

**Pend Oreille Public Utility District
2020 Budget**

Approved December 17, 2019
Resolution 1432



Public Utility District No. 1 of Pend Oreille County 2020 Budget

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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. The District consists of four primary systems: Box Canyon Production, Community Network, Electric, and Water.

The District is proposing a consolidated \$62 million budget for 2020. Completion of the Box Canyon fish passage project, construction of a new mechanics building and continued evaluation of District costs will be a focus of the utility in 2020. In the midst of these and other utility industry changes, the District continues to be cost conscientious, evaluating positions and expenditures at all times and reducing costs if possible, while adapting to a changing environment.

The proposed budget includes the resources necessary to adequately 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.



Generation

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 customers are connected to fiber. Wireless towers are installed in Metaline Falls, Lone, Cusick and at the Riverview 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 charges Retail Service Providers (RSPs) who are the link to the consumer; customers purchase fiber or wireless service through the RSP of their choosing.

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 9,200 residential and commercial customers. The District currently provides all of the retail electric service in its area.

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, the Bonneville Power Administration (BPA), and market purchases.

Industrial customer contracts determine how the District allocates the cost of power purchases. Currently, the District’s residential and commercial customers are primarily served with lowest-cost power from Boundary, and pay for only a small percentage of Box Canyon power 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.

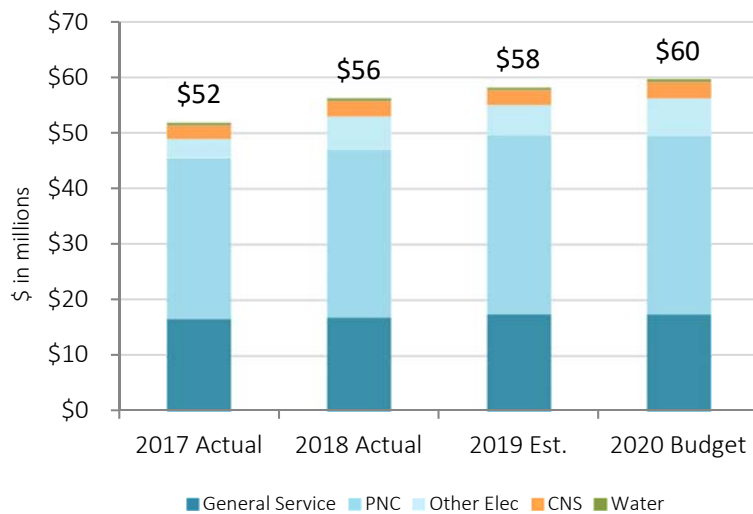
Revenue

Ponderay Newsprint Company (PNC), which operates a paper machine and fiber mill in Pend Oreille County, is the District’s largest electric customer. Current contracts between the parties obligate PNC to pay the cost of generating at Box Canyon Dam. PNC revenue is calculated under this cost based contract structure.

In 2019, the District entered into a contract with Portland General Electric (“PGE”) for the sale of all power generated from the Box Canyon Project in exchange for an identical amount of PGE system power and payment to the District of a per-MW premium. The premium is \$3.00 per MWh for the first 50 MWh of energy delivered and \$2.25 per MWh in excess of 50 MWh. The 2020 Budget assumes this premium to be \$1.3 million and is reflected as an increase in Other Electric Revenue, and a decrease to revenue received from PNC.

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. The District is expecting general service revenue to remain flat for 2020. The District extended service to several new industrial high-use customers in late 2018 and 2019; however, this increased load is offset by a reduction in use from a current industrial customer.

Community Network System revenue is increasing as more customers sign up for the service. The Budget assumes 2,400 standard class connections and 135 wireless connections by the end of 2020.



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 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 = \$375,000 reduced revenue.	The average usage per customer stays constant with the 5-year average.	Average usage per customer increases to 2017 levels = \$570,000 additional revenue.

Industrial Revenue

Worst	Expected	Best
Customer usage does not increase as expected = \$475,000 reduced revenue.	Customers increase usage as expected totaling an additional 3 aMW of new load.	Customers usage higher than expected, adding an additional 1 aMW = \$330,000 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.

