

Chelan PUD  
Energy Resources, Financial  
Results, and Balanced Scorecard  
Quarterly Update

*Board Meeting*  
*May 12, 2008*

# Discussion Topics

- Energy Resources Update
- 2008 Operational Highlights
- 2008 Financial Highlights
  
- No action required today



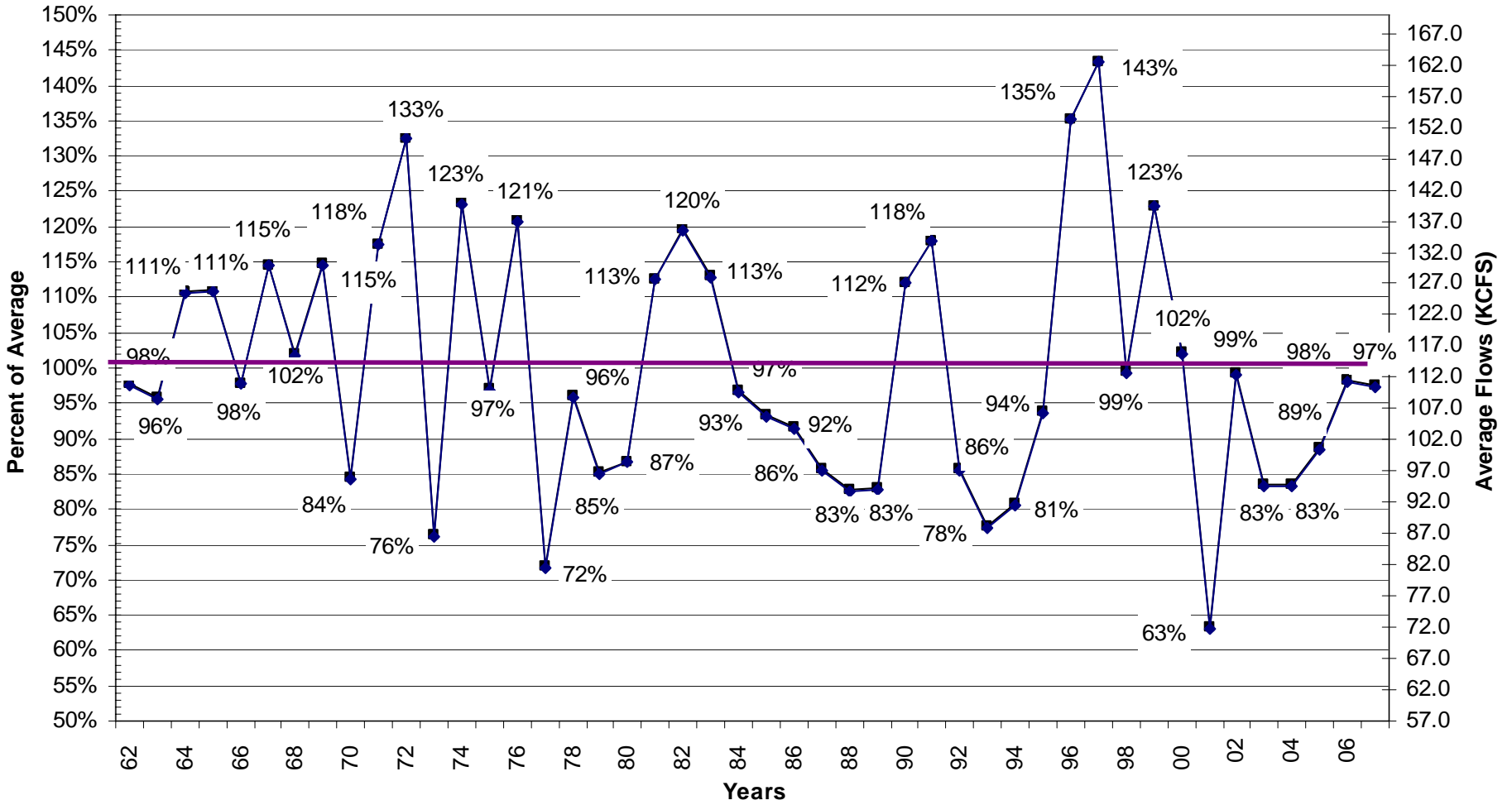
# Energy Resources Quarter in Review

- Prices have increased along with other energy commodities (Crude and Nat. Gas)
- Below normal runoff for the Columbia River Jan-Jul 95%
- Lake Chelan runoff forecast for 107% of normal for Apr-Jul
- Current forecast indicates that 2008 net wholesale revenues will be below budgeted amount of \$62.3 million
- Sold first CCX offsets
- Sold 9 Canyon RECs
- Continuing work on IRP

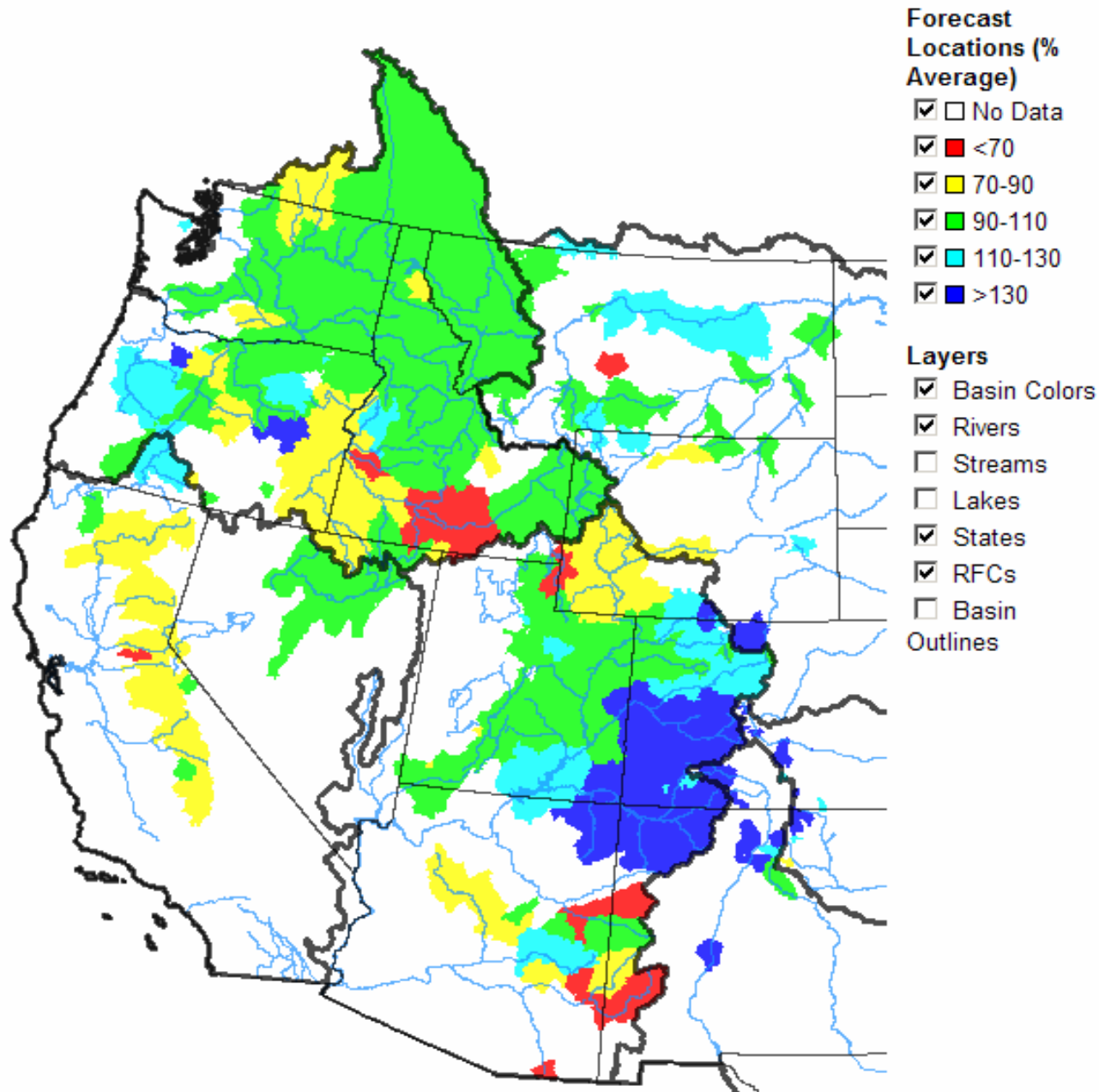


# Rocky Reach Average Yearly Flows 1962-2006

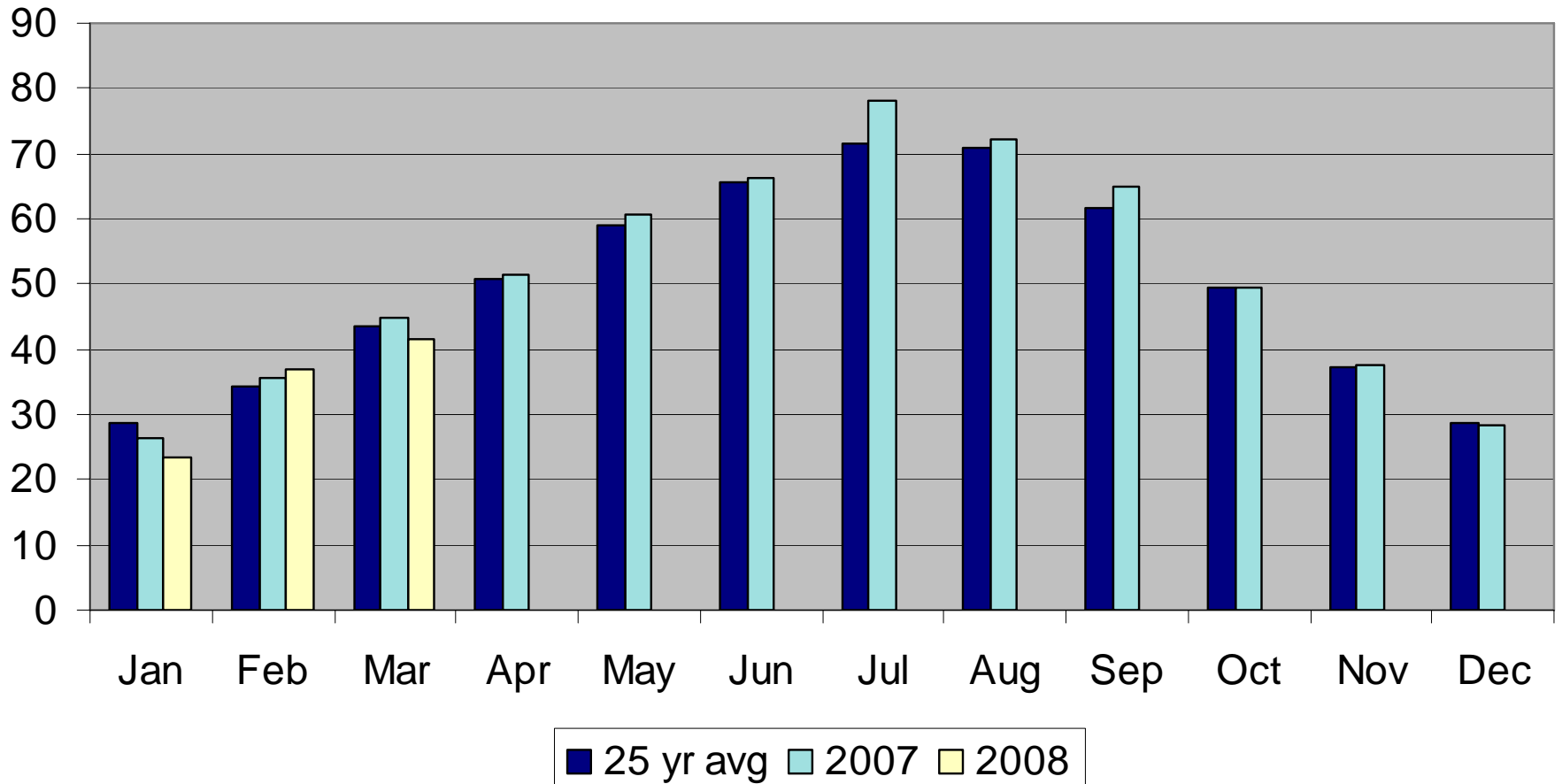
## 1962 through 2006 Average of 113.3 KCFS



