

Chelan County PUD

Quarterly Financial Review

For the Quarter Ended June 30, 2016

Board Presentation

August 15, 2016

Financial Highlights Overview

2016 Bottom-Line results better than budget

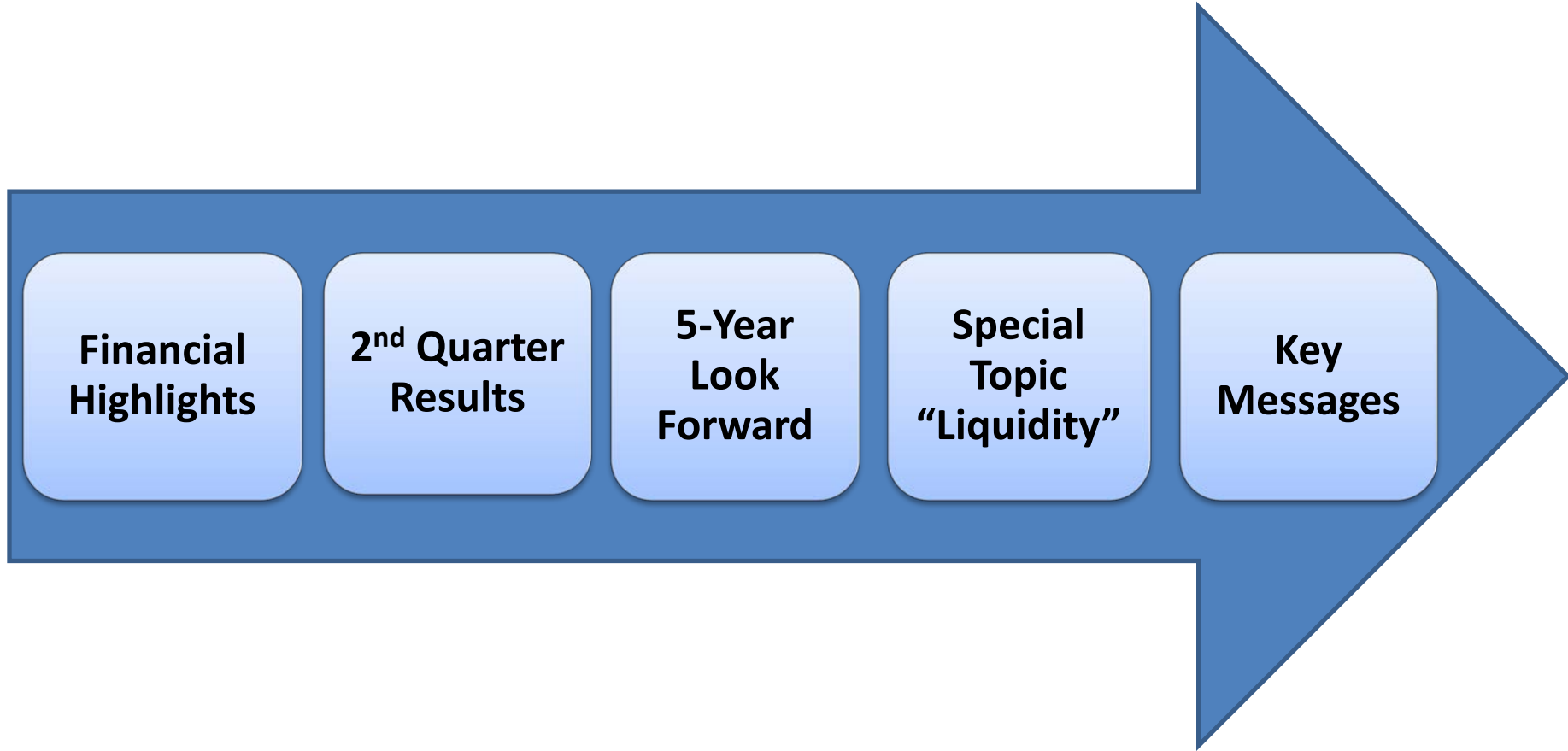
- *YTD-2016 result \$47.9 million (\$9.8M better than budget)*
- *2016 forecast \$85.2 million (\$9.6M better than budget)*

2016 Financial metrics meeting targets

- Financial Liquidity = **\$362M** Target \$175M
- Unrestricted Reserves = **\$286M** Target \$150M
- Rate of Return = **7.8%** Target >4%
- Debt Ratio = **43.1%** Target <50%-2016, <35%-2019
- Debt Service Coverage = **3.02** Target >2.00

Recommend continuing with District current strategic business plans, including accelerated debt reduction plan

What we will cover today...



- Update only, no action required
- Appendix – additional detailed information not covered today

Financial Highlights - Revenue

Net Wholesale Revenue:

**YTD result better than budget
\$59.6 million vs. \$57.0 million**

Driver: Generation 97% and retail energy use 92% of budget (net increase in available surplus)

Driver: 2016 Market flat price per MWh \$20.1 vs. \$22.5 budget (limited impact due to hedging program)

Hydro Long-Term Contract Wholesale Revenue:

**YTD result lower than budget
\$62.3 million vs. \$62.8 million**

Driver: Hydro “cost-based” operating & maintenance costs below budget (forecasting O&M costs to catch up)

Driver: “Plus” contract charges greater than budgeted levels (positive impact to bottom-line)

Financial Highlights - Revenue

Service Revenue:

- YTD result \$2.1 million below budget (\$30.5M vs. \$32.6M)
- Annual forecast \$61.6 million vs. budget of \$63.3 million
- Driver: Retail energy use at 92% of budget (Residential ~91%; Industrial ~84%, Commercial ~97%)
- Driver: Mild weather affecting YTD results
- Driver: Load forecast reduced for 2016

Other Operating Revenue:

- YTD result \$0.6 million below budget (\$9.6M vs. \$10.2M)
- Annual forecast \$20.1 million vs. budget of \$20.4 million
- Driver: Variable component of the real-time sales agreement impacted by low market conditions and unit availability

Financial Highlights - Expenses

Operating Expense:

YTD result \$10.0 million below budget (\$75.5. vs. \$85.5M)

Forecast of \$162.4 million better than budget of \$168.4 million

Driver: Hydro operating & maintenance activity temporarily behind YTD budget expectation. PPB expense forecast moved to non operating expense

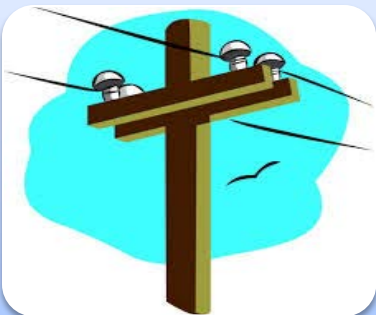
Non-Operating Net Expense:

YTD results in line with budget (\$10.3M vs. \$10.3M)

Forecast of \$20.7 million in line with budget of \$20.1 million

Driver: Higher cash reserves and improved interest earnings reducing this net expense item. PPB expense forecast moved from operating expense to non operating expense

Financial Highlights - Expenses



Electric fully loaded cost per avg kWh better than budget

YTD-2016 ¢/kWh result – **5.14¢ vs. 5.66¢** (actual vs. budget)

Power production costs- 2.11¢ vs. 2.20¢ (actual vs. budget)

Power distribution costs- 3.03¢ vs. 3.46¢ (actual vs. budget)

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



Hydro production cost per MWh better than budget

YTD-2016 \$/MWh result - **\$17.0 vs. \$17.8** (actual vs. budget)

Actual vs. Budget

Rocky Reach \$13.6 vs. \$13.8 (operating expense ~99%)

Rock Island \$23.8 vs. \$25.8 (operating expense ~87%)

Lake Chelan \$18.4 vs. \$20.7 (operating expense ~85%)

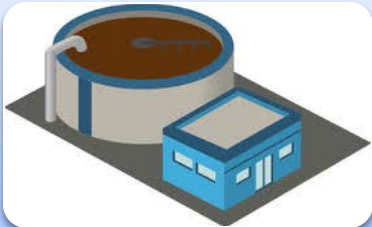
Financial Highlights - Expenses



Water cost per 1,000 gallons better than budget

YTD-2016 result - \$5.79 vs. \$5.88 (actual vs. budget)

YTD-2016 operating expense 97% of budget



Wastewater annual cost per ERU better than budget

YTD-2016 result - \$1,005 vs. \$1,046 (actual vs. budget)

YTD-2016 operating expense 87% of budget



Fiber annual cost per active premise better than budget

YTD-2016 result - \$437 vs. \$507 (actual vs. budget)

YTD-2016 operating expense 85% of budget

Financial Highlights – Balance Sheet

Capital expenditures in line with budget

- YTD -2016 \$19.3 million vs. budget of \$23.9 million
- 2016 forecast consistent at \$74.2 million vs. budget of \$75.8 million
- Individual project adjustments:
 - CIS project investment shifted (2016 to 2017)
 - Cashmere substation activity shifted (2015 to 2016)
 - Fiber investment activity shifted (2017 to 2016)
 - Increased investments in CTC facility
 - Microwave network replacement shifted (2016 to 2017-2019)
 - Rocky Reach head covers added (2016)
 - Overall, neutral impact in expected capital spending level

Cash remains strong / Debt reduction strategy on track

- Cash balance forecasted to increase ~\$32 million in 2016
- Debt balance to decrease ~\$23 million in 2016

2016 Bottom-Line Results

(compared to last Board update)

(in 000s)	2016			2016 Prior Forecast	% change from prior
	Current Forecast	2016 Budget	% of budget		
Service Revenue	61,647	63,285	97%	61,809	0%
Energy Resources Net Wholesale	113,602	112,897	101%	115,130	-1%
Hydro LT Contract Rev/Other PP	127,205	122,929	103%	126,664	0%
Other Operating Revenue	20,086	20,424	98%	19,479	3%
Other Operating Expense	(162,412)	(168,369)	96%	(166,668)	-3%
Depreciation & Tax Expense	(54,314)	(55,425)	98%	(54,419)	0%
Operating Income/(Loss)	105,814	95,742	111%	101,995	4%
Non-Operating Activity	(20,656)	(20,142)	103%	(19,293)	7%
"Bottom Line"	85,158	75,600	113%	82,702	3%

Business Line “Bottom-Line” Results

(compared to last Board update)

(in 000s)	2016 Current Forecast	2016 Budget	% of budget	2016 Prior Forecast	% change from prior
Integrated Electric	83,704	75,538	111%	81,967	2%
Fiber & Telecom	1,164	(412)	-282%	434	168%
Water	490	710	69%	498	-2%
Wastewater	(200)	(236)	85%	(197)	1%
Combined "Bottom-Line"	85,158	75,600	113%	82,702	3%

Capital Expenditures

(in 000s)	2016 YTD Current	2016 YTD Budget	% of budget	2016 Current Forecast	2016 Budget	% of budget
Electric Distribution	4,627	4,689	99%	10,736	11,032	97%
Network Transmission	438	1,375	32%	2,552	2,937	87%
Rocky Reach	4,292	2,948	146%	15,035	13,787	109%
Rock Island	5,121	5,982	86%	27,803	25,224	110%
Lake Chelan	243	273	89%	396	371	107%
Internal Services	1,855	4,937	38%	9,128	12,927	71%
Fiber & Telecom	2,368	3,380	70%	5,511	6,376	86%
Water	184	91	202%	1,430	1,531	93%
Wastewater	163	209	78%	1,574	1,539	102%
Total Expenditures	19,291	23,885	81%	74,166	75,726	98%
Contributions	(2,419)	(2,225)	109%	(3,998)	(4,450)	90%
Capital net of CIAC	16,872	21,660	78%	70,168	71,275	98%

Overview of YTD-2016 Cash Flow

	\$ Million
Bottom–line result (YTD-2016)	\$ 48
Add back non-cash related items (depreciation)	\$ 24
Estimated earned funds from operations	\$ 72
Capital Project Expenditures, net of contributions	\$ 17
Net Debt Reductions	\$ 17
Other Misc. Impacts (A/R, A/P, Inventory, Etc.)	\$- --
Added to cash reserves	\$ 38
Estimated use of funds	\$ 72
Cash and investments, beginning of year	\$ 418
Added to cash reserves	\$38
Cash and investments, end of Q2	\$ 456

Actual Cash Balance Comparison to Budget

(millions)	2016
Total Cash – Budgeted year-end balance	\$ 437
Key changes in cash forecast:	
Reduction in capital projects	\$ 1
Improvement in operating activity	\$ 10
Other changes in A/R, A/P, inventory, etc.	\$ 2
Total Cash – Current forecast year-end balance	\$ 450
Prior quarter – 2016 year-end forecasted balance	\$ 444

Cash & Investments Balance

(\$ Millions)	<u>12/31/15</u>	<u>6/30/16</u>
Unrestricted funds (policy minimum \$150M)	\$236	\$286
Restricted – DRC & CRC funds for Hydro capital/debt	<u>82</u>	<u>94</u>
Total Liquidity (policy minimum \$175M)	\$318	\$380
Restricted - construction reserves	8	-
Restricted - bond reserve funds	56	44
Restricted - power contract deposits	23	20
Self insurance and other restricted funds	<u>13</u>	<u>12</u>
Total Cash and Investments	<u>\$418</u>	<u>\$456</u>

