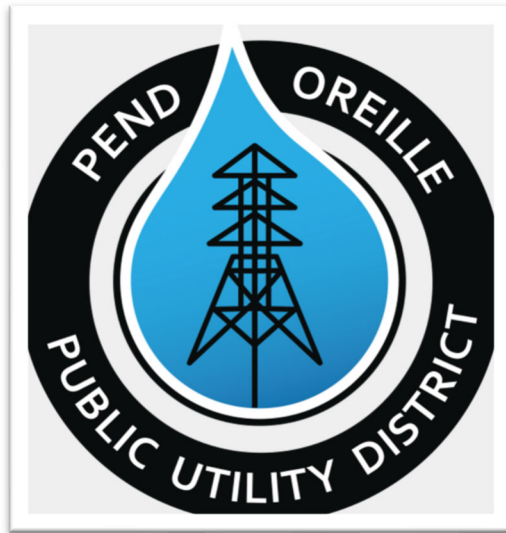


2026 Budget

Approved December XX, 2025

Resolution XXXX



Public Utility District No. 1 of Pend Oreille County

Pend Oreille PUD was established in 1936 and continues to serve the residents and businesses of Pend Oreille County with safe, reliable and affordable utility services. Locally owned and governed by an elected three-member Board of Commissioners, the PUD operates as a not-for-profit utility focused on long-term community benefit.

The 2026 budget builds upon a 90-year legacy of local stewardship while investing in the systems, people and technology that will sustain Pend Oreille County into the future. It funds the continued maintenance and modernization of the PUD's Electric, Water, Power Production and Community Network systems to ensure safety and reliability today and resilience tomorrow.

This year's budget reflects our community's shared priorities:

- Safety – Protecting employees, our customers and our community
- Reliability – Maintaining and upgrading critical infrastructure
- Affordability – Managing costs responsibly while planning ahead
- Service – Delivering excellent customer value through innovation and care

The 2026 Budget continues our locally owned PUD's commitment to safety, integrity, customer focus and accountability, building on 90 years of local service while preparing for the opportunities and challenges of the future.

BUDGET HIGHLIGHTS

The 2026 Budget reflects Pend Oreille PUD's continued strategic focus on providing safe, reliable and affordable utility services while preparing for a rapidly changing utility landscape. This budget positions the PUD to strengthen critical infrastructure, enhance wildfire resilience and invest in workforce and technology needed to meet growing customer and regulatory demands.

In short, this budget is more than a financial plan. It represents a strategic investment in the people, equipment and systems that keep power, water and wholesale telecommunications services dependable, safe and affordable today, tomorrow and into the future.

The following are some of the major highlights of the 2026 budget.

- **Improve aging infrastructure** – The 2026 budget includes funding to complete the design of the Bare Mountain Substation, with planned energization in the Fall of 2027. Some long-lead time items have been ordered, with the remaining items being ordered this coming year. The new substation is needed to support growing energy needs and to ensure our infrastructure keeps up with local growth and demand. This system reliability investment is about continuing to provide our customers with dependable, safe service and laying the groundwork for meeting the county's future energy needs.
- **Wildfire mitigation efforts** – While an electric utility can never fully eliminate the risk of fire, the PUD continues to be committed to taking practical, proactive steps to reduce the likelihood of a utility-caused wildfire. The 2026 budget includes ongoing vegetation clearing along the 115 kV transmission line, strategic undergrounding of select overhead lines in high-risk areas, and the installation of SCADA-capable reclosers that allow faster fault detection and restoration.
- **Financial Stability** – A Cost-of-Service Study will assist in guiding future rate strategies and ensure that rates remain competitive, equitable and aligned with actual service costs. The 2026 budget also supports continued investment in workforce development while maintaining strong financial health, including maintaining more than 250 days cash on hand and a debt service coverage ratio above 2.0. These measures will help the PUD responsibly manage rising costs due to inflation.
- **Safety** – Safety remains a top priority and central to the PUD's mission and workplace culture. The 2026 budget provides funding for continued improvements including a new Accident Prevention Plan and Emergency Action Plan. The budget also includes the installation of new Box Canyon Unit Fire Suppression Systems to reduce fire risk and equipment damage. Expanded community safety education focused on wildfire prevention and electrical safety awareness is also a priority.
- **Customer Satisfaction** – The PUD continues to invest in technology and programs that will improve the customer experience, including updating and modernizing the website and the development of a Pre-Pay Billing Program designed to give customers more flexibility and control over their accounts.

BUDGET DETAILS

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

The [Electric System](#) provides power to roughly 10,000 meters across 1,400 square miles. Energy resources are obtained from PUD owned hydropower resources and external resources that include Seattle City Light's Boundary Dam and market purchases.

