



Chelan County PUD

Quarterly Financial Review

For the Year Ended Dec. 31, 2018

(Note: results are preliminary pending annual audit)

Board Presentation

Feb. 19, 2019



What we will cover today

Financial highlights

Year-end results

Historical review

Five-year look forward

Investment report

Planned 2019 Debt Actions

Update only, no action required

Appendix: Additional detailed information not covered today

2018 Key Highlights

Bottom-line results are better than budget

Combined District metrics meet targets

Stay the course with our strategic goals

- Reinvest in assets and people

- Reduce debt

- Continue Public Power Benefit program

Overview - 2018

Revenue

- Service Revenue slightly lower than budget due primarily to mild December temperatures: (\$400,000)
- Net Wholesale Revenue slightly below budget due in part to slightly lower than budgeted generation: (\$1.2M)
- Hydro Long-Term Contract Revenue better than budget due primarily to retaining long-term contract surplus sales proceeds partially offset by lower production costs: +\$17.1M
- Other Operating Revenue better than budget primarily due to FEMA proceeds and variable component of real time agreement: + \$4.6M

Total Revenues better than budget for the year: +\$20M

Expense

- Operating Expenses below budget primarily due to a ~\$6M actuarial reduction in pension expense (no change to pension program) and lower than planned fish and wildlife O&M due to project deferrals to 2019 ~\$2M: (\$10.4M)
- Non-Operating Net Expense better than budget due primarily to higher interest earnings from the higher cash balances: (\$2.8M)

Total Net Expenses better than budget for the year: (\$13M)

Bottom Line

- Combination of higher revenues and lower expenses results in a better Bottom Line for 2018: + \$32.5M

(Compares to Q3 forecast of +\$27M)

Overview - 2018

Capital

- Actual capital expenditures for the year were ~\$89M: ~\$52M below the total budget of ~\$141M.
- ~63% of 2018 Budget
- Major drivers were the Rock Island projects with shifted timelines:
 - B1-B4 modernization (~\$28M)
 - B7 modernization (~\$9M)
 - RI Facilities upgrade (\$5M)

(Compares to Q3 forecast of ~\$99M and ~70% of Budget)

Cash

- Positive bottom line, lower capital spending and Alcoa contract payments have increased cash and investments balance for the year by \$80.1M (\$591.3M)

(Compares to Q3 forecast of \$574.1M)

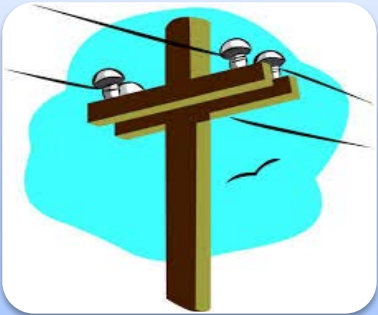
Debt

- Total debt is the same as budget

(~\$24M reduction with balance at year end: \$513.5M)

Financial Highlights -2018

Focus on 2018 cost per unit



Electric delivered cost per avg kWh better than budget

2018 ¢/kWh result: 5.99¢ vs. 6.34¢ (actual vs. budget)

Power production costs- 2.45¢ vs. 2.50¢ (actual vs. budget)

Power distribution costs- 3.54¢ vs. 3.84¢ (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

2018 \$/MWh result: \$18.7 vs. \$19.2 (actual vs. budget)

Actual vs. Budget

Rocky Reach \$13.5 vs. \$13.7 (operating expense ~98% 2018)

Rock Island \$27.9 vs. \$29.1 (operating expense ~93% 2018)

Lake Chelan \$31.3 vs. \$32.1 (operating expense ~98% 2018)

Financial Highlights-2018

Focus on 2018 cost per unit



Water cost per 1,000 gallons better than budget

2018 \$/1k gallons result: \$5.58 vs. \$5.78 (actual vs. budget)
2018 operating expense 96% of budget



Wastewater cost per ERU better than budget

2018 \$/ERU result: \$868 vs. \$1,033 (actual vs. budget)
2018 operating expense 83% of budget
(Deferral of \$120,000 Lake Wenatchee Lab project)



Fiber cost per active premises better than budget

2018 \$/premises result: \$381 vs. \$440 (actual vs. budget)
2018 operating expense 86% of budget

2018 Bottom-Line Results

(in 000s)	2018 Actuals	2018 Budget	% of budget	2018 Prior Qtr Forecast	% change from prior
Service Revenue	64,344	64,693	99%	66,583	-3%
Net Wholesale Revenue	106,765	108,001	99%	106,794	0%
Hydro LT Contract Rev/Other PP	136,860	119,795	114%	129,982	5%
Other Operating Revenue	25,698	21,129	122%	24,646	4%
Other Operating Expense	(163,773)	(174,161)	94%	(166,099)	1%
Depreciation & Tax Expense	(52,728)	(52,016)	101%	(51,672)	-2%
Operating Income/(Loss)	117,166	87,440	134%	110,234	6%
Non-Operating Activity	(11,901)	(14,682)	81%	(11,221)	-6%
"Bottom Line"	105,265	72,758	145%	99,013	6%

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

Business Line “Bottom-Line” Results

(in 000s)	2018 Actuals	2018 Budget	% of budget	2018 Prior Qtr Forecast	% change from prior
Cost-Based Activity	57,500	35,569	162%	51,452	12%
Market-Based Activity	50,474	47,106	107%	52,024	-3%
Retail Activity	(21,108)	(25,525)	83%	(22,382)	6%
Other Activity	11,933	11,329	105%	12,962	-8%
Integrated Electric	98,799	68,480	144%	94,057	5%
Fiber & Telecom	4,738	3,839	123%	3,873	22%
Water	1,827	716	255%	1,219	50%
Wastewater	(99)	(277)	(36%)	(137)	27%
Combined "Bottom-Line"	105,265	72,758	145%	99,013	6%

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

Capital Expenditures

(in 000s)	2018 Actuals	2018 Budget	% of budget	2018 Prior Qtr Forecast	% change from prior
Electric Distribution	12,356	15,069	82%	13,852	-11%
Network Transmission	1,630	2,904	56%	1,805	-10%
Rocky Reach	5,564	8,111	69%	5,869	-5%
Rock Island	46,202	83,778	55%	54,478	-15%
Lake Chelan	1,748	1,802	97%	1,716	2%
Internal Services	15,085	21,047	72%	14,596	3%
Fiber & Telecom	4,338	5,837	74%	3,891	11%
Water	954	1,281	74%	1,086	-12%
Wastewater	901	1,409	64%	1,163	-23%
Total Expenditures	88,777	141,239	63%	98,455	-10%
Contributions	(5,364)	(4,713)	114%	(5,164)	4%
Capital net of CIAC	83,413	136,525	61%	93,292	-11%

