

Chelan County PUD

2017 Budget

Timeline & Key Assumptions

October 3, 2016

What we will cover today...

Purpose

Timeline

**Guidelines &
Assumptions**

Next Steps

No Board Action Required

Purpose Today

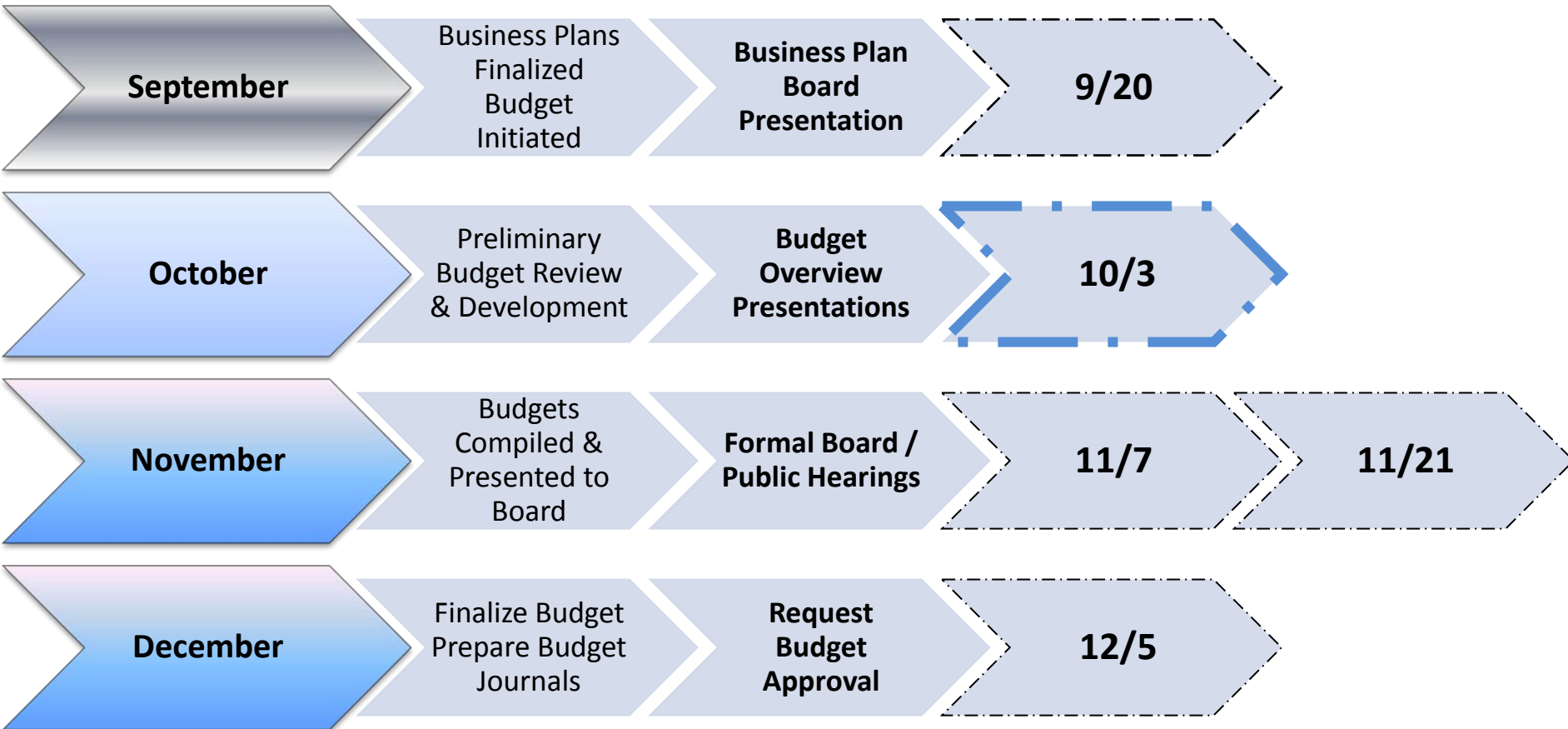
Transition from our five-year
business planning for 2017- 2021
to the 2017 Budget process

