



CHELAN COUNTY

2018 Preliminary Budget

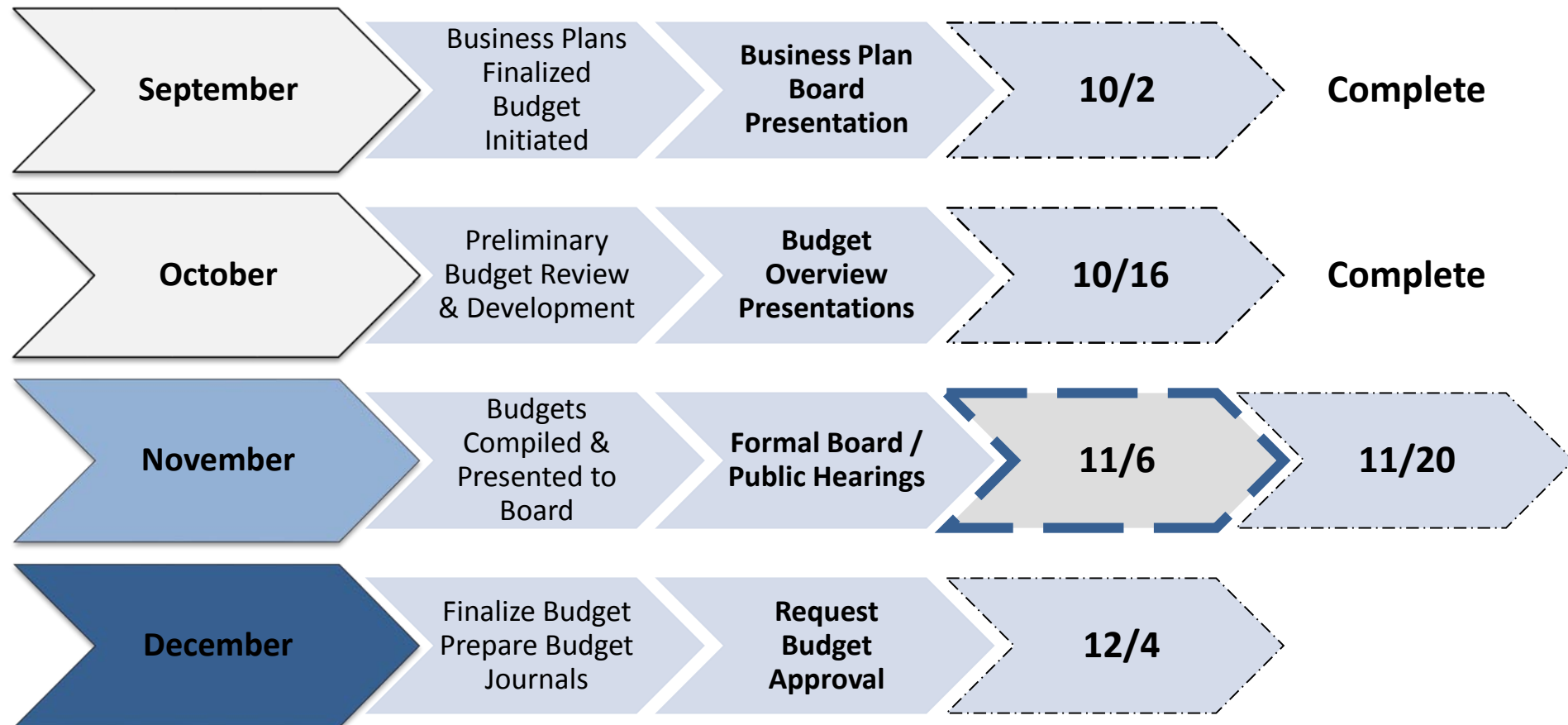
NOVEMBER 6, 2017

What we will cover today...



