



Nov. 5, 2018

2019 Preliminary Budget



What we will cover today...

Timeline

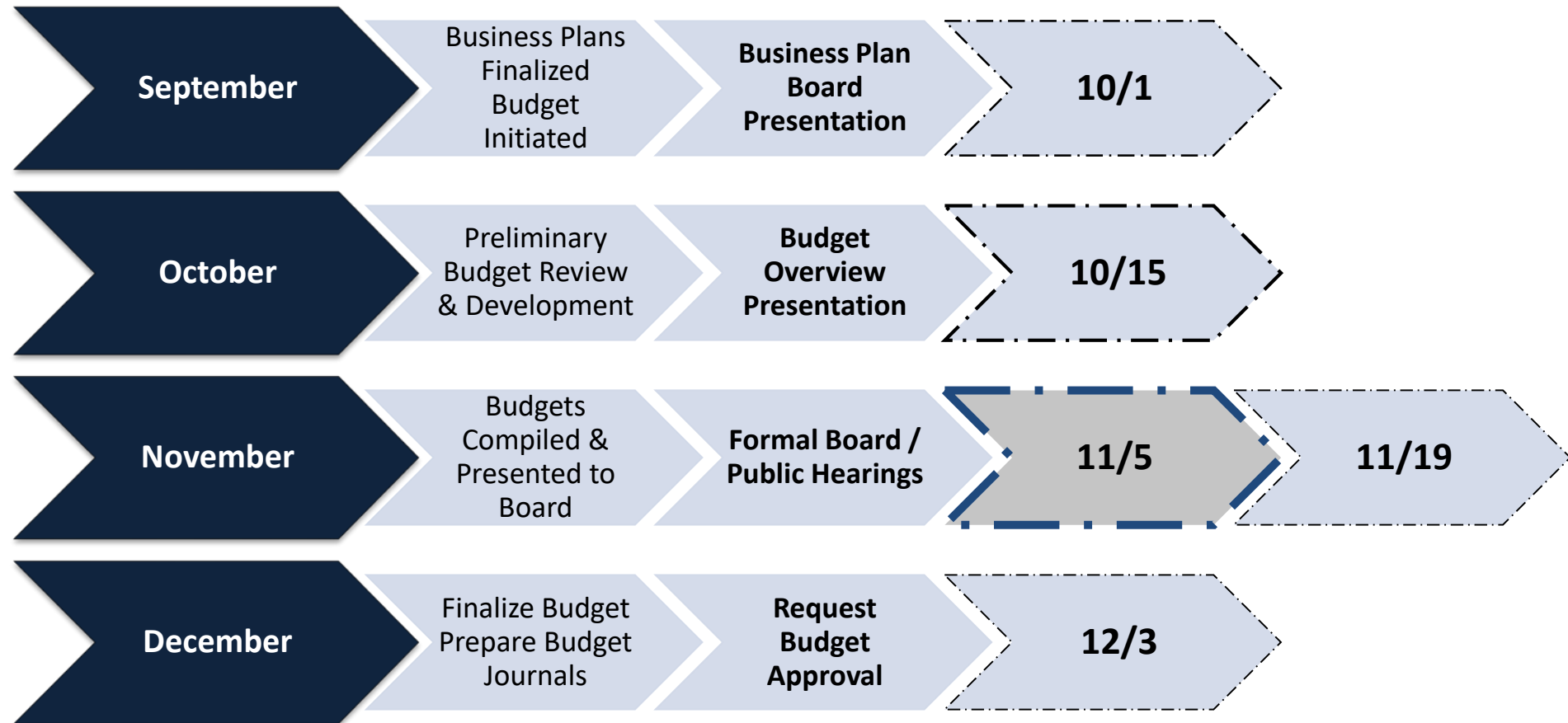
**Strategic
Goals &
Initiatives**

**Initial
Results &
Highlights**

Next Steps

No Board Action Required


Budget Timeline




Indicates Board Meetings

Strategic Focus

The 2019 Budget will be built around strategic initiatives and business plans presented October 1st



