

Chelan County PUD

Quarterly Financial Review

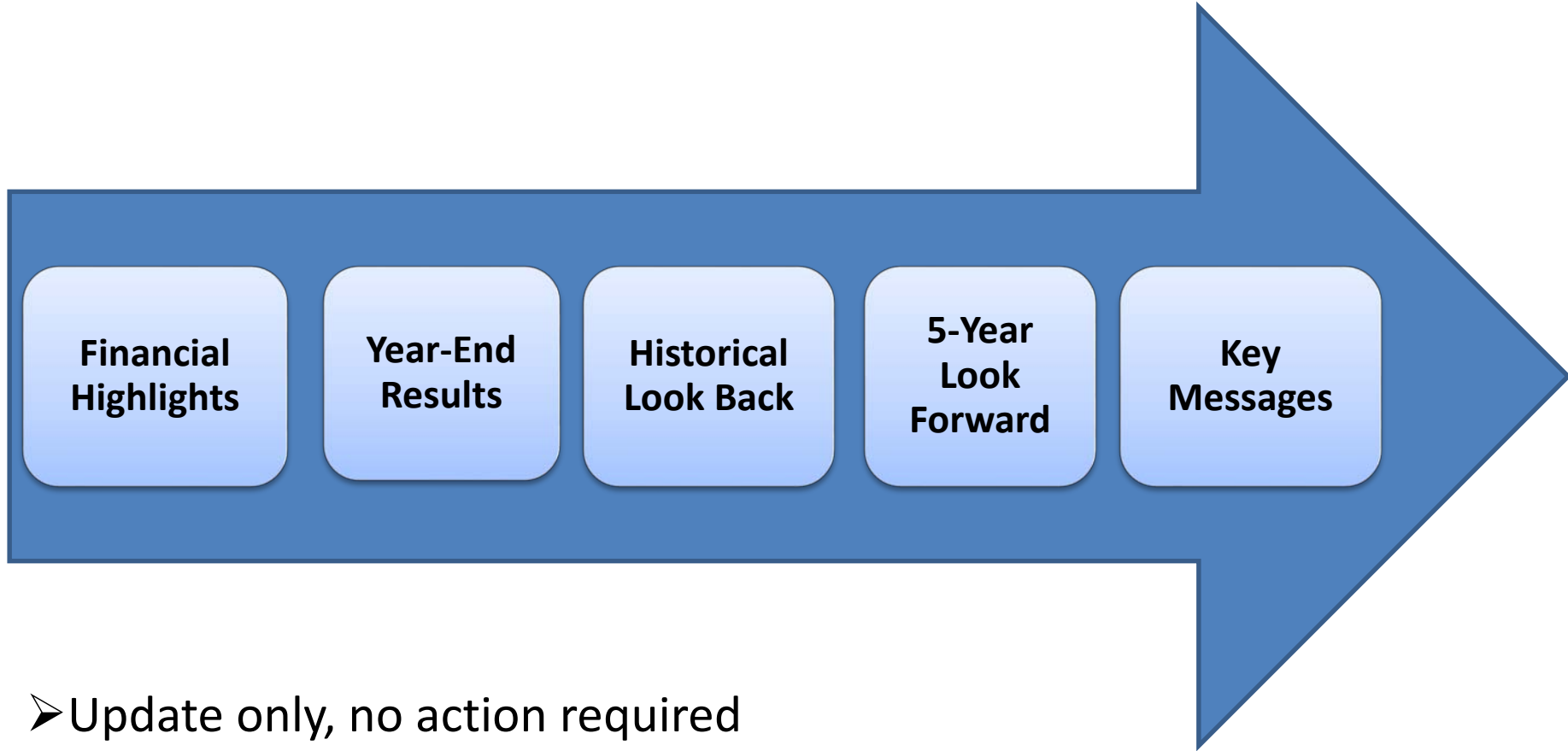
For the Year Ended December 31, 2017

(Note: results are preliminary pending annual audit)

Board Presentation

February 20, 2018

What we will cover today...



- Update only, no action required
- Appendix: Additional detailed information not covered today

Key Highlights

2017 Bottom-line results better than budget

- *Year-end 2017 result \$105.3 million (\$20.0M better than budget)*
- *2017 results improved \$4.1 million since the Q3 report*
- *Combination of higher revenues from colder weather and contract charges along with lower operating costs*

2017 Financial targets achieved

- Financial Liquidity = **\$425M** Target > \$175M
- Days Cash on Hand = **589** Target > 250
- Debt Ratio = **37.5%** Target < 45%-2017, < 35%-2019
- Debt Service Coverage = **3.38** Target > 2.00
- Rate of Return = **9.6%** Target > 4%

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

Financial Highlights - Revenue

Net Wholesale Revenue:

Annual result \$3.6 million below budget (\$110.5M vs. \$114.1M)

Annual result was lower than Q3 forecast of \$112.5M (\$2.0M)

Drivers:

- Generation 98% of budget
- Retail energy use 106% of budget
- Hedging program minimizes impact of 2017 flat price \$21.6 vs \$22.5 budget
- Admin fees of ~\$2.0M budgeted as NWR, recorded to other revenue

Hydro Long-Term Contract Revenue:

Annual result \$0.3 million above budget (\$123.6M vs. \$123.3M)

Annual result was slightly lower than Q3 forecast of \$124.5M (\$0.9M)

Drivers:

- Combined hydro “cost based” operating expenses below budget (95%)
- “Plus” contract charges slightly less than budgeted levels (97%)
- + Retained surplus proceeds ~\$2.7M

Financial Highlights - Revenue

Service Revenue:

Annual result \$2.9 million above budget (\$66.3M vs. \$63.4M)

Annual result was lower than Q3 forecast of \$67.1M (\$0.8M)

Drivers:

+ Retail energy use at 106% of budget: (Residential ~111%, Industrial ~109%, Commercial ~102%)
+Colder than normal winter

Other Operating Revenue:

Annual result \$8.8 million above budget (\$29.7M vs. \$20.9M)

Annual result was higher than Q3 forecast of \$24.6M (\$5.1M)

Drivers:

+ ~\$3 million recognition of revenue associated with the ~\$7 million deferral payment from the Alcoa contract (remainder spread over life of contract)
+ Variable component of real time agreement ~\$1.5M
+~\$3 million insurance proceeds on RR large unit repairs

Financial Highlights - Expenses

Operating Expense:

Annual result \$10.9 million below budget (\$151.6. vs. \$162.5M)

Annual result was below Q3 forecast of \$153.6M (\$2.0M)

Drivers:

- Hydro operations and maintenance at 93% of budget (many projects deferred/delayed due to resource constraints)
- Pension expense actuarial reduction ~\$1.2M (no change to pension program)

Non-Operating Net Expense:

Annual result \$0.5 million below budget (\$16.9M vs. \$17.4M)

Annual result consistent with Q3 forecast of \$16.9M (\$0.0M)

Drivers:

- + Higher contributions in aid of construction (\$5.6M vs \$5.2M)

Financial Highlights – Cost per unit



Electric fully loaded cost per avg kWh better than budget

2017 ¢/kWh result – **6.01¢ vs. 6.06¢** (actual vs. budget)

Power production costs- 2.47¢ vs. 2.42¢ (actual vs. budget)

Power distribution costs- 3.54¢ 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

2017 \$/MWh result - **\$18.2 vs. \$18.8** (actual vs. budget)

Actual vs. Budget

Rocky Reach \$13.9 vs. \$14.2 (operating expense ~99%)

Rock Island \$27.2 vs. \$28.3 (operating expense ~93%)

