

Chelan County PUD

Quarterly Financial Review

For the Quarter Ended September 30, 2016

Board Presentation

November 7, 2016

Financial Highlights Overview

2016 Bottom-Line results better than budget

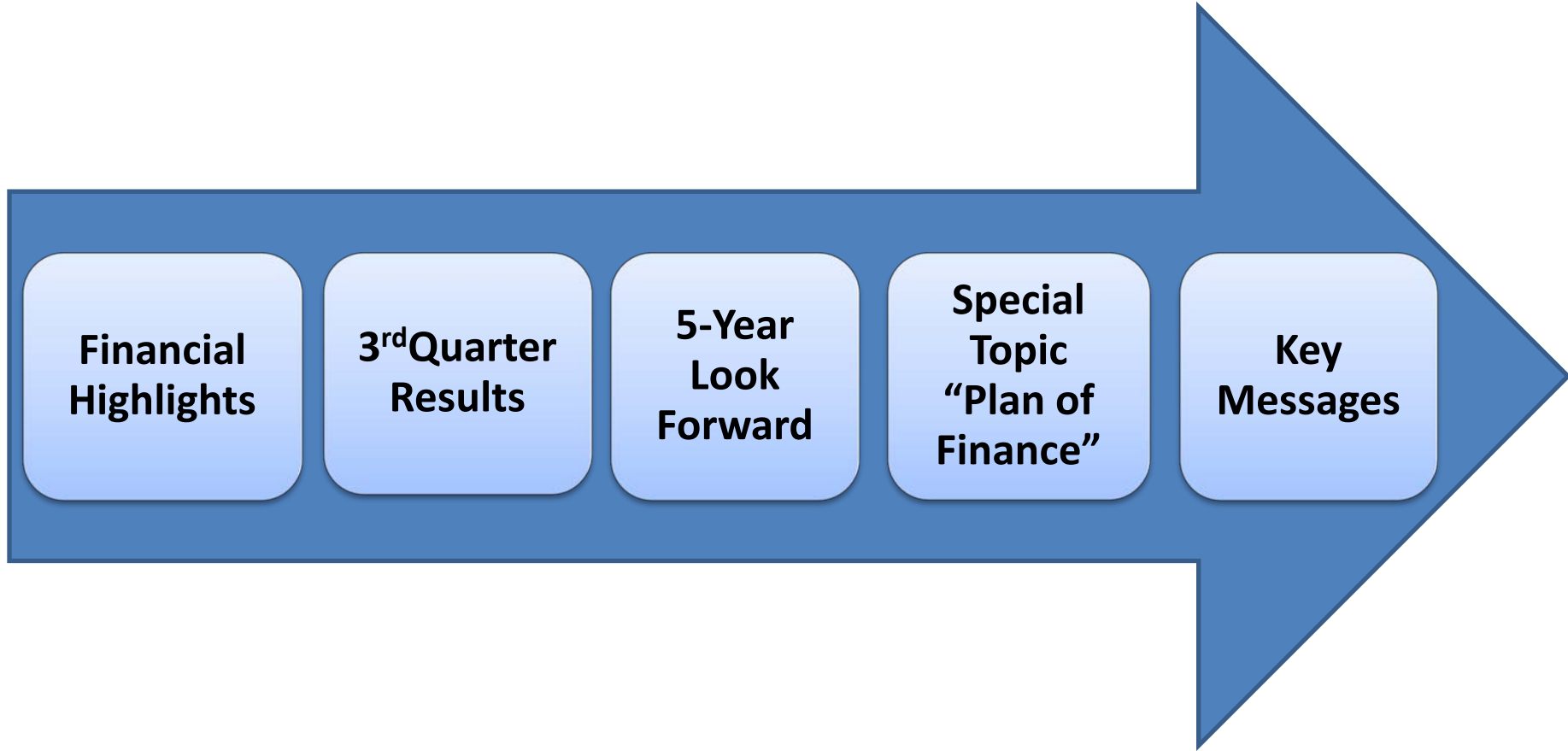
- *YTD-2016 result \$71.3 million (\$14.1M better than budget)*
- *2016 forecast \$86.0 million (\$10.4M better than budget)*

2016 Financial metrics meeting targets

- *Financial Liquidity = \$372M Target \$175M*
- *Unrestricted Reserves = \$290M Target \$150M*
- *Rate of Return = 8.0% Target >4%*
- *Debt Ratio = 43.1% Target <50%-2016, <35%-2019*
- *Debt Service Coverage = 3.04 Target >2.00*

Recommend continuing with District current strategic business plans, including accelerated debt reduction plan

What we will cover today...



- Update only, no action required
- Appendix – additional detailed information not covered today

Financial Highlights - Revenue

Net Wholesale Revenue:

**YTD result better than budget
\$88.4 million vs. \$87.1 million**

Driver: Generation 93% and retail energy use 93% of budget
(net increase in available surplus)

Driver: 2016 Market flat price per MWh
\$21.1 vs. \$22.5 budget
(limited impact due to hedging program)

Hydro Long-Term Contract Wholesale Revenue:

**YTD result lower than budget
\$92.0 million vs. \$93.6 million**

Driver: Hydro “cost-based” operating & maintenance costs below budget
(forecasting O&M costs to catch up)

Driver: “Plus” contract charges greater than budgeted levels
(positive impact to bottom-line)

Financial Highlights - Revenue

Service Revenue:

- YTD result \$2.3 million below budget (\$44.6M vs. \$46.9M)
- Annual forecast \$61.9 million vs. budget of \$63.3 million
- Driver: Retail energy use at 93% of budget (Residential ~93%; Industrial ~87%, Commercial ~98%)
- Driver: Mild weather affecting YTD results
- Driver: Load forecast reduced for 2016

Other Operating Revenue:

- YTD result \$1.0 million below budget (\$14.1M vs. \$15.1M)
- Annual forecast \$19.3 million vs. budget of \$20.4 million
- Driver: Variable component of the real-time sales agreement impacted by low market conditions and unit availability

Financial Highlights - Expenses

Operating Expense:

YTD result \$14.8 million below budget (\$110.7. vs. \$125.5M)

Forecast of \$160.6 million better than budget of \$165.6 million

Driver: Hydro operating & maintenance activity temporarily behind YTD budget expectation.

