

PUD BOC Financial Update & 2018 Budget Initial Planning

2 June 2017

AGENDA

- ▶ Financial Service Update
- ▶ Discussion of 2018 Budget
 - ▶ Current PUD Financial Policies
 - ▶ Planning for 2018
 - ▶ Costs; BPA; Personnel; Capital
 - ▶ Rate Increase for 2018
- ▶ PUD Board Guidance

Financial Service Update

Where we been and where we are going

2016 Financial Update

- ▶ 2016 Financials were submitted to the SAO = Saturday
 - ▶ State Audit Scheduled September-October
 - ▶ Accountability - Internal controls
- ▶ 2016 Form 7 was submitted to RUS end of March 2017 as required
 - ▶ RUS Field Accountant here next week to audit original grant funding
 - ▶ RUS General Field Representative - here two weeks ago
 - ▶ RUS cushion of account fund - 5% interest; RUS future borrowing - discussion with RUS
 - ▶ Will return to audit system
- ▶ Areas still being discussed
 - ▶ Accounting for Plant - RUS versus SAO; How to handle CIAC - RUS versus SAO

2018 BUDGET GUIDANCE

Initial Board Discussion

JPUD Budget Requirements

- ▶ RCW 84.52.020 - File Budget with County; November 30, 2017
- ▶ RCW 54.16.080 - Hearing 1st Monday in October
- ▶ RCW 54.16.080 - Budget on File 1st Monday in September
- ▶ RCW 54.24.080 - Rates fair and nondiscriminatory and adequate to provide revenues
- ▶ RUS Loan Agreements
 - ▶ TIER, OTIER, DSC, ODSC - ratio's (Form 7 - 31 March)
- ▶ PUD BOC Financial Policy

Review PUD BOC Financial Policy

- ▶ RUS Minimal Requirement
 - ▶ OTIER/ TIER 1.1/ 1.25
 - ▶ DSC/ ODSC - 1.25/ 1.1
- ▶ Reserves Accounts
 - ▶ Minimum 90 days of expenses on Planned year's Budget
 - ▶ 100%-125% of the established minimum level
 - ▶ *Water/Sewer - 90 days, plus largest critical failure, plus capital replacement*
 - ▶ *General Fund - ½ of annual amount*
- ▶ Borrowing - at least 60% from revenues
- ▶ County as PUD Ex-Official Treasurer
- ▶ Governmental Accrual basis of method of accounting.

Other PUD Policies – Allocation of Funds

- ▶ General Fund – Taxes – Policy is to Lower
 - ▶ Water/Electrical Resources – Peterson Lake
 - ▶ 2017 Budget Allocation – Telecom Start-up; Audit Expenses; Facility; Minutes
- ▶ Enterprise Funds Allocation
 - ▶ Electrical (83%)
 - ▶ Telecom – excess capacity
 - ▶ Water/Sewer (17%)
- ▶ Capital Budgets
 - ▶ Electrical
 - ▶ Water/Sewer

Budget - 2017

- ▶ Division of Funds
 - ▶ Electrical/Telecom
 - ▶ Water/Sewer
 - ▶ General Fund
- ▶ *Show Both as Cash and Accrual Method*
 - ▶ Depreciation - Interest and principal -Capital and Expense
- ▶ Budget Considerations
 - ▶ Predicted a negative cash flow of 1.6 million for Electrical; but predicted 1.6 million surplus on the accrual method
 - ▶ Water and General funds were break-even
 - ▶ TIER predicted at 1.47 - OTIER 1.129 (combined)

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General Ledger
Financial And Operating Report Electric Distribution

