

# 2007 Contingency Planning

**PUBLIC INFORMATION MEETINGS**

January 22, 23 and 24, 2007

# Agenda

- Introductions
- Financial overview
- Surcharge process
- Questions

# Pressures on PUD Finances

## Stresses to the bottom line:

- Increasing costs
  - Aging infrastructure (hydro, hatcheries, electric, water, parks)
  - Benefit cost increases  
(PERS, health, retiree medical)
  - Materials cost increases (fuel, steel, copper)
  - Rocky Reach, Lake Chelan relicensing requirements
  - 2007 wind storm approximately \$2 million

# Pressures on PUD Finances

## Stresses to the bottom line:

- Reliance on surplus wholesale sales
  - Decreasing surplus power to sell (load growth in PUD service territory)
  - Volatile revenue source
    - Water supply
    - Price
    - Other
  - Rates don't cover cost to serve local customers

# Financial Health Indicators

- Reserves

*Do you have enough cash for a rainy day?*

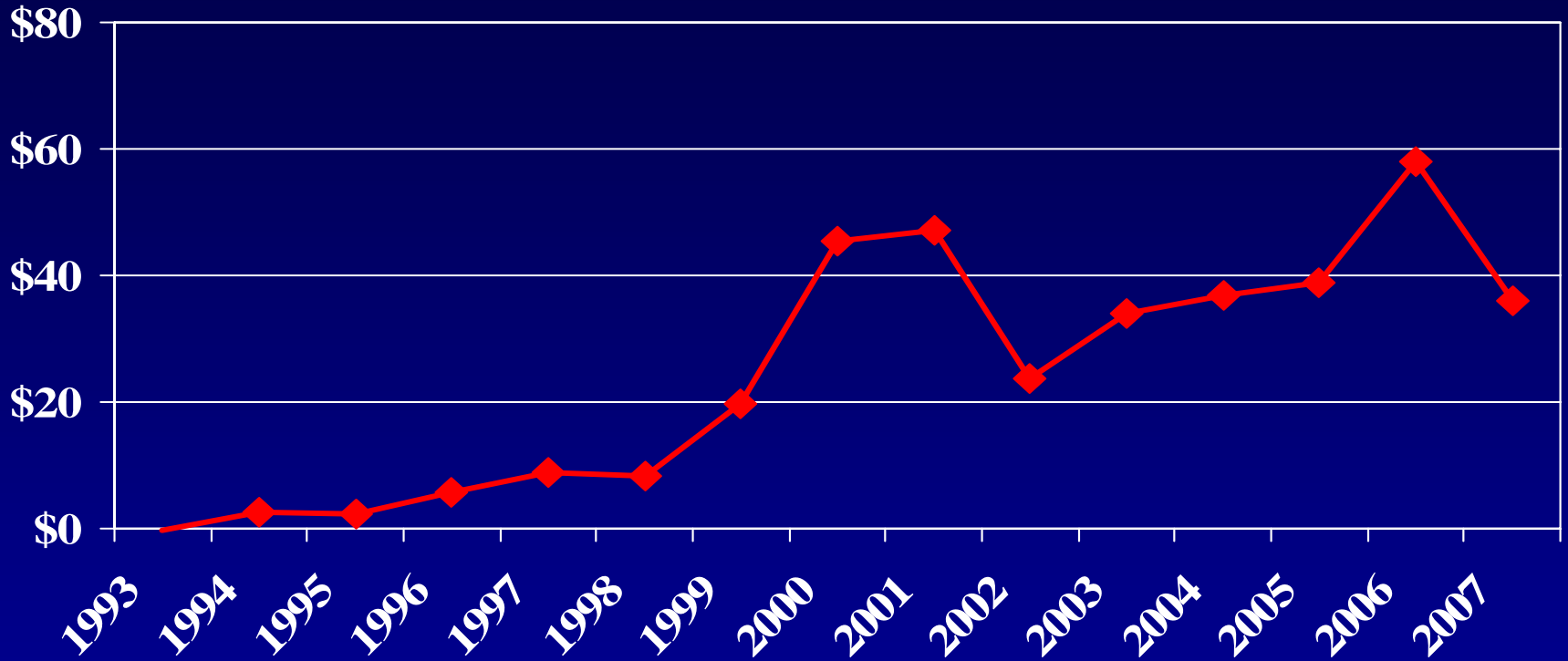
Yes, for now

- Debt Coverage

*Do you have enough money left after buying groceries to pay the mortgage on your home?*

Not during periods of low water or low market prices

# Wholesale Revenue



Wholesale revenue can change dramatically each year and is influenced by many factors....

