



Chelan County PUD



**2023 Preliminary Budget
November 7, 2022**

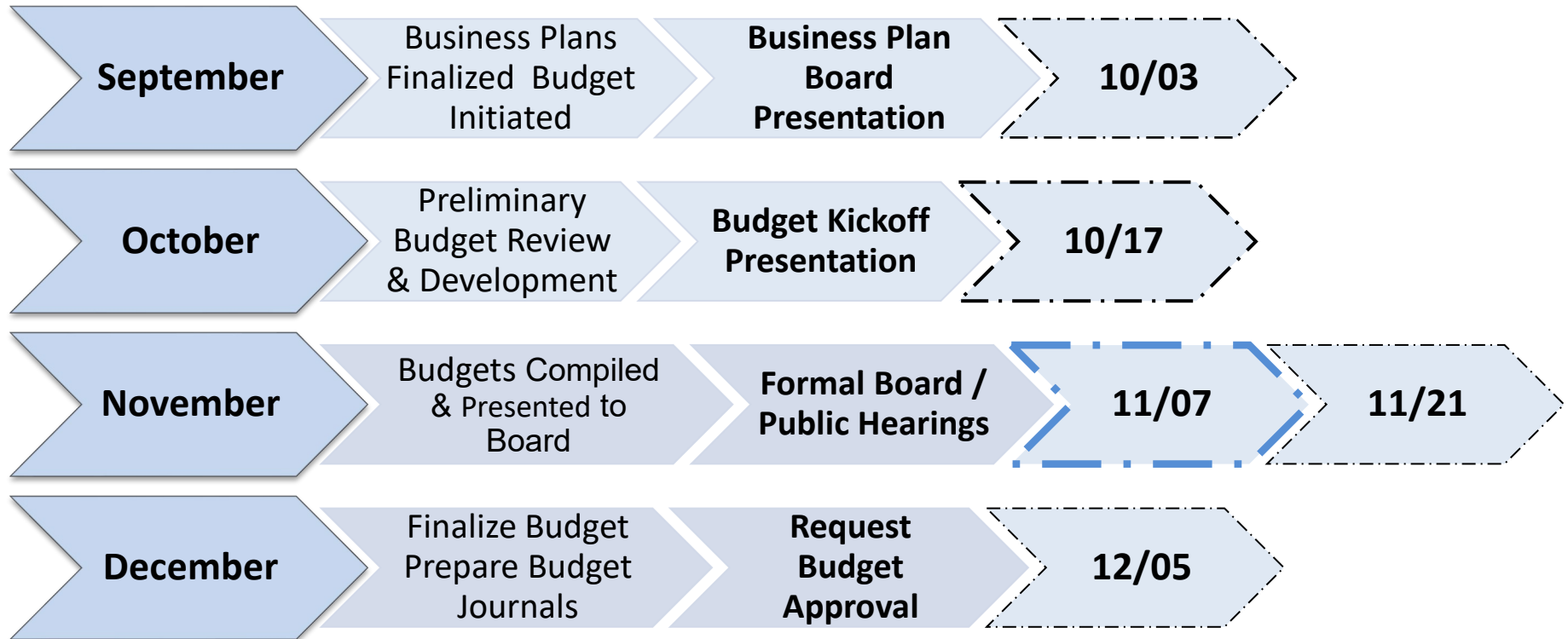
11/7/2022

What we will cover today



No Board Action Required

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

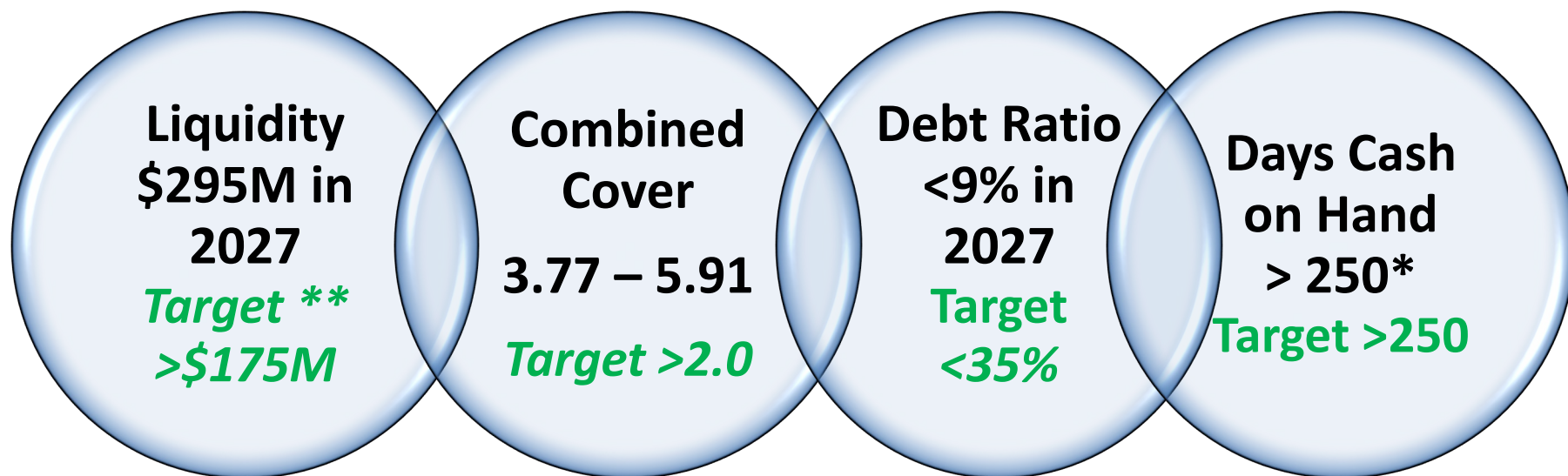
Five-Year Financial Plan 2023-2027

(in 000's)	Prelim Budget 2023	Forecast 2024*	Forecast 2025*	Forecast 2026*	Forecast 2027*
Service Revenue	134,551	101,721	93,868	94,742	95,643
Net Surplus Energy Revenue	254,517	296,870	321,551	303,855	327,620
Other Operating Revenue	26,667	22,701	23,039	24,997	25,543
Operating Expense	(251,777)	(248,081)	(241,575)	(234,372)	(244,570)
Depreciation & Tax Exp	(74,323)	(76,367)	(79,987)	(85,612)	(87,467)
Net Operating Income	89,644	96,845	116,895	103,610	116,769
Non-Operating Activity	(896)	(3,047)	(4,734)	541	4,996
Combined "Bottom-Line"	88,748	93,798	112,161	104,151	121,765
2023-2027 Business Plan	87,024	93,798	112,161	104,151	121,765
Last Year's Budget Adoption	61,498	68,989	73,683	74,482	78,242

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

* Forecast as of Q3 2022

2023-2027 Plans Meet District Financial Policies



Results based on expected conditions (based on Q3 2022 forecast)

*We have a Board reporting requirement to provide an action plan when metrics come within 10% of the target. Days cash on hand metric comes within that 10% threshold and our recommended action plan is to issue external debt in 2025 to begin financing portions of our capital program

