



CUSTOMERS FIRST

Financial Considerations for LA100 Investments

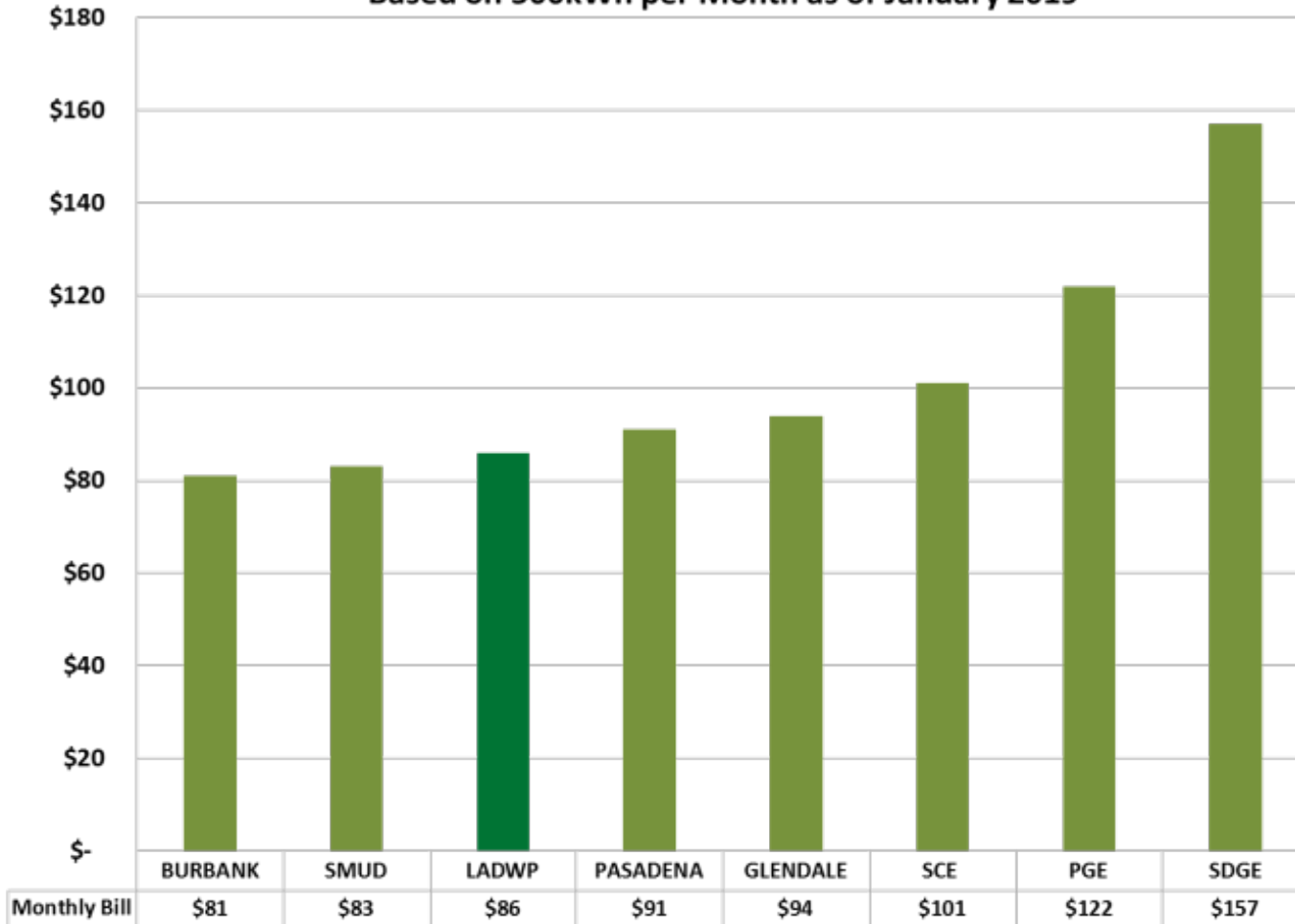
June 13 2019

Discussion Outline

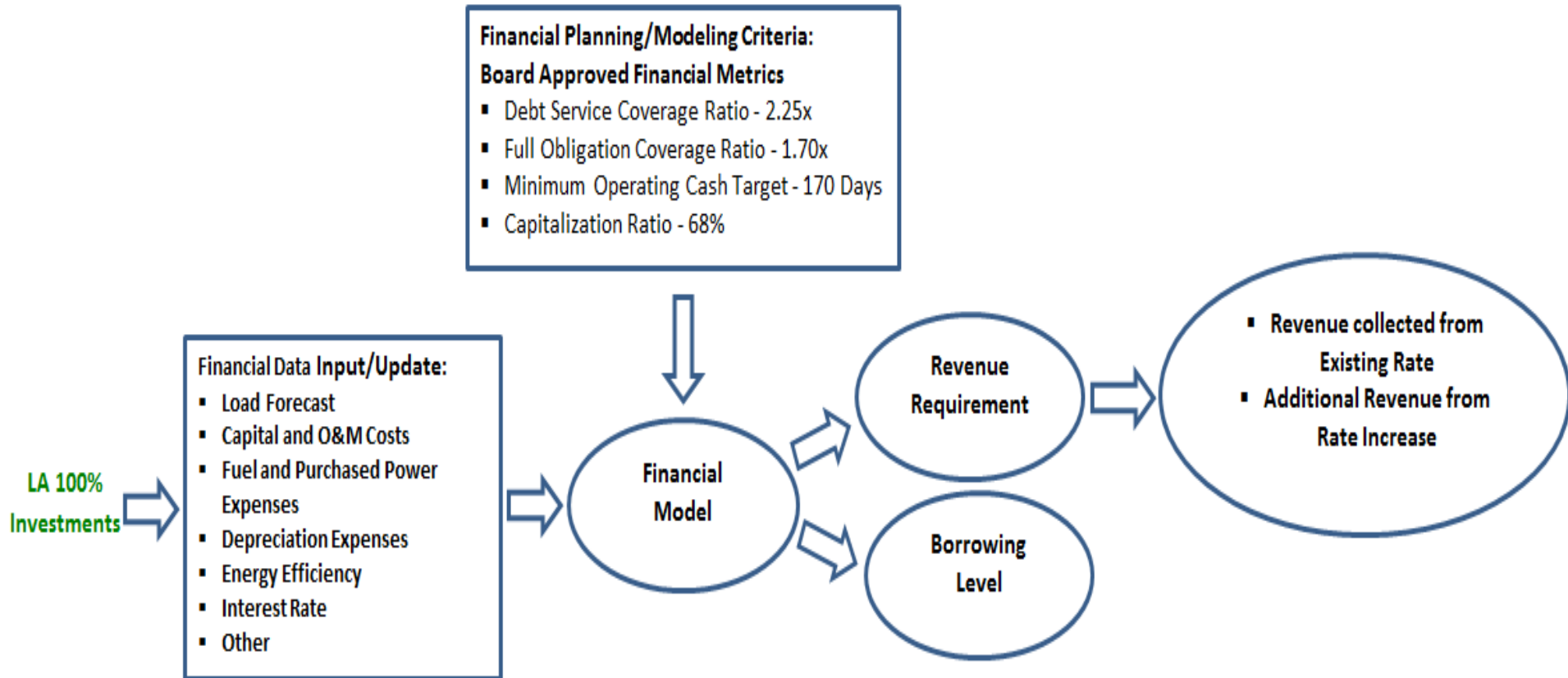
- Competitive Rates
- Revenue Requirements
- Financial Planning Criteria/Financial Metrics
- Importance of credit ratings
- Independent Assessment
- Financial Strategy Moving Forward
- Discussion Q & A

Rates Remain Competitive: Residential

Comparative Residential Annualized Power Bills Excluding Tax
Based on 500kWh per Month as of January 2019

