2027 DRAFT Budget

Public Utility District No. 1 of Pend Oreille County

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Since its establishment in 1936, Pend Oreille PUD has proudly provided 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 2027 budget builds on 90 years of local service and looks ahead to what our community will need in the years to come. It funds the essential day-to-day work of keeping the PUD's Electric, Water, Power Production and Community Network systems safe, reliable and running smoothly, while making investments to maintain and improve the infrastructure we depend on.

At its core, this budget reflects what matters most to our customers and community:

- **Safety** – Looking out for our employees, customers and the communities we serve.
- **Reliability** – Taking care of existing infrastructure and making the needed and necessary upgrades to keep our systems dependable.
- **Affordability** – Being good stewards of ratepayer dollars and making responsible financial decisions.
- **Service** – Providing dependable services, responsive customer support and continued improvements in how we serve our customers.

As a locally owned public utility district, we have a responsibility to make thoughtful decisions with the resources our customers entrust to us. The 2027 Budget continues that commitment, balancing today's needs with the long-term investments that will keep the PUD strong and serving Pend Oreille County for generations to come.

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BUDGET HIGHLIGHTS

The 2027 Budget continues Pend Oreille PUD's strategic focus on providing safe, reliable and affordable utility services while preparing for the changing needs of our community. It supports important infrastructure improvements, ongoing wildfire mitigation efforts, employee development and technology upgrades that will help the PUD meet today's demands and plan for the future.

More than just a financial plan, the budget outlines how the PUD is putting ratepayer dollars to work. It supports the people, equipment and systems behind the electric, water, power production and wholesale telecommunications services our county depends on. Here are some of the major priorities, guided by the PUD's strategic plan, that are included in the 2027 budget.

- **Infrastructure Upgrades to Improve Reliability -** The 2027 budget includes funding to complete the design and advance the construction of the Bare Mountain Substation, with planned energization in 2029. Several long-lead time equipment items have already been ordered, with additional purchases planned in the coming year. The new substation will greatly help growing electricity demands, strengthen reliability and provide additional capacity to support future growth in the county.

- **Wildfire Prevention -** While no utility can eliminate wildfire risk entirely, the PUD continues to take practical, proactive steps to reduce the chances of a fire starting on or near our equipment. The 2027 budget supports ongoing vegetation clearing along distribution lines, strategic undergrounding of overhead lines in high-risk areas, and the installation of SCADA-capable reclosers. These critical devices help crews identify problems more quickly, isolate trouble spots and restore service more efficiently.

- **Financial Stability -** Responsible financial management allows the PUD to maintain its systems, respond to unexpected challenges, and plan for future needs without putting unnecessary pressure on customer rates. The 2027 budget maintains financial targets of more than 250 days cash on hand and a debt service coverage ratio above 2.0. Over the next several years, the PUD plans to use a portion of its available cash reserves to help fund major capital projects and needed infrastructure improvements. This planned use of reserves will help reduce borrowing needs and put existing financial resources to work for our customers, while maintaining the financial stability needed to manage rising costs due to inflation, prepare for unexpected expenses and maintain our long-standing strong financial position.

- **Safety -** Protecting employees, customers and the community remains one of the PUD's highest priorities. The 2027 budget supports continued improvements to workplace safety, including investments in safety training, equipment, employee gear, and critical upgrades to Box Canyon Dam. Public education on electrical safety and wildfire prevention also remains an important part of the PUD's safety efforts.

- **Customer Service & Satisfaction –** The PUD continues to look for ways to make doing business with us easier and more convenient for our customers. The 2027 budget supports the development of a new PUD website, improved outage notifications, more programs for income qualified customers, and enhanced community-relations strategies.

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BUDGET DETAILS

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

The **Electric System** provides power to roughly 10,000 meters across 1,400 square miles. Electricity comes from PUD-owned hydropower resources and purchased power from Seattle City Light's Boundary Dam and the wholesale energy market.

The **Box Canyon Production System** operates the 90-megawatt Box Canyon Hydroelectric Project with a focus on safe and reliable power generation and environmental stewardship.

The **Community Network System** provides wholesale fiber and wireless broadband to Retail Service Providers, connecting more than 4,000 premises across multiple communities.

