



2019 Budget

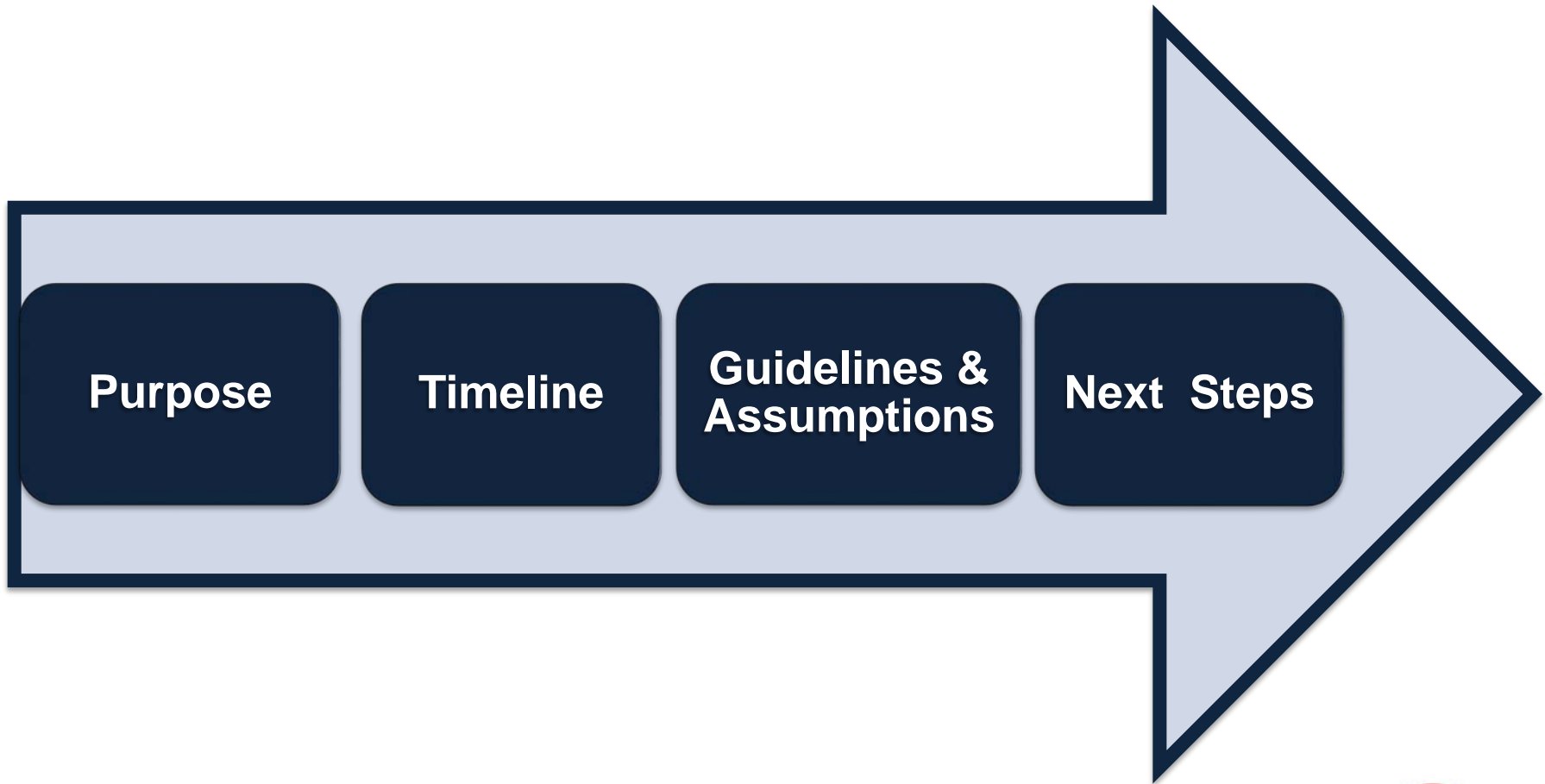
Oct. 15, 2018

Timeline and Key Assumptions



CHELAN COUNTY

What we will cover today...



