

An aerial photograph of a town situated along a river. A large, multi-span steel truss bridge crosses the river, with cars visible on it. The town is built on a hillside, with various buildings and houses. In the background, there are rolling hills and mountains under a blue sky with some clouds.

# Chelan County PUD Strategy Partners Update

April 19, 2022

**Kirk Hudson, General Manager**

# 100-Day Transition

- Volume and velocity of change
- Leadership culture
- Human and Organizational performance
- Employee development
- Customer experience
- Serving the public interest
- Innovation culture
- Water



**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
  - Alcoa closure



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

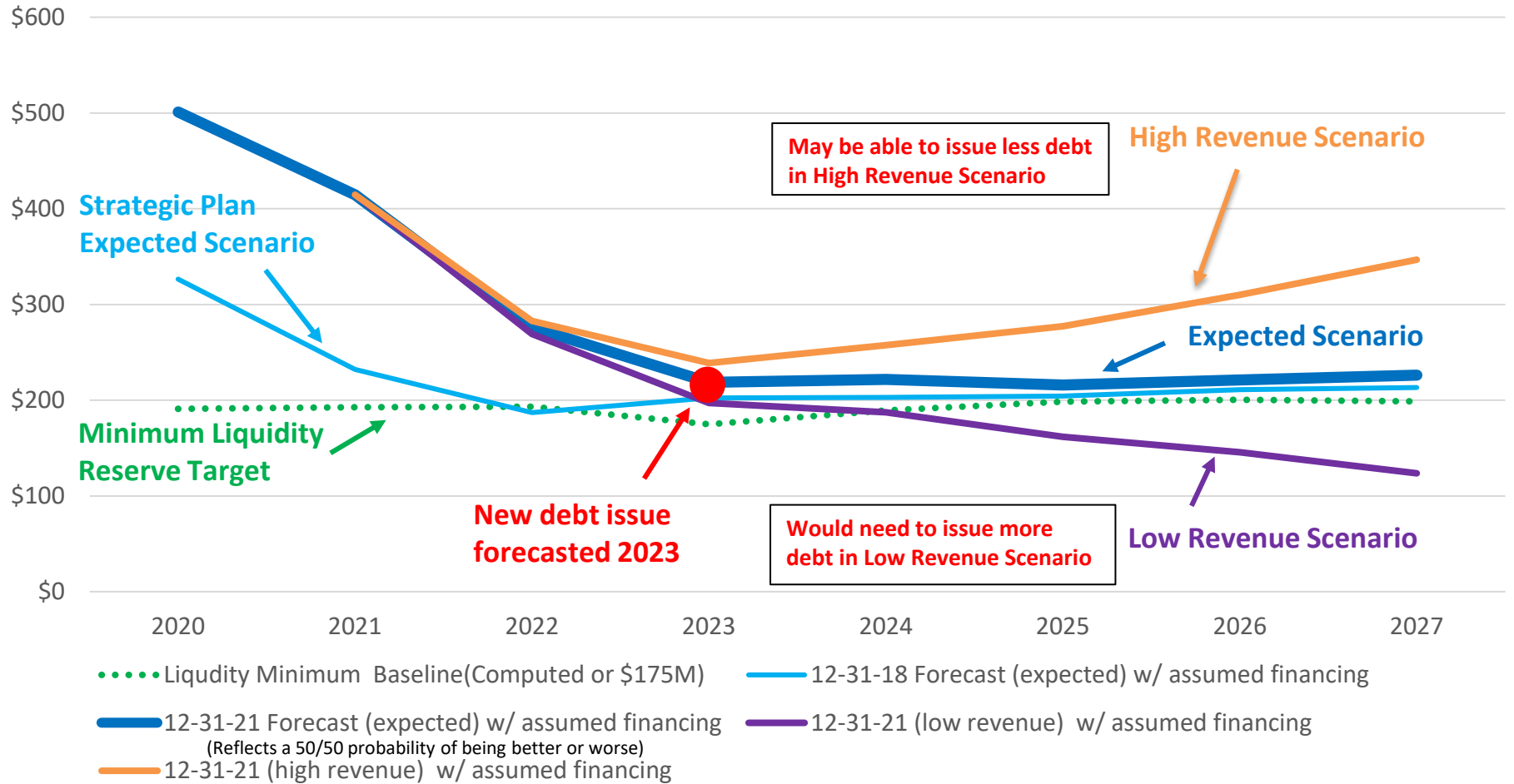
# **SUSTAIN EXCELLENT FINANCIAL RESILIENCE**



# Long-Term Outlook Compared to Strategic Planning

## Liquidity Forecast: Two Future Scenarios

(forecast change as circumstances, assumptions, long-term plans and financial policies change)



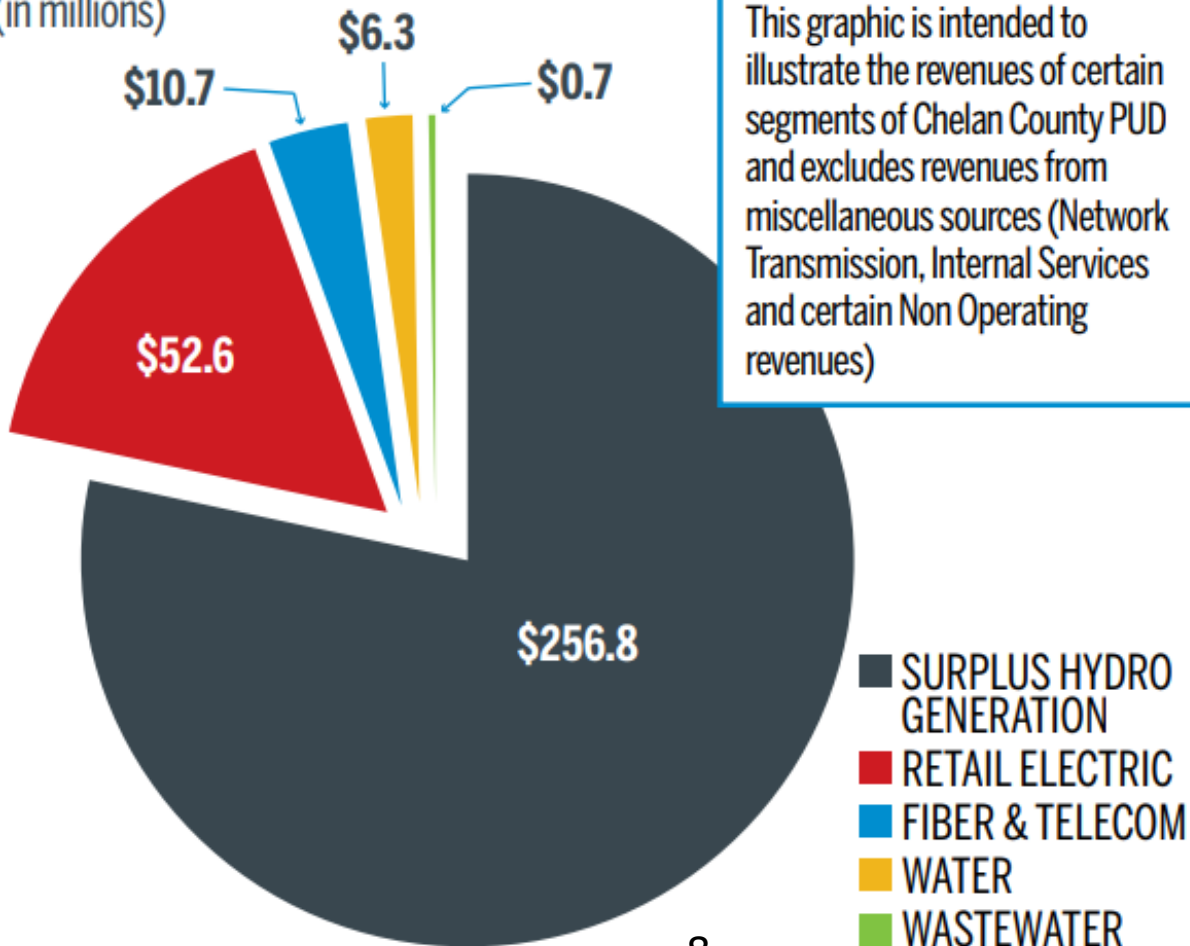
**NOTE:** Q4-2021 scenarios assume approximately \$150M of new debt in the periods 2022-2027 to fund long lived capital projects based on borrowing under the Expected Scenario. The debt ratio for the District remains at or below 35% for all the forecasted scenarios.

