Electric Cost Adjustment (ECA)

Jerry Forte
Chief Executive Officer

May 27, 2014

Fire at Drake

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- Goal is to bring the plant online as soon as possible to reduce costs to customers
  - Unit 6 goal is July
  - Unit 7 goal by fall
- Working on units in parallel
- As units come back online, we will be able to generate more with lower cost coal

Not For Profit Utility

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As a not for profit utility, we're all in this together.

We've benefitted for many years from low cost and reliable power from Drake – As an example:

- 100 consecutive day runs are an industry benchmark of unit reliability and performance
- Over the past 5 years, the Drake units have met and surpassed that industry benchmark 13 times

The cost of temporary replacement power impacts all of us and for a short time, we will need to pay for fuel costs that reflect doing business without Drake

Purchase Power for Outages

Budget and forecasts are prepared based on planned outages

- Base rates include planned outages in O & M

Unplanned outages can be caused by equipment failure, accidents, regional utility disruptions, natural disasters and weather

- Unplanned outages are covered within ECA

Purpose of ECA

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- Base rates contain most of the fuel costs (coal, natural gas and purchase power)
  - Base rates can change annually
- A small portion of fuel is in the ECA or variable part of the customer bill
  - ECA can change up or down a number of times during the year
- The ECA adjusts to compensate for fuel prices as markets and outages cause prices to fluctuate– much like prices at the gas pump change

Proposed
Electric Cost Adjustment (ECA)

Bill Cherrier
Chief Planning & Finance Officer

May 27, 2014

Electric Cost Components

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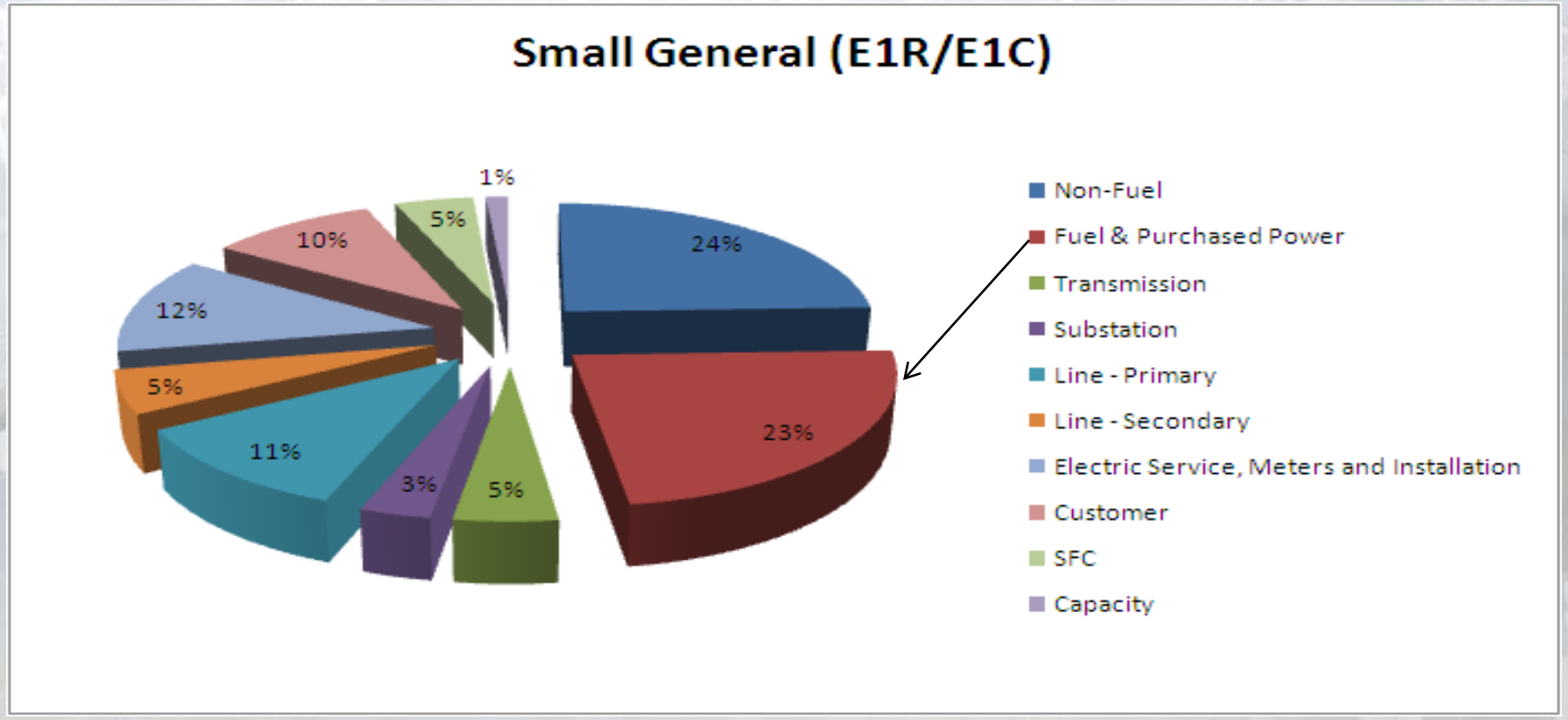
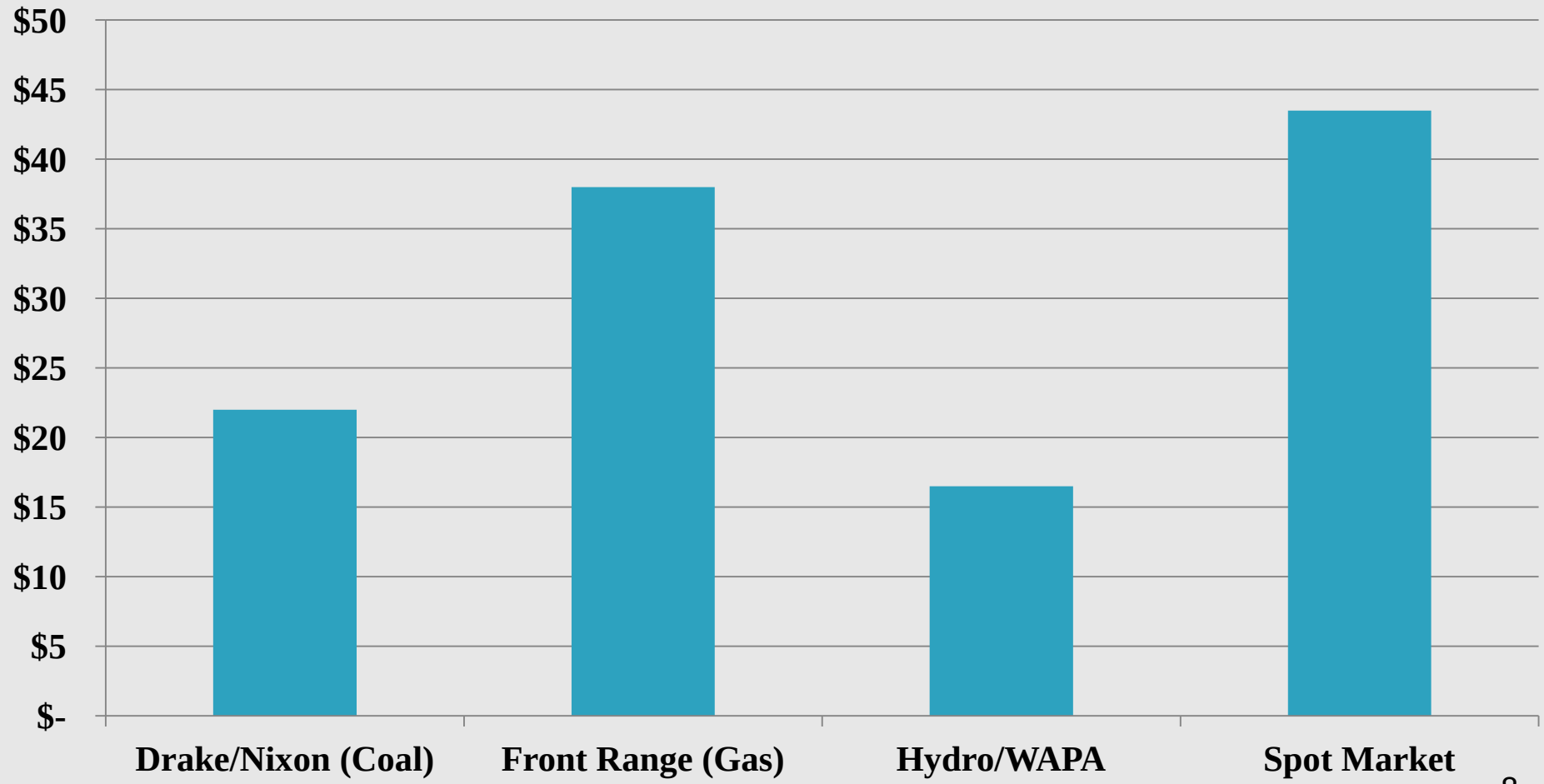
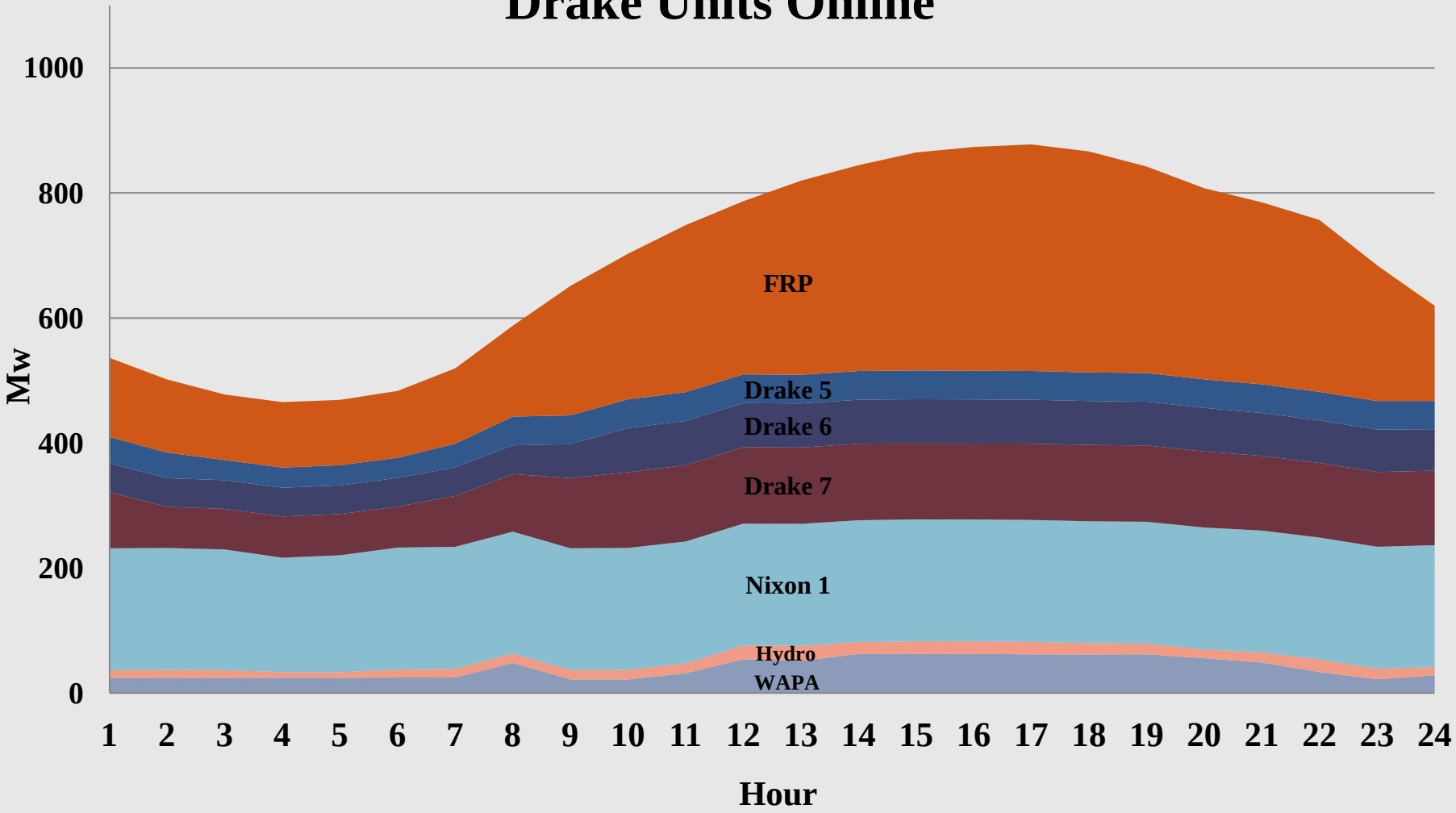
Fuel in base rates is one of the largest components



