

Chelan PUD Financial Planning Strategies

- Apr 24th Forecasts & scenarios
- May 1st Alternatives
- May 8th Recommendations and next steps

Board meeting
April 24, 2006
Finance staff

Agenda for Today

- ◆ Introduction
- ◆ Financial forecast review
 - Tools & resources
 - Targets, strategies and assumptions
 - Volatility
 - Debt coverage ratio
 - Forecasts & scenarios
 - Observations
- ◆ Get your feedback and input
- ◆ Next steps

Tools and Resources

- ◆ Staff expertise
- ◆ External expertise
- ◆ Forecast tools
 - Budgets
 - Capital plans
 - Relicensing plans
 - Load forecasts
 - Electricity price market surveys & modeling
 - Aluminium smelter forecasting
 - Combining forecasts

Targets, Strategies & Assumptions

1. Targets

- Minimum of \$75 million in cash
- Minimum 1.75 debt coverage ratio

2. Strategies

- Existing retail rate structure
- Revenue finance Utility Service capital after use of existing bond funds
 - ◆ (91% with revenues average approximately \$19.6M / year)

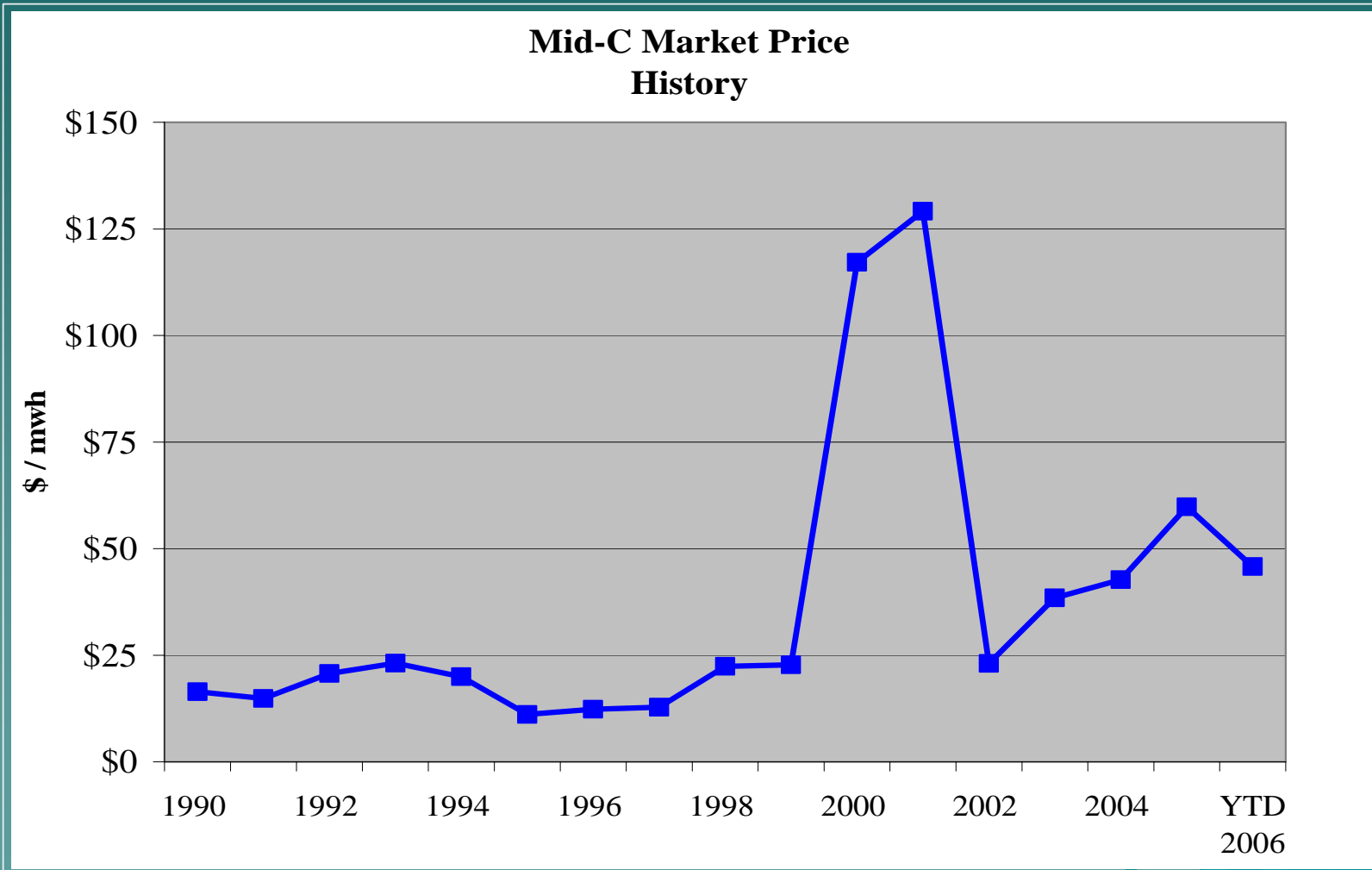
Targets, Strategies & Assumptions

3. Assumptions

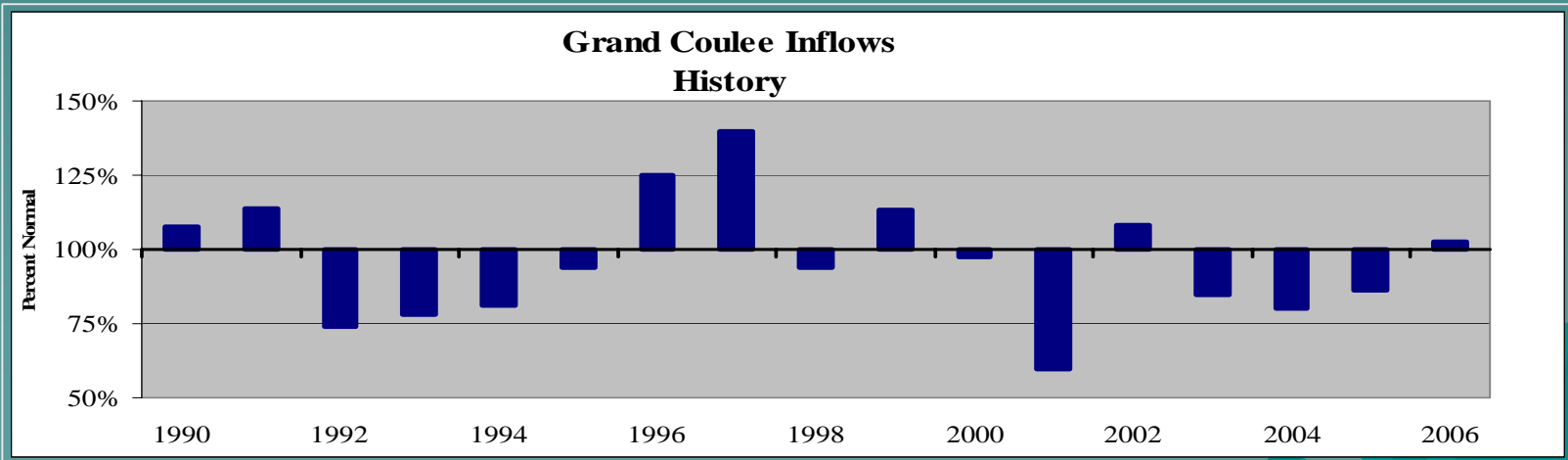
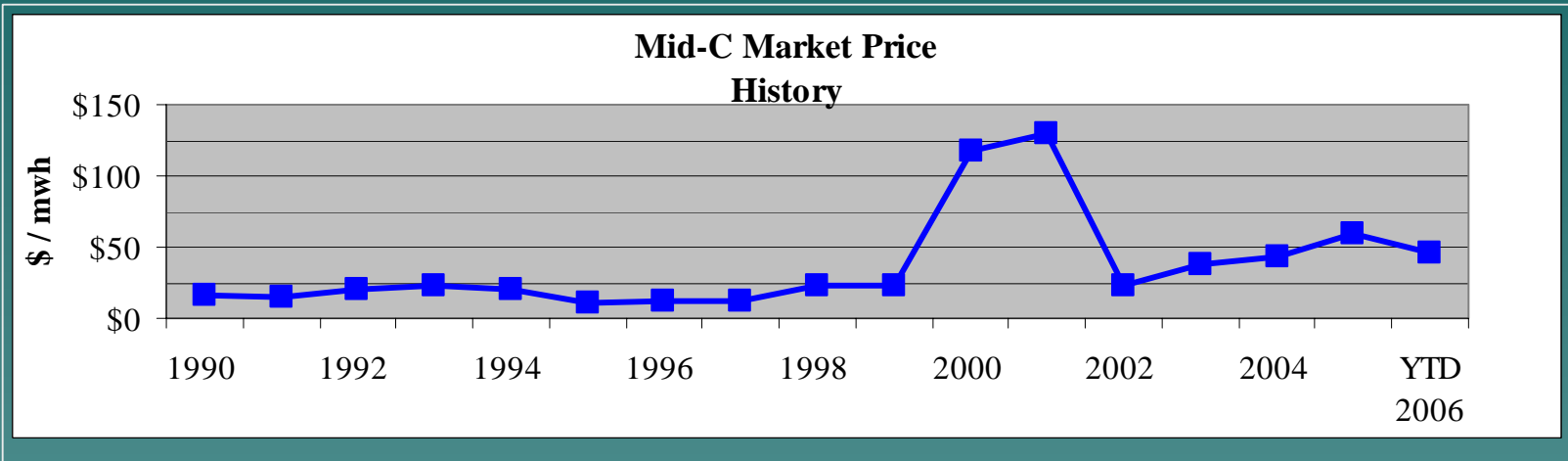
- Normal water years going forward
- Future prices
 - ◆ Near term: market
 - ◆ Out year 2012: model
 - ◆ Averaging \$49.91 / mwh through 2011
- Load growth 2.5% (plus 1-off Yahoo! added in 2006)
- Operation & maintenance (OM) growth 7% annual
- Current capital plans
- Alcoa 2 potline operation using ~ 14 aMW of optional 95/00 power
- Surplus sales average \$51.4M through 2011
- \$89M cash payment from Puget received in 2006 but deferred associated revenues to new contract term post 2011

Assumptions are average or point estimates
(compared to an estimate range)

