

Chelan County PUD

2017 Preliminary Budget

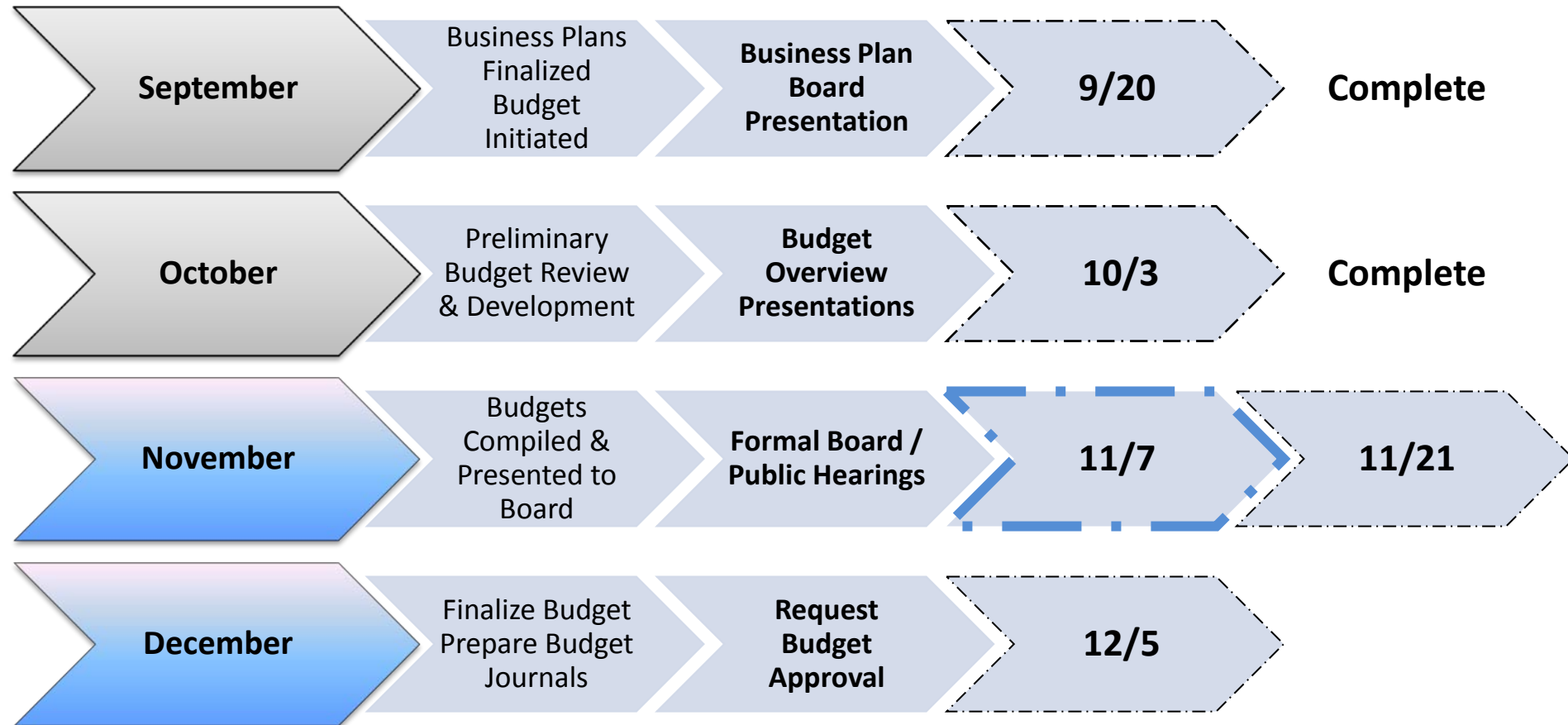
November 7, 2016

What we will cover today...



