BENTON PUD
RATE INFORMATION MEETING

JANUARY 15, 2013
Presentation Agenda

I. Introduction

II. Power Costs

III. Financial Metrics

IV. Benchmark Information & Cost Trends

V. Bill/Rate Comparisons

VI. Cost of Service Analysis

VII. Summary
Key Messages

• Benton PUD’s forecast calls for an *average* revenue increase of 1.5%
  ✓ Rate increases will vary by customer class
  ✓ Initial customer input requested by February 1
  ✓ Final staff recommendation by February 12
  ✓ Final Commission action expected February 26
  ✓ If adopted, expected to be effective April 1, 2013

• Key drivers of the increase
  ✓ 2013 - power cost & capital
  ✓ 2014 - power cost

• Future year retail rate adjustments
  ✓ Projected to continue in the 0% to 3% range
Impact of Rate Actions

Since 2003 on a $100 Residential Bill

Residential consumers over the last 9 years (2003-2012) have actually seen a decline in their average bills. These decreases have occurred in spite of increases in renewable energy requirements and rising BPA wholesale power costs.
Net Power Costs*

*Net power costs = gross power costs (including both power and transmission) less sales for resale
BPA Wholesale Power Rates

• BPA power increase effective October 1, 2013 is 9.6%
  • Reasons for increase:
    ✓ Reduced revenue from surplus power sales
    ✓ Funding needed investments in the Federal Columbia River Power System
    ✓ Variety of other cost increases

• Transmission rates also increased 13% effective October 1, 2013
  • Reasons for increase:
    ✓ Construction of new transmission lines and replacements
    ✓ Increased mandatory compliance requirements, i.e., cyber and physical security
Energy Independence Act (EIA)  
Requirements

• Applicable to utilities with more than 25,000 customers
  ✓ Currently, 17 utilities in the state qualify under the Act
  ✓ Two major requirements: Renewable Energy & Conservation

• Renewable energy requirement
  ✓ Portion of retail load must be purchased from qualifying renewable sources
  ✓ 2012 (3%) ............. 2016 (9%) ............2020 (15%)
  ✓ Targets subject to a 4% incremental annual cost cap
  ✓ Costly monetary penalties for failure to meet targets

• Conservation requirement
  ✓ Must implement all cost-effective conservation over a ten-year period
  ✓ New forecast and target every two years
EIA – Conservation

Current Status

• Met and exceeded 2010-2011 conservation targets
• Expect to achieve 2012-2013 targets
• Impacts of conservation investment
  ✓ Efforts currently satisfying one-half of our load growth, year after year
  ✓ Conservation investment:
    ✓ Helps customers lower their energy bills
    ✓ Defers investment in higher-cost power resources
    • Notwithstanding the EIA which requires “Buy Before Need”
EIA – Renewable Energy

Current Status

• Achieved 2012 renewable requirement
  ✓ Currently spending $3.3M per year on renewable energy, partially offset by reselling of the energy we do not need

• Planning underway to meet 2016 requirement
  ✓ Additional energy not needed - must comply anyway
  ✓ Considering the purchase of Renewable Energy Credits (RECs)
  ✓ Estimated additional cost per year at current REC prices: $1.3M
  ✓ Legislative & price uncertainty

• Efforts to amend the Act
  ✓ Don’t “Buy Before Need”
  ✓ 2012 House Bill 2682 /Senate Bill 6418
**Benton PUD**

**Current Loads vs. Resources**

**Loads currently projected to be below resources**

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**ERR = Eligible Renewable Resources**

**Note 1:** BPA Contract Resource shown here at Contract High Water Mark

**Note 2:** Includes all contracted resources available to meet load – excludes Frederickson CCCT

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**Benton PUD**

**Current Loads vs. Resources**

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**ERR = Eligible Renewable Resources**

**Note 1:** BPA Contract Resource shown here at Contract High Water Mark

**Note 2:** Includes all contracted resources available to meet load – excludes Frederickson CCCT
Energy Independence Act

New Resource Cost*

IGCC = Integrated gasification combined cycle  CT = Combustion turbine  CCCT = Combined Cycle Combustion Turbine

* Cost is before state and federal subsidies; does not include potential carbon tax

