

2025 Budget

Approved December 3, 2024
Resolution 1490



Public Utility District No. 1 of Pend Oreille County

2025 Budget

Approved December 3, 2024

Public Utility District No. 1 of Pend Oreille County, Washington (the PUD, or the District) was established in 1936 and began operations in 1948. Pend Oreille PUD is one of 28 not-for-profit, community-owned public utility districts in Washington State. The PUD is a municipal corporation governed by an elected three-person board of commissioners who serve six-year staggered terms. Commissioners represent their respective districts and are the legislative authority of the PUD and responsible for establishing policies for the utility.

The 2025 Budget provides funding to maintain and enhance the PUD's Production, Community Network, Electric and Water systems.

The PUD continues to focus on investing in the safety of its employees and customers, its commitment to provide quality service, preparing for the needs of the future and responsible fiscal management. The following pages discuss the budget in greater detail.



David W. Rick represents District No. 3, the northern most part of the County. He started serving on the Commission in 2023.

Curtis J. Knapp was first appointed to the Commission in 2002 and most recently reelected for the 2021 term. Mr. Knapp represents District No. 2.

Joseph B. Onley was appointed in 2019 to represent District No. 1, the most southern part of the county.

The PUD consists of four primary systems: Electric, Production, Community Network, and Water:



The **Electric System** distributes electricity to residential and other consumers in Pend Oreille County. The Electric System includes the PUD's transmission and distribution lines, substations, transformers and meters. It also includes power supply, customer service, meter reading and engineering.

Energy resources are obtained from PUD-owned resources Box Canyon Dam and the Calispell Hydroelectric Plant, and outside sources that include Seattle City Light's Boundary Dam, the Bonneville Power Administration, Shell Energy North America and market purchases.

The service area includes the entire County, which encompasses approximately 1,400 square miles and serves approximately 10,000 residential, commercial and industrial meters. The PUD is the exclusive retail electric service provider in the county.



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. Wireless towers serve end-users in the areas of Metaline Falls, Lone, Cusick and the Riverbend community.

The PUD provides services to Retail Service Providers (RSPs) who then resell fiber optic and wireless service to their customers.



The **Production System** produces power from the Box Canyon Hydroelectric Project, a generating facility with a nameplate capacity of 90 MW located on the Pend Oreille River. Construction began on the project in 1952 and was completed in 1956. 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.

The Electric System purchases all power and energy from the Production System, and the net costs of the Production System are treated as an Electric System purchased power cost.



The **Water System** consists of nine individual water distribution subdivisions. The PUD is contractually obligated to maintain separate and distinct rates for each water system that reflect the individual system's costs. The PUD serves approximately 600 water customers. The Water System includes main and distribution water lines, supply wells, reservoirs, treatment facilities, meters and equipment.

BUDGET HIGHLIGHTS

Throughout most of 2024, PUD staff have been looking to the future and working to develop a long-term plan to help us take advantage of the opportunities and address the challenges in a rapidly changing industry – as well as the unique opportunities and challenges affecting the PUD.

This proposed 2025 budget begins to lay the groundwork for a longer-term plan designed to address the major shifts and demands your PUD will face over the next decade. Key transitions are on the horizon, such as the expiration of our Balancing Authority Services Agreement with Avista Energy and our Energy Agreement with Shell Energy in 2025, the start of Box Canyon power sales to Clark PUD in 2026, the expiration of the Boundary Settlement Agreement with Seattle City Light in 2029, the phased requirements of Washington’s Clean Energy Transformation Act (CETA) and Climate Commitment Act (CCA) and Washington State electrification and electric vehicle (EV) mandates. These changes, along with rising customer demand and evolving energy markets, will reshape how the PUD provides and secure energy. This budget positions us to bridge these shifts while maintaining affordable, reliable service.

