



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

PUD PROFILE

Chelan County PUD owns and operates one of the nation’s largest nonfederal, customer-owned hydroelectric generating systems.

Chelan PUD’s highest priority is keeping our core assets in top shape. Investing in our hydropower projects, distribution systems, facilities and people ensures we continue to produce clean, renewable, carbon-free energy and create value for our customer-owners.

Chelan PUD’s three dams have demonstrated for decades the value of public power and local control. Together the dams can generate nearly 2,000 megawatts of power at their peak. In 2015, they produced 9.2 million megawatt hours of affordable, emission-free electricity.

DISTRICT’S BOND RATING STRONG

In May, S&P affirmed the AA stable rating on the District’s outstanding consolidated system, Rocky Reach and the Senior Rock Island bonds. The Rock Island Subordinate bonds have an AA- rating. The outlook on all ratings is stable. The rating agency firm reported the following factors that lead to the rating:

- Historical production costs that are very low and expected to remain highly competitive even in the event of below-average stream flow conditions
- The projects’ strong operating performance and the flexibility from their multiple turbines, which together partially mitigate single asset risk
- The ability to pass through 100% of its costs to off-takers, which have signed take-or-pay contracts
- The District’s ability to reassign or remarket surplus energy in the event of payment default by a contractual off-taker

The stable outlook reflects S&P’s view of the projects’ strong operating performance and low cost. Long-term contracts provide a stable revenue stream. Strong project economics provide credit stability and override credit risks regarding regulation, environmental mandates and off-taker credit quality. S&P anticipates that the projects will remain competitive with other generators or resource options in the region despite the high capital investment required to make improvements over the next five years.

PUD BOARD CITES CUSTOMER VALUE IN DECISION TO MODERNIZE ORIGINAL UNITS AT ROCK ISLAND DAM

PUD Commissioners decided in June to invest about \$60 million to modernize the four original generating units at Rock Island Dam. The decision came after reviewing the results of intensive staff analysis and concluding the project meets the strategic objective of investing in long-term assets that provide value to customer-owners.

Benefits of the modernization project would include reliable operation of the units for another 50 years, more flexibility in hydro operations and environmental and fish protection benefits. PUD staff studied the impacts of retiring the units, moving them to inactive status and rehabilitating them. Analysis showed returning the units to service provided clear benefits for customers. The other alternatives would create costs and removed all possible future revenue from their power generation. The analysis also indicated the District’s strong financial position makes it unlikely the work would require any change in electric rates under currently forecasted conditions.

Turbine blade cracks were found in 2015 on one unit originally placed in service in 1931. Numerous attempts to repair all the cracks were unsuccessful. The extensive look into alternatives for the future began in early 2016 after cracks were also discovered on the three other original units. All four units are out of service until they can be rehabilitated.

ABOVE-AVERAGE STREAMFLOWS INTO LAKE CHELAN

Cumulative inflows to Lake Chelan since last fall have been the fourth highest in 64 years due to higher-than-normal precipitation and snowpack and warmer temperatures in April. This year’s runoff period was about three weeks earlier than normal. The January-July water supply for Lake Chelan was 126 percent of average.

The January-July water supply on the Columbia River was 98 percent of average. Due to the District’s risk management plans, hedging strategies and financial policies, the District expects to meet or exceed financial targets despite the stream flow volatility.

PUD BOARD APPROVES NEW RATE FOR HIGH DENSITY LOAD CUSTOMERS

PUD commissioners approved a new electric rate for customers with energy intense loads, such as server farms and similar technology operations including bitcoin mining. The action follows 18 months of analysis and gathering public comment. The rate structure is expected to recover the fair and reasonable costs of serving these rapidly growing businesses.

The rate is effective January 1, 2017, and includes a transition period of up to five years for existing high density load (HDL) customers who can show they’ve made substantial investment and meet other criteria. Included is an upfront charge to offset the impacts from HDL customers on the District’s electric system capacity.

The new rate applies to server farms and similar technology operations with intense energy use of 250 kilowatt hours per square foot per year or more. The rate recognizes that high density loads impose costs different in type and magnitude than other commercial and industrial customers. Discussion of a new rate for energy intense customers was triggered in December 2014, when staff reported a dramatic increase in inquiries for new service from high density and large load customers. The current moratorium on accepting applications for service from energy intense loads will be reviewed by PUD commissioners in October.

STRATEGY FOR MANAGING DEBT

Commissioners reviewed and affirmed a philosophy and strategy for managing debt designed to create financial flexibility to support low and stable electric rates – even if financial results are lower than expected. Debt strategy would include continuing to pay down debt, targeting a debt ratio of less than 35 percent by 2019 and beyond and considering possible new borrowing in the mid 2020s, dependent on meeting District strategic goals and continued strong finances. The strategy foresees no need for electric rate increases to meet financial objectives for at least five years, except under financially stressed conditions. It supports continuing the Public Power Benefit program as long as bottom line results remain strong, balanced with future commitments. It will be used in business planning starting this summer as part of annual budgeting and long-term planning.

FINANCIAL HIGHLIGHTS

For the six months ended June 30, 2016, the District recorded a change in net position of \$47.9 million, a decrease in earnings of \$1.9 million from the same period in 2015. The decrease in earnings is primarily due to a decrease in wholesale sales combined with an increase in operation and maintenance expenses offset somewhat with a decrease in purchased power costs and reduced long-term debt related costs. Wholesale sales are lower as a result of lower average market prices. Operation and maintenance expenses have increased primarily due to long-term repair and rewinding of large unit generators at Rocky Reach. Purchased power costs are also down compared to the prior year due to lower average market prices. The District continues to purchase power to balance system loads and resources and to support its power hedging strategy. Other expense also decreased as a result of the losses recorded in the prior year as a result of the early retirements of various bond series.

