Extrapolation of 2012 Trends on the Full & Partial Regional Account Balance
August 2013

The regional account balance for the Full and Partial contracts depends on the balance of demand (and corresponding revenues) and costs each year. Regional demand and costs are projected during the rate study in order to set rates, and actual revenues and costs are compared during the annual true up after each year is complete. The most recent rate study set rates for 2012-2014, and the true up of 2012 was recently completed.

In addition to the usual variations, there were several trends affecting the 2012 balance that will carry forward through 2013 and 2014, and therefore affect rates in the next rate setting period:

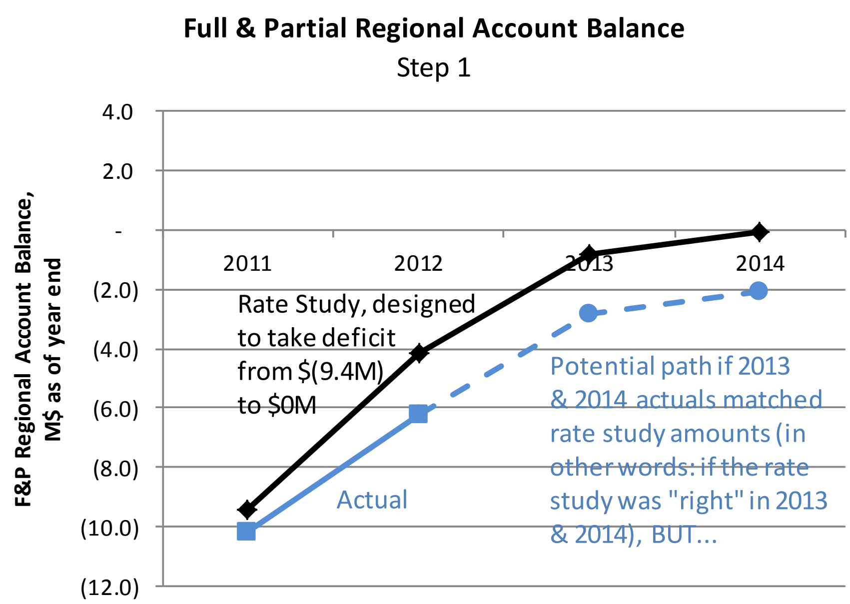
- The beginning balance was lower than projected
- Certain asset costs were underestimated in the rate study
- Demand during both peak and off-peak periods has improved

Even knowing these items, it is difficult to estimate the regional balance as of the end of 2014 because there are so many other factors that can affect revenues or costs over the next two years. Examples are timing of CIP project closings (either earlier or later), O&M costs that are above those included when setting rates (such as those due to storm or drought response), additional contract signings, and the effects of the economy or weather on demand.

So, rather than estimating a 2014 balance, the charts below show the effect of these known trends, assuming all other assumptions made in the rate study hold true. The actual numbers used are at the end of the tables**. To the extent that other factors affecting the regional balance will change, the actual 2014 balance may end up considerably higher or lower than the charts below**.

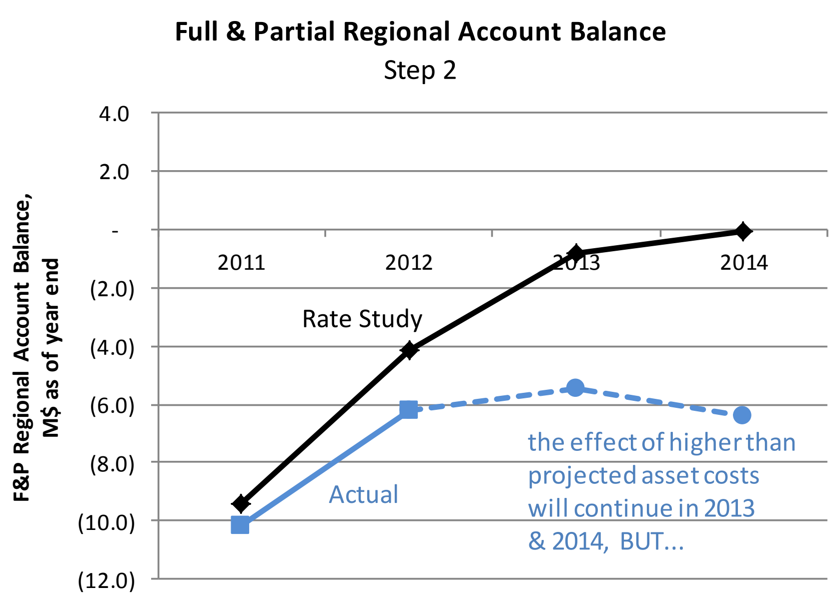
Step 1

The first step is to simply carry the 2012 deficit through to 2014. The actual F&P regional balance as of 12/31/2012 is $2.1M lower than planned during rate study. The first chart below shows how, even if everything else is exactly on target for 2013 & 2014 (which obviously will not happen), this deficit will carry through to 12/31/2014.



