

# Chelan County PUD

## Quarterly Financial Review

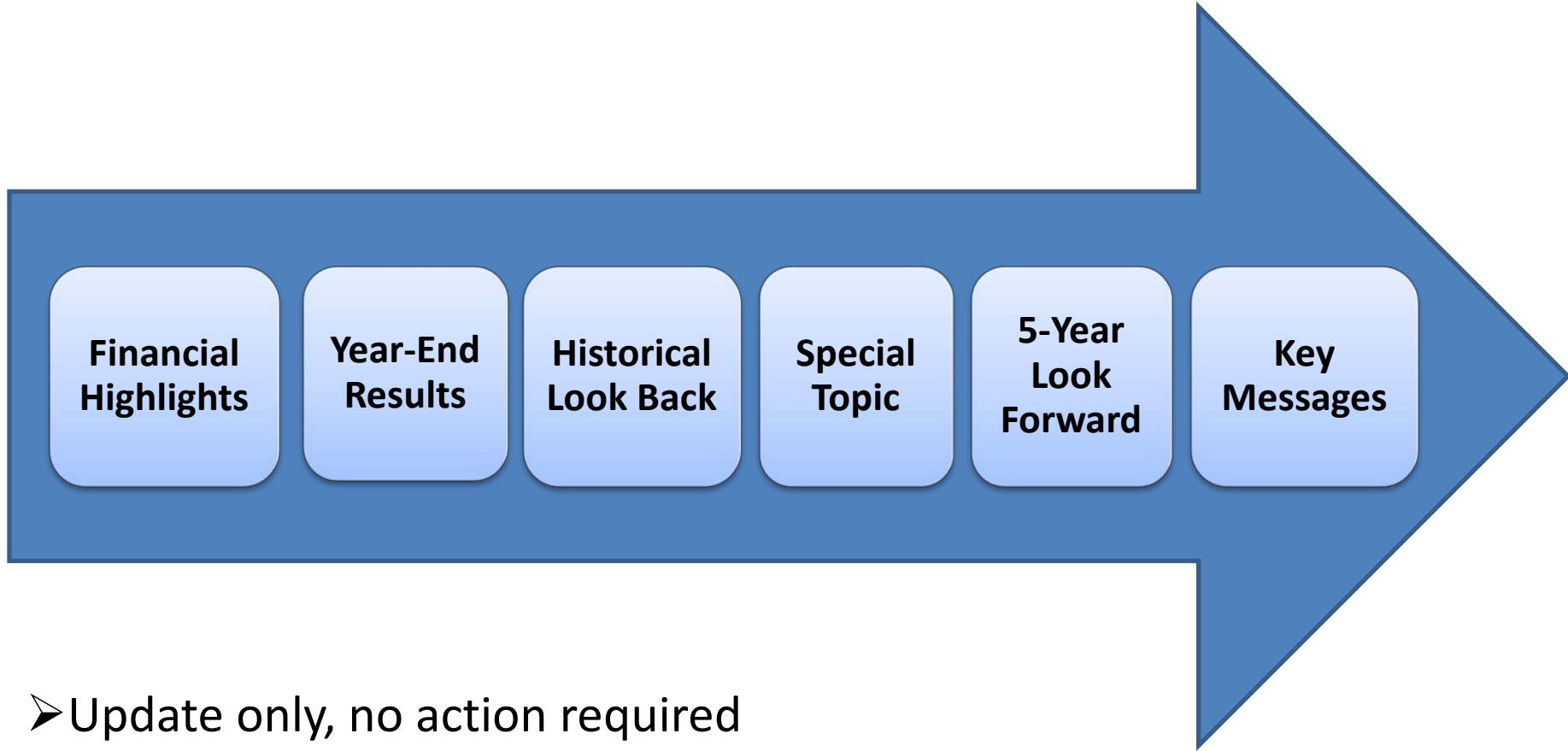
For the Year Ended December 31, 2016

*(Note: results are preliminary pending annual audit)*

Board Presentation

February 6, 2017

# What we will cover today...



- Update only, no action required
- Input desired on special topic: Board designated reserves
- Appendix: Additional detailed information not covered today

# Key Highlights

## 2016 Bottom-line results better than budget

- *Year-end 2016 result \$95.7 million (\$20.1M better than budget)*
- *2016 results improved \$9.7 million since Q3*
- *Combination of higher revenues and lower expenses*

## 2016 Financial targets achieved

- Financial Liquidity = **\$396M**      Target \$175M
- Unrestricted Reserves = **\$306M**      Target \$150M
- Rate of Return = **8.8%**      Target >4%
- Debt Ratio = **42.8%**      Target <50%-2016, <35%-2019
- Debt Service Coverage = **3.22**      Target >2.00

**Recommend continuing strategic goals: Reinvest in assets and people, reduce debt, continue public power benefit program**

# Financial Highlights - Revenue

## Net Wholesale Revenue:

Annual result \$9.4 million above budget (\$122.3M vs. \$112.9M)

Annual result was higher than Q3 forecast of \$113.1M (\$9.2M)

### Drivers:

+ Generation 97% and retail energy use 94% (net increase in available surplus)

+ Alcoa surplus sales retained while curtailed ~\$8M

\* 2016 flat price \$20.2 vs \$22.5 budget

## Hydro Long-Term Contract Revenue:

Annual result \$2.7 million above budget (\$127.0M vs. \$124.3M)

Annual result was slightly lower than Q3 forecast of \$128.3M (\$1.3M)

### Drivers:

\* Combined hydro “cost based” operating expenses at budget (99%)

(Rocky Reach large unit repairs)

+ “Plus” contract charges greater than budgeted levels

# Financial Highlights - Revenue

## Service Revenue:

Annual result \$2.5 million below budget (\$60.8M vs. \$63.3M)

Annual result was lower than Q3 forecast of \$61.9M (\$1.1M)

### Drivers:

- Retail energy use at 94% of budget: (Residential ~94%, Industrial ~87%, Commercial ~99%)
- Mild weather affected annual results
- Load forecast reduced for 2016

## Other Operating Revenue:

Annual result \$1.6 million below budget (\$18.8M vs. \$20.4M)

Annual result was slightly lower than Q3 forecast of \$19.3M (\$0.5M)

### Drivers:

- Variable component of the real-time sales agreement impacted by low market conditions and unit availability

# Financial Highlights - Expenses

## Operating Expense:

Annual result \$9.5 million below budget (\$156.1. vs. \$165.6M)

Annual result was below Q3 forecast of \$160.6M (\$4.5M)

### Drivers:

- Operating expense at 94% of 2016 annual budget
- Shift to capital projects in some areas
- \* O&M \$23.4M higher than 2015 (+18%)

## Non-Operating Net Expense:

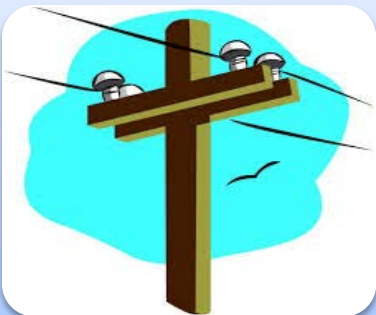
Annual result \$2.1 million below budget (\$20.8M vs. \$22.9M)

Annual result was near Q3 forecast of \$20.4M (\$0.4M)

### Drivers:

- + Higher cash reserves and improved interest earnings reducing this net expense item

# Financial Highlights – Cost per unit



## Electric fully loaded cost per avg kWh better than budget

2016 ¢/kWh result – **5.59¢ vs. 6.20¢** (actual vs. budget)

Power production costs- 2.42¢ vs. 2.56¢ (actual vs. budget)

Power distribution costs- 3.17¢ vs. 3.64¢ (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

2016 \$/MWh result - **\$19.0 vs. \$19.2** (actual vs. budget)

### Actual vs. Budget

Rocky Reach \$15.4 vs. \$14.9 (operating expense ~105%)

Rock Island \$26.4 vs. \$27.5 (operating expense ~93%)

Lake Chelan \$21.1 vs. \$23.3 (operating expense ~88%)

