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Balance 2008 STRATEGIC BUDGET PROCESS

2008 Preliminary Budget

October 29, 2007



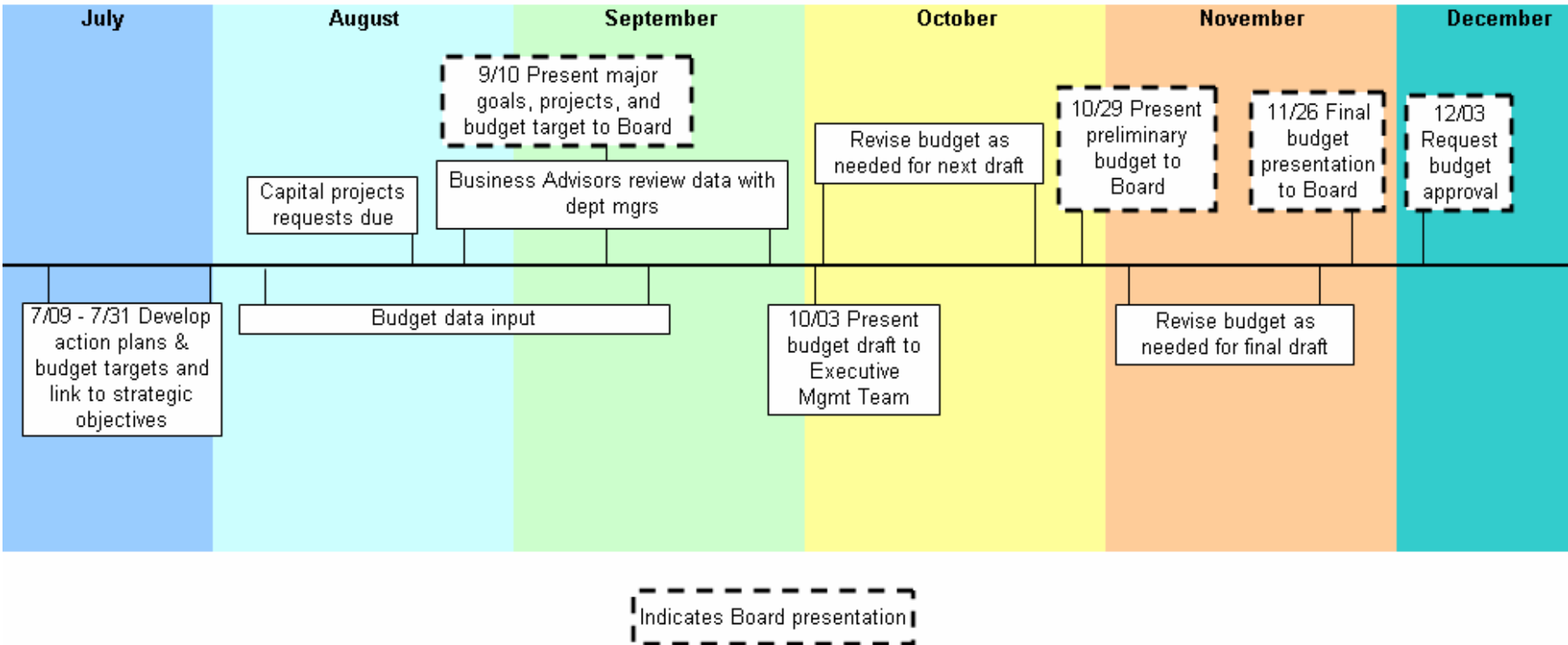
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Overview

- Timeline
- Challenges
- Assumptions
- Preliminary 2008 budget
- Significant activities
- Net asset & debt cover impact
- Capital by system
- Debt balances
- Are we on track with targets and strategic planning?
- Next steps

- No action requested today

2008 Budget Timeline





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2008 Budget Challenges

- Rocky Reach & Lake Chelan license implementations
- Aging Infrastructure requires increased maintenance/modernization - hydro facilities, electric and water, hatcheries, parks
- Mature workforce requires succession planning & training
- Materials cost increases – fuel, steel, copper
- Labor pay and benefit increases
- Contractor availability
- Wholesale Revenue Volatility
- Compliance requirements
- Regulations



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Revenue Assumptions

- Rate increases:
 - 5% for Electric
 - 9% for Water and Wastewater
 - 2% for Networks service providers
- System load growth:
 - 2.2% Electric
 - 3.5% Water
 - 1.0% Wastewater
- Networks
 - 4,400 drops
 - 1,360 connections
- Normal temperatures
- “Normal water,” or median for last 78 years
- Forward wholesale prices as of Oct 17, 2007 (Avg. flat price of \$58/mwh)
- 24% spring spill at Rocky Reach
- Alcoa 2 pot-line operation



