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Balance 2009 STRATEGIC BUDGET PROCESS

2009 Preliminary Budget

Strategy Session

November 24, 2008



2009 Targets and Key Results

Description	Target/ Key Comparison	Preliminary Budget
Operations, Maintenance, and Taxes growth (estimated inflation plus real cost growth less cost control and efficiency gains)	5.97%	3.8%
Expected combined Utility Services systems operating ratio (includes cost of power from Hydros)	103.2%	105%
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	(\$3.1 million)
Expected retail surcharge (50% probability)	0%	0%
Retail surcharge potential in unusual conditions (10% probability)	14.5%	10.5%



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- # 2009 Targets and Key Results
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Description	Target/ Key Comparison	Preliminary Budget
Capital (net of CIAC, including 2008 carryovers)	\$103.1 million	\$89.3 million
Expected Utility Services Minimum Reserves (50% probability), end of year balance	\$130 million	\$231 million
Expected Senior Debt Coverage (50% probability)	4.6	4.0
Expected Senior Debt Coverage (90% probability)	1.25	0.2
Expected net wholesale revenue (50% probability)	\$55.8 million	\$50.3 million
Amount net wholesale could drop before a surcharge would be needed		~\$15 million (20% probability)



Budget Philosophy

- Plan for maximum flexibility
- Strive to come in under targets
- Develop contingency plans for changing circumstances



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Changes since November 3

- Retail electric load growth down, from 2.4% to .7%
 - Net wholesale revenue down from \$50.5M to \$50.3M (pricing)
 - Retail revenue down \$502K (usage)
- Critical Infrastructure Protection (CIP) is now in budget for \$406K
- Rocky Reach relicensing is now in budget for \$370K
- Refined interest income and expense budgets to reflect new financing plans, net effect to Utility Services = \$776K more interest income
- Depreciation schedules have been refined, decreased in Utility Services/ISS = \$1M
- Utility Services/ISS Change In Net Assets before CIAC is now (\$3,054) rather than (\$3,769)

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

	<u>Wholesale Sales</u>	<u>Utility Services</u> <u>Change Net</u> <u>Assets*</u>	<u>Senior Debt</u> <u>Cover</u>
<i>High</i>	\$68.1M,	\$14.8M,	7.4
<i>Budget</i>	\$50.3M,	(\$3.1M),	4.0
<i>Low</i>	\$30.2M,	(\$23.1M),	0.2

“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	5,543	8,538	(2,995)	(35%)
Rock Island	20,916	38,390	(17,474)	(46%)
Lake Chelan	24,605	15,705	8,900	57%
Internal Service	3,177	2,283	894	39%
Total	92,883	106,258	(13,375)	(13%)
Less CIAC	89,299	103,073	(13,774)	(13%)



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Operating Ratio Forecast

(Utility Services Including Net Wholesale Margin)

	2008	2009	2010	2011	2012
Expected Conditions (50% Probability)	102%	105%	107%	100%	75%
Unusual Conditions (10% Probability)	103%	125%	130%	116%	88%

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)	\$3.8	(\$3.1)	(\$3.6)	\$5.3	\$63.2
Unusual Conditions (10% Probability)	\$1.8	(\$23.1)	(\$27.3)	(\$15.9)	\$30.2

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%	10.5%	15.4%	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)	\$258	\$231	\$209	\$205	\$257
Unusual Conditions (10% Probability)	\$256	\$211	\$185	\$184	\$224

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

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

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

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



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- # Contingency Plan Philosophies
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Options when net revenue is stressed:

- Adjust pace of Networks build-out
- Further O&M reductions
- Minimal capital plans for Electric, Water and WW
- Debt reduction
- Impose surcharges

Options when ability to borrow is stressed:

- Adjust hydro modernization timelines
- Adjust license implementations within timelines

Flexibility, flexibility, flexibility



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- Recommended Communications Plan
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Monthly evening public meetings in auditorium

- Beginning in mid-January

Meetings would include:

- Updates on market, water and financial conditions
- Potential contingency plans (including any surcharge potential)
- Similar to customer partnership group meetings
- About an hour



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Board Discussion

- Roundtable discussion
- Questions?



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Next Steps

- Fine tune budget and financing strategies
- Update net wholesale revenue
- Final Budget Hearing – December 1
- Request board approval – December 15