2019 Year End Summary

The District ended 2019 with a $1.7 million net gain, making it three years in a row with an increase in net position. The District’s strategic business model anticipates variability in net income over time due to significant variability in retail revenue sales and power supply costs. In the long run, the District sets rates sufficient to generate positive net income in order to cover operating expenses, power expenses, capital costs in excess of depreciation, and to make interest and principal payments on bonds.

As Chart 1 illustrates, the District’s net income (or loss) varies each year. This is a direct result of variability in power expense and retail revenues which are influenced by water flow through the dams, secondary market prices, and weather (a major driver of retail revenues). It is important to note that over the last six years, the District has experienced wide variations on net income. Benton PUD’s combined net income for the same period was $20.9 million.

The District maintains adequate reserves in order to handle volatility in revenues and power expense, as seen over the past several years. These reserves help Benton PUD respond to emergencies, provide stable rates, and also help maintain Benton PUD’s credit rating from rating agencies. The District has used excess reserves that were generated in years of strong positive net income to maintain low retail rates, defer future rate actions, and defer future debt issuances.

With 2019 resulting in the third straight net gain, the District continues to meet its obligation to bondholders and internal planning requirements with a debt service coverage (DSC) ratio of 2.1 times. The DSC ratio measures the amount of net revenues that are available to make bond principal and interest payments. The DSC ratio is an important factor that is evaluated by rating agencies when assigning credit ratings (higher is better).

The District is contractually committed to its bondholders to maintain a DSC of 1.25 times. The District’s financial policies require that financial plans are set to achieve a ratio of at least 2.0 times. The DSC ratio has been over 2.0 times for more than a decade.
The District last issued bonds in the Fall 2016, it issued $22.5 million in bonds to finance capital expenditures and refinance higher interest rate debt. The bond issue resulted in an average interest cost of 3.25%, $15 million available for capital expenditures, and a net present value savings of nearly 5% on the refunding portion of the bond issue. All three rating agencies have affirmed the District’s current bond ratings (A+ Fitch/S&P, Aa Moody’s) due to solid financial reserves, adequate financial metrics, and moderate debt levels. Fitch Ratings affirmed the District’s rating of AA- in the Spring of 2020. The District used the funds generated by the bond proceeds to fund a higher than normal capital plan that had new substations, expanded selected current substations, and added new transmission and distribution lines and substations for increased growth and improved reliability.

The following sections provide a background on the key factors that contribute to variations in the District’s net income (or loss).

Retail Revenues:

Weather has a major influence on how much power customers use. This translates into how much revenue the District collects from its customers. The winter months of 2019 (February and March) were on average more than 11° colder than normal leading to revenues being up 6% year to date as compared to budget estimates. In contrast the summer months of the year (June, July, and August) were on average 2.2° cooler than the average of the last five years. Retail revenues year to date at the end of August were 1% under budget estimates. The variances from normal weather contributed to the District’s revenues being down $0.5 million from the 2019 original budget projection.

One measure of how temperature affects power usage is a metric known as degree days\(^1\). During 2019, heating degree days were 20% above the 5-year average. Cooling degree days in 2019 were 16% below the 5-year average. Variances in heating degree days influence energy consumption far more than variances in cooling degree days. As a result of the increase in heating degree days, usage by the District’s customers was above the average of the last ten years, as illustrated in Chart 2.

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\(^1\) A “Degree day” is the difference between the actual average temperature for that day and 65° F. If it is warmer than 65°, “cooling” degree days will result. If it is cooler than 65°, “heating” degree days will result.

Each degree over or under 65° is considered a degree day. For example, if the average temperature on April 1 was 55° degrees, you subtract 55 from 65 to get 10 so that day had 10 heating degree days. By adding the degree days for all the days in a month, it provides a way to compare the months to see how much colder or warmer each month was. In the months with a larger number of heating degree days (or cooling degree days), customers will likely have a higher bill.
**Power Expense:**

The District uses net power expense, power supply expense less secondary market sales, as a means to measure overall financial performance related to power supply management. The District’s net power supply expense increased by $11.7 million (15.0%) in 2019 to $91.8 million, primarily as a result of an unexpected and prolonged cold event in February and March. Additionally, during the cold event there was an extreme price excursion where power prices rose significantly higher than normal.

**BPA Contracts**

Nearly 80% of the District’s power is purchased from the Bonneville Power Administration (BPA). The District is a “Slice” customer of BPA and receives a percentage (or slice) of the total Federal Power System operated by BPA, which is largely made up of hydropower. Generally, the District receives more power than is used by its retail customers and sells the excess on the secondary market. Revenues from these “excess” secondary market sales are used to “buy down” customer rates. This is referred to as being “long on power.” Hydropower output can be volatile and varies based on the amount of water that flows down the rivers. The District manages the risk associated with the high degree of variability in power costs by proactively hedging future projected needs and maintaining adequate financial reserves.

**Secondary Market Price**

Secondary market prices have dropped since 2008 when prices peaked at $63 on average for the year. The last ten years of average market prices are illustrated by Chart 3 which shows prices have fallen to now be generally between $20 and $30 on average. The decline is largely attributable to a drop in natural gas prices, reduced demand, and an increase in power generating resources (solar and wind).

Since the District is a net seller of power into the market, lower secondary market prices over time have resulted in lower revenue from secondary market sales, which are used to partially offset power supply cost increases and ultimately help to buy down retail rates. In 2019, the average price the District received on the secondary market was $39/MWh, a $10 increase over the prior year. The higher average price was primarily due to a price excursion during the February and March cold event. When removing these two months from the average price calculation, the average price was in line with the 10-year price average of $30. Even though 2019 average price was better than the ten year average, volume was down about 24% from the prior year.
Looking Ahead

As the District looks to the future, we are seeing a declining long-term trend in use per customer leading to flattening retail load. Stream flows in 2020 started lower than expected; although, summer stream flows are looking to be above average at 109%, which may provide for excess power to sell thus more revenue depending on prices. The District anticipates secondary market prices will be less than the 10-year average, due to less demand because of the Covid pandemic, mild weather, and above average water bringing power prices down. The District is expecting net power expense to be $3.6 million under the original budget, primarily due to reduced demand and lower power prices. As noted earlier, the District receives the majority of its power from BPA which continues to see increasing cost pressures. The District anticipates BPA to continue to raise its rates in the future leading to increasing power costs. The District is not planning a rate increase in 2020.

To review the District’s 2019 annual financial report, click here.

For a more comprehensive review of District financial policies and planning, please click here.