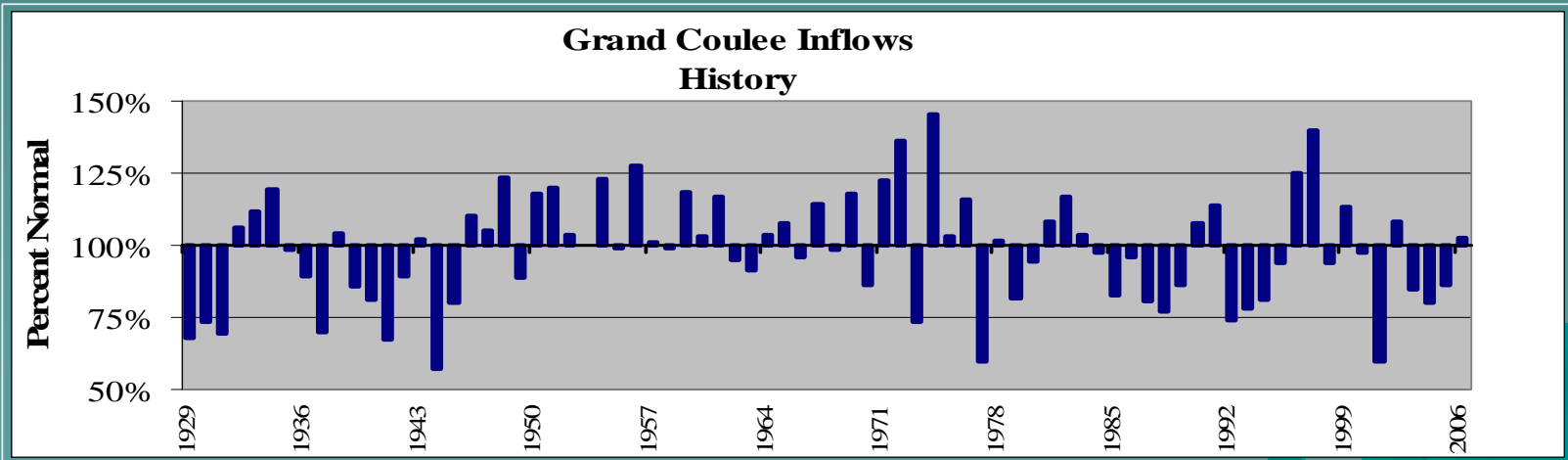
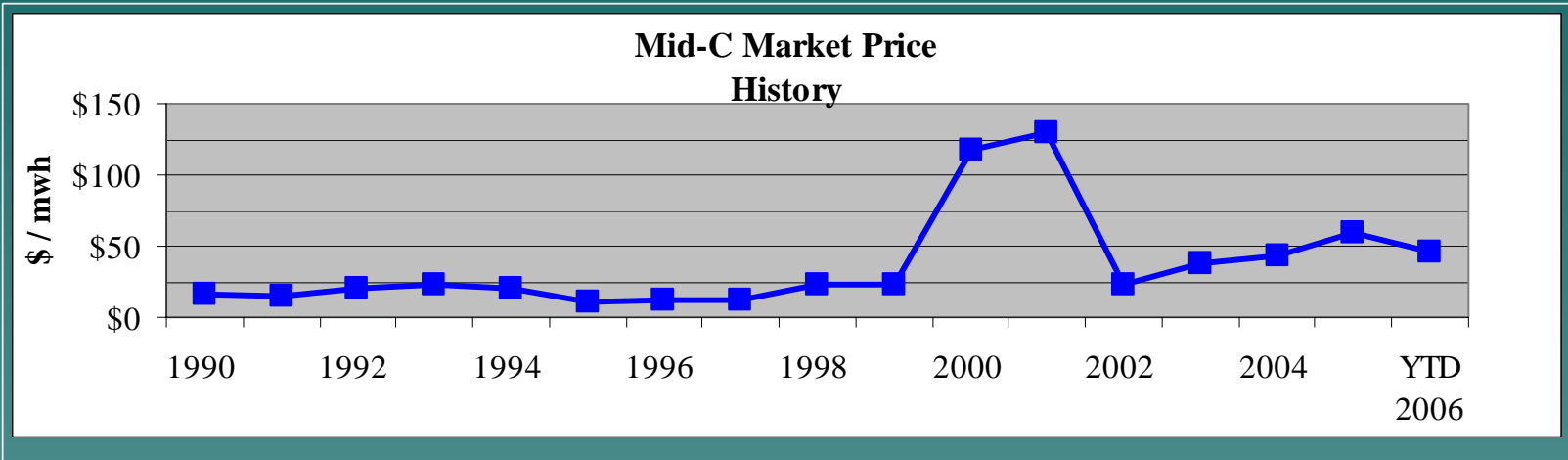
Volatility – History



