

Chelan PUD Financial Planning Strategies

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

Board meeting
May 1, 2006
Finance staff

Agenda for Today

- ◆ Introduction
- ◆ Review of last week presentation info
- ◆ Financial forecast review
 - Targets, strategies and assumptions
 - Volatility
 - Explore various alternatives to mitigate declining cash and cover trends and manage volatility and uncertainty
 - Observations
- ◆ Get your feedback and input
- ◆ Next steps

Observations from Apr 24th Presentation

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

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

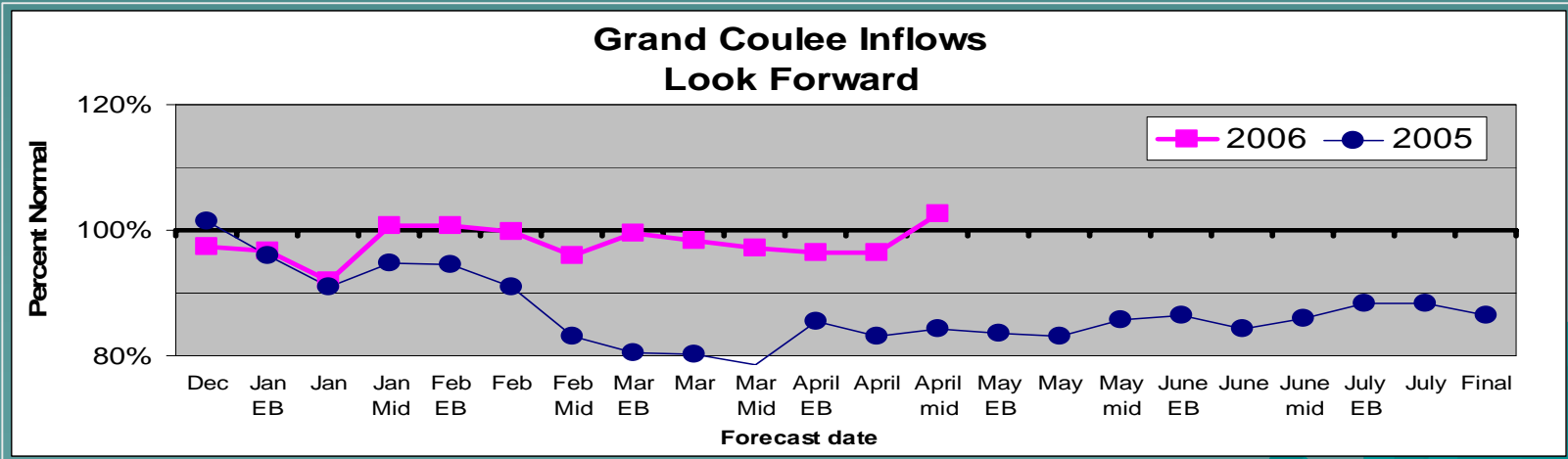
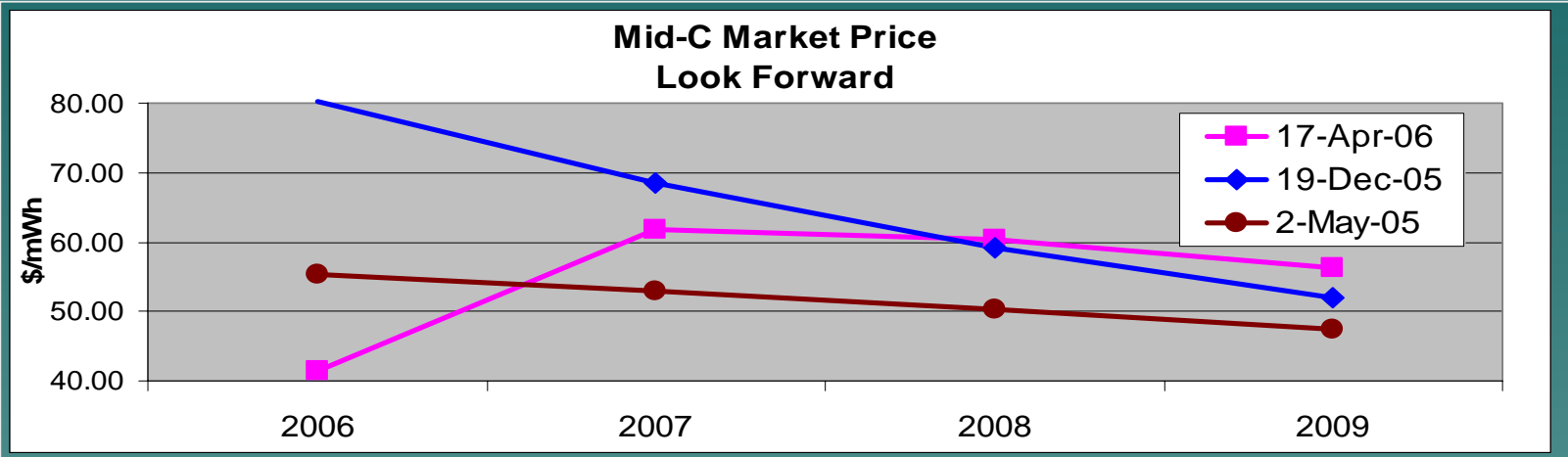
3. Assumptions