Lake Chelan \$19.9 vs. \$22.7 (operating expense ~83%)

Financial Highlights – Cost per unit

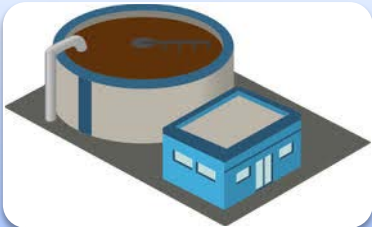


Water cost per 1,000 gallons higher than budget

2017 result - \$5.64 vs. \$5.53 (actual vs. budget)

2017 operating expense 102% of budget

*Operational costs associated w/ unplanned pump repair



Wastewater annual cost per ERU higher than budget

2017 result - \$1,409 vs. \$1,053 (actual vs. budget)

2017 operating expense 134% of budget

*Reclassification of Dryden pipeline from deferred to O&M ~\$200K due to change in plans



Fiber annual cost per active premise better than budget

2017 result - \$416 vs. \$420 (actual vs. budget)

2017 operating expense 99% of budget

Financial Highlights – Balance Sheet

Capital expenditures below budget

- 2017 \$67.9 million vs. budget of \$96.3 million
- 2017 result below Q3 forecast of \$84.8 million (\$16.9M)
- Individual project adjustments:
 - ↓ RI B5 Modernization (~\$2M shifted to 2018)
 - ↓ RI B7 Modernization (~\$8M shifted to 2018)
 - ↓ RI B1-B4 Modernization (~\$3M shifted to 2018)
 - ↓ RI PH2 Gantry and Bridge Cranes (~\$2M shifted to 2018)
 - ↓ RR Fire Alarm System (~\$1M shifted from to 2018)
 - ↓ Distribution and Shared Fleet (~\$2M shifted to 2018)
 - ↓ Microwave Network Replace (~\$3M shifted to 2018)
 - ↓ CIS Upgrade (~\$2M shifted to 2018)

Cash remains strong / Debt reduction strategy on track

- Cash balance increased ~\$28 million in 2017
- Debt balance decreased ~\$52 million in 2017

2017 Bottom-Line Results

(in 000s)	2017 Actuals	2017 Budget	% of budget	2017 Prior Forecast	% change from prior
Service Revenue	66,323	63,373	105%	67,147	-1%
Net Wholesale Revenue	110,536	114,138	97%	112,508	-2%
Hydro LT Contract Rev/Other PP	123,611	123,252	100%	123,208	0%
Other Operating Revenue	29,721	20,886	142%	24,616	21%
Other Operating Expense	(151,581)	(162,493)	93%	(153,642)	1%
Depreciation & Tax Expense	(56,424)	(56,344)	100%	(55,650)	-1%
Operating Income/(Loss)	122,186	102,812	119%	118,187	3%
Non-Operating Activity	(16,865)	(17,436)	97%	(16,935)	0%
"Bottom Line"	105,321	85,375	123%	101,252	4%

Business Line “Bottom-Line” Results

(in 000s)	2017 Actuals	2017 Budget	% of budget	2017 Prior Forecast	% change from prior
Cost-Based Activity	44,894	38,859	116%	45,403	-1%
Market-Based Activity	60,693	54,010	112%	59,418	2%
Retail Activity	(16,812)	(20,644)	81%	(18,388)	9%
Other Activity	12,712	10,416	122%	10,064	26%
Integrated Electric	100,997	82,641	122%	96,497	5%
Fiber & Telecom	4,189	2,274	184%	4,629	-10%
Water	548	620	88%	535	2%
Wastewater	(412)	(160)	(258%)	(410)	-1%
Combined "Bottom-Line"	105,321	85,375	123%	101,252	4%

Capital Expenditures

(in 000s)	2017 Actuals	2017 Budget	% of budget	2017 Prior Forecast	% change from prior
Electric Distribution	11,289	12,598	90%	12,373	-9%
Network Transmission	2,675	3,886	69%	2,785	-4%
Rocky Reach	10,032	13,179	76%	10,632	-6%
Rock Island	33,014	45,542	72%	45,223	-27%
Lake Chelan	66	1,129	6%	164	-60%
Internal Services	6,439	14,397	45%	8,412	-23%
Fiber & Telecom	3,228	3,970	81%	3,576	-10%
Water	821	1,116	74%	1,061	-23%
Wastewater	299	445	67%	305	-2%
Total Expenditures	67,863	96,261	70%	84,531	-20%
Contributions	(5,601)	(5,196)	108%	(5,405)	-4%
Capital net of CIAC	62,262	91,065	68%	79,126	-21%

Overview of 2017 Cash Flow

	\$ Million
Bottom–line result (2017)	\$ 105
Add back non-cash related items (depreciation)	\$ 48
Estimated earned funds from operations	\$ 153
Capital Project Expenditures	\$ 68
Net Debt Reductions	\$ 52
Alcoa deferral payment (~\$7M less ~\$3M recognized)	(\$ 4)
Other Misc. Impacts (change in A/R, A/P, Inventory, Etc.)	\$ 9
Added to cash reserves	\$ 28
Estimated use of funds	\$ 153
Cash and investments, beginning of year	\$ 483
Added to cash reserves	\$ 28
Cash and investments, end of Q4	\$ 511

Cash & Investments Balance

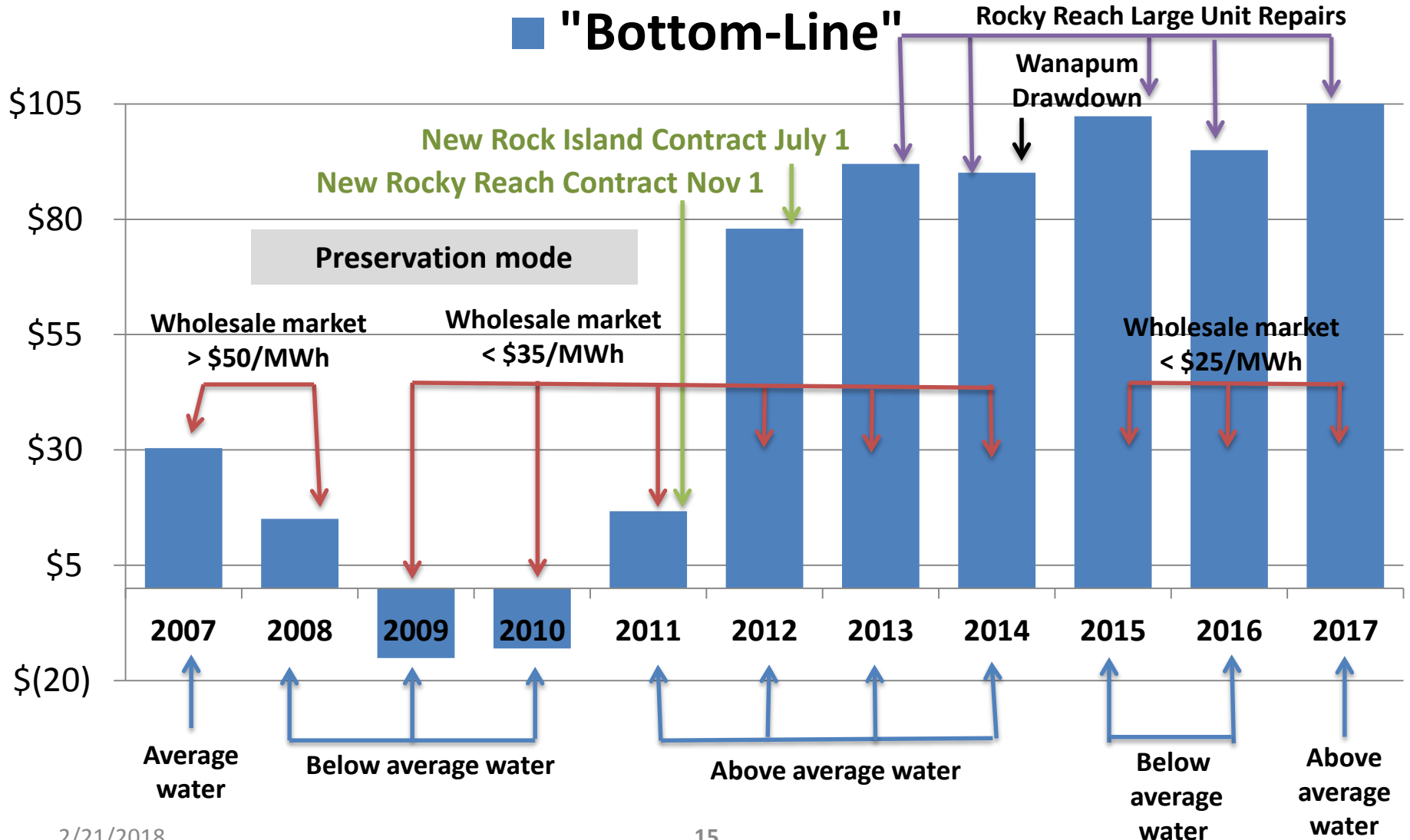
(\$ Millions)	<u>12/31/17</u>	<u>12/31/16</u>
Unrestricted funds	\$329	\$306
Board Designated: Strategic Facilities Plan*	<u>20</u>	<u>0</u>
Unrestricted funds**	347	306
Restricted – DRC & CRC funds for Hydro capital/debt	<u>78</u>	<u>90</u>
Total Liquidity (policy minimum \$175M)	\$425	\$396
Restricted - bond reserve funds	53	55
Restricted - power contract deposits	21	20
Restricted - self insurance and other funds	<u>12</u>	<u>12</u>
Total Cash and Investments	<u>\$511</u>	<u>\$483</u>