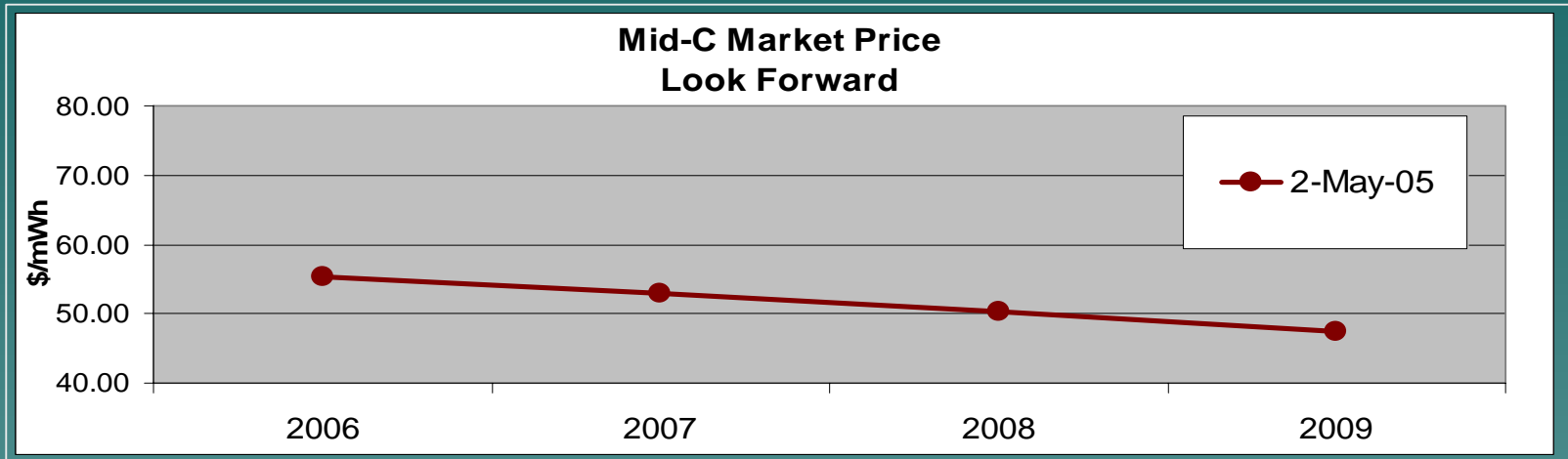
Volatility – History



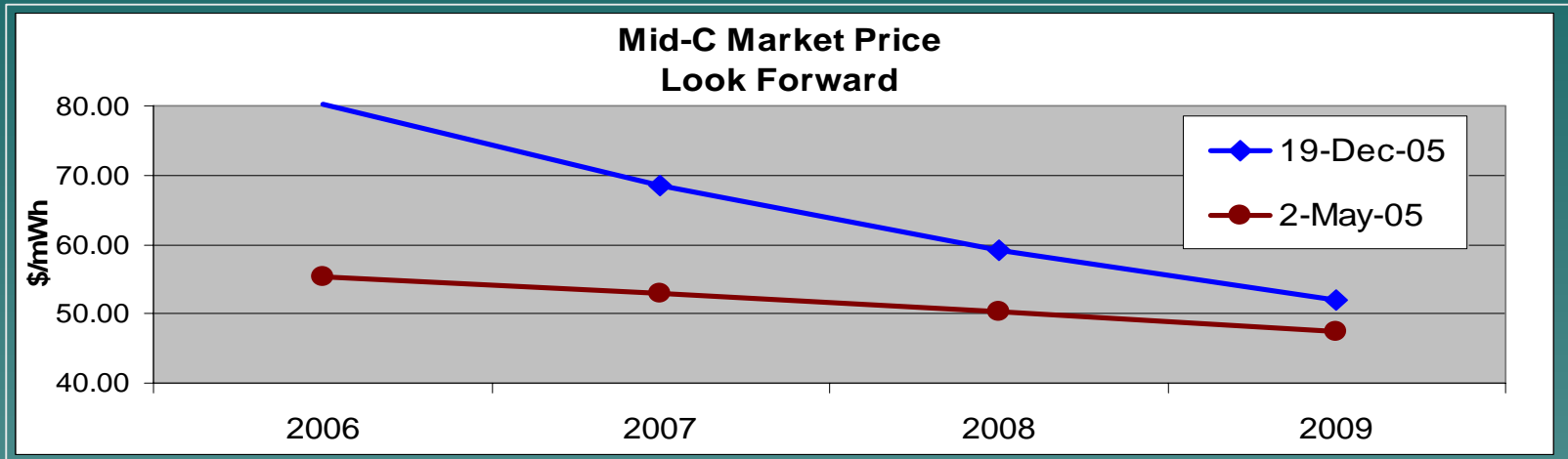
Volatility – History



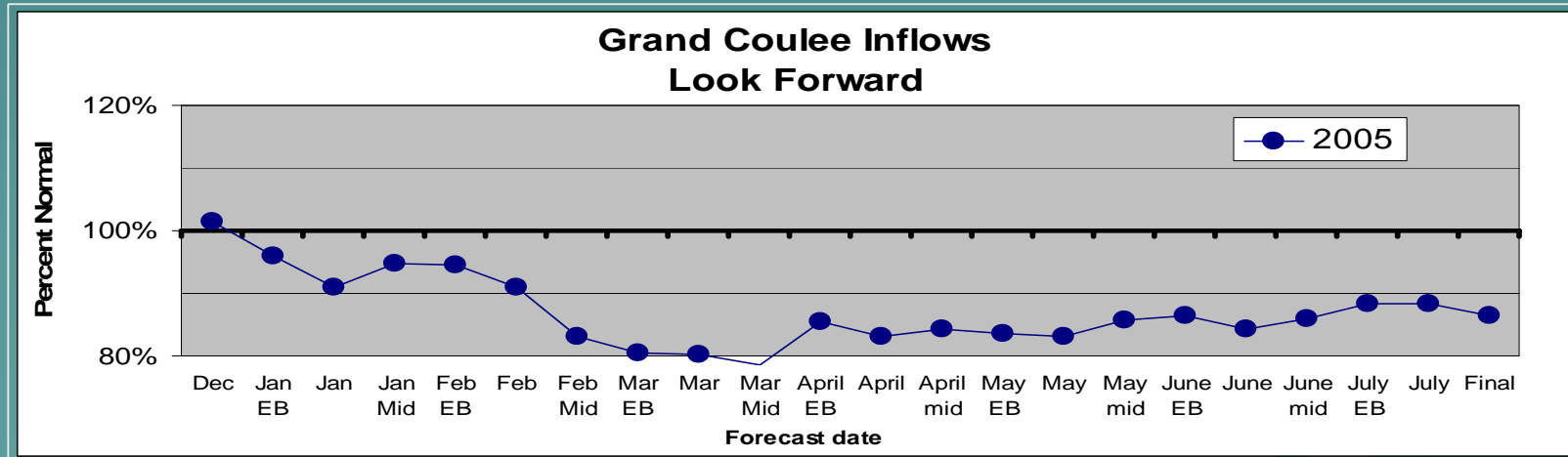