# PUD Revenues

## Chelan County PUD Selected Revenues

2018 AUDITED RESULTS

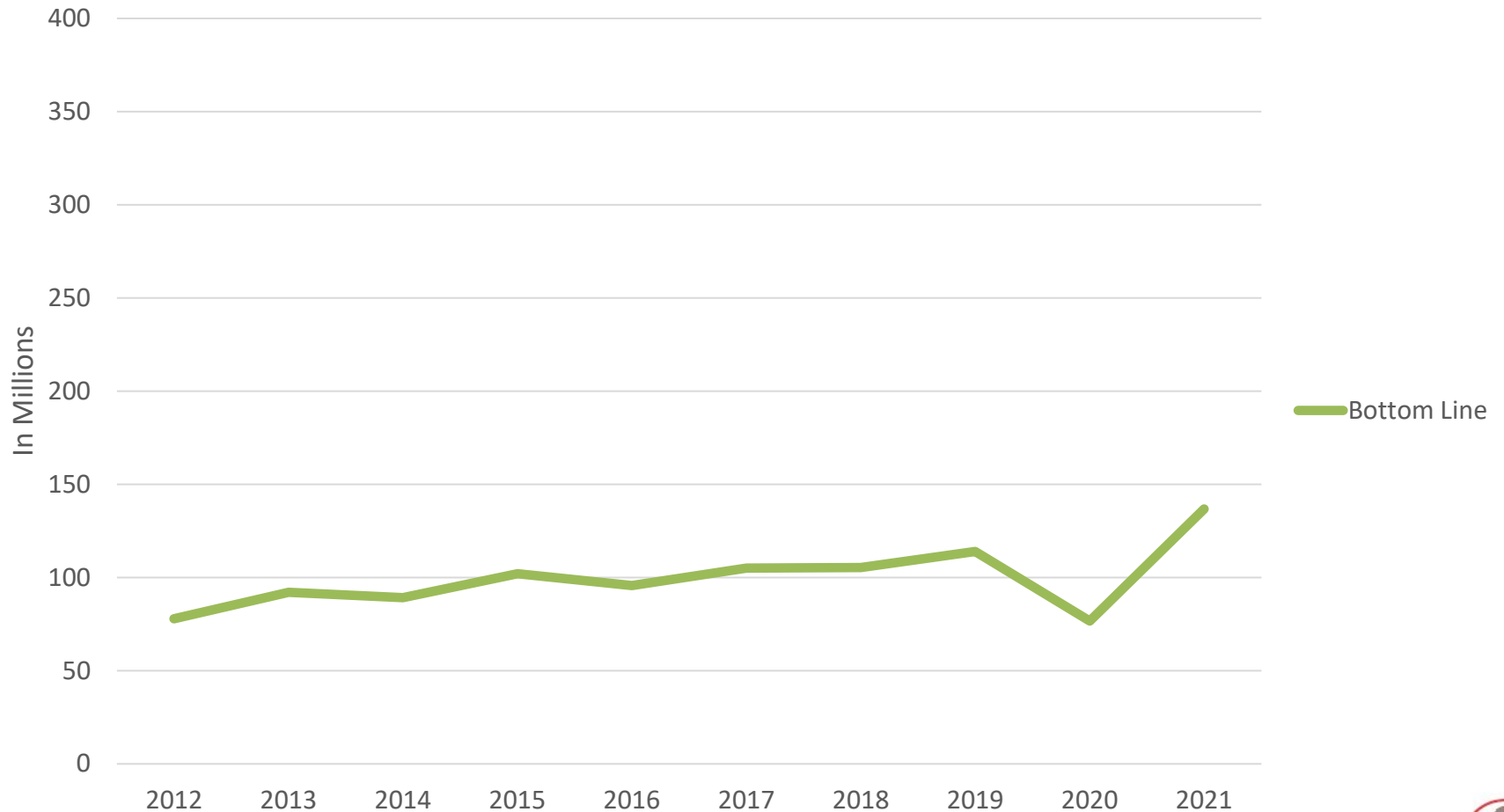
(in millions)





