



CHELAN COUNTY

# 2018 Preliminary Budget

NOVEMBER 20, 2017



# What we will cover today...

**Timeline**

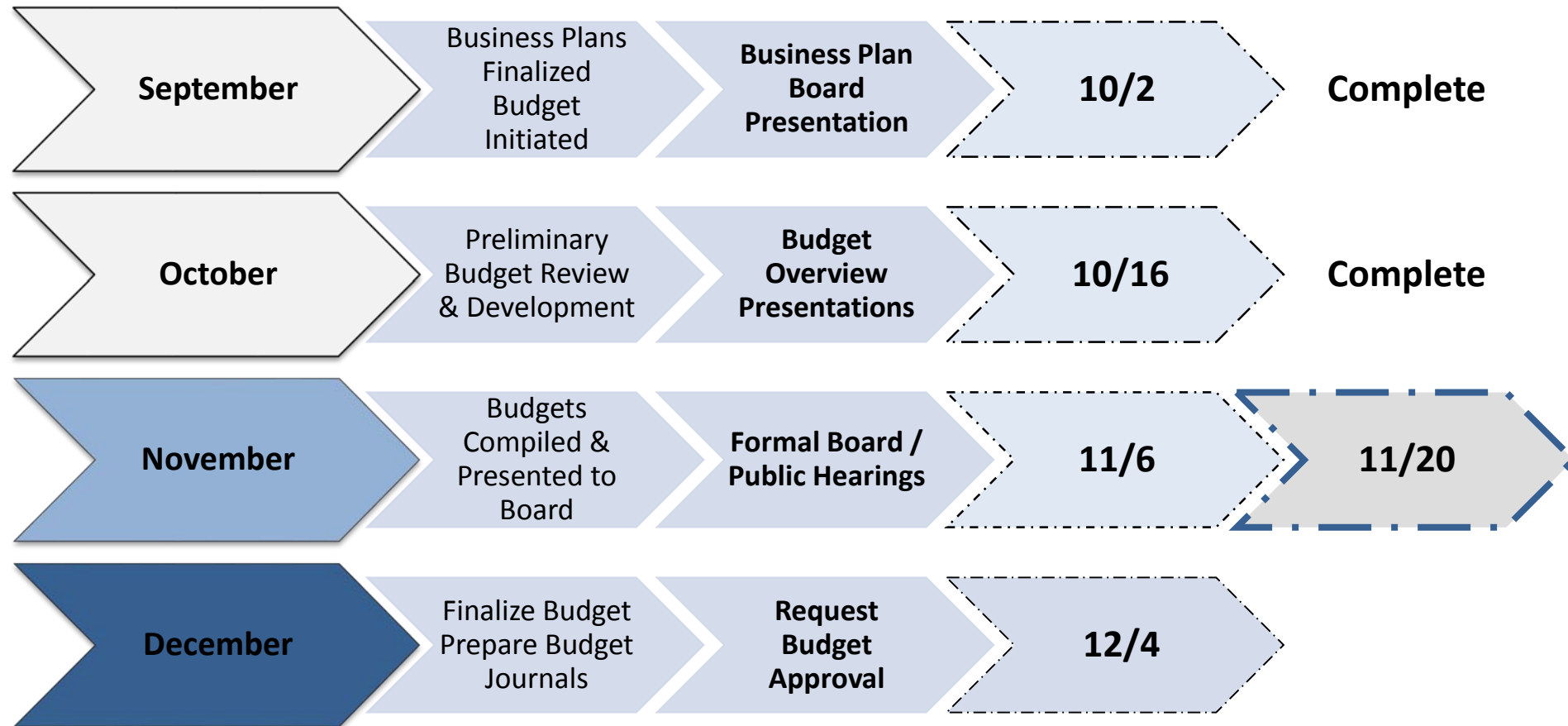
**Changes since  
the Nov. 6th  
Hearing**

**2018 Budget  
Summary**

**Next Steps**

*No Board Action Required Today*

# Budget Timeline





# 2018 Strategic Focus

The 2018 Budget is built around strategic initiatives and business plans presented to Board Oct. 2<sup>nd</sup>

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

# 2018 Budget Changes

## Since November 6th Presentation

### Increased capital spending for 2018 to include the Strategic Facilities Plan

- Added ~\$9M for work at Rock Island facilities (Strategic Facilities Plan)
- Added ~\$3M for preliminary work related to Operations and Service Center (Strategic Facilities Plan)

### Implemented changes for the 2018 Operational Plan of Finance

- Eliminated \$61M of optional accelerated debt reduction
- Current planned debt reduction of ~\$24M for 2018.

