Preliminary Results: 2012 Equity Management Plan Update

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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
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

<table>
<thead>
<tr>
<th></th>
<th>Projected</th>
<th>Actual</th>
<th>% Change</th>
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<tbody>
<tr>
<td>Retail Sales (GWh)</td>
<td>668</td>
<td>580</td>
<td>-13%</td>
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<tr>
<td>Retail Revenues (millions)</td>
<td>$40.7</td>
<td>$35.4</td>
<td>-13%</td>
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<td>Average Unit Retail Revenues (¢/KWh)</td>
<td>6.69</td>
<td>6.10</td>
<td>-10%</td>
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<td>Wholesale Revenues (millions)</td>
<td>$4.6</td>
<td>$2.3</td>
<td>-50%</td>
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2012 Equity Management Plan (EMP)

- Spreadsheet-based model
- Projects District’s financial performance over a 10-year period
- Allows analysis of alternative scenarios
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

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
Power Supply Assumptions

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
Load Forecast

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**
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

Debt Service Coverage

- DSC = \[
\frac{\text{Net Income} + \text{Long Term Interest Expense} + \text{Depreciation Expense}}{\text{Long Term Interest Expense and Principal}}
\]

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

- **Equity Ratio** = \( \frac{\text{Net Assets}}{\text{Total Assets}} \)

- **Target Equity Ratio assumed:** 50.0% Equity

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

Actual / Projected Revenues
Sales for Resale Revenues

Sales for Resale Revenues ($000)

Debt Service Coverage Ratio

Debt Service Coverage Ratio (DSCR)

SAIC, Inc. - Preliminary Draft
Times Interest Earned Ratio

Times Interest Earned Ratio (TIER)

ACTUAL  PROJECTED

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<thead>
<tr>
<th>Year</th>
<th>ACTUAL</th>
<th>PROJECTED</th>
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Equity and Total Assets

Equity Ratio (% of Total Assets)

ACTUAL  PROJECTED

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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.
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.

Questions?

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