2016 year-end comparison (\$ Millions)	<u>Unrestricted</u>	<u>Total</u>
2016 year-end budgeted cash and investments	\$258	\$437
2016 year-end Q2 forecast for cash and investments	\$286	\$450

Quarterly Investment Report

In compliance with District Banking and Investment Policy #15-13969

	Q3 2015	Q4 2015	Q1 2016	Q2 2016	YTD 2016	WAM
Average Invested Book Value (\$M)	\$373	\$402	\$424	\$448	\$436	
District Yield	1.66%	1.63%	1.63%	1.52%	1.57%	861
Benchmarks:						
3 Month T-Bill	0.06%	0.14%	0.30%	0.27%	0.28%	91
Barclays Gov. 1-3 Year Index	0.69%	0.85%	0.86%	0.78%	0.82%	686

➤ For Q2 2016, the District's yield dropped slightly to 1.52% due to holding more cash for July 1 debt service.

➤ The Federal Open Market Committee's June 15, 2016 meeting reported that economic activity has picked up, but the labor market is improving at a slower pace with fewer than anticipated job gains and soft business investment. Due to risks associated with global economic and financial developments, the Committee will maintain its current target range for the federal funds rate from 1/4 to 1/2 percent and continue to monitor results. The District anticipates relatively low rates through Q3. The laddered investment structure continues to be our strategy to support safety of principal and liquidity.

Policy Objectives & Compliance

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

* Full report is available in the Appendix.

Quarterly Reporting Requirement - Financial Policies

District Combined	2016	2017	2018	2019	2020
Rate of Return (Expected > 4% thru 2019)	7.8%	7.4%	5.7%	4.6%	3.4%
Rate of Return (Unusual > 2% thru 2019)	7.7%	6.6%	5.0%	3.9%	2.6%
Combined Debt Cover (Expected > 2.00x)	3.02	3.04	2.82	2.71	2.71
Combined Debt Cover (Unusual >1.25x)	2.99	2.87	2.64	2.53	2.46
Debt Ratio (Expected <35% by 2019)	43.1%	38.4%	32.8%	27.2%	24.5%
Debt Ratio (Unusual <35% by 2019)	43.2%	38.7%	33.1%	27.4%	24.6%
Liquidity - \$175M Min (Expected)	\$362M	\$351M	\$272M	\$213M	\$199M
Liquidity - \$175M Min (Unusual)	\$360M	\$342M	\$263M	\$205M	\$188M
Bottom Line Results (Expected)	\$85M	\$83M	\$68M	\$56M	\$42M
Bottom Line Results (Unusual)	\$83M	\$75M	\$59M	\$47M	\$31M
Outstanding Debt	\$590M	\$537M	\$454M	\$369M	\$332M

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.

Expected (~50% Probability) - Unusual (~5% Probability) based on the 7/7/16 wholesale forecast

Quarterly Reporting Requirement Individual Business Line Financial Policies



Business Lines	2016	2017	2018	2019	2020
WATER Business Line					
Operating Expense Coverage (target >120%)	136%	138%	140%	137%	143%
Cash Reserves (target > \$1.25 million)	\$3.3M	\$3.0M	\$2.9M	\$3.2M	\$2.4M
Debt Ratio (target <35%)	15%	13%	12%	10%	9%
WASTEWATER Business Line					
Operating Expense Coverage (target >100% by 2019)	97%	102%	104%	107%	106%
Cash Reserves (target > \$200K)	\$2.2M	\$1.3M	\$1.3M	\$1.3M	\$1.2M
Debt Ratio (target <35%)	---	---	18%	18%	17%
FIBER Business Line					
Operating Expense Coverage (target >120%)	163%	133%	142%	140%	136%
Cash Reserves (target > \$2.0 million)	\$7.4M	\$6.8M	\$7.7M	\$8.6M	\$9.6M
Debt Ratio (target <35%)	---	---	---	---	---

