

Cowlitz PUD 2010 Budget and Related Information

December 8, 2009

2009 Highlights

- \$7.3 million in net revenues overall
- \$18.5 million in gross power sales at White Creek
- Completion of the Harvest Wind Project
- Launch of Project Focus
- New substation built at Beaver Bay (east of Cougar)
- Reconstruction of Olive Way and Washington Way substations
- 24,000 new meters installed as part of Automated Metering Infrastructure project

Cowlitz PUD is about to complete a successful year in 2009 in which it realized net revenue of \$7.3 million. About \$4.5 million of that revenue is a result of a net margin from \$18.5 million in power sales from the White Creek Wind Project, into Western power markets.

White Creek was constructed in 2006-2007, in response to emerging renewable portfolio standards in the state. However those standards do not take effect until 2012, allowing the PUD to sell the wind power to out-of-state utilities until that time. The net gains from the White Creek sales are being set aside for future rate stabilization. The new Harvest Wind Project will begin operating commercially at the end of 2009 and that power will also be sold into the market.

During 2009, Cowlitz PUD continued in the third year of a comprehensive, eight-year capital plan investing \$26 million in infrastructure and other improvements, including:

- Rebuilding the Olive Way and Washington Way substations in Longview, necessary to lift the voltage from 69 to 115 kilovolts (kV).
- Improving the reliability of the electric service to the Lewis River Valley from Ariel to Cougar, including the building of the Beaver Bay substation at Swift No. 2 east of Woodland and replacement and/or relocation of about 15 miles of overhead lines in the area.
- Installation of 24,000 new digital meters and fiber optic lines to many substations as part of the Automated Metering Infrastructure project.
- Replacement of 33 miles of underground lines in attempt to stay ahead of cable failures in older lines. (Note: The PUD has 1,200 miles of underground distribution lines.)
- Launching of "Project Focus" to replace the computer hardware and software with a Cayenta enterprise system. The new system will be completed in 2012 and will integrate customer service and financial systems, and work hand-in-hand with automated metering to provide customers new products and choices.
- Began the project to expand the storage yard at the Operation Center and to construct a new Technical Services center, which will replace a 60-year old building that is too small for our Meter and Relay Departments. It is being built to Leadership in Energy and Environmental Design (LEED) "Silver" standards, meaning it will be "green" and very energy efficient.
- Work to meet new federal security requirements, including physical security measures at all PUD facilities and cyber security.

