Platte River Power Authority

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Strategic Financial Plan

Strategic Financial Plan

In support of Platte River's foundational pillars of providing reliable, environmentally responsible and financially sustainable energy and services, and Platte River's mission, vision and values and strategic initiatives, the Strategic Financial Plan (SFP) provides direction to preserve long-term financial sustainability and manage financial risk. The objectives of the SFP are as follows:

- Generate adequate earnings margins and cash flows
- Maintain sufficient liquidity for operational stability
- Maintain access to low-cost capital
- Provide wholesale rate stability

Platte River is also subject to the following financial and rate requirements:

- General powers of Platte River, as stated by Colorado Revised Statute 29-1-204(3)(j), include the right to fix, maintain, and revise fees, rates, and charges for functions, services, or facilities provided. Platte River's Board of Directors have the exclusive authority to establish electric rates.
- Power Supply Agreements (PSAs) with the owner communities require the board to review rates at least once each calendar year. The PSAs also require rates to be sufficient to cover all operating and maintenance expenses, purchased power costs, bond service expenses, and to provide reasonable reserves and adequate earnings margins so Platte River may obtain favorable debt financing.
- The General Power Bond Resolution requires that rates be sufficient to generate net revenues that cover bond service expense at a minimum 1.10 times. Platte River must review rates and charges as necessary, no less than once each calendar year.

To meet these objectives and requirements, staff established financial metrics and rate stability strategies. The financial metrics take into consideration rating agency guidelines, targeting an "AA" category credit rating. The rate stability strategies include fiscal responsibility and rate smoothing.

Additionally, to manage financial assets and risk, staff will continue to implement and maintain prudent business practices in managing reserves and budgeting, complying with financial policies and procedures and maintaining the enterprise risk management program.

Staff analyzes financial results and projections relative to the financial metrics throughout the year. Staff must formally review the SFP with the board at least every five years.

Financial metrics

The SFP financial metrics support Platte River's financial obligations including those established by the Colorado Revised Statutes, PSAs, and General Power Bond Resolution and preserve long-term financial sustainability (cash flow, earnings, leverage, liquidity). The financial metrics maintain adequate reserves and provide balance between financing capital investments with cash and debt.

Strong financial metrics gives Platte River flexibility to implement necessary rate changes and to smooth rates over longer periods of time to minimize short-term rate impacts. Multi-year performance is considered during the evaluation of rate action and decision making. Platte River may not achieve financial metric projections in all years if staff considers the deficiency temporary.

The financial metrics described below were established based on guidelines provided for an “AA” category credit rating by Moody’s Investor’s Services, Fitch Ratings and Platte River’s financial objectives. Platte River’s financial advisor, PFM Financial Advisors LLC, also reviewed the SFP.

- **Cash flow metric:** Generate minimum 1.50 times fixed obligation charge coverage ratio
- **Earnings metric:** Generate minimum change in net position equal to 3% of annual operating expenses
- **Leverage metric:** Target adjusted debt ratio less than 50%
- **Liquidity metric:** Target minimum 200 days adjusted liquidity on hand

Cash flow metric: Generate minimum 1.50 times fixed obligation charge coverage ratio

The fixed obligation charge coverage ratio measures Platte River’s annual cash flows and the ability to repay annual power revenue bond service expense and debt-like obligations.

Debt-like obligations include demand or capacity payments on contracted assets and any debt service associated with off-balance sheet obligations. Examples of these “debt-like obligations” include:

- Fixed obligation of power purchase agreements or a portion of purchase power agreements if the fixed obligation is not defined
- Off-balance-sheet obligations
- Leases and subscription-based capital assets

Platte River has a legal obligation to achieve a minimum 1.10 times bond service coverage ratio requirement under the General Power Bond Resolution. A minimum 1.50 times fixed obligation charge coverage ratio provides sufficient annual cash flows to meet the legal minimum 1.10 times bond service coverage ratio and partially fund future capital additions.

Earnings metric: Generate minimum change in net position equal to 3% of annual operating expenses

Change in net position measures total earnings. The PSAs with the owner communities, (in Article 2(b)(iv)) require Platte River to provide an earnings margin adequate to obtain revenue bond financing on favorable terms and to provide for the establishment and maintenance of reasonable reserves. Reserves provide financial flexibility and helps Platte River avoid becoming over leveraged.

