Item #200028

GRU
More than Energy

Budget Workshop

Final Presentation

“A budget is telling your money where to go instead of wondering where it went.”
- Dave Ramsey

July 9, 2020

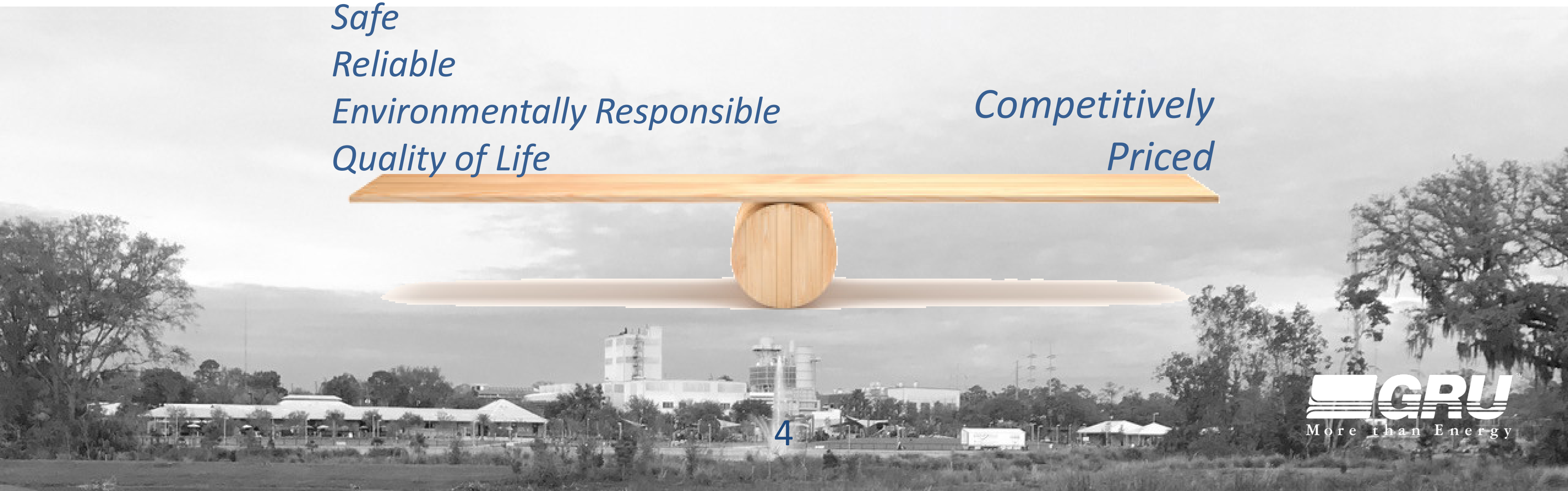
More than Energy

Budget Workshops Update

- GRU had originally scheduled, received approval, and subsequently adjusted the following workshops for the fiscal year 2021 budget cycle:
  - January 28--repurposed for a discussion on the NWS with FPL
  - February 25—cancelled as it was a scheduled continuation of topics from the January 28 meeting
  - April 21—cancelled due to COVID 19
  - May 13—cancelled due to COVID 19
  - May 28—completed on fiduciary responsibilities, credit ratings, cash, debt, liquidity, GFT, and Fuels
  - June 16—cancelled due to COVID 19
  - July 9th--UAB
  - July 13th—Budget presentation including revenue requirements
  - July 20th—placeholder

Our Budget Mission

Balance the need to provide competitively priced utility services with the responsibility to be both safe & reliable as well as environmentally responsible while enhancing the community's quality of life.



Our Budget Goal

A financially healthy Utility fulfilling its fiduciary responsibility to its stakeholders: Commission, Ratepayers and Taxpayers, Bondholders

A recent budget process refresher

- In the FY 2019 budget process, GRU discussed financial pressures on the Utility from declining cash levels, declining revenues, increasing operational costs and an unsustainable General Fund Transfer payment
- In January 2019 for the 2020 budget process, GRU projected an ongoing annual budget shortfall of between $6 million and $13 million over the next six years (2020-2025)
- Cash from operations had fallen below established levels, requiring the utility to use reserves to pay the GFT payment
- The shortfall was communicated extensively during 2019 and 2020 budget cycles
- As a result, GRU presented a plan in January 2019 to mitigate the shortfall summarized in the Shortfall Scorecard, which it is is currently implementing.

What contributed to the annual $6 to $13 million shortfalls?

- Financial impacts of decisions primarily related to renewable energy (SolarFIT and biomass), conservation programs, capital projects/debt, and GFT requirements
- Changes in customer behavior and resource consumption related to the Great Recession and improved energy efficiencies.
- Flattening revenues combined with high fixed costs and increased operating expenses.

These factors are discussed in detail in GRU at a Crossroads, a white paper published Feb. 7, 2019, by GRU GM Ed Bielarski.

