

# Chelan County PUD

## Quarterly Financial Review

For the Quarter Ended March 31, 2017

Board Presentation

May 15, 2017



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**POWER**

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# What we will cover today...

**Financial  
Highlights**

**First  
Quarter  
Results**

**5-Year  
Look  
Forward**

**Key  
Messages**

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

# Key Highlights

## 2017 Bottom-line results better than budget

- *YTD-2017 result \$27.6 million (\$6.5M better than budget)*
- *2017 forecast \$93.5 million (\$8.1M better than budget)*
- *Combination of higher revenues and lower costs*

## 2017 Financial metrics meeting targets

- Financial Liquidity = **\$361M**      Target > \$175M
- Days Cash on Hand = **557**      Target > 250
- Rate of Return = **8.2%**      Target >4%
- Debt Ratio = **37.9%**      Target <45%-2017, <35%-2019
- Debt Service Coverage = **3.16**      Target >2.00x

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

# Financial Highlights - Revenue

## Net Wholesale Revenue:

YTD result \$0.7 million above budget  
(\$25.3M vs. \$24.6M)

Annual forecast higher than budget  
(\$116.2M vs \$114.1M)

### Drivers:

- + Generation 113% of budget YTD
- retail energy use 121% of budget YTD
- + Alcoa surplus sales retained while curtailed ~\$1.8M YTD
- 2017 flat price \$20.1 vs \$22.5 budget
- \*Impact minimized by hedging program

## Hydro Long-Term Contract Revenue:

YTD result \$1.9 million below budget  
(\$28.6M vs. \$30.5M)

Annual forecast slightly lower than  
Budget (\$124.0M vs \$124.6M)

### Drivers:

- Combined hydro “cost based” operating expenses below budget (91% YTD)
- “Plus” contract charges less than budgeted levels (93% YTD)

# Financial Highlights - Revenue

## Service Revenue:

YTD result \$2.5 million above budget  
(\$21.6M vs. \$19.1M)

Forecast results better than budget  
(\$66.7M vs \$63.2M )

### Drivers:

+ Retail energy use at 121% of budget:  
(Residential ~127%, Industrial ~113%,  
Commercial ~116%)  
+Colder than normal winter

## Other Operating Revenue:

YTD result \$0.1 million below budget  
(\$5.0M vs. \$5.1M)

Forecast results in line with budget of  
(\$20.9M vs \$20.9M)

### Drivers:

\* YTD and forecasted results in line with  
budget.

# Financial Highlights - Expenses

## Operating Expense:

YTD result \$4.9 million below budget  
(\$34.1. vs. \$39.0M)

Forecast results below budget  
(\$160.2M vs \$162.2M)

### Drivers:

- Electric Transmission at 67% of YTD budget/expected to catch up to 98% for year end
- Hydro Operations and Maintenance at 76% of YTD budget/expected to catch up to 97% for year end

## Non-Operating Net Expense:

YTD result \$0.5 million better than budget (\$4.2M vs. \$4.7M)

Forecast result in line with budget  
(\$17.4M vs \$17.7M)

### Drivers:

- + Higher contributions in aid of construction YTD. (\$1.6M vs \$1.3M)
- \*Line extensions

# Financial Highlights – Cost per unit



## Electric fully loaded cost per avg kWh better than budget

YTD - 2017 ¢/kWh result – **5.10¢ vs. 5.22¢** (actual vs. budget)

Power production costs- 2.26¢ vs. 2.33¢ (actual vs. budget)

Power distribution costs- 2.84¢ vs. 2.89¢ (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 - 2017 \$/MWh result - **\$16.6 vs. \$18.2** (actual vs. budget)

### Actual vs. Budget

Rocky Reach \$12.9 vs. \$14.0 (operating expense ~88%)

Rock Island \$24.0 vs. \$26.5 (operating expense ~83%)

Lake Chelan \$17.2 vs. \$19.0 (operating expense ~87%)

# Financial Highlights – Cost per unit



## Water cost per 1,000 gallons consistent with budget

YTD - 2017 result - \$6.46 vs. \$6.46 (actual vs. budget)

YTD - 2017 operating expense 95% of budget

\*Taxes 136% of budget (annexation of Olds Station)



## Wastewater annual cost per ERU better than budget

YTD - 2017 result - \$972 vs. \$1,053 (actual vs. budget)

YTD - 2017 operating expense 94% of budget



## Fiber annual cost per active premise higher than budget

YTD - 2017 result - \$443 vs. \$420 (actual vs. budget)

YTD - 2017 operating expense 123% of budget

\*Maintenance support contract timing



# Financial Highlights – Balance Sheet

## Capital expenditures below budget

- 2017 YTD \$7.6 million vs. budget of \$20.8 million
- 2017 Forecast results above 2017 budget (\$102M vs. \$96M)
  - (monitoring for now, as still early in year)
- Individual project adjustments:
  - ↓ RR Generator Fire Protect System (~\$1.6M shifted from 2017 to 2019)
  - ↑ RI B5 Modernization (\$2.3M shifted from future years to 2017)
  - ↓ RI B7 Modernization (\$2.7M shifted from 2017 to future years)
  - ↑ RI B8 Modernization (\$2.3M shifted from future years to 2017)

## Cash remains strong / Debt reduction strategy on track

- Cash balance forecasted to decrease ~\$34 million in 2017
- Debt balance to decrease ~\$52 million in 2017

