

2024 Budget

Approved December 5, 2023
Resolution 1478



Public Utility District No. 1 of Pend Oreille County

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Public Utility District No. 1 of Pend Oreille County, Washington (the PUD, or the District) was established in 1936 and began operations in 1948. 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.

David W. Rick was elected to the Commission for District No. 3, the northern most part of the County, in 2023.

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

Joseph B. Onley was elected for District No. 1, the most southern part of the county, in 2019.



The proposed budget includes the resources necessary to support the PUD's Mission Statement, Vision and Core Values.

Our Mission

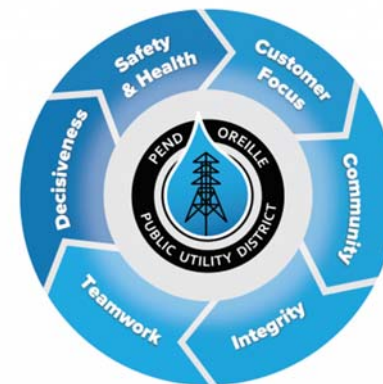
Quality Service at Low Cost

Vision

"To be valued as a trusted and respected Public Utility District providing services our rural communities need."

Core Values

Safety & Health, Customer Focus, Community, Integrity, Teamwork and Decisiveness



The PUD consists of four primary systems: Electric, Production (Generation), Community Network (Fiber), 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 9,900 residential and commercial customers. 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 the 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

The 2024 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 are some of the major highlights of the 2024 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. A rate adjustment was not implemented in 2023; however, the financial forecast does assume small rate adjustments going forward. This strategy is subject to public hearing and Board of Commissioner approval.
- **New connections** – The 2024 budget assumes a 1.5% increase to residential electric customer count, or 138 new connections. Fiber end users are estimated to increase by 60.
- **Labor** – The 2024 budget assumes the union negotiated wage adjustment and a 3% CPI wage adjustment and a 3% merit pool for non-union employees. It also reflects a small increase in full-time equivalent (FTE) employees, necessary to fulfill the PUD's PM&E requirements.
- **System reliability investments** – The 2024 capital budget includes several major projects aimed at increasing reliability for customers. These include a meter replacement project which is necessary due to outdated and unsupported equipment, a new substation to accommodate General Service load growth, moving overhead lines underground in areas of high outages, and distribution water line replacements in areas of high leaks.
- **Vehicles and Equipment** – The replacement of aged vehicles and equipment that have reached the end of their useful life is necessary to ensure safe operations, reliable service, and efficiency. Replacements are identified by age and use with the intent to remove them from service before extensive maintenance costs are incurred.
- **Inflation & Supply Chain** – In 2020, purchasing one of our standard transformers to serve a home cost about \$800. Now, that same transformer costs about \$2,400. To add to the challenge, those transformers take about twice as long (or longer) to receive. Transformers are just one of the critical pieces of equipment presenting challenges for the PUD and utilities across the nation. Both customer demand and replacing aging infrastructure have led to the need for more poles, wires and more, and costs for all equipment have dramatically increased.

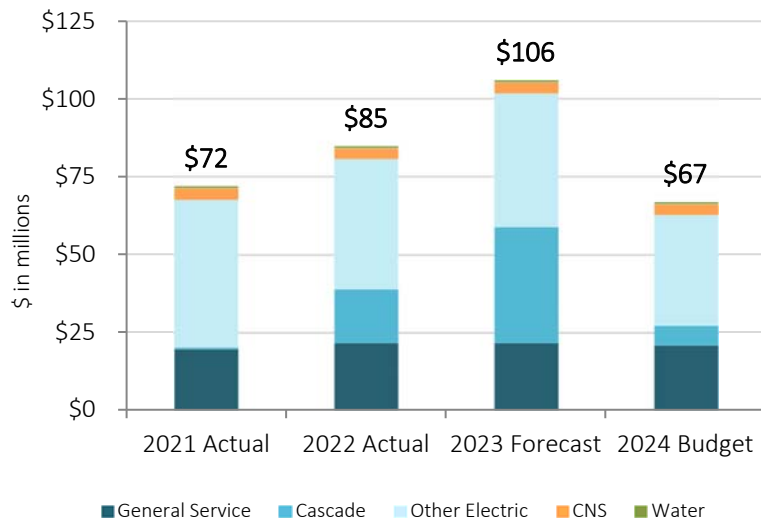
BUDGET DETAILS

Operating Revenue

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

In the chart below, Cascade revenue represents energy usage by Ponderay Real Estate LLC and Cascade Digital. The budget amount for 2024 is based on current contract at the site by the new owners, Cascade Digital which expires March 31, 2024.

