

Public Utility District #1 of Ferry County

2011 Preliminary Budget

September 20, 2010

The Preliminary Budget for 2011 as presented here has been approved by the Board of Commissioners and will be open to public comment during the Budget Hearing planned for October 18, 2010 during the regularly scheduled October Board Meeting.

The total Preliminary Budget for 2011 is equal to the total Budget for 2010; the assumption is that there will be no significant changes in Sources for the upcoming year.

The budget assumes a constant retail rate for all rate payers. The second major assumption in this budget is that the industrial load, in particular the mining operations, is maintaining operational levels from the previous year. The result is the cost of purchased power and retail sales remaining relatively constant. Beginning in October 2011 with Bonneville Power Administration's 2012 fiscal year, they will be implementing a new billing structure. The true effect on the cost of purchased power for October thru December of 2011 is unknown at this time.

The significant operating and capital expenditures for this year include:

- Operating:
 - \$100,000 for contract tree trimming
 - \$50,000 for contract brush clearing
- Capital:
 - \$59,500 for the cost of poles (to replace 140 poles)
 - \$35,000 for the cost of conductor (Overhead and Underground)
 - \$40,000 for replacement transformers
 - \$ 5,000 for replacement cross arms for the transmission line
 - \$50,000 for replacement of a substation transformer that did not previously occur as planned in 2010
 - \$150,000 to replace a bucket truck
 - \$32,500 for concrete and asphalt work at the District Shop
 - \$13,000 to purchase a check scanning system
 - \$15,000 to replace carpeting in the District Office

The total number of FTE employees for the district will decline slightly to 16.5 from 19.0 in 2010 due to recent retirements and consolidation of positions.

Sources of Funds for 2011 presume retail sales consistent with 2010 as well as consistent usage from our major industrial customers. There are no major changes anticipated in revenue from 2010.

The Total Uses for the Operating Section of the 2011 Budget remains relatively constant; there is a slight decrease due to reallocation of uses based on historical data and the reduction of labor costs due to a change in medical plans and reduction in staff count. Since it is the belief that the overall use/demand for power by all classes of consumers will remain relatively constant; it is a belief that the operational costs will be relatively consistent with 2010 actual uses. Year to date figures show 2010 uses to be slightly below those budgeted.

The Budget for Financing Activities has increased by about 7% from the 2010 for the RUS loan principal and interest repayment. The payment schedule is relatively the same as the actual expenditures made for these payments in 2010. However, the District is anticipating making additional payments in order to fully release this debt prior to the close of 2012. The District will also continue repayment of its zero-percent CERB loan that began in January 2010 and extends through the year 2019.

The Budget for Capital Expenditures has increased to reflect the on-going need for the District to upgrade the system to remain in compliance with the loan agreement with Rural Utilities Service. The Capital section of the Budget contemplates the replacement of over 140 poles, the purchase of overhead and underground conductor, replacement transformers, the purchase of a substation class transformer, as well as transmission line cross arm replacements. Also included is the cost for needed equipment replacement and carpeting for the district office.

The Methodology for the Preliminary Budget for 2011 is based on a methodology used by other municipal agencies. Zero-based budgeting, as a methodology, begins with the assumption that all items for the Budget begin with a zero base. In other words, there are no “carry-overs” from prior years. Each budget item is analyzed by reviewing historical trends and adjusting for future expectations for the ensuing year. In effect, the annual budget is “built from the ground up.”

