

Fiscal Year 2007 Nine Canyon Annual Budget

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Summary

The Nine Canyon Wind Project is located in the Horse Heaven Hills area southeast of Kennewick, Washington.

Phase I of the project, which began commercial operation in September 2002, consists of 37 wind turbines, each with a maximum generating capacity of approximately 1.3 megawatts of electricity, for a total wind capacity of 48 megawatts. Phase II of the project, which was declared operational December 31, 2003, included an additional 12 wind turbines with an aggregate generating capacity of approximately 15.6 megawatts. The total project generating capability is approximately 64 megawatts.

The turbines are installed in rows with about 500 feet between turbines. Each three-blade turbine consists of a tubular steel tower 200 feet in height, three 100-foot turbine blades attached to a rotor, and a nacelle that houses a generator, gear box and braking mechanisms.

Electricity generated by the project is purchased by Pacific Northwest Public Utility Districts whose customers have expressed an interest in purchasing at least a portion of their electricity from green power sources. Each purchaser of Phase I has signed a 22-year power purchase agreement with Energy Northwest and each purchaser of Phase II has signed a 20-year power purchase agreement with Energy Northwest. The project is connected to the Bonneville Power Administration transmission grid via a substation and transmission lines constructed by the Benton County Public Utility District.

For Fiscal Year 2007, the total funding requirements equal \$9,716,000 (Table 4) with revenue of \$8,700,000 (Table 5) and a \$1,016,000 (Table 6) withdrawal from the Rate Stabilization Account.

The Fiscal Year 2007 budget is presented on a cost basis and includes a cost to cash reconciliation (Table 3) illustrating the conversion of the cost data to a cash basis.

A comparison of the Fiscal Year 2007 budget is made to the original budget issued for Fiscal Year 2006.

Key Assumptions/Qualifications

This budget will provide funding for continued operation and maintenance of the project. This is based upon the key assumptions and qualifications stated below.

- Generation is estimated at 175,300 MWh (Table 1).
- Turbine manufacturer Bonus A/S will provide O&M services and training. Their support of Phase I was completed in August 2005. Phase II will continue receiving support through December 2006.
- Billing Price for electrical output is estimated to be \$37.23 per MWh (Table 1) for Fiscal Year 2007.
- The budget assumes that the 2005 Renewable Energy Production Incentive (REPI) program will be 80 percent of the 2005 actual production application value. Fiscal Year 2007 REPI accrual amount is projected at \$2,616,000 (Table 1), which also is 80 percent of the full value. Permanent shortfalls in REPI funding will lead to increases in the billing of the project participants in order to cover total project costs. It is assumed that REPI for 2005 totaling \$2,174,000 (Table 4) will be received during Fiscal Year 2007. REPI for 2006 is projected to be received during Fiscal Year 2008.
- The revenue short fall for Fiscal Year 2007 will be funded by withdrawals from the Rate Stabilization Account. This account is designed to create a price of power that escalates at the rate of 3% per year for 22 years.
- Financing Costs has been increased by \$1,743,000 (Table 1) for the amortization of non-cash historical expenses associated with the 2005 bond refinancing. Included here are the accelerated amortized expenses associated with the original bond issuance and expenses associated with the refinancing. The benefit, a reduced interest rate, will show as reduced interest payments over the life of the bonds. This also should have been in the Fiscal Year 2006 budget.
- The Project budget is reviewed and approved by the participants.

Table 1
Summary of Operations
(Dollars in Thousands)

<u>Description</u>	<u>FY 2007 Budget</u>	<u>Original FY 2006 Budget</u>	<u>Variance</u>
<u>Revenue</u>			
Billings	\$ 6,526	\$ 6,336	\$ 190
REPI (1)	2,616	2,482	134
Total Revenue	<u>\$ 9,142</u>	<u>\$ 8,818</u>	<u>\$ 324</u>
<u>Operating Costs</u>			
Labor & Overheads	\$ 848	\$ 667	\$ 181
Equipment/Materials/Services	826	665	161
Insurance	180	180	0
Bonus O&M Contract	111	288	(177)
Lessee Payments	261	253	8
Benton County PUD	60	62	(2)
Contingency/Fees	200	200	-
Subtotal Operating Costs	<u>\$ 2,486</u>	<u>\$ 2,315</u>	<u>\$ 171</u>
Generation Taxes	38	35	3
Subtotal Operating Cost	<u>\$ 2,524</u>	<u>\$ 2,350</u>	<u>\$ 174</u>
Depreciation	\$ 3,634	\$ 3,600	\$ 34
Decommissioning	57	63	(6)
Interest/Financing (Net)	5,664	3,921	1,743
Total Program Cost	<u>\$ 11,879</u>	<u>\$ 9,934</u>	<u>\$ 1,945</u>
Total Net Generation (MWh)	175,300	175,300	-
Cost of Power (\$/MWh)	<u>\$ 67.76</u>	<u>\$ 56.67</u>	<u>\$ 11.10</u>
Billing Price to Participants (\$/MWh) (2)	<u>\$ 37.23</u>	<u>\$ 36.10</u>	<u>\$ 1.13</u>
Total Capital Cost	<u>\$ 100</u>	<u>\$ 11</u>	<u>\$ 89</u>

(1) REPI is shown at 80 percent of the full estimated value.

