



Reserve Policy Update

City of Tacoma | Tacoma Power

Government Performance Finance Committee

June 4, 2024

ITEM #



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OVERVIEW



- Review the purpose and function of Tacoma Power's reserve funds.
- Discuss supporting analysis of proposed Rate Stabilization Fund language changes in the Electric Rate and Financial Policy.
- Propose revisions to language in the Policy.

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BACKGROUND

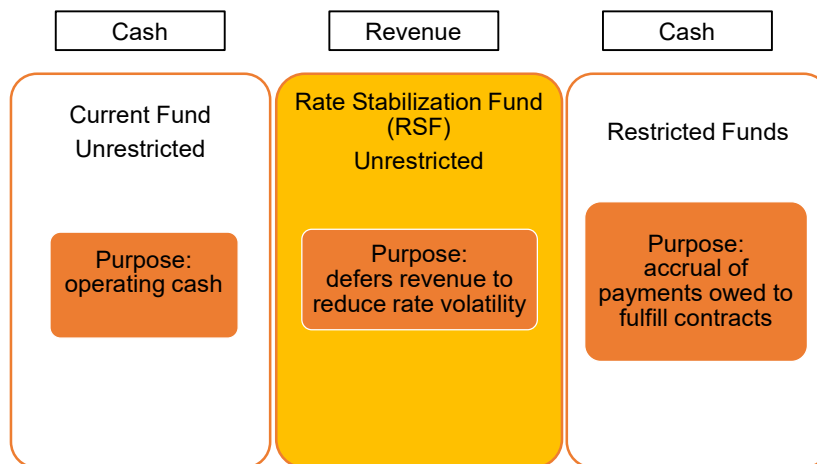
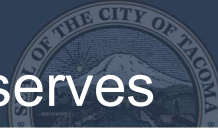


- Tacoma Power's Electric Rate and Financial Policy (Policy) gives direction to future financial planning decisions.
- Tacoma Power's Rate Stabilization Fund is used to stabilize electric rates to our customers. It enables us to set aside money to mitigate drastic rate changes due to low revenues or high expenses in the future.
- To meet the Public Utility Board's Guiding Principles for financial stability and maintaining low and stable rates, we are proposing a policy target balance for the Rate Stabilization Fund in order to mitigate future rate and financial risks.

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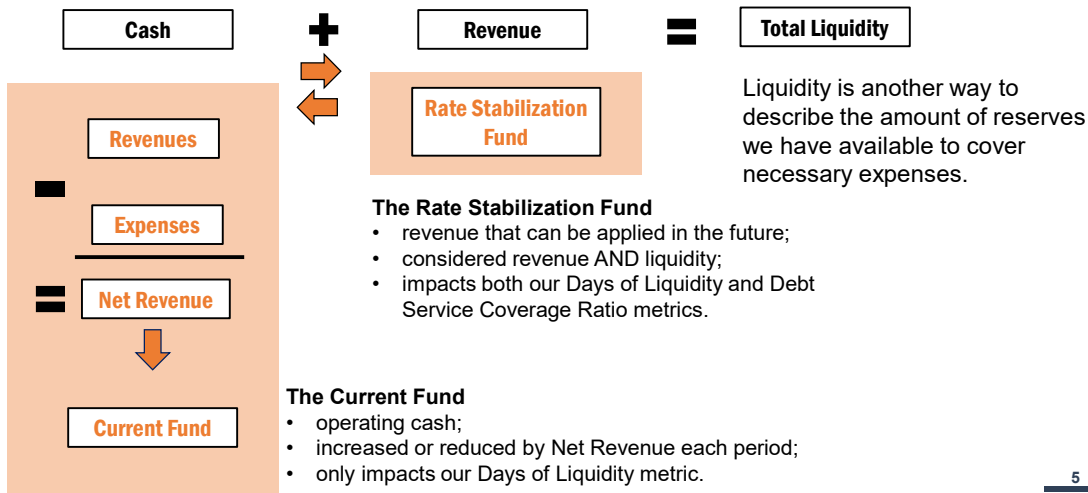
Types of Tacoma Power Reserves



