RESOLUTION NO. 2657

February 13, 2024

A RESOLUTION OF THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1 OF BENTON COUNTY UPDATING FINANCIAL POLICIES OF THE DISTRICT

WHEREAS, Public Utility District No. 1 of Benton County (the “District”) recognizes the importance of financial policies in providing management and staff guidance in managing the finances of the District and in developing financial plans and rates for current and future years; AND

WHEREAS, The District finds it is desirable to periodically review the financial policies and incorporate updates based on the District’s current operating environment; AND

WHEREAS, The District has converted its wholesale power contract with the Bonneville Power Administration (BPA) from a Slice/Block contract to a Load Following contract effective October 1, 2023; AND

WHEREAS, Conversion to a Load Following contract removes immediate exposure for the District to volatility in wholesale power markets as BPA sets rates for two-year periods; AND

WHEREAS, As a result, wholesale power costs are more predictable under a Load Following contract in the short term; AND

WHEREAS, However, BPA is subject to immediate exposure to volatility in wholesale power markets which is ultimately reflected in rates charged to utilities and influences certain components of rates which are intended to be market based; AND

WHEREAS, the current contract with BPA will expire in September 2028 and BPA is actively developing a policy framework for the next contract which is intended to start October 2028 and last until September 2044; AND

WHEREAS, Details regarding how rates will be structured will not be known until closer to the start of the contract, however BPA has indicated that future rates under this new contract will place an emphasis on reflecting capacity costs; AND

WHEREAS, This provides a level of uncertainty for what future wholesale power costs will be for the District; AND

WHEREAS, The District is exposed to business risks associated with meeting requirements for funding its capital improvement program, debt service, working capital and catastrophic losses; AND

WHEREAS, The District finds it prudent and necessary to have adequate liquidity for managing these risks; AND

WHEREAS, The District desires to achieve and maintain the median public power bond rating; AND

WHEREAS, The District wishes to update its financial policies to reflect contract changes associated with power supply as well as other general edits.

NOW, THEREFORE, BE IT RESOLVED By the Commission of Public Utility District No. 1 of Benton County that the attached set of financial policies be adopted for purposes of planning and managing the District's finances.

BE IT FURTHER RESOLVED That the General Manager is directed to develop subordinate directives and procedures that are consistent with the direction established by these policies.

BE IT FURTHER RESOLVED That the General Manager is authorized to disclose such policies in communications with rating agencies, creditors, and other District stakeholders.

ADOPTED By the Commission of Public Utility District No. 1 of Benton County at an open meeting, with notice of such meeting being given as required by law, this 13th day of February 2024.

This Resolution supersedes Resolution No. 2313 dated March 24, 2015.

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Barry A. Bush, President

ATTEST:

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Lori Kays-Sanders, Secretary

Definitions

1. **Cash or Funds**: Includes both cash and cash equivalents. Cash equivalents are assets that can be readily converted into cash such as bank accounts, bankers' acceptances, the state investment pool, and short term marketable securities. For purposes of this policy, cash or funds also include investments that are permitted in the District's Investment Policy.
2. **Total Unrestricted Reserves:** Accounts which have not been Restricted and for which funds can be spent for any legal purpose of the District. Total Unrestricted Reserves equals Minimum Operating Reserves plus Designated Reserves.
   a) **Minimum Operating Reserves:** Accounts containing funds that provide funding for day-to-day operations, working capital, emergencies, and serve as a cushion for negative performance against budget.
   b) **Designated Reserves:** Accounts containing funds which have been designated by the Commission for a specific purpose. Designated accounts include any account designation that reflects the Commission's self-imposed limitations on the use of otherwise available expendable financial resources within the Electric Fund. The District may designate the following accounts at the direction of the Commission:
      i. **Power Market Volatility Account:** The District has entered into a load following contract with the Bonneville Power Administration (BPA) effective October 1, 2023. While the District will not see immediate impacts of volatility in wholesale power markets or variations in hydro output based on available water, BPA will see these impacts. Since BPA sets rates, typically in two-year rate periods, these impacts will be incorporated into BPA's rate setting process which means they will be known for a rate period and allows for additional time for planning retail rate adjustments. However, there could be significant changes between BPA rate periods and excess reserves could be used to mitigate or "buy down" future rate actions. There could also be variations in power costs to the District within a rate period as BPA rates include charges that could result in either excess costs or reduced costs in a given year based on retail loads. These charges include load shaping rates and demand charges. In addition, the District's retail load is above its Tier 1 allocation from BPA (currently by about 10 aMW) and the District has elected to serve this load in the current contract with BPA's Tier 2 product. Tier 2 rates are set using forward market prices which could increase significantly in the future. Excess reserves allows the District to manage these variations from year to year.
      ii. **Customer Deposit Account:** The District is holding customer money that will ultimately be returned to customers through refunds or application to outstanding balances. Amounts paid for deposits by the District's customers may be designated.
      iii. **Special Capital Account:** As a result of conservative planning or the deferral of certain capital projects, reserves in some years may be higher than planned. The