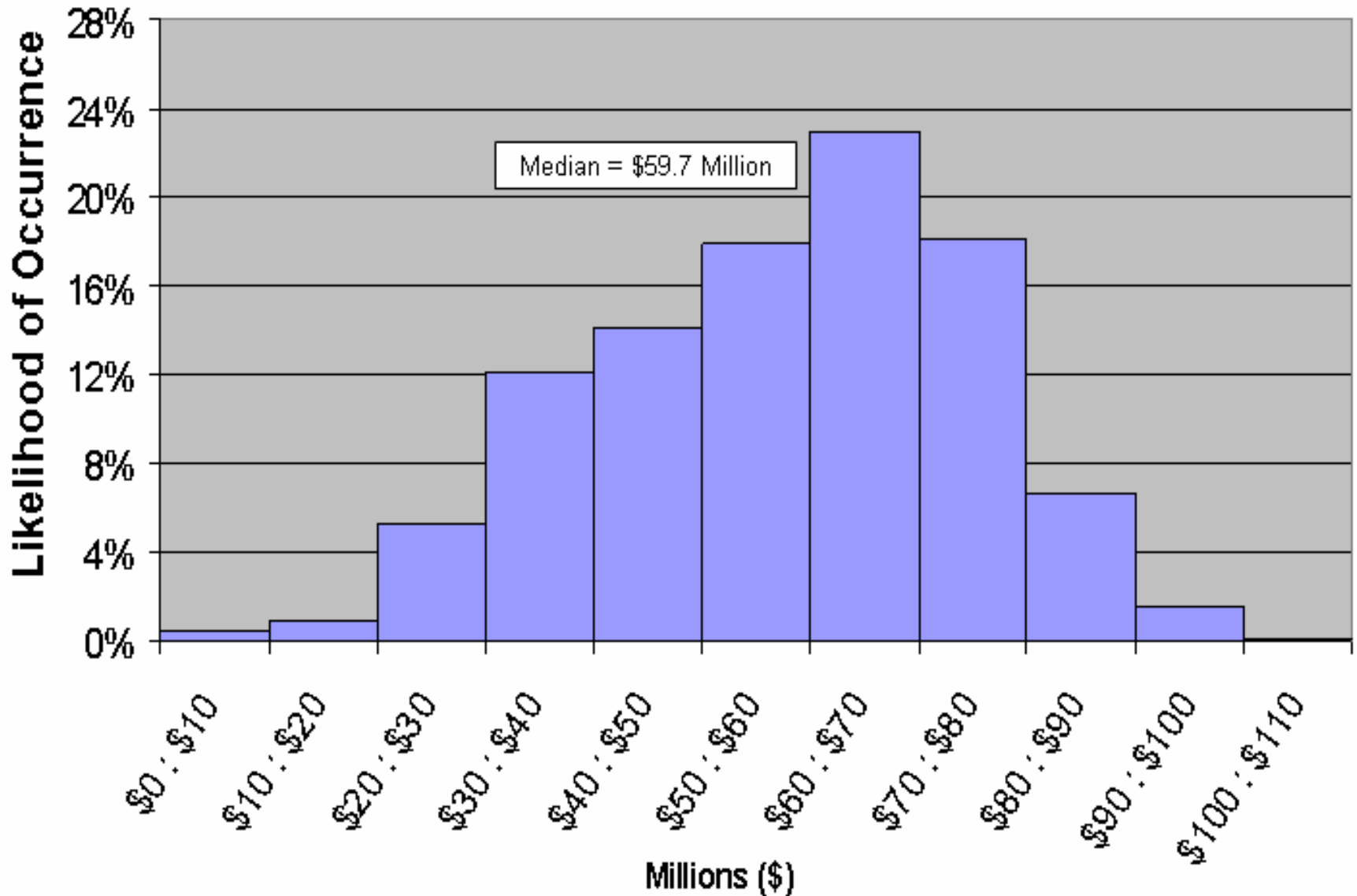
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- **Projected Net Wholesale Revenue**
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	2008
Low	\$32.1 Million
Budgeted	\$59.7 Million
High	\$78.8 Million

Note: The numbers above are the total calculated before subtracting out internal hydro power costs.

Possible 2008 Wholesale Revenue Outcomes

(A Probabilistic View)





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Expense Assumptions

- Bargaining unit wage adjustments
 - 3.38% contractual (approx 6% including promotions, step increases, letters of understanding, etc.)
- Non Bargaining unit wage adjustments
 - 3.9% pool (4.65% including promotions, market adjustments)
 - Additional 0.25% reserved for structural adjustments
- Benefit cost increases
 - PERS - 5.46% effective 1/1/07
 - Increased to 6.12% on 7/1/07
 - Expected to increase to 8.31% on 7/01/08 (36% increase)
 - Healthcare: 4.7% on 8/1/2007, 12.5% on 8/1/2008
 - 401(a)/457 plan: Participation continues to grow, District portion expected to grow \$114K in 2008

Staffing

- FTE comparison, budget to budget

	FTEs Regular Hours	FTEs Overtime Hours
2008 (proposed budget)	744.2	27.5
2007 (adopted budget)	751.3	24.5



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Preliminary Budget Results



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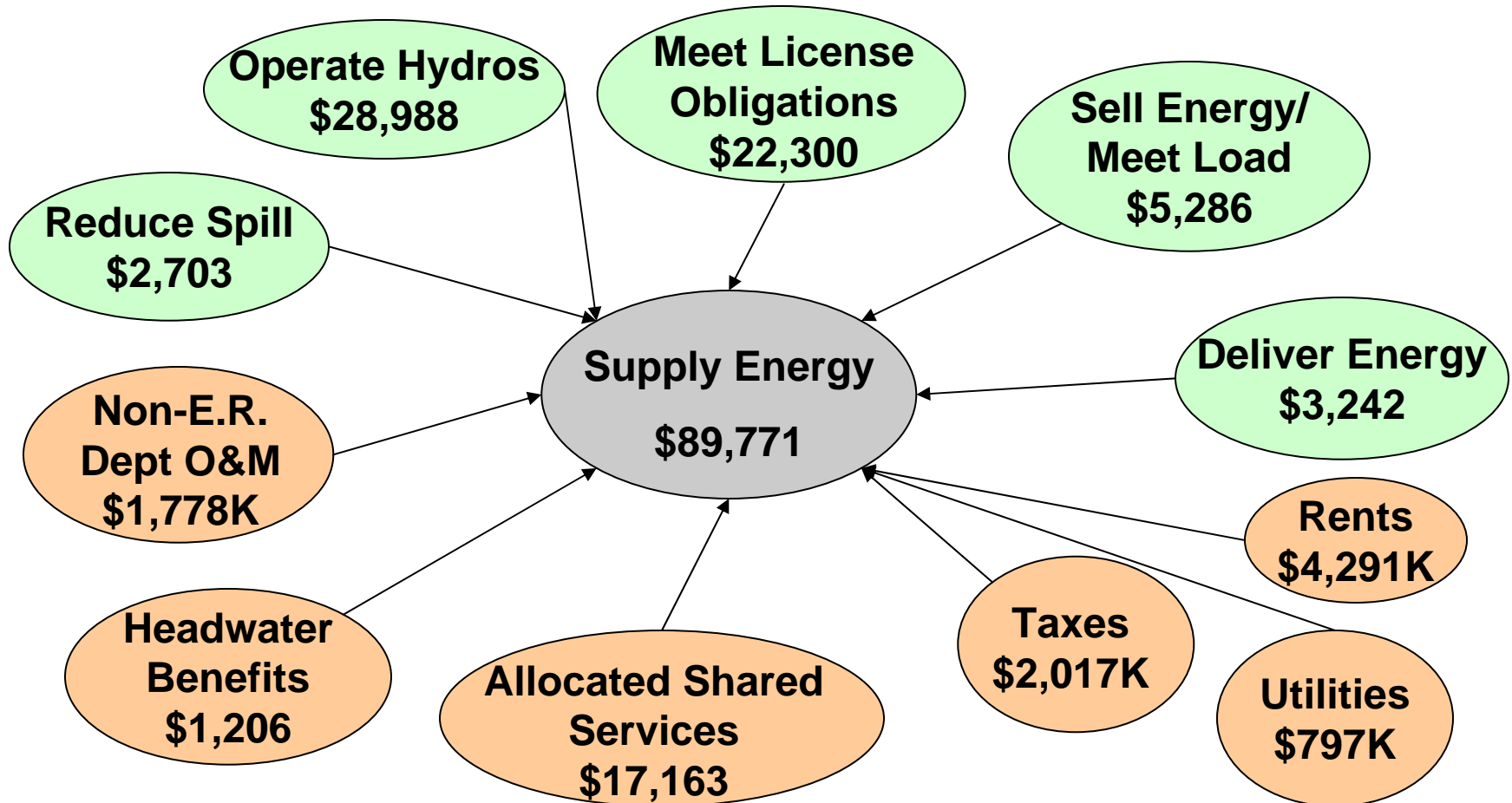
Hydros