- Normal water years going forward
- Future prices
 - ◆ Near term: market
 - ◆ Out year 2012: model
 - ◆ Averaging \$51.51 / 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 \$52.5M through 2011
- \$89M cash payment from Puget received in 2006 but deferred associated revenues to new contract term post 2011

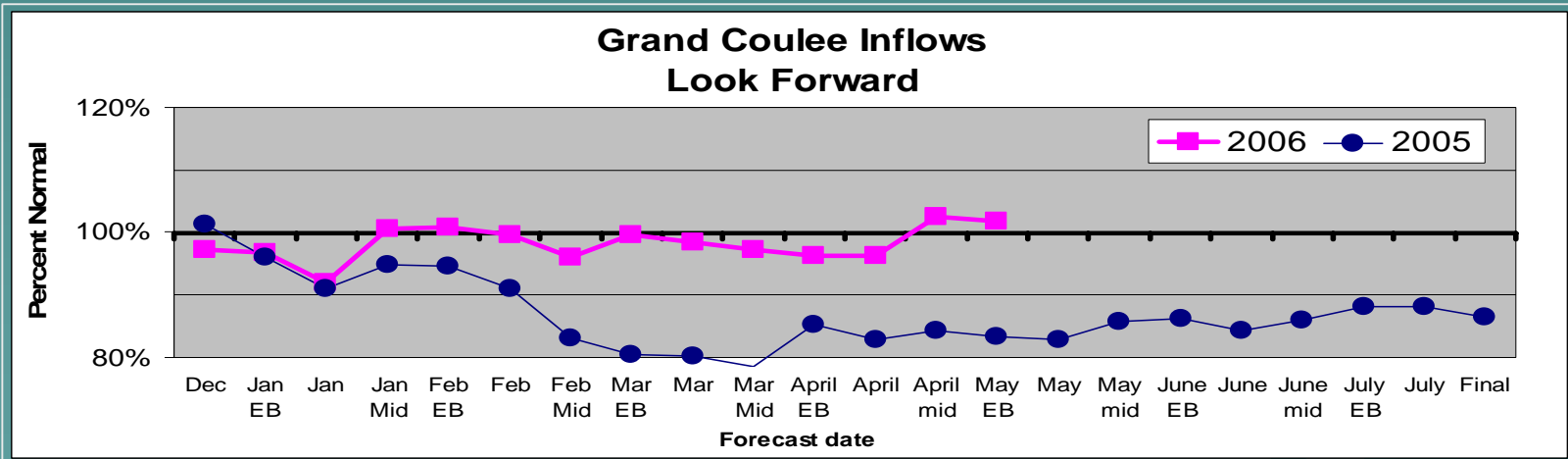
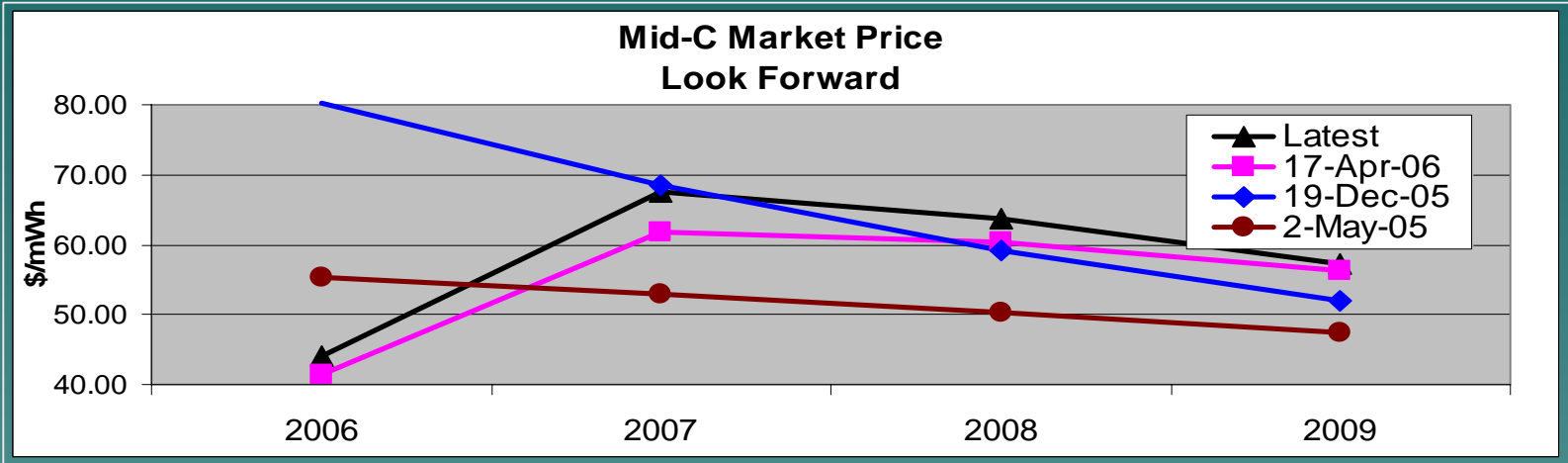
Assumptions are average or point estimates
(compared to an estimate range)

