



2020 Preliminary Budget

Nov. 4, 2019

What we will cover today...

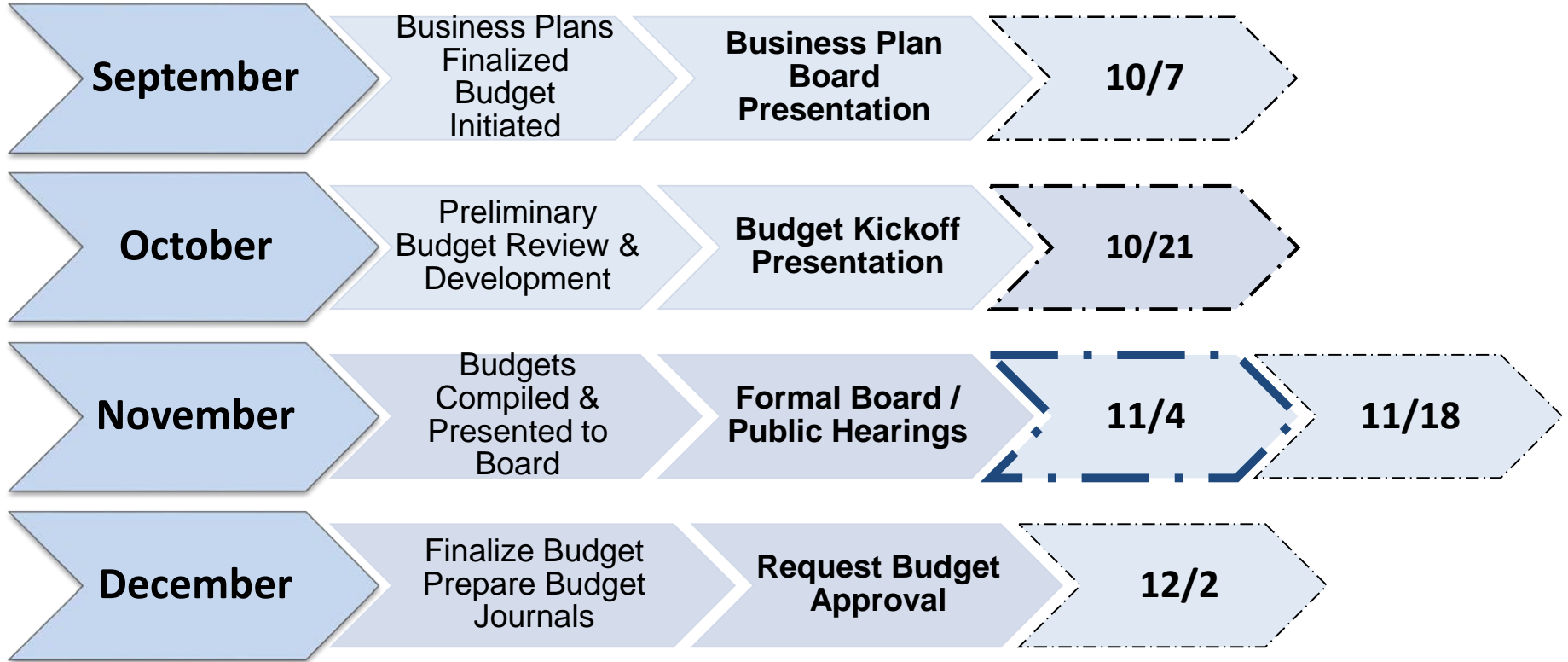
Timeline

**Initial Results &
Highlights**

Next Steps

No Board Action Required

Budget Timeline



Indicates Board Meetings

Strategic Focus

The 2020 Budget is built around strategic initiatives and business plans presented on October 7th

The foundation of our strategic initiatives and budget is at the top of our balanced scorecard: Customer-Owner Satisfaction

District initiatives identified to accomplish the four strategic plan goals

Board resolution requires budget cycle to include both an annual budget and five-year financial plan compliant with District financial policies

