



Chelan County PUD

# Quarterly Financial Review

For the Quarter Ended March 31, 2018

Board Presentation  
May 14, 2018

# What we will cover today

**Financial highlights**

**First quarter results**

**Five-year look ahead**

**Key messages**

**Update only, no action required**

**Appendix: Additional detailed information not covered today**

# Q1 2018 Key Highlights

Bottom-line results better than budget

Financial metrics meeting targets

Stay the course with our strategic goals

- Reinvest in assets and people

- Reduce debt

- Continue public power benefit program

# Overview

## Revenue

- Service Revenue better than budget year-to-date (YTD) due to more usage from the colder than average temperatures in Feb and Mar: +\$500,000
- Net Wholesale Revenue better than budget YTD as more surplus to sell from above average generation: + \$1.2M
- Hydro Long-Term Contract Revenue below budget YTD with lower hydro costs for the cost-based contracts: (\$1.6M)
- Other Operating Revenue better than budget YTD from FEMA proceeds and hydro contract charges: + \$1.1M

**Total Revenues forecasted to be better than budget for the year: +\$2M**

## Expense

- Operating Expenses below budget YTD but expected to catch up: (\$4.1M)
- Non-Operating Net Expense better than budget YTD with higher customer contributions for construction and more interest earnings from the higher cash balances: (\$1.1M)

**Total Net Expenses forecasted to be below budget for the year: (\$4.1M)**

## Bottom Line

- Combination of higher revenues and lower expenses result in a better Bottom Line YTD: + \$5.8M

**Better bottom line forecast for the year of \$77.8M: +\$6M**

# Overview

## Capital

- Capital expenditures overall are lagging the planned pace and below budget YTD: (\$5.6M)
- Spending is ahead of pace YTD for Distribution and Rocky Reach and expected to be just under budget by year end
- The Rock Island modernization timeline is under review with some projects likely to shift to 2019 partially offset by accelerations to 2018

**Total Capital forecasted to hit \$133.8M which is below budget for the year: (\$6M)**

## Cash

- Positive bottom line and lower capital spending has increased cash and investments YTD by \$17.8M

**Total cash balance forecasted to be better than budget at year end: \$466.2M**

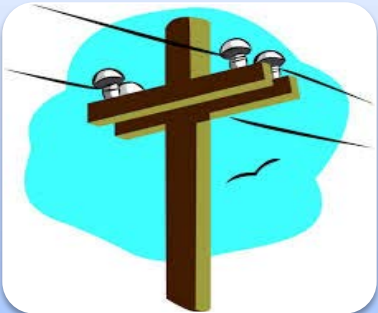
## Debt

- Total debt is the same as budget YTD

**Total debt forecasted to equal budgeted \$24M reduction with balance at year end: \$513.5M**

# Financial Highlights

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



### Electric delivered cost per avg kWh better than budget

**YTD ¢/kWh result: 4.83¢ vs. 5.32¢** (actual vs. budget)

Power production costs- 2.00¢ vs. 2.29¢ (actual vs. budget)

Power distribution costs- 2.83¢ vs. 3.03¢ (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

**YTD \$/MWh result: \$16.9 vs. \$17.8** (actual vs. budget)

#### Actual vs. Budget

Rocky Reach \$12.7 vs. \$12.9 (operating expense ~88% YTD)

Rock Island \$25.3 vs. \$27.3 (operating expense ~89% YTD)

Lake Chelan \$18.2 vs. \$22.3 (operating expense ~76% YTD)

# Financial Highlights

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



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

**YTD \$/1k gallons result: \$6.92 vs. \$7.05** (actual vs. budget)

YTD operating expense 99% of budget



**Wastewater cost per ERU better than budget**

**YTD \$/ERU result: \$194 vs. \$226** (actual vs. budget)

YTD operating expense 86% of budget



**Fiber cost per active premise higher than budget**

**YTD \$/premise result: \$121 vs. \$107** (actual vs. budget)

YTD operating expense 113% of budget due to timing  
of core system support contract payment

# 2018 Bottom-Line Results

<b>(in 000s)</b>	<b>2018 Current Forecast</b>	<b>2018 Budget</b>	<b>% of budget</b>
Service Revenue	66,795	64,693	103%
Net Wholesale Revenue	108,312	108,001	100%
Hydro LT Contract Rev/Other PP	118,788	119,795	99%
Other Operating Revenue	21,669	21,129	103%
Other Operating Expense	(171,097)	(173,846)	98%
Depreciation & Tax Expense	(51,828)	(52,016)	100%
<b>Operating Income/(Loss)</b>	<b>92,639</b>	<b>87,755</b>	<b>106%</b>
Non-Operating Activity	(14,790)	(15,913)	93%
<b>"Bottom Line"</b>	<b>77,849</b>	<b>71,842</b>	<b>108%</b>

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



# Business Line “Bottom-Line” Results

(in 000s)	2018 Current Forecast	2018 Budget	% of budget
Cost-Based Activity	35,918	35,569	101%
Market-Based Activity	47,332	47,081	101%
Retail Activity	(20,702)	(25,986)	80%
Other Activity	11,280	11,014	102%
<b>Integrated Electric</b>	<b>73,827</b>	<b>67,679</b>	<b>109%</b>
Fiber & Telecom	3,820	3,839	100%
Water	559	696	80%
Wastewater	(358)	(372)	96%
<b>Combined "Bottom-Line"</b>	<b>77,849</b>	<b>71,842</b>	<b>108%</b>