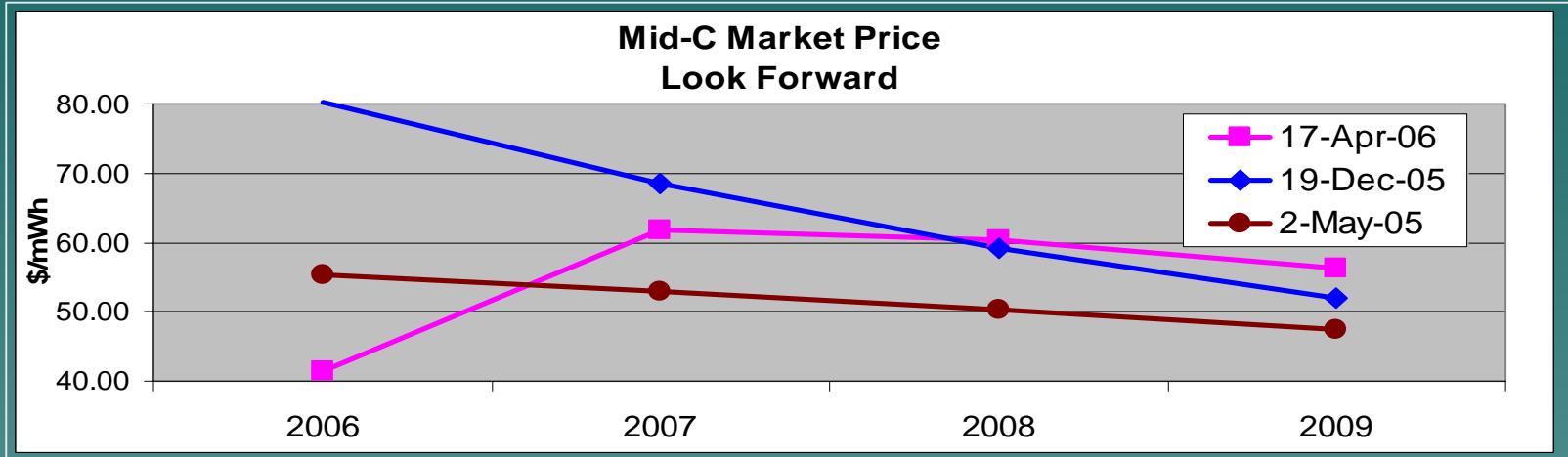
Volatility – Future



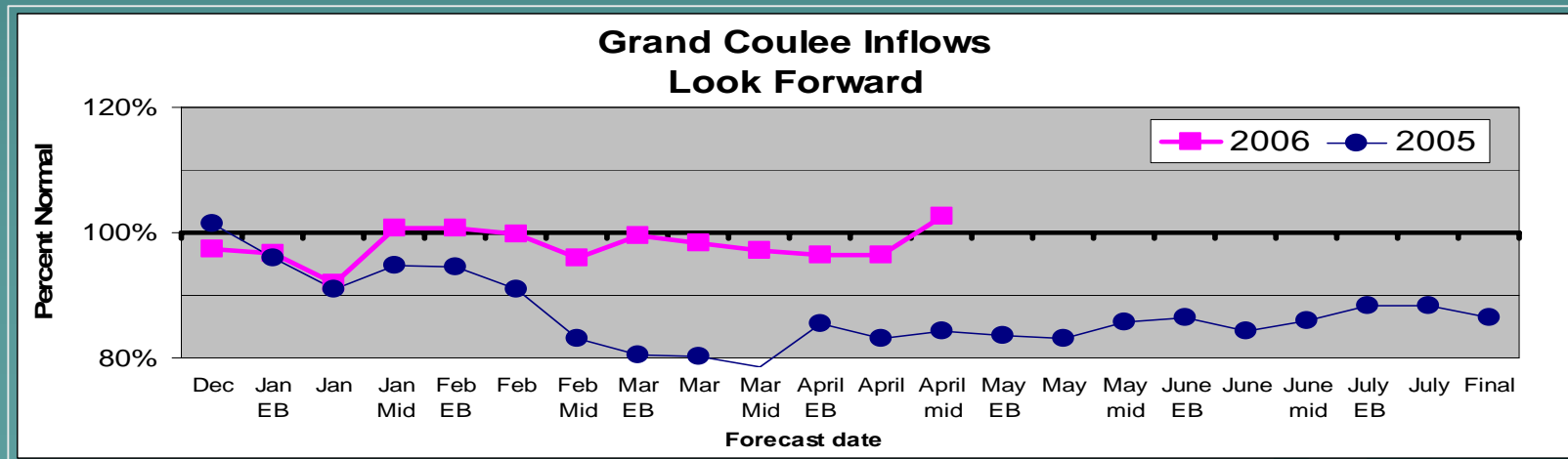
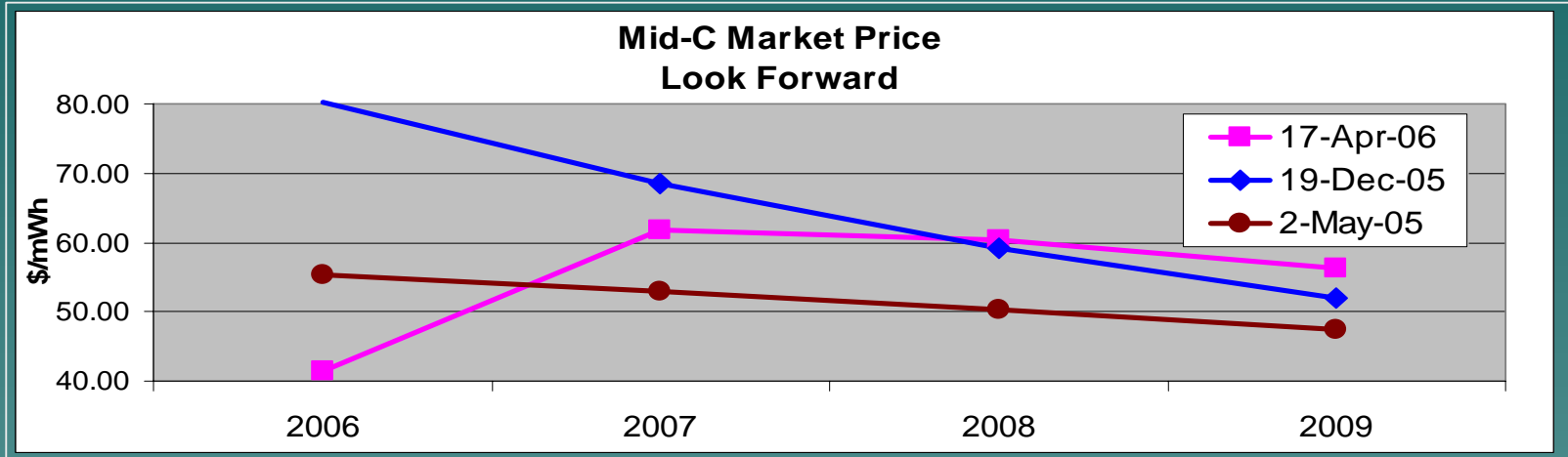
Volatility – Future