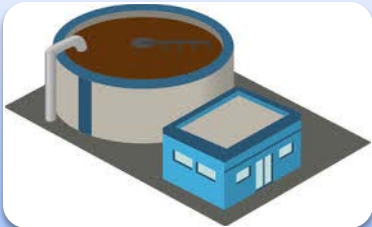
# Financial Highlights – Cost per unit



## Water cost per 1,000 gallons better than budget

2016 result - \$5.06 vs. \$5.17 (actual vs. budget)

2016 operating expense 95% of budget



## Wastewater annual cost per ERU better than budget

2016 result - \$962 vs. \$1,046 (actual vs. budget)

2016 operating expense 92% of budget



## Fiber annual cost per active premise better than budget

2016 result - \$428 vs. \$507 (actual vs. budget)

2016 operating expense 84% of budget



# Financial Highlights – Balance Sheet

## Capital expenditures below budget

- 2016 \$64.7 million vs. budget of \$80.7 million (includes ~\$15M budget addition for RI modernization)
- 2016 result in line with Q3 forecast of \$65.2 million (\$0.5M)
- Individual project adjustments:
  - ↑ RI modernization ahead of schedule (~\$15M shifted to 2016 from 2017)
  - ↑ Rocky Reach head covers added (2016)
  - ↓ Rocky Reach bridge cranes shifted (2016 to 2017)
  - ↓ Rocky Reach HW gantry crane shifted (2016 to 2017)
  - ↓ CIS Upgrade shifted (2016 to 2017)
  - ↓ Microwave Network replacement shifted (2016 to 2017-2019)
  - ↓ Security Infrastructure shifted (2016 to 2017)

## Cash remains strong / Debt reduction strategy on track

- Cash balance increased ~\$65 million in 2016
- Debt balance decreased ~\$23 million in 2016

# 2016 Bottom-Line Results

(compared to last Board update)

(in 000s)	2016 Actuals	2016 Budget	% of budget	2016 Prior Forecast	% change from prior
Service Revenue	60,776	63,285	96%	61,906	-2%
Energy Resources Net Wholesale	122,304	112,897	108%	113,141	8%
Hydro LT Contract Rev/Other PP	125,697	122,929	102%	126,968	-1%
Other Operating Revenue	18,835	20,424	92%	19,309	-2%
Other Operating Expense	(156,096)	(165,626)	94%	(160,600)	-3%
Depreciation & Tax Expense	(54,985)	(55,425)	99%	(54,322)	1%
<b>Operating Income/(Loss)</b>	<b>116,530</b>	<b>98,485</b>	<b>118%</b>	<b>106,403</b>	<b>10%</b>
Non-Operating Activity	(20,843)	(22,905)	91%	(20,375)	2%
<b>"Bottom Line"</b>	<b>95,687</b>	<b>75,580</b>	<b>127%</b>	<b>86,028</b>	<b>11%</b>

# Business Line “Bottom-Line” Results

(compared to last Board update)

(in 000s)	2016 Actuals	2016 Budget	% of budget	2016 Prior Forecast	% change from prior
Cost Based - Activity	38,794	New Reporting Detail		39,968	-3%
Market Based Activity	59,209			53,177	11%
Retail Activity	(16,420)			(20,721)	-21%
Other Activity	12,659			11,907	6%
<b>Integrated Electric</b>	<b>94,241</b>	<b>75,518</b>	<b>125%</b>	<b>84,331</b>	<b>12%</b>
Fiber & Telecom	921	(412)	na	1,252	-26%
Water	658	710	93%	619	6%
Wastewater	(133)	(236)	56%	(175)	-24%
<b>Combined "Bottom-Line"</b>	<b>95,687</b>	<b>75,580</b>	<b>127%</b>	<b>86,028</b>	<b>11%</b>

# Capital Expenditures

(in 000s)	2016 Actuals	2016 Budget	% of budget	2016 Prior Forecast	% change from prior
Electric Distribution	10,403	11,190	93%	11,151	-7%
Network Transmission	1,425	2,962	48%	1,518	-6%
Rocky Reach	11,021	13,787	80%	13,839	-20%
Rock Island	30,152	30,224	100%	24,437	23%
Lake Chelan	246	371	66%	342	-28%
Internal Services	5,247	12,785	41%	7,158	-27%
Fiber & Telecom	3,937	6,466	61%	4,177	-6%
Water	1,061	1,331	80%	1,179	-10%
Wastewater	1,192	1,539	77%	1,369	-13%
<b>Total Expenditures</b>	<b>64,684</b>	<b>80,656</b>	<b>80%</b>	<b>65,169</b>	<b>-1%</b>
Contributions	(4,034)	(4,450)	91%	(3,828)	5%
<b>Capital net of CIAC</b>	<b>60,650</b>	<b>76,205</b>	<b>80%</b>	<b>61,341</b>	<b>-1%</b>

# Overview of 2016 Cash Flow

	\$ Million
Bottom–line result (2016)	\$ 96
Add back non-cash related items (depreciation)	\$ 47
<b>Estimated earned funds from operations</b>	<b>\$ 143</b>
Capital Project Expenditures, net of contributions	\$ 61
Net Debt Reductions	\$ 23
Alcoa initial shutdown payment	\$ 8
Other Misc. Impacts (A/R, A/P, Inventory, Etc.)	(\$ 14)
Added to cash reserves	\$ 65
<b>Estimated use of funds</b>	<b>\$ 143</b>
Cash and investments, beginning of year	\$ 418
Added to cash reserves	\$ 65
<b>Cash and investments, end of Q4</b>	<b>\$ 483</b>

