


Okanogan County Public Utility District
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Preliminary Results: 2012 Equity Management Plan Update

Richard Cuthbert, Senior Project Manager
Gina Baxter, Analyst

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Workshop Agenda

- Present and review preliminary equity management plan Base Case results based on current information
- Review model and assumptions
- Discuss Board input on preliminary results

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Findings of 2010 EMP

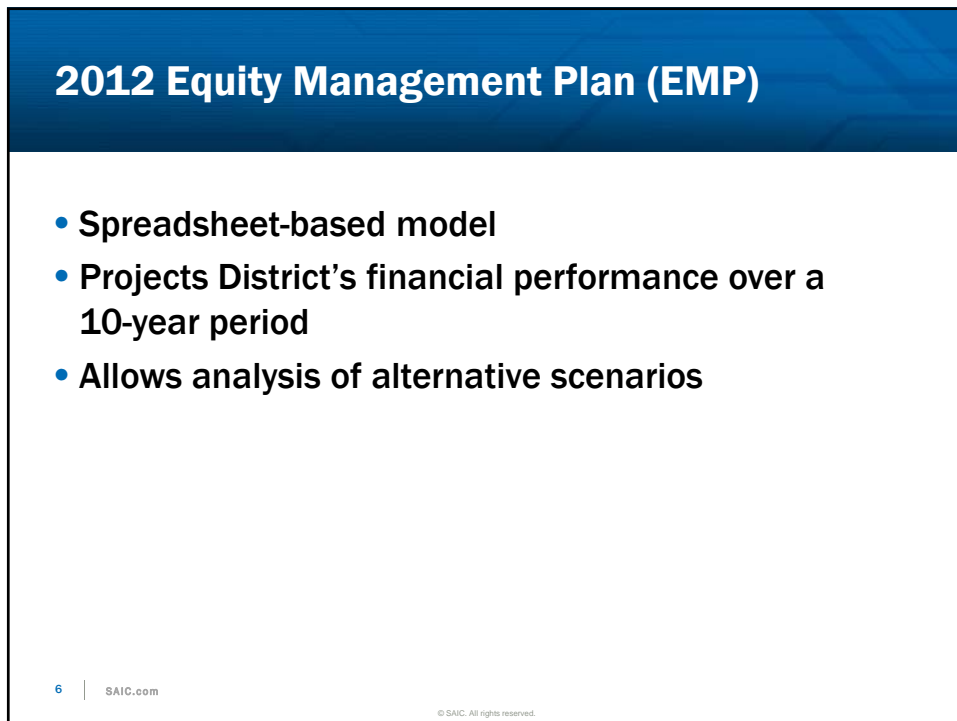
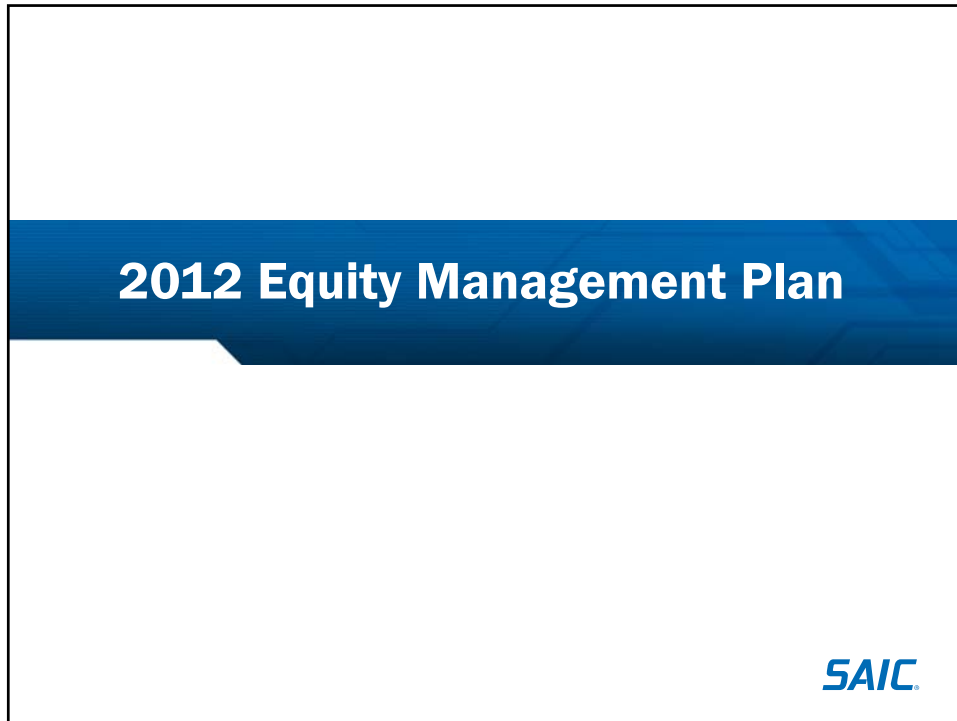
- **Base Case rate increases needed:**
 - 12% in 2010
 - 20% in 2012
 - 10% in 2014
- **Retail sales growth of 2.6% per year**
- **Gradual wholesale revenue decline**
- **Adopted rate increases:**
 - Three 6.5% increases in 2010, 2011 and 2012
 - Annual 3% increases thereafter
 - Plus cost of power adjustment (COPA)

