

# 2020 Budget Presentation

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Our plan for delivering value to our customers



Powering our way of life.

# Topics covered

1. Budget Updates & Process
2. Financial Optimization Plan
3. Summary of Results
4. Appendix – Scenarios





## Keys for the Budget & Planning Process:

- 1) Dedication to providing value for Grant PUD customers
- 2) Improve the financial health of the Enterprise
  - Reduces the need for future rate increases
- 3) Preserving and improving financial health increases value for both current and future customers:
  - Investment in assets to maintain low-cost, reliable power.
  - Investment in technology is key to future delivering efficiencies.
  - Continued focus on containing controllable costs.

**01**

**2020 Major Budget  
Initiatives & Budget Process**

The background features a series of overlapping, curved shapes in shades of blue and grey, creating a dynamic, abstract pattern. The shapes are layered, with some appearing in front of others, giving a sense of depth and movement. The overall color palette is cool and professional.

# 2020 Budget aligned with customers' top priorities:

- Providing reliable electric power with few outages.
- Keeping electric prices as low as possible.
- Providing real-time information on energy, use and outages

Source: 2017 Customer Satisfaction Survey





## Major 2020 Budget Initiatives:

1. Financial Position:
  - Excess Liquidity – Analyze alternatives to utilize excess cash
2. Implementation of Data Optimization for improved expense tracking
3. Refinement of Labor / Headcount needs
4. Introduction of Enterprise Project Portfolio Management for Capital



## **Budget Process 2020:**

1. Bottom up input from all Cost Centers for O&M and Labor
2. CXO review and request for revisions
3. Refinement of O&M and Labor with Cost Centers
4. Capital spending expectation refinement with EPPM and PMO
5. Second round CXO review
6. Budget for Public Presentation

**02**

**Financial Optimization  
Plan**



# Financial Optimization Plan

## Considerations:

- Sufficient funding required for robust capital expenditure program
- Capital market disruption
- Excess liquidity

## Background:

- Refunding opportunities are routinely monitored for savings results (quarterly) that meet the internal policy minimum of 3% savings with 50% escrow efficiency for refunding.
- Up until the Fed action in July 2019, a minimal amount of savings were identified due the shape and economics of the curve combined with the structure/optionality of the portfolio.
  - Note on 9/18 the Fed took action again to adjust rates
- Currently the flat shape of the long end of the curve and overall low municipal market rates have introduced a significant opportunity to refund.
- The District's "liquid" cash reserves have dollars available to optimize the overall finance plan. The District has evaluated the use of those funds to reduce higher cost existing debt, optimizing effective financing rates, and the use of reserves for financing capital construction.

# Financial Optimization Plan

## Baseline Scenario

- Debt to Net Plant Metric set at 55%,
- Impact: Debt issued to fund capital program in order to maintain metric, resulting in excess cash position/liquidity

## Options Analyzed:

- Refunding – Procedure whereby an issuer refinances outstanding bonds by issuing new lower cost bonds
- Defeasance – Method whereby the issuer early retires debt off it's balance sheet
- Cash Financing – Utilize cash to fund capital program that would have otherwise been debt financed

## Analysis and Recommendation:

- Take Advantage of Low Interest Rate Environment/Largest PV Savings
  1. Exercise refunding opportunities in 2019 (PV Savings 14.0% -31.7%), and,
- Exercise Excess Liquidity
  1. Defease high cost debt in 2019, (PV Savings 5.6 – 19.1%), and,
  2. Cash finance capital program with excess liquidity 2020+
    - This is a planning assumption – we will monitor markets and update analysis for the best financing option in the future

# Financial Optimization Plan

## Outcome/Impact:

- **5 Year debt service savings (Refunding, Defeasance, and Cash Financing Capital) estimate \$56M**
- **Excess liquidity managed to minimal level annually <\$5M**
- **Debt to Net Plant Reduced from 55% to estimated 47%**
- **Average Debt Service Coverage improved by estimated 19 bps**

## Notes

- Economics including savings, escrow yield, etc., are based upon the market as analyzed on the date of the analysis and is subject to change.
- Analysis has been primarily limited to long-term debt program. The overall debt portfolio and debt service assumes the continued policy target of \$150M of steady state short term debt at market rates for asset/liability matching purposes.
- Long-term program optimization for defeasance and refunding options was limited to 2019/2020 due to uncertainty of future rate/market actions.
- Specific transaction details are subject to change leading into the transaction including amount of refunding, specific savings, and amount of defeasance etc. As part of the financing the District would also optimize the amount of required debt service reserves to contribute to the transaction (held in reserves outside of liquidity and limited by bond covenant on qualified uses).

**03**

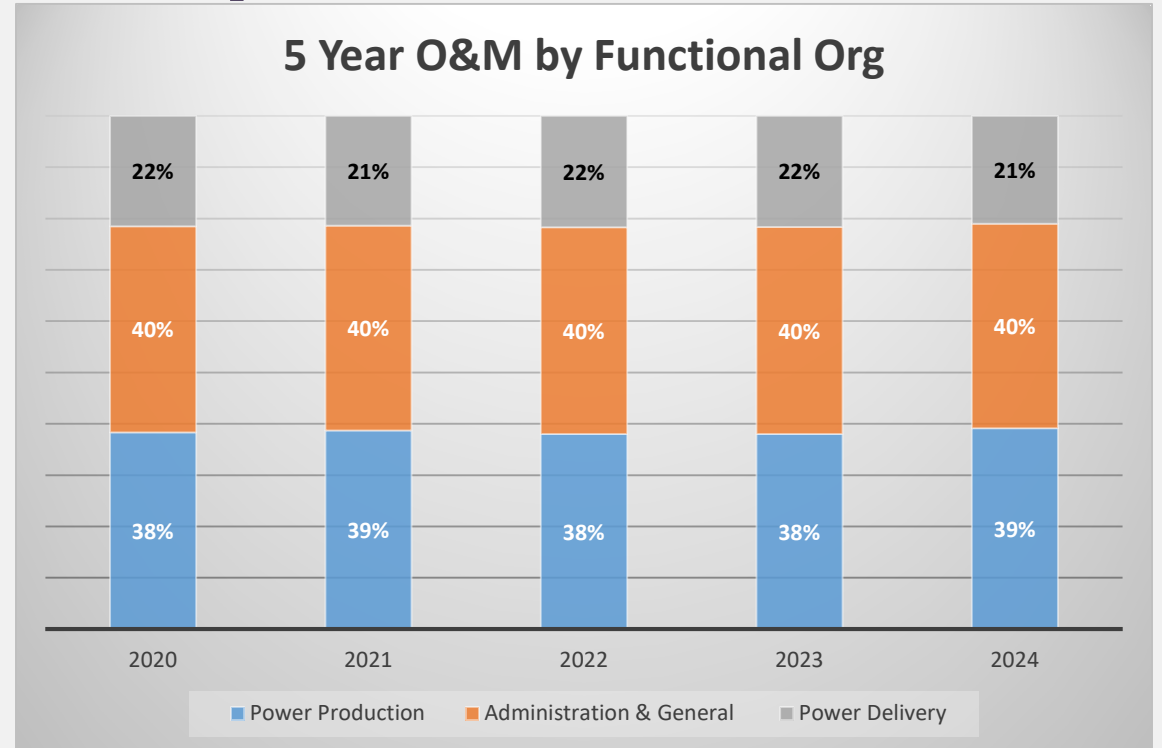
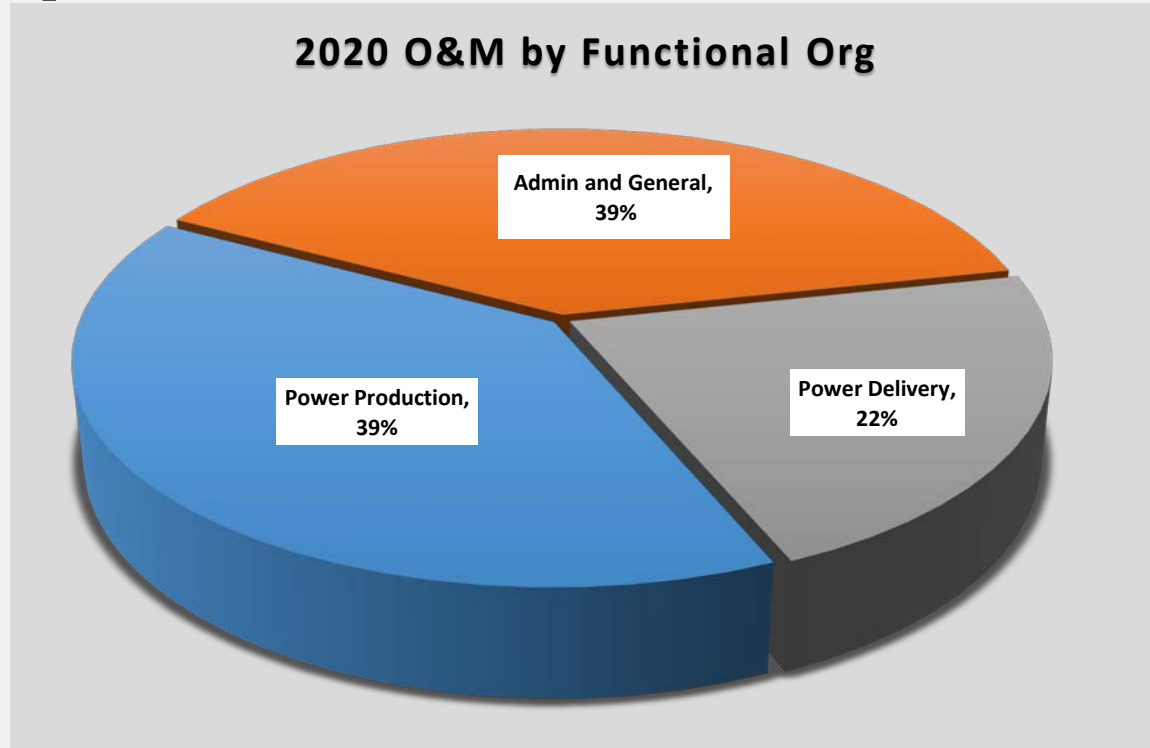
# Summary of Results