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 maintaining our debt ratio below 35% and the Public Power Benefit Program

Top Projects

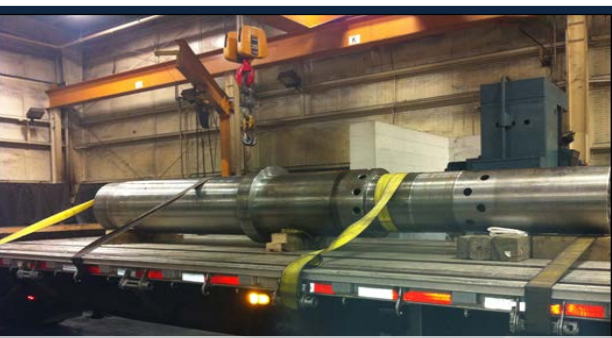
RI hydro and crane modernizations



RI and RR facilities upgrades



RR large unit repairs



New substations



New Customer Information System



Keys to 2019-2023 Planning

Creating value for our customer-owners

➤ Measure: Net revenues (our bottom line)

Net revenues (million \$)	Budget 2018	Budget 2019	Forecast 2020*	Forecast 2021*	Forecast 2022*	Forecast 2023*	Total 2018-22
2018 Budget Adoption, 12/5/17	71.8	61.2	49.3	45.9	40.4		268.6
2019 Prelim Budget, 11/5/18	99.0	78.1	61.4	57.3	55.4	52.7	351.2
<i>Change since last year</i>	<i>27.2</i>	<i>16.9</i>	<i>12.1</i>	<i>11.4</i>	<i>15.0</i>		<i>82.6</i>

➤ ~\$83 million forecast improvement for period 2018-2022

- Revenue up ~\$83 million – increase cost plus contracts revenue a key driver
- Expenses up ~\$1 million
 - Operating costs up: ~ \$28M
 - Taxes are up: ~ \$ 3M
 - Depreciation expense down: ~(\$13M)
 - Net interest expense down: ~(\$17M)

Overall, continuing to decrease risks through investments in assets, compliance and customer satisfaction

*Forecast as of Q3-2018

Keys to 2019-2023 Planning

Creating value for our customer-owners

➤ Measure: Liquidity

Total Liquidity (million \$)	Budget 2018	Budget 2019	Forecast 2020*	Forecast 2021*	Forecast 2022*	Forecast 2023*
2018 Budget Adoption, 12/5/17	349.6	289.2	250.6	193.5	178.2	
2019 Prelim Budget, 11/5/18	489.9	413.5	317.2	236.1	178.9	182.8
<i>Change since last year</i>	<i>140.0</i>	<i>124.3</i>	<i>66.6</i>	<i>42.6</i>	<i>0.7</i>	

- Projected 2022 balance has increased ~\$0.7M since last year's forecast for 2018-2022 primarily due to:
- Bottom-Line forecast up ~\$83M (2018-22)
 - Receipt from Alcoa (Deferred contract charge)~\$62M (received in 2018)
 - Improved cash flow results in less borrowing needed to fund the increased capital spending of ~\$108M (2018-22)

*Forecast as of Q3-2018

Keys to 2019-2023 Planning

Creating value for our customer-owners

➤ Measure: Debt reduction

Debt Balance (million \$)	Budget 2018	Budget 2019	Forecast 2020*	Forecast 2021*	Forecast 2022*	Forecast 2023*
2018 Budget Adoption, 12/5/17	513.5	473.5	434.4	393.3	387.8	
2019 Prelim Budget, 11/5/18	513.5	475.1	435.9	394.8	371.7	354.4
<i>Change since last year</i>	---	1.6	1.5	1.5	(16.1)	

- Planned principal payments of existing debt of ~ \$41 million for 2019, ~\$159 million 2019-2023
 - New low-interest loan related to Peshastin Wastewater work assumed in 2019 of ~\$2.5M
 - New bond issuance assumed in 2022 to meet liquidity requirements (borrowing less in 2022 than at time of 2018 budget)
- Projected to maintain debt ratio of less than 35% during 2019 (~31%)

