

NATIONAL FEDERATION OF MUNICIPAL ANALYSTS
Recommended Best Practices in Disclosure
for the Public Power Sector



The National Federation of Municipal Analysts (NFMA) is an organization of nearly 1,000 members, primarily research analysts, who evaluate credit and other risks of municipal securities. These individuals represent, among others, mutual funds, insurance companies broker/dealers, bond insurers, and rating agencies.

One of the main initiatives of the NFMA is to promote timely and complete disclosure of the financial and operating information needed to assess the credit quality and risk of municipal debt. The NFMA's efforts have ranged from global disclosure-related issues to more detailed, sector-specific work such as the Recommended Best Practices in Disclosure discussed herein. For further information on the NFMA's continuing work in the area of disclosure, please see the "Disclosure Guidelines" and "Position Statements" pages of the organization's web site at www.nfma.org.

In order to develop our Recommended Best Practices in Disclosure, diverse groups of NFMA analysts worked with non-analyst professionals in each sector to develop "best practices guidelines" for certain market sectors. These Recommended Best Practices are descriptions of the sector-specific financial and operating information needed to provide information necessary for analysts do their jobs. The NFMA believes that the best practice in disclosure will always be the one that provides a steady flow of timely information from borrowers to the market. Initial drafts of our Recommended Best Practices in Disclosure were widely circulated, and an industry comment period was used to seek input from interested parties. Subsequent to the comment period, the papers were revised. For certain sectors, Comment and Response papers were drafted; these papers are available on the NFMA web site, providing additional information on the comments received.

Following is the most recent version of the Recommended Best Practices in Disclosure for the public power sector. This document is not intended to supplant the amendments to SEC Rule 15c2-12, but to be used in conjunction with the guidance provided in those amendments. It is important to note that the NFMA's disclosure efforts are a continuing process. These guidelines are not static documents, and will be revisited and changed as market conditions warrant. We encourage interested parties to submit comments at any time to lgood@nfma.org, so that they can be considered in the development of future versions of these Recommended Best Practices in Disclosure.

The NFMA Recommended Best Practices in Disclosure are not intended to be "one size fits all" recommendations, and all the information requested may not apply to every transaction in the public power sector. We encourage the providers of information to indicate when a specific item requested in the Recommended Best Practices is not applicable to a specific transaction.

Background

The NFMA Public Power Best Practices Subcommittee was established to draft Recommended Best Practices Disclosure Guidelines for the sector. Members of the committee include analysts from the buy and sell side, rating agencies, insurance companies, and representatives from both retail and wholesale utilities.

Goal

The disclosure guidelines are intended to apply to municipal retail systems, wholesale municipal systems, electric generation and distribution cooperatives, joint action agency projects, and project finance transactions that are contractually secured by municipal utility systems.

Recommendations

The information included in this document is intended for disclosure associated with a market transaction. Information should be made available to investors and capital market participants. No ownership or minimum holdings should be required. All borrowers should establish an investor contact whose name and contact information is reported on all disclosure statements to the obligor.

Introduction

This summary document includes Standard Performance Measures that have been formatted into tables to facilitate consistent ongoing disclosure. While certain sections of disclosure lend themselves to this format, such as financial and operational information, we would recommend that issuers use their discretion as to when additional formats might lend themselves to a more complete explanation of a utility's credit characteristics and might therefore be more informative to investors.

The recommendations are broken down into nine sections. The sections are as follows:

1. General Description
2. Financial Measures
3. Debt Profile
4. Operations
5. Management and Business Strategy
6. Risk Management Practices and Internal Policies
7. Rates and Competitive Position
8. Customer Base and Service Area Economy
9. Legal and Financial Covenants

General Description

Please provide a brief description of your utility.