- *No Board Action Required Today*
- *Strategic Facilities Plan not reflected in this presentation – will be included next meeting*

2018 Budget Timeline



Indicates Board Meetings

2018 Strategic Focus

The 2018 Budget will be built around strategic initiatives and business plans presented October 2nd

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

Strategic Plan Goals

Reinvest in core assets and people
Enhances our capacity to create
value

Continue debt reduction efforts
Leads to financial flexibility and
resilience

Continue Public Power Benefit Program
Enhances the quality of life in our
county

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 6, 2017	101.3	71.5	64.3	52.3	48.8	43.2	338.2
<i>Change since last year</i>	15.9	5.3	7.7	3.5	2.6		35.0

➤ ~\$35 million forecast improvement for period 2017-2021

- Revenue up ~\$30 million – increase cost plus contracts revenue a key driver
- Expenses down ~\$5 million – operating costs are up, but offset by increasing interest earnings and reduced depreciation. Overall, continuing to decrease risks through investments in assets, compliance and customer satisfaction

Does not include impacts of Strategic Facilities Plan

**Forecast as of Q3-2017*

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 6, 2017	393.7	297.8	237.6	238.4	221.4	190.7
<i>Change since last year</i>	<i>40.8</i>	<i>16.6</i>	<i>11.3</i>	<i>16.0</i>	<i>(0.5)</i>	

- Projected 2021 balance has decreased ~\$0.5M since last year's forecast for 2017-2021 primarily due to:
- Bottom-Line forecast up ~\$35M (2017-21)
 - Capital spending up ~\$40M (2017-21)

Does not include impacts of Strategic Facilities Plan

**Forecast as of Q3-2017*

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*
Budget Adoption, Dec-2016	537.2	452.4	368.6	332.4	306.2	
Prelim Budget, Nov 6, 2017	537.2	452.4	367.7	331.5	306.0	266.7
<i>Change since last year</i>	---	---	(0.9)	(0.9)	(0.2)	

- Planned debt reduction of ~ \$85 million for 2018, ~\$271 million 2018-2022
 - ~\$61 million of ~\$85 million for 2018 is optional
 - ~\$61 million of ~\$86 million for 2019 also optional
 - We will be back on November 20th to discuss further
- Projected to achieve debt ratio of less than 35% by 2019
- Change since last year primarily due to refining payment dates to improve year-end debt coverage and capture net interest savings

Does not include impacts of Strategic Facilities Plan

**Forecast as of Q3-2017*

Combined Financials 2018-22

(in 000's)	Prelim Budget 2018	Forecast 2019*	Forecast 2020*	Forecast 2021*	Forecast 2022*
Service Revenue	64,721	66,859	68,996	70,944	72,245
Net Surplus Energy Revenue	227,884	222,776	208,349	198,368	199,240
Other Operating Revenue	21,129	24,680	26,456	27,599	27,094
Operating Expense	(173,683)	(177,622)	(178,262)	(175,048)	(180,357)
Depreciation & Tax Exp	(51,960)	(57,871)	(61,747)	(63,699)	(67,001)
Operating Income / (Loss)	88,091	78,822	63,792	58,164	51,221
Non-Operating Activity	(16,573)	(14,496)	(11,487)	(9,319)	(8,041)
Combined "Bottom-Line"	71,518	64,326	52,305	48,845	43,180
2018-22 Business Plan	70,244	64,326	52,305	48,845	43,180

Does not include impacts of Strategic Facilities Plan

****Forecast as of Q3-2017***

11/2/2017

Combined Financial Results

(in 000's)	Prelim Budget 2018	Adopted Budget 2017	\$ Change	% Change
Service Revenue	64,721	63,168	1,553	2.4%
Net Surplus Energy Revenue	227,884	237,390	(9,506)	(4.0%)
Other Operating Revenue	21,129	20,886	243	1.1%
Operating Expense	(173,683)	(162,178)	(11,505)	7.1%
Depreciation & Tax Expense	(51,960)	(56,140)	4,180	(7.4%)
Operating Income	88,091	103,126	(15,035)	(14.6)%
Non-Operating Activity	(16,573)	(17,770)	1,197	(6.7%)
"Bottom-Line"	71,518	85,356	(13,838)	(16.2%)
2018-22 Business Plan	70,244			

