



# Board of Commissioners Workshop



## Equity Management Plan

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# Presentation Overview

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- ◆ **Overview of rate study process**
- ◆ **Key assumptions**
- ◆ **Summary of findings**
- ◆ **Next steps**
- ◆ **Questions/discussion**



# Glossary of Terms

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- ◆ **A&G – administrative and general**
- ◆ **BABs – Build America Bonds**
- ◆ **BPA – Bonneville Power Administration**
- ◆ **CIP – capital improvement program**
- ◆ **COSA – cost-of-service analysis**
- ◆ **DSC – debt service coverage**
- ◆ **EMP – equity management plan**
- ◆ **kWh – kilowatt hours**
- ◆ **kW – kilowatt**
- ◆ **O&M – operating & maintenance**
- ◆ **PUD – public utility district**
- ◆ **RECs – renewable energy credits**
- ◆ **TIER – time interest earned ratio**

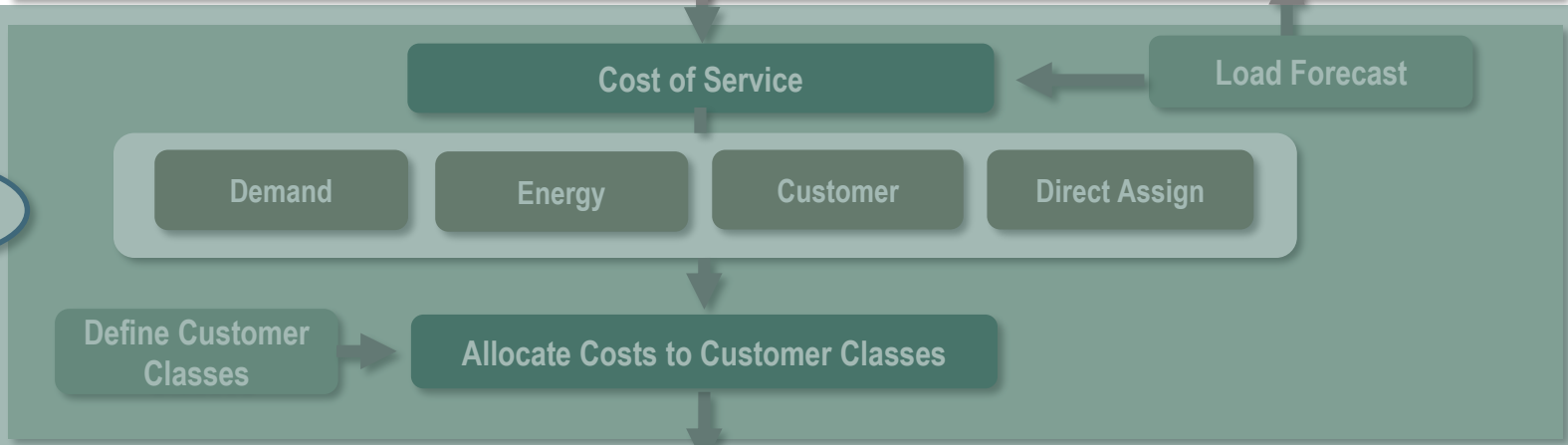


# Overview of Rate Setting Process

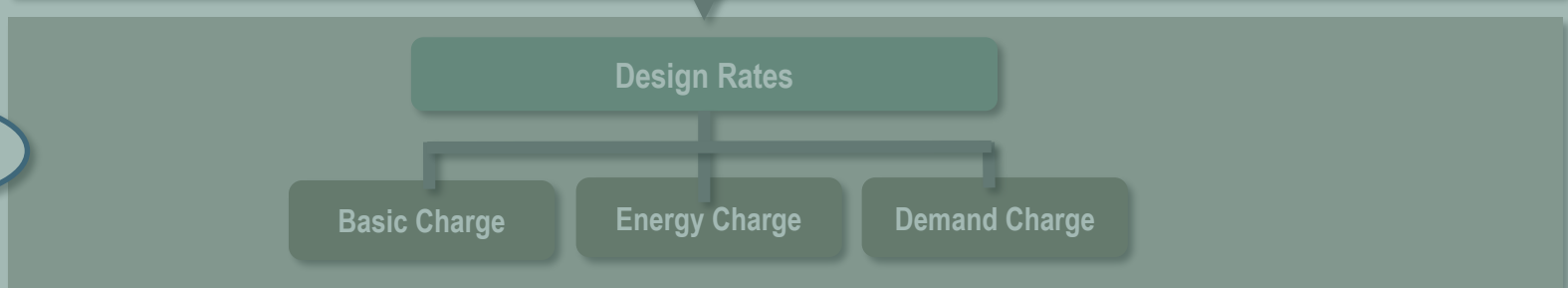
**STEP 1:**



**STEP 2:**



**STEP 3:**





# Equity Management Plan



# **Equity Management Plan Overview**

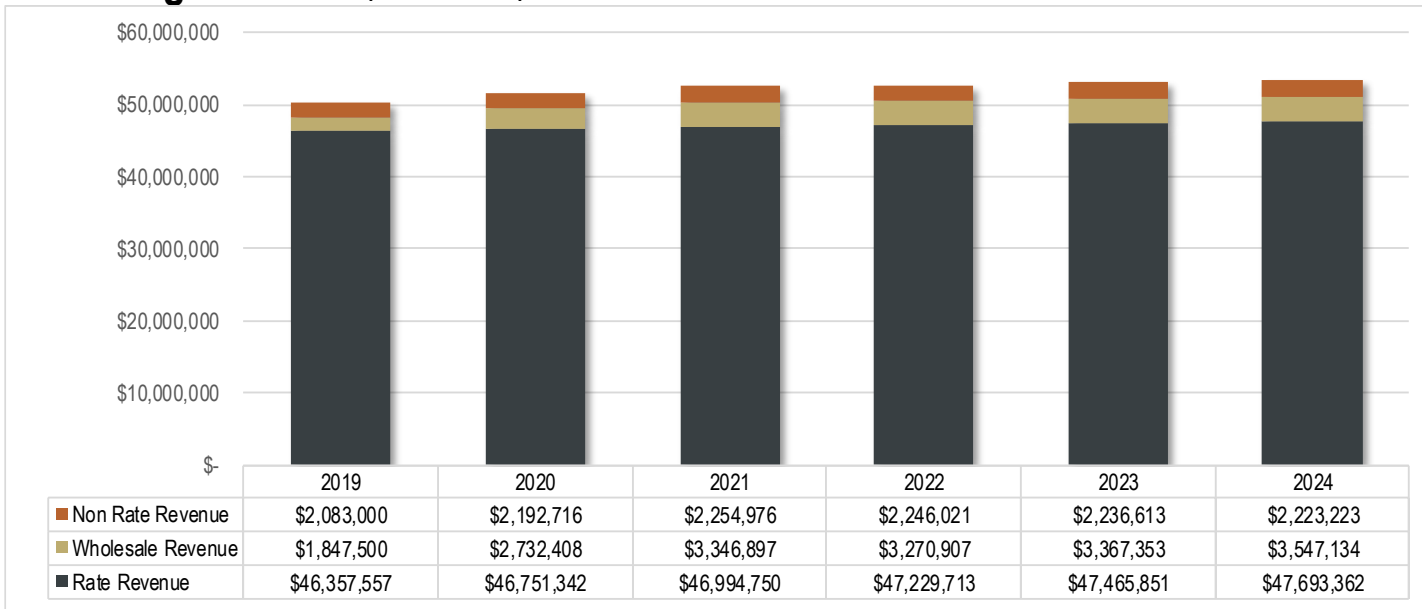
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- ◆ **Determine the amount of annual revenue necessary to fund all financial obligations on a standalone basis**
  - Operating expenses including Power
  - Debt service (principal & interest)
  - Capital costs and funding approach
- ◆ **Meet financial parameters and targets**
  - Target debt service coverage ratios
  - Maintain target reserve balances
- ◆ **Evaluate revenue sufficiency over multi-year period**
- ◆ **Develop rate plan to balance financial needs and minimize customer impacts**