INCOME STATEMENT FOR APR 2017

| Item | Year - To - Date | | | Period - To - Date | |
|--|------------------|---------------|---------------|--------------------|--------------|
| | Last Year | This Year | Budget | Current | Budget |
| 1. Operating Revenue and Patronage Capital | 13,349,294.37 | 15,409,205.08 | 14,396,123.00 | 3,056,323.80 | 2,712,434.00 |
| 2. Power Production Expense | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 3. Cost of Purchased Power | 5,234,417.00 | 5,903,441.84 | 5,984,000.00 | 1,213,655.00 | 1,364,000.00 |
| 4. Transmission Expense | 642,766.93 | 736,577.83 | 785,664.00 | 128,537.06 | 161,016.00 |
| 5. Regional Market Expense | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 6. Distribution Expense - Operation | 305,704.31 | 240,901.37 | 321,110.00 | 55,268.91 | 74,987.00 |
| 7. Distribution Expense - Maintenance | 912,471.18 | 362,181.48 | 885,706.00 | 89,229.27 | 221,427.00 |
| 8. Customer Accounts Expense | 408,820.46 | 392,076.25 | 412,612.00 | 96,970.80 | 102,485.00 |
| 9. Customer Service and Informational Expense | 20,184.64 | 27,631.15 | 43,545.00 | 6,314.91 | 10,761.00 |
| 10. Sales Expense | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 11. Administrative and General Expense | 630,870.73 | 660,976.77 | 658,977.12 | 184,289.05 | 162,147.53 |
| 12. Total Operation & Maintenance Expense (2 thru 11) | 8,155,235.25 | 8,323,786.69 | 9,091,614.12 | 1,774,265.00 | 2,096,823.53 |
| 13. Depreciation & Amortization Expense | 1,656,986.80 | 1,670,714.41 | 1,555,632.00 | 418,463.50 | 388,908.00 |
| 14. Tax Expense - Property & Gross Receipts | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 15. Tax Expense - Other | 801,652.56 | 888,389.67 | 805,351.00 | 179,841.99 | 152,730.00 |
| 16. Interest on Long-Term Debt | 1,017,577.01 | 959,843.88 | 961,438.00 | 246,796.05 | 246,796.00 |
| 17. Interest Charged to Construction - Credit | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 18. Interest Expense - Other | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 19. Other Deductions | -2,255.79 | 730.00 | 166,668.00 | 450.00 | 41,667.00 |
| 20. Total Cost of Electric Service (12 thru 19) | 11,629,195.83 | 11,843,464.65 | 12,580,703.12 | 2,619,816.54 | 2,926,924.53 |
| 21. Patronage Capital & Operating Margins (1 minus 20) | 1,720,098.54 | 3,565,740.43 | 1,815,419.88 | 436,507.26 | -214,490.53 |
| 22. Non Operating Margins - Interest | 9,795.65 | 19,734.52 | 8,648.00 | 5,725.53 | 2,162.00 |
| 23. Allowance for Funds Used During Construction | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 24. Income (Loss) from Equity Investments | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 25. Non Operating Margins - Other | 137,959.26 | 352,549.42 | 115,100.00 | 136,357.24 | 28,775.00 |
| 26. Generation and Transmission Capital Credits | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 27. Other Capital Credits and Patronage Dividends | 9,350.37 | 16,611.40 | 0.00 | 0.00 | 0.00 |
| 28. Extraordinary Items | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 29. Patronage Capital or Margins (21 thru 28) | 1,877,203.82 | 3,954,635.77 | 1,939,167.88 | 578,590.03 | -183,553.53 |
| Operating - Margin | 1,720,098.54 | 3,566,020.43 | 1,815,419.88 | 436,507.26 | -214,490.53 |
| Non Operating - Margin | 157,105.28 | 388,615.34 | 123,748.00 | 142,082.77 | 30,937.00 |
| Times Interest Earned Ratio - Operating | 2.69 | 4.71 | | | |
| Times Interest Earned Ratio - Net | 2.84 | 5.12 | | | |
| Times Interest Earned Ratio - Modified | 2.84 | 5.10 | | | |

