

# | Chelan County PUD

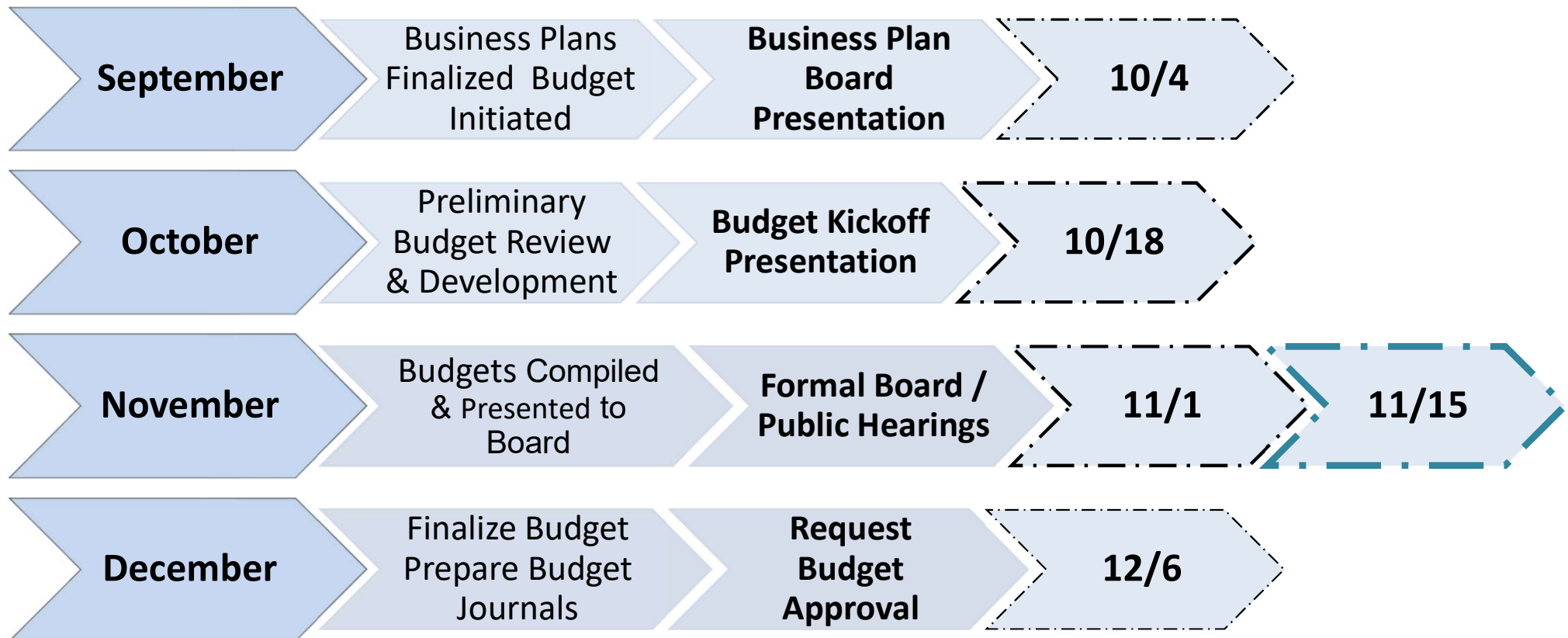


## **2022 Preliminary Budget** **Nov. 15, 2021**

*No Board Action Required Today*

11/15/2021

# Budget Timeline



Indicates Board Meetings

# Summary of Changes Since Nov. 1

## 2022 Budget Impacts

2022 Net Capital and Regulatory Assets: Decrease of \$10.9M  
(\$215.4M to \$204.5M)

Rock Island projects were the primary driver of the decrease:

- Rock Island PH2 U5 Rehab (-\$15.7M) – capital moved to 2023+
- Rock Island PH2 U7 Rehab (-1.3M) – capital moved to 2023
- Rock Island PH1 Modernization (-\$5.4M) – 2022 capital moved to 2023, 2024
- Rock Island PH2 U1-U8 Rehab (+\$3.9M) – 2022 increased for more site work
- Rock Island PH2 Bridge Crane (+\$3.8M) – 2021 capital moved to 2022