Cascading Planning Cycle

- District vision & mission
- ↳ ▪ District Strategic Plan (3 Goals – 7 Objectives)
- ↳ ▪ District balanced scorecard strategy map
- ↳ ▪ District BSc indicators
- ↳ ▪ **Business Unit business plans** (*near completion*)
- ↳ ▪ **Annual budget** (*underway*)
- ↳ ▪ District-wide performance plan
- ↳ ▪ Department work plans
- ↳ ▪ Annual employee performance plans

Levels of Organization

2017 Budget Timeline



Indicates Board Meetings

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 debt reduction of \$52 million (\$29M accelerated payments)

Year end debt ratio of 38% and debt balance of \$537 million

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

Rocky Reach visitor center study

Various feasibility studies and miscellaneous projects

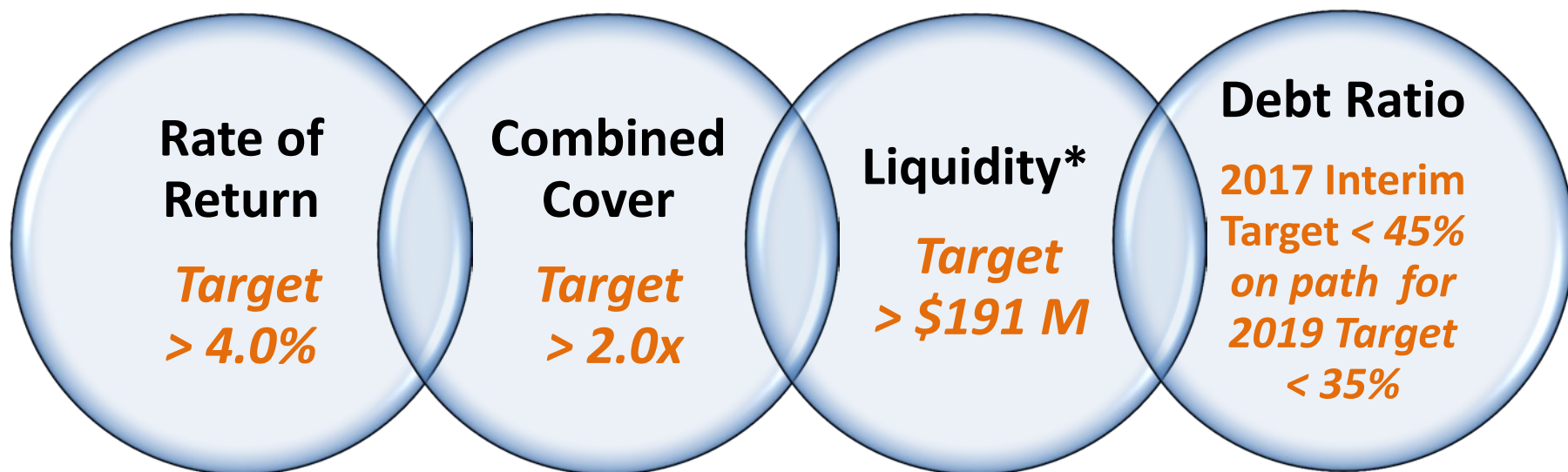
Early External Indicators

**Wholesale
Electric Market
lower than
past annual
budgets**

**Accelerating
investments in
projects with
highest long-
term value for
customer-
owners**

**Regulatory
Requirements
continue to
increase**

2017 Targeted Financial Policies



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

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

Budget Next Steps

Develop

- Preliminary budgeting in process

Review

- Review and revise in October & November
- 1st Budget Hearing November 7th
- 2nd Budget Hearing November 21st

Approve

- Requesting Board Approval on December 5th