



Chelan County PUD



2023 Preliminary Budget November 21, 2022

11/21/2022

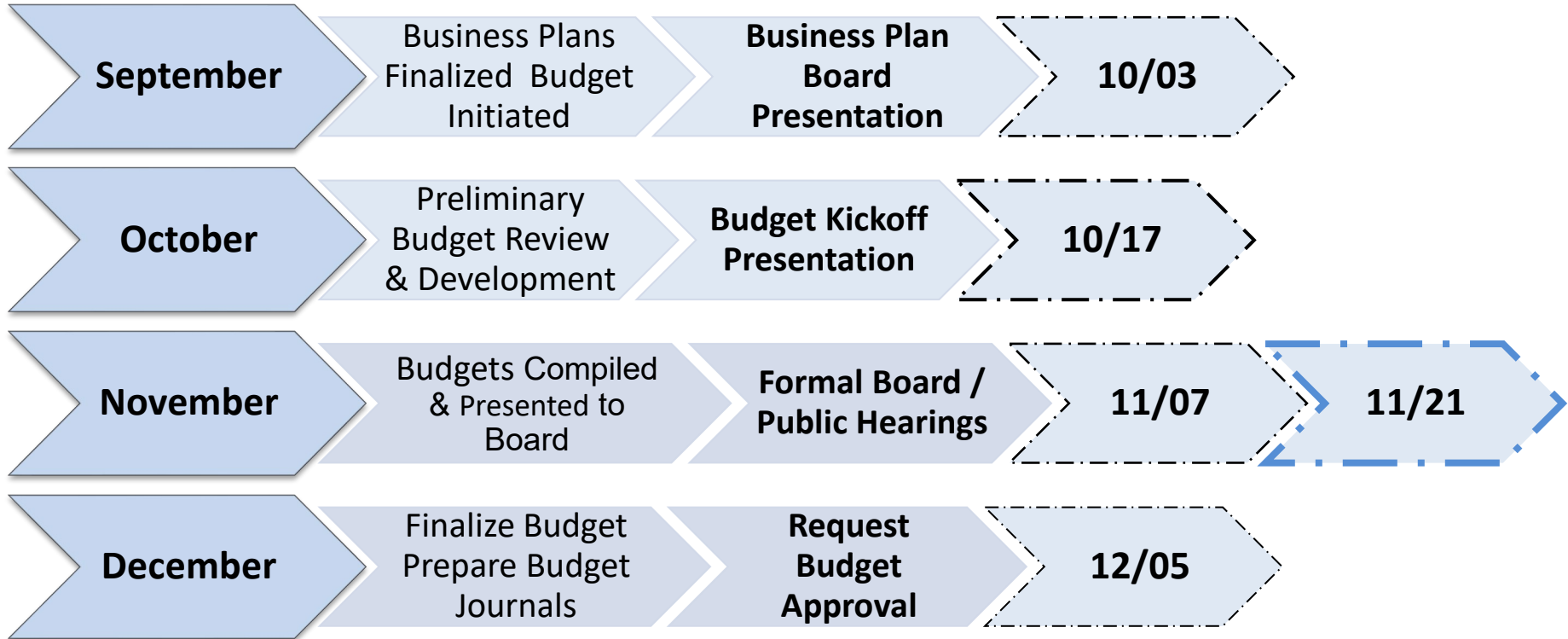


What we will cover today



No Board Action Required

Budget Timeline



Indicates Board Meetings

Summary of Changes Since Nov. 7 2023 Budget Impacts

↑ Bottom line increased \$14M
(\$89M to \$103M)

↑ Operating revenues increased \$13M

↑ Net Wholesale Revenue (NWR) up \$15.5M

- Reduction of load forecast of ~10 aMW shift from retail to NWR
- Increased Market Prices and updated Specified Source forecast

↓ Service revenues down \$2.8M

- Load forecast down ~10 aMW shifts revenue from retail to NWR
- Off-system sales higher due to improved market prices

↑ Long-term Hydro Contract revenues up \$0.6M due to increase in Hydro O&M



Summary of Changes Since Nov. 7 2023 Budget Impacts

↑ Operating expenses: Increase of \$0.7M

- ↑ O&M (+\$1.6M) – refinement of O&M and capital plans in electric line operations and contract costs in Energy Resources
- ↓ Depreciation (-\$0.6M) – decreased with project schedule refinement
- ↓ Taxes (-\$0.3M) – decreased with decrease in retail revenue