Presentation of the Budget is in several sections:

- The Operating Budget
- Sources of Funds
 - Sales of Electricity
 - Other sources
- Uses of Funds
 - Purchased Power
 - Distribution Operations and Maintenance
 - Customer Service
 - General & Administrative
 - Industry Memberships

- General Maintenance
- Taxes
- Interest Expense

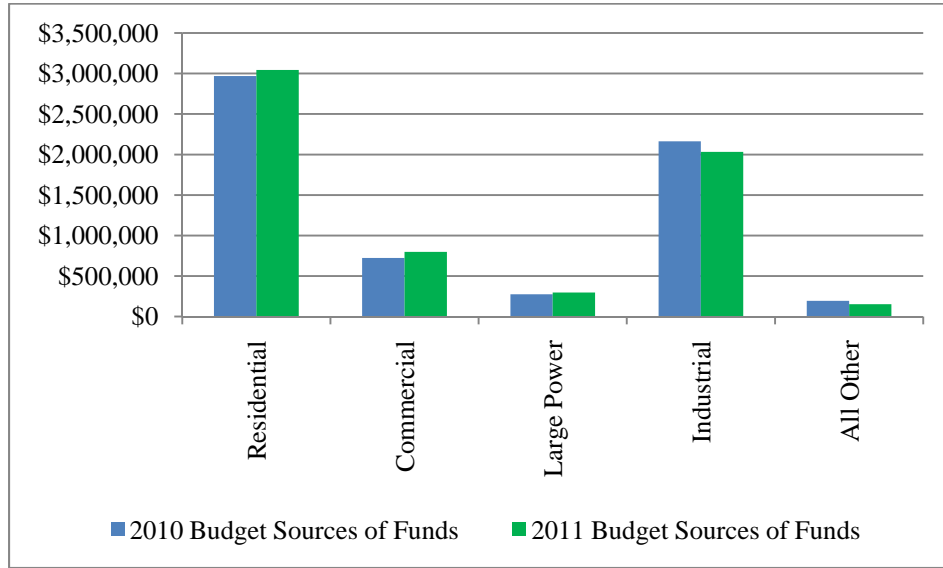
- Financing Activities
 - CERB Repayment
 - RUS Principal Repayments
- Capital Expenditures
 - Capital Items
 - Equipment
 - Office Repairs & Equipment

The Budget Time Line is as follows:

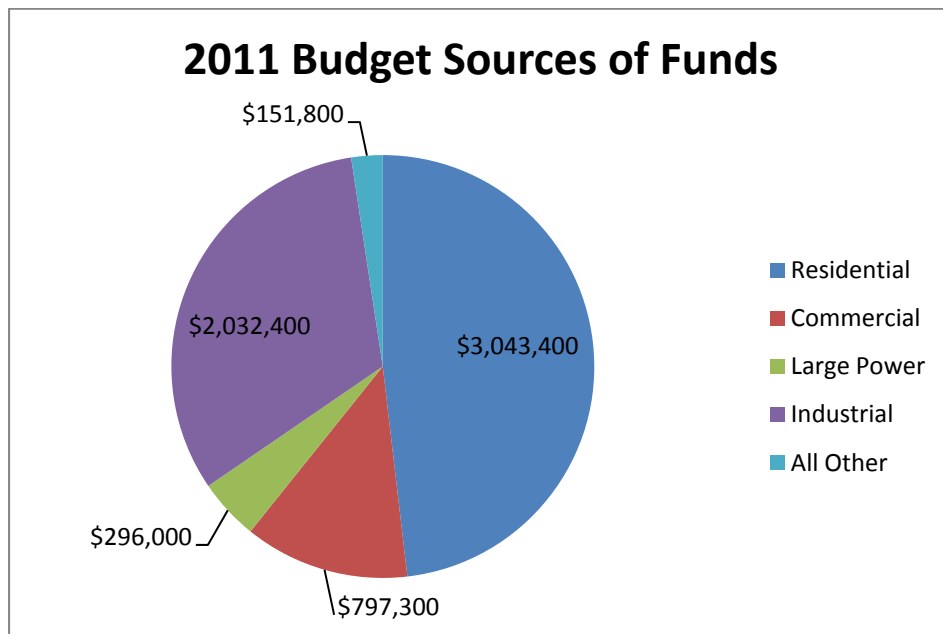
- August 16 Commissioner Workshop
- September 20 Finalize Preliminary Budget & Publish on Web site
- October 1 Publish Notice of Hearing
- October 18 Budget Hearing
- November 15 Board Discussion/Approval
- December 20 Board Discussion/Approval if not approved on November 15th

Discussion of the Preliminary Budget for 2011

The total **Sources of Funds** though anticipated to be constant does reflect changes within rate classes. The increases and decreases are a result of historical analysis by rate class.

