



Chelan County PUD



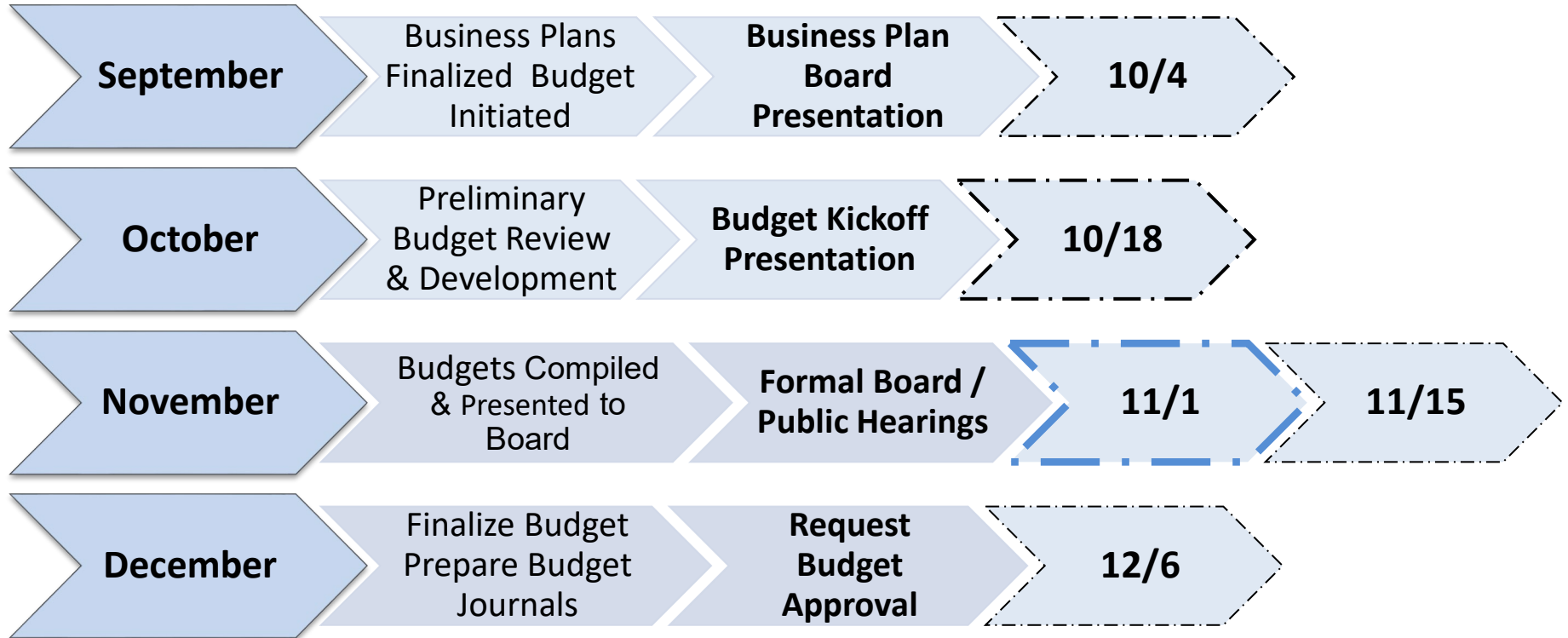
2022 Preliminary Budget November 1, 2021

What we will cover today



No Board Action Required

Budget Timeline



Indicates Board Meetings

Strategic Focus

The 2022 Budget is built around the strategic initiatives and business plans presented on Oct. 4

The foundation of our strategic initiatives and budget is at the top of our balanced scorecard: Customer-Owner Satisfaction

District initiatives identified to accomplish the four strategic plan goals

Board resolution requires budget cycle to include both an annual budget and five-year financial plan compliant with District financial policies

