



Chelan County PUD

Quarterly Financial Review

For the Quarter Ended September 30, 2018

Board Presentation
November 5, 2018



What we will cover today

Financial highlights

Third quarter results

Five-year forecast

2019 Operational Plan of Finance

Investment report

Update only, no action required

Appendix: Additional detailed information not covered today

Q3 2018 Key Highlights

Bottom-line results better than budget

Combined District metrics meet targets

Stay the course with our strategic goals

- Reinvest in assets and people

- Reduce debt

- Continue public power benefit program

Overview

Revenue

- Service Revenue better than budget year-to-date (YTD) due to more usage from the colder than average temperatures in Feb and Mar: +\$700,000
- Net Wholesale Revenue below budget YTD due to reduced flow expectations for remainder of year: (\$1.7M)
- Hydro Long-Term Contract Revenue better than budget YTD due primarily to retaining long-term contract surplus sales proceeds partially offset by lower production costs: +\$6.6M
- Other Operating Revenue better than budget YTD from FEMA proceeds and variable component of real time agreement: + \$2.9M

Total Revenues forecasted to be better than budget for the year: +\$14M

Expense

- Operating Expenses below budget YTD primarily in lower hydro O&M: (\$12.9M)
- Non-Operating Net Expense better than budget YTD with higher customer contributions for construction and more interest earnings from the higher cash balances: (\$2.8M)

Total Net Expenses forecasted to be below budget for the year: (\$13M)

Bottom Line

- Combination of higher revenues and lower expenses results in a better Bottom Line YTD: + \$23.9M

**Better bottom line forecast for the year of \$99M: +\$27M
(Compares to Q2 forecast of +\$12M)**

Overview

Capital

- Capital expenditures overall are lagging the planned pace and below budget YTD: (\$34.1M)
- Current expectations are to expend 70% of 2018 budget.
- The Rock Island B1-B4 modernization and Strategic Facilities plan timing are the major drivers of reduced spending expectations in 2018.

Total Capital forecasted to hit \$98.5M which is below budget for the year: (\$41M)

Cash

- Positive bottom line, lower capital spending and Alcoa contract payments have increased cash and investments balance YTD by \$63.7M

Total cash balance forecasted to be better than budget at year end: \$574.1M

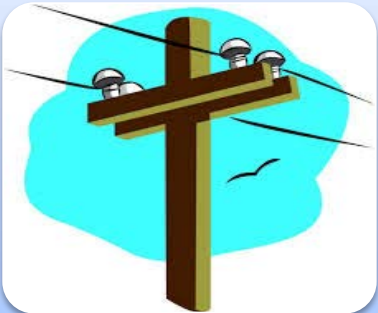
Debt

- Total debt is the same as budget YTD

Total debt forecasted to equal budgeted \$24M reduction with balance at year end: \$513.5M

Financial Highlights

Focus on Year-to-Date (YTD) cost per unit



Electric delivered cost per avg kWh better than budget

YTD ¢/kWh result: 6.03¢ vs. 6.43¢ (actual vs. budget)

Power production costs- 2.27¢ vs. 2.47¢ (actual vs. budget)

Power distribution costs- 3.76¢ vs. 3.96¢ (actual vs. budget)

(Note: Fully loaded cost is not a cost of service analysis which includes offsets)



Hydro production cost per avg MWh better than budget

YTD \$/MWh result: \$17.5 vs. \$19.0 (actual vs. budget)

Actual vs. Budget

Rocky Reach \$12.5 vs. \$13.6 (operating expense ~88% YTD)

Rock Island \$27.1 vs. \$28.7 (operating expense ~91% YTD)

Lake Chelan \$26.8 vs. \$33.2 (operating expense ~77% YTD)

Financial Highlights

Focus on Year-to-Date (YTD) cost per unit



Water cost per 1,000 gallons slightly higher than budget

YTD \$/1k gallons result: \$5.95 vs. \$5.89 (actual vs. budget)

YTD operating expense 102% of budget

(Additional pump repairs needed)



Wastewater cost per ERU better than budget

YTD \$/ERU result: \$627 vs. \$773 (actual vs. budget)

YTD operating expense 81% of budget



Fiber cost per active premises slightly higher than budget

YTD \$/premises result: \$317 vs. \$313 (actual vs. budget)

YTD operating expense 101% of budget

(shift to maintenance O&M work from planned capital)

2018 Bottom-Line Results

(in 000s)	2018 Current Forecast	2018 Budget	% of budget
Service Revenue	66,583	64,693	103%
Net Wholesale Revenue	106,794	108,001	99%
Hydro LT Contract Rev/Other PP	129,982	119,795	109%
Other Operating Revenue	24,646	21,129	117%
Other Operating Expense	(166,099)	(174,161)	95%
Depreciation & Tax Expense	(51,672)	(52,016)	99%
Operating Income/(Loss)	110,234	87,440	126%
Non-Operating Activity	(11,221)	(15,518)	72%
"Bottom Line"	99,013	71,922	138%

Revenues: > 100% of budget, positive for District / Expenses: < 100% of budget, positive for District

Business Line “Bottom-Line” Results

(in 000s)	2018 Current Forecast	2018 Budget	% of budget
Cost-Based Activity	51,452	35,569	145%
Market-Based Activity	52,024	47,081	110%
Retail Activity	(22,382)	(25,986)	86%
Other Activity	12,962	11,014	118%
Integrated Electric	94,057	67,679	139%
Fiber & Telecom	3,873	3,839	101%
Water	1,219	696	175%
Wastewater	(137)	(292)	47%
Combined "Bottom-Line"	99,013	71,922	138%

Revenues: > 100% of budget, positive for District / Expenses: < 100% of budget, positive for District