Overview of 2018 Cash Flow

	\$ Million
Bottom-line result (2018)	\$ 105
Add back non-cash related items (depreciation)	\$ 44
Estimated earned funds from operations	\$149
Capital Project Expenditures	\$ 89
Net Debt Reductions	\$ 24
Other Misc. Impacts (change in A/R, A/P, Inventory, Etc.)	\$ 18
Receipt from Alcoa (Deferred contract charge)	(\$62)
Added to cash reserves	\$ 80
Estimated use of funds	\$149
Cash and investments, beginning of year	\$ 511
Added to cash reserves	\$80
Cash and investments, end of Q4	\$ 591



Cash & Investments Balance

(\$ Millions)	<u>12/31/18</u>	<u>12/31/17</u>
Unrestricted funds	\$407	\$327
Board Designated*:		
Headquarters/Service Center Strategic Facilities Fund	<u>50</u>	<u>20</u>
Total Unrestricted Funds	457	347
Restricted – DRC & CRC funds for Hydro capital/debt	<u>50</u>	<u>78</u>
Total Liquidity (policy minimum \$175M)	\$507	\$425
Restricted - bond reserve funds	53	53
Restricted - power contract deposits	19	21
Restricted - self insurance and other funds	<u>12</u>	<u>12</u>
Total Cash and Investments	<u>\$591</u>	<u>\$511</u>

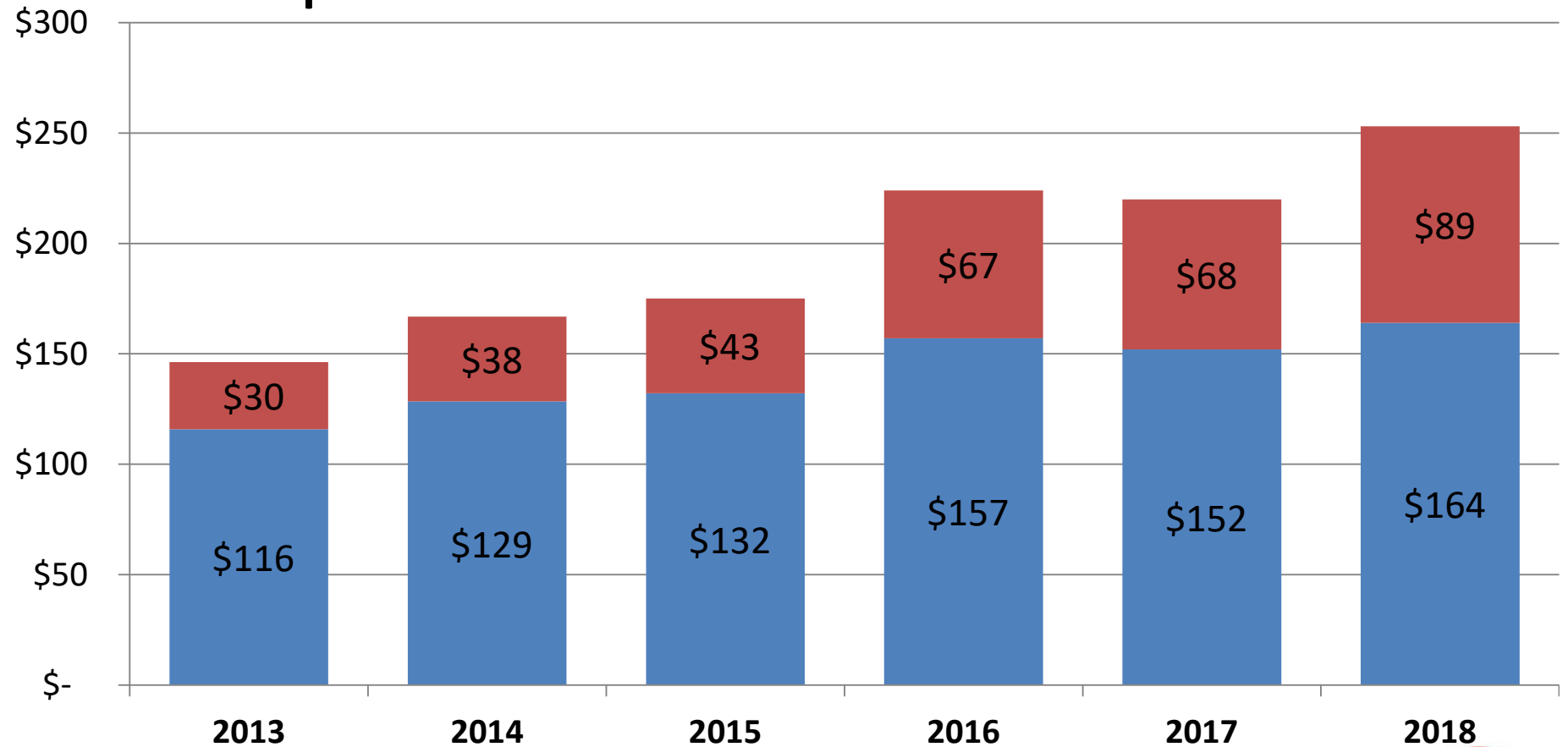
* Board Designated Funds qualify as unrestricted for liquidity and external reporting purposes

Historical Review of the District's Financial Results

(amounts in millions)

