



Nov. 19, 2018

# 2019 Preliminary Budget



CHELAN COUNTY

# What we will cover today...

Timeline

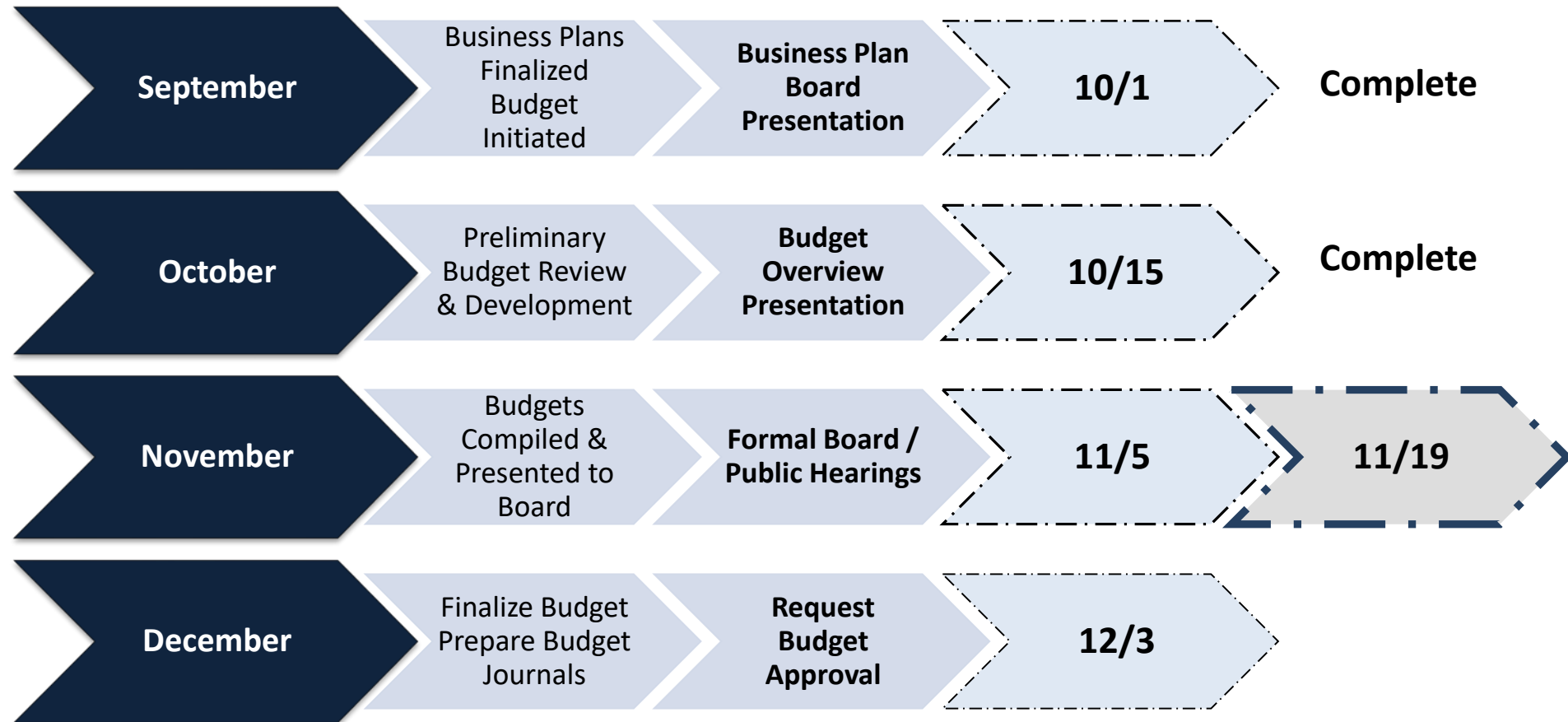
Changes  
since Nov. 5<sup>th</sup>  
Hearing