Cost Considerations 2018 Budget

Areas that effect Budget and require Board Direction

Cost Components of Budget

- ▶ Power - Transmission and Supply - BPA
- ▶ Debt - RUS/ other
- ▶ Taxes - B&O; City of PT; Privilege
- ▶ Depreciation -
- ▶ Operations and Maintenance - A & G - Customer Accounts
 - ▶ Personnel
 - ▶ Contractors - Tree Trimming
 - ▶ Vendors - Material
 - ▶ Venders
 - ▶ Memberships
- ▶ Capital Budget

BPA Rate Increase

- ▶ Originally Projected at 2.3 for Supply and 1% for Transmission: 3% for JPUD
- ▶ BP-16 = \$ 16,119,600; BP-18 = \$ 16,580,897 delta - \$ 450,000 increase
- ▶ Likely will be higher, plan on 5% - 16,925,000 delta \$ 800,000 increase
- ▶ Potential increase to comply with court order spill - 2% with 5% will be 7% increase or a total increase of *1.13 Million dollars or 17,250,000 dollars*
- ▶ CRAC adjustment - will know soon if necessary probably not
- ▶ Year end true up of \$138,000 for excessive consumption for 2016
- ▶ Potential sell of BPA Transmission System
- ▶ Staff Recommendation: Project 7% increase in JPUD BPA costs for PB-18; assume CRAC will not happen or will be covered by reserves for only one year - 2017

BPA Power RIM - Summary tab

#N/A

| | | | | | | | | | | | | | | | |
|---|---------------|--------------|---------------|--------------|--------------|--------------|--------------|------------|--------------|--------------|------------|--------------|---------------|--|--|
| Rate Impact: JEFFERSON | BP-18 Initial | BP-16 Final | % Rate Impact | | | | | | | | | | | | |
| Tier 1 Effective Rate (\$/MWh) | \$ 39.49 | \$ 38.31 | 3.08% | | | | | | | | | | | | |
| TIER 1 POWER RATES (USING BP-18 LOAD FORECAST) | OCT | NOV | DEC | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | Annual | | |
| BP-18 Initial (\$/MWh) | \$ 39.63 | \$ 34.84 | \$ 35.99 | \$ 42.14 | \$ 46.87 | \$ 38.79 | \$ 39.62 | \$ 31.52 | \$ 41.41 | \$ 42.93 | \$ 39.56 | \$ 41.69 | \$ 39.49 | | |
| BP-16 Final (\$/MWh) | \$ 38.35 | \$ 34.37 | \$ 35.57 | \$ 39.87 | \$ 43.22 | \$ 35.91 | \$ 40.25 | \$ 29.52 | \$ 38.47 | \$ 40.03 | \$ 39.04 | \$ 43.86 | \$ 38.31 | | |
| DIFFERENCE: | \$ 1.28 | \$ 0.47 | \$ 0.42 | \$ 2.28 | \$ 3.66 | \$ 2.88 | \$ (0.62) | \$ 2.00 | \$ 2.94 | \$ 2.90 | \$ 0.52 | \$ (2.17) | \$ 1.18 | | |
| TIER 1 POWER CHARGES (USING BP-18 LOAD FORECAST) | OCT | NOV | DEC | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | Annual | | |
| BP-18 Initial (\$) | \$ 1,176,803 | \$ 1,306,173 | \$ 1,579,685 | \$ 1,810,643 | \$ 1,691,771 | \$ 1,426,567 | \$ 1,240,802 | \$ 879,419 | \$ 1,008,558 | \$ 1,048,877 | \$ 960,569 | \$ 1,028,161 | \$ 15,158,033 | | |
| BP-16 Final (\$) | \$ 1,138,853 | \$ 1,288,458 | \$ 1,561,411 | \$ 1,712,888 | \$ 1,559,788 | \$ 1,320,989 | \$ 1,260,310 | \$ 823,712 | \$ 936,963 | \$ 977,946 | \$ 947,925 | \$ 1,081,706 | \$ 14,705,304 | | |
| DIFFERENCE: | \$ 37,950 | \$ 17,715 | \$ 18,274 | \$ 97,755 | \$ 131,983 | \$ 105,578 | \$ (19,508) | \$ 55,707 | \$ 71,595 | \$ 70,931 | \$ 12,644 | \$ (53,545) | \$ 452,729 | | |