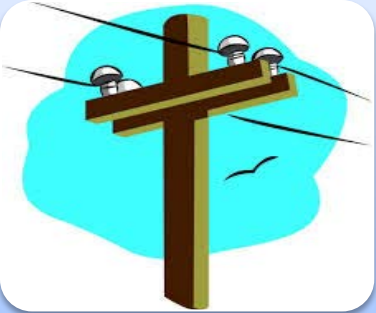
Non-Operating Net Expense:

YTD results below budget (\$15.0M vs. \$17.3M)

Forecast of \$20.4 million better than budget of \$22.9 million

Driver: Higher cash reserves and improved interest earnings reducing this net expense item.

Financial Highlights - Expenses



Electric fully loaded cost per avg kWh better than budget

YTD-2016 ¢/kWh result – **5.58¢ vs. 6.20¢** (actual vs. budget)

Power production costs- 2.32¢ vs. 2.48¢ (actual vs. budget)

Power distribution costs- 3.26¢ vs. 3.72¢ (actual vs. budget)

(Note: Fully loaded cost is not a cost of service analysis which includes offsets)



Hydro production cost per MWh better than budget

YTD-2016 \$/MWh result - **\$17.4 vs. \$18.6** (actual vs. budget)

Actual vs. Budget

Rocky Reach \$13.7 vs. \$14.3 (operating expense ~94%)

Rock Island \$24.9 vs. \$26.9 (operating expense ~88%)

Lake Chelan \$20.0 vs. \$24.0 (operating expense ~78%)

Financial Highlights - Expenses



Water cost per 1,000 gallons better than budget

YTD-2016 result - \$4.80 vs. \$4.92 (actual vs. budget)

YTD-2016 operating expense 95% of budget



Wastewater annual cost per ERU better than budget

YTD-2016 result - \$1,013 vs. \$1,046 (actual vs. budget)

YTD-2016 operating expense 89% of budget



Fiber annual cost per active premise better than budget

YTD-2016 result - \$427 vs. \$507 (actual vs. budget)

YTD-2016 operating expense 85% of budget

Financial Highlights – Balance Sheet

Capital expenditures below budget

- YTD -2016 \$33.7 million vs. budget of \$47.7 million
- 2016 forecast reduced from Q2: \$65.2 million vs. budget of \$76.3 million
- Individual project adjustments:
 - ↑ Increased investments in CTC facility
 - ↑ Rocky Reach head covers added (2016)
 - ↑ Cashmere substation activity shifted (2015 to 2016)
 - ↓ CIS project investment shifted (2016 to 2017)
 - ↓ Security Infrastructure shifted (2016 to 2017)
 - ↓ Rocky Reach Gantry/Bridge cranes shifted (2016 to 2017)
 - ↓ Microwave network replacement shifted (2016 to 2017-2019)
 - ↑ Fiber investment activity shifted (2017 to 2016)
 - ↓ Rock Island B5,7 and 8 shifted (2016 to 2017-2018)

Cash remains strong / Debt reduction strategy on track

- Cash balance forecasted to increase ~\$42 million in 2016
- Debt balance to decrease ~\$23 million in 2016

2016 Bottom-Line Results

(compared to last Board update)

(in 000s)	2016			2016 Prior Forecast	% change from prior
	Current Forecast	2016 Budget	% of budget		
Service Revenue	61,906	63,285	98%	61,647	0%
Energy Resources Net Wholesale	113,141	112,897	100%	113,602	0%
Hydro LT Contract Rev/Other PP	126,968	122,929	103%	127,205	0%
Other Operating Revenue	19,309	20,424	95%	20,086	-4%
Other Operating Expense	(160,600)	(165,616)	97%	(162,412)	-1%
Depreciation & Tax Expense	(54,322)	(55,425)	98%	(54,314)	0%
Operating Income/(Loss)	106,403	98,495	108%	105,814	1%
Non-Operating Activity	(20,375)	(22,905)	89%	(20,656)	-1%
"Bottom Line"	86,028	75,590	114%	85,158	1%

Business Line “Bottom-Line” Results

(compared to last Board update)

(in 000s)	2016 Current Forecast	2016 Budget	% of budget	2016 Prior Forecast	% change from prior
Cost Based - Activity	39,968	New Reporting Detail			
Market Based Activity	53,177				
Retail Activity	(20,721)				
Other Activity	11,907				
Integrated Electric	84,331				
Fiber & Telecom	1,252	(412)	-304%	1,164	8%
Water	619	710	87%	490	26%
Wastewater	(175)	(236)	74%	(200)	-13%
Combined "Bottom-Line"	86,028	75,580	114%	85,158	1%

Capital Expenditures

(in 000s)	2016 YTD Current	2016 YTD Budget	% of budget	2016 Current Forecast	2016 Budget	% of budget
Electric Distribution	7,123	8,789	81%	11,151	11,932	93%
Network Transmission	894	2,245	40%	1,518	2,937	52%
Rocky Reach	6,473	7,284	89%	13,839	13,787	100%
Rock Island	11,646	14,217	82%	24,437	25,224	97%
Lake Chelan	244	300	81%	342	371	92%
Internal Services	2,865	8,288	35%	7,158	12,807	56%
Fiber & Telecom	3,452	4,606	75%	4,177	6,376	66%
Water	763	1,295	59%	1,179	1,331	89%
Wastewater	268	705	38%	1,369	1,539	89%
Total Expenditures	33,729	47,729	71%	65,169	76,305	85%
Contributions	(3,761)	(3,338)	113%	(3,828)	(4,450)	86%
Capital net of CIAC	29,968	44,391	68%	61,341	71,854	85%

Overview of YTD-2016 Cash Flow

	\$ Million
Bottom–line result (YTD-2016)	\$ 71
Add back non-cash related items (depreciation)	\$ 36
Estimated earned funds from operations	\$ 107
Capital Project Expenditures, net of contributions	\$ 30
Net Debt Reductions	\$ 23
Other Misc. Impacts (A/R, A/P, Inventory, Etc.)	\$ 10
Added to cash reserves	\$ 44
Estimated use of funds	\$ 107
Cash and investments, beginning of year	\$ 418
Added to cash reserves	\$44
Cash and investments, end of Q3	\$ 462

Actual Cash Balance Comparison to Budget

(millions)	2016
Total Cash – Budgeted year-end balance	\$ 437
Key changes in cash forecast:	
Reduction in capital projects	\$ 11
Improvement in operating activity	\$ 10
Other changes in A/R, A/P, inventory, etc.	\$ 2
Total Cash – Current forecast year-end balance	\$ 460
Prior quarter – 2016 year-end forecasted balance	\$ 450