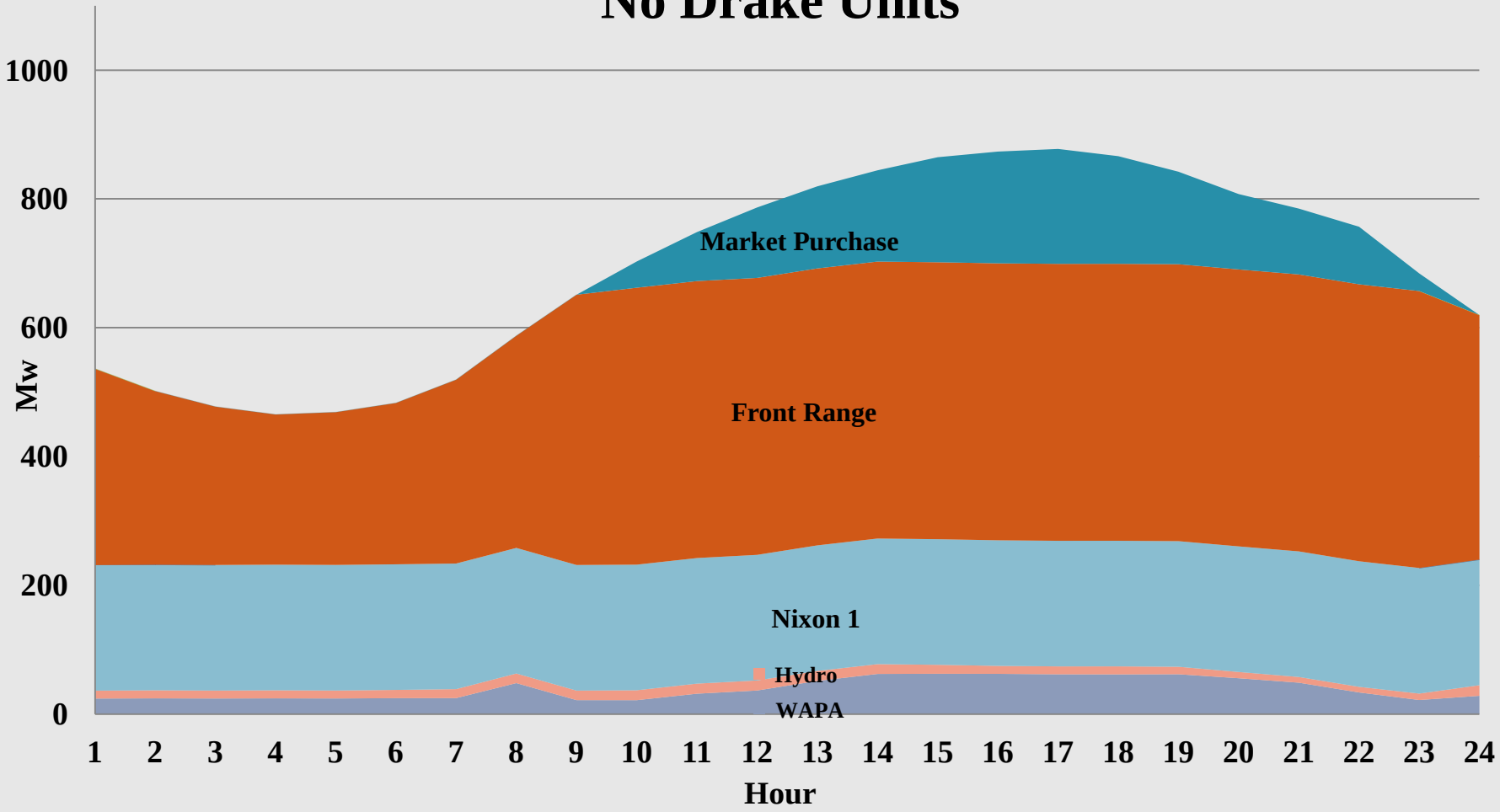
Generation Costs Per Megawatt Hour
April 2014