No Board Action Required Today

2017 Budget Timeline



Indicates Board Meetings

2017 Strategic Focus

The 2017 Budget will be built around strategic initiatives and business plans presented September 20th

The foundation of our strategic initiatives and budget is at the top of our balanced scorecard – Customer-Owner Satisfaction

Reinvesting in assets and people is our highest priority followed by debt reduction and the Public Power Benefit Program

2017 District Priorities

Reinvest
in core
assets
and
people

- Continue Rocky Reach large unit repairs
- Initiate Rock Island modernization
- Advance Asset Management program
- Implement new Mid-C Coordination system
- Begin Customer Information System upgrade
- Plan and prepare for substation additions
- Complete regional water supply strategy
- Progress cost-effective wastewater compliance improvements
- Develop employees in the pursuit of safety and operational excellence for high reliability operations

2017 District Priorities

Pay Down Debt

- Net reduction of \$52 million (\$29M accelerated)
- Year end debt ratio 38% (debt balance of \$537M)
- On path to achieve 2019 debt ratio target of < 35%

Public Power Benefit Program

- Continue Fiber system expansion
- Parks parking pass program and camping pass pilot
- Various feasibility studies and misc. other projects

Keys to 2017-2021 Planning

Creating value for our customer-owners

➤ Measure: Net revenues (our bottom line)

Net revenues (million \$)	Budget 2016	Budget 2017	Forecast 2018*	Forecast 2019*	Forecast 2020*	Forecast 2021*	Total 2016-20
Budget Adoption, Dec-2015	75.6	70.9	66.1	55.5	38.3		306.4
Prelim Budget, Nov 7, 2016	86.0	83.9	67.3	58.5	47.3	43.0	343.0
<i>Change since last year</i>	<i>10.4</i>	<i>13.0</i>	<i>1.2</i>	<i>3.0</i>	<i>9.0</i>		<i>36.6</i>

➤ ~\$36 million forecast improvement 2016-2020

- Revenue up ~\$12 million – increase in market based slice contract revenue a key driver
- Expenses down ~\$24 million – lowering interest expense, reduced depreciation and an adjustment to the FTE vacancy rate to better match current expectations are key drivers
- Overall, continuing decreasing risks through investments in assets, compliance and customer satisfaction

*Forecast as of Q3-2016

Keys to 2017-2021 Planning

Creating value for our customer-owners

➤ Measure: Liquidity

Total Liquidity (million \$)	Budget 2016	Budget 2017	Forecast 2018*	Forecast 2019*	Forecast 2020*	Forecast 2021*
Budget Adoption, Dec-2015	352.4	332.9	283.4	248.3	232.2	
Prelim Budget, Nov 7, 2016	372.3	349.3	279.0	223.9	219.2	215.8
<i>Change since last year</i>	<i>20.0</i>	<i>16.4</i>	<i>(4.3)</i>	<i>(24.4)</i>	<i>(12.9)</i>	

- Projected 2020 balance has decreased ~\$13 million since last year's forecast for 2016-2020
- Bottom-Line forecast up ~\$36M (2016-20)
 - Capital spending up ~\$42M (2016-20)
 - Debt Reduction timing increase ~\$9M (2020), reduction ~\$9M (2021)

*Forecast as of Q3-2016

Keys to 2017-2021 Planning

Creating value for our customer-owners

➤ Measure: Debt reduction

Debt Balance (million \$)	Budget 2016	Budget 2017	Forecast 2018*	Forecast 2019*	Forecast 2020*	Forecast 2021*
Budget Adoption, Dec-2015	589.6	537.2	452.4	382.4	341.9	
Prelim Budget, Nov 7, 2016	589.6	537.2	452.4	368.6	332.4	306.2
<i>Change since last year</i>	---	---	---	(13.8)	(9.5)	

- Planned debt reduction of ~ \$52 million for 2017, ~\$283 million 2017-2021
- Projected to achieve debt ratio of less than 35% by 2018 (one year earlier than target of 2019)
- Change since last year primarily due to refining payment dates to improve year-end debt coverage and capture net interest savings

*Forecast as of Q3-2016

Combined Financials 2017-21

(in 000's)	Prelim Budget 2017	Forecast 2018*	Forecast 2019*	Forecast 2020*	Forecast 2021*
Service Revenue	64,135	65,730	67,364	69,018	70,708
Net Surplus Energy Revenue	234,762	227,068	213,723	202,214	189,218
Other Operating Revenue	20,886	22,128	24,421	26,009	27,175
Operating Expense	(161,802)	(172,978)	(171,590)	(174,050)	(168,715)
Depreciation & Tax Exp	(56,320)	(56,419)	(58,878)	(62,076)	(63,809)
Operating Income / (Loss)	101,661	85,529	75,040	61,115	54,578
Non-Operating Activity	(17,744)	(18,235)	(16,540)	(13,822)	(11,547)
Combined "Bottom-Line"	83,917	67,294	58,500	47,293	43,031
2017-21 Business Plan	83,097	67,294	58,500	47,293	43,031

