



# Long-Range Financial Plan Update

City of Tacoma | Tacoma Power & Tacoma Water

Joint Study Session  
August 20, 2024



## ●●● OVERVIEW & BACKGROUND

### Overview

This informational presentation will provide an update of Tacoma Power and Tacoma Water's Long-Range Financial Plans (LRFP) and recommended system average rate adjustments for the 2025-2026 biennium.

### Background

As part of the 2025-2026 budget and rates process, staff updates Tacoma Power and Tacoma Water's long-range financial forecasts and ten-year plan with expected costs over the ten-year planning horizon, including projected operating and capital costs, debt service, taxes, and revenues at existing rates. The resulting recommended gradual retail customer rate adjustments are guided by legal and industry standards, financial policies, and the Public Utility Board's (PUB) Guiding Principles.

## ● ● ● Importance of a Long-Range Financial Plan (LRFP)



### Assesses Financial Risks

- Provides a long-term view of financial health
  - Forecasting beyond next biennium
- Supports proactive, informed financial stewardship
- Evaluates emerging issues
  - Utilities are capital intensive, assets are long-lived



### Develops Mitigation Strategies

- Prepares for financial risk of emerging issues
- Aligns financial decisions with policy objectives
- Decision-making tool
  - Avoid rate shocks with gradual rate adjustments



### Focus on Keeping Costs Low

- Evaluates rate impacts of proposed operational, capital, and financing costs

**Location:** [MyTPU.org/investors](https://MyTPU.org/investors)



## ● ● ● Financial Planning is Guided by Principles and Policies

### Board Guiding Principles



**GP2**  
Financial Sustainability

#### Financial Sustainability

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



**GP3**  
Rates

#### Rates

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

### Financial Policies

#### Electric Rate and Financial Policy

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

#### Water Rate and Financial Policy

Gives direction to planning decisions and helps ensure that Tacoma Water provides an adequate supply of safe, clean water to all customers efficiently, reliably, and at the lowest possible cost consistent with prudent utility management.

## How Recommended Average Rates are Determined

**Projected expenses** - **Forecasted revenues at current rates** = **Additional revenue needed**

Recommended rate increase

**The Long View Strategy:**  
 Long-Range Financial Plan stabilizes rates over ten years while achieving financial sustainability.

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## Foundational Elements of Power's Financial Forecasts

### Tacoma Power's LRFV foundational elements used to inform rate recommendations and budget.

#### Revenue Assumptions

As of December 31, 2023

Category	Percentage
Retail	75%
Wholesale	15%
Other	10%

#### Expense Assumptions

As of December 31, 2023

Category	Percentage
Purchased Power	31%
Personnel	24%
Other O&M	17%
Taxes	13%
Debt Service	7%
Revenue Funded Capital	7%

#### Credit, Debt, & Reserves

Year	Bond Funded Capital (\$m)	Revenue Funded Capital (\$m)
2019-2020	~70	~40
2021-2022	~95	~55
2023-2024*	~95	~80
2025-2026**	~130	~90

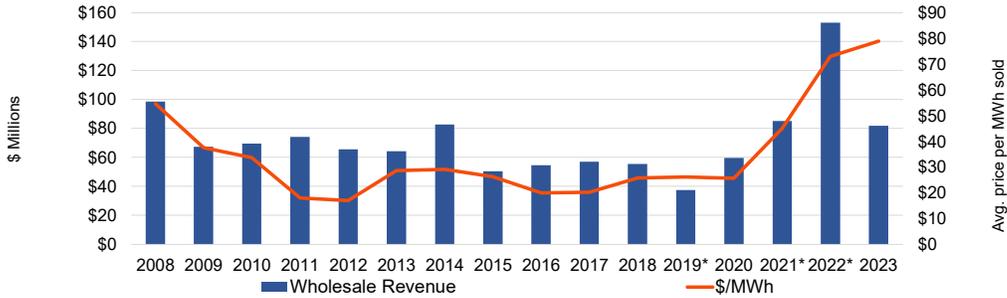
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\* Projections as of March 31, 2024  
 \*\* Preliminary Estimate, Subject to Change

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## Power Wholesale Revenues are Volatile

