

Minutes of
PUBLIC UTILITY DISTRICT NO. 1 OF PEND OREILLE COUNTY
September 23, 2024
NEWPORT CONFERENCE ROOM, NEWPORT, WA
AND VIRTUAL VIA MICROSOFT TEAMS

SPECIAL BOARD MEETING

Present: Joseph B. Onley, President, virtual
David W. Rick, Vice President
Curtis J. Knapp, Secretary

Staff Present: John Janney, General Manager
Management/District Staff
Karen Willner, Clerk of the Board

Others: Sergey Tarasov, FCS Group, virtual
Gretchen Koenig, Member of the Public
Laura Verity, Merkle Standard
Troy Moody, Member of the Public
Tom Pulford, Member of the Public

The meeting was called to order at 8:30 a.m. by Curtis J. Knapp, Secretary.

Pursuant to notice given to the Newport Miner, a special meeting to discuss our 10-Year Financial Forecast and Electricity Rate Study as part of our Strategic Plan commenced at 8:32 a.m. There were five members of the public in attendance.

John Janney, District General Manager, reported this is our preliminary meeting to begin our budget, Strategic Plan, and rates process.

April Owen, District Director of Finance, reported we hired FCS Group to help us with our 10-Year Financial Forecast and introduced Sergey Tarasov.

10-YEAR FINANCIAL FORECAST AND ELECTRIC RATE STUDY DISCUSSION:

Sergey Tarasov, FCS Group, provided an Electric System Revenue Requirement Forecast presentation. He began by a broad overview of our changing industry with a particular focus on changes impacting Washington Utilities over the past several years. He reported costs for Washington utilities have increased significantly in recent years due to new regulations, the need to replace aging infrastructure, and high inflation. He reviewed the new regulations for electric vehicles, the Clean Energy Transformation Act (CETA), and cost of power.

He provided an overview of the District's Production, Electric, Community Network, and Water Systems and long-term rate planning that includes financial policy evaluation, revenue requirement forecast, and rate design. He explained that a successful study involves finance, as well as engineering, commissioners and public, administration, and customer service departments. He reviewed the role of financial policies for performance and budgeting, contingency planning, decision framework, and communication and explained the key factors of fiscal policies and targets for working capital reserve, debt service coverage, and leverage (debt to asset ratio). He reported on key considerations for operating, rate stabilization, and capital contingency reserves and financial strength and debt management.

He reviewed revenue the concepts of revenue requirements and rate setting. He explained how developing a rate plan helps utilities balance short-term financial needs while minimizing customer impacts over the longer term.

He provided an Electric System Revenue Requirement Forecast and explained the key factors in load forecasts for residential, commercial, industrial and lighting load customers, and for existing revenues, operating expenses, net power supply costs, capital spending, debt service costs and financial policies and targets. Based on these inputs, he reviewed the revenue requirements for the electric system that would be necessary to fund utility operations over the next 10 years while meeting assumed financial policy targets for working capital reserves, consolidated debt service coverage and leverage ratios. This scenario would suggest annual rate increases of 4.25% to achieve the revenue requirements. The model also assumes new debt proceeds of \$20M in 2028 for the Electric System, primarily to help fund future new substations.

He provided a residential rate survey comparing neighboring utilities monthly basic and energy charges. He reviewed the next steps and reported the forecast is an ongoing process and will be updated as better information becomes available in the weeks ahead.

He asked if there were any questions.

Tom Pulford, member of the public, inquired if the presentation will be posted on our website and suggested keeping a glossary of updates. Mr. Janney reported the presentation will be posted on our website and thanked Mr. Pulford for the glossary suggestion.

Laura Verity, Merkle Standard, inquired how the Clark Public Utilities deal affects the Box Canyon power sale and if any rate increase to the ratepayers means a rate increase to Clark. Ms. Owen reported the Clark contract revenue is set based on historical Box Canyon costs and that a portion of these costs will be adjusted for inflation each year. In addition, the contract includes fixed revenues for environmental attributes based on a set schedule each year. Ms. Verity inquired if it's incorporated in the forecast. Ms. Owen confirmed that it is included.

Troy Moody, member of the public, inquired about the Usk site sales after 2025. Mr. Janney reported typical utility practice for these types of contracts is to include only what has been contracted for in the forecast. The only sales that we include are those associated with our current contract which runs through 9/30/2025.

