



The H.W. Hill Renewable Gas Facility produces the energy equivalent of 18 million gallons of gas annually. PHOTO BY KATHI RICKS

KPUD Refinances Debt, Saves Money

Refinancing debt on renewable natural gas facility and existing bond debt reduces interest rates

By Mike DeMott, Klickitat PUD director of finance and power management

Klickitat PUD, like most utility companies, uses long-term debt financing to fund certain projects and system improvements. This helps ensure repayment of the costs associated with these projects is spread over time with less impact on short-term cash flow.

With declining interest rates, KPUD has looked at ways to benefit our customers by refinancing existing debt. As a result, earlier this year we refinanced two areas of our outstanding debt: the renewable natural gas facility and existing bond debt. The refinancing resulted in no additional debt.

Renewable Natural Gas Facility

Initially the RNG facility was financed over a five-year term, aligning with the time KPUD had a fixed price certainty in our RNG sales contract. In other words, for every unit of RNG produced in the facility's first five years, we receive a known, fixed price, resulting in predictable value for RNG production. This

ensured that regardless of changes in market pricing, KPUD would have the revenue certainty to repay the debt and other RNG facility expenses. With the successful execution of the Puget Sound Energy contract in 2020, KPUD now has 20 years of fixed price certainty.

The new contract was a driving reason behind the refinancing of RNG debt with a 2028 maturity date. The RNG project came online in 2018 and is now effectively financed for a 10-year period, as opposed to the original five-year term. This refinancing will improve KPUD cash flow over the next several years, which reduces pressures on retail revenue rates.

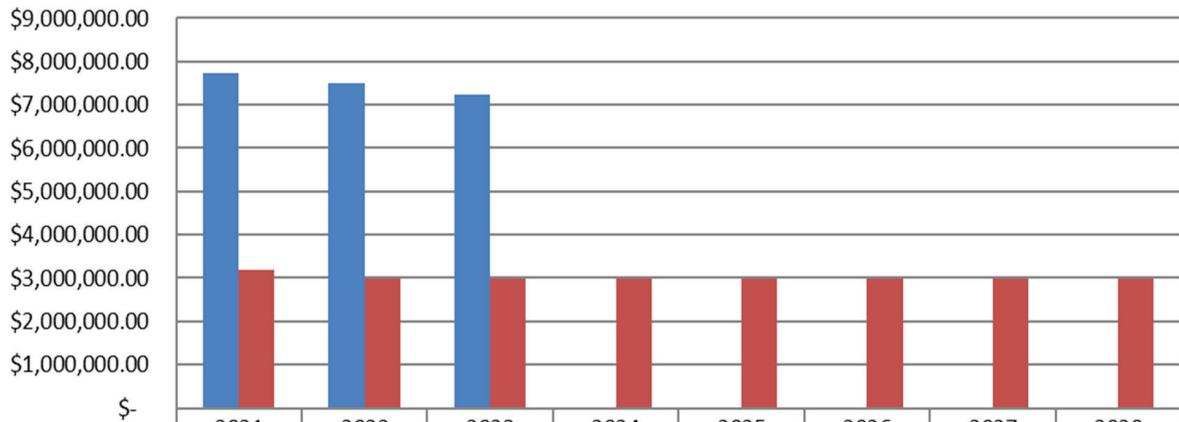
A comparison of RNG debt service from the original repayment schedule to the refinanced debt schedule is shown in the Annual Debt Service Comparison RNG chart on the next page.

Existing Bond Debt

KPUD has several outstanding bonds that have been used to fund capital projects, each with varying interest rates and terms. Bonds typically have a maturity structure that limits the ability of the bond issuer to pay them off early. As time goes by, certain portions of the bonds will reach their call dates, becoming eligible for early repayment.

KPUD had two bonds reach their call dates while interest rates were at all-time lows. As a result, we refinanced that portion of our debt. These 2035 and 2036 maturities totaling \$19.345 million

Annual Debt Service Comparison RNG



	2021	2022	2023	2024	2025	2026	2027	2028
Existing Debt Repayment	\$7,735,000.	\$7,490,000.	\$7,245,000.	\$-	\$-	\$-	\$-	\$-
RNG Refinance 2028 Maturity	\$3,197,600.	\$2,977,136.	\$2,977,103.	\$2,977,160.	\$2,977,133.	\$2,977,151.	\$2,977,137.	\$2,977,012.

Refinancing the RNG debt over 10 years, rather than the original five years, drastically lowers Klickitat PUD's annual payments.

originally held a 4% interest rate with principal payment of \$9.485 million in 2035 and \$9.86 million in 2036. Refinancing allowed us to achieve a lower interest rate of 3.01%, saving more than \$3.2 million in interest.

Klickitat PUD has maintained the ability to make excess annual debt payments from surplus funds that may be available. Excess payments would result in additional interest savings and reduce customer-funded debt in an accelerated manner consistent with strategic planning goals set by the board.

The Interest Expense Comparison below shows the impact of the refinancing. The blue line, Total Interest Expense Original, is where we would be without refinancing, the refinanced scenario—the green line—shows the reduction of \$3.2 million in interest expense, and the accelerated repayment scenario—red line—reflects the benefit of accelerating the repayment of debt. The interest savings are substantial regardless of the scenario.

Additional Steps

With board direction, KPUD staff developed revisions to current financial policy focused on accelerated repayment of debt using surplus funds from the RNG project, when available. This establishes a minimum expected additional debt principal payment to be included in the annual budget.

Current forecasts indicate this minimum payment will be \$1 million allocated toward accelerated repayment of customer funded debt. This \$1 million accelerated debt repayment amount will likely be maintained or exceeded annually in future years.

We believe the actions KPUD has taken will positively contribute toward our mission of providing safe, reliable, cost-based utility service at the lowest possible cost. If you have additional questions on this topic, please feel free to contact us by calling either the Goldendale office at 509-773-5891, or the White Salmon office at 509-493-2255. ■

Interest Expense Comparison

- Total Interest Expense Original
- Total Interest Expense Refinanced
- Total Interest Expense Refinanced with \$1 Million Annual Excess Payment Years 1-5

