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Balance 2009 STRATEGIC BUDGET PROCESS

2009 Budget Overview

September 22, 2008



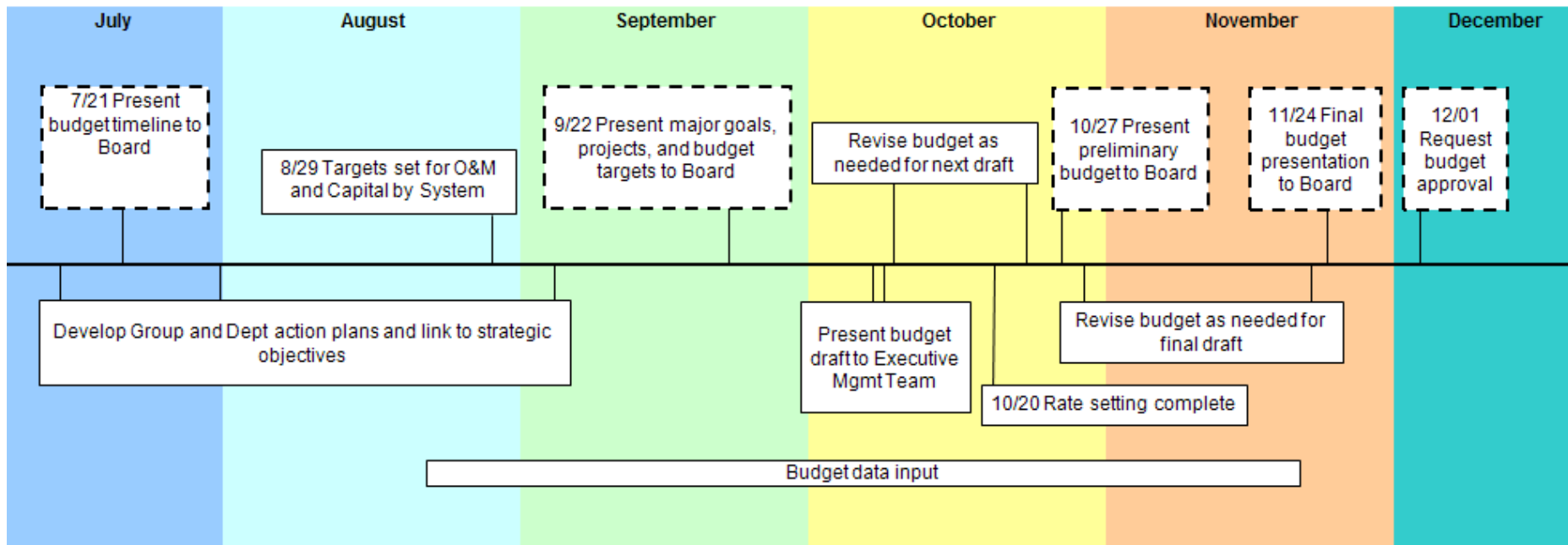
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Overview

- Timeline
- Board financial policies/actions
- Key assumptions
- Major projects
- Budget targets
- Debt planning
- Challenges
- Salary & benefit planning

- No action requested today

2009 Budget Timeline



Indicates Board presentation



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- # Board Governing Financial Policies
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- Provide integrated utility services
- Target an overall operating ratio of 80%-100% by 2011
- Target a positive Change in Net Assets (bottom line) by 2011
- Limit the potential surcharge to 14% at a 90% confidence level

Key Forecasting Assumptions

- Base case is expected outcome (50% probability)
- No future rate increases are included in this presentation
- System load growth:
 - 2.4% Electric
 - 3.5% Water
 - 0.5% Wastewater
 - 2,500 drops and 1,200 connections for Networks
- System cost control
 - 6.0% Electric
 - 5.0% Water
 - 3.0% Wastewater
 - (5.0%) Networks
 - (1.0%) Hydro life cycle costs
- Rocky Reach spring fish spill potential of 0% - 24%, modeled 24%
- Rocky Reach summer fish spill consistent with 2008
- Rock Island spring and summer fish spill consistent with 2008