Summer Peak Day Dispatch
Drake Units Online



Summer Peak Day Dispatch
No Drake Units



Insurance Program

"All Risk" Energy/Utility Property Policy

$500 million coverage on recovery costs

- Covers All Causes/Risks of Loss Unless Specifically Excluded in Policy
- Covers Property & Equipment for "Property Perils"
- Covers Equipment for "Boiler & Machinery Perils"

Deductible

Property Damage / Extra Expense: $1,000,000

Insurance Program

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- Replacement power insurance uncommon among utilities
- Very expensive
- Policy would not kick in for 45-90 days
- Estimated annual premium might be $2-3 million per unit
- Would increase base rates

Bank Balance

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We maintain a cash balance of $180 million

- $1.5 million per day for 120 days

An event of this magnitude, without an ECA adjustment would draw the cash balance below minimum required levels

If cash was increased, base rates would be consistently higher

Why a Temporary ECA Adjustment Now?

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Keeps costs lower for customers in the long run

If ECA isn't increased temporarily, we risk a downgrade to our bond rating

-This means much higher interest rates and customer costs going forward

A two notch downgrade:

Causes need for cash posting of $100 million

Lowers our liquid cash balance down to about half of what is recommended by our rating agencies

Rate Implications of a Downgrade

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A two notch downgrade:

Requires us to pay an additional $8.0 million in annual borrowing costs

Rates would need to be increased in the first year and applied going forward by approximately:

- 2.5 % residential customers
- 1.8 % industrial customers

Utilities is Cutting Costs Reducing the Impact

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- Significant budget reductions for 2014
- Budgets have been proactively cut to keep base rates as low as possible for our customers
  - $15 million targeted this year
    - 6% reduction in non fuel O & M
  - Reduces the need for a higher short term ECA
  - Cuts in every utility service help keep improve the cash balance
  - We are already cutting a similar amount from the preliminary 2015 budget

2014 Budget Cuts

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- Examples of targeted $15 million in cuts from 2014 budget including:
  - Outside services
  - Energy and Water Conservation Programs
  - Travel
  - Deferred maintenance on equipment
  - Labor costs
  - Other

Customers can Help Reduce Impact

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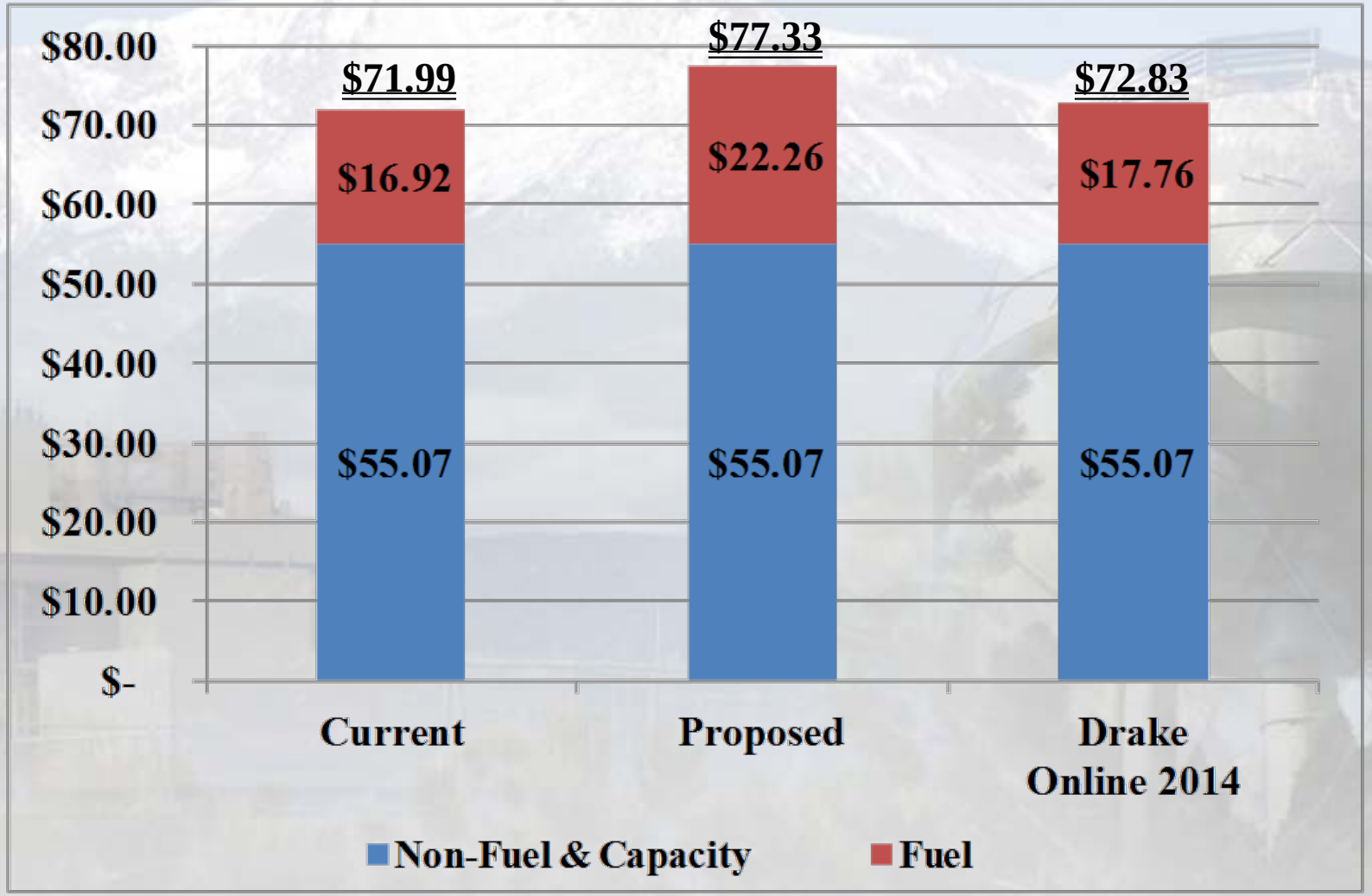
- Conservation saves customers' money and helps us shave peaks
- Reducing demand means less power Utilities has to purchase at higher costs
- For conservation tips, rebates and assistance please go to our website csu.org
- Every kilowatt hour saved keeps rates lower for all of us

Typical Residential Bill



ECA Rate History

Effective Date		Typical Residential Bill Impact
03/01/2014	Increase	2.0%
01/01/2013	Decrease	-3.4%
06/01/2012	Decrease	-0.9%

With Temporary ECA
Data as of April 1, 2014

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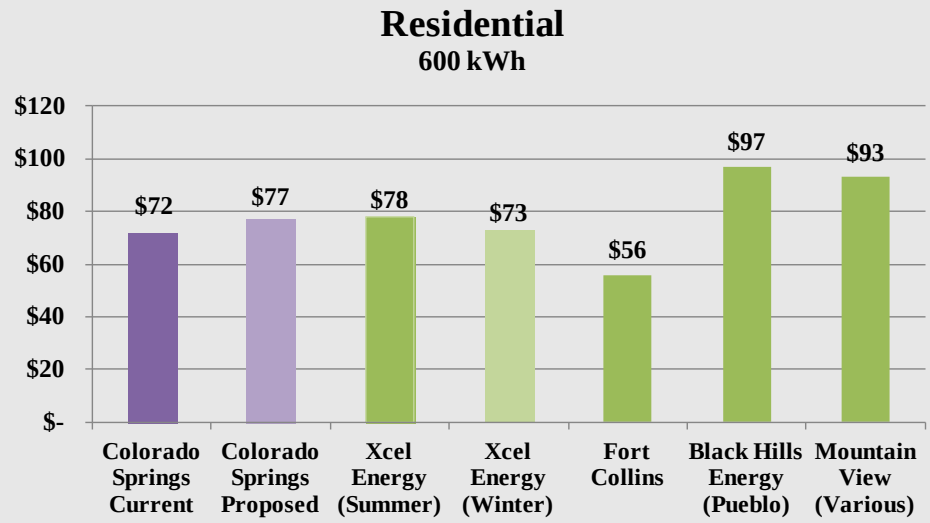