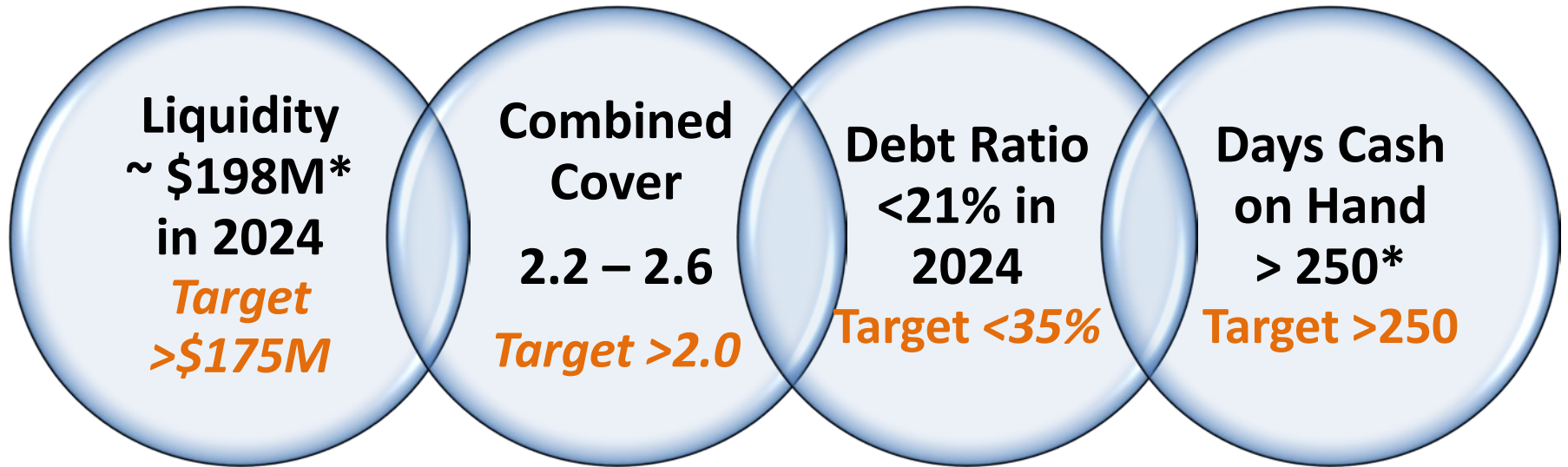
Five-Year Financial Plan 2020-2024

(in 000's)	Prelim Budget 2020	Forecast 2021*	Forecast 2022*	Forecast 2023*	Forecast 2024*
Service Revenue	89,923	96,992	104,803	108,281	94,677
Net Surplus Energy Revenue	216,788	211,912	206,391	217,111	239,243
Other Operating Revenue	24,148	20,939	21,327	22,006	22,808
Operating Expense	(207,756)	(214,250)	(203,531)	(206,308)	(207,575)
Depreciation & Tax Exp	(57,737)	(63,717)	(70,972)	(75,440)	(76,595)
Net Operating Income	65,367	51,877	58,018	65,651	72,557
Non-Operating Activity	(8,071)	(10,727)	(12,647)	(12,796)	(11,261)
Combined "Bottom-Line"	57,296	41,149	45,370	52,855	61,296
2020-2024 Business Plan	56,363	41,149	45,370	52,855	61,296
Last Year's Budget Adoption	54,176	51,226	49,957	46,702	52,381

➤ **5-Year results are slightly better than 2020-2024 Business Plan and 2019 Budget**

*Forecast as of Q3-2019

2020-2024 Plans Meet District 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 target is the greater of \$175M or methodology calculation - approx. \$198M in 2024 (September 2019 forecast)

