



Oct. 1, 2018

2019-2023 Business Planning



CHELAN COUNTY

What we will cover today...

- Key drivers
- Mission, Vision, Values and Objectives
- 2019-2023 Initiatives
- Known unknowns
- Operating unit business plans

No Board Action Required Today

Key learning from this planning cycle

- Debt Ratio Target achieved in 2018 (1 year earlier than originally planned)
- Asset Management leading to specific focus on hydro capability and distribution reliability
- Desire to improve safety, operational excellence, quality, and pace
- Key financial policies and long-term sustainability forecasted to be achieved – bottom-line financials down from strategic planning, but better than last year

What's different now compared to the Strategic Plan?

(Aug 2018 vs. Dec 2014)

Description	2019-2023	To 2027
Bottom line	(\$93M)	(\$237M)
Net Wholesale Revenue	(\$126M)	(\$313M)
Operating Expenses	\$81M	\$125M
Capital Expenditures	\$184M	\$181M
Total Liquidity	(\$48M)	(\$165M)
Debt Outstanding	\$185M	\$265M
Heavy load market prices (est.)	31.35 v. 51.23	37.56 v. 63.29
Light load market prices (est.)	24.70 v. 40.43	29.87 v. 52.19

What's different now compared to Last Year?

Description	2019-2023
Bottom line	\$55M
Net wholesale revenue	(\$10M)
Service revenues (local load growth)	\$20M
Cost-plus long-term contract revenue	\$58M
Operating expenses	\$32M
Non-op expenses (net interest exp)	(\$13M)
Capital expenditures	\$118M
Total liquidity	\$3M
Debt outstanding	(\$28M)
Heavy load market prices (est.)	31.35 v. 30.95
Light load market prices (est.)	24.70 v. 24.73

Key Drivers

The Best, For the Most, For the Longest

- Maintaining strong District financials
- Seeking to improve hydro capability to 89% range while being challenged by space and equipment
- Improving distribution system reliability
- Seeking to improve safety and operational excellence through Human Performance Initiative
- Seeking opportunities to move quicker without compromising safety/quality through technology/resource allocation/process streamlining

Key Drivers

The Best, For the Most, For the Longest

- Significant technology changes coming:
 - Customer Information System (CIS)
 - Advanced Metering Infrastructure (AMI)
 - Hydropower Research Institute (HRI)
 - Two Dam independent hydro operations (TDIP)
 - And, potentially Energy Imbalance Market (EIM)
- Supporting Public Power Benefit based on financial strength
- 2020-2024 Strategic Planning in our headlights

An aerial photograph of Chelan County, Washington, showing a wide river winding through a valley. The foreground is dominated by steep, rocky hillsides with sparse, dry vegetation. In the middle ground, a town is visible, followed by agricultural fields and more distant mountains under a clear sky. Two semi-transparent text boxes are overlaid on the image: a blue one for the vision and a red one for the mission.

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.

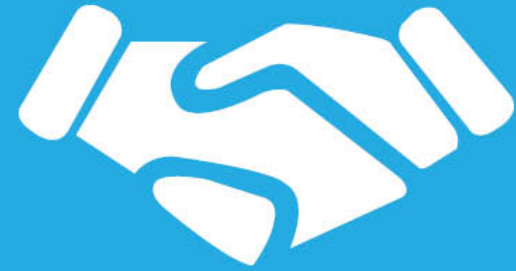
Safety

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

Leads to financial flexibility and resilience

✓ Debt ratio target achieved 1 year early

Reinvest in core assets and people

Expands our capacity to create value

Continue Public Power Benefit Program

Enhances the quality of life in our county

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



CUSTOMER-OWNER

Commit to the highest level of customer-owner satisfaction

Protect natural resources impacted by operations

FINANCIAL

Ensure financial stability

INTERNAL

Make continuous improvement in efficient, effective, compliant and risk-assessed operations

Invest in creating long-term value

ENABLERS

Enhance the capability of Chelan PUD staff

Make our values the focus of relationships with customers, stakeholders & each other

Our Values: Safety, Stewardship, Trustworthiness and Operational Excellence

2019-2023 District Initiatives

Reinvest in core assets and people

- Complete Rocky Reach large unit repairs (C8 Kaplan and all C8-C11 windings already completed)
- Complete Rock Island PH1 refurbishment; RI PH2 refurbishment initiated
- Customer Information System and advanced two-way metering implemented
- Improve distribution system reliability through investment in equipment reliability and substations
- Implement restructured Mid-C hourly coordination plan
- Develop employees to achieve safety goals, operational excellence, and integrate data-driven processes into decision-making