| BP-18 INITIAL LOAD FORECAST DATA USED TO CALCULATE RATE IMPACTS | | |
|---|---------------|---------------|
| | BP-18 Initial | BP-16 Final |
| Total Retail Load (aMW) | 43.820 | 43.820 |
| Avg Customer System Peak (MW) | 72.330 | 72.330 |
| Existing Resources | 0.000 | 0.000 |
| Above-RHWM Load | 0.000 | 0.000 |
| New Resources | 0.000 | 0.000 |
| Tier 2 | 0.000 | 0.000 |
| TOCA | 0.630970% | 0.510090% |
| CHWM | 45.847 | 45.847 |
| RHWM | 44.448 | 44.732 |
| RTISC | 6944.846 | 6983.085 |
| | BP-18 Initial | BP-16 Final |
| Composite Charge (% of System) | \$16,234,428 | \$15,101,688 |
| Non-Slice Charge | (\$2,895,516) | (\$2,245,020) |
| Net Customer Charge | \$13,398,912 | \$12,856,668 |
| Demand | \$1,428,778 | -\$1,392,233 |
| Load Shaping HUH | (\$254,495) | (\$45,694) |
| Load Shaping LLH | \$500,161 | \$407,742 |
| Load Shaping Total | \$245,666 | \$362,048 |
| Irrigation Rate Discount | \$0 | \$0 |
| Low Density Discount | \$0 | \$0 |
| REP Refund | \$0 | \$0 |
| EPP REC Charges | \$0 | \$0 |
| Load Shaping Charge True-Up | \$5 | \$94,355 |
| GTA Delivery | \$0 | \$0 |
| PBL Provided Reg. & Freq. Response | \$0 | \$0 |
| TSSA Real Power Losses | \$0 | \$0 |
| WECC Dues | \$0 | \$0 |
| Financial Reserves Policy | \$84,672 | \$0 |
| Transfer Reserves (Spinning + Supplemental) | \$0 | \$0 |
| Tier 1 Charges | \$15,158,033 | \$14,705,304 |
| Tier 1 Load (MWh) | 383,864 | 383,864 |
| Tier 1 Effective Rate (\$/MWh) | \$39.49 | \$38.31 |
| Tier 2 Short-Term | \$0 | \$0 |
| Tier 2 Load Growth | \$0 | \$0 |
| Tier 2 Load Growth Rate Billing Adjustment | \$0 | \$0 |
| Tier 2 Vintage (VR1-2014) | \$0 | \$0 |
| Tier 2 Vintage (VR1-2016) | \$0 | \$0 |
| Resource related charges (RSS, GMS, TSS, TCMS) | \$0 | \$0 |
| Tier 2 Vintage or New Resource Remarketing | \$0 | \$0 |
| TOTAL Power Charges | \$15,158,033 | \$14,705,304 |
| Total PF Load (Tier 1 and Tier 2) (MWh) | 383,864 | 383,864 |
| TOTAL Effective Rate (\$/MWh) | \$39.49 | \$38.31 |
| TOTAL Transmission Charges | \$1,422,864 | \$1,414,296 |
| TOTAL Power and Transmission Charges | \$16,580,897 | \$16,119,600 |

