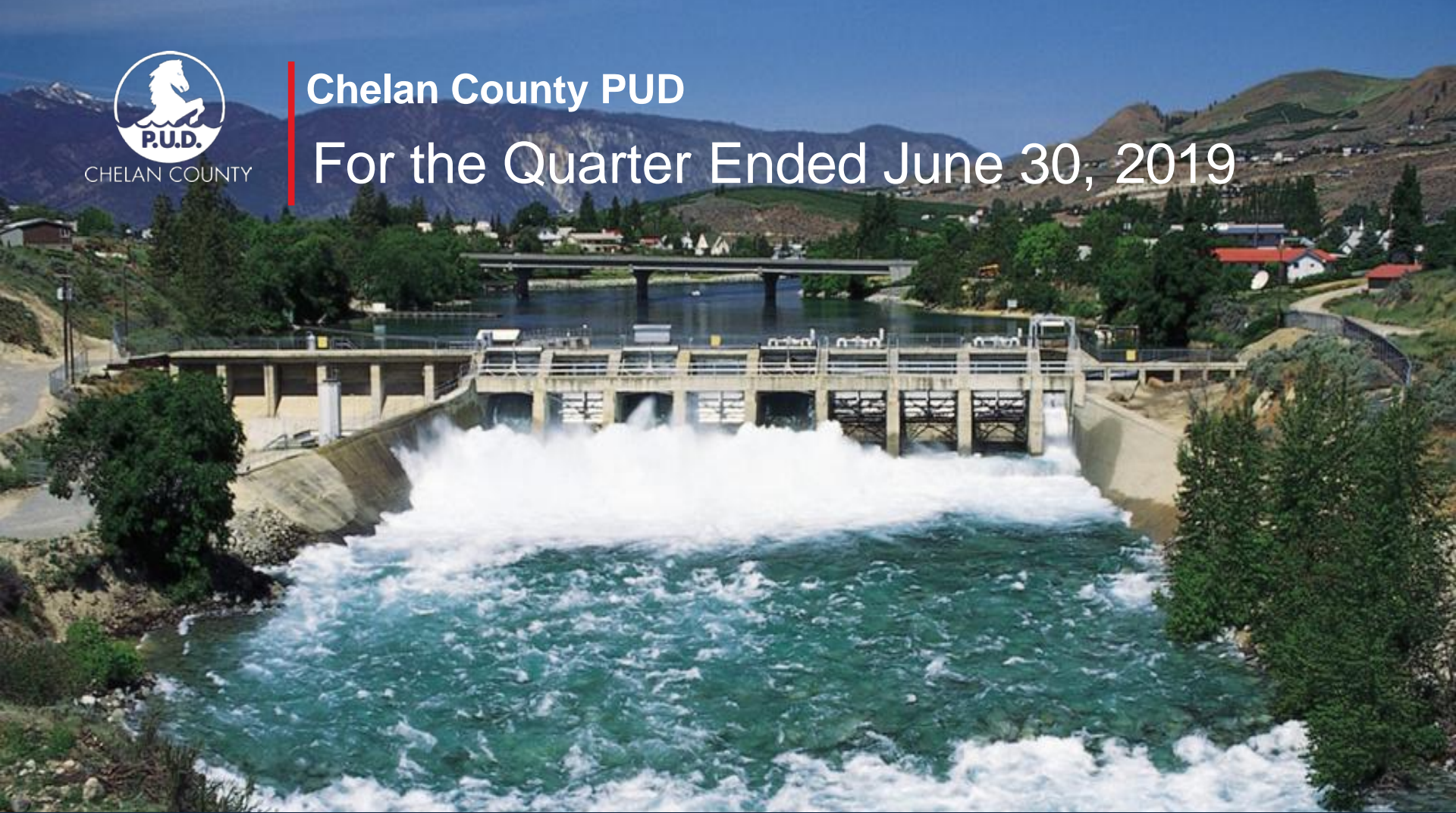




Chelan County PUD

For the Quarter Ended June 30, 2019



Board Presentation

Aug. 5, 2019

Quarterly Financial Review



CHELAN COUNTY

8/5/2019

What we will cover today

Financial highlights
2nd Quarter results
Five-year look ahead
Investment report
Key messages

Update only, no action required

Appendix: Additional detailed information

Q2 2019 Key Highlights

Bottom-line results better than budget

- Power contract revenues and insurance proceeds from Rocky Reach large unit claim settlement offset impacts from low stream flow conditions and unit outages

Financial metrics meeting targets

Stay the course with our strategic goals

Reinvest in assets and people

Reduce debt

Continue Public Power Benefit program

Rocky Reach: Large Unit Insurance Settlement

Settlement for large unit repair work at Rocky Reach received during Q2

- Settles all past, current and future claims related to the RR large units
- ~\$18M: cash received
 - ~\$4M: current year maintenance expense offset
 - ~\$12M: current year other revenue in Rocky Reach system
 - ~\$2M: current year other revenue in Distribution system
- ~\$8M: long-term purchasers benefit from both maintenance expense offset and other revenue in Rocky Reach system
- ~\$10M: positive Bottom Line impact to District
- District anticipates and forecasts future expenditures needed for large unit repairs

Overview

Revenue

- Service Revenue better than budget year-to-date (YTD) due to Microsoft off-system end-use sale of \$3.1M not included in the budget: (+\$2.7M YTD)
- Net Wholesale Revenue below budget YTD due to off-system end-use sale (included in service revenue) and lower generation (~84% of budget YTD): (\$12.4M YTD)
- Hydro Long-Term Contract Revenue better than budget YTD due to retained surplus proceeds of ~\$20M YTD partially offset by reduction in hydro production costs due to large unit claim proceeds at Rocky Reach: (+\$7.4M YTD)
- Other Operating Revenue better than budget YTD due to insurance proceeds received for settlement of large unit claim at Rocky Reach and variable component of real time agreement: (+\$16.4M YTD)

Total Revenues forecasted to be better than budget for the year: +\$12M

8/5/2019

Expense

- Operating Expenses below budget YTD primarily due to less spent YTD in hydro and receipt of insurance proceeds, but expected to catch up near budget: (\$12.4M YTD)
- Non-Operating Net Expense better than budget YTD with higher interest earnings from the higher cash balances: (\$2.3M YTD)

Total Net Expenses forecasted to be below budget for the year: (\$16M)

Bottom Line

- Combination of higher revenues and lower expenses result in a better Bottom Line: (+\$28.8M YTD)

Better bottom line-forecast for the year of \$105.7M: +\$29M

Overview

Capital

- Capital expenditures overall are lagging the planned pace and below budget YTD: (\$14.4M)
- Although capital expenditures are lagging YTD, expectations are to expend 93% of 2019 budget
- Primary drivers for remaining expenditures are Rock Island PH1 rehab work and RI and RR-CM facilities upgrades.