Total Capital Project Budget Revisions (Existing Projects) >\$1M

- Rock Island PH2 U1-U8 Rehab total project revision increased \$4.2 to \$5.5M – allocates more funds to individual project for additional site work for PH2 (does not change approved overall project cost)

# Summary of Changes Since Nov. 1

## 2022 Budget Impacts

Bottom line: Increase of \$3.1M (\$58.4M to \$61.5M)

Operating revenues: No net change

- Retail electric revenue up and net wholesale revenue down \$4.6M – primarily increase in HDL load forecast of ~8 aMW shifts revenue from wholesale to retail

Operating expenses: Decrease of \$1.6M

- O&M refinement (+\$0.7M) – updated project schedules increased hydro expense
- Depreciation refinement (-\$2.7M) – decreased with decrease in capital
- Tax refinement +(\$0.4M) – increased with increase in retail revenue

Non-operating activity: Decrease in net expense of \$1.6M

- Refinement of interest earnings (+\$0.4M) - adjusted cash for lower capital spend
- Capital contributions (+\$1.2M) – increased anticipated customer line extensions

# Combined Financials 2022

(in 000's)	Prelim Budget 2022	Adopted Budget 2021	\$ Change	% Change
Service Revenue	116,585	96,433	20,152	20.9%
Net Surplus Energy Revenue	212,266	208,799	3,467	1.7%
Other Operating Revenue	24,978	23,898	1,080	4.5%
Operating Expense	(225,578)	(213,294)	(12,284)	5.8%
Depreciation & Tax Expense	(63,787)	(60,657)	(3,130)	5.2%
<b>Net Operating Income</b>	<b>64,463</b>	<b>55,179</b>	<b>9,284</b>	<b>16.8%</b>
Non-Operating Activity	(2,965)	(3,700)	735	(19.9%)
<b><i>Bottom Line (Nov. 15)</i></b>	<b><i>61,498</i></b>	<b><i>51,479</i></b>	<b><i>10,019</i></b>	<b><i>19.5%</i></b>

<b><i>Nov. 1 Budget Presentation</i></b>	<b><i>58,357</i></b>
<b><i>% Change since Nov. 1</i></b>	<b><i>5.4%</i></b>

# Capital Expenditures

(in 000's)	Prelim Budget 2022	Adopted Budget 2021	\$ Change	Major Project Focus
<b>Total Capital</b>	<b>195,878</b>	<b>189,176</b>	<b>6,702</b>	
Less: Contributions	(5,427)	(3,594)	(1,833)	Capital paid by others
Fiber Make Ready Offset	(2,184)	(900)	(1,284)	Make ready costs: intersystem
Regulatory Assets & Other	16,193	11,703	4,490	Conservation, license obligations, Greater McNeil Canyon, Mid C Transmission
<b>Net Capital &amp; Reg. Assets</b>	<b>204,460</b>	<b>196,384</b>		

<b>Nov. 1 Budget Presentation</b>	<b>215,417</b>
<b>% Change since Nov. 1</b>	<b>(5.1)%</b>

# Combined District Expenditures

(in 000's)	Preliminary 2022 Budget	Adopted 2021 Budget	%
Operating Expense	225,578	213,294	5.8%
Tax Expense	13,035	11,183	16.6%
Non-Operating Exp/(Inc): excludes CIAC	9,018	7,921	13.9%
Net Capital & Reg Assets	204,460	196,384	4.1%
<b>Total Expenditures (Nov. 15)</b>	<b>452,091</b>	<b>428,782</b>	<b>5.4%</b>

Net Debt Principal Payments	46,674	110,951	(57.9%)
<b>Total Expenditures &amp; Net Debt Reduction (Nov. 15)</b>	<b>498,765</b>	<b>539,733</b>	<b>(7.6%)</b>