(\$000s)

	2008 Budget	2007 Budget	Variance
Operating Revenue	161,495	156,577	4,918
Operating Expenses (Operations, Maintenance, Taxes)	89,771	86,597	3,174
Depreciation/Amortization	27,583	24,898	2,685
Non-Op Exp (Inc)	42,327	43,136	(809)
Net Revenue	1,813	1,945	(132)
Cost per MWh	\$16.8	\$18.6	

Hydro Significant O&M Activities

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Utility Services, including wholesale

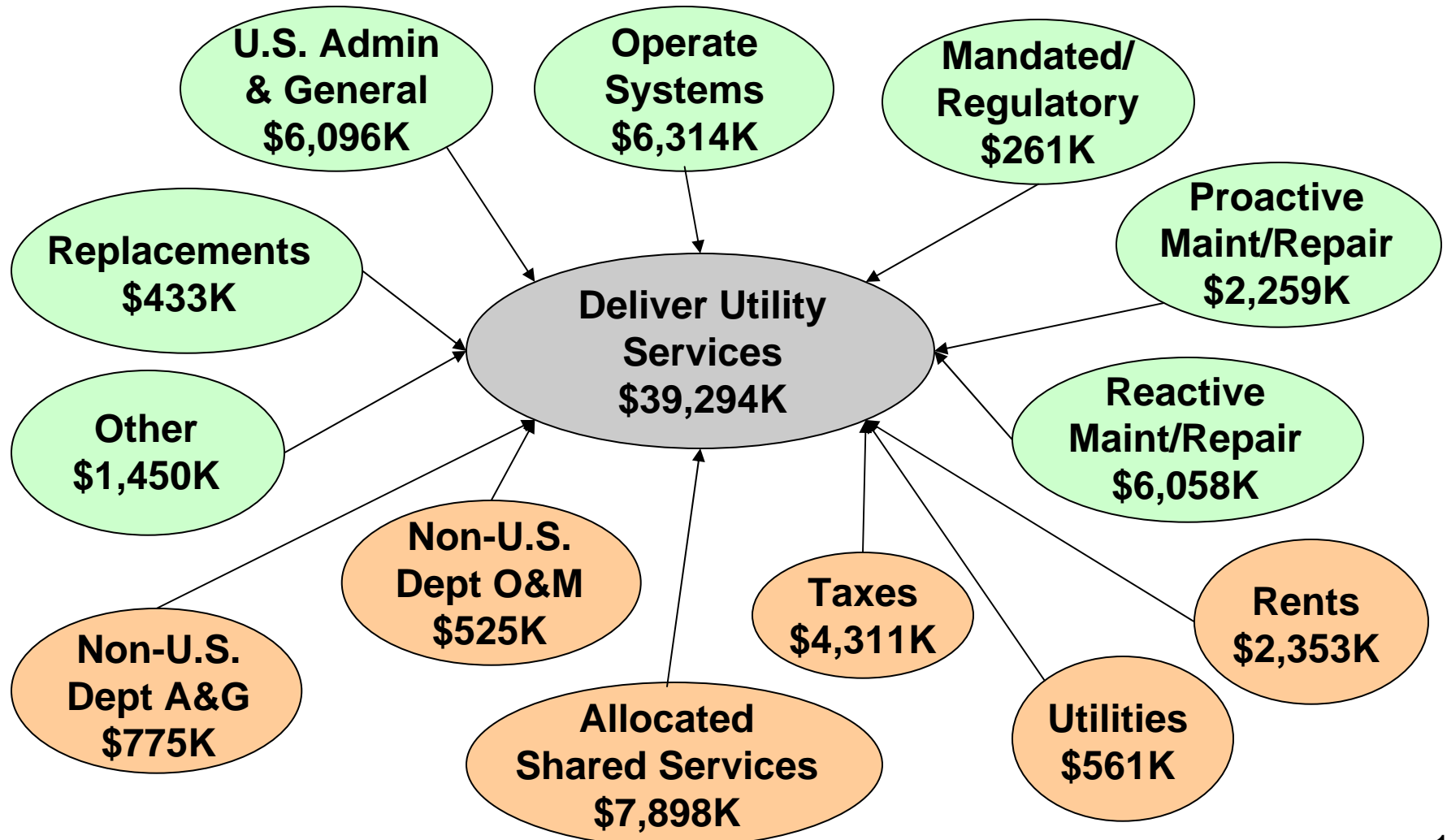
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2008 Budget 2007 Budget Variance

Operating Revenue	56,969	51,584	5,385
Purchased Power	36,649	35,442	1,207
Operating Expenses (Operations, Maintenance, Taxes)	39,294	38,023	1,270
Net Wholesale Margin	36,717	13,794	22,923
Operating Income	17,743	(8,087)	25,831
Depreciation/Amortization	12,650	13,364	(714)
Non-Op Exp (Inc)	(8,349)	(1,601)	(6,748)
Net Revenue	13,442	(19,850)	33,292
Cap Contributions	10,738	4,407	6,332
Inc/(Dec) in Net Assets	24,180	(15,444)	39,624
Operating Ratio	95%	116%	

