



To: Cowlitz PUD Board of Commissioners
From: Steven D. Kern, General Manager
Re: 2018 Cowlitz PUD Final Budget

Cowlitz PUD’s 2018 budget reflects our continued commitment to operate a responsible and accountable community-owned electric utility for the benefit of our customers and Cowlitz County.

The 2018 budget is primarily impacted by increased power costs and capital spending. Bonneville Power Administration (BPA) is the main driver for the increase in power costs and capital is largely related to a South County project to improve reliability and capacity. Labor, operating expenses and annual debt service combined decreased by \$650,000. The large decrease in revenue and corresponding decrease in net power costs is mostly due to the reduction in use from a Major Industrial customer. Following is a comparison of the cash budgets for 2018 and 2017:

Description	2018	2017	Change	%
Retail Revenue, net of taxes	\$ 214,066,887	\$ 257,433,710	\$ (43,366,823)	-16.85%
Other Revenue	2,506,220	2,380,140	126,080	5.30%
BPA Conservation Performance Payment	1,020,000	354,000	666,000	188.14%
Total Revenues	217,593,107	260,167,850	(42,574,743)	-16.36%
Net Power Costs	170,935,716	210,486,631	(39,550,915)	-18.79%
Labor & Benefits	22,611,265	22,399,037	212,228	0.95%
Operating Expenses	9,271,549	9,737,113	(465,564)	-4.78%
Capital	10,910,633	7,036,027	3,874,606	55.07%
Debt Service	15,850,018	16,245,018	(395,000)	-2.43%
Total Costs & Expenses	229,579,181	265,903,826	(36,324,645)	-13.66%
Surplus (Deficit)	(11,986,074)	(5,735,976)	\$ (6,250,098)	108.96%
Cash Reserves/Rates	11,986,074	5,735,976		
Remaining Surplus (Deficit)	\$ -	\$ -		

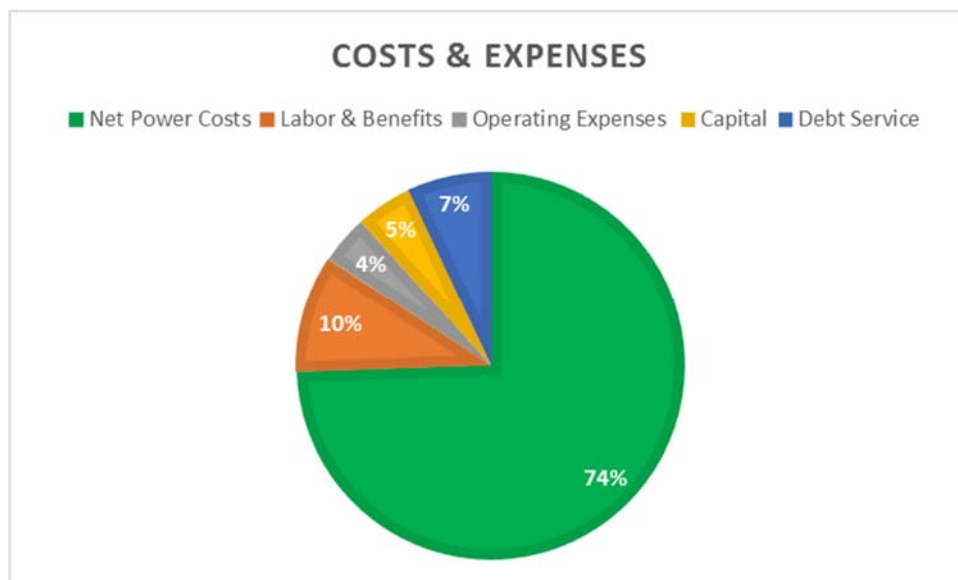
Effective October 1, 2017 the District increased rates 2.50% in response to an increase in power costs from BPA. The District intends to address the remaining 2018 budgeted cash deficit with one or a combination of the following:

- Actual operating results better than the conservative budgeted results, especially power costs
- Cash reserves

The 2018 budgeted results reflect the following key assumptions:

- No retail rate increase – the 2.50% increase noted above is not reflected in the 2018 budgeted retail revenue as it was not yet approved by the Board of Commissioners
- Major Industrial customers’ revenue adjusted for lower use and contractual pass-through of costs
- Minimal load growth expected for Non-Major Industrial customers, with some known existing industrial customer growth
- Continued conservative generation assumptions on all resources to protect the District and reduce potential retail rate volatility
- BPA rate increase effective October 1, 2017
- One and a half less full-time equivalent employees compared to the 2017 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 focusing on safety, reliability, efficiencies and growth
- No new debt – budgeted amounts include lower interest costs from refinancing transactions and partial bond principal redemption in 2016

2018 Budgeted Costs and Expenses





Retail Revenue Detail

Description	2018	2017	Change	%
Retail Revenue, net of taxes				
Residential	\$ 56,787,824	\$ 56,039,751	\$ 748,073	1.33%
General Service	30,365,756	30,032,575	333,181	1.11%
Industrial	24,642,031	23,397,200	1,244,831	5.32%
Major Industrial	101,881,381	147,702,565	(45,821,184)	-31.02%
Public St & Hwy Lights/Other	389,895	261,619	128,276	49.03%
Total Retail Revenue, net of taxes	\$ 214,066,887	\$ 257,433,710	\$ (43,366,823)	-16.85%

Net Power Cost Detail

Description	2018	2017	Change	%
BPA	\$ 155,074,523	\$ 195,829,038	\$ (40,754,515)	-20.81%
Swift	6,218,241	6,876,167	(657,926)	-9.57%
Harvest Wind	2,907,764	2,879,021	28,743	1.00%
White Creek	8,767,523	8,060,252	707,271	8.77%
Nine Canyon	388,447	385,082	3,365	0.87%
Grant	319,462	310,157	9,305	3.00%
Other	2,582,686	2,090,879	491,807	23.52%
Total Power Costs	176,258,646	216,430,596	(40,171,950)	-18.56%
Wind Revenues	4,094,084	4,053,666	40,418	1.00%
Wholesale Sales/Purchases	1,228,846	1,890,299	(661,453)	-34.99%
Net Wholesale Revenues	5,322,930	5,943,965	(621,035)	-10.45%
Net Power Costs	\$ 170,935,716	\$ 210,486,631	\$ (39,550,915)	-18.79%

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 operations and the cost to serve
- 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

Following are budgeted cash results for 2019 ~ 2022 reflecting anticipated power (consistent conservative generation assumptions) and other cost increases, with no corresponding retail rate increases other than the 2.50% increase effective October 1, 2017 and contractual pass-through for the Major Industrial customers:

Description	2019	2020	2021	2022
Retail Revenue, net of taxes	\$ 219,073,275	\$ 222,449,813	\$ 225,446,773	\$ 228,485,493
Other Revenue	2,506,220	2,506,220	2,506,220	2,506,220
BPA Conservation Performance Payment	656,000	924,000	589,000	816,000
Total Revenues	222,235,495	225,880,033	228,541,993	231,807,713
Net Power Costs	174,596,138	179,189,487	185,222,801	189,868,894
Labor & Benefits	23,457,566	24,154,257	24,871,849	25,610,968
Operating Expenses	9,365,644	9,140,510	9,438,173	9,794,466
Capital	10,673,491	6,788,787	8,059,706	7,272,022
Debt Service	15,847,768	15,848,518	15,851,018	15,851,268
Total Costs & Expenses	233,940,607	235,121,559	243,443,547	248,397,617
Surplus (Deficit)	(11,705,112)	(9,241,526)	(14,901,554)	(16,589,905)
Cash Reserves/Rates	11,705,112	9,241,526	14,901,554	16,589,905
Remaining Surplus (Deficit)	\$ -	\$ -	\$ -	\$ -

As noted, 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.

To illustrate the impact of conservative generation assumptions, following are the estimated deficits using average generation assumptions.

Description	2019	2020	2021	2022
Surplus (Deficit)	\$ (6,000,040)	\$ (3,072,856)	\$ (8,332,758)	\$ (9,571,648)

The District does consider average assumptions along with cash reserves when setting rates.