

# Chelan County PUD



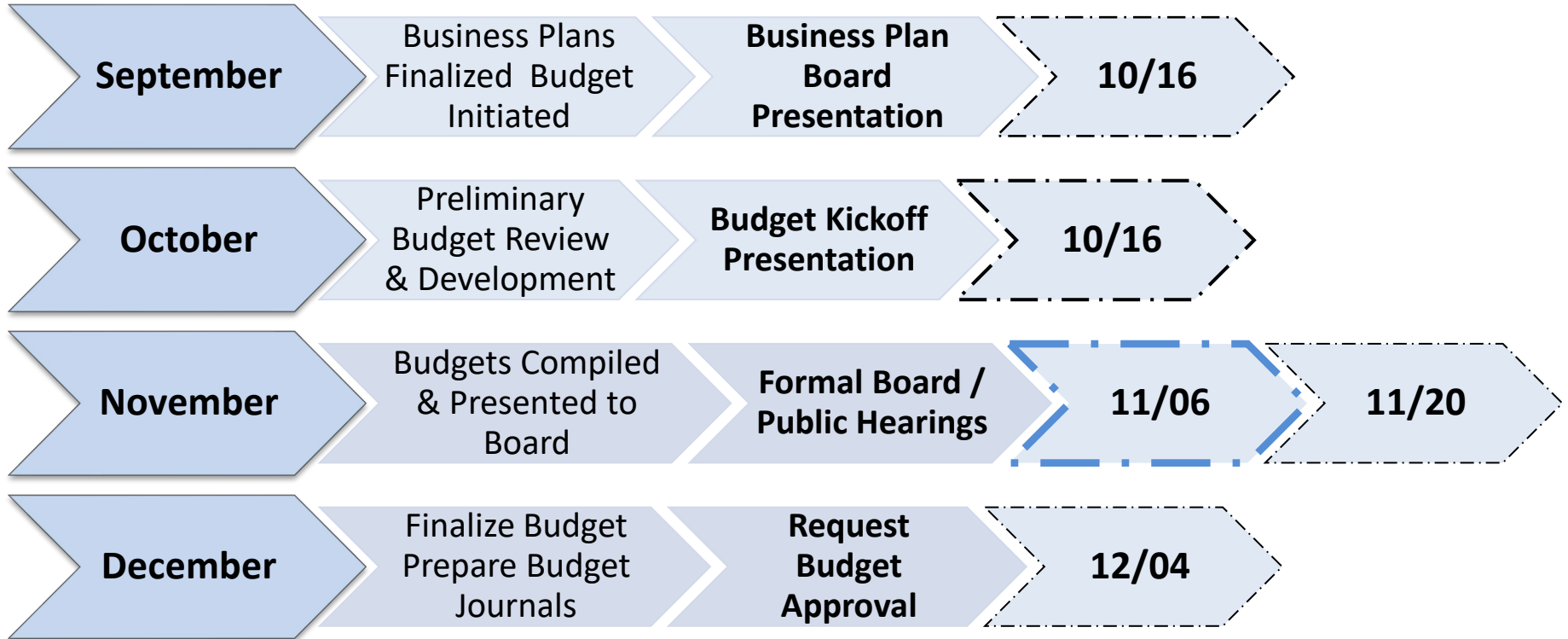
2024 Preliminary Budget  
November 6, 2023

# 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

## Areas of Focus

- Strategic shifts
- Organizational vision principles

## Business Plan

- 2024-2028 five-year business plan initiatives identified to accomplish strategic plan goals

## Budget

- 2024 Annual Budget and 5-year financial plan compliant with District financial policies