Utility Services Significant O&M Activities

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Wholesale Revenue impact on Net Assets and Non-Hydro Senior Debt Cover

	<u>Wholesale Sales</u>	<u>Utility Services Change Net Assets*</u>	<u>Debt Cover</u>
<i>High</i>	\$78.8M,	\$32.8M,	6.65
<i>Budget</i>	\$59.7M,	\$13.4M,	4.49
<i>Low</i>	\$32.1M,	(\$14.8M),	1.39

“High” revenue has a 10% probability of occurring

“Budget” revenue has a 50% probability of occurring

“Low” revenue has a 10% probability of occurring

* Change in Net Assets does NOT include Contributions in Aid of Construction



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Capital Expenditures

(\$000s)

	2008 Budget	2007 Budget	Variance
Distribution	28,201	22,108	6,093
Networks	12,999	11,199	1,800
Water/WW	7,985	5,338	2,647
Rocky Reach	9,928	12,794	(2,866)
Rock Island	25,055	31,371	(6,316)
Lake Chelan	16,129	11,230	4,900
Internal Service	5,399	3,980	1,419
Total	105,697	98,020	7,677



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Significant Capital Activities – Hydros

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Modernize hydros	\$ 25,920
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Meet license obligations	17,864
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Operate hydros	2,999
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Deliver energy	4,330
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Total Hydro capital	51,113
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Significant Capital Activities – Utility Services

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Mandated/franchise	845
Customer growth	13,571
System expansion	22,508
Improvements & upgrades	3,902
Replacements	6,250
Facilities and general	2,109
Total U.S. capital	49,185



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- Significant Capital Activities – District Services
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(000)

Information Technology	4,296
Facilities and general	1,012
Improvements & upgrades	49
Mandated/regulatory	42
Total ISS capital	<hr/> 5,399

Anticipated Debt Balances

- 12-31-2007: \$957 million (entire District)

Non-Hydro Debt

- Senior Consolidated Non-Hydro \$106 million *
 - Subordinate Consolidated Non-Hydro \$ 30 million
 - Wastewater Revenue Bonds \$ 1 million
 - Distribution Share of Hydro \$297 million
- \$434 million

- 12-31-2008: \$ 944 million (entire District)

Non-Hydro Debt

- Senior Consolidated Non-Hydro \$103 million *
 - Subordinate Consolidated Non-Hydro \$ 29 million
 - Wastewater Revenue Bonds \$ 1 million
 - Distribution Share of Hydro \$294 million
- \$427 million

* Used for the Senior Consolidated Debt Coverage Calculation



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- # Are we on track with 2008 Targets?
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	Target	2008 Budget
Operations, maintenance & taxes (OMT) growth over 2007 forecasted actuals	5.3%	3.7%
Expected combined Utility Services systems operating ratio (incl Hydro cost of power)	93%	95%
Expected combined Utility Services systems change in net assets before capital contributions (incl Hydro cost of power)	\$13 million	\$13.4 million
Expected retail surcharge (50% probability)	0%	0%
Retail surcharge potential in unusual conditions (10% probability)	12.3%	0%
Capital (including 2007 carryovers)	\$97.3 million	\$105.7 million

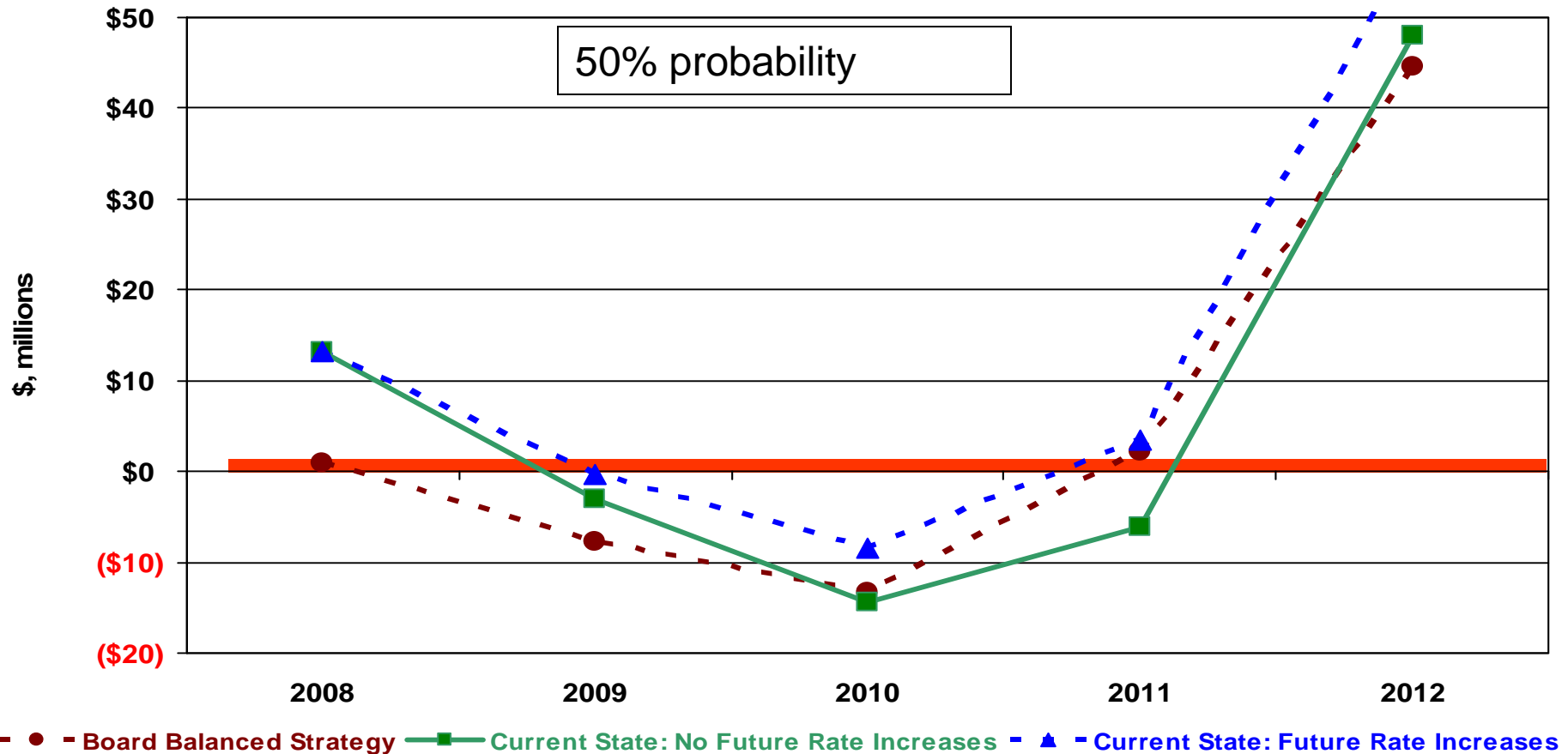
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- Are we on track with strategic financial
 - planning forecasts?
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Updated assumptions:

- System load growth consistent with previous forecasts
- Delay in Cashmere system purchase
- Net wholesale probabilistic outcomes have improved
- Capital plans have increased
- Beginning cash balances are higher
- Issued additional non-hydro debt in 2007
- Networks addressable market and costs updated
- No debt defeasance in forecast (still under analysis)

Strategic financial planning forecasts

Policy: Positive “Change in Net Assets” by 2011 at a 50% confidence level



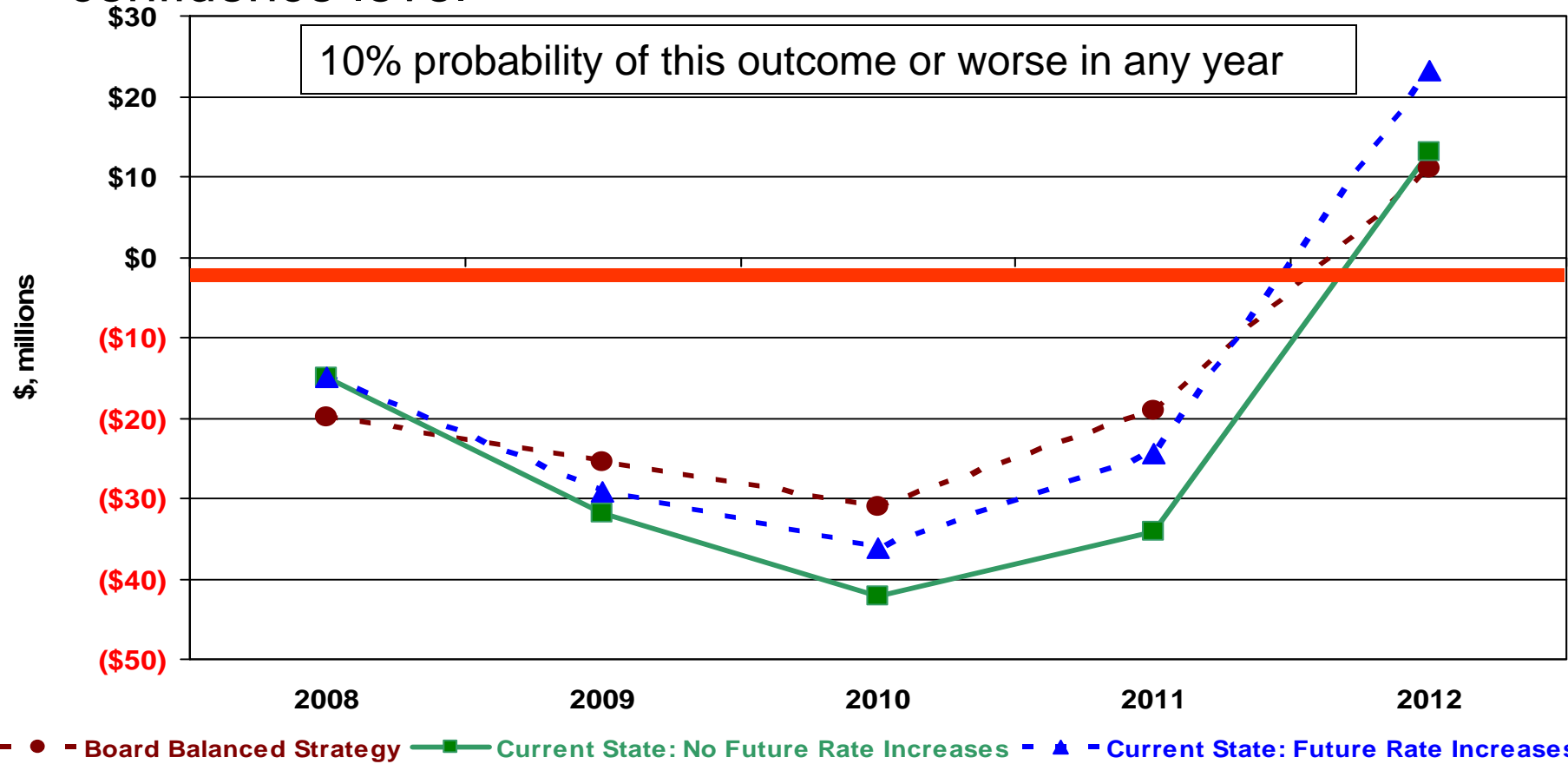
Board “Balanced” (5% Electric in 2008-11, 9% W & WW in 2008-12, implemented 1/1/08, NW focus on rural buildout)

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Strategic financial planning forecasts

