

Chelan County PUD

Business Line Financial Policies

Continuation of updating and extending District-wide financial policies and guidance

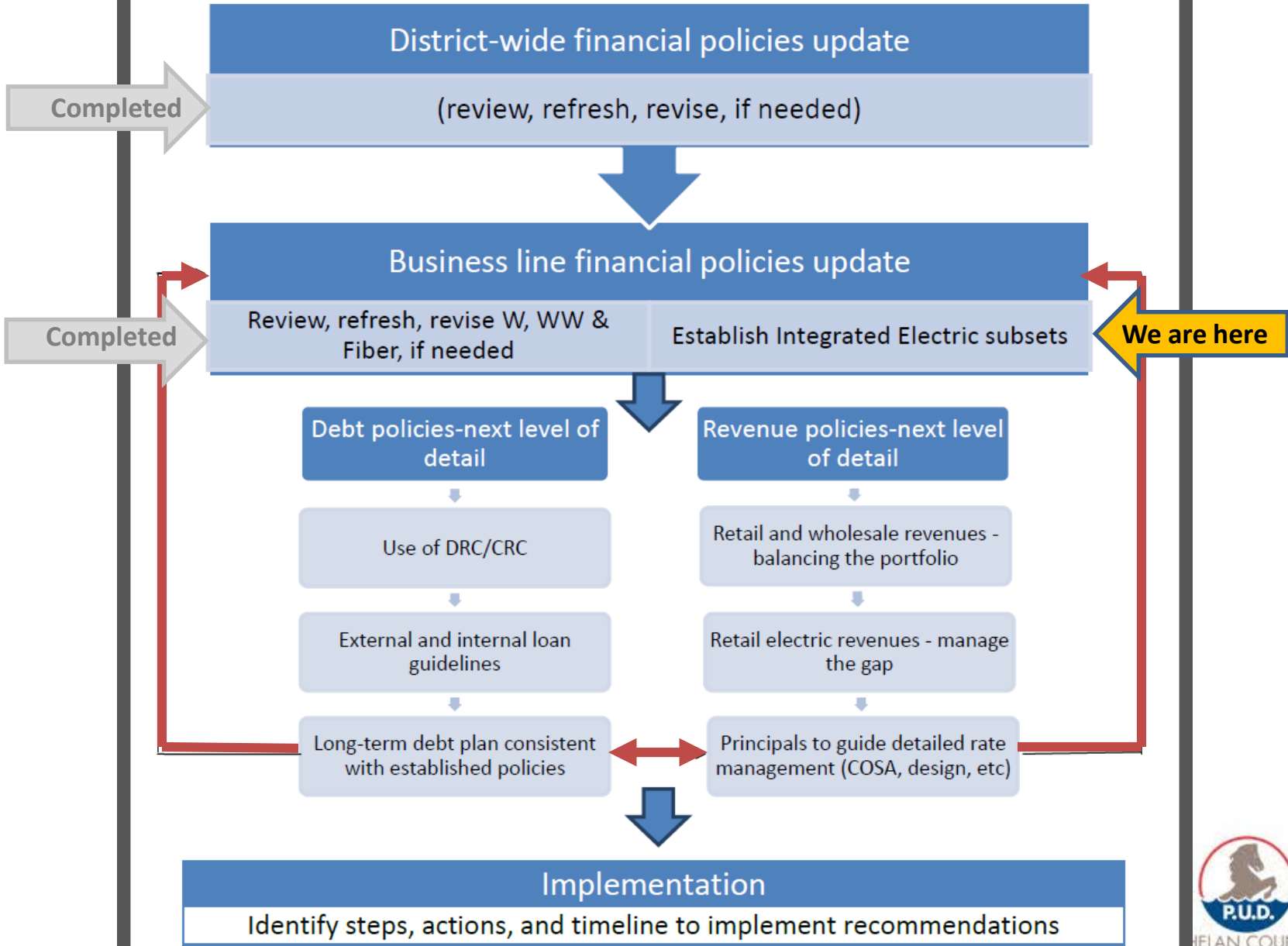
Board Presentation

July 24, 2017



CHELAN COUNTY

www.chelanpud.org



Agenda

Review planning guidance

Review associated financial metrics

Review examples

Seek Board concurrence with guidance and metrics



Retail Electric Revenue Planning

Guidance Goals:

- Enable proactive revenue planning
- Manage for small, incremental rate increases over time, if needed
- Support more detailed rate design effort
- Provide targeted early warning signs
- Reduce the potential for large rate adjustments

For planning purposes only – does not impact the discretion of the Board to set future rates



Benefits for Customer-Owners

- Enables early recognition and modest rate steps over time, if needed
- Helps reduce the potential for large rate adjustments
- Clearly communicates total cost of service for retail electric



Proposed Integrated Electric Revenue Planning Guidance

- Revenue planning should manage for small, incremental rate increases over time, if needed
- Consider inflationary rate increases to represent “small and incremental”
- Avoid over-reliance on wholesale electric revenues to fill the gap
- Use totality of financial metrics to determine ultimate rate actions (no single metric should force rate decisions)
- Use applicable metrics to initiate discussions for detailed rate design and reiterate through process, as needed
- Potential to add further revenue planning guidance as we learn from these initial guidelines

Note: To be used for planning purposes only - does not impact the discretion of the Board to set future rates



Planning Guidance Financial Metrics

Retail Electric Metrics (*new*):

- Retail total cost ratio - target >65%
- Retail operating expense ratio - target >90%
- Retail electric gap - target <\$25M (2017 \$'s)

Market-based Wholesale Metric (*new*):

- Market-based wholesale margin - target >\$25M

Combined District Metrics (*existing*):

- Financial liquidity – target > \$175M min
- Days Cash on Hand – target > 250 days
- Debt Leverage – target < 35% by 2019
- Debt Service Coverage - target > 2.0



CHELAN COUNTY

www.chelanpud.org

Retail Rate Revenue - % Increase Table Example

(\$M)	Year 1	Year 2	Year 3	Year 4	Year 5
Base \$50M W/~2% Load Growth	\$50.0	\$51.0	\$52.0	\$53.1	\$54.1
<i>1% Annual Adjust Impact</i>	<i>\$0.5</i>	<i>\$1.0</i>	<i>\$1.6</i>	<i>\$2.1</i>	<i>\$2.7</i>
<i>2% Annual Adjust Impact</i>	<i>\$1.0</i>	<i>\$2.0</i>	<i>\$3.1</i>	<i>\$4.2</i>	<i>\$5.4</i>
<i>3% Annual Adjust Impact</i>	<i>\$1.5</i>	<i>\$3.1</i>	<i>\$4.7</i>	<i>\$6.3</i>	<i>\$8.1</i>
<i>4% Annual Adjust Impact</i>	<i>\$2.0</i>	<i>\$4.1</i>	<i>\$6.3</i>	<i>\$8.4</i>	<i>\$10.8</i>
<i>5% Annual Adjust Impact</i>	<i>\$2.5</i>	<i>\$5.1</i>	<i>\$7.8</i>	<i>\$10.6</i>	<i>\$13.6</i>

Planning Guidance Application Example

Retail Total Cost Ratio Metric/Target

(focused on just one of the propose financial metrics)

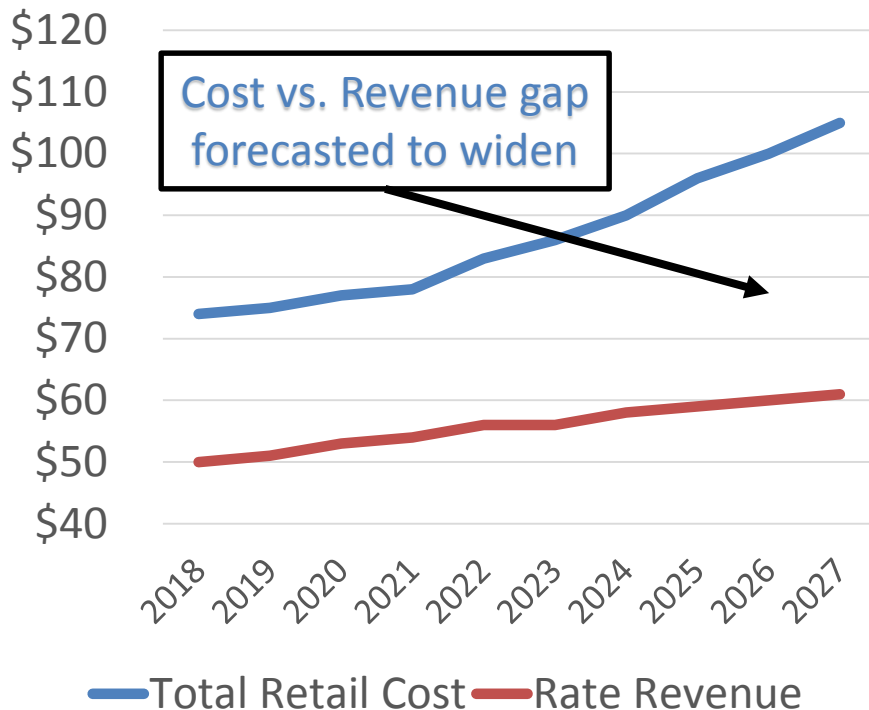
- Monitor forecast expectation monthly *(slide 7)*
 - Update status to Board quarterly
 - Present action plan options as needed *(slide 8-10)*
 - Implement any action plan as directed by the Board
 - Periodically confirm planning guidance and review applicable metrics & targets
- Once the appropriate metric(s)/target(s) are established the long-term financial forecast can incorporate an assumed action plan as needed