Special Topic

Financial Policy Metric: Liquidity

Board request from a prior meeting for an overview of the liquidity calculation

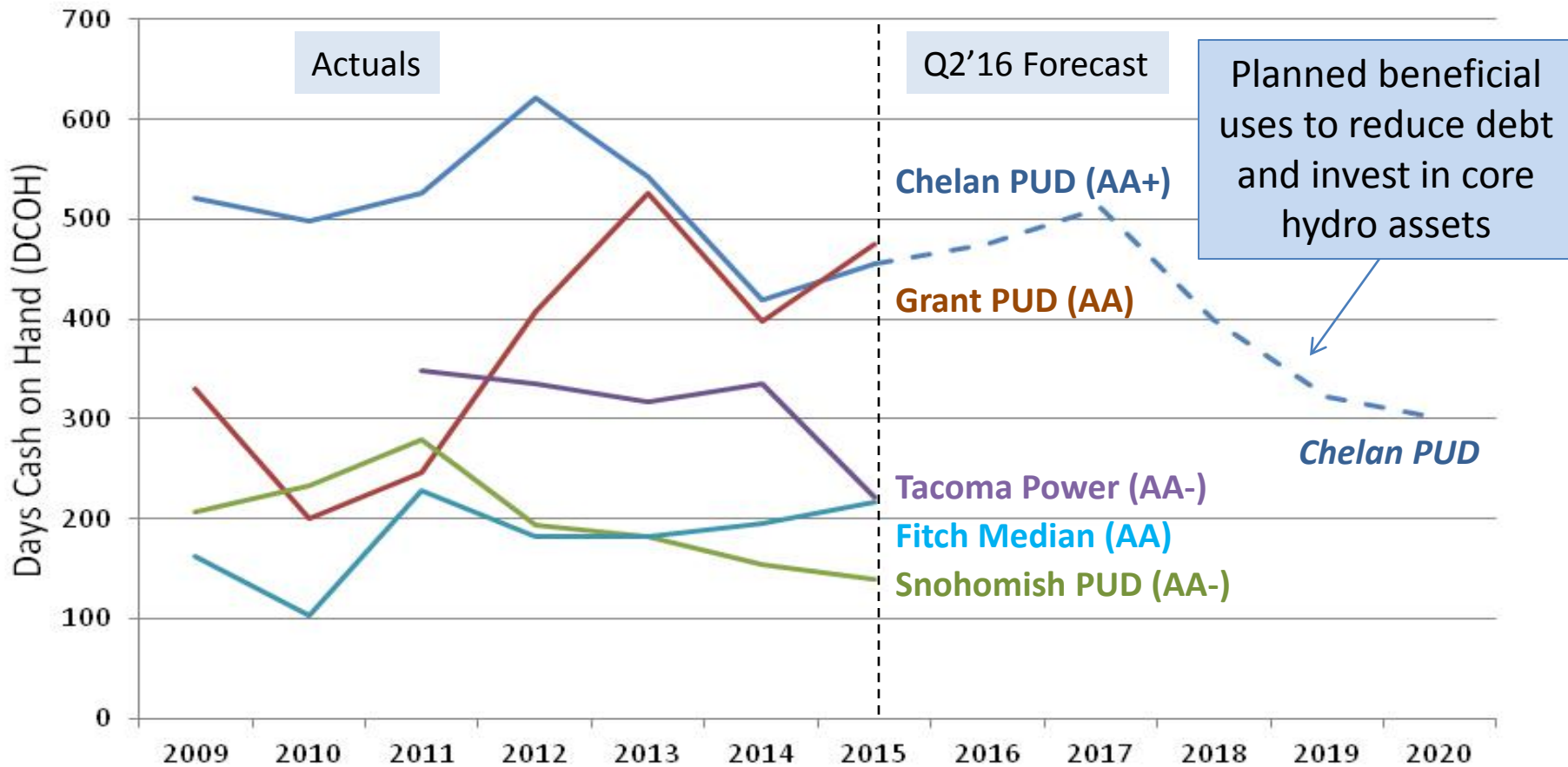
Overview & Importance of Liquidity

- Insufficient liquidity can be disastrous, excess liquidity can be costly
- Balanced financial liquidity supports:
 - Long-term financial, organizational and operational stability to meet the minimum requirements of the District, and
 - Mitigate risks reflecting the scope of operations, risk profile, complexity
- Respondents to the 2009 customer survey and 2015-2019 strategic planning indicate a high preference for adequate cash reserves for a ‘rainy day fund’
- Best practice, American Public Power Association-Cash Reserve Policy
 - To ensure timely payments, reserve for catastrophic events and ensure funds for system improvements and reliability
- Liquidity is one of several rating agency key criteria consideration
 - Greater than 250 days cash on hand is considered very strong
 - For the District, strong liquidity supplements where other key rating criteria are low

Liquidity Benchmarking

- Liquidity is strong compared to peers and rating agency* methodology, but declining
- *Moody's Methodology: Aaa (>250 days), Aa (150 to 249 days), A (90 to 149 days)

Fitch U.S. Public Power Peer Study 2016 & District Forecast



Days Cash on Hand=(Unrestricted Cash + Available Lines of Credit) /Operating Expenses (Net of Depreciation)x365

Liquidity Risk Based Methodology

- Res 14-13878, adopted May 2014, established the current Liquidity metric
 - To maintain a minimum total liquidity at the greater of \$175 million or the computed Financial Liquidity Methodology with at least \$150 million from Primary/Unrestricted Sources
- \$175 million reflects about 260 days cash, consistent with rating agency metrics
- The Methodology utilizes a comprehensive computation to determine minimum requirements for known items and potential risks that impact the District's financial stability
 - Computed amounts ensure timely payments for operations and debt service, reserve for catastrophic or contingent events and have funds for capital investments for system improvements and reliability
 - Operating Requirements, Planned Expenditures, Potential Contingencies
 - The computation is refreshed quarterly and provided during the quarterly financial review
 - A comprehensive evaluation of the liquidity methodology and other Financial Policy metrics for early 2017

Liquidity Risk Based Methodology

OPERATING RESERVES: For normal business needs

- Working Capital - a portion of operation, maintenance and taxes expense

CONTINGENCY RESERVES: For infrequent or unexpected events

- Power Reserves* - exposure to wholesale power counterparty default, margin, termination or collateral
- Revenue Stabilization - Energy* - reserves for energy revenue volatility in net wholesale revenues for hydrological and market fluctuations
- Revenue Stabilization - Interest Rates* - reserves for a decline in forecasted interest earnings for interest rate volatility
- Other Enterprise Risk Reserves - for other risks not captured elsewhere
- Fire & Weather Risk Reserves – example of refinement added in 2016 due to event likelihood

PLANNING RESERVES: For future planned events or expenditures

- Bond Requirements - reserves to cover a portion of next years principal requirements
- Future Capital Funding - reserves for a portion of next year's annual capital requirements

***PORTFOLIO EFFECT** - Reduction reflecting not all risks are likely to happen at the noted magnitude at the same time

Financial Liquidity Calculation

Projected As Of June 30, 2016 (\$M)

OPERATING RESERVES - Normal business needs

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Working Capital	\$ 43	\$ 45	\$ 45	\$ 45	\$ 47	\$ 49

CONTINGENCY RESERVES - Infrequent or unexpected events

Power - Margin/Collateral/Termination/Default*	\$ 3	\$ 3	\$ 3	\$ 3	\$ 3	\$ 3
Revenue Stabilization - Energy*	12	15	16	32	37	39
Revenue Stabilization - Interest Rates*	2	2	2	1	1	1
Other Enterprise Risk Reserves	8	8	8	8	8	8
Fire & Weather Risk	2	2	2	2	2	2

PLANNING RESERVES - Future planned events or expenditures

Bond Requirements	\$ 48	\$ 63	\$ 18	\$ 17	\$ 18	\$ 24
Future Capital Funding	43	58	47	32	27	56

*Less Portfolio Effect - mathematical computation that not all Contingency risks will occur at the same time

	\$ (4)	\$ (4)	\$ (4)	\$ (4)	\$ (4)	\$ (4)
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Total Required Reserves

Grand Total Required Reserves As Computed	\$ 156	\$ 191	\$ 136	\$ 136	\$ 138	\$ 177
Minimum Total Required Reserves By Policy	\$ 175	\$ 191	\$ 175	\$ 175	\$ 175	\$ 177

Equivalent Days Cash On Hand (DCOH) for:

Minimum Required Reserves By Policy	252	325	274	269	264	275
Actual forecasted cash position	476	511	400	322	299	306

Key Messages

2016 results better than budget

- YTD-2016 Bottom-Line ~\$48 million (*~\$10M better than budget*)
- YTD-2016 Cash balance ~\$456 million (*~\$38M increase thru Q2*)
- Annual Bottom-Line Forecast ~\$85 million (*~\$10M better than budget*)

Long-term financial policies on track

- Bottom-line forecasts \$40-\$80M per year (2016-20) reflecting a decline in forecasted electric wholesale prices over our planning horizon
- Total cash reserves forecasted to decline for planned beneficial uses to reduce debt and reinvest in core assets - lower balances still strong (2016-20)
- Further analysis on long term spending plans and debt strategies will continue as part of the ongoing business planning cycle

Stay the course with strategic goals

- Reinvest in core assets and people
- Reduce debt by about \$23 million (2016) and \$280 million (2016-2020)
- 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.

