

# Chelan County PUD



## 2023 Budget Kickoff Timeline and Key Assumptions October 17, 2022

# What we will cover today

Purpose

Timeline

Guidelines &  
Assumptions

Next Steps

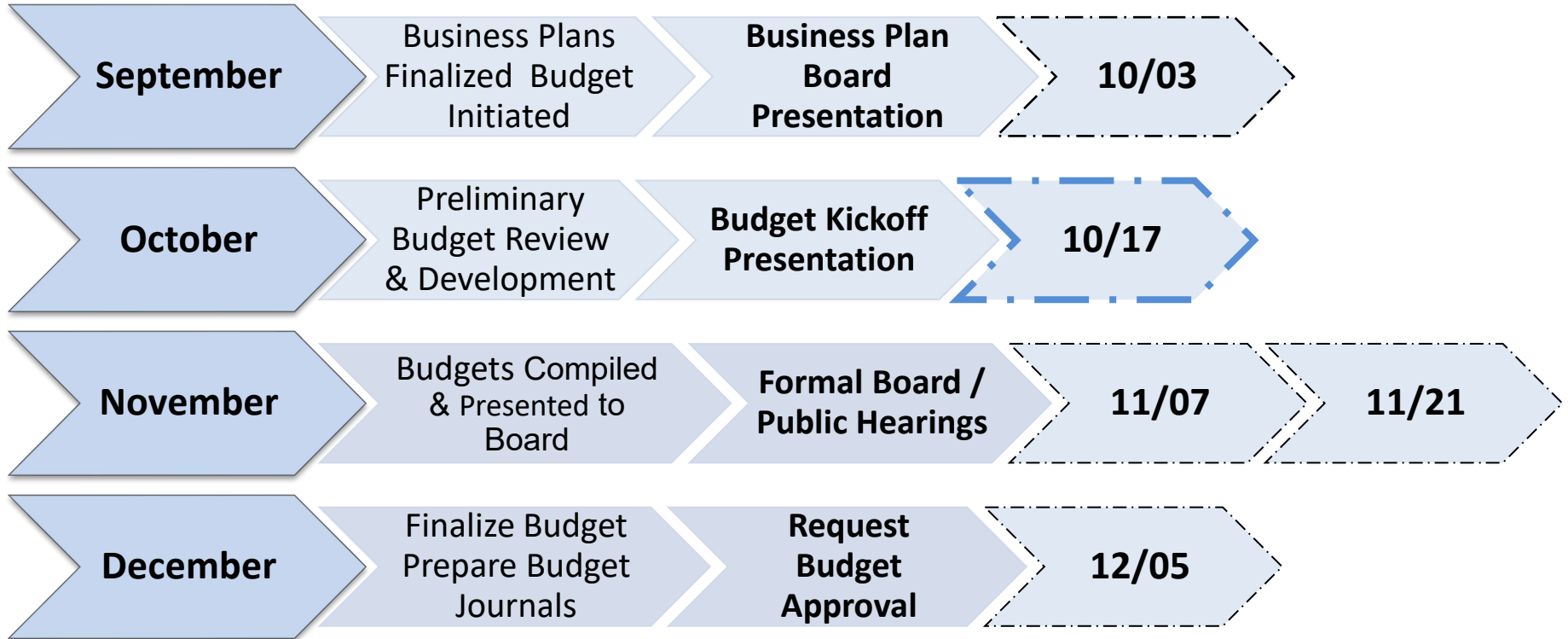
**No board action required**

# 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

## 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

# 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

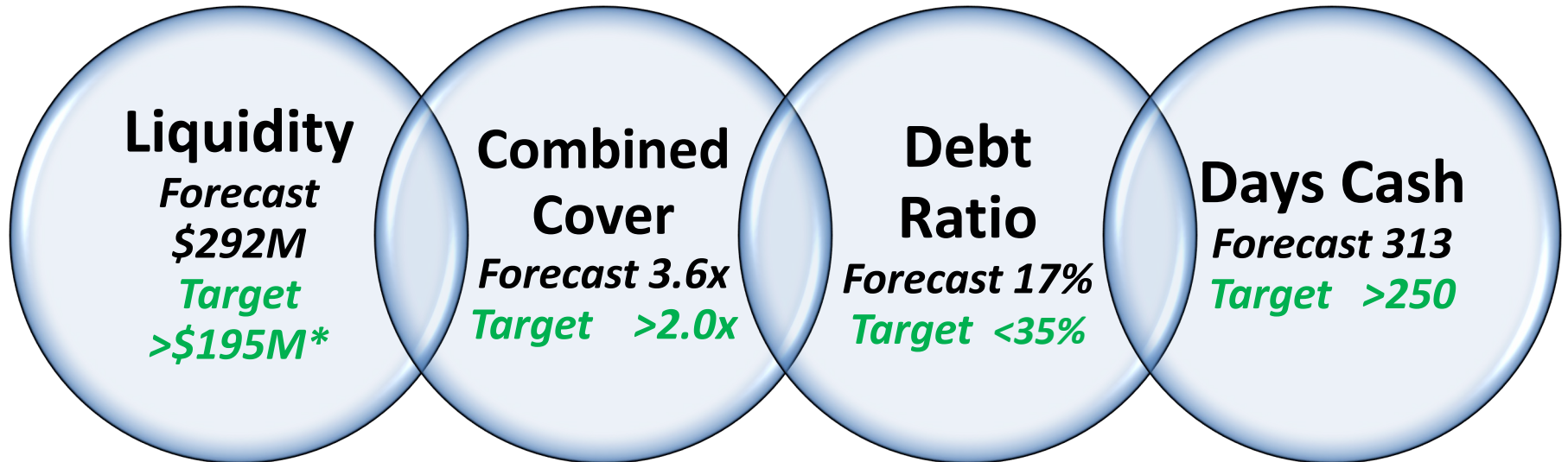
- Seeking improvement in hydro capability to optimize our generation assets, shifting schedule to use more District resources
  - Modernization work on RI Powerhouse 1 units B3, B6 and B9; Powerhouse 2 unit U5 including advancing work on converting to air-filled hub
  - Turbine repair work on Rocky Reach units C11 and C10 including conversion to water filled hubs
- Improve distribution reliability to reduce customer-owner outage time, while mitigating wildfire risk
  - Focus more on other distribution reliability efforts in the short-term including vegetation management, underground cable replacement, and animal guarding
  - Implementing wildfire mitigation plan to protect public safety and property
- Utilize and advance HPI methodologies to engage with all levels of the organization and promote a culture of learning and safety ownership; establish metrics and implement the four pillars
- Adding technology: Web and mobile customer engagement platforms; field workforce and engineering platform

# Financial Resiliency - Goal 2

- Maintain AA/AA+ bond ratings through resilient financials and strong financial policy metrics
- Continuing to execute on the long-term marketing strategy to capture the strong market and value of hydropower
- Expanding long-term financial planning assumptions to support decision-making around surplus portfolio and financial risk mitigation
- Significant expenditures planned for 2023 to support the 2023-2027 goals and objectives identified in the business plan
- Approved five-year plan for annual retail rate increases each June through 2024 consistent with the 2020-2024 Strategic Plan



# 2023 District Financial Policies



\*Liquidity target is the greater of \$175M or methodology calculation which is calculated at approx. \$195M for 2023 based on the August 2022 forecast