### Added 3 limited assignment positions for work at Rock Island hydro facility

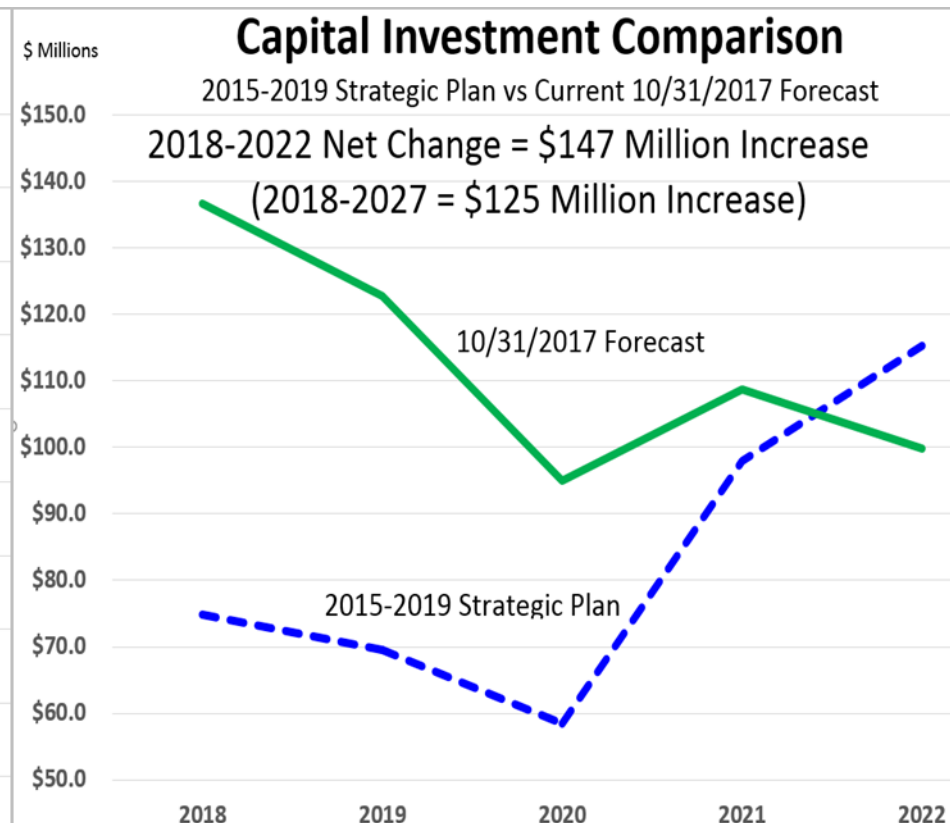
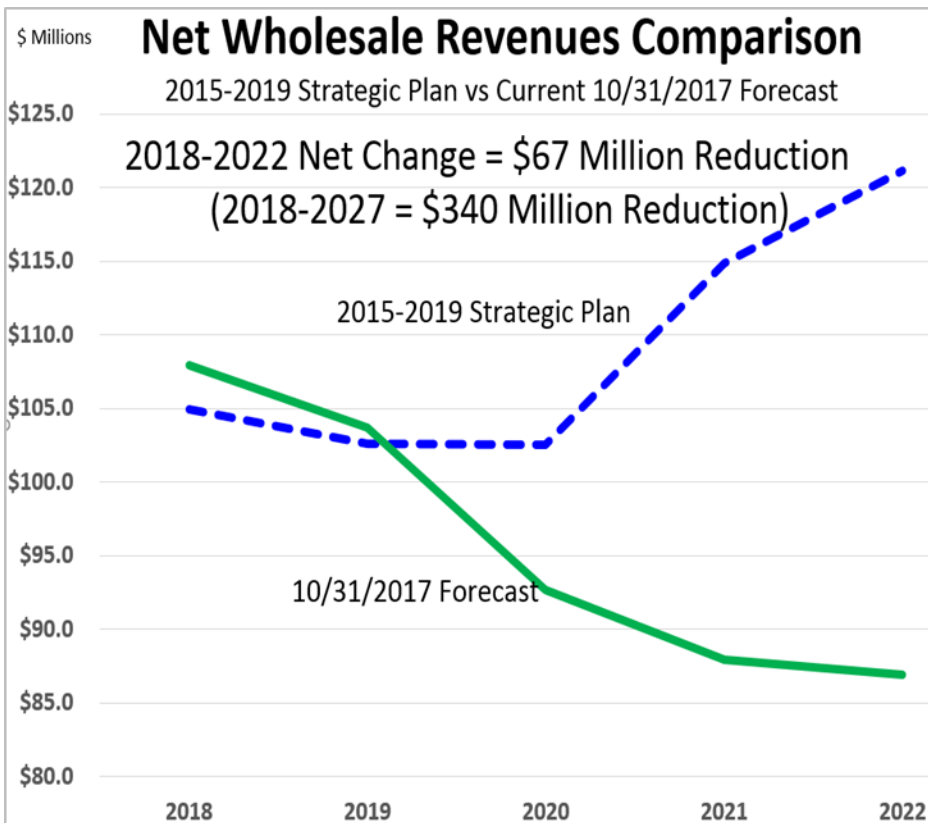
- Project Manager
- Construction Manager
- Mechanical Engineer

### Made immaterial changes to O&M plans

# Changes for the 2018 Operational Plan of Finance

## What are the Major Changes Since the 2015 - 2019 Strategic Plan?

- Financial results are good for 5-year horizon but challenges are forecasted beyond 2020
- Major changes compared to the 2015-2019 Strategic Plan
  - \$67M reduction in wholesale revenue forecast from decline in market prices
  - \$147M increased capital investment in plant and facilities



