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Chelan County PUD

2009 Contingency Planning Update

April 13, 2009



CHELAN COUNTY



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Agenda

1. Current Forecast
2. Contingency Actions
3. Considerations
4. Do we need a surcharge?
5. Next steps



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External Influences

Weak economy

- Falling electricity prices
- Falling interest rates on investments

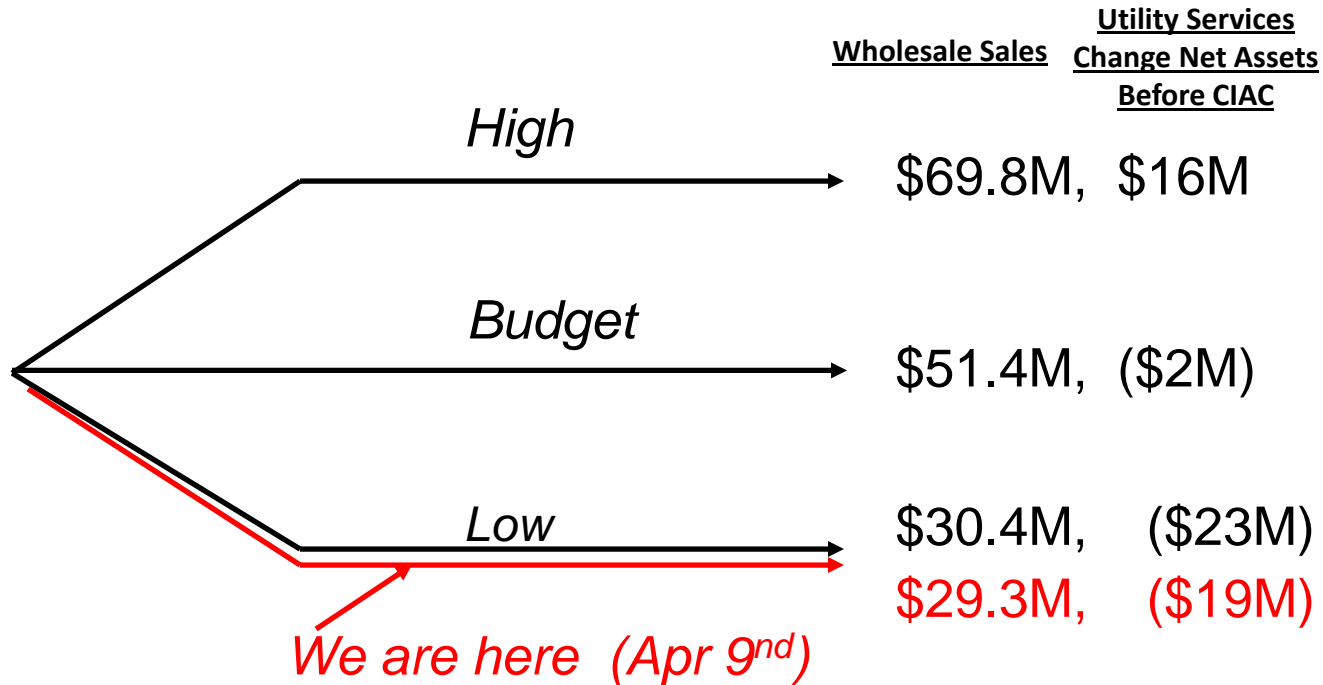
Financial market uncertainty

- Credit market turmoil

Weather

- Below average snowpack
- Below average flows (resource deficit)
- Cold 1st Quarter (above average retail loads)

2009 Forecast Compared to Budget



“High” revenue has a 10% probability of occurring

“Budget” revenue has a 50% probability of occurring

“Low” revenue has a 10% probability of occurring



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Contingency Plans

Immediate actions:

- Escrow annual senior debt service payment (\$10.6 million)
 - Relieve stress on senior debt coverage requirement
- Some capital plans on “hold” (total \$18.8 million)
 - Adjust pace of Networks build-out (\$4 million)
 - Delay Electric Automated Metering System (\$9.2 million)
 - Additional capital plans delayed and scaled back (\$5.6 million)
- O&M reductions (\$7.3 million)



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Contingency Plans

Additional actions:

- Further Parks O&M reductions (\$100,000)
- Mandatory furlough of 5 unpaid days (\$1.1 million)
- “Double Yes” program
- Volunteer program to change from full to part-time status
- Delayed implementation of electric rate design changes for up to 60 days (was scheduled to take effect on 4/1/09)



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- # Contingency Plan Reductions
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	<u>(in 000's)</u>
Capital	\$18,791
O&M	\$7,300
Additional Parks O&M	\$100
Mandatory Furlough	<u>\$1,100</u>
Reductions to 2009 Budget	<u>\$27,291</u>

Note: contingency budget versus actuals to be included in quarterly Board financial updates



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Contingency Plans

Additional capital program delays under consideration:

- Delay 2 Units of the Rock Island modernization (\$36 million – Unit B5 delay is under consideration)
- Defer Lake Chelan Hydro modernization of Unit 2 (\$11 million and unit outage)
- Slow pace of Networks expansion for 2010 & 2011 (\$7 million)



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- # Ongoing Contingency Planning
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- Stimulus package potential (e.g., grants)

- Ongoing efforts (smaller impacts):

- Potential to delay additional capital projects

- Potential further O&M reductions

- Employee cost savings suggestion mailbox

- Impose surcharges (last resort)

- Senior Debt Coverage
- Surcharge Potential Forecast
- (Utility Services - Net Wholesale Margin as of 4/9/09)

Sensitivity Tests	2009	2010	2011	2012
Current Plan (50% Probability - after Capital and O&M reductions)	0.8 4.6%	0.4 8.9%	2.2 -	18.6 -
“All In” Contingency Plan (50% Probability -delay RI & LC modernization, Networks slowdown)	0.8 4.6%	1.0 2.2%	2.5 -	19.4 -
“All In” Unusual Condition (10% Probability–Individual bad years)	0.1 12.1%	(2.2) 38.9%	(2.2) 37.5%	0.1 12.8%
Stress Case (historical low water, low price stress)		(4.3) 54.6%	(5.3) 64.4%	(6.2) 51.3%

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

(Escrow solution removes the stress of this individual metric for 2009 & 2010)

Operating Ratio Forecast

(Utility Services - Net Wholesale Margin as of 4/9/09)

Sensitivity Tests	2009	2010	2011	2012
Current Plan (50% Probability - after Capital and O&M reductions)	120%	119%	111%	83%
“All In” Contingency Plan (50% Probability -delay RI & LC modernization, Networks slowdown)	120%	116%	110%	81%
“All In” Unusual Condition (10% Probability–Individual bad years)	125%	135%	134%	119%
Stress Case (historical low water, low price stress)		150%	152%	136%

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

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Change in Net Assets Forecast