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

# Capital Expenditures

(in 000s)	2018 YTD Current	2018 YTD Budget	% of budget	2018 Current Forecast	2018 Budget	% of Budget
Electric Distribution	2,241	1,920	117%	14,000	14,293	98%
Network Transmission	288	736	39%	2,663	2,929	91%
Rocky Reach	814	558	146%	7,966	8,111	98%
Rock Island	4,274	7,577	56%	79,660	83,778	95%
Lake Chelan	123	132	93%	1,740	1,404	124%
Internal Services	999	3,120	32%	19,710	21,047	94%
Fiber & Telecom	786	904	87%	5,158	5,547	93%
Water	50	76	65%	1,299	1,236	105%
Wastewater	46	206	22%	1,609	1,339	120%
<b>Total Expenditures</b>	<b>9,621</b>	<b>15,231</b>	<b>63%</b>	<b>133,805</b>	<b>139,685</b>	<b>96%</b>
Contributions	(1,716)	(907)	189%	(3,821)	(3,797)	101%
<b>Capital net of CIAC</b>	<b>7,904</b>	<b>14,324</b>	<b>55%</b>	<b>129,984</b>	<b>135,887</b>	<b>96%</b>

# Overview of YTD - 2018 Cash Flow

	\$ Million
Bottom-line result (YTD - 2018)	\$ 25
Add back non-cash related items (depreciation)	\$ 12
<b>Estimated earned funds from operations</b>	<b>\$ 37</b>
Capital Project Expenditures	\$ 10
Net Debt Reductions	\$ ---
Other Misc. Impacts (change in A/R, A/P, Inventory, Etc.)	\$ 9
Added to cash reserves	\$ 18
<b>Estimated use of funds</b>	<b>\$37</b>

Cash and investments, beginning of year	\$ 511
Added to cash reserves	\$18
<b>Cash and investments, end of Q1</b>	<b>\$ 529</b>

# Cash & Investments Balance

(\$ Millions)	<u>3/31/18</u>	<u>12/31/17</u>
Unrestricted funds	\$338	\$327
Board Designated:		
Headquarters/Service Center Strategic Facilities Fund *	<u>20</u>	<u>20</u>
<b>Unrestricted funds**</b>	358	347
Restricted – DRC & CRC funds for Hydro capital/debt	<u>78</u>	<u>78</u>
<b>Total Liquidity (policy minimum \$175M)</b>	<b>\$436</b>	<b>\$425</b>
Restricted - bond reserve funds	61	53
Restricted - power contract deposits	23	21
Restricted - self insurance and other funds	<u>9</u>	<u>12</u>
<b>Total Cash and Investments</b>	<b><u>\$529</u></b>	<b><u>\$511</u></b>

\* Additional \$30M designated by Board, subsequent to 3/31/18

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

# Quarterly Reporting Requirement - Financial Policies






District Combined	2018	2019	2020	2021	2022
Liquidity - \$175M Min (Expected)	\$378M	\$320M	\$278M	\$221M	\$180M*
Liquidity - \$175M Min (Unusual)		\$313M	\$266M	\$200M	\$178M*
Debt Ratio (Expected <35% by 2019)	34.6%	31.4%	28.6%	25.7%	23.2%
Debt Ratio (Unusual <35% by 2019)		31.5%	28.8%	26.1%	25.2%
Days Cash on Hand (Expected >250)	603	513	436	352	281
Days Cash on Hand (Unusual > 250)		502	417	319	279
Combined Debt Cover (Expected > 2.00x)	2.90	2.74	2.46	2.41	2.37
Combined Debt Cover (Unusual >1.25x)		2.64	2.35	2.25	2.07
Rate of Return (Expected > 4% thru 2019)	6.5%	5.2%	Sunset		
Rate of Return (Unusual > 2% thru 2019)		4.8%			
Bottom Line Results (Expected)	\$78M	\$66M	\$52M	\$50M	\$46M
Bottom Line Results (Unusual)		\$61M	\$46M	\$42M	\$35M
Outstanding Debt (Expected)	\$514M	\$474M	\$435M	\$394M	\$358M*
Outstanding Debt (Unusual)		\$474M	\$435M	\$394M	\$388M*

\* Assumed issuance of debt to maintain liquidity

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
<b>WATER Business Line</b> 					
Operating Expense Coverage (target >120%)	134%	133%	137%	133%	135%
Cash Reserves (target > \$1.25 million)	\$3.6M	\$3.3M	\$2.5M	\$1.3M	\$1.4M
Debt Ratio (target <35%)	11%	9%	7%	5%	4%
<b>WASTEWATER Business Line</b> 					
Operating Expense Coverage (target >100% by 2019)	81%	102%	101%	100%	99%
Cash Reserves (target > \$200K)	\$2.3M	\$2.7M	\$2.9M	\$2.7M	\$2.7M
Debt Ratio (target <35%)	---	18%	17%	24%	23%
<b>FIBER Business Line</b> 					
Operating Expense Coverage (target >120%)	166%	147%	155%	149%	144%
Cash Reserves (target > \$2.0 million)	\$13.0M	\$12.1M	\$12.0M	\$13.5M	\$14.8M
Debt Ratio (target <35%)	---	---	---	---	---

Corrective actions will be determined through the business planning process

# 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
<b>Integrated Electric Business Line</b>					
<b>Retail Total Cost Ratio (target)</b>	>65%	>65%	>65%	>65%	>65%
Retail Total Cost Ratio 	72%	70%	68%	70%	67%
<b>Retail OM&amp;T Cost Ratio (target)</b>	> 90%	> 90%	> 90%	> 90%	> 90%
Retail OM&T Cost Ratio 	94%	93%	90%	95%	92%
<b>Retail Rate Support Limit (target)</b>	\$25.6M	\$26.3M	\$26.9M	\$27.6M	\$28.3M
Retail Rate Support 	\$20.7M	\$22.9M	\$26.5M	\$25.1M	\$28.9M
<b>Market Based Margin Limit (target)</b>	\$25.0M	\$25.0M	\$25.0M	\$25.0M	\$25.0M
Market Based Margin 	\$47.3M	\$43.0M	\$31.0M	\$27.3M	\$26.7M