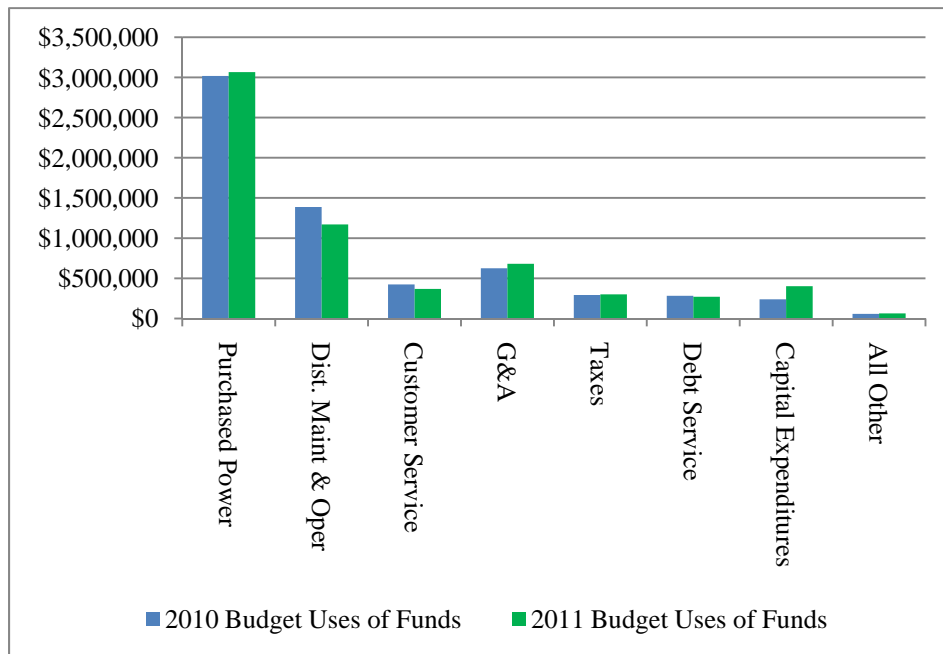


Residential sales are expected to account for 48% of revenues while commercial sales account for 13%. Industrial sales totals, including the 115 Kv sales, amount to 37% of total revenues. Total Sources of Funds are graphed below.



Uses of Funds

The Cost of Purchased Power is estimated based on historical data from 2009 and 2010. Purchased power costs account for 49% of the District’s Preliminary Budget for 2011 similar to that of 2010. Bonneville Power Administration is the Districts only source of purchased power and the rate schedule currently in effect is for the Fiscal Years 2010 and 2011. In October 2011 BPA’s 2012 Fiscal Year will begin. At that time a new billing rate structure will be implemented by them. The full effect of this change is currently unknown.



The **Cost of Purchased Power** does reflect a slight increase resulting from a change in accounting for conservation credits received from BPA. These monthly credits now directly offset conservation expenses and are no longer reflected as a decrease to the cost of purchased power.

Distribution and Operations. Labor costs are laden to account for payroll taxes and benefits and have been allocated based on activity in 2010 combined with a forecast of activities for 2011. There is an overall decline in this area of the budget due to a major change in the cost of Health Insurance for the district. With the rising costs seen throughout the nation in this area, the District employees chose to participate in a medical plan that would reduce the total costs by nearly \$70,000. In addition the overall FTE employee count will decline from 19.0 in 2010 to 16.5 in 2011; overall labor costs have declined due to this reduction in staff.

