



CHELAN COUNTY

Chelan County PUD

2017 Preliminary Budget

November 21, 2016





2017 Preliminary Budget

What we will cover today...

Review timeline

Key strategies

Recent adjustments

Financial result

Next steps

No Board action required today

2017 Budget Timeline



September

Business Plans Finalized
Budget Initiated

Business Plan Board Presentation

9/20

Complete

October

Preliminary Budget Review & Development

Budget Overview Presentations

10/3

Complete

November

Budgets Compiled & Presented to Board

Formal Board / Public Hearings

11/7

11/21

December

Finalize Budget
Prepare Budget Journals

Request Budget Approval

12/5

Colored boxes indicated Board Meetings

Key Strategies

No electric rate increase
(fifth straight year)

\$95 million capital investment
in value-producing assets

\$52 million debt reduction

Fiber expansion on pace

\$86 million “Bottom-Line”
budget forecast





Revenue Picture

80% of District revenues from surplus power sales

Power sales adjusting to lower market conditions

District revenue forecast above operating costs through 2021

District priorities:

- 1) *Investing in assets & people*
- 2) *Reducing debt balance*
- 3) *Public power benefit program*

Strategic investments + low debt + solid cash reserves = resiliency

2017 Budget Adjustments

Since Nov 7th Presentation

Bottom-Line revised up slightly ~\$2M
\$83.9M up to \$86.0M

Operating Revenues adjusted up ~\$2M
Wholesale “cost based” activity expectations updated

Operating Expenditures
No material change

Non-Operating Activity
No material change

Capital Expenditures adjusted down ~\$2M
Refined project estimates and schedule activity updated

Combined Financial Results

(in 000's)	Adopted Budget 2016	Prelim Budget 2017	\$ Change	% Change
Service Revenue	63,285	63,168	(117)	(0.2)%
Net Surplus Energy Revenue	235,826	237,971	2,145	0.9%
Other Operating Revenue	20,424	20,886	461	2.3%
Operating Expense	(165,626)	(162,157)	(3,469)	(2.1)%
Depreciation & Tax Expense	(55,424)	(56,139)	(714)	0.1%
Operating Income	98,485	103,728	5,243	5.3%
Non-Operating Activity	(22,905)	(17,770)	5,135	(22.4)%
Bottom-Line (Nov 21st)	75,580	85,958	10,379	13.7%
<i>Nov 7th Budget Presentation</i>		83,917		
<i>2017-21 Business Plan</i>		83,097		

Capital Expenditures

(in 000's)	Adopted Budget 2016*	Prelim Budget 2017	\$ Change	Major Project Focus
Electric Distribution	10,832	12,587	1,755	Line upgrades, substation investments, customer work
Electric Transmission	2,937	3,894	957	Mid-C project, Operations video system, Relocates
Rocky Reach Hydro	13,787	12,014	(1,773)	Bridge/Gantry cranes, fire protection system, head covers, boat launch/docks
Rock Island Hydro	27,009	44,748	17,739	Powerhouse 1 modernization cranes, governor controls, domestic water, storage bldg.
Lake Chelan Hydro	371	1,099	728	Breakers, fire alarm system
Corporate/Shared Assets	13,002	14,427	1,425	Telephone switch, microwave, CIS, security/facility upgrades
Integrated Electric	67,938	88,769	20,831	

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Capital Expenditures

(in 000's)	Adopted Budget 2016*	Prelim Budget 2017	\$ Change	Major Project Focus
Fiber	5,120	3,935	(1,185)	Public Power Benefit (PPB) expansion & upgrades
Water	1,531	1,116	(415)	Water main replacements
Wastewater	1,539	418	(1,121)	Peshastin and Dryden system upgrades
Total Capital	76,129	94,238	18,110	
Less: Contributions	(3,881)	(4,604)	(723)	Capital Paid By Others
Regulatory Assets & Other	4,842	5,491	649	Conservation / Lic. Obligations
Net Capital & Reg. Assets	77,090	95,125		
Nov 7th Budget Presentation		96,979		
2017-21 Business Plan		97,423		

* - Includes \$11.9M Rock Island capital budget revision approved with 2016 budget