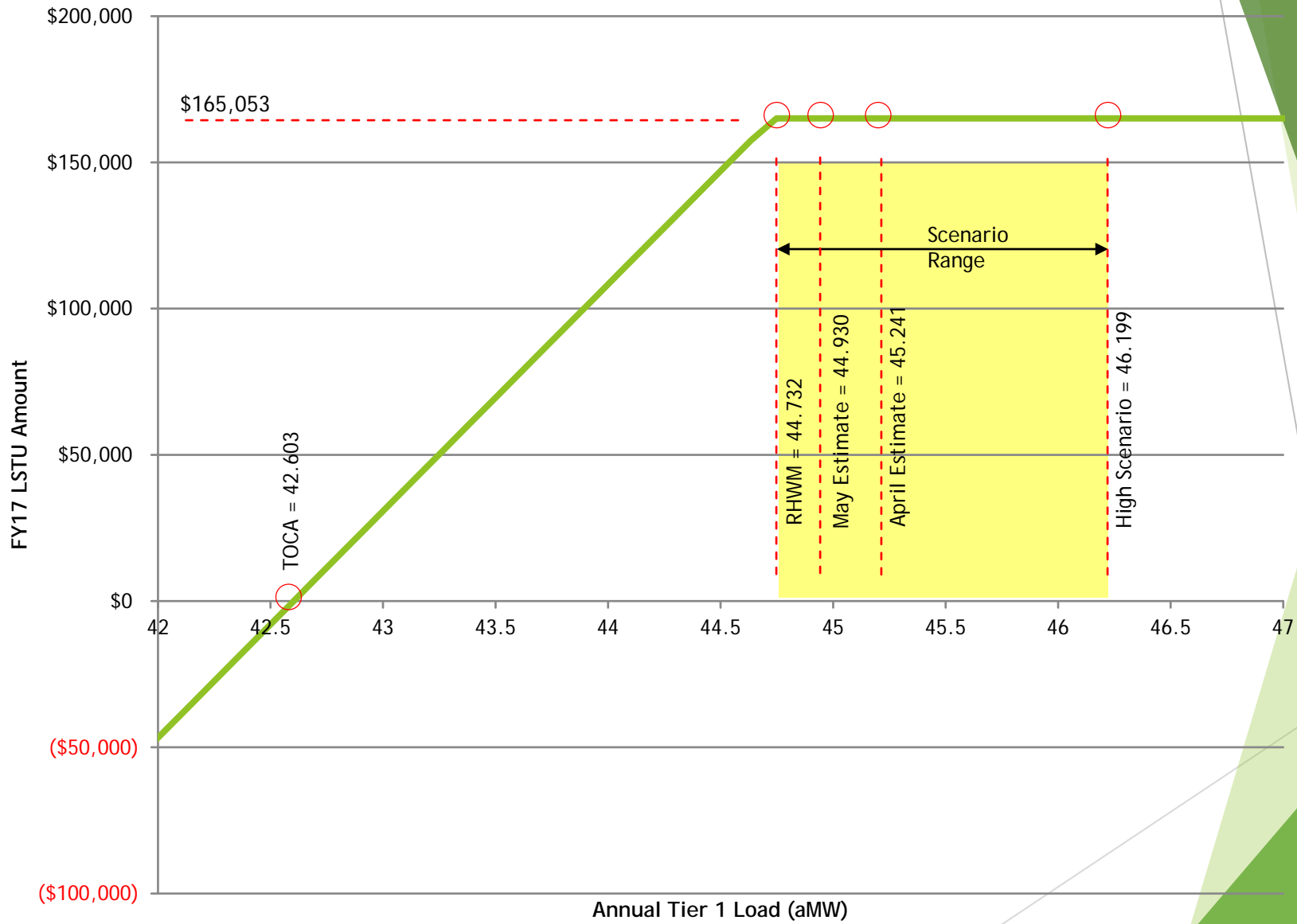
Customer Specific Info

Monthly Comparison

Charges Comparison

*For Illustrative Purposes Only. Actual charges will be determined based on Final Proposal rates.