↓ Non-operating activity: Decrease in net expense of \$1.4M

- ↑ Interest earnings (+\$0.4M) – higher cash balances from improved bottom line
- ↑ Capital contributions (+\$0.9M) – increased customer line extensions

Summary of Changes Since Nov. 7

2023 Budget Impacts

↑ 2023 Net Capital and Regulatory Assets increased \$2M
(**\$181M to \$183M**)

- ↑ Operations and Service Center (+\$5M = total project revision of \$25M)
– increased for added costs
- ↑ IT Data Center Modernization (+\$2M) – moved to 2023, increased cost
- ↓ Distribution Substations & Feeders (-\$4M) – moved to 2024
- ↓ Make Ready Work Fiber Distribution Towers (-\$1M) – moved to 2024

Combined Financials 2023

(in 000's)	Prelim Budget 2023	Adopted Budget 2022	\$ Change	% Change
Service Revenue	131,772	116,585	15,187	13.0%
Net Surplus Energy Revenue	270,581	212,265	58,316	27.5%
Other Operating Revenue	26,724	24,978	1,747	7.0%
Operating Expense	(253,385)	(225,577)	(27,808)	12.3%
Depreciation & Tax Expense	(73,426)	(63,787)	(9,639)	15.1%
Net Operating Income	102,266	64,463	37,802	58.6%
Non-Operating Activity	443	(2,965)	3,408	-114.9%
"Bottom-Line"	102,709	61,498	41,211	67.0%

Nov. 7 Budget Presentation	88,748
% Change since Nov. 7	16%

Capital Expenditures

(in 000's)	Prelim Budget 2023	Adopted Budget 2022	\$ Change	Major Project Focus
Total Capital	218,156	195,878	22,278	
Less: Contributions	(7,248)	(5,427)	(1,821)	<i>Capital paid by others</i>
Regulatory Liability CIAC	(36,586)	-	(36,586)	<i>Jumpoff Ridge Switchyard and Capital paid by others</i>
Fiber Make Ready Offset	(2,416)	(2,184)	(232)	<i>Make ready costs: intersystem</i>
Regulatory Assets & Other	11,052	16,193	(5,142)	<i>Conservation, License obligations, Greater McNeil Canyon, N Mid C transmission</i>
Net Capital & Reg. Assets	182,957	204,460	(21,503)	

Nov. 7 Budget Presentation	180,860
% Change since Nov. 7	1.1%

Combined District Expenditures

(in 000's)	Preliminary 2023 Budget	Adopted 2022 Budget	% Change
Operating Expense	253,385	225,577	12.3%
Tax Expense	14,729	13,035	13.0%
Non-Operating Exp/(Inc) - excludes CIAC	7,688	9,018	-14.8%
Net Capital & Reg Assets	182,957	204,460	-10.5%
Total Expenditures	458,759	452,091	1.5%

Net Debt Principal Payments	37,150	46,674	-20.4%
Total Expenditures & Net Debt Reduction	495,909	498,765	-0.6%

Nov. 7 Budget Presentation	492,873
% Change since Nov. 7	0.6%

Primary Drivers of Decrease from 2022: Lower net capital and principal payments offset by increased operating expense in part due to increased Hydro and Fishway repairs