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Budget Targets

| | |
|--|-----------------|
| OMT growth (estimated inflation plus real cost growth) | 5.97% |
| Expected combined Utility Services systems operating ratio (includes cost of power from Hydros) | 103.2% |
| Expected combined Utility Services systems change in net assets before CIAC (includes cost of power from Hydros) | \$1.0 million |
| Expected retail surcharge (50% probability) | 0% |
| Retail surcharge potential in unusual conditions (10% probability) | 14.5% |
| Capital (including 2008 carryovers) | \$103.1 million |

Major Projects

Preliminary
Estimate

| | |
|--|-------|
| Rock Island modernization | \$23M |
| Transmission line replacements/improvements | 15M |
| Lake Chelan modernization | 14M |
| Fiber optic build-out | 10M |
| Automated Metering System | 8M |
| Electric system upgrades, improvements, replacements | 8M |
| Lake Chelan/Rocky Reach license implementations | 4M |
| Water reservoirs | 4M |
| Fish studies | 4M |
| Hatchery maintenance and modifications | 3M |

2008/2009 Debt Planning

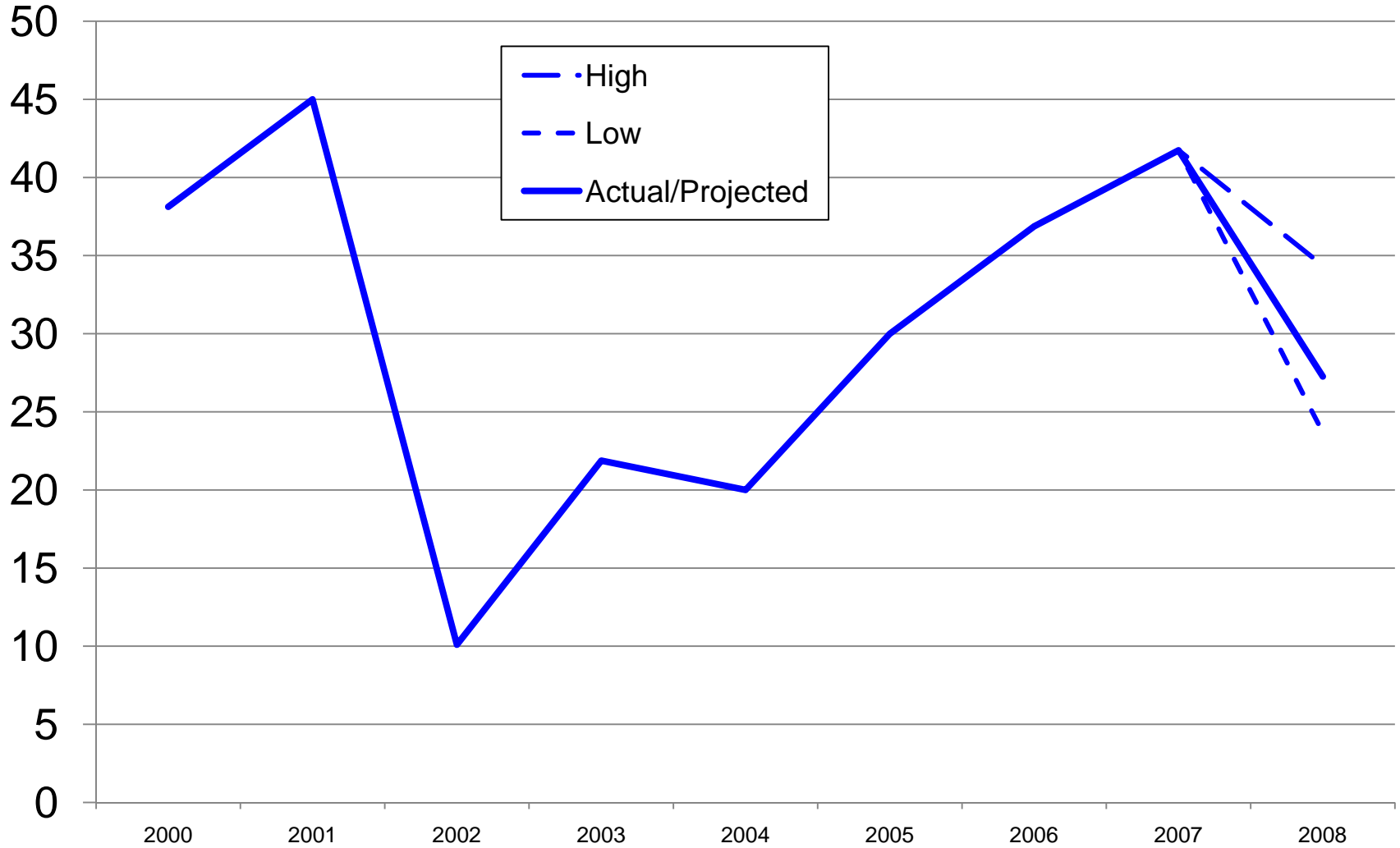
- Refinancing of approximately \$21M of hydro project debt - December 2008
- Estimated \$75M of new money for RI Modernization - December 2008
- Refinancing of the \$31M of Consolidated System bonds associated with 2009 forward starting swap – May 2009
- New money for Lake Chelan capital, estimated \$27M – May 2009
- The debt portfolio and market conditions will continue to be monitored for refinancing/savings opportunities

