



Platte River
Power Authority

Estes Park • Fort Collins • Longmont • Loveland

Board of directors

Oct. 27, 2022

Proposed 2023 Strategic Budget update

Shelley Nywall, director of finance



Agenda

- Budget changes since work session
- Financial results
- Highlights – 2023 Strategic Budget

Budget changes since work session

- Increase in budget contingency
- Updates to revenues and production cost model
 - Wheeling and interest income
 - Coal and hydropower
- Refinements to departmental operations and maintenance expenses
- Updates to capital projects



Budget contingency

Reserved to the board

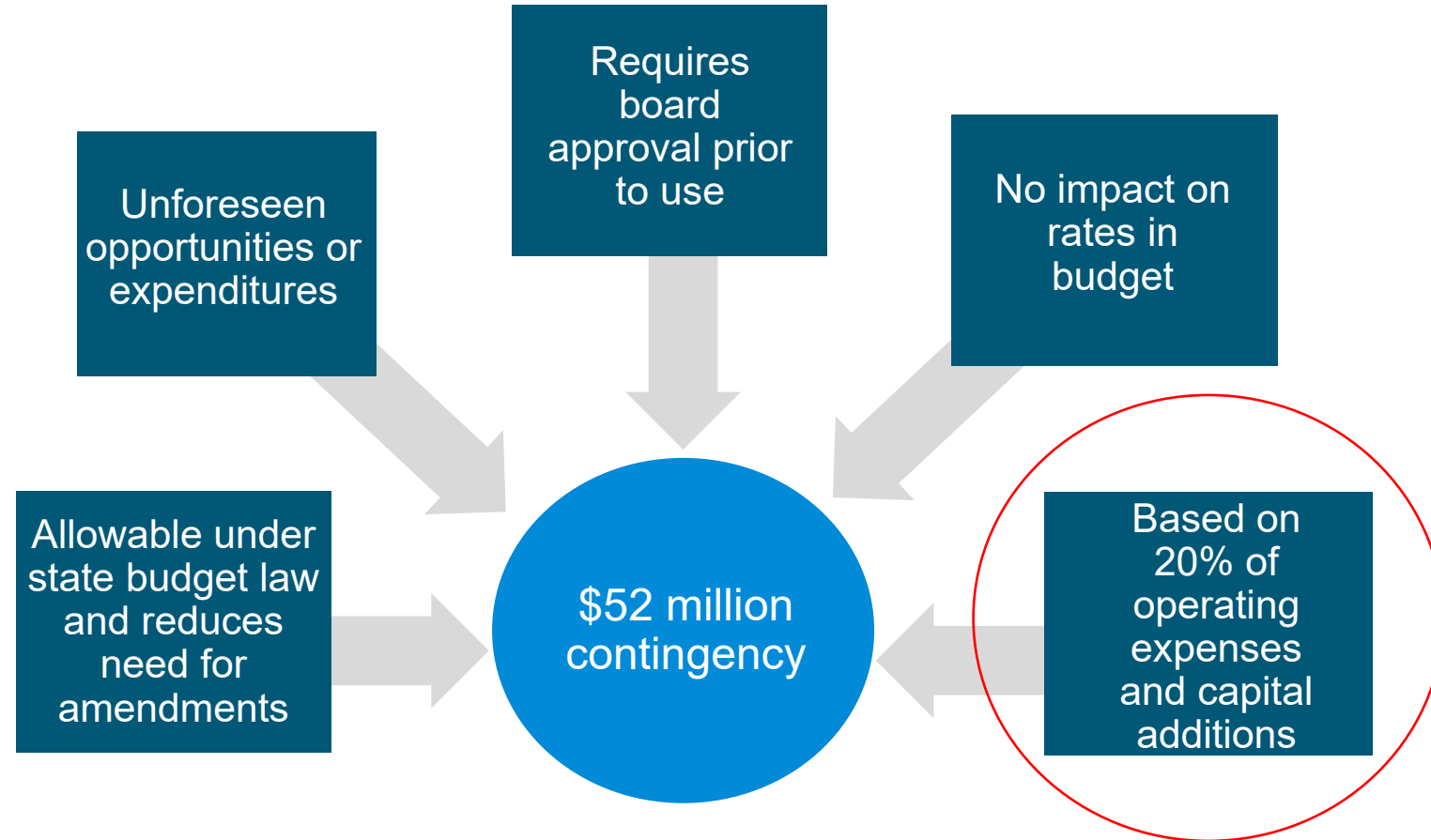
Proposed increase from 10% to 20%

Purpose

Expands the board's ability to efficiently take advantage of unforeseen opportunities and cover unforeseen expenditures