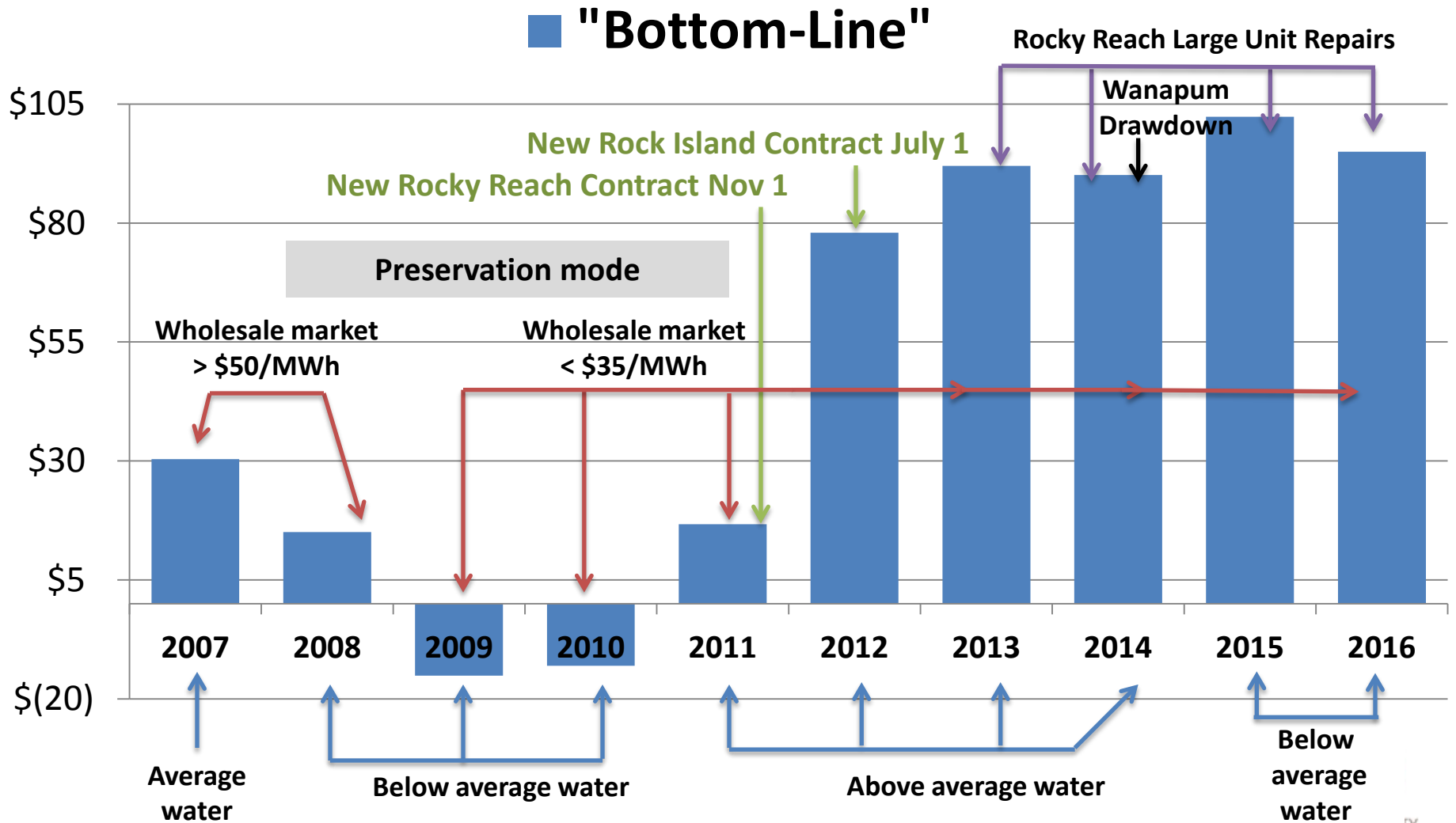


# Cash & Investments Balance

(\$ Millions)	<u>12/31/16</u>	<u>12/31/15</u>
<b>Unrestricted funds (policy minimum \$150M)</b>	<b>\$306</b>	<b>\$236</b>
Restricted – DRC & CRC funds for Hydro capital/debt	<u>90</u>	<u>82</u>
<b>Total Liquidity (policy minimum \$175M)</b>	<b>\$396</b>	<b>\$318</b>
Restricted - construction reserves	-	8
Restricted - bond reserve funds	55	56
Restricted - power contract deposits	20	23
Self insurance and other restricted funds	<u>12</u>	<u>13</u>
<b>Total Cash and Investments</b>	<b><u>\$483</u></b>	<b><u>\$418</u></b>

# Review of the District's Past Financial Results

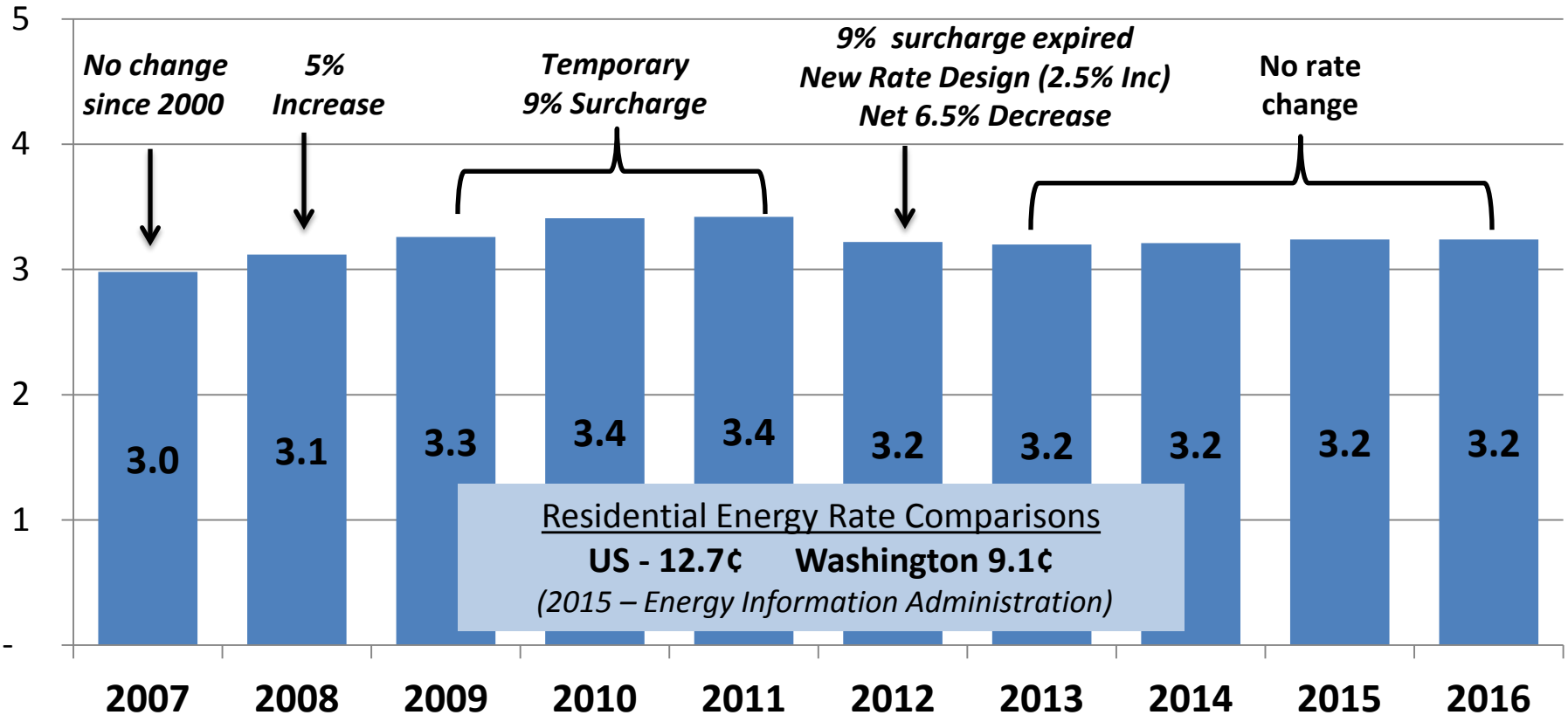
(amounts in millions)



