

**PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY
327 N WENATCHEE AVENUE
WENATCHEE WA 98801**

**SPECIAL COMMISSION MEETING
BOARD WORKSHOP**

**APRIL 29, 2021
1:00 PM**

Virtual Meeting

Please register to receive virtual meeting information: <https://tinyurl.com/SPU042921>

1. Strategy Partners Update

This agenda and resolutions (if any) may be revised by the Commission as appropriate.

An aerial photograph of a large steel truss bridge spanning a wide river. The bridge has multiple spans and is supported by concrete piers. To the left of the bridge, a town with various buildings and houses is visible. In the background, there are rolling hills and mountains under a blue sky with scattered clouds. The water in the river is calm, reflecting the sky and the bridge structure.

Chelan County PUD Strategy Partners Update

April 29, 2021

Steve Wright, General Manager

**We are Driven
by Our
Board Adopted
Strategic Plan**



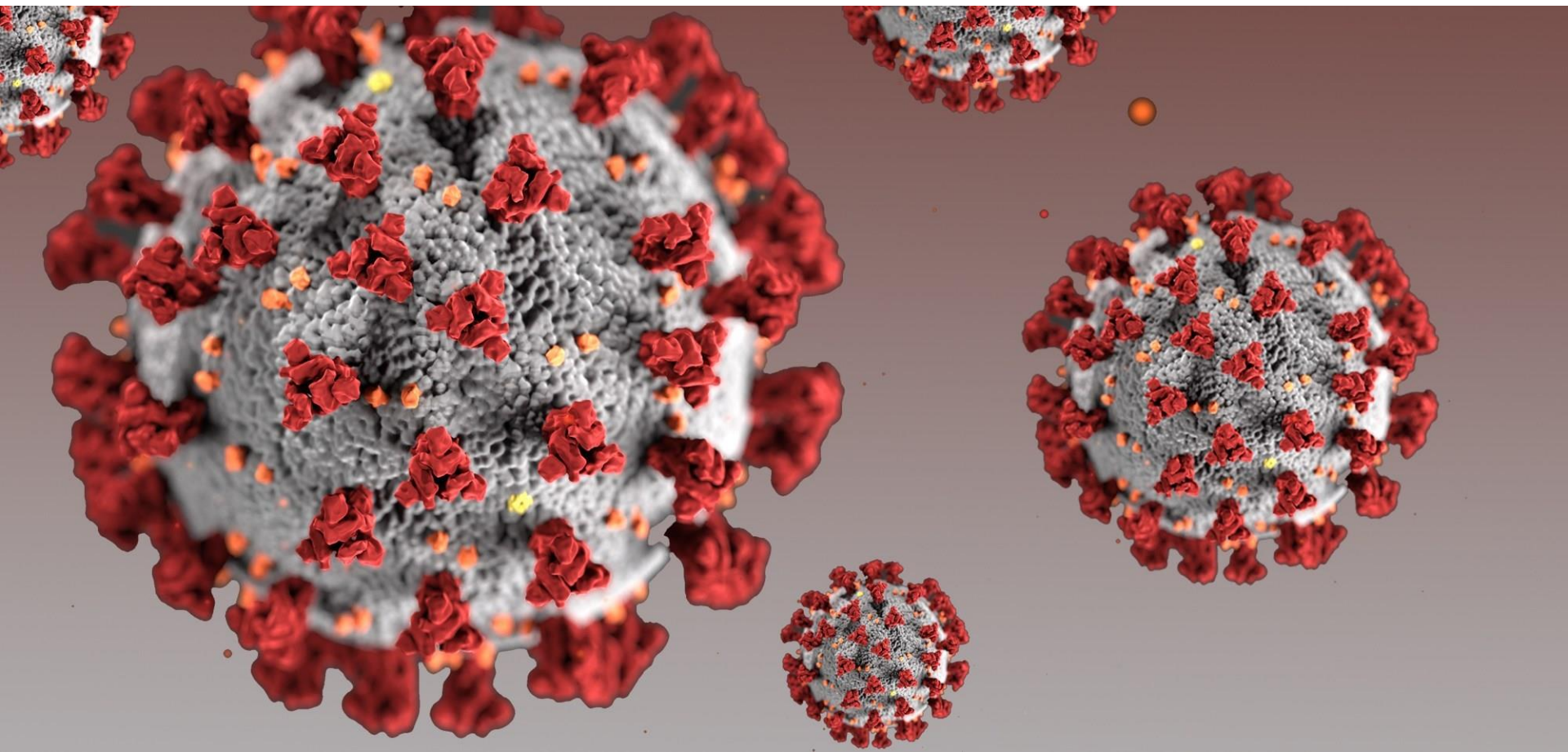
Board-Adopted Strategic Priorities

- Invest in assets and people and seek industry top-quartile performance for hydro generation, retail reliability, and safety while improving our customer service technology
- Sustain excellent financial resiliency while mitigating the risk of large rate increases
- Enhance the quality of life in Chelan County through programs that distribute the benefits of public power
- Engage in countywide growth planning and job creation efforts while ensuring the District's rates and policies remain stable and predictable

New Opportunity

- Invest in assets and people and seek industry top-quartile performance for hydro generation, retail reliability, and safety while improving our customer service technology
- Sustain excellent financial resiliency while mitigating the risk of large rate increases
 - Long term marketing strategies
- Enhance the quality of life in Chelan County through programs that distribute the benefits of public power
- Engage in countywide growth planning and job creation efforts while ensuring the District's rates and policies remain stable and predictable

COVID Affected Everything



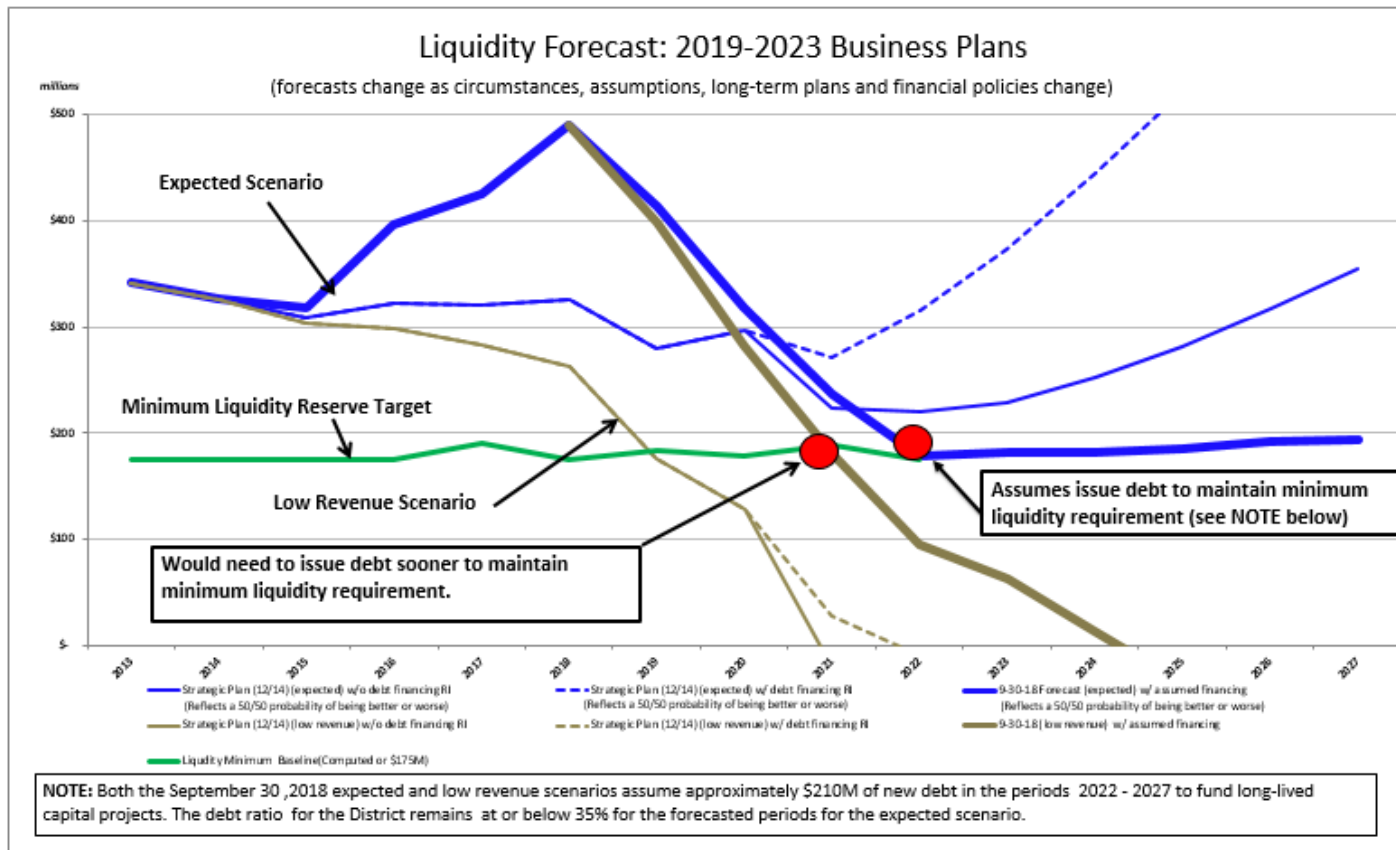
Sustain excellent financial resiliency while mitigating
the risk of large rate increases