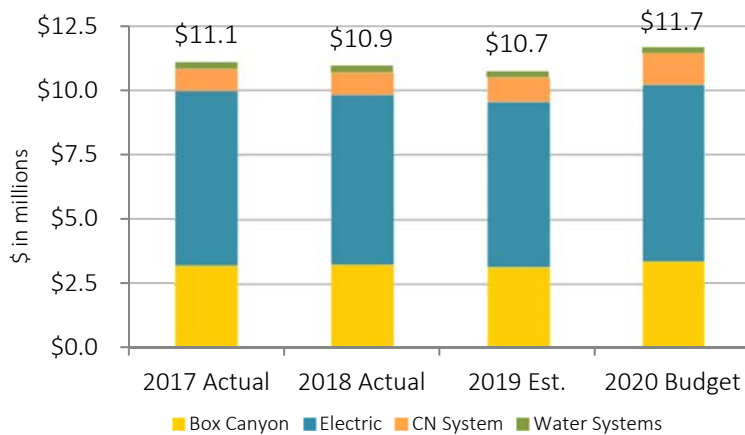
Operation & Maintenance Expenses

The 2020 budget is projecting slightly higher operation and maintenance costs than prior years. The majority of this increase is due to interdivisional services, and one-time software implementation and professional service expenses.

The Box Canyon Production, Community Network and Water Systems all pay the Electric System for electric service. This is recognized as revenue for the Electric System. Likewise, the Systems must pay the Community Network System for fiber service. These fiber interdivisional services were updated for the Budget to be in line with the current policy, which increased Electric system costs (and Community Network System revenue). The Community Network System is also charged a pole attachment fee from the Electric System. The fee is charged to other telecommunication service providers who also wish to attach to the District’s utility poles. District staff is recommending an increase to the pole attachment rate, which is reflected in the 2020 budget.

The District is in the final stages of completing software implementation for MapWise and Outage Management. While these have been ongoing projects for the past year or more, we will recognize the cost of purchasing these programs in 2020. The 2020 Budget also includes new software purchases such as an Energy Transaction software and an Operator Log Book which will improve business processes.

The CN System is budgeting for a north end feasibility study in 2020 as well as a third party study on the mapping system. Grant funds were awarded to the District that will cover a majority of the north end study. The CN System is also budgeting for equipment and technical support from one of its vendors. This service was provided through the initial purchase of the equipment and 2020 will be the first year this service is billed.



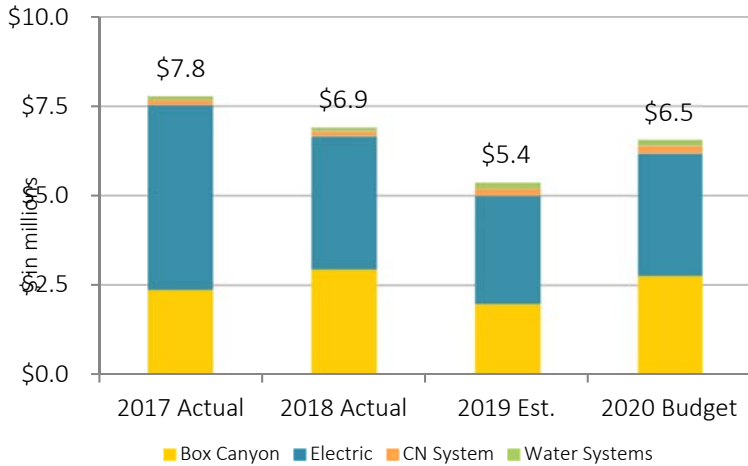
The Box Canyon Production System budget includes professional services for several regulatory required studies such as the Part 12 inspection, Dam safety audits, Calispell Creek geotechnical study and an inspection of the Calispell penstock. These are all studies that occur on a multi-year cycle.

The 2019 forecast shows total operation and maintenance costs lower than 2018 spending levels. Costs of goods and services continue to go up each year. The fact that we were able to hold costs constant shows we made good progress in cost reductions.

Administrative & General Expenses

Administrative and General (A&G) expenditures are projected to increase in 2020, as compared to 2019, due primarily to interdivisional services, software, professional services and legal fees. The 2020 budget assumes the District continues remarketing Box Canyon power, utilizing an outside firm to assist with the effort. In 2019 as part of the litigation settlement, PNC paid a portion of these costs directly.

The upstream fish ladder at Box Canyon is expected to become operational during 2020. The District is budgeting for continued project management to bring the facility online. While the project was under construction these costs were capitalized, but once operational the costs must be expensed.



