

# Strategic Financial Plan

Platte River Power Authority's Strategic Financial Plan (SFP) provides direction to create long-term financial sustainability, manage financial risk and support Platte River's mission, vision and values. The priorities of the SFP are to generate adequate cash flows, maintain access to low-cost capital, provide wholesale rate stability and maintain sufficient liquidity for operational stability. To achieve long-term financial sustainability and the lowest practical cost of debt necessary to finance Platte River's long-term capital program, financial metrics have been established in consideration of rating agency guidelines. Additionally, to manage financial assets and risk, staff will continue to implement and maintain prudent business practices in the management of reserves, maintain the enterprise risk management program, and comply with financial policies and procedures.

Staff will review the SFP annually and make recommendations to the board as necessary.

## Rate Requirements and Practices

The 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.

The Power Supply Agreements (PSAs) with the municipalities require the board to review rates at least once each calendar year. The PSAs also require that rates be sufficient to cover all operating and maintenance expenses, purchased power costs, debt 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 debt service expense at a minimum 1.10 times. The General Power Bond Resolution also requires Platte River review rates and charges as necessary, no less than once each calendar year.

Platte River complies with all covenants under the Colorado Revised Statutes, Organic Contract, PSAs, General Power Bond Resolution, supplemental bond resolutions and all other legal requirements not specifically listed in this SFP.

Platte River strives to maintain long-term competitive rates relative to regional peer wholesale electric providers. Competitive wholesale rates provide the owner municipalities an economic advantage for their residential, commercial and industrial customers.

Platte River's tariffs and charges will be established to achieve SFP targeted financial metrics. Multi-year rate smoothing strategies will also be utilized, as deemed appropriate, to avoid greater single year rate impacts or to accomplish specified financial objectives.

## Financial Metrics

The financial metrics contained herein were identified as the metrics most suitable to achieving Platte River's obligations including those established by the Colorado Revised Statutes, PSAs, and General Power Bond Resolution and achieving long-term financial sustainability (liquidity, leverage, cash flow, earnings). Additionally, achieving strong financial metrics provides Platte River the flexibility to implement necessary rate changes and to change rates over longer periods of time to minimize short-term rate impacts. While the financial metrics are established and evaluated on an annual basis, multi-year performance is considered during the evaluation of rate action and decision making.

- Generate minimum 1.50 times fixed obligation charge coverage ratio
- Generate minimum net income equal to 3 percent of projected annual operating expenses
- Target debt ratio less than 50 percent
- Target minimum 200 days unrestricted cash on hand

### **Generate Minimum 1.50 Times Fixed Obligation Charge Coverage Ratio**

The fixed obligation charge coverage ratio (FOCCR) is a measurement of cash flows and the ability to repay annual debt service costs from recurring revenues net of recurring expenses excluding one-time revenues or extraordinary charges. FOCCR also incorporates debt-like obligations either related to the ownership of resource assets through take-or-pay contracts or off-balance-sheet financings. A minimum 1.50 times FOCCR provides sufficient annual cash flows to meet the legal minimum 1.10 times debt service coverage ratio requirement, partially fund future capital additions and maintain favorable credit ratings.

### **Generate Minimum Net Income Equal to 3 Percent of Projected Annual Operating Expenses**

Net income is a measurement of total earnings. The PSAs with the municipalities require Platte River to have an adequate earnings margin to obtain revenue bond financing on favorable terms. A target minimum net income equal to 3 percent of projected operating expenses is a sufficient earnings margin to maintain cash balances to fund capital investment sufficient to meet the target debt ratio over the long-term.

### **Target Debt Ratio Less Than 50 Percent**

Debt ratio is a measurement of leverage, or the ratio of debt used to fund assets net of depreciation. A debt ratio less than 50 percent provides Platte River with a strong balance sheet and reduces the risk of becoming over-leveraged in the debt market. Platte River operates in a capital-intensive industry, therefore utilizes a long-term planning horizon to evaluate appropriate debt levels.

### **Target Minimum 200 Days Unrestricted Cash on Hand**

Days of unrestricted cash on hand is a measurement of liquidity, or ability to meet daily operating cash flow requirements. It also serves as a hedge against unforeseen financial obligations resulting from significant events. A minimum 200 days of unrestricted cash-on-hand target ensures that adequate cash is generated and maintained. Cash that is unrestricted refers to total funds excluding legally required reserves. Bond required reserves include the Reserve & Contingency Fund, Bond Service funds and Bond Reserve funds.

Included in the days of unrestricted cash-on-hand target is a Rate Stabilization Fund which is provided for under the General Power Bond Resolution. The purpose of the Rate Stabilization Fund is to reduce or eliminate the rate impact due to an unforeseen event that affects Platte River's ability to meet the minimum legal debt service coverage ratio requirement.