Step 2

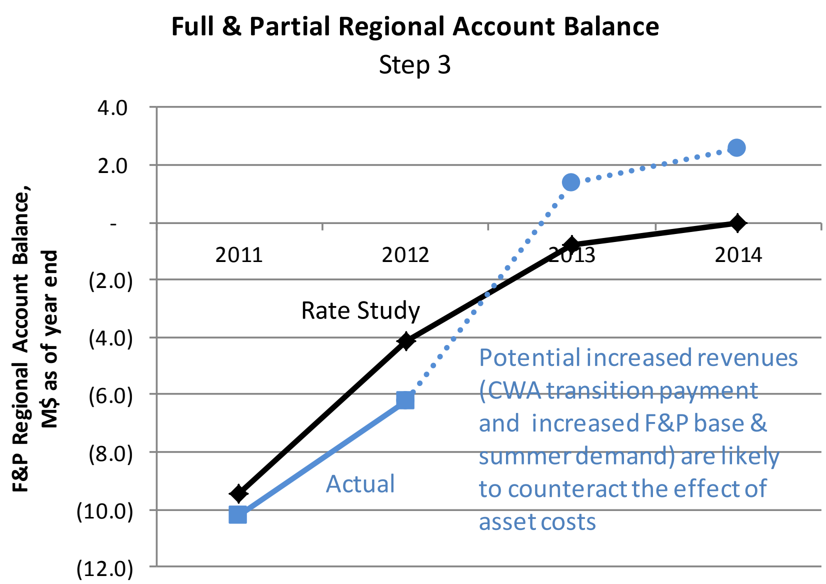
This step adds the impact of the underestimated asset costs, which include the Maple Leaf reservoir covering project closing in 2012 rather than 2014 as was assumed in the rate study and too low actual life-to-date project costs as of 12/31/2010 (the last year available when the rate study was completed). These asset costs will affect 2013 and to a lesser degree 2014. The impact is cumulative, lowering the balance from Step 1 by $2.6M as of 12/31/2013 and $4.3M as of 12/31/2014.



Step 3

This last step adds in higher revenues from two sources. First is a $4.8M potential contract transition payment from Cascade Water Alliance*. The second source is higher F&P demand, both peak and off-peak. Assuming the same increased demand in 2013 and 2014 as there was in 2012 for F&P, the total cumulative impact of all higher revenues is $6.9M in 2013 and $8.9M in 2014, bringing the balances from Step 2 into positive territory.

*The actual payment from Cascade is $5.0M, but $0.2M goes back to Cascade since a portion of their block is priced at F&P rates



As mentioned above, this last chart assumes that all items not specifically adjusted in steps one through three will come in at rate study levels. Considering that these other items will fluctuate, the actual ending balance as of 12/31/2014 may end up considerably higher or lower than in the chart above. For context, each $1M deficit or surplus will affect the Full and Partial rates by $0.008/ccf for the three years of the next rate setting period, which is a 0.5% increase or decrease from 2014 rates.

Source Data (in Dollars)

Items in bold are shown in the charts above.

	2011	2012	2013	2014
Rate Study	**(9,437,377)**	**(4,150,929)**	**(804,840)**	**(48,160)**
Actual	**(10,192,058)**	**(6,213,465)**		
Step 1				
How far below rate study are we?		(2,062,536)		
Cumulative effect on 2013 & 2014 balances			(2,062,536)	(2,062,536)
Apply this to rate study 2013 & 2014 balances			**(2,867,376)**	**(2,110,696)**
Step 2				
Deficit in asset cost projection in each year			(2,613,051)	(1,660,067)
Cumulative effect of asset costs on 2013 & 2014 balances			(2,613,051)	(4,273,118)
Apply this to result of Step 1			**(5,480,427)**	**(6,383,814)**
Step 3				
Potential effect of CWA Transition payment*			4,825,000	
Potential increased revenues if we match 2012 demand			2,049,045	2,049,045
Cumulative effect of potential revenues			6,874,045	8,923,090
Apply this to result of Step 2			**1,393,618**	**2,539,276**