



# 2023-2027 Business Planning

Oct. 3, 2022

# What we will cover today...

- Mission, vision, values and objectives
- Overview of 2023-2027 district-wide plans
- Key drivers
- Known unknowns
- Summary

***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 foreground shows residential houses and streets. The background shows rugged mountains under a clear sky.

## **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

FINANCIAL

INTERNAL

ENABLERS

Commit to the highest level of customer-owner satisfaction

Protect natural resources impacted by operations

Ensure financial stability

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

Invest in creating long-term value

Advance human and organizational performance

Foster a culture of serving the public interest

Encourage innovation

# Focus Areas

- 1) **Customer Experience** – anticipating, meeting and exceeding ever-changing customer expectations
  - Leverage technology to bring new and innovative tools to get information to the customer through preferred communication channels
  - Continue advancing AMI and ADMS technology to enhance customer offerings
- 2) **Employee Development** – attract, retain, and develop employees by growing skills and preparing employees for increasing levels of responsibility
  - Create an environment where employees are excited and prepared for future opportunities
  - Need to establish training and tools to equip our employees with the ability to adapt to a rapidly changing utility industry and customer expectations
- 3) **Community Mindedness** – work with other agencies to help enhance the quality of life in Chelan County
  - Participate in targeted regional economic development groups to collaboratively address regional economic development
  - Develop planning strategies for “smart growth” addressing current zoning and siting issues
- 4) **Innovation** – Growing an innovation culture by identifying new and improved ways of doing business and utilizing new technology
  - Develop a stronger culture of innovation so that we can continue to increase value for our customer-owners
- 5) **Water** – protecting water resources for current and future operations
  - Climate change and increasing demand will require us to do more to protect water for domestic use, natural resources and hydropower purposes

# Enablers

- 1) **Teamwork** – breaking down silos by encouraging data and information flow between departments and promoting team success within the organization
  - Facilitates coordination and prioritization across departments to enable success in meeting strategic objectives
  - Better enables an environment where informed decision-making is closer to where the work is being accomplished
- 2) **Leadership** – sets the tone and creates an environment for an organization to achieve high levels of sustainable performance; transformational vs. transactional
  - Foster an environment where leaders can think more strategically
  - Focus more time to manage, lead, coach, mentor, train, and develop employees to be excellent at the jobs they are currently doing, while also preparing future leaders
- 3) **HPI Culture** – Actively modeling and communicating the mindset for continual learning and improvement of defenses; using HPI principles to reduce the frequency and severity of inevitable errors
  - Using our HPI principles everywhere at Chelan PUD will not only improve our safety culture but will create the environment for a culture of operational excellence
  - Leverage HPI principles to incorporate in everyday procedures and processes to support an HPI culture
  - Create an environment of psychological safety, where employees share process deficiencies and concerns focusing on improving District operations

# 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

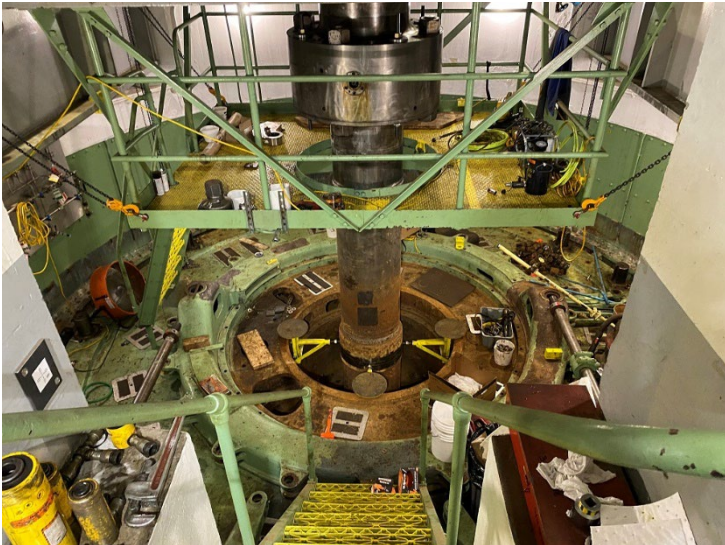
- Seeking improvement in hydro capability to optimize our generation assets, shifting schedule to use more District resources
  - Complete RI Powerhouse 1 (PH1) in 2026, complete modernization of first PH2 unit in 2024, complete Rocky Reach 2 large units by 2024
  - Complete and test first air-filled and water-filled prototype hub conversions
- Pursuing 1<sup>st</sup> quartile in distribution reliability to reduce customer-owner outage time, wildfire mitigation challenges metrics
  - Focus more on other distribution reliability efforts in the short-term including vegetation management, underground cable replacement, and animal guarding
- Utilize HPI methodologies to engage with all levels of the organization and promote a culture of learning and safety ownership; leverage metrics
- Implementing wildfire mitigation plan to protect public safety and property
- Adding incremental customer-owner benefits through technology, tools and data analytics