Potential uses

- Fuel expense for sales for resale
- Forced outages and extreme weather events
- Emergency, scope, inflation or timing changes in projects and initiatives
- Uncertainties and volatility in organized energy markets



Budget contingency

Historic transfers

Year	Contingency appropriation budget (\$000) ⁽¹⁾	Appropriated amount (\$000)	%	Purpose of transfer (more details provided in the budget document)
2014	\$20,000	-	-	
2015	\$20,000	\$6,640	33%	Capital projects and operating expenses (purchased power)
2016	\$20,000	\$1,200	6%	Capital projects
2017	\$20,000	\$1,100	6%	Capital projects
2018	\$23,000	-	-	
2019	\$23,000	\$1,779	8%	Capital projects
2020	\$26,000	\$1,282	5%	Capital projects
2021	\$28,000	\$1,566	6%	Operating expenses (fuel)
2022	\$24,000	\$16,700 ⁽²⁾	70%	Operating expenses \$9.4 M and capital projects \$7.3 M
2023	\$52,000	-	-	

(1) Prior to 2018, the budgeted contingency was a fixed amount.

(2) Projected as of September. Staff is monitoring and will determine a not-to-exceed request for the December 2022 board of directors meeting.

2022 estimate

Fuel \$18.5 M above budget offset by below-budget purchased power, DER and other expenses \$9.1 M



Expenditures exceed budget

If expenditures exceed budget in a current year, below are the potential actions taken to cover the additional expenditure.

- Budget implications (actual expenditures cannot exceed budget)
 - Manage overall expenditures within existing budget
 - Request board contingency transfer (notified throughout the year)
- Financial implications (if overall unfavorable)
 - Use cash reserves and deferred revenues to meet bond covenants
 - Request intra-year rate increase

Budget changes since work session

favorable/(unfavorable) change

<p>⬆ Other revenues \$0.5 million</p> <ul style="list-style-type: none"> ▪ Higher projected interest rates 	<p>⬆ Wheeling \$0.3 million</p> <ul style="list-style-type: none"> ▪ Updated assumptions and projected loads
<p>⬆ Operating expenses (\$3.1 million)</p> <ul style="list-style-type: none"> ▪ Increases: Nonroutine projects, monofill closure, market expenses, interconnection costs, contracted services, other departmental changes as more accurate information is available ▪ Decreases: Wheeling expenses, joint facilities and additional wages allocated to capital 	<p>⬆ Fuel (\$0.9 million)</p> <ul style="list-style-type: none"> ▪ Coal prices and generation were updated with latest estimates
<p>⬆ Purchased power \$0.2 million</p> <ul style="list-style-type: none"> ▪ Updated rates for reserves and an updated forecast for reduced hydropower energy 	<p>⬆ Capital additions \$5.2 million</p> <ul style="list-style-type: none"> ▪ Decreases: Pipeline reroute – Soldier Canyon Pipeline, 12.47 kV switchgear replacement – Rawhide, Craig units 1 and 2 projects, Subscription-based information technology arrangements ▪ Increases: Compliance management software, Market software – PCI GenManager, other new or refined projects
<p>⬆ Contingency appropriation (\$26 million)</p> <ul style="list-style-type: none"> • Increased from 10% to 20% of operating expenses and capital additions 	

Financial results

Strategic financial plan indicators	Target minimums	2022 budget	2023 budget	Increase (decrease)
Net income (\$ millions)	3% of projected operating expenses ⁽¹⁾	\$ 13.7	\$ 22.4	↑ 63.5%
Fixed obligation charge coverage ratio	1.50x	2.03x	2.43x	↑ 19.7%
Debt ratio	< 50%	28%	25%	↓ (10.7%)
Unrestricted days cash on hand	200	381	414 ⁽²⁾	↑ 8.7%

⁽¹⁾ 3% of projected operating expenses for 2022 and 2023 is \$6.3 M and \$7.1 million, respectively.

