



# 2020 Preliminary Budget

*No Board Action Required*

**Nov. 18, 2019**

# Summary of Changes Since Nov. 4 2020 Budget Updates

Increase of net capital spending for 2020 \$18.5M

- Primary driver of change: Rock Island Modernization / Facilities
  - Rock Island B5 Modernization increase ~\$15.8M
  - Rock Island Facilities Upgrade increase ~\$4.5M

Bottom line: increase \$0.8M

- \$57.3M to \$58.1M

# Combined Financials 2020

(in 000's)	Prelim Budget 2020	Adopted Budget 2019	\$ Change	% Change
Service Revenue	90,561	69,512	21,048	30.3%
Net Surplus Energy Revenue	216,907	234,578	(17,670)	(7.5%)
Other Operating Revenue	23,977	23,840	137	0.6%
Operating Expense	(207,945)	(186,233)	21,713	11.7%
Depreciation & Tax Expense	(57,152)	(53,321)	3,831	7.2%
<b>Net Operating Income</b>	<b>66,348</b>	<b>88,376</b>	<b>(22,028)</b>	<b>(24.9%)</b>
Non-Operating Activity	(8,260)	(11,195)	(2,935)	(26.2%)
<i>Bottom Line (Nov. 18)</i>	<i>58,088</i>	<i>77,181</i>	<i>(19,093)</i>	<i>(24.7%)</i>

<b>Nov. 4 Budget Presentation</b>	<b>57,296</b>
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# Capital Expenditures

(in 000's)	Prelim Budget 2020	Adopted Budget 2019	\$ Change	Major Project Focus
<b>Total Capital</b>	<b>169,068</b>	<b>150,132</b>	<b>18,935</b>	<i>Rock Island Modernization / Operations Service Center</i>
Less: Contributions	(3,847)	(4,488)	641	<i>Capital Paid By Others</i>
Fiber Make Ready Offset	(1,130)	----	(1,130)	<i>Make ready costs: Intersystem</i>
Regulatory Assets & Other	5,998	4,737	1,261	<i>Conservation / Lic. Obligations</i>
<b>Net Capital &amp; Reg. Assets</b>	<b>170,089</b>	<b>150,382</b>		

<b>Nov. 4 Budget Presentation</b>	<b>151,579</b>
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# Key Total Capital Project Revisions\*

## (Existing Projects)

Indicates change from Nov. 4 presentation

(in 000's)	Current	Revised	Change	Major Driver
RI PH#1 HVAC Upgrades	1,408	2,415	1,007	Bid higher than original estimate
RI Spillway Hoist 17,25 Replace	1,400	2,980	1,580	Updated estimate based on preferred option
RI PH2 Gantry Crane	5,760	9,100	3,340	Bid higher than original estimate
RI PH2 Bridge Crane	4,960	13,390	8,430	Purchasing 2 instead of 1
RI PH1 B1 Modernization	15,415	17,796	2,381	Schedule delays
RI PH1 B2 Modernization	16,450	18,595	2,145	Schedule delays
RI PH1 B3 Modernization	16,275	17,607	1,332	Schedule delays
RI PH1 B4 Modernization	19,900	21,198	1,298	Schedule delays
RI PH1 B7 Modernization	31,300	32,600	1,300	Schedule delays
RI Facilities Upgrade	33,895	38,095	4,200	Design/plan changes
Goodwin Bridge Line Relocate	200	2,150	1,950	Design completed
Ohme Substation	3,700	5,929	2,229	Design change to double bank

\* Includes revisions >\$1M, excludes Public Bower Benefit and recurring annual capital project activity

# Key Total Capital Project Revisions\*

## (New Projects)

*Indicates change from Nov. 4 presentation*

(in 000's)	Current	Revised	Change	Major Driver
RR: Headgates / Stop log dewatering pumps	---	2,750	2,750	Project being initiated
System Ops: Backup Control Center	---	2,000	2,000	Project being initiated
Transmission: Interconnect Bavarian Sub	---	2,275	2,275	Project being initiated
RR Powerhouse HVAC	---	2,570	2,570	Project being initiated
Distribution Management System (ADMS)	---	4,160	4,160	Project being initiated
Chelan-Manson Transmission line rebuild	---	5,000	5,000	Project being initiated
Chelan Hatchery Wellfield Rehab	---	2,714	2,714	Project being Initiated
Wenatchee Substation Capacity increase	---	4,720	4,720	Project being initiated
Fiber/Telecom: Network Core Upgrade	---	1,155	1,155	Project being initiated