Utility Description
<input type="checkbox"/> Municipal Utility without Generation Ownership
<input type="checkbox"/> Municipal Utility with Generation Ownership
<input type="checkbox"/> Joint Action Agency
List all members and percent and type of obligation (e.g., "take-or-pay")
If multiple projects with different participants, list for each project
<input type="checkbox"/> Distribution Cooperative
<input type="checkbox"/> Generation and Transmission Cooperative
List all members and percent and type of obligation (e.g., "all-requirements")
If multiple projects with different participants, list for each project
<input type="checkbox"/> Combined Utility (Check all that apply)
__ Electric
__ Water
__ Wastewater
__ Natural Gas
__ Telecommunications
__ Other

Financial Measures

Financial disclosure should provide sufficient detail to investors to provide a solid understanding of liquidity and ongoing cash flow of the utility, the degree of variability in the revenue stream securing the bonds and major components of the balance sheet. Prior fiscal year information should be based on audited financial statements in accordance with generally accepted accounting principles, with supplemental information provided if the issuer feels that additional explanation or data is useful to understanding the financial position of the utility.

Income Statement ¹							
	Prior 3 Fiscal Years			Current Budget	Projections		
Fiscal year ending							
Revenues							
Retail Electric Revenues							
Wholesale Electric Revenues (not net revenues)							
Sale of Other Utility Service (gas, water, etc.)							
Non-operating Revenues							
Total Revenues							
Expenses							
Purchased Power ²							
Production Costs							
Transmission and Distribution							
Administrative & General							
Maintenance							
Depreciation							
Other Expenses							
Wholesale Electric Expenses							
Total Operating Expenses							
Net Available for Debt Service ³							
Interest Payments							
Principal Payments							
AFUDC							
Transfers or Payments to City							
Extraordinary Items							
Net Income							
Debt Service Coverage per Resolution ⁴							
Cash Flow Debt Service Coverage ⁵							
Unrestricted Cash Reserves							
Current Assets/Current Liabilities							
Net Asset Value (total)							
Generation (if available)							
Transmission (if available)							
Distribution (if available)							
General Plant and Other							
Total Long-Term Debt							
On-Balance Sheet							
Off-Balance Sheet ⁶							
Total Variable Rate Debt							
Variable as % of Total Debt							
Synthetic Fixed Debt							
Synthetic Fixed as % of Total Debt							
Total Short-Term Debt (include synthetic variable)							
Other "material" debt-like obligations ⁷							
Annual Capital Expenditures							
Amount Debt Financed							
Amount Internally Financed							

Notes

¹ A separate sheet should be filled out for each system/project/resolution that is rated independently by the rating agencies.

² Payments to joint action agencies should be detailed in the operational section.

³ (Operating revenues - non-cash revenues) - (operating expenses + non-cash expenses)

⁴ Issuer should explain how the covenant requirements calculate debt service coverage.

⁵ (Operating revenues - operating expenses + depreciation - one-time revenues) / annual debt service

⁶ Off Balance Sheet debt is calculated by multiplying the issuer's % share of any "take or pay" project by the amount of total debt still outstanding at that project

⁷ Explain the nature of the obligation and how value calculated was obtained

In addition to information captured in the Standard Performance Measures, issuers should provide a discussion of internal policies regarding debt service coverage targets, capital structure, budgeting for non-recurring revenues, transfers to the city's general fund and a description of the size and scope of the utility's capital improvement plan.

Finally, to meet the recommended best practices for disclosure, public power and cooperative issuers should provide a set of financial projections in the same format as the historical information is provided, to facilitate comparisons. The projections should be accompanied by the major assumptions that were used to estimate revenues and expenses such as projected load growth, assumed purchase power and fuel prices, hedging strategy for both purchased power and fuel and any other material assumptions that are embedded in the projections. Investors and readers of this disclosure information should understand that they are forward looking statements made by the issuer on a particular date and that forward-looking statements involve risks and uncertainties. Actual results will likely differ from the forward-looking statements. If a full set of financial projections is not provided, the issuer should provide in its explanation of financial policies an explanation of any expected changes from the historical levels of debt service coverage, cash reserves, equity in the system or annual capital spending.

Debt Profile

Utilities should provide information regarding the amounts and terms of its on-balance sheet and off-balance sheet commitments. To the extent that information requested in the Standard Performance Measures Tables 3 and 4 is already included in a utility’s audited financial statements, it does not need to be duplicated in these tables.

