



# Long Term Debt Philosophy 2016 – 2027

June 20, 2016



# Presentation Purpose

- No formal action requested today, but confirming that Board vision is reflected
- ✓ May 16, introduced draft Long Term Debt Philosophy and discussed key considerations
- ✓ June 6, discuss various scenarios which have informed Long Term Debt Philosophy and Planning Strategies development
- Today, seek Board support for the Long Term Debt Philosophy and Planning Strategies

# Long Term Debt Philosophy and Strategy

## Balancing Financial Health



Best supports doing the best, for the most, for the longest

# Scenario Analysis – Stress Case (“What-If”)

## Hold Cost Growth, Cut Capital and No Rate Increases

### Key Assumptions:

- Sustained low water and price (73% water, \$20/MWh)
- Accelerated debt reduction 2017 only
- Debt Issues early to mid 2020s for >50% of capital plan
  - *Capital plan reduced by average of \$30M/year (~35%)*
- Average annual O&M Growth Rate ~3%, no adder
- No Electric Rate increases (2027: 3.2¢/kwh, \$50/month)

### Projected Results 2020 - 2027

Liquidity (>\$175M)	●	Some pay-as-you-go capital
Debt Leverage (<35%)	●	<25%, ~\$250M
Debt Service Coverage unusual case (>1.25x)	●	Able to meet targets

**Significant capital reductions would be necessary to entirely eliminate incremental rate increases**

# Scenario Analysis – Expected Case (50%)

## Increase Capital and No Rate Increases

### Key Assumptions:

- Wholesale Prices as of Q4 2015 Forecast
- ***Accelerated debt reduction 2017 and 2018 only***
  - ***2019 debt reduction foregone due to capital increase***
- Debt Issues early to mid 2020s for <50% of capital plan
- Average annual O&M Growth Rate ~3%, no adder
- No Electric Rate increases (2027: 3.2¢/kwh, \$50/month)

### Projected Results 2020 - 2027

Liquidity (>\$175M)	●	Mix of pay-as-you-go and financed capital
Debt Leverage (<35%)	●	Continue decline to <20%, ~\$250M
Debt Service Coverage (>2.0x)	●	Maintaining above target

**Continued strong financial results forecast in the expected case, without electric rate action, even with increased capital costs**



# Long Term Debt Philosophy

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

# Long Term Planning Strategies

- Maintain liquidity balance > \$175M or policy minimum
- Target debt leverage < 35% by 2019 and remain below 35% thereafter
- Manage to lowest net interest (interest expense less interest income), refinancing opportunities continually monitored
- Execute planned accelerated reductions through 2019 as long as liquidity allows
- Plan “pay-as-you-go” renewal/replacement capital as long as liquidity allows
- Consider debt financing for modernization/expansion capital, when needed
- Borrow for long-term sustainability, not temporary challenges
- Plan debt financings in 2 to 3-year intervals for cost-efficiency
- Tool box includes slowing cost growth, delaying discretionary capital, modest electric rate increases over time, etc.

# Operational Plan of Finance: The “How”

**Review and revise at least annually and communicate during the business planning process**

Forecast Window	Debt Payments	Capital Funding	Stress Case Mitigation Tools
2016 Detailed Actions	As scheduled No early retirements	Pay-as-you-go No new issuances	N/A
2017 – 2020 General Steps	As scheduled Early retirements 2017 – 2019	Pay-as-you-go No new issuances Monitor refinance opportunities	Scale back early retirements  Decrease cost growth  Incremental rate increases
2021 + Beyond Broad Path	As scheduled No early retirements	Mix of: Pay-as-you-go New issuances	



# Next Steps



## Discuss

- June 6<sup>th</sup>: Discuss various scenarios which have informed Long Term Debt Philosophy development



## Confirm

- June 20<sup>th</sup>: Confirm Board Support of Long Term Debt Philosophy and Planning Strategies



## Update

- Fall 2016: As part of the business planning process, communicate Operational Plan of Finance, specific 2017 budget assumptions and general 2018 – 2021 plan