



# Alaska Power Association: Accounting & Finance Conference

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# Overview

- US economic update
- Interest rate update / outlook
- Oil markets – supply / demand
- Transmission discussion
- Infrastructure as a vital part of the rural economy

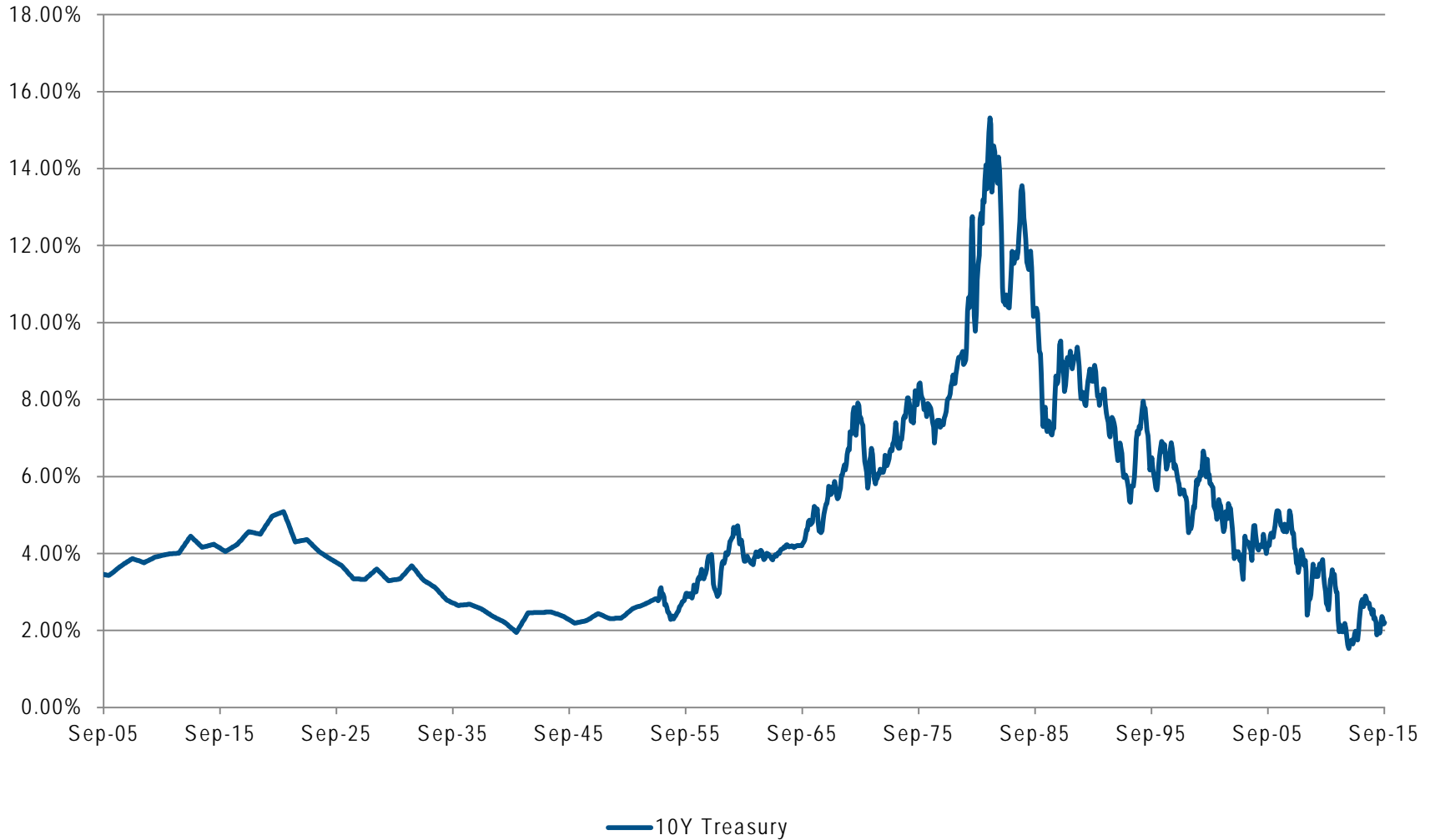