Total Capital forecasted to hit \$139.7M, which is below budget for the year: (\$11M)

8/5/2019

Cash

- Positive bottom line has increased cash and investments YTD by \$31.7M

Total cash balance forecasted to be better than budget at year end: \$558M

Debt

- Total debt is the same as budget YTD

Total debt forecasted \$2.3M less than budgeted with balance at year end: \$472.8M

(~\$41M planned reduction / loan for Peshastin wastewater upgrade reduced \$2M)

Financial Highlights

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



Electric delivered cost per avg kWh better than budget

YTD ¢/kWh result: 6.00¢ vs. 6.06¢ (actual vs. budget)

Power production costs- 2.38¢ vs. 2.37¢ (actual vs. budget)

Power distribution costs- 3.62¢ vs. 3.69¢ (actual vs. budget)

(Lower generation and higher retail usage due to Microsoft contract negatively impact this metric)

(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: \$13.5 vs. \$18.4 (actual vs. budget)

Actual vs. Budget

Rocky Reach \$6.2 vs. \$13.0 (production costs ~48% YTD)

Rock Island \$28.6 vs. \$29.7 (production costs ~96% YTD)

Lake Chelan \$19.5 vs. \$21.4 (production costs ~91% YTD)

(Note: RR production costs positively impacted by large unit claim)

Financial Highlights

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



Water cost per 1,000 gallons better than budget

YTD \$/1k gallons result: \$6.71 vs. \$6.79 (actual vs. budget)

YTD operating expense 99% of budget



Wastewater cost per ERU higher than budget

YTD \$/ERU result: \$1,123 vs. \$1,076 (actual vs. budget)

YTD operating expense 104% of budget

(Small variances impact this metric as Q2 overage is approx. \$19,000)



Fiber cost per active premises better than budget

YTD \$/premises result: \$431 vs. \$461 (actual vs. budget)

YTD operating expense 93% of budget

2019 Bottom Line Results

(in 000s)	2019 Current Forecast	2019 Budget	% of budget
Service Revenue	83,921	69,512	121%
Net Wholesale Revenue	79,081	102,381	77%
Sub	163,002	171,894	95%
Hydro LT Contract Rev/Other PP	138,058	132,976	104%
Other Operating Revenue	39,092	23,060	170%
Other Operating Expense	(172,491)	(186,233)	93%
Depreciation & Tax Expense	(53,740)	(53,321)	101%
Operating Income/(Loss)	113,920	88,376	129%
Non-Operating Activity	(8,227)	(11,195)	73%
Bottom Line	105,693	77,181	137%

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

Business Line Bottom Line Results

(in 000s)	2019 Current Forecast	2019 Budget	% of budget
Cost-Based Activity	65,676	45,045	146%
Market-Based Activity	46,501	40,748	114%
Retail Activity	(25,402)	(23,570)	108%
Other Activity	16,862	12,331	137%
Integrated Electric	103,637	74,554	139%
Fiber & Telecom	1,643	2,521	65%
Water	736	495	149%
Wastewater	(323)	(390)	83%
Combined Bottom Line	105,693	77,181	137%

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

Capital Expenditures

(in 000s)	2019 YTD Actuals	2019 YTD Budget	% of budget	2019 Current Forecast	2019 Current Budget	% of budget
Electric Distribution	5,088	10,007	51%	18,546	22,099	84%*
Network Transmission	917	1,688	54%	3,574	3,987	90%
Rocky Reach	772	2,084	37%	3,992	6,011	66%
Rock Island	13,992	24,133	58%	68,020	71,590	95%
Lake Chelan	39	28	137%	110	111	99%
Internal Services	14,489	9,295	156%	34,974	34,745	101%
Fiber & Telecom	1,974	3,493	57%	5,510	7,273	76%
Water	463	522	89%	1,204	1,068	113%
Wastewater	1,040	1,927	54%	3,764	3,764	100%
Total Expenditures	38,775	53,178	73%	139,695	150,648	93%
Contributions	(2,873)	(2,244)	128%	(4,629)	(4,488)	103%
Capital net of CIAC	35,902	50,934	70%	135,066	146,160	92%

* Note: Distribution and Fiber forecasts do not include additional capital planning for NESCC compliance work. Related forecasts to be developed during business planning.

Overview of YTD - 2019 Cash Flow

	\$ Million
Bottom-line result (YTD - 2019)	\$ 70
Add back non-cash related items (depreciation)	\$ 22
Estimated earned funds from operations	\$ 92
Capital Project Expenditures	\$ 39
Net Debt Reductions	\$ 23
Other Misc. Impacts (change in A/R, A/P, Inventory, Etc.)	(\$ 2)
Added to cash reserves	\$ 32
Estimated use of funds	\$92

Cash and investments, beginning of year	\$ 591
Added to cash reserves	\$32
Cash and investments, end of Q2	\$ 623

Cash & Investments Balance

(\$ Millions)	<u>6/30/19</u>	<u>12/31/18</u>
Unrestricted funds	\$388	\$407
Board Designated*:		
Headquarters/Service Center Strategic Facilities Fund	<u>50</u>	<u>50</u>
Total Unrestricted Funds	\$438	\$457
Restricted funds for hydro capital/debt	<u>112</u>	<u>50</u>
Total Liquidity (policy minimum \$175M)	\$550	\$507
Restricted - bond reserve funds	42	53
Restricted - power contract deposits	19	19
Restricted - self insurance and other funds	<u>12</u>	<u>12</u>
Total Cash and Investments	<u>\$623</u>	<u>\$591</u>

