



PUBLIC UTILITY DISTRICT NO. 1 of CHELAN COUNTY

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Thank you for your interest in service from Chelan County PUD. You are receiving this information as one of several interested parties who have requested electric service in excess of 5 MW. Service requests of this size are new to the PUD and as you may be aware, we do not have a standard approach to accepting and analyzing requests of this size. While we are working on developing this protocol, to date we have received numerous inquiries that would more than double the District's annual average load. Due to the number of requests, volume of power needed and the impact to our electric system, there are significant risks to our resources, business plans and overall business model structures – we must take time to develop a sustainable approach, one that is in the best interest of all our customer owners. On February 20, 2018, General Manager Steve Wright discussed these concerns with the Board of Commissioners, presentation attached.

Overall, our electric generation, transmission and distribution systems are not generally able to incorporate the magnitude of your power needs within the short timeframes being requested. However, we are very much interested in working with you to define options that would create value for our existing customer-owners and you. This should be a collaborative discussion as we seek to understand your interests relative to the costs and time to deliver. For example, it is important to understand characteristics such as your expected load factor, your reliability requirements relative to cost (the more reliability you desire the higher the cost and infrastructure development requirements), and your flexibility for power delivery.

We are exploring various options for best providing service. The following outlines and is illustrative of the types of issues that need to be addressed;

Generation:

The PUD business model is built upon long-term investment in generating assets that has created value for our customer-owners through generation of power to serve our local load while providing excess generation that for the most part is sold in the wholesale market. The sale of excess power allows the PUD to price power for local residential and other users below cost as a customer-owner benefit. Large requests for power can create financial risk to the PUD's business model, and therefore all customer-owners, as wholesale revenues decrease and the cost of things like streamflow, outage, and credit risks are shifted back to the utility from existing long-term wholesale sales. In addition, this creates substantial rate pressure on the District's existing customers and rate classes.

We are evaluating different options for generation pricing. One would be based on our existing rate for high density loads (HDL) although this rate is under review and adjustments will be necessary for larger loads. This option would likely be a variable price option based upon production cost. With this option the contract power rate could be adjusted by the Board of Commissioners through the standard rate setting process as costs and risks change. This

contract would also include minimum terms, credit protection, and responsibility for customer program costs as outlined below.

Two options would be treated more like our wholesale sales for which we have two generic types of contracts; production cost and market based. Both of these options would likely be based on selling a share (slice) of the output of our hydro projects and additional products will likely be necessary to assure reliable service. These contracts contain considerations necessary in any contract for a large power supply purchase from our hydropower system including;

- Pricing construct and payment terms
- Outage risk
- Streamflow risk
- Minimum/maximum term
- Credit protection

A final option would be for the PUD to facilitate an import of power from the market to serve the load where the customer carries all of the risk of such a purchase, including power supply risk. In the event the customer has not locked in sufficient supply far enough in advance, and a shortage occurs, the customer would need to reduce load to levels that the District could obtain from the market.

The options under evaluation are described generally in the attached presentation.

Additionally, as a retail customer, you would share in the responsibilities for customer program costs, such as I-937 requirements, Public Power Benefits, low-income subsidies, etc.

As a customer, you will need to consider all the potential benefits and risks associated with the different types of potential arrangements.

It is important to note that Chelan PUD does not maintain large amounts of power supply uncommitted and available. Nearly all of our power supply is committed to sales of various terms. Our discussion will need to be in the context of when and how power is made available, which is also impacted by transmission/distribution considerations.

Transmission and Distribution

As a general rule, the District does not maintain excess delivery capacity in magnitudes necessary to provide for large load requests without additional infrastructure investment. Infrastructure investment requires clarity around the service request, time commitment for taking power, time for planning and construction, credit protection, and cost among other items.

All above 5 MW requests will need to be assessed to determine if they can be served with existing infrastructure assuming native load growth over a period of up to 10-years. It is anticipated that very few will meet this standard. Transmission and distribution rates and fees will be determined based on: cost of siting, building, maintaining and operating existing infrastructure; cost of any system modifications necessary to provide service to a location; and contribution toward the cost of new infrastructure that will be needed either now or in the future.

Our substations are built to address anticipated local growth, thus we are not aware of any uncommitted existing substation transformer available to connect single loads over 5 MW. In order to serve a new large load at standard Distribution voltages it is likely a new substation will be required. The timelines, location, stakeholder outreach process, and cost to construct new Distribution substations will all need to be discussed with you. In a typical scenario, this could take 3-5 years. We are willing to work with you in an effort to accelerate this timeline although it may not be feasible given other priorities and will likely lead to increased cost to you.

Given what we understand to be the size of these new service requests, we expect that all requests will be need to be evaluated for capacity and impact to our Transmission system. Processes for defining and meeting transmission needs are likely to take at least two years.

Transmission service requests will require the following:

- A series of increasingly detailed engineering, design and planning studies to determine the infrastructure investment necessary to serve the load. These studies will typically take more than a year. Service requesters must provide deposits for each study, ranging in cost from \$10,000 to \$100,000 or more. Cost is largely determined by complexity of request and the delivery location. We would anticipate a true-up to actual costs as studies progress.
- Contractual commitments in advance to define responsibilities and assure all District costs are covered for engineering, siting, permitting, public outreach and design for any new infrastructure investments.
- Contractual commitments in advance of construction to cover all costs of transformation from transmission level voltages to your desired voltage for load service.
- Contractual commitments defining a contribution to cover actual costs for new infrastructure investment, operation and maintenance.
- Credit risk management, which will likely include up-front payment

We are currently preparing a simplified assessment of the cost of transmission investment at four load centers (Wenatchee, Malaga, Entiat, and Monitor). We hope this will provide useful guidance for making siting decisions.

It is possible that grouping applications in roughly the same area could reduce costs for the individual participants by clustering the studies together. While this would increase the time up-front to coordinate applications, there is a potential value to service requesters. Following collaboration with service requestors and at our discretion, we will consider clustering transmission studies if and when we believe the combined effect of service requests are probable to cause transmission or distribution level impacts that would require infrastructure investment.

The distribution and transmission service cost for use of the existing system will depend on the delivery voltage selected and would be based on average system cost for your service.

Next Steps

Attached you will find a supplemental information form to be completed associated with your service request. Please return this form with the requested information and an application fee of \$2,000 to Chelan County PUD to set up a meeting with staff to review your needs. If you have questions regarding the additional information we have requested, please submit them to LargeRetail@chelanpud.org.