

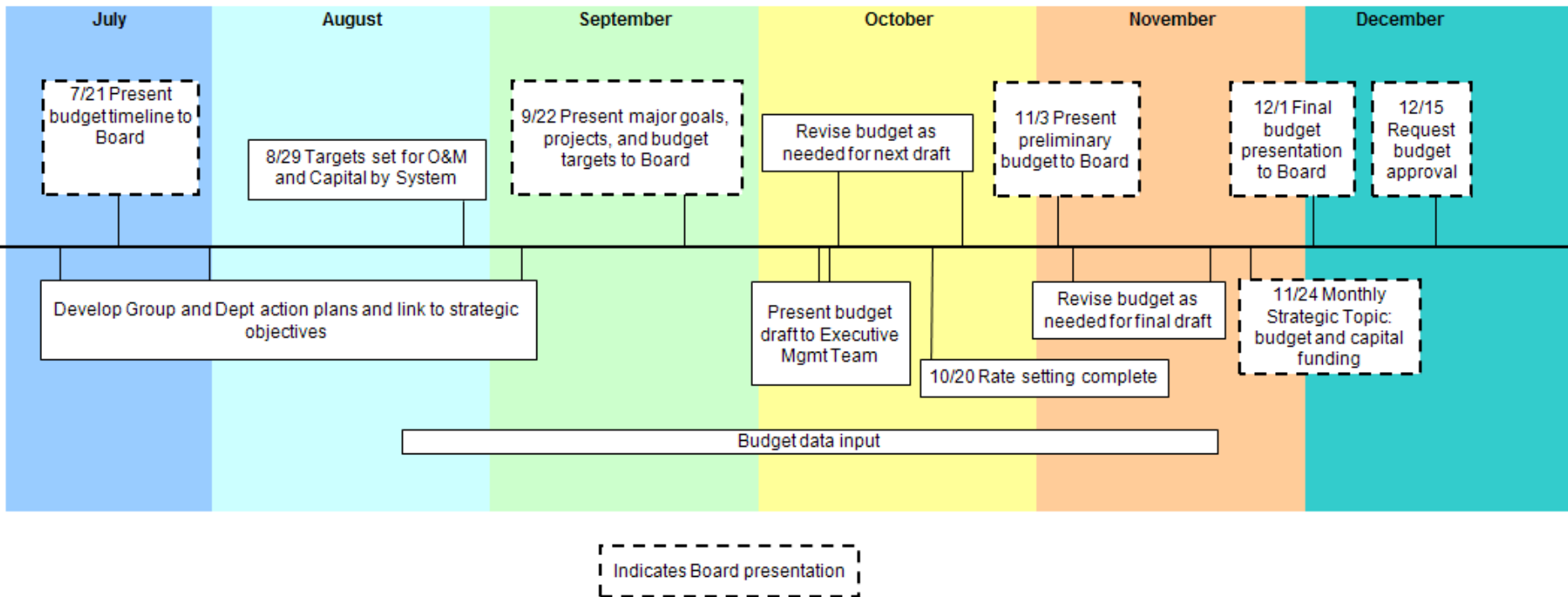
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Balance 2009 STRATEGIC BUDGET PROCESS

2009 Proposed Budget

December 1, 2008

Proposed 2009 Budget Timeline





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2009 Budget Environment

- Financial market upheavals, recession impacts
- Access to capital markets severely limited
 - \$53.7 million in notes payable issued
 - Bond issuance plans changed
- Wholesale revenue is volatile and trending downward
- Higher probability of a larger surcharge on retail rates exists
- Rocky Reach license issue date unknown (est. 1Q2009)
- Conservation programs I-937, NERC/WECC requirements
- Preparing for a variety of uncertainties
 - Critical reliability and mandated projects have to stay in
 - Every possible cut/deferral has been examined
 - Capital funding options developed
 - Contingency plans being prepared
- Budget plan = “Flexibility, flexibility, flexibility”



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- **Projected Net Wholesale Revenue**

