



**ENERGY
NORTHWEST**

Energy/Business Services Opportunities Overview

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Key Strategies & Major Changes from Fiscal Year 2010

- ✦ Provide Services at Cost to all Public Customers
- ✦ Continue High Quality Operation of Generation Facilities, Increasing the Value to the Participants:
 - Nine Canyon
 - Packwood
 - White Bluffs Solar
 - Mason County PUD #3 – Olympic View Generating Plant
- ✦ Provide Generation Options to our Members and Public Power
- ✦ Aggregate Service Interest of our Members
- ✦ Maintain a sustainable Business Development Fund

Key Strategies & Major Changes from Fiscal Year 2010

✦ Develop New Business Opportunities

- Continue wind development at Radar Ridge and pre-development of future wind sites
- Seek & Partner with Public Utilities to develop Natural Gas & Renewable resources
- Market of thermal options at Kalama Site
- Meet Professional/O&M services needs of our Members
- Continue to refine rental business
- Continue as Hometown marketing affiliate

Key Strategies & Major Changes from Fiscal Year 2010

✦ Energy/Business Services (E/BS) Overhead

- Liquidate internal business costs
- Increase sustainability

✦ Rate Lowers to 13% on Total Cost

✦ What Types of Costs are Covered in E/BS Overheads?

- Management Oversight, Finance & Contracting Support, Legal, Audits, Admin. Support, Insurance, Sales & Marketing, General Supplies, etc.

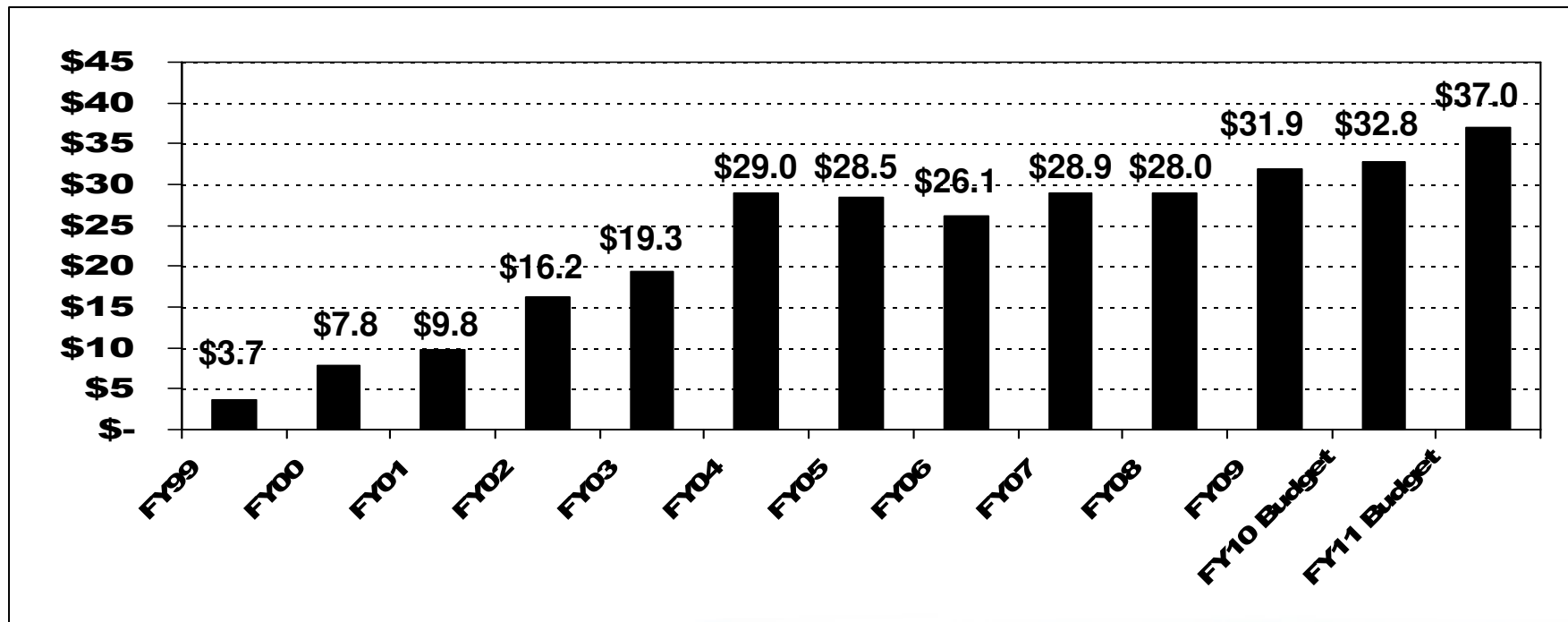
Key Strategies & Major Changes from Fiscal Year 2010

