

Public Utility District No. 1 of Pend Oreille County

2021 Budget

Approved December 29, 2020

Resolution 1445



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Public Utility District No. 1 of Pend Oreille County, Washington (the PUD, or the District) is a municipal corporation governed by an elected three-person board of commissioners who serve six year staggered terms. The Commission is the legislative authority of the PUD and establishes and controls policy. Richard A. Larson was first elected to the Commission for District No. 3, the northern most part of the County, in 2010. He was elected to another six year term in 2016. Joseph B. Onley was elected for District No. 1 in 2019. Curtis J. Knapp was first elected to the Commission in 2002 and most recently reelected in 2020. Mr. Knapp represents District No. 2

The District is proposing a consolidated \$43 million budget for 2021. In the midst of the global pandemic, recovering from the closure of its largest customer and other utility industry changes, the District continues to be cost conscientious, evaluating expenditures at all times and reducing costs if possible, while adapting to a changing environment.

The proposed budget includes the resources necessary to support its core values of Safety & Health, Customer Focus, Community, Integrity, Teamwork and Decisiveness. The District continues to commit to the safety of its employees and customers, as well as a commitment to provide quality service to its customers.



The District consists of four primary systems: Box Canyon Production (Generation), Community Network (Fiber), Electric, and Water:

Production

The Box Canyon Production System produces power from the Box Canyon Hydroelectric Project. The PUD operates Box Canyon Dam pursuant to a 2005 license issued by the Federal Energy Regulatory Commission (FERC). The license has many different requirements that relate to protecting, mitigating and enhancing fish and wildlife habitat within the project area; including water quality, recreation, fish passage, trout habitat restoration, erosion, and others.

Communication Services

The Community Network System (CNS or CN System) supplies wholesale broadband and wireless communication services. The CN System became its own financial system in 2010 and completed a fiber-to-the-home project in 2014. Fiber optic lines are installed to approximately 4,000 homes in the County and approximately 2,300 end-users are currently connected to fiber. Wireless towers serve approximately 145 end-users in the areas of Metaline Falls, Lone, Cusick and the Riverbend community.

Under Washington State law, the District can only sell fiber and wireless services on a wholesale basis, not directly to the customer. Therefore, the District provides services to Retail Service Providers (RSPs) who then resell those fiber optic and wireless service to the customers.

Electric Service

The Electric System distributes electricity to residential and other consumers in Pend Oreille County. The service area includes the entire County, which encompasses approximately 1,400 square miles and serves approximately 9,500 residential and commercial customers. The District is the exclusive retail electric service provider in the county.

Energy resources are obtained from District-owned resources Box Canyon Dam and the Calispell Hydro Plant, and outside sources include Boundary Dam owned by Seattle City Light and market purchases.

Water Service

The Water System consists of nine individual water distribution subdivisions. The District is contractually obligated to maintain separate and distinct rates for each water system that reflect the individual system’s costs. The District serves approximately 600 water customers.

