

Fiscal Year 2010 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 Snohomish PUD who purchases all of the project output. The sales agreement provides a pre-determined rate for all firm delivery, per the contract schedule and the Mid-Columbia based rate for any deliveries above firm, or secondary power. Any revenue in excess of net funding requirements is distributed 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 2010 program and capital cost combined is estimated to be \$2,480,000 (Table 1), with associated net funding requirements of \$2,448,000 (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 88,720 MWh, which reflects a decrease to the 30-year average of the plant output (based on average water year) due to increased by-passed flows as a requirement for relicensing.
- This budget includes the current sale agreement with Snohomish County PUD. This contract is for a one year period ending in Fiscal Year 2009 with two additional one year extensions.
- No refund to members is expected in Fiscal Year 2010.
- Relicensing and other capital costs are budgeted at \$637,000 (Table 5) for Fiscal Year 2010.
- In Fiscal Years 2010 and 2009 relicensing costs are shown as Capital Costs (Tables 1 and 5).
- Lewis County was declared a disaster area in November 2006 because of torrential rains and flooding (Reference Event No. FEMA-1671-DR-WA). During this event a large slide occurred adjacent to the Packwood Project underground pipeline. Energy Northwest has submitted a "Public Assistance Grant" request to the Washington State Military Department (Emergency Management Division) and Federal Emergency Management Agency (FEMA) for financial aid to stabilize and repair the slide area. FEMA denied the initial request for a grant to cover the costs of stabilization of the slide area. Energy Northwest will file an appeal through the FEMA process. Major repairs were completed in Fiscal Year 2008 to assure stability of the pipeline through the slide area. The Fiscal Year 2008 budget included an estimated \$1,700,000 line item for repair of the slide. Actual costs were \$1,025,000. A bank line of credit for \$1,300,000 was approved. To date, \$839,000 has actually been borrowed against the line of credit.

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

<u>Description</u>	<u>FY 2010 Budget</u>	<u>Original FY 2009 Budget</u>	<u>Variance</u>
<u>Operating Costs</u>			
Operating & Support Services	\$ 1,669	\$ 1,664	\$ 5
Generation Taxes	19	20	(1)
Depreciation	32	35	(3)
Subtotal Operating Costs	<u>\$ 1,720</u>	<u>\$ 1,719</u>	<u>\$ 1</u>
Maintain License and Permits	\$ 89	\$ 74	\$ 15
Interest/Financing (Net)	34	56	(22)
Total Cost	<u>\$ 1,843</u>	<u>\$ 1,849</u>	<u>\$ (6)</u>
Total Net Generation (MWh)	<u>88,720</u>	<u>92,000</u>	<u>(3,280)</u>
Cost of Power (\$/MWh)	<u>\$ 20.77</u>	<u>\$ 20.10</u>	<u>\$ 0.68</u>
Total Capital Cost	<u>\$ 637</u>	<u>\$ 533</u>	<u>\$ 104</u>

Table 2
Summary of Revenues
(Dollars in Thousands)

<u>Description</u>	<u>FY 2010 Budget</u>	<u>Original FY 2009 Budget</u>	<u>Variance</u>
<u>Revenues</u>			
Sales for Resale (1)	\$ 2,662	\$ 2,760	\$ (98)
Total Revenues	\$ 2,662	\$ 2,760	\$ (98)

Table 3
Summary of Full Time Equivalent Positions

<u>Description</u>	<u>FY 2010 Budget</u>	<u>Original FY 2009 Budget</u>	<u>Variance</u>
Operations & Maintenance	4	4	-
Relicensing	1	1	-
Total Positions	5	5	-

(1) Revenues are based on an average annual generation of 88,720 MWh, at a rate that reflects market pricing, of \$30.00/MWh.

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Table 4
Cost-to-Cash Reconciliation
(Dollars in Thousands)

Description	FY 2010 Total Cost	Non-Cash Items	Non-Cost Items	Deferred Cash Requirements	Prior Year Commitments	FY 2010 Total Cash
Operating						
O&M and Support Services	\$ 1,669	\$ -	\$ -	\$ -	\$ -	\$ 1,669
Generation Taxes	19	-	-	-	-	19
Depreciation	32	(32)	-	-	-	-
Subtotal Operating	\$ 1,720	\$ (32)	\$ -	\$ -	\$ -	\$ 1,688
Licensing						
Maintain License & Permits	\$ 89	\$ -	\$ -	\$ -	\$ -	\$ 89
Subtotal Licensing	\$ 89	\$ -	\$ -	\$ -	\$ -	\$ 89
Net Debt Service						
Interest on Bank Loan	\$ 31	\$ -	\$ -	\$ -	\$ -	\$ 31
Interest Income	(3)	-	-	-	-	(3)
Treasury Services	6	-	-	-	-	6
Subtotal Net Debt Service	\$ 34	\$ -	\$ -	\$ -	\$ -	\$ 34
Capital	\$ 637	\$ -	\$ -	\$ -	\$ -	\$ 637
Total Disbursements	\$ 2,480	\$ (32)	\$ -	\$ -	\$ -	\$ 2,448
Funding Sources						
Sales for Resale	\$ 2,662	\$ -	\$ -	\$ -	\$ -	\$ 2,662
Beginning Packwood Funds	-	-	290	-	-	290
Total Funding Sources	\$ 2,662	\$ -	\$ 290	\$ -	\$ -	\$ 2,952
Ending Working Capital	\$ 182	\$ (32)	\$ 290	\$ -	\$ -	\$ 504