\* Includes revisions >\$1M, excludes Public Power Benefit and recurring annual capital project activity



# Combined District Expenditures

(in 000's)	Preliminary 2020 Budget	Adopted 2019 Budget	%
Operating Expense	207,945	186,233	11.7%
Tax Expense	10,683	8,584	24.4%
Non-Operating Exp/(Inc): excludes CIAC	12,468	16,252	(23.3%)
Net Capital & Reg Assets	170,089	150,382	13.1%
<b>Total Expenditures (Nov. 18)</b>	<b>401,185</b>	<b>361,450</b>	<b>11.0%</b>

<b>Nov. 4 Budget Presentation</b>	<b>382,398</b>
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Net Debt Principal Payments	39,062	38,477	1.5%
<b>Total Expenditures &amp; Net Debt Reduction (Nov. 18)</b>	<b>440,247</b>	<b>399,927</b>	<b>10.1%</b>

<b>Nov. 4 Budget Presentation</b>	<b>421,460</b>
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**Primary Driver of Increase: Significant volume of work at the Hydros**

# Combined Financial Policies 2020 Preliminary Budget

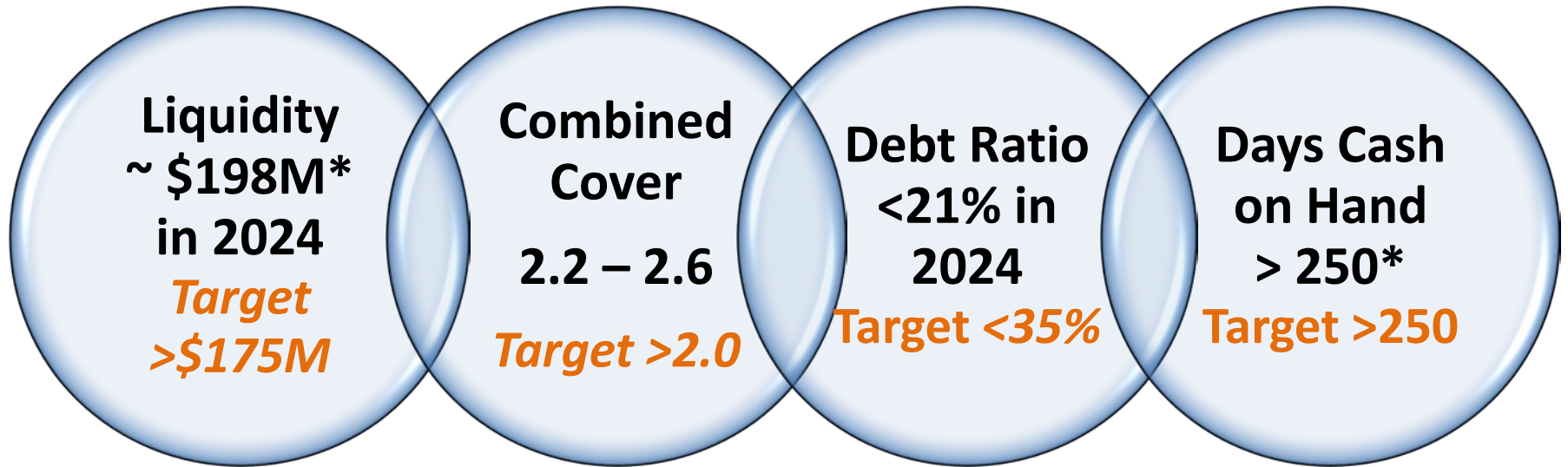
	Financial Liquidity	Combined Cover	Debt Ratio	Days Cash on Hand
Base Case – expected <i>Target</i>	\$399M <i>&gt; \$198M</i>	2.49 <i>&gt; 2.0x</i>	27.2% <i>&lt; 35%</i>	489 <i>➤ 250</i>
Base Case – unusual <i>Target</i>	\$391M <i>&gt; \$198M</i>	2.35 <i>&gt; 1.25x</i>	27.3% <i>&lt; 35%</i>	478 <i>&gt; 250</i>



