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Chelan PUD Quarterly Board Update Finance/Energy Resources Review

August 2, 2010





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Discussion Topics

- ❑ Energy Planning & Trading update
- ❑ Second quarter financial results
- ❑ Medium-term financial outlook

No action required today



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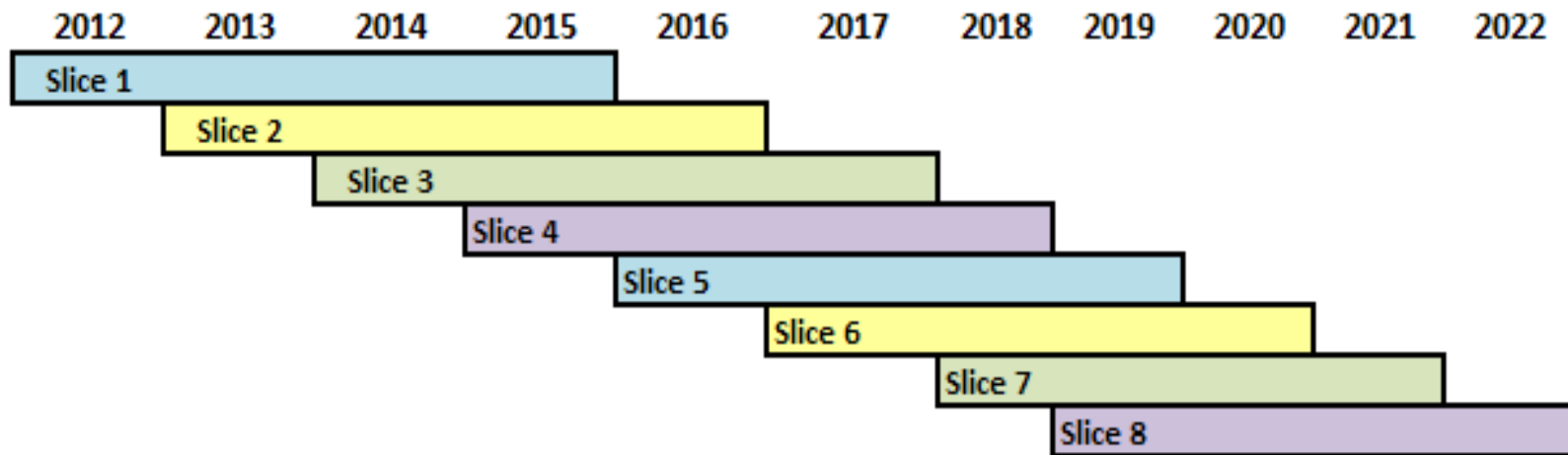
Energy Planning & Trading

Q2 2010 in Review

- Implementing EP&T Strategy for Managing Wholesale Revenue Volatility
 - Successful completion of Reverse RFP for 2012 and 2013
 - Slice offering for 2010 – 2014
- Jan – Jul Columbia runoff
 - Official 76% of average water year
 - ESP 77% is median water year (up 10% points from last quarterly update to BOC)
- 2010 net wholesale revenue projection

Strategy for Managing Wholesale Revenue Volatility

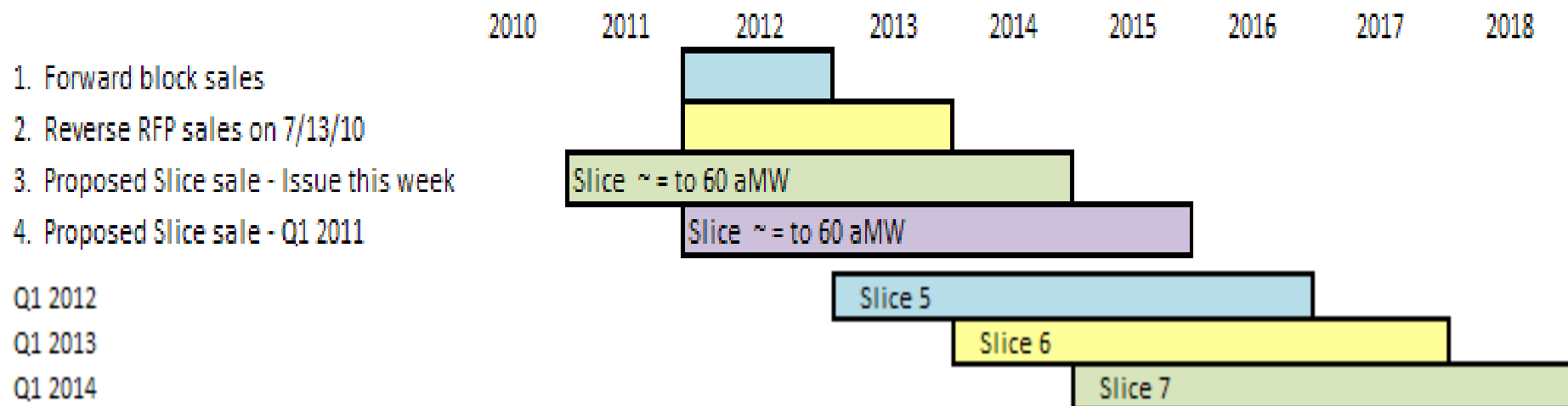
- Sell surplus energy not needed for projected future load growth in laddered approach
- Lock in a **stable and predictable** revenue stream from sales of surplus energy



Strategy for Managing Wholesale Revenue Volatility

- Sold blocks for 2012 (blue box)
- Conducted Reverse RFP for 2012 and 2013 (yellow)
- Proposed Slice sale – issue this week (green)
- Issue “2012 – 2015 Slice” in Q1 2011 (purple)

Implementation of the 4 year laddered forward sales strategy



Water Supply Seasonal Volume Forecasts (GCDW1) COLUMBIA - GRAND COULEE DAM

[\[Click for Normals and Adjustments\]](#)