# Key Factors: Existing Revenue

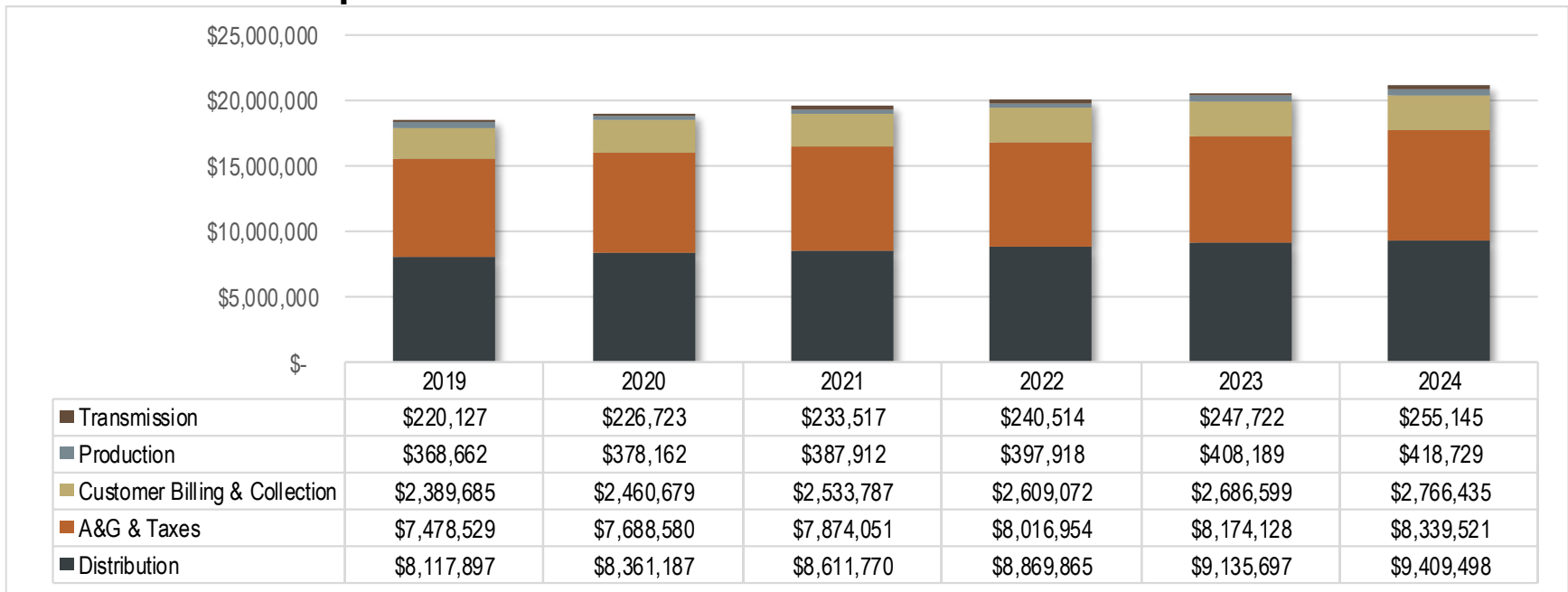
- ◆ **Focus period: 2019-2024 (projected through 2028)**
- ◆ **Includes:**
  - Non rate revenues: rents from electric property, interest, BABs subsidy, RECs, BPA energy efficiency payments, wheeling revenues – 4%
  - Wholesale revenues – 6%
  - Load growth assumed at 0.5% per year starting 2020
- ◆ **Total existing revenue: \$50.3 to \$53.5 million**





# Key Factors: Operating Expenses

- ◆ **Historical actual plus inflation as baseline**
  - General/labor/benefits inflation: 2.3% - 3.0%
  - Overall annual inflation: 2.8%
- ◆ **Total O&M expenses: \$18.6 to 21.2 million**