2019  
Budget  
Summary

Next Steps

*No Board Action Required*

# Budget Timeline



Indicates Board Meetings

# Top Projects

**RI hydro and crane modernizations**



**RI and RR facilities upgrades**



**RR large unit repairs**



**New substations**



**New Customer Information System**



# Summary of Changes Since Nov. 5 2019 Budget Updates

## Decreased net capital spending for 2019 by ~2.8M

- Primary Driver: Rock Island hydro reductions ~\$1.7M
- Refined contribution in aid of construction estimate
  - Adjusted total project cost for operations and service center to include preliminary property and design costs only through 2019

## Updated Net Wholesale Revenue forecast: reduction of ~\$1.6M

- Updated outage schedule for Hydro facilities
  - Forecasted Generation down from Nov. 5 presentation

## Refined O&M plans: increase of ~\$300K

- Updated allocation of resources performing capital / O&M work

## Refined depreciation estimate: decrease of ~\$900K

- Depreciation estimate based on updated capital forecast for 2018

# Summary of Changes Since Nov. 5 2019 Bottom – Line Impacts

Bottom line: reduction ~\$0.9M

- \$78.1M to \$77.2M

Operating Revenues: reduction ~\$1.6M

- Net Wholesale revenue update (driver: hydro outage schedule update)

Operating Expenses: reduction ~\$0.6M

- Depreciation expense refinement (\$0.9M)
- O&M refinement \$0.3M

Non Operating Activity: decrease ~\$0.1M

- Refinement of contributions in aid of construction

# Combined Financial Results

(in 000's)	Prelim Budget 2019	Adopted Budget 2018	\$ Change	% Change
Service Revenue	69,512	64,693	4,819	7.4%
Net Surplus Energy Revenue	234,578	227,796	6,782	3.0%
Other Operating Revenue	23,840	21,129	2,711	12.8%
Operating Expense	(186,233)	(173,846)	(12,387)	7.1%
Depreciation & Tax Expense	(53,321)	(52,016)	(1,305)	2.5%
<b>Operating Income</b>	<b>88,376</b>	<b>87,756</b>	<b>620</b>	<b>0.7%</b>
Non-Operating Activity	(11,195)	(15,913)	4,718	-29.6%
<b>Bottom-Line (Nov 19<sup>th</sup>)</b>	<b>77,181</b>	<b>71,843</b>	<b>5,338</b>	<b>7.4%</b>
<i>Nov 5<sup>th</sup> Budget Presentation</i>	<i>78,115</i>			
<i>2019-23 Business Plan</i>	<i>79,244</i>			

# Capital Expenditures

(in 000's)	Prelim Budget 2019	Adopted Budget 2018	\$ Change	Major Project Focus
Electric Distribution	21,885	14,293	7,592	Line upgrades, substation investments, customer work
Electric Transmission	3,987	2,929	1,058	McNeil Canyon, Breaker work, Mid C Transmission
Rocky Reach Hydro	6,011	8,491	(2,480)	Unit controls governor, Exciting reg. replacement
Rock Island Hydro	71,590	83,398	(11,808)	Powerhouse 1 modernization, cranes, governor controls
Lake Chelan Hydro	111	1,404	(1,293)	Log boom and dock replace (parks)
Corporate/Shared Assets	34,745	21,047	13,698	LMR, microwave, CIS, shared facility upgrades
<b>Integrated Electric</b>	<b>138,329</b>	<b>131,562</b>	<b>6,767</b>	

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# Capital Expenditures

(in 000's)	Prelim Budget 2019	Adopted Budget 2018	\$ Change	Major Project Focus
Fiber	7,273	5,547	1,726	Portal replacement, Public Power Benefit (PPB) expansion & upgrades
Water	1,068	1,236	(168)	Wenatchee Heights tank replacement
Wastewater	3,462	1,339	2,123	Peshastin system upgrades
<b>Total Capital</b>	<b>150,132</b>	<b>139,684</b>	<b>10,448</b>	
Less: Contributions	(4,488)	(3,794)	(502)	Capital Paid By Others
Regulatory Assets & Other	4,737	4,537	200	Conservation / Lic. Obligations
<b>Net Capital &amp; Reg. Assets</b>	<b>150,381</b>	<b>140,427</b>		
<i>Nov 5<sup>th</sup> Budget Presentation</i>	<i>153,130</i>			
<b>2019-23 Business Plan</b>	<b>153,807</b>			