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

Quarterly Reporting Requirement - Financial Policies

District Combined	2019	2020	2021	2022	2023
Liquidity (Greater calculated min \$190M-\$200M, Expected)	\$473M	\$357M	\$232M	\$186M*	\$191M*
Liquidity (Greater calculated min \$190M-\$200M, Unusual)		\$347M	\$213M	\$184M*	\$190M*
Debt Ratio (Expected case <35% by 2019)	30.0%	27.3%	24.7%	23.5%	21.9%
Debt Ratio (Unusual case <35% by 2019)		27.5%	25.0%	25.5%	25.5%
Days Cash on Hand (Expected case >250)	621	470	310	256*	257*
Days Cash on Hand (Unusual case > 250)		456	284	254*	255*
Combined Debt Cover (Expected case > 2.00x)	3.40	2.43	2.31	2.44	2.55
Combined Debt Cover (Unusual case >1.25x)		2.28	2.13	2.10	1.93
Rate of Return (Expected case > 4% thru 2019)	8.5%	Sunset			
Rate of Return (Unusual case > 2% thru 2019)					
<i>Bottom Line Results (Expected case)</i>	<i>\$106M</i>	<i>\$52M</i>	<i>\$43M</i>	<i>\$49M</i>	<i>\$56M</i>
<i>Bottom Line Results (Unusual case)</i>		<i>\$44M</i>	<i>\$33M</i>	<i>\$35M</i>	<i>\$29M</i>
<i>Debt Outstanding (Expected case)</i>	<i>\$473M</i>	<i>\$434M</i>	<i>\$393M</i>	<i>\$383M*</i>	<i>\$366M*</i>
<i>Debt Outstanding (Unusual case)</i>		<i>\$434M</i>	<i>\$393M</i>	<i>\$415M*</i>	<i>\$425M*</i>

* - Financial Policy Metrics within 10% of target which requires Board communication per resolution. Action plan assumes issuance of debt in 2022 and 2023 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	2019	2020	2021	2022	2023
WATER Business Line					
Operating Expense Coverage (target >120%)	135%	119%	127%	128%	127%
Cash Reserves – unrestricted (target > \$1.25 million)	\$3.2M	\$2.5M	\$0.3M	(\$0.5M)	(\$1.7M)
Debt Ratio (target <35%)	7%	4%	-%	-%	-%
WASTEWATER Business Line					
Operating Expense Coverage (target >100% by 2019)	82%	96%	99%	98%	97%
Cash Reserves – unrestricted (target > \$200K)	\$0.5M	\$1.1M	\$0.8M	\$0.7M	\$0.6M
Debt Ratio (target <35%)	1%	---	11%	10%	10%
FIBER Business Line					
Operating Expense Coverage (target >120%)	130%	138%	133%	133%	132%
Cash Reserves - unrestricted (target > \$2.0 million)	\$14.0M	\$13.4M	\$9.6M	\$6.4M	\$6.4M
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*

Test metrics are under re-evaluation as the District studies the off-system retail sales impacts to current metric methodologies

	2019	2020	2021	2022	2023
Integrated Electric Business Line					
Retail Total Cost Ratio (target)	>65%	>65%	>65%	>65%	>65%
Retail Total Cost Ratio	73%	69%	69%	71%	69
Retail OM&T Cost Ratio (target)	>90%	>90%	>90%	>90%	>90%
Retail OM&T Cost Ratio	102%	107%	108%	117%	114%
Retail Rate Support Limit (target)	\$26.3M	\$26.3M	\$26.3M	\$26.3M	\$29.0M
Retail Rate Support	\$25.4M	\$32.9M	\$36.2M	\$35.7M	\$38.8M
Market Based Margin Limit (target)	\$25.0M	\$25.0M	\$25.0M	\$25.0M	\$25.0M
Market Based Margin	\$46.5M	\$28.0M	\$24.8M	\$31.7M	\$42.8M

“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.

Quarterly Investment Report

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

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	YTD 2019	WAM
Average Invested Book Value (\$M)	\$569	\$584	\$589	\$604	\$596	
District Yield	2.25%	2.34%	2.52%	2.67%	2.59%	873
Benchmarks:						
3 Month T-Bill	2.06%	2.34%	2.43%	2.35%	2.39%	91
S&P US Treasury 1-3 Year Index	1.74%	1.96%	2.12%	2.23%	2.18%	691

- Q2 2019 yield increased to 2.67% due to improved reinvestment rates (2019 budgeted rate is 2.41%)
- June 19, 2019 Federal Open Market Committee meeting report:
 - Labor market has remained strong and that economic activity is rising at a moderate rate
 - Inflation is running below the 2% longer-run objective
 - Federal funds target rate range remains at 2.25% to 2.50%
 - District anticipates relatively flat rates through 2019
- Global and national events 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.

Q2 Key Messages

Mid-year forecasts are better than budget

- Power contract revenues and insurance proceeds from Rocky Reach large unit claim settlement offset impacts from low stream flow conditions and unit outages

Microsoft off-system end-use sale recorded in Q2 impacting net wholesale revenue and service revenue results

Long-term financial metrics policies on track

Stay the course with our strategic goals

Reinvest in assets and people

Reduce debt

Continue Public Power Benefit program

Appendix

A scenic view of a dam and bridge over a river in a mountainous area. The dam is a concrete structure with multiple spillways, and the bridge is a simple beam bridge. The river is flowing through a valley with mountains in the background. The sky is blue and clear.

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 \$12.4 million below budget (\$40.0M vs. \$52.4M)

Annual forecast lower than budget (\$79.1M vs \$102.4)

Drivers:

- Generation 84% of budget YTD
- Forecast impact: new retail off-system end-use sale shifts revenues from wholesale to retail service revenue.