*Forecast as of Q3-2018

Combined Financials 2019-23

(in 000's)	Prelim Budget 2019	Forecast 2020*	Forecast 2021*	Forecast 2022*	Forecast 2023*
Service Revenue	69,512	72,667	75,404	76,489	79,065
Net Surplus Energy Revenue	236,156	226,048	216,192	220,923	229,077
Other Operating Revenue	23,840	24,746	23,848	25,530	24,904
Operating Expense	(185,924)	(191,531)	(183,210)	(188,919)	(198,213)
Depreciation & Tax Exp	(54,230)	(58,870)	(63,108)	(67,193)	(71,150)
Operating Income / (Loss)	89,354	73,060	69,126	66,830	63,683
Non-Operating Activity	(11,239)	(11,617)	(11,834)	(11,461)	(11,004)
Combined "Bottom-Line"	78,115	61,443	57,292	55,369	52,679
2019-23 Business Plan	79,244	61,443	57,292	55,369	52,679

*Forecast as of Q3-2018

11/7/2018

Combined Financial Results 2019

(in 000's)	Prelim Budget 2019	Adopted Budget 2018	\$ Change	% Change
Service Revenue	69,512	64,693	4,819	7.4%
Net Surplus Energy Revenue	236,156	227,796	8,360	3.7%
Other Operating Revenue	23,840	21,129	2,711	12.8%
Operating Expense	(185,924)	(173,846)	(12,078)	6.9%
Depreciation & Tax Expense	(54,230)	(52,016)	(2,214)	4.3%
Operating Income	89,354	87,756	1,598	1.8%
Non-Operating Activity	(11,239)	(15,913)	4,674	(29.4%)
"Bottom-Line"	78,115	71,843	6,272	8.7%
2019-23 Business Plan	79,244			

Service Revenue

(in 000's)	Prelim Budget 2019	Adopted Budget 2018	Variance
Residential Electric	27,785	25,586	<i>Overall ~4.5% growth from current 2018 forecasted usage offsetting impacts from energy conservation efforts <1%</i>
Commercial Electric	17,322	16,611	
Industrial Electric	5,101	4,392	
HDL Electric	3,681	2,265	
Other Electric	1,546	1,814	
Electric Service	55,435	50,668	<i>Growth impacts from High Density Loads</i>
Water Service	6,162	6,038	<i>No rate increase included</i>
Wastewater Service	725	700	<i>Last general electric rate increase: 2012</i>
Fiber & Telecom	7,190	7,287	<i>~2% growth / 2% rate adjust</i>
Service Revenue	69,512	64,693	<i>~1.5% growth / 5% rate adjust</i>
2019-23 Business Plan	69,512		<i>~1,100 new fiber installations</i>

Net Surplus Energy Revenue

(in 000's)	Prelim Budget 2019	Adopted Budget 2018	Variance
Slice Contracts	70,241	75,149	<i>Higher value slice rolling off of laddered approach</i>
Block/Pre Sched/Real Time	32,995	32,852	<i>2019 prices showing some signs of recovery</i>
EP&T Net Wholesale	103,236	108,001	
LT Hydro Contracts	134,240	121,115	<i>Cost-based plus: higher operating costs and increased charges</i>
Less: Nine Cyns & Other PP	(1,320)	(1,320)	<i>Consistent with 2018</i>
Net Surplus Energy Revenue	236,156	227,796	
2019-23 Business Plan	237,907		

Other Operating Revenue

(in 000's)	Prelim Budget 2019	Adopted Budget 2018	Variance
Transmission/Wheeling	10,323	9,962	<i>Cost based: Increase investments in operations/compliance</i>
Real Time Contract – Fixed	4,000	4,000	<i>Consistent with 2018 budget</i>
Real Time Contract – Variable	3,000	3,000	<i>Consistent with 2018 budget</i>
Environmental Attributes	899	676	<i>Higher expectations in 2019</i>
Service/Late Charges	366	368	<i>Consistent with 2018 budget</i>
Misc Other Items	5,252	3,123	<i>LT contract admin fees</i>
Other Operating Revenue	23,840	21,129	
2019-23 Business Plan	23,982		

