

An aerial photograph of a wide river valley. The river flows from the foreground towards the background, flanked by green hills and a town. In the distance, there are large, rugged mountains under a clear blue sky. At the top of the page, there are three horizontal bars: a red one on the left, a dark blue one in the middle, and a grey one on the right.

THE BEST FOR THE MOST FOR THE LONGEST

2015 – 2019 STRATEGIC PLAN

Strategy Partners Annual Report

May 2, 2017

Refreshing the Plan



Strategic goals

2016 – a look back

What's underway now

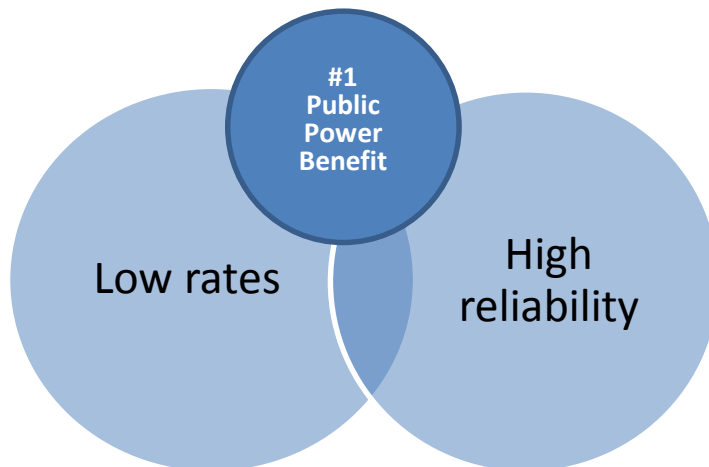
A look ahead

Known unknowns

Summary

Strategic Goals

- #1 Reinvest in value-creating core assets and people
- #2 Reduce debt
- #3 Continue Public Power Benefit program



Goal #1: Reinvest in value-creating assets and people

Our highest priority
is reinvesting in our assets and people



Key is finding the right balance
between future investments and
future debt financing

Goal #1:

Reinvest in value-creating core assets and people

Hydros

Hydro availability target = 76.3%



Rocky Reach generator repairs



Rock Island modernization



Expand asset management program



Hydro Work

Rocky Reach

- C8-11 (132MW) (unplanned)
 - Servo motor rods (2016-2021)
 - Stators (2016 – 2017)
 - Head covers (2016-2021)
- (2) Bridge Crane Refurbishments (planned) (2017-2018)
- Gantry Crane replacement (planned) (2017)
- C1-7 (120MW) operating

Hydro Work

Rock Island

- *B1-4 (23MW) turbine blade cracks (unplanned) (2018-2019)
- B5-8 (25MW) refurbishments (planned) 2016 - 2022
- B9-10 (25MW) refurbishments (planned) completed 2012
- U1-8 (54MW) (planned) overhauling two units per year. Modernization (planned) 2021+

Goal #1:

Reinvest in value-creating core assets and people

Distribution

Distribution reliability target > 99.98%



Advance asset management program



Complete planned substation land acquisitions



Hardening assets against weather and fire



Goal #1:

Reinvest in value-creating core assets and people

Facilities

Develop long-range facilities plans



People

Complete 2016 Safety Strategic Plan Objectives



Employee skill development program



Goal #2: Reduce Debt

District-wide

Retire \$23 million of debt

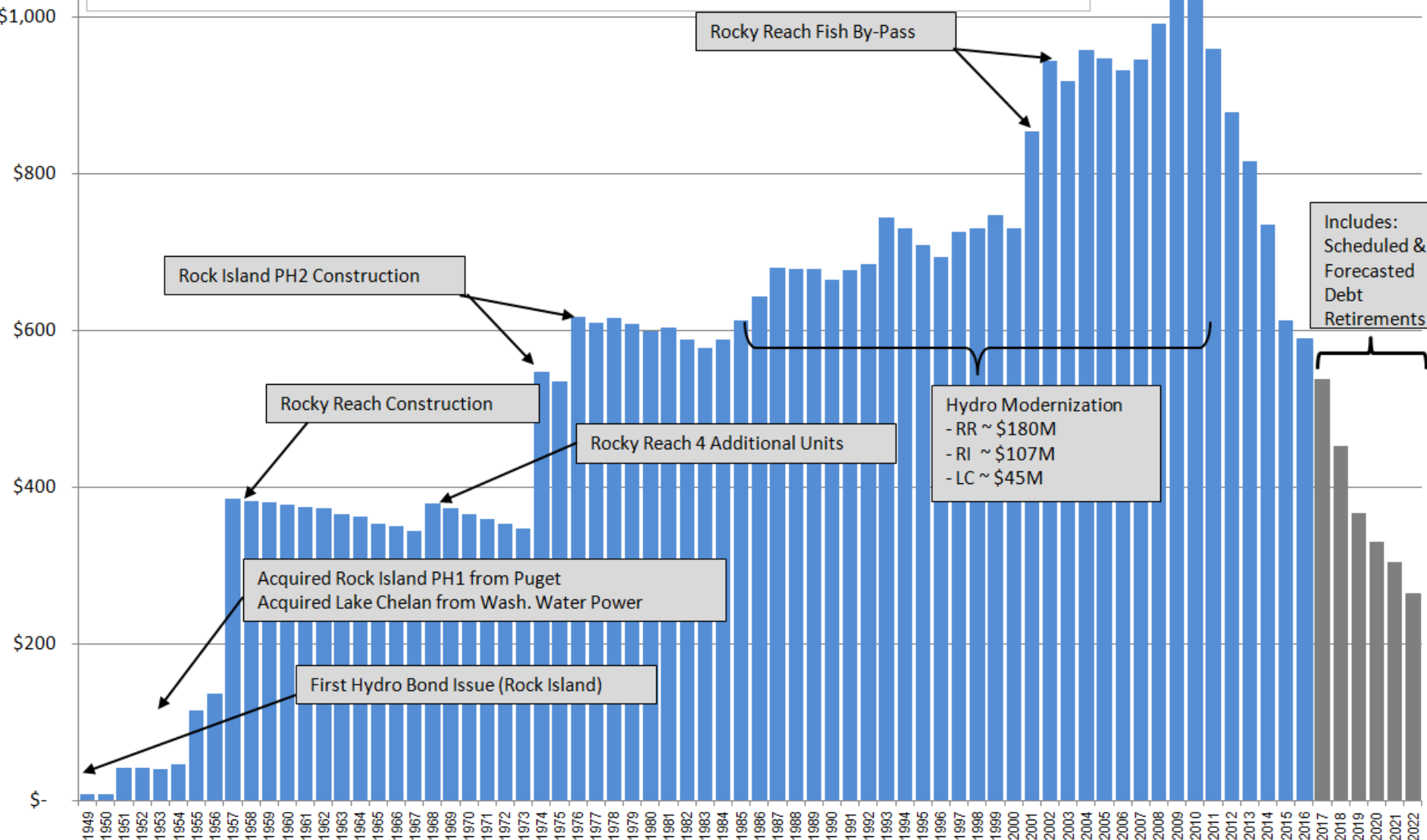


Achieve debt ratio below 35% by 2019



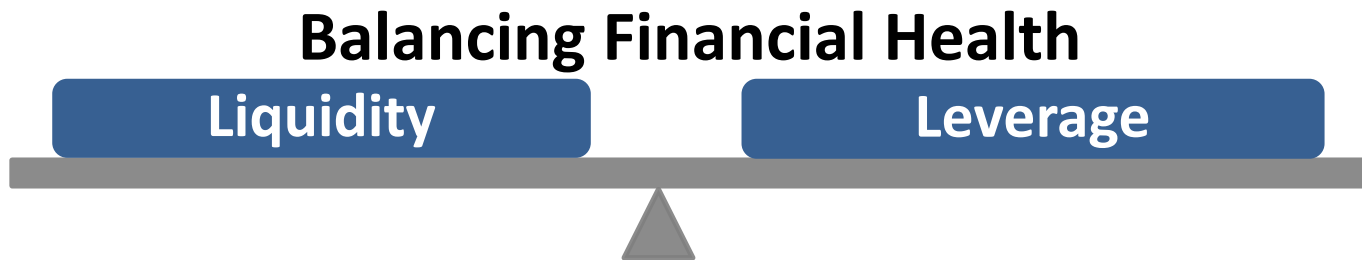
Goal #2 – Reduce Debt

Debt Outstanding (\$ Millions)



Long Term Debt Philosophy

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



Best supports doing the best, for the most, for the longest

Goal #3: Continue Public Power Benefit Program

“We are taking a measured approach to any public power benefit spending. Any additional spending will be carefully evaluated to ensure we are taking care of our vital infrastructure first, improving the financial health of the organization, and that we aren’t obligating our customer-owners to spending beyond our means.”