	2009
Low	\$30.4 M
Budgeted	\$51.4 M
High	\$69.8 M

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

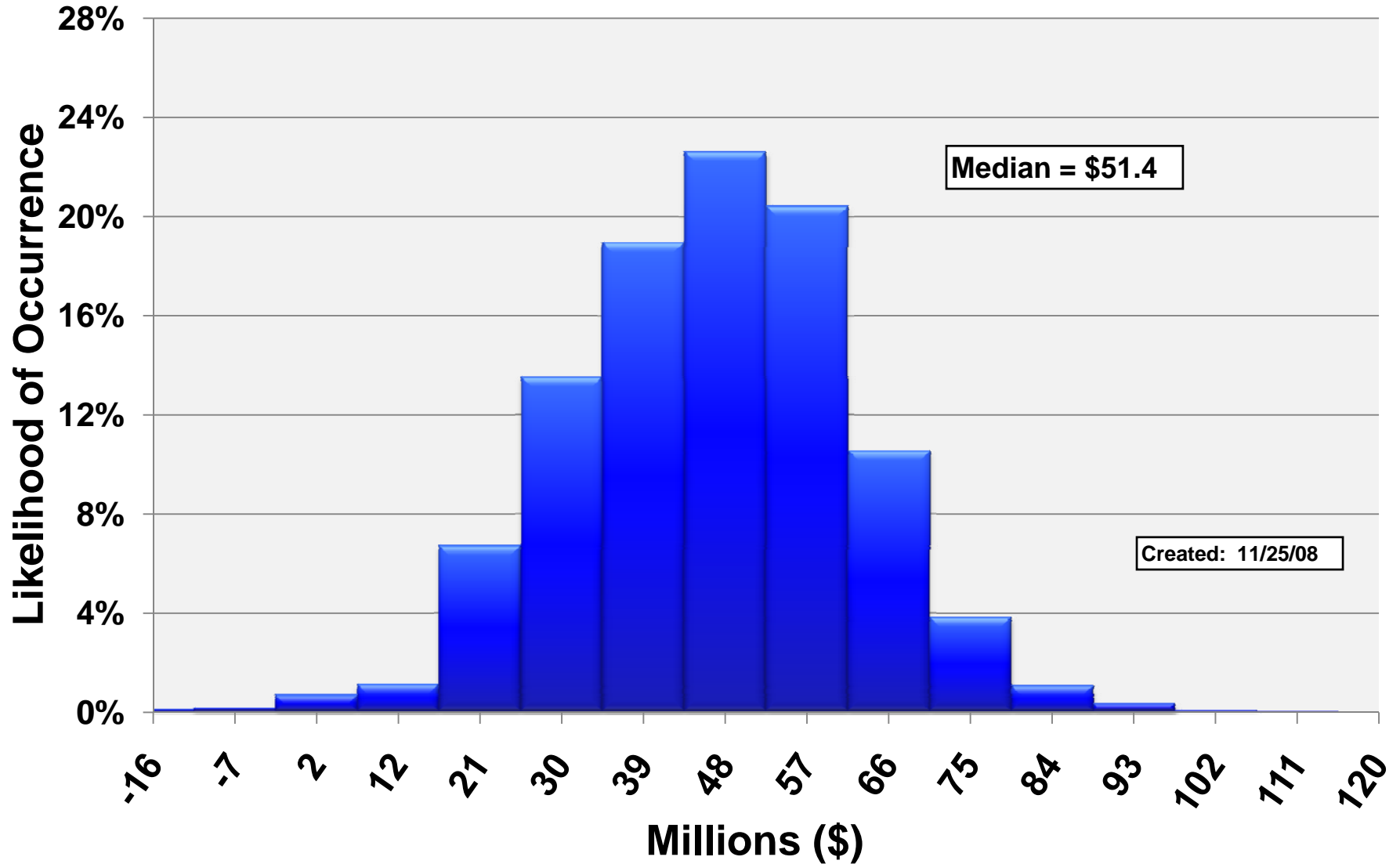
- # Net Wholesale Revenue Volatility
- (millions)

	2008		2009					
	11/01/07	10/23/08	09/03/08	09/18/08	10/08/08	10/23/08	11/24/08	12/1/08
Low	\$32.6	\$46.3	\$31.8	\$30.3	\$29.5	\$27.4	\$30.2	\$30.4
Budget	\$62.3	\$48.5	\$58.9	\$55.8	\$52.4	\$50.5	\$50.3	\$51.4
High	\$83.2	\$51.1	\$80.1	\$75.1	\$70.7	\$69.5	\$68.1	\$69.8