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

	Q2 2017	Q3 2017	Q4 2017	Q1 2018	YTD 2018	WAM
Average Invested Book Value (\$M)	\$499	\$471	\$498	\$517	\$517	
District Yield	1.66%	1.74%	1.76%	1.88%	1.88%	792
Benchmarks:						
3 Month T-Bill	0.92%	1.06%	1.23%	1.58%	1.58%	90
S&P US Treasury 1-3 Year Index*	1.31%	1.38%	1.13%	1.29%	1.29%	683

\*Prior Barclays index replaced Q4 2017 with S&P index and rolling 2 year average to align duration and improve comparability

- Q1 2018 yield increased slightly to 1.88% due to improving market interest rates
- March 21, 2018 Federal Open Market Committee meeting report:
  - Labor market has continued to strengthen / unemployment has stayed low
  - Inflation rate is running below 2% longer-run objective, continue to monitor and near term outlook appears stable
  - Federal funds rate target changed from 1.50% to 1.75%
  - 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.*



# Q1 Key Messages

Early forecasts are a little better than budget

Long-term financial metrics policies on track

Stay the course with our strategic goals

- Reinvest in assets and people

- Reduce debt

- Continue public power benefit program

# Appendix



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

# Financial Highlights - Revenue

## Net Wholesale Revenue:

YTD result \$1.2 million above budget  
(\$25.5M vs. \$24.3M)

Annual forecast higher than budget  
(\$108.3M vs \$108.0)

### Drivers:

- + Generation 112% of budget YTD
- Retail energy use 107% of budget YTD
- Hedging program minimizes impact of 2018 flat price \$18.8 vs \$22.8 budget

## Hydro Long-Term Contract Revenue:

YTD result \$1.6 million below budget  
(\$28.1M vs. \$29.7M)

Annual forecast slightly lower than  
Budget (\$120.1M vs \$121.1M)

### Drivers:

- Combined hydro “cost based” operating expenses below budget (88% YTD)
- “Plus” contract charges slightly less than budgeted levels (96% YTD)

# Financial Highlights - Revenue

## Service Revenue:

YTD result \$0.5 million above budget  
(\$19.9M vs. \$19.4M)

Forecast results better than budget  
(\$66.8M vs \$64.7M)

### Drivers:

- + Retail energy use at 107% of budget:  
(Residential ~110%, Industrial ~115%,  
Commercial ~102%)
- + New retail energy load forecast  
implemented for Q1 reporting

## Other Operating Revenue:

YTD result \$0.9 million above budget  
(\$6.4M vs. \$5.5M)

Forecast results better than budget  
(\$21.7M vs \$21.1M)

### Drivers:

- + FEMA proceeds ~\$0.5M YTD (Fire-2015)
- + Hydro Contract Revenue ~\$0.5M YTD

# Financial Highlights - Expenses

## Operating Expense:

YTD result \$4.1 million below budget  
(\$37.4. vs. \$41.5M)

Forecast results below budget  
(\$171.1M vs \$173.8M)

### Drivers:

- Hydro operations and maintenance at 79% of budget (expected to catch up by year end)
- Fish and Wildlife at 82% of budget (expected to catch up by year end)
- Parks and Recreation at 78% of budget (expected to catch up by year end)

## Non-Operating Net Expense:

YTD result \$1.1M better than budget  
(\$2.9M vs. \$4.0M)

Forecast results better than budget  
(\$14.8M vs \$15.9M)

### Drivers:

- + Higher contributions in aid of construction YTD (\$1.9M vs \$1.1M)
- + Increased forecasted interest earnings on higher cash reserves

# Financial Highlights – Balance Sheet

## Capital expenditures below budget

- YTD - 2018 \$9.6 million vs. budget of \$15.2 million
- 2018 Forecast results below 2018 Budget (\$133.8M vs \$139.7M)

## Individual project adjustments:

- ↓ Bavarian Substation (~\$1M shifted to 2019 / 2020)
- ↓ LMR Network Replacement (~\$1M shifted to 2019)
- ↓ RI B7 Modernization (~\$3M shifted to 2019)
- ↓ RI B1 Modernization (~\$2M shifted to 2019)
- ↑ RI B8 Modernization (~\$1M accelerated to 2018)

## Cash remains strong / Debt reduction strategy on track

- Cash balance forecasted to decrease ~\$45 million in 2018
- Debt balance to decrease ~\$24 million in 2018

# Service Revenue

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Residential Electric	10,092	9,723	104%	Colder than average Feb and Mar
Commercial Electric	4,836	4,784	101%	In line with budget
Industrial Electric	1,250	1,080	116%	Industrial & HDL in aggregate at 103% of budget.
High Density Load	449	557	81%	
Other Electric	79	83	95%	Small dollar variance
<b>Electric Service</b>	<b>16,707</b>	<b>16,227</b>	<b>103%</b>	
<b>Water Service</b>	<b>1,227</b>	<b>1,235</b>	<b>99%</b>	In line with budget
<b>Wastewater Service</b>	<b>174</b>	<b>172</b>	<b>101%</b>	In line with budget
<b>Fiber &amp; Telecom</b>	<b>1,783</b>	<b>1,795</b>	<b>99%</b>	In line with budget
<b>Service Revenue</b>	<b>19,891</b>	<b>19,429</b>	<b>102%</b>	