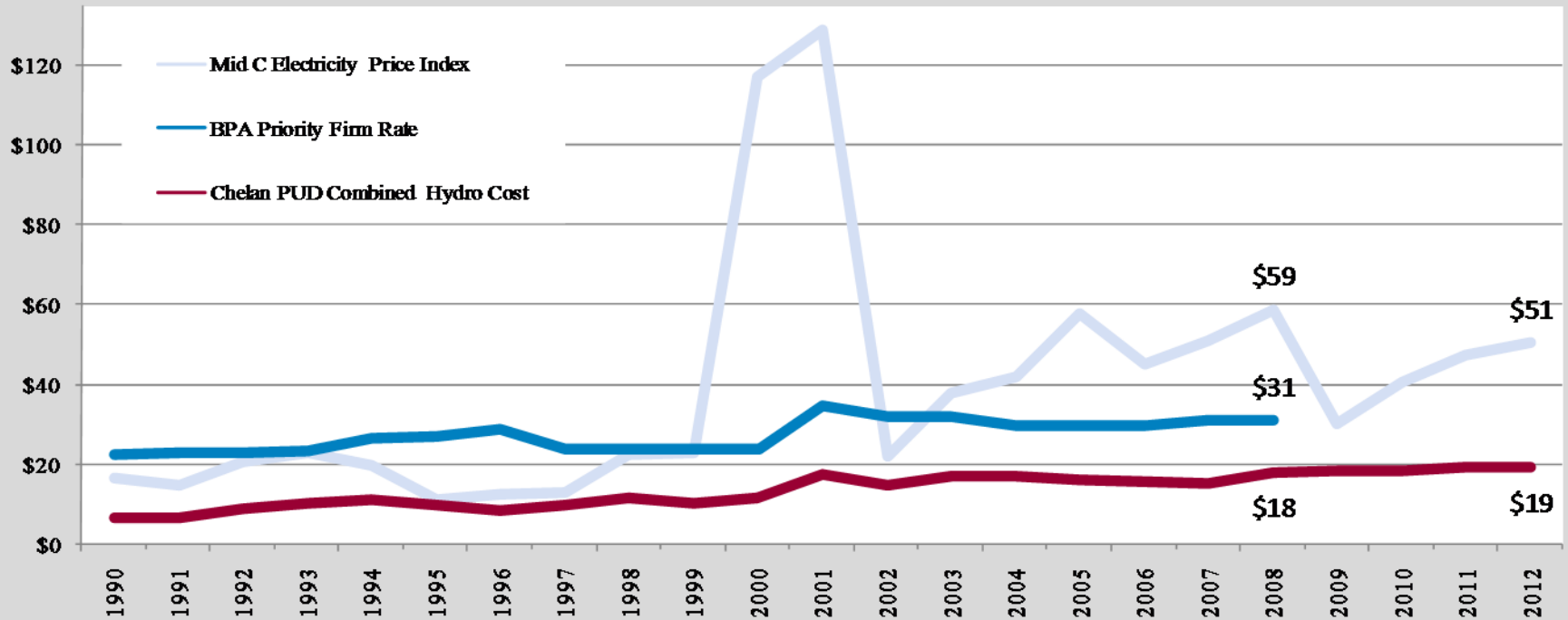
(Utility Services - Net Wholesale Margin as of 4/9/09)

Sensitivity Tests (\$ millions)	2009	2010	2011	2012
Current Plan (50% Probability - after Capital and O&M reductions)	\$ (19)	\$ (22)	\$ (14)	\$ 36
“All In” Contingency Plan (50% Probability -delay RI & LC modernization, Networks slowdown)	\$ (19)	\$ (19)	\$ (13)	\$38
“All In” Unusual Condition (10% Probability–Individual bad years)	\$ (23)	\$ (36)	\$ (37)	\$(26)
Stress Case (historical low water, low price stress)		\$ (47)	\$ (54)	\$ (48)

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

Production Cost Comparison

Chelan PUD Hydro Cost & Comparative Hydro Rates (\$/MWh)



Utility Services Reserves

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

Sensitivity Tests (\$ millions)	2009	2010	2011	2012
Current Plan (50% Probability - after Capital and O&M reductions)	\$225	\$189	\$166	\$181
“All In” Contingency Plan (50% Probability -delay RI & LC modernization, Networks slowdown)	\$225	\$197	\$178	\$196
“All In” Unusual Condition (10% Probability–Individual bad years)	\$222	\$180	\$153	\$132
Stress Case (historical low water, low price stress)		\$165	\$103	\$45

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



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Utility Services Cash Flow

(Utility Services - Net Wholesale Margin as of 4/9/09)

(millions)	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Cash Flow-Operations	\$22.0	(\$1.1)	(\$3.2)	\$6.3	\$57.4
Cash Flow-Non Op	\$13.0	\$(8.3)	\$2.1	(\$3.2)	(\$1.3)
Capital Expenditures	(\$36.4)	(\$21.1)	(\$34.9)	(\$26.9)	(\$40.2)
New Debt (5 yr note)	\$55.0				
Net Cash Change	\$53.6	(\$30.5)	(\$36.0)	(\$23.8)	\$15.9



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Utility Services Reserves

Where did cash come from?

Puget Capacity Reservation Charge	\$	89
Alcoa Capacity Reservation Charge	\$	23
Net wholesale and interest income	\$	89
December '08 Financing	\$	55
Ending balance, 12/31/08	\$	256



