RESOLUTION NO. 10 - 13604

RESOLUTION ESTABLISHING THE CAPITAL RECOVERY CHARGE AND DEBT REDUCTION CHARGE RELATED TO LONG-TERM POWER SALES CONTRACTS

FACTUAL BACKGROUND AND REASONS FOR ACTION

The District entered into a Power Sales Agreement with Puget Sound Energy ("PSE") on February 1, 2006, for the sale of a slice of the output from the Rocky Reach and Rock Island Hydroelectric Projects ("Projects") to begin in 2011 (Rocky Reach) and 2012 (Rock Island). The District also entered into a Power Sales Agreement with Alcoa, Inc. ("Alcoa") on July 14, 2008 for the sale of a slice of the output from the Projects with similar terms and conditions as the Puget contract. These Power Sales Agreements are known as "slice" contracts.

Section 7.01 of the Power Sales Agreements provides for payment of costs of operation, maintenance and financing. Section 7.01 also includes other charges and fees. Section7.01 (F) of each Power Sales Agreement describes a Debt Reduction Charge ("DRC"). This charge reflects the costs of owning, operating, maintaining and improving the Projects. The purpose of the DRC is to reduce outstanding debt associated with the Projects or to pay for capital improvements on a "pay-as-you-go concept." The DRC is based upon a percentage of the principal amount of all debt obligations outstanding related to the Projects at the beginning of each year. The agreed-upon percentage was to range from 0% to 3%. The District has the right to designate any percentage within that range. If no designation is made by the District, the applicable percentage is 2 ½%. The District has the right to change the percentage with notice being given one year prior to the beginning of the next calendar year. For example, to change the percentage in January 2012, notice must be given prior to January 2011. If the District does not make a designation in a given year, the DRC shall be set at the greater of 2 ½% or the last effective DRC designated charge.

Section 7.01 (G) of each Power Sales Agreement describes a Capital Recovery Charge ("CRC"). This charge reflects the costs of owning, operating, maintaining and improving the Projects. The purpose of the CRC is to pay the costs of capital improvements to the Projects on a "pay-as-you-go concept" or to reduce outstanding debt associated with the Projects. The CRC is an annual charge based upon a percentage of the "Capital Base Recovery Charge" which reflects the District's estimate of its average annual capital improvement requirements over the ensuing 30 years. The amount was originally set at $25,000,000 in 2004 dollars to be escalated pursuant to the Consumer Price Index and adjusted (increase or decrease) to accommodate changes in the capital improvement plans for the Projects. The agreed-upon percentage to be applied to the base was to range from 0% to 50%. The District has the right to designate any percentage within that range. If the District does not make a designation in a given year, the CRC shall be set at the greater of 25% or the last effective CRC designated charge. The District has the right to change that percentage with notice being given one year prior to the beginning of the next calendar year. For example, to change the percentage in January 2012, notice must be given prior to January, 2011. The District also has the ability to adjust the base of its estimate of future capital improvements with 180 days' notice which is now established at $25,000,000 (in 2004 dollars). Staff is not recommending changing this base.

These contractual provisions reflect the costs associated with owning, operating, maintaining and improving the Projects. Any increases in the percentages will also increase the District's costs associated with using (purchasing) power from the Projects to serve its load and to sell to others.

District financial staff has reviewed the finances of the District and the potential impact of increasing the DRC and CRC percentage rates. The staff presented to the Board the options and impacts of the changes at a public meeting on December 6, 2010. Staff also provided notice on November 30, 2010 to Alcoa and Puget representatives of the December 6th public meeting. An Alcoa representative provided comments in a letter to the Board and in the public meeting that requested the charges to remain at the lower default amounts.

The District's CFO/CRO and Treasurer/Director of the Finance Division recommend that the DRC be established at 3% and that the CRC be established at 50% for the calendar year of 2012 as applicable to each Project. It is recommended that the Capital Recovery Base Charge for the CRC remain at $25,000,000 (2004 dollars) to be changed pursuant to the Consumer Price Index as set forth in the Power Sales Agreements.

The General Manager concurs with this recommendation.

ACTION

IT IS RESOLVED BY THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON, as follows:

Section 1. The Debt Reduction Charge per Section 7.01(F) of the Power Sales Agreements reflects the costs of owning, operating, maintaining and improving the Rocky Reach and Rock Island Hydroelectric Projects. The Debt Reduction Charge is hereby established at 3% effective January 1, 2012.

Section 2. The Capital Recovery Charge per Section 7.01(G) of the Power Sales Agreements reflects the costs of owning, operating, maintaining and improving the Rocky Reach and Rock Island Hydroelectric Projects. The Capital Recovery Charge is hereby established at 50% effective January 1, 2012. The base shall remain at $25,000,000 (in 2004 dollars).

Section 3. The General Manager or his designee is authorized to take all actions necessary to effectuate this decision.

DATED this 13th day of December 2010.

President

ATTEST:

Vice President

Secretary

Commissioner

Commissioner

Seal