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Chelan County PUD

2010 Financial Planning Update

April 5, 2010



CHELAN COUNTY



Agenda

1. Current Forecast
2. Options
3. Recommendation



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External Influences

Continued weak economy

- Low electricity prices
- Low interest rates on investments

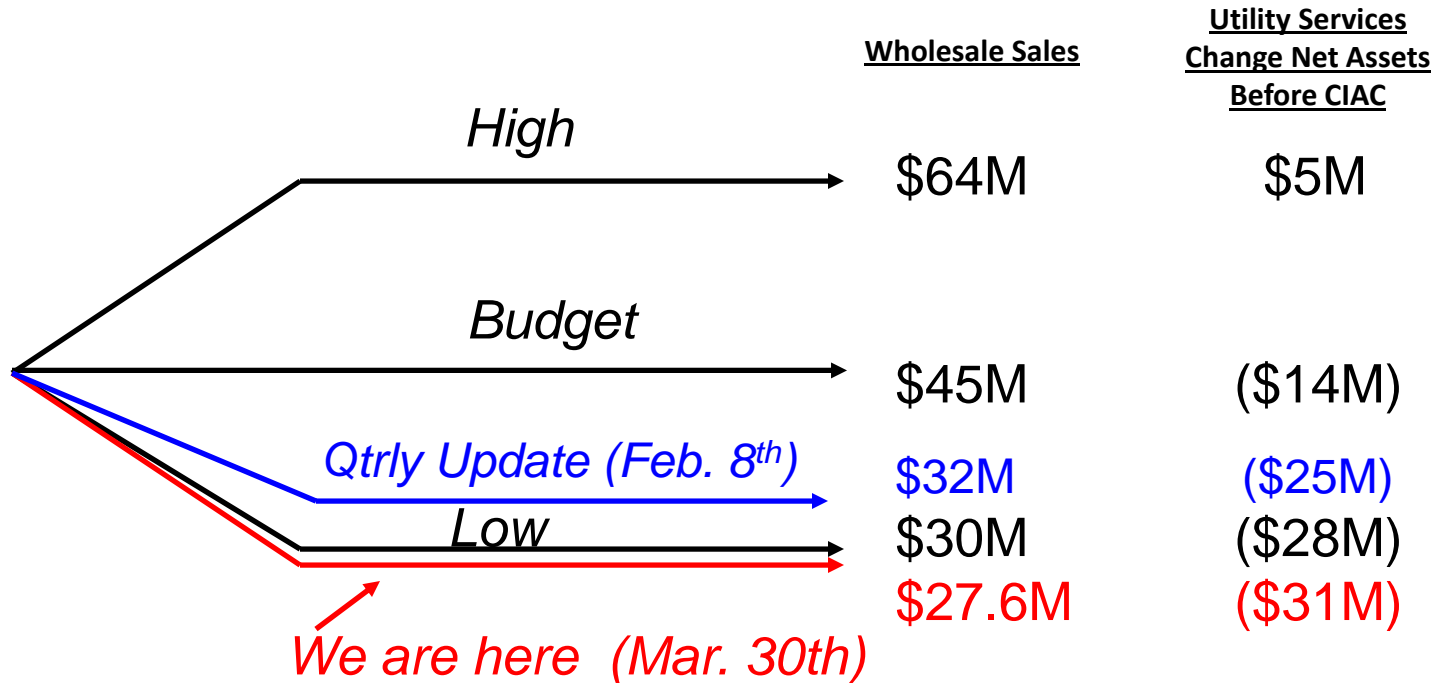
Uncertain items

- Capital markets – access and interest rates
- Renewable mandates
- Carbon tax or restrictions
- Other legislative actions

Weather

- Below average snowpack
- Below average flows (resource deficit)
- Mild weather

2010 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



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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- # Board Governing Financial Policies
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- Provide integrated utility services
- Target a positive Change in Net Assets (bottom line) by 2011
- Maintain a minimum utility services cash and investment reserve level of \$130 million
- Target an overall operating ratio of 80%-100% by 2011
- Limit the potential surcharge to 14% under unusual circumstances (10% probability of this outcome or worse in any year)