# Seasonal Runoff Volume Forecasts 2008



# Average Monthly Temperature

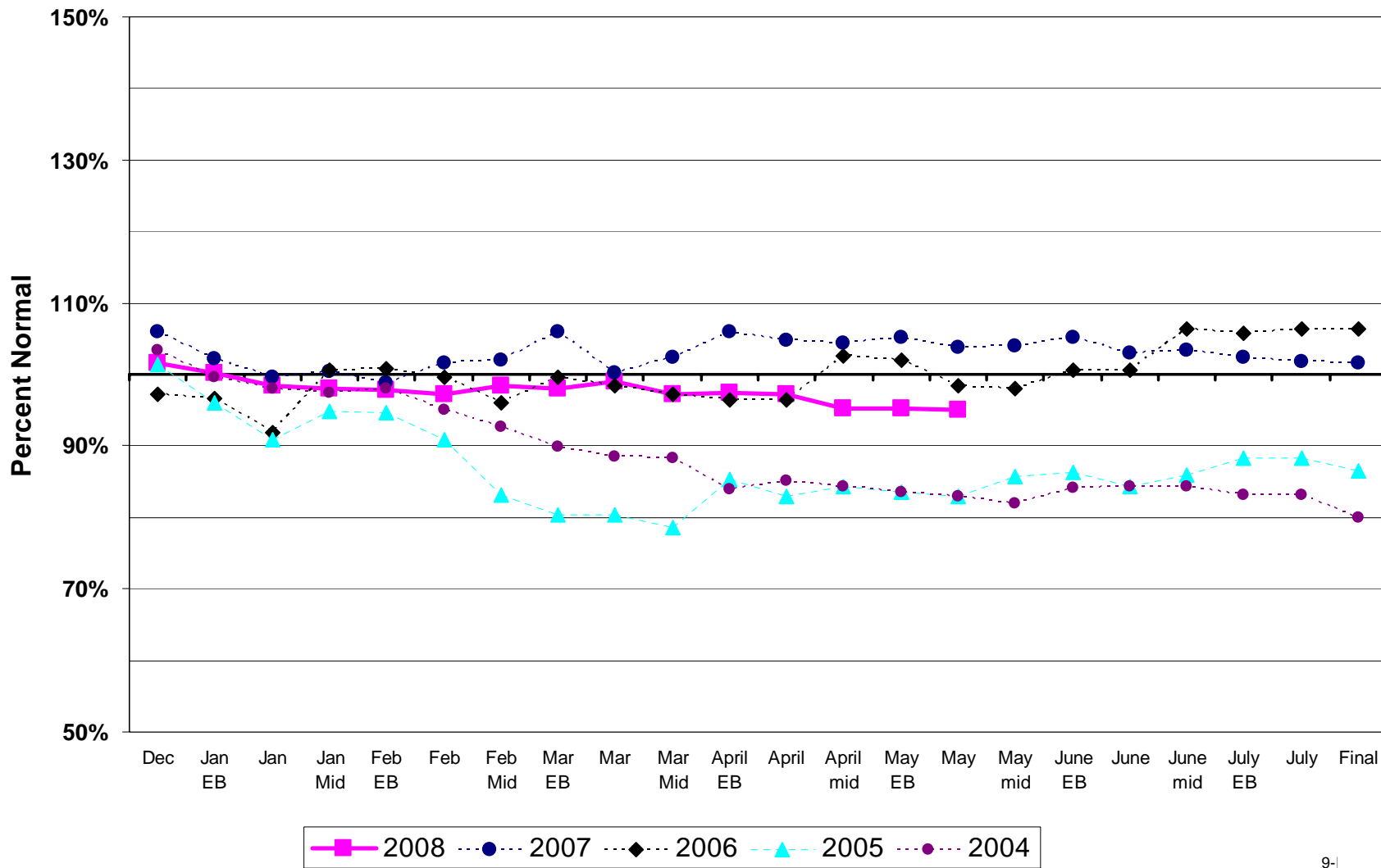


# Very Cold April

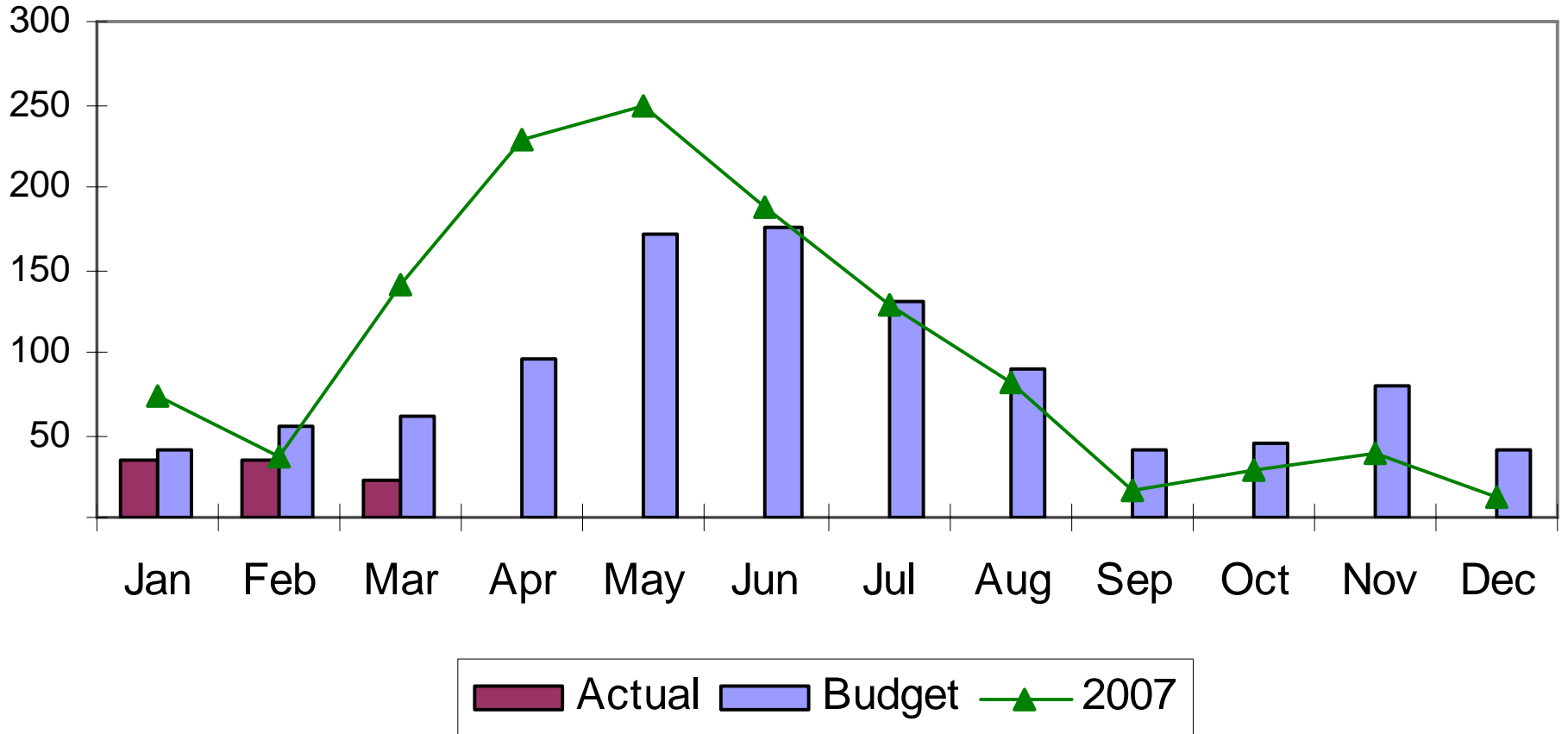


World Photo/ Mike Bonnicksen 4/21/08

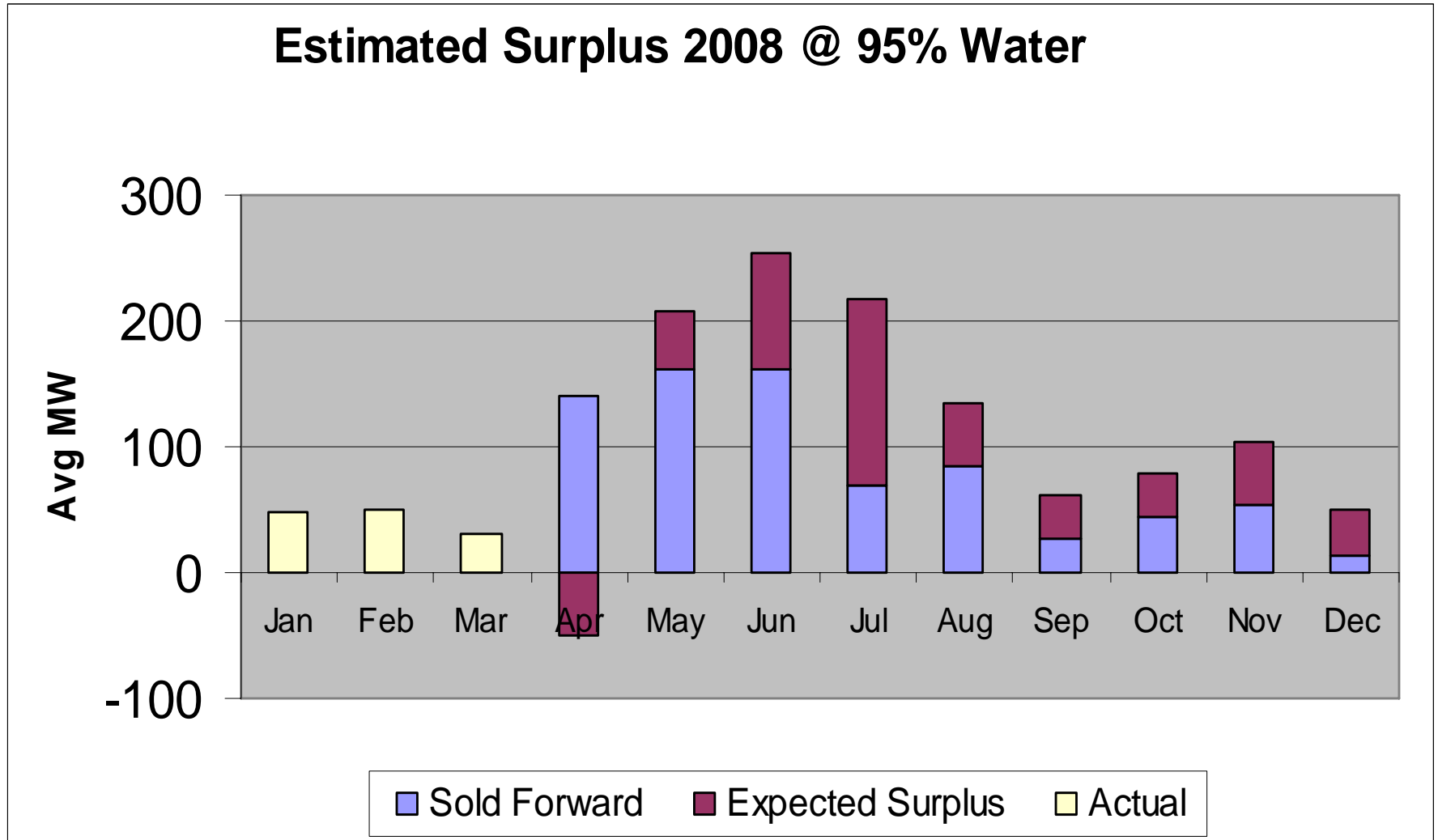
# Grand Coulee Forecasts of Jan-July Inflows



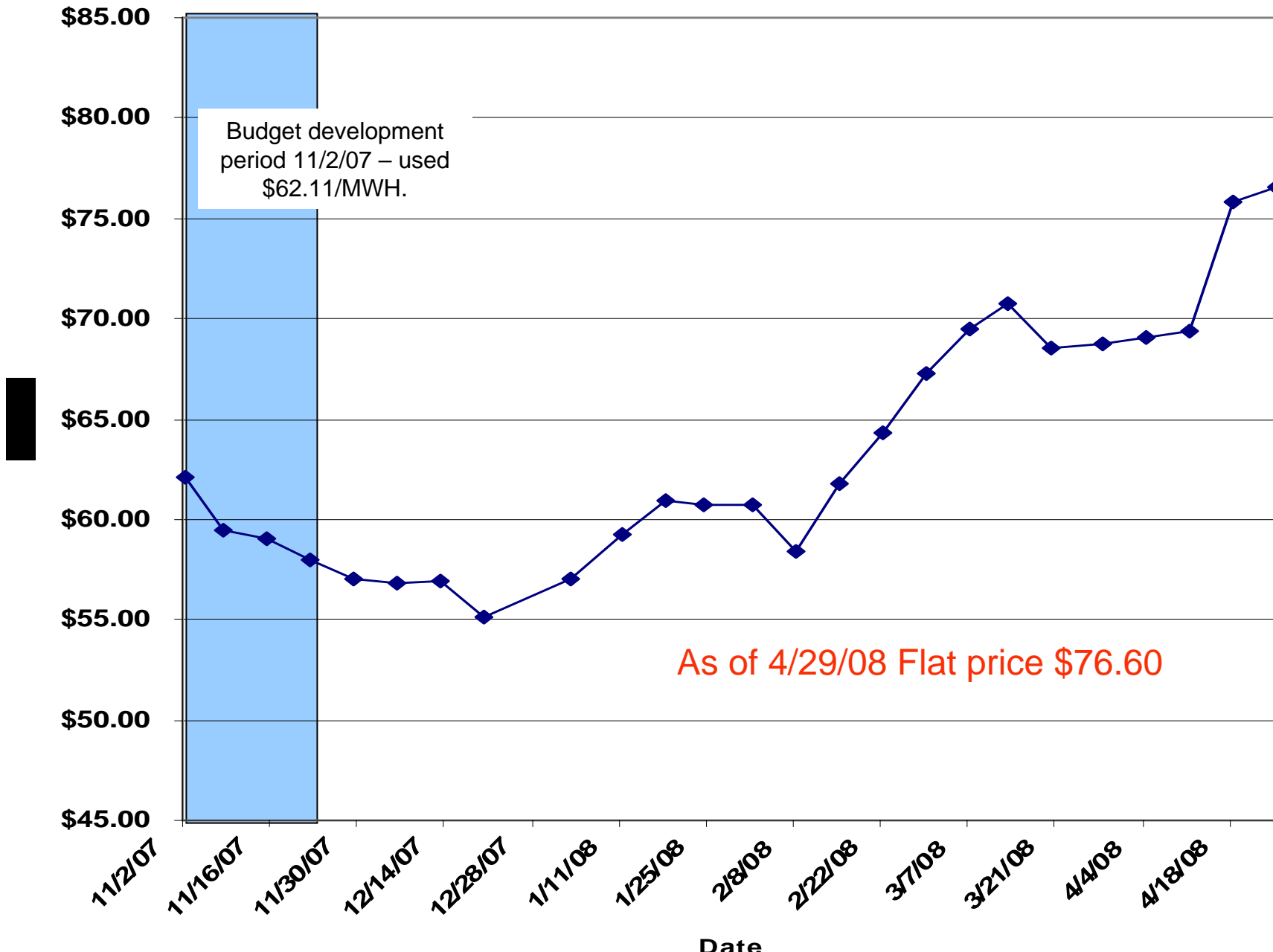
# 2008 Surplus MWh (000)



