

**Working Draft – Subject to Refinements**

# **Chelan County PUD**

## **Business Line Financial Policies**

Continuation of updating and extending District-wide financial policies and guidance

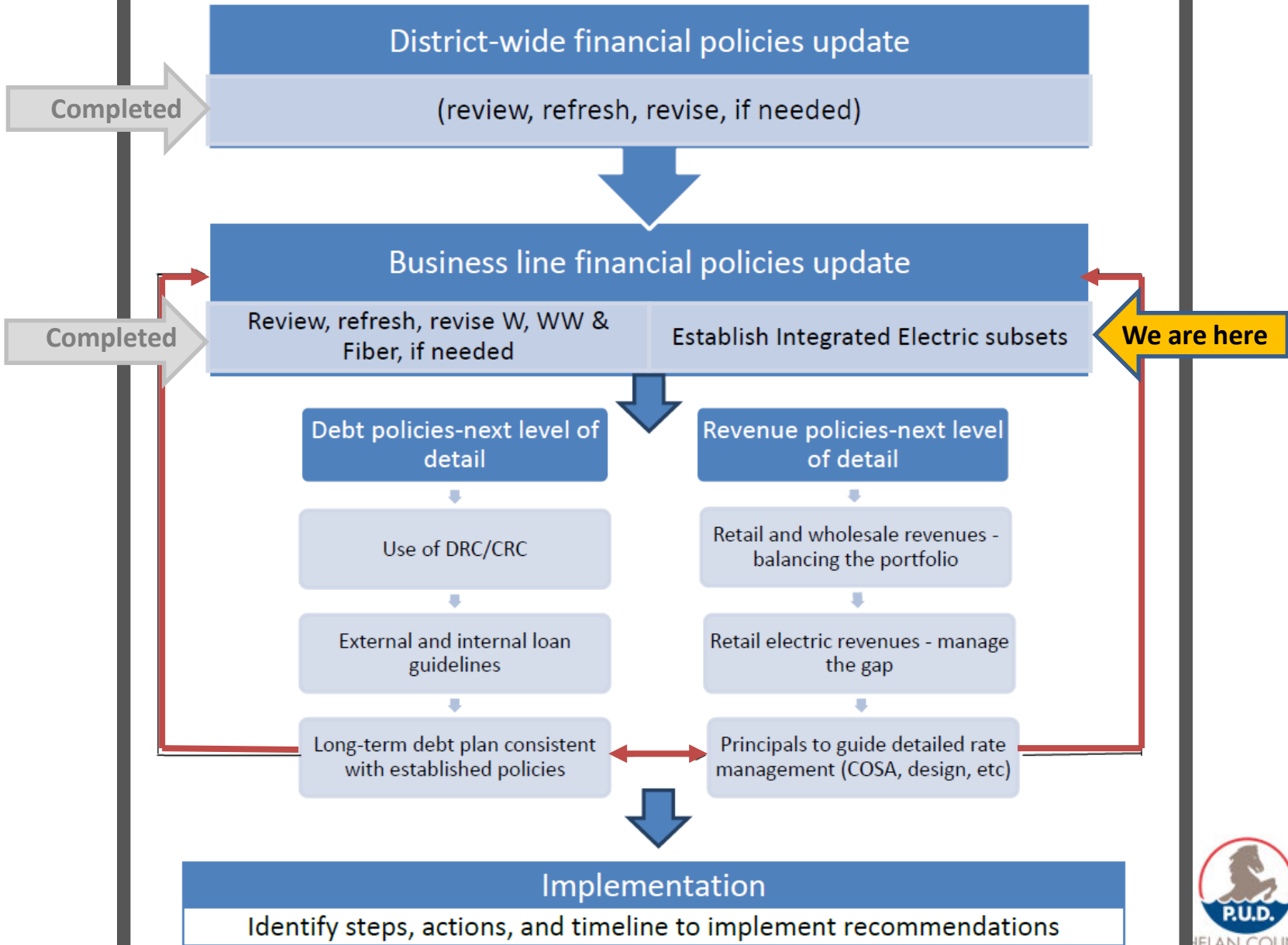
**Board Presentation**

**June 26, 2017**



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# Agenda

Review current financial forecast and planning

Discuss long-term retail electric revenue planning

Next up in the series

*Information Only – No Action Required Today*



# Key Messages

- Continuing discussion of revenue planning tools that will provide early warning signs which could help guide retail electric revenue strategies over the long-term
- Developing metrics as early warning signs so that any recommended rate action can be accomplished in small, incremental steps over time consistent with the preference we have heard from our customer-owners
- For planning purposes only – does not impact the discretion of the Board to set future rates



