



# Public Utility District No. 1 of Klickitat County

80 Years of Service \* 1938-2018

## GENERAL MANAGER'S REPORT TO THE BOARD For the September 08, 2020 Meeting

### AGENDA ITEMS:

- A. NET METERING DISCUSSION - Anita Clever and Brandy Myers will discuss Policy 25. They will also discuss the changes that have affected this policy over the past few years and provide the board with suggested updates to the policy.

### NON-AGENDA ITEMS:

1. Strategic Planning - attached are the draft long-term goals and strategies. Staff is working on revisions to the strategies and setting annual goals this week. We will bring back a final draft for your acceptance as soon as it is completed. I envision that the long-term goals and the strategies are the strategic plan and the annual goals and action plans are part of our normal goal setting and performance review process.



2. Water Trust Issues - Tom McDonald will be participating next meeting via phone to discuss recent changes to the Department of Ecology's water trust rules.
3. DNR Wildfire Mitigation Task Force - our next committee meeting is September 16. I just wanted to let you know that the more we seem to accomplish in the task force, the more I am hearing that contentious recommendations are likely to be disregarded by parties within DNR. I guess I should not be surprised. The legislation calls for DNR to report to the legislature by December 1, 2020. It does NOT call for the task force to report to the legislature. Our report goes to DNR. It is not clear to me whether the report completed by the task force will be the same report submitted to the legislature, but you can see my concerns. I will keep you posted.
4. Capacity from BPA's Chenoweth Substation - we are working on load studies with BPA in conjunction with BPA's request that we move their 115kV to 69kV substation into our EE Clouse substation. We plan to undertake this study work at our cost, as we do not understand the load constraints from Chenoweth. These constraints are hampering our

ability to work with potential new customers.

5. Public Power Council - First, I would like your support to submit a nomination for myself, with Gwyn as alternate, for the PPC Executive Board once again.

Second, BPA held its executive level Quarterly Business Review webinar and associated technical workshop during August. Overall, BPA is in good financial condition.

Transmission Services' net revenues are projected to end the year at \$24 million higher than rate case expectations. This is driven primarily by lower net interest expense due to lower than forecasted interest rates and lower capital investment levels. Power Services' net revenues are \$119 million above rate case expectations, but about \$41 million of this is due to changes in accounting treatment of non-federal assets (primarily related to Energy Northwest) that has no cash impact. Power Services' overall strong performance is driven by a combination of strong surplus sales and lower operation and maintenance expenses.

BPA's capital expenditures are down significantly, in part as a result of COVID-19. Power Services is projected to spend \$67 million less than its rate case budget of \$305 million. Transmission Services is projected to end the year at \$177 million below the rate case forecast of \$529 million.

Because the Financial Reserves Policy (FRP) surcharge has been suspended and reserve levels are robust with no probability of a Cost Recovery Adjustment Clause (CRAC) event, no surcharges will trigger for FY 2021 rates. There is some probability of a modest Reserves Distribution Clause for transmission rates, with a modeled expected value of \$2.8 million.

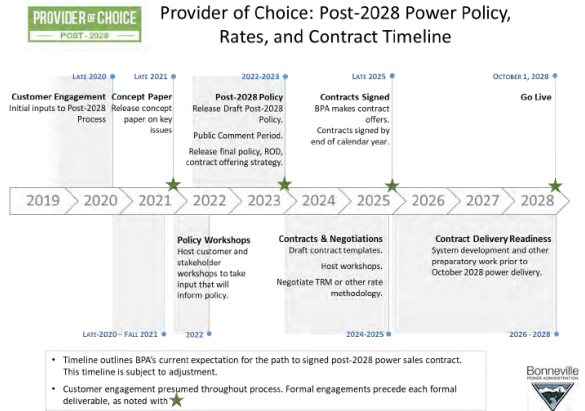
6. John Hairston BPA Interim Administrator - John talked at the PPC virtual meeting this month. It seemed to me like he has more focus on secondary revenues and Environment, Fish and Wildlife costs than Elliott did. That gives me hope for their long-term rates. Although, as we discussed in our strategic planning session, who knows what else they may be hit with.

He also talked about post-2028 contracts. Attached is their "Provider of Choice" initiative for your reference. This is brand new, so we will talk with you more as we learn more. Note that they are thinking of a record of decision in 2023 and contract negotiations by 2025. This aligns with our strategic goal to understand our wholesale power supply options by 2023.

