



Mission: To provide sustainable, reliable utility services that enhance the quality of life in Chelan County.

PUD PROFILE

Chelan County PUD owns and operates one of the nation's largest nonfederal, customer-owned hydroelectric generating systems.

Chelan PUD's highest priority is keeping our core assets in top shape. Investing in our hydropower projects, distribution systems, facilities and people ensures we continue to produce clean, renewable, carbon-free energy and create value for our customer-owners.

Chelan PUD's three dams have demonstrated for decades the value of public power and local control. Together the dams can generate nearly 2,000 megawatts of power at their peak. In 2018, they produced 9.4 million megawatt hours of affordable, emission-free electricity.

CLEAN, RENEWABLE HYDRO GENERATION TO POWER MICROSOFT'S CAMPUSES

Chelan PUD has entered into two agreements with Microsoft. The first agreement is a five-year contract providing Microsoft with 50 average megawatts, which is around 4 to 5 percent of the PUD's annual hydropower generation capabilities. The PUD began supplying power to Microsoft on April 1. A second agreement allows the PUD to partner with Microsoft on broadband connectivity in Chelan County.

Through the power supply agreement, Microsoft will receive hydro-power from Chelan PUD that meets the high bar for carbon-free and clean energy. It will also keep carbon-free power generated in Washington State within the state, delivering economic and environmental benefits for Chelan County, the greater Seattle area and the state. No additional infrastructure is required in Chelan's service area to send power from Chelan PUD to Microsoft. Chelan PUD will work with Powerex Corp, of Vancouver, BC, who will provide real-time forecasting, scheduling and transmission services to assist the PUD in transmitting its carbon-free power from Chelan County to Microsoft's headquarters.

The two organizations also signed a memorandum of understanding to collaborate on efforts to expand broadband service in the most challenging, most rural parts of Chelan County. Microsoft will bring technical assistance to this effort, supporting Chelan PUD's desire to expand technology access to remote parts of Chelan County.

The new partnership with Microsoft displays hydropower's capability to support achieving 100% clean energy goals as well as economic value for Chelan County and access to expertise for broadband connectivity.

COMMISSIONERS UNANIMOUSLY DECIDE TO MOVE PUD SERVICE CENTER

Chelan County PUD commissioners decided that combining Wenatchee-area customer and utility operations at a new location offers the best value and customer service for the most people over the next 50 to 100 years.

Board members unanimously approved to consolidate operations

that are now at several sites in town and build a combined facility on 19 acres of land in north Wenatchee.

The decision comes after four years of study that grew out of strategic planning. It covered the financial analysis of alternatives including staying put, and conversations with customer-owners.

With the decision to move made, work will now focus on detailed design and selection of a general contractor/construction manager. Community outreach will continue to address concerns and seek suggestions on design and public access at the new location.

COMMISSIONERS AFFIRM PLAN FOR PUD'S 2019 PERFORMANCE

2019 will be another busy year for Chelan County PUD. The District's performance plan outlines more than 70 initiatives under seven strategic objectives. The plan is based on creating the best value for the most people for the longest period of time.

A forecast for electric load growth of 3.5 percent this year is one of many drivers of the work called for in this year's plan, specifically substation planning and construction. In 10 years, the PUD's electric load now of about 200 megawatts is forecast to increase by 48 megawatts.

Key items in the performance plan include:

- Writing a new strategic plan for 2020-2024.
- Continuation of repairs and rehab of units at Rocky Reach and in the first powerhouse at Rock Island Dam.
- Modernization planning for the 40-year-old horizontal units in the second powerhouse at Rock Island.
- Expansion of the PUD's fiber network to reach 1,033 more locations this year.
- Completion of a new customer information and billing system.
- Selection of a new smart meter technology.

COMMISSIONERS APPROVE NEW CRYPTOCURRENCY RATE EFFECTIVE APRIL 1, 2019

Chelan PUD commissioners approved a new rate for cryptocurrency, blockchain and similar operations effective April 1. The District lifted the application moratorium and began to accept new cryptocurrency service applications on that date.

The new rate, plus fees and charges, strives to have operators carry the cost and risks – operational and financial – of providing them power. The rate will allow the District to serve cryptocurrency operations while protecting other customers from the uncertainty and volatility of the cryptocurrency industry.