Capital Expenditures

(in 000s)	2018 YTD Current	2018 YTD Budget	% of budget	2018 Current Forecast	2018 Budget	% of Budget
Electric Distribution	8,274	9,768	85%	13,852	14,293	97%
Network Transmission	1,220	2,437	50%	1,805	2,929	62%
Rocky Reach	4,118	5,929	69%	5,869	8,111	72%
Rock Island	27,417	48,043	57%	54,478	83,778	65%
Lake Chelan	767	1,174	65%	1,716	1,404	122%
Internal Services	5,146	12,048	43%	14,596	21,047	69%
Fiber & Telecom	2,598	4,585	57%	3,891	5,837	67%
Water	868	559	155%	1,086	1,236	88%
Wastewater	344	327	105%	1,163	1,419	82%
Total Expenditures	50,752	84,869	60%	98,455	140,055	70%
Contributions	(4,629)	(2,721)	170%	(5,164)	(3,877)	133%
Capital net of CIAC	46,123	82,148	56%	93,292	136,177	69%

Overview of YTD - 2018 Cash Flow

	\$ Million
Bottom-line result (YTD - 2018)	\$ 77
Add back non-cash related items (depreciation)	\$ 34
Estimated earned funds from operations	\$111
Capital Project Expenditures	\$ 51
Net Debt Reductions	\$ 24
Other Misc. Impacts (change in A/R, A/P, Inventory, Etc.)	\$ 34
Receipt from Alcoa (Deferred contract charge)	(\$62)
Added to cash reserves	\$ 64
Estimated use of funds	\$111
Cash and investments, beginning of year	\$ 511
Added to cash reserves	\$64
Cash and investments, end of Q3	\$ 575



Cash & Investments Balance

(\$ Millions)	<u>9/30/18</u>	<u>12/31/17</u>
Unrestricted funds	\$394	\$327
Board Designated:		
Headquarters/Service Center Strategic Facilities Fund	<u>50</u>	<u>20</u>
Total Unrestricted Funds*	444	347
Restricted – DRC & CRC funds for Hydro capital/debt	<u>53</u>	<u>78</u>
Total Liquidity (policy minimum \$175M)	\$497	\$425
Restricted - bond reserve funds	46	53
Restricted - power contract deposits	19	21
Restricted - self insurance and other funds	<u>13</u>	<u>12</u>
Total Cash and Investments	<u>\$575</u>	<u>\$511</u>

* Board Designated Funds qualify as unrestricted for liquidity and external reporting purposes

Quarterly Reporting Requirement - Financial Policies

District Combined	2018	2019	2020	2021	2022
Liquidity - \$175M Min (Expected)	\$490M	\$414M	\$317M	\$236M	\$179M*
Liquidity - \$175M Min (Unusual)		\$406M	\$305M	\$216M	\$177M*
Debt Ratio (Expected case <35% by 2019)	34.1%	30.7%	27.8%	24.9%	23.0%
Debt Ratio (Unusual case <35% by 2019)		30.9%	28.0%	25.2%	24.8%
Days Cash on Hand (Expected case >250)	754	596	462	365	269*
Days Cash on Hand (Unusual case > 250)		586	443	334	267*
Combined Debt Cover (Expected case > 2.00x)	3.28	2.91	2.62	2.56	2.52
Combined Debt Cover (Unusual case >1.25x)		2.79	2.51	2.41	2.23
Rate of Return (Expected case > 4% thru 2019)	8.6%	6.3%	Sunset		
Rate of Return (Unusual case > 2% thru 2019)		5.8%			
<i>Bottom Line Results (Expected case)</i>	<i>\$99M</i>	<i>\$79M</i>	<i>\$61M</i>	<i>\$57M</i>	<i>\$55M</i>
<i>Bottom Line Results (Unusual case)</i>		<i>\$73M</i>	<i>\$56M</i>	<i>\$49M</i>	<i>\$45M</i>
<i>Debt Outstanding (Expected case)</i>	<i>\$514M</i>	<i>\$475M</i>	<i>\$436M</i>	<i>\$395M</i>	<i>\$372M*</i>
<i>Debt Outstanding (Unusual case)</i>		<i>\$475M</i>	<i>\$436M</i>	<i>\$395M</i>	<i>\$401M*</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.

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.

Quarterly Reporting Requirement Individual Business Line Financial Policies

Business Lines	2018	2019	2020	2021	2022
WATER Business Line					
Operating Expense Coverage (target >120%)	133%	134%	128%	130%	131%
Cash Reserves (target > \$1.25 million)	\$4.5M	\$4.4M	\$2.2M	\$2.1M	\$1.1M
Debt Ratio (target <35%)	11%	9%	7%	5%	3%
WASTEWATER Business Line					
Operating Expense Coverage (target >100% by 2019)	95%	86%	99%	99%	98%
Cash Reserves (target > \$200K)	\$3.2M	\$3.2M	\$3.0M	\$2.8M	\$2.8M
Debt Ratio (target <35%)	---	23%	23%	28%	28%
FIBER Business Line					
Operating Expense Coverage (target >120%)	166%	146%	159%	147%	145%
Cash Reserves (target > \$2.0 million)	\$14.0M	\$11.2M	\$12.86	\$13.8M	\$13.5M
Debt Ratio (target <35%)	---	---	---	---	---

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

Quarterly Reporting Requirement Individual Business Line Financial Policies

Monitoring during test period

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

Business Lines	2018	2019	2020	2021	2022
Integrated Electric Business Line					
Retail Total Cost Ratio (target)	>65%	>65%	>65%	>65%	>65%
Retail Total Cost Ratio	69%	67%	66%	67%	65%
Retail OM&T Cost Ratio (target)	> 90%	> 90%	> 90%	> 90%	> 90%
Retail OM&T Cost Ratio	92%	86%	87%	90%	89%
Retail Rate Support Limit (target)	\$25.6M	\$26.3M	\$26.9M	\$27.6M	\$28.3M
Retail Rate Support	\$22.3M	\$26.9M	\$29.0M	\$29.2M	\$32.0M
Market Based Margin Limit (target)	\$25.0M	\$25.0M	\$25.0M	\$25.0M	\$25.0M
Market Based Margin	\$52.0M	\$45.5M	\$30.8M	\$29.0M	\$28.4M

“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 Operational Plan of Finance