# Significant Investment in Assets



**Rock Island PH2  
Modernization  
Est. Completion:  
2031 (all 8  
units)**

**2023-2027:  
\$280M**

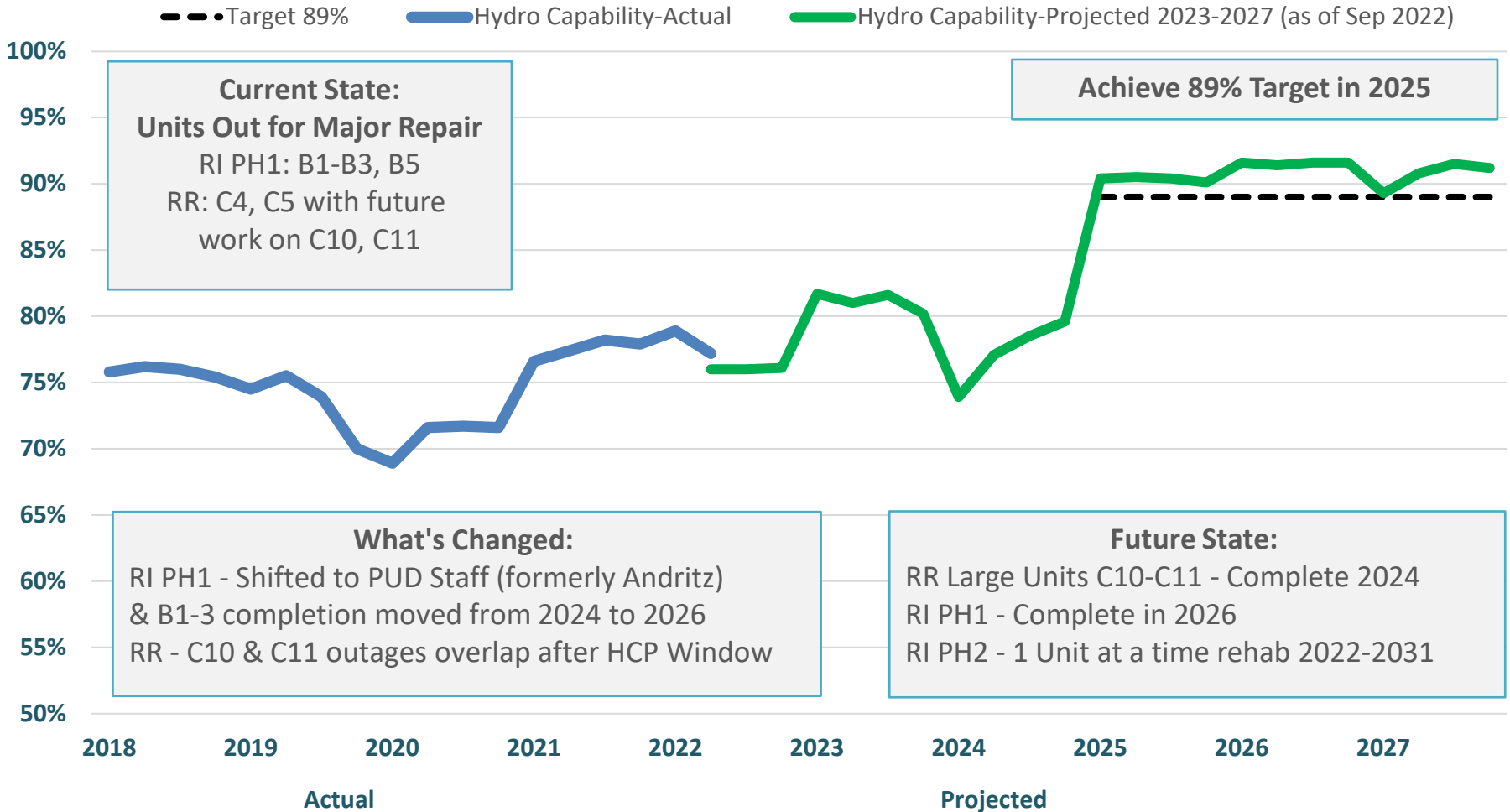


**Rock Island PH1  
Modernization  
Est. Completion:  
2026**

**2023-2026:  
\$52M**



# Improving Hydro Capability





# Significant Investment in Assets

**Distribution  
Infrastructure  
(Subs, AMI,  
ADMS)**

**2023-2027:  
\$56M**



**Operations/  
Service  
Center  
Est.  
Completion:  
Mid 2023**

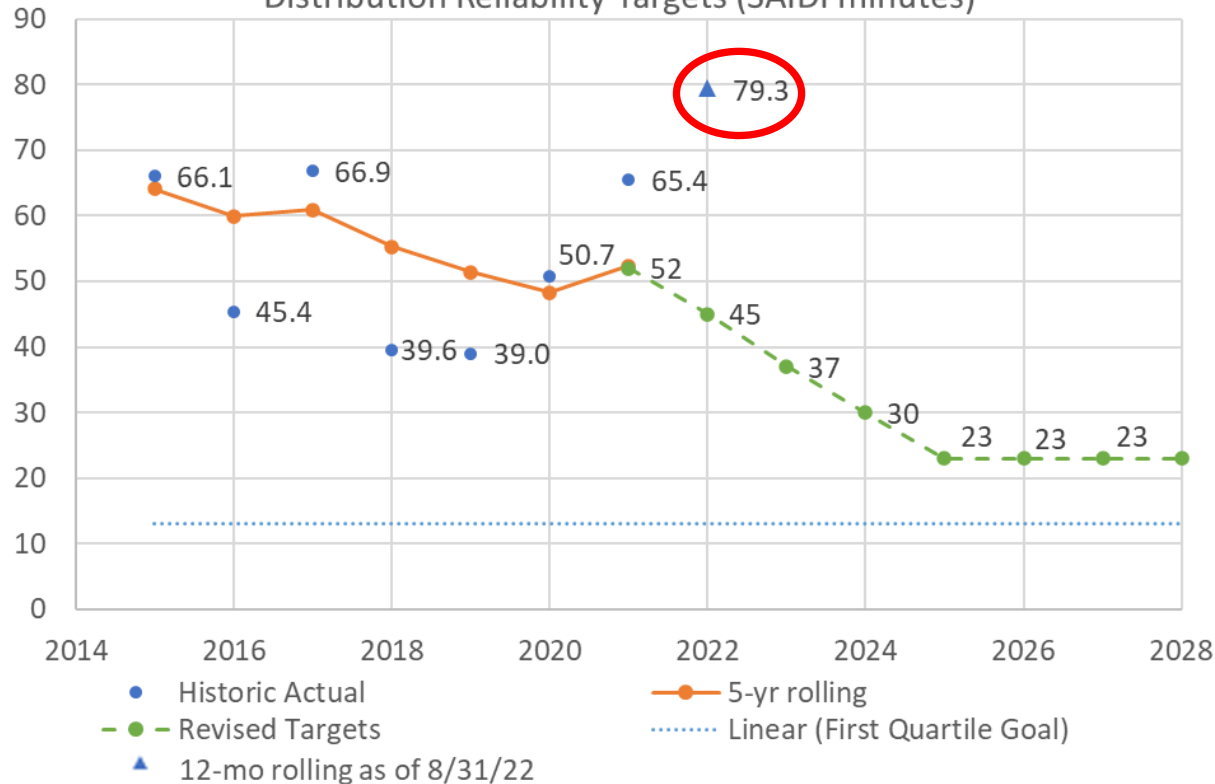
**2023: \$32M**



# Improving Distribution Reliability

Pursuing 1<sup>st</sup> Quartile per the America Public Power Association (APPA)

Distribution Reliability Targets (SAIDI minutes)