Nov. 1 Budget Presentation	508,988
<b>% Change since Nov. 1</b>	<b>(2%)</b>

**Primary driver of decrease for 2022 compared to 2021 is the debt retirement made in 2021 partially offset by continuation of significant volume of work at the hydros, facilities**

# Combined Financial Policies

## 2022 Preliminary Budget

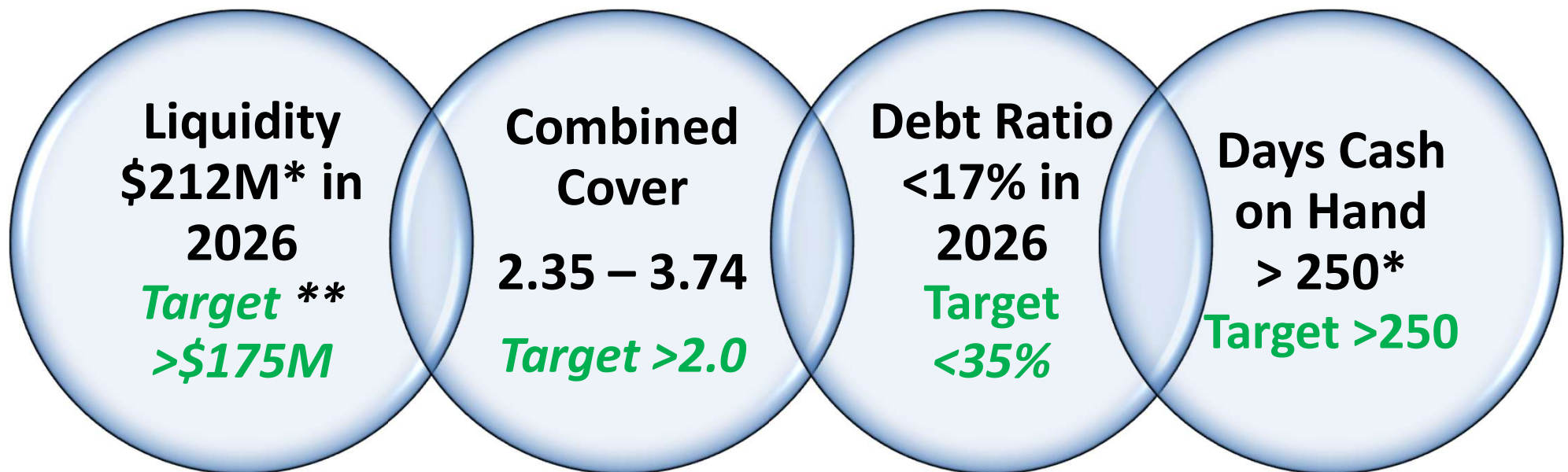
	Financial Liquidity	Combined Cover	Debt Ratio	Days Cash on Hand
Base Case – expected <i>Target</i>	\$276M <i>&gt; \$185M</i>	2.35 <i>&gt; 2.0x</i>	20.5% <i>&lt; 35%</i>	304 <i>&gt; 250</i>
Base Case – unusual <i>Target</i>	\$261M <i>&gt; \$185M</i>	2.12 <i>&gt; 1.25x</i>	20.7% <i>&lt; 35%</i>	287 <i>&gt; 250</i>



**On track**



# ***2022-2026 Plans Meet District Financial Policies***



***Results based on expected conditions (based on October 2021 forecast)***

\*Reporting requirement per Board Resolution to provide an action plan when metrics come within 10% of the target. Both of these metrics are within that 10% threshold and recommended action plan is to issue external debt to finance portions of our capital program when liquidity and cash balances are near targets (approx. 2023)

\*\*Liquidity target is the greater of \$175M or methodology calculation – ranges from approx. \$175M to \$192M over 5-year period

# Combined Financial Policies

## 2022 Preliminary Budget

	Operating Coverage %	Cash Reserves (unrestricted)	Debt Service as % of Revenue
Fiber & Telecom <i>Target</i>	76.4% <i>&gt;79.1%</i>	\$20.1 M <i>\$2 M</i>	---% <i>&lt; 0%</i>
Water <i>Target</i>	98.2% <i>&gt;99.4%</i>	\$4.1 M <i>\$1.25 M</i>	9.5% <i>&lt; 11.7%</i>
Wastewater <i>Target</i>	65.2% <i>&gt; 62.4%</i>	\$2.6 M <i>\$200 K</i>	13.4% <i>&lt; 2.0%</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 and consider internal loaning to improve cash position to help meet capital needs.