Forecast Window	Activity	Action	Results End of Period	“Lower Results” Mitigation Tools
2019 Detailed Actions	Net Scheduled Principal Early Retirements* Net New Debt** Refinancing Actions	\$25M \$16M \$3M Evaluate	Par \$475M Ratio 31%	Decrease cost growth
2020 – 2023 General Steps	Net Scheduled Principal Early Retirements* Net New Debt** Refinancing Actions	\$123M \$48M \$50M Monitor	Par \$354M Ratio 21%	Delay discretionary capital
2024 – 2027 Broad Path	Net Scheduled Principal Early Retirements* Net New Debt Refinancing Actions	\$133M \$31M \$141M Monitor	Par \$330M Ratio 18%	Incremental rate increases

* Early retirements 6 months in advance for savings and coverage support

** Forecast: 2019 \$2.6M WW loan, 2020 \$0.8M WW loan; 2022 new bond issuance of \$21M

2019 Operational Plan of Finance

Detailed Actions: Next Steps

- 2019 Internal Loans & Transfers
 - Forecast Rock Island capital plan needs beyond available power sales contract reserves
 - Will return to request Board approval of specific terms
 - Hydro 2018 intersystem transfer to better reflect contract charges allocated based on planned capital expenditures
- Evaluate refinancing opportunities for savings
 - If favorable, return to request Board approval
- Complete planned debt payments

Quarterly Investment Report

In compliance with District Banking and Investment Policy #16-14094

	Q4 2017	Q1 2018	Q2 2018	Q3 2018	YTD 2018	WAM
Average Invested Book Value (\$M)	\$498	\$517	\$534	\$569	\$540	
District Yield	1.76%	1.93%	2.02%	2.25%	2.08%	902
Benchmarks:						
3 Month T-Bill	1.23%	1.58%	1.87%	2.06%	1.84%	91
S&P US Treasury 1-3 Year Index*	1.13%	1.29%	1.50%	1.74%	1.51%	686

*Prior Barclays index replaced Q4 2017 with S&P index and rolling 2 year average to align duration and improve comparability

- Q3 2018 yield increased to 2.25% due to improving market interest rates
- September 26, 2018 Federal Open Market Committee meeting report:
 - Labor market has continued to strengthen and economic activity has been rising at strong rate
 - Inflation has remained near the Committee’s 2 percent objective
 - Federal funds rate target changed from 2.00% to 2.25%
 - Gradually increasing, although continued relatively low rates, are anticipated through 2018 and 2019
- Uncertainty around changes in the political climate can influence financial markets, which may impact the District
- Laddered investment structure continues to be our strategy to support safety of principal and liquidity and mitigate interest rate volatility

Policy Objectives & Compliance

- Safety
- Liquidity
- Return on Investment
- Diversification
- Maturity Length

Full report is in the Appendix.

Q3 Key Messages

Q3 forecasts are better than budget

Plans for significant capital investments are expected to fully utilize cash reserves

Long-term financial metrics on track with assumed new debt issuance in the next five-year planning horizon

Stay the course with our strategic goals

- Reinvest in assets and people

- Reduce debt

- Continue public power benefit program

Appendix



The information in the appendix 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.

Financial Highlights - Revenue

Net Wholesale Revenue:

YTD result \$1.7 million below budget
(\$81.5M vs. \$83.2M)

Annual forecast slightly lower than
budget (\$106.8M vs \$108.0)

Drivers:

- + Generation 102% of budget YTD
(Q3 Forecast for YE@101% of budget)
(Q2 Forecast for YE@103% of budget)
- Retail energy use 102% of budget YTD
(104% at YTD Q2)
- Hedging program minimizes impact of
2018 flat price \$26.1 vs \$22.8 budget

Hydro Long-Term Contract Revenue:

YTD result \$6.6 million above budget
(\$98.3M vs. \$91.7M)

Annual forecast above budget
(\$131.3M vs \$121.1M)

Drivers:

- Combined hydro “cost based” operating
expenses below budget (88% YTD): forecasted
to be 95% at year end
- + “Plus” contract charges above budgeted
levels (+\$10M) : forecasted to be above budget
at year end (+\$12M)

Financial Highlights - Revenue

Service Revenue:

YTD result \$0.7 million above budget
(\$47.8M vs. \$47.1M)

Forecast results better than budget
(\$66.6M vs \$64.7M)

Drivers:

- + Retail energy use at 102% of budget:
(Residential ~106%, Industrial ~113%,
Commercial ~96%)
- + Updated retail energy load forecast
implemented for Q3 reporting

Other Operating Revenue:

YTD result \$2.9 million above budget
(\$18.7M vs. \$15.8M)

Forecast results better than budget
(\$24.6M vs \$21.1M)

Drivers:

- + FEMA proceeds ~\$0.5M YTD (Fire-2015)
- + Hydro Contract Revenue ~\$1.6M YTD
- + Variable component of real time
agreement ~\$1.2M YTD

Financial Highlights - Expenses

Operating Expense:

YTD result \$12.9 million below budget (\$119.3. vs. \$132.2M)

Forecast results below budget (\$166.1M vs \$174.2M)

Drivers:

- Hydro operations and maintenance at 82% of budget (expected to catch up near 94% by year end)
- Fish and Wildlife at 80% of budget (expected to catch up near 98% by year end)

Non-Operating Net Expense:

YTD result \$2.8M better than budget (\$8.8M vs. \$11.6M)

Forecast results better than budget (\$11.2M vs \$15.6M)

Drivers:

- + Higher contributions in aid of construction YTD (\$5.1M vs \$3.3M)
- + Increased forecasted interest earnings on higher cash reserves

Financial Highlights – Balance Sheet

Capital expenditures below budget

- YTD - 2018 \$50.7 million vs. budget of \$84.9 million
- 2018 Forecast results below 2018 Budget (\$98.5M vs \$140.0M)

Individual project adjustments:

- ↓ Bavarian Substation (~\$1M shifted to 2019 / 2020)
- ↓ LMR Network Replacement (~\$2M shifted to 2019)
- ↓ ISS - Operations and Service Center (~\$2.5M shifted to 2019 / 2020)
- ↓ RI B1 thru B4 Modernization (~\$24M shifted to 2019 / 2020)
- ↑ RI B7 Modernization (~\$2M shifted to 2018)
- ↓ RI Facilities Upgrade (~\$4.5M shifted to 2019 / 2020)