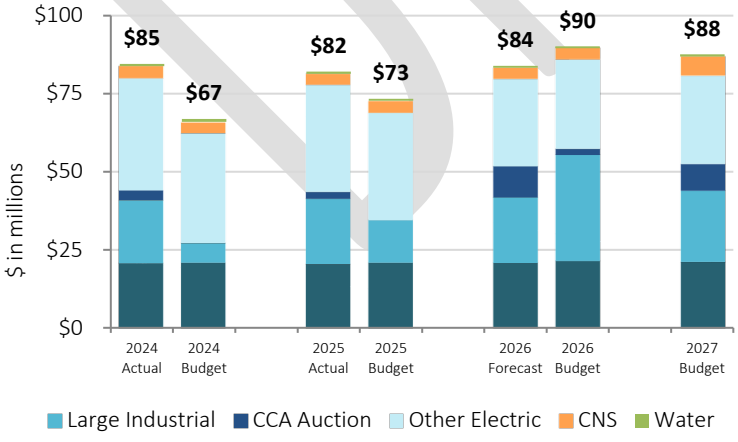
The **Water System** oversees nine independent water systems serving more than 600 customers.

Revenue

General Service revenue includes all residential, commercial and standard industrial customers, encompassing all electric load except for large industrial customers.

In the chart below, "Large Industrial" revenue represents energy usage by Ponderay Real Estate LLC, Cascade Digital or Merkle Standard Infrastructure (MSI) at the Usk mill site along with energy usage by a second large industrial customer, Krambu, Inc. beginning in 2026. The budget amount for 2027 is based on the current contracts with these customers.

Other Electric revenue includes market sales, contributed capital, interdivisional revenue and proceeds from Climate Commitment Act (CCA) auctions. It also includes revenue from 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, which ended in 2025, 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.

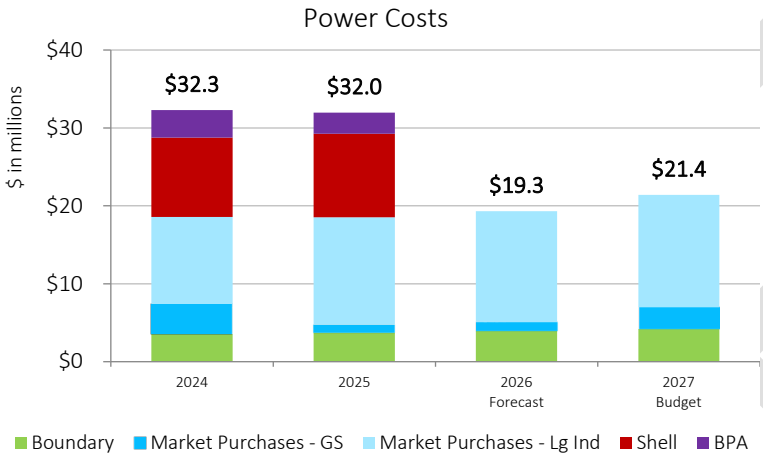
The contract with Clark Public Utilities began in January 2026 and runs through December 2041. Clark purchases Box Canyon Power and pays forecasted operating costs and debt service.

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The Water System revenue is projected to stay steady. The Community Network System ("CN System" or "CNS") budget includes $2.5 million in Broadband Equity, Access and Deployment (BEAD) grant funding expected to cover project-related expenses in 2027.

Power Supply

The PUD's 2027 budget includes $21.4 million in power supply costs for the Electric System. These expenses include power purchased from Seattle City Light under the Boundary Dam contract and purchases from the wholesale power market.



Power supply costs have changed as PUD contracts have evolved. The Shell Energy agreement and PUD's BPA power supply agreement both ended in 2025. As a result, the PUD now relies more heavily on market purchases, particularly to serve large industrial customers. Those costs have increased due to higher contract capacity and a longer term for the Merkle contract.

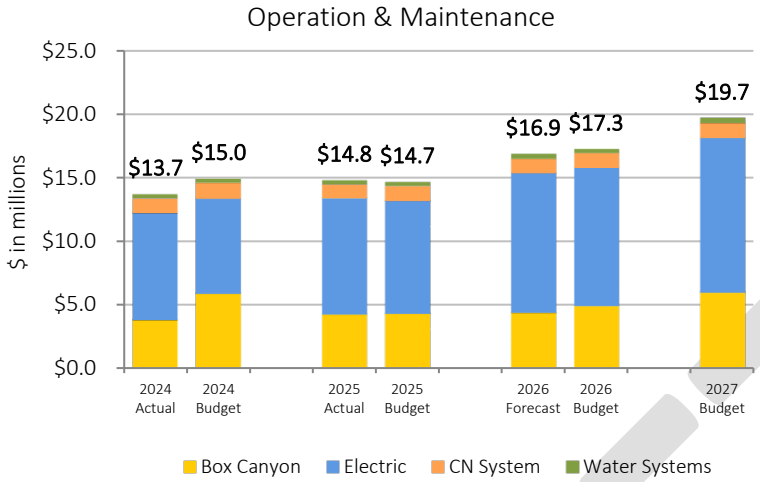
Looking ahead, the expiration of the Boundary Settlement Agreement with Seattle City Light in 2029, changes to the PUD's balancing authority agreement with Avista Energy, Washington State clean energy requirements and changing customer demand will all factor into future power supply planning. The PUD will continue evaluating its options to maintain safe and reliable power while keeping costs competitive for customers.

