



To: Cowlitz PUD Board of Commissioners
From: Steven D. Kern, General Manager
Re: 2017 Cowlitz PUD Final Budget

Cowlitz PUD’s 2017 budget reflects our continued commitment to operate a responsible and accountable community-owned electric utility for the benefit of our ratepayers and Cowlitz County.

Overall 2017 budgeted costs and expenses have decreased \$750,000 offset by a \$340,000 reduction in retail and other operating revenue. The budgeted cash deficit, based on continued conservative assumptions, has improved by \$410,000 from 2016. Following is a comparison of the cash budgets for 2017 and 2016:

Description	2016	2017	Change	Percent
Retail Revenue	\$ 269,074,927	\$ 268,578,784	\$ (496,143)	-0.18%
Other Revenue	2,048,750	2,201,514	152,764	7.46%
Total Retail and Other Revenue	271,123,677	270,780,298	(343,379)	-0.13%
Power Costs	209,059,976	210,486,631	1,426,655	0.68%
Labor & Benefits	22,032,580	22,399,037	366,457	1.66%
Operating Expenses	9,940,892	9,558,487	(382,405)	-3.85%
BPA Conservation Performance Payment	-	(354,000)	(354,000)	n/a
Taxes	10,755,016	11,145,074	390,058	3.63%
Capital	8,119,295	7,036,027	(1,083,268)	-13.34%
Debt Service	17,361,199	16,245,018	(1,116,181)	-6.43%
Total Costs and Expenses	277,268,958	276,516,274	(752,684)	-0.27%
Cash Surplus (Deficit)	\$ (6,145,281)	\$ (5,735,976)	\$ 409,305	6.66%

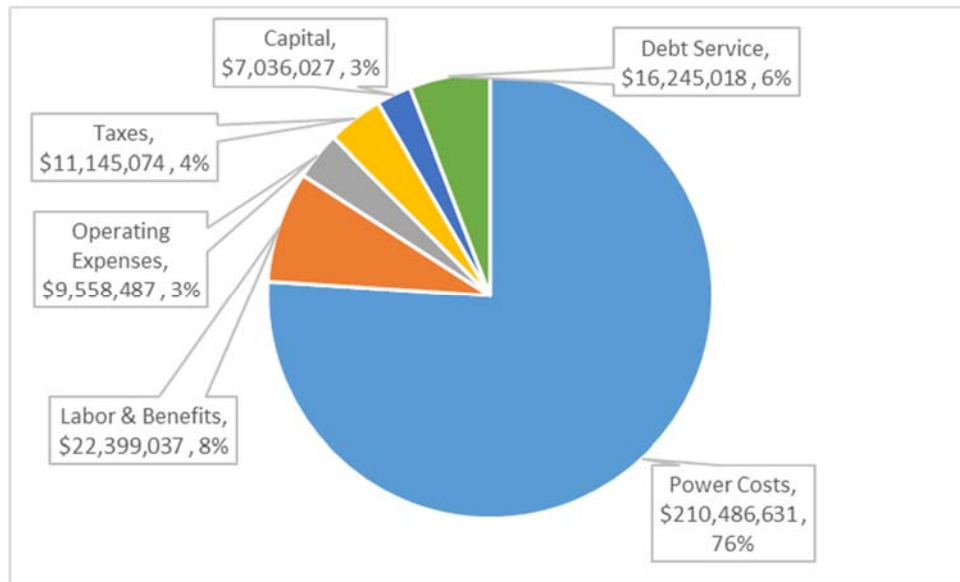
The District intends to address the 2017 budgeted cash deficit with one or a combination of the following:

- Actual operating results better than the conservative budgeted results, especially power costs
- Potential rate increase in response to the Bonneville Power Administration (BPA) rate decision, which will be released July 2017
- Cash reserves

The 2017 budgeted results reflect the following key assumptions:

- No 2016 retail rate increase and no anticipated 2017 increase – the 2017 retail rate decision will take place in the second quarter of 2017 as the District will have more information on the 2017 actual operating results and BPA rate action
- Major Industrial customers’ revenue increased for contractual pass-through of costs
- Reduced weather-adjusted retail load forecast to reflect current trends
- Industrial loads increased only for known existing customer growth
- Continued conservative generation assumptions on all resources to protect the District and reduce potential retail rate volatility
- Anticipated BPA rate increase effective October 1, 2017
- Two and half less full-time equivalent employees compared to the 2016 budget; Three percent compensation increase, with related benefit increases
- Energy efficiency requirements met with BPA funds
- Operating cost control efforts across all District business units
- Capital projects limited to top priorities – focusing on safety, reliability, efficiencies and growth
- No new debt – budgeted amounts include lower interest costs from refinancing transactions in 2014 and 2015 and partial bond principal redemption in 2016