Rates for neighborhood-based operations, if capacity is available, will start at about 9 cents per kilowatt hour (kWh) and increase to 10.5 cents/kWh in April 2020. Operations in commercial and industrial areas with available capacity will pay a little more than 6 cents/kWh. Additionally, new upfront capital charges will apply to all new cryptocurrency load. The new rate helps manage risk and protects the interest of all customer-owners.

BELOW-AVERAGE WATER SUPPLY

The Northwest River Forecast Center forecasts January-July water supply on the Columbia River to be 85 percent of average. The

District expects below average generation under the forecasted water conditions. Due to the District's risk management plans, hedging strategies and financial policies, the District expects to meet or exceed financial targets despite the stream flow volatility.

The water supply forecast for the Lake Chelan drainage basin is 70 percent of average from April 1 through July 31. Operations will continue to follow the dry-to-average year lake level range, which puts the District in a good position to meet all lake level targets for the year. Last year's actual water supply from April 1 through July 31 was 115 percent of average.

FINANCIAL HIGHLIGHTS

For the three months ended March 31, 2019, Chelan County PUD recorded a change in net position of \$38.4 million, an increase in earnings of \$13.8 million from the same period in 2018. The increase in earnings is primarily due to additional proceeds from a long-term power sales agreement partially offset by lower stream flow conditions. Retail sales were also higher due to colder winter temperatures compared to the first quarter of the prior year. Operating expenses were up due to a combination of increased purchased power costs and higher maintenance expenses. Purchased power costs increased as a result of higher average market prices and hedging program impacts compared to the prior year. Maintenance is higher due to increased repairs at the District's Rock Island hydroelectric project.

As of March 31, 2019, combined unrestricted cash and investments totaled \$403.1 million compared to \$358.6 million from the same period in 2018. The increase in unrestricted reserves is primarily attributable to the receipt of a \$62 million long-term power sales agreement payment in June of 2018, plus cash generated by the District's positive operating results after paying for debt reduction and capital expenditures out of cash reserves. The \$30.0 million decrease in current assets is due to the maturity of investments that were reinvested for a longer term. The increases of \$39.0 million in restricted assets-noncurrent and \$70.4 million in other assets, are mainly attributable to higher overall cash balances and the reinvestment of short-term balances into longer-term investments.

Long-term debt decreased by \$25.9 million due to continued implementation of the District's debt reduction plan. The reduced debt leverage supports the District's financial policies, customer-owner priorities, strong credit rating and long-term financial sustainability. The increase of \$44.1 million of unearned revenues is the result of a \$62 million contract payment received from Alcoa Corporation in June 2018. The payment is being amortized to revenue over the remaining term of the contract.



Kelly Boyd
 Chief Financial Officer/
 Chief Risk Officer



CONDENSED COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (Unaudited)

Three months ended March 31, 2019

(in thousands)

| | Rocky Reach | Rock Island | Lake Chelan | Utility Services | Financing Facilities | Internal Services | Intra-District Transactions (1) | 3 Months Ended 03/31/19 | 3 Months Ended 03/31/18 |
|------------------------------------|-------------|-------------|-------------|------------------|----------------------|-------------------|---------------------------------|-------------------------|-------------------------|
| OPERATING REVENUES | \$ 19,846 | \$ 27,551 | \$ 4,008 | \$ 104,955 | \$ 2,037 | \$ 5,506 | \$ (52,378) | \$ 111,525 | \$ 89,781 |
| OPERATING EXPENSES | 15,201 | 15,224 | 1,911 | 85,044 | - | 5,764 | (52,378) | 70,766 | 62,358 |
| NET OPERATING INCOME (LOSS) | 4,645 | 12,327 | 2,097 | 19,911 | 2,037 | (258) | - | 40,759 | 27,423 |
| OTHER INCOME (EXPENSE) (2) | (2,020) | (5,192) | (386) | 2,696 | 1,470 | 58 | - | (3,374) | (4,789) |
| CAPITAL CONTRIBUTIONS | - | 207 | - | 781 | - | - | - | 988 | 1,893 |
| CHANGE IN NET POSITION | \$ 2,625 | \$ 7,342 | \$ 1,711 | \$ 23,388 | \$ 3,507 | \$ (200) | \$ - | \$ 38,373 | \$ 24,527 |

CONDENSED COMBINING STATEMENTS OF NET POSITION (Unaudited)