The Path Chosen in January 2019

Step 1. Implement proposed rate increases, and/or	Accepted
Step 2. Restructure debt, and/or	Accepted
Step 3. Reduce GFT payments, and/or	Declined
Step 4. Reduce expenses	Accepted

Actions Avoided the Following Consequences

- Negative Rate Stabilization Fund cash by FY2022.
- Further debt downgrading by rating agencies. Although the risk is still high due to leverage.
- Utilizing line of credit to pay bills at higher interest rates.
- Erosion of investor, bondholder and rating agency trust.
- Immediate need to reduce GFT to level of GRU profitability.
- Reduction of essential services, safety and reliability.

"Budget = Awareness, and who doesn't want that?"
- Carl Richards

Actions Provided the Following Benefits

- Longer-term stabilization and focused execution of the proposed plan should result in excess reserves by FY2025.
- Any cash in excess of what is required to meet our reserves can be used for rate reductions or debt retirement.
- GRU secures its financial foundation in order to compete in the new/changing energy marketplace.
- GRU requires that a financially stable Utility be in place by 2025

Further Actions Taken This Year

- Working with the Commission, GRU has completed the following:
  - Cash balance policy which stabilized cash levels
  - 2019 Restructuring which allows for a window of time to address the issues from GRU at a Crossroads
  - 2020 Restructuring which allowed GRU to take advantage of market conditions to lower debt service costs and accelerate debt repayments

Challenges remain

- Debt service payments will increase substantially beginning in 2026, after the scorecard's five-year window ends
- Costs will have continued to increase from 2020 to 2025, yet the required rate increases in this period of time will have stabilized cash levels
- The 2019 restructuring allows the Utility to stabilize financially while the 2020 restructuring allows the Utility to begin to pay down debt beginning in FY 2024

FY 2021 Budget Challenges

- During the 2021 budget process GRU is faced with:
  - Declining revenues related to COVID impacts
  - Higher than expected merit increases approved by the Commission of 2.5% versus 2%
  - Total Rewards impacts
  - Higher O & M projections – less labor allocated to capital than projected a year earlier
  - A continued unstainable GFT payment

Non-Debt Actions Taken for 2020 and 2021

- The General Manager has completed the following:
  - Reductions in service levels of $2 million in 2020
  - Reductions in service levels in 2021 of $3.4 million
  - Froze 12 open positions for 2021
  - Onboarding of NAES which has projected savings of $1 million in 2021

Headwinds will prevail

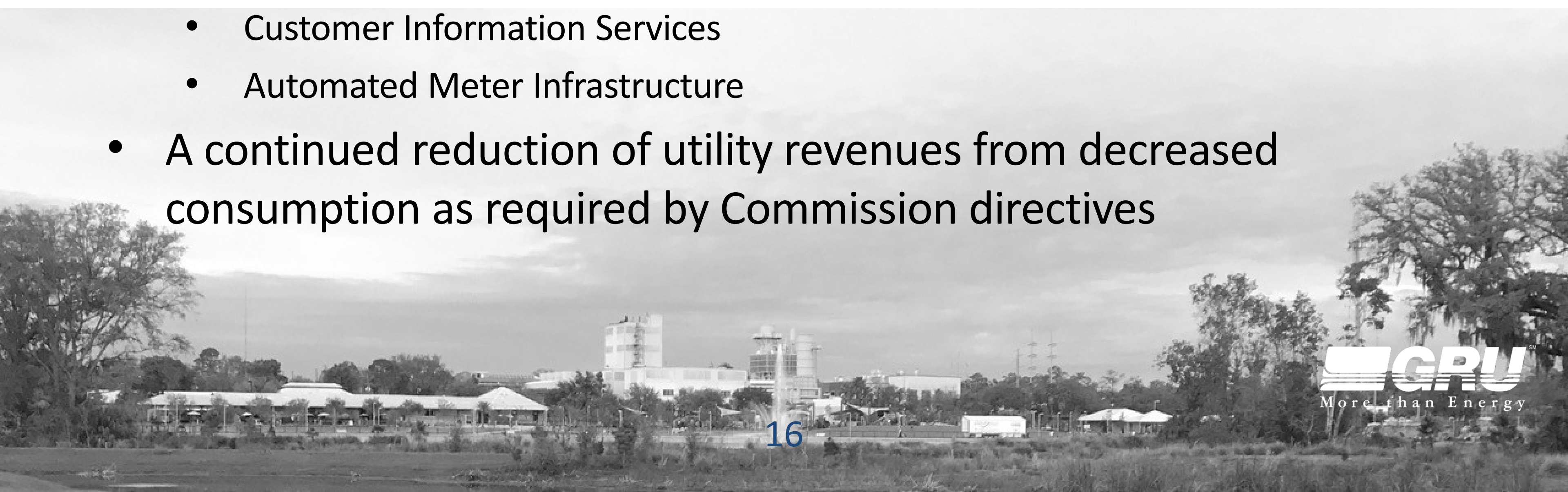
- A continuation of debt service payments primarily related to Biomass in the electric system, SolarFIT in fuel, conservation programs in the electric system, 100% renewable energy by 2045 in the Electric System, capital infrastructure needs, and GFT requirements
- Changes in customer behavior and resource consumption related to the pandemic, economic conditions for the near future and improved energy efficiencies.
- Flattening or reducing revenues combined with high fixed costs and increased operating expenses.

