

Cowlitz PUD
961 12th Avenue
Longview, WA 98632

PRSR STD
US POSTAGE PAID
Mailed from 98642
Permit #94
ECRWSS

Postal Customer

INSIDE THE PUD PRESS

Important information from Cowlitz PUD including:

- A letter from your Board of Commissioners
- 2012 Budget overview including:
 - Cuts in Labor, Infrastructure and O&M Costs
 - Capital Budget
 - Borrowed Funds
 - Wind Sales
 - Projected Expenditures
- Wind project information including a time line
- Cowlitz PUD Volunteer Activities

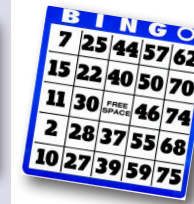
2011 Cowlitz PUD Volunteer Activities

The PUD's 160 employees and three commissioners take pride in giving back to our community – we consider it part of our mission as a "PUBLIC Utility District." Here's a recap of what we accomplished working together over the last 12 months:

- Spring food drive for **CAP's Help Warehouse** – which included donations of food and \$3761 in cash to purchase food. All together 16,307 pounds of food (over 8 tons) was delivered to the shelves of The Help Warehouse making it the third largest area food drive after *Walk & Knock* and the *Postal Carriers Food Drive*.

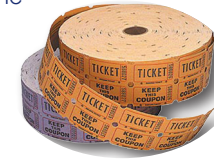


- Cash donations on a weekly basis to the **Warm Neighbor Fund** totaling over \$4,000. This does not include many personal donations to this fund made by individual employees throughout the year.



- **BINGO Charity Fund Raiser** at Cowlitz County Fair – raised \$6,200 for the **Warm Neighbor Fund**. Over 50 PUD employees and family members took part.

- Employee Christmas raffle ticket sales, which raised over \$1,500 to benefit the **Children's Justice & Advocacy Center** and the **Ronan Thompson Foundation (childhood cancer)**.



- Hosted a booth at **Veterans Stand Down** at Longview Armory to provide energy conservation and bill paying assistance information and advice.

- **Veterans & Military Families Coat Drive** – PUD employees donated 70 coats and 30 sweaters.

- **Military Families Toy Drive** – providing gifts for dozens of families for Christmas.



- **Christmas With Our Community Christmas Eve Dinner** – About 15 PUD employees participated as volunteers and others donated food. Over 450 people were served.

- **Longview School District Secret Santa Family Program** – adopted a family in great need and raised over \$500 for gifts, groceries and needs around their home, which was all delivered by PUD employees on December 19.

- **Salvation Army Angel Tree** gift tag donations.



- **Salvation Army Kettle** – All day on December 9 at Fred Meyer.

- **United Way Day of Caring** – Team of 8 employees spent a day working at the Longview School District's Wake Robin Learning Center, cleaning brush and clearing walking paths.



- Cowlitz/Wahkiakum Domestic Violence Task Force toiletries drive for **Emergency Support Shelter**.

- **Puget Sound Blood Center for SW Washington** spring & fall blood drives – PUD employees and customers gave over 50 pints of blood for local hospitals.

- **Hospice** several work parties of painting, yard work & repairs to the comfort pond.



- Held the first ever **Cowlitz PUD Senior Citizens Fair** – which included many local agencies that focus on needs of seniors.

- Participated in **Longview's Go 4th Parade** – two line trucks and our safety trailer.

- 25 PUD employees provided volunteer labor at LCC for the Northwest Athletic Association of Community College Baseball championship – helping raise funds for **LCC student scholarships**.



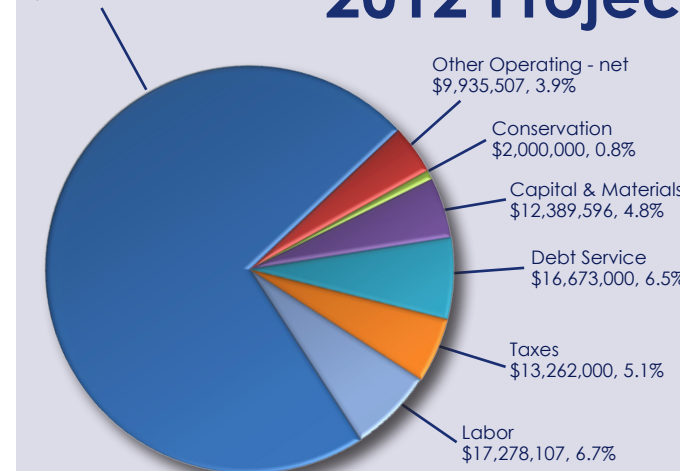
- **Electrical safety demonstrations** at 14 schools, reaching over 800 students.

