Chelan County PUD

Financial Strategy Sessions
Debt Policy Guidelines

Board Presentation
December 4, 2017

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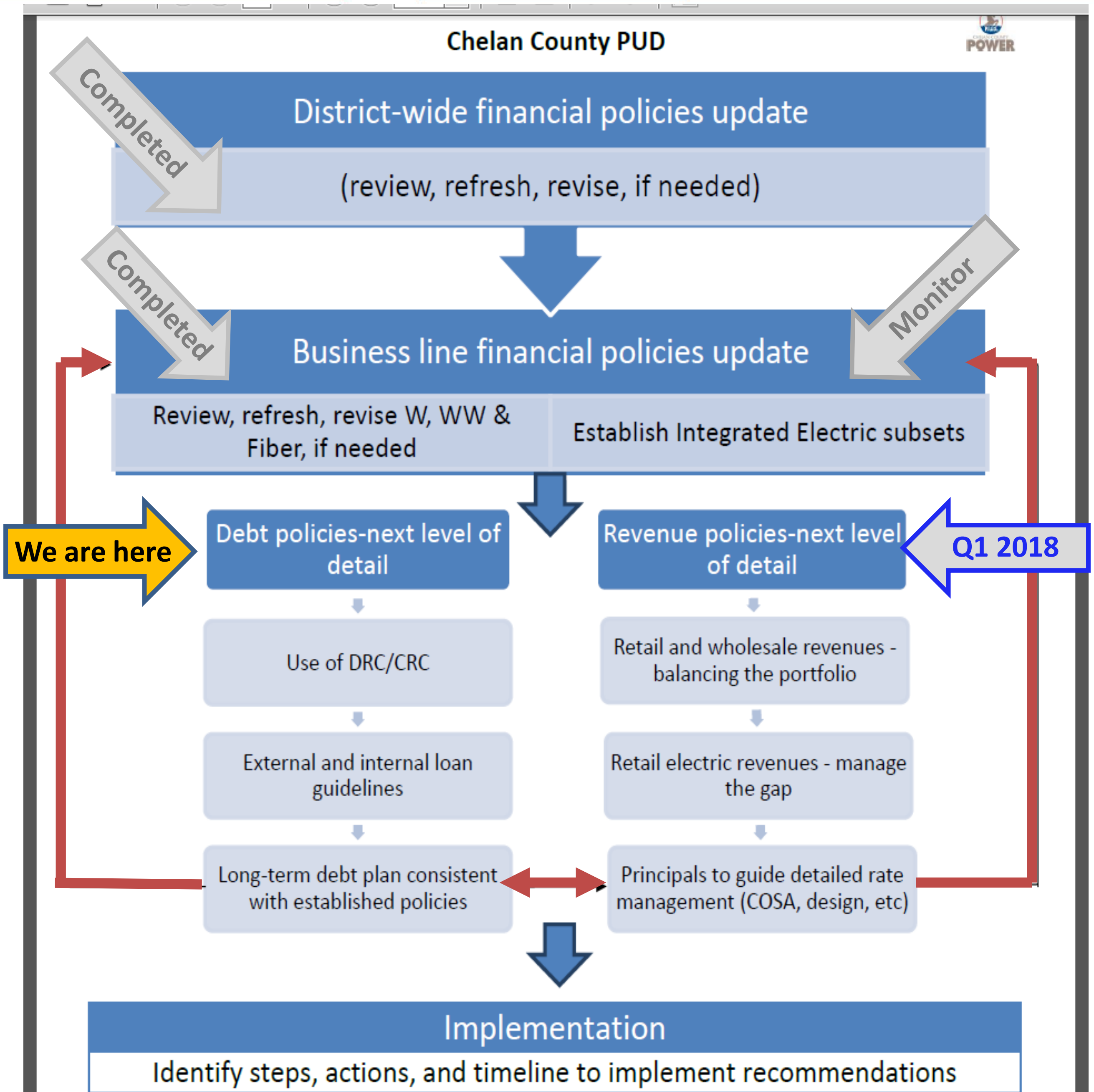
Financial Strategy Next Steps

Goal: Conduct series of Board strategy sessions to refresh long-term financial policies, establish Integrated Electric business line metrics, set next level of detail for debt funding philosophies and develop additional principles to guide revenue policies



Affirmation Requested Today

At the November 20, 2017 meeting we reviewed:

- The debt philosophy and planning strategies
- What’s changed since last Board strategy session
- 2018 Operational Plan of Finance
- Hydro funding tools and updated guidelines

Today, we seek Board affirmation of:

- Debt planning modifications and
- Ongoing long term debt planning strategies

Debt Planning Modifications Summary

- Scale back on early debt retirements while still achieving debt ratio target of <35% by 2019
- Implement certain debt payments 6 months in advance for coverage support and net savings
- For planning purposes, assume borrowing for electric modernization/expansion capital and continue to fund electric replacement capital through revenue
- Utilize DRC/CRC funding for hydros to the extent available
- If DRC/CRC funds are insufficient, establish hydro Debt Obligations first from internal unrestricted funds, if available, otherwise from external borrowings
- Continue ongoing debt plan review to ensure right balance of liquidity and leverage