Volatility – Future

Last week



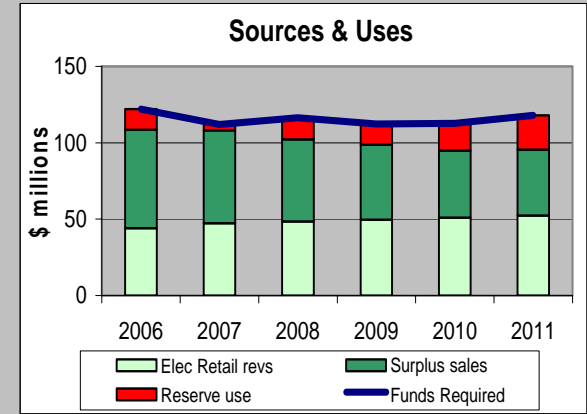
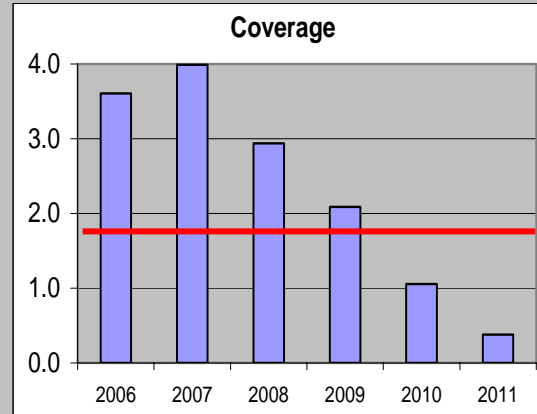
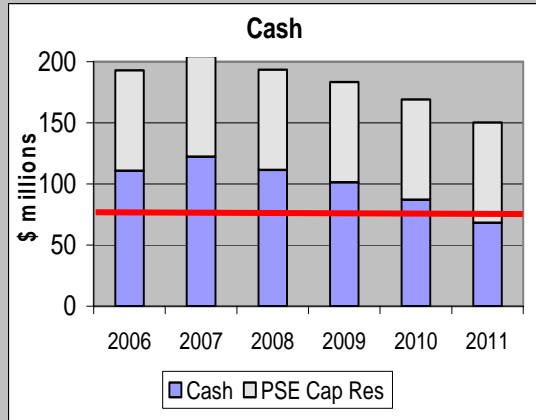
Volatility – Future