Levelized $/MWh (2011)

Green bars represent qualifying resources

IGCC = Integrated gasification combined cycle  CT = Combustion turbine  CCCT = Combined Cycle Combustion Turbine

Current BPA Power Cost $28 per MWh

Rate Information Meeting
January 15, 2013
BPA Prepay Program

- BPA developed program to help fund hydro system infrastructure
  - BPA borrowing authority from US Treasury expected to be depleted by 2016
- District to pay $6.8M in March 2013 for $9.3M in credits
  - $50,000/month credit on BPA power bill
  - Credits span the period April 2013 through September 2028
- Positive results to the District’s customers
  - Results in average retail rate reduction of approx. ½% thru 2028
  - Net present value savings of $1.1M; return of 4.26%
  - Improves other metrics used in rating agency evaluations
Financial Metrics

- **Financial Policy Goals**
- **Liquidity, Coverage, Debt**
Financial Policy Goals

A Balancing Act

- Low Rates
- Reasonable Debt Levels
- Adequate Revenues for Coverage
- Good Liquidity

Rates vs. Fiscal Stewardship
Days Cash on Hand

District vs. Median of Public Power Utilities with A+ Bond Ratings

Unrestricted Reserves $50.9M $40.1M $37.8M $40.7M $37.0M

Measures the number of days utility can cover its operating expenses using unrestricted reserves and assuming no additional revenue.

Includes participation in BPA Prepay program; does not include potential bond issue in 2014
Days Cash on Hand

Washington PUD Survey

Source: WPUDA Source Book (published 2012)

As of 12/31/11

Median (154) for survey respondents

Measures the number of days a utility can cover its operating expenses using unrestricted reserves and assuming no additional revenue
Debt Service Coverage

Net revenue/debt service (principal and interest payments)

Measures the ability of the utility to pay its debt service.
Debt Per Customer

Washington PUD Survey

As of 12/31/11

Median ($1,722) for survey respondents

Source: WPUDA Source Book (published 2012)
Debt Ratio

District vs. Median of Public Power Utilities with A+ Bond Ratings

Source - Fitch Ratings, U.S. Public Power Peer Study, June 2012

Median for A+ rated utilities

Ratio of Bonded Debt/Capitalization (bonded debt + net assets) Financial Policies maximum debt ratio = 38%

Rate Information Meeting
January 15, 2013
Benchmark Information & Cost Trends

• How do our costs compare to others?
2013 Budget

Expenditures by Major Budget Category

- Net Power Supply: 57.9%
- O&M: 16.3%
- Net Capital: 11.5%
- Taxes/Other: 10.0%
- Debt Service: 4.3%

2013 Budget
Total Expenditures
$121,563,000*

* Net of sales for resale of $11.6 million, capital contributions of $5.6 million, and Build America Bonds subsidy of $376,000
Customers Per District Employee

Actual annual average for years 2004-2011

- Electric Customers: 400,000 (10.3% increase)
- Customers per Employee: 400,000 (16.1% increase)
- FTE Employees: 200,000 (5% decrease)

Definition of Customer per American Public Power Association
O&M\(^{(1)}\) Cost per Customer

*Compared to APPA\(^{(2)}\) Benchmark*

\[\text{Stated Year Benton PUD Dollars} - \text{Benchmark - APPA}\]

1 – O&M = non-power operations & maintenance cost
(distribution, transmission, customer accounts, and administrative and general)

2 – American Public Power Association - 2011 median for West utilities.
O&M Cost per Customer

Constant Year Dollar Trends

$420 $386 $381 $382 $358 $343 $374 $372

O&M = all Benton PUD non-power operations & maintenance cost (distribution, transmission, customer accounts, and administrative and general) restated in constant 2011 dollars.
Net Capital Costs (in millions)

Net capital costs = gross capital costs less capital contributions
Rate/Bill Comparisons

• **How do our rates (average bills) compare to others?**
Retail Revenue Adjustments\(^{(1)}\)

to Average Retail Rates

\* Yellow bars represent the temporary rate credit associated with BPA residential exchange.
$8.3 million was returned to retail customers during the period June 2008 – May 2009. The effective annualized rate credits were 5.6% in 2008 and 3.8% in 2009.