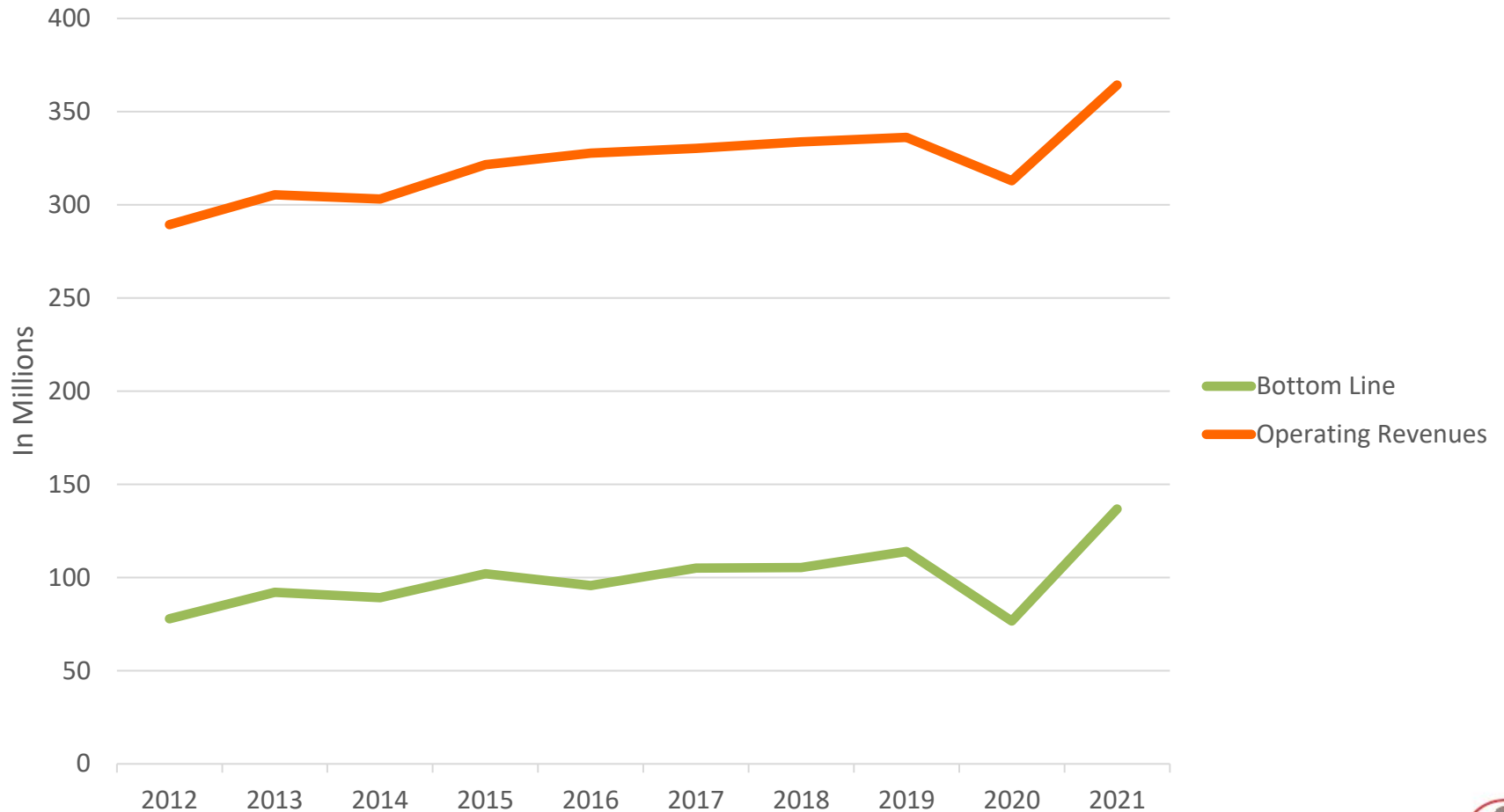
# Bottom Line

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



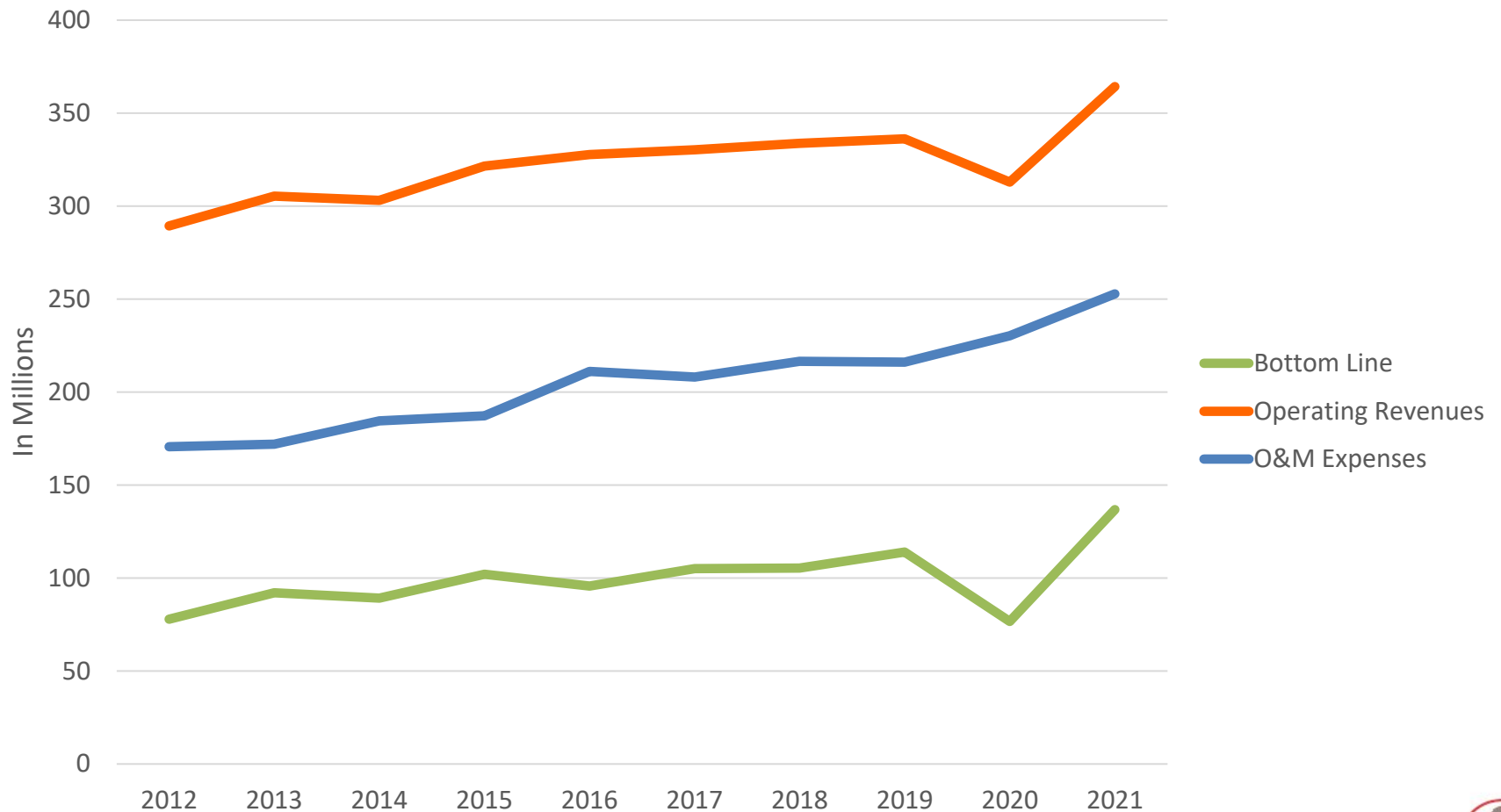
# Operating Revenue

Steadily increasing revenues have begun to decline



# O & M Expense

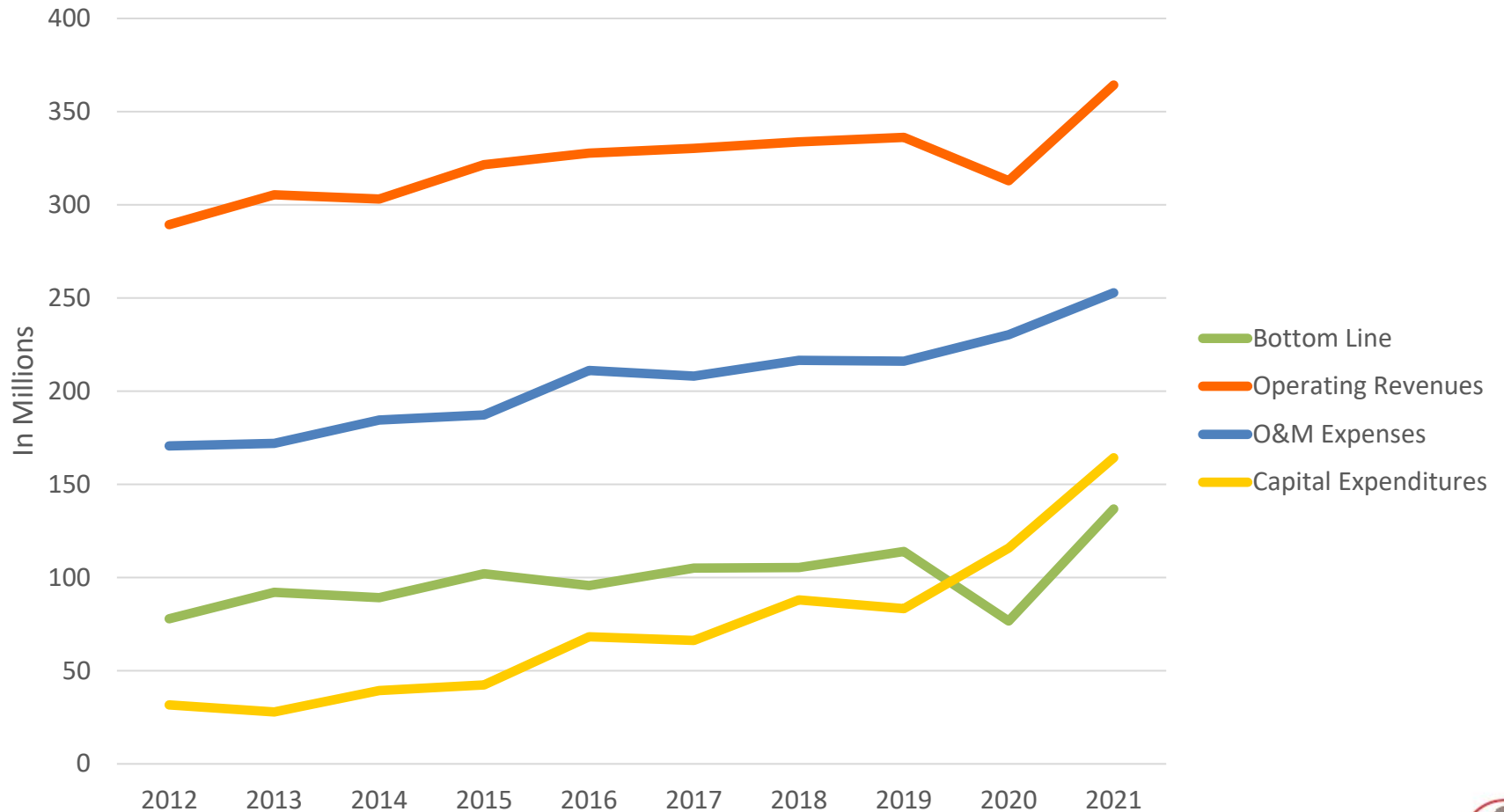
Increasing as a result of investing in asset strategy





