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# Chelan County PUD

## Strategic Planning Session #4

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June 11, 2007

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# Tonight's Agenda

## Part 1

- Opening remarks
- Recap of strategic sessions
- Public comment
- Board discussion
- Break

## Part 2

- Public comment
- Time to make choices
- Next steps
- Closing remarks

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## Timeline – the road to Session #4

- ✓ August 23, 2006 – Session #1
- ✓ November 20, 2006 evening study session – Session #2
- ✓ March 19, 2007 evening study session – Session #3
- ✓ April 30 study session - Networks strategy review
- ✓ May 9 special session - Integrated water strategy review
- ✓ May 14 study session - Wastewater strategy review, additional scenarios
- ✓ May 21 business meeting - Board discussion
- ✓ May 29 study session - Management recommendation, Board discussion
- ✓ June 4 business meeting - Board discussion
- June 11 evening study session - Session #4
  - Establish initial guiding principles, governing policies and action plans

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# Policy and risk decisions

- Initial policy decisions for tonight
    - Acceptable volatility in a potential surcharge
    - Targeted operating ratios
    - Targeted change in net assets
    - Degree to which we operate as an integrated utility service
    - Use of capacity reservation funds
    - How to proceed in each utility business line

**(All of the above impact rate decisions)**
  
  - Longer-term policy decisions (post June 11)
    - Guiding principles for cost of service and rate design
    - Guiding principles for deployment of capital
    - Policy and direction for additional post-2011 power contracts
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# Recap of strategic sessions to date

- Heritage of providing quality utility services
- Built upon a solid asset base
- We depend on wholesale revenue to fill gaps
- Reliance on wholesale revenue is risky
- Current financial trends are not sustainable
- Steps can be taken to close gaps and reduce risk

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# Cost control and efficiency

- **Realigned organization for efficiency gains**
  - 3 positions eliminated
- **2007 budget limited O&M growth to 4.5%**
  - Reduction of 19 full-time equivalents from budget
  - Anticipate additional attrition through retirements
  - Continued strict review of personnel requests
- **Increased focus on efficiency**
  - Automated meter reading for Water
  - Expansion of auto pay and internet tools for customers
  - Optimization of hydro outages to reduce downtime
  - Comprehensive internal process review

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# Increasing Cost Pressures

- Customer growth = system growth
- Aging facilities = more maintenance to keep reliability
- Materials costs (wire, steel, copper, fuel, etc.)
- Increased mandates for safety, reliability, water quality, wastewater treatment, renewables, etc.
- Rocky Reach and Lake Chelan relicensing requirements
- Commitments to security, safety & technology

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# What we heard from our customers

- PUD should look for ways to be more efficient and more cost-effective
- Surcharges or occasional large rate hikes are not desirable
- Question the need for a rate hike - would be willing to risk a larger surcharge instead
- Understand need to raise rates to cover operating costs, but think any increases should be moderate and incremental over time
- Need adequate notice of rate increases for planning purposes
- There is a division of opinion on how to proceed with Networks, Water and Wastewater
- Suggest that a debt reduction schedule be set and followed

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# Key questions from our Commissioners

- Would we still need an electric rate increase to ensure the financial health of the District if we didn't have Water, Wastewater and Networks?
  - Yes, current electric rates don't cover electric costs (wholesale sales fill the gap)
- Does a portion of my current electric rate or bill fund Networks?
  - No, current electric rates don't even cover electric costs (wholesale sales fill the gap)
- Should the District expand low income senior or disabled programs as allowed by RCW?
  - This is a Board policy decision to be included in the rate-making process

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# Key questions from our Commissioners

- Can we use cash reserves from this year's higher than expected wholesale revenues to cover future year expenses and eliminate the need for rate increases?
  - No, while the cash reserves are a key part of our overall financial health, they can not be used to meet our minimum annual debt coverage requirement
- Is it inconsistent to recommend 9% rate increases for Electric, Water and Wastewater, but only have a 2% ISP fee increase planned for Networks?
  - No, the recommendation is based on rates needed to move towards an operating ratio closer to 100% for each system over time. The 2% increase for Networks achieves this target by 2010

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# How could we utilize extra funds in a surplus year?