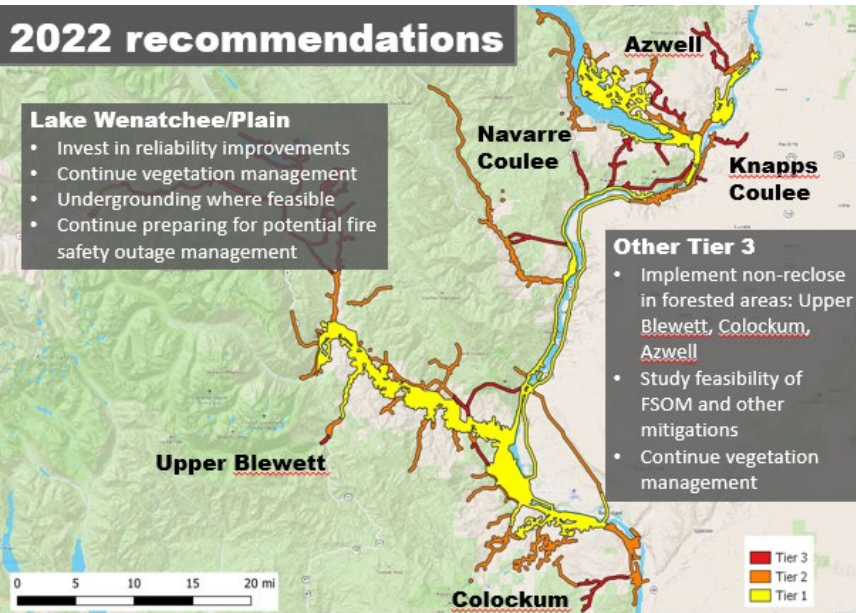


- Will not meet 2022 target, unlikely to recover for 2023
- Goal remains to put continued downward pressure on the 5-yr rolling average
- Experiencing significant increases related to animal outages and non-reclose settings – establishing mitigation plans
- Cables and vegetation outages steady with historical – recommend continuing programs
- Further study targets and goals with enhanced analytic/data model

Note: Distribution system only, forced, excludes major event days. APPA tracker RP3 tracker is forced and planned. Some variability in historical numbers due to database upgrades and content cleaning



# Wildfire Mitigation Plan



- Vegetation management: More frequent inspections, pruning, tree-trimming
- Operational changes during fire season
- Non-reclose program
- Fire-hardening: Steel structures, fire-retardant paint
- Undergrounding where feasible
- Coordination with other agencies
- Fire safety outage management

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





# Progressing on Becoming a Leader in Utility Technology

- Continue to Place Increasing Value on Data
  - Focus on becoming a data-driven organization by ensuring data, wherever collected and stored, is available quickly to whomever and whenever they need it, including customers to provide informative decisions.
- Enhance our Customer's Digital Experience
  - Incorporate our customer-owners into Chelan PUD's digital ecosystem by providing simple access to data and processes through enhanced customer engagement technology and enable them to self service many of their own requests from the District.
- Ready our Operational Technology
  - Recognizing the change of the utility landscape that includes increased electric vehicle usage, wildfire risk, and a need for continuously improving reliability, preparing our technology today for the challenges of tomorrow will ensure Chelan stays ahead of future challenges.