# U.S. Economy – Key Indicators

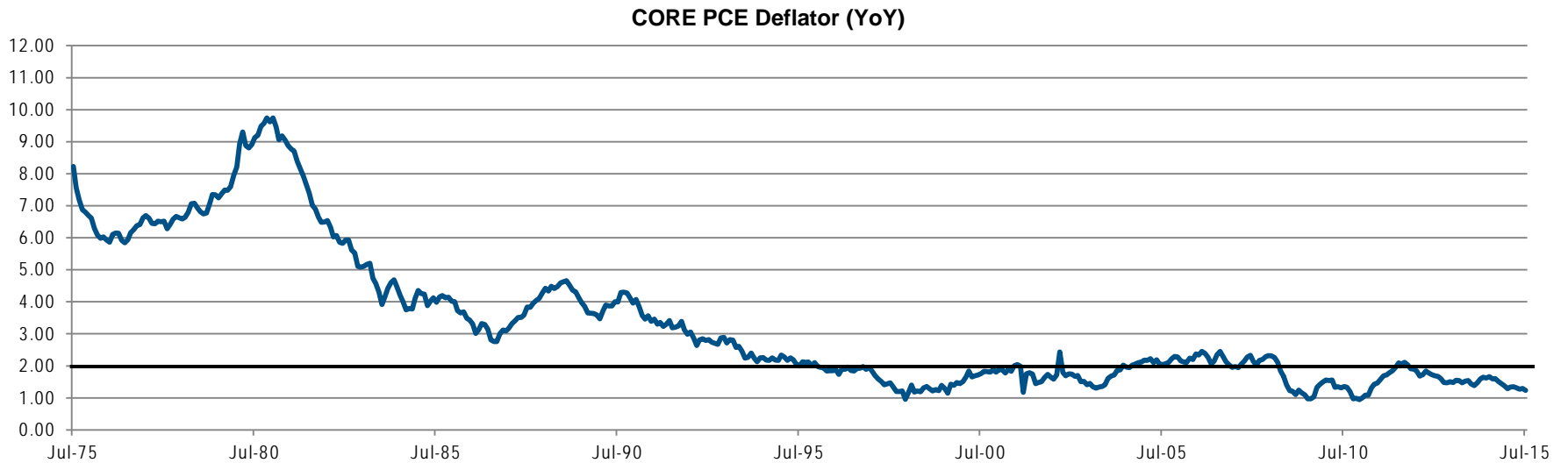
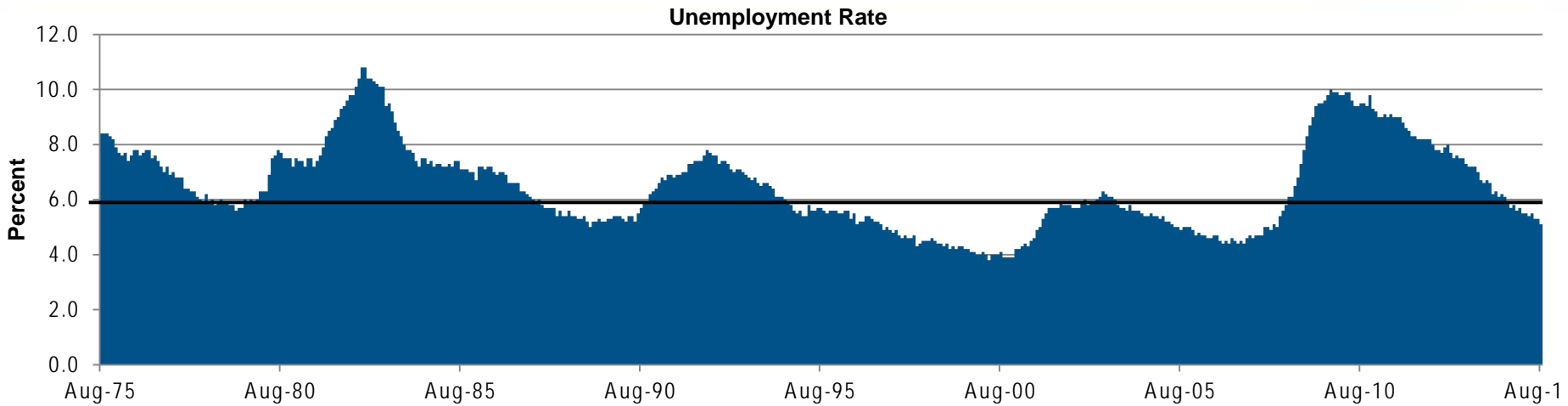
- Moderate growth (3.9 percent in 2Q15)
- Improving jobs market (5.1 percent unemployment as of Sept 2015)
- Inflation under control (.20% through August TTM)
- Continued appreciation of home values in most markets
- Corporate profits holding steady

