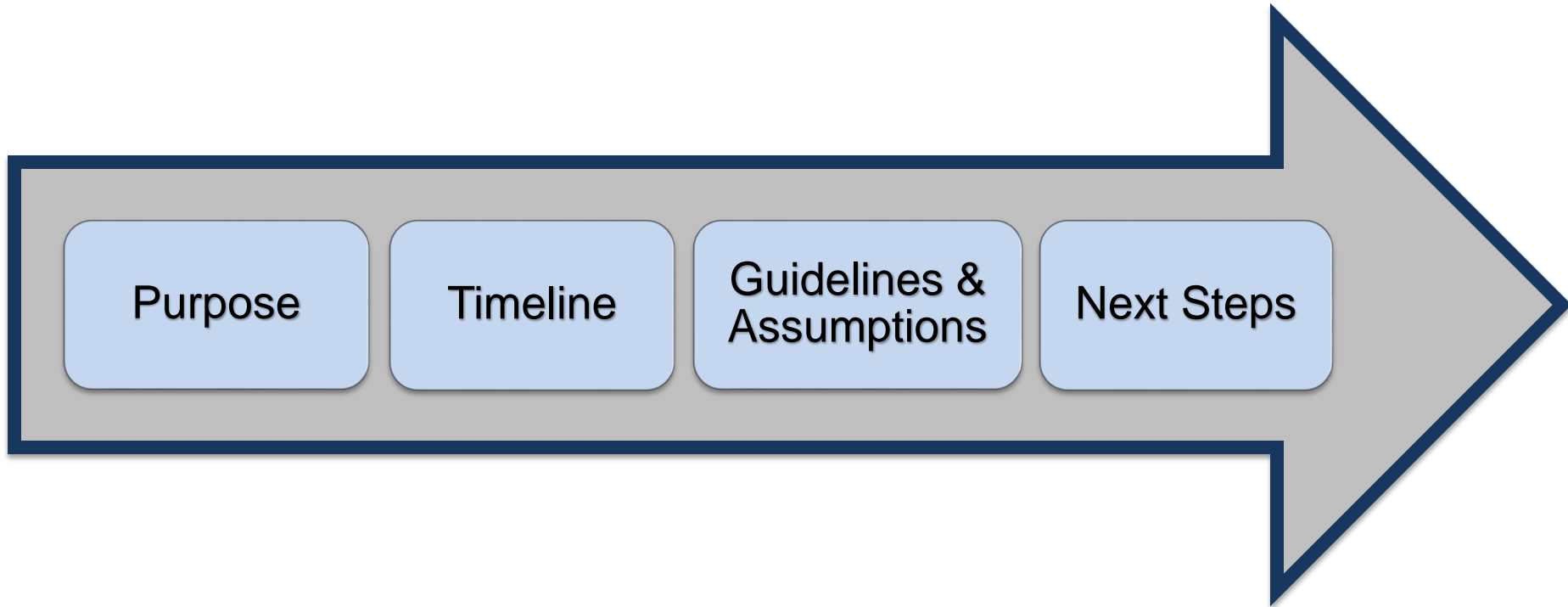




# 2020 Budget Kickoff Timeline and Key Assumptions

**October 21, 2019**

# What we will cover today...



No Board Action Required

# Today's Focus

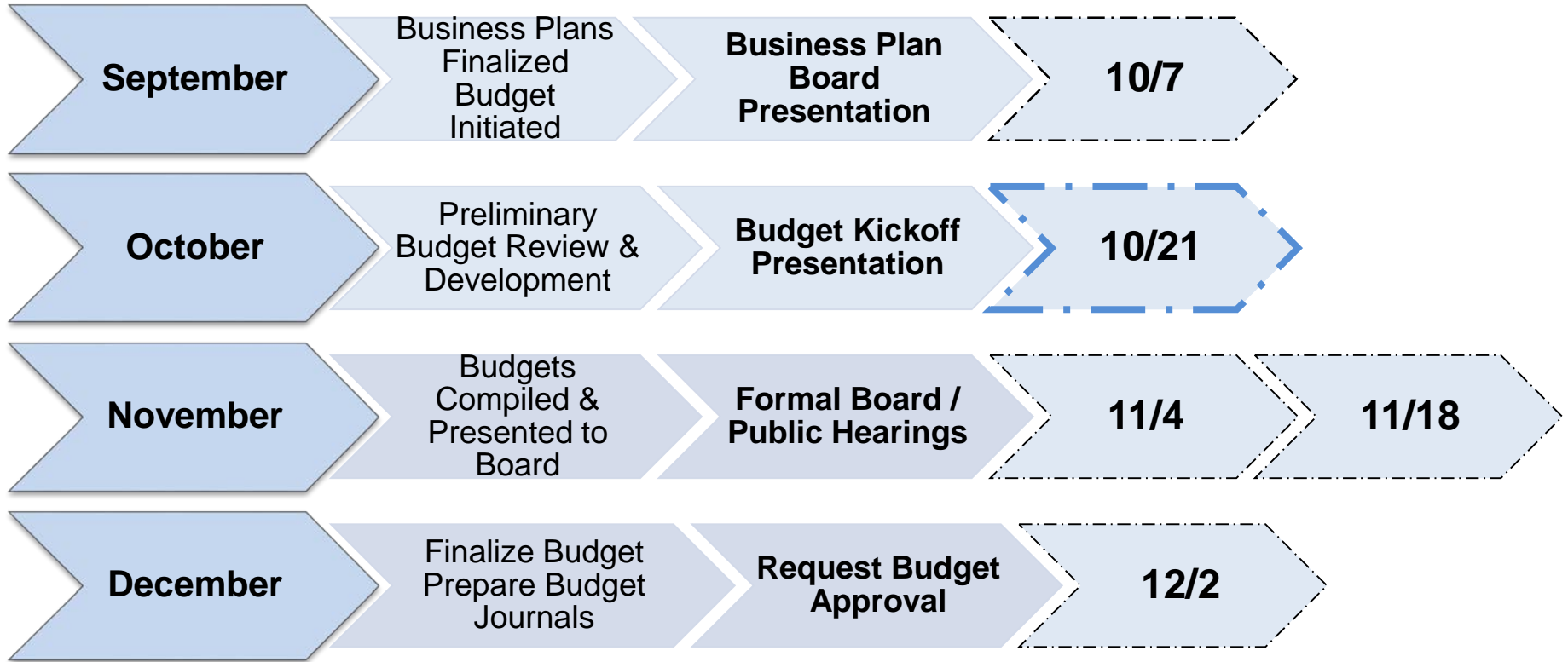
Transition from five-year  
business planning for 2020-2024  
to the  
annual budget process for 2020

# Cascading Planning Cycle

- District Vision & Mission
- District Strategic Plan (4 Goals – 7 Objectives)
- District-wide priorities for 5-year business planning
- District-wide 5-year business plan
- Business Unit 5-year business plans
- **Annual budget** ← *We are here*
- District-wide annual performance plan
- Department work plans
- Annual employee performance plans

Levels of Organization

# Budget Timeline



Indicates Board Meetings

# Strategic Focus

The 2020 Budget will be 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 four (4) strategic plan goals