Jefferson PUD: Tier 1 Load vs LSTU



Debt and Interest on Debt

- ▶ For Electric - around 6 million a year - ½ interest and ½ principal
- ▶ For General Fund - Peterson Lake
- ▶ For Water/Sewer - LUDs
- ▶ New Debt potential (increase interest and depreciation; but not expense)
 - ▶ New Facilities
 - ▶ Meter Replacement
 - ▶ Navy circuit - Substation
 - ▶ Water/sewer

Depreciation

- ▶ 2017 Budget - \$4,666,900 current rate is \$5,104,044
- ▶ Used for accrual method of accounting not cash method
- ▶ In calculating RUS Ratio's - capital costs (including Labor) are removed from Expenses - as are any principal payments but depreciation is treated as an expense
- ▶ RUS TIER Calculation: Interest (\$3M); TIER >1.25
 - ▶ TIER Margin = $(1.25 \times 3) - 3 = \$.75 \text{ M}$
- ▶ RUS OTIER Calculation:
 - ▶ OTIER Margin = $(1.1 \times 3) - 3 = \$.30 \text{ M}$

Taxes

- ▶ Tax are Function of Revenues
 - ▶ 2016 actual \$ 1,893,390; 2017 Budget \$ 1,918,186
- ▶ Electrical
 - ▶ Utility Tax - 3.873%
 - ▶ Privilege Tax - 2.14%
 - ▶ City of PT - 6%
- ▶ Water
 - ▶ Utility Tax
- ▶ Telecom
 - ▶ Utility Tax ?

Other Expenses

- ▶ Personnel
- ▶ Contractors
- ▶ Vendors
- ▶ Material
- ▶ Other
 - ▶ Communications
 - ▶ Training
 - ▶ Travel
 - ▶ Memberships

Other Expenses - Personnel

- ▶ 2016 Personnel Costs were \$ 4.5 million
- ▶ 2018 Personnel Costs projected at \$ *6.5 million*
 - ▶ Includes 3% COLA (2017/2018) - PERS up 1%
 - ▶ New Personnel - not in 2016 (water engineer, communications, HR*, controller*, CFO*, financial manager, Electrical PE*, Lead Foreman, telecom, SCADA, groundman, conservation specialist*, substation lineman, water/sewer)
 - ▶ Increased Medical and Benefits (used 5%)
 - ▶ New Benefits include deferred comp, retirement -

Other Expenses

- ▶ Contractors/Vendors - tree trimming - professional - routine -
- ▶ Materials/equipment
- ▶ Other: training, memberships, communications, travel, IT
- ▶ Telecom

Capital Costs - Work plan

- ▶ Capital Expenses -
- ▶ Budget
 - ▶ 2017 \$3,737,500: meters \$1,000,000; aging conductor \$554,500;
 - ▶ completion of irondale sub-station; US Navy improvements;
 - ▶ 2018 \$4,847,500
 - ▶ New Building (0.00)
 - ▶ Meters (currently \$ 1,200,000)
 - ▶ MI-II (not directly in budget)
- ▶ Depreciation. \$ 5,104,044

Electrical Revenues

- ▶ Our systems are heavy on residential home users and is heavy on a consumption charge - as result the weather plans a very critical role in our annual revenues.
- ▶ Electrical Revenues for the past 2 years are:
 - ▶ 2015 - \$ 32,002,337; 2016 - \$ 31,586,675
- ▶ Budget 2017 - 34,163,505 (includes 2,078,195 from rate increase)

Rate Study

ees

level of rate increase would result in a Debt Service Coverage Ratio of 1.4, which is a positive move towards financial stability.

In 2018 a 6.1% rate increase is proposed based on current projections. This would allow \$3.6 million of CIP to be funded through rates and another \$70,000 to be funded from reserves. Under this proposal the utility would meet a 1.6 Debt Service Coverage Ratio.

For 2019 and 2020, it is expected that much lower rate increases will be required to meet inflationary increases, including an expected BPA rate increase in October of 2019.