- Celebrity Reader at **Head Start**.

- **Kelso High School Career Fair** – Providing vocational information and career guidance.

- **High School Construction Fair** – Providing hands on vocational information and career guidance.

Power Supply
\$186,045,027, 72.2%



2012 Projected Expenditures (by type)

Most notable:

- Reduced total labor costs equals \$577,893 or -3.24%.
- Taxes directly correlate to the increase in revenues resulting from the rate increases noted above.
- Training and Education will focus more on in-house and web-based training to reduce costs.
- BPA has reduced its reimbursement for conservation incentives and expenses. To make up for that Cowlitz PUD has budgeted an additional \$2

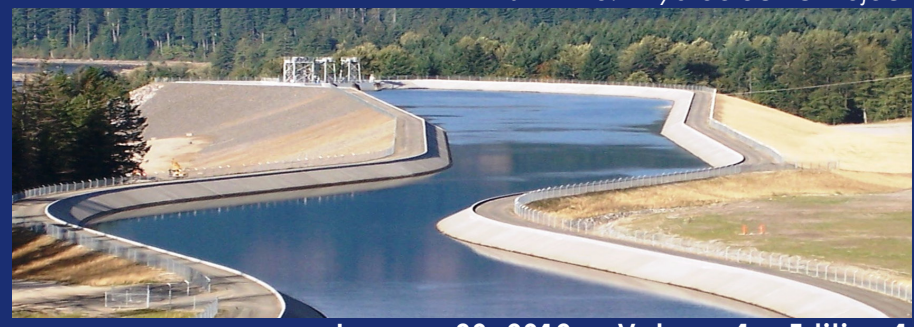
million to continue its energy conservation commitment and to comply with I-937.

- Postponing and reducing certain activities will diminish Building & Grounds expenses.
- Savings will be attained through the reduction of one Brushing Crew.
- There will be continued focus to reduce the use of outside consultants.

For a detailed expenditures chart please go to our website www.cowlitzpud.org/budget.

For more in-depth 2012 budget information visit: www.cowlitzpud.org/budget

PUD PRESS



Swift No.2 Hydroelectric Project

January 23, 2012 • Volume 1 • Edition 1

PUD Cuts 2012 Labor, Infrastructure, O&M Costs

The Board of Commissioners is concerned that local newspaper coverage omitted some very important information regarding our December 13, 2011 meeting. This may have caused some of our customers to be misinformed about the 2012 PUD Budget and other discussions that occurred that day. In this premier edition of the PUD Press, we want to correct any such misinformation. It is essential that our customers have accurate and timely information about PUD Governance and Operations.

The 2012 budget was completed after weeks of hard work to identify where cuts could be made. Here are the highlights:

The 2012 PUD budget reduces total labor and benefit costs by 3.24 percent.

This is the third consecutive year of flat labor and benefit costs. Our Full Time Employee (FTE) count will drop by one employee in 2012, which brings the total number of employee reductions to nine since 2009. Labor makes up 6.7% of the PUD's budget.

Operating and maintenance (O&M) costs are reduced by over \$500,000.

That represents a five percent cut of the O&M costs excluding power supply, taxes and voter-approved mandatory conservation costs.

Capital improvement costs have been significantly reduced the last two years.

That part of the PUD's budget was cut \$4.8 million or 28 percent from 2011. Capital costs have been reduced over \$27 million from 2010 and are down 58 percent from the 2008-2011 average.

No one at Cowlitz PUD is happy that rates had to increase earlier this fall, mostly due to growing wholesale power costs and lower revenues from the sale of surplus wind and hydroelectric power. (For a more detailed description please see the article on the adjacent page.)

At the same time, we believe strongly in the work we are

putting into building and maintaining a strong electrical infrastructure in Cowlitz County, which is much needed and will serve you and future generations.

Thank you for being our customer.