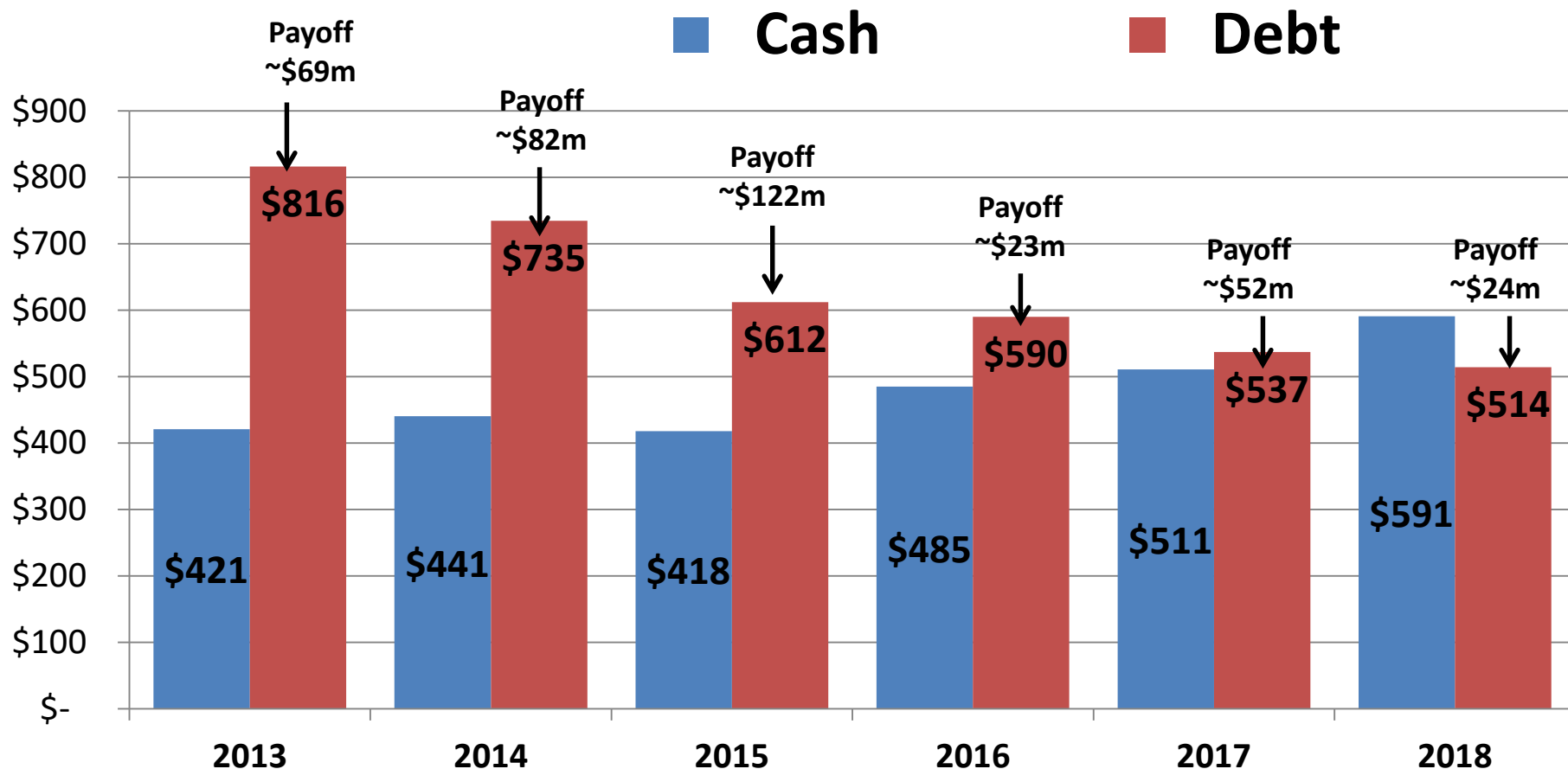
■ Operations & Maintenance

■ Plant Additions



Historical Review of the District's Financial Results

(amounts in millions)



Quarterly Reporting Requirement - Financial Policies

District Combined	2018	2019	2020	2021	2022
Liquidity (Greater calculated min \$190M-\$200M, Expected)	\$507M	\$423M	\$326M	\$232M	\$187M*
Liquidity (Greater calculated min \$190M-\$200M, Unusual)		\$419M	\$315M	\$214M	\$185M*
Debt Ratio (Expected case <35% by 2019)	34.0%	30.6%	27.8%	24.9%	23.5%
Debt Ratio (Unusual case <35% by 2019)		30.7%	28.0%	25.2%	25.2%
Days Cash on Hand (Expected case >250)	741	591	455	342	269*
Days Cash on Hand (Unusual case > 250)		585	440	335	267*
Combined Debt Cover (Expected case > 2.00x)	3.41	2.87	2.53	2.51	2.46
Combined Debt Cover (Unusual case >1.25x)		2.78	2.41	2.36	2.21
Rate of Return (Expected case > 4% thru 2019)	9.2%	6.1%	Sunset		
Rate of Return (Unusual case > 2% thru 2019)		5.8%			
<i>Bottom Line Results (Expected case)</i>	<i>\$105M</i>	<i>\$77M</i>	<i>\$57M</i>	<i>\$55M</i>	<i>\$52M</i>
<i>Bottom Line Results (Unusual case)</i>		<i>\$73M</i>	<i>\$51M</i>	<i>\$47M</i>	<i>\$43M</i>
<i>Debt Outstanding (Expected case)</i>	<i>\$514M</i>	<i>\$475M</i>	<i>\$436M</i>	<i>\$395M</i>	<i>\$381M*</i>
<i>Debt Outstanding (Unusual case)</i>		<i>\$475M</i>	<i>\$436M</i>	<i>\$395M</i>	<i>\$407M*</i>

* - Financial Policy Metrics within 10% of target which requires Board communication per resolution. Action plan assumes issuance of debt in 2022 to maintain liquidity and meet financial targets.

The information in this schedule contains forward-looking information and projections. Such projections are necessarily subject to various risks and uncertainties. Actual results could, and likely will, differ materially from those projected, in part as a result of differences between assumptions utilized in making such projections and actual outcomes and certain other risks.

Quarterly Reporting Requirement Individual Business Line Financial Policies

Business Lines	2018	2019	2020	2021	2022
WATER Business Line					
Operating Expense Coverage (target >120%)	136%	131%	127%	128%	129%
Cash Reserves (target > \$1.25 million)	\$3.8M	\$3.0M	\$0.6M	\$0.4M	(\$0.7M)
Debt Ratio (target <35%)	10%	7%	4%	-%	-%
WASTEWATER Business Line					
Operating Expense Coverage (target >100% by 2019)	95%	86%	99%	99%	98%
Cash Reserves (target > \$200K)	\$1.7M	\$2.6M	\$2.9M	\$2.6M	\$2.4M
Debt Ratio (target <35%)	---	22%	22%	27%	27%
FIBER Business Line					
Operating Expense Coverage (target >120%)	176%	144%	160%	148%	146%
Cash Reserves (target > \$2.0 million)	\$15.6M	\$12.9M	\$14.0M	\$15.3M	\$15.0M
Debt Ratio (target <35%)	---	---	---	---	---

Financial Policy not met. Action plan is to address this through upcoming strategic planning process.

Financial Policy Metric within 10% of target which requires Board communication per resolution. Action plan is to monitor ongoing forecasts

Quarterly Reporting Requirement Individual Business Line Financial Policies

Monitoring during test period

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

Business Lines	2018	2019	2020	2021	2022
Integrated Electric Business Line					
Retail Total Cost Ratio (target)	>65%	>65%	>65%	>65%	>65%
Retail Total Cost Ratio	70%	66%	65%	66%	64%
Retail OM&T Cost Ratio (target)	> 90%	> 90%	> 90%	> 90%	> 90%
Retail OM&T Cost Ratio	94%	85%	86%	90%	89%
Retail Rate Support Limit (target)	\$25.6M	\$26.3M	\$26.9M	\$27.6M	\$28.3M
Retail Rate Support	\$21.1M	\$28.3M	\$30.3M	\$30.4M	\$33.0M
Market Based Margin Limit (target)	\$25.0M	\$25.0M	\$25.0M	\$25.0M	\$25.0M
Market Based Margin	\$50.5M	\$44.4M	\$30.1M	\$29.0M	\$29.5M

“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

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	YTD 2018	WAM
Average Invested Book Value (\$M)	\$517	\$534	\$569	\$584	\$551	
District Yield	1.93%	2.02%	2.25%	2.34%	2.15%	1,005
Benchmarks:						
3 Month T-Bill	1.58%	1.87%	2.06%	2.37%	1.97%	92
S&P US Treasury 1-3 Year Index	1.29%	1.50%	1.74%	1.96%	1.63%	692

- Q4 2018 yield increased to 2.34% due to improving market interest rates
- December 19, 2018 Federal Open Market Committee meeting report:
 - Labor market has continued to strengthen and economic activity has been rising at strong rate
 - Inflation has remained near the Committee’s 2 percent objective
 - Federal funds rate target changed from 2.25% to 2.50%
 - Gradually increasing, although continued relatively low rates, are anticipated through 2019
- Uncertainty around changes in the political climate can influence financial markets, which may impact the District
- Laddered investment structure continues to be our strategy to support safety of principal and liquidity and mitigate interest rate volatility

Policy Objectives & Compliance

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

Full report is in the Appendix.