**Action Taken: Scaled back early debt retirements for 2018**

# Summary of Changes Since Nov. 6 2018 Bottom – Line Impacts

Bottom line improvement ~\$300K

- \$71.5M to \$71.8M

Operating Revenues decrease ~(\$100K); reduces bottom-line

- Refinements to Net Wholesale and Service Revenues

Operating Expenses increase ~(\$200K); reduces bottom-line

- Refinement to operating plans

Non Operating Activity decrease ~\$600K; improves bottom-line

- Interest earnings adjusted for increased cash reserves ~\$500K
- Other impacts to net debt costs from changes to debt reduction plan ~\$100K

# Combined Financial Results

| (in 000's)                                    | Prelim Budget 2018 | Adopted Budget 2017 | \$ Change       | % Change       |
|---|--------------------|---------------------|-----------------|----------------|
| Service Revenue                               | 64,693             | 63,168              | 1,525           | 2.4%           |
| Net Surplus Energy Revenue                    | 227,794            | 237,390             | (9,596)         | (4.0%)         |
| Other Operating Revenue                       | 21,129             | 20,886              | 243             | 1.2%           |
| Operating Expense                             | (173,846)          | (162,178)           | (11,668)        | 7.2%           |
| Depreciation & Tax Expense                    | (52,016)           | (56,140)            | 4,124           | (7.3%)         |
| <b>Operating Income</b>                       | <b>87,754</b>      | <b>103,126</b>      | <b>(15,372)</b> | <b>(14.9%)</b> |
| Non-Operating Activity                        | (15,913)           | (17,770)            | 1,857           | (10.4%)        |
| <b>Bottom-Line (Nov 20<sup>th</sup>)</b>      | <b>71,841</b>      | <b>85,356</b>       | <b>(13,515)</b> | <b>(15.8%)</b> |
| <i>Nov 6<sup>th</sup> Budget Presentation</i> | <i>71,518</i>      |                     |                 |                |
| <i>2018-22 Business Plan</i>                  | <i>70,244</i>      |                     |                 |                |



# Capital Expenditures

| (in 000's)                 | Prelim Budget 2018 | Adopted Budget 2017 | \$ Change     | Major Project Focus   |
|----------------------------|--------------------|---------------------|---------------|---|
| Electric Distribution      | 14,293             | 12,586              | 1,707         | Line upgrades, substation investments, customer work  |
| Electric Transmission      | 2,929              | 3,886               | (957)         | McNeil Canyon, Breaker work, Mid C Transmission   |
| Rocky Reach Hydro          | 8,491              | 13,179              | (4,688)       | Unit controls governor, fire protection system, swim beach stabilization                        |
| Rock Island Hydro          | *83,398            | 44,442              | 38,956        | PH 1 modernization, cranes, governor controls, domestic water, <i>strategic facilities plan</i> |
| Lake Chelan Hydro          | 1,404              | 1,099               | 305           | Breakers, parking lot   |
| Corporate/Shared Assets    | *21,047            | 14,427              | 6,620         | LMR, microwave, CIS, <i>strategic facilities plan</i>   |
| <b>Integrated Electric</b> | <b>131,562</b>     | <b>86,619</b>       | <b>41,943</b> |   |

\*Highlighted change from Nov. 6th

Continued on next slide

# Capital Expenditures

| (in 000's)                                    | Prelim Budget 2018 | Adopted Budget 2017 | \$ Change     | Major Project Focus                             |
|---|--------------------|---------------------|---------------|---|
| Fiber   | 5,547              | 3,935               | 1,612         | Public Power Benefit (PPB) expansion & upgrades |
| Water   | 1,236              | 1,116               | 120           | Wenatchee Heights tank replacement              |
| Wastewater                                    | 1,339              | 418                 | 921           | Peshastin system upgrades                       |
| <b>Total Capital</b>                          | <b>139,684</b>     | <b>95,088</b>       | <b>44,596</b> |   |
| Less: Contributions                           | (3,794)            | (4,604)             | (140)         | Capital Paid By Others                          |
| Regulatory Assets & Other                     | 4,537              | 5,491               | (954)         | Conservation / Lic. Obligations                 |
| <b>Net Capital &amp; Reg. Assets</b>          | <b>140,427</b>     | <b>95,975</b>       |               |   |
|   |                    |                     |               |   |
| <b>Nov 6<sup>th</sup> Budget Presentation</b> | <b>128,343</b>     |                     |               |   |
|   |                    |                     |               |   |
| <b>2018-22 Business Plan</b>                  | <b>125,561</b>     |                     |               |   |

# Combined District Expenditures

| (in 000's)                                      | Preliminary<br>2018<br>Budget | Adopted<br>2017<br>Budget | %           |
|---|-------------------------------|---------------------------|-------------|
| Operating Expense                               | 173,846                       | 162,178                   | 107%        |
| Tax Expense                                     | 7,986                         | 7,895                     | 101%        |
| Non-Operating Exp/(Inc)                         | 20,276                        | 22,944                    | 88%         |
| Net Capital & Reg Assets                        | *140,427                      | 95,975                    | 146%        |
| <b>Total Expenditures (Nov 20<sup>th</sup>)</b> | <b>342,535</b>                | <b>288,992</b>            | <b>119%</b> |
| <i>Nov 6<sup>th</sup> Budget Presentation</i>   | <i>330,961</i>                |                           |             |

|   |                |                |             |
|---|----------------|----------------|-------------|
| Net Debt Reduction  | *23,642        | 52,386         | 45%         |
| <b>Total Exp &amp; Debt Reduction (Nov 20<sup>th</sup>)</b> | <b>366,177</b> | <b>341,378</b> | <b>107%</b> |
| <i>Nov 6<sup>th</sup> Budget Presentation</i>               | <i>415,798</i> |                |             |