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

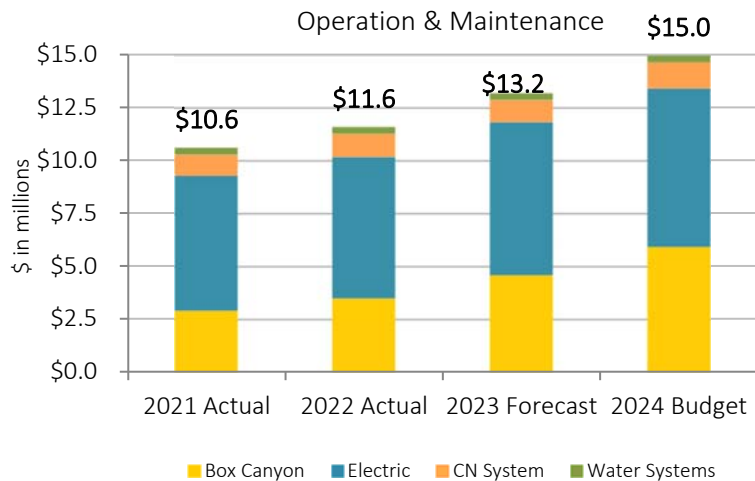
Light under the Boundary Power Assignment Agreement. The PUD purchases from Shell energy in monthly blocks, the amounts of which are intended to match the PUD’s forecasted monthly energy load. The net transaction results in fixed payments from Shell to the PUD over the five-year contract period.

Community Network System (CNS) and Water System revenue is projected to stay fairly 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 1.5%.	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).



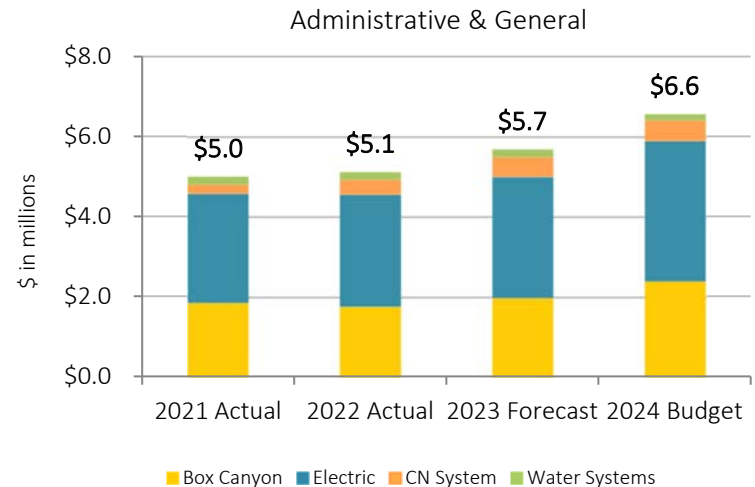
Operation & Maintenance Expenses

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 2024 budget for operating and maintenance expenditures is \$1.6 million higher than projected 2023 expenses. This is due primarily to the FERC required mitigation efforts at the Calispell Creek Dike to prevent erosion and breach. The 2024 Box Canyon Production budget includes \$1,200,000 for design finalization and construction, upon FERC approval. Electric System operation and maintenance expenses includes services for maintenance in the substations, including maintenance of breakers and transformer oil replacement.

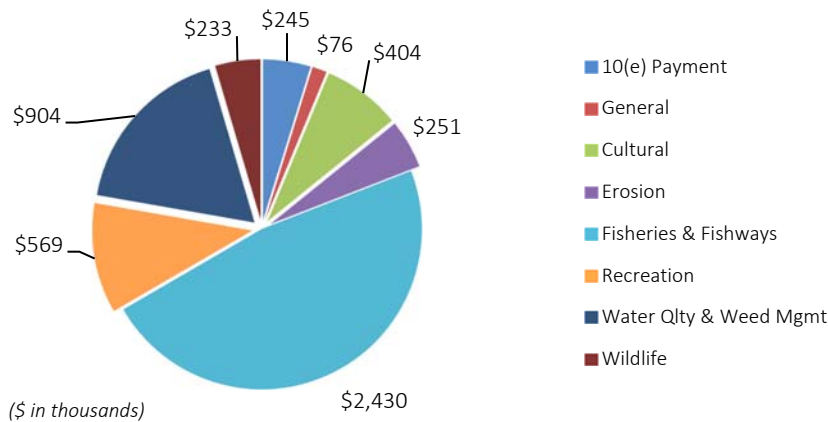
Administrative & General Expenses

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, policy-making, regulatory and other management oversight functions. Total costs are projected to increase slightly in 2024, but are just 10% more than the base year of 2020, before drastic cuts were made. Cost variances can be attributed to inflation, insurance costs which have increased substantially, and a focus on cyber security and improved business efficiency with software application improvements.