SUSTAIN EXCELLENT FINANCIAL RESILIENCE



Reviewing and Learning from the Last Plan

Liquidity

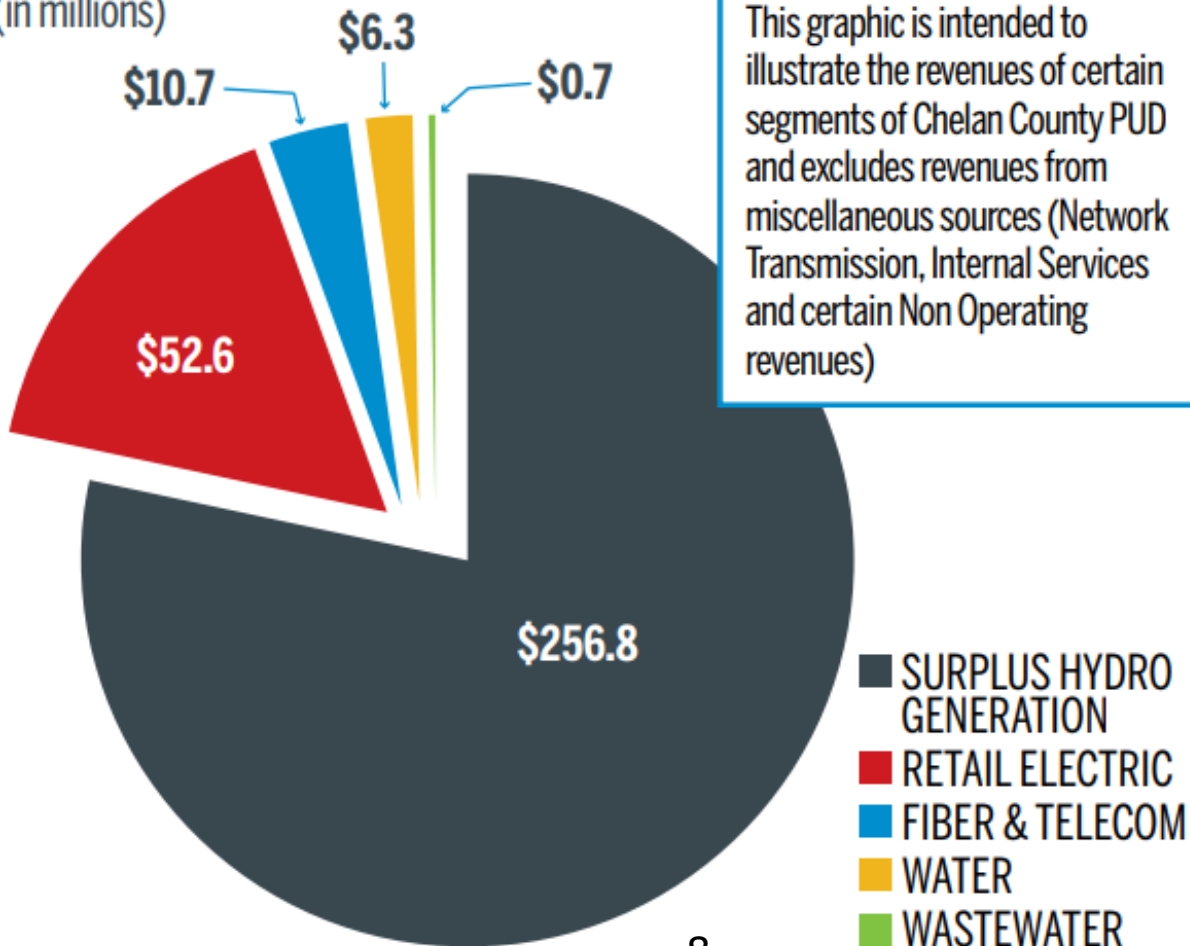


PUD Revenues

Chelan County PUD Selected Revenues

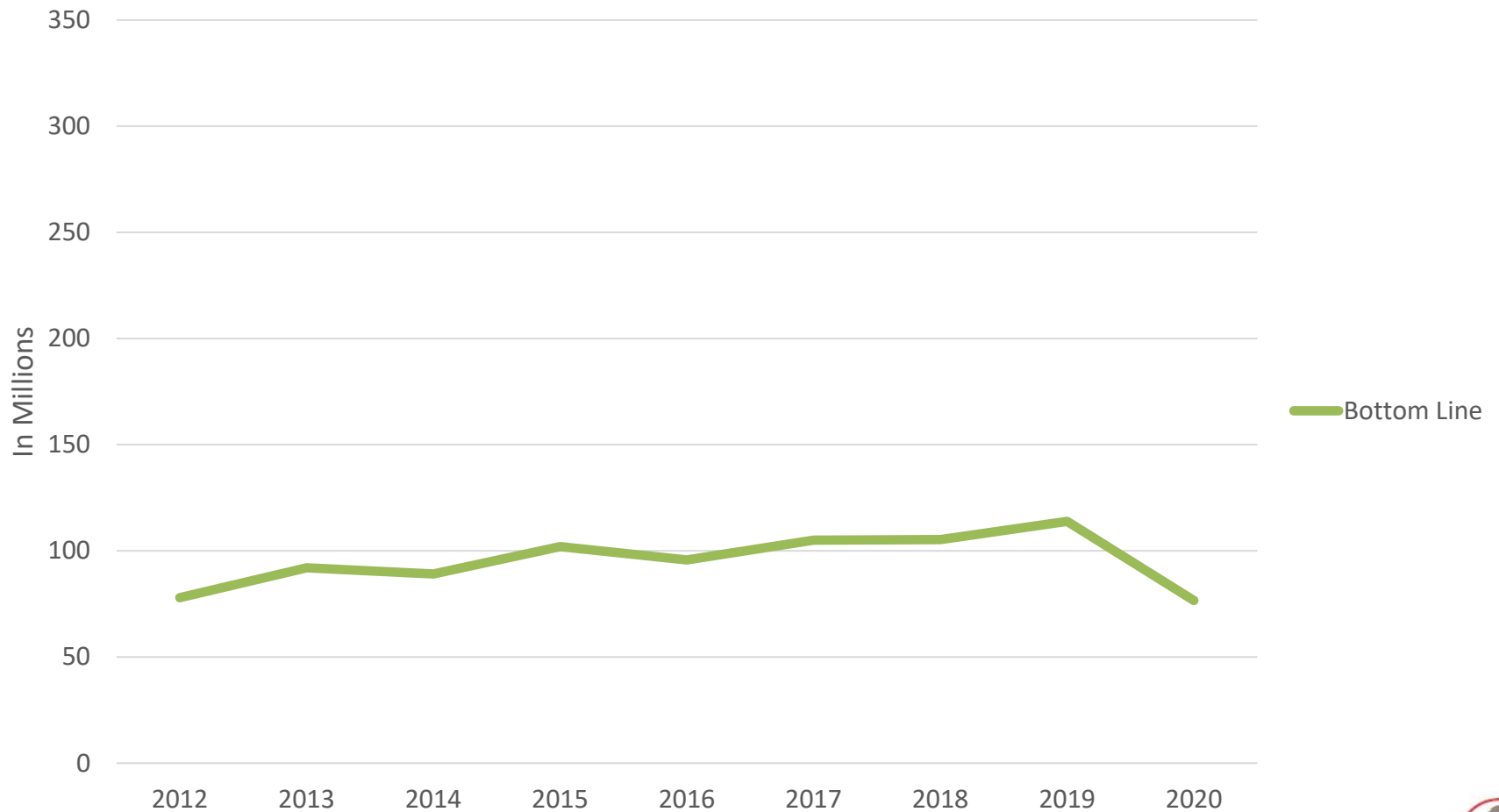
2018 AUDITED RESULTS

(in millions)