Operation & Maintenance Expenses

Operation and Maintenance (O&M) expenses cover the day-to-day operation, care and upkeep of the PUD's power production, electric, communications and water systems. This includes the regular maintenance of power lines and equipment to maintain safe and reliable service, along with responding to outages and working to restore service as quickly as possible. Overall, 2027 O&M expenses reflect an increase from the 2026 Budget, with over $500,000 attributable to general inflation in materials, supplies and labor. The budget also includes over $1.2 million for one-time costs for projects to support ongoing safety and system reliability, and to comply with state and federal regulations. These projects include repairs to the caisson, rock stabilization and a Federal Energy Regulatory Commission (FERC) inspection at Box Canyon Dam, and an inspection of the penstock at Power Lake.

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Personnel costs include a temporary increase to support succession planning and provide a smooth transition as experienced employees retire. Costs also reflect the addition of one full-time employee to help meet the PUD's staffing and operational needs.



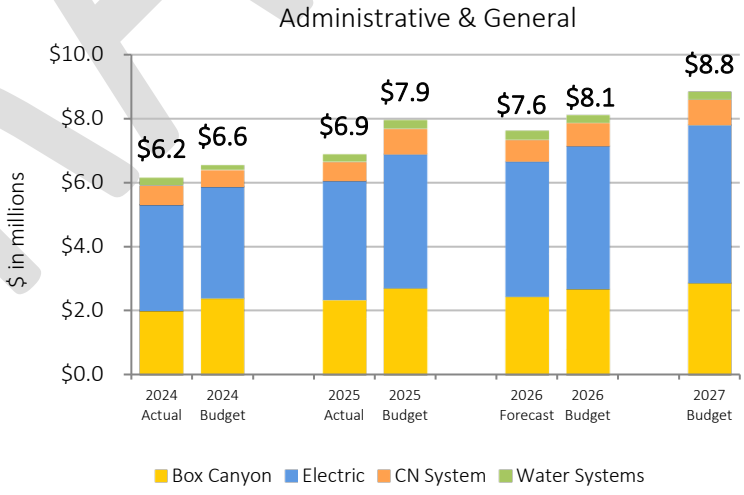
2026 O&M expenses are projected to come in slightly under budget due primarily to timing of retirements and replacement hires throughout the year. Expenses for the transmission line clearing contract, which used a helicopter-mounted aerial saw to trim trees along transmission corridors, are also projected to come in below budget.

Administrative & General Expenses

Administrative and general (A&G) expenses cover the behind-the-scenes work that supports the PUD's daily operations. This includes human resources, finance and accounting, compliance, communications, information technology, insurance, policy development, and overall management oversight.

The 2027 A&G budget is higher than both the 2026 forecast and budget. Approximately $250,000 of this increase is due to inflation, with the remaining increase supporting staffing needs. This includes funding for previously budgeted but unfilled positions, such as General Counsel.

The 2026 cost variances to budget can be attributed primarily to delays in filling budgeted positions.