Does not include impacts of Strategic Facilities Plan

11/2/2017

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> <i>Growth impacts from High Density Loads</i> <i>No rate increase included Last general electric rate increase: 2012</i>
Commercial Electric	16,611	16,600	
Industrial Electric	4,392	4,453	
HDL Electric	2,332	1,802	
Other Electric	1,814	1,739	
Electric Service	50,735	50,173	
Water Service	6,038	5,655	<i>Modest growth / 2% rate adjust</i>
Wastewater Service	700	668	<i>Modest growth / 5% rate adjust</i>
Fiber & Telecom	7,248	6,672	<i>"System Expansion" impacts</i>
Service Revenue	64,721	63,168	
2018-22 Business Plan	64,724		

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	32,816	35,071	<i>Lower wholesale market</i>
EP&T Net Wholesale	107,965	114,138	
LT Hydro Contracts	121,239	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>
Net Surplus Energy Revenue	227,884	237,390	
2018-22 Business Plan	228,173		

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>
Other Operating Revenue	21,129	20,886	
2018-22 Business Plan	22,518		

2018 Major O&M Projects/Contracts



Rocky Reach Large Unit Repairs (C8-C11)

- Stator Repairs ~\$0.1 million (~\$5.1M-2017)
- Turbine Repairs ~\$5.8 million (~\$3.7M-2017)

Other Major Contract Activity

- Powerhouse 2 Draft Tube Gate Refurbishment ~1.5 million
- Lake Chelan Surge Tank ~\$2.8 million
- Hatchery related contracts ~\$6.5 million
- Security/Guard contracts ~\$1.3 million
- Tree Trimming contract ~\$1.2 million

Operating Expense

(in 000's)	Prelim Budget 2018	Adopted Budget 2017	Variance
Hydro O&M	59,026	55,831	<i>PH2 Draft Tube, LC Surge Tank</i>
Hydro Fish & Wildlife	16,726	15,511	<i>Fish Passage Structural Maint</i>
Hydro Parks & Recreation	7,906	7,207	<i>Visitor Center Maint / Public Power Benefit</i>
Electric Distribution	15,382	13,135	<i>Increased reinvestment in assets</i>
Electric Transmission	13,217	12,896	<i>Consistent with 2017 Budget</i>
Power Supply Mgmt	5,307	5,165	<i>Consistent with 2017 Budget</i>
Water/Wastewater O&M	2,817	2,874	<i>Consistent with 2017 Budget</i>
Fiber Network O&M	4,576	3,960	<i>Capital to O&M Labor Shift</i>

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Operating Expense

(in 000's)	Prelim Budget 2018	Adopted Budget 2017	Variance
Customer Accts & Svc	3,987	3,898	<i>Consistent with 2017 Budget</i>
Conservation	3,471	2,965	<i>Recognition of investments</i>
Insurance	7,272	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	32,604	30,389	<i>District Wide Computer/Software fees / Cyber security efforts</i>
Total	173,683	162,178	
2018-22 Business Plan	174,594		

Non-Operating Activity

(in 000's)	Prelim Budget 2018	Adopted Budget 2017	Variance
Investment Earnings	8,731	8,014	Higher interest rate
Contribution Income	4,376	5,174	McKenzie-Beverly White Pine Relocate contribution in 2017
Interest Expense	(24,595)	(26,736)	Debt reduction strategy
Other Inc/(Exp)	(5,085)	(4,222)	Higher unassigned PPB
Total	(16,573)	(17,770)	
2018-22 Business Plan	(16,394)		

2018 Major Capital Projects



Rock Island Modernization

- B1-B4 ~\$41.3 million (Total Project ~\$68.0M)
- B5-B8 ~\$24.6 million (Total Project ~\$124.6M)

2018 Major Capital Projects

Hydro Project Cranes



- RI PH2 Bridge ~\$1.8 million (*Total Project ~\$2.9M*)
- RI PH2 Gantry ~\$1.6 million (*Total Project ~\$2.6M*)
- Wrapping up work on RR Gantry and Bridge cranes