# 2017 Bottom-Line Results

(in 000s)	2017 Current Forecast	2017 Budget	% of budget
Service Revenue	66,731	63,168	106%
Energy Resources Net Wholesale	116,160	114,138	102%
Hydro LT Contract Rev/Other PP	122,674	123,252	100%
Other Operating Revenue	20,891	20,886	100%
Other Operating Expense	(160,194)	(162,208)	99%
Depreciation & Tax Expense	(55,354)	(56,139)	99%
<b>Operating Income/(Loss)</b>	<b>110,909</b>	<b>103,097</b>	<b>108%</b>
Non-Operating Activity	(17,433)	(17,740)	98%
<b>"Bottom Line"</b>	<b>93,476</b>	<b>85,356</b>	<b>110%</b>

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



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# Business Line “Bottom-Line” Results

(in 000s)	2017 Current Forecast	2017 Budget	% of budget
Cost-Based Activity	38,080	38,334	99%
Market-Based Activity	57,534	54,510	106%
Retail Activity	(17,169)	(20,333)	84%
Other Activity	11,106	10,131	110%
<b>Integrated Electric</b>	<b>89,551</b>	<b>82,641</b>	<b>108%</b>
Fiber & Telecom	3,895	2,274	171%
Water	229	620	37%
Wastewater	(200)	(179)	112%
<b>Combined "Bottom-Line"</b>	<b>93,476</b>	<b>85,356</b>	<b>110%</b>

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



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# Capital Expenditures

(in 000s)	2017 YTD Current	2017 YTD Budget	% of budget	2017 Current Forecast	2017 Budget	% of budget
Electric Distribution	1,391	1,962	71%	12,794	12,587	102%
Network Transmission	268	837	32%	3,730	3,886	96%
Rocky Reach	2,081	4,936	42%	12,864	13,179	98%
Rock Island	2,256	10,202	22%	50,420	45,542	111%
Lake Chelan	5	46	12%	1,088	1,099	99%
Internal Services	947	2,038	46%	14,902	14,427	103%
Fiber & Telecom	501	649	77%	4,708	3,935	120%
Water	29	91	32%	1,116	1,116	100%
Wastewater	150	31	479%	580	418	139%
<b>Total Expenditures</b>	<b>7,628</b>	<b>20,791</b>	<b>37%</b>	<b>102,201</b>	<b>96,188</b>	<b>106%</b>
Contributions	(1,604)	(1,294)	124%	(4,562)	(5,177)	88%
<b>Capital net of CIAC</b>	<b>6,024</b>	<b>19,497</b>	<b>31%</b>	<b>97,639</b>	<b>91,012</b>	<b>107%</b>

# Overview of YTD - 2017 Cash Flow

	\$ Million
Bottom-line result (YTD - 2017)	\$28
Add back non-cash related items (depreciation)	\$ 12
<b>Estimated earned funds from operations</b>	<b>\$ 40</b>
Capital Project Expenditures, net of contributions	\$6
Net Debt Reductions	\$---
Other Misc. Impacts (A/R, A/P, Inventory, Etc.)	\$ 18
Added to cash reserves	\$ 16
<b>Estimated use of funds</b>	<b>\$ 40</b>

Cash and investments, beginning of year	\$ 483
Added to cash reserves	\$ 16
<b>Cash and investments, end of Q1</b>	<b>\$ 499</b>



# Cash & Investments Balance

(\$ Millions)	<u>3/31/17</u>	<u>12/31/16</u>
<b>Unrestricted funds (policy minimum \$150M)</b>	<b>\$321</b>	<b>\$306</b>
Restricted – DRC & CRC funds for Hydro capital/debt	<u>82</u>	<u>90</u>
<b>Total Liquidity (policy minimum \$175M)</b>	<b>\$403</b>	<b>\$396</b>
Restricted - bond reserve funds	61	55
Restricted - power contract deposits	23	20
Self insurance and other restricted funds	<u>12</u>	<u>12</u>
<b>Total Cash and Investments</b>	<b><u>\$499</u></b>	<b><u>\$483</u></b>

# Quarterly Reporting Requirement - Financial Policies

District Combined	2017	2018	2019	2020	2021
Liquidity - \$175M Min (Expected)	\$361M	\$274M	\$219M	\$222M	\$215M
Liquidity - \$175M Min (Unusual)	\$358M	\$265M	\$205M	\$200M	\$181M
Debt Ratio (Expected <35% by 2019)	37.9%	32.3%	26.8%	23.9%	21.8%
Debt Ratio (Unusual <35% by 2019)	37.9%	32.5%	27.0%	24.3%	22.3%
Days Cash on Hand (Expected >250)	557	454	357	357	366
Days Cash on Hand (Unusual > 250)	552	439	333	321	308
Combined Debt Cover (Expected > 2.00x)	3.16	2.81	2.69	2.84	2.72
Combined Debt Cover (Unusual >1.25x)	3.10	2.69	2.57	2.68	2.42
Rate of Return (Expected > 4% thru 2019)	8.2%	5.7%	4.6%	Sunset	
Rate of Return (Unusual > 2% thru 2019)	8.0%	5.2%	4.1%		
Bottom Line Results (Expected)	\$93M	\$68M	\$57M	\$49M	\$44M
Bottom Line Results (Unusual)	\$91M	\$63M	\$51M	\$42M	\$31M
Outstanding Debt (Expected & Unusual)	\$537M	\$452M	\$368M	\$331M	\$306M