# Historical Ten Year Treasury Yields



Source: Federal Reserve

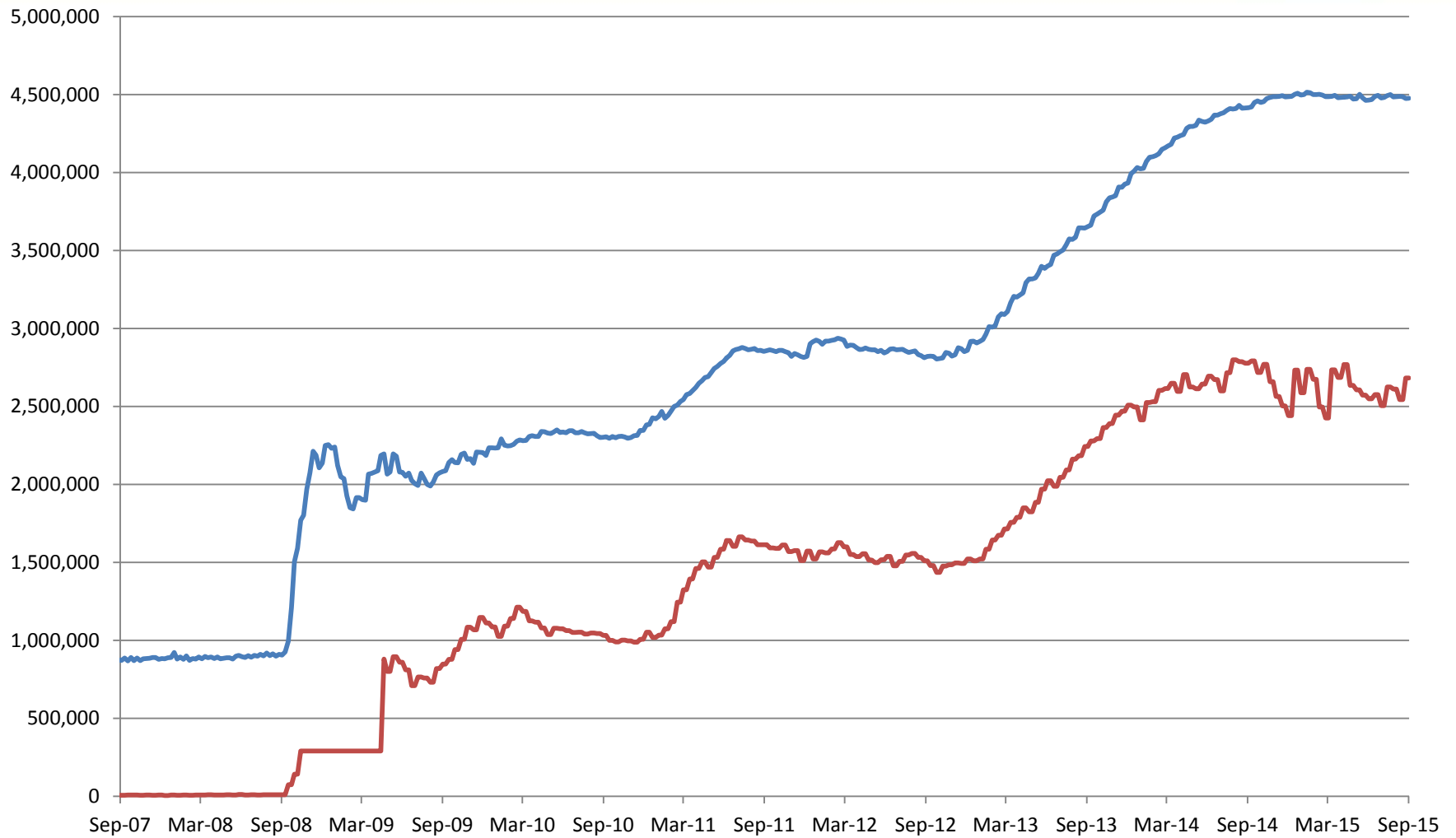
# Fed's Focus



Source: Bureau of Labor Statistics, Bureau of Economic Analysis

Confidential and Proprietary

# Fed Balance Sheet

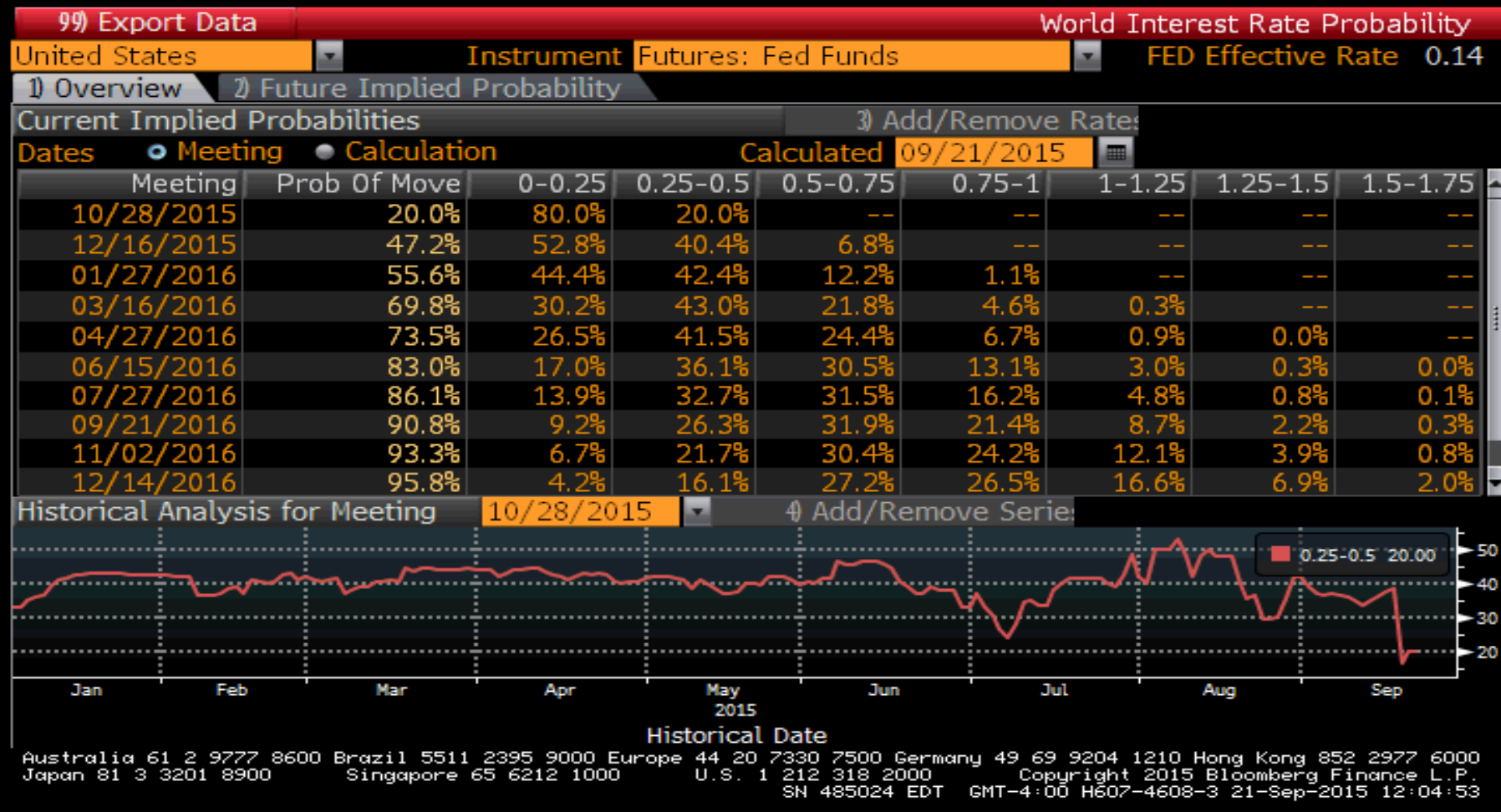