Amount of Water

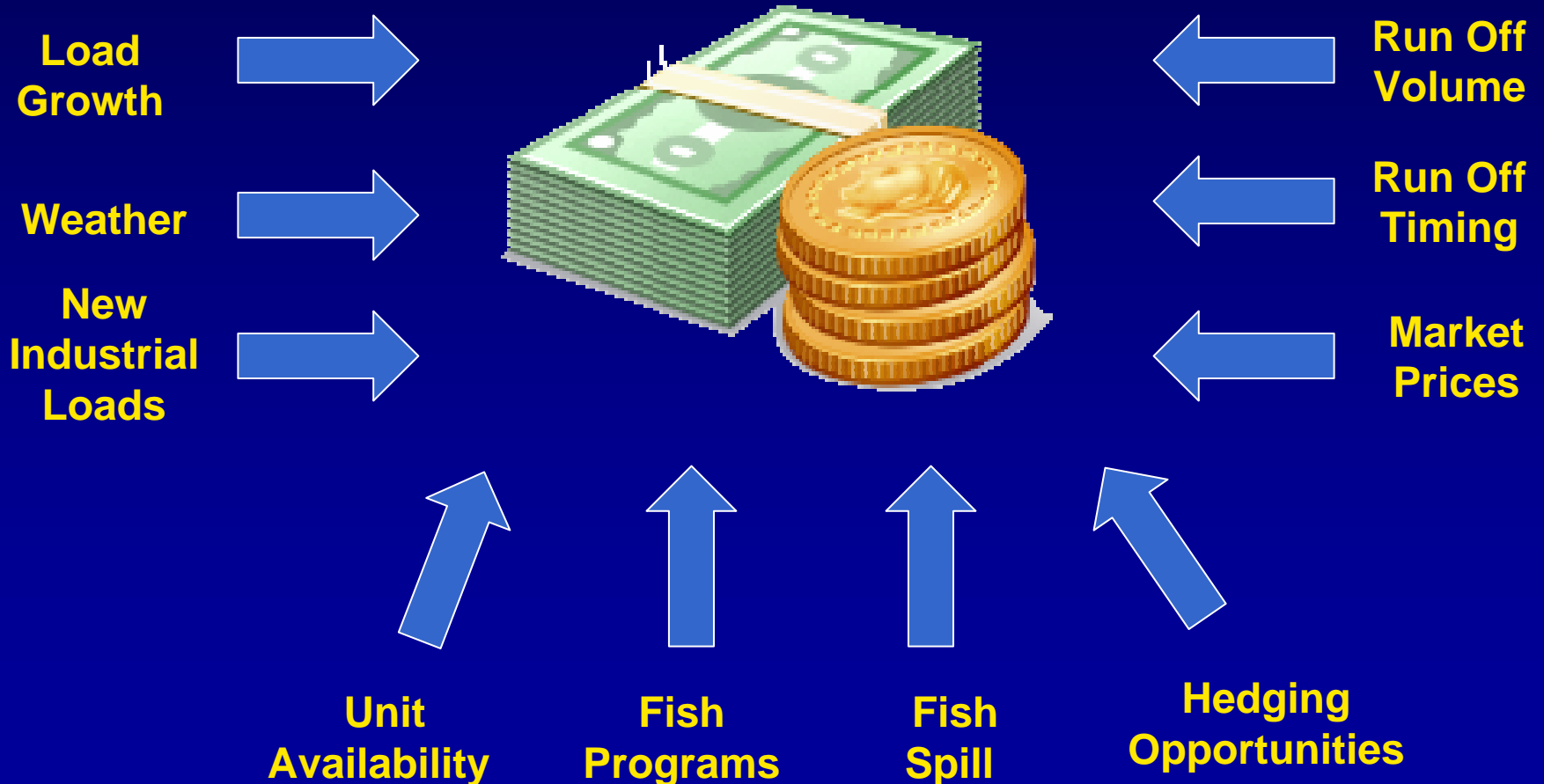
Local Load

Market Price

Temperatures

Runoff Timing

# Wholesale Revenue Drivers



# 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 runoff (Jan-Jul)

Year	Water
2003	86%
2004	84%
2005	89%
2006	106%
2007	85-107%*

Early Winter has been very wet, but the El Niño effect on the overall water supply for 2007 is uncertain. El Niño ocean currents are still forecasted to cause lower-than-average precipitation in late winter and early spring.