Planned 2019 Debt Actions

- 2019 Rock Island Internal Loan
 - Capital plan needs beyond power sales contract reserves
 - Will return to Board in March to present specific terms and to request approval
- Potential refinancing opportunities for savings
 - Continue to evaluate; see some possibilities
 - If opportunities are favorable, we will return to request Board approval later this year

2018 Summary

2018 results are better than budget

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

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

Stay the course with our strategic goals

- Reinvest in assets and people
- Reduce debt
- Continue Public Power Benefit program

Appendix



The information in the appendix contains forward-looking information and projections. Such projections are necessarily subject to various risks and uncertainties. Actual results could, and likely will, differ materially from those projected, in part as a result of differences between assumptions utilized in making such projections and actual outcomes and certain other risks.

Financial Highlights - Revenue

Net Wholesale Revenue:

2018 results \$1.2 million below budget (\$106.8M vs. \$108.0M)

Annual result in line with Q3 forecast of \$106.8M

Drivers:

- Generation 99% of budget
(Q3 Forecast for YE@101% of budget)
- + Retail energy use 99% of budget
(Q3 Forecast for YE 105% of budget)
- Hedging program minimizes impact of 2018 flat price \$30.8 vs \$22.8 budget

Hydro Long-Term Contract Revenue:

2018 results \$17.1 million above budget (\$138.2M vs. \$121.1M)

Annual result higher than Q3 forecast of \$131.3M

Drivers:

- Combined hydro “cost based” operating expenses below budget (96%)
(Q3 forecast for YE at 95%)
- + “Plus” contract charges above budgeted levels (+\$16M)
(Q3 forecast for YE at +12M)

Financial Highlights - Revenue

Service Revenue:

2018 results \$0.4 million below budget (\$64.3M vs. \$64.7M)

Annual result lower than Q3 forecast of \$66.6M

Drivers:

- Retail energy use at 99% of budget: (Residential ~102%, Industrial ~112%, Commercial ~95%)
- Very mild December

Other Operating Revenue:

2018 results \$4.6 million above budget (\$25.7M vs. \$21.1M)

Annual result slightly higher than Q3 forecast of \$24.6M

Drivers:

- + FEMA proceeds ~\$0.5M (Fire-2015)
- + Hydro Contract Revenue ~\$1.6M YTD
- + Variable component of real time agreement ~\$2.4M

Financial Highlights - Expenses

Operating Expense:

2018 results \$10.4 million below budget (\$163.8. vs. \$174.2M)

Annual result slightly lower than Q3 forecast of \$166.1M

Drivers:

- Actuarial reduction in pension expense
- Planned fishway O&M expenditures deferred to 2019

Non-Operating Net Expense:

2018 results \$2.8M better than budget (\$11.9M vs. \$14.7M)

Annual result in line with Q3 forecast of \$11.2M

Drivers:

- + Higher contributions in aid of construction
- + Increased forecasted interest earnings on higher cash reserves

Financial Highlights – Balance Sheet

Capital expenditures below budget

- 2018 \$88.8 million vs. budget of \$141.2 million
- 2018 results below Q3 forecast of \$98.5M million (\$9.7M)

Individual project adjustments:

- ↓ Bavarian Substation (~\$1M shifted to 2019 / 2020 / 2021)
- ↓ LMR Network Replacement (~\$2M shifted to 2019)
- ↓ ISS - Operations and Service Center (~\$3M shifted to 2019 / 2020)
- ↓ RI B1 thru B4 Modernization (~\$28M shifted to 2019 / 2020)
- ↓ RI B7 Modernization (~\$9M shifted to 2019)
- ↓ RI Facilities Upgrade (~\$5M shifted to 2019 / 2020)

Cash remains strong / Debt reduction strategy on track

- Cash balance increased ~\$80 million in 2018
- Debt balance decreased ~\$24 million in 2018

Service Revenue

(in 000s)	Actuals 2018	Budget 2018	%	Variance
Residential Electric	26,019	25,586	102%	In line with budget
Commercial Electric	15,976	16,611	96%	Mild December / lower usage
Industrial Electric	5,001	4,392	114%	Industrial & HDL in aggregate at 98% of budget.
High Density Load	1,781	2,265	79%	
Other Electric	1,492	1,814	82%	Small dollar variance
Electric Service	50,269	50,668	99%	
Water Service	6,007	6,038	99%	In line with budget
Wastewater Service	724	701	103%	Small dollar variance
Fiber & Telecom	7,344	7,287	101%	In line with budget
Service Revenue	64,344	64,693	99%	

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 2018	Budget 2018	%	Variance
Slice Contracts	81,287	75,149	108%	Additional 3% slice executed post budget
Net Block Trades	19,974	26,624	75%	Unplanned Lake Chelan Outage / Offset by increased Specified Source Rev - (Aggregate 77% of Budget)
Other Net Wholesale	5,504	6,227	88%	
Net Wholesale Revenue	106,765	108,001	99%	
LT Hydro Contracts	138,182	121,115	114%	Operating costs 98% / adds 134% Budget
Less Other Purchased Power	(1,322)	(1,320)	100%	In line with budget
Hydro LT Contract Rev/Other PP	136,860	119,795	114%	
Surplus Energy Revenue	243,625	227,796	107%	

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

Operating Expense

(in 000s)	Actuals 2018	Budget 2018	%	Variance
Hydro Operations & Maintenance	59,025	59,438	99%	In line with budget
Hydro Fish & Wildlife	14,274	16,751	85%	Deferral of planned projects to 2019
Hydro Parks & Recreation	7,662	7,730	99%	In line with budget
Electric Distribution	14,487	15,398	94%	Underground line and substation maint.
Electric Transmission	13,065	13,221	99%	In line with budget
Misc. Power Supply Expenses	3,967	5,317	75%	Legal and Consulting support EP&T
Water & Wastewater	2,894	3,102	93%	Small dollar variance
Fiber Network	4,247	4,580	93%	Premise devise maint.
Customer Accounts & Service	3,979	3,999	100%	In line with budget
Conservation & Customer Assist	2,783	3,459	80%	Regulatory asset amortization
Insurance & FERC Fees	8,252	8,670	95%	Self insurance stop loss
Other Admin & General	29,136	32,497	90%	Pension expense adjustment
Total	163,773	174,161	94%	

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

Non-Operating Activity

(in 000s)	Actuals 2018	Budget 2018	%	Variance
Interest Earnings	11,525	9,249	125%	Higher interest rates / cash balance
Capital Contributions	5,934	5,280	112%	High volume of line extensions
Interest Expense	(25,202)	(25,402)	99%	In line with budget
Other Inc/(Exp)	(4,159)	(3,809)	109%	Small dollar variance
Non Operating Activity	(11,901)	(14,682)	81%	