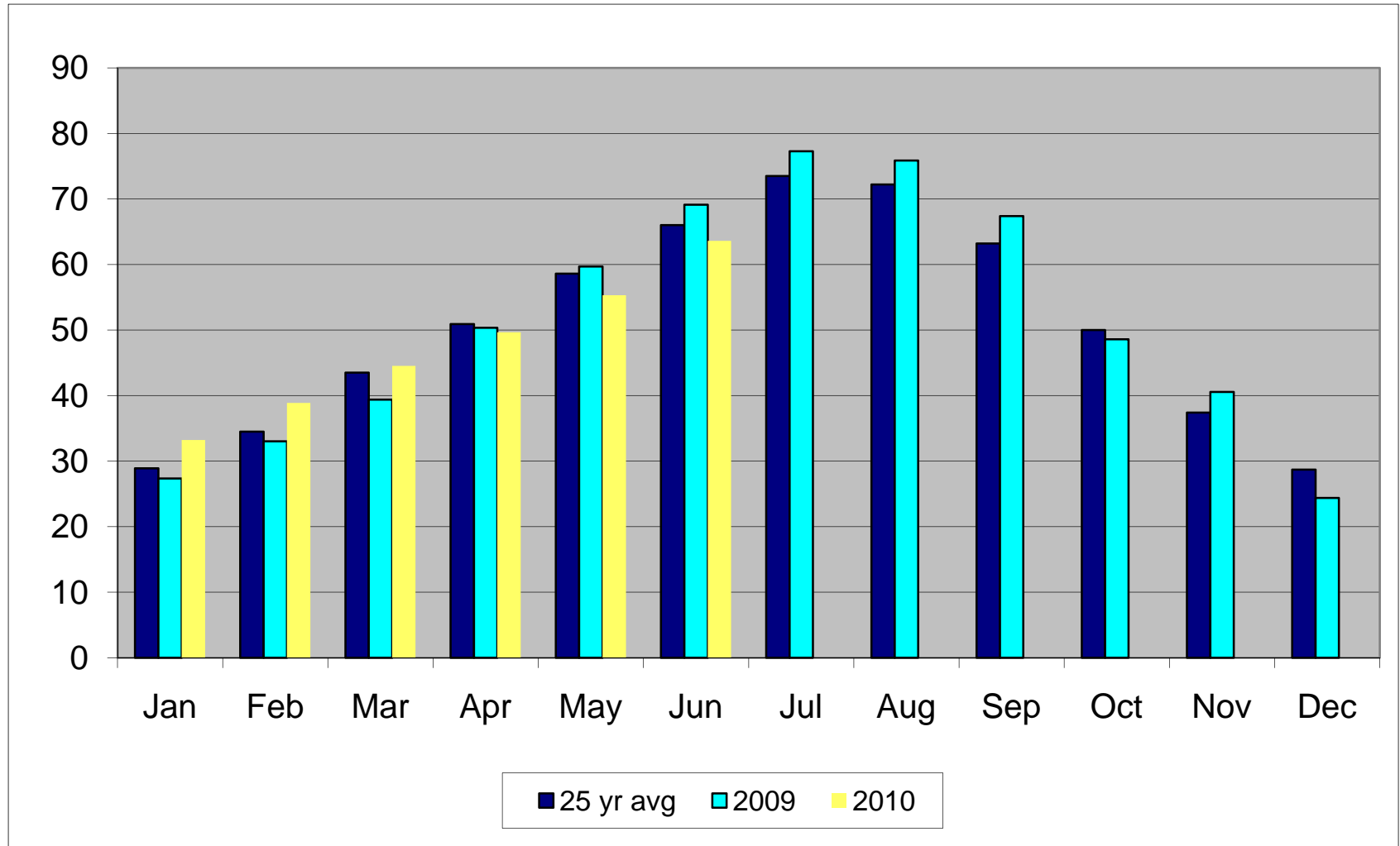
The Official Statistical Water Supply forecast is issued between the middle of December and July 1st.
Ensemble Predicted forecast are issued weekly. A comparison continues to be made
between the two forecasts through the end of September.

77%

COLUMBIA - GRAND COULEE DAM (GCDW1) Forecasts for WY 2010

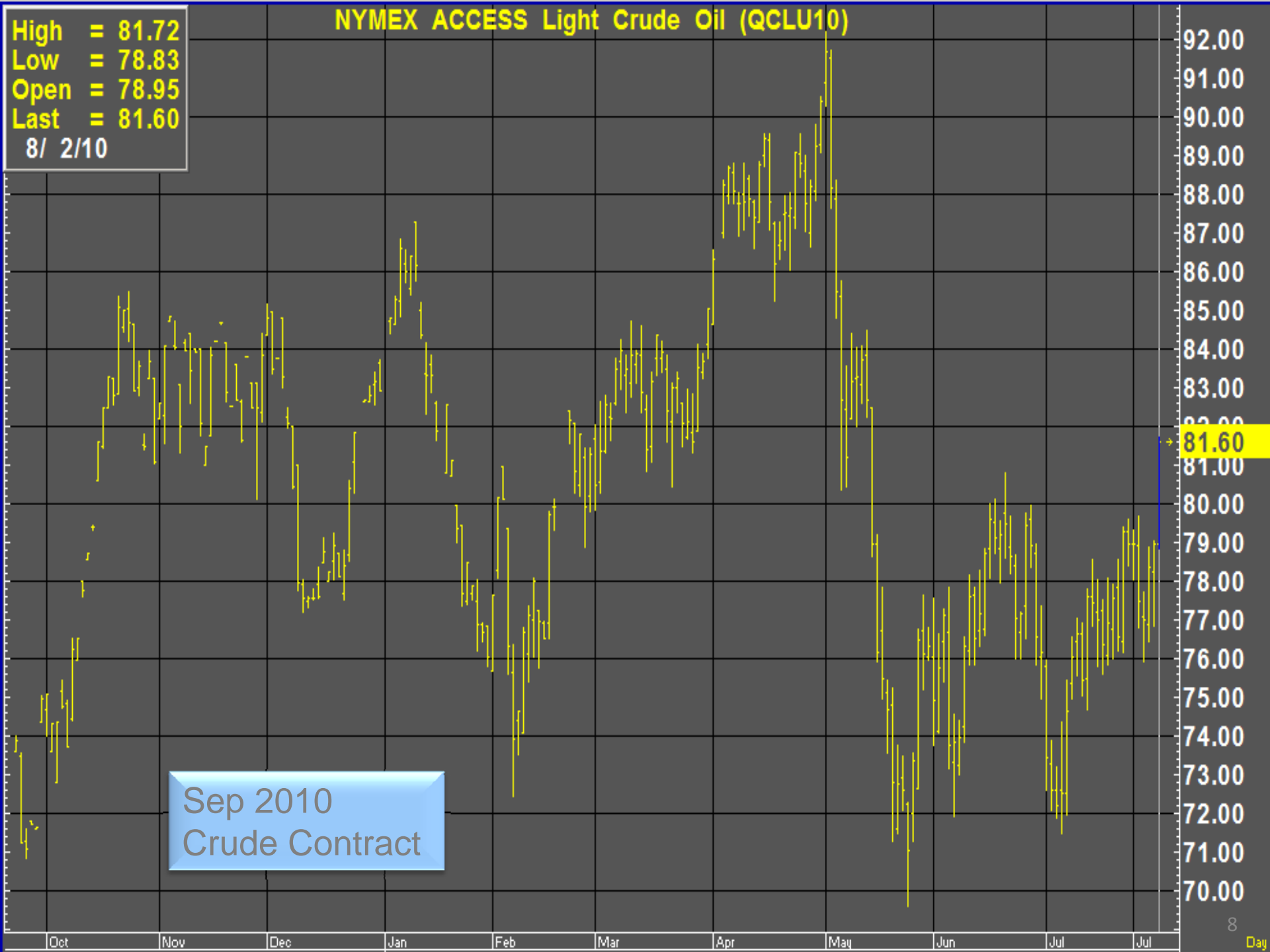
Official Forecast (Regression) <i>Issued: 2010-07-08</i> (Description)								ESP Forecasts <i>Issued: 2010-07-26</i>						
Period	Forecast (KAF)	% of Average	5% Forecast	95% Forecast	30yr (1971-2000) Average	Max of Record	Min of Record	Forecast Period	ESP Forecasts for Forecast Period (KAF)					Obs Flow From Start of Period To 7/26/2010
									90 % Exceedance Probability	70 % Exceedance Probability	50 % Exceedance Probability	30 % Exceedance Probability	10 % Exceedance Probability	
JAN-SEP	55600.0	76	61390.0	49810.0	73040.0	103500.0	44000.0	JAN-SEP	56381.9	56710.3	57167.7	57595.6	59188.9	47121.0
JUL-SEP	16700.0	76	22490.0	10910.0	21930.0			JUL-SEP	17467.9	17796.3	18253.7	18681.6	20274.9	8207.0
APR-JUL	42000.0	78	47790.0	36210.0	53850.0	76239.0	31885.0	APR-JUL	42689.6	42689.6	42689.6	42689.6	42689.6	41286.0
APR-SEP	49800.0	78	55590.0	44010.0	63990.0	88512.0	39829.0	APR-SEP	50546.9	50875.3	51332.7	51760.6	53353.9	41286.0
JAN-JUL	47900.0	76	53690.0	42110.0	62900.0	91140.0	34760.0	JAN-JUL	48524.6	48524.6	48524.6	48524.6	48524.6	47121.0
APR-AUG	47000.0	78	52790.0	41210.0	60290.0	84080.0	37442.0	APR-AUG	47533.7	47732.2	47954.3	48268.2	48781.1	41286.0
JAN-AUG	52800.0	76	58590.0	47010.0	69340.0			JAN-AUG	53368.7	53567.2	53789.3	54103.2	54616.1	47121.0
JUL-AUG	13900.0	76	19690.0	8110.0	18230.0			JUL-AUG	14454.7	14653.2	14875.3	15189.2	15702.1	8207.0