Volatility – Future



Volatility – Future



Debt Coverage Ratio

= Net cash from operations / debt service

$$= \frac{\text{Operating revenues} - \text{Operating expenses}^*}{\text{Principal and interest payments}}$$

* Does not include capital costs nor depreciation expense

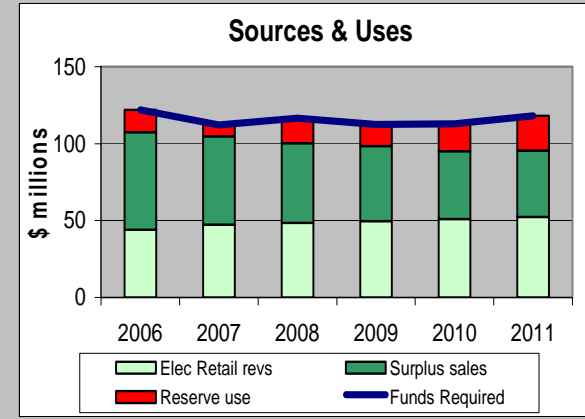
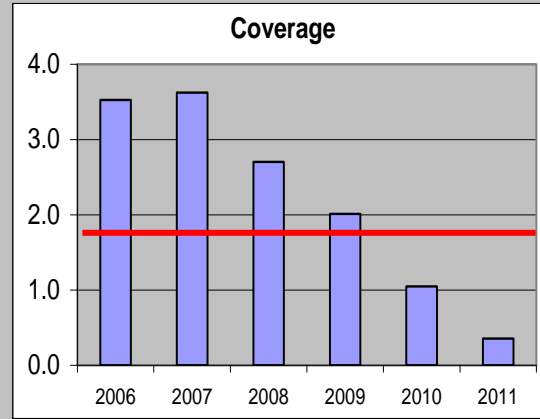
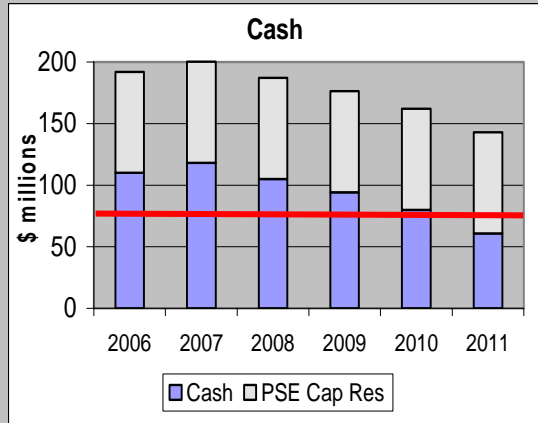
Debt Coverage Ratio

- ◆ Measure of ability to service debt
- ◆ One measure of overall financial health
- ◆ Higher is better
- ◆ Credit rating may drop if below 1.75
- ◆ Needs to be 1.25 to issue new debt
- ◆ Covenant minimum 1.00

Forecasts and Scenarios

- ◆ Base case forecast
- ◆ Scenarios
 - Low water
 - Lower prices
 - Alcoa operational impact
 - Increasing electric retail loads

