2020 Plan of Finance
Debt Portfolio Optimization

November 18, 2019

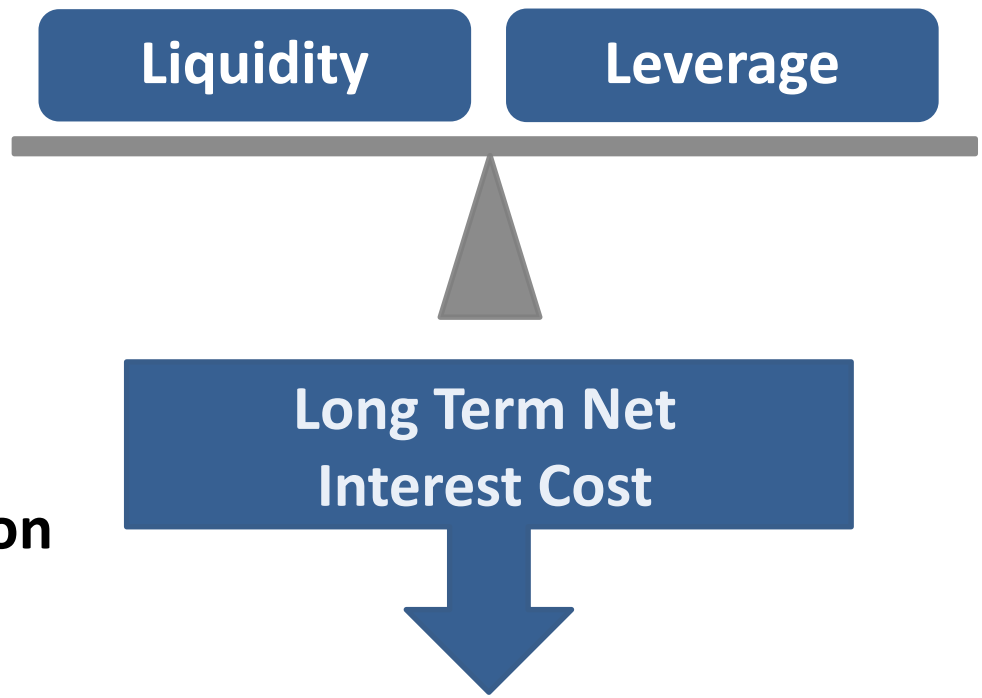
This document contains certain information which constitutes forward-looking statements. Such statements and projections are necessarily subject to various risks and uncertainties. Actual results could, and likely will, differ materially from those projected, in part as a result of differences between assumptions utilized in making such forward-looking statements and actual outcomes and certain other risks. Financial forecasts are as of September 2019.

Debt Philosophy

Manage debt to create financial flexibility that supports low and stable electric rates even if lower than expected financial results are experienced

Balancing Financial Health…

…Drives Portfolio Optimization



Strategic Priority 2: Sustaining excellent financial resiliency while mitigating the risk of large rate increases

Long Term Debt Planning Strategies Where Are We Today?

Financial Metrics

- Maintain liquidity balance greater of $175M or policy minimum
- Maintain debt leverage less than 35%

Planning and Forecasting

- Borrow for long-term sustainability, not temporary challenges
- Plan debt financings in 2 to 3-year intervals for cost-efficiency
- Utilize Debt Reduction and Capital Recovery Charges funding for Rocky Reach and Rock Island to the extent available, then establish contractual debt obligations first from internal unrestricted funds, if available, otherwise from external borrowings

Long Term Debt Planning Strategies
Opportunities for Action

Comprehensive, Proactive Plan of Finance

- Continue ongoing debt plan review to ensure right balance of liquidity and leverage
  - *For planning purposes, assume borrowing for electric modernization/expansion capital and continue to fund electric replacement capital through electric revenues*