# Historic Review of the District's Financial Results

## Five Years Without Overall Rate Increase

### Residential Energy Rate (¢ per KWH)



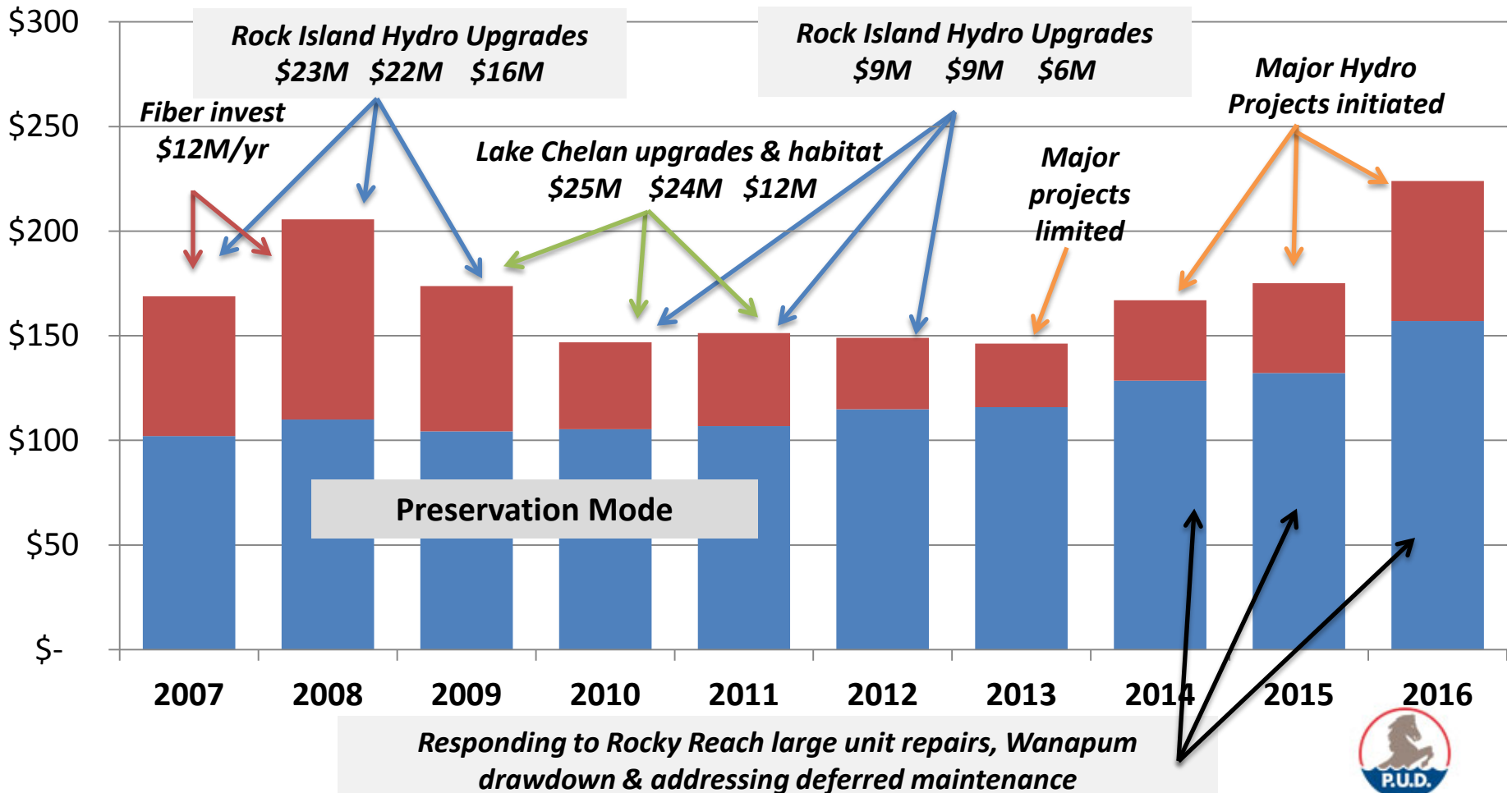


# Historic Review of the District's Financial Results

(amounts in millions)

■ Operations & Maintenance

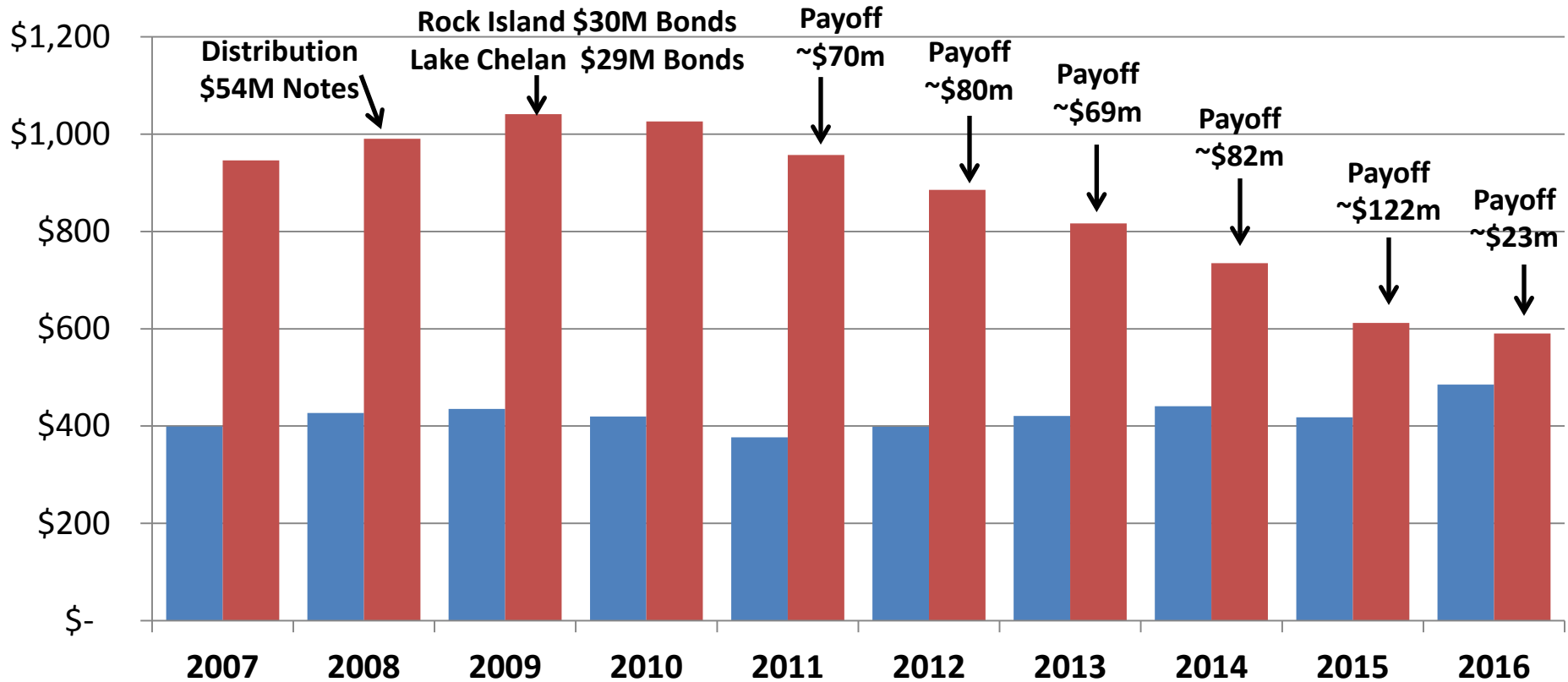
■ Plant Additions



# Historic Review of the District's Financial Results

(amounts in millions)

**Cash**      **Debt**



# Special Topic – Board Question

*Could we establish a cash reserve fund for future known needs, like long term facilities?*

## Response: Yes

- A special reserve fund can be used when there are proceeds of a specific revenue source that are committed to be spent on a specified purpose or an amount set-aside for a specific purpose
- These “Board Designated” funds typically remain unrestricted for external reporting purposes as they can ultimately be transferred back to the general fund at the Board’s direction

# Special Topic – Board Question

**Response: Yes, a Board reserve could be established**

## **Pros:**

- A specific individual cash reserve could provide more visibility to a specific funding activity
- Demonstrates that the Board planned ahead for the identified need

## **Cons:**

- May conflict with established process of managing cash funds for all capital/operating expenditures
- Existing financial liquidity calculation may need to be adjusted
- More advanced accounting, modeling and reporting process may be required

**Request: Board input**

# Quarterly Reporting Requirement - Financial Policies

District Combined	2016	2017	2018	2019	2020
Rate of Return (Expected > 4% thru 2019)	8.8%	7.5%	5.6%	4.7%	4.0%
Rate of Return (Unusual > 2% thru 2019)		7.1%	5.0%	4.1%	3.3%
Combined Debt Cover (Expected > 2.00x)	3.22	3.01	2.79	2.73	2.85
Combined Debt Cover (Unusual >1.25x)		2.92	2.64	2.56	2.64
Debt Ratio (Expected <35% by 2019)	42.8%	38.1%	32.5%	27.0%	24.1%
Debt Ratio (Unusual <35% by 2019)		38.2%	32.7%	27.2%	24.3%
Liquidity - \$175M Min (Expected)	\$396M	\$358M	\$278M	\$229M	\$226M
Liquidity - \$175M Min (Unusual)		\$353M	\$270M	\$221M	\$217M
Bottom Line Results (Expected)	\$96M	\$85M	\$67M	\$57M	\$49M
Bottom Line Results (Unusual)		\$80M	\$59M	\$49M	\$40M
Outstanding Debt	\$590M	\$537M	\$452M	\$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 1/13/17 wholesale forecast**