2017 Budgeted Costs and Expenses, excluding BPA conservation performance payment:





Retail Revenue Detail

Description	2016	2017	Change	Percent
Residential	\$ 62,898,181	\$ 59,782,870	\$ (3,115,311)	-4.95%
General Service	33,518,304	32,038,571	(1,479,733)	-4.41%
Industrial	24,467,932	24,959,993	492,061	2.01%
Major Industrial	147,918,948	151,518,257	3,599,309	2.43%
Public St & Hwy Lights/Other	271,562	279,093	7,531	2.77%
Total Retail Revenue	\$ 269,074,927	\$ 268,578,784	\$ (496,143)	-0.18%

Net Power Cost Detail

Description	2016	2017	Change	Percent
BPA	\$ 192,334,050	\$ 195,829,038	\$ 3,494,988	1.82%
Swift	7,244,184	6,876,167	(368,017)	-5.08%
Harvest Wind	3,302,160	2,879,021	(423,139)	-12.81%
White Creek	13,229,699	12,380,252	(849,447)	-6.42%
Nine Canyon	422,233	385,082	(37,151)	-8.80%
Grant	448,452	310,157	(138,295)	-30.84%
Other	1,761,225	2,090,879	329,654	18.72%
Total Power Costs	218,742,003	220,750,596	2,008,593	0.92%
Wind Revenues	4,670,482	4,053,666	(616,816)	-13.21%
Wholesale Sales & Purchases	691,545	1,890,299	1,198,754	173.34%
Total Wind & Net Wholesale	5,362,027	5,943,965	581,938	10.85%
Net Power Costs	213,379,976	214,806,631	1,426,655	0.67%
White Creek Amortization	(4,320,000)	(4,320,000)	-	0.00%
Net Power Costs	\$ 209,059,976	\$ 210,486,631	\$ 1,426,655	0.68%



The District is facing a variety of challenges including:

- Cost increases from BPA which represents 85% of the District’s power supply
- Continued under-performance of wind resources
- Weak surplus revenue due to low wholesale energy prices
- Technology advancement which is shifting resources, reducing customer loads and impacting cost to serve and operations
- Expanding customer expectations for more interaction and options
- Maintaining electric infrastructure
- Ever-evolving legislative and regulatory landscape which have potentially significant cost and operational implications

Cowlitz PUD is committed to working with the community to address these challenges while continuing our mission of providing safe, reliable, cost-effective and sustainable electricity.

5-Year Budget Analysis

In 2016 the District expanded the budget process to include five years. Following are budgeted “expected” cash results for 2018 ~ 2021 reflecting anticipated power (consistent conservative generation assumptions) and other cost increases, with no corresponding retail rate increases other than the contractual pass-through for the Major Industrial customers:

Description	2018	2019	2020	2021
Retail Revenue	\$ 279,844,616	\$ 285,892,499	\$ 297,126,966	\$ 301,711,262
Other Revenue	2,201,514	2,204,291	2,207,083	2,209,888
Total Retail and Other Revenue	282,046,130	288,096,790	299,334,049	303,921,150
Power Costs	224,515,455	232,008,129	247,398,891	252,681,324
Labor & Benefits	23,064,256	23,100,973	23,296,814	23,988,967
Operating Expenses	9,206,191	9,686,358	9,521,634	9,770,454
BPA Conservation Performance Payment	(1,770,000)	(590,000)	(1,770,000)	(236,000)
Taxes	11,612,566	11,863,532	12,329,723	12,519,955
Capital	12,619,105	8,131,073	8,094,363	8,923,473
Debt Service	15,850,018	15,847,768	15,848,518	15,851,018
Total Costs and Expenses	295,097,591	300,047,833	314,719,943	323,499,191
Cash Surplus (Deficit)	\$ (13,051,461)	\$ (11,951,043)	\$ (15,385,894)	\$ (19,578,041)

Deficits will be addressed with a combination of actual operating results better than budget, retail rate increases primarily in response to ultimate BPA rate action and cash reserves.