Combined Financial Policies

2023 Preliminary Budget

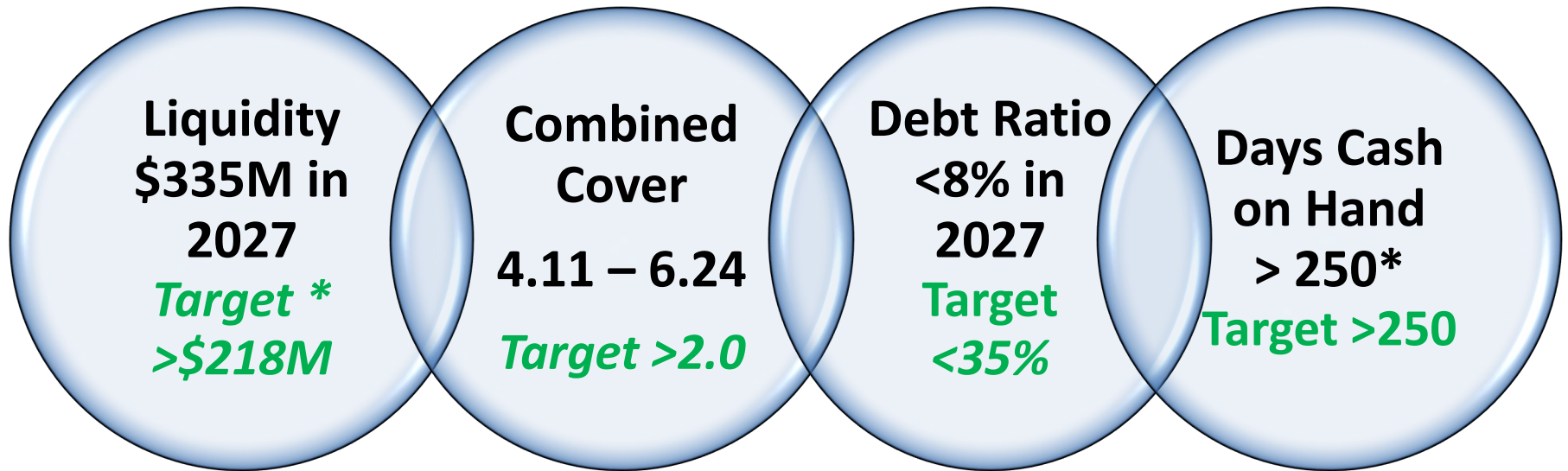
	Financial Liquidity	Combined Cover	Debt Ratio	Days Cash on Hand
Base Case – expected	\$330M	4.11	16.4%	302
<i>Target</i>	> \$218M	> 2.0x	< 35%	> 250
Base Case – unusual	\$300M	3.46	16.7%	270*
<i>Target</i>	> \$218M	> 1.25x	< 35%	> 250



On track

* Within 10%, corrective action would be to issue debt sooner than the expected plan.

2023-2027 Plans Meet District Financial Policies



Results based on expected conditions (based on October 2022 forecast)

*Liquidity target is the greater of \$175M or methodology calculation – ranges from approx. \$198M to \$218M over 5-year period.

We have a Board reporting requirement to provide an action plan when metrics come within 10% of the target. All financial metrics exceed 10% of the related targets for the five-year forecast under expected conditions.

Combined Financial Policies

2023 Preliminary Budget

	Operating Coverage %	Cash Reserves (unrestricted)	Debt Service as % of Revenue
Fiber & Telecom <i>Target</i>	72.9% <i>>79.4%</i>	\$19.4 M <i>\$2 M</i>	---% <i>< 0%</i>
Water <i>Target</i>	96.0% <i>>100.8%</i>	\$3.9 M <i>\$1.25 M</i>	8.9% <i>< 11.7%</i>
Wastewater <i>Target</i>	63.7% <i>> 62.3%</i>	\$1.9 M <i>\$200 K</i>	14.1% <i>< 1.9%</i>

NOTE: Board resolution for business line financial targets are defined as “by 2024” and “by 2029”. Annual targets are based on the forecast at the 2020 budget set to support the 2020-2024 strategic plan. Annual actuals are provided to show progress and to inform if action is needed to meet the 5-year target.

Financial Policy not met. Action plan is to implement actions recently adopted in the 2020-2024 Strategic Plan, continue rate increase plans, and monitor ongoing forecasts

Financial Policy Metric within 10% of target which requires Board communication per resolution. Action plan is to monitor ongoing forecasts

Budget Next Steps

Respond

- Respond to questions
- Provide any additional detail requested

Approve

- Resolution requesting Board approval on Dec. 5



Appendix



Additional information from prior presentation

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

Strategic Focus

Strategic Plan

- Board developed and approved 2020-2024 Strategic Plan, including strategic plan goals

Balanced Scorecard

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

Focus Areas and Enablers

- Focus Areas: Customer Experience; Employee Development; Community Mindedness; Innovation; Water
- Enablers: Teamwork; Leadership; HPI Culture

Business Plan

- 2023-2027 five-year business plan initiatives identified to accomplish strategic plan goals

Budget

- 2023 Annual Budget and 5-year financial plan compliant with District financial policies

Key 2023 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

- 3.2% Electric (~7 aMW total net of conservation)
- 0.5% Retail Electric organic growth
- 1.5% Water, 1.0% Wastewater
- 1,100 new Fiber connections (750 current service territory, 350 PPB)

