



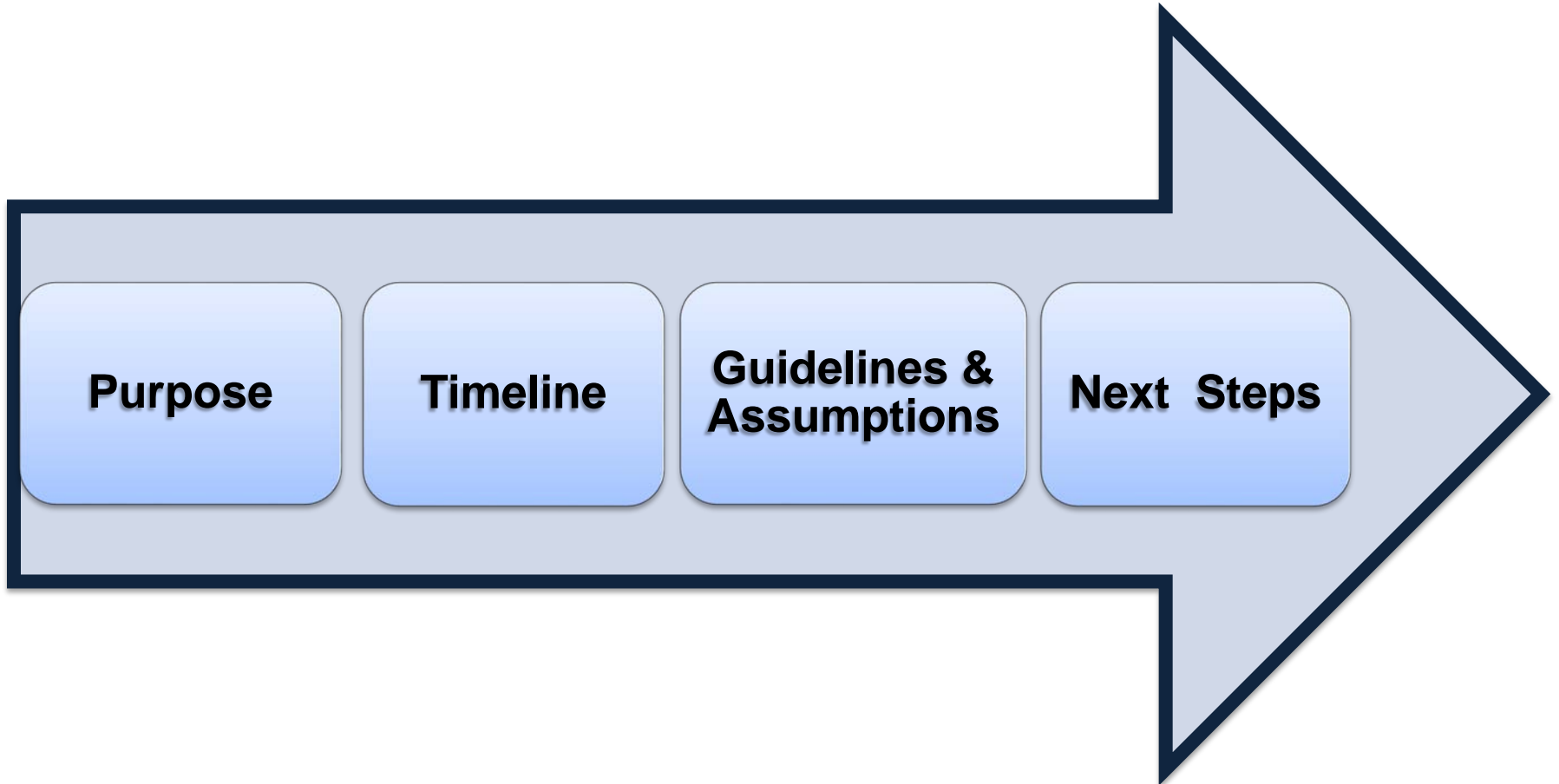
CHELAN COUNTY

# 2018 Budget Timeline and Key Assumptions

**OCTOBER 16, 2017**



# What we will cover today...



*No Board Action Required*

# Today's Focus....

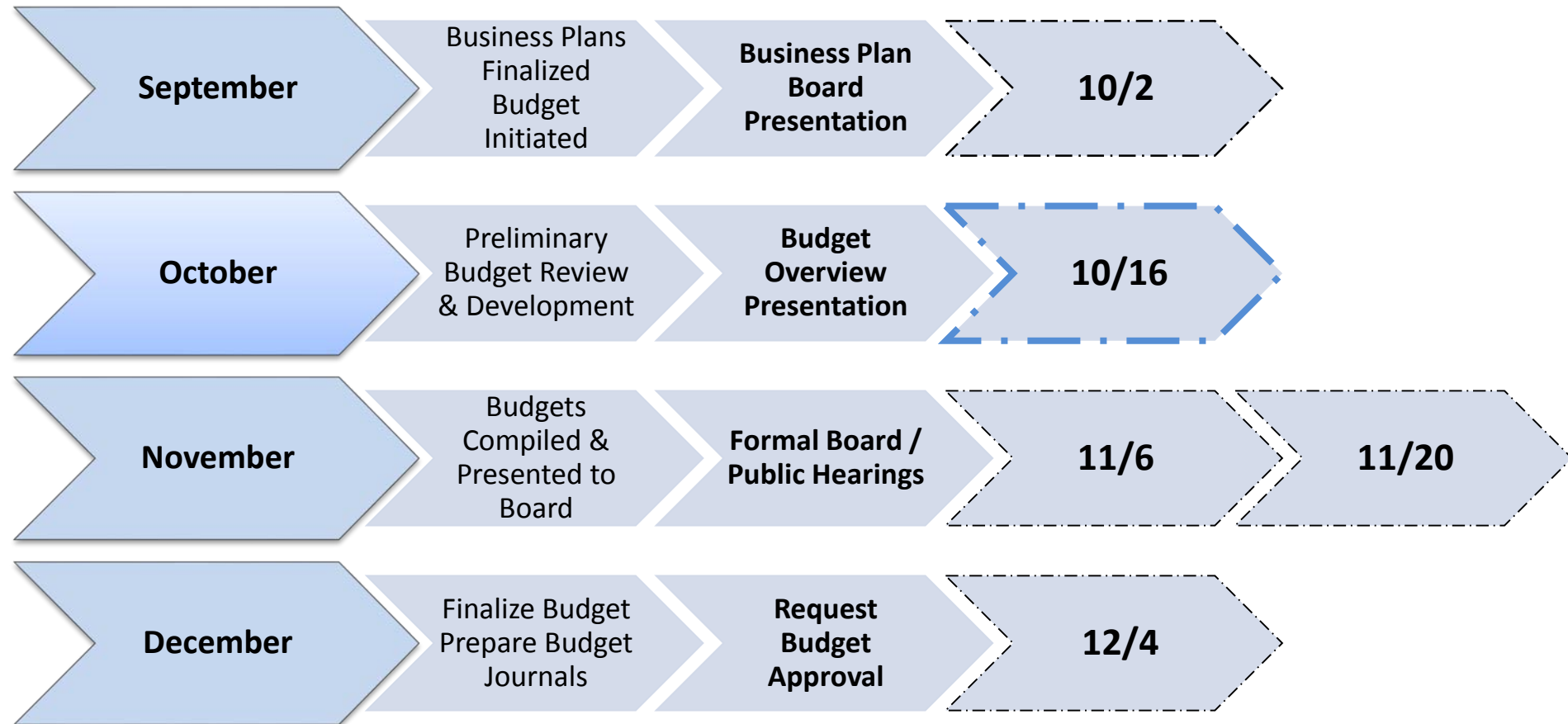
Transition from our five-year  
business planning for 2018-2022  
to the annual 2018 Budget process

# 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

# 2018 Budget Timeline



Indicates Board Meetings

# Strategic Focus

The 2018 Budget will be built around strategic initiatives and business plans presented October 2<sup>nd</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 debt reduction and the Public Power Benefit Program

# 2018 District Priorities

## Reinvest in core assets and people

- Complete Rocky Reach large unit repairs
- Continue Rock Island modernization
- Upgrade Customer Information System
- Meet anticipated electric system needs for new and existing customer growth
- Implement restructured Mid-C hourly coordination plan
- Continue to develop employees to achieve safety goals and operational excellence for high reliability operations
- Implement forward-looking talent management strategies to cultivate a future-ready workforce

# 2018 District Priorities

## Reinvest in core assets and people

- Advance our asset management discipline
- Advance planning for two-way metering capabilities
- Further diversification of our wholesale portfolio
- Implement long-term planning strategies for facilities
- Evolve Business Intelligence (BI) capabilities
- Complete regional water supply strategy seeking regional operating efficiencies
- Update telecommunications systems
- Determine cost-effective wastewater compliance solution
- Exceed energy efficiency requirements



# 2018 District Priorities

## Pay Down Debt

- Debt reduction plans continue
- Review of planned \$85M reduction underway (\$61M optional)
- On path to achieve 2019 debt ratio target of < 35%

