

Monthly Strategic Topic

March 24, 2008





Topics for this Month

1. Conservation
 - a. Update on I-937 rule-making
 - b. Discussion of conservation philosophies for rates

2. Senior, low-income and disabled discounts program
 - a. Overview of current program
 - b. Discussion of discount philosophies for rates

3. Preliminary revenue requirement results



Requested Action from Board

Philosophy discussion and guidance

Topic #1: Conservation Update

I-937 puts a greater emphasis on conservation; the District will need to do more

- Conservation has a positive rate of return; still working on the appropriate interpretation based on final rules
- Potential to impact liquidity
- Various options to increase and fund conservation should be evaluated, including rates and connection fees

Topic #1: Conservation Update

Current Programs

- ResourceSmart - \$150k ~ \$400k funding, typical energy savings (0.1 to 0.4 aMWs)
- Commercial energy code review
- Weatherization loans
- Customer care programs

Topic #1: Conservation and Rates

Electric class considerations (current)

- Residential ~ 50% of load
 - Tiered rates, weatherization
- Industrial ~15%
 - Time of use rates, ResourceSmart, load profiling
- Commercial ~ 35%
 - Limited ResourceSmart

Water – tiered rates

Topic #1: Conservation and Rates

Commercial class – 2007 Data

- Appx 6,000 meters billed in 2007
- 156 accounts were over 500,000 annual kWh's
- Represented ~ 42% of the commercial load
- Total energy usage for 2007 ~ 464,000,000 kWh's or 53 aMWs

Grouping by kWh's	# of Accounts
>500k	156
400-500k	46
300-400k	61
200-300k	133
100-200k	386
<100k	5,221

Topic #1: Conservation and Rates

Staff recommendations:

1. I-937 opportunities need to be fully evaluated and incorporated into rates and fees where and when appropriate
2. Commercial class looks to have the most opportunity for additional conservation strategies
3. All classes should be evaluated for appropriate rate design, class makeup and conservation strategies

Conservation Potential Timeline

Timeframe	Action Item	Lead/Support
March 18	Final I-937 Rule published – Document Interpretation ➤ Achievability ➤ Internal Rate of Return	John & Greg w/ Conservation Team
March-June	Internal Commercial and Industrial potential study ➤ Large commercial survey ➤ Working group	Jim /Conservation Team
March-June	Internal Residential potential study ➤ Programs ➤ Regional efforts	Mark /Conservation Team
March-April	AMS – Conservation	
March-June	Rate Design & COSA interaction	John/ Conservation Team
June-July	Regional Conservation Forum	John/ Conservation Team
March-July	CIS/GIS “Wish list” finalized	Kerri/Conservation Team
July-Sept	Business Plan for 2009 ramp-up & budget	John/ Conservation Team
October	Implementation – phase II	

Topic #2: Senior, Low-Income and Disabled Discount Program Overview

Electric low-income discount programs

- Tiered residential rates
 - 3 tiers – 1,000 kWh blocks, 1st tier – 2.29, 2nd tier – 2.84 3rd – 2.99 (in cents)
- Helping Hand – customer funded, Community Action administers
- Customer Service – arrangements, program information
- Low-income senior and low-income disabled
- Low-income Weatherization program

Program last confirmed by the Commission in 2005

Topic #2: Senior, Low-Income and Disabled Discount Program Overview

Customer Service staff are part of regional best practices group focused on topics – Next topic scheduled for May/June in low-income programs

- Various utilities will meet in Wenatchee
- Best practices around low-income programs will be reviewed - #1 topic by vote of membership
- Final report will be published as a deliverable