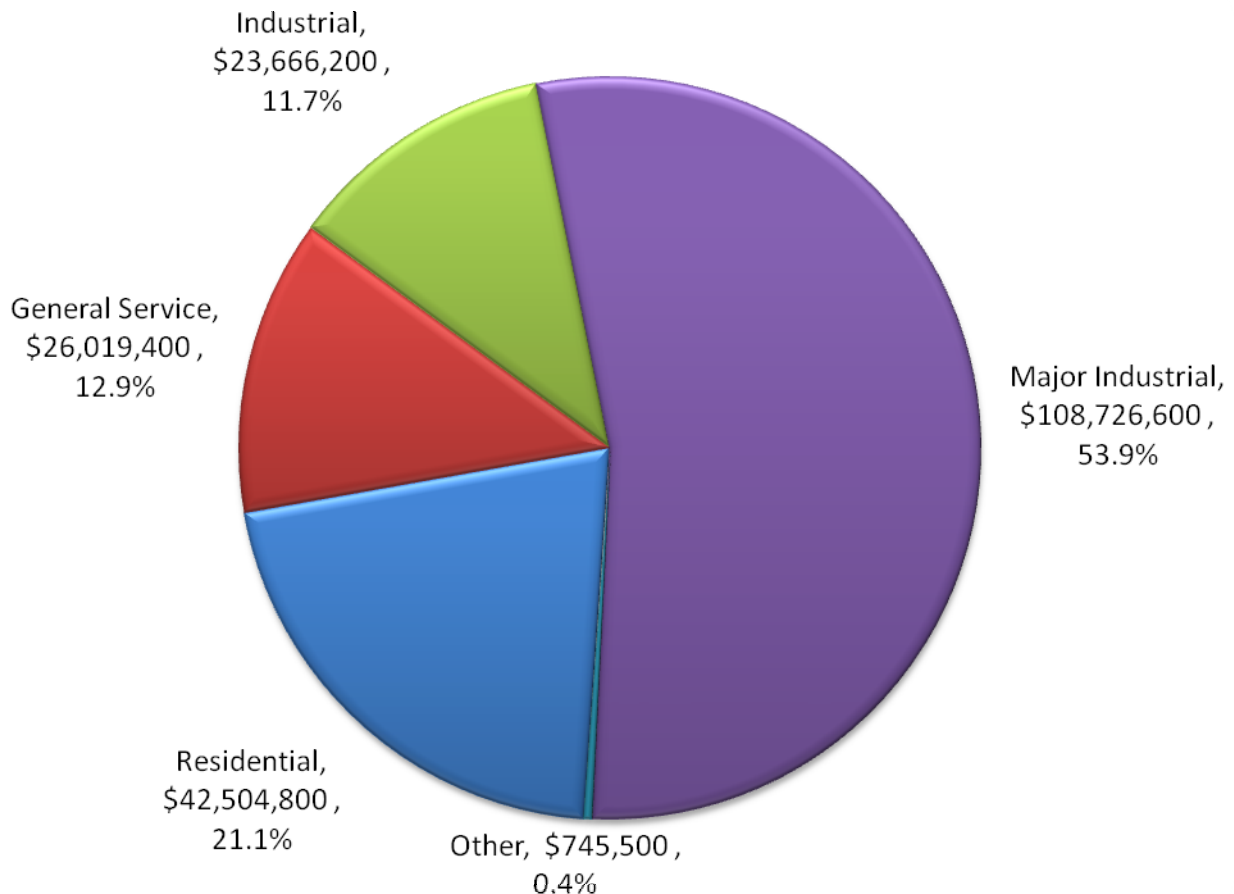
2010 Budget Information

SALES

Total operating revenues are projected to decrease slightly in 2010, mostly due to reduced industrial power sales as a result of a slow economy and the closure of Cameron Glass. Market sales of wind generation will grow with the startup of the Harvest Wind project.

Sales:	<u>2010 Budget</u>	<u>2009 Budget</u>	<u>Difference</u>	<u>Percent</u>
Retail:				
Residential	\$ 42,504,800	\$ 39,719,200	\$ 2,785,600	7.01%
General Service	26,019,400	26,832,900	(813,500)	-3.03%
Industrial	20,771,600	25,222,100	(4,450,500)	-17.65%
Major Industrial	108,726,600	111,719,800	(2,993,200)	-2.68%
Other	<u>745,500</u>	<u>800,200</u>	<u>(54,700)</u>	<u>-6.84%</u>
Total Retail Sales	198,767,900	204,294,200	(5,526,300)	-2.71%
Wholesale:				
Wind	<u>20,539,400</u>	<u>18,532,100</u>	<u>2,007,300</u>	<u>10.83%</u>
Total Sales	219,307,300	222,826,300	(3,519,000)	-1.58%
Other Operating Revenues	<u>2,950,000</u>	<u>3,090,000</u>	<u>(140,000)</u>	<u>-4.53%</u>
Total Operating Revenues	<u>\$ 222,257,300</u>	<u>\$ 225,916,300</u>	<u>\$ (3,659,000)</u>	<u>-1.62%</u>

