

Citizens Finance Advisory Committee
FISCAL YEAR 2011 BUDGET RECOMMENDATION
Presented to the
Board of Directors
Emerald People's Utility District
November 9, 2010

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 2011 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, Kerry Smith, Hal Conner, Vicki Flynn, Ken Stevenson and Larry Jackson. The Committee met one time on October 28th, 2010.

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 sixteenth of Emerald's budgets I have worked on for the utility. The 2011 Budget, as proposed takes into account no rate increase for 2011 with the last rate increase of 4.0% in July 2010. There was also a rate increase of 6.4% in June 2009. A rate increase is planned for 2012 of 5%. It was the recommendation of the committee that the 5.00% increase for 2012 be incrementally adjusted to 2.50% in 2012 and 2013 to reduce the impact of a 5% adjustment to ratepayers in a single year. These rate adjustments are to facilitate future rate increases proposed by BPA and capital spending in lieu of bond financing.

The 10 year forecast originally called for borrowing \$4,000,000 in 2011 to help pay for half of the anticipated capital improvements in 2011 and boost cash reserves to hedge against an anticipated BPA power increase and be proactive with BPA in a new slice contract that will be entered into in October 2011. Slice makes utilities take greater responsibility in managing their own power supplies. The slice contract will carry some risk as excess power over the utilities own needs may be sold into the market place, which could be less than the utility's cost thereby placing a drain on cash. After lengthy discussion by the committee and questioning management, a unanimous vote was taken by the committee recommending the utility **NOT** borrow any money in 2011. The reasoning for this decision was the committee felt the utility had sufficient cash reserves and the cost of floating a bond issue would be about 14% or \$560,000 plus the long term costs of interest.

EPUD is partners with Symbiotics on projects to generate power from the dams at Dorena and Fall Creek. Both of these projects are currently on hold due to financial constraints and the 2011 budget does not have any money allocated toward these projects.

The EPUD board has authorized EPUD's General Manager to enter negotiations to sell the utility's share of the partnership. Negotiations are currently under way and additional information will be available pending the finalized sales agreement.

The 2011 budget also includes capital expenditures totaling \$8,506,214 of which \$1,800,000 is a place holder earmarked for a projected line extension from Dorena Lake. An offsetting revenue projection is also included for this work, pending the final terms of the sales agreement. The line extension will not be built unless a third party funds the extension. The balance of \$4,952,032 is for normal replacement and repair of electrical components and \$1,754,182 will be for major capital improvements, the largest being replacement of the Pleasant Hill transformer costing \$705,138. Excluding the \$1.8 million Dorena extension, construction and capital costs are 2.9% higher than the 2010 amended budget expenditures.

Additionally, the 2011 budget will have a shortfall of \$1,771,829 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 \$727,851 respectively for electric materials, service agreements, generation and system projects, fixed asset acquisitions, non operating expense, and interest expense. Additionally, the budgeted amount for conservation reimbursements increased by \$631,757. The conservation reimbursements will be achieved through BPA's temporary program called the "Energy Conservation Agreement." The program will provide credits up to 120% of eligible expenses up to \$2,700,000 over the 5 years beginning in 2010, while BPA restructures its conservation programs. The Fiscal Year 2011 Budget is \$2,691,812 more than the 2010 amended budget expenditures and \$3,271,322 more than the 2010 projected budget; however part of this is offset by a \$1,800,000 revenue projection for the Dorena Line Extension pending the final sales agreement.

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 20,306 at 9/30/10; 20,178 at 9/30/09 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, 2009 \$1,876 and 2010 \$1,999. Excluding the \$1,800,000 for the Dorena line extension, a revised budget cost per customer would be \$1,910 consistent with prior periods.

The proposed 2011 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 from White Creek wind power. Internet revenue continues to decline year over year as more customers have switched to broadband services where available and the future of this service remains unclear, but still remains profitable. In 2010, Emerald supported the installation of seven new solar projects adding 83.8 kW of new solar capacity, which was a 30% increase over previously installed projects. The

utility has also been proactive in promoting ebills over its website and approximately 30-35% of Emerald's clients are setup on automatic payment, credit card or electronic bill payment options as well as longer office hours four days each week to assist customers who cannot reach the utility during previous normal business hours. The utility continues to automate its services throughout to reduce time and expense such as AMR and disconnect/reconnect services. 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 2011 Budget is \$40,588,557. However future power costs and potential risks with slice will continue to be the driver in our future rate structure. While Emerald has previously benefitted from substantial credits from Bonneville for overpayments on investor owned utilities for residential exchange, the future continues to remain unclear and power rates are anticipated to increase over time. Recommendation for this budget includes no borrowing in 2011 and no rate increases. The committee defers to staff for suggestions on other expenses throughout the year, 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