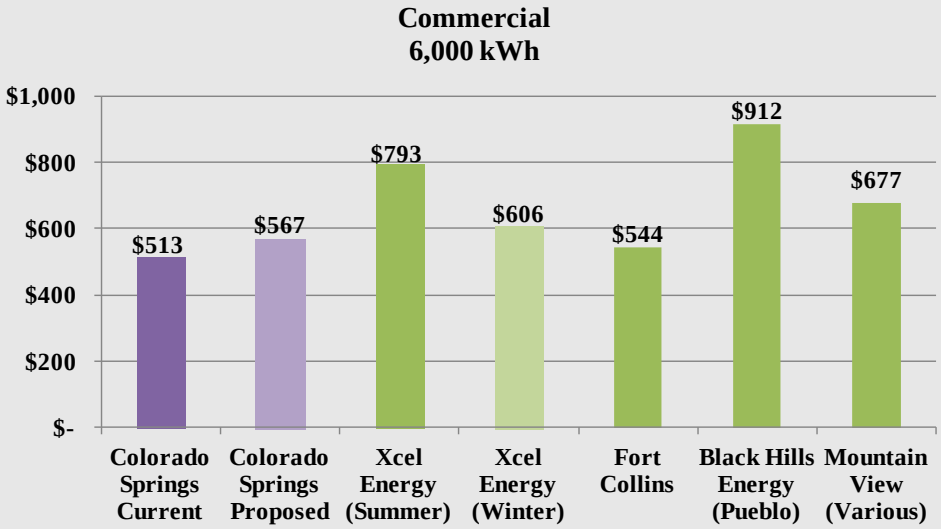

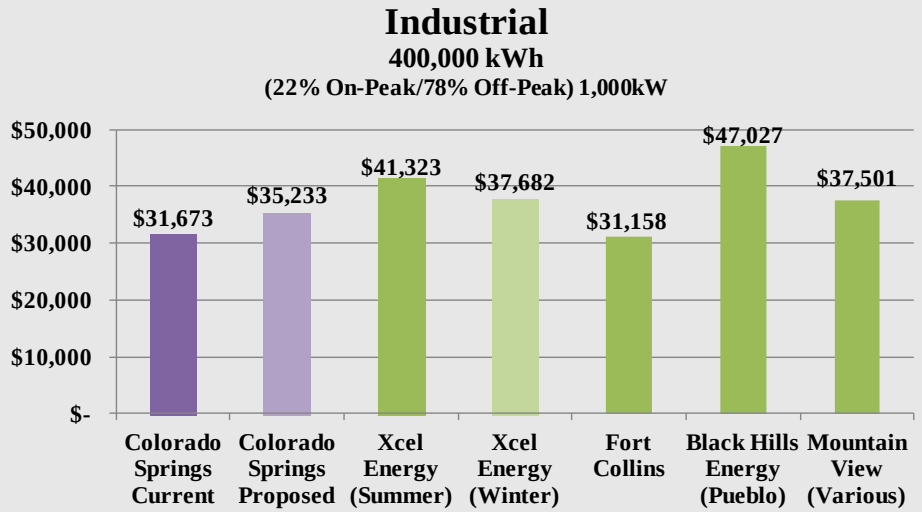

Proposed ECA

A short-term increase to fuel costs in the electric rate is proposed

Proposed June 1, 2014 rate increase of $0.0089 resulting in ECA rate of $0.0102 per kWh

- Fully recovers additional replacement power cost
- Evaluate ECA as Drake units become available
- Impact to total typical electric bill
  - Residential 7.4%
  - Commercial 10.4%
  - Industrial 11.2%

Proposed ECA

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Residential Typical Bill

				Current		Proposed			
Non-Fuel	Quantity	Basis	Charge	Rate	$	Rate	$	$ Change	% Change
	30	Days	Access and Facilities	$ 0.3835	$ 11.51	$ 0.3835	$ 11.51	$ -	
	600	kWh	Access and Facilities	$ 0.0711	$ 42.66	$ 0.0711	$ 42.66	$ -	
Total Non-Fuel					**$ 54.17**		**$ 54.17**	**$ -**	**0%**
Fuel									
	600	kWh	Supply	$ 0.0269	$ 16.14	$ 0.0269	$ 16.14	$ -	
	600	kWh	ECA	$ 0.0013	$ 0.78	$ 0.0102	$ 6.12	$ 5.34	
Total Fuel				**$ 0.0282**	**$ 16.92**	**$ 0.0371**	**$ 22.26**	**$ 5.34**	**32%**
Capacity	600	kWh	ECC	$ 0.0015	$ 0.90	$ 0.0015	$ 0.90	$ -	0%
Total Electric Bill					**$ 71.99**		**$ 77.33**	**$ 5.34**	**7.4%**

Proposed ECA

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Commercial Typical Bill

				Current		Proposed			
Non-Fuel	Quantity	Basis	Charge	Rate	$	Rate	$	$ Change	% Change
	30	Days	Access and Facilities	$ 0.6324	$ 18.97	$ 0.6324	$ 18.97	$ -	
	6000	kWh	Access and Facilities	$ 0.0532	$ 319.20	$ 0.0532	$ 319.20	$ -	
Total Non-Fuel					**$ 338.17**		**$ 338.17**	**$ -**	**0%**
Fuel									
	6000	kWh	Supply	$ 0.0269	$ 161.40	$ 0.0269	$ 161.40	$ -	
	6000	kWh	ECA	$ 0.0013	$ 7.80	$ 0.0102	$ 61.20	$ 53.40	
Total Fuel				**$ 0.0282**	**$ 169.20**	**$ 0.0371**	**$ 222.60**	**$ 53.40**	**32%**
Capacity	6000	kWh	ECC	$ 0.0010	$ 6.00	$ 0.0010	$ 6.00	$ -	0%
Total Electric Bill					**$ 513.37**		**$ 566.77**	**$ 53.40**	**10.4%**

Proposed ECA

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Industrial Typical Bill

				Current		Proposed			
Non-Fuel	Quantity	Basis	Charge	Rate	$	Rate	$	$ Change	% Change
	30	Days	Access and Facilities	$ 18.6613	$ 559.84	$ 18.6613	$ 559.84	$ -	
	1000	kW	Demand	$ 0.6441	$19,323.00	$ 0.6441	$19,323.00	$ -	
Total Non-Fuel					**$19,882.84**		**$19,882.84**	**$ -**	**0%**
Fuel									
	88000	kWh	On-Peak Supply	$ 0.0473	$ 4,162.40	$ 0.0473	$ 4,162.40	$ -	
	312000	kWh	Off-Peak Supply	$ 0.0215	$ 6,708.00	$ 0.0215	$ 6,708.00	$ -	
	400000	kWh	ECA	$ 0.0013	$ 520.00	$ 0.0102	$ 4,080.00	$3,560.00	
Total Fuel					**$11,390.40**		**$14,950.40**	**$3,560.00**	**31%**
Capacity	400000	kWh	ECC	$ 0.0010	$ 400.00	$ 0.0010	$ 400.00	$ -	0%
Total Electric Bill					**$31,673.24**		**$35,233.24**	**$3,560.00**	**11.2%**

Questions

ECA Alternatives

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Additional Slides

Drake Online June 2015 (Proposed)