2019 Major O&M Projects/Contracts



Rocky Reach Large Unit Repairs (C8-C11)

- RR C9 Turbine Repair ~\$2.0 million (~\$3.6M-2018)
- RR C10 Turbine Repair ~\$5.6 million (~\$0.7M-2018)
- RR C11 Turbine Repair ~\$0.7 million (~\$0.1M-2018)

Other Major Contract Activity

- Hatchery related contracts ~\$6.3 million
- Tree Trimming contract ~\$1.3 million
- Security/Guard contracts ~\$1.1 million

Operating Expense

(in 000's)	Prelim Budget 2019	Adopted Budget 2018	Variance
Hydro O&M	66,563	59,138	<i>Wireman/Tech shop focus on O&M projects in 2019</i>
Hydro Fish & Wildlife	16,325	16,751	<i>Consistent with 2018 Budget</i>
Hydro Parks & Recreation	7,497	7,715	<i>Slight reduction in major parks O&M projects</i>
Electric Distribution	16,300	15,398	<i>NESC Survey</i>
Electric Transmission	14,544	13,221	<i>Two dam independent operations</i>
Power Supply Mgmt	4,928	5,317	<i>Consistent with 2018 Budget</i>
Water/Wastewater O&M	3,174	3,102	<i>Consistent with 2018 Budget</i>
Fiber Network O&M	5,230	4,580	<i>Node HVAC replacement</i>

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Operating Expense

(in 000's)	Prelim Budget 2019	Adopted Budget 2018	Variance
Customer Accts & Svc	4,324	3,999	<i>CIS / Customer Service Admin</i>
Conservation	3,938	3,459	<i>Recognition of Investments</i>
Insurance	7,046	7,278	<i>Consistent with 2018 Budget</i>
FERC Fees	1,604	1,392	<i>Anticipate higher FERC fees</i>
Other Admin & General	34,451	32,496	<i>Anticipated decrease in position vacancy rate</i>
Total	185,924	173,846	
2019-23 Business Plan		187,330	

Non-Operating Activity

(in 000's)	Prelim Budget 2019	Adopted Budget 2018	Variance
Investment Earnings	13,573	9,249	<i>Higher cash balances & interest rates</i>
Contribution Income	4,515	4,364	<i>Consistent with 2018 Budget</i>
Interest Expense	(25,129)	(25,402)	<i>Lower debt balance offset by higher interest rate on variable debt</i>
Other Inc/(Exp)	(4,198)	(4,124)	<i>Consistent with 2018 Budget</i>
Total	(11,239)	(15,913)	
2019-23 Business Plan	(10,790)		

2019 Major Capital Projects

Rock Island Modernization



- B1-B4 ~\$20.0 million (Total Project ~\$68.0M)
- B5,B7 & B8 ~\$11.8 million (Total Project ~\$93.9M)
- RI PH2 U1-U8 Rehab ~\$10.5 million (Total Project ~\$11.5M)

2019 Major Capital Projects

RI Hydro Project Cranes



- RI PH2 Bridge ~\$2.8 million (*Total Project ~\$5.0M*)
- RI PH2 Gantry ~\$3.6 million (*Total Project ~\$5.8M*)



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2019 Major Capital Projects

Rock Island PH1 HVAC Upgrades

- ~\$1.1 million (*Total Project ~\$1.4M*)

Rocky Reach Reg Replace C1-C11

- ~\$0.9 million (*Total Project ~\$4.5M*)

Rocky Reach Gov Elec Replace C1-C11

- ~\$1.4 million (*Total Project ~\$5.2M*)

Rock Island Facilities Upgrade

- ~\$24.7 million (*Total Project ~\$33.9M*)