The 2025 budget includes measures to begin addressing a backlog of electric, broadband and water system upgrades and replacements that have been delayed in recent years due to a series of unique challenges. In 2020, Ponderay Newsprint Corporation’s (PNC) closure led to significant budget cuts including employee layoffs, followed by global supply chain disruptions and much higher than normal inflationary pressures resulting from our governments’ responses to the COVID pandemic. As a result, planned essential maintenance and system upgrades could not be completed. In 2025 we’re planning to address these needs head-on to continue ensuring reliable service for the future. This budget also includes necessary resources to meet both longstanding and newly implemented federal and state regulations that affect all Washington utilities, including PUDs like ours. Compliance with these standards is not optional; it’s essential to maintain safe, reliable service and avoid costly penalties.

Finally, the budget supports a carefully developed staffing plan aimed at preparing for the future. This includes a handful of new positions to keep up with a rapidly evolving industry and training and development programs to build a skilled workforce as we prepare for a slew of upcoming retirements among our experienced staff. At times, planned retirements will necessitate bringing on a new employee for training and development in advance of a planned retirement to ensure knowledge transfer and help ensure smooth transitions that won’t disrupt the service you count on.

In short, this budget is more than just a financial plan - it’s about investing in the people, equipment, and systems that keep your power, water and wholesale telecommunications services affordable and reliable for years to come.

The following are some of the major highlights of the 2025 budget.

- **Rate Adjustments** – The PUD has historically implemented small rate adjustments each year in an effort to keep up with inflation and keep changes manageable for customers. While most neighboring utilities in recent years have been consistently raising rates to keep up with the rising cost of energy, the impacts of new regulations, inflationary pressures and other factors, our PUD has managed to keep rates steady for nearly three years. This budget version does not include the impacts of any new rate adjustments. Adjustments to water system rates are being considered and will be discussed in public PUD board meetings later this year. In a separate process, expected to be completed in early 2025, the PUD is developing a 10-year financial forecast and electric rate study. Preliminary results indicate a need for annual electric revenue increases ranging from 3% - 7% over the next several years beginning in the second quarter of 2025. Rate increases, if warranted, will be subject to a public hearing and Board of Commissioner approval.

- **New connections** – The 2025 budget assumes a 1.4% increase to residential electric customer count, or 124 new connections. Fiber end users are estimated to increase by 50.

- **System reliability investments** – The 2025 capital budget includes several major projects aimed at increasing reliability for customers. These include the final year of meter replacement project, which is necessary due to outdated and unsupported equipment, and work on a new substation to support growing energy needs and ensuring our infrastructure keeps up with local growth and demand. These system reliability investments are about continuing to provide our customers with dependable, safe service.

- **Labor** – Skilled and motivated employees are foundational to serving our communities. A key part of our 2025 budget is investing in the skilled, motivated employees who keep our services running smoothly and safely.

- **Wildfire Mitigation Efforts** – While an electric utility can never fully eliminate the risk of fire, the PUD is committed to taking practical, proactive steps to reduce the likelihood of a utility-caused wildfire. The budget includes two new positions dedicated to vegetation management, critical to keeping power lines clear of flammable material. Targeted overhead lines in areas of high fire risk will be moved underground. We are also investing in the installation of SCADA capable reclosers, which improves our ability to detect and respond to issues quickly.