Outstanding Debt						
Issue Name	Outstanding Par Amount	Purpose	Interest Rate	Maturity Date	Type of Enhancement, if applicable	Lien or Asset Pledge
On Balance Sheet Debt						
Off-Balance Sheet Obligations (if “unconditional” contract, specify \$ equivalent)*						
Lease Obligations						

*Example of \$ equivalence: an obligation to take or support 30% of a \$300 million power plant would be equal to \$90 million less 30% of the amortized principal on the debt used to finance the plant.

Debt Service Schedule			
Year	Principal	Interest	Total Debt Service
2004			
2005			
2006			
2007			
2008			
2009			
2010			
2011			
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			

Operations

The operational section should provide enough data and system information to enable investors to formulate a strong understanding of the fundamental operations of the system, including the sources and amounts of power for the utility and to whom the utility sells its power to and in what amounts. The disclosed information should provide a firm understanding of system load shape and historical growth.

Sales and Revenues by Customer Class				
	Fiscal year ending	Prior 3 Fiscal Years		Budget Year
Revenue (\$ in thousands)				
Residential				
Commercial				
Industrial				
Other _____				
Sub-Total				
Wholesale				
Total				
Sales in MWh				
Residential				
Commercial				
Industrial				
Other _____				
Sub-Total				
Wholesale				
Total				
Number of Customers				
Residential				
Commercial				
Industrial				
Other _____				
Sub-Total				
Wholesale				
Total				
Average Revenue (cents per kWh)				
Residential				
Commercial				
Industrial				
Other _____				
Sub-Total				
Wholesale				
cost to non-member/participant				
cost to non-members and spot				
Total				
Average Power Supply Cost (gen & trans)				
Peak Demand (Native Load Only)				
Peak Demand (including Off-system Obligations or Sales)				
Reserve Margin (%)				
Load Factor (calculated based on Native Load Only)				

Energy and Capacity by Fuel Type								
	Prior 3 Fiscal Years						Current Budget Year	
Fiscal Year Ending		% Total		% Total		% Total		% Total
Actual Energy (MWH Delivered)								
Coal								
Hydro								
Nuclear								
Natural Gas/Oil								
Purchases								
Other								
Total								
Installed Capacity (MW)								
Coal								
Hydro								
Nuclear								
Natural Gas/Oil								
Purchases								
Other								
Total								

Generation Resource Portfolio							
	% Ownership	Nameplate Capacity (MW)	Fuel Type	Energy Produced (MWh)	Total Cost (\$ per MWh)	Availability Factor (%)	Capacity Factor (%)
Owned Generation Resources							
Joint Action Agency Assets							

	Counterparty	Capacity (MW)	Fuel Type	Termination Date	Status (Firm, peak, unit dependent, etc)	Energy as % of total resources	Cost (\$/MWh)
Purchased Power Contracts							

	Counterparty	Amount	Fuel Type	Termination Date	Status (minimum requirements)	Contract as % of total generation resources	Cost
Fuel Contracts							
Total							

Load Characteristics

A description should be given as to when the system typically experiences its peak load (e.g., summer), and if there have been any material developments which might impact past or future load growth characteristic (e.g., the loss or addition of a major customer). Also included should be a list of the top ten customers in terms of revenues and energy sales.

Fuel and Resource Mix

Table 6 is designed to provide investors with information regarding an issuer's fuel diversification, whether through owned generation, joint action agency participation or purchased power contracts that are unit specific

Management and Business Strategy

Management

Issuers should describe the utility's enabling legislation and form of governance. Disclosure should include the names and tenure of elected and appointed officials and brief biographies of senior management.