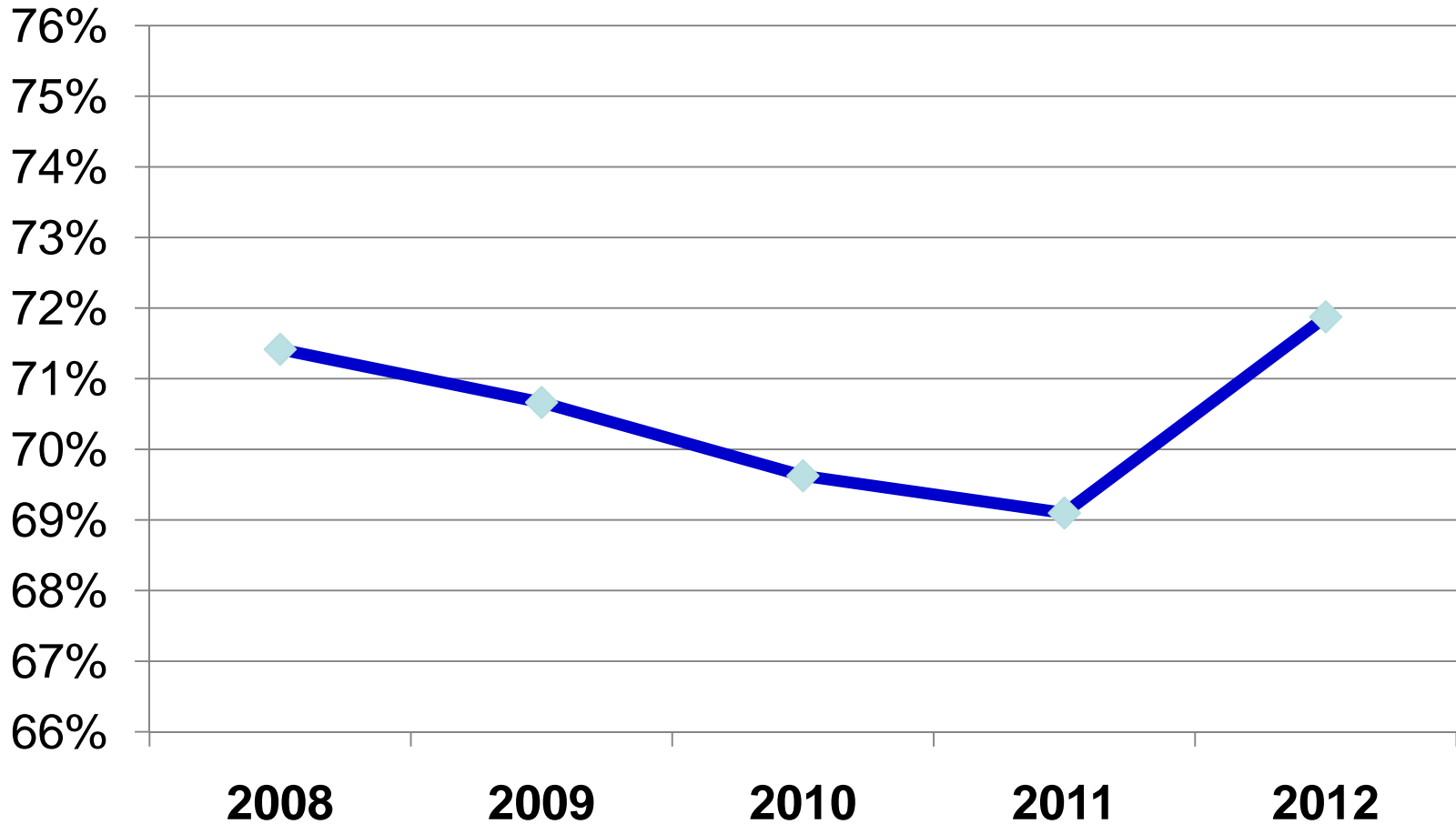
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Utility Services Reserves

- Why we need to maintain reserves:
 - Working capital (\$28.5 Million)
 - Contingent payment obligations
 - Variable rate debt (\$125 million)
 - Interest rate swaps (\$0 - \$50 million)
 - Wholesale sales contracts (\$0 - \$30 million)
 - Financial trading
 - Financial stability

Net Assets to Capitalization

(Utility Services - Net Wholesale Margin as of 4/9/09)
(50% Probability)



