Chelan County PUD

Continuation of the Rate-Setting Process

2009 Electric Rate Design - Update

August 18, 2008

Agenda

1. Updated forecast to 2012
2. Options to help close the gaps
3. Electric rate design – update
4. Next steps in the rate-setting process

Forecast assumptions – what’s changed?

Updated assumptions since last Board update on May 8, 2008:

For the quarterly update on 8/4/08:

- Net wholesale probabilistic outcomes improved for 2008 and beyond
- 2008 budget forecast through year end improved

For the subsequent update on 8/11/08:

- Net wholesale probabilistic outcomes declined for 2008 and beyond

What hasn't changed

Board Governing Financial Policies:

- Provide integrated utility services
- Target an overall operating ratio of 80-100% by 2011
- Target a positive Change in Net Assets by 2011
- Limit the potential surcharge to 14% under unusual circumstances (10% probability of this outcome or worse in any year)

Known unknowns

- Climate change
- Critical infrastructure protection standards
- Conservation requirements
- Renewable portfolio standards
- Hatchery requirements
- Survival standards
- Carbon cap and trade markets
- Water and Wastewater regulations
- Uncertain financial markets (interest rates)

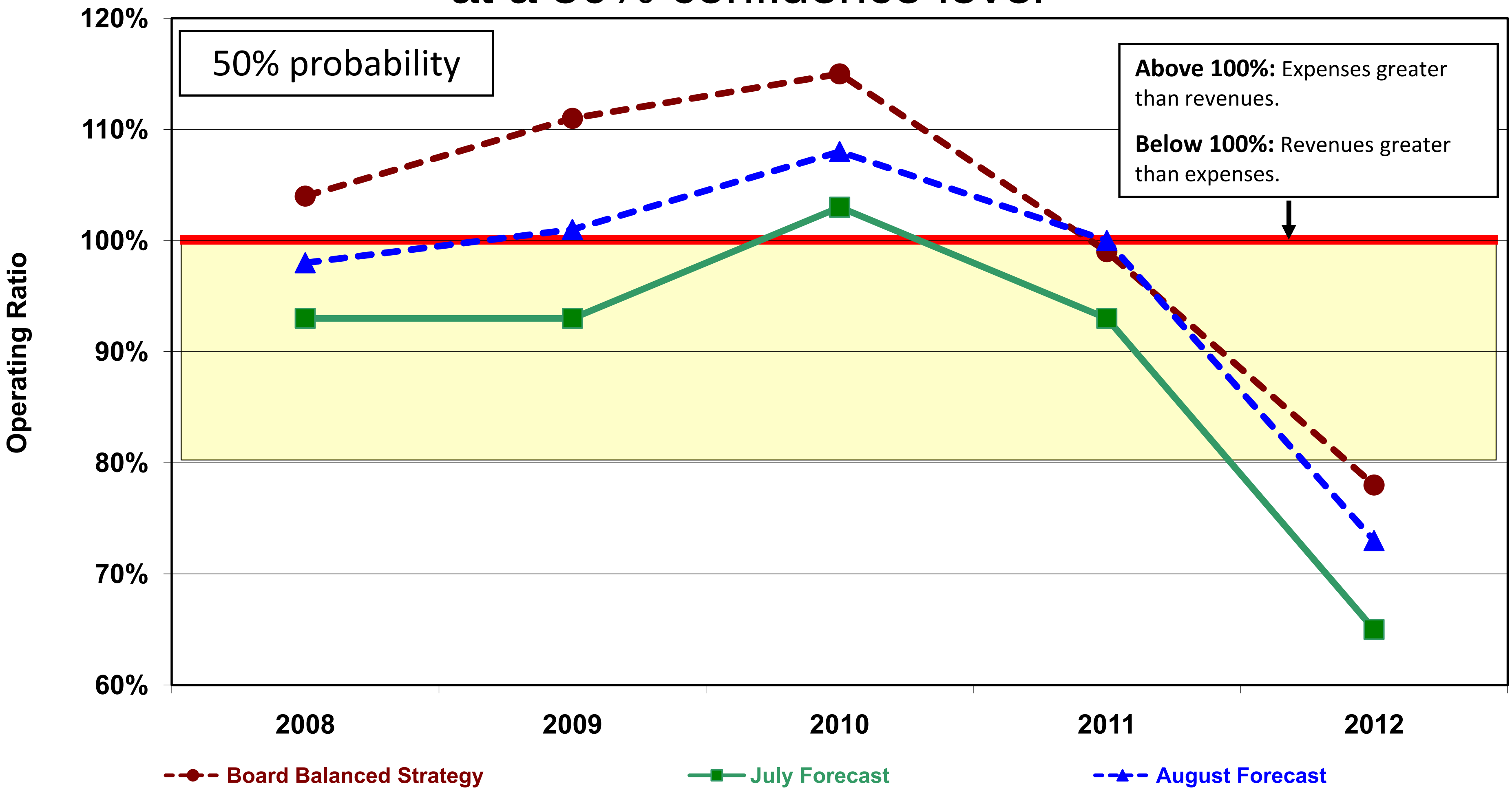
Are we on track with targets and strategic financial planning forecasts?