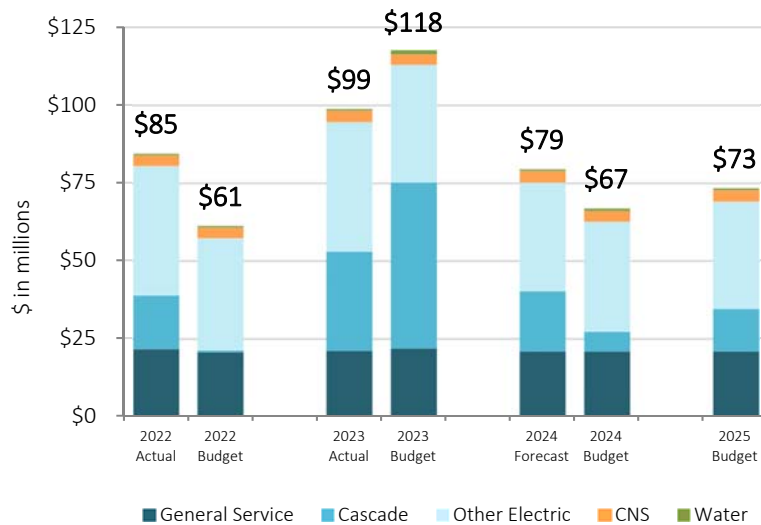
BUDGET DETAILS

Operating Revenue

General Service includes residential, commercial and industrial customers, encompassing all electric load except for the mill site in the community of Usk.

In the chart below, “Cascade” revenue represents energy usage by Ponderay Real Estate LLC and Cascade Digital at the mill site in Usk. The budget amount for 2025 is based on the current contract with Cascade Digital which expires September 30, 2025.

Other Electric revenue includes market sales, contributed capital and interdivisional revenue. This includes the long-term contract sale of Box Canyon power to Shell Energy.



Under the agreement, the PUD sells to Shell all power generated by the Box Canyon Project as well as energy received from Seattle City

Light under the Boundary Power Assignment Agreement. The PUD purchases from Shell energy in monthly blocks, the amounts of which are intended to match the PUD’s forecasted monthly energy load. The net transaction results in fixed payments from Shell to the PUD over the five-year contract period.

Community Network System (CNS) and Water System revenue is projected to stay constant.

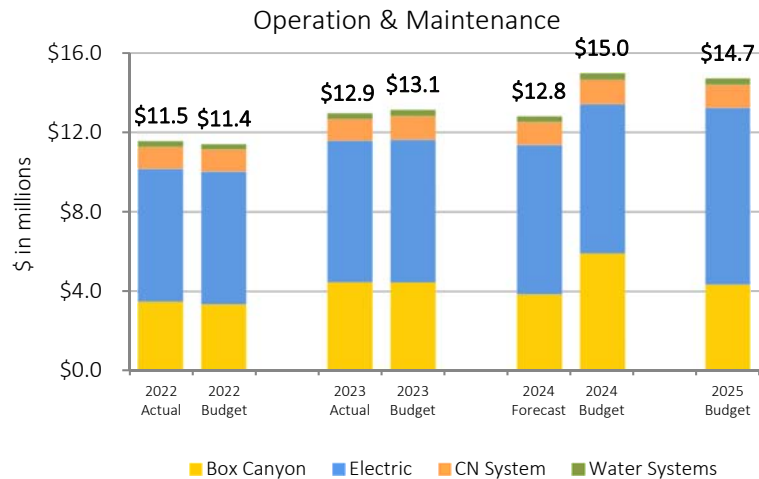
Revenue Scenarios

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 General Service revenue.

Residential Electric Revenue		
Worst	Expected	Best
# of Residential Customers		
The number of electric customers stays the same = \$215,000 reduced revenue.	The number of electric customers conservatively grows at the rate of 1.4%.	The number of electric customers grows at a higher rate = \$125,000 additional revenue per additional 1% growth.
Average Usage		
Average usage per customer decreases to 2016 levels = \$990,000 reduced revenue (1,365 kWh per month).	The average usage per customer stays constant with the 5-year average (1,500 kWh per month).	Average usage per customer increases to 2017 levels = \$400,000 additional revenue (1,570 kWh per month).

Operation & Maintenance Expenses

Operating and maintenance (O&M) expenses include the operation and maintenance of the all the production, electric, communications and water infrastructure necessary to provide reliable service to customers. This includes the regular maintenance of lines and equipment and response to outages.



The 2025 budget for operating and maintenance expenditures is slightly below the 2024 budgeted amount. 2024 O&M expenses are projected to come in roughly \$2 million under budget due to delays in projects, delays in filling budgeted positions, employee turnover and other factors. As described more fully in the Labor Costs section below, the 2025 budget anticipates adding personnel to assist with the PUD’s wildfire mitigation efforts, succession planning and to improve employee safety and productivity.

