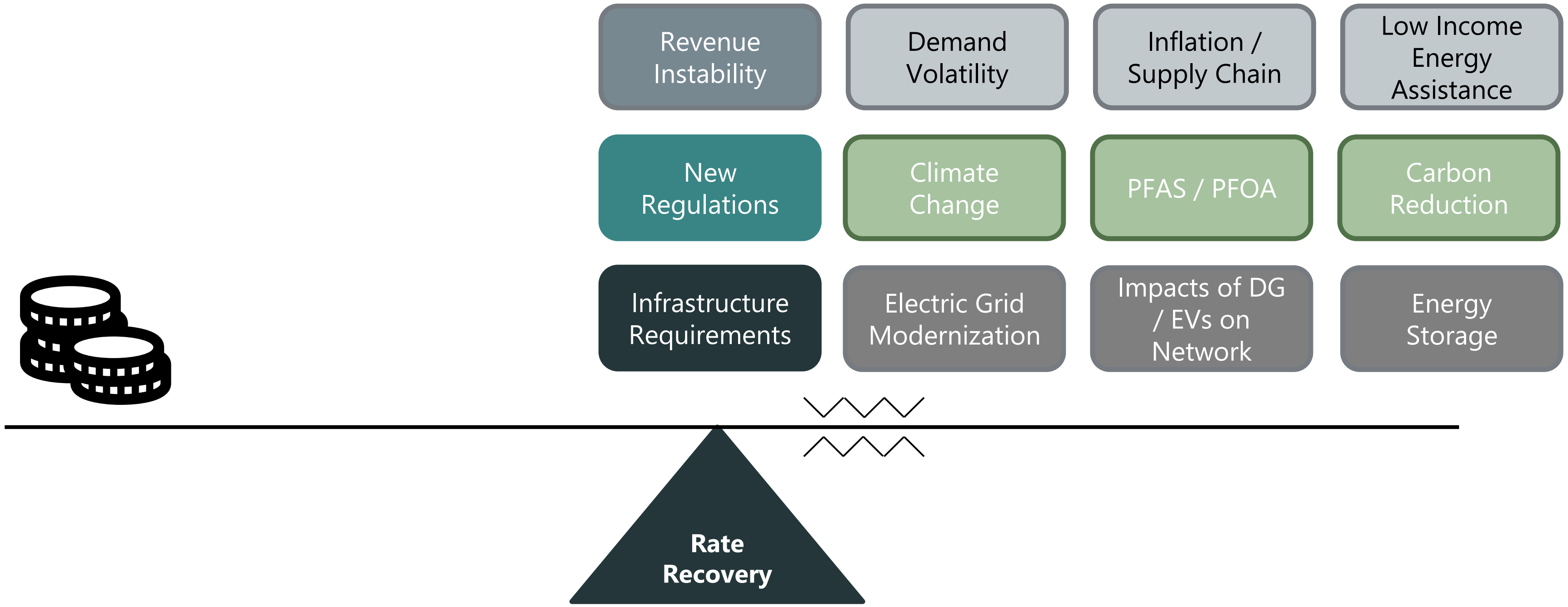
Electric System Revenue Requirement Forecast

Board of Commissioners Meeting

September 23, 2024

FCS
a Bowman company

Costs Are Increasing Faster Than Ever



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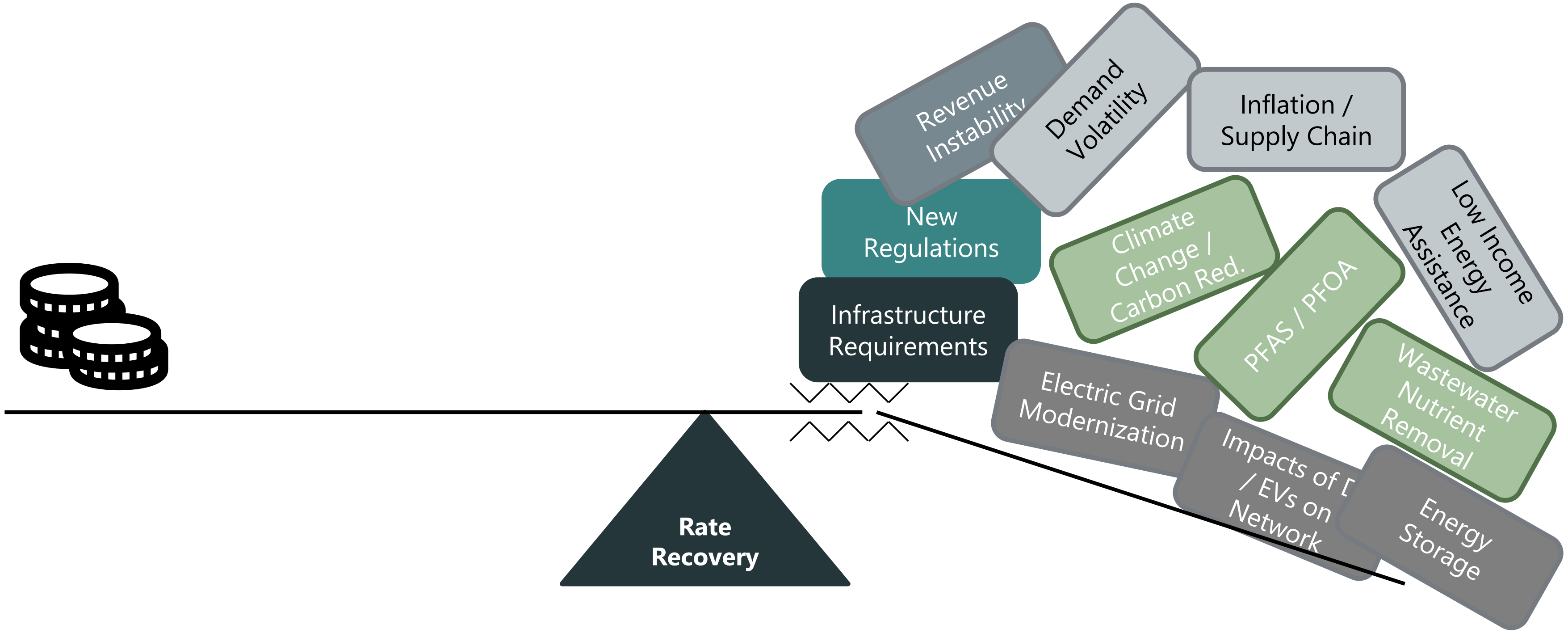
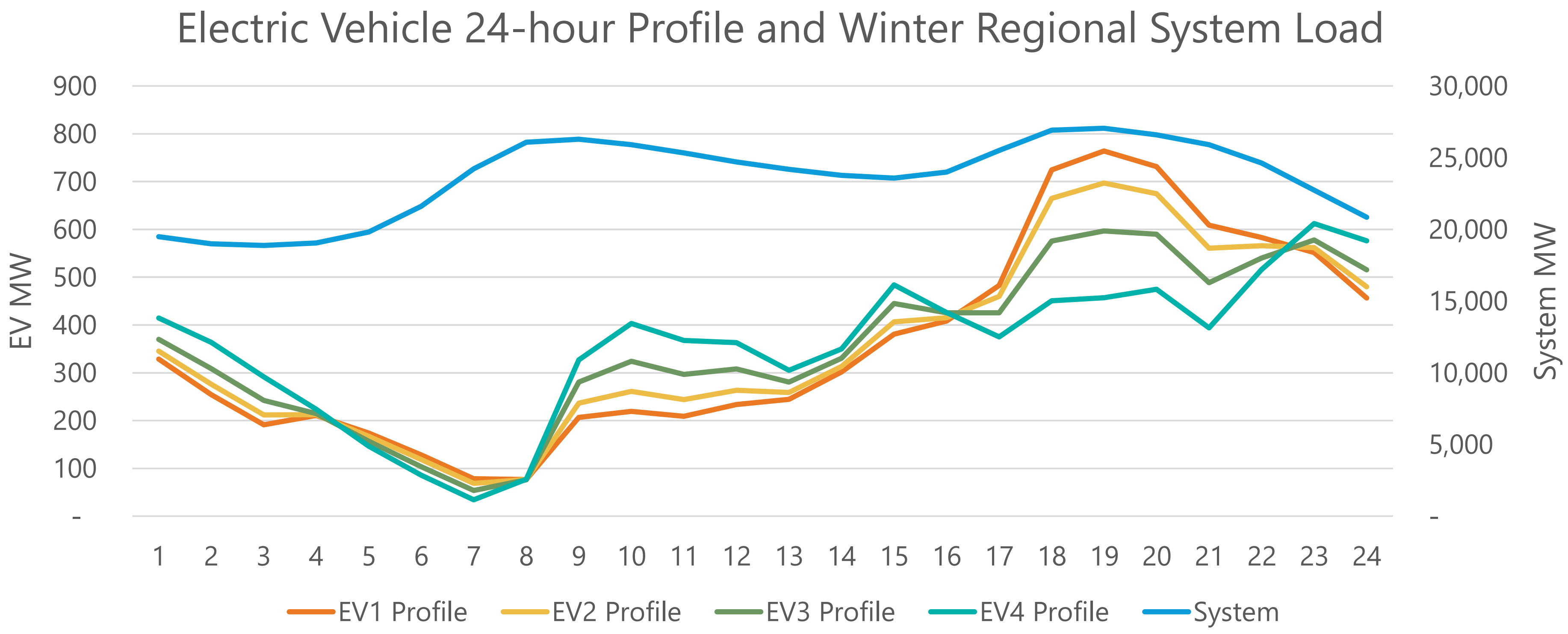