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

Combined Financials 2023

(in 000's)	Prelim Budget 2023	Adopted Budget 2022	\$ Change	% Change
Service Revenue	134,551	116,585	17,966	15.4%
Net Surplus Energy Revenue	254,517	212,266	42,252	19.9%
Other Operating Revenue	26,667	24,978	1,699	6.8%
Operating Expense	(251,777)	(225,578)	(26,200)	11.6%
Depreciation & Tax Expense	(74,323)	(63,787)	(10,536)	16.5%
Net Operating Income	89,644	64,463	25,181	39.1%
Non-Operating Activity	(896)	(2,965)	2,069	--
"Bottom-Line"	88,748	61,498	27,250	44.3%

2023-27 Business Plan	87,024
------------------------------	---------------

Service Revenue

(in 000's)	Prelim Budget 2023	Adopted Budget 2022	Variance
Residential Electric	33,871	32,225	<i>Growth from current 2022 forecasted usage is partially offset by impacts of energy conservation efforts</i> <i>Off-system end use sale shifts revenue from wholesale to service revenue; increased due to significantly higher forecasted market price component of rate</i> <i>Some growth from High Density Loads</i> <i>3% rate increase included in 2023</i>
Commercial Electric	17,833	17,045	
Industrial Electric	5,564	5,388	
Off-System end use	46,501	33,086	
HDL Electric / Crypto	11,746	10,529	
Other Electric	1,740	1,707	
Electric Service	117,255	99,980	
Water Service	7,642	7,222	~1.5% growth / 4% rate increase 2023
Wastewater Service	895	852	~1.0% growth / 4% rate increase 2023
Fiber & Telecom	8,759	8,531	~4% growth / 3% rate increase 2023
Service Revenue	134,551	116,585	