A significant portion of the costs of operations and maintenance of the electric system is a combination of tree trimming and brushing by contractors. The District anticipates

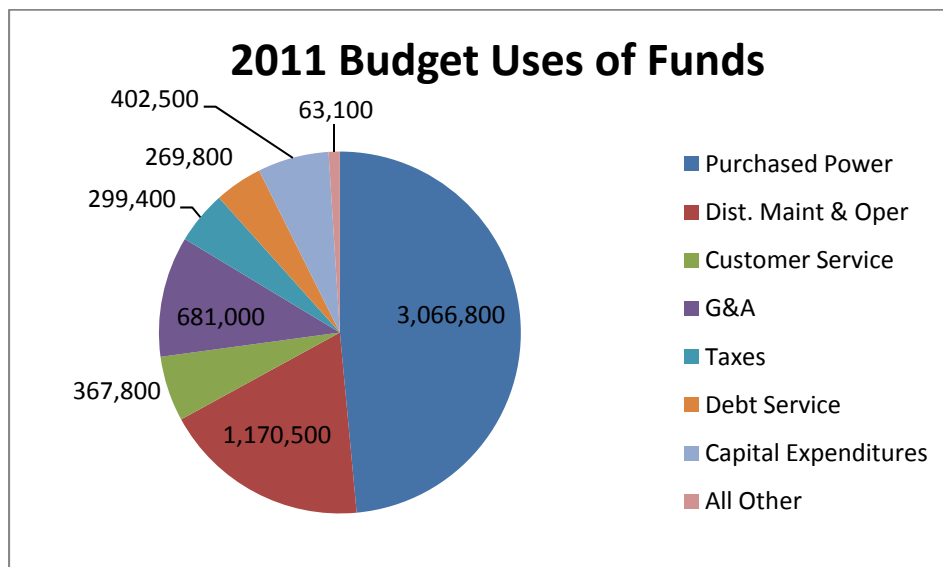
continuation of a relatively aggressive tree trimming and brushing program in the amount of \$150,000. The District has right-of-way agreements so that sufficient rights-of-way remain clear of undergrowth as well as “danger trees” that may border the cleared areas. This budget provides funds to continue the District’s plan for a 10-year cycle of right-of-way clearing and maintenance. A more aggressive pole testing and replacement regimen is also included to upgrade degrading distribution and transmission poles.

Customer Service and General & Administrative The changes in these sections of the Budget are a result of reallocation of labor costs as well as the previously mentioned reduction in labor costs.

Industry Memberships, General Maintenance, Taxes, and Interest expenses remain approximately the same as in 2010. The District maintains **Industry Memberships** in several industry groups: the Central Washington Public Utilities whose function is to aggregate benefit costs as well as labor negotiations; the NW Wage & Hour group that monitors wages and other labor issues; the Public Power Council that monitors the cost of purchased power and related issues; The Washington PUD Association which lobbies in both Olympia and Washington, DC on behalf of the Washington PUD’s; TRICO which is the development agency in Ferry County; Northwest Requirements Utilities which monitors BPA and its impact on small, full-requirements customers of the federal agency; and other agencies such as the Chamber of Commerce and other local associations.

General Maintenance has been increased to perform long-delayed maintenance on the headquarters and warehouse facilities. **Taxes** are a function of revenues; so with revenues remaining constant, taxes in general will remain relatively similar to 2010 costs. The District will see an increase in the State Privilege Tax in 2011 due to a restructure in the basis for this tax. The District remits these taxes to the State of Washington and the State distributes some of the taxes back to Ferry County and the City of Republic and reserves some for itself. **Interest** expense is a function of the District’s loan agreement with RUS.

The total **Budget Uses of Funds** is graphed below in detail.



Financing Activities. In 2008, the District was awarded a zero-interest loan from CERB (State of Washington, Community Economic Revitalization Board) which funded the 7-mile line extension on Toroda Creek Road to Columbia River Carbonates. The loan repayment began in January 2010 and will continue each January thru 2019. The District currently has several REA loans outstanding that will mature through 2011 and 2018 as well. The district anticipates full repayment of these loans prior to the close of 2012.