The [Power Production System](#) operates the 90-megawatt Box Canyon Hydroelectric Project with a focus on environmental stewardship and reliability.

The [Community Network System](#) offers wholesale fiber and wireless broadband to Retail Service Providers, connecting more than 4,000 premises and multiple communities.

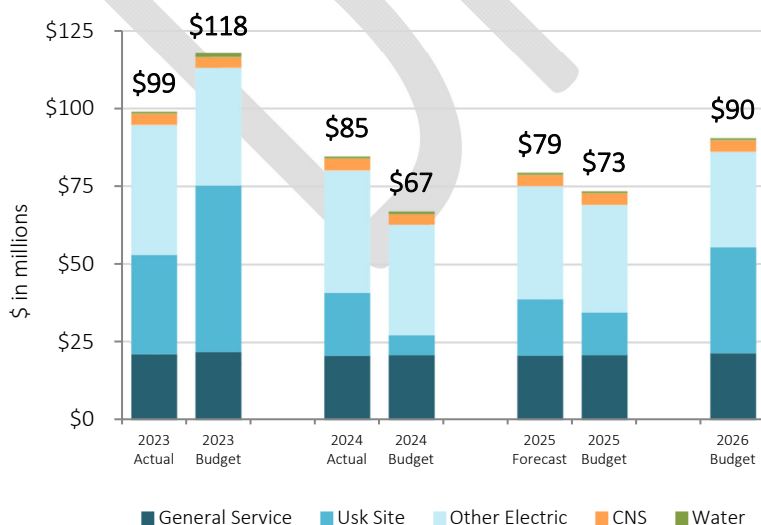
The PUD oversees nine independent [Water Systems](#) serving more than 600 customers.

[Operating Revenue](#)

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

In the chart below, "Usk Site" revenue represents energy usage by Ponderay Real Estate LLC, Cascade Digital or Merkle Standard Infrastructure (MSI) at the mill site. The budget amount for 2026 is based on the current contract with MSI.

Other Electric revenue includes market sales, contributed capital and interdivisional revenue. It also reflects long-term contract sales of Box Canyon power to Shell Energy through 2025, and to Clark Public Utilities beginning in 2026.



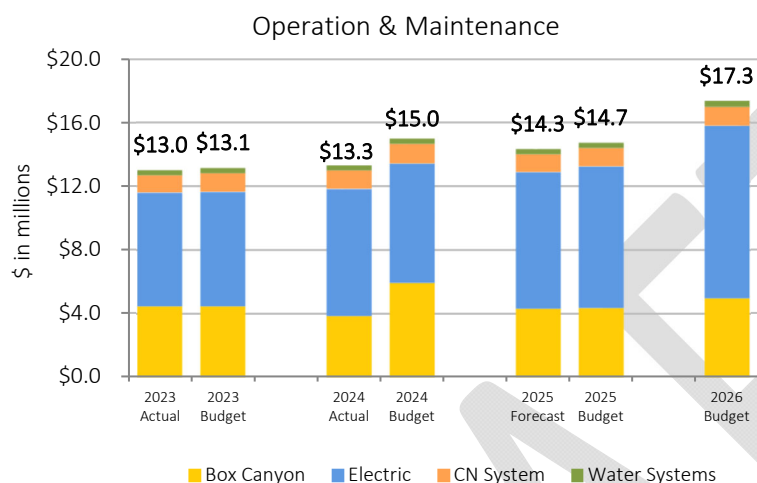
Under the Shell agreement, the PUD sold all Box Canyon Project power and energy received from Seattle City Light, while purchasing monthly blocks of energy from Shell to match forecasted load. The net transaction provided fixed payments to the PUD over the contract period.

The contract with Clark Public Utilities begins in January 2026 and runs through December 2041. Clark will purchase Box Canyon Power and pay forecasted operating costs and debt service.

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

Operation & Maintenance Expenses

Operating and maintenance (O&M) expenses cover the day-to-day operation and upkeep of the PUD's production, electric, communications and water infrastructure. This includes the regular maintenance of lines and equipment, as well as response to outages to maintain safe and reliable service to customers.