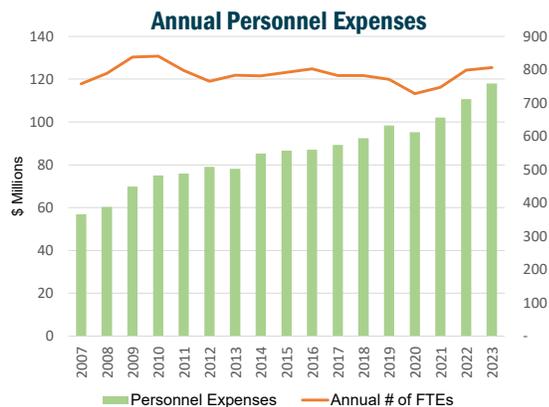
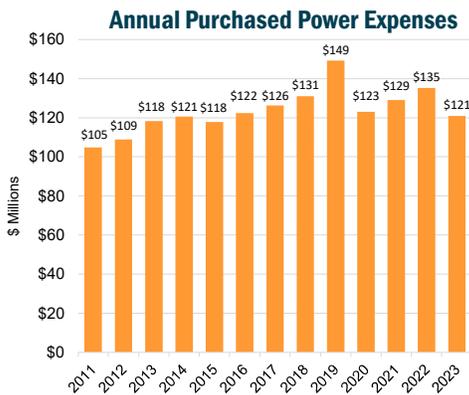
Wholesale revenues fluctuate between 8% to 26% of total revenues due to volatile weather and volatile wholesale market power prices.



\* 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
WHOLESALE REVENUE %	24%	19%	19%	20%	17%	15%	19%	12%	13%	13%	12%	8%	12%	17%	26%	15%

## Power Purchases and Personnel are 50% of Current Expenses



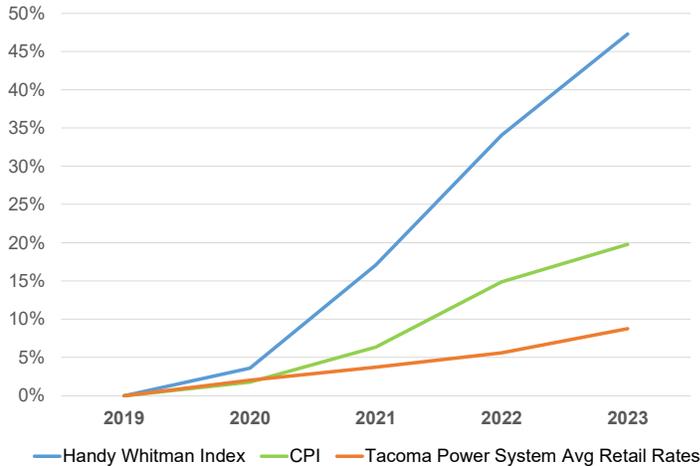
### Anticipated BPA Cost Increase

BPA surprised the region with a larger than expected cost increase for their 2026-2028 rate period: **13% on Power and 14% on Transmission**

## Power Capital and Infrastructure Expenses are Increasing Costs



Cumulative Increases since 2019



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### 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 included future expenses

- Debt service spikes
- BPA anticipated 13% rate increase
- Hydro relicensing of 3 dams
- Dam safety seismic mitigation
- Grid modernization projects
- SAP Now!

### Emerging Issues, costs unknown

- Post-2028 BPA contract
- Wildfire Liability Risk
- Changing Wholesale Markets and Volatility

## Power 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%	5.4%
Snohomish PUD	5.8%	TBD
<b>Tacoma Power</b>	<b>3.5%</b>	<b>TBD</b>
Grant PUD	3.5%	TBD
Chelan PUD	3.0%	TBD
Puget Sound Energy	1.7%**	17.0%

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\*\*8.7% in 2023 \*Proposed

### 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 11:00 AM PT - JUNE 30, 2023 at 7:10 PM

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

by Seattle City Light on October 12, 2023

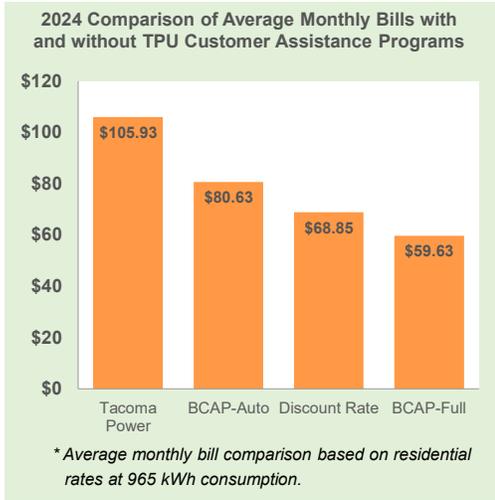
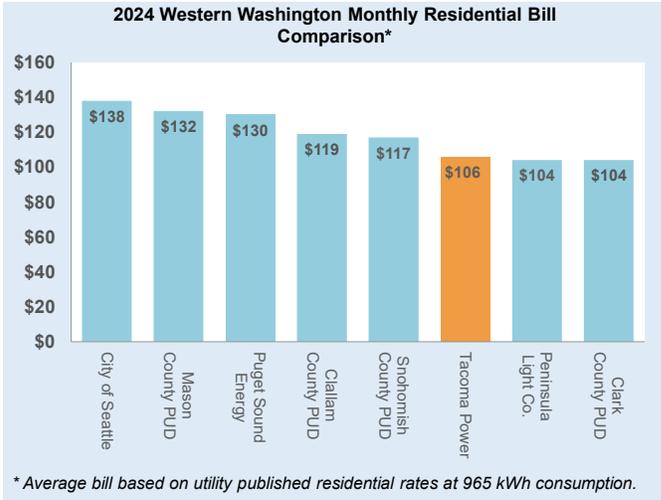
City Light rates in Seattle to increase by nearly 10% next year

