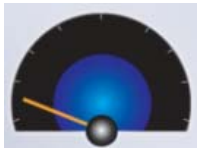




Gauges and dials: What they mean

During the presentation, you will hear about gauges and dials (and see drawings). Think of these gauges (listed below) as indicators the District can use to monitor financial position and overall risk to the utility. Many of the policy and action choices being discussed tonight will change the readings on these gauges. We hope this list will help familiarize you with the terms and help you see that all the choices facing PUD board members and management have consequences and affect various financial measures.



Gauges

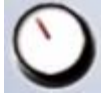
- **Operating Ratio** – Operating expenses (including depreciation) divided by operating revenues. The ratio shows if you have a gap between your revenue from rates and your operating costs. A ratio of 100 percent or less means your rates are generating enough revenue to cover your operating costs, while a ratio of greater than 100 percent means your rates don't generate enough revenue to cover operating costs.
- **Cash Reserve Levels** – Cash reserves represent unrestricted cash available for contingencies, capital, and working capital requirements. Reserves allow the District to continue normal operations and meet its financial obligations during emergencies.
- **Debt Coverage Ratio** – Net income, with depreciation and interest expense added back, divided by debt service (principal plus interest). Think of it as whether you have enough left after paying living expenses to make your house payment. It shows your ability to pay your current year debt service with net funds generated from your current year operations. Cash reserves do not impact this ratio.
- **Debt Levels** – The amount of external debt the PUD has. It represents the balance due on money borrowed externally to fund primarily capital needs.
- **Cash Flow Volatility** – The range of increases or decreases to unrestricted cash that can occur due to operations and capital spending. The higher the volatility, the more risk.

Think of these dials below as the various action plans or tools the District has available to affect its financial position and mitigate potential risks. Turning one dial will impact the gauges (listed on the previous page) and can require adjustments in other dials as well.



Short-Term Dials

- **Operations and Maintenance (O&M) Spending** – Growth rate of expenses to provide utility services, which includes real (expansion of our services) and inflationary growth.
- **Capital Spending Level / Cash Financing of Capital Level** – Amount of money the District spends on capital improvements and the amount of those expenditures that is being funded by cash reserves and current rates.
- **New Service Charges and Fees** – How much the District charges for new services (i.e. line extensions, new meters, water and sewer hookups, etc.).
- **Reliance on Wholesale Sales** – The amount of wholesale electricity sales we count on to cover our operating gaps each year.
- **Service Levels** – The quality and quantity of services the District provides.
- **Use of Puget Sound Energy payment (capacity reservation charge)** – The capacity reservation charge was received from Puget Sound Energy when the PUD entered a new long-term power contract with them for post-2011 power. The funds can be used at the sole discretion of the PUD.
- **Retail Rates** – Adjustments to retail rates.
- **Power Cost Adjustment** – A component of a rate that reflects the impact water conditions and wholesale market prices have on the cost of generating electricity. The Power Cost Adjustment can be positive or negative depending on the level of the related costs.
- **Contingency Plans/Surcharges** – Plans made to deal with bad water years or other circumstances that may adversely affect the District.
- **Taxing Authority** – RCW 54.16.080 grants PUD's the authority to levy an annual tax on the taxable property within the District. The tax rate may not exceed 45 cents per thousand dollars of assessed value in any one year.



Long-Term Dials

- **Power Sales Contracts** – The PUD has the authority to enter long-term power sales contracts. The contracts are a tool to mitigate risks. Currently, the District has power sales contracts in which a portion of the output of Rocky Reach and Rock Island is sold on a take-or-pay and cost-of-service basis to various purchasers. These contracts expire in 2011 and 2012. The PUD has entered into a power sales agreement with Puget Sound Energy for 25 percent of the output of Rocky Reach and Rock Island after the current contracts expire. Puget will pay 25 percent of all costs associated with those projects regardless of energy actually produced and the contract provides the District with operational and financial flexibility.
- **Rate Stabilization Fund** – A special fund that is set up to help smooth out rates in case of bad years and to replenish the fund in good years.
- **Services Provided** – The different types of service the District provides.