



# Tacoma Power Long-Range Financial Plan

City of Tacoma | Tacoma Public Utilities | Tacoma Power

Government Performance and Finance Committee

April 5, 2022



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## OVERVIEW



### Overview

Tacoma Power would like to brief the Government Performance and Finance Committee on its Long-Range Financial Plan (LRFP).

### Summary

Tacoma Power utilizes long-range financial planning to model financing needs, debt service, and rate projections. By formalizing this planning into a document, the plan serves as a decision-making and communication tool for the utility, policymakers, investors, and ratepayers.

### Issue

This initial briefing is to familiarize the GPFC with Tacoma Power's Long-Range Financial Plan. As a part of the 2023-2024 budget and rates process, staff will be revising the plan and will return in the fall with an update, which will include the potential financial impact of the next biennium to Tacoma Power in the long-term.

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Long-Range Financial Plan (LRFP) is available at [mytpu.org](http://mytpu.org)

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## LRFP Contents

<p><b>1. The Highlights</b> The "executive" version, for people who only need the highlights</p> <p><b>2. 2021 LRFP – What Changed?</b> Key differences from the previous LRFP</p> <p><b>3. For Beginners</b> Learn about our utility</p> <p><b>4. Background</b> An overview of our expense, revenue, credit, debt, and reserves</p> <p><b>5. Funding the Plan</b> How we plan to reduce future rate increases through the use of reserves and debt financing</p>	<p><b>6. The Base Case</b> The base case scenario provides the most probable set of outcomes</p> <p><b>7. Risk Factors</b> Includes internal and external factors impacting Tacoma Power</p> <p><b>8. Scenario Analysis</b> Different scenarios and how they could impact our financial outcome</p> <p><b>9. Glossary</b> Terms that might require further explanation</p> <p><b>10. Appendix</b> A little more detail about the contents of our scenarios</p>
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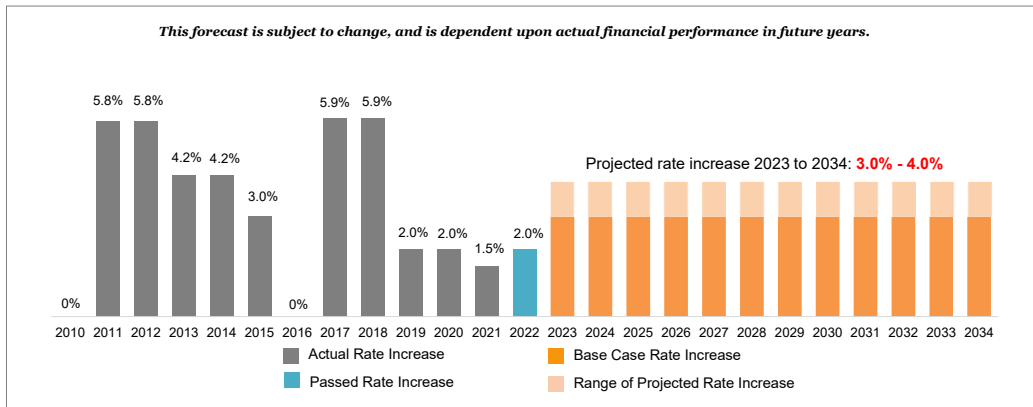
## Past Actual and Projected Rate Increases



Projected rate increases with levelized debt service

*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.

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



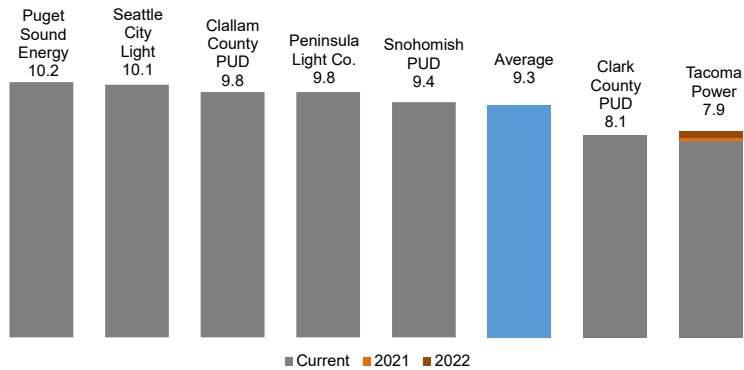
\*As of December 31, 2021 and assumes we reduce future debt service spikes.