Chelan PUD customers face five years of 3% rate increases

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

FILE: SE 2024-01-08-000-0001 (Updated) FILE: SE 2024-01-08-000-0001

## Tacoma Power's Average Monthly Residential Bill



## Pressures & Opportunities for Tacoma Power

### 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!)

### Desired Outcome



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

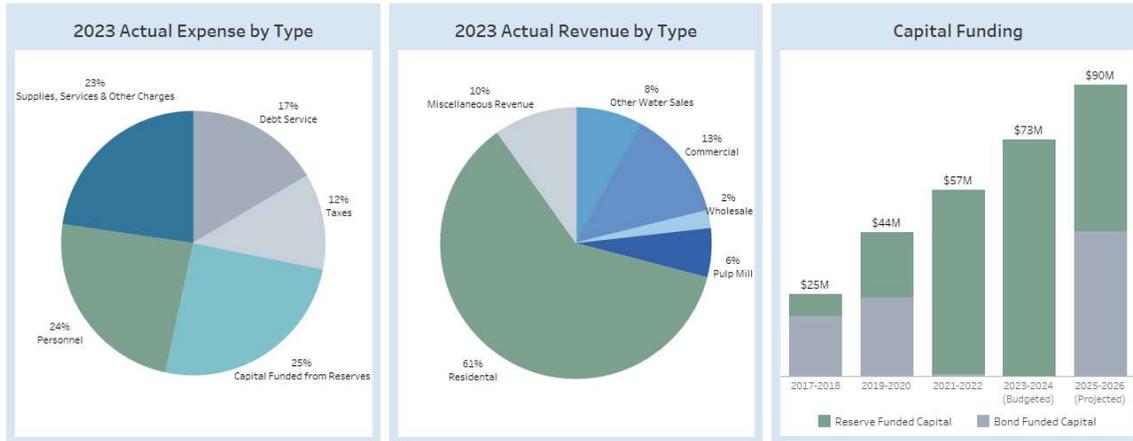
"We will be a **trusted community partner**, where employees are proud to **deliver equitable, affordable utility services.**"

### Opportunities

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

## FOUNDATIONAL ELEMENTS OF FINANCIAL FORECASTS

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



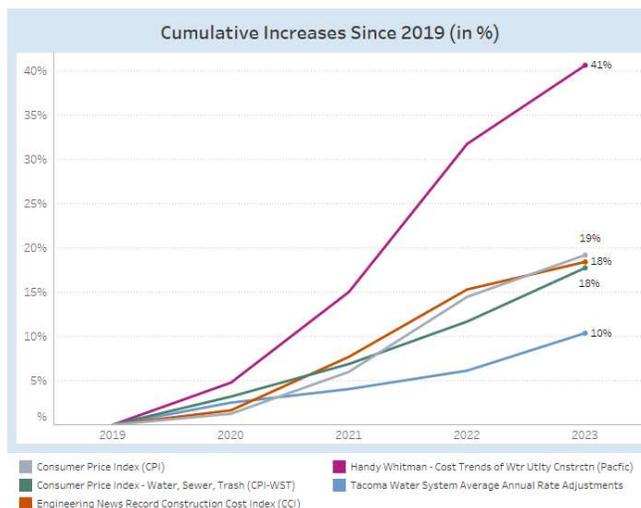
## WHAT'S DRIVING OUR RATE INCREASES?

### Construction and Other Inflation

The utility generally faces different inflationary pressures than consumers. While customers primarily observe the Consumer Price Index (CPI) as an indicator for inflation, the Handy Whitman is a better indicator for a capital-intensive utility. Long-term financial planning allows the utility to weather periods of high costs in the short term and spread the impact over time.

### Ongoing Impacts

The rate of inflation continues to level off, however cost decreases are unlikely, resulting in a new, higher 'normal' cost environment. Our Capital Improvement Plan (CIP) is considerably higher in part due to this higher escalation. Interest rates for the next several years are expected to be near their highest levels in over a decade, resulting in higher financing costs for our upcoming capital plan.



