

Chelan County PUD

Quarterly Financial Review

For the Quarter Ended September 30, 2014

Board Presentation on Nov 3, 2014



CHELAN COUNTY
POWER

www.chelanpud.org

Agenda

- Financial highlights
 - Updated forecast for 2014
 - Q3 financial results & investment report
 - Updated five-year outlook
 - Special topic: *Finance Year-End Action Items*
 - Summary
-
- *Appendix – additional detailed information*

3rd Quarter Key Assumption

Wanapum Impact Assumptions (refined since Q2):

- Rock Island plant can only generate when flows are equivalent to ~80 Kcfs for 4 hours or more
- Inflows have been re-shaped throughout the day to stack as many ~80 Kcfs hours together, allowing Rock Island to operate as much as possible
- The duration of the Wanapum Dam drawdown is assumed to stay in effect through December 31, 2014.

Financial Highlights - Overall Results

➤ Bottom-Line:

- 2014 annual forecast is \$87.7 million (\$2.0M better than budget)
- 2014 annual forecast has improved \$0.6 million since Q2
- 2014 results through Sept. were \$68.3 million (\$3.1M higher than budget)

➤ Cash & Investments:

- Year-end 2014 forecast is \$424.5 million (\$7.6M better than budget)
- Year-end 2014 forecast has improved \$0.5 million since Q2
- Sept. 30 balance was \$404.7 million

➤ Recommend continuing with 2014 District priorities, budget and debt reduction plans

Financial Highlights - Revenue

➤ Net Wholesale Revenue:

- Annual forecast is \$101.8 million compared to budget of \$107.9 million
- Annual forecast has reduced \$4.1 million since Q2
- Driver: Forecast reclassification to “other revenue” in Q3
- 2014 YTD results \$6.1 million below budget
- Driver: Wanapum drawdown impacts on Rock Island production

➤ Hydro Long-Term Contract Wholesale Revenue:

- Annual forecast lower than budget by \$1.0 million
- Annual forecast has declined \$2.6 million since Q2
- 2014 YTD results \$1.2 million below budget
- Driver: Rocky Reach operating costs are lower than budget (cost based revenue)

Financial Highlights - Revenue

➤ Service Revenue:

- Annual forecast is \$0.7 million lower than budget
- Annual forecast has increased \$0.3 million since Q2 (<1%)
- 2014 YTD results \$1.4 million below budget (\$44.2M vs. \$45.6M)
- Driver: Retail energy use at 96% of budget (industrial usage at 87%)

➤ Other Operating Revenue:

- Annual forecast is \$4.8 million better than budget (\$24.3M vs. \$19.5M)
- Annual forecast has improved \$1.4 million since Q2
- Driver: Environmental attributes and real-time contract revenues
- 2014 YTD results \$4.3 million better than budget (\$19.0M vs. \$14.7M)

Financial Highlights - Expenses

➤ Operating Expense:

- Annual forecast lower than budget by \$4.4 million (~3%)
- Annual forecast reduced \$5.8M compared to Q2 (\$127.0M vs. \$132.8M)
- Drivers: Transmission, Distribution & Hydro adjusted down, offset by increased fish ladder expense at Rock Island
- 2014 YTD results \$5.5 million below budget (\$93.7M vs. \$99.2M)

➤ Non-Operating Expense:

- Annual forecast \$0.8 million better than budget (\$32.0M vs. \$32.8M)
- Annual forecast has remained relatively unchanged since Q2
- Overall Q3 results slightly higher than budget expectations
- Drivers: Higher investment earnings offset by lower contributed capital

Financial Highlights - Expenses

- Electric fully loaded cost per KWh (normalized) better than budget
 - 2014 YTD ¢/KWh result - 5.46¢ vs. 5.67¢ (actual vs. budget)
 - Hydro production rates (normalized) better than budget
 - 2014 YTD \$/MWh result - \$16.7 vs. \$17.3 (actual vs. budget)
- | | <u>Actual vs. Budget</u> | |
|--------------------|--------------------------|----------------------------------|
| Rocky Reach | \$11.4 vs. \$12.4 | (production up/cost down) |
| Rock Island | \$26.1 vs. \$25.4 | (production down/cost up) |
| Lake Chelan | \$29.5 vs. \$32.2 | (production down/cost down) |
- Water cost per 1,000 gallons slightly higher than budget
 - 2014 YTD result - \$4.98 vs. \$4.85 (actual vs. budget)
 - Tech Shop & Parks support costs exceeding budget estimates

Financial Forecast for 2014

(in 000's)	2014 Budget	2014-Q2 Forecast	Q2 %	2014-Q3 Forecast	Q3 %
Service Revenue	61,458	60,458	98%	60,751	97%
Energy Resources Net Wholesale	107,948	105,927	98%	101,771	94%
Hydro LT Contract Rev/Other PP	116,548	118,152	101%	115,554	99%
Other Operating Revenue	19,519	22,909	117%	24,263	129%
Operating Expense	(131,414)	(132,846)	101%	(126,953)	95%
Depreciation & Tax Expense	(55,569)	(55,585)	100%	(55,626)	100%
Operating Income	118,490	119,015		119,760	
Non-Operating Activity	(32,826)	(31,874)	97%	(32,032)	97%
Change in Net Position	85,664	87,141		87,728	

Capital Expenditures – Q3 and 2014

(thousands)	Actuals Q3 2014	Budget 2014	%	Forecast 2014	%	Variance
Electric Distribution	5,893	10,067	59%	10,529	104%	Line improvements exceeding budget expectation
Electric Transmission	3,266	8,755	37%	4,712	54%	Rocky Reach auto transformer purchase delayed
Rocky Reach Hydro	4,665	12,272	38%	8,979	73%	Gantry crane expenditures deferral to 2015
Rock Island Hydro	2,764	7,195	38%	5,520	77%	Wanapum shifted resources away from capital projects
Lake Chelan Hydro	226	807	28%	326	40%	Shoreline erosion permitting delayed to 2015
Internal Service	5,297	8,890	60%	8,282	93%	Telecom projects deferred
Fiber & Telecom	1,102	3,246	34%	2,253	69%	BPON to GPON shift to 2015
Water	399	452	88%	452	100%	In line with budget expectation
Wastewater	67	153	44%	136	89%	In line with budget expectation
Total	23,679	51,837	46%	41,189	79%	

Q3 Combined YTD Financial Results

(in 000's)	Budget YTD 2014	Actuals YTD 2014	%	Variance
Service Revenue	45,586	44,179	97%	Conservation efforts & electric equipment conversion to gas
Energy Resources Net Wholesale	83,113	78,510	94%	Impacts of Wanapum drawdown
Hydro LT Contract Rev/Other PP	87,804	86,546	99%	In line with budget
Other Operating Revenue	14,655	18,976	129%	Increased environmental attribute & real-time contract revenue
Operating Expense	(99,172)	(93,750)	95%	Rocky Reach spillway apron deferral
Depreciation & Tax Expense	(41,724)	(41,920)	100%	In line with budget
Operating Income	90,262	92,540		
Non-Operating Activity	(25,072)	(24,238)	97%	In line with budget
Change in Net Position	65,190	68,303		"Bottom-Line"