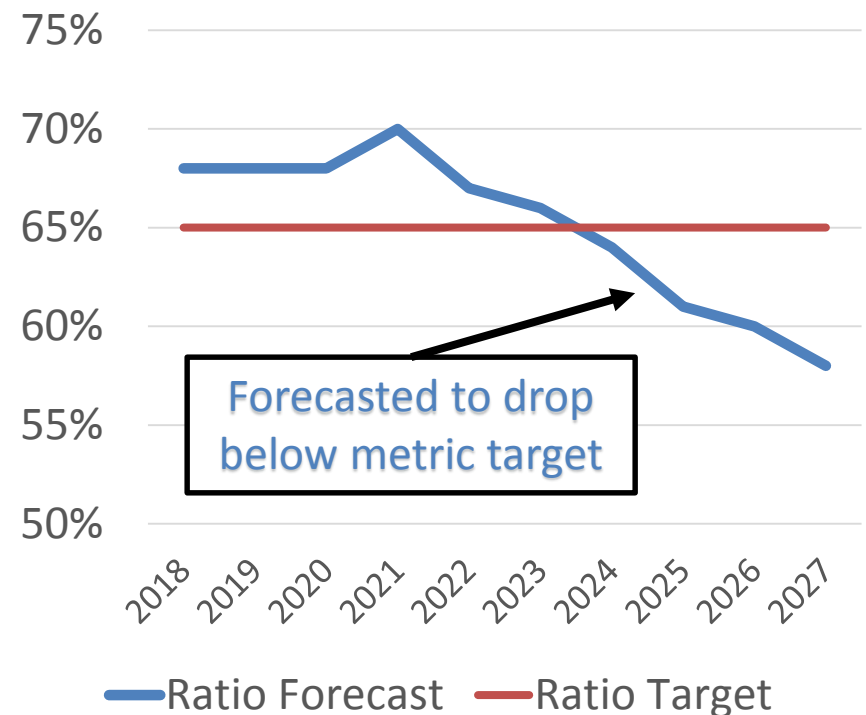
Retail Total Cost Ratio Metric/Target Example

Monitor Forecast Expectation Example

Total Cost vs. Rate Revenue (\$M)



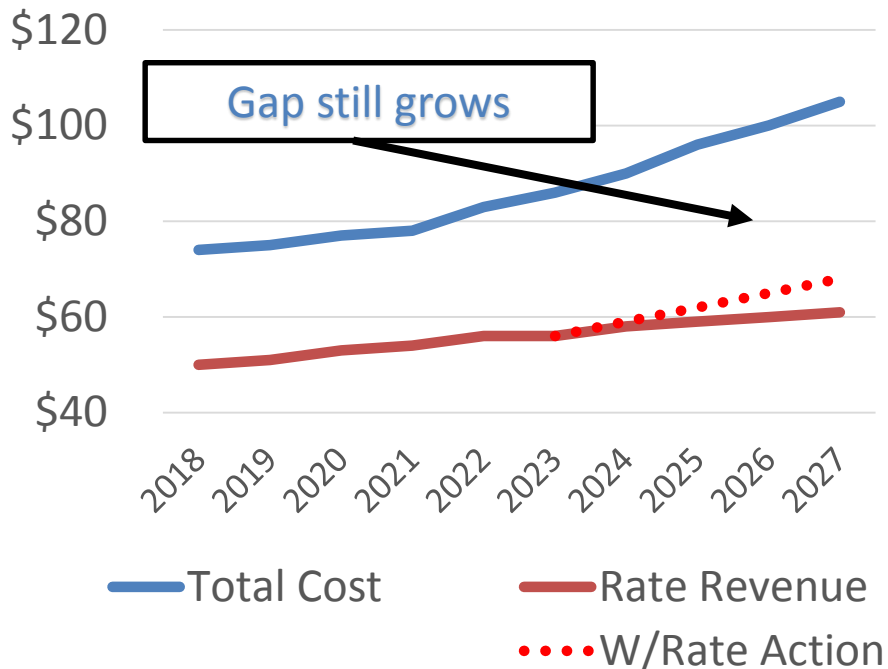
Retail Total Cost Ratio (Target >65%)



