

# Okanogan County Electric Cooperative

2018 Financial Budget

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# Changes in the 2018 Budget – Page 1

- Proposed in this budget is a project to paint and put up protection for the crew hallway for \$5,000.
- There is \$20,000 for the fire retardant pole treatment project. A similar project was completed the last two years on the Twisp River line from Hoot N Holler to the Twisp River and the Sun Mountain line. This year we plan to treat the main circuit of the Mazama line.
- The only vehicle in the budget is a replacement of the 2008 bucket service truck for \$135,000.
- We are planning on keeping a very aggressive tree trimming program. We plan to use the same local contractor to follow our crews and chip so our crews can maximize tree trimming.
- In recent years we have booked an expense for disposition of the RS Pension Plan for approximately \$100,000. As we now plan to keep the plan with NRECA, we plan to credit annual expense for the RS plan (\$30,000) to this account. This expense was previously run through O&M.



# Changes in the 2018 Budget – Page 2

- We have started booking ½ of a front office employee's time to propane because of the increase amount of time front office employees are spending with propane.
- We are bringing in a specialty contractor to perform maintenance on two banks of regulators at the substation at a cost of \$20,000. This is a capital project that will extend the life of these regulators. This was last done in 2004.
- A project called “Major Storm Damage” has been added to the Capital Budget and will be included in the Monthly Reports. There is no money budgeted for this project but if a major storm does occur and we capitalize the restoration expenses, these costs will go here.
- Three sections have been added to this narrative. These are:
  - Details results of the 2017 capital budget in terms of status
  - Analyzes historical and budgeted labor capitalization rates
  - Details trade organizations OCEC belongs to.
  - Potential Increases in the 2019 Budget

# 2018 Budget Highlights

## 2018 Power Sales and Use Data

➤ 2018 Purchase Power Forecast	59,617 MWH
➤ 2018 Line loss	4,352 MWH
➤ 2018 OCEC use	97 MWH
➤ 2018 Budgeted Sales	55,317 MWH
• 2018 Budgeted Revenues	\$5,501,400
Average Revenue per KWH sold	9.9 cents per kwh

# 2018 Budget Highlights

- Capital Credits for 2018 has been budgeted at \$173,756.
- Principal payment of long term dept is scheduled to be \$136,470.
- PNGC's normalized weather forecast is used as a basis for the sales and revenue forecast.



# Overall Budget View

	Budget 2017	Actual /Forecast 2017	2018 Budget
Revenues	\$5,261,039	\$5,712,675	\$5,501,400
Purchased Power	\$2,399,421	\$2,710,582	\$2,710,582
Operations and Maintenance	\$1,520,080	\$1,645,989	\$1,678,625
Depreciation, Interest and Taxes	\$817,908	\$799,461	\$825,078
Operating Margins	\$549,930	\$555,377	\$287,115
Capital Projects (Less CIAC)	\$604,843	\$337,000	\$618,695



# Revenues

Revenues are based on PNGC's load forecast which is based on normalized weather.

	2017 Budget	Actual /Budget 2017	2018 Budget
MWH Sold	53,547	60,159	55,314
Revenues from Energy Sales	\$5,261,039	\$5,712,675	\$5,501,400
Other Revenues	\$17,900	\$71,322	\$65,900



# Operations and Maintenance

7	2017 Budget	Actual /Forecast 2016	2018 Budget
Distribution Operations	\$64,305	\$68,302	\$69,967
Distribution Maintenance	\$469,869	\$551,441	\$576,865
Customer Accounts	\$308,694	\$289,714	\$300,947
Customer Information	0	\$4,999	\$5,700
Administration and General Expenses	\$671,512	\$730,219	\$725,145
<b>Total O&amp;M</b>	<b>\$1,520,080</b>	<b>\$1,645,989</b>	<b>\$1,678,625</b>

# Status of 2017 Capital Budget

## Page 1 of 2

- ▶ Replace 8,000' of URD at Stud Horse – Completed 2000' – Part 2 of projects is in 2018
- ▶ Replace 2,000' of URD at Edelweiss (Part 1) – Some conduit is in ground – Waiting on Homeowners Association – Carried over to 2018.
- ▶ Metering Projects – Completed (Rebuilt Carlo's 1800 service)
- ▶ Fire Retardant – Completed
- ▶ Facility – Parking Lot Crack/Seal – Carried Over



# Status of 2017 Capital Budget – Page 2 of 2

- ▶ Replace Sun Mountain Circuit Regulators – Completed
- ▶ New Transformer Rack System – Completed
- ▶ Pole Inspections – Completed
- ▶ Upgrade Bear Creek – While this project was listed in 2017, no money was budgeted for this project. This project will be carried over in 2018.



# 2018 Capital Budget – Assessment of Capital Assets

- OCEC's distribution system is in relatively good shape. Capital budget is focused on miscellaneous projects, pole replacements, and replacement of underground systems due to the age of these facilities.
- The OCEC office building is in good shape. There is a small project to paint the hallway. We will carryover the asphalt project to 2018. As part of this project, we will install additional conduits to increase security video coverage of the back area.
- Vehicles are in relatively good shape. We plan to replace a small bucket truck that was purchased in 2008.