# Five-Year Financial Plan 2024-2028

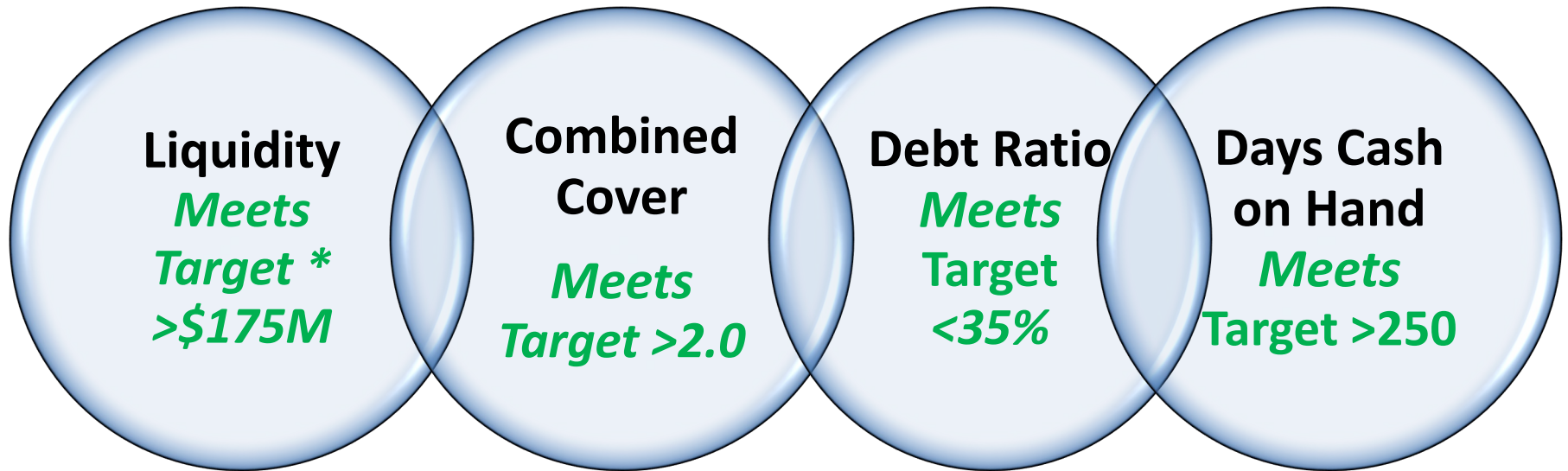
(in 000's)	Prelim Budget 2024	Forecast 2025*	Forecast 2026*	Forecast 2027*	Forecast 2028*
Service Revenue	137,553	138,530	92,575	93,977	95,307
Net Surplus Energy Revenue	289,945	314,002	335,376	367,533	390,855
Other Operating Revenue	28,821	24,525	26,810	27,387	26,268
Operating Expense	(259,514)	(253,944)	(245,584)	(249,601)	(258,322)
Depreciation & Tax Exp	(80,323)	(86,697)	(87,933)	(92,498)	(97,232)
<b>Net Operating Income</b>	<b>116,482</b>	<b>136,414</b>	<b>121,243</b>	<b>146,798</b>	<b>156,875</b>
Non-Operating Activity	5,907	4,608	7,011	10,238	14,694
<b>Combined "Bottom-Line"</b>	<b>122,389</b>	<b>141,023</b>	<b>128,255</b>	<b>157,036</b>	<b>171,569</b>

<b>2024-2028 Business Plan</b>	<b>114,946</b>				
<b>Last Year's Budget Adoption</b>	<b>102,531</b>	<b>125,026</b>	<b>113,339</b>	<b>130,027</b>	<b>135,562</b>

➤ **5-Year results are better than the 2024-2028 Business Plan and also better when compared to last year's forecast for the 2023 Budget**

\* Forecast as of Q3 2023

# 2024-2028 Plans Meet District Financial Policies



***Results based on expected conditions (based on Q3 2023 forecast)***

\*Liquidity target is the greater of \$175M or methodology calculation - approximately \$245M in 2024.

We have a Board reporting requirement to provide an action plan when metrics come within 10% of the target. Based on the preliminary budget, no metrics fall within that 10% threshold under expected conditions.