Protection, Mitigation & Enhancement

The requirements for the Protection, Mitigation and Enhancement measures (PM&E) per the Box Canyon FERC license are estimated to be \$5.1 million in 2024. 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 a 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 \$2.6 million annually from the PUD for mitigation procedures over a 25-year period. This payment is reflected in the Water Quality (\$0.6 million) and Fisheries (\$2 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 50% of personnel.

The 2024 Budget includes \$14.6 million for wages and benefits, which includes an assumed 3.2% CPI wage adjustment for non-union employees effective January 1st, a 3% merit pool wage adjustment for non-union employees effective April 1st and the union negotiated 5.9% wage adjustment effective April 1st. Management will continue to review industry and economic factors affecting wages through the first part of the year.

The budget reflects a small increase in full-time equivalent (FTE) employees, necessary to fulfill the District’s PM&E requirements.

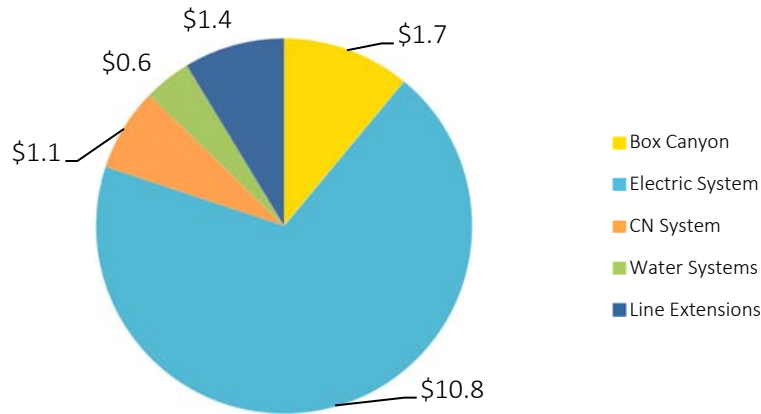
Department	2021	2022	Current	2024 Budget
Administration	21	18	18	20
Operations	41	44	46	46
Customer Service	8	8	7	8
Regulatory Affairs	2	2	2	3
Engineering	6	8	7	7
Full-Time Employees*	78	80	80	84

*End of Year Headcount.

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 \$15.6 million for the year, including line extension costs. Of the total expected spending, \$0.6 million will be financed through a grant and low interest loan.



The PUD continues to focus on investing in the overall reliability and longevity of the Electric System. The Electric System capital budget includes \$3.5 million for the relocation or 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 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 usage, repairs and maintenance history, and anticipated needs for repairs that are no longer cost effective to maintain. These vehicles are surplus and sold. The 2024 budget includes \$0.6 million for replacement vehicles and equipment.

The Line Extensions budget includes \$1.35 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).

The Water System capital expenditure budget is \$0.7 million. The system is budgeting to complete a distribution replacement project at the Sunvale Community Water System. The District was awarded a low interest loan and grant funding for this project.

Summary

The District is proposing \$76.9 million in expenditures for the 2024 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	62,532,378	24,108,983	3,443,423	614,234	(24,091,983)	66,607,035
Interest income	2,142,000	949,200	102,000	1,500	-	3,194,700
Grant & Debt Financed	-	-	-	600,000	-	600,000
Deferred and other income	(3,354,260)	7,200	(224,056)	-	-	(3,571,116)
Total Budgeted Funding Sources	61,320,118	25,065,383	3,321,367	1,215,734	(24,091,983)	66,830,619
<u>Budgeted Expenditures:</u>						
Power from Box Canyon	23,863,983	-	-	-	(23,863,983)	-
Power from Boundary	3,536,304	-	-	-	-	3,536,304
Power from other sources	14,102,976	-	-	-	-	14,102,976
Wheeling and backup	634,192	188,400	-	-	-	822,592
Operation & Maintenance	7,480,330	5,916,257	1,231,816	328,423	-	14,956,825
PM&E costs	-	5,113,205	-	-	-	5,113,205
Customer accounting & information	723,071	-	87,410	48,500	-	858,981
Administrative and general	3,495,964	2,392,584	514,746	157,507	(228,000)	6,332,801
Taxes	1,762,710	103,510	18,420	30,776	-	1,915,416
Total Operating Expenditures	58,280,820	13,713,956	1,852,392	565,206	(24,091,983)	50,320,391
Interest on long-term debt	145,615	5,252,046	49,276	19,979	-	5,466,916
Less Federal Subsidy	-	(406,764)	-	-	-	(406,764)
Less amortization included in interest	-	481,930	-	-	-	481,930
Capital Project Payments	11,980,530	1,719,215	1,275,000	630,000	-	15,604,745
Capital Improvement Funding	-	-	-	-	-	-
Principal payments	735,000	4,305,000	384,333	15,163	-	5,439,496
Total Budgeted Expenditures	71,141,965	25,065,383	3,561,001	1,230,347	(24,091,983)	76,906,714