- Pay down additional debt
- Replenish cash reserves/rate stabilization fund
- Fund Lake Chelan new license obligations (forego additional debt)
- Catch-up on Electric deferred projects
- Fund Water capital
- Fund Wastewater capital
- Fund conservation and renewables
- Fund accelerated Networks build-out
- Fund future Master Facilities Plan
- Fund Stehekin upgrade
- Undertake additional discretionary O&M projects
- Power cost adjustment credit

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# How could we adjust in a deficit year ?

- Utilize cash reserves
- Surcharges
- Capital program deferrals
- Defer major maintenance projects
- Reduce discretionary O&M projects
- Hiring freeze
- Salary freeze
- Travel and training freeze
- Limit overtime
- Reduce pace of Networks build-out
- Power cost adjustment adder

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# Management recommendations

1. How much volatility is acceptable in a potential surcharge?
  - The potential surcharge should be limited to 10% at a 90% confidence level to meet our 1.25 debt coverage requirement
  - The potential surcharge should be further limited to 0% at a 50% confidence level to meet our 1.25 debt coverage requirement

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# Management recommendations

2. What is the targeted operating ratio of each service?
  - Individual utility services operating ratios should target 100% or less over time at a 50% confidence level (targets may vary by service)
  - Our overall operating ratio should be 80% - 100% by 2011 at a 50% confidence level

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# Management recommendations

3. What is the targeted Change in Net Assets (bottom line)?
  - Annual financial plans should target a positive “Change in Net Assets” (positive bottom line) by 2011 at a 50% confidence level

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# Management recommendations

4. To what degree should we act as an integrated utility service provider?
- ❑ Utility services cash reserves should be available to fund the capital needs of any District service.
  - ❑ Individual utility services operating ratios should target 100% or less over time at a 50% confidence level (targets may vary by service) - wholesale revenues would be used to fill the gaps of each service over that transitional time

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# Management recommendations

5. Which systems get a cash infusion from capacity reservation funds and to what extent?
  - Capacity reservation funds should be available to all utility systems to cover internal commitments and capital funding requirements to 2012

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# Management recommendations

## 6. How should we proceed with the Networks business line?

- Current build (reach 95% of county by 2012)
- Extended build (reach 76% of county by 2012)
- Minimal build (reach 54% of county by 2012)
- Exit

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# Management recommendations

## 7. How should we proceed with the Water business line?

- Current (Wholesale Reliant) Strategy
- Rate Reliant Strategy
- Balanced Strategy (9% rate increase to 2012)
- Exit

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# Management recommendations

## 8. How should we proceed with the Wastewater business line?

- Current (Wholesale Reliant) Strategy
- Rate Reliant Strategy
- Balanced Strategy (9% rate increase to 2012 - while pursuing potential collaborative options with others)
- Exit

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# Management recommendations

## 9. How should we proceed with the Retail Electric business line?

- Current (Wholesale Reliant) Strategy
- Rate Reliant Strategy
- Balanced Strategy (9% rate increase to 2010 and possibly 2011)
- Exit

# Average monthly residential rate impacts

(assuming an across the board rate increase)

		<u>Current</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b>Electric</b>	<b>Rate Increase</b>		<b>9.0%</b>	<b>9.0%</b>	<b>9.0%</b>	<b>9.0% ?</b>	<b>-</b>
	<b>Avg Monthly Residential Rate</b>	<b>\$52</b>	<b>\$57</b>	<b>\$62</b>	<b>\$68</b>	<b>\$74</b>	<b>\$74</b>
<b>Water</b>	<b>Rate Increase</b>		<b>9.0%</b>	<b>9.0%</b>	<b>9.0%</b>	<b>9.0%</b>	<b>9.0%</b>
	<b>Avg Monthly Residential Rate</b>	<b>\$53</b>	<b>\$58</b>	<b>\$63</b>	<b>\$69</b>	<b>\$75</b>	<b>\$82</b>
<b>Wastewater</b>	<b>Rate Increase</b>		<b>9.0%</b>	<b>9.0%</b>	<b>9.0%</b>	<b>9.0%</b>	<b>9.0%</b>
	<b>Avg Monthly Residential Rate</b>	<b>\$64</b>	<b>\$70</b>	<b>\$76</b>	<b>\$83</b>	<b>\$90</b>	<b>\$98</b>