2018 Major Capital Projects

Rock Island PH2 Governor Controls U1-U8

- ~\$0.1 million (*Total Project ~\$11.2M*)

Rock Island PH1 Domestic Water

- ~\$1.8 million (*Total Project ~\$2.3M*)

Rocky Reach Fire Alarm System

- ~\$1.6 million (*Total Project ~\$1.7M*)

Rock Island PH2 Storage Building

- ~\$5.1 million (*Total Project ~\$6.3M*)



2018 Major Capital Projects

Customer Information System

- ~\$3.5 million placeholder
- Final total project cost expectations pending further evaluation – will be adjusted upon final negotiations

Peshastin Wastewater Upgrade

- ~\$1.4 million (*Total Project ~\$3.6M*)

2018 Major Capital Projects

Telecommunication Replacements/Upgrades

- Microwave ~\$2.6 million (*Total Project ~\$3.7M*)
- Land Mobile Radio Network ~\$5.2 million (*Total Project ~\$5.6M*)



Substations

- ~\$3.6 million (*Total Funding Project Approved ~\$7M*)
- (Ohme \$2M, Bavarian \$1.1M, Chelan \$.5M)



Fiber Expansion (Public Power Benefit)

- ~\$2.5 million (*Funded for 2018*)

Key “Total Capital Project” Revisions*

(in 000's)	Current	Revised	Change	Major Driver
RI PH2 Storage Building	1,110	6,250	5,140	Match strategic standards
Peshastin Wastewater Upgrade	650	3,590	2,939	Project scope change
Bandwidth Management Links	---	2,200	2,200	Project being initiated
Ohme Substation	---	2,000	2,000	Project being initiated
N Shore Chelan Substation	455	2,400	1,945	Alternatives under consideration
Bavarian Substation	772	2,600	1,828	Increase for construction
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
Y-AC3 Goodwin Bridge Partial Rebl'd	---	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

11/2/2017

Capital Expenditures

(in 000's)	Prelim Budget 2018	Adopted Budget 2017	\$ Change	Major Project Focus
Electric Distribution	15,368	12,586	2,782	Line upgrades, substation investments, customer work
Electric Transmission	2,731	3,886	(1,155)	McNeil Canyon, Breaker work, Mid C Transmission
Rocky Reach Hydro	7,799	13,179	(5,380)	Unit controls governor, fire protection system, swim beach stabilization
Rock Island Hydro	73,987	44,442	29,545	Powerhouse 1 modernization, cranes, governor controls, domestic water, storage bldg.
Lake Chelan Hydro	1,369	1,099	270	Breakers, parking lot
Corporate/Shared Assets	18,348	14,427	3,921	LMR, microwave, CIS, facility upgrades
Integrated Electric	119,602	86,619	29,983	

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Capital Expenditures

(in 000's)	Prelim Budget 2018	Adopted Budget 2017	\$ Change	Major Project Focus
Fiber	5,312	3,935	1,377	Public Power Benefit (PPB) expansion & upgrades
Water	1,236	1,116	120	Wenatchee Heights tank replacement
Wastewater	1,463	418	1,045	Peshastin system upgrades
Total Capital	127,613	95,088	32,525	
Less: Contributions	(3,807)	(4,604)	(797)	Capital Paid By Others
Regulatory Assets & Other	4,537	5,491	954	Conservation / Lic. Obligations
Net Capital & Reg. Assets	128,343	95,975		
2018-22 Business Plan	125,561			

Does not include impacts of Strategic Facilities Plan

New Positions

Technology/Cyber Security

(4 positions)

- (2) Network Security Administrators
- System Administrator
- Project Manager

Construction/Project Management

(3 positions)

- (2) Engineering Students
- Electrical Engineer

New Positions

Re-Invest/Service Levels

(5 positions)

- (2) Journeyman Wireman
- Customer Service Engineer
- Field Engineer
- Communications Lineman

Succession Planning

(1 position)

- Meterman

2017 & 2018 Market Pay Trends

- Salary increase forecast for 2018 are similar to 2017
- Wages in the Utility/Energy industry are expected to grow at a slightly higher rate than General industry

2018 Projected Pay Increases

Industry	Min – Max	Average
All Industry	2.9% - 3.1%	3.1%
Utility/Energy	2.9% - 3.4%	3.1%

2018 Pay Increase Budget

➤ Labor - Non-Bargaining Unit (assumptions)

- Pay Increase Budget
 - 2.60% Merit Budget
 - 0.50% Market Adjustments
- 0.50% Promotions
- 0.55% Structural/Other Adjustments

NOTE: Assumptions will be subject to further data validation and review before the pay increase pool is determined.