- ✦ FY 2011 Allocations @ 13% = \$2.5M
- ✦ Continue to Develop New Business Opportunities & Manage the Overheads
- ✦ Ability to Recover Generation Development Cost with Successful Projects
 - Continue and refine the concept of participant funding on future project development

Financial Summary

Develop New Business Opportunities

Energy/Business Services Gross Revenue
Performance
Dollars in Millions



Financial Summary

Energy/Business Services Projects

(Dollars in Thousands)

<u>BU</u>	<u>Revenue</u>	<u>Costs</u>	<u>Gross Margin</u>	<u>Capital Expenses</u>
01 Project 1	\$144	\$569	(\$425)	\$0
02 Columbia Generating Station	3,165	3,243	(78)	271
05 Nine Canyon	16,068	5,439	10,629	37
07 Packwood	3,135	2,082	1,053	1,355
08 Business Development	14,224	15,849	(1,625)	240
09 Internal Service Fund (CDC)	381	449	(68)	0
Total E/BS	\$37,117	\$27,631	\$9,486	\$1,903

Note: The above does not include debt service or depreciation.

Gross Margin () - Unfavorable

Financial Summary - Fund Balances

(Dollars in Thousands)

	<u>FY2011 Budget</u>		<u>FY2011 Budget</u>
<u>Beginning Balance</u>		<u>Sources of Funds</u>	
Performance Fee Account (PFA)	\$3,367	Revenues (BDF)	\$14,200
Business Development Fund (BDF)	2,703	Investment Income (PFA)	21
Total Beginning Balance	<u>\$6,070</u>	Investment Income (BDF)	24
		CDC Margin (PFA)	(68)
<u>Use of Funds</u>		Transfer from PFA to BDF	163
Expenses (BDF)	\$15,850	Total Sources of Funds	<u>\$14,340</u>
Capital (BDF)	240		
Transfer from PFA to BDF	163	<u>Ending Balances</u>	
Total Use of Funds	<u>\$16,253</u>	PFA	\$3,157
		BDF	1,000
		Total Ending Balance	<u>\$4,157</u>
		Loan to Packwood	\$1,000
		Grays Harbor Escrow	2,500
		Gross Ending Balance	<u>\$7,657</u>

Business Development Full Time Equivalents

<u>Description</u>	<u>FY 2011 Budget</u>	<u>Original FY 2010 Budget</u>	<u>Variance</u>
Generation	6	5	1
General Services	38	39	(1)
Overhead	13	13	-
Professional Services	3	4	(1)
Total FTEs	<u>60</u>	<u>61</u>	<u>(1)</u>

Regular and Project Employees



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Facilities & General Services

Mike Price

General Services & Facilities Manager

Energy Northwest Office Complex (ENOC) Facilities

✦ Advanced Process Engineering Lab (APEL) Facility

- FY 2011 93% occupancy. (FY 2010 = 98%)
- IsoRay leasing APEL Annex & High Bay - \$360K revenue/yr
- PNNL anchor tenant - \$1,225K revenue/yr
- Environmental Assessment Services, Windtower and EN Environmental Services - \$80K revenue/yr

✦ Multi-Purpose Facility (MPF) Facility

- FY 2011 95% occupancy (FY 2010 = 100%)
- Bechtel National and B&N Enterprises - \$1,018K revenue/yr

Energy Northwest Office Complex (ENOC) Facilities

- ✦ Capital Development Corporation (CDC) Facility
 - 100% occupancy
 - Bechtel National - \$381K revenue/year

Financial Summary

Energy Northwest Office Complex

(Dollars in Thousands)

