

# **Pend Oreille Public Utility District**

## **2018 Budget**

Approved December 19, 2017



**Public Utility District No. 1 of Pend Oreille County**  
**2018 Approved 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 \$73 million budget for 2018. The District continues to be a stable provider of electricity, broadband, and water services. Completion of projects, adaptation to changing regulatory items, and evaluation of the District's distribution system will be a focus of the utility in 2018. 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 District also continues to commit to the safety of our employees and customers, as well as a commitment to provide quality service to our customers in Pend Oreille County.

The budget includes many different projects and is based on several assumptions—all of which are discussed in full detail below. Financial projections are developed using expected, worst and best case 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 budget.

Generation

The Box Canyon Production System produces power from the Box Canyon Hydroelectric Project. 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 PUD operates Box Canyon Dam pursuant to a 2005 license issued by the Federal Energy Regulatory Commission (FERC). The license has many different prescriptions 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.

Construction of an upstream fish passage facility at Box Canyon began in 2016, with completion scheduled for October 2018. The District is anticipating that approximately three-quarters of the project will be paid for by the end of 2017. The 2018 budget anticipates a \$35 million bond issuance in the spring to reimburse an existing bank line of credit for the fish passage project.

### Communication Services

The Community Network System (CNS) supplies wholesale broadband communication services. CNS was created in 2010 and became fully operational in 2014. Fiber optic lines are installed to approximately 4,000 homes in the County and approximately 1,900 customers have been connected to fiber.

The Washington State legislators facilitated PUD's telecommunication infrastructure capacity sharing, but strictly in a wholesale role. In other words, the District can only sell fiber on a wholesale basis, not directly to the customer. Therefore, the District charges Retail Service Providers (RSP's) for use of the fiber. The RSPs are the link to the consumer; customers purchase fiber connection through the RSP of their choosing.

### The Electric System

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. The District currently provides all of the retail electric service in its area.

### Water System

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 which reflect the individual system's costs.

### District Power Resources

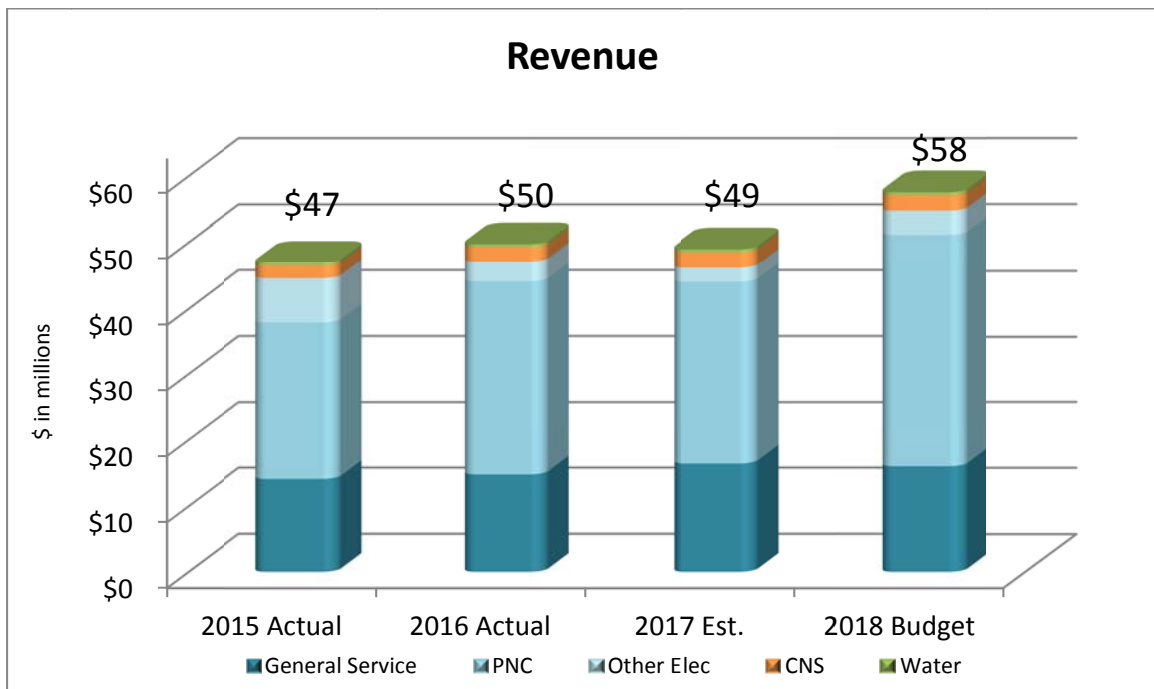
Energy resources are obtained from District-owned resources Box Canyon Dam and the Calispell Hydro Plant, and outside sources Boundary Dam owned by Seattle City Light, and Bonneville Power Administration (BPA).