# Combined Financials 2024

(in 000's)	Prelim Budget 2024	Adopted Budget 2023	\$ Change	% Change
Service Revenue	137,553	131,772	5,781	4.4%
Net Surplus Energy Revenue	289,945	270,581	19,364	7.2%
Other Operating Revenue	28,821	26,724	2,097	7.8%
Operating Expense	(259,514)	(253,385)	(6,128)	2.4%
Depreciation & Tax Expense	(80,323)	(73,426)	(6,897)	9.4%
<b>Net Operating Income</b>	<b>116,482</b>	<b>102,266</b>	<b>14,216</b>	<b>13.9%</b>
Non-Operating Activity	5,907	443	5,464	>100%
<b>Combined "Bottom-Line"</b>	<b>122,389</b>	<b>102,709</b>	<b>19,680</b>	<b>19.2%</b>
<b>2024-28 Business Plan</b>	<b>114,946</b>			

# Service Revenue

(in 000's)	Prelim Budget 2024	Adopted Budget 2023	Variance
Residential Electric	33,898	32,077	<i>Growth from current 2024 forecasted usage is partially offset by impacts of energy conservation efforts</i>
Commercial Electric	18,872	17,809	
Industrial Electric	5,007	5,304	
Off-System end use	49,375	47,472	<i>Higher market based component of Off-system end use sale</i>
HDL Electric	10,438	10,060	<i>1.6% service growth / 3% rate increase included in 2024</i>
Other Electric	1,623	1,755	
<b>Electric Service</b>	<b>119,212</b>	<b>114,476</b>	
Water Service	8,192	7,642	<i>1.5% growth / 4% rate increase 2024</i>
Wastewater Service	921	895	<i>1.0% growth / 4% rate increase 2024</i>
Fiber & Telecom	9,228	8,759	<i>4% growth / 3% rate increase 2024</i>
<b>Service Revenue</b>	<b>137,553</b>	<b>131,772</b>	

<b>2024-28 Business Plan</b>	<b>136,116</b>
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# Net Surplus Energy Revenue

(in 000's)	Prelim Budget 2024	Adopted Budget 2023	Variance
Slice Contracts	120,534	65,863	<i>Additional 5% slice for 2024</i>
Block/ Pre-Schedule/ Real Time	(7,339)	31,080	<i>Less power available after slice contracts</i>
<b>Net Wholesale</b>	<b>113,195</b>	<b>96,943</b>	
LT Hydro Contracts	177,715	174,649	<i>Cost-based + : Increased costs for 2024</i>
Less: Nine Cyns & Other PP	(965)	(1,011)	<i>Decreased cost forecast</i>
<b>Net Surplus Energy Revenue</b>	<b>289,945</b>	<b>270,581</b>	

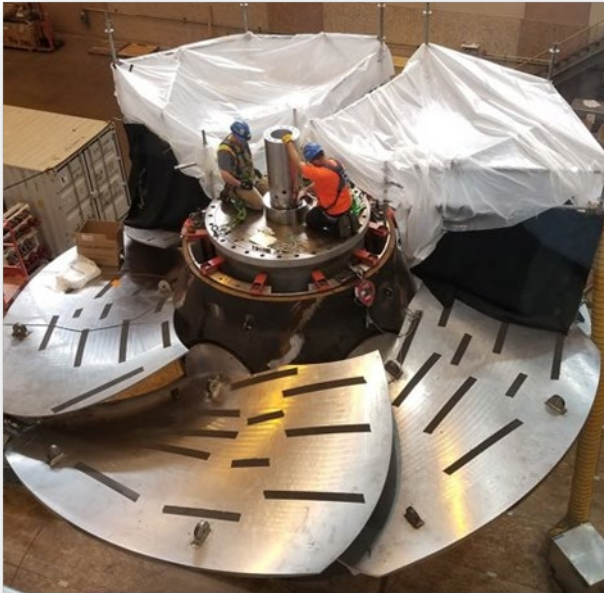
<b>2024-28 Business Plan</b>	<b>282,236</b>
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# Other Operating Revenue

(in 000's)	Prelim Budget 2024	Adopted Budget 2023	Variance
Transmission/Wheeling	13,704	12,545	<i>Cost based: Increased investments in operations/compliance</i>
Real Time Contract – Fixed	4,000	4,000	<i>Consistent with 2023 budget</i>
Real Time Contract – Variable	3,000	3,000	<i>Consistent with 2023 budget</i>
Service/Late Charges	314	318	<i>Consistent with 2023 budget</i>
Misc Other Items	7,803	6,861	<i>LT contract admin fees</i>
<b>Other Operating Revenue</b>	<b>28,821</b>	<b>26,724</b>	
<b>2024-28 Business Plan</b>	<b>28,601</b>		

