

2007 Contingency Planning

November 27, 2006

Financial Health in Decline

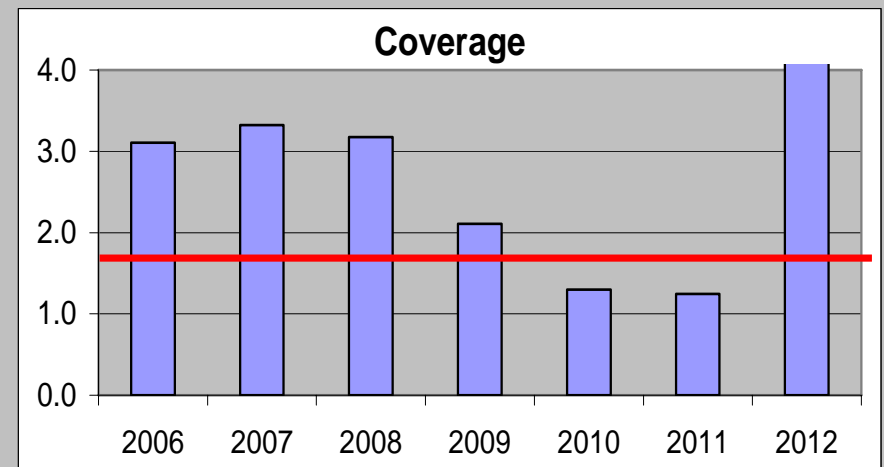
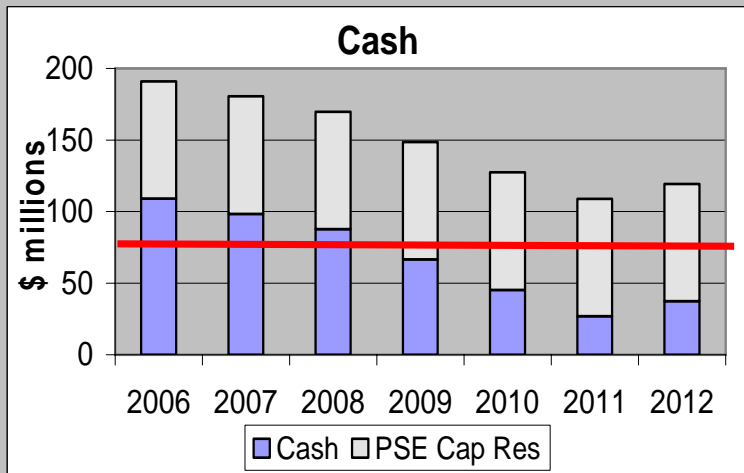
Stresses to the bottom line:

- Increasing costs
- Reliance on surplus wholesale sales
- Decreasing surplus power to sell
- Volatile revenue source
- Rates don't cover cost to serve local customers
- Funding utility services capital with reserves
- Contingencies not included

Cash and Coverage Projections

Average Water – All Years

Chelan PUD Utility Services (Non-hydro)
Financial Projections



Financial Health Indicators

- Reserves

Do you have an adequate savings account in case you need it for some big items?

Yes, for now

- Debt Coverage

Do you have enough money left after paying living expenses to make your house payment?

- Not during periods of low water or market prices
- Savings accounts (reserves) don't count as revenues

Water Volatility

Water supply is difficult to predict and manage. We have no control over how much water we will get or the timing of the run-off

Year	Water
2003	86%
2004	84%
2005	89%
2006	102%
2007	84%*

November has been very wet but the effect on next year's water supply is unknown. El Nino ocean currents are still forecasted to cause a lower than average snow pack for 2007.