- 2009 - on track
- 2010 - stressed beyond current targets in off years
- Vulnerable to low wholesale outcomes
- Increasing upward pressure on costs
- List of known unknowns continues to grow

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

Utility Services Operating Ratio

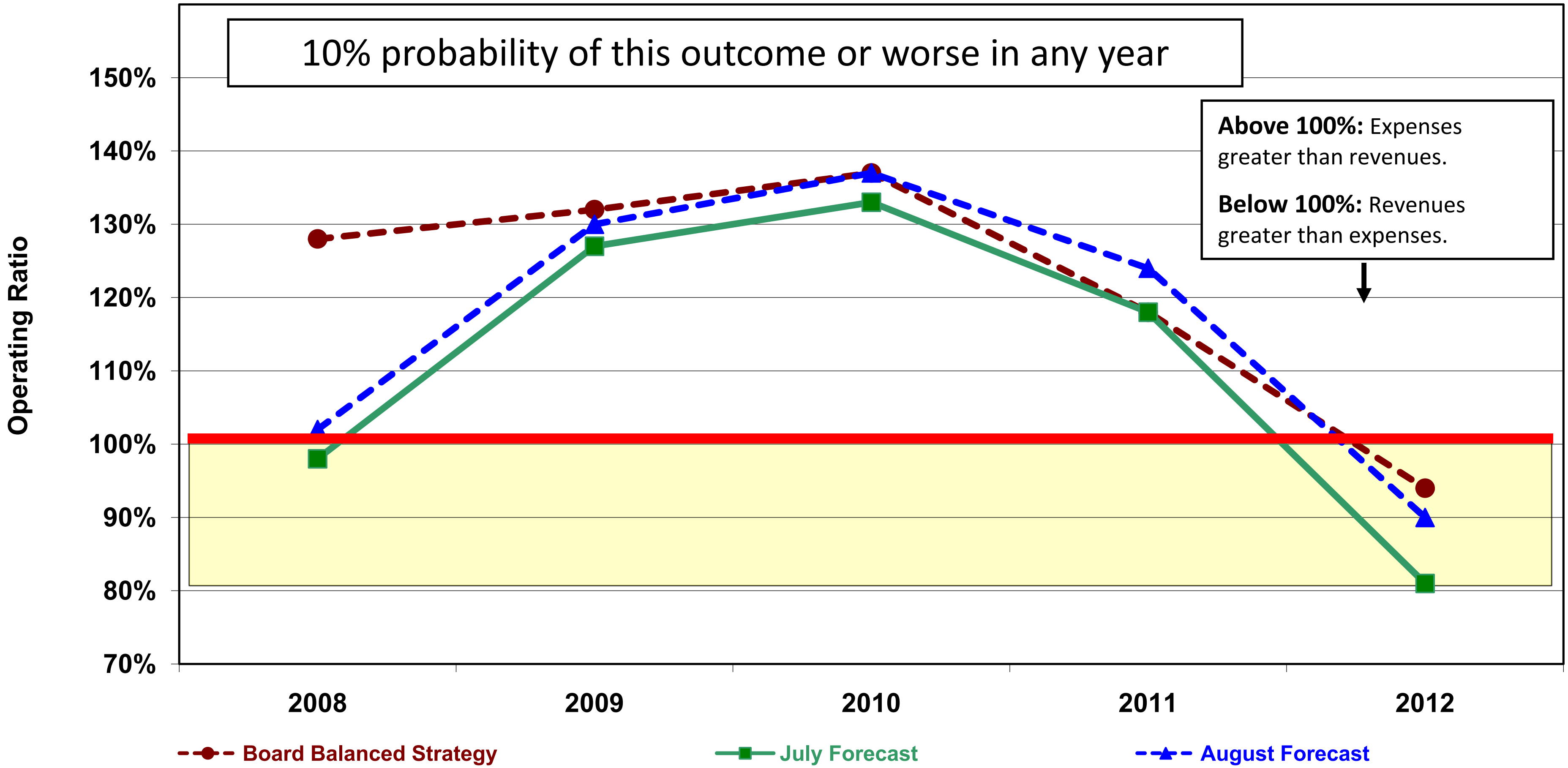
at a 50% confidence level



Board "Balanced"	July Forecast	August Forecast
(5% Electric 2008-11, 9% W & WW 2008-12, implemented 1/1/08, NW focus on rural buildout)	Forecast as of 7/22/08 no rate increase post 2008	Forecast as of 8/7/08 No rate increase post 2008

Utility Services Operating Ratio

at a 90% confidence level



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Utility Services Change in Net Assets