Trending Topics: New Regulations

- New regulation is shaping the future of utilities
  - » Electric utilities
    - – Zero-Emission Vehicles law (RCW 70A.30.010)
    - – Clean Energy Transformation Act (CETA RCW 19.405)
    - – ***Impacts***: added supply / generation constraints | impacts on distribution system capacity

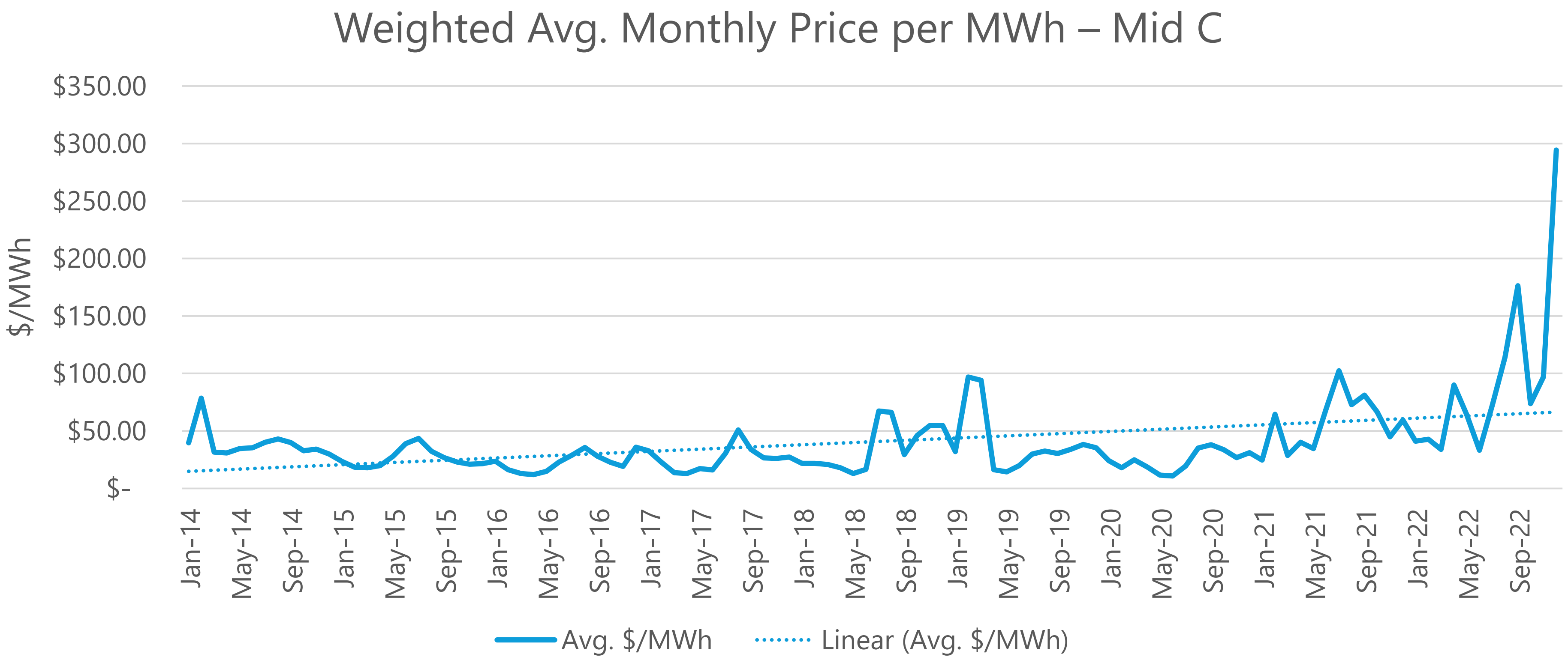
Trending Topics: Electric Vehicles



Source: Northwest Power & Conservation Council, Avista Corp's Electric Vehicle Supply Equipment Pilot Program

- Uncoordinated deployment will expedite the need to upsize your distribution systems