* Would the Board like to designate additional savings for Strategic Facilities Plan from 2017 results?

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

Review of the District's Past Financial Results

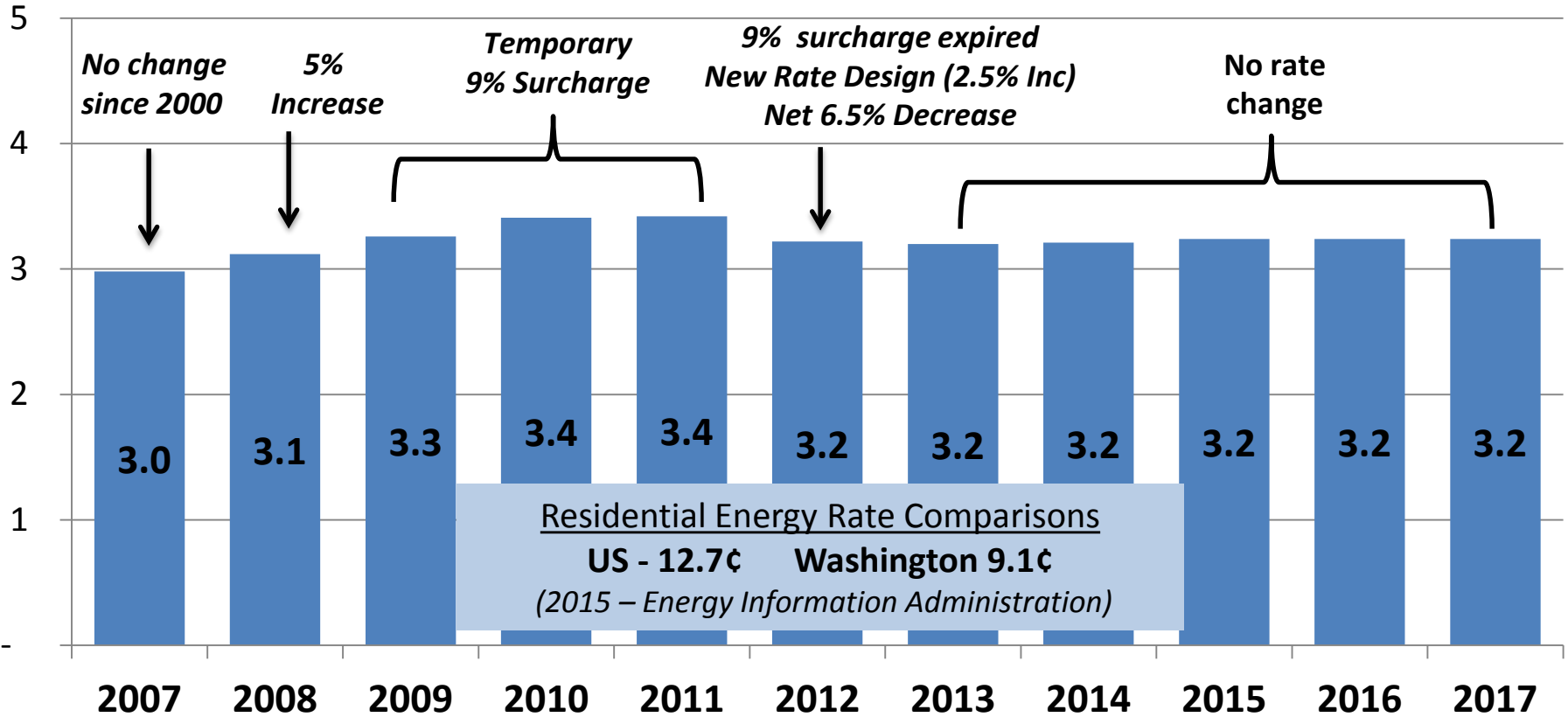
(amounts in millions)



Historic Review of the District's Financial Results

Five Years Without Overall Rate Increase

■ Residential Energy Rate (¢ per KWH)