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Significant Changes Since 2010 EMP: Difference in 2012 Operating Results

	Projected	Actual	% Change
Retail Sales (GWh)	668	580	-13%
Retail Revenues (millions)	\$40.7	\$35.4	-13%
Average Unit Retail Revenues (¢/KWh)	6.69	6.10	-10%
Wholesale Revenues (millions)	\$4.6	\$2.3	-50%

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Key Factors in EMP Analysis

- **Model Inputs**
 - Power supply assumptions
 - Load forecast
 - Capital improvements
- **Model Outputs**
 - Equity levels / Equity ratio
 - Debt Service Coverage Ratios (DSC)
 - Times Interest Earned Ratios (TIER)
 - Cash reserves
 - Rate adjustments

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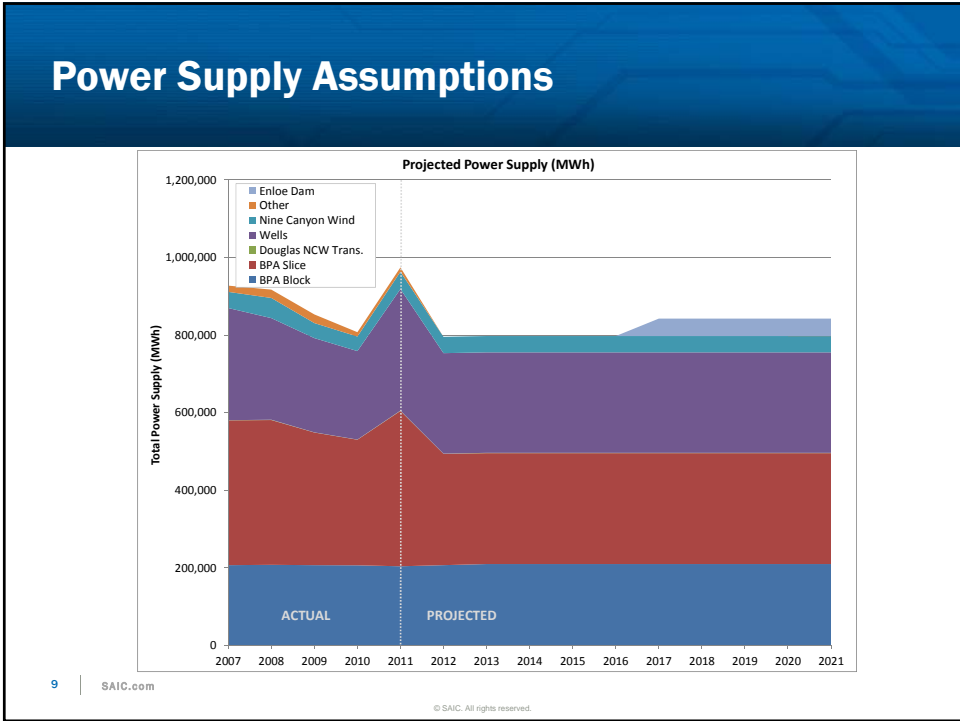
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Power Supply Assumptions