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
<b>WATER Business Line</b>					
Operating Expense Coverage (target >120%)	137%	137%	133%	137%	134%
Cash Reserves (target > \$1.25 million)	\$3.5M	\$3.5M	\$3.6M	\$2.7M	\$1.6M
Debt Ratio (target <35%)	13%	11%	10%	9%	7%
<b>WASTEWATER Business Line</b>					
Operating Expense Coverage (target >100% by 2019)	96%	106%	110%	109%	109%
Cash Reserves (target > \$200K)	\$2.1M	\$2.5M	\$2.7M	\$3.1M	\$3.1M
Debt Ratio (target <35%)	---	---	9%	9%	15%
<b>FIBER Business Line</b>					
Operating Expense Coverage (target >120%)	177%	150%	139%	152%	152%
Cash Reserves (target > \$2.0 million)	\$10.3M	\$9.0M	\$8.6M	\$9.1M	\$10.4M
Debt Ratio (target <35%)	---	---	---	---	---



# Quarterly Investment Report

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

	Q2 2016	Q3 2016	Q4 2016	Q1 2017	YTD 2017	WAM
Average Invested Book Value (\$M)	\$448	\$440	\$464	\$485	\$485	
District Yield	1.52%	1.69%	1.61%	1.67%	1.67%	792
Benchmarks:						
3 Month T-Bill	0.27%	0.31%	0.44%	0.60%	0.60%	90
Barclays Gov. 1-3 Year Index	0.78%	0.75%	1.02%	1.24%	1.24%	660

- Q1 2017 yield rose slightly to 1.67% due to improving market interest rates
- March 15, 2017 Federal Open Market Committee meeting report:
  - Economic activity continued to strengthen at a moderate pace
  - Continuing to monitor inflation indicators and global developments, the near term outlook appears stable
  - Federal funds rate target range raised from 0.75% to 1.00%
  - Gradually increasing, although continued relatively low rates, are anticipated through 2017
- 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.



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# Key Messages

## 2017 early results better than budget

- YTD 2017 Bottom-Line (*better than budget and forecast to be ~\$8M better for the year*)
- Combination of higher revenues from colder weather and lower costs

## Long-term financial policies on track

- Bottom-line forecasts ~\$94M declining to ~\$44M (2017-21): reflecting a decline in forecasted electric wholesale prices over our planning horizon
- Total cash reserves forecasted to decline for planned beneficial uses to reduce debt and reinvest in core assets - lower balances still strong (2017-21)
- Further analysis on long term spending plans and debt strategies will continue as part of the ongoing business planning cycle

## Stay the course with strategic goals

- Reinvest in core assets and people
- Reduce debt by about ~\$52M in 2017 and achieve <35% debt ratio by 2019
- 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.*

# Service Revenue

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Residential Electric	11,461	9,720	118%	Cold winter / high usage
Commercial Electric	5,409	4,781	113%	Partially weather driven usage
Industrial Electric	1,234	1,095	113%	In line with budget
Other Electric	80	83	96%	In line with budget
<b>Electric Service</b>	<b>18,522</b>	<b>16,123</b>	<b>115%</b>	
<b>Water Service</b>	<b>1,190</b>	<b>1,162</b>	<b>102%</b>	In line with budget
<b>Wastewater Service</b>	<b>158</b>	<b>164</b>	<b>96%</b>	In line with budget
<b>Fiber &amp; Telecom</b>	<b>1,751</b>	<b>1,668</b>	<b>105%</b>	In line with budget
<b>Service Revenue</b>	<b>21,620</b>	<b>19,116</b>	<b>113%</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 2017	Budget YTD 2017	%	Variance
Slice Contracts	19,815	19,767	100%	In line with budget
Net Block Trades	3,617	2,926	124%	Retail usage up offset by increased production due to high flows
Other Net Wholesale	1,901	1,951	97%	
<b>Energy Resources Net Wholesale</b>	<b>25,333</b>	<b>24,643</b>	<b>103%</b>	
LT Hydro Contracts	28,551	30,509	94%	Costs & Cost based revenue down
Less Other Purchased Power	(330)	(330)	100%	In line with budget
<b>Hydro LT Contract Rev/Other PP</b>	<b>28,221</b>	<b>30,178</b>	<b>94%</b>	
<b>Surplus Energy Revenue</b>	<b>53,554</b>	<b>54,822</b>	<b>98%</b>	

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

# Operating Expense

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Hydro Operations & Maintenance	10,234	13,423	76%	Timing of large unit repairs
Hydro Fish & Wildlife	2,872	3,391	85%	Predator control/fishway ops
Hydro Parks & Recreation	1,005	1,217	83%	In line with budget
Electric Distribution	3,253	3,010	108%	In line with budget
Electric Transmission	2,291	3,434	67%	Peak RC/Peak RCTA dues
Misc. Power Supply Expenses	1,108	1,322	84%	In line with budget
Water & Wastewater	648	702	92%	In line with budget
Fiber Network	1,201	976	123%	Maint. support contract timing
Customer Accounts & Service	876	880	100%	In line with budget
Conservation & Customer Assist	548	706	78%	Amortization of reg asset
Insurance & FERC Fees	1,654	1,974	84%	Self insurance claims
Other Admin & General	8,408	7,916	106%	in line with budget
<b>Total</b>	<b>34,099</b>	<b>38,950</b>	<b>88%</b>	

