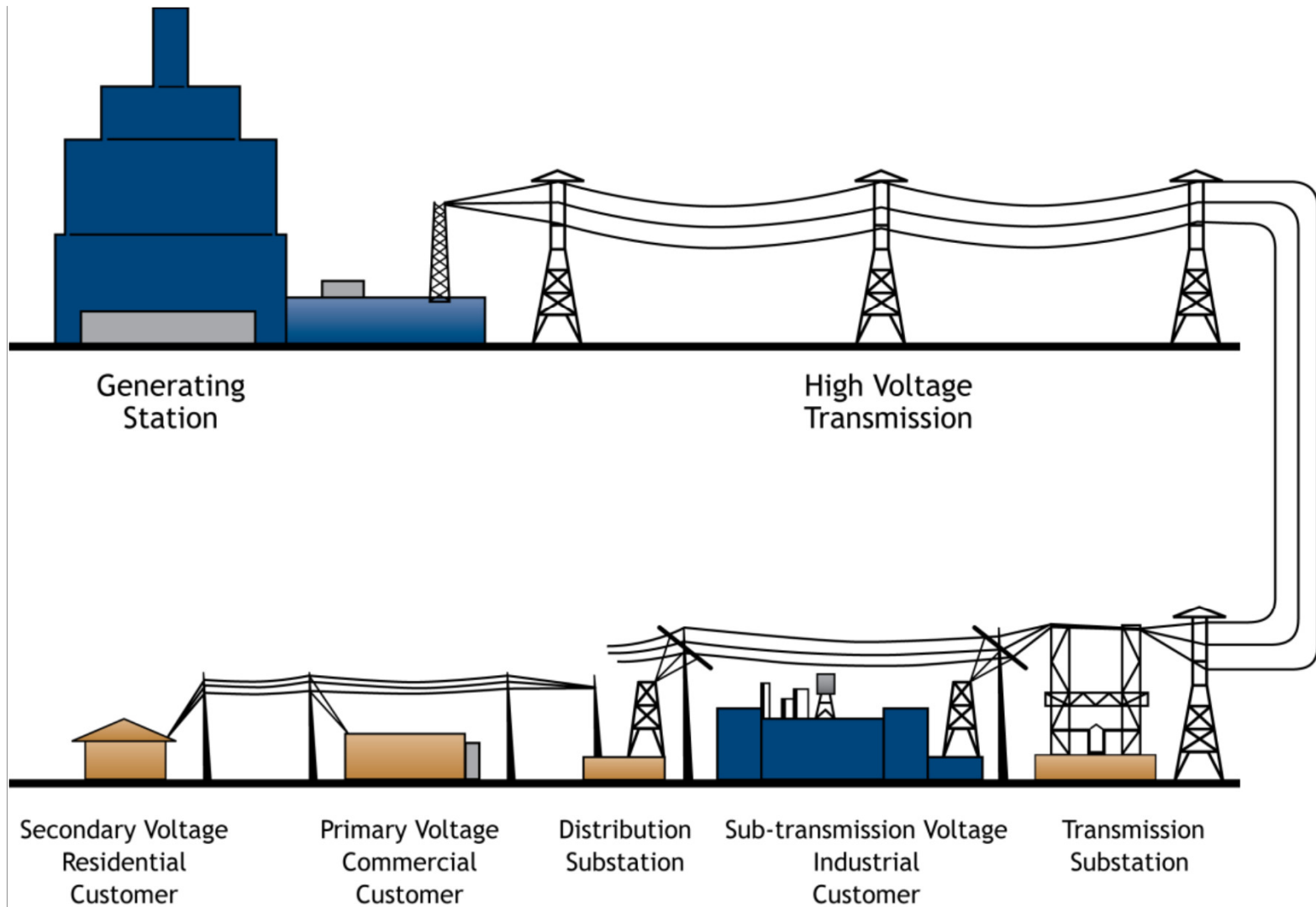


Cost-of-Service Analysis

- **Cost-of-service (COS) equals total cost of providing utility service to groups of similar customers or customer classes**
- **COS analysis is the process of classifying and allocating a utility's revenue requirements to customer classes**

Typical Electric Utility System



Overview of the District's Equity Management Plan

Equity Management Plan (EMP)

- Spreadsheet-based model
- Projects District's financial performance over a 10-year period
- Equity management plan is used to evaluate
 - Financial metrics
 - Relative equity and debt levels
 - Debt financing options and long-term cost impacts
 - Available cash balances
 - Review of necessary rate adjustments over time
- Allows analysis of alternative scenarios

Key Factors in the EMP Analysis

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

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)**

Significant Changes Since 2010 EMP: Difference in 2012 Operating Results

	Projected	Actual	% Change
Retail Sales (GWh)	668	580	-13%
Retail Revenues (millions)	\$40.7	\$35.6	-13%
Average Unit Retail Revenues (¢/KWh)	6.10	6.13	0.5%
Wholesale Revenues (millions)	\$4.6	\$3.5	-24%