The District receives 48 megawatts of power capacity from the City of Seattle's Boundary Hydroelectric Project pursuant to an assignment agreement between the parties. Power received from Boundary is the District's most inexpensive power source and a key component of the District's low customer rates. The District's General Service customers are contractually entitled to be served with lowest-cost power from Boundary, and currently pay for only a small percentage of Box Canyon power.

Funding Sources

Ponderay Newsprint Corporation (PNC), which operates a paper machine and fiber mill in Usk, Washington, is the District’s largest electric customer. Current contracts and interim operational agreements 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. The 2018 Budget increase for PNC is due to an increase in external power purchase costs (namely Bonneville Power Administration) that are billed and passed through directly to PNC. General Service encompasses all remaining electric load outside of PNC and includes residential, commercial and industrial customers.

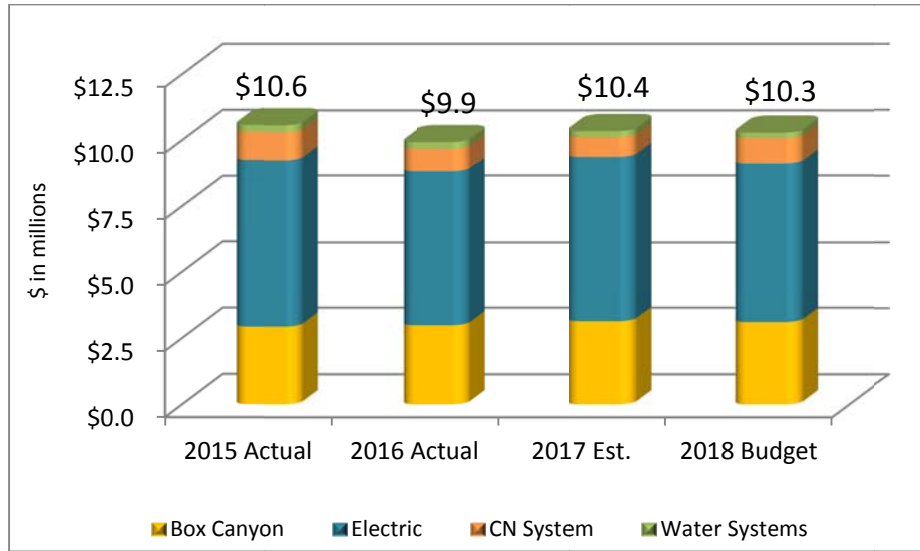
Community Network System revenue is increasing as more customers sign up for the service. The Budget assumes 1,940 standard class connections and 60 wireless connections by the end of 2018.