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

Integrated Electric

(in 000s)	Actuals 2018	Budget 2018	%	Variance
Service Revenue	50,352	50,753	99%	In line with budget
Net Wholesale Revenue	106,765	108,001	99%	In line with budget
Hydro LT Contract Rev/Other PP	136,860	119,795	114%	Lower operating costs & contract adders
Other Operating Revenue	27,254	22,280	122%	FEMA proceeds (fire 2015) / Var RTA
Other Operating Expense	(158,893)	(167,940)	95%	Actuarial reduction in pension expense
Depreciation & Tax Expense	(46,996)	(46,219)	102%	In line with budget
Operating Income/(Loss)	115,343	86,670	133%	
Non-Operating Activity	(16,544)	(18,190)	91%	Interest earnings on higher cash balances
"Bottom Line"	98,799	68,480		

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

Fiber & Telecom

(in 000s)	Actuals 2018	Budget 2018	%	Variance
Service Revenue	10,659	10,897	98%	In line with budget
Other Operating Revenue	12	1	981%	Small dollar variance
Other Operating Expense	(5,810)	(6,730)	86%	Actuarial reduction in pension expense
Depreciation & Tax Expense	(3,092)	(3,133)	99%	In line with budget
Operating Income/(Loss)	1,768	1,034	171%	
Non-Operating Activity	2,969	2,805	106%	Small dollar variance
"Bottom Line"	4,738	3,839		

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



Water

(in 000s)	Actuals 2018	Budget 2018	%	Variance
Service Revenue	6,200	6,239	99%	In line with budget
Other Operating Revenue	73	62	117%	Small dollar variance
Other Operating Expense	(3,584)	(3,739)	96%	Actuarial reduction in pension expense
Depreciation & Tax Expense	(2,356)	(2,376)	99%	In line with budget
Operating Income/(Loss)	333	186	179%	
Non-Operating Activity	1,495	530	282%	Customer contributions
"Bottom Line"	1,827	716		

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

Wastewater

(in 000s)	Actuals 2018	Budget 2018	%	Variance
Service Revenue	724	701	103%	Small dollar variance
Other Operating Revenue	3	2	152%	Small dollar variance
Other Operating Expense	(722)	(864)	83%	Actuarial reduction in pension expense
Depreciation & Tax Expense	(283)	(288)	98%	In line with budget
Operating Income/(Loss)	(278)	(450)	62%	
Non-Operating Activity	179	173	103%	In line with budget
"Bottom Line"	(99)	(277)		

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

Actual Cash Balance Comparison to Budget

(millions)	2018
Total Cash – Budgeted year-end balance	\$ 436
Key changes in cash forecast:	
Decrease in capital projects	\$52
Improvement in operating activity	\$ 32
Other changes in A/R, A/P, inventory, etc.	\$9
Alcoa deferred contract payment	\$62
Total Cash – Actual year-end balance	\$ 591
Prior quarter – 2018 year-end forecasted balance	\$ 574

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% (2019-23)
 - Capital Recovery Charge (CRC) - 50% (2019-23)
- Investment earning rate
 - (2019-23: 2.48%, 2.65%, 2.82%, 3.04%, 3.22%)

Cash and Debt Funding Capacity

	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Cash Funding Capacity	\$248M	\$152M	\$57M	\$12M	\$28M
“liquidity in excess of minimum \$175M target”					
Debt Funding Capacity	\$104M	\$174M	\$245M	\$287M	\$320M
“financing capability up to maximum debt ratio target of 35%”					
Total Funding Capacity	\$352M	\$326M	\$302M	\$299M	\$348M

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	68,787	72,553	76,125	77,145	78,122
Net Wholesale Revenue	100,945	90,046	85,720	87,980	94,421
Hydro LT Contract Rev/Other PP	133,496	137,359	130,445	133,991	139,153
Other Operating Revenue	23,840	22,217	21,314	22,996	22,359
Other Operating Expense	(186,203)	(195,268)	(184,124)	(189,738)	(199,073)
Depreciation & Tax Expense	(53,196)	(58,354)	(62,581)	(67,024)	(70,659)
Operating Income/(Loss)	87,669	68,552	66,899	65,350	64,323
Non-Operating Activity	(10,404)	(11,539)	(11,893)	(13,027)	(12,364)
"Bottom Line"	77,265	57,014	55,006	52,323	51,959
<i>Prior Quarter Reported Forecast</i>	<i>79,244</i>	<i>61,443</i>	<i>57,292</i>	<i>55,369</i>	<i>52,679</i>
<i>Forecast at 2018 Budget</i>	<i>61,167</i>	<i>49,336</i>	<i>45,912</i>	<i>40,391</i>	<i>38,604</i>

Service Revenue

(in 000s)	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Residential Electric	27,692	27,900	28,044	28,172	28,319
Commercial Electric	17,029	17,340	17,513	17,690	17,861
Industrial Electric	5,247	5,246	5,248	5,248	5,249
High Density Load	3,135	5,893	8,784	9,118	9,269
Other Electric	1,618	1,619	1,617	1,622	1,622
Electric Service	54,722	57,999	61,205	61,851	62,320
Water Service	6,142	6,390	6,648	6,917	7,196
Wastewater Service	734	756	778	802	826
Fiber & Telecom	7,190	7,408	7,493	7,576	7,780
Service Revenue	68,787	72,553	76,125	77,145	78,122
Prior Quarter Reported Forecast	69,512	72,667	75,404	76,489	79,065
Forecast at 2018 Budget	66,840	69,003	70,957	72,605	73,946

Net Surplus Energy Revenue

(in 000s)	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Slice Contracts	70,241	55,181	55,552	42,393	29,666
Net Block Trades	19,482	24,545	14,603	19,396	4,284
Other Net Wholesale	11,222	10,321	15,566	26,191	60,471
Net Wholesale Revenue	100,945	90,046	85,720	87,980	94,421
LT Hydro Contracts	134,816	138,678	131,765	135,311	139,813
Less Other Purchased Power	(1,320)	(1,320)	(1,320)	(1,320)	(660)
Hydro LT Contract Rev/Other PP	133,496	137,359	130,445	133,991	139,153
Surplus Energy Revenue	234,441	227,405	216,165	221,971	233,574
<i>Prior Quarter Reported Forecast</i>	<i>237,907</i>	<i>226,048</i>	<i>216,192</i>	<i>220,923</i>	<i>229,077</i>
<i>Forecast at 2018 Budget</i>	<i>225,395</i>	<i>214,123</i>	<i>205,621</i>	<i>207,544</i>	<i>208,406</i>