2009 Budget Challenges

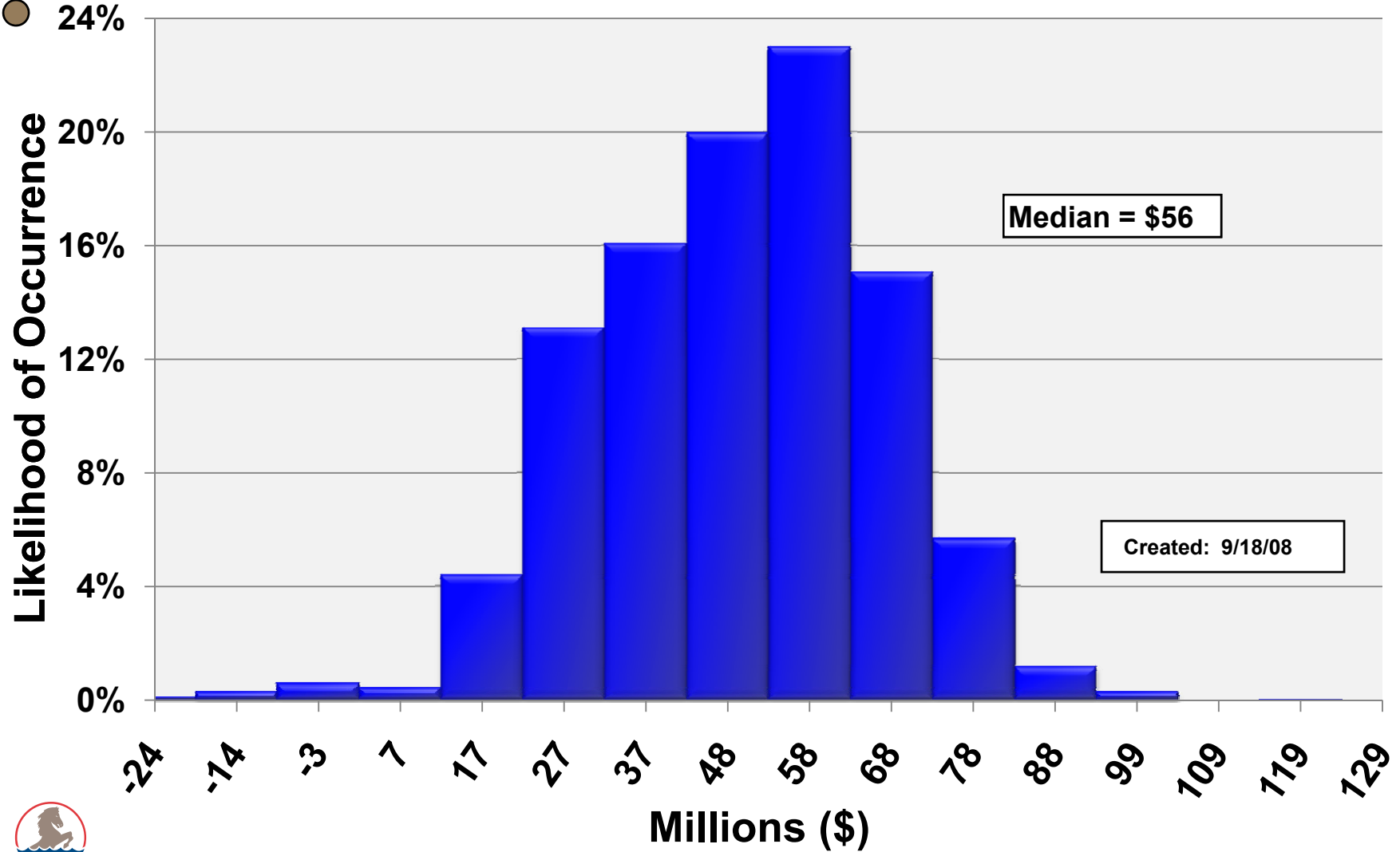
- Rocky Reach & Lake Chelan license implementations
- Conservation programs I-937
- NERC & WECC requirements
- Aging Infrastructure requires increased maintenance/modernization - hydro facilities, electric and water, hatcheries, parks
- Mature workforce requires succession planning & training
- Materials cost increases – fuel, steel, copper
- Labor pay and benefit increases
- Wholesale revenue volatility
- Reorganization efforts