Commission may designate these reserves to fund renewals, replacements, and other future capital projects.

iv. **Other:** The Commission may designate reserves for other purposes as they arise.

3. **Bond Covenant Rate Stabilization Account (book-entry only):** In accordance with bond covenants, the District may designate a Rate Stabilization Account. The purpose of this account is to ensure the District can support its Debt Service Coverage levels consistent with desired credit ratings and as specified by bond resolution. Transfers to and from this account are typically infrequent in nature and do not reflect the use of physical financial reserves to smooth rates or fund future capital. This account exists only to manage bond covenants and is a "book entry" only account

4. **Restricted Reserves and Debt Service Accounts:** Restricted Reserves are accounts containing funds subject to constraints that are either (a) imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Although not legally restricted by the District's bond resolutions, Debt Service Accounts are excluded from classification as Unrestricted Reserves for purposes of this policy.

   a) **Debt Service Accounts:** Special funds set aside for payment of principal/interest.

   b) **Bond Reserve Account:** Special funds set aside, in conjunction with bond insurance or surety policies, as required by debt covenants for bondholder security.

   c) **Construction Account:** Special funds set aside as required by debt covenants for capital funding.

   d) **Other:** Other legal/contractual requirements.

5. **Targeted Bond Rating:** The District's targeted bond rating is the median rating of public power electric utilities.

6. **Key Financial Metrics:** The District's key financial metrics include days cash on hand, days liquidity on hand, debt service coverage, and fixed charge coverage. The following are the definitions of those metrics.

   a) **Days Cash on Hand:** A measure of liquidity used by rating agencies calculated as follows:

      i. Numerator: Unrestricted reserves x 365

      ii. Denominator: Operating expenses less depreciation/amortization

   b) **Days Liquidity on Hand:** A measure of liquidity used by rating agencies which includes access to an available line of credit. The measure is calculated as follows:

      i. Numerator: (Unrestricted reserves + available line of credit) x 365

      ii. Denominator: Operating expenses less depreciation/amortization

   c) **Debt Service Coverage:** A ratio indicating the margin of funds available to meet current debt service requirements.

   d) **Fixed Charge Coverage:** A ratio indicating the margin of funds available to meet current debt service requirements and fixed or "debt-like" obligations related to purchased power. This ratio treats a portion of the District's purchases from BPA as "fixed" or a recovery of debt service. Some rating agencies make this adjustment to the District's debt coverage ratio in order to compare distribution-only utilities to distribution utilities with generation.

Financial Policy

1. ***Achieve or maintain the Targeted Bond Rating***

   a) The District shall establish financial plans that are expected to achieve or maintain a bond rating that is the median for public power utilities through a combination of Key Financial Metrics based on recent and relevant benchmark data published by rating agencies for similarly rated utilities.

2. ***Maintain sufficient liquidity relative to the District's risk profile***

   a) Minimum Operating Reserves shall be no less than 90 Days Cash on Hand. If operating conditions cause reserves to fall below 90 days, plans will be developed within in 3 months to restore reserves to the 90 day level. Included in the plans will be a timeline to restore reserves to the 90 day level.

   b) The District shall establish financial plans to maintain Total Unrestricted Reserves that are expected to achieve or maintain the Targeted Bond Rating (in combination with other Key Financial Metrics).

   c) In addition to Total Unrestricted Reserves, the District may maintain the capability to borrow via a short-term line of credit or obtain other short term financing.