Hydro Long-Term Contract Revenue:

YTD result \$7.4 million above budget (\$72.6 vs. \$65.2M)

Annual forecast better than budget (\$138.1M vs \$133.0M)

Drivers:

- Combined hydro “cost based” operating expenses below budget (51% YTD)
- Insurance proceeds for settlement of Rocky Reach large unit claim offset against hydro production costs
- + “Plus” contract charges above budget (210% YTD): retained surplus proceeds \$20.0M YTD

Financial Highlights - Revenue

Service Revenue:

YTD result \$2.6 million above budget
(\$37.4M vs. \$34.8M)

Forecast results better than budget
(\$83.9M vs \$69.5M)

Drivers:

+ New retail-off system sale shifts forecasted revenue to retail service revenue from wholesale revenue.

Other Operating Revenue:

YTD result \$16.4 million above budget
(\$28.1M vs. \$11.7M)

Forecast results better than budget
(\$39.1M vs \$23.1M)

Drivers:

+ Insurance proceeds received for settlement of large unit claim at Rocky Reach
+ Variable component of real-time agreement ~\$1.2M YTD

Financial Highlights - Expenses

Operating Expense:

YTD result \$4.4 million below budget
(\$78.7 vs. \$90.5M)

Forecast results below budget
(\$172.5M vs \$186.2M)

Drivers:

- Hydro operations and maintenance at 68% of budget (influenced by Rocky Reach claim settlement)
- Electric transmission at 80% of budget (expected to catch up by year end)

Non-Operating Net Expense:

YTD result \$2.3M better than budget
(\$3.3M vs. \$5.6M)

Forecast results better than budget
(\$8.2M vs \$11.2M)

Drivers:

- + Increased forecasted interest earnings on higher cash reserves

Financial Highlights – Balance Sheet

Capital expenditures below budget

- YTD - 2019 \$38.8 million vs. budget of \$53.2 million
- 2019 Forecast results below 2019 Budget (\$139.7M vs \$150.4M)

Individual project adjustments:

- ↓ RI PH2 U1-U8 Rehab (~\$9M shifted to 2021)
- ↓ RI B3 Modernization (~\$3M shifted to 2020)
- ↑ RI B7 Modernization (~\$4M shifted to 2019)
- ↑ RI B4 Modernization (~\$5M shifted to 2019)

Cash remains strong / Debt reduction strategy on track

- Cash balance forecasted to decrease ~\$34 million in 2019
- Debt balance to decrease ~\$41 million in 2019

Service Revenue

(in 000s)	2019 Actuals YTD	2019 Budget YTD	% of budget	Variance
Residential Electric	15,297	14,559	105%	Cold February and March: increased load
Commercial Electric	8,420	8,782	96%	In line with budget
Industrial Electric	2,417	2,387	101%	In line with budget
High Density Load	870	1,723	50%	Lower than expected load growth
Off-System End-Use Sales	3,056	-	---	Not included in budget
Other Electric	689	648	106%	Small dollar variance
Electric Service	30,750	28,099	109%	
Water Service	2,761	2,700	102%	In line with budget
Wastewater Service	374	357	105%	In line with budget
Fiber & Telecom	3,541	3,595	99%	In line with budget
Service Revenue	37,426	34,751	108%	

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 2019	Budget YTD 2019	% of budget	Variance
Slice Contracts	35,120	35,120	100%	In line with budget
Net Block Trades & Other	4,838	17,263	28%	Lower generation
Net Wholesale Revenue	39,959	52,384	76%	
LT Hydro Contracts	73,279	65,875	111%	Retained surplus procees / RR settlement
Less: Other Purchased Power	(662)	(660)	100%	In line with budget
Hydro LT Contract Rev/Other PP	72,617	65,215	111%	
Surplus Energy Revenue	112,575	117,599	96%	

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

Operating Expense

(in 000s)	2019 Actuals YTD	2019 Budget YTD	% of budget	Variance
Hydro Operations & Maintenance	21,101	31,113	68%	Large unit repairs / Impacts of RR Settlement
Hydro Fish & Wildlife	6,601	7,389	89%	Fishway Operations
Hydro Parks & Recreation	3,412	3,346	102%	Small dollar variance
Electric Distribution	8,079	7,861	103%	Small dollar variance
Electric Transmission	5,901	7,334	80%	Peak RC dues / other contractual support
Misc. Power Supply Expenses	2,221	2,491	89%	Small dollar variance
Water & Wastewater	1,570	1,573	100%	In line with budget
Fiber Network	2,428	2,760	88%	Feasibility studies and Telecom support contracts
Customer Accounts & Service	1,901	1,814	105%	Small dollar variance
Conservation & Customer Assist	1,517	2,225	68%	Amortization of regulatory asset/contractual support
Insurance & FERC Fees	4,328	4,205	103%	Small dollar variance
Other Admin & General	19,662	18,355	107%	Corporate utilities offset to other categories for budget
Total	78,721	90,466	87%	

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

Non-Operating Activity

(in 000s)	2019 Actuals YTD	2019 Budget YTD	% of budget	Variance
Interest Earnings	7,533	6,856	110%	Higher cash balances / higher interest rates
Capital Contributions	3,158	2,529	125%	WW grant funding (reclass to balance sheet Q3)
Interest Expense	(12,306)	(12,495)	98%	In line with budget
Other Inc/(Exp)	(1,691)	(2,486)	68%	Public power benefit placeholder
Non Operating Activity	(3,306)	(5,596)	59%	

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

Integrated Electric

(in 000s)	2019 Actuals YTD	2019 Budget YTD	% of budget	Variance
Service Revenue	30,803	28,142	109%	Increased load due to cold weather
Net Wholesale Revenue	39,959	52,384	76%	Lower generation / increase load
Hydro LT Contact Rev/Other PP	72,617	65,215	111%	Retained surplus proceeds
Other Operating Revenue	28,988	12,291	236%	Var component of RTA / Surplus Proceeds
Other Operating Expense	(75,390)	(86,560)	87%	Hydro O&M / Transmission lagging YTD
Depreciation & Taxes	(23,233)	(23,875)	97%	Depreciation exp. assumption at budget
Operating Income/(Loss)	73,743	47,597	155%	
Non-Operating Activity	(6,870)	(8,377)	82%	Higher interest earnings
Bottom Line	66,873	39,220	171%	