Net Wholesale Margin

(in millions)



Possible 2009 Wholesale Revenue Outcomes (A Probabilistic View)



Operating Ratio Forecast

(Utility Services Including Net Wholesale Margin)

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|-------------|-------------|-------------|-------------|-------------|
| Expected Conditions (50% Probability) | 101% | 103% | 107% | 100% | 73% |
| Unusual Conditions (10% Probability) | 104% | 128% | 136% | 119% | 85% |

Target: Overall operating ratio of 80%-100% by 2011

Change In Net Asset Forecast

- (Utility Services Including Net Wholesale Margin, before CIAC)

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|-------------|-------------|-------------|-------------|-------------|
| Expected Conditions (50% Probability) | \$ 2M | \$ 1M | (\$ 3M) | \$ 6M | \$ 69M |
| Unusual Conditions (10% Probability) | (\$ 1M) | (\$ 24M) | (\$ 31M) | (\$ 18M) | \$ 35M |

Target: Positive Change in Net Assets (bottom line) by 2011

Surcharge Potential Forecast

(Utility Services Including Surplus Wholesale)

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|-------------|-------------|-------------|-------------|-------------|
| Expected Conditions (50% Probability) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Unusual Conditions (10% Probability) | 0.0% | 14.5% | 24.6% | 0.0% | 0.0% |

Target: Limit the potential surcharge to 14% at a 90% confidence level



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Salary & Benefits Planning

Labor & Benefits Expense

Cost Drivers

Impact of Labor & Benefits Upon Operating Expense

- About 55% of Operating Expense

The Four Main Cost Drivers:

- The number of employees we have
- The wage rates
- Competition for talent
- Benefit costs

Each discussed on the following slides

Staffing Levels

Realignment Activity as of July 2008

- Realignment process has produced results:

| | July 2006 | July 2007 | July 2008 | 2006 to 2007 | 2006 to 2008 |
|------------------|-----------|-----------|-----------|----------------|----------------|
| FTEs | 726.21 | 706.97 | 704.42 | (19.24) | (21.79) |
| Headcount | 787 | 764 | 756 | (23.00) | (31.00) |

Wages

Budget Performance (through 8/2008)

Bargaining Unit:

- GWI Budget: 2008-09 = 3.38% → 2009-10 = (subject to negotiation)
- Budget Variance:
 - Wages: 97% of budget – YTD (92% last year)
 - Overtime: 95% of budget – YTD (135% last year)
- Overtime = 13.6% of total O&M labor - YTD (15.8% last year)