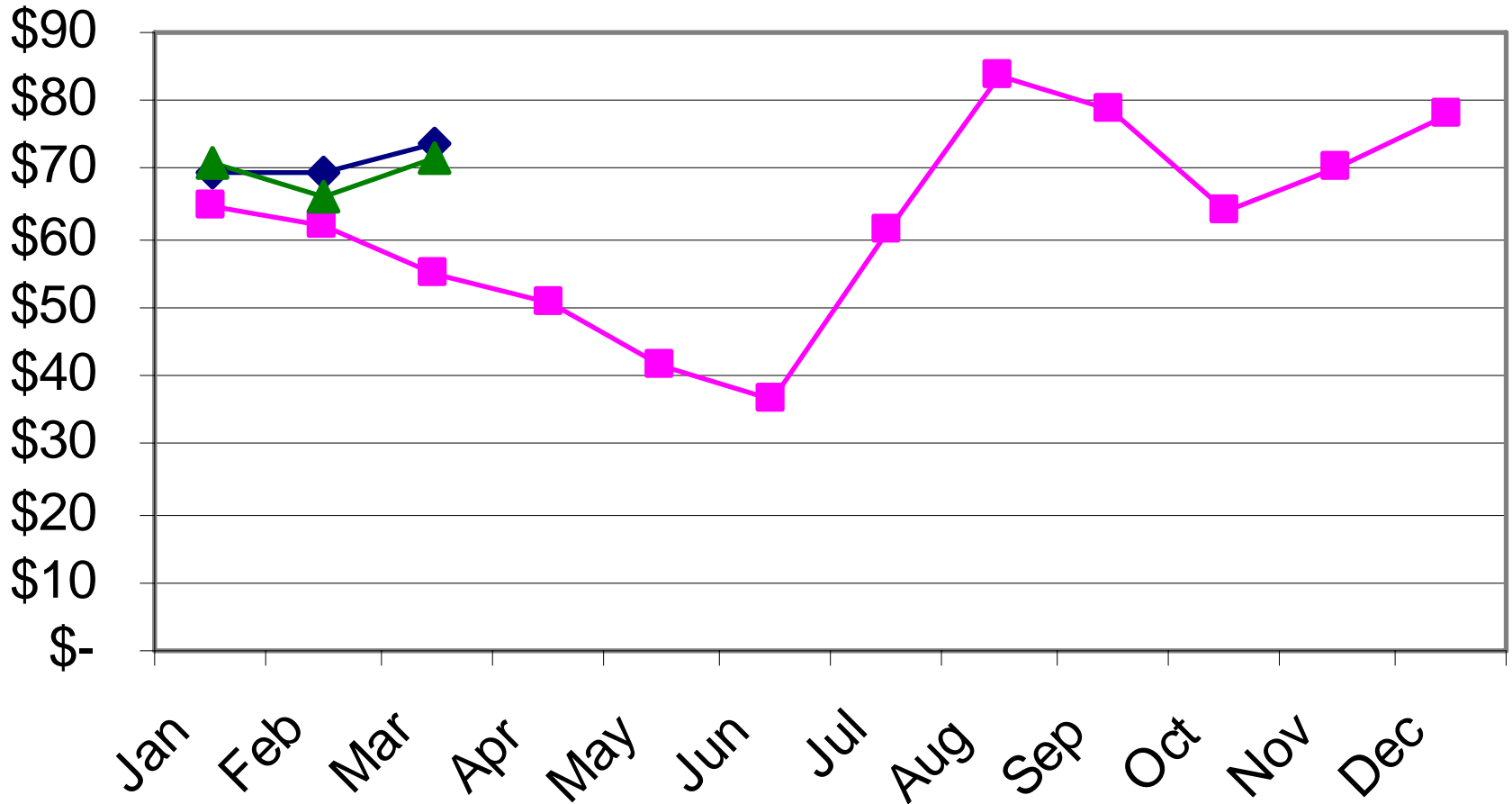
# 2008 Expected Surplus aMW



# Calendar Flat Mid-C Prices for 2008



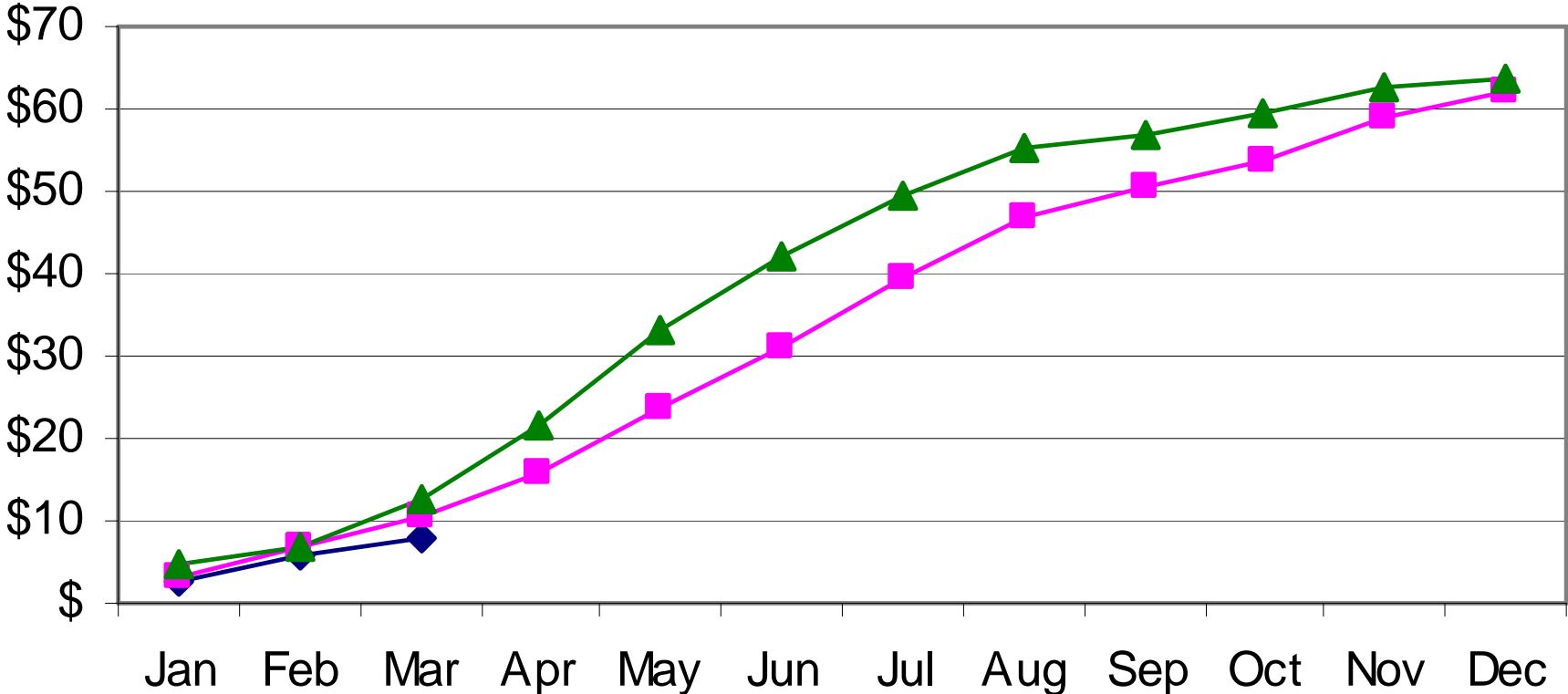
# 2008 Monthly Flat Price (\$/MWh)



—◆— Actual —■— Budget —▲— Dow Jones

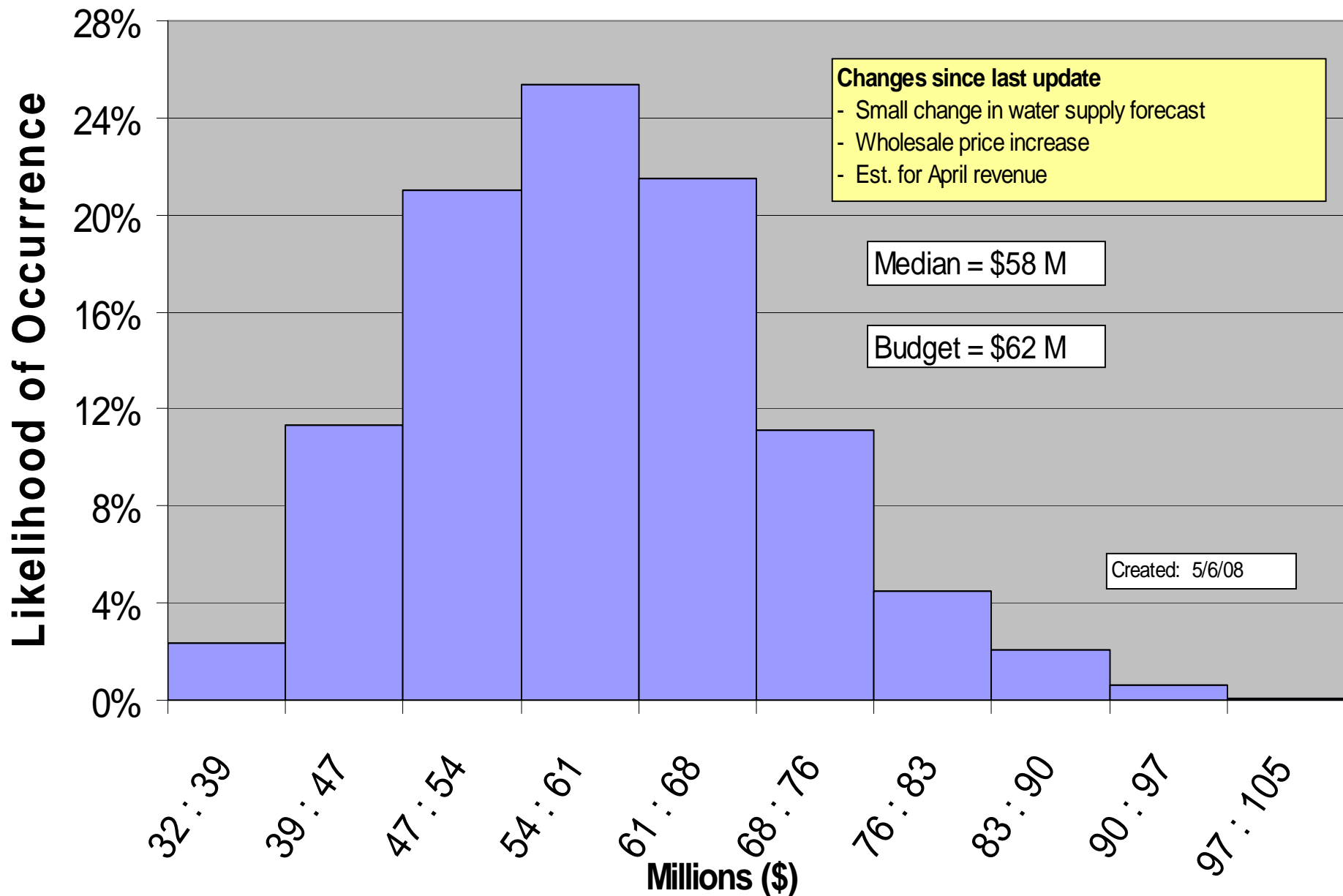
# 2008 Cumulative Net Wholesale Revenue

\$Millions

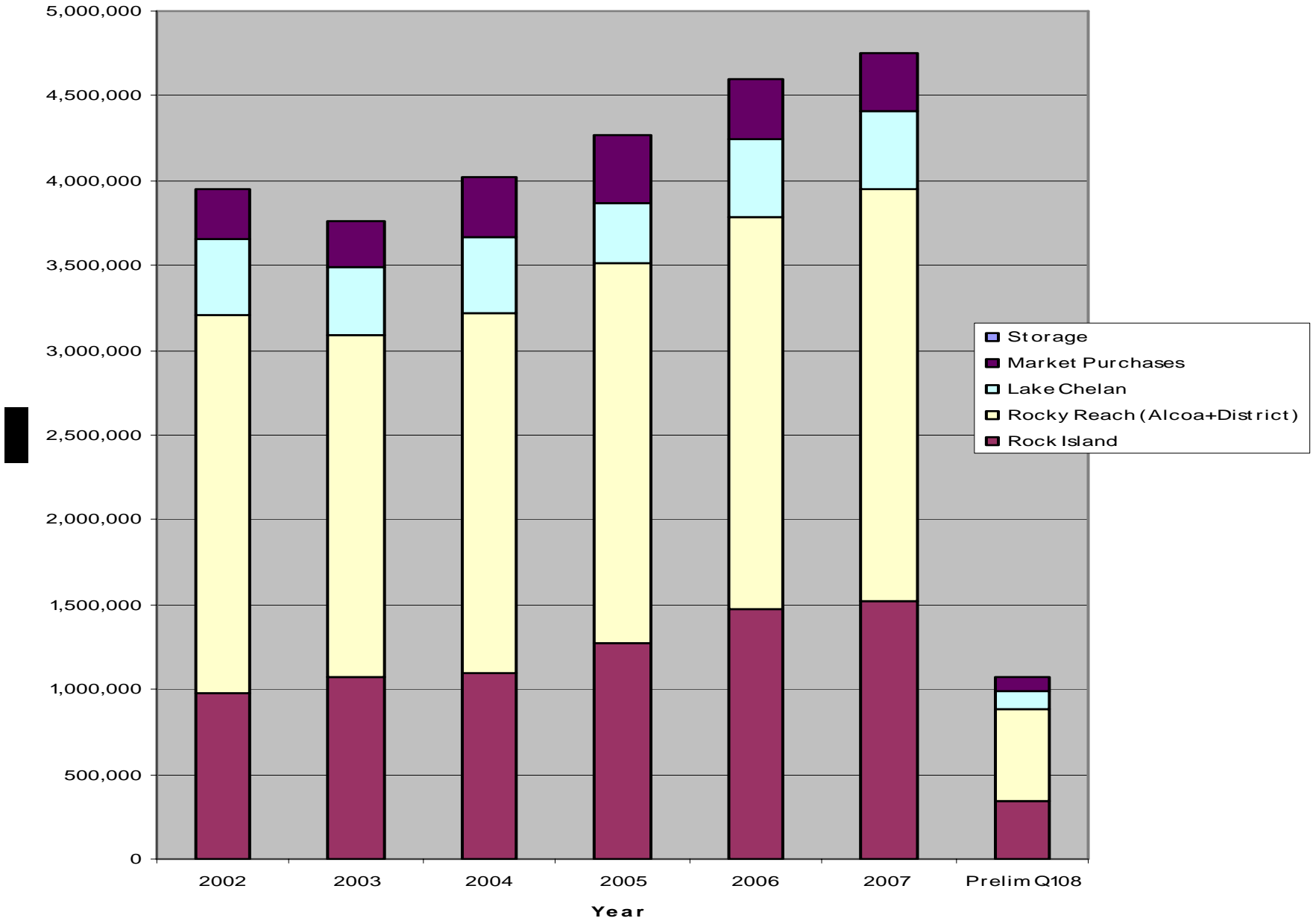


# Possible 2008 Wholesale Revenue Outcomes

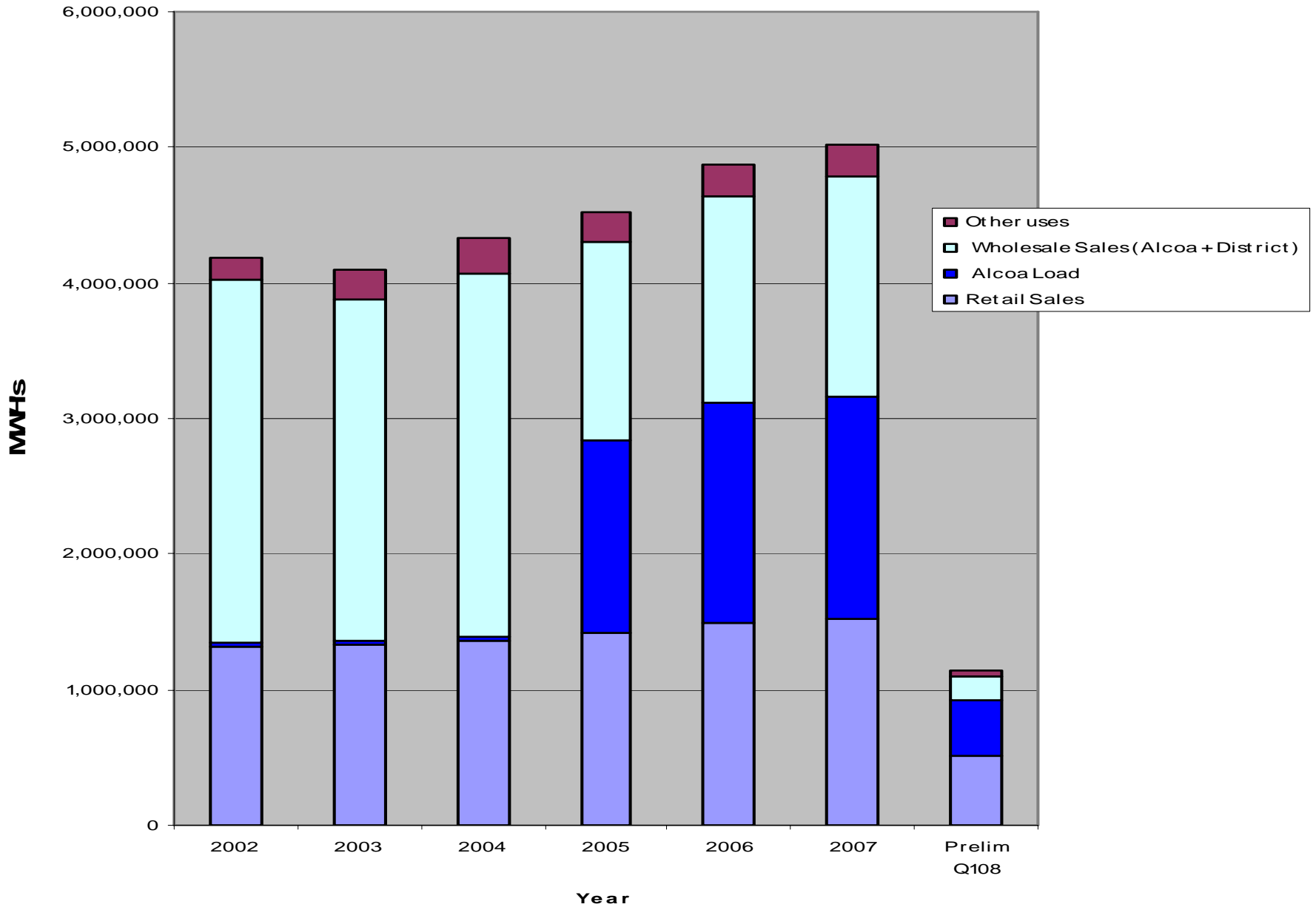
(A Probabilistic View)



