

Financial Analysis Power Contract Buy-Out Options

Modified Debt Service Coverage

- Cash from Operations in Relation to Cost of Serving Debt
- $(\text{Operating Margins} + \text{Interest Expense} + \text{Noncash Expenses} + \text{Patronage Cash Received} + \text{Interest Income}) / (\text{Principle} + \text{Interest Expense})$
- Shows amount of cash available to buy capital items (Vehicles, etc.), retire capital credits, and pay for unplanned expenses – in excess of rate recovery

Investment in Tri-State

- Current Investment - \$75,018,294
- Net Present Value Calculation – 6% Discount Rate, \$30 Million Retirement per year (Calculated based upon LPEA's portion of that \$30 Million per year)
 - NPV = \$37,359,194
 - Discounted (Lost) = \$37,659,100

CFC Long-Term Debt

- 100% CFC Borrower
- Mortgage Lender
 - Lends for Capital expenditures – Plant
 - Holds mortgage on 100% of LPEA's Assets
- 50 Basis Points discount on Debt
 - Only if LPEA Maintains 100% Status
 - Discount of \$628,996 (on existing debt)
 - Plus new debt

Assumptions – Do Not Include Tri-State Services

- Maintain Special Rate with Large Industrial Member
- Substation Communications – provided at \$0
- Substation Maintenance Upgrades – provided at \$0
- Use of Men & Equipment – provided at \$0 or Cost
 - Mobile Substations, Trucks, etc.
- Integration Costs – provided at \$0
- NERC Services – provided at \$0 or Cost
- Annual Lineman Switching Training – provided at \$0
- Energy Efficiency Rebates/Renewable Energy Credits - \$622K

Assumptions

- New Power Contract – 10 Years
- 15% Savings on Power (6¢/kWh - Delivered)
- 8.50% Interest on Debt

Understanding the Accounting

Account	Debit	Credit
Buy-Out Expense (Regulatory Asset)	64,698,833	
G&T Capital Credits (Discounted) Expense (Reg Asset)	37,659,100	
Investment in Tri-State		75,018,294
Long-Term Debt		27,339,639

Vetted by 2 Public Accounting Firms

Modified Debt Service Coverage (MDSC)

\$64,698,833 Gross Buy-Out (\$27.3 Net)

	2019 Forecast		Proforma
Operating Margin	1,012,966		953,771
Interest Expense	4,988,324		7,870,837
Depreciation & Amort	9,305,042		17,030,228
Patronage Cash	3,230,000		230,000
Interest Income	<u>480,000</u>		<u>480,000</u>
Numerator	19,016,332		26,564,836
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Billed Debt Service	<u>10,247,346</u>		<u>14,315,014</u>
MDSC	1.86		1.86

Assumptions – Different Scenario

- New Power Contract – 10 Years
- 25% Savings on Power (5.29¢/kWh - Delivered)
- 8.50% Interest on Debt

Understanding the Accounting

Account	Debit	Credit
Buy-Out Expense (Regulatory Asset)	90,168,982	
G&T Capital Credits (Discounted) Expense (Reg Asset)	37,659,100	
Investment in Tri-State		75,018,294
Long-Term Debt		52,809,788

Modified Debt Service Coverage (MDSC)

\$90,168,982 Gross Buy-Out (\$52.8 Net)

	2019 Forecast		Proforma
Operating Margin	1,012,966		3,339,671
Interest Expense	4,988,324		9,970,258
Depreciation & Amort	9,305,042		19,577,243
Patronage Cash	3,230,000		230,000
Interest Income	<u>480,000</u>		<u>480,000</u>
Numerator	19,016,332		33,597,173
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Billed Debt Service	<u>10,247,346</u>		<u>18,104,535</u>
MDSC	1.86		1.86

Rate Increase for Different Buyout Amounts

Assuming 15% Power Cost Savings (6¢/kWh), 10 Year Contract, 8.5% Interest Rate

Buyout - Gross	Buyout - Net	Rate Increase (Maintain MDSC)	Increase per Meter	New Base Chg/Month
\$100 Million	\$62.6 Million	\$9.75 Million/Year	\$18.39/Month	\$39.89
\$125 Million	\$87.6 Million	\$16.65 Million/Year	\$31.42/Month	\$52.92
\$150 Million	\$112.6 Million	\$23.55 Million/Year	\$44.44/Month	\$65.94
\$200 Million	\$162.6 Million	\$37.36 Million/Year	\$70.49/Month	\$91.99

Rate Increase for Different Buyout Amounts

Assuming 25% Power Cost Savings (5.29¢/kWh), 10 Year Contract, 8.5% Interest Rate

Buyout - Gross	Buyout - Net	Rate Increase (Maintain MDSC)	Increase per Meter	New Base Chg/Month
\$100 Million	\$62.6 Million	\$2.71 Million/Year	\$5.12/Month	\$26.62
\$125 Million	\$87.6 Million	\$9.62 Million/Year	\$18.15/Month	\$39.65
\$150 Million	\$112.6 Million	\$16.52 Million/Year	\$31.17/Month	\$52.67
\$200 Million	\$162.6 Million	\$30.32 Million/Year	\$57.22/Month	\$78.72

Concerns with Consultants' Reports

- Prices to buy (LPEA) /sell (Tri-State) in the same market were different – Factor of 2
 - Lowers Buy-Out calculation
- Investment in Tri-State was deducted at book value
 - Needs to be at Net Present Value
- Both Consultants Opined TS Rates will be equal to Market in 10 Years

Thank You