Senior Debt Coverage &

Surcharge Potential Forecast

(Utility Services - Net Wholesale Margin as of 3/30/10)

Current Plan	2010	2011	2012	2013	2014
Expected Conditions (50% probability)	(1.2) 25%	2.3 -	19.1 -	21.9 -	24.7 -
Unusual Conditions* (10% probability)	(2.3) 35%	(0.8) 20%	5.2 -	2.2 -	2.4 -
Stress Case* (75% Water - \$30 Power)		(3.7) 51%	(2.9) 29%	(4.6) 39%	(4.9) 41%

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

(Escrow solution removed the stress of this individual metric for 2010)

* - Individual year results, not cumulative

Operating Ratio Forecast

(Utility Services - Net Wholesale Margin as of 3/30/10)

Current Plan	2010	2011	2012	2013	2014
Expected Conditions (50% probability)	124%	107%	86%	85%	82%
Unusual Conditions (10% probability)	130%	120%	104%	109%	109%
Stress Case (75% Water - \$30 Power)		135%	120%	121%	122%

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

Change in Net Assets Forecast

(Utility Services - Net Wholesale Margin as of 3/30/10)

Current Plan (\$ millions)	2010	2011	2012	2013	2014
Expected Conditions (50% probability)	(\$31)	(\$13)	\$38	\$46	\$57
Unusual Conditions (10% probability)	(\$36)	(\$29)	(\$9)	(\$21)	(\$17)
Stress Case (75% Water - \$30 Power)		(\$44)	(\$36)	(\$43)	(\$42)

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




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Utility Services Reserves

(Utility Services - Net Wholesale Margin as of 3/30/10)

Current Plan (\$ millions)	2010	2011	2012	2013	2014
Expected Conditions (50% probability)	\$202	\$184	\$187	\$167	\$162
Unusual Conditions (10% probability)	\$196	\$168	\$141	\$101	\$87
Stress Case (75% Water - \$30 Power)		\$157	\$120	\$90	\$74

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



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- # Financial Policies - Looking to 2011
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Breakeven bottom line by 2011

- 25% Surcharge needed in 2011 at 50% probability
- 56% Surcharge needed in 2011 at 10% probability

Operating Ratio less than 100% by 2011

- 22% Surcharge needed in 2011 at 50% probability
- 53% Surcharge needed in 2011 at 10% probability

Senior Cover of 1.25 by 2011

- 0% Surcharge needed in 2011 at 50% probability
- 21% Surcharge needed in 2011 at 10% probability



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What would the forecast look like if we could successfully execute a longer-term hedging strategy?

- **Surcharge Needed to Maintain**
- **Senior Debt Service Coverage Policy**
- **(Utility Services - Net Wholesale Margin as of 3/30/10)**

	2010	2011	2012	2013	2014
Current Plan (50% probability)	25%	-	-	-	-
With 16% Slice (50% probability)			-	-	-
With 32% Slice (50% probability)			-	-	-
Current Plan (10% probability)	35%	20%	-	-	-
With 16% Slice (10% probability)			-	-	-
With 32% Slice (10% probability)			-	-	-
Stress Case (75% Water - \$30 Power)		51%	29%	39%	41%
With 16% Slice (75% Water-\$30 Power)			-	-	-
With 32% Slice (75% Water-\$30 Power)			-	-	-

Operating Ratio Forecast

(Utility Services - Net Wholesale Margin as of 3/30/10)

	2010	2011	2012	2013	2014
Current Plan (50% probability)	124%	107%	86%	85%	82%
With 16% Slice (50% probability)			86%	85%	83%
With 32% Slice (50% probability)			86%	85%	83%
Current Plan (10% probability)	130%	120%	104%	109%	109%
With 16% Slice (10% probability)			95%	99%	97%
With 32% Slice (10% probability)			88%	90%	88%
Stress Case (75% Water - \$30 Power)		135%	120%	121%	122%
With 16% Slice (75% Water-\$30 Power)			105%	106%	105%
With 32% Slice (75% Water-\$30 Power)			94%	95%	93%

Change in Net Assets Forecast

(Utility Services - Net Wholesale Margin as of 3/30/10)