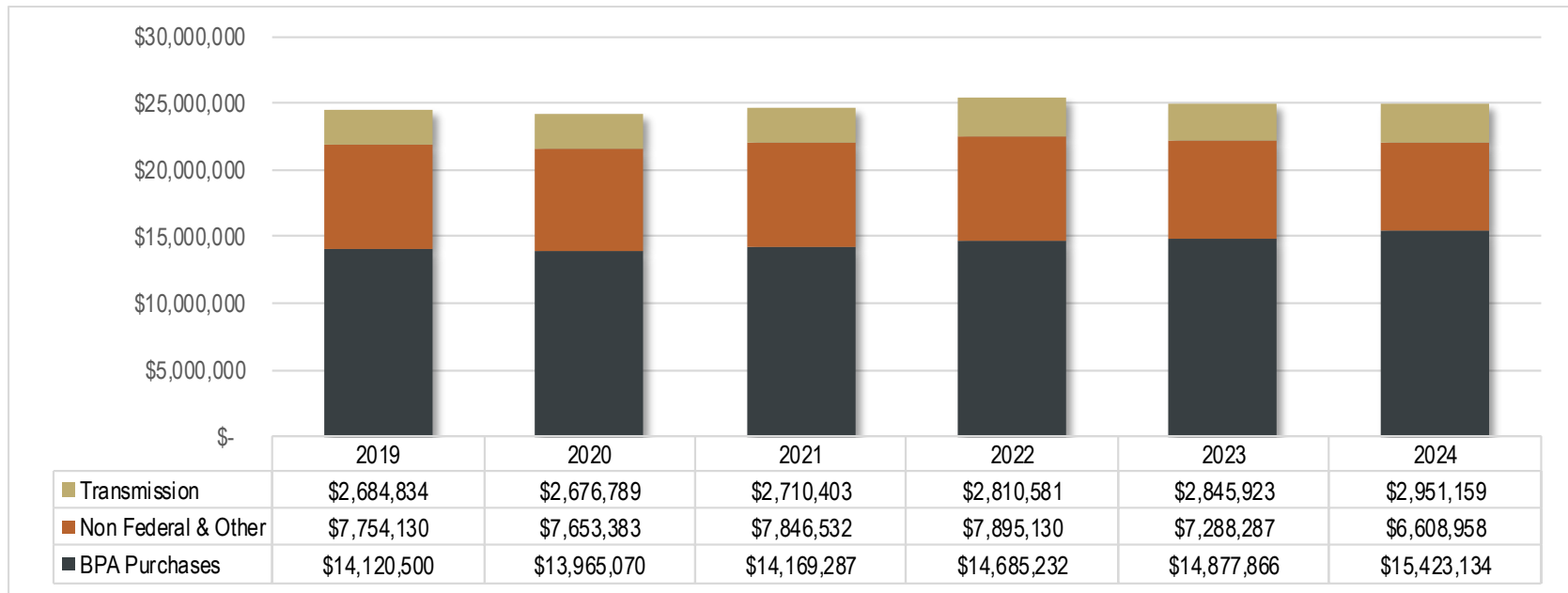






# Key Factors: Purchased Power

- ◆ **Power & transmission based on load, BPA billing determinants and other contracts**
  - Includes BPA FY2020 power & transmission actual rates
    - Includes new BPA financial policy surcharge - \$271,000 - \$298,000 per year
  - Future bi-annual increases assume 5.0% for power & transmission starting FY2022
  - Non-federal power costs projected to decrease 12 percent from 2019 to 2024
    - Nine Canyon debt service matures in 2023/2024
- ◆ **Total power: \$24.6 to 25.0 million per year**





# Key Factors: Capital & Debt

Year	2019\$	Inflated
2019	\$ 10,741,620	\$ 10,741,620
2020	19,506,300	20,202,940
2021	17,527,535	18,792,877
2022	12,529,245	13,926,997
2023	12,148,148	13,990,086
2024	10,925,445	13,072,446
<b>Subtotal</b>	<b>\$ 83,378,293</b>	<b>\$ 90,726,966</b>
2025-2028	46,183,468	60,199,293
<b>Total</b>	<b>\$129,561,760</b>	<b>\$150,926,258</b>

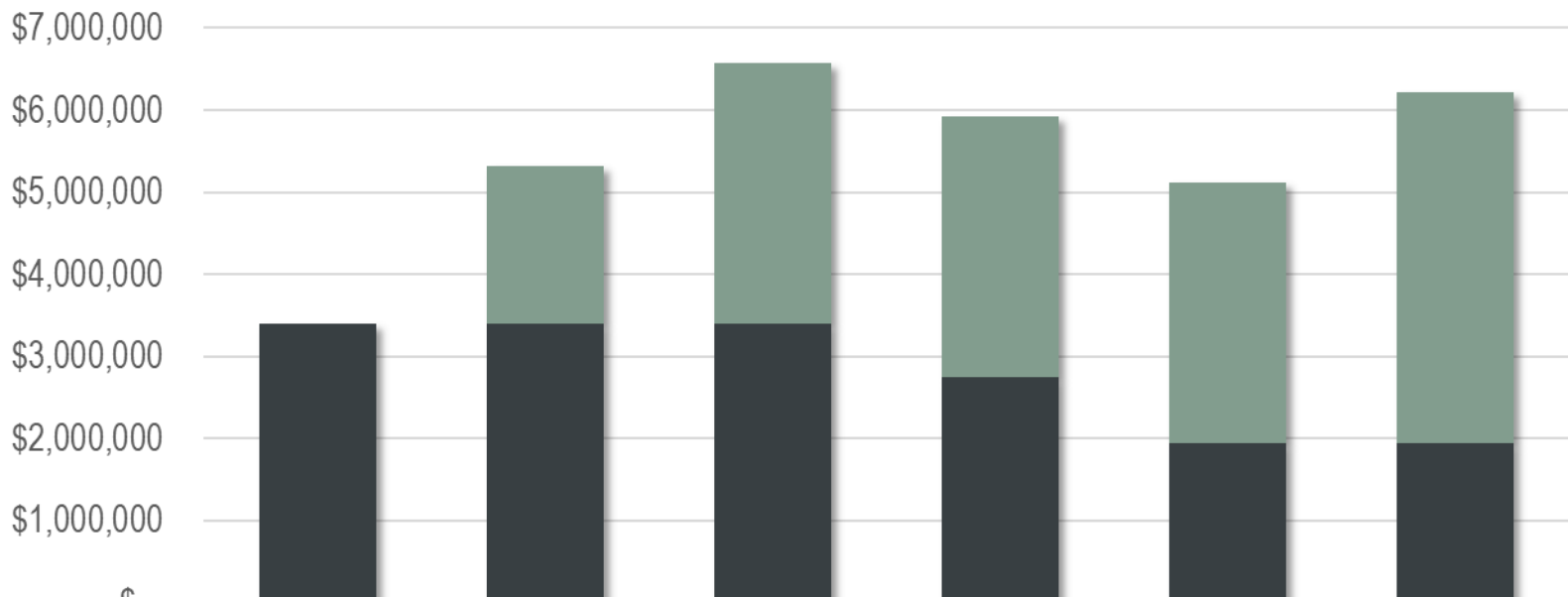
- ◆ **Existing debt: 3 revenue bonds ranging from \$3.4 million in 2019 to \$1.9 million in 2024**
  - 2 bonds are repaid in 2021 and 2022, which frees up debt capacity
- ◆ **2019-2024 CIP of \$90.7 million in CIP funded through: existing proceeds, rate funding, capital contributions and new debt:**
  - 2020 revenue bond: \$35.0 million
  - 2024 revenue bond: \$20.0 million



