

# **Fiscal Year 2007 Packwood Annual Operating Budget**

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### Summary

The Packwood Lake Hydroelectric Project (Packwood), the first electrical generating project undertaken by Energy Northwest, began commercial operation in June 1964. Occupying 660 acres of the Gifford Pinchot National Forest in south central Washington, Packwood consists of a dam at Packwood Lake; a five mile long system of pipeline, tunnels and Penstock; and a 27,500 kilowatt-rated, underground powerhouse located 1,800 feet below the lake elevation. The reservoir is fed by Upper Lake Creek and several small tributaries that rely exclusively on direct rainfall and snow melt for their water supply.

Electrical energy from Packwood is currently sold directly to two participants in the project, Benton County and Franklin County PUD's. The sales agreements allow for a standard rate for a predetermined amount of output, and a Mid-Columbia-based rate for any additional output. Any revenue in excess of net funding requirements is refunded by Energy Northwest to the 12 members in the subsequent fiscal year or by participants' decision, retained to apply towards future costs.

The total net Fiscal Year 2007 program and capital cost combined is estimated to be \$2,274,000 (Table 1), with associated net funding requirements of \$2,888,000 (Table 5). The difference between total program cost and net funding requirements is due to depreciation and bond retirement (Table 4).

**Key Assumptions/Qualifications**

- Generation is estimated at 92,000 MWh, which reflects the 30-year average of the plant output (based on average water year).
- This budget includes the current sales agreements with Benton County and Franklin County PUD's. This contract is for a three year period ending in Fiscal Year 2009.
- We do not expect a refund to members in Fiscal Year 2007. Relicensing costs (capital) are budgeted at \$684,000 (Table 5) for Fiscal Year 2007. The Fiscal Year 2007 budget shows that all Fiscal Year 2007 relicensing costs will not be covered by sales in excess of costs, requiring an additional \$128,000 (Table 7) drawdown of the relicensing reserve.
- The additional expenses associated with the relicensing capital costs will continue through February of Fiscal Year 2010. The capital costs are being held in the Construction in Progress account. Depreciation will begin being reported as of March 1st of Fiscal Year 2010 (the first effective day of the new license) and continue for a current estimated 30 years.
- Capital Program. Relicensing costs for the Fiscal Year 2006 Budget were included in non capital costs. In Fiscal Year 2007 relicensing costs are shown as Capital Costs (Tables 1 and 5).

**Table 1**  
**Summary of Operating and Capital Costs**  
(Dollars in Thousands)

<b>Description</b>	<b>FY 2007 Budget</b>	<b>Original FY 2006 Budget</b>	<b>Variance</b>
<u>Operating Costs</u>			
Operations & Maintenance	\$ 911	\$ 956	\$ (45)
Support Services	451	343	108
Subtotal Operations & Support Services	<u>\$ 1,362</u>	<u>\$ 1,299</u>	<u>\$ 63</u>
Generation Taxes	\$ 20	\$ 18	\$ 2
Depreciation	36	25	11
Subtotal Operating Costs	<u>\$ 1,418</u>	<u>\$ 1,342</u>	<u>\$ 76</u>
Relicensing	\$ -	\$ 574	\$ (574)
Maintain License and Permits	69	63	6
Subtotal Licensing Costs	<u>\$ 69</u>	<u>\$ 637</u>	<u>\$ (568)</u>
Interest / Financing (Net)	103	115	(12)
<b>Total Program Cost</b>	<b><u>\$ 1,590</u></b>	<b><u>\$ 2,094</u></b>	<b><u>\$ (504)</u></b>
<b>Total Net Generation (MWh)</b>	<b><u>92,000</u></b>	<b><u>92,000</u></b>	<b><u>-</u></b>
<b>Cost of Power (\$/MWh)</b>	<b><u>\$ 17.28</u></b>	<b><u>\$ 22.77</u></b>	<b><u>\$ (5.48)</u></b>
<b>Total Capital Cost</b>	<b><u>\$ 684</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 684</u></b>

**Table 2**  
**Summary of Revenues**  
(Dollars in Thousands)

<u>Description</u>	<u>FY 2007 Budget</u>	<u>Original FY 2006 Budget</u>	<u>Variance</u>
<u>Revenues</u>			
Sales for Resale (1)	\$ 2,760	\$ 2,700	\$ 60
<b>Total Revenues</b>	<b>\$ 2,760</b>	<b>\$ 2,700</b>	<b>\$ 60</b>

**Table 3**  
**Summary of Staffing**  
(Full Time Equivalent)

	<u>FY 2007 Budget</u>	<u>Original FY 2006 Budget</u>	<u>Variance</u>
Operations & Maintenance	3	3	-
Relicensing	2	2	-
<b>Average Staffing (2)</b>	<b>5</b>	<b>5</b>	<b>-</b>

(1) Revenues are based on an average annual generation of 92,000 MWh, at a rate that reflects market pricing, of \$30.00/MWh.