\*Highlighted change from Nov. 6th

# Combined Financial Policies 2018 Preliminary Budget

|                                       | Financial Liquidity                 | Combined Cover                   | Debt Ratio <sup>2</sup>                 | Days Cash on Hand             | Rate of Return <sup>1</sup>   |
|---------------------------------------|-------------------------------------|----------------------------------|---|-------------------------------|-------------------------------|
| Base Case – expected<br><i>Target</i> | <b>\$350M</b><br><i>&gt; \$175M</i> | <b>2.80</b><br><i>&gt; 2.0x</i>  | <b>34.8%</b><br><i>&lt; 35% in 2019</i> | <b>587</b><br><i>&gt; 250</i> | <b>6.0%</b><br><i>&gt; 4%</i> |
| Base Case – unusual<br><i>Target</i>  | <b>\$343M</b><br><i>&gt; \$175M</i> | <b>2.69</b><br><i>&gt; 1.25x</i> | <b>35.0%</b><br><i>&lt; 35% in 2019</i> | <b>576</b><br><i>&gt; 250</i> | <b>5.5%</b><br><i>&gt; 2%</i> |

<sup>1</sup> - Associated with an expected bottom line of approximately \$72 million

<sup>2</sup> - Includes the debt reduction of approximately \$24 million

**On track**



CHELAN COUNTY  
**POWER**

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# Business Line Financial Policies

## 2018 Preliminary Budget

|                                  | Operating Expense Coverage             | Cash Reserves                     | Debt Ratio                              |
|----------------------------------|--|-----------------------------------|---|
| Fiber & Telecom<br><i>Target</i> | <b>167%</b><br><i>&gt;120%</i>         | <b>\$13.5 M</b><br><i>\$2 M</i>   | <b>---%</b><br><i>&lt; 35% in 2019</i>  |
| Water<br><i>Target</i>           | <b>139%</b><br><i>&gt;120%</i>         | <b>\$3.6 M</b><br><i>\$1.25 M</i> | <b>11.2%</b><br><i>&lt; 35% in 2019</i> |
| Wastewater<br><i>Target</i>      | <b>81%</b><br><i>&gt; 100% by 2019</i> | <b>\$2.9M</b><br><i>\$200 K</i>   | <b>---%</b><br><i>&lt; 35% in 2019</i>  |

**On track**





# Business Line Financial Policies

## 2018 Preliminary Budget

### “Test” Metrics

Monitoring during  
test period

|                                      | Retail Total<br>Cost Ratio | Retail<br>OM&T Cost<br>Ratio | Retail<br>Support<br>Limit     | Market Based<br>Margin Limit   |
|--------------------------------------|----------------------------|------------------------------|--------------------------------|--------------------------------|
| Integrated Electric<br><i>Target</i> | 66%<br><i>&gt; 65%</i>     | 87%<br><i>&gt; 90%</i>       | \$26.0M<br><i>&lt; \$25.6M</i> | \$47.0M<br><i>&lt; \$25.0M</i> |

# 5 Year Look - Financial Policies

| District Combined                        | 2018   | 2019   | 2020   | 2021    | 2022    |
|--|--------|--------|--------|---------|---------|
| Liquidity - \$175M Min (Expected)        | \$350M | \$289M | \$250M | \$193M  | \$178M* |
| Liquidity - \$175M Min (Unusual)         | \$343M | \$276M | \$231M | \$179M* | \$177M* |
| Debt Ratio (Expected <35% by 2019)       | 34.8%  | 31.6%  | 28.8%  | 26.0%   | 25.1%   |
| Debt Ratio (Unusual <35% by 2019)        | 35.0%  | 31.9%  | 29.2%  | 27.2%   | 27.7%   |
| Days Cash on Hand (Expected >250)        | 587    | 475    | 410    | 320     | 288     |
| Days Cash on Hand (Unusual > 250)        | 576    | 454    | 378    | 297     | 286     |
| Combined Debt Cover (Expected > 2.00x)   | 2.80   | 2.70   | 2.47   | 2.39    | 2.25    |
| Combined Debt Cover (Unusual >1.25x)     | 2.69   | 2.58   | 2.34   | 2.17    | 1.93    |
| Rate of Return (Expected > 4% thru 2019) | 6.0%   | 4.8%   | Sunset |         |         |
| Rate of Return (Unusual > 2% thru 2019)  | 5.5%   | 4.3%   |        |         |         |
| Bottom Line Results (Expected)           | \$72M  | \$61M  | \$49M  | \$46M   | \$40M   |
| Bottom Line Results (Unusual)            | \$66M  | \$55M  | \$43M  | \$37M   | \$28M   |
| Outstanding Debt (Expected)              | \$514M | \$473M | \$434M | \$393M  | \$388M* |
| Outstanding Debt (Unusual)               | \$514M | \$473M | \$434M | \$408M* | \$428M* |

\* Assumes external debt issuances to maintain adequate liquidity **Includes revised debt strategy and facilities plan.**

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.