Worst	Expected	Best
<p>The number of electric customers decreases.</p> <p>\$100,000 reduced revenue per 1% decrease</p>	<p><b># of Residential Customers</b></p> <p>The number of electric customers conservatively grows at the rate of 0.8%, compared to 1% in 2017.</p>	<p>The number of electric customers increases</p> <p>\$100,000 additional revenue per 1% growth</p>
<p>Average usage decreases</p> <p>\$100,000 reduced revenue</p>	<p><b>Average Usage</b></p> <p>The average usage per customer stays constant.</p>	<p>Average usage increases.</p> <p>\$100,000 additional revenue</p>

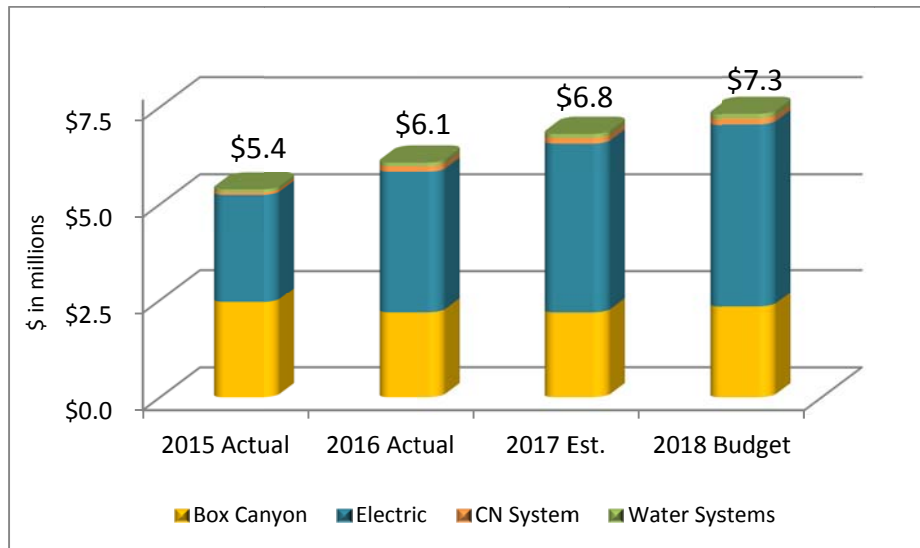
### Operation & Maintenance Expenses

Operation and Maintenance expenses for the Electric and CN Systems in 2015 reflect increased costs due to severe winter storms. Expenses for 2016 were lower than prior years due primarily to reduced outages; 2016 labor hours related to outages were well below average. The 2018 Budget forecasts increases due to a more average year for outages, inflation and regulatory requirements. Costs of goods and services continue to go up each year. The fact that we are holding costs fairly constant each year shows we are making good progress in cost reductions.



### Administrative & General Expenses

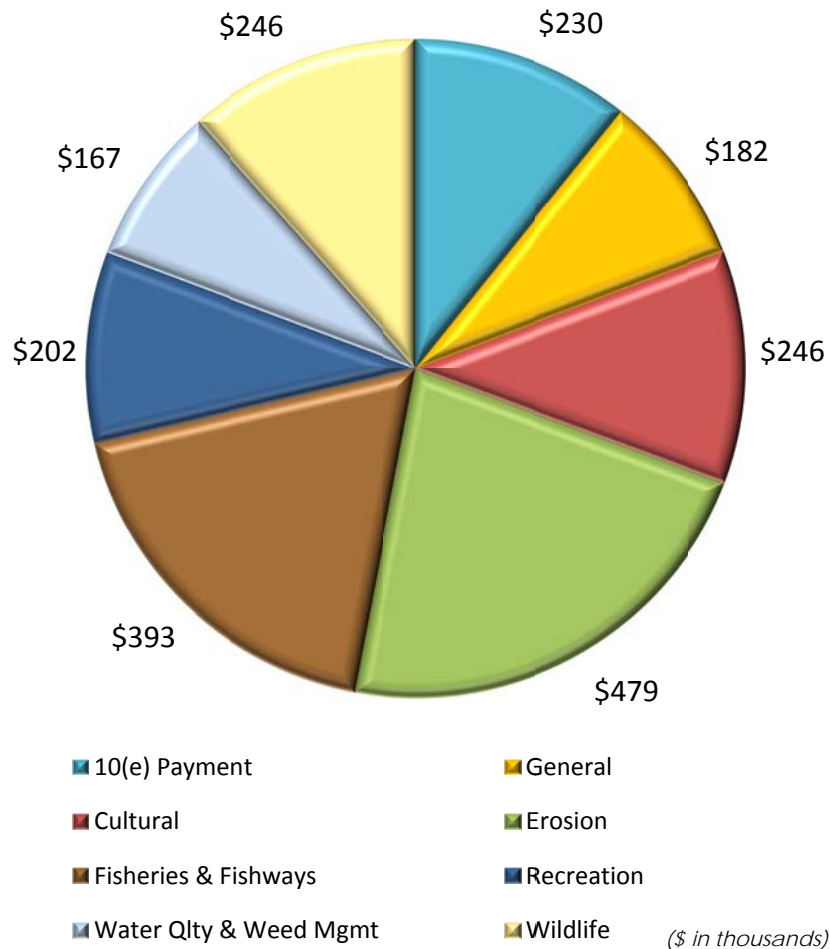
Administrative and General (A&G) expenditures are higher in 2017 and 2018 due primarily to increased legal fees associated with ongoing litigation with Ponderay Newsprint. The 2018 budget also includes increased professional services due to NERC required studies.