# Sources of Energy



# Uses of Energy



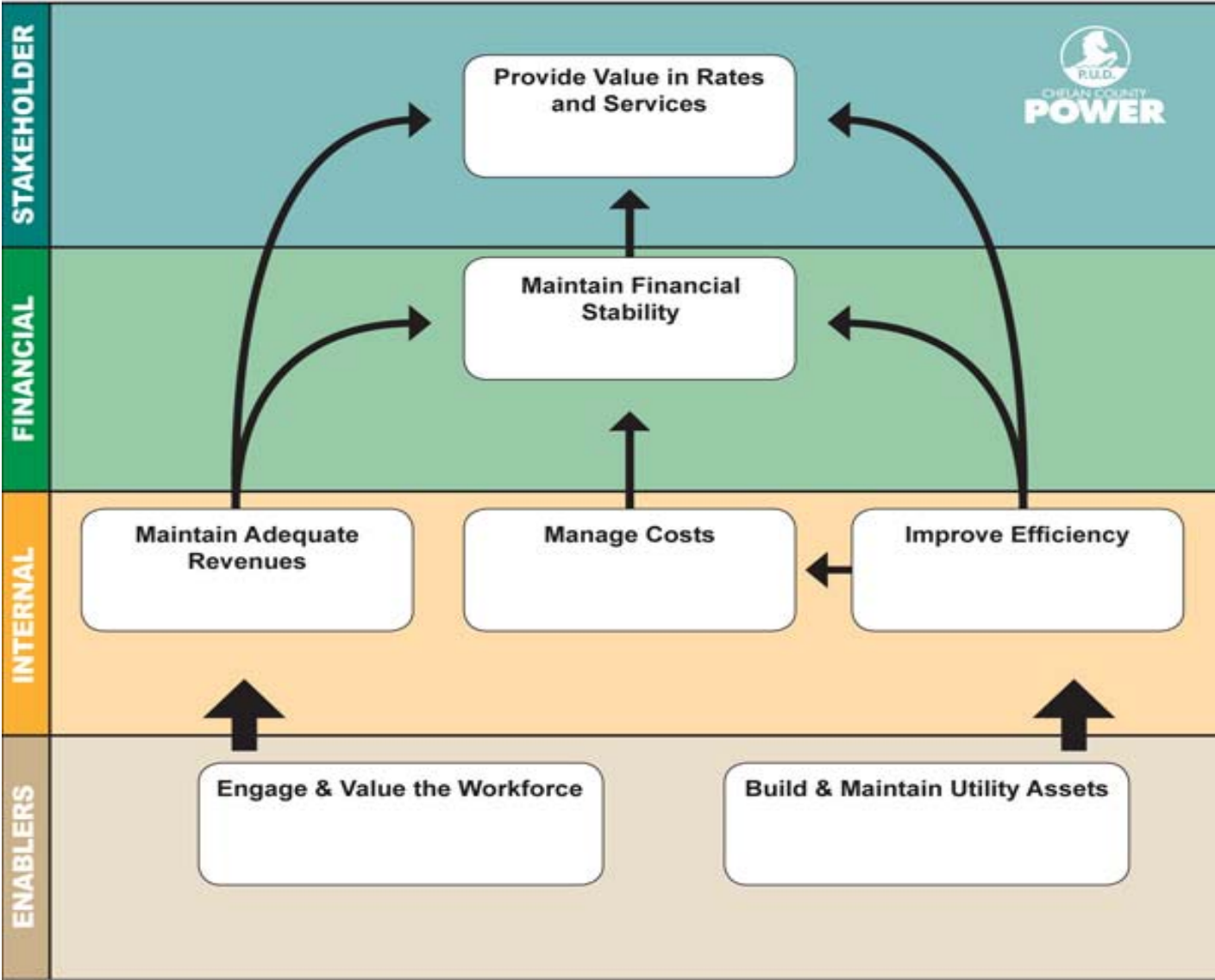


Questions ...?



# 2008 First Quarter Strategic Objective and Financial Results

# Provide value by optimizing our assets through operational excellence

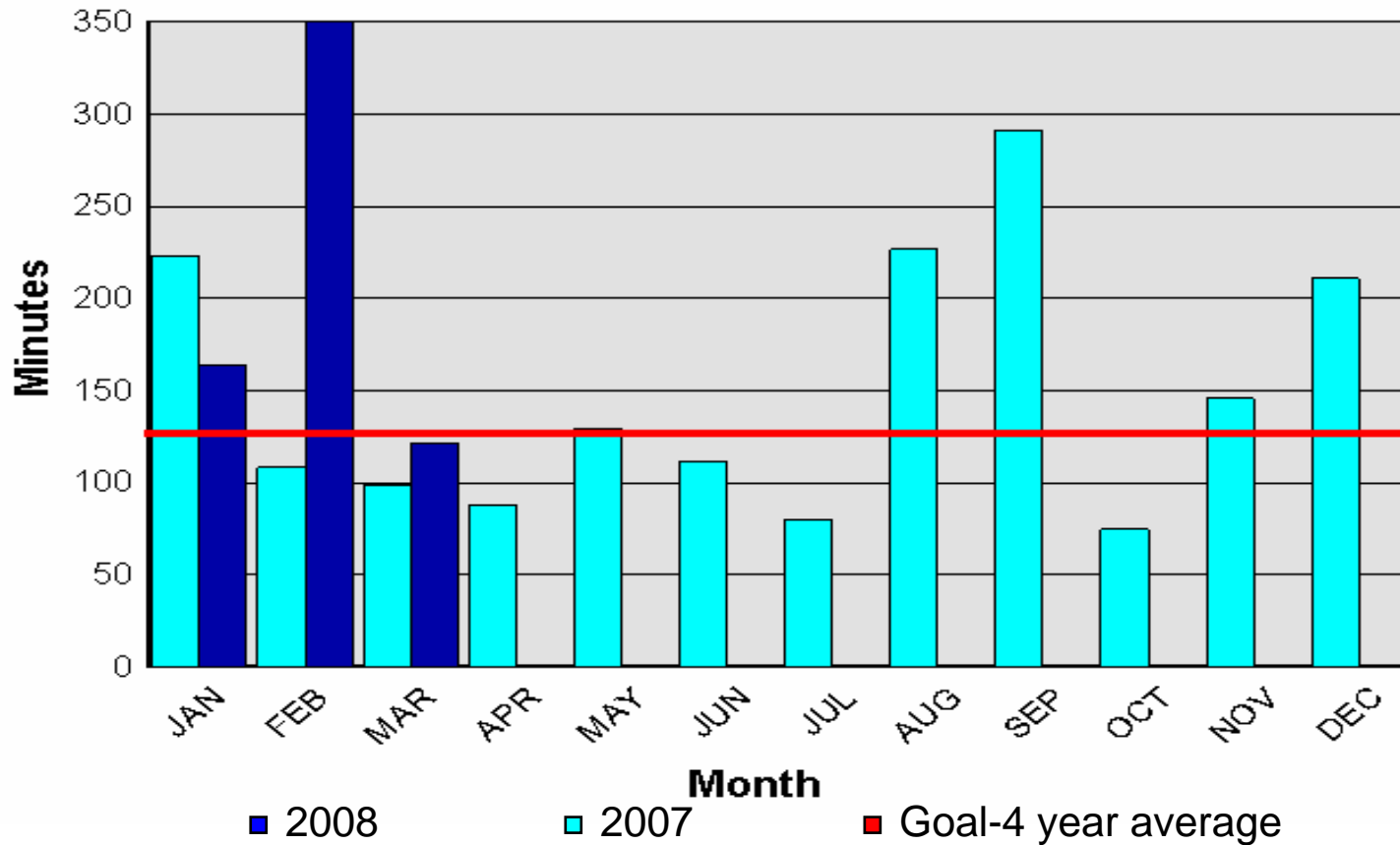


# Stakeholder Objectives

Stakeholders				
	Metric	Actual	Target	Variance %
●	Fully-Loaded cost per Normalized KWh	5.09	5.41	5.91%
●	Reliability - Distribution (ASAI)	99.990	99.970	0.02%
■	CAIDI - Interruption Index	245.52	126.00	94.86%
●	Network Services Take Rate	28.4%	28.1%	1.10%



# Distribution Outages

## CAIDI - (Minutes/Customer)



District Balanced Scorecard Strategic Objective:  
Provide Value in Rates and Services






# Financial Objectives

Financial				
	Metric	Actual	Target	Variance %
	Debt Coverage Ratio - Current	5.8	6.6	12.12%
	Distribution Cash Reserves (\$000)	US\$133,154	US\$75,000	78%

# Internal Objectives

Internal				
	Metric	Actual	Target	Variance %
■	Change in Net Assets (Utility Service)	US\$1,675,698	US\$2,421,154	31%
◆	Operating Ratio	103.2%	99.4%	3.82%
◆	O&M Expenses (monthly)	US\$11,657	US\$10,737	9%
●	Hydro Costs (per normalized MWh)	US\$16.4	US\$17.4	5.70%
●	Distribution-O&M Cost per Normalized KWh Delivered	1.64	1.69	2.95%
●	Water-O&M cost per Normalized GAL delivered	4.93	5.28	6.63%
●	Network Cost per Pass-By	US\$1,555	US\$2,300	32%

# Enabler Objectives

Enablers				
	Metric	Actual	Target	Variance %
	ERC Favorable Survey	55.0	58.5	5.90%
	ERC Unfavorable Survey	10.0	19.5	48.80%
	Professional Development Costs-District	US\$210,839	US\$285,601	26%
	Critical Safety Behavior Knowledge	73.2%	90.0%	18.70%
	Capital Spending Index	49.3%	92.5%	46.70%



# 2008 District Financial Highlights

*This information is provided for general information only and is not intended for and should not be relied upon for making investment decisions by current or prospective investors.*

# Combined Hydros

(Year to Date in \$000s)

	YTD 3/31/08 Actual	YTD 3/31/08 Budget	Variance	
			\$	%
Operating Revenue	37,725	39,629	(1,904)	(5%)
Operating Expenses	20,227	21,408	(1,181)	(6%)
Depreciation/Amort.	6,803	6,895	(92)	(1%)
Operating Income	10,695	11,326	(631)	(6%)
Non-Op Exp (Inc)	10,548	11,110	(562)	(5%)
Change in Net Assets	147	216	(69)	(32%)
<i>Cost per MWh</i>	<i>\$17.8</i>	<i>\$16.7</i>		

# Combined Hydros

(Projected vs. Budget in \$000s)

	2008 Projected	2008 Budget	Variance	
			\$	%
Operating Revenue	160,871	162,064	(1,193)	(1%)
Operating Expenses	86,560	89,790	(3,230)	(4%)
Depreciation/Amort/Tax	27,365	27,707	(342)	(1%)
Operating Income	46,945	44,567	2,378	5%
Non-Op Exp (Inc)	44,993	43,335	1,658	4%
Change in Net Assets	1,953	1,232	720	58%
<i>Cost per MWh</i>	<i>\$17.8</i>	<i>\$16.8</i>		

# Retail Electric Distribution

(Year to Date in \$000s)

	YTD 3/31/08 Actual	YTD 3/31/08 Budget	Variance	
			\$	%
Retail & Other Rev	15,649	14,998	651	4%
Purchased Power	10,501	10,391	110	1%
Operating Expenses	9,168	9,369	(201)	(2%)
Operating Inc (Loss)	(4,021)	(4,763)	742	16%
Non-Op Exp (Inc)	(3,549)	(2,746)	(803)	(29%)
Change in Net Assets before CIAC	(472)	(2,016)	1,544	77%
Cap Contributions	541	565	(24)	(4%)
Change in Net Assets	69	(1,451)	1,520	105%
<i>Operating Ratio</i>	<i>126%</i>	<i>132%</i>		

*Purchased Power expense allocated based on retail load and Distribution's hydro mil rate.*

# Retail Electric Distribution

(Projected vs. Budget in \$000s)

	2008 Projected	2008 Budget	Variance	
			\$	%
Retail & Other Rev	47,632	47,580	51	0%
Purchased Power	34,532	32,884	1,648	5%
Operating Expenses	38,927	38,165	762	2%
Operating Inc (Loss)	(25,828)	(23,469)	(2,359)	(10%)
Non-Op Exp (Inc)	(9,687)	(11,267)	1,580	14%
Change in Net Assets before CIAC	(16,140)	(12,202)	(3,938)	(32%)
Cap Contributions	3,573	3,573	0	0%
Change in Net Assets	(12,567)	(8,629)	(3,938)	(46%)
<i>Operating Ratio</i>	<i>154%</i>	<i>149%</i>		

*Purchased Power expense allocated based on retail load and Distribution's hydro mil rate.*

# Wholesale Activity

(Year to Date in \$000s)

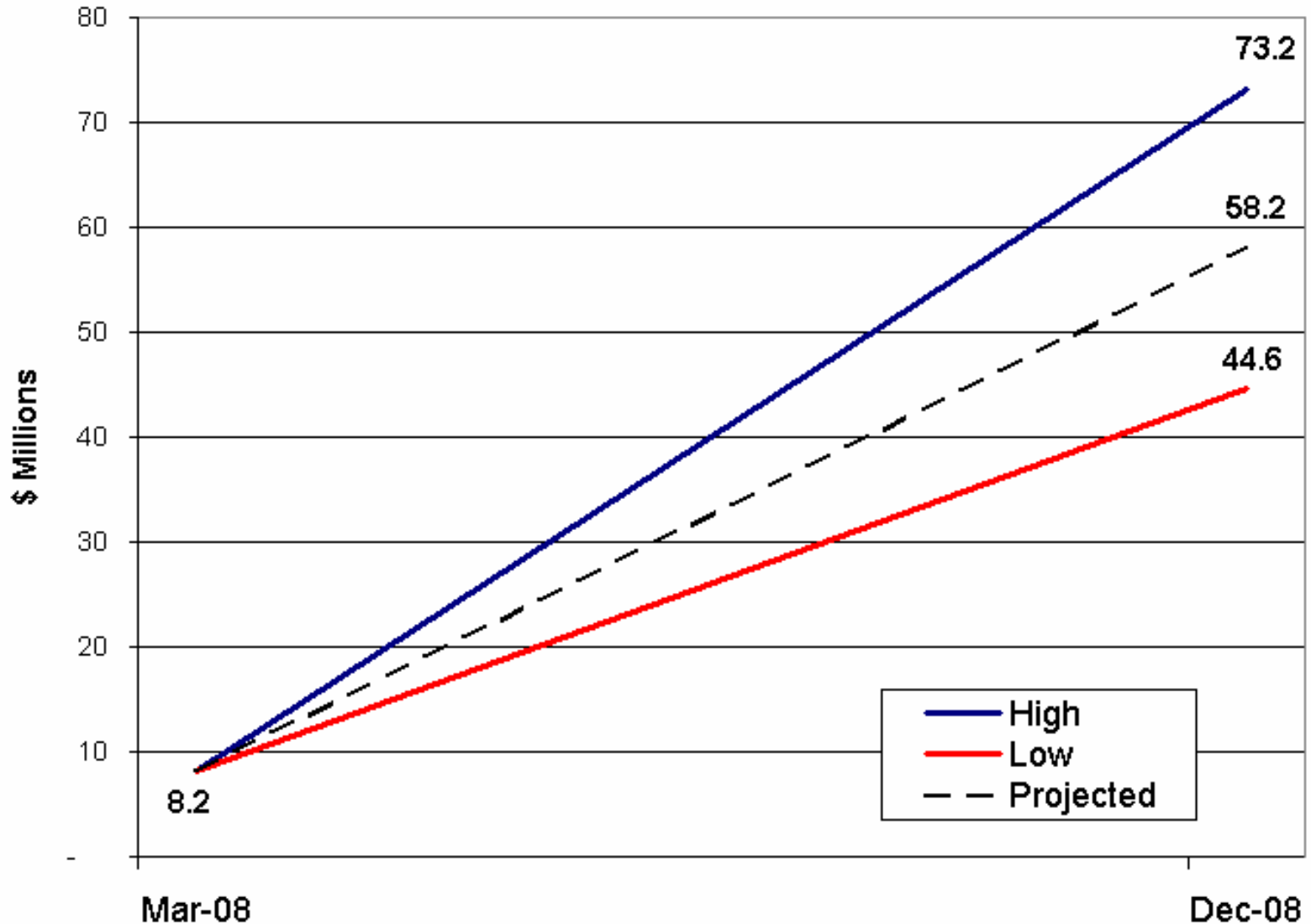
	YTD 3/31/08 Actual	YTD 3/31/08 Budget	Variance	
			\$	%
Sales for Resale (excl Cashmere)	18,685	16,178	2,507	15%
Less: Douglas County Sales	(268)	(532)	264	50%
Less: Alcoa Sales	(4,103)	(4,421)	317	7%
Cost: External Purchased Power	(6,118)	(559)	(5,559)	(994%)
Net Wholesale Revenue	8,196	10,666	(2,471)	(23%)
Cost: Internal Purch Power, other	(4,282)	(4,455)	172	4%
Net Wholesale Margin	3,913	6,211	(2,298)	(37%)