Budget Detail

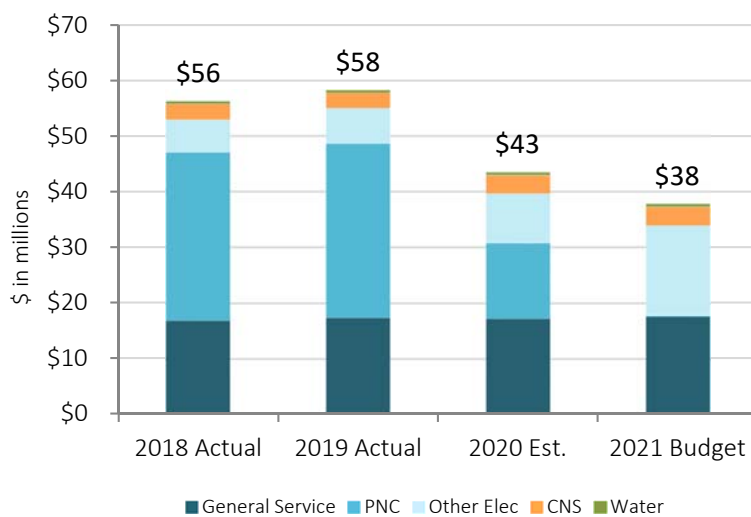
Revenue

Ponderay Newsprint Company (PNC), operated a paper machine and fiber mill in Pend Oreille County up until June of 2020 and was historically the District’s largest electric customer. The longstanding Power Contracts between the parties obligated PNC to pay all of the costs of Box Canyon Dam. One of the fundamental tenants of the contracts was that the General Service customers would not be harmed by the mill’s operations or eventual closure. Language was put into the Power Contracts that afforded both parties a certain degree of protection. One example of said language was the liquidated damages clause. The liquidated damages clause required PNC to compensate the PUD’s customers in the event the mill couldn’t fulfill the contractual promise to pay for power through 2027 and the PUD was then forced to sell that power into the market, or to a third party, at a loss. The PUD has made a claim for approximately \$32 million in liquidated damages as a creditor in the Chapter 7 bankruptcy proceedings and has received \$10 million of the claimed amount pursuant to a security interest in certain cash collateral. Revenue from PNC is estimated to be \$150,000 for 2021, representing service through the first quarter to maintain the building.

General Service encompasses all remaining electric load outside of PNC and includes residential, commercial and industrial customers. Other Electric revenue includes market sales, contributed capital and interdivisional revenue.

Community Network System revenue is increasing as more customers sign up for the service. The Budget assumes 2,400 standard class connections and 140 wireless connections by the end of 2021.

The PUD has been actively preparing for the mill’s closure over the past five years in order to avoid major harm (rate impacts) to our customers and our employees. We have carefully managed staffing, increased our reserves, created a rate stabilization fund, tightened our capital budgets, refinanced debt, avoided major construction obligations, and modified operational practices.



These advanced efforts, plus the collection of at least a portion of the liquidated damages, will mitigate a large percentage of the revenue deficit caused by PNC's closure. The exact percentage, however, is contingent upon the liquidated damages amount collected under the Power Contracts and the price the PUD receives in the market for the resale of the power. We are currently working with our counterparties on short and longer term market resale transactions that will provide more certainty and financial stability with our market resales. The current budget assumes a long term resale agreement with Shell Energy. This transaction reduces the deficit caused by PNC's closure, but still leaves revenue shortfall of approximately \$7 million.

Revenue Scenarios

Financial projections are developed using expected scenarios. The budget is a plan, and despite best intentions, plans can change. For that reason, the summary below provides a look at different scenarios and the impact on the budgeted revenue.

Residential Electric Revenue

Worst	Expected	Best
# of Residential Customers		
The number of electric customers stays the same = \$100,000 reduced revenue.	The number of electric customers conservatively grows at the rate of 1%.	The number of electric customers grows at a higher rate = \$100,000 additional revenue per additional 1% growth.
Average Usage		
Average usage per customer decreases to 2015-2016 levels = \$610,000 reduced revenue (1,370 kWh per month).	The average usage per customer stays constant with the 5-year average (1,480 kWh per month).	Average usage per customer increases to 2017 levels = \$500,000 additional revenue (1,570 kWh per month).

Industrial Electric Revenue

Worst	Expected	Best
Customer usage lower than expected = \$370,000 reduced revenue.	Customers increase usage as budgeted, a reduction from 2020 of approximately 20%.	Customers usage higher than expected, staying at 2020 levels = \$500,000 additional revenue

CNS Revenue

Worst	Expected	Best
Premium Class Fiber		
The system loses one 1 gig customer = \$22,000 reduced revenue.	The number of end-users does not change from current levels.	The system gains one new 1 gig service = \$22,000 additional revenue
Standard Class Fiber		
The number of end-users does not change = \$5,800 reduced revenue.	The number of end-users increases by 60.	The number of end-users increases by 120 = \$5,800 additional revenue
Wireless		
Number of users does not increase \$4,150 reduced revenue.	The number of wireless users increases by 20.	The number of wireless users increases by 40 = \$4,150 additional revenue.

Operation & Maintenance Expenses

The 2021 budget is projecting slightly higher Box Canyon operation and maintenance costs than prior years. The majority of this increase is due to foreseen required mitigation work at Calispell Creek Dike. All other costs for the year remain consistent, or reduced from prior years.