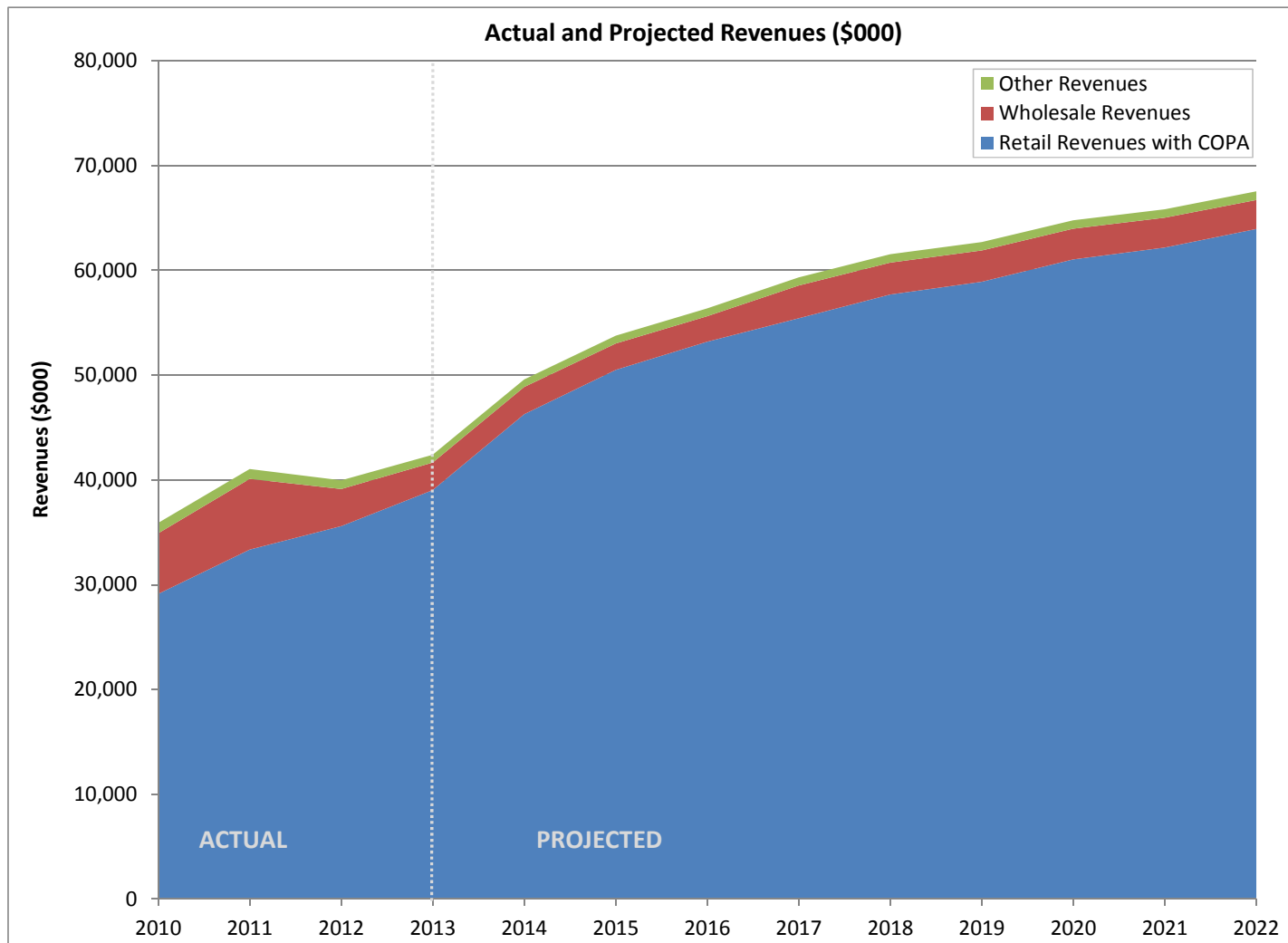
2013 EMP Assumptions

- Total Retail Load Requirements
 - 2012-2021: 1.0% growth
- BPA Power Supply Costs
 - 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