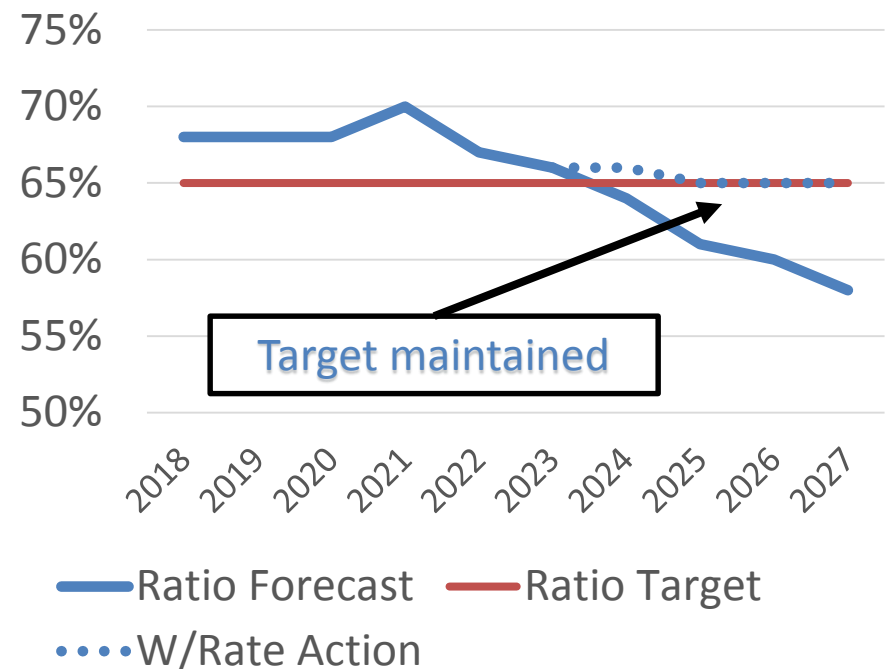
Retail Total Cost Ratio Metric/Target Example

Rate Action Plan #1 – Annual 3% Starting 2024

Total Cost vs. Rate Revenue (\$M)



Retail Total Cost Ratio (Target >65%)