# Delivering Customer Value with Technology Initiatives

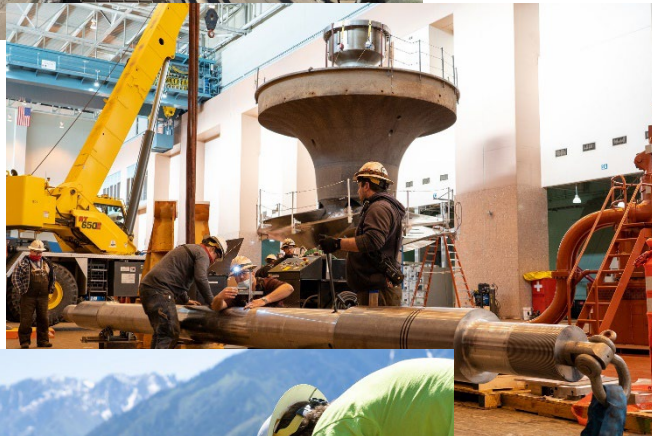


Initiative	2021	2022	2023	2024	2025
ADMS		<ul style="list-style-type: none"> <li>Reduced Electric Outage Response Times </li> <li>View Electric Outage Data on Chelanpud.org </li> </ul>			<ul style="list-style-type: none"> <li>Further Electric Outage Response Reduction </li> </ul>
AMI/C2M		<ul style="list-style-type: none"> <li>Improved Billing &amp; Customer Service </li> </ul>	<ul style="list-style-type: none"> <li>More Accurate Usage Shown on Bills </li> </ul>	<ul style="list-style-type: none"> <li>Further Electric Outage Response Reduction </li> </ul>	<ul style="list-style-type: none"> <li>Usage Analytics for Customers </li> <li>Pre-Pay Option Available to Customers </li> <li>Time of Use Analytics </li> </ul>
Customer Engagement Portal		<ul style="list-style-type: none"> <li>View Usage/Outages on Mobile Device </li> </ul>	<ul style="list-style-type: none"> <li>Able to View 1-Hour Electrical Usage Intervals </li> </ul>	<ul style="list-style-type: none"> <li>Receive Badge Notifications </li> </ul>	<ul style="list-style-type: none"> <li>Pay Bills on Mobile Device </li> <li>Receive Text/Email Notifications </li> <li>Service Order Tracking by Customer </li> </ul>
Field Workforce Management			<ul style="list-style-type: none"> <li>Further Electric Outage Response Reduction </li> </ul>		<ul style="list-style-type: none"> <li>Improved Service Order Response </li> <li>Improved Underground Locate Response </li> </ul>