March 31, 2019

(in thousands)

| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | Rocky Reach | Rock Island | Lake Chelan | Utility Services | Financing Facilities | Internal Services | Intra- District Transactions (1) | 03/31/19 | 03/31/18 |
|--|-------------|-------------|-------------|------------------|----------------------|-------------------|----------------------------------|--------------|--------------|
| TOTAL CURRENT ASSETS | \$ 10,161 | \$ 12,746 | \$ 1,662 | \$ 114,843 | \$ 11,573 | \$ 10,594 | \$ - | \$ 161,579 | \$ 191,613 |
| NET UTILITY PLANT | 290,983 | 397,283 | 87,905 | 324,060 | - | 51,804 | - | 1,152,035 | 1,099,307 |
| RESTRICTED ASSETS - NONCURRENT | 30,399 | 134,400 | - | 897 | 18,690 | 6,160 | - | 190,546 | 151,567 |
| OTHER ASSETS (4) | 8,231 | 17,480 | 5,178 | 264,506 | 43,076 | 27,728 | (12,423) | 353,776 | 283,364 |
| DEFERRED OUTFLOWS OF RESOURCES | 1,761 | 4,038 | 269 | 2,662 | 2,699 | 101 | - | 11,530 | 13,254 |
| TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES | \$ 341,535 | \$ 565,947 | \$ 95,014 | \$ 706,968 | \$ 76,038 | \$ 96,387 | \$ (12,423) | \$ 1,869,466 | \$ 1,739,105 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | | | | | | | | | |
| CURRENT LIABILITIES | \$ 16,415 | \$ 39,587 | \$ 3,105 | \$ 31,207 | \$ (4,970) | \$ 24,605 | \$ - | \$ 109,949 | \$ 109,805 |
| INTERSYSTEM PAYABLE (RECEIVABLE) - CURRENT | (1,017) | (1,361) | (1,348) | 11,541 | - | (7,815) | - | - | - |
| LONG-TERM DEBT (3) | 110,338 | 354,549 | 3,186 | (19,530) | (35,014) | 69,962 | - | 483,491 | 509,348 |
| UNEARNED REVENUES | 7,673 | 8,099 | - | 124,368 | 6,916 | - | (12,423) | 134,633 | 90,521 |
| OTHER LIABILITIES | 18,954 | 20,198 | 10,425 | 14,698 | - | - | - | 64,275 | 77,571 |
| TOTAL LIABILITIES | 152,363 | 421,072 | 15,368 | 162,284 | (33,068) | 86,752 | (12,423) | 792,348 | 787,245 |
| DEFERRED INFLOWS OF RESOURCES (4) | 3,755 | 28,068 | 563 | 6,679 | 1,131 | 74 | - | 40,270 | 34,126 |
| TOTAL NET POSITION (4) | 185,417 | 116,807 | 79,083 | 538,005 | 107,975 | 9,561 | - | 1,036,848 | 917,734 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & NET POSITION | \$ 341,535 | \$ 565,947 | \$ 95,014 | \$ 706,968 | \$ 76,038 | \$ 96,387 | \$ (12,423) | \$ 1,869,466 | \$ 1,739,105 |

ELECTRIC

| As of March 31 | 2019 | 2018 |
|--|--------|--------|
| Number of Customers | 51,472 | 50,761 |
| Number of Residential Customers | 38,853 | 38,231 |
| YTD Average Residential Rate (Cents/kWh) | 3.01 | 3.04 |

POWER GENERATION (MWh) (000)

| 3 months ended March 31 | 2019 | 2018 |
|-------------------------|-------|-------|
| Lake Chelan | 79 | 121 |
| Rocky Reach | 1,211 | 1,737 |
| Rock Island | 615 | 813 |

HYDRO PRODUCTION COST/MWH GENERATED (\$/MWh)

| 3 months ended March 31 | 2019 | 2018 |
|-------------------------|-------|-------|
| Lake Chelan | \$ 26 | \$ 17 |
| Rocky Reach | 14 | 11 |
| Rock Island | 33 | 23 |

NOTES TO CONDENSED STATEMENTS

(1) Intra-District transactions are eliminated.

(2) Consists primarily of investment income and interest expense on long-term debt.

(3) Utility Services receivable consists primarily of unamortized prepaid Internal Service assets.

(4) Includes prior period adjustment for the implementation of GASB 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

Public Utility District No.1 of Chelan County (Chelan County PUD) has prepared condensed financial statements in accordance with generally accepted accounting principles. Condensed financial statements should be read in conjunction with the notes to the financial statements included in Chelan County PUD's Annual Report as of December 31, 2018. This information is provided for general information. Not all the information is intended for nor should it be relied upon for making investment decisions by current or prospective investors.