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. 6



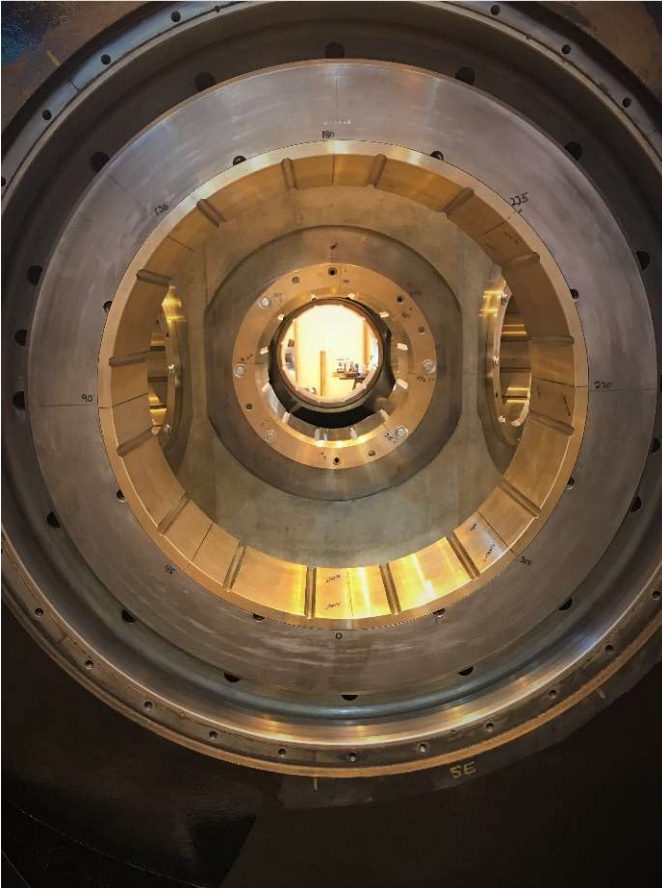
# *Appendix*

## *Additional detailed information*



# Major O&M Activities

**RR Turbine Repairs \$4.6M**



**Hatcheries \$7.2M**



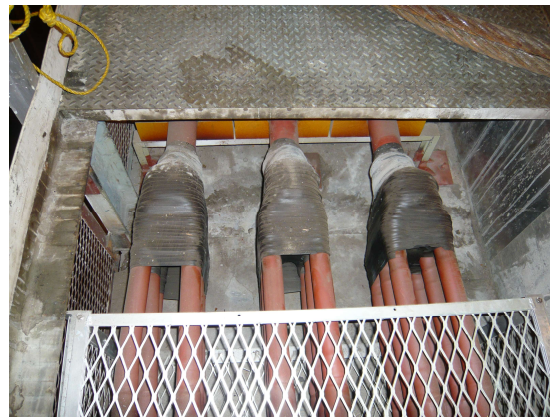
**Tree Trimming \$3.1M**



**Tumwater Dam  
Spillway Repair \$3.0M**



**RI PH2 Generator Main  
Leads \$3.1M**



# 2022 Major Capital Projects

## Rock Island – Major Drivers



### RI Modernization

- PH1 B1-B4 \$13 million  
*(Total Project \$75M)*
- PH1 B5,B7 & B8 \$6 million  
*(Total Project \$97M)*
- PH2 U1-U8 \$32 million  
*(Current Project Budget of \$119M designated for U5, U7 and design work)*



### RI Cranes

- PH2 Bridge \$7 million  
*(Total Project \$13M)*
- PH2 Gantry \$1 million  
*(Total Project \$9M)*
- PH1 Gantry \$3 million  
*(Total Project \$6M)*



