



New Electric Rates Effective January 1

A listing of rates for each customer group and "frequently asked questions" are linked on the PUD homepage at cowlitzpud.org.

The PUD Board of Commissioners has approved an overall nine percent electric rate increase, which became effective January 1 and is reflected on the enclosed billing.

The rate increase is driven by several factors, including the need to ensure that our debt service coverage levels are met. (See more detail on the back page.)

By meeting our debt service requirements we will continue to have access to capital at favorable interest rates to finance future power projects and electric facilities like substations and the replacement of aging underground lines.

The 2011 budget will bring a \$1.62 million increase in debt service (principal and interest) on the bonds already sold to finance our investment in two wind projects and for the major capital improvement projects to replace and maintain local electrical infrastructure. Total debt service for 2011 is budgeted at \$16.79 million.

Other factors driving rates include:

- Lower wholesale revenue than anticipated in 2010 from the sale of excess hydro and wind power into the market.
- Reduced retail power sales in 2009 and 2010, due to a slow economy and warmer-than-usual weather last winter. Sales for 2011 are projected to drop by \$11.4 million as compared to 2010 projections.
- A Bonneville Power Administration rate increase next October, now proposed at 8.5 percent.

Cowlitz PUD has reduced overall operating expenditures by 7.42 percent in 2011. Most notable is a \$20 million reduction

Inside This Issue:

- December Board Report
- Common Rate Questions Answered
- Water Heater Safety

in capital spending. Labor costs have been reduced mostly through the elimination of five jobs by attrition last year.

A second rate increase is possible later in the year. This could be reduced by a combination of a good water and wind year and stronger market prices, which would help build BPA and PUD revenues.

We will use this newsletter and our website to provide regular updates on future electric rates.

The average Cowlitz PUD residential bill is now \$90 per month, or the sixth lowest among 21 PUDs in Washington. By comparison the average monthly electric cost for all residential users in the state is almost \$120 per month or 33 percent higher than in Cowlitz County.

RATE INCREASE BY CUSTOMER GROUP

Residential customers (schedule 1):

- Monthly "basic" charge increased from \$5 to \$6.
- Energy charge changed from 5.12¢ to 5.60¢ per kWh.
- Based on using 1,500 kWh, the average monthly bill will increase from \$81.80 to \$90.00, or \$8.20 per month. This represents an increase of 10.02 percent.

Other customer groups:

- | | |
|-----------------------------------|--------------|
| • General service (schedule 4) | 9.05 percent |
| • General service (schedule 5) | 7.01 percent |
| • Industrial service (schedule 8) | 6.73 percent |
| • Industrial service (schedule 9) | 6.73 percent |
| • Area lights (schedule 10) | 9.00 percent |

Electric Rates – Frequently Asked Questions

Why did residential rates increase more than business and industrial rates?

Cowlitz PUD has benefited for years from the cheap power produced at Swift No. 2, and the ability to purchase low-cost power from Grant PUD's Mid-Columbia dams. These low-cost resources have mostly been allocated to our residential customers.

But sometimes good things end, which is the case with these inexpensive resources. At Swift, with the addition of debt service on bonds used to pay for rebuilding and relicensing it, the power production cost has risen.

On top of that our right to buy Mid-Columbia hydro is essentially ending after 50+ years, as Grant PUD keeps more of that power for its local needs. The good news is that BPA power will fill the void to meet loads. But while it's inexpensive in its own right, it's more costly than Mid-Columbia power.

These lower-cost resources have mostly benefited residential customers with lower rates, so their loss has the reverse effect. That means a slightly higher rate adjustment.

How does Cowlitz PUD compare?

Residential cost	Basic charge	1,500 kWh
Douglas (E. Wenatchee)	\$8.37	\$37.77
Chelan (Wenatchee)	\$7.85	\$48.29
Clatskanie PUD	\$0.00	\$53.25
Grant (Moses Lake)	\$12.00	\$64.95
Lewis (Chehalis)	\$12.00	\$80.25
Cowlitz PUD	\$6.00	\$90.00
Columbia River PUD	\$7.00	\$95.50
Tacoma Public Util.	\$5.50	\$98.59
Mason 3 (Shelton)	\$15.00	\$107.10
Benton (Kennewick)	\$10.50	\$107.85
Avista – Spokane, Pullman	\$6.00	\$110.00
Klickitat (Goldendale)	\$14.25	\$114.00
Grays Harbor (Aberdeen)	\$32.50	\$115.67
All WA utilities	\$10.00	\$119.55
Seattle City Light	\$3.60	\$123.40
Snohomish (Everett)	\$0.00	\$127.22
Clark (Vancouver)	\$10.00	\$129.70
Puget Sound Energy	\$7.25	\$151.29
Average – All of U.S.		\$172.95