**On track**



# 2020-2024 Plans Meet District Financial Policies



## ***Results based on expected conditions***

\*We have a Board reporting requirement to provide an action plan when metrics come within 10% of the target. Both of these metrics are within that 10% threshold and our recommended action plan is to issue external debt in 2022 to maintain overall liquidity

\*Liquidity target is the greater of \$175M or methodology calculation - approx. \$198M in 2024 (October 2019 forecast)

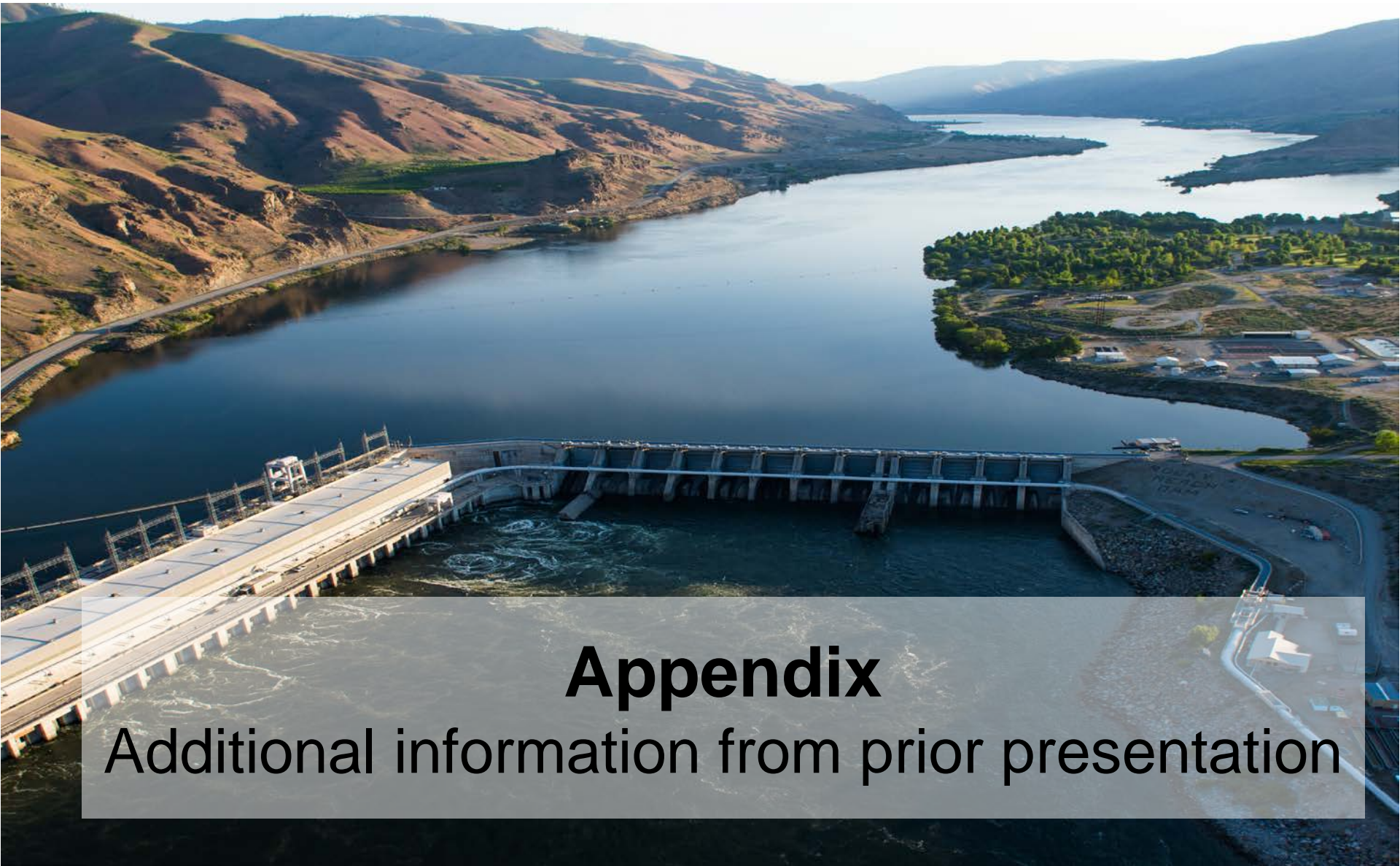
# Budget Next Steps

## **Respond**

- Respond to questions
- Provide any additional detail requested

## **Approve**

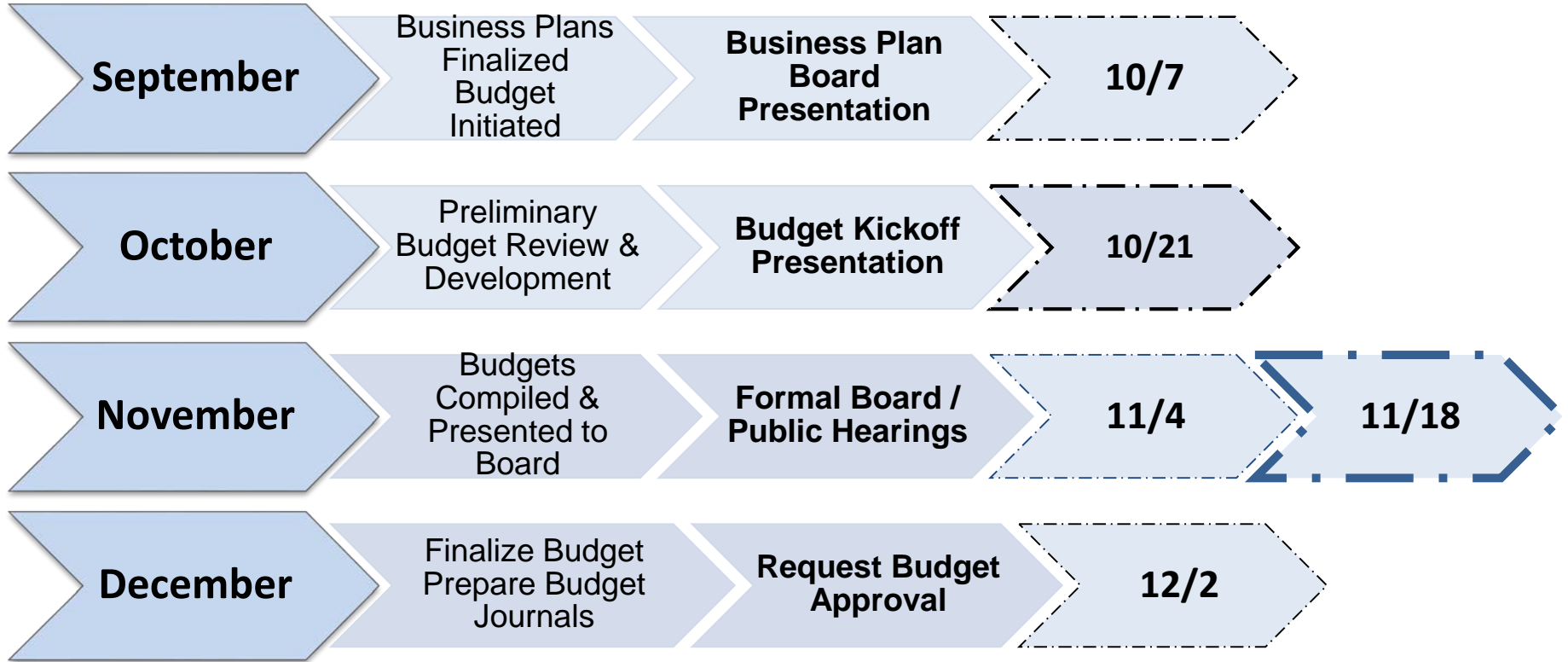
- Requesting Board Approval on Dec. 2



# Appendix

Additional information from prior presentation

# Budget Timeline



Indicates Board Meetings

# Major O&M Activities



**RR large unit repairs \$9.5M (C10 & C11)**



**Hatcheries \$6.7M**



**Tree Trimming Program \$2.1M**



**Security \$1.1M**

# 2020 Major Capital Projects

## Rock Island – Major Driver



### RI Modernization

- RI B1-B4 ~\$19 million (Total Project ~\$75M)
- B5, B7 & B8 ~\$25 million (Total Project ~\$97M)
- RI PH2 U1-U8 Rehab ~\$10 million (Total Project ~\$12M)



### RI Cranes

- RI PH2 Bridge ~\$6.5 million (Total Project ~\$13.4M)
- RI PH2 Gantry ~\$4.8 million (Total Project ~\$9.1M)