Cash & Investments Balance

(\$ Millions)	<u>12/31/15</u>	<u>9/30/16</u>
Unrestricted funds (policy minimum \$150M)	\$236	\$284
Restricted – DRC & CRC funds for Hydro capital/debt	<u>82</u>	<u>94</u>
Total Liquidity (policy minimum \$175M)	\$318	\$378
Restricted - construction reserves	8	-
Restricted - bond reserve funds	56	51
Restricted - power contract deposits	23	21
Self insurance and other restricted funds	<u>13</u>	<u>12</u>
Total Cash and Investments	<u>\$418</u>	<u>\$462</u>

2016 year-end comparison (\$ Millions)	<u>Unrestricted</u>	<u>Total</u>
2016 year-end budgeted cash and investments	\$258	\$437
2016 year-end Q2 forecast for cash and investments	\$286	\$450

Quarterly Investment Report

In compliance with District Banking and Investment Policy #15-13969

	Q4 2015	Q1 2016	Q2 2016	Q3 2016	YTD 2016	WAM
Average Invested Book Value (\$M)	\$402	\$424	\$448	\$440	\$437	
District Yield	1.63%	1.63%	1.52%	1.69%	1.61%	918
Benchmarks:						
3 Month T-Bill	0.14%	0.30%	0.27%	0.31%	0.29%	92
Barclays Gov. 1-3 Year Index	0.85%	0.86%	0.78%	0.75%	0.80%	675

➤ For Q3 2016, the District's yield rose to 1.69% on an average invested book value of \$440 million due to holding less short term cash than Q2'16 and a slight improvement in short term rates.

➤ The Federal Open Market Committee's September 21, 2016 meeting reported that economic activity continued to strengthen at a modest pace. Inflation is expected to remain low in the near term, in part to declines in energy prices, but rise to 2% as energy and labor market strengthen. While the Committee continues to monitor inflation indicators and global developments, the near term outlook appears stable and will maintain the federal funds rate at 1/4 to 1/2 percent. The District anticipates continued relatively low rates through Q4. The laddered investment structure continues to be our strategy to support safety of principal and liquidity.

Policy Objectives & Compliance

- Safety
- Liquidity
- Return on Investment
- Diversification
- Maturity Length

* Full report is available in the Appendix.

Quarterly Reporting Requirement - Financial Policies

District Combined	2016	2017	2018	2019	2020
Rate of Return (Expected > 4% thru 2019)	8.0%	7.4%	5.7%	4.9%	3.9%
Rate of Return (Unusual > 2% thru 2019)	7.8%	6.6%	5.1%	4.2%	3.1%
Combined Debt Cover (Expected > 2.00x)	3.04	2.99	2.81	2.76	2.83
Combined Debt Cover (Unusual >1.25x)	3.01	2.83	2.65	2.59	2.62
Debt Ratio (Expected <35% by 2019)	43.1%	38.4%	32.8%	27.2%	24.3%
Debt Ratio (Unusual <35% by 2019)	43.2%	38.7%	32.9%	27.4%	24.5%
Liquidity - \$175M Min (Expected)	\$372M	\$349M	\$279M	\$224M	\$219M
Liquidity - \$175M Min (Unusual)	\$371M	\$341M	\$271M	\$216M	\$210M
Bottom Line Results (Expected)	\$86M	\$83M	\$67M	\$59M	\$47M
Bottom Line Results (Unusual)	\$85M	\$74M	\$60M	\$50M	\$38M
Outstanding Debt	\$590M	\$537M	\$452M	\$369M	\$332M

The information in this schedule contains forward-looking information and projections. Such projections are necessarily subject to various risks and uncertainties. Actual results could, and likely will, differ materially from those projected, in part as a result of differences between assumptions utilized in making such projections and actual outcomes and certain other risks.

Expected (~50% Probability) - Unusual (~5% Probability) based on the 10/6/16 wholesale forecast

Quarterly Reporting Requirement Individual Business Line Financial Policies



Business Lines	2016	2017	2018	2019	2020
WATER Business Line					
Operating Expense Coverage (target >120%)	141%	139%	142%	139%	145%
Cash Reserves (target > \$1.25 million)	\$3.7M	\$3.7M	\$3.8M	\$4.1M	\$3.5M
Debt Ratio (target <35%)	15%	13%	11%	10%	9%
WASTEWATER Business Line					
Operating Expense Coverage (target >100% by 2019)	100%	106%	108%	112%	111%
Cash Reserves (target > \$200K)	\$2.5M	\$2.2M	\$1.3M	\$1.5M	\$1.5M
Debt Ratio (target <35%)	---	---	---	17%	17%
FIBER Business Line					
Operating Expense Coverage (target >120%)	165%	157%	156%	156%	151%
Cash Reserves (target > \$2.0 million)	\$8.9M	\$9.5M	\$9.5M	\$11.7M	\$14.0M
Debt Ratio (target <35%)	---	---	---	---	---

Special Topic

Operational Plan of Finance Update

- The “how” of the broader debt philosophy and planning strategies
- Reviewed and revised at least annually
 - Internal and external needs
 - Continual evaluations to meet objectives with optimal results and in the best interest of customer-owners
- Supports Strategic Plan
 - Continue accelerated debt repayments to reduce costs and improve financial flexibility and resiliency

Special Topic

Long Term Debt Philosophy

- Philosophy and Planning Strategies affirmed by the Board June 20, 2016

Manage debt to create financial flexibility that supports low and stable electric rates even if lower than expected financial results are experienced

Special Topic

Long Term Planning Strategies

- Maintain liquidity balance > \$175M or policy minimum
- Target debt leverage < 35% by 2019 and then remain below 35%
- Manage to lowest net interest (interest expense less interest income), refinancing opportunities continually monitored
- Execute planned accelerated reductions through 2020 as long as liquidity allows

Special Topic

Long Term Planning Strategies Continued

- Plan “pay-as-you-go” renewal/replacement capital as long as liquidity allows
- Consider debt financing for modernization/expansion capital, when needed
- Borrow for long-term sustainability, not temporary challenges
- Plan debt financings in 2 to 3-year intervals for cost-efficiency
- Tool box includes slowing cost growth, delaying discretionary capital, modest electric rate increases over time, etc.