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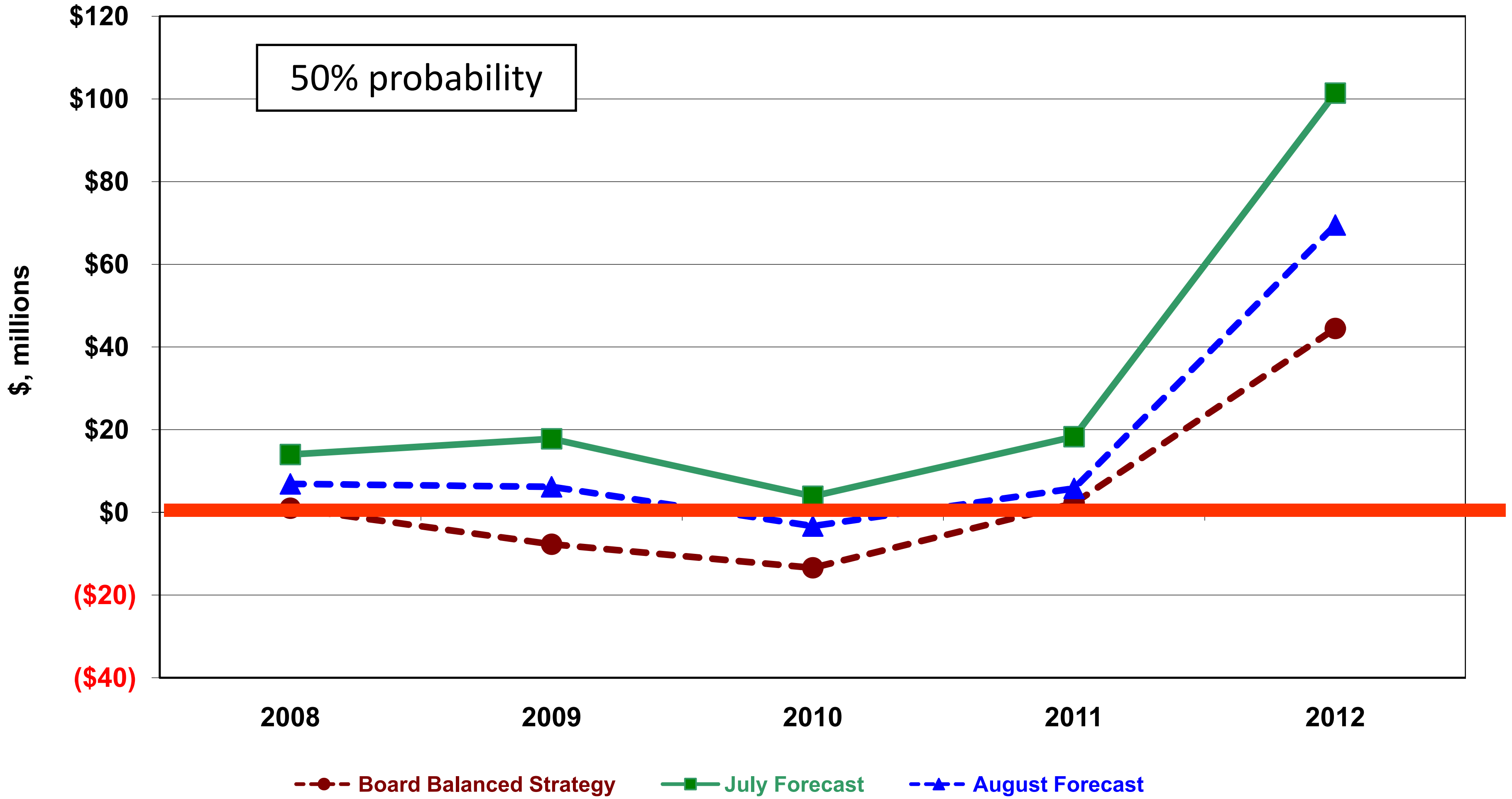

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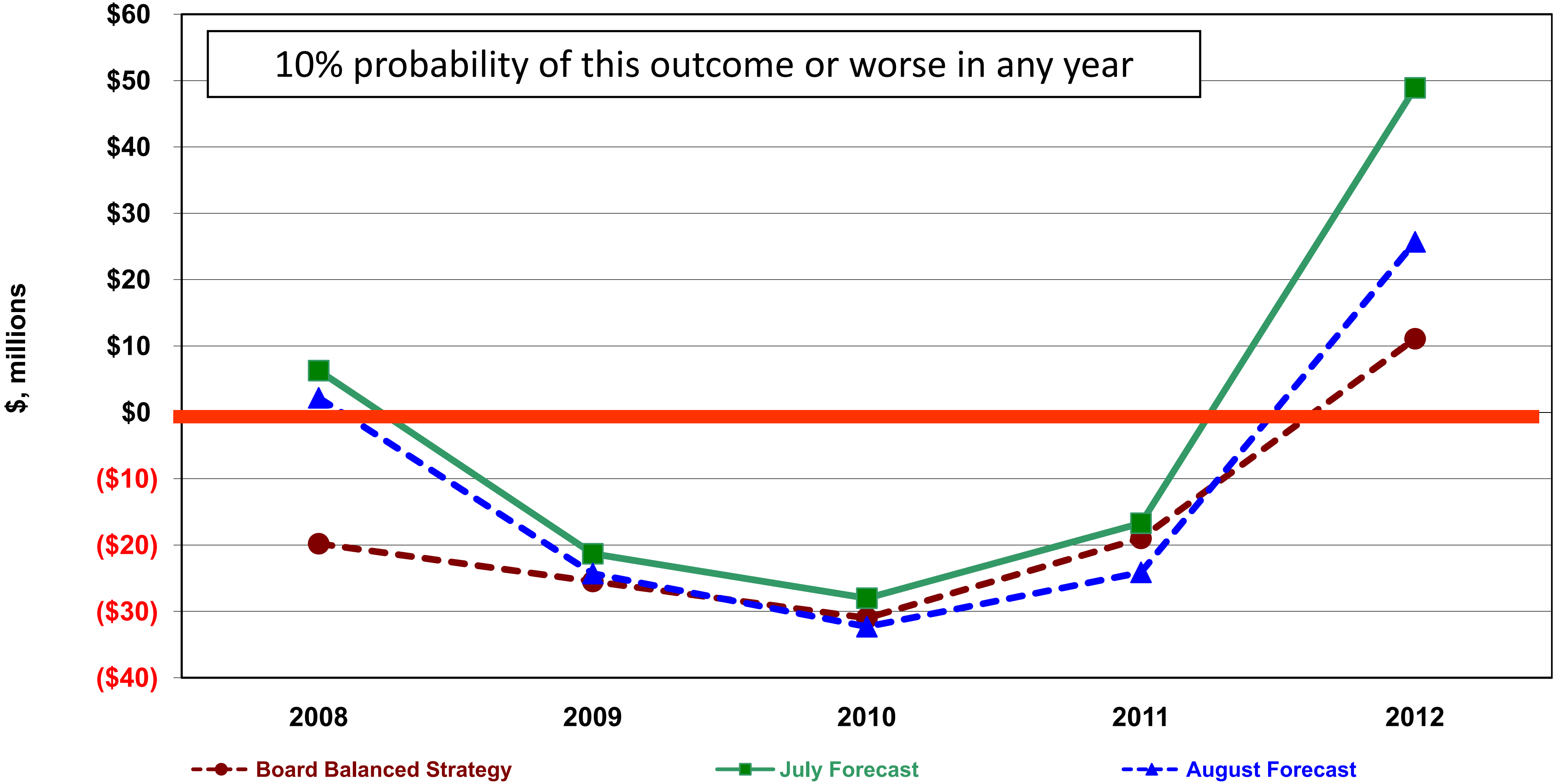