A summary of the draft cash basis revenue requirement is shown in Table 1.

| Table 1 | | | | |
|---|---------------------|---------------------|---------------------|---------------------|
| Summary of the Revenue Requirement | | | | |
| CY 2017-2020 | | | | |
| Revenues | 2017 | 2018 | 2019 | 2020 |
| Present Rate Revenues | \$31,577,158 | \$31,796,893 | \$31,878,911 | \$32,024,759 |
| Other Income | \$734,756 | \$753,125 | \$771,953 | \$791,252 |
| Total Revenues | \$32,311,914 | \$32,550,018 | \$32,650,864 | \$32,816,010 |
| Expenses | | | | |
| Generation | \$15,733,023 | \$16,362,854 | \$16,678,667 | \$17,555,556 |
| Transmission | \$72,224 | \$74,030 | \$75,880 | \$77,777 |
| Distribution | \$4,665,767 | \$4,782,411 | \$4,901,971 | \$5,024,521 |
| Customer Accounts and Services | \$1,330,850 | \$1,364,121 | \$1,398,224 | \$1,433,180 |
| Administration and General | \$1,770,049 | \$1,814,300 | \$1,859,658 | \$1,906,149 |
| Low Income Program | \$500,000 | \$500,000 | \$500,000 | \$500,000 |
| Capital Projects | \$3,737,500 | \$4,447,500 | \$5,046,040 | \$5,046,040 |
| Taxes | \$1,918,186 | \$1,966,141 | \$2,015,294 | \$2,065,677 |
| Interest and Debt Service | \$5,986,760 | \$5,986,760 | \$5,986,760 | \$5,986,760 |
| Total Expenses | \$35,714,359 | \$37,298,117 | \$38,462,495 | \$39,595,659 |
| Surplus (Deficiency) in Funds | -\$3,402,445 | -\$4,748,099 | -\$5,811,631 | -\$6,779,649 |
| Annual Required Increase (Decrease) | 10.8% | 4.2% | 3.3% | 2.9% |
| Proposed Increase (After Reserves) | 6.6% | 6.1% | | |

Changes

- ▶ Expenses:
 - ▶ BPA potentially 17,250,000 versus EES 16,363,000 - \$ 900,000 more
 - ▶ Personnel Costs could be million plus (6.5 versus 5.2) more than budgeted 2017 - \$1.3 million increase
 - ▶ Capital - new building; meters