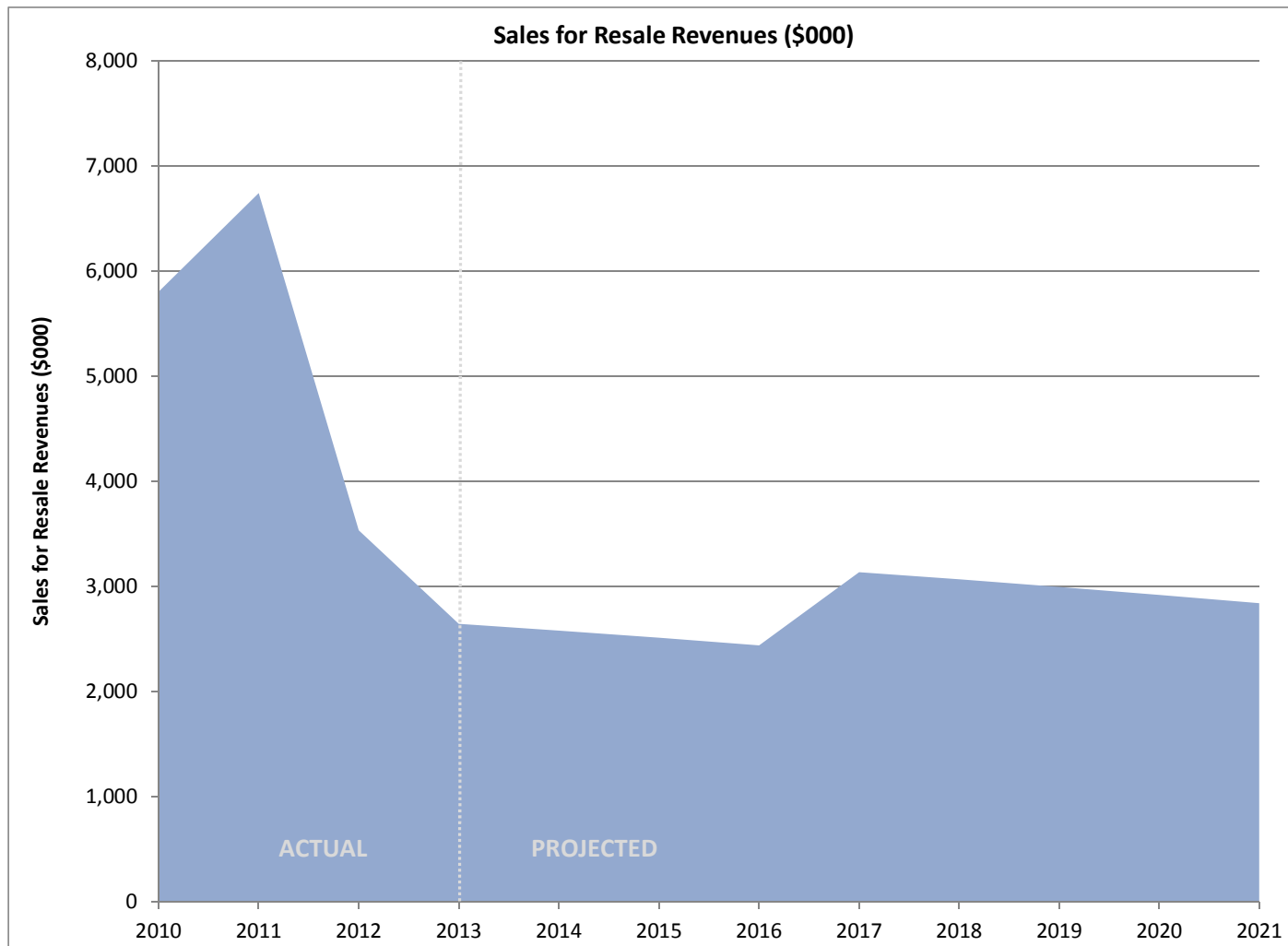
2013 Capital Requirements and Funding

- **10-year Capital Expenditures:**
 - Enloe Dam- \$35.2 million (2013-2016)
 - Transmission - \$17.3 million (\$9 million in 2013-2014 - PT Transmission Line)
 - Substations - \$9.8 million
 - Normal Replacements and Additions - \$24.8 million
 - Other Projects - \$15.3 million
 - Total - \$102.4 million
- **Bond Proceeds - \$64.2 million**
 - 2014 - \$35.2 million for Enloe Dam
 - 2016 - \$29 million for General Capital Improvements
- **Use of Unspent Bond Proceeds- \$7.3 million in 2013**