No Board Action Required

Today's Focus

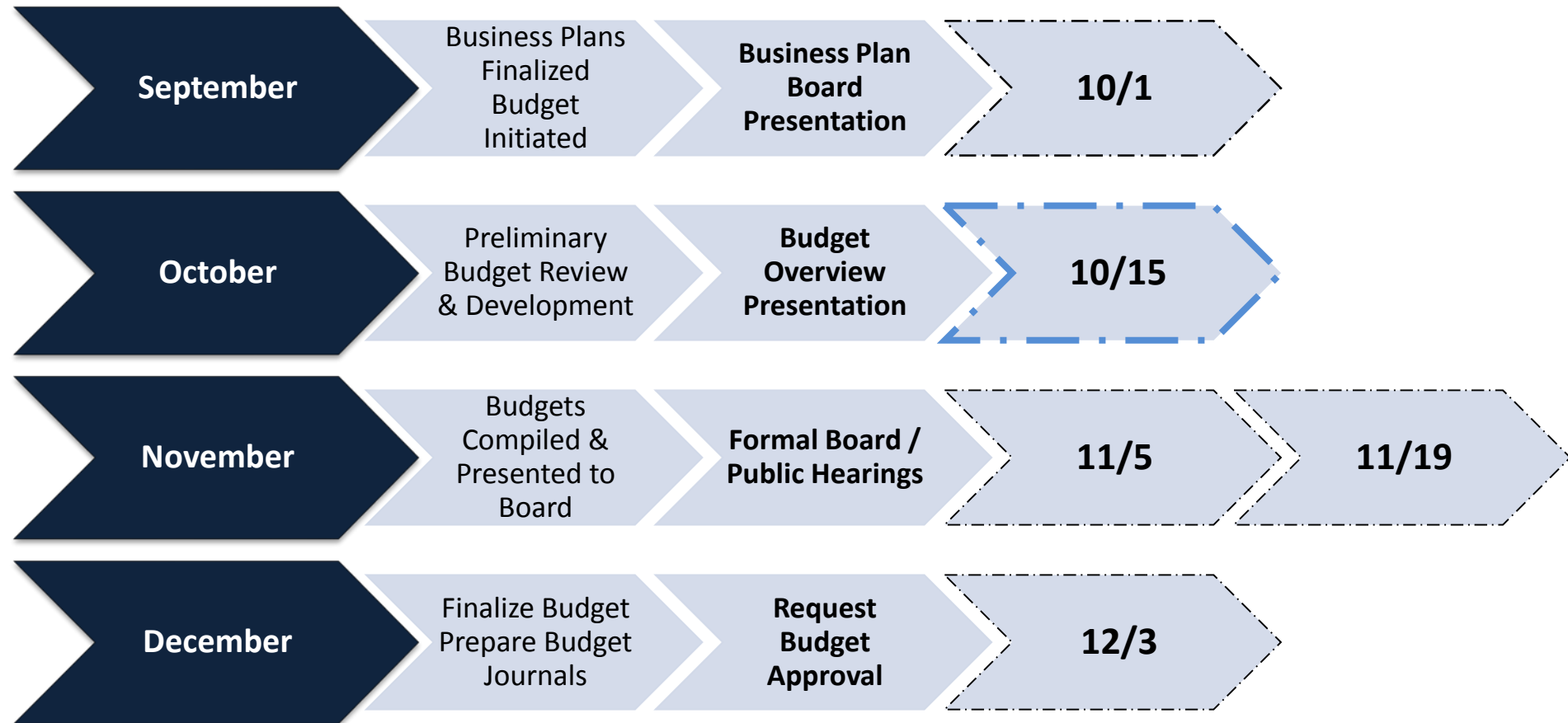
Transition from five-year
business planning for 2019-2023
to the
annual budget process for 2019

Cascading Planning Cycle

- District vision & mission
 - ↳ ■ District Strategic Plan (3 Goals – 7 Objectives)
 - ↳ ■ District-wide priorities for 5-year business planning
 - ↳ ■ District-wide 5-year business plan
 - ↳ ■ Business Unit 5-year business plans
 - ↳ ■ **Annual budget** ← *We are here*
 - ↳ ■ District-wide annual performance plan
 - ↳ ■ Department work plans
 - ↳ ■ Annual employee performance plans

Levels of Organization


Budget Timeline




Indicates Board Meetings

Strategic Focus

The 2019 Budget will be built around strategic initiatives and business plans presented October 1st



The foundation of our strategic initiatives and budget is at the top of our balanced scorecard:
Customer-Owner Satisfaction



Reinvesting in assets and people is our highest priority followed by maintaining our debt ratio below 35% and the Public Power Benefit Program

2019 District Initiatives

Reinvest in core assets and people

- Continue Rocky Reach large unit repairs (C8 Kaplan and all C8-C11 windings already completed)
- Continue Rock Island PH1 refurbishment
- Customer Information System implemented and advanced two-way metering project initiated
- Improve distribution system reliability through investment in equipment reliability and substations
- Implement restructured Mid-C hourly coordination plan
- Develop employees to achieve safety goals, operational excellence, and integrate data-driven processes into decision-making

2019 District Initiatives

Reinvest in core assets and people

- Capital project prioritization
- Implement alternative contracting mechanisms for large hydropower and facilities construction projects
- Seek longer term warranties for hydropower rehabilitation projects
- Stay on track to achieve Fiber expansion to 85-90% of homes passed
- Implement new cryptocurrency rate
- Influence market development to value Pacific Northwest hydropower
- Implement long-term planning strategies for facilities

2019 District Initiatives

Reinvest in
core assets
and people

- Streamline procurement processes and seek efficiency through IT initiatives
- Further investigate water second source
- Resolve Peshastin water quality issue; define strategy for Dryden
- Review rates for strategies to avoid large future rate increases and address emerging cost recovery issues (second homes, distributed generation, electric vehicles)
- Exceed energy efficiency requirements
- Protect against fire/weather liability/risk
- Advance our asset management discipline
- Support and be supported by public power colleagues