As of June 30, 2016, combined unrestricted cash and investments totaled \$285.9 million compared to \$247.2 million from the same period in 2015. The \$38.7 million increase is attributable to cash generated by the District’s positive operating results. The \$31.5 million increase in Other assets was due primarily to an increase in long-term investments as a result of the lengthening of investment strategies.

Current liabilities decreased \$23.2 million from the prior year due primarily to a decrease in the current portion of long-term obligations as a result of changes in regularly scheduled repayments of bond principal on existing debt combined with early debt repayments. Long-term debt decreased by \$23.7 million from the prior year due to regularly scheduled repayments of bond principal on existing debt.



Kelly Boyd
 Chief Financial Officer/
 Chief Risk Officer



CONDENSED COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (Unaudited)

Six months ended June 30, 2016

(in thousands)

	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	6 Months Ended 06/30/16	6 Months Ended 06/30/15
OPERATING REVENUES	\$ 53,858	\$ 49,940	\$ 4,788	\$ 143,897	\$ 4,682	\$ 8,111	\$ (87,327)	\$ 177,949	\$ 190,653
OPERATING EXPENSES	39,875	26,485	3,681	128,625	-	8,356	(87,327)	119,695	118,706
NET OPERATING INCOME	13,983	23,455	1,107	15,272	4,682	(245)	-	58,254	71,947
OTHER INCOME (EXPENSE) (2)	(5,835)	(11,830)	(877)	2,553	3,108	156	-	(12,725)	(24,018)
CAPITAL CONTRIBUTIONS	-	325	-	2,090	-	-	-	2,415	1,855
CHANGE IN NET POSITION	\$ 8,148	\$ 11,950	\$ 230	\$ 19,915	\$ 7,790	\$ (89)	\$ -	\$ 47,944	\$ 49,784

CONDENSED COMBINING STATEMENTS OF NET POSITION (Unaudited)

June 30, 2016

(in thousands)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	06/30/16	06/30/15
TOTAL CURRENT ASSETS	\$ 10,886	\$ 9,476	\$ 2,095	\$ 80,285	\$ 22,074	\$ 7,105	\$ -	\$ 131,921	\$ 113,772
NET UTILITY PLANT	310,129	315,558	91,186	311,172	-	29,157	-	1,057,202	1,055,468
RESTRICTED ASSETS - NONCURRENT	49,423	84,279	-	1,762	20,312	5,342	-	161,118	157,333
OTHER ASSETS	8,007	25,251	6,193	145,767	83,095	14,447	(14,219)	268,541	237,001
DEFERRED OUTFLOWS OF RESOURCES	1,701	4,486	215	2,729	5,073	-	-	14,204	11,890
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 380,146	\$ 439,050	\$ 99,689	\$ 541,715	\$ 130,554	\$ 56,051	\$ (14,219)	\$ 1,632,986	\$ 1,575,464
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION									
CURRENT LIABILITIES	\$ 25,202	\$ 36,271	\$ 2,933	\$ 28,229	\$ (6,935)	\$ 20,731	\$ -	\$ 106,431	\$ 129,585
INTERSYSTEM PAYABLE (RECEIVABLE) - CURRENT	(854)	(10)	(289)	7,041	-	(5,888)	-	-	-
LONG-TERM DEBT	161,195	308,034	8,492	(4,026)	59,922	32,907	-	566,524	590,255
UNEARNED REVENUES	8,833	9,248	-	83,603	8,634	-	(14,219)	96,099	98,349
OTHER LIABILITIES	23,094	24,055	10,362	22,210	-	-	-	79,721	68,086
TOTAL LIABILITIES	217,470	377,598	21,498	137,057	61,621	47,750	(14,219)	848,775	886,275
DEFERRED INFLOWS OF RESOURCES	3,203	31,503	377	6,938	1,809	342	-	44,172	49,332
TOTAL NET POSITION	159,473	29,949	77,814	397,720	67,124	7,959	-	740,039	639,857
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & NET POSITION	\$ 380,146	\$ 439,050	\$ 99,689	\$ 541,715	\$ 130,554	\$ 56,051	\$ (14,219)	\$ 1,632,986	\$ 1,575,464

ELECTRIC

As of June 30	2016	2015
Number of Customers	49,953	49,504
Number of Residential Customers	37,452	37,034
YTD Average Residential Rate (Cents/kWh)	3.20	3.22

POWER GENERATION (MWh) (000)

6 months ended June 30	2016	2015
Lake Chelan	241	240
Rocky Reach	3,228	3,376
Rock Island	1,535	1,669

HYDRO PRODUCTION COST/MWH GENERATED (\$/MWh)

6 months ended June 30	2016	2015
Lake Chelan	\$ 17	\$ 16
Rocky Reach	14	11
Rock Island	25	22

NOTES TO CONDENSED STATEMENTS

(1) Intra-District transactions are eliminated.

(2) Consists primarily of investment income and interest expense on long-term debt.

Public Utility District No.1 of Chelan County (Chelan County PUD) has prepared condensed financial statements in accordance with generally accepted accounting principles. Condensed financial statements should be read in conjunction with the notes to the financial statements included in Chelan County PUD's Annual Report as of December 31, 2015. This information is provided for general information. Not all the information is intended for nor should it be relied upon for making investment decisions by current or prospective investors.