Business Line Service Revenues

- Business line rate increases 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 according to the collective bargaining agreement in effect through March 2025

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

- Capital key drivers: Rock Island modernization, distribution substations and infrastructure, long-term facilities
- O&M key drivers: Rocky Reach large unit repairs, Rock Island fishway drop gate structure, distribution vegetation management, IT initiatives

Debt & Interest Income

- Net scheduled principal payments of \$25 million
- Prepayment of \$13 million 2024 payment
- Interest earnings estimated at 2.60%

Public Power Benefit Program

- Includes \$6 million annually; continuation of fiber expansion, parks improvements, Board selected projects
- Budget revisions will be processed as new projects are designated

Five-Year Financial Plan 2023-2027

(in 000's)	Prelim Budget 2023	Forecast 2024*	Forecast 2025*	Forecast 2026*	Forecast 2027*
Service Revenue	131,772	98,215	89,625	90,485	91,351
Net Surplus Energy Revenue	270,543	306,285	334,175	312,932	335,715
Other Operating Revenue	26,742	22,566	22,906	24,869	25,421
Operating Expense	(253,385)	(247,638)	(240,022)	(233,143)	(243,560)
Depreciation & Tax Exp	(73,425)	(75,371)	(79,165)	(84,822)	(86,710)
Net Operating Income	102,247	104,057	127,519	110,320	122,217
Non-Operating Activity	499	(1,526)	(2,493)	3,019	7,810
Combined "Bottom-Line"	102,746	102,531	125,026	113,339	130,027

2023-2027 Business Plan	87,024	93,798	112,161	104,151	121,765
Last Year's Budget Adoption	63,058	68,989	73,683	74,482	78,242

➤ **5-Year results are higher than the 2023-2027 Business Plan and also better when compared to last year's forecast for the 2022 Budget**

* Forecast as of October 2022

Service Revenue

(in 000's)	Prelim Budget 2023	Adopted Budget 2022	Variance
Residential Electric	32,077	32,225	<i>Growth continues, reduced by a revised load forecast and conservation efforts Off-system end use sale shifts revenue from wholesale to service revenue; increased due to significantly higher forecasted market price component of rate Some growth from High Density Loads offset by reduced forecasted Crypto loads 3% rate increase included in 2023</i>
Commercial Electric	17,809	17,045	
Industrial Electric	5,304	5,388	
Off-System end use	47,472	33,086	
HDL Electric / Crypto	10,060	10,529	
Other Electric	1,755	1,707	
Electric Service	114,476	99,980	
Water Service	7,642	7,222	<i>~1.5% growth / 4% rate increase 2023</i>
Wastewater Service	895	852	<i>~1.0% growth / 4% rate increase 2023</i>
Fiber & Telecom	8,759	8,532	<i>~4% growth / 3% rate increase 2023</i>
Service Revenue	131,772	116,585	

Nov. 7 Budget Presentation	134,551
2023-27 Business Plan	134,550

Net Surplus Energy Revenue

(in 000's)	Prelim Budget 2023	Adopted Budget 2022	Variance
Slice Contracts	65,863	77,762	5% reduction in slice sales
Block/ Pre-Schedule/ Real Time	31,080	(13,775)	Higher market prices, longer unhedged position
EP&T Net Wholesale	96,943	63,988	
LT Hydro Contracts	174,649	149,268	Cost-based + : Increased costs for 2023, Environmental Attribute Sales
Less: Nine Cyns & Other PP	(1,011)	(990)	Increased cost forecast for 2023
Net Surplus Energy Revenue	270,581	212,265	

Nov. 7 Budget Presentation	254,517
2023-27 Business Plan	255,767

Other Operating Revenue

(in 000's)	Prelim Budget 2023	Adopted Budget 2022	Variance
Transmission/Wheeling	12,545	11,941	<i>Cost based: Increased investments in operations/compliance</i>
Real Time Contract – Fixed	4,000	4,000	<i>Consistent with 2022 budget</i>
Real Time Contract – Variable	3,000	3,000	<i>Consistent with 2022 budget</i>
Service/Late Charges	318	237	<i>Return to Pre-COVID charges</i>
Misc Other Items	6,861	5,800	<i>LT contract admin fees</i>
Other Operating Revenue	26,724	24,978	