\(^{(1)}\) Average across all customer classes; increases or decreases vary by individual customer class.
Retail Revenue Adjustments

Forecast Comparisons

One Year Ago

- Jan 2012: 6.0%
- Jan 2013: 1% - 3%
- Jan 2014: 1% - 2%
- Jan 2015: 1% - 2%

NPC at 50th and 75th Percentiles in years 2013 – 2015

Current Forecast

- April 2013: 1.5%
- April 2014: 0% - 3%
- April 2015: 1.2% - 1.5%
- April 2016: 1.2% - 1.5%

NPC at 50th and 75th Percentiles in years 2014 – 2016

(1) Average across all customer classes; increases or decreases vary by individual customer class
(2) Probability of achieving net power cost (NPC) budget
Average Residential Electricity Price

United States Comparisons

Note: We have added Benton PUD to this chart for comparison purposes.
Individual Utility Bill Comparisons

Factors Impacting Bill Size

Among other things, these factors can impact utility costs or rates:

1. **Customer Density** — greater density generally less expensive
2. **Customer Growth** — higher growth can lead to higher rates
3. **State/Local Taxes** — different taxes paid by different entity types
4. **Amount of Debt** — can delay the need for higher rates
Bill Comparison

Residential

Average monthly bill @ 1,400 kWh

January 1, 2013

Information calculated by Benton PUD staff from other utilities’ websites.
Bill Comparison

Small General Service

Average monthly bill @ 9,000 kWh & 30 KW

January 1, 2013

Information calculated by Benton PUD staff from other utilities’ websites.
Bill Comparison
Medium General Service

Average monthly bill @ 15,001 kWh & 75 kW

January 1, 2013

Winter/Summer Average

$1,026

$1,162

$1,171

Information calculated by Benton PUD staff from other utilities’ websites.
Bill Comparison
Large General Service

Average monthly bill @ 150,000 kWh & 400 kW

January 1, 2013

Information calculated by Benton PUD staff from other utilities’ websites.
Summary:

Financial Condition & Trends

• Current financial condition is solid
• Power costs are rising, leading to future retail rate increases
• District will continue efforts to mitigate effects of EIA
• District continues to monitor its internal costs/staffing, with a continued focus on high system reliability
• Benton PUD retail rates compare favorably to many other Northwest utilities
COST OF SERVICE ANALYSIS
Cost Components of Bill
by Rate Class and Percentage

Note: Large Irrigation Rate Class receives, in addition to monthly bills, an annual facilities charge bill not included in above.
## COSA 2013 & 2014 Results

### Retail Revenue Increase

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Residential</th>
<th>Small General Service</th>
<th>Medium General Service</th>
<th>Large General Service</th>
<th>Industrial</th>
<th>Small Irrigation</th>
<th>Large Irrigation</th>
<th>Street Lights</th>
<th>Security Lights</th>
<th>Unmetered</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2013 Unadjusted Results:</strong> Final budget. No use of reserves.</td>
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<td></td>
<td>4.9%</td>
<td>7.2%</td>
<td>6.1%</td>
<td>4.4%</td>
<td>2.1%</td>
<td>2.6%</td>
<td>2.0%</td>
<td>0.6%</td>
<td>3.1%</td>
<td>4.4%</td>
<td>0.7%</td>
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<tr>
<td><strong>And if no rate change in 2013........</strong></td>
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<tr>
<td><strong>2014 Unadjusted Results:</strong> No use of reserves.</td>
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<td></td>
<td>5.7%</td>
<td>6.9%</td>
<td>5.9%</td>
<td>5.2%</td>
<td>3.5%</td>
<td>5.8%</td>
<td>2.1%</td>
<td>6.8%</td>
<td>4.1%</td>
<td>5.1%</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

*Net broadband requirements are not included above because they are funded through reserves.*
# 2013 Revenue Action

**Preliminary Staff Recommendation**

<table>
<thead>
<tr>
<th>Total</th>
<th>Residential</th>
<th>Small General Service</th>
<th>Medium General Service</th>
<th>Large General Service</th>
<th>Industrial</th>
<th>Small Irrigation</th>
<th>Large Irrigation</th>
<th>Street Lights</th>
<th>Security Lights</th>
<th>Unmetered</th>
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</tr>
</tbody>
</table>