Cash remains strong / Debt reduction strategy on track

- Cash balance forecasted to increase ~\$64 million in 2018
- Debt balance to decrease ~\$24 million in 2018

Service Revenue

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Residential Electric	19,060	18,013	106%	Colder than average Feb and Mar
Commercial Electric	11,815	12,109	98%	In line with budget
Industrial Electric	3,626	3,145	115%	Industrial & HDL in aggregate at 104% of budget.
High Density Load	1,353	1,622	83%	
Other Electric	1,419	1,738	82%	Small dollar variance
Electric Service	37,273	36,626	102%	
Water Service	4,590	4,464	103%	Small dollar variance
Wastewater Service	506	524	96%	Small dollar variance
Fiber & Telecom	5,431	5,438	100%	In line with budget
Service Revenue	47,799	47,052	102%	

Note: Excludes internal intersystem revenues

Revenues: > 100% of budget, positive for District / **Expenses:** < 100% of budget, positive for District

Net Surplus Energy Revenue

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Slice Contracts	40,674	37,575	108%	Additional 3% slice executed post budget
Net Block Trades	15,123	13,714	110%	High retail usage (104% of budget YTD) - (Aggregate 91% of Budget YTD)
Other Net Wholesale	730	3,730	20%	
Net Wholesale Revenue	56,527	55,019	103%	
LT Hydro Contracts	57,742	61,442	94%	Operating costs 88% YTD /adders 96% YTD
Less Other Purchased Power	(662)	(660)	100%	In line with budget
Hydro LT Contract Rev/Other PP	57,080	60,782	94%	
Surplus Energy Revenue	113,607	115,800	98%	

Revenues: > 100% of budget, positive for District / **Expenses:** < 100% of budget, positive for District

Operating Expense

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Hydro Operations & Maintenance	38,129	46,405	82%	RR C9 Turbine Repairs
Hydro Fish & Wildlife	9,667	12,074	80%	Fish passage / Ops / Studies
Hydro Parks & Recreation	5,595	6,024	93%	Various maintenance projects timing
Electric Distribution	10,650	11,531	92%	Underground line maintenance
Electric Transmission	8,933	9,947	90%	Legal & consulting support OATT
Misc. Power Supply Expenses	2,885	3,998	72%	Legal & consulting support EP&T
Water & Wastewater	2,149	2,330	92%	Small dollar variance
Fiber Network	3,266	3,129	104%	Small dollar variance
Customer Accounts & Service	2,942	2,893	102%	Small dollar variance
Conservation & Customer Assist	2,008	2,589	78%	Regulatory asset Amortization
Insurance & FERC Fees	6,201	6,430	96%	Small dollar variance
Other Admin & General	26,829	24,810	108%	Vacancy rate adjustment
Total	119,253	132,159	90%	

Revenues: > 100% of budget, positive for District / **Expenses:** < 100% of budget, positive for District

Non-Operating Activity

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Interest Earnings	8,128	6,937	117%	Higher interest rates / cash balance
Capital Contributions	5,090	3,273	156%	High volume of line extensions
Interest Expense	(18,955)	(19,052)	99%	In line with budget
Other Inc/(Exp)	(3,041)	(2,765)	110%	Small dollar variance
Non Operating Activity	(8,779)	(11,607)	76%	

Revenues: > 100% of budget, positive for District / **Expenses:** < 100% of budget, positive for District

Integrated Electric

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Service Revenue	37,338	36,689	102%	Higher retail load usage
Net Wholesale Revenue	81,499	83,205	98%	Add'l 3% slice post budget / High retail load
Hydro LT Contract Rev/Other PP	97,271	90,669	107%	Lower operating costs & contract adders
Other Operating Revenue	19,911	16,677	119%	FEMA proceeds (fire 2015) / Var RTA
Other Operating Expense	(114,994)	(127,758)	90%	Hydro Ops and Maint (82% of budget YTD)
Depreciation & Tax Expense	(35,597)	(35,113)	101%	In line with budget
Operating Income/(Loss)	85,428	64,369	133%	
Non-Operating Activity	(12,883)	(14,777)	87%	Higher contributions in aid of construction
"Bottom Line"	72,545	49,592		

Revenues: > 100% of budget, positive for District / **Expenses:** < 100% of budget, positive for District

Fiber & Telecom

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Service Revenue	7,916	8,145	97%	Small dollar variance
Other Operating Revenue	9	1	1014%	Small dollar variance
Other Operating Expense	(4,843)	(4,790)	101%	In line with budget
Depreciation & Tax Expense	(2,306)	(2,350)	98%	In line with budget
Operating Income/(Loss)	778	1,006	77%	
Non-Operating Activity	2,800	2,729	103%	In line with budget
"Bottom Line"	3,577	3,735		

Revenues: > 100% of budget, positive for District / **Expenses:** < 100% of budget, positive for District

Water

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Service Revenue	4,757	4,617	103%	Small dollar variance
Other Operating Revenue	53	47	114%	Small dollar variance
Other Operating Expense	(2,858)	(2,815)	102%	In line with budget
Depreciation & Tax Expense	(1,775)	(1,798)	99%	In line with budget
Operating Income/(Loss)	177	51	345%	
Non-Operating Activity	1,142	382	299%	Customer contributions
"Bottom Line"	1,319	433		

Revenues: > 100% of budget, positive for District / **Expenses:** < 100% of budget, positive for District

Wastewater

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Service Revenue	506	524	96%	Small dollar variance
Other Operating Revenue	2	1	167%	Small dollar variance
Other Operating Expense	(521)	(647)	81%	Small dollar variance
Depreciation & Tax Expense	(213)	(216)	98%	In line with budget
Operating Income/(Loss)	(226)	(337)	67%	
Non-Operating Activity	162	59	275%	Customer contributions
"Bottom Line"	(63)	(278)		

Revenues: > 100% of budget, positive for District / **Expenses:** < 100% of budget, positive for District

