

OPPD Commercial Paper Program Proposed Increase

L. Javier Fernandez

Vice President – Financial Services & CFO

March 16, 2021

Commercial Paper History

- Commercial Paper (CP) program originally established in 1983 to provide a short-term variable rate funding mechanism
- CP issuance increased in 2019/20 from \$150 million to \$250 million
- The additional \$100 million of CP was used to refund Electric System Subordinate Revenue Bonds
 - Savings of approximately \$41 million based on original CP rates
- In conjunction with the CP increase, OPPD developed a model to monitor its variable rate debt (VRD) to help mitigate the risks associated with VRD

Variable Rate Debt Model

- VRD model has two primary outputs to monitor exposure to VRD
 - Coverage of interest on VRD
 - Calculated as ratio of projected monthly investment interest income to projected monthly interest expense on VRD
 - Targets minimum interest income of 1.5x interest paid on VRD
 - Current coverage of 3.8x
 - Percentage of OPPD's total debt
 - VRD maximum threshold of 20% of OPPD's total debt
 - 20% of total debt is equal to approximately \$294 million
- OPPD will not act immediately to change the levels of VRD or fund balances if the model indicates that current projections will not meet all metrics

Liquidity Facility

- Risk: Distressed market conditions could result in no interest from investors to buy or reinvest in maturing CP maturities. This would result in OPPD having to redeem (pay off) CP maturities.
- Mitigation: OPPD has a dedicated \$250 million line of credit that could be used to assist in redeeming CP maturities, if needed. By expanding the CP program, OPPD would also expand the dedicated line of credit, to provide the same level of risk mitigation.

Commercial Paper Program Proposed Increase

- CP provides access to a flexible, low cost form of financing
 - Cost of CP is more economic than accessing a bank line
- Intention is to periodically issue up to \$100 million of additional CP to provide funds for:
 - Additional liquidity support
 - Budget variances, SPP integrated market, market dislocations
 - Short-term funding option for capital projects
 - Power with Purpose
- VRD metrics may be exceeded in the short-term with additional CP issuances
 - CP would be refunded with long-term debt financings periodically
 - The threshold amount for VRD would increase as additional long-term debt issuances occur to support Power with Purpose

Strong Financial Position

- ‘Aa2’ and ‘AA’ Stable ratings from Moody’s and S&P, respectively
- ‘P-1’ and ‘A-1+’ commercial paper ratings from Moody’s and S&P, respectively
- Minimum projected debt service coverage of 2.0 times through 2022
- The District will have bank lines in place to support additional CP
 - Currently unused \$75 million bank line may be adjusted to allow for greater CP issuance or other corporate purposes

CP Program Recommendation

- OPPD staff recommends increasing the CP program authorization by \$100 million up to a maximum of \$350 million total.
 - Provides financial flexibility
 - Provides an alternative source of capital with low borrowing costs
 - Supports liquidity and 'AA' credit rating
- Upon Board's authorization, gradually increase the CP program, up to a maximum of \$100 million as needed to support:
 - Capital expenditure program related to Power with Purpose
 - Liquidity needs
- Monitor opportunities to refund CP portfolio with long-term financings.