Average Monthly Temperature



NYMEX ACCESS Light Crude Oil (QCLU10)

High = 81.72
Low = 78.83
Open = 78.95
Last = 81.60
8/ 2/10



Sep 2010
Crude Contract

92.00
91.00
90.00
89.00
88.00
87.00
86.00
85.00
84.00
83.00
82.00
81.60
81.00
80.00
79.00
78.00
77.00
76.00
75.00
74.00
73.00
72.00
71.00
70.00

Oct Nov Dec Jan Feb Mar Apr May Jun Jul Jul Day

NYMEX Natural Gas (NGU10)

High = 4.750
Low = 4.750
Open = 4.750
Last = 4.750
8/ 2/10

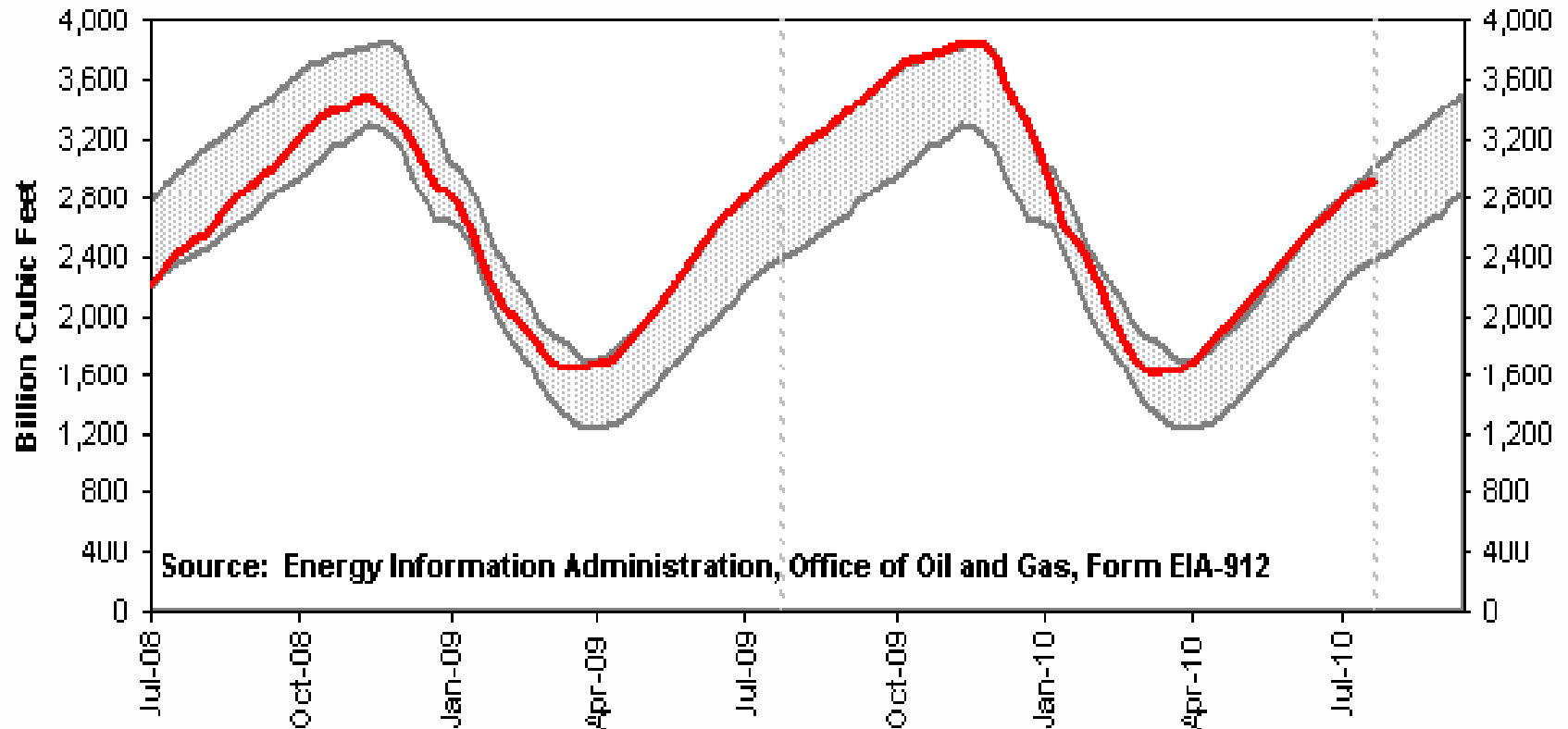


Sep 2010 Nat. Gas Contract

6.400
6.300
6.200
6.100
6.000
5.900
5.800
5.700
5.600
5.500
5.400
5.300
5.200
5.100
5.000
4.900
4.800
4.750
4.700
4.600
4.500
4.400
4.300
4.200