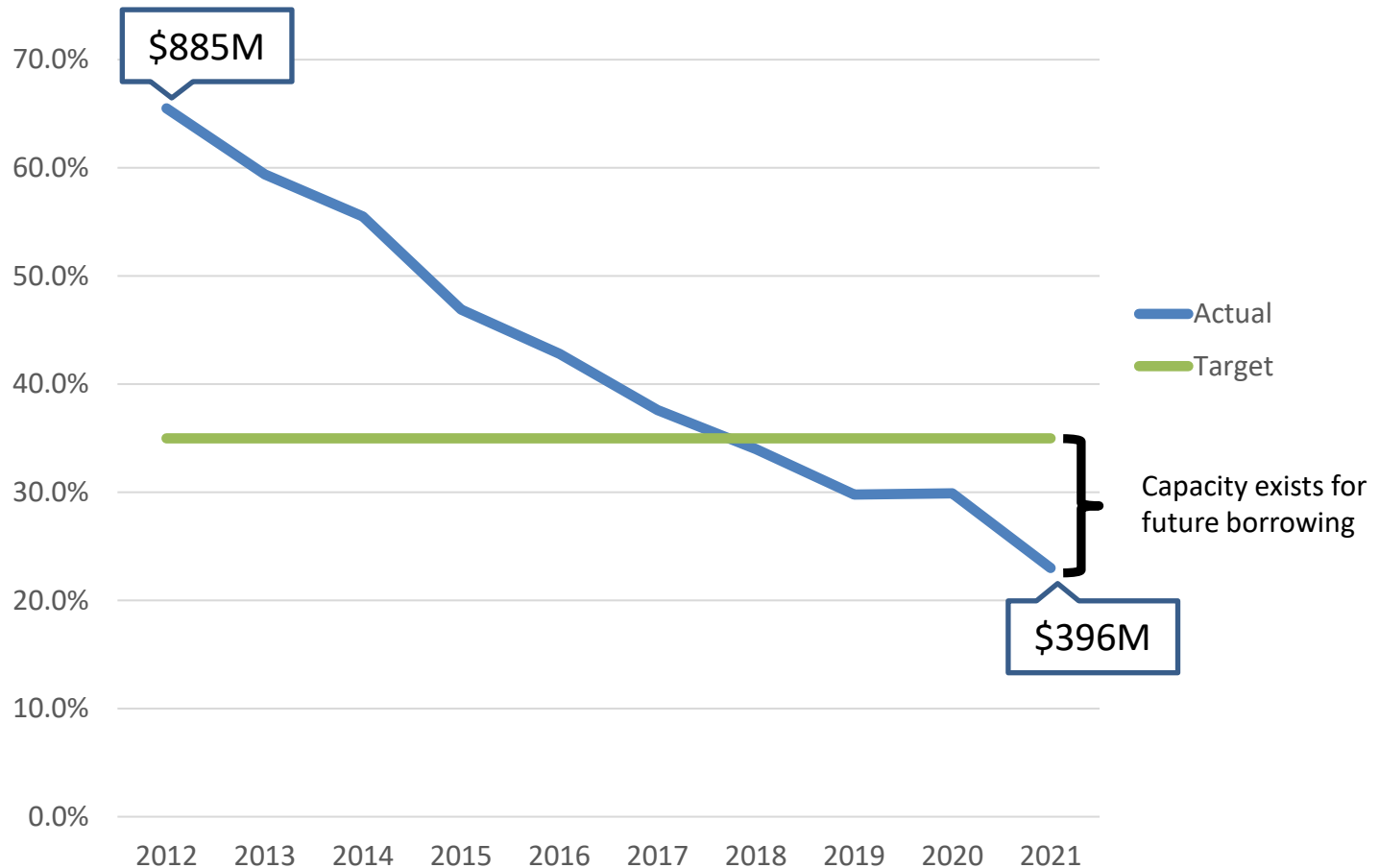
# Capital Expenditures

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	
/			

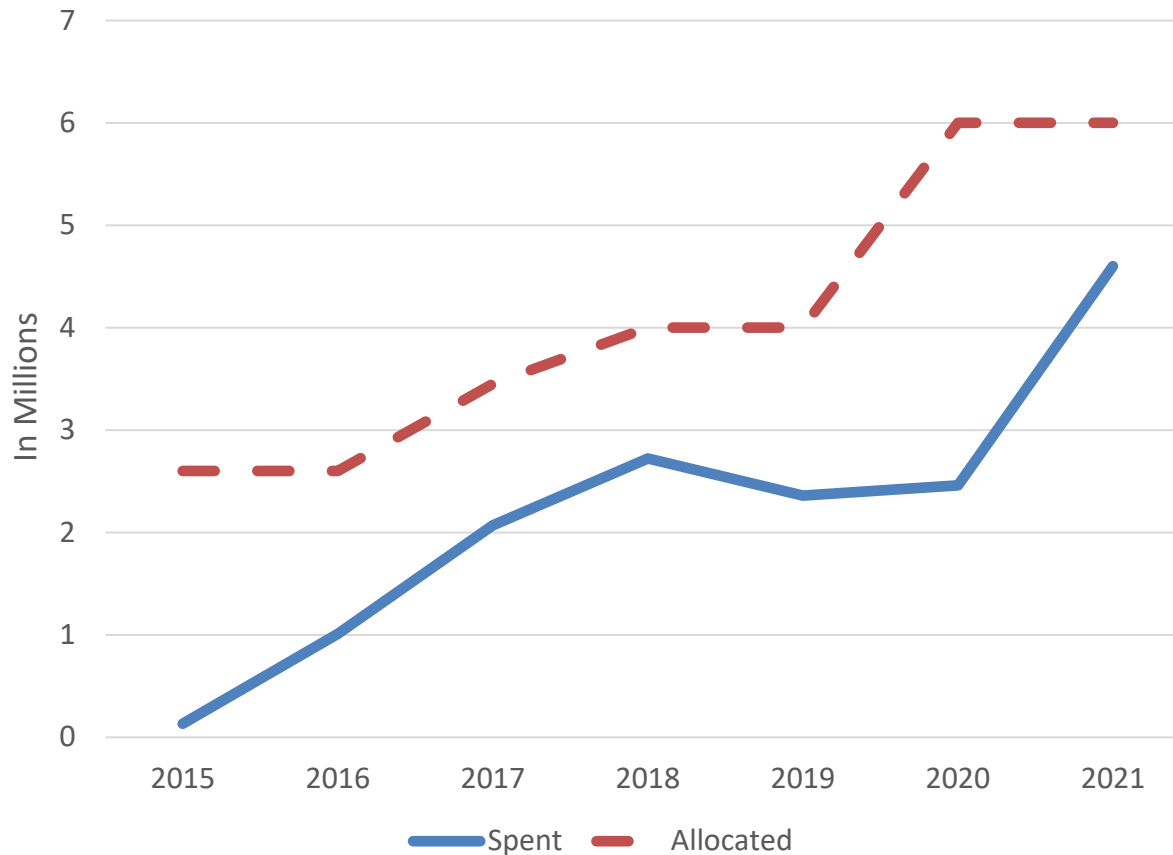
Below Investment Grade





# PPB Investment

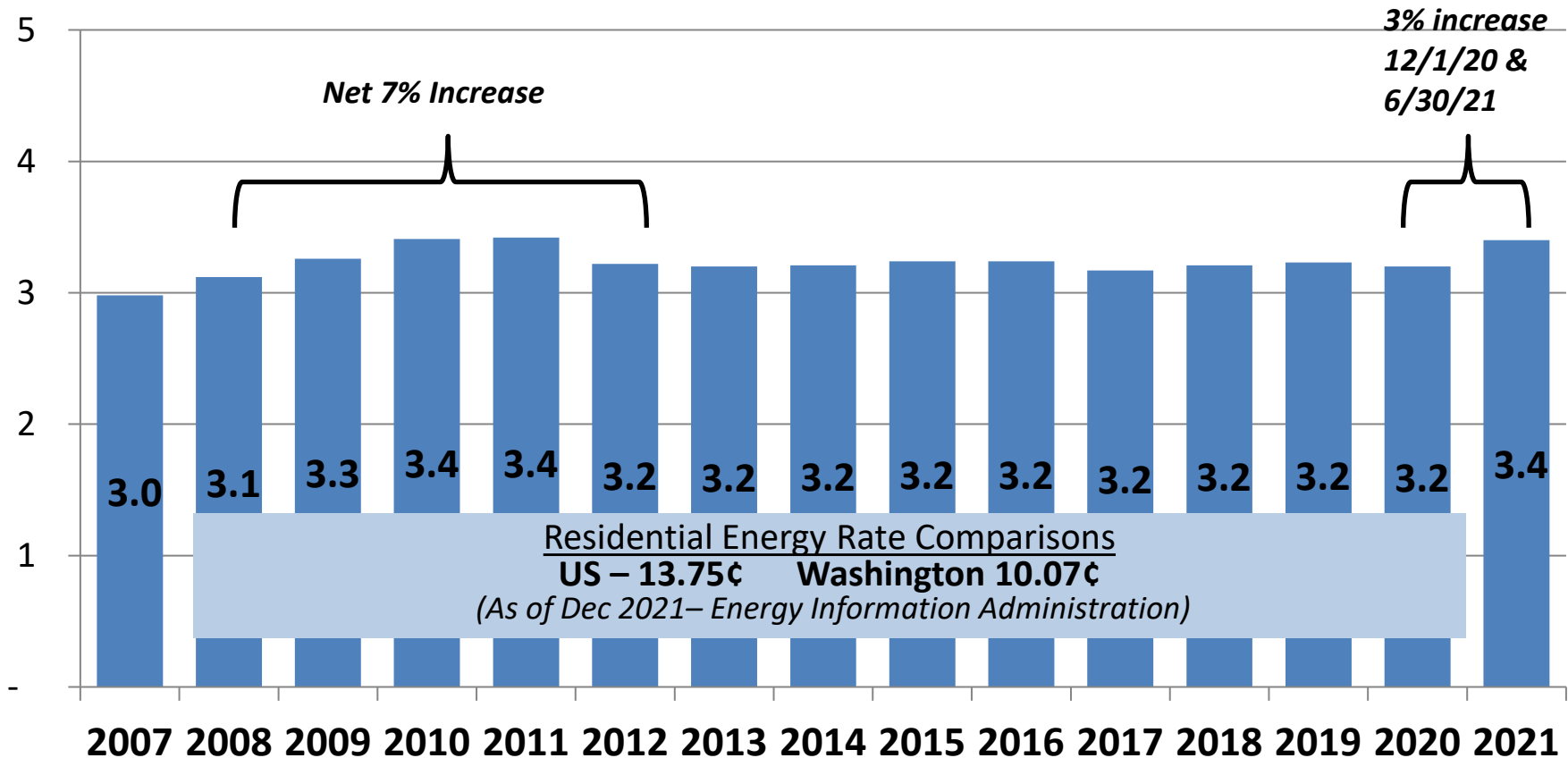
Modest, but important, investment in community



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

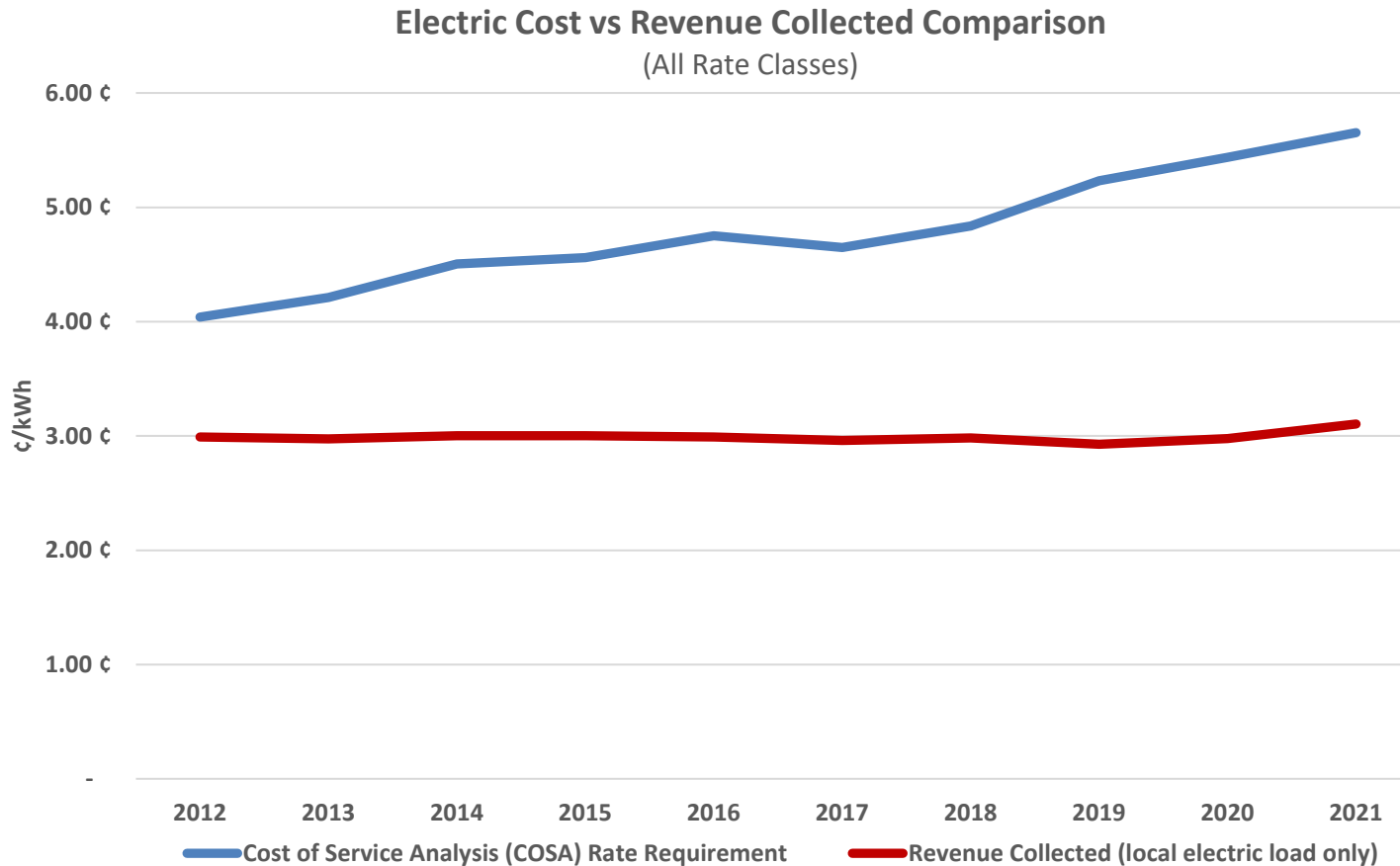