Forecasts and Scenarios

- ◆ Base case forecast
- ◆ Scenarios
 - Increase debt for capital
 - Reduce debt
 - Reduce operating costs
 - Reduce capital
 - Rate increases
 - Higher market prices

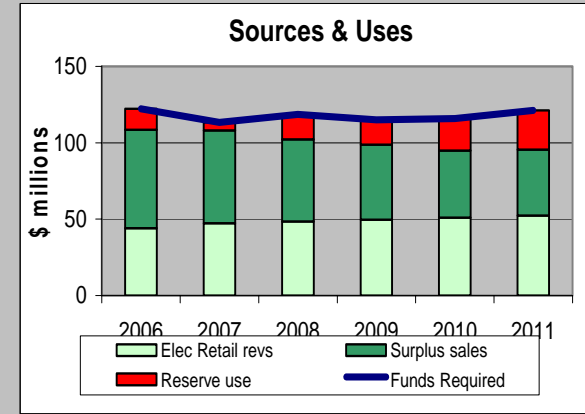
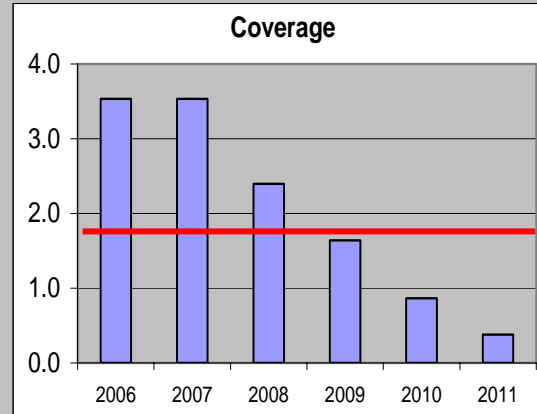
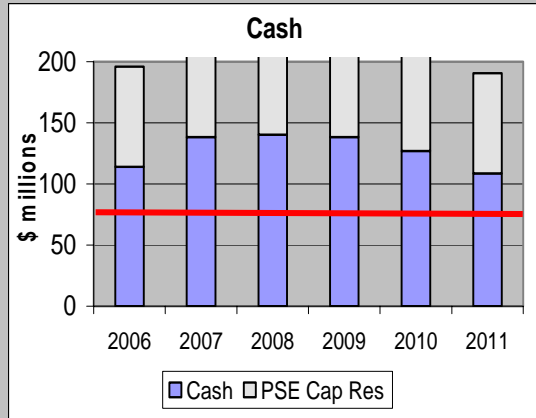
Chelan PUD Utility Services (Non-hydro) Financial Projections