*Forecast as of Q3-2016

11/8/2016

Combined Financial Results

(in 000's)	Adopted Budget 2016	Prelim Budget 2017	\$ Change	% Change
Service Revenue	63,285	64,135	850	1.3%
Net Surplus Energy Revenue	235,826	234,762	(1,064)	(0.5)%
Other Operating Revenue	20,424	20,886	462	2.3%
Operating Expense	(165,626)	(161,802)	3,824	(2.3)%
Depreciation & Tax Expense	(55,424)	(56,320)	(896)	2.8%
Operating Income	98,485	101,661	3,176	3.2%
Non-Operating Activity	(22,905)	(17,744)	5,161	(22.3)%
"Bottom-Line"	75,580	83,917	8,337	11.0%
2017-21 Business Plan		83,097		

Service Revenue

(in 000's)	Adopted Budget 2016	Prelim Budget 2017	Variance
Residential Electric	25,835	25,579	<i>Modest customer growth with offsetting impacts from energy conservation efforts</i>
Commercial Electric	16,927	16,600	
Industrial Electric	6,211	7,221	
Other Electric	1,725	1,740	
Electric Service	50,698	51,140	<i>No rate increase included Last general rate increase was 2012</i>
Water Service	5,479	5,656	<i>Modest growth / 2% rate adjust</i>
Wastewater Service	600	668	<i>Modest growth / 5% rate adjust</i>
Fiber & Telecom	6,508	6,672	<i>"System Expansion" impacts</i>
Service Revenue	63,285	64,135	
2017-21 Business Plan		64,135	

Net Surplus Energy Revenue

(in 000's)	Adopted Budget 2016	Prelim Budget 2017	Variance
Slice Contracts	75,731	79,067	25% portfolio valuation higher
Block/Pre Sched/Real Time	37,166	35,834	Reduction in surplus energy
EP&T Net Wholesale	112,897	114,901	
LT Hydro Contracts	124,290	121,181	Reduced operating cost Rocky Reach large unit repairs
Less: Nine Cyns & Other PP	(1,361)	(1,320)	Consistent with 2016
Net Surplus Energy Revenue	235,826	234,762	
2017-21 Business Plan		235,371	

Other Operating Revenue

(in 000's)	Adopted Budget 2016	Prelim Budget 2017	Variance
Transmission/Wheeling	8,888	9,540	<i>Increase investments in operations/compliance</i>
Real Time Contract – Fixed	4,000	4,000	<i>Consistent with 2016 budget</i>
Real Time Contract – Variable	4,000	3,000	<i>Lower market conditions, consistent with 2016 forecast</i>
Environmental Attributes	285	458	<i>Higher expectations in 2017</i>
Service/Late Charges	339	353	<i>Consistent with 2016 budget</i>
Misc Other Items	2,912	3,535	<i>Incremental revenue assumption</i>
Other Operating Revenue	20,424	20,886	
2017-21 Business Plan		21,034	

2017 Major O&M Projects/Contracts

Rocky Reach Large Unit Repairs (C8-C11)

- Stator Repairs ~\$5.5 million (~\$11.0M-2016)
- Turbine Repairs ~\$4.5 million (~\$5.6M-2016)

Other Major Contract Activity

- Hatchery related contracts ~\$6 million
- Security/Guard contracts ~\$1 million
- Tree Trimming contract ~\$1 million
- Mid-Columbia Hourly Coordination ~\$0.5 million
- Meter Reading contract ~\$0.5 million
- Medical Self-Insurance Admin contract ~\$0.5 million

