

Public Utility District No. 1 of Pend Oreille County

2022 Budget

Approved December 7, 2021

Resolution 1452



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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 who serve six year staggered terms. The Commission is the legislative authority of the PUD and establishes and controls policy. Richard A. Larson was first elected to the Commission for District No. 3, the northern most part of the County, in 2010. He was elected to another six year term in 2016. Joseph B. Onley was elected for District No. 1 in 2019. Curtis J. Knapp was first elected to the Commission in 2002 and most recently reelected in 2020. Mr. Knapp represents District No. 2

The District is proposing a consolidated \$63.6 million budget for 2022. In the midst of the global pandemic, recovering from the closure of its largest customer and other utility industry changes, the District continues to be cost conscientious, evaluating expenditures at all times and reducing costs if possible, while adapting to a changing environment.

The proposed budget includes the resources necessary to 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.



The District consists of four primary systems: Box Canyon Production (Generation), Community Network (Fiber), Electric, and Water:

Production

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 2,400 end-users are currently connected to fiber. Wireless towers serve approximately 135 end-users in the areas of Metaline Falls, Lone, Cusick and the Riverbend community.

The District provides services to Retail Service Providers (RSPs) who then resell those fiber optic and wireless service to the customers.

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 9,700 residential and commercial customers. The District is the exclusive retail electric service provider in the county.

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 and market purchases.

Water Service

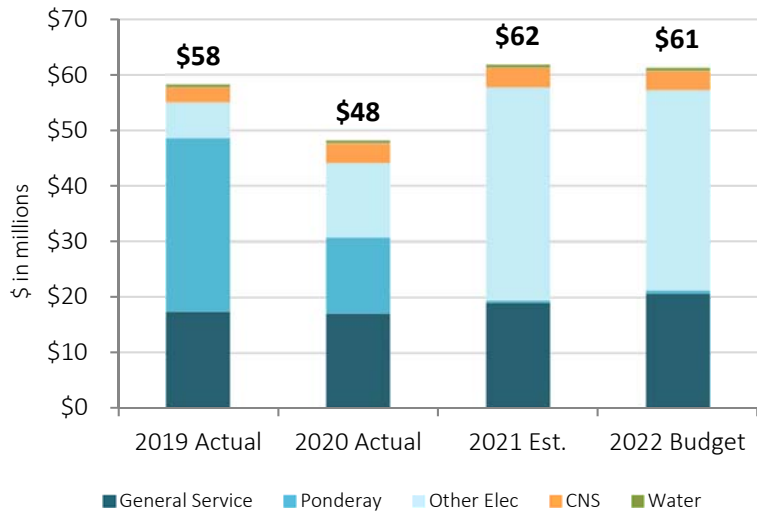
The Water System consists of nine individual water distribution subdivisions. The District is contractually obligated to maintain separate and distinct rates for each water system that reflect the individual system’s costs. The District serves approximately 600 water customers.

Budget Detail

Revenue

General Service encompasses all remaining electric load outside of the Ponderay Mill site in Usk and includes residential, commercial and industrial customers. Other Electric revenue includes market sales, contributed capital and interdivisional revenue.

Ponderay revenue includes revenue from Ponderay Newsprint Company (PNC), which operated a paper machine and fiber mill in Pend Oreille County up until June of 2020. The budget amount in 2021 is based on current usage at the site by the new owners, Ponderay Real Estate LLC.



Other Electric revenue includes market sales.

Community Network System revenue is increasing as more customers sign up for the service. The Budget assumes 2,590 standard class connections and 138 wireless connections by the end of 2022.

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 Electric Revenue

Worst	Expected	Best
# of Residential Customers		
The number of electric customers stays the same = \$200,000 reduced revenue.	The number of electric customers conservatively grows at the rate of 1.7%.	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 2015-2016 levels = \$725,000 reduced revenue (1,370 kWh per month).	The average usage per customer stays constant with the 5-year average (1,490 kWh per month).	Average usage per customer increases to 2017 levels = \$475,000 additional revenue (1,570 kWh per month).

Industrial Electric Revenue

Worst	Expected	Best
Customer usage stays at 2021 levels = \$640,000 reduced revenue.	Customer usage as budgeted, an increase over 2021 of approximately 20%.	Customers usage higher than expected, budget impact dependent upon levels.

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 = \$32,400 reduced revenue.	The number of end-users increases by 60.	The number of end-users increases by 120 = \$64,800 additional revenue
Wireless		
Number of users decrease by 20 \$9,600 reduced revenue.	The number of wireless users stays constant.	The number of wireless users increases by 20 = \$9,600 additional revenue.