In addition, Q2 forecasts are based on 2017-2021 business planning that is a work-in-process and resulting forecasts are subject to change

Service Revenue

(in 000s)	Actuals YTD 2016	Budget YTD 2016	%	Variance
Residential Electric	13,031	14,390	91%	Mild weather /low energy usage
Commercial Electric	8,340	8,599	97%	In line with budget
Industrial Electric	2,427	2,932	83%	Fire damage/HDL moritorium
Other Electric	702	770	91%	In line with budget
Electric Service	24,501	26,691	92%	Usage below expectation
Water Service	2,439	2,363	103%	In line with budget
Wastewater Service	301	286	105%	In line with budget
Fiber & Telecom	3,283	3,236	101%	In line with budget
Service Revenue	30,524	32,575	94%	

Note: Excludes internal intersystem revenues

Net Surplus Energy Revenue

(in 000s)	Actuals YTD 2016	Budget YTD 2016	%	Variance
Slice Contracts	38,010	37,866	100%	In line with budget
Net Block Trades	22,863	17,247	133%	Retail load down adding to surplus energy position
Other Net Wholesale	(1,230)	1,933	---	
Energy Resources Net Wholesale	59,644	57,045	105%	
LT Hydro Contracts	62,331	62,757	99%	In line with budget
Less Other Purchased Power	(680)	(680)	100%	In line with budget
Hydro LT Contract Rev/Other PP	61,651	62,077	99%	
Surplus Energy Revenue	121,295	119,122	102%	

Operating Expense

(in 000s)	Actuals YTD 2016	Budget YTD 2016	%	Variance
Hydro Operations & Maintenance	27,526	29,145	94%	C9/C11 Stator Rewind
Hydro Fish & Wildlife	6,696	9,068	74%	Trib funding / Hatchery O&M
Hydro Parks & Recreation	3,101	3,560	87%	VC increase visitor study
Electric Distribution	5,876	7,135	82%	PPB moved to non-operating
Electric Transmission	4,963	6,119	81%	WECC/Peak RC dues/CIP svcs
Misc. Power Supply Expenses	1,884	3,144	60%	Mid-C contract work / EIM
Water & Wastewater	1,268	1,331	95%	In line with budget
Fiber Network	1,850	2,232	83%	Shift to capital
Customer Accounts & Service	1,709	1,838	93%	In line with budget
Conservation & Customer Assist	1,039	1,405	74%	Residential/Commercial Prgms
Insurance & FERC Fees	3,753	4,263	88%	Insurance reimbursement
Other Admin & General	15,817	16,269	97%	In line with budget
Total	75,483	85,510	88%	

Non-Operating Activity

(in 000s)	Actuals YTD 2016	Budget YTD 2016	%	Variance
Interest Earnings	3,380	3,489	97%	In line with budget
Capital Contributions	2,416	2,225	109%	Customer line extensions
Interest Expense	(14,369)	(14,335)	100%	In line with budget
Other Inc/(Exp)	(1,736)	(1,725)	101%	In line with budget
Non Operating Activity	(10,309)	(10,346)	100%	

Integrated Electric

(in 000s)	Actuals YTD 2016	Budget YTD 2016	%	Variance
Service Revenue	24,541	26,737	92%	Mild weather /low energy usage
Energy Resources Net Wholesale	59,644	57,045	105%	Additonal surplus / lower retail load
Hydro LT Contract Rev/Other PP	61,651	62,077	99%	In line with budget
Other Operating Revenue	10,208	10,883	94%	In line with budget
Other Operating Expense	(72,592)	(82,189)	88%	Hydro O&M below budget
Depreciation & Tax Expense	(25,323)	(25,466)	99%	In line with budget
Operating Income/(Loss)	58,129	49,086	118%	
Non-Operating Activity	(10,726)	(10,670)	101%	In line with budget
"Bottom Line"	47,402	38,416		

Fiber & Telecom

(in 000s)	Actuals YTD 2016	Budget YTD 2016	%	Variance
Service Revenue	4,509	4,469	101%	In line with budget
Other Operating Revenue	71	2	n/a	Limited activity
Other Operating Expense	(2,910)	(3,414)	85%	Shift to capital work
Depreciation & Tax Expense	(1,258)	(1,322)	95%	In line with budget
Operating Income/(Loss)	413	(265)	---	
Non-Operating Activity	74	63	117%	limited activity
"Bottom Line"	487	(202)		

Water

(in 000s)	Actuals YTD 2016	Budget YTD 2016	%	Variance
Service Revenue	2,510	2,481	101%	In line with budget
Other Operating Revenue	29	30	98%	In line with budget
Other Operating Expense	(1,703)	(1,747)	97%	In line with budget
Depreciation & Tax Expense	(1,019)	(1,000)	102%	in line with budget
Operating Income/(Loss)	(183)	(236)	77%	
Non-Operating Activity	286	230	125%	Higher customer contributions
"Bottom Line"	103	(7)		

Wastewater

(in 000s)	Actuals YTD 2016	Budget YTD 2016	%	Variance
Service Revenue	301	286	105%	In line with budget
Other Operating Revenue	1	1	106%	Limited activity
Other Operating Expense	(279)	(320)	87%	Activity lagging expectation
Depreciation & Tax Expense	(124)	(125)	100%	In line with budget
Operating Income/(Loss)	(101)	(158)	64%	
Non-Operating Activity	58	31	185%	Higher customer contributions
"Bottom Line"	(43)	(127)		

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% (2016-20)
 - Capital Recovery Charge (CRC) - 50% (2016-20)
- Investment earning rate
 - (2016-20: 1.56%, 1.61%, 1.73%, 1.95%, 2.11%)

Combined Five-Year Forecast

(in 000s)	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020
Service Revenue	61,647	64,255	65,867	67,356	69,023
Energy Resources Net Wholesale	113,602	114,418	108,573	100,340	89,129
Hydro LT Contract Rev/Other PP	127,205	117,106	120,153	119,104	118,299
Other Operating Revenue	20,086	22,650	23,983	24,934	26,450
Other Operating Expense	(162,412)	(157,856)	(175,624)	(180,202)	(184,651)
Depreciation & Tax Expense	(54,314)	(57,572)	(56,505)	(59,436)	(62,723)
Operating Income/(Loss)	105,814	103,001	86,447	72,096	55,527
Non-Operating Activity	(20,656)	(19,615)	(18,230)	(16,527)	(13,561)
"Bottom Line"	85,158	83,386	68,217	55,568	41,965
<i>Prior Quarter Reported Forecast</i>	<i>82,702</i>	<i>74,705</i>	<i>68,405</i>	<i>57,537</i>	<i>43,829</i>
<i>Forecast at 2016 Budget</i>	<i>75,600</i>	<i>70,908</i>	<i>66,072</i>	<i>55,488</i>	<i>38,297</i>