\* Likely range of outcomes

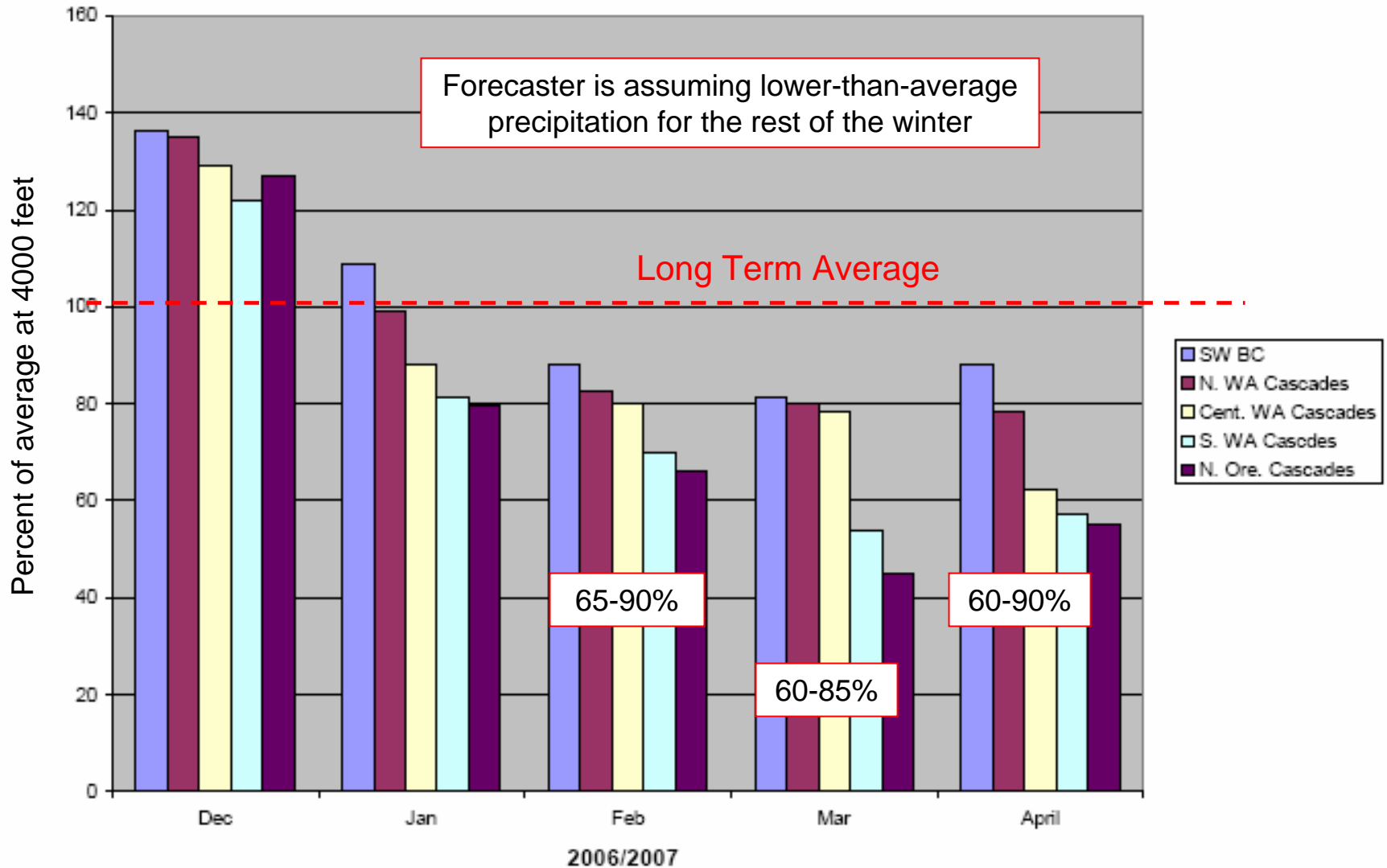
# What others are saying....

