



2021 Budget Kickoff Timeline and Key Assumptions October 19, 2020

What we will cover today

Purpose

Timeline

Guidelines &
Assumptions

Next Steps

No Board Action Required

Today's focus

Transition from five-year
business planning for 2021-2025
to the
annual budget process for 2021

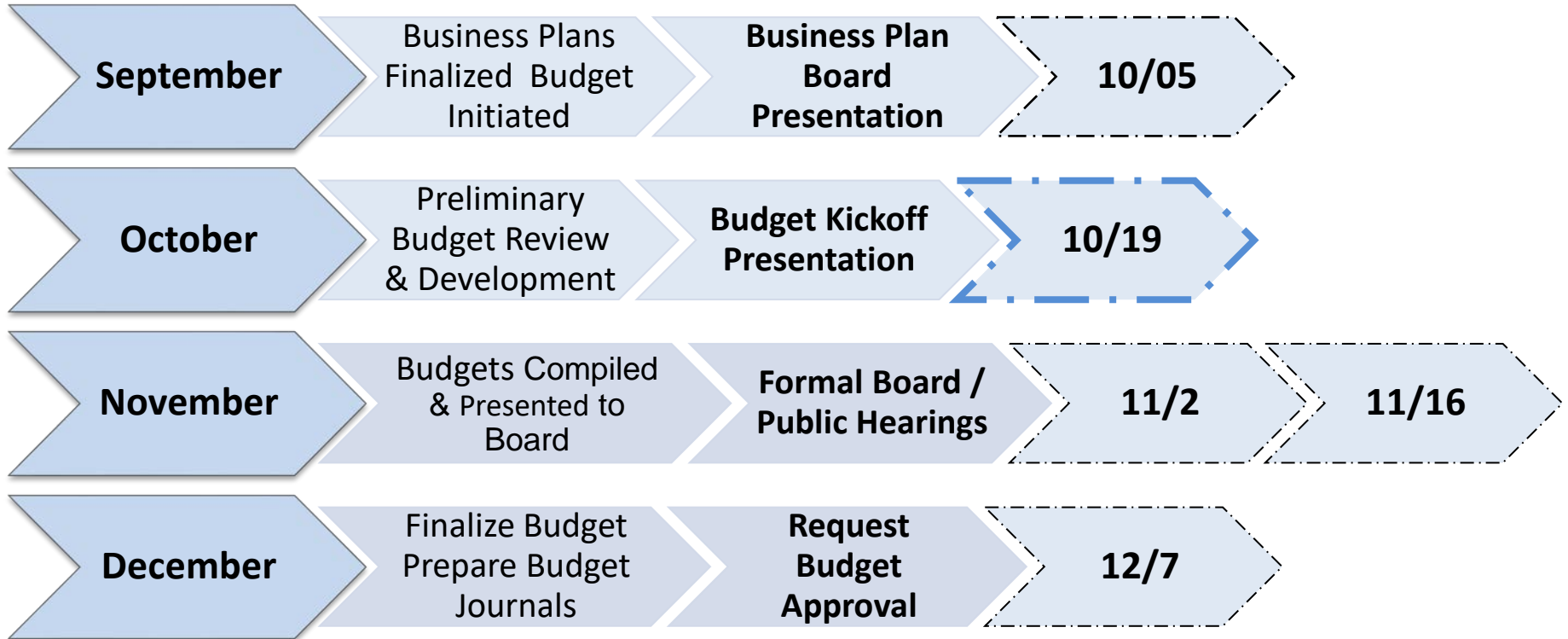
Cascading Planning Cycle

- District mission & vision/challenge
- 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 2021 Budget will be built around strategic initiatives and business plans presented on October 5th, 2020

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

District initiatives identified to accomplish 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