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

# Non-Operating Activity

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Interest Earnings	1,906	2,004	95%	In line with budget
Capital Contributions	1,604	1,293	124%	Line extensions
Interest Expense	(6,983)	(7,032)	99%	In line with budget
Other Inc/(Exp)	(762)	(981)	78%	In line with budget
<b>Non Operating Activity</b>	<b>(4,236)</b>	<b>(4,716)</b>	<b>90%</b>	

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

# Integrated Electric

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Service Revenue	18,543	16,144	115%	Cold winter / higher usage
Energy Resources Net Wholesale	25,333	24,643	103%	Additional surplus/offset by high usage
Hydro LT Contract Rev/Other PP	28,221	30,178	94%	Cost based portion below budget
Other Operating Revenue	5,438	5,370	101%	In line with budget
Other Operating Expense	(32,366)	(37,310)	87%	Hydro O&M / Trans. Exp below budget
Depreciation & Tax Expense	(13,246)	(12,965)	102%	In line with budget
<b>Operating Income/(Loss)</b>	<b>31,923</b>	<b>26,061</b>	<b>122%</b>	
Non-Operating Activity	(6,578)	(7,011)	94%	Line extension contributions
<b>"Bottom Line"</b>	<b>25,345</b>	<b>19,050</b>		

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



# Fiber & Telecom

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Service Revenue	2,446	2,279	107%	Internal dark fiber connections
Other Operating Revenue	1	0	n/a	In line with budget
Other Operating Expense	(1,836)	(1,489)	123%	Contracts paid early/in line by year end
Depreciation & Tax Expense	(460)	(779)	59%	Depreciation estimate refinement
<b>Operating Income/(Loss)</b>	<b>149</b>	<b>11</b>	<b>1382%</b>	
Non-Operating Activity	2,189	2,151	102%	In line with budget
<b>"Bottom Line"</b>	<b>2,338</b>	<b>2,161</b>		

**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	1,199	1,187	101%	In line with budget
Other Operating Revenue	14	15	96%	In line with budget
Other Operating Expense	(872)	(920)	95%	In line with budget
Depreciation & Tax Expense	(550)	(502)	110%	In line with budget
<b>Operating Income/(Loss)</b>	<b>(208)</b>	<b>(220)</b>	<b>95%</b>	
Non-Operating Activity	130	122	107%	In line with budget
<b>"Bottom Line"</b>	<b>(78)</b>	<b>(99)</b>		

**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	158	164	96%	In line with budget
Other Operating Revenue	0	0	72%	In line with budget
Other Operating Expense	(156)	(167)	94%	In line with budget
Depreciation & Tax Expense	(68)	(63)	108%	In line with budget
<b>Operating Income/(Loss)</b>	<b>(66)</b>	<b>(65)</b>	<b>101%</b>	
Non-Operating Activity	23	22	107%	In line with budget
<b>"Bottom Line"</b>	<b>(43)</b>	<b>(43)</b>		

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

# Actual Cash Balance Comparison to Budget

(millions)	2017
<b>Total Cash – Budgeted year-end balance</b>	<b>\$ 439</b>
Key changes in cash forecast:	
Increase in capital projects	(\$ 6)
Improvement in operating activity	\$ 9
Other changes in A/R, A/P, inventory, etc.	\$ 7
<b>Total Cash – Current forecast year-end balance</b>	<b>\$ 449</b>
Prior quarter – 2017 year-end forecasted balance	\$ 443

# *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% (2017-21)
  - Capital Recovery Charge (CRC) - 50% (2017-21)
- Investment earning rate
  - (2017-21: 1.65%, 1.82%, 2.10%, 2.34%, 2.62%)

# Cash and Debt Funding Capacity

	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021
<b>Cash Funding Capacity</b>	<b>\$186M</b>	<b>\$99M</b>	<b>\$44M</b>	<b>\$47M</b>	<b>\$40M</b>
“liquidity in excess of minimum \$175M target”					
<b>Debt Funding Capacity</b>	<b>NA</b>	<b>\$59M</b>	<b>\$174M</b>	<b>\$237M</b>	<b>\$286M</b>
“financing capability up to maximum debt ratio target”					
<b>Total Funding Capacity</b>	<b>\$186M</b>	<b>\$158M</b>	<b>\$218M</b>	<b>\$284M</b>	<b>\$326M</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). This is a newly developed report and we will continue to refine our methodology.

# Combined Five-Year Forecast

(in 000s)	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021
Service Revenue	66,731	64,401	65,905	68,657	71,145
Energy Resources Net Wholesale	116,160	107,031	99,576	87,521	79,580
Hydro LT Contract Rev/Other PP	122,674	117,481	115,572	114,323	109,177
Other Operating Revenue	20,891	21,791	24,171	25,730	26,882
Other Operating Expense	(160,194)	(169,654)	(175,788)	(173,576)	(170,796)
Depreciation & Tax Expense	(55,354)	(54,802)	(57,855)	(61,105)	(62,754)
<b>Operating Income/(Loss)</b>	<b>110,909</b>	<b>86,247</b>	<b>71,581</b>	<b>61,550</b>	<b>53,234</b>
Non-Operating Activity	(17,433)	(17,759)	(14,836)	(12,440)	(9,618)
<b>"Bottom Line"</b>	<b>93,476</b>	<b>68,488</b>	<b>56,745</b>	<b>49,110</b>	<b>43,616</b>
<b>Prior Quarter Reported Forecast</b>	<b>84,729</b>	<b>66,965</b>	<b>57,449</b>	<b>49,217</b>	<b>48,036</b>
<b>Forecast at 2017 Budget</b>	<b>84,773</b>	<b>66,205</b>	<b>56,580</b>	<b>48,768</b>	<b>46,217</b>