2010 Budgeted Retail Sales by Classification



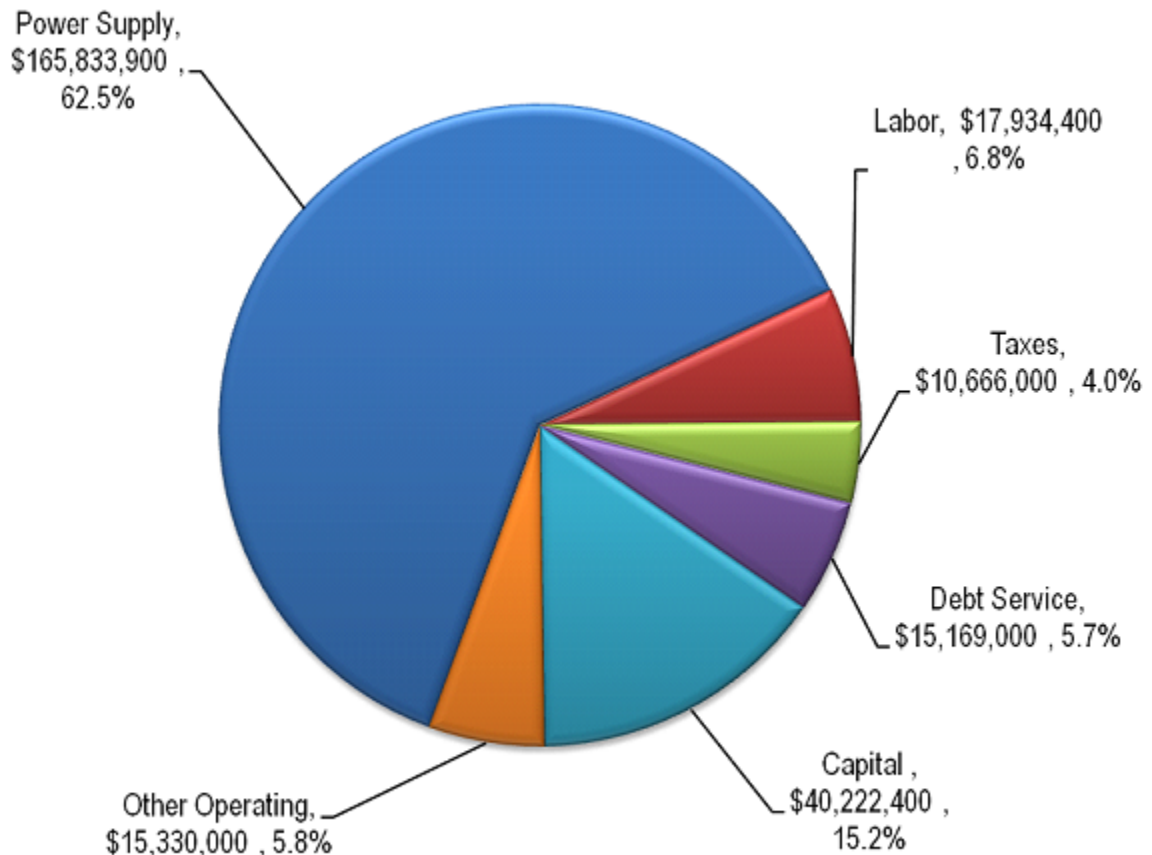
EXPENDITURES:

OVERALL

The budget includes no changes to electric rates in 2010.

Total expenditures for 2010 – including O&M, capital expenditures and debt service – is budgeted at \$265,155,100. That is 3.9% above 2009 total expenditures which were budgeted at \$256,147,400. The increase is all attributed to increased spending for energy conservation incentives, capital improvements and debt service, which has grown due to the investments made in the Harvest Wind Project.

2010 Projected Expenditures by Type



OPERATING AND MAINTENANCE (O&M)

Most O&M expenditures have been reduced in 2010, due to the projection of reduced power sales as noted earlier.

Overall O&M is budgeted to increase \$342,700 from 2009 to 2010, a 0.16% increase. This includes the addition of \$2,547,000 in *Conservation Incentives and Expenses*, as the District has increased its conservation commitment to comply with Washington State Initiative 937. This increase will be almost entirely offset by program reimbursements that we expect to receive from BPA.

Regarding labor costs: Staffing levels will drop by 2.0 FTE in 2010. Cowlitz PUD sets wages and benefits based on a policy of paying comparable wages for comparable duties at comparable employer. To make that determination the PUD participated in a wage and benefit survey with 13 similar Northwest public utilities. For 2010, regular wages are estimated to increase \$353,500 or 2.92%. The costs for benefits will rise in 2010 mostly due to increasing medical insurance premiums and employee retirement benefits, which have risen due to higher contribution levels set by the State of WA.