- Commissioner Ann Congdon, 2015 Strategic Planning

Goal #3: Continue Public Power Benefit Program

Available funding 2015-2016: \$8.0 million



Allocated for spending 2015-2016 \$5.2 million



Available funding for 2017: \$4.0 million



Allocated for 2017, to date: \$2.2 million

2015-2016 Initial Allocation of Funding

Fiber Expansion

- Expansion to 85-90% of county residents
- Annual decision (estimated \$25M, 11 year project)



Parks and Recreation

- Pilot Study to waive park day use fees for residents
- Feasibility study of splash-pad in a PUD park
- Feasibility study of water source for Horan natural area



Electrification

- Install electric charging stations at PUD facilities



Economic Development

- Develop electric economic analysis tool (complete)
- Study electric economic development infrastructure
- Develop utility-focused education and mentoring programs



Water & Wastewater

- Study operational efficiencies between entities
- Legal analyses of expansion and funding water quality



Additional Accomplishments for 2016

- Exceeded all financial policy metrics
- Completed Fiber upgrade to GPON technology
- Established HDL rates and removed new load moratorium
- Exceeded conservation savings requirement and nearly achieved our stretch goal
- Successfully met HCP program milestones
- Successfully auctioned another 5-year slice sale for wholesale revenue stability

Current Initiatives

Reinvest
in core
assets
and
people

- Protect transmission lines against fire/weather
- Implement new Mid-C Coordination system
- Complete cost-effective wastewater compliance improvements
- Develop regional water supply strategy seeking regional operating efficiencies
- Implement asset management discipline
- Implement long-term planning strategies for facilities

Current Initiatives

Reinvest
in core
assets
and
people

- Upgrade Customer Information System
- Advance two-way metering capabilities
- Evolve Business Intelligence (BI) capabilities
- Update telecommunications systems
- Expand energy efficiency program offerings
- Develop employees in the pursuit of safety and operational excellence for high reliability operations
- Prepare for the future through employee skill development

Current Initiatives

Pay down debt

- Achieve debt ratio of less than 35% one year ahead of 2019 target

Public Power Benefit Program

- Continue Fiber system expansion
- Continue program for park passes
- Pursue Hydro Research and Development

Looking Forward

- Decreases in energy and capacity prices
- No significant changes to carbon prices in last few years
- We continue to see growth that supports our 1% annual load forecast
- Facing new dynamics such as HDL load growth, strong growth in residential homes and renewed economic development efforts by the Port and municipalities

Looking Forward

- Rapid evolution of our work toward more automation, data management/analysis and critical thinking skills. Need for STEM/continuous learner candidates that are likely to be in high demand in 2020's
- As we approach relicensing (11 years away) we want to successfully implement HCP, consider HCP extension and be successful at getting early action credit
- A new Trump Administration creates opportunities for regulatory reform of burdensome regulations. The west coast political environment is likely to retain a focus on climate change issues