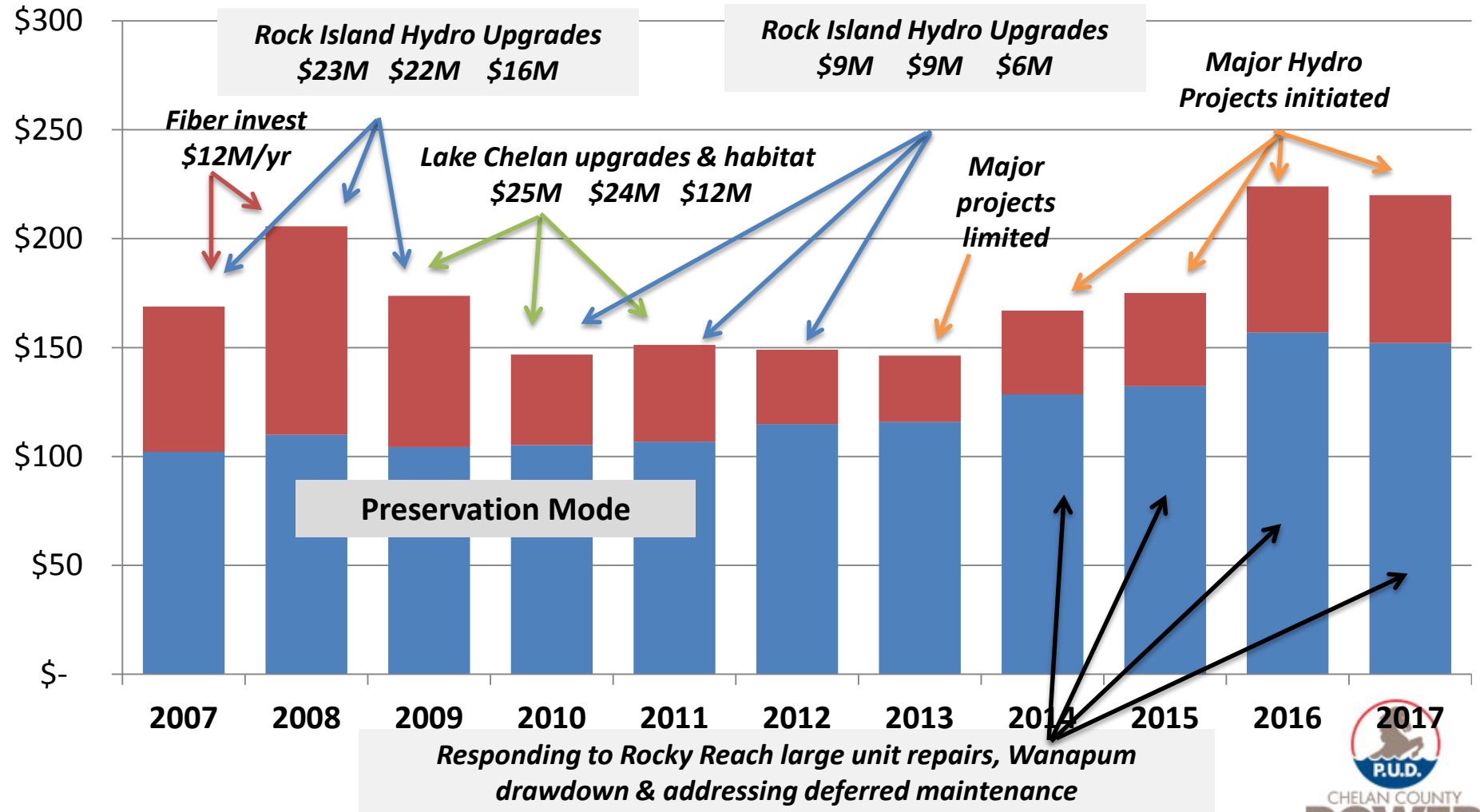


Historic Review of the District's Financial Results

(amounts in millions)

■ Operations & Maintenance

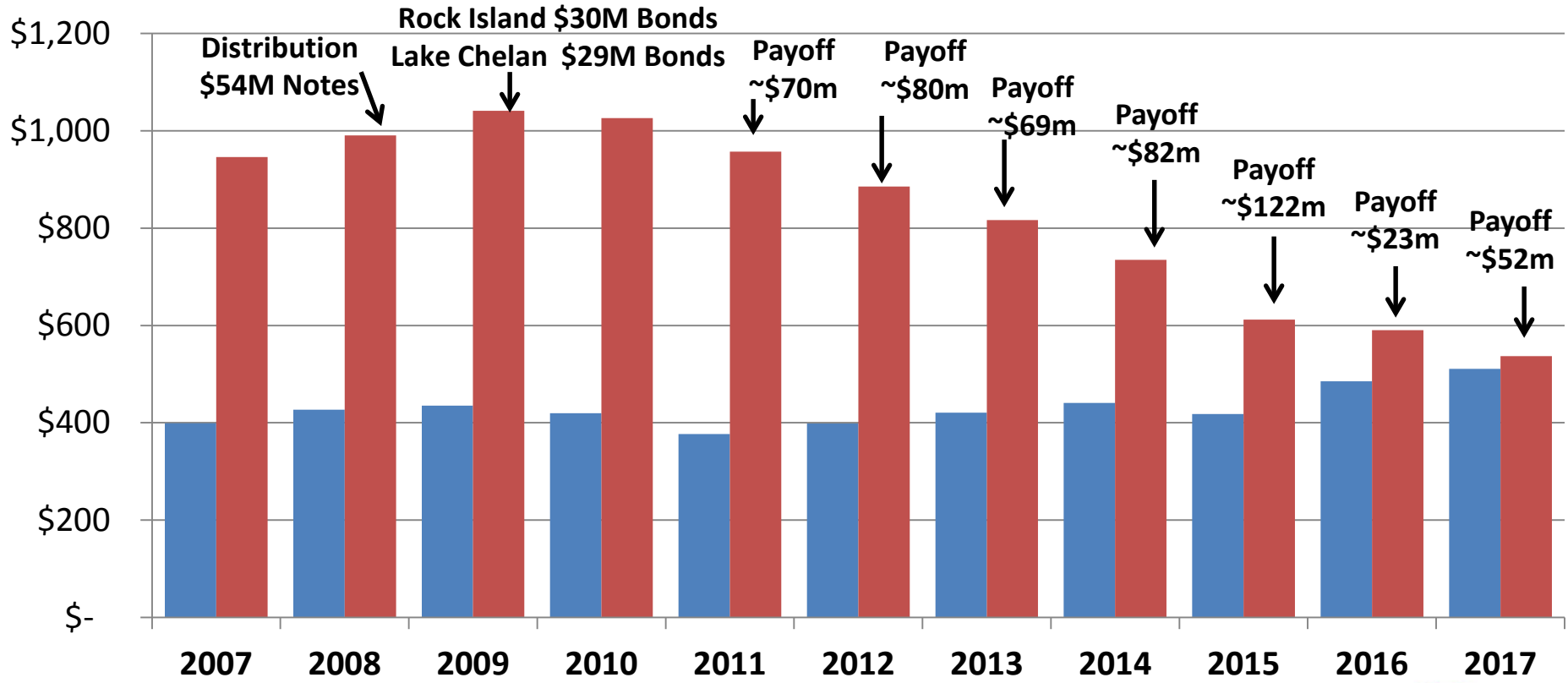
■ Plant Additions



Historic Review of the District's Financial Results

(amounts in millions)

Cash **Debt**



Quarterly Reporting Requirement - Financial Policies

District Combined	2017	2018	2019	2020	2021
Liquidity - \$175M Min (Expected)	\$425M	\$368M	\$310M	\$270M	\$213M
Liquidity - \$175M Min (Unusual)		\$365M	\$301M	\$255M	\$190M
Debt Ratio (Expected <35% by 2019)	37.5%	34.8%	31.5%	28.7%	25.9%
Debt Ratio (Unusual <35% by 2019)		34.8%	31.7%	29.0%	26.3%
Days Cash on Hand (Expected >250)	589	589	492	426	340
Days Cash on Hand (Unusual > 250)		584	479	403	304
Combined Debt Cover (Expected > 2.00x)	3.38	2.77	2.70	2.46	2.40
Combined Debt Cover (Unusual >1.25x)		2.72	2.59	2.33	2.24
Rate of Return (Expected > 4% thru 2019)	9.6%	5.9%	5.0%	Sunset	
Rate of Return (Unusual > 2% thru 2019)		5.7%	4.5%		
Bottom Line Results (Expected)	\$105M	\$71M	\$63M	\$50M	\$48M
Bottom Line Results (Unusual)		\$68M	\$58M	\$44M	\$40M
Outstanding Debt (Expected)	\$537M	\$514M	\$473M	\$434M	\$393M
Outstanding Debt (Unusual)		\$514M	\$473M	\$434M	\$393M