Special Topic

Operational Plan of Finance: The “How”

Forecast Window	Activity	Action	Stress Case Mitigation Tools
2017 Detailed Actions	Net Scheduled Principal	\$23M	Scale back early retirements Decrease cost growth Delay discretionary capital Incremental rate increases
	Early Retirements	\$29M	
	Net new Debt *	None	
	Refinancing Actions	None	
2018 – 2021 General Steps	Net Scheduled Principal	\$100M	
	Early Retirements	\$133M	
	Net new Debt *	\$2M**	
	Refinancing Actions	Monitor	
2022 – 2027 Broad Path	Net Scheduled Principal	\$241M	
	Early Retirements	None	
	Net new Debt *	\$171M	
	Refinancing Actions	Monitor	

* Balance through the end of the forecast window, next new issuance forecast in 2022

** \$2M related to SRF Loan: Wastewater system for Peshastin-Dryden (2019 assumption)

Special Topic

Next Steps: 2017 Debt Reduction Plans

- ✓ Evaluated bonds for most optimal debt reduction
 - Current bond interest rate ~4.6%
 - Provides estimated net benefit savings of \$4 million to customer-owners through 2021, \$10 million over bond life
- Maintain flexibility to modify retirements through mid-2017, continuing to monitor financial forecasts
- Retire \$52 million in debt in 2017

Scheduled Principal Payments	\$23 million
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Accelerated Principal Payments	<u>\$29 million</u>
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Total Principal Reduction	\$52 million
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- Inform Board on achieving debt reduction

Key Messages

2016 results better than budget

- YTD-2016 Bottom-Line ~\$71 million (*~\$14M better than budget*)
- YTD-2016 Cash balance ~\$462 million (*~\$44M increase thru Q3*)
- Annual Bottom-Line Forecast ~\$86 million (*~\$10M better than budget*)

Long-term financial policies on track

- Bottom-line forecasts \$80M decreasing to \$40M per year (2016-20) reflecting a decline in forecasted electric wholesale prices over our planning horizon
- Total cash reserves forecasted to decline for planned beneficial uses to reduce debt and reinvest in core assets - lower balances still strong (2016-20)
- Further analysis on long term spending plans and debt strategies will continue as part of the ongoing business planning cycle

Stay the course with strategic goals

- Reinvest in core assets and people
- Reduce debt by about \$23 million (2016) and \$280 million (2016-2020)
- Continue public power benefit program

Appendix

The information in the appendix contains forward-looking information and projections. Such projections are necessarily subject to various risks and uncertainties. Actual results could, and likely will, differ materially from those projected, in part as a result of differences between assumptions utilized in making such projections and actual outcomes and certain other risks.

In addition, Q3 forecasts are based on 2017-2021 business planning that is a work-in-process and resulting forecasts are subject to change

Service Revenue

(in 000s)	Actuals YTD 2016	Budget YTD 2016	%	Variance
Residential Electric	17,584	18,730	94%	Mild weather /low energy usage
Commercial Electric	12,241	12,509	98%	In line with budget
Industrial Electric	3,826	4,404	87%	Fire damage/HDL moritorium
Other Electric	1,458	1,649	88%	In line with budget
Electric Service	35,108	37,292	94%	Usage below expectation
Water Service	4,098	4,346	94%	In line with budget
Wastewater Service	461	446	103%	In line with budget
Fiber & Telecom	4,990	4,868	103%	In line with budget
Service Revenue	44,656	46,952	95%	

Note: Excludes internal intersystem revenues

Net Surplus Energy Revenue

(in 000s)	Actuals YTD 2016	Budget YTD 2016	%	Variance
Slice Contracts	57,188	56,798	101%	In line with budget
Net Block Trades	31,483	27,818	113%	Retail load down adding to surplus energy position
Other Net Wholesale	(292)	2,475	---	
Energy Resources Net Wholesale	88,379	87,091	101%	
LT Hydro Contracts	92,006	93,558	98%	In line with budget
Less Other Purchased Power	(1,011)	(1,021)	99%	In line with budget
Hydro LT Contract Rev/Other PP	90,995	92,538	98%	
Surplus Energy Revenue	179,375	179,628	100%	

Operating Expense

(in 000s)	Actuals YTD 2016	Budget YTD 2016	%	Variance
Hydro Operations & Maintenance	38,898	43,541	89%	C9/C11 Stator Rewind
Hydro Fish & Wildlife	9,597	12,592	76%	Trib funding / Hatchery O&M
Hydro Parks & Recreation	4,944	5,658	87%	Old Mill Park Maintenance
Electric Distribution	9,115	9,106	100%	In line with budget
Electric Transmission	7,535	9,160	82%	WECC/Peak RC dues/CIP svcs
Misc. Power Supply Expenses	2,843	4,748	60%	Mid-C contract work / EIM
Water & Wastewater	1,915	2,023	95%	In line with budget
Fiber Network	2,775	3,358	83%	Reactive Maintenance
Customer Accounts & Service	2,539	2,859	89%	Focus on conservation efforts
Conservation & Customer Assist	1,786	2,160	83%	Residential/Commercial Prgms
Insurance & FERC Fees	5,348	6,074	88%	Insurance reimbursement
Other Admin & General	23,450	24,224	97%	In line with budget
Total	110,747	125,503	88%	

Non-Operating Activity

(in 000s)	Actuals YTD 2016	Budget YTD 2016	%	Variance
Interest Earnings	5,131	5,233	98%	In line with budget
Capital Contributions	3,763	3,338	113%	Customer line extensions
Interest Expense	(21,267)	(21,182)	100%	In line with budget
Other Inc/(Exp)	(2,584)	(4,676)	55%	PPB moved from operating exp
Non Operating Activity	(14,957)	(17,288)	87%	

Integrated Electric

(in 000s)	Actuals YTD 2016	Budget YTD 2016	%	Variance
Service Revenue	35,170	37,359	94%	Mild weather /low energy usage
Energy Resources Net Wholesale	88,379	87,091	101%	Additonal surplus / lower retail load
Hydro LT Contract Rev/Other PP	90,995	92,538	98%	In line with budget
Other Operating Revenue	15,073	16,112	94%	In line with budget
Other Operating Expense	(106,547)	(120,437)	88%	Hydro O&M below budget
Depreciation & Tax Expense	(37,462)	(37,896)	99%	In line with budget
Operating Income/(Loss)	85,609	74,766	115%	
Non-Operating Activity	(15,542)	(17,774)	87%	PPB moved from operating exp
"Bottom Line"	70,067	56,992		