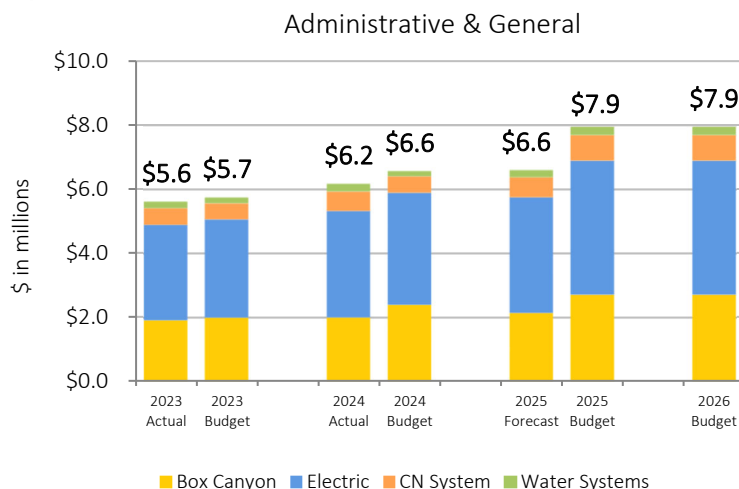
Overall, 2026 O&M expenses reflect an increase from the 2025 Budget, with over \$400,000 attributable to general inflation in materials, supplies and labor. The budget includes nearly \$1.5 million for one-time costs for wildfire mitigation to support ongoing community safety and system reliability. Personnel costs include a temporary increase to support succession planning to allow for smooth transitions as experienced staff retire.

2025 O&M expenses are projected to come in slightly under budget due to fewer outage expenses and timing of hiring new hires.

Administrative & General Expenses

Administrative and general (A&G) expenses cover the internal support functions that keep the PUD operating efficiently and effectively, including human resources, finance and accounting, compliance, information technology, insurance, policymaking, and overall management oversight.

The 2026 budget for A&G expenses is about \$1 million higher than the 2025 forecast but remains at the 2025 budget. Approximately \$200,000 of this increase is due to inflation, with the remainder focusing on strategic staffing and system investments. This includes previously budgeted positions such as General Counsel and a new position in IT. Each of these positions supports organizational capacity and succession planning while offsetting some O&M costs.



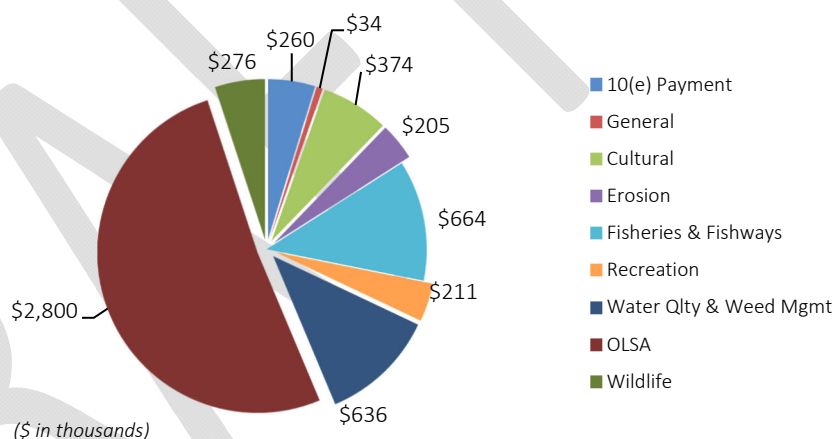
Additional 2026 budget items include new software investments, a facilities feasibility study, a website update and increased professional services related to power supply planning. The PUD will engage Energy West to identify and evaluate future energy resource planning.

The 2025 cost variances to budget can be attributed to delays in filling budgeted positions, reduced insurance expenses, software licensing fees and professional services costs.

Protection, Mitigation & Enhancement

Protection, Mitigation and Enhancement (PM&E) measures required under the Box Canyon FERC license are estimated to be \$5.5million in 2026. These projects support wildlife and fish habitat improvements, 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 to provide annual payments of about \$2.8 million over 25 years to support long-term mitigation efforts.



Labor Costs

The PUD's workforce includes Linemen, Hydro Mechanics, Electricians, Technicians, System Operators, Meter Readers, Customer Service Representatives and other skilled professionals represented by the International Brotherhood of Electric Workers (IBEW) union.

The 2026 Budget allocates \$17.8 million for wages and benefits, which reflects adjustments to remain competitive in today's labor market. Wages for union employees are established through the collective bargaining agreement, which is currently being negotiated for the April 2026 – March 2028 contract term. Non-union wage increases are determined by PUD management and apply to roughly 40% of personnel.

The 2026 budget includes the addition of one IT position, one custodian, and two temporary succession planning positions to allow overlap and training with outgoing employees. One position has been removed. Overall, full-time equivalents (FTEs) increase by one, offset by a reduction in contractor costs.