Combined Financials 2020

(in 000's)	Prelim Budget 2020	Adopted Budget 2019	\$ Change	% Change
Service Revenue	89,923	69,512	20,411	29.4%
Net Surplus Energy Revenue	216,788	234,578	(17,789)	(7.6%)
Other Operating Revenue	24,148	23,840	308	1.3%
Operating Expense	(207,756)	(186,233)	21,523	11.6%
Depreciation & Tax Expense	(57,737)	(53,321)	4,416	8.3%
Net Operating Income	65,367	88,376	(23,009)	(26.0%)
Non-Operating Activity	(8,071)	(11,195)	(3,125)	(27.9%)
"Bottom-Line"	57,296	77,181	(19,885)	(25.8%)
2020-24 Business Plan	56,363			

Service Revenue

(in 000's)	Prelim Budget 2020	Adopted Budget 2019	Variance
Residential Electric	27,384	27,785	<i>Growth from current 2019 forecasted usage offsetting impacts from energy conservation efforts</i> <i>Microsoft off-system end use sale shifts revenue from wholesale to service revenue</i> <i>Growth impacts from High Density Loads</i> <i>No rate increase included in 2020 (Strategic Plan designated rate increases included in 2021 to be conservative for financial results)</i>
Commercial Electric	17,114	17,322	
Industrial Electric	5,309	5,101	
Off-System end use	18,796	-	
HDL Electric / Crypto	5,426	3,681	
Other Electric	1,607	1,547	
Electric Service	75,637	55,435	
Water Service	6,302	6,162	<i>~2% growth / 0% rate adjust 2020</i>
Wastewater Service	744	725	<i>~1.5% growth / 0% rate adjust 2020</i>
Fiber & Telecom	7,241	7,190	<i>~1% growth / 0% rate adjust 2020</i>
Service Revenue	89,923	69,512	
2020-24 Business Plan	89,923		

Net Surplus Energy Revenue

(in 000's)	Prelim Budget 2020	Adopted Budget 2019	Variance
Slice Contracts	70,523	70,241	<i>Consistent with 2019</i>
Block/Pre Sched/Real Time	3,950	31,361	<i>Less available to market due to off-system end use</i>
EP&T Net Wholesale	74,473	101,602	
LT Hydro Contracts	143,635	134,296	<i>Cost-based plus: higher operating costs and increased charges</i>
Less: Nine Cyns & Other PP	(1,320)	(1,320)	<i>Consistent with 2019</i>
Net Surplus Energy Revenue	216,788	234,578	
<i>2020-24 Business Plan</i>	<i>216,486</i>		

Other Operating Revenue

(in 000's)	Prelim Budget 2020	Adopted Budget 2019	Variance
Transmission/Wheeling	11,277	10,323	<i>Cost based: Increase investments in operations/compliance</i>
Real Time Contract – Fixed	4,000	4,000	<i>Consistent with 2019 budget</i>
Real Time Contract – Variable	3,000	3,000	<i>Consistent with 2019 budget</i>
Service/Late Charges	319	366	<i>Consistent with 2019 budget</i>
Misc Other Items	5,552	6,151	<i>LT contract admin fees</i>
Other Operating Revenue	24,148	23,840	
2020-24 Business Plan	23,643		

Major O&M Activities

RR large unit repairs \$9.5M (C10 & C11)



Hatcheries \$6.7M



Tree Trimming \$2.1M



Security Guard \$1.1M



Operating Expense

(in 000's)	Prelim Budget 2020	Adopted Budget 2019	Variance
Hydro O&M	73,169	66,605	<i>Continuing large unit repair Insurance proceeds offset in 2019</i>
Hydro Fish & Wildlife	18,675	16,212	<i>Hatchery Operational Contracts (Primarily Eastbank) Rock Island Fishway work</i>
Hydro Parks & Recreation	10,371	7,493	<i>Discovery Center Maintenance</i>
Electric Distribution	18,180	16,290	<i>Tree Trimming Contracts Inspection Lineman / 4 New Crew Linemen</i>
Electric Transmission	14,258	14,458	<i>Consistent with 2019 Budget</i>
Power Supply Mgmt	5,291	4,933	<i>Consistent with 2019 Budget</i>
Water/Wastewater O&M	3,696	3,191	<i>Water Safety Fall Restraint/Regulation</i>
Fiber Network O&M	5,264	5,228	<i>Consistent with 2019 Budget</i>