The change in net position minimum is a percentage of annual operating expenses that will change with inflation and fluctuations in operating expenses. This metric provides adequate earnings margin to maintain cash reserves, which balances the adjusted debt ratio to fund capital investments.

Leverage metric: Target adjusted debt ratio less than 50%

Adjusted debt ratio measures statement of net position leverage. An adjusted debt ratio less than 50% gives Platte River a strong statement of net position and reduces the risk of becoming over leveraged. However, Platte River operates in a capital-intensive industry and this ratio is difficult to change in the short term, so a long-term planning horizon is critical when evaluating debt levels. If significant financing is needed, this metric may not be met in the short term but would be expected to return to the target in a reasonable time within the planning horizon.

Liquidity metric: Target minimum 200 days adjusted liquidity on hand

The PSAs with the owner communities (in Article 2(b)(iv)) require Platte River to provide for the establishment and maintenance of reasonable reserves.

Days adjusted liquidity on hand measures Platte River's ability to meet daily operating cash flow requirements. It also serves as a hedge against unforeseen financial obligations resulting from significant events and provides flexibility to take advantage of opportunities. Achieving this metric generates and maintains adequate cash. Cash that is liquid or unrestricted refers to total funds excluding legally required reserves under the General Power Bond Resolution. Bond required reserves include the reserve and contingency fund and the bond service funds. Due to Platte River's strong financial and cash positions, Platte River's current outstanding debt issuances do not require bond reserve funds.

Included within this metric is the rate stabilization fund, established and maintained as allowed by the General Power Bond Resolution. The purpose of the rate stabilization fund is to reduce or eliminate the rate impact from an unforeseen event that affects Platte River's ability to meet the minimum legal bond service coverage ratio requirement, but not to smooth the rate impacts of continued typical business operations.

Rate stability strategies

Competitive wholesale rates give the owner communities an economic advantage for their residential, commercial and industrial customers. Platte River strives to maintain services and rates offered at competitive prices compared to similar services and products provided by other wholesale electric utilities in the region. Platte River has implemented the following rate strategies to help reduce long-term rate pressure and give the owner communities greater rate predictability.

Fiscal responsibility

Revenue generation

When financially advantageous, operationally feasible and reliable, Platte River sells generation surplus to owner community needs to other regional utilities on a short- or long-term basis. Margin from these sales reduce Platte River's revenue requirement and benefits the owner communities through lower rates. Staff proactively seeks sales opportunities.

Expense management

Platte River prioritizes preventive and predictive maintenance strategies and proactive capital investments to provide long-term system benefits and efficiencies. Platte River will continue to invest in its existing power generation and transmission assets to maintain operational efficiency and to proactively address federal and state regulatory requirements. Platte River plans to expand its investment in noncarbon resources, such as wind and solar, distributed energy resources and other generating capacity as needed and retire coal-fired generation. Targeting an “AA” category credit rating through the financial metrics provides access to low-cost capital to support these investments. Platte River is committed to managing costs through its budget and long-term financial planning processes.

Rate smoothing

The board establishes tariffs and charges based on projected cost of service with adequate margin to achieve SFP financial metrics. Rate smoothing is accomplished through accounting policies and multi-year analysis to develop a long-term rate path with greater predictability.

Accounting policies - revenue and expense smoothing

As a board-regulated entity, Platte River is subject to the provisions of *Governmental Accounting Standards Board 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, Regulated Operations, paragraphs 476–500*, which requires the effects of the rate making process to be recorded in the financial statements. Accordingly, certain revenues and expenses normally reflected in the statements of revenues, expenses and changes in net position as incurred are recognized when they are included in wholesale rates. Platte River adopts accounting policies that help stabilize rates.

Multi-year rate analysis

The board prefers to use a multi-year rate smoothing strategy, as deemed appropriate, to avoid greater single-year rate impacts or to accomplish specified objectives. Platte River will use this mechanism to stabilize rates and increase financial flexibility.