## Total expenses for 2020 (before offsets)

1. Operations & Maintenance - Total....\$127.9M
  - O&M – Direct.....\$56.7M
  - O&M – Labor.....\$71.2M
2. Taxes.....\$18.2M
3. Electric System Capital - Total.....\$61.3M
  - Elect Syst Capital – Direct...\$42.7M
  - Elect Syst Capital – Labor...\$18.7M
4. Priest Rapids Project Capital – Total...\$79.6M
  - PRP Capital – Direct.....\$62.6M
  - PRP Capital – Labor.....\$17.0M
5. Debt Service (net of rebates).....\$79.6M
- Total.....\$370.0M**



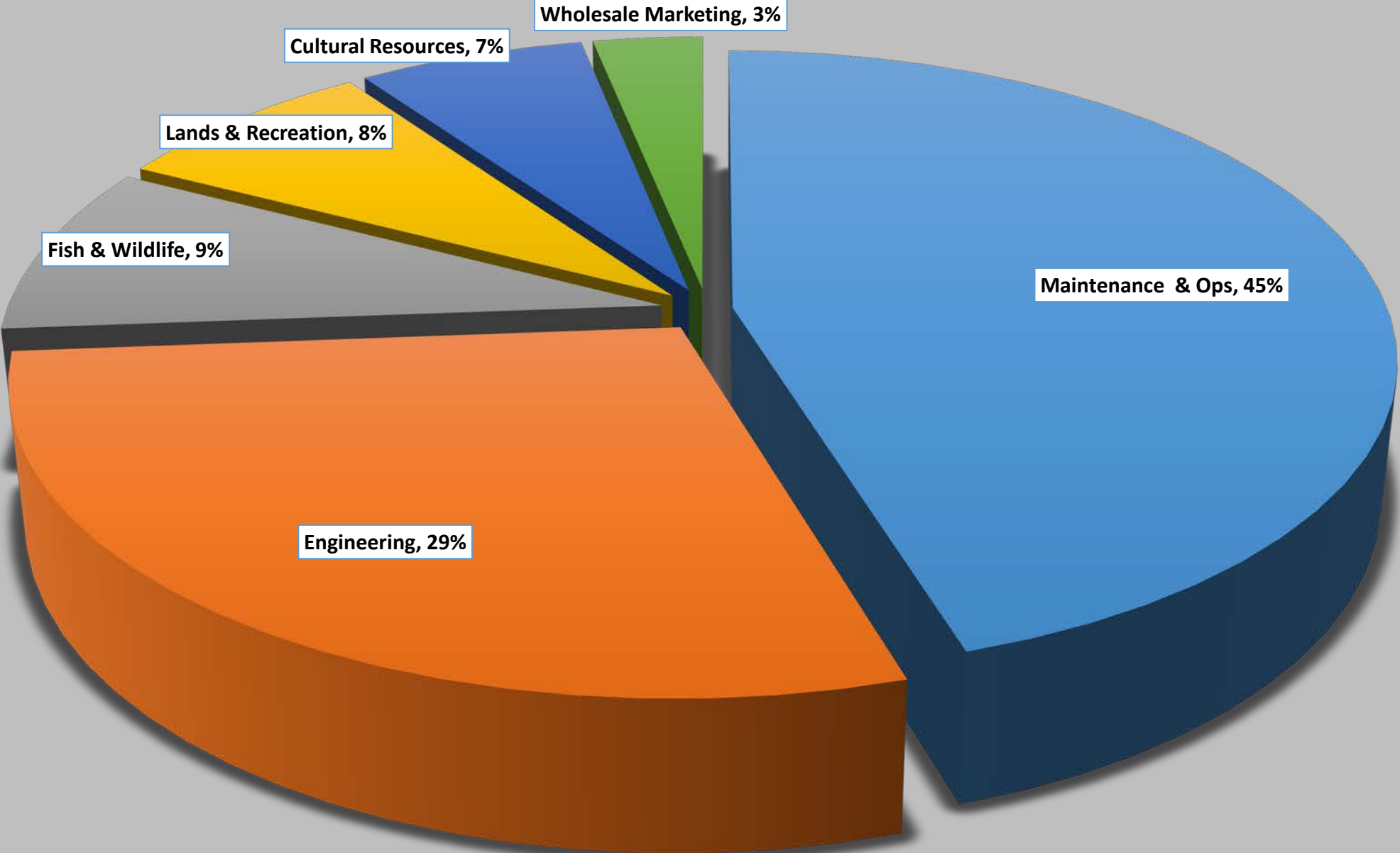
# Operations and Maintenance Expense



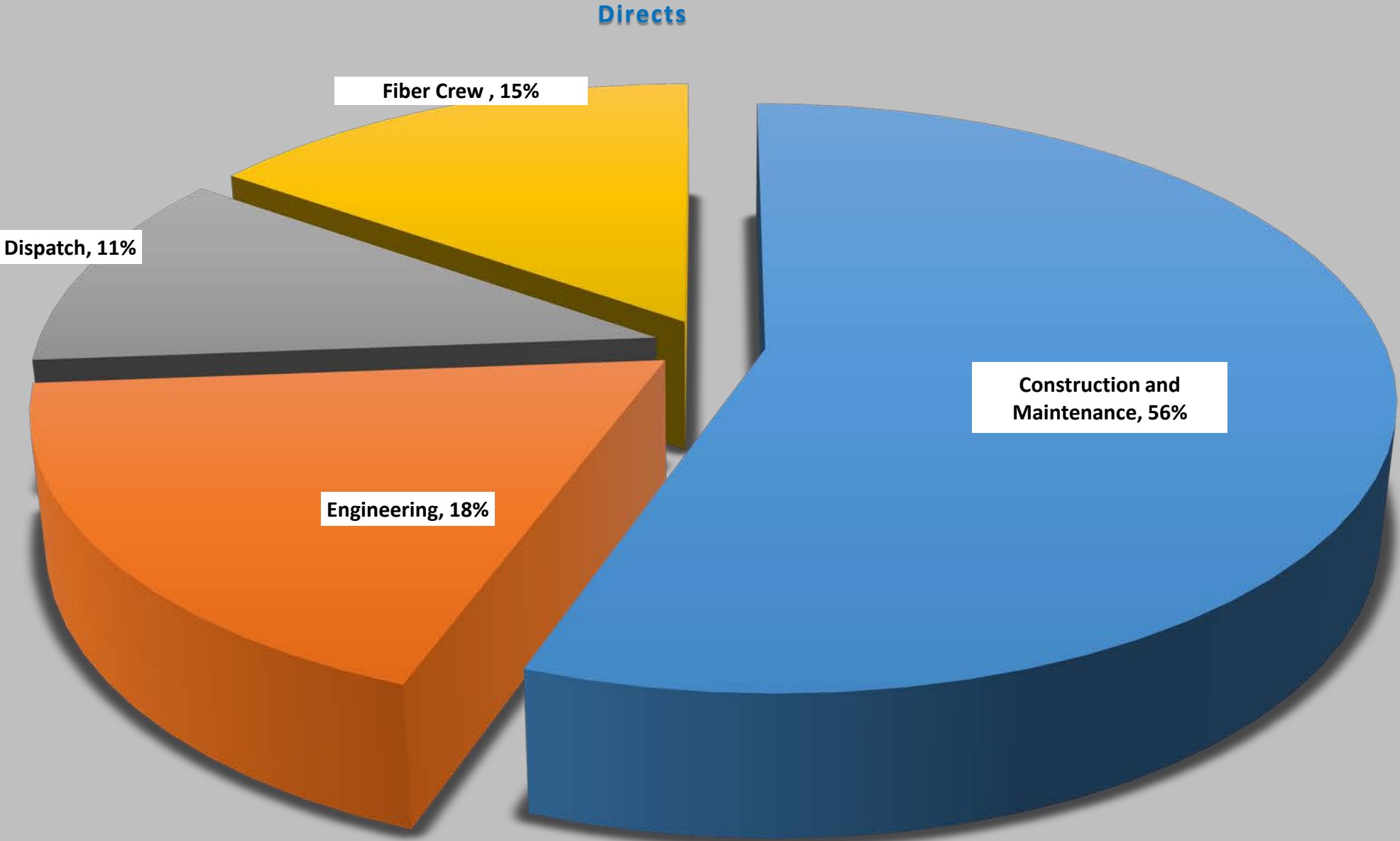
- Operations and maintenance (O&M) expense includes both labor and operating expenses, net of labor to capital.
- Total 2020 O&M of \$127.9M can be reviewed programmatically in three categories.
- Split by program over a five-year period remains largely unchanged.

