Northwest Power and Conservation Council

July 30, 2013

MEMORANDUM

TO: **Council Members**

FROM: **Charlie Black**

SUBJECT: **Briefing on Financial and Other Challenges Facing Northwest Requirements Utilities Member Utilities**

Northwest Requirements Utilities (NRU) is a non-profit trade association that represents member utilities located in seven states, including 13 municipals, seven PUDs and 30 cooperatives. NRU's members rely on Bonneville as their primary or exclusive supplier of wholesale power and transmission services.

NRU staff represents the members' collective interests on policy and technical issues related to their contracts with Bonneville and on other regional power issues including the Council's Northwest Power Plans and conservation implementation issues.

At the meeting on August 6, NRU's chief executive officer John Saven will brief the Council on financial and other challenges facing his organization's members.

851 S.W. Sixth Avenue, Suite 1100
Portland, Oregon 97204-1348
www.nwcouncil.org

Steve Crow
Executive Director

503-222-5161
800-452-5161
Fax: 503-820-2370

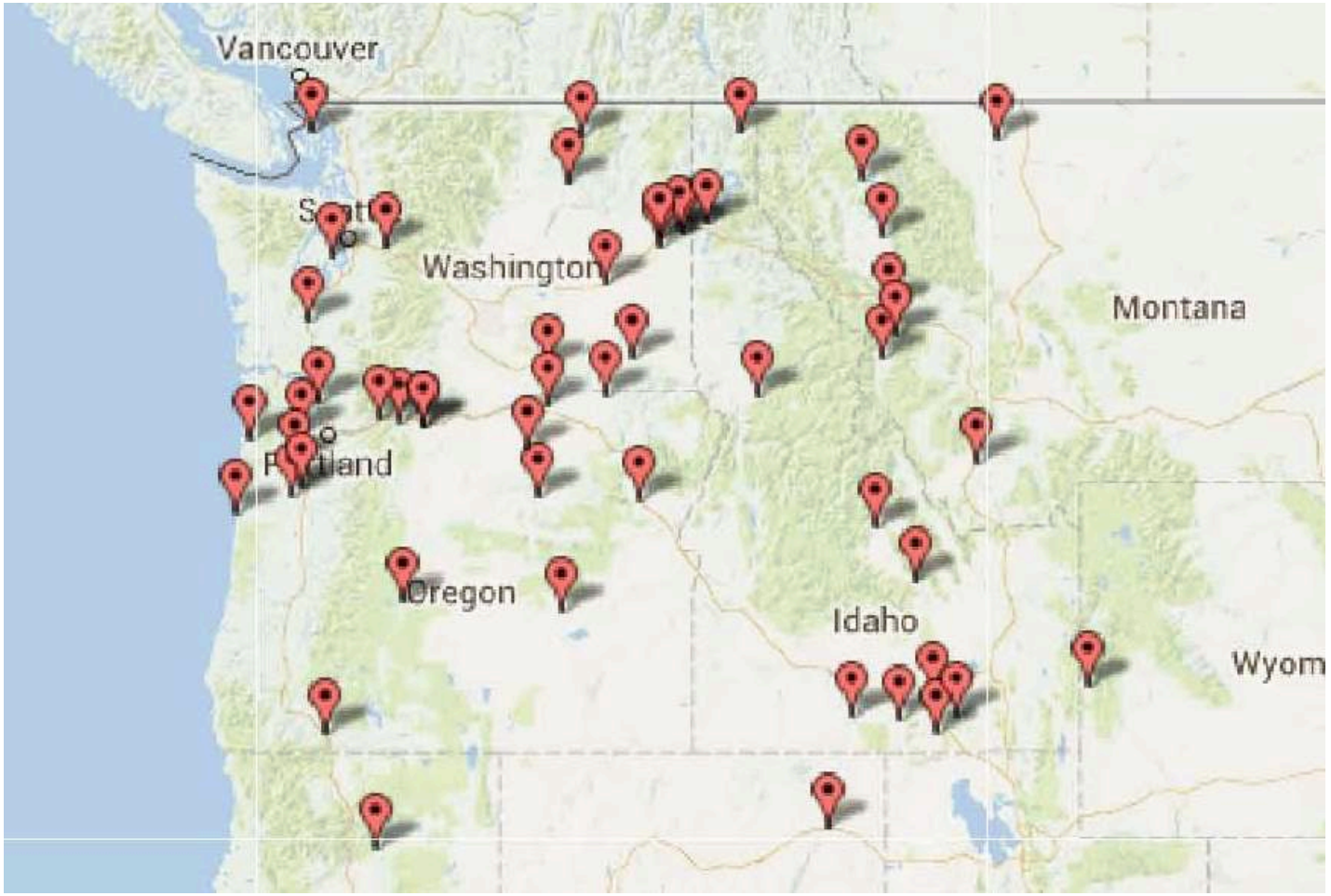
Financial and Other Challenges Facing NRU Member Utilities