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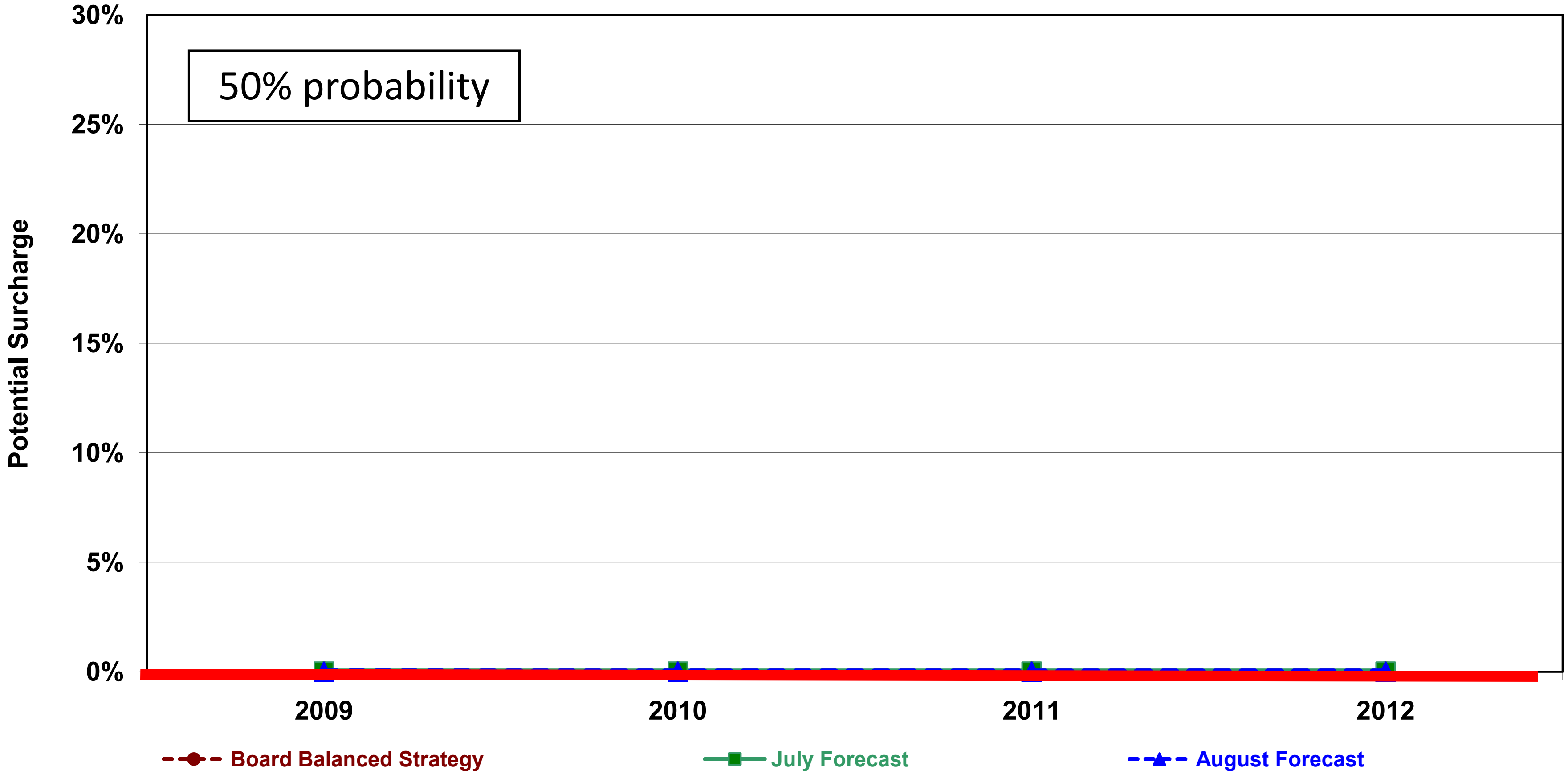
Utility Services Surcharge Potential

