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CHELAN COUNTY

2018-2022 Business Planning

OCTOBER 2, 2017

What we will cover today…

- Key Drivers
- Review Mission, Vision & Objectives
- Highlight 2018-22 Initiatives
- Identify Known Unknowns
- Operating Unit Plan Overview

No Board Action Required Today

2018-2022 District Business Plans

Key learning from this planning cycle

- Asset Management provides critical data to better understand our aging infrastructure
- Data indicates more investments for reliability and meeting load growth will create the best long-term customer value
- Changing power markets and lower wholesale prices mean declining revenues
- Needed investments combined with declining revenues bring potential for new borrowing and revenue management into this planning horizon – sooner than previous plans
- Key financial policies and long-term sustainability forecasted to be achieved even with these challenges

What's different now compared to the Strategic Plan? (Aug 2017 vs. Dec 2014)

Description	2018-2022	to 2027
Bottom line	($106M)	($415M)
Net Wholesale Revenue	($79M)	($360M)
Operating Expenses	$60M	$99M
Capital Expenditures	$22M	$10M
Total Liquidity	($38M)	($172M)
Debt Outstanding	$61M	$246M
Heavy load market prices (est.)	29.50 v. 48.36	35.47 v. 63.29
Light load market prices (est.)	23.29 v. 37.61	28.61 v. 52.19

Key Drivers

- Declining wholesale market is having substantial impact on revenues after five year slice sales
- Capital and O&M cost increases due to asset investment strategies and unplanned generating turbine outages
- Use of borrowing is in our headlights (roughly early 2020's) consistent with long term debt philosophy to manage liquidity and reinvest in core assets
- Early revenue management planning for worst case scenario
- Preparing customers today for a changing tomorrow
- Declining net revenue required review of current strategic priorities
- Tighten planning to more closely reflect capital and O&M spending expectations

Key Drivers

- Adjusted plans to align with available staffing resources
  - means we may be more likely to have instances of exceeding our annual budgets
- Plans retain priorities while adjusting individual project schedules and priorities
- No change to focus on reinvesting in assets and people
- Reducing debt to achieve less than 35% debt ratio
- Reconsider accelerated debt payments in 2018/19 if needed for capital investments
- Retain Public power benefit at current level - more likely to stay at "crawl" level proposing no new solicitation for 2018

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Vision

To be valued as an innovative, trusted and highly respected public utility for generations to come.

Mission

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

Safety
Protect public/employee health and safety.

Trustworthiness
Competence, integrity, respect.

Stewardship
Acting on behalf of customer-owners, protecting public resources entrusted to us.

Operation Excellence
High-quality innovative work execution.