2019-2023 District Initiatives

Reinvest in core assets and people

- Capital project prioritization
- Implement alternative contracting mechanisms for large hydropower and facilities construction projects
- Seek longer term warranties for hydropower rehabilitation projects
- Stay on track to achieve Fiber expansion to 85-90% of homes passed
- Implement and assess new cryptocurrency rate
- Influence market development to value Pacific Northwest hydropower
- Implement long-term planning strategies for facilities

2019-2023 District Initiatives

Reinvest in core assets and people

- Streamline procurement processes and seek efficiency through IT initiatives
- Further investigate water second source
- Resolve Peshastin water quality issue; define strategy for Dryden
- Review rates for strategies to avoid large future rate increases and address emerging cost recovery issues (second homes, distributed generation, electric vehicles)
- Exceed energy efficiency requirements
- Protect against fire/weather liability/risk
- Advance our asset management discipline
- Support and be supported by public power colleagues

2019-2023 District Initiatives

Pay down debt

- Maintain debt ratio of less than 35%
- Continue debt reductions through scheduled principal payments while monitoring for new opportunities to optimize debt portfolio

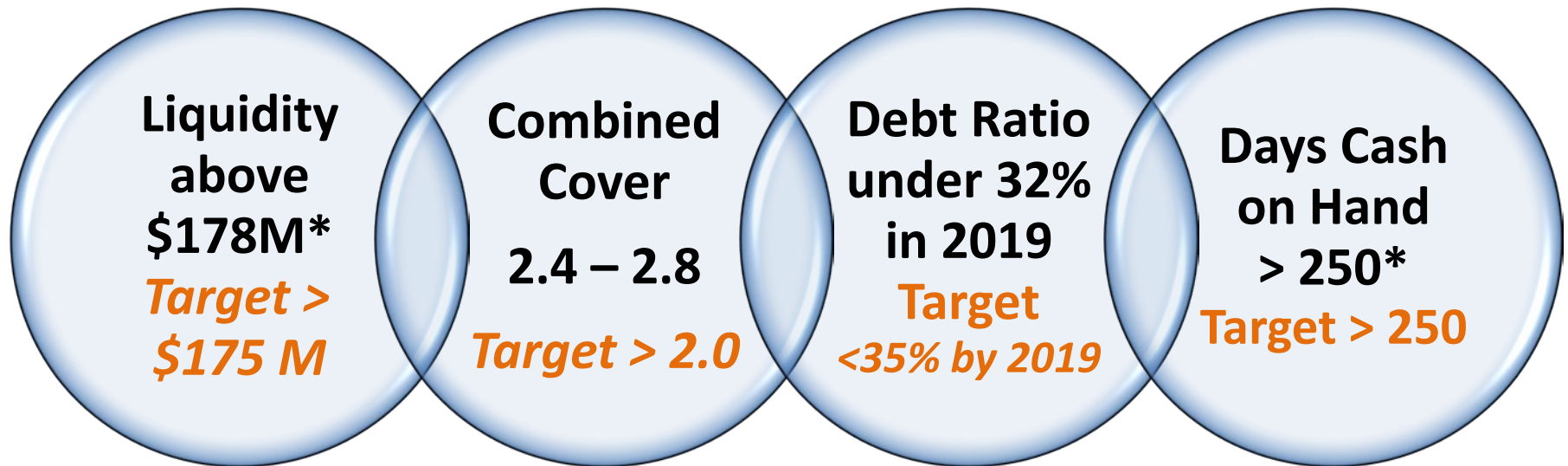
Public Power Benefit Program

- Continue Fiber system expansion
- Continue program for park passes
- Complete Rocky Reach Discovery Center improvements
- Review Public Power Benefit Program as part of 2019 strategic planning process

Known Unknowns

- Retail load growth, particularly cryptocurrency
- Changes in electric market fundamentals/pricing
- Results of asset condition assessments
- Implementation of independent dam operations
- New and changing regulatory/licensing requirements
- Changing load growth patterns/customer profile impacts
- Columbia River Treaty outcomes
- Future of operations service center/headquarters
- Ability to compete for and retain top talent
- Climate change impacts
- Stakeholder engagement expectations
- Frequency of natural disasters such as wildfires and storms
- And more...