Fiber Portal		<ul style="list-style-type: none"> <li>Faster New Fiber Service Connection </li> </ul>		<ul style="list-style-type: none"> <li>Faster Fiber Interruption Response </li> </ul>	

Completed   
 In Progress   
 On Roadmap

# Investing in Employees

- ✓ Skills development
- ✓ Tools and techniques
- ✓ Productivity
- ✓ Innovation
- ✓ Leadership
- ✓ Growth
- ✓ Succession planning





# Safety

## National Safety Council - Pillars of Safety Excellence:

- Risk Reduction
- Safety Management System
- Leadership and Engagement
- Performance Management

# HPI

## Advance Human Performance Improvement (HPI):

- Continue expansion and execution of ‘Learning Teams’
- Assess, revise and re-communicate the HPI Roadmap
- Develop a CCPUD HPI handbook
- Assess and establish HPI monitoring metrics
- Expand employee HPI training

# Financial Resiliency – Goal 2

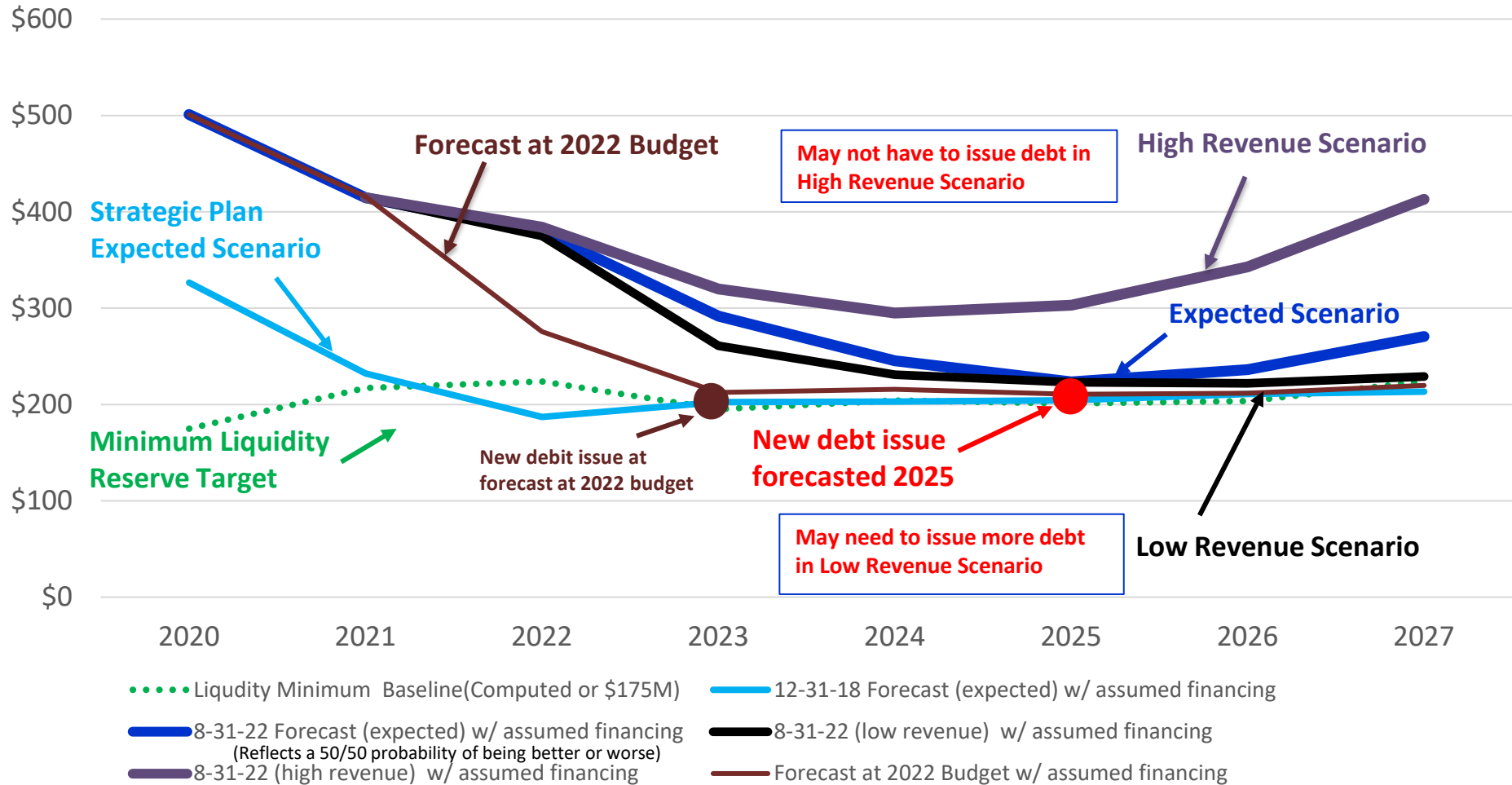
- District has strong bond ratings, resilient financials and meeting financial policy metrics
  - Moody's upgraded Chelan PUD from Aa3 to Aa2, Outlook Stable
  - Drivers include new long-term contracts with investment grade counterparties, substantial debt reduction, conservative risk management, low retail rates, strong financial metrics, demand and value of hydropower
- 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 2025 only to support capital program
- Wholesale markets are providing the District with good opportunity to secure future long-term revenue streams