Operating Expense

(in 000's)	Adopted Budget 2016	Prelim Budget 2017	Variance
Hydro O&M	57,602	55,773	<i>Rocky Reach repair schedule</i>
Hydro Fish & Wildlife	16,660	15,511	<i>Consistent with 2016 Budget</i>
Hydro Parks & Recreation	7,238	7,208	<i>Consistent with 2016 Budget</i>
Electric Distribution	12,114	13,048	<i>Continued reinvestment in assets</i>
Electric Transmission	12,002	12,896	<i>Continued reinvestment in assets</i>
Power Supply Mgmt	6,325	5,165	<i>Reduction in contracts</i>
Water/Wastewater O&M	2,696	2,833	<i>Consistent with 2016 Budget</i>
Fiber Network O&M	4,497	3,967	<i>Consistent with 2016 actuals</i>

Continued on next slide

Operating Expense

(in 000's)	Adopted Budget 2016	Prelim Budget 2017	Variance
Customer Accts & Svc	3,855	3,872	<i>Consistent with 2016 Budget</i>
Conservation	2,885	2,967	<i>Recognition of investments</i>
Insurance	6,145	6,689	<i>Potential insurance increase</i>
FERC Fees	1,706	1,658	<i>Consistent with 2016 Budget</i>
Other Admin & General	31,901	30,215	<i>FTE vacancy rate adjustment</i>
Total	165,626	161,802	
2017-21 Business Plan		162,660	

Non-Operating Activity

(in 000's)	Adopted Budget 2016	Prelim Budget 2017	Variance
Investment Earnings	6,977	8,106	<i>Higher reserves & interest rate</i>
Contribution Income	4,450	5,108	<i>Confluence park contribution service upgrade</i>
Interest Expense	(28,060)	(26,736)	<i>Debt reduction strategy</i>
Other Inc/(Exp)	(6,272)	(4,222)	<i>Lower unassigned PPB</i>
Total	(22,905)	(17,744)	
2017-21 Business Plan		(17,804)	

2017 Major Capital Projects

Rock Island Modernization

- B3 ~\$1.4 million (*Total Project ~\$14.4M*)
- B4 ~\$4.6 million (*Total Project ~\$16.4M*)
- B5 ~\$6.2 million (*Total Project ~\$31.3M*)
- B6 ~\$9.2 million (*Total Project ~\$27.1M*)
- B7 ~\$16.1 million (*Total Project ~\$31.3M*)
- B8 ~\$3.7 million (*Total Project ~\$31.3M*)

Hydro Project Cranes

- RR Gantry ~\$1.4 million (*Total Project ~\$6.3M*)
- RR Bridge ~\$3.9 million (*Total Project ~\$5.4M*)
- RI PH2 Gantry ~\$1.0 million (*Total Project ~\$2.6M*)
- RI PH2 Bridge ~\$1.1 million (*Total Project ~\$2.9M*)

2017 Major Capital Projects

Rock Island PH2 Governor Controls U1-U8

- ~\$3.0 million (*Total Project ~\$11.2M*)

Rock Island PH1 Domestic Water

- ~\$2.1 million (*Total Project ~\$2.3M*)

Rocky Reach Fire Protection System

- ~\$1.6 million (*Total Project ~\$3.7M*)
- Total project cost expectation pending further evaluation

2017 Major Capital Projects

Mid-C Transmission Project

- ~\$0.5 million (*Total Project ~\$4.3M*)

Customer Information System

- ~\$1.9 million (*Total Project ~\$3.7M*)
- Actual project cost expectation pending further evaluation and vendor selection

Security Infrastructure

- ~\$1.8 million (*Total Project ~\$2.2M*)

2017 Major Capital Projects

Telecommunication Replacements/Upgrades

- Microwave ~\$3.5 million (*Total Project ~\$3.7M*)
- Telephone Switch ~\$1.5 million (*Total Project ~\$1.8M*)
- LMR Network ~\$0.4 million (*Total Project ~\$5.6M*)
- Project cost expectations above pending further evaluation

Fiber Expansion (Public Power Benefit)

- ~\$2.5 million (*Total Project ~\$5.3M*)
- Project total includes expenditures through 2017 with future adjustments as funds are designated by the Board

