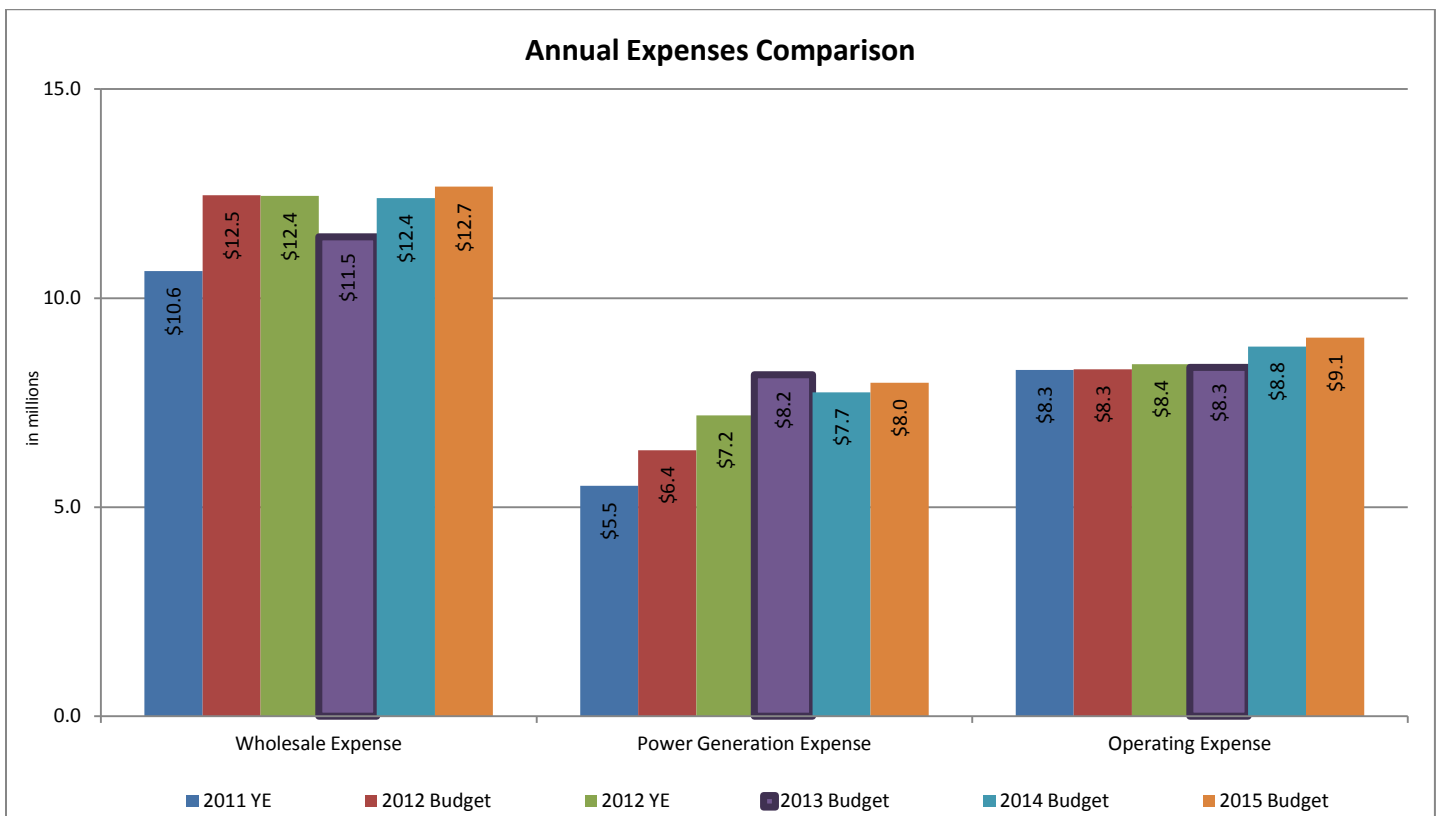


2013 Financial Outlook

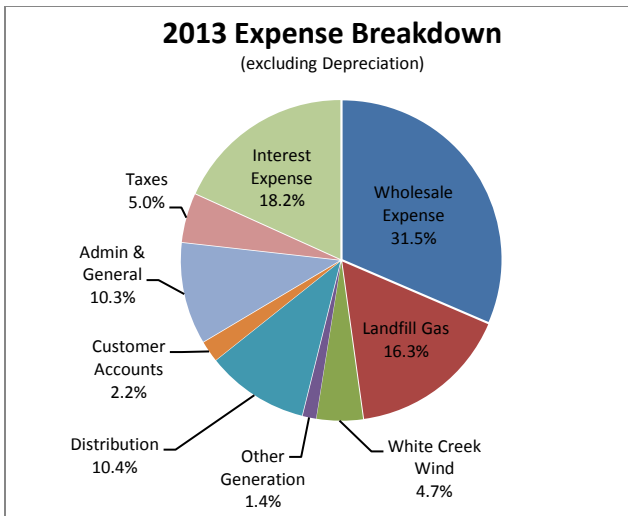
On December 11, 2012, the PUD Board of Commissioners approved the 2013 Operating Budget during a public hearing. 2013 will be another year of challenges, with continued weak economic trends and a wholesale power market that is recovering very slowly.