Conservation and Discounts

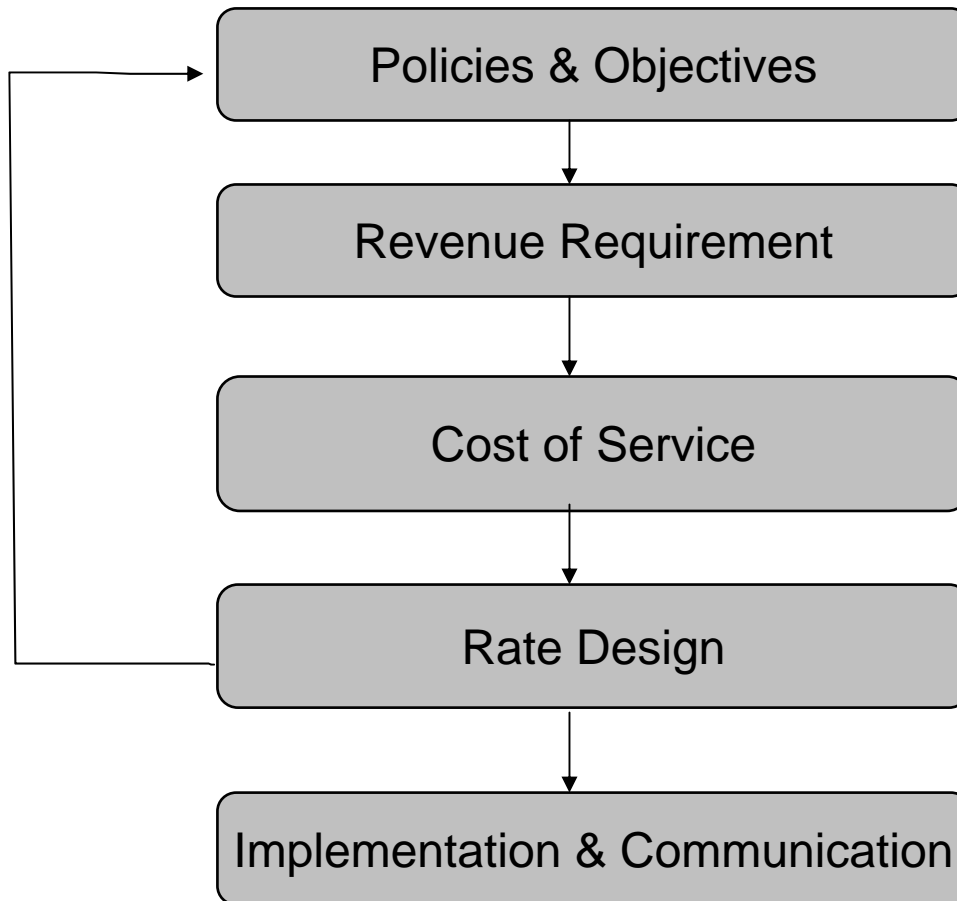
Questions?