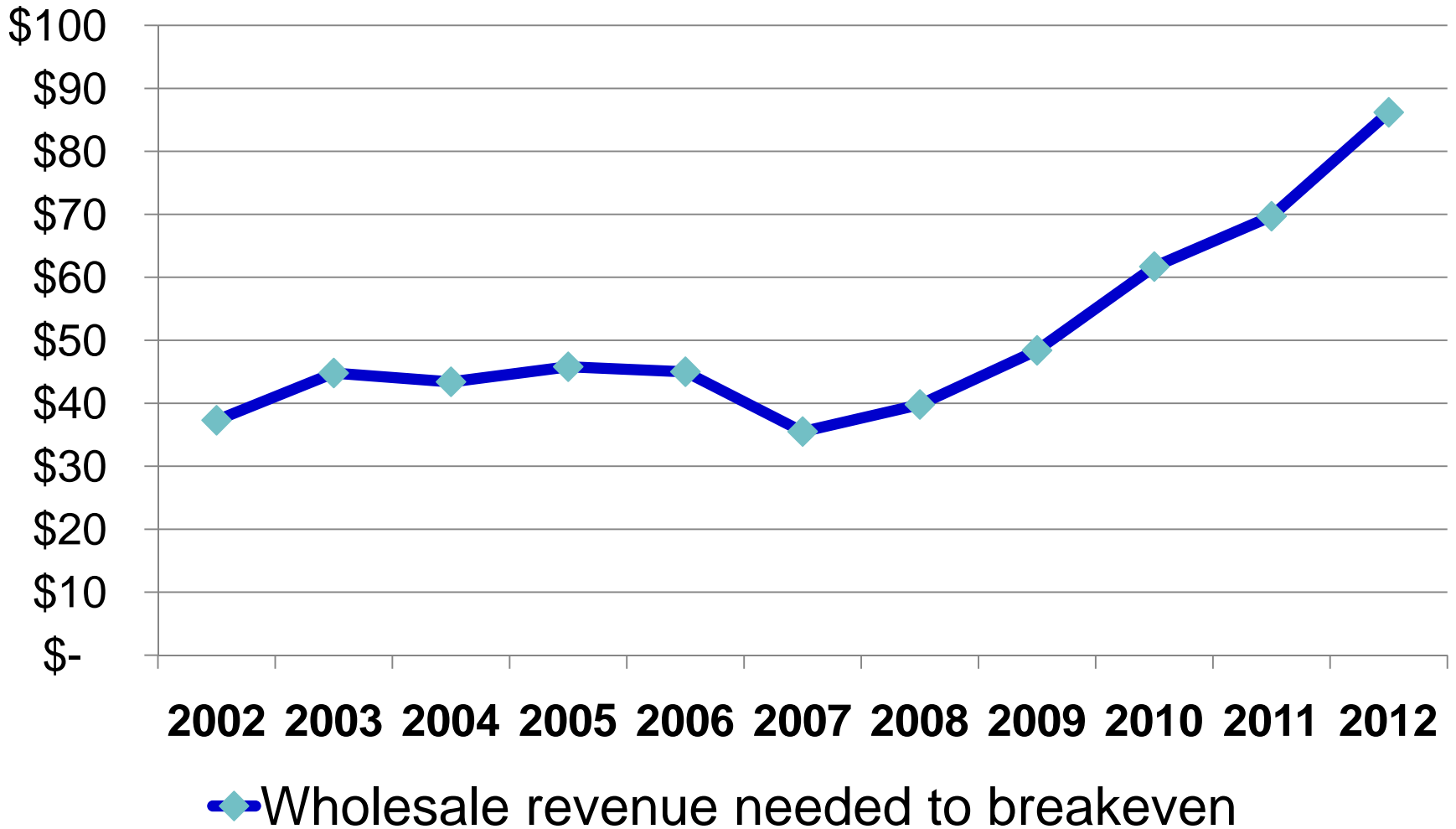
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- # Strategic Planning Challenges
 - (excerpt from 2006/7 strategic planning)
 - Retail rates do not cover the cost of providing the service
 - The gap is getting wider
 - We depend on wholesale revenue to fill the gap
 - Wholesale revenue is finite
 - Wholesale revenue is volatile
 - Costs to provide service continue to rise
 - Reliance on wholesale revenue is risky
 - Current financial trends are not sustainable
 - A surcharge is an appropriate way to manage risk and volatility, if necessary

Funding Gap Widens

(Wholesale revenue needed to breakeven)