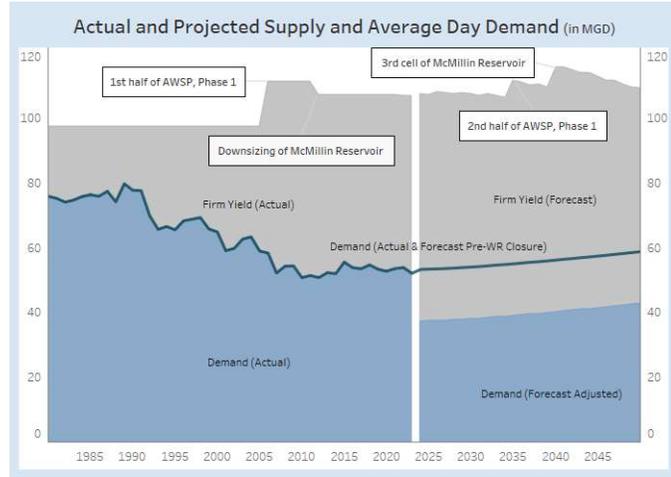
## PROGRESS ON WHOLESALE REVENUE OPPORTUNITIES

### Supply and Market Development

We project our system demand and our supply to remain relatively constant. We anticipate this will provide us with an opportunity for market development to serve additional regional water customers. Additionally, we re-inherited supply back into our water system due to the closure of the WestRock Tacoma mill.

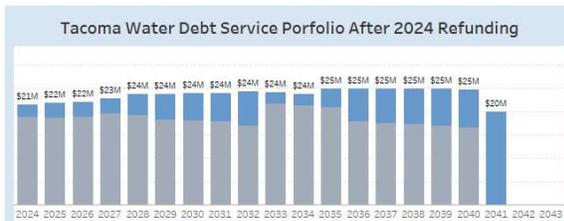
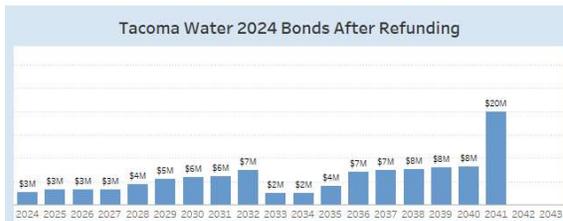
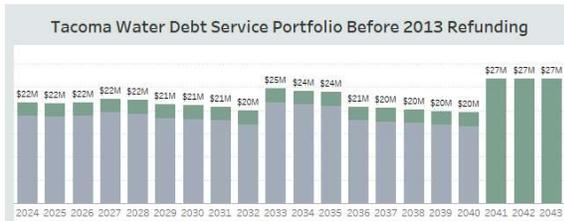
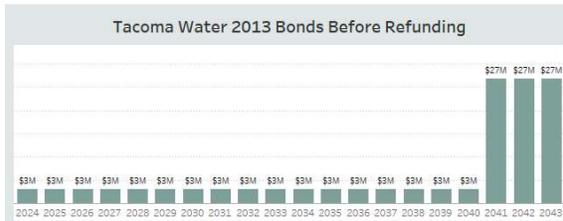
### Wholesale Opportunities

Innovative, market-based pricing options may help increase delivery to current customers. We are also actively pursuing potential new water sales contracts to increase revenue and keep rates as low as is responsible.



## DEBT MANAGEMENT

We actively manage our debt profile to achieve savings or financial flexibility.



# CHALLENGES & RISKS



## Emerging and Ongoing Impacts

- Higher salaries and benefits expenses (class & comp adjustments, wage inflation)
- SAP Now! ERP replacement expenses
- Higher capital budget and CIP (construction inflation, regulatory mandates, new projects)
- PFAS Treatment and Pipeline 1 Pressurization Program
- Additional Water Storage Project (AWSP), Fish Passage and Habitat, Water Warehouse
- Ongoing financial, operational, and infrastructure changes due to mill closure

## What's Beyond the Planning Period

- Large capital projects (wells & treatment, transmission system, Headworks Master Plan, Water Operations Building Phase 2, unknown regulatory requirements)
- Actively marketing excess water (wholesale, potential large volume commercial)
- Responsibly managing this plan to consider the impact to current and future customers

# WATER'S AVERAGE MONTHLY BILL



2024 Regional Comparison of Average Monthly Bills



*This comparison assumes a single family in Tacoma consumes a monthly average of 6 CCF (4,488 gallons) in winter months and 9 CCF (6,732 gallons) in summer months, with a 5/8" meter.*

2024 Comparison of Average Monthly Bills with and without TPU Customer Assistance Programs



*For BCAP customers, the monthly average is 6 CCF in winter months and 7 CCF in summer months. For Discount Rate customers, the monthly average is 4.22 CCF in winter months and 5.88 CCF in summer months.*

## ●●● NEXT STEPS



### **Proposed Budget and Rates**

**Staff will return in the coming months with a draft Long-Range Financial Plan along with Water's 2025-2026 budget and rates proposal.**



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