Fiber & Telecom

(in 000s)	Actuals YTD 2016	Budget YTD 2016	%	Variance
Service Revenue	6,829	6,717	102%	In line with budget
Other Operating Revenue	98	3	n/a	Limited activity
Other Operating Expense	(4,389)	(5,161)	85%	Reactive maintenance
Depreciation & Tax Expense	(1,929)	(1,982)	97%	In line with budget
Operating Income/(Loss)	609	(424)	---	
Non-Operating Activity	111	95	117%	limited activity
"Bottom Line"	720	(330)		

Water

(in 000s)	Actuals YTD 2016	Budget YTD 2016	%	Variance
Service Revenue	4,262	4,571	93%	In line with budget
Other Operating Revenue	47	45	106%	In line with budget
Other Operating Expense	(2,525)	(2,653)	95%	In line with budget
Depreciation & Tax Expense	(1,611)	(1,548)	104%	in line with budget
Operating Income/(Loss)	173	415	42%	
Non-Operating Activity	381	345	110%	in line with budget
"Bottom Line"	554	760		

Wastewater

(in 000s)	Actuals YTD 2016	Budget YTD 2016	%	Variance
Service Revenue	461	446	103%	In line with budget
Other Operating Revenue	1	1	111%	Limited activity
Other Operating Expense	(435)	(487)	89%	Activity lagging expectation
Depreciation & Tax Expense	(187)	(187)	100%	In line with budget
Operating Income/(Loss)	(160)	(226)	71%	
Non-Operating Activity	93	47	198%	Higher customer contributions
"Bottom Line"	(67)	(179)		

Five-year outlook

Key modeling assumptions:

- Past water history and current forward price curve
- Water & Wastewater rate increase placeholders
- Planned expenditures from 5-year business plans
- Debt reduction plan based on 5-year business plans
- Hydro contract terms set at maximum rates
 - Debt Reduction Charge (DRC) - 3% (2016-20)
 - Capital Recovery Charge (CRC) - 50% (2016-20)
- Investment earning rate
 - (2016-20: 1.57%, 1.61%, 1.72%, 1.90%, 2.06%)

Cash and Debt Funding Capacity

	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020
Cash Funding Capacity	\$197M	\$174M	\$104M	\$49M	\$44M
“liquidity in excess of minimum \$175M target”					
Debt Funding Capacity	NA	NA	\$29M	\$104M	\$144M
“financing capability up to maximum debt ratio target”					
Total Funding Capacity	\$197M	\$174M	\$133M	\$153M	\$188M

Purpose of Slide: To show District’s ability to fund projects while achieving financial targets (liquidity and debt ratio). This is a newly developed report and we will continue to refine our methodology.

Combined Five-Year Forecast

(in 000s)	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020
Service Revenue	61,906	64,135	65,730	67,364	69,018
Energy Resources Net Wholesale	113,141	114,751	107,103	99,532	87,558
Hydro LT Contract Rev/Other PP	126,968	120,620	119,965	114,191	114,656
Other Operating Revenue	19,309	21,034	22,128	24,421	26,009
Other Operating Expense	(160,600)	(162,660)	(172,978)	(171,590)	(174,050)
Depreciation & Tax Expense	(54,322)	(56,979)	(56,419)	(58,878)	(62,076)
Operating Income/(Loss)	106,403	100,901	85,529	75,040	61,115
Non-Operating Activity	(20,375)	(17,804)	(18,235)	(16,540)	(13,822)
"Bottom Line"	86,028	83,097	67,294	58,500	47,293
<i>Prior Quarter Reported Forecast</i>	<i>85,158</i>	<i>83,386</i>	<i>68,217</i>	<i>55,568</i>	<i>41,965</i>
<i>Forecast at 2016 Budget</i>	<i>75,590</i>	<i>70,908</i>	<i>66,072</i>	<i>55,488</i>	<i>38,297</i>

Service Revenue

(in 000s)	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020
Residential Electric	25,304	25,579	25,830	26,072	26,297
Commercial Electric	16,440	16,600	16,739	16,864	16,983
Industrial Electric	5,636	7,221	7,980	8,766	9,580
Other Electric	1,733	1,739	1,743	1,747	1,750
Electric Service	49,113	51,140	52,292	53,449	54,609
Water Service	5,435	5,655	5,883	6,121	6,368
Wastewater Service	630	668	708	751	774
Fiber & Telecom	6,728	6,672	6,846	7,043	7,267
Service Revenue	61,906	64,135	65,730	67,364	69,018
<i>Prior Quarter Reported Forecast</i>	<i>61,647</i>	<i>64,255</i>	<i>65,867</i>	<i>67,356</i>	<i>69,023</i>
<i>Forecast at 2016 Budget</i>	<i>63,285</i>	<i>64,296</i>	<i>65,431</i>	<i>66,505</i>	<i>67,700</i>

Net Surplus Energy Revenue

(in 000s)	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020
Slice Contracts	76,121	79,067	64,997	46,876	30,243
Net Block Trades	35,780	28,794	33,359	44,815	36,737
Other Net Wholesale	1,241	6,890	8,747	7,841	20,578
Energy Resources Net Wholesale	113,141	114,751	107,103	99,532	87,558
LT Hydro Contracts	128,288	121,940	121,285	115,511	115,977
Less Other Purchased Power	(1,320)	(1,320)	(1,320)	(1,320)	(1,320)
Hydro LT Contract Rev/Other PP	126,968	120,620	119,965	114,191	114,656
Surplus Energy Revenue	240,110	235,371	227,068	213,723	202,214
<i>Prior Quarter Reported Forecast</i>	<i>240,807</i>	<i>231,524</i>	<i>228,726</i>	<i>219,444</i>	<i>207,428</i>
<i>Forecast at 2016 Budget</i>	<i>235,826</i>	<i>236,317</i>	<i>221,987</i>	<i>212,145</i>	<i>196,633</i>

Operating Expense

(in 000s)	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020
Hydro Operations & Maintenance	58,291	55,377	62,424	58,692	55,219
Hydro Fish & Wildlife	16,405	16,047	17,073	16,915	19,945
Hydro Parks & Recreation	7,625	7,619	7,381	7,049	7,286
Electric Distribution	12,172	12,957	14,065	14,305	14,535
Electric Transmission	10,262	12,970	12,464	12,840	13,243
Misc. Power Supply Expenses	4,817	5,435	6,477	6,592	6,506
Water & Wastewater	2,607	2,758	2,764	3,058	2,982
Fiber Network	3,711	3,984	3,623	3,721	4,058
Customer Accounts & Service	3,743	3,852	4,056	4,269	4,377
Conservation & Customer Assist	2,741	2,989	3,534	4,041	4,491
Insurance & FERC Fees	7,534	8,073	8,471	8,491	8,762
Other Admin & General	30,692	30,599	30,645	31,616	32,643
Total	160,600	162,660	172,978	171,590	174,050
<i>Prior Quarter Reported Forecast</i>	<i>162,412</i>	<i>157,856</i>	<i>175,624</i>	<i>180,202</i>	<i>184,651</i>
<i>Forecast at 2016 Budget</i>	<i>165,616</i>	<i>174,719</i>	<i>169,789</i>	<i>174,082</i>	<i>177,476</i>