Capital Expenditures. The Capital Program is divided into three parts: poles, transformers, meters, other line equipment and related equipment as well as expenditures for office equipment and upgrades. In the Preliminary Budget for 2011, the District plans to purchase 140 additional power poles for replacement totaling \$59,500. Overhead and underground conductor costs are estimated at \$35,000. Line and pad mount transformers and meters are estimated to cost \$40,000. The budget also anticipates replacement of cross arms on the transmission line and one substation transformer.

A new bucket truck is needed to replace aging equipment so that a reliable one can be available for maintenance and instillation of overhead lines. One aging pickup is scheduled to be replaced in addition to a purchase of a Ranger with snow trax used during the winter season.

This area of the budget also includes the cost of replacing the carpet throughout the District office as well as for the purchase of check scanning equipment to be used to process customer payments more efficiently.

**PUD No. 1 of Ferry County
Preliminary Budget
2011**

Acct #	Operating Budget		2010	2011	% Change	\$Change
	Sources	Budget	Budget			
440.100	ENERGY SALES-RESIDENTIAL		2,239,200	2,280,700	1.85%	41,500
440.150	ENERGY SALES-RESIDENTIAL REPUBLIC		491,700	552,200	12.30%	60,500
440.200	ENERGY SALES-RESIDENTIAL SEASONAL		237,700	210,500	-11.44%	(27,200)
441.000	ENERGY SALES-IRRIGATION		71,000	50,000	-29.58%	(21,000)
442.200	ENERGY SALES-COMMERCIAL		446,300	430,000	-3.65%	(16,300)
442.250	COMMERCIAL-Republic		276,900	367,300	32.65%	90,400
442.450	LARGE POWER-REPUBLIC		273,700	296,000	8.15%	22,300
442.500	ENERGY SALES-INDUSTRIAL		240,500	241,700	0.50%	1,200
442.500	INDUSTRIAL		656,500	748,400	14.00%	91,900
442.600	INDUSTRIAL 115 Kv		1,265,800	1,042,300	-17.66%	(223,500)
444.750	ENERGY SALES-PUBLIC STREET LIGHTING REPUBLIC		9,800	10,100	3.06%	300
450.000	FORFEITED DISCOUNTS-LATE PAYMENT CHGS		1,000	500	-50.00%	(500)

451.000	MISCELLANEOUS SERVICE REVENUES	25,900	20,000	-22.78%	(5,900)
451.100	SERVICE REVENUES-NEW CONNECTS	3,000	1,000	-66.67%	(2,000)
454.000	RENT-ELECTRIC PROPERTY	60,000	50,000	-16.67%	(10,000)
421.000	CRC CONTRACT REPAYMENT	21,900	20,200	-7.76%	(1,700)
Total Sources		6,320,900	6,320,900	0.00%	-

Operating Budget		2010	2011		
Uses		Budget	Budget	% Change	\$Change
Purchased Power					
555.000	COST OF PURCHASED POWER – BPA	3,017,700	3,066,800	1.63%	49,100
Distribution Operations and Maintenance					
571.000	MAINT OF OVERHEAD LINES-TRANSMISSION	22,600	20,500	-9.29%	(2,100)
580.000	SUPERVISION AND ENGINEERING-OPERATIONS	140,000	106,200	-24.14%	(33,800)
582.000	STATION EXPENSES-OPERATIONS	6,000	100	-98.33%	(5,900)
583.000	OVERHEAD LINE EXPENSE-OPERATIONS	246,200	22,400	-90.90%	(223,800)
584.000	UNDERGROUND LINE EXPENSE-OPERATIONS	40,400	34,900	-13.61%	(5,500)
586.000	METER EXPENSE-OPERATIONS	4,300	109,700	2451.16%	105,400
586.100	PUMP CONNECTS & DISCONNECTS	9,200	4,400	-52.17%	(4,800)
588.000	MISCELLANEOUS DISTRIBUTION EXPENSE-OPERATIONS	223,500	130,800	-41.48%	(92,700)
589.000	RENT AND LEASE EXPENSE	4,800	400	-91.67%	(4,400)
590.000	SUPERVISION AND ENGINEERING-MAINTENANCE	38,700	45,500	17.57%	6,800
591.000	SOLAR-MAINTENANCE	32,600	15,200	-53.37%	(17,400)
592.000	STATION EQUIPMENT-MAINTENANCE	40,800	41,500	1.72%	700
593.000	OVERHEAD LINE EXPENSE-MAINTENANCE	349,700	365,900	4.63%	16,200
593.100	POLE TESTING-MAINTENANCE	74,600	83,500	11.93%	8,900
593.200	CHEMICAL VEGETATION TREATMENT-MAINTENANCE	11,300	13,200	16.81%	1,900
593.300	BRUSH CLEARING-MAINTENANCE	62,000	50,000	-19.35%	(12,000)
594.000	UNDERGROUND LINE EXPENSE-MAINTENANCE	9,200	56,700	516.30%	47,500
595.000	LINE TRANSFORMERS-MAINTENANCE	33,200	47,500	43.07%	14,300
597.000	METERS-MAINTENANCE	28,400	12,000	-57.75%	(16,400)
598.000	SECURITY LIGHTS-MAINTENANCE	9,200	10,100	9.78%	900
Total Distribution Operations and Maintenance		1,386,700	1,170,500	-15.59%	(216,200)