Oct Nov Dec Jan Feb Mar Apr May Jun Jul Jul

Working Gas in Underground Storage Compared with 5-Year Range

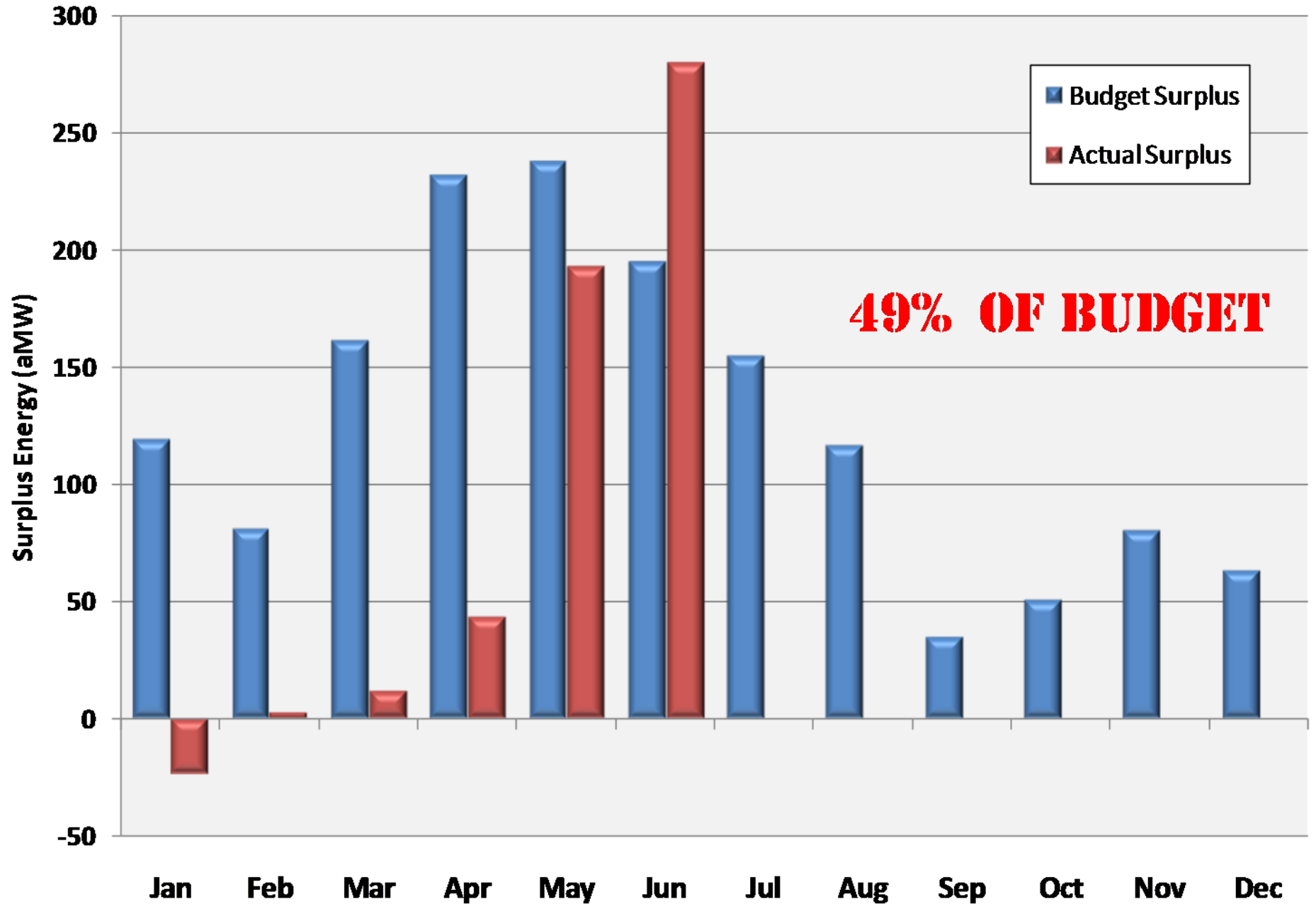


Source: Energy Information Administration, Office of Oil and Gas, Form EIA-912

Note: The shaded area indicates the range between the historical minimum and maximum values for the weekly series from 2005 through 2009.

Source: Form EIA-912, "Weekly Underground Natural Gas Storage Report." The dashed vertical lines indicate current and year-ago weekly periods.

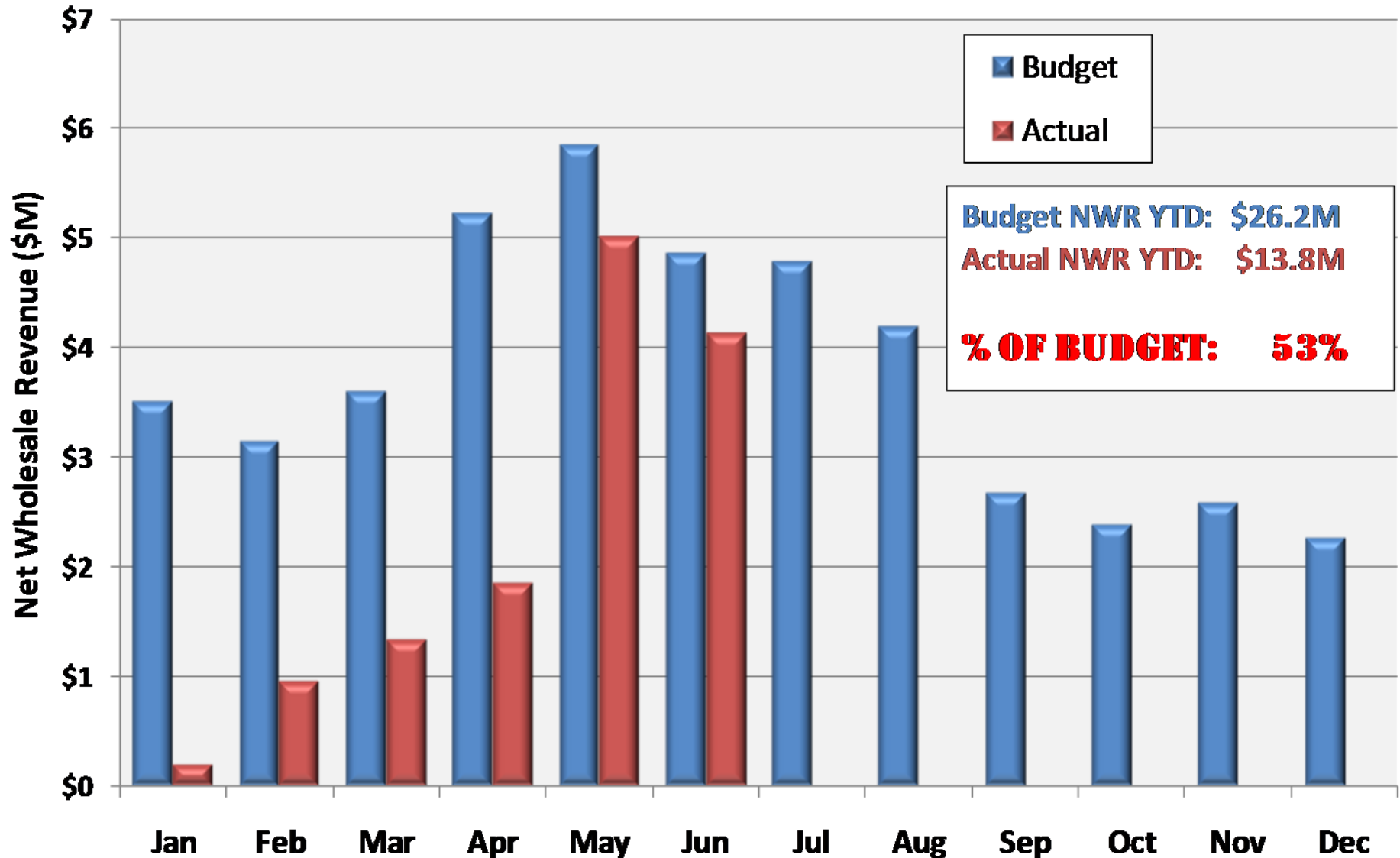
2010 Budgeted Surplus Energy vs Actual Surplus