Note: Excludes internal intersystem revenues

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

# Net Surplus Energy Revenue

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Slice Contracts	20,337	18,787	108%	Additional 3% slice executed post budget
Net Block Trades	3,951	4,441	89%	High retail usage (107% of budget YTD) - (Aggregate 93% of Budget YTD)
Other Net Wholesale	1,197	1,115	107%	
<b>Net Wholesale Revenue</b>	<b>25,485</b>	<b>24,343</b>	<b>105%</b>	
LT Hydro Contracts	28,052	29,728	94%	Operating costs 88% YTD /adders 94% YTD
Less Other Purchased Power	(330)	(330)	100%	In line with budget
<b>Hydro LT Contract Rev/Other PP</b>	<b>27,722</b>	<b>29,398</b>	<b>94%</b>	
<b>Surplus Energy Revenue</b>	<b>53,207</b>	<b>53,741</b>	<b>99%</b>	

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



# Operating Expense

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Hydro Operations & Maintenance	11,017	13,880	79%	RR C9 Turbine Repairs
Hydro Fish & Wildlife	2,701	3,307	82%	Predator control / Fishway Ops
Hydro Parks & Recreation	1,308	1,675	78%	Various maintenance projects timing
Electric Distribution	3,309	3,561	93%	Small dollar variance
Electric Transmission	2,555	3,484	73%	Legal & consulting support OATT
Misc. Power Supply Expenses	942	1,365	69%	Legal & consulting support EP&T
Water & Wastewater	679	738	92%	Small dollar variance
Fiber Network	1,260	1,099	115%	Core system support contract payment
Customer Accounts & Service	872	896	97%	Small dollar variance
Conservation & Customer Assist	641	850	75%	Regulatory asset Amortization
Insurance & FERC Fees	2,702	2,083	130%	Increased claims experience
Other Admin & General	9,424	8,528	110%	Vacancy rate adjustment
<b>Total</b>	<b>37,410</b>	<b>41,467</b>	<b>90%</b>	

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

# Non-Operating Activity

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Interest Earnings	2,367	2,312	102%	In line with budget
Capital Contributions	1,893	1,091	173%	High volume of line extensions
Interest Expense	(6,421)	(6,351)	101%	In line with budget
Other Inc/(Exp)	(735)	(1,018)	72%	Non Op hydro revenue transfers
<b>Non Operating Activity</b>	<b>(2,897)</b>	<b>(3,966)</b>	<b>73%</b>	

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

# Integrated Electric

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Service Revenue	16,727	16,248	103%	Higher retail load usage
Net Wholesale Revenue	25,485	24,343	105%	Executed additional 3% slice post budget
Hydro LT Contract Rev/Other PP	27,722	29,398	94%	Lower operating costs & contract adders
Other Operating Revenue	6,795	5,825	117%	FEMA proceeds (fire 2015)
Other Operating Expense	(35,804)	(39,981)	90%	Hydro Ops and Maint (79% of budget YTD)
Depreciation & Tax Expense	(13,292)	(13,101)	101%	In line with budget
<b>Operating Income/(Loss)</b>	<b>27,634</b>	<b>22,732</b>	<b>122%</b>	
Non-Operating Activity	(5,937)	(6,689)	89%	Higher contributions in aid of construction
<b>"Bottom Line"</b>	<b>21,696</b>	<b>16,043</b>		

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

# Fiber & Telecom

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Service Revenue	2,656	2,697	98%	In line with budget
Other Operating Revenue	9	0	2917%	Small dollar variance
Other Operating Expense	(1,849)	(1,642)	113%	Core system support contract payment
Depreciation & Tax Expense	(761)	(783)	97%	In line with budget
<b>Operating Income/(Loss)</b>	<b>55</b>	<b>272</b>	<b>20%</b>	
Non-Operating Activity	2,579	2,576	100%	In line with budget
<b>"Bottom Line"</b>	<b>2,634</b>	<b>2,848</b>		

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

# Water

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Service Revenue	1,237	1,256	98%	In line with budget
Other Operating Revenue	17	16	108%	Small dollar variance
Other Operating Expense	(921)	(933)	99%	In line with budget
Depreciation & Tax Expense	(543)	(561)	97%	Small dollar variance
<b>Operating Income/(Loss)</b>	<b>(210)</b>	<b>(223)</b>	<b>95%</b>	
Non-Operating Activity	444	127	350%	Customer contributions
<b>"Bottom Line"</b>	<b>233</b>	<b>(96)</b>		

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

# Wastewater

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Service Revenue	174	172	101%	In line with budget
Other Operating Revenue	0	0	83%	Small dollar variance
Other Operating Expense	(162)	(189)	86%	Small dollar variance
Depreciation & Tax Expense	(70)	(72)	98%	In line with budget
<b>Operating Income/(Loss)</b>	<b>(58)</b>	<b>(88)</b>	<b>66%</b>	
Non-Operating Activity	17	20	89%	Small dollar variance
<b>"Bottom Line"</b>	<b>(41)</b>	<b>(69)</b>		

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

# Actual Cash Balance Comparison to Budget

(millions)	2018
<b>Total Cash – Budgeted year-end balance</b>	<b>\$ 436</b>
Key changes in cash forecast:	
Decrease in capital projects	\$ 6
Improvement in operating activity	\$ 6
Other changes in A/R, A/P, inventory, etc.	\$18
<b>Total Cash – Current forecast year-end balance</b>	<b>\$ 466</b>
Prior quarter – 2018 year-end forecasted balance	\$ 454