11/22/2016

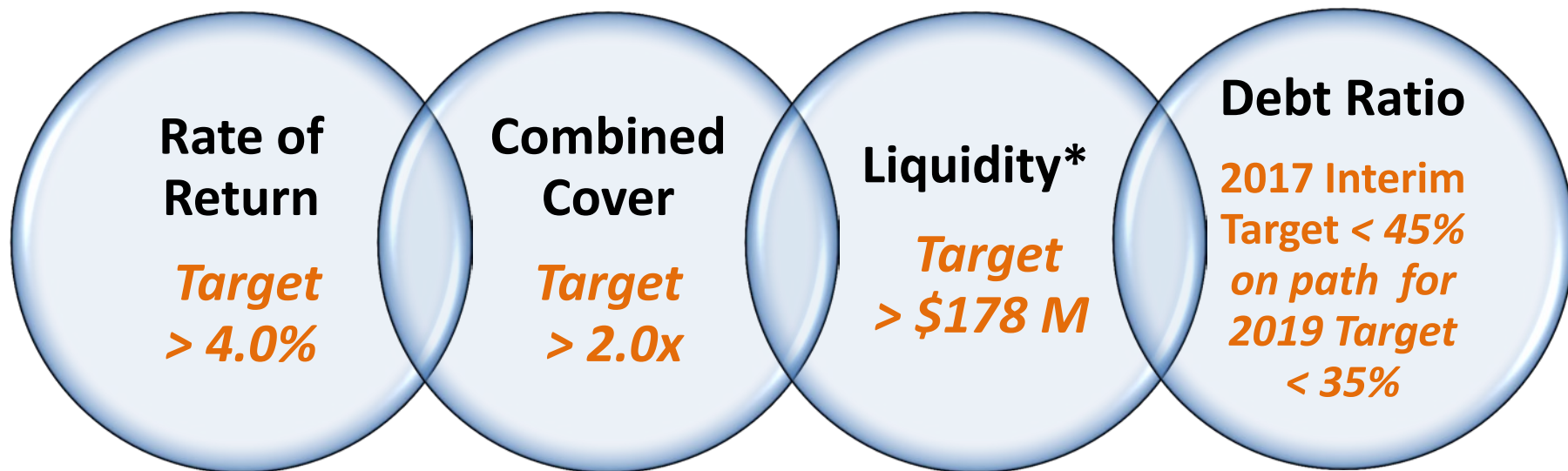
Combined District Expenditures

(in 000's)	*Adopted 2016 Budget	Preliminary 2017 Budget	%
Operating Expense	167,905	162,157	96.6%
Tax Expense	8,025	7,895	98.4%
Non-Operating Exp/(Inc)	24,593	22,944	93.3%
Net Capital & Reg Assets *	77,090	95,126	123.4%
Total Expenditures (Nov 21st)	277,613	288,121	103.8%
<i>Nov 7th Budget Presentation</i>		289,628	

Net Debt Reduction	22,550	52,387	232.3%
Total Expenditures & Debt Reduction (Nov 21st)	300,163	340,508	113.4%
<i>Nov 7th Budget Presentation</i>		342,015	

* - Includes \$11.9M Rock Island capital budget revision approved with 2016 budget

2017 Targeted Financial Policies



The 2017 Budget exceeds all District and Business Line financial metric targets

* The calculated target requirement for 2017 exceeds the set \$175M minimum

Conclusion

**Fundamental perspective –
How can we increase value
for our customer-owners?**

- *Drives long-term planning and 2017 budget*

**Projecting substantial positive net
revenue over the next 5 years**

- *Key measure of financial health*
- *Healthy but declines over time with lower wholesale prices-monitor prudent financial policies*

**Decreasing risk of asset or
compliance failure through
planned investments**

**Accomplishing above, while
decreasing debt and avoiding
general electric rate increases**

- *~\$280M debt reduction 2017-21*
- *The last general electric rate increase was in 2012*



Budget Next Steps

Respond

- Provide any additional budget detail requested

Approve

- Requesting Board Approval on December 5th



Questions?