Actual Cash Balance Comparison to Budget

(millions)	2018
Total Cash – Budgeted year-end balance	\$ 436
Key changes in cash forecast:	
Decrease in capital projects	\$41
Improvement in operating activity	\$ 27
Other changes in A/R, A/P, inventory, etc.	\$8
Alcoa deferred contract payment	\$62
Total Cash – Current forecast year-end balance	\$ 574
Prior quarter – 2018 year-end forecasted balance	\$ 536

Five-year outlook

Key modeling assumptions:

- Past water history and current forward price curve
- Water & Wastewater rate increase placeholders
- Planned expenditures from 5-year business plans
- Debt reduction plan based on 5-year business plans
- Hydro contract terms set at maximum rates
 - Debt Reduction Charge (DRC) - 3% (2018-22)
 - Capital Recovery Charge (CRC) - 50% (2018-22)
- Investment earning rate
 - (2018-22: 2.17%, 2.41%, 2.60%, 2.79%, 3.05%)

Cash and Debt Funding Capacity

	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
Cash Funding Capacity	\$315M	\$239M	\$142M	\$61M	\$4M
“liquidity in excess of minimum \$175M target”					
Debt Funding Capacity	\$21M	\$101M	\$174M	\$246M	\$299M
“financing capability up to maximum debt ratio target of 35%”					
Total Funding Capacity	\$336M	\$340M	\$316M	\$307M	\$303M

Purpose of Slide: To show District’s ability to handle increased expenditures or decreases in revenues, while achieving established financial targets (liquidity and debt ratio). We will continue to refine our methodology, including incorporating the potential impact on Debt Service Coverage.

Combined Five-Year Forecast

(in 000s)	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
Service Revenue	66,583	69,512	72,667	75,404	76,489
Net Wholesale Revenue	106,794	103,236	90,038	86,648	87,611
Hydro LT Contract Rev/Other PP	129,982	134,671	136,010	129,544	133,312
Other Operating Revenue	24,646	23,982	24,746	23,848	25,530
Other Operating Expense	(166,099)	(187,330)	(191,531)	(183,210)	(188,919)
Depreciation & Tax Expense	(51,672)	(54,037)	(58,869)	(63,108)	(67,193)
Operating Income/(Loss)	110,234	90,034	73,060	69,126	66,830
Non-Operating Activity	(11,221)	(10,790)	(11,617)	(11,833)	(11,461)
"Bottom Line"	99,013	79,244	61,443	57,292	55,369
<i>Prior Quarter Reported Forecast</i>	<i>83,941</i>	<i>72,831</i>	<i>60,189</i>	<i>54,797</i>	<i>54,357</i>
<i>Forecast at 2018 Budget</i>	<i>72,238</i>	<i>61,167</i>	<i>49,336</i>	<i>45,912</i>	<i>40,391</i>

Service Revenue

(in 000s)	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
Residential Electric	27,299	27,785	27,854	27,921	27,995
Commercial Electric	16,967	17,322	17,413	17,516	17,615
Industrial Electric	5,001	5,101	5,101	5,101	5,102
High Density Load	1,971	3,681	6,185	8,378	8,915
Other Electric	1,540	1,547	1,547	1,556	1,555
Electric Service	52,777	55,435	58,101	60,472	61,181
Water Service	5,922	6,162	6,410	6,669	6,939
Wastewater Service	684	725	747	770	793
Fiber & Telecom	7,199	7,190	7,408	7,493	7,576
Service Revenue	66,583	69,512	72,667	75,404	76,489
Prior Quarter Reported Forecast	66,559	69,943	73,113	75,743	76,774
Forecast at 2018 Budget	64,693	66,840	69,003	70,957	72,605

Net Surplus Energy Revenue

(in 000s)	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
Slice Contracts	81,347	70,241	55,181	55,552	42,393
Net Block Trades	20,621	25,455	24,462	14,357	15,221
Other Net Wholesale	4,826	7,540	10,396	16,739	29,997
Net Wholesale Revenue	106,794	103,236	90,038	86,648	87,611
LT Hydro Contracts	131,302	135,991	137,330	130,865	134,632
Less Other Purchased Power	(1,320)	(1,320)	(1,320)	(1,320)	(1,320)
Hydro LT Contract Rev/Other PP	129,982	134,671	136,010	129,544	133,312
Surplus Energy Revenue	236,776	237,907	226,048	216,192	220,923
<i>Prior Quarter Reported Forecast</i>	<i>229,436</i>	<i>234,192</i>	<i>221,673</i>	<i>211,069</i>	<i>212,434</i>
<i>Forecast at 2018 Budget</i>	<i>228,094</i>	<i>225,395</i>	<i>214,123</i>	<i>205,621</i>	<i>207,544</i>

Operating Expense

(in 000s)	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
Hydro Operations & Maintenance	55,607	66,687	65,856	54,278	56,829
Hydro Fish & Wildlife	16,413	17,267	19,948	20,893	19,745
Hydro Parks & Recreation	7,817	8,745	9,057	7,812	8,119
Electric Distribution	15,099	16,317	16,687	17,431	18,061
Electric Transmission	12,142	14,526	13,876	13,819	14,368
Misc. Power Supply Expenses	5,030	5,127	5,463	5,454	5,659
Water & Wastewater	2,974	3,102	3,309	3,382	3,495
Fiber Network	4,447	5,031	4,509	4,948	5,025
Customer Accounts & Service	4,245	4,490	5,034	5,205	5,363
Conservation & Customer Assist	2,978	3,929	4,177	4,665	4,895
Insurance & FERC Fees	8,094	8,204	8,501	8,806	9,088
Other Admin & General	31,253	33,905	35,115	36,518	38,272
Total	166,099	187,330	191,531	183,210	188,919
<i>Prior Quarter Reported Forecast</i>	<i>170,874</i>	<i>186,598</i>	<i>188,731</i>	<i>182,481</i>	<i>184,504</i>
<i>Forecast at 2018 Budget</i>	<i>173,846</i>	<i>177,987</i>	<i>179,203</i>	<i>175,644</i>	<i>180,961</i>