# Key “Total Capital Project” Revisions\* (Existing Projects)

(in 000’s)	Current	Revised	Change	Major Driver
Operations and Service Center	2,600	14,870	12,270	<i>Includes preliminary property and design costs only through 2019</i>
RI Facilities Upgrade	32,693	33,895	1,202	<i>Design completed</i>
Greater McNeil Canyon	500	13,875	13,375	<i>Project being initiated</i>
Mid C Transmission Project	4,245	5,700	1,455	<i>Project scope change</i>
RI PH2 U1-U8 Rehab	1,800	11,500	9,700	<i>Design development / contractor selection</i>
RI PH2 Gantry Crane	2,574	5,760	3,186	<i>Project scope change</i>
RI PH2 Bridge Crane	2,909	4,960	2,051	<i>Project scope change</i>
Ohme Substation	2,000	3,700	1,700	<i>Planning / design complete</i>
Feeder Addition- South Shore	170	1,720	1,550	<i>Project being initiated</i>

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

11/20/2018

# Key “Total Capital Project” Revisions\* (New Projects)

(in 000’s)	Current	Revised	Change	Major Driver
Chelan Hatchery Rehab	---	5,570	5,570	Project being initiated
Fiber Portal Replacement	---	1,500	1,500	Project being initiated
Advanced Metering Infr (AMI)	---	1,500	1,500	Project being initiated
RI PH2 Station Drainage Mod	---	1,185	1,185	Project being initiated

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

11/20/2018

# Combined District Expenditures

(in 000's)	Preliminary 2019 Budget	Adopted 2018 Budget	%
Operating Expense	186,233	173,846	107%
Tax Expense	8,584	7,986	107%
Non-Operating Exp/(Inc)	16,252	20,276	80%
Net Capital & Reg Assets	150,381	140,427	107%
<b>Total Expenditures (Nov 19<sup>th</sup>)</b>	<b>361,450</b>	<b>342,535</b>	<b>106%</b>
<i>Nov 5<sup>th</sup> Budget Presentation</i>	<i>364,069</i>		

Net Debt Reduction	38,477	23,644	163%
<b>Total Exp &amp; Debt Reduction (Nov 19<sup>th</sup>)</b>	<b>399,927</b>	<b>366,179</b>	<b>109%</b>
<i>Nov 5<sup>th</sup> Budget Presentation</i>	<i>402,546</i>		

# Combined Financial Policies 2019 Preliminary Budget

	Financial Liquidity	Combined Cover	Debt Ratio <sup>2</sup>	Days Cash on Hand	Rate of Return <sup>1</sup>
Base Case – expected <i>Target</i>	<b>\$419M</b> > \$184M	<b>2.87</b> > 2.0x	<b>30.8%</b> < 35%	<b>608</b> > 250	<b>6.1%</b> > 4%
Base Case – unusual <i>Target</i>	<b>\$411M</b> > \$184M	<b>2.73</b> > 1.25x	<b>31.x%</b> < 35%	<b>596</b> > 250	<b>5.6%</b> > 2%

<sup>1</sup> - Associated with an expected bottom line of approximately \$77 million