# 2020 Major Capital Projects



## Substations

- ~\$13.8 million (Total Project ~\$21.6M)



## Operations and Service Center

- ~\$18.0 million (Total Project ~\$135.0M)

## RR Headgates / Stop log dewatering pumps

- ~\$2.8 million total



## RI Facilities Upgrade

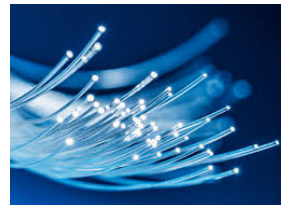
- ~\$26.3 million (Total Project ~\$38.1M)

## RR Facilities Upgrade

- ~20.8 million (Total Project ~\$41.5M)

## RR and RI HVAC

- ~ \$4.8 million total



## Fiber Expansion (Public Power Benefit Program)

- ~\$2.5 million

# Summary of Changes Since Nov. 4 2020 Budget Updates

## Increase of net capital spending for 2020 \$18.5M

- Primary driver of change: Rock Island Modernization / Facilities
  - Rock Island B5 Modernization increase ~\$15.8M
  - Rock Island Facilities Upgrade increase ~\$4.5M
- Other minor planning adjustments

## Updated Net Wholesale Revenue forecast: reduction \$0.4M

- Updated outage schedules of hydro facilities

## Refined O&M plans: increase of \$0.2M

- Updated allocation of resources performing capital / O&M work

## Refined depreciation estimate: decrease of \$0.6M

- Depreciation estimate based on updated capital forecast for 2019



# Summary of Changes Since Nov. 4 2020 Bottom Line Impacts

Bottom line: increase \$0.8M

- \$57.3M to \$58.1M

Operating Revenues: increase \$0.6M

- Net wholesale revenue update
- Index pricing update for off-system sales

Operating Expenses: reduction \$0.4M

- Depreciation refinement (~\$0.6M)
- O&M refinement ~\$0.2M

Non-Operating Activity: decrease \$0.2M

- Refinement of interest earnings on forecast cash balance

# Combined Financials 2020

(in 000's)	Prelim Budget 2020	Adopted Budget 2019	\$ Change	% Change
Service Revenue	90,561	69,512	21,048	30.3%
Net Surplus Energy Revenue	216,907	234,578	(17,670)	(7.5%)
Other Operating Revenue	23,977	23,840	137	0.6%
Operating Expense	(207,945)	(186,233)	21,713	11.7%
Depreciation & Tax Expense	(57,152)	(53,321)	3,831	7.2%
<b>Net Operating Income</b>	<b>66,348</b>	<b>88,376</b>	<b>(22,028)</b>	<b>(24.9%)</b>
Non-Operating Activity	(8,260)	(11,195)	(2,935)	(26.2%)
<i>Bottom Line (Nov. 18)</i>	<i>58,088</i>	<i>77,181</i>	<i>(19,093)</i>	<i>(24.7%)</i>
<b>Nov. 4 Budget Presentation</b>	<b>57,296</b>			
<b>2020-24 Business Plan</b>	<b>56,363</b>			

# Five-Year Financial Plan 2020-2024

(in 000's)	Prelim Budget 2020	Forecast 2021*	Forecast 2022*	Forecast 2023*	Forecast 2024*
Service Revenue	90,561	97,480	105,296	108,836	94,799
Net Surplus Energy Revenue	216,907	211,041	204,741	217,944	240,816
Other Operating Revenue	23,977	20,901	21,287	21,968	22,772
Operating Expense	(207,945)	(213,540)	(202,796)	(206,317)	(209,166)
Depreciation & Tax Exp	(57,152)	(63,263)	(69,063)	(72,879)	(73,364)
<b>Net Operating Income</b>	<b>66,348</b>	<b>52,618</b>	<b>59,465</b>	<b>69,553</b>	<b>75,855</b>
Non-Operating Activity	(8,260)	(11,112)	(13,416)	(12,972)	(11,429)
<b>Combined "Bottom-Line"</b>	<b>58,088</b>	<b>41,507</b>	<b>46,049</b>	<b>56,581</b>	<b>64,426</b>
<b>Nov. 4 Budget Presentation</b>	<b>57,296</b>	<b>41,149</b>	<b>45,370</b>	<b>52,855</b>	<b>61,296</b>
<b>2020-2024 Business Plan</b>	<b>56,363</b>	<b>41,149</b>	<b>45,370</b>	<b>52,855</b>	<b>61,296</b>
<b>Last Year's Budget Adoption</b>	<b>54,176</b>	<b>51,226</b>	<b>49,957</b>	<b>46,702</b>	<b>52,381</b>