# Service Revenue

(in 000s)	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021
Residential Electric	27,992	25,586	25,825	26,048	26,262
Commercial Electric	17,257	16,611	16,735	16,853	16,959
Industrial Electric	4,560	4,392	4,400	4,434	4,497
Other Electric	1,755	1,766	1,770	1,773	1,774
<b>Electric Service</b>	<b>53,060</b>	<b>50,686</b>	<b>51,652</b>	<b>53,359</b>	<b>55,266</b>
<b>Water Service</b>	<b>5,616</b>	<b>5,843</b>	<b>6,079</b>	<b>6,324</b>	<b>6,580</b>
<b>Wastewater Service</b>	<b>661</b>	<b>701</b>	<b>743</b>	<b>765</b>	<b>788</b>
<b>Fiber &amp; Telecom</b>	<b>7,395</b>	<b>7,171</b>	<b>7,431</b>	<b>8,210</b>	<b>8,512</b>
<b>Service Revenue</b>	<b>66,731</b>	<b>64,401</b>	<b>65,905</b>	<b>68,657</b>	<b>71,145</b>
<i>Prior Quarter Reported Forecast</i>	<i>63,081</i>	<i>64,527</i>	<i>66,028</i>	<i>68,303</i>	<i>70,819</i>
<i>Forecast at 2017 Budget</i>	<i>63,168</i>	<i>64,555</i>	<i>66,019</i>	<i>68,254</i>	<i>70,725</i>



# Net Surplus Energy Revenue

(in 000s)	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021
Slice Contracts	79,115	75,149	57,625	42,186	27,868
Net Block Trades	29,139	26,624	36,270	36,737	16,406
Other Net Wholesale	7,906	5,258	5,681	8,598	35,307
<b>Energy Resources Net Wholesale</b>	<b>116,160</b>	<b>107,031</b>	<b>99,576</b>	<b>87,521</b>	<b>79,580</b>
LT Hydro Contracts	123,995	118,801	116,892	115,643	110,497
Less Other Purchased Power	(1,320)	(1,320)	(1,320)	(1,320)	(1,320)
<b>Hydro LT Contract Rev/Other PP</b>	<b>122,674</b>	<b>117,481</b>	<b>115,572</b>	<b>114,323</b>	<b>109,177</b>
<b>Surplus Energy Revenue</b>	<b>238,834</b>	<b>224,512</b>	<b>215,149</b>	<b>201,844</b>	<b>188,757</b>
<i>Prior Quarter Reported Forecast</i>	<i>236,191</i>	<i>226,921</i>	<i>213,468</i>	<i>202,794</i>	<i>191,433</i>
<i>Forecast at 2017 Budget</i>	<i>237,388</i>	<i>226,806</i>	<i>213,319</i>	<i>203,539</i>	<i>191,518</i>

# Operating Expense

(in 000s)	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021
Hydro Operations & Maintenance	54,152	57,124	61,806	54,053	50,391
Hydro Fish & Wildlife	16,209	17,048	16,864	19,870	16,518
Hydro Parks & Recreation	7,307	8,460	7,041	7,277	7,612
Electric Distribution	13,031	14,119	14,333	14,542	15,625
Electric Transmission	12,597	12,738	12,996	13,406	13,737
Misc. Power Supply Expenses	5,087	6,291	6,393	6,297	6,307
Water & Wastewater	2,817	2,845	3,206	3,202	3,459
Fiber Network	3,788	4,578	5,166	4,976	5,131
Customer Accounts & Service	3,879	4,087	4,291	4,392	4,524
Conservation & Customer Assist	2,734	3,307	3,806	4,249	4,715
Insurance & FERC Fees	8,225	8,687	8,704	8,973	9,279
Other Admin & General	30,368	30,369	31,182	32,338	33,499
<b>Total</b>	<b>160,194</b>	<b>169,654</b>	<b>175,788</b>	<b>173,576</b>	<b>170,796</b>
<b><i>Prior Quarter Reported Forecast</i></b>	<b>162,185</b>	<b>173,000</b>	<b>172,043</b>	<b>173,541</b>	<b>168,113</b>
<b><i>Forecast at 2017 Budget</i></b>	<b>162,178</b>	<b>172,975</b>	<b>172,206</b>	<b>173,778</b>	<b>168,415</b>

# Capital Projects

(in 000s)	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021
Electric Distribution	12,794	20,501	23,183	19,520	17,706
Network Transmission	3,730	6,319	3,830	4,186	5,827
Rocky Reach	12,864	7,590	6,466	4,123	3,859
Rock Island	50,420	56,599	25,502	18,356	35,967
Lake Chelan	1,088	1,069	2,059	225	225
Internal Services	14,902	13,925	4,403	3,840	2,948
Fiber & Telecom	4,708	5,503	6,333	5,400	4,811
Water	1,116	1,119	1,051	2,229	2,424
Wastewater	580	1,823	923	926	927
<b>Total</b>	<b>102,201</b>	<b>114,448</b>	<b>73,750</b>	<b>58,804</b>	<b>74,692</b>
<b><i>Prior Quarter Reported Forecast</i></b>	<b><i>97,279</i></b>	<b><i>107,341</i></b>	<b><i>70,616</i></b>	<b><i>63,957</i></b>	<b><i>70,919</i></b>
<b><i>Forecast at 2017 Budget</i></b>	<b><i>95,088</i></b>	<b><i>99,936</i></b>	<b><i>76,286</i></b>	<b><i>65,150</i></b>	<b><i>70,919</i></b>