Additional Information: "Change in Net Assets" at a 90% confidence level



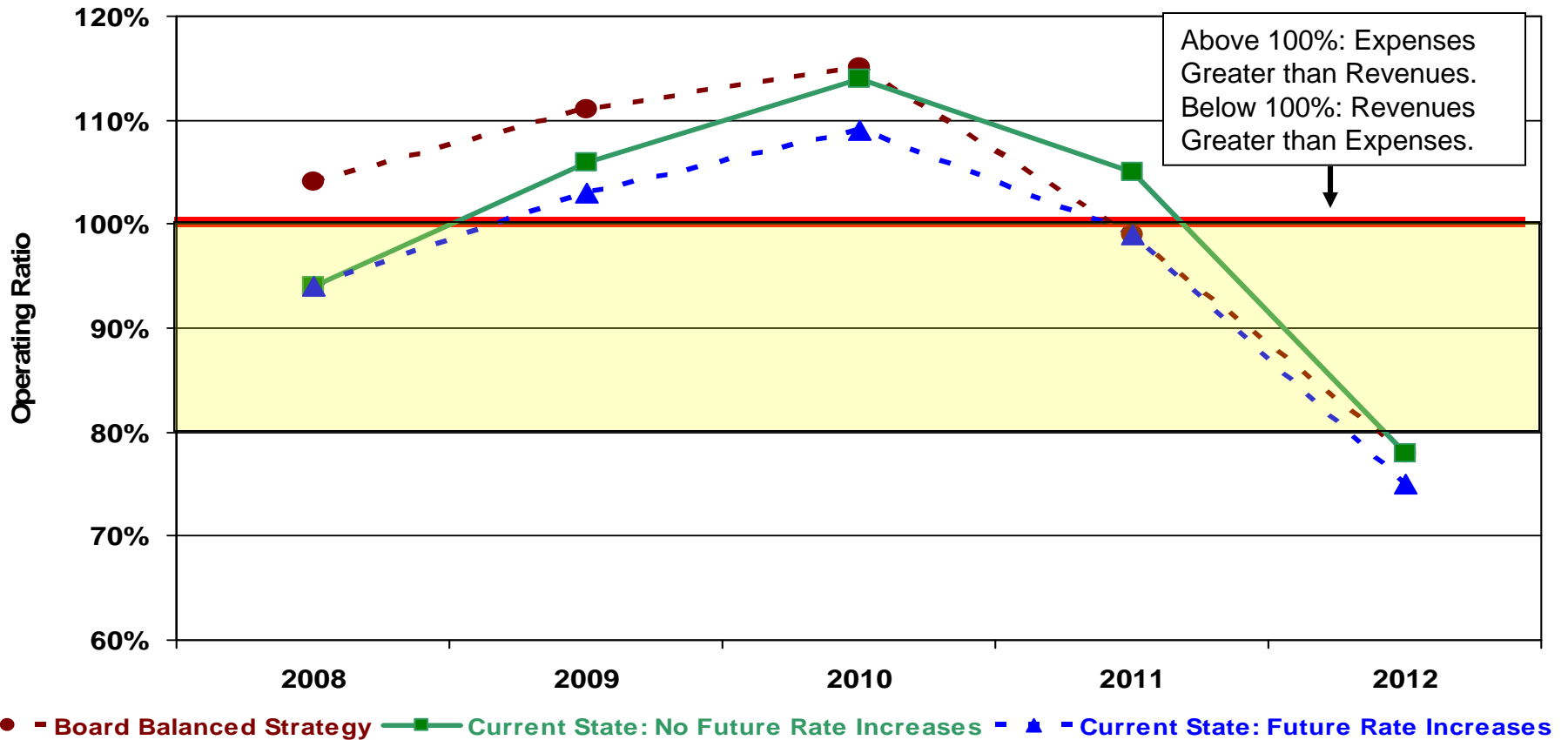
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Strategic financial planning forecasts

Policy: Overall operating ratio of 80% - 100% by 2011 at a 50% confidence level



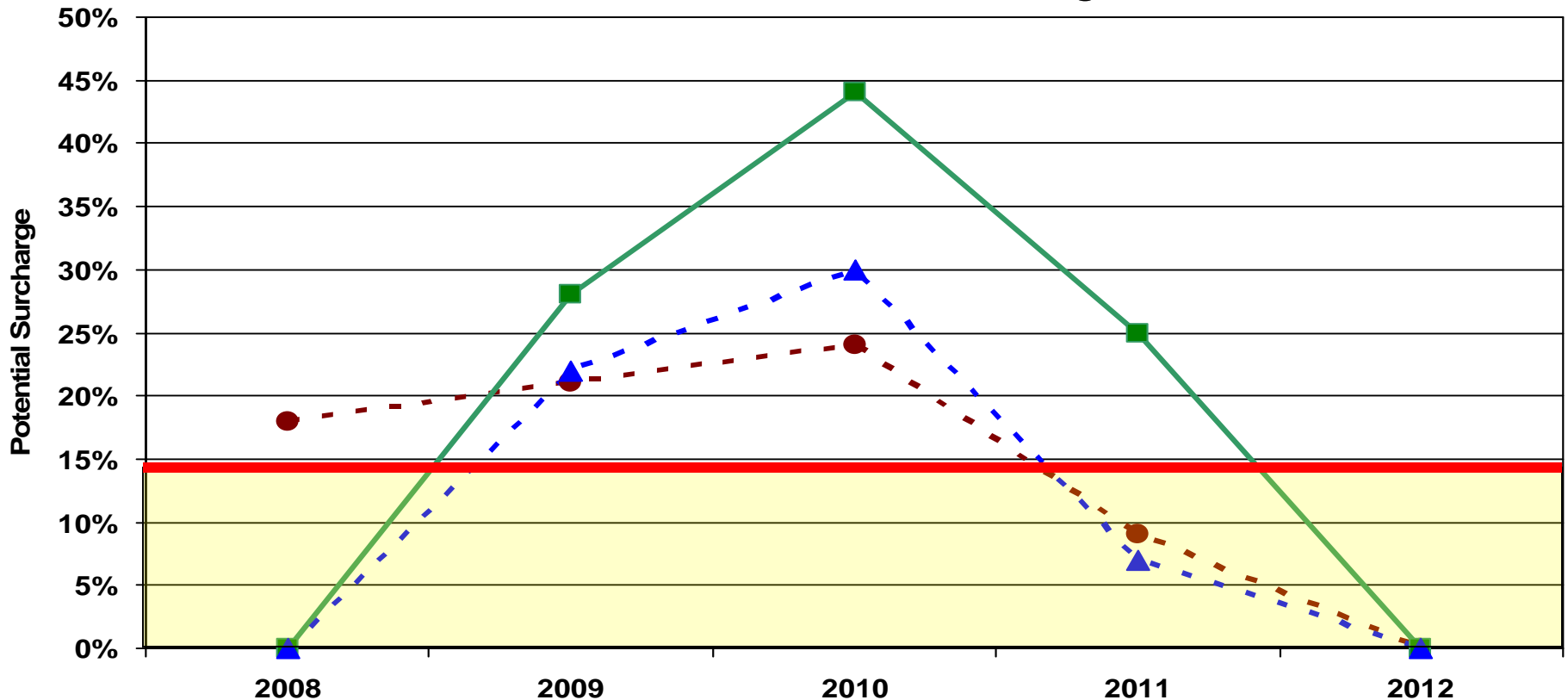
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Strategic financial planning forecasts