# 5 Year Look

## Individual Business Line Financial Policies

| Business Lines                                    | 2018    | 2019    | 2020    | 2021    | 2022    |
|---|---------|---------|---------|---------|---------|
| <b>WATER Business Line</b>                        |         |         |         |         |         |
| Operating Expense Coverage (target >120%)         | 139%    | 135%    | 139%    | 135%    | 136%    |
| Cash Reserves (target > \$1.25 million)           | \$3.6M  | \$3.5M  | \$2.7M  | \$1.7   | \$1.9M  |
| Debt Ratio (target <35%)                          | 11%     | 9%      | 7%      | 5%      | 4%      |
| <b>WASTEWATER Business Line</b>                   |         |         |         |         |         |
| Operating Expense Coverage (target >100% by 2019) | 81%     | 104%    | 103%    | 103%    | 102%    |
| Cash Reserves (target > \$200K)                   | \$2.9M  | \$2.1M  | \$2.5M  | \$2.4M  | \$2.4M  |
| Debt Ratio (target <35%)                          | ---     | 10%     | 10%     | 17%     | 17%     |
| <b>FIBER Business Line</b>                        |         |         |         |         |         |
| Operating Expense Coverage (target >120%)         | 167%    | 157%    | 165%    | 157%    | 152%    |
| Cash Reserves (target > \$2.0 million)            | \$13.5M | \$12.7M | \$14.6M | \$16.7M | \$18.7M |
| Debt Ratio (target <35%)                          | ---     | ---     | ---     | ---     | ---     |

# 5 Year Look

## Individual Business Line Financial Policies

Monitoring during test period

*\*These are “test” metrics, developed during 2018-2022 business planning*

| Business Lines   | 2018            | 2019            | 2020            | 2021            | 2022            |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Integrated Electric Business Line</b>                     |                 |                 |                 |                 |                 |
| <b>Retail Total Cost Ratio (target)</b>                      | <b>&gt;65%</b>  | <b>&gt;65%</b>  | <b>&gt;65%</b>  | <b>&gt;65%</b>  | <b>&gt;65%</b>  |
| Retail Total Cost Ratio <span style="float: right;">◆</span> | 66%             | 67%             | 66%             | 67%             | 65%             |
| <b>Retail OM&amp;T Cost Ratio (target)</b>                   | <b>&gt; 90%</b> | <b>&gt; 90%</b> | <b>&gt; 90%</b> | <b>&gt; 90%</b> | <b>&gt; 90%</b> |
| Retail OM&T Cost Ratio <span style="float: right;">◆</span>  | 87%             | 89%             | 88%             | 91%             | 88%             |
| <b>Retail Rate Support Limit (target)</b>                    | <b>\$25.6M</b>  | <b>\$26.3M</b>  | <b>\$26.9M</b>  | <b>\$27.6M</b>  | <b>\$28.3M</b>  |
| Retail Rate Support <span style="float: right;">◆</span>     | \$26.0M         | \$25.2M         | \$27.4M         | \$27.1M         | \$30.6M         |
| <b>Market Based Margin Limit (target)</b>                    | <b>\$25.0M</b>  | <b>\$25.0M</b>  | <b>\$25.0M</b>  | <b>\$25.0M</b>  | <b>\$25.0M</b>  |
| Market Based Margin <span style="float: right;">●</span>     | \$47.0M         | \$42.1M         | \$31.6M         | \$27.9M         | \$26.1M         |

Metrics indicating that our electric revenues are not keeping up with our costs as we continue to make significant investments in our assets

## Focus on increasing value for our customers

Continue investing in assets and people  
Increase reliability, decrease risk due to asset or compliance failure

Declining revenue forecast due to changing power markets  
Five-year bottom line is strong but declines in mid-20's

No planned 2018 electric rate increase  
2012 last general rate increase  
Long-term sustainability without electric revenue increases is unlikely



# Budget Next Steps

Respond

- Provide any additional budget detail requested

Approve

- Requesting Board Approval on December 4<sup>th</sup>



Questions?

