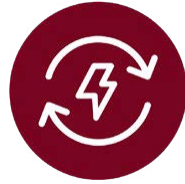


Strategic Planning

Steve Wright, General Manager
Feb. 7, 2019



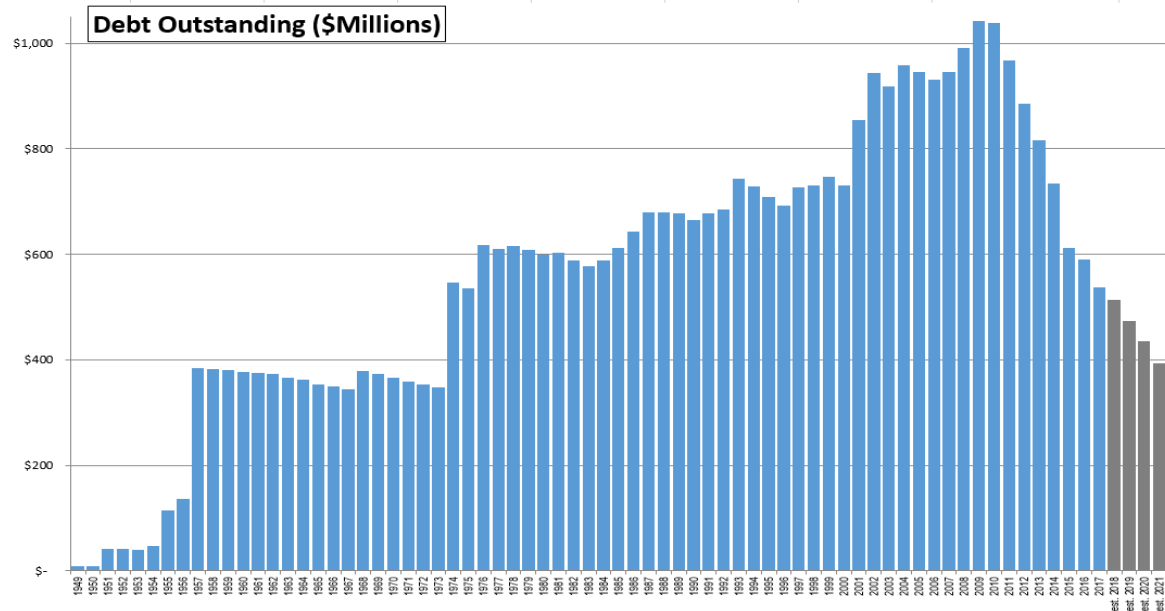
www.ourpublicpower.org

Starting Strategic Planning

- Review where we have been since 2015 when the plan was adopted
- Review our key metrics
- Describe key strategic questions for next plan

Reviewing and Learning from the Last Plan

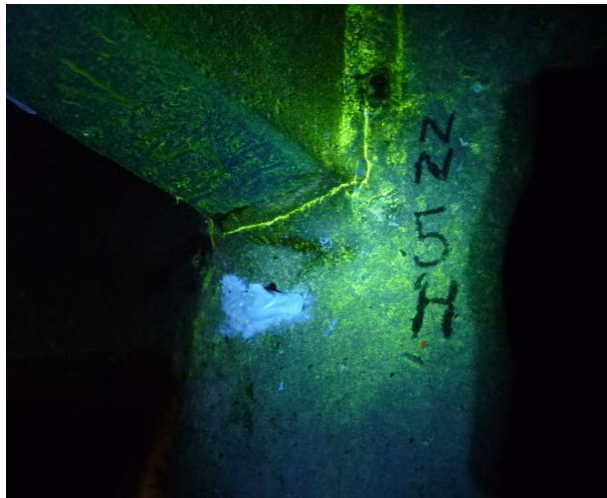
- Reduce debt/equity ratio below 35%



- Mission Accomplished!
- Future goal – Keep debt below 35% unless necessary to manage rate shock

Reviewing and Learning from the Last Plan

- Invest in assets and people
- Asset assessment uncovering many signs of wear



Reviewing and Learning from the Last Plan

- Investing in assets and people objective continues in new strategic plan
 - Seeking to achieve better hydro capability/ distribution reliability
 - All employees will have Individual Development Plans to reflect changing jobs such as becoming more data driven
 - Driving for overall operational excellence in all business units

Reviewing and Learning from the Last Plan

- Initiate Public Power Benefit Program
 - Program operating – primary investment has been in expanding broadband service, providing park passes for customer owners, and investing in hydro research
 - Now up to 74% of the county has access to PUD fiber