# Overview - District Business Lines



Water



Wastewater



Fiber



Integrated Electric

Includes retail sales, long-term power contract sales, market based power sales & other corporate activity

Updated  
last Board  
meeting

Discuss  
today



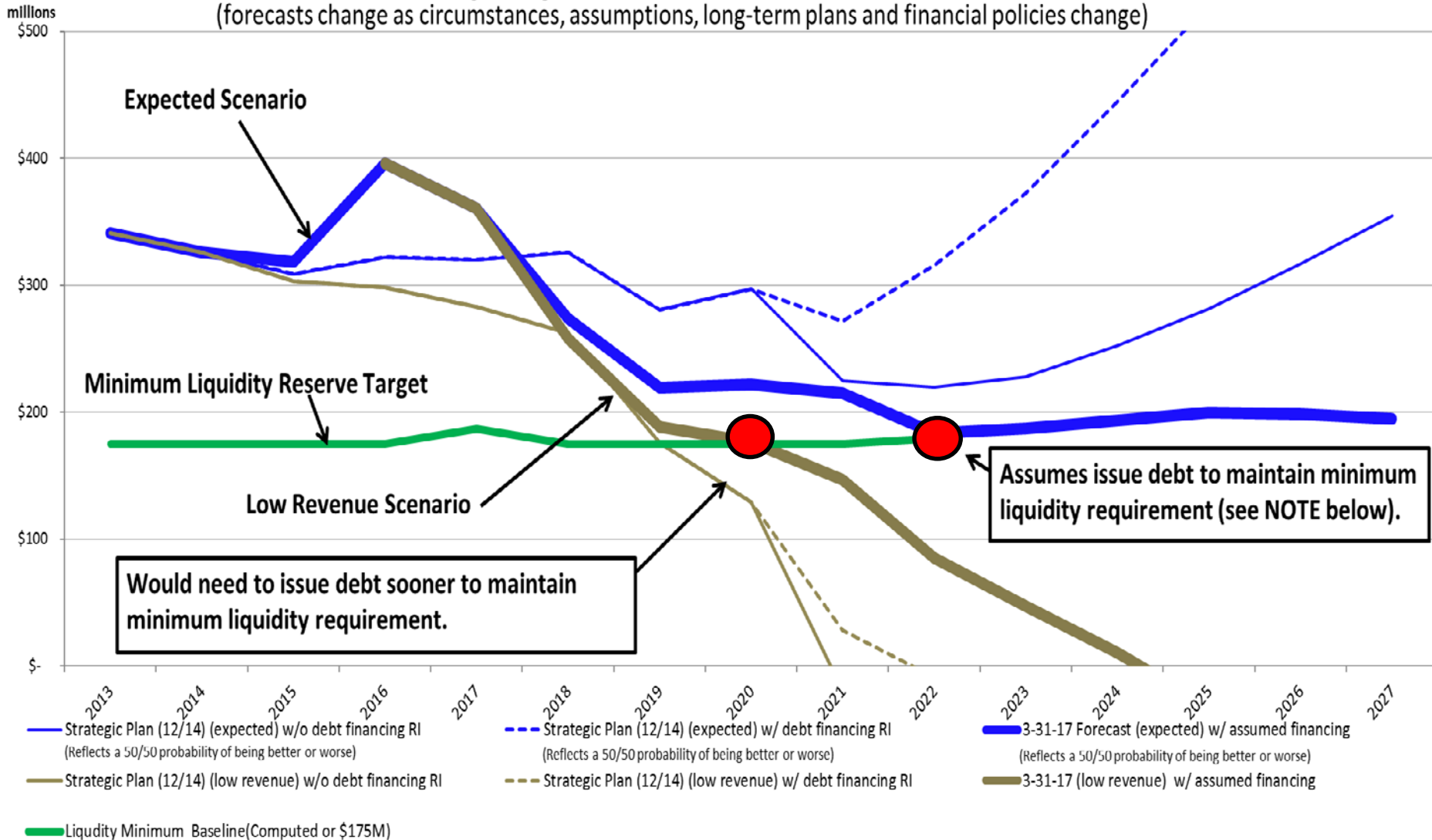
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# Long-Term Outlook - Now: Q1 - 2017