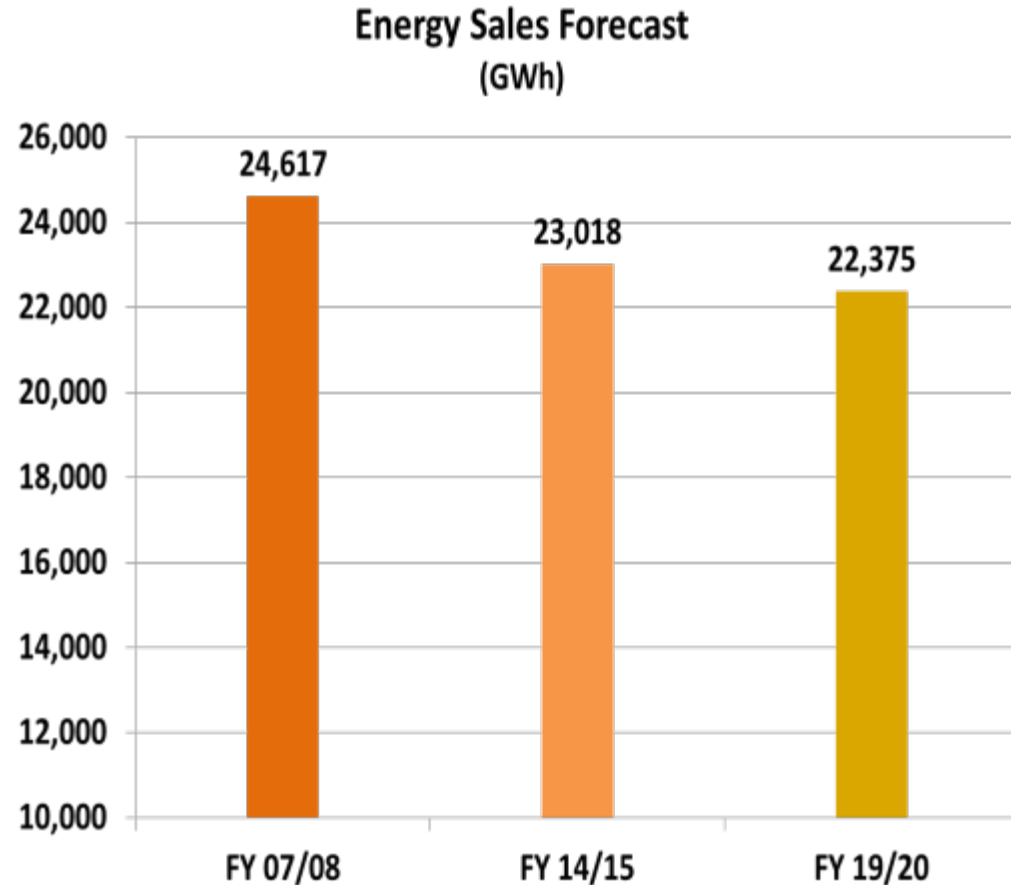


Determine Revenue Requirement



Power Demand Mitigated by Conservation

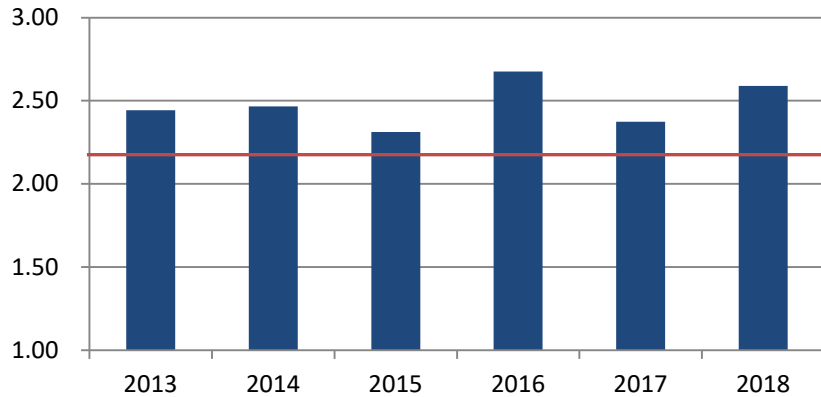
- Energy conservation is expected to continue to mitigate overall energy sales growth through 2020
- Accelerated and expanded EV adoption can reverse the trend
- Fuel switching and electrifying building stock can reverse the trend



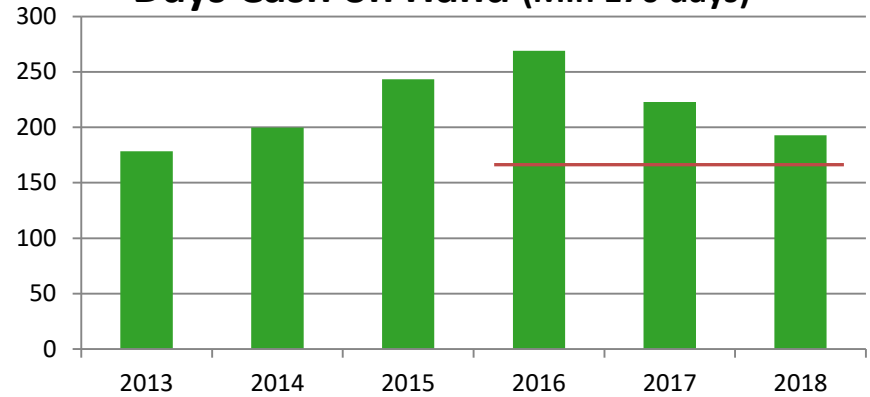
Power System Financial Overview

Historical Trends

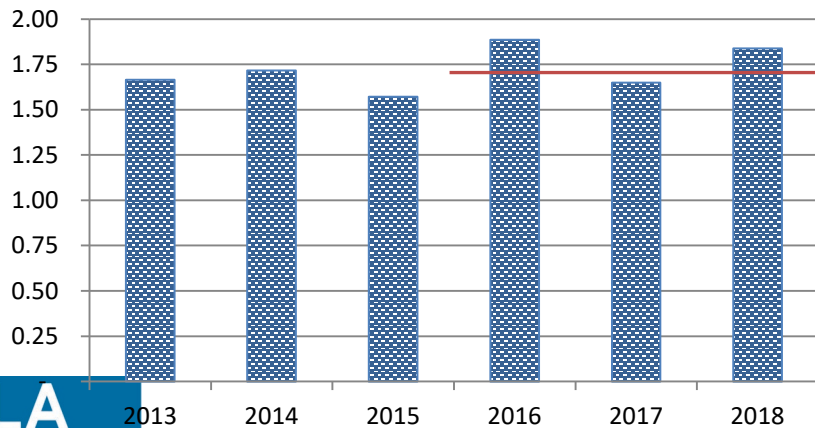
Debt Service Coverage (Min 2.25x)



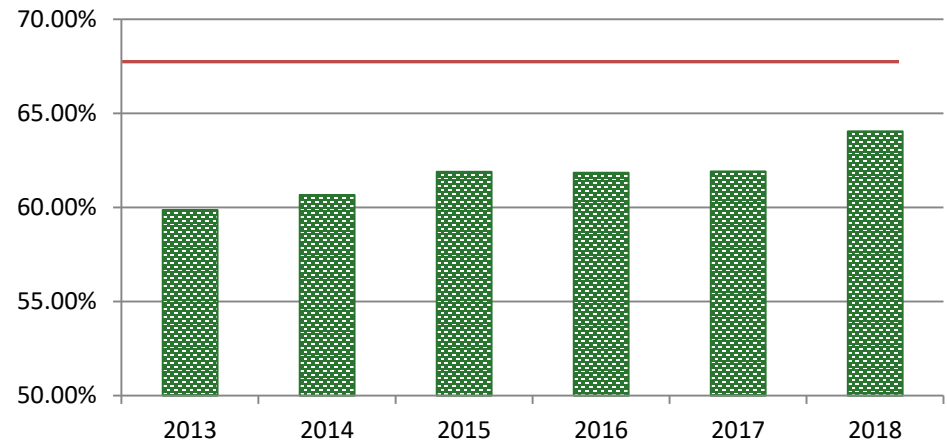
Days Cash on Hand (Min 170 days)



Full Obligation Ratio (Min 1.7x)



Debt to Capitalization Ratio (Max 68%)



*Prior to FY 2016, the Board Approved Financial Metric for Minimum Cash on Hand was \$300 million.