NOAA – Northwest River Forecast Center Water Supply Forecast

Date of Forecast	Jan-Jul Forecast at Grand Coulee 75% future precip	Jan-Jul Forecast at Grand Coulee 100% future precip	Jan-Jul Forecast at Grand Coulee 125% future precip
December 21, 2006	No run	106%	No run
December 28, 2006	85%	102%	120%
January 8, 2007	82%	100%	117%
January 19, 2007	87%	100%	114%

# What others are saying....

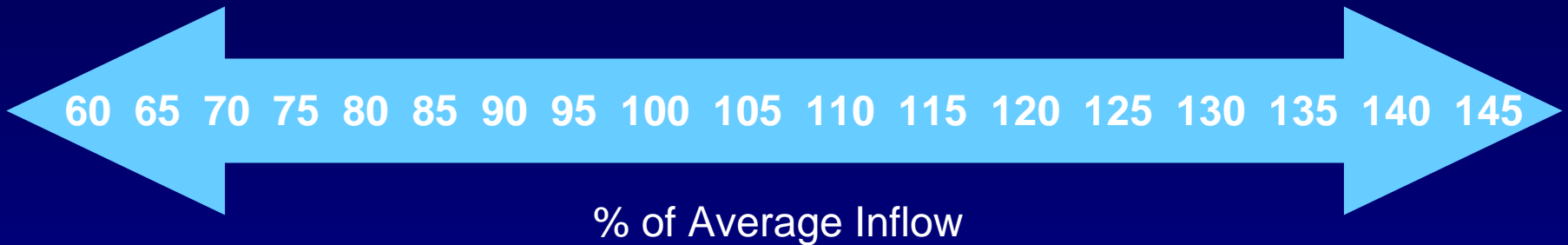
Private Forecaster



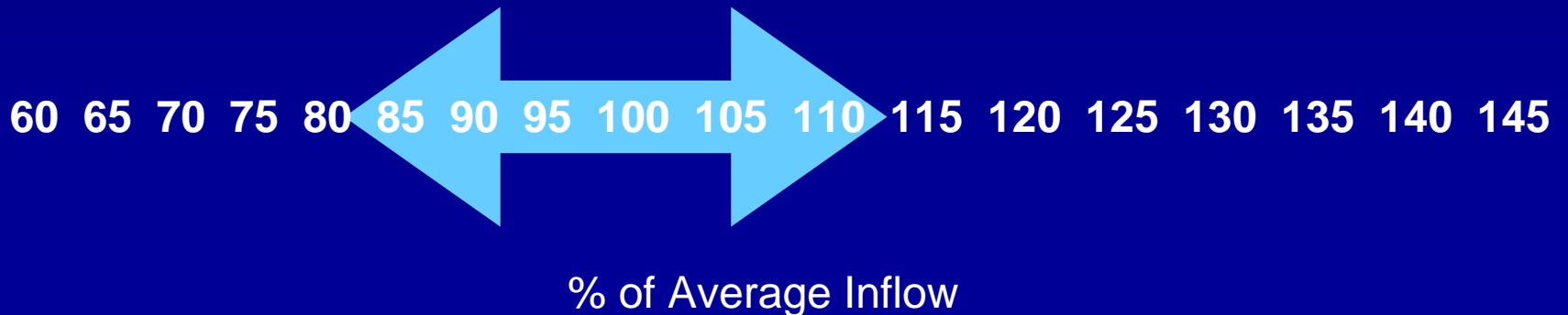
# Range of Likely Columbia River Inflow Outcomes

Then and now...