Actual / Projected Revenues

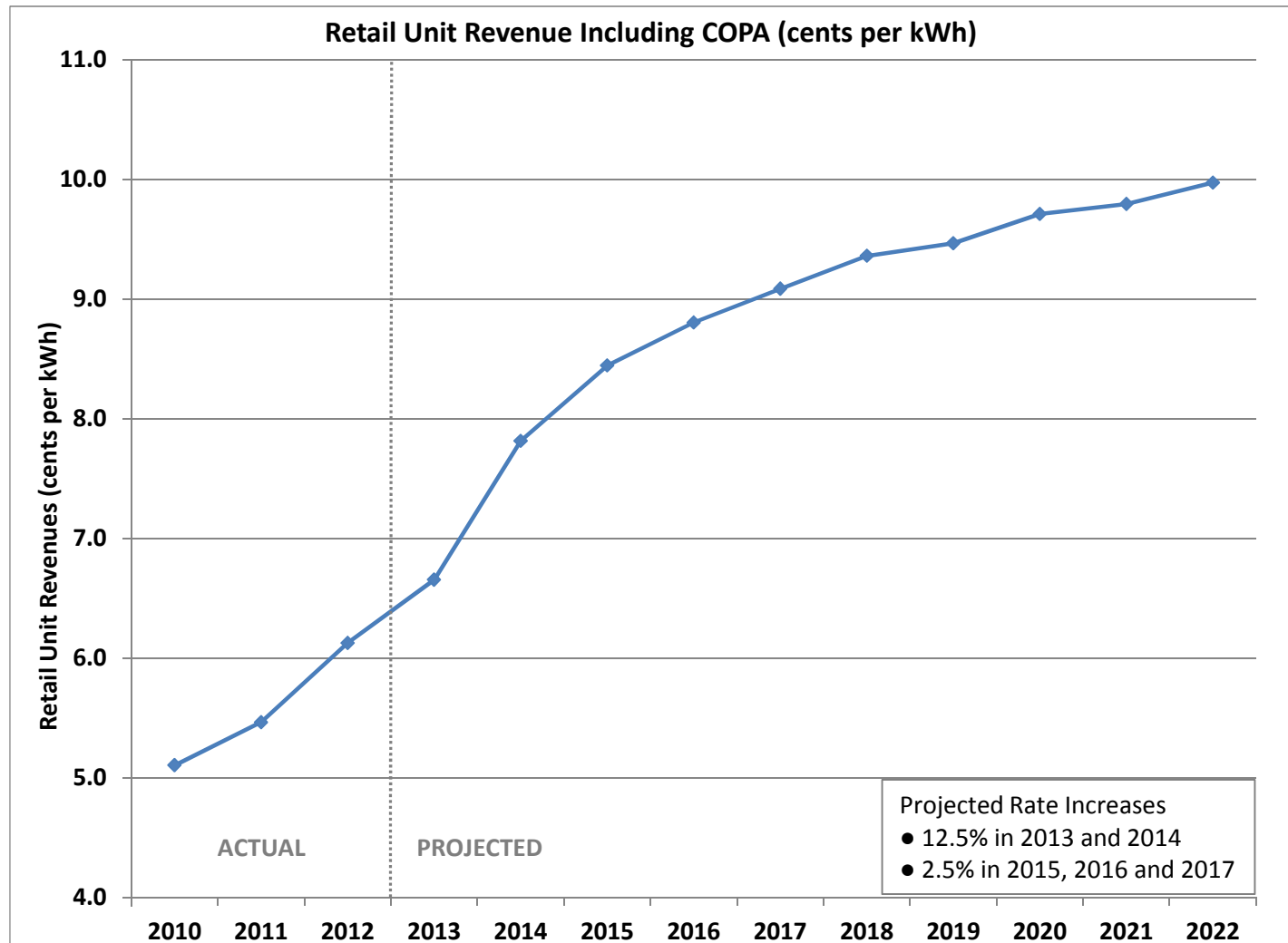


Sales for Resale Revenues

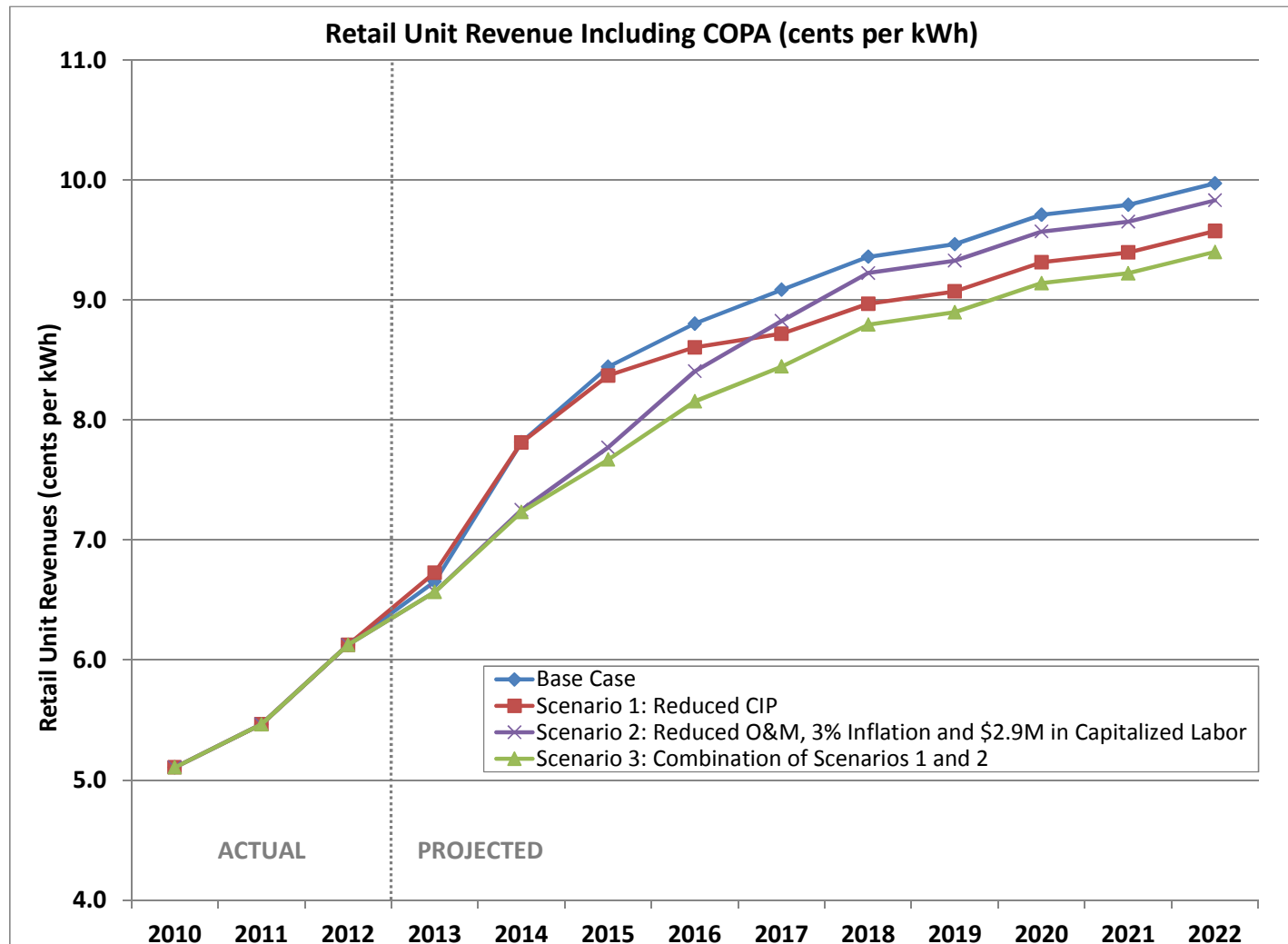


Final Draft 2013 Equity Management Plan Results

Base Case Unit Revenues from Retail Sales Including COPA (¢/kWh)



Comparison of Unit Revenues from Retail Sales Including COPA (¢/kWh)



EMP Options

Years	Base Case	EMP Option 1	EMP Option 2
2013	12.5%	16.0%	9.5%
2014	12.5%	16.0%	9.5%
2015	2.5%	0.0%	9.5%
2016	2.5%	0.0%	2.0%
2017	2.5%	0.0%	2.0%

Final Draft 2013 Cost-of-Service and Rate Design Results

District's TY 2013 Revenue Requirement

Description	Projected Test Year 2013	Pro forma Adjustments (1)	Adjusted Test Year 2013 (2)
Total Revenues From Sales of Electricity	\$40,190,912	\$3,749,759	\$43,940,671
Other Electric Revenues	727,000	-	727,000
Total Revenues	\$40,917,912	\$3,749,759	\$44,667,671
Operating Expenses	\$46,427,249	\$0	\$46,427,249
Other Expenses	1,959,636	0	1,959,636
Total Operating Cost of Service	\$48,386,885	\$0	\$48,386,885
Margins or Increase in Net Assets	(2,798,973)	3,749,759	950,786
Operating Revenue Requirements	\$45,587,912	\$3,749,759	\$49,337,671
Total Non-Operating Revenues	\$4,670,000	\$0	\$4,670,000
Total Revenue Requirements	\$45,587,912	\$3,749,759	\$49,337,671
Less Interest Income	(991,000)	-	(991,000)
Less Contributions in Aid of Construction	(1,104,000)	-	(1,104,000)
Less Use of Rate Stabilization Funds	(2,575,000)	-	(2,575,000)
Less Other Revenues	(727,000)	-	(727,000)
Less Wholesale Revenues	(2,640,925)	-	(2,640,925)
Revenue Requirements from Rates	\$37,549,988	\$3,749,759	\$41,299,746
Revenue Increase (Decrease)	-		\$3,749,759
Percent Change	-		10.4%
Debt Service Coverage Ratio (DSC)	0.83		1.91
TIER (Operating)	(2.94)		(0.94)
TIER (Total)	(0.49)		1.51

Notes

(1) Assumes retail revenue increase equal of 12.5% effective for a 10 month period.