# 2020 Power Production – Total O&M and Labor

Directs

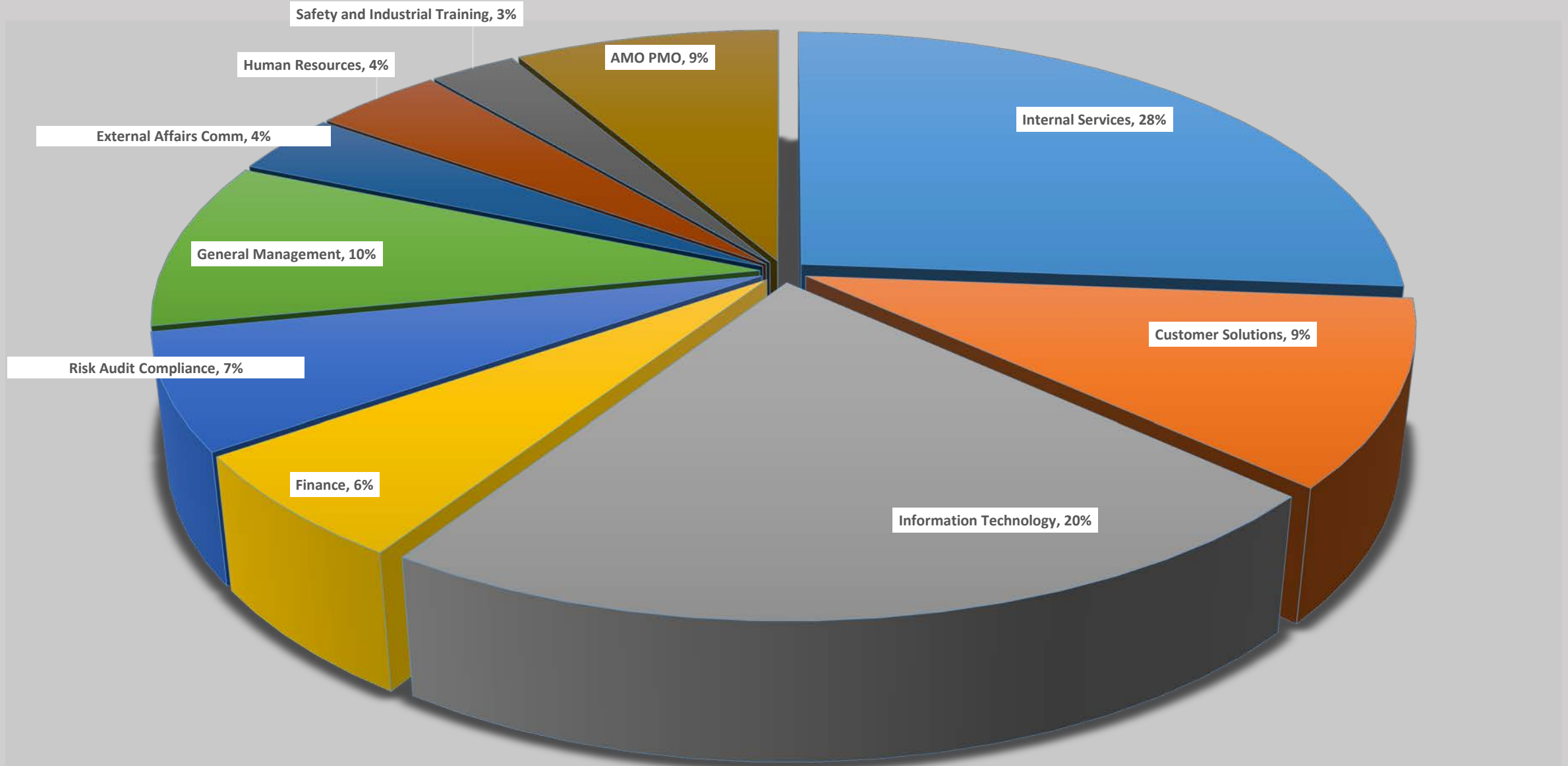


# 2020 Power Delivery – Total O&M and Labor



# 2020 Admin & General – Total O&M and Labor

Directs





## Electric System Capital:

**\$43** Million in 2020

Largest projects:

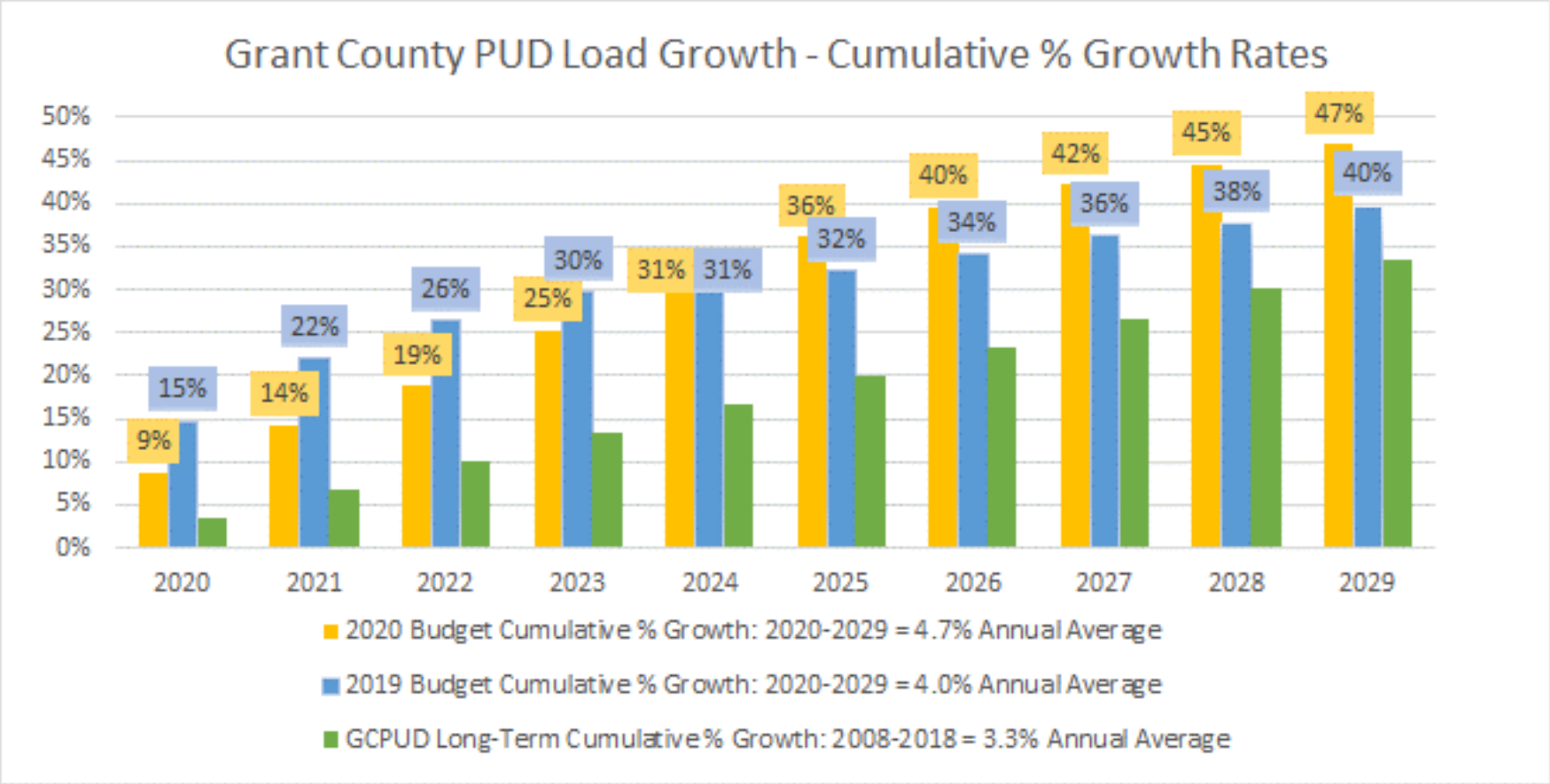
1. Transmission/Distribution Upgrades & Expansion (\$13.2M)
2. Fiber Expansion (\$12.2M)
3. Enterprise Technology (\$7.6M)
4. Fiber Customer Connection (\$4.1M)
5. Fleet replacement program (\$3.5M)

Note: Costs exclude Internal Labor


# 2020 Electric System Capital Plan – T&D and Technology Projects

- Transmission/Distribution Upgrades & Expansion (\$13.2M)
  - Substations:
    - Burke Substation #2 – Rebuild of existing and build-out of Lineup #2
    - Cyrus One Substation
    - Quincy Plains – Build-out of Lineup #2
  - Transmission:
    - Quincy Transmission Expansion Plan
      - Mountain View Breaker
      - Mountain View 230kV Line
      - Mountain View Capacitor Bank
    - Rocky Ford to BPA 230kV Line
    - Red Rock Transmission Line
  
- Technology (\$4.1M)
  - Oracle CCB.C2M Upgrade – Customer Solutions
  - ESRI ArcGIS Implementation – Power Delivery Engineering
  - Access Control and Video Management System – Security
  - Energy Management System Replacement – Power Delivery Control Systems
  - Network Core Replacements – IT Operations
  - Data Management and Modeling – IT
  - Maximo Upgrade – IT

# 2020 Electric System Capital Plan – Load Growth



- Forecast over Forecast, The Growth Rate increases by 0.7% for 2020-2029, 2020-2024 = -0.1% / 2025-2029 = 1.4%
- 2020-2022: Growth Rates Fall relative to the 2019 Forecast
- 2023-2025: Growth Rate Increase – Associated with New Large Customers