Customer Service					
901.000	SUPERVISION CONSUMER ACCOUNTING	-	-	-	-
902.000	METER READING EXPENSE	39,600	87,500	120.96%	47,900
903.000	CONSUMER RECORDS AND COLLECTION EXPENSE	295,500	240,800	-18.51%	(54,700)
903.500	CREDIT CARD EXPENSE	3,600	4,200	16.67%	600
904.000	UNCOLLECTIBLE ACCOUNTS EXPENSE	12,000	12,000	0.00%	-
908.000	ENERGY CONSERVATION EXPENSE	1,100	2,000	81.82%	900
908.100	SOLAR-GRANT	1,200	1,200	0.00%	-

908.101	MODULAR HOMES & BUILDINGS-ENERGY STAR	-	-	-	-
908.103	APPLIANCE & WINDOWS-ENERGY STAR	19,900	-	-100.00%	(19,900)
908.300	WATERWISE-STEAM GENERATION-SOLAR EDUCATION	-	-	-	-
908.400	LIGHTING RETROFITS	-	-	-	-
908.500	CONSERVATION ADMINISTRATION	17,100	1,700	-90.06%	(15,400)
909.000	INFORMATION AND INSTRUCTION ADVERTISING	22,200	14,400	-35.14%	(7,800)
910.000	MISC CUSTOMER SERVICE AND INFORMATION EXPENSE	4,000	4,000	0.00%	-
910.200	ECONOMIC DEVELOPMENT	6,600	-	-100.00%	(6,600)
	Total Customer Service	422,800	367,800	-13.01%	(55,000)

General and Administrative

920.000	ADMINISTRATIVE AND GENERAL SALARIES	294,900	333,700	13.16%	38,800
921.000	OFFICE SUPPLIES AND EXPENSE	92,300	90,100	-2.38%	(2,200)
923.000	OUTSIDE SERVICES EMPLOYED	14,400	18,000	25.00%	3,600
924.000	PROPERTY INSURANCE EXPENSE	17,000	19,200	12.94%	2,200
925.000	INJURIES AND DAMAGES	71,800	92,100	28.27%	20,300
926.000	EMPLOYEE PENSIONS AND BENEFITS	12,000	-	-100.00%	(12,000)
928.000	STATE AUDIT EXPENSE	20,000	15,000	-25.00%	(5,000)
929.000	DUPLICATE CHARGES PUD ELECTRIC USAGE-CREDIT	(3,600)	(6,000)	66.67%	(2,400)
930.100	GENERAL ADVERTISING EXPENSE	1,100	1,100	0.00%	-
930.200	MISCELLANEOUS GENERAL EXPENSE	-	2,500		2,500
930.300	COMMISSIONERS EXPENSE	105,300	115,300	9.50%	10,000
	Total General and Administrative	625,200	681,000	8.93%	55,800