With that in mind, PUD staff has taken a conservative approach to planning processes for this year. On the revenue side we have been conservative in our forecasting of wholesale revenues and renewable energy credit values, and we have assumed very low growth rates in generation and loads. In addition, on the expense side our overall 2013 budgeted expenditures have not increased from 2012. In order to accomplish this, we have maintained budget cuts implemented over the past 3 years. This includes the reduction in force we implemented late in 2012, and the elimination of cost-of-living increases for 2013. Our 2013 operating expenses are actually the same as they were in 2009. Sustaining these cuts could impact the PUD in future years, so we will be evaluating our position on an annual basis and areas may be brought back as budgets and economic conditions permit.

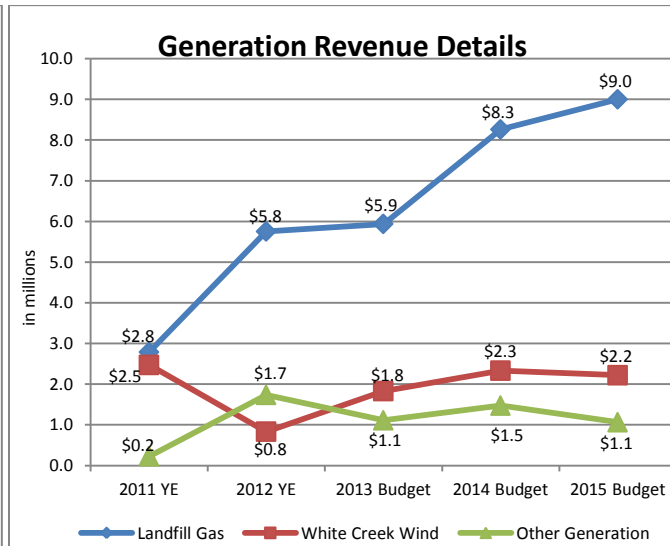
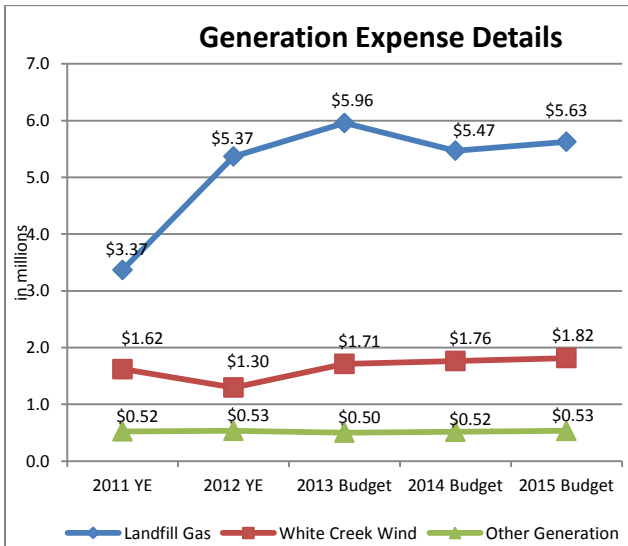
Our expenses can be grouped into three separate areas, as shown in the Annual Expenses Comparison chart. Wholesale Expenses reflect the net costs of acquiring power that we provide to our customers. We sometimes have surplus power from BPA that we can sell, and sometimes we don't have enough and have to buy power. The costs and benefits of these sales are included in this section and they can vary year to year, depending on our loads and the amount of power coming to us from our share of the Federal Hydro System through BPA. Generation Expense reflects our costs to produce the green energy we then sell into the market, and they increased from 2011 through 2013. This is primarily as a result of the expansion of the H.W. Hill landfill gas generation facility. Operating Expenses is an area we tightly control, and is basically the cost of running our electric and W/WW systems. As mentioned above, operating costs for 2013 are forecast to be essentially at 2009 levels (the chart only shows information since 2011).