Appendix

Additional information from prior presentation

2017 District Priorities

Reinvest
in core
assets
and
people

- Continue Rocky Reach large unit repairs
- Initiate Rock Island modernization
- Advance Asset Management program
- Implement new Mid-C Coordination system
- Begin Customer Information System upgrade
- Plan and prepare for substation additions
- Complete regional water supply strategy
- Progress cost-effective wastewater compliance improvements
- Develop employees in the pursuit of safety and operational excellence for high reliability operations

2017 District Priorities

Pay Down Debt

- Net reduction of \$52 million (\$29M accelerated)
- Year end debt ratio 38% (debt balance of \$537M)
- On path to achieve 2019 debt ratio target of < 35%

Public Power Benefit Program

- Continue Fiber system expansion
- Parks parking pass program and camping pass pilot
- Various feasibility studies and misc. other projects

Keys to 2017-2021 Planning

Creating value for our customer-owners

➤ Measure: Net revenues (our bottom line)

Net revenues (million \$)	Budget 2016	Budget 2017	Forecast 2018*	Forecast 2019*	Forecast 2020*	Forecast 2021*	Total 2016-20
Budget Adoption, Dec-2015	75.6	70.9	66.1	55.5	38.3		306.4
Prelim Budget, Nov 21, 2016	85.4	86.0	67.6	57.1	49.7	48.0	345.8
<i>Change since last year</i>	9.8	15.1	1.5	1.6	11.4		39.4

➤ ~\$39 million forecast improvement 2016-2020

- Revenue up ~\$14 million – increase in market based slice contract revenue a key driver
- Expenses down ~\$25 million – lowering interest expense, reduced depreciation and an adjustment to the FTE vacancy rate to better match current expectations are key drivers
- Overall, continuing decreasing risks through investments in assets, compliance and customer satisfaction

*Forecast as of Oct-2016

Keys to 2017-2021 Planning

Creating value for our customer-owners

➤ Measure: Liquidity

Total Liquidity (million \$)	Budget 2016	Budget 2017	Forecast 2018*	Forecast 2019*	Forecast 2020*	Forecast 2021*
Budget Adoption, Dec-2015	352.4	332.9	283.4	248.3	232.2	
Prelim Budget, Nov 21, 2016	372.3	347.0	275.7	221.4	218.3	219.6
<i>Change since last year</i>	<i>20.0</i>	<i>14.1</i>	<i>(7.7)</i>	<i>(26.9)</i>	<i>(13.9)</i>	

➤ ***Projected 2020 balance has decreased ~\$14 million since last year's forecast for 2016-2020***

- Bottom-Line forecast up ~\$39M (2016-20)
- Capital spending up ~\$44M (2016-20)
- Debt Reduction timing increase ~\$9M (2020), reduction ~\$9M (2021)

*Forecast as of Oct-2016

Keys to 2017-2021 Planning

Creating value for our customer-owners

➤ Measure: Debt reduction

Debt Balance (million \$)	Budget 2016	Budget 2017	Forecast 2018*	Forecast 2019*	Forecast 2020*	Forecast 2021*
Budget Adoption, Dec-2015	589.6	537.2	452.4	382.4	341.9	
Prelim Budget, Nov 21, 2016	589.6	537.2	452.4	368.6	332.4	306.2
<i>Change since last year</i>	---	---	---	(13.8)	(9.5)	

- Planned debt reduction of ~ \$52 million for 2017, ~\$283 million 2017-2021
- Projected to achieve debt ratio of less than 35% by 2018 (one year earlier than target of 2019)
- Change since last year primarily due to refining payment dates to improve year-end debt coverage and capture net interest savings

*Forecast as of Oct-2016

Combined Financials 2017-21

(in 000's)	Prelim Budget 2017	Forecast 2018*	Forecast 2019*	Forecast 2020*	Forecast 2021*
Service Revenue	63,168	64,556	66,019	68,254	70,725
Net Surplus Energy Revenue	237,971	227,327	213,988	204,521	193,346
Other Operating Revenue	20,886	22,115	24,402	25,985	27,148
Operating Expense	(162,157)	(172,975)	(172,206)	(173,778)	(168,415)
Depreciation & Tax Exp	(56,139)	(56,273)	(58,712)	(61,893)	(63,740)
Operating Income / (Loss)	103,728	84,750	73,490	63,089	59,064
Non-Operating Activity	(17,770)	(18,123)	(16,341)	(13,434)	(11,092)
Bottom-Line (Nov 21st)	85,958	66,627	57,149	49,656	47,973
Nov 7th Budget Presentation	83,917	67,294	58,500	47,293	43,031
2017-21 Business Plan	83,097	67,294	58,500	47,293	43,031