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

Fiber & Telecom

(in 000s)	2019 Actuals YTD	2019 Budget YTD	% of budget	Variance
Service Revenue	5,215	5,256	99%	In line with budget
Other Operating Revenue	0	1	80%	In line with budget
Other Operating Expense	(3,611)	(3,864)	93%	In line with budget
Depreciation and Taxes	(1,663)	(1,633)	102%	In line with budget
Operating Income/(Loss)	(58)	(240)	24%	
Non Operating Activity	2,558	2,486	103%	In line with budget
Bottom Line	2,499	2,246	111%	

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

Water

(in 000s)	2019 Actuals YTD	2019 Budget YTD	% of budget	Variance
Service Revenue	2,834	2,796	101%	Small dollar variance
Other Operating Revenue	36	31	115%	Small dollar variance
Other Operating Expense	(2,013)	(2,042)	99%	Small dollar variance
Depreciation and Taxes	(1,176)	(1,201)	98%	Small dollar variance
Operating Income/(Loss)	(319)	(417)	77%	
Non Operating Activity	436	281	155%	Capital Contributions - System Dev
Bottom Line	116	(136)	---	

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

Wastewater

(in 000s)	2019 Actuals YTD	2019 Budget YTD	% of budget	Variance
Service Revenue	374	357	105%	In line with budget
Other Operating Revenue	1	1	92%	In line with budget
Other Operating Expense	(423)	(406)	104%	Small dollar variance
Depreciation and Taxes	(142)	(149)	96%	Small dollar variance
Operating Income/(Loss)	(190)	(197)	97%	
Non Operating Activity	571	13	4390%	Peshastin Grant (Reclass Q3)
Bottom Line	381	(183)	---	

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

Actual Cash Balance Comparison to Budget

(millions)	2019
Total Cash – Budgeted year-end balance	\$ 502
Key changes in cash forecast:	
Decrease in capital projects	\$11
Improvement in operating activity	\$ 29
Other changes in A/R, A/P, inventory, etc.	\$16
Total Cash – Current forecast year-end balance	\$ 558
Prior quarter – 2019 year-end forecasted balance	\$ 529

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
 - (2019-23: 2.55%, 2.67%, 2.81%, 2.98%, 3.03%)

Cash and Debt Funding Capacity

	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Cash Funding Capacity	\$298M	\$182M	\$57M	\$11M	\$16M
“liquidity in excess of minimum \$175M target”					
Debt Funding Capacity	\$122M	\$187M	\$252M	\$289M	\$336M
“financing capability up to maximum debt ratio target of 35%”					
Total Funding Capacity	\$420M	\$369M	\$309M	\$300M	\$352M

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 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Service Revenue	83,921	92,685	99,342	104,460	105,873
Net Wholesale Revenue	79,081	73,485	68,554	71,810	82,850
Sub	163,002	166,170	167,896	176,270	188,723
Hydro LT Contract Rev/Other PP	138,058	138,037	139,905	136,509	139,511
Other Operating Revenue	39,092	20,788	21,190	21,574	22,254
Other Operating Expense	(172,491)	(202,767)	(208,603)	(200,566)	(206,768)
Depreciation & Tax Expense	(53,740)	(59,894)	(65,800)	(71,588)	(75,519)
Operating Income/(Loss)	113,920	62,335	54,588	62,200	68,201
Non-Operating Activity	(8,227)	(10,702)	(12,039)	(12,794)	(12,204)
Bottom Line	105,693	51,633	42,549	49,406	55,998

<i>Prior Quarter Reported Forecast</i>	<i>93,450</i>	<i>60,504</i>	<i>56,881</i>	<i>59,460</i>	<i>66,005</i>
---	----------------------	----------------------	----------------------	----------------------	----------------------

<i>Forecast at 2019 Budget</i>	<i>77,064</i>	<i>54,176</i>	<i>51,226</i>	<i>49,957</i>	<i>46,702</i>
---------------------------------------	----------------------	----------------------	----------------------	----------------------	----------------------

Service Revenue

(in 000s)	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Residential Electric	27,472	27,732	27,875	28,002	28,149
Commercial Electric	17,131	17,477	17,652	17,830	18,003
Industrial Electric	5,255	5,264	5,265	5,266	5,267
High Density Load	3,472	6,451	9,288	11,777	12,045
Off-System End-Use Sales	14,889	19,472	22,444	24,223	24,384
Other Electric	1,612	1,616	1,614	1,619	1,619
Electric Service	69,831	78,013	84,139	88,718	89,465
Water Service	6,178	6,428	6,687	6,958	7,239
Wastewater Service	737	759	782	806	830
Fiber & Telecom	7,175	7,484	7,733	7,979	8,339
Service Revenue	83,921	92,685	99,342	104,460	105,873

Prior Quarter Reported Forecast	86,652	93,577	99,558	102,920	104,363
--	---------------	---------------	---------------	----------------	----------------

Forecast at 2019 Budget	69,512	72,667	75,404	76,489	79,065
--------------------------------	---------------	---------------	---------------	---------------	---------------

Net Surplus Energy Revenue

(in 000s)	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Slice Contracts	70,241	70,523	73,602	60,443	48,619
Net Block Trades & Other	8,840	2,962	(5,047)	11,367	34,231
Net Wholesale Revenue	79,081	73,485	68,554	71,810	82,850
LT Hydro Contracts	139,378	139,357	141,225	137,830	140,171
Less: Other Purchased Power	(1,320)	(1,320)	(1,320)	(1,320)	(660)
Hydro LT Contract Rev/Other PP	138,058	138,037	139,905	136,509	139,511
Surplus Energy Revenue	217,139	211,523	208,460	208,319	222,361

Prior Quarter Reported Forecast	227,590	208,369	200,514	204,937	222,428
--	----------------	----------------	----------------	----------------	----------------

Forecast at 2019 Budget	234,328	226,967	214,971	221,813	229,351
--------------------------------	----------------	----------------	----------------	----------------	----------------