## Public Power Benefit Program

- Continue Fiber system expansion
- Continue program for park passes
- Advance hydro research
- Begin Rocky Reach Visitor Center improvements

# Early External Indicators



Low wholesale electric market prices continue

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

Local load growth patterns and customer profiles are changing

# 2018 Targeted Financial Policies

**Liquidity**  
*Target*  
**>\$175 M**

**Debt  
Service  
Coverage**  
*Target >*  
**2.0x**

**Debt Ratio**  
*On path for  
2019 Target*  
**< 35%**

**Days Cash  
on Hand**  
*Target*  
**> 250 days**

**Rate of  
Return**  
*Target*  
**>4.0%**

# 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	~2% Electric ( <i>net of conservation</i> )
	~2% Water
	~1.5% Wastewater
	~1,000 Fiber new premises passed
Business Line Service Revenues	No electric rate increases
	2% increase in Water rates
	5% increase in Wastewater rates
	Reflects Fiber rate structure revised in 2017

# Key Budget Assumptions

## Labor Bargaining Unit

- Collective Bargaining Agreement expires March 31, 2018
- 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 as is the most conservative assumption for 2018 revenues

# Key Budget Assumptions

## Capital & Operating Expenditures

- Driven by 2018-22 business plans
- 2018 expenditures are a planned peak with RI B1-B4 capital repairs, RR large unit repairs and Distribution infrastructure investments as key drivers

## Debt and Interest Income

- Net debt reduction of ~\$85 million (\$61 million optional acceleration under annual review)
- Interest earnings estimated at ~1.8%

## 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 2018

# Budget Next Steps

Develop

- Preliminary budgeting in process

Review

- Review and revise in October & November
- 1<sup>st</sup> Budget Hearing November 6<sup>th</sup>
- 2<sup>nd</sup> Budget Hearing November 20<sup>th</sup>

Approve

- Requesting Board Approval on December 4<sup>th</sup>