Rocky Reach Facilities Upgrade

- ~10.3 million (*Total Project ~\$41.5M*)



2019 Major Capital Projects

Customer Information System

- ~\$3.5 million (*Total Project ~\$7.9M*)

Peshastin Wastewater Upgrade

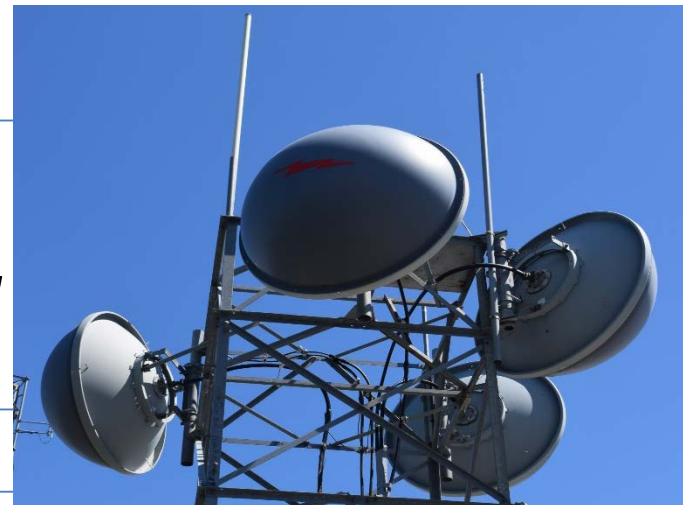
- ~\$3.6 million (*Total Project ~\$4.9M*)



2019 Major Capital Projects

Telecommunication Replacements/Upgrades

- Microwave ~\$0.9 million (*Total Project ~\$3.7M*)
- Land Mobile Radio Network ~\$1.6 million (*Total Project ~\$5.6M*)



Substations

- ~\$4.1 million (*Total Project ~\$9.2M*)
- (Ohme \$3.9M, Bavarian \$2.5M, Chelan \$2.8M)



Fiber Expansion (Public Power Benefit)

- ~\$2.3 million

Key “Total Capital Project” Revisions* (Existing Projects)

(in 000’s)	Current	Revised	Change	Major Driver
Operations and Service Center	2,600	129,200*	126,600*	<i>Included for planning purposes only—no decision has been made</i>
RI Facilities Upgrade	32,693	33,895	1,202	<i>Design completed</i>
Greater McNeil Canyon	500	14,000	13,500	<i>Project being initiated</i>
RI PH2 U1-U8 Rehab	1,800	11,500	9,700	<i>Design development / contractor selection</i>
RI PH2 Gantry Crane	2,574	5,760	3,186	<i>Project scope change</i>
RI PH2 Bridge Crane	2,909	4,960	2,051	<i>Project scope change</i>
Ohme Substation	2,000	3,922	1,922	<i>Project scope change</i>
Feeder Addition- South Shore	170	1,720	1,550	<i>Project being initiated</i>

* - For next Board presentation, will reduce total project cost to reflect preliminary property and design costs only through 2019.

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

11/7/2018

Key “Total Capital Project” Revisions* (New Projects)

(in 000’s)	Current	Revised	Change	Major Driver
Chelan Hatchery Rehab	---	5,570	5,570	<i>Project being initiated</i>
Critical Transformer Replacements	---	4,500	4,500	<i>Project being initiated</i>
Fiber Portal Replacement	---	1,500	1,500	<i>Project being initiated</i>
Advanced Metering Infr (AMI)	---	1,500	1,500	<i>Project being initiated</i>
RI PH2 Station Drainage Mod	---	1,185	1,185	<i>Project being initiated</i>