Continued on next slide

Operating Expense

(in 000's)	Prelim Budget 2020	Adopted Budget 2019	<i>Variance</i>
Customer Accts & Svc	4,775	3,807	<i>Customer relations / CIS support</i>
Conservation	4,890	4,452	<i>Recognition of investments</i>
Insurance	8,391	6,868	<i>Anticipated property and liability insurance premium increases</i>
FERC Fees	1,462	1,604	<i>Actual fees lower in 2019</i>
Other Admin & General	39,334	35,091	<i>Information technology support / licensing / maint. O&M labor shift from other activities above (tech shop)</i>
Total	207,756	186,233	
2020-24 Business Plan	207,003		

Non-Operating Activity

(in 000's)	Prelim Budget 2020	Adopted Budget 2019	Variance
Investment Earnings	14,880	13,712	<i>Higher cash balances & interest rates</i>
Contribution Income	4,208	5,057	<i>Lower HDL/Crypto growth related contributions</i>
Interest Expense	(22,844)	(24,990)	<i>Lower debt balance</i>
Other Inc/(Exp)	(4,314)	(4,975)	<i>Consistent with 2019 Budget</i>
Net expense	(8,071)	(11,195)	
2020-24 Business Plan	(8,080)		

2020 Major Capital Projects

Rock Island – Major Driver



RI Modernization

- RI B1-B4 ~\$17 million (Total Project ~\$75M)
- B5, B7 & B8 ~\$6 million (Total Project ~\$95M)
- RI PH2 U1-U8 Rehab ~\$10 million (Total Project ~\$12M)



RI Cranes

- RI PH2 Bridge ~\$5.5 million (Total Project ~\$13.4M)
- RI PH2 Gantry ~\$5.2 million (Total Project ~\$9.1M)

2020 Major Capital Projects

Rock Island PH1 HVAC Upgrades

- ~\$2.2 million (*Total Project ~\$2.4M*)

Rocky Reach HVAC system

- ~\$2.6 million (*Total Project ~\$2.6M*)

RR Head gates Stop log Dewatering pumps

- ~\$1.5 million (*Total Project ~\$1.5M*)

Rock Island Facilities Upgrade

- ~\$21.8 million (*Total Project ~\$33.9M*)

Rocky Reach Facilities Upgrade

- ~20.8 million (*Total Project ~\$41.5M*)



2020 Major Capital Projects

Substations

- ~\$14.8 million (*Total Project ~\$22.8M*)
- (Ohme \$4.6M, Bavarian \$0.1M, Chelan \$1.9M, Wenatchee \$2.4M, Mobile \$5.6M)



Operations and Service Center

- ~\$18.0 million (*Total Project ~\$135.0M*)



Telecommunication Replacements/Upgrades

- Network Core Upgrade ~\$0.8 million (*Total Project ~\$1.2M*)

Fiber Expansion (Public Power Benefit)

- ~\$2.5 million



Capital Expenditures

(in 000's)	Prelim Budget 2020	Adopted Budget 2019	\$ Change	Major Project Focus
Electric Distribution	33,244	21,885	11,359	Substation investments, AMI
Electric Transmission	8,524	3,987	4,537	McNeil Canyon, Mid C Transmission
Rocky Reach Hydro	10,829	6,011	4,818	HVAC, Head gates / Stop log dewatering pumps, C1-C11 Unit Controls Governor
Rock Island Hydro	58,220	71,590	(13,370)	Powerhouse 1 modernization, cranes, governor controls
Lake Chelan Hydro	962	111	851	Log boom and dock replacement (parks)
Corporate/Shared Assets	33,550	34,745	(1,195)	Shared facility upgrades, CIS upgrade
Integrated Electric	145,329	138,329	7,000	