Source: Federal Reserve

— Fed Balance Sheet — Bank Reserves

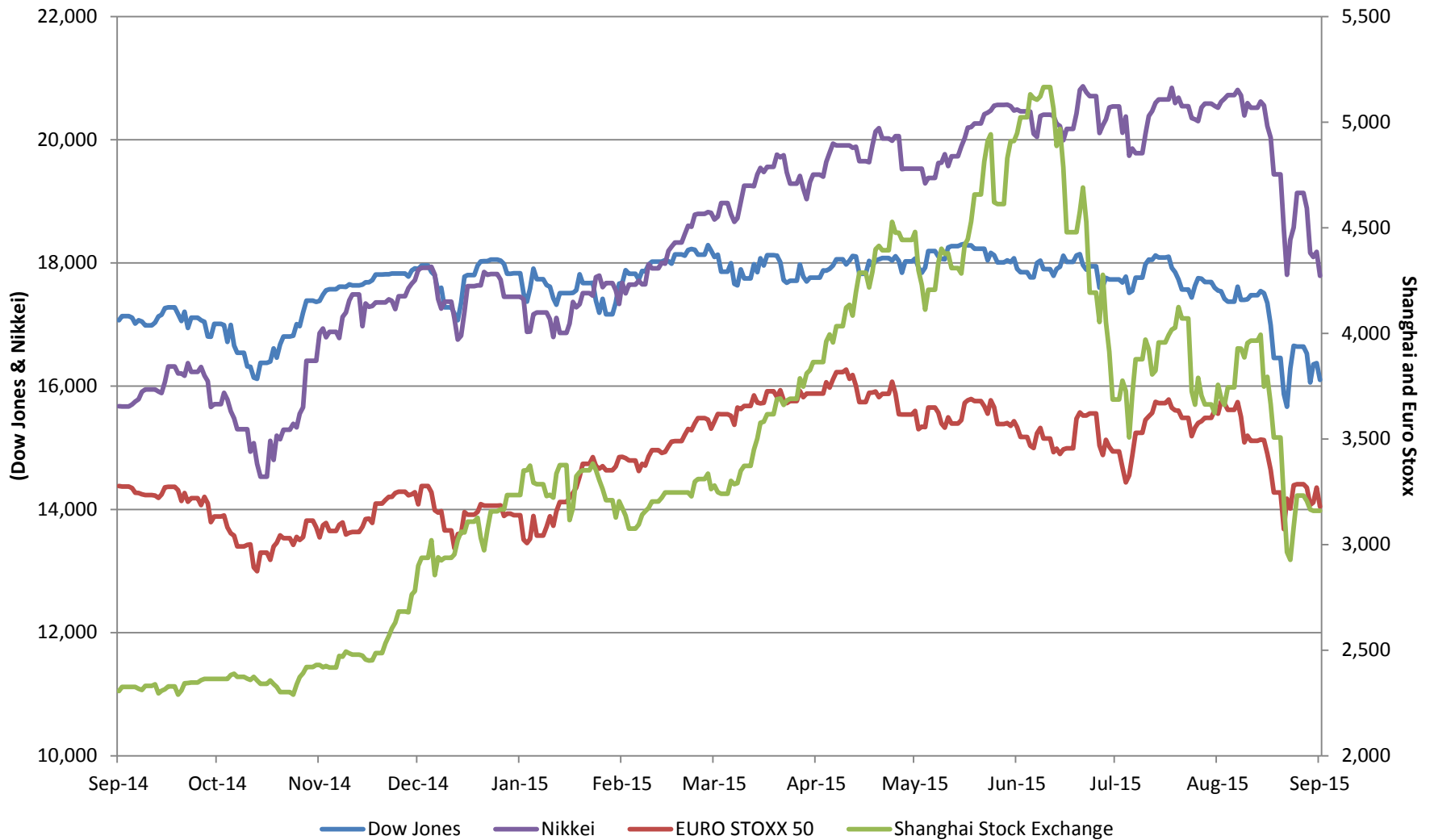


# Will the Fed Move?



Source: Bloomberg

# World Stock Markets



Source: Bloomberg

# Crude Oil:

Supply Driven Price  