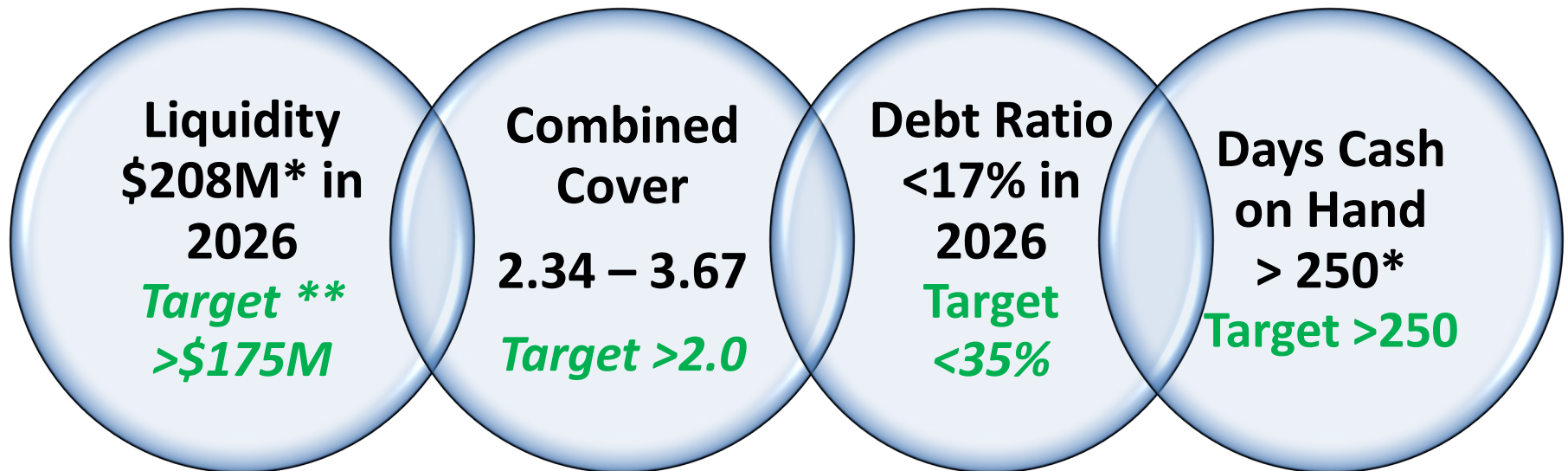
Five-Year Financial Plan 2022-2026

(in 000's)	Prelim Budget 2022	Forecast 2023*	Forecast 2024*	Forecast 2025*	Forecast 2026*
Service Revenue	111,988	113,546	94,822	90,444	91,545
Net Surplus Energy Revenue	216,903	234,165	263,551	270,803	273,527
Other Operating Revenue	24,889	21,794	22,193	22,179	22,240
Operating Expense	(224,881)	(227,320)	(233,464)	(227,334)	(230,073)
Depreciation & Tax Exp	(66,017)	(70,086)	(71,884)	(73,890)	(76,476)
Net Operating Income	62,882	72,098	75,217	82,201	80,762
Non-Operating Activity	(4,525)	(10,158)	(9,808)	(11,680)	(7,071)
Combined "Bottom-Line"	58,357	61,941	65,409	70,521	73,691
2022-2026 Business Plan	57,440	61,941	65,409	70,521	73,691
Last Year's Budget Adoption	51,479	53,090	56,664	44,597	56,111

➤ **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 Q3 2021

2022-2026 Plans Meet District Financial Policies



Results based on expected conditions (based on Q3 2021 forecast)

*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 begin financing portions of our capital program

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

Combined Financials 2022

(in 000's)	Prelim Budget 2022	Adopted Budget 2021	\$ Change	% Change
Service Revenue	111,988	96,433	15,555	16.1%
Net Surplus Energy Revenue	216,903	208,799	8,104	3.9%
Other Operating Revenue	24,889	23,898	991	4.1%
Operating Expense	(224,881)	(213,294)	(11,587)	5.4%
Depreciation & Tax Expense	(66,017)	(60,657)	(5,360)	8.8%
Net Operating Income	62,882	55,179	7,703	14.0%
Non-Operating Activity	(4,525)	(3,700)	(825)	22.3%
"Bottom-Line"	58,357	51,479	6,878	13.4%
2022-26 Business Plan	57,440			

Service Revenue

(in 000's)	Prelim Budget 2022	Adopted Budget 2021	Variance
Residential Electric	31,505	29,293	<i>Growth from current 2021 forecasted usage is partially offset by impacts of energy conservation efforts</i>
Commercial Electric	17,345	17,569	
Industrial Electric	5,686	5,501	
Off-System end use	32,490	21,375	
HDL Electric / Crypto	6,609	5,570	
Other Electric	1,721	1,504	
			<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>Some growth from High Density Loads</i>
Electric Service	95,357	80,811	<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	8,558	8,026	<i>~4% growth / 3% rate increase 2022</i>
Service Revenue	111,988	96,433	
2022-26 Business Plan	111,988		