# Wholesale Activity

(Projected vs. Budgeted \$000s)

	2008 Projected	2008 Budget	Variance	
			\$	%
Sales for Resale (excl Cashmere)	90,953	86,629	4,323	5%
Less: Douglas County Sales	(2,065)	(2,188)	123	6%
Less: Alcoa Sales	(17,922)	(18,168)	246	1%
Cost: External Purchased Power	(12,758)	(3,938)	(8,820)	(224%)
Net Wholesale Revenue	58,208	62,336	(4,128)	(7%)
Cost: Internal Purch Power, other	(25,215)	(27,312)	2,096	8%
Net Wholesale Margin	32,993	35,024	(2,031)	(6%)

# Possible Outcomes of Net Wholesale Revenue by 12/31/2008



# Networks

(Year to Date in \$000s)

	YTD 3/31/08 Actual	YTD 3/31/08 Budget	Variance	
			\$	%
Operating Revenue	1,237	1,144	93	8%
Operating Expenses	1,963	2,093	(131)	(6%)
Operating Inc (Loss)	(726)	(950)	223	23%
Non-Op Exp (Inc)	862	1,073	(211)	(20%)
Change in Net Assets before CIAC	(1,588)	(2,023)	435	22%
Cap Contributions	0	0	0	0%
Change in Net Assets	(1,588)	(2,023)	435	22%
<i>Operating Ratio</i>	<i>159%</i>	<i>183%</i>		

# Networks

(Projected vs. Budget in \$000s)

	2008 Projected	2008 Budget	Variance	
			\$	%
Operating Revenue	4,994	4,794	200	4%
Operating Expenses	8,106	8,689	(583)	(7%)
Operating Inc (Loss)	(3,112)	(3,895)	783	20%
Non-Op Exp (Inc)	4,795	4,567	228	5%
Change in Net Assets before CIAC	(7,907)	(8,462)	555	7%
Cap Contributions	0	0	0	0%
Change in Net Assets	(7,907)	(8,462)	555	7%
<i>Operating Ratio</i>	<i>162%</i>	<i>181%</i>		

# Water

(Year to Date in \$000s)

	YTD 3/31/08 Actual	YTD 3/31/08 Budget	Variance	
			\$	%
Operating Revenue	807	891	(83)	(9%)
Operating Expenses	1,041	1,094	(53)	(5%)
Operating Inc (Loss)	(234)	(204)	(30)	(15%)
Non-Op Exp (Inc)	(10)	28	(38)	(136%)
Change in Net Assets before CIAC	(224)	(231)	7	3%
Cap Contributions	115	657	(543)	(83%)
Change in Net Assets	(109)	426	(535)	(126%)
<i>Operating Ratio</i>	<i>129%</i>	<i>123%</i>		

# Water

(Projected vs. Budget in \$000s)

	2008 Projected	2008 Budget	Variance	
			\$	%
Operating Revenue	4,312	4,312	0	0%
Operating Expenses	4,658	4,643	15	0%
Operating Inc (Loss)	(346)	(331)	(15)	(5%)
Non-Op Exp (Inc)	198	78	120	154%
Change in Net Assets before CIAC	(544)	(409)	(135)	(33%)
Cap Contributions	5,707	6,617	(910)	(14%)
Change in Net Assets	5,163	6,208	(1,045)	(17%)
<i>Operating Ratio</i>	<i>108%</i>	<i>108%</i>		

# Wastewater

(Year to Date in \$000s)

	YTD 3/31/08 Actual	YTD 3/31/08 Budget	Variance	
			\$	%
Operating Revenue	99	100	(1)	(1%)
Operating Expenses	186	202	(16)	(8%)
Operating Inc (Loss)	(87)	(102)	15	15%
Non-Op Exp (Inc)	(14)	(8)	(7)	(88%)
Change in Net Assets before CIAC	(73)	(95)	22	23%
Cap Contributions	1	6	(5)	(83%)
Change in Net Assets	(72)	(89)	17	19%
<i>Operating Ratio</i>	<i>188%</i>	<i>202%</i>		

# Wastewater

(Projected vs. Budget in \$000s)

	2008 Projected	2008 Budget	Variance	
			\$	%
Operating Revenue	438	438	0	0%
Operating Expenses	846	846	0	0%
Operating Inc (Loss)	(408)	(408)	0	0%
Non-Op Exp (Inc)	(11)	(42)	31	74%
Change in Net Assets before CIAC	(397)	(366)	(31)	(8%)
Cap Contributions	48	48	0	0%
Change in Net Assets	(349)	(318)	(31)	(10%)
<i>Operating Ratio</i>	193%	193%		

# Treasury Services

(Year to Date in \$000s)

	YTD 3/31/08 Actual	YTD 3/31/08 Budget	Variance	
			\$	%
Operating Revenue	0	0	0	0%
Operating Expenses	2	2	0	0%
Operating Inc (Loss)	(2)	(2)	0	0%
Non-Op Exp (Inc)	(122)	(577)	454	79%
Change in Net Assets before CIAC	120	575	(454)	(79%)
Cap Contributions	0	0	0	0%
Change in Net Assets	120	575	(454)	(79%)

# Treasury Services

(Projected vs. Budget in \$000s)

	2008 Projected	2008 Budget	Variance	
			\$	%
Operating Revenue	0	0	0	0%
Operating Expenses	8	8	0	0%
Operating Inc (Loss)	(8)	(8)	0	0%
Non-Op Exp (Inc)	(1,185)	(1,521)	336	22%
Change in Net Assets before CIAC	1,177	1,513	(336)	(22%)
Cap Contributions	0	0	0	0%
Change in Net Assets	1,177	1,513	(336)	(22%)

# Combined Utility Services

(Year to Date in \$000s, including Wholesale)

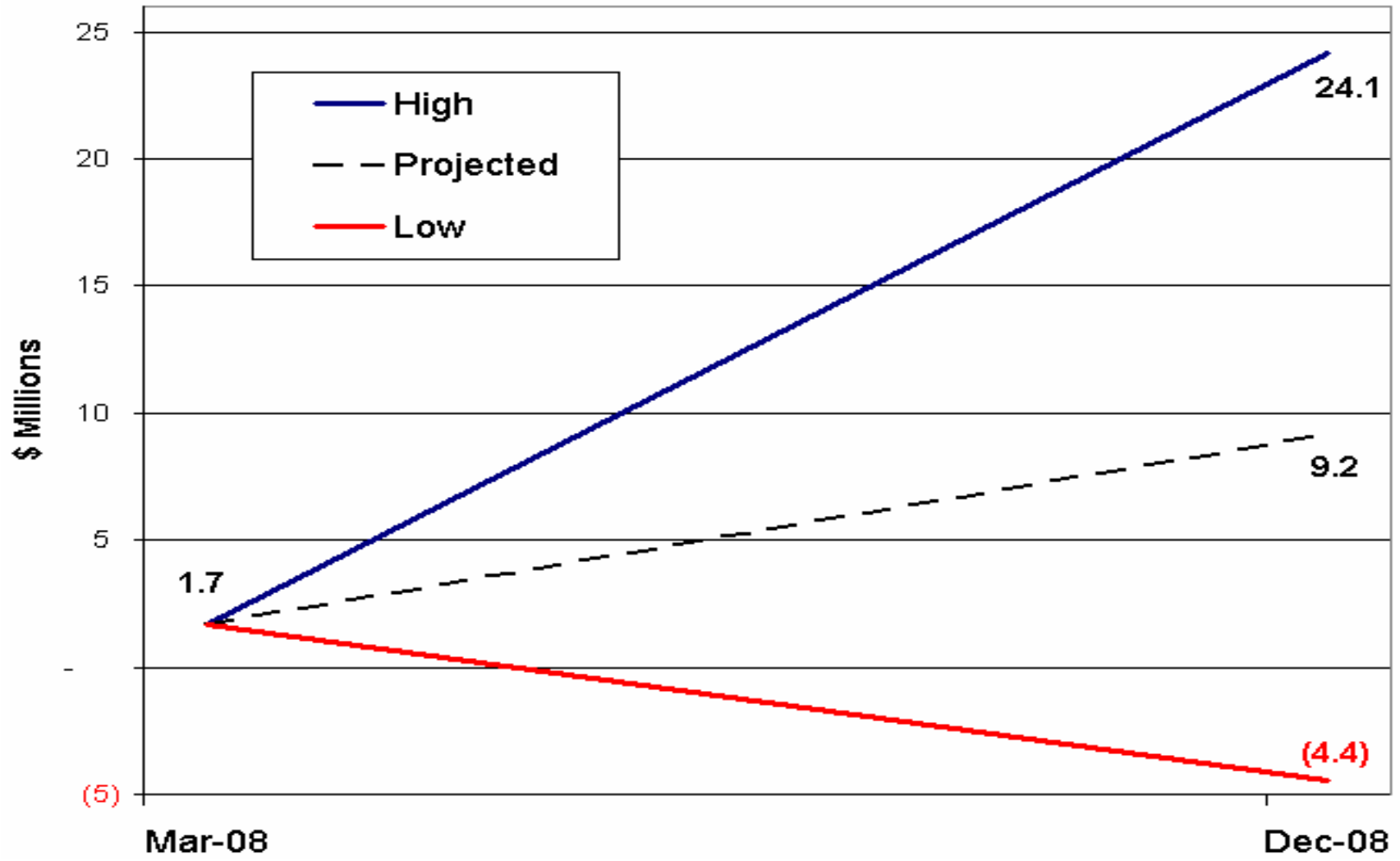
	YTD 3/31/08 Actual	YTD 3/31/08 Budget	Variance	
			\$	%
Operating Revenue	17,791	17,132	659	4%
Net Wholesale Margin	3,913	6,211	(2,298)	(37%)
Operating Expenses	(22,861)	(23,152)	291	1%
Operating Inc (Loss)	(1,157)	191	(1,348)	(706%)
Non-Op Exp (Inc)	(2,834)	(2,230)	(604)	(27%)
Change in Net Assets before CIAC	1,677	2,421	(744)	(31%)
Cap Contributions	657	1,229	(572)	(47%)
Change in Net Assets	2,334	3,650	(1,316)	(36%)
<i>Operating Ratio</i>	<i>103%</i>	<i>99%</i>		

# Combined Utility Services

(Projected vs. Budget in \$000s, including Wholesale)

	2008 Projected	2008 Budget	Variance	
			\$	%
Operating Revenue	57,376	57,125	251	0%
Net Wholesale Margin	32,993	35,024	(2,031)	(6%)
Operating Expenses	(87,077)	(85,236)	(1,841)	(2%)
Operating Inc (Loss)	3,292	6,913	(3,621)	(52%)
Non-Op Exp (Inc)	(5,890)	(8,186)	2,296	28%
Change in Net Assets before CIAC	9,181	15,098	(5,917)	(39%)
Cap Contributions	9,328	10,238	(910)	(9%)
Change in Net Assets	18,510	25,337	6,827	27%
<i>Operating Ratio</i>	<i>98%</i>	<i>95%</i>		

# Possible Changes in Utility Services Net Assets Before Capital Contributions by 12/31/2008



# Surcharge Potential for 2008

	<u>Wholesale Sales</u>	<u>Utility Services Change Net Assets</u>	<u>Debt Cover</u>
<i>High</i>	\$73M	\$24M	8.5
<i>2008 Forecast</i>	\$58M	\$9M	5.8
<i>Low</i>	\$45M	(\$4M)	3.2

“High” revenue has a 10% probability of occurring

“2009 Forecast” revenue has a 50% probability of occurring

“Low” revenue has a 10% probability of occurring

# 2008 Capital Expenditures

(\$000s)

	3/31/08 Actual	2008 Budget	Unspent	% Spent	2008 Projected
Distribution	2,723	23,000	20,277	12%	23,000
Networks	2,138	13,000	10,862	16%	12,545
Water/WW	1,070	7,900	6,830	14%	7,900
Hydros	3,639	49,000	45,361	7%	49,000
Internal Service	528	4,400	3,872	12%	4,400
Total	10,098	97,300	87,202	10%	96,845

*Includes Deferred (Relicensing) Costs*



That was the look at this year,  
now for the look at the  
future...

# 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 (bottom line) by 2011
- Limit the potential surcharge to 14% under unusual circumstances (10% probability of this outcome or worse in any year)

# Board Directed Strategic Actions

- Allocate capacity reservation funds (done Jul. 2007)
- Implement Networks rate increases (done Oct. 2007)
  - 2% on average for Networks service providers
- Implement financing plan including rate stabilization fund (done Dec. 2007)
- Proceed with the Networks business line using the current build with an emphasis on deployment in rural areas (doing)
- Proceed with the Electric, Water and Wastewater business lines using the balanced strategy (doing)
- Implemented Electric, Water and Wastewater rate increases (done Jan. 2008)
  - 5% for Electric, 9% for Water and Wastewater
- Perform a cost of service study for 2009 (in progress)
- Utilize cost of service information to recommend 2009 rate design (Jun.-Aug.)
- Review low income, senior and disabled discounts in conjunction with rate design (Jun. – Aug.)