# Public Power Benefit - Goal 3

- Public Power Benefit Program of \$6M annually
- Board approved projects planned for 2023 return incremental value to the community;
  - Continuing the fiber expansion program to reach more people in our county
  - Investing in parks by extending the loop trail, and expanding and reconfiguring Walla Walla sports courts;
  - Continue the day use parks passes
  - Fund the Lake Chelan Research Institute and jobs readiness program

# Supporting Economic Development - Goal 4

- Focus on distribution substations and infrastructure adds more capability for local growth
  - Bavarian and N. Shore Chelan substations and interconnections construction
- Local loads expanding
  - Largest single retail load is currently ~13 MWs and growing, new substation in service, expecting to ramp up to 19 MWs in 2023 under current contract
  - Switchyard/Substation design and construction for planned data center load
- Significant interest for large local retail/end-use loads
  - Goal is to establish and market rates with no more than 5% rate impact to customer-owners while supporting economic development

# Early 2023 External Indicators

Continuing investments in projects with the highest long-term customer value

Wholesale electric market prices higher and remain volatile; capacity and carbon prices strengthening; emerging organized wholesale markets

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

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

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

# 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

- 4.3% Electric (~9.5 aMW total net of conservation)
- 1.0% 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 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 2.34%

## 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

# Next Steps

## Develop September- October

- Preliminary budgeting in process

## Review October- November

- Review and revise in October and November
- 1<sup>st</sup> Budget Hearing Nov. 7
- 2<sup>nd</sup> Budget Hearing Nov. 21

## Approve December

- Requesting Board approval on Dec. 5