Key “Total Capital Project” Revisions*

(in 000's)	Current	Revised	Change	Major Driver
RI-PH1 B1 Modernization	---	14,650	14,650	<i>Project being initiated</i>
RI-PH1 B2 Modernization	---	14,520	14,520	<i>Project being initiated</i>
RI-PH1 B3 Modernization	---	14,420	14,420	<i>Project being initiated</i>
RI-PH1 B4 Modernization	---	16,410	16,410	<i>Project being initiated</i>
RI-PH1 Intake Gantry Replace	---	4,373	4,373	<i>Project being initiated</i>
RI-PH2 Storage Building	---	1,110	1,110	<i>Project being initiated</i>
RI-PH2 Gantry Crane	1,285	2,574	1,289	<i>Expanded scope and revised engineer estimates</i>
RI-PH2 Bridge Crane	1,720	2,870	1,150	
RR Generator Fire Protection	---	3,662	3,662	<i>Project cost expectations currently under review</i>
RR Fire Alarm System	---	1,115	1,115	<i>Project being initiated</i>
LMR Network Replacement	100	5,600	5,500	<i>Project being initiated</i>
Microwave Replacement	2,000	3,720	1,720	<i>Project cost expectations currently under review</i>
Telephone Switch Upgrade	600	1,821	1,221	

* - Includes revisions >\$1M, excludes public power and recurring annual capital project activity

11/8/2016

Capital Expenditures

(in 000's)	Adopted Budget 2016*	Prelim Budget 2017	\$ Change	Major Project Focus
Electric Distribution	10,832	12,584	1,752	Line upgrades, substation investments, customer work
Electric Transmission	2,937	3,894	957	Mid-C project, Operations video system, Relocates
Rocky Reach Hydro	13,787	11,891	(1,896)	Bridge/Gantry cranes, fire protection system, head covers, boat launch/docks
Rock Island Hydro	27,009	47,075	20,066	Powerhouse 1 modernization cranes, governor controls, domestic water, storage bldg.
Lake Chelan Hydro	371	1,012	641	Breakers, fire alarm system
Corporate/Shared Assets	13,002	14,427	1,425	Telephone switch, microwave, CIS, security/facility upgrades
Integrated Electric	67,940	90,883	22,943	

Continued on next slide

Capital Expenditures

(in 000's)	Adopted Budget 2016*	Prelim Budget 2017	\$ Change	Major Project Focus
Fiber	5,120	3,940	(1,180)	Public Power Benefit (PPB) expansion & upgrades
Water	1,531	1,116	(415)	Water main replacements
Wastewater	1,539	417	(1,122)	Peshastin and Dryden system upgrades
Total Capital	76,129	96,356	20,227	
Less: Contributions	(3,881)	(4,539)	(658)	Capital Paid By Others
Regulatory Assets & Other	4,842	5,162	320	Conservation / Lic. Obligations
Net Capital & Reg. Assets	77,090	96,979		
2017-21 Business Plan		97,423		

* - Includes \$11.9M Rock Island capital budget revision approved with 2016 budget

New Positions

Safety

(2 positions)

- Safety Coordinator
- Flagger *(2 part-time to 1 full time)*

Stewardship

(2 positions)

- Biologist
- Asset Manager

New Positions

Operational Excellence

(5 positions)

- Pole Attachment Manager
(approved 2016)
- Fleet Mechanic *(2 year assignment)*
- Business Process Analyst
- Support Specialist
- Line Operations Superintendent

Customer Satisfaction

(3 positions)

- 2-Customer Accounting Specialist *(to cover temporary need for CIS project ~3 years)*
- Customer Service Administrator

New Positions

Hydro Asset Management (3 positions)

- Hydro Engineer
- Hydro Operator
- Utility Person

Educational Opportunity

(4 part-time positions)

- Fish & Wildlife Student
- Finance Student
- Communications Student
- Engineering Student

Staffing Levels – Full-Time Equivalents

FTE's (1 FTE = 2080 hours)	Regular FTE's	OT FTE's	Total FTE's	Headcount Avg - Peak		Actual FTE's
2017 (proposed budget)	783	25	808	807	832	
2016 (adopted budget)	756	25	781	774	799	
2015 (adopted budget)	727	23	750	743	775	726
2014 (adopted budget)	702	21	723	717	746	711
2013 (adopted budget)	692	22	714			694
2012 (adopted budget)	692	24	716			704
2011 (adopted budget)	698	26	724			707
2010 (adopted budget)	709	30	739			712
2009 (contingency budget)	721	25	746			725
<i>2006-09 budgets and actuals were all at or above the 2009 contingency level</i>						

2016 & 2017 Market Pay Trends

- NW utility wages increased slightly more this year than the District's 2016 pay structure adjustments.
- Non-bargaining unit utility pay increase forecasts for 2017 anticipate slightly greater market wage growth than in 2016.