Continued on next slide

Capital Expenditures

(in 000's)	Prelim Budget 2020	Adopted Budget 2019	\$ Change	Major Project Focus
Fiber	5,352	7,273	(1,921)	Portal replacement 2019, Public Power Benefit (PPB) expansion & upgrades
Water	791	1,068	(277)	Wenatchee Heights tank replacement
Wastewater	161	3,462	(3,301)	Peshastin system upgrades
Total Capital	151,633	150,132	1,501	
Less: Contributions	(3,752)	(4,488)	736	Capital Paid By Others
Fiber Make Ready Offset	(2,300)	----	(2,300)	Make ready costs: Intersystem
Regulatory Assets & Other	5,998	4,737	1,261	Conservation / Lic. Obligations
Net Capital & Reg. Assets	151,579	150,382		
2020-24 Business Plan	151,579			

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

(in 000's)	Current	Revised	Change	Major Driver
RI PH#1 HVAC Upgrades	1,408	2,410	1,002	<i>Bid higher than original estimate</i>
RI Spillway Hoist 17,25 Replace	1,400	2,980	1,580	<i>Updated estimate based on preferred option</i>
RI PH2 Gantry Crane	5,760	9,100	3,340	<i>Bid higher than original estimate</i>
RI PH2 Bridge Crane	4,960	13,390	8,430	<i>Purchasing 2 instead of 1</i>
RI PH1 B1 Modernization	15,415	17,796	2,381	<i>Schedule delays</i>
RI PH1 B2 Modernization	16,450	18,595	2,145	<i>Schedule delays</i>
RI PH1 B3 Modernization	16,275	17,604	1,329	<i>Schedule delays</i>
RI PH1 B4 Modernization	19,900	21,108	1,208	<i>Schedule delays</i>
Goodwin Bridge Line Relocate	200	2,150	1,950	<i>Design completed</i>
Ohme Substation	3,700	5,929	2,229	<i>Design change to double bank</i>

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

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

(in 000's)	Current	Revised	Change	Major Driver
RR: Head gates stop log dewatering pumps	---	1,500	1,500	<i>Project being initiated</i>
System Ops: Back Up Control Center	---	2,000	2,000	<i>Project being initiated</i>
Transmission: Interconnect Bavarian Sub	---	2,275	2,275	<i>Project being initiated</i>
RR Powerhouse HVAC	---	2,570	2,570	<i>Project being initiated</i>
Distribution Management System (ADMS)	---	4,160	4,160	<i>Project being initiated</i>
Chelan-Manson T-line rebuild	---	5,000	5,000	<i>Project being initiated</i>
Chelan Hatchery Wellfield Rehab	---	2,714	2,714	<i>Project being initiated</i>
Wenatchee Substation Capacity increase	---	4,720	4,720	<i>Project being initiated</i>
Fiber/Telecom: Network Core Upgrade	---	1,155	1,155	<i>Project being initiated</i>

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

New Positions

(consistent with Business Plan)

Customer Service

(7 positions)

- Large Retail Load Manager
- Fiber Customer Service Administrator
- Water Journeyman
- Data Analyst – Conservation
(tentative)
- Customer Utilities Admin Assistant
- Real Estate Services Specialist
(limited assignment)
- Utility Clerk-Chelan/Leavenworth
(limited assignment)

Distribution Reliability

(7 positions)

- Engineering Operations Manager
- Forester
- Inspection Lineman
- 4 New Crew Lineman

New Positions

(consistent with Business Plan)

Technology

(4 positions)

- Fiber Cybersecurity Administrator
- Technical GIS Analyst
- Functional GIS Analyst
- Technology Project Manager

Hydro Capability

(1 position)

- Dam Safety/Civil Engineer

New Positions

(consistent with Business Plan)

Safety

(1 position)

- Safety Coordinator

Internal Support

(5 positions)

- PCS Contract Specialist
- Engineering student (2 part-time)
- HR and Payroll Support (limited assignment)
- Learning and Development Program Manager (limited assignment)
- Safety Director (established in 2019: new to 2020 Budget)