Service Revenue

(in 000s)	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020
Residential Electric	25,171	25,579	25,838	26,067	26,298
Commercial Electric	16,353	16,600	16,743	16,861	16,983
Industrial Electric	5,606	7,221	7,982	8,764	9,580
Other Electric	1,724	1,739	1,744	1,747	1,750
Electric Service	48,854	51,140	52,307	53,439	54,611
Water Service	5,435	5,655	5,883	6,121	6,368
Wastewater Service	630	668	708	751	774
Fiber & Telecom	6,728	6,792	6,968	7,045	7,269
Service Revenue	61,647	64,255	65,867	67,356	69,023
<i>Prior Quarter Reported Forecast</i>	<i>61,809</i>	<i>62,475</i>	<i>63,556</i>	<i>64,558</i>	<i>65,646</i>
<i>Forecast at 2016 Budget</i>	<i>63,285</i>	<i>64,296</i>	<i>65,431</i>	<i>66,505</i>	<i>67,700</i>

Net Surplus Energy Revenue

(in 000s)	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020
Slice Contracts	75,876	79,067	64,997	46,876	30,243
Net Block Trades	37,978	30,666	34,298	45,706	36,442
Other Net Wholesale	(252)	4,685	9,278	7,758	22,445
Energy Resources Net Wholesale	113,602	114,418	108,573	100,340	89,129
LT Hydro Contracts	128,525	118,427	121,473	120,424	119,619
Less Other Purchased Power	(1,320)	(1,320)	(1,320)	(1,320)	(1,320)
Hydro LT Contract Rev/Other PP	127,205	117,106	120,153	119,104	118,299
Surplus Energy Revenue	240,807	231,524	228,726	219,444	207,428
<i>Prior Quarter Reported Forecast</i>	<i>241,795</i>	<i>240,055</i>	<i>226,432</i>	<i>217,510</i>	<i>205,237</i>
<i>Forecast at 2016 Budget</i>	<i>235,826</i>	<i>236,317</i>	<i>221,987</i>	<i>212,145</i>	<i>196,633</i>

Operating Expense

(in 000s)	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020
Hydro Operations & Maintenance	58,806	46,975	61,556	62,536	60,212
Hydro Fish & Wildlife	16,311	17,022	16,754	17,294	20,645
Hydro Parks & Recreation	7,223	7,762	6,901	6,780	7,022
Electric Distribution	12,686	13,225	13,610	14,077	14,609
Electric Transmission	10,971	11,973	12,415	12,806	13,374
Misc. Power Supply Expenses	5,153	5,503	7,240	7,455	6,990
Water & Wastewater	2,667	2,786	2,798	3,093	3,018
Fiber Network	3,446	4,419	4,047	4,162	4,518
Customer Accounts & Service	3,636	3,565	3,647	4,026	4,248
Conservation & Customer Assist	2,920	3,508	4,063	4,614	5,164
Insurance & FERC Fees	7,709	7,906	8,607	8,425	8,699
Other Admin & General	30,884	33,212	33,986	34,933	36,150
Total	162,412	157,856	175,624	180,202	184,651
<i>Prior Quarter Reported Forecast</i>	<i>166,668</i>	<i>174,138</i>	<i>170,775</i>	<i>174,725</i>	<i>178,897</i>
<i>Forecast at 2016 Budget</i>	<i>168,369</i>	<i>174,719</i>	<i>169,789</i>	<i>174,082</i>	<i>177,476</i>

Capital Projects

(in 000s)	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020
Electric Distribution	10,736	11,588	22,145	21,170	18,073
Network Transmission	2,552	3,629	6,233	5,188	6,346
Rocky Reach	15,035	10,555	13,747	8,870	4,703
Rock Island	27,803	41,930	41,470	32,139	26,319
Lake Chelan	396	747	881	299	1,424
Internal Services	9,128	10,373	14,711	4,114	4,800
Fiber & Telecom	5,511	4,597	4,412	4,117	4,414
Water	1,430	1,335	1,226	928	2,344
Wastewater	1,574	4,061	1,901	11	14
Total	74,166	88,816	106,726	76,835	68,435
<i>Prior Quarter Reported Forecast</i>	74,341	94,345	96,647	67,182	59,014
<i>Forecast at 2016 Budget</i>	64,229	85,953	76,271	68,642	61,651

Financial Policy – Financial Liquidity

Methodology Per Resolution #14-13878

COMBINED	2016	2017	2018	2019	2020
District Total Liquidity Targets	\$175	\$191	\$175	\$175	\$175
Base Case – expected (50% probability)	\$362	\$351	\$272	\$213	\$199
Base Case – unusual (5% probability)	\$360	\$342	\$263	\$204	\$188
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		\$325	\$229	\$153	\$118
District Unrestricted Reserve Minimum	\$150	\$150	\$150	\$150	\$150
Base Case – expected (50% probability)	\$286	\$301	\$255	\$209	\$199
Base Case – unusual (5% probability)	\$284	\$292	\$246	\$200	\$189
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		\$280	\$220	\$160	\$102

Financial Policy – Rate of Return

(Change in Net Position/Net Plant)

COMBINED	2016	2017	2018	2019	2020
District Targets (expected)	>4%	>4%	>4%	>4%	>2%
District Targets (unusual)	>2%	>2%	>2%	>2%	>0%
Base Case – expected (50% probability) <i>Bottom-line expectation</i>	7.8% \$85M	7.4% \$83M	5.7% \$68M	4.6% \$56M	3.4% \$42M
Base Case – unusual (5% probability) <i>Bottom-line expectation</i>	7.7% \$83M	6.6% \$75M	5.0% \$59M	3.9% \$47M	2.6% \$31M
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs <i>Bottom-line expectation</i>		6.4% \$73M	4.6% \$56M	3.4% \$42M	2.0% \$24M

Financial Policy – Debt Ratio

(Debt/(Debt + Equity))