Description	Revenue	Costs	Gross Margin
Facilities			
APEL	\$1,665	\$1,635	\$30
CDC	381	449	(68)
MPF	1,018	1,117	(99)
Sub-Total Facilities	<u>\$3,064</u>	<u>\$3,201</u>	<u>(\$137)</u>
Capital/Miscellaneous			
APEL - Capital	\$0	\$41	(\$41)
MPF - Capital	0	230	(230)
Misc	0	12	(12)
Sub-Total Cap/Misc	<u>\$0</u>	<u>\$283</u>	<u>(\$283)</u>
Total	<u><u>\$3,064</u></u>	<u><u>\$3,484</u></u>	<u><u>(\$420)</u></u>

Gross Margin - () Unfavorable

General Services

✧ Calibration Services

- Hanford Calibration Services on last year of 5 year contract that end September 30, 2010. Assuming we continue to provide the service, FY 2011 revenue will decrease to \$789K; \$123K decrease from FY 2010 due to reduced number of items to be calibrated and we expect a 15% to 20% negotiated price reduction
- CGS Calibration Services FY 2011 revenue = \$1,770K; Direct Costs = \$919K with Margin = \$0
- Commercial Calibration Services FY 2011 revenue increased to \$888K; \$280K increase (46%) over FY10; Bechtel revenue \$200K/yr

✧ Environmental Services

- CGS Environmental services FY 2011 revenue = \$1,615K
Direct Costs = \$960K with Margin = \$0
- Commercial Environmental Services FY 2011 revenue target is \$300K;
A revenue decrease of \$55K from FY 2010

General Services

✧ Information Services

- Broadband Services - Co-location services in APEL
\$49K Revenue with Margin = (\$36K) loss
- Telecom Services - Bechtel National in CDC, MPF & Main
\$136K Revenue with Margin = (\$5K) loss
- Rattlesnake Mountain O&M – Combined
Community Communication Facility (CCCF) on Rattlesnake
Mountain
\$214K Revenue with Margin = \$0

NoaNet Debt Services

- Reduced from \$170K in FY 2010 to \$75K in FY 2011

Financial Summary - General Services

(Dollars in Thousands)

Description	Revenue	Costs	Gross Margin
Calibration Services	\$3,447	\$3,402	\$45
Environmental Services	1,988	1,972	16
Information Services	399	440	(41)
Sub-Total	\$5,834	\$5,814	\$20
Capital/Miscellaneous			
Calibration Services	\$0	\$173	(\$173)
Environmental Services	0	67	(67)
NOA Network Debt Service	0	75	(75)
Sub-Total Cap/Misc	\$0	\$315	(\$315)
Total	\$5,834	\$6,129	(\$295)

Gross Margin - () Unfavorable



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Industrial Development Complex

**Mike Price
General Services & Facilities Manager**

Industrial Development Complex (IDC)

✦ IDC Facilities Leasing

- 60% Occupied
- FY 2011 revenue target is \$760K; 15% decrease due to loss of Bechtel National and Ausra
- Current tenants are Washington Closure Hanford, Energy Solutions, Layne Christiansen and CGS

✦ Reuse Funding

- FY 2011 = \$111K to be used for infrastructure maintenance/repair and prepare facilities for leasing
- Well pump maintenance; Potable water system maintenance; \$51k Road repair and lighting upgrade

Industrial Development Complex (IDC)

✦ Fixed Maintenance Costs

- Facilities & equipment maintenance, DOE lease, state licensing, utilities
- Assumes a "Dark Site" - No leasing; Minimal personnel on site; Minimal preventative and corrective maintenance
- FY 2011 fixed maintenance net cost budget = \$249K; \$88K increase due to \$23K loss of use fee revenue and increased utilities cost (\$15K) and direct labor & materials (\$50K)

✦ Variable Costs (cost will eventually go away)

- FY 2011 variable costs = \$64K; increase of \$25K over FY 2010
- EFSEC fees \$30K; increase of \$16K over FY 2010
- Regulatory programs labor & overheads \$34K; increase of \$9K over FY 2010

Industrial Development Complex

Summary of Costs

(Dollars in Thousands)

Description	Revenue	Costs	Gross Margin
IDC Leasing (BU08)	\$760	\$790	(\$30)
Reuse Funds (BU01)	0	111	(111)
Fixed Cost (BU01)	144	393	(249)
Variable Cost (BU01)	0	64	(64)
Total IDC Net	\$904	\$1,358	(\$454)

Gross Margin - () Unfavorable

Industrial Development Complex Full Time Equivalents

<u>Description</u>	<u>FY 2011 Budget</u>	<u>Original FY 2010 Budget</u>	<u>Variance</u>
Business Development Fund (BU08)	6	6	-
WNP1 (BU01)	2	2	-
Total	8	8	-