# Chelan PUD

## Compare inflation (used CPI-U) vs. potential electric rate increases

Column =	Inflation			Rates		
	1	2	3	4	5	6
	CPI-U	Annual change	Cumulative effect	Rate cents/kwh	Estimated rate increase	Cumulative effect
2000	172.2					
2001	177.1	2.8%	102.8%			
2002	179.9	1.6%	104.5%			
2003	184.0	2.3%	106.9%			
2004	188.9	2.7%	109.7%			
2005	195.3	3.4%	113.4%			
2006	201.6	3.2%	117.1%			
Projected 2007	207.6	3.0%	120.6%	3.0		
Projected 2008	213.9	3.0%	124.2%	3.3	9.0%	109.0%
Projected 2009	220.3	3.0%	127.9%	3.6	9.0%	118.8%
Projected 2010	226.9	3.0%	131.8%	3.9	9.0%	129.5%
Projected 2011	233.7	3.0%	135.7%	4.2	9.0%	141.2%
Projected 2012	240.7	3.0%	139.8%	4.2	0.0%	141.2%

CPI-U = Consumer Price Index

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# Management recommendations

- Five year plan
- Reviewed with the Board annually
- Revised as needed based on actual results and then current forward projections

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# Public comment

## Tonight's Agenda

### **Part 1**

Opening remarks

Recap of strategic sessions

**Public comment**

Board discussion

Break

### Part 2

Public comment

Time to make choices

Next steps

Closing remarks

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# Board discussion of mission & financial stability

- Our mission is to safely provide utility services that enhance the economy and quality of life in Chelan County
  - The District will maintain financial stability through time and to contribute to risk management adopt guiding principles and governing policies
  - The District provides utility services as a cost of service type utility. Inherent in this is a cost-based rates commitment that sets rates as low as possible consistent with sound business principles and full cost recovery

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# Board discussion of guiding principles

1. Do we best serve our customers by providing multiple utility services and utility infrastructure improvements?
2. Should we implement annual financial plans to achieve a positive “Change in Net Assets” (positive bottom line)?

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# Board discussion of guiding principles

3. As a whole, should we manage rates to cover operating costs as measured by an acceptable operating ratio?
4. Should each utility service manage rates to cover operating costs over time?

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# Board discussion of guiding principles

5. Is a surcharge an appropriate way to manage risk and volatility?
6. Should Utility Services cash reserves be available to fund the capital needs of any District utility service?

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# Board discussion of guiding principles

7. Should cost control and efficiencies be a component of annual financial plans?
8. Should debt be managed within established parameters?

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## Board discussion of initial governing policies (aligned with guiding principles)

1. How much volatility is acceptable in a potential surcharge?
2. What is the targeted operating ratio of each service and the combined utility services?

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# Board discussion of initial governing policies (aligned with guiding principles)

3. What is the targeted Change in Net Assets (bottom line)?
  
4. To what degree should we act as an integrated utility service provider?
  - Utility services cash reserves available to fund the capital needs of Retail Electric, Water, Wastewater and/or Networks?
  - Wholesale sales used to fill the operating gaps of Retail Electric, Water, Wastewater and/or Networks while each system moves toward an operating ratio of 100%?

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# Board discussion of initial governing policies (aligned with guiding principles)

5. Which systems get a cash infusion from capacity reservation funds and to what extent?
  - ❑ Retail Electric?
  - ❑ Water?
  - ❑ Wastewater?
  - ❑ Networks
  
6. How should we proceed with the Networks business line?
  - ❑ Current build (reach 95% of county by 2012)
  - ❑ Extended build (reach 76% of county by 2012)
  - ❑ Minimal build (reach 54% of county by 2012)
  - ❑ Exit

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# Board discussion of initial governing policies (aligned with guiding principles)

7. How should we proceed with the Water business line?
  - ❑ Current (Wholesale Reliant) Strategy
  - ❑ Rate Reliant Strategy
  - ❑ Balanced Strategy
  - ❑ Exit
  
8. How should we proceed with the Wastewater business line?
  - ❑ Current (Wholesale Reliant) Strategy
  - ❑ Rate Reliant Strategy
  - ❑ Balanced Strategy
  - ❑ Exit

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# Board discussion of initial governing policies (aligned with guiding principles)

9. How should we proceed with the Retail Electric business line?
- ❑ Current (Wholesale Reliant) Strategy
  - ❑ Rate Reliant Strategy
  - ❑ Balanced Strategy
  - ❑ Exit

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# 10 Minute Break

10 minutes  
10 minutes  
10 minutes  
10 minutes  
10 minutes

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# Public comment

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# Time to make choices

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# Time to make choices: guiding principles

1. Do we best serve our customers by providing multiple utility services and utility infrastructure improvements?
2. Should we implement annual financial plans to achieve a positive “Change in Net Assets” (positive bottom line)?