<sup>2</sup> - Includes net debt reduction of approximately \$38 million

**On track**



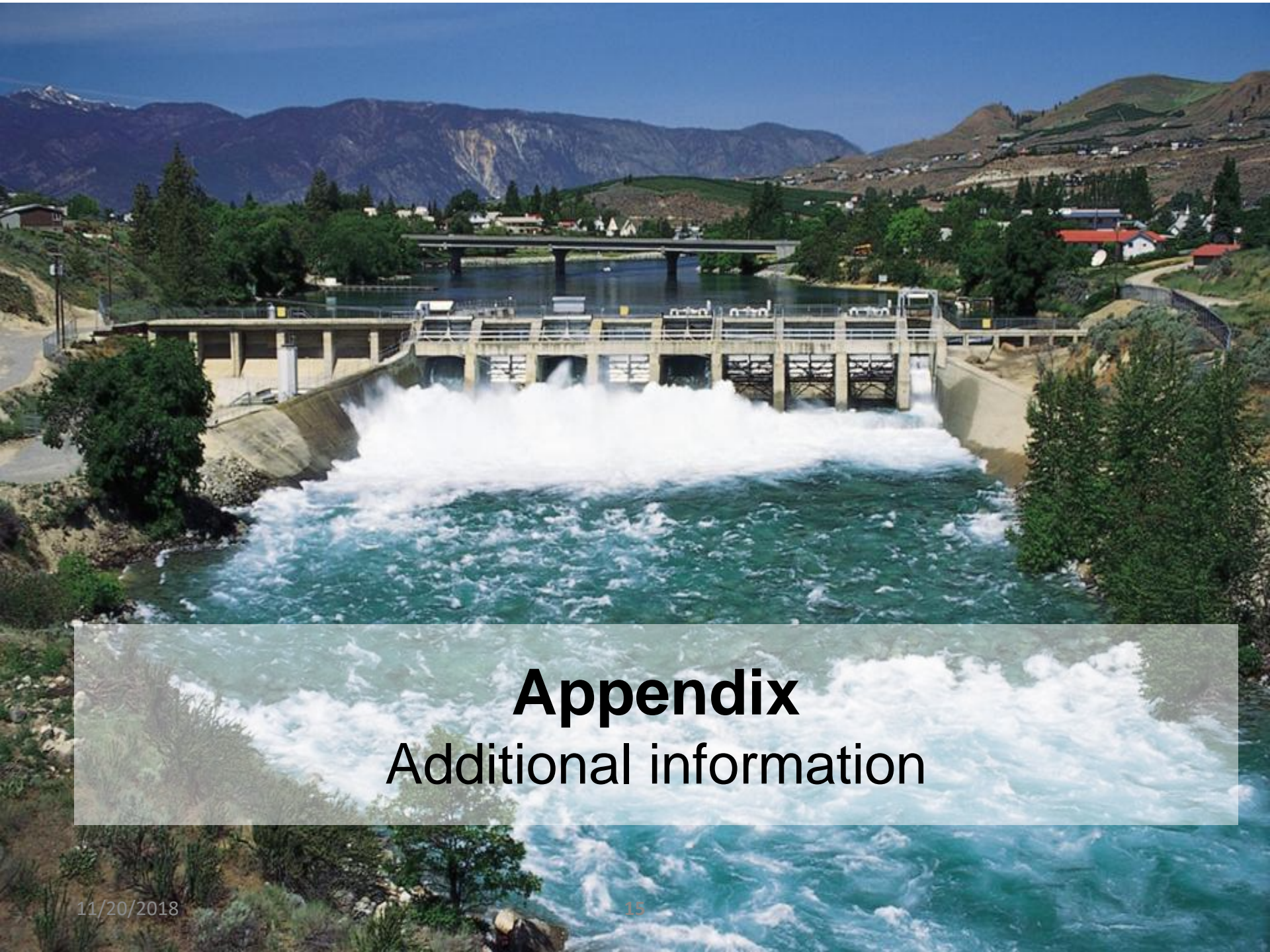
# Budget Next Steps

## Respond

- Respond to questions
- Provide any additional detail requested

## Approve

- Requesting Board Approval on December 3rd




# Appendix


## Additional information

# Strategic Focus

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



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



# Strategic Plan Goals

Reinvest in core assets and people

Expands our capacity to create value

✓ Debt ratio target achieved 1 year early

Continue debt reduction efforts

Leads to financial flexibility and resilience

Continue Public Power Benefit Program

Enhances the quality of life in our county

# Combined Financials 2019-23

(in 000's)	Prelim Budget 2019	Forecast 2020*	Forecast 2021*	Forecast 2022*	Forecast 2023*
Service Revenue	69,512	72,667	75,404	76,489	79,065
Net Surplus Energy Revenue	234,578	226,048	216,192	220,923	229,077
Other Operating Revenue	23,840	24,746	23,848	25,530	24,904
Operating Expense	(186,233)	(191,531)	(183,210)	(188,919)	(198,213)
Depreciation & Tax Exp	(53,321)	(58,870)	(63,108)	(67,193)	(71,150)
<b>Operating Income / (Loss)</b>	<b>88,376</b>	<b>73,060</b>	<b>69,126</b>	<b>66,830</b>	<b>63,683</b>
Non-Operating Activity	(11,195)	(11,617)	(11,834)	(11,461)	(11,004)
<b>Combined "Bottom-Line"</b>	<b>77,181</b>	<b>61,443</b>	<b>57,292</b>	<b>55,369</b>	<b>52,679</b>
<b>Nov 5<sup>th</sup> Budget Hearing</b>	<b>78,115</b>	<b>61,443</b>	<b>57,292</b>	<b>55,369</b>	<b>52,679</b>
<b>2019-23 Business Plan</b>	<b>79,244</b>	<b>61,443</b>	<b>57,292</b>	<b>55,369</b>	<b>52,679</b>

\*Forecast as of Q3-2018

11/20/2018

# Combined Financial Results 2019

(in 000's)	Prelim Budget 2019	Adopted Budget 2018	\$ Change	% Change
