



2022-2026 Business Planning

Oct. 4, 2021

What we will cover today...

- Mission, vision, values and objectives
- Overview of 2022-2026 District-wide plans
- Key drivers
- Known unknowns
- Operating unit business plans

***Seeking Board feedback, but
no action required today***

An aerial photograph of a town in Chelan County, Washington. The town is nestled in a valley, surrounded by rolling hills and mountains. A large river flows through the town. The sky is clear and blue. The town features a mix of residential and commercial buildings, with many trees scattered throughout. The mountains in the background are rugged and have a mix of green and brown tones, suggesting some vegetation and some rocky terrain. The overall scene is bright and sunny.

Mission

To enhance the quality of life in Chelan County by providing sustainable, reliable utility services.

Vision / Challenge

In a rapidly changing utility environment, we will provide:

The Best Value for the Most People for the Longest Time.

Safety:

Protect public and employee health and safety



Trustworthiness:

Competence, integrity, respect, collaboration



Stewardship:

Acting on behalf of customer-owners, protecting public resources entrusted to us



Operational Excellence:

High quality, innovative work execution through supporting personal accountability



MISSION: To enhance the quality of life in Chelan County by providing sustainable, reliable utility services.



CUSTOMER-OWNER

Commit to the highest level of customer-owner satisfaction

Protect natural resources impacted by operations

FINANCIAL

Ensure financial stability

INTERNAL

Seek operational excellence through continuous improvement mindset (with emphasis on efficiency, effectiveness, compliance, risk assessment, and resiliency)

Invest in creating long-term value

ENABLERS

Advance human and organizational performance

Foster a culture of serving the public interest (NEW)