Protection, Mitigation & Enhancement

In addition to required capital projects, the District has several regulatory and maintenance projects budgeted in 2018. The requirements for the Protection, Mitigation and Enhancement measures (PM&E) per the Box Canyon FERC license are estimated to be \$2.1 million in 2018. These projects include improvement of wildlife and fish habitat, water quality monitoring, erosion mitigation, and environmental studies.

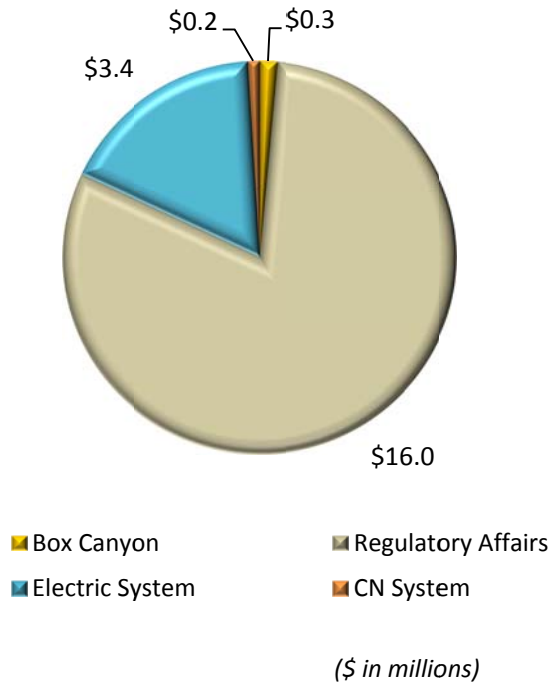
In 2014 the District entered into an agreement with the USDA Forest Service for an erosion monitoring plan required as part of the FERC license. The District will pay the Forest Service \$1.8 million over 5 years, and in exchange, the Forest Service will perform all necessary erosion work at these sites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



Capital Expenditures

Capital Expenditures are defined as items of tangible business property of a relatively permanent nature having an acquisition cost of \$2,000 or more. This includes, but is not limited to: land, new purchases of machinery and equipment, replacement and major rebuild of plant and equipment, construction projects, major spare parts, office furniture and fixtures and computer hardware and software.

Total District capital expenditures are budgeted to be \$19.9 million for the year. Of the total expected spending, \$16.0 million will be debt financed.