Floor of 1.0%. Preliminary staff recommendation.

| 1.5% | 2.0% | 1.4% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% |

**Assumptions:**
- Includes use of $4.0M reserves
- Pass through of BPA Prepay savings
- Effective April 1
Programs to Help Customers

- Diverse Conservation Rebates - All Customer Classes
  - Rebates are offered to Residential, Commercial, Industrial & Irrigation Customers
  - Large conservation projects need to be identified early to be included in budget
  - If considering a Commercial, Industrial or Irrigation project, please keep your Key Accounts and Conservation staff informed so that your project is included in our planning

- Budget Payment Plan

- Helping Hands Program

- Low Income Programs:
  - Low Income Weatherization
  - Low Income Senior Citizen Discount - up to 20% Discount
  - Low Income Disabled Discount - up to 20% Discount
Key Dates

• January 15, 2013
  ✓ Customer meetings - 8:00 am and 6:00 pm

• February 1, 2013
  ✓ Customer feedback requested

• February 12, 2013
  ✓ Commission meeting – final staff rate recommendation

• February 26, 2013
  ✓ Commission meeting – Commission action

• April 1, 2013
  ✓ Effective date of retail rate changes
Summary

• Benton PUD staff’s preliminary proposal
  ✓ Average increase of 1.5% effective April 1, 2013
  ✓ Impacts customer classes differently
  ✓ Final Commission action expected Feb 26

• Looking ahead, future year annual rate actions expected
  ✓ Expected to be in 0% - 3% range
  ✓ Primarily due to increased cost of power
  ✓ District rates currently below median of comparable utilities
QUESTIONS/COMMENTS
END OF PRESENTATION
# 2011 Fuel Mix Percentage

## Selected Utilities

<table>
<thead>
<tr>
<th>Utility</th>
<th>Hydro</th>
<th>Nuclear</th>
<th>Natural Gas</th>
<th>Coal</th>
<th>Wind</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benton</td>
<td>86.93%</td>
<td>4.94%</td>
<td>2.12%</td>
<td>2.97%</td>
<td>2.80%</td>
<td>0.24%</td>
<td>100.00%</td>
</tr>
<tr>
<td>Franklin</td>
<td>85.80%</td>
<td>4.80%</td>
<td>3.17%</td>
<td>4.47%</td>
<td>1.43%</td>
<td>0.33%</td>
<td>100.00%</td>
</tr>
<tr>
<td>Richland</td>
<td>91.37%</td>
<td>5.25%</td>
<td>0.73%</td>
<td>2.35%</td>
<td>0.08%</td>
<td>0.22%</td>
<td>100.00%</td>
</tr>
<tr>
<td>Chelan</td>
<td>96.03%</td>
<td>0.10%</td>
<td>0.80%</td>
<td>2.91%</td>
<td>0.00%</td>
<td>0.16%</td>
<td>100.00%</td>
</tr>
<tr>
<td>Clark</td>
<td>68.95%</td>
<td>3.74%</td>
<td>23.03%</td>
<td>4.00%</td>
<td>0.00%</td>
<td>0.28%</td>
<td>100.00%</td>
</tr>
<tr>
<td>PP&amp;L</td>
<td>50.07%</td>
<td>1.25%</td>
<td>10.03%</td>
<td>36.63%</td>
<td>0.00%</td>
<td>2.02%</td>
<td>100.00%</td>
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<tr>
<td>Avista</td>
<td>53.54%</td>
<td>0.27%</td>
<td>18.36%</td>
<td>22.75%</td>
<td>0.00%</td>
<td>5.08%</td>
<td>100.00%</td>
</tr>
<tr>
<td>Puget Sound Energy</td>
<td>49.65%</td>
<td>0.64%</td>
<td>11.56%</td>
<td>31.72%</td>
<td>0.00%</td>
<td>6.43%</td>
<td>100.00%</td>
</tr>
<tr>
<td>Washington State</td>
<td>73.00%</td>
<td>3.00%</td>
<td>8.00%</td>
<td>14.00%</td>
<td>1.12%</td>
<td>0.88%</td>
<td>100.00%</td>
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