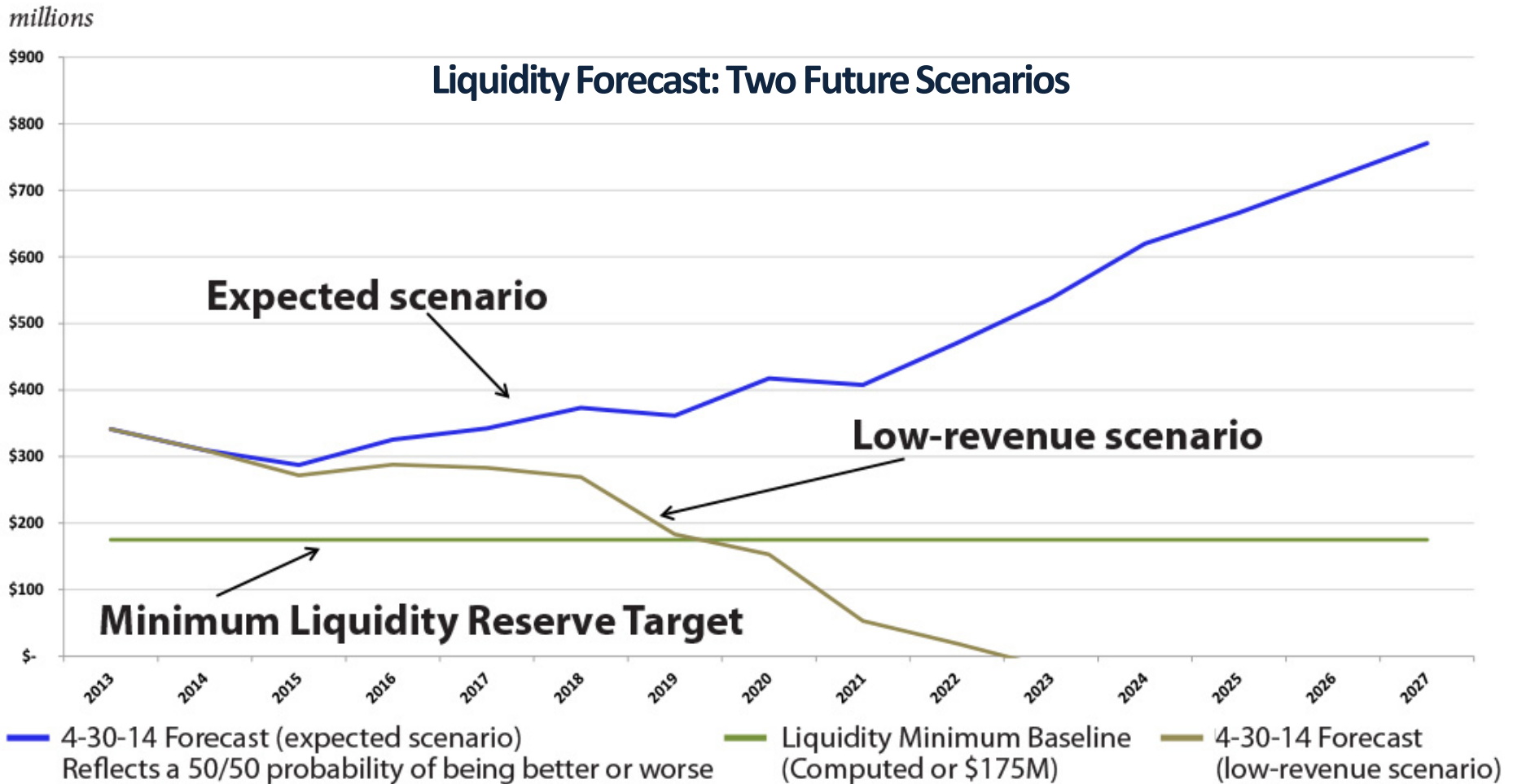
5-Year Outlook Q1 2017

Financial Policies	2016	2017	2018	2019	2020	2021
Rate of Return (Expected > 4%)	●	●	●	●	sunset	sunset
Rate of Return (Unusual > 2%)		●	●	●	sunset	sunset
Combined Debt Cover (Expected > 2.00x)	●	●	●	●	●	●
Combined Debt Cover (Unusual >1.25x)		●	●	●	●	●
Debt Ratio <35% by 2019 (Expected)	●	●	●	●	●	●
Debt Ratio <35% by 2019 (Unusual)		●	●	●	●	●
Liquidity-\$175M Min (Expected)/Days Cash on Hand	●	●	●	●	●	●
Liquidity-\$175M Min (Unusual)/Days Cash on Hand		●	●	●	●	●
<i>Bottom Line Results (Expected)</i>	\$96M	\$93M	\$68M	\$57M	\$49M	\$44M
<i>Bottom Line Results (Unusual)</i>		\$91M	\$63M	\$51M	\$42M	\$31M
<i>Outstanding Debt</i>	\$590M	\$537M	\$452M	\$368M	\$331M	\$306