Scenario 1: Base case

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

Chelan PUD Utility Services (Non-hydro) Financial Projections

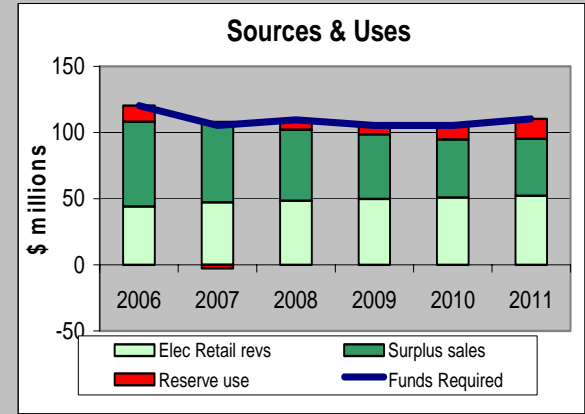
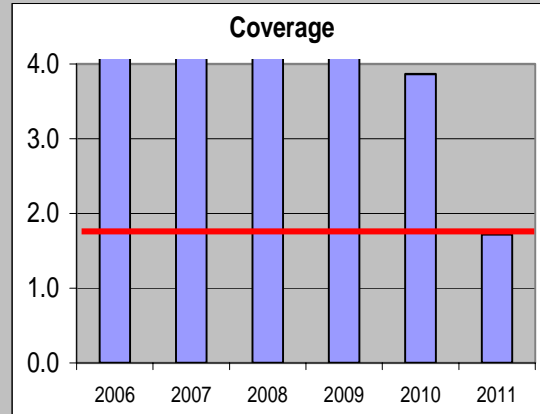
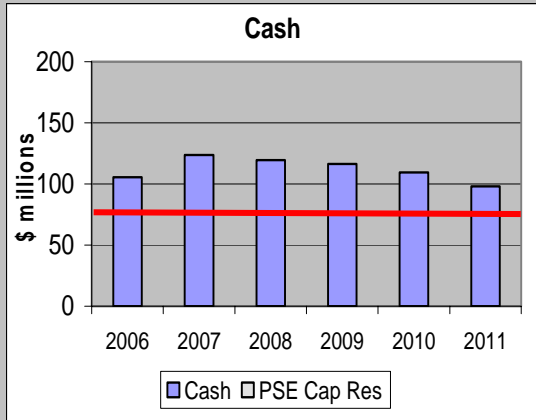


Scenario 2: Borrow for half of Non-hydro capital

Observation: Cash maintained above goal. Cover ratio is worse. Debt increased \$51M over base case. Cash bump adds \$40M.

Increase borrowing to 50% of Utility Service capital, approximately \$10.9M / year.

Chelan PUD Utility Services (Non-hydro) Financial Projections

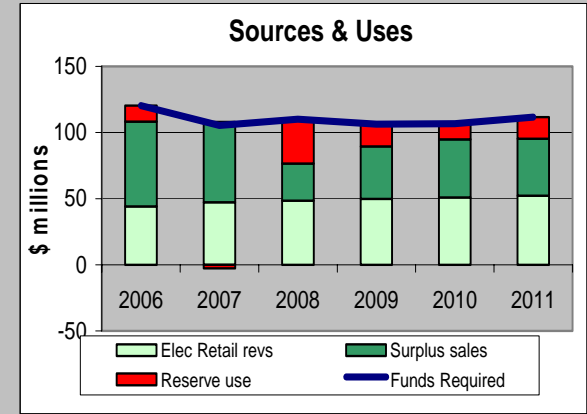
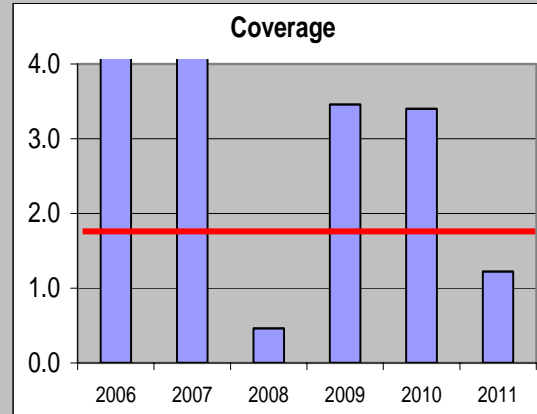
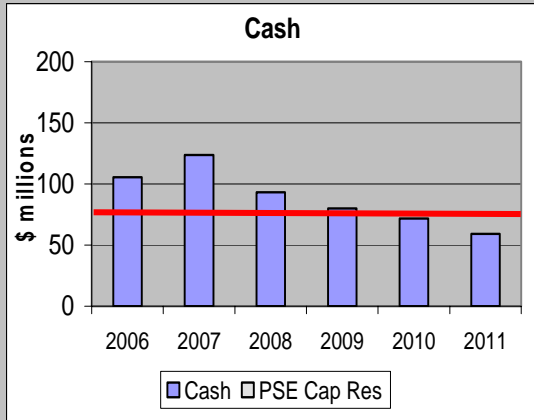


**Scenario 3: Reduce debt
\$89M in 2006**

Observation: Helps in cover through all years. Debt reduction \$89M. Cash hit \$52M.