Capital Projects

(in 000s)	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
Electric Distribution	13,852	21,881	30,576	31,446	26,381
Network Transmission	1,805	4,128	8,358	9,851	6,444
Rocky Reach	5,869	6,355	9,030	6,168	8,721
Rock Island	54,478	73,265	56,546	28,888	40,460
Lake Chelan	1,716	111	1,429	855	435
Internal Services	14,596	34,681	41,697	54,425	43,000
Fiber & Telecom	3,891	7,430	5,681	4,899	6,720
Water	1,086	1,026	3,309	1,326	2,258
Wastewater	1,163	3,462	926	927	72
Total	98,455	152,339	157,552	138,783	134,492
<i>Prior Quarter Reported Forecast</i>	<i>127,909</i>	<i>134,070</i>	<i>122,997</i>	<i>116,746</i>	<i>107,897</i>
<i>Forecast at 2018 Budget</i>	<i>139,685</i>	<i>121,762</i>	<i>98,011</i>	<i>111,697</i>	<i>102,456</i>

Financial Policy – Financial Liquidity & Days Cash on Hand

Methodology Per Resolution #17-14124

COMBINED	2018	2019	2020	2021	2022
District Total Liquidity Targets	\$175	\$184	\$178	\$189	\$175
Base Case – expected (50% probability)	\$490	\$414	\$317	\$236	\$179*
Base Case – unusual (10% prob. / cumulative)		\$406	\$305	\$216	\$177*
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		\$398	\$284	\$193*	\$175*
Days Cash on Hand Target	>250	>250	>250	>250	>250
Base Case – expected (50% probability)	754	596	462	365	269
Base Case – unusual (10% prob. / cumulative)		586	443	334	267
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		549	396	285	252

* Assumes external debt financing to maintain liquidity targets

Financial Policy – Debt Ratio

(Debt/(Debt + Equity))

COMBINED	2018	2019	2020	2021	2022
District Targets	<40%	<35%	<35%	<35%	<35%
Outstanding Debt Balance - YE(million)	\$514	\$475	\$436	\$395	\$372
Scheduled Debt Retirements (million)	\$24	\$25	\$28	\$30	\$32
Planned Debt Accelerations (million)	\$ -	\$16	\$11	\$12	\$12
Forecasted Debt Issuance - expected (million)	\$ -	\$3**	\$-	\$1**	\$21*
Base Case – expected	34.1%	30.7%	27.8%	24.9%	23.0%
Base Case – unusual		30.9%	28.0%	25.2%	24.8%*
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		30.9%	28.1%	26.0%*	27.5%*

** Assumed small public works trust fund debt related to Peshastin Wastewater work

* Assumed debt issuance to maintain adequate liquidity levels

Financial Policy – Debt Service Coverage

(Net Funds from Operations/Computed Debt Service)

COMBINED	2018	2019	2020	2021	2022
District Targets (expected)	2.00	2.00	2.00	2.00	2.00
District Targets (unusual)	1.25	1.25	1.25	1.25	1.25
Base Case – expected	3.28	2.91	2.62	2.56	2.52
Base Case – unusual		2.79	2.51	2.41	2.23
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		2.77	2.42	2.27	1.98

Financial Policy – Rate of Return

(Change in Net Position/Net Plant)

COMBINED	2018	2019	2020	2021	2022
District Targets (expected)	>4%	>4%	Sunset		
District Targets (unusual)	>2%	>2%			
Base Case – expected <i>Bottom-line expectation</i>	8.6% \$99M	6.3% \$79M	- \$61M	- \$57M	- \$55M
Base Case – unusual <i>Bottom-line expectation</i>		5.8% \$73M	- \$56M	- \$49M	- \$45M
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs <i>Bottom-line expectation</i>		5.7% \$72M	- \$51M	- \$43M	- \$33M



Quarterly Investment Report for the quarter ending September 30, 2018

All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #16-14094

Portfolio Summary

	Q4 2017	Q1 2018	Q2 2018	Q3 2018	YTD 2018	WAM	
Average Invested Book Value	\$498 M	\$517 M	\$534 M	\$569 M	\$540 M		<u>Policy Objectives & Compliance</u> + Safety + Liquidity + Return on Investment + Diversification + Maturity Length
Interest Earned	\$2.2 M	\$2.5 M	\$2.7 M	\$3.2 M	\$8.4 M		
District Yield	1.76%	1.93%	2.02%	2.25%	2.08%	902	
Benchmarks:							
3 Month T-Bill	1.23%	1.58%	1.87%	2.06%	1.84%	91	
S&P US Treasury 1-3 Year Index	1.13%	1.29%	1.50%	1.74%	1.51%	686	
LGIP (State Pool)	1.19%	1.50%	1.80%	2.02%	1.77%	31	
Fed Funds Effective	1.20%	1.45%	1.75%	1.93%	1.71%	1	

General Commentary:

For Q3 2018, the District's yield increased to 2.25% on an average invested book value of \$569 million due to improving market interest rates.

The Federal Open Market Committee's September 26, 2018 meeting reported that the labor market has continued to strengthen and economic activity has been rising at a strong rate. Job gains have been strong and the unemployment rate has stayed low. Household spending and business investment has grown strongly. Inflation has remained near the Committee's 2 percent objective and risks to the economic outlook appear roughly balanced. In view of realized and expected labor market conditions and inflation, the Committee decided to raise the target range for the federal funds rate to 2.00 to 2.25 percent. The Committee expects further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions and inflation near the 2 percent objective. The District anticipates gradually increasing rates through 2018 and 2019. Global and national events can influence financial markets, which may impact the District. The laddered investment structure continues to be our strategy to support safety of principal and liquidity and mitigate interest rate volatility over time, but can result in the District's yield lagging the shorter term 3 month T-Bill benchmark in both declining and rising interest rate conditions.

Portfolio Objectives and Diversification:

The District continues to focus on portfolio diversification while maintaining investment objectives. A portion of bank deposits and US Treasuries continue to be held in addition to other investments with higher yields such as US Agencies and Municipal Bonds. These opportunities offer a more attractive yield while still maintaining policy diversification, safety of principal and liquidity.

Maturity Length:

The Weighted Average Maturity (WAM) decreased slightly in Q3 and the overall average continues to remain strong as the multi-year laddered investment strategy maintains investment maturities near 2 year average durations. All investments continue to be matched to specific cash flows or mature within 5 years as specified in the investment policy.