# Quarterly Reporting Requirement Individual Business Line Financial Policies



Business Lines	2016	2017	2018	2019	2020
<b>WATER Business Line</b>					
Operating Expense Coverage (target >120%)	141%	138%	141%	139%	145%
Cash Reserves (target > \$1.25 million)	\$3.5M	\$3.6M	\$3.7M	\$4.0M	\$3.4M
Debt Ratio (target <35%)	14%	13%	11%	10%	8%
<b>WASTEWATER Business Line</b>					
Operating Expense Coverage (target >100% by 2019)	104%	97%	107%	111%	110%
Cash Reserves (target > \$200K)	\$3.2M	\$2.3M	\$1.4M	\$1.5M	\$1.5M
Debt Ratio (target <35%)	---	---	---	17%	17%
<b>FIBER Business Line</b>					
Operating Expense Coverage (target >120%)	166%	162%	161%	162%	157%
Cash Reserves (target > \$2.0 million)	\$9.2M	\$10.6M	\$10.9M	\$13.6M	\$16.3M
Debt Ratio (target <35%)	---	---	---	---	---

# Quarterly Investment Report

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

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	WAM
Average Invested Book Value (\$M)	\$424	\$448	\$440	\$464	\$444	
District Yield	1.63%	1.52%	1.69%	1.61%	1.61%	878
Benchmarks:						
3 Month T-Bill	0.30%	0.27%	0.31%	0.44%	0.33%	92
Barclays Gov. 1-3 Year Index	0.86%	0.78%	0.75%	1.02%	0.85%	667

- Q4 2016 yield fell slightly to 1.61%, held more short term cash for Jan 1 debt service payment needs
- Overall 2016 annual yield also 1.61%
- Dec 14, 2016 Federal Open Market Committee meeting report:
  - Economic activity continued to strengthen at a moderate pace
  - Continuing to monitor inflation indicators and global developments, the near term outlook appears stable
  - Federal funds rate target range raised from 0.50% to 0.75%
  - Gradually increasing, although continued relatively low rates ,are anticipated through 2017
- 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.



CHELAN COUNTY  
**POWER**

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# Key Messages

## 2016 results better than budget

- 2016 Bottom-Line ~\$96 million (*~\$20M better than budget*)
- 2016 Cash balance ~\$483 million (*~\$46M better than budget*)

## Long-term financial policies on track

- Bottom-line forecasts ~\$85M decreasing to ~\$50M per year (2017-20) 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 (2017-20)
- 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 ~\$259M over the next 4 years (2017-2020)
- 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, Q4 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 2016	Budget 2016	%	Variance
Residential Electric	24,424	25,835	95%	Mild weather/low energy usage
Commercial Electric	16,666	16,927	98%	In line with budget
Industrial Electric	5,366	6,211	86%	Fire damage/HDL moritorium
Other Electric	1,529	1,726	89%	in line with budget
<b>Electric Service</b>	<b>47,984</b>	<b>50,698</b>	<b>95%</b>	Usage below budget
<b>Water Service</b>	<b>5,398</b>	<b>5,479</b>	<b>99%</b>	In line with budget
<b>Wastewater Service</b>	<b>623</b>	<b>600</b>	<b>104%</b>	In line with budget
<b>Fiber &amp; Telecom</b>	<b>6,771</b>	<b>6,508</b>	<b>104%</b>	In line with budget
<b>Service Revenue</b>	<b>60,776</b>	<b>63,285</b>	<b>96%</b>	

*Note: Excludes internal intersystem revenues*

# Net Surplus Energy Revenue

(in 000s)	Actuals 2016	Budget 2016	%	Variance
Slice Contracts	75,431	75,731	100%	In line with budget
Net Block Trades	38,446	34,522	111%	Alcoa surplus sales retained / Retail load down adding to surplus energy position
Other Net Wholesale	8,427	2,644	319%	
<b>Energy Resources Net Wholesale</b>	<b>122,304</b>	<b>112,897</b>	<b>108%</b>	0
LT Hydro Contracts	127,040	124,290	102%	In line with budget
Less Other Purchased Power	(1,343)	(1,361)	99%	In line with budget
<b>Hydro LT Contract Rev/Other PP</b>	<b>125,697</b>	<b>122,929</b>	<b>102%</b>	
<b>Surplus Energy Revenue</b>	<b>248,001</b>	<b>235,826</b>	<b>105%</b>	

# Operating Expense

(in 000s)	Actuals 2016	Budget 2016	%	Variance
Hydro Operations & Maintenance	57,965	57,602	101%	In line with budget
Hydro Fish & Wildlife	14,151	16,660	85%	Fishway/Hatchery O&M
Hydro Parks & Recreation	7,000	7,228	97%	In line with budget
Electric Distribution	11,737	12,114	97%	In line with budget
Electric Transmission	10,944	12,002	91%	WECC/Peak RC dues/CIP svcs
Misc. Power Supply Expenses	3,829	6,325	61%	Mid C contract work/EIM
Water & Wastewater	2,601	2,696	96%	In line with budget
Fiber Network	3,844	4,497	85%	Premise device reactive maint
Customer Accounts & Service	3,544	3,855	92%	Focus on conservation
Conservation & Customer Assist	2,628	2,885	91%	Commerical Energy Prgms
Insurance & FERC Fees	6,909	7,850	88%	Security - Transmission related
Other Admin & General	30,944	31,913	97%	In line with budget
<b>Total</b>	<b>156,096</b>	<b>165,626</b>	<b>94%</b>	

# Non-Operating Activity

(in 000s)	Actuals 2016	Budget 2016	%	Variance
Interest Earnings	6,967	6,977	100%	In line with budget
Capital Contributions	4,027	4,450	90%	Customer line extensions
Interest Expense	(28,228)	(28,060)	101%	In line with budget
Other Inc/(Exp)	(3,610)	(6,273)	58%	PPB budget moved from op exp
<b>Non Operating Activity</b>	<b>(20,843)</b>	<b>(22,905)</b>	<b>91%</b>	

# Integrated Electric

(in 000s)	Actuals 2016	Budget 2016	%	Variance
Service Revenue	48,065	50,789	95%	Mild weather/low energy use
Energy Resources Net Wholesale	122,304	112,897	108%	Alcoa surplus sales retained
Hydro LT Contract Rev/Other PP	125,697	122,929	102%	In line with budget
Other Operating Revenue	20,126	21,791	92%	Variable component of RT agreement
Other Operating Expense	(150,517)	(158,849)	95%	Misc. power supply expense/F&W O&M
Depreciation & Tax Expense	(49,969)	(50,483)	99%	In line with budget
<b>Operating Income/(Loss)</b>	<b>115,705</b>	<b>99,073</b>	<b>117%</b>	
Non-Operating Activity	(21,464)	(23,555)	91%	PBB moved form operating expense
<b>"Bottom Line"</b>	<b>94,241</b>	<b>75,518</b>		

# Fiber & Telecom

(in 000s)	Actuals 2016	Budget 2016	%	Variance
Service Revenue	9,223	8,974	103%	In line with budget
Other Operating Revenue	94	3	n/a	Limited activity
Other Operating Expense	(5,800)	(6,872)	84%	Reactive maintenance
Depreciation & Tax Expense	(2,608)	(2,643)	99%	In line with budget
<b>Operating Income/(Loss)</b>	<b>909</b>	<b>(539)</b>	---	
Non-Operating Activity	11	126	9%	Limited activity
<b>"Bottom Line"</b>	<b>921</b>	<b>(412)</b>		

# Water

(in 000s)	Actuals 2016	Budget 2016	%	Variance
Service Revenue	5,583	5,773	97%	In line with budget
Other Operating Revenue	62	60	104%	In line with budget
Other Operating Expense	(3,350)	(3,535)	95%	In line with budget
Depreciation & Tax Expense	(2,158)	(2,049)	105%	In line with budget
<b>Operating Income/(Loss)</b>	<b>137</b>	<b>249</b>	<b>55%</b>	
Non-Operating Activity	521	461	113%	In line with budget
<b>"Bottom Line"</b>	<b>658</b>	<b>710</b>		



# Wastewater

(in 000s)	Actuals 2016	Budget 2016	%	Variance
Service Revenue	623	600	104%	In line with budget
Other Operating Revenue	2	2	105%	In line with budget
Other Operating Expense	(598)	(650)	92%	In line with budget
Depreciation & Tax Expense	(249)	(250)	100%	In line with budget
<b>Operating Income/(Loss)</b>	<b>(222)</b>	<b>(299)</b>	<b>74%</b>	
Non-Operating Activity	88	63	141%	In line with budget
<b>"Bottom Line"</b>	<b>(133)</b>	<b>(236)</b>		