Q3 Combined YTD Results by Business Line

(in 000's)	Budget YTD 2014	Actuals YTD 2014	%	Variance
Integrated Electric	66,460	70,011	105%	Electric distribution expenses below budget partially offset by reduction in net wholesale revenue
Fiber & Telecom	(1,350)	(1,914)	142%	Contribution revenue below budget combined with operating expenses exceeding budget for additional connections
Water	238	380	159%	Service revenue and customer contributions exceeding budget
Wastewater	(158)	(174)	110%	Service revenue below budget (rate action deferred)
"Bottom-Line"	65,190	68,303		

Cash & Investments

(millions)	2014
Total Cash – Original Budget (year-end balance)	\$416.9
Changes in cash forecast:	
Reduction in capital projects	\$10.4
Improvement in bottom-line	\$2.0
Less: Non-Cash impacts to bottom-line	(3.3)
Less: Changes in A/R, A/P, inventory, etc.	(1.5)
Total Cash – 3rd Quarter Forecast (year-end balance)	\$424.5

Cash & Investments Balance

(\$ Millions)	<u>09/30/14</u>	<u>12/31/13</u>
Unrestricted funds (policy minimum \$150M)	\$241	\$268
Restricted construction funds	8	11
Restricted bond reserve funds	52	58
Restricted power contract prepayment fund	19	19
Restricted debt reduction and capital reserves	76	55
Self insurance and other restricted funds	<u>9</u>	<u>10</u>
Total Cash and Investments	<u>\$405</u>	<u>\$421</u>

2014 year-end forecast comparison (\$ Millions)	<u>Unrestricted</u>	<u>Total</u>
Budgeted cash and investments	\$250	\$420
Q2 update for cash and investments	\$259	\$424
Q3 update for cash and investments	\$259	\$425

District Cash Flow – High Level Overview

(\$ Millions)	Sep 30 2014	Forecast 2014	Actuals 2013
Beginning Balance – Cash & Investments	\$ 421	\$ 421	\$ 399
Bottom–line result	\$ 68	\$ 87	\$ 92
Add back depreciation (non-cash item)	\$ 36	\$ 48	\$ 48
Estimated funds earned	\$ 104	\$ 135	\$ 140
Capital project expenditures (net of contributions)	\$ 24	\$ 41	\$ 26
Debt reduction payments (net of capitalized interest)	\$ 85	\$ 82	\$ 69
Other impacts (deferrals, A/R, A/P, inventory, etc.)	\$ 11	\$ 8	\$ 23
Addition to cash reserves	\$ (16)	\$ 4	\$ 22
Estimated use of funds earned	\$ 104	\$ 135	\$ 140
Ending Balance – Cash & Investments	\$ 405	\$ 425	\$ 421

Note – This represents a rough estimate of actual cash flow impacts

Quarterly Investment Report

In compliance with District Banking and Investment Policy #13-13811

	Q2 2014	Q3 2014	YTD 2014	WAM
Average Invested Book Value (\$M)	\$447	\$380	\$417	
District Yield	1.04%	1.29%	1.13%	983
3 Month T-Bill	0.03%	0.02%	0.03%	91
Barclays Gov. 1-3 Year Index	0.45%	0.56%	0.48%	655

➤ For Q3 2014, the District's yield rose from 1.04% to 1.29% on an average invested book value of \$380 million. This change in yield is primarily due to holding less cash and extending the average maturity from 744 days to 983 days.

➤ The Federal Open Market Committee's September 17, 2014 meeting reported that economy shows sufficient strength to support moderate expansion without further intervention.

* Full report available in Appendix.

11/4/2014

16

Policy Compliance



Diversification



Maturity Length



CHELAN COUNTY
POWER

www.chelanpud.org

Financial Policies Forecast

District Combined	2014	2015	2016	2017	2018
Rate of Return (Expected > 4%)	8.2%	8.9%	7.6%	7.0%	6.6%
Rate of Return (Unusual > 2%)		7.6%	6.0%	5.9%	5.4%
Combined Debt Cover (Expected > 2.00x)	2.56	2.63	2.87	2.46	2.40
Combined Debt Cover (Unusual >1.25x)		2.41	2.55	2.27	2.17
Debt Ratio < 35% by 2019 (Expected)	53.2%	45.2%	41.4%	36.3%	32.7%
Debt Ratio < 35% by 2019 (Unusual)		45.7%	41.9%	36.7%	33.1%
Liquidity - \$175M Min (Expected)	\$320M	\$292M	\$307M	\$299M	\$309M
Liquidity - \$175M Min (Unusual)		\$278M	\$289M	\$287M	\$296M
Bottom Line Results (Expected)	\$87.7M	\$96.7M	\$85.1M	\$80.3M	\$77.5M
Bottom Line Results (Unusual)		\$82.1M	\$67.1M	\$67.8M	\$63.5M
Outstanding Debt	\$735M	\$612M	\$584M	\$518M	\$480M

Expected (~50% Probability) - Unusual (~5% Probability) based on the 09/30/14 forecast

The information in this schedule contains forward-looking information and projections. Such projections are necessarily subject to various risks and uncertainties. Actual results could, and likely will, differ materially from those projected, in part as a result of differences between assumptions utilized in making such projections and actual outcomes and certain other risks.

Board Governing Financial Policies Are We On Track?

- + Financial Liquidity
- + Rate of Return
- + Debt Ratio
- + Debt Service Coverage

Yes

Business Lines – Financial Metrics

Currently not meeting the targets in Resolution #12-13722/29

BUSINESS LINES	2014	2015	2016	2017	2018
Fiber Liquidity (target >\$4M - 2016)	\$5.5M	\$4.3M	\$2.3M	\$1.8M	\$2.3M
Fiber Rate of Return (target >0% - 2016)	(5.0%)	(1.5%)	(2.1%)	(2.2%)	(2.7%)
Water Liquidity (target >\$2.0M)	\$0.5M	\$0.4M	\$0.3M	\$0.3M	\$0.3M
Water Rate of Return (target >1.0% - 2016)	0.1%	0.1%	0.3%	0.4%	0.0%
Water Debt Cover (target >1.25 - 2016)	1.19	1.18	1.26	1.30	1.31
Wastewater Liquidity (target >250K)	\$262K	\$163K	\$(56)K	\$(340)K	\$(680)K
Wastewater Rate of Return (target >0% - 2016)	(4.7%)	(4.9%)	(4.6%)	(4.7%)	(4.3%)
Wastewater Debt Cover (target 1.25 – 2016)	(1.09)	(0.61)	(0.31)	(0.19)	(0.25)

Forecasted results are currently below targets – corrective action plan is being developed through strategic planning with focus of topic team