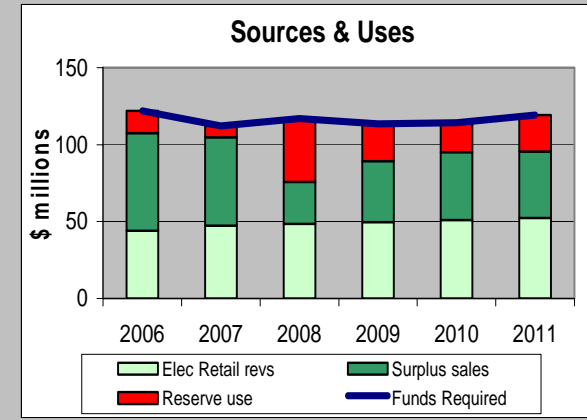
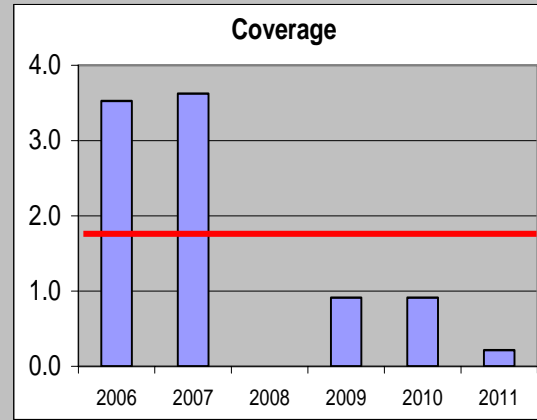
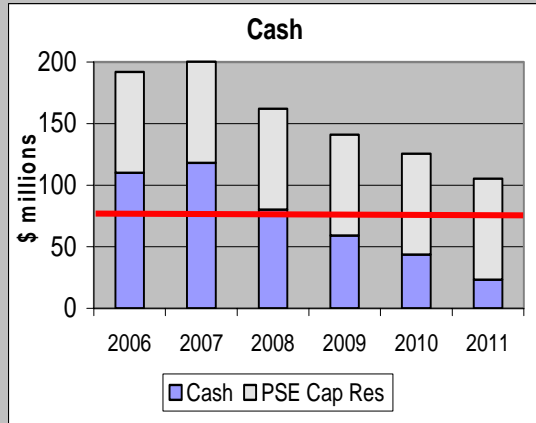
Chelan PUD Utility Services (Non-hydro) Financial Projections



Scenario 1: Base case

Observation: Cash maintained above goal, but cover challenged in out years.

Chelan PUD Utility Services (Non-hydro) Financial Projections

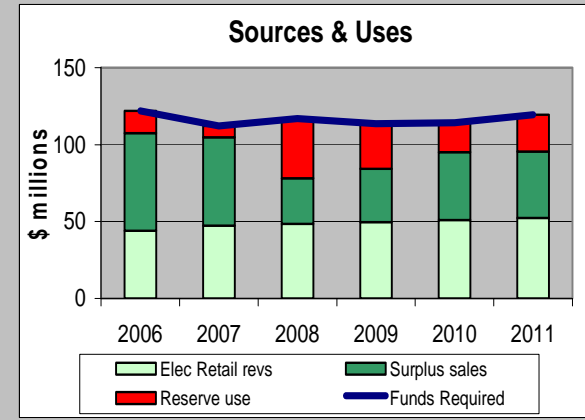
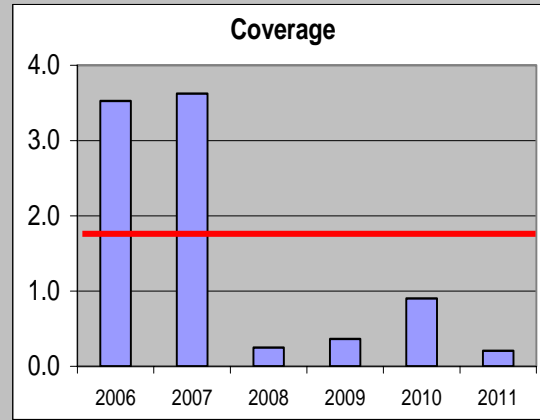
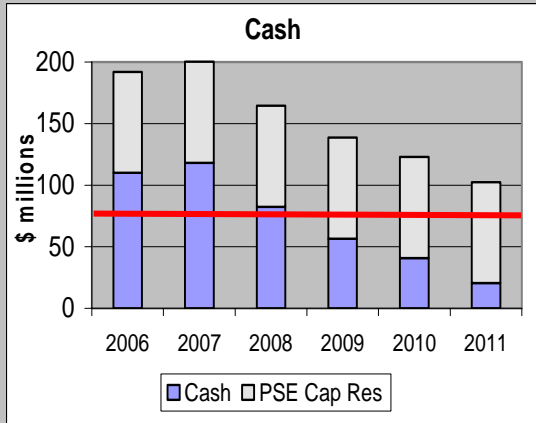


Scenario 2: Low water

Observation: Cover challenged in low water years. Cash hit \$38M.

Two years of bad water 80% in 2008 and 90% in 2009. Alcoa increases use of optional 95/2000 power assuming a 2 potline operation.