# Actual Cash Balance Comparison to Budget

(millions)	2016
<b>Total Cash – Budgeted year-end balance</b>	<b>\$ 437</b>
Key changes in cash forecast:	
Reduction in capital projects	\$ 16
Improvement in operating activity	\$ 20
Other changes in A/R, A/P, inventory, etc.	\$ 10
<b>Total Cash – Actual year-end balance</b>	<b>\$ 483</b>
Prior quarter – 2016 year-end forecasted balance	\$ 460

# 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% (2017-21)
  - Capital Recovery Charge (CRC) - 50% (2017-21)
- Investment earning rate
  - (2017-21: 1.64%, 1.79%, 2.04%, 2.26%, 2.53%)

# Cash and Debt Funding Capacity

	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021
<b>Cash Funding Capacity</b>	<b>\$182M</b>	<b>\$102M</b>	<b>\$53M</b>	<b>\$50M</b>	<b>\$51M</b>
“liquidity in excess of minimum \$175M target”					
<b>Debt Funding Capacity</b>	<b>NA</b>	<b>\$35M</b>	<b>\$109M</b>	<b>\$150M</b>	<b>\$184M</b>
“financing capability up to maximum debt ratio target”					
<b>Total Funding Capacity</b>	<b>\$182M</b>	<b>\$137M</b>	<b>\$162M</b>	<b>\$200M</b>	<b>\$235M</b>

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). This is a newly developed report and we will continue to refine our methodology.

# Combined Five-Year Forecast

(in 000s)	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021
Service Revenue	63,081	64,527	66,028	68,303	70,819
Energy Resources Net Wholesale	113,532	107,142	99,543	88,310	83,650
Hydro LT Contract Rev/Other PP	122,659	119,779	113,925	114,484	107,784
Other Operating Revenue	20,886	21,881	24,160	25,728	26,875
Other Operating Expense	(162,185)	(173,000)	(172,043)	(173,541)	(168,113)
Depreciation & Tax Expense	(56,167)	(55,640)	(58,371)	(61,373)	(63,185)
<b>Operating Income/(Loss)</b>	<b>101,806</b>	<b>84,689</b>	<b>73,242</b>	<b>61,912</b>	<b>57,830</b>
Non-Operating Activity	(17,076)	(17,724)	(15,793)	(12,694)	(9,794)
<b>"Bottom Line"</b>	<b>84,729</b>	<b>66,965</b>	<b>57,449</b>	<b>49,217</b>	<b>48,036</b>
<b><i>Prior Quarter Reported Forecast</i></b>	<b><i>83,097</i></b>	<b><i>67,294</i></b>	<b><i>58,500</i></b>	<b><i>47,293</i></b>	<b><i>43,031</i></b>
<b><i>Forecast at 2016 Budget</i></b>	<b><i>70,908</i></b>	<b><i>66,072</i></b>	<b><i>55,488</i></b>	<b><i>38,297</i></b>	<b><i>52,897</i></b>

# Service Revenue

(in 000s)	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021
Residential Electric	25,361	25,610	25,849	26,073	26,286
Commercial Electric	16,459	16,596	16,720	16,838	16,944
Industrial Electric	6,201	6,748	7,358	8,740	10,346
Other Electric	1,724	1,729	1,732	1,735	1,736
<b>Electric Service</b>	<b>49,745</b>	<b>50,682</b>	<b>51,660</b>	<b>53,386</b>	<b>55,313</b>
<b>Water Service</b>	<b>5,655</b>	<b>5,883</b>	<b>6,121</b>	<b>6,368</b>	<b>6,626</b>
<b>Wastewater Service</b>	<b>668</b>	<b>708</b>	<b>751</b>	<b>774</b>	<b>797</b>
<b>Fiber &amp; Telecom</b>	<b>7,013</b>	<b>7,254</b>	<b>7,496</b>	<b>7,775</b>	<b>8,083</b>
<b>Service Revenue</b>	<b>63,081</b>	<b>64,527</b>	<b>66,028</b>	<b>68,303</b>	<b>70,819</b>
<i>Prior Quarter Reported Forecast</i>	<i>64,135</i>	<i>65,730</i>	<i>67,364</i>	<i>69,018</i>	<i>70,708</i>
<i>Forecast at 2016 Budget</i>	<i>64,296</i>	<i>65,431</i>	<i>66,505</i>	<i>67,700</i>	<i>68,672</i>

# Net Surplus Energy Revenue

(in 000s)	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021
Slice Contracts	79,067	64,997	46,876	30,243	14,730
Net Block Trades	27,688	33,359	44,815	36,737	16,406
Other Net Wholesale	6,777	8,786	7,852	21,330	52,514
<b>Energy Resources Net Wholesale</b>	<b>113,532</b>	<b>107,142</b>	<b>99,543</b>	<b>88,310</b>	<b>83,650</b>
LT Hydro Contracts	123,979	121,099	115,246	115,804	109,104
Less Other Purchased Power	(1,320)	(1,320)	(1,320)	(1,320)	(1,320)
<b>Hydro LT Contract Rev/Other PP</b>	<b>122,659</b>	<b>119,779</b>	<b>113,925</b>	<b>114,484</b>	<b>107,784</b>
<b>Surplus Energy Revenue</b>	<b>236,191</b>	<b>226,921</b>	<b>213,468</b>	<b>202,794</b>	<b>191,433</b>
<i>Prior Quarter Reported Forecast</i>	<i>235,371</i>	<i>227,068</i>	<i>213,723</i>	<i>202,214</i>	<i>189,218</i>
<i>Forecast at 2016 Budget</i>	<i>236,317</i>	<i>221,987</i>	<i>212,145</i>	<i>196,633</i>	<i>207,924</i>

# Operating Expense

(in 000s)	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021
Hydro Operations & Maintenance	55,831	62,345	59,463	55,128	48,824
Hydro Fish & Wildlife	15,511	17,051	16,865	19,872	16,519
Hydro Parks & Recreation	7,208	7,536	7,041	7,277	7,612
Electric Distribution	13,135	14,119	14,333	14,542	15,625
Electric Transmission	12,896	12,569	12,820	13,222	13,546
Misc. Power Supply Expenses	5,165	6,475	6,585	6,497	6,515
Water & Wastewater	2,874	2,773	3,061	2,980	3,307
Fiber Network	3,960	3,616	3,709	4,044	4,179
Customer Accounts & Service	3,898	4,087	4,291	4,392	4,524
Conservation & Customer Assist	2,965	3,509	4,014	4,461	4,934
Insurance & FERC Fees	8,346	8,573	8,584	8,847	9,146
Other Admin & General	30,394	30,346	31,277	32,279	33,382
<b>Total</b>	<b>162,185</b>	<b>173,000</b>	<b>172,043</b>	<b>173,541</b>	<b>168,113</b>
<b><i>Prior Quarter Reported Forecast</i></b>	<b><i>162,660</i></b>	<b><i>172,978</i></b>	<b><i>171,590</i></b>	<b><i>174,050</i></b>	<b><i>168,715</i></b>
<b><i>Forecast at 2016 Budget</i></b>	<b><i>174,719</i></b>	<b><i>169,789</i></b>	<b><i>174,082</i></b>	<b><i>177,476</i></b>	<b><i>176,052</i></b>



# Capital Projects

(in 000s)	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021
Electric Distribution	12,766	17,058	20,046	20,077	18,357
Network Transmission	3,837	6,531	4,201	4,471	3,400
Rocky Reach	13,989	9,916	6,284	3,796	4,050
Rock Island	45,405	49,671	29,573	25,713	36,064
Lake Chelan	1,099	1,340	225	600	225
Internal Services	14,713	13,578	3,842	3,858	2,930
Fiber & Telecom	3,935	4,056	3,571	3,187	3,443
Water	1,116	1,119	1,051	2,229	2,424
Wastewater	418	4,073	1,823	26	27
<b>Total</b>	<b>97,279</b>	<b>107,341</b>	<b>70,616</b>	<b>63,957</b>	<b>70,919</b>
<b>Prior Quarter Reported Forecast</b>	<b>96,786</b>	<b>98,450</b>	<b>77,708</b>	<b>63,981</b>	<b>70,740</b>
<b>Forecast at 2016 Budget</b>	<b>85,953</b>	<b>76,271</b>	<b>68,642</b>	<b>61,651</b>	<b>69,180</b>