2007 Debt Coverage Projection

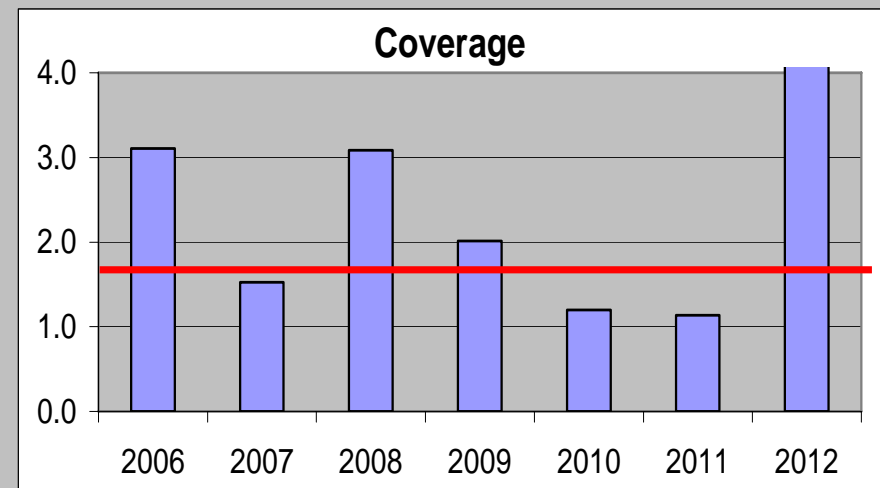
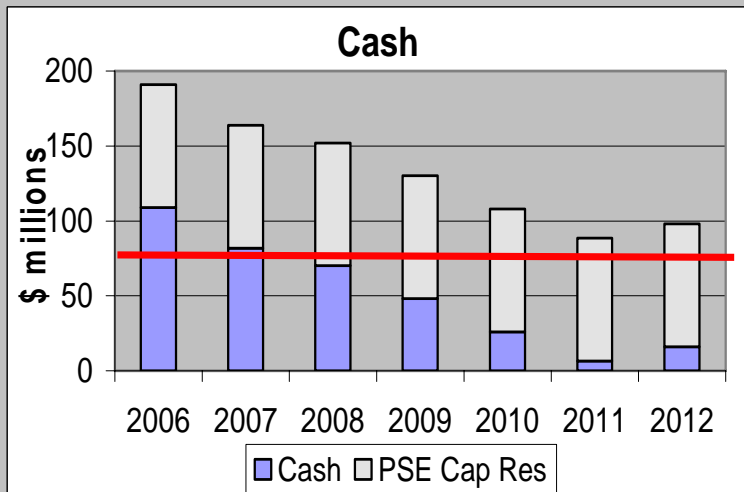
Retail Revenue	Wholesale Revenue	Debt Coverage	\$ for 1.75 coverage
\$42.4M	\$40M (high)	1.97	-
\$42.4M	\$35.9M (budget)	1.53	(\$2.1M)
\$42.4M	\$30M (low)	0.87	(\$8.1M)

Cash and Coverage Projections

Low Water (expected) 2007

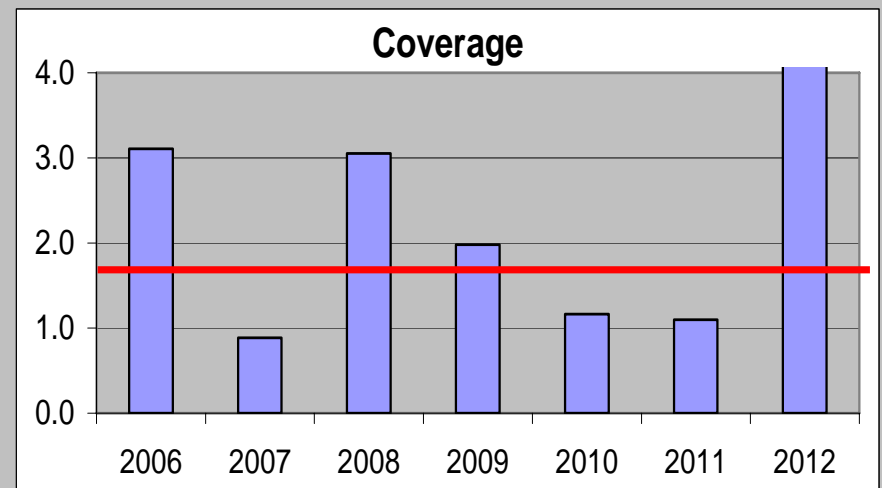
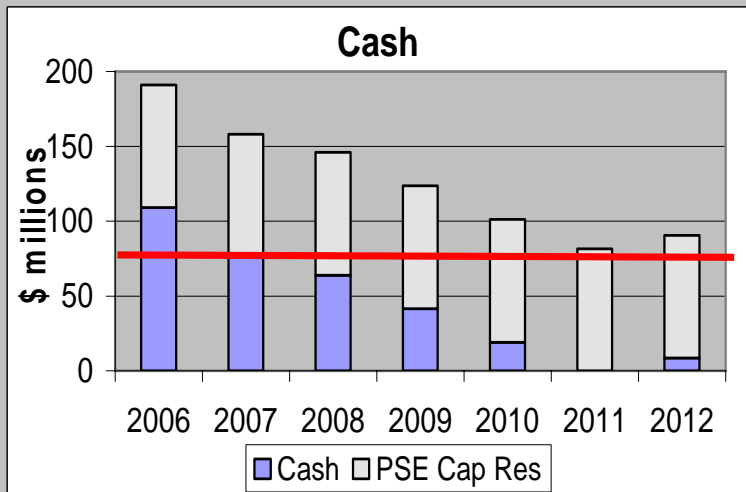
Average Water – 2008 to 2012