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Non-Operating Activity	(11,195)	(15,913)	4,718	(29.6%)
<b>"Bottom-Line"</b>	<b>77,181</b>	<b>71,843</b>	<b>5,338</b>	<b>7.4%</b>
<b>Nov 5<sup>th</sup> Budget Hearing</b>	<b>78,115</b>			
<b>2019-23 Business Plan</b>	<b>79,244</b>			

# Service Revenue

(in 000's)	Prelim Budget 2019	Adopted Budget 2018	Variance
Residential Electric	27,785	25,586	<i>Overall ~4.5% growth from current 2018 forecasted usage offsetting impacts from energy conservation efforts &lt;1%</i>
Commercial Electric	17,322	16,611	
Industrial Electric	5,101	4,392	
HDL Electric	3,681	2,265	
Other Electric	1,546	1,814	
Electric Service	55,435	50,668	<i>Growth impacts from High Density Loads</i> <i>No rate increase included</i> <i>Last general electric rate increase: 2012</i>
Water Service	6,162	6,038	<i>~2% growth / 2% rate adjust</i>
Wastewater Service	725	700	<i>~1.5% growth / 5% rate adjust</i>
Fiber & Telecom	7,190	7,287	<i>~1,100 new fiber installations</i>
<b>Service Revenue</b>	<b>69,512</b>	<b>64,693</b>	
<b>Nov 5<sup>th</sup> Budget Hearing</b>	<b>69,512</b>		
<b>2019-23 Business Plan</b>	<b>69,512</b>		

11/20/2018

# Net Surplus Energy Revenue

(in 000's)	Prelim Budget 2019	Adopted Budget 2018	Variance
Slice Contracts	70,241	75,149	<i>Higher value slice rolling off of laddered approach</i>
Block/Pre Sched/Real Time	31,361	32,852	<i>2019 prices showing some signs of recovery</i>
<b>EP&amp;T Net Wholesale</b>	<b>101,602</b>	<b>108,001</b>	
LT Hydro Contracts	134,296	121,115	<i>Cost-based plus: higher operating costs and increased charges</i>
Less: Nine Cyns & Other PP	(1,320)	(1,320)	<i>Consistent with 2018</i>
<b>Net Surplus Energy Revenue</b>	<b>234,578</b>	<b>227,796</b>	
<b>Nov 5<sup>th</sup> Budget Hearing</b>	<b>236,156</b>		
<b>2019-23 Business Plan</b>	<b>237,907</b>		