# 2022 Major Capital Projects

## Facilities – Major Drivers

### Operations and Service Center

\$72 million (*Total Project \$139M*)



### RR / Central Maintenance

\$14 million (*Total Project \$43M*)



# 2022 Major Capital Projects

## Rock Island Draft Tube Gate Cylinders and Hydraulic Power Units

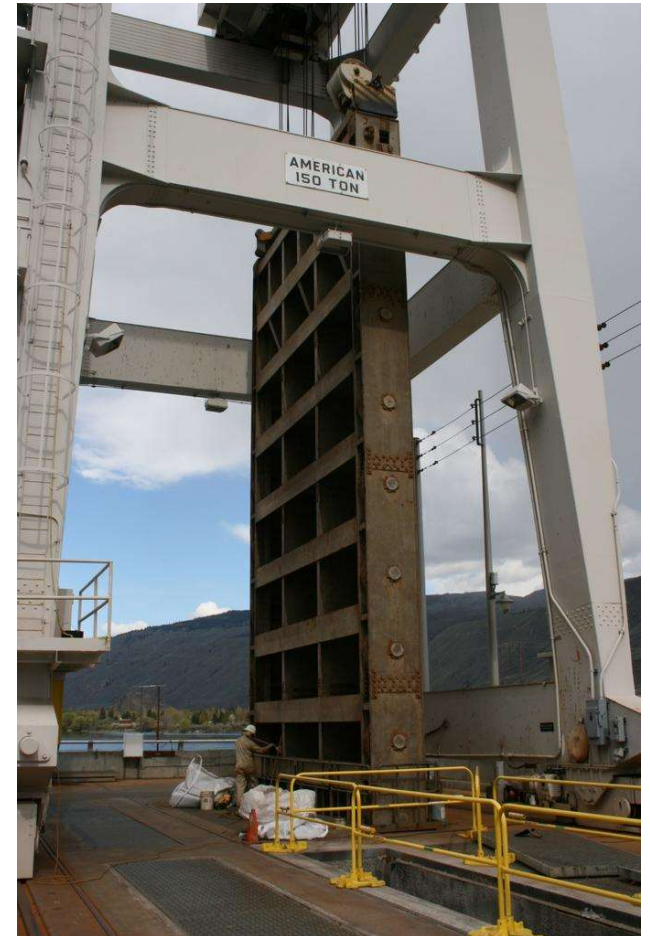
- \$4 million (*Total Project \$7M*)

## Rocky Reach Tailrace Gantry Crane

- \$3 million (*Total Project \$6M*)

## Rocky Reach Governor Controls

- \$1 million (*Total Project \$8M*)





# 2022 Major Capital Projects

## Bavarian Substation

- \$5 million (*Total Project \$7M*)

## North Shore Chelan Substation

- \$5 million (*Total Project \$7M*)

## Advanced Metering Infrastructure

- \$10 million (*Total Project \$15M*)

## Fiber Expansion (Public Power Benefit - PPB)

- \$7 million



# Key “Total Capital Project” Revisions (Existing Projects)

(in 000's)	Current	Revised	Change	Major Driver
N Shore Chelan Substation (Boyd)	2,750	6,711	3,961	<i>Adding remaining project budget</i>
Bavarian Substation	2,528	6,456	3,928	<i>Adding remaining project budget</i>
Dryden Wastewater Upgrade *	400	3,389	2,989	<i>Adding remaining project budget</i>
RI PH2 U1-U8 Rehab **	12,500	18,049	5,549	<i>Adding 2022 project scope</i>

\* Project budget and requested change decreased by \$0.1M from November 1 presentation.

\*\* Project budget and requested change increased by \$4.2M compared to the Nov. 1 presentation. This project is made up of 9 different tracking projects which will need individual budget approvals throughout the lifecycle of the project. This individual project revision does not increase the approved overall project forecast of \$456M.