# Major O&M Activities

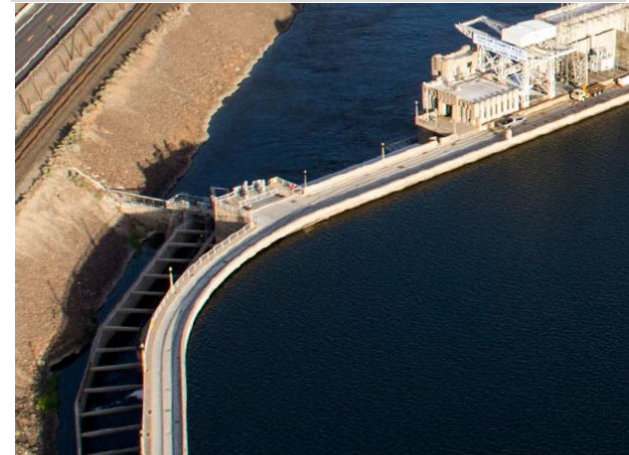
**RR Turbine Repairs \$8.0M**



**Hatcheries \$8.1M**



**RI Fishway Ladder Drop Structure \$2.7M**



**Tumwater Dam Spillway Repair \$1.8M**



**Tree Trimming \$3.1M**



**RI PH2 Generator Main Leads \$2.1M**



# Operating Expense

(in 000's)	Prelim Budget 2024	Adopted Budget 2023	Variance
Hydro Operations & Maintenance	82,943	86,061	<i>RR unit repair costs, PH1 spillway repairs, PH2 plant modernization, Tumwater spillway repairs</i>
Hydro Fish & Wildlife	24,104	27,339	<i>RI Fishway repairs in 2023 budget</i>
Hydro Parks & Recreation	9,764	9,582	<i>Consistent with 2023 budget</i>
Electric Distribution	24,507	20,004	<i>System growth and improving reliability drive need for added staffing</i>
Electric Transmission	17,872	17,097	<i>Confluence Parkway T-line reroute</i>
Power Supply Mgmt	7,210	6,138	<i>New markets evaluation and consulting</i>
Fiber Network	4,154	5,901	<i>Lower contract budget, labor in Electric Distribution will be adjusted</i>

*Continued on next slide*

# Operating Expense

(in 000's)	Prelim Budget 2024	Adopted Budget 2023	Variance
Water/Wastewater	4,348	4,000	<i>Increased materials costs, increased operating costs of new WW plants</i>
Customer Accts & Svc	5,217	5,291	<i>Consistent with 2023 budget</i>
Conservation	7,237	6,042	<i>Increased support for conservation programs</i>
Insurance	13,557	12,167	<i>Continued upward cost pressure expected</i>
FERC Fees	1,526	1,637	<i>Estimated consistent with last year's actual billing</i>
Other Admin & General	57,074	52,124	<i>5th St Redevelopment, Information technology support/licensing/maintenance</i>
<b>Total Operating Expense</b>	<b>259,514</b>	<b>253,385</b>	

<b>2024-28 Business Plan</b>	<b>259,442</b>
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# Non-Operating Expense

(in 000's)	Prelim Budget 2024	Adopted Budget 2023	Variance
Investment Earnings	15,815	12,816	<i>Higher interest rates</i>
Contribution Income	8,132	8,131	<i>Customer connections in line with 2023</i>
Interest Expense	(15,433)	(17,123)	<i>Declining debt balances</i>
Other Inc/(Exp)	(2,607)	(3,381)	<i>Lower unallocated Public Power Benefit (PPB) funding</i>
<b>Net Non-Op Inc/(Exp)</b>	<b>5,907</b>	<b>443</b>	