Topic #3: Revenue Requirement – Preliminary Results

1. Overview of rate-setting process
2. Preliminary results

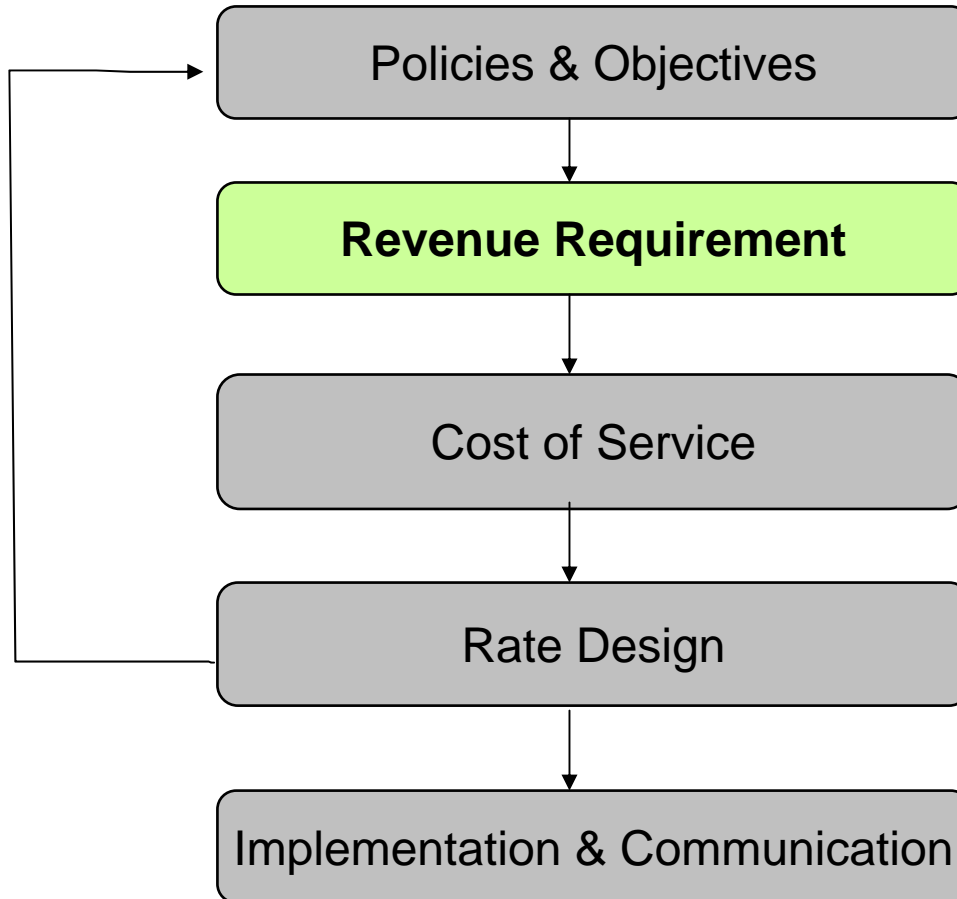
Overview of Rate-Setting Process



Rate-Setting Process Timeline

Process Step	Targeted Timeline
<input checked="" type="checkbox"/> Step 1 - Policies & Objectives Identified	Feb. 2008
<input checked="" type="checkbox"/> Step 2 - Revenue Requirements (Electric, Water & WW)	Mar. 2008
<input type="checkbox"/> Step 3 - Cost of Services Performed (Electric, Water, WW)	Apr. – May 2008
<input type="checkbox"/> Step 4a - Rate Design Options (Electric, Water, WW)	May – June 2008
<input type="checkbox"/> Step 4b - Public Comment	June – July 2008
<input type="checkbox"/> Step 4c - Final Adjustments	July – Aug. 2008
<input type="checkbox"/> Step 4d – Board Decision	Aug. 2008
<input type="checkbox"/> Step 5a - Testing & Implementation	Sep. – Dec. 2008
<input type="checkbox"/> Communication	Ongoing

Overview of Rate-Setting Process





What is “revenue requirement”

Compares the rate base revenues and cost to determine the revenue adjustment required while incorporating various financial planning targets and objectives.

Why determine a revenue requirement?

- Identification of revenue needs to provide services
- Establish base requirement for rate structure

Established policies and objectives

Board strategic financial guidance:

- Target a combined positive Change in Net Assets (bottom line) by 2011
- 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)
- Target a minimum debt coverage of 1.25 under unusual circumstances (10% probability of this outcome or worse in any year)
- The Water and Wastewater Systems should move toward combined system “postage stamp rates” to reduce costs

Preliminary Revenue Requirement

Electric System (amounts in millions)	2009	2010
Rate Revenue	\$ 50.9	\$ 51.4
Commodity/Use Cost	\$(49.6)	\$(53.4)
Delivery/Transport Cost	\$(22.8)	\$(24.6)
Customer/Base Cost	\$ (8.3)	\$ (9.0)
Net Operating Requirement	\$(29.8)	\$(35.6)
Other Activity Adjust Inc/(Exp)	\$ 6.5	\$ 6.2
Rate Revenue Requirement*	\$(23.3)	\$(29.4)

* - risk adjusted wholesale benefit included with combined service summary

Preliminary Revenue Requirement

Water System (amounts in millions)	2009	2010
Rate Revenue	\$ 4.1	\$ 4.2
Commodity/Use Cost	\$ (0.9)	\$ (0.9)
Delivery/Transport Cost	\$ (2.9)	\$ (3.3)
Customer/Base Cost	\$ (0.6)	\$ (0.6)
Net Operating Requirement	\$ (0.3)	\$ (0.6)
Other Activity Adjust Inc/(Exp)	\$ (0.3)	\$ (0.5)
Rate Revenue Requirement*	\$ (0.6)	\$ (1.1)

* - risk adjusted wholesale benefit included with combined service summary

Preliminary Revenue Requirement

Wastewater System (amounts in millions)	2009	2010
Rate Revenue	\$ 0.4	\$ 0.4
Commodity/Use Cost	\$ (0.4)	\$ (0.5)
Delivery/Transport Cost	\$ (0.2)	\$ (0.2)
Customer/Base Cost	\$ (0.1)	\$ (0.1)
Net Operating Requirement	\$ (0.3)	\$ (0.4)
Other Activity Adjust Inc/(Exp)	\$ (0.0)	\$ (0.0)
Rate Revenue Requirement*	\$ (0.3)	\$ (0.4)

* - risk adjusted wholesale benefit included with combined service summary

Preliminary Revenue Requirement

Risk Adjusted Wholesale Margin (amounts in millions)	2009	2010
Wholesale Revenue	\$ 57.8	\$ 53.8
Assigned Wholesale Cost	\$(23.3)	\$ (23.4)
Net Wholesale Margin	\$ 34.5	\$ 30.4
Surcharge Limit Risk Adjustment	\$(11.7)	\$ (7.7)
Risk Adjusted Wholesale Margin	\$ 22.8	\$ 22.7

Preliminary Revenue Requirement

Combined Services (amounts in millions)	2009	2010
Rate Revenue	\$ 55.4	\$ 56.1
Commodity/Use Cost	\$(50.9)	\$(54.8)
Delivery/Transport Cost	\$(26.0)	\$(28.1)
Customer/Base Cost	\$ (8.9)	\$ (9.7)
Net Operating Requirement	\$(30.4)	\$(36.5)
Other Activity Adjust Inc/(Exp)	\$ 6.1	\$ 5.7
Gross Rate Requirement	\$(24.3)	\$(30.8)
Risk Adjusted Wholesale Margin	\$ 22.8	\$ 22.7
Net Rate Revenue Requirement	\$ (1.5)	\$ (8.1)



Preliminary Revenue Requirement

Questions on revenue requirement methodology?

Next Steps Timeline

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Questions?