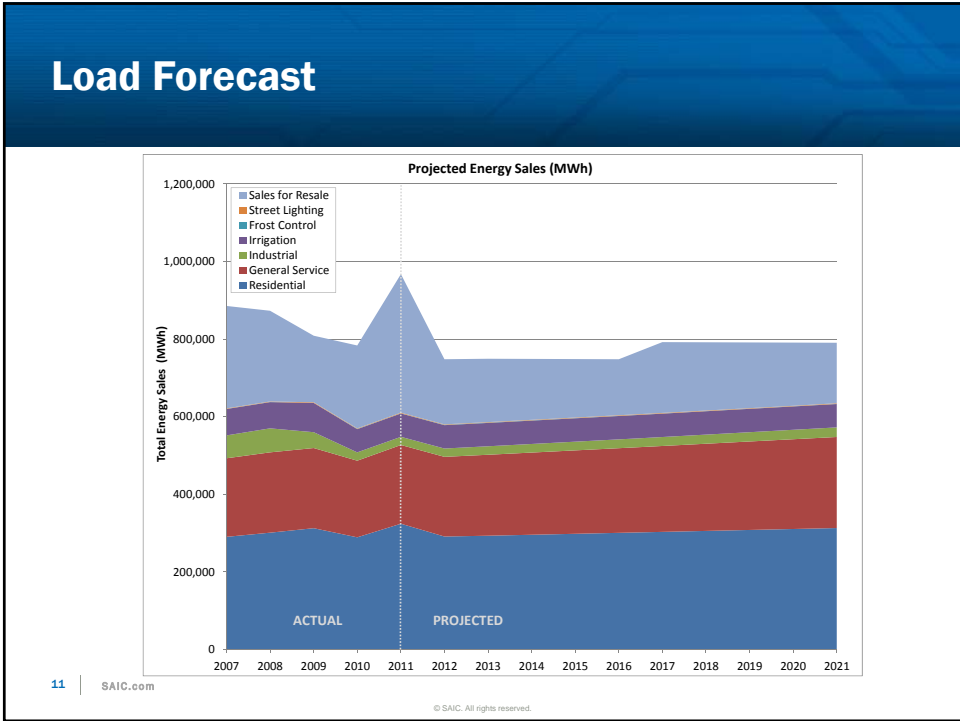
- BPA Power Supply
 - 9.6% increase beginning in October 2013 for two years
- BPA Transmission Service
 - 13% increase for two years beginning in October 2013
 - 6% increases thereafter (every other year)
- Enloe Dam power available in 2017

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- ## Load Forecast
- Total retail load requirements
 - 2012-2021: 1.0% growth
 - Customer class projections based on historical allocations
 - Resources not used to serve retail requirements are assumed to be sold in wholesale market
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- ## Capital Requirements
- **10-year Capital Expenditures:**
 - Enloe Dam- \$35 million (2013-2016)
 - Transmission - \$17 million (\$9 million in 2013-2014 for PT Transmission Line)
 - Substations - \$9.8 million
 - Normal Replacements and Additions - \$20.9 million
 - Other Projects - \$16.4 million
 - Total - \$99.1 million
 - **Bond Proceeds - \$54.6 million**
 - 2014 - \$35.2 million for Enloe Dam
 - 2016 - \$19.4 million for General Capital Improvements
 - **Use of Unspent Bond Proceeds- \$7.3 million in 2013**
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Operating Expenses