PURPOSE CODE	PURPOSE DESCRIPTION	2010 ELECTRIC BUDGET	2009 ELECTRIC BUDGET	\$ DIFFERENCE	% DIFFERENCE
O&M					
1	Materials & Supplies	335,900	355,800	(19,900)	-5.59%
2	Equipment	78,500	99,100	(20,600)	-20.79%
3	Outside/Prof Services	3,868,100	3,556,700	311,400	8.76%
4	Advertising	92,300	95,500	(3,200)	-3.35%
5	Miscellaneous	16,500	21,500	(5,000)	-23.26%
6	Freight	2,500	3,000	(500)	-16.67%
7	Small Tools	68,000	137,100	(69,100)	-50.40%
8	Business Exp/Travel	112,300	158,500	(46,200)	-29.15%
9	Utilities	36,000	36,000	-	0.00%
11	Dues & Prof Org	618,200	604,800	13,400	2.22%
12	Rentals & Lease	57,200	111,100	(53,900)	-48.51%
13	Taxes	10,666,000	11,006,000	(340,000)	-3.09%
14	Power Supply	165,833,900	169,310,000	(3,476,100)	-2.05%
15	Insurance	409,000	405,500	3,500	0.86%
16	Property Damage Pmt	1,000	5,000	(4,000)	-80.00%
17	Licenses, Fees & Permits	57,300	13,000	44,300	340.77%
18	Publications	26,200	15,600	10,600	67.95%
19	Postage	366,700	349,700	17,000	4.86%
20	Telephone	120,300	125,700	(5,400)	-4.30%
21	Training/Education	206,500	420,500	(214,000)	-50.89%
22	Employee Relations	30,900	33,200	(2,300)	-6.93%
23	Community Relations	116,800	121,400	(4,600)	-3.79%
24	Maintenance Contracts	433,200	270,400	162,800	60.21%
26	Equipment Maintenance	15,800	25,400	(9,600)	-37.80%
27	Safety Expenses	41,300	47,100	(5,800)	-12.31%
28	Material & Equip Testing	43,000	99,900	(56,900)	-56.96%
32	Scada Maintenance	5,000	-	5,000	0.00%
33	Conservation Incentives	5,310,000	2,100,000	3,210,000	152.86%
34	Conservation Expense	-	663,000	(663,000)	-100.00%
35	Regulatory Compliance	370,500	42,000	328,500	782.14%
41	Bldgs/Grnds Maintenance	320,000	303,800	16,200	5.33%
51	Brushing	1,108,000	1,300,000	(192,000)	-14.77%
52	Excavation Services	100,000	55,000	45,000	81.82%
56	Overhead Line Material	60,000	56,000	4,000	7.14%
57	Underground Line Material	40,000	30,000	10,000	33.33%
81	Bad Debt Expense	270,000	300,000	(30,000)	-10.00%
93	Regular Wages	\$ 12,456,200	\$ 12,102,700	\$ 353,500	2.92%
94	Overtime Wages	604,700	580,400	24,300	4.19%
95	Taxes & Benefits	4,873,100	3,855,900	1,017,200	26.38%
96	Transportation	592,800	604,700	(11,900)	-1.97%
Total Operating Expense		209,763,700	209,421,000	342,700	0.16%

CAPITAL EXPENDITURES

In 2010 the PUD will enter the fourth year of its eight-year comprehensive capital improvement plan. The budget is projected at \$40,222,400.

Major projects planned for 2010 include:

- Planning and initial investment into new renewable generation sources – including landfill gas and biomass projects.
- Continue the Automatic Meter Reading project. We plan to complete the residential meter deployment and continue installation of equipment and communications to remaining substations.
- Continue on year two of Project Focus to replace the computer hardware and software with a Cayenta enterprise system. The new system will integrate customer service and financial systems, and work hand-in-hand with automated metering to provide customers new products and choices.
- Continue extension of fiber communications to substations in support of system protection upgrades, AMI and security.
- Complete Technical Services Center and storage yard expansion project.
- Substation construction and upgrades at Columbia Way, Baker's Corner, West Woodland, John Street and Seventh Avenue.
- Contract for the design and construction of the Weyco No. 2 substation remodel and 230 kV line extension.
- Feeder optimization and reliability improvements – second of seven-year approach to analyze design improvements for 13 distribution feeders.
- Consulting for WECC compliance issues. Primary focus will be on the Swift 2 facility to comply with critical infrastructure protection.

