



2007 Contingency Planning

PUBLIC INFORMATION MEETINGS

January 3, 8 and 9, 2007

Tonight's 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

Pressures on PUD Finances

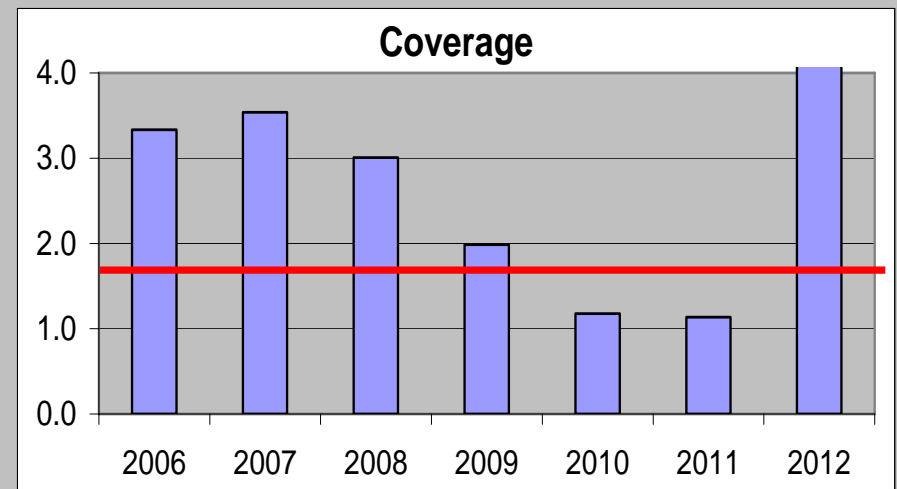
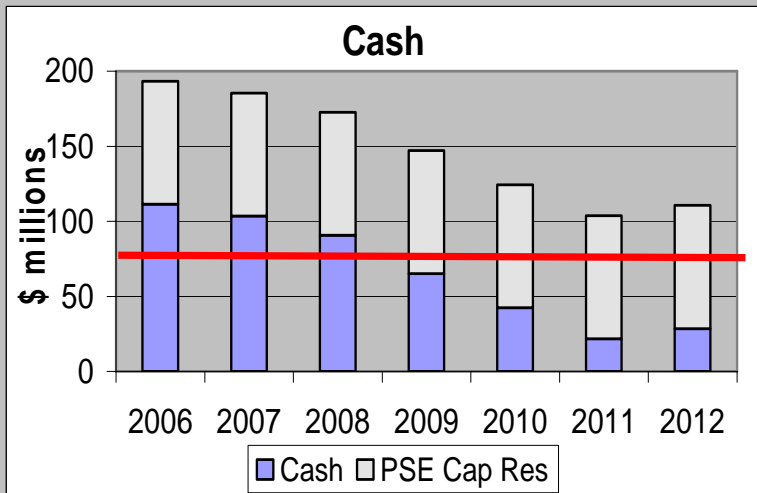
Stresses to the bottom line:

- Reliance on surplus wholesale sales
 - Decreasing surplus power to sell
 - Volatile revenue source
 - Water supply
 - Price
 - Rates don't cover cost to serve local customers

Cash and Coverage Projections

Average Water – All Years

Chelan PUD Utility Services (Non-hydro)
Financial Projections



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

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

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

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

*likely low end of outcomes

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)

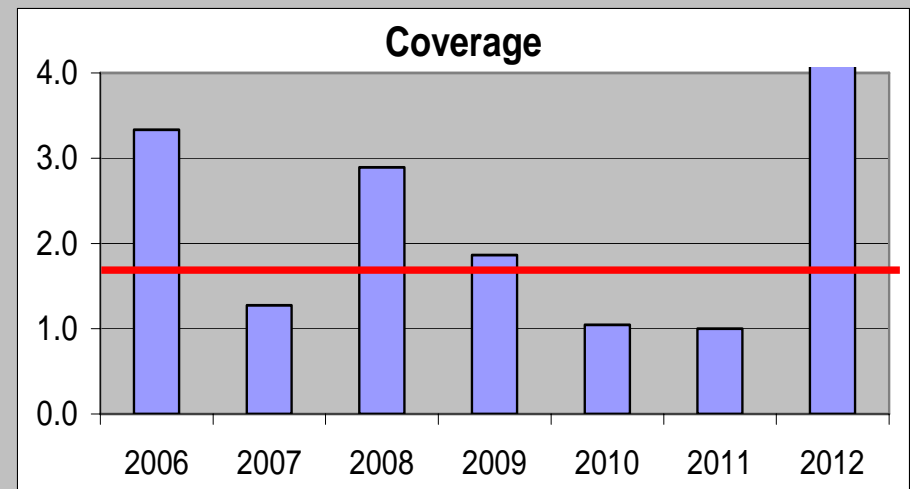
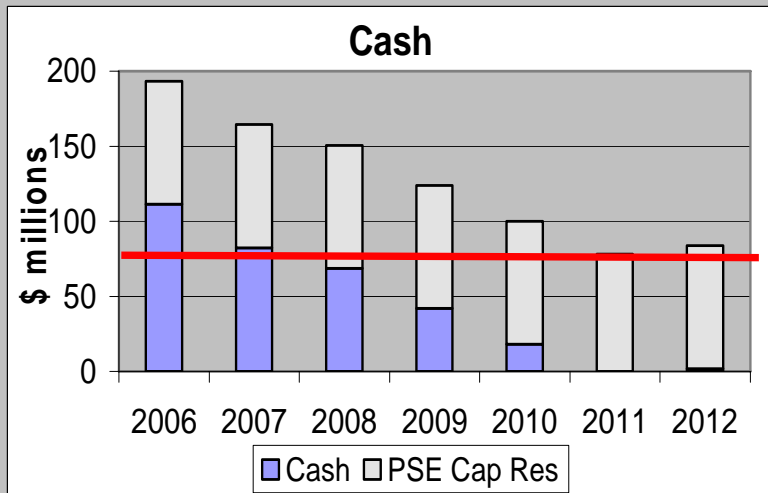
2007 Debt Coverage Projection

Retail Revenue	Wholesale Revenue	Debt Coverage	Needed for 1.75 coverage
\$42.4M	\$43M +	> 2.3	-
\$42.4M	\$37.7M (89% H ₂ O & current prices)	1.75	(\$0.3M)*
\$42.4M	\$32M (89% H ₂ O & current prices -\$10)	1.10	(\$6.0M)*

* \$2 million lower due to improved snowpack

Cash and Coverage Projections Low Water 2007 Average Water – 2008 to 2012

Chelan PUD Utility Services (Non-hydro)
Financial Projections



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

- \$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
- *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 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

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

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. 8	Chelan informational meeting and board meeting
Jan. 9	Leavenworth informational meeting
Jan. 9 –29	Process public comment
Jan. 29	Formal rate hearing
Feb. 12	Make final decision on surcharge
Mar. 1	Rate surcharge effective date

Board Decision Timeline

- Agreed to surcharge structure 11-27-06
- Motion to schedule public hearings in January on 12-11-06
- Make final decision on surcharge 2-12-07