# Long-Term Outlook Compared to Forecast at 2022 Budget

## Liquidity Forecast: Two Future Scenarios

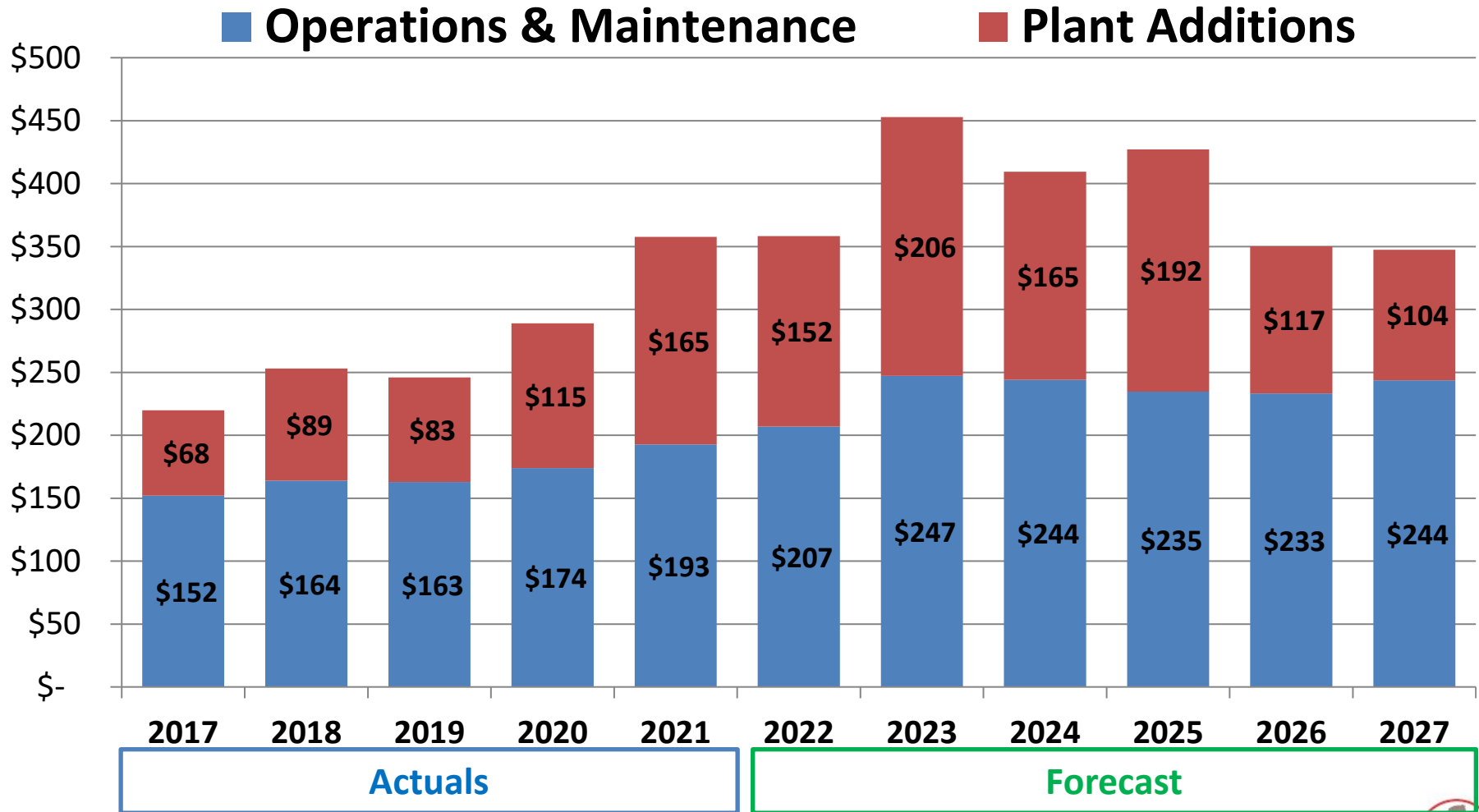
(forecast change as circumstances, assumptions, long-term plans and financial policies change)