# Existing and New Debt Service

Existing debt service decreasing in 2022 and 2023

Debt service on \$35M bond (2020): \$3.2M  
Debt service on \$20M bond (2024): \$1.1M\*



	2019	2020	2021	2022	2023	2024
■ New Debt Service	\$-	\$1,923,590	\$3,183,349	\$3,183,349	\$3,183,349	\$4,282,543
■ Existing Debt Service	\$3,395,541	\$3,397,541	\$3,395,391	\$2,742,780	\$1,935,313	\$1,935,747

\*Note: Debt service on \$20M bond in 2024 is interest only; debt service increases to \$1.8M in 2025

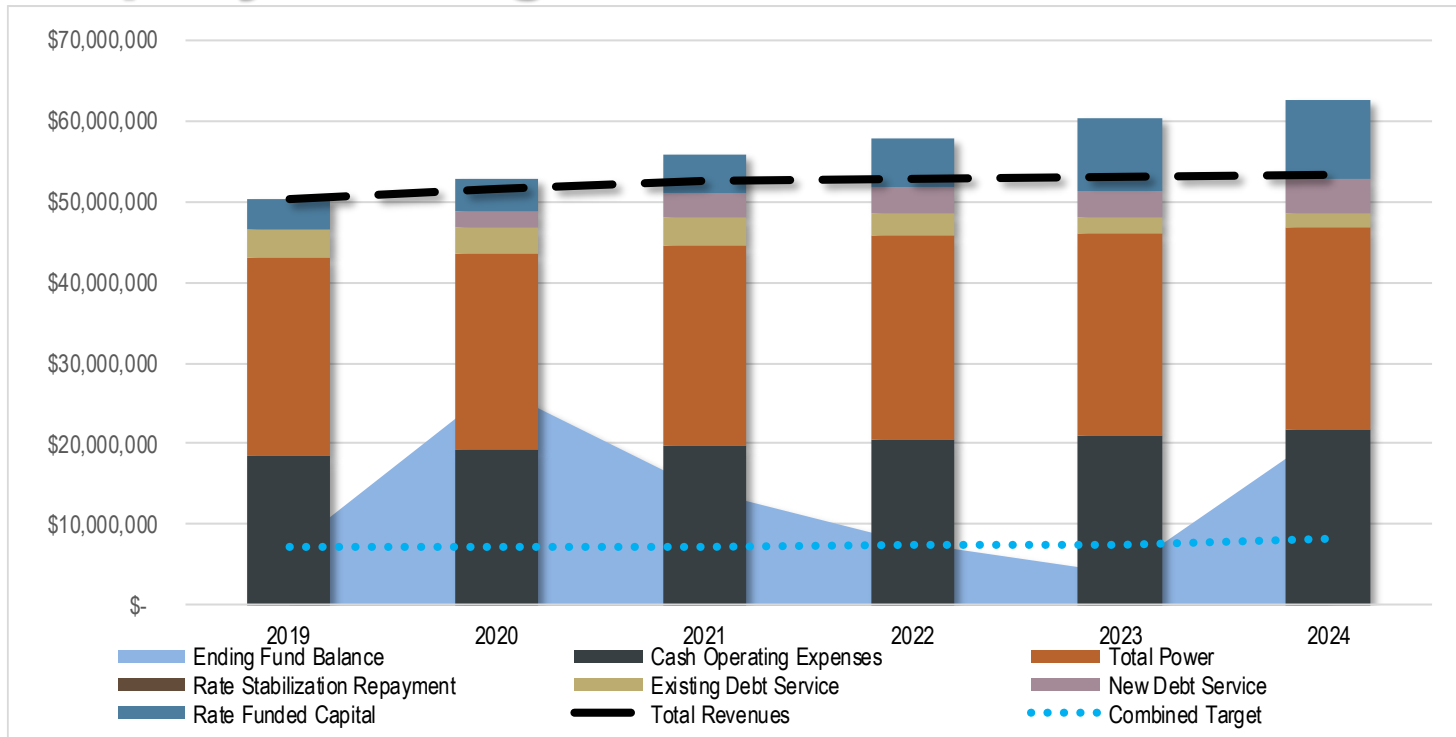


# Example Fiscal Policies

Policy	Purpose	Target
<b>Working Capital Reserve</b>	Liquidity cushion to accommodate cyclical cash flow fluctuations	<u>60 Days O&amp;M &amp; Power</u> \$7.1M to \$7.6M Phasing-in to 90 Days 2024-2029
<b>Depreciation Funding</b>	To ensure ongoing system integrity through reinvestment in the system.	Target: Annual Depreciation \$4.5M - \$8.2M
<b>Debt Service Coverage &amp; TIER</b>	Compliance with existing loan/debt covenants and maintain credit worthiness for future debt issuance.	<u>DSC Target 1.50</u> ; Min. Requirement 1.25 <u>TIER Target: 1.50</u>



