

**Pend Oreille Public Utility District**  
**2019 Approved Budget**

December 18, 2018



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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 \$61.5 million budget for 2019. The District continues to be a stable provider of electricity, broadband, and water services. Completion of the Box Canyon fish passage project, new industrial customers, and continued evaluation of District costs will be a focus of the utility in 2019. 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 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) supplies wholesale broadband communication services. The CN System 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 are connected to fiber.

Under Washington State law, the District can only sell fiber services 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.

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 and serves approximately 9,000 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 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 System

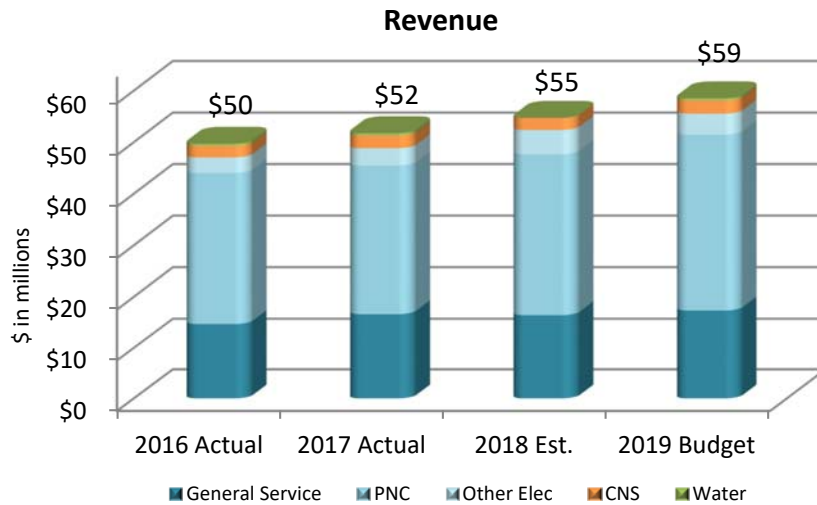
The Water System consists of nine individual water distribution subdivisions. The District is contractually obligated to maintain separate and distinct rates for each water system which reflect the individual system’s costs. The District serves approximately 600 water customers.

Funding Sources

Ponderay Newsprint Corporation (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. The 2019 Budget increase for PNC is due to an increase in Box Canyon costs from license mitigation agreements and debt issuance done in 2018. General Service encompasses all remaining electric load outside of PNC and includes residential, commercial and industrial customers.

The District is expecting an increase in industrial customer electric load for 2019, as the District extended service to several new high-use customers in late 2018. This increase in budgeted revenue is partially offset with a reduction in use from a current industrial customer based on previous expected operational projections.

Community Network System revenue is increasing as more customers sign up for the service. The Budget assumes 2,000 standard class connections and 170 wireless connections by the end of 2019.



Residential Revenue

Current Rates: Service Availability \$30.50/month, Energy \$0.0511/kWh

Worst	Expected	Best
<b># of Residential Customers</b>		
The number of electric customers decreases = \$100,000 reduced revenue per 1% decrease.	The number of electric customers conservatively grows at the rate of 1%.	The number of electric customers increases = \$100,000 additional revenue per 1% growth.
<b>Average Usage</b>		
Average usage per customer decreases to 2015-2016 levels = \$380,000 reduced revenue.	The average usage per customer stays constant with the 5 year average.	Average usage per customer increases to 2017 levels = \$550,000 additional revenue.

Industrial Revenue

Worst	Expected	Best
<b>New Customers</b>		
New customers usage lower than expected (1 aMW) = \$1,200,000 reduced revenue.	New customers are all online totaling an additional 5 aMW of new load.	New customer usage higher than expected, adding 4 aMW = \$650,000 additional revenue.
<b>Current Customer</b>		
Customer usage reduces at the beginning of the year = \$400,000 reduced revenue.	A current industrial customer decreases usage mid-year.	Customer usage remains at current levels all year = \$400,000 additional revenue.

CNS Revenue

Worst	Expected	Best
<b>Premium Class Fiber</b>		
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
<b>Standard Class Fiber</b>		
The number of end-users does not change = \$8,000 reduced revenue.	The number of end-users increases by 60.	The number of end-users increases by 120 = \$8,000 additional revenue
<b>Wireless</b>		
New areas do not attract any new users = \$7,500 reduced revenue.	The number of wireless users increases by 60. This assumes 20 per each new area.	New areas attract 100 new users = \$5,000 additional revenue.