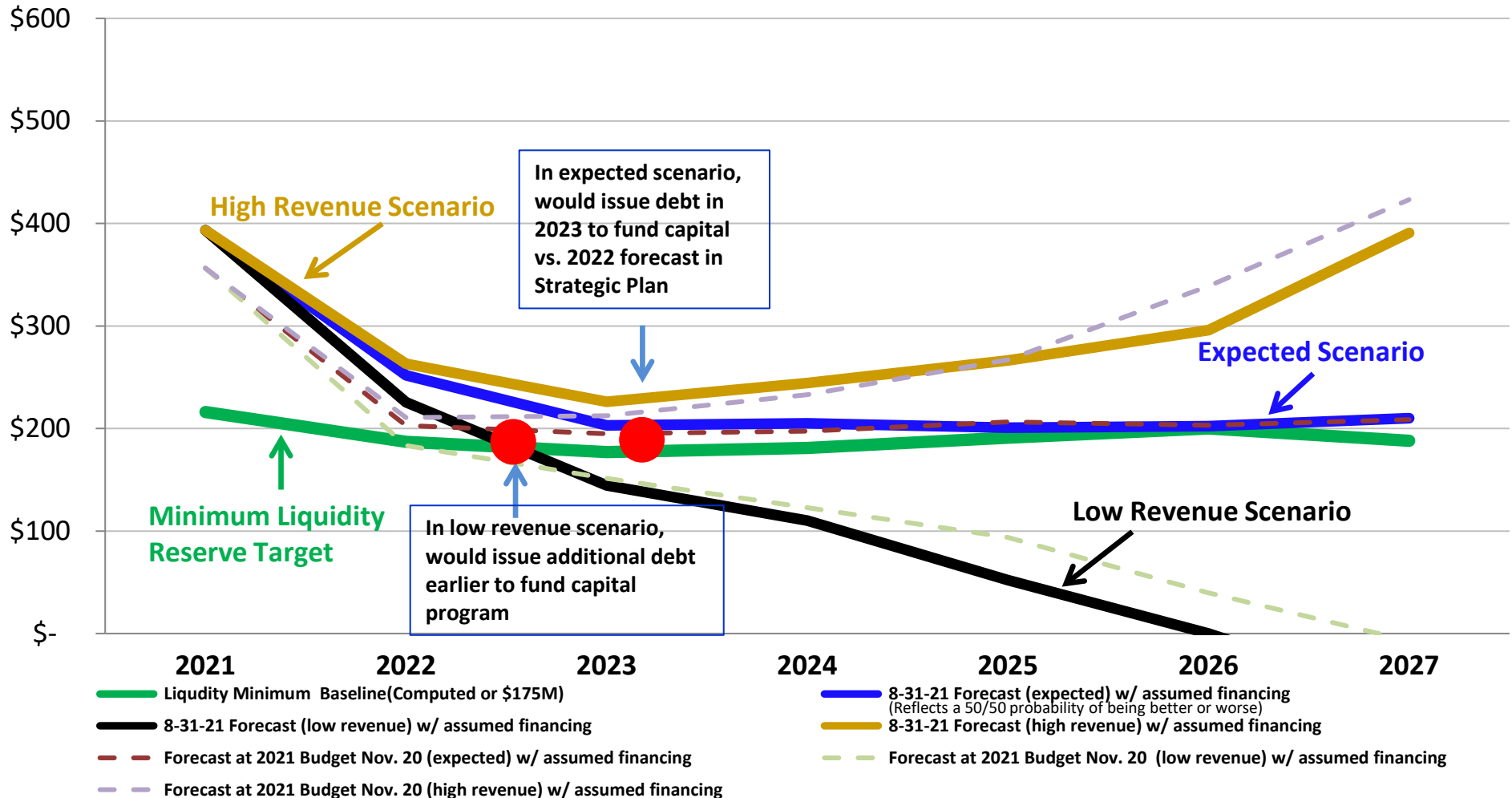
Encourage innovation

Liquidity Forecast

Long-Term Outlook: August 31, 2021 vs. Forecast at 2021 Budget in Nov. 2020

Liquidity Forecast: Low and High Revenue Scenarios

(forecasts change as circumstances, assumptions, long-term plans and financial policies change)



What's different now compared to last year?

(August 2021 vs. Forecast at 2021 Budget in Nov. 2020)

Forecasted revenues increased more than forecasted expenditures over the cumulative period primarily from higher forecasted electric wholesale market prices contributing to forecasted better bottom line. Cash balances remain relatively neutral due to higher capital expenditures.

Description	2022-2027
Bottom line	\$102M
Net wholesale revenue	\$98M
Service revenue (local load)	(\$4M)
Off-system end use sale (to Q1 2024)	\$14M
Cost-plus long-term contract revenue	\$34M
Other revenues	(\$10M)
Operating expenses	\$44M
Non-operating expense	(\$12M)
Capital expenditures	\$115M
Total liquidity	\$1M
Debt outstanding	(\$22M)
Heavy load market prices (Average \$/MWh Aug. 2021 vs. Nov. 2020)	\$48.54 v. \$34.37
Light load market prices (Average \$/MWh Aug 2021 vs. Nov 2020)	\$37.48 v. \$23.75

Key learning from this planning cycle

- Energy markets continue to evolve, market showing increased value for hydro
 - Energy, capacity and carbon markets have strengthened during this period, remain volatile
 - Resource adequacy rules advancing; long-term marketing plan in place
- Increased expenditures needed for capital plans and operations/maintenance projects
- COVID-19 uncertainty requires adaptive management with focus on employee and public safety, while adding value to customer-owners; supply chain risks occurring
- Progressing on advancing to 1st quartile status in hydro capability, distribution reliability, and safety, but significant work remains through this planning period
- Continuing to meet all key financial policy metrics and long-term financial resilience forecasted over 5-year period and beyond
 - Bottom-line financials significantly improved compared to last year's business plan; strong pricing in energy markets is the primary driver
- Information Technology new organization and revamped strategy/process key to advancing Technology Roadmaps; improving customer service and providing better access to data and tools across the District to support decision-making
- Significant potential for large load growth requiring flexibility in portfolio mix, while ensuring diversified mix of market and cost-based contracts to provide revenue certainty and mitigate risk
- Fiber expansion accelerated by 2-years adds value for county

Key Drivers

The Best, For the Most, For the Longest

- Maintaining strong and resilient District financials
- Seeking to improve hydro capability to 89% range, while challenged by competing project schedules to reach that goal
- Plans in place to advance key performance metrics on distribution reliability to the 1st quartile, but very challenging to reach goal
- Commenced long-term marketing strategy to provide revenue certainty
- New District facilities progressing and set to achieve significant efficiency gains adding value to customer owners
- Human Performance Initiative and embedding in culture critical to ensure workplace safety and advancing projects during COVID-19
- Support economic growth by identifying the appropriate rates for new loads, while ensuring stable and predictable rates for the County
- Continuing to support Public Power Benefit program commensurate with financial strength, including accelerating fiber expansion
- Leverage innovation and technology to drive operational excellence