Investing in Assets and People

Goal 1

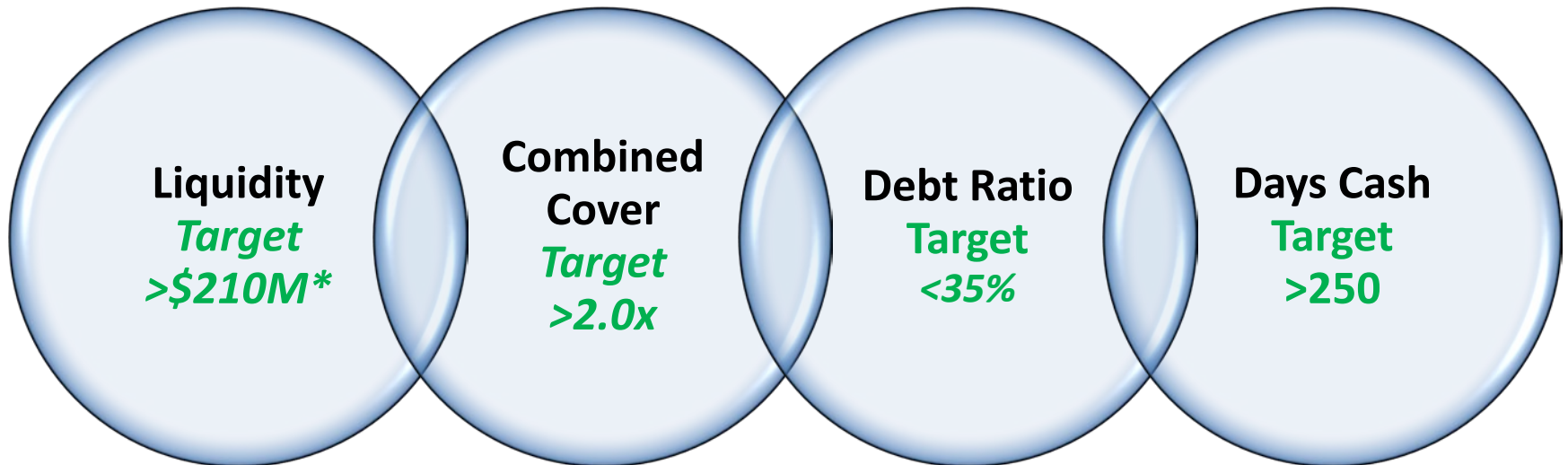
- Capital plans are very ambitious and require balancing internal and external resources
 - By comparison, early numbers for 2021 indicate ~\$190M capital budget vs. \$164M in 2020.
 - Capital supports improving hydro capability, working towards 1st quartile in distribution reliability, and long-term facilities
- Initiating advanced metering infrastructure to provide insightful customer service and advice, improve outage response times, and increase operational efficiencies.
- Aiming for 1st quartile in safety and HPI to advance the District's safety culture and operational excellence
- Emphasis on employee development plans

Financial Resiliency

Goal 2

- Plans reflect meeting prudent financial policy metrics designed for a strong AA rated entity
- Cash balance provides flexibility to adapt to changing circumstances, while maintaining low debt leverage
- Retail rate increases consistent with approved long-term rate plan and strategic plan feedback
- New debt forecasted in 2023 to support capital program

2021 District Financial Policies



*Liquidity target is the greater of \$175M or methodology calculation which is calculated at approx. \$210M for 2021 based on the Q3 2020 forecast

Public Power Benefit

Goal 3

- Expanded the Public Power Benefit Program in 2020 from \$4M to \$6M annually: 2021 planning indicates financial criteria supports continuation at \$6M level
- Board approved projects for 2021 return incremental value to the community, such as;
 - Accelerating the fiber expansion program to reach more people in our county
 - Modernizing the Rocky Reach Discovery Center and Museum Story promoting the value of hydropower

Economic Development

Goal 4

- Diamond Foundry expected to ramp up their load in 2021 working towards 19aMWs
 - Opportunity for potential expansion
- Significant work on distribution substations and other infrastructure to support load growth in the community
- Positioning generation portfolio to provide flexibility to support new HDL large loads
 - Continued focus on keeping rates stable and predictable while supporting incremental loads

Early 2021 External Indicators

COVID-19 uncertainty remains; continuing investments in projects with the highest long-term customer value

Wholesale electric market prices lower and remain volatile; capacity and carbon prices strengthening

Technology and cyber security needs are advancing rapidly; District focusing on being an industry leader

System load growth, customer profiles, large loads are changing; building flexibility in portfolio to adapt

Wildfire risk remains, driving insurance premiums higher; expanding risk mitigation efforts through investment

Key 2021 Budget Assumptions

Wholesale Revenue

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

System Load Growth

- 3.8% Electric (~7.8 aMW total net of conservation, ~6.0 aMW HDL)
- 0.8% Retail Electric organic growth
- 2.0% Water, 1.5% Wastewater
- 1,480 new Fiber connections (1,130 current service territory, 350 PPB)

Business Line Service Revenues

- Business line rate increases included consistent with approved long-term rate plan
- Annual rate increases effective 6/1/2021 and each June 1 thereafter
 - 3% Electric, 4% Water, 4% Wastewater and 3% Fiber

Key Budget Assumptions

Labor Bargaining Unit

- Bargaining unit increases are to be negotiated with the collective bargaining unit for 2021

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) – continues at 3.0%
- Capital Recovery Charge (CRC) – continues at 50%

Key Budget Assumptions

Capital & Operating Expenditures

- Driven by 2021-2025 business plans
- 2021 expenditures include continuance of RI modernization, RR large unit repairs, RR small units, distribution infrastructure/vegetation management, and long-term facilities (Service Center, RR, RI) as key drivers

Debt & Interest Income

- Net scheduled principal payments of \$111 million (scheduled principal plus pay down with funds held for COVID liquidity from 2020 refinancing activity)
- Interest earnings estimated at 2.17%

Public Power Benefit Program

- Includes \$6M annually; continuation and acceleration of fiber expansion, Board selected projects & designated funding level
- Budget revisions will be processed as new projects are designated

Next Steps

Develop Sept-Oct

- Preliminary budgeting in process

Review Oct-Nov

- Review and revise in Oct. and Nov.
- 1st Budget Hearing November 2
- 2nd Budget Hearing November 16

Approve Dec

- Requesting Board approval on December 7