- 2012 estimated
- 2013 budget
- 2014 and beyond - escalated from 2013 budget over projection period
- 2014 – Enloe Dam debt service payments begin
- 2017 – Enloe Dam operating costs begin

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Debt Service Coverage

- **DSC =**

Net Income	
+ Long Term Interest Expense	
+ Depreciation Expense	
	Long Term Interest Expense and Principal

- Target DSC levels assumed in EMP: **1.50**
- Minimum DSC covenants: **1.25**

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Equity Levels

- **Equity Ratio = $\frac{\text{Net Assets}}{\text{Total Assets}}$**
- **Target Equity Ratio assumed: 50.0% Equity**

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Times Interest Earned Ratio

- **Total TIER = $\frac{\text{Net Income} + \text{Long Term Interest}}{\text{Long Term Interest}}$**
- **Target Total TIER level assumed: 1.50**

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Cash Reserves and Borrowing Needs

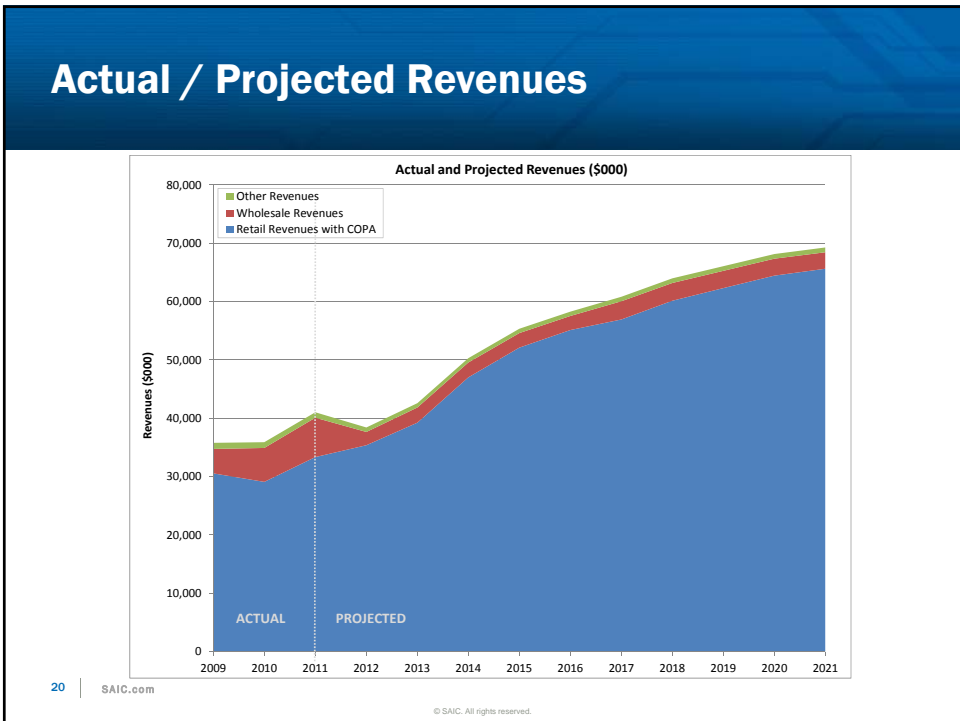
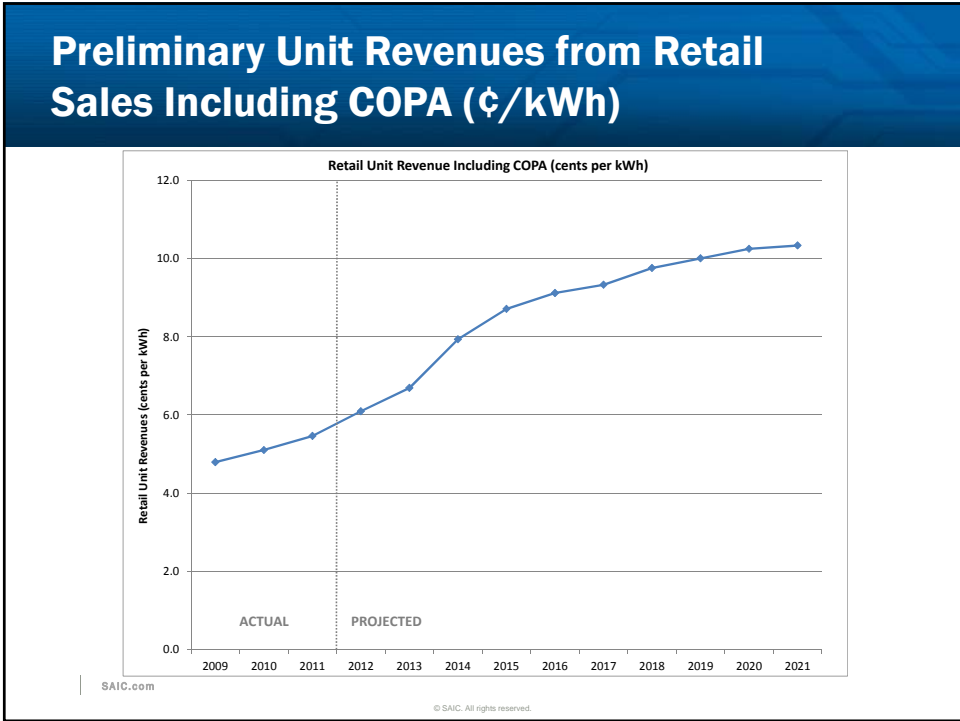
- Days of Working Capital =
$$\frac{\text{Cash Reserves} \times 365}{\text{Annual O\&M Expenses}}$$
- Target Level assumed: 60 Days Minimum
- Model assumes District borrows to fund major capital additions and as needed to maintain minimum cash reserve levels