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

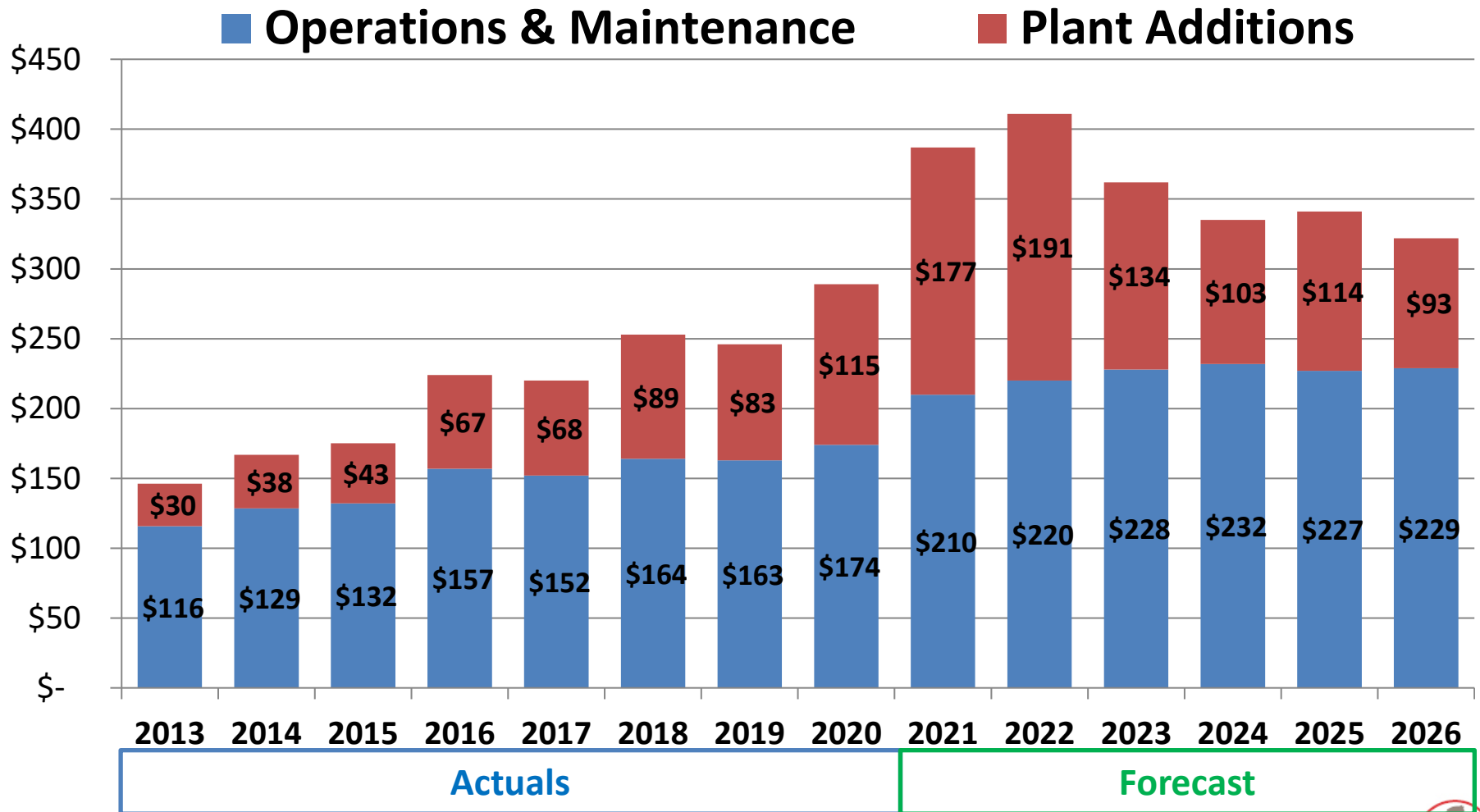
Engage in countywide growth planning and job creation efforts while ensuring the District's rates and policies remain stable and predictable

Investing in Assets and People

Goal 1

- Seeking improvement in hydro capability to optimize our generation assets, experiencing schedule delays
- Pursuing 1st quartile in distribution reliability to reduce customer owner outage time, takes time to achieve
- Implementing plan for 1st quartile in safety and HPI seeking to leverage technology to advance the District's safety culture and operational excellence
- Implementing Fire Safety Outage Management Program to mitigate wildfire risk protecting public safety and property
- Adding incremental customer-owner benefits through technology, tools and data analytics

Investing in Assets and People (amounts in millions)



Significant Investment in Assets



Rock Island PH2 Modernization
Est. Completion: 2031 (all 8 units)
2022-2026: \$238M