Complete summary of forecasted financial metrics in the appendix

11/4/2014

19



CHELAN COUNTY
POWER

www.chelanpud.org

Business Lines Interim Goal

Work towards a stable cash position until strategic outreach is complete

BUSINESS LINES (\$000's)	2014	2015	2016	2017	2018
Fiber & Telecom (Q3) Cash Forecast	\$5.5M	\$4.3M	\$2.3M	\$1.8M	\$2.3M
Fiber & Telecom (Feb 2014**) Forecast	\$3.8M	\$1.6M	\$0.2M	\$0.0M	\$(0.5)M
Water (Q3) Cash Forecast	\$0.5M	\$0.4M	\$0.3M	\$0.3M	\$0.3M
Water (Feb 2014*) Cash Forecast	\$0.6M	\$0.6M	\$0.4M	\$0.4M	\$0.3M
Wastewater (Q3) Cash Forecast	\$262K	\$163K	\$(56)K	\$(340)K	\$(680)K
Wastewater (Feb 2014*) Cash Forecast	\$363K	\$249K	\$53K	\$(193)K	\$(478)K

Forecasted cash balance currently negative - corrective action plan is being developed through strategic planning with focus of topic team

* - Comparison from W-WW rate meetings – Feb 2014

** - Comparison from Fiber rate restructuring update – Feb 2014

Special Topic

Finance Year-End Action Items

INFORMATION ONLY – NO BOARD ACTION REQUIRED TODAY

- Annual System Funding Review – Plan of Finance
 - Internal loan needs - Wastewater
 - Lake Chelan repayment of internal loans to support external debt retirements

- Investment and Banking Resolution update

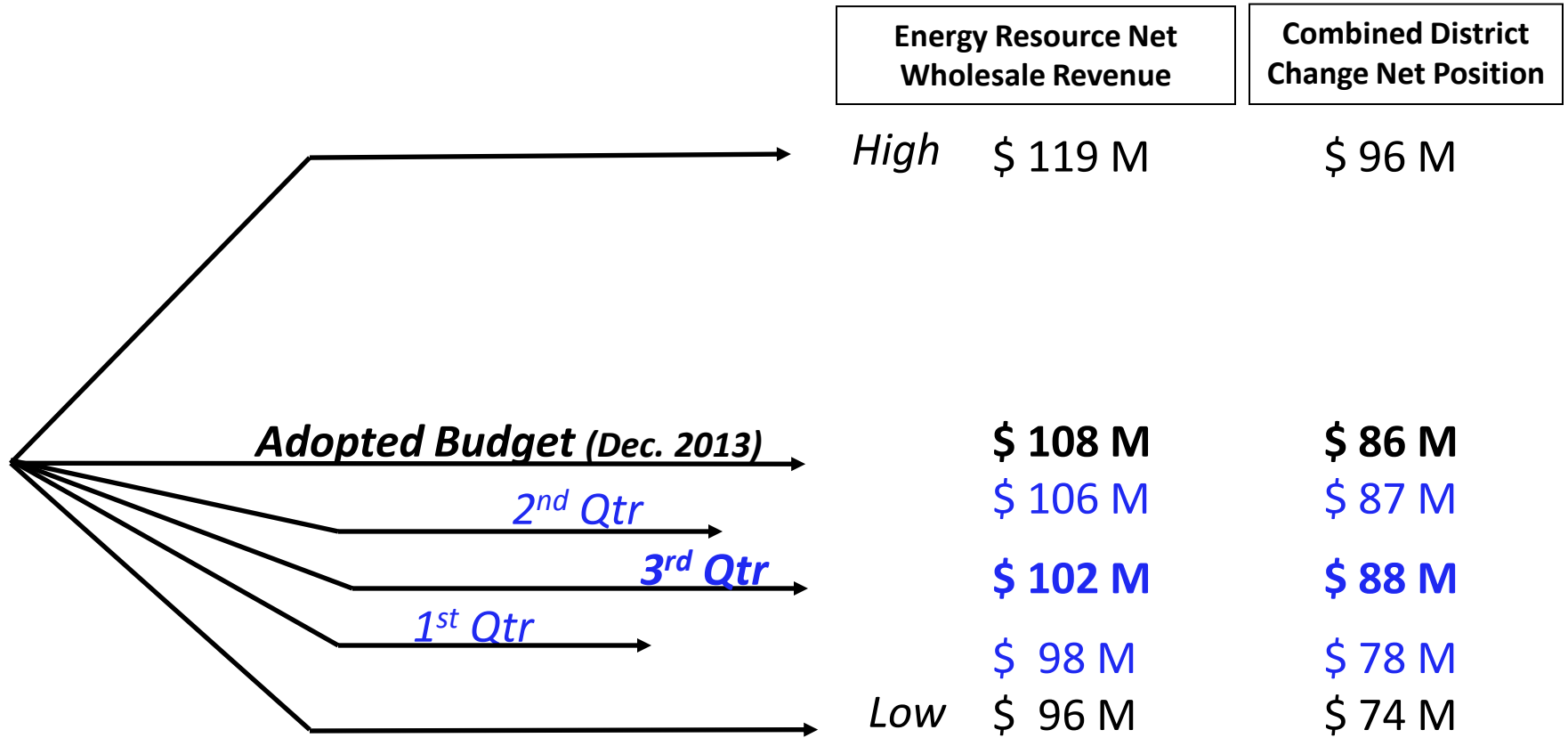
- Next Steps – Subject matter experts will return with additional details November 17 and request resolution adoption
 - Wastewater Loan Resolution
 - Investment and Banking Policy Resolution

Summary

- “Bottom line” results currently better than budget
 - 2014 forecast \$87.7 million vs. budget of \$85.7 million (exceeding budget)
 - Annual forecast has remained consistent since Q2 (\$87.7M vs. \$87.1M)
 - Improved market conditions, reduced expenditures and other operating revenues are offsetting the impacts of Wanapum drawdown
- Long-term financial policies on track
 - Future expectations remain strong at ~\$80-\$100M per year (2015-18)
 - Cash reserves forecasted to remain strong and stable
 - Debt reduction being executed at earliest call date, as planned
 - Forecasted individual business line results are currently below targets and are being addressed through strategic planning efforts
- Long-term operating results fully assigned to:
 - ✓ Continue to pay down debt
 - ✓ Maintain reliability of our assets
 - ✓ Save for a rainy day
 - ✓ Keep rates affordable and any adjustments modest and predictable

Appendix – Detailed Information

3rd Quarter Highlights



“High” budget revenue has a 5% probability of occurring,
 “Adopted Budget” revenue has a 50% probability of occurring
 “Low” budget revenue has a 5% probability of occurring

Service Revenue – Q3

(in 000's)	Actuals YTD 2014	Budget YTD 2014	%	Variance
Residential Electric	18,020	18,593	97%	Expected to meet budget
Commercial Electric	11,932	12,211	98%	In line with budget
Industrial Electric	3,673	4,129	89%	Conservation efforts & electric equipment conversion to gas
Other Electric	1,580	1,626	97%	In line with budget
Electric Service	35,205	36,559	96%	
Water Service	3,860	3,901	99%	In line with budget
Wastewater Service	405	438	92%	Removal of rate placeholder
Fiber & Telecom	4,709	4,687	100%	In line with budget
Service Revenue	44,179	45,586	97%	