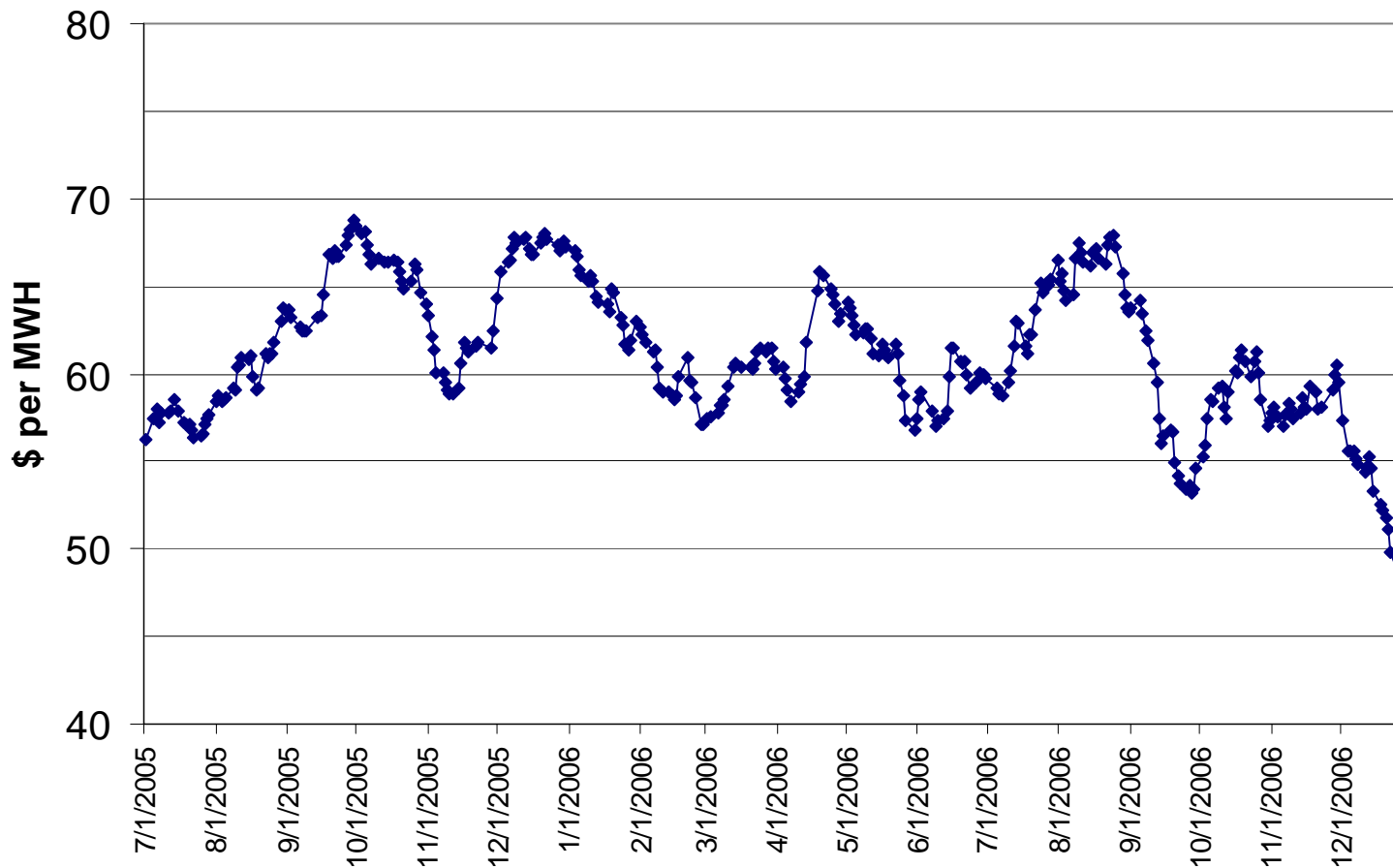
As of 11/06/06



As of 1/22/07



### Cal07 Flat Price vs Date



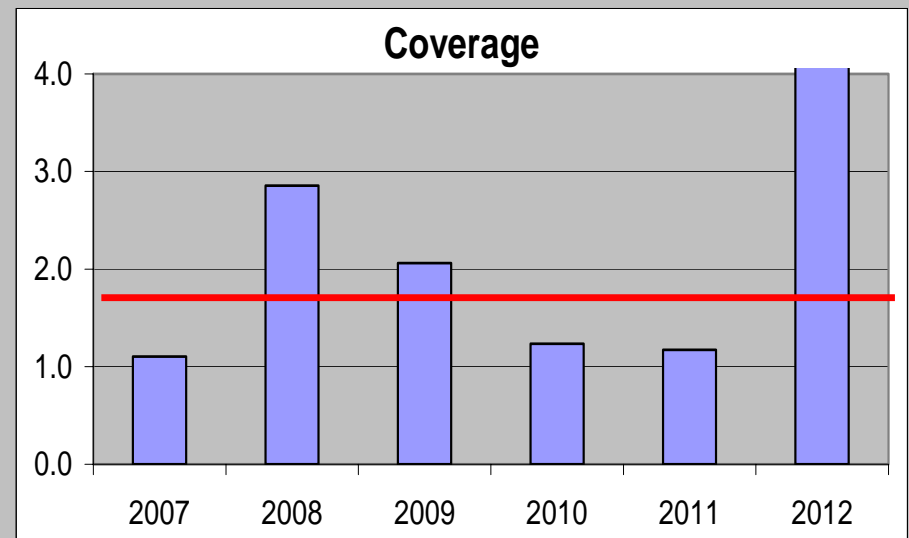
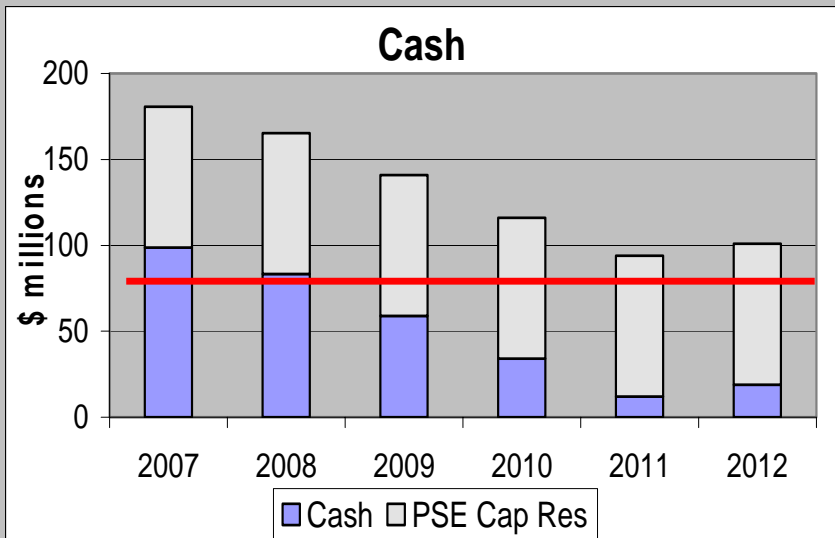
# Estimated Cash and Coverage

## \$31M Surplus 2007

(85% Water, Current Price Less \$10/MWHR.)

## 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)

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Debt Service Costs

(Principal and Interest Payments on Utility Debt)

# Potential 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

- \$27 Million in excluded budget line items for 2007\*
- Equivalent of 19 full-time positions are being trimmed over 2007
- Some cuts are unsustainable
- Significant cost pressures
  - Relicensing costs
  - Aging infrastructure
  - Tight labor market
  - Benefits cost (OPEB, Health ins.)
  - Materials, fuel
  - 2007 wind storm
- *Additional budget cuts would likely degrade service levels to an undesirable level*

\* Includes capital (\$13.2 million) and O&M (\$13.8 million) items. Capital reductions reduce future related O&M expense.

# Decrease Debt Service Costs

## Why not pay down debt to lower debt service costs?

- Avoiding \$180 million in new debt by funding non-hydro capital with reserves
- Reserves projected to be down to \$96 million by 2011
- Could pay down debt in 2007 but would likely have to borrow in future years for non-hydro 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

# Debt Coverage Ratio

Operating Revenues - Operating Expenses

(Utility Revenue + Wholesale Revenue)

(Utility Expenses Non-Hydro)

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Debt Service Costs

(Principal and Interest Payments on Utility Debt)

Electric Retail Revenue = (MWH \* rates) + (MWH \* surcharge)