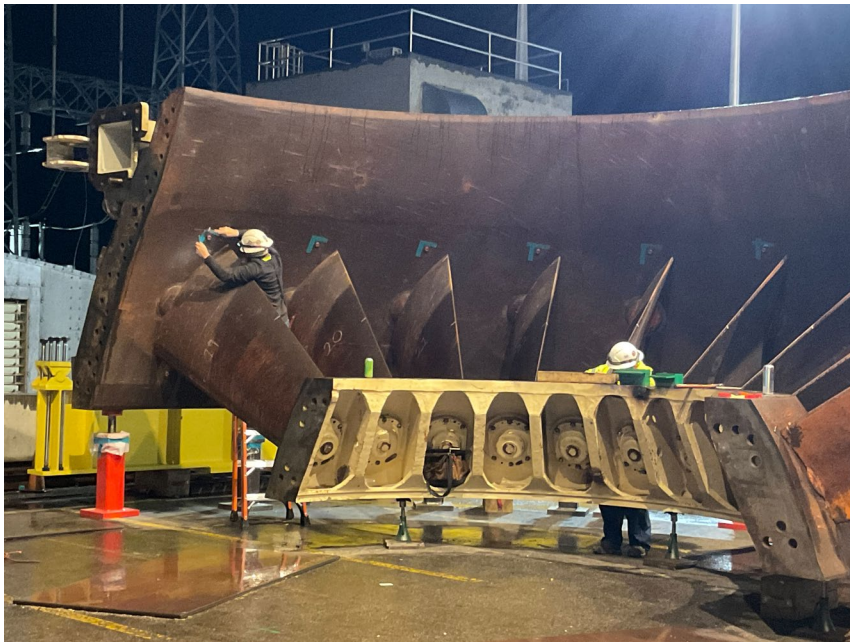
<b>2024-28 Business Plan</b>	<b>5,786</b>
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# 2024 Major Capital Projects

## Rock Island – Major Driver

### RI Modernization

- PH1 B1-B4 \$9 million  
*(Total project \$89 million)*
- PH1 B5, B7 & B8 \$3 million  
*(Total project \$104 million)*
- PH2 U1-U8 \$64 million U5, U7, U3, U2  
*(Current project budget of \$166 million)*



### RI - Other

- PH2 Motor Control Centers \$4 million  
*(Current project budget \$5 million)*
- PH2 Draft Tube Gate Cylinders and Hydraulic Power Units \$3 million  
*(Total project \$15 million)*
- PH1 Gantry Crane \$3 million  
*(Total project \$10 million)*

# 2024 Major Capital Projects

## Rocky Reach Tailrace Gantry Crane

- \$3 million (*Total project \$8 million*)

## Rocky Reach Trashrack Refurbishment

- \$3 million (*Total Project \$13 Million*)

## Chelan Falls Hatchery Abatement Pond

- \$4 million (*Total project \$4 million*)





# 2024 Major Capital Projects

## Jumpoff Ridge Switchyard

- \$36 million (*Customer funded total project \$86 million*)



## Operations and Service Center

- \$14 million (*Total project \$165 million*)



# 2024 Major Capital Projects

## Bavarian Substation

- \$7 million (*Total project \$11M*)

## North Shore Chelan Substation Getaways

- \$2 million (*Total project \$3M*)

## Fiber Expansion (Public Power Benefit)

- \$6 million



# Capital Expenditures

(in 000's)	Prelim Budget 2024	Adopted Budget 2023	\$ Change	Major Project Focus
Electric Distribution	41,897	46,380	(4,483)	Jumpoff Ridge Switchyard DS, Substations and Interconnections, PPB projects (Riverfront park)
Electric Transmission	32,508	21,985	10,523	Jumpoff Ridge Switchyard XT, Breaker & Relay replacements
Rocky Reach Hydro	16,740	11,227	5,513	Tailrace Gantry Crane, Trashracks, Chelan Falls Hatchery Abatement Pond
Rock Island Hydro	83,524	63,618	19,906	PH1 and PH2 Modernizations, PH1 Gantry Crane, PH2 DTG Cylinder & HPU, PH2 MCCs
Lake Chelan Hydro	789	2,787	(1,998)	Chelan Riverfront Park S Shore Erosion
Corporate/Shared Assets	21,381	58,402	(37,021)	Operations & Service Center, CM 240 Ton Crane, IT Projects
<b>Integrated Electric</b>	<b>196,838</b>	<b>204,398</b>	<b>(7,560)</b>	