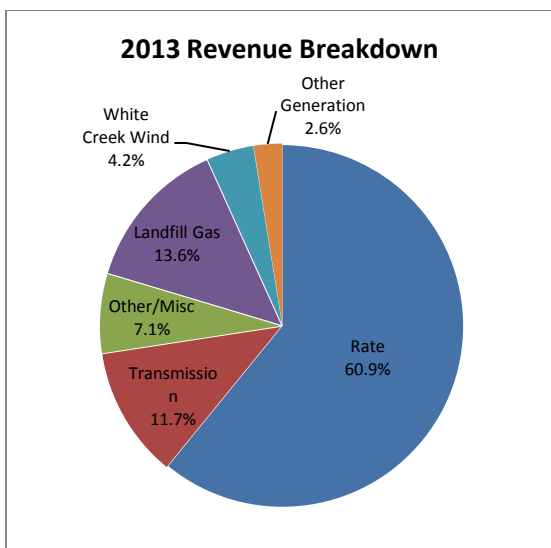
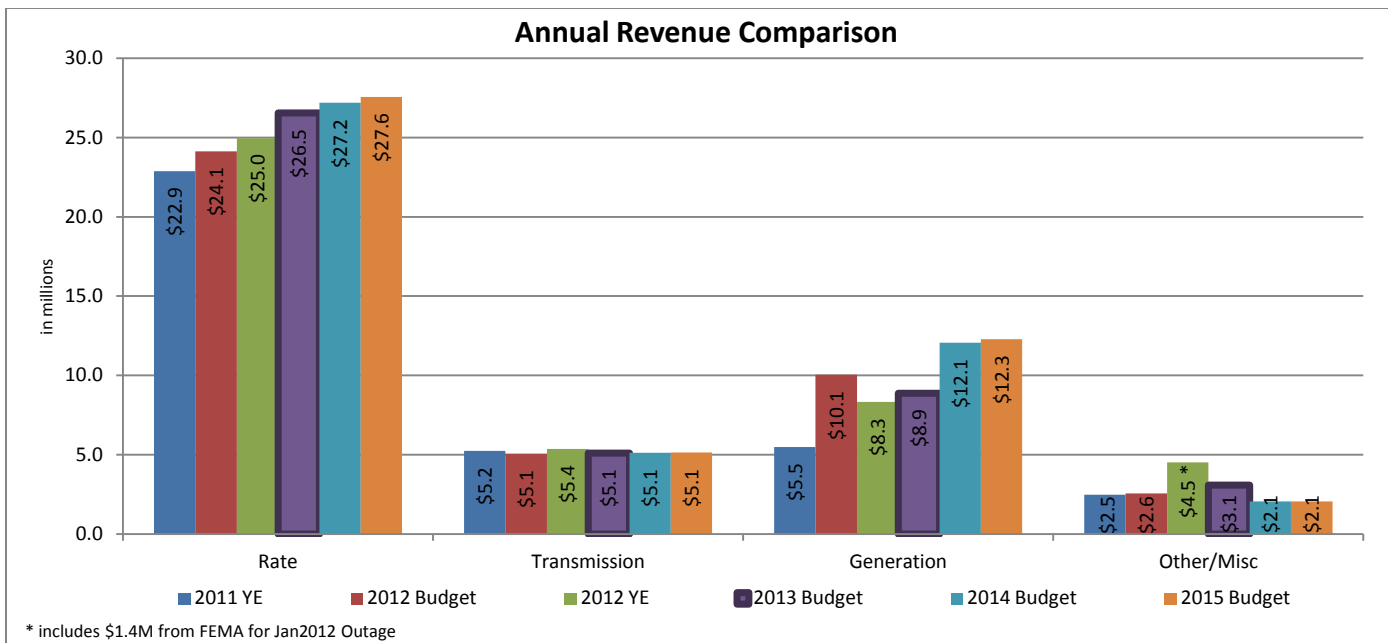
Wholesale power purchases and Interest Expense continue to be the largest portions of our annual costs, representing 50% of our costs, with Generation representing 22%. The remaining 28% represent the costs of operating our systems.



H.W Hill accounts for the largest portion of our Generation costs and, as mentioned, these costs have increased over the last 3 years as we expanded the facility. So, why did we do this? Looking at the Generation Revenues chart below, the revenues from the plant will continue to increase as renewable energy credit prices and power prices improve, and as the plant continues to increase its output. Output is increasing as the landfill itself grows and as the methane generated by the landfill increases. At the same time, there is minimal increase in operating costs in order to generate more power as our capacity and operating infrastructure is already in place. As a result, revenues from the expansion increase much faster than the costs from 2014 and beyond. Is this unrealistic? No, it's not. So far, we have secured pricing for approximately 95% of our 2013 output and about 75% of our 2014 output from our projects to ensure we realize these revenues. As a result, the cost of the power from the facility will continue to decrease for some years into the future and the benefits to our rate payers will increase.



Electric rate revenues continue to be the single largest source of revenues for the PUD. However, the continued growth of generation revenues will assist in offsetting future electric rate increases, as they did between 2003 and 2011. We continue to believe that diversifying into generating renewable energy was the right long term strategy for the PUD and will result in lower electric prices for our consumers in the long term. Revenues from our transmission business line are forecasted to remain at \$5 million per year as we do not see additional wind resources being completed in our county in the next several years. Miscellaneous revenues cover things like pole contacts, interest earned, billing & collection fees, dollars paid to us to build new services and credits back to us on our tax exempt financing. This is generally a fairly flat item, but you will note that 2012, and 2013 to a lesser extent, appeared higher than the other years. This is a result of FEMA paying us back a portion of the costs we incurred during the January 2012 storms.



2012 was a very difficult year for the PUD, and I am very happy to have just met our requirements. Between cost pressures, the continued decline in market pricing for the sale of energy, very limited markets for renewable energy credit sales, the subsequent need to implement an electric rate increase, and the very difficult decision to let in the order of 8% of our workforce go, it was a year to put behind us. However, I am confident that staff has put together a plan for 2013 and set the stage for improved performance going forward. I am very excited about the coming years and working through challenges we know will come up, while delivering cost-based safe, reliable electric, water and waste water services to you at the lowest possible cost, consistent with sound business principles.

Shannon Crocker
Chief Financial Officer