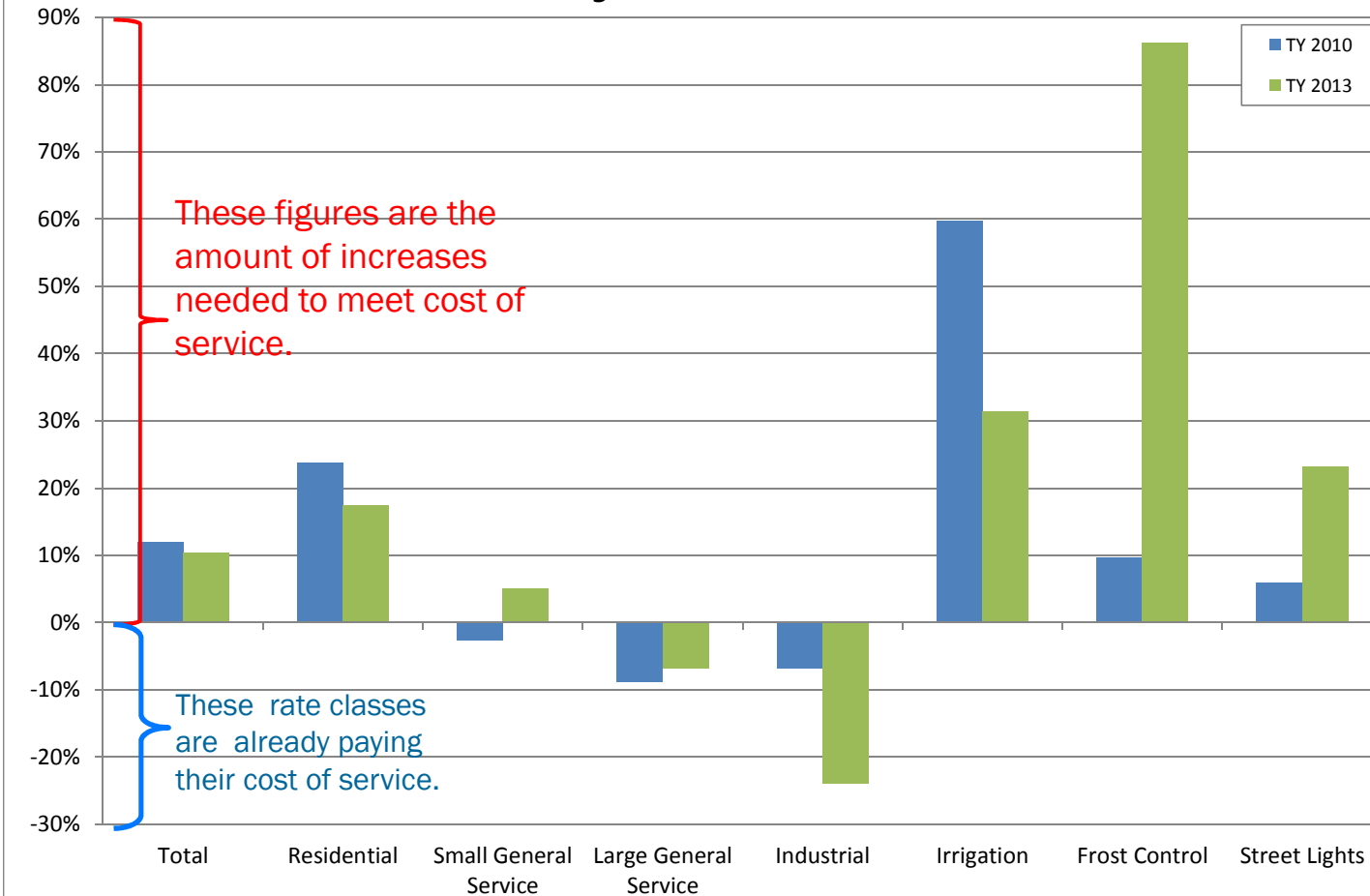
(2) The rate stabilization funds are used to meet the minimum 1.25 debt service coverage requirement.

Financial metrics in the adjusted test year 2013 column reflect a rate increase for a 10 month period.

Draft Cost-of-Service Results

Percent Change in Retail Rate Revenues to Reach COS Levels
Average and Excess Method