Northwest Requirements Utilities

John Saven, CEO

NRU Members by location

52 Load Following Customers of BPA



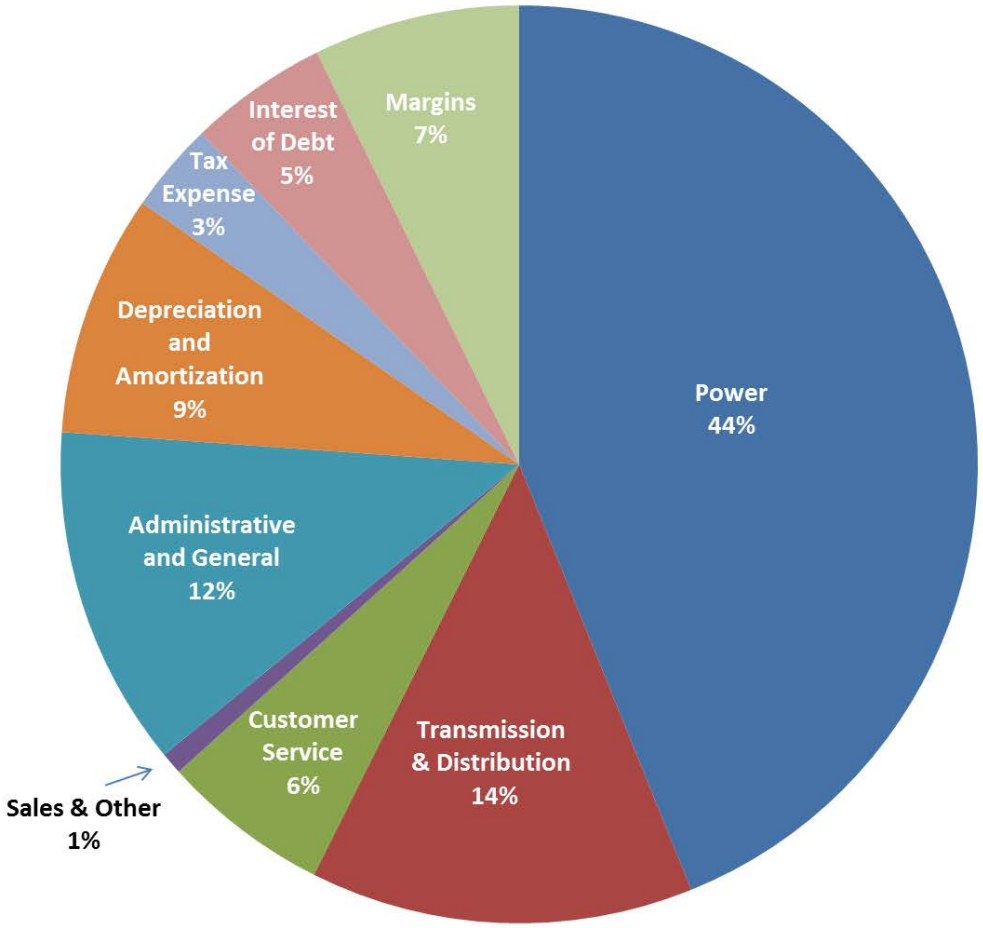
Larger Public Utilities and Representative NRU Oregon Cooperatives
Comparative 2011 Data

	Larger Regional Publics		Larger Oregon Coops		Smaller Oregon Coops	
Indicator	Seattle	EWEB CY 2010	Oregon Trail	Midstate Electric	Columbia Power	Harney Electric
MWh Sales	9,379,996	4,102,374	623,174	374,673	23,844	158,658
Annual MW	1070.78	468.31	71.14	42.77	2.72	18.11
customers/consumers	398,858	88,250	30,414	18,199	1,816	1,177
employees	1,810	582	90	54	15	22
cust/mi distribution	173	65	11	8.4	1.8	0.46
cust/mi trans	656	550	117	114	20	3.41
Territory sq. mi.	131	236	3,500	5,600	3,000	20,000
Employees/ sq. mi	13.817	2.466	0.026	0.010	0.005	0.001