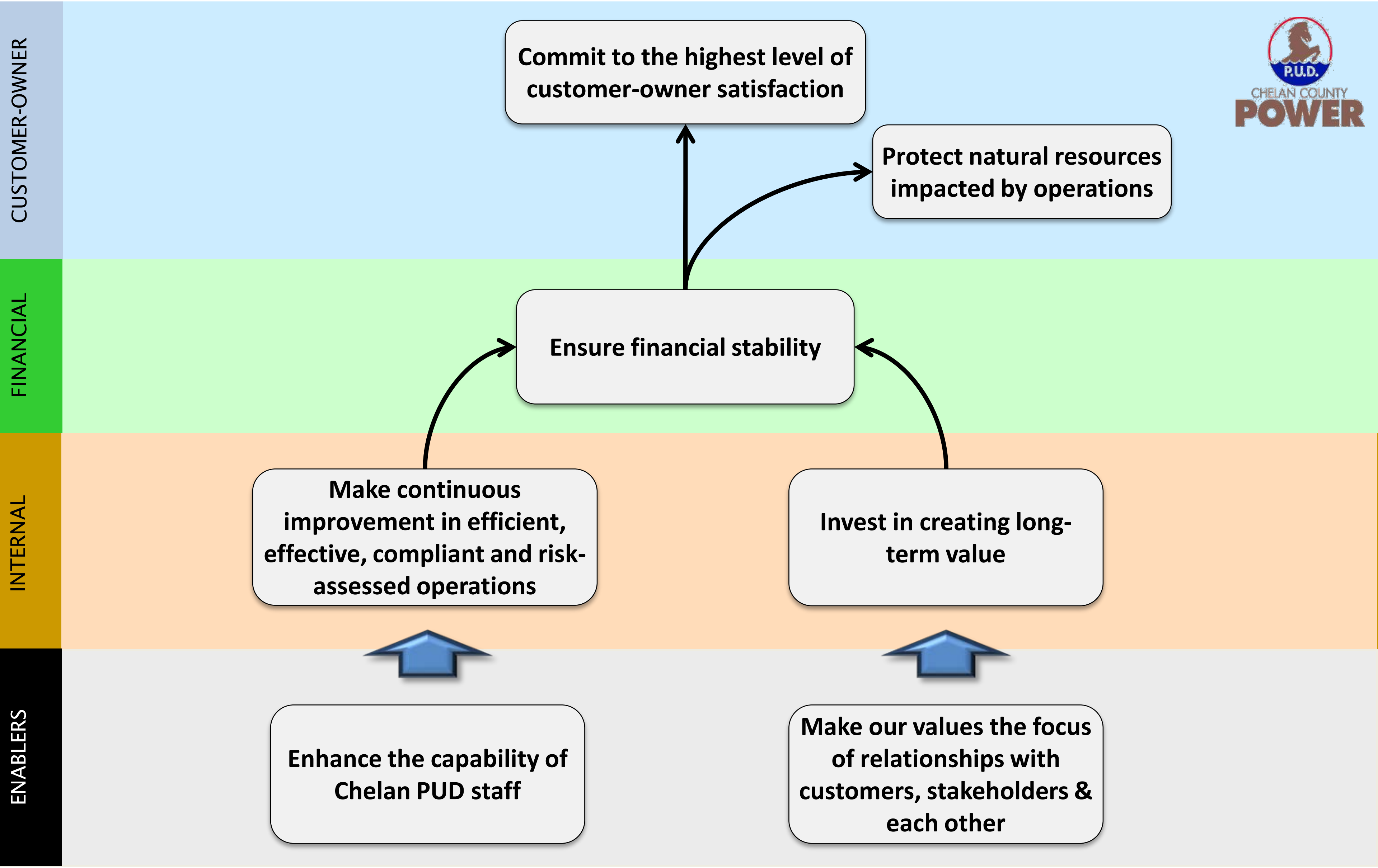
Strategic Plan Goals

Continue debt reduction efforts
This will lead to financial flexibility and resiliency

Reinvest in core assets and people
This will enhance our capacity to create value

Initiate Public Power Benefit program
This will enhance the quality of life in our county

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



Our Values: Safety, Stewardship, Trustworthiness and Operational Excellence

2018-2022 District Initiatives

Reinvest in core assets and people

- Complete Rocky Reach large unit repairs
- Continue Rock Island modernization and initiate relicensing process
- Upgrade Customer Information System and advanced two-way metering capabilities
- Meet anticipated electric system needs for new and existing customer growth
- Implement restructured Mid-C hourly coordination plan
- Continue to develop employees to achieve safety goals and operational excellence for high reliability operations
- Implement forward-looking talent management strategies to cultivate a future-ready workforce

2018-2022 District Initiatives

Reinvest in core assets and people

- Advance our asset management discipline
- Further diversification of our wholesale portfolio
- Implement long-term planning strategies for facilities
- Evolve Business Intelligence (BI) capabilities
- Develop regional water supply strategy seeking regional operating efficiencies
- Update telecommunications systems
- Complete cost-effective wastewater compliance improvements
- Exceed energy efficiency requirements
- Protect transmission lines against fire/weather

2018-2022 District Initiatives

Pay down debt

- Debt reduction plans continue with annual evaluation and decision-making
- Achieve debt ratio of less than 35% by 2019 target

Public Power Benefit Program

- Continue Fiber system expansion
- Continue program for park passes
- Advance Hydro research
- Complete RR Visitors Center improvements