Business Strategy

Management should describe the significant business issues facing the utility over the coming 5-10 year period. Based on management's assessment of its primary business risks, detail should be disclosed on strategies to address one or more of the following issues:

1. Competitive Position
2. Regulatory Issues
3. Power Supply and Fuel
4. Capital Improvement
5. Debt Management
6. Rates and Revenues
7. Staffing, Wages and Benefits

Risk Management Practices and Internal Policies

Management should disclose and discuss risk management practices and policies. Depending on the level of energy trading and fuel procurement done by the utility, disclosure might include:

1. Existence of a Risk Oversight Committee, its membership and role
2. As of a certain point in time, such as fiscal year end, provide the number of counterparties and the maximum amount of exposure to any one counter-party and in total

3. Describe counterparty evaluation and monitoring procedures, whether or not standard trading agreements are utilized, including if netting provisions are used and whether or not any counter-party has ever been in default on a payment
4. Methodology for evaluating utility risk on a periodic basis (such as VAR, scenario analysis) and resources available to perform ongoing monitoring
5. Dollar amount of the credit trading reserve and methodology for calculation
6. Describe the whether or not swap payments and termination payments are insured and whether or not the swap agreements include collateral requirements and under what circumstances. We would recommend that issuers refer to NFMA’s “White Paper on Disclosure for Swaps” also available on the NFMA website. The paper details the type of information that should be disclosed regarding swap agreements, experience levels of Risk, Trading, and Credit personnel.

Financial Derivatives

GASB now requires the details of financial derivatives to be disclosed in the notes to the audited financial statements. However, management should additionally describe any formal swap policies and the internal methodology for managing basis risk, counter-party risk, margin risk, and termination exposure. Management should also disclosure.

Liquidity Facilities and Swaps				
Facility	Termination Date	Counterparty	Terms*	

*Terms should include priority of swap payments and termination payments, required collateral calls and triggers, rating triggers, if any, and termination provisions

Rates and Competitive Position

Rates and a utility's relative competitive position continue to be an important factor in determining credit quality. Although revenue stability is arguably more important than low rates, investors are looking for an indication of the rate setting flexibility or a utility's ability to raise rates if necessary.

A Standard Performance Measures table has not been designed for rates since utilities use different classifications for customer classes (residential, commercial, industrial and agricultural/irrigation) and experience different "average" bills depending on geographic location. At a minimum, issuers should disclose rate information on the following items. However, in some cases, additional description may be required to provide investors with an accurate picture of the utility's rates.

1. **Rate Setting Methodology** – Issuers should disclose the rate setting methodology, including timing and required approvals as well as a description of the customer classes and rate structure, for example, if there is a fuel cost component that tracks the utility's actual fuel costs on a monthly or annual basis.
2. **History of Rate Actions** – Utilities should provide a history of rate actions for the past ten years, including the percentage change for each customer class and a description of revenue neutral rate actions.
3. **Typical Bill Calculation** – Issuers should provide the average rate (\$/kWh) for each customer class as well as a typical monthly bill for both average summer and winter usage. Other charges should be described such as flat fees, development charges or utility taxes.
4. **Typical Bill Comparisons** – At a minimum, issuers should provide investors with additional information that might be necessary to compare the above rates to other utilities regionally and nationally. Issuers may choose to provide a comparison of retail rates with neighboring municipal and investor-owned utilities.

Customer Base and Service Area Economy

Issuers should include description of the service territory and local economy. Information should include a description of largest customers, assumptions regarding future customer growth and the associated capital needs that growth is placing on the existing system.

Service Area Economy			
	Prior 3 Fiscal Years		
Fiscal Year Ending			
Description of Service Territory (i.e. name of City or County, # of square miles)			
Population of Service Territory			
Name of entity for which the following information is provided (i.e. City of _____)			
Unemployment Rate			
Per Capita EBI			

Largest Employers			
Top Ten Employers	Type of Business	Employees	Assessed Value
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			

Largest Customers				
Top Ten Customers by Revenue	Type of Business	Revenue (\$ in 000's)	Usage (kWh)	Average Rate / kWh
1.				
2.				
3.				
4.				
5.				
6.				
7.				
8.				
9.				
10.				

Legal Covenants

Since legal and financial covenants bear an important relationship to credit quality of public power bonds, it is appropriate for investors to have access to the terms and availability of all protective provisions included in relevant portions of the financing documents, such as:

- security or asset pledge to bondholders
- ability to issue debt senior to the this obligation
- flow of funds
- rate covenant – description of calculation
- additional bonds test – description of calculation
- debt service reserve – cash funded or surety bond
- any other required reserve funds
- fund replenishment provisions and timing
- events of default and remedies
- ratings triggers on liquidity facilities and derivative transactions
- permitted investment requirements
- allowances for variable rate debt
- permitted interest rate hedges.