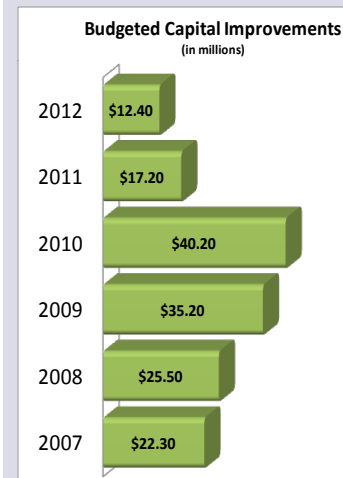
We pledge to continue to provide a safe and reliable source of electricity at the lowest possible price. Even after the rate increase several weeks ago, Cowlitz PUD residential electric costs are 7th lowest among the 21 PUDs in our state that provide electric service and are 14.6% (approximately \$18 per month) lower than the state average.

The Cowlitz PUD Board of Commissioners



2012 Capital Budget

During the 2012 budget discussions, considerable time was devoted to re-evaluating the capital plan and timing in light of other cost pressures, economic downturn, capacity, etc. Cowlitz PUD is still moving forward with its long range plan to replace underground wire, upgrade from 69 kv to 115 kv, upgrade substations and automated metering infrastructure, but has tempered the pace resulting in a \$12.4 million plan for 2012.

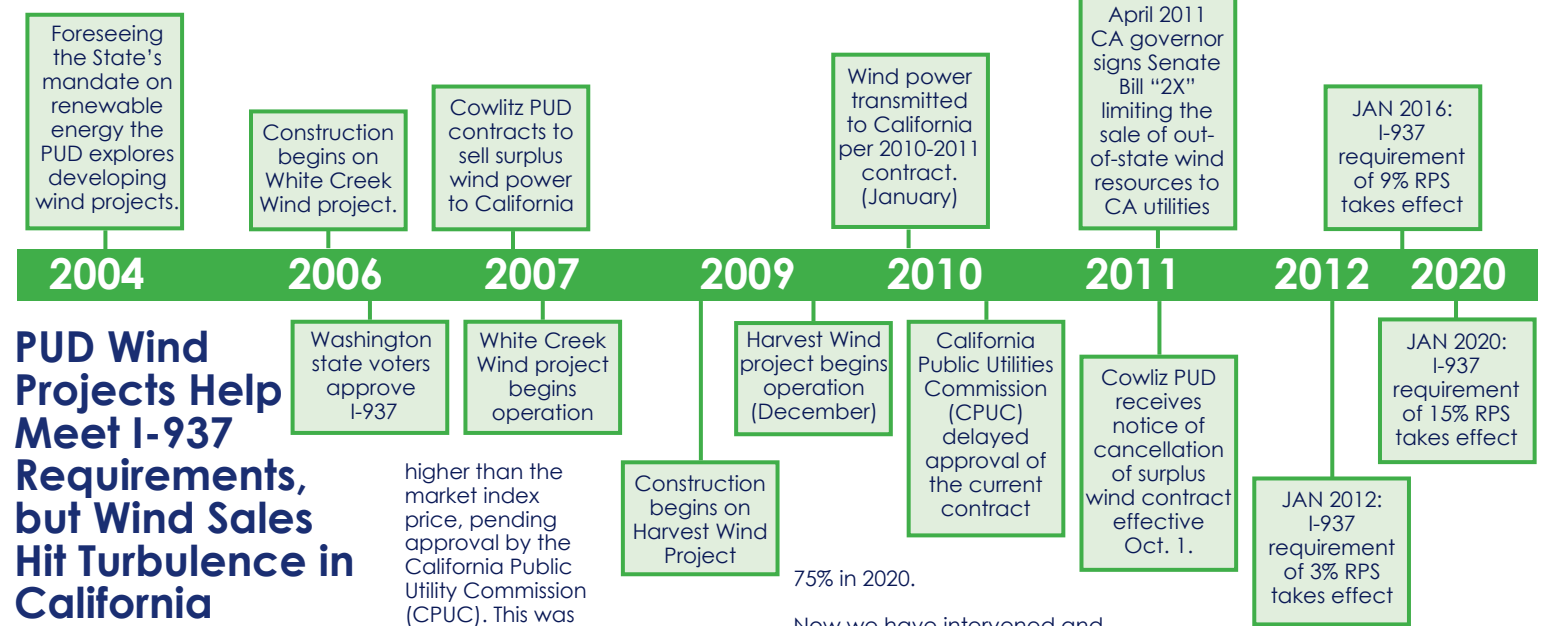


Borrowed Funds: How Do We Compare?