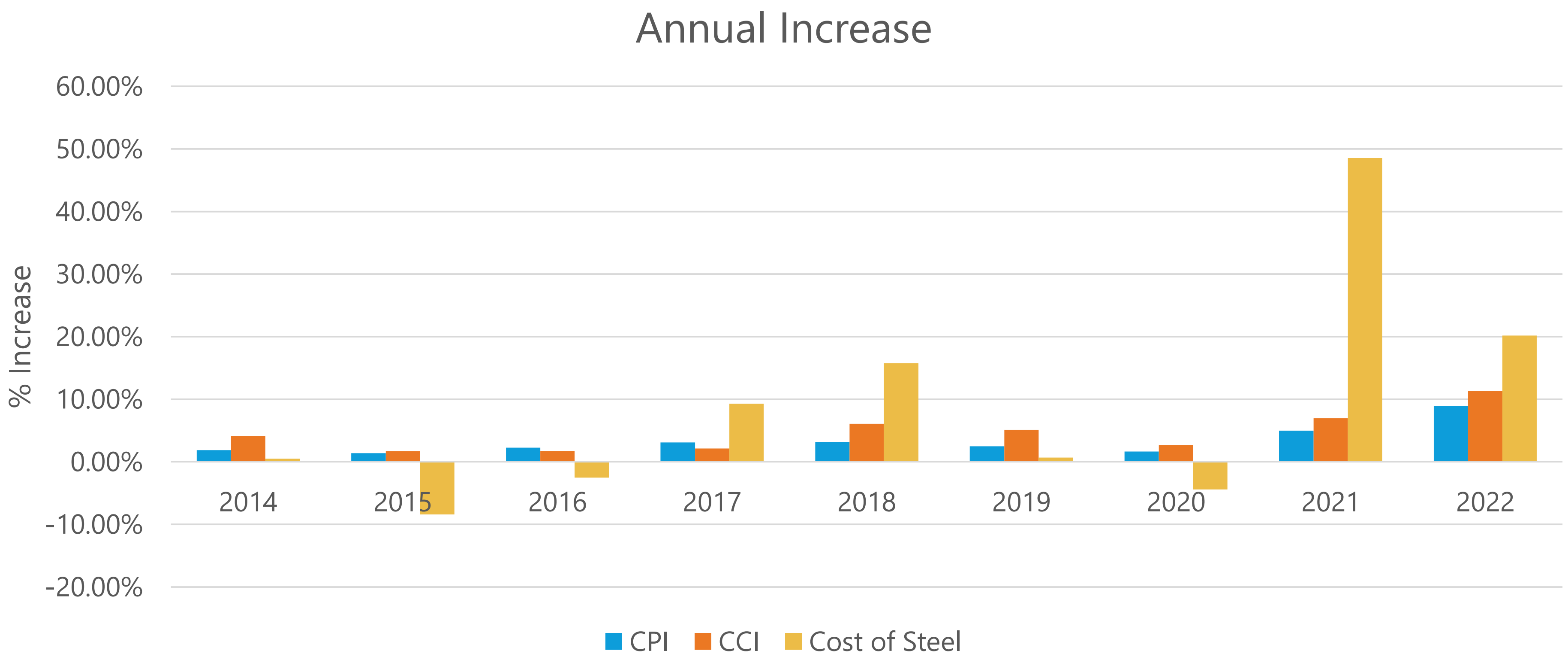
Trending Topics: Cost of Power



Source: U.S. EIA, Wholesale Electricity and Natural Gas Market Data

- Cost of power is increasing
- How do we recover our costs?
  - » Who do we recover our costs from? Passthrough costs to New Large Load customers? Meld to incentivize development?

Trending Topics: Inflation



- Recent inflation has been historically high
- Cost of steel and construction materials is increasing above inflation
  - » Impacting every utility and putting increased pressure on rates

Presentation Overview

- System Overview
- Overview of the long-term rate setting process
  - » Fiscal policies
  - » Revenue requirement
- Summary of findings
  - » Key assumptions
  - » Key components
  - » Results
- Questions / discussion
- Next steps

System Overview

- PUD's operations consist of a Production System, Electric System, Community Network System and nine (9) Water Systems

- Box Canyon Production System produces hydroelectric power from the Box Canyon Project and sells the output to the Electric System

- Electric System distributes electricity to residential, commercial and industrial customers in the County
  - Approximately 9,100 residential, 850 Commercial and 10 industrial customers

Overview of Long-Term Rate Planning

Financial Policy Evaluation

"Are you adequately protected against financial risks?"

Revenue Requirement Forecast

"Are your revenues sufficient for full cost recovery?"

Rate Design

"Do your rate structures align with your objectives?"

Communication & Customer Engagement Plan

A Successful Study is…

Finance

Engineering

Commissioners & Public

Administration

Customer Service

Not simply a financial exercise

Fiscal Policies

Role of Financial Policies

Performance & Budgeting	Contingency Planning
How well are we financially performing compared to our standards and goals?	*Are we financially prepared to respond to disruptions (e.g., natural disaster, economic downturn, equipment failure)?*

Decision Framework	Communication Tool
Do our financial and rate decisions align with our strategic goals, public priorities, and utility obligations?	*Do our financial policies provide documentation of our management philosophy to customers and stakeholders?*

Documentation of Policies is Ideal

Key Factors: Fiscal Policies & Targets

Policy	Purpose	Target
Working Capital Reserve	Liquidity cushion to accommodate cyclical cash flow fluctuations.	Consolidated Electric & Box Canyon: 250 days O&M
Debt Service Coverage (DSC)	Compliance with existing loan/debt covenants and maintain credit worthiness for future debt issuance.	Evaluated on Electric Only Minimum: 1.25 Internal Target on Consolidated System Target: phase-in to 2.0
Leverage (Debt to Asset Ratio)	Measures the amount of assets funded through debt. Higher percentage indicates lower probability an entity will repay debt obligations.	Consolidated Electric & Box Canyon: Maximum target: 45%

Note: Policies are evaluated on a consolidated basis consistent with rating agency review.

Key Considerations: Reserves

Operating Reserve

- Revenue volatility can dictate target level
- Billing cycle: monthly, bi-monthly, quarterly, etc.
- Exclude large one-time costs or budget contingency?
- Timing of debt service payments or leases

Rate Stabilization Reserve

- Can be written into bond covenants, assist in meeting coverage
- Intent is to smooth out rate increases, not "buy-down" rate increases
- Allow flexibility for replenishment

Capital Contingency Reserve

- Not intended to cover catastrophic loss
- Existing critical infrastructure age and condition
- No need to fund once target is reached

Operating Reserve Example

- Target typically equals a "number of days"
- For example 90, 120, 180, or 250 days
- Higher target for utilities with longer billing cycles / volatile revenue

Total Annual Operating Expenses

365 Days Per Year

= $ per day x

90 days

120 days

180 days

250 days

= Total Reserve Target

Key Considerations: Debt Management

Target

- Bond covenants identify bare minimum target
- Setting a higher target may save on interest costs
- Higher coverage target will generate greater cashflow, which can be used for capital

Management

- Utility's "track record" on setting rates may save on interest costs
- Good practice to consider each utility stand-alone unit even if "cross-pledged"

Moody's Municipal Utility Scorecard Factors (2024)

Factor	Weighting Factor	Sub-Factor	Sub-Factor Weighting
System Characteristics	30.0%	Asset Condition (Remaining Useful Life)	10.0%
		System Size (O&M)	7.5%
		Service Area Wealth (Median Family Income)	12.5%
Financial Strength	40.0%	Annual Debt Service Coverage	15.0%
		Days Cash on Hand	15.0%
		Debt to Operating Revenues	10.0%
Management	20.0%	Rate Management	10.0%
		Regulatory Compliance and Capital Planning	10.0%
Legal Provisions	10.0%	Rate Covenant	5.0%
		Debt Service Reserve Requirement	5.0%
Total	**100.0%**	**Total**	**100.0%**

Source: 'Moody's Investors Service Rating Methodology' March 2024

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Legal Provisions	10.0%	Rate Covenant	5.0%
		Debt Service Reserve Requirement	5.0%
Total	**100.0%**	**Total**	**100.0%**

Source: 'Moody's Investors Service Rating Methodology' March 2024

Financial Strength Considerations

Financial Strength (40%)	Aaa	Aa	A	Baa	Ba	B and Below
Annual Debt Service Coverage (15.0%)	> 2.00x	2.00x - 1.70x	1.70x - 1.25x	1.25x - 1.00x	1.00x - 0.70x	≤ 0.70x
Days Cash on Hand (15.0%)	> 250 days	250 days - 150 days	150 days - 35 days	35 days - 15 days	15 days - 7 days	≤ 7 days
Debt to Operating Revenue (10.0%)	< 2.00x	2.00x - 4.00x	4.00x - 7.00x	7.00x - 8.00x	8.00x - 9.00x	≥ 9.00x

