



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 2017, they produced 9.3 million megawatt hours of affordable, emission-free electricity.

S&P UPGRADES CHELAN PUD RATING TO AA+/STABLE

S&P Global Ratings (S&P) upgraded the PUD’s Consolidated System debt to AA+/Stable from AA/Stable. This rating puts Chelan PUD in the top five public utilities highly rated by S&P. The AA+/Stable rating matches one received from Fitch Ratings in October 2008 and affirmed in September 2017.

Some of the reasons for the S&P rating upgrade include:

- Chelan PUD’s very strong risk management and financial policies
- Rapidly declining debt
- Improved cash position/liquidity
- Experienced management team
- Extremely low-cost power

S&P noted that the PUD achieved these accomplishments without a retail rate increase in six years. The PUD’s low rates give the utility financial flexibility. In addition to the PUD’s financial strength and stability, low operating costs from its hydropower generation also contributed to the positive review. S&P also commented on the PUD’s surplus generation hedging practices as beneficial to reducing the impact of energy market volatility on the PUD’s revenues.

Chelan PUD will begin its next five-year strategic planning process later this year. Maintaining its strong financial position will be a key component for investment and operating strategies into the 2020s.

CHELAN PUD PLANS TO USE ALCOA PAYMENT TO INVEST IN STRATEGIC PRIORITIES

As part of a power sales agreement, Chelan PUD received a \$62 million contract payment from Alcoa Corporation. The District plans to use these funds to stay focused on implementing strategic priorities of investing in assets and people, reducing debt and implementing the Public Power Benefit program.

Alcoa’s Wenatchee Works smelter has been curtailed since December 2015. The power sales contract included an \$86 million deferred upfront charge that was specifically designed to encourage Alcoa to operate the plant. Alcoa earned a payment discount each year the smelter operated from 2011 to 2015. Last year, PUD Commissioners agreed to defer the bulk of Alcoa’s remaining charge until June 2018 as Alcoa considered whether to restart the facility. The \$62 million payment represents the remainder of the deferred upfront charge. The payment revenue will be amortized over the remaining 10 years of the contract. The payment under the contract does not prevent the possibility of a restart, and Alcoa’s contract with the PUD remains in place until 2028.

Alcoa receives 26 percent of the electric generation from the Rocky Reach and Rock Island hydropower projects for its Wenatchee Works aluminum smelter, which is about enough power to operate three potlines. During the curtailment, the PUD sells unused power on Alcoa’s behalf, and the proceeds are applied toward Alcoa’s monthly contract costs. Any shortfall is paid by Alcoa and any excess proceeds are retained by the District. Chelan PUD views Alcoa as a valued community partner with a shared history of providing economic benefits to the Wenatchee Valley.

COMMISSIONERS KEEP CRYPTOCURRENCY MORATORIUM IN PLACE

Chelan County PUD commissioners listened to comments from staff, customer-owners and cryptocurrency miners at multiple public hearings and voted to extend the application moratorium imposed in March for cryptocurrency mining and similar data operations until August.

The PUD has requests that could more than double the PUD’s retail electric load. With limited local power supply available in the short-term due to forward sales, options to meet increased demand may include buying market power for new cryptocurrency load, which comes with additional costs to assure reliability. Market prices are likely to compare with “fully loaded” costs for PUD power.

Analysis has found pockets of potential transmission capacity available to support the high power demand of cryptocurrency operations. There are a few areas with distribution system capacity, too, but most locations would require building infrastructure including substations to serve potential cryptocurrency load.

Staff has proposed creating a specific cryptocurrency rate to make sure risks related to miners’ mobility, bitcoin price swings and the industry’s mismatch with the PUD’s long-term business model are addressed.

Since the board imposed the March 19 application moratorium for cryptocurrency mining and similar data operations, staff has updated regulations and received approval of fees and charges for investigating and enforcing unauthorized HDL loads. They have reached out to operators, customer-owners, city councils and Chelan County commissioners to discuss impacts on public safety, the power grid and the PUD’s ability to respond to planned growth and already-planned work.

ABOVE-AVERAGE WATER SUPPLY FORECASTS

May monthly average Columbia River flow past Rocky Reach Dam of 275,000 cubic feet per second (cfs) was the highest since the dam was built in 1962. The Northwest River Forecast Center forecasts January-July water supply on the Columbia River to be 119 percent of average at Grand Coulee Dam. May average runoff into Lake Chelan also was the highest on record (since 1929). The 2018 water supply forecast for the Lake Chelan drainage basin from April through July is 114 percent of average.

FINANCIAL HIGHLIGHTS

For the six months ended June 30, 2018, Chelan County PUD recorded a change in net position of \$46.5 million, a decrease in earnings of \$10.6 million from the same period in 2017. The decrease in earnings is due to a combination of lower operating revenues and higher operating expenses compared to last year. Retail sales are lower due to reduced consumption resulting from milder winter temperatures compared to the prior year. Wholesale revenues are down due to lower average market prices on surplus power sales, combined with decreased debt service costs at the District’s hydros, which translates to lower revenues under the District’s cost-plus based long-term power sales agreements. Other operating revenues were higher in the prior year due to a receipt of a one-time long-term power sales contract payment that was recorded during the second quarter of 2017. Operating expenses are higher primarily due to increased labor and benefit costs driven by increased regulatory, technology and evolving business needs, as well as, increased maintenance at the District’s Rock Island hydroelectric project.