(2) Includes allocations of Corporate Programs staff.

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**Table 4**  
**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						
O&M and Support Services	\$ 1,362	\$ -	\$ -	\$ -	\$ -	\$ 1,362
Generation Taxes	20	-	-	-	-	20
Depreciation	36	(36)	-	-	-	-
Subtotal Operating	\$ 1,418	\$ (36)	\$ -	\$ -	\$ -	\$ 1,382
Licensing						
Maintain License & Permits	\$ 69	\$ -	\$ -	\$ -	\$ -	\$ 69
Subtotal Licensing	\$ 69	\$ -	\$ -	\$ -	\$ -	\$ 69
Net Debt Service						
Interest Expense	\$ 86	\$ -	\$ -	\$ -	\$ -	\$ 86
Interest Income	(40)	-	-	-	-	(40)
Paying Agent /Trustee Fees	57	-	-	-	-	57
Bond Retirement	-	-	650	-	-	650
Subtotal Net Debt Service	\$ 103	\$ -	\$ 650	\$ -	\$ -	\$ 753
Capital	\$ 684	\$ -	\$ -	\$ -	\$ -	\$ 684
Refund to Members	-	-	-	-	-	-
Total Disbursements	\$ 2,274	\$ (36)	\$ 650	\$ -	\$ -	\$ 2,888
Funding Sources						
Sales for Resale	\$ 2,760	\$ -	\$ -	\$ -	\$ -	2,760
Beginning Working Capital	-	-	1,778	-	-	1,778
Total Funding Sources	\$ 2,760	\$ -	\$ 1,778	\$ -	\$ -	\$ 4,538
Ending Working Capital	\$ (486)	\$ (36)	\$ (1,128)	\$ -	\$ -	\$ (1,650)

**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</u>			
Operating & Support Services	\$ 1,362	\$ 1,299	\$ 63
Generation Taxes	20	18	2
<b>Subtotal Operating</b>	<b>\$ 1,382</b>	<b>\$ 1,317</b>	<b>\$ 65</b>
<u>Licensing</u>			
Re-Licensing	\$ -	\$ 574	\$ (574)
Maintain Licenses & Permits	69	63	6
<b>Subtotal Licensing</b>	<b>\$ 69</b>	<b>\$ 637</b>	<b>\$ (568)</b>
<u>Net Debt Service</u>			
Interest Expense	\$ 86	\$ 108	\$ (22)
Interest Income (1)	(40)	(26)	(14)
Paying Agent/Trustee Fees	57	33	24
Bond Retirement	650	623	27
<b>Subtotal Net Debt Service</b>	<b>\$ 753</b>	<b>\$ 738</b>	<b>\$ 15</b>
Capital	\$ 684	\$ -	\$ 684
Refund to Members	-	-	-
<b>Total Funding Requirements</b>	<b>\$ 2,888</b>	<b>\$ 2,692</b>	<b>\$ 196</b>
 <u>Funding Sources</u>			
Sales for Resale	\$ 2,760	\$ 2,700	\$ 60
Beginning Packwood Funds	1,778	1,778	-
<b>Total Funding Sources</b>	<b>\$ 4,538</b>	<b>\$ 4,478</b>	<b>\$ 60</b>
 <b>Total Packwood Funds Balance</b>	 <b>\$ 1,650</b>	 <b>\$ 1,786</b>	 <b>\$ (136)</b>

(1) Projected investment income earning rate of 4.24%.

**Table 6**  
**Monthly Statement of Funding Requirements**  
(Dollars in Thousands)

Description	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY 2007 Total
<b>Beginning Balance</b>	\$ 1,778	\$ 1,732	\$ 1,972	\$ 1,948	\$ 2,015	\$ 1,750	\$ 1,586	\$ 1,535	\$ 1,441	\$ 1,464	\$ 1,572	\$ 1,656	\$ 1,778
Receipts													
Sales for Resale	\$ 146	\$ 440	\$ 265	\$ 303	\$ 27	\$ 116	\$ 129	\$ 135	\$ 304	\$ 304	\$ 301	\$ 290	\$ 2,760
<b>Total Receipts</b>	<b>\$ 146</b>	<b>\$ 440</b>	<b>\$ 265</b>	<b>\$ 303</b>	<b>\$ 27</b>	<b>\$ 116</b>	<b>\$ 129</b>	<b>\$ 135</b>	<b>\$ 304</b>	<b>\$ 304</b>	<b>\$ 301</b>	<b>\$ 290</b>	<b>\$ 2,760</b>
Disbursements													
Operations Disbursements													
O&M and Support Services	\$ 98	\$ 100	\$ 100	\$ 152	\$ 212	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 1,362
Maintain License & Permits	5	5	5	6	6	6	6	6	6	6	6	6	69
Generation Taxes											20		20
<b>Subtotal Operations</b>	<b>\$ 103</b>	<b>\$ 105</b>	<b>\$ 105</b>	<b>\$ 158</b>	<b>\$ 218</b>	<b>\$ 106</b>	<b>\$ 106</b>	<b>\$ 106</b>	<b>\$ 106</b>	<b>\$ 106</b>	<b>\$ 126</b>	<b>\$ 106</b>	<b>\$ 1,451</b>
Debt Service													
Interest Expense	\$ 8	\$ 8	\$ 8	\$ 8	\$ 8	\$ 8	\$ 7	\$ 7	\$ 6	\$ 6	\$ 6	\$ 6	\$ 86
Investment Income	(3)	(4)	(4)	(4)	(4)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(40)
Paying Agent/Trustee Fees	-	6	-	-	1	-	-	49	-	-	1	-	57
Bond Retirement	53	53	53	53	53	53	54	54	56	56	56	56	650
<b>Subtotal Debt Service</b>	<b>\$ 58</b>	<b>\$ 63</b>	<b>\$ 57</b>	<b>\$ 57</b>	<b>\$ 58</b>	<b>\$ 58</b>	<b>\$ 58</b>	<b>\$ 107</b>	<b>\$ 59</b>	<b>\$ 59</b>	<b>\$ 60</b>	<b>\$ 59</b>	<b>\$ 753</b>
Capital (Relicensing)	\$ 31	\$ 32	\$ 127	\$ 21	\$ 16	\$ 116	\$ 16	\$ 16	\$ 116	\$ 31	\$ 31	\$ 131	\$ 684
Refund to Members	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Disbursements</b>	<b>\$ 192</b>	<b>\$ 200</b>	<b>\$ 289</b>	<b>\$ 236</b>	<b>\$ 292</b>	<b>\$ 280</b>	<b>\$ 180</b>	<b>\$ 229</b>	<b>\$ 281</b>	<b>\$ 196</b>	<b>\$ 217</b>	<b>\$ 296</b>	<b>\$ 2,888</b>
<b>Ending Balance</b>	<b>\$ 1,732</b>	<b>\$ 1,972</b>	<b>\$ 1,948</b>	<b>\$ 2,015</b>	<b>\$ 1,750</b>	<b>\$ 1,586</b>	<b>\$ 1,535</b>	<b>\$ 1,441</b>	<b>\$ 1,464</b>	<b>\$ 1,572</b>	<b>\$ 1,656</b>	<b>\$ 1,650</b>	<b>\$ 1,650</b>

**Table 7**  
**Statement of Funds**  
(Dollars in Thousands)

<u>Description</u>	<u>FY 2007 Budget Beginning Balance</u>	<u>FY 2007 Budget Ending Balance</u>	<u>Variance</u>
Working Capital Balance	\$ 357	\$ 357	\$ -
Re-Licensing Reserve (1)	1,141	1,013	(128)
Subtotal	<u>\$ 1,498</u>	<u>\$ 1,370</u>	<u>\$ (128)</u>
Reserve & Contingency Fund	<u>\$ 280</u>	<u>\$ 280</u>	<u>\$ -</u>
<b>Total Packwood Funds</b>	<b><u>\$ 1,778</u></b>	<b><u>\$ 1,650</u></b>	<b><u>\$ (128)</u></b>

(1) Budget shows that all Fiscal Year 2007 relicensing costs will not be covered by sales in excess of costs, requiring an additional \$128,000 drawdown to the relicensing reserve.

**Table 8**  
**Long Range Forecast**  
(Dollars in Thousands)

Item/Description	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Operating Costs</b>											
Operating & Maintenance	\$ 911	\$ 911	\$ 911	\$ 911	\$ 911	\$ 911	\$ 911	\$ 911	\$ 911	\$ 911	\$ 911
Support Services	451	451	451	451	451	451	451	451	451	451	451
<b>Subtotal Operating Costs</b>	<b>\$ 1,362</b>	<b>\$ 1,362</b>	<b>\$ 1,362</b>	<b>\$ 1,362</b>	<b>\$ 1,362</b>	<b>\$ 1,362</b>	<b>\$ 1,362</b>	<b>\$ 1,362</b>	<b>\$ 1,362</b>	<b>\$ 1,362</b>	<b>\$ 1,362</b>
Generation Taxes	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20
Depreciation	36	39	36	74	133	134	134	134	134	134	134
<b>Subtotal Other Costs</b>	<b>\$ 1,418</b>	<b>\$ 1,421</b>	<b>\$ 1,418</b>	<b>\$ 1,456</b>	<b>\$ 1,515</b>	<b>\$ 1,516</b>	<b>\$ 1,516</b>	<b>\$ 1,516</b>	<b>\$ 1,516</b>	<b>\$ 1,516</b>	<b>\$ 1,516</b>
Maintain License and Permits	\$ 69	\$ 69	\$ 69	\$ 69	\$ 69	\$ 69	\$ 69	\$ 69	\$ 69	\$ 69	\$ 69
Interest/Financing (Net)	103	82	60	41	7	5	(22)	(22)	(22)	(22)	(22)
<b>Subtotal Program Cost</b>	<b>\$ 1,590</b>	<b>\$ 1,572</b>	<b>\$ 1,547</b>	<b>\$ 1,566</b>	<b>\$ 1,591</b>	<b>\$ 1,590</b>	<b>\$ 1,563</b>	<b>\$ 1,563</b>	<b>\$ 1,563</b>	<b>\$ 1,563</b>	<b>\$ 1,563</b>
Esc on Select Program Costs	-	45	92	140	186	236	283	335	389	444	501
<b>Total Escalated Program Costs</b>	<b>\$ 1,590</b>	<b>\$ 1,617</b>	<b>\$ 1,639</b>	<b>\$ 1,706</b>	<b>\$ 1,777</b>	<b>\$ 1,826</b>	<b>\$ 1,846</b>	<b>\$ 1,898</b>	<b>\$ 1,952</b>	<b>\$ 2,007</b>	<b>\$ 2,064</b>
<b>Capital Costs</b>											
Relicensing Project	\$ 684	\$ 638	\$ 570	\$ 321	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Subtotal Capital Costs</b>	<b>\$ 684</b>	<b>\$ 638</b>	<b>\$ 570</b>	<b>\$ 321</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Escalation on Capital Costs	\$ -	\$ 19	\$ 35	\$ 30	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Escalated Capital Costs</b>	<b>\$ 684</b>	<b>\$ 657</b>	<b>\$ 605</b>	<b>\$ 351</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Un-escalated Costs</b>	<b>\$ 2,274</b>	<b>\$ 2,210</b>	<b>\$ 2,117</b>	<b>\$ 1,887</b>	<b>\$ 1,591</b>	<b>\$ 1,590</b>	<b>\$ 1,563</b>	<b>\$ 1,563</b>	<b>\$ 1,563</b>	<b>\$ 1,563</b>	<b>\$ 1,563</b>
<b>Total Escalation on all Costs</b>	<b>-</b>	<b>64</b>	<b>127</b>	<b>170</b>	<b>186</b>	<b>236</b>	<b>283</b>	<b>335</b>	<b>389</b>	<b>444</b>	<b>501</b>
<b>Total Escalated Costs</b>	<b>\$ 2,274</b>	<b>\$ 2,274</b>	<b>\$ 2,244</b>	<b>\$ 2,057</b>	<b>\$ 1,777</b>	<b>\$ 1,826</b>	<b>\$ 1,846</b>	<b>\$ 1,898</b>	<b>\$ 1,952</b>	<b>\$ 2,007</b>	<b>\$ 2,064</b>
<b>Sales for Resale</b>	<b>\$ 2,760</b>	<b>2,760</b>	<b>2,760</b>	<b>2,843</b>	<b>\$ 2,928</b>	<b>\$ 3,016</b>	<b>\$ 3,106</b>	<b>\$ 3,200</b>	<b>\$ 3,296</b>	<b>\$ 3,395</b>	<b>\$ 3,395</b>
Total Net Generation (MWh)	92,000	92,000	92,000	92,000	92,000	92,000	92,000	92,000	92,000	92,000	92,000
Cost of Power (\$/MWh)	\$ 17.28	\$ 17.58	\$ 17.81	\$ 18.54	\$ 19.32	\$ 19.85	\$ 20.06	\$ 20.63	\$ 21.22	\$ 21.82	\$ 22.44

**Key Assumptions/Qualifications:**

Escalation Rate = 1.03 starting FY 08 for costs and FY 11 for sales for resale. Sales for Resale reflects market pricing of \$30.00 / MWh for FY 2007.

Cost of power excludes capital costs. Bonds paid off in FY 2012.

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