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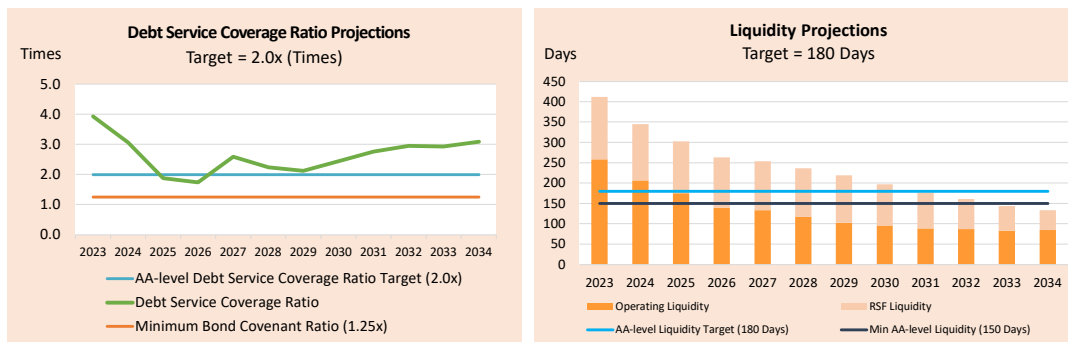
The Flow of Unrestricted Reserves



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Reserves impact system rates through financial metrics

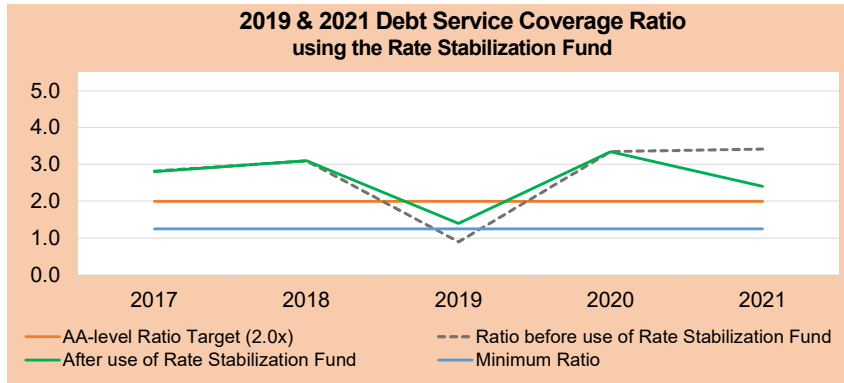
- We set rates to meet financial metrics.
- Operating cash can ONLY impact our Liquidity ratio.
- Rate Stabilization Fund provides more flexibility to meet our financial metrics requirements.



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What happens to the Debt Service Coverage Ratio when we use the Rate Stabilization Fund?



Grey line = before use of Rate Stabilization Fund

Green line = after use of Rate Stabilization Fund

2019 after the near-critical water year:

- Used \$10 million of RSF to meet minimum ratio and **avoid default** on outstanding Bond Covenants and a **4% rate increase**

2021 after high wholesale prices:

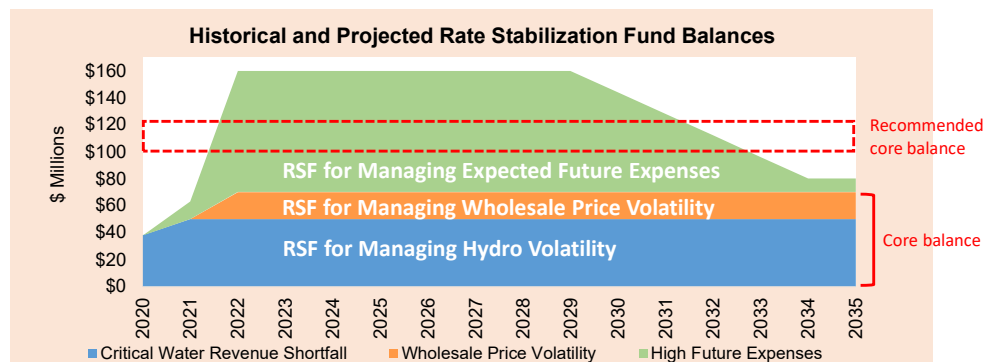
- Deferred \$25 million of wholesale revenue to apply to future year expenses

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Forecasts use the Rate Stabilization Fund to smooth rates

Maintaining adequate reserves will help mitigate rate and financial risks



RATE STABILIZATION FUND BALANCES (YEAR-END)

