

Chelan County PUD

2015 Budget Presentation

November 3, 2014



CHELAN COUNTY
POWER

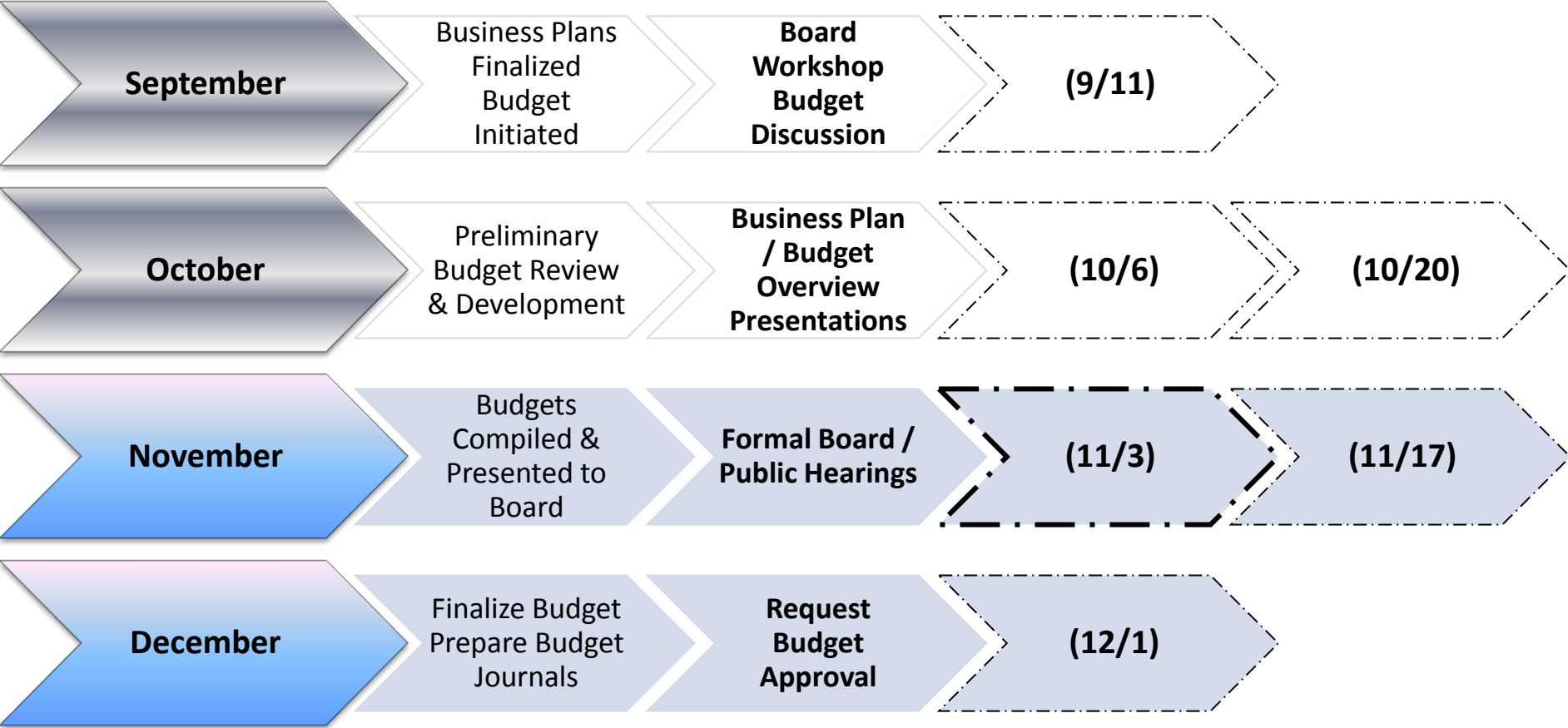
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What we will cover today...