COMBINED	2016	2017	2018	2019	2020
District Targets	<50%	<45%	<40%	<35%	<35%
Outstanding Debt Balance - YE(million)	\$590	\$537	\$454	\$369	\$332
Scheduled Debt Retirements (million)	\$23	\$23	\$24	\$26	\$25
Planned Debt Accelerations (million)	\$---	\$29	\$61	\$60	\$11
Base Case – expected (50% probability)	43.1%	38.4%	32.8%	27.2%	24.5%
Base Case – unusual (5% probability)	43.2%	38.7%	33.1%	27.4%	24.6%
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		38.9%	33.6%	28.1%	25.6%

Financial Policy – Debt Service Coverage

(Net Funds from Operations/Computed Debt Service)

COMBINED	2016	2017	2018	2019	2020
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 (50% probability)	3.02	3.04	2.82	2.71	2.71
Base Case – unusual (5% probability)	2.99	2.87	2.64	2.53	2.46
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		2.84	2.58	2.45	2.27



Quarterly Investment Report for the quarter ending June 30, 2016

All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #15-13969

Portfolio Summary

	Q3 2015	Q4 2015	Q1 2016	Q2 2016	YTD 2016	WAM	
Average Invested Book Value	\$373 M	\$402 M	\$424 M	\$448 M	\$436 M		<u>Policy Objectives & Compliance</u> + Safety + Liquidity + Return on Investment + Diversification + Maturity Length
Interest Earned	\$1.6 M	\$1.7 M	\$1.7 M	\$1.7 M	\$3.4 M		
District Yield	1.66%	1.63%	1.63%	1.52%	1.57%	861	
Benchmarks:							
3 Month T-Bill	0.06%	0.14%	0.30%	0.27%	0.28%	91	
Barclays Gov. 1-3 Yr Index	0.69%	0.85%	0.86%	0.78%	0.82%	686	
LGIP (State Pool)	0.16%	0.20%	0.43%	0.45%	0.44%	38	
Fed Funds Effective	0.13%	0.16%	0.36%	0.37%	0.36%	1	

General Commentary:

For Q2 2016, the District's yield dropped slightly to 1.52% on an average invested book value of \$448 million due to holding more cash for the July 1st debt service payment and a general drop in the investment curve from Q1.

The Federal Open Market Committee's June 15, 2016 meeting reported that economic activity has picked up, but the labor market is improving at a slower pace with fewer than anticipated job gains and soft business investment. Due to risks associated with global economic and financial developments, the Committee will maintain its current target range for the federal funds rate from 1/4 to 1/2 percent and continue to monitor results. The District anticipates relatively low rates through Q3. The laddered investment structure continues to be our strategy to support safety of principal and liquidity.

Portfolio Objectives and Diversification:

The District continues to focus on portfolio diversification while maintaining investment objectives. A portion of US Treasuries continue to 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) is lower this quarter since it was necessary to maintain additional liquidity for the July 1st debt service payment. The overall average continues to remain strong as the multi-year laddered investment strategy maintains investment maturities over 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 June 30, 2016

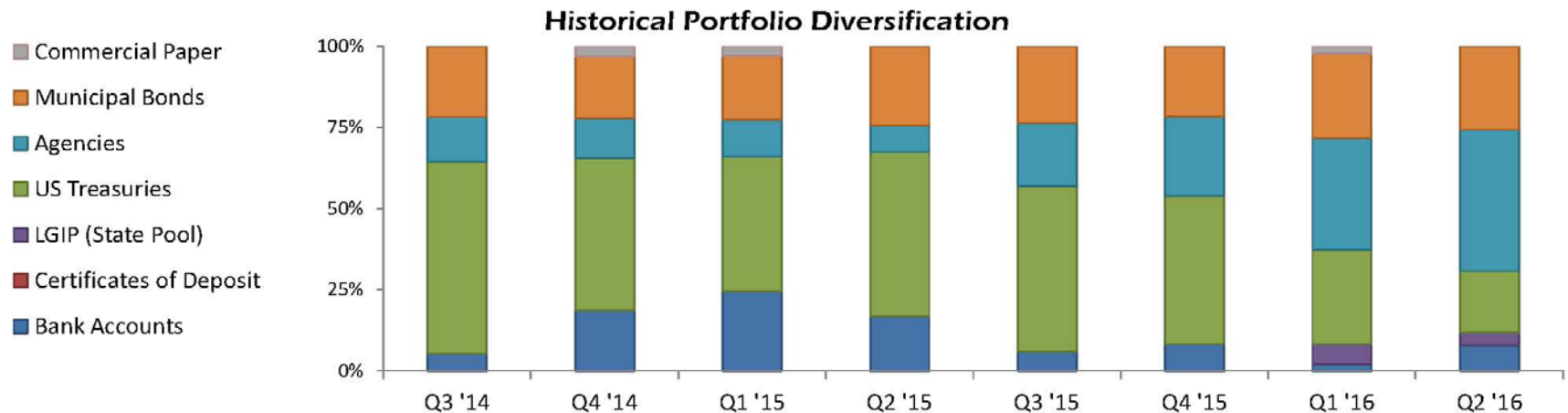
All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #15-13969

Investments by Type - as of June 30, 2016

	Par Value	GASB 31 Reported Value	Book Value	Book Value as % of Portfolio	Policy % Limit	WAM
Bank Accounts	\$ 35,987	\$ 35,987	\$ 35,987	8.00%	75%	1
US Treasuries	\$ 85,260	\$ 88,634	\$ 85,836	19.08%	100%	1590
LGIP (State Pool)	\$ 17,042	\$ 17,042	\$ 17,042	3.79%	25%	1
US Agencies	\$ 196,105	\$ 197,070	\$ 195,306	43.42%	75%	826
Municipal Bonds	\$ 114,415	\$ 117,009	\$ 115,661	25.71%	30%	775
Commercial Paper	\$ 0	\$ 0	\$ 0	0.00%	25%	0
Total:	\$ 448,809	\$ 455,742	\$ 449,832			861

Numbers may not foot due to rounding





Quarterly Investment Report for the quarter ending June 30, 2016

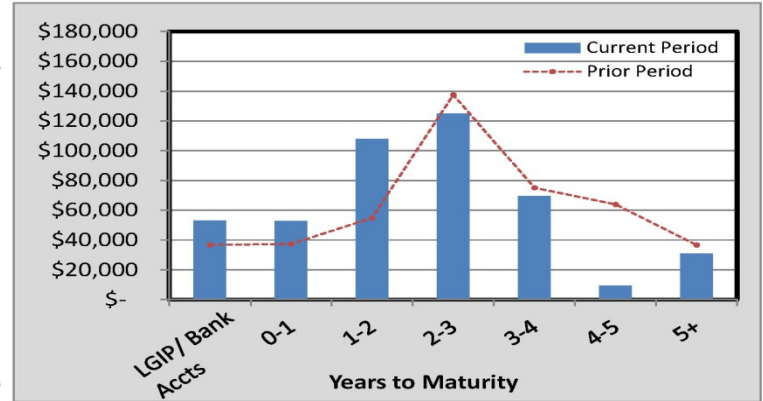
All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #15-13969