Chelan PUD Utility Services (Non-hydro) Financial Projections

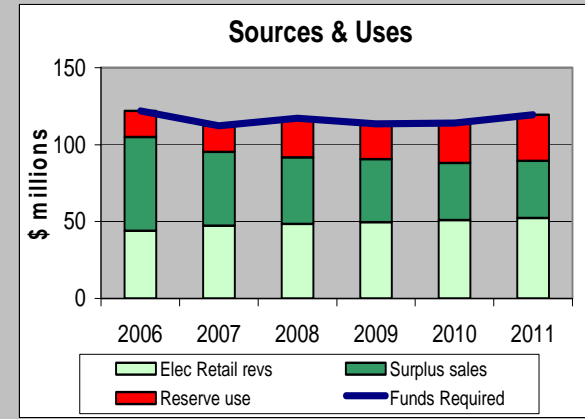
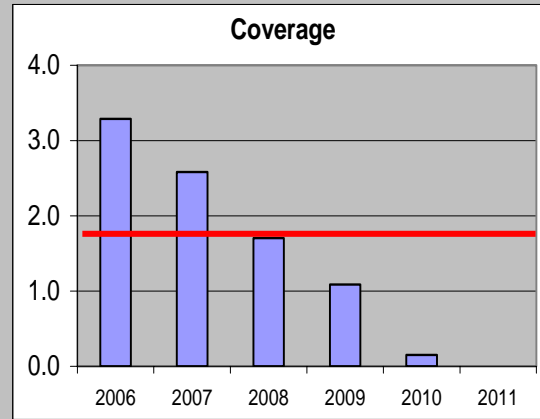
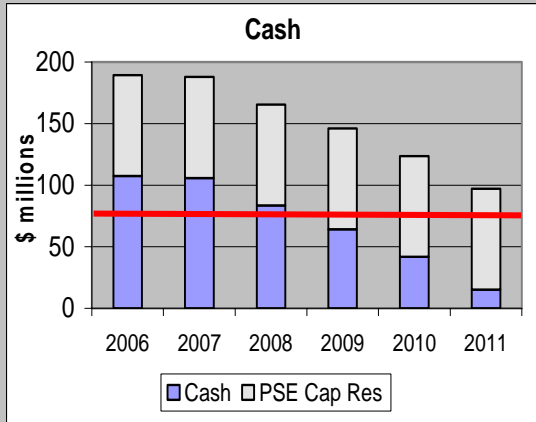


Scenario 3: Low prices

Observation: Cover challenged in lower price years. Cash hit \$40M.

Two years of lower prices of \$30/mwh in 2008 and \$35 in 2009. Assumes Alcoa stays at 2 potline operation.

Chelan PUD Utility Services (Non-hydro) Financial Projections

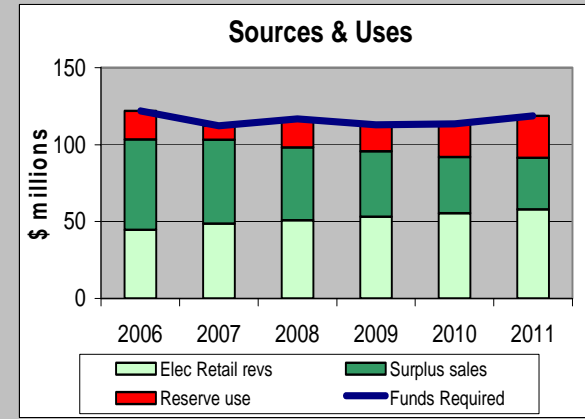
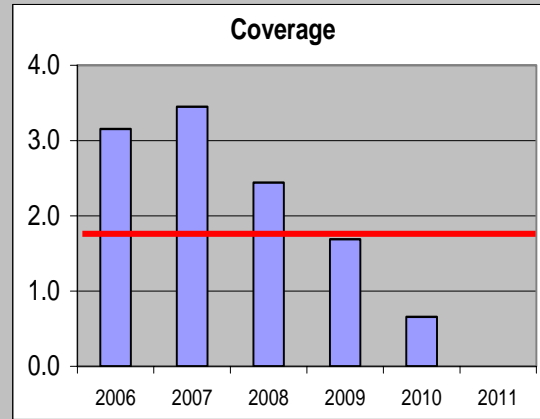
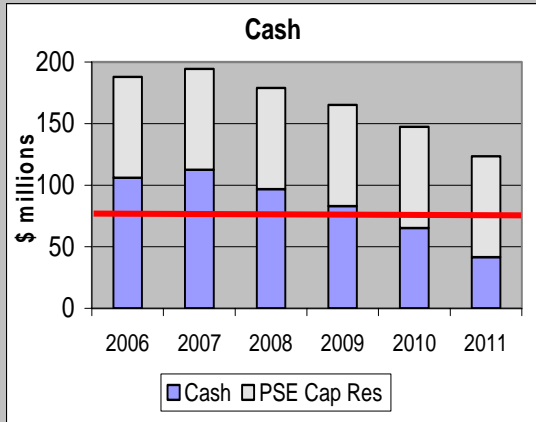


Scenario 4: Alcoa uses all optional power

Observation: Cover challenged in out years. Cash hit \$46M.

Alcoa use of 95/2000 option power increased to max of 42 mw. A 2 1/2 potline operation could make this happen.

Chelan PUD Utility Services (Non-hydro) Financial Projections



Scenario 5: Higher retail loads

Observation: Cover challenged in out years. Cash hit \$11M.

Increase retail load growth to 4.0% (from 2.5% base) per year. No change to existing rate structure. Cumulative load addition is approximately 17 aMW.

Observations

- ◆ Long-term trends of declining cash and cover
- ◆ Volatility and future uncertainty
- ◆ Financial flexibility is diminishing through time

Next Steps

- ◆ May 1st meeting – Alternatives
 - Explore strategies related to:
 - ◆ Debt reduction
 - ◆ Managing volatility and uncertainty
 - ◆ Revenue financing future non-hydro capital
 - ◆ Cost growth changes
 - ◆ Capital plans
 - ◆ Electric retail rates

Feedback and comments?