(millions)	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Retail Electric	(\$12.0)	(\$18.5)	(\$25.1)	(\$27.2)	(\$24.3)
Wholesale Electric	(\$21.8)	(\$22.3)	(\$30.0)	(\$34.4)	(\$53.9)
Water	(\$0.5)	(\$0.9)	(\$1.5)	(\$1.9)	(\$2.1)
Wastewater	(\$0.3)	(\$0.4)	(\$0.4)	(\$0.5)	(\$0.5)
Networks	(\$6.9)	(\$7.4)	(\$6.9)	(\$6.6)	(\$6.4)
Other	\$1.7	\$1.1	\$0.8	(\$0.3)	(\$0.6)
Total	(\$39.8)	(\$48.4)	(\$63.1)	(\$70.9)	(\$87.8)

Utility Services Retail Funding Gap (increasing reliance on wholesale sales)





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Board Guiding Principles

- We can best serve our customers by providing multiple utility services
- We should implement annual financial plans to achieve a combined positive bottom line
- We should manage rates to cover operating costs as measured by an acceptable operating ratio
- A surcharge is an appropriate way to manage risk and volatility if necessary
- Utility Services cash reserves should be available to fund the capital needs of any District utility service
- Cost control and efficiencies should be a component of annual financial plans
- Debt should be managed within established parameters



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Do We Need a Surcharge?


- Key Considerations

- Focus on maintaining:
 - System reliability;
 - Financial stability
- Guiding principles established by Board
- Representations and covenants with stakeholders
- Look beyond current year
- “Pay-as-you-go” – or defer losses to future?



Various Options

- Balance budget (pay as you go)
 - Would require roughly 36% surcharge
 - Untenable in current economic environment
- Do nothing
 - more costly in long run (borrow to fund current gaps – pay back with interest in the future)
 - Not financially prudent
- Balanced approach
 - Down payment now (temporary surcharge)
 - Defer balance to future

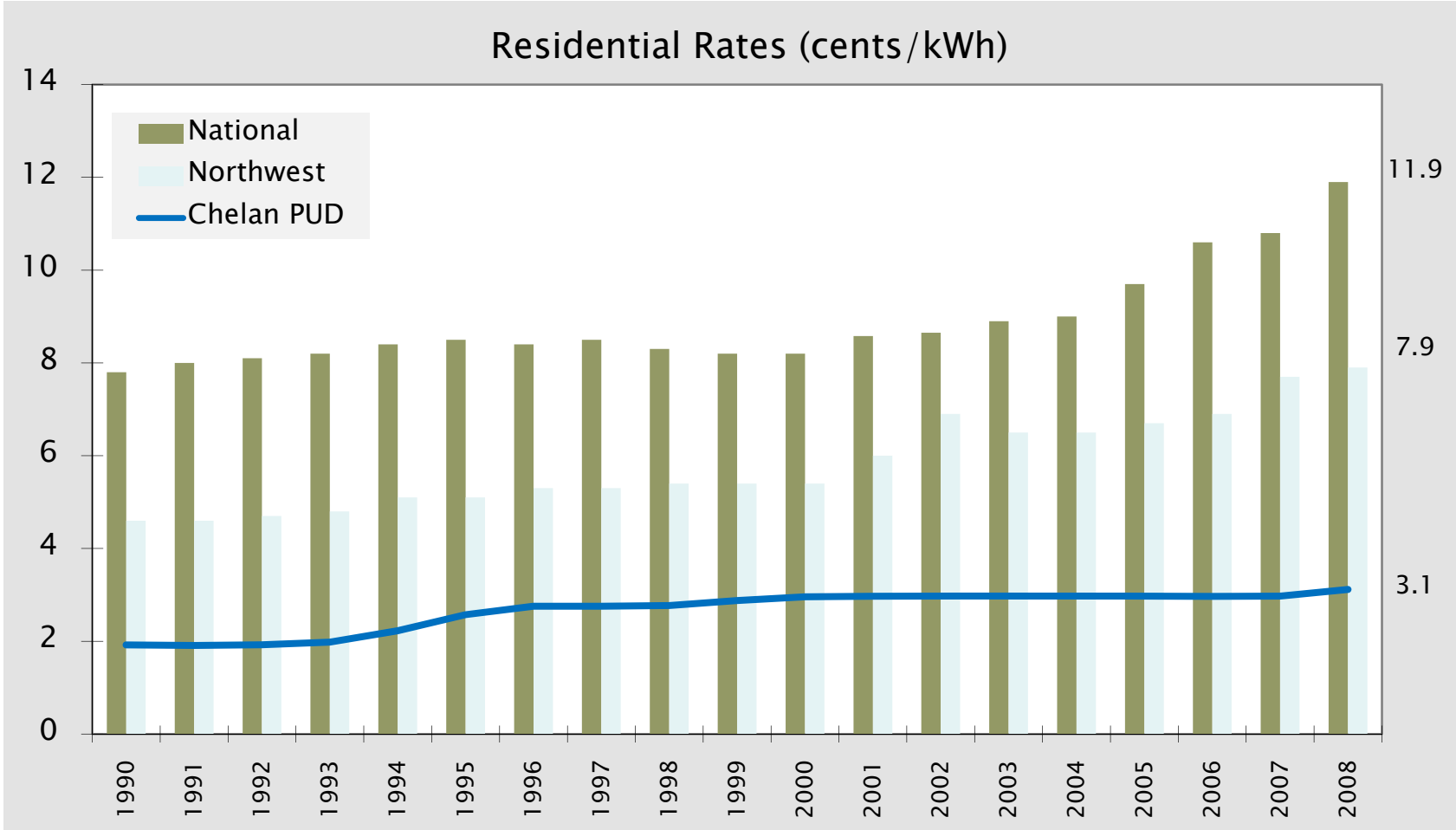
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- - # Management Recommendation
 - ## Balanced approach