Table 5
Statement of Funding Requirements
(Dollars in Thousands)

<u>Description</u>	<u>FY 2010 Budget</u>	<u>Original FY 2009 Budget</u>	<u>Variance</u>
<u>Operating</u>			
Operating & Support Services	\$ 1,669	\$ 1,664	\$ 5
Generation Taxes	19	20	(1)
Subtotal Operating	<u>\$ 1,688</u>	<u>\$ 1,684</u>	<u>\$ 4</u>
<u>Licensing</u>			
Maintain Licenses & Permits	\$ 89	\$ 74	\$ 15
Subtotal Licensing	<u>\$ 89</u>	<u>\$ 74</u>	<u>\$ 15</u>
<u>Net Debt Service</u>			
Interest Expense	\$ -	\$ 30	\$ (30)
Interest on Bank Loan	31	34	(3)
Interest Income (1)	(3)	(35)	32
Treasury Services	6	27	(21)
Debt Retirement	-	1,241	(1,241)
Subtotal Net Debt Service	<u>\$ 34</u>	<u>\$ 1,297</u>	<u>\$ (1,263)</u>
Capital	\$ 637	\$ 533	\$ 104
Total Funding Requirements	<u>\$ 2,448</u>	<u>\$ 3,588</u>	<u>\$ (1,140)</u>
<u>Funding Sources</u>			
Sales for Resale	\$ 2,662	\$ 2,760	\$ (98)
Beginning Packwood Funds	290	1,598	(1,308)
Total Funding Sources	<u>\$ 2,952</u>	<u>\$ 4,358</u>	<u>\$ (1,406)</u>
Total Packwood Funds Balance	<u>\$ 504</u>	<u>\$ 770</u>	<u>\$ (266)</u>

(1) Projected investment income earning rate of 0.375%.

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

Description	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY 2010 Total
Beginning Balance	\$ 290	\$ 478	\$ 476	\$ 469	\$ 252	\$ 228	\$ 252	\$ 291	\$ 254	\$ 213	\$ 163	\$ 284	\$ 290
Receipts													
Participant Payment or Loan	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sales for Resale	378	189	213	33	195	216	228	153	149	144	342	422	2,662
Total Receipts	\$ 378	\$ 189	\$ 213	\$ 33	\$ 195	\$ 216	\$ 228	\$ 153	\$ 149	\$ 144	\$ 342	\$ 422	\$ 2,662
Disbursements													
Operations Disbursements													
O&M and Support Services	\$ 127	\$ 127	\$ 157	\$ 187	\$ 157	\$ 127	\$ 127	\$ 127	\$ 127	\$ 130	\$ 138	\$ 138	\$ 1,669
Maintain License & Permits	7	7	8	7	7	8	7	7	8	7	8	8	89
Generation Taxes	-	-	-	-	-	-	-	-	-	-	19	-	19
Subtotal Operations	\$ 134	\$ 134	\$ 165	\$ 194	\$ 164	\$ 135	\$ 134	\$ 134	\$ 135	\$ 137	\$ 165	\$ 146	\$ 1,777
Debt Service													
Interest Expense	\$ 2	\$ 3	\$ 2	\$ 3	\$ 2	\$ 3	\$ 2	\$ 3	\$ 2	\$ 3	\$ 3	\$ 3	\$ 31
Investment Income	-	-	-	(1)	-	-	-	(1)	-	-	-	(1)	(3)
Treasury Services	-	1	-	1	-	1	-	1	-	1	-	1	6
Subtotal Debt Service	\$ 2	\$ 4	\$ 2	\$ 3	\$ 2	\$ 4	\$ 2	\$ 3	\$ 2	\$ 4	\$ 3	\$ 3	\$ 34
Capital (Includes Relicensing)	\$ 54	\$ 53	\$ 53	\$ 53	\$ 53	\$ 53	\$ 53	\$ 53	\$ 53	\$ 53	\$ 53	\$ 53	\$ 637
Total Disbursements	\$ 190	\$ 191	\$ 220	\$ 250	\$ 219	\$ 192	\$ 189	\$ 190	\$ 190	\$ 194	\$ 221	\$ 202	\$ 2,448
Ending Balance	\$ 478	\$ 476	\$ 469	\$ 252	\$ 228	\$ 252	\$ 291	\$ 254	\$ 213	\$ 163	\$ 284	\$ 504	\$ 504

Table 7
Statement of Funds
(Dollars in Thousands)