Note: Excludes internal intersystem revenues

Net Surplus Energy Revenue – Q3

(in 000's)	Actuals YTD 2014	Budget YTD 2014	%	Variance
Slice Contracts	57,116	57,102	100%	Wanapum drawdown impacts at Rock Island impacting energy available for market sales
Future Block Trades	30,094	24,560	123%	
Other Net Wholesale	(8,701)	1,451	---%	
Energy Resources Net Wholesale	78,510	83,113	94%	
LT Hydro Contracts	87,570	88,825	99%	In line with budget
Less Other Purchased Power	(1,024)	(1,021)	100%	In line with budget
Hydro LT Contract Rev/Other PP	86,546	87,804	99%	
Surplus Energy Revenue	165,056	170,917	97%	

Operating Expense – Q3

(in 000's)	Actuals YTD 2014	Budget YTD 2014	%	Variance
Hydro O&M	27,670	31,052	89%	Rocky Reach spillway apron deferral
Hydro Fish & Wildlife	11,977	10,694	112%	Fish ladder work at Rock Island exceeding original budget estimates
Hydro Parks & Recreation	5,072	4,996	102%	In line with budget expectation
Electric Distribution	7,847	8,485	92%	Line maintenance/repairs below budget
Electric Transmission	6,866	6,849	100%	In line with budget expectation
Power Supply Mgmt	2,454	3,514	70%	EP&T department labor/contracts below budget
Water & Wastewater	1,834	1,681	109%	Tech Shop & parks support areas exceeding budget
Fiber Network	2,917	2,692	108%	Labor cost exceeding budget
Customer Service	2,340	2,456	95%	In line with budget expectation
Conservation	802	982	82%	Regulatory asset recognition lower than budget
Insurance & FERC Fees	4,883	5,452	90%	Prior year insurance claim reimbursement
Other Admin & General	19,088	20,319	94%	Labor costs lower than budget (open positions)
Total	93,750	99,172	95%	

Non-Operating Activity – Q3

(in 000's)	Actuals YTD 2014	Budget YTD 2014	%	Variance
Investment Earnings	3,505	2,625	133%	Earnings rate improved
Contribution Income	2,910	3,048	95%	Improved during 3 rd quarter, In line with budget expectation
Interest Expense	(26,970)	(27,092)	100%	In line with budget expectation
Other Inc/(Exp)	(3,683)	(3,653)	100%	In line with budget expectation
Non-Operating Activity	(24,238)	(25,072)	97%	

Integrated Electric – Q3

(in 000's)	Actuals YTD 2014	Budget YTD 2014	%	Variance
Service Revenue	35,271	36,596	96%	Industrial usage below budget
Energy Resources Net Wholesale	78,510	83,113	94%	Position improved, Wanapum drawdown impacts
Hydro LT Contract Rev/Other PP	86,546	87,804	99%	In line with budget
Other Operating Revenue	19,974	15,482	129%	Environmental attribute revenue
Operating Expense	(89,804)	(95,118)	94%	Rocky Reach spillway apron deferral
Depreciation & Tax Expense	(35,928)	(35,808)	100%	In line with budget
Operating Income / (Loss)	94,569	92,069		
Non-Operating Activity	(24,558)	(25,609)	96%	In line with budget
"Bottom-Line"	70,011	66,460		

Fiber & Telecom – Q3

(in 000's)	Actuals YTD 2014	Budget YTD 2014	%	Variance
Service Revenue ¹	6,495	6,537	99%	In line with budget
Other Operating Revenue	37	18	210%	Limited activity
Operating Expense	(4,315)	(4,209)	103%	In line with budget
Depreciation & Tax Expense	(4,286)	(4,228)	101%	In line with budget
Operating Income / (Loss)	(2,069)	(1,882)		
Non-Operating Activity	155	532	29%	Capital contributions from installs under budget, but expected to catch up
“Bottom-Line”	(1,914)	(1,350)		

¹ - Includes \$1,849K of internal revenue for Fiber & Telecom services

Water – Q3

(in 000's)	Actuals YTD 2014	Budget YTD 2014	%	Variance
Service Revenue	4,090	4,033	101%	In line with budget
Other Operating Revenue	93	87	107%	Minimal activity
Operating Expense	(2,412)	(2,360)	102%	In line with budget
Depreciation & Tax Expense	(1,512)	(1,492)	101%	In line with budget
Operating Income / (Loss)				
Non-Operating Activity	119	(30)	---%	Contributions exceeding budget
“Bottom-Line”	380	238		

Wastewater – Q3

(in 000's)	Actuals YTD 2014	Budget YTD 2014	%	Variance
Service Revenue	405	438	92%	Deferral of rate action
Other Operating Revenue	2	1	---%	Minimal activity
Operating Expense	(431)	(437)	99%	In line with budget
Depreciation & Tax Expense	(194)	(195)	99%	In line with budget
Operating Income / (Loss)	(219)	(193)		
Non-Operating Activity	45	35	129%	Contributions exceeding budget
“Bottom-Line”	(175)	(158)		

Five-year outlook

Key modeling assumptions:

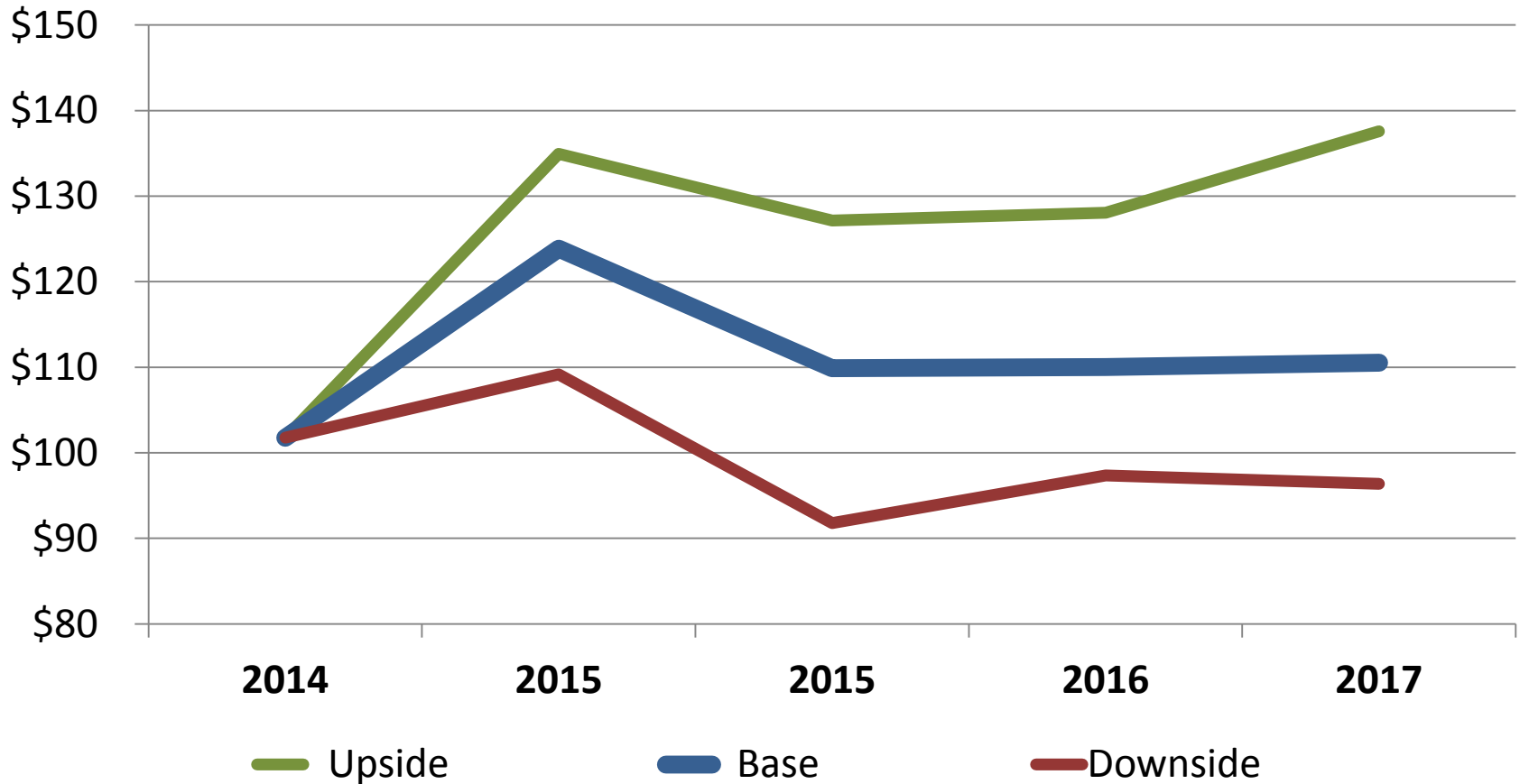
- Past water history and current forward price curve
- Planned expenditures from 5-year business plans
- No rate increases beyond 2014
- Includes debt reduction at earliest callable date
- Hydro contract terms set at maximum rates
 - Debt Reduction Charge (DRC) - 3% (2014-18)
 - Capital Recovery Charge (CRC) - 50% (2014-18)
- Investment earning rate (2014-18: 1.12%, 1.23%, 1.42%, 1.60%, 2.16%)

Combined Five-Year Forecast

(in 000's)	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Service Revenue	60,751	62,190	63,119	64,032	64,866
Energy Resources Net Wholesale	101,771	123,856	109,871	110,029	110,524
Hydro LT Contract Rev/Other PP	115,554	119,776	115,294	113,809	113,797
Other Operating Revenue	24,263	20,396	21,244	20,223	19,955
Operating Expense	(126,953)	(145,598)	(142,491)	(144,933)	(155,938)
Depreciation & Tax Expense	(55,626)	(55,129)	(56,558)	(60,021)	(58,013)
Operating Income / (Loss)	119,760	125,491	110,479	103,139	95,191
Non-Operating Activity	(32,032)	(28,811)	(25,343)	(22,812)	(17,647)
"Bottom-Line"	87,728	96,680	85,136	80,327	77,544
Q2 Forecast - "Bottom-Line"	87,141	98,958	85,076	81,466	81,596

Net Wholesale five-year outlook

(amounts in millions)



Service Revenue

(in 000's)	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Residential Electric	25,434	25,976	26,367	26,749	27,092
Commercial Electric	16,369	16,718	16,969	17,215	17,436
Industrial Electric	5,643	5,763	5,850	5,935	6,011
Other Electric	1,627	1,662	1,687	1,711	1,734
Electric Service	49,073	50,119	50,873	51,610	52,273
Water Service	4,966	5,142	5,245	5,349	5,456
Wastewater Service	539	545	551	556	562
Fiber Network	6,173	6,384	6,450	6,517	6,575
Service Revenue	60,751	62,190	63,119	64,032	64,866
Q2 Forecast - Service Revenue	60,458	62,078	62,955	63,810	64,590

Net Surplus Energy Revenue

(in 000's)	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Slice Contracts	76,150	69,873	36,142	38,016	21,121
Future Block Trades	32,275	54,063	62,975	59,735	38,430
Other Net Wholesale	(6,654)	(80)	10,754	12,278	50,973
Energy Resources Net Wholesale	101,771	123,856	109,871	110,029	110,524
LT Hydro Contracts	116,915	121,272	116,789	115,305	115,294
Less Other Purchased Power	(1,361)	(1,496)	(1,496)	(1,496)	(1,496)
Hydro LT Contract Rev/Other PP	115,554	119,776	115,293	113,809	113,798
Surplus Energy Revenue	217,325	243,632	225,164	223,838	224,322
Q2 Forecast – Surplus Revenue	224,079	240,127	225,482	224,834	228,001

Operating Expense

(in 000's)	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Hydro O&M	38,009	49,335	45,932	44,735	53,370
Hydro Fish & Wildlife	17,466	15,970	14,531	15,272	15,005
Hydro Parks & Recreation	5,957	6,981	6,352	6,625	6,731
Electric Distribution	10,784	11,679	11,661	12,102	12,585
Electric Transmission	8,378	10,361	10,904	10,910	11,210
Power Supply Mgmt	3,959	5,095	5,081	5,771	5,468
Water & Wastewater O&M	2,356	2,515	2,505	2,573	2,668
Fiber Network O&M	3,376	3,817	4,310	4,006	3,987
Customer Service	3,151	3,769	4,115	4,228	4,262
Conservation	1,434	2,141	2,390	2,727	3,044
Insurance & FERC Fees	6,782	7,259	7,695	7,955	8,256
Other Admin & General	25,301	26,676	27,015	28,029	29,352
Total	126,953	145,598	142,491	144,933	155,938

11/4/2014

Capital Projects

(in 000's)	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Electric Distribution	10,529	14,142	14,480	13,859	13,663
Electric Transmission	4,712	8,579	4,781	2,274	4,751
Rocky Reach Hydro	8,979	13,269	15,772	8,331	12,233
Rock Island Hydro	5,520	18,018	35,551	31,565	31,811
Lake Chelan Hydro	326	515	450	1,300	1,250
Internal Service	8,282	7,288	11,091	9,622	7,642
Fiber & Telecom	2,253	4,497	3,734	2,505	1,641
Water	452	487	513	524	535
Wastewater	136	377	2,242	2,621	1,273
Total	41,189	67,171	87,614	72,601	74,799
Q2 Forecast – Total	43,912	64,889	72,839	55,634	75,135