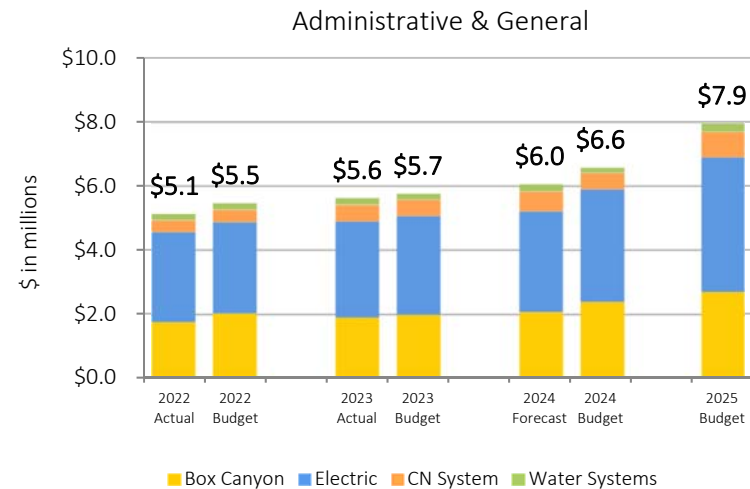
The Engineering department is planning a whole system study to assist in the development of substation expansion plans. Due to load growth in the area, the PUD is aware additional substations

beyond the Bare Mountain substation that is currently being designed, will be needed. The whole system study will ensure the substation is placed and sized appropriately.

The PUD has a renewed focus on employee and contractor safety, and the budget includes additional safety supplies, software, professional services and training.

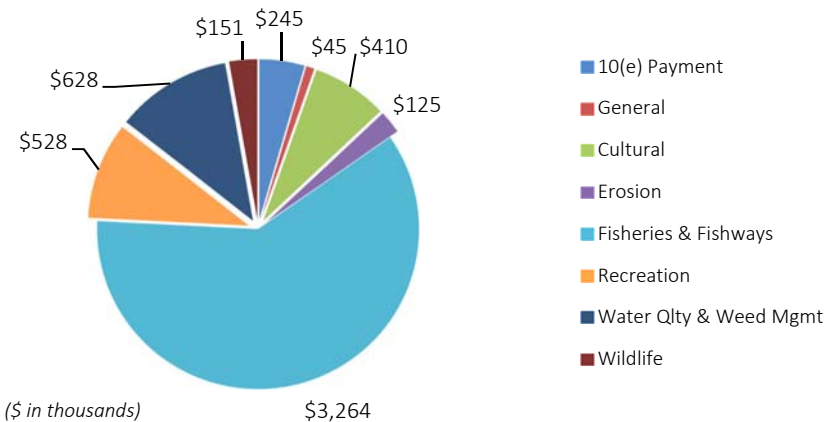
Administrative & General Expenses

Administrative and general (A&G) expenditures include the cost of internal support needed to operate efficiently and effectively including human resources, finance and accounting, compliance, information technology, policymaking, regulatory and other management oversight functions. Total costs are projected to increase in 2025. Cost variances can be attributed to delays in filling budgeted positions, additional staff, inflation, insurance costs, and a renewed focus on safety.