# Financial Policy – Financial Liquidity & Days Cash on Hand

Methodology Per Resolution #17-14124

COMBINED	2017	2018	2019	2020	2021
<b>District Total Liquidity Targets</b>	<b>\$187</b>	<b>\$175</b>	<b>\$175</b>	<b>\$175</b>	<b>\$175</b>
Base Case – expected (50% probability)	\$361	\$274	\$219	\$222	\$215
Base Case – unusual (10% prob. / cumulative)	\$358	\$265	205	\$200	\$181
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		\$258	\$198	\$177	\$178*
<b>Days Cash on Hand Target</b>	<b>250</b>	<b>250</b>	<b>250</b>	<b>250</b>	<b>250</b>
Base Case – expected (50% probability)	557	454	357	357	366
Base Case – unusual (10% prob. / cumulative)	552	439	333	321	308
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		414	300	278	290

\*Debt Issuance assumed of ~\$30M to maintain liquidity in 2021 in “what if” scenario

# Financial Policy – Rate of Return

(Change in Net Position/Net Plant)

COMBINED	2017	2018	2019	2020	2021
District Targets (expected)	>4%	>4%	>4%	Sunset	
District Targets (unusual)	>2%	>2%	>2%		
Base Case – expected (50% probability) <i>Bottom-line expectation</i>	8.2% <i>\$93M</i>	5.7% <i>\$68M</i>	4.6% <i>\$57M</i>		
Base Case – unusual (10% prob. / cumulative) <i>Bottom-line expectation</i>	8.0% <i>\$91M</i>	5.2% <i>\$63M</i>	4.1% <i>\$51M</i>		
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs <i>Bottom-line expectation</i>		4.8% <i>\$59M</i>	3.7% <i>\$46M</i>		

# Financial Policy – Debt Ratio

(Debt/(Debt + Equity))

COMBINED	2017	2018	2019	2020	2021
<b>District Targets</b>	<b>&lt;45%</b>	<b>&lt;40%</b>	<b>&lt;35%</b>	<b>&lt;35%</b>	<b>&lt;35%</b>
<b>Outstanding Debt Balance - YE(million)</b>	<b>\$537</b>	<b>\$452</b>	<b>\$368</b>	<b>\$332</b>	<b>\$306</b>
Scheduled Debt Retirements (million)	\$23	\$24	\$25	\$25	\$26
Planned Debt Accelerations (million)	\$29	\$61	\$61	\$11	\$ -
Base Case – expected (50% probability)	37.9%	32.3%	26.8%	23.9%	21.8%
Base Case – unusual (10% prob. / cumulative)	37.9%	32.5%	27.0%	24.3%	22.3%
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		32.5%	27.2%	24.5%	24.4%*

\*Debt Issuance assumed of ~\$30M to maintain liquidity in 2021 in “what if” scenario

# ***Financial Policy – Debt Service Coverage***

*(Net Funds from Operations/Computed Debt Service)*

<b>COMBINED</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>District Targets (expected)</b>	<b>2.00</b>	<b>2.00</b>	<b>2.00</b>	<b>2.00</b>	<b>2.00</b>
<b>District Targets (unusual)</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>
Base Case – expected (50% probability)	3.16	2.81	2.69	2.84	2.72
Base Case – unusual (10% prob. / cumulative)	3.10	2.69	2.57	2.68	2.42
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		2.61	2.47	2.57	2.18



## Quarterly Investment Report for the quarter ending March 31, 2017

All \$ values are shown in '000s

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

### Portfolio Summary

	Q2 2016	Q3 2016	Q4 2016	Q1 2017	YTD 2017	WAM	
Average Invested Book Value	\$448 M	\$440 M	\$464 M	\$485 M	\$485 M		<u>Policy Objectives &amp; Compliance</u> <span style="color: green;">●</span> Safety <span style="color: green;">●</span> Liquidity <span style="color: green;">●</span> Return on Investment <span style="color: green;">●</span> Diversification <span style="color: green;">●</span> Maturity Length
Interest Earned	\$1.7 M	\$1.9 M	\$1.9 M	\$2.0 M	\$2.0 M		
District Yield	1.52%	1.69%	1.61%	1.67%	1.67%	792	
<b>Benchmarks:</b>							
3 Month T-Bill	0.27%	0.31%	0.44%	0.60%	0.60%	90	
Barclays Gov. 1-3 Yr Index	0.78%	0.75%	1.02%	1.24%	1.24%	660	
LGIP (State Pool)	0.45%	0.50%	0.49%	0.66%	0.66%	34	
Fed Funds Effective	0.37%	0.39%	0.45%	0.70%	0.70%	1	

#### General Commentary:

For Q1 2017, the District's yield increased to 1.67% on an average invested book value of \$485 million due to improving market interest rates.