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## Rates Remain Low and Competitive



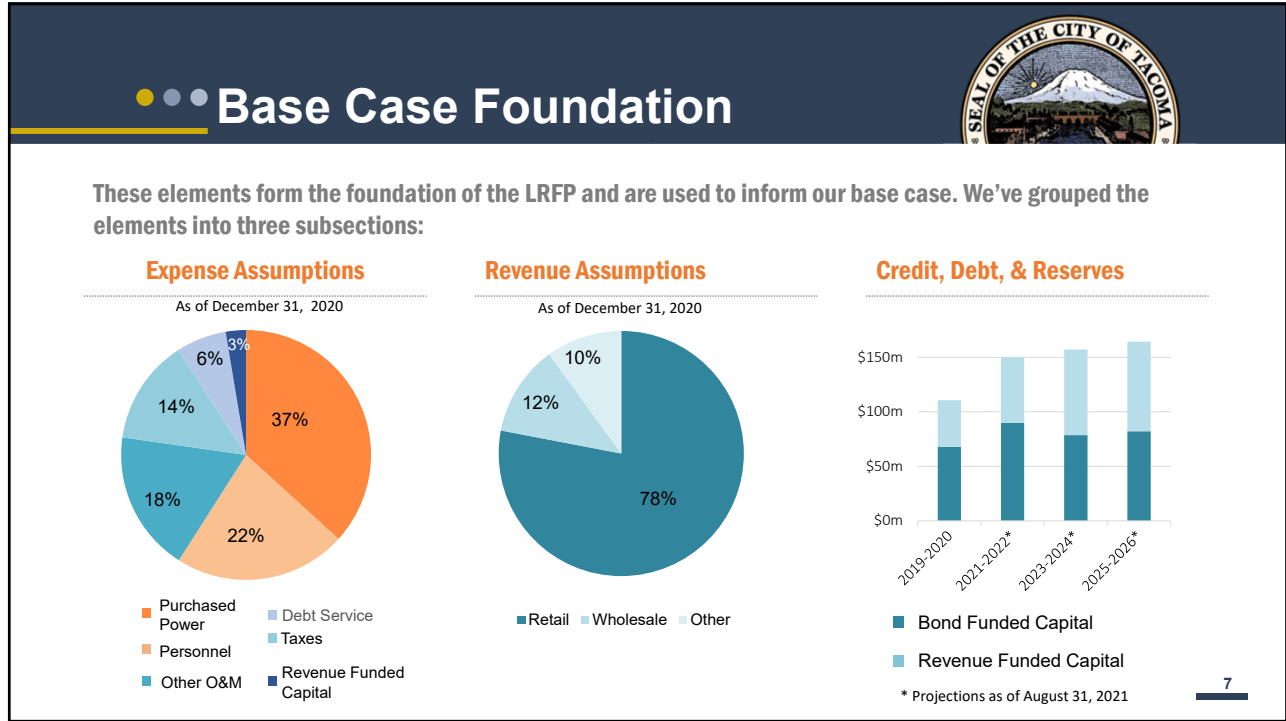
Comparative Western WA System Rates (cents/kWh)