No Board Action Required Today

Budget Timeline



Indicates Board Meetings

Strategic Focus

2015-2019 planning and the 2015 Budget are built around strategic initiatives and business plans presented Oct. 6th

Potential outcomes of strategic planning are not included – may require budget adjustments next year

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

2015-2019 Strategic Initiatives

- Continuing accelerated debt repayments to help prepare for low probability/high consequence negative financial events
- Catching up on deferred maintenance and capital projects
- Seeking out long term value in markets, infrastructure and regulatory compliance investments

2015-2019 Strategic Initiatives

- Increasing strategic focus for the organization (extend attention to 5-15 year period)
- Preparing our people for increasing challenges
- Enhancing customer/stakeholder satisfaction
- Pursuing operational excellence

Keys to 2015-2019 Planning

Creating value for our customer-owners

➤ Measure: Net revenues (our bottom line)

Net revenues (million \$)	Budget 2014	Budget 2015	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019	<i>Total 2014-18</i>
Budget Adoption, Dec. 2013	85.5	102.8	86.3	85.6	82.4		442.6
Budget/Forecast, Oct. 2014	87.7	97.8	86.8	84.4	83.1	85.2	439.8
<i>Change since last year</i>	2.2	(5.0)	0.5	(1.2)	0.7		(2.8)

- Within \$3 million of last year's forecast for 2014-2018
 - Revenues up \$33 million
 - Expenses up \$36 million
 - Risks decreasing through investments in assets, compliance and customer satisfaction

Keys to 2015-2019 Planning

Creating value for our customer-owners

➤ Measure: Liquidity

Total Liquidity (million \$)	Budget 2014	Budget 2015	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019
Budget Adoption, Dec. 2013	305.4	351.5	392.4	441.6	467.1	
Budget/Forecast, Oct. 2014	320.1	303.3	314.4	313.9	327.3	296.6
<i>Change since last year</i>	14.7	(48.2)	(78.0)	(127.7)	(139.8)	

- *Projected balance has decreased \$140 million since last year's forecast for 2014-2018*
 - Additional planned debt payments of \$93 million
 - Increased capital spending of \$47 million (catching up)
 - Good use of cash- increased flexibility while balance still above liquidity target ₈



Keys to 2015-2019 Planning

Creating value for our customer-owners

➤ Measure: Debt reduction

Debt Balance (million \$)	Budget 2014	Budget 2015	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019
Budget Adoption, Dec. 2013	734.7	677.6	650.8	613.7	572.8	
Budget/Forecast, Oct. 2014	734.7	612.1	584.3	518.2	479.5	382.4
<i>Change since last year</i>	<i>0.0</i>	<i>(65.5)</i>	<i>(66.5)</i>	<i>(95.5)</i>	<i>(93.3)</i>	

- Planned debt reduction of ~\$352 million (2015-19)
- Projected to achieve debt ratio of less than 35% by 2018 (one year earlier than target of 2019)

Combined Financials 2015-19

(in 000's)	Prelim Budget 2015	Forecast 2016*	Forecast 2017*	Forecast 2018*	Forecast 2019*
Service Revenue	62,189	63,119	64,032	64,866	65,059
Net Surplus Energy Revenue	243,073	225,257	223,849	224,332	226,582
Other Operating Revenue	21,238	22,888	24,533	25,494	26,130
Operating Expense	(145,556)	(143,215)	(145,679)	(156,707)	(160,392)
Depreciation & Tax Exp	(54,172)	(56,001)	(59,672)	(57,614)	(58,541)
Operating Income / (Loss)	126,772	112,048	107,063	100,371	98,838
Non-Operating Activity	(28,992)	(25,209)	(22,632)	(17,298)	(13,652)
Combined "Bottom-Line"	97,780	86,839	84,431	83,073	85,186

*This is an updated forecast post Q3 09/30/2014: Forecast as of 10/24/2014

Keys to the 2015 Budget

Continue debt reduction strategy with a net reduction of over \$122 million in 2015

Focus on deferred projects and continue with turbine & generator refurbishments

Operating expenditures & staffing to be in alignment with the District's business plans

Strategic planning to be completed, financial impacts currently not included

Combined Financial Results

(in 000's)	Adopted Budget 2014	Prelim Budget 2015	\$ Change	% Change
Service Revenue	61,458	62,189	731	1.2%
Net Surplus Energy Revenue	224,496	243,073	18,577	8.3%
Other Operating Revenue	19,519	21,238	1,719	8.8%
Operating Expense	(131,414)	(145,556)	(14,142)	10.8%
Depreciation & Tax Expense	(55,569)	(54,172)	1,397	(2.5)%
Operating Income	118,490	126,772		
Non-Operating Activity	(33,009)	(28,992)	4,017	(12.2)%
Combined "Bottom-Line"	85,481	97,780		