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Known Unknowns

- Timing of additional costs for facilities master plan
- Changes in electric market fundamentals/pricing
- Results of asset condition assessments
- Alcoa restart/transmission
- New and changing regulatory/licensing requirements
- Changing load growth patterns/customer profiles impacts
- Columbia River Treaty outcomes
- Risks of having one dominant fiber retail service provider
- Ability to compete for and retain top talent
- Climate change impacts
- Increased stakeholder engagement expectations lengthen timelines and resource requirements
- Frequency of natural disasters such as fires and storms
- And more…

2018-2022 Plans Reflect our Prudent Financial Policies

Liquidity above $180M
Target > $175 M

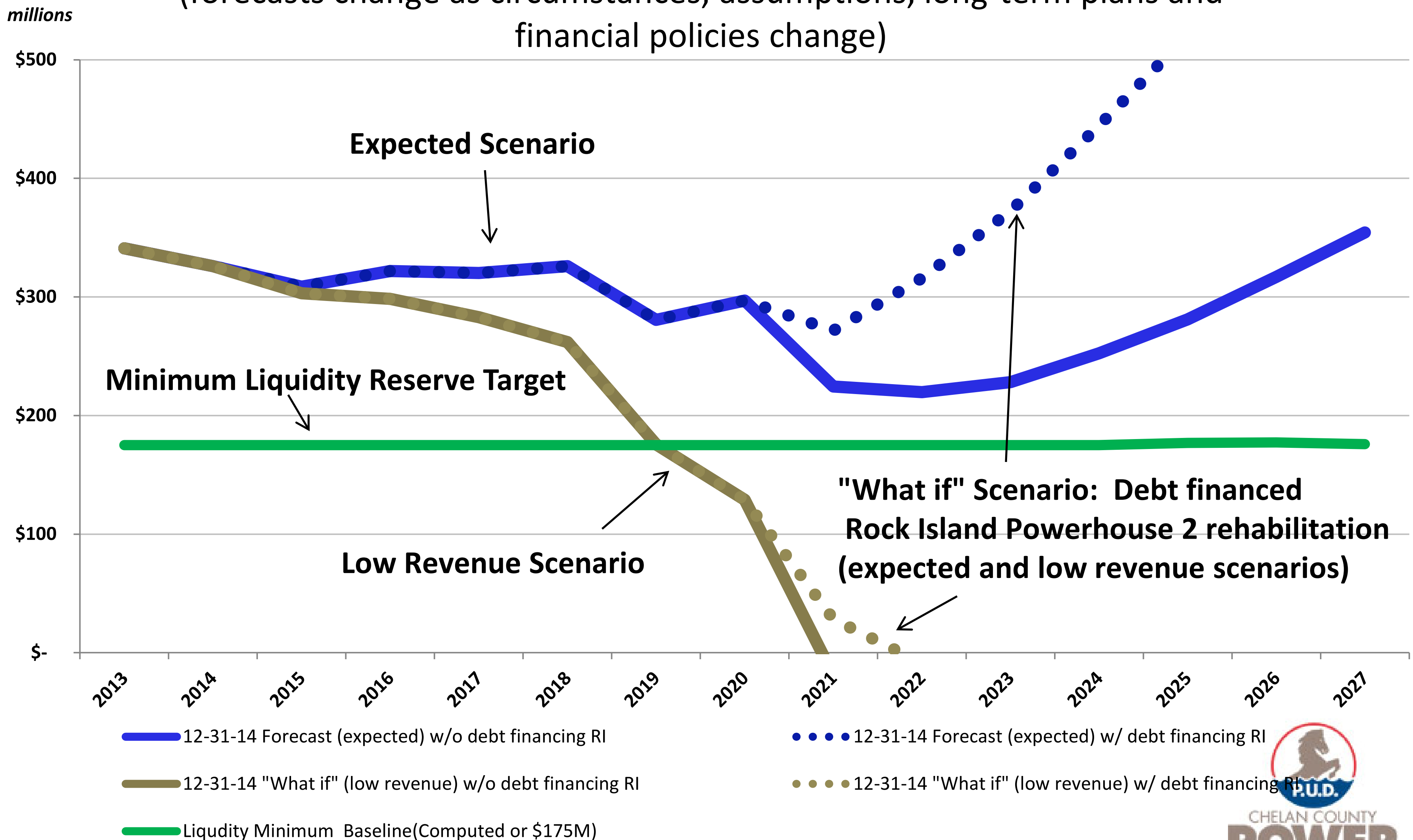
Combined Cover
2.1 – 2.9
Target > 2.0

Debt Ratio under 32% in 2018
Target
<35% by 2019

Days Cash on Hand > 285
Target > 250

Liquidity Forecast: 2015 - 2019 Strategic Plan

(forecasts change as circumstances, assumptions, long-term plans and financial policies change)