➤ **5-Year results are slightly better than 2020-2024 Business Plan and 2019 Budget**

\*Forecast as of 10.31.2019

# Service Revenue

(in 000's)	Prelim Budget 2020	Adopted Budget 2019	Variance
Residential Electric	27,384	27,785	<i>Growth from current 2019 forecasted usage offsetting impacts from energy conservation efforts</i>
Commercial Electric	17,114	17,322	
Industrial Electric	5,309	5,101	
Off-System end use	19,434	-	
HDL Electric / Crypto	5,426	3,681	
Other Electric	1,607	1,547	
<b>Electric Service</b>	<b>76,274</b>	<b>55,435</b>	<i>Microsoft off-system end use sale shifts revenue from wholesale to service revenue</i> <i>Growth impacts from High Density Loads</i> <i>No rate increase included in 2020 (Strategic Plan designated rate increases included in 2021 to be conservative for financial results)</i>
Water Service	6,302	6,162	<i>~2% growth / 0% rate adjust 2020</i>
Wastewater Service	744	725	<i>~1.5% growth / 0% rate adjust 2020</i>
Fiber & Telecom	7,241	7,190	<i>~1% growth / 0% rate adjust 2020</i>
<b>Service Revenue</b>	<b>90,561</b>	<b>69,512</b>	
<b>Nov. 4 Budget Presentation</b>	<b>89,923</b>		
<b>2020-24 Business Plan</b>	<b>89,923</b>		

# Net Surplus Energy Revenue

(in 000's)	Prelim Budget 2020	Adopted Budget 2019	Variance
Slice Contracts	70,523	70,241	<i>Consistent with 2019</i>
Block/Pre Sched/Real Time	3,590	31,361	<i>Less available to market due to off-system end use</i>
<b>EP&amp;T Net Wholesale</b>	<b>74,113</b>	<b>101,602</b>	
LT Hydro Contracts	144,115	134,296	<i>Cost-based plus: higher operating costs and increased charges</i>
Less: Nine Cyns & Other PP	(1,320)	(1,320)	<i>Consistent with 2019</i>
<b>Net Surplus Energy Revenue</b>	<b>216,907</b>	<b>234,578</b>	
<b>Nov. 4 Budget Presentation</b>	<b>216,788</b>		
<b>2020-24 Business Plan</b>	<b>216,486</b>		

# Other Operating Revenue

(in 000's)	Prelim Budget 2020	Adopted Budget 2019	Variance
Transmission/Wheeling	11,277	10,323	<i>Cost based: Increase investments in operations/compliance</i>
Real Time Contract – <i>Fixed</i>	4,000	4,000	<i>Consistent with 2019 budget</i>
Real Time Contract – <i>Variable</i>	3,000	3,000	<i>Consistent with 2019 budget</i>
Service/Late Charges	319	366	<i>Consistent with 2019 budget</i>
Misc Other Items	5,295	6,151	<i>LT contract admin fees</i>
<b>Other Operating Revenue</b>	<b>23,977</b>	<b>23,840</b>	
<b>Nov. 4 Budget Presentation</b>	<b>24,148</b>		
<b>2020-24 Business Plan</b>	<b>23,643</b>		

# Operating Expense

(in 000's)	Prelim Budget 2020	Adopted Budget 2019	Variance
Hydro O&M	73,707	66,605	<i>Continuing large unit repair Insurance proceeds offset in 2019</i>
Hydro Fish & Wildlife	18,722	16,212	<i>Hatchery Operational Contracts (Primarily Eastbank) Rock Island Fishway work</i>
Hydro Parks & Recreation	10,410	7,493	<i>Discovery Center Maintenance</i>
Electric Distribution	18,201	16,290	<i>Tree Trimming Contracts Inspection Lineman / 4 New Crew Linemen</i>
Electric Transmission	14,261	14,458	<i>Consistent with 2019 Budget</i>
Power Supply Mgmt	5,054	4,933	<i>Consistent with 2019 Budget</i>
Water/Wastewater O&M	3,607	3,191	<i>Water Safety Fall Restraint/Regulation</i>
Fiber Network O&M	5,204	5,228	<i>Consistent with 2019 Budget</i>