# *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: 1.98%, 2.21%, 2.40%, 2.65%, 2.93%)



# Cash and Debt Funding Capacity

	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
<b>Cash Funding Capacity</b>	<b>\$203M</b>	<b>\$145M</b>	<b>\$103M</b>	<b>\$46M</b>	<b>\$5M</b>
“liquidity in excess of minimum \$175M target”					
<b>Debt Funding Capacity</b>	<b>\$9M</b>	<b>\$84M</b>	<b>\$151M</b>	<b>\$219M</b>	<b>\$280M</b>
“financing capability up to maximum debt ratio target of 35%”					
<b>Total Funding Capacity</b>	<b>\$212M</b>	<b>\$229M</b>	<b>\$254M</b>	<b>\$265M</b>	<b>\$285M</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). 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	66,795	69,648	72,490	74,820	75,950
Net Wholesale Revenue	108,312	100,428	88,801	83,524	83,919
Hydro LT Contract Rev/Other PP	118,788	120,476	122,373	118,023	120,446
Other Operating Revenue	21,669	22,980	22,674	24,226	23,412
Other Operating Expense	(171,097)	(175,890)	(180,713)	(175,888)	(180,385)
Depreciation & Tax Expense	(51,828)	(55,637)	(59,696)	(62,044)	(65,203)
<b>Operating Income/(Loss)</b>	<b>92,639</b>	<b>82,006</b>	<b>65,929</b>	<b>62,660</b>	<b>58,140</b>
Non-Operating Activity	(14,790)	(15,564)	(13,695)	(12,659)	(11,962)
<b>"Bottom Line"</b>	<b>77,849</b>	<b>66,442</b>	<b>52,234</b>	<b>50,000</b>	<b>46,178</b>
<i>Prior Quarter Reported Forecast</i>	<i>70,645</i>	<i>63,213</i>	<i>50,454</i>	<i>48,142</i>	<i>43,134</i>
<i>Forecast at 2018 Budget</i>	<i>72,238</i>	<i>61,167</i>	<i>49,336</i>	<i>45,912</i>	<i>40,391</i>

# Service Revenue

(in 000s)	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
Residential Electric	27,381	27,656	27,981	27,989	27,907
Commercial Electric	16,990	17,186	17,439	17,497	17,490
Industrial Electric	5,011	5,425	5,809	6,307	6,253
High Density Load	1,909	3,256	4,627	6,132	7,109
Other Electric	1,548	1,541	1,547	1,550	1,527
<b>Electric Service</b>	<b>52,839</b>	<b>55,064</b>	<b>57,403</b>	<b>59,475</b>	<b>60,287</b>
<b>Water Service</b>	<b>5,922</b>	<b>6,162</b>	<b>6,410</b>	<b>6,669</b>	<b>6,939</b>
<b>Wastewater Service</b>	<b>684</b>	<b>725</b>	<b>747</b>	<b>770</b>	<b>793</b>
<b>Fiber &amp; Telecom</b>	<b>7,350</b>	<b>7,697</b>	<b>7,929</b>	<b>7,905</b>	<b>7,932</b>
<b>Service Revenue</b>	<b>66,795</b>	<b>69,648</b>	<b>72,490</b>	<b>74,820</b>	<b>75,950</b>
<b>Prior Quarter Reported Forecast</b>	<b>64,693</b>	<b>66,840</b>	<b>69,003</b>	<b>70,957</b>	<b>72,605</b>
<b>Forecast at 2018 Budget</b>	<b>64,693</b>	<b>66,840</b>	<b>69,003</b>	<b>70,957</b>	<b>72,605</b>

# 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	23,804	23,006	24,614	14,357	15,221
Other Net Wholesale	3,161	7,181	9,006	13,614	26,306
<b>Net Wholesale Revenue</b>	<b>108,312</b>	<b>100,428</b>	<b>88,801</b>	<b>83,524</b>	<b>83,919</b>
LT Hydro Contracts	120,108	121,796	123,693	119,343	121,766
Less Other Purchased Power	(1,320)	(1,320)	(1,320)	(1,320)	(1,320)
<b>Hydro LT Contract Rev/Other PP</b>	<b>118,788</b>	<b>120,476</b>	<b>122,373</b>	<b>118,023</b>	<b>120,446</b>
<b>Surplus Energy Revenue</b>	<b>227,100</b>	<b>220,904</b>	<b>211,174</b>	<b>201,546</b>	<b>204,365</b>
<i>Prior Quarter Reported Forecast</i>	<i>225,893</i>	<i>224,310</i>	<i>214,194</i>	<i>205,156</i>	<i>208,059</i>
<i>Forecast at 2018 Budget</i>	<i>228,094</i>	<i>225,395</i>	<i>214,123</i>	<i>205,621</i>	<i>207,544</i>