# Forecast Assumptions – What's Changed?

Updated assumptions since last Board update on Feb. 4, 2008:

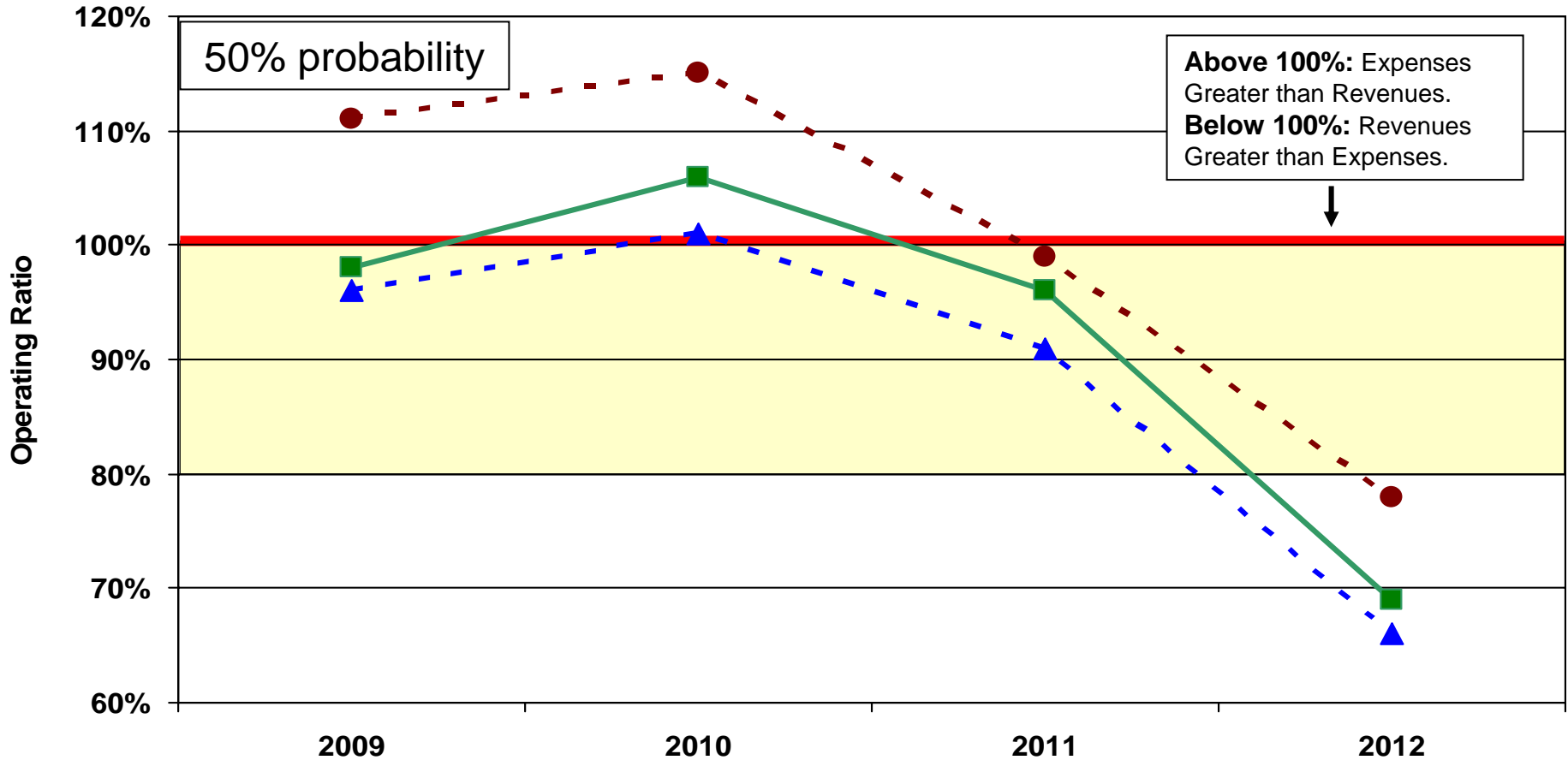
- Net wholesale probabilistic outcomes have improved for 2009 and beyond
- Updated base with 2008 budget forecast which improves beginning balances

# Known Unknowns

- Reliability standards
- Conservation requirements
- Renewable portfolio standards
- Hatchery requirements
- Survival standards
- Carbon cap and trade markets
- Water quality standards
- Wastewater treatment requirements
- Alcoa operating levels



# Utility Services Operating Ratio at a 50% confidence level



50% probability

**Above 100%:** Expenses Greater than Revenues.  
**Below 100%:** Revenues Greater than Expenses.

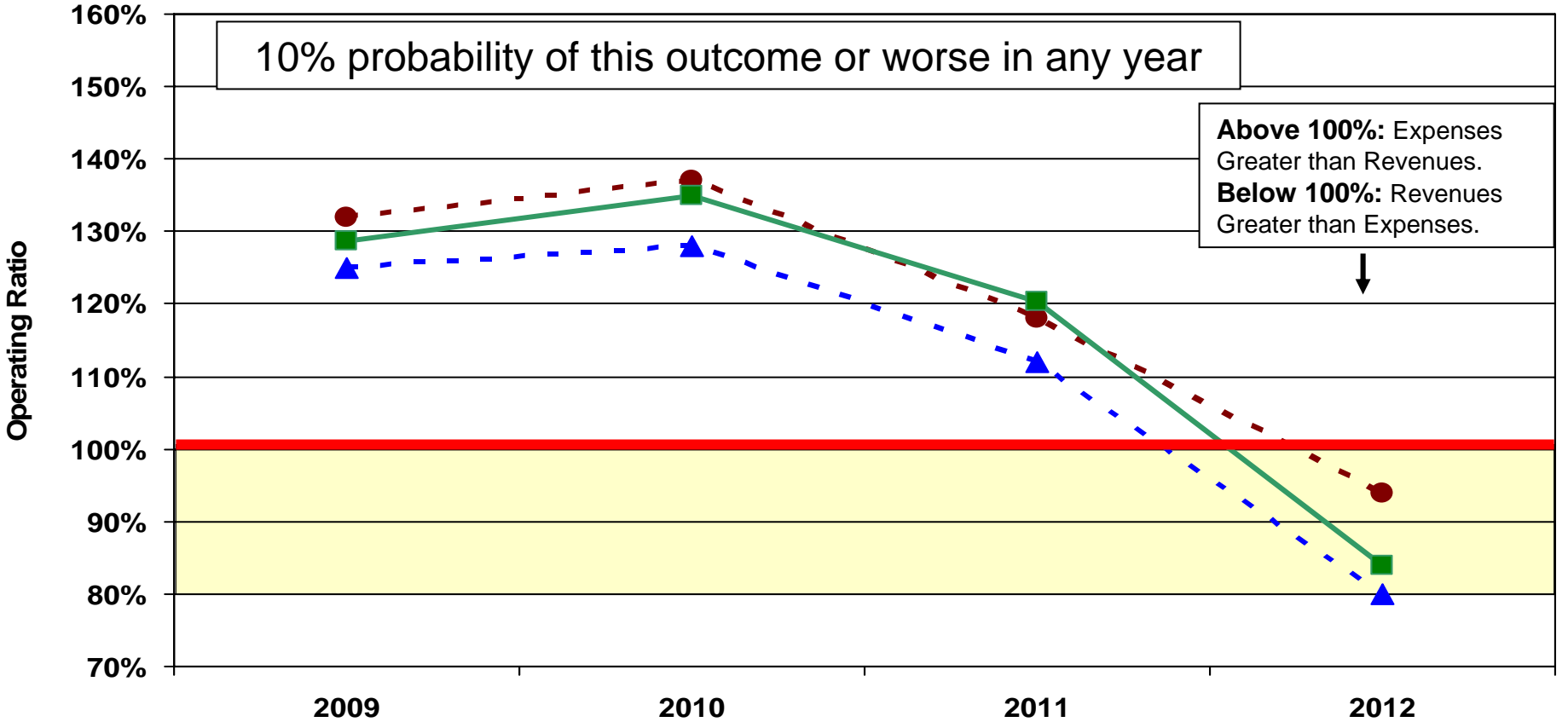
● - Board Balanced Strategy    ■ - Current State: No Future Rate Increases    ▲ - Current State: Future Rate Increases

Board "Balanced"  
 (5% Electric 2008-11, 9% W & WW 2008-12, implemented 1/1/08, NW focus on rural buildout)

Current State  
 Forecast as of 5/6/08  
 no rate increase post 2008

Current State  
 Forecast as of 5/6/08  
 5% Electric 2009-11 rate inc  
 9% W & WW 2009-12 rate inc

# Utility Services Operating Ratio at a 90% confidence level



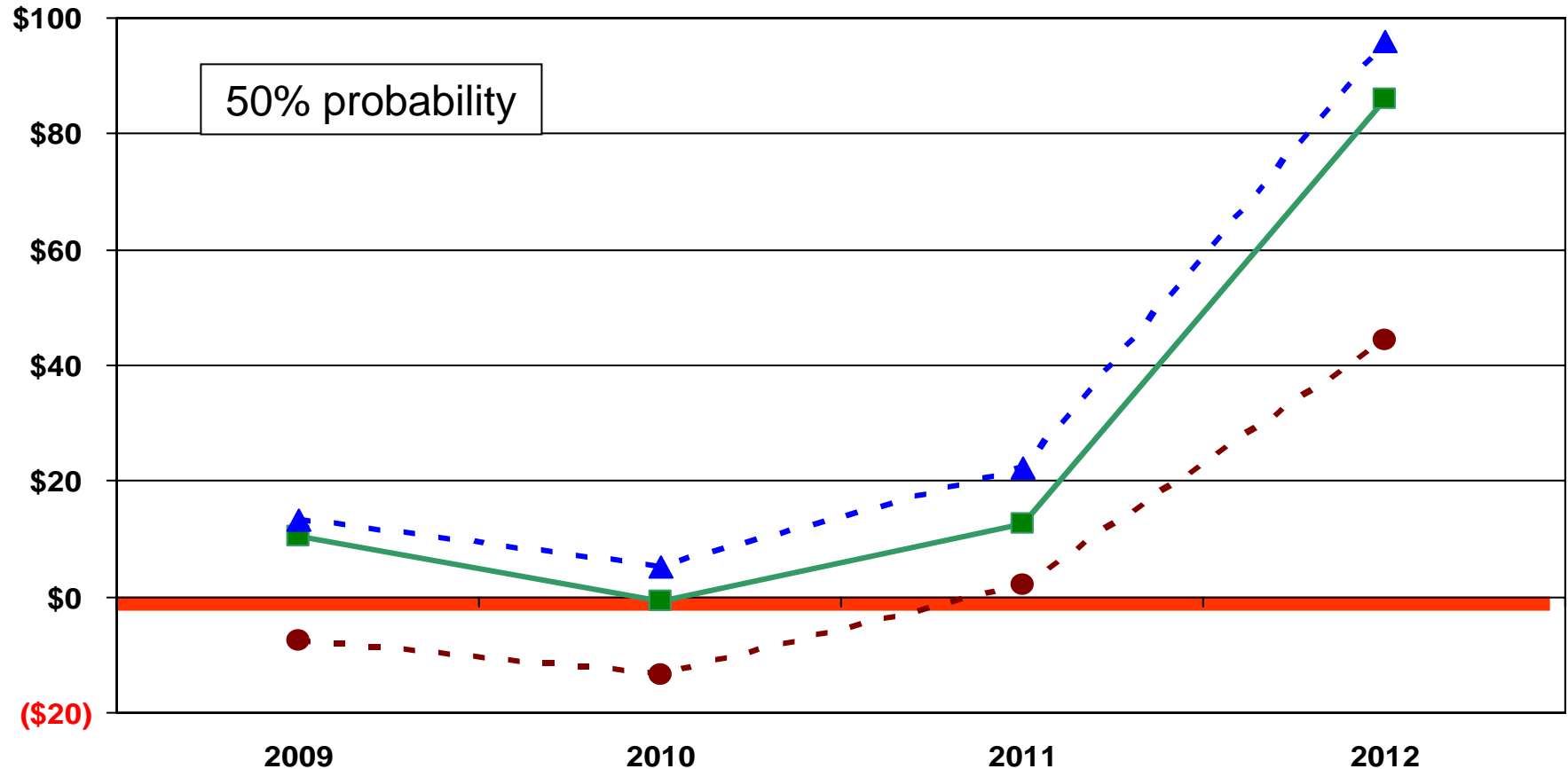
● - Board Balanced Strategy    ■ - Current State: No Future Rate Increases    ▲ - Current State: Future Rate Increases

Board "Balanced"  
 (5% Electric 2008-11, 9% W & WW  
 2008-12, implemented 1/1/08, NW focus  
 on rural buildout)

Current State  
 Forecast as of 5/6/08  
 no rate increase post 2008

Current State  
 Forecast as of 5/6/08  
 5% Electric 2009-11 rate inc  
 9% W & WW 2009-12 rate inc

# Utility Services Change in Net Assets at a 50% confidence level



- ● - Board Balanced Strategy 
 -■- Current State: No Future Rate Increases 
 -▲- Current State: Future Rate Increases

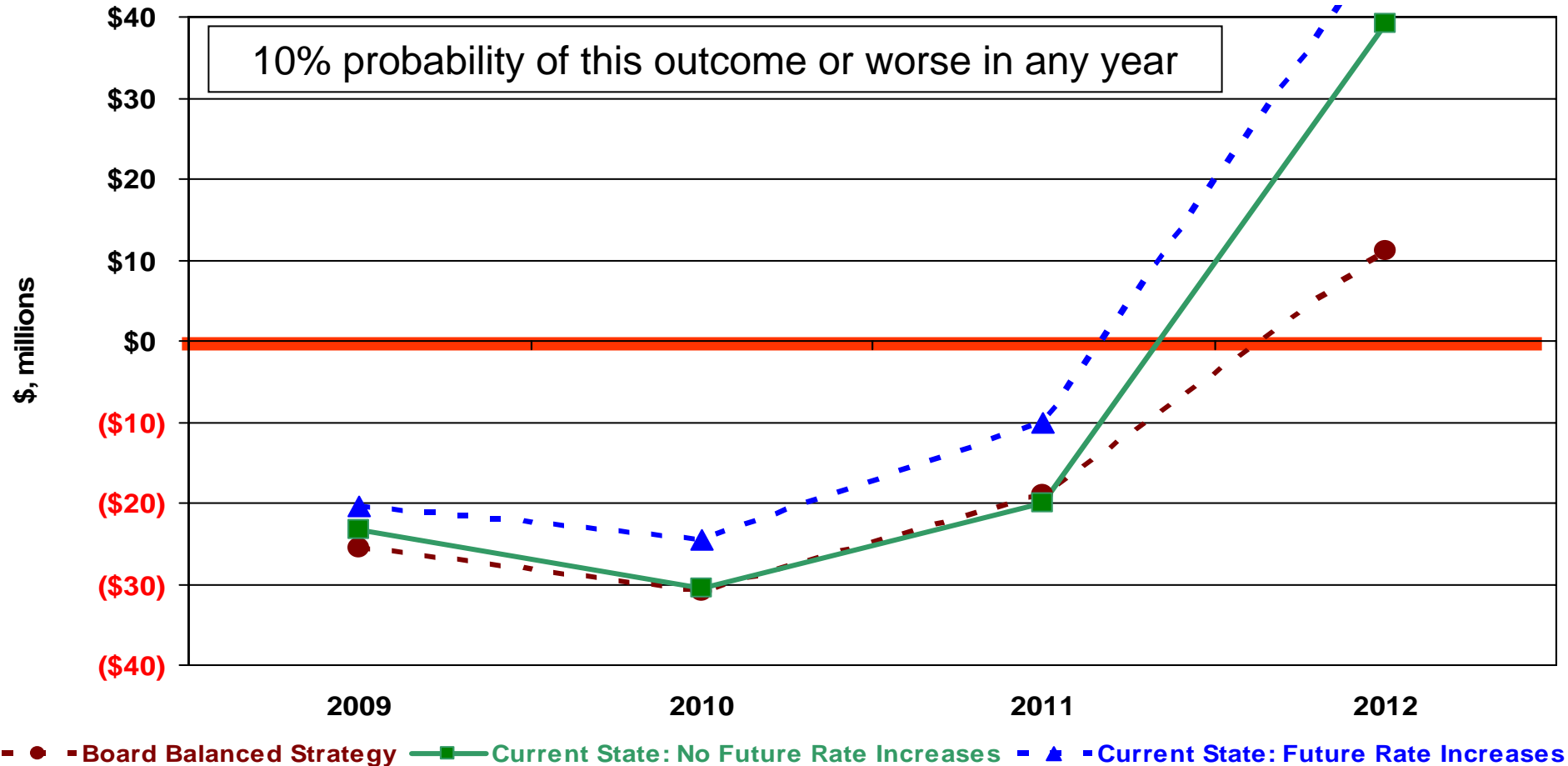
Board "Balanced"  
 (5% Electric 2008-11, 9% W & WW  
 2008-12, implemented 1/1/08, NW focus  
 on rural buildout)