Chelan PUD Utility Services (Non-hydro)
Financial Projections



Cash and Coverage Projections Low Water (low case) 2007 Average Water – 2008 to 2012

Chelan PUD Utility Services (Non-hydro)
 Financial Projections



Debt Coverage Ratio

Operating Revenues - Operating Expenses

(Utility Revenue + Wholesale Revenue)

(Utility Expenses Non-Hydro)

Debt Service Costs

(Principal and Interest Payments on Utility Debt)

Savings accounts (reserves) don't count as revenues

The Projected Low Debt Coverage Ratio Indicates a Need to...

Decrease Operating Expenses

And/or

Decrease Debt Service Costs

And/or

Increase Operating Revenues

Decrease Operating Expenses

- Numerous operating expense line items were reduced or eliminated from the budget 2007
- Some cuts unsustainable
- Significant cost pressures
 - Relicensing costs
 - Aging infrastructure
 - Tight labor market
 - Benefits cost (OPEB, Health ins.)
 - Materials, fuel
- Not all costs provide dollar for dollar benefit
- *Additional budget cuts would likely degrade service levels to an undesirable level*

Decrease Debt Service Costs

Why not pay down debt to lower debt service costs?

- Avoiding \$180 million in new debt by funding utility services capital with reserves
- Reserves projected to be down to \$81 million (low case) by 2011
- Could pay down debt in 2007 but would likely have to borrow in future years for utility services capital projects

Increase Revenues

Implement a temporary surcharge

- Percentage added to total bill before taxes
- Percentage determined after first 2007 snow survey
- All electric customers pay
- Start on March 1, 2007
- End on December 31, 2007 or earlier
- Leave changes in billing system for possible future use

Surcharge vs. Rate Increase

What's the difference?

Surcharge (as proposed)

- Temporary
- All customers pay same %
- Percent of total bill before taxes
- Use for revenue shortfall due to low water, price, or other contingencies

Rate Increase

- Permanent
- Cost of service allocation
- Rate design changes
- Use to recover cost of ongoing operations and debt service

Monthly Impact on Residential Customers

Revenue Needed	Monthly Increase
\$1,000,000	\$ 1.48
\$2,000,000	\$ 2.96
\$3,000,000	\$ 4.44
\$4,000,000	\$ 5.92
\$5,000,000	\$ 7.41
\$6,000,000	\$ 8.89
\$7,000,000	\$ 10.37
\$8,000,000	\$11.85
\$9,000,000	\$13.33