Capital costs are summarized below:

<i>PURPOSE CODE</i>	<i>PURPOSE DESCRIPTION</i>	<i>2010 ELECTRIC BUDGET</i>	<i>2009 ELECTRIC BUDGET</i>	<i>\$ DIFFERENCE</i>	<i>% DIFFERENCE</i>
1	Materials	164,000	625,500	(461,500)	-73.78%
2	Equipment	3,330,500	5,975,700	(2,645,200)	-44.27%
3	Contracted Services	10,427,000	10,238,800	188,200	1.84%
12	Leased/Rented Equipment	3,000	5,000	(2,000)	-40.00%
17	Licenses, Fees & Permits	-	250,000	(250,000)	-100.00%
50	Substations	6,085,000	5,410,000	675,000	12.48%
52	Excavation Services	550,000	460,000	90,000	19.57%
54	Vehicle Replacement	794,000	1,667,000	(873,000)	-52.37%
55	Automated Meter Infrastructure	2,500,000	2,500,000	-	0.00%
56	Overhead Line Material	2,000,000	2,000,000	-	0.00%
57	Underground Line Material	2,000,000	3,000,000	(1,000,000)	-33.33%
58	Overhead Transformers	800,000	1,000,000	(200,000)	-20.00%
59	Underground Transformers	1,000,000	1,500,000	(500,000)	-33.33%
60	Meters	60,000	125,000	(65,000)	-52.00%
96	Transportation	558,900	485,200	73,700	15.19%
79	Generation projects	9,950,000	-	9,950,000	N/A
TOTAL CAPITAL COSTS		\$ 40,222,400	\$ 35,242,200	\$ 4,980,200	14.13%

DEBT SERVICE

Electric Distribution System debt service costs consist of principal and interest payments made on the non-refunded portion of 2001 bonds and capital construction bonds issued in 2006 and 2007. In 2010 we will be issuing bonds to pay for the Harvest Wind Project and estimated debt service requirements for this issue are also included in the budget. Debt service also includes repayment of a loan from the District's Production System that was used to prepay for energy from the White Creek Wind Project. Debt service requirements are summarized below:

<i>PURPOSE CODE</i>	<i>PURPOSE DESCRIPTION</i>	<i>2010 ELECTRIC BUDGET</i>	<i>2009 ELECTRIC BUDGET</i>	<i>\$ DIFFERENCE</i>	<i>% DIFFERENCE</i>
82	Interest	9,486,000	7,346,800	2,139,200	29.12%
83	Principal	5,683,000	4,137,400	1,545,600	37.36%
TOTAL DEBT SERVICE		\$ 15,169,000	\$ 11,484,200	\$ 3,684,800	32.09%

COMPLIANCE WITH POLICY AND GAAP PRESENTATION

The 2010 budget is in compliance with the debt service coverage level established by policy (no lower than 1.5 times and the District is at 1.55 times). To save a substantial amount of money and expense by not issuing taxable bonds, the District used cash reserves to fund the White Creek Wind Project and borrowed 100% of our three year capital improvement program in 2007. Consequently, in 2008 - 2010 it is not necessary to fund 60% of capital requirements from rates as prescribed by policy. Instead, surplus cash generated by rates for each year will be used to replenish cash reserves.

Below is a summary of the calculation, which is followed by the presentation on a GAAP basis.