As of June 30, 2018, combined unrestricted cash and investments totaled \$439.7 million compared to \$353.0 million from the same period in 2017. The increase in unrestricted reserves is primarily attributable to receipt of the \$62 million long-term power sales agreement payment plus cash generated by the District’s positive operating results after paying for debt reduction and capital expenditures out of cash reserves. The \$29.8 million increase in current assets and the \$57.1 million increase in other assets are primarily due to an increase in investments resulting from higher overall cash and investment balances.

Long-term debt decreased by \$53.2 million due to continued implementation of the District’s debt reduction plan. The reduced debt leverage supports the District’s financial policies, customer-owner priorities, strong credit rating and long-term financial sustainability.



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, 2018

(in thousands)

	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	6 Months Ended 06/30/18	6 Months Ended 06/30/17
OPERATING REVENUES	\$ 45,399	\$ 51,009	\$ 4,864	\$ 149,212	\$ 3,688	\$ 10,363	\$ (89,437)	\$ 175,098	\$ 184,129
OPERATING EXPENSES	34,631	28,166	4,131	134,001	-	10,651	(89,437)	122,143	118,809
NET OPERATING INCOME	10,768	22,843	733	15,211	3,688	(288)	-	52,955	65,320
OTHER INCOME (EXPENSE) (2)	(4,972)	(10,882)	(783)	3,673	2,880	221	-	(9,863)	(11,795)
CAPITAL CONTRIBUTIONS	-	276	-	3,122	-	-	-	3,398	3,613
INTERFUND EQUITY TRANSFERS	(4,000)	4,000	-	-	-	-	-	-	-
CHANGE IN NET POSITION	\$ 1,796	\$ 16,237	\$ (50)	\$ 22,006	\$ 6,568	\$ (67)	\$ -	\$ 46,490	\$ 57,138

CONDENSED COMBINING STATEMENTS OF NET POSITION (Unaudited)

June 30, 2018

(in thousands)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	06/30/18	06/30/17
TOTAL CURRENT ASSETS	\$ 13,817	\$ 12,462	\$ 2,963	\$ 146,182	\$ 46,876	\$ 14,599	\$ -	\$ 236,899	\$ 207,118
NET UTILITY PLANT	295,367	372,204	88,012	320,370	-	33,035	-	1,108,988	1,084,583
RESTRICTED ASSETS - NONCURRENT	45,371	46,705	-	2,456	18,399	4,417	-	117,348	139,350
OTHER ASSETS	7,591	15,829	4,391	195,693	84,086	16,828	(12,856)	311,562	254,445
DEFERRED OUTFLOWS OF RESOURCES	2,068	4,424	248	3,029	3,242	-	-	13,011	17,839
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 364,214	\$ 451,624	\$ 95,614	\$ 667,730	\$ 152,603	\$ 68,879	\$ (12,856)	\$ 1,787,808	\$ 1,703,335
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION									
CURRENT LIABILITIES	\$ 18,360	\$ 37,134	\$ 2,093	\$ 24,742	\$ (691)	\$ 22,058	\$ -	\$ 103,696	\$ 98,699
INTERSYSTEM PAYABLE (RECEIVABLE) - CURRENT	(956)	(1,084)	(330)	9,333	-	(6,963)	-	-	-
LONG-TERM DEBT (3)	129,007	273,257	5,364	(11,502)	48,572	44,083	-	488,781	541,944
UNEARNED REVENUES	7,940	8,362	-	134,069	7,385	-	(12,856)	144,900	96,235
OTHER LIABILITIES	23,082	23,691	10,902	20,245	-	-	-	77,920	91,031
TOTAL LIABILITIES	177,433	341,360	18,029	176,887	55,266	59,178	(12,856)	815,297	827,909
DEFERRED INFLOWS OF RESOURCES	2,292	26,116	274	4,548	30	10	-	33,270	30,508
TOTAL NET POSITION	184,489	84,148	77,311	486,295	97,307	9,691	-	939,241	844,918
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & NET POSITION	\$ 364,214	\$ 451,624	\$ 95,614	\$ 667,730	\$ 152,603	\$ 68,879	\$ (12,856)	\$ 1,787,808	\$ 1,703,335

ELECTRIC

As of June 30	2018	2017
Number of Customers	50,986	50,458
Number of Residential Customers	38,401	37,922
YTD Average Residential Rate (Cents/kWh)	3.16	3.12

POWER GENERATION (MWh) (000)

6 months ended June 30	2018	2017
Lake Chelan	229	228
Rocky Reach	3,520	3,480
Rock Island	1,582	1,665

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

6 months ended June 30	2018	2017
Lake Chelan	\$ 19	\$ 17
Rocky Reach	11	12
Rock Island	24	22

NOTES TO CONDENSED STATEMENTS

(1) Intra-District transactions are eliminated.

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

(3) Utility Services receivable consists primarily of unamortized prepaid Internal Service assets.

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, 2017. 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.