Assumed effective Oct 1, 2006

Chelan PUD Utility Services (Non-hydro) Financial Projections



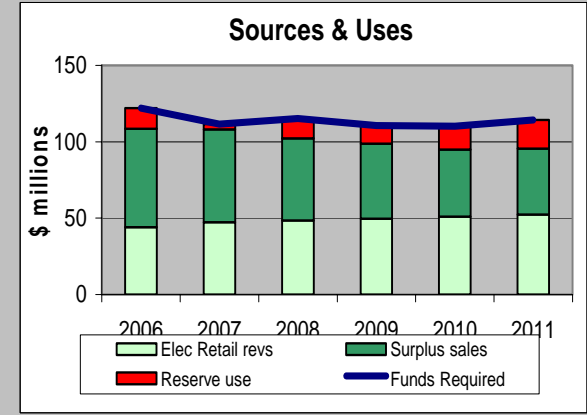
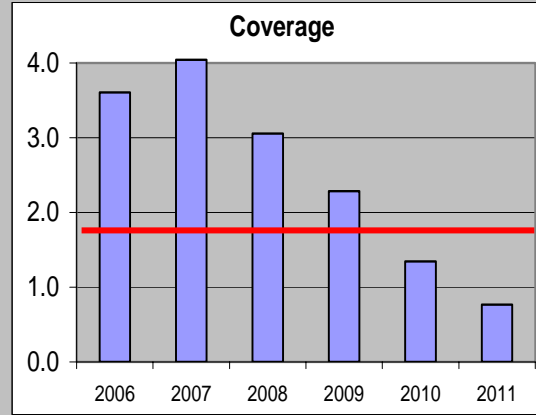
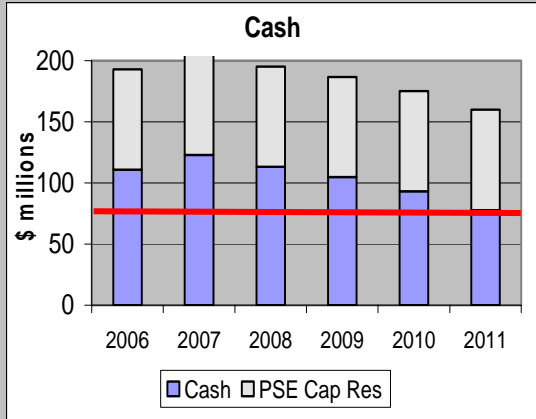
Scenario 4: Reduce debt \$89M in 2006 and low water

Observation: Cash falls below target in out year. Cover challenged in lower water year. Low water cash hit \$39M.

