What we will cover today…

Purpose  Timeline  Guidelines & Assumptions  Next Steps

No Board Action Required
Today’s Focus….

Transition from our five-year business planning for 2018-2022 to the annual 2018 Budget process
Cascading Planning Cycle

- District vision & mission
  - District Strategic Plan (3 Goals – 7 Objectives)
  - District-wide priorities for 5-year business planning
    - District-wide 5-year business plan
  - Business Unit 5-year business plans
- Annual budget
  - District-wide annual performance plan
  - Department work plans
  - Annual employee performance plans

Levels of Organization
2018 Budget Timeline

September
- Business Plans Finalized
- Budget Initiated
- Business Plan Board Presentation

October
- Preliminary Budget Review & Development
- Budget Overview Presentation

November
- Budgets Compiled & Presented to Board
- Formal Board / Public Hearings

December
- Finalize Budget Prepare Budget Journals
- Request Budget Approval

Indicates Board Meetings
The 2018 Budget will be built around strategic initiatives and business plans presented October 2\textsuperscript{nd}

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 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
Early External Indicators

- Low wholesale electric market prices continue
- Focus on investments in projects with highest long-term customer value
- Local load growth patterns and customer profiles are changing
2018 Targeted Financial Policies

- **Liquidity**
  - Target: $175 M

- **Debt Service Coverage**
  - Target: > 2.0x

- **Debt Ratio**
  - On path for 2019 Target: < 35%

- **Days Cash on Hand**
  - Target: > 250 days

- **Rate of Return**
  - Target: > 4.0%
## Key Budget Assumptions

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

- **Develop**
  - Preliminary budgeting in process

- **Review**
  - Review and revise in October & November
  - 1<sup>st</sup> Budget Hearing November 6<sup>th</sup>
  - 2<sup>nd</sup> Budget Hearing November 20<sup>th</sup>

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