Nov. 7 Budget Presentation	26,677
2023-27 Business Plan	26,692

Major O&M Activities

RR Turbine Repairs \$12.1M



Hatcheries \$8.7M



RI Fishway Ladder Drop Structure \$6.7M



Tumwater Dam Spillway Repair \$2.9M



Tree Trimming \$3.1M



RI PH2 Generator Main Leads \$3.2M



Operating Expense

(in 000's)	Prelim Budget 2023	Adopted Budget 2022	Variance
Hydro O&M	86,061	78,664	<i>RR unit repair costs, PH1 unit repairs, PH2 plant modernization, Tumwater spillway repairs</i>
Hydro Fish & Wildlife	27,339	20,365	<i>RI Fishway repairs</i>
Hydro Parks & Recreation	9,582	8,303	<i>Discovery Center/RR hillside repair, Irrigation plans</i>
Electric Distribution	20,004	20,020	<i>Consistent with 2022 budget</i>
Electric Transmission	17,097	15,977	<i>RR Switchyard projects</i>
Power Supply Mgmt	6,138	5,741	<i>Consistent with 2022 budget</i>
Fiber Network O&M	5,902	5,625	<i>Continued network growth</i>
Water/Wastewater O&M	4,000	3,709	<i>Added 2 apprentices to support system growth</i>

Continued on next slide

Operating Expense

(in 000's)	Prelim Budget 2023	Adopted Budget 2022	Variance
Customer Accts & Svc	5,291	4,795	<i>Increased labor rates</i>
Conservation	6,042	5,186	<i>Increased support for conservation programs</i>
Insurance	12,167	10,434	<i>Anticipated insurance premium increases</i>
FERC Fees	1,637	1,392	<i>Increasing FERC costs estimated at last year's actual billing</i>
Other Admin & General	52,124	45,366	<i>Information technology support/licensing/maintenance; Facilities moving costs</i>
Total Operating Expense	253,385	225,577	

Nov. 7 Budget Presentation	251,777
2023-27 Business Plan	254,705

Non-Operating Expense

(in 000's)	Prelim Budget 2023	Adopted Budget 2022	Variance
Investment Earnings	12,816	10,319	<i>Higher interest rates</i>
Contribution Income	8,131	6,054	<i>Higher customer connections</i>
Interest Expense	(17,123)	(17,934)	<i>Reduced debt</i>
Other Inc/(Exp)	(3,381)	(1,404)	<i>Debt retirements reduced debt-related amortizations</i>
Net Non-Op Inc/(Exp)	443	(2,965)	

<i>Nov. 7 Budget Presentation</i>	<i>(896)</i>
<i>2023-27 Business Plan</i>	<i>(870)</i>

2023 Major Capital Projects

Rock Island – Major Driver



RI Modernization

- PH1 B1-B4 \$7 million
(Total project \$80 million)
- PH1 B5, B7 & B8 \$1 million
(Total project \$103 million)
- PH2 U1-U8 \$51 million
(Current project budget of \$124 million: design, U5, U7)

RI - Other

- PH1 Gantry Crane \$4 million
(Total project \$8 million)
- Rock Island Draft Tube Gate Cylinders and Hydraulic Power Units \$5 million
(Total project \$9 million)

2023 Major Capital Projects

Facilities – Major Driver

Operations and Service Center

\$49 million (*Total project \$164M*)



RR / Central Maintenance

\$1 million (*Total project \$43M*)



2023 Major Capital Projects

Rocky Reach Tailrace Gantry Crane

- \$4 million (*Total project \$7 million*)

Dryden Wastewater upgrade

- \$5 million (*Total project \$5.5 million*)

Jumpoff Ridge Switchyard

- \$34 million (*Customer funded total project \$86 million*)



2023 Major Capital Projects

Bavarian Substation

- \$2 million (*Total project \$7M*)

North Shore Chelan Substation

- \$3 million (*Total project \$9M*)

Advanced Metering Infrastructure

- \$7 million (*Total project \$15M*)

Fiber Expansion (Public Power Benefit - PPB)