Lowering the Water Heater Temperature Reduces Your Electric Bill and Scalding Risk

Water Temp.	Serious Burns Occur	Electric Cost*
150°F	2 SECONDS	\$380
140°F	5 seconds	\$340
130°F	30 seconds	\$300
120°F	10 MINUTES	\$270

*The estimated electric cost is based on usage for an average family of four.

If your electric water heater is now set at 150° F, you could cut your electric bill by about \$110 a year by resetting it to 120° F. More importantly you would greatly reduce the risk of a scalding accident, especially for young children.

Revised Code of Washington (RCW) 19.27A.060 requires that new water heaters sold in the state (for residential use) be pre-set at 120° F. It also recommends that water heaters be set no higher than 120° F (or the minimum setting on a water heater which cannot be set as low as 120° F) to prevent severe burns and reduce excessive energy consumption.

The RCW also states that the thermostat of an individual water heater furnished in a residential unit leased or rented

to new tenants shall be set no higher than 120° F (or the minimum setting on a water heater which cannot be set as low as 120° F).

TO CHECK AND ADJUST YOUR HOT WATER:

- Run hot water at the faucet nearest your water heater. Measure the water temperature with a cooking thermometer. If it's above 120° F, consider turning it down.
- You'll need a flat-tip screwdriver and possibly a Phillips screwdriver. Gloves are also suggested, as you will be working around insulation.
- Turn off the electricity to your tank prior to making any adjustments, by switching off the appropriate breaker at your electric panel.
- Remove the thermostat access panel(s) and cover(s). Do not remove the plastic protectors covering the thermostats.
- Using a flat tip screwdriver, adjust the thermostat(s) to the desired setting.
- Replace the covers and access panels, and turn on the electrical supply.

What's Happening

American Cancer Society Relay for Life



The Relay for Life Kickoff is February 8 at the Red Lion Hotel in Kelso, beginning at 6:30 p.m. Teams will be able to register for \$75 at this meeting, rather than the usual \$100. Refreshments will be served and information booths will be on-site.

Crime Stoppers



Crime Stoppers offers a unique crime fighting tool by creating a partnership between the media, citizens, businesses and law enforcement agencies in Cowlitz County.

Each week a "Crime of the Week" is highlighted. Anyone with information about that crime is asked to call Crime Stoppers. All calls are anonymous. A tip leading to an arrest or filing of charges could earn a reward up to \$1,000.

Visit www.cowlitzcrimestoppers.com or call (888) 577-1206 for more information.

Each month Cowlitz PUD offers this space to a non-profit group in Cowlitz County as an avenue to promote its activities (on a first-come, first-served basis). Send your request to: whathappening@cowlitzpud.org.

Commission Activities



December 2010 highlights:

- **Approved a resolution to increase electric rates** by an average of nine percent.
- **Held a joint meeting with the Beacon Hill Sewer District Board of Commissioners** to finalize and approve the transfer of the PUD water system to BHSD, effective January 1, 2011.
- **Approved the 2011 capital and operating budgets.**
- **Approved a staff recommendation to award** the 2011 above-ground storage tank and vehicle fuel supply contract to Wilcox & Flegel of Longview.

Upcoming PUD Board meetings:

- Tuesday, January 25
- Tuesday, February 8
- Tuesday, February 22

These public meetings are held in the PUD Auditorium, 961 12th Avenue in Longview at 2:00 p.m. Please check our website for up-to-the-minute Board agendas, meeting dates and times.

Your Market Place is the Newest Cowlitz PUD Pay Station

Cowlitz PUD customers have a new convenient location to pay their electric bill, with the addition of Your Market Place as a PUD pay station. Your Market Place replaces Olympic Drug, which closed its utility and postal station on Dec. 7.

Hundreds of PUD customers had found Olympic Drug to be a convenient place to pay their electric bill for many years, so it was important for us to find another Longview business to match what Olympic Drug offered.