Financial Metrics Math Explained

$$\text{Debt Service Coverage} = \frac{\text{Funds Available for Debt Service}^*}{\text{Debt Service}} \geq 2.25$$

** Funds Available for Debt Service = Revenue – Expense before city transfer, depreciation, and debt service*

$$\text{Full Obligation Ratio} = \frac{\begin{array}{l} \text{Funds Available for Debt Service} \\ + \text{ Off-balance Sheet Debt Service} \\ - \text{ City Transfer} \end{array}}{\text{Debt Service} + \text{ Off-balance Sheet Debt Service}} \geq 1.70$$

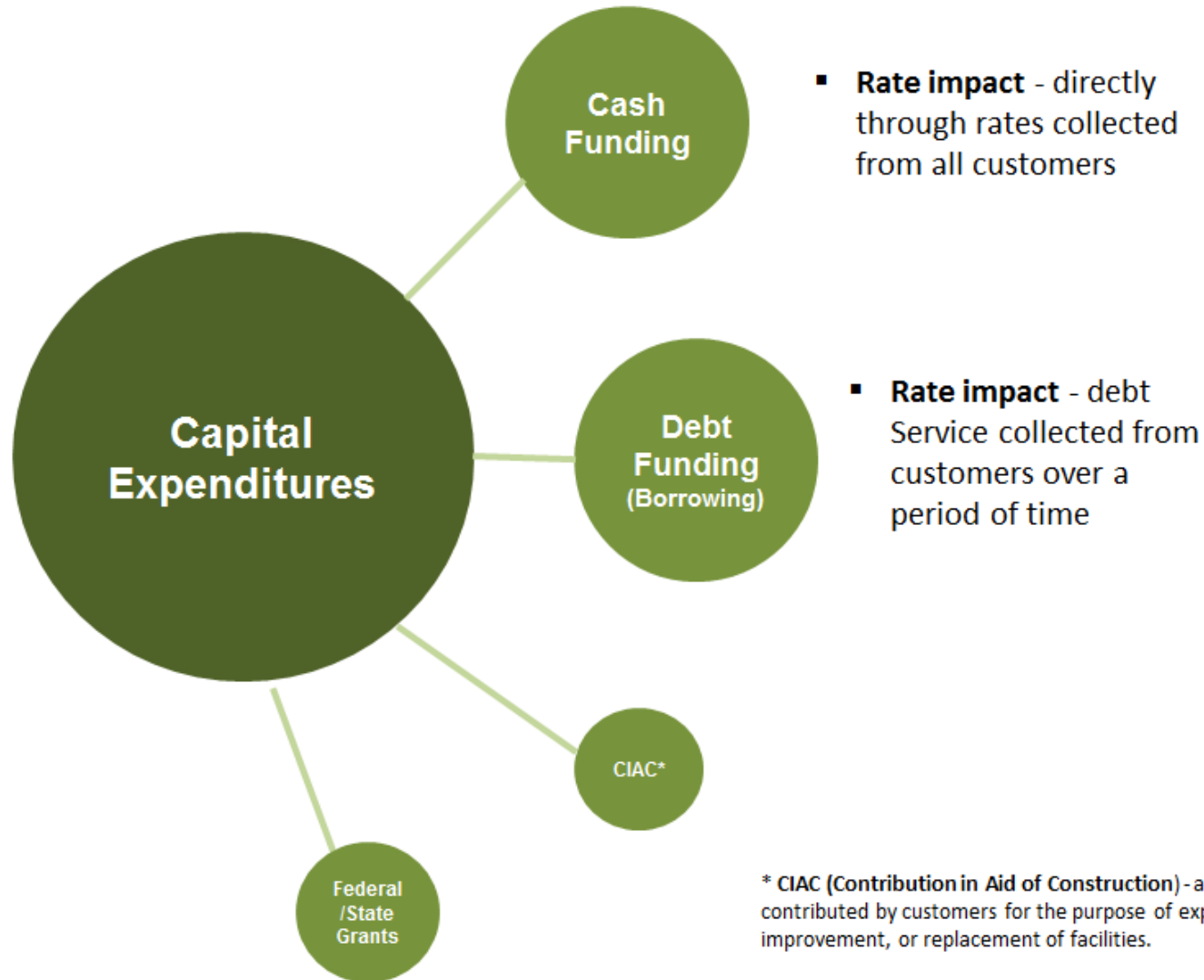
Financial Metrics Math Explained

Days Cash On Hand = Average Daily Operating Expense* x 170

** Operating Expense includes fuel, O&M expense*

Debt to Capitalization Ratio = $\frac{\text{Long Term Debt}}{\text{Long Term Debt} + \text{Equity}}$ <= 68%

Funding Sources for Power Capital Expenditures



* CIAC (Contribution in Aid of Construction) - amounts contributed by customers for the purpose of expansion, improvement, or replacement of facilities.