- \$5 million



Capital Expenditures

(in 000's)	Prelim Budget 2023	Adopted Budget 2022	\$ Change	Major Project Focus
Electric Distribution	46,380	33,455	12,925	Jumpoff Ridge Sub/Switchyard, Substations, Advanced Metering Infrastructure
Electric Transmission	21,985	1,236	20,749	Jumpoff Ridge Switchyard, Breaker & Relay replacements
Rocky Reach Hydro	11,227	7,642	3,585	Tailrace Gantry Crane, Spillway Electrical
Rock Island Hydro	63,618	54,877	8,741	PH1 and PH2 Modernizations, PH1 Gantry Crane, PH2 DTG Cylinder & HPU
Lake Chelan Hydro	2,787	3,384	(597)	LC Auto Closure Gate
Corporate/Shared Assets	58,402	85,439	(27,036)	Operations & Service Center, CM 240 Ton Crane
Integrated Electric	204,398	186,032	18,366	

Capital Expenditures

(in 000's)	Prelim Budget 2023	Adopted Budget 2022	\$ Change	Major Project Focus
Fiber	6,251	7,131	(880)	PPB continuation & upgrades
Water	3,007	2,255	753	SCADA system, Water main replacements, Meters
Wastewater	4,500	461	4,039	Dryden WW upgrade start
Total Capital	218,156	195,878	22,278	
Less: Contributions	(7,248)	(5,427)	(1,821)	Capital paid by others
Regulatory Liability CIAC	(36,586)	-	(36,586)	Jumpoff Ridge Switchyard and Capital paid by others
Fiber Make Ready Offset	(2,416)	(2,184)	(232)	Make ready costs: intersystem
Regulatory Assets & Other	11,052	16,193	(5,142)	Conservation, License obligations, Greater McNeil Canyon, N Mid C transmission
Net Capital & Reg. Assets	182,957	204,460	(21,503)	

2023-27 Business Plan	180,860
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Key “Total Capital Project” Revisions (Existing Projects)

(in 000's)	Current	Revised	Change	Major Driver
Operations and Service Center	139,536	164,536	25,000	Increased project costs
RI PH1 Modernization: Units B8, B1, B2, B3	85,499	93,800	8,301	Increased project costs due to delays and inflation
RI PH1 Intake Gantry Crane	6,020	8,180	2,160	Revised project costs
RI PH2 Draft Tube Gate Cylinder & Hydraulic Power Unit Upgrade	7,200	9,049	1,894	Increased project costs
RI PH2 HVAC Upgrades	746	2,286	1,539	O&M portion determined to be capital
RR Tailrace Gantry Crane	6,000	7,400	1,400	Project delays
RI PH2 Motor Control Centers Replacement	1,025	2,370	1,345	Adding 2023 project scope
Rock Island Right Bank Fish Ladder Modifications	1,465	2,591	1,126	Increased project costs

Includes revisions and changes in recurring annual capital projects >\$1M

Key “Total Capital Project” Revisions (New Projects)

(in 000's)	Current	Revised	Change	Major Driver
Chelan Falls Hatchery Abatement Pond Improvements	0	3,770	3,770	<i>Changed recommended alternative</i>
Central Maintenance 240 Ton Crane Replacement	0	2,500	2,500	<i>Replace the current crane</i>
Rock Island Spillway Modernization	0	2,000*	2,000	<i>First phase of project</i>
Make Ready Work Chelan Fiber Distribution Towers	0	1,300	1,300	<i>Make Ready Work for fiber distribution</i>
Rocky Reach Juvenile Fish Bypass Control System Replacement	0	1,000	1,000	<i>Replace the current control system</i>

****Initial budget does not represent total project forecast.
Includes new projects >\$1M***

New Positions

(consistent with Business Plan)

Project Support *(7 positions)*

- Construction Manager (2)
- Mechanical Engineer (2)
- Project Support Manager
- Project Manager
- Telecommunications Engineer (Fiber & Telecom)

Hydro Capability *(3 positions)*

- Wireman (3 – Central Maintenance)

System Growth *(3 positions)*

- Water Apprentice Trainee (2)
- Communication Lineman

Tech/Innovation *(2 positions)*

- Service Desk Analyst
- Enterprise Application Analyst

Technology/AMI *(1 position)*

- Meter shop superintendent

New Positions

(consistent with Business Plan)

Customer Service *(1 position)*

- Customer Service Specialist (Fiber & Telecom)

Internal Support Services *(2 positions)*

- Training Coordinator (Human Resources)
- HR Generalist (Human Resources)

Safety *(1 position)*

- Program Manager-Safety Management Systems (Human Resources)

2023

New positions = 20