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# Time to make choices: guiding principles

3. As a whole, should we manage rates to cover operating costs as measured by an acceptable operating ratio?
4. Should each utility service manage rates to cover operating costs over time?

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# Time to make choices: guiding principles

5. Is a surcharge an appropriate way to manage risk and volatility?
6. Should Utility Services cash reserves be available to fund the capital needs of any District utility service?

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# Time to make choices: guiding principles

7. Should cost control and efficiencies be a component of annual financial plans?
8. Should debt be managed within established parameters?

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# Time to make choices: governing policies

(Aligned with guiding principles)

1. How much volatility is acceptable in a potential surcharge?
  - The potential surcharge should be limited to \_\_\_\_% at a 90% confidence level to meet our 1.25 debt coverage requirement
  - The potential surcharge should be further limited to \_\_\_\_% at a 50% confidence level to meet our 1.25 debt coverage requirement

# Time to make choices: governing policies

## 2. What is the targeted operating ratio of each service?

- Individual utility services operating ratios should target \_\_\_\_\_% or less over time at a 50% confidence level
  - Retail Electric \_\_\_\_\_%
  - Water \_\_\_\_\_%
  - Wastewater \_\_\_\_\_%
  - Networks \_\_\_\_\_%
  
- Our overall operating ratio should be \_\_\_\_\_% by 2011 at a 50% confidence level

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# Time to make choices: governing policies

3. What is the targeted Change in Net Assets (bottom line)?
  - Annual financial plans should target a \_\_\_\_\_ “Change in Net Assets” (bottom line) by 2011 at a 50% confidence level

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# Time to make choices: governing policies

4. To what degree should we act as an integrated utility service provider?
  - Utility services cash reserves available to fund the capital needs of Retail Electric, Water, Wastewater and/or Networks?
  - Wholesale sales used to fill the operating gaps of Retail Electric, Water, Wastewater and/or Networks while each system moves toward an operating ratio of 100%?

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# Time to make choices: action plans

5. Which systems get a cash infusion from capacity reservation funds and to what extent?

- Retail Electric? \_\_\_\_\_?
- Water? \_\_\_\_\_?
- Wastewater? \_\_\_\_\_?
- Networks? \_\_\_\_\_?

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# Time to make choices: action plans

## 6. How should we proceed with the Networks business line?

- ❑ Current build (reach 95% of county by 2012)
- ❑ Extended build (reach 76% of county by 2012)
- ❑ Minimal build (reach 54% of county by 2012)
- ❑ Exit

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# Time to make choices: action plans

## 7. How should we proceed with the Water business line?

- ❑ Current (Wholesale Reliant) Strategy
- ❑ Rate Reliant Strategy
- ❑ Balanced Strategy
- ❑ Exit

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# Time to make choices: action plans

8. How should we proceed with the Wastewater business line?
- ❑ Current (Wholesale Reliant) Strategy
  - ❑ Rate Reliant Strategy
  - ❑ Balanced Strategy
  - ❑ Exit

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# Time to make choices: action plans

9. How should we proceed with the Retail Electric business line?
  - ❑ Current (Wholesale Reliant) Strategy
  - ❑ Rate Reliant Strategy
  - ❑ Balanced Strategy
  - ❑ Exit

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# Next Steps

- Motion to adopt initial guiding principles, governing policies and action plans

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# Closing remarks

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# Thank you for attending!