# Operating Expense

(in 000s)	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
Hydro Operations & Maintenance	59,045	58,655	59,635	50,993	53,198
Hydro Fish & Wildlife	16,613	17,774	19,193	19,535	18,424
Hydro Parks & Recreation	7,700	8,707	8,074	7,889	7,896
Electric Distribution	15,164	15,501	16,191	16,933	17,544
Electric Transmission	12,993	12,620	13,014	13,265	13,705
Misc. Power Supply Expenses	5,368	6,035	6,259	6,290	6,534
Water & Wastewater	3,063	3,072	3,070	3,330	3,441
Fiber Network	4,573	5,314	5,042	5,164	5,373
Customer Accounts & Service	4,245	4,548	4,694	4,853	4,995
Conservation & Customer Assist	3,142	3,610	3,889	4,377	4,657
Insurance & FERC Fees	7,890	7,796	8,224	8,522	8,795
Other Admin & General	31,302	32,257	33,428	34,737	35,823
<b>Total</b>	<b>171,097</b>	<b>175,890</b>	<b>180,713</b>	<b>175,888</b>	<b>180,385</b>
<b><i>Prior Quarter Reported Forecast</i></b>	<b><i>173,846</i></b>	<b><i>177,900</i></b>	<b><i>180,002</i></b>	<b><i>175,600</i></b>	<b><i>181,003</i></b>
<b><i>Forecast at 2018 Budget</i></b>	<b><i>173,846</i></b>	<b><i>177,987</i></b>	<b><i>179,203</i></b>	<b><i>175,644</i></b>	<b><i>180,961</i></b>

# Capital Projects

(in 000s)	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
Electric Distribution	14,000	24,584	20,770	20,991	21,653
Network Transmission	2,663	7,714	5,595	7,631	5,403
Rocky Reach	7,966	6,417	7,314	3,029	6,581
Rock Island	79,660	47,824	21,208	46,584	40,759
Lake Chelan	1,740	416	908	225	435
Internal Services	19,710	30,671	34,598	26,075	19,200
Fiber & Telecom	5,158	5,277	6,857	4,685	4,590
Water	1,299	1,149	2,293	2,472	1,427
Wastewater	1,609	1,944	1,030	927	27
<b>Total</b>	<b>133,805</b>	<b>125,995</b>	<b>100,572</b>	<b>112,619</b>	<b>100,074</b>
<b><i>Prior Quarter Reported Forecast</i></b>	<b>140,204</b>	<b>123,781</b>	<b>98,213</b>	<b>112,311</b>	<b>103,151</b>
<b><i>Forecast at 2018 Budget</i></b>	<b>139,685</b>	<b>121,762</b>	<b>98,011</b>	<b>111,697</b>	<b>102,456</b>

# Financial Policy – Financial Liquidity & Days Cash on Hand

Methodology Per Resolution #17-14124

COMBINED	2018	2019	2020	2021	2022
<b>District Total Liquidity Targets</b>	<b>\$175</b>	<b>\$175</b>	<b>\$175</b>	<b>\$175</b>	<b>\$175</b>
Base Case – expected (50% probability)	\$378	\$320	\$278	\$221	\$180*
Base Case – unusual (10% prob. / cumulative)		\$313	\$266	\$200	\$178*
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		\$304	\$247	\$180*	\$176*
<b>Days Cash on Hand Target</b>	<b>&gt;250</b>	<b>&gt;250</b>	<b>&gt;250</b>	<b>&gt;250</b>	<b>&gt;250</b>
Base Case – expected (50% probability)	603	513	436	352	281
Base Case – unusual (10% prob. / cumulative)		502	417	319	279
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		466	370	273	264

\* Assumes external debt financing to maintain liquidity targets

# Financial Policy – Debt Ratio

(Debt/(Debt + Equity))

COMBINED	2018	2019	2020	2021	2022
<b>District Targets</b>	<40%	<35%	<35%	<35%	<35%
<b>Outstanding Debt Balance - YE(million)</b>	<b>\$514</b>	<b>\$474</b>	<b>\$435</b>	<b>\$394</b>	<b>\$358</b>
Scheduled Debt Retirements (million)	\$24	\$25	\$28	\$30	\$32
Planned Debt Accelerations (million)	\$ -	\$16	\$11	\$12	\$12
Forecasted Debt Issuance - expected (million)	\$ -	\$ -	\$ -	\$ -	\$8*
Base Case – expected	34.8%	31.4%	28.5%	25.7%	23.2%*
Base Case – unusual		31.5%	28.8%	26.1%	25.2%*
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		31.6%	28.9%	26.7%*	27.5%*

\* Assumed debt issuance to maintain adequate liquidity levels

5/16/2018



# 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	2.90	2.74	2.46	2.41	2.37
Base Case – unusual		2.64	2.35	2.25	2.07
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		2.56	2.26	2.15	1.88

# 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>	6.5% \$78M	5.2% \$66M	- \$52M	- \$50M	- \$46M
Base Case – unusual (5% probability) <i>Bottom-line expectation</i>		4.8% \$61M	- \$46M	- \$42M	- \$35M
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs <i>Bottom-line expectation</i>		4.5% \$57M	- \$42M	- \$37M	- \$26M



## Quarterly Investment Report for the quarter ending March 31, 2018

All \$ values are shown in '000s

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

### Portfolio Summary

	Q2 2017	Q3 2017	Q4 2017	Q1 2018	YTD 2018	WAM	
Average Invested Book Value	\$499 M	\$471 M	\$498 M	\$517 M	\$517 M		
Interest Earned	\$2.1 M	\$2.1 M	\$2.2 M	\$2.4 M	\$2.4 M		
District Yield	1.66%	1.74%	1.76%	1.88%	1.88%	792	
<b>Benchmarks:</b>							
3 Month T-Bill	0.92%	1.06%	1.23%	1.58%	1.58%	90	
S&P US Treasury 1-3 Year Index*	1.31%	1.38%	1.13%	1.29%	1.29%	683	
LGIP (State Pool)	0.90%	1.10%	1.19%	1.50%	1.50%	39	
Fed Funds Effective	0.95%	1.15%	1.20%	1.45%	1.45%	1	

#### Policy Objectives & Compliance

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

#### General Commentary:

For Q1 2018, the District's yield increased to 1.88% on an average invested book value of \$517 million due improving market interest rates. The Federal Open Market Committee's March 21, 2018 meeting reported that the labor market has continued to strengthen and economic activity has been rising at a modest rate. Job gains have been strong and the unemployment rate has stayed low. Inflation is running below the Committee's 2 percent longer-run objective, and market-based measures of inflation compensation have increased in recent months, but still remain low. 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 1.50 to 1.75 percent. The Committee expects with further 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) decreased slightly in Q1 and the overall average continues to remain strong as the n laddered investment strategy maintains investment maturities near 2 year average durations. All investments continue to be specific cash flows or mature within 5 years as specified in the investment policy.