Capital Projects

(in 000s)	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020
Electric Distribution	11,151	12,469	17,148	20,130	20,147
Network Transmission	1,518	3,864	6,565	4,201	4,471
Rocky Reach	13,839	11,974	10,506	6,101	2,859
Rock Island	24,437	47,197	40,014	36,653	26,490
Lake Chelan	342	1,012	1,332	225	600
Internal Services	7,158	14,308	13,680	3,948	3,968
Fiber & Telecom	4,177	4,476	4,011	3,576	3,191
Water	1,179	1,116	1,119	1,051	2,229
Wastewater	1,369	371	4,073	1,823	26
Total	65,169	96,786	98,450	77,708	63,981
Prior Quarter Reported Forecast	74,166	89,376	107,555	76,835	68,435
Forecast at 2016 Budget	64,229	85,953	76,271	68,642	61,651

Financial Policy – Financial Liquidity

Methodology Per Resolution #14-13878

COMBINED	2016	2017	2018	2019	2020
District Total Liquidity Targets	\$175	\$178	\$175	\$175	\$175
Base Case – expected (50% probability)	\$372	\$349	\$279	\$224	\$219
Base Case – unusual (5% probability)	\$371	\$341	\$271	\$216	\$210
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		\$335	\$249	\$178	\$156
District Unrestricted Reserve Minimum	\$150	\$150	\$150	\$150	\$150
Base Case – expected (50% probability)	\$290	\$302	\$260	\$219	\$217
Base Case – unusual (5% probability)	\$289	\$294	\$252	\$211	\$208
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		\$292	\$236	\$183	\$160

Financial Policy – Rate of Return

(Change in Net Position/Net Plant)

COMBINED	2016	2017	2018	2019	2020
District Targets (expected)	>4%	>4%	>4%	>4%	>2%
District Targets (unusual)	>2%	>2%	>2%	>2%	>0%
Base Case – expected (50% probability) <i>Bottom-line expectation</i>	8.0% \$86M	7.4% \$83M	5.7% \$67M	4.9% \$59M	3.9% \$47M
Base Case – unusual (5% probability) <i>Bottom-line expectation</i>	7.8% \$85M	6.6% \$74M	5.1% \$60M	4.2% \$50M	3.1% \$38M
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs <i>Bottom-line expectation</i>		6.5% \$74M	4.7% \$56M	3.8% \$46M	2.6% \$32M

Financial Policy – Debt Ratio

(Debt/(Debt + Equity))

COMBINED	2016	2017	2018	2019	2020
District Targets	<50%	<45%	<40%	<35%	<35%
Outstanding Debt Balance - YE(million)	\$590	\$537	\$452	\$369	\$332
Scheduled Debt Retirements (million)	\$23	\$23	\$24	\$26	\$25
Planned Debt Accelerations (million)	\$---	\$29	\$61	\$60	\$11
Base Case – expected (50% probability)	43.1%	38.4%	32.8%	27.2%	24.3%
Base Case – unusual (5% probability)	43.2%	38.7%	32.9%	27.4%	24.5%
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		38.7%	33.2%	27.8%	25.2%

Financial Policy – Debt Service Coverage

(Net Funds from Operations/Computed Debt Service)

COMBINED	2016	2017	2018	2019	2020
District Targets (expected)	2.00	2.00	2.00	2.00	2.00
District Targets (unusual)	1.25	1.25	1.25	1.25	1.25
Base Case – expected (50% probability)	3.04	2.99	2.81	2.76	2.83
Base Case – unusual (5% probability)	3.01	2.83	2.65	2.59	2.62
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		2.82	2.60	2.52	2.49



Quarterly Investment Report for the quarter ending September 30, 2016

All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #15-13969

Portfolio Summary

	Q4 2015	Q1 2016	Q2 2016	Q3 2016	YTD 2016	WAM	
Average Invested Book Value	\$402 M	\$424 M	\$448 M	\$440 M	\$437 M		<u>Policy Objectives & Compliance</u> + Safety + Liquidity + Return on Investment + Diversification + Maturity Length
Interest Earned	\$1.7 M	\$1.7 M	\$1.7 M	\$1.9 M	\$5.3 M		
District Yield	1.63%	1.63%	1.52%	1.69%	1.61%	918	
Benchmarks:							
3 Month T-Bill	0.14%	0.30%	0.27%	0.31%	0.29%	92	
Barclays Gov. 1-3 Yr Index	0.85%	0.86%	0.78%	0.75%	0.80%	675	
LGIP (State Pool)	0.20%	0.43%	0.45%	0.50%	0.46%	37	
Fed Funds Effective	0.16%	0.36%	0.37%	0.39%	0.37%	1	

General Commentary:

For Q3 2016, the District's yield rose to 1.69% on an average invested book value of \$440 million due to holding less short term cash than Q2'16 and a slight improvement in short term rates.

The Federal Open Market Committee's September 21, 2016 meeting reported that economic activity continued to strengthen at a modest pace. Although unemployment has remained unchanged, job gains have been solid. Inflation is expected to remain low in the near term, in part to declines in energy prices, but rise to 2 percent as energy and labor market strengthen. While the Committee continues to monitor inflation indicators and global developments, the near term outlook appears stable. The Committee decided to maintain the federal funds rate at 1/4 to 1/2 percent. The District anticipates continued relatively low rates through Q4. The laddered investment structure continues to be our strategy to support safety of principal and liquidity.

Portfolio Objectives and Diversification:

The District continues to focus on portfolio diversification while maintaining investment objectives. A portion of US Treasuries continue to be held in addition to other investments with higher yields such as US Agencies and Municipal Bonds. These opportunities offer a more attractive yield while still maintaining policy diversification, safety of principal and liquidity.

Maturity Length:

The Weighted Average Maturity (WAM) rose slightly in Q3 and the overall average continues to remain strong as the multi-year laddered investment strategy maintains investment maturities over 2 year average durations. All investments continue to be matched to specific cash flows or mature within 5 years as specified in the investment policy.