inflationary increase



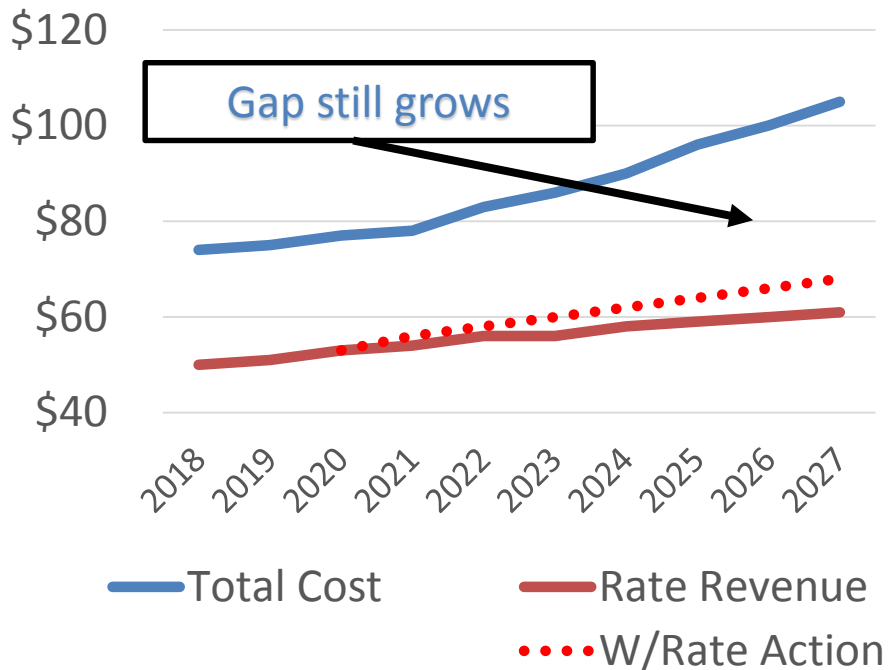
CHELAN COUNTY

www.chelanpud.org

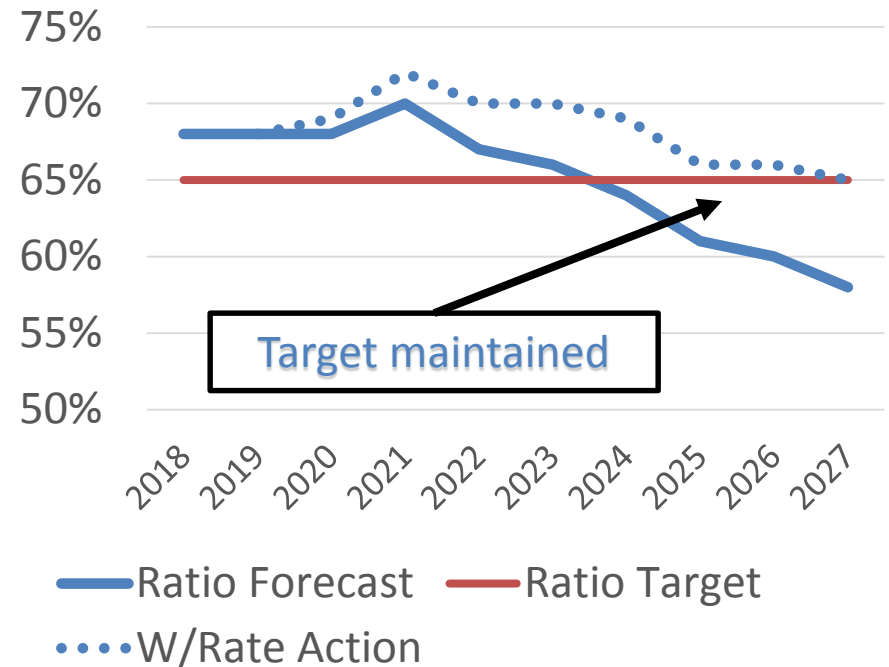
Retail Total Cost Ratio Metric/Target Example

Rate Action Plan #2 – Annual 1.5% Starting 2020

Total Cost vs. Rate Revenue (\$M)



Retail Total Cost Ratio (Target >65%)