The Federal Open Market Committee's March 15, 2017 meeting reported that economic activity continued to expand at a moderate pace. Job gains have remained solid and the unemployment rate was little changed in recent months. Inflation has increased in recent quarters, moving closer to the Committee's 2 percent longer-run objective, but is still below that target. While the Committee continues to monitor inflation indicators and global developments, the near term outlook appears stable. The Committee raised its current target range for the federal funds rate from 3/4 to 1 percent and expects that with gradual adjustments in monetary policy, economic activity will expand at a moderate pace and labor market conditions will strengthen somewhat further. The District anticipates gradually increasing, although continued relatively low, rates through 2017. There is uncertainty around changes in the political climate that 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.

#### 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) declined slightly in Q1 and the overall average continues to remain strong as the multi-year laddered investment strategy maintains investment maturities over 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 March 31, 2017

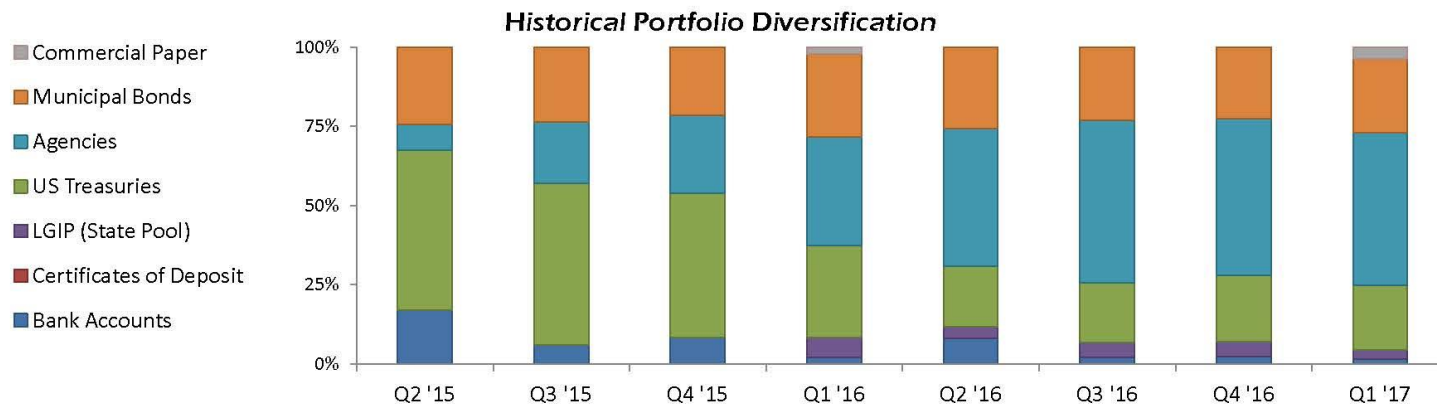
All \$ values are shown in '000s

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

### Investments by Type - as of March 31, 2017

	Par Value	GASB 31 Reported Value	Book Value	Book Value as % of Portfolio	Policy % Limit	WAM
Bank Accounts	\$ 7,211	\$ 7,211	\$ 7,211	1.45%	75%	1
US Treasuries	\$ 103,056	\$ 104,411	\$ 101,899	20.47%	100%	1,393
LGIP (State Pool)	\$ 14,632	\$ 14,632	\$ 14,632	2.94%	25%	1
US Agencies	\$ 239,912	\$ 238,266	\$ 239,578	48.13%	75%	743
Municipal Bonds	\$ 114,265	\$ 115,483	\$ 115,434	23.19%	30%	635
Commercial Paper	\$ 19,000	\$ 18,970	\$ 18,970	3.81%	25%	63
<b>Total:</b>	<b>\$ 498,076</b>	<b>\$ 498,973</b>	<b>\$ 497,724</b>			<b>792</b>

Numbers may not foot due to rounding





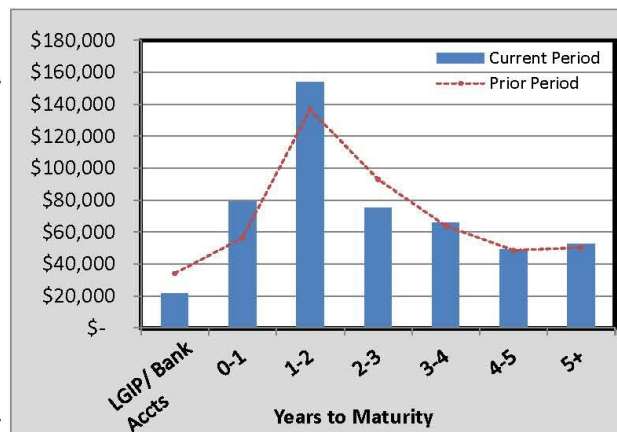
## Quarterly Investment Report for the quarter ending March 31, 2017