Combined Cash/Liquidity

(millions)	Balance			Year-End 2014		
	YE 2013	Q2 2014	Q3 2014	Budget	Q2 Forecast	Q3 Forecast
Unrestricted Funds:	\$268.4	\$297.9	\$240.9	\$250.0	\$259.1	\$258.8
Debt Reduction/Capital Recover	\$54.6	\$68.5	\$75.6	\$74.5	\$77.3	\$80.0
Bond Reserves	\$58.4	\$48.4	\$51.5	\$58.6	\$56.2	\$56.2
Contract Prepayment	\$18.5	\$18.5	\$18.5	\$18.5	\$18.5	\$18.5
Construction	\$11.2	\$9.2	\$7.8	\$6.3	\$2.0	\$1.1
Self Insurance/Other	\$9.9	\$10.7	\$10.3	\$9.0	\$10.9	\$9.9
Restricted Funds:	\$152.6	\$155.3	\$163.7	\$166.9	\$164.9	\$165.7
Total Cash & Investments	\$421.0	\$453.2	\$404.7	\$416.9	\$424.0	\$424.5
Restricted Funds Available	\$22.5	\$36.4	\$56.5	\$55.4	\$58.3	\$60.9
Liquidity (unrestricted & available)	\$290.9	\$334.3	\$297.4	\$305.4	\$317.4	\$319.7

Cash/Liquidity Five-Year Forecast

(millions)	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Unrestricted Funds:	\$258.8	\$212.1	\$250.1	\$255.7	\$283.0
Debt Reduction/Capital Recover	\$80.0	\$80.0	\$56.6	\$43.6	\$26.8
Bond Reserves	\$56.2	\$55.2	\$55.2	\$53.5	\$53.5
Contract Prepayment	\$18.5	\$18.5	\$18.5	\$18.5	\$18.5
Construction	\$1.1	\$---	\$---	\$---	\$---
Self Insurance/Other	\$9.9	\$9.9	\$9.9	\$9.9	\$9.9
Restricted Funds:	\$165.7	\$163.6	\$140.2	\$125.5	\$108.7
Total Cash & Investments	\$424.5	\$375.8	\$390.3	\$381.2	\$391.6
Q2 Forecast - Total Cash & Investments	\$424.0	\$380.4	\$411.3	\$421.4	\$435.0

Financial Policy – Financial Liquidity

Methodology Per Resolution #11-13616

COMBINED	2014	2015	2016	2017	2018
District Total Liquidity Targets	\$175	\$175	\$175	\$175	\$175
Base Case – expected (~50% probability)	\$320	\$292	\$307	\$299	\$310
Base Case – unusual (~5% probability)		\$278	\$289	\$287	\$296
“What-If” – low natural gas price, poor water, increased costs & high renewables		\$279	\$274	\$247	\$216
District Unrestricted Reserve Minimum	\$150	\$150	\$150	\$150	\$150
Base Case – expected (~50% probability)	\$259	\$212	\$250	\$256	\$283
Base Case – unusual (~5% probability)		\$198	\$232	\$243	\$269
“What-If” – low natural gas price, poor water, increased costs & high renewables		\$201	\$222	\$210	\$199

Financial Policy – Rate of Return

(Change in Net Position/Net Plant)

COMBINED	2014	2015	2016	2017	2018
District Targets (expected)	> 4%	> 4%	> 4%	> 4%	>4%
District Targets (unusual)	> 2%	> 2%	> 2%	> 2%	> 2%
Base Case – expected (~50% probability) <i>Bottom-line expectation</i>	8.2% \$88M	8.9% \$97M	7.6% \$85M	7.0% \$80M	6.6% \$78M
Base Case – unusual (~5% probability) <i>Bottom-line expectation</i>		7.6% \$82M	6.0% \$67M	5.9% \$68M	5.4% \$63M
“What-If” – low natural gas price, poor water, increased costs & high renewables <i>Bottom-line expectation</i>		8.0% \$88M	6.1% \$69M	5.5% \$64M	3.4% \$40M

Financial Policy – Debt Ratio

(Debt/(Debt + Equity))

COMBINED	2014	2015	2016	2017	2018
District Targets	< 60%	< 55%	< 50%	< 45%	< 40%
Outstanding Debt Est. (million)	<i>\$735</i>	<i>\$612</i>	<i>\$586</i>	<i>\$520</i>	<i>\$481</i>
Base Case – expected (~50% probability)	53.2%	45.2%	41.4%	36.3%	32.7%
Base Case – unusual (~5% probability)		45.7%	41.9%	36.7%	33.1%
“What-If” – low natural gas price, poor water, increased costs & high renewables		45.5%	42.1%	37.4%	34.6%

Financial Policy – Debt Service Coverage

(Net Funds from Operations/Computed Debt Service)

COMBINED	2014	2015	2016	2017	2018
District Targets (expected)	2.00	2.00	2.00	2.00	2.00
District Targets (unusual)	1.25	1.25	1.25	1.25	1.25
<i>Annual Cover Requirement (million)</i>	<i>\$67.6</i>	<i>\$67.8</i>	<i>\$57.4</i>	<i>\$65.7</i>	<i>\$64.2</i>
Base Case – expected (~50% probability)	2.55	2.62	2.87	2.46	2.39
Base Case – unusual (~5% probability)		2.41	2.55	2.27	2.17
“What-If” – low natural gas price, poor water, increased costs & high renewables		2.49	2.60	2.22	1.81

Business Lines – Financial Liquidity

Per Resolution #12-13729

BUSINESS LINES	2014	2015	2016	2017	2018
Integrated Electric Liquidity Targets	\$171M	\$170M	\$169M	\$173M	\$170M
Integrated Electric Liquidity Forecast	\$252M	\$207M	\$248M	\$254M	\$281M
Fiber & Telecom Liquidity Targets			\$4.0M	\$4.0M	\$4.0M
Fiber & Telecom Liquidity Forecast	\$5.5M	\$4.3M	\$2.3M	\$1.8M	\$2.3M
Water Liquidity Targets	\$2.0M	\$2.0M	\$2.0M	\$2.0M	\$2.0M
Water Liquidity Forecast	\$0.5M	\$0.4M	\$0.3M	\$0.3M	\$0.3M
Wastewater Liquidity Targets	\$250K	\$250K	\$250K	\$250K	\$250K
Wastewater Liquidity Forecast	\$262K	\$163K	\$(56)K	\$(340)K	\$(680)K

Forecasted results are currently below targets

Business Lines – Rate of Return

(Change in Net Position/Net Plant)

BUSINESS LINES	2014	2015	2016	2017	2018
Integrated Electric Rate of Return Targets	4.7%	4.5%	4.5%	4.5%	4.5%
Integrated Electric Rate of Return Forecast	9.3%	9.9%	8.4%	7.8%	7.4%
Fiber & Telecom Rate of Return Targets			0.0%	0.0%	0.0%
Fiber & Telecom Rate of Return Forecast	(5.0%)	(1.5%)	(2.1%)	(2.2%)	(2.7%)
Water Rate of Return Targets			1.0%	1.0%	1.0%
Water Rate of Return Forecast	0.1%	0.1%	0.3%	0.4%	0.0%
Wastewater Rate of Return Targets			0.0%	0.0%	0.0%
Wastewater Rate of Return Forecast	(4.7%)	(4.9%)	(4.6%)	(4.7%)	(4.3%)