Service Revenue

(in 000's)	Adopted Budget 2016	Prelim Budget 2017	Variance
Residential Electric	25,835	25,579	<i>Modest customer growth with offsetting impacts from energy conservation efforts</i>
Commercial Electric	16,927	16,600	
Industrial Electric	6,211	6,254	
Other Electric	1,725	1,740	
Electric Service	50,698	50,173	<i>No rate increase included Last general rate increase was 2012</i>
Water Service	5,479	5,656	<i>Modest growth / 2% rate adjust</i>
Wastewater Service	600	668	<i>Modest growth / 5% rate adjust</i>
Fiber & Telecom	6,508	6,672	<i>"System Expansion" impacts</i>
Service Revenue	63,285	63,168	<i>(Nov 21st - Budget Presentation)</i>
2017-21 Business Plan		64,135	

Net Surplus Energy Revenue

(in 000's)	Adopted Budget 2016	Prelim Budget 2017	Variance
Slice Contracts	75,731	79,067	25% portfolio valuation higher
Block/Pre Sched/Real Time	37,166	35,660	Reduction in surplus energy
EP&T Net Wholesale	112,897	114,727	
LT Hydro Contracts	124,290	124,564	Reduced operating cost Rocky Reach large unit repairs
Less: Nine Cyns & Other PP	(1,361)	(1,320)	Consistent with 2016
Net Surplus Energy Revenue	235,826	237,971	(Nov 21 st - Budget Presentation)
2017-21 Business Plan		235,371	

Other Operating Revenue

(in 000's)	Adopted Budget 2016	Prelim Budget 2017	Variance
Transmission/Wheeling	8,888	9,540	<i>Increase investments in operations/compliance</i>
Real Time Contract – Fixed	4,000	4,000	<i>Consistent with 2016 budget</i>
Real Time Contract – Variable	4,000	3,000	<i>Lower market conditions, consistent with 2016 forecast</i>
Environmental Attributes	285	458	<i>Higher expectations in 2017</i>
Service/Late Charges	339	353	<i>Consistent with 2016 budget</i>
Misc Other Items	2,912	3,535	<i>Incremental revenue assumption</i>
Other Operating Revenue	20,424	20,885	<i>(Nov 21st - Budget Presentation)</i>
2017-21 Business Plan		21,034	

Operating Expense

(in 000's)	Adopted Budget 2016	Prelim Budget 2017	Variance
Hydro O&M	57,602	55,831	<i>Rocky Reach repair schedule</i>
Hydro Fish & Wildlife	16,660	15,511	<i>Consistent with 2016 Budget</i>
Hydro Parks & Recreation	7,238	7,208	<i>Consistent with 2016 Budget</i>
Electric Distribution	12,114	13,135	<i>Continued reinvestment in assets</i>
Electric Transmission	12,002	12,896	<i>Continued reinvestment in assets</i>
Power Supply Mgmt	6,325	5,165	<i>Reduction in contracts</i>
Water/Wastewater O&M	2,696	2,874	<i>Consistent with 2016 Budget</i>
Fiber Network O&M	4,497	3,960	<i>Consistent with 2016 actuals</i>

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Operating Expense

(in 000's)	Adopted Budget 2016	Prelim Budget 2017	Variance
Customer Accts & Svc	3,855	3,898	<i>Consistent with 2016 Budget</i>
Conservation	2,885	2,965	<i>Recognition of investments</i>
Insurance	6,145	6,689	<i>Potential insurance increase</i>
FERC Fees	1,706	1,658	<i>Consistent with 2016 Budget</i>
Other Admin & General	31,901	30,367	<i>FTE vacancy rate adjustment</i>
Total	165,626	162,157	<i>(Nov 21st - Budget Presentation)</i>
2017-21 Business Plan		162,660	

Non-Operating Activity

(in 000's)	Adopted Budget 2016	Prelim Budget 2017	Variance
Investment Earnings	6,977	8,014	<i>Higher reserves & interest rate</i>
Contribution Income	4,450	5,173	<i>Confluence park contribution service upgrade</i>
Interest Expense	(28,060)	(26,736)	<i>Debt reduction strategy</i>
Other Inc/(Exp)	(6,272)	(4,222)	<i>Lower unassigned PPB</i>
Total	(22,905)	(17,770)	<i>(Nov 21st - Budget Presentation)</i>
2017-21 Business Plan		(17,804)	