Factors to Consider When Borrow for Capital Projects

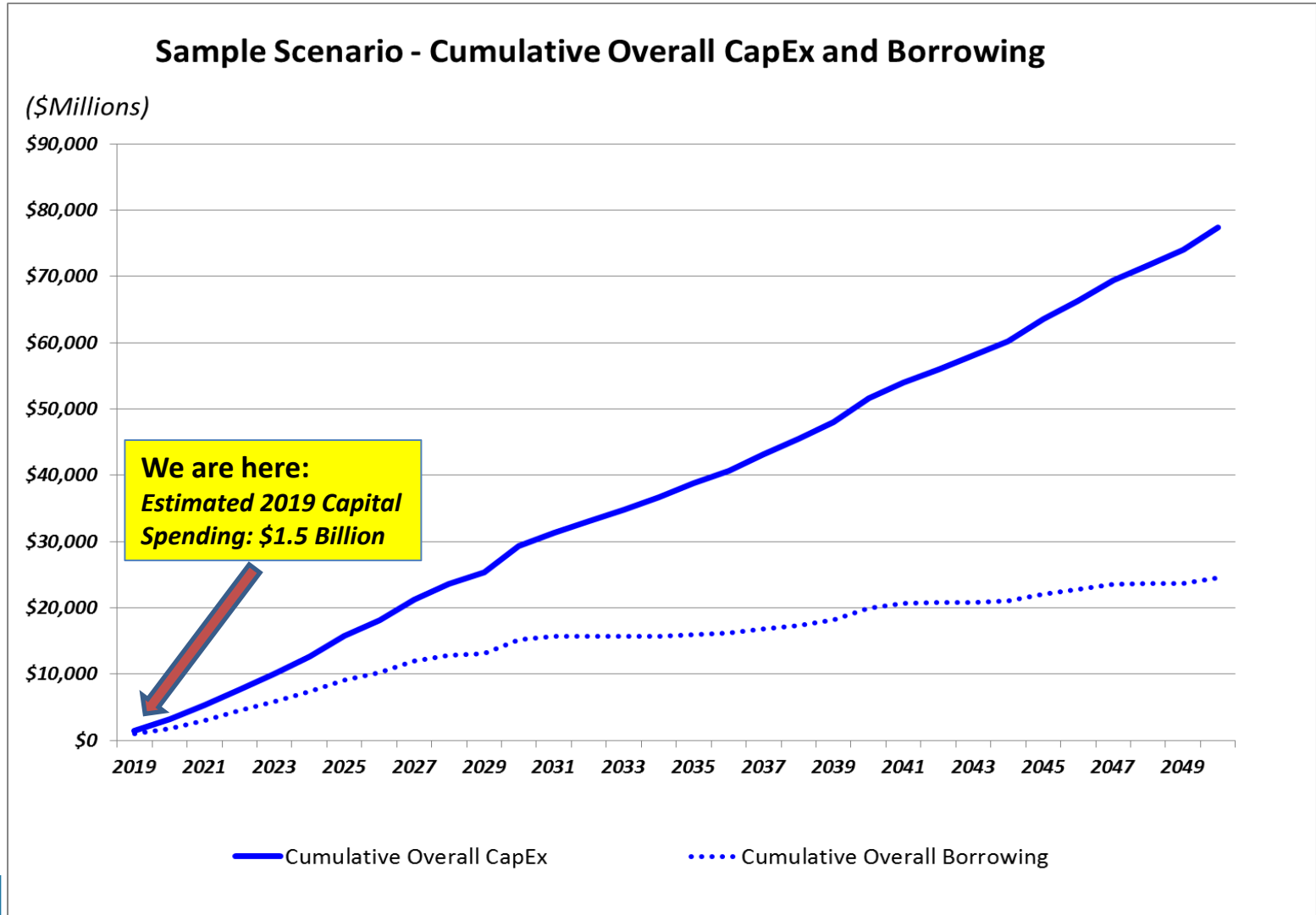
- Projected Capital Projects Spending Plan
- Funds Available to Pay Debt Service
- Board Approved Capitalization Ratio
- Existing Debt Profile (Debt Outstanding)
- Additional Debt Service to be Incurred
- Maintaining Strong Bond Credit Ratings (Financial Metrics)
- Avoid Bond Credit Rating Downgrade
- Financial Market Capacity/Limitation
- Rate Impact to Customers