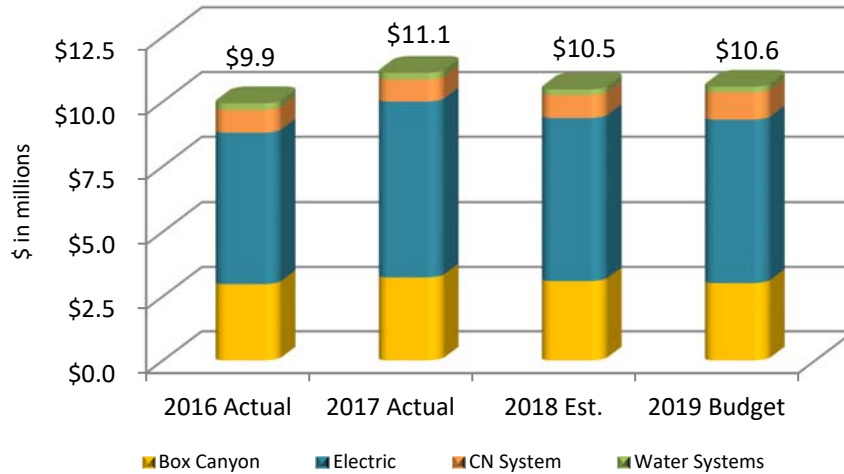
Operation & Maintenance Expenses

Operation and Maintenance expenses for the Electric System in 2016 were lower than prior years due primarily to reduced outages; 2016 labor hours related to outages were well below average.

In 2017 the PUD converted 1,600 high-pressure sodium yard and street lights to LED. The increased costs represented below were offset by grant revenue. The project was primarily funded with BPA conservation dollars as well as a Relight Washington grant from the Transportation Improvement Board of Washington. This project met several of our strategic goals: safety as line crews are able to reduce the amount of time

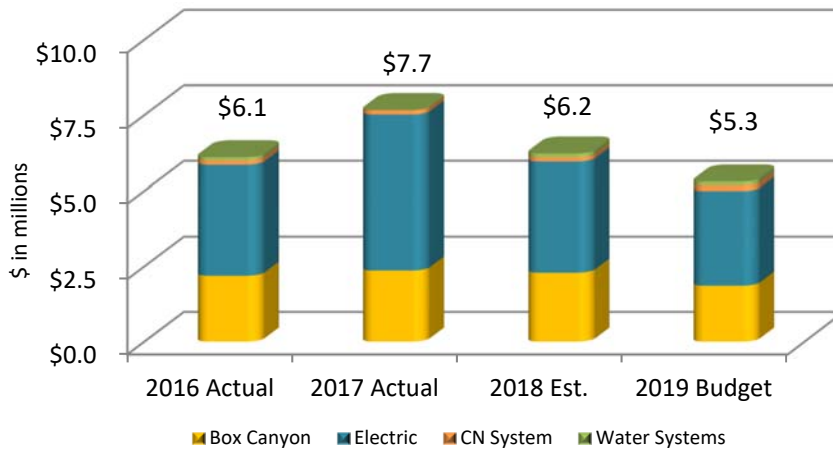
working up on a pole, customer service through reduced customer bills and better quality light, and financial prudence as it reduces our long-term maintenance costs.

The 2019 Budget forecasts costs consistent with 2018 spending levels. 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 projected to reduce in 2019, as compared to other years, due to reduced litigation expenses. Excluding legal fees, A&G costs have been constant over the past four years.