Rock Island PH1 Modernization
Est. Completion: 2024
2022-2024: \$52M

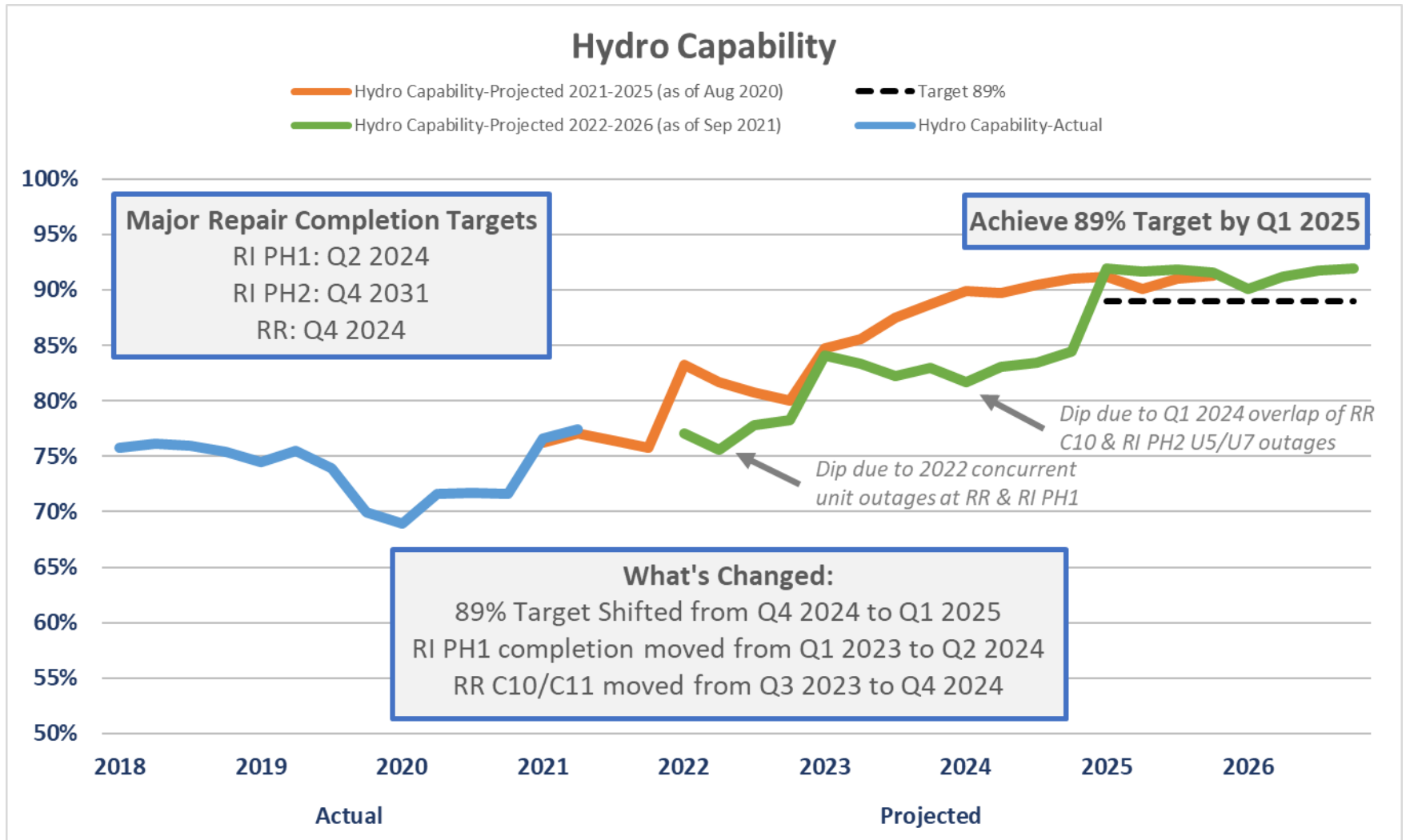


Distribution Infrastructure (Subs, AMI, ADMS)
2022-2026: \$71M



Operations/Service Center
Est. Completion: Early 2023
2022-2023: \$67M

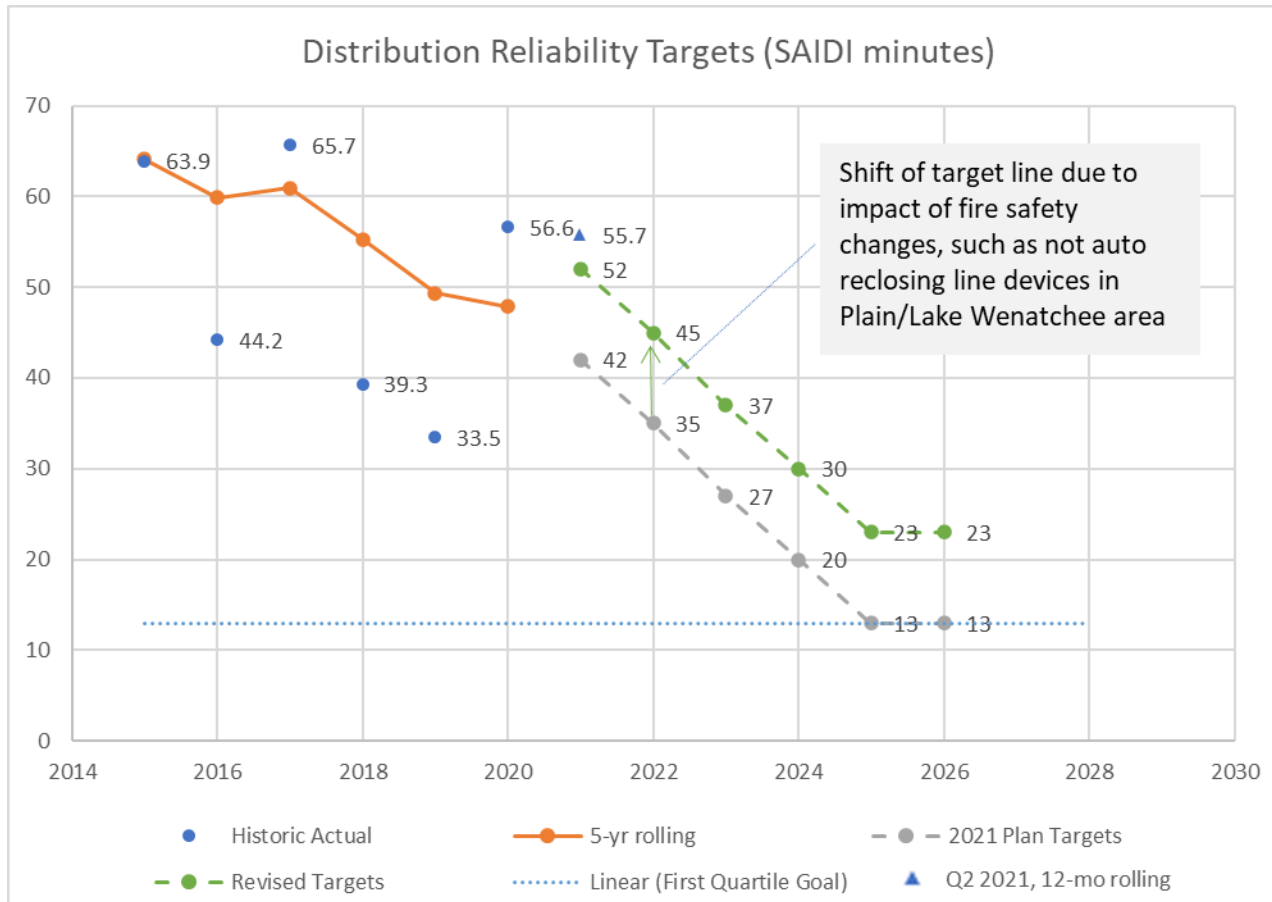
Improving Hydro Capability



Improving Distribution Reliability

Pursuing 1st Quartile

Future known-unknowns:



- (1) AMI/ADMS will provide quicker notification of outages and more accurate outage duration
- (2) Fire safety (FSOM) and no auto-reclose expected to be extended to other areas in county in 2022
- (3) Ability to complete reliability projects on time and on budget due to staffing, contractor availability and competing priorities.

To achieve targets, 2022-2026 forecasts include \$2M of annual reliability investments above baseline operating costs. Plan to add \$500k per year for final business plan forecast to reflect extra cost to contract some requirements.

Advancing Safety and HPI

- Implementing top quartile best practices in safety culture, safety compliance, environmental safety, contractor safety and occupational health, including
 - Developing data-driven safety management system to be able to anticipate and prevent injuries/accidents seeking continuous improvement in District's safety practices through trend analysis and benchmarking
 - Continuing to partner with business units to establish subject matter experts for critical safety-related programs
- Advancing the Human Performance Improvement (HPI) initiative:
 - Implement HPI roadmap and support implementation and use of tools for transformation of planning, execution and learning from work
 - Assessing HPI integration using HPI Maturity Matrix Levels and adopt and monitor metrics to facilitate improvement