Power System Bond Credit Ratings

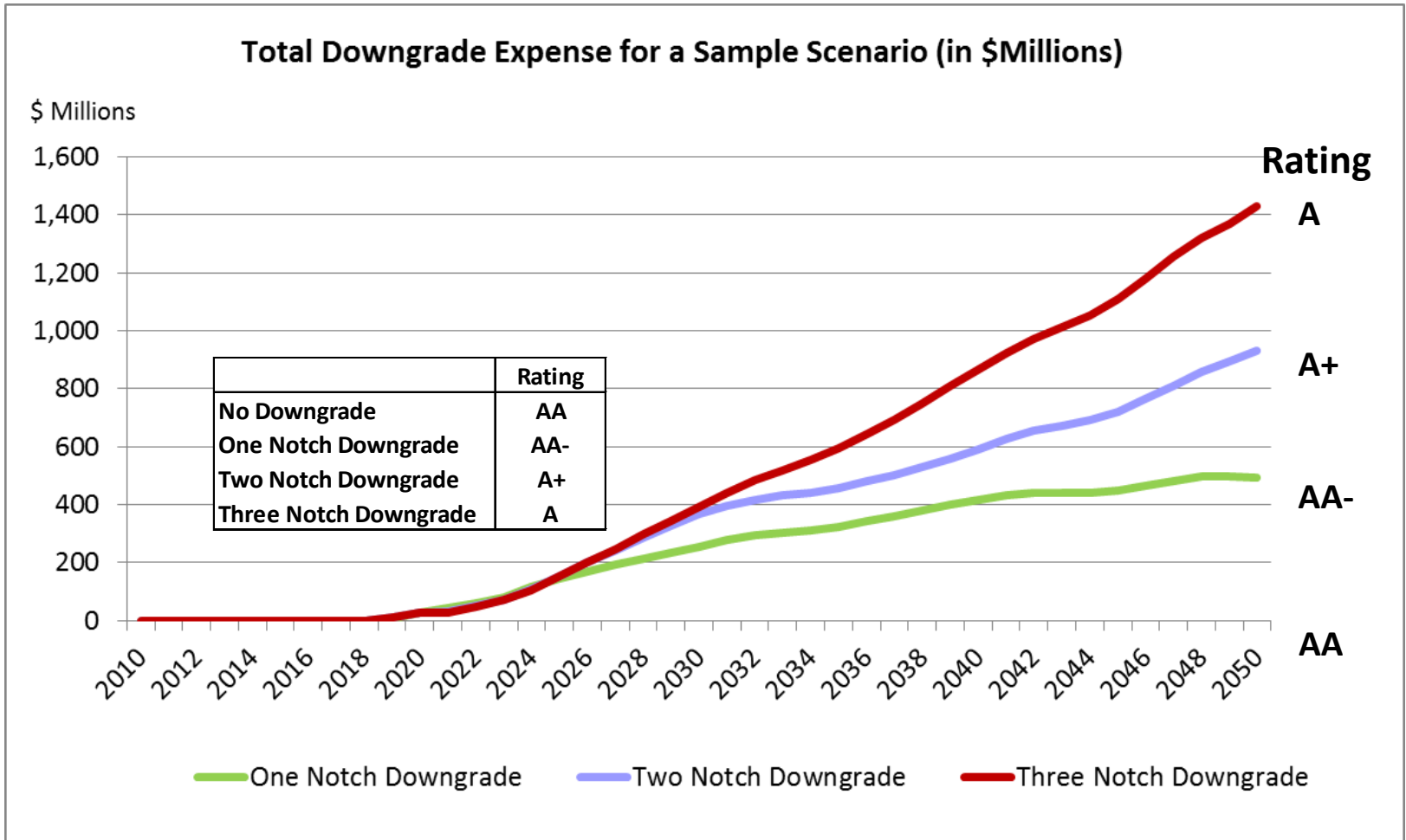
| LADWP Credit Ratings | | |
|-------------------------|-----------------|-------------|
| Rating Agency | 2018 Rating | 2015 Rating |
| Standard & Poor's (S&P) | AA ⁺ | AA- |
| Fitch Ratings | AA ⁺ | AA- |

| S&P / Fitch | Rating Grade | Description |
|----------------------|-----------------------|---|
| AAA | Prime | Highest quality with minimal risk; capacity to meet financial commitments is extremely strong |
| AA+ AA AA- | High Grade | Very high quality with very low risk; differs from the highest rating to only a small degree |