Implementation of Strategic Facilities Plan has been reflected in Q4 update

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	2017	2018	2019	2020	2021
WATER Business Line					
Operating Expense Coverage (target >120%)	130%	139%	135%	139%	135%
Cash Reserves (target > \$1.25 million)	\$3.8M	\$3.8M	\$3.6M	\$2.8M	\$1.8M
Debt Ratio (target <35%)	13%	11%	9%	7%	5%
WASTEWATER Business Line					
Operating Expense Coverage (target >100% by 2019)	70%	81%	104%	103%	103%
Cash Reserves (target > \$200K)	\$2.4M	\$3.0M	\$2.2M	\$2.5M	\$2.4M
Debt Ratio (target <35%)	---	---	10%	10%	17%
FIBER Business Line					
Operating Expense Coverage (target >120%)	177%	167%	157%	165%	157%
Cash Reserves (target > \$2.0 million)	\$12.2M	\$12.8M	\$12.1M	\$14.0M	\$16.1M
Debt Ratio (target <35%)	---	---	---	---	---

Quarterly Reporting Requirement Individual Business Line Financial Policies

Monitoring during
test period

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

Business Lines	2017	2018	2019	2020	2021
Integrated Electric Business Line					
Retail Total Cost Ratio (target)	>65%	>65%	>65%	>65%	>65%
Retail Total Cost Ratio 	76%	66%	68%	66%	67%
Retail OM&T Cost Ratio (target)	> 90%	> 90%	> 90%	> 90%	> 90%
Retail OM&T Cost Ratio 	104%	87%	89%	87%	91%
Retail Rate Support Limit (target)	\$25.0M	\$25.6M	\$26.3M	\$26.9M	\$27.6M
Retail Rate Support 	\$16.8M	\$25.9M	\$24.4M	\$27.6M	\$26.3M
Market Based Margin Limit (target)	\$25.0M	\$25.0M	\$25.0M	\$25.0M	\$25.0M
Market Based Margin 	\$60.7M	\$45.6M	\$42.5M	\$31.9M	\$28.3M

Metrics indicating that our electric revenues may not be keeping up with our costs as we continue to make significant investments in our assets

Quarterly Investment Report

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

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	YTD 2017	WAM
Average Invested Book Value (\$M)	\$485	\$499	\$471	\$498	\$488	
District Yield	1.67%	1.66%	1.74%	1.76%	1.72%	851
Benchmarks:						
3 Month T-Bill	0.60%	0.92%	1.06%	1.23%	0.95%	92
Barclays Gov. 1-3 Year Index	1.24%	1.31%	1.38%	1.70%	1.41%	692

- Q4 2017 yield increased slightly to 1.76% due to improving market interest rates
- December 13, 2017 Federal Open Market Committee meeting report:
 - Economic activity continued to strengthen at a solid pace
 - Continuing to monitor inflation indicators and global developments, the near term outlook appears stable
 - Federal funds rate target changed to 1.50%
 - Gradually increasing, although continued relatively low rates, are anticipated through 2018
- 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.

Key Messages

2017 results better than budget

- 2017 Bottom-Line ~\$105 million (*~\$20M better than budget*)
- 2017 Cash balance ~\$511 million (*~\$28M added to reserves in 2017*)

Long-term financial policies on track

- Current results strong but long-term forecasts show declining bottom lines (~\$48M for 2021) from lower forecasted electric wholesale prices over planning horizon
- Total cash reserves forecasted to decline for planned beneficial uses to reduce debt and reinvest in core assets - lower balances still strong through planning horizon
- Less revenue and needed investments mean borrowing and managing revenue will be needed sooner than previously forecast

Stay the course with strategic goals

- Reinvest in core assets and people
- Achieve <35% debt ratio by 2019
- Continue public power benefit program
- Consider designating additional funds to savings for Strategic Facilities Plan

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.

Service Revenue

(in 000s)	Actuals 2017	Budget 2017	%	Variance
Residential Electric	27,944	25,579	109%	Cold winter / high usage
Commercial Electric	17,004	16,600	102%	Partially weather driven usage
Industrial Electric	4,896	4,453	110%	Industrial & HDL in aggregate at 102% of budget.
High Density Load	1,504	1,802	83%	
Other Electric	1,499	1,739	86%	Weather driven variance
Electric Service	52,847	50,173	105%	
Water Service	5,756	5,860	98%	In line with budget
Wastewater Service	645	668	97%	In line with budget
Fiber & Telecom	7,075	6,672	106%	Internet / Dark Fiber usage
Service Revenue	66,323	63,373	105%	

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 2017	Budget 2017	%	Variance
Slice Contracts	78,934	79,067	100%	In line with budget
Net Block Trades	26,201	27,833	94%	High retail usage (106%) Admin Fees ~\$2M in Other Revs (Aggregate 89% of Budget)
Other Net Wholesale	5,402	7,238	75%	
Net Wholesale Revenue	110,536	114,138	97%	
LT Hydro Contracts	124,932	124,572	100%	In line with budget
Less Other Purchased Power	(1,322)	(1,320)	100%	In line with budget
Hydro LT Contract Rev/Other PP	123,611	123,252	100%	
Surplus Energy Revenue	234,147	237,390	99%	

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

Operating Expense

(in 000s)	Actuals 2017	Budget 2017	%	Variance
Hydro Operations & Maintenance	51,926	56,081	93%	Timing of large unit repairs
Hydro Fish & Wildlife	13,806	15,511	89%	Expenses to Hydro Ops/Maint
Hydro Parks & Recreation	6,847	7,273	94%	Old Mill Park Asphalt Repair
Electric Distribution	13,651	13,135	104%	In line with budget
Electric Transmission	11,463	12,896	89%	Open positions / compliance
Misc. Power Supply Expenses	4,218	5,165	82%	Independent Operations
Water & Wastewater	3,190	2,874	111%	WW deferred costs to O&M
Fiber Network	3,912	3,960	99%	In line with budget
Customer Accounts & Service	3,838	3,898	98%	In line with budget
Conservation & Customer Assist	2,427	2,965	82%	Amortization of reg asset
Insurance & FERC Fees	5,638	8,346	68%	FERC fee true up / Large unit ins
Other Admin & General	30,665	30,388	101%	In line with budget
Total	151,581	162,493	93%	

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

Non-Operating Activity

(in 000s)	Actuals 2017	Budget 2017	%	Variance
Interest Earnings	7,985	8,015	100%	In line with budget
Capital Contributions	5,647	5,192	109%	Line extensions
Interest Expense	(26,717)	(26,736)	100%	In line with budget
Other Inc/(Exp)	(3,780)	(3,907)	97%	Small dollar variance
Non Operating Activity	(16,865)	(17,436)	97%	

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

Integrated Electric

(in 000s)	Actuals 2017	Budget 2017	%	Variance
Service Revenue	52,933	50,258	105%	Cold winter / higher usage
Net Wholesale Revenue	110,536	114,138	97%	CTCI Admin Fees reclassified to Other Rev
Hydro LT Contract Rev/Other PP	123,611	123,252	100%	In line with budget
Other Operating Revenue	31,207	21,874	143%	Alcoa contract deferral / RTA
Other Operating Expense	(146,056)	(155,876)	94%	Hydro Ops & Maint. Exp below budget
Depreciation & Tax Expense	(51,188)	(50,671)	101%	In line with budget
Operating Income/(Loss)	121,043	102,975	118%	
Non-Operating Activity	(20,046)	(20,334)	99%	In line with budget
"Bottom Line"	100,997	82,641		