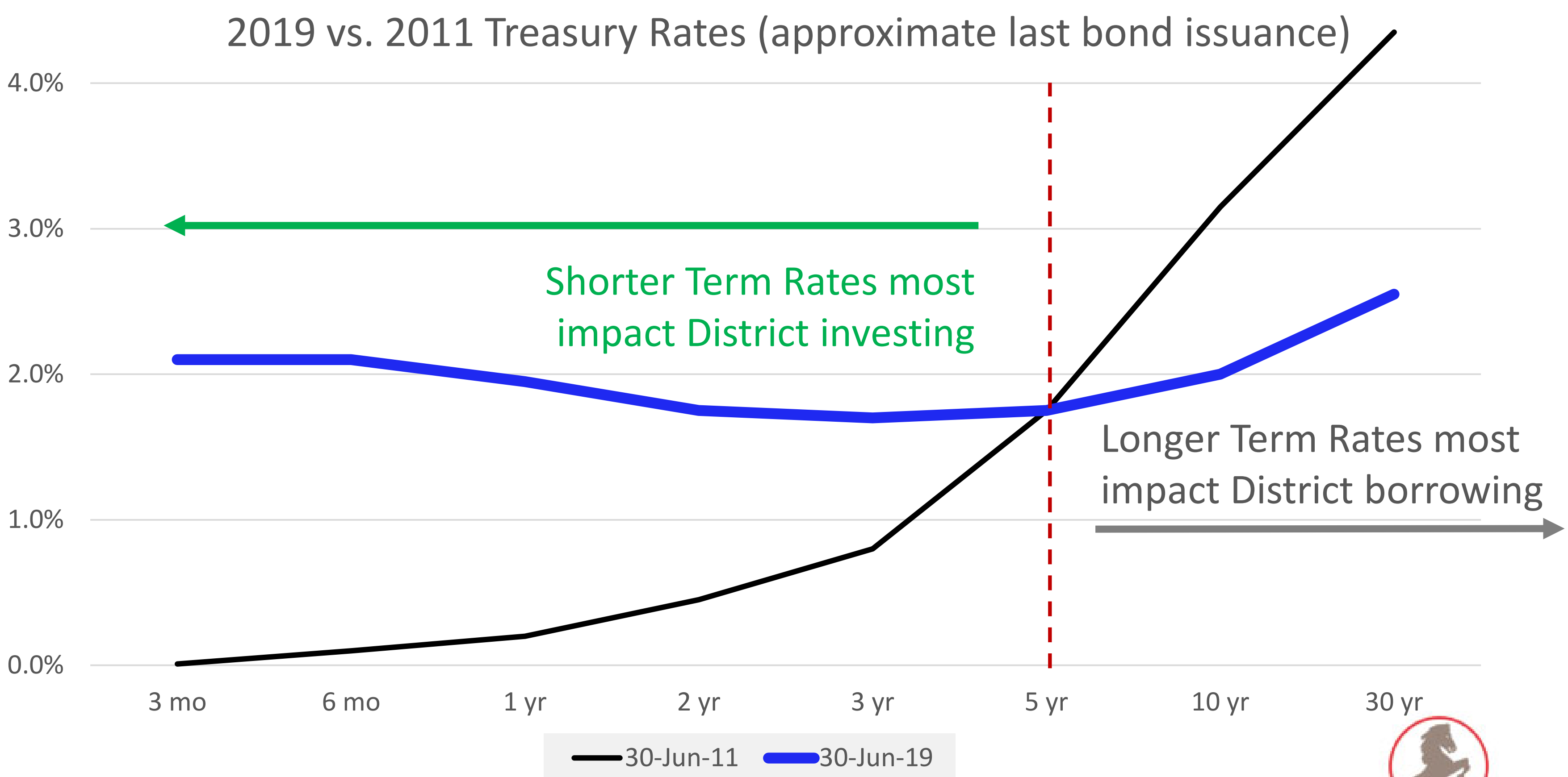
Leverage Market Conditions

- Monitor refinancing opportunities continually
  - *Manage to lowest net interest (interest expense minus interest income)*