Operating Expense

(in 000s)	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Hydro Operations & Maintenance	66,605	67,763	54,601	57,015	60,615
Hydro Fish & Wildlife	16,212	19,661	20,634	19,478	20,157
Hydro Parks & Recreation	7,493	10,362	7,826	8,133	8,316
Electric Distribution	16,290	16,709	17,455	18,086	18,600
Electric Transmission	14,458	13,785	13,724	14,269	15,271
Misc. Power Supply Expenses	4,933	5,559	5,554	5,764	5,980
Water & Wastewater	3,191	3,327	3,401	3,516	3,715
Fiber Network	5,228	4,510	4,947	5,018	5,015
Customer Accounts & Service	3,807	5,034	5,205	5,363	5,555
Conservation & Customer Assist	4,452	4,177	4,665	4,895	5,209
Insurance & FERC Fees	8,472	8,775	9,086	9,374	9,579
Other Admin & General	35,062	35,605	37,028	38,827	41,061
Total	186,203	195,268	184,124	189,738	199,073
<i>Prior Quarter Reported Forecast</i>	<i>187,330</i>	<i>191,531</i>	<i>183,210</i>	<i>188,919</i>	<i>198,213</i>
<i>Forecast at 2018 Budget</i>	<i>177,987</i>	<i>179,203</i>	<i>175,644</i>	<i>180,961</i>	<i>188,439</i>

Capital Projects

(in 000s)	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Electric Distribution	22,864	30,966	31,617	26,381	23,444
Network Transmission	3,958	8,132	8,333	5,985	1,931
Rocky Reach	5,801	9,210	6,038	8,966	9,177
Rock Island	76,139	52,324	40,982	35,409	31,944
Lake Chelan	111	1,429	855	435	570
Internal Services	34,956	41,697	54,425	43,000	2,733
Fiber & Telecom	7,398	5,139	4,576	5,553	4,913
Water	1,068	3,309	1,326	2,258	2,302
Wastewater	3,577	926	927	72	74
Total	155,871	153,132	149,078	128,060	77,088
<i>Prior Quarter Reported Forecast</i>	<i>152,339</i>	<i>157,552</i>	<i>138,783</i>	<i>134,492</i>	<i>77,760</i>
<i>Forecast at 2018 Budget</i>	<i>121,762</i>	<i>98,011</i>	<i>111,697</i>	<i>102,456</i>	<i>94,577</i>

Financial Policy – Financial Liquidity & Days Cash on Hand

Methodology Per Resolution #17-14124

COMBINED	2019	2020	2021	2022	2023
District Total Liquidity Targets	\$190	\$191	\$193	\$184	\$200
Base Case – expected (50% probability)	\$423	\$327	\$232	\$187*	\$202*
Base Case – unusual (10% prob. / cumulative)	\$419	\$316	\$214	\$186*	\$201*
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		\$308	\$197*	\$184*	\$200*
Days Cash on Hand Target	>250	>250	>250	>250	>250
Base Case – expected (50% probability)	591	455	342	269	283
Base Case – unusual (10% prob. / cumulative)	585	440	315	267	282
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		416	280	255	268

* 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)	\$475	\$436	\$395	\$381	\$375
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**	\$30*	\$42*
Base Case – expected	30.6%	27.8%	24.9%	23.5%*	22.5%*
Base Case – unusual	30.7%	28.0%	25.2%	25.2%*	25.4%*
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		28.0%	25.6%*	27.2%*	28.6%*

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

* Assumed debt issuance to maintain adequate liquidity levels

Financial Policy – Debt Service Coverage

(Net Funds from Operations/Computed Debt Service)

COMBINED	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	2.87	2.53	2.51	2.47	2.41
Base Case – unusual	2.78	2.41	2.36	2.21	1.94
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		2.32	2.24	1.96	1.60

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>	6.2% \$77M	- \$57M	- \$55M	- \$52M	- \$52M
Base Case – unusual <i>Bottom-line expectation</i>	5.8% \$73M	- \$51M	- \$47M	- \$43M	- \$32M
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs <i>Bottom-line expectation</i>		- \$46M	- \$41M	- \$31M	- \$13M



Quarterly Investment Report for the quarter ending December 31, 2018

All \$ values are shown in '000s

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

Portfolio Summary

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	YE 2018	WAM	
Average Invested Book Value	\$517 M	\$534 M	\$569 M	\$584 M	\$551 M		
Interest Earned	\$2.5 M	\$2.7 M	\$3.2 M	\$3.4 M	\$11.8 M		
District Yield	1.93%	2.02%	2.25%	2.34%	2.15%	1005	
Benchmarks:							
3 Month T-Bill	1.58%	1.87%	2.06%	2.37%	1.97%	92	
S&P US Treasury 1-3 Year Index	1.29%	1.50%	1.74%	1.96%	1.63%	692	
LGIP (State Pool)	1.50%	1.80%	2.02%	2.30%	1.90%	40	
Fed Funds Effective	1.45%	1.75%	1.93%	2.22%	1.84%	1	

Policy Objectives & Compliance

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

Portfolio Objectives:

For Q4 2018, the District's yield increased to 2.34% on an average invested book value of \$584 million due to improving market interest rates. The District continues to focus on portfolio diversification while maintaining investment objectives. The laddered investment structure continues to be our strategy to support safety of principal and liquidity and mitigate interest rate volatility over time, but can result in the District's yield lagging the shorter term 3 month T-Bill benchmark in both declining and rising interest rate conditions. For example, the 3 month T-Bill rate rose faster than the District's yield during the fourth quarter, but for year end the District's yield exceeded benchmarks. Bank deposits and US Treasuries continue to be held in addition to other investments with higher yields such as US Agencies and Municipal Bonds. These opportunities offer a more attractive yield while still maintaining policy diversification, safety of principal and liquidity. The Weighted Average Maturity (WAM) increased slightly in Q4 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 December 19, 2018 meeting reported that the labor market has continued to strengthen and economic activity has been rising at a strong rate. Job gains have been strong and the unemployment rate has stayed low. Household spending has grown strongly and business fixed income investment has moderated. Inflation has remained near the Committee's 2 percent objective and risks to the economic outlook appear roughly balanced. In view of realized and expected labor market conditions and inflation, the Committee decided to raise the target range for the federal funds rate to 2.25 to 2.50 percent. In determining the timing and size of future adjustments, the Committee will assess economic conditions and a wide range of information relative to its dual maximum employment and 2 percent inflation objectives. The District anticipates gradually increasing rates through 2019. Global and national events can influence financial markets, which may impact the District.