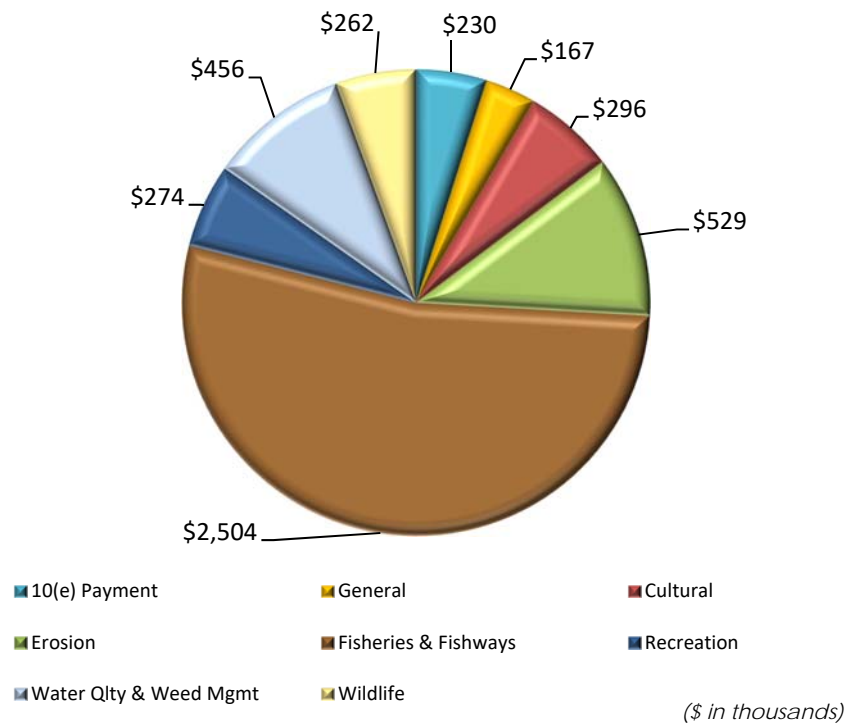


Protection, Mitigation & Enhancement

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 2019. 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. 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. The 2019 budget assumes the amendment is approved.



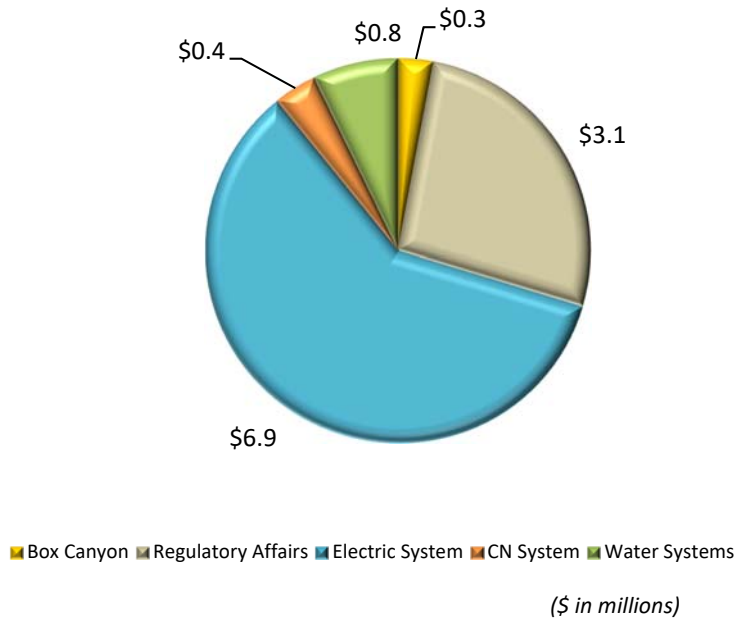
**Capital Expenditures**

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 fixtures and computer hardware and software.

Total District capital expenditures are budgeted to be \$11.5 million for the year. Of the total expected spending, \$3.9 million will be debt financed.

Capital Expenditures Detail	
Production	\$3,415,000
Distribution	\$6,857,000
Community Network	\$418,400
Water	\$826,950
<b>Total</b>	<b>\$11,517,350</b>

Capital Expenditures Funding	
Debt Financed	\$3,900,000
Revenue Funds	\$7,617,350
<b>Total</b>	<b>\$11,517,350</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. The 2019 Budget includes \$3 million of debt financing for the completion of 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 current cycle of 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 \$575,000 for replacement of poles.

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 \$485,000 for vehicle replacements.