Administrative & General Expenses

Administrative and General (A&G) expenditures are projected to decrease in 2021, as compared to 2020, due primarily to reduced legal fees, professional services and labor.

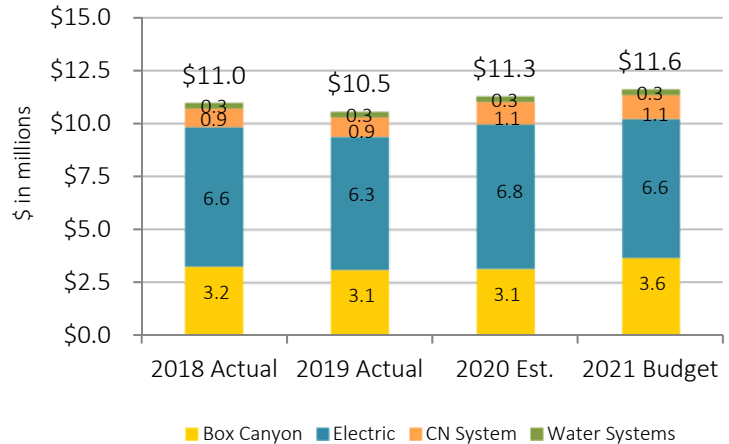
Protection, Mitigation & Enhancement

The requirements for the Protection, Mitigation and Enhancement measures (PM&E) per the Box Canyon FERC license are estimated to be \$5 million in 2021. These projects include improvement of wildlife and fish habitat, water quality monitoring, erosion mitigation, and environmental studies.

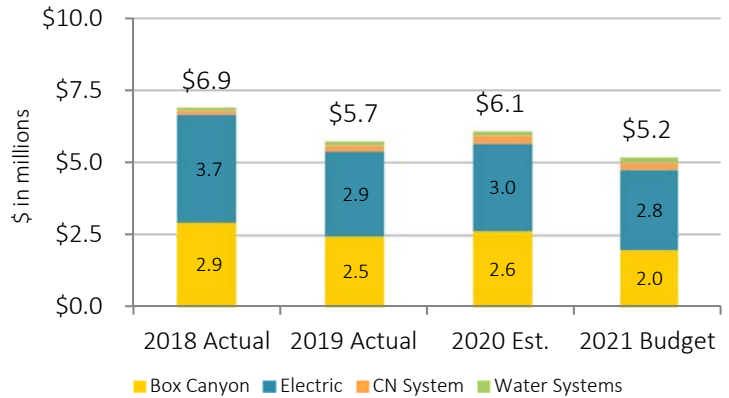
The District has been in active negotiations with the Kalispel Tribe of Indians and other agencies to perform alternative mitigation measures to improve fish habitat rather than construct additional fish passage facilities as required by the FERC license. A proposed amendment to the FERC license has been agreed to by all involved parties and has been presented to FERC for approval. The amendment would result in a payment stream of approximately \$2.6 million annually from the District for mitigation procedures over a 25-year period. The amendment would allow the District to forego downstream fish passage at Box Canyon Dam and upstream and downstream fish passage at the pumping station at Calispell Creek, in which case the District would not have to issue new debt for the foreseeable future. The 2021 budget assumes the amendment is approved by FERC.

The budget also includes a Recreation Study Implementation Plan, as required in our FERC license. This is anticipated to be a three-year project.

Operation & Maintenance

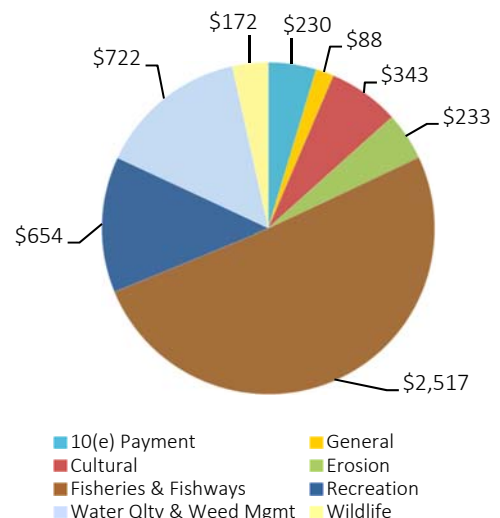


Administrative & General



PM&E

(\$ in thousands)



Capital Expenditures

The District defines Capital Expenditures as the purchase of items of tangible business property of a relatively permanent nature having an acquisition cost of \$5,000 or more. This includes, but is not limited to: land, purchases of machinery and equipment, replacement and major rebuild of plant and equipment, construction projects, major spare parts, office furniture and computer hardware.