Quarterly Investment Report for the quarter ending December 31, 2018

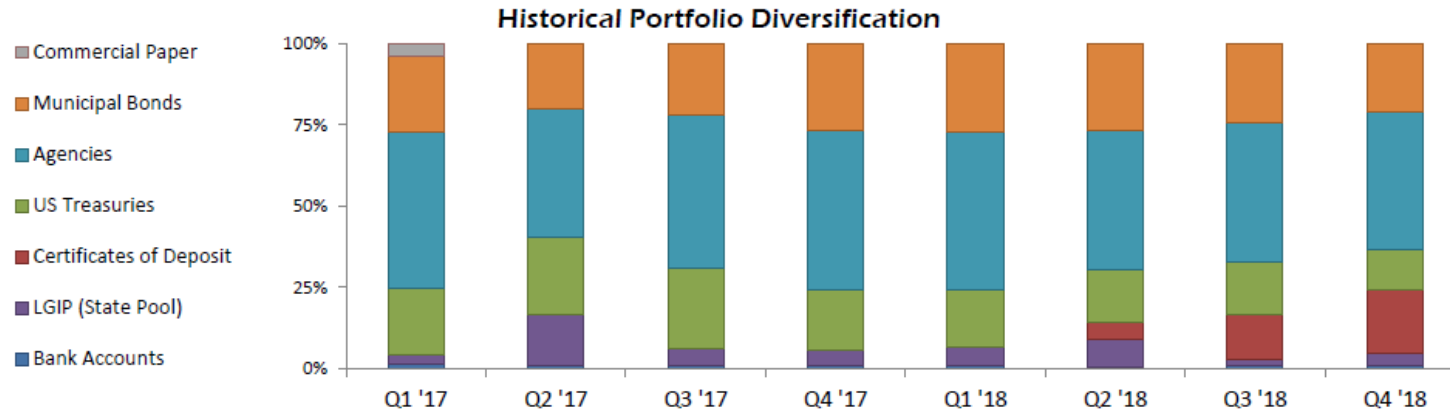
All \$ values are shown in '000s

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

Investments by Type - as of December 31, 2018

	Par Value	GASB 31 Reported Value	Book Value	Book Value as % of Portfolio	Policy % Limit	WAM
Bank Accounts	\$ 3,328	\$ 3,328	\$ 3,328	0.6%	75%	1
Certificates of Deposit	\$ 115,645	\$ 115,645	\$ 115,645	19.5%	40%	1,379
US Treasuries	\$ 73,371	\$ 73,712	\$ 72,979	12.3%	100%	973
LGIP (State Pool)	\$ 25,271	\$ 25,271	\$ 25,271	4.3%	25%	1
US Agencies	\$ 251,798	\$ 248,659	\$ 251,312	42.3%	75%	977
Municipal Bonds	\$ 124,875	\$ 124,788	\$ 125,873	21.2%	30%	963
Total:	\$ 594,288	\$ 591,403	\$ 594,408			1,005

Numbers may not foot due to rounding





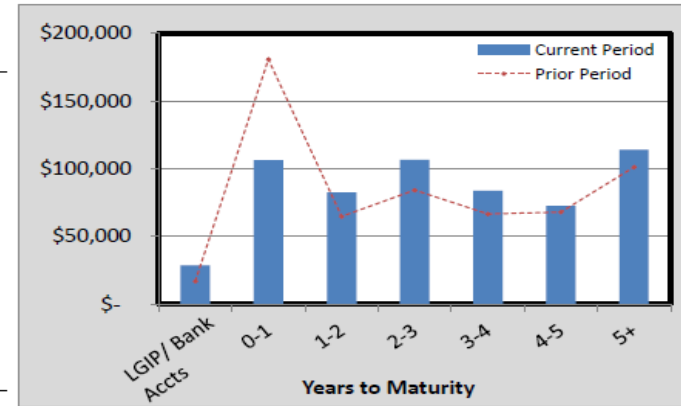
Quarterly Investment Report for the quarter ending December 31, 2018

All \$ values are shown in '000s

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

Maturity Distribution - as of December 31, 2018

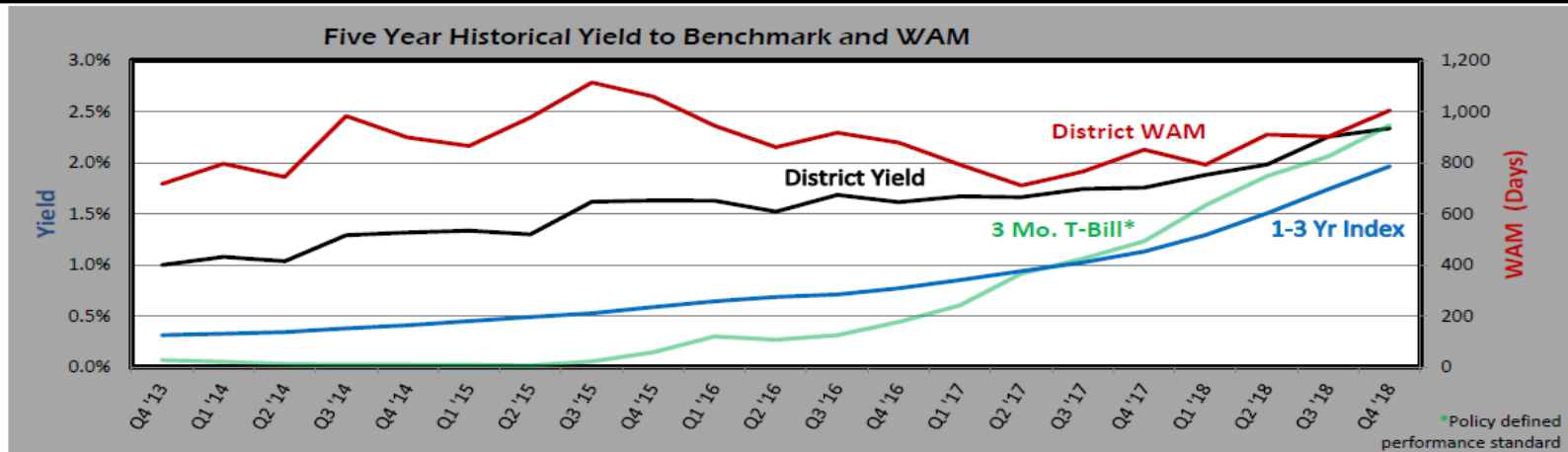
Maturity	Par Value	% of Portfolio	Cumulative % of Portfolio
LGIP	\$ 25,271	4.3%	4.3%
Bank Accounts	\$ 3,328	0.6%	4.8%
1-90 Days	\$ 22,925	3.9%	8.7%
91-180 Days	\$ 68,206	11.5%	20.1%
181-365 Days	\$ 15,265	2.6%	22.7%
1-2 Yrs	\$ 82,332	13.9%	36.6%
2-3 Yrs	\$ 106,566	17.9%	54.5%
3-4 Yrs	\$ 83,741	14.1%	68.6%
4-5 Yrs	\$ 72,688	12.2%	80.8%
5+ Yrs	\$ 113,967	19.2%	100.0%