2019-2023 Plans Reflect our Prudent Financial Policies

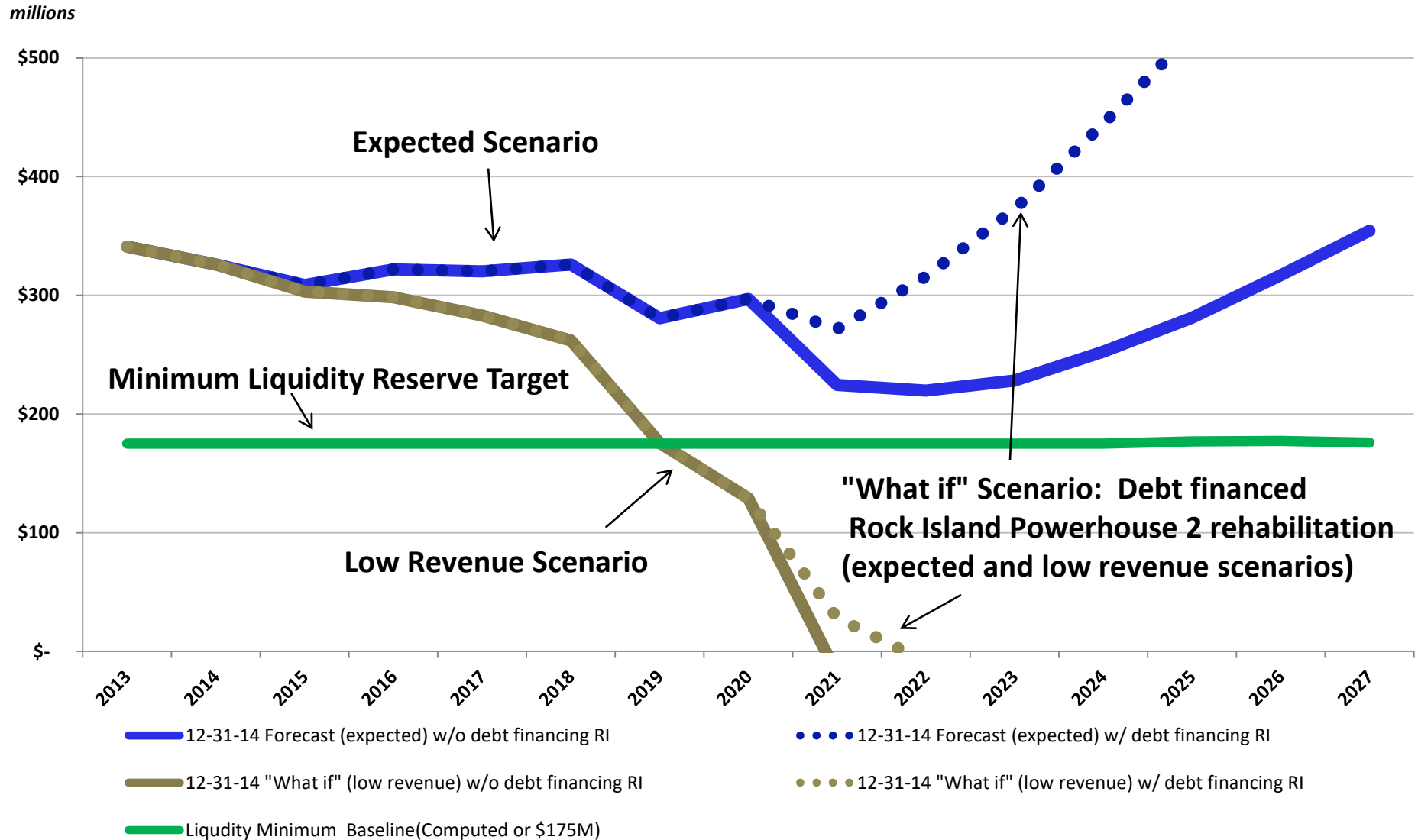


Results based on expected conditions

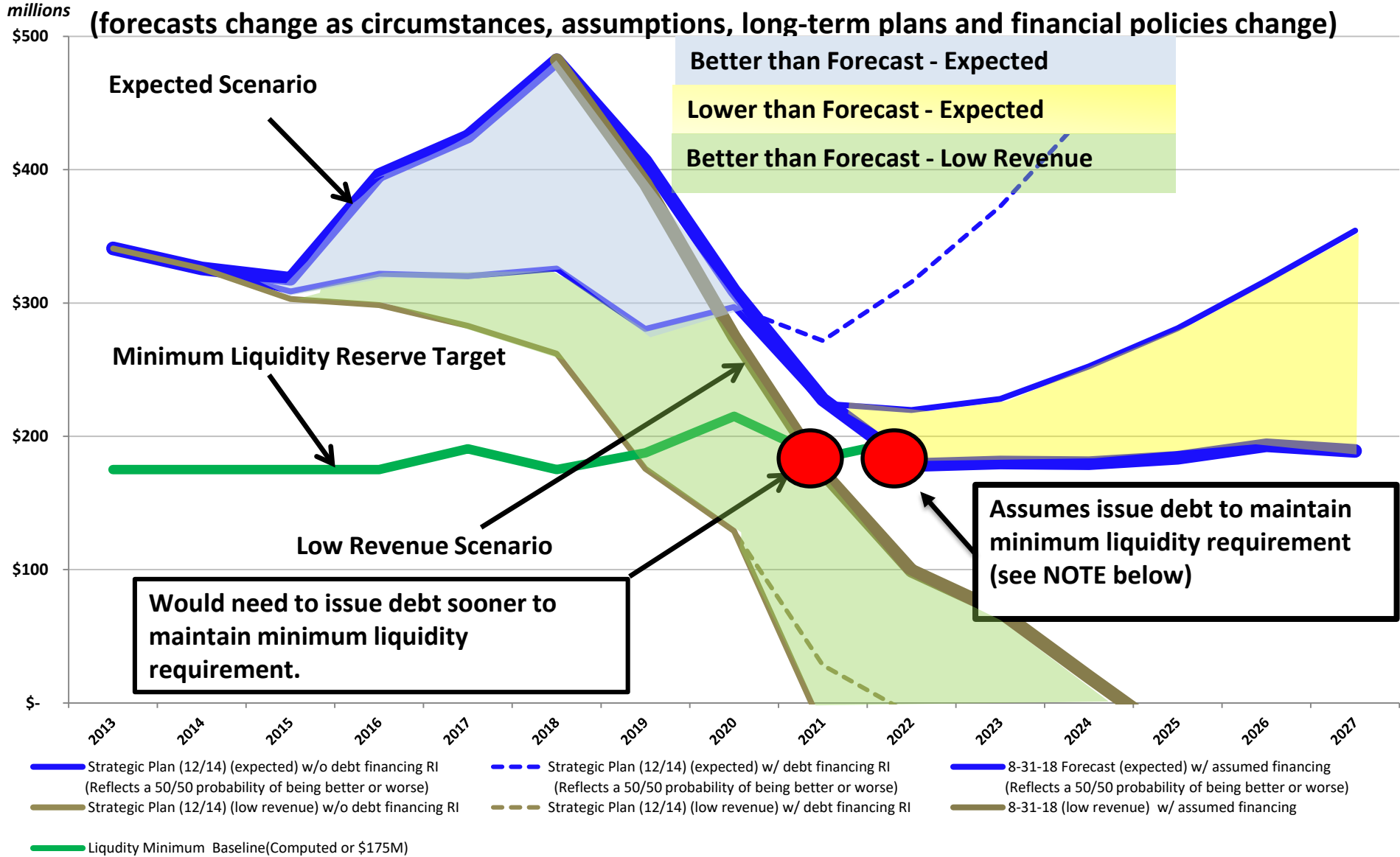
*We have a Board reporting requirement to provide an action plan when metrics come within 10% of the target. Both of these metrics are within that 10% threshold and our recommended action plan is to issue external debt in 2022 to maintain overall liquidity

Liquidity Forecast: 2015-2019 Business Plans

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



Liquidity Forecast: 2019-2023 Business Plans



NOTE: Both the August 31, 2018 expected and low revenue scenarios assume approximately \$210M of new debt in the periods 2022 - 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)	2019	2020	2021	2022	2023
Fiber - Shared Capital Funding Support	Prior Transfer	1,580	2,067	1,663	104
Water – Shared Capital Funding Support	Prior Transfer	387	506	400	25
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	TBD	TBD
WW – Direct Capital Funding Support	Prior Transfer	TBD	TBD	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	2019	2020	2021	2022	2023
RR/RI Capital Funding % - DRC/CRC Cash Reserves	70%	33%	51%	43%	79%
RR/RI Capital Funding % - Loans/Other Sources	30%	67%	49%	57%	21%

Note:

The long-term power contract capital recovery and debt reduction charges will be utilized to their full extent to “pay as we go” for hydro capital. In addition, based on current RR/RI capital forecasts, new internal loans will likely be needed starting in 2019 and new external debt in 2022 to fund the remaining portion of hydro capital.