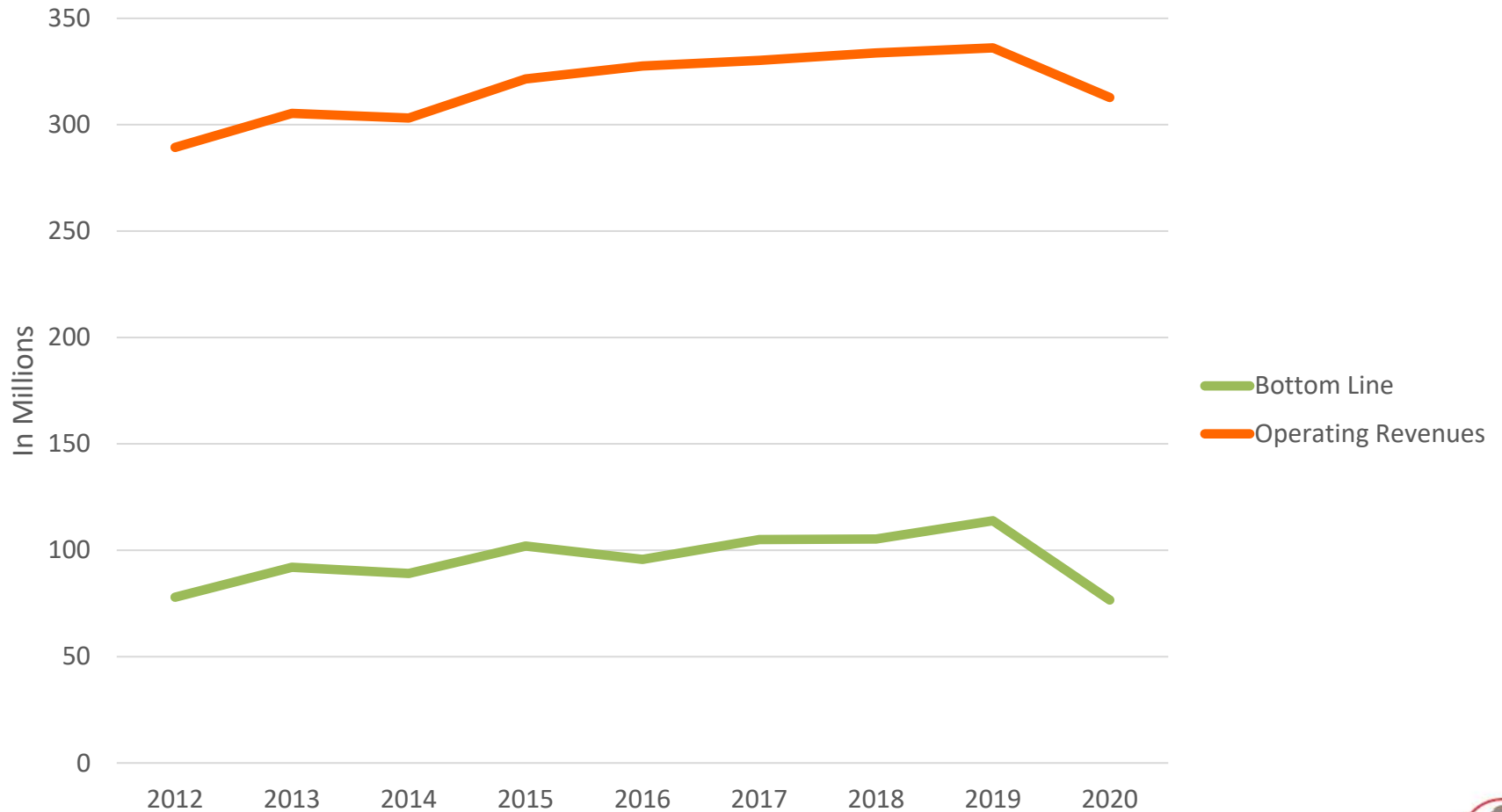
Bottom Line

Very healthy bottom line trending toward ***healthy*** bottom line



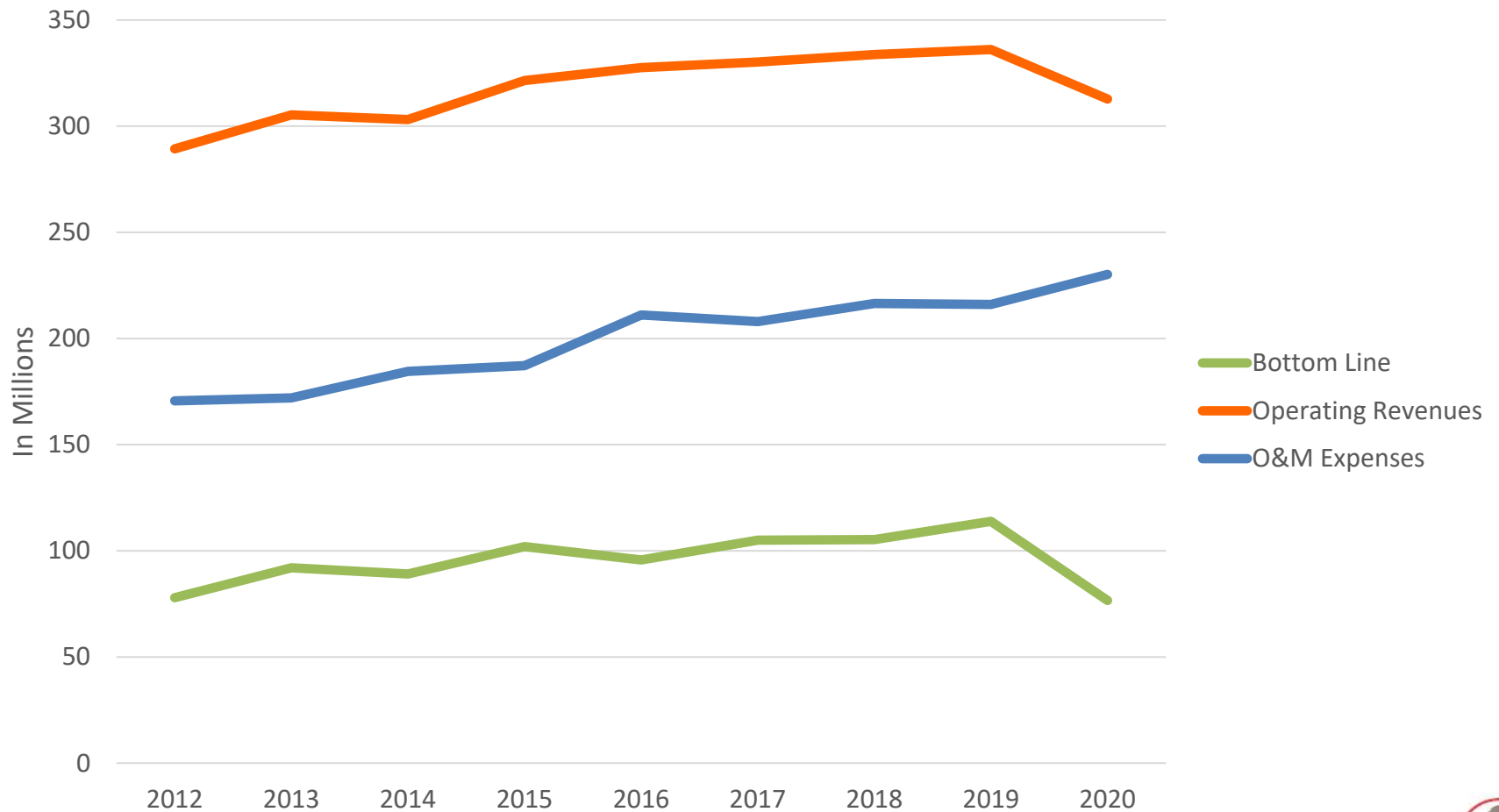
Operating Revenue

Steadily increasing revenues have begun to decline



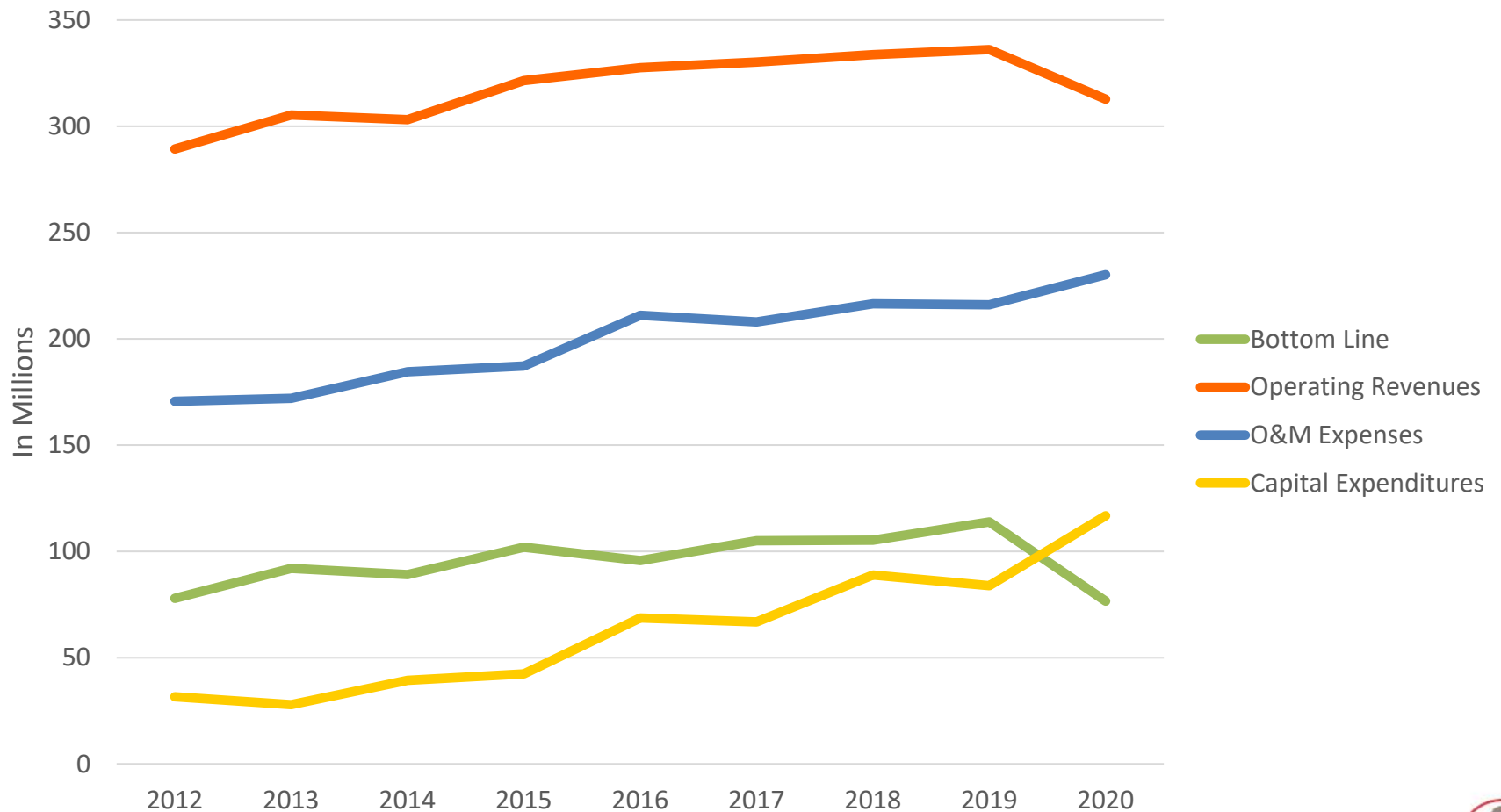
O & M Expense

Increasing as a result of investing in asset strategy



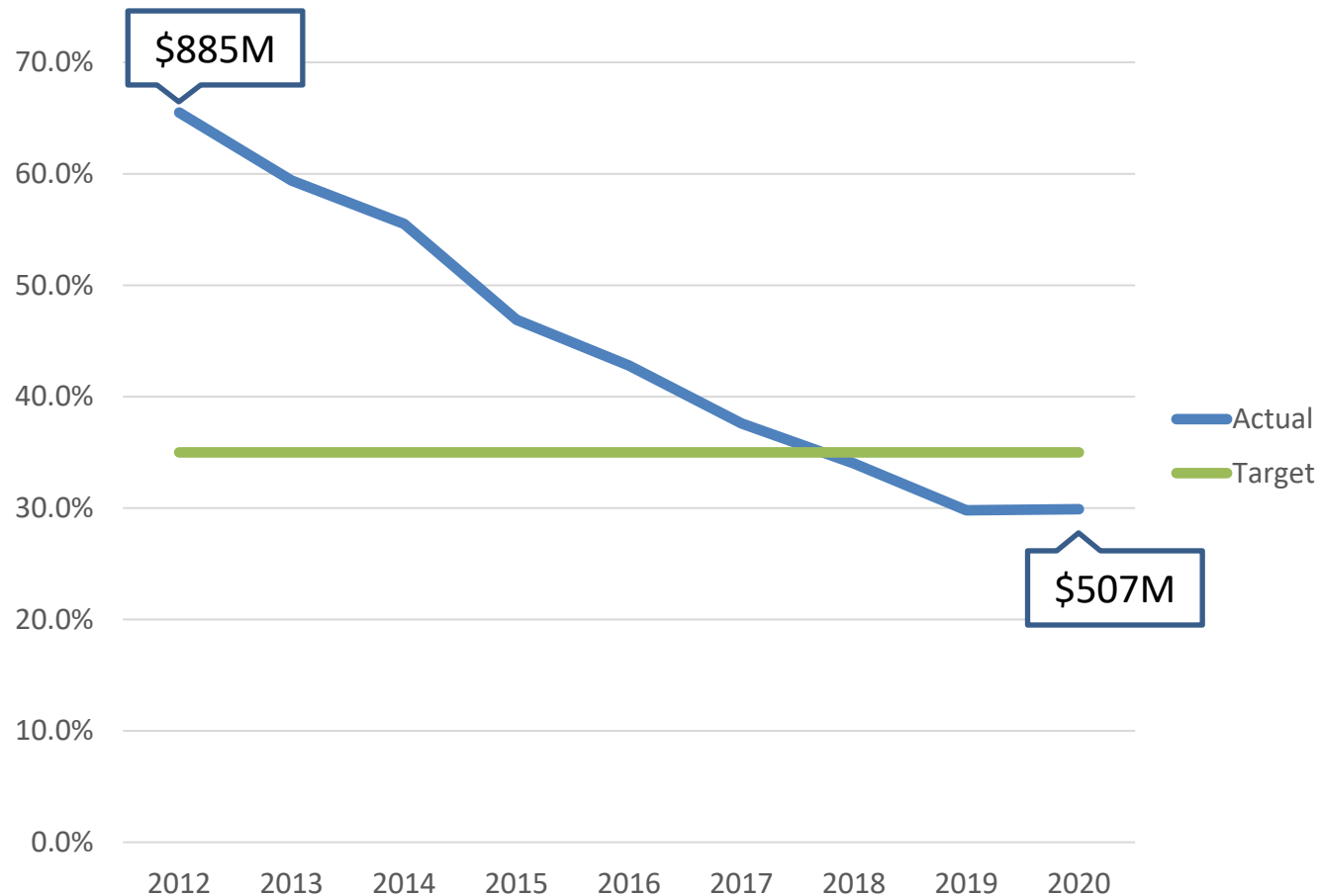
Capital Expenditures

Increasing as a result of investing in asset strategy



Debt Ratio

Declining and forecasted to continue to decline



Bond Ratings

Among the Highest-Rated Utilities in the Country

Credit Rating Scales by Agency, Long-Term