2017 Projected Pay Increases

Industry	Min – Max	Average
All Industry	2.9% - 3.1%	3.0%
Utility/Energy	2.9% - 3.3%	3.1%

2017 Pay Increase Budget

➤ Labor - Non-Bargaining Unit (assumptions)

- Pay Increase Budget
 - 2.60% Merit Budget
 - 0.50% Market Adjustments
- 0.50% Promotions
- 0.25% One-time structural or other adjustments

NOTE: Assumptions will be subject to further data validation and review before the pay increase pool is determined.

➤ Labor - Bargaining Unit (per collective bargaining agreement)

- Contract expires 3/31/17; wages to be negotiated

Key Employer Benefit Costs

(000's)	2016 Budget	2017 Budget	\$ Change	% Change
Medical Benefits	12,759	13,540	781	6.1%
Retirement:				
PERS	7,363	8,859	1,496	12.0%
401(a)	1,827	2,037	210	11.1%
TOTAL:	\$21,949	\$24,436	\$2,487	11.1%

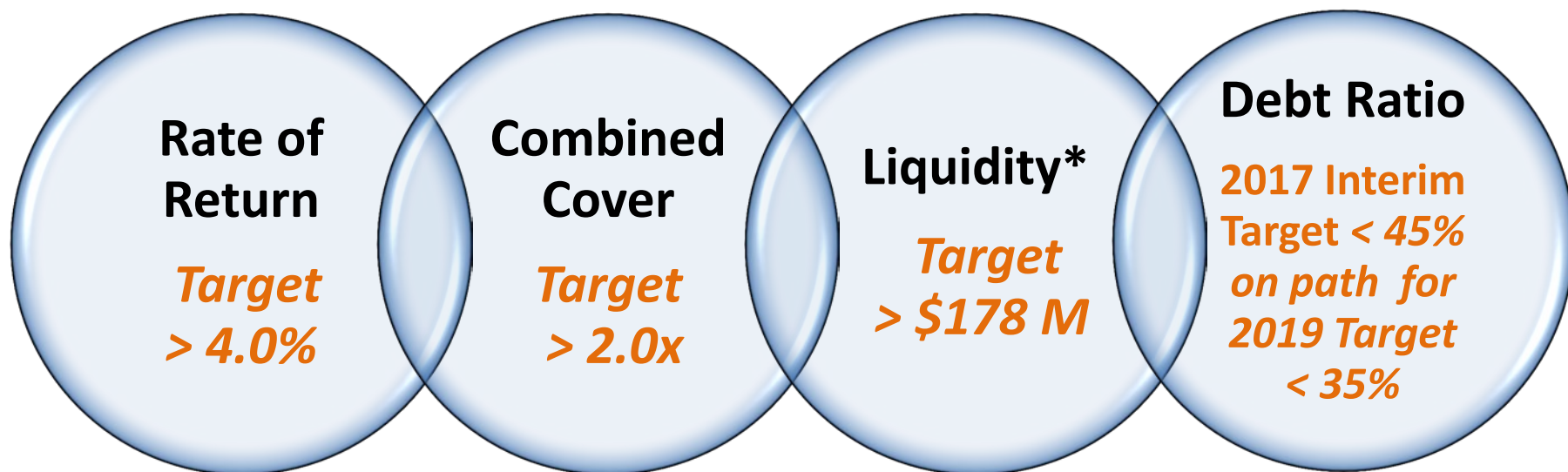
Combined District Expenditures

(in 000's)	*Adopted 2016 Budget	Preliminary 2017 Budget	%
Operating Expense	167,905	161,802	96%
Tax Expense	8,025	7,994	100%
Non-Operating Exp/(Inc)	24,593	22,852	93%
Net Capital & Reg Assets *	77,090	96,980	126%
Total Expenditures	277,613	289,628	104%