# 2018 Capital Budget – Assessment of Capital Assets

## •Mazama Feeder Improvements Update

- In 2013, a consultant was hired and a plan was formulated to provide a long range solution to the potential problems in the Mazama area due to load growth.
- This plan called for extending the higher circuit voltage from the Leeman Bridge (where the higher voltage is now converted to OCEC's lower nominal voltage) to the Mazama junction.
- **This winter, engineering will develop a specific plan to have this project finished by 2021 based on the solution identified by the consultant.**
- Voltage readings were taken in the Mazama area in February of 2017 during peak loading conditions and adequate voltage readings were measured. We will keep track of both the voltages during peak conditions and the pace of build out in the area to ascertain if we need to accelerate the Mazama project.



# Capital Budget Summary – Page 1

		2018 Budget
Members Requested Facilities (CIAC)		\$200,983
Replacements (Pole and Transformers)		103,872
Misc. URD/OH Projects		62,675
Replace 2,500' of URD at Stud Horse (Part 2)		49,718
Replace 2,500' of URD at Edelweiss (Part 1)		57,957
Convert 3,500' of OH to URD		41,859
Replace 3,000' of URD at Davis Lakes		50,718
Metering Projects		
Pole Inspections		10,000
Fire Retardant - Mazama Circuit		17,479



## Capital Budget Summary – Page 2

			2018 Budget
Test/Rebuild 2 set of Substation Regulators			32,791
Paint/Protect Hallway			5,000
Redo Asphalt, fix drain	Carryover		25,000
Major Storm Damage			0
<b>Subtotal Work Order Projects</b>			658,051
Less Member contribution (CIAC)			277,356
<b>Total Capital budget less CIAC</b>			380,698
Meter and Computer Purchases			20,000
Computer and Software Upgrades			13,000
Transformer Purchases			70,000
Vehicle Replacements (Replace Small Bucket)			135,000
<b>Total Capital Budget</b>			<b>\$618,695</b>



# 2018 O&M/Capital Labor Split

- ▶ The O&M/Capital Labor split is a large determining factor in how close the budget is to actual numbers. For the 2018 estimate, we used a split between the actual 2016 split and the projected 2017 split. As noted, we plan to aggressively tree trim if conditions warrant. This may cause more O&M labor charges instead of capital labor charges.

The 2018 Capitalized Labor forecast was developed from an average of the 2016 Actual numbers and the 2017 Projected numbers.

	Jan	Feb	March	April	May	June	July	August	Sept	Oct	Nov	Dec	Totals
2018 Capitalized Labor	3,611	11,284	13,541	13,541	31,595	33,851	37,462	33,851	33,851	33,851	13,541	3,159	263,137
2018 Total Labor	122,000	91,500	91,500	91,500	91,500	91,500	91,500	91,500	91,500	91,500	91,500	91,500	1,128,500
2018 Budgeted Capitalization	3%	12%	15%	15%	35%	37%	41%	37%	37%	37%	15%	3%	23%
Historical Data													
2017 Actual / Forecast	1%	1%	2%	8%	22%	29%	35%	49%	55%	41%	23%	15%	21%
2017 Budget	17%	20%	14%	42%	40%	43%	40%	37%	35%	14%	23%	15%	28%
2016 Actual	19%	19%	36%	30%	31%	29%	30%	32%	35%	31%	27%	18%	28%
Capitalization in Dollars													
2017 Projected	1648	436	1992	6742	21066	25337	31850	47668	49075	39586	21722	14064	261186
2017 Budget	16093	18820	13638	39277	38186	40368	38186	34913	30248	13479	21722	14065	318995
2016 Actual	16051	20637	31092	25140	26931	25897	25820	29336	30622	27649	23950	15733	298858

# Potential Increases in 2019 Budget

- ▶ Additional personnel will need to be hired in 2019 in order to be prepared for employee retirements in the coming years.
- ▶ There is no planned net increase in personnel at the end of this transition.



# Four Year Financial Plan

- ▶ A four year financial plan has been developed. The plan is the revenue finance all capital additions and the quarterly mortgage debt payments. This will lead to a steady increase in the equity/asset ratio over the next four years.

# Assumptions and Risks

- Budgeted 2017 TIER is 3.10 (TIER means “Times Interest Earned” and is a measure of how much margins are compared to interest on long term debt.)
- Projected equity level at the end of 2017 is expected to be 64.7 %.
- A 3% wage increase is incorporated into the budget.



# Assumptions and Risks

## Capital Budget

- No line contractors are expected to be used except for local ditching contractors and local tree crews that will chip/clean-up tree debris when our line crew is trimming. A specialized substation contractor is budgeted for work in the substation.
- Customer advances for Construction (CIAC) is variable and depends on area construction. For the capital budget, CIAC is estimated at 38% over what is spent on CIAC project. This is based on projected 2017 data. According to area contractors, a strong residential construction year is expected in 2018.

# Trade Organizations

Below are the organizations OCEC belong to and approximate costs of membership.

- PNGC – Nominally \$55,000 a year. In 2017 the net cost was approximately \$15,000 after netting out demand and budget surplus credits.
- National Rural Electric Cooperatives Association (NRECA) – \$3,000. NRECA handles our health care and retirement services.
- Cooperative Finance Cooperative (CFC) – CFC are our lenders. There is no annual fee to belong.
- Washington Rural Electric Cooperative Association (WRECA) – Annual cost is approximately \$3000. This may increase as a major member has resigned. WRECA lobbies for electric cooperative issues in Olympia and DC.
- NWPPA – NWPPA is the public electric utility regional trade organization and also has many training classes. Annual cost is approximately \$4,000.
- Pacific Northwest Utility Coordinating Council and Public Power Council are organizations that OCEC belongs to through out membership in PNGC. We pay no direct costs to belong to these.