Service Revenue

(in 000's)	Adopted Budget 2014	Prelim Budget 2015	Variance
Residential Electric	25,646	25,975	<i>Modest customer growth</i>
Commercial Electric	16,523	16,718	<i>Modest customer growth</i>
Industrial Electric	5,823	5,763	<i>2014 usage below budget</i>
Other Electric	1,705	1,661	<i>Consistent with 2014</i>
Electric Service	49,697	50,117	<i>Overall modest growth No rate increase placeholders</i>
Water Service	4,922	5,142	
Wastewater Service	589	545	
Fiber & Telecom	6,250	6,385	
Service Revenue ¹	61,458	62,189	

¹ - Combined results above exclude intersystem activity

11/4/2014

Net Surplus Energy Revenue

(in 000's)	Adopted Budget 2014	Prelim Budget 2015	Variance
Slice Contracts	76,136	69,873	2014-22% / 2015-20%
Block/Pre Sch/Real Time	31,812	53,983	2015 locked in at higher market prices ~\$50/mwh
EP&T Net Wholesale	107,948	123,856	
LT Hydro Contracts	117,909	120,713	Increased operating cost Rocky Reach large unit repairs
Less: Nine Cyns & Other PP	(1,361)	(1,496)	Consistent with 2014
Net Surplus Energy Revenue	224,496	243,073	

Other Operating Revenue

(in 000's)	Adopted Budget 2014	Prelim Budget 2015	Variance
Transmission/Wheeling	6,992	7,846	<i>Increased transmission cost</i>
Real Time Contract – Fixed	4,000	4,000	<i>Consistent with 2014 budget</i>
Real Time Contract – Variable	3,963	4,000	<i>Consistent with 2014 budget</i>
Environmental Attributes	787	2,482	<i>Consistent with 2014 results</i>
Service Charges	1,063	1,177	<i>Consistent with 2014 budget</i>
Misc Other Items	2,714	1,733	<i>2014 -Rotor Crack Insurance Claim \$1.5M</i>
Other Operating Revenue	19,519	21,238	

Major O&M Cost Drivers



Rocky Reach Large Unit Repairs
~\$9M



Rocky Reach Spillway Apron
~\$3M



Combined Regular & Overtime
FTE's staffing increase of ~27



Safety, Compliance & Regulatory

Operating Expense

(in 000's)	Adopted Budget 2014	Prelim Budget 2015	Variance
Hydro O&M	40,974	48,137	<i>Rocky Reach large unit repairs & asset mgt</i>
Hydro Fish & Wildlife	14,272	15,059	<i>Consistent with 2014 Budget</i>
Hydro Parks & Recreation	6,408	7,063	<i>Major park maintenance increase</i>
Electric Distribution	11,381	11,759	<i>Consistent with 2014 Budget</i>
Electric Transmission	9,190	10,584	<i>Increasing reliability compliance</i>
Power Supply Mgmt	4,612	4,833	<i>EP&T revenue enhancements effort</i>
Water & Wastewater O&M	2,228	2,616	<i>Support costs more fully assigned</i>
Fiber Network O&M	3,670	3,784	<i>Consistent with 2014 Budget</i>
Customer Accts & Svc	3,300	4,002	<i>Improve customer interaction/satisfaction</i>
Conservation	1,340	1,565	<i>Recognition of deferred expense</i>
Insurance & FERC Fees	7,248	8,117	<i>Increased insurance premiums</i>
Other Admin & General	26,791	28,037	<i>Deferred maintenance on facilities</i>
Total	131,414	145,556	

11/4/2014

Non-Operating Activity

(in 000's)	Adopted Budget 2014	Prelim Budget 2015	Variance
Investment Earnings	3,500	4,578	<i>Improved earnings expectation</i>
Contribution Income	3,821	4,478	<i>Network Transmission increase</i>
Interest Expense	(35,475)	(32,081)	<i>Declining debt balance</i>
Other Inc/(Exp)	(4,855)	(5,967)	<i>Recognition of regulatory asset</i>
Total	(33,009)	(28,992)	