2019 District Initiatives

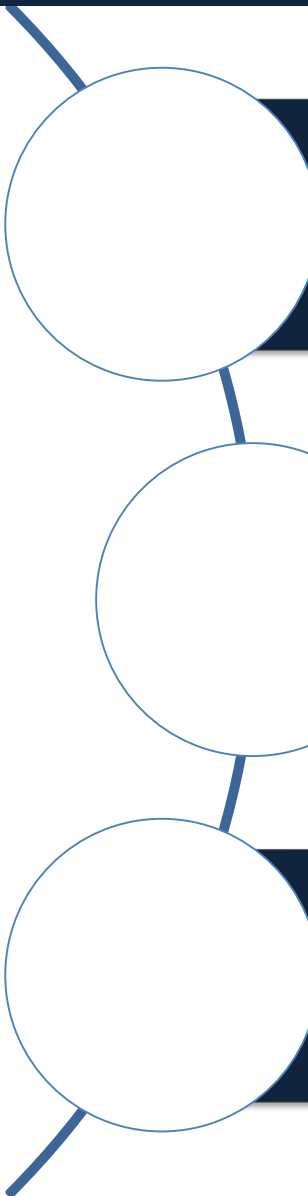
Pay down debt

- Maintain debt ratio of less than 35%
- Continue debt reductions through scheduled principal payments while monitoring for new opportunities to optimize debt portfolio

Public Power Benefit Program

- Continue Fiber system expansion
- Continue program for park passes
- Complete Rocky Reach Discovery Center improvements
- Review Public Power Benefit Program as part of 2019 strategic planning process

Early External Indicators

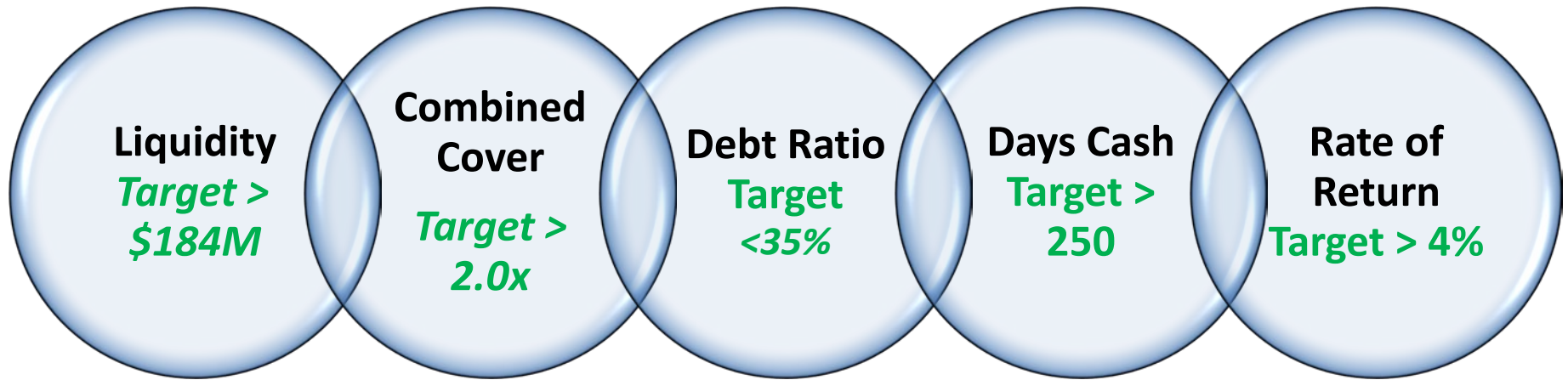


Low wholesale electric market prices continue but show some signs of improvement

Focus on investments in projects with highest long-term customer value

Local load growth patterns and customer profiles are changing

2019 Targeted Financial Policies



Key Budget Assumptions

Wholesale Revenue

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

System Load Growth

- ~4.5% Electric (net of conservation)
 - ~2.0% Retail Electric organic growth
 - ~60% HDL growth
- ~2% Water
- ~1.5% Wastewater
- ~1,100 New Fiber installations (~750 current service territory, ~350 PPB)

Business Line Service Revenues

- No electric rate increase
- 2% increase in Water rates
- 5% Increase in Wastewater rates
- Reflects most current Fiber rate structure

Key Budget Assumptions

Labor Bargaining Unit

- General Wage Increase of 3% effective April 1, 2019 per Collective Bargaining Agreement

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%

Key Budget Assumptions

Capital & Operating Expenditures

- Driven by 2019-23 business plans
- 2019 expenditures are a planned peak with continuance of RI Modernization, RR large unit repairs, CIS implementation and Strategic Facilities Planning as key drivers

Debt and Interest Income

- Net debt reduction of ~\$41 million
- Interest earnings estimated at ~2.4%

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 2019, if needed

Budget Next Steps

Develop

- Preliminary budgeting in process

Review

- Review and revise in October & November
- 1st Budget Hearing November 5th
- 2nd Budget Hearing November 19th

Approve

- Requesting Board Approval on December 3rd