at a 50% confidence level to meet 1.25 debt coverage



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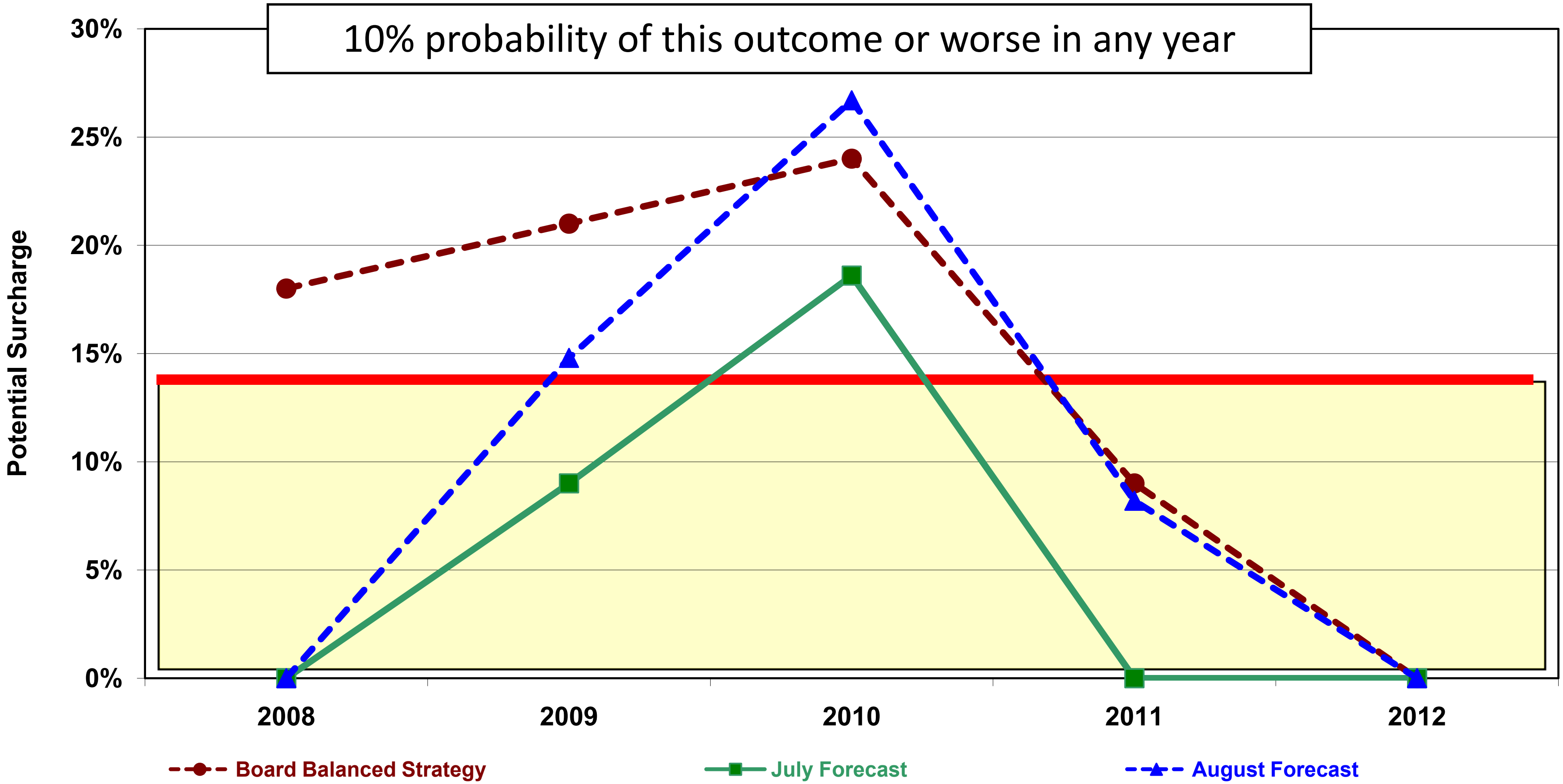