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

Possible 2009 Net Wholesale Revenue Outcomes

(A Probabilistic View)





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Combined Hydros

(\$000s)

	2009	2008	Variance	
	Budget	Forecast	\$	%
Operating Revenue	170,727	159,388	11,339	7%
Operating Expenses (Operations, Maintenance, Taxes)	94,046	86,231	7,815	9%
Depreciation/Amortization	28,763	27,362	1,401	5%
Non-Op Exp (Inc)	45,149	43,836	1,313	3%
Net Revenue	2,769	1,959	810	41%
Cost per MWh	\$17.8	\$17.9		

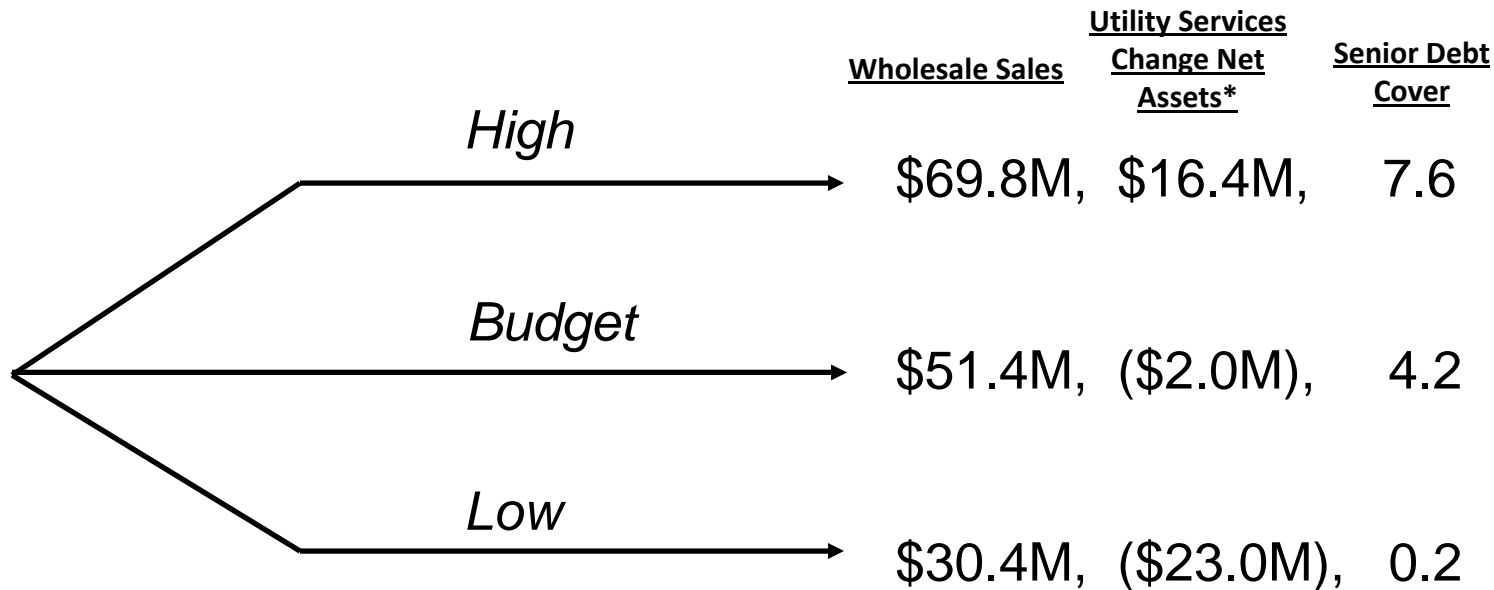
Combined Utility Services

(\$000s, including Wholesale and Internal Service Systems)