Yellow circles
indicate Chelan PUD
ratings

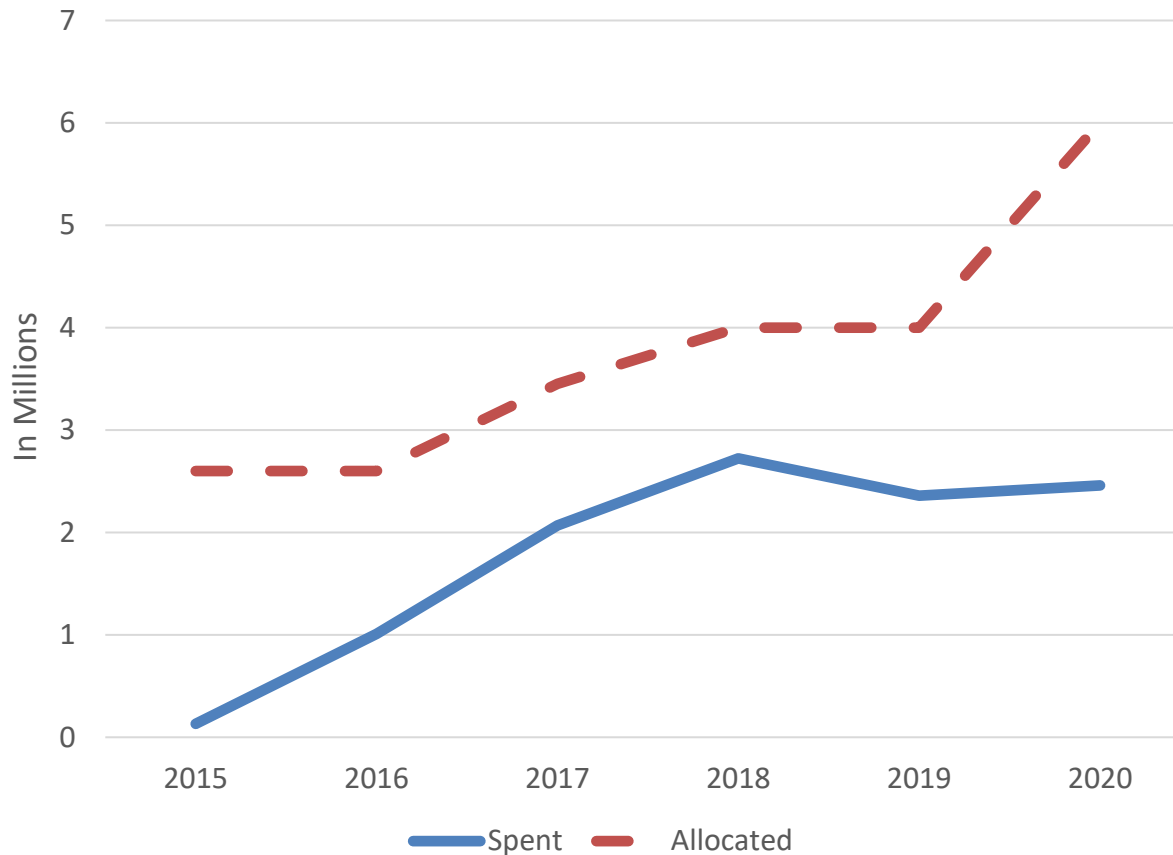
Moody's	S&P	Fitch	
Aaa	AAA	AAA	Prime
Aa1	AA+	AA+	High grade
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	Upper medium grade
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	Lower medium grade
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Non-investment grade speculative
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	Highly speculative
B2	B	B	
B3	B-	B-	
Caa1	CCC+	CCC	Substantial risk
Caa2	CCC		Extremely speculative
Caa3	CCC-		Default imminent with little prospect for recovery
Ca	CC	CC	In default
	C	C	
C			
/	D	D	
/			