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

Low water

Chelan PUD Utility Services (Non-hydro) Financial Projections



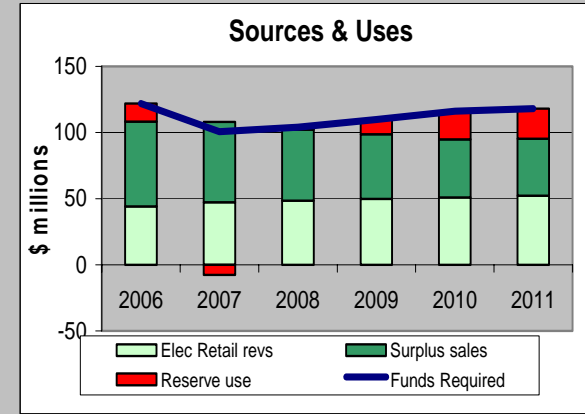
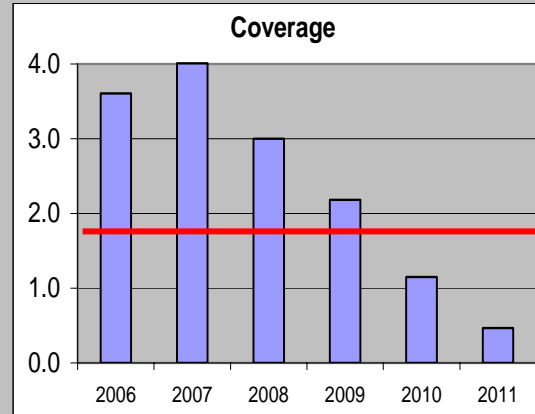
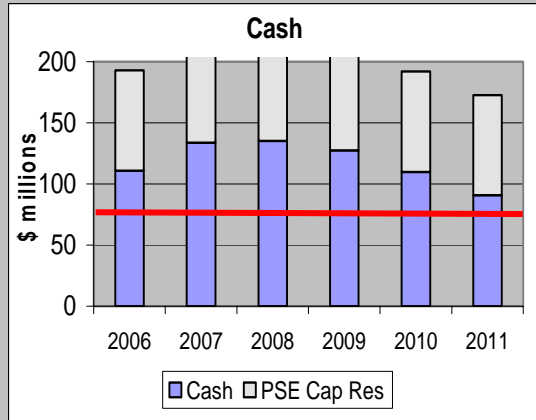
Scenario 5: Reduce operating costs

Observation: Maintains adequate cash in all years. Cover challenged in out years. Cash bump adds \$10M.

Reduce growth rate to 6% from 7%.

Growth rate would need to be reduced to 3.3% to maintain a 1.75 cover

Chelan PUD Utility Services (Non-hydro) Financial Projections

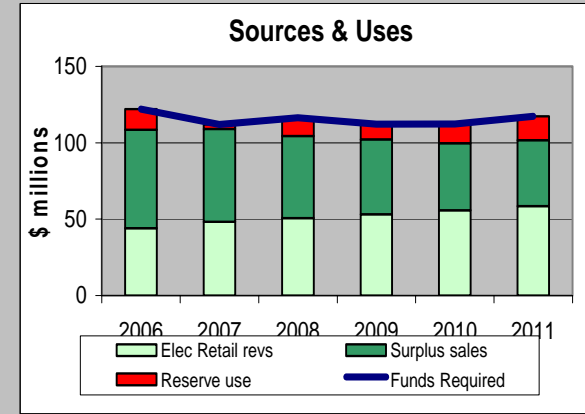
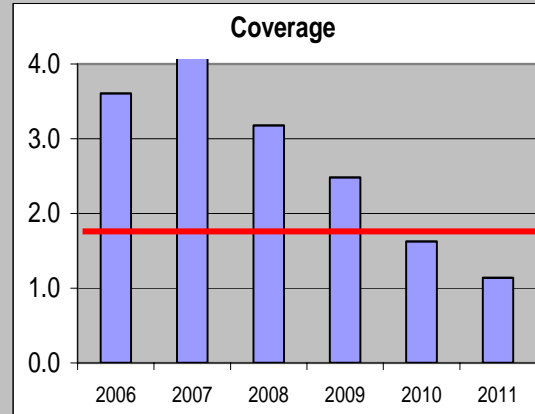
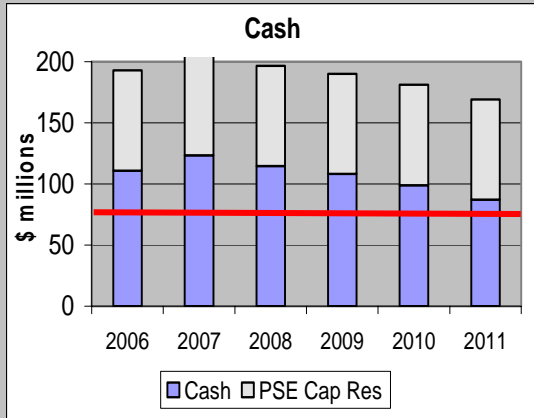


Scenario 6: Reduce Non-hydro capital spending

Observation: Maintains adequate cash in all years. Cover still challenged in out years. Cash bump adds \$22M.