Expected (~50% Probability) - Unusual (~10% Probability) based on the Q1 2017 forecast

● - Meets financial policies

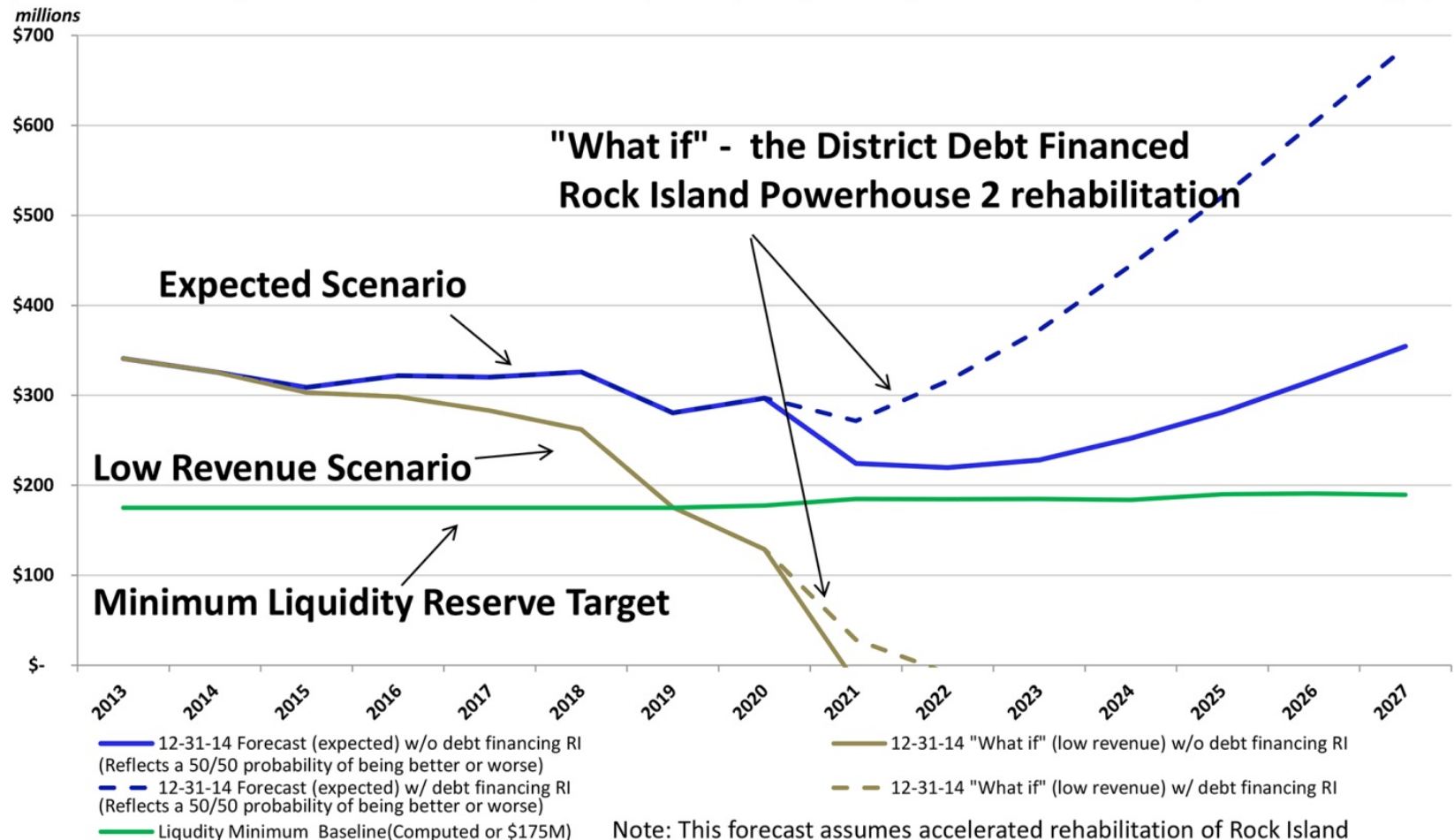
Long-Term Outlook – Beginning of Strategic Planning