Your Market Place is the answer. It's located at 849 Commerce in Longview and is accepting PUD payments from 9:00 a.m. to 5:00 p.m., Monday through Friday. Those hours will expand soon.

"When the PUD contacted us about becoming a pay station

it just seemed like a good fit," Your Market Place owner Linda Doerr said.

They are also hoping to add more bill payment opportunities and services. "Now that we have begun taking PUD payments, we are taking steps to become a pay station for other local utilities and could possibly offer postal services someday just like Olympic Drug did," Doerr said.

Your Market Place is one of five PUD pay stations in Cowlitz County. The others are Cascade Market in Castle Rock, Furness Drug in Kelso, Godfrey's Pharmacy in Kalama and Hi-School Pharmacy in Woodland.

For more information on PUD pay stations:
www.cowlitzpud.org/customer_services.php.

From the General Manager's Point-of-View...

Raising rates is not enjoyable, nor is it taken lightly here at the PUD. We've heard concerns expressed by many customers and all are taken very seriously.



Frankly it's likely that our rates could increase again in October when BPA makes a final determination of its rates. So this is my first of several columns regarding rates, budgets and finances so I can help you understand why our rates are going up. For what it's worth electric rates are increasing all over the Pacific Northwest.

Our rate increase is driven primarily by lower than projected revenues in both 2009 and 2010, combined with the need to provide what accountants call "debt service coverage." In recent years we have sold bonds to finance some costly, but necessary projects: 1) Investing in two wind farms needed to meet growing customer power demand and the new state renewable power law, 2) Relicensing and repairing the Swift No. 2 hydro project, and 3) Overhauling the electrical infrastructure in Cowlitz County.

I've shared my feelings before on America's need to maintain and improve infrastructure. Much of it – roads, bridges, water, sewer and electrical systems – needs replacing.

When I came on board in 2005 it was apparent that much of our electrical system was due for an upgrade. It had long been a philosophy at Cowlitz that capital projects should be paid for with cash. Since that would have caused some large rate increases, many needed improvements were delayed.

At the turn of the century when the infrastructure here started to show a need for attention, the West Coast Energy Crisis reared its head and led to two large rate increases. That was followed by the failure at Swift No. 2 in 2002. Needed capital improvements were put on hold again.

That changed in 2005. As we have stepped up the effort to rebuild or maintain the system our capital expenditures have

ranged from \$9 million to \$29 million the past five years. This includes replacing aging underground lines and rebuilding some of our substations, nearly all the cost of the new automated metering infrastructure and the overhaul of our computer hardware and software systems to help provide new innovative services.

Paying cash for improvements with a useful life of 30 years (or more) is neither feasible nor equitable. The impact on rates would be too great, and it is not fair to make today's customer pay the entire cost for facilities that will also serve future generations of customers. So we've sold bonds to pay a portion of this work.

We've benefited from exceptionally low interest rates and lower construction prices. Even so, for 2011 our debt service (principal and interest) is approximately \$16.8 million.

So, back to debt service coverage. In order to meet our bond covenants, operating revenues must be sufficient to pay that debt service, plus at least another 25 percent. In 2009-2010 operating revenues fell \$39 million less than budgeted, due to the economy, warm winter weather, and poor water and wind in 2010 that impacted our ability to market excess power.

That will leave us with too little cash to meet our coverage requirements. Failing to meet our 1.25 debt service coverage requirement is not acceptable. It would cause a significant downgrade to our bond rating, perhaps even to "junk bond" status, and dramatically increase future interest rates. Even worse it could reduce our access to capital altogether.

This is a capital intensive business. An overall 9 percent rate increase now helps provide the revenue to keep the PUD from risking having to pay higher interest costs to build electrical infrastructure and generation projects to meet future power demand.

A handwritten signature in black ink, appearing to read "B. Skeahan". The signature is fluid and cursive, written over a white background.

Brian Skeahan
General Manager

Contact Information

Cowlitz PUD - 961 12th Avenue
PO Box 3007 Longview, WA 98632
(360) 423-2210 - Toll free WA (800) 631-1131
website: www.cowlitzpud.org
Email: mailbox@cowlitzpud.org

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COMMISSIONERS: Buz Ketcham, Ned Piper,
and Mark McCrady
GENERAL MANAGER: Brian Skeahan
EDITOR: Dave Andrew