Utility Services capital reduced a net \$19M.

Chelan PUD Utility Services (Non-hydro) Financial Projections

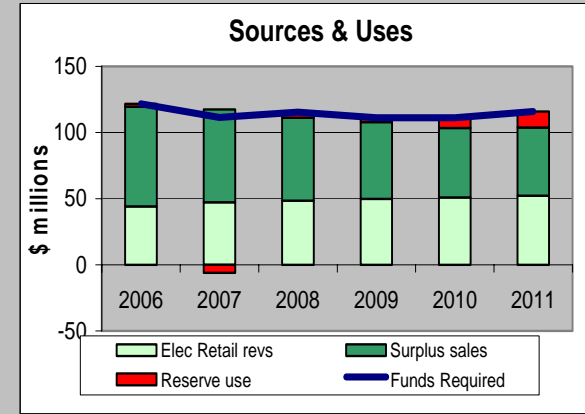
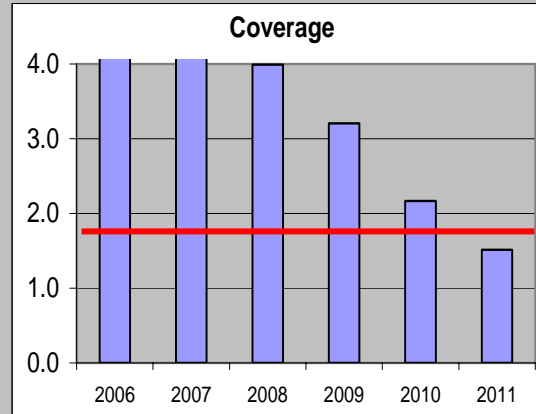
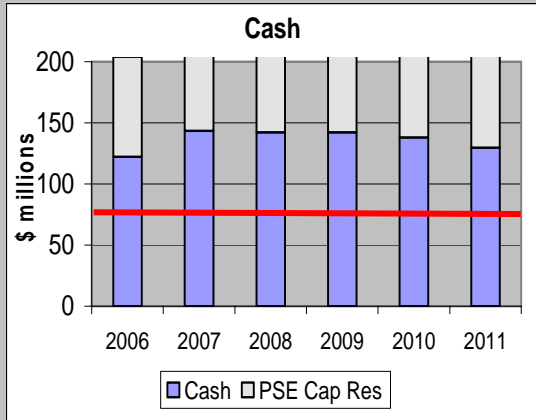


**Scenario 7: Rate
increase 2.5%**

Observation: Maintains adequate cash in all years. Cover improved, but still challenged in out years. Rate increase adds \$19M cash.

**General rate increase of 2.5% per year
2007 through 2011.**

Chelan PUD Utility Services (Non-hydro) Financial Projections



Scenario 8: Higher market prices

Increased future market prices by \$10.00/mwh

Observation: Maintains adequate cash in all years. Cover improved but still challenged in out year. Cash bump from higher prices \$61M.

Observations

Tool	Cash	Cover
Borrow for future capital	Increase	Decrease
Debt reduction	Decrease	Increase
Reduce operating costs	Increase	Increase
Reduce capital costs	Increase	Nil change
Rate increases	Increase	Increase

Observations

- ◆ Some actions provide more flexibility than others to mitigate risks
- ◆ This flexibility is important to manage volatility and future uncertainty
- ◆ Power sale agreement negotiations will likely have a positive impact on the PUD's financial picture

Next Steps

- ◆ Investing \$89M cash from Puget at good rates
- ◆ No near-term call dates for fixed debt
- ◆ Option to retire up to \$40M variable rate debt can be made in 35 day intervals
- ◆ Postpone May 8th Board discussion
- ◆ Involve General Manager in review of recommendations and final decision making
- ◆ Consider a portfolio of alternatives including:
 - Debt reduction
 - Operating cost reductions
 - Capital plan reductions
 - Electric retail rates
- ◆ Schedule future Board discussions

Feedback and comments?