3. ***Provide for adequate coverage***

   a) Provide for adequate debt service coverage for senior lien bonds.

      i. Develop financial plans to maintain debt service coverage in each plan year of at least 2.0x calculated as follows:

         - Numerator: Net Revenues as defined per bond resolution
         - Denominator: Total annual debt service

      ii. Net Revenues may be adjusted by transfers to or from the Rate Stabilization Account in accordance with bond resolutions.

      iii. Plans should not forecast the defeasance of debt for purposes of achieving the minimum coverage for more than one consecutive year.

      iv. Actual debt service coverage as defined in the bond resolutions shall not be allowed to fall below 1.25x.

   b) As applicable, provide for adequate debt service coverage to meet junior lien bond covenants as defined in bond resolutions.

   c) Provide for adequate fixed charge coverage based upon recent and relevant benchmark data published by rating agencies for similarly rated utilities. For the District, fixed charges generally refer to that portion of power expense that represents the recovery of debt of the power provider. The definition and targeted ratio of fixed charge coverage may vary by rating agency. Fixed charge coverage is calculated as follows:

i. Numerator: Net Revenues as defined per bond resolution excluding fixed charges

ii. Denominator: Total annual debt service plus fixed charges

4. ***Maintain sufficient operating income***

a) The definition of debt service coverage does not include certain financial transactions, such as depreciation, amortization of prepaid power, and other non-cash items. As such, the District shall over time maintain sufficient operating income to provide for non-cash operating expenses, as well as nonoperating expenses, such as interest expense on debt, inflationary increases in asset replacement costs, and net capital needs in excess of depreciation.

5. ***Achieve a prudent mix of debt and pay-as-you-go financing***

b) Develop financial plans to maintain the debt ratio for senior lien debt at 38% or less. The Commission may direct staff to exceed this ratio when circumstances warrant e.g., purchase of a long-term generation asset, capacity, or prepayment of an allowable non-discretionary operating expense, such as power expense.

c) Consider the equitable allocation of capital cost to ratepayers who will receive benefit from the assets financed when issuing long-term debt.

d) Short-term debt should be retired within two years of initial borrowing.

e) Maintain a threshold for capital improvements of $5,000 or greater for items with a useful life of greater than one year.

6. ***Maintain competitive retail rates sufficient to meet normal operating and capital requirements, consistent with the financial goals of the District***

a) The chief objective of rate setting shall be to ensure that revenue requirements are consistent with the financial goals of the district including cash requirements, debt service coverage, fixed charge coverage, and debt financing limits.

b) The District desires to maintain competitive rates as compared to benchmark utilities. This objective, while important, is subordinate to the District's financial goals specified in paragraphs 1-4.

c) Rates should be developed so as to minimize the subsidization of one rate class by another. Cost of service analysis should be conducted annually with results presented to the Commission.

7. ***Maintain an active Enterprise Risk Management program & Internal Audit Program***

a) The General Manager shall establish an Enterprise Risk Management (ERM) Committee to oversee enterprise-wide risks for the District.

b) The District shall maintain an active internal audit program to ensure adherence to policies and procedures, safeguard District assets, and to identify business practice improvement opportunities to mitigate risk.

8. ***Limit power supply risk through the establishment of an active power risk management***

program

a) The General Manager shall establish a Power Risk Management Committee (PRMC) to manage power supply risk for the District.

b) The PRMC shall develop risk management policies and risk limits for approval by the Commission.

c) The objective of the risk management program shall be to achieve the net power supply budget.

d) The risk management program shall be designed to accept and manage reasonable exposure to power market price volatility and counterparty credit exposure in order to maximize the benefits of the District's power supply portfolio. The PRMC may use derivatives and other hedges as a means of minimizing risk to the District.

e) Trades for speculative purposes are prohibited.

9. Limit credit risk to the District through the development of credit policies and procedures that promote prompt collection of receivables from retail customers

a) The General Manager shall establish a Credit Committee to establish and monitor credit collection policies and manage the credit risk associated with retail customers.

b) Credit policies shall be developed that specify the time allowed for payments of amounts due to the District, and specify the procedures and timing for referring accounts to collection.

c) Credit limits and collateral requirements should be established for the District's largest customers to limit the District's exposure to credit risk.