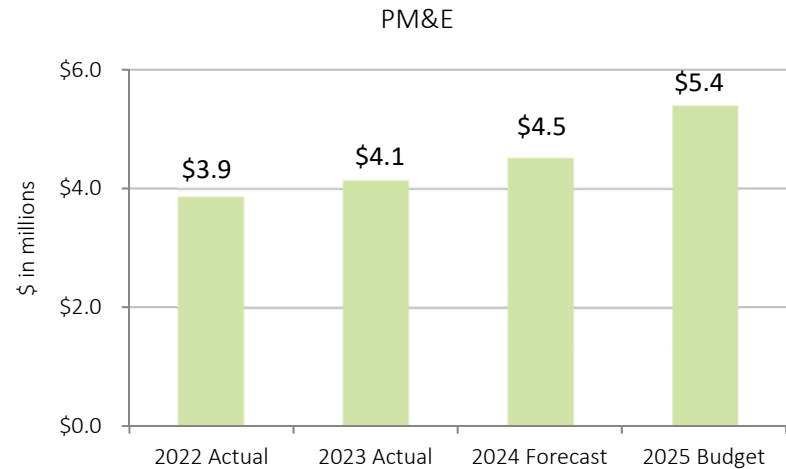
Protection, Mitigation & Enhancement

The requirements for the Protection, Mitigation and Enhancement measures (PM&E) per the Box Canyon FERC license are estimated to be \$5.4 million in 2025. These projects include improvement of wildlife and fish habitat, water quality monitoring, erosion mitigation, and environmental studies.



In December 2021 FERC approved the PUD’s request to amend its license for Box Canyon Dam, removing the requirement for downstream fish passage at Box Canyon as well as for up-and-downstream fish passages at Calispell Creek. In lieu of these capital projects, the PUD entered into an Off-License Settlement Agreement (OLSA) with the Kalispel Tribe of Indians. The amendment results in a payment stream of approximately \$2.8 million annually from the PUD for mitigation procedures over a 25-year period. This payment is reflected in the Water Quality (\$0.3 million) and Fisheries (\$2.5 million) categories.

The budget also includes a one-time proposal to mitigate a majority of Recreation requirements per the FERC license.



Labor Costs

Linemen, Hydro Mechanics, Electricians, Technicians, System Operators, Meter Readers, Customer Service Representatives and many other positions are part of the International Brotherhood of Electric Workers (IBEW) union. Union personnel wages are dictated by contract. Non-union wage increases are at the discretion of PUD management and affect roughly 40% of personnel.

The 2025 Budget includes \$17.3 million for wages and benefits. This reflects wage adjustments to stay competitive and fair in today’s labor market, including a union negotiated wage adjustment of 5.9%, a 5.5% adjustment for non-union employees and a one-time

6.5% market adjustment for non-union employees based on a market compensation study conducted earlier this year. It also reflects an increase in full-time equivalent (FTE) employees, necessary to fulfill the PUD’s Wildfire Mitigation Plan responsibilities, regulatory compliance obligations, succession planning needs and to improve productivity.

Department	2022	2023	Current	2025 Budget
Administration	19	20	21	22
Operations	44	46	47	50
Customer Service	8	8	6	6
Natural Resources	2	2	3	3
Engineering	8	7	7	7
Full-Time Employees*	81	83	84	88
Temporary Employees	0	0	1	3

*End of Year Headcount including open positions.

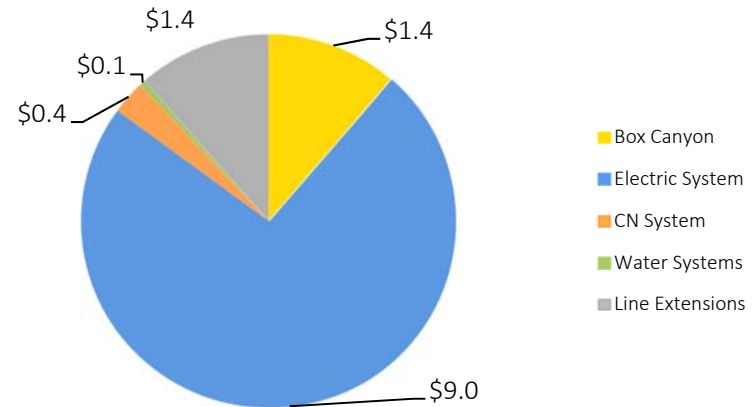
Capital Expenditures

The PUD defines Capital Expenditures as the purchase of items of tangible business property of a relatively permanent nature having an acquisition cost of \$25,000 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, and major spare parts.