⁽²⁾ Will change with the update to the 2022 estimate in the final budget document.

Budget results (\$ millions)	2022 budget	2023 budget	Increase (decrease)
Total revenues	\$ 263.2	\$ 305.0	↑ 15.9%
Total expenditures	\$ 266.4	\$ 278.3	↑ 4.5%
Board contingency ⁽³⁾	\$ 24.0 ⁽⁴⁾	\$ 52.0	↑ 116.7%

⁽³⁾ Contingency appropriation reflects an increase from 10% to 20% of operating expenses and capital additions.

⁽⁴⁾ Contingency transfer to be determined later in the year.

Financial impact

\$ in thousands	Proposed budget	Prices & model update impacts	Other O&M net increase and contingency increase	Capital & depreciation, amortization & accretion impacts ⁽¹⁾	Favorable (unfavorable) changes	Updated proposed budget
Revenues						
Sales to owner communities	\$ 224,082				\$ -	\$ 224,082
Sales for resale - long-term	14,889				-	14,889
Sales for resale - short-term	53,584				-	53,584
Wheeling	5,884	\$ 281			281	6,165
Interest and other income	5,711	569			569	6,280
Total revenues	\$ 304,150	\$ 850			\$ 850	\$ 305,000
Operating expenses						
Purchased power	\$ 55,302	\$ 69	\$ 118		\$ 187	\$ 55,115
Fuel	61,777	(899)			(899)	62,676
Production	52,153		(2,617)		(2,617)	54,770
Transmission	20,588		334		334	20,254
Administrative and general	30,821		(687)		(687)	31,508
Distributed energy resources	13,639		(150)		(150)	13,789
Total operating expenses	\$ 234,280	\$ (830)	\$ (3,002)		\$ (3,832)	\$ 238,112
Capital additions						
Production	\$ 14,285			\$ 6,268	\$ 6,268	\$ 8,017
Transmission	4,301			(340)	(340)	4,641
General	8,976			(681)	(681)	9,657
Asset retirement obligations	52				-	52
Total capital additions	\$ 27,614			\$ 5,247	\$ 5,247	\$ 22,367
Total operating expenses and capital additions	\$ 261,894	\$ (830)	\$ (3,002)	\$ 5,247	\$ 1,415	\$ 260,479
Debt expenditures	\$ 17,783				\$ -	\$ 17,783
Total expenditures	\$ 279,677	\$ (830)	\$ (3,002)	\$ 5,247	\$ 1,415	\$ 278,262
Contingency appropriation ⁽²⁾	\$ 26,000		\$ (26,000)		\$ (26,000)	\$ 52,000
Total expenditures and contingency	\$ 305,677	\$ (830)	\$ (29,002)	\$ 5,247	\$ (24,585)	\$ 330,262
Net income	\$ 24,682	\$ 20	\$ (3,002)	\$ 673	\$ (2,309)	\$ 22,373

(1) Depreciation, amortization and accretion expense decreased by approximately \$673K impacting net income.

(2) Contingency appropriation reflects an increase from 10% to 20% of operating expenses and capital additions.

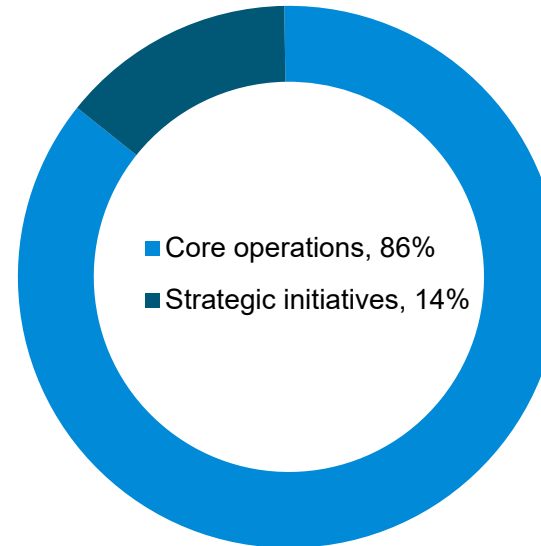
Highlights – 2023 strategic budget



Operating expenses and capital additions: \$260.5 million

Strategic initiatives

- Enhanced customer experience, (DER integration, DERMS, energy efficiency programs)
- Communications and community outreach (50th anniversary and public education)
- Resource diversification and alignment (2024 IRP, SPP WEIS participation, operational flexibility)
- Infrastructure advancement (enterprise resource planning, fiber)