# Priest Rapids Project Capital:

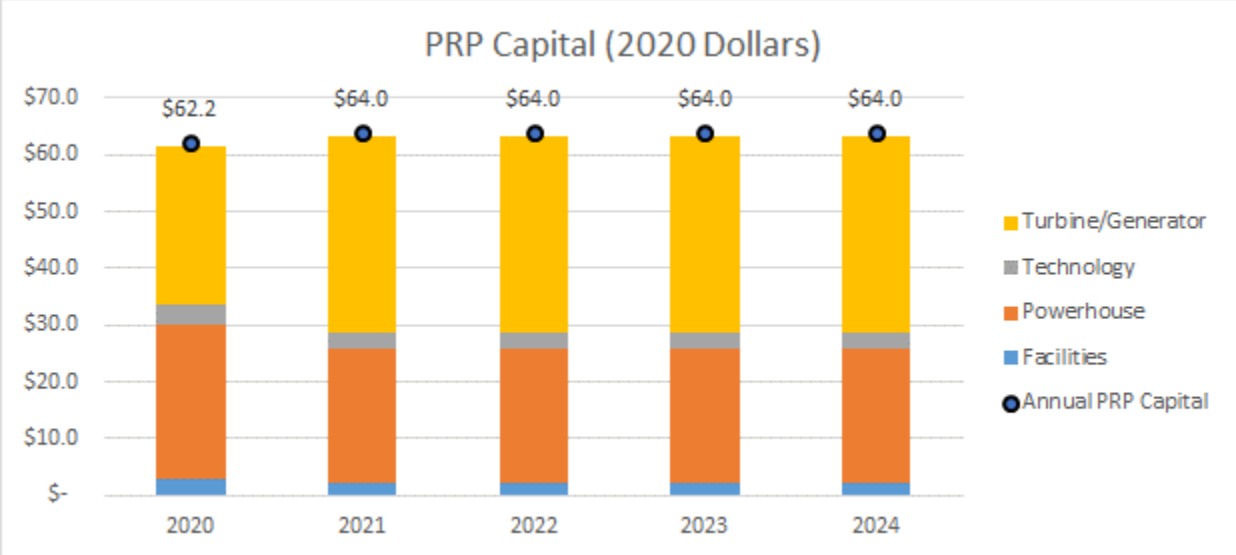
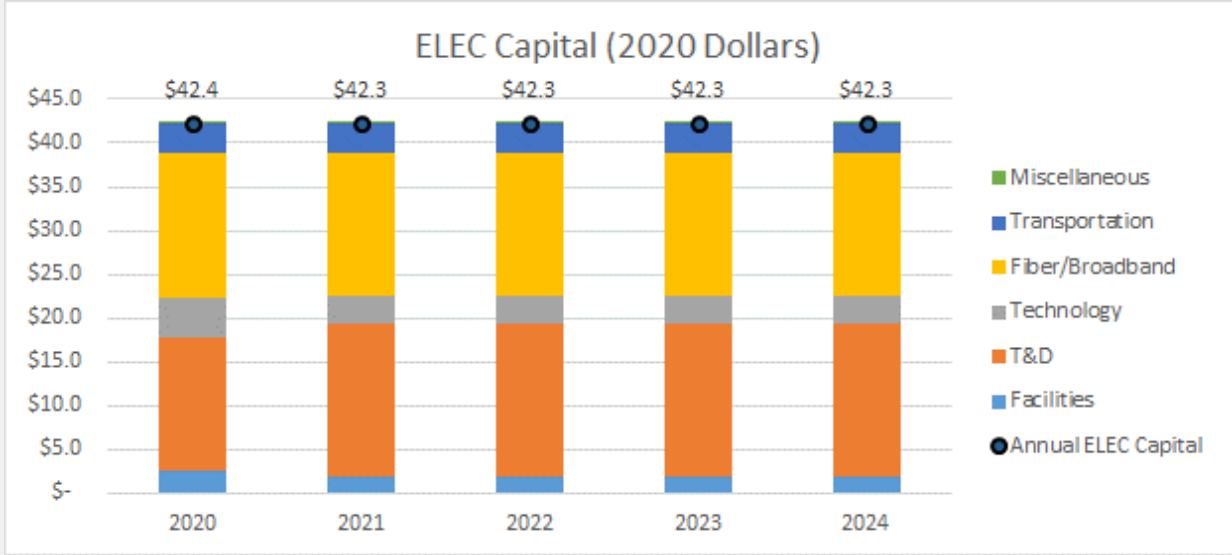
**\$63** Million in 2020.

Largest projects:

1. Priest Rapids Embankment Improvements (\$20.7M)
2. Priest Rapids Turbine Upgrade (\$20.0M)
3. Wanapum & Priest Rapids Generator Upgrade (\$7.7M)
4. Wanapum & Priest Rapids Powerhouse Improvements (\$3.3M)
5. Priest Rapids Spillway Improvements (\$1.9M)

Note: Costs exclude Internal Labor

# 5-Year Capital Plan by System



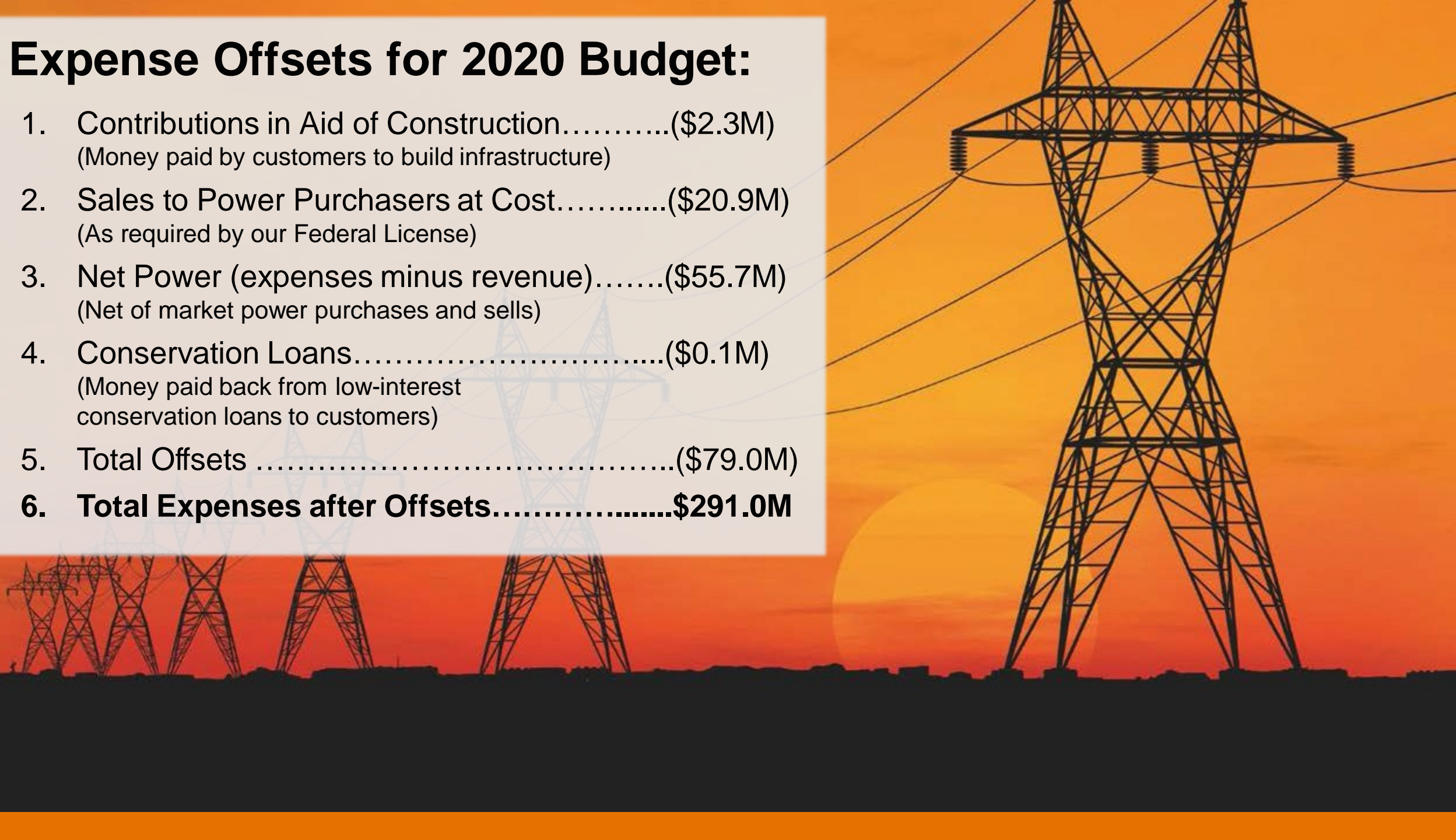
2020-2024 Capital Expenditure (Directs \$M)	
Use of Funds	
Facilities (5%)	\$ 9.6
T&D (40%)	\$ 85.4
Technology (8%)	\$ 17.4
Fiber/Broadband (39%)	\$ 82.1
Transportation (8%)	\$ 16.5
Miscellaneous (.3%)	\$ 0.7
<b>TOTAL</b>	<b>\$ 211.7</b>

2020-2024 Capital Expenditure (Directs \$M)	
Use of Funds	
Facilities (3%)	\$ 11.0
Powerhouse (39%)	\$ 123.3
Technology (4%)	\$ 13.7
Turbine/Generator (52%)	\$ 166.1
Miscellaneous (1%)	\$ 4.2
<b>TOTAL</b>	<b>\$ 318.3</b>