Net Surplus Energy Revenue

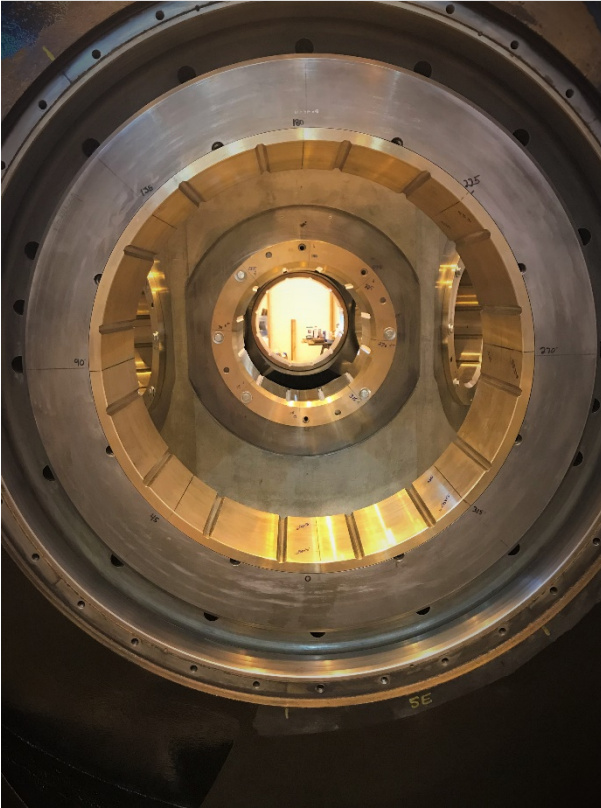
(in 000's)	Prelim Budget 2022	Adopted Budget 2021	Variance
Slice Contracts	77,762	73,602	<i>Higher priced slice starting in 2022</i>
Block/Pre Sched/Real Time	(9,150)	(6,262)	<i>Offset included in off-system end use sale</i>
EP&T Net Wholesale	68,613	67,340	
LT Hydro Contracts	149,280	142,779	<i>Cost-based + : increased costs for 2022</i>
Less: Nine Cyns & Other PP	(990)	(1,320)	<i>Reduced cost forecast for 2022</i>
Net Surplus Energy Revenue	216,903	208,799	
2022-26 Business Plan	218,306		

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	110	286	<i>Lower due to COVID waivers</i>
Misc Other Items	5,838	4,834	<i>Frequency response revenue</i>
Other Operating Revenue	24,889	23,898	
2022-26 Business Plan	25,025		

Major O&M Activities

RR Turbine Repairs \$3.8M



Hatcheries \$6.7M



Tree Trimming \$3.1M



Tumwater Dam Spillway Repair \$3.0M



RI PH2 Generator Main Leads \$3.1M



Operating Expense

(in 000's)	Prelim Budget 2022	Adopted Budget 2021	Variance
Hydro O&M	78,034	71,810	<i>RR unit repair costs, PH1 unit repairs, PH2 plant modernization, Tumwater spillway repairs</i>
Hydro Fish & Wildlife	20,390	20,444	<i>RI Fishway repairs; offset by completion of HCP 10-year RI Fish Passage Study in 2021</i>
Hydro Parks & Recreation	8,378	8,861	<i>Discovery Center maintenance upgrades higher in 2021</i>
Electric Distribution	20,023	19,653	<i>Consistent with 2021 Budget</i>
Electric Transmission	15,978	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	3,696	3,325	<i>Development of next comprehensive plan</i>
Customer Accts & Svc	4,796	4,782	<i>Consistent with 2021 budget</i>
Conservation	5,096	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	45,299	43,322	<i>Information technology support/licensing/ maintenance; Facilities moving costs</i>
Total	224,881	213,294	
2022-26 Business Plan	227,317		

Non-Operating Expense

(in 000's)	Prelim Budget 2022	Adopted Budget 2021	Variance
Investment Earnings	9,920	12,609	<i>Lower cash balances</i>
Contribution Income	4,894	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>
Net expense	(4,525)	(3,700)	
2022-26 Business Plan	(4,544)		