| A+ A A- | Upper Medium Grade | High quality with low risk; capacity to meet commitments is considered strong but may be susceptible to changing circumstances and economic conditions |
| BBB+ BBB+ BBB- | Lower Medium Grade | Medium grade; subject to moderate risk; capacity to meet financial commitments is adequate but more likely to be susceptible to changing circumstance and economic conditions |

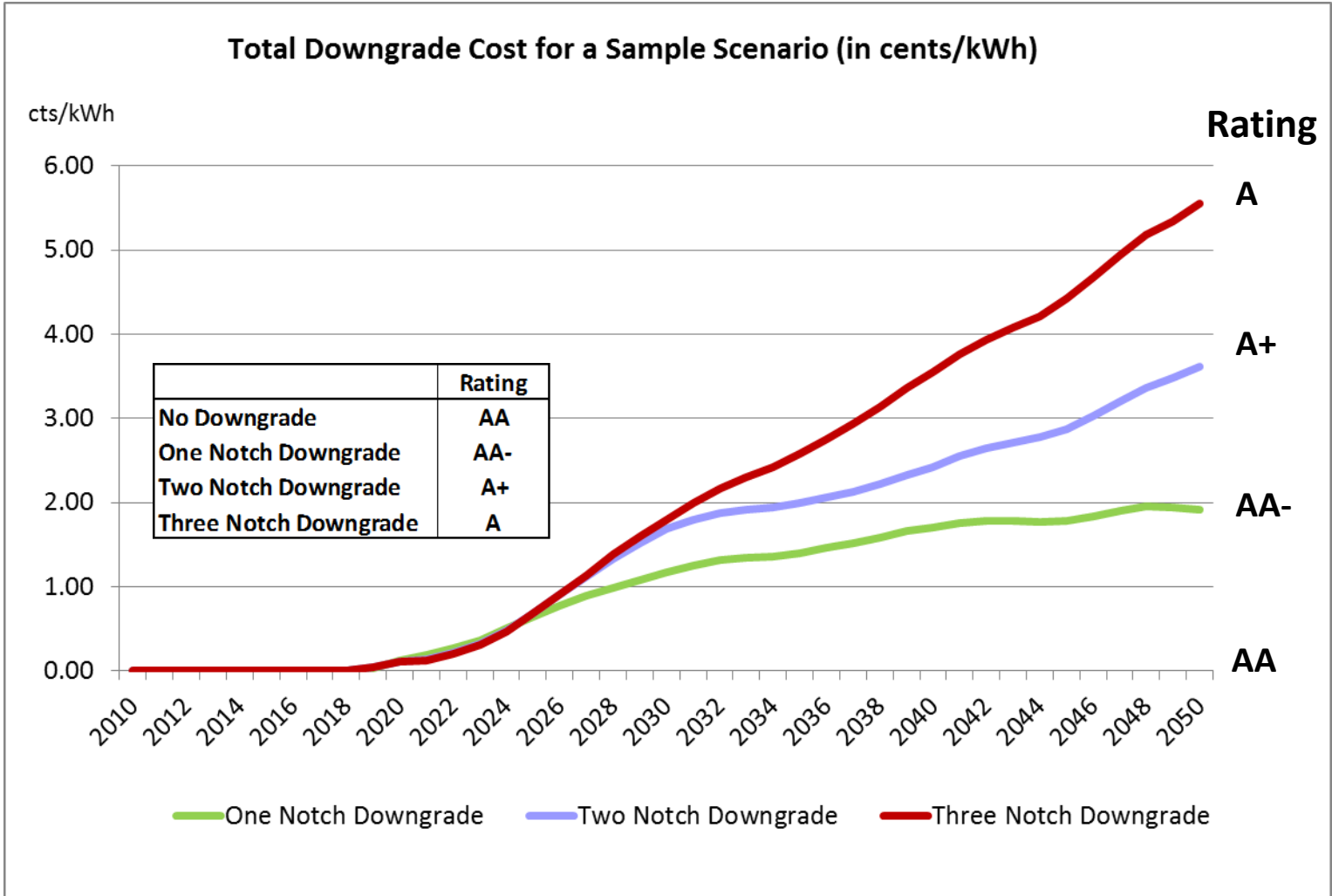
Sample Scenario – Capital Spending & Borrowing