Capital Expenditures Detail	
Production	\$16,261,500
Distribution	\$3,382,000
Community Network	\$193,200
Water	\$56,950
<b>Total</b>	<b>\$19,893,650</b>

Capital Expenditures Funding	
Debt Financed	\$15,975,000
Revenue Funds	\$3,918,650
<b>Total</b>	<b>\$19,893,650</b>

As part of its FERC license for Box Canyon Dam, the PUD is required to provide upstream fish passage for three target species: Bull Trout, Westslope Cutthroat Trout, and Mountain Whitefish. The upstream trap-and-haul type fishway will consist of a fish ladder, pre-sort holding pool, and a sorting facility. Target fish will be identified, measured, and tagged before being

transported upstream for release. Due to limited construction seasons associated with river flow conditions and water temperature, construction of the fish passage will require a two-year schedule. Completion is scheduled for October 2018. The 2018 Budget includes \$15 million for this project.

The District continues to focus on investing in the overall reliability and longevity of the Electric System. Accordingly, 2017 was the final year for the Test and Treat program. Distribution poles were tested, and then either treated to increase the lifespan or scheduled to be replaced if found to be aging or unsafe. This work is enhancing the safety and reliability of poles. The budget includes \$243,500 for replacement of poles.

The District is in the final stages of a several year project to meet Washington State Department of Transportation's (WSDOT) franchise update requirements. The franchise, or permit, issued by the WSDOT allows the District to put equipment in the state highway right-of-ways. In 2014, 2015, 2016 and 2017 the District surveyed and documented all PUD equipment along Highway 211, Highway 2, Highway 20 and Highway 31 respectively. The District will now analyze the poles and guy wires identified in the surveys to determine if they need to be moved or can be left as is. The cost for each highway varies due to the number of miles, equipment, and remediation steps required. The 2018 Budget includes \$120,000 for this project.

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 surplused and sold; the budget includes \$725,000 for vehicle replacements.

The Community Network System is budgeting \$193,200 in capital expenditures for the year. The budget includes \$75,000 for line extensions paid for by the customer; this cost is offset through revenue.

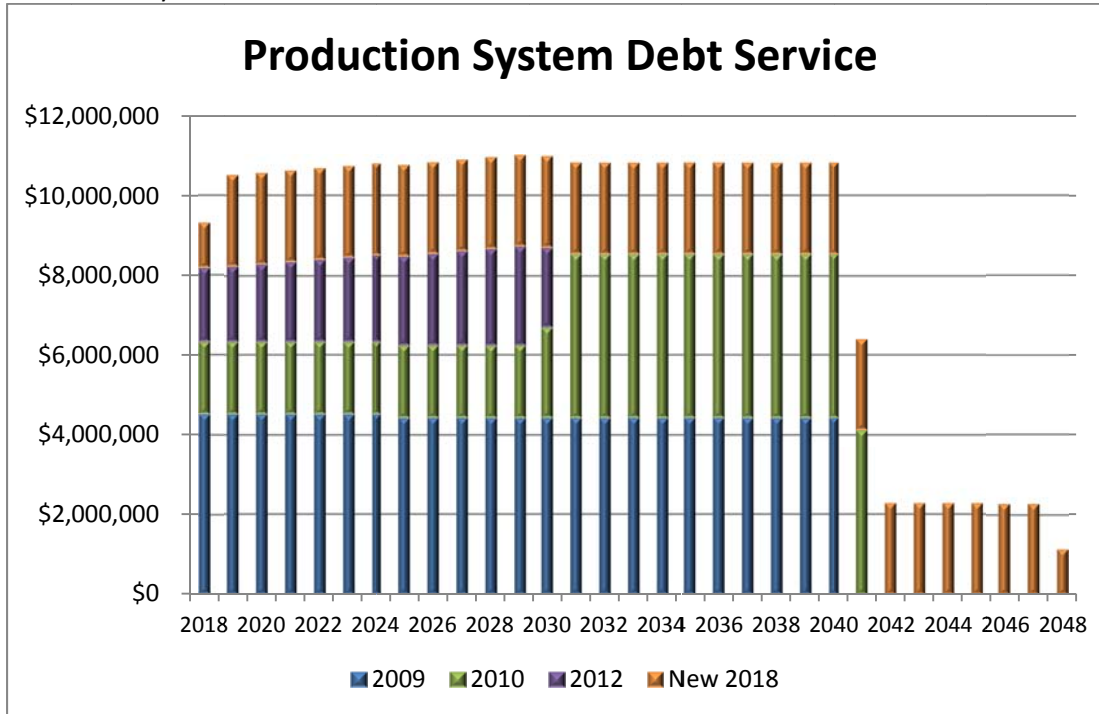
The Water System capital expenditure budget is \$56,950. The system is budgeting \$12,000 to begin studies regarding undersized pipe at the Sunvale Acres subdivision. The Water System is also budgeting \$2,000 to begin a meter replacement project at all water systems.