# Financial Policy – Financial Liquidity

## Methodology Per Resolution #14-13878

COMBINED	2017	2018	2019	2020	2021
<b>District Total Liquidity Targets</b>	<b>\$178</b>	<b>\$175</b>	<b>\$175</b>	<b>\$175</b>	<b>\$199</b>
Base Case – expected (50% probability)	\$358	\$278	\$229	\$226	\$226
Base Case – unusual (5% probability)	\$353	\$270	\$221	\$217	\$209
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		\$262	\$198	\$176	\$201*
<b>District Unrestricted Reserve Minimum</b>	<b>\$150</b>	<b>\$150</b>	<b>\$150</b>	<b>\$150</b>	<b>\$150</b>
Base Case – expected (50% probability)	\$304	\$260	\$219	\$219	\$233
Base Case – unusual (5% probability)	\$299	\$253	\$211	\$210	\$216
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		\$247	\$194	\$176	\$217*

\*Debt Issuance of ~\$60M assumed to maintain liquidity target in 2021

# Financial Policy – Rate of Return

(Change in Net Position/Net Plant)

COMBINED	2017	2018	2019	2020	2021
District Targets (expected)	>4%	>4%	>4%	>2%	>2%
District Targets (unusual)	>2%	>2%	>2%	>0%	>0%
Base Case – expected (50% probability) <i>Bottom-line expectation</i>	7.5% \$85M	5.6% \$67M	4.8% \$57M	4.0% \$49M	3.9% \$48M
Base Case – unusual (5% probability) <i>Bottom-line expectation</i>	7.1% \$80M	5.0% \$59M	4.1% \$49M	3.3% \$40M	2.5% \$31M
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs <i>Bottom-line expectation</i>		4.8% \$57M	3.8% \$46M	2.7% \$34M	1.5% \$19M

# Financial Policy – Debt Ratio

*(Debt/(Debt + Equity))*

COMBINED	2017	2018	2019	2020	2021
<b>District Targets</b>	<b>&lt;45%</b>	<b>&lt;40%</b>	<b>&lt;35%</b>	<b>&lt;35%</b>	<b>&lt;35%</b>
<b>Outstanding Debt Balance - YE(million)</b>	<b>\$537</b>	<b>\$452</b>	<b>\$369</b>	<b>\$332</b>	<b>\$306</b>
Scheduled Debt Retirements (million)	\$23	\$24	\$26	\$25	\$26
Planned Debt Accelerations (million)	\$29	\$61	\$60	\$11	\$ -
Base Case – expected (50% probability)	38.1%	32.5%	27.0%	24.1%	21.9%
Base Case – unusual (5% probability)	38.2%	32.7%	27.2%	24.3%	22.1%
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		32.8%	27.4%	24.8%	26.1%*

\*Debt Issuance assumed of ~\$60M to maintain liquidity in 2021 in “what if” scenario

# Financial Policy – Debt Service Coverage

(Net Funds from Operations/Computed Debt Service)

COMBINED	2017	2018	2019	2020	2021
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)	3.01	2.79	2.73	2.85	2.84
Base Case – unusual (5% probability)	2.92	2.64	2.56	2.64	2.42
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		2.59	2.50	2.50	2.04



# Quarterly Investment Report

## for the quarter ending December 31, 2016

All \$ values are shown in '000s

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

### Portfolio Summary

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	YTD 2016	WAM
Average Invested Book Value	\$424 M	\$448 M	\$440 M	\$464 M	\$444 M	
Interest Earned	\$1.7 M	\$1.7 M	\$1.9 M	\$1.9 M	\$7.2 M	
District Yield	1.63%	1.52%	1.69%	1.61%	1.61%	878
<b>Benchmarks:</b>						
3 Month T-Bill	0.30%	0.27%	0.31%	0.44%	0.33%	92
Barclays Gov. 1-3 Yr Index	0.86%	0.78%	0.75%	1.02%	0.85%	667
LGIP (State Pool)	0.43%	0.45%	0.50%	0.49%	0.47%	31
Fed Funds Effective	0.36%	0.37%	0.39%	0.45%	0.39%	1

#### Policy Objectives & Compliance

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

#### General Commentary:

For Q4 2016, the District's yield fell slightly to 1.61% on an average invested book value of \$464 million due to holding more short term cash to meet January 1 debt service payment needs. The District's overall 2016 annual yield was also 1.61%.

The Federal Open Market Committee's December 14, 2016 meeting reported that economic activity continued to strengthen at a moderate pace. Job gains have been solid and the unemployment rate has declined. Inflation has also moved closer to the Committee's 2 percent longer-run objective, but is still below that target. While the Committee continues to monitor inflation indicators and global developments, the near term outlook appears stable. The Committee raised its current target range for the federal funds rate from 1/2 to 3/4 percent and expects that with gradual adjustments in monetary policy, economic activity will expand at a moderate pace and labor market conditions will strengthen somewhat further. The District anticipates gradually increasing, although continued relatively low, rates through 2017. There is uncertainty around changes in the political climate that 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.

#### 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) declined slightly in Q4 and 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 December 31, 2016

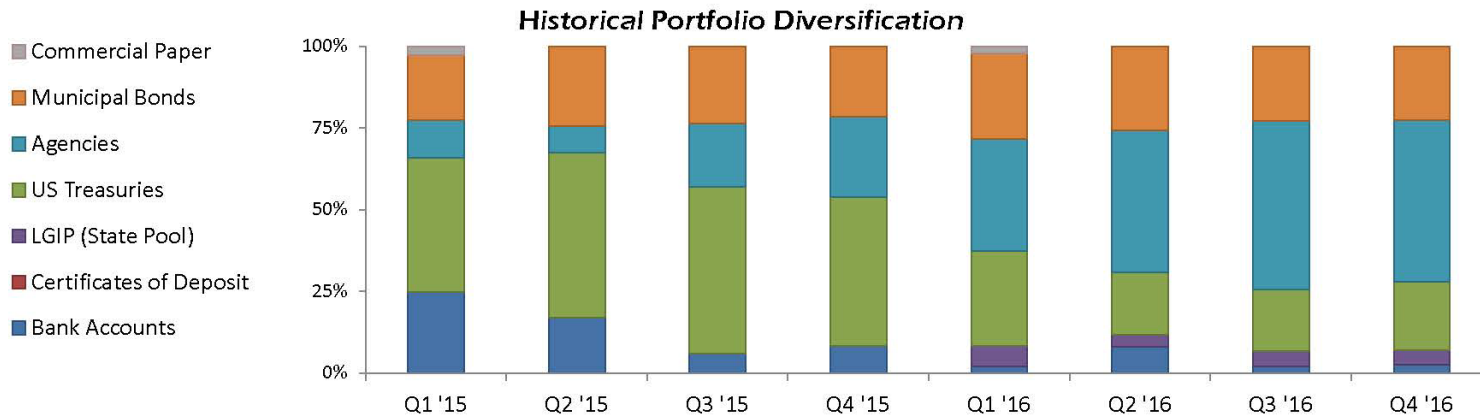
All \$ values are shown in '000s

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

### Investments by Type - as of December 31, 2016

	Par Value	GASB 31 Reported Value	Book Value	Book Value as % of Portfolio	Policy % Limit	WAM
Bank Accounts	\$ 11,660	\$ 11,660	\$ 11,660	2.42%	75%	1
US Treasuries	\$ 101,525	\$ 102,875	\$ 100,376	20.79%	100%	1,485
LGIP (State Pool)	\$ 22,576	\$ 22,576	\$ 22,576	4.68%	25%	1
US Agencies	\$ 239,912	\$ 237,522	\$ 239,230	49.55%	75%	834
Municipal Bonds	\$ 107,650	\$ 108,803	\$ 108,961	22.57%	30%	693
Commercial Paper	\$ 0	\$ 0	\$ 0	0.00%	25%	-
<b>Total:</b>	<b>\$ 483,323</b>	<b>\$ 483,436</b>	<b>\$ 482,803</b>			<b>878</b>