Non Bargaining Unit:

- 2008 Merit Budget: 3.9% (merit) + .75% (promotion) + .25% (special situations) = 4.9%
- Actual 2008 increases: 4.9%
- Budget Variance: 100% of budget YTD (95% last year)

Wage Inflation

Leading Consultant Projections for 2009

| Consultant Projections (National) | Non-Exempt (Non-Union) | Exempt Salaried / Supervisor | Officer / Executive |
|---|---------------------------|------------------------------------|------------------------|
| Hewitt- All (n = 934) | 3.70% | 3.80% | 3.90% |
| Hewitt- Power/Gas (n ≈ 80) | 3.90% | 3.90% | 4.20% |
| Hewitt- West (n ≈ 50) | 3.80% | 3.90% | 4.00% |
| World at Work – All (n = 2618) | 3.80% | 3.90% | 4.00% |
| World at Work – Utilities (n ≈ 82) | 4.10% | 4.10% | 4.10% |
| World at Work – Washington (n ≈ 275) | 3.80% | 3.90% | 3.90% |
| Economic Research Institute – All | 3.80% | 4.20% | 4.40% |
| Economic Research Institute – Utilities | 3.90% | 4.40% | 4.60% |
| Economic Research Institute – Public Government | 4.00% | 4.20% | 4.40% |
| Economic Research Institute – Washington | 3.50% | 4.10% | 4.30% |
| Average | 3.83% | 4.04% | 4.18% |
| Promotion Budget: <ul style="list-style-type: none"> •Hewitt = 1.20% •World at Work = 1.40% •Chelan PUD = 0.75% | | | |

Wage Inflation & Market Positioning

Summary

- Tepid economy, but headline inflation remains high – 3.7% projected for 2008 (Hewitt).
- Unemployment projected for 5.6% in 2008, 5.8% in 2009, up from 4.6% in 2007 (Hewitt)
- Intense competition for power industry professionals, especially engineers and compliance-related positions.
- Recommending 4% merit + .75% promotion/market + .25% reserved = 5% total salary budget



Benefits

Program Changes

- Medical plan – No significant plan design changes
- Dental plan – No significant plan design changes
- Life and Disability – Carrier change in 2008 reduced premium costs by 48% for employer-paid Life premiums, and by 33% for employee-paid Long Term Disability premiums.

Medical Benefit Costs

Cost Increases for the Claims Year (8/01 – 7/31)

- Claims Year Cost Increase (5-Year Trend)
 - 2004-05: 0.0%
 - 2005-06: 0.0 %
 - 2006-07: 17.7%
 - 2007-08: 4.7%
 - 2008-09: 4.3%
- Nationally, medical cost “trend” rates are 12.8%. For the plan year beginning 8-1-09, we expect an 8% increase + \$250k contingency (Premera-Central Hospital dispute)

| Item | 2007-08 | 2008-09 | \$ Change | % Change |
|--------------------|--------------------|--------------------|------------------|-------------|
| Claims | \$6,866,708 | \$7,242,714 | \$376,006 | 5.5% |
| Stop Loss | \$392,052 | \$439,304 | \$47,252 | 12.1% |
| Administration Fee | \$450,255 | \$488,851 | \$38,596 | 8.6% |
| Life/AD&D | \$146,231 | \$75,928 | -\$70,303 | -48.1% |
| Dental | \$993,686 | \$1,048,339 | \$54,653 | 5.5% |
| LTD | \$180,564 | \$121,010 | -\$59,554 | -33.0% |
| Total | \$9,029,496 | \$9,416,146 | \$386,650 | 4.3% |

Medical Benefit Costs

Employee/Employer Cost Sharing

- Overall, the District pays 92% of employee benefits costs on a weighted average basis.