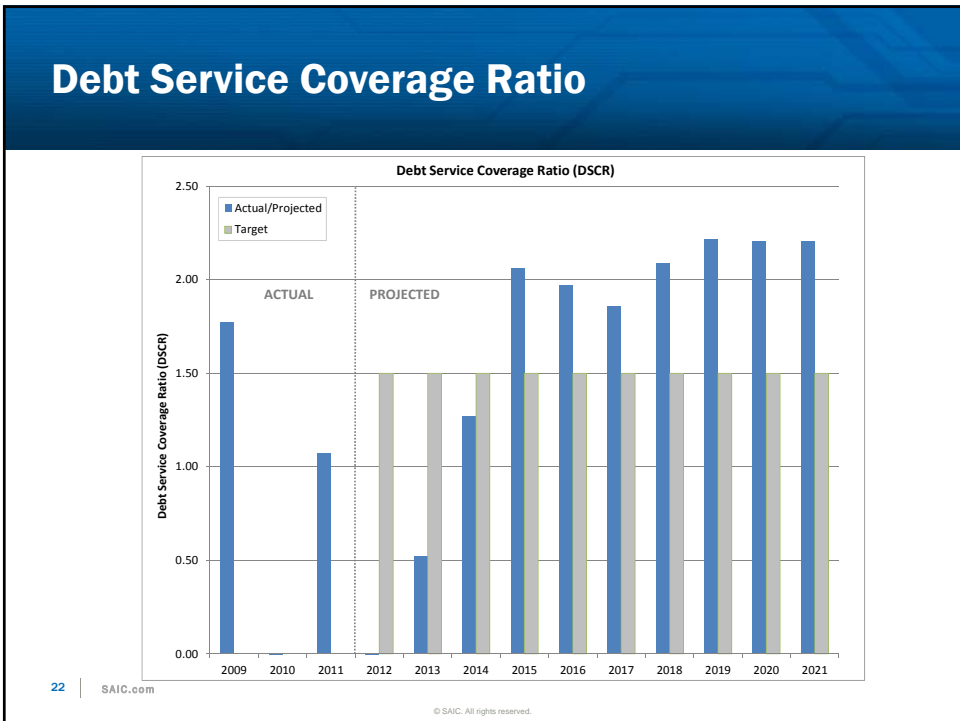
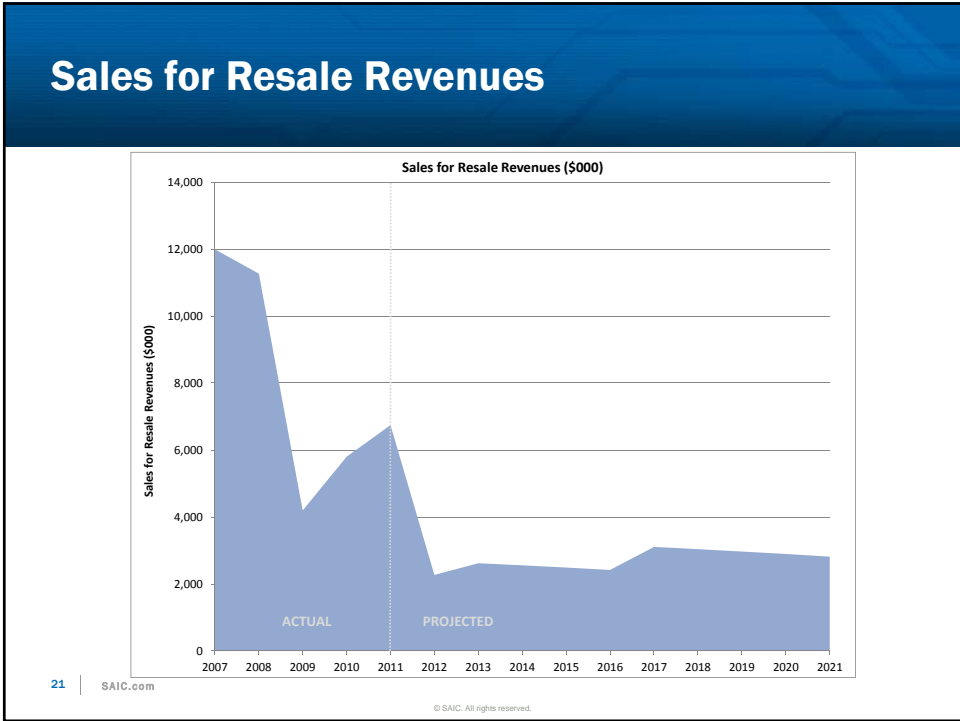
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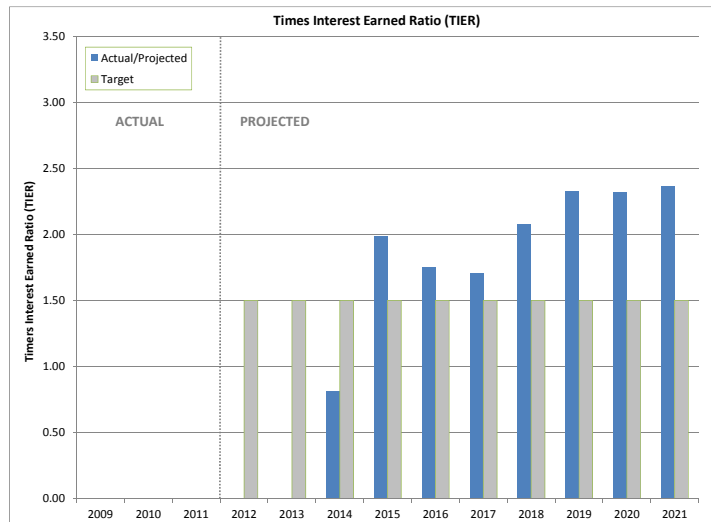
Preliminary Results