Numbers may not foot due to rounding





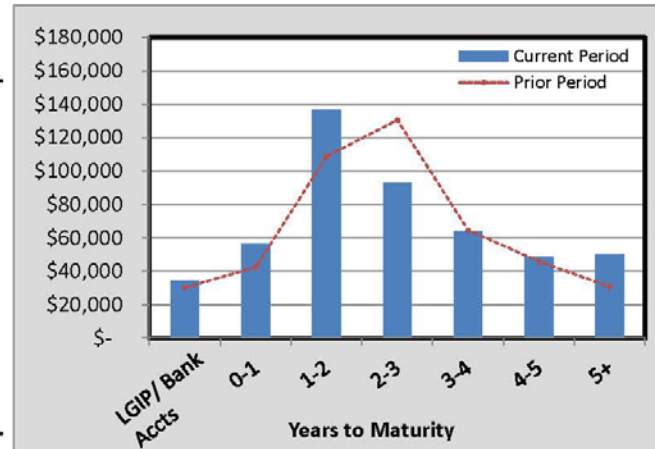
# Quarterly Investment Report for the quarter ending December 31, 2016

All \$ values are shown in '000s

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

## Maturity Distribution - as of December 31, 2016

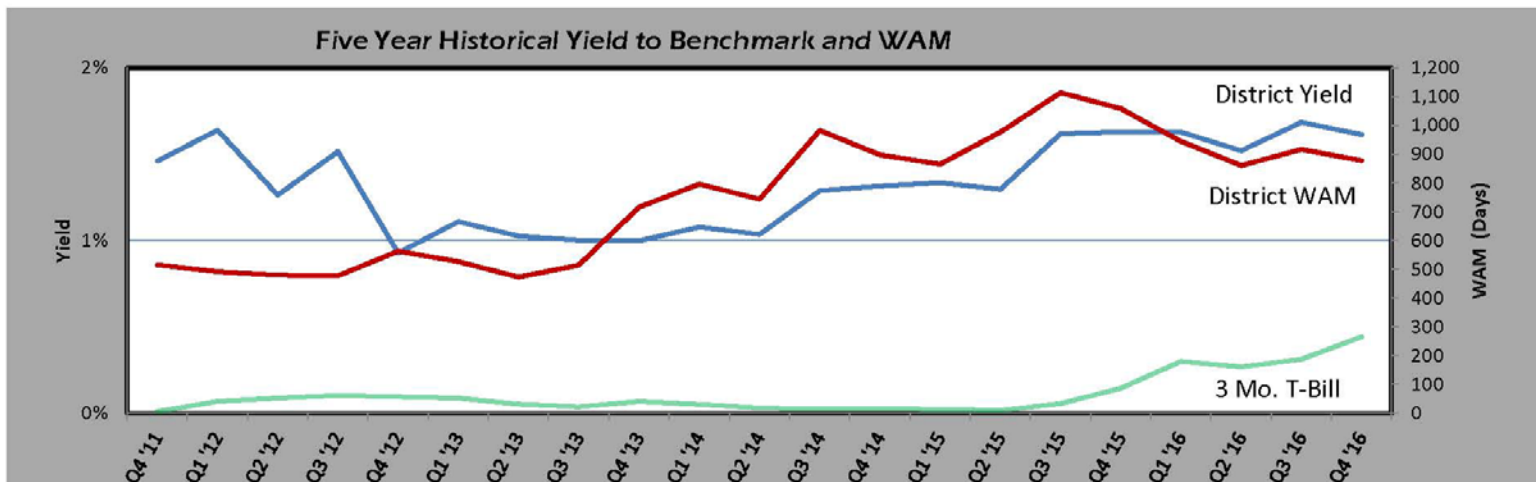
Maturity	Par Value	% of Portfolio	Cumulative % of Portfolio
LGIP	\$ 22,576	4.7%	4.7%
Bank Accounts	\$ 11,660	2.4%	7.1%
1-90 Days	\$ 6,150	1.3%	8.4%
91-180 Days	\$ 35,280	7.3%	15.7%
181-365 Days	\$ 14,995	3.1%	18.8%
1-2 Yrs	\$ 136,754	28.3%	47.1%
2-3 Yrs	\$ 93,056	19.3%	66.3%
3-4 Yrs	\$ 63,910	13.2%	79.5%
4-5 Yrs	\$ 48,659	10.1%	89.6%
5+ Yrs	\$ 50,283	10.4%	100.0%



**Total: \$ 483,323 100%**

Numbers may not foot due to rounding

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





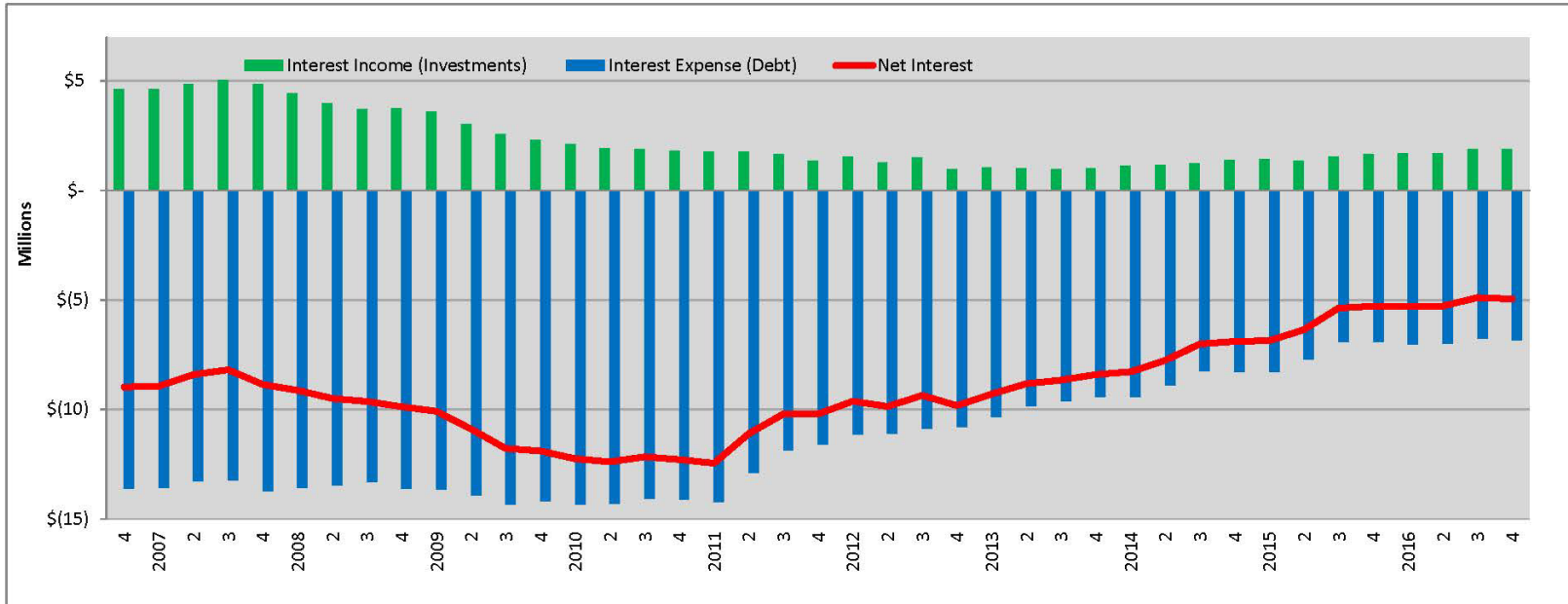


# Quarterly Investment Report for the quarter ending December 31, 2016

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 December 31, 2016

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.