Long-Term Outlook – End of Strategic Planning

Liquidity Forecast: Two Future Scenarios

(forecasts change as circumstances, assumptions, long-term plans and financial policies change)

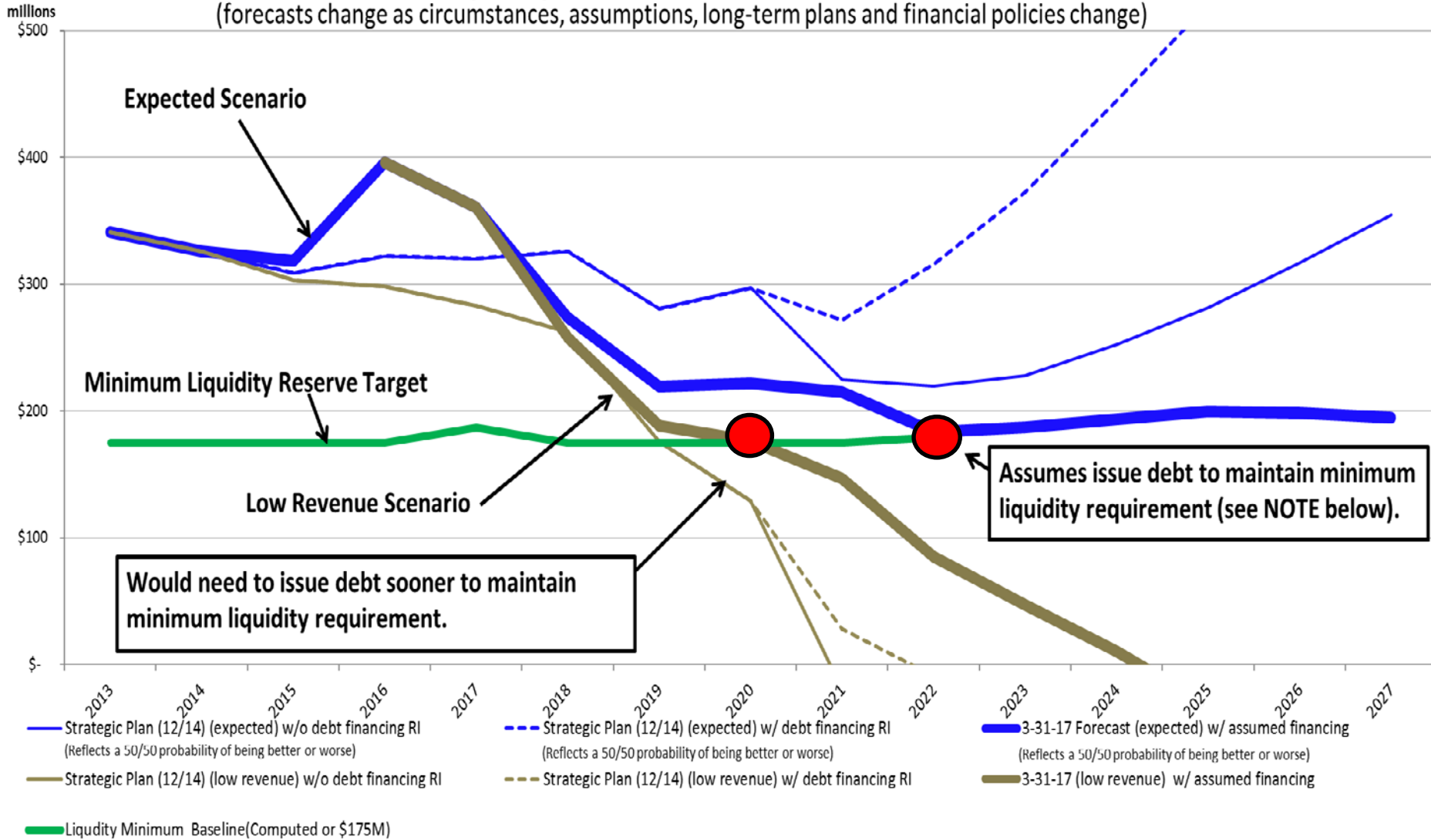


Note: This forecast assumes accelerated rehabilitation of Rock Island Hydro which is still pending business case analysis and approval.