2010 Budget Net Wholesale Revenue

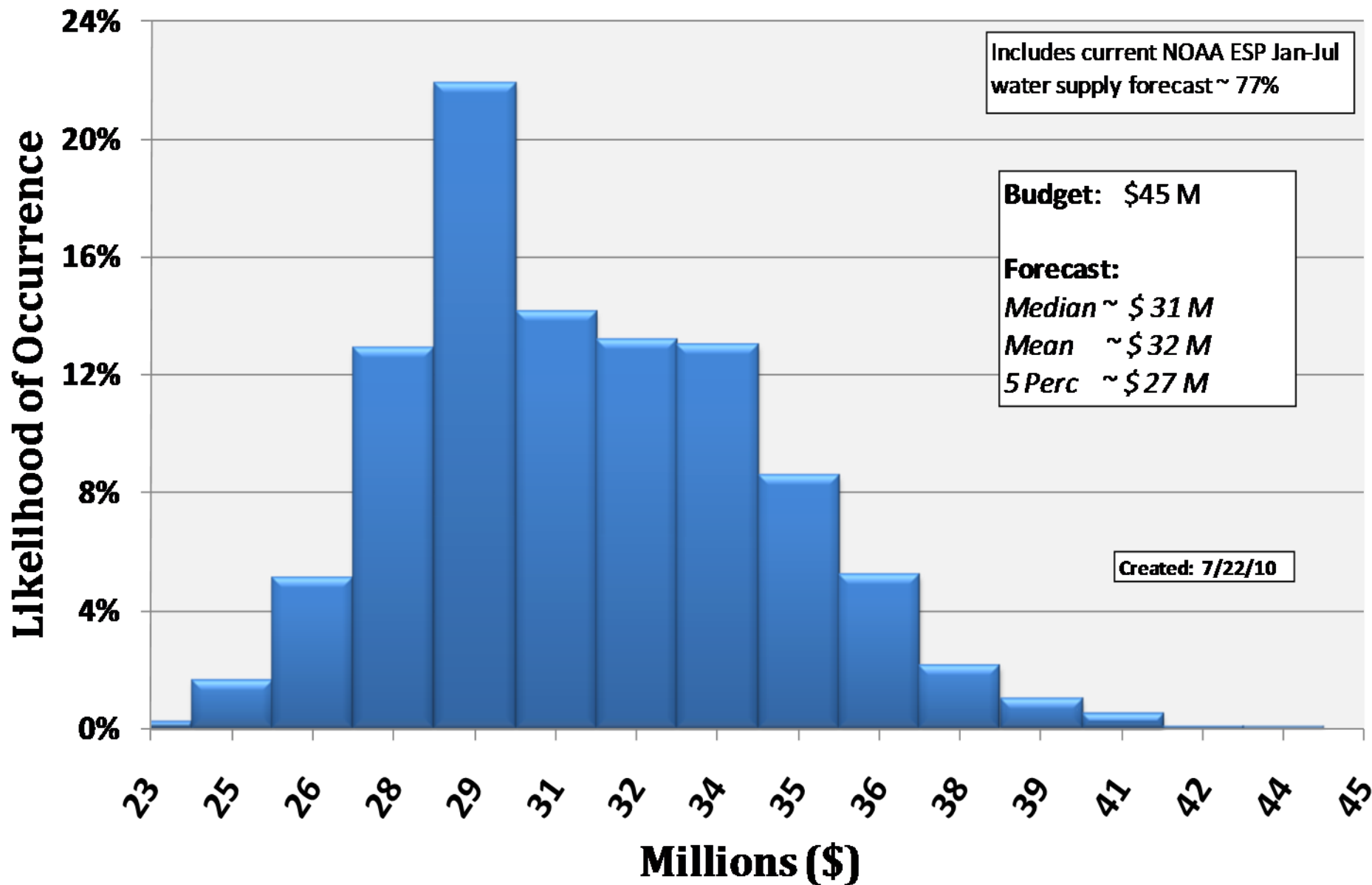
vs

Actual Net Wholesale Revenue



Possible 2010 Net Wholesale Revenue Outcomes

(A Probabilistic View)





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Financial Review



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- # New Financial Policies

Financial Policies Adopted June 21, 2010

- Target Metrics
 - Rate of Return (by 2012)
 - Leverage (by 2015)
 - Debt Service Coverage (by 2012)
 - Financial Liquidity (2010)
- Considerations for Target Development
 - Peer Benchmarking
 - Rating Agency Guidelines
 - Unique Needs of the District



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- # New Financial Policies

Rate of Return Targets by 2012:

- Target Range (expected conditions) = 4% to 6%
 - Relatively consistent with peer group
 - Provides for reasonable levels of revenue generation & reasonable ability to meet other financial targets
- Minimum Target (95% confidence) = 2%
 - Promotes disciplined risk management strategy in order to mitigate downside revenue volatility
 - Can help mitigate need for large rate surcharges



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- # New Financial Policies
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Leverage Target by 2015:

- Debt ratio of 60% or less
 - Consistent with comparably-rated peers and investor/rating agency guidelines
 - Achieve by 2015 and then maintain at those ratios or better in accordance with policy



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New Financial Policies

Debt Service Coverage Targets by 2012:

- Expected range on **combined** basis = 2.25x – 2.75x
 - Consistent with rating agency targets and comparably rated peers
- Minimum target on **combined** basis = 1.25x at 95% confidence
 - Promotes disciplined risk management strategy in order to mitigate downside revenue volatility
 - Mitigates need for large rate surcharges

Note: Each of the five actual lien calculations will continue to be monitored for compliance with bond covenants



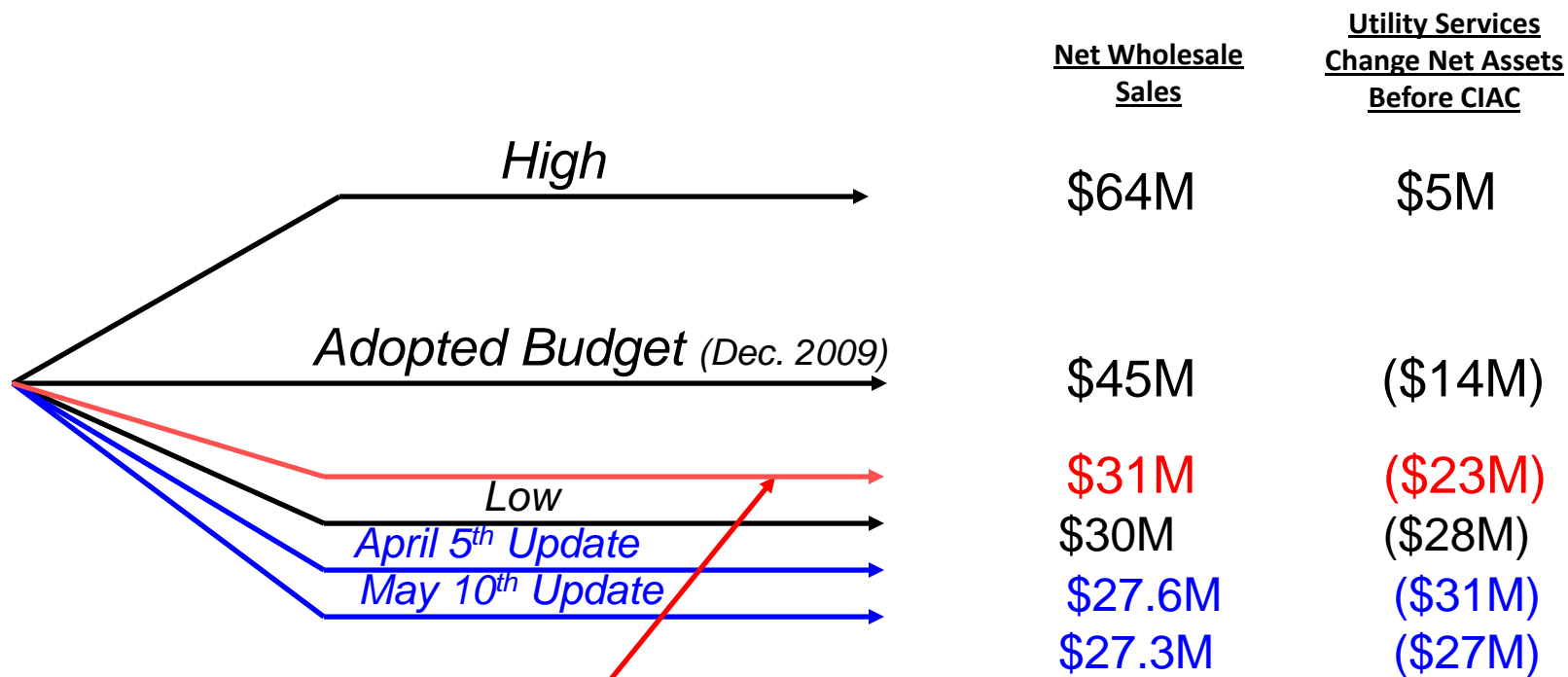
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New Financial Policies