# Post-2028 Contracts



- BPA has formally kicked off its “Provider of Choice” (post-2028 contracts) initiative.
- **Customer-Centric Engagement:** Initial phase of conversations served to identify elements of current contracts that are working well, identify elements that bear improvement, and gain insight into what customers value most in future contracts.
- **Summary Report:** BPA is evaluating feedback and will compile findings in a “Summary Report” to be released this fall. Continued customer conversations will confirm/clarify findings and take feedback from customers we have not yet heard from.
- **Website Launch with Educational Materials:** Developing a series of fact sheets to help customer leadership better understand today’s products and services. Materials and other resources are available on BPA’s new “Provider of Choice” website: <https://www.bpa.gov/providerofchoice/Pages/provider-of-choice.aspx>
- **Next Steps:** Early 2021, begin formulation of a policy framework. A “concept paper” is targeted for late 2021. From there, BPA will plan for a path toward contract offers in 2025.



7. **BPA Administrator Process** – DOE has informally stated that they want to complete the hiring process by the end of October. There are currently three internal BPA candidates. If the qualified pool is all existing BPA employees, this could happen. If the process opens up, then it will likely take longer given Federal security and background check issues. Current candidates are John Hairston, current Interim BPA Administrator, Michele Manery, current VP of Transmission Marketing and Sales and Joel Cook, current Senior VP of Power Services.

## Klickitat PUD 2020 Strategic Plan

### MISSION

Public Utility District No. 1 of Klickitat County provides safe, reliability, cost-based utility services at the lowest possible cost, consistent with sound business principles.

### VISION

Investigate and implement strategies to utilize our resources and assets to provide stable, low-cost services to our customers.

### VALUES

Honesty - Accountability - Customer Focused

### LONG-TERM GOALS AND STRATEGIES

Perspective	Long-Term Goal	Strategies
<b>Financial</b>	<b>Fall 2023: Full Assessment of Post 2020 Power Supply Options</b>	
	<b>2024: AA Bond Rating</b> <b>2028: Total customer-funded debt is between \$40 - \$60 million</b>	<input type="checkbox"/> Pursue/assess <i>new income producing opportunities</i> that have a near-term payback <i>in excess of</i> the perceived commercial and legislative risk and that are within field of influence/expertise. <input type="checkbox"/> Respond to/participate in <i>new economic development opportunities</i> that have a near-term payback <i>equal to</i> the perceived commercial and legislative risk and that are within field of influence/expertise <input type="checkbox"/> Manage to liquidity and debt service to metrics needed to achieve AA rating <input type="checkbox"/> Maximize the value of existing physical assets
<b>Customer</b>	<b>2027: Sustainable rate level is #15 or lower in the state utility electric rate list</b>	<input type="checkbox"/> Power Supply Costs are \$/MWh <input type="checkbox"/> Distribution Costs are \$/line mile

		<input type="checkbox"/> Debt level is \$YYYYYY or reduction in annual debt payments is \$XXXXX
	<b>Maintain stable water/wastewater rates that recover costs</b>	<input type="checkbox"/> Acquire more water and waste water customers <input type="checkbox"/> Add KPUD staff to manage program
	<b>Ongoing: Rate design that makes the utility agnostic to customer choices.</b>	
	<b>Ongoing: KPUD offers the tools that customers want and need</b>	<input type="checkbox"/> AMI, Smart Hub <input type="checkbox"/> Assess regulatory risk and mitigate impact of mandated programs
	<b>Ongoing: Customer issues handled with first contact</b>	<input type="checkbox"/> Every KPUD staff understands their role as customer service
<b>Internal Processes</b>	<b>Ongoing: Modernize enterprise processes and tools to support improved customer experience and services</b>  <b>Ongoing: Improve business tools to provide efficiency and reduce costs</b>	<input type="checkbox"/> NISC <ul style="list-style-type: none"> <li>○ implementing work flow from customer service, meter readers to field service personnel</li> <li>○ Optimization audit</li> </ul> <input type="checkbox"/> Roll-out OMS to the field <input type="checkbox"/> Benchmarking with others <input type="checkbox"/> Find tools that work with NISC to improve efficiencies
	<b>Ongoing: Utility processes are developed and viewed with an internal customer service mindset</b>	<input type="checkbox"/> Develop workflows to build understanding of system and process connections within the utility <input type="checkbox"/> Willingness of departments to know and understand how their department impacts other departments' work
	<b>Use KPUD safety relative to industry average L&amp;I experience factor as a guide for a safety culture that is open and striving for continuous improvement</b>	<input type="checkbox"/> Maintain a robust Safety Committee <ul style="list-style-type: none"> <li>○ Focus on continuous improvement safety culture</li> <li>○ Develop measures, expectations, and reporting</li> </ul>