Current State  
 Forecast as of 5/6/08  
 no rate increase post 2008

Current State  
 Forecast as of 5/6/08  
 5% Electric 2009-11 rate inc  
 9% W & WW 2009-12 rate inc

# Utility Services Change in Net Assets at a 90% confidence level

10% probability of this outcome or worse in any year



### Board "Balanced"

(5% Electric 2008-11, 9% W & WW 2008-12, implemented 1/1/08, NW focus on rural buildout)

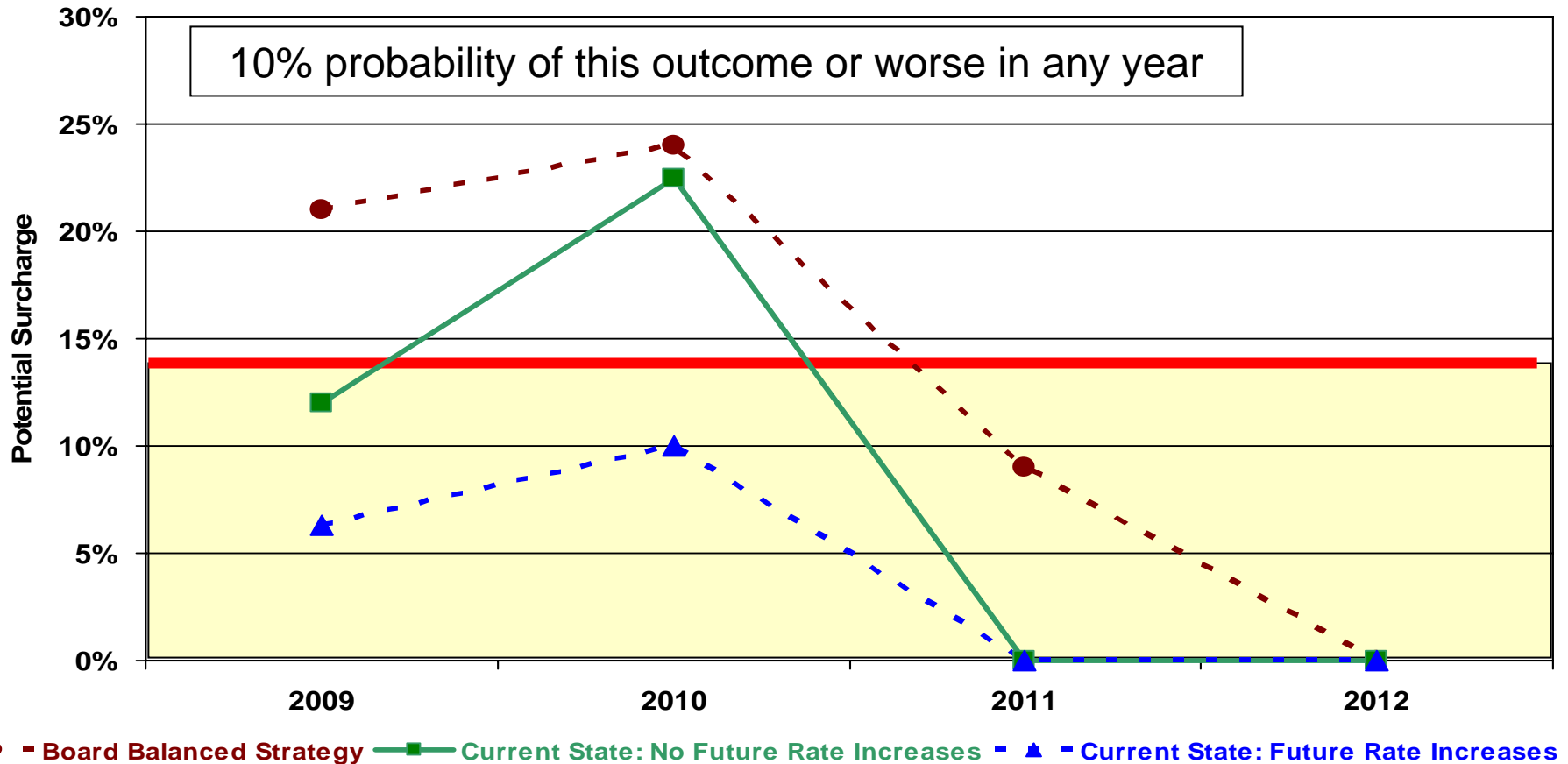
### Current State

Forecast as of 5/6/08  
no rate increase post 2008

### Current State

Forecast as of 5/6/08  
5% Electric 2009-11 rate inc  
9% W & WW 2009-12 rate inc

# Utility Services Surcharge Potential at a 90% confidence level to meet 1.25 debt coverage



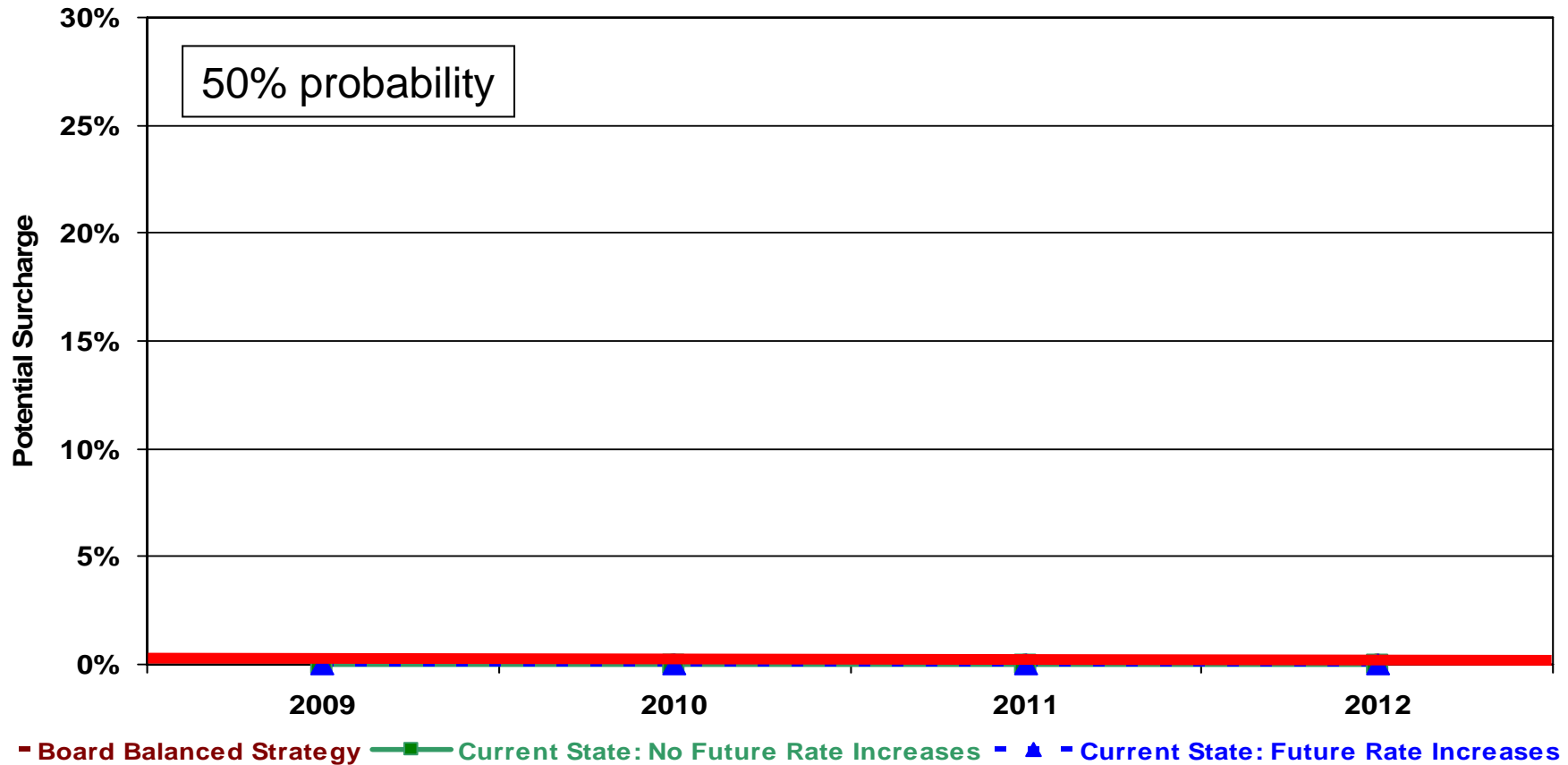
Board "Balanced"  
 (5% Electric 2008-11, 9% W & WW  
 2008-12, implemented 1/1/08, NW focus  
 on rural buildout)

Current State  
 Forecast as of 5/6/08  
 no rate increase post 2008

Current State  
 Forecast as of 5/6/08  
 5% Electric 2009-11 rate inc  
 9% W & WW 2009-12 rate inc

# Utility Services Surcharge Potential

at a 50% confidence level to meet 1.25 debt coverage

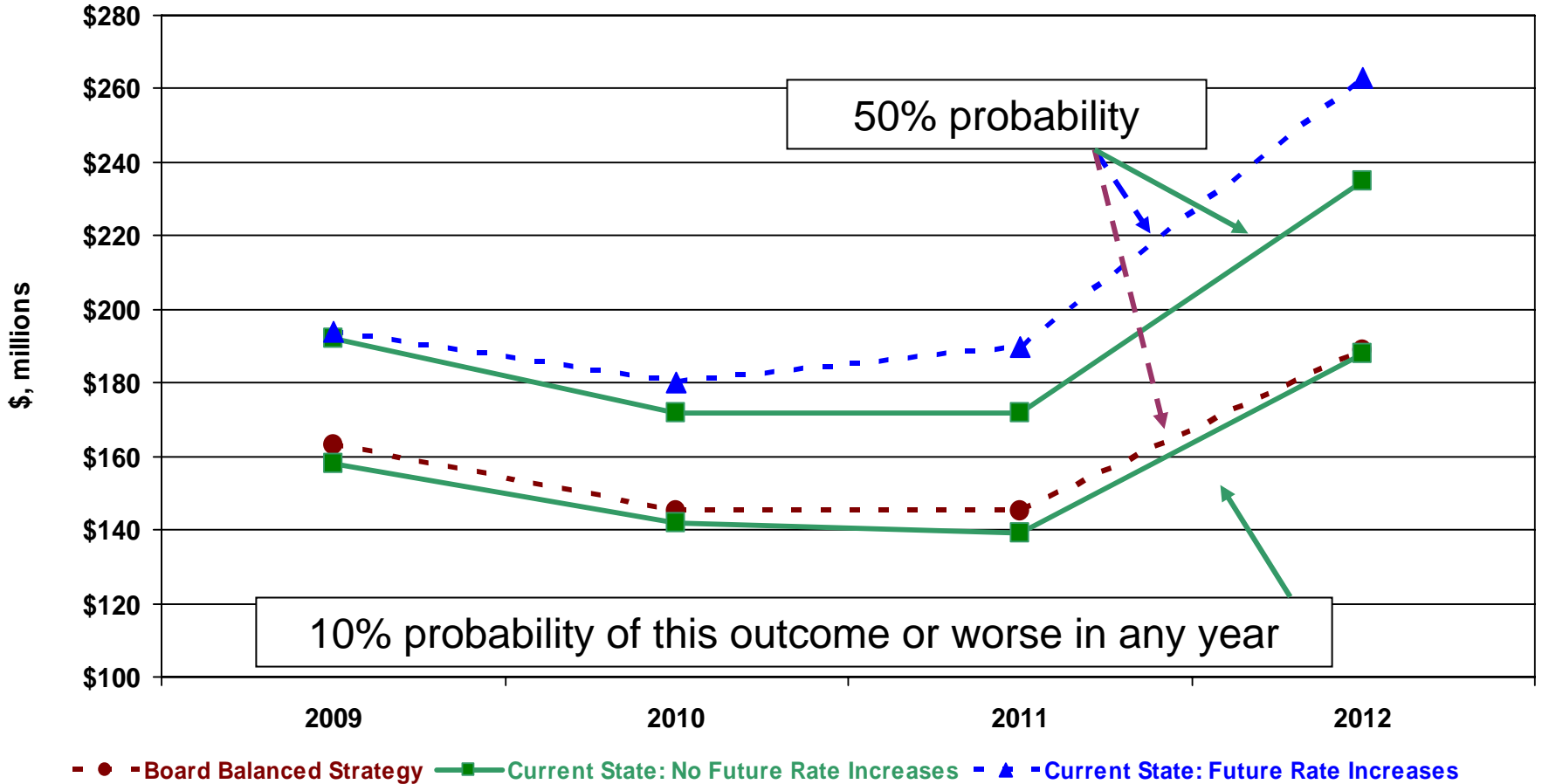


Board "Balanced"  
 (5% Electric 2008-11, 9% W & WW 2008-12, implemented 1/1/08, NW focus on rural buildout)

Current State  
 Forecast as of 5/6/08  
 no rate increase post 2008

Current State  
 Forecast as of 5/6/08  
 5% Electric 2009-11 rate inc  
 9% W & WW 2009-12 rate inc

# Utility Services Projected Cash Reserves



Board "Balanced"  
 (5% Electric 2008-11, 9% W & WW 2008-12, implemented 1/1/08, NW focus on rural buildout)

Current State  
 Forecast as of 5/6/08  
 no rate increase post 2008

Current State  
 Forecast as of 5/6/08  
 5% Electric 2009-11 rate inc  
 9% W & WW 2009-12 rate inc

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

## ➤ Need to keep “eyes on path”

2009 - on track

**2010 - stressed beyond current targets**

2011 - vulnerable

➤ Still reliant on wholesale sales to fill gaps

➤ Vulnerable to low wholesale outcomes

➤ Increasing upward pressure on costs

➤ List of known unknowns continues to grow

➤ **Actions still required to maintain future financial health**

# Summary

Wholesale sales have been strong

- Cooler than normal spring – late runoff
- Wholesale prices are high
- Have had to buy some energy in April due to late runoff and restricted Lake Chelan Operation