Uncertainty

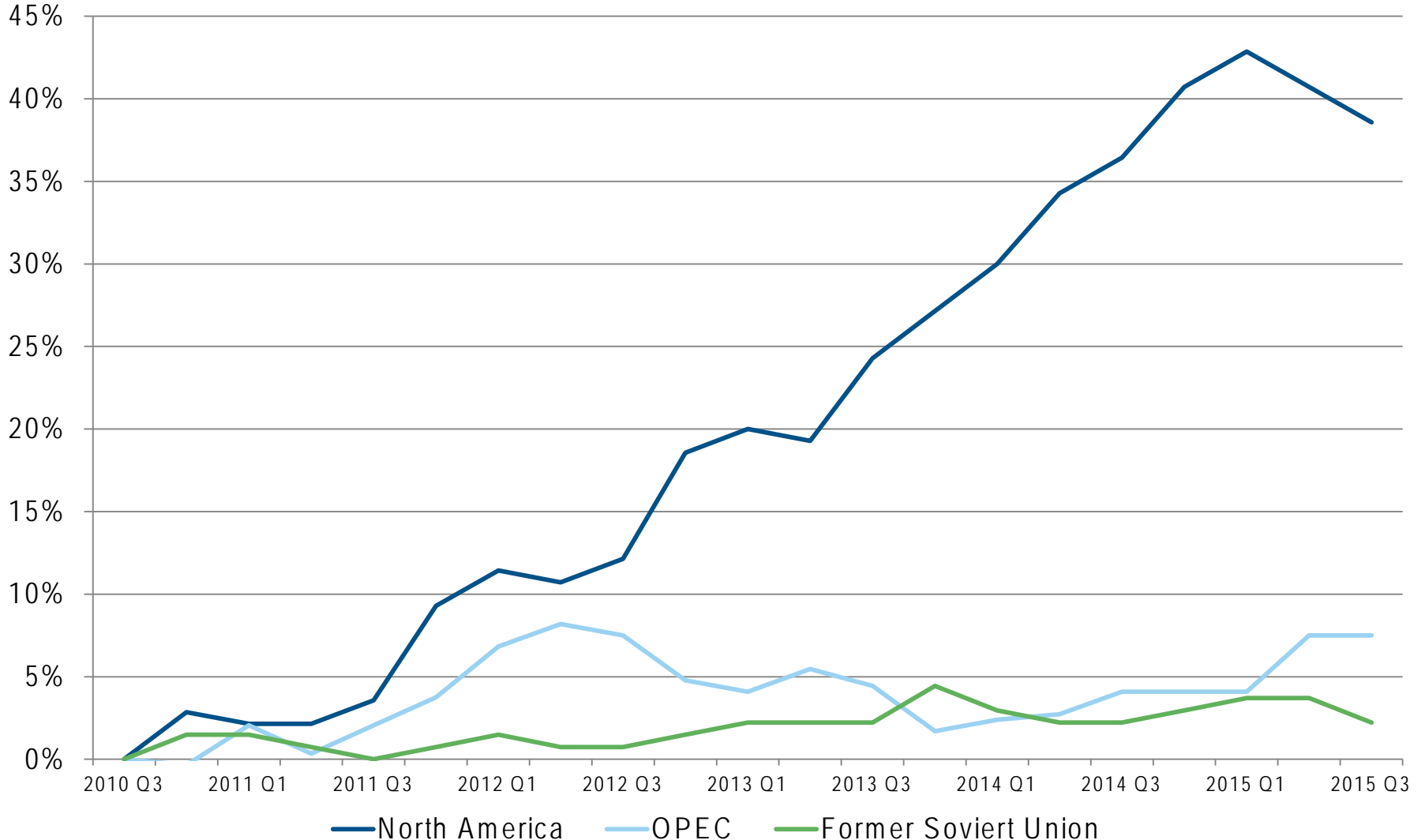


# Main Themes Driving Uncertainty in the Market

- 1) Global Supply and Demand Dynamics
- 2) Shifting OPEC Policy
- 3) Decoupling of U.S Rig Counts and Energy Production
- 4) Geopolitics