Core operations

- Baseload and peaking generation, transmission
- PPAs for existing renewable resources and hydropower
- Predictive maintenance, Rawhide Unit 1 minor outage, Craig Unit 2 6-week outage
- Proactive capital investments to maintain reliability, efficiency and environmental compliance

Revenues

- Increasing owner community loads
- Increasing sales for resale
- 5% average wholesale rate increase

2023 budget: \$330.3 million

Questions



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Strategic plan update

Eddie Gutierrez, chief strategy officer

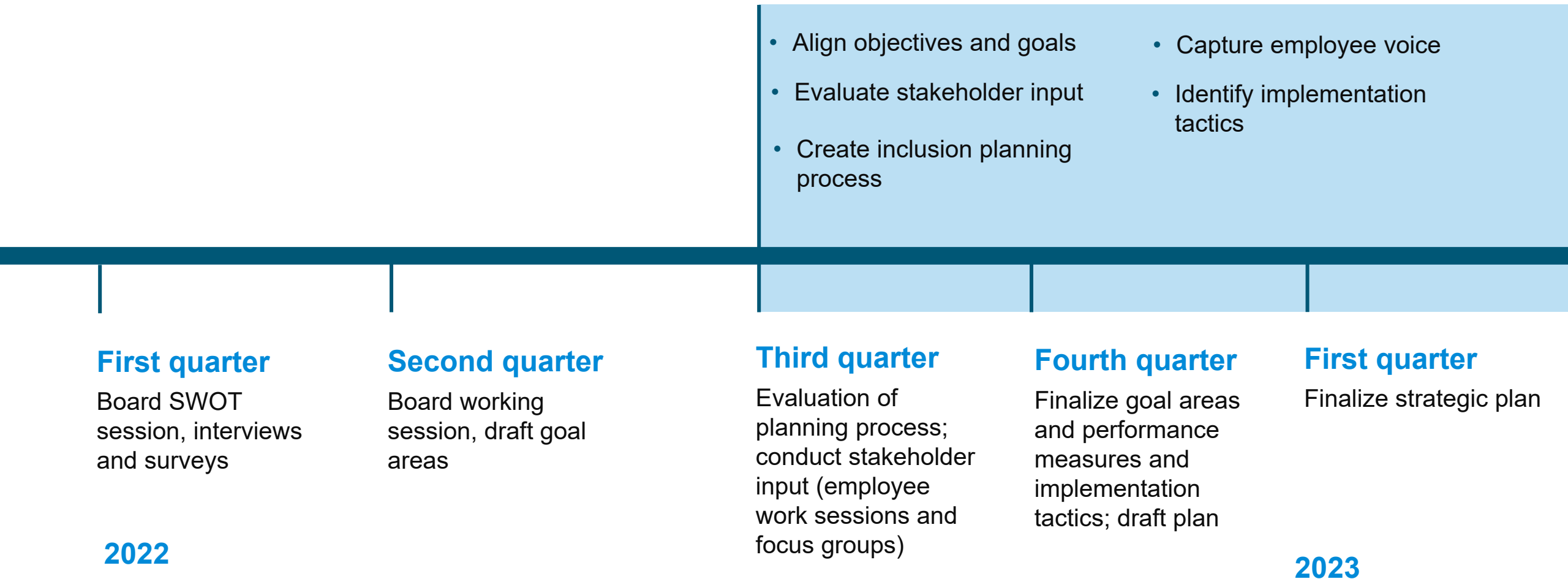


Key highlights

- Review of planning timeline
- Results of extended work sessions
- Evaluation of strategic goal areas
- Next steps