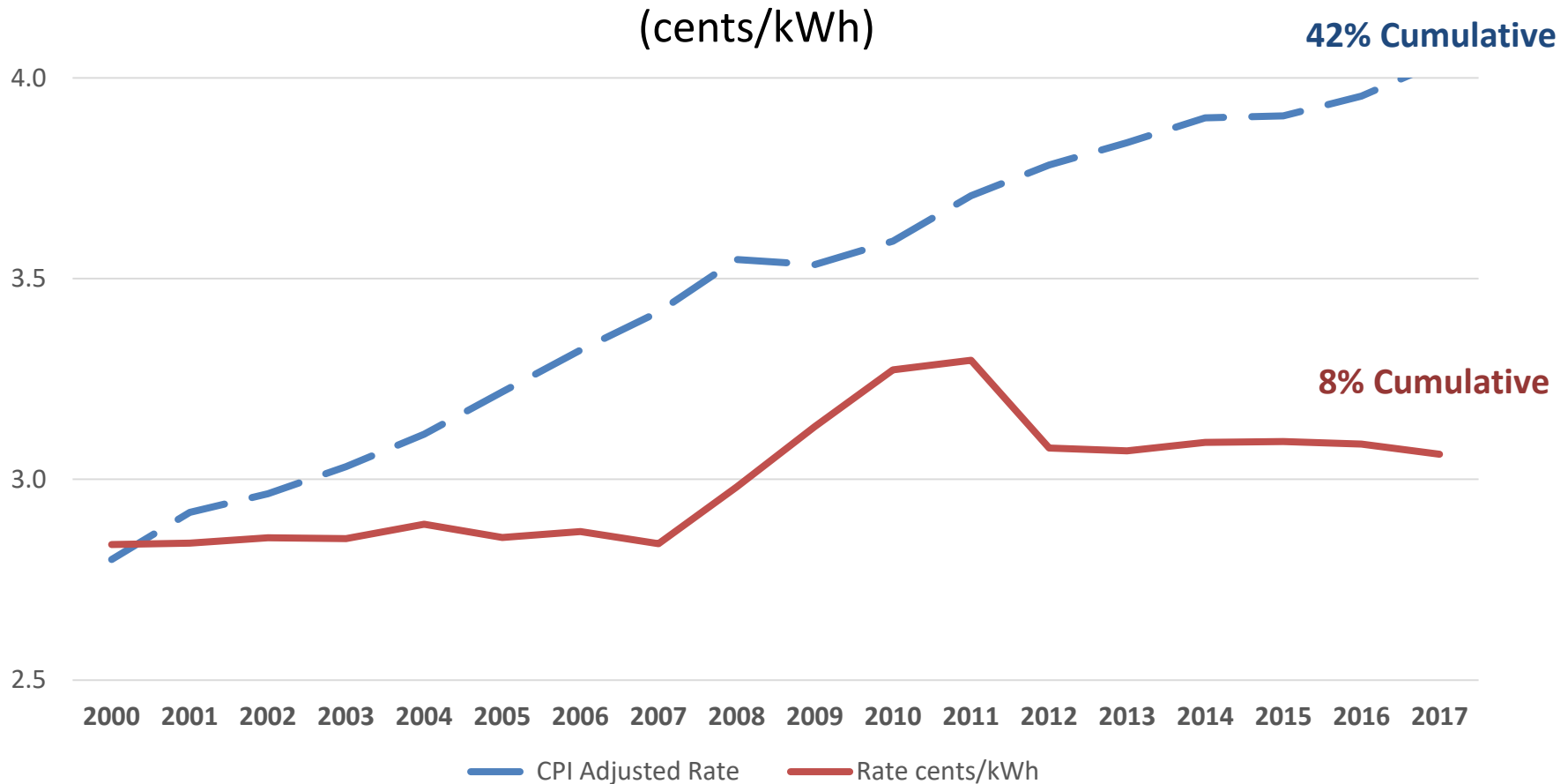
Retail Electric - Testing out New Metrics

Metrics	2019	2020	2021	2022	2023
Retail Total Cost Ratio (Target >65%)	68%	67%	68%	67%	64%
Retail OMT Cost Ratio (Target >90%)	88%	89%	92%	93%	89%
Retail Electric Gap (Target <\$25M in 2017 \$'s)	\$26.3	\$26.9	\$27.6	\$28.3	\$29.0
Retail Electric Gap (target<amt above)	\$25.6	\$27.5	\$27.6	\$29.8	\$34.2
Market-based Margin Available (Target >\$25M)	\$40.8	\$27.7	\$25.3	\$24.6	\$28.9

Note:

Test metrics are below initial established targets – monitoring during test period – early indicators of a need for retail electric actions which will be part of the 2020-2024 strategic planning process.

Inflation Adjusted Rates vs. Electric Rates



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

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:**
 - The Best, For the Most, For the Longest provides clear direction
 - Achieving financial goals
 - Extensive workload associated with asset/people investment
- **Next steps**
 - Board feedback on draft plans this week
 - Finalize business plans for Q3 Board report
 - Business Planning transitions to the 2019 Budget at the next Board meeting on October 15