Source: 'Moody's Investors Service Rating Methodology' March 2024

Coverage Example

Description		Example	
Total revenue	$	4,000,000	
less: O&M expenses		3,500,000	
Net available for debt service	**$**	**500,000**	A
Annual revenue bond debt service	$	250,000	B
Coverage ratio		**2.00**	A ÷ B

Management Considerations

- Management's track record at setting rates appropriately
- Increasing rates when necessary; steady rate increases
- Automatic / multi-year rate increases without annual approval

Management (20%)	Aaa	Aa	A	Baa	Ba	B and Below
Rate Management (10%)	Excellent rate setting record; no material political, practical, or regulatory limits on rate increases.	Strong rate-setting record; little political practical, or regulatory limits on rate increases.	Average rate setting record; some political, practical, or regulatory limits on rate increases.	Adequate rate setting record. ; political, practical, or regulatory impediments place material limits on rate increases.	Below average rate setting record; political, practical, or regulatory impediments place substantial limits on rate increases.	Record of insufficient adjusting rates; political, practical, or regulatory obstacles prevent implementation of necessary rate increases.

Source: 'Moody's Investors Service Rating Methodology' March 2024

Management Considerations (continued)

- Compliance with regulations; delay in FERC approval?
- Plans for capital expenditures required to comply in the future
- Potential compliance gaps or environmental litigation?

Management (20%)	Aaa	Aa	A	Baa	Ba	B and Below
Regulatory Compliance and Capital Planning (10%)	Fully compliant OR proactively addressing compliance issues. Maintains sophisticated and manageable CIP that addresses more than a 10-year period.	Actively addressing minor compliance issues. Maintains comprehensive and manageable 10-year CIP.	Moderate violations with adopted plan to address issues. Maintains manageable 5-year CIP.	Significant compliance violations with limited solutions adopted. Maintains single year CIP.	Not fully addressing compliance issues. Limited or weak capital planning.	Not addressing compliance issues. No capital planning.

Source: 'Moody's Investors Service Rating Methodology' March 2024

Revenue Requirement

Revenue Requirement: Overview

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

Revenue Requirement: Elements

Fiscal Policy Achievement **+** Forecast of Revenue at Existing Rates **+** Forecast of O&M & Power Costs

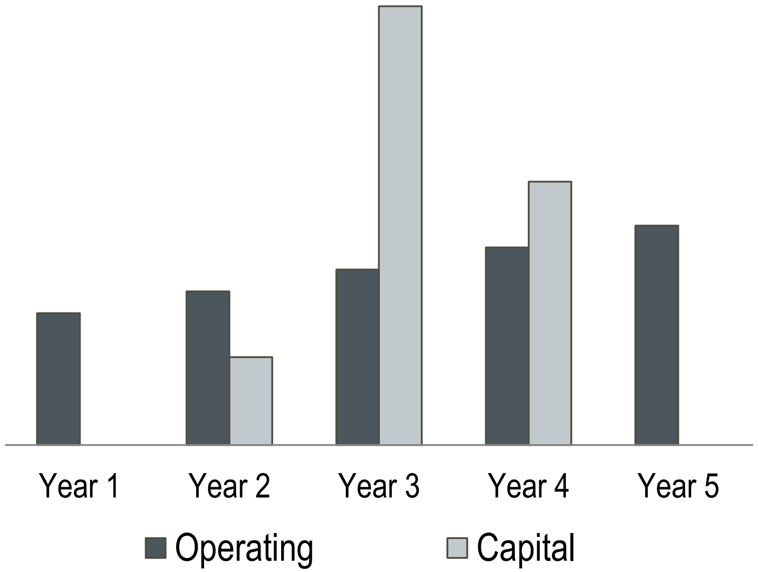
Planned Capital Costs **+** Existing & New Debt Service **=** **Annual Revenue Requirement**

Revenue Considerations

- Forecast of revenue generated by customer class
  - Should consider 3-5-year historical revenue trends
  - Consider normalizing for weather impacts
- Include revenue from other operating fees / charges
- Do not include beginning balance
  - One-time revenue that can hide rate evaluation
  - Used to smooth out rate plans, not an ongoing funding source

Two Primary Types of Costs

- Operating costs (regular / ongoing)
  - » Employee salaries and benefits
  - » Power and chemicals
  - » Asset repair and maintenance
  - » Budget documents as baseline
- Capital costs (irregular / periodic)
  - » Infrastructure replacement
  - » Facility expansions and upgrades
  - » Based on PUD's long range capital plans



Operating Cost Considerations

- Historical cost review
- Inflation factors, CPI, CCI, labor contracts
- Strategic program initiatives
- Additional or enhanced needs (staffing, regulatory requirements)
- Increasing costs (purchases, materials, supplies, utilities)

Capital Cost Considerations

- Funding Philosophy
  - » Cash (pay-as-you-go) – Higher Near-Term Rates
    - – Existing customers pay 100% of initial costs
  - » Debt financing – Lowest Near-Term Rates
    - – Mitigates immediate rate impacts of costly capital
    - – Aligns costs to useful life of asset
    - – Spreads costs between existing and future ratepayers
    - – Debt capacity may be an issue
  - » Hybrid
    - – Define a reasonable basis for cash/rate funding (R&R projects?)
    - – Evaluate need for debt (large, long-life projects)
    - – Aligns funding with nature of capital project