Strategic planning process

Updated timeline

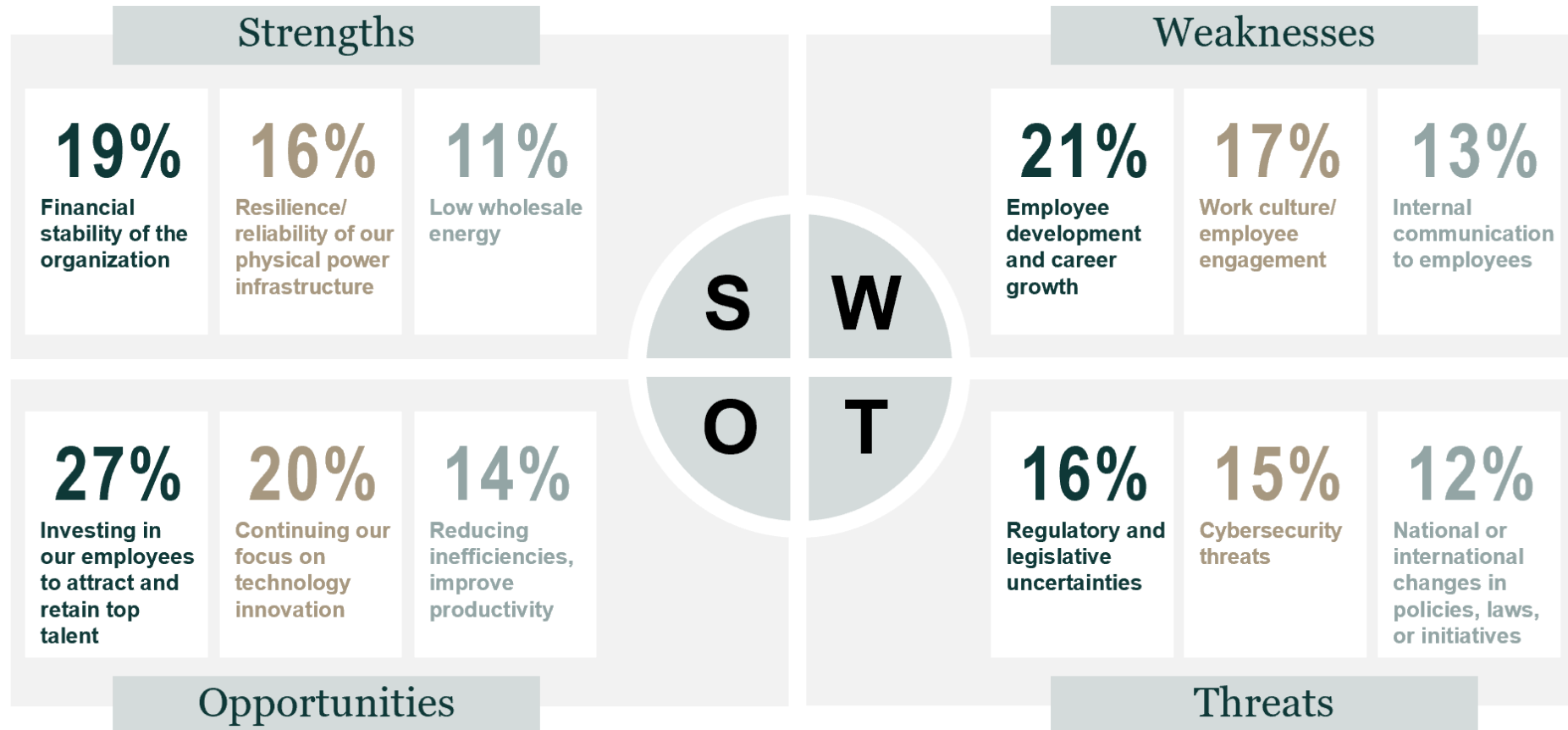


Work session recap: leadership and board

- Invest in employees to retain and attract top talent
- Continue technology innovation and integration
- Assure system resiliency and reliability
- Focus on implementation tactics and goals for the strategic plan



Initial survey analysis



Employee work sessions

Initial feedback

- Invest in our employees and our culture
- More integration and planning across operations
- Focus on resource diversification in terms of system reliability
- Raise visibility as a trusted community partnership – regionalism

Focus group themes

Employees want Platte River to be:

- Transparent
- Authentic
- Trustworthy
- Recognized as a partnership between owner communities