		<ul style="list-style-type: none"> <li>○ Evaluate processes and procedures that could impact employee safety and equipment damage</li> <li><input type="checkbox"/> Use KPUD safety experiences to identify needs: resources, tools, processes, training, etc</li> <li><input type="checkbox"/> Reward those who share near misses and build the culture of sharing <ul style="list-style-type: none"> <li>○ Report near-accidents and near misses</li> </ul> </li> </ul>
	<b>Ongoing: Identify and manage enterprise risks</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Enterprise Risk Management Committee active and developing a risk management program</li> <li><input type="checkbox"/> Enterprise risk management program ensures: <ul style="list-style-type: none"> <li>○ Risks are Identified, prioritized and management plans developed,</li> <li>○ Process implemented for review and reporting, and</li> <li>○ Routine evaluation of the risk management process</li> </ul> </li> </ul>
<b>Organizational Capacity</b>	<b>Business continuity is ensured through organizational cross training and back-up planning</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Organization sufficiently cross-trained to provide business continuity</li> <li><input type="checkbox"/> Plans exist to provide short-term back-up for all roles Identify key roles that require back-up <ul style="list-style-type: none"> <li>○ Cross training</li> <li>○ Ensure redundancy, where needed</li> <li>○ Have a back-up strategy for all roles</li> </ul> </li> <li><input type="checkbox"/> Openness to share information</li> </ul>
	<b>Succession plans for management and lead technical positions</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Management team and lead technical positions have succession planning as part of their roles/responsibilities</li> <li><input type="checkbox"/> Continuous management team analysis of all positions to ensure sustainability</li> <li><input type="checkbox"/> Develop a formal leadership program</li> </ul>

	<b>Employee Understanding of Strategic Plan</b>	<input type="checkbox"/> Roll-out Plan with employees <ul style="list-style-type: none"> <li>○ Managers own it and share with employees</li> <li>○ All employee meeting with Board</li> <li>○ GM All Employee and ongoing discussion</li> </ul>
	<b>Maintain culture of creativity and innovation</b>	<input type="checkbox"/> Creativity in the use of tools that advance efficiency and customer service focus
	<b>Fanatical support of utility values</b>	<input type="checkbox"/> GM leads on this, he should lead the leaders, teach the teachers

## **KPUD Strategic Planning Meeting Notes**

### **Direction on Broadband resulting from discussion:**

- KPUD is willing to be a facilitator of broadband by allowing the use of its infrastructure if it can be done safely and in a cost-effective manner (minimal to low cost to the utility).
- Evaluate the ability to create a redundant system through partnership with others.
  - For example, explore connection between Klickitat and Benton County as a back-up/redundancy to the Hood River system.
  - Any pursuit should follow the strategic guidance provided on new projects.

### **Brainstorm of High Impact Industry Drivers**

- Changing resource mix and the impact on reliability
- Legislative driven unreliability
  - Risk: How to manage reliability impacts
  - Risk: Market volatility
  - Opportunity: Resource options to address the risk
- Role of natural gas – will you be able to use it?
- Economic vs social programs – will additional economic transfers/social programs be mandated? If so, what and when?
- Fire Mitigation
  - Opportunity: Fire management increases reliability
- Lack of federal system infrastructure investment
  - Risk: Limits large load additions
  - Opportunity: Ability to explore other suppliers, BAA operators, etc
- Broad band vs. 5G evolution
  - KPUD is willing to be a facilitator of broadband. Allowing it in a cost-effective manner and while maintaining safety. Must have cost recovery or small cost to provide the value to the county.
  - Evaluate the ability to create a redundant system through partnership with other. Connect Klickitat and the Tri-Cities as a back-up/redundancy to the Hood River system.
- Growing utility with a need for carbon-free power
  - Opportunity: Investigate not being a BPA customer
  - Opportunity: Investigate carbon-free resource options.

### **Utility Drivers**

- Social Drivers – state driven programs (i.e. low income programs).
  - When to act on these? Is it a risk or an opportunity?
- What is the right timing of actions? Resources, New Programs? Can be a risk or an opportunity.
  - Opportunity: Secure state benefits with early action – legislative support, use of privilege tax.