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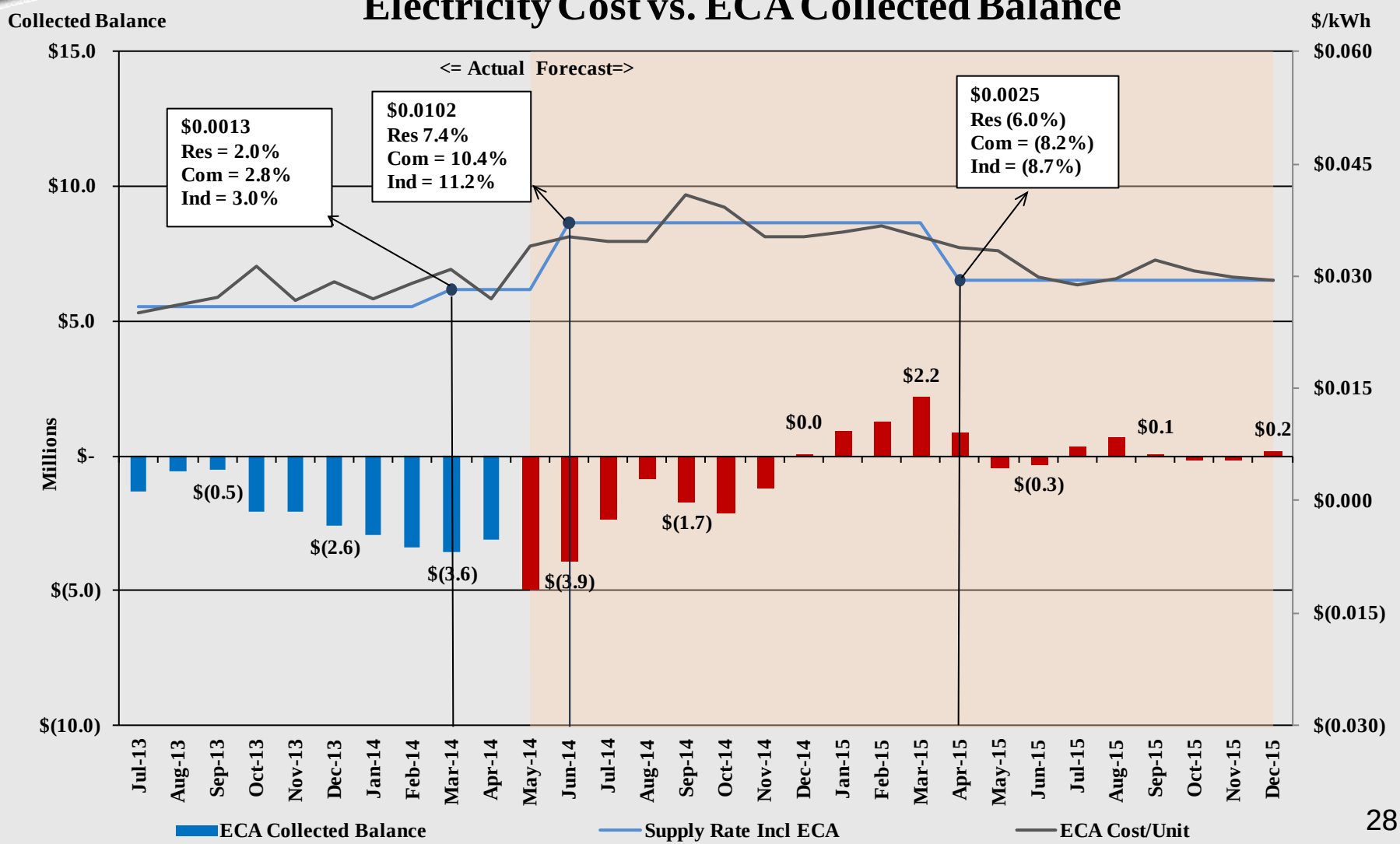

Drake Online August 2014 (Proposed)

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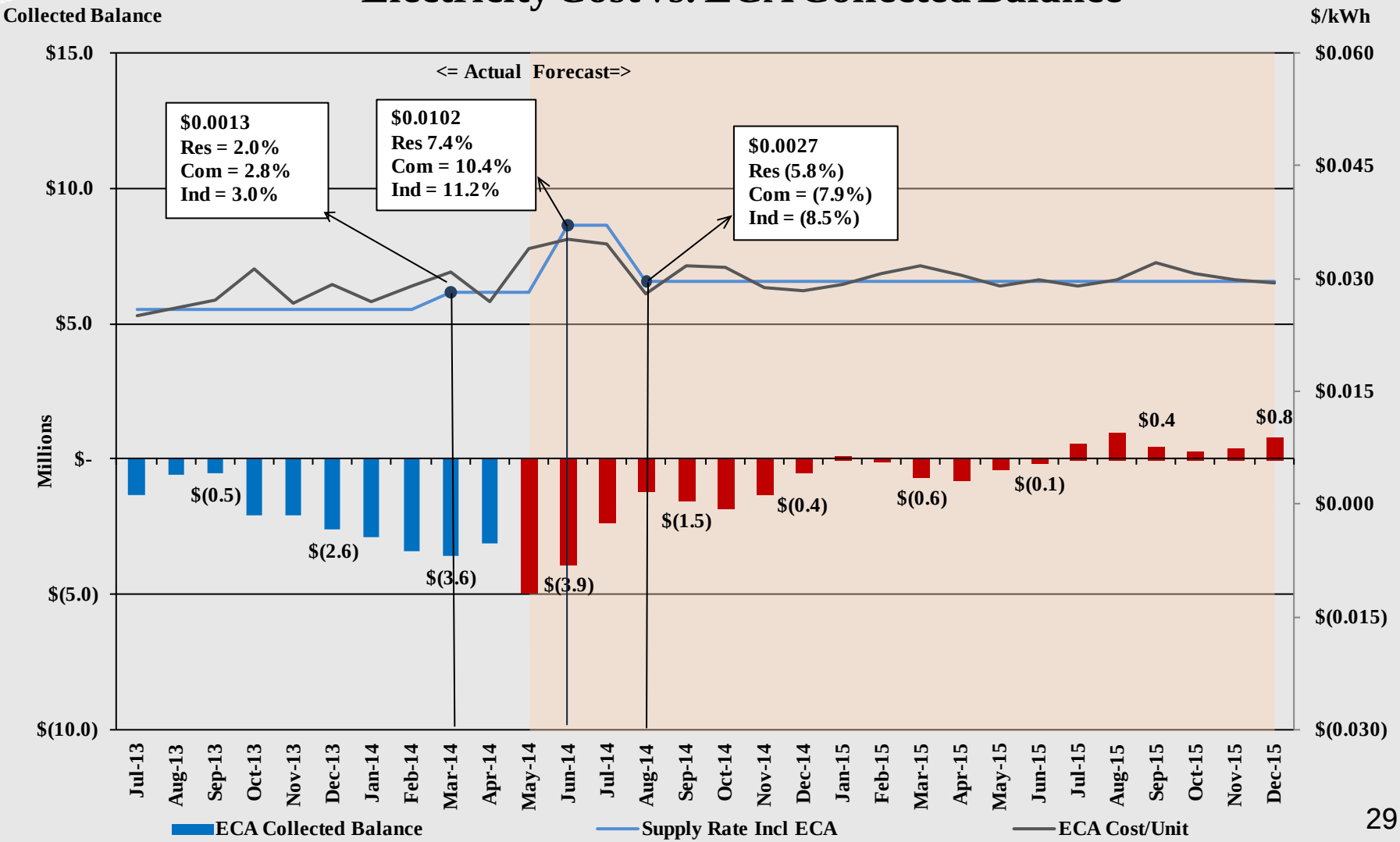
Electricity Cost vs. ECA Collected Balance



Drake Online November 2014 (Proposed)