Department	2023	2024	2025 Budget	Current	2026 Budget
Administration	20	21	22	22	23
Operations	46	47	50	50	50
Customer Service	8	6	6	6	6
Natural Resources	2	3	3	3	3
Engineering	7	6	7	7	7
Full-Time Employees*	83	84	88	88	89
Temporary Employees	0	0	3	2	4

**End of Year Headcount including open positions.*

Capital Expenditures

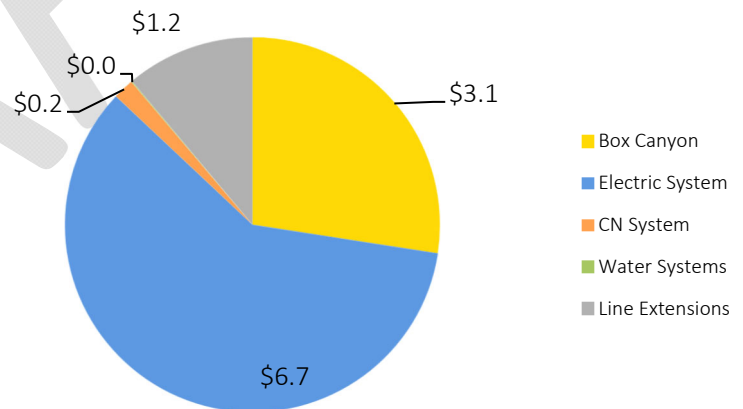
The PUD defines Capital Expenditures as the purchase of long-term assets costing \$25,000 or more, including land, equipment, major rebuilds and construction projects.

Total 2026 capital expenditures are budgeted at \$11.2 million, including line extensions.

The PUD continues to invest in system reliability, safety and longevity. The Electric System budget includes \$800,000 to replace deteriorated poles, new conductor and other equipment to improve reliability and efficiency. It also includes \$1.5 million for the continued design and construction of the Bare Mountain Substation.

The PUD's fleet management program has budgeted \$600,000 for vehicle and equipment replacements to maintain operational efficiency. Wildfire prevention remains a top priority. About 30% of the PUD's system is now underground, with the remainder overhead in heavily forested area. The 2026 budget includes \$1 million for SCADA-capable reclosers and line undergrounding in high-risk areas. An additional \$500,000 is budgeted for additional undergrounding projects and vegetation management/right-of-way clearing.

The Line Extensions budget includes \$1.2 million for new or upgraded electric and fiber services, reimbursable by the customer and is offset through revenue (Contributions in Aid of Construction).



Summary

The PUD is proposing \$89.9 million in total expenditures for 2026. While this figure represents the full scope of PUD spending, most of these costs are nondiscretionary, which are essential to operations or required by regulation.

Of the total budget:

- Power supply costs account for \$32 million,
- Debt service payments total \$11.0 million,
- Taxes represent about \$3.6 million, and
- Protection, Mitigation and Enhancement (PM&E) measures, required under the Box Canyon FERC license, total \$5.5 million.

Together these costs make up nearly 60% of the budgeted expenditures for 2026.

	Electric System	Production System	Community Network System	Water System	Eliminations	Total District
<u>Budgeted Funding Sources:</u>						
Operating Revenues	85,835,691	25,327,290	3,720,000	662,114	(25,266,442)	90,278,653
Interest income	1,805,512	1,177,680	140,000	1,501	-	3,124,693
Grant & Debt Financed	-	-	-	-	-	-
Deferred and other income	489,919	7,200	(224,056)	-	-	273,063
Total Budgeted Funding Sources	88,131,122	26,512,170	3,635,944	663,615	(25,266,442)	93,676,409
<u>Budgeted Expenditures:</u>						
Power from Box Canyon	25,067,290	-	-	-	(25,067,290)	-
Power from Boundary	3,973,392	-	-	-	-	3,973,392
Power from other sources	27,184,841	-	-	-	-	27,184,841
Wheeling and backup	660,493	176,137	-	-	-	836,630
Operation & Maintenance	10,775,107	4,938,866	1,176,734	381,000	-	17,271,707
PM&E costs	-	5,450,634	-	-	-	5,450,634
Customer accounting & information	806,556	-	99,408	41,411	-	947,375
Administrative and general	4,381,397	2,670,007	714,105	237,908	(199,152)	7,804,264
Taxes	3,472,418	101,995	20,670	32,795	-	3,627,878
Total Operating Expenditures	76,321,493	13,337,639	2,010,917	693,114	(25,266,442)	67,096,721
Interest on long-term debt	110,377	4,858,484	19,633	20,358	-	5,008,852
Less Federal Subsidy	-	(271,869)	-	-	-	(271,869)
Less amortization included in interest	-	447,916	-	-	-	447,916
Capital Project Payments	7,653,500	3,055,000	440,000	9,000	-	11,157,500
Box Renewal & Replacement Funding	-	500,000	-	-	-	500,000
Principal payments	770,000	4,585,000	399,338	15,805	-	5,770,143
Total Budgeted Expenditures	84,855,370	26,512,170	2,869,887	738,277	(25,266,442)	89,709,262
Cash Excess / (Deficit)	3,275,752	-	766,057	(74,662)	-	3,967,147