

# Chelan County PUD

## Quarterly Financial Review

For the Quarter Ended June 30, 2017

Board Presentation

August 7, 2017

# What we will cover today...

**Financial Highlights**

**Second Quarter Results**

**5-Year Look Forward**

**Key Messages**

- Update only, no action required
- Appendix: Additional detailed information not covered today

# Key Highlights

## 2017 Bottom-line results better than budget

- *YTD-2017 result \$57.1 million (\$11.5M better than budget)*
- *2017 forecast \$95.1 million (\$9.7M better than budget)*
- *Combination of higher revenues from colder weather and cost-based contracts and lower operating costs*

## 2017 Financial metrics meeting targets

- Financial Liquidity = **\$377M**      Target > \$175M
- Days Cash on Hand = **582**      Target > 250
- Rate of Return = **8.4%**      Target >4%
- Debt Ratio = **37.8%**      Target <45%-2017, <35%-2019
- Debt Service Coverage = **3.21**      Target >2.00x

**Recommend continuing strategic goals: Reinvest in assets and people, reduce debt, continue public power benefit program**

# Financial Highlights - Revenue

## Net Wholesale Revenue:

YTD result \$1.0 million above budget  
(\$60.3M vs. \$59.3M)

Annual forecast higher than budget  
(\$115.5M vs \$114.1M)

### Drivers:

- + Generation 107% of budget YTD
- retail energy use 113% of budget YTD
- + Alcoa surplus sales retained while curtailed ~\$1.8M in Q1
- Hedging program minimizes impact of 2017 flat price \$19.8 vs \$22.5 budget

## Hydro Long-Term Contract Revenue:

YTD result \$1.0 million below budget  
(\$59.6M vs. \$60.9M)

Annual forecast in line with Budget  
(\$124.5M vs \$124.6M)

### Drivers:

- Combined hydro “cost based” operating expenses below budget (94% YTD)
- “Plus” contract charges less than budgeted levels (93% YTD)

# Financial Highlights - Revenue

## Service Revenue:

YTD result \$3.1 million above budget  
(\$34.6M vs. \$31.5M)

Forecast results better than budget  
(\$66.8M vs \$63.4M )

### Drivers:

+ Retail energy use at 113% of budget:  
(Residential ~122%, Industrial ~107%,  
Commercial ~108%)  
+Colder than normal winter

## Other Operating Revenue:

YTD result \$3.3 million above budget  
(\$13.7M vs. \$10.4M)

Forecast results in better than budget  
(\$23.7M vs \$20.9M)

### Drivers:

+ ~\$3 million recognition of revenue  
associated with the ~\$7 million deferral  
payment from the Alcoa contract  
(remainder spread over life of contract)

# Financial Highlights - Expenses

## Operating Expense:

YTD result \$4.3 million below budget  
(\$73.9. vs. \$78.2M)

Forecast results below budget  
(\$160.3M vs \$162.2M)

### Drivers:

- Electric Transmission at 82% of YTD budget/expected to partially catch up by year end
- Hydro Operations and Maintenance at 86% of YTD budget/expected to nearly catch up by year end

## Non-Operating Net Expense:

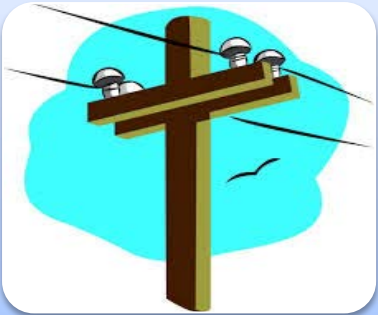
YTD result \$1.2 million better than budget (\$8.2M vs. \$9.4M)

Forecast result in line with budget  
(\$18.0M vs \$17.7M)

### Drivers:

- + Higher contributions in aid of construction YTD (\$3.6M vs \$2.6M)
- +Line extensions (count: 140 YTD vs 104 PYTD: 34% increase)

# Financial Highlights – Cost per unit



## Electric fully loaded cost per avg kWh higher than budget

YTD - 2017 ¢/kWh result – **5.72¢ vs. 5.65¢** (actual vs. budget)

Power production costs- 2.17¢ vs. 2.16¢ (actual vs. budget)

Power distribution costs- 3.55¢ vs. 3.49¢ (actual vs. budget)

\*Higher retail usage resulting in higher retail taxes \$500K, offset in revenues

(Note: Fully loaded cost is not a cost of service analysis which includes offsets)



## Hydro production cost per avg MWh better than budget

YTD - 2017 \$/MWh result - **\$16.2 vs. \$16.8** (actual vs. budget)

### Actual vs. Budget

Rocky Reach \$12.5 vs. \$12.6 (operating expense ~98% YTD)

Rock Island \$24.2 vs. \$25.7 (operating expense ~89% YTD)

Lake Chelan \$17.7 vs. \$18.8 (operating expense ~90% YTD)

# Financial Highlights – Cost per unit