inflationary increase



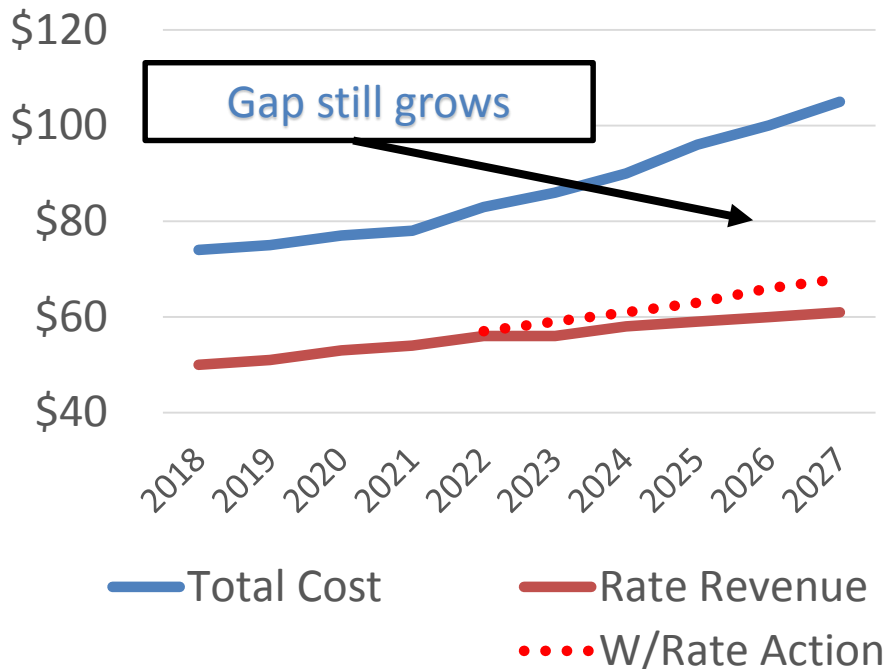
CHELAN COUNTY

www.chelanpud.org

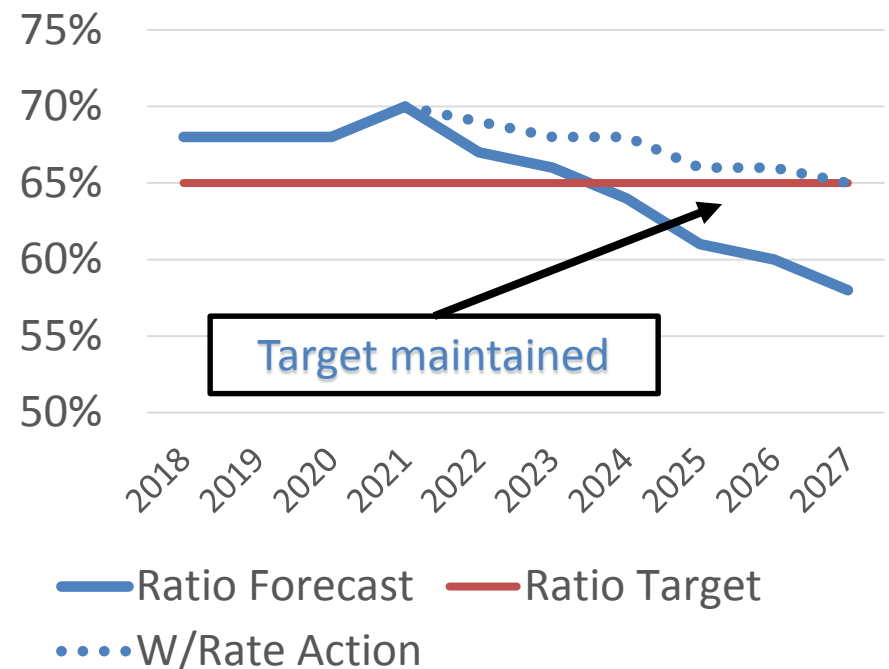
Retail Total Cost Ratio Metric/Target Example

Rate Action Plan #3 – Annual 2% Starting 2022

Total Cost vs. Rate Revenue (\$M)



Retail Total Cost Ratio (Target >65%)



inflationary increase



CHELAN COUNTY

www.chelanpud.org

Seeking Board Concurrence

Are We on the Right Track?

- Revenue planning should manage for small, incremental rate increases over time, if needed
- Consider inflationary rate increases to represent “small and incremental”
- Avoid over-reliance on wholesale electric revenues to fill the gap
- Use totality of financial metrics to determine ultimate rate actions (no single metric should force rate decisions)
- Use applicable metrics to initiate discussions for detailed rate design and reiterate through process, as needed
- Potential to add further revenue planning guidance, modify metrics and refine targets as we learn during the trial period

Note: To be used for planning purposes only - does not impact the discretion of the Board to set future rates



Planning Guidance – Next Steps

1. Monitor and report on metrics during the trial period to test the effectiveness of the metrics, targets and revenue planning guidance
2. Use applicable metrics to initiate discussions for detailed rate design
3. Planning to use in the current 2018-22 five year business planning process
4. Reiterate back through the process, as needed, based on detailed rate design efforts

For planning purposes only – does not impact the discretion of the Board to set future rates – helps to enable early recognition and small rate steps over time



Financial Strategy Sessions – Next Steps

Goal: Conduct series of Board strategy sessions to adjust and affirm long-term financial policies, Integrated Electric business line financial policies, rate philosophies, power contract guidelines, COSA guidelines and internal debt funding philosophies

Review and refresh District Financial Policies by the end of Q1 March 20, 2017

Review, refresh and establish Business Line Financial Policies by the end of Q2 (extending to Q3) Q2 2017

Board guidance on Water, Wastewater and Fiber June 5

Overview of Integrated Electric planning (part 1) June 26

Discuss Integrated Electric metrics (part 2) July 10

Board guidance on Integrated Electric (part 3) July 24

 Establish long-term revenue guidance by 12/1 Q4 2017

Establish long-term internal/external debt guidelines by 12/1 Q4 2017



CHELAN COUNTY

www.chelanpud.org