All \$ values are shown in '000s

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

### Maturity Distribution - as of March 31, 2017

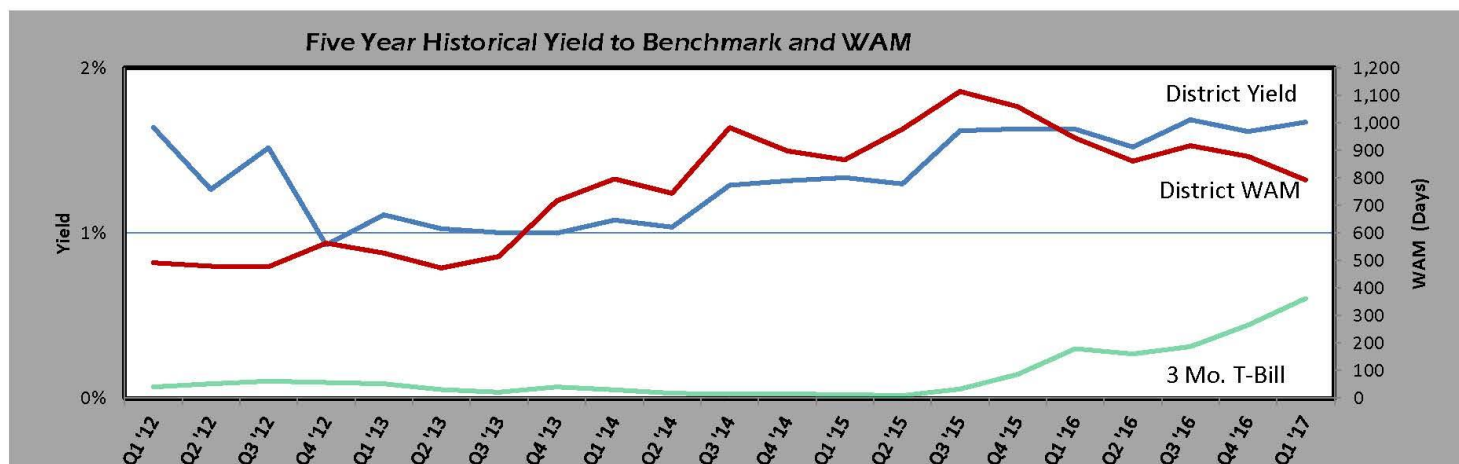
Maturity	Par Value	% of Portfolio	Cumulative % of Portfolio
LGIP \$	14,632	2.9%	2.9%
Bank Accounts \$	7,211	1.4%	4.4%
1-90 Days \$	63,576	12.8%	17.1%
91-180 Days \$	4,350	0.9%	18.0%
181-365 Days \$	11,195	2.2%	20.3%
1-2 Yrs \$	154,124	30.9%	51.2%
2-3 Yrs \$	75,136	15.1%	66.3%
3-4 Yrs \$	65,832	13.2%	79.5%
4-5 Yrs \$	49,367	9.9%	89.4%
5+ Yrs \$	52,653	10.6%	100.0%



**Total: \$ 498,076 100%**

Numbers may not foot due to rounding

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



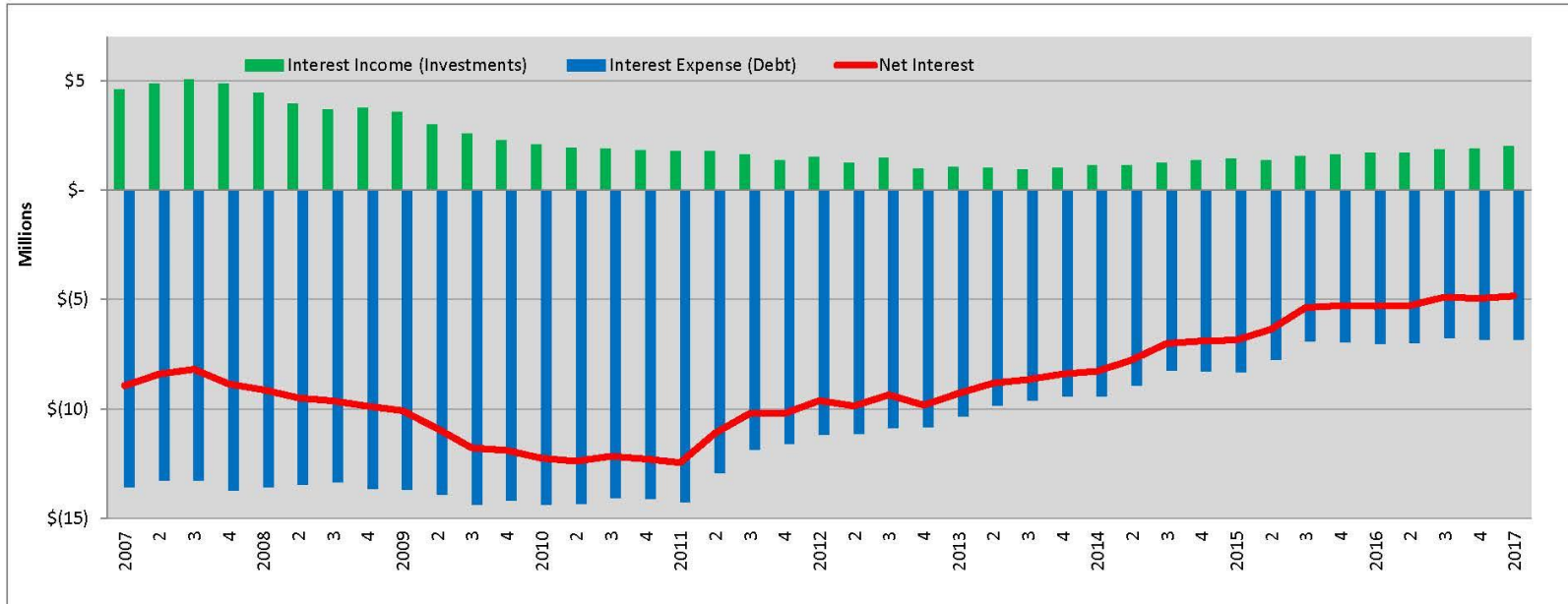


# Quarterly Investment Report for the quarter ending March 31, 2017

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 March 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.