➤ Labor - Bargaining Unit (per collective bargaining agreement)

- Contract expires 3/31/18; wages to be negotiated

Key Employer Benefit Costs

(000's)	2018 Budget	2017 Budget	\$ Change	% Change
Medical Benefits	14,727	13,536	1,191	8.8%
Retirement:				
PERS	9,856	8,852	1,004	11.3%
401(a)	2,347	2,037	310	15%
TOTAL:	\$26,930	\$24,425	\$2,505	10.2 %

Combined District Expenditures

(in 000's)	Preliminary 2018 Budget	Adopted 2017 Budget	%
Operating Expense	173,683	162,178	107%
Tax Expense	7,986	7,895	101%
Non-Operating Exp/(Inc)	20,949	22,944	91%
Net Capital & Reg Assets *	128,343	95,975	134%
Total Expenditures	330,961	288,992	115%

Net Debt Reduction (pending \$61M optional)	84,837	52,386	162%
Total Expenditures & Net Debt Reduction	415,798	341,378	122%

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

Does not include impacts of Strategic Facilities Plan

Combined Financial Policies

2018 Preliminary Budget

	Financial Liquidity	Combined Cover	Debt Ratio ²	Days Cash on Hand	Rate of Return ¹
Base Case – expected <i>Target</i>	\$297M <i>> \$175M</i>	2.84 <i>> 2.0x</i>	32.0% <i>< 35% in 2019</i>	498 <i>➤ 250</i>	6.0% <i>> 4%</i>
Base Case – unusual <i>Target</i>	\$291M <i>> \$175M</i>	2.70 <i>> 1.25x</i>	32.2% <i>< 45%</i>	483 <i>> 250</i>	5.4% <i>> 2%</i>

¹ - Associated with an expected bottom line of approximately \$70 million

² - Includes the debt reduction of approximately \$85 million (pending \$61M optional)

Does not include impacts of Strategic Facilities Plan

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On track



Business Line Financial Policies

2018 Preliminary Budget

	Operating Expense Coverage	Cash Reserves	Debt Ratio
Fiber & Telecom <i>Target</i>	169% <i>>120%</i>	\$14.5 M <i>\$2 M</i>	---% <i>< 35%</i>
Water <i>Target</i>	140% <i>>120%</i>	\$3.4 M <i>\$1.25 M</i>	11.3% <i>< 35%</i>
Wastewater <i>Target</i>	98% <i>> 100% by 2019</i>	\$3.0M <i>\$200 K</i>	---% <i>< 35%</i>

On track

Does not include impacts of Strategic Facilities Plan

Business Line Financial Policies

2018 Preliminary Budget

“Test” Metrics

	Retail Total Cost Ratio	Retail OM&T Cost Ratio	Retail Support Limit	Market Based Margin Limit
Integrated Electric <i>Target</i>	66% <i>> 65%</i>	87% <i>> 90%</i>	\$26.0M <i>< \$25.6M</i>	\$47.8M <i>< \$25.0M</i>

Monitoring during
test period

Does not include impacts of Strategic Facilities Plan

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 rate increases is unlikely

Budget Next Steps

Review

- Continued review and adjustments in November
- Strategic facilities plan and debt planning will be incorporated into budget and forecast

Discuss

- 2nd Budget Hearing November 20th

Approve

- Requesting Board Approval on December 4th

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
- Review of planned \$85M reduction underway (\$61M optional)
- 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

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 ~\$85 million (\$61 million optional acceleration under annual review)
- 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