



To: Cowlitz PUD Board of Commissioners
From: Steven D. Kern, General Manager
Re: 2019 Cowlitz PUD Final Budget

Cowlitz PUD’s 2019 budget reflects our continued commitment to operate a responsible and accountable community-owned electric utility for the benefit of our customers and Cowlitz County.

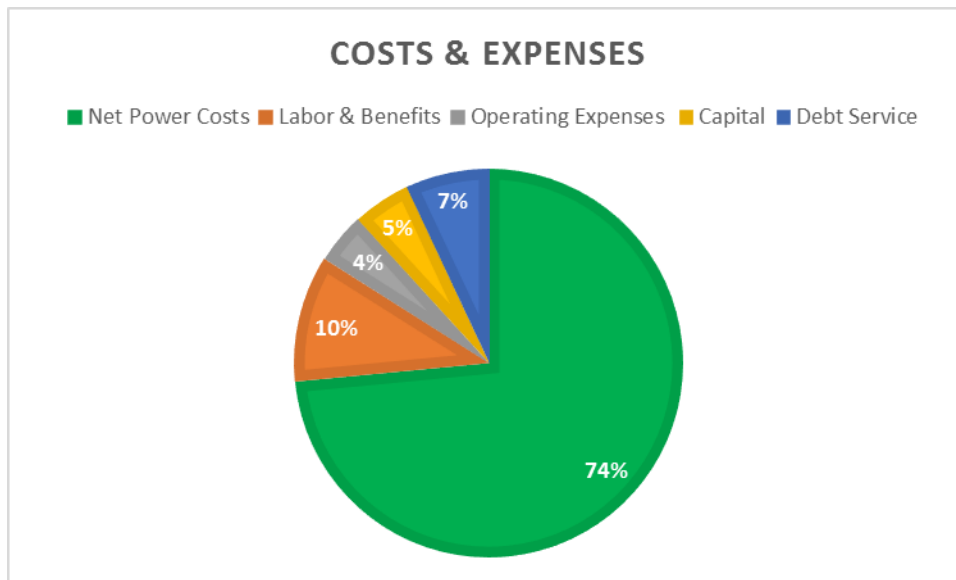
For the 2019 Budget, the District made the decision to begin budgeting based upon “expected” power costs versus the previous conservative assumptions. This decision was based on the District’s current financial position and actual operating results over the last six years. “Expected” refers to the amount of generation the District assumes from its resources. Under these assumptions, the District has an equal chance of actual generation being above or below budget. This change will result in more years being over-budget for power costs, as generation is weather dependent, but the District believes it will be able to manage the variability with existing cash reserves.

Description	2019
Retail Revenue, net of taxes	\$ 217,216,498
Other Revenue	<u>4,154,008</u>
Total Retail and Other Revenue	<u>221,370,506</u>
Net Power Costs	167,617,877
Labor & Benefits	23,902,498
Operating Expenses	9,710,716
BPA Conservation Performance Payment	(660,000)
Capital	11,037,304
Debt Service	<u>15,847,768</u>
Total Costs and Expenses	<u>227,456,162</u>
Cash Surplus (Deficit)	(6,085,656)
Cash Reserves/Rates	<u>6,085,656</u>
Remaining Cash Surplus (Deficit)	<u><u>\$ -</u></u>

Other key budget assumptions and elements:

- No retail rate increase – Use reserves as needed to cover deficits
- BPA rate increase effective October 1, 2019
- Modest customer load growth, no significant loads added
- One additional full-time equivalent employee compared to the 2018 budget; Approximate three percent compensation increase, with related benefit increases
- Operating cost control efforts across all District business units
- Capital projects focusing on safety, reliability, efficiencies and growth
- No new debt

2019 Budgeted Costs and Expenses



Net Power Costs: 74%
Labor & Benefits: 10%
Operating Expenses: 4%
Capital: 5%
Debt Service: 7%



Retail Revenue Detail, net of taxes

<u>Description</u>	<u>2019</u>
Residential	\$ 59,119,136
General Service	31,539,757
Industrial	25,285,130
Major Industrial	100,751,650
Public St & Hwy Lights/Other	<u>520,826</u>
Total Retail Revenue	<u><u>\$ 217,216,498</u></u>



Net Power Cost Detail

Description	2019
BPA	\$ 161,422,270
Swift	6,183,191
Harvest Wind	2,973,710
White Creek	8,986,818
Nine Canyon	425,202
Grant	329,045
Other	<u>2,323,500</u>
Total Power Costs	<u>182,643,735</u>
Wind Revenues	4,303,579
Wholesale Sales & Purchases	<u>10,722,279</u>
Total Wind & Net Wholesale	<u>15,025,859</u>
Net Power Costs	<u><u>\$ 167,617,877</u></u>

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 2020 ~ 2023 reflecting anticipated power and other cost increases, with no corresponding retail rate increases other than contractual pass-through for the Major Industrial customers:

Description	2020	2021	2022	2023
Retail Revenue, net of taxes	\$ 224,391,218	\$ 225,721,196	\$ 230,655,129	\$ 232,421,651
Other Revenue	4,154,008	4,154,008	4,154,008	4,154,008
Total Retail and Other Revenue	228,545,226	229,875,204	234,809,137	236,575,659
Net Power Costs	178,308,465	182,103,650	188,683,819	191,830,198
Labor & Benefits	24,777,378	25,513,505	26,271,716	27,052,673
Operating Expenses	9,462,084	9,691,670	9,727,539	9,947,191
BPA Conservation Performance Payment	(1,000,000)	(600,000)	(1,000,000)	(600,000)
Capital	10,083,488	11,217,775	9,913,868	7,631,568
Debt Service	15,848,518	15,851,018	15,851,268	15,847,590
Total Costs and Expenses	237,479,932	243,777,618	249,448,209	251,709,220
Cash Surplus (Deficit)	(8,934,706)	(13,902,414)	(14,639,072)	(15,133,561)
Cash Reserves/Rates	8,934,706	13,902,414	14,639,072	15,133,561
Remaining Cash 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.