# Supply Growth Among Top Global Producers 2010-2015

Percent Growth Relative to 2010



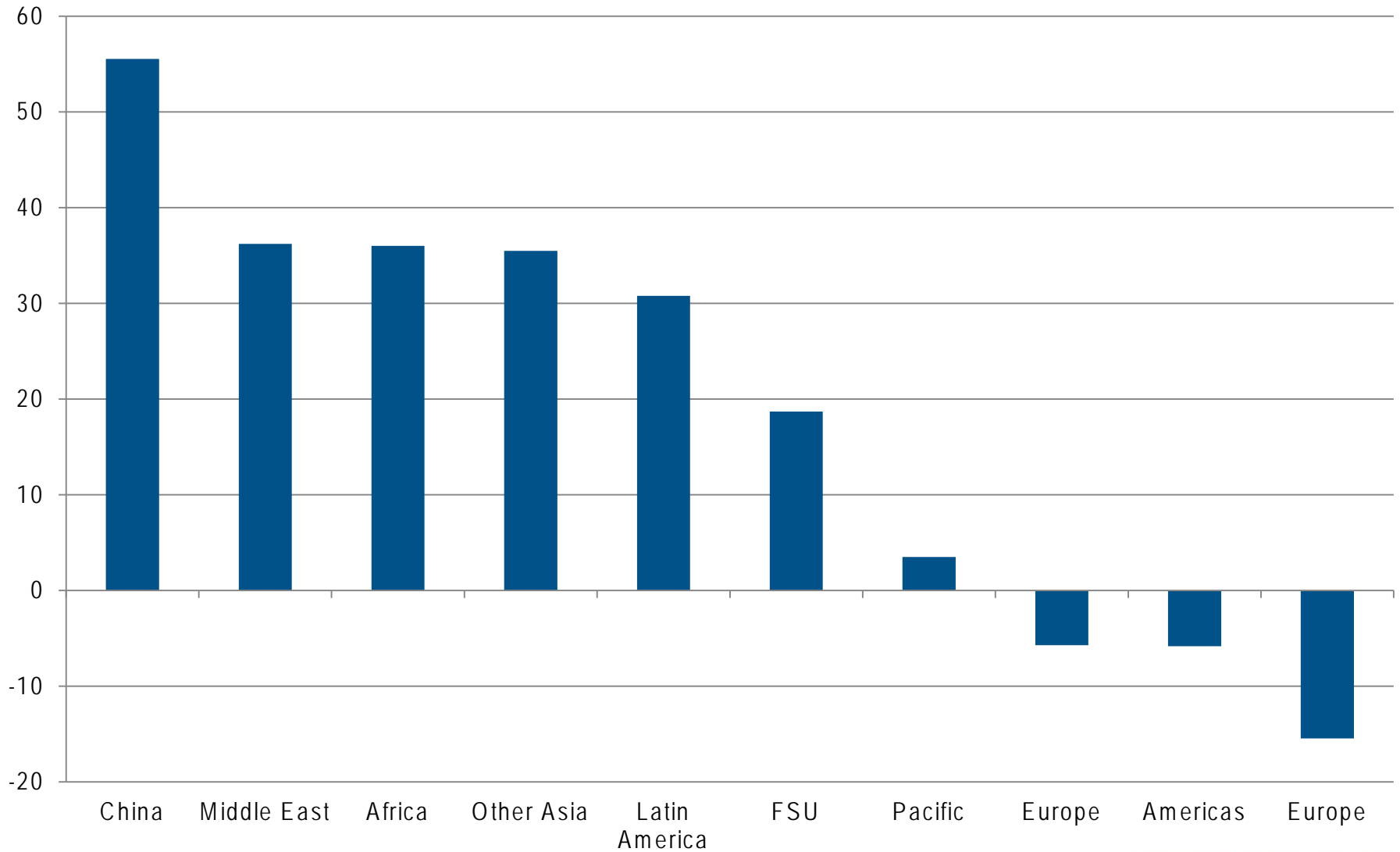