Capital spending showing typical start for the year

Retail sales of electricity are higher in Q1 due to colder weather

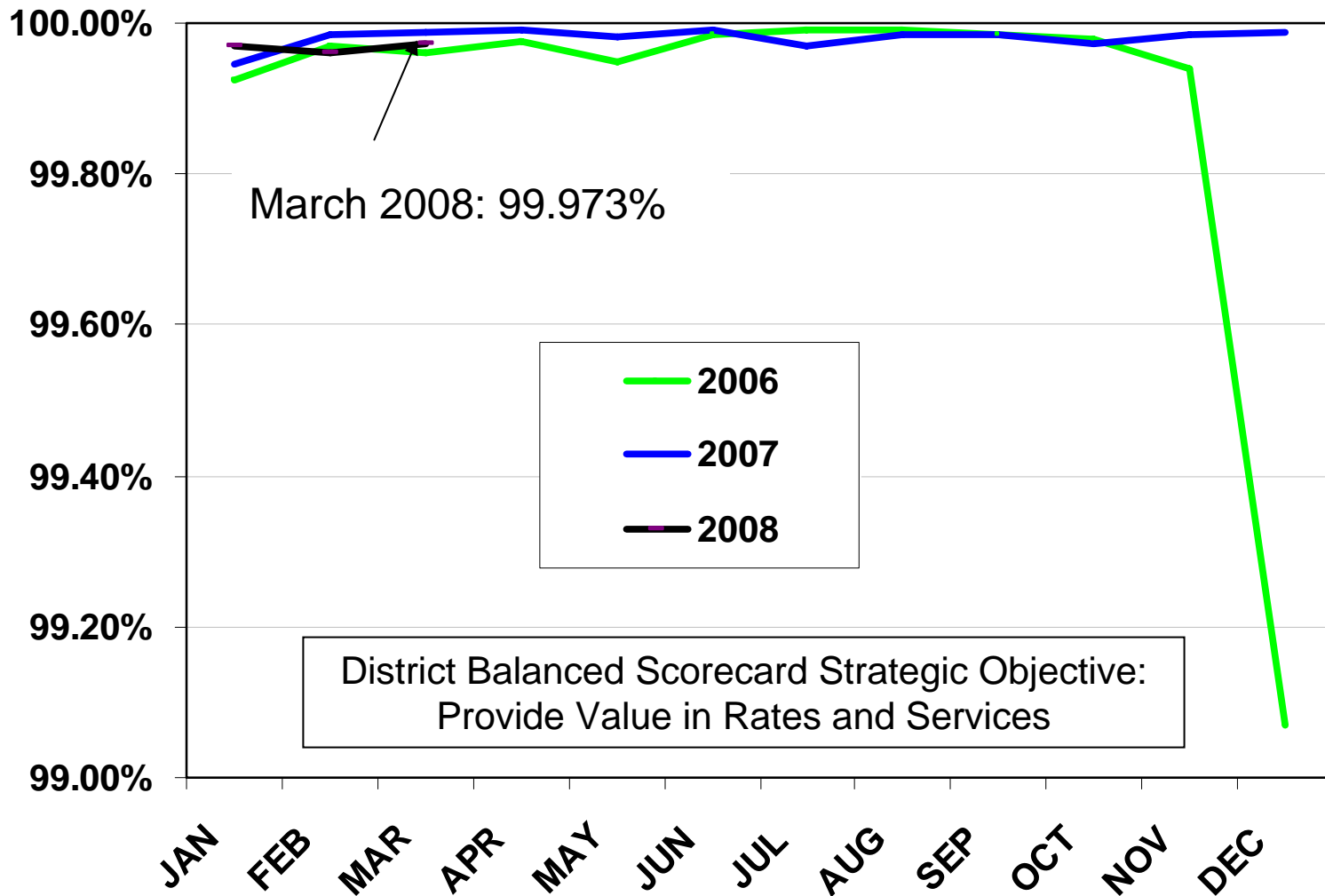
- Colder than average weather
- Higher use by retail customers

Projected results for 2009-2012 indicate we need to continue to strengthen the retail businesses to meet financial targets (especially 2010)

# Additional Graphs and Tables

# Distribution Reliability (ASAI)

YTD 3/31/08 - 99.968%



# Networks Take Rates

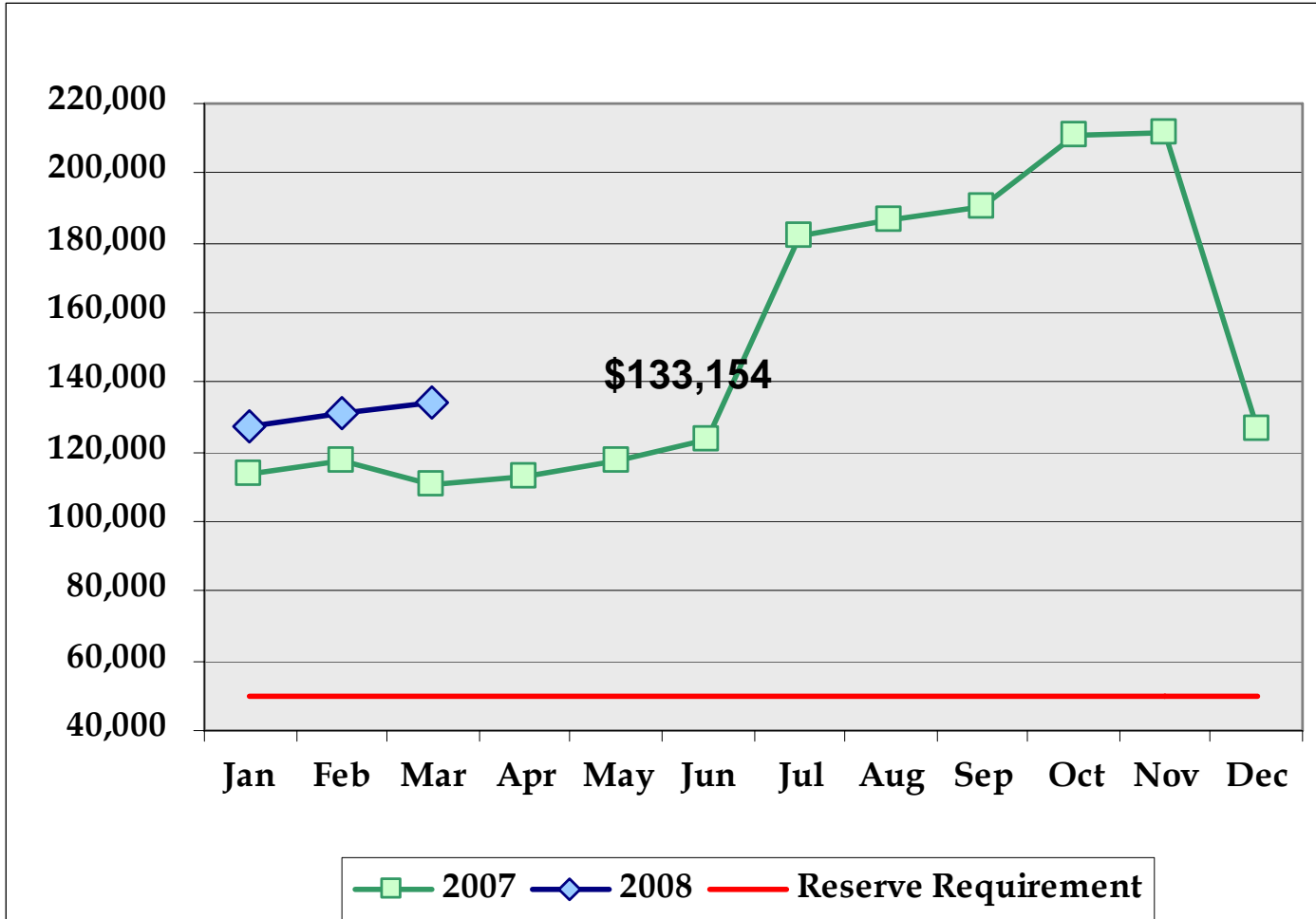
	Target	Actual
Internet	24.9%	25.1%
Telephone	16.9%	17.1%
Television	12.2%	12.3%
Overall	28.1%	28.4%

Take rate is the percent of lit premises that have an active connection.

District Balanced Scorecard Strategic Objective:  
Provide Value in Rates and Services

# Distribution Cash Reserves

(\$000)



District Balanced Scorecard Strategic Objective: Maintain Financial Stability

# Networks

## Cost to Connect

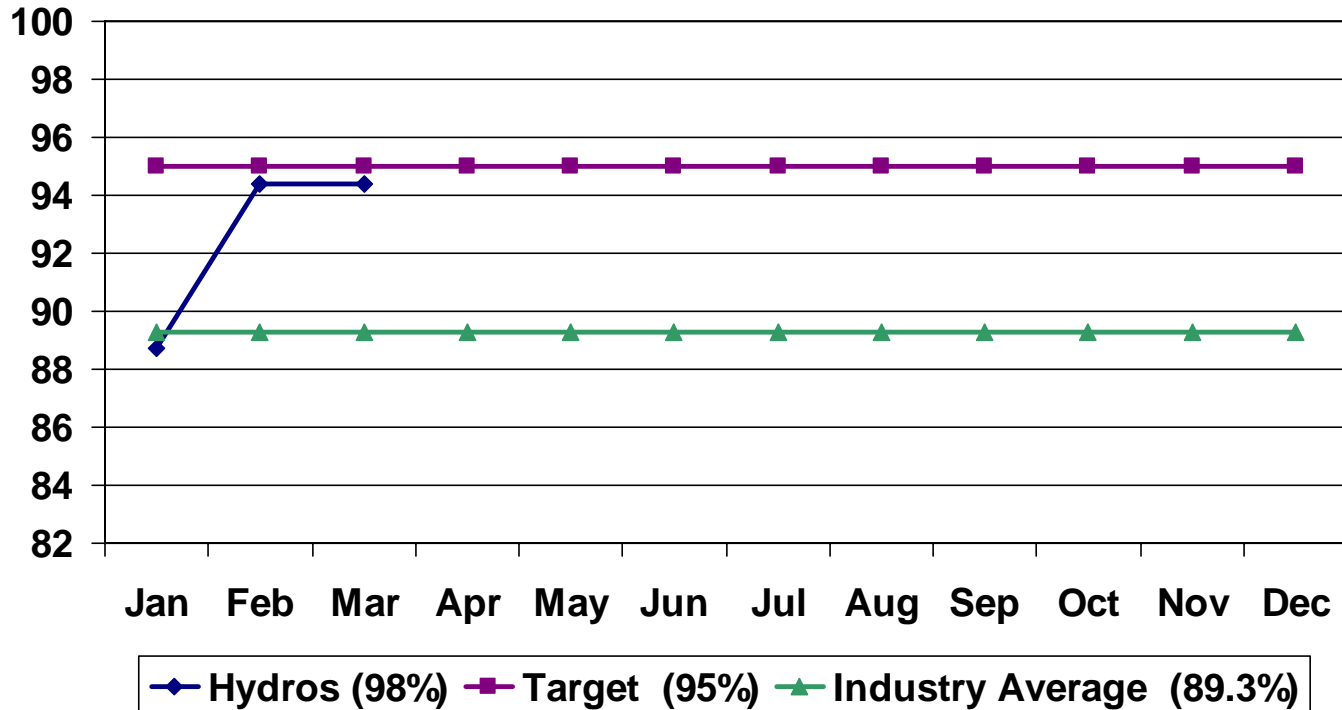
	Target	Actual
YTD Cost per Connection	\$1,100	\$1,059
YTD Cost per Lit Premises	\$2,300	\$1,555

District Balanced Scorecard Strategic Objective:  
Improve Efficiency

# Hydro Availability

YTD as of 3/31/2008

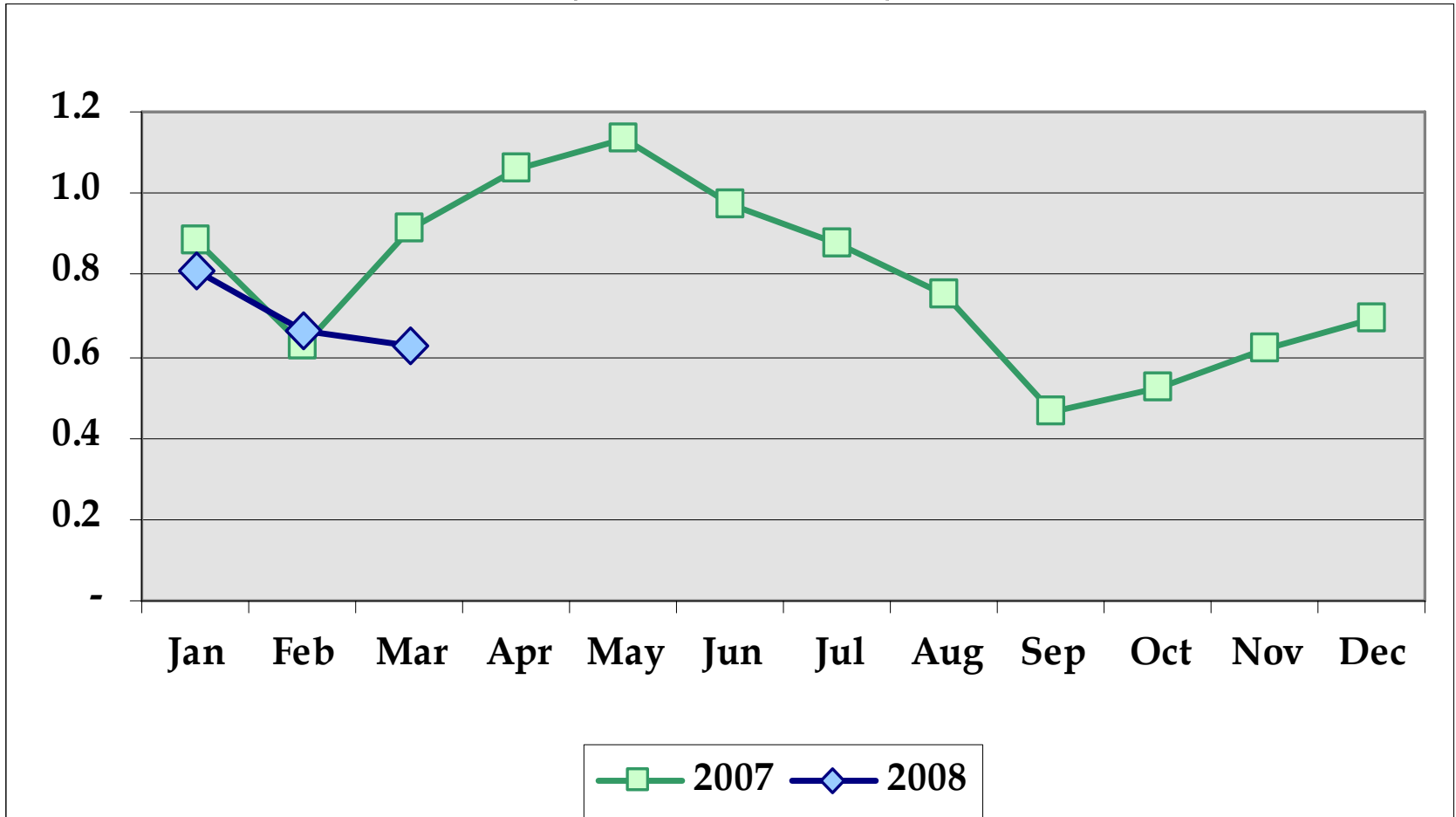
- Rocky Reach – 99%
- Lake Chelan – 100%
- Rock Island – 91.7%



Supports Strategic Objective:  
Build & Maintain Utility Assets

# Net Power Delivered

(Million MWh)



Supports Strategic Objective:  
Improve Efficiency