Total - 25

Combined District Expenditures

(in 000's)	Preliminary 2020 Budget	Adopted 2019 Budget	%
Operating Expense	207,756	186,233	11.6%
Tax Expense	10,785	8,584	25.6%
Non-Operating Exp/(Inc): excludes CIAC	12,278	16,252	(24.5%)
Net Capital & Reg Assets	151,579	150,382	0.8%
Total Expenditures	382,398	361,450	5.8%
Net Debt Principal Payments	39,062	38,477	1.5%
Total Expenditures & Net Debt Reduction	421,460	399,927	5.4%

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

Combined Financial Policies 2020 Preliminary Budget

	Financial Liquidity	Combined Cover	Debt Ratio	Days Cash on Hand
Base Case – expected <i>Target</i>	\$411M <i>> \$198M</i>	2.49 <i>> 2.0x</i>	27.2% <i>< 35%</i>	484 <i>> 250</i>
Base Case – unusual <i>Target</i>	\$402M <i>> \$198M</i>	2.35 <i>> 1.25x</i>	27.4% <i>< 35%</i>	472 <i>> 250</i>



On track

Business Line Financial Policies

2020 Preliminary Budget

	Operating Exp. Coverage	Cash Reserves (unrestricted)	Debt Ratio
Fiber & Telecom <i>Target</i>	103% >120%	\$13.0 M \$2 M	---% < 35%
Water <i>Target</i>	118% >120%	\$3.6 M \$1.25 M	9.5% < 35%
Wastewater <i>Target</i>	82% > 100%	\$0.4M \$200 K	2.9% < 35%

	Retail Total Cost Ratio	Retail OM&T Cost Ratio	Retail Support Limit	Market Based Margin Limit
Integrated Electric <i>Target</i>	Metrics under review. New metrics to be proposed in 2020			

Financial Policy not met. Action plan is to implement actions recently adopted in the 2020-2024 Strategic Plan.

Budget Next Steps

Review

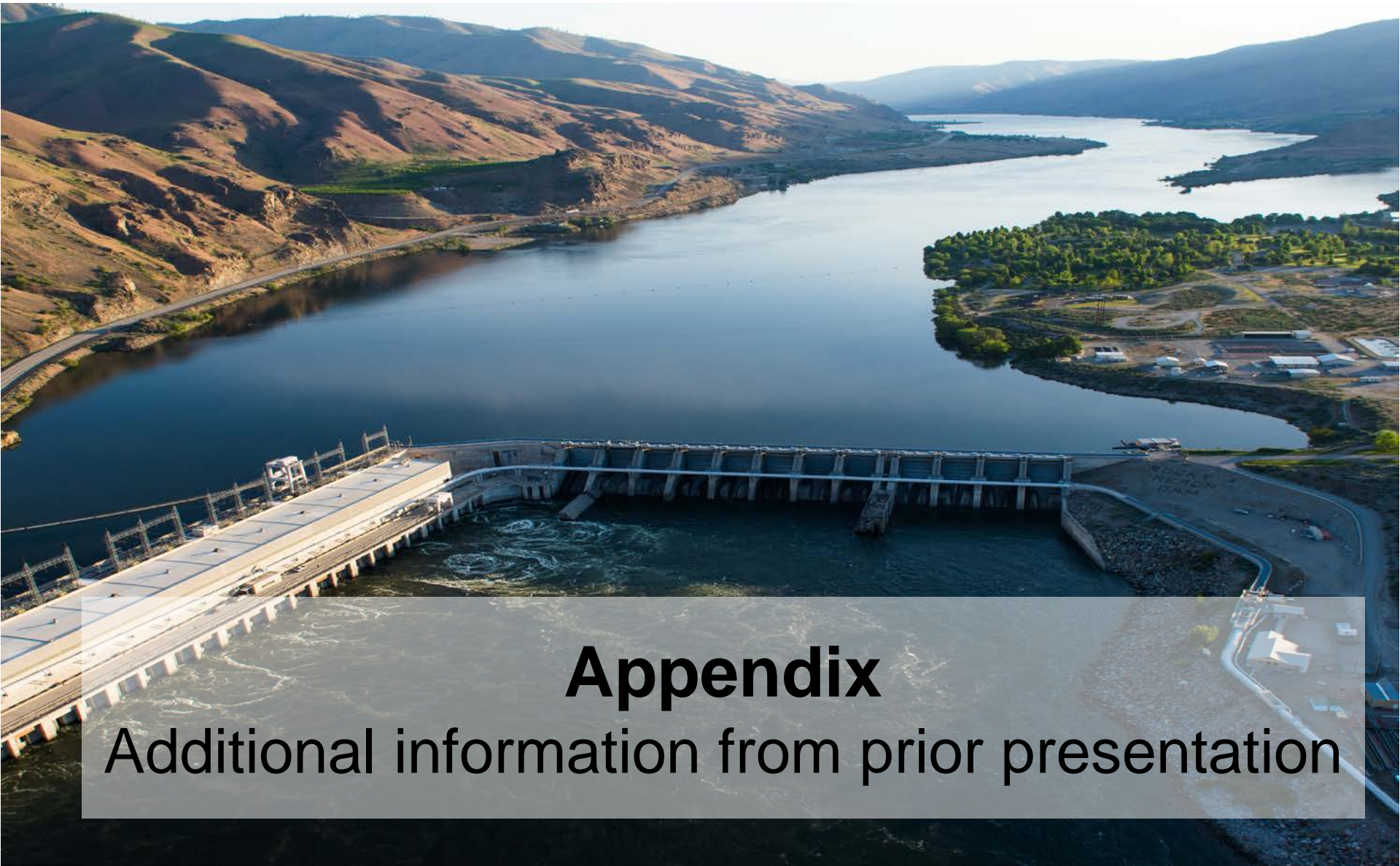
- Continued review and adjustments in Nov.