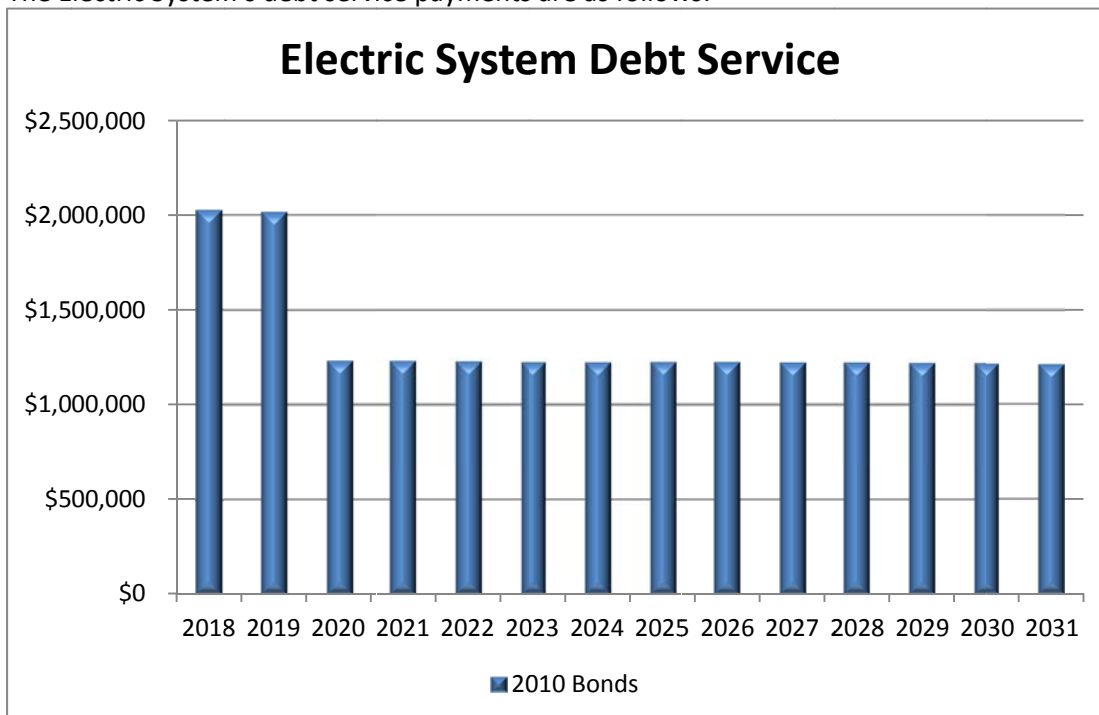
Debt Assumptions

The 2018 Budget assumes increased Box Canyon debt of \$35 million in 2018. The proceeds will be spent on the Box Canyon upstream fish passage project, which is currently underway.

The following graph shows an estimate of debt service (principal and interest) payments for the Production System bonds.



The Electric System’s debt service payments are as follows:



## 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 was negotiated in 2017 for a new three year term. Under the contract, wage increases will be 3% per year.

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 2018 Budget includes \$13.3 million for District wages and benefits.