 - Implement HPI training that incorporates foundational concepts and expands practical use, including coaching and role-based development
- Leverage technology (Enablon) to implement safety modules to enhance the District's safety improvement capabilities

Fire Safety Outage Management

CHELAN PUD FIRE SAFETY PLAN

Chelan PUD is working with fire districts to develop a plan to prevent new fire starts during extreme weather events defined by high winds and dry fuels. Several studies have ranked Plain, Lake Wenatchee and Upper Chumstick Highway as the highest fire risk areas. That's why this plan is focused on this Phase I area in 2021. In the rare circumstance when we must turn off power to protect public safety, we will notify you in advance.



CHELAN COUNTY

WHAT IS A FIRE SAFETY OUTAGE ?

- A proactive power outage designed to prevent wildfire ignitions from utility infrastructure
- After extreme fire weather has passed, crews inspect the lines before power is safely restored
- A Fire Safety Outage is a measure of last resort when public safety is threatened

?

WHAT CAN I DO TO BE PREPARED?

- Please make sure Chelan PUD has your correct contact information at chelanpud.org/UpdateYourInfo
- If someone in your home relies on life-sustaining equipment, please register for the PUD's Medical Electrical Needs Registry at chelanpud.org/firesafetyoutage
- Visit chelanpud.org/firesafetyoutage to connect with local Firewise groups and emergency preparedness resources in your area.

HOW DO I FIND OUT MORE?

- Visit chelanpud.org/firesafetyoutage to read more about the plan and sign up for email updates.
- Contact us at customeroutreach@chelanpud.org or leave a message at (509) 661-4630.