Total PUD capital expenditures are budgeted to be \$12.2 million for the year, including line extension costs.

The PUD continues to focus on investing in the overall reliability and longevity of the Electric System. The Electric System capital budget

includes \$2.7 million for the replacement of existing facilities to improve operational efficiency. This includes replacement of deteriorated poles, conductor, meters and other facilities necessary to provide a safe, reliable, and cost-effective system. The budget also includes \$2.2 million related to the design and construction of a substation to increase the electric system capacity to meet the steady load growth of General Service customers. This project will extend over a number of years.



The PUD’s fleet management program provides general guidance for vehicle replacement that will obtain the maximum use of the vehicle while providing prudent financial management. The PUD identifies vehicles that based on age, mileage, repairs and maintenance history, and anticipated needs for repairs, that are no longer cost effective to maintain. These vehicles are surplus and sold. The 2025 budget includes \$0.8 million for replacement vehicles and equipment.

Wildfire prevention is a focus for the PUD. While an electric utility can never fully eliminate the risk of fire, the PUD is committed to taking practical actions to reduce the likelihood of a utility-caused wildfire. While approximately 30% of the system is underground construction, the remainder of the utility's assets are overhead, well-maintained wood pole construction; much of this is located across heavily treed landscape which is susceptible to wildfire. The budget includes \$1.4 million for the purchase and installation of SCADA capable reclosers to allow faster remote operation and moving overhead lines underground in areas of high fire risk.

The Line Extensions budget includes \$1.4 million to fund customer requests for new electrical or fiber service or upgrades to existing service. This cost is reimbursable by the customer and is offset through revenue (Contributions in Aid of Construction).

Summary

The District is proposing \$80.9 million in expenditures for the 2025 budget, the details of which were discussed in the document above, and shown numerically in the table below.

	Electric System	Production System	Community Network System	Water System	Eliminations	Total District
<u>Budgeted Funding Sources:</u>						
Operating Revenues	68,974,713	23,065,063	3,780,452	618,056	(22,755,063)	73,683,222
Interest income	2,317,000	1,140,000	114,000	1,332	-	3,572,332
Grant & Debt Financed	-	-	-	-	-	-
Deferred and other income	(3,596,339)	7,200	(224,056)	-	-	(3,813,195)
Total Budgeted Funding Sources	67,695,374	24,212,263	3,670,396	619,388	(22,755,063)	73,442,358
<u>Budgeted Expenditures:</u>						
Power from Box Canyon	22,575,063	-	-	-	(22,575,063)	-
Power from Boundary	3,748,488	-	-	-	-	3,748,488
Power from other sources	18,954,346	-	-	-	-	18,954,346
Wheeling and backup	717,772	167,128	-	-	-	884,901
Operation & Maintenance	8,874,022	4,340,832	1,154,022	331,107	-	14,699,983
PM&E costs	-	5,395,707	-	-	-	5,395,707
Customer accounting & information	626,172	-	83,940	38,012	-	748,124
Administrative and general	4,185,507	2,703,392	792,689	263,452	(180,000)	7,765,039
Taxes	2,197,680	102,440	21,540	30,736	-	2,352,396
Total Operating Expenditures	64,578,264	12,709,499	2,052,191	663,307	(22,755,063)	57,248,197
Interest on long-term debt	128,372	5,064,018	34,745	15,400	-	5,242,535
Less Federal Subsidy	-	(339,836)	-	-	-	(339,836)
Less amortization included in interest	-	464,382	-	-	-	464,382
Capital Project Payments	10,074,500	1,374,200	655,000	59,000	-	12,162,700
Box Renewal & Replacement Funding	-	500,000	-	-	-	500,000
Principal payments	770,000	4,440,000	399,338	15,805	-	5,625,143
Total Budgeted Expenditures	75,551,136	24,212,263	3,141,274	753,511	(22,755,063)	80,903,121