- Please fill out evaluation
- Make plans to attend future board meetings
- Visit our Web site [www.chelanpud.org](http://www.chelanpud.org) for further comment

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# Appendix

Detail excerpts from the Management  
Recommendation made to the Board  
during the 5/29/07 public session

(correspond to slides 23 – 34 in the 5/29/07 presentation)

# Management recommendations

Policy: Positive “Change in Net Assets” by 2011 at a 50% confidence level

	<u>Scenario</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
1	Wholesale reliant (No rate increases)	-\$4M	-\$16M	-\$27M	-\$16M	\$24M
2	Rate reliant (12% Electric, 9% Water, 20% WW)	\$6M	\$3M	\$3M	\$27M	\$78M
3	Balanced (9% Electric, Water, Wastewater)	\$3M	-\$2M	-\$4M	\$16M	\$59M
3.1	Balanced (5% Electric)	\$1M	-\$7M	-\$13M	\$4M	\$47M
3.2	Balanced (5% Electric, 5.6% load growth)	-\$4M	-\$18M	-\$38M	-\$22M	\$30M
3.2a	Balanced (9% Electric, 5.6% load growth)	-\$1M	-\$12M	-\$28M	-\$7M	\$44M
3.3	Balanced (5% Electric, current NW build)	\$1M	-\$7M	-\$13M	\$4M	\$47M
3.4	Balanced (9% Electric, implemented 1/1/08)	\$1M	-\$5M	-\$7M	\$13M	\$55M
3.5	Balanced (5% Electric, implemented 1/1/08)	-\$1M	-\$9M	-\$14M	\$2M	\$45M
3.6	Balanced (Compounded-Yr 1 = 13.5%)	\$3M	-\$2M	-\$4M	\$16M	\$59M
3.7	Balanced (Compounded-Yr 1 = 7.5%)	\$1M	-\$7M	-\$13M	\$4M	\$47M
4	Strategy #4 (0% Electric, 9% Wtr & WW)	-\$3M	-\$13M	-\$22M	-\$9M	\$34M

# Management recommendations

Policy: Operating ratio of 100% over time at a 50% confidence level - **RETAIL ELECTRIC**

	<u>Scenario</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
1	<b>Wholesale reliant (No rate increases)</b>	167%	177%	186%	192%	183%
2	<b>Rate reliant (12% Electric, 9% Water, 20% WW)</b>	142%	135%	127%	118%	100%
3	<b>Balanced (9% Electric, Water, Wastewater)</b>	147%	143%	138%	131%	124%
3.1	<b>Balanced (5% Electric)</b>	155%	156%	155%	153%	144%
3.2	<b>Balanced (5% Electric, 5.6% load growth)</b>	151%	148%	145%	142%	133%
3.2a	<b>Balanced (9% Electric, 5.6% load growth)</b>	144%	136%	129%	122%	114%
3.3	<b>Balanced (5% Electric, current NW build)</b>	155%	156%	155%	153%	144%
3.4	<b>Balanced (9% Electric, implemented 1/1/08)</b>	153%	149%	143%	136%	128%
3.5	<b>Balanced (5% Electric, implemented 1/1/08)</b>	159%	159%	159%	156%	147%
3.6	<b>Balanced (Compounded-Yr 1 = 13.5%)</b>	147%	143%	138%	131%	124%
3.7	<b>Balanced (Compounded-Yr 1 = 7.5%)</b>	155%	156%	155%	153%	144%
4	<b>Strategy #4 (0% Electric, 9% Wtr &amp; WW)</b>	166%	174%	181%	187%	176%

# Management recommendations

Policy: Operating ratio of 100% over time at a 50% confidence level - **WATER**

	<u>Scenario</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
1	<b>Wholesale reliant (No rate increases)</b>	145%	151%	160%	166%	171%
2	<b>Rate reliant (12% Electric, 9% Water, 20% WW)</b>	127%	119%	114%	107%	100%
3	<b>Balanced (9% Electric, Water, Wastewater)</b>	127%	119%	114%	107%	100%
3.1	<b>Balanced (5% Electric)</b>	127%	119%	114%	107%	100%
3.2	<b>Balanced (5% Electric, 5.6% load growth)</b>	127%	119%	114%	107%	100%
3.2a	<b>Balanced (9% Electric, 5.6% load growth)</b>	127%	119%	114%	107%	100%
3.3	<b>Balanced (5% Electric, current NW build)</b>	127%	119%	114%	107%	100%
3.4	<b>Balanced (9% Electric, implemented 1/1/08)</b>	132%	124%	118%	111%	104%
3.5	<b>Balanced (5% Electric, implemented 1/1/08)</b>	132%	124%	118%	111%	104%
3.6	<b>Balanced (Compounded-Yr 1 = 13.5%)</b>	127%	119%	114%	107%	100%
3.7	<b>Balanced (Compounded-Yr 1 = 7.5%)</b>	127%	119%	114%	107%	100%
4	<b>Strategy #4 (0% Electric, 9% Wtr &amp; WW)</b>	127%	119%	114%	107%	100%