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

# Key “Total Capital Project” Revisions (New Projects)

(in 000's)	Current	Revised	Change	Major Driver
Service Bldg Network Hardware	0	1,540	1,540	IT network hardware for Service Center
RR Fac Upgrade Elec Load Support	0	1,500	1,500	Upgrade RR electrical
Hyperconverged Infrastructure	0	1,300	1,300	Improved IT infrastructure
PPB Riverfront Park Improvements	0	2,700	2,700	Initial portion of project budget which is in design phase (total capital and O&M estimate is \$3M with \$2M contributed by City)
PPB: Chelan FDT-150	0	1,845	1,845	Allocates PPB Fiber to specific project (no change to approved total)
PPB: Blewett Pass FDT-162	0	1,149	1,149	Allocates PPB Fiber to specific project (no change to approved total)
PPB: Entiat FDT-175	0	1,078	1,078	Allocates PPB Fiber to specific project (no change to approved total)

***Includes new projects >\$1M***

# Service Revenue

(in 000's)	Prelim Budget 2022	Adopted Budget 2021	Variance
Residential Electric	32,225	29,293	<i>Moderate to high growth levels of residential developments</i>  <i>Off-system end use sale shifts revenue from wholesale to service revenue; increased due to higher forecasted market price component of rate</i>  <i>Growth in HDL class associated with large load ramping plan</i>
Commercial Electric	17,045	17,569	
Industrial Electric	5,388	5,501	
Off-System end use	33,086	21,375	
HDL Electric / Crypto	10,529	5,570	
Other Electric	1,707	1,504	
Electric Service	<b>99,980</b>	<b>80,811</b>	<i>3% rate increase included in 2022</i>
Water Service	7,222	6,787	<i>~2% growth / 4% rate increase 2022</i>
Wastewater Service	852	808	<i>~1.5% growth / 4% rate increase 2022</i>
Fiber & Telecom	8,531	8,026	<i>~4% growth / 3% rate increase 2022</i>
<b>Service Revenue</b>	<b>116,585</b>	<b>96,433</b>	
<b>Nov. 1 Budget Presentation</b>	<b>111,988</b>		
<b>2022-26 Business Plan</b>	<b>111,988</b>		

# Net Surplus Energy Revenue

(in 000's)	Prelim Budget 2022	Adopted Budget 2021	Variance
Slice Contracts	77,762	73,602	Higher priced slice starting in 2022
Block/Pre Sched/Real Time	(13,776)	(6,262)	Offset included in off- system end use sale
<b>EP&amp;T Net Wholesale</b>	<b>63,988</b>	<b>67,340</b>	
LT Hydro Contracts	149,268	142,779	Cost-based + : increased costs for 2022
Less: Nine Cyns & Other PP	(990)	(1,320)	Reduced cost forecast for 2022
<b>Net Surplus Energy Revenue</b>	<b>212,266</b>	<b>208,799</b>	
<b>Nov. 1 Budget Presentation</b>	<b>216,903</b>		
<b>2022-26 Business Plan</b>	<b>218,306</b>		

# Other Operating Revenue

(in 000's)	Prelim Budget 2022	Adopted Budget 2021	Variance
Transmission/Wheeling	11,941	11,778	<i>Cost based: Increased investments in operations/compliance</i>
Real Time Contract – Fixed	4,000	4,000	<i>Consistent with 2021 budget</i>
Real Time Contract – Variable	3,000	3,000	<i>Consistent with 2021 budget</i>
Service/Late Charges	237	286	<i>Consistent with 2021 budget</i>
Misc Other Items	5,800	4,834	<i>Frequency response revenue</i>
<b>Other Operating Revenue</b>	<b>24,978</b>	<b>23,898</b>	
<b>Nov. 1 Budget Presentation</b>	<b>24,889</b>		
<b>2022-26 Business Plan</b>	<b>25,025</b>		