Liquidity Targets for 2010:

- Minimum financial liquidity target of \$175 million for 2010
 - Max \$25 million of internal “secondary” liquidity to count towards target
- Continue analysis to evaluate additional options/decisions that will impact financial liquidity sources and uses in subsequent periods:
 - Cost/benefit and feasibility of:
 - Refinancing \$53 million short term notes due in 2013
 - Refinancing \$30 million short term notes due in 2014
 - Converting VRDBs to bank bonds or refinancing into fixed rate
 - External line(s) of credit with Bank(s)
 - Options in new power contracts – optimal usage of Debt Reduction and Capital Recovery components

Second Quarter Highlights



We are here (reasonable range = \$20-\$25 million loss)*

* - Based on net wholesale revenue forecast median as of 7/22/10

“High” budget revenue has a 10% probability of occurring,
 “Adopted Budget” revenue has a 50% probability of occurring
 “Low” budget revenue has a 10% probability of occurring



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Second Quarter Highlights

- Spring and early summer rains helped
- Not enough to make up our expected deficit
- Thorough cost-cutting efforts by all areas
- Temporary surcharge extended
- Operating deficit is still expected to be \$6 to \$10 million worse than budgeted for 2010



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Second Quarter Highlights

- Fully loaded cost per kWh delivered: 4.70 cents/kWh
 - Budgeted at 5.21 cents/kWh (year-to-date)
 - Use 5 year average kWh delivered
- Combined cost per MWh delivered: \$15.70 MWh
 - Budgeted at \$16.2 MWh (year-to-date)
 - Use probabilistic model for average MWh delivered
- Overall interest earnings rate: 1.97%
 - Budgeted at 2.17%



Second quarter results

Combined Utility Services

Second Quarter Results

(in \$000s)	YTD	YTD	Budget to Actual	
	06/30/10 Actuals	06/30/10 Budget	Over/(Under) \$	%
Operating Revenue	53,433	64,736	(11,303)	(18%)
Operating Expenses	(63,724)	(67,508)	(3,784)	(6%)
Operating Loss	(10,292)	(2,773)	(7,519)	(271%)
Non-Op Exp (Inc)	3	309	(306)	(99%)
Change in Net Assets before CIAC	(10,294)	(3,081)	(7,213)	(234%)
Capital Contributions	878	1,450	(572)	(39%)
Change in Net Assets	(9,416)	(1,631)	(7,785)	(477%)

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- Combined Utility Services - Wholesale Activity
- **Second Quarter Results**

(in \$000s)	YTD	YTD	Budget to Actual	
	06/30/10 Actuals	06/30/10 Budget	Over/(Under) \$	%
Sales for Resale	35,860	46,274	(10,414)	(23%)
Less: Douglas County Sales	(1,077)	(1,117)	(40)	(4%)
Less: Alcoa Sales	(8,310)	(8,859)	(549)	(6%)
External Purchased Power	(12,673)	(10,107)	2,566	25%
Net Wholesale Revenue	13,800	26,191	(12,391)	(47%)
Internal Purch Power, other	(12,608)	(16,453)	(3,845)	(23%)
Net Wholesale Margin	1,192	9,738	(8,546)	(88%)

Combined Utility Services- Retail Activity

Second Quarter Results

(in \$000s)

	YTD	YTD	Budget to Actual	
	06/30/10 Actuals	06/30/10 Budget	Over/(Under) \$	%
Operating Revenue	39,633	38,544	1,089	3%
Operating Expenses	(51,116)	(51,055)	61	-%
Operating Inc (Loss)	(11,483)	(12,511)	1,028	8.2%
Non-Op Exp (Inc)	3	309	(306)	(99%)
Retail Operating Results	(11,486)	(12,820)	1,334	10%
Net Wholesale Margin	1,192	9,738	(8,546)	(88%)
Change in Net Assets before CIAC	(10,294)	(3,082)	(7,212)	(234%)
Capital Contributions	878	1,450	(572)	(39%)
Change in Net Assets	(9,416)	(1,632)	(7,784)	(477%)
<i>Cost per Retail kWh</i>	<i>4.79 ¢</i>	<i>4.98 ¢</i>	2010 YTD Normalized	<i>4.70 ¢</i>

Combined Hydros

Second Quarter Results

(in \$000s)

	YTD	YTD	Budget to Actual	
	06/30/10 Actuals	06/30/10 Budget	Over/(Under) \$	%
Operating Revenue	82,624	86,498	(3,874)	(5%)
Operating Expenses	41,432	45,312	(3,880)	(9%)
Depreciation/Amort.	14,884	15,418	(534)	(4%)
Operating Income	26,308	25,768	540	2%
Non-Op Exp (Inc)	24,450	24,425	25	-%
Change in Net Assets before CIAC	1,858	1,343	515	38%
Capital Contributions	656	60	596	994%
Change in Net Assets	2,514	1,403	1,111	79%

<i>Cost per MWh</i>	<i>\$20.60</i>	<i>\$16.20</i>	2010 YTD Normalized	<i>\$15.70</i>
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2010 Capital Expenditures

Second Quarter Results

(in \$000s)	YTD 06/30/10 Actuals	YTD 06/30/10 Budget	YTD % Spent
Distribution	1,816	4,169	44%
Networks	1,208	2,610	46%
Water	445	2,329	19%
Wastewater	2	23	8%
Rocky Reach	1,736	3,117	56%
Rock Island	4,610	10,314	45%
Lake Chelan	7,779	9,014	86%
Internal Service	860	1,783	48%
Total	18,456	33,359	55%

Unrestricted Cash Reserves

Cash and Investment Balances as of 6/30/10:

	<u>\$ million</u>
Total cash and investments	\$417
Less restricted construction funds	(103)
Less bond reserves and related funds	(67)
Less power contract reserve funds	(44)
Less operating funds for RR & RI Hydros only	(8)
Less self insurance reserves	<u>(5)</u>
Unrestricted funds	<u><u>\$190</u></u>

Combined Utility Services

2010 Forecast

(in \$000s)