Operating Expense

(in 000s)	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Hydro Operations & Maintenance	54,760	69,900	70,052	60,883	61,644
Hydro Fish & Wildlife	16,540	19,325	23,166	19,521	20,120
Hydro Parks & Recreation	7,566	10,500	7,920	8,050	8,293
Electric Distribution	16,491	17,686	18,870	20,061	20,648
Electric Transmission	13,612	14,053	14,070	14,581	15,574
Misc. Power Supply Expenses	4,721	5,563	5,557	5,761	5,972
Water & Wastewater	3,087	3,600	3,321	3,409	3,597
Fiber Network	5,990	5,460	5,761	5,823	6,020
Customer Accounts & Service	4,489	4,929	5,203	5,356	5,543
Conservation & Customer Assist	3,632	4,446	4,644	4,859	5,177
Insurance & FERC Fees	8,443	9,404	9,624	10,027	10,356
Other Admin & General	33,161	37,901	40,417	42,235	43,822
Total	172,491	202,767	208,603	200,566	206,768

<i>Prior Quarter Reported Forecast</i>	183,237	193,076	188,176	189,254	198,571
---	----------------	----------------	----------------	----------------	----------------

<i>Forecast at 2019 Budget</i>	186,233	195,204	184,160	189,762	199,233
---------------------------------------	----------------	----------------	----------------	----------------	----------------

Capital Projects

(in 000s)	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Electric Distribution	18,546	40,777	27,449	22,567	24,028
Network Transmission	3,574	8,842	7,529	1,658	1,629
Rocky Reach	3,992	8,916	4,684	11,883	9,067
Rock Island	68,020	54,925	59,654	42,640	38,889
Lake Chelan	110	1,496	1,313	465	615
Internal Services	34,974	43,758	55,170	43,450	2,969
Fiber & Telecom	5,510	4,959	7,756	7,514	4,428
Water	1,204	1,358	3,324	1,967	2,302
Wastewater	3,764	1,826	1,377	72	74
Total Expenditures	139,695	166,855	168,255	132,216	84,000

<i>Prior Quarter Reported Forecast</i>	152,221	158,007	152,805	131,141	78,665
---	----------------	----------------	----------------	----------------	---------------

<i>Forecast at 2019 Budget</i>	150,132	149,458	143,516	135,016	77,088
---------------------------------------	----------------	----------------	----------------	----------------	---------------

Financial Policy – Financial Liquidity & Days Cash on Hand

Methodology Per Resolution #17-14124

COMBINED	2019	2020	2021	2022	2023
District Total Liquidity Targets	\$193	\$191	\$191	\$183	\$187
Base Case – expected (50% probability)	\$473	\$357	\$232	\$186*	\$191*
Base Case – unusual (10% prob. / cumulative)	\$471	\$347	\$213	\$184*	\$190*
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		\$335	\$196	\$183*	\$189*
Days Cash on Hand Target	>250	>250	>250	>250	>250
Base Case – expected (50% probability)	621	470	310	256	257
Base Case – unusual (10% prob. / cumulative)	617	456	284	254	255
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		426	250	241	244

* Assumes external debt financing to maintain liquidity targets

Financial Policy – Debt Ratio

(Debt/(Debt + Equity))

COMBINED	2019	2020	2021	2022	2023
District Targets	<35%	<35%	<35%	<35%	<35%
Outstanding Debt Balance - YE(million)	\$473	\$434	\$393	\$383	\$366
Scheduled Debt Retirements (million)	\$25	\$28	\$30	\$32	\$33
Planned Debt Accelerations (million)	\$16	\$11	\$12	\$12	\$13
Forecasted Debt Issuance - expected (million)	\$.3**	\$-	\$1.2**	\$35*	\$31*
Base Case – expected	30.0%	27.3%	24.7%	23.5%*	21.9%*
Base Case – unusual	30.0%	27.5%	25.0%	25.5%*	25.5%*
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		27.5%	25.6%*	27.5%*	28.2%*

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

* Assumed debt issuance to maintain adequate liquidity levels

Financial Policy – Debt Service Coverage

(Net Funds from Operations/Computed Debt Service)

COMBINED	2019	2020	2021	2022	2023
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	3.40	2.43	2.31	2.44	2.55
Base Case – unusual	3.35	2.28	2.13	2.10	1.93
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		2.16	2.02	1.94	1.74

Financial Policy – Rate of Return

(Change in Net Position/Net Plant)

COMBINED	2019	2020	2021	2022	2023
District Targets (expected)	>4%	Sunset			
District Targets (unusual)	>2%				
Base Case – expected <i>Bottom-line expectation</i>	8.5% \$106M	- \$52M	- \$43M	- \$49M	- \$56M
Base Case – unusual <i>Bottom-line expectation</i>	8.3% \$103M	- \$44M	- \$33M	- \$35M	- \$29M
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs <i>Bottom-line expectation</i>		- \$37M	- \$28M	- \$28M	- \$19M



Quarterly Investment Report for the quarter ending June 30, 2019

All \$ values are shown in '000s

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

Portfolio Summary

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	YTD 2019	WAM	
Average Invested Book Value	\$569 M	\$584 M	\$589 M	\$604 M	\$596 M		<u>Policy Objectives & Compliance</u> + Safety + Liquidity + Maturity Length + Return on Investment + Diversification
Interest Earned	\$3.2 M	\$3.4 M	\$3.7 M	\$4.0 M	\$7.7 M		
District Yield	2.25%	2.34%	2.52%	2.67%	2.59%	873	
Benchmarks:							
3 Month T-Bill	2.06%	2.34%	2.43%	2.35%	2.39%	91	
S&P US Treasury 1-3 Year Index	1.74%	1.96%	2.12%	2.23%	2.18%	691	
LGIP (State Pool)	2.02%	2.30%	2.50%	2.51%	2.50%	58	
Fed Funds Effective	1.93%	2.22%	2.40%	2.40%	2.40%	1	

Policy Objectives and Compliance:

The District continues to focus on meeting investment policy objectives and compliance limits. Safety of principal is the foremost objective of the District. Diversification limits mitigate credit risk and support the preservation of capital in the overall portfolio. The laddered investment structure continues to be our strategy to support liquidity and maturity objectives and mitigate interest rate volatility over time. However, the laddered structure can result in the District's yield lagging the shorter term 3 month T-Bill benchmark in both declining and rising interest rate conditions. Bank deposits and US Treasuries continue to be held in addition to other investments with higher yields such as US Agencies and Municipal Bonds. For Q2 2019, the District's yield increased to 2.67% (2019 budgeted rate is 2.41%) on an average invested book value of \$604 million due to improved reinvestment rates as compared to maturing investments and the timing of interest earnings from a long-term Forward Purchase and Sale Agreement (FPSA). Interest on FPSA supplied securities may not be earned evenly over the reporting period, but will average out to the appropriate contract rate over time. The Weighted Average Maturity (WAM) decreased slightly in Q2 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.