 - Close ½ of the projected 2009 gap (roughly \$9 million of the \$19 million projected shortfall)
 - 18% temporary surcharge for up to 12 months, effective 5/1/09
 - Delay implementation of new rate design for up to 12 months (2.5% rate increase)
 - Increase existing low income assistance program by 18%

- Estimated Impacts of 18% Surcharge
- (Utility Services - Net Wholesale Margin as of 4/9/09)

50% Probability	2009	2010	2011	2012
Senior debt coverage ratio <i>(Expected case without surcharge)</i>	1.6 0.8	1.6 0.4	2.5 2.2	19.4 18.6
Operating ratio <i>(Expected case without surcharge)</i>	115% 120%	113% 119%	110% 111%	82% 83%
Change in Net Assets before CIAC <i>(Expected case without surcharge)</i>	\$ (15) \$ (19)	\$ (16) \$ (22)	\$ (12) \$ (14)	\$39 \$35
Ending reserve balance <i>(Expected case without surcharge)</i>	\$230 \$225	\$204 \$189	\$186 \$166	\$204 \$181

Residential Rate Comparison



Surcharge impact

Electric residential rate

Example 1

Year built – 1931

House/square footage - 3,200

Annual Usage – 35,650 kWh (2,971 kWh monthly average)

Rate	Monthly Avg Cost	Per KWH	Monthly Increase	Percent
Current	\$88	2.96¢	N/A	N/A
Draft Rate	\$104	3.49¢	\$16	18.0%



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Surcharge impact

Electric residential rate

Example 2

Year built – 2005

House/square footage – 1,900

Annual Usage – 19,616 kWh (1,635 kWh monthly average)

Rate	Monthly Avg Cost	Per KWH	Monthly Increase	Percent
Current	\$49	2.98¢	N/A	N/A
Draft Rate	\$58	3.52¢	\$9	18.0%



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Surcharge impact

Electric residential rate

Example 3

Year built – older unit

Condominium/square footage – 980

Annual Usage – 11,932 kWh (994 kWh monthly average)

Rate	Monthly Avg Cost	Per KWH	Monthly Increase	Percent
Current	\$31	3.10¢	N/A	N/A
Draft Rate	\$37	3.66¢	\$6	18.0%



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Communication Plan

- **Public meetings**

- Held initial evening meeting on January 26th
- Updates at February 9th, February 17th, March 2nd and March 16th Board meetings
- Evening meeting on March 16th
- Board update today – April 13th
- Evening meeting tonight - April 13th

- **Employee information**



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Next Steps

- Public Input and Board Deliberations
- Timeline:
 - 4/20 Commission meeting
 - 4/27 Commission meeting
 - Decision by 4/27 for 5/1 implementation