Examples of Rapidly Evolving Industry

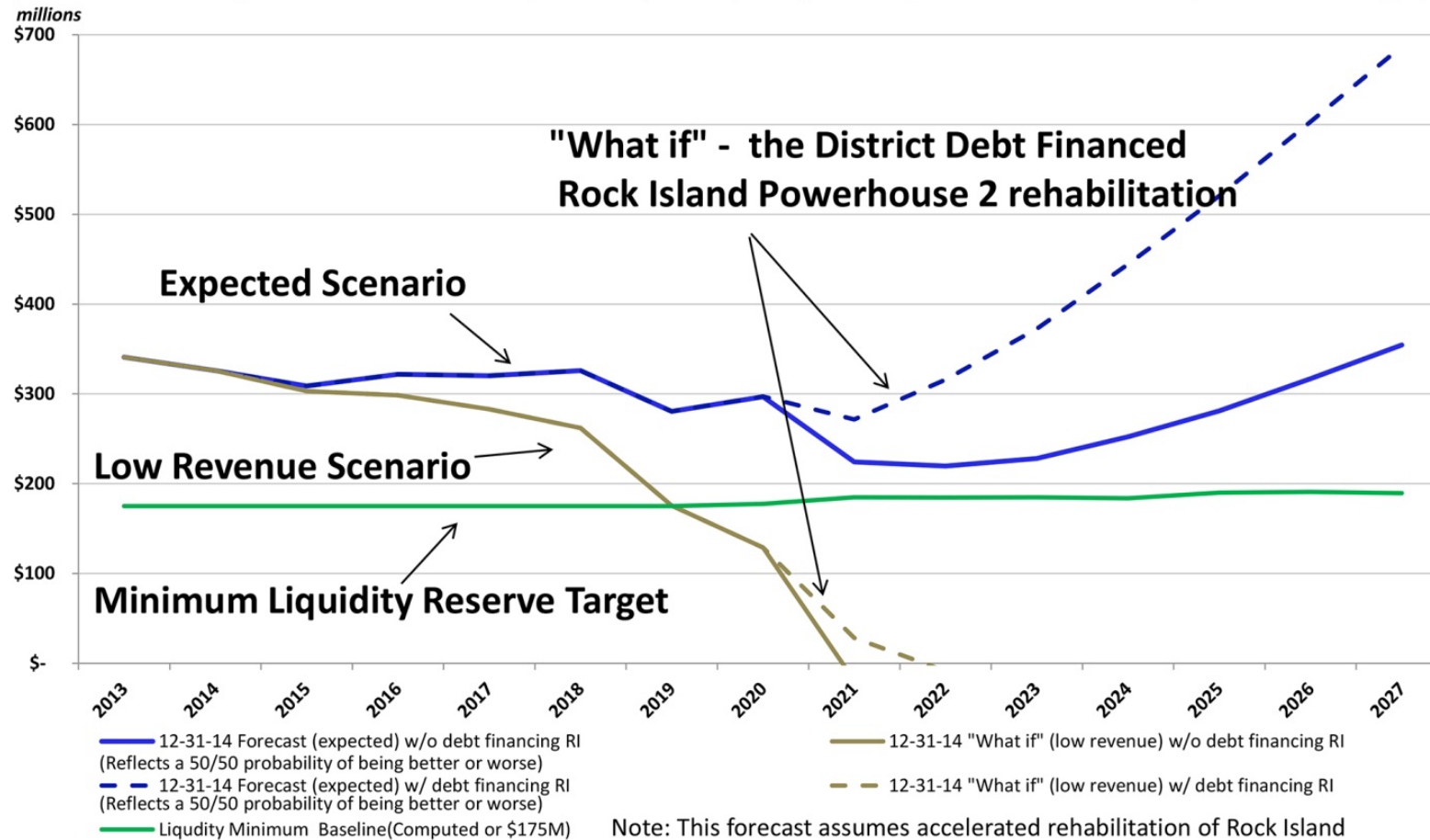
- Cryptocurrency
- West Coast market changes
- Cybersecurity



Reviewing and Learning from the Last Plan

Liquidity Forecast: Two Future Scenarios

(forecasts change as circumstances, assumptions, long-term plans and financial policies change)