Percent of change needed to reach COS



TY 2013 COS Results – A&E Method Unit Costs

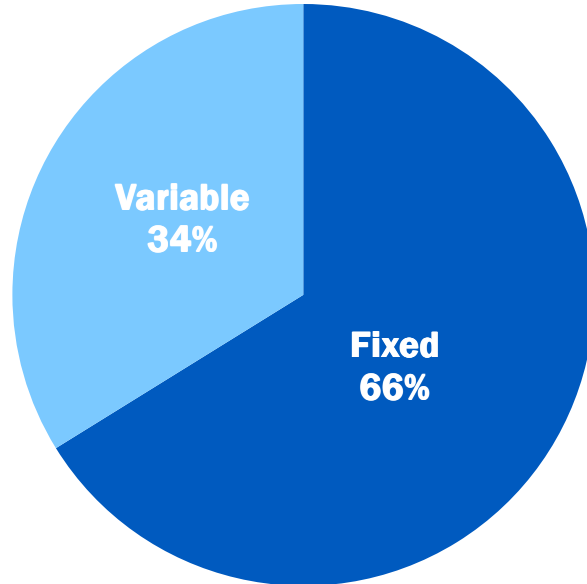
Base Case

Average and Excess Method Unit Costs

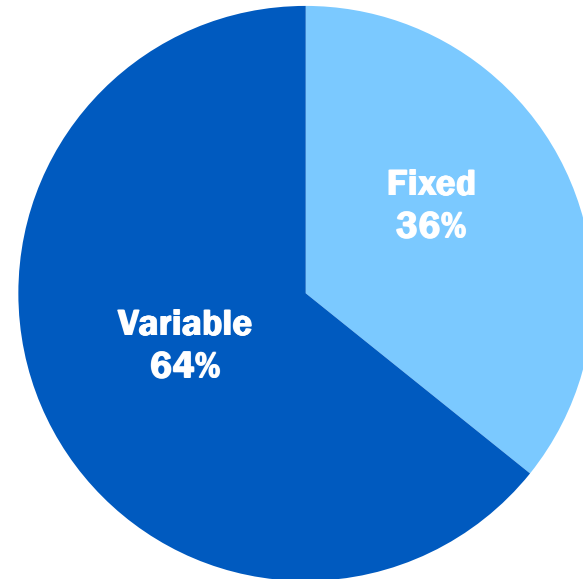
	Residential	Small General Service	Large General Service	Industrial	Irrigation	Frost Control	Street Lights
Unit Costs not including Sales for Resale							
Customer - \$/Customer-Month	\$28.07	\$32.73	\$41.62	\$41.86	\$41.34	\$42.00	\$14.92
Energy - \$/kWh	0.06501	0.06145	0.02903	0.02903	0.02903	0.02903	0.12781
Demand - \$/kW-Month	n/a	n/a	\$9.83	\$5.84	\$11.76	\$11.31	n/a
Fixed Costs (\$/Customer-Month)	\$79.80	\$102.10	\$1,406.64	\$9,911.31	\$312.02	\$860.29	\$547.93
Variable Costs (\$/kWh)	0.02903	0.02903	0.02903	0.02903	0.02903	0.02903	0.02903
Unit Costs including Sales for Resale							
Energy - \$/kWh	0.05993	0.05684	0.02542	0.02612	0.02485	0.00707	0.11997
Variable Costs (\$/kWh)	0.02395	0.02441	0.02542	0.02612	0.02485	0.00707	0.02118

2013 Residential Costs and Revenues

Costs

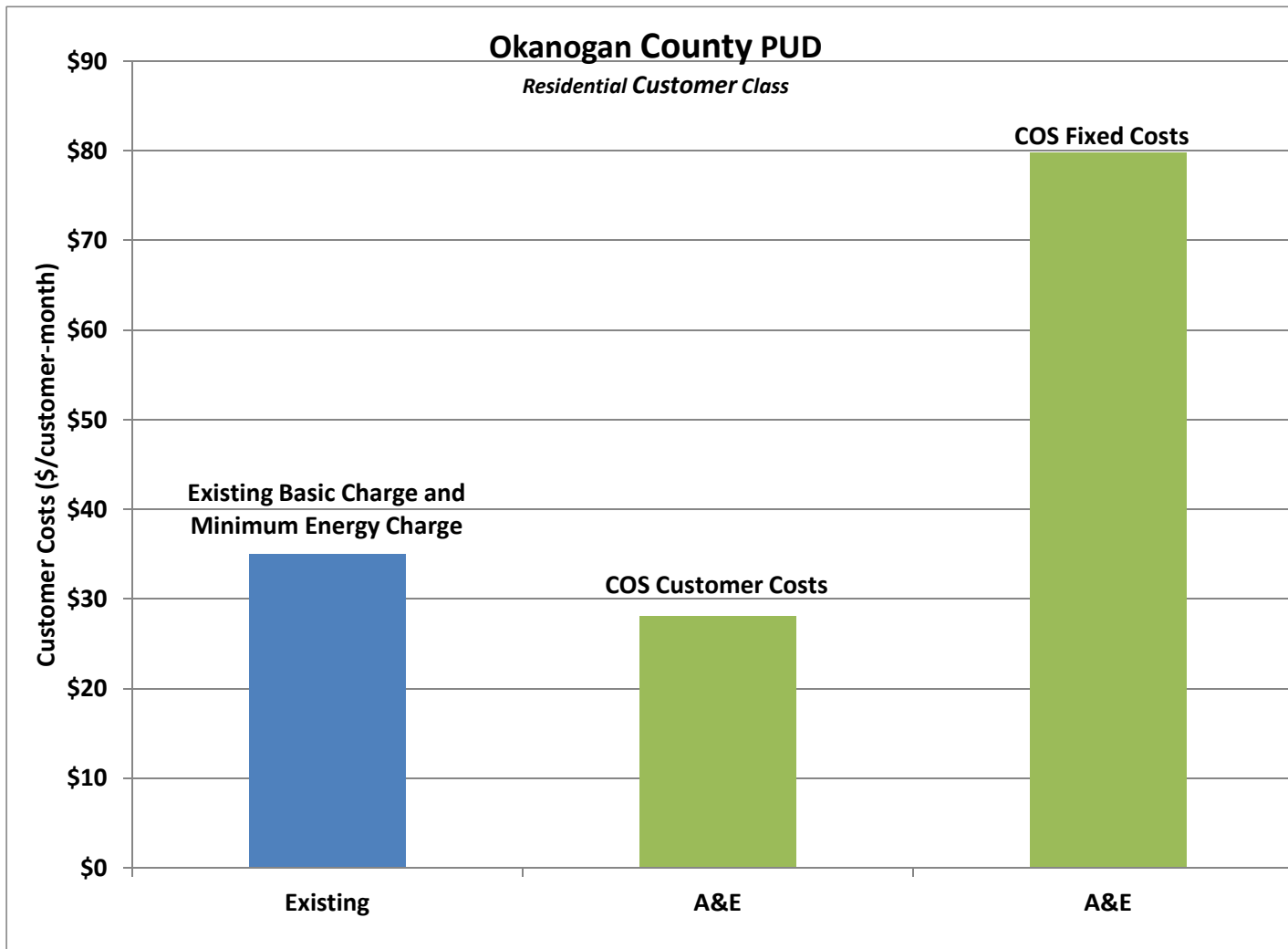


Revenues*



Note: Based on estimated revenues under existing rates.