Key “Total Capital Project” Revisions*

(in 000's)	Current	Revised	Change	Major Driver
RI-PH1 B1 Modernization	---	14,650	14,650	<i>Project being initiated</i>
RI-PH1 B2 Modernization	---	14,520	14,520	<i>Project being initiated</i>
RI-PH1 B3 Modernization	---	14,420	14,420	<i>Project being initiated</i>
RI-PH1 B4 Modernization	---	16,410	16,410	<i>Project being initiated</i>
RI-PH1 Intake Gantry Replace	---	4,373	4,373	<i>Project being initiated</i>
RI-PH2 Storage Building	---	1,110	1,110	<i>Project being initiated</i>
RI-PH2 Gantry Crane	1,285	2,574	1,289	<i>Expanded scope and revised engineer estimates</i>
RI-PH2 Bridge Crane	1,720	2,870	1,150	
RR Generator Fire Protection	---	5,500	5,500	<i>Project cost expectations currently under review</i>
RR Fire Alarm System	---	1,115	1,115	<i>Project being initiated</i>
LMR Network Replacement	100	5,600	5,500	<i>Project being initiated</i>
Microwave Replacement	2,000	3,720	1,720	<i>Project cost expectations currently under review</i>
Telephone Switch Upgrade	600	1,821	1,221	

* - Includes revisions >\$1M, excludes public power and recurring annual capital project activity

11/22/2016

Combined Financial Policies 2017 Preliminary Budget

	Rate of Return ¹	Debt Ratio ²	Combined Cover	Financial Liquidity
Base Case – expected (50% probability) <i>Target</i>	7.6% <i>> 4%</i>	38.5% <i>< 45%</i>	3.03 <i>> 2.0x</i>	\$349M <i>> \$178M</i>
Base Case – unusual (5% probability) <i>Target</i>	6.6% <i>> 2%</i>	38.7% <i>< 45%</i>	2.83 <i>> 1.25x</i>	\$341M <i>> \$178M</i>

¹ - Associated with an expected bottom line of approximately \$84 million

² - Includes the expected debt reduction of approximately \$52 million

Business Line Financial Policies

2017 Preliminary Budget

	Rate of Return	Debt Ratio	Cover	Liquidity	Oper Exp Coverage
Integrated Electric <i>Target</i>	7.7% 4.1%	41.7% < 45%	2.9 > 1.9x	\$334 M \$174 M	n/a
Fiber & Telecom <i>Target</i>	n/a	---% < 35%	n/a	\$9.5 M \$2 M	157% > 120%
Water <i>Target</i>	n/a	13.0% < 35%	n/a	\$3.7 M \$1.25 M	139% > 120%
Wastewater <i>Target</i>	n/a	---% < 35%	n/a	\$2.2M \$200 K	106% > 100% by 2019

Key Budget Assumptions

Wholesale Revenue

- Average flows and current forward price curve
- Hedge program fully implemented
- Includes unit outage impacts
- Hydro fish spill consistent

System Load Growth

- ~2% Electric (*includes HDL impact*)
- ~2% Water
- ~1.5% Wastewater
- ~1,000 new Premises Passed

Business Line Service Revenues

- New rate for High Density Usage rate class
- 2% change in Water rates
- 5% change in Wastewater rates
- Change in Fiber rate structure (*revenue neutral*)

Key Budget Assumptions

Labor Bargaining Unit

- Collective Bargaining Agreement expires Mar 31
- Wages and benefits are to be determined

Labor Non-Bargaining Unit

- Budget includes assumptions for merit increases, market adjustments and promotions
- Final decisions will be informed by actual market data

Long-term cost-plus power contracts

- Debt Reduction Charge (DRC) – 3.0%
- Capital Recovery Charge (CRC) - 50%
- Assume Alcoa restarts Wenatchee Works

Key Budget Assumptions

Capital & Operating Expenditures

- Driven by 2017-21 business plans
- 2017 expenditures are higher than 2016 but lower than forecasted in last year's budget process due to refinements in major asset investment schedules

Debt and Interest Income

- Net debt reduction of ~\$52 million
- Interest earnings estimated at ~1.6%

Public Power Benefit Investments

- Includes continuation of fiber expansion, Board selected projects & designated funding level
- Budget revisions will be processed to allocate any newly designated projects within 2017