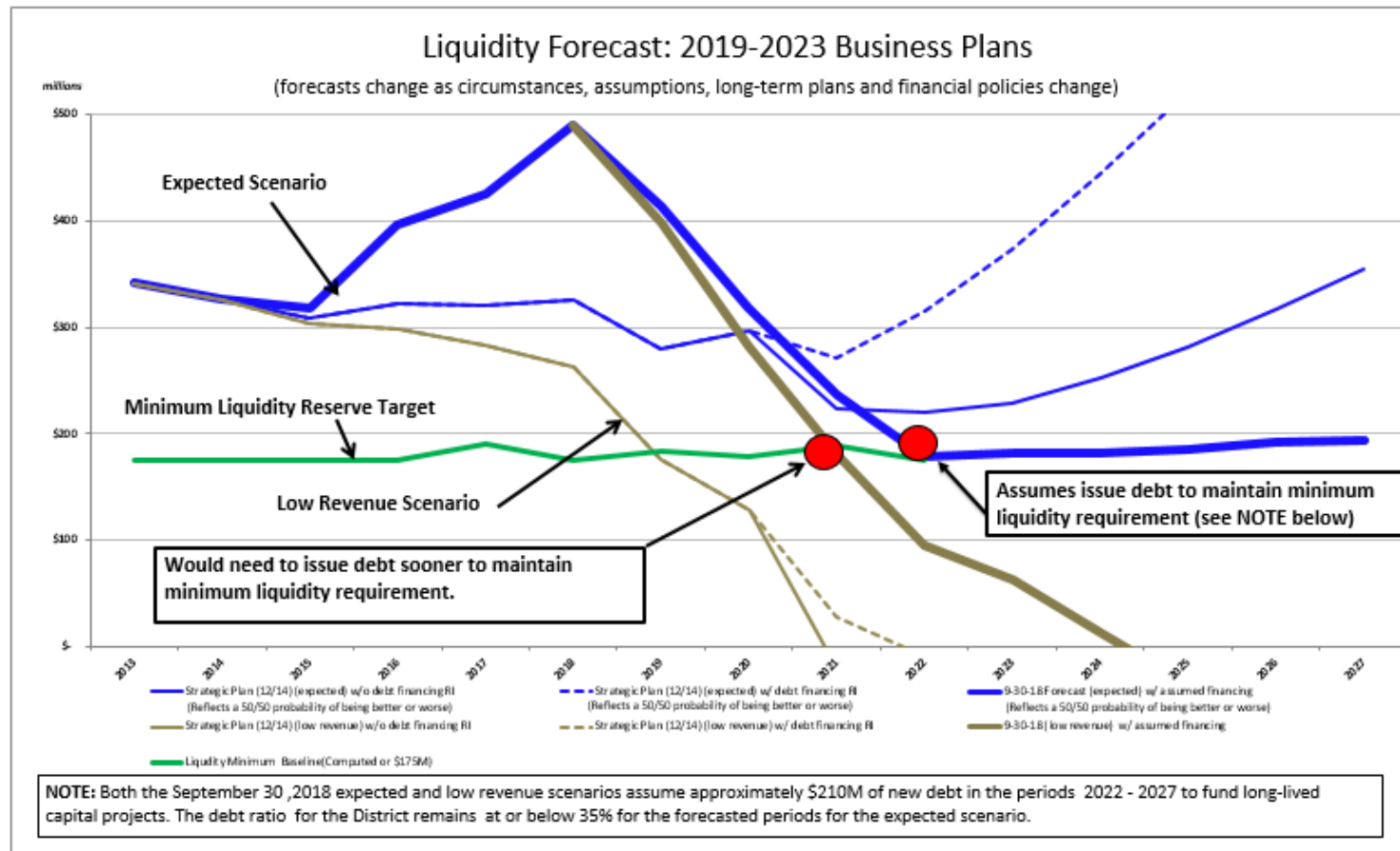


Note: This forecast assumes accelerated rehabilitation of Rock Island Hydro which is still pending business case analysis and approval.



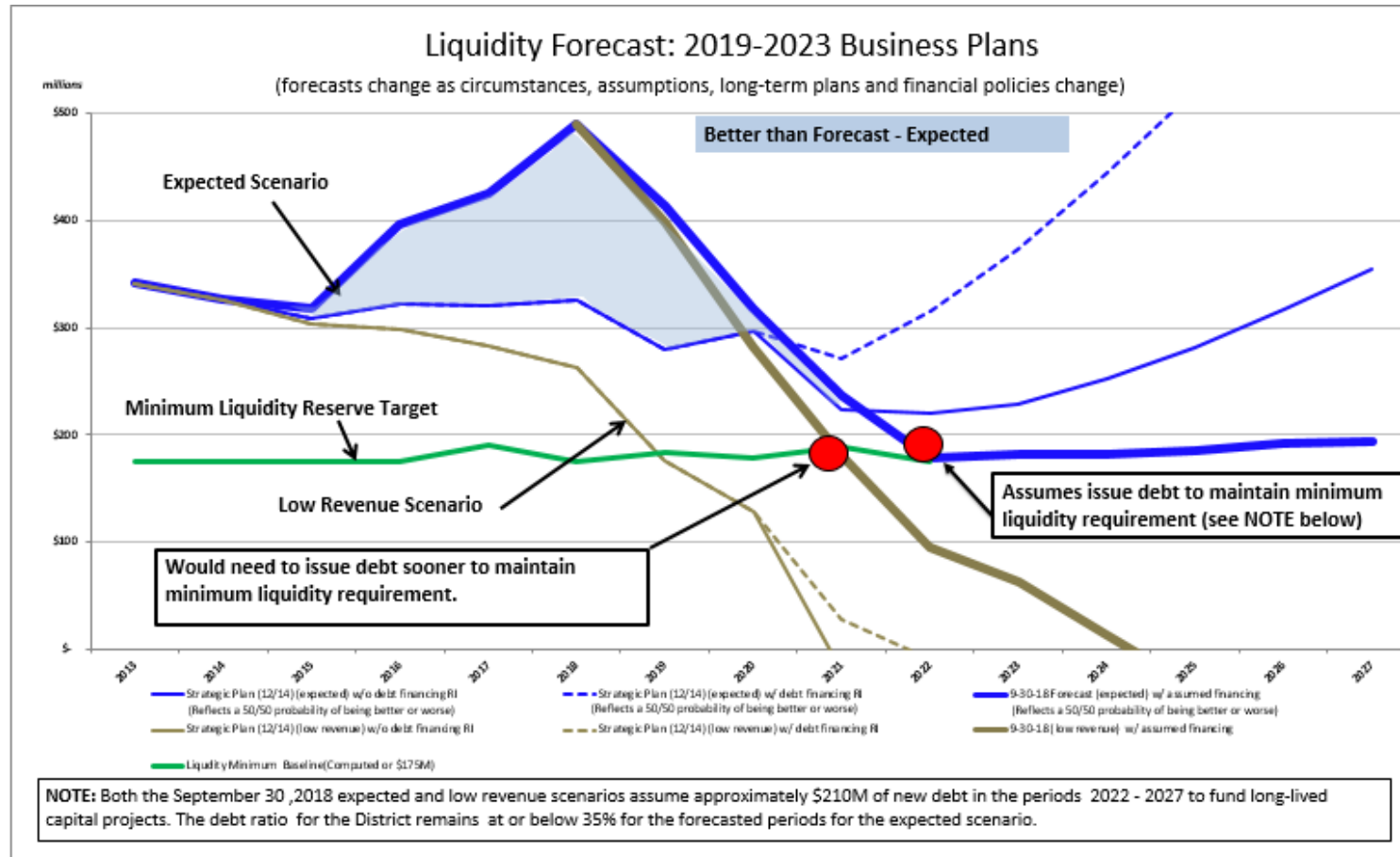
Reviewing and Learning from the Last Plan