Note: T&D Category is NOT adjusted for estimated CIAC to reflect PUD portion of cost, \$'s reflect direct Costs excludes capitalized labor

# Expense Offsets for 2020 Budget:

1. Contributions in Aid of Construction.....(\$2.3M)  
(Money paid by customers to build infrastructure)
2. Sales to Power Purchasers at Cost.....(\$20.9M)  
(As required by our Federal License)
3. Net Power (expenses minus revenue).....(\$55.7M)  
(Net of market power purchases and sells)
4. Conservation Loans.....(\$0.1M)  
(Money paid back from low-interest  
conservation loans to customers)
5. Total Offsets .....(\$79.0M)
6. **Total Expenses after Offsets.....\$291.0M**



# Preliminary Budget Summary – Total Expenditures

<i>Exhibit A - Summary of Budget Items</i>	Actuals	Budget	Forecast	Budget					
<i>\$'s in millions</i>	2018	2019	2019	2020	2021	2022	2023	2024	
<b>TOTAL O&amp;M</b>	112,672	122,104	125,388	127,873	137,284	139,271	143,697	150,128	
<b>TAXES</b>	16,801	17,713	18,005	18,150	19,639	20,568	21,843	22,860	
<b>ELECTRIC CAPITAL</b>	43,967	63,276	53,128	61,318	59,573	60,762	66,577	63,417	
<b>PRP CAPITAL</b>	81,158	81,278	71,854	79,552	79,353	82,333	80,775	88,356	
<b>DEBT SERVICE (net of rebates)</b>	86,497	87,544	82,779	83,101	84,978	83,994	78,522	79,243	
<b>TOTAL EXPENDITURES</b>	341,095	371,913	351,154	369,994	380,827	386,928	391,413	404,004	
<b>Expenditure offsets for deduction</b>									
Contributions in Aid of Construction	(12,485)	(3,652)	(3,652)	(2,300)	(4,501)	(4,507)	(4,512)	(4,518)	
Sales to Power Purchasers at Cost	(31,611)	(26,365)	(29,355)	(20,892)	(12,959)	(13,396)	(13,243)	(13,991)	
Net Power (+ Expense, - Revenue)	(67,186)	(49,383)	(68,311)	(55,658)	(74,293)	(80,779)	(69,723)	(58,509)	
Conservation Loans	(94)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	
<b>TOTAL EXPENDITURE OFFSETS</b>	(111,375)	(79,526)	(101,444)	(78,975)	(91,878)	(98,807)	(87,603)	(77,143)	
<b>TOTAL BUDGETED EXPENDITURES</b>	229,720	292,388	249,710	291,018	288,950	288,121	303,810	326,861	

# Preliminary Budget Summary – Net Position & Key Metrics

<i>Exhibit B - \$'s in millions</i>		Actuals	Budget	Forecast	Budget	Forecast			
<b>CONSOLIDATED OPERATIONAL PERFORMANCE</b>		2018	2019	2019	2020	2021	2022	2023	2024
Sales to Power Purchasers at Cost		31,611	26,365	29,355	20,892	12,959	13,396	13,243	13,991
Retail Energy Sales **		201,391	211,334	211,150	220,504	243,614	257,449	276,981	292,602
Net Power (Net Wholesale+Other Power Revenue)		67,186	49,383	68,311	55,658	74,293	80,779	69,723	58,509
Fiber Optic Network Sales		8,260	8,900	9,200	9,762	10,668	11,537	12,419	13,217
Other Revenues		2,823	1,809	1,809	1,714	1,725	1,735	1,746	1,757
Operating Expenses		(112,672)	(122,104)	(125,388)	(127,873)	(137,284)	(139,271)	(143,697)	(150,128)
Taxes		(16,801)	(17,713)	(18,005)	(18,150)	(19,639)	(20,568)	(21,843)	(22,860)
<b>Net Operating Income(Loss) Before Depreciation</b>		<b>181,797</b>	<b>157,975</b>	<b>176,433</b>	<b>162,508</b>	<b>186,336</b>	<b>205,058</b>	<b>208,571</b>	<b>207,088</b>
Depreciation and amortization		(73,234)	(73,481)	(72,802)	(75,869)	(76,267)	(75,547)	(77,794)	(79,988)
<b>Net Operating Income (Loss)</b>		<b>108,563</b>	<b>84,493</b>	<b>103,630</b>	<b>86,639</b>	<b>110,069</b>	<b>129,510</b>	<b>130,777</b>	<b>127,100</b>
<b>Other Revenues (Expenses)</b>									
Interest, debt and other income		(31,195)	(30,188)	(31,679)	(25,920)	(28,912)	(28,006)	(27,318)	(26,634)
CIAC		12,485	3,652	3,652	2,300	4,501	4,507	4,512	4,518
<b>Change in Net Position</b>		<b>89,853</b>	<b>57,957</b>	<b>75,603</b>	<b>63,019</b>	<b>85,658</b>	<b>106,011</b>	<b>107,971</b>	<b>104,983</b>
	<b>Target</b>	<b>Actuals</b>	<b>Budget</b>	<b>Forecast</b>					
		<b>2018</b>	<b>2019</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>NET INCOME</b>		89,853	57,957	75,603	63,019	85,658	106,011	107,971	104,983
<b>LIQUIDITY (measured at year end)</b>									
Elect System Liquidity (Rev + R&C)	<b>\$105 MM</b>	159,201	111,386	111,285	113,411	115,579	117,791	120,047	122,348
Excess Liquidity		98,651	59,041	3,178	25	78	22	7	72
Days Cash On Hand	<b>&gt; 250</b>	827	576	386	372	347	347	340	331
<b>LEVERAGE</b>									
Consolidated DSC	<b>&gt;1.8x</b>	2.13	1.91	1.90	2.22	2.41	2.54	2.61	2.76
Consolidated Debt/Plant Ratio	<b>≤ 60%</b>	62%	60%	56.3%	55.0%	53.3%	51.2%	48.8%	47.2%
<b>PROFITABILITY</b>									
Cons. Return on Net Assets (chg. in net a:	<b>&gt;4%</b>	4.3%	2.7%	3.5%	2.8%	3.8%	4.5%	4.5%	4.2%
Retail Op Ratio (assumes baseline capital	<b>≤ 100%</b>	106%	107%	105%	106%	105%	100%	94%	92%

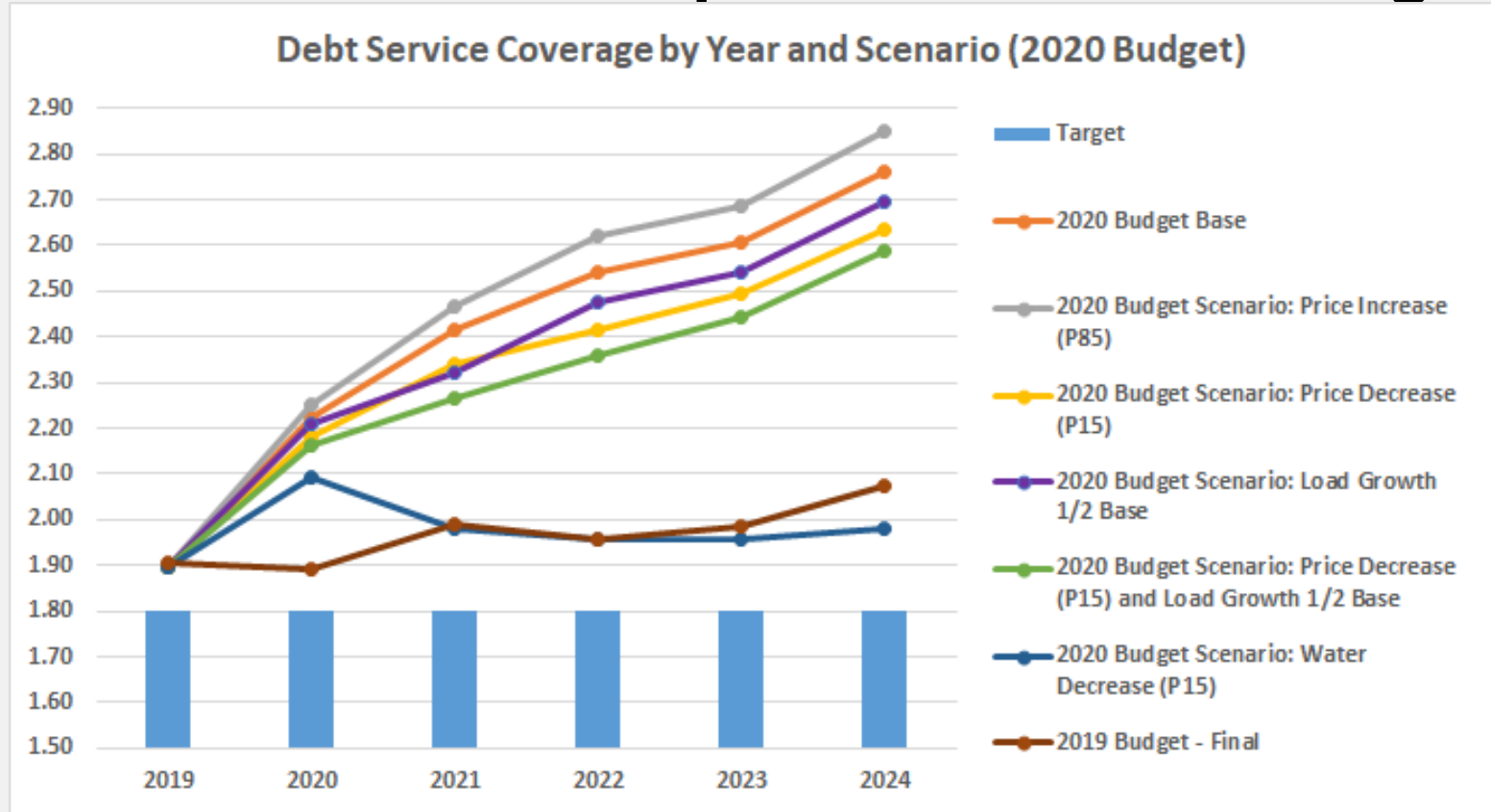
\*\* Annual Rate Adjustments set at 0.1% beginning 2020