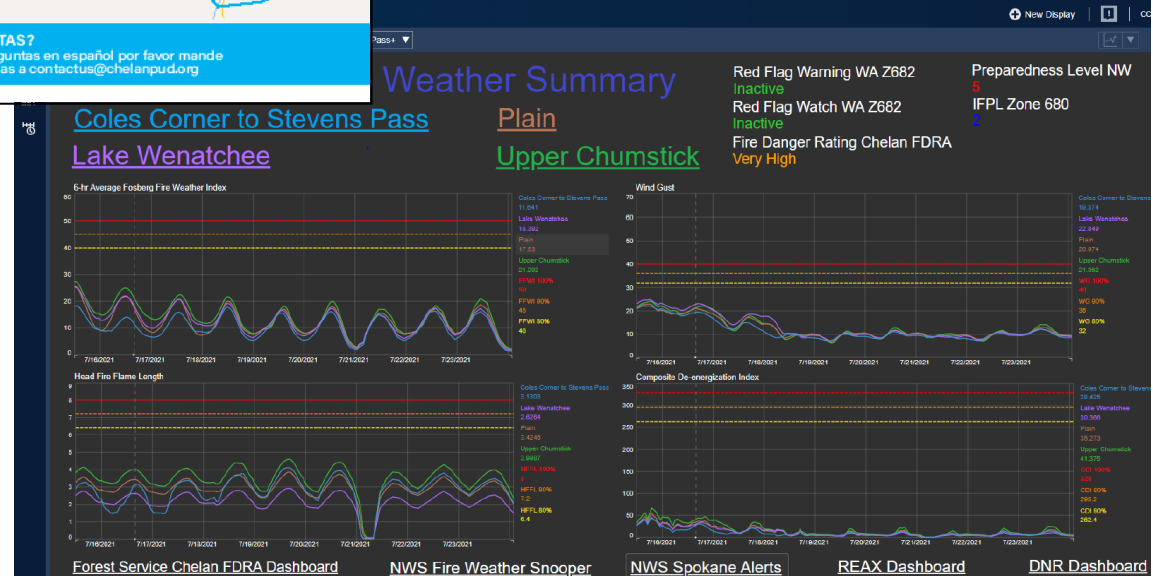
Phase 1 Area

¿PREGUNTAS?
Si tiene preguntas en español por favor mande sus preguntas a contactos@chelanpud.org




- Pilot Program offers significant wildfire risk reduction for higher risk areas of Chelan county
- More enhancements to come

- Leveraging data and analytics, dashboards
- Implementing real-time alerts based on key metrics