# Equity Management Plan – Baseline



Description	2019	2020	2021	2022	2023	2024
<b>Annual Increase</b>		<b>4.00%</b>	<b>4.00%</b>	<b>4.00%</b>	<b>4.00%</b>	<b>3.00%</b>
Coverage After Increase	2.11	1.77	1.77	2.07	2.80	2.57
TIER After Increase	3.05	1.63	2.06	2.31	3.00	2.55
<b>Avg. Residential Mo. Bill</b>	<b>\$ 110.28</b>	<b>\$ 114.69</b>	<b>\$ 119.28</b>	<b>\$ 124.05</b>	<b>\$ 129.01</b>	<b>\$ 132.88</b>
<i>\$ per Mo. Difference</i>		\$ 4.41	\$ 4.59	\$ 4.77	\$ 4.96	\$ 3.87

**Note:** assumes 1,400 kWh per month average usage.



# Staff Recommended Scenario

- ◆ Limit annual increases to 3.0%
- ◆ Defer 25% of annual CIP 2020-2024 (\$20 million)
- ◆ Reduce debt issuance to \$22.0 million in 2020
  - Long term forecast assumes a \$14.0 million debt issuance in 2025

Description	2019	2020	2021	2022	2023	2024
<b>Annual Increase</b>		<b>3.00%</b>	<b>3.00%</b>	<b>3.00%</b>	<b>3.00%</b>	<b>3.00%</b>
Coverage After Increase	2.11	1.99	1.98	2.30	3.18	3.53
TIER After Increase	3.05	2.02	2.43	2.58	3.26	3.86
<b>Avg. Residential Mo. Bill</b>	<b>\$ 110.28</b>	<b>\$ 113.59</b>	<b>\$ 117.00</b>	<b>\$ 120.51</b>	<b>\$ 124.12</b>	<b>\$ 127.84</b>
<i>\$ per Mo. Difference</i>		\$ 3.31	\$ 3.41	\$ 3.51	\$ 3.62	\$ 3.72

**Note:** assumes 1,400 kWh per month average usage.



# Comparison of EMP Scenarios

Description	Baseline Scenario	Recommended Scenario	Difference (Base vs. Rec.)
Average Residential Monthly Bill* in 2020	\$114.69	\$113.59	\$1.10
in 2024	\$132.88	\$127.84	\$5.04
2019-2024 Capital Program (inflated, \$ in millions)	\$90.73	\$70.78	\$19.95
Annual Debt Service in 2024 (\$ in millions)	\$6.22	\$3.94	\$2.28

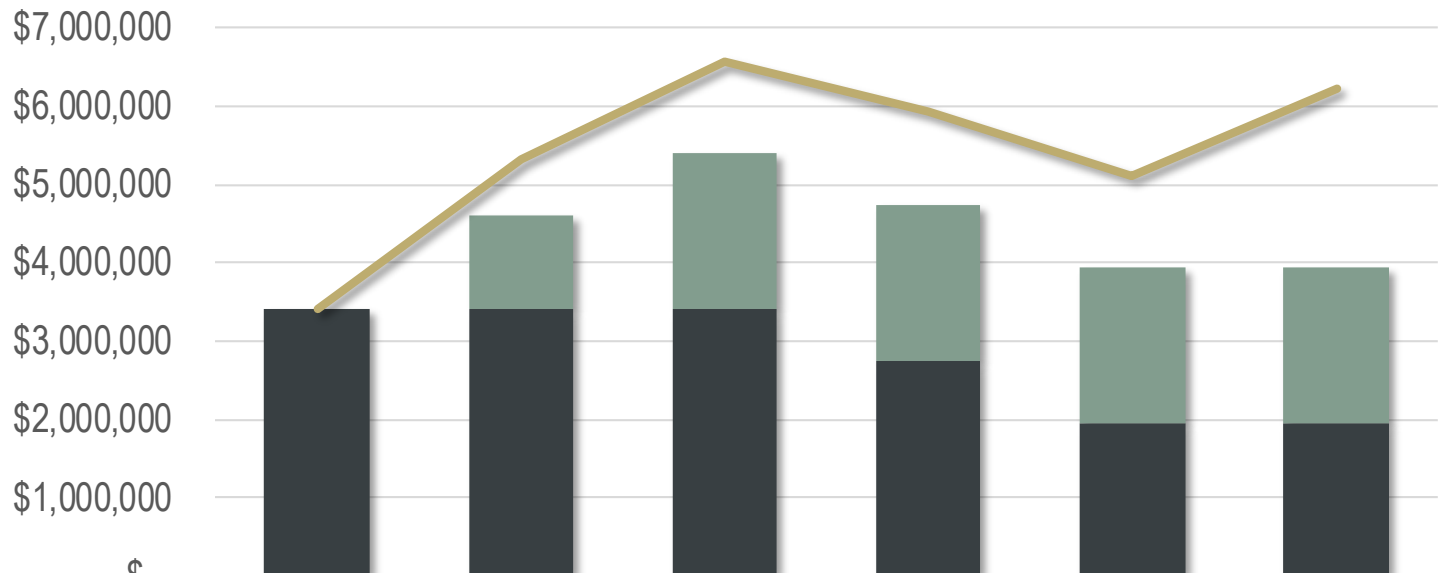
\*Note: Based on 1,400 kWh per month average use



