

Citizens Finance Advisory Committee
FISCAL YEAR 2010 BUDGET RECOMMENDATION

Presented to the
Board of Directors
Emerald People's Utility District
November 24, 2009

It has been my pleasure to serve as Chairman of the Citizens Finance Advisory Committee this year, and tonight it is my pleasure to present to the Board of Directors the proposed 2010 Annual Budget. This budget was approved for Recommendation to the Board by unanimous vote of the Committee.

The citizen representatives serving on this year's Finance Committee included Larry Bottemiller, Beth Mathews, Hal Conner, and myself. The Committee met one time on November 5th, 2009.

The Board of Directors has in front of them a proposed Resolution to adopt the 2010 System Operating Budget. The General Manager and other Emerald staff will review specific details of the budget for the Public Hearing, so I will limit my remarks to some general comments.

This is the fifteenth of Emerald's budgets I have worked on for the utility. The 2010 Budget, as proposed takes into account no rate increase for 2010 with the last rate increase of 6.4% in June 2009. There was no rate increase in 2008. A rate increase of 6.00% is planned for 2011 and again in 2014. It was the recommendation of the committee that the 6.00% increase for 2011 be incrementally adjusted to 3.00% in 2010 and 2011 to reduce the impact of a 6% adjustment to ratepayers in a single year. These rate adjustments are to facilitate capital spending in lieu of bond financing that has become prohibitive in the current economic climate.

The 2009 budget originally included a 50% partnership with Symbiotics LLC to generate power from the dams at Dorena Lake and Fall Creek. A license was granted in October 2008 and Emerald's share of the engineering phase was in the amount of \$600,000; however due to recent regulatory concerns the Fall Creek and Dorena Dam projects are on hold and the 2010 budget has \$250,000 allocated to these projects.

The 2010 budget also includes the following capital expenditures: electric materials, transformers and meters of \$1,916,530, which was consistent with the 2009 budget; and \$1,415,110 for electric system maintenance, which was a 48.5% increase over 2009's projected actual cost.

Additionally, the 2010 budget will have a shortfall of \$1,136,718 over revenue and be paid from cash reserves; however based on Emeralds current cash position this did not pose a concern to the committee and was considered favorable in lieu of borrowing.

Decreases to the budget included \$239,603 in labor, benefits and other employee costs; \$22,359 in electrical materials; \$86,881 in principal and interest payments; \$230,114 in energy service for customers and \$50,882 in contributions for electric service & repairs. The Fiscal Year 2010 Budget is \$2,714,079 more than the 2009 projected expenditures and \$1,849,915 more than the 2008 actual.

Emerald's service area, which encompasses approximately 550 square miles in Lane County, has seen continual growth in the past few years that has brought the number of customers served to 20,210 at 10/31/09 and was 19,962 at 10/31/08. This compares to a count of approximately 12,700 when the utility first went into business. For your information the actual/projected budget cost per customer is as follows: 2008 \$1,943 and 2009 \$1,876.

The proposed 2010 Budget provides for continuation of a variety of energy services and other "value added" programs to its customer-owners, such as the Internet service and green power generation. Internet revenue, however, continues to decline as more customers have switched to broadband services where available and the future is unclear. The energy store and energy outlet and zero interest loans were discontinued in 2009. These services have helped insure Emerald's diversity and continued active participation with each individual customer-owner in their resource choices.

The total amount of the proposed 2010 Budget is \$40,631,742. However future power costs will continue to be the driver in our rate structure. While Emerald has recently benefitted from substantial credits from Bonneville for overpayments on investor owned utilities for residential exchange, the future remains unclear and power rates are anticipated to increase over time. Recommendation for this budget includes deferral of major capital expenditures into future years and the only increases for 2010 are based on projected price increases and critical system improvements and maintenance. The committee defers to staff for suggestions on other capital expenses, pending Board approval and reconvening the Finance Committee at a future date to discuss/revisit certain issues. I am pleased to forward the unanimous recommendation of the Citizens Finance Advisory Committee for your consideration.

I want to thank my fellow Committee members for allowing me to serve as their Chairman. I also thank the Board for their continued support for involving the customer-owners of Emerald PUD in the details of the utility's operation.

Sincerely,

Robert J. Ball
Chairman