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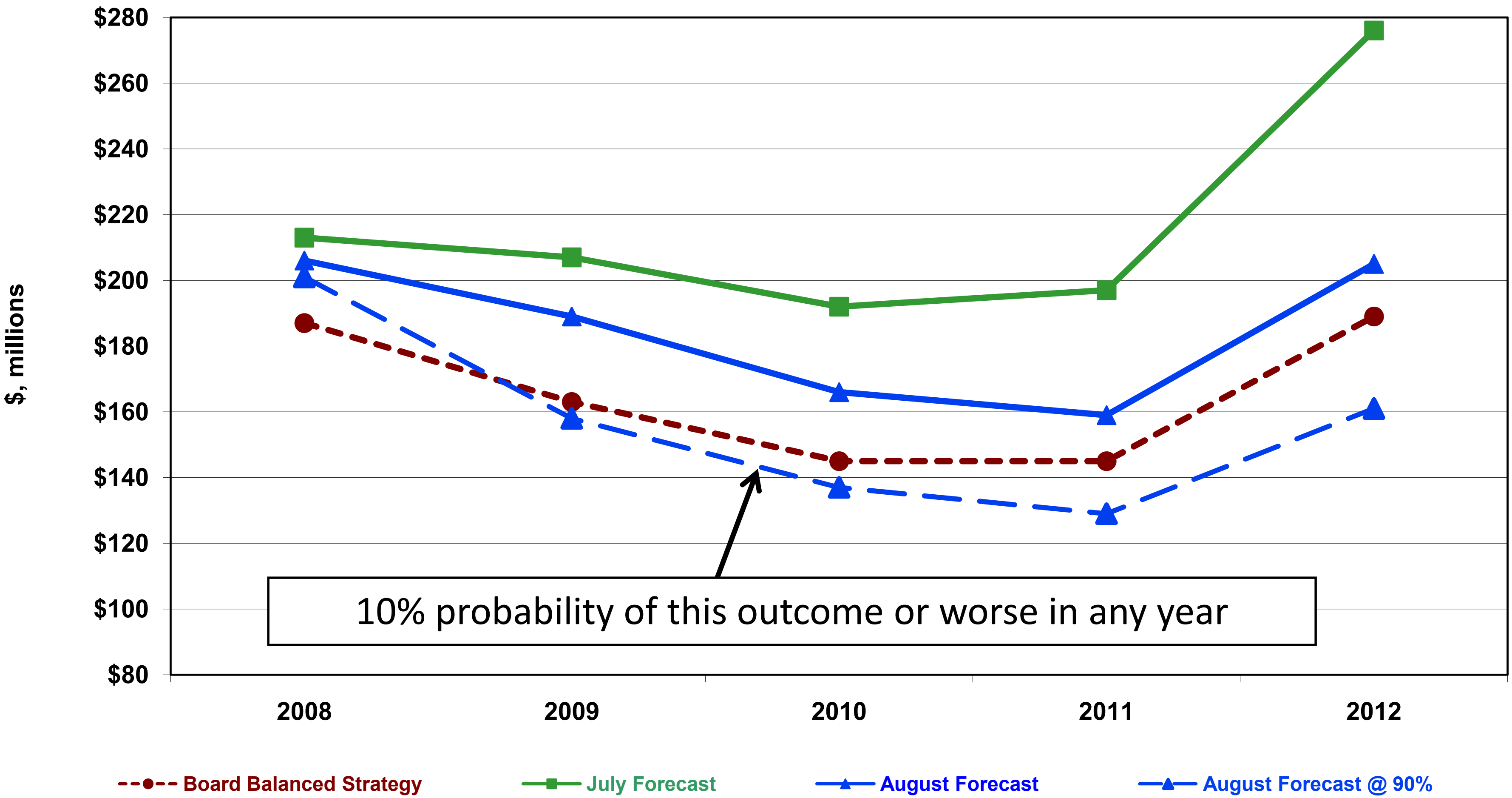
Utility Services Projected Cash Reserves



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

Eyes on 2010 – basket of options

- Electric, water and wastewater rates
- Surcharges
- Senior debt reduction (full or partial)
- Flexible planning in capital spending programs
- Evaluate asset and liability matching opportunities
- Continued evolution of hedging strategies
- Continued focus on cost containment and efficiency improvements

Electric rate design update

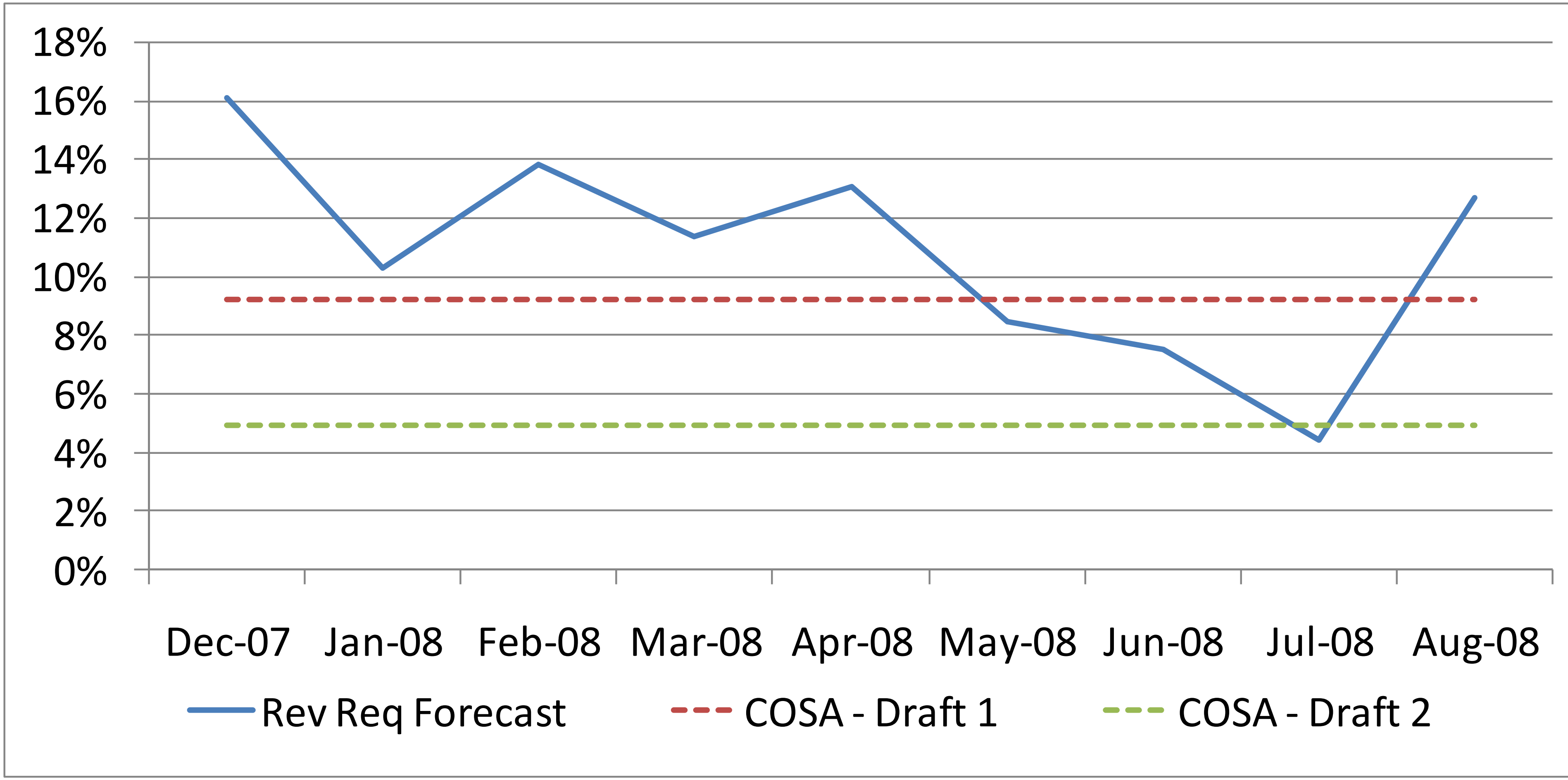
Draft 1 based on:

- Board guidance
- Cost of service analysis
- Collective perspectives of rate committee

Draft 2 changes:

- Additional executive team guidance
- Updated cost of service analysis with current forecast

Revenue Requirement Forecast Volatility
(2010 surcharge potential in excess of 14% target)



Electric rate design – COSA update

ELECTRIC	2010 COSA (5/6/08)	2010 COSA (7/22/08)	2010 COSA (8/7/08)
Residential	11.1%	5.2%	16.0%
Commercial	2.1%	0.9%	3.2%
Industrial	11.7%	5.5%	17.0%
Irrigation	9.6%	4.5%	13.8%
Frost Protection	5.5%	2.5%	7.8%
St Lights	(26.1%)	(27.3%)	(25.7%)
Interdepartmental	3.4%	1.6%	5.0%
Alcoa – 95/00	11.1%	5.2%	16.1%
TOTAL	8.2%	3.7%	11.9%

COSA: Cost of service analysis – includes $20-$24 million in net wholesale sales benefits

Board guidance for rate design

- Rates should be designed to promote conservation
- Assist a broader range of low-income customers through modifications to the tiered rate structure
- Phase in rate alignment between customer classes in small increments only, over time
- Small, incremental increases over time are preferable to large spikes in rates

Board guidance for rate design

Specific design modifications:

- Eliminate minimum charge
- Eliminate demand ratchet
- Modify irrigation season
- Streamline interdepartmental rates

Electric rate design - update

ELECTRIC	2009 Draft 1	2009 Draft 2
Residential	4.6%	3.2%
Commercial	1.0%	1.0%
Industrial	4.6%	3.2%
Irrigation	4.8%	3.3%
Frost Protection	2.4%	2.4%
St Lights	0.0%	0.0%
Interdepartmental	0.0%	0.0%
Alcoa – 95/00	4.6%	3.2%
TOTAL	**3.4%**	**2.5%**

Summary of key rate updates

ELECTRIC	2009 Draft 1	2009 Draft 2
Residential	4.6%	3.2%

- Initial tier expanded from 1,000 to 2,000 kWh
- Middle tier rate increased
- New 3,000 + usage tier added
- Base charge adjusted to cost of service results
- Minimum charge eliminated
- Discount programs increased from $8.25 to $8.50

Summary of key rate updates

ELECTRIC	2009 Draft 1	2009 Draft 2
Commercial (General Service)	1.0%	1.0%

- Energy charge adjusted toward cost of service
  - Small (0-39 kw) increased
  - Large (40+ kw) decreased
- Base charges aligned
- Demand adjusted toward cost of service
- Minimum charge eliminated
- Other similar rate components aligned

Summary of key rate changes

ELECTRIC	2009 Draft 1	2009 Draft 2
Industrial	4.6%	3.2%
Alcoa – 95/00	4.6%	3.2%

- Energy charge adjusted toward cost of service
- Base charge adjusted to cost of service results
- Demand charge aligned
- Ratchet eliminated
- Minimum charge eliminated

Summary of key rate changes

ELECTRIC	2009 Draft 1	2009 Draft 2
Irrigation	4.8%	3.3%

- Energy charge adjusted toward cost of service
- Demand charge unchanged
- Base charge adjusted to cost of service results
- Minimum charge eliminated
- Special off-season rates eliminated