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# Capital Expenditures

(in 000's)	Prelim Budget 2024	Adopted Budget 2023	\$ Change	Major Project Focus
Fiber	8,201	6,251	1,950	Public Power Benefit network expansion continuation & upgrades
Water	2,621	3,007	(386)	SCADA, Reservoir fall restraint safety protection, Water mains
Wastewater	1,107	4,500	(3,393)	Dryden WW upgrade
<b>Total Capital</b>	<b>208,767</b>	<b>218,156</b>	<b>(9,389)</b>	
Less: Contributions	(7,149)	(7,248)	98	Capital paid by others
Regulatory Liability Contributions In Aid of Construction (CIAC)	(38,660)	(36,586)	(2,074)	Jumpoff Ridge Switchyard and Capital paid by others
Fiber Make Ready Offset	(4,650)	(2,416)	(2,234)	Make ready costs: intersystem
Regulatory Assets & Other	16,762	11,052	5,710	Conservation, license obligations, extended warranty, Subscription-Based Information Technology Arrangements (SBITA)
<b>Net Capital &amp; Reg. Assets</b>	<b>175,070</b>	<b>182,957</b>		

<b>2024-28 Business Plan</b>	<b>175,070</b>
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## Key “Total Capital Project” Revisions (Existing Projects)

(in 000's)	Current	Revised	Change	Major Driver
RI PH2 U1-U8 Rehab	133,149	166,219	33,070	<i>Increased project costs U5; 2024 work on U7, U3, U2</i>
RI PH1 Modernization: Units B1, B2, B3, B8	99,400	103,915	4,515	<i>Increased project costs due to delays and inflation</i>
RI Spillway Gate Handling Prototype	2,000	14,800	12,800	<i>Establishing construction budget</i>
Jumpoff Ridge Switchyard XT	51,000	56,969	5,969	<i>Shift from DS project</i>
College 1 Substation Refurbishment	60	4,650	4,590	<i>Establishing construction budget</i>
Bavarian Substation	6,456	10,654	4,198	<i>Increased project costs with final designs</i>

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*Includes revisions and changes in recurring annual capital projects >\$2M*

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

(in 000's)	Current	Revised	Change	Major Driver
Make-Ready Work Chelan FDTs	1,400	5,000	3,600	<i>Increased project scope and cost estimates</i>
PPB: Chelan FDT-150	1,845	4,012	2,166	<i>Increased project scope and cost estimates</i>
PPB Wenatchee Riverfront Park Improvements	2,700	6,009	3,309	<i>Finalized improvements with the City and increased PPB funding</i>
RI PH2 Draft Tube Gate Cylinder & Hydraulic Power Unit Upgrade	12,094	15,000	2,906	<i>Increased project costs based on completion of initial units</i>
RI PH2 Motor Control Centers Replacement	2,370	4,864	2,494	<i>Adding 2024 project scope</i>
Field Workforce Management	650	2,891	2,241	<i>Updated budget after vendor selection and updated scope</i>

*Includes revisions and changes in recurring annual capital projects >\$2M*

11/6/2023

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

<b>(in 000’s)</b>	<b>Current</b>	<b>Revised</b>	<b>Change</b>	<b>Major Driver</b>
RR Trashrack Refurbish	0	13,000	13,000	<i>Changed scope to replacement</i>
Mountain Home Rd Leavenworth 3 phase	0	1,210	1,210	<i>Convert to underground three phase</i>
ESRI Utility Network	0	1,050	1,050	<i>Upgrade GIS to new utility database schema</i>
Switchyard Breaker Replacement Program	0	1,000	1,000	<i>Replace transmission switchyard breakers throughout the system</i>

***\*Initial budget does not represent total project forecast.  
Includes new projects >\$1M***

# New Positions

## (consistent with Business Plan)

- **Project Support** (*4 positions*)
- **System Growth/Reliability** (*7 positions*)
- **Dam Safety/ Engineering** (*1 position*)
- **Energy Efficiency/ Compliance/ Marketing** (*2 positions*)
- **Technology** (*1 position*)
- **Compliance** (*1 position*)
  
- **Organizational Priorities** (*8 positions*)
  - Identified organizational needs to be prioritized
- **Succession Planning** (*6 positions*)
  - Temporary staffing increases to address succession planning