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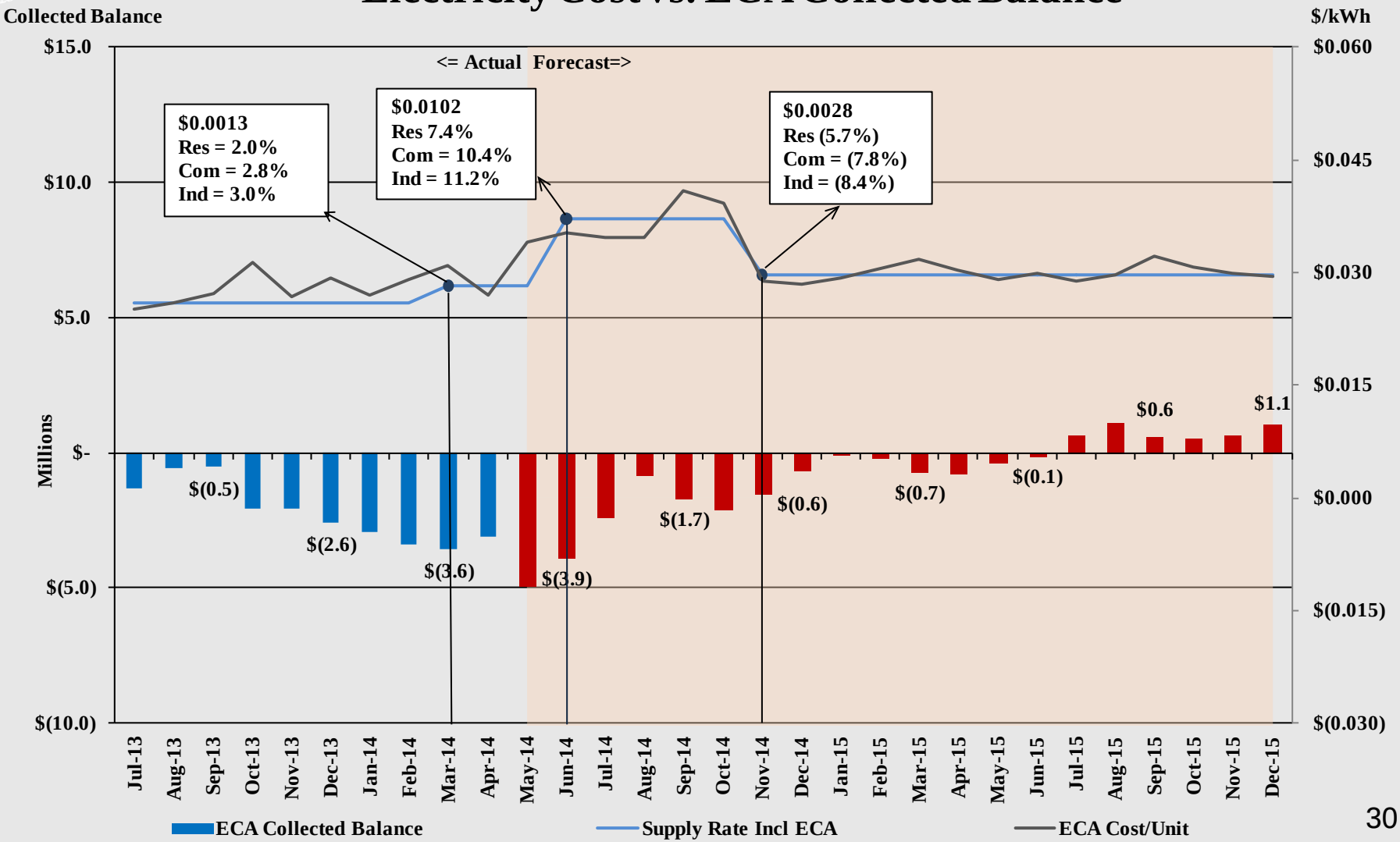
Electricity Cost vs. ECA Collected Balance



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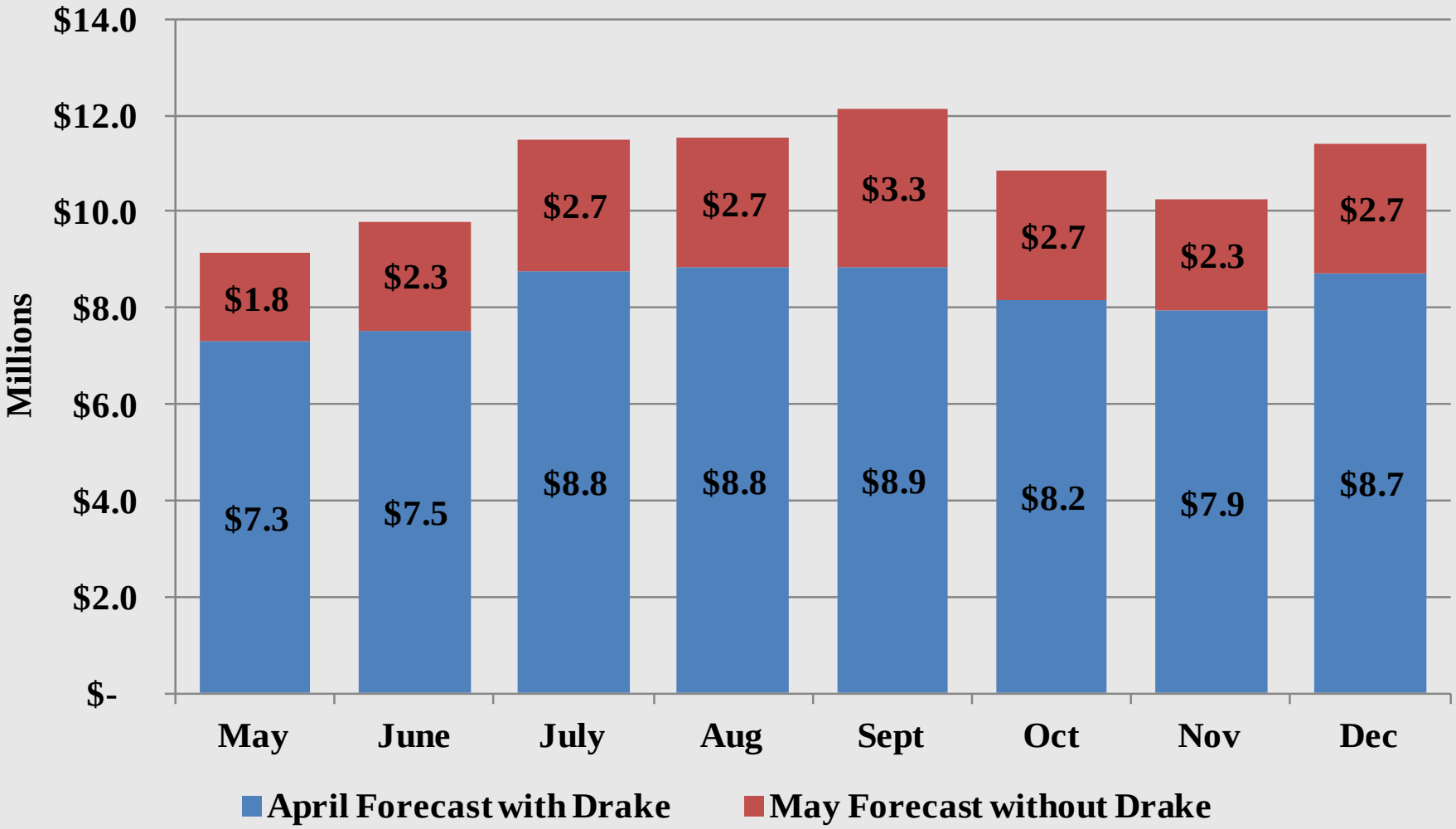
2014 Increased Replacement Power Costs



Moody's Financial Strength Scorecard

Factor	Sub-Factor / Description	2012 Actual	2013 Actual	2014 Forecast	3 yr Average	Rating
Financial Strength	(a) Days liquidity on hand	116.6	150.2	119.6	128.8	A
	(a) Adjusted days liquidity on hand	182.2	200.1	165.2	182.5	Aa
	(b) Leverage - Debt ratio	61.4%	61.7%	60.3%	61.1%	A
	(c) Adjusted Debt Service Coverage	2.03	1.83	1.99	1.95	A

Financial Strength = 30% of the total scorecard

- Other Factors on the Scorecard
  - Cost Recovery Framework within Service Territory – 25%
  - Willingness to Recover Costs with Sound Financial Metrics – 25%
  - Management of Generation Risk – 10%
  - Competitiveness – 10%

Overall CSU score currently suggests a Aa3 credit rating
CSU is notched up to Aa2 based on other factors

Estimated Annual Cost of a Downgrade

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Combined Fixed and Variable Impact
2 Years – Two Notch Downgrade

Increase in Revenue Requirement	Year One Impact	Year Two Impact	Year Two Cumulative Impact
Increase in Debt Service:			
Existing Fixed-Rate	$ -	$ -	$ -
Existing Variable-Rate	1,838,000	1,838,000	3,676,000
New Fixed-Rate ($100mm)	400,000	787,420	1,187,420
New Variable-Rate (none)	-	-	-
Increased Debt Service Coverage	2,797,500	3,281,775	6,079,275
Increased Support on Variable-Rate	2,303,000	2,303,000	4,606,000
Increased Line Of Credit Fees	300,000	300,000	600,000
Increase in Revenue Requirement	**$ 7,638,500**	**$ 8,510,195**	**$ 16,148,695**