2010 Electric Utility Budget Summary - Ratio Calculations

	2010 <u>Budget</u>	2009 <u>Budget</u>	%chng <u>09 Budget</u>
Sales at Present Rates ⁽¹⁾	\$ 219,307,300	\$ 218,764,500	0.25%
Rate Adjustment ⁽²⁾	-	4,061,800	-100.00%
Misc. Operating Revenues	<u>2,950,000</u>	<u>3,090,000</u>	-4.53%
Total Operating Revenues	<u>222,257,300</u>	<u>225,916,300</u>	-1.62%
Operating Expenses			
Power Management	168,035,500	171,720,600	-2.15%
Engineering	4,167,000	3,683,100	13.14%
Operations	10,398,300	10,135,000	2.60%
Customer Services	4,393,500	4,182,900	5.03%
Commissioners & Admin. Services	3,140,700	3,043,000	3.21%
Accounting & Information Services	3,436,100	3,295,200	4.28%
Environmental Services	216,500	254,900	-15.06%
Taxes	10,666,000	11,006,000	-3.09%
Duplicated Fleet Charges ⁽³⁾	(493,700)	(559,900)	-11.82%
Capitalized Labor	<u>(4,304,200)</u>	<u>(3,804,000)</u>	13.15%
Total Operating Expenses	<u>199,655,700</u>	<u>202,956,800</u>	-1.63%
Net Operating Revenue	22,601,600	22,959,500	-1.56%
Other Income	<u>1,500,000</u>	<u>2,800,000</u>	-46.43%
Available for D.S.& Cap. Add.	24,101,600	25,759,500	-6.44%
Less Debt Service	<u>15,169,000</u>	<u>11,484,200</u>	32.09%
Available for Capital Additions ⁽⁵⁾	\$ 8,932,600	\$ 14,275,300	-37.43%
Initial Capital Request ⁽⁴⁾	\$ 30,272,400	\$ 35,242,200	-14.10%
Equity percentage	29.51%	40.51%	
Debt Service Coverage Ratio	1.59	2.24	

⁽¹⁾ Includes Retail Rate Increase Adopted Oct. 2009

⁽²⁾ Projected BPA Wholesale Rate Increase

⁽³⁾ Fleet Costs included in Transportation Expenses

⁽⁴⁾ Excludes Preliminary Investigation

⁽⁵⁾ Reconciliation to Net Margins:

Available for Capital Additions	\$ 8,932,600	\$ 14,275,300	
Depreciation	(7,196,200)	(6,694,100)	
Principal on Long-term Debt	<u>5,683,000</u>	<u>4,137,400</u>	
Net Margins	<u>\$ 7,419,400</u>	<u>\$ 11,718,600</u>	

2010 GAAP Based Electric Utility Budget

	Budget	Budget	Actual
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating Revenues:			
Retail Sales:			
Residential	\$ 42,504,800	\$ 39,719,200	\$ 43,693,300
General Service	26,019,400	26,832,900	24,976,100
Industrial	20,771,600	25,222,100	19,553,800
Major Industrial	108,726,600	111,719,800	106,867,100
Other Sales	<u>745,500</u>	<u>800,200</u>	<u>636,300</u>
Total Retail Sales	198,767,900	204,294,200	195,726,600
Wholesale:			
Wind Sales	<u>20,539,400</u>	<u>18,532,100</u>	<u>13,796,400</u>
Total Sales	219,307,300	222,826,300	209,523,000
Other Operating Revenues	<u>2,950,000</u>	<u>3,090,000</u>	<u>3,952,000</u>
Total Operating Revenues	<u>222,257,300</u>	<u>225,916,300</u>	<u>213,475,000</u>
Operating Expenses:			
Cost of Power	165,833,900	169,310,000	165,500,100
Operations & Maintenance	9,767,400	9,454,200	8,726,700
Customer Accounts	4,393,500	4,182,900	3,458,300
Customer Service & Informational	727,200	1,310,800	426,400
Administrative & General	8,267,700	7,692,900	8,095,300
Depreciation	7,196,200	6,694,100	6,387,300
Taxes	10,666,000	11,006,000	10,966,400
Interest and Amortization	<u>9,486,000</u>	<u>7,346,800</u>	<u>6,922,000</u>
Total Operating Expenses	<u>216,337,900</u>	<u>216,997,700</u>	<u>210,482,500</u>
Net Operating Margins	<u>5,919,400</u>	<u>8,918,600</u>	<u>2,992,500</u>
Nonoperating Revenues-(Expenses):			
Interest Revenue	1,500,000	2,800,000	2,762,800
Other	<u>-</u>	<u>-</u>	<u>47,200</u>
Total Nonoperating Revenues-Expenses	<u>1,500,000</u>	<u>2,800,000</u>	<u>2,810,000</u>
Net Margins	<u>\$ 7,419,400</u>	<u>\$ 11,718,600</u>	<u>\$ 5,802,500</u>