Total: \$ 594,288 100%

Numbers may not foot due to rounding

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



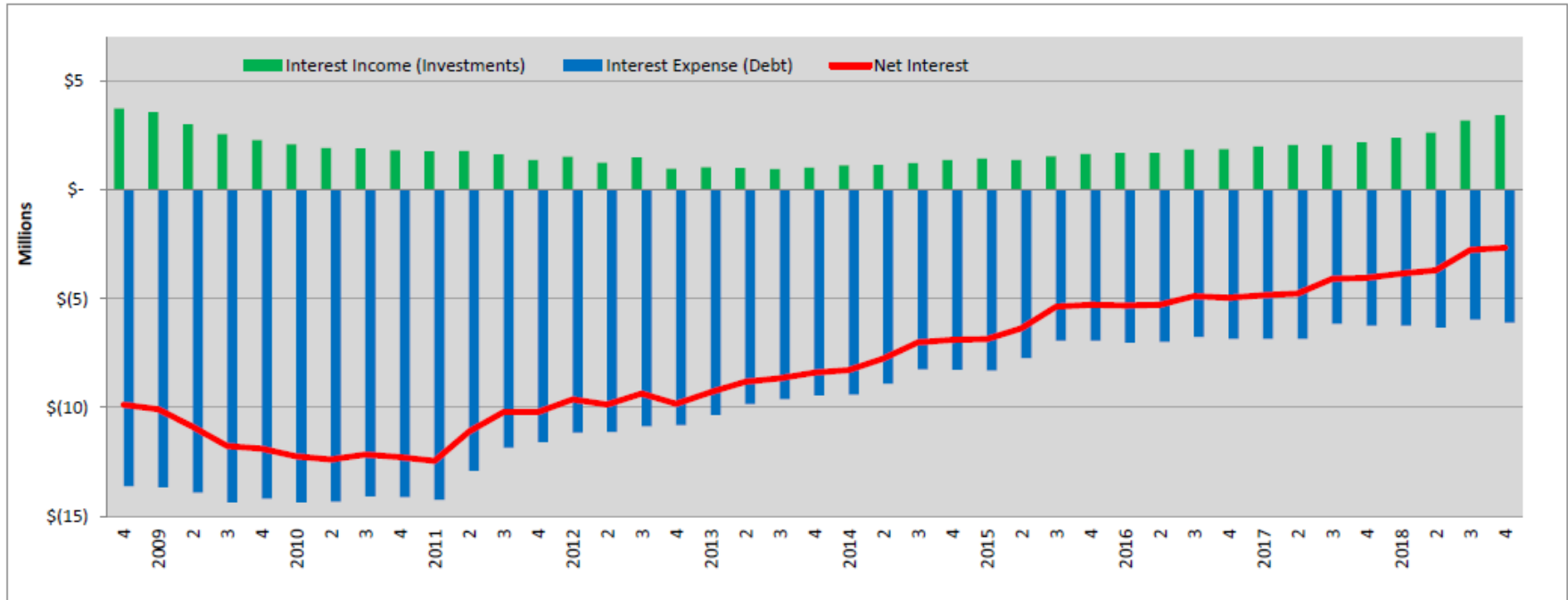


Quarterly Investment Report for the quarter ending December 31, 2018

All \$ values are shown in '000s

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

Historical Net Interest, by Quarter





Quarterly Investment Report for the quarter ending December 31, 2018

All \$ values are shown in '000s

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

Definitions

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

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

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

Book Value- original cost of a bond less amortization.

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

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

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

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

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

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

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

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

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

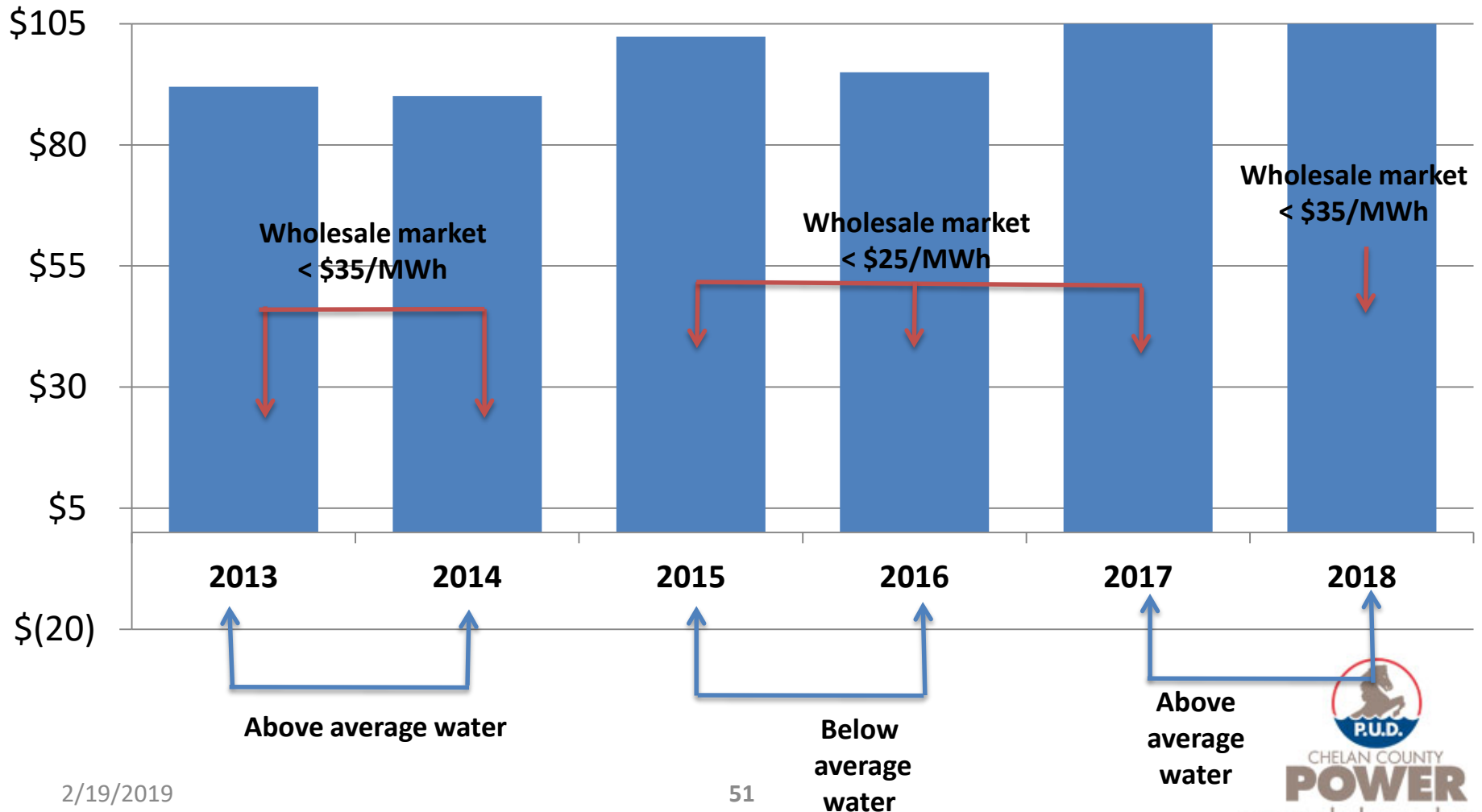
Unamortized Book Value - remaining premium/discount on a fixed income security, equal to the difference between par and book value.

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

Review of the District's Past Financial Results

(amounts in millions)

■ "Bottom-Line"



Historic Review of the District's Financial Results

Six Years Without Overall Rate Increase

■ Residential Energy Rate (¢ per KWH)

