



Fact Sheet

Dec. 3, 2012

EWEB continues to face lower revenues due to a significant drop in the price it can charge for its surplus power that is sold to other utilities. In addition, EWEB's cost of renewable power investments, such as the Harvest Wind project, has increased debt payments and has resulted in higher overall power costs.

As EWEB considers multiple strategies to reduce costs and debt, including potential asset sales, the utility must balance the reliability of its electric and water distribution systems with reasonable risk. In that vein, EWEB cannot "cut" its way out of its current financial predicament.

For example, EWEB in June reduced the 2012 budget by \$2 million and eliminated more than 50 positions, or about 9 percent of the workforce. The 2013 budget anticipates a reduction of approximately \$7.5 million. These budget reductions follow non-labor, permanent budget cuts of \$2.5 million in 2011, and \$2 million in 2010.

In spite of those budget reductions, EWEB will still have to raise electric and water rates. In addition to the reductions outlined above, EWEB also has decided to delay or defer more than \$60 million in capital projects to minimize rate increases in 2013 and beyond.

Electric

- EWEB's budget cuts and rate actions are designed to put the utility on a much more solid financial footing.
- The utility is proposing a 4 percent increase that would go into effect in May 2013.
- The increased electric rate would add about \$3.75 to the average residential customer's monthly bill.
- The May increase is related to lower surplus power sales revenue due to the poor economy, increased costs related to renewable power investments (primarily Seneca and Harvest Wind), and costs to relicense EWEB's largest hydroelectric project, Carmen-Smith.
- All Northwest utilities will see the wholesale rates charged by the Bonneville Power Administration increase in November 2013. At this time, EWEB estimates the Bonneville increase could result in a 4 percent pass-through.
- EWEB continues to look for ways to reduce its costs, from selling surplus property to looking at the sale or disposition of power-generating projects and contracts that are not cost-effective due to poor wholesale power markets.

Water

Like many Northwest water utilities, EWEB's water division has seen declining demand at a time when aging infrastructure needs to be replaced in order to reliably deliver safe water to customers. The extensive capital required to operate a large filtration plant and maintain about 800 miles of distribution pipes comes with high fixed costs.

EWEB's overall water sales have declined by about 20 percent since 2008, leaving the utility short of recovering fixed expenses, which account for about 90 percent of the water utility's costs. The revenue shortfalls constrain EWEB's ability to maintain the facilities it has and its capacity to replace an aging system of pipes, reservoirs, pumps and other facilities.

EWEB is proposing to rely less on the volume of water it sells to generate revenue, and move to a model that has a higher basic charge. This will put EWEB's rate structure in line with the fixed-cost nature of the water utility. Many water utilities in the Northwest and throughout the country are following a similar trend. In addition, EWEB's cash reserves are extremely low, and it still needs to increase the replacement of aging parts of the water distribution system.

- EWEB's average residential water rates are the third-lowest among 16 Northwest water utilities. Raising the water rates, increasing the basic charge and redesigning the rate structure would keep EWEB below the middle of the 16 utilities in terms of total cost for water.
- EWEB commissioners will consider an overall average water rate increase of 20 percent.
- If commissioners approve the 20 percent increase, the rate action would become effective in February 2013. The average residential customer using 7,000 gallons would pay about \$5 more per month.
- The 2013 rate action will put the water utility on solid financial footing and will lessen the need to borrow, while allowing EWEB to continue its planned infrastructure-replacement program.

What's next?

EWEB commissioners will hold the second and final public hearing at 7:30 p.m. on Dec. 4. The first hearing was held Nov. 6.