"A debt problem at its core is a budgeting problem."
- Natalie Pace

Major initiatives

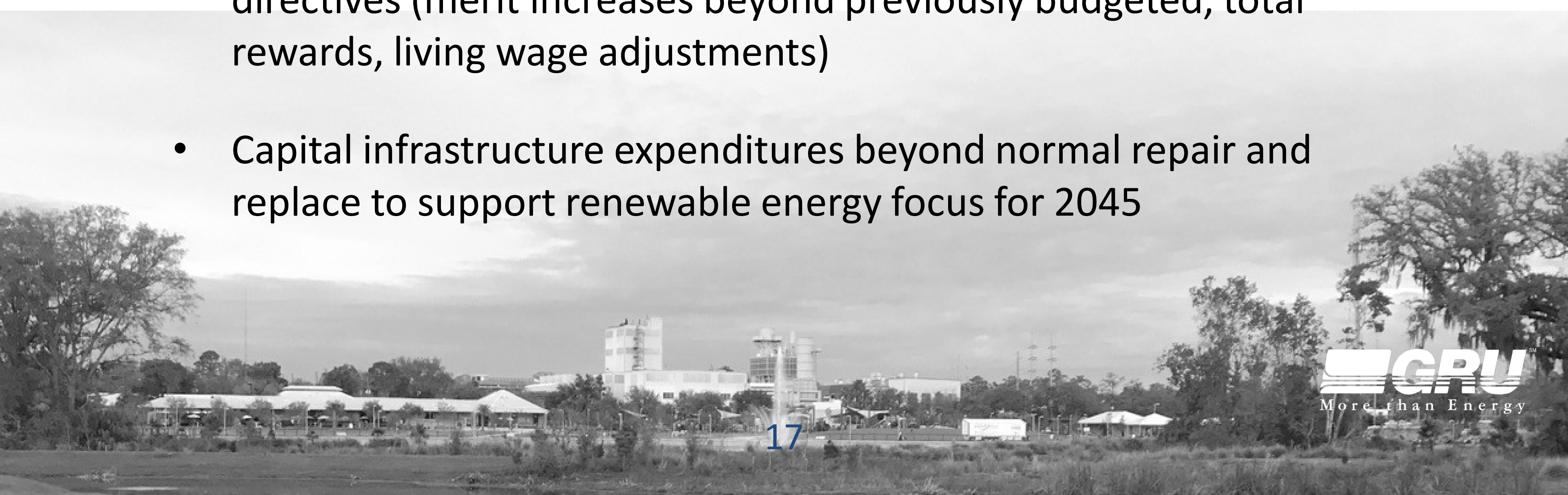
What is the landscape?

- A focus on renewable energy sources:
    - Solar PPA in progress
    - DH2 gasification project as a bridge to 100% renewable while reducing fossil fuel consumption in real time
- A focus on technology updates for customer experience:
    - Customer Information Services
    - Automated Meter Infrastructure
- A continued reduction of utility revenues from decreased consumption as required by Commission directives



Next steps:

- Working with the Commission, implement (1) a revenue requirement increase in 2021 or (2) no revenue requirement in 2021 with larger increases in 2022 and 2023, while mitigating:
  - Revenue declines from COVID impacts and other consumption reductions (conservation programs from Commission directives)
  - Expense increases from normal CPI adjustments and Commission directives (merit increases beyond previously budgeted, total rewards, living wage adjustments)
  - Capital infrastructure expenditures beyond normal repair and replace to support renewable energy focus for 2045



Next steps continued:

- Working with the Commission, implement (1) a revenue requirement increase in 2021 or (2) no revenue requirement in 2021 with larger increases in 2022 and 2023, while providing the ability to:
    - Stabilize cash levels, especially in the Electric system, which is under target
    - Pay the current GFT level in 2021 (not sustainable)
    - Support the gasification of DH2 approved by the Commission
    - Support technology updates as directed by the Commission for CIS and AMI

Next steps continued:

- The plan from February 2019 was to utilize $65 million from debt restructuring to:
  - Add to reserves
  - Invest in infrastructure
  - Debt defeasance of higher interest rate debt
- Through 2024 $65 million is projected to be used for:
  - Addition to reserves
  - Investing in infrastructure

Revenue Requirements

				General Manager Recommendation
	4.42% (Last Year)	6%	2%	0%
COVID	No COVID impact	Loss of $7.7M in revenue	Loss of $7.7M in revenue	Loss of $7.7M in revenue
Debt Defeasance	Pay down $23M	Pay down $23M	No paydown of debt	No paydown of debt
Reserves	Add $11M	Add $11M	No add to reserves	No add to reserves
O & M reductions	No O & M reductions	No O & M reductions	No O & M reductions	$3.4M in O&M reductions

Questions?

"Budget: A mathematical confirmation of your suspicions."
– A. A. Latimer