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Liquidity Forecast: 2018-2022 Business Plans

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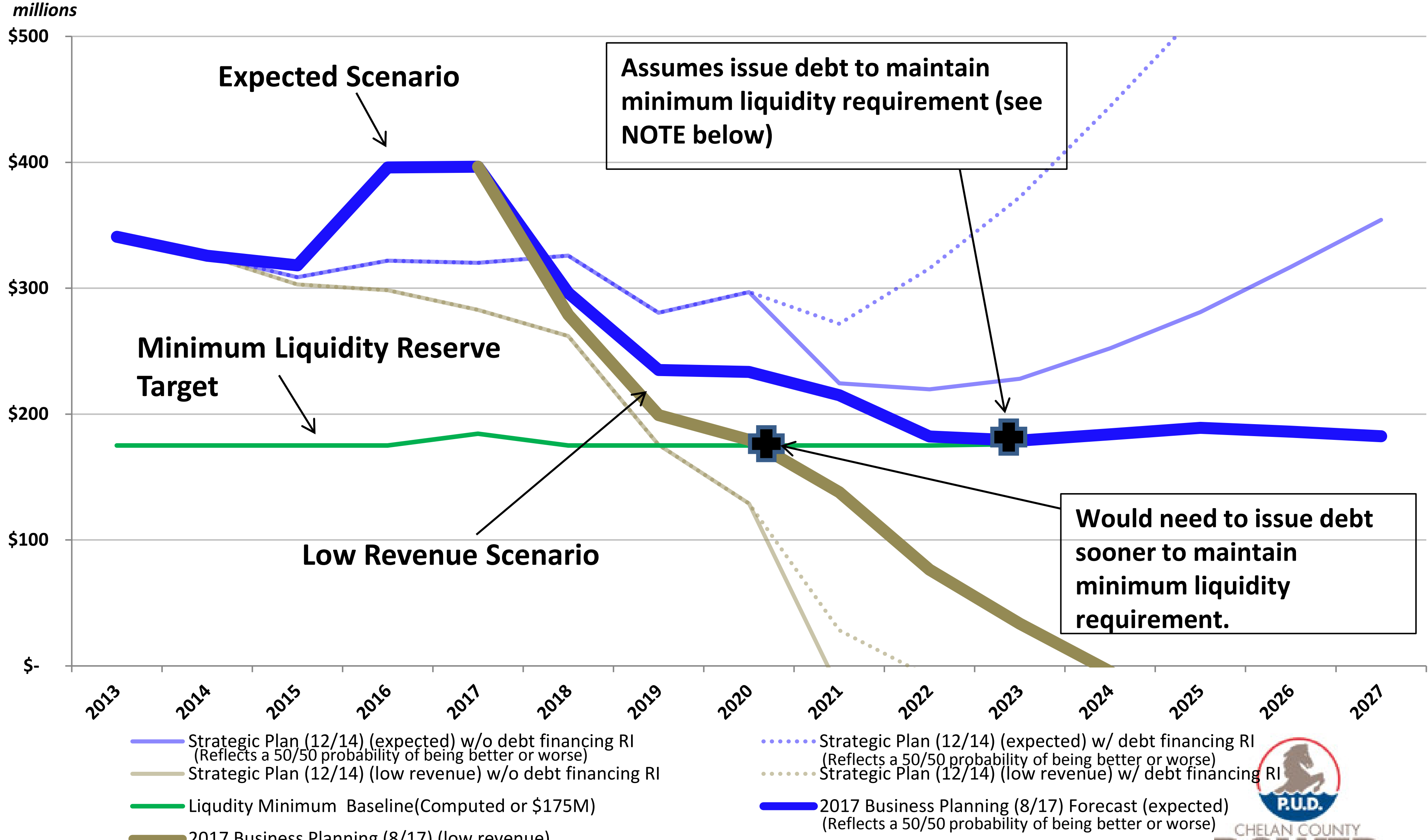


NOTE: The 2017 scenario assumes approximately $265M of new debt in the periods 2023 - 2027 to fund long-lived capital projects. The debt ratio for the District remains at or below 35% for the forecasted periods for the expected scenario.