Confidential and Proprietary

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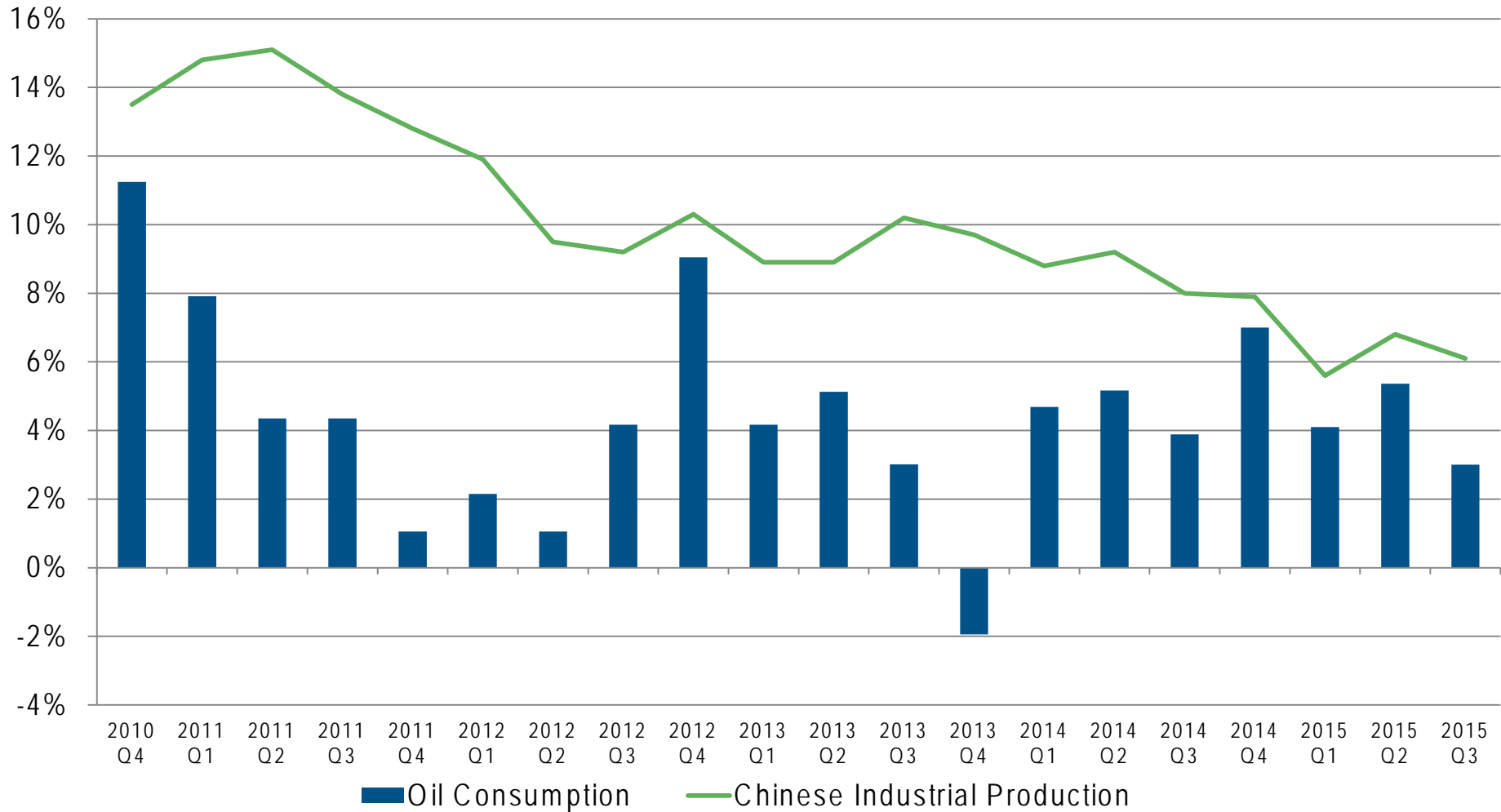
# Global Demand Growth 2005-2014