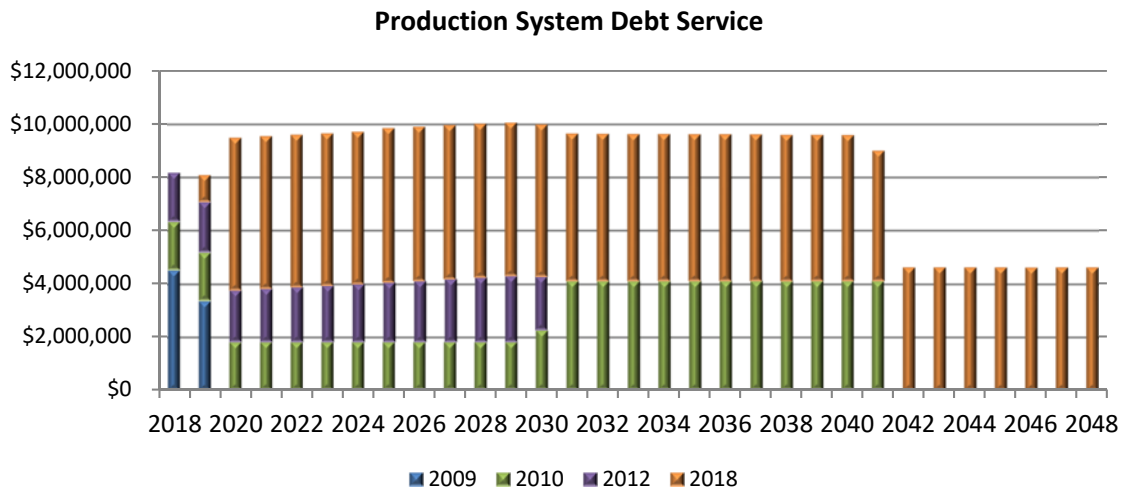
Plans for expansion of the District's electric operations center began several years ago. The 2019 Budget includes \$2.1 million to remove an aged structure and construct a mechanic's building to allow for more safe and efficient work on the District's fleet. The District will pull from funds earmarked and saved for this project. The multi-year Operations Plan is expected to enhance overall safety, reliability and efficiency of operations.

The Community Network System is budgeting \$418,400 in capital expenditures for the year, and includes \$150,000 for replacement of a small bucket truck. The budget includes \$124,600 for line extensions paid for by the customer; this cost is offset through revenue.

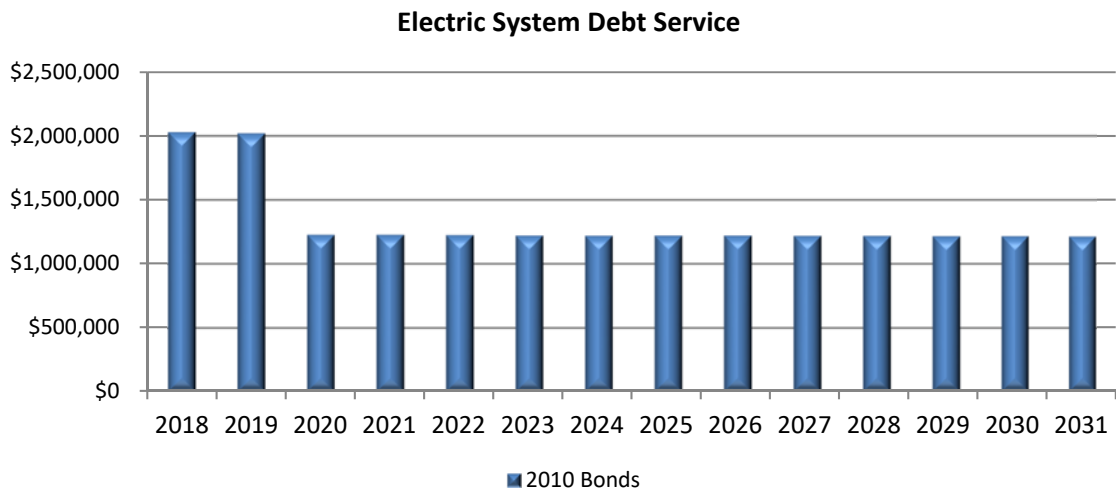
The Water System capital expenditure budget is \$826,950. The system is budgeting \$125,000 for a water treatment facility at Riverview and \$700,000 for a water main replacement project at Sunvale. The District is in the process of applying for low cost financing for these projects. The Water System is also budgeting \$2,000 to begin a meter replacement project at all water systems.