# Management recommendations

Policy: Operating ratio of 100% over time at a 50% confidence level - **WASTEWATER**

	<u>Scenario</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
1	<b>Wholesale reliant (No rate increases)</b>	258%	266%	274%	282%	291%
2	<b>Rate reliant (12% Electric, 9% Water, 20% WW)</b>	190%	162%	138%	117%	100%
3	<b>Balanced (9% Electric, Water, Wastewater)</b>	224%	208%	193%	180%	167%
3.1	<b>Balanced (5% Electric)</b>	224%	208%	193%	180%	167%
3.2	<b>Balanced (5% Electric, 5.6% load growth)</b>	224%	208%	193%	180%	167%
3.2a	<b>Balanced (9% Electric, 5.6% load growth)</b>	224%	208%	193%	180%	167%
3.3	<b>Balanced (5% Electric, current NW build)</b>	224%	208%	193%	180%	167%
3.4	<b>Balanced (9% Electric, implemented 1/1/08)</b>	233%	216%	201%	187%	174%
3.5	<b>Balanced (5% Electric, implemented 1/1/08)</b>	233%	216%	201%	187%	174%
3.6	<b>Balanced (Compounded-Yr 1 = 13.5%)</b>	224%	208%	193%	180%	167%
3.7	<b>Balanced (Compounded-Yr 1 = 7.5%)</b>	224%	208%	193%	180%	167%
4	<b>Strategy #4 (0% Electric, 9% Wtr &amp; WW)</b>	224%	208%	193%	180%	167%

# Management recommendations

Policy: Operating ratio of 100% over time at a 50% confidence level - **NETWORKS**

	<u>Scenario</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
1	<b>Wholesale reliant (No rate increases)</b>	129%	111%	97%	88%	82%
2	<b>Rate reliant (12% Electric, 9% Water, 20% WW)</b>	131%	115%	104%	96%	91%
3	<b>Balanced (9% Electric, Water, Wastewater)</b>	129%	113%	100%	91%	83%
3.1	<b>Balanced (5% Electric)</b>	129%	113%	100%	91%	83%
3.2	<b>Balanced (5% Electric, 5.6% load growth)</b>	129%	113%	100%	91%	83%
3.2a	<b>Balanced (9% Electric, 5.6% load growth)</b>	129%	113%	100%	91%	83%
3.3	<b>Balanced (5% Electric, current NW build)</b>	129%	111%	97%	88%	82%
3.4	<b>Balanced (9% Electric, implemented 1/1/08)</b>	129%	113%	100%	91%	83%
3.5	<b>Balanced (5% Electric, implemented 1/1/08)</b>	129%	113%	100%	91%	83%
3.6	<b>Balanced (Compounded-Yr 1 = 13.5%)</b>	129%	113%	100%	91%	83%
3.7	<b>Balanced (Compounded-Yr 1 = 7.5%)</b>	129%	113%	100%	91%	83%
4	<b>Strategy #4 (0% Electric, 9% Wtr &amp; WW)</b>	129%	111%	97%	88%	82%

# Management recommendations

Policy: Overall operating ratio of 80% - 100% by 2011 at a 50% confidence level

	<u>Scenario</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
1	Wholesale reliant (No rate increases)	107%	119%	128%	113%	86%
2	Rate reliant (12% Electric, 9% Water, 20% WW)	98%	101%	101%	85%	68%
3	Balanced (9% Electric, Water, Wastewater)	100%	105%	106%	91%	73%
3.1	Balanced (5% Electric)	103%	110%	114%	98%	77%
3.2	Balanced (5% Electric, 5.6% load growth)	107%	121%	146%	120%	83%
3.2a	Balanced (9% Electric, 5.6% load growth)	104%	115%	131%	107%	78%
3.3	Balanced (5% Electric, current NW build)	103%	109%	113%	98%	77%
3.4	Balanced (9% Electric, implemented 1/1/08)	102%	107%	109%	93%	74%
3.5	Balanced (5% Electric, implemented 1/1/08)	104%	111%	115%	100%	78%
3.6	Balanced (Compounded-Yr 1 = 13.5%)	100%	105%	106%	91%	73%
3.7	Balanced (Compounded-Yr 1 = 7.5%)	103%	110%	114%	98%	77%
4	Strategy #4 (0% Electric, 9% Wtr & WW)	106%	116%	123%	108%	82%