- Liquidity



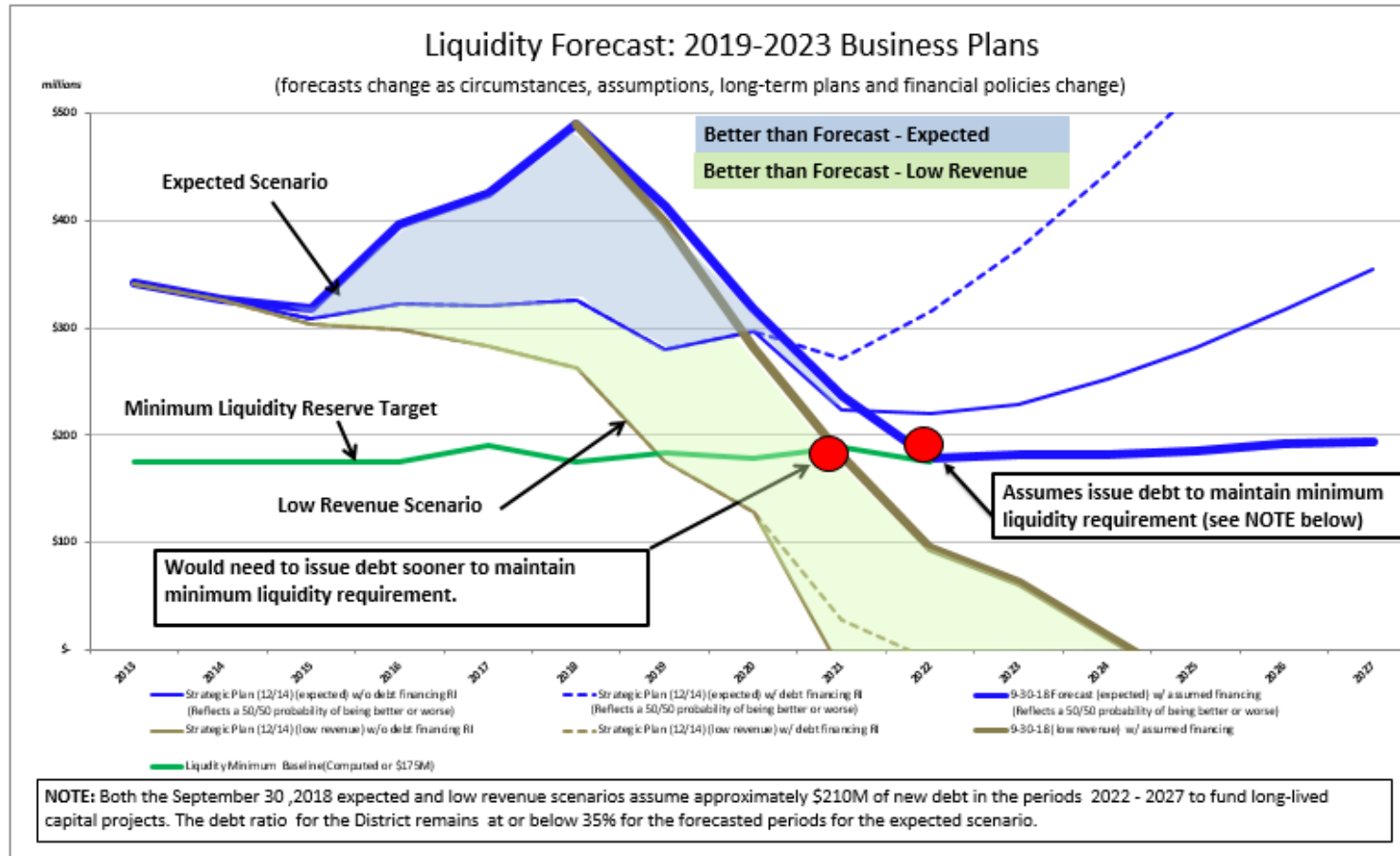
Reviewing and Learning from the Last Plan