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

11/7/2018

Capital Expenditures

(in 000's)	Prelim Budget 2019	Adopted Budget 2018	\$ Change	Major Project Focus
Electric Distribution	21,881	14,293	7,588	Line upgrades, substation investments, customer work
Electric Transmission	4,128	2,929	1,199	McNeil Canyon, Breaker work, Mid C Transmission
Rocky Reach Hydro	6,355	8,491	(2,136)	Unit controls governor, Exciting reg. replacement
Rock Island Hydro	73,265	83,398	(10,133)	Powerhouse 1 modernization, cranes, governor controls
Lake Chelan Hydro	111	1,404	(1,293)	Log boom and dock replace (parks)
Corporate/Shared Assets	34,681	21,047	13,634	LMR, microwave, CIS, shared facility upgrades
Integrated Electric	140,421	131,562	8,859	

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Capital Expenditures

(in 000's)	Prelim Budget 2019	Adopted Budget 2018	\$ Change	Major Project Focus
Fiber	7,430	5,547	1,883	Portal replacement, Public Power Benefit (PPB) expansion & upgrades
Water	1,026	1,236	(210)	Wenatchee Heights tank replacement
Wastewater	3,462	1,339	2,123	Peshastin system upgrades
Total Capital	152,339	139,684	12,655	
Less: Contributions	(3,946)	(3,794)	(152)	Capital Paid By Others
Regulatory Assets & Other	4,737	4,537	200	Conservation / Lic. Obligations
Net Capital & Reg. Assets	153,130	140,427		
2019-23 Business Plan	153,807			

New Positions

Technology/Innovation

(2 positions)

- 1 AMI Project Manager
- 1 Mobile Technology Program Manger

Construction/Project Management

(5 positions)

- 2 Limited Assignment Construction Managers
- 1 Limited Assignment of Contractor Safety Program Manager
- 1 Strategic Planning Program Manager
- 1 Transmission Planning Engineer

New Positions

Re-Invest/Service Levels

(8 positions)

- 1 Communications Lineman
- 2 Wiremen
- 2 Clearance Operator
- 1 CM Electrical Superintendent
- 1 District Safety/Health Coordinator
- 1 Construction Manager

2 Dam Independent Operations

(5 position)

- 4 System Operators
(approved by Board, July 23, 2018)
- 1 Programmer

Total New Positions above	20
Offset: Succession Planning (attrition/exchanges)	<u>(8)</u>
Net New Positions (Headcount)	12
<i>(consistent with business plan)</i>	

2018 & 2019 Market Pay Trends

- Salary increase forecast for 2019 are higher than 2018
- Wages in the Utility/Energy industry are outpacing General Industry by 0.1% per year

2019 Projected Pay Increases

Industry	Min – Max	Average
All Industry	3.0% - 3.4%	3.2%
Utility/Energy	3.2% - 3.3%	3.3%

2019 Pay Increase Budget

➤ Labor - Non-Bargaining Unit (assumptions)

- Pay Increase Budget
 - 2.80% Merit Budget
 - 0.50% Market Adjustments
- 0.50% Promotions
- 0.55% Structural/Other Adjustments

NOTE: Assumptions are based on current market trends and will be subject to further data validation and review before the pay increase pool is determined.

➤ Labor - Bargaining Unit (per collective bargaining agreement)

- General Wage Increase of 3% effective April 1, 2019
- Step increase ; dual ratings



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Key Employer Benefit Costs

(000's)	2019 Preliminary Budget	2018 Budget	\$ Change	% Change
Medical Benefits	15,451	14,727	724	4.9%
HRA VEBA Contribution	705	-	705	n/a
Retirement:				
PERS	10,799	9,856	943	9.6%
401(a)	2,451	2,347	104	4.4%
TOTAL:	\$29,406	\$26,930	\$2,476	9.2 %

Combined District Expenditures

(in 000's)	Preliminary 2019 Budget	Adopted 2018 Budget	%
Operating Expense	185,924	173,846	107%
Tax Expense	8,584	7,986	107%
Non-Operating Exp/(Inc)	15,754	20,276	78%
Net Capital & Reg Assets *	153,807	140,427	110%
Total Expenditures	364,069	342,535	106%

Net Debt Reduction (principal payments less new 2019 Wastewater loan)	38,477	23,644	163%
Total Expenditures & Net Debt Reduction	402,546	366,179	110%