Proposed 2020 Actions Support Both Strategies

Market Conditions

Unusually low long-term rates offer savings opportunities



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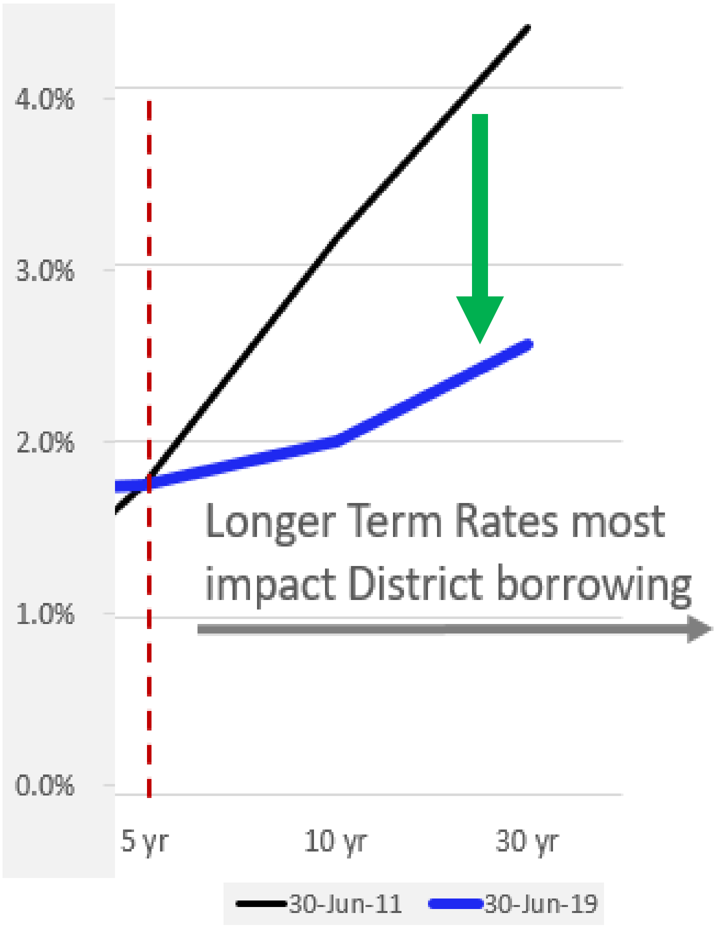
Traditional Refinancing Candidates



- Bonds issued over 10 years ago
- $45 million of par outstanding
- Current bond rates 4.5% - 5.0%
- Current market rates 1.5% - 3.0%
- Net Present Value Savings (NPV) range $5 million - $8 million
- Additional Benefits:
  - Fewer outstanding liens
  - Eliminates exposure to federal sequestration
  - Simplified administration