Below Investment Grade



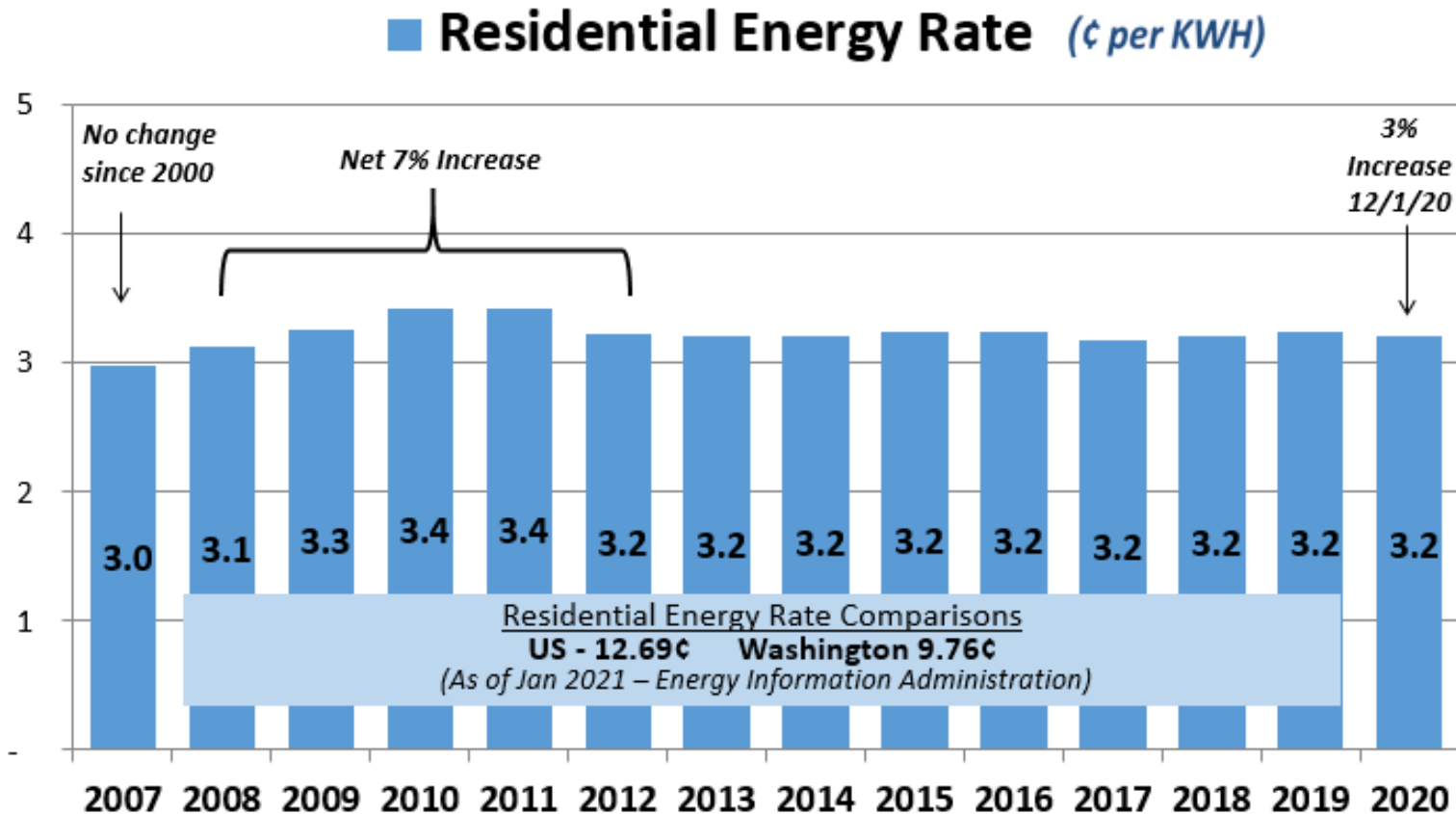
PPB Investment

Modest, but important, investment in community



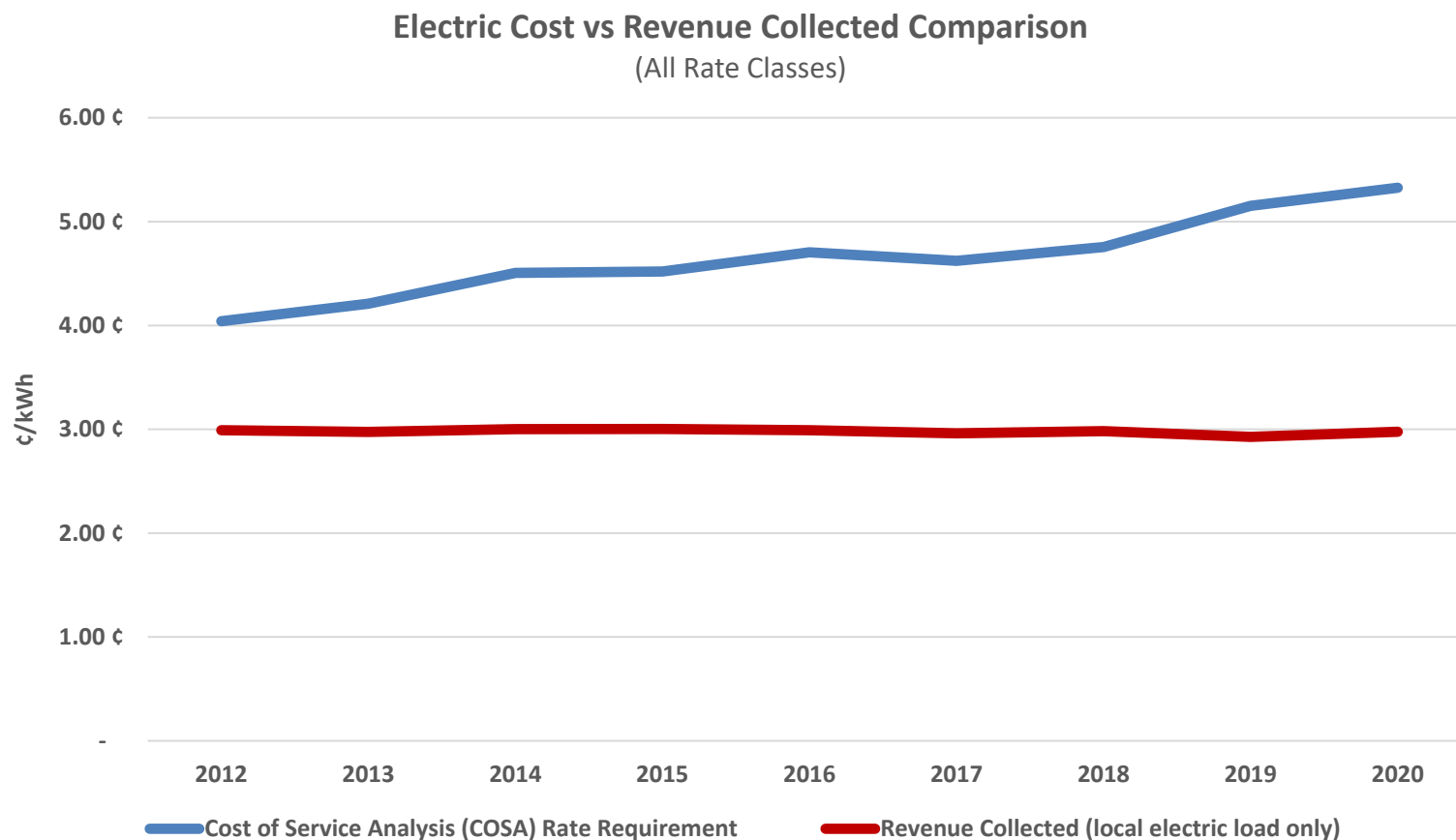
* 2015 and 2016 were combined and allocated together to kickstart the program

History of Electric System Residential Rate Changes



- US Cost of Living rose 54% from 2000-2020

Rate Cost Recovery



- Electric Rate Increases – 3% per year
- Delayed implementation to December 2020, next increase in June 2021

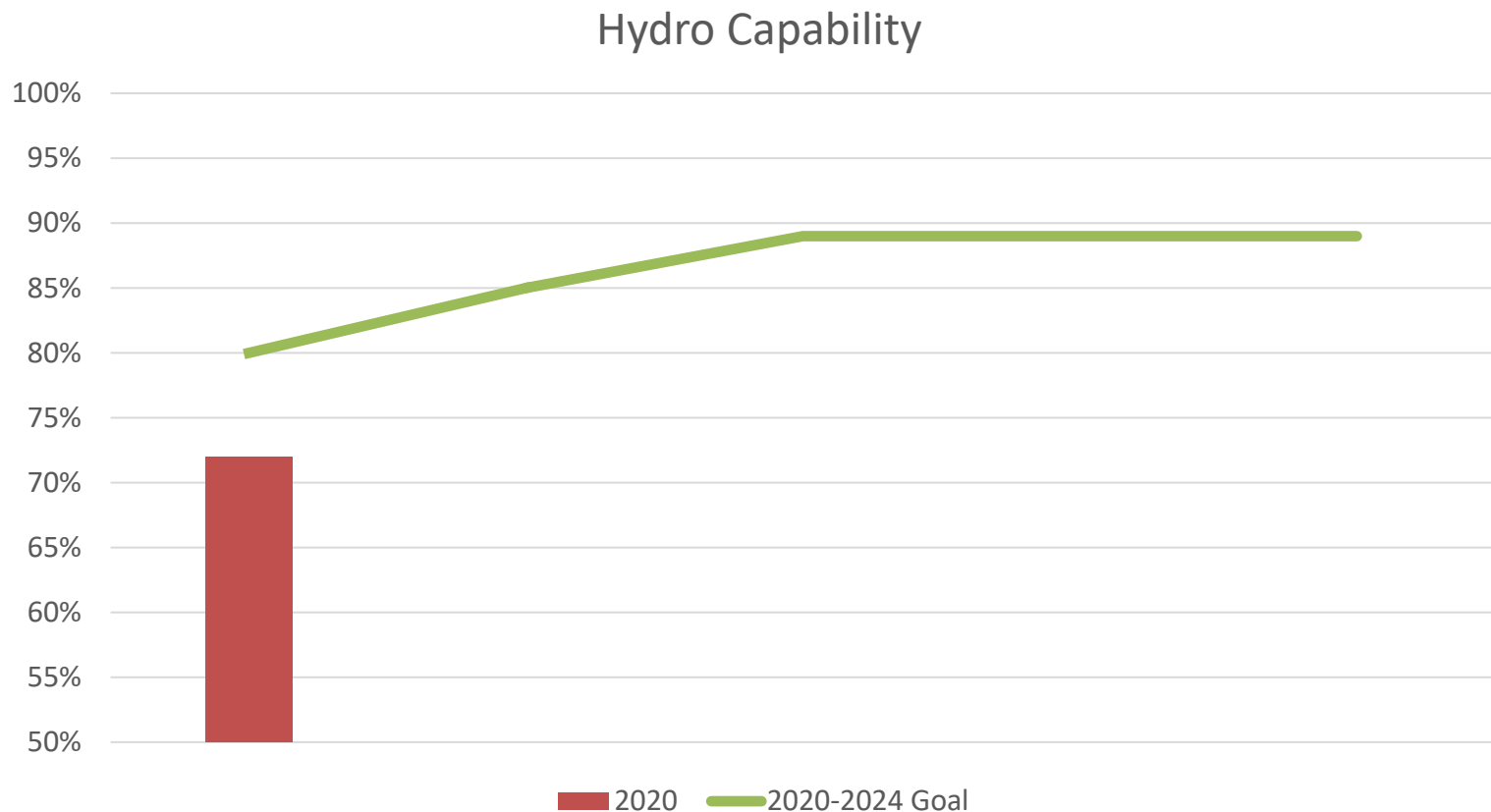
Seek industry top-quartile performance for hydro generation, retail reliability, and safety while improving our customer service technology