## Personnel

In 2018 the District is requesting two full-time employees. With the movement of a Lineman to System Operations in 2016, the District did not fill the open Lineman position. Instead of the typical 4 person crew, over the past year and a half the District has operated with a 3 person line crew with a meter reader to assist in the North part of the county. Upon the transfer of the meter reader to Hydro Operations, the North end crew is in need of a 4<sup>th</sup> person. The District is recommending filling this position with a Serviceman.

Upon receiving the Compliance Manager's resignation earlier this year the District used a consulting firm to fill the role. This budget assumes the position will be filled, bringing the expertise back in-house.

Department	2015 Actual	2016 Actual	2017 Actual	2018 Budget
Administration	11	11	10	11
Electric Operations	31	31	30	31
Information Technology	8	5	4	4
Box Canyon Operations	19	17	16	16
Customer Service	10	10	9	9
Regulatory Affairs	7	6	6	6
Engineering	5	7	9	9
Water Systems	3	3	3	3
Community Network System	4	4	4	4
<b>Full-Time Employees</b>	<b>98</b>	<b>94</b>	<b>91</b>	<b>93</b>
On-Call Employees	4	4	3	3
<b>Total Employees</b>	<b>102</b>	<b>98</b>	<b>94</b>	<b>96</b>

## Summary

The District is proposing a consolidated \$73 million budget for 2018, the details of which were discussed in the document above, and shown numerically in the table below.

	Community					Total District
	Electric System	Production System	Network System	Water System	Eliminations	
<u>Budgeted Expenditures:</u>						
Power from Box Canyon	20,043,181	-	-	-	(20,043,181)	-
Power from Boundary	2,198,000	-	-	-	-	2,198,000
Power from BPA	8,290,000	-	-	-	-	8,290,000
Power from other sources	2,132,442	-	-	-	-	2,132,442
Wheeling and backup	1,252,963	239,634	-	-	-	1,492,597
Operation & Maintenance	6,027,283	3,098,180	965,196	208,823	-	10,299,482
PM&E costs	-	2,144,264	-	-	-	2,144,264
Customer accounting & information	770,406	-	53,507	20,010	-	843,923
Administrative and general	4,714,222	2,336,544	152,412	122,132	(171,600)	7,153,710
Taxes	2,709,524	103,410	8,310	22,022	-	2,843,266
<b>Total Operating Expenditures</b>	<b>48,138,021</b>	<b>7,922,032</b>	<b>1,179,425</b>	<b>372,987</b>	<b>(20,214,781)</b>	<b>37,397,684</b>
Interest on long-term debt	596,977	8,339,453	196,061	5,085	-	9,137,576
Less Federal Subsidy	-	(1,882,295)	-	-	-	(1,882,295)
Less amortization included in interest	26,273	43,244	-	-	-	69,517
Capital Project Payments	3,382,000	16,261,500	193,200	56,950	-	19,893,650
Renewal & License Funding	-	1,500,000	-	-	-	1,500,000
Capital Improvement Funding	970,000	-	-	-	-	970,000
Principal payments	1,370,000	4,259,048	537,271	-	-	6,166,318
<b>Total Budgeted Expenditures</b>	<b>54,483,271</b>	<b>36,442,981</b>	<b>2,105,956</b>	<b>435,022</b>	<b>(20,214,781)</b>	<b>73,252,450</b>
<u>Funding Sources:</u>						
Operating Revenues	54,801,173	20,273,181	2,344,040	446,494	(20,214,781)	57,650,107
Interest income	40,075	190,000	-	250	-	230,325
Debt Financed	-	15,975,000	-	-	-	15,975,000
Deferred and other income	(13,580)	4,800	(224,056)	-	-	(232,836)
<b>Total Funding Sources</b>	<b>54,827,668</b>	<b>36,442,981</b>	<b>2,119,984</b>	<b>446,744</b>	<b>(20,214,781)</b>	<b>73,622,596</b>
<b>Change in Working Capital</b>	<b>344,397</b>	<b>-</b>	<b>14,027</b>	<b>11,722</b>	<b>-</b>	<b>370,146</b>