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

Fiber & Telecom

(in 000s)	Actuals 2017	Budget 2017	%	Variance
Service Revenue	10,387	9,114	114%	Internal dark fiber / internet
Other Operating Revenue	2	1	171%	Small dollar variance
Other Operating Expense	(5,976)	(6,028)	99%	In line with budget
Depreciation & Tax Expense	(2,645)	(3,116)	85%	Depreciation estimate refinement
Operating Income/(Loss)	1,768	(29)	---	
Non-Operating Activity	2,421	2,302	105%	In line with budget
"Bottom Line"	4,189	2,274		

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

Water

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Service Revenue	5,975	6,099	98%	In line with budget
Other Operating Revenue	65	60	109%	Small dollar variance
Other Operating Expense	(3,802)	(3,722)	102%	In line with budget
Depreciation & Tax Expense	(2,317)	(2,306)	101%	In line with budget
Operating Income/(Loss)	(79)	131	---	
Non-Operating Activity	627	489	128%	Customer contributions
"Bottom Line"	548	620		

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

Wastewater

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Service Revenue	645	668	97%	In line with budget
Other Operating Revenue	2	2	124%	Small dollar variance
Other Operating Expense	(921)	(685)	134%	Dryden pipeline: Deferral to O&M
Depreciation & Tax Expense	(273)	(250)	109%	Small dollar variance
Operating Income/(Loss)	(546)	(266)	206%	
Non-Operating Activity	134	106	126%	Small dollar variance
"Bottom Line"	(412)	(160)		

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

Actual Cash Balance Comparison to Budget

(millions)	2017
Total Cash – Budgeted year-end balance	\$ 439
Key changes in cash forecast:	
Decrease in capital projects	\$ 28
Improvement in operating activity	\$ 20
Alcoa contract deferral (\$7M less \$3M recognized in income)	\$ 4
Other changes in A/R, A/P, inventory, etc.	\$20
Total Cash – Actual year-end balance	\$ 511
Prior quarter – 2017 year-end forecasted balance	\$ 482

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
 - (2018-22: 1.88%, 2.14%, 2.33%, 2.58%, 2.86%)

Cash and Debt Funding Capacity

	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
Cash Funding Capacity	\$193M	\$135M	\$95M	\$38M	\$26M
“liquidity in excess of minimum \$175M target”					
Debt Funding Capacity	\$6M	\$79M	\$146M	\$213M	\$238M
“financing capability up to maximum debt ratio target of 35%”					
Total Funding Capacity	\$199M	\$214M	\$241M	\$251M	\$264M

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, including incorporating the potential impact on Debt Service Coverage.

Combined Five-Year Forecast

(in 000s)	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
Service Revenue	64,693	66,840	69,003	70,957	72,605
Net Wholesale Revenue	106,638	103,153	92,628	87,701	87,458
Hydro LT Contract Rev/Other PP	119,256	121,157	121,566	117,455	120,601
Other Operating Revenue	21,129	22,444	22,104	23,631	22,804
Other Operating Expense	(173,846)	(177,900)	(180,002)	(175,600)	(181,003)
Depreciation & Tax Expense	(52,326)	(56,697)	(60,589)	(62,812)	(66,022)
Operating Income/(Loss)	85,544	78,997	64,710	61,331	56,443
Non-Operating Activity	(14,898)	(15,784)	(14,256)	(13,189)	(13,309)
"Bottom Line"	70,645	63,213	50,454	48,142	43,134
Prior Quarter Reported Forecast	70,244	64,326	52,306	48,845	43,181
Forecast at 2017 Budget	66,205	56,580	48,768	46,217	57,918

Service Revenue

(in 000s)	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
Residential Electric	25,586	25,825	26,048	26,262	26,464
Commercial Electric	16,611	16,735	16,853	16,959	17,053
Industrial Electric	4,392	4,400	4,434	4,497	4,590
High Density Load	2,265	2,784	4,056	5,505	6,477
Other Electric	1,814	1,818	1,821	1,823	1,822
Electric Service	50,668	51,563	53,213	55,046	56,406
Water Service	6,038	6,282	6,536	6,800	7,075
Wastewater Service	701	743	765	788	812
Fiber & Telecom	7,287	8,252	8,489	8,323	8,312
Service Revenue	64,693	66,840	69,003	70,957	72,605
Prior Quarter Reported Forecast	64,724	66,860	68,997	70,944	72,245
Forecast at 2017 Budget	64,555	66,019	68,254	70,725	72,464

Net Surplus Energy Revenue

(in 000s)	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
Slice Contracts	81,347	70,241	55,181	55,552	42,393
Net Block Trades	23,781	26,037	25,711	16,215	15,221
Other Net Wholesale	1,509	6,875	11,736	15,934	29,845
Net Wholesale Revenue	106,638	103,153	92,628	87,701	87,458
LT Hydro Contracts	120,576	122,477	122,886	118,775	121,921
Less Other Purchased Power	(1,320)	(1,320)	(1,320)	(1,320)	(1,320)
Hydro LT Contract Rev/Other PP	119,256	121,157	121,566	117,455	120,601
Surplus Energy Revenue	225,893	224,310	214,194	205,156	208,059
<i>Prior Quarter Reported Forecast</i>	<i>228,173</i>	<i>222,776</i>	<i>208,350</i>	<i>198,369</i>	<i>199,241</i>
<i>Forecast at 2017 Budget</i>	<i>226,806</i>	<i>213,319</i>	<i>203,539</i>	<i>191,518</i>	<i>209,569</i>

Operating Expense

(in 000s)	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
Hydro Operations & Maintenance	59,138	58,778	58,726	49,810	53,068
Hydro Fish & Wildlife	16,751	18,190	18,448	19,517	18,399
Hydro Parks & Recreation	7,715	9,093	8,062	7,868	7,865
Electric Distribution	15,398	15,596	16,261	17,027	17,619
Electric Transmission	13,220	12,724	13,095	13,334	13,755
Misc. Power Supply Expenses	5,317	6,028	6,241	6,261	6,497
Water & Wastewater	3,102	3,072	3,065	3,322	3,430
Fiber Network	4,581	5,314	5,034	5,152	5,355
Customer Accounts & Service	3,999	4,548	4,686	4,839	4,974
Conservation & Customer Assist	3,459	3,930	4,199	4,663	4,914
Insurance & FERC Fees	8,670	8,565	9,000	9,308	9,591
Other Admin & General	32,497	32,062	33,184	34,498	35,535
Total	173,846	177,900	180,002	175,600	181,003
<i>Prior Quarter Reported Forecast</i>	<i>174,594</i>	<i>177,622</i>	<i>178,262</i>	<i>175,048</i>	<i>180,357</i>
<i>Forecast at 2017 Budget</i>	<i>172,975</i>	<i>172,206</i>	<i>173,778</i>	<i>168,415</i>	<i>173,618</i>

Capital Projects

(in 000s)	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
Electric Distribution	14,957	23,995	20,850	20,991	21,653
Network Transmission	2,891	8,078	5,019	6,527	4,861
Rocky Reach	8,209	5,752	7,372	3,029	6,581
Rock Island	83,791	46,755	20,488	47,398	44,396
Lake Chelan	1,461	416	908	225	435
Internal Services	20,629	29,726	34,598	26,075	19,200
Fiber & Telecom	5,623	6,086	5,759	4,667	4,572
Water	1,299	1,149	2,293	2,472	1,427
Wastewater	1,344	1,824	926	927	27
Total	140,204	123,781	98,213	112,311	103,151
<i>Prior Quarter Reported Forecast</i>	<i>123,962</i>	<i>86,521</i>	<i>63,480</i>	<i>88,910</i>	<i>85,811</i>
<i>Forecast at 2017 Budget</i>	<i>99,936</i>	<i>76,286</i>	<i>65,150</i>	<i>70,919</i>	<i>127,280</i>