Primary Driver of Increase: Significant volume of work at the Hydros

Combined Financial Policies

2019 Preliminary Budget

	Financial Liquidity	Combined Cover	Debt Ratio	Days Cash on Hand	Rate of Return ¹
Base Case – expected <i>Target</i>	\$414M <i>> \$184M</i>	2.91 <i>> 2.0x</i>	30.7% <i>< 35% in 2019</i>	596 <i>> 250</i>	6.3% <i>> 4%</i>
Base Case – unusual <i>Target</i>	\$406M <i>> \$184M</i>	2.79 <i>> 1.25x</i>	30.9% <i>< 35% in 2019</i>	586 <i>> 250</i>	5.8% <i>> 2%</i>

¹ - Associated with an expected bottom line of approximately \$78 million

On track



Business Line Financial Policies

2019 Preliminary Budget

	Operating Expense Coverage	Cash Reserves	Debt Ratio
Fiber & Telecom <i>Target</i>	146% <i>>120%</i>	\$11.2 M <i>\$2 M</i>	---% <i>< 35%</i>
Water <i>Target</i>	134% <i>>120%</i>	\$4.4 M <i>\$1.25 M</i>	9.1% <i>< 35%</i>
Wastewater <i>Target</i>	86% <i>> 100% by 2019</i>	\$3.2M <i>\$200 K</i>	22.6% <i>< 35%</i>

Financial Policy not met. Action plan is to address this through upcoming strategic planning process.

Business Line Financial Policies

2019 Preliminary Budget

“Test” Metrics

Monitoring during test period

	Retail Total Cost Ratio	Retail OM&T Cost Ratio	Retail Support Limit	Market Based Margin Limit
Integrated Electric <i>Target</i>	67% <i>> 65%</i>	86% <i>> 90%</i>	\$26.9M <i>< \$25.6M</i>	\$45.5M <i>< \$25.0M</i>

“Test” Metrics indicating that our electric revenues may not be keeping up with our costs as we continue to make significant investments in our assets.

NOTE: The metrics may be changed in the future as we continue to learn more by using them.