Estimated Annual Cost of a Downgrade

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Collateral Impacts

In Thousands of Dollars

Collateral Postings with Swap Counterparites Increase if Downgraded to:			
Aa3/AA- by one Rating Agency	Aa3/AA- by two Rating Agencies	A1/A+ by one Rating Agency	A1/A+ by two Rating Agencies
$ 10,000	$ 10,000	$ 20,000	$ 100,000

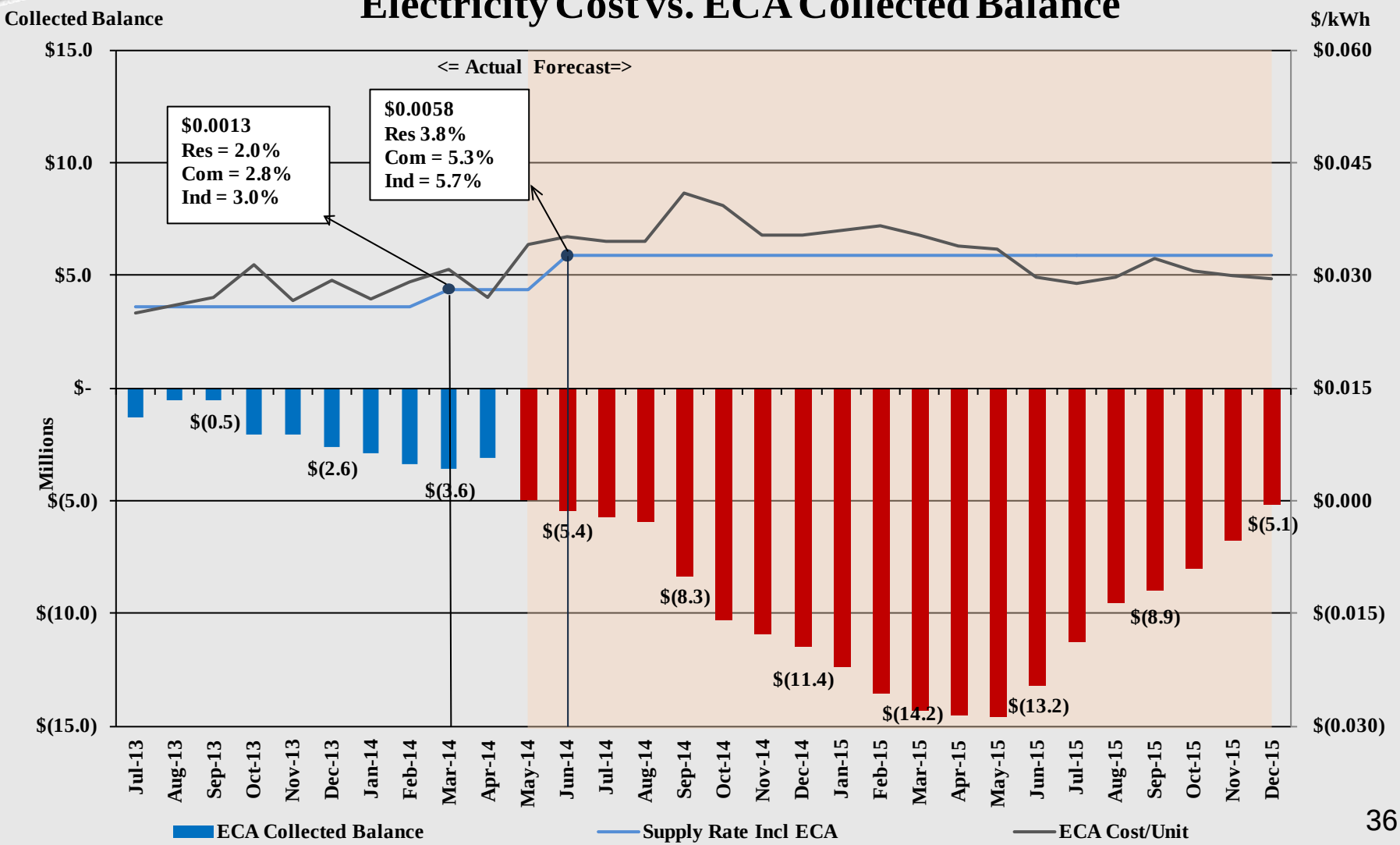
ECA Alternative

Proposed June 1, 2014 rate increase of $0.0045

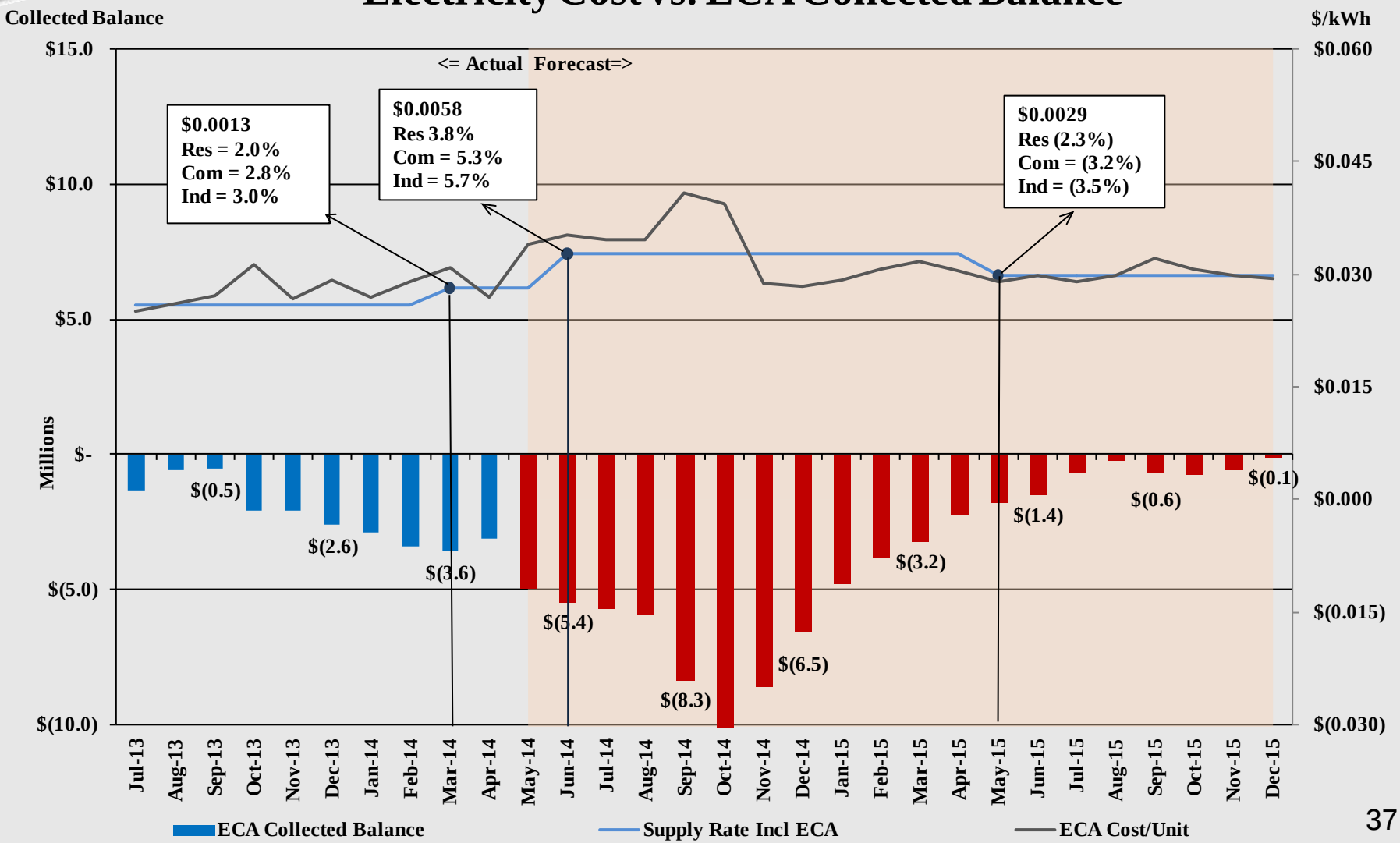
resulting in ECA rate of $0.0058 per kWh