# Existing and New Debt Service

Existing debt service decreasing in 2022 and 2023

Debt service on \$22M bond (2020): \$2.0M

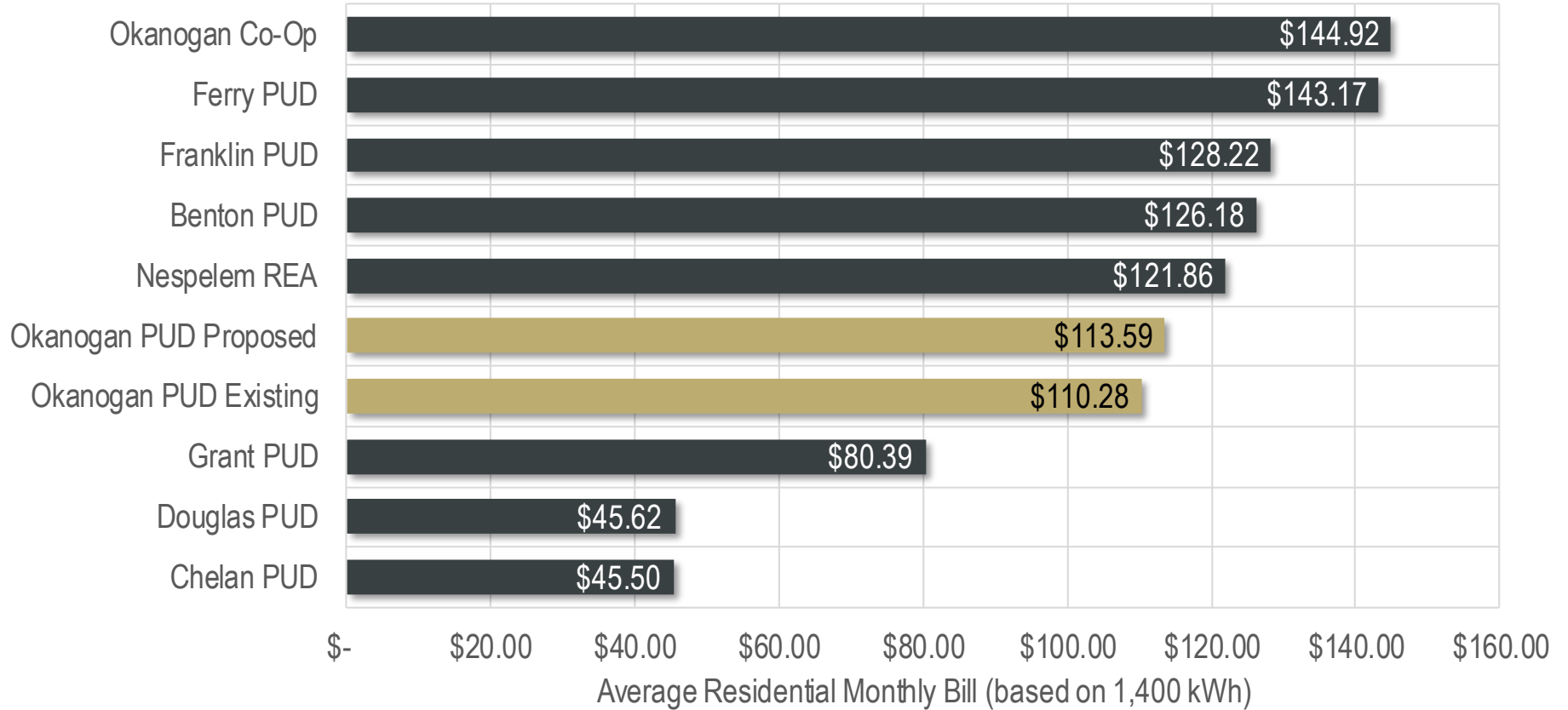


	2019	2020	2021	2022	2023	2024
<span style="color: green;">■</span> New Debt Service Recommended <span style="color: black;">■</span> Existing Debt Service <span style="color: gold;">—</span> Total Debt - Baseline	\$-	\$1,209,114	\$2,000,962	\$2,000,962	\$2,000,962	\$2,000,962
	\$3,395,541	\$3,397,541	\$3,395,391	\$2,742,780	\$1,935,313	\$1,935,747
	\$3,395,541	\$5,321,131	\$6,578,740	\$5,926,129	\$5,118,662	\$6,218,290