# Other Operating Revenue

(in 000's)	Prelim Budget 2019	Adopted Budget 2018	Variance
Transmission/Wheeling	10,323	9,962	<i>Cost based: Increase investments in operations/compliance</i>
Real Time Contract – Fixed	4,000	4,000	<i>Consistent with 2018 budget</i>
Real Time Contract – Variable	3,000	3,000	<i>Consistent with 2018 budget</i>
Environmental Attributes	899	676	<i>Higher expectations in 2019</i>
Service/Late Charges	366	368	<i>Consistent with 2018 budget</i>
Misc Other Items	5,252	3,123	<i>LT contract admin fees</i>
<b>Other Operating Revenue</b>	<b>23,840</b>	<b>21,129</b>	
<b>Nov 5<sup>th</sup> Budget Hearing</b>	<b>23,840</b>		
<b>2019-23 Business Plan</b>	<b>23,982</b>		

# Operating Expense

(in 000's)	Prelim Budget 2019	Adopted Budget 2018	Variance
Hydro O&M	66,606	59,138	<i>Wireman/Tech shop focus on O&amp;M projects in 2019</i>
Hydro Fish & Wildlife	16,212	16,751	<i>Consistent with 2018 Budget</i>
Hydro Parks & Recreation	7,493	7,715	<i>Slight reduction in major parks O&amp;M projects</i>
Electric Distribution	16,290	15,398	<i>NESC Survey</i>
Electric Transmission	14,458	13,221	<i>Two dam independent operations</i>
Power Supply Mgmt	4,933	5,317	<i>Consistent with 2018 Budget</i>
Water/Wastewater O&M	3,191	3,102	<i>Consistent with 2018 Budget</i>
Fiber Network O&M	5,228	4,580	<i>Node HVAC replacement</i>

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# Operating Expense

(in 000's)	Prelim Budget 2019	Adopted Budget 2018	Variance
Customer Accts & Svc	3,807	3,999	<i>CIS / Customer Service Admin</i>
Conservation	4,452	3,459	<i>Recognition of Investments</i>
Insurance	6,868	7,278	<i>Consistent with 2018 Budget</i>
FERC Fees	1,604	1,392	<i>Anticipate higher FERC fees</i>
Other Admin & General	35,091	32,496	<i>Anticipated decrease in position vacancy rate</i>
<b>Total</b>	<b>186,233</b>	<b>173,846</b>	
<b>Nov 5<sup>th</sup> Budget Hearing</b>	<b>185,924</b>		
<b>2019-23 Business Plan</b>	<b>187,330</b>		



# Non-Operating Activity

(in 000's)	Prelim Budget 2019	Adopted Budget 2018	Variance
Investment Earnings	13,712	9,249	<i>Higher cash balances &amp; interest rates</i>
Contribution Income	5,057	4,364	<i>Organic / HDL growth</i>
Interest Expense	(24,990)	(25,402)	<i>Lower debt balance offset by higher interest rate on variable debt</i>
Other Inc/(Exp)	(4,974)	(4,124)	<i>Consistent with 2018 Budget</i>
<b>Total</b>	<b>(11,195)</b>	<b>(15,913)</b>	
<b>Nov 5<sup>th</sup> Budget Hearing</b>	<b>(11,239)</b>		
<b>2019-23 Business Plan</b>	<b>(10,790)</b>		

# 5 Year Look – Financial Policies

District Combined	2019	2020 <sub>1</sub>	2021 <sub>1</sub>	2022 <sub>1</sub>	2023 <sub>1</sub>
Liquidity - \$175M Min (Expected)	\$419M	\$317M	\$236M	\$179M*	\$183M*
Liquidity - \$175M Min (Unusual)	\$411M	\$305M	\$216M	\$177M*	\$182M*
Debt Ratio (Expected case <35% by 2019)	30.8%	27.8%	24.9%	23.0%	21.4%
Debt Ratio (Unusual case <35% by 2019)	31.0%	28.0%	25.2%	24.8%	24.6%
Days Cash on Hand (Expected case >250)	608	462	365	269*	267*
Days Cash on Hand (Unusual case > 250)	596	443	334	267*	265*
Combined Debt Cover (Expected case > 2.00x)	2.87	2.62	2.56	2.52	2.45
Combined Debt Cover (Unusual case >1.25x)	2.73	2.51	2.41	2.23	1.93
Rate of Return (Expected case > 4% thru 2019)	6.1%	Sunset			
Rate of Return (Unusual case > 2% thru 2019)	5.6%				
<i>Bottom Line Results (Expected case)</i>	<i>\$77M</i>	<i>\$61M</i>	<i>\$57M</i>	<i>\$55M</i>	<i>\$53M</i>
<i>Bottom Line Results (Unusual case)</i>	<i>\$70M</i>	<i>\$56M</i>	<i>\$49M</i>	<i>\$45M</i>	<i>\$31M</i>
<i>Debt Outstanding (Expected case)</i>	<i>\$475M</i>	<i>\$436M</i>	<i>\$395M</i>	<i>\$372M*</i>	<i>\$354M*</i>
<i>Debt Outstanding (Unusual case)</i>	<i>\$475M</i>	<i>\$436M</i>	<i>\$395M</i>	<i>\$401M*</i>	<i>\$406M*</i>