# 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

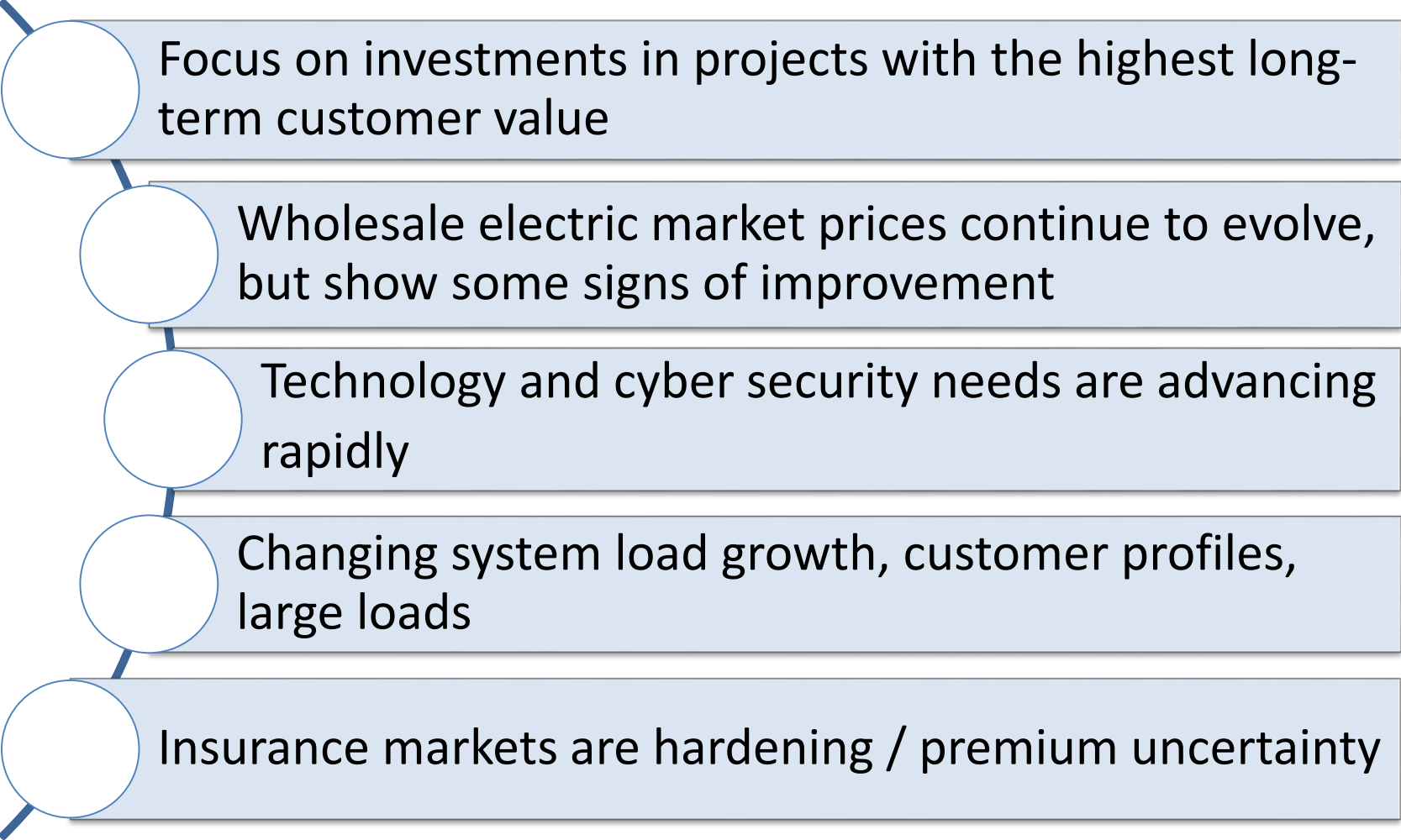
**3**

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

# Early External Indicators



Focus on investments in projects with the highest long-term customer value

Wholesale electric market prices continue to evolve, but show some signs of improvement

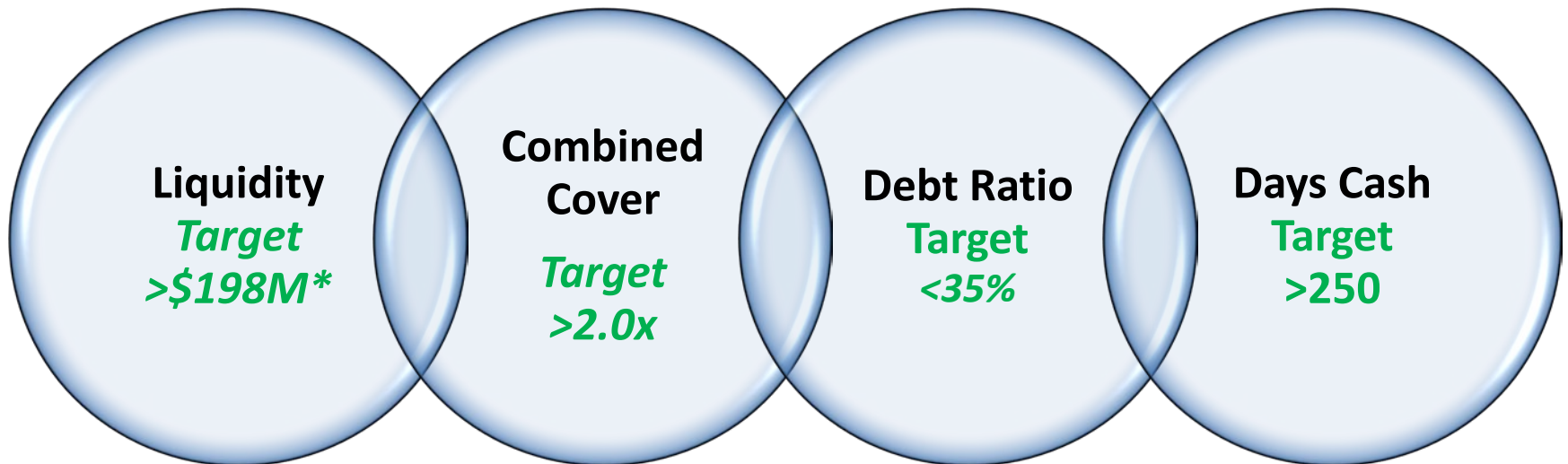
Technology and cyber security needs are advancing rapidly

Changing system load growth, customer profiles, large loads

Insurance markets are hardening / premium uncertainty



# 2020 District Financial Policies



\*Liquidity target is the greater of \$175M or methodology calculation which is calculated at approx. \$198M for 2020 based on the Q3 2019 forecast

# 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

## 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

# Next Steps

## Develop

- Preliminary budgeting in process

## Review

- Review and revise in Oct. and Nov.
- 1<sup>st</sup> Budget Hearing Nov. 4
- 2<sup>nd</sup> Budget Hearing Nov. 18

## Approve

- Requesting Board approval on Dec. 2