Total District capital expenditures are budgeted to be \$6 million for the year. Of the total expected spending, \$1 million will be financed through a low interest loan or funded through grants. \$900,000 is assumed for electric and community network line extensions paid for by the customer; this cost is offset through revenue (Contributions in Aid of Construction).

Capital Expenditures Detail	
Production	\$1,095,000
Electric	\$3,629,500
Community Network	\$264,500
Water	\$990,000
Total	\$5,979,000

Capital Expenditures Funding	
Water Grants & Loans	\$990,000
Cash Reserves	\$4,989,000
Total	\$5,979,000

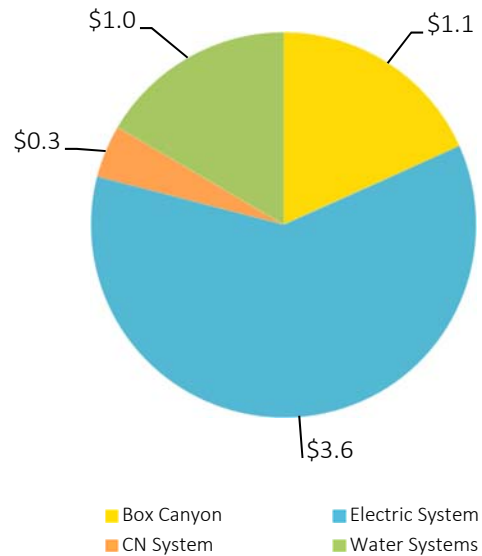
As part of the FERC hydroelectric relicensing process, the District was required to complete several major projects at the Box Canyon Dam including, but not limited to, the upgrades to the turbines, modification to the spillway gates and the upstream fish passage. With over a decade of construction at the site, the District is excited to complete the final project, the upstream fish passage, this coming year. The Production budget includes \$720,000 for final completion items for the project.

The District continues to focus on investing in the overall reliability and longevity of the Electric System. The budget includes \$1,000,000 for replacement of aging poles and conductor. The budget also includes \$1.2 million for replacement of a section of the Optical Ground Wire (OPGW) line. The OPGW line is a dual functioning cable, serving as both a traditional static or grounding wire on overhead transmission lines and an optical fibers communication line, which is used for telecommunications purposes. There is a section that is in need of repair due to several tree strikes. The budgeted amount assumes the section will be replaced in-kind. The District is also evaluating alternatives including an underbuild of fiber at distribution height. This option, while still being evaluated, may provide some cost savings and operational efficiencies over the current configuration. Repair of the OPGW would still need to occur, as it provides grounding protection for the transmission line.

The District began a fleet management program in 2017. The program provides general guidance for vehicle replacement that will obtain the maximum use of the vehicle while providing prudent financial management. The District identified vehicles that based on usage, repairs and maintenance history, and anticipated needs for repairs were no longer cost effective to maintain. These vehicles were surplus and sold. In an effort to reduce and delay costs, the 2021 budget does not include any vehicle purchases. Two vehicles were approved for 2020 that were also delayed. As part of the 2021 budget process, District staff is recommending approval for one bucket truck replacement in 2022. The lead time on these vehicles is 18+ months. Therefore, in order to acquire this in 2022 the order must be placed early 2021.

The Community Network System is budgeting \$264,500 in capital expenditures for the year, which includes \$150,000 for line extensions paid for by the customer. This cost is offset through revenue.

The Water System capital expenditure budget is \$990,000. The system is budgeting \$100,000 to complete the water treatment facility at Riverview, \$110,000 to begin a water main replacement project at Sunvale and \$780,000 for distribution replacement project in Metaline Falls. The District was awarded grant funding and low interest financing for these projects.