Revenue Sufficiency

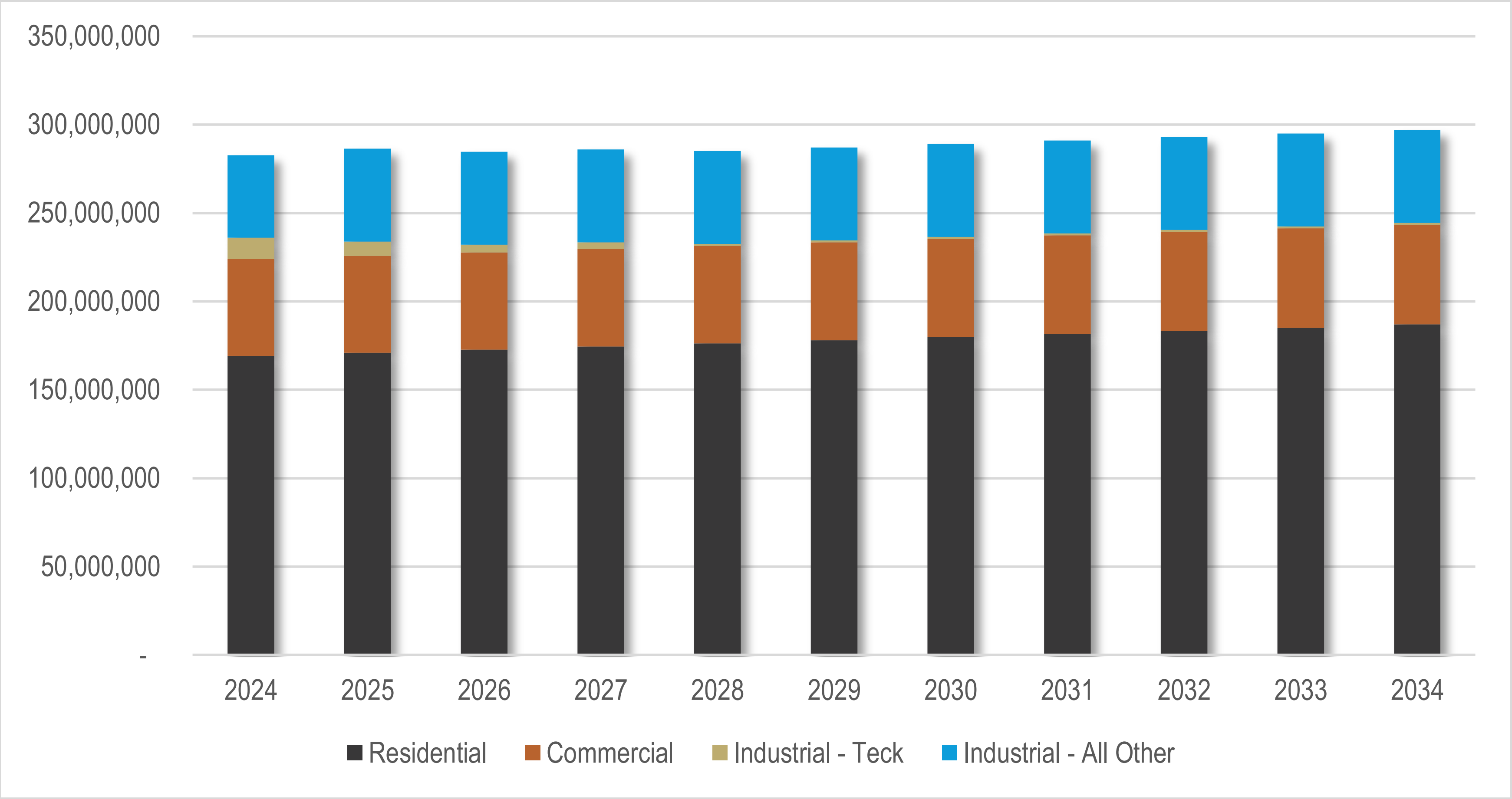
- Evaluated in terms of two tests:
  - *Cash flow*: revenue sources will meet total cash outlays
  - *Coverage*: allowable revenue will equal at least cash operating expenses plus a multiple of revenue bond debt service (e.g., 1.25 times annual bond payment)

Electric System Revenue Requirement Forecast

Key Factors: Load Forecast

- Load projections are based on
  - Residential: 3-year (2021-2023) average plus 1.0% growth per year
  - Commercial: 2023 plus 0.3% growth per year
    - Includes inter divisional and irrigation
  - Industrial: 2023 levels adjusted for
    - Teck transitioning to commercial use level by 2028
    - Standard industrial expanding by 47.7% between 2023 and 2025, no growth thereafter
      - Projections may change as better information becomes available based on discussion with individual customers
  - Lighting: 2023 plus 0.0% growth per year

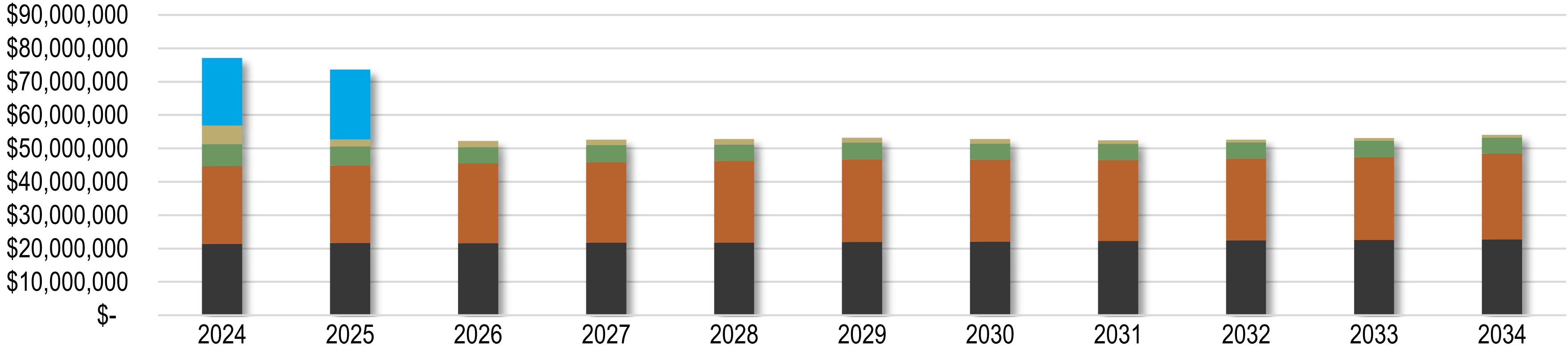
Key Factors: Load Forecast (continued)



- Average annual compounding growth rate of 0.1%

Key Factors: Existing Revenue

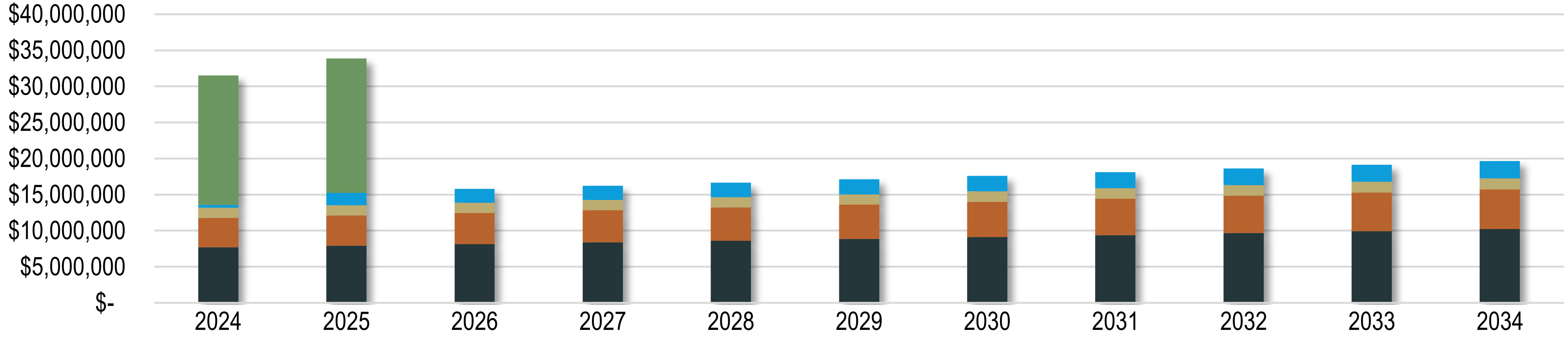
- Focus period: 2024-2034
  - » Existing rate revenue projected based on 2024 rates and forecasted load
  - » Non rate revenue includes surplus sales, Usk sales, interest income, CCA auction revenue and other miscellaneous revenue
- Total existing revenue $77.1 to $54.1 million per year