Policy: Potential surcharge limited to 14% at a 90% confidence level to meet 1.25 debt coverage



- ● - Board Balanced Strategy -■- Current State: No Future Rate Increases -▲- Current State: Future Rate Increases

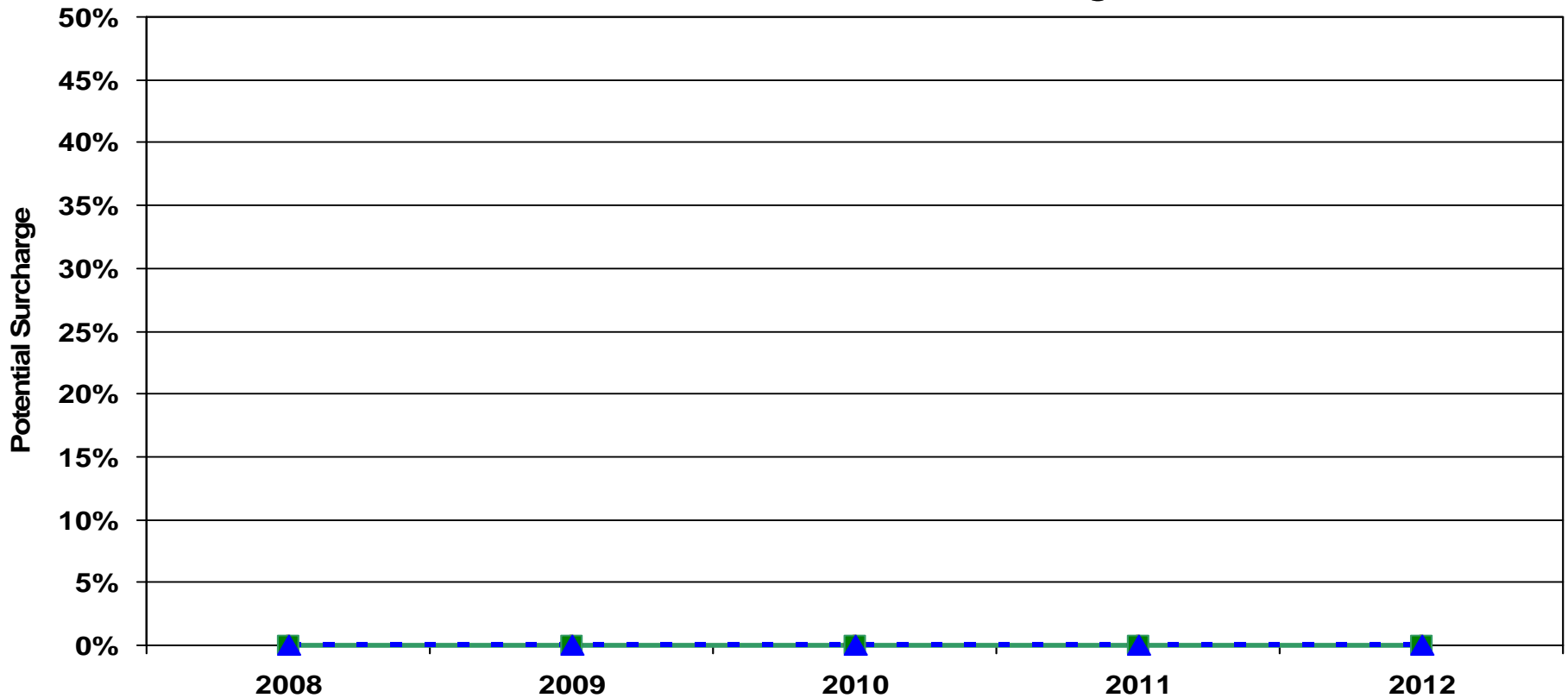
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Strategic financial planning forecasts

Policy: Potential surcharge limited to 0% at a 50% confidence level to meet 1.25 debt coverage



- ● - Board Balanced Strategy
 -■- Current State: No Future Rate Increases
 -▲- Current State: Future Rate Increases