# Management recommendations

Policy: Potential surcharge limited to 10% at a 90% confidence level to meet 1.25 debt coverage

	<u>Scenario</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
1	Wholesale reliant (No rate increases)	23%	33%	43%	32%	0%
2	Rate reliant (12% Electric, 9% Water, 20% WW)	5%	4%	2%	0%	0%
3	Balanced (9% Electric, Water, Wastewater)	7%	7%	7%	0%	0%
3.1	Balanced (5% Electric)	10%	12%	14%	3%	0%
3.2	Balanced (5% Electric, 5.6% load growth)	13%	19%	28%	17%	0%
3.2a	Balanced (9% Electric, 5.6% load growth)	10%	13%	19%	8%	0%
3.3	Balanced (5% Electric, current NW build)	10%	12%	14%	3%	0%
3.4	Balanced (9% Electric, implemented 1/1/08)	9%	9%	9%	0%	0%
3.5	Balanced (5% Electric, implemented 1/1/08)	11%	14%	16%	5%	0%
3.6	Balanced (Compounded-Yr 1 = 13.5%)	7%	7%	7%	0%	0%
3.7	Balanced (Compounded-Yr 1 = 7.5%)	10%	12%	14%	3%	0%
4	Strategy #4 (0% Electric, 9% Wtr & WW)	14%	19%	25%	15%	0%

# Management recommendations

Policy: Potential surcharge limited to 0% at a 50% confidence level to meet 1.25 debt coverage

	<u>Scenario</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
1	<b>Wholesale reliant (No rate increases)</b>	0%	6%	22%	2%	0%
2	<b>Rate reliant (12% Electric, 9% Water, 20% WW)</b>	0%	0%	0%	0%	0%
3	<b>Balanced (9% Electric, Water, Wastewater)</b>	0%	0%	0%	0%	0%
3.1	<b>Balanced (5% Electric)</b>	0%	0%	0%	0%	0%
3.2	<b>Balanced (5% Electric, 5.6% load growth)</b>	0%	3%	26%	6%	0%
3.2a	<b>Balanced (9% Electric, 5.6% load growth)</b>	0%	0%	12%	0%	0%
3.3	<b>Balanced (5% Electric, current NW build)</b>	0%	0%	0%	0%	0%
3.4	<b>Balanced (9% Electric, implemented 1/1/08)</b>	0%	0%	0%	0%	0%
3.5	<b>Balanced (5% Electric, implemented 1/1/08)</b>	0%	0%	0%	0%	0%
3.6	<b>Balanced (Compounded-Yr 1 = 13.5%)</b>	0%	0%	0%	0%	0%
3.7	<b>Balanced (Compounded-Yr 1 = 7.5%)</b>	0%	0%	0%	0%	0%
4	<b>Strategy #4 (0% Electric, 9% Wtr &amp; WW)</b>	0%	0%	0%	0%	0%

# Management recommendations

Policy: Capacity reservation funds should be available to all utility systems

	<u>Scenario</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
1	<b>Wholesale reliant (No rate increases)</b>	0%	0%	0%	0%	0%
2	<b>Rate reliant (12% Electric, 9% Water, 20% WW)</b>	0%	0%	0%	0%	0%
3	<b>Balanced (9% Electric, Water, Wastewater)</b>	100%	-	-	-	-
3.1	<b>Balanced (5% Electric)</b>	100%	-	-	-	-
3.2	<b>Balanced (5% Electric, 5.6% load growth)</b>	100%	-	-	-	-
3.2a	<b>Balanced (9% Electric, 5.6% load growth)</b>	100%	-	-	-	-
3.3	<b>Balanced (5% Electric, current NW build)</b>	100%	-	-	-	-
3.4	<b>Balanced (9% Electric, implemented 1/1/08)</b>	100%	-	-	-	-
3.5	<b>Balanced (5% Electric, implemented 1/1/08)</b>	100%	-	-	-	-
3.6	<b>Balanced (Compounded-Yr 1 = 13.5%)</b>	100%	-	-	-	-
3.7	<b>Balanced (Compounded-Yr 1 = 7.5%)</b>	100%	-	-	-	-
4	<b>Strategy #4 (0% Electric, 9% Wtr &amp; WW)</b>	100%	-	-	-	-