INVEST IN ASSETS AND PEOPLE



Investing in Hydro

Did not meet goal in 2020 – resetting strategy



2020 Plan to Return Turbines to Service

Rocky Reach		Rock Island	
✓	C1	✗	B3
✓	C2	✗	B4
✗	C7	✗	B7
✓	C9	✗	B10



Chelan crews
outperforming
contract crews

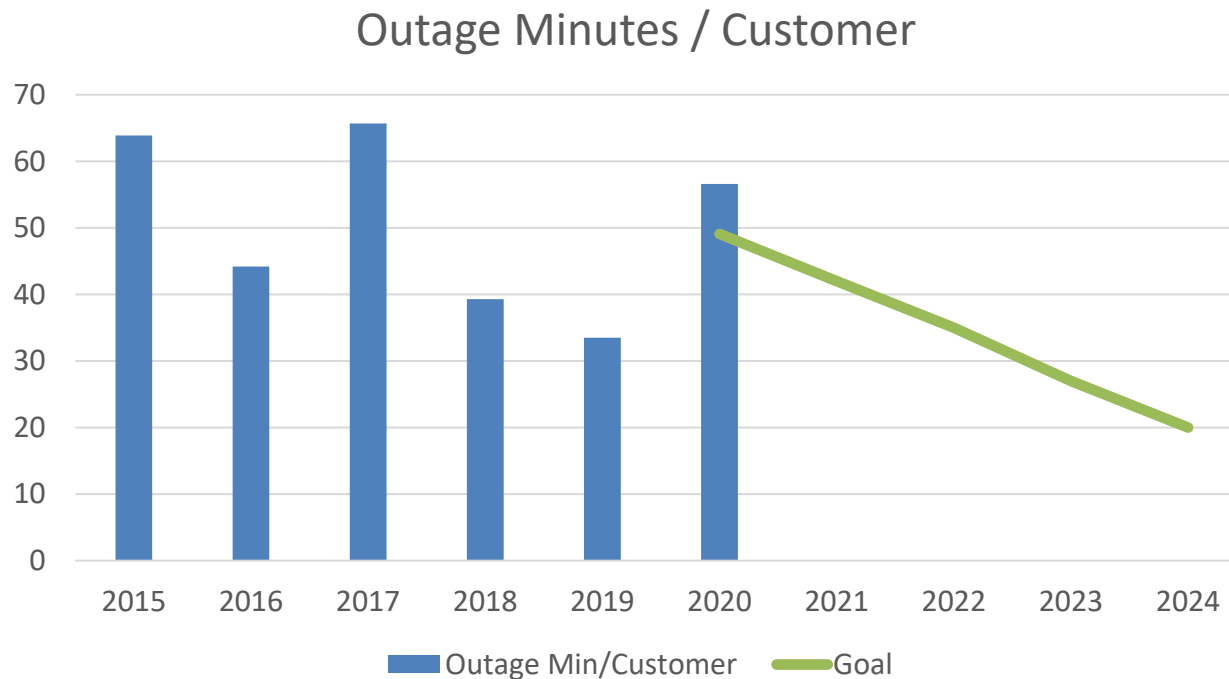


Seeking 10-year
warranties for new
projects

Investing in Distribution

Seeking top quartile reliability

- Underground cable replacement
- Vegetation management



Investing in Serving Growth

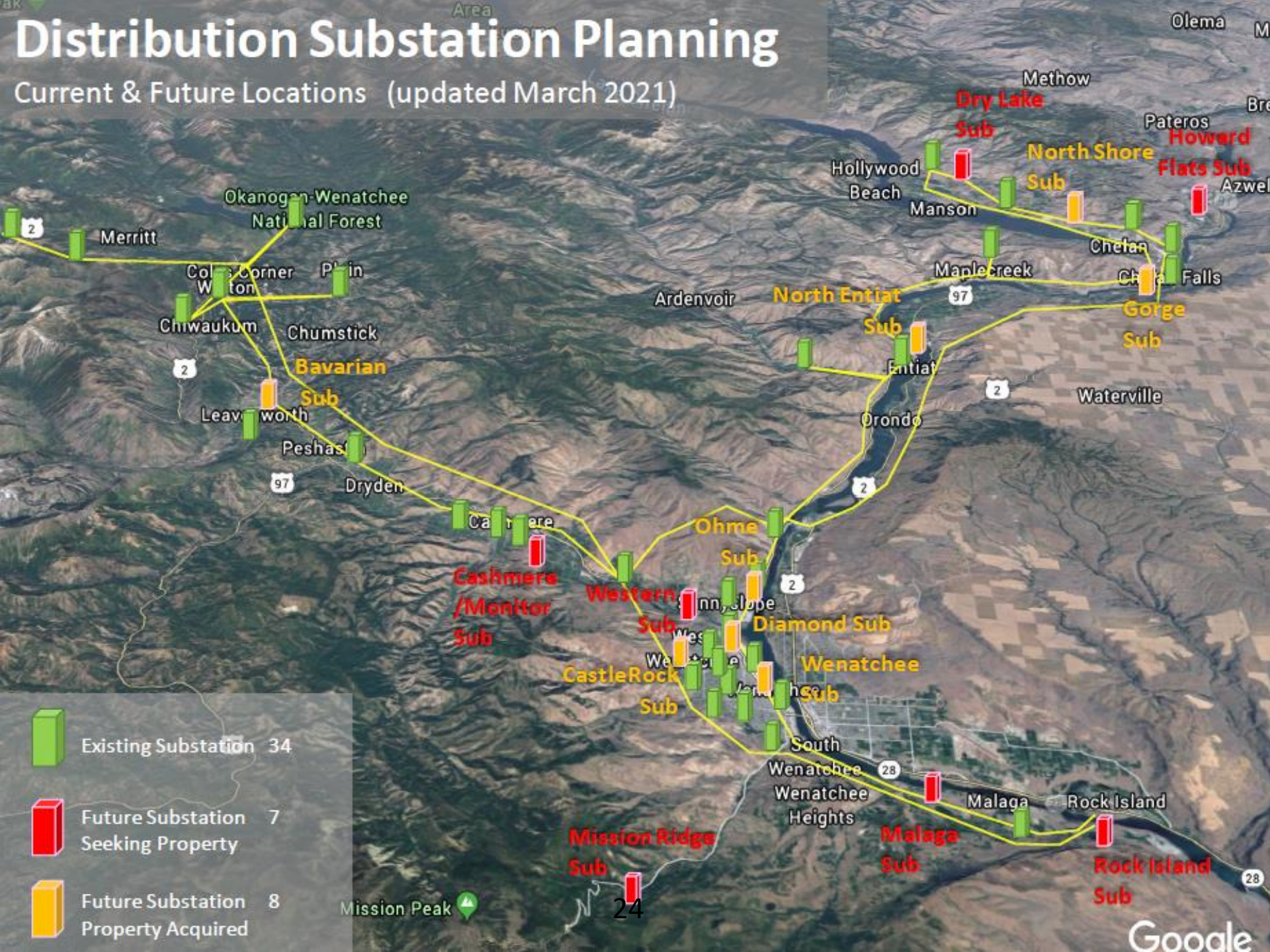
Substation
schedules delayed,
but progressing

– Ohme, Hawley,
Mobile subs

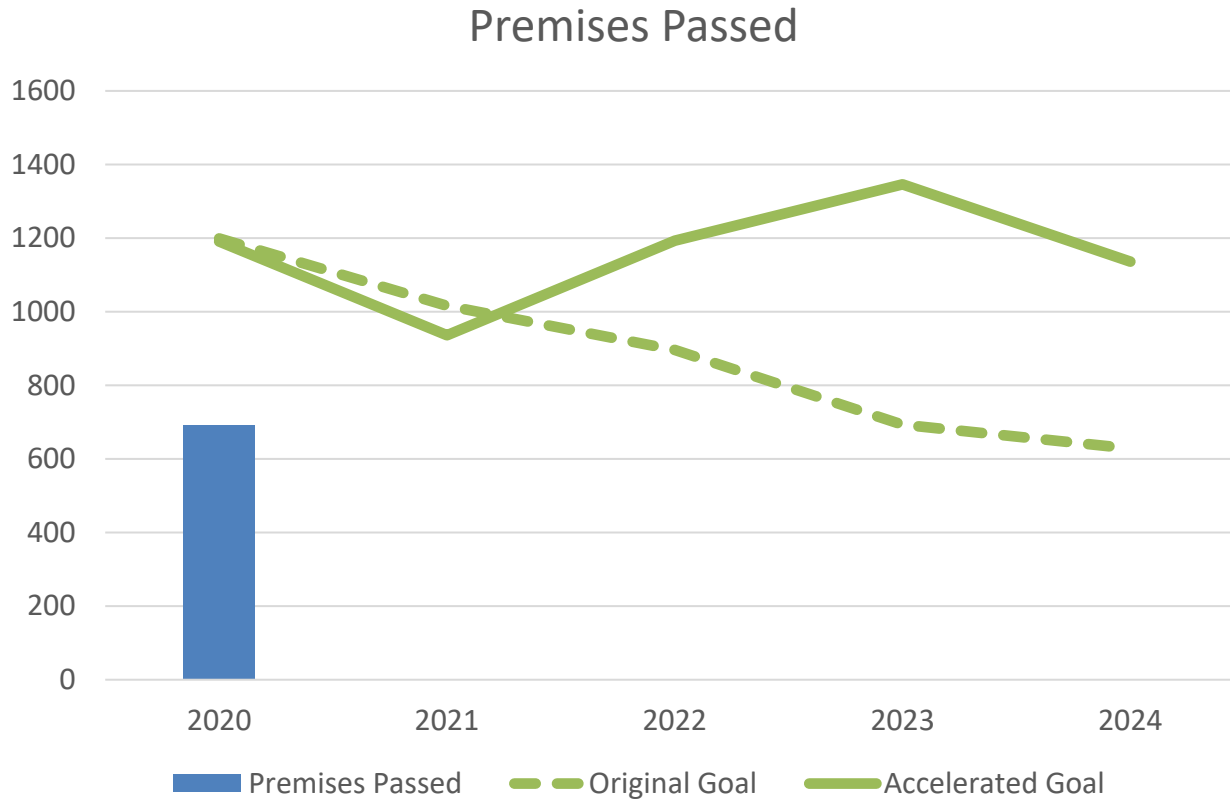


Distribution Substation Planning

Current & Future Locations (updated March 2021)