	2010 Forecast	2010 Adopted Budget	Budget to Forecast Over/(Under)	
			\$	%
Operating Revenue	109,041	121,300	(12,259)	(10%)
Operating Expenses	(131,526)	(134,255)	(2,729)	(2%)
Operating Loss	(22,485)	(12,955)	(9,530)	(74%)
Non-Op Exp (Inc)	255	554	(299)	(54%)
Change in Net Assets before CIAC	(22,740)	(13,509)	(9,231)	(68%)
<i>(reasonable range = \$20-\$25 million loss)</i>				
Capital Contributions	1,907	2,900	(993)	(34%)
Change in Net Assets	(20,833)	(10,609)	(10,225)	(96%)
<i>Cost per Retail kWh (normalized)</i>	5.01 ¢	5.18 ¢		

Combined Hydros

2010 Forecast

(in \$000s)

	2010 Forecast	2010 Adopted Budget	Budget to Forecast Over/(Under)	
			\$	%
Operating Revenue	167,764	171,664	(3,900)	(2%)
Operating Expenses	(87,313)	(89,595)	(2,282)	(3%)
Depreciation/Amort.	(29,670)	(30,837)	(1,167)	(4%)
Operating Income	50,781	51,232	(451)	(1%)
Non-Op Exp (Inc)	47,815	48,677	(862)	(2%)
Change in Net Assets before CIAC	2,966	2,555	411	16%
Capital Contributions	618	120	498	415%
Change in Net Assets	3,584	2,675	909	34%
<i>Cost per MWh (normalized)</i>	<i>\$18.00</i>	<i>\$18.10</i>		

2010 Capital Expenditures

(\$000s)

	2010 Forecast	2010 Adopted Budget	% Spent
Distribution	7,608	10,345	74%
Networks	3,750	5,450	69%
Water	3,009	3,019	100%
Wastewater	31	210	15%
Rocky Reach	5,050	5,595	90%
Rock Island	16,181	24,755	65%
Lake Chelan	11,764	11,785	100%
Internal Service	2,148	4,166	52%
Total	49,541	65,325	76%



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Looking out for the next few years



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- # Financial Position to 2012
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Financial Projections

- Falling wholesale electricity prices and increasing pressure on costs puts stress on the strong financial position of the non-hydro portion of the PUD through 2011
- Contingency planning currently in process to evaluate 2011 options
- Forecast projections for 2012 and beyond improve with the implementation of new long-term hydro power contracts and comprehensive portfolio of hedging strategies



Rate of Return

Target by 2012: 4% – 6% expected conditions, 2% unusual conditions

		2010	2011	2012	2013	2014
Current Hedge	Base case–expected (50% probability)	(1.6%)	(0.2%)	5.6%	5.7%	5.9%
	Base case–unusual (5% probability) Reflects slightly below 75% water and \$30 power	(1.9%)	(2.0%)	2.0%	1.2%	0.0%
Full Hedge	Hedging plan–unusual (5% probability)	(1.9%)	(1.7%)	3.1%	3.2%	2.7%

X% –results that are below targets

Debt Ratio - Leverage

Target by 2015: 60%

		2010	2011	2012	2013	2014	2015
Current Hedge	Base case-expected (50% probability)	73.9%	73.7%	70.6%	67.8%	64.0%	61.6%
	Base case-unusual (5% probability) Reflects slightly below 75% water and \$30 power	74.1%	74.8%	72.6%	70.1%	66.9%	64.4%
Full Hedge	Hedging plan-unusual (5% probability)	74.1%	74.8%	72.0%	69.0%	65.3%	62.6%

X% -results that are below target

Debt Service Coverage

Target by 2012: 2.25 – 2.75 expected conditions, 1.25 unusual conditions (Combined Basis)

<i>Senior Consolidated Forecast</i>		2010	2011	2012	2013	2014
Current Hedge	Base case–expected (50% probability)	0.1	2.4	17.4	15.6	15.2
	Base case–unusual (5% probability) Reflects slightly below 75% water and \$30 power	(0.7)	(1.5)	5.6	0.5	(4.9)
Full Hedge	Hedging plan–unusual (5% probability)	(0.8)	(0.9)	9.3	7.3	4.1

X.X – represents violation of bond covenant

2010 debt service escrowed

Debt Service Coverage

Target by 2012: 2.25 – 2.75 expected conditions, 1.25 unusual conditions (Combined Basis)

<i>Subordinate Consolidated Forecast</i>		2010	2011	2012	2013	2014
Current Hedge	Base case–expected (50% probability)	1.3	1.5	2.4	2.3	2.3
	Base case–unusual (5% probability) Reflects slightly below 75% water and \$30 power	1.2	1.1	1.5	1.1	0.8
Full Hedge	Hedging plan–unusual (5% probability)	1.2	1.2	1.8	1.7	1.5

X.X – represents violation of bond covenant



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- # Liquidity
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Total Liquidity Target for 2010: \$175M

<i>\$ millions</i>		2010	2011	2012	2013	2014
Current Hedge	Base case–expected (50% probability)	215	210	243	243	239
	Base case–unusual (5% probability) Reflects slightly below 75% water and \$30 power	211	190	204	193	171
Full Hedge	Hedging plan–unusual (5% probability)	210	191	217	217	208

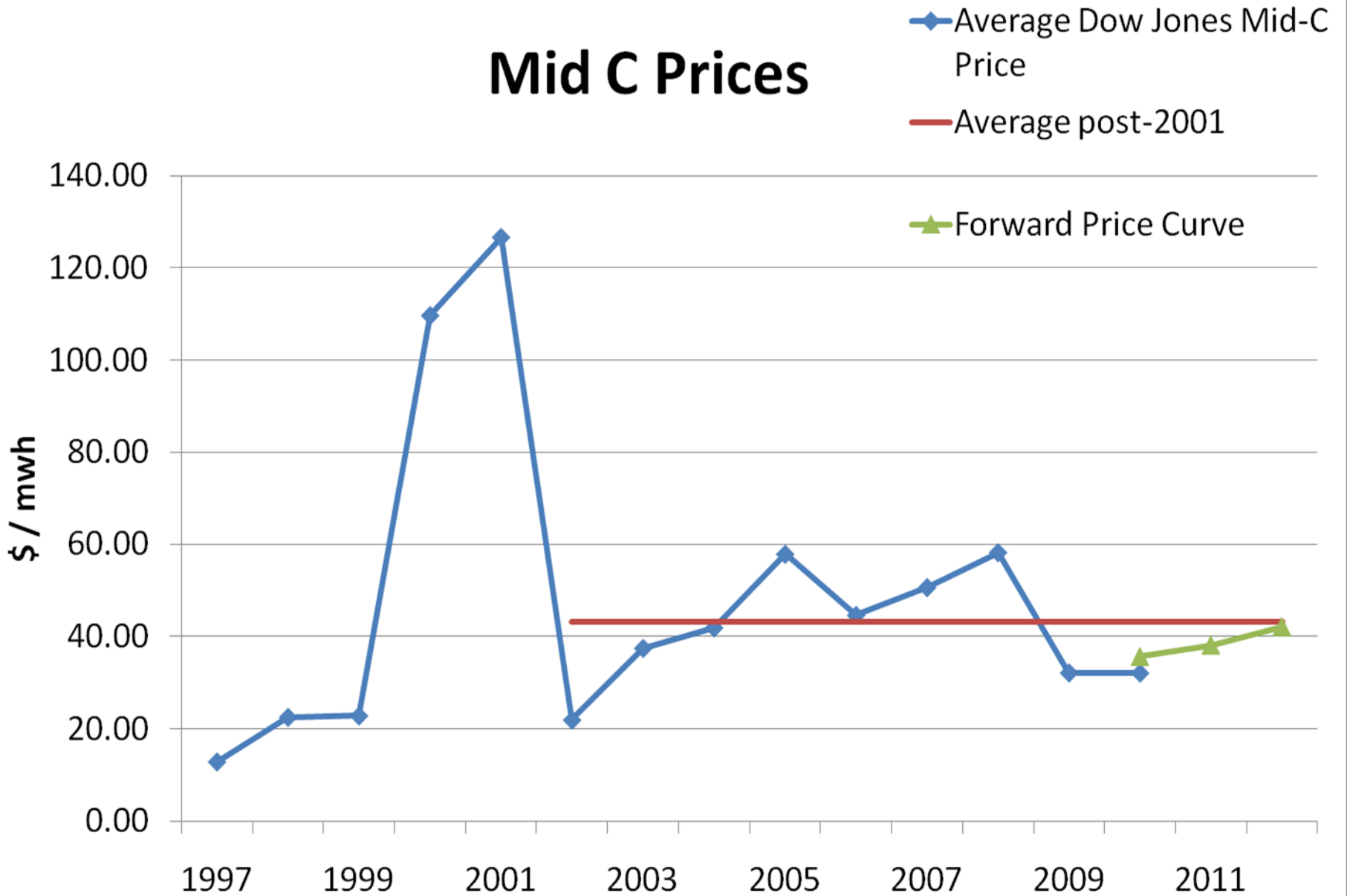
Note: Total liquidity target and forecasts include Primary and Secondary internal sources.