Quarterly Investment Report for the quarter ending September 30, 2016

All \$ values are shown in '000s

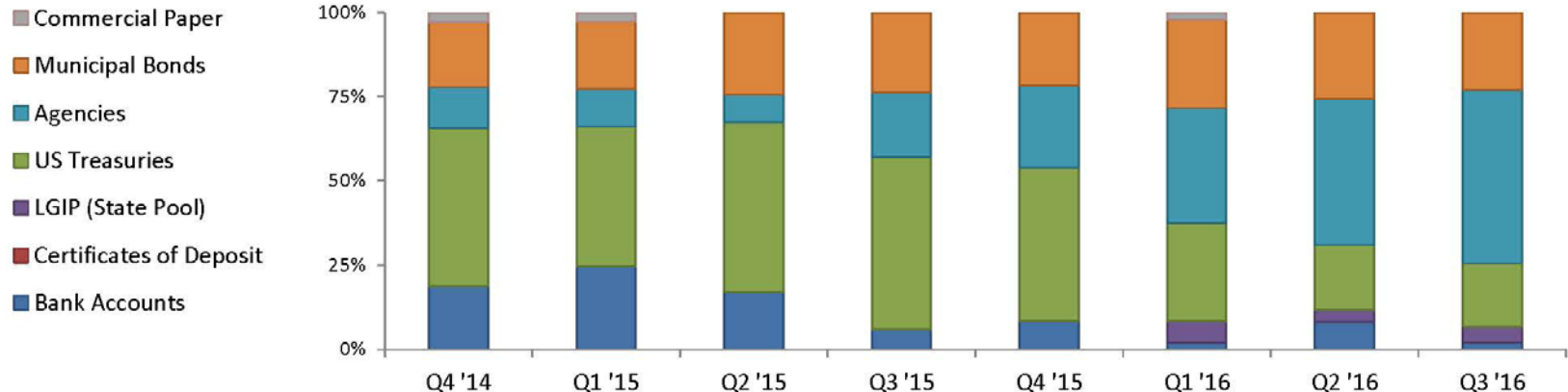
Prepared in accordance with District Banking and Investment Policy #15-13969

Investments by Type - as of September 30, 2016

	Par Value	GASB 31 Reported Value	Book Value	Book Value as % of Portfolio	Policy % Limit	WAM
Bank Accounts	\$ 9,819	\$ 9,819	\$ 9,819	2.16%	75%	1
US Treasuries	\$ 85,260	\$ 90,492	\$ 85,852	18.86%	100%	1,497
LGIP (State Pool)	\$ 20,556	\$ 20,556	\$ 20,556	4.52%	25%	1
US Agencies	\$ 234,830	\$ 235,709	\$ 234,462	51.50%	75%	889
Municipal Bonds	\$ 103,340	\$ 105,511	\$ 104,569	22.97%	30%	772
Commercial Paper	\$ 0	\$ 0	\$ 0	0.00%	25%	-
Total:	\$ 453,805	\$ 462,086	\$ 455,259			918

Numbers may not foot due to rounding

Historical Portfolio Diversification





Quarterly Investment Report for the quarter ending September 30, 2016

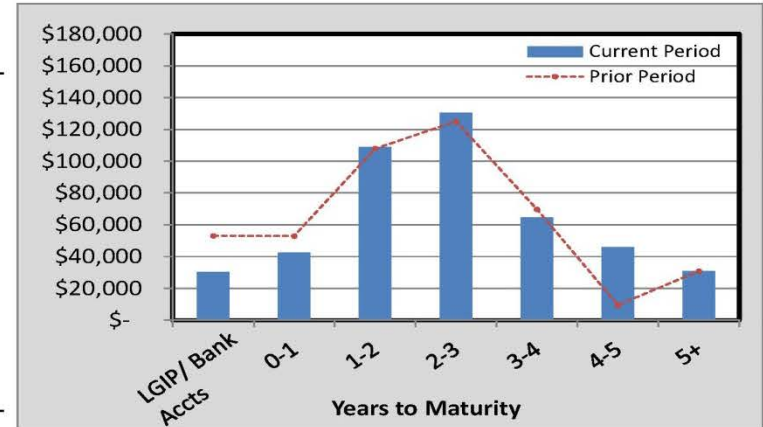
All \$ values are shown in '000s

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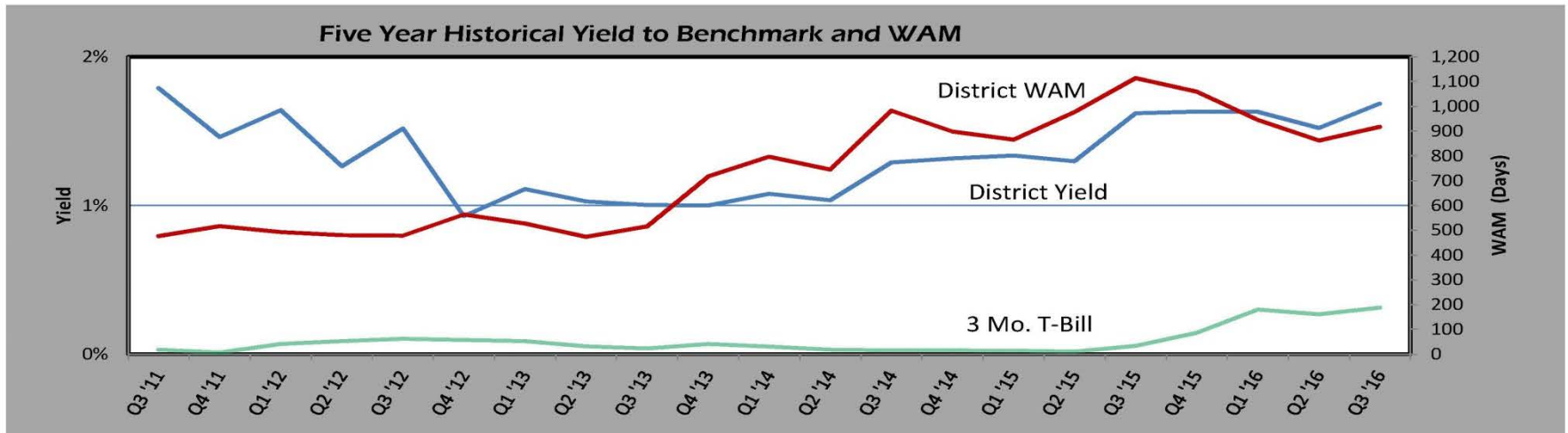
Maturity Distribution - as of September 30, 2016