Core strategic areas



**Resource diversification
planning and integration**



**Community partner
and engagement**



**Workforce
culture**



**Process management
and coordination**

Resource diversification

Key areas

- Strategy and integration
- Energy storage
- Market entry / organized markets
- Rate alignment / new rate tariffs
- Transmission infrastructure

Metrics and performance driver options

- IRP process and planning
- Community engagement
- Additional indicators based on IRP development process

Focus group feedback

Resource diversification

- Transparency and unity around rate impacts
- Maintain system reliability
- Explanation of economies of scale and capacity in relation to energy storage, wind and solar

Community partner and engagement

Key areas

- Create working groups across owner communities
- Regional engagement opportunities
- Educational collateral and campaigns

Metrics and performance driver options

- Total media reach
- Progress updates
- Community surveys and listening sessions



Focus group feedback

Community partner and engagement

- Clear, unified and consistent messaging from all entities – communities and Platte River
- Increase general awareness of Platte River
- Share ownership of energy transition/future with communities



Process management and coordination

Key areas

- Systems thinking and change management
- Project management
- Technology integration and long-term planning
- Comprehensive risk management

Metrics and performance driver options

- Task trackers for technology roadmap
- Engagement surveys evaluating project management and efficiencies



Focus group feedback

Process management and coordination

Priorities identified:

- Clear timeline with key roles and responsibilities
- Framework for cross-functional projects
- Interactive energy management tools
- Transmission / distribution coordination and planning
- Cybersecurity
- Water resources



Workforce culture

Key areas

- Investment and growth of employees
- Market-based comp study
- Updated benefits and other workplace improvements
- Hybrid work flexibility
- Retention, recruitment and development

Metrics and performance driver options

- New employee engagement tools
- Additional education and career growth planning
- Succession planning
- New merit and performance evaluations

Focus group feedback

Workforce culture

- Developing workforce for energy future
- Transitioning our energy, workforce and technology
- Best of the best
- Family
- Purpose and value



Next steps

- Finalize employee feedback
- Refine key implementation drivers and metrics
- Draft planning



Resource
diversification
planning and
integration



Community partner
and engagement



Workforce
culture



Process
management and
coordination

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Draft concepts for distributed solar and storage options

Raj Singam Setti, chief transition and integration officer



Solving for X and Y

X : As distribution solar in our communities increases

Y: We must solve for reliability, cost efficiency & integration

For years, grid operators had to solve to balance supply and demand.

Load is constantly varying, and supply has been stable. However, future renewable energy supply is intermittent.

Solution

Reliability & Resilience

- Energy storage can contribute to grid flexibility and reduce grid power losses.
- System and distribution planning

Cost Efficiency & Integration

- Platte River is well positioned to provide energy storage to the owner communities.
- Significant energy storage capacity added between now and 2030 – a portion could be installed in the owner communities.
- Platte River's participation in organized market.



Areas to address

- Energy storage location, sizing and reliability
- Generation interconnection coordination
- Cost allocation & wholesale tariff
- Resource procurement and contracting
- Grant opportunities
- Research & development
- Confirm owner community interest

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September operational results

Category	September variance		YTD variance	
Owner community demand	14.4%	●	5.6%	●
Owner community energy	2.2%	●	1.6%	◆
Wind generation	(14.5%)	■	4.1%	●
Solar generation	(13.5%)	■	5.3%	●
Net variable cost to serve owner community load*	71.1%	●	16.5%	●

Variance key: Favorable: ● >2% | Near budget: ◆ +/- 2% | Unfavorable: ■ <-2%

*Total resource variable costs plus purchased power costs less sales revenue



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Financial summary

Category	September variance from budget (\$ in millions)		Year to date variance from budget (\$ in millions)	
Net income *	\$2.3	●	\$12.3	●
Fixed obligation charge coverage	1.81x	●	.75x	●
Revenues	\$8.1	●	\$23.8	●
Operating expenses	\$(3.5)	■	\$(4.0)	■
Capital additions	\$2.2	●	\$16.4	●

2% ● Favorable | 2% to -2% ◆ At or near budget | < -2% ■ Unfavorable

* Net income results impacted by unrealized losses on investments of \$7.0 million year to date





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