# 04

## Appendix – Scenarios

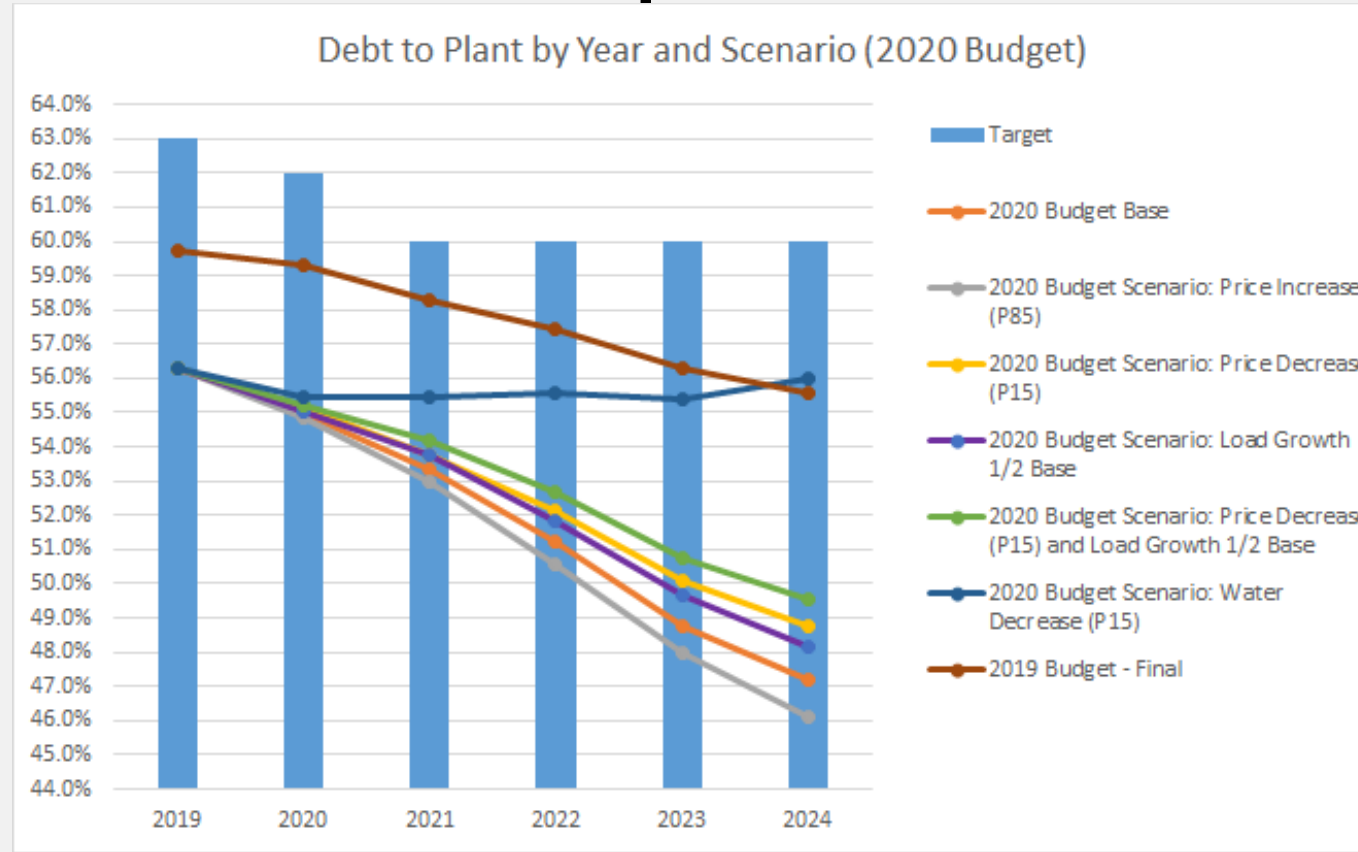
*Events that could have a significant impact on budget*

# Operational Scenarios – Comparison to Base Budget



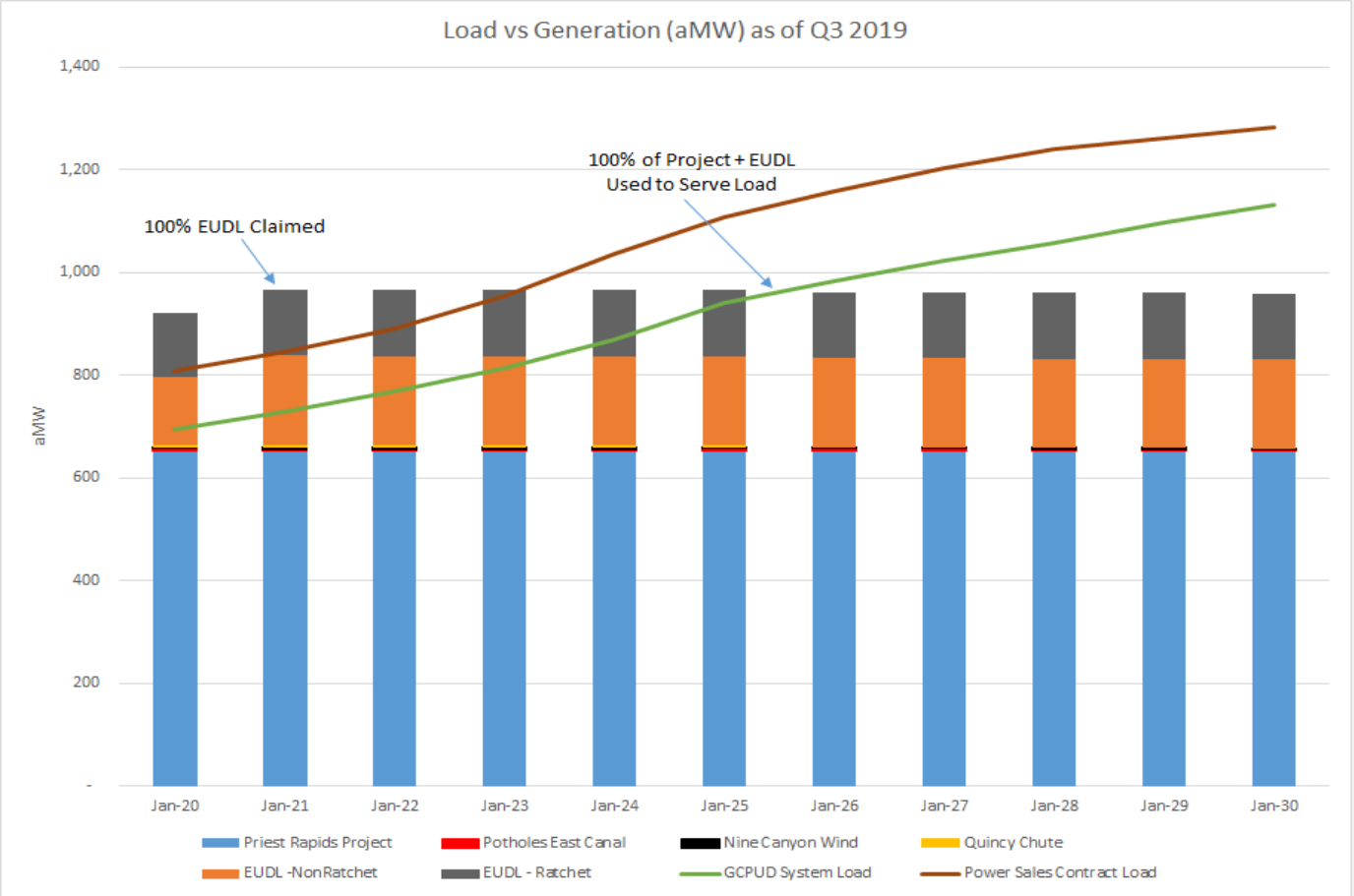
Debt Service Coverage (DSC)	2019	2020	2021	2022	2023	2024
<b>Target</b>	<b>1.80</b>	<b>1.80</b>	<b>1.80</b>	<b>1.80</b>	<b>1.80</b>	<b>1.80</b>
<b>2020 Budget Base</b>	1.90	2.22	2.41	2.54	2.61	2.76
<b>2020 Budget Scenario: Price Increase (P85)</b>	1.90	2.25	2.46	2.62	2.69	2.85
<b>2020 Budget Scenario: Price Decrease (P15)</b>	1.90	2.18	2.34	2.41	2.49	2.64
<b>2020 Budget Scenario: Load Growth 1/2 Base</b>	1.90	2.21	2.32	2.48	2.54	2.70
<b>2020 Budget Scenario: Price Decrease (P15) and Load Growth 1/2 Base</b>	1.90	2.16	2.27	2.36	2.44	2.59
<b>2020 Budget Scenario: Water Decrease (P15)</b>	1.90	2.09	1.98	1.96	1.96	1.98
<b>2019 Budget - Final</b>	1.91	1.89	1.99	1.96	1.99	2.07