## Liquidity Forecast: Two Future Scenarios

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



**NOTE:** Both the Q1-2017 expected and low revenue scenarios assume approximately \$330M 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.

# Business Line “Bottom-Line” Results

Excerpt from Q1 Board Financial Update	2017 Current Forecast	2017 Budget	% of budget
(in 000s)			
Cost-Based Activity	38,080	38,334	99%
Market-Based Activity	57,534	54,510	106%
Retail Activity	(17,169)	(20,333)	84%
Other Activity	11,106	10,131	110%
<b>Integrated Electric</b>	<b>89,551</b>	<b>82,641</b>	<b>108%</b>
Fiber & Telecom	3,895	2,274	171%
Water	229	620	37%
Wastewater	(200)	(179)	112%
<b>Combined "Bottom-Line"</b>	<b>93,476</b>	<b>85,356</b>	<b>110%</b>

**Revenues:** > 100% of budget, positive for District / **Expenses:** < 100% of budget, positive for District



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# Retail Electric Revenue Planning Discussion

District Bottom -Line Forecast			
(\$M)	<u>2017</u>	<u>2022</u>	<u>2027</u>
Integrated Electric	90	37	12
Fiber *	3	2	1
Water *	0.5	0.7	0.8
Wastewater *	(0.2)	(0.1)	(0.1)
<b>District</b>	<b>93</b>	<b>40</b>	<b>14</b>

Integrated Electric Bottom-Line Forecast			
(\$M)	<u>2017</u>	<u>2022</u>	<u>2027</u>
Market-Based Activity	57	26	21
Cost-Based Activity	41	31	31
Retail Electric	(17)	(27)	(43)
Other	10	7	5
<b>Integrated Electric</b>	<b>90</b>	<b>37</b>	<b>12</b>