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# Operating Expense

(in 000's)	Prelim Budget 2020	Adopted Budget 2019	Variance
Customer Accts & Svc	4,781	3,807	<i>Customer relations / CIS support</i>
Conservation	4,890	4,452	<i>Recognition of investments</i>
Insurance	8,386	6,868	<i>Anticipated property and liability insurance premium increases</i>
FERC Fees	1,462	1,604	<i>Actual fees lower in 2019</i>
Other Admin & General	39,260	35,091	<i>Information technology support / licensing / maint. O&amp;M labor shift from other activities above (tech shop)</i>
<b>Total</b>	<b>207,945</b>	<b>186,233</b>	
<b>Nov. 4 Budget Presentation</b>	<b>207,756</b>		
<b>2020-24 Business Plan</b>	<b>207,003</b>		



# Non-Operating Activity

(in 000's)	Prelim Budget 2020	Adopted Budget 2019	Variance
Investment Earnings	14,740	13,712	<i>Higher cash balances &amp; interest rates</i>
Contribution Income	4,208	5,057	<i>Lower HDL/Crypto growth related contributions</i>
Interest Expense	(22,849)	(24,990)	<i>Lower debt balance</i>
Other Inc/(Exp)	(4,359)	(4,975)	<i>Consistent with 2019 Budget</i>
<b>Net expense</b>	<b>(8,260)</b>	<b>(11,195)</b>	
<b>Nov. 4 Budget Presentation</b>	<b>(8,071)</b>		
<b>2020-24 Business Plan</b>	<b>(8,080)</b>		

# Capital Expenditures

(in 000's)	Prelim Budget 2020	Adopted Budget 2019	\$ Change	Major Project Focus
Electric Distribution	29,343	21,885	7,458	Substation investments, AMI
Electric Transmission	8,565	3,987	4,578	McNeil Canyon, Mid C Transmission
Rocky Reach Hydro	11,345	6,011	5,334	HVAC, Head gates / Stop log dewatering pumps, C1-C11 Unit Controls Governor
Rock Island Hydro	78,902	71,590	7,312	Powerhouse 1 modernization, cranes, governor controls
Lake Chelan Hydro	994	111	882	Log boom and dock replacement (parks)
Corporate/Shared Assets	33,621	34,745	(1,124)	Shared facility upgrades, CIS upgrade
<b>Integrated Electric</b>	<b>162,770</b>	<b>138,329</b>	<b>24,440</b>	

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# Capital Expenditures

(in 000's)	Prelim Budget 2020	Adopted Budget 2019	\$ Change	Major Project Focus
Fiber	5,418	7,273	(1,855)	Portal replacement in 2019, Public Power Benefit (PPB) expansion & upgrades
Water	704	1,068	(364)	Wenatchee Heights tank replacement
Wastewater	176	3,462	(3,286)	Peshastin system upgrades
<b>Total Capital</b>	<b>169,068</b>	<b>150,132</b>	<b>18,935</b>	
Less: Contributions	(3,847)	(4,488)	641	Capital Paid By Others
Fiber Make Ready Offset	(1,130)	----	(1,130)	Make ready costs: Intersystem
Regulatory Assets & Other	5,998	4,737	1,261	Conservation / Lic. Obligations
<b>Net Capital &amp; Reg. Assets</b>	<b>170,089</b>	<b>150,382</b>		
<b>Nov. 4 Budget Presentation</b>	<b>151,579</b>			
<b>2020-24 Business Plan</b>	<b>151,579</b>			

# New Positions

(consistent with Business Plan)

## Customer Service (7 positions)

- Large Retail Load Manager
- Fiber Customer Service Administrator
- Water Journeyman
- Data Analyst – Conservation (tentative)
- Customer Utilities Admin Assistant
- Real Estate Services Specialist (limited assignment)
- Utility Clerk-Chelan/Leavenworth (limited assignment)

## Distribution Reliability (7 positions)

- Engineering Operations Manager
- Forester
- Inspection Lineman
- 4 New Crew Lineman