# Combined District Expenditures

(in 000's)	Preliminary 2024 Budget	Adopted 2023 Budget	%
Operating Expense	259,514	253,385	2.4%
Tax Expense	16,305	14,729	10.7%
Non-Operating Exp/(Inc) - excludes CIAC	2,225	7,688	-71.1%
Net Capital & Reg Assets	175,070	182,957	-4.3%
<b>Total Expenditures</b>	<b>453,114</b>	<b>458,760</b>	<b>-1.2%</b>
Net Debt Principal Payments	54,364	37,150	46.3%
<b>Total Expenditures &amp; Net Debt Reduction</b>	<b>507,478</b>	<b>495,910</b>	<b>2.3%</b>

*Primary Drivers of Increase: Increased operating expense and principal payments offset by lower net capital.*

# Combined Financial Policies

## 2024 Preliminary Budget

	Financial Liquidity	Combined Cover	Debt Ratio	Days Cash on Hand
Base Case – expected	\$343M	3.42	13.2%	301
<i>Target</i>	<i>&gt; \$245M</i>	<i>&gt; 2.0x</i>	<i>&lt; 35%</i>	<i>&gt; 250</i>
Base Case – unusual	\$313M	2.98	13.4%	273*
<i>Target</i>	<i>&gt; \$218M</i>	<i>&gt; 1.25x</i>	<i>&lt; 35%</i>	<i>&gt; 250</i>

*As of September 30, 2023 forecast.*



**On track**

\* Within 10%, corrective action would be to issue debt.

# Combined Financial Policies

## 2024 Preliminary Budget

	Operating Coverage %	Cash Reserves (unrestricted)	Debt Service as % of Revenue
<b>Fiber &amp; Telecom</b> <i>Target</i>	<b>66.4%</b> <i>&gt;80.0%</i>	<b>\$15.7 M</b> <i>\$2 M</i>	<b>---%</b> <i>&lt; 0%</i>
<b>Water</b> <i>Target</i>	<b>97.6%</b> <i>&gt;104.0%</i>	<b>\$3.3 M</b> <i>\$1.25 M</i>	<b>8.3%</b> <i>&lt; 11.7%</i>
<b>Wastewater</b> <i>Target</i>	<b>60.1%</b> <i>&gt; 61.9%</i>	<b>\$2.0 M</b> <i>\$200 K</i>	<b>18.7%</b> <i>&lt; 2.0%</i>

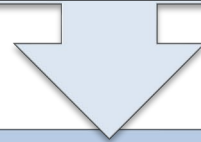
NOTE: Board resolution for business line financial targets are defined as “by 2024” and “by 2029”. Annual targets are based on the forecast at the 2020 budget set to support the 2020-2024 strategic plan. Annual actuals are provided to show progress and to inform if action is needed to meet the 5-year target.

Financial Policy not met. Action plan is to review these system targets in the next strategic planning process.

# *Budget Next Steps*

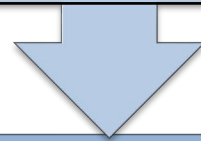
## **Review**

Continued review and adjust with Board feedback



## **Discuss**

2<sup>nd</sup> Budget Hearing November 20



## **Approve**

Requesting Board approval on December 4

# 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 2024 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

- 1.6% Electric (~3.5 aMW total net of conservation, ~2 aMW HDL/Crypto)
- 0.7% Retail Electric organic growth
- 1.5% Water, 1.0% Wastewater
- 1,000 new Fiber connections (650 current service territory, 350 PPB)

## Business Line Service Revenues

- Business line rate increases consistent with approved long-term rate plan
- Fifth year of 5-year plan effective June 1
  - 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, service center
- O&M key drivers: Rocky Reach large unit repairs, distribution vegetation management, IT initiatives

## Debt & Interest Income

- Net scheduled principal payments of \$39 million plus a \$15 million 2025 prepayment
- Interest earnings estimated at 3.06%

## Public Power Benefit Program

- Includes \$10M for 2024; continuation of fiber expansion, parks improvements, Electric Avenue, Board selected projects
- Budget revisions will be processed as new projects are designated