	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Usk Site Revenue	$20,195,65	$20,915,49	$-	$-	$-	$-	$-	$-	$-	$-	$-
Other Non-Rate Revenue	$5,611,764	$2,119,138	$1,758,286	$1,646,230	$1,579,564	$1,479,785	$1,348,396	$1,065,211	$766,174	$789,159	$812,834
Market Sales	$6,616,271	$5,652,034	$4,909,693	$5,096,811	$4,976,373	$4,982,178	$4,885,157	$4,902,206	$4,921,593	$4,882,511	$4,730,193
Shell / Clark Sales	$23,247,21	$23,235,66	$23,889,16	$24,150,69	$24,430,76	$24,819,34	$24,496,98	$24,203,84	$24,520,31	$24,856,38	$25,741,00
Rate Revenue	$21,430,21	$21,675,74	$21,644,77	$21,760,04	$21,811,10	$21,954,37	$22,116,64	$22,280,46	$22,445,83	$22,612,78	$22,781,31

Key Factors: Operating Expenses

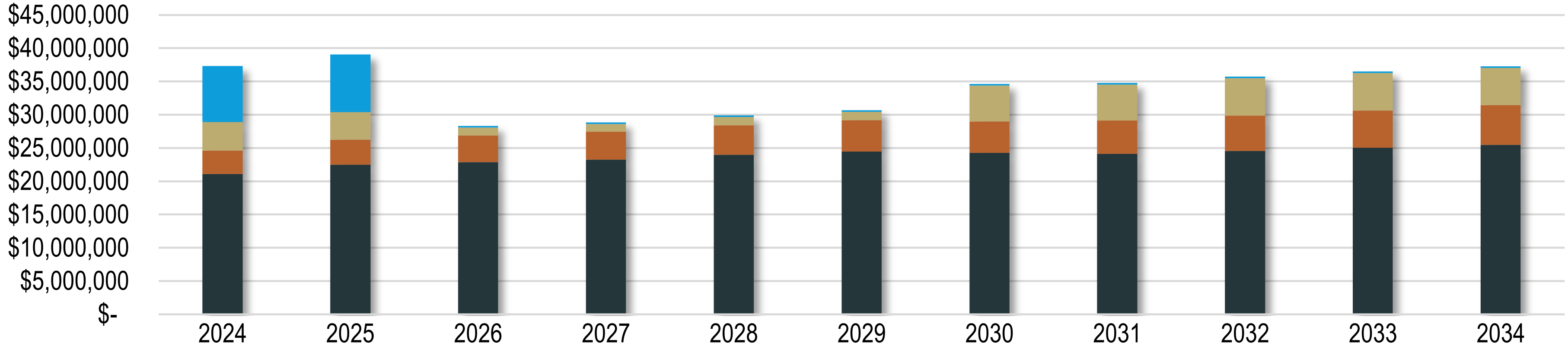
- 2024 budget used as baseline
  - Average annual inflation escalation rate of 3.0% per year
  - Includes O&M additions & budget adjustments in 2024-2026
- Total O&M expenses (net of power) $31.5M to $19.7M



	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Usk	$17,967,03	$18,657,78	$-	$-	$-	$-	$-	$-	$-	$-	$-
O&M Additions	$387,440	$1,700,901	$1,911,487	$1,968,832	$2,027,897	$2,088,734	$2,151,396	$2,215,938	$2,282,416	$2,350,888	$2,421,415
Taxes	$1,388,127	$1,406,854	$1,409,000	$1,420,101	$1,427,451	$1,440,499	$1,454,830	$1,469,392	$1,484,189	$1,499,229	$1,514,514
A&G and Customer	$4,080,090	$4,202,492	$4,328,567	$4,458,424	$4,592,177	$4,729,942	$4,871,840	$5,017,995	$5,168,535	$5,323,591	$5,483,299
Trx & Dist	$7,698,086	$7,919,135	$8,143,624	$8,379,777	$8,623,008	$8,873,528	$9,131,316	$9,396,839	$9,670,326	$9,952,019	$10,242,16

Key Factors: Power

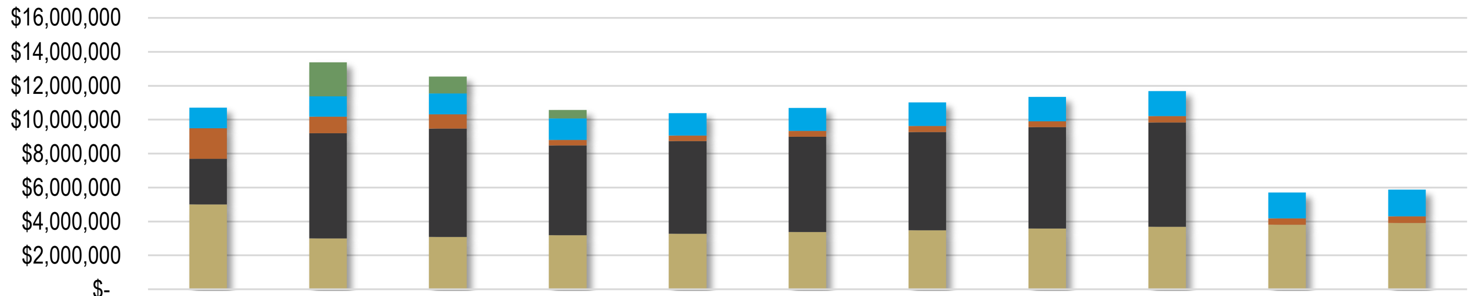
- Projected based on latest market cost projections
  - Assumes Usk does not operate after 2025
  - Boundary contract reverts to original contract in 2030
  - BPA purchases are combined with Usk expenses
  - Total power $37.3M in 2024 to $37.3M in 2034



	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Power Purchased - Shell	$8,179,639	$8,432,334	$-	$-	$-	$-	$-	$-	$-	$-	$-
Ancillary Services	$239,693	$243,418	$238,130	$239,341	$240,553	$241,765	$242,737	$243,718	$244,724	$245,738	$246,773
Market Purchases	$4,291,360	$4,133,443	$1,245,861	$1,155,175	$1,263,210	$1,247,161	$5,399,639	$5,399,065	$5,629,359	$5,626,651	$5,574,161
Boundary Purchase	$3,536,304	$3,748,488	$3,973,392	$4,211,796	$4,464,504	$4,732,380	$4,712,573	$4,995,327	$5,295,047	$5,612,750	$5,949,515
Box Cost	$21,076,81	$22,476,90	$22,874,82	$23,252,79	$23,951,65	$24,465,14	$24,268,14	$24,111,05	$24,551,86	$25,017,94	$25,485,29

Key Factors: Capital & Debt

- $113.9M in CIP 2024-2034 funded through
  - » Existing reserves and rate funded capital
  - » Customer contributions (CIAC)
  - » New debt $20.0M in 2028 (20-year term | 5.0% interest | 1.0% issuance)
  - » Costs include wildfire mitigation
- Existing annual debt service: $962k avg. through 2031 (Electric)