Commissioner Knapp commented that the Clark deal brings stability and other PUDs like Chelan and Douglas are also entering into longer-term contracts to bring them stability.

Mr. Moody inquired about the original Boundary contract. Ms. Owen reported that we have had a long-standing Boundary contract, and we negotiated a revised Agreement with them a few years ago. This gives us a shaped product rather than a flat product for power deliveries. The agreement will convert back to the previous agreement in 2030.

Gretchen Koenig, member of the public, referenced the capital contingency reserve and inquired that once it's established is there an adjustment in inflation. Mr. Tarasov reported that once we receive that level we can revisit and if we don't have a large capital expenditure we can adjust as needed.

Ms. Verity inquired if there is an end date for the annual rate increases. Mr. Tarasov reported the current scenario is through 2035 as a 10-year forecast and we are using the information that we had available. The forecast is for every year with a rate increase.

Mr. Pulford inquired if we have some adjustment as a historical rule. Mr. Tarasov reported that yes, some utilities do a study every year and a few utilities follow a set plan. This is a forecast that needs to be revisited as more information becomes available.

Mr. Moody inquired if there are studies that show us as a producer and not just a user. Mr. Tarasov reported they haven't seen many significant deviations from other utilities.

Commissioner Rick inquired about the current market power price. Ms. Owen reported it is fairly reasonable in the \$40's but it does fluctuate. He asked for clarification that because the Clark deal pays for all the operations and maintenance costs and the debt cost that we were not double-counting Box cost in the model. Mr. Tarasov reported we show both revenue and expenses. Mr. Janney reported the amounts to be paid by Clark are established in the contract. Our actual Box Canyon production costs may be more or less than what we will collect from Clark each year and over the term of the contract. Commissioner Rick inquired if the hook up (line extension) costs is a pass-through cost historically. Ms. Owen reported that we are looking at all revenues and expenses. Commissioner Rick inquired if our current quarterly financial report is a consolidated statement with the number of days of cash on hand. Ms. Owen reported it is a consolidated statement.

Commissioner Rick asked Ms. Verity if she/they foresee the Usk site remaining in business. Ms. Verity reported that is their goal in some capacity and want to be diversified. She commented on the importance of the Usk site doing a diverse load but currently they can't do both crypto and paper mill and can only do one business or

another. They are doing an analysis right now for the long-term vision for the business and employees and for all of it to make sense. Commissioner Knapp noted that in our forecast we've always just included the current contract term. Ms. Verity noted the Ponderay Newsprint Company was previously under 30-year long-term contract, so it was included in the forecast.

Discussion was held regarding the debt-to-income ratio. Commissioner Rick suggested doing a graph of expenditures versus revenues and do monthly presentations with the current rates and what are we doing. He commented that it's hard to ask ratepayers for more money when we have a large cash balance, so we need to show our ratepayers why we need more revenue. Mr. Janney reported there is more to come over the coming weeks. We are working on several studies that make up a material portion of our projected costs and revenues over the forecast period. All are works in progress and we will have individual presentations on each piece and the results of each will be rolled into the forecast model before we will be in a position to make any rate recommendations. Our go-forward vision is to update our forecasts quarterly or semi-annually, including a revised look ahead as well as to compare actual results to forecasts for the prior quarter or semi-annual period as a part of our normal financial updates.

Mr. Moody inquired about the number of extra megawatts of power we have to facilitate any new business. Mr. Janney reported that this will depend on things like residential load growth over the coming years and the size of any new businesses locating here. Like other utilities, if we need additional resources to meet load growth, we can build or contract for new resources. It's always a balancing act to manage the risks of meeting projected new loads with new resources without exposing existing customers to additional risks.

He reported that over the coming weeks we intend go out and meet with members of the community and share the information that was provided here today. We will do our best to take feedback and answer questions. By developing a long-range forecast and rate plan, we are striving to balance short-term financial needs while minimizing customer rate impacts over the long term.

Ms. Owen thanked Mr. Tarasov for his work with the District and for today's presentation.

Mr. Pulford suggested having a final outreach plan. Mr. Janney thanked him for his good idea.

Commissioner Onley thanked Mr. Janney for his and staff efforts going forth.

There being no further discussion to come before the Board, Commissioner Knapp adjourned the meeting at 10:21 a.m.

President

ATTEST:

Secretary

General Counsel
Approved as to Form