# Operating Expense

(in 000's)	Prelim Budget 2022	Adopted Budget 2021	Variance
Hydro O&M	78,664	71,810	<i>RR unit repair costs, PH1 unit repairs, PH2 plant modernization, Tumwater spillway repairs</i>
Hydro Fish & Wildlife	20,365	20,444	<i>RI Fishway repairs; offset by completion of HCP 10-year RI Fish Passage Study in 2021</i>
Hydro Parks & Recreation	8,303	8,861	<i>Discovery Center maintenance upgrades higher in 2021</i>
Electric Distribution	20,020	19,653	<i>Consistent with 2021 Budget</i>
Electric Transmission	15,977	14,357	<i>RR Switchyard projects</i>
Power Supply Mgmt	5,741	5,108	<i>Added resources for river management and optimization</i>
Fiber Network O&M	5,625	6,213	<i>PPB acceleration pole analysis/ portal replacement in 2021 budget</i>

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# Operating Expense

(in 000's)	Prelim Budget 2022	Adopted Budget 2021	Variance
Water/Wastewater O&M	3,709	3,325	<i>Development of next comprehensive plan</i>
Customer Accts & Svc	4,795	4,782	<i>Consistent with 2021 budget</i>
Conservation	5,186	4,761	<i>Increased support for conservation programs</i>
Insurance	10,434	9,260	<i>Anticipated insurance premium increases</i>
FERC Fees	1,392	1,398	<i>Consistent with 2021 Budget</i>
Other Admin & General	45,366	43,322	<i>Information technology support/licensing/ maintenance; Facilities moving costs</i>
<b>Operating Expense</b>	<b>225,578</b>	<b>213,294</b>	
<b>Nov. 1 Budget Presentation</b>	<b>224,881</b>		
<b>2022-26 Business Plan</b>	<b>227,317</b>		



# Non-Operating Expense

(in 000's)	Prelim Budget 2022	Adopted Budget 2021	Variance
Investment Earnings	10,319	12,609	<i>Lower cash balances</i>
Contribution Income	6,054	4,221	<i>Higher customer connections</i>
Interest Expense	(17,934)	(21,907)	<i>Reduced debt</i>
Other Inc/(Exp)	(1,404)	1,337	<i>Debt retirements reduced debt-related amortizations</i>
<b>Net expense</b>	<b>(2,965)</b>	<b>(3,700)</b>	
<b>Nov. 1 Budget Presentation</b>	<b>(4,525)</b>		
<b>2022-26 Business Plan</b>	<b>(4,544)</b>		

# Capital Expenditures

(in 000's)	Prelim Budget 2022	Adopted Budget 2021	\$ Change	Major Project Focus
Electric Distribution	33,455	33,403	52	Substations, Advanced Metering Infrastructure, ADMS
Electric Transmission	1,236	1,325	(90)	Breaker & Relay replacements, Line relocations
Rocky Reach Hydro	7,642	11,248	(3,606)	Tailrace Gantry Crane, Spillway Electrical, Governor Controls
Rock Island Hydro	54,877	61,291	(6,414)	PH1 and PH2 Modernizations, PH2 Gantry Crane, PH1 Gantry Crane, PH2 DTG Cylinder & HPU
Lake Chelan Hydro	3,384	1,571	1,813	LC Auto Closure Gate
Corporate/Shared Assets	85,439	75,110	10,329	Timing of Operations & Service Center, RR-CM Facilities, Back-up Control Center
<b>Integrated Electric</b>	<b>186,032</b>	<b>183,949</b>	<b>2,083</b>	

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# Capital Expenditures

(in 000's)	Prelim Budget 2022	Adopted Budget 2021	\$ Change	Major Project Focus
Fiber	7,131	3,564	3,567	PPB expansion/acceleration & upgrades
Water	2,254	1,263	992	SCADA system, Water Restraint Fall Safety Protection
Wastewater	460	401	060	Dryden WW upgrade start
<b>Total Capital</b>	<b>195,878</b>	<b>189,176</b>	<b>6,702</b>	
Less: Contributions	(5,427)	(3,594)	(1,832)	Capital paid by others
Fiber Make Ready Offset	(2,184)	(900)	(1,284)	Make ready costs: intersystem
Regulatory Assets & Other	16,193	11,703	4,490	Conservation, license obligations, Greater McNeil Canyon, N Mid C transmission
<b>Net Capital &amp; Reg. Assets</b>	<b>204,460</b>	<b>196,384</b>		
<b>Nov. 1 Budget Presentation</b>	<b>215,417</b>			
<b>2022-26 Business Plan</b>	<b>215,417</b>			