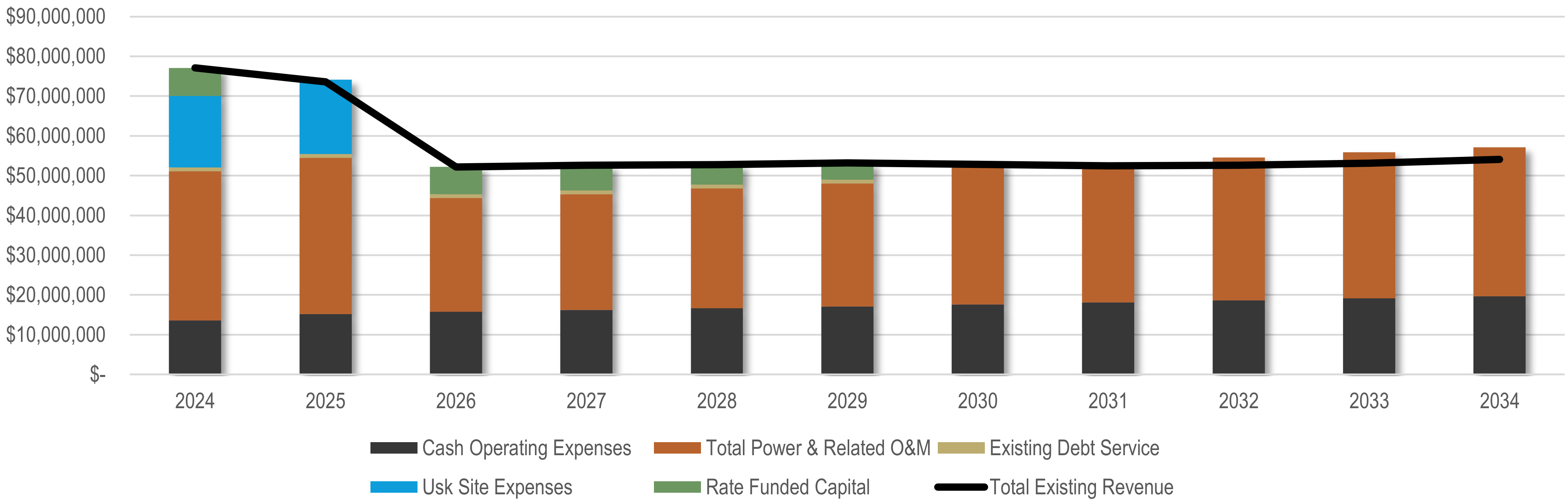
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Wildfire	$-	$2,000,000	$1,000,000	$500,000	$-	$-	$-	$-	$-	$-	$-
New Hookups	$1,200,000	$1,200,000	$1,236,000	$1,273,080	$1,311,272	$1,350,611	$1,391,129	$1,432,863	$1,475,849	$1,520,124	$1,565,728
Equipment & Meters	$1,800,000	$975,000	$834,000	$318,270	$327,818	$337,653	$347,782	$358,216	$368,962	$380,031	$391,432
Substations	$2,700,000	$6,200,000	$6,386,000	$5,304,500	$5,463,635	$5,627,544	$5,796,370	$5,970,261	$6,149,369	$-	$-
All Other CIP	$5,000,000	$3,000,000	$3,090,000	$3,182,700	$3,278,181	$3,376,526	$3,477,822	$3,582,157	$3,689,622	$3,800,310	$3,914,320

Key Factors: Fiscal Policies & Targets

Policy	Purpose	Target
Working Capital Reserve	Liquidity cushion to accommodate cyclical cash flow fluctuations.	Consolidated Electric & Box Canyon: 250 days O&M $41M in 2024 - $32.5M in 2034
Debt Service Coverage (DSC)	Compliance with existing loan/debt covenants and maintain credit worthiness for future debt issuance.	Evaluated on Electric Only Minimum: 1.25 Internal Target on Consolidated System Target: phase-in to 2.0
Leverage (Debt to Asset Ratio)	Measures the amount of assets funded through debt. Higher percentage indicates lower probability an entity will repay debt obligations.	Consolidated Electric & Box Canyon: Maximum target: 45%

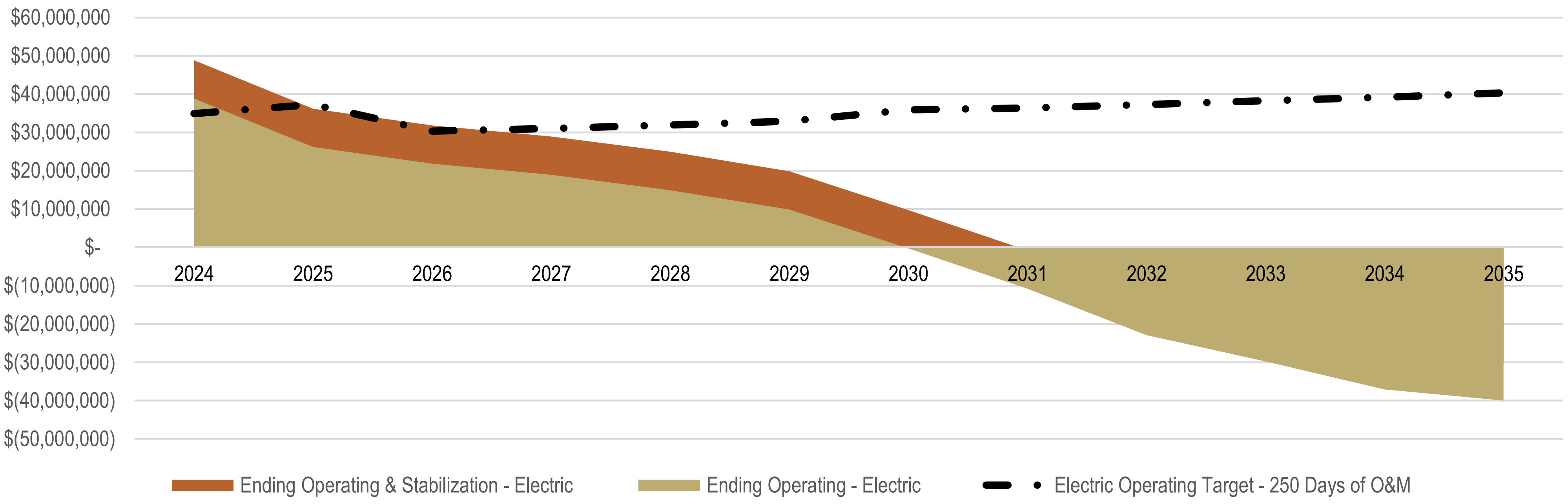
Note: Policies are evaluated on a consolidated basis consistent with rating agency review.

Revenue Requirement: Electric Operating Baseline



- Revenues at existing rates are sufficient in the short term to meet operating needs and a portion of capital obligations
  - » Starting 2030 existing revenues are not sufficient to support capital
  - » Starting 2030 existing revenues are not sufficient to support power expenses

Revenue Requirement: Electric Balances Baseline



- Projected operating ending balances decrease below target in 2025 without rate stabilization and 2027 with rate stabilization
  - » Without rate action and / or new debt proceeds operating funds are projected to fall below zero in 2030 without rate stabilization and 2031 with rate stabilization

Revenue Requirement: Financial Policies

Days Cash on Hand	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Ending Balances - Electric	278	176	180	153	117	75	-2	-74	-153	-194	-237
Ending Balances - Consolidated	400	308	528	390	344	289	177	174	159	138	115
Target	*250*	*250*	*250*	*250*	*250*	*250*	*250*	*250*	*250*	*250*	*250*

Coverage	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Ending Balances - Electric	10.29	2.18	9.98	9.49	8.13	7.28	2.36	1.36	n/a	n/a	n/a
Ending Balances - Consolidated	1.82	1.17	1.86	1.84	1.73	1.67	1.25	1.28	1.15	1.07	1.04
Electric Minimum Target	*1.25*	*1.25*	*1.25*	*1.25*	*1.25*	*1.25*	*1.25*	*1.25*	*1.25*	*1.25*	*1.25*
Consolidated Phase-in Target	*2.00*	*2.00*	*2.00*	*2.00*	*2.00*	*2.00*	*2.00*	*2.00*	*2.00*	*2.00*	*2.00*