# History of Electric System Residential Rate Changes

## ■ Residential Energy Rate (*¢ per KWH*)



- US Cost of Living rose 65% from 2000-2021

# Rate Cost Recovery



- Electric Rate Increases – 3% per year
- Next increase in June 2022



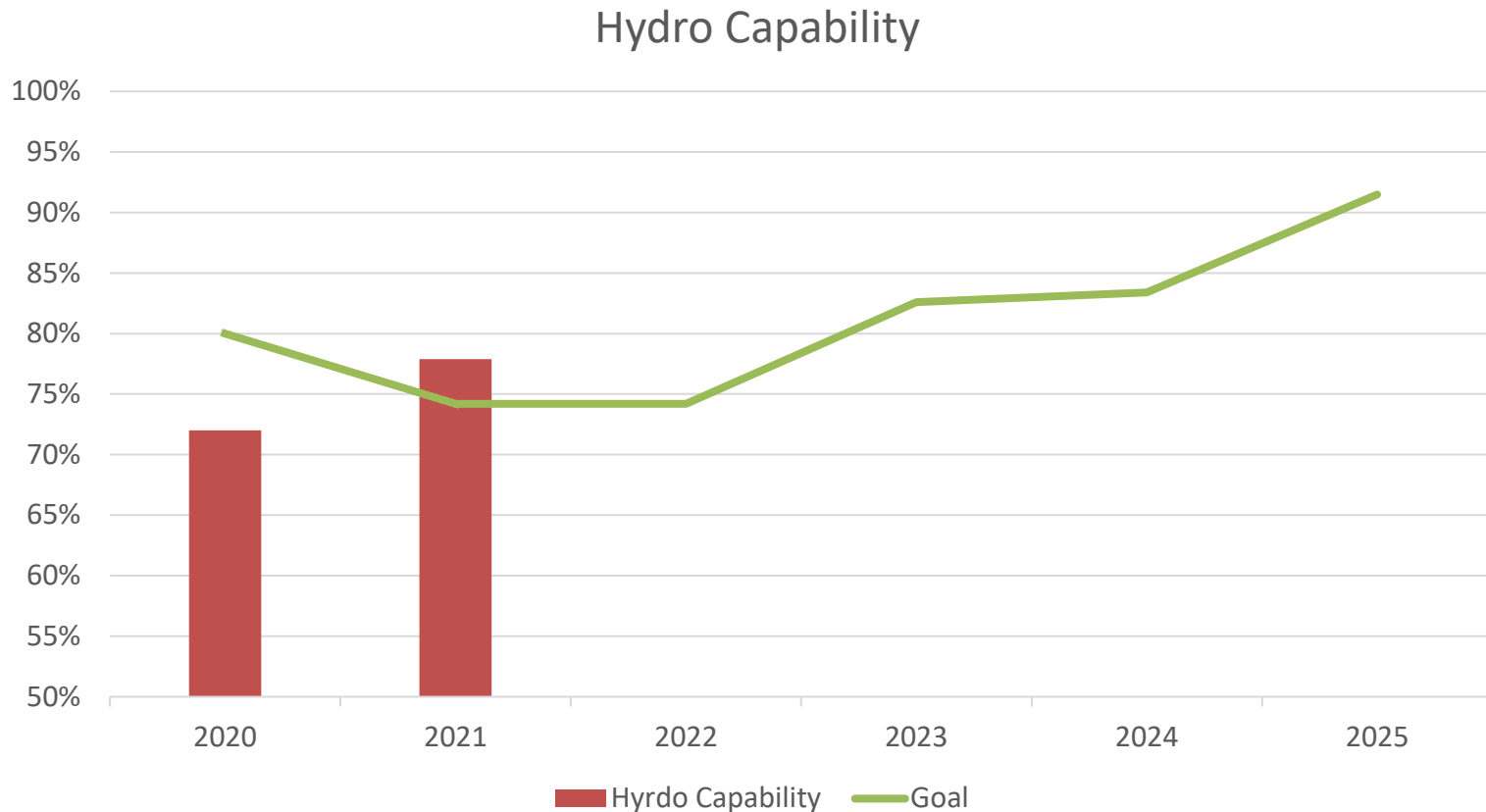
Seek industry top-quartile performance for hydro generation, retail reliability, and safety while improving our customer service technology