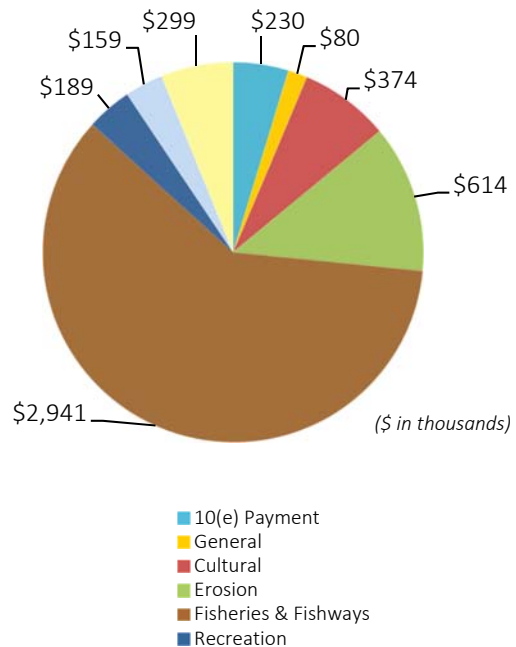
The budget also is anticipating increased legal fees due to the contract dispute regarding completion of the fish ladder. Estimated 2019 expenses are lower than prior years due to reduced legal fees and labor. For a significant portion of the year, the District had positions open while recruiting efforts took place.

Protection, Mitigation & Enhancement

The requirements for the Protection, Mitigation and Enhancement measures (PM&E) per the Box Canyon FERC license are estimated to be \$4.9 million in 2020. These projects include improvement of wildlife and fish habitat, water quality monitoring, erosion mitigation, and environmental studies.

In 2014, the District entered into an agreement with the USDA Forest Service for an erosion monitoring plan required as part of the FERC license. The District agreed to pay the Forest Service \$1.8 million over 5 years, and in exchange, the Forest Service agreed to perform all necessary erosion work at these sites over the license period. The District will make the final payment of \$363,739 in 2020.

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 further fish passage as stipulated in the FERC license. A proposed amendment to the FERC license has been agreed to by all involved parties and has been presented to FERC. The amendment would result in a payment stream of approximately \$2.5 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 2020 budget assumes the amendment is approved by FERC.



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 \$9.7 million for the year. Of the total expected spending, \$1.6 million will be debt 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		Capital Expenditures Funding	
Production	\$740,000	Debt Financed	\$611,000
Distribution	\$6,831,100	Grant Funding	\$985,000
Community Network	\$516,800	Revenue Funds	\$5,587,900
Water	\$1,596,000	Capital Project Funds	\$2,500,000
Total	\$9,683,900	Total	\$9,683,900

As part of the FERC relicensing process, the District was required to complete several projects at the Box Canyon project 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 projects at the site, other routine projects and repairs were delayed. The 2020 budget includes \$385,000 for upgrades to the power house roof, hand railings, Campbell Park, the visitor center and the boat launch.

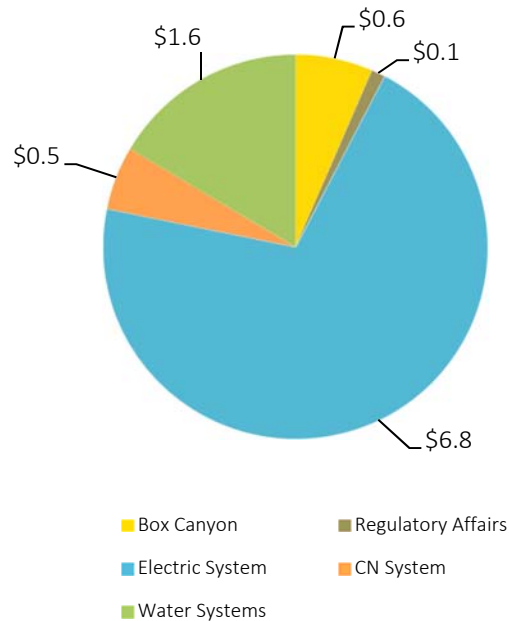
Over three years ago the District began the strategic process of evaluating facilities, with the main focus on the operations headquarters within the City of Newport. Due to space constraints the District considered moving out of the city; however, it was determined the most cost effective and economically prudent path was to remain in the current location. The design of a multi-phased improvement plan was recently completed. The new design will advance efficiency, reliability and aesthetic appearance. The first phase includes a new mechanics building on the south graveled lot. In partnership with the City of Newport's vision the lot will be landscaped, surrounded with decorative black fencing and feature new signage. The first phase also includes removal of the old storage building in the center of the existing lot. The 2020 budget includes \$2.5 million for this work. The District will pull from funds set aside from annual revenues earmarked and saved for this project. The multi-year Operations Plan will enhance overall safety, reliability and efficiency of operations.