Proposed Action: Refinance ~$45M Higher Rate Bonds in Lower Rate Environment

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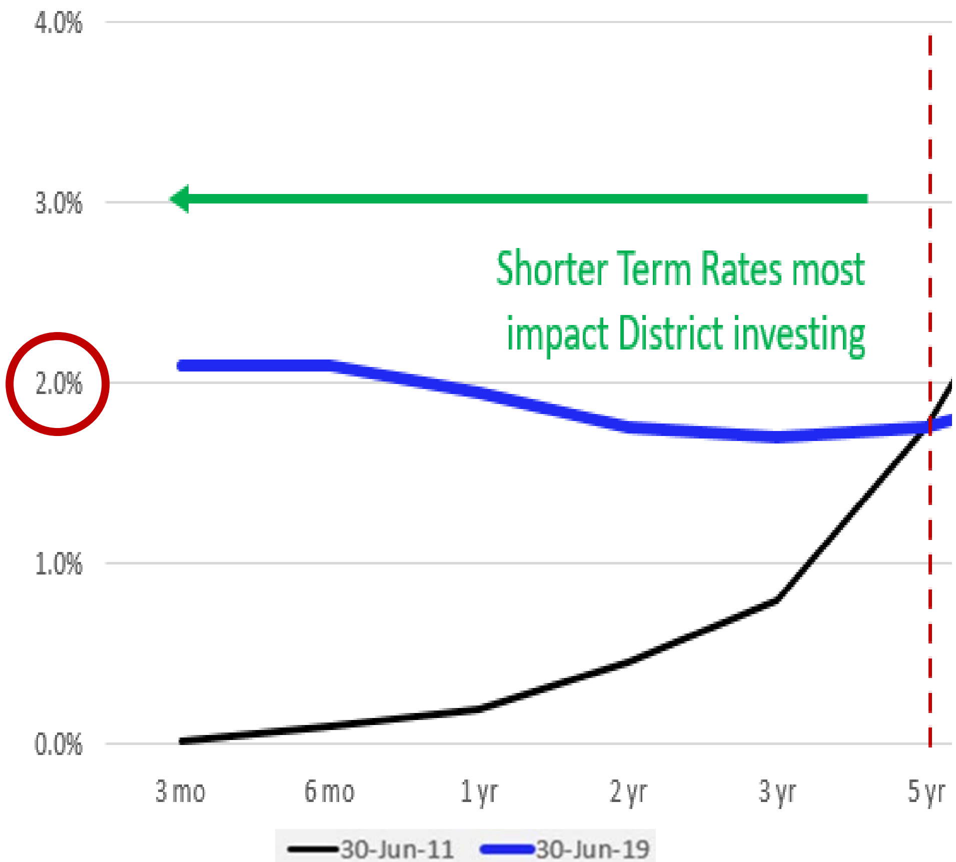
In Current Market: A Better Use of Cash?

Attractive environment for current borrowers **but not investors**



The District pays a "storage fee" for cash when existing bond rates are higher than investment rates

- Cash is necessary for liquidity needs: operating, planning and contingency reserves
- Some bonds are not able to be retired or refunded
- Actions to minimize gaps when economic and prudent

Proposed Action: Apply ~$85M Lower Yielding Available Liquidity to Retire Higher Rate Bonds

Proactive Capital Funding Strategies

How and When We Borrow Matters

- Debt Policy Guidelines
  - Capital investments have long-term benefits, costs can be allocated over time
  - Most cost effective means (structure, duration, tax advantages, interest rate environment)

Potential Tax-Exempt Eligible Projects	Estimated Costs	2020 – 2022 Funding Considerations	
Service Center	$120M	Not to Exceed $70M Combined	$50M already Board Designated
Distribution Expansion/ Modernization	$60M		Primarily new substations, AMI

Proposed Action: Borrow up to ~$70M for <u>Portion</u> of Long-Lived Assets in Low Rate Environment

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Optimized Debt Portfolio Impacts

Refinance Old	Payoff Old	Issue New	*Combined Potential NPV Savings*	
~$45M	~$85M	~$70M	*15%*	*$10M - $15M*

Current rates would have to more than double to eliminate savings

Combination of actions:

- Align with Debt Philosophy and Planning Strategies
- Reduce net interest costs and risks
- Better long-term financial result for customer-owners

Projected Impact of Actions Compared to Q3 2019 ***Base Case***		
Liquidity (>$175M)/DCOH (>250)	●	*Reduction in 2020-21, then neutral to positive*
Debt Leverage (<35%)	●	*Improves in 2020-21, then neutral to positive*
Debt Service Coverage (>2.0x)	↑	*Improves due to reduced debt service* *Less volatile post 2026*

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Reduced Net Interest Costs Support Resiliency

Improved results in both expected and unusual cases

Combination of actions support:

- Strategic Priority 2: Sustaining excellent financial resiliency while mitigating the risk of large rate increases
- Debt Philosophy:
  - — Creates financial flexibility
  - — Supports low and stable electric rates
  - — Even if lower than expected financial results are experienced

Projected Impact of Actions Compared to Q3 2019 ***Unusual Case***		
Liquidity (>$175M)/DCOH (>250)	●	*Reduction in 2020-21, then neutral to positive*
Debt Leverage (<35%)	●	*Improves in 2020-21, then neutral to positive*
Debt Service Coverage (>2.0x)	↑	*Improves due to reduced debt service* *Less volatile post 2026*