Future Capital Funding Support

Capital Funding Support ($000)	2018	2019	2020	2021	2022
Fiber - Shared Capital Funding Support	Prior Transfer		148	112	122
Water – Shared Capital Funding Support	Prior Transfer		36	27	30
WW – Shared Capital Funding Support	N/A - WW is not allocated any costs for shared capital				
Water – Direct Capital Funding Support	Prior Transfer		-	TBD	TBD
WW – Direct Capital Funding Support	Prior Transfer		-	TBD	TBD

TBD – Internal funding and/or rate increases may be needed in these years to maintain business line liquidity targets. Business line policies allow for direct capital funding from sources other than rates which will require future decision-making and approval by the Board.

Debt Philosophy – Applied to Hydros

Key Assumptions	2018	2019	2020	2021	2022
RR/RI Capital Funding % - DRC/CRC Cash Reserves	100%	77%	100%	63%	56%
RR/RI Capital Funding % - Loans/Other Sources	---%	23%	---%	37%	44%

Based on current RR/RI capital forecasts, new internal loans or external financing may be needed in these years as all can't be "pay as we go" from the long-term contract capital reserve and debt reduction funds.

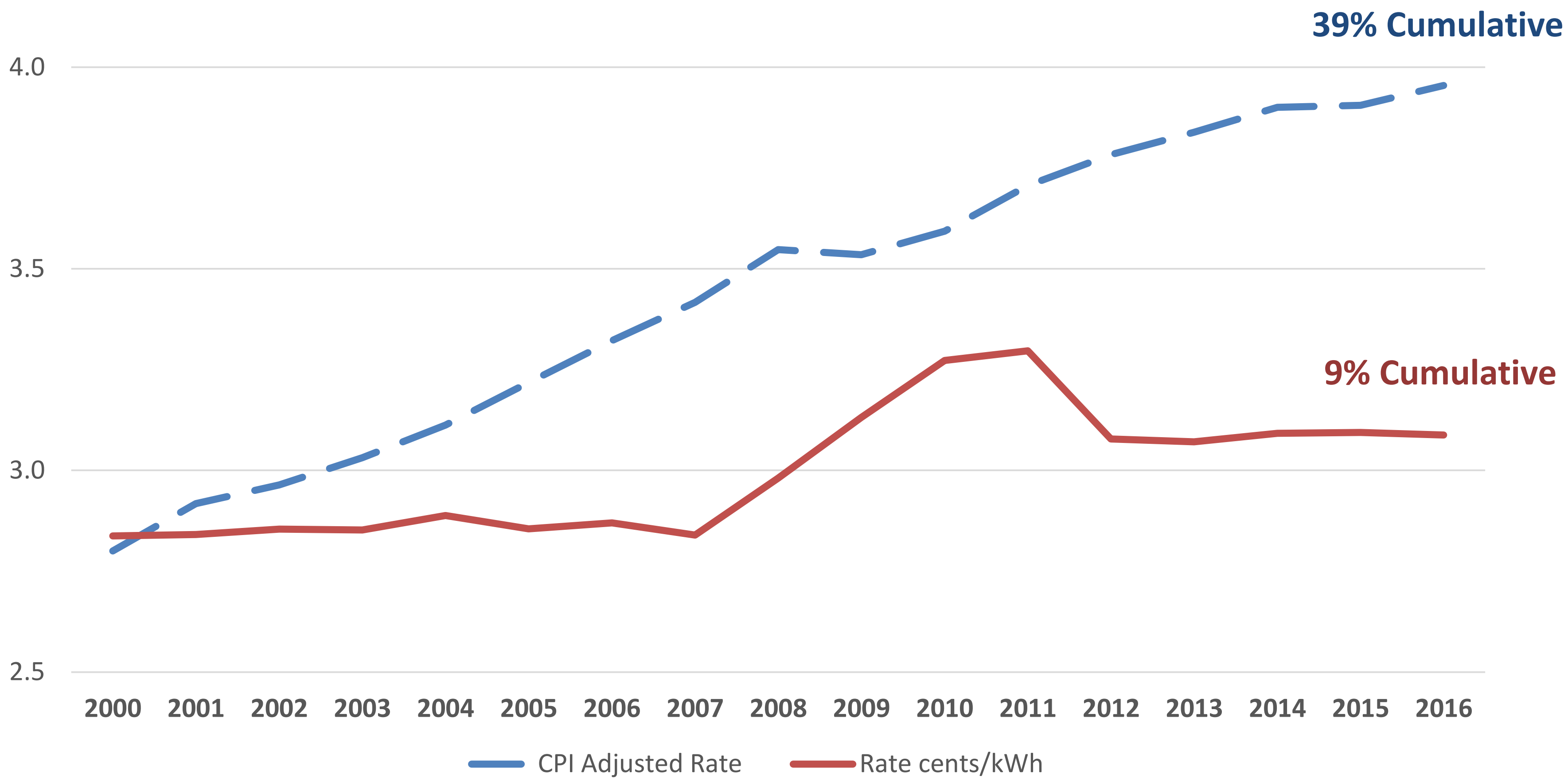
Retail Electric - Testing out New Metrics