The District continues to focus on investing in the overall reliability and longevity of the Electric System. The budget includes \$600,000 for replacement of aging poles and conductor.

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; the budget includes \$755,000 for vehicle replacements. Three vehicles in the 2020 budget were requested and approved as part of the 2019 budget process. These vehicles were ordered in January 2019; however, due to the lead-time will not arrive before year-end, pushing them into the 2020 budget cycle.

The Community Network System is budgeting \$516,800 in capital expenditures for the year, and includes \$155,000 for replacement of a small bucket truck (discussed above). The budget includes \$150,000 for line extensions paid for by the customer; this cost is offset through revenue.

The Water System capital expenditure budget is \$1,346,000. The system is budgeting \$250,000 for a water treatment facility at Riverview, \$611,000 for a water main replacement project at Sunvale and \$735,000 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, which is currently being negotiated for a new three-year term.

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 2020 Budget includes \$13 million for District wages and benefits. The 2020 budget assumes one new position. The additional staff member in the IT department would increase the efficiency of the department, provide the opportunity for cross training and succession planning, and prepare the District for an upcoming retirement. Both the 2019 and 2020 headcount numbers include four replacement positions that are currently open.

Department	2016 Actual	2017 Actual	2018 Actual	2019 Forecast	2020 Budget
Administration	12	11	12	13	13
Electric Operations	31	30	28	27	27
Information Technology	5	4	4	5	6
Box Canyon Operations	16	15	15	14	14
Customer Service	10	9	9	9	9
Regulatory Affairs	6	6	6	4	4
Engineering	7	9	8	7	7
Water Systems	3	3	3	3	3
Community Network System	4	4	4	4	4
Full-Time Employees	94	91	89	86	87

End of Year Headcount.

Debt Assumptions

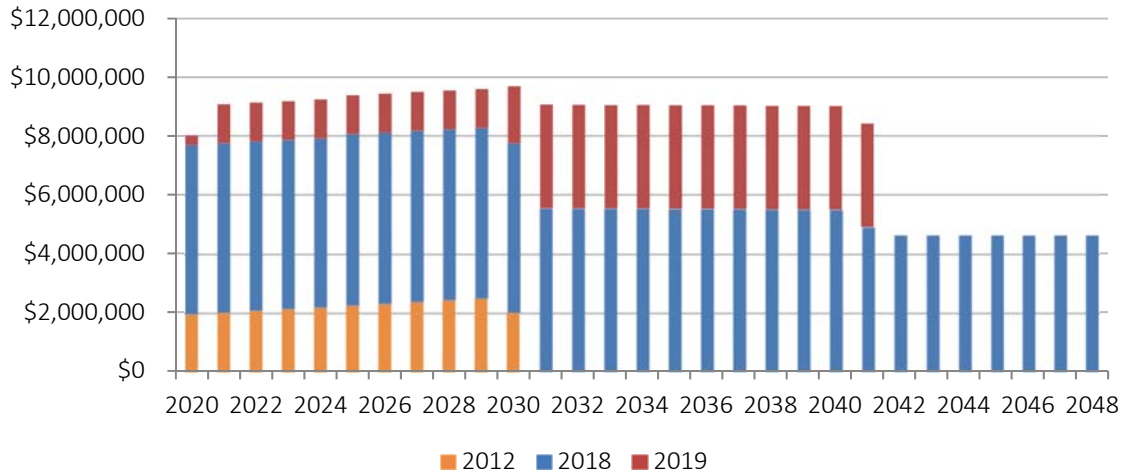
The budget does not assume any additional Box Canyon, Community Network or Electric System Debt. The Sunvale Water System was awarded a low interest Public Works Trust Fund loan for completion of the distribution line project.

In October 2018, the District issued Box Canyon Production System Revenue and Refunding Bonds in the amount of \$83,400,000. Proceeds from the bonds were used to provide funds for additional fish passage project construction costs and refund the 2009 Box Canyon Production System Revenue Bonds. The refunding saved the District approximately \$375,000 per year.

