

# OCEC

## Finance Committee Report

### October and November Meetings

In attendance at various meetings: David Gottula, Doug Adams, Dale Sekijima, Lynn Northcott, David Gens (most recent meeting) and Kent Hitch

#### Business Items in Process

##### 1. 2012 Operating Budget

- a. Draft of budget was prepared by Lynn and Doug and submitted for Finance Committee review on September 29, 2011. Initial discussion revolved around a conservative approach to all projections. Revenue for 2012 was decided to be the projected revenue for 2011. It was decided to separate the budget line item decisions from the rate adjustment decision by portraying 2012 revenue at existing rate structure with no growth in energy consumption. Cost of Power was assumed to be the PNGC forecast. This approach of including increases in Cost of Power; but, not including revenue increases is a worst case scenario and implies the budget will need to be revised once the rate change decision is determined. Labor costs were estimated to grow 3% year-to-year. The source for all other budget line items was from quotes or estimates from suppliers.
- b. A revised draft budget was resubmitted to Finance Committee on October 13, 2011. At this time, a number of budget line items were reduced or eliminated. Notably director compensation was reduced, Ruralite magazine and civic expenses were eliminated. The cost for "invoice stuffers and other direct mail" was added to the Outreach committee budget to replace communication from Ruralite.
- c. Another review of the draft budget by the Finance committee was undertaken on November 7, 2011. At this meeting, it was determined to reduce Legal expenses by using phone conferencing or SKYPE for attorney attendance at most meetings. Some of the COSA consultant expenses were determined unlikely to be billed during 2011 and this unpaid portion was added to the 2012 budget. Engineering services were reduced with a plan for the General Manager to perform those tasks. A new direction is planned to be taken for Conservation and the Conservation Committee 2012 budget was reduced.
- d. The draft budget was reviewed by the entire Board on November 17, 2011. There extensive questioning and discussion of how revenue change (another budget revision after COSA revenue requirement is complete) would be included in the plan. Some items (i.e. debt refinancing, employee benefits) were determined likely to change but an exact number may not be known before COSA revenue requirement and 2012 Budget finalization. Those items were left at the draft budget projected levels.

2. 2012 Sources and Uses of Cash

- a. At the October 13, 2011 Finance Committee meeting there was a discussion of capital expenditures for 2012 through 2016. It was determined that the plan posed by David Gotulla was realistic and in keeping with external engineering recommendations. There was also a discussion of member equity targets. Member equity is currently at 46% which is close to the state and national average for electric co-ops. It was decided to recommend to the entire Board a plan of "equity neutrality" in capital asset acquisition. That is to say that only half of capital needs would be borrowed. The remainder would be financed from margin.
- b. At the November 17, 2012 budget review meeting, the plan for Sources and Uses of Cash was presented to the entire Board. After extensive questioning, the Finance Committee recommendation was adopted.

3. Revenue Requirement for COSA.

- a. At a September 20, 2011 meeting EES (the consultant for COSA) conducted a "kick-off" meeting for rate adjustment at OCEC. It was determined there would be a 24 part analysis/calculation undertaken. Those 24 separate analyses can be summarized into 1) Revenue requirement, 2) Allocation of costs to member groups and 3) Alternate rate analysis.
- b. A number of iterations of EES revenue requirement efforts were reviewed by David Gotulla and Lynn Northcott. On November 29, 2011, the Finance Committee made final edits by included various 2012 budget revisions and deciding to add a "risk" (BPA Cost of Power uncertainty and unknowns) factor to the revenue requirement. That number was determined to be approximately 5% of the COP or \$100,000.