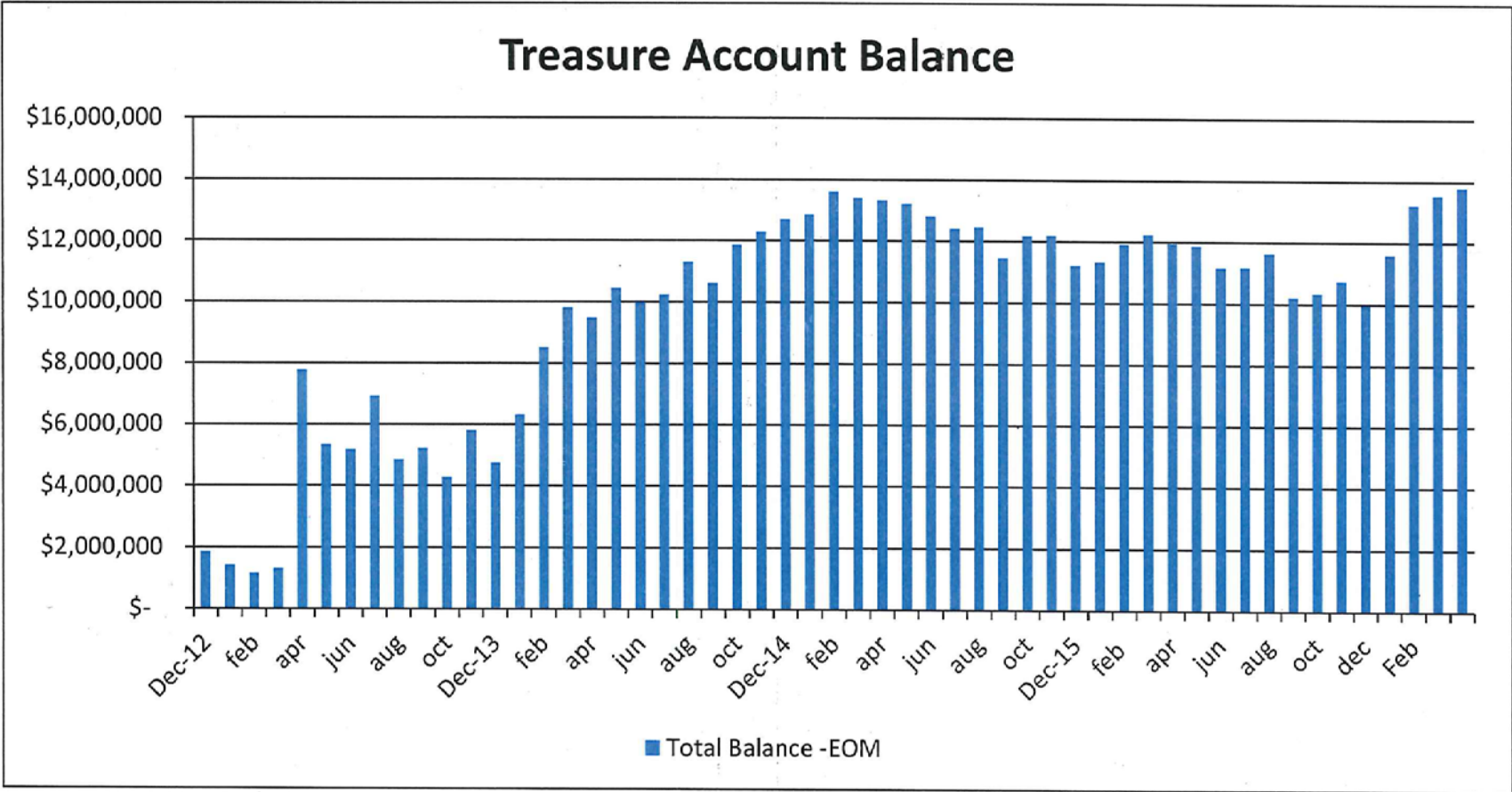
EES Rate recommendation

- ▶ Residential - base to 17.00 Jan 2018 (3.3%)
- ▶ General Service -
 - ▶ Schedule 24 - base to 19.00 Jan 2018 (3.4%)
 - ▶ Schedule 25 - demand to \$5.5 June 2018 and energy to 8.3/kWh (3.7%)
 - ▶ Schedule 26 - energy to 7.35/kWh June 2018 (5.1%)
 - ▶ Schedule 31 - demand to \$8.50 June 2018 and 7.25/kWh (5.1%)
 - ▶ Schedule 29 - energy 6.65 per kWh June 2018 (2.0%)
 - ▶ Schedule 43 - demand \$5.50/kW-month June 2018 (7.3%)
 - ▶ Lighting/PTP -

Reserves

Policy 100 to 125% of 3 month's annual budget - 9 to 11 million.

Reserve



Conclusions

- ▶ BPA rates are going up higher than expected for 2018-19
- ▶ PUD Personnel costs will be 2 million higher than 2016
- ▶ Current EES COS shows a need for increased revenues regardless of 1st two bullets
- ▶ Cold winter has help PUD increase reserves, but cannot count on cold weather (RUS) in the future
- ▶ PUD is on path to meet RUS ratio requirements for 2017
- ▶ PUD has not funded new building in any budget;

Questions



Where Next