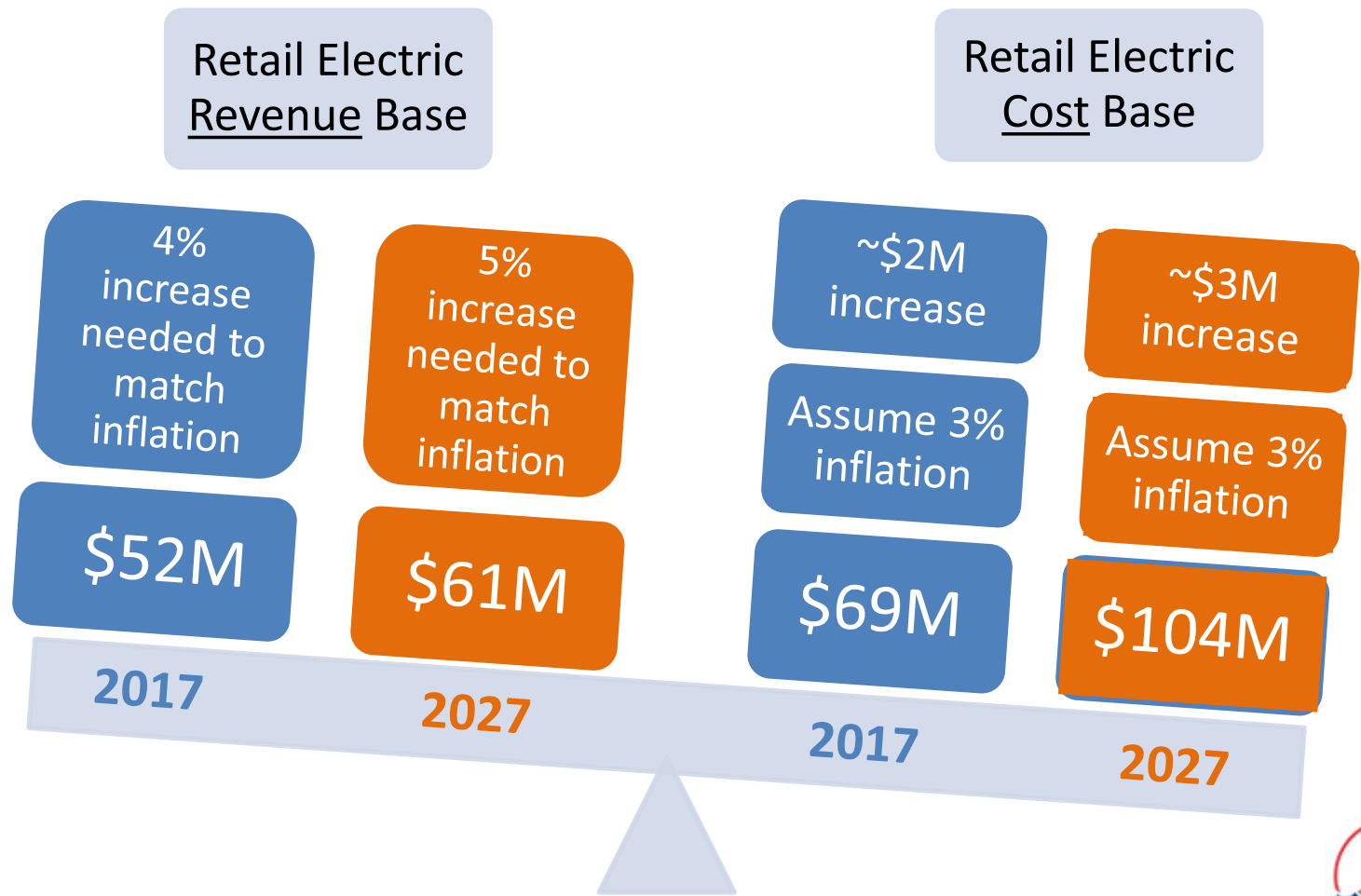
\* - Fiber, Water & WW Financial Policies established (resolution #15-13950): Operating expense coverage ratios (*key metric for rate guidance*), minimum cash reserve targets & maximum debt leverage ratios. *Integrated Electric applies the District-Wide financial policies.*

**Staff recommends establishing metrics for Retail Electric to help provide more detailed direction in designing electric rates (needed for DG, EV, HDL, etc.) and indicate early warning signs that rate action may be needed**

Early indicators help accomplish rate action in small, incremental steps over time consistent with the preference we have heard from our customer-owners



# Another reason that proactive revenue planning is needed



Forecast for 2017 & 2027

# Next Up in the Series

## Sample Financial Policies for Retail Electric

(to help establish minimum revenue requirement guidance):

- Retail Electric operating expense coverage ratio of XX%
  - Less than 100% as some portion of operations planned to be covered by wholesale electric revenues
- Retail Electric gap (negative margin) “not to exceed amount” \$XX million
  - To limit reliance on wholesale electric revenues
- Other?

*For planning purposes only – does not impact the discretion of the Board to set future rates – helps to enable early recognition and small rate steps over time*



# Financial Strategy Sessions – Next Steps

Goal: Conduct series of Board strategy sessions to adjust and affirm long-term financial policies, Integrated Electric business line financial policies, rate philosophies, power contract guidelines, COSA guidelines and internal debt funding philosophies

Review and refresh District Financial Policies by the end of Q1 March 20, 2017

**Review, refresh and establish Business Line Financial Policies by the end of Q2** (extending to Q3) Q2 2017

Board guidance on Water, Wastewater and Fiber June 5

Overview of Integrated Electric planning (part 1) June 26

Discuss Integrated Electric metrics (part 2) July 10

Board guidance on Integrated Electric (part 3) July 24

Establish long-term revenue guidance by 12/1 Q4 2017

Establish long-term internal/external debt guidelines by 12/1 Q4 2017



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