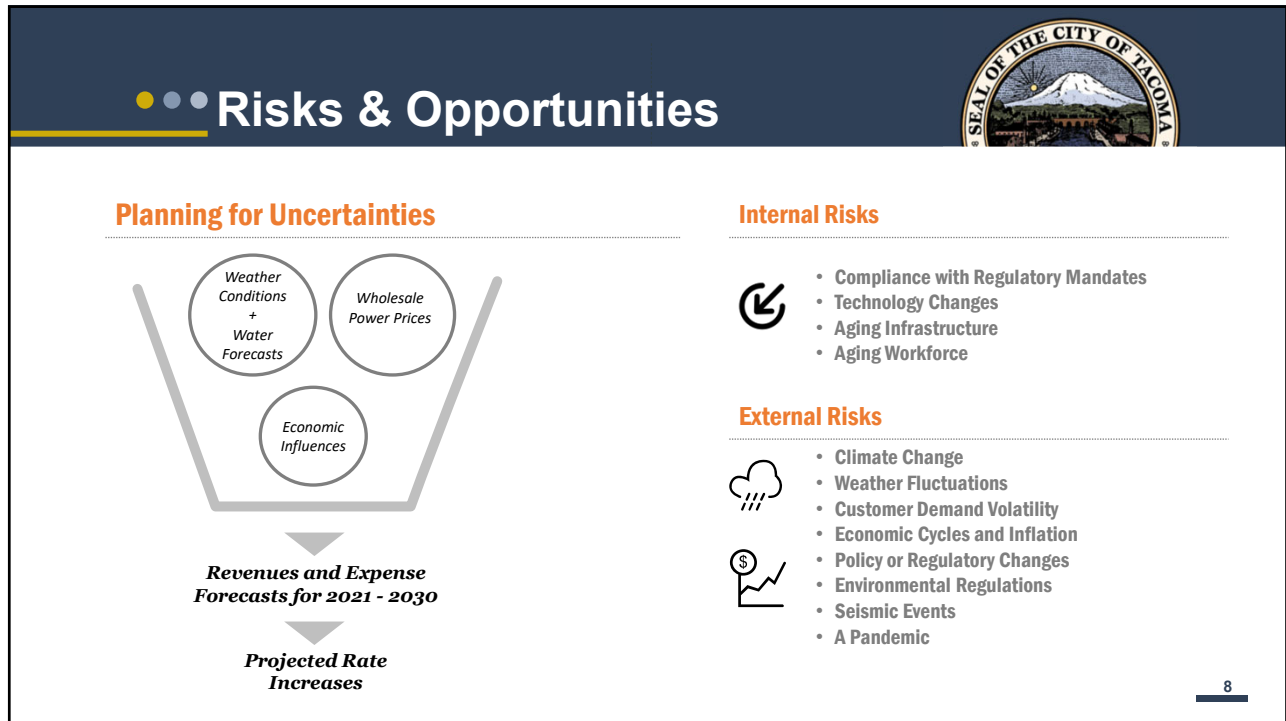
Tacoma Power shaded area represents the additional cents per kWh from a 1.5% and 2% annual rate increase in 2021 & 2022, respectively.

Source: Energy Information Administration, Form 861, 2019.

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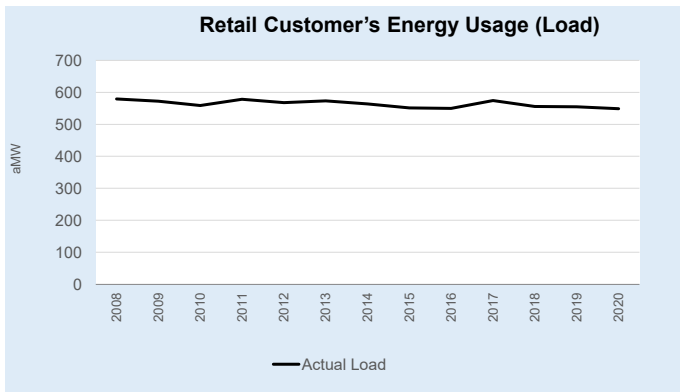


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## Declining Retail Load



Retail customer revenue is 78% of total revenues in 2020



### Codes and Standards

- Energy efficient appliances & electronics
- LED Lighting
- Efficient heating systems

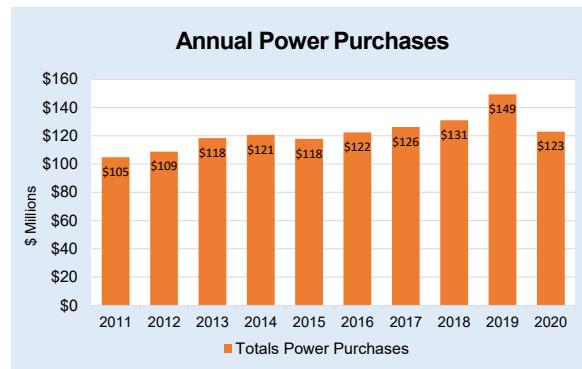
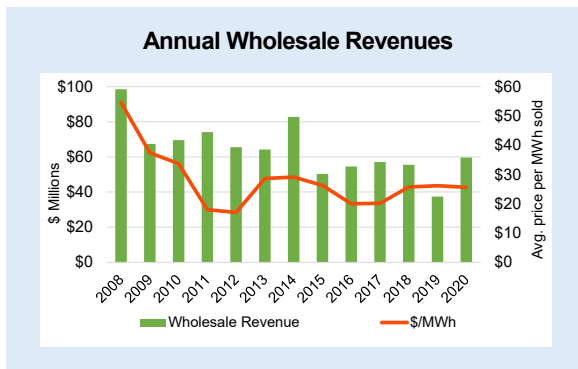
### Change in Economy