Forecasted results are currently below targets

Business Lines – Debt Ratio

(Debt/(Debt + Equity))

BUSINESS LINES	2014	2015	2016	2017	2018
Integrated Electric Debt Ratio Targets	< 60%	< 55%	< 50%	< 45%	< 40%
Integrated Electric Debt Ratio Forecast	56.5%	47.9%	43.6%	38.1%	34.1%
Fiber & Telecom Debt Ratio Targets	No debt				
Fiber & Telecom Debt Ratio Forecast					
Water Debt Ratio Targets	< 60%	< 55%	< 50%	< 45%	< 40%
Water Debt Ratio Forecast	30.8%	29.4%	27.7%	26.1%	24.4%
Wastewater Debt Ratio Targets	< 60%	< 55%	< 50%	< 45%	< 40%
Wastewater Debt Ratio Forecast	6.3%	11.2%	28.1%	38.6%	43.6%

Business Lines – Debt Coverage

(Net Funds from Operations/Computed Debt Service)

BUSINESS LINES	2014	2015	2016	2017	2018
Integrated Electric Debt Coverage Targets	1.98	1.98	1.98	1.99	1.99
Integrated Electric Debt Coverage Forecast	2.54	2.62	2.88	2.46	2.39
Fiber & Telecom Debt Coverage Targets	No debt				
Fiber & Telecom Debt Coverage Forecast					
Water Debt Coverage Targets			1.25	1.25	1.25
Water Debt Coverage Forecast	1.19	1.18	1.26	1.30	1.31
Wastewater Debt Coverage Targets			1.25	1.25	1.25
Wastewater Debt Coverage Forecast	(1.09)	(0.61)	(0.31)	(0.19)	(0.25)

Forecasted results are currently below targets



Quarterly Investment Report for the quarter ending September 30, 2014

All \$ values are shown in '000s
Prepared in accordance with District Banking and Investment Policy #13-13811

Portfolio Summary

	Q2 2014	Q3 2014	YTD 2014	WAM
Average Invested Book Value	\$446,938	\$379,901	\$416,719	
Interest Earned	\$1,154	\$1,235	\$3,516	
District Yield	1.04%	1.29%	1.13%	983
Benchmarks:				
3 Month T-Bill	0.03%	0.02%	0.03%	91
Barclays Gov. 1-3 Yr Index	0.45%	0.56%	0.48%	655
LGIP (State Pool)	0.09%	0.10%	0.10%	43
Fed Funds Effective	0.09%	0.09%	0.08%	1

Policy Compliance

+ Diversification

+ Maturity Length

General Commentary:

For Q3 2014, the District's yield rose from 1.04% to 1.29% on an average invested book value of \$380 million. This change in yield is primarily due to holding less cash and extending the average maturity from 744 days to 983 days.

The Federal Open Market Committee's September 17, 2014 meeting reported that the economy is showing sufficient strength to support moderate expansion and continued improvement in the labor market without further intervention. The Committee will continue its measured reduction of asset purchases. Beginning in October, the Committee will purchase agency mortgage-backed securities and Treasury securities at a rate of \$5 billion and \$10 billion per month, respectively. The target federal funds rate will remain at 0.00%-0.25% until employment and inflation goals are reached.

Portfolio Diversification:

US Treasuries continue to be viewed as the best investment value in the current low interest rate environment, particularly for short-term holdings and increased cash for debt service payments.

Maturity Length:

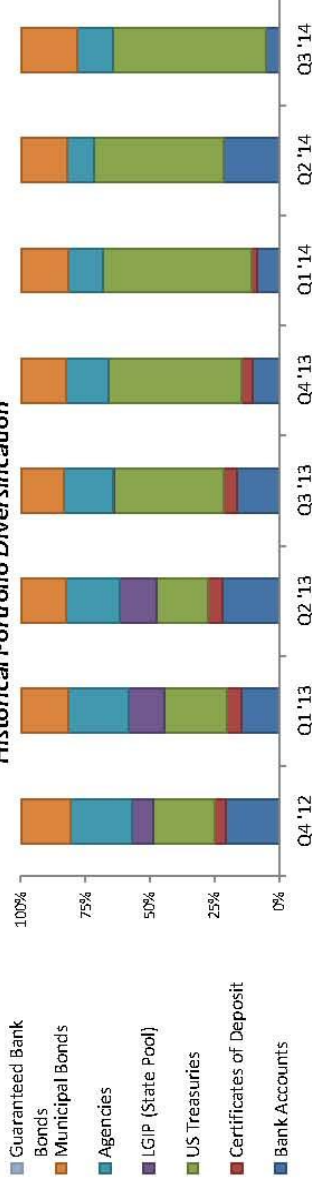
Ongoing refinement of a multi-year ladder investment strategy is expected to continue to extend the Weighted Average Maturity (WAM) of the District's portfolio and also contribute to favorable yield opportunities. All investments are matched to a specific cash flow or mature within 5 years as specified in the investment policy.

Investments by Type - as of September 30, 2014

	Par Value	GASB 31 Reported Value	Book Value	Book Value as % of Portfolio	Policy % Limit	WAM
Bank Accounts	\$ 21,402	\$ 21,402	\$ 21,402	5.31%	75%	1
Certificates of Deposit	\$ -	\$ -	\$ -	0.00%	40%	0
US Treasuries	\$ 237,445	\$ 239,694	\$ 238,233	59.16%	100%	1130
LGIP (State Pool)	\$ 0	\$ 0	\$ 0	0.00%	15%	1
US Agencies	\$ 55,430	\$ 55,333	\$ 55,371	13.75%	30%	844
Municipal Bonds	\$ 86,730	\$ 88,302	\$ 87,718	21.78%	30%	911
Total:	\$ 401,007	\$ 404,731	\$ 402,724			983