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Business Development Fund Generation

Tom Krueger
Generation Sector Manager

Business Development Fund-Generation

✦ Business Goals

- Prioritize development efforts according to Member & Regional Public Power needs
- Assist Members with generation resources, transmission integration, and power management issues
- Offer cost competitive resource options that manage risk and promote environmental stewardship
- Position EN as a recognized top regional generation developer

Business Development Fund-Generation

✦ Scope of Business

- Develop Wholesale Power Options for Members & Public Power
 - Generation Resource Development
 - Wholesale Power Structuring & Negotiation

- Evaluate, Offer, & Develop Power Generation
 - Technology Evaluation
 - Wholesale Power Structuring & Assistance
 - Project Siting & Business Plan
 - Financial Proforma Modeling
 - Aggregation of Utility Participants
 - Negotiation & Execution of Joint Development Agreements
 - Establish Project Ownership Governance & Oversight
 - Power Purchase Structuring & Agreement Negotiation
 - Project Permitting & Supply Agreements
 - EPC Negotiations & Agreements
 - Project Financing

- Construction Management Oversight
 - Startup and turnover to Operations and Maintenance

Business Development Fund-Generation

✦ Budget Anticipates

- Continued public power interest in renewable generation supply to comply with state policies such as the renewable portfolio standard
- Growing interest in base-load generation for public utility load growth as BPA system is fully allocated
- Increased need for wholesale power system assistance to understand and evaluate BPA Tier 2 alternatives and emerging energy policies
- Continued evaluation of emerging renewable technologies and distributed generation options
- Active power management program for Grays Harbor option

Business Development Fund-Generation

- ✦ Wind Resource Generation
- ✦ Radar Ridge - Sponsored by Four Member Utilities
- ✦ Mustang Ridge- Feasibility & Utility Marketing
 - Evaluate & lease sites, create project offerings & secure utility funding, develop and permit projects
 - Secure majority development costs from utility participants in advance of permitting and development
 - Projects highlight Energy Northwest (EN) development, construction management, operations and maintenance
 - Projects will include cost recovery and modest success fee
 - In order to compete, projects will most likely need to be structured to utilize federal tax credits and accelerated depreciation benefits -White Creek model

Business Development Fund-Generation

✦ Thermal Resource Generation

■ Kalama

- Completed agreement to complete project permitting and development
 - EN paid as developer
 - All development costs recovered-\$1-1.5 million (\$687 in 2011)
 - Power option for public power
 - NG Peaker site option for EN for power shaping
- Market Kalama Energy to Regional Utilities
 - EN retains ownership until project finance
 - \$5 million payment at project finance
 - EN option for O&M
- Challenge-Replace Developer for Military Deployment

Business Development Fund-Generation

✦ Other Generation Opportunities

- Power System Services
 - Power Management of GH 50 MW option
 - Utility Wholesale Power Support
 - Transmission integration
 - Integrated resource planning
 - BPA Tier II alignment
- Renewable Power
 - Wood Biomass- Adage 50 MW alliance\other opportunities
 - Solar- Obsidian Alliance- Three 5 MW projects\other opportunities
 - Geothermal Feasibility

Financial Summary - Generation (Dollars in Thousands)

Description	Revenue	Costs	Gross Margin
BioMass	\$0	\$87	(\$87)
Kalama Energy Project	687	682	5
Other Generation	0	105	(105)
Power System Services	4,259	4,189	70
Solar	872	439	433
Wind Generation	1,084	3,041	(1,957)
Total	\$6,902	\$8,543	(\$1,641)

Gross Margin - () Unfavorable



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Packwood Hydroelectric Project

**Steve Wotruba
Professional Services Sector Manager**

Packwood Hydroelectric Project

- ✦ Budget Based on Annual Average Generation of 84,640 MWh
- ✦ Implementation of New Operating Parameters and Additional Monitoring/Reporting with New License
- ✦ Turbine Runner Upgrade: \$1.6 Million Total Costs

Financial Summary

Packwood Hydroelectric Project

(Dollars in Thousands)