Leverage	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Ending Balances - Electric	5.82%	5.39%	4.59%	3.84%	3.13%	2.41%	1.71%	0.92%	0.00%	0.00%	0.00%
Ending Balances - Consolidated	43.09%	42.30%	40.35%	39.91%	38.15%	36.40%	35.47%	34.44%	33.47%	32.89%	32.20%
Target	*45.00%*	*45.00%*	*45.00%*	*45.00%*	*45.00%*	*45.00%*	*45.00%*	*45.00%*	*45.00%*	*45.00%*	*45.00%*

- Electric cash position declines without rate action and / or new debt
- Ability to meet coverage declines over time
- Consolidated system has limited borrowing capacity in the short term

Revenue Requirement: Proposed Scenario

- To resolve the cash deficiency and address capital improvement needs the following scenario is proposed
  - » Projected annual rate increase of 4.25%
    - To be revisited by staff prior to implementation
  - » New debt proceeds of $20.0M in 2028 for the Electric System

Revenue Requirement: Scenario Summary

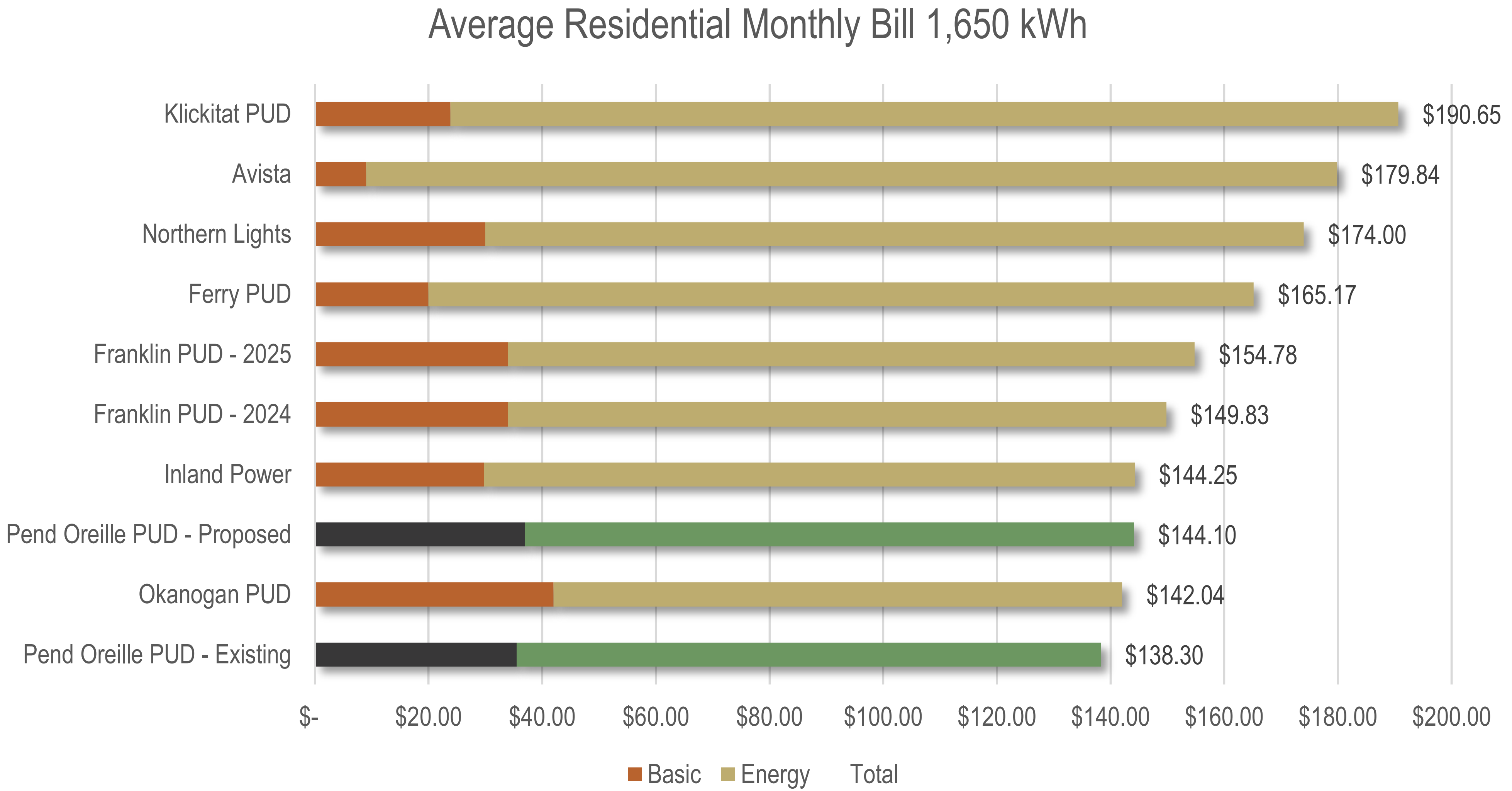
Days Cash on Hand	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Ending Balances - Electric	278	181	202	197	332	314	252	222	188	198	214
Ending Balances - Consolidated	400	313	556	446	510	577	486	450	408	419	437
Target	*250*	*250*	*250*	*250*	*250*	*250*	*250*	*250*	*250*	*250*	*250*

Coverage	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Ending Balances - Electric	10.29	3.08	11.85	12.42	4.28	4.64	3.36	3.50	5.53	5.77	6.43
Ending Balances - Consolidated	1.82	1.25	2.04	2.11	1.81	1.91	1.68	1.88	1.91	1.96	2.08
Electric Minimum Target	*1.25*	*1.25*	*1.25*	*1.25*	*1.25*	*1.25*	*1.25*	*1.25*	*1.25*	*1.25*	*1.25*
Consolidated Phase-in Target	*2.00*	*2.00*	*2.00*	*2.00*	*2.00*	*2.00*	*2.00*	*2.00*	*2.00*	*2.00*	*2.00*

Leverage	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Ending Balances - Electric	5.82%	5.35%	4.49%	3.67%	17.43%	16.00%	14.95%	13.77%	12.57%	11.96%	11.26%
Ending Balances - Consolidated	43.09%	42.17%	39.97%	39.11%	41.89%	39.57%	37.89%	35.96%	33.92%	32.06%	29.95%
Target	*45.00%*	*45.00%*	*45.00%*	*45.00%*	*45.00%*	*45.00%*	*45.00%*	*45.00%*	*45.00%*	*45.00%*	*45.00%*

- Proposed scenario balances policy achievement with customer impacts
  - Electric ending balances dip below targets periodically, but are above target on a consolidated basis
  - Electric coverage is above internal target of 2.0 in every year
    - Consolidated coverage is phased-in to 2.0 by 2034
  - Leverage is maintained below target for electric and consolidated systems

Residential Rate Survey



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Next Steps

- Discussion / input
  - » Incorporated proposed scenario?
    - – Preliminary annual 4.25% increases
      - – Actual increase may range between 3.00%-7.00% based on updated cost information
    - – Preliminary new debt of $20.0M in 2028
  - » Other?
- Rates effective April 1, 2025
  - » January 1 of every year thereafter
    - – Based on internal review
- Forecast is an ongoing process and will be updated as better information becomes available

Thank you!
Questions?

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