General Commentary:

The Federal Open Market Committee's June 19, 2019 meeting reported that the labor market remains strong and that economic activity is rising at a moderate rate. Job gains have been solid, on average, and the unemployment rate has remained low. Although growth of household spending has picked up slightly, indicators of business fixed investment have been soft. Overall inflation is running below the Committee's 2 percent objective. In view of realized and expected economic activity, labor market conditions and inflation, the Committee decided to maintain the target range for the federal funds rate at 2.25 to 2.50 percent. In determining the timing and size of future adjustments, the Committee will assess realized and expected economic conditions and a wide range of information relative to its dual maximum employment and 2 percent inflation objectives. The District anticipates relatively flat rates through 2019. Global and national events can influence financial markets, which may impact the District.



Quarterly Investment Report for the quarter ending June 30, 2019

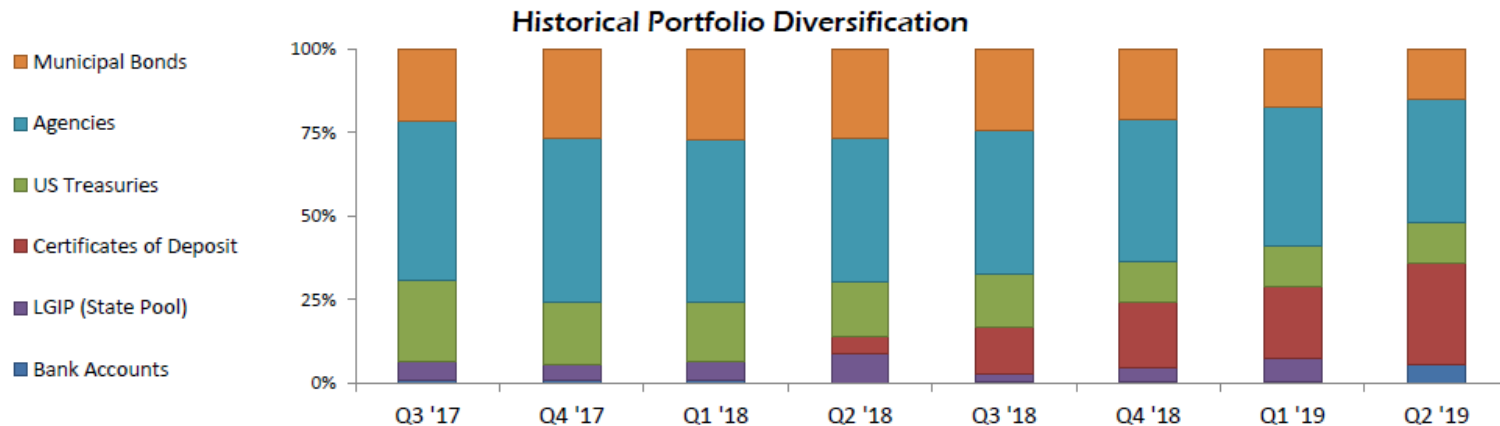
All \$ values are shown in '000s

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

Investments by Type - as of June 30, 2019

	Par Value	GASB 31 Reported Value	Book Value	Book Value as % of Portfolio	Policy % Limit	WAM
Bank Accounts	\$ 35,623	\$ 35,623	\$ 35,623	5.8%	75%	1
Certificates of Deposit	\$ 187,871	\$ 187,871	\$ 187,871	30.4%	40%	944
US Treasuries	\$ 72,532	\$ 74,317	\$ 72,338	11.7%	100%	801
LGIP (State Pool)	\$ 21	\$ 21	\$ 21	0.0%	25%	1
US Agencies	\$ 229,209	\$ 231,115	\$ 228,894	37.0%	75%	882
Municipal Bonds	\$ 92,335	\$ 94,208	\$ 93,102	15.1%	30%	1,099
Total:	\$ 617,591	\$ 623,155	\$ 617,849			873

Numbers may not foot due to rounding





Quarterly Investment Report for the quarter ending June 30, 2019

All \$ values are shown in '000s

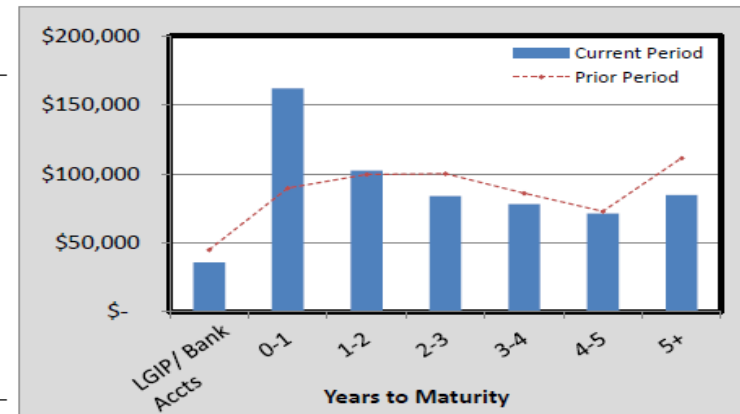
Prepared in accordance with District Banking and Investment Policy #16-14094

