



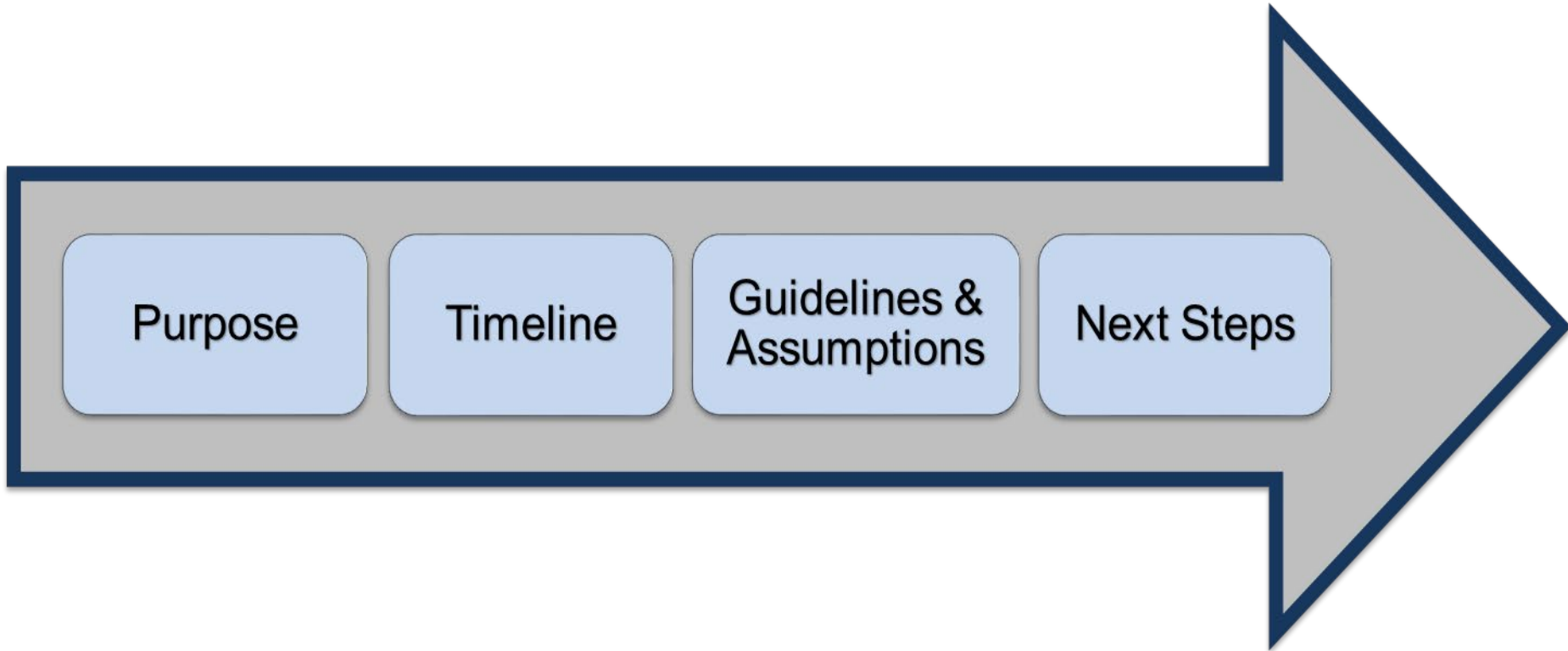
| Chelan County PUD



2022 Budget Kickoff Timeline and Key Assumptions October 18, 2021



What we will cover today



No Board Action Required

Today's focus

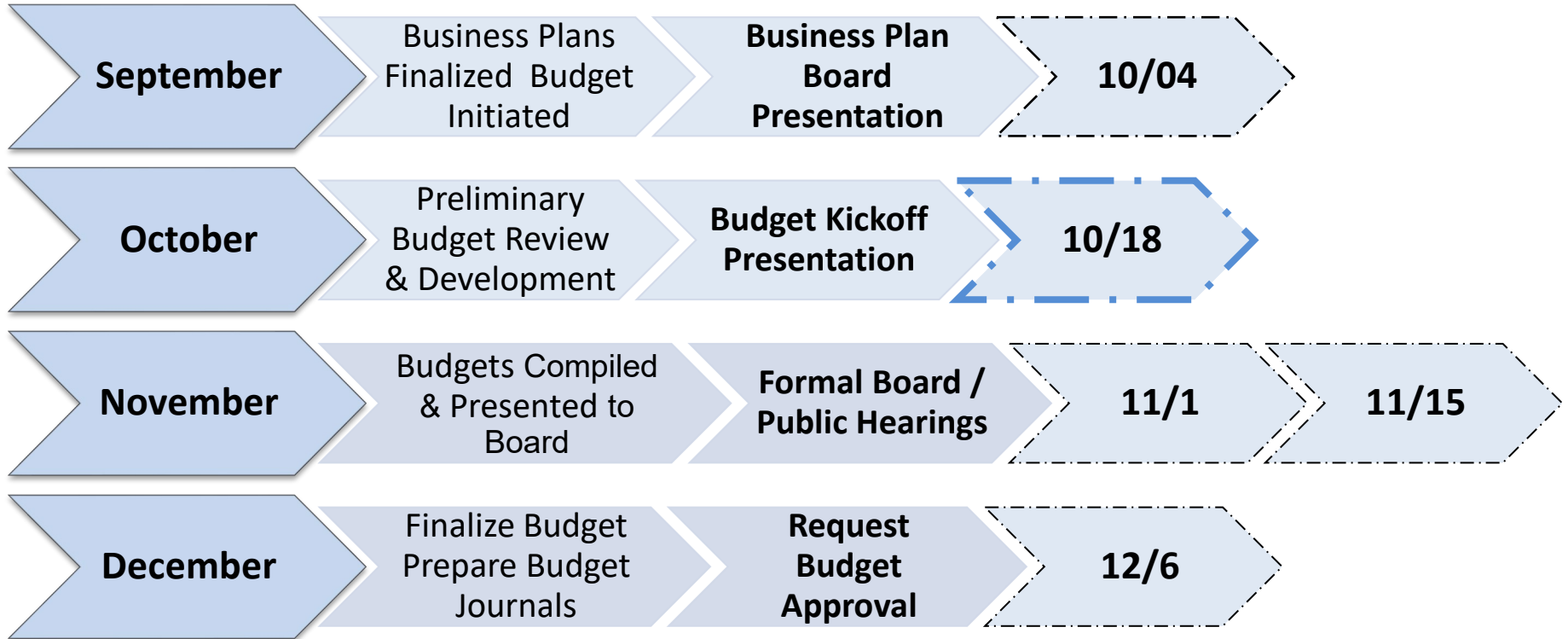
Transition from five-year
business planning for 2022-2026 to the
annual budget process for 2022

Cascading Planning Cycle

- District mission & vision/challenge
- District strategic plan (4 goals – 8 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 2022 Budget will be built around strategic initiatives and business plans presented on October 4, 2021

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

- **Significant hydro spending in 2022** for modernization projects; progressing towards 89% capability in Q1 2025
- 1st quartile in distribution reliability may be impacted by prudent wildfire risk mitigation; **increased spending planned to offset**
- **Advancing on long-term facilities projects to realize incremental efficiencies adding value for customer owners**
- Implementing plan for 1st quartile in safety and HPI; utilize technology to advance the District's safety culture and operational excellence
- Implement and expand Fire Safety Outage Management Program to mitigate wildfire risk to protect public safety and property
- **Technology roadmaps focused on delivering incremental customer value**; advancing work in data analytics to support decision making
- **Continuous investment in employees through skill development and growth opportunities**

Financial Resiliency - Goal 2

- Financials are strong and plans reflect **meeting financial policy metrics that support a strong AA rated entity**
- Execution of long-term marketing strategy as wholesale markets and interest in carbon free hydro resources are providing the District with opportunity to secure long-term revenue
- Strong cash balance provides flexibility to adapt to changing circumstances, while continuing to maintain low debt leverage
- **Significant expenditures planned for 2022 to support the 2022-2026 goals and objectives identified in the business plan**
- New debt currently forecasted in 2023 to support capital program
- **Implementing five-year plan for annual retail rate increases each June through 2024 to support the 2020-2024 Strategic Plan**