# Management recommendations

Policy: Manage O&M growth to contribute to operating ratio targets (table represents reductions to the O&M growth rate)

	<u>Scenario</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
1	<b>Wholesale reliant (No rate increases)</b>	0%	0%	0%	0%	0%
2	<b>Rate reliant (12% Elect, 9% Water, 20% WW)</b>	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%
3	<b>Balanced (9% Electric, Water, Wastewater)</b>	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%
3.1	<b>Balanced (5% Electric)</b>	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%
3.2	<b>Balanced (5% Electric, 5.6% load growth)</b>	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%
3.2a	<b>Balanced (9% Electric, 5.6% load growth)</b>	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%
3.3	<b>Balanced (5% Electric, current NW build)</b>	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%
3.4	<b>Balanced (9% Electric, implemented 1/1/08)</b>	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%
3.5	<b>Balanced (5% Electric, implemented 1/1/08)</b>	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%
3.6	<b>Balanced (Compounded-Yr 1 = 13.5%)</b>	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%
3.7	<b>Balanced (Compounded-Yr 1 = 7.5%)</b>	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%
4	<b>Strategy #4 (0% Electric, 9% Wtr &amp; WW)</b>	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%	1.5% - 3.5%

# Management recommendations

Policy: Consider early debt reduction to contribute to debt coverage requirements (approximate)

	<u>Scenario</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
1	Wholesale reliant (No rate increases)	none	none	none	none	none
2	Rate reliant (12% Electric, 9% Water, 20% WW)	\$10M	-	-	-	-
3	Balanced (9% Electric, Water, Wastewater)	\$10M	-	-	-	-
3.1	Balanced (5% Electric)	\$10M	-	-	-	-
3.2	Balanced (5% Electric, 5.6% load growth)	\$10M	-	-	-	-
3.2a	Balanced (9% Electric, 5.6% load growth)	\$10M	-	-	-	-
3.3	Balanced (5% Electric, current NW build)	\$10M	-	-	-	-
3.4	Balanced (9% Electric, implemented 1/1/08)	\$10M	-	-	-	-
3.5	Balanced (5% Electric, implemented 1/1/08)	\$10M	-	-	-	-
3.6	Balanced (Compounded-Yr 1 = 13.5%)	\$10M	-	-	-	-
3.7	Balanced (Compounded-Yr 1 = 7.5%)	\$10M	-	-	-	-
4	Strategy #4 (0% Electric, 9% Wtr & WW)	\$10M	-	-	-	-

# Management recommendations

## Summary of alignment with policies

	<u>Scenario</u>	<u>Net Assets</u>	<u>Indiv Oper Ratio</u>	<u>Overall Oper Ratio</u>	<u>Surch (90%)</u>	<u>Surch (50%)</u>	<u>Cap Res Funds</u>	<u>Control O&amp;M</u>	<u>Debt</u>
1	<b>Wholesale reliant (No rate increases)</b>								
2	<b>Rate reliant (12% Elect, 9% Water, 20% WW)</b>	✓	✓	✓	✓	✓		✓	✓
3	<b>Balanced (9% Electric, Water, Wastewater)</b>	✓		✓	✓	✓	✓	✓	✓
3.1	<b>Balanced (5% Electric)</b>	✓		✓		✓	✓	✓	✓
3.2	<b>Balanced (5% Electric, 5.6% load growth)</b>						✓	✓	✓
3.2a	<b>Balanced (9% Electric, 5.6% load growth)</b>						✓	✓	✓
3.3	<b>Balanced (5% Electric, current NW build)</b>	✓		✓		✓	✓	✓	✓
3.4	<b>Balanced (9% Electric, implemented 1/1/08)</b>	✓		✓	✓	✓	✓	✓	✓
3.5	<b>Balanced (5% Electric, implemented 1/1/08)</b>	✓		✓		✓	✓	✓	✓
3.6	<b>Balanced (Compounded-Yr 1 = 13.5%)</b>	✓		✓	✓	✓	✓	✓	✓
3.7	<b>Balanced (Compounded-Yr 1 = 7.5%)</b>	✓		✓		✓	✓	✓	✓
4	<b>Strategy #4 (0% Electric, 9% Wtr &amp; WW)</b>					✓	✓	✓	✓