Operation & Maintenance Expenses

The 2022 budget is projecting slightly higher costs due primarily to the very conservative spending year in 2021.

Administrative & General Expenses

Administrative and General (A&G) expenditures are projected to increase slightly in 2022, but are still lower than 2020. Cost variances can be attributed to insurance costs, which have increased substantially, the CNS department is working on a GIS mapping project

Protection, Mitigation & Enhancement

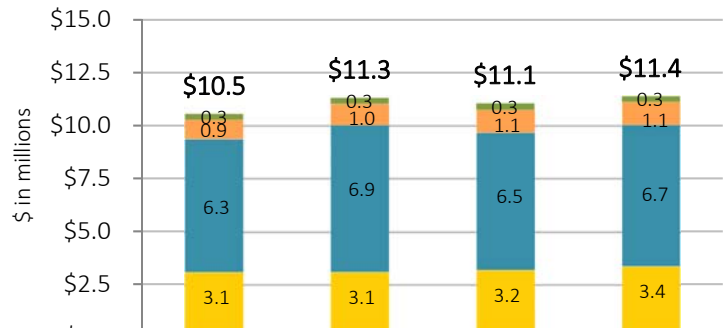
The requirements for the Protection, Mitigation and Enhancement measures (PM&E) per the Box Canyon FERC license are estimated to be \$4.7 million in 2022. These projects include improvement of wildlife and fish habitat, water quality monitoring, erosion mitigation, and environmental studies.

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 additional fish passage facilities as required by the FERC license. A proposed amendment to the FERC license has been agreed to by all involved parties and has been presented to FERC for approval. The amendment would result in a payment stream of approximately \$2.6 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 2021 budget assumes the amendment is approved by FERC.

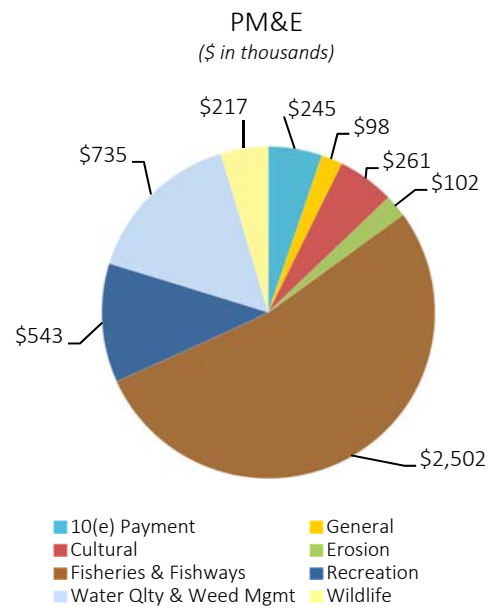
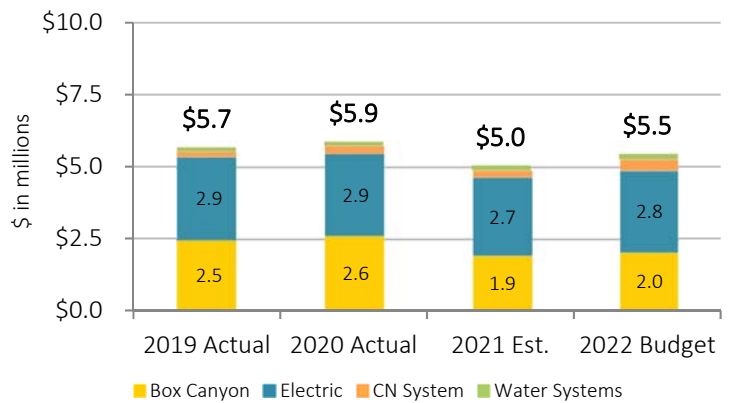
The budget also includes a Recreation Study Implementation Plan, as required in our FERC license. This is anticipated to be a three-year project.

Capital Expenditures

Operation & Maintenance



Administrative & General



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 \$7.8 million for the year. Of the total expected spending, \$830,000 will be 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	
Production	\$670,000
Electric	\$5,130,655
Community Network	\$316,000
Water	\$830,000
Line Extensions (Elec & CNS)	\$900,000
Total	\$7,846,655

Capital Expenditures Funding	
Water Grants & Loans	\$830,000
Cash Reserves	\$7,016,655
Total	\$7,846,655