2020 Operational Plan of Finance: The “How”

Forecast Window	Activity	Action	Results End of Period	“Lower Results” Mitigation Tools
2020 Detailed Actions	Net Scheduled Principal* Early Retirements New Debt Refinancing Actions	$39M $85M $70M $45M	Par $404M Ratio 26%	Decrease cost growth Issue bonds Delay discretionary capital Incremental rate increases
2021 – 2024 General Steps	Net Scheduled Principal and Early Retirements* New Debt** Refinancing Actions	$158M $107M Monitor	Par $353M Ratio 21%	
2025 – 2027 Broad Path	Net Scheduled Principal and Early Retirements* New Debt** Refinancing Actions	$126M $100M Monitor	Par $327M Ratio 18%	

* Includes 2020 - 2025 early retirements 6 months in advance for savings and coverage support
**New bond issuances forecast to begin in 2022

Timeline to Pursue Debt Optimization

Dec 2 2019

- Consider Reimbursement Resolution for adoption
- Preserves flexibility, does not authorize issuance

Q1 2020

- Continued evaluation and discussion

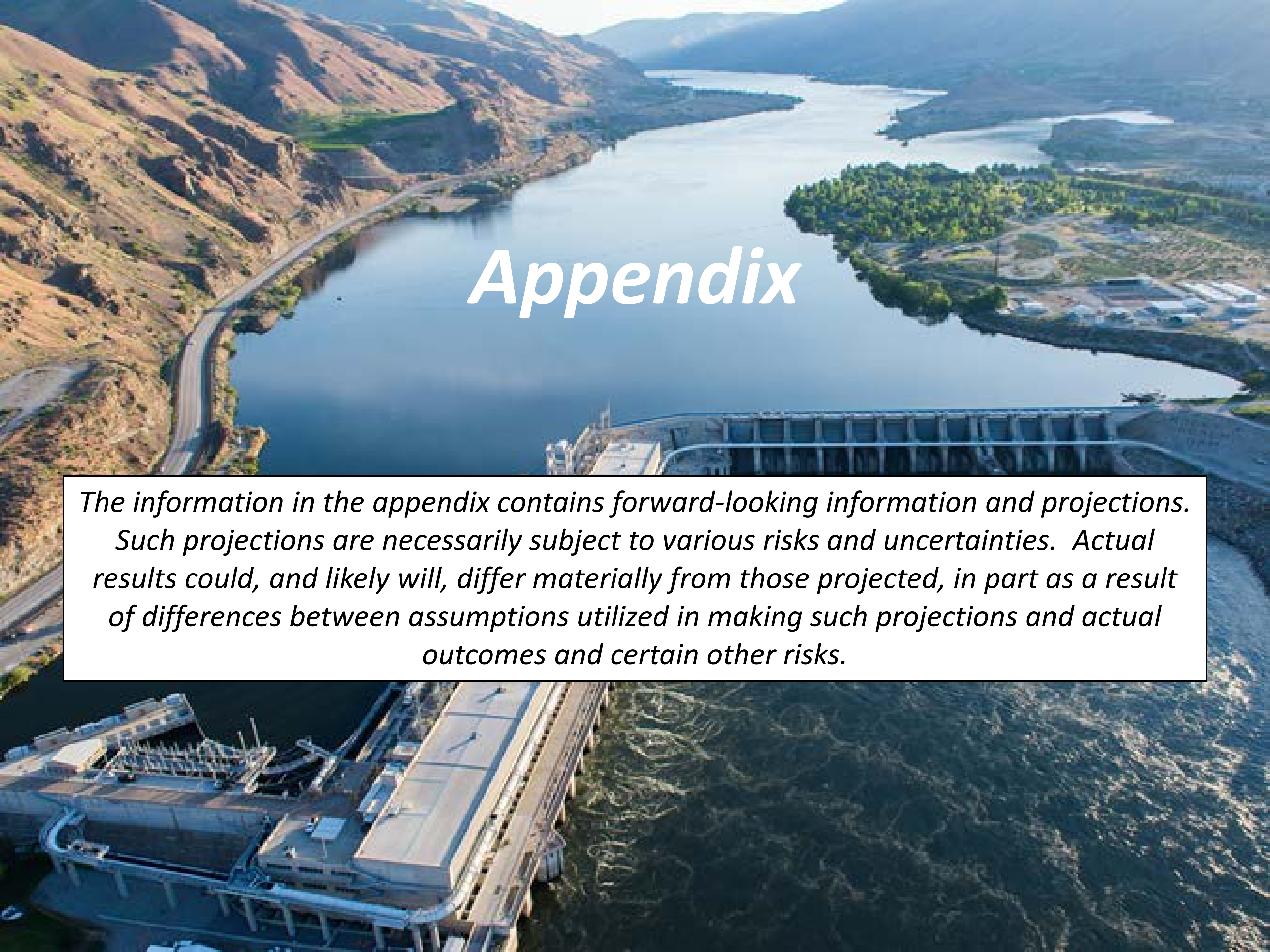
DECISION POINT – Go/No Go

April 2020

- If markets continue to be favorable…
- Consider Resolution to authorize refinance and issuance
- Payoff higher rate bonds

May 2020

- Publish offering documents with 2019 financials
- District markets and sells bonds



Appendix

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Financial Policy – Financial Liquidity & Days Cash on Hand