# Operational Scenarios – Comparison to Base Budget



Debt to Net Plant	2019	2020	2021	2022	2023	2024
<b>Target</b>	<b>63.0%</b>	<b>62.0%</b>	<b>60.0%</b>	<b>60.0%</b>	<b>60.0%</b>	<b>60.0%</b>
<b>2020 Budget Base</b>	56.3%	55.0%	53.3%	51.2%	48.8%	47.2%
<b>2020 Budget Scenario: Price Increase (P85)</b>	56.3%	54.8%	53.0%	50.6%	48.0%	46.1%
<b>2020 Budget Scenario: Price Decrease (P15)</b>	56.3%	55.1%	53.8%	52.1%	50.1%	48.8%
<b>2020 Budget Scenario: Load Growth 1/2 Base</b>	56.3%	55.0%	53.8%	51.9%	49.6%	48.1%
<b>2020 Budget Scenario: Price Decrease (P15) and Load G</b>	56.3%	55.2%	54.2%	52.7%	50.8%	49.5%
<b>2020 Budget Scenario: Water Decrease (P15)</b>	56.3%	55.4%	55.4%	55.6%	55.4%	56.0%
<b>2019 Budget - Final</b>	59.7%	59.3%	58.3%	57.4%	56.3%	55.6%

# 2020 Priest Rapids Remaining Availability – Load Growth

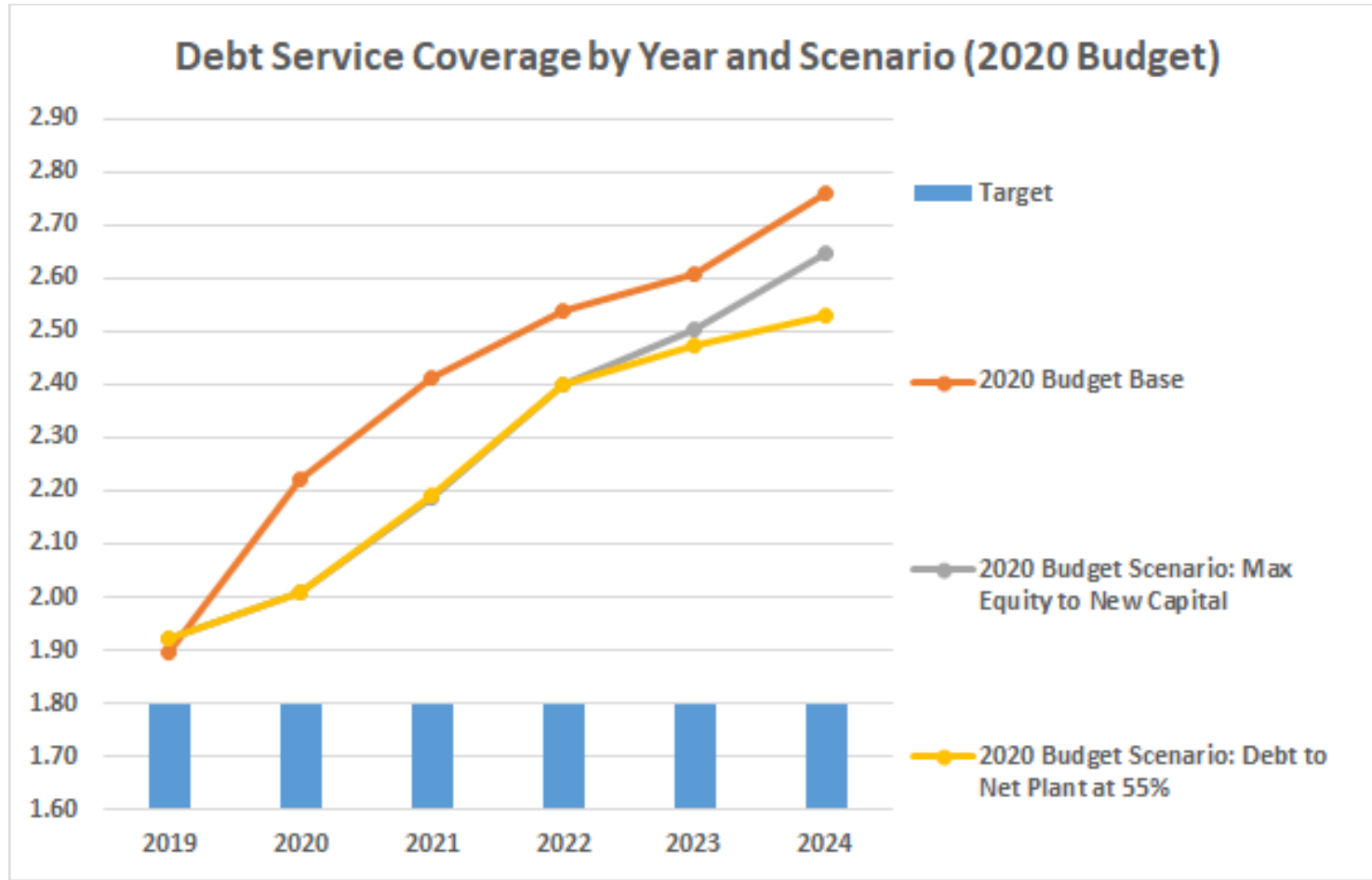


- Grant’s total rights (physical and financial) to the project are exhausted in 2021
- Grant only loads won’t surpass expected project capabilities until 2026

# Appendix – Financial Optimization

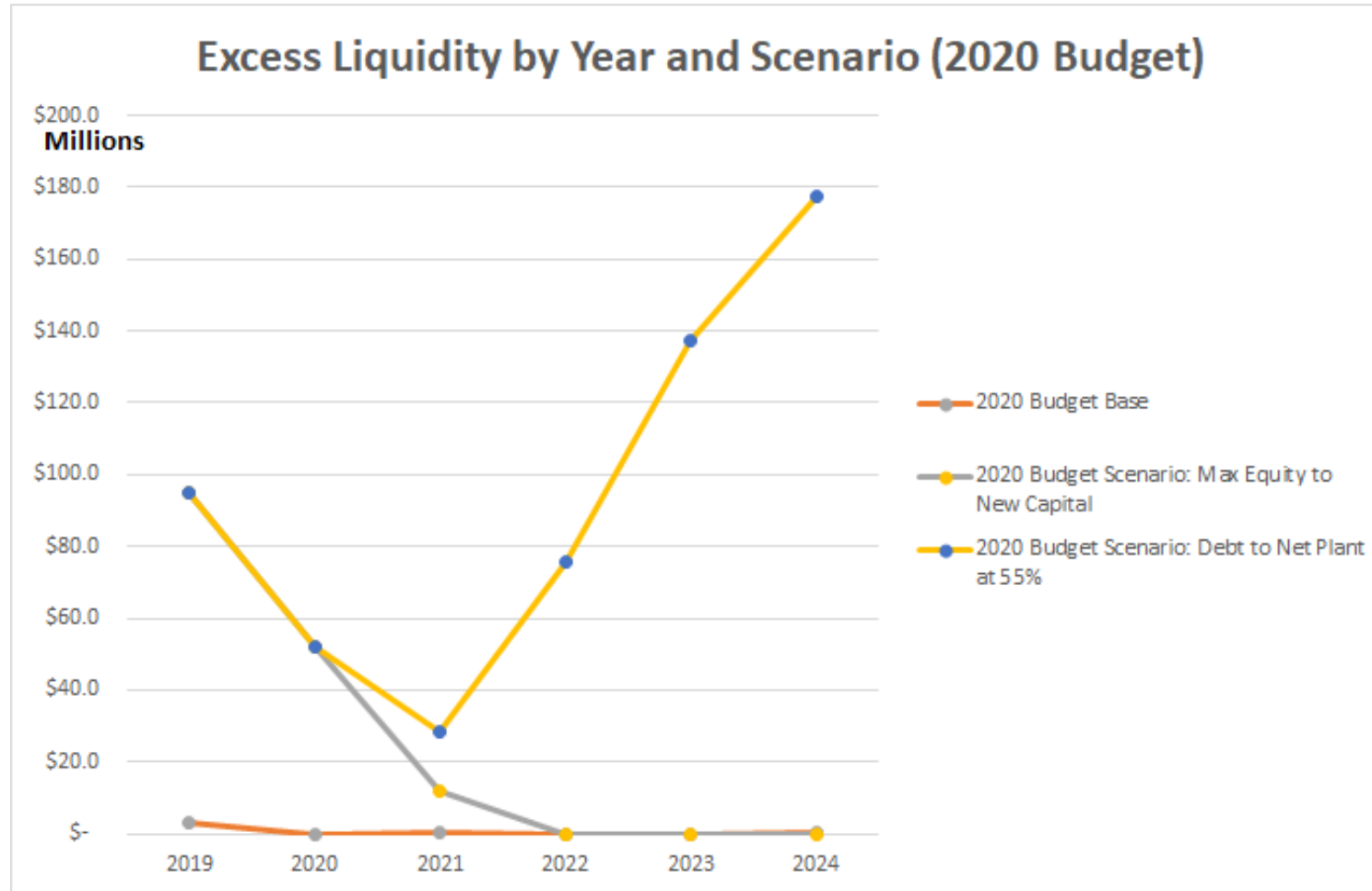
Change in Excess Liquidity	2019	2020	2021	2022	2023	2024	
<b>Scenario - 55% Debt to Net Plant</b>							
Annual Excess Cash Position	\$ 94,907,795	(43,081,501)	(23,422,560)	47,060,697	61,586,527	40,180,004	
<b>Cumulative Excess Cash Position</b>	<b>\$ 94,907,795</b>	<b>\$ 51,826,293</b>	<b>\$ 28,403,733</b>	<b>\$ 75,464,430</b>	<b>\$ 137,050,958</b>	<b>\$ 177,230,962</b>	
<b>Optimized</b>							
<b>Cumulative Excess Cash Position</b>	<b>\$ 3,178,265</b>	<b>\$ 25,012</b>	<b>\$ 77,546</b>	<b>\$ 22,188</b>	<b>\$ 6,851</b>	<b>\$ 71,814</b>	
<b>Net Change - Cumulative</b>	<b>\$ (91,729,530)</b>	<b>\$ (51,801,282)</b>	<b>\$ (28,326,187)</b>	<b>\$ (75,442,242)</b>	<b>\$ (137,044,107)</b>	<b>\$ (177,159,148)</b>	
Benefits	2019	2020	2021	2022	2023	2024	Total
Refunding - Both Scenarios	\$ -	\$ 5,860,659	\$ 1,918,663	\$ 1,921,330	\$ 1,914,855	\$ 1,916,096	\$ 13,531,603
<b>Benefits From Optimizing</b>							
Defeasance	\$ -	\$ 9,978,788	\$ 9,969,038	\$ 7,929,038	\$ 7,935,413	\$ 8,249,913	\$ 44,062,188
Cash Financing Capital *	\$ -	\$ (257,760)	\$ (1,701,089)	\$ (2,472,186)	\$ (376,036)	\$ 3,128,872	\$ (1,678,200)
Reduction: Investment Income Foregone **	\$ (2,104,142)	\$ (1,864,646)	\$ (1,100,963)	\$ (1,064,526)	\$ (1,986,885)	\$ (3,142,974)	\$ (11,264,135)
<b>Benefits From Optimizing</b>	<b>\$ (2,104,142)</b>	<b>\$ 7,856,382</b>	<b>\$ 7,166,985</b>	<b>\$ 4,392,326</b>	<b>\$ 5,572,492</b>	<b>\$ 8,235,810</b>	<b>\$ 31,119,853</b>
<b>Total Benefits</b>	<b>\$ (2,104,142)</b>	<b>\$ 13,717,040</b>	<b>\$ 9,085,648</b>	<b>\$ 6,313,656</b>	<b>\$ 7,487,347</b>	<b>\$ 10,151,906</b>	<b>\$ 44,651,455</b>
Change in Debt to Net Plant	2019	2020	2021	2022	2023	2024	
Scenario - 55% Debt to Net Plant	61.2%	57.9%	55.1%	55.0%	55.1%	55.1%	
Optimized	56.3%	55.0%	53.3%	51.2%	48.8%	47.2%	
<b>Net Reduction</b>	<b>4.9%</b>	<b>2.9%</b>	<b>1.8%</b>	<b>3.7%</b>	<b>6.3%</b>	<b>7.9%</b>	
Change in Debt Service Coverage	2019	2020	2021	2022	2023	2024	5 - Year Average
Scenario - 55% Debt to Net Plant	1.92	2.01	2.19	2.40	2.47	2.53	2.32
Optimized	1.90	2.22	2.41	2.54	2.61	2.76	2.51
<b>Net Improvement</b>	<b>0.02</b>	<b>0.21</b>	<b>0.22</b>	<b>0.14</b>	<b>0.13</b>	<b>0.23</b>	<b>0.19</b>
* Reduced debt service costs as a result of funding capital program with cash in place of issuing debt							
** Reduced investment income due to lower cash/investment balances as a result of the capital program being funded with excess cash balance							