# **INVEST IN ASSETS AND PEOPLE**



# Investing in Hydro

Did not meet goal in 2020 – resetting strategy





Chelan crews  
outperforming  
contract crews



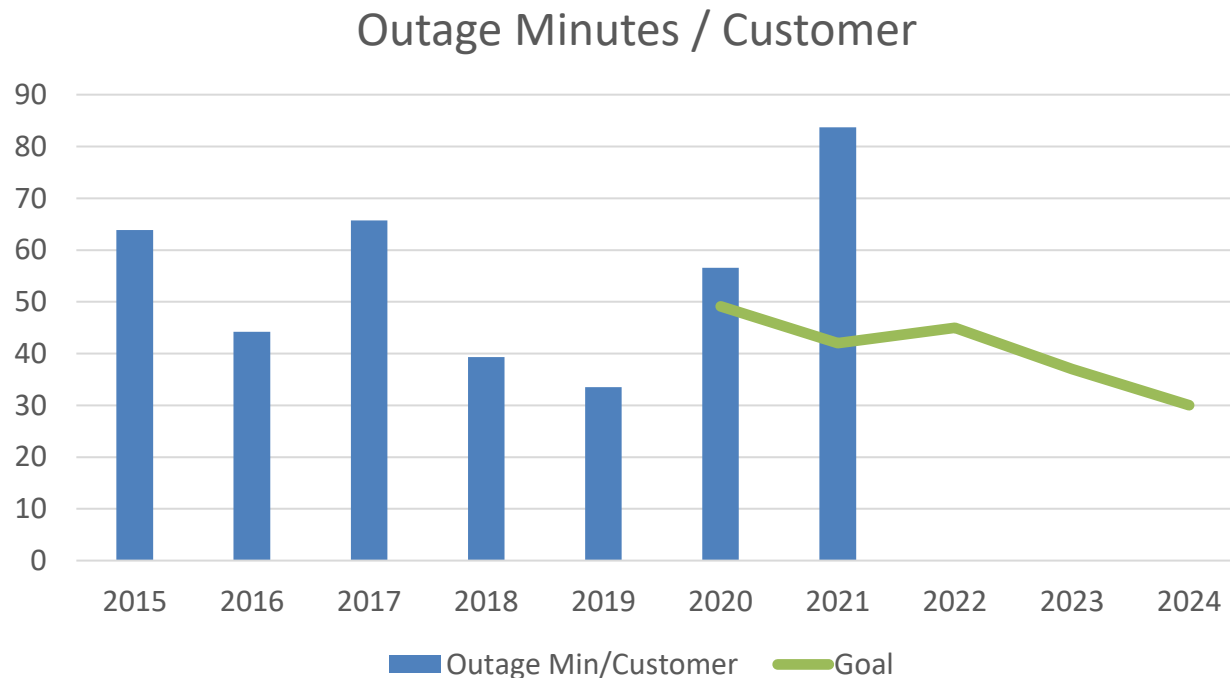
Obtained 10-year  
warranties for PH2  
work