\* - Financial Policy Metrics within 10% of target which requires Board communication per resolution. Action plan assumes issuance of debt in 2022 to maintain liquidity and meet financial targets.

1 - Forecast as of Q3, 2018

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.

# 5 Year Look

## Individual Business Line Financial Policies

Business Lines	2019	2020 <sub>1</sub>	2021 <sub>1</sub>	2022 <sub>1</sub>	2023 <sub>1</sub>
<b>WATER Business Line</b>					
Operating Expense Coverage (target >120%)	132%	128%	130%	131%	129%
Cash Reserves (target > \$1.25 million)	\$4.4M	\$2.2M	\$2.1M	\$1.1M	\$0.1M
Debt Ratio (target <35%)	9%	7%	5%	3%	1%
<b>WASTEWATER Business Line</b>					
Operating Expense Coverage (target >100% by 2019)	86%	99%	99%	98%	97%
Cash Reserves (target > \$200K)	\$2.5M	\$2.6M	\$2.4M	\$2.2M	\$2.0M
Debt Ratio (target <35%)	23%	23%	28%	28%	28%
<b>FIBER Business Line</b>					
Operating Expense Coverage (target >120%)	144%	159%	147%	145%	144%
Cash Reserves (target > \$2.0 million)	\$11.1M	\$12.6M	\$13.8M	\$13.5M	\$14.1M
Debt Ratio (target <35%)	---	---	---	---	---

1 - Forecast as of Q3, 2018

Financial Policy not met. Action plan is to address this through upcoming strategic planning process.

Financial Policy Metric within 10% of target which requires Board communication per resolution. Action plan is to monitor ongoing forecasts

# 5 Year Look

## Individual Business Line Financial Policies

Monitoring during test period

*\*These are “test” metrics, developed during 2018-2022 business planning*

Business Lines	2019	2020 <sub>1</sub>	2021 <sub>1</sub>	2022 <sub>1</sub>	2023 <sub>1</sub>
<b>Integrated Electric Business Line</b>					
<b>Retail Total Cost Ratio (target)</b>	>65%	>65%	>65%	>65%	>65%
Retail Total Cost Ratio	66%	66%	67%	65%	63%
<b>Retail OM&amp;T Cost Ratio (target)</b>	> 90%	> 90%	> 90%	> 90%	> 90%
Retail OM&T Cost Ratio	86%	87%	90%	89%	86%
<b>Retail Rate Support Limit (target)</b>	\$26.3M	\$26.9M	\$27.6M	\$28.3M	\$29.0M
Retail Rate Support	\$27.7M	\$29.0M	\$29.2M	\$32.0M	\$36.6M
<b>Market Based Margin Limit (target)</b>	\$25.0M	\$25.0M	\$25.0M	\$25.0M	\$25.0M
Market Based Margin	\$45.4M	\$30.8M	\$29.0M	\$28.4M	\$31.2M

1 - Forecast as of Q3, 2018

“Test” Metrics are indicating that our electric revenues may not be keeping up with our costs as we continue to make significant investments in our assets.

Test metrics may be changed in the future as we continue to learn more by using them.

# 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



# 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