Fiber Expansion



Resetting operational strategy and seeking to accelerate fiber expansion

Invested in core network to provide capacity and resiliency

Investing in Facilities

Projects on budget



Service Center



Rock Island Facilities

Investing in Facilities



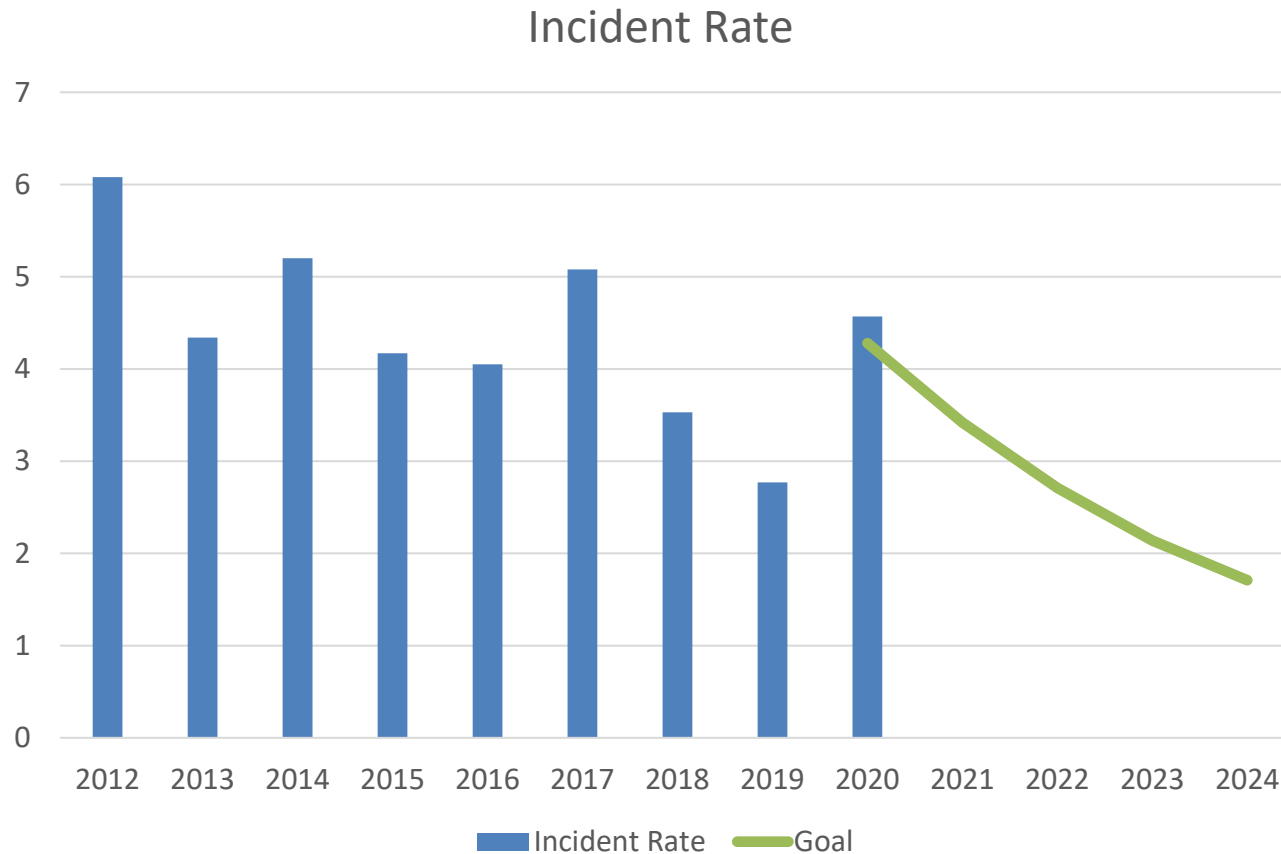
Rocky Reach Facilities



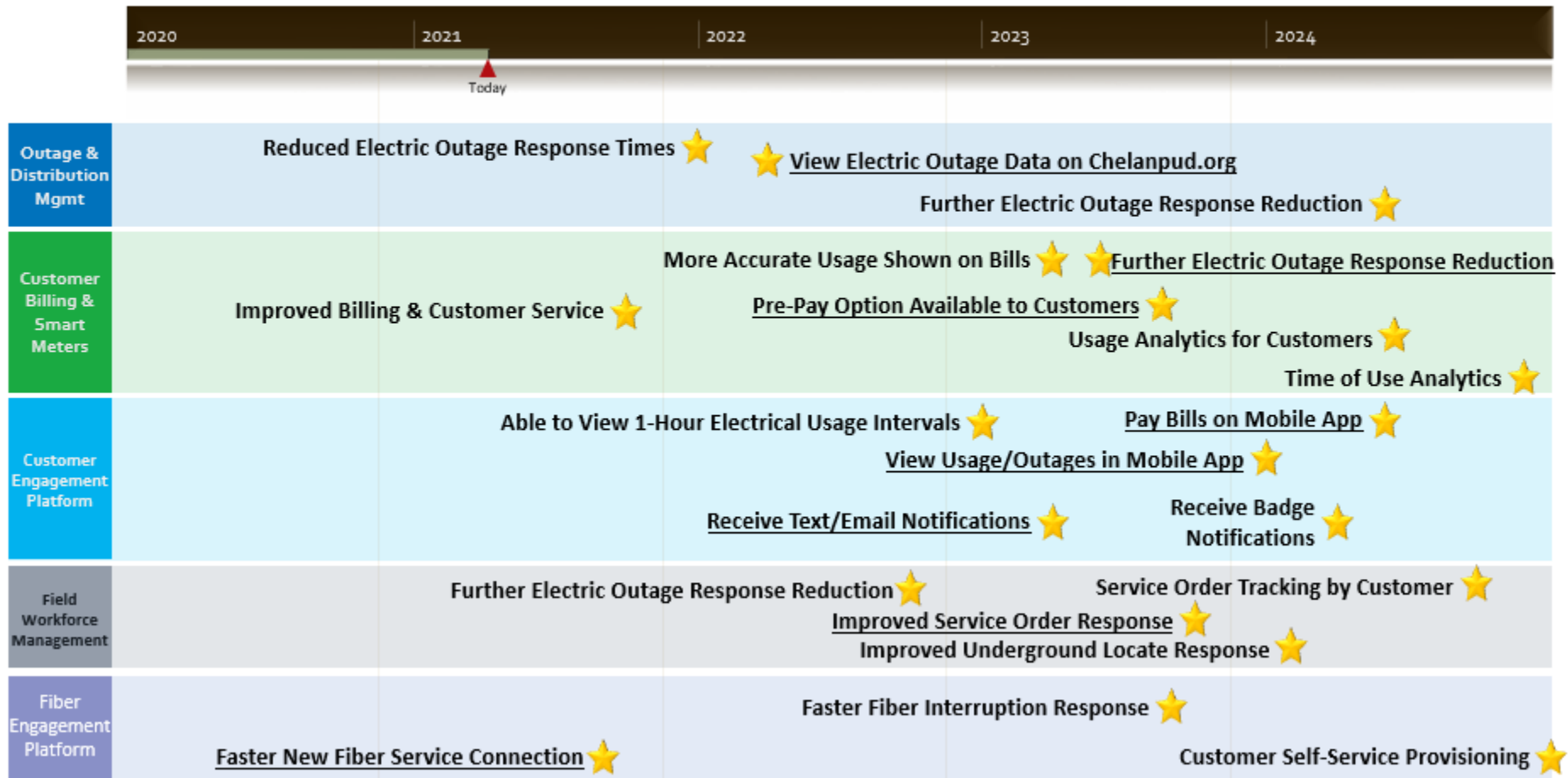
Discovery Center

Investing in Safety

- 2020 incident rate not met
- New Director of Safety & HPI
- Safety seeking top quartile metrics



Delivering Customer Value with Technology Initiatives



New Chief Technology Officer

Investing in People

- 99% of employees had an Individual Development Plan (IDP) in 2020
- Change management training for all leaders