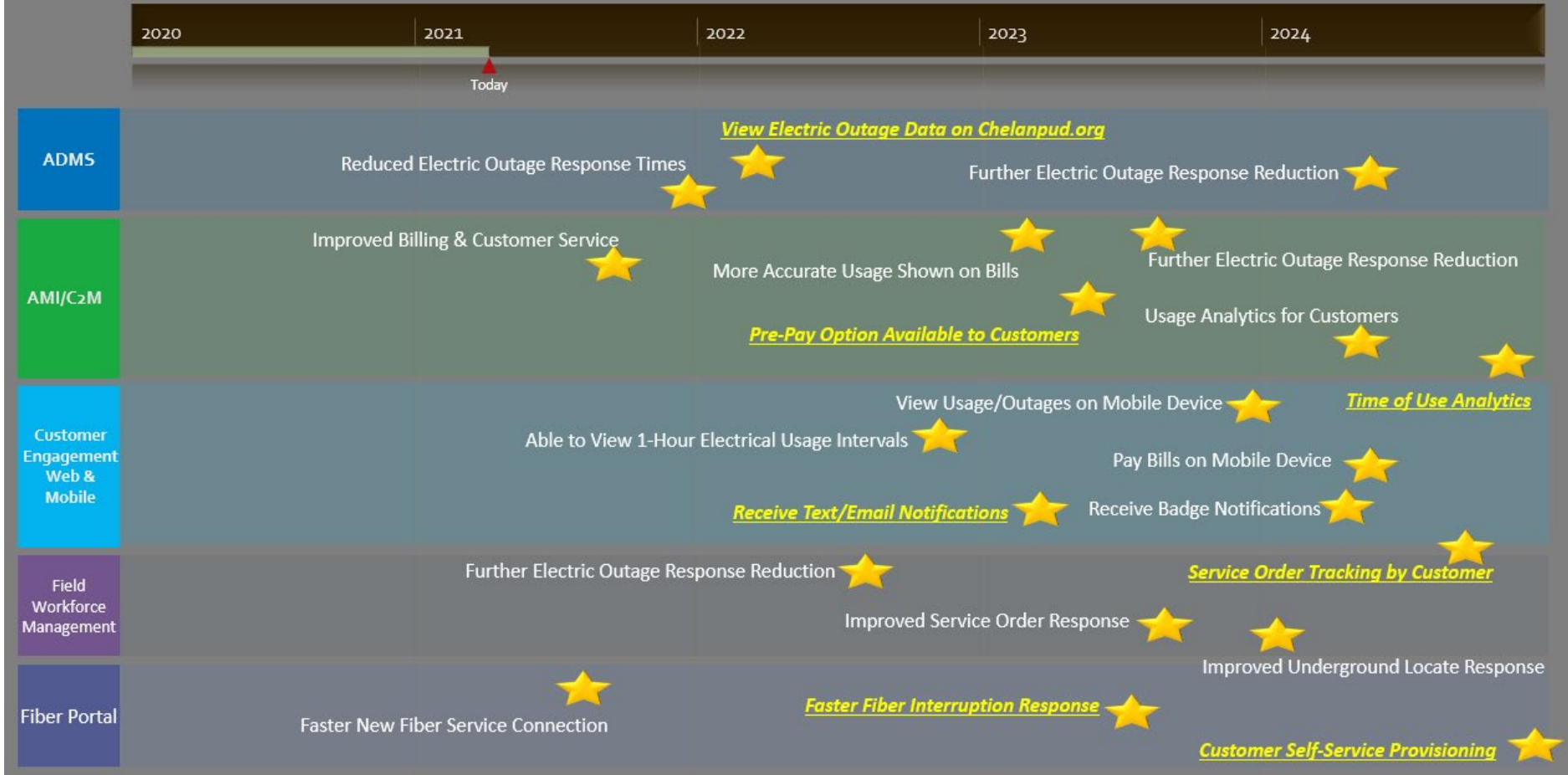


Progressing on Becoming a Leader in Utility Technology

- IT Re-Organization – A new way of thinking and working
 - A restructure of strategy, structure, processes, technology, and people towards an *Agile* mindset and framework to decrease waste, increase efficiency and improve alignment with the business to add value for customer owners
- Increased focus on delivering customer value with technology initiatives
 - Revamped project scopes, resolving challenges around critical path dependencies and better coordination among cross functional resources to deliver on strategic operational value streams iteratively
- Significant work to come....
 - Developing new roadmaps in this planning cycle for technology areas outside of IT to better define roles and responsibilities, establish governance and alignment and improve communication between the business, operations and IT

Technology Roadmaps

Delivering Customer Value with Technology Initiatives



Investing in People



Investing in employees through skill development, tools and techniques for productivity, innovation, leadership and growth

The PI System:
A Data and Notification Hub for Machine Learning,
Modeling, and Analytics using Hybrid Cloud Technology

Peter Vanney
Data Analyst • Public Utility District No. 1 of Chelan County • Wenatchee, Washington, USA

PIWorld SAN FRANCISCO 2020

P.U.D. CHELAN COUNTY

Financial Resiliency – Goal 2

- District has strong bond ratings, resilient financials and meeting financial policy metrics
- Wholesale markets are providing the District with good opportunity to secure future long-term revenue streams
- Expanding long-term financial planning assumptions to support decision-making around surplus portfolio and financial risk mitigation
- Strong cash balance provides flexibility to adapt to changing circumstances, while continuing to maintain low debt leverage
- Approved five-year plan for annual retail rate increases each June through 2024 is in the execution phase consistent with the Board Resolution and the 2020-2024 Strategic Plan
- New debt currently forecasted in 2023 to support capital program

Power Markets and Marketing Strategy

- Power markets continue to evolve; uncertainty remains with new regulations
 - Increased price volatility coupled with increased capacity and carbon value
 - State mandates increase need for clean capacity
 - Resource adequacy rules becoming clearer; may need to retain more capacity for own use
 - CETA requirements is driving long-term planning for post-2030
 - Capacity shortfall in the Northwest
- Executing on Long-Term Marketing Strategy presented to the Board in March
 - Diversified portfolio mix of cost-based slice contracts (40-50%), market-based slice contracts (20-30%) and retail (20-30%); longer term products add incremental value
 - Mitigates different risks and provides revenue certainty for customer-owners; hedge strategy protects against being short in higher price environment
 - Allows for flexibility to accommodate retail load growth; rate structure for large local loads to keep retail rate impact to < 5% for economic development
 - Developed a cost-based contract template that recovers hydro costs with adders to reflect the market value (energy, carbon, capacity) of a hydro resource

Public Power Benefit – Goal 3

In-Flight Projects

(as of August 2021)

Project	Year Funded	Allocated	Spent	Remaining
Fiber Expansion	2015-2021	\$20.1M	\$8.6M	\$11.5M
Horan Area Rehab	2015-2016	\$100k	\$28k	\$72k
Jobs & Work Readiness	2015-2016	\$172k	\$125k	\$47k
RR Discovery Center Combo *	2017-2021	\$2.525M	\$2.073M	\$450k
Loop Trail Extension	2019	\$1.2M	\$0	\$1.2M
Day Use Parks Pass	2015-2022	\$431k	\$397k	\$34k
Dryden Treatment Plant	2020	\$1.5M	\$0	\$1.5M
COVID-19 Community Support	2020-2021	\$275k	\$205k	\$70k
Riverfront Park	2021	\$200k	<i>Pending</i>	<i>Pending</i>
Large Load: Malaga Sub **	2021	\$75k	\$58k	\$17k
Substation Aesthetics	2021	\$50k	\$0	\$50k