**Debt Assumptions**

The following graph shows debt service (principal and interest) payments for the Production System bonds. The District recently refinanced the 2009 bonds, wrapping them into a new 2018 bond issuance.



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



Payments shown above are made as of January 1 of each year, 1/12<sup>th</sup> of which is set aside each month in the year previous.



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 2019 Budget includes \$13 million for District wages and benefits. No new positions are budgeted for the 2019 year; however, both the 2018 and 2019 headcounts include three replacement positions that are currently open but have not been filled.

Department	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Budget*
Administration	12	12	11	12	12
Electric Operations	28	28	27	25	25
Power Supply	3	3	3	4	4
Information Technology	8	5	4	4	4
Box Canyon Operations	18	16	15	15	14
Customer Service	10	10	9	9	9
Regulatory Affairs	7	6	6	6	6
Engineering	5	7	9	8	8
Water Systems	3	3	3	3	3
Community Network System	4	4	4	4	4
<b>Full-Time Employees</b>	<b>98</b>	<b>94</b>	<b>91</b>	<b>90</b>	<b>89</b>
On-Call Employees	4	4	3	5	5
<b>Total Employees</b>	<b>102</b>	<b>98</b>	<b>94</b>	<b>95</b>	<b>94</b>

*\*End of Year Headcount. Does not include anticipated retirement mid-year.*

On-Call employees currently include a meter reader and personnel to assist with fisheries requirements and the new fish passage facility.

## Summary

The District is proposing a consolidated \$61.5 million budget for 2019, 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		
<b>Budgeted Expenditures:</b>						
Power from Box Canyon	20,688,823	-	-	-	(20,688,823)	-
Power from Boundary	2,350,000	-	-	-	-	2,350,000
Power from BPA	8,293,383	-	-	-	-	8,293,383
Power from other sources	2,482,500	-	-	-	-	2,482,500
Wheeling and backup	1,135,223	239,634	-	-	-	1,374,857
Operation & Maintenance	6,280,714	3,179,313	1,054,440	221,952	-	10,736,419
PM&E costs	-	4,717,594	-	-	-	4,717,594
Customer accounting & information	810,160	-	56,670	21,010	-	887,840
Administrative and general	3,210,573	1,860,599	183,704	126,423	(171,600)	5,209,699
Taxes	2,761,260	101,540	12,970	20,572	-	2,896,342
<b>Total Operating Expenditures</b>	<b>48,012,636</b>	<b>10,098,680</b>	<b>1,307,784</b>	<b>389,957</b>	<b>(20,860,423)</b>	<b>38,948,633</b>
Interest on long-term debt	541,751	7,145,091	196,061	4,140	-	7,887,043
Less Federal Subsidy	-	(682,771)	-	-	-	(682,771)
Less amortization included in interest	9,999	(63,251)	-	-	-	(53,253)
Capital Project Payments	6,857,000	3,415,000	418,400	826,950	-	11,517,350
Renewal & License Funding	-	500,000	-	-	-	500,000
Capital Improvement Funding	(1,600,000)	-	-	-	-	(1,600,000)
Principal payments	695,000	3,800,714	537,271	-	-	5,032,985
<b>Total Budgeted Expenditures</b>	<b>54,516,386</b>	<b>24,213,463</b>	<b>2,459,515</b>	<b>1,221,047</b>	<b>(20,860,423)</b>	<b>61,549,988</b>
<b>Funding Sources:</b>						
Operating Revenues	55,542,985	20,822,463	2,547,760	417,674	(20,860,423)	58,470,459
Interest income	181,260	310,000	-	250	-	491,510
Debt Financed	-	3,075,000	-	825,000	-	3,900,000
Deferred and other income	6,168	6,000	(224,056)	-	-	(211,888)
<b>Total Funding Sources</b>	<b>55,730,413</b>	<b>24,213,463</b>	<b>2,323,704</b>	<b>1,242,924</b>	<b>(20,860,423)</b>	<b>62,650,080</b>

The 2019 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 reserves to meet the District's strategic goals of 180 days cash on hand by 2022. Rate increases are not built into the 2019 budget; however, the District will continue to evaluate operational needs throughout the year and may propose a rate increase if cash flows are not as expected.