(2) Utilizes the Rate Stabilization Account to create a price of power which escalates at the rate of 3% per year for 22 years.

Table 2
Summary of Staffing
(Full Time Equivalents)

<u>Description</u>	<u>FY 2007 Budget</u>	<u>Original FY 2006 Budget</u>	<u>Variance</u>
Project Manager	1	1	-
O&M Technicians	6	5	1
Admin & Technical Support	2	1	1
Average Staffing (1)	9	7	2

(1) Staffing includes allocations of Corporate Programs staff.

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Table 3
Cost-to-Cash Reconciliation
(Dollars in Thousands)

Description	FY 2007 Total Cost	Non-Cash Items	Non-Cost Items	Deferred Cash Requirements	Prior Year Commitments	FY 2007 Total Cash
Operating Costs						
Operating Costs (excludes Lessee Payments)	\$ 2,225	\$ -	\$ -	\$ -	\$ -	\$ 2,225
Lessee Payments	261	-	-	-	-	261
Generation Tax	38	-	-	-	-	38
Capital	-	-	100	-	-	100
Depreciation	3,634	(3,634)	-	-	-	-
Subtotal Operating & Capital	\$ 6,158	\$ (3,634)	\$ 100	\$ -	\$ -	\$ 2,624
Net Debt Service						
Interest Expense	\$ 4,113	\$ -	\$ -	\$ -	\$ -	\$ 4,113
Bond Retirement	-	-	3,380	-	-	3,380
Amortized Cost	1,952	(1,952)	-	-	-	-
Decommissioning	57	(57)	-	-	-	-
Interest Income	(431)	-	-	-	-	(431)
Paying Agent/Trustee Fees	30	-	-	-	-	30
Subtotal Net Debt Service	\$ 5,721	\$ (2,009)	\$ 3,380	\$ -	\$ -	\$ 7,092
Total Disbursements	\$ 11,879	\$ (5,643)	\$ 3,480	\$ -	\$ -	\$ 9,716
Revenue						
Billings	\$ 6,526	\$ -	\$ -	\$ -	\$ -	\$ 6,526
REPI 2005 (1)	-	-	2,174	-	-	2,174
REPI Fiscal Year 2007 (2)	2,616	(2,616)	-	-	-	-
Total Revenue	\$ 9,142	\$ (2,616)	\$ 2,174	\$ -	\$ -	\$ 8,700
Rate Stabilization Account Withdrawal						\$ (1,016)

(1) 2005 estimated payment represents a predicted payout of 80% of the sum of 2005's applied production.

(2) Fiscal Year 2007 REPI is shown at 80% estimated applied value.

Table 4
Statement of Funding Requirements
(Dollars in Thousands)

<u>Description</u>	<u>FY 2007 Budget</u>	<u>Original FY 2006 Budget</u>	<u>Variance</u>
<u>Operating Costs</u>			
Labor/Benefits/Overhead	\$ 848	\$ 667	\$ 181
Equipment/Materials/Services	826	665	161
Bonus O&M Contract	111	288	(177)
Insurance	180	180	-
Benton PUD	60	62	(2)
Lessee Payments	261	253	8
Management Reserve/Fees	200	200	-
Subtotal Operating Costs	<u>\$ 2,486</u>	<u>\$ 2,315</u>	<u>\$ 171</u>
Generating Taxes	\$ 38	\$ 35	\$ 3
Capital	100	11	89
Subtotal Operating, Taxes & Capital Costs	<u>\$ 2,624</u>	<u>\$ 2,361</u>	<u>\$ 263</u>
<u>Net Debt Service</u>			
Interest Expense	\$ 4,113	\$ 4,247	\$ (134)
Bond Retirement	3,380	3,240	140
Interest Income (1)	(431)	(355)	(76)
Paying Agent / Trustee Fees	30	29	1
Subtotal Net Debt Service	<u>\$ 7,092</u>	<u>\$ 7,161</u>	<u>\$ (69)</u>
Total Funding Requirements	<u>\$ 9,716</u>	<u>\$ 9,522</u>	<u>\$ 194</u>
Funding Sources			
Billings @ \$37.23 per MWh	\$ 6,526	\$ 6,321	\$ 205
REPI	2,174	2,617	(443)
Rate Stabilization Account Withdrawal	1,016	584	432
Total Funding Sources	<u>\$ 9,716</u>	<u>\$ 9,522</u>	<u>\$ 194</u>