Labor Costs

Linemen, Hydro Mechanics, Electricians, Technicians, System Operators, and many other positions are part of the International Brotherhood of Electric Workers (IBEW) union. Union personnel increases are dictated by contract. Non-union increases are at the discretion of District management, and affect roughly 50% of personnel. Management will continue to review industry and economic factors affecting wages through the first part of the year.

The 2021 Budget includes \$12.3 million for District wages and benefits.

Department	2017	2018	2019	2020	2021 Budget
Administration	11	12	12	13	13
Electric Operations	30	28	27	26	26
Information Technology	4	4	4	4	4
Box Canyon Operations	15	15	14	13	13
Customer Service	9	9	9	7	7
Regulatory Affairs	6	6	4	2	2
Engineering	9	8	5	5	5
Water Systems	3	3	3	3	3
Community Network System	4	4	4	4	4
Full-Time Employees	91	89	82	77	77

End of Year Headcount.

Debt Assumptions

The budget does not assume any additional Box Canyon, Community Network or Electric System Debt. The Sunvale Water System was awarded a low interest Public Works Trust Fund loan for completion of the distribution line project.

Summary

The District is proposing a consolidated \$42.6 million 2021 budget, the details of which were discussed in the document above, and shown numerically in the table below.

Pend Oreille PUD | Budget Summary

2021 Approved Budget

December 29, 2020

	Electric System	Production System	Community Network System	Water System	Eliminations	Total District
Budgeted Funding Sources:						
Operating Revenues	33,779,050	19,155,565	3,351,310	513,283	(19,060,565)	37,738,643
Interest income	78,480	42,200	1,500	830	-	123,010
Grant & Debt Financed	-	-	-	990,000	-	990,000
Deferred and other income	(26,562)	(23,400)	(224,056)	-	-	(274,018)
Total Budgeted Funding Sources	33,830,968	19,174,365	3,128,754	1,504,113	(19,060,565)	38,577,635
Budgeted Expenditures:						
Power from Box Canyon	18,895,565	-	-	-	(18,895,565)	-
Power from Boundary	3,201,100	-	-	-	-	3,201,100
Power from other sources	530,000	-	-	-	-	530,000
Wheeling and backup	391,360	178,200	-	-	-	569,560
Operation & Maintenance	6,552,901	3,639,827	1,125,248	273,784	-	11,591,761
PM&E costs	-	4,958,716	-	-	-	4,958,716
Customer accounting & information	789,279	-	29,070	41,160	-	859,509
Administrative and general	2,757,678	1,980,159	237,402	187,099	(165,000)	4,997,338
Taxes	1,095,050	103,410	14,620	25,382	-	1,238,462
Total Operating Expenditures	34,212,933	10,860,312	1,406,340	527,425	(19,060,565)	27,946,445
Interest on long-term debt	225,518	5,750,053	89,847	3,929	-	6,069,348
Less Federal Subsidy	-	(623,032)	-	-	-	(623,032)
Less amortization included in interest	-	(93,683)	-	-	-	(93,683)
Capital Project Payments	3,629,500	1,095,000	264,500	990,000	-	5,979,000
Renewal & License Funding	-	(1,800,000)	-	-	-	(1,800,000)
Principal payments	635,000	3,985,714	537,271	13,453	-	5,171,438
Total Budgeted Expenditures	38,702,951	19,174,365	2,297,958	1,534,807	(19,060,565)	42,649,516

All power generated by Box Canyon is sold to the Electric System. Therefore, the “Power from Box Canyon” item listed under the Electric System encompasses all costs to produce power at Box Canyon, including debt service payments, and is eliminated when the systems are consolidated so that the costs are not double-counted.

The 2021 consolidated budget shows fewer revenue sources than budgeted expenditures, indicating a net negative cash flow for the District in the coming year. The District will use cash reserves of approximately \$7 million¹ to balance the budget.

¹ A rate adjustment is not built into this 2021 budget; however, District Commissioners did approve the staff recommended adjustment to increase revenue by approximately 10% which will help offset the negative cash flow by approximately \$1.5 million.