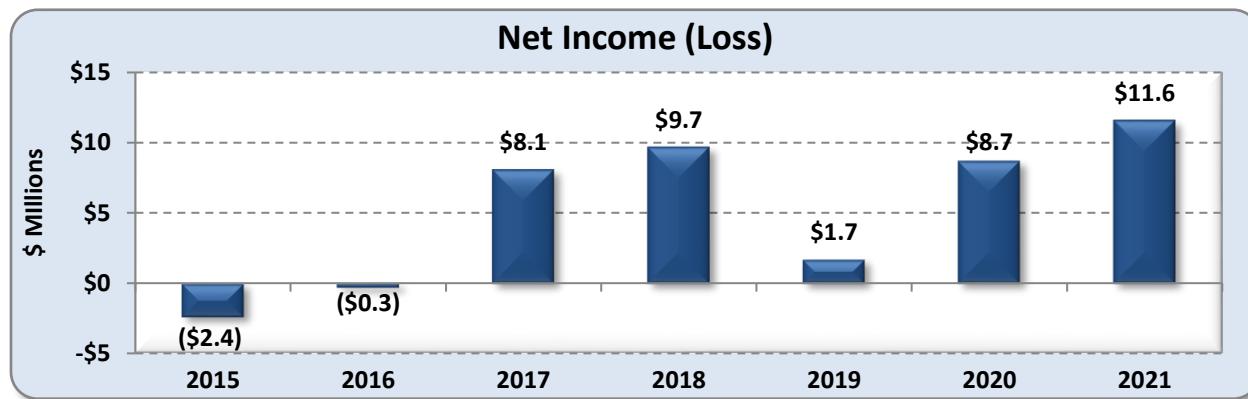


## 2021 Financial Year End Summary

The District ended 2021 with an \$11.6 million net gain, making it five 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 seven years, the District has experienced wide variations on net income. Benton PUD's combined net income for the same period was \$37.1 million.

Chart 1



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 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 2021 resulting in the fifth straight net gain, the District continues to meet its obligation to bondholders and internal planning requirements with a debt service coverage (DSC) ratio of 3.75 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 Fall 2020, by issuing \$23.5 million in bonds to finance capital expenditures and refinance higher interest rate debt. The bond issuance resulted in reduced total debt service payments of approximately \$48,000 and \$20 million available for capital expenditures.

In 2020, all three rating agencies affirmed the District's current bond ratings (AA- Fitch, A+ S&P, Aa3 Moody's) due to strong management, solid financial metrics, and moderate debt levels. There were no changes to the District's ratings in 2021.

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 2021 (January, February, and December) were on average about 2° warmer than the 5-year average resulting in retail revenues lower than budgeted for those months. The summer months of the year (June and July) were on average 6.1° warmer than the 5-year average resulting in much higher revenues than budgeted for those months and ultimately contributed to the District's retail sales revenues being up \$4.3 million from the 2021 original budget projection.

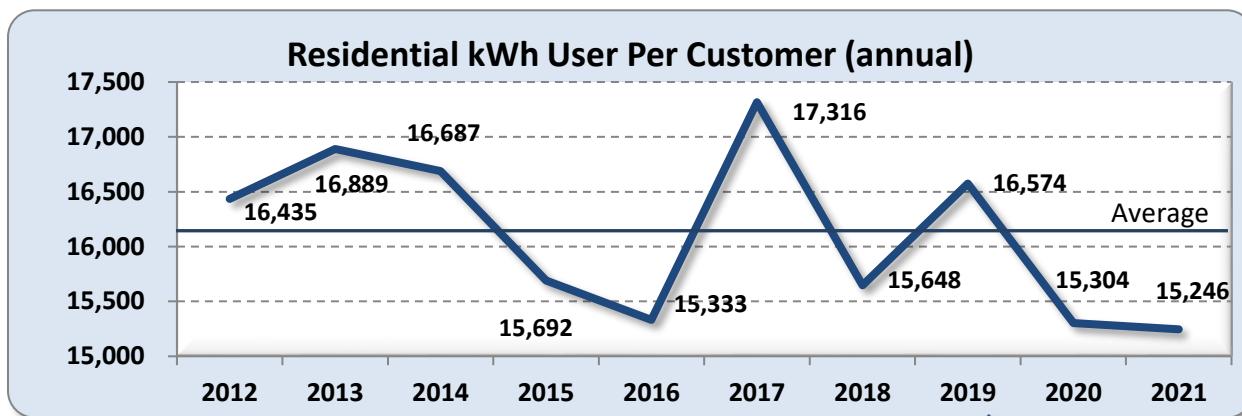
One measure of how temperature affects power usage is a metric known as degree days<sup>1</sup>. During 2021, heating degree days were 9% below the 5-year average. Cooling degree days in 2021 were 29% above the 5-year average. Variances in heating degree days influence energy consumption far more than variances in cooling degree days. As a result of variances in degree days, usage by the District's residential customers was below the average of the last ten years, as illustrated in Chart 2.