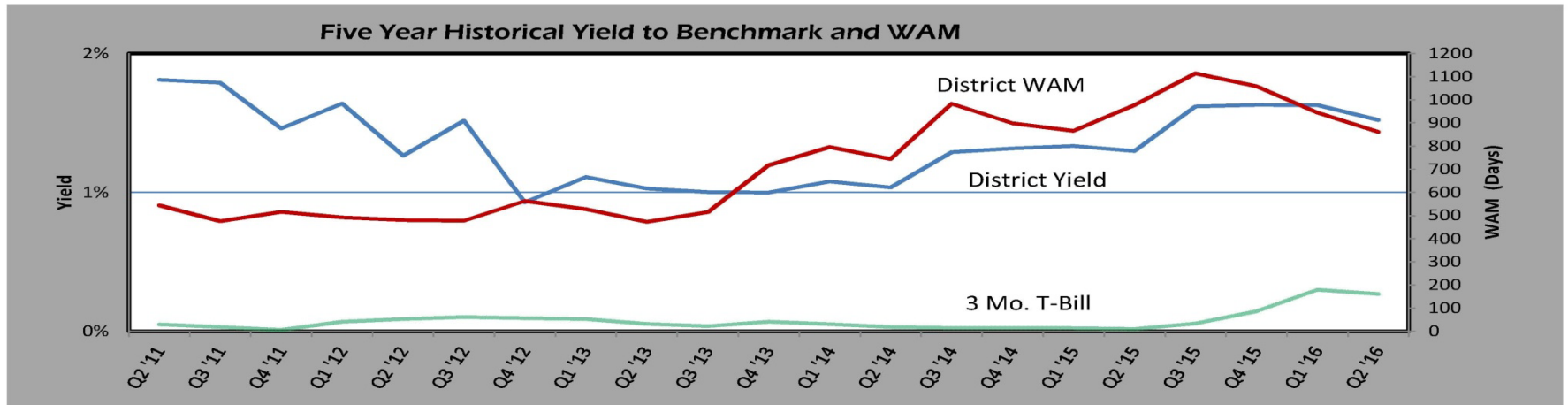
Maturity Distribution - as of June 30, 2016

Maturity	Par Value	% of Portfolio	Cumulative % of Portfolio
LGIP	\$ 17,042	3.8%	3.8%
Bank Accounts	\$ 35,987	8.0%	11.8%
1-90 Days	\$ 12,375	2.8%	14.6%
91-180 Days	\$ 11,340	2.5%	17.1%
181-365 Days	\$ 29,195	6.5%	23.6%
1-2 Yrs	\$ 107,932	24.0%	47.7%
2-3 Yrs	\$ 124,973	27.8%	75.5%
3-4 Yrs	\$ 69,630	15.5%	91.0%
4-5 Yrs	\$ 9,477	2.1%	93.1%
5+ Yrs	\$ 30,858	6.9%	100.0%
Total:	\$ 448,809	100%	

Numbers may not foot due to rounding



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



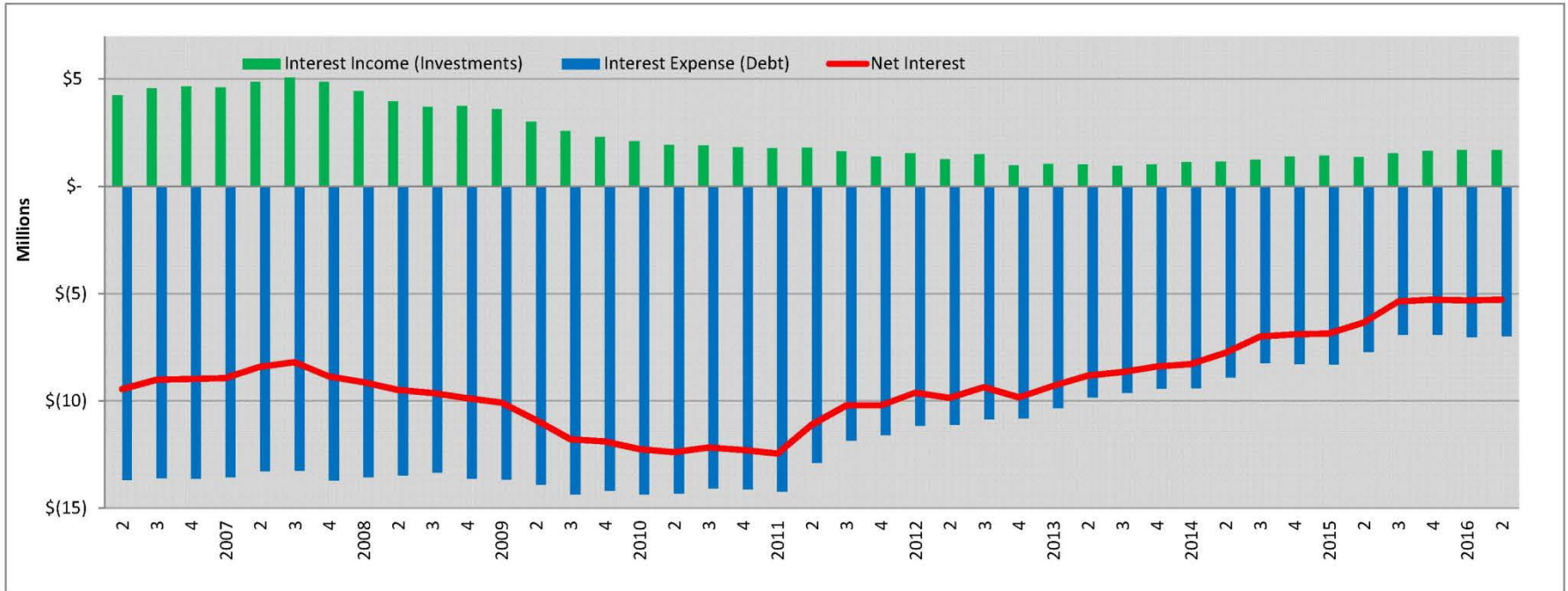


Quarterly Investment Report for the quarter ending June 30, 2016

All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #15-13969

Historical Net Interest, by Quarter





Quarterly Investment Report for the quarter ending June 30, 2016

All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #15-13969

Definitions

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

Average Rate of Return- the amount of money 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. Examples include: 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.