Quarterly Investment Report for the quarter ending September 30, 2018

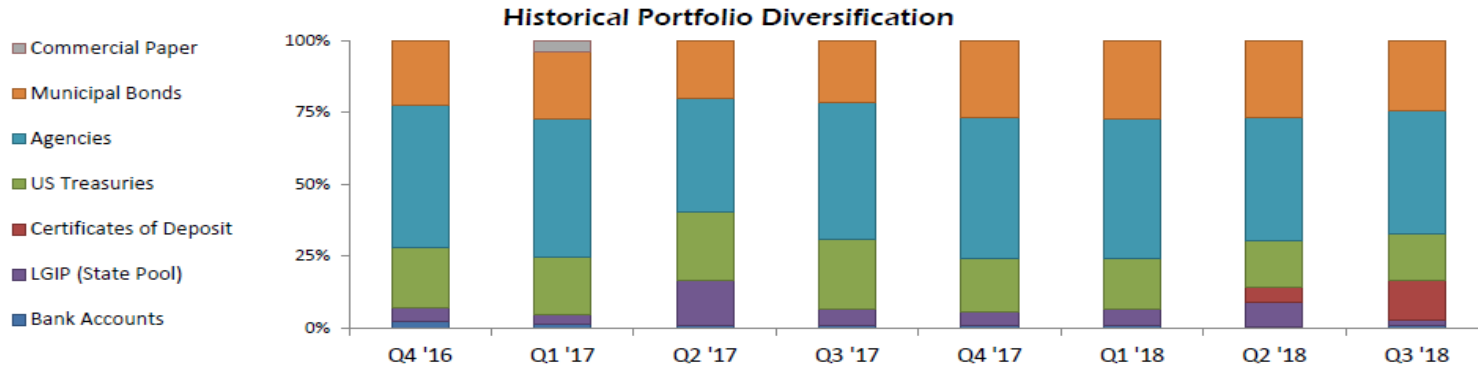
All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #16-14094

Investments by Type - as of September 30, 2018

	Par Value	GASB 31 Reported Value	Book Value	Book Value as % of Portfolio	Policy % Limit	WAM
Bank Accounts	\$ 3,747	\$ 3,747	\$ 3,747	0.6%	75%	1
Certificates of Deposit	\$ 80,000	\$ 80,000	\$ 80,000	13.7%	40%	606
US Treasuries	\$ 95,253	\$ 94,593	\$ 94,580	16.2%	100%	835
LGIP (State Pool)	\$ 13,183	\$ 13,183	\$ 13,183	2.3%	25%	1
US Agencies	\$ 248,268	\$ 243,156	\$ 248,267	42.6%	75%	1,067
Municipal Bonds	\$ 141,860	\$ 140,347	\$ 142,990	24.5%	30%	932
Total:	\$ 582,312	\$ 575,026	\$ 582,767			902

Numbers may not foot due to rounding





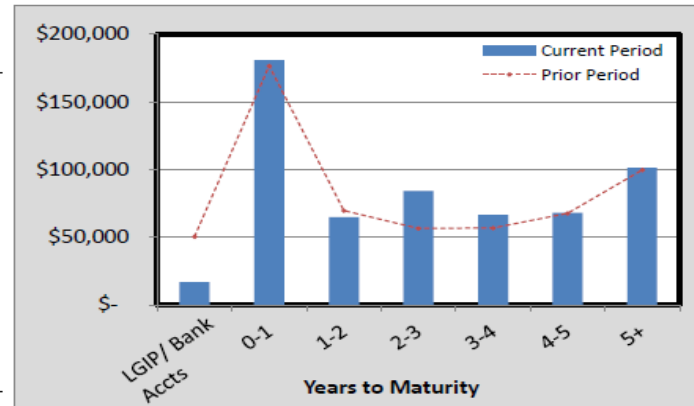
Quarterly Investment Report for the quarter ending September 30, 2018

All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #16-14094

Maturity Distribution - as of September 30, 2018

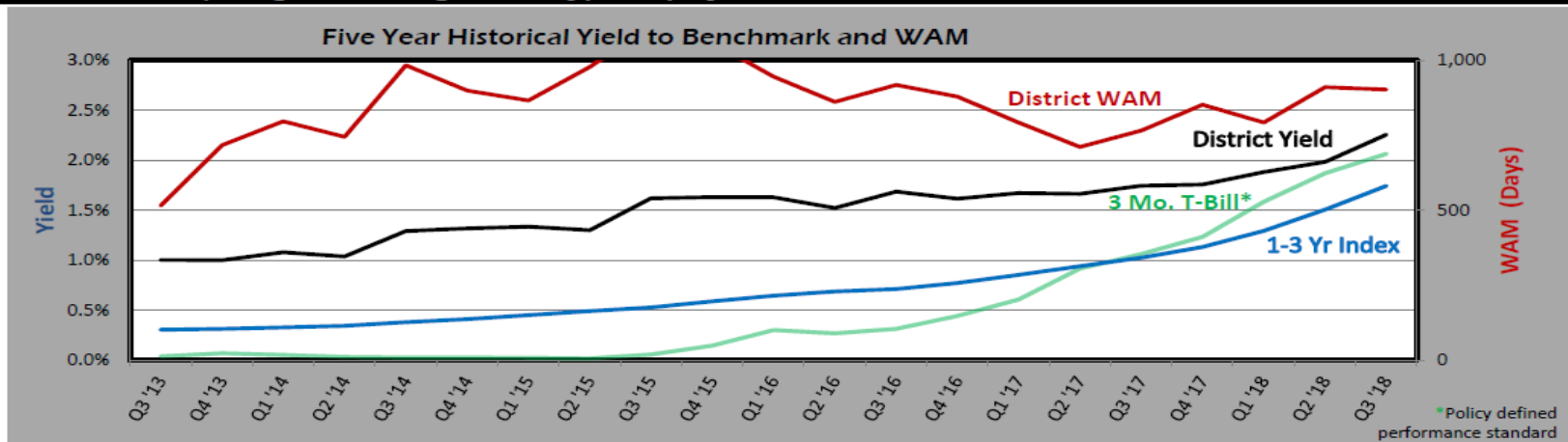
Maturity	Par Value	% of Portfolio	Cumulative % of Portfolio
LGIP	\$ 13,183	2.3%	2.3%
Bank Accounts	\$ 3,747	0.6%	2.9%
1-90 Days	\$ 75,427	13.0%	15.9%
91-180 Days	\$ 21,770	3.7%	19.6%
181-365 Days	\$ 83,686	14.4%	34.0%
1-2 Yrs	\$ 64,650	11.1%	45.1%
2-3 Yrs	\$ 84,149	14.5%	59.5%
3-4 Yrs	\$ 66,625	11.4%	71.0%
4-5 Yrs	\$ 67,902	11.7%	82.6%
5+ Yrs	\$ 101,172	17.4%	100.0%