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<sup>1</sup> 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.

Chart 2



#### **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 \$2.2 million (2.7%) in 2021 to \$83.6 million, primarily as a result of higher market prices, increased power purchases to manage daily loads, and hotter and drier summer conditions than normal.

#### ***BPA Contracts***

Nearly 80% of the District's gross 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.

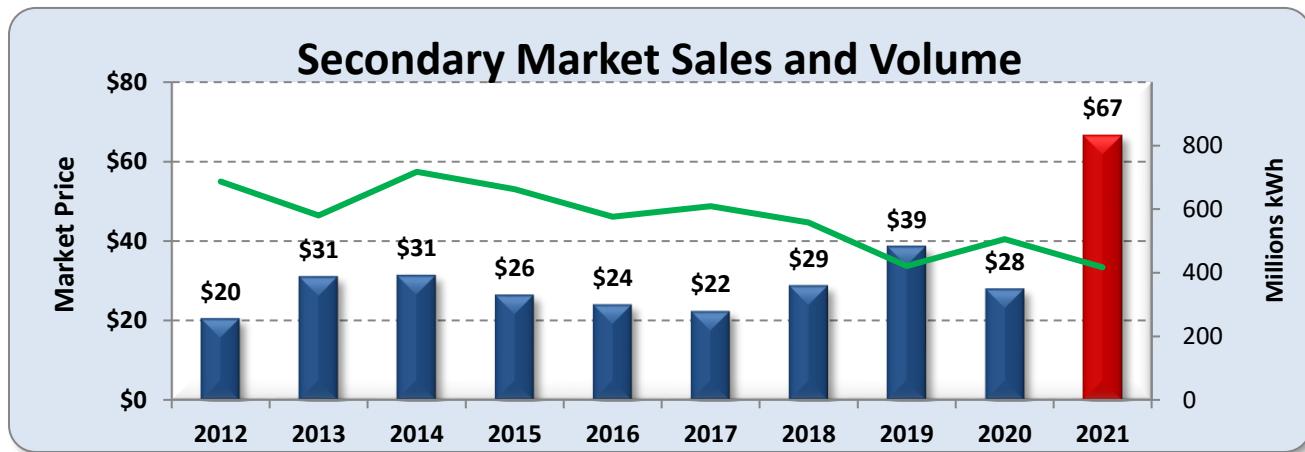
#### ***Secondary Market Price***

Secondary market prices over the past 10 years have remained relatively level with the exception of this year. The average market price in 2021 was 110% above the 10-year price average of \$32/MWh. The last ten years of average market prices are illustrated by Chart 3.

Since the District is a net seller of power into the market, sales proceeds are used to partially offset power supply cost increases and ultimately help to buy down retail rates. In 2021, the average price the District received on the secondary market was \$67/MWh, a \$39 increase over the prior year. The higher average price as compared to 2020 was primarily due to low river water flow (82% of normal) which reduced generation and available resources, low annual precipitation (25% below normal), and an early start to a hot

and dry summer (June and July's temperature averaged 6% above normal and precipitation was 54% of normal). The volume of secondary market sales was down about 27% from the 10-year average.

Chart 3



### Looking Ahead

As the District looks to the future, we are seeing an inclining long-term trend in residential retail growth of about 0.35%. Stream flows in 2022 are expected to be below average at 94%, which will reduce excess power to sell thus less revenue; however, the District anticipates secondary market prices to be above the 10-year average during the summer months based on forward price signals. The District is expecting net power expense to be inline with the original budget. 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 2022.

To review the District's 2021 annual financial report, click [here](#).

For a more comprehensive review of District financial policies and planning, please click [here](#).