\*Prior Barclays index replaced Q4 2017 with S&P index and rolling 2 year average to align duration and improve comparability.



## Quarterly Investment Report for the quarter ending March 31, 2018

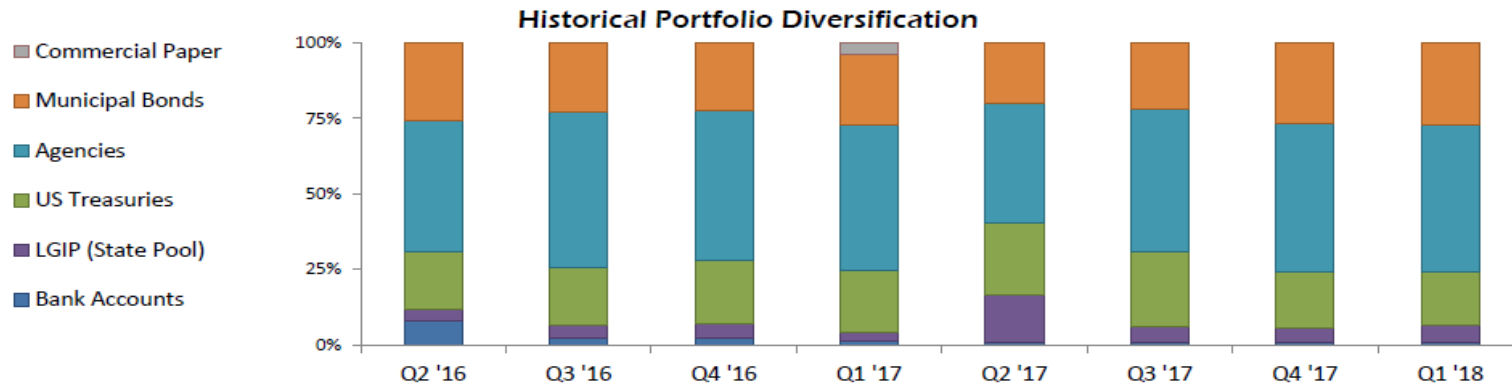
All \$ values are shown in '000s

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

### Investments by Type - as of March 31, 2018

	Par Value	GASB 31 Reported Value	Book Value	Book Value as % of Portfolio	Policy % Limit	WAM
Bank Accounts	\$ 5,157	\$ 5,157	\$ 5,157	1.0%	75%	1
US Treasuries	\$ 95,631	\$ 95,325	\$ 94,741	17.7%	100%	978
LGIP (State Pool)	\$ 29,419	\$ 29,419	\$ 29,419	5.5%	25%	1
US Agencies	\$ 259,978	\$ 256,122	\$ 260,044	48.7%	75%	767
Municipal Bonds	\$ 142,955	\$ 143,031	\$ 144,780	27.1%	30%	904
Commercial Paper	\$ 0	\$ 0	\$ 0	0.0%	25%	-
<b>Total:</b>	<b>\$ 533,141</b>	<b>\$ 529,055</b>	<b>\$ 534,142</b>			<b>792</b>

Numbers may not foot due to rounding





## Quarterly Investment Report for the quarter ending March 31, 2018

All \$ values are shown in '000s

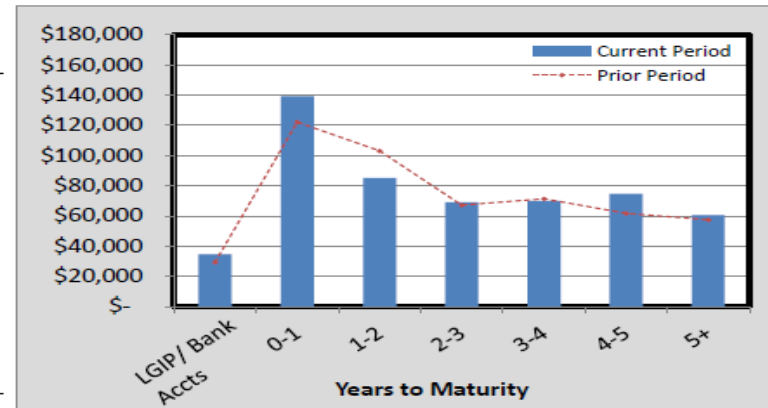
Prepared in accordance with District Banking and Investment Policy #16-14094