- Recovers 50% of the proposed adjustment initially
- Full recovery is achieved by extending the length of time that the adjustment is in place
  - Evaluate ECA as Drake units become available
  - Impact to total typical electric bill
    - Residential 3.8%
    - Commercial 5.3%
    - Industrial 5.7%

Drake Online June 2015 (Alternative)



Drake Online November 2014 (Alternative)



Drake Online August 2014 (Alternative)

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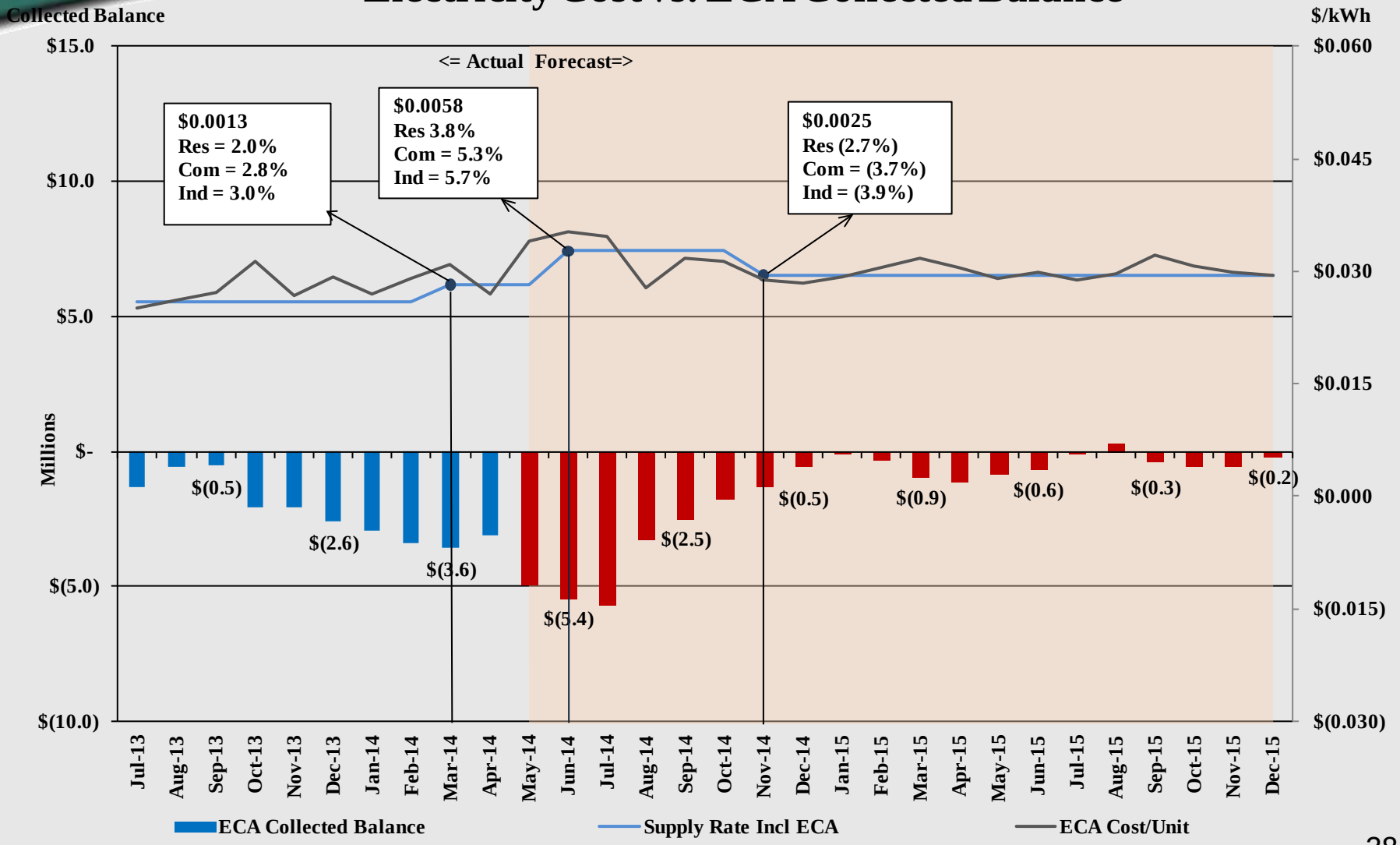
Electricity Cost vs. ECA Collected Balance



Residential Typical Bill (Alternative)

				Current		Proposed			
Non-Fuel	Quantity	Basis	Charge	Rate	$	Rate	$	$ Change	% Change
	30	Days	Access and Facilities	$ 0.3835	$ 11.51	$ 0.3835	$ 11.51	$ -	
	600	kWh	Access and Facilities	$ 0.0711	$ 42.66	$ 0.0711	$ 42.66	$ -	
Total Non-Fuel					**$ 54.17**		**$ 54.17**	**$ -**	**0%**
Fuel									
	600	kWh	Supply	$ 0.0269	$ 16.14	$ 0.0269	$ 16.14	$ -	
	600	kWh	ECA	$ 0.0013	$ 0.78	$ 0.0058	$ 3.48	$ 2.70	
Total Fuel				**$ 0.0282**	**$ 16.92**	**$ 0.0327**	**$ 19.62**	**$ 2.70**	**16%**
Capacity	600	kWh	ECC	$ 0.0015	$ 0.90	$ 0.0015	$ 0.90	$ -	0%
Total Electric Bill					**$ 71.99**		**$ 74.69**	**$ 2.70**	**3.8%**

Commercial Typical Bill (Alternative)

				Current		Proposed			
Non-Fuel	Quantity	Basis	Charge	Rate	$	Rate	$	$ Change	% Change
	30	Days	Access and Facilities	$ 0.6324	$ 18.97	$ 0.6324	$ 18.97	$ -	
	6000	kWh	Access and Facilities	$ 0.0532	$ 319.20	$ 0.0532	$ 319.20	$ -	
Total Non-Fuel					**$ 338.17**		**$ 338.17**	**$ -**	**0%**
Fuel									
	6000	kWh	Supply	$ 0.0269	$ 161.40	$ 0.0269	$ 161.40	$ -	
	6000	kWh	ECA	$ 0.0013	$ 7.80	$ 0.0058	$ 34.80	$ 27.00	
Total Fuel				**$ 0.0282**	**$ 169.20**	**$ 0.0327**	**$ 196.20**	**$ 27.00**	**16%**
Capacity	6000	kWh	ECC	$ 0.0010	$ 6.00	$ 0.0010	$ 6.00	$ -	0%
Total Electric Bill					**$ 513.37**		**$ 540.37**	**$ 27.00**	**5.3%**

Industrial Typical Bill (Alternative)

				Current		Proposed			
Non-Fuel	Quantity	Basis	Charge	Rate	$	Rate	$	$ Change	% Change
	30	Days	Access and Facilities	$ 18.6613	$ 559.84	$ 18.6613	$ 559.84	$ -	
	1000	kW	Demand	$ 0.6441	$19,323.00	$ 0.6441	$19,323.00	$ -	
Total Non-Fuel					**$19,882.84**		**$19,882.84**	**$ -**	**0%**
Fuel									
	88000	kWh	On-Peak Supply	$ 0.0473	$ 4,162.40	$ 0.0473	$ 4,162.40	$ -	
	312000	kWh	Off-Peak Supply	$ 0.0215	$ 6,708.00	$ 0.0215	$ 6,708.00	$ -	
	400000	kWh	ECA	$ 0.0013	$ 520.00	$ 0.0058	$ 2,320.00	$1,800.00	
Total Fuel					**$11,390.40**		**$13,190.40**	**$1,800.00**	**16%**
Capacity	400000	kWh	ECC	$ 0.0010	$ 400.00	$ 0.0010	$ 400.00	$ -	0%
Total Electric Bill					**$31,673.24**		**$33,473.24**	**$1,800.00**	**5.7%**