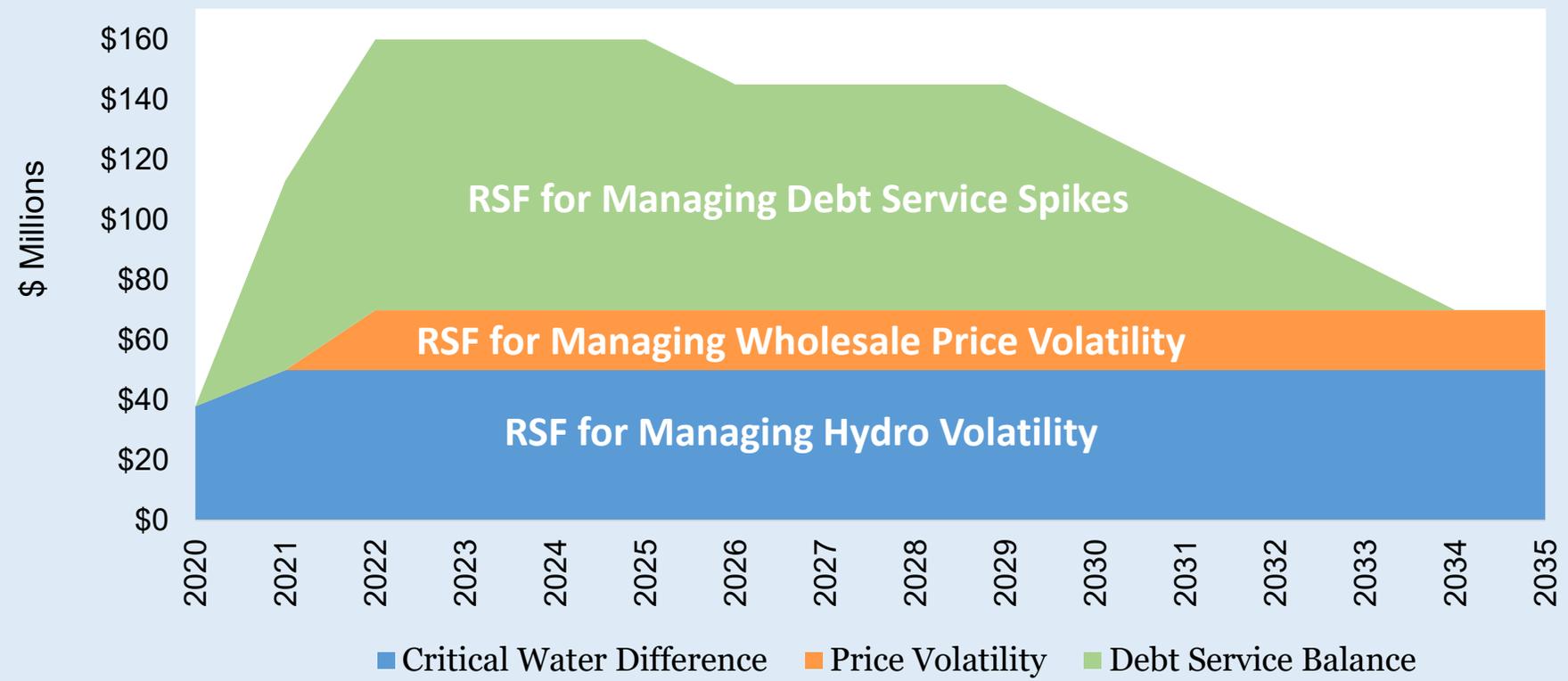
● ● ● to total revenue is very volatile

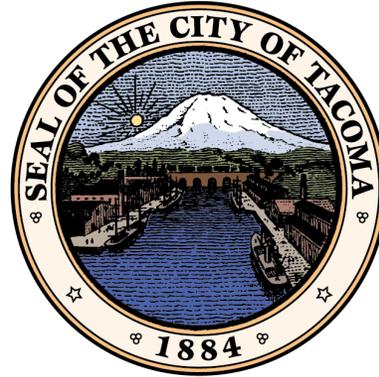


Forecasts use the Rate Stabilization Fund to smooth rates



Projected Rate Stabilization Fund Balances, 2023 through 2034





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