# Financing Scenarios (Use of Cash) – Comparison to Base Budget



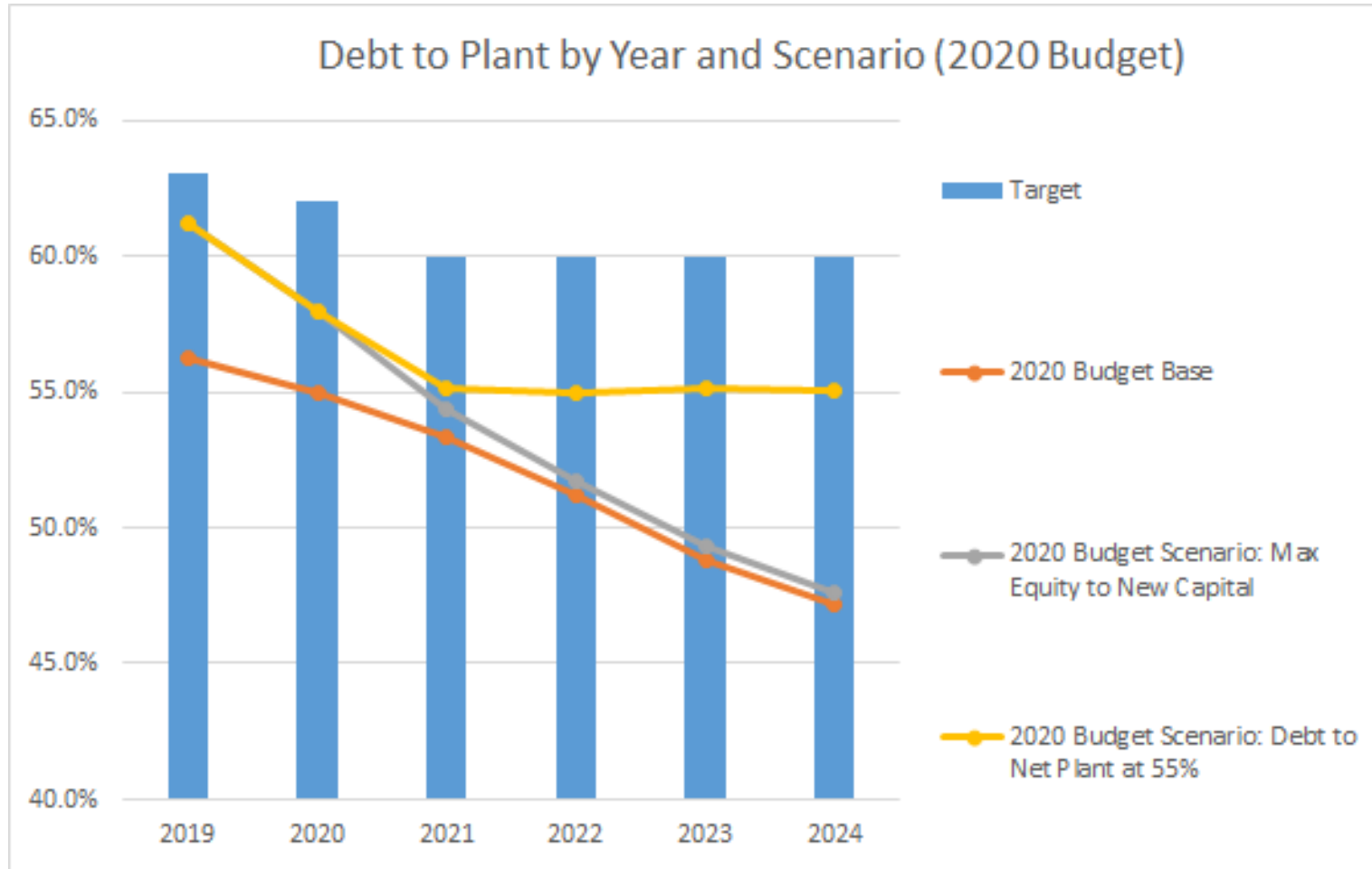
<b>Debt Service Coverage (DSC)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Target</b>	<b>1.80</b>	<b>1.80</b>	<b>1.80</b>	<b>1.80</b>	<b>1.80</b>	<b>1.80</b>
<b>2020 Budget Base</b>	1.90	2.22	2.41	2.54	2.61	2.76
<b>2020 Budget Scenario: Max Equity to New Capital</b>	1.92	2.01	2.19	2.40	2.50	2.65
<b>2020 Budget Scenario: Debt to Net Plant at 55%</b>	1.92	2.01	2.19	2.40	2.47	2.53

# Financing Scenarios (Use of Cash) – Comparison to Base Budget



<b>Excess Liquidity - figures in millions of USD</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>2020 Budget Base</b>	\$ 3.2	\$ 0.0	\$ 0.1	\$ 0.0	\$ 0.0	\$ 0.1
<b>2020 Budget Scenario: Max Equity to New Capital</b>	\$ 94.9	\$ 51.8	\$ 12.1	\$ 0.0	\$ 0.0	\$ 0.0
<b>2020 Budget Scenario: Debt to Net Plant at 55%</b>	\$ 94.9	\$ 51.8	\$ 28.4	\$ 75.5	\$ 137.1	\$ 177.2

# Financing Scenarios (Use of Cash) – Comparison to Base Budget



Debt to Net Plant	2019	2020	2021	2022	2023	2024
<b>Target</b>	<b>63.0%</b>	<b>62.0%</b>	<b>60.0%</b>	<b>60.0%</b>	<b>60.0%</b>	<b>60.0%</b>
<b>2020 Budget Base</b>	56.3%	55.0%	53.3%	51.2%	48.8%	47.2%
<b>2020 Budget Scenario: Max Equity to New Capital</b>	61.2%	57.9%	54.4%	51.7%	49.3%	47.6%
<b>2020 Budget Scenario: Debt to Net Plant at 55%</b>	61.2%	57.9%	55.1%	55.0%	55.1%	55.1%