\$ IN MILLIONS	2010	2011	2012	2013 - 2018	2019	2021	2022	2023 - 2034
+ADDITION / - WITHDRAWAL	+\$10 M	+\$26 M	+\$12 M	\$0	-\$10 M	\$25 M	\$95 M	— ~\$80 M
BALANCE	\$10 M	\$36 M	\$48 M	\$48 M	\$38 M	\$63 M	\$158 M	\$78 M

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Rate Stabilization Fund Balance

2024 Tacoma Power Bond Issuance Request for Information Underwriter Bank Responses

Comparative Analysis of WA Public Power Issuers (FY 2022)					
Utility	Planned Use \$000	RSF Balance \$000	RSF % of Operating Revenue	Wholesale Revenue % of Operating Revenue	Replenish Mechanism
Tacoma	- \$80,000	\$158,000 (\$70,000 core balance)	12% (core)	27%	Annual evaluation
Clark		\$64,000	12%	11%	
Snohomish		\$115,000	15%	10%	
Grant		\$98,182	24%	24%	
Seattle		\$100,000	8%	14%	Automatic rate increase if < \$75M
Sacramento PUD *		\$190,000	9%	19%	Hydro rate surcharge or rebate

*Includes \$31.4 million in a separate Hydro Stabilization Fund

Underwriter Bank Responses:

- Respondents recommended a **core balance of \$100 - \$120 million** to address hydro and market price volatility.
- Once the RSF is used as planned in future high expense years, Tacoma Power's RSF total balance will be \$78 million, with a **core balance of \$70 million**.

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Planned Use of the Rate Stabilization

Future expenses identified

- Debt Service spikes (\$90M)
- Hydro relicensing of 3 dams
- Dam Safety Program
- Grid modernization projects
- SAP Now!

Total is more than **\$300M** 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

- [SCL burns through \\$130M reserves](#)
- [Clark PUD uses RSF to address \\$17.7M shortfall](#)

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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
Tacoma Power	3.5%	TBD
Grant PUD	3.5%	TBD
Chelan PUD	3.0%	TBD
Puget Sound Energy	1.7%**	17.0%

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

**8.7% in 2023

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Takeaways

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Proposed Revisions



Staff recommends changes to the Electric Rate and Financial Policy for Public Utility Board approval and confirmation by the Council in November as follows:

Proposed Revised Subsection V.B.1 *[Changes in brackets in blue]*

- *[Upon the availability of excess wholesale revenues, Tacoma Power will target a core balance of \$100 million in the Fund. Core balance is defined as the revenues set aside to mitigate the variability in hydro supply and wholesale market prices only. The Fund Total Balance can be higher to reserve revenues for other operational purposes. In addition,]* at the conclusion of each fiscal year, Tacoma Power will evaluate the adequacy of the *[core balance]* amount in the Fund for meeting the forecast difference between critical and adverse water conditions over the next two fiscal years. *[The core balance target threshold will be re-evaluated on a periodic basis, at a minimum upon significant operational or market changes that impact wholesale revenues.]*

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PROPOSED REVISIONS



Power rates should reflect resource planning to meet or exceed long term customer needs

Proposed Revised Subsection IV.B.1.a

The projected load forecast for the rate review process shall include the consumption effects of price, ~~and local economic and demographic conditions~~ *[, and other projected impacts to future consumption.]* Projected retail revenues will be based on average weather assumptions.

Proposed Revised Subsection IV.B.1.c

Both the short-term and long-term rate impacts of conservation programs *[, electrification assumptions,]* and generating resource development will be considered when establishing current funding levels.

Proposed New Subsection IV.B.1.d.

Power rates will be designed to ensure sufficient and reliable power supply and transmission. This includes the procurement and maintenance of sources of supply, infrastructure, facilities, and personnel to meet or exceed regulatory requirements.

Power Rate Setting Practices - minor language changes

Proposed Revised Subsection IV.A.1.

Rates will be set at levels to provide projected cash balances ~~equivalent to a minimum of~~ *[more than]* 90 days of current budgeted expenditures.

Proposed Revised Subsection IV.A.3.

The Utility will plan to a minimum Debt Service Coverage Ratio of ~~1.8~~ *[2.0]* based on net revenues including surplus sales estimated using ~~median~~ *[average]* water availability or at higher levels consistent with sound financial practice in the electric industry.

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