	2010	2011	2012	2013	2014
Current Plan (50% probability)	(\$31)	(\$13)	\$38	\$46	\$57
With 16% Slice (50% probability)			\$37	\$44	\$56
With 32% Slice (50% probability)			\$37	\$44	\$55
Current Plan (10% probability)	(\$36)	(\$29)	(\$9)	(\$21)	(\$17)
With 16% Slice (10% probability)			\$11	\$4	\$11
With 32% Slice (10% probability)			\$30	\$27	\$37
Stress Case (75% Water - \$30 Power)		(\$44)	(\$36)	(\$43)	(\$42)
With 16% Slice (75% Water-\$30 Power)			(\$11)	(\$14)	(\$9)
With 32% Slice (75% Water-\$30 Power)			\$14	\$14	\$23

Utility Services Reserves

(Utility Services - Net Wholesale Margin as of 3/30/10)

	2010	2011	2012	2013	2014
Current Plan (50% probability)	\$202	\$184	\$187	\$167	\$162
With 16% Slice (50% probability)			\$186	\$165	\$159
With 32% Slice (50% probability)			\$186	\$164	\$156
Current Plan (10% probability)	\$196	\$168	\$141	\$101	\$87
With 16% Slice (10% probability)			\$161	\$125	\$113
With 32% Slice (10% probability)			\$180	\$148	\$138
Stress Case (75% Water - \$30 Power)		\$157	\$120	\$90	\$74
With 16% Slice (75% Water-\$30 Power)			\$145	\$118	\$105
With 32% Slice (75% Water-\$30 Power)			\$170	\$147	\$136



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Surcharge Considerations

- External factors (water, prices, interest rates)
- Continued cost containment – while maintaining:
 - System reliability
 - Financial stability
- Guiding principles and financial policies established by Board
- Representations and covenants with stakeholders
- “Pay-as-you-go” – or defer losses to future?
- Look beyond current year

Continued Cost Containment

(\$000s)	2010	2009	Inc/(Dec)	
	Adopted Budget	Contingency Budget	\$	%
Operations, Mtnce Taxes	131,238	128,724	2,514	2%
Capital Expenditures	65,325	80,338	(15,013)	(19%)
Total Expenditures (operations, capital, int . exp, other)	307,585	308,019	(434)	(0.1%)

- Remain in preservation mode
- Budget cuts are not sustainable over the long term, but necessary under current conditions



Concurrent Efforts

- Hedging policies and actions
- Secure line of credit
- Strategic planning efforts
 - Revisit financial policies
 - Explore additional financial tools



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- # Management Recommendation

1. Remain in preservation mode for cost containment
2. Implement long-term hedging strategy
3. Secure line of credit to bolster financial liquidity and support longer term hedging strategy
4. Extend 9% temporary surcharge for up to 12 months, effective 5/1/10
5. Delay implementation of new rate design for up to 12 months (2.5% rate increase)
6. Recommendation is based on successful completion of items 2 & 3 (otherwise, may need additional surcharge this year)

Estimated Impact of 9% Surcharge (12 months 5/1/10 – 4/30/11) (Utility Services - Net Wholesale Margin as of 3/30/10)

	Current Plan		Renew Surcharge	
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
Debt Service Surcharge (1)				
(50% Probability)	25%	0	21%	0
(10% Probability)	35%	20%	31%	17%
Operating Ratio				
(50% Probability)	124%	107%	123%	107%
(10% Probability)	130%	120%	128%	119%
Change in Net Assets				
(50% Probability)	(\$31)	(\$13)	(\$29)	(\$11)
(10% Probability)	(\$36)	(\$29)	(\$35)	(\$27)
Utility Services Reserves				
(50% Probability)	\$202	\$184	\$204	\$187
(10% Probability)	\$196	\$168	\$198	\$171

(1) Escrow solution removed the stress of this individual metric for 2010



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Summary

- ❑ Committed to maintaining rates consistent with a financially healthy utility – today and into the future
- ❑ Focus on keeping the PUD strong and reliable
- ❑ Financial results stressed for the next few years
- ❑ Operating levels not sustainable over the long-term
- ❑ Strategic planning efforts to align long-term plans
- ❑ Closely monitor forecasts and progress on hedging strategy execution to determine if further cost cutting and surcharge actions are necessary this year