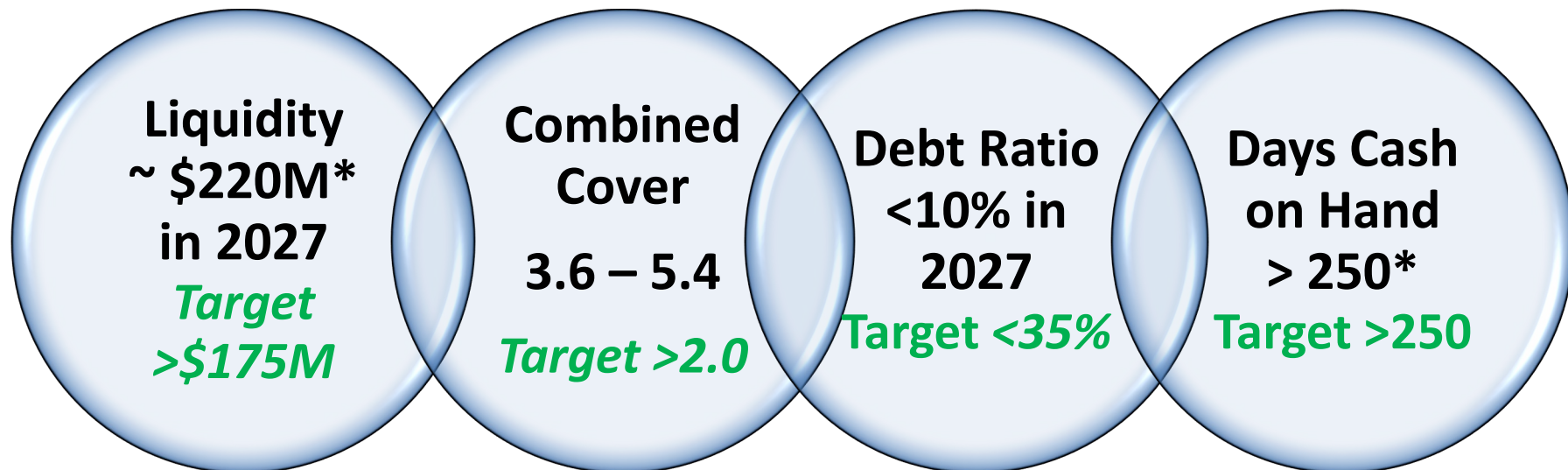
**NOTE:** 8-31-2022 scenarios assume approximately \$25M of new debt in the periods 2023-2027 to fund long lived capital projects based on borrowing under the Expected Scenario. The debt ratio for the District remains at or below 35% for all the forecasted scenarios.



# Investing in Assets and People (amounts in millions)



# 2023-2027 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. Based on the August 2022 forecast, these two metrics are within that 10% threshold in 2025 only and our recommended action plan is to issue external debt in 2025 to finance a portion of our capital plans.