Net Debt Reduction	22,550	52,387	232%
Total Expenditures & Net Debt Reduction	300,163	342,015	114%

* - Includes \$11.9M Rock Island capital budget revision approved with 2016 budget

2017 Targeted Financial Policies



* The calculated target requirement for 2017 exceeds the set \$175M minimum

Combined Financial Policies

2017 Preliminary Budget

	Rate of Return ¹	Debt Ratio ²	Combined Cover	Financial Liquidity
Base Case – expected (50% probability) <i>Target</i>	7.4% <i>> 4%</i>	38.4% <i>< 45%</i>	2.99 <i>> 2.0x</i>	\$349M <i>> \$178M</i>
Base Case – unusual (5% probability) <i>Target</i>	6.6% <i>> 2%</i>	38.7% <i>< 45%</i>	2.83 <i>> 1.25x</i>	\$341M <i>> \$178M</i>

¹ - Associated with an expected bottom line of approximately \$84 million

² - Includes the expected debt reduction of approximately \$52 million

Business Line Financial Policies

2017 Preliminary Budget

	Rate of Return	Debt Ratio	Cover	Liquidity	Oper Exp Coverage
Integrated Electric <i>Target</i>	7.9% 4.1%	41.7% < 45%	2.9 > 1.9x	\$334 M \$174 M	n/a
Fiber & Telecom <i>Target</i>	n/a	---% < 35%	n/a	\$9.5 M \$2 M	157% > 120%
Water <i>Target</i>	n/a	13.0% < 35%	n/a	\$3.7 M \$1.25 M	139% > 120%
Wastewater <i>Target</i>	n/a	---% < 35%	n/a	\$2.2M \$200 K	106% > 100% by 2019

Conclusion

**Fundamental perspective –
How can we increase value
for our customer-owners?**

- *Drives long-term planning and 2017 budget*

**Projecting substantial positive net
revenue over the next 5 years**

- *Key measure of financial health*
- *Healthy but declines over time with lower wholesale prices-monitor prudent financial policies*

**Decreasing risk of asset or
compliance failure through
planned investments**

**Accomplishing above, while
decreasing debt and avoiding
general electric rate increases**

- *~\$280M debt reduction 2017-21*
- *The last general electric rate increase was in 2012*



Budget Next Steps

Review

- Continued review and adjustments in November

Discuss

- 2nd Budget Hearing November 21

Approve

- Requesting Board Approval on December 5th

Questions?

Appendix

Additional information from prior presentation

Key Budget Assumptions

Wholesale Revenue

- Average flows and current forward price curve
- Hedge program fully implemented
- Includes unit outage impacts
- Hydro fish spill consistent

System Load Growth

- ~2% Electric (*includes HDL impact*)
- ~2% Water
- ~1.5% Wastewater
- ~1,000 new Premises Passed

Business Line Service Revenues

- New rate for High Density Usage rate class
- 2% change in Water rates
- 5% change in Wastewater rates
- Change in Fiber rate structure (*revenue neutral*)

Key Budget Assumptions

Labor Bargaining Unit

- Collective Bargaining Agreement expires Mar 31
- Wages and benefits are to be determined

Labor Non-Bargaining Unit

- Budget includes assumptions for merit increases, market adjustments and promotions
- Final decisions will be informed by actual market data

Long-term cost-plus power contracts

- Debt Reduction Charge (DRC) – 3.0%
- Capital Recovery Charge (CRC) - 50%
- Assume Alcoa restarts Wenatchee Works

Key Budget Assumptions

Capital & Operating Expenditures

- Driven by 2017-21 business plans
- 2017 expenditures are higher than 2016 but lower than forecasted in last year's budget process due to refinements in major asset investment schedules

Debt and Interest Income

- Net debt reduction of ~\$52 million
- Interest earnings estimated at ~1.6%

Public Power Benefit Investments

- Includes continuation of fiber expansion, Board selected projects & designated funding level
- Budget revisions will be processed to allocate any newly designated projects within 2017