Metrics	2018	2019	2020	2021	2022
Retail Total Cost Ratio (Target >65%)	66%	66%	66%	67%	64%
Retail OMT Cost Ratio (Target >90%)	87%	87%	87%	90%	87%
Retail Electric Gap Target (<$25M in 2017 $'s)	$25.6	$26.3	$26.9	$27.6	$28.3
Retail Electric Gap (< line above)	$26.3	$26.4	$27.8	$27.3	$31.0
Market-based Margin Available (Target >$25M)	$47.0	$43.4	$33.3	$29.3	$26.7

Test metrics are below initial established targets – monitoring during test period – early indicators for retail electric actions

Inflation* Adjusted Rates vs. Electric Rates

(cents/kWh)



CPI Adjusted Rate *= Hypothetical rate assuming rates kept up with inflation*
Rate cents/kWh *= Rate on average considering all rate classes and charges*
Cumulative Impact *= Relative to base year 2000*
Actual Rate Increases *= 5% in 2008, 9% temporary surcharge in 5/2009-12/2011, 2.5% in 2012*

**Source: US Dept. of Labor - Bureau of Labor Statistics, Consumer Price Index (CPI)*

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Long-Term Facilities Planning

- Current forecasts do not reflect a new Long-Term Facilities plan-it is still being completed
  – Comprehensive study over the last 2 years to evaluate District facilities at Rocky Reach, Rock Island and downtown locations that supports investing in assets, people and best serving our customer owners
  – Study concluded that new facilities expected to enhance customer-owner experience, while creating operational efficiencies and productivity gains
  – Study also concluded that new facilities expected to return a positive net present value when compared to historical philosophy of reactive maintenance
- Board authorized in July 2017 an initial deposit of $20M in a designated Long-Term Facilities fund to start saving for future needs
- Efforts will continue to fine-tune scope and timing for Board recommendation and public outreach
- Financial forecasts to be updated after Board approval

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Overview of Operating Unit Plans

- Generation and Transmission
- Customer Utilities
- Fiber and Telecommunications
- Energy Resources
- District Services
- Human Resources and Safety
- Finance, Risk and Information Technology
- Legal and Compliance

Summary

- **Strategic plan is working:**
  - Achieving our 2018-2022 financial targets
  - Utilizing reserves to execute strategic goals to provide best value for customer-owners
  - Challenging to increase asset investments while wholesale revenues are forecasted to decline
  - Forecasting need for new borrowing and revenue management decisions in our planning horizon
  - Emphasizing prudent planning and decision-making
- **Next steps**
  - Board feedback on draft plans this week
  - Finalize business plans for Q3 Board report
  - Planning cycles to the 2018 Budget next meeting