Summary of key rate changes

ELECTRIC	2009 Draft 1	2009 Draft 2
Frost Protection	2.4%	2.4%

- Energy charge adjusted toward cost of service
- Demand charge adjusted toward cost of service
- Base charge adjusted to offset minimum charge impact
- Minimum charge eliminated

Summary of key rate changes

ELECTRIC	2009 Draft 1	2009 Draft 2
Street Lights	0.0%	0.0%
Interdepartmental	0.0%	0.0%

- No increase to move back toward cost of service
- Interdepartmental rate modifications are revenue neutral

Updated electric residential tiered rates

Rate Component	Current	2009 Draft 1	2009 Draft 2
Tier 1- Energy	2.29¢ First 1,000 KWH	2.30¢ **First 2,000 KWH**	2.30¢ **First 2,000 KWH**
Tier 2- Energy	2.84¢ 1,001 to 2,000 KWH	3.40¢ **2,001 to 3,000 KWH**	3.30¢ **2,001 to 3,000 KWH**
Tier 3- Energy	2.99¢ > 2,001 KWH	4.50¢ **> 3,001 KWH**	4.30¢ **> 3,001 KWH**

- Sends price signals to promote conservation
- Assists broader range of low-income customers
- High usage customers will pay more

* - Includes tier adjustments and rate adjustments

Modified electric residential tiered rates – estimated customer impacts

Customers Affected	Percent of Customers	Monthly Impact
11,000	32%	\$1-\$5 ↓
14,000	40%	+/- \$1
5,000	14%	\$1-\$5 ↑
2,500	7%	\$5-\$10 ↑
2,500	7%	> \$10 ↑

Estimates are based on 2007 usage patterns
Actual impacts can vary

Note – extreme residential consumers may see an impact of as much as 30%

Electric draft - residential impacts

Estimated impact to customers' monthly electric bills:

Category	Current	2009 Draft 1	2009 Draft 2	Change from Current
Monthly Residential – Low Usage	$37	$35	$35	$(2)
Monthly Residential – Average Usage	$55	$58	$57	$2
Monthly Residential – High Usage	$91	$97	$95	$4

Electric draft - commercial impacts

Estimated impact to customers' monthly electric bills:

Category	Current	2009 Draft 1	2009 Draft 2	Change from Current
Monthly – Small Commercial	$78	$82	$82	$4
Monthly – Large Commercial	$1,300	$1,301	$1,301	$1

Other considerations

April 1 implementation date

- Estimated impact of $675,000 on 2009 electric revenues
- Still on target - progress to buffer 2010 stresses
- New tiered rates would affect winter of 2009/2010
- Coincides with conservation program implementations
- Balances resources demands of other big projects
  - City of Cashmere
  - Automated meter system for Electric

Electric draft 2 summary

ELECTRIC	2009 Draft 1	2009 Draft 2
Residential	4.6%	3.2%
Commercial	1.0%	1.0%
Industrial	4.6%	3.2%
Irrigation	4.8%	3.3%
Frost Protection	2.4%	2.4%
St Lights	0.0%	0.0%
Interdepartmental	0.0%	0.0%
Alcoa – 95/00	4.6%	3.2%
TOTAL	**3.4%**	**2.5%**

Design supports:

- Align with COSA over time
- Assist a broader range of low-income customers through tiered rate structure
- Promote conservation through tiered rate structure
- Eliminate minimum charge and demand ratchet
- Modify irrigation season
- Streamline interdepartmental rates
- Small, incremental increases

Water and wastewater draft summary

Water	2009 Draft	2009 COSA
Residential	6.89%	7.90%
Commercial	7.03%	11.70%
Overall	6.94%	9.10%
Wastewater		
Residential	6.59%	32.2%
Commercial	6.15%	8.6%
Industrial	6.62%	27.6%
Overall	6.47%	25.4%

Design supports:

- Small, incremental increases
- Align with COSA over time
- Align locations (except Dryden Water)
- Promote water conservation through tiered rate structure

COSA: Cost of service analysis – includes wholesale sales benefits

Combined residential impacts

Estimated impact to customers' monthly PUD bills:

Category	Electric	Water (10,000 Gal)	Wastewater
Monthly Residential – Low Usage	$(2)		
Monthly Residential – Average Usage	$2	$(2) - $9	$3 - $5
Monthly Residential – High Usage	$4		

Services received vary by customer – about 40 customers have all 3 services

Next steps

1. Discuss any remaining questions
2. Finalize options to present at informational meetings for public feedback
   - Electric, Water and Wastewater
3. Set dates for three informational meetings
   - Wenatchee, Chelan & Leavenworth
4. Set date for rate hearing
   - Board decision on rates for 2009

Rate Process – PURPA Requirements

3 – Informational meeting, not > 30 days or < than 15 days, min 7 days notice or max 15 days before informational meeting. 30 day minimum Hearing Public Notice

Monday	Tuesday	Wednesday	Thursday	Friday	Sat.	Sun.
August 18	19	20	21	22	23	24
25	26	27	28	29 - Legal Notice weekly paper	30	31
September 1	2	3	4	5	6	7
8	9	10	11	12– Legal Notice weekly paper	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	October 1	2	3	4	5
6 - Rate Hearing	7	8	9	10	11	12
13	14	15	16	17	18	19
20 - Rate Hearing	21	22	23	24	25	26

Thank you