- Liquidity



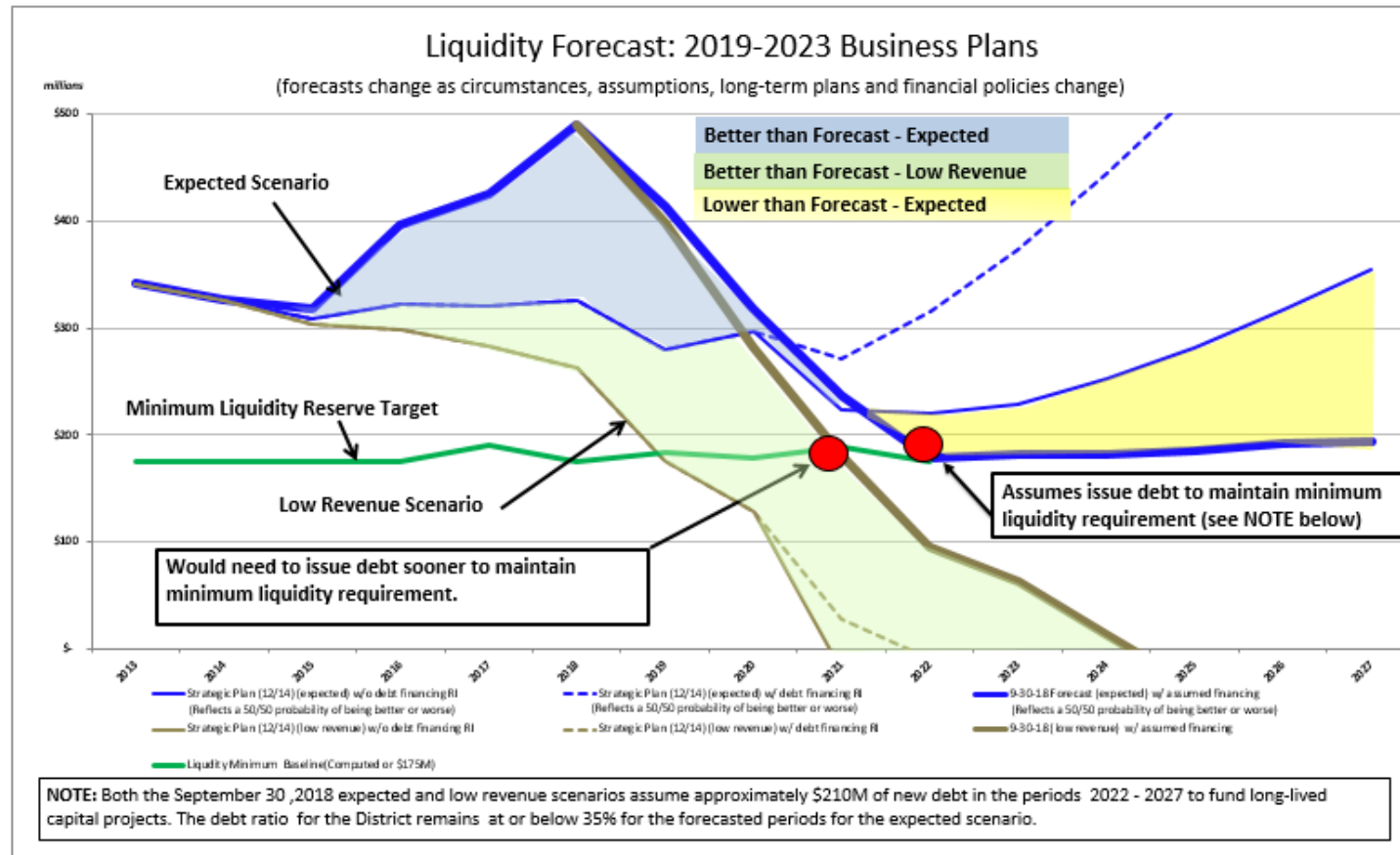
Reviewing and Learning from the Last Plan

- Liquidity



Reviewing and Learning from the Last Plan

- Liquidity



→ Goal – be prepared for good or low net revenue outcomes

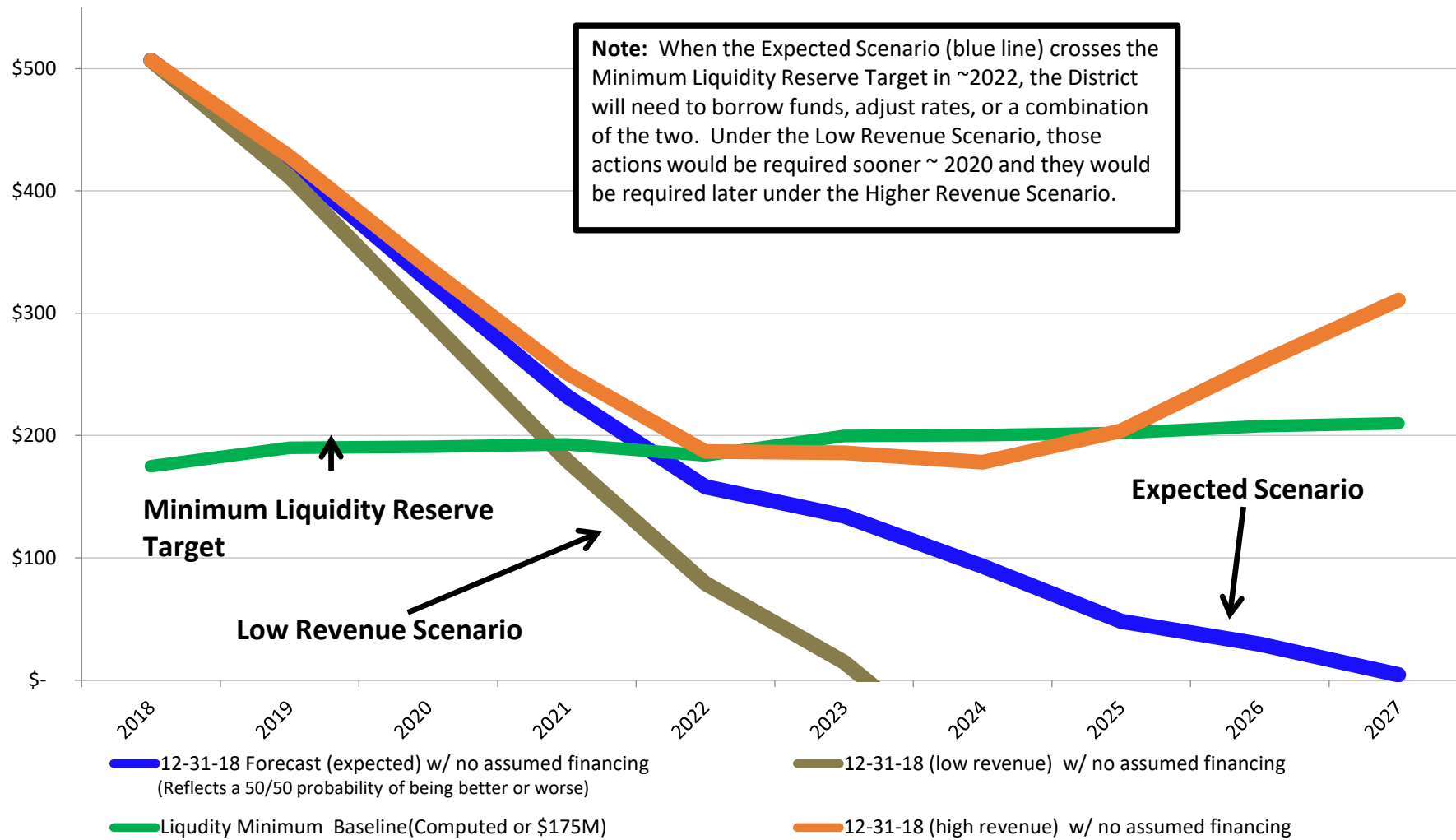
Reviewing and Learning from the Last Plan