(1) Projected investment income earning rate of 4.46%

Table 5
Monthly Statement of Funding Requirements
(Dollars in Thousands)

Description	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY 2007 Total
Beginning Balance	\$ 9,411	\$ 9,629	\$ 10,020	\$ 12,596	\$ 12,999	\$ 13,393	\$ 11,734	\$ 12,135	\$ 12,528	\$ 12,935	\$ 13,343	\$ 13,706	\$ 9,411
Receipts													
Billings	\$ 544	\$ 544	\$ 544	\$ 544	\$ 544	\$ 544	\$ 544	\$ 544	\$ 544	\$ 544	\$ 544	\$ 542	\$ 6,526
REPI	-	-	2,174	-	-	-	-	-	-	-	-	-	2,174
Total Receipts	\$ 544	\$ 544	\$ 2,718	\$ 544	\$ 544	\$ 544	\$ 544	\$ 544	\$ 544	\$ 544	\$ 544	\$ 542	\$ 8,700
Disbursements													
Operations Disbursements													
Labor & Overheads	\$ 71	\$ 71	\$ 71	\$ 71	\$ 71	\$ 71	\$ 71	\$ 71	\$ 71	\$ 71	\$ 71	\$ 67	\$ 848
Equipment/Materials/Services	69	69	69	69	69	69	69	69	69	69	69	67	826
Insurance	180	-	-	-	-	-	-	-	-	-	-	-	180
Other	38	38	38	38	38	38	38	38	38	38	38	39	457
Performance Fee	-	-	-	-	-	-	-	-	-	-	-	175	175
Generation Taxes	-	-	-	-	-	-	-	-	-	-	38	-	38
Capital	-	-	-	-	-	-	-	-	-	-	-	100	100
Subtotal Operations	\$ 358	\$ 178	\$ 178	\$ 178	\$ 178	\$ 178	\$ 178	\$ 178	\$ 178	\$ 178	\$ 216	\$ 448	\$ 2,624
Debt Service													
Interest Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,057	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,056	\$ 4,113
Bond Retirement	-	-	-	-	-	-	-	-	-	-	-	3,380	3,380
Investment Income	(32)	(32)	(36)	(37)	(35)	(32)	(35)	(35)	(41)	(42)	(43)	(31)	(431)
Paying Agent/Banking Fees	-	7	-	-	7	-	-	8	-	-	8	-	30
Subtotal Debt Service	\$ (32)	\$ (25)	\$ (36)	\$ (37)	\$ (28)	\$ 2,025	\$ (35)	\$ (27)	\$ (41)	\$ (42)	\$ (35)	\$ 5,405	\$ 7,092
Total Disbursements	\$ 326	\$ 153	\$ 142	\$ 141	\$ 150	\$ 2,203	\$ 143	\$ 151	\$ 137	\$ 136	\$ 181	\$ 5,853	\$ 9,716
Ending Balance	\$ 9,629	\$ 10,020	\$ 12,596	\$ 12,999	\$ 13,393	\$ 11,734	\$ 12,135	\$ 12,528	\$ 12,935	\$ 13,343	\$ 13,706	\$ 8,395	\$ 8,395

Table 6
Rate Stabilization Account
(Dollars in Thousands)

<u>Description</u>	<u>FY 2007 Budget</u>	<u>Original FY 2006 Budget</u>	<u>Variance</u>
Reserve Account	\$ 6,680	\$ 6,680	\$ -
Operating Reserve Account	750	750	-
Reserve and Contingency Account	800	800	-
Revenue Fund	940	529	411
Phase I REPI Reserve (1)	241	1,790	(1,549)
Phase II REPI Reserve (1)	-	-	-
Phase I Construction Reserves	-	-	-
Phase II Construction Reserves	-	-	-
Total Beginning Balance	<u>\$ 9,411</u>	<u>\$ 10,549</u>	<u>\$ (1,138)</u>
Withdrawals	<u>(1,016)</u>	<u>(584)</u>	<u>\$ (432)</u>
Total Ending Balance	<u>\$ 8,395</u>	<u>\$ 9,965</u>	<u>\$ (1,570)</u>

(1) REPI applications for FY 2005 have been submitted, but are not reflected in the FY 2007 beginning balance. It is expected that these funds will not be received until after FY 2007 begins.