Methodology Per Resolution #17-14124

COMBINED	2020	2021	2022*	2023*	2024*
District Total Liquidity Targets	**$198**	**$198**	**$187**	**$185**	**$198**
Plan of Finance – expected (50% probability)	$331	$214	$191	$189	$202
Plan of Finance – unusual (10% prob. / cumulative)	$322	$203	$190	$188	$200
Change From Q3 2019 Financial Update	($80)	($35)	$ -	$ -	$ -
Days Cash on Hand Target	**>250**	**>250**	**>250**	**>250**	**>250**
Plan of Finance – expected (50% probability)	376	281	259	254	266
Plan of Finance – unusual (10% prob. / cumulative)	365	267	258	253	264
Change From Q3 2019 Financial Update	(108)	(46)	-	-	-

* Assumes external debt issuance for a portion of capital plan

Financial Policy – Debt Ratio
(Debt/(Debt + Equity))

COMBINED	2020	2021	2022*	2023*	2024*
District Targets	**<35%**	**<35%**	**<35%**	**<35%**	**<35%**
Outstanding Debt Balance ($M)					
Plan of Finance – expected (50% probability)	$404	$376	$384	$373	$353
Plan of Finance – unusual (10% prob. / cumulative)	$404	$381	$409	$419	$433
Change From Q3 2019 Financial Update	($30)	($16)	($3)	($4)	($5)
Plan of Finance – expected (50% probability)	26%	24%	24%	22%	21%
Plan of Finance – unusual (10% prob. / cumulative)	26%	24%	25%	25%	25%
Change From Q3 2019 Financial Update	(1%)	(1%)	-	-	-

* Assumes external debt issuance for a portion of capital plan

Financial Policy – Debt Service Coverage

(Net Funds from Operations/Computed Debt Service)