2022 Major Capital Projects

Rock Island – Major Driver



RI Modernization

- PH1 B1-B4 \$20 million
(Total Project \$75M)
- PH1 B5,B7 & B8 \$5 million
(Total Project \$97M)
- PH2 U1-U8 \$45 million
(Current Project Budget of \$119M designated for U5, U7 and design work)



RI Cranes

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

2022 Major Capital Projects

Facilities – Major Driver

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



Capital Expenditures

(in 000's)	Prelim Budget 2022	Adopted Budget 2021	\$ Change	Major Project Focus
Electric Distribution	32,450	33,403	(953)	Substations, Advanced Metering Infrastructure, ADMS
Electric Transmission	1,209	1,325	(116)	Breaker & Relay replacements, Line relocations
Rocky Reach Hydro	8,073	11,248	(3,175)	Tailrace Gantry Crane, Spillway Electrical, Governor Controls
Rock Island Hydro	65,328	61,291	4,037	PH1 and PH2 Modernizations, PH2 Gantry Crane, PH1 Gantry Crane, PH2 DTG Cylinder & HPU
Lake Chelan Hydro	3,347	1,571	1,776	LC Auto Closure Gate
Corporate/Shared Assets	86,114	75,110	11,004	Timing of Operations & Service Center, RR-CM Facilities, Back-up Control Center
Integrated Electric	196,521	183,949	12,572	

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Capital Expenditures

(in 000's)	Prelim Budget 2022	Adopted Budget 2021	\$ Change	Major Project Focus
Fiber	7,647	3,564	4,083	PPB expansion/acceleration & upgrades
Water	2,129	1,263	866	SCADA system, Water Restraint Fall Safety Protection
Wastewater	475	401	74	Dryden WW upgrade start
Total Capital	206,772	189,176	17,597	
Less: Contributions	(4,262)	(3,594)	(666)	Capital paid by others
Fiber Make Ready Offset	(2,184)	(900)	(1,284)	Make ready costs: intersystem
Regulatory Assets & Other	15,091	11,703	3,388	Conservation, license obligations, Greater McNeil Canyon, N Mid C transmission
Net Capital & Reg. Assets	215,417	196,384		
2022-26 Business Plan	215,417			

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	3,485	3,085	<i>Adding remaining project budget</i>
RI PH2 U1-U8 Rehab *	12,500	13,849	1,349	<i>Adding 2022 project scope</i>

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

Includes new projects >\$1M

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)

Combined District Expenditures

(in 000's)	Preliminary 2022 Budget	Adopted 2021 Budget	%
Operating Expense	224,881	213,294	5.4%
Tax Expense	12,598	11,183	12.7%
Non-Operating Exp/(Inc) - excludes CIAC	9,418	7,921	18.9%
Net Capital & Reg Assets	215,417	196,384	9.7%
Total Expenditures	462,314	428,782	7.8%
Net Debt Principal Payments	46,674	110,951	-57.9%
Total Expenditures & Net Debt Reduction	508,988	539,733	-5.7%

Primary Drivers of Increase: Significant volume of work at the Hydros and Facilities

Combined Financial Policies

2022 Preliminary Budget

	Financial Liquidity	Combined Cover	Debt Ratio	Days Cash on Hand
Base Case – expected <i>Target</i>	\$248M <i>> \$185M</i>	2.34 <i>> 2.0x</i>	20.6% <i>< 35%</i>	293 <i>> 250</i>
Base Case – unusual <i>Target</i>	\$231M <i>> \$185M</i>	2.08 <i>> 1.25x</i>	20.8% <i>< 35%</i>	273 <i>> 250</i>



On track

Combined Financial Policies

2022 Preliminary Budget

	Operating Coverage %	Cash Reserves (unrestricted)	Debt Service as % of Revenue
Fiber & Telecom <i>Target</i>	72.8% <i>>74.9%</i>	\$18.6 M <i>\$2 M</i>	---% <i>< 0%</i>
Water <i>Target</i>	100.6% <i>>98.3%</i>	\$4.3 M <i>\$1.25 M</i>	9.5% <i>< 11.9%</i>
Wastewater <i>Target</i>	61.1% <i>> 61.8%</i>	\$2.4 M <i>\$200 K</i>	13.2% <i>< 2.1%</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

Review

- Continued review and adjustments in November

Discuss

- 2nd Budget Hearing November 15

Approve

- Requesting Board approval on December 6



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 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