LONG-TERM MARKETING STRATEGY



Long Term Marketing Strategy

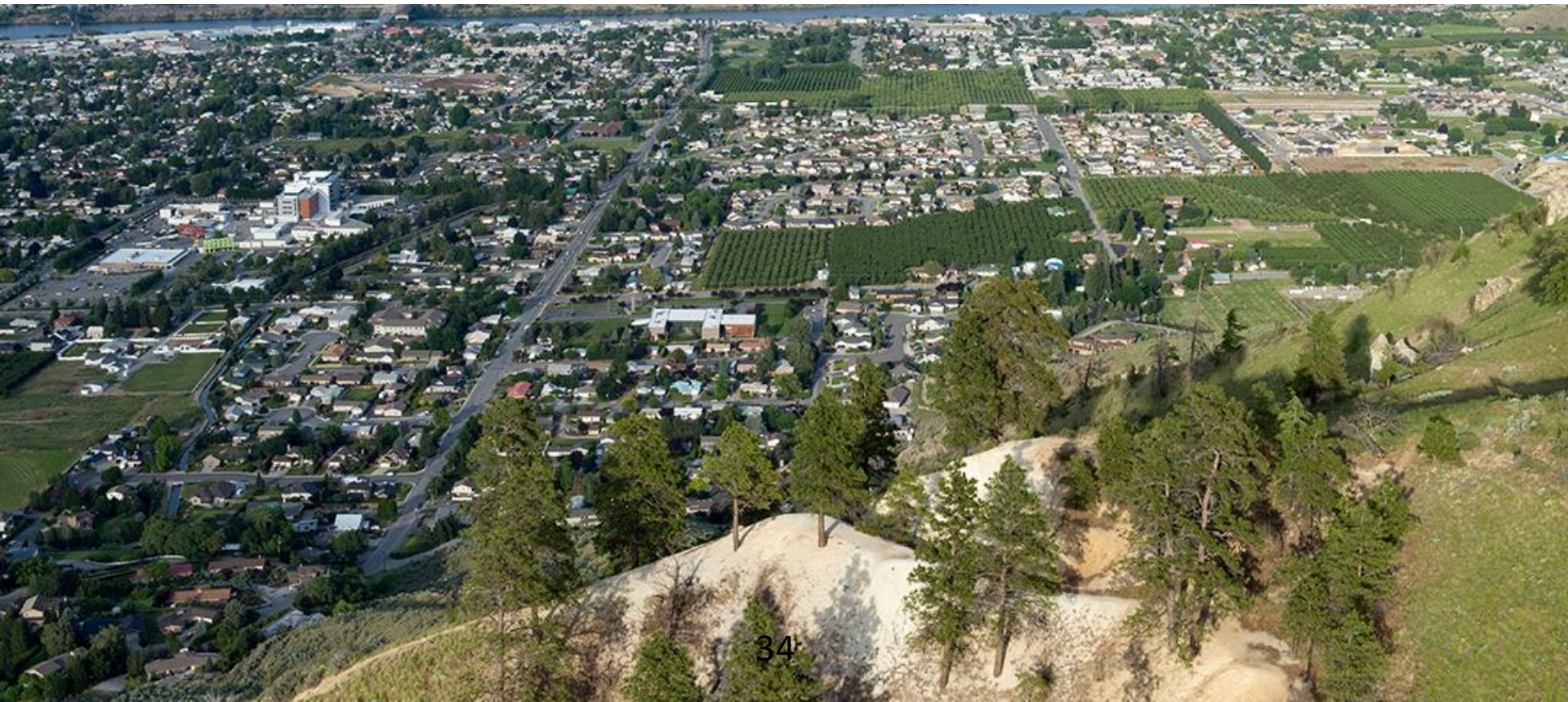
- After years of decline, value of hydropower is increasing due to state and federal carbon legislation
- Short-term value decreasing, but longer-term value increasing more
- Current marketing - 50/30/20
 - 50% cost-based wholesale
 - 30% market-based wholesale
 - 20% retail
- Strategic plan goal to support economic development at no more than 5% cumulative rate increase to support these activities
 - 40-50 cost-based wholesale plus margin
 - 20-30 market-based wholesale
 - 20-30 retail

Long-Term Marketing Strategy

- Alcoa likely not reopening
- Now engaging 10-year fixed price and 20-year cost of production contracts
 - Recent Avista contract
- Opportunity to reverse recent revenue decline

Engage in countywide growth planning and job creation efforts while ensuring the District's rates and policies remain stable and predictable

ECONOMIC DEVELOPMENT



Types of Retail, Large Load Rates

- Current industrial rate
- Cost of production
- Cost plus margin pricing*
- Market pricing*
- Import only*

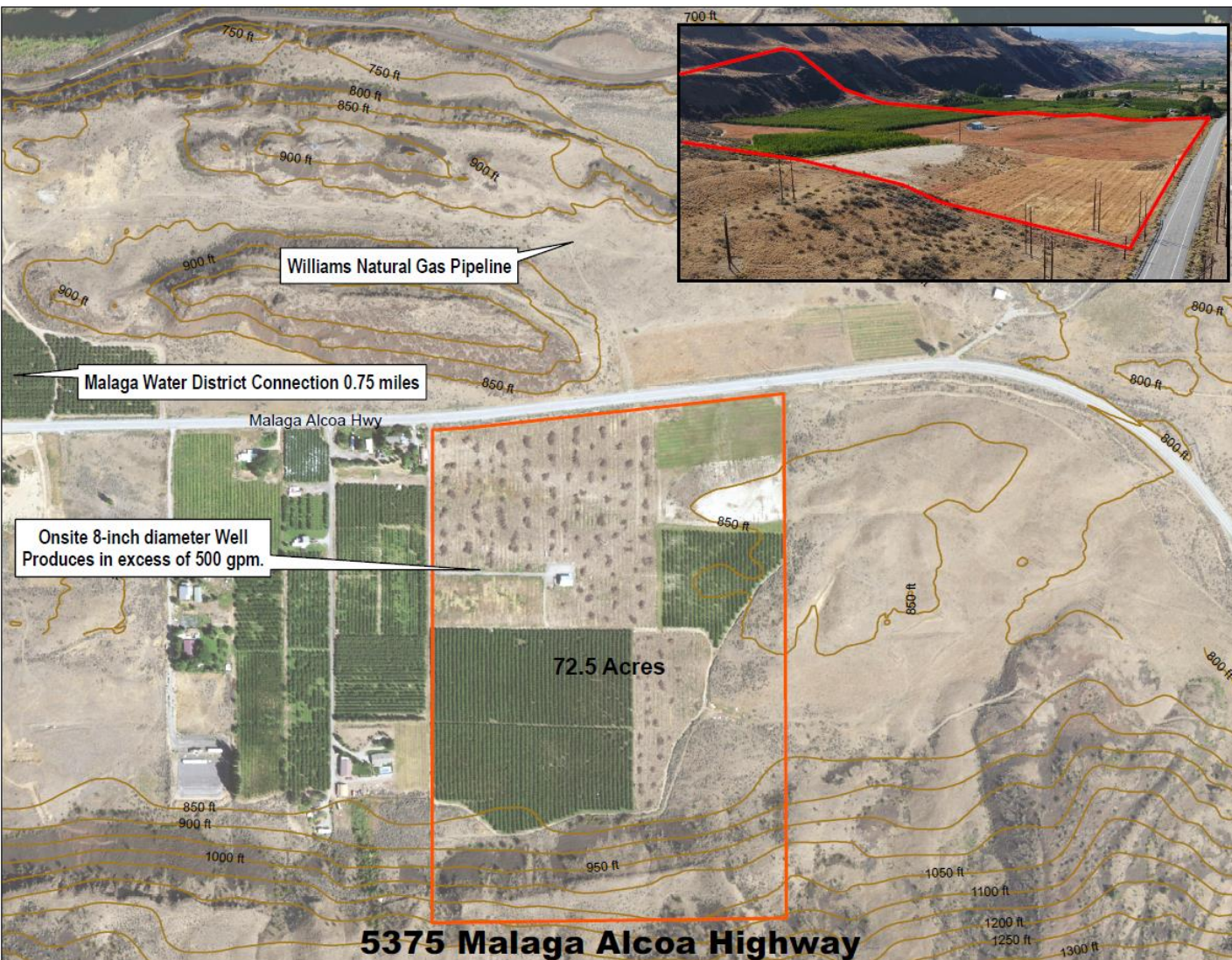
* Opportunity for economic development at little to no cost to existing customers

Diamond Foundry



Cost of
production
pricing

South of Malaga



Cost plus
margin,
market
pricing or
import

Supporting
second
source
water

Long-term marketing strategy built to balance keeping existing customer rates low and flexibility for local growth



Enhance the quality of life in Chelan County through programs that distribute the benefits of public power

PUBLIC POWER BENEFIT



Public Power Benefit (PPB)

- Raised from \$4 to \$6 million annually
- 2021
 - Accelerating fiber buildout
 - Park passes
 - Discovery Center
 - Wenatchee Riverfront Park planning
 - COVID support
 - Substation aesthetics
 - Peshastin wastewater

Fostering Culture of Public Service

- Supporting community response to COVID
 - Funding CDHD outreach efforts
 - Supporting vaccination site at Town Toyota Center
 - Matching funds for Helping Hands
- Fire risk planning
- Considering value of economic development

Other Activities

- Energy efficiency programs
- Habitat Conservation Plan
- Hydropower Research Institute
- Rock Island relicensing
- Cybersecurity
- Stehekin
- Oil-free turbines
- 5th Street campus
- Independent hydro operations
- Hydrogen production
- Peshastin water merger
- Dryden wastewater
- Wildfire risk management

Conclusion

- Making progress against strategic plan goals
- Healthy financials
- Significant revenue opportunity has appeared, shifting some priorities

*Committed to enhancing the quality of life in
Chelan County through the Best for the Most
for the Longest vision*