# Appendix

Additional information from prior presentation

# 2018 District Priorities

## Reinvest in core assets and people

- Complete Rocky Reach large unit repairs
- Continue Rock Island modernization
- Upgrade Customer Information System
- 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 District Priorities

## Reinvest in core assets and people

- Advance our asset management discipline
- Advance planning for two-way metering capabilities
- Further diversification of our wholesale portfolio
- Implement long-term planning strategies for facilities
- Evolve Business Intelligence (BI) capabilities
- Complete regional water supply strategy seeking regional operating efficiencies
- Update telecommunications systems
- Determine cost-effective wastewater compliance solution
- Exceed energy efficiency requirements



# 2018 District Priorities

## Pay Down Debt

- Debt reduction plans continue ~\$24M in 2018
- On path to achieve 2019 debt ratio target of < 35%

## Public Power Benefit Program

- Continue Fiber system expansion
- Continue program for park passes
- Advance hydro research
- Begin Rocky Reach Visitor Center improvements



## Keys to 2018-2022 Planning

Creating value for our customer-owners

### ➤ Measure: Net revenues (our bottom line)

| Net revenues (million \$)     | Budget 2017 | Budget 2018 | Forecast 2019* | Forecast 2020* | Forecast 2021* | Forecast 2022* | Total 2017-21 |
|-------------------------------|-------------|-------------|----------------|----------------|----------------|----------------|---------------|
| Budget Adoption, Dec-2016     | 85.4        | 66.2        | 56.6           | 48.8           | 46.2           |                | 303.2         |
| Prelim Budget, Nov 20, 2017   | 102.5       | 71.8        | 61.2           | 49.3           | 45.9           | 40.4           | 330.7         |
| <i>Change since last year</i> | 17.1        | 5.6         | 4.6            | 0.5            | (0.3)          |                | 27.5          |

### ➤ ~\$27 million forecast improvement 2016-2020

- Revenue up ~\$35 million – increase in cost plus contracts revenue a key driver
- Expenses up ~\$8 million – operating costs are up, but partially offset by increased interest earnings on increased cash reserves. Overall, continuing decreasing risks through investments in assets, compliance and customer satisfaction.

\*Forecast as of Oct-2017

# Keys to 2018-2022 Planning

## Creating value for our customer-owners

### ➤ Measure: Liquidity

| Total Liquidity (million \$)  | Budget 2017  | Budget 2018  | Forecast 2019* | Forecast 2020* | Forecast 2021* | Forecast 2022* |
|-------------------------------|--------------|--------------|----------------|----------------|----------------|----------------|
| Budget Adoption, Dec-2016     | 352.9        | 281.2        | 226.3          | 222.4          | 221.9          |                |
| Prelim Budget, Nov 20, 2017   | <b>401.8</b> | <b>349.6</b> | <b>289.1</b>   | <b>250.5</b>   | <b>193.4</b>   | <b>178.1</b>   |
| <i>Change since last year</i> | <i>48.9</i>  | <i>68.4</i>  | <i>62.8</i>    | <i>28.1</i>    | <i>(28.5)</i>  |                |

➤ ***Projected 2021 balance has decreased ~\$28.5 million since last year's forecast for 2017-2021***

- Bottom-Line forecast up ~\$27M (2017-21)
- Capital spending up ~\$152M (2017-21)
- Debt Reduction reduced ~\$87M (2017-21)

*\*Forecast as of Oct-2017*

# Keys to 2018-2022 Planning

## Creating value for our customer-owners

### ➤ Measure: Debt reduction

| Debt Balance (million \$)            | Budget 2017  | Budget 2018  | Forecast 2019* | Forecast 2020* | Forecast 2021* | Forecast 2022* |
|--------------------------------------|--------------|--------------|----------------|----------------|----------------|----------------|
| <b>Budget Adoption, Dec-2017</b>     | 537.2        | 452.4        | 368.6          | 332.4          | 306.2          |                |
| <b>Prelim Budget, Nov 20, 2017</b>   | <b>537.2</b> | <b>513.5</b> | <b>473.5</b>   | <b>434.4</b>   | <b>393.3</b>   | <b>387.8</b>   |
| <b><i>Change since last year</i></b> | ---          | <i>61.1</i>  | <i>104.9</i>   | <i>102.0</i>   | <i>87.1</i>    |                |

- Planned debt reduction of ~ \$24 million for 2018, ~\$149 million 2018-2022
- Projected to achieve debt ratio of less than 35% by 2019
- Primary changes since last year due to eliminating optional accelerated debt payments of \$61M in 2018 and reducing accelerated debt payments for 2019 from ~\$61M to ~\$16M.

\*Forecast as of Oct-2017

# Combined Financials 2018-22

| (in 000's)                                    | Prelim Budget 2018 | Forecast 2019* | Forecast 2020* | Forecast 2021* | Forecast 2022* |
|---|--------------------|----------------|----------------|----------------|----------------|
| Service Revenue                               | 64,693             | 66,840         | 69,003         | 70,956         | 72,605         |
| Net Surplus Energy Revenue                    | 227,794            | 225,395        | 214,123        | 205,621        | 207,544        |
| Other Operating Revenue                       | 21,129             | 21,900         | 22,682         | 23,327         | 22,825         |
| Operating Expense                             | (173,846)          | (177,987)      | (179,203)      | (175,645)      | (180,961)      |
| Depreciation & Tax Exp                        | (52,016)           | (58,553)       | (62,466)       | (64,681)       | (67,864)       |
| <b>Operating Income / (Loss)</b>              | <b>87,754</b>      | <b>77,595</b>  | <b>64,139</b>  | <b>59,578</b>  | <b>54,149</b>  |
| Non-Operating Activity                        | (15,913)           | (16,430)       | (14,805)       | (13,669)       | (13,761)       |
| <b>Bottom-Line (Nov 20<sup>th</sup>)</b>      | <b>71,841</b>      | <b>61,165</b>  | <b>49,334</b>  | <b>45,909</b>  | <b>40,388</b>  |
| <i>Nov 6<sup>th</sup> Budget Presentation</i> | <b>71,518</b>      | <b>64,326</b>  | <b>52,305</b>  | <b>48,845</b>  | <b>43,180</b>  |
| <b>2018-22 Business Plan</b>                  | <b>70,244</b>      | <b>64,326</b>  | <b>52,305</b>  | <b>48,845</b>  | <b>43,180</b>  |