Discuss

- 2nd Budget Hearing Nov. 18

Approve

- Requesting Board Approval on Dec. 2



Appendix

Additional information from prior presentation

Strategic Plan Goals

1

Invest in assets and people and seek industry top-quartile performance for hydro generation, retail reliability, and safety while improving our customer service technology

2

Sustain excellent financial resiliency while mitigating the risk of large rate increases

3

Enhance the quality of life in Chelan County through programs that distribute the benefits of public power

4

Engage in countywide growth planning and job creation efforts while ensuring the District's rates and policies remain stable and predictable

Key Budget Assumptions

Wholesale Revenue

- Average water, current forward energy and carbon price curves
- Hedge program fully implemented and continuing
- Includes unit outage impacts
- Consistent hydro fish spill in accordance with requirements

System Load Growth

- 3.9% Electric (~8 aMW total net of conservation, ~5.5 aMW HDL)
- 0.7% Retail Electric organic growth
- 2% Water, 1.5% Wastewater
- 1,100 New Fiber Installs (750 current service territory, 350 PPB)

Business Line Service Revenues

- Business line rate increases included for 2020-2024 in the Strategic Plan
- For conservative revenue forecasting, annual rate increases for all business lines estimated to begin Jan. 1, 2021 (actual effective dates still to be determined)
 - 3% Electric, 4% Water, 4% Wastewater and 3% Fiber
 - Includes estimated \$1.5M PPB for the Dryden Wastewater treatment project

Key Budget Assumptions

Labor Bargaining Unit

- General Wage Increase of 3% effective April 1, 2020 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
- Employer medical, VEBA and retirement benefits for both bargaining and non-bargaining blended to about a 1.6% increase

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 2020-2024 business plans
- 2020 expenditures include continuance of RI modernization, RR large unit repairs, distribution infrastructure, and facilities (Service Center, RR, RI) as key drivers

Debt & Interest Income

- Net scheduled principal payments of \$39 million
- Interest earnings estimated at 2.61%

Public Power Benefit Investments

- Includes continuation of fiber expansion, Board selected projects & designated funding level
- Budget revisions will be processed as new projects are designated