District Liquidity Forecast

millions

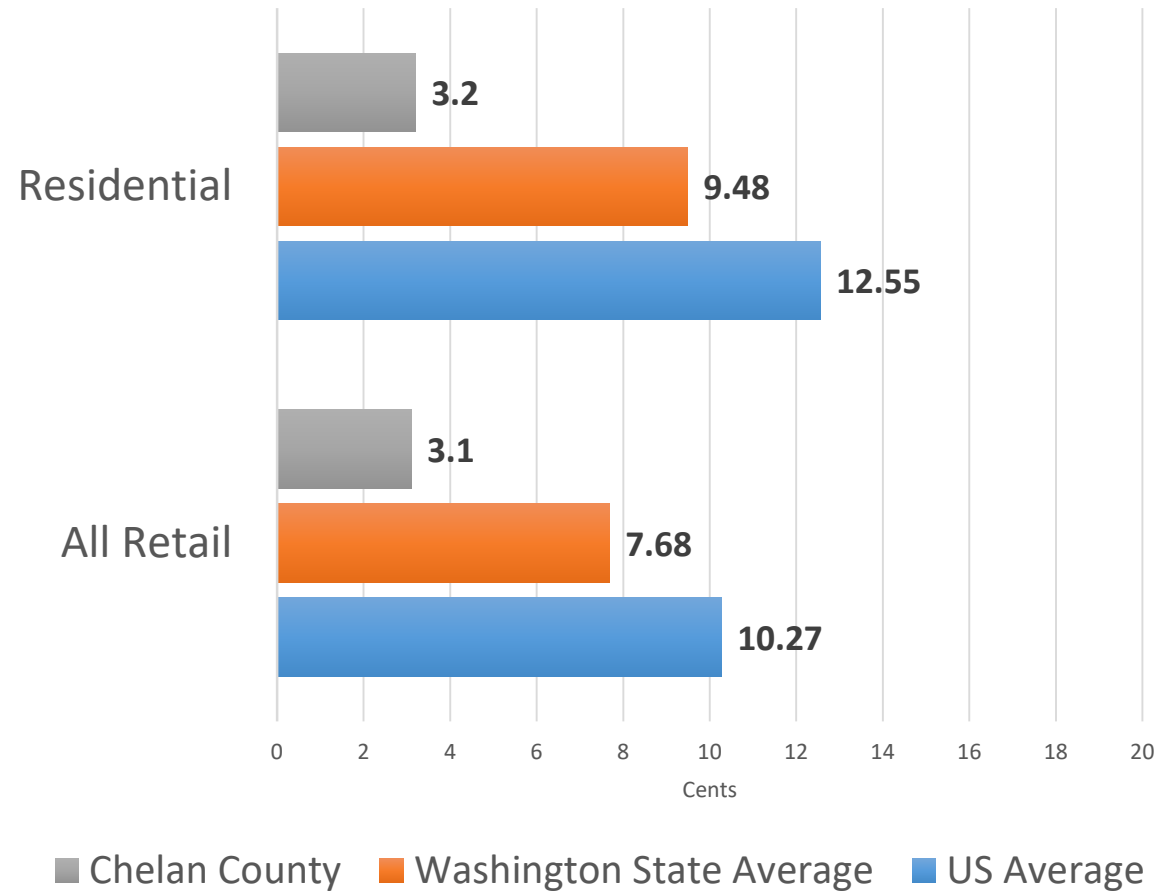
(forecasts change as circumstances, assumptions, long-term plans and financial policies change)