Public Power Benefit - Goal 3

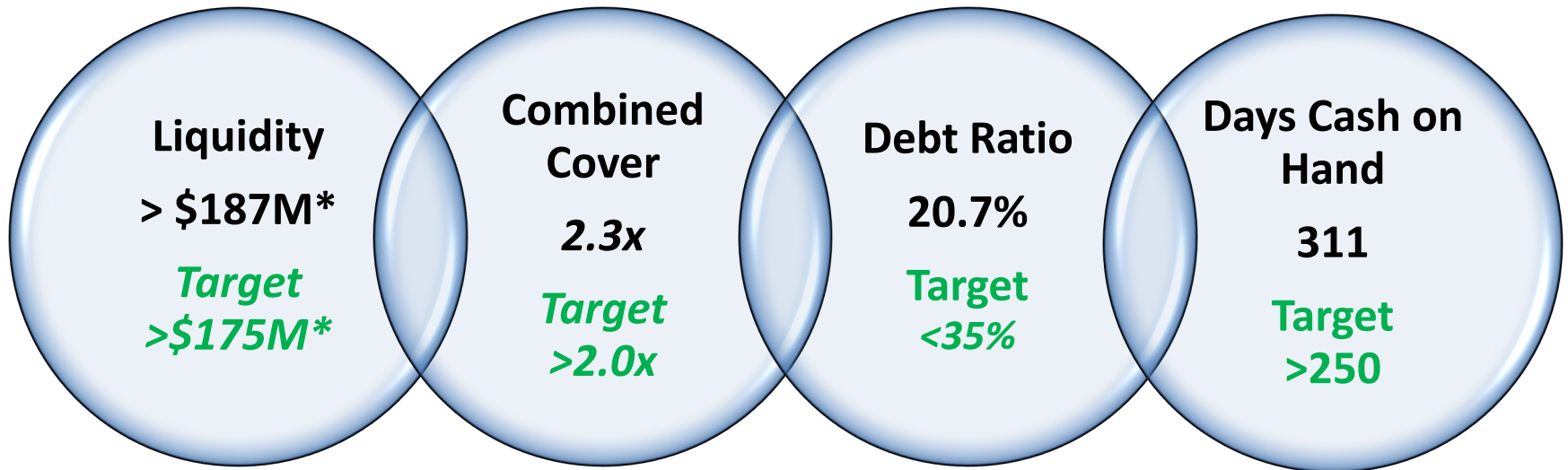
- **Financial forecasts and 2022 planning indicates financial criteria supports continuation at \$6M level for the Public Power Benefit Program**
- Board approved projects for 2022 return incremental value to the community, such as:
 - Accelerating the fiber expansion to reach more people in our county
 - Investing in parks by extending the loop trail and improving Riverfront Park
 - Improving aesthetics for substations
- **\$1.5M remains available for 2022 projects**

Economic Development - Goal 4

- **Investment in distribution substations and infrastructure supports reliability and growth**
- Largest retail load is expecting to ramp up to 19 MWs in 2022 under current contract
 - Applied to expand current operations to 24 MWs with 28 MW peak
- **Marketing strategy and generation portfolio positioned to adapt to potential large local loads**
 - Goal is to support economic development with no more than 5% rate impact to customer-owners

2022 District Financial Policies

(forecast as of August 2021 reporting)



*Liquidity target is the greater of \$175M or methodology calculation, which is calculated at approximately \$187M for 2022 based on the August 2021 forecast

Early 2022 External Indicators

COVID-19 uncertainty remains requiring adaptive management; supply chain risks are evolving

Wholesale electric market prices higher and remain volatile; capacity and carbon prices strong

Technology reorganization/strategy; advancing technology roadmaps; renewed cyber strategy

Increasing large load potential could escalate system load growth; building flexibility in portfolio to adapt

Wildfire risk impacting insurance premiums; Fire Safety Outage Management, risk mitigation through investment

Key 2022 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

- 6.1% Electric (~12.6 aMW total net of conservation, ~11.0 aMW HDL)
- 0.7% Retail Electric organic growth
- 2.0% Water, 1.5% Wastewater
- 1,100 new Fiber connections (750 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 2022

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 2022-2026 business plans
- 2022 expenditures include continuance of RI modernization, RR large unit repairs, RR small units, distribution substations/ infrastructure/ vegetation management, and long-term facilities (Operations and Service Center, RR/CM) as key drivers

Debt & Interest Income

- Net scheduled principal payments of \$34 million plus planned six-month accelerated payments of \$12 million
- Interest earnings estimated at 2.22%

Public Power Benefit Program

- Includes \$6M annually; accelerated fiber expansion, Board selected projects & designated funding level
- Full amount is budgeted: available funds will be transferred to specific projects 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 1
- 2nd Budget Hearing November 15

Approve Dec

- Requesting Board approval on December 6