Major Capital Projects



Rock Island B6 Refurbishment
~\$5.6 (Total Project ~\$24.1M*)



Rocky Reach Gantry Crane ~\$3.8M
(Total Project ~\$6.3M)



Rock Island PH2 Governor Controls
~\$2.5M (Total Project ~\$10.7M*)



Lincoln Rock Camping Area
~\$2.8M (Total Project ~\$3.4M)

* - Total project cost review still in progress – presentations planned for Nov 17th

Major Capital Projects



BPON to GPON Upgrade
~\$2.0M (Total Project ~\$5.1M)



Rocky Reach Auto Transformer
~\$2.0M (Total Project ~\$5.0M)



Cashmere Substation
~\$2.0M (Total Project ~\$3.1M)



Mid-C Transmission Project
~\$0.7M (Total Project ~\$4.8M*)

•- *Total project cost review still in progress – Board presentation planned for future date*

Capital Expenditures

(in 000's)	Adopted Budget 2014	Prelim Budget 2015	\$ Change	Major Project Focus
Distribution	9,135	12,362	3,227	Substation-Line Improvements
Transmission	9,012	8,495	(517)	Auto Transformer-Mid-C Trsmn
Hydro Systems	20,245	24,405	4,160	B6 Unit-Gov Ctrls-Crane-Parks
Other Shared Systems	9,585	5,913	(3,672)	Facilities-Vehicles-Security
Integrated Electric	47,977	51,175	3,198	
Fiber & Telecom	3,245	4,497	1,252	GPON, New Connections
Water	452	487	35	Main Replacements
Wastewater	148	377	229	Lagoon Liner-Plant Upgrade
Total Capital	51,822	56,536	4,714	
Less: Contributions	(3,821)	(4,478)	(657)	Capital Paid By Others
Regulatory Assets & Other	4,070	3,850	(220)	Conservation / Lic. Obligations
Net Capital & Reg. Assets	52,071	55,908	3,837	

New Positions



Hydro Asset Management: 8 positions
Add value and revenue by keeping generating units in service, properly timing maintenance and capital investments and decreasing risk of catastrophic failure



Customer Satisfaction: 8 positions
Respond to customer's increasing desire for satisfactory interactions when seeking services and providing input to PUD decisions



Reliability Compliance: 5 positions
Respond to increasing federal standards for bulk electric system reliability as well as seeking to influence those standards to reduce the workload

New positions to be added throughout the year

New Positions



Revenue Enhancement: 3 positions
Take advantage of wholesale marketing opportunities in evolving western electricity markets to increase revenues



Distribution Asset Management: 2 positions
Enhance the reliability and efficiency of our electric distribution system



Operational Excellence: 3 positions
Provide support services necessary to increase the efficiency and effectiveness of the organization

New positions to be added throughout the year

Staffing Levels – Full-Time Equivalents

FTE's (1 FTE = 2080 hours)	Regular Hours	Overtime Hours	Total Hours		Actual Hours
2015 (preliminary budget)	727	23	750		
2014 (adopted budget)	702	21	723		
2013 (adopted budget)	692	22	714		694
2012 (adopted budget)	692	24	716		704
2011 (adopted budget)	698	26	724		707
2010 (adopted budget)	709	30	739		712
2009 (contingency budget)	721	25	746		725
2009 (adopted budget)	743	28	771		

2006-08 budgets and actuals were all at or above the 2009 level

2015 Pay Increase Forecast

- Non-bargaining unit wages remain competitive
- Overall wages were equal to market values shown in our salary surveys after pay increases in 2014.
- Job values and pay increases are forecasted to continue to grow slowly.