As of December 31, 2018 Forecast

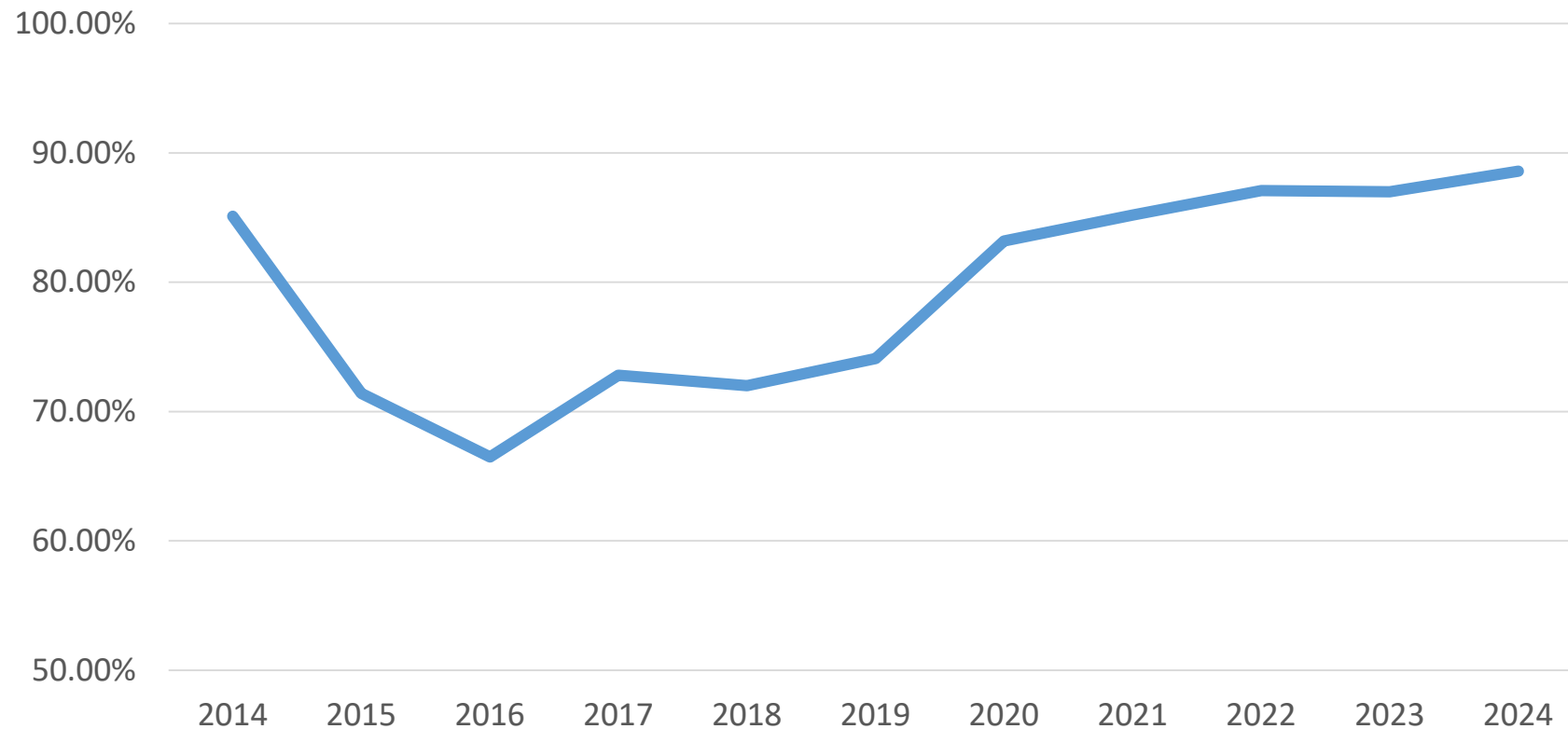


Key Metrics: Rates

Electric Rates per Kilowatt Hour (2016)



Key Metrics: Hydro Capability



Key Metrics: Reliability

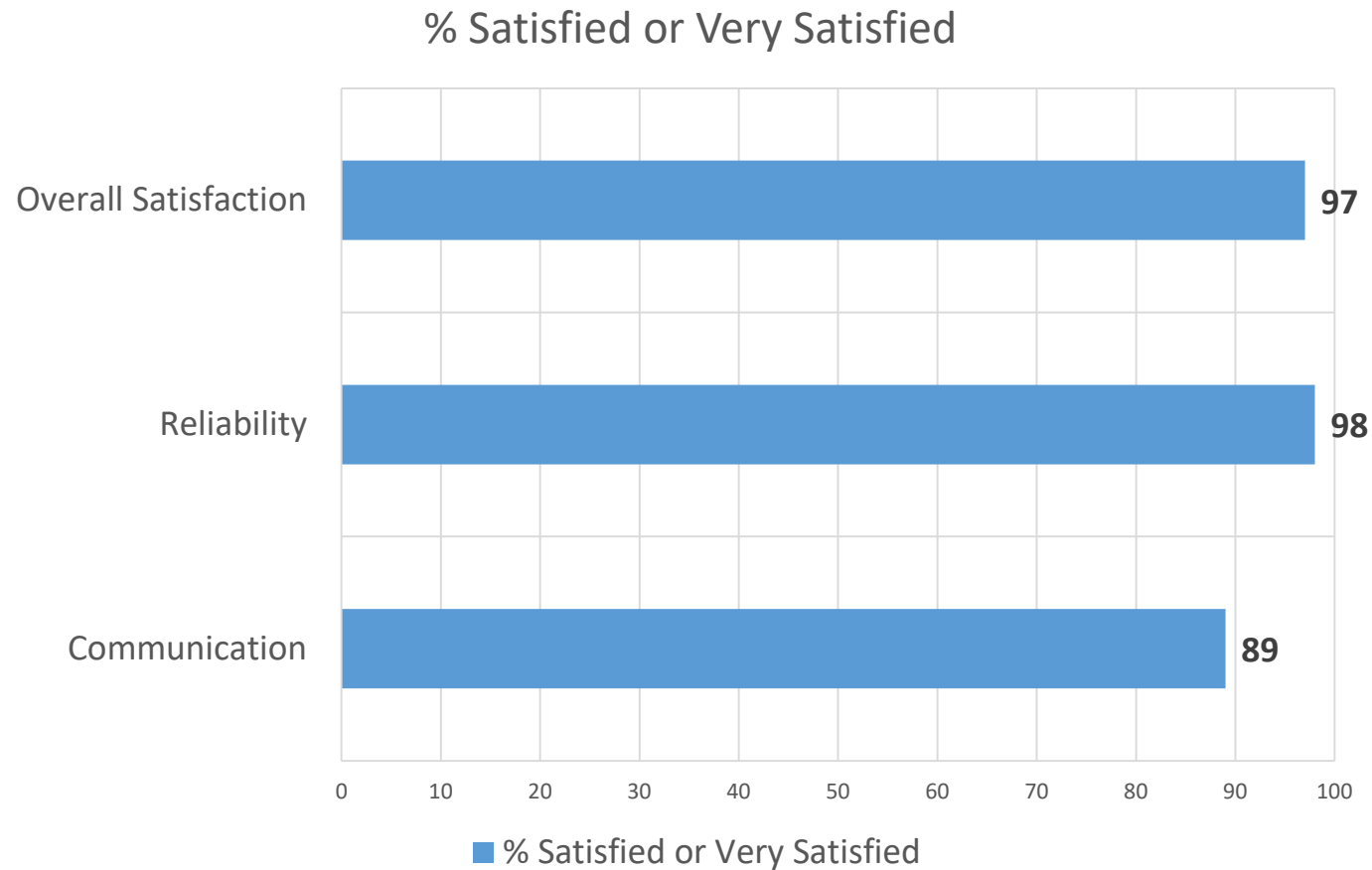
Power Availability	2015	2016	2017
Percent of time over 1 year	99.98562	99.98947	99.98360