\*Liquidity target is the greater of \$175M or methodology calculation - approx. \$220M in 2027



# Power Markets and Marketing Strategy

- Power markets continue to evolve; uncertainty remains with new regulations
  - Increased price volatility; strong prices for capacity and carbon-free continues
  - Resource adequacy rules may require Chelan PUD to retain more capacity for local load without mitigations
  - CETA requirements are driving mid and long-term planning in order to meet post 2030 compliance obligations
  - Strong demand continues for hydropower resources in the region
- Executing on Long-Term Marketing Strategy
  - 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 guards 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
  - Leveraging a modernized cost-based contract to recover hydro costs with adders to reflect the market value (energy, carbon, capacity) of a hydro resource
  - May need to revise marketing strategy based on interconnection requests and Resource Adequacy Program requirements.

# Public Power Benefit – Goal 3

## In-Flight Projects

(as of August 2022)

Project	Year Funded	Allocated	Spent	Remaining
Fiber Expansion + Acceleration	2015-2023	\$24.9M	\$10.8M	\$14.1M
Horan Area Rehab	2015-2016	\$100k	\$29k	\$71k
Supported Employment	2015-2016 + 2022	\$312k	\$159k	\$153k
Loop Trail Extension	2019	\$1.2M	\$160k	\$1.04M
Day Use Parks Pass	2015-2022	\$531k	\$454k	\$77k
Dryden Treatment Plant	2020	\$1.5M	\$0	\$1.5M
Riverfront Park	2021-2022	\$2M	<i>Pending</i>	<i>Pending</i>
Substation Aesthetics	2021-2022	\$550k	\$0	\$550k
Wen Valley Museum: Coyote's Corner	2022	\$460k	\$0	\$460k
Chelan Ballpark Masterplan	2022	\$100k	\$0	\$100k

# Public Power Benefit – Goal 3

## Forecast of Requests to Support Ongoing projects

(as of August 2022)

	2023	2024	2025	2026	2027
Fiber Expansion	\$2M	\$2.1M	Projects pending solicitation and Board selection	Projects pending solicitation and Board selection	Projects pending solicitation and Board selection
Sports Court Reconfiguration	\$500k	TBD			
Lake Chelan Research Inst.	\$270k	Pre-funded			
Jobs Readiness	\$250K	Pre-funded			
Supported Employment	Pre-funded	Pre-funded			
Parks Day Use	Pre-funded	Pre-funded			
Horan Area Rehab	TBD	TBD			
Dryden Treatment Plant	TBD	TBD			
Riverfront Park	TBD	TBD			
Loop Trail Extension to Service and Operations Center	TBD	TBD			
<b>Total Requests</b>	<b>\$3.02M</b>	<b>\$2.1M</b>			
<b>Forecasted PPB Total</b>	<b>\$6.0M</b>	<b>\$6.0M</b>	<b>Forecast Assumption \$6.0M</b>	<b>Forecast Assumption \$6.0M</b>	<b>Forecast Assumption \$6.0M</b>



# Economic Development – Goal 4

- Focus on distribution substations and infrastructure adds more flexibility to support new large loads
- 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
  - 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

# Known Unknowns

- **Changing global economic and political conditions (interest rates/inflation/energy demand/supply chain)**
- **Pace of transportation electrification**
- **Increasing external broadband providers**
- **Increasing large load potential could escalate system load growth**
- **Increasing evolution of environmental issues, such as fish and climate**
- **Ability to compete for/retain top talent, loss of institutional knowledge, resource capacity**
- Electric wholesale market fundamentals/value/regulations evolving
- 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, federal infrastructure legislation
- Relicensing process and related financial impacts
- Keeping pace with stakeholder engagement expectations
- Insurance markets providing challenges to obtain cost-effective coverage
- And more...

# 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
  - Emphasis on the three enablers and five focus areas during this cycle
  - Re-evaluate goals for hydro capability, distribution reliability, safety, and fiber build-out as part of this business planning cycle
  - Achieving District’s financial goals and sustained financial resilience with flexibility to adapt to changing circumstances
  - Extensive workload and resource constraints continues with plans for investing in core assets and people
- **Next steps**
  - Board feedback on draft plans this week
  - Finalize business plans for Q3 financial forecast and reporting
  - Five-year business planning transitions to the one-year 2023 Budget at the next Board meeting on October 17, 2022
    - Incorporate any Board feedback through budgeting process to inform the re-evaluation of hydro capability, distribution reliability, safety, and fiber build-out