### Maturity Distribution - as of March 31, 2018

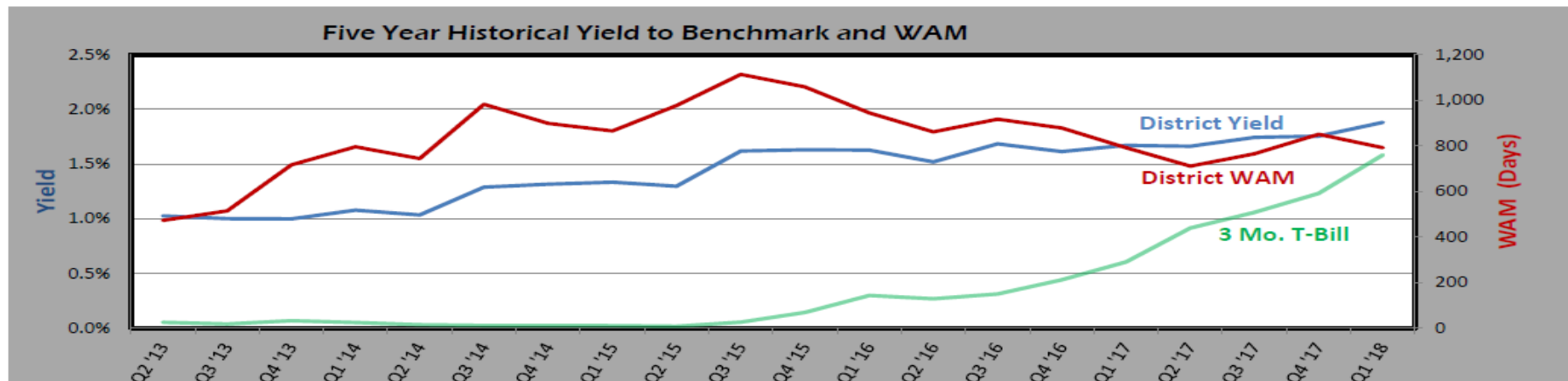
Maturity	Par Value	% of Portfolio	Cumulative % of Portfolio
LGIP	\$ 29,419	5.5%	5.5%
Bank Accounts	\$ 5,157	1.0%	6.5%
1-90 Days	\$ 70,852	13.3%	19.8%
91-180 Days	\$ 10,175	1.9%	21.7%
181-365 Days	\$ 58,352	10.9%	32.6%
1-2 Yrs	\$ 85,136	16.0%	48.6%
2-3 Yrs	\$ 69,122	13.0%	61.6%
3-4 Yrs	\$ 69,877	13.1%	74.7%
4-5 Yrs	\$ 74,545	14.0%	88.7%
5+ Yrs	\$ 60,505	11.3%	100.0%

**Total: \$ 533,141 100%**

Numbers may not foot due to rounding



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



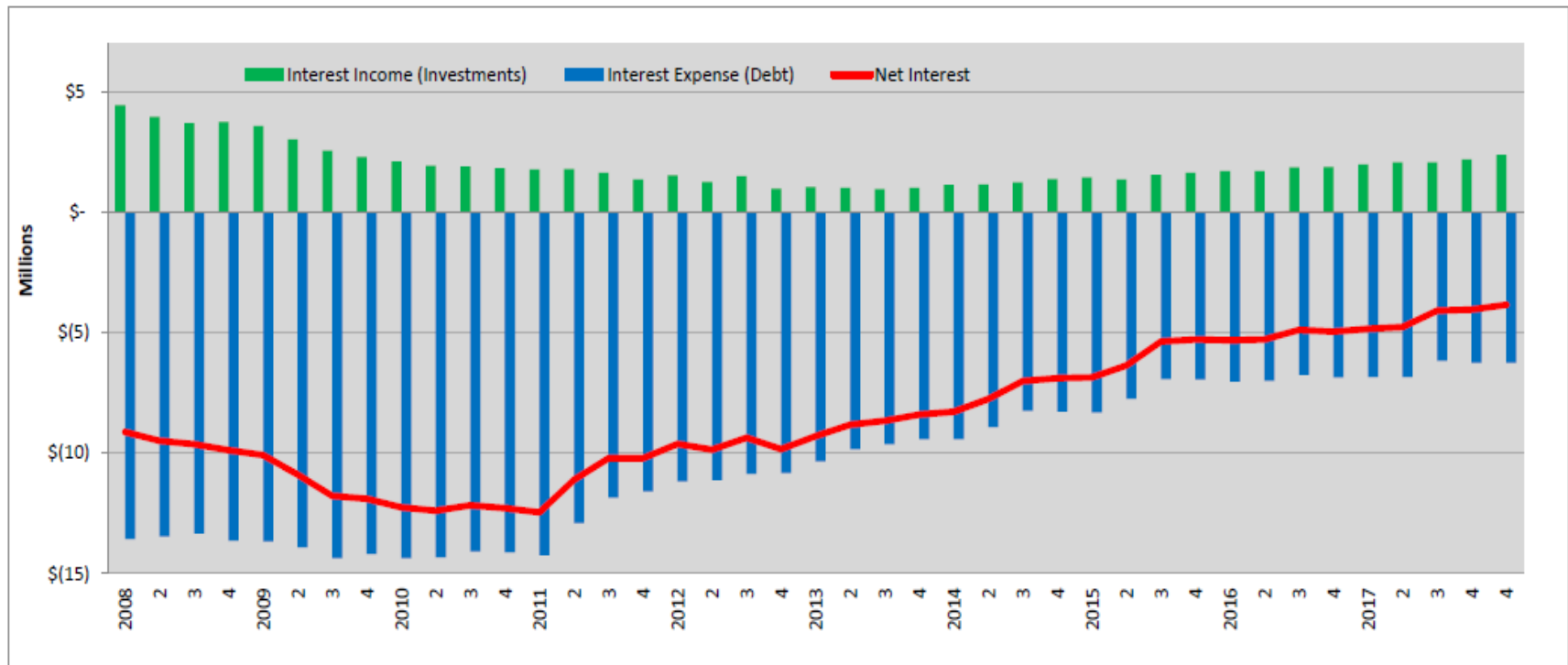


# Quarterly Investment Report for the quarter ending March 31, 2018

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 March 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.