2015 Projected Pay Increases

Industry	Min – Max	Average
All Industry	3.0% - 3.3%	3.1%
Utility/Energy	2.9% - 3.3%	3.1%

2015 Pay Increase Budget

➤ Labor - Non-Bargaining Unit

- 2.60% Merit Budget
- 0.50% Market Budget
- 0.25% Promotions
- 0.25% One-time structural or other misc. adjustments

➤ Labor - Bargaining Unit

- Contract expires 3/31/15
- General Wage Increase to be negotiated this winter

Final pay increase decisions will be informed by actual data and the settlement of the Collective Bargaining Agreement

Employer Benefit Costs

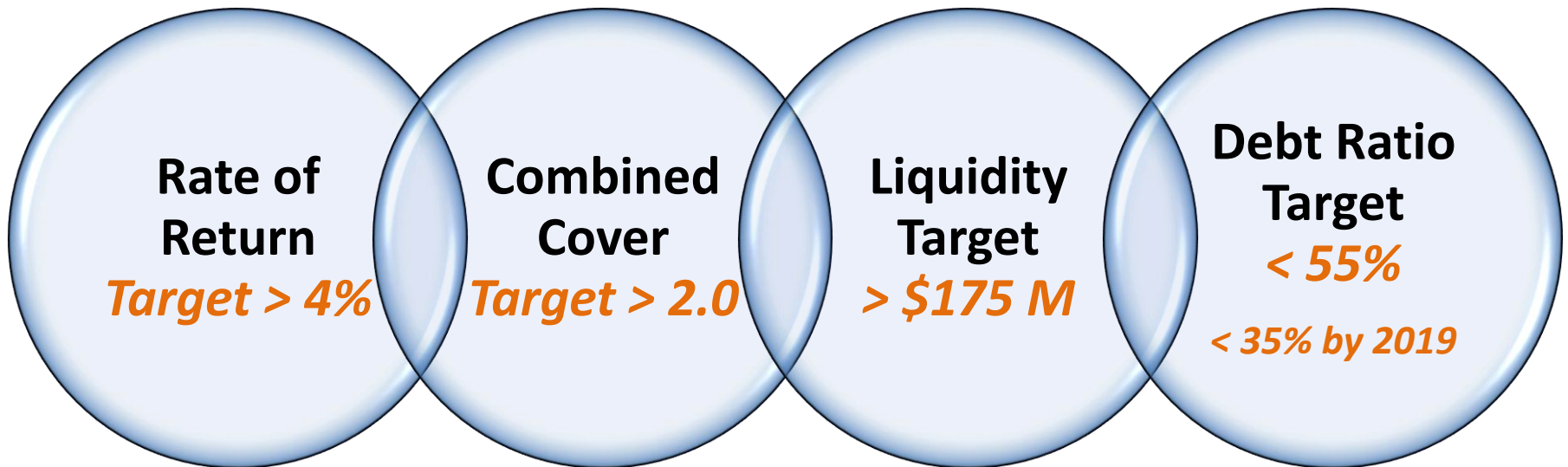
Costs (in 000's)	2014	2015	\$ Change	% Change
	Budget	Budget		
Medical Benefits	11,548	12,067	519	4.5%
Retirement				
PERS	5,380	6,294	914	17.0%
401(a)	1,631	1,713	82	5.0%
Total	\$ 18,559	\$ 20,074	\$ 1,515	8.2%

Combined District Expenditures

(in 000's)	Adopted 2014 Budget	Preliminary 2015 Budget	%
Operating Expense	131,414	145,556	10.8%
Tax Expense	7,290	7,423	1.8%
Non-Operating Exp/(Inc)	36,829	33,469	(9.1)%
Net Capital & Reg Assets	50,377	55,908	11.0%
Total Expenditures	225,910	242,356	7.3%
Net Debt Reduction *	81,673	122,583	50.1%
Total Expenditures & Net Debt Reduction	307,583	364,939	18.6%

- Existing debt activity associates with prior capital expenditure budgets

Strong Financial Policies



Combined Financial Policies 2015 Preliminary Budget

	Rate of Return ¹	Debt Ratio ²	Combined Cover	Financial Liquidity
Base Case – expected (50% probability)	9.1%	45.2%	2.63	\$303M
<i>Target</i>	> 4%	< 55%	> 2.0	> \$175M
Base Case – unusual (5% probability)	7.6%	45.7%	2.41	\$289M
<i>Target</i>	> 2%	< 55%	> 1.25	> \$175M