# Rate Survey



**Notes:** Benton PUD rate includes 2.9% rate increase (pending board approval)  
Okanogan Co-op result assumes greater than 1,200 kWh average monthly use rate



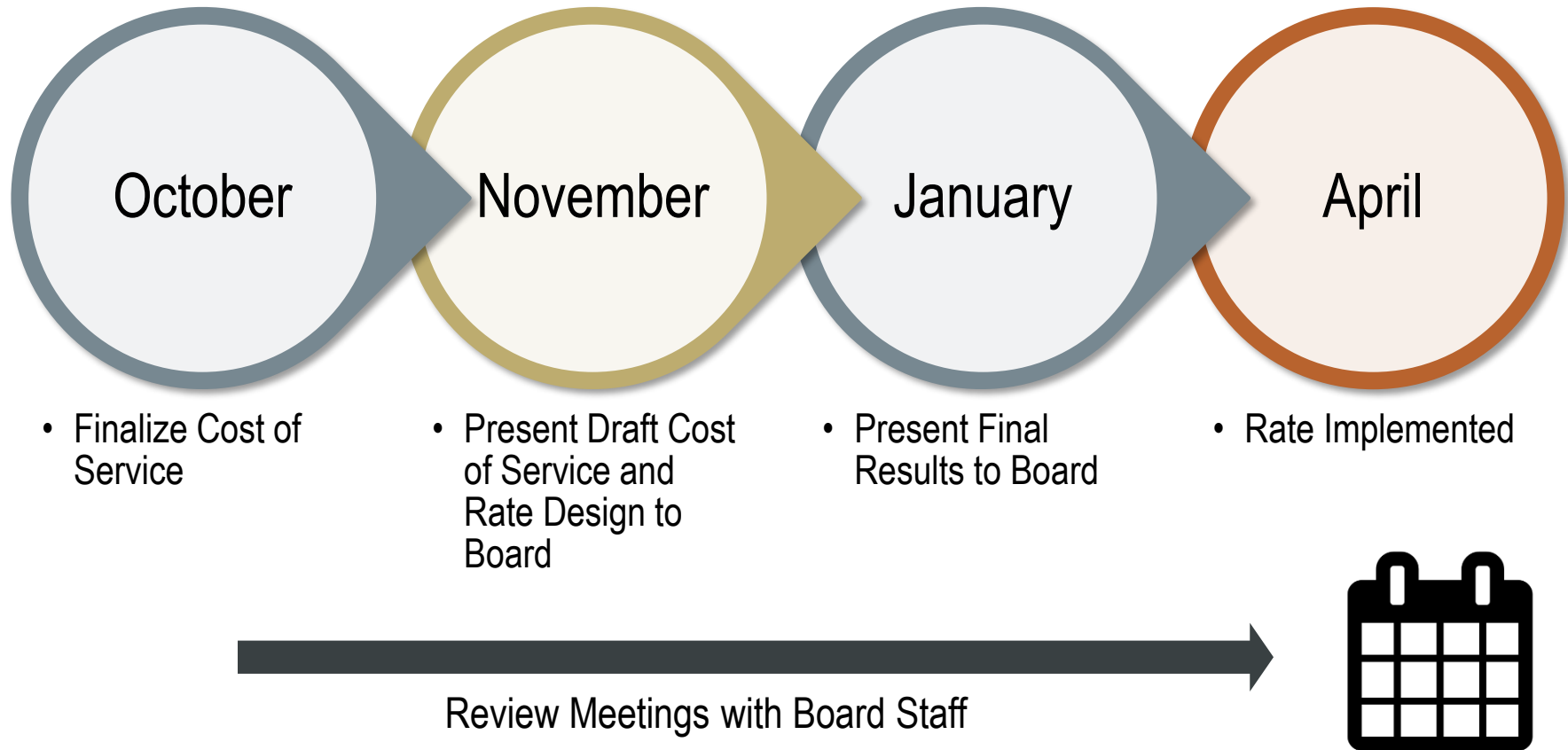
## **Direction/Discussion**

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- ◆ **Incorporate feedback and direction on equity management plan**
  - ***Baseline scenario***: full CIP
  - ***Recommended scenario***: maximum 3.00% annual increases, defer 25% of annual CIP
  - Allows for depreciation funding of capital
  - Phase in 90-day working capital reserve beginning 2024



# Next Steps





Questions?