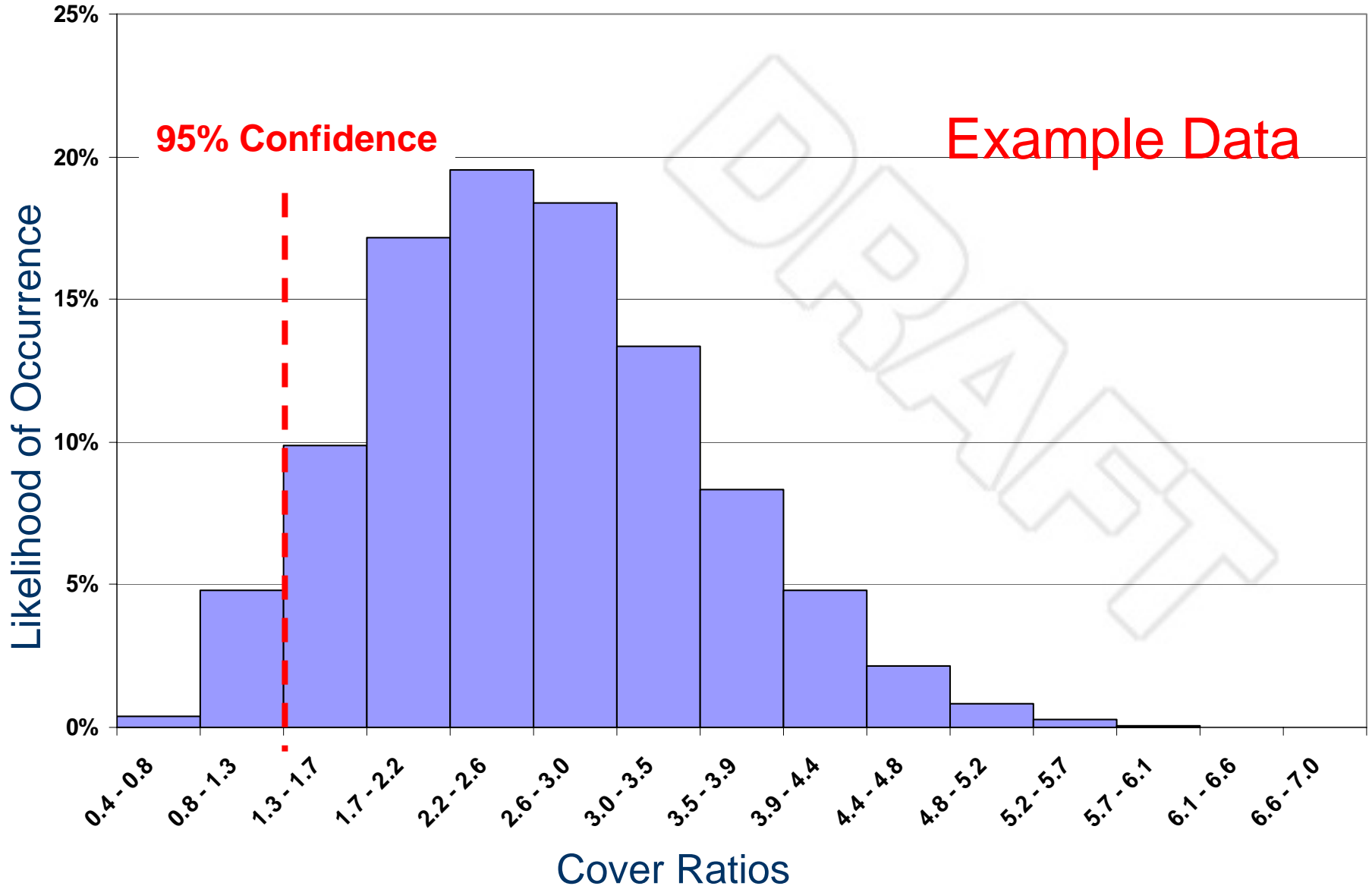
Solve equation for surcharge



# Process to Determine Potential Surcharge %

- Establish likely range of runoff on Feb 8th
- Use water years from last 20 years that fit in likely range
- Update current forward price curve and price volatility for future months based on last 2 months movements
- Estimate retail electric revenue
- Estimate net operating costs
- Calculate debt service
- Establish minimum Cover Ratio
- Establish desired confidence for meeting/exceeding cover ratio

# 2007 Cover Ratio Probabilities



# Uncertainties

- New industrial loads
- Water/price cross correlations
- Forward market prices
  - Load risk
  - Delivery Risk (constrained transmission)
  - Event risk (unit outages, etc.)
  - Liquidity risk

# Uncertainties

- Retail revenue elasticity
- Net operation costs (actual vs. budget)
- Alcoa operations
- Generating unit operations

Establish desired minimum  
Cover Ratio = 2.0 (??)