Sample Scenario - Credit Ratings Downgrade Impact



Sample Scenario - Credit Ratings Downgrade Impact

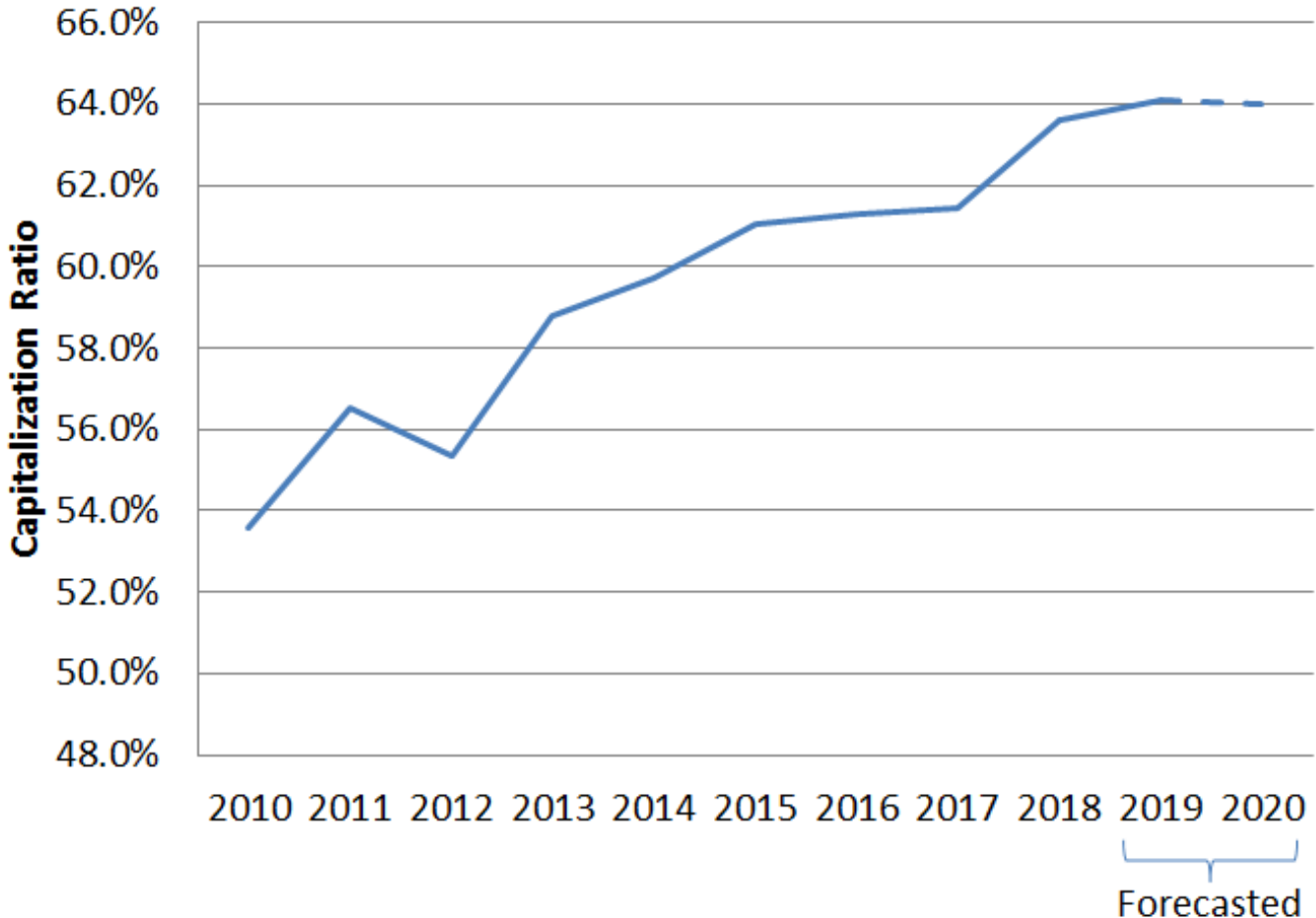


Power System Debt Profile

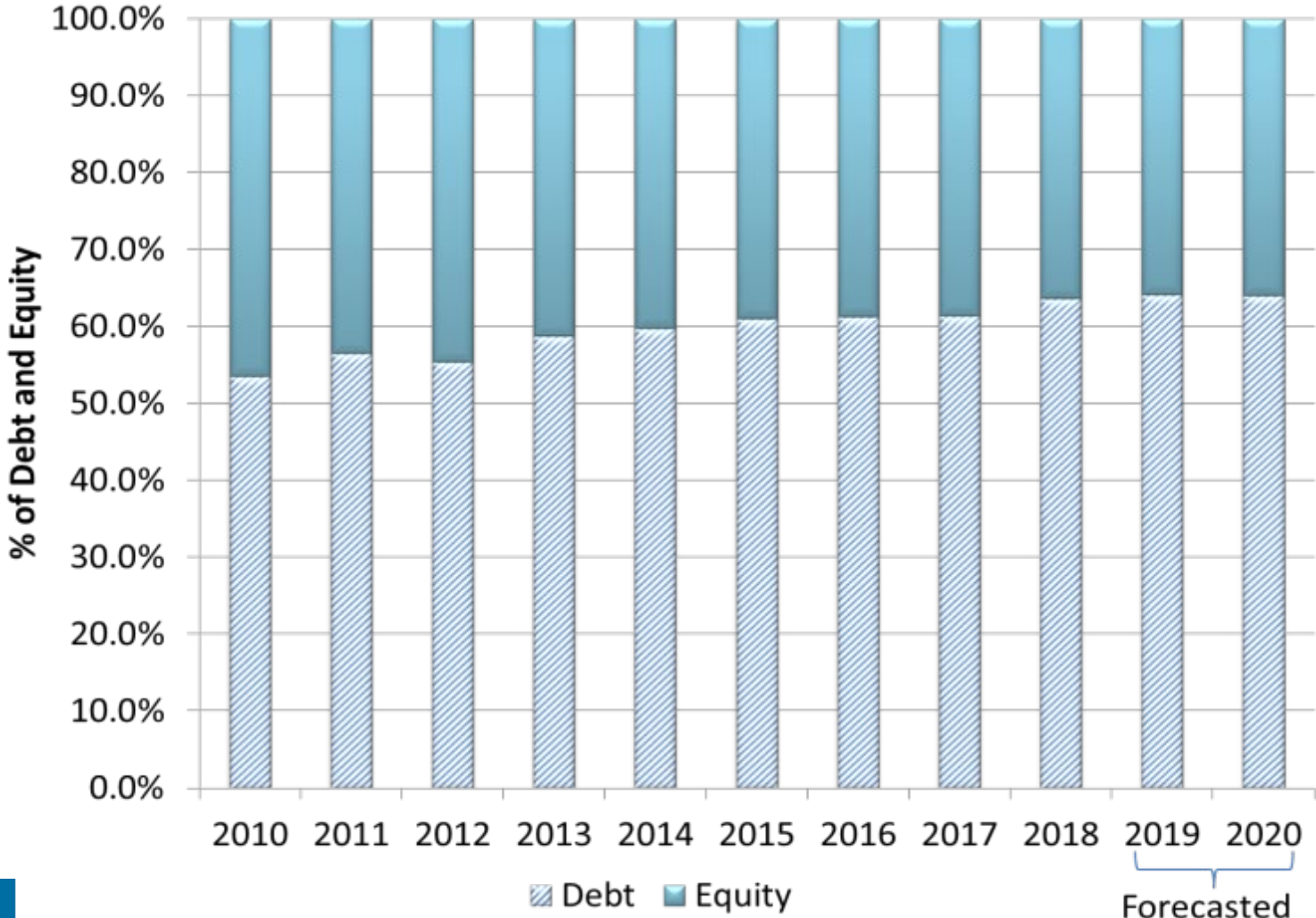
Current FY 2019 estimated Debt to Capitalization Ratio is 64.1%, or \$9.46 billion in debt, which is less than Board approved target of Max 68%

| Fiscal Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Debt to Capitalization Ratio | 53.6% | 56.5% | 55.4% | 58.8% | 59.7% | 61.0% | 61.3% | 61.4% | 63.6% | 64.1% | 64.0% |

Historic and Forecasted Capitalization Ratio



Historic and Forecasted % of Debt and Equity



Validation of Financial Impacts

Navigant will provide an independent report to assess by scenario:

- The cost-benefit impact
- The financial planning metric impact
- The rate impact
- The customer bill impact

Work with Office of Public Accountability on their analysis as directed by City Council

Financial Strategy Moving Forward

Traditional Financing

- Cash funding through rates
- Traditional Revenue Bonds
- Federal/State Grants

Seeking Innovative Financing Opportunities

- Rate Reduction Bonds
- Solicit Ideas from LADWP Investment Banking Team
- Green and Sustainability Bonds
- Public-Private Partnerships



CUSTOMERS FIRST

Discussion Q&A