This information is typically disclosed in the initial offering statement and is unlikely to change on a frequent basis. It is suggested that issuers update this information in the case of springing legal provisions when new debt issues are offered according to more modern legal provisions. Typically, once a certain majority percentage of the overall debt has been offered under the new legal provisions, the issuer can begin to operate according to the new legal covenants. It is advisable to provide periodic updates to investors through annual disclosure the percentages of debt allocable to each of the legal covenant packages and the anticipated date when the new legal provisions would spring into effect.

Copyright ©2004, National Federation of Municipal Analysts. All Rights Reserved.

NFMA constituent societies, individual members, or their firms may not agree with all provisions of these Recommended Best Practices. The NFMA is not a regulatory agency and compliance with the practices advocated herein does not constitute a "safe harbor" from any State or Federal rules or regulations. Nothing in this paper is to be construed as an offer or recommendation to buy or sell any security or class of securities.

Appendix A



NFMA Recommended Guidelines on Operating Data

Public Power Bonds

The Appendix contains *NFMA Recommended Guidelines on Operating Data for Public Power Bonds* and is provided as an addendum to the *NFMA Recommended Best Practices in Disclosure for Public Power Bonds (“RBP”)*. These guidelines serve to summarize and conveniently tabulate certain key utilization statistics, operating data, and supplemental financial information set forth in the RBP for use in both primary and secondary market disclosure. This Appendix is not intended to be a “one size fits all” solution for providing this data consistent with the RBP. Issuers or obligors are encouraged to modify and supplement this Appendix in accordance with their own disclosure requirements and information profile. **To obtain more complete disclosure guidelines, issuers and obligors are urged to consult the *NFMA Recommended Best Practices in Disclosure Guidelines for Public Power Bonds*.**



NFMA Recommended Guidelines on Operating Data

Public Power Bonds

Part 1: Operating Data

Issuer Name			
Financial Officer Contact			
Telephone No.	()		
Fiscal Year End			
Website URL (if available)	http://.www.		
	Last Three Fiscal Years		
	FYE	FYE	FYE
<u>Service Base Data</u>			
Estimated population (Service Area)			
SMSA Unemployment rate			
Median Income			
<u>Energy Sales (kwh)</u>			
Residential			
Commercial			
Industrial			
Wholesale			
Total			
<u>Electric Rates (¢ per kwh)</u>			
Residential Sales			
Commercial Sales			
Industrial			
Wholesale			
System Average			
State Average			
<u>Demand (mw)</u>			
Peak			
Coincident Peak			
<u>System Resources</u>			
Total Generating Resources (mw)			
Avg Cost Generated Power (cents/kWh)			
Power Purchases (mw)			
Spot Market (mw)			
Contract (five years or less) (mw)			
Contract (five to ten years) (mw)			
Contract (ten to twenty years) (mw)			
Avg Cost Purchased Power (cents/kWh)			
Avg Spot Market Price (cents/kwh)			
Total Power Supply (mw)			
<u>Resource Adequacy</u>			
Margin (mw)			
Reserve Margin (% of Coincident Peak)			
<u>Fuel Mix</u>			
% Gas			
% Oil			
% Coal			
% Nuclear			
% Hydro			
% Purchased power			
<u>Generating Resources</u>	Unit No 1 _____	Unit No 2 _____	Unit No 3 _____
Nameplate capacity (MW)			
Energy Produced (mWh)			
Cost (per kwh)			
Variable O&M			
Fixed O&M			
Capital			
Availability Factor (%)			
Capacity Factor (%)			



NFMA Recommended Guidelines on Operating Data

Public Power Bonds

Part 1: Operating Data

	Unit No 4	Unit No 5	Unit No 6
Nameplate capacity (MW)			
Energy Produced (mWh)			
Cost (per kwh)			
Variable O&M			
Fixed O&M			
Capital			
Availability Factor (%)			
Capacity Factor (%)			