\*Forecast as of Oct-2017

# Service Revenue

| (in 000's)                   | Prelim Budget 2018 | Adopted Budget 2017 | Variance   |
|------------------------------|--------------------|---------------------|--|
| Residential Electric         | 25,586             | 25,579              | <i>Modest customer growth with offsetting impacts from energy conservation efforts</i> |
| Commercial Electric          | 16,611             | 16,600              |  |
| Industrial Electric          | 4,392              | 4,453               |  |
| HDL Electric                 | 2,265              | 1,802               | <i>Growth impacts from High Density Loads</i>  |
| Other Electric               | 1,814              | 1,739               |  |
| Electric Service             | 50,668             | 50,173              | <i>No rate increase included<br/>Last general rate increase was 2012</i>               |
| Water Service                | 6,038              | 5,655               | <i>Modest growth / 2% rate adjust</i>  |
| Wastewater Service           | 701                | 668                 | <i>Modest growth / 5% rate adjust</i>  |
| Fiber & Telecom              | 7,286              | 6,672               | <i>"System Expansion" impacts</i>  |
| <b>Service Revenue</b>       | <b>64,693</b>      | <b>63,168</b>       | <i>(Nov 20<sup>th</sup> - Budget Presentation)</i>                                     |
| <b>2018-22 Business Plan</b> | <b>64,724</b>      |                     |  |

# Net Surplus Energy Revenue

| (in 000's)                        | Prelim Budget 2018 | Adopted Budget 2017 | Variance  |
|-----------------------------------|--------------------|---------------------|---|
| Slice Contracts                   | 75,149             | 79,067              | <i>Lower wholesale market</i>   |
| Block/Pre Sched/Real Time         | 32,851             | 35,071              | <i>Lower wholes market</i>  |
| <b>EP&amp;T Net Wholesale</b>     | 108,000            | 114,138             |   |
| LT Hydro Contracts                | 121,114            | 124,572             | <i>Cost-based plus: lower debt component and contract adders of cost plus contracts</i> |
| Less: Nine Cyns & Other PP        | (1,320)            | (1,320)             | <i>Consistent with 2017</i>   |
| <b>Net Surplus Energy Revenue</b> | 227,794            | 237,390             | <i>(Nov 20<sup>th</sup> - Budget Presentation)</i>                                      |
| <b>2018-22 Business Plan</b>      | <b>228,173</b>     |                     |   |

# Other Operating Revenue

| (in 000's)                           | Prelim Budget 2018 | Adopted Budget 2017 | Variance   |
|--------------------------------------|--------------------|---------------------|--|
| Transmission/Wheeling                | 9,962              | 9,540               | <i>Increase investments in operations/compliance</i> |
| Real Time Contract – <i>Fixed</i>    | 4,000              | 4,000               | <i>Consistent with 2017 budget</i>                   |
| Real Time Contract – <i>Variable</i> | 3,000              | 3,000               | <i>Consistent with 2017 budget</i>                   |
| Environmental Attributes             | 676                | 458                 | <i>Higher expectations in 2018</i>                   |
| Service/Late Charges                 | 368                | 335                 | <i>Consistent with 2017 budget</i>                   |
| Misc Other Items                     | 3,123              | 3,553               | <i>Reduction in misc. ancillary revs</i>             |
| <b>Other Operating Revenue</b>       | <b>21,129</b>      | <b>20,886</b>       | <i>(Nov 20<sup>th</sup> - Budget Presentation)</i>   |
| <b>2018-22 Business Plan</b>         | <b>22,518</b>      |                     |  |



# Operating Expense

| (in 000's)               | Prelim Budget 2018 | Adopted Budget 2017 | Variance   |
|--------------------------|--------------------|---------------------|--|
| Hydro O&M                | 59,138             | 55,831              | <i>PH2 Draft Tube, LC Surge Tank</i>               |
| Hydro Fish & Wildlife    | 16,751             | 15,511              | <i>Fish Passage Structural Maint</i>               |
| Hydro Parks & Recreation | 7,715              | 7,207               | <i>Visitor Center Maint / Public Power Benefit</i> |
| Electric Distribution    | 15,398             | 13,135              | <i>Increased reinvestment in assets</i>            |
| Electric Transmission    | 13,221             | 12,896              | <i>Consistent with 2017 Budget</i>                 |
| Power Supply Mgmt        | 5,317              | 5,165               | <i>Consistent with 2017 Budget</i>                 |
| Water/Wastewater O&M     | 3,101              | 2,874               | <i>Lake Wenatchee Lab Impr.</i>                    |
| Fiber Network O&M        | 4,580              | 3,960               | <i>Capital to O&amp;M Labor Shift</i>              |