Maturity	Par Value	% of Portfolio	Cumulative % of Portfolio
LGIP \$	20,556	4.5%	4.5%
Bank Accounts \$	9,819	2.2%	6.7%
1-90 Days \$	11,340	2.5%	9.2%
91-180 Days \$	2,315	0.5%	9.7%
181-365 Days \$	28,880	6.4%	16.1%
1-2 Yrs \$	108,932	24.0%	40.1%
2-3 Yrs \$	130,583	28.8%	68.8%
3-4 Yrs \$	64,650	14.2%	83.1%
4-5 Yrs \$	45,872	10.1%	93.2%
5+ Yrs \$	30,858	6.8%	100.0%
Total:	\$ 453,805	100%	

Numbers may not foot due to rounding



Historical Yields/Weighted Average Maturity(WAM), by Quarter



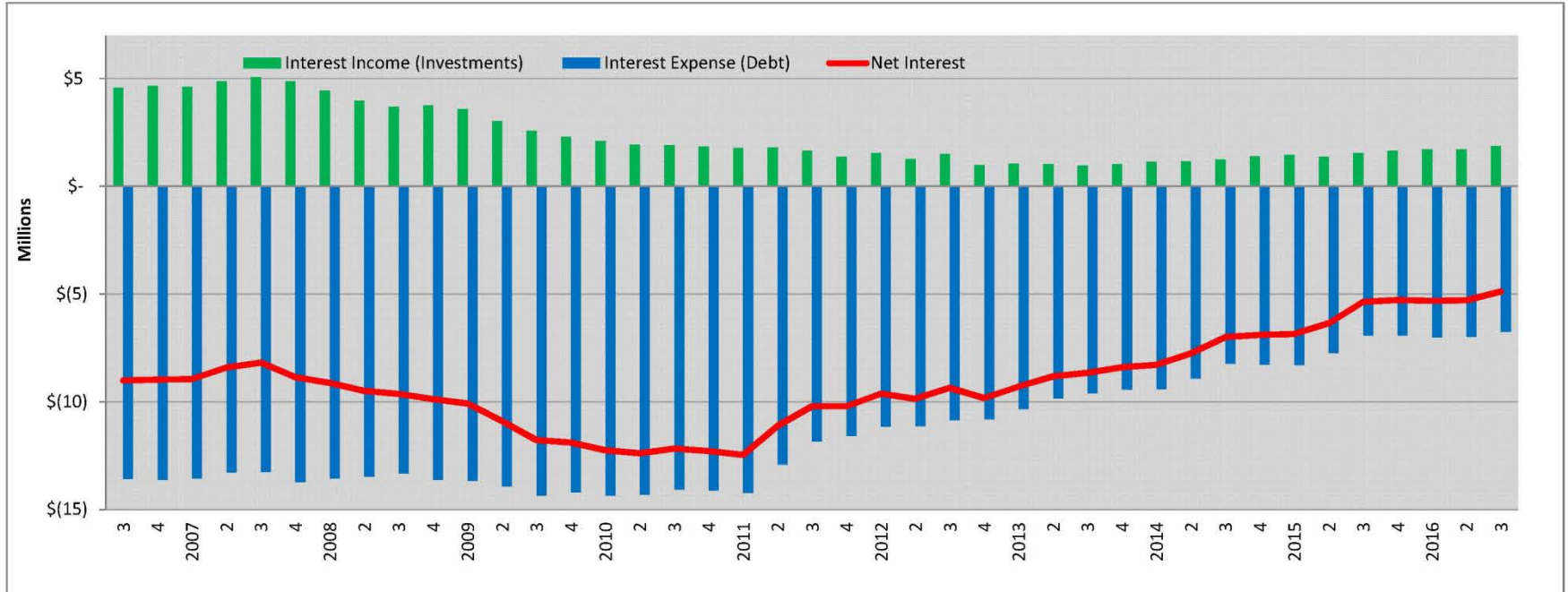


Quarterly Investment Report for the quarter ending September 30, 2016

All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #15-13969

Historical Net Interest, by Quarter





Quarterly Investment Report for the quarter ending September 30, 2016

All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #15-13969

Definitions

All investment types listed below are authorized by the State Investment Board, RCWs, and District Policy

Average Rate of Return- the amount earned on investments, expressed as an annualized percent of average book value.

Bank Accounts- a savings account, checking account or similar account at qualified public depositories. Demand deposit accounts, negotiable order of withdrawal (NOW) accounts, and automatic transfer service (ATS) accounts are examples of bank accounts.

Book Value- original cost of a bond less amortization.

Commercial Paper (CP) - short term unsecured money market obligation, issued by prime rated commercial firms and financial companies, with maturities from 2 to 270 days, that is a promissory note of the issuer used to finance current obligations.

Federal Agency Securities (Agency) - interest bearing debt securities of U.S. departments and agencies which include the 12 Federal Home Loan Banks, the Federal National Mortgage Association, and the Federal Housing Authority. (e.g.: Fannie Mae (FNMA, FNDN), Freddie Mac (FHLMC, FMCDN), Federal Home Loan Bank (FHLB, FHDN) and Federal Farm Credit Bank Notes (FFCB)).

Forward Purchase and Sale Agreement (FPSA) - contract that provides for the delivery of specific types of securities on specified future dates at fixed yields.

GASB 31 Market Value- the securities' reported value, according to Government Accounting Standards Board Rule 31. If a security has a maturity of greater than one year at the time of purchase, it is reported at market value. If it has a maturity of less than one year at the time of purchase, it is reported at its book value.

Local Government Investment Pool (LGIP) - funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment. These funds are completely liquid, there is no required holding period or fixed maturity date.

Municipal Bonds - Debt (bonds, notes, warrants, etc) issued by a state or local government or municipality as authorized by RCW 39.59.020.

Par Value- the stated or face value of a bond.

Treasury Bills (T-Bill) - short-term U.S. Treasury security with maturities of 13, 26, or 52 weeks.

Treasury Notes (T-Note) - intermediate-term, coupon bearing U.S. Treasury securities having initial maturities of less than 10 years and paying interest semiannually.

Unamortized Book Value - remaining premium/discount on a fixed income security, equal to the difference between par and book value.

Weighted Average Maturity (WAM)- average amount of time for securities to mature, weighted by each security's book value.