Comparison of Unit Costs to Existing Rates



Principles Used in Rate Design

- **Promote revenue stability**
- **Reflect the cost of providing services**
- **Easily understood by customers**
- **Promote rate continuity over time**
- **Fair, equitable and non-discriminatory test**
- **Easy to administer**
- **Promote efficient use of electricity**
- **Meet and reflect utility's policy objectives**

Rate Design Options Being Considered

- Rates reflect 3 x 9.5% annual across-the-board increases
- Use of rate stabilization funds in 2013 and 2014
- Two rate options for residential class:
 - Option 1: No Minimum Energy Charge (MEC) allowance for Residential and Small General customer classes.
 - Option 2: Two year phase out of Residential and Small General Service MEC allowance
 - No change in Energy Charges for Residential for 2013-2018
 - No change in the Energy Charge for Small General Service for 2013-2014
- Change from horsepower to demand charge for Frost Control

Rate Option 1

Schedule No. 2 - Residential	Existing Rates	TY 2013 Cost of Service (1)	Proposed Rates (2)		
			September 2013	July 2014	July 2015
<u>Base Rates</u>					
Basic Charge (\$/month)	\$10.00	\$28.07	\$35.00	\$40.00	\$45.00
Energy Charge (\$/kWh)					
< 2,000 kWh	\$0.05750	\$0.05993	\$0.04350	\$0.04657	\$0.05023
> 2,000 kWh	\$0.06316	\$0.05993	\$0.06316	\$0.06762	\$0.07293
Minimum Charge (\$/month)	n/a	\$79.80	n/a	n/a	n/a
Minimum Energy Charge (\$/month)	\$25.00	n/a	n/a	n/a	n/a
kWh in Basic Charge	500		n/a	n/a	n/a
Percent Change in Base Rate Revenue		17.4%	9.5%	9.5%	9.5%
<u>Cost of Power Adjustment</u>	\$0.00240	n/a	\$0.00265	\$0.00501	\$0.00579

Notes

- (1) Cost of service rates include allocation of wholesale revenues.
- (2) Set the Basic Charge to \$35 per month in 2013 and increased this to \$45 per month by 2015.

Energy Charge applied to all kilowatt-hours in 2013 and beyond.

No change in the Energy Charge for usage above 2,000 kilowatt-hours in 2013. Decreased the Energy Charge applied to the first 2,000 kilowatt-hours in 2013 to offset the bill impacts from eliminating the minimum energy allowance (first 500 kilowatt-hours). Adjusted the Energy Charge as necessary to collect sufficient revenues for all other years. The Energy Charge for usage above 2,000 kilowatt-hours in 2014 and on is adjusted to maintain the same rate ratio between the lower and higher usage blocks.

Rate Option 2

Schedule No. 2 - Residential	Existing Rates	TY 2013 Cost of Service (1)	Proposed Rates (2)		
			September 2013	July 2014	July 2015
<u>Base Rates</u>					
Basic Charge (\$/month)	\$10.00	\$28.07	\$35.00	\$35.00	\$40.00
Energy Charge (\$/kWh)					
< 2,000 kWh	\$0.05750	\$0.05993	\$0.05750	\$0.05750	\$0.05750
> 2,000 kWh	\$0.06316	\$0.05993	\$0.06316	\$0.06316	\$0.06316
Minimum Charge (\$/month)	n/a	\$79.80	n/a	n/a	n/a
Minimum Energy Charge (\$/month)	\$25.00	n/a	n/a	n/a	n/a
kWh in Basic Charge	500		250	0	n/a
Percent Change in Base Rate Revenue		17.4%	12.7%	12.5%	4.2%
<u>Cost of Power Adjustment</u>	\$0.00240	n/a	\$0.00265	\$0.00501	\$0.00579

Notes

- (1) Cost of service rates include allocation of wholesale revenues.
- (2) Set the Basic Charge to \$35 per month in 2013 and is increased to \$40 per month by 2015.
Energy Charge applied after the first 250 kilowatt-hours in 2013 and to all kilowatt-hours in 2014 and beyond.
No changes in the Energy Charge.

Summary of EMP and Rate Review Process

- **Preliminary EMP presented to Board – December 2012**
- **2013 EMP scenarios and draft rate options – Jan/Feb 2013**
- **Rate Review Panel meetings – February to June 2013**
- **Draft EMP and rate proposals presented to Board – May 2013**
- **Public Meetings – July 15, 16, and 22, 2013**
- **Target Board vote on final rates – July 30, 2013**
- **Target rates implementation date – September 1, 2013**