Customer Revenue Comparison

Indicator	Larger Regional Publics		Larger Oregon Coops		Smaller Oregon Coops	
	2012 CY Seattle	2010 CY EWEB	2012 CY Oregon Trail	2012 CY Midstate	2012 CY Columbia Power	2012 CY Harney
Residential Sales	$240,700,000	$81,444,152	$24,620,481	$17,879,612	$1,265,070	$2,066,070
Irrigation Sales	NA	NA	$2,721,866	$2,753,226	$352,981	$7,825,308
Comm/Ind 1000 KVA or less			$13,466,416	$4,674,793	$405,037	$1,435,511
Comm/Ind Over 1000 KVA			$5,508,322	$1,812,623	$0	$0
Street Lights			$272,518	$1,495	$14,326	$2,426
Non Residential	$423,600,000	$85,403,349				
Total Cust. Revenue	$664,300,000	$166,847,501	$46,589,603	$27,121,749	$2,037,416	$11,329,315
Wholesale Sales	$70,400,000	$61,919,970	NA	NA	NA	NA
Total Sales	$734,700,000	$228,767,471	$46,589,603	$27,121,749	$2,037,416	$11,329,315
Cust. Rev. Residential	36.23%	48.81%	52.85%	65.92%	62.09%	18.24%
Custom Rev. Irrigation	0.00%	0.00%	5.84%	10.15%	17.32%	69.07%
Cust. Rev Comm/Ind.	63.77%	51.19%	41.31%	23.93%	20.58%	12.69%

Oregon Trail Electric Coop 2011
Categories of Expense and Margins



$45,200,117

Impact on Oregon Trail of Declining Power Sales

Assuming a balanced budget where revenues = expenses plus margin

Assuming energy sales = all revenues, and MWh forecast is correct

And for OTEC for 2011 Power Sales at a percent of total costs are 44%

Then Revenue from each MWh sold has to be 2.27 times power cost
Assuming surplus power from declining sales can be returned at 0 cost

Then each kWh not sold creates a budget gap of 1.27 times price of power

The 2011 OTEC cost of power was $19,832,000

A 3% loss in power sales would impact the budget as follows:

3% of $19,832,000 = $594,960 (returned power at no cost)

$594,960 X 1.27 revenue gap = $755,600 budget gap

Margin of $3,287,000 reduced by $755,600 to $2,531,400

This is a 23% decline in margin.

Options:

- Hope for increases in sales in the near future!
- Service cuts if feasible
- Live with reductions in margins and patronage capital
- Rate increases if possible by 3.8% to offset sales losses

Competitive Challenges for NRU Members

Issues of the Last Decade - Sustainable Base of Power Sales

- Loss of the few significant commercial/industrial loads – often related to wood products industry
- Eroding residential loads tied to loss of commercial/industrial loads
- Variable annual energy sales for irrigated agriculture – weather dependent
- Conservation savings may erode or eliminate load growth – impact on financial margins
- Increasing regulatory requirements to maintain a reliable grid – WECC regulations
- Policy issues relating to implementing BPA's Tiered Rates Methodology
- Challenges of small staff keeping up with the pace of change

Additional Issues for the Next Decade - Distributed Generation/Decoupling

- Walmart and IKEA plan to sell "house fuel cells" by 2020 – swap like propane tanks
- Distributed generation for 1 – 5 MW loads with payback in 4-6 years
- Net metering customers – solar – potential obligation of utility to repurchase power from customers at a financial loss
- Customer at the end of a long unamortized distribution line that wants to disconnect from the grid
- Customers that want to stay connected for peak load service only, impact of BPA Demand Charge on all customers
- Impact of raising the base Customer Charge on lower income customers to cover losses in energy sales
- Opportunities to use conservation and new technologies to shave peak demand rather than average energy
- Role of utility in facilitating or resisting change in potential newly emerging products and services

Concluding Remarks

NRU appreciates the opportunity to make this presentation, and the Council reaching out to us.

To date the Power Plans haven't had much relevance for mid to small size utilities, other than BPA conservation targets.

There are difficult challenges ahead. One size fits all solutions may not be the best approach.

Do we want reliable and dependable distribution service where everyone pays an equitable share, or the "wild west" where everyone is on their own for power supply?

We assert the latter is a recipe for chaos, for economic inefficiencies and possibly for the use of resources that may have a detrimental long term impact on the environment.

Don't assume that cost shift problems can be readily absorbed, particularly when the customer base is relatively small.