10. Develop investment policies and practices that specify allowable investments under State law

a) The General Manager shall establish an Investment Policy to be approved by the Commission allowing investment in only statutorily authorized instruments and those authorized by bond resolutions.

b) Investment portfolios and investment performance shall be presented to the Commission monthly.

11. Ensure adequate insurance to protect the District from catastrophic losses

a) Maintain insurance, self insurance, reserves, and/or participate in an insurance pool to protect against risk of property, casualty, and liability losses.

12. Develop a set of integrated plans for the ownership and operation of the District

a) The General Manager shall present for approval to the Commission a strategic plan that contains the vision, mission and objectives of the District. The plan shall identify the high-level actions necessary to achieve the objectives and shall be reviewed with the Commission at least annually. Directors will develop plans that support actions necessary to achieve the objectives and actions within the strategic plan.

b) The General Manager shall direct staff to develop the following plans and forecasts ultimately approved individually or with the annual budget by the Commission. These plans shall be based on realistic but conservative assumptions:

i. The Retail Energy Sales Forecast begins with the development of the Load Forecast to project future retail sales. .

ii. The Power Supply Plan shall specify the power resources that will satisfy the load requirements set forth in the sales forecasts and provide an estimate of net power costs.

iii. The Five-Year Plan of Service Study shall identify the capital needs for the electric system infrastructure.

iv. The Strategic Technology Plan shall serve as the basis for major technology investments over a five-year period.

v. The Capital Requirements Plan shall identify the capital needs for all aspects of District operations.

vi. The Long-Range Financial Plan shall combine information from other plans and forecasts necessary to project cash reserve balances, coverage ratios, long-term financing needs and rate adjustments for a multi-year period.

vii. The Annual Budget shall identify resource needs for the coming year and use assumptions that are consistent with those used in multi-year plans and forecasts.

13. Establish budgetary and procurement controls over expenditures

a) The Commission shall approve the District's budget prior to the start of each fiscal year.

b) The Commission shall approve total amounts for each of the following budget categories:

i. Revenues (excluding wholesale power sales and capital contributions).

ii. Net power expense (including wholesale power sales).

iii. Non-power operating expenses (excluding interest expense).

iv. Net capital additions (including the change in inventory investment, storage of natural gas, or other capital expenditure not reflected in another category, net of contributions).

v. Debt Service (including principal and interest on debt).

c) Budget amounts will be presented using the accrual basis of accounting. Debt principal will be based on cash requirements.

d) The General Manager shall notify the Commission promptly when expenditures within each category are anticipated to exceed the budget.

e) Budget amendments, if necessary, will be presented to the Commission no later than October of each year.

f) In order to ensure proper recording of expenditures for management analysis, financial statement reporting, and rate development, expenditures shall be charged to the general ledger account that best reflects the purpose for which the expenditure was made, not an account where an excess of budgeted funds may exist.

g) All materials and services will be procured in accordance with State statutes, including but not limited to public works and competitive bid laws.

14. Provide financial reports and projections in a timely manner

a) Monthly financial reports will be provided to the Commission including revenues, net power costs, non-power expenses, and capital expenditures. Actual results will be compared to budgeted levels, with an explanation of variances.

b) An Annual Financial Report, prepared in accordance with generally accepted accounting principles, and audited in accordance with generally accepted auditing standards, shall be distributed to the Commission and other interested parties.

c) Financial projections shall be provided to the Commission for the current and subsequent year at least three times a year.

15. Evaluate capital investments taking into account both monetary and non-monetary factors

a) **Monetary factors**

   i. Factors which impact cash flows include, but are not limited to, the initial capital investment and changes in revenues, expenses, or working capital.

   ii. Monetary analysis may include breakeven analysis or a discounted cash flow analysis that includes a risk-adjusted discount factor appropriate to the decision.

   iii. Projects that are a significant enhancement to business operations shall be subject to a more thorough monetary evaluation.

b) **Non-Monetary Factors**

   i. Factors which do not directly impact cash flows include, but are not limited to, system reliability or capacity, service effectiveness, service efficiency, customer satisfaction, regulatory and legal compliance, safety, business risk, employee morale or public benefit.

c) Both factors will be evaluated when establishing the District's annual budget and five-year capital plan.