# Surcharge vs. Rate Increase

What's the difference?

## Surcharge (as proposed)

- Temporary
- All customers pay same %
- Pct. of total bill
- Use for revenue shortfall due to low water or price

## Rate Increase

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

***Planned future strategy discussions will decide whether to propose permanent rate increases***

# Surcharge Application

## Electric Distribution Rate Schedules

- Residential\*
- Commercial\*
- Industrial
- Street Lights
- Frost Protection
- Irrigation
- City of Cashmere

\*Includes Stehekin

# Surcharge Application

Applies to the following bill elements

- Base charge
- Energy charges
- Demand charges
- Flat rates (area/street lighting)
- Minimum charge
- Applied to discounts

***Prorated when turned on/off***

# Monthly Impact on Residential Customers

(March – December 2007 )

Revenue Needed (All Classes)	Revenue Increase	Monthly Increase (2006 average*)	Monthly Increase (Higher usage*)
\$1,000,000	3%	\$ 1.30	\$ 2.25
\$2,000,000	6%	\$ 2.60	\$ 4.50
\$3,000,000	9%	\$ 3.90	\$ 6.75
\$4,000,000	12%	\$ 5.20	\$ 9.00
\$5,000,000	15%	\$ 6.50	\$ 11.25
\$6,000,000	18%	\$ 7.80	\$ 13.50
\$7,000,000	21%	\$ 9.10	\$ 15.75
\$8,000,000	24%	\$10.40	\$18.00
\$9,000,000	27%	\$11.70	\$20.25

\*2006 average is based on 1,550 kWh usage from March – Dec 2006,  
higher example is based monthly usage of 2,635 kWh's

# Surcharge Consideration

## Customer residential bills vary

- Lowest monthly bill before taxes **\$12.25**
- Large monthly bills can reach over **\$300**
- Average bill for the March – December 2006 time frame was approximately **\$43.50**

## Equal Pay Program

Depending upon size of surcharge, equal pay amount may need to be adjusted

# Monthly Impact on Other Classes

*\*Based on average bills*

Revenue Needed (All Classes)	Revenue Increase	Monthly Commercial	Monthly Irrigation	Monthly Frost Prt.
\$1,000,000	3%	\$ 6.00	\$ 4.00	\$ 2.50
\$2,000,000	6%	\$ 12.00	\$ 8.00	\$ 5.00
\$3,000,000	9%	\$ 18.00	\$ 12.00	\$ 7.50
\$4,000,000	12%	\$ 24.00	\$ 16.00	\$ 10.00
\$5,000,000	15%	\$ 30.00	\$ 20.00	\$ 12.50
\$6,000,000	18%	\$ 36.00	\$ 24.00	\$ 15.00
\$7,000,000	21%	\$ 42.00	\$ 28.00	\$ 17.50
\$8,000,000	24%	\$ 48.00	\$ 32.00	\$ 20.00
\$9,000,000	27%	\$ 54.00	\$ 36.00	\$ 22.50

# Want to Know How This Might Affect You?

Please call and we can tell you how your bill would change if a surcharge is added.

Call: PUD Customer Service

John Stoll

(509) 661-4539

- or -

Scot Erickson

(509) 661-4343

# Recommended Actions

## Long-term strategic actions

- Complete strategic planning process
  - Present options to close financial and operational gaps
  - Set policy that supports accepted action plans
- Align organization for optimal performance and efficiency
- Improve internal processes

## Short-term actions

- Implement rate surcharge mechanism for unexpected events
  - Low water conditions
  - Low price conditions
  - Other variables

# Contingency Plan Timeline

Nov. 13	Initial board presentation
Nov. 27	Discuss contingency plan and surcharge structure
Nov. 27	Establish surcharge structure
Dec. 11	Finalize financial plan for 2007
Dec. 11	Set meeting dates, give official notice of hearing
Jan. 3	Wenatchee informational meeting
Jan. 22	Wenatchee informational and board meeting
Jan. 23	Chelan informational meeting
Jan. 24	Leavenworth informational meeting
Feb. 12	Formal rate hearing
<b>Feb. 20</b>	<b>Make final decision on surcharge</b>
Mar. 1	Rate surcharge effective date

Questions?