



Pend Oreille County Public Utility District

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Pend Oreille PUD Rate Hearing & Impacts of PNC Closure

Commission approves 6.5% revenue adjustment

Newport, Washington – Public Utility District No. 1 of Pend Oreille County (“PUD”) and its Board of Commissioners approved by unanimous vote an electric revenue adjustment of 6.5% during its July 28, 2020, board meeting. This adjustment includes an additional \$5 added to the service availability charge for each customer class, as well as approximately a 4.6% increase to the energy charge. For the average residential customer using 2,000 kilowatt hours per month, this would result in approximately a 7% (or \$9.80) increase on their monthly bill. The new rates will take effect August 1, 2020.

The majority of the rate adjustment is a direct result of the closure of Ponderay Newsprint Company (“PNC”) which accounted for 69% of the utility’s revenue – a loss to the PUD of approximately \$30 million in revenue per year. The other component included a pass-through increase by Seattle City Light to the Boundary power received by the PUD under the cost-based assignment agreement. In order to mitigate this revenue deficit, ensure sufficient cash-on-hand, and meet the PUD’s bond covenants, PUD staff presented three different options to the Board. Each option had varying degrees of impact to rates, budget, and cash reserves in order to strategically manage the same forecasted revenue deficit.

Ultimately, the decision was made to raise revenues by 6.5%, cut or defer costs by \$3 million, and draw down cash by \$6.5 million for the balance of 2020. This results in a savings of more than six dollars in cost cuts for every additional dollar asked of the PUD’s ratepayers through the increase. The PUD is sensitive to the financial hardship many of its customers are currently facing due to the economic impacts of the pandemic and understands that a rate increase is never easy to absorb. The PUD’s Commissioners unanimously expressed the importance of balancing rate increases with cost cuts and other financial measures. Those measures include making strategic drawdowns of cash reserves that the PUD has built over the last five years, as well as drawing down the \$10 million already received through the PNC bankruptcy. The PUD set a goal to have 180 days’ cash-on-hand for each of the electric and Box Canyon systems; with prudent decision making over the last few years, the PUD has built cash reserves up to 253 days’ cash for the electric system, and 234 days’ cash for the Box Canyon system.

As a non-profit utility, the PUD must recover its costs in order to maintain reliable service and meet its financial obligations. While historic assumptions were that rates would need to increase by 40-50% if PNC were to close, the PUD has been able to make strategic decisions over the last five years to lessen this impact. The PUD has long anticipated a PNC closure and has taken prudent steps to prepare financially. This includes establishing robust cash reserves and a rate

stabilization account, keeping costs low, reducing staff through attrition, staggering and delaying capital projects, and selling unneeded properties and assets. In addition, the PUD has tightened its capital budgets, placed capital projects such as the vehicle maintenance-building project on hold, refinanced debt, modified operational practices, and ceased almost all employee travel expenditures.

There are many moving pieces and the PUD will be in a constant state of evaluating what is best for the utility and its customers going forward as the situation evolves. The PUD is focused on helping to bring new electric load, businesses, and jobs back to the PNC mill site, and has partnered with other community agencies to sponsor an economic development strategic plan to guide this effort. For a list of frequently asked questions and answers, up-to-date information on progress made, as well as other relevant PNC information, please visit the PUD's Community & Resources section of its website.

The PUD plans to reevaluate electric rates in January 2021.

The PUD's Commissioners and staff offered the following statements:

"As commissioners, we strive to strike a balance between maintaining the quality of service our customers expect, and delivering at a price they can afford. Today's decision is not an easy one especially given the current economic state of our county, but it is necessary to ensure the long-term success of our public utility," said PUD Board President Curt Knapp. "It's important to keep in mind that for every additional dollar we ask of our customers, we are cutting or deferring more than six dollars in costs."

"It is imperative that the PUD and the Board consider all aspects of the situation and move forward as necessary while trying to mitigate substantial harm to our general service customers," said PUD Board Vice President Ric Larson.

"Today's decision is a good interim measure to balance low costs and quality service," said PUD Board Secretary Joe Onley. "The utility will need to continue to be nimble in how it looks at future years' rate and cost adjustments."

"The PUD has been working hard to mitigate the effects of an early PNC closure for years," said Sarah Holderman, the PUD's Director of Treasury, Broadband and Strategic Planning. "Our efforts to date have improved our ability to meet our continuing financial obligations while minimizing the impact to customers."

"Our Board showed courageous leadership today in approving a balanced approach that sets us on the course to financial success," said Colin Willenbrock, the PUD's General Manager. "While decisions like today's are never easy, I know our utility and outstanding employees will be able to meet this challenge head-on and continue in our mission to deliver quality service at low costs."

About Pend Oreille County Public Utility District

Pend Oreille County Public Utility District was established in 1936 and began operations in 1948. The PUD is governed by three locally elected Commissioners. A General Manager and staff operate the utility within policies set by the Board of Commissioners. The PUD has four operating systems: The electric system distributes electricity to the county, the production system produces power from the Box Canyon Hydroelectric Project, the water system consists of nine individual water distribution subdivisions, and the community network system provides wholesale broadband communication services. For more information visit: <http://popud.org>.

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