¹ - Associated with an expected bottom line of approximately \$97 million

² - Includes the expected debt reduction of approximately \$123 million

Business Line Financial Policies

2015 Preliminary Budget

	Rate of Return	Debt Ratio	Cover	Liquidity
Integrated Electric <i>Target</i>	10.0% <i>4.5%</i>	47.9% <i>< 55%</i>	2.62 <i>> 1.97</i>	\$298 M <i>\$171 M</i>
Fiber & Telecom <i>Target</i>	(1.2%) <i>> 0% by 2016</i>	---% <i>No Debt</i>	--- <i>No Debt</i>	\$4.4 M <i>\$4 M by 2016</i>
Water <i>Target</i>	(0.1%) <i>> 1% by 2016</i>	29.4% <i>< 60% by 2015</i>	1.1 <i>1.25 by 2016</i>	\$0.3 M <i>\$2 M</i>
Wastewater <i>Target</i>	(4.9%) <i>> 0% by 2016</i>	11.2% <i>< 60% by 2015</i>	(0.7) <i>1.25 by 2016</i>	\$160 K <i>\$250 K</i>

Results are below target – corrective action plans being addressed through strategic planning and interim positive cash balance targets

Conclusion

**Fundamental perspective –
How can we increase value
for our customer-owners?**

- *Drives long-term planning
and 2015 budget*

**Projecting substantial positive net
revenue over the next 5 years**

- *Key measure of financial health*
- *Within 1% of last year's forecast
for 2014-2018*

**Decreasing risk of asset
or compliance failure
through planned
investments**

**Accomplishing all of
above while decreasing
debt outstanding by
approximately \$352
million by 2019**

Budget Next Steps

Review

- Continued review and adjustments in November

Discuss

- 2nd Budget Hearing November 17

Approve

- Requesting Board Approval on December 1st

Questions?

Customer-owners are encouraged to join the discussion ... by sending comments to

2015Budget@chelanpud.org

For more information, [visit chelanpud.org](http://www.chelanpud.org)

Appendix

Additional information from prior presentation

Budget Guidelines

Budget dollars and FTE's are driven by creating long-term value for District ratepayers

Operating and Capital expenditures will be in alignment with the District's 5 year Business Plans

Staffing additions and replacements will need to follow the position justification process and will be identified in the District's 5 year Business Plans

Meet compliance, regulatory and safety requirements at or above required levels

Review project scope alternatives to determine the best value for the District and its customers

Early External Indicators

**Wanapum
drawdown
impacts to be
limited**

**Electricity
Prices
showing
some
improvement**

**Interest Rates
on
investments
remain low**

**Regulatory
Requirements
continue to
increase**

Key Budget Assumptions

Wholesale Revenue @ 50% Probability Level

- Average flows and current market price
- Hedge program fully implemented
- Wanapum impacts limited
- Hydro fish spill consistent

System Load Growth

- 1% Electric
- 2% Water
- 1.5% Wastewater
- 700 new connections-Networks

Business Line Service Revenues

- No change in Retail Electric rates
- No change in Water rates
- No change in Fiber rates
- No change in Wastewater rates

Key Budget Assumptions

Labor Bargaining Unit

- Collective Bargaining Agreement expires Mar 31 (negotiations begin 11/1)
- Wages and benefits are to be determined
- Budget includes estimated forecasts

Labor Non-Bargaining Unit

- Budget includes assumptions for merit increases, market adjustments and promotions
- Final decisions will be informed by actual data and the settlement of the Collective Bargaining Agreement

Long-term power contract terms & conditions

- Debt Reduction Charge (DRC) – 3.0%
- Capital Recovery Charge (CRC) - 50%
- Credit Premium Charge (Alcoa) – 1.0%
- Debt Admin Charge (Puget) – 1.0%

Key Budget Assumptions

Operating Expenses

- To be driven by 2015-19 business plans
- Expenditures are expected to increase as we catch up on deferred maintenance

Capital Expenses

- To be driven by 2015-19 business plans
- Expenditures are expected to increase as we catch up on deferred projects & implement turbine/generator repairs/refurbishments

Debt and Interest Income

- Net debt reduction of \$122.6 million included
- Interest earnings estimated just over 1%

District Strategic Planning Efforts

- Potential financial impacts not included
- Budget adjustments may be required