# New Positions

## (consistent with Business Plan)

### **Project Support** *(2 positions)*

Planner / Coordinator

Civil Engineer / Project Manager

### **Hydro Capability** *(2 positions)*

- Generation Unit Dispatch Optimizer
- Electrical Engineer Principal (2-yr)

### **Distribution Reliability** *(3 positions)*

- Journeyman Lineman
- Equipment Operators (2)

### **Tech/Innovation** *(2 positions)*

- ERP Analyst
- Quality Release Engineer

# New Positions

## (consistent with Business Plan)

### **Energy Marketing** *(2 positions)*

- Senior Energy Analyst
- Low Income Program Coordinator (2-yr)

### **Internal Support Services** *(3 positions)*

- Maintenance (Facilities)
- Licensing Specialist (RI Relicense)
- Student (Human Resources)

*2022*

*New positions = 14*

During 2021, 14 added positions were approved to respond to changing goals:

- Hydro modernization: 12 (6-CM Mechanics, 5-Eng/Project Mgmt, 1-PCS Support)
- Fiber Expansion Acceleration: 1 (Fiber Customer Service Engineer)
- Technology and Innovation: 1 (IT Operations & Security Director)

# ***Key 2022 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**

- 6.1% Electric (~12.6 aMW total net of conservation, ~11.0 aMW HDL)
- 0.7% 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 included 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 to be negotiated with the collective bargaining unit for 2022

## **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**

- Driven by 2022-2026 business plans
- 2022 expenditures include continuance of RI modernization, RR large unit repairs, RR small units, distribution substations/ infrastructure/ vegetation management, and long-term facilities (Operations and Service Center, RR/CM) as key drivers

## **Debt & Interest Income**

- Net scheduled principal payments of \$34 million plus planned six-month accelerated payments of \$12 million
- Interest earnings estimated at 2.22%

## **Public Power Benefit Program**

- Includes \$6M annually; accelerated fiber expansion, Board selected projects & designated funding level
- Full amount is budgeted: available funds will be transferred to specific projects as new projects are designated



# Five-Year Financial Plan 2022-2026

(in 000's)	Prelim Budget 2022	Forecast 2023*	Forecast 2024*	Forecast 2025*	Forecast 2026*
Service Revenue	116,585	119,557	98,734	94,295	95,420
Net Surplus Energy Revenue	212,266	226,302	261,463	268,695	268,721
Other Operating Revenue	24,978	21,667	22,057	22,042	22,101
Operating Expense	(225,578)	(225,850)	(232,444)	(225,708)	(228,199)
Depreciation & Tax Exp	(63,787)	(70,111)	(71,782)	(74,262)	(76,828)
<b>Net Operating Income</b>	<b>64,463</b>	<b>71,566</b>	<b>78,028</b>	<b>85,063</b>	<b>81,214</b>
Non-Operating Activity	(2,965)	(8,507)	(9,039)	(11,380)	(6,733)
<b>Combined "Bottom-Line"</b>	<b>61,498</b>	<b>63,058</b>	<b>68,989</b>	<b>73,683</b>	<b>74,482</b>
<b>2022-2026 Business Plan</b>	<b>57,440</b>	<b>61,941</b>	<b>65,409</b>	<b>70,521</b>	<b>73,691</b>
<b>Last Year's Budget Adoption</b>	<b>51,479</b>	<b>53,090</b>	<b>56,664</b>	<b>44,597</b>	<b>56,111</b>

- ***5-Year results are slightly higher than the 2022-2026 Business Plan and also better when compared to last year's forecast for the 2021 Budget***

\* Forecast as of October 2021