# Investing in Distribution

Seeking top quartile reliability

- Underground cable replacement
- Vegetation management

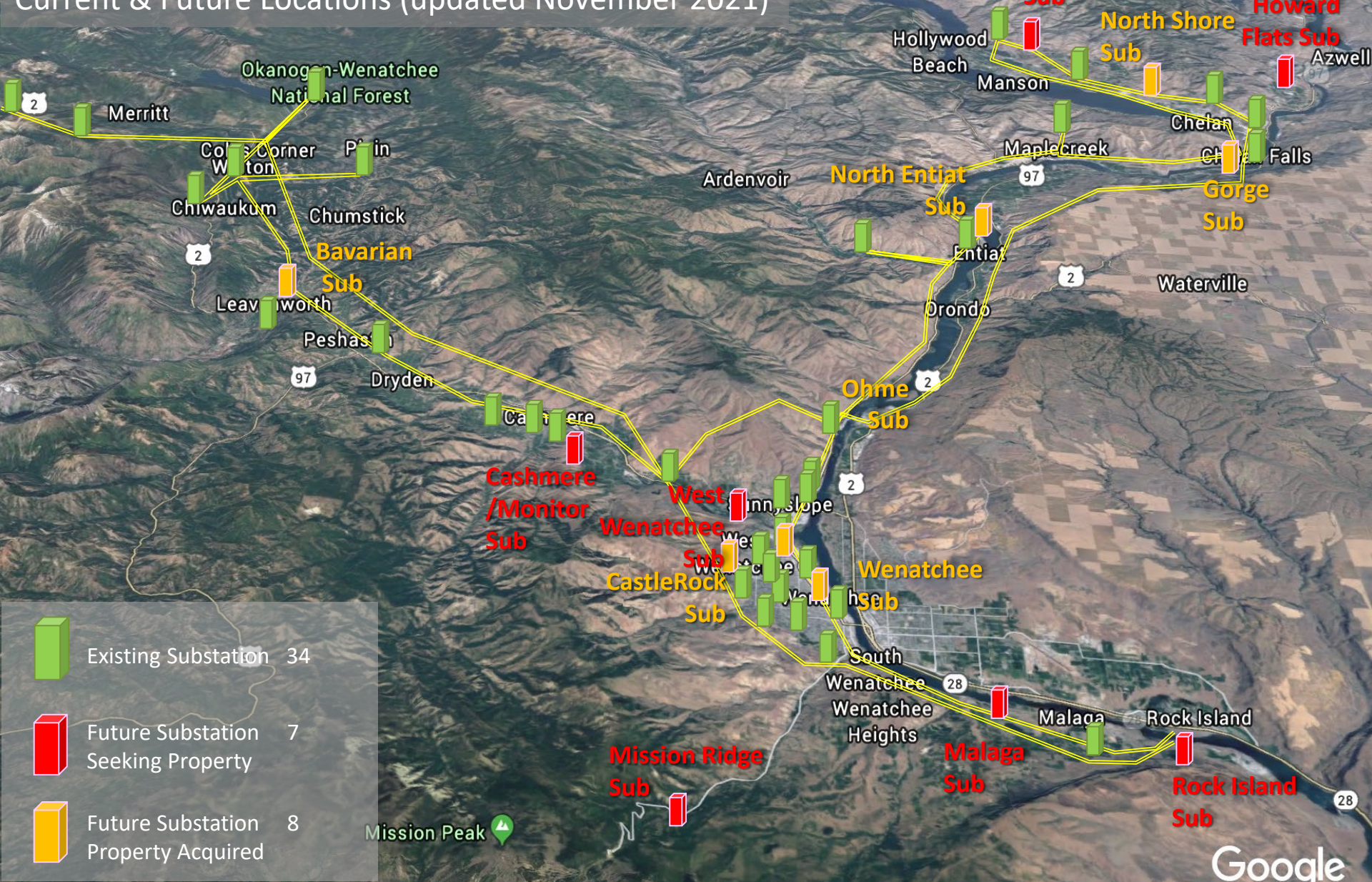




# Investing in Serving Growth

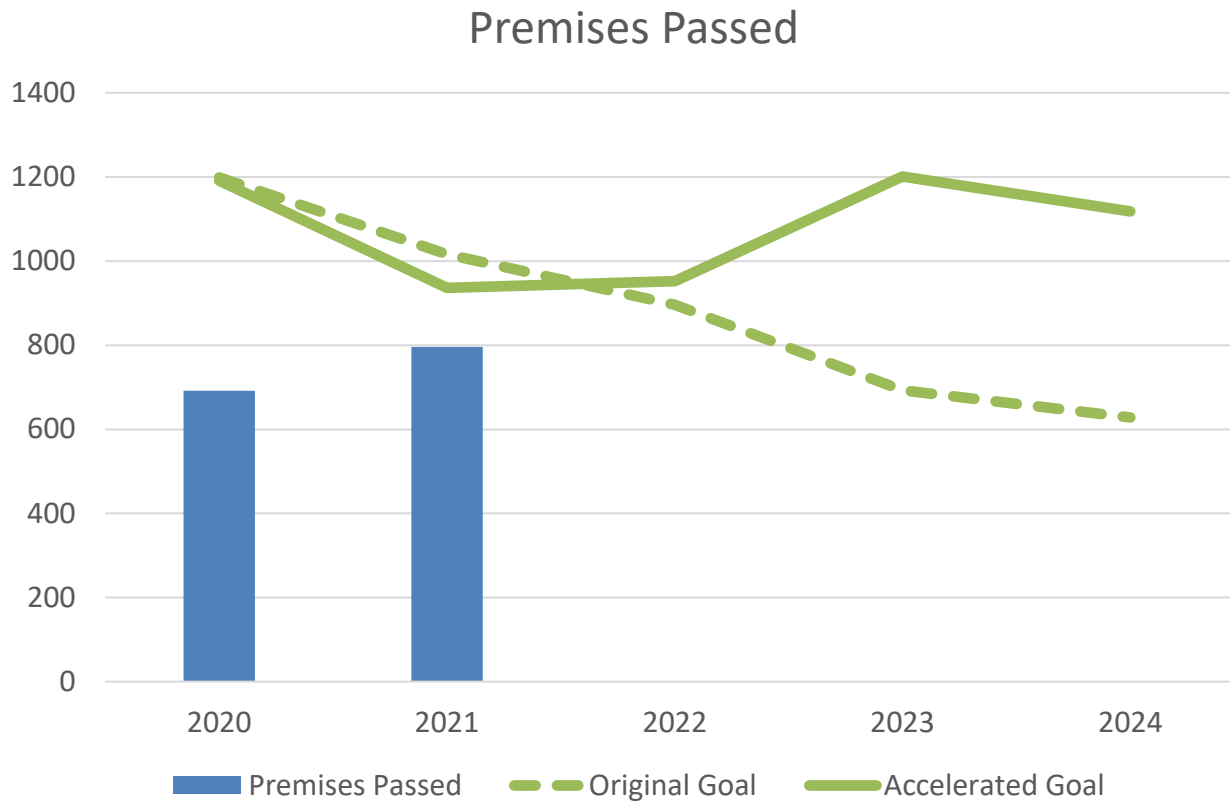
Distribution Substation Planning

Current & Future Locations (updated November 2021)