Financial Policy – Financial Liquidity & Days Cash on Hand

Methodology Per Resolution #17-14124

COMBINED	2018	2019	2020	2021	2022
District Total Liquidity Targets	\$175	\$188	\$215	\$184	\$198
Base Case – expected (50% probability)	\$368	\$310	\$270	\$213	\$201*
Base Case – unusual (10% prob. / cumulative)	\$365	\$301	\$255	\$190	\$199*
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		\$293	\$238	\$188*	\$199*
Days Cash on Hand Target	>250	>250	>250	>250	>250
Base Case – expected (50% probability)	589	492	426	340	314
Base Case – unusual (10% prob. / cumulative)	584	479	403	304	312
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		446	358	287	297

* Assumes external debt financing to maintain liquidity targets

Financial Policy – Debt Ratio

(Debt/(Debt + Equity))

COMBINED	2018	2019	2020	2021	2022
District Targets	<40%	<35%	<35%	<35%	<35%
Outstanding Debt Balance - YE(million)	\$514	\$473	\$434	\$393	\$391
Scheduled Debt Retirements (million)	\$24	\$25	\$28	\$30	\$32
Planned Debt Accelerations (million)	\$ -	\$16	\$11	\$12	\$12
Forecasted Debt Issuance - expected (million)	\$ -	\$ -	\$ -	\$ -	\$42*
Base Case – expected	34.8%	31.5%	28.7%	25.9%	25.1%*
Base Case – unusual	34.8%	31.7%	29.0%	26.3%	27.3%*
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		31.8%	29.1%	27.8%*	29.5%*

* Assumed debt issuance to maintain adequate liquidity levels

2/21/2018

Financial Policy – Debt Service Coverage

(Net Funds from Operations/Computed Debt Service)

COMBINED	2018	2019	2020	2021	2022
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	2.77	2.70	2.46	2.40	2.26
Base Case – unusual	2.72	2.59	2.33	2.24	1.95
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		2.51	2.24	2.09	1.79

Financial Policy – Rate of Return

(Change in Net Position/Net Plant)

COMBINED	2018	2019	2020	2021	2022
District Targets (expected)	>4%	>4%	Sunset		
District Targets (unusual)	>2%	>2%			
Base Case – expected (50% probability) <i>Bottom-line expectation</i>	5.9% \$71M	5.0% \$63M	- \$50M	- \$48M	- \$43M
Base Case – unusual (5% probability) <i>Bottom-line expectation</i>	5.7% \$68M	4.5% \$58M	- \$44M	- \$40M	- \$31M
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs <i>Bottom-line expectation</i>		4.2% \$54M	- \$39M	- \$34M	- \$23M



Quarterly Investment Report for the quarter ending December 31, 2017

All \$ values are shown in '000s

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

Portfolio Summary

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	YE 2017	WAM	
Average Invested Book Value	\$485 M	\$499 M	\$471 M	\$498 M	\$488 M		
Interest Earned	\$2.0 M	\$2.1 M	\$2.1 M	\$2.2 M	\$8.4 M		
District Yield	1.67%	1.66%	1.74%	1.76%	1.72%	851	
Benchmarks:							
3 Month T-Bill	0.60%	0.92%	1.06%	1.23%	0.95%	92	
S&P US Treasury 1-3 Year Index	1.24%	1.31%	1.38%	1.70%	1.41%	692	
LGIP (State Pool)	0.66%	0.90%	1.10%	1.19%	0.96%	36	
Fed Funds Effective	0.70%	0.95%	1.15%	1.20%	1.00%	1	

Policy Objectives & Compliance

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

General Commentary:

For Q4 2017, the District's yield increased to 1.76% on an average invested book value of \$498 million due improving market interest rates.

The Federal Open Market Committee's December 13, 2017 meeting reported that the labor market has continued to strengthen and economic activity has been rising at a solid rate. Job gains have been solid and the unemployment rate declined further. Inflation is running below the Committee's 2 percent longer-run objective, but household spending has been expanding at a moderate rate and growth in business fixed investment has picked up. While the Committee continues to monitor inflation indicators and global developments closely, the near term outlook appears stable. 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 1-1/2 percent. The Committee expects with gradual adjustments in monetary policy, economic activity will expand at a moderate pace and labor market conditions will remain strong. The District anticipates gradually increasing, although continued relatively low, rates through 2018. Global and national events 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 overtime.

Portfolio Objectives and Diversification:

The District continues to focus on portfolio diversification while maintaining investment objectives. A portion of 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.

Maturity Length:

The Weighted Average Maturity (WAM) increased 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.



Quarterly Investment Report for the quarter ending December 31, 2017

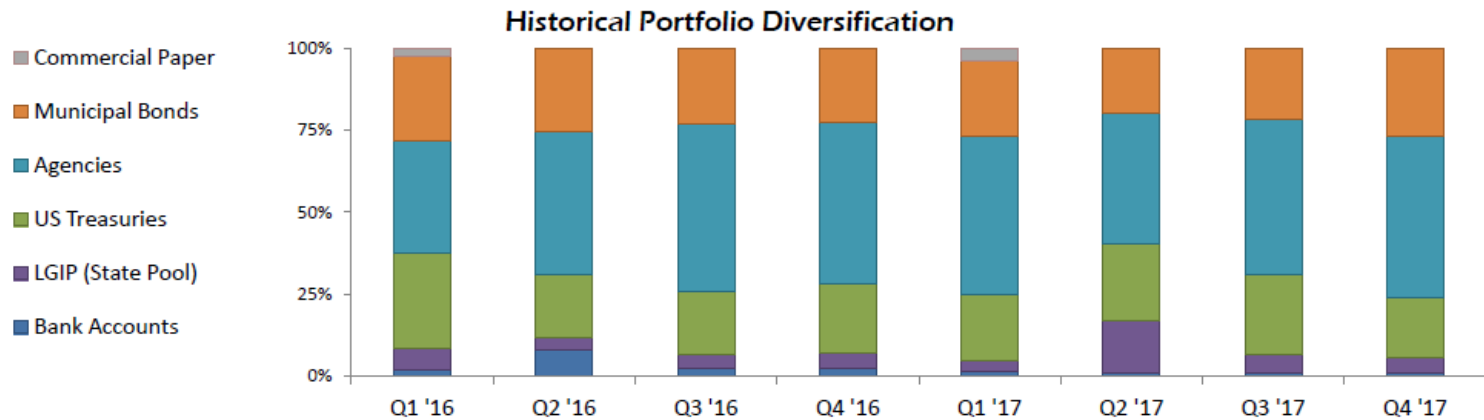
All \$ values are shown in '000s

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

Investments by Type - as of December 31, 2017

	Par Value	GASB 31 Reported Value	Book Value	Book Value as % of Portfolio	Policy % Limit	WAM
Bank Accounts	\$ 4,067	\$ 4,067	\$ 4,067	0.79%	75%	1
US Treasuries	\$ 95,246	\$ 95,367	\$ 93,988	18.31%	100%	1,075
LGIP (State Pool)	\$ 25,346	\$ 25,346	\$ 25,346	4.94%	25%	1
US Agencies	\$ 251,978	\$ 249,627	\$ 252,124	49.13%	75%	825
Municipal Bonds	\$ 135,685	\$ 136,865	\$ 137,690	26.83%	30%	928
Commercial Paper	\$ 0	\$ 0	\$ 0	0.00%	25%	-
Total:	\$ 512,323	\$ 511,272	\$ 513,215			851