- Remodeling & renovation of old homes to be more energy efficient
- Replacing older homes with efficient multi-family units

## Volatile Wholesale Revenue & Increasing Power Purchase Costs



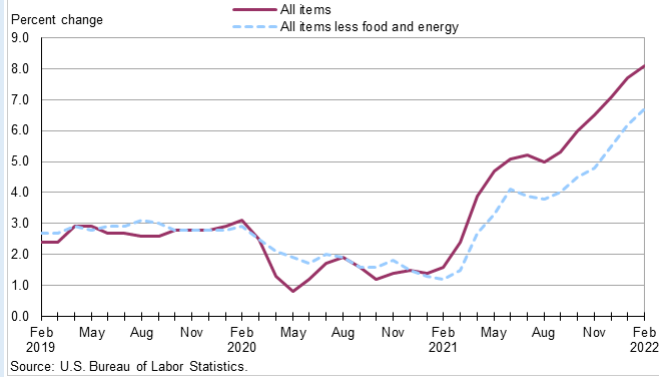
- Wholesale revenue fluctuates from 12% to 20% of total revenue
- Power Purchases are approximately 37% of total expenses and main driver of increasing costs



## Increasing Inflation and Supply Chain Delays Impacting Expenses



Chart 1. Over-the-year percent change in CPI-U, West region, February 2019–February 2022



### Consumer Price Index

Inflation increased 8.1% in 2021 in the Western U.S.

- Vehicle costs up 22.5%
- Health benefit costs up 18.2%
- +20% increase in some Represented wages over past 2 years