Long-Term Outlook - Now: Q1 - 2017

Liquidity Forecast: Two Future Scenarios

(forecasts change as circumstances, assumptions, long-term plans and financial policies change)



NOTE: Both the Q1-2017 expected and low revenue scenarios assume approximately \$330M of new debt in the periods 2022 - 2027 to fund long-lived capital projects. The debt ratio for the District remains at or below 35% for the forecasted periods for the expected scenario.



What changed?

1. Financial results are good for 5-year horizon but challenges are forecasted in the 2020's
2. Declining market prices reduce our wholesale revenue forecast
3. More capital work planned to rehabilitate hydros and invest in other core assets
4. O&M costs increased for additional repairs, District initiatives and compliance requirements

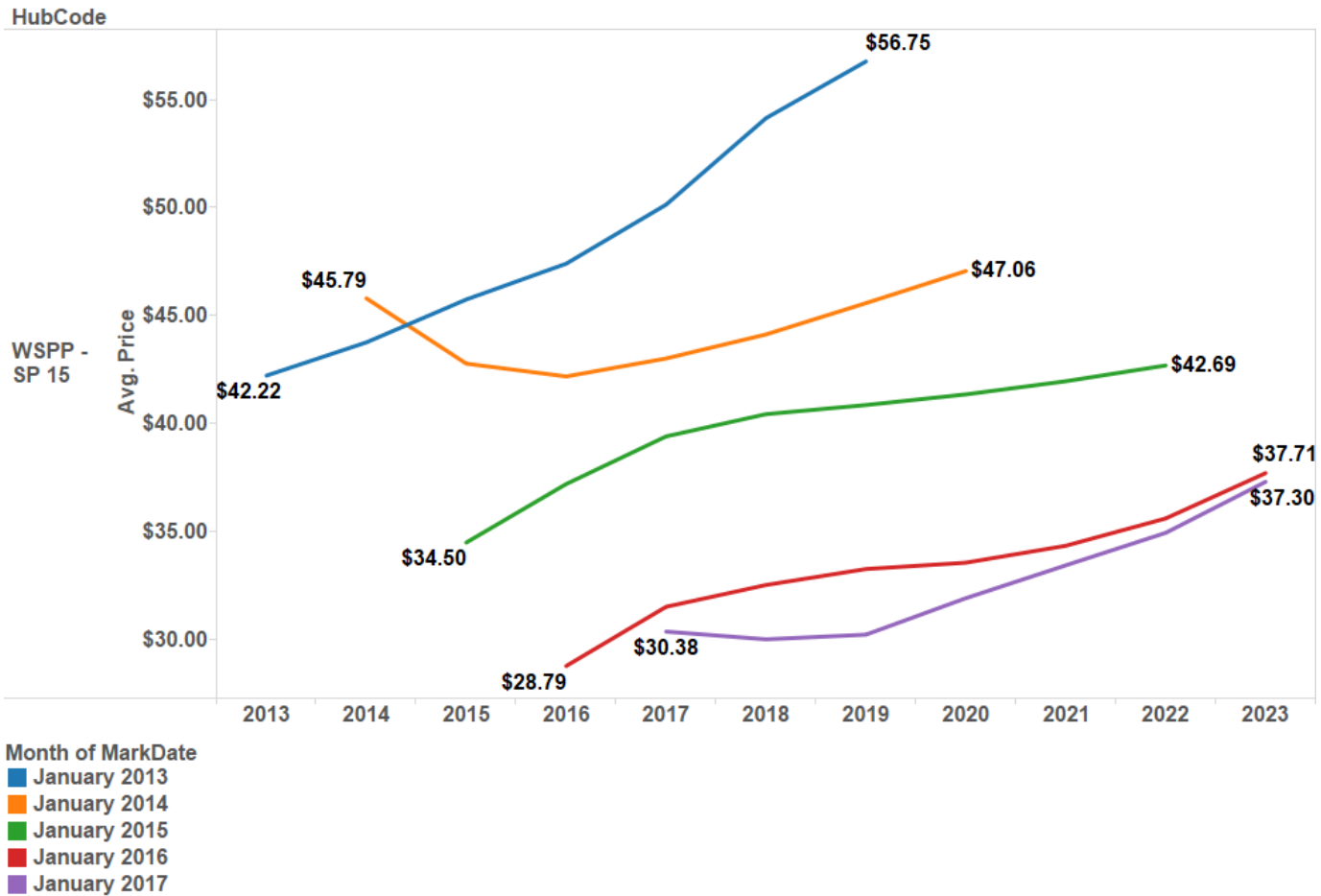
What's different now compared to the Strategic Plan?