Numbers may not foot due to rounding





Quarterly Investment Report for the quarter ending December 31, 2017

All \$ values are shown in '000s

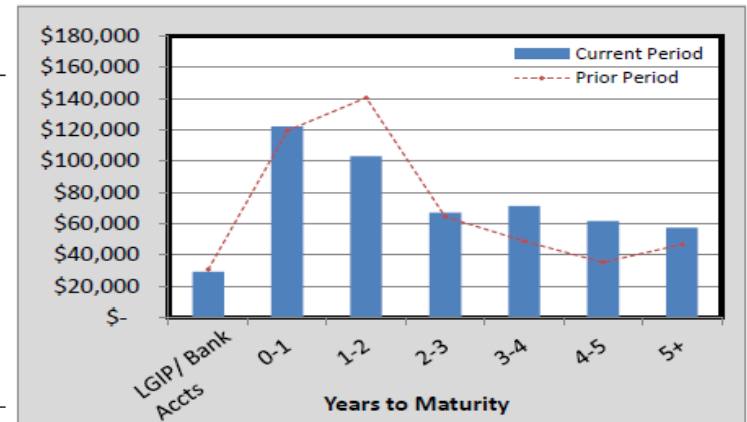
Prepared in accordance with District Banking and Investment Policy #16-14094

Maturity Distribution - as of December 31, 2017

Maturity	Par Value	% of Portfolio	Cumulative % of Portfolio
LGIP	\$ 25,346	4.9%	4.9%
Bank Accounts	\$ 4,067	0.8%	5.7%
1-90 Days	\$ 1,050	0.2%	5.9%
91-180 Days	\$ 70,467	13.8%	19.7%
181-365 Days	\$ 50,607	9.9%	29.6%
1-2 Yrs	\$ 103,056	20.1%	49.7%
2-3 Yrs	\$ 67,200	13.1%	62.8%
3-4 Yrs	\$ 71,299	13.9%	76.7%
4-5 Yrs	\$ 61,810	12.1%	88.8%
5+ Yrs	\$ 57,420	11.2%	100.0%

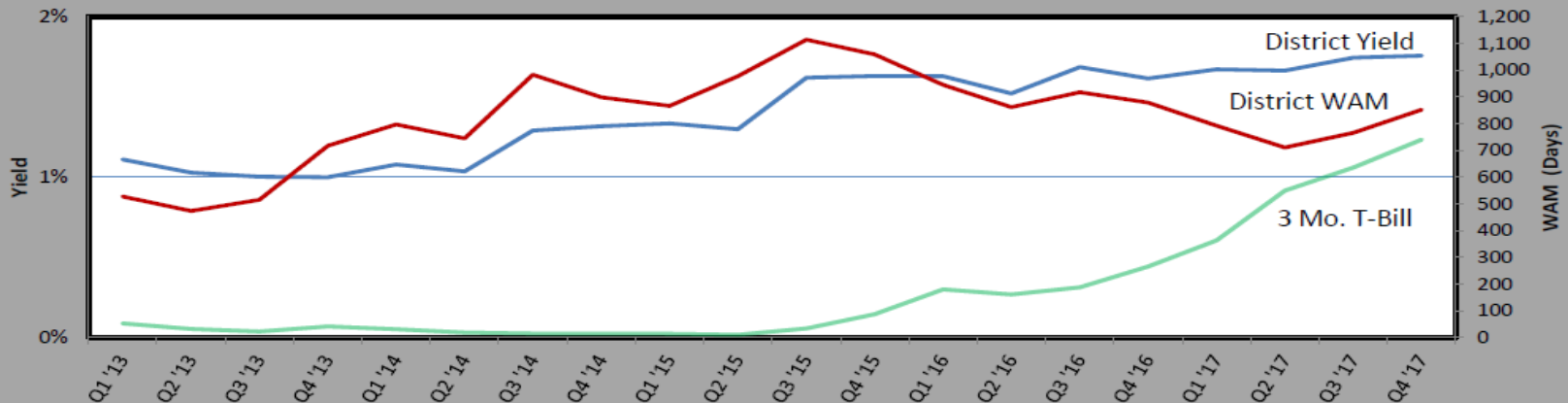
Total: \$ 512,323 100%

Numbers may not foot due to rounding



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

Five Year Historical Yield to Benchmark and WAM



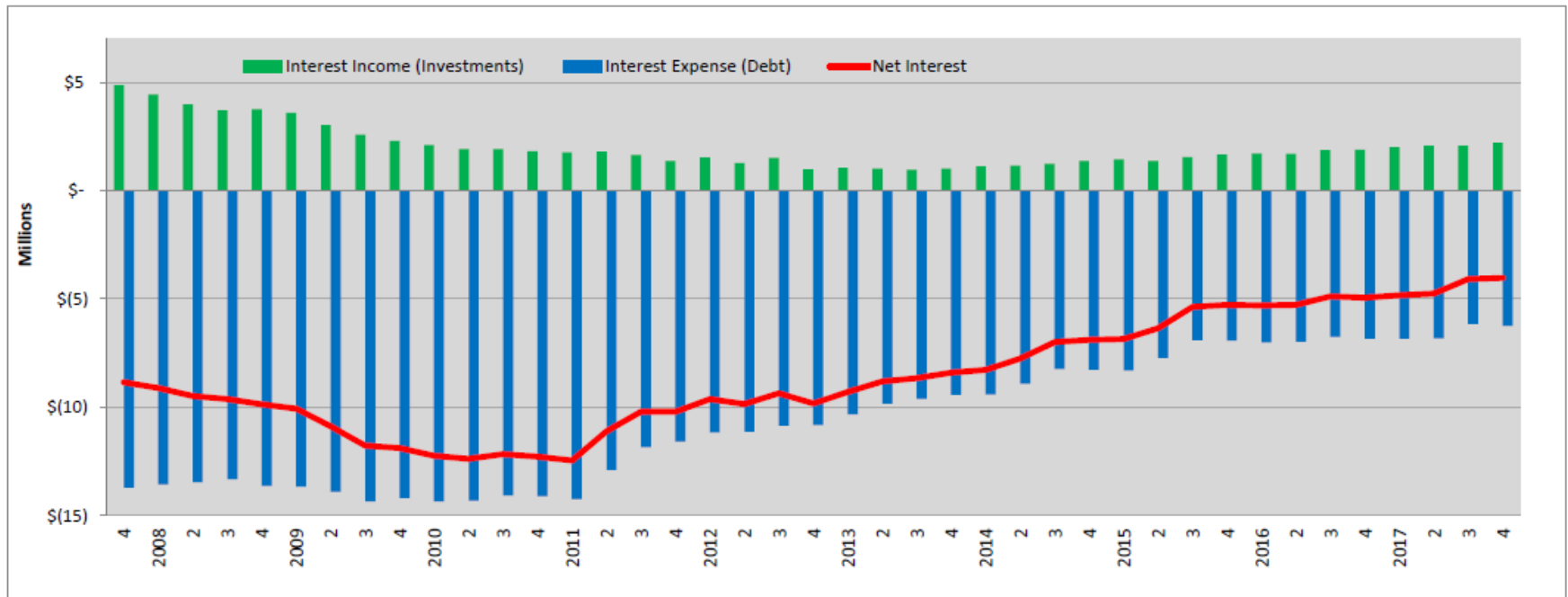


Quarterly Investment Report for the quarter ending December 31, 2017

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, 2017

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.