* Turnover / Closeout ** Complete

Public Power Benefit – Goal 3

Forecast of Requests to Support Ongoing projects

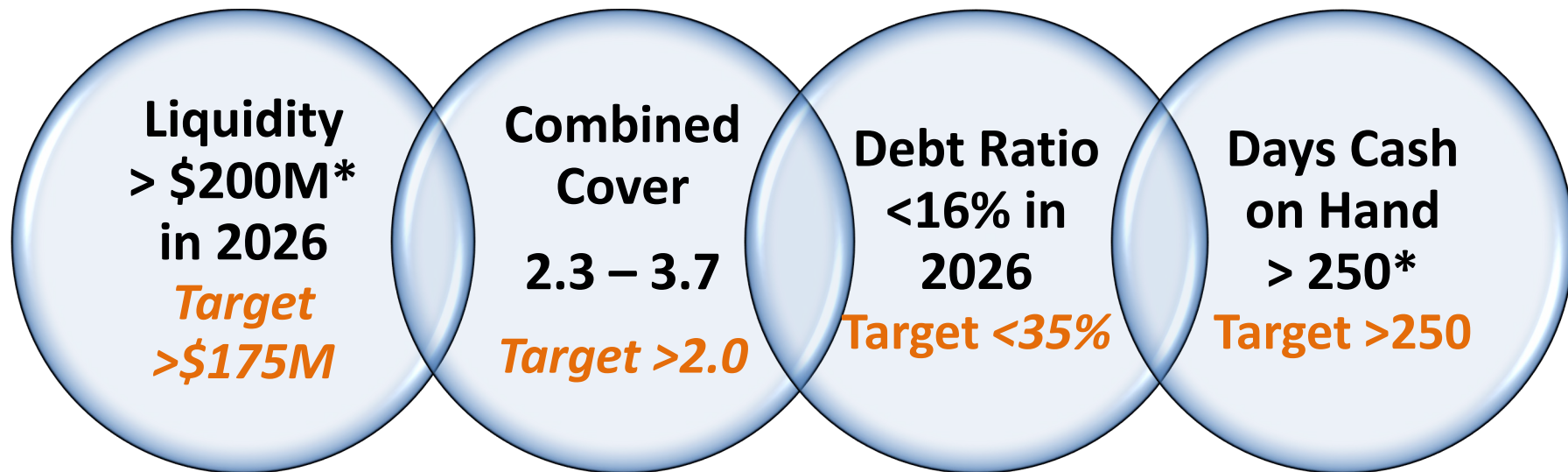
(as of August 2021)

	2022	2023	2024	2025	2026
Fiber Expansion	\$2M	\$2M	\$2M	Projects pending solicitation and Board selection	Projects pending solicitation and Board selection
Fiber Acceleration (connections)	\$800K	\$0	\$0		
Parks Day Use	\$200K	Pre-funded	Pre-funded		
Jobs Readiness	Pre-funded	\$70K	\$70K		
Horan Area Rehab	\$0	TBD	\$0		
Riverfront Park	\$1M				
Substation Aesthetics	\$500k				
COVID Support	\$0	\$0	\$0		
Total Requests	\$4.5M	\$2.07M	\$2.07M		
Forecasted PPB Total	\$6.0M	\$6.0M	\$6.0M	Forecast Assumption \$6.0M	Forecast Assumption \$6.0M

Economic Development – Goal 4

- Focus on distribution substations and infrastructure adds more flexibility to support new large loads
- Local loads expanding
 - Largest retail load is currently ~5 MWs and growing, new substation in service, expecting to ramp up to 19 MWs in 2022 under current contract
 - Applied to expand current operations to 24 MWs with 28 MW peak
- 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

2022-2026 Plans Reflect our Prudent Financial Policies



Results based on expected conditions

*We have a Board reporting requirement to provide an action plan when metrics come within 10% of the target. Both of these metrics are within that 10% threshold and our recommended action plan is to issue external debt in 2023 to finance a portion of our capital plans.

*Liquidity target is the greater of \$175M or methodology calculation - approx. \$200M in 2026

Known Unknowns

- COVID -19 continues to provide uncertainty resulting in real-time adaptive management, **supply chain risks increasing**
- Electric wholesale market fundamentals/value/regulations evolving
- **Federal infrastructure legislation**
- **Increasing large load potential could escalate system load growth**
- Asset condition assessments impact to project schedules
- Frequency and magnitude of wildfires and storms, climate change
- Cyber security threats more sophisticated as technology advances
- New and changing compliance/regulatory requirements
- **Relicensing process and related financial impacts**
- Columbia River Treaty, Canadian Entitlement outcomes
- Ability to compete for/retain top talent, loss of institutional knowledge
- Keeping pace with stakeholder engagement expectations
- Insurance markets providing challenges to obtain cost-effective coverage
- And more...

Overview of Operating Unit Plans

- Generation and Transmission
- Customer Utilities
- Fiber and Telecommunications
- Energy Resources
- District Services
- Information Technology
- Safety and Human Performance Improvement (HPI)
- Human Resources
- Finance
- Legal and Compliance

Summary

- **Business Plans support 2020-24 Strategic Plan:**
 - The Best, For the Most, For the Longest provides clear direction for decision-making creating value for customer-owners
 - Continued focus on hydro capability, retail reliability, safety and customer service technology, resiliency and innovation
 - Achieving District's financial goals and sustained financial resilience with flexibility to adapt to changing circumstances
 - Extensive workload and resource constraints associated with plans for investing in core assets and people
- **Next steps**
 - Board feedback on draft plans this week
 - Finalize business plans for Q3 Board report
 - Five-year business planning transitions to the one-year 2022 Budget at the next Board meeting on October 18, 2021