<u>Description</u>	FY 2011 Budget	Original FY 2010 Budget	Variance
Operating & Support Services	\$1,905	\$1,669	\$236
Generation Taxes	17	19	(2)
Maintain Licenses & Permits	160	89	71
Sub-Total	<u>\$2,082</u>	<u>\$1,777</u>	<u>\$305</u>
Re-Licensing	0	508	(508)
Other Capital	1,355	129	1,226
Debt Service / Loan Repayment	531	34	497
Ending Packwood Funds	240	504	(264)
Total Funding Requirements	<u><u>\$4,208</u></u>	<u><u>\$2,952</u></u>	<u><u>\$1,256</u></u>
 Funding Sources			
Sales for Resale	\$2,535	\$2,662	(\$127)
Grant	600	0	600
Beginning Packwood Funds	1,073	290	783
Total Funding Sources	<u><u>\$4,208</u></u>	<u><u>\$2,952</u></u>	<u><u>\$1,256</u></u>

Packwood Full Time Equivalents

Description	FY 2011 Budget	Original FY 2010 Budget	Variance
Operations & Maintenance	5	4	1
Capital	-	1	(1)
Total	5	5	-



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Nine Canyon Wind Project

**Steve Wotruba
Professional Services Sector Manager**

Nine Canyon Wind Project Budget Assumptions

- ✦ Generation is 247,420 MWh
- ✦ Combined Average Billing Price to Participants = \$64.94 per MWh

Nine Canyon Wind Project Budget Assumptions (con't)

✦ Renewable Energy Production Incentive (REPI)

- 2010 REPI budgeted at 10% of actual generation application value (cash)
- Budget assumes FY 2011 REPI will be funded at 0% of the applied production
- Permanent shortfalls in REPI funding have led to increases in the billing of the project to the participants

Financial Summary

Nine Canyon Wind Project

(Dollars in Thousands)

Description	FY 2011 Budget	Original FY 2010 Budget	Variance
Operating Costs			
Labor/Benefits/Overheads	\$1,866	\$1,843	\$23
Equipment/Materials/Services/Taxes	2,513	2,541	(28)
Bonus O&M Contract	523	508	15
Insurance	487	397	90
Risk Reserve	50	50	0
Total Operating Costs	\$5,439	\$5,339	\$100
Capital	\$37	\$127	(\$90)
Debt Service	10,948	10,928	20
Total Funding Requirements	\$16,424	\$16,394	\$30

Sources and Uses of Funds

Nine Canyon Wind Project

(Dollars in Thousands)

Description	FY 2011 Budget	Original FY 2010 Budget	Variance
Sources of Funds			
Billings	\$16,068	\$15,148	\$920
REPI	0	595	(595)
Sub-Total	\$16,068	\$15,743	\$325
RSA *	356	102	254
Total Sources of Funds	\$16,424	\$15,845	\$579
Uses of Funds			
O&M	\$5,476	\$5,452	\$24
Debt Service	10,948	10,471	477
Total Uses of Funds	\$16,424	\$15,923	\$501

* RSA is Rate Stabilization Account

Nine Canyon Full Time Equivalents

<u>Description</u>	<u>FY 2011 Budget</u>	<u>Original FY 2010 Budget</u>	<u>Variance</u>
Total Positions	<u>12</u>	<u>11</u>	<u>1</u>



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Business Development Fund O&M/Professional Services

Steve Wotruba

Professional Services Sector Manager

Business Development Fund O&M/Professional Services

✦ Target Markets

- Main Focus - Manage, operate, maintain, modify and support facilities related to power generation
 - EN members and publics – services provided at cost
 - All Others – services provided with margin
- Other Focus – Sell services to any reasonable market to maintain low cost and spread overhead

Business Development Fund O&M/Professional Services

✦ Strategy to Meet Objectives

- High quality operation and maintenance of current facilities
- Preparation to support new internal/external Wind operations
- Continue to provide professional and technical services
- Analyze/prepare to aggregate public power needs (minimize costs/maximize results)

Financial Summary O&M/ Professional Services

(Dollars in Thousands)

<u>Description</u>	<u>Revenue</u>	<u>Costs</u>	<u>Margin</u>
Engineering Services	\$413	\$406	\$7
Technical Services	130	128	2
Roving Work Force O&M Srvs	95	92	3
Special Coatings	250	241	9
Miscellaneous	39	37	2
Total Professional Services	\$927	\$904	\$23

Gross Margin - () Unfavorable