Numbers may not foot due to rounding

Historical Portfolio Diversification





Quarterly Investment Report for the quarter ending September 30, 2014

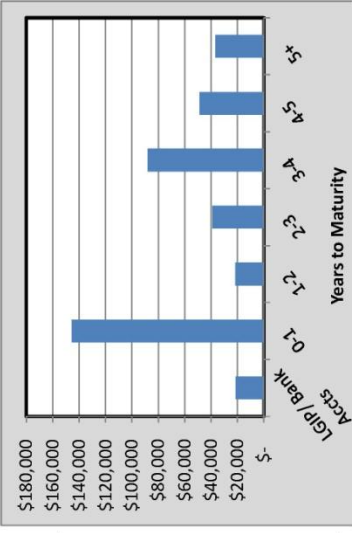
All \$ values are shown in '000s

Maturity Distribution - as of September 30, 2014

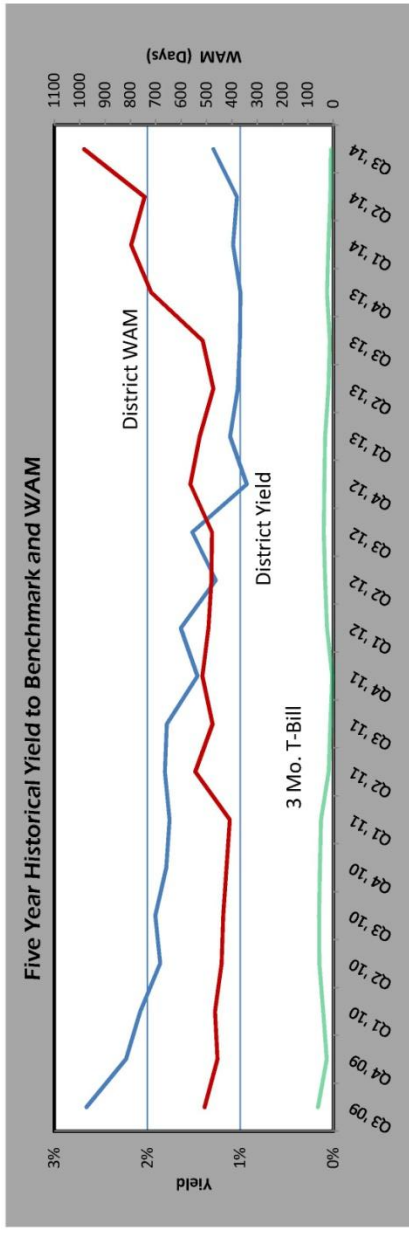
Maturity	Par Value	% of Portfolio	Cumulative % of Portfolio
LGIP \$	0	0.00%	0.00%
Bank Accounts \$	21,402	5.34%	5.34%
1-90 Days \$	82,920	20.68%	26.01%
91-180 Days \$	35,000	8.73%	34.74%
181-365 Days \$	27,585	6.88%	41.62%
1-2 Yrs \$	21,652	5.40%	47.02%
2-3 Yrs \$	38,965	9.72%	56.74%
3-4 Yrs \$	88,080	21.96%	78.70%
4-5 Yrs \$	48,619	12.12%	90.83%
5+ Yrs \$	36,784	9.17%	100.00%

Total: \$ 401,007 100%

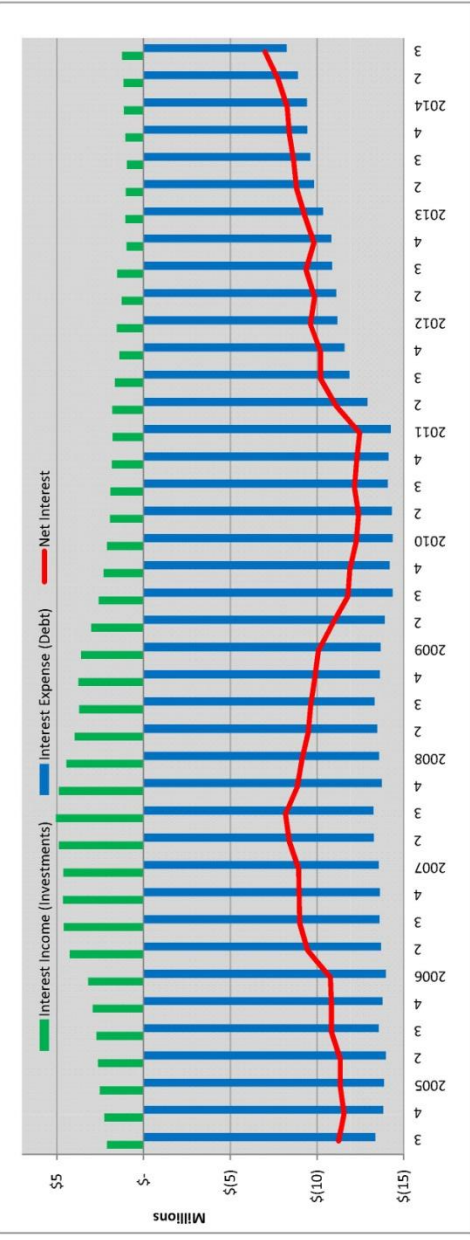
Numbers may not foot due to rounding



Historical Yields/Weighted Average Maturity(WAM), by Quarter



Historical Net Interest, by Quarter





Quarterly Investment Report for the quarter ending September 30, 2014

Definitions

All investment types listed below are authorized by the State Investment Board, RCWs, and District Policy

Average Effective Maturity (AEM)- weighted average maturity adjusted for securities that are variable rate or that are expected to be called.

Average Rate of Return- the amount of money earned on investments, expressed as an annualized percent of average book value.

Bank Accounts- a savings account, checking account or similar account at qualified public depositories. Demand deposit accounts, negotiable order of withdrawal (NOW) accounts, and automatic transfer service (ATS) accounts are examples of **Bankers Acceptance (BA)** - time draft or bill of exchange drawn on a bank and accepted by that bank. The draft is stamped "accepted" and signed by a bank officer. By accepting the draft, the bank agrees to pay the face value of the obligation if the issuer fails to pay. Maturities generally last from 30 to 180 days.

Book Value- original cost of a bond less amortization.

Commercial Paper (CP) - short term unsecured money market obligation, issued by prime rated commercial firms and financial companies, with maturities from 2 to 270 days, that is a promissory note of the issuer used to finance current

Federal Agency Securities (Agency) - interest bearing debt securities of U.S. departments and agencies which include the 12 Federal Home Loan Banks, the Federal National Mortgage Association, and the Federal Housing Authority. Examples of Agency types include: Fannie Mae (FNMA, FNDN), Freddie Mac (FHLMC, FMCDN), Federal Home Loan Bank (FHLB, FHDN) and Federal Farm Credit Bank Notes (FFCB).

Forward Purchase and Sale Agreement (FPSA) - contract that provides for the delivery of specific types of securities on specified future dates at fixed yields.

GASB 31 Market Value- the securities' reported value, according to Government Accounting Standards Board Rule 31. If a security has a maturity of greater than one year at the time of purchase, it is reported at market value. If it has a maturity of less than one year at the time of purchase, it is reported at its book value.

Guaranteed Bank Bonds-Debt securities issued by a financial institution that are guaranteed by an agency of the federal government as allowed by RCW 39.60.050.

Local Government Investment Pool (LGIP) - funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment. These funds are completely liquid, there is no required holding period or fixed **Long Term REPO (L-T REPO)** - contract to sell and subsequently repurchase securities at a specified date and price, with maturities of longer than 30 days.

Municipal Bonds - Debt (bonds, notes, warrants, etc) issued by a state or local government or municipality as authorized by RCW 39.59.020.

Par Value- the stated or face value of a bond.

Repurchase Agreement (REPO) - contract to sell and subsequently repurchase securities at a specified date and price, with maturities of no longer than 30 days.

Treasury Bills (T-Bill) - short-term U.S. Treasury security with maturities of 13, 26, or 52 weeks.

Treasury Notes (T-Note) - intermediate-term, coupon bearing U.S. Treasury securities having initial maturities of less than 10 years and paying interest semiannually.

Unamortized Book Value - the remaining premium or discount on a fixed income security, which equals the difference between par and book value.

Weighted Average Maturity (WAM)- the average amount of time it takes for securities to mature, using each security's book value as the weight.