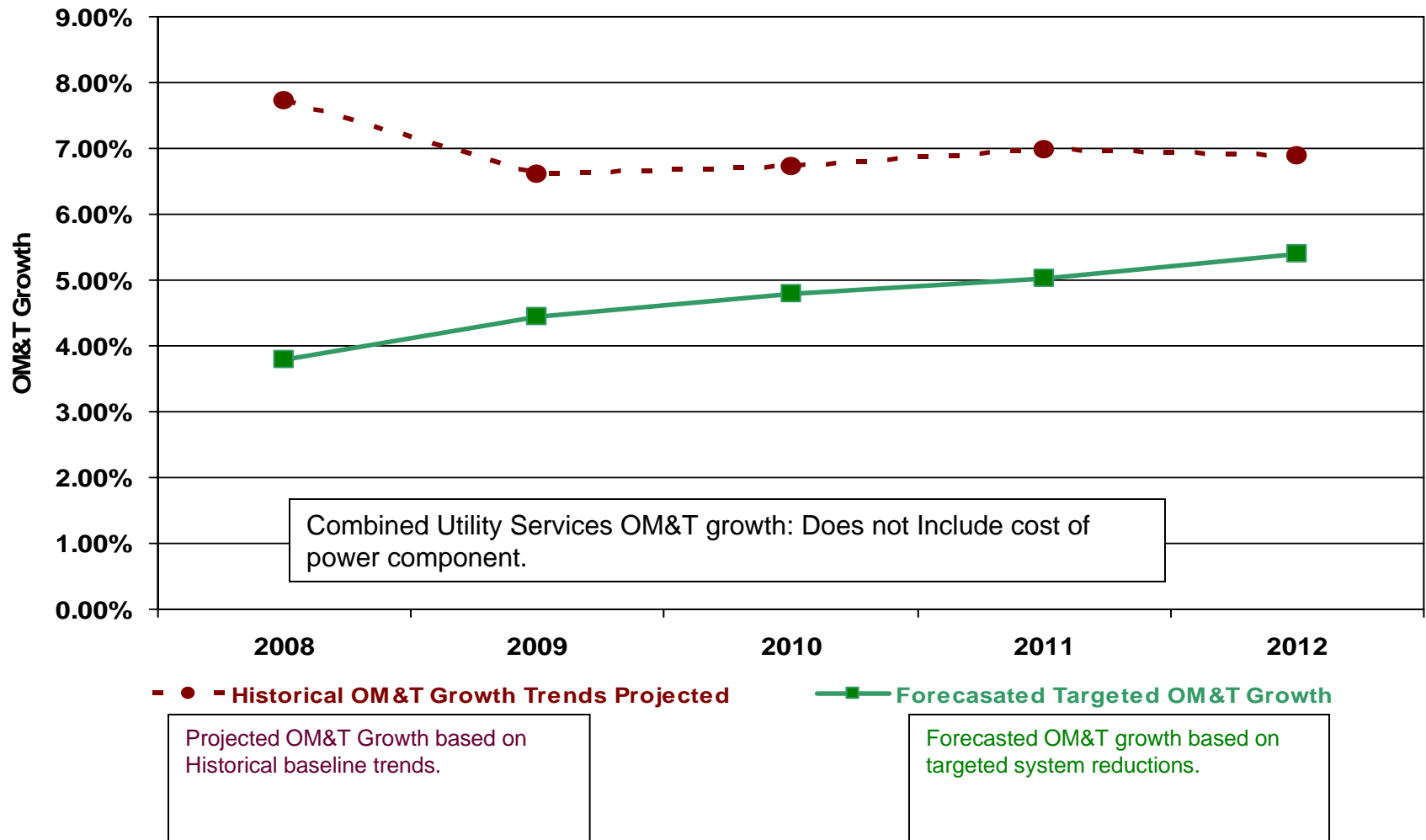
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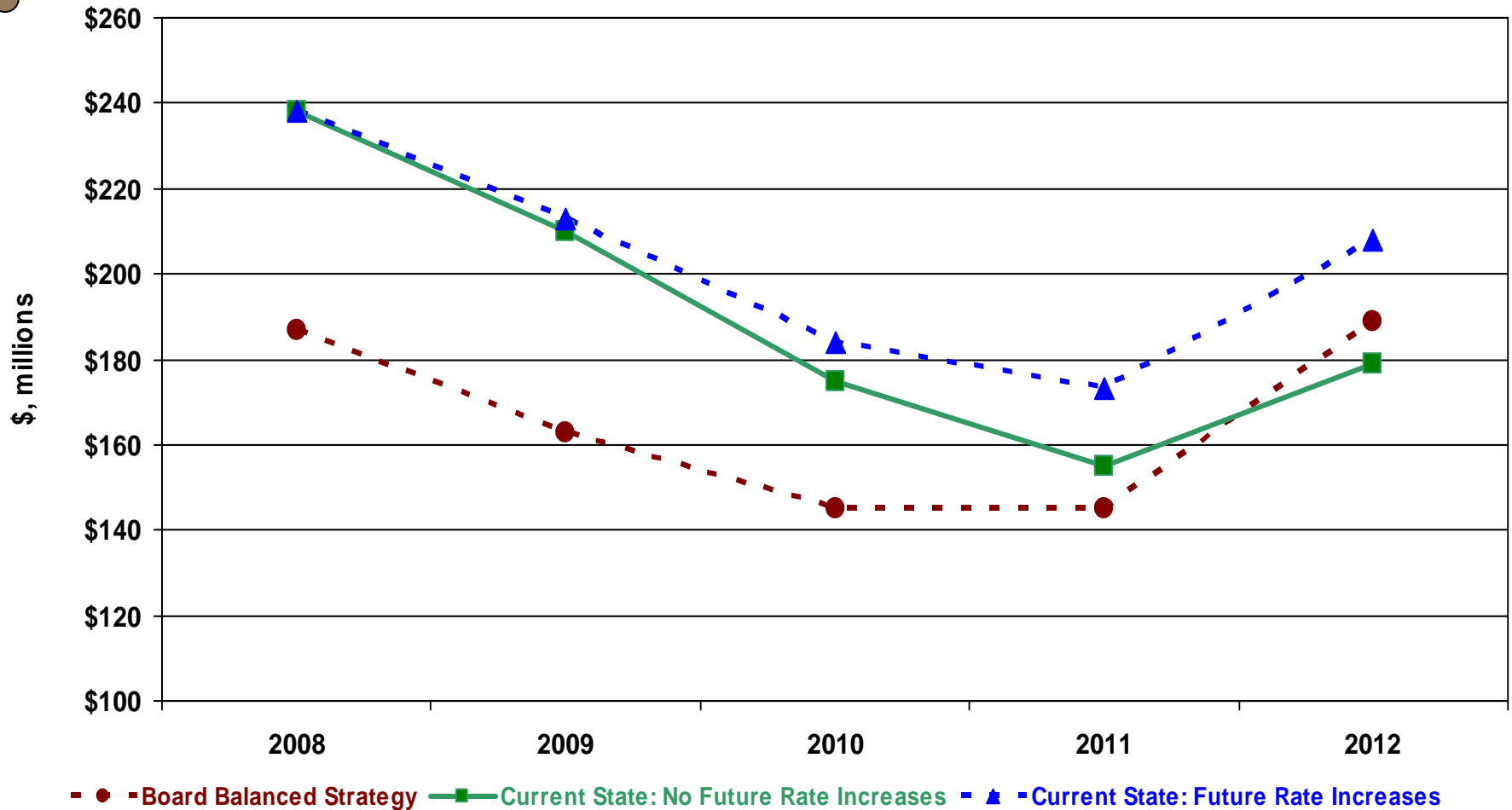
Strategic financial planning forecasts

- Policy: Manage O&M growth to contribute to operating ratio targets (table represents reductions to the O&M growth rate)



Strategic financial planning forecasts

Additional Information: Estimated Cash Balance



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- Are we on track with targets and strategic financial planning forecasts?

2008 - on track

2009 to 2012 - need to keep “eyes on path”

- Still reliant on wholesale sales to fill gaps
- Vulnerable to low wholesale outcomes
- Increasing upward pressure on costs
- Actions still required to maintain future financial health
- Continue to develop contingencies plans



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Next Steps

- Continue to prioritize and refine budget
- Address Board questions
- Final Budget Hearing – November 26
- Request board approval – December 3