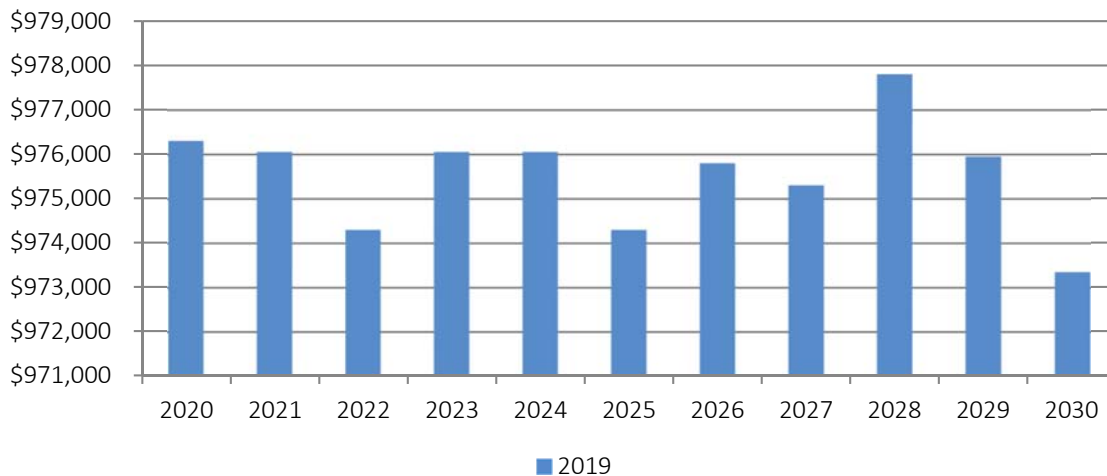
In October 2019, the District refinanced both the Box Canyon and Electric 2010 bonds, saving the District \$765,000 per year.

The following graphs show debt service (principal and interest) payments for the Box Canyon Production System and the Electric System.

Production System Debt Service



Electric System Debt Service



Summary

The District is proposing a consolidated \$62.0 million 2020 budget, the details of which were discussed in the document above, and shown numerically in the table below.

	Community				Eliminations	Total District
	Electric System	Production System	Network System	Water System		
Budgeted Expenditures:						
Power from Box Canyon	21,100,290	-	-	-	(21,100,290)	-
Power from Boundary	2,762,672	-	-	-	-	2,762,672
Power from BPA	7,135,071	-	-	-	-	7,135,071
Power from other sources	2,823,503	-	-	-	-	2,823,503
Wheeling and backup	1,297,680	187,000	-	-	-	1,484,680
Operation & Maintenance	6,836,918	3,361,070	1,233,688	232,352	-	11,664,028
PM&E costs	-	4,885,890	-	-	-	4,885,890
Customer accounting & information	918,223	-	52,280	42,338	-	1,012,841
Administrative and general	3,406,283	2,759,120	214,573	162,602	(165,000)	6,377,578
Taxes	2,734,114	103,410	13,960	23,812	-	2,875,296
Total Operating Expenditures	49,014,754	11,296,489	1,514,501	461,104	(21,265,290)	41,021,559
Interest on long-term debt	371,300	6,107,533	110,243	2,340	-	6,591,416
Less Federal Subsidy	-	(682,771)	-	-	-	(682,771)
Less amortization included in interest	-	(86,916)	-	-	-	(86,916)
Capital Project Payments	6,831,100	740,000	516,800	1,596,000	-	9,683,900
Renewal & License Funding	-	500,000	-	-	-	500,000
Principal payments	605,000	3,810,714	537,271	37,591	-	4,990,576
Total Budgeted Expenditures	56,822,154	21,685,050	2,678,814	2,097,036	(21,265,290)	62,017,764
Funding Sources:						
Operating Revenues	56,148,160	21,330,290	2,999,648	482,368	(21,265,290)	59,695,176
Capital Improvement Fund	2,500,000	-	-	-	-	2,500,000
Interest income	300,648	348,160	5,220	1,217	-	655,245
Grant & Debt Financed	-	-	-	1,596,000	-	1,596,000
Deferred and other income	(38,866)	6,600	(224,056)	-	-	(256,322)
Total Funding Sources	58,909,942	21,685,050	2,780,812	2,079,585	(21,265,290)	64,190,099

All power generated by Box Canyon, except the amount allocated to the Kalispel Tribe, 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 2020 consolidated budget shows more funding sources than budgeted expenditures, indicating a net positive cash flow for the District in the coming year. The District will use surplus cash to build and maintain reserves to meet the District's strategic goals of 180 days cash on hand. A rate adjustment is not built into the 2020 budget; however, the District is continuing to evaluate operational needs.