Strategic Plan Goals

Reinvest in core assets and people

Expands our capacity to create value

✓ Debt ratio target achieved 1 year early

Continue debt reduction efforts

Leads to financial flexibility and resilience

Continue Public Power Benefit Program

Enhances the quality of life in our county

Budget Next Steps

Review

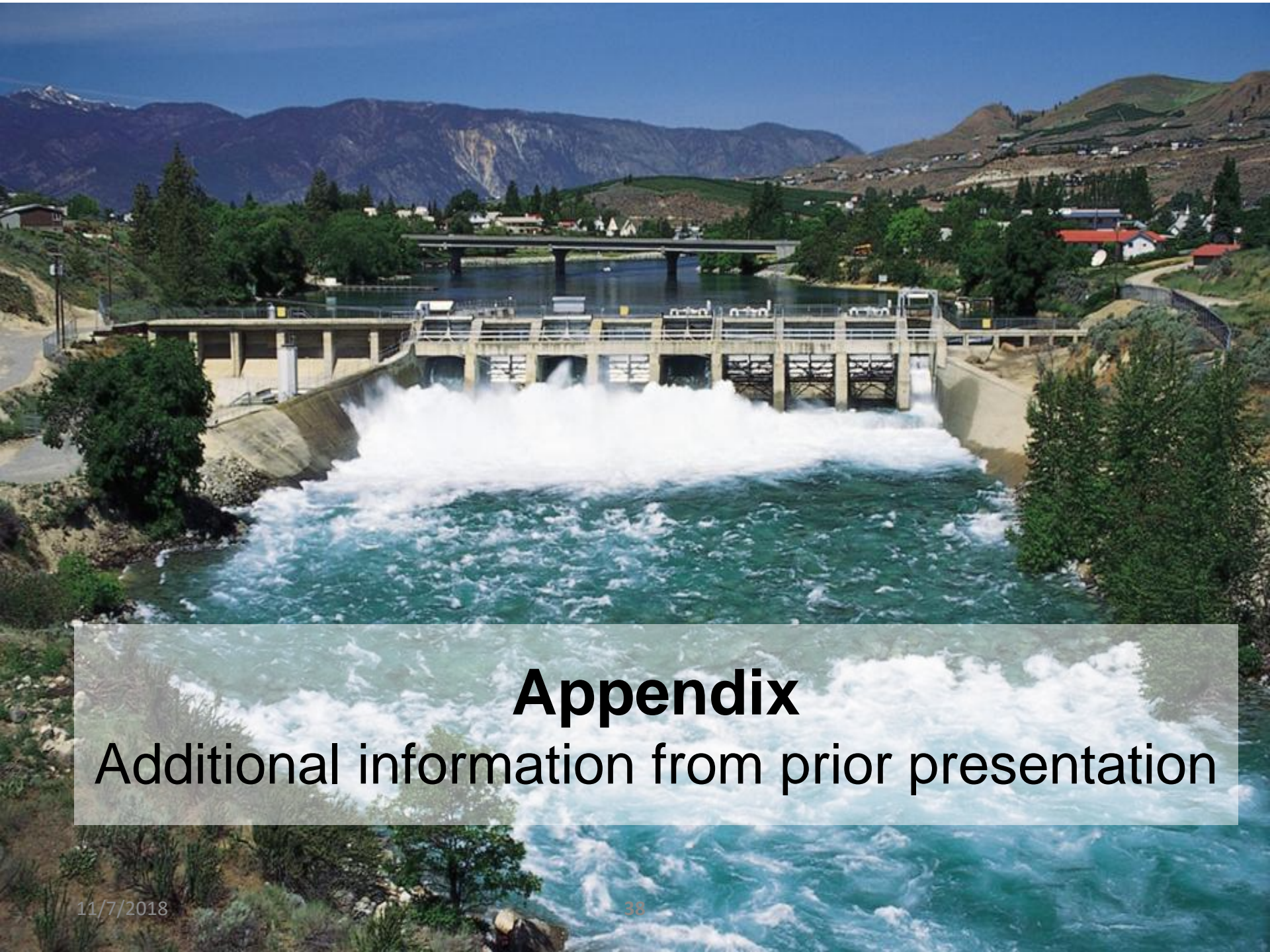
- Continued review and adjustments in November

Discuss

- 2nd Budget Hearing November 19th

Approve

- Requesting Board Approval on December 3rd



Appendix

Additional information from prior presentation

2019 District Initiatives

Reinvest in core assets and people

- Continue Rocky Reach large unit repairs (C8 Kaplan and all C8-C11 windings already completed)
- Continue Rock Island PH1 refurbishment
- Customer Information System implemented and advanced two-way metering project initiated
- 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 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 new cryptocurrency rate
- Influence market development to value Pacific Northwest hydropower
- Implement long-term planning strategies for facilities

2019 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 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

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

- ~4.5% Electric (net of conservation)
 - ~2.0% Retail Electric organic growth
 - ~60% HDL growth
- ~2% Water
- ~1.5% Wastewater
- ~1,100 New Fiber installations (~750 current service territory, ~350 PPB)

Business Line Service Revenues

- No electric rate increase
- 2% increase in Water rates
- 5% Increase in Wastewater rates
- Reflects most current Fiber rate structure

Key Budget Assumptions

Labor Bargaining Unit

- General Wage Increase of 3% effective April 1, 2019 per Collective Bargaining Agreement

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%

Key Budget Assumptions

Capital & Operating Expenditures

- Driven by 2019-23 business plans
- 2019 expenditures are a planned peak with continuance of RI Modernization, RR large unit repairs, CIS implementation and Strategic Facilities Planning as key drivers

Debt and Interest Income

- Net debt reduction of ~\$41 million
- Interest earnings estimated at ~2.4%

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 2019, if needed