Industry Memberships

930.400	MISCELLANEOUS-INDUSTRY FEES	300	200	-33.33%	(100)
930.410	CWPU-INDUSTRY FEES	12,000	12,500	4.17%	500
930.430	NWPPA-INDUSTRY FEES	6,000	5,500	-8.33%	(500)
930.440	NWW&H-INDUSTRY FEES	700	600	-14.29%	(100)
930.450	PPC-INDUSTRY FEES	3,100	3,400	9.68%	300
930.460	TRICO-INDUSTRY FEES	700	900	28.57%	200
930.470	WPUDA-INDUSTRY FEES	11,400	13,200	15.79%	1,800
930.490	NRU-INDUSTRY FEES	6,100	6,300	3.28%	200
	Total Industry Memberships	40,300	42,600	5.71%	2,300

General Maintenance

932.000	MAINTENANCE OF GENERAL PLANT	16,000	20,500	28.13%	4,500
	Total General Maintenance	16,000	20,500	28.13%	4,500

Taxes

408.100	TAXES-STATE PUD PRIVILEGE	100,000	110,400	10.40%	10,400
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408.400	TAXES-STATE UNEMPLOYMENT	1,200	1,200	0.00%	-
408.500	TAXES-STATE BUSINESS & OCCUPATION TAX	1,200	2,400	100.00%	1,200
408.600	TAXES-STATE UTILITY TAX	189,600	184,800	-2.53%	(4,800)
408.700	LEASEHOLD TAX	-	600		600
	Total Taxes	292,000	299,400	2.53%	7,400
	Interest Expense				
427.100	RUS INTEREST	63,400	40,200	-36.59%	(23,200)
	Total Uses	5,864,100	5,688,800	-2.99%	(175,300)
	Net Operating Budget	456,800	632,100	38.38%	175,300

		2010	2011		
		Budget	Budget	% Change	\$Change
231.300	CERB Repayment	35,500	35,500		-
	Principal Payments on RUS Debt				
	SEMI-ANNUAL PRINCIPAL PAYMENTS ON RUS LOAN	162,400	134,900	-16.93%	(27,500)
	MONTHLY PRINCIPAL PAYMENTS ON RUS LOAN	20,400	18,700	-8.33%	(1,700)
	ADDITIONAL PRINCIPAL PAYMENTS ON RUS LOAN	-	40,500		40,500
	Total Principal Payments on RUS Debt	182,800	194,100	6.18%	11,300
	Net Operating Budget and Debt Principal Repayment	238,500	402,500	68.76%	164,000

		2010	2011		
		Budget	Budget	% Change	\$Change
	Capital Expenditures				
	POLES	75,000	59,500	-20.67%	(15,500)
	OH CONDUCTOR	5,000	5,000	0.00%	-
	URD CONDUCTOR	30,000	30,000	0.00%	-
	TRANSFORMERS, PAD MOUNT	20,000	20,000	0.00%	-
	TRANSFORMERS, LINE	20,000	20,000	0.00%	-
	TRANSMISSION CROSS ARMS	10,000	5,000	-50.00%	(5,000)
	SUB STATION TRANSFORMER	50,000	50,000	0.00%	-
	METERS	2,500	2,500	0.00%	-
	Equipment				
	REPLACEMENT PICK UP	26,000	-	-100.00%	(26,000)
	BUCKET TRUCK	-	150,000		150,000
	SERVICE TRUCK	-	-		-
	TOTAL VEHICLE REPLACEMENTS	26,000	150,000	476.92%	124,000

Building Maintenance

SHOP ASPHALT & CONCRETE WORK	-	32,500		32,500
MAIN OFFICE CARPETING REPLACEMENT	-	15,000		15,000

Office Equipment

CHECK SCANNING EQUIPMENT		13,000		
Total Capital Purchases, Additions, and Replacements	238,500	402,500	68.76%	164,000

TOTAL BUDGET	6,320,900	6,320,900	0.00%	-
NET TOTAL BUDGET	-	-		-