	2009 Budget	2008 Forecast	Variance	
			\$	%
Operating Revenue	66,028	65,137	891	1%
Purchased Power	35,757	33,185	2,572	8%
Operating Expenses (Operations, Maintenance, Taxes)	42,463	41,131	1,333	3%
Net Wholesale Margin	23,887	25,425	(1,538)	(6%)
Operating Income	11,695	16,246	(4,552)	(28%)
Depreciation/Amortization	17,484	17,856	(372)	(2%)
Non-Op Exp (Inc)	(3,810)	(6,009)	2,199	37%
Net Revenue (Loss)	(1,979)	4,400	(6,378)	(145%)
Cap Contributions	3,574	10,166	(6,593)	(65%)
Inc/(Dec) in Net Assets	1,595	14,566	(12,971)	(89%)
Operating Ratio	104%	101%		

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



“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

Capital Expenditures

(\$000s)

	2009	2009	Variance	
	Budget	Target	\$	%
Distribution	21,858	25,125	(3,267)	(13%)
Networks	9,930	9,932	(2)	N/A
Water/WW	6,854	6,285	569	9%
Rocky Reach	5,633	8,538	(2,905)	(34%)
Rock Island	21,334	38,390	(17,056)	(44%)
Lake Chelan	24,642	15,705	8,937	57%
Internal Service	3,617	2,283	1,334	58%
Total	93,869	106,258	(12,389)	(12%)
Less CIAC	90,295	103,073	(12,778)	(12%)



2009 Targets and Key Results

Description	Target	Proposed Budget
Operations, Maintenance, and Taxes growth (estimated inflation plus real cost growth)	5.97%	3.7%
Expected combined Utility Services systems operating ratio (includes cost of power from Hydros)	103.2%	104%
Expected combined Utility Services systems change in net assets before Contributions In Aid of Construction (CIAC) - includes cost of power from Hydros	\$1.0 million	(\$2.0 million)
Expected retail surcharge (50% probability)	0%	0%
Retail surcharge potential in unusual conditions (10% probability)	14.5%	10.6%

2009 Targets and Key Results

Description	Target/ Key Comparison	Proposed Budget
Capital (net of CIAC, including 2008 carryovers)	\$103.1 million	\$90.3 million
Expected Utility Services Minimum Reserves (50% probability), end of year balance	\$130 million	\$232 million
Expected Senior Debt Coverage (50% probability)	4.6	4.2
Expected Senior Debt Coverage (90% probability)	1.25	0.2
Expected net wholesale revenue (50% probability)	\$55.8 million	\$51.4 million
Amount net wholesale could drop before a surcharge would be needed		~\$15 million (20% probability)



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Operating Ratio Forecast

(Utility Services Including Net Wholesale Margin)

	2008	2009	2010	2011	2012
Expected Conditions (50% Probability)	103%	104%	106%	99%	76%
Unusual Conditions (10% Probability)	104%	125%	129%	115%	89%

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

Change In Net Asset Forecast

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

(in millions)	2008	2009	2010	2011	2012
Expected Conditions (50% Probability)	\$2.6	(\$2)	(\$2)	\$8	\$61
Unusual Conditions (10% Probability)	\$0.9	(\$23)	(\$26)	(\$13)	\$29

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



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Surcharge Potential Forecast

(Utility Services Including Surplus Wholesale)

	2008	2009	2010	2011	2012
Expected Conditions (50% Probability)	0%	0%	0%	0%	0%
Unusual Conditions (10% Probability)	0%	11%	13%	0%	0%

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



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Utility Services Reserves

(Utility Services Cash and Investments, End of Year Balances)

(in millions)	2008	2009	2010	2011	2012
Expected Conditions (50% Probability)	\$257	\$232	\$213	\$213	\$265
Unusual Conditions (10% Probability)	\$255	\$211	\$188	\$191	\$233

Policy: Maintain minimum Utility Services reserves of \$130 million

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

- 2009 – on track
- 2010 - stressed beyond current targets in off years
- Vulnerable to low wholesale outcomes
- Increasing upward pressure on costs
- Increasing downward pressure on wholesale prices
- List of known unknowns continues to grow
- Need contingency plans for financial market uncertainties

Need to keep “eyes on path”
to maintain future financial health



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Next Steps

- Address Board questions
- Continue to develop and refine contingency plans
- Request board approval – December 15
- Evening public meetings in auditorium beginning in mid-January (then as needed)
- Quarterly updates on budget vs. actual financial and operational results