## Hydro Capability (1 position)

- Dam Safety/Civil Engineer

## Technology (4 positions)

- Fiber Cybersecurity Administrator
- Technical GIS Analyst
- Functional GIS Analyst
- Technology Project Manager

## Internal Support (5 positions)

- PCS Contract Specialist
- Engineering student (2 part-time)
- HR and Payroll Support (limited assignment)
- Learning and Development Program Manager (limited assignment)
- Safety Director (established in 2019: new to 2020 Budget)

## Safety (1 position)

- Safety Coordinator

**Total - 25**

# Business Line Financial Policies

## 2020 Preliminary Budget

	Operating Exp. Coverage	Cash Reserves (unrestricted)	Debt Ratio
Fiber & Telecom <i>Target</i>	<b>115%</b> >120%	<b>\$13.7 M</b> \$2 M	<b>---</b> % < 35%
Water <i>Target</i>	<b>117%</b> >120%	<b>\$3.5 M</b> \$1.25 M	<b>9.5%</b> < 35%
Wastewater <i>Target</i>	<b>82%</b> > 100%	<b>\$0.5M</b> \$200 K	<b>2.9%</b> < 35%

	Retail Total Cost Ratio	Retail OM&T Cost Ratio	Retail Support Limit	Market Based Margin Limit
Integrated Electric <i>Target</i>	Metrics under review. New metrics to be proposed in 2020			

Financial Policy not met. Action plan is to implement actions recently adopted in the 2020-2024 Strategic Plan.

# Strategic Focus

The 2020 Budget is built around strategic initiatives and business plans presented on October 7th

The foundation of our strategic initiatives and budget is at the top of our balanced scorecard: Customer-Owner Satisfaction

District initiatives identified to accomplish the four strategic plan goals

Board resolution requires budget cycle to include both an annual budget and five-year financial plan compliant with District financial policies

# Strategic Plan Goals

**1**

Invest in assets and people and seek industry top-quartile performance for hydro generation, retail reliability, and safety while improving our customer service technology

**2**

Sustain excellent financial resiliency while mitigating the risk of large rate increases

**3**

Enhance the quality of life in Chelan County through programs that distribute the benefits of public power

**4**

Engage in countywide growth planning and job creation efforts while ensuring the District's rates and policies remain stable and predictable

# Key Budget Assumptions

## Wholesale Revenue

- Average water, current forward energy and carbon price curves
- Hedge program fully implemented and continuing
- Includes unit outage impacts
- Consistent hydro fish spill in accordance with requirements

## System Load Growth

- 3.9% Electric (~8 aMW total net of conservation, ~5.5 aMW HDL)
- 0.7% Retail Electric organic growth
- 2% Water, 1.5% Wastewater
- 1,100 New Fiber Installs (750 current service territory, 350 PPB)

## Business Line Service Revenues

- Business line rate increases included for 2020-2024 in the Strategic Plan
- For conservative revenue forecasting, annual rate increases for all business lines estimated to begin Jan. 1, 2021 (actual effective dates still to be determined)
  - 3% Electric, 4% Water, 4% Wastewater and 3% Fiber
  - Includes estimated \$1.5M PPB for the Dryden Wastewater treatment project



# Key Budget Assumptions

## Labor Bargaining Unit

- General Wage Increase of 3% effective April 1, 2020 per Collective Bargaining Agreement

## Labor Non-Bargaining Unit

- Budget includes assumptions for merit increases, market adjustments and promotions
- Final decisions will be informed by actual market data
- Employer medical, VEBA and retirement benefits for both bargaining and non-bargaining blended to about a 1.6% increase

## Long-term “cost-plus” power contracts

- Debt Reduction Charge (DRC) – 3.0%
- Capital Recovery Charge (CRC) - 50%

# Key Budget Assumptions

## Capital & Operating Expenditures

- Driven by 2020-2024 business plans
- 2020 expenditures include continuance of RI modernization, RR large unit repairs, distribution infrastructure, and facilities (Service Center, RR, RI) as key drivers

## Debt & Interest Income

- Net scheduled principal payments of \$39 million
- Interest earnings estimated at 2.61%

## Public Power Benefit Investments

- Includes continuation of fiber expansion, Board selected projects & designated funding level
- Budget revisions will be processed as new projects are designated