Based on 2005 average monthly residential retail electric bill of \$49.41

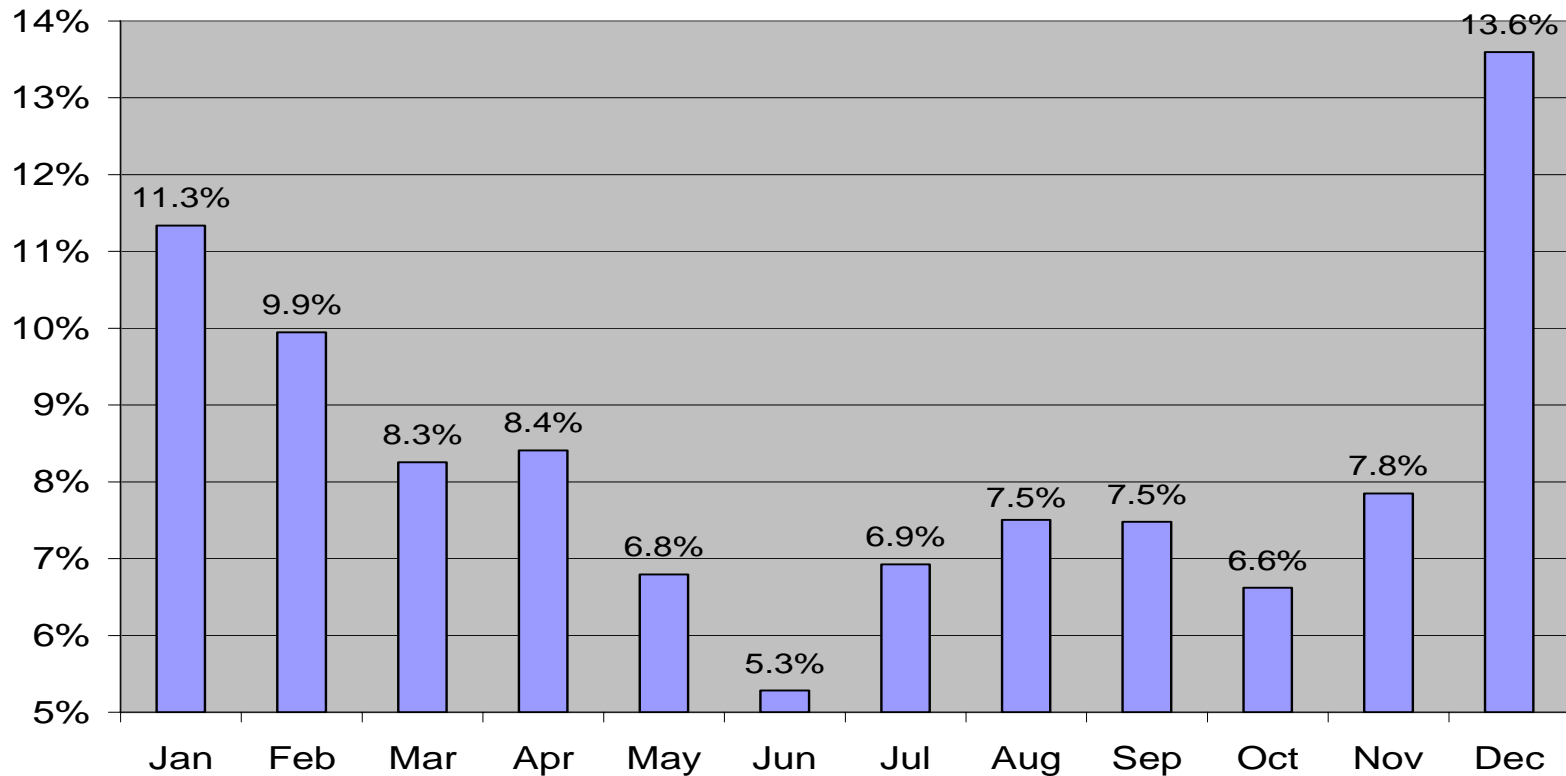
This amount will vary with the size of the actual bill

Monthly amounts if surcharge implemented on March 1, 2007

Later implementation would require a higher average monthly surcharge amount

Electric Revenue

2005 Electric Retail Revenue Curve



Recommended Actions

Session 3 Strategic Planning

Determine service levels, risk tolerance

Align organization

Improve internal processes

Adjust rates to provide adequate revenue

Short Term Actions

Implement rate surcharge mechanism for low water, market price conditions, or other contingencies

Surcharge Structure

- Simple is critical given time constraints
- Surcharge related to “electric fuel” issue (not affecting other utility services)
- Virtually all of our customers are electric customers (fairness issue)
- Surcharges are not for fixing rate design problems, cost of service shifts or “social engineering” programs

Contingency Plan Timeline

Nov. 13	Initial board presentation
Nov. 27	Discuss contingency plan and surcharge structure
Dec. 11	Finalize financial plan for 2007
Dec. 11	Establish surcharge structure
Dec. 11	Set meeting dates, give official notice of hearing
Jan. 3	Wenatchee informational meeting
Jan. 8	Chelan informational meeting and board meeting
Jan. 9	Leavenworth informational meeting
Jan. 9 –25	Process public comment
Jan. 25	Formal Rate Hearing
Feb. 12	Make final decision on surcharge
Mar. 1	Rate surcharge effective date

Board Decision Timeline

- Concurrence on flat surcharge structure ASAP but no later than 12-11-06
- Motion to schedule public information meetings & rate hearings in January on 12-11-06
- Make final decision on surcharge 2-12-07

Questions?