| Chelan PUD | # | Employee | | Employer | | Total Cost |
|------------|-----|----------|--------|------------|-------|------------|
| | | Cost | % | Cost | % | |
| 2008-09 | | | | | | |
| Plan 1 | 322 | \$135.67 | 11.94% | \$1,000.34 | 88.1% | \$1,136.01 |
| Plan 2 | 222 | \$66.30 | 6.22% | \$1,000.34 | 93.8% | \$1,066.64 |
| Plan 3 | 192 | \$13.81 | 1.41% | \$968.59 | 98.6% | \$982.40 |

Medical Benefit Costs

Chelan PUD Employees' Cost Advantage (Monthly)

District employees have a significant cost advantage compared to CWPU

| Chelan PUD (2008-09) | # | Employee Cost | % | Employer Cost | % | Total Cost |
|-----------------------------|----------|----------------------|----------|----------------------|----------|-------------------|
| Plan 1 | 322 | \$135.67 | 11.9% | \$1,000.34 | 88.1% | \$1,136.01 |
| Plan 2 | 222 | \$66.30 | 6.2% | \$1,000.34 | 93.8% | \$1,066.64 |
| Plan 3 | 192 | \$13.81 | 1.4% | \$968.59 | 98.6% | \$982.40 |

| CWPU (2008-09) | # | Employee Cost | % | Employer Cost | % | Total Cost |
|-----------------------|----------|----------------------|----------|----------------------|----------|-------------------|
| Plan 1 | 110 | \$397.19 | 27.1% | \$1,069.08 | 72.9% | \$1,466.27 |
| Plan 2 | 427 | \$147.15 | 12.1% | \$1,069.08 | 87.9% | \$1,216.23 |
| Plan 3 | 703 | \$48.87 | 5.1% | \$915.61 | 94.9% | \$964.48 |
| CDHP | 21 | \$30.59 | 3.4% | \$790.40 | 96.6% | \$895.99 |

| | Plan 1 | | Plan 2 | | Plan 3 | |
|---|-----------------|------------------|----------------|------------------|----------------|------------------|
| Chelan PUD Employees' Cost Advantage | \$261.52 | 66% lower | \$80.85 | 55% lower | \$35.06 | 72% lower |

Medical Benefit Costs

Pre-65 Retiree Medical Subsidy

- Pre-65 retiree claims costs increased 3.41%
- Pre-65 retirees received a 3.92% increase in subsidy (CPI-W) on 8/1/08
- Subsidy is approximately \$167,000 per year

| Retiree Medical 2008-09 | # | Retiree | | CCPUD | | Total |
|----------------------------|----|---------|--------|--------|--------|--------|
| | | Cost | % | Cost | % | Cost |
| Retiree Under 65 | 48 | 601.63 | 73.07% | 221.76 | 26.93% | 823.39 |
| Spouse Under 65 | 18 | 490.79 | 73.07% | 180.90 | 26.93% | 671.69 |

Defined Contribution Benefits

401(a)/457 Plan

- District's 401(a)/457 plan participation continues to increase
- District match is projected to approach \$1.5 million in 2009

| 401(a) Plan 2008-09 | 2008 | | | 2009 (Projected) | | |
|----------------------------|-----------------------------|--------------------------------|-------------------|--------------------------------|-------------------|---|
| | Employee Participation # | Employee Contribution \$ | Employer Match | Employee Contribution \$ | Employer Match | Projected Change in Employer Match \$ |
| | % | % | | % | | % |
| Bargaining Unit | 307 83% | \$1,575,715 6.67% | \$643,787 | \$1,644,117 6.62% | \$674,110 | \$30,323 4.71% |
| Non- Bargaining Unit | 243 82% | \$1,860,404 8.61% | \$772,720 | \$2,063,960 8.98% | \$822,216 | \$49,496 6.41% |

2009 Budget Challenges

- Rocky Reach & Lake Chelan license implementations
- Conservation programs I-937
- NERC & WECC requirements
- 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
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- Wholesale revenue volatility
- Reorganization efforts



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Summary

Challenge is finding the right balance of our goals with our budget targets in a demanding environment

- Meeting the targets will be a challenge
- First budget presented to Commissioners will be refined from first draft
- Board budget presentation September 29
- Next District budget update: October 27