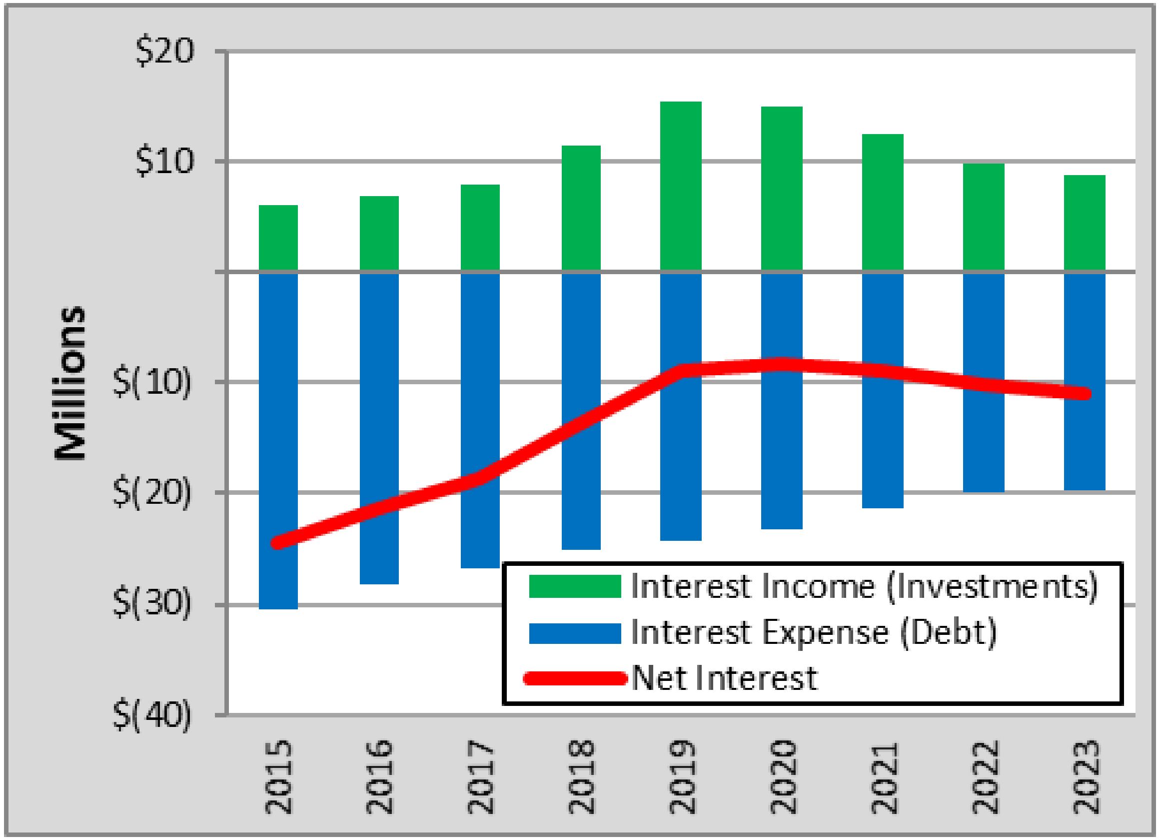
COMBINED	2020	2021	2022*	2023*	2024*
District Targets (expected)	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**
District Targets (unusual)	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**
Plan of Finance – expected (50% probability)	2.5	3.0	3.2	2.5	2.7
Plan of Finance – unusual (10% prob. / cumulative)	2.3	2.8	2.9	2.0	1.9
Change From Q3 2019 Financial Update	-	0.8	0.9	-	0.1

* Assumes external debt issuance for a portion of capital plan

Net Interest Expense

Reducing net interest expense (interest income – interest expense) reduces rate pressure

- Interest income is forecast to decline slightly due to lower cash balances and interest rates
- Reducing interest expense through debt portfolio optimization supports lower net interest expense



Does not include 2020 Plan of Finance

Finance Team

Kelly Boyd	Chief Financial/ Risk Officer
Debbie Litchfield	Director of Treasury/Treasurer
Heather Irelan	Lead Treasury Analyst
Sarah Hale	Senior Treasury Analyst

Doug Goe	Bond Counsel
Greg Blonde	Bond Counsel
Christine Reynolds	Disclosure Counsel
John Stanley	Tax Counsel

Michael Berwanger	Financial Advisor
Jack Medall	Financial Advisor

Sean Keatts	Investment Banker
Chris Roberts	Investment Banker

Internal Working Group (ALCO Members)

Kelly Boyd, CFO/CRO
Debbie Litchfield, Treasury
Heather Irelan, Treasury
Sarah Hale, Treasury

Mark Mullins, ERM
Craig Kunz, ERM
Kurt Carlson, ERM
Ingrid Miller, ERM

Diane Syria, Accounting
Amy Smith, Accounting
Dave Nelson, Business Advisor
Lindsey Mohns, Business Advisor