*Continued on next slide*

# Operating Expense

| (in 000's)                   | Prelim Budget 2018 | Adopted Budget 2017 | Variance   |
|------------------------------|--------------------|---------------------|--|
| Customer Accts & Svc         | 3,999              | 3,898               | <i>Consistent with 2017 Budget</i>                                   |
| Conservation                 | 3,459              | 2,965               | <i>Recognition of investments</i>                                    |
| Insurance                    | 7,278              | 6,689               | <i>Medical and PERS cost increase</i>                                |
| FERC Fees                    | 1,392              | 1,658               | <i>2017 FERC fee true up</i>   |
| Other Admin & General        | 32,497             | 30,389              | <i>District Wide Computer/Software fees / Cyber security efforts</i> |
| <b>Total</b>                 | <b>173,846</b>     | <b>162,178</b>      | <i>(Nov 20<sup>th</sup> - Budget Presentation)</i>                   |
| <b>2018-22 Business Plan</b> | <b>174,594</b>     |                     |  |

# Non-Operating Activity

| (in 000's)                   | Prelim Budget 2018 | Adopted Budget 2017 | Variance   |
|------------------------------|--------------------|---------------------|--|
| Investment Earnings          | 9,249              | 8,014               | <i>High interest rate/cash reserves</i>                          |
| Contribution Income          | 4,364              | 5,174               | <i>McKenzie-Beverly White Pine Relocate contribution in 2017</i> |
| Interest Expense             | (25,402)           | (26,736)            | <i>Debt reduction strategy</i>                                   |
| Other Inc/(Exp)              | (4,124)            | (4,222)             | <i>Higher unassigned PPB</i>                                     |
| <b>Total</b>                 | <b>(15,913)</b>    | <b>(17,770)</b>     | <i>(Nov 20<sup>th</sup> - Budget Presentation)</i>               |
| <b>2018-22 Business Plan</b> | <b>(16,394)</b>    |                     |  |

# Key “Total Capital Project” Revisions\*

| (in 000’s)                 | Current | Revised | Change | Major Driver                     |
|----------------------------|---------|---------|--------|----------------------------------|
| RR-CM Facilities Upgrade   | ---     | 41,519  | 41,519 | Match strategic standards        |
| RI Facilities Upgrade      | ---     | 32,693  | 32,693 | Match strategic standards        |
| RI PH2 Storage Building    | 1,110   | 6,250   | 5,140  | Match strategic standards        |
| HQ Services Facility Plan  | ---     | 2,600   | 2,600  | Match strategic standards        |
| N Shore Chelan Substation  | 455     | 2,750   | 2,295  | Alternatives under consideration |
| Bandwidth Management Links | ---     | 2,200   | 2,200  | Project being initiated          |
| Ohme Substation            | 20      | 2,000   | 1,980  | Project being initiated          |
| Bavarian Substation        | 772     | 2,750   | 1,978  | Increase for construction        |

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

# Key “Total Capital Project” Revisions\*

| (in 000’s)                          | Current | Revised | Change | Major Driver            |
|-------------------------------------|---------|---------|--------|-------------------------|
| RI PH2 U1-U8 Rehab                  | ---     | 1,800   | 1,800  | Project being initiated |
| RR Oil Rooms Fire Suppression       | ---     | 1,525   | 1,525  | Project being initiated |
| 7342 to 7360 Platform Upgrade       | ---     | 1,500   | 1,500  | Project being initiated |
| Peshastin Wastewater Upgrade        | 650     | 2,000   | 1,350  | Project scope change    |
| Y-AC3 Goodwin Bridge Partial Reblld | ---     | 1,150   | 1,150  | Project being initiated |
| PKCFP Swim Beach Stabilization      | ---     | 1,100   | 1,100  | Project being initiated |
| Physical Access Control Platform    | 150     | 1,170   | 1,020  | Design completed        |

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

# Key Budget Assumptions

|                                |   |
|--------------------------------|---|
| Wholesale Revenue              | Average flows and current forward price curve |
|                                | Hedge program fully implemented               |
|                                | Includes unit outage impacts                  |
|                                | Consistent hydro fish spill                   |
| System Load Growth             | ~2% Electric ( <i>net of conservation</i> )   |
|                                | ~2% Water                                     |
|                                | ~1.5% Wastewater                              |
|                                | ~1,000 Fiber new premises passed              |
| Business Line Service Revenues | No electric rate increases                    |
|                                | 2% increase in Water rates                    |
|                                | 5% increase in Wastewater rates               |
|                                | Reflects Fiber rate structure revised in 2017 |



# Key Budget Assumptions

## Labor Bargaining Unit

- Collective Bargaining Agreement expires March 31, 2018
- 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 as is the most conservative assumption for 2018 revenues



# Key Budget Assumptions

## Capital & Operating Expenditures

- Driven by 2018-22 business plans
- 2018 expenditures are a planned peak with RI B1-B4 capital repairs, RR large unit repairs and Distribution infrastructure investments as key drivers

## Debt and Interest Income

- Net debt reduction of ~\$24 million
- Interest earnings estimated at ~1.8%

## 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 2018