Electric System debt service costs consist of principal and interest payments made on the capital construction bonds issued in 2006, 2007 and 2010, and on funds used to prepay for energy from the White Creek Wind Project.

Cowlitz PUD's debt service costs are 57.9 percent (ratio of debt to assets) compared to the industry average of 58.5 percent. This places us slightly lower than the industry average and within the normal range.

Using low-interest bonds allows us to strengthen the electrical system and pay for it over time, which keeps rates lower than they would be if the improvements were paid for on a cash upfront basis.



PUD Wind Projects Help Meet I-937 Requirements, but Wind Sales Hit Turbulence in California

Anticipating that the State of Washington would soon mandate Renewable Portfolio Standards (RPS), Cowlitz PUD made the decision in 2005 to explore developing the White Creek and Harvest Wind projects in Klickitat County. By late 2009 the White Creek and Harvest Wind projects were built and operational.

Cowlitz PUD's share of the electricity produced at the wind projects is 39 average megawatts (aMW) – 30 aMW at White Creek and 9 aMW at Harvest Wind. With these projects the PUD will be able to meet load growth needs to 2020 and meet the state's 2012 RPS. These wind resources will meet most, but not all of the 2016 RPS standard.

To help our rates in the short term, Cowlitz PUD contracted the sale of surplus power to a Northwest power marketer – which in turn would transmit that power on contract with utilities in California where an RPS was already in effect.

From 2007-2009 surplus White Creek sales into the California market provided \$5.3 million in net margin (revenue versus project costs) to the PUD. These funds were placed in a "rate stabilization" fund.

Revenue dropped in 2010-2011 due to lower market prices for renewable resources in California. In 2012 market prices remain low and two other key factors are negatively affecting PUD sales revenue:

California Public Utilities Commission (CPUC) inaction on wind sales contract

California utilities paid a price

higher than the market index price, pending approval by the California Public Utility Commission (CPUC). This was a common practice and similar to the 2007-2009 sales contract for the PUD wind power. Expectations were that the contract would be approved by mid-2010.

The California legislature, governor's office and CPUC were all in the midst of discussions to amend California's RPS law during 2010. The CPUC did not approve the contract and it was the PUD's understanding that decision was put on hold until early 2011. Further unexplained delays ensued and the CPUC failed to place the contract approval on its agenda. Failure to approve the contract has amounted to about \$9 million of expected payments being withheld from Cowlitz PUD.

The PUD received notice that the contract was to be cancelled on October 1, 2011. Working with attorneys in California, the PUD learned that Energy Division staff recommended contract approval. However, the politically appointed commission itself did not place the contract on their agenda for approval. We have not yet been given adequate reason why the CPUC would refuse to take up approval of the contract, even though it is our understanding that it had been recommended by the CPUC's Independent Evaluator. Cowlitz PUD continues to work with California and Washington attorneys to recover the money owed.

Implication of amended California RPS on 2012-beyond sales of PUD wind resources

The amended law will require CA utilities to utilize an increasing amount of in-state produced renewable resources, beginning in 2013 and reaching a plateau of

75% in 2020.

Now we have intervened and rules are appearing more favorable to the PUD than the original proposal.

In the short term, however, there is still a considerable amount of uncertainty for out-of-state generators like Cowlitz PUD around the ability to continue to sell into the California market.

We are investigating if this is unconstitutional discrimination against the sale of out-of-state RPS products into California, in violation of the Interstate Commerce Clause and a prohibition against governmental interference with a contract.

Budget and rate implications

Our projection of these reduced wind sales on its own had an 11% rate impact to PUD customers.

Add in other rate drivers like the BPA rate increase and the loss of

the low-cost hydro resources we have purchased for 50 years from Grant PUD and the repercussions became more significant. Even with the budget cuts, noted on the adjoining article, this left us with no choice but to raise rates. Our total rate increase became 17.5%.

Looking ahead, Cowlitz PUD and all other public power utilities will be more exposed to the fluctuations of the power markets. This is a result of the BPA system being allocated (meaning we receive a set amount and no more) and the provisions of voter-approved I-937. In some years the markets will work to benefit our customers and could bring lower rates. In others, including 2012, the markets will work against us and cause rates to rise.

Wind Sales for 2008 - 2012