Funding Gaps

(Utility Services - \$million)

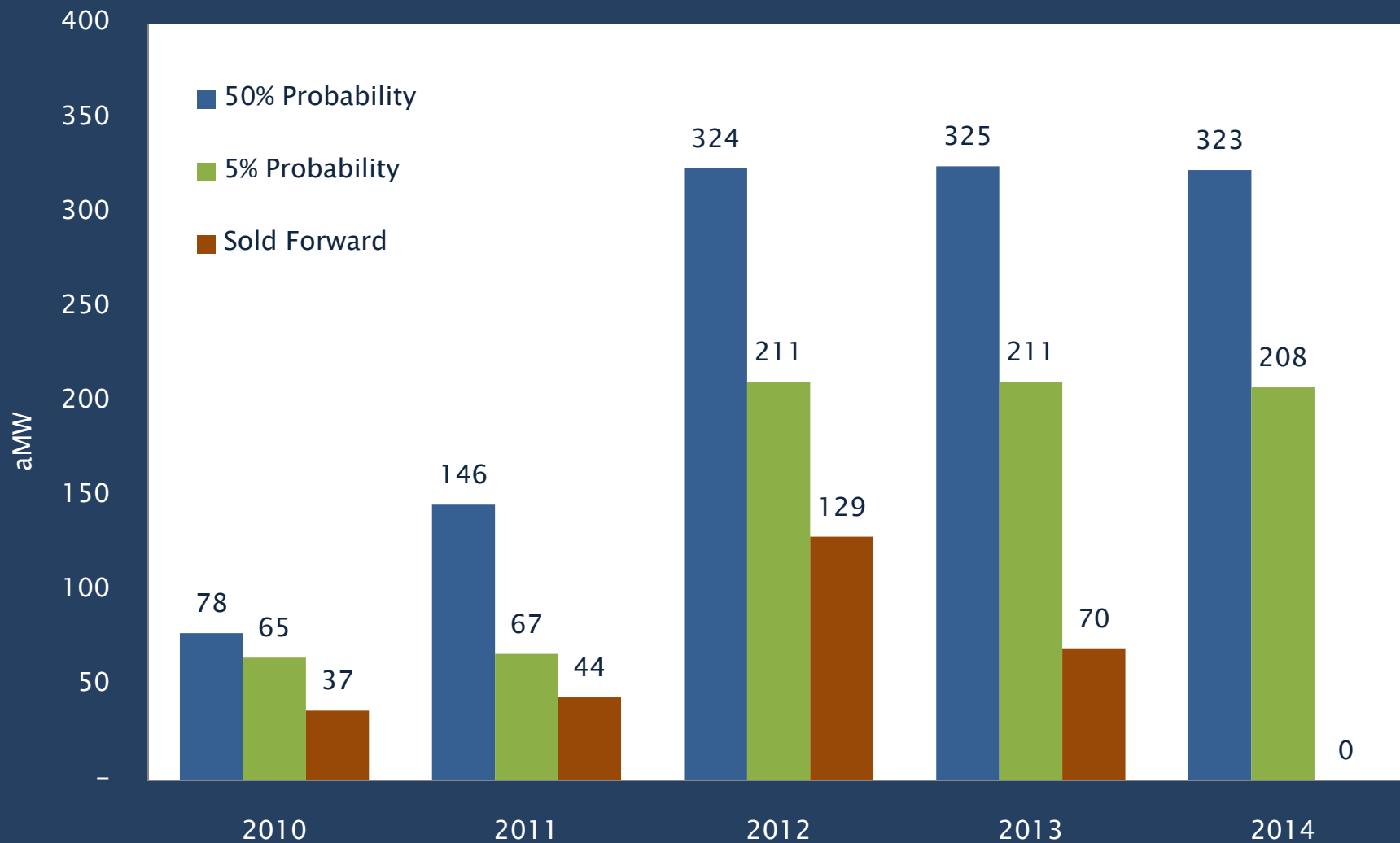
	2008	2009	2010 Budget	2010 Forecast	2011	2012
Retail Electric	(\$12)	(\$14)	(\$21)	(\$22)	(\$20)	(\$22)
Networks	(7)	(7)	(8)	(8)	(9)	(10)
Water	(1)	(0)	(1)	(1)	(1)	(1)
Wastewater	(0)	(0)	(0)	(0)	(1)	(1)
Other	2	1	0	0	0	3
Terms of new power contracts					2	11
Total Funding Gap	(18)	(20)	(30)	(31)	(29)	(20)
Net Wholesale Revenues	46	25	45	31	51	117
Cost of Power - Surplus Sales	(23)	(20)	(29)	(23)	(33)	(64)
Net wholesale margin	23	5	16	8	18	53
Change in Net Assets before CIAC	\$5	(\$15)	(\$14)	(\$23)	(\$11)	\$33
Jan- July Columbia runoff %	95%	79%	100%	77%	100%	100%
Projected surplus sales (1,000 MWh)	1,097	861	1,275	907	1,438	2,843
Mid C flat prices	\$59	\$32	\$41	\$36	\$38	\$ 42
Breakeven flat price (estimate)			\$53	\$61	\$46	\$30

Mid C Prices



Source: Historical Dow Jones daily index, forward price curve from broker market

Surplus Generation & Forward Energy Sales as of 7/22/10



- Board Governing Financial Policies
- Are We On Track?

- ◆ Rate of Return (by 2012)

- ◆ Leverage (by 2015)

- ◆ Debt Service Coverage (by 2012)

- ✚ Financial Liquidity (2010)



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Summary

- Adopted Financial Policies designed to be responsive to customer feedback
- Progressed on implementation of action plans like the mid-term hedging policy
- Financial results stressed for the next few years
- Contingency planning currently in process to evaluate 2011 options
- Continue to closely monitor 2010 forecasts to determine if further cost cutting and surcharge actions are necessary this year