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Times Interest Earned Ratio

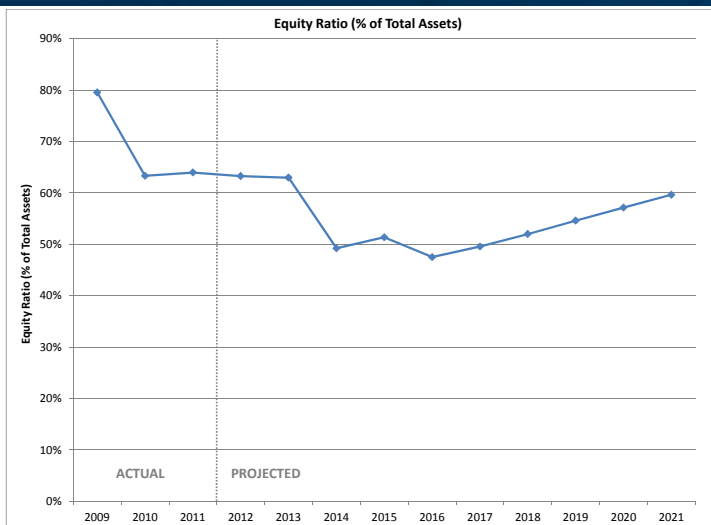


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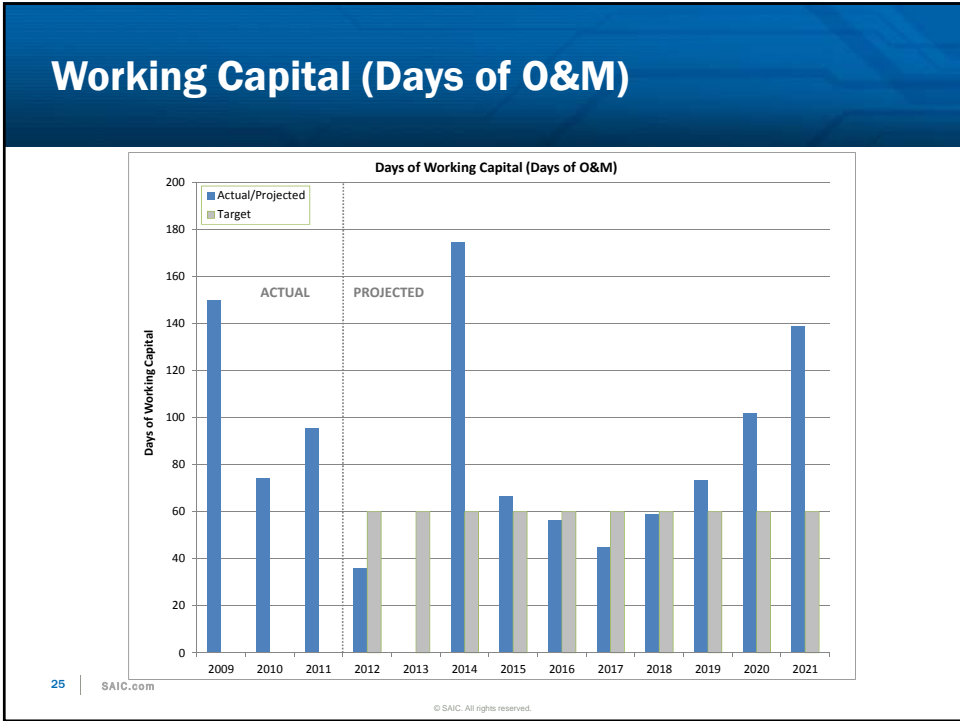
Equity and Total Assets



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- ### Preliminary EMP Conclusions
- Due to significant decline in wholesale revenues and moderate retail sales growth, District faces significant need for revenue increases in 2013 and 2014.
 - Approximately two-thirds of capital additions are assumed to be funded over 10-year horizon.
 - Unless wholesale revenue outlook changes significantly, District has few options other than retail rate changes.
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Next Steps

- District to review factors indicating need for retail revenue increases.
- Revisit projections next spring when better 2012 and 2013 information is available.
- Proceed with rate study analysis in first half of 2013 to evaluate potential retail rate changes.

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Questions?

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