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	15,592	(13,776)	Higher market prices, longer unhedged position
EP&T Net Wholesale	81,455	63,988	
LT Hydro Contracts	174,073	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	254,517	212,266	
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 – <i>Fixed</i>	4,000	4,000	<i>Consistent with 2022 budget</i>
Real Time Contract – <i>Variable</i>	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	6,814	5,800	<i>LT contract admin fees</i>
Other Operating Revenue	26,677	24,978	
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	85,850	78,664	RR unit repair costs, PH1 unit repairs, PH2 plant modernization, Tumwater spillway repairs
Hydro Fish & Wildlife	27,339	20,365	RI Fishway repairs
Hydro Parks & Recreation	9,582	8,303	Discovery Center/RR hillside repair, Irrigation plans
Electric Distribution	19,415	20,020	Consistent with 2022 budget
Electric Transmission	17,097	15,977	RR Switchyard projects
Power Supply Mgmt	5,538	5,741	Consistent with 2022 budget
Fiber Network O&M	6,018	5,625	Continued network growth

Continued on next slide

Operating Expense

(in 000's)	Prelim Budget 2023	Adopted Budget 2022	Variance
Water/Wastewater O&M	4,000	3,709	<i>Added 2 apprentices to support system growth</i>
Customer Accts & Svc	5,267	4,795	<i>Increased labor rates</i>
Conservation	5,815	5,186	<i>Increased support for conservation programs</i>
Insurance	12,118	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	52,101	45,366	<i>Information technology support/licensing/ maintenance; Facilities moving costs</i>
Total	251,777	225,578	
2023-27 Business Plan	254,705		

Non-Operating Expense

(in 000's)	Prelim Budget 2023	Adopted Budget 2022	Variance
Investment Earnings	12,390	10,319	<i>Higher interest rates</i>
Contribution Income	7,206	6,054	<i>Higher customer connections</i>
Interest Expense	(17,110)	(17,934)	<i>Reduced debt</i>
Other Inc/(Exp)	(3,381)	(1,404)	<i>Debt retirements reduced debt-related amortizations</i>
Net Expense	(896)	(2,965)	
2023-27 Business Plan	(870)		

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

\$44 million (*Total project \$159M*)



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

- \$4 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	49,431	33,455	15,976	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	11,051	7,642	3,409	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	2,788	3,384	(596)	LC Auto Closure Gate
Corporate/Shared Assets	51,916	85,439	(33,523)	Operations & Service Center, CM 240 Ton Crane
Integrated Electric	200,788	186,032	14,757	

Continued on next slide

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	3,273	2,254	1,018	SCADA system, Water main replacements, Meters
Wastewater	4,578	460	4,118	Dryden WW upgrade start
Total Capital	214,890	195,878	19,012	
Less: Contributions	(6,320)	(5,427)	(893)	Capital paid by others
Regulatory Liability CIAC	(36,461)	-	(36,461)	Jumpoff Ridge Switchyard and Capital paid by others
Fiber Make Ready Offset	(2,300)	(2,184)	(116)	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	180,860	204,460		
2023-27 Business Plan	180,860			

Key “Total Capital Project” Revisions (Existing Projects)

(in 000's)	Current	Revised	Change	Major Driver
Operations and Service Center	139,536	159,536	20,000	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

Combined District Expenditures

(in 000's)	Preliminary 2023 Budget	Adopted 2022 Budget	%
Operating Expense	251,777	225,578	11.6%
Tax Expense	14,984	13,035	15.0%
Non-Operating Exp/(Inc) - excludes CIAC	8,102	9,018	(10.2%)
Net Capital & Reg Assets	180,860	204,460	(11.5%)
Total Expenditures	455,723	452,091	0.8%
Net Debt Principal Payments	37,150	46,674	(20.4%)
Total Expenditures & Net Debt Reduction	492,873	498,765	(1.2%)

Primary Drivers of Decrease: 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	\$308M	3.77	16.6%	276
<i>Target</i>	<i>> \$185M</i>	<i>> 2.0x</i>	<i>< 35%</i>	<i>> 250</i>
Base Case – unusual	\$285M	3.13	17.2%	251*
<i>Target</i>	<i>> \$218M</i>	<i>> 1.25x</i>	<i>< 35%</i>	<i>> 250</i>



On track

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

Combined Financial Policies

2023 Preliminary Budget

	Operating Coverage %	Cash Reserves (unrestricted)	Debt Service as % of Revenue
Fiber & Telecom <i>Target</i>	73.7% <i>>79.4%</i>	\$18.6 M <i>\$2 M</i>	---% <i>< 0%</i>
Water <i>Target</i>	96.9% <i>>100.8%</i>	\$2.8 M <i>\$1.25 M</i>	8.9% <i>< 11.7%</i>
Wastewater <i>Target</i>	64.1% <i>> 62.3%</i>	\$1.6 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

Review

- Continued review and adjustments in November

Discuss

- 2nd Budget Hearing November 21

Approve

- Requesting Board approval on December 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

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