Maturity Distribution - as of June 30, 2019

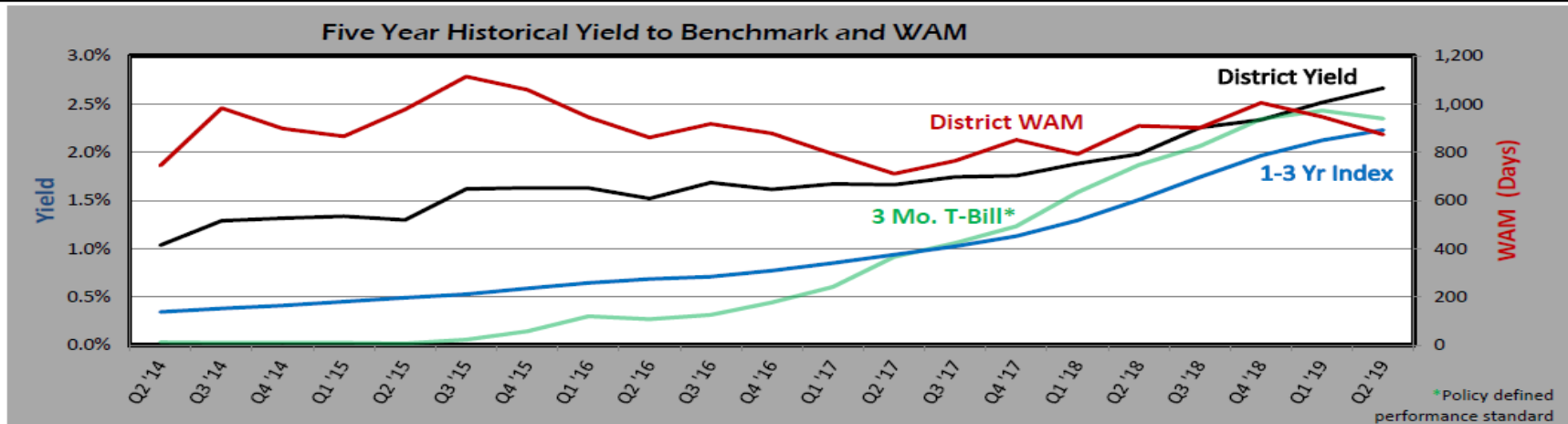
Maturity	Par Value	% of Portfolio	Cumulative % of Portfolio
LGIP	\$ 21	0.0%	0.0%
Bank Accounts	\$ 35,623	5.8%	5.8%
1-90 Days	\$ 49,492	8.0%	13.8%
91-180 Days	\$ 30,094	4.9%	18.7%
181-365 Days	\$ 82,417	13.3%	32.0%
1-2 Yrs	\$ 102,356	16.6%	48.6%
2-3 Yrs	\$ 83,809	13.6%	62.1%
3-4 Yrs	\$ 77,885	12.6%	74.8%
4-5 Yrs	\$ 71,256	11.5%	86.3%
5+ Yrs	\$ 84,640	13.7%	100.0%

Total: \$ 617,591 100%

Numbers may not foot due to rounding



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



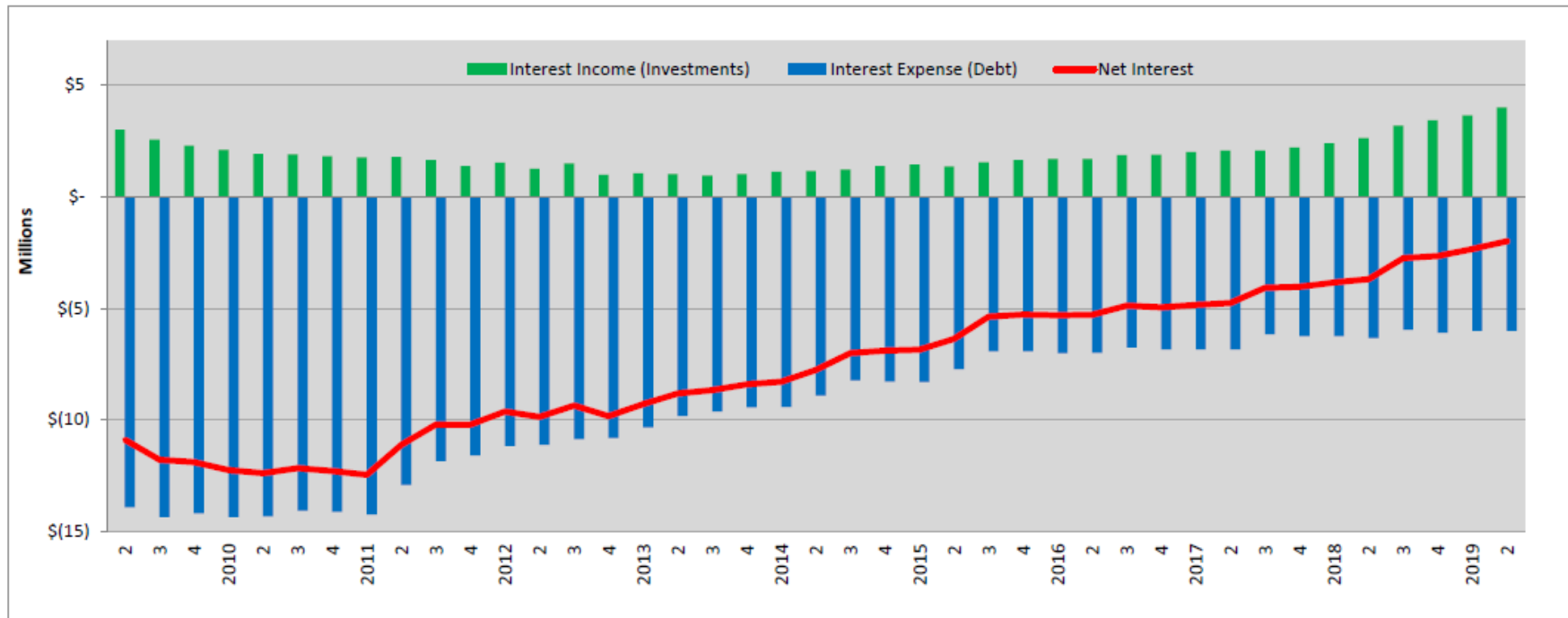


Quarterly Investment Report for the quarter ending June 30, 2019

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 June 30, 2019

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.