Percent Growth 2005-2014

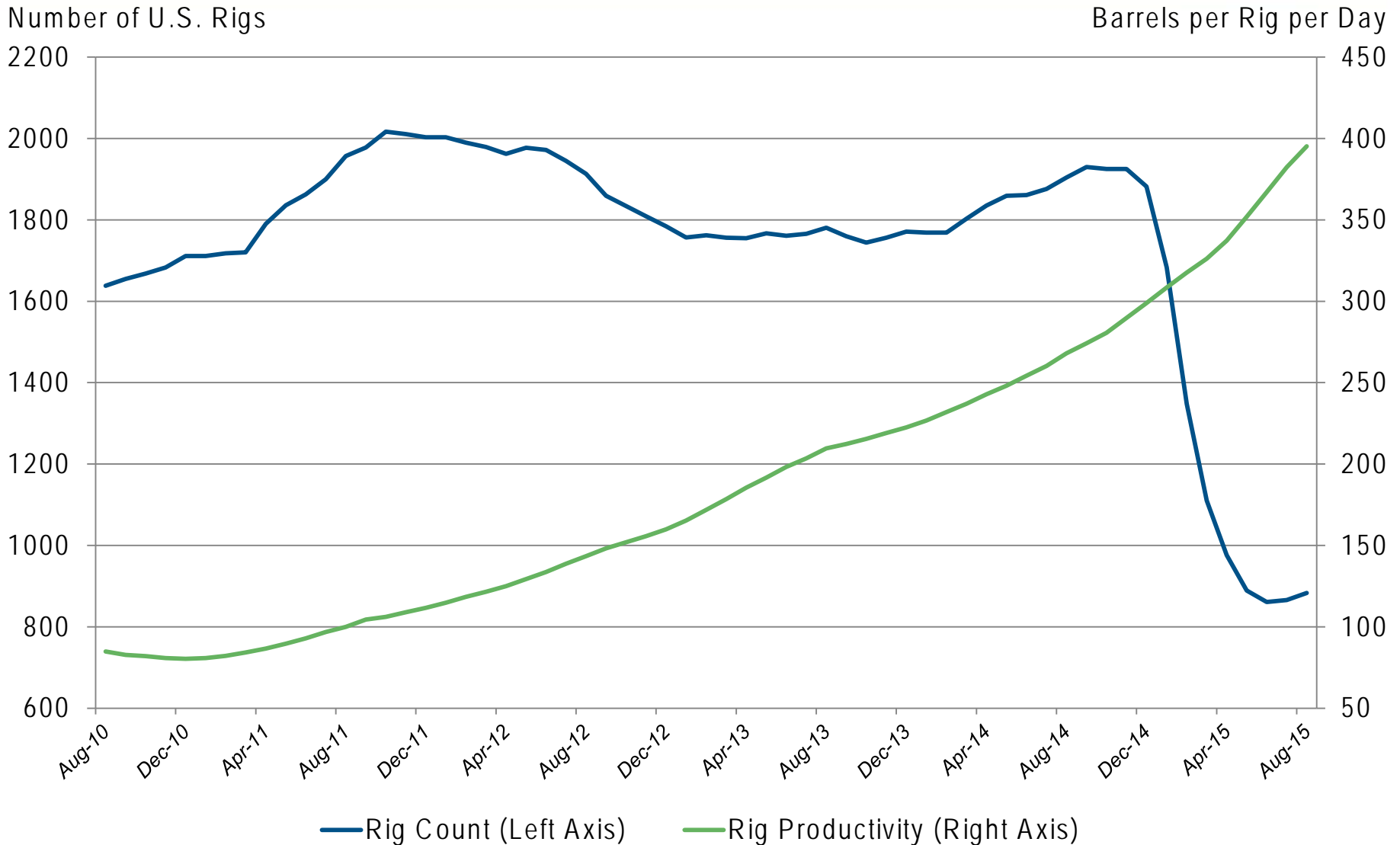


# Chinese Oil Consumption versus Industrial Output

Year-over-Year Growth



# Decoupling of Rig Counts and Energy Production





## Overall Bearish Signs for Crude Prices

- Continued production growth among U.S. shale producers
- U.S. refinery maintenance through the fall could reduce demand by 1.3 million barrels per day
- U.S. oil inventories remain way above average
- OPEC and Russian production continues to rise
- Iran could supply 1 million barrels per day within 5 months of sanctions being lifted
- Global demand, particularly in China is likely to remain sluggish

# Transmission Financing Update:



# Transmission Investment – Fundamentals

- Strong repayment sources
  - Regulated, predictable cash flows
  - Acceptable regulated debt structure; holdco debt may be added
  - Strong collateral value due to high market valuation multiples
  - Low construction completion risk
- Regulated capital structure ensures *opco* will not over-leverage
- Minimal, but recoverable, on-going maintenance expenses
- Supportive regulatory environment during and post construction. FERC permits:
  - Forward test year
  - Theoretical capital structure during construction
  - CWIP revenues – debt service supportable during construction
  - ROE calculated on asset base, not volume – revenue / earnings certainty
  - (Theoretical) recovery on abandonment (but no data due to project completion)
- New entrants
- Strong sponsors
  - Various assurances of committed equity capital
  - Experienced in investing, developing, executing, and operating transmission

# Transmission Investment – Types and Stage

- The chart below is focused on Project and Corporate financings. Growing structures include REITs and Yield Cos
- Chart excludes qualification criteria to bid on projects

**MOST RISK**

**Project Financing  
(Opco only)**

Construction Stage	
<b>Type</b>	Ex: Construction of a single line - wholly owned or JV
<b>Financing</b>	- Bank Construction Revolver
<b>Terms</b>	- Parent / equity support during construction - Fairly robust covenants including Leverage ratio

**Completion Stage**

Ex: Single line in service - wholly owned or JV
- Bank Working Capital Revolver (smaller size)
- Debt Capital Markets (once in service)
- Lighter covenants, particularly under Indenture

**Corporate Finance  
(Opco or Holdco)**

Ex. Construction of multiple projects in early stages of overall completion	
<b>Type</b>	
<b>Financing</b>	- Bank Construction Revolver - Some Debt Capital Markets once sales generated
<b>Terms</b>	- Parent / equity support during construction - Robust covenants, but less than single project

Ex. At or near completion of a project portfolio with the majority of projects reach completion	
<b>Type</b>	
<b>Financing</b>	- Bank Revolver - Debt Capital Markets (once majority in service)
<b>Terms</b>	- Parent / equity support depends on capital sources - Covenants mirror corporate debt transactions - Can add leverage at Holdco entity

**LEAST RISK**

Bank financing available at each stage and project type; debt capital markets access becomes easier as credit profile improves

# Future of Transmission Financing

## Opportunities – More Investment Due to?

- Migrating demographics
- Mobile generation
  - Retiring coal plants; new gas & renewables
- Grid complexity driven by DG
- Grid reliability
- Cyber security
- Existing system: Track record, consumer confidence / benefits, public policy
- Partnerships

## Threats

- Disruptive Technology
  - Centralization to decentralization due to renewables, storage, and DG
- Grid complexity due to DG
- Substitutes: electrons vs. BTUs (gas pipeline growth vs. electric transmission growth)
- Higher financing cost - financial regulation
- Interveners impact on ROEs / Cap Structure

# Supporting Rural America's Vital Infrastructure Providers





# CoBank Presentation: Alaska Accounting & Finance Conference

Brock Taylor

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