### Supply Chain Delays

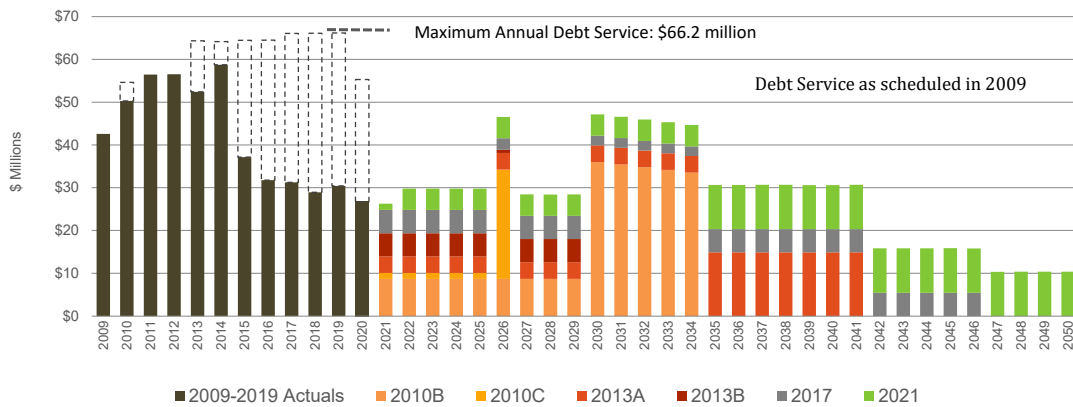
Shortages of transportation and steel

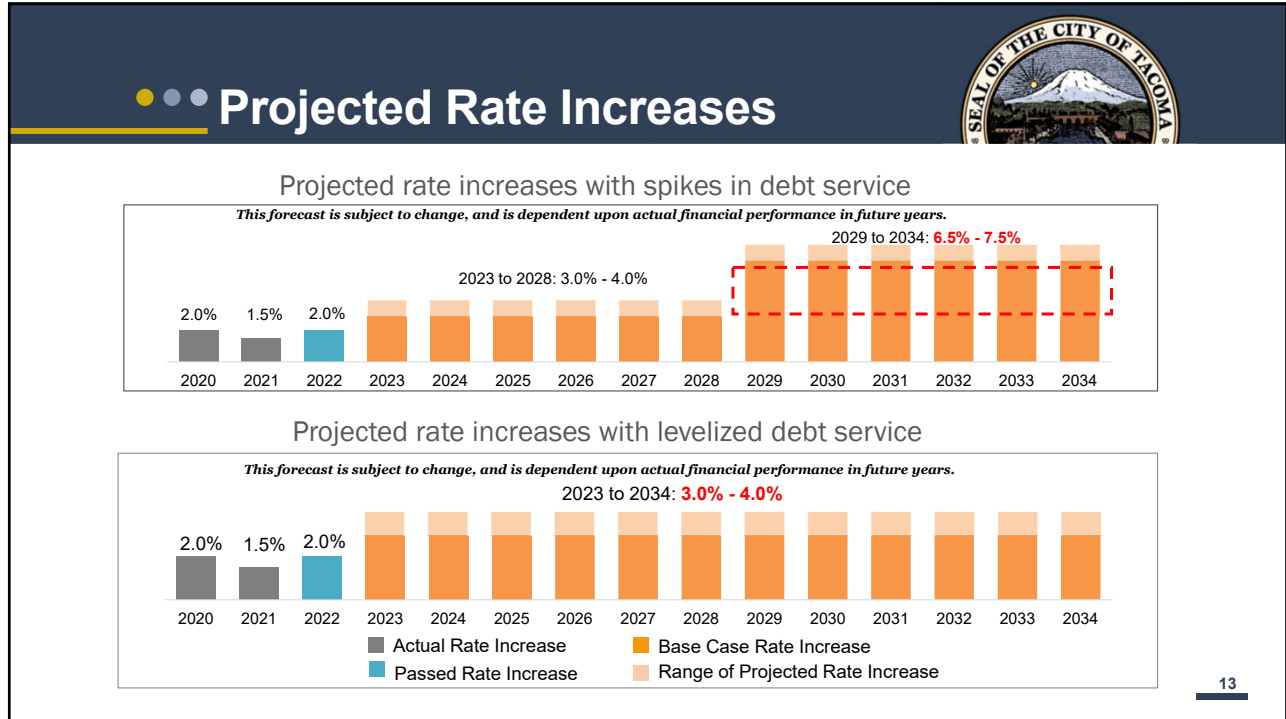
- 4-8X the normal lead time for delivery on transformers, insulators, switches
- Shortages on poles from Canada
- 120 items that are late from 25+ vendors

## Historical and Current Debt Structure



### Current Debt Service





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## Draft Budget and Rate Schedule

<p><b>April</b></p> <p>Monthly</p> <p>May - September</p> <p>May - October</p> <p>September</p> <p>October</p> <p>November</p>	<p><b>Government Performance Finance Committee                  Long-Range Financial Plan (LRFP) Review</b></p> <p>Government Performance Finance Committee presentations</p> <p>Public Utility Board – Power Budget/Rates Development and Reviews</p> <p>Public Outreach</p> <p>GPFC – TPU Preliminary Budget and Rates</p> <p>Public Utility Board, GPFC, City Council – Review/Approval of TPU Budget &amp; Rates</p> <p>City Council – City Budget &amp; Rates Ordinance Readings</p>
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# Tacoma Power Long-Range Financial Plan

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## Appendix







# Guiding Principles

## Board Strategic Directives

**Financial Sustainability**

Provide safe and reliable power over the long term.

**Rates**

Rates will be adequate, fair, just, and reasonable.

## Electric Rate & Financial Policy

**Purpose**


Tacoma Power's Electric Rate and Financial Policy gives direction to future short-term and long-term planning decisions and helps ensure that reliable service is provided to all customers at the lowest possible cost consistent with prudent utility management.

**Sections**

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

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# Tacoma Power is a AA-level rated utility

	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 the ability to cover expenses with cash.  
**Debt Service Coverage Ratio:** Ratio of cash flow available to pay debt service owed.  
**Debt Ratio:** Ratio of total debt outstanding as a percentage of total Assets.

<b>Tacoma Power Metrics</b>	2017	2018	2019	2020	2021*
<i>Days of Liquidity</i> (Target: >180 Days)	210	206	157	235	241
<i>Debt Service Coverage Ratio</i> (Target: >2.0x)	2.82x	3.06x	1.30x	3.33x	2.55x
<i>Debt Ratio</i> (Target: <60%)	29%	28%	28%	25%	34%
<i>Rate Stabilization Fund Deposit / (Withdrawal) \$ in millions</i>	0	0	(\$10)	0	\$25

\* Preliminary and unaudited

	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

— Target       Current Tacoma Power Rating

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