Aging equipment presents challenge

Key Metrics: Environmental

- Habitat Conservation Plan Implementation on track
- Exceeded energy efficiency compliance requirements by 92%

Key Metrics: Customer Satisfaction



Mission

Previously

- To provide sustainable, reliable utility services that enhance the quality of life in Chelan County.

Updated

- To enhance the quality of life in Chelan County by providing sustainable, reliable utility services.

Vision

- Previously: Vision
 - To be valued as an innovative, trusted, and highly respected public utility for generations to come
- Updated: Vision / Challenge
 - In a rapidly changing utility environment, we will provide: The Best Value for the Most People for the Longest Time

Vision

- Strategic Components of vision/challenge
 - Commit to highest levels of customer-owner satisfaction
 - e.g. low rates, improved outage management
 - Invest to create long-term value
 - e.g. asset management
 - Ensure financial stability
 - e.g. financial metrics
 - Protect natural resources impacted by operations
 - e.g. full implementation of HCP
 - ★ • Advance human performance
 - e.g. safety and operational excellence through human performance initiative, training to anticipate change
 - ★ • Continuously improve efficient, effective, compliant, risk-assessed and resilient operations
 - risk assessment for e.g. business continuity, market prices, distributed generation, cryptocurrency load
 - ★ • Encourage innovation
 - continuous improvement and cutting edge technology where valuable to our business model e.g. HRI

Values

Previously

- Safety
- Stewardship
- Trustworthiness
- Operational Excellence

Updated

- Safety: no change
- Stewardship: no change
- Trustworthiness: added collaboration
- Operational Excellence: added personal ownership

Key Questions



Long-Term Rate Planning

After seven years without rate increases (and only 9% rate increase since 2000 while inflation has been around 40%), Chelan PUD plans to adopting a long-term rate plan. We have questions for our customer-owners. Should this plan:

- Include annual electric rate increases at approximately the rate of inflation to avoid the risk of large rate increases in later years
- Display the hydro financial benefit separately in electric, water and wastewater bills to help customers understand the full cost of services
- Specify the balance between funding large water and wastewater system improvements from financial reserves and annual rate increases for water and wastewater
- Include annual rate increases for the water, wastewater, and fiber business units to meet individual system financial metrics
- Change rate design to be responsive to utility industry changes



Rock Island Relicensing/Early Action

The federal hydropower license for Rock Island Dam that seeks to balance low rates, environmental protection and recreational enhancements expires in 2028

- Should Chelan PUD advance the newly developed federal policy to take “early actions” in advance of a final relicensing decision?
- If so, what actions should be considered that support recreational or environmental enhancements and what considerations should the PUD seek in return?



Wholesale vs. Retail Marketing

- Currently, Chelan PUD retail rates are subsidized by wholesale power revenues. Should Chelan PUD reduce emphasis on wholesale marketing and focus more on growing retail loads and local economic development?



Growth

- Should Chelan PUD lean toward growth pays for growth (supportive of lower rates for existing customers) or toward economic development (supportive of more jobs in the community)?



Aesthetics

- Who pays for aesthetic improvements (e.g. undergrounding of power lines) when it can increase costs by 2-10 times compared to above ground facilities - all customer owners or just those who benefit?



Public Power Benefit Program

- Should Chelan PUD continue to fund a public power benefit program that has been used for the fiber expansion and park passes?
- If so, what activities within our statutory authority should be considered for funding?



Sample 5-Year Targets

Strategic Aim	Measures / Targets	Year
Protect natural resources impacted by operations (e.g. full implementation of HCP)	Rock Island relicensing on schedule	2020-2024
	Meet oil release and temperature standards in Columbia River	2020-2024
	Chelan River check-in complete	2019
	Rocky Reach / Rock Island HCP check-in complete, full compliance achieved	2021
	Decide whether to pursue RI early action credit	2020
	Complete Peshastin water quality project	2020
	Define strategy for Dryden water quality project	2021
	Achieve no net impact to listed species	2021

Process & Timeline

- Phase 1 – Explain current status / key questions
- Phase 2 – Explore key questions with dedicated customer-owners
- Phase 3 – Community-wide engagement
- Phase 4 – Draft and finalize strategic plan
- Conclude in Summer 2019