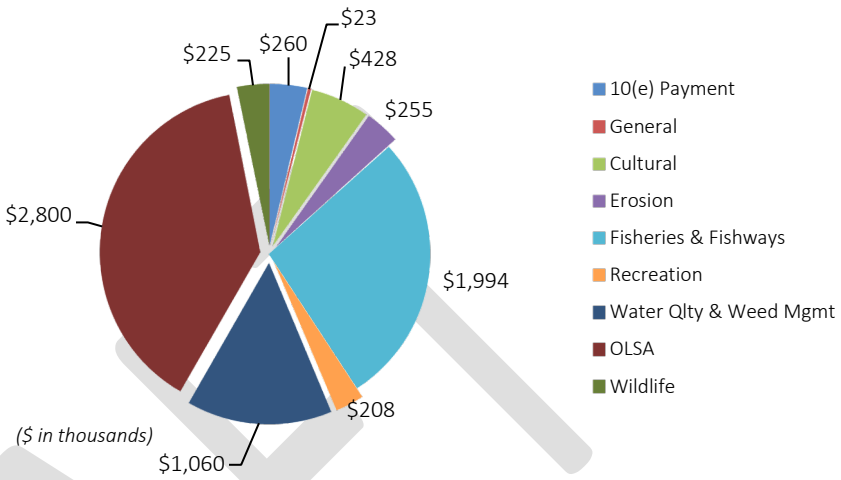
Protection, Mitigation & Enhancement

The 2027 budget includes $7.3 million for Protection, Mitigation and Enhancement (PM&E) measures required under the FERC license for Box Canyon Dam. These projects support fish and wildlife habitat improvements, water quality monitoring, erosion control and environmental studies.

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One of the largest new expenses in 2027 will be the construction of an instream fish management structure as part of the PUD's long-term fish habitat improvement efforts. Although the project is a major expense, it is not classified as a capital project because the PUD will not own the completed structure. Its ongoing operation and maintenance will involve multiple partner agencies, including Washington State and the Kalispel Tribe.

In December 2021 FERC approved the PUD's request to amend its license for Box Canyon Dam, removing requirements for downstream fish passage at Box Canyon as well as for up-and-downstream fish passages at Calispell Creek. In place 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 environmental mitigation efforts.



The OLSA also includes a $10 million payment due in 2027 to support fish passage improvements at the Army Corp of Engineer's Albeni Falls Dam, upstream of Box Canyon Dam. This payment is not listed in the $7.3 million PM&E expenses outlined above.

Labor Costs

The 2027 Budget allocates $20.2 million for employee wages and benefits. As a public utility in a service-based industry, much of the PUD's work depends on skilled, well-trained employees. Unlike businesses where much of the work can be automated, providing electric, water, power production and fiber services requires professionals with specialized training, experience, and technical expertise. From maintaining power lines, operating Box Canyon Dam, responding to outages and helping customers and the community, our employees are essential to delivering the services our communities depend on. As a result, labor represents a sizable portion of the PUD's overall operating expenses.

The PUD employs a diverse workforce that includes Linemen, Tree Trimmers, Hydro Mechanics, Electricians, Technicians, System Operators, Meter Readers, Customer Service Representatives and other professionals that are represented by the International Brotherhood of Electrical Workers (IBEW) union. Wages and benefits for union employees are established through the collective bargaining agreement, which was recently negotiated for the April 2026 through March 2029 contract term.

The PUD's non-union workforce includes employees in human resources, finance and accounting, engineering, compliance, information technology and management. These positions account for roughly 40% of the PUD's workforce. Non-union wages are determined by PUD management and are based on market comparisons.

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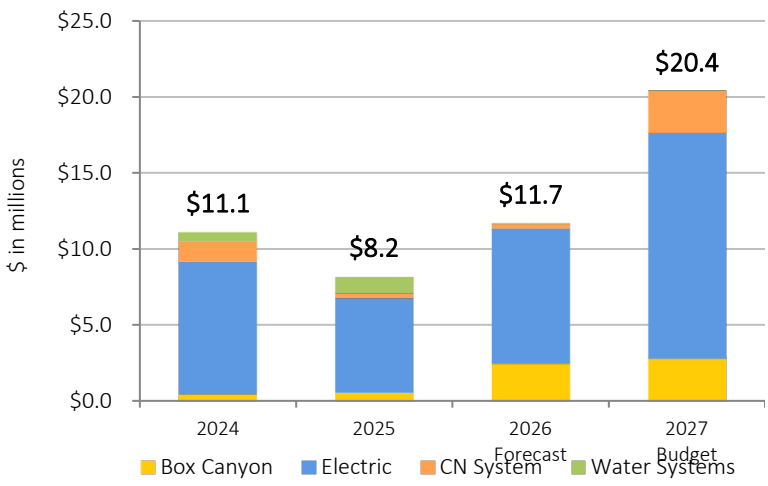
The 2027 budget includes funding for one new Power Supply position and two temporary positions to support succession planning. The temporary positions will allow retiring employees and their replacements to work together to provide training, knowledge transfer and a smoother transition.

Department	2026 Budget	Current*	2027 Budget
Administration	23	24	24
Operations	50	50	51
Customer Service	6	6	6
Natural Resources	3	3	3
Engineering	7	7	7
Full-Time Employees*	**89**	**90**	**91**
Temporary Employees	4	3	5

**Headcount includes open positions.*

Capital Expenditures

The PUD defines capital expenditures as the purchase of long-term assets costing $25,000 or more. These include land, equipment, system rebuilds and construction projects. Total capital expenditures for 2027 are budgeted at $20.4 million, including line extensions.