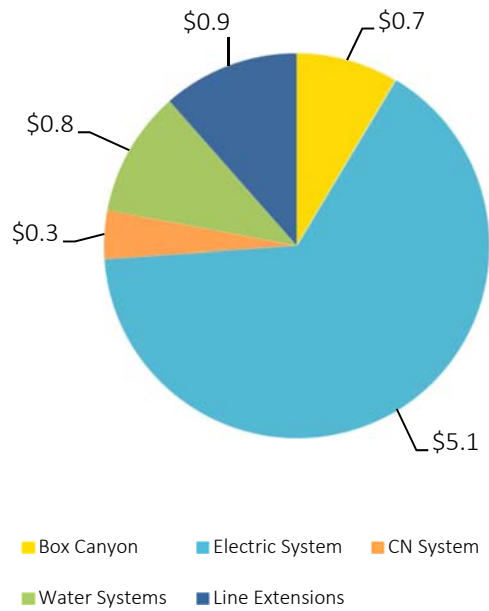
The Production budget includes \$500,000 for erosion mitigation efforts at the Calispell Creek Dike.

The District continues to focus on investing in the overall reliability and longevity of the Electric System. The budget includes \$1,475,000 for replacement of aging poles and conductor. This budget also includes \$1.2 million for replacement of a section of the Optical Ground Wire (OPGW) line. The OPGW line is a dual functioning cable, serving as both a traditional static or grounding wire on overhead transmission lines and an optical fibers communication line, which is used for telecommunications purposes. There is a section that is in need of repair due to several tree strikes. The budgeted amount assumes the section will be replaced in-kind.

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. In an effort to reduce and delay costs, the 2022 budget does not include any new vehicle purchases. As part of the 2021 budget process the purchase of two bucket trucks was approved for 2022 and ordered early 2021 due to the long lead time of 18+ months. These vehicles are included in the budget as they will arrive in 2022.

The Community Network System is budgeting \$316,000 in capital expenditures for the year.

The Water System capital expenditure budget is \$830,000. The system is budgeting \$100,000 to begin a water main replacement project at Sunvale and \$730,000 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. 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 2022 Budget includes \$12.7 million for District wages and benefits.

Department	2018	2019	2020	2021	2022 Budget
Administration	12	12	13	13	13
Electric Operations	28	27	26	26	26
Information Technology	4	4	4	4	4
Box Canyon Operations	15	14	13	13	13
Customer Service	9	9	7	7	7
Regulatory Affairs	6	4	2	2	2
Engineering	8	5	5	6	7
Water Systems	3	3	3	3	3
Community Network System	4	4	4	4	4
Full-Time Employees*	89	82	77	78	79

*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.

Summary

The District is proposing \$63.6 million in expenditures for the 2022 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	57,180,447	19,392,114	3,447,794	550,375	(19,312,114)	61,258,616
Interest income	42,360	33,000	1,320	470	-	77,150
Grant & Debt Financed	-	-	-	830,000	-	830,000
Deferred and other income	(202,162)	6,600	(224,056)	-	-	(419,618)
Total Budgeted Funding Sources	57,020,645	19,431,714	3,225,058	1,380,845	(19,312,114)	61,746,148
<u>Budgeted Expenditures:</u>						
Power from Box Canyon	19,147,114	-	-	-	(19,147,114)	-
Power from Boundary	3,147,300	-	-	-	-	3,147,300
Power from other sources	11,566,721	-	-	-	-	11,566,721
Wheeling and backup	665,430	178,200	-	-	-	843,630
Operation & Maintenance	6,663,656	3,354,173	1,100,457	267,847	-	11,386,133
PM&E costs	-	4,705,330	-	-	-	4,705,330
Customer accounting & information	816,573	-	35,086	42,946	-	894,605
Administrative and general	2,833,520	2,032,191	387,760	198,073	(165,000)	5,286,545
Taxes	1,299,160	103,410	18,330	27,232	-	1,448,132
Total Operating Expenditures	51,653,790	10,373,305	1,541,633	536,098	(19,312,114)	44,792,711
Interest on long-term debt	163,518	5,577,784	76,669	3,231	-	5,821,202
Less Federal Subsidy	-	(502,584)	-	-	-	(502,584)
Less amortization included in interest	-	528,209	-	-	-	528,209
Capital Project Payments	5,880,655	670,000	466,000	830,000	-	7,846,655
Use of Cash Reserves	(2,000,000)	(1,200,000)	-	-	-	(3,200,000)
Principal payments	665,000	3,985,000	537,271	13,453	-	5,200,724
Total Budgeted Expenditures	56,362,963	19,431,714	2,621,573	1,382,782	(19,312,114)	60,486,917
Change in Working Capital	657,682	-	603,485	(1,937)	-	1,259,231

All power generated by Box Canyon 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 2022 consolidated budget shows fewer revenue sources than budgeted expenditures. The budget assumes the District will use cash reserves of approximately \$3.2 million.