# Fiber Expansion



Resetting operational strategy and seeking to accelerate fiber expansion

Invested in core network to provide capacity and resiliency

# Investing in Facilities



Service Center



Rock Island Facilities

# Investing in Facilities



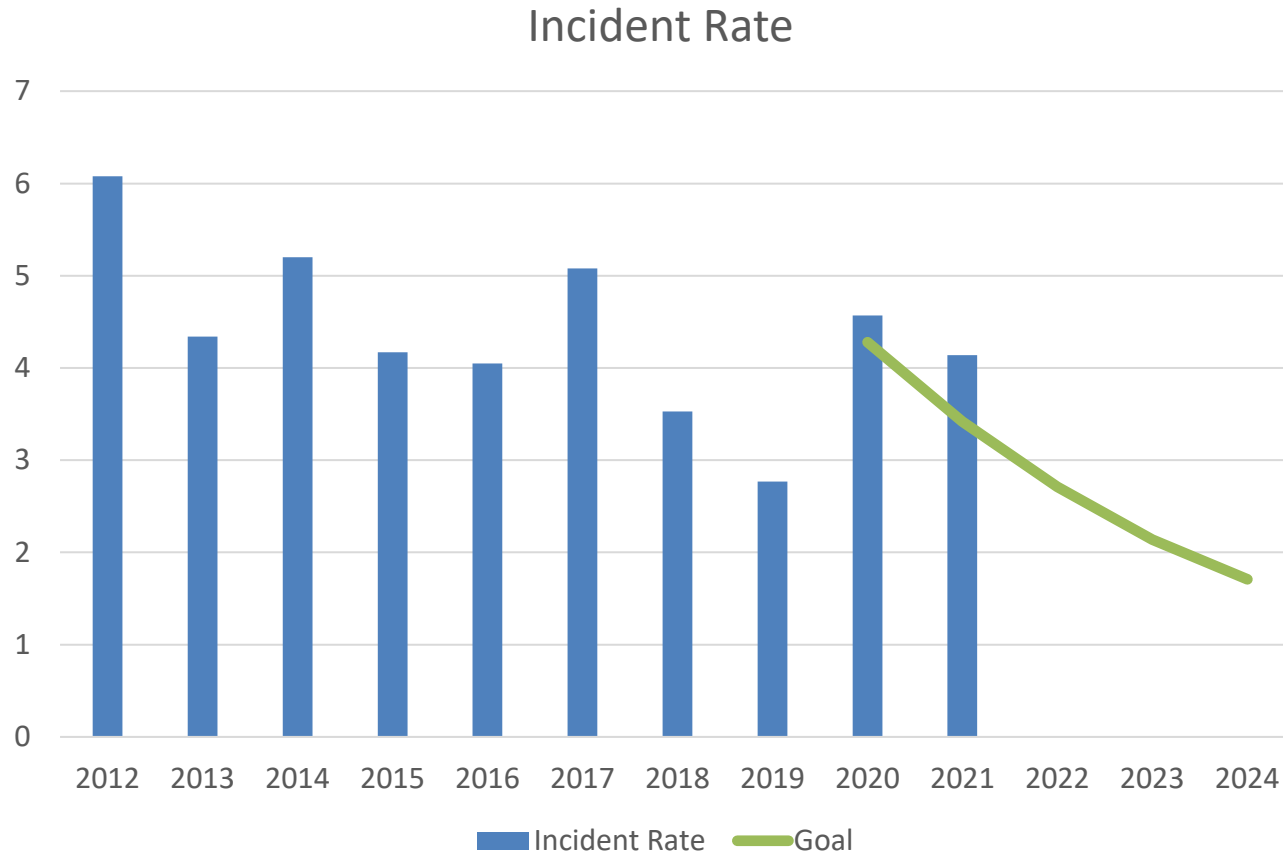
Rocky Reach Facilities



Discovery Center

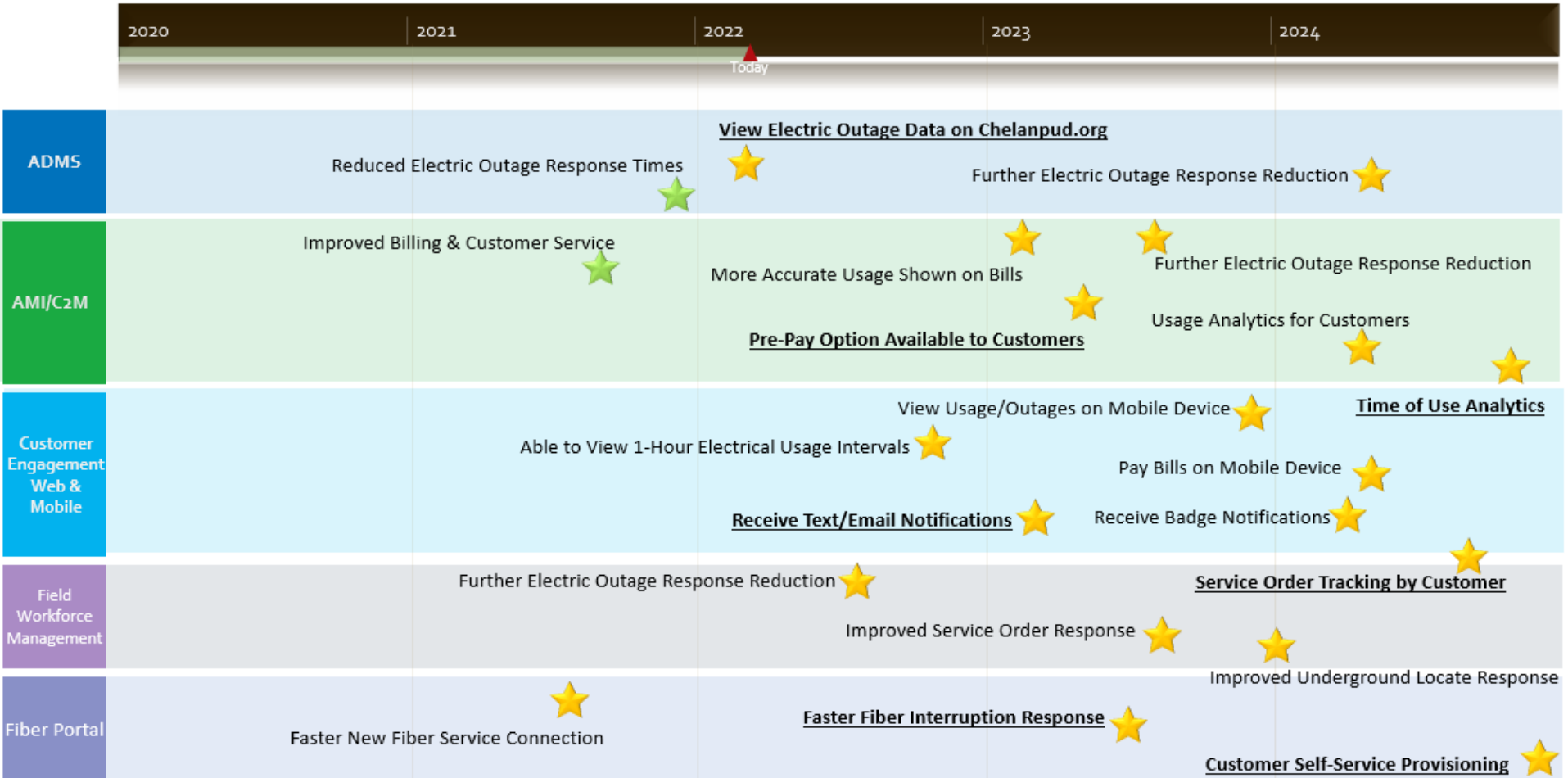
# Investing in Safety

- Safety seeking top quartile metrics





# Delivering Customer Value with Technology Initiatives



# LONG-TERM MARKETING STRATEGY



# Long Term Marketing Strategy

- After years of decline, value of hydropower is increasing due to:
  - State legislation
  - Resource Adequacy progressing
  - Large load customers requesting for carbon free energy
  - Western regional market momentum
- 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
- 2034 use case currently requires 37% for retail
  - Final Resource Adequacy rules and other mitigations could lower this percentage
  - Can reduce market-based percentage should retail amount needed

# Long-Term Marketing Strategy

- Alcoa closure announced
- Now engaging 20-year cost of production contracts
  - Avista 10-year market based slice and 20-year cost of production contract executed
- Opportunity to capture a portion of the increased value of hydro power



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

# ECONOMIC DEVELOPMENT



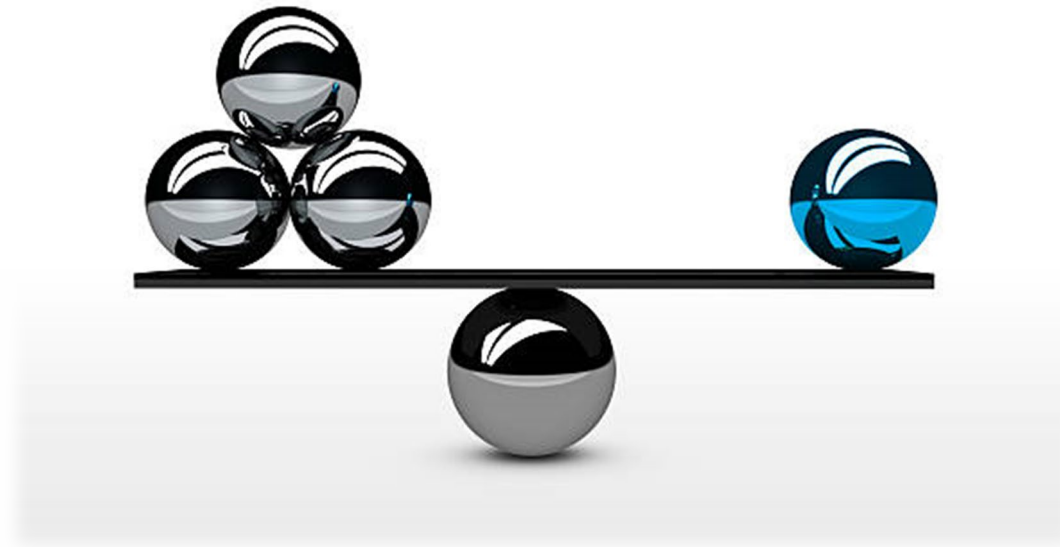
# Types of Retail, Large Load Rates

- 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



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**



# PPB Completed Projects

Project	Year Funded	Spent	Comments
Fiber Expansion	2015- 2021	\$10.8 M	Infill and expansion completed at multiple sites across the county
RR Discovery Center Combo	2017- 2021	\$2.1M	Grand opening in 2021 and now open year-round.
Hydro Research Institute	2017- 2018	\$800k	Leading digital transformation of hydropower
Day Use Parks Pass	2015- 2021	\$265k	Last year set a record of 3,900 passes
Riverfront Park	2021	\$160k	Last year's outreach now leading to Phase 1 of 15-year plan starting in 2022
Plain Substation Site Improvement	2015- 2016	\$200k	Safe parking and river access to reduce traffic dangers in Plain for river users

# PPB Completed Projects, cont...

Project	Year Funded	Spent	Comments
Regional Water/Wastewater Study	2015-2016	\$150k	Regionalization study proved informative and the District is proceeding with Peshastin Water District acquisition
Art in the Park	2019	\$125k	Partnership with City of Wenatchee
Electric Charging Stations	2015-2016	\$65k	Five stations, including RR Discovery Center and Walla Wall Point Park
COVID-19 Community Support	2020-2021	\$205k	Helping Hands, Community Wi-Fi hotspots, communication support
Economic Impact Model	2015-2016	\$60k	Assesses economic costs/benefits of new businesses (e.g., jobs, tax revenue)
Large Load: Malaga Sub	2021	\$60k	Port Authority targeted area for industrial development

# Public Power Benefit - 2022

- \$6 million annual budget
- In-flight projects

Project	Year Funded	Allocated	Comments
Fiber Expansion	2015-2022	\$12.1M	Continued infill and expansion planned for multiple sites across the county
Riverfront Park: Phase 1	2022	\$1.85M	2022 is first year of a three-phase plan spanning 15 years
Dryden Wastewater	2020	\$1.5M	Grant award and final construction costs may allow for full or partial reallocation
Loop Trail Extension	2019	\$1.2M	Will connect the new Service Center to the Loop Trail



# Public Power Benefit - 2022

- In-flight projects, cont....

Project	Year Funded	Allocated	Comments
Substation Aesthetics	2021-2022	\$550k	Stakeholder outreach and physical enhancements at Bavarian site
Day Use Parks Pass	2022	\$200k	Funding for 2022 and future years issuing thousands of passes annually
Jobs & Work Readiness	2015-2016	\$172k	Multi-year program
Horan Area Rehabilitation	2015-2016	\$100k	Assist efforts to restore water sources to the Horan area



# 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
- 5<sup>th</sup> Street campus
- Independent hydro operations
- 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*

# Questions for you