The PUD continues to invest in maintaining and improving its systems, with a focus on reliability, safety and longevity. The Electric System budget includes $815,000 to replace aging poles and upgrade critical equipment to improve reliability and efficiency. It also includes $5.4 million for the continued design and construction of the Bare Mountain Substation, which is an important investment in enhancing reliability and meeting future electricity needs.

The PUD's fleet management program has budgeted $2.5 million for vehicle and equipment replacements to maintain operational efficiency. Wildfire prevention remains a top priority and is another critical part of the PUD's capital investment plan. About 30% of the PUD's system is now underground, with the remainder overhead in heavily forested areas. The 2027 budget includes $2.9 million for SCADA-capable reclosers and line undergrounding in high-risk areas. These investments will

help the PUD better identify and isolate electrical problems, improve reliability for customers and reduce wildfire risk.

The 2027 budget also includes $2.5 million in federal BEAD grant funding to support planned broadband expansion work. This funding will help cover project expenses during the year.

The Line Extensions budget includes $860,000 for new or upgraded electric and fiber services. These projects are requested by customers. The construction cost expenses are offset by customer payments and are recorded as Contributions in Aid of Construction rather than being covered by general operating revenue.

Summary

The PUD is proposing $92.9 million in total expenditures for 2027. While this represents the full scope of the PUD's planned spending, a significant portion is committed to essential operating costs, contractual obligations and expenses required by state and federal regulations.

Of the total budget:

- Power supply costs account for $21.6 million
- Debt service payments total $10.8 million
- Taxes represent about $3.0 million
- Protection, Mitigation and Enhancement (PM&E) measures, required under the Box Canyon FERC license, total $7.3 million.

Together these costs make up nearly 46% of the budgeted expenditures for 2027. This leaves the remaining portion to support day-to-day operations, employee wages and benefits, infrastructure improvements, equipment maintenance and replacements, and other investments needed to serve our customers.

The PUD plans to use a portion of its available cash reserves to help fund planned capital projects in 2027. Drawing down cash for these investments allows the PUD to put existing resources to work on needed infrastructure improvements, while also managing our borrowing needs and continuing to maintain responsible finances.

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	Electric System	Production System	Community Network System	Water System	Eliminations	Total District
Budgeted Funding Sources:						
Operating Revenues	80,781,144	28,181,832	3,638,888	702,374	(28,102,684)	85,201,555
Interest income	1,556,592	1,084,164	120,000	1,273	-	2,762,029
Grant & Debt Financed	-		2,500,000	-	-	2,500,000
Deferred and other income	380,023	7,200	(224,056)	-	-	163,167
Total Budgeted Funding Sources	**82,717,759**	**29,273,196**	**6,034,832**	**703,647**	**(28,102,684)**	**90,626,751**
Budgeted Expenditures:						
Power from Box Canyon	27,921,832	-	-	-	(27,921,832)	-
Power from Boundary	4,211,796	-	-	-	-	4,211,796
Power from other sources	17,195,806	176,137	-	-	-	17,371,943
Operation & Maintenance	12,096,940	5,992,433	1,179,152	443,512	-	19,712,037
PM&E costs	-	7,253,572	-	-	-	7,253,572
Customer accounting & information	861,202	-	107,700	64,944	-	1,033,846
Administrative and general	4,924,405	2,866,827	783,691	239,754	(180,852)	8,633,825
Taxes	2,780,552	102,495	19,460	34,805	-	2,937,312
Total Operating Expenditures	69,992,533	16,391,464	2,090,003	783,015	(28,102,684)	61,154,331
Interest on long-term debt	91,440	4,643,593	3,958	19,207	-	4,758,197
Less Federal Subsidy	-	(202,418)	-	-	-	(202,418)
Less amortization included in interest	-	433,557	-	-	-	433,557
Capital Project Payments	14,820,000	2,777,000	2,760,000	47,000	-	20,404,000
Box Renewal & Replacement Funding		500,000	-	-	-	500,000
Principal payments	850,000	4,730,000	204,000	24,460	-	5,808,460
Total Budgeted Expenditures	**85,753,973**	**29,273,196**	**5,057,960**	**873,682**	**(28,102,684)**	**92,856,127**
Cash Excess / (Deficit)	**(3,036,213)**	**-**	**976,872**	**(170,035)**	**-**	**(2,229,376)**

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