(March 2017 vs. December 2014)

(\$ millions)

Description	2015-2019	2020-2027
Cash flow from operations	(9)	(452)
Net Wholesale Revenue	19	(393)
Operating Expenses	29	(14)
Capital Expenditures	23	(37)
Total Liquidity	(62)	(161)
Debt Outstanding	(15)	307

Forward SP15 Price Trends



Known Unknowns

RI relicensing	Retail growth
Substation siting	Carbon pricing
Undergrounding distribution/transmission lines	Long-term power sale
Hydro Power oil management	RI Powerhouse 2 modernization cost (could decrease)
	Alcoa restart/transmission

What are we doing to respond?

1. Pursuing a long-term market-based sale to capture capacity value
2. Actively participating in carbon market development and related carbon pricing
3. Considering growing retail loads if we can sell at production cost (unsubsidized) rate
4. Renewing use of borrowing in headlights (roughly 2022) consistent with long term debt philosophy with focus on managing liquidity
5. Very early rate management planning in case we encounter the worst case scenario

Planning Guidance

- As technology changes permeate our business, we will need to become a more data driven organization
- We should consider a talent management strategy focused on retaining and recruiting a high quality, continuous learning workforce that can perform duties requiring a greater focus on critical thinking skills

Planning Guidance

- Consider further refining our highest priority of investing in assets and people to ensure a balance between future investments and future debt financing
- Consider growing retail loads if we can sell at a production cost (unsubsidized) rate
- Consider strategies that can increase wholesale revenues compared against spot energy prices (seek out capacity and carbon values that hydropower can provide)

Summary

- **Strategic plan is working:**
 - Achieving our financial targets
 - Utilizing reserves to execute strategic goals to provide best value for customer-owners
 - Emphasis on individual strategic priorities consistent with financial circumstances

A scenic view of a wooden boardwalk along a lake. A woman in a white shirt and shorts is walking a dog on the boardwalk. The boardwalk is surrounded by lush green trees and a rocky shoreline. The water is calm and reflects the surrounding greenery. The sky is bright and clear.

2015-2019 Strategic Plan

**THE BEST
FOR THE MOST
FOR THE LONGEST**



Appendix

More Details

5-Year Outlook Q1 2017 - Details

Financial Policies	2016	2017	2018	2019	2020	2021
Rate of Return (Expected > 4%)	8.8%	8.2%	5.7%	4.6%	sunset	sunset
Rate of Return (Unusual > 2%)		8.0%	5.2%	4.1%	sunset	sunset
Combined Debt Cover (Expected > 2.00x)	3.23	3.16	2.81	2.69	2.84	2.72
Combined Debt Cover (Unusual >1.25x)		3.10	2.69	2.57	2.68	2.42
Debt Ratio <35% by 2019 (Expected)	42.8%	37.9%	32.3%	26.8%	23.9%	21.8%
Debt Ratio <35% by 2019 (Unusual)		37.9%	32.5%	27.0%	24.3%	22.3%
Liquidity - \$175M Min (Expected)	\$396M	\$361M	\$274M	\$219M	\$222M	\$215M
Liquidity - \$175M Min (Unusual)		\$358M	\$265M	\$205M	\$200M	\$181M
Days Cash on Hand > 250 Days (Expected)	559	557	454	357	357	366
Days Cash on Hand > 250 Days (Unusual)		552	439	333	321	308
Bottom Line Results (Expected)	\$96M	\$93M	\$68M	\$57M	\$49M	\$44M
Bottom Line Results (Unusual)		\$91M	\$63M	\$51M	\$42M	\$31M
Outstanding Debt	\$590M	\$537M	\$452M	\$368M	\$331	\$306

Expected (~50% Probability) - Unusual (~10% Probability) based on the Q1 2017 forecast