Total: \$ 582,312 100%

Numbers may not foot due to rounding

Historical Yields/Weighted Average Maturity(WAM), by Quarter



* Policy defined performance standard

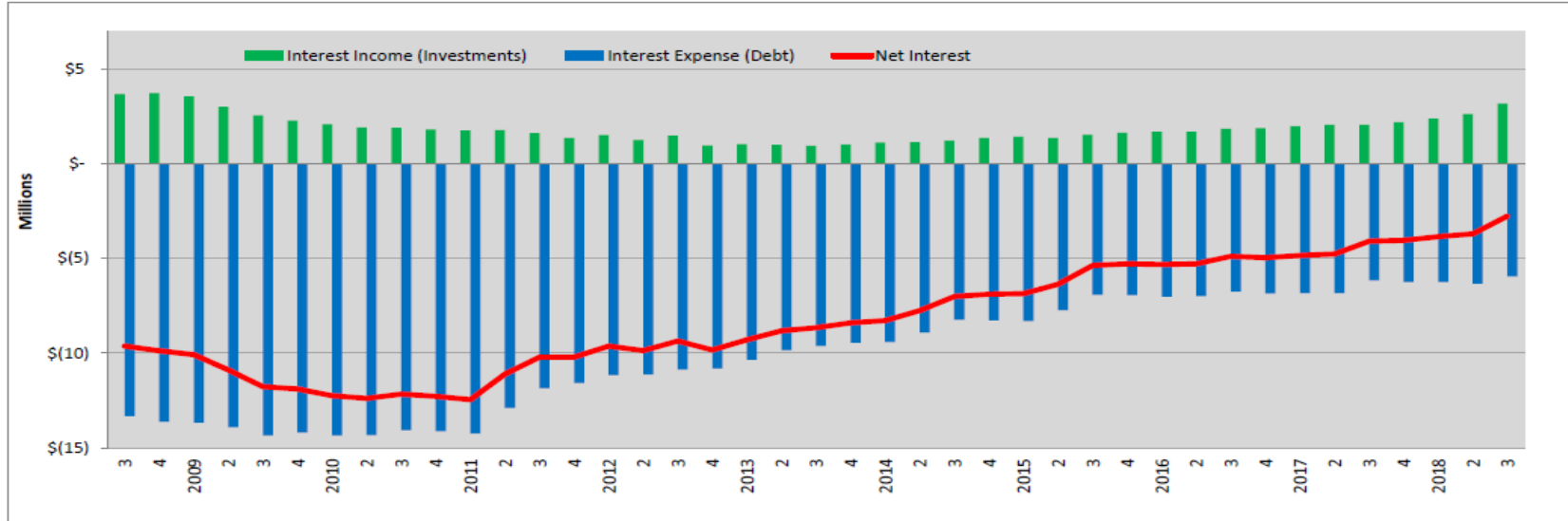


Quarterly Investment Report for the quarter ending September 30, 2018

All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #16-14094

Historical Net Interest, by Quarter





Quarterly Investment Report for the quarter ending September 30, 2018

All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #16-14094

Definitions

All investment types listed below are authorized by the State Investment Board, RCWs, and District Policy

Average Rate of Return- the amount earned on investments, expressed as an annualized percent of average book value.

Bank Accounts- a savings account, checking account or similar account at qualified public depositories. Demand deposit accounts, negotiable order of withdrawal (NOW) accounts, and automatic transfer service (ATS) accounts are examples of bank accounts.

Book Value- original cost of a bond less amortization.

Commercial Paper (CP) - short term unsecured money market obligation, issued by prime rated commercial firms and financial companies, with maturities from 2 to 270 days, that is a promissory note of the issuer used to finance current obligations.

Federal Agency Securities (Agency) - interest bearing debt securities of U.S. departments and agencies which include the 12 Federal Home Loan Banks, the Federal National Mortgage Association, and the Federal Housing Authority. (e.g.: Fannie Mae (FNMA, FNDN), Freddie Mac (FHLMC, FMCDN), Federal Home Loan Bank (FHLB, FHDN) and Federal Farm Credit Bank Notes (FFCB)).

Forward Purchase and Sale Agreement (FPSA) - contract that provides for the delivery of specific types of securities on specified future dates at fixed yields.

GASB 31 Market Value- the securities' reported value, according to Government Accounting Standards Board Rule 31. If a security has a maturity of greater than one year at the time of purchase, it is reported at market value. If it has a maturity of less than one year at the time of purchase, it is reported at its book value.

Local Government Investment Pool (LGIP) - funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment. These funds are completely liquid, there is no required holding period or fixed maturity date.

Municipal Bonds - Debt (bonds, notes, warrants, etc) issued by a state or local government or municipality as authorized by RCW 39.59.020.

Par Value- the stated or face value of a bond.

Treasury Bills (T-Bill) - short-term U.S. Treasury security with maturities of 13, 26, or 52 weeks.

Treasury Notes (T-Note) - intermediate-term, coupon bearing U.S. Treasury securities having initial maturities of less than 10 years and paying interest semiannually.

Unamortized Book Value - remaining premium/discount on a fixed income security, equal to the difference between par and book value.

Weighted Average Maturity (WAM)- average amount of time for securities to mature, weighted by each security's book value.