2018 Operational Plan of Finance: The "How"

Forecast Window	Activity	Action		"Lower Results" Mitigation Tools
2018 Detailed Actions	Net Scheduled Principal **Early Retirements** Net New Debt Refinancing Actions	$24M **None** None Monitor	Overall debt continues to decline	Scale back early retirements Decrease cost growth Delay discretionary capital Incremental rate increases
2019 – 2022 General Steps	Net Scheduled Principal **Early Retirements*** **Net New Debt**** Refinancing Actions	$114M **$51M** **$40M** Monitor		
2023 – 2027 Broad Path	Net Scheduled Principal **Early Retirements*** **Net New Debt** Refinancing Actions	$167M **$44M** **$231M** Monitor	Overall debt begins to grow slightly	

Net debt reduction 2018-2027, $129M, down from $301M reduction forecast from last year

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

**** $1M SRF loan forecast in 2019 for WW; new bond issuance of $39M forecast for 2022**

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Financial Policies – On Track

District Combined	2017	2018	2019	2020	2021	2022
Liquidity - $175M Min (Expected)	$402M	$350M	$289M	$250M	$193M	$178M*
Liquidity - $175M Min (Unusual)	$401M	$343M	$276M	$231M	$179M*	$177M*
Debt Ratio (Expected <35% by 2019)	37.6%	34.8%	31.6%	28.8%	26.0%	25.1%
Debt Ratio (Unusual <35% by 2019)	37.7%	35.0%	31.9%	29.2%	27.2%	27.7%
Days Cash on Hand (Expected >250)	623	587	475	410	320	288
Days Cash on Hand (Unusual > 250)	622	576	454	378	297	286
Combined Debt Cover (Expected > 2.00x)	3.32	2.80	2.70	2.47	2.39	2.25
Combined Debt Cover (Unusual >1.25x)	3.31	2.69	2.58	2.34	2.17	1.93
Rate of Return (Expected > 4% thru 2019)	9.2%	6.0%	4.8%	Sunset		
Rate of Return (Unusual > 2% thru 2019)	9.1%	5.5%	4.3%			
Bottom Line Results (Expected)	*$103M*	*$72M*	*$61M*	*$49M*	*$46M*	*$40M*
Bottom Line Results (Unusual)	*$102M*	*$66M*	*$55M*	*$43M*	*$37M*	*$28M*
Outstanding Debt (Expected)	*$537M*	*$514M*	*$473M*	*$434M*	*$393M*	*$388M**
Outstanding Debt (Unusual)	*$537M*	*$514M*	*$473M*	*$434M*	*$408M**	*$428M**

* Assumes external debt issuances to maintain adequate liquidity. **Includes revised debt strategy and facilities plan**

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.

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Long Term Debt Planning Strategies

- Maintain liquidity balance > $175M or policy minimum
- Target debt leverage < 35% by 2019 and then remain below 35%
- *Continue ongoing debt plan review to ensure right balance of liquidity and leverage*
- Manage to lowest net interest (interest expense less interest income)
- *For planning purposes, assume borrowing for electric modernization/ expansion capital and continue to fund electric replacement capital through electric revenues*
- *Utilize DRC/CRC funding for Rocky Reach and Rock Island to the extent available, then establish contractual debt obligations first from internal unrestricted funds, if available, otherwise from external borrowings*
- Borrow for long-term sustainability, not temporary challenges
- Plan debt financings in 2 to 3-year intervals for cost-efficiency
- Monitor refinancing opportunities continually

Represent updated strategies – see Appendix for further descriptions

Today

Affirm

- Affirm Board support of debt planning modifications and ongoing long-term debt planning strategies
- 2018 Operational Plan of Finance will be approved through Budget adoption

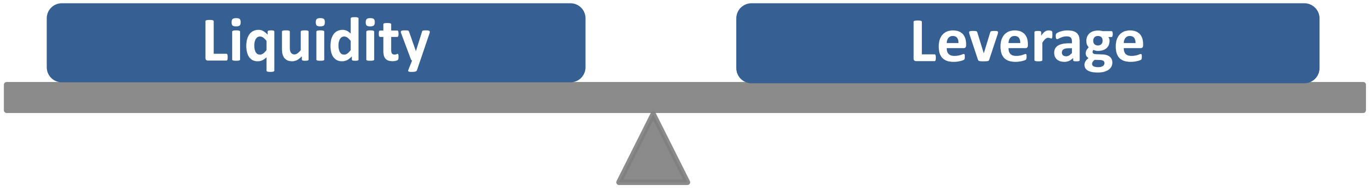
Appendix

For Reference Only

Long Term Debt Philosophy

Manage debt to create financial flexibility that supports low and stable electric rates even if lower than expected financial results are experienced

Balancing Financial Health



Supports doing the best, for the most, for the longest

Long Term Debt Planning Strategies

- Maintain liquidity balance > $175M or policy minimum
- Target debt leverage < 35% by 2019 and then remain below 35%
- *Continue ongoing debt plan review to ensure right balance of liquidity and leverage* (modified to reflect scaling back on accelerated debt reduction to respond to forecasted increased capital investments and decreased wholesale electric revenues)
- Manage to lowest net interest (interest expense less interest income)
- *For planning purposes, assume borrowing for electric modernization/expansion capital and continue to fund electric replacement capital through electric revenues* (modified to reflect likely need to borrow in future rather than "pay as you go" with existing funds)
- *Utilize DRC/CRC funding for Rocky Reach and Rock Island to the extent available, then establish contractual debt obligations first from internal unrestricted funds, if available, otherwise from external borrowings* (modified to reflect forecast that DRC/CRC funds alone will not be sufficient to fund planned hydro capital expenditures)
- Borrow for long-term sustainability, not temporary challenges
- Plan debt financings in 2 to 3-year intervals for cost-efficiency
- Monitor financing opportunities continually