<u>Description</u>	<u>FY 2010 Budget Beginning Balance</u>	<u>FY 2010 Budget Ending Balance</u>	<u>Variance</u>
Working Capital Balance	<u>\$ 290</u>	<u>\$ 504</u>	<u>\$ 214</u>

Table 8
Long Range Plan
(Dollars in Thousands)

Description	Budget FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Operating Costs											
Operating & Support Services	\$ 1,669	\$ 1,669	\$ 1,669	\$ 1,669	\$ 1,669	\$ 1,669	\$ 1,669	\$ 1,669	\$ 1,669	\$ 1,669	\$ 1,669
Relicensing O&M		\$ 62	\$ 93	\$ 65	\$ 107	\$ 40	\$ 40	\$ 35	\$ 40	\$ 35	\$ 35
Subtotal Operating Costs	\$ 1,669	\$ 1,731	\$ 1,762	\$ 1,734	\$ 1,776	\$ 1,709	\$ 1,709	\$ 1,704	\$ 1,709	\$ 1,704	\$ 1,704
Generation Taxes	\$ 19	\$ 19	\$ 19	\$ 19	\$ 19	\$ 19	\$ 19	\$ 19	\$ 19	\$ 19	\$ 19
Depreciation	32	74	133	134	134	134	134	134	134	134	134
Subtotal Other Costs	\$ 1,720	\$ 1,824	\$ 1,914	\$ 1,887	\$ 1,929	\$ 1,862	\$ 1,862	\$ 1,857	\$ 1,862	\$ 1,857	\$ 1,857
Maintain License and Permits	\$ 89	\$ 89	\$ 89	\$ 89	\$ 89	\$ 89	\$ 89	\$ 89	\$ 89	\$ 89	\$ 89
Interest/Financing (Net)	34	34	34	34	34	34	34	(5)	(10)	(15)	(23)
Subtotal Program Cost	\$ 1,843	\$ 1,947	\$ 2,037	\$ 2,010	\$ 2,052	\$ 1,985	\$ 1,985	\$ 1,941	\$ 1,941	\$ 1,931	\$ 1,923
Escalation on Select Program Costs	\$ -	\$ 53	\$ 107	\$ 163	\$ 221	\$ 280	\$ 341	\$ 404	\$ 469	\$ 536	\$ 605
Total Escalated Program Costs	\$ 1,843	\$ 2,000	\$ 2,144	\$ 2,173	\$ 2,273	\$ 2,265	\$ 2,326	\$ 2,345	\$ 2,410	\$ 2,467	\$ 2,528
Capital Costs											
Total Capital Costs	\$ 637	\$ 208	\$ 134	\$ 273	\$ 236	\$ 35	\$ 32	\$ 32	\$ 32	\$ 32	\$ 32
Subtotal Capital Costs	\$ 637	\$ 208	\$ 134	\$ 273	\$ 236	\$ 35	\$ 32	\$ 32	\$ 32	\$ 32	\$ 32
Escalation on Capital Costs	\$ -	\$ 6	\$ 8	\$ 25	\$ 30	\$ 6	\$ 6	\$ 7	\$ 9	\$ 10	\$ 11
Total Escalated Capital Costs	\$ 637	\$ 214	\$ 142	\$ 298	\$ 266	\$ 41	\$ 38	\$ 39	\$ 41	\$ 42	\$ 43
Total Un-escalated Costs	\$ 2,480	\$ 2,155	\$ 2,171	\$ 2,283	\$ 2,288	\$ 2,020	\$ 2,017	\$ 1,973	\$ 1,973	\$ 1,963	\$ 1,955
Total Escalation on all Costs	\$ -	\$ 59	\$ 115	\$ 188	\$ 250	\$ 286	\$ 347	\$ 411	\$ 478	\$ 546	\$ 616
Total Escalated Costs	\$ 2,480	\$ 2,214	\$ 2,286	\$ 2,471	\$ 2,538	\$ 2,306	\$ 2,364	\$ 2,384	\$ 2,451	\$ 2,509	\$ 2,571
Sales for Resale	\$ 2,662	\$2,401	\$2,401	\$ 2,473	\$ 2,547	\$ 2,624	\$ 2,702	\$ 2,783	\$ 2,867	\$ 2,953	\$ 3,042
Total Net Generation (MWh)	88,720	84,536	84,536	84,536	84,536	84,536	84,536	84,536	84,536	84,536	84,536
Cost of Power (\$/MWh)	\$ 20.77	\$ 23.66	\$ 25.36	\$ 25.71	\$ 26.88	\$ 26.79	\$ 27.52	\$ 27.74	\$ 28.51	\$ 29.18	\$ 29.90

Key Assumptions/Qualifications:

Escalation Rate = 1.03 starting FY 2011 for costs and FY 2013 for sales for resale. Cost of power excludes capital costs. Bonds paid off in FY 2009.

The project anticipates a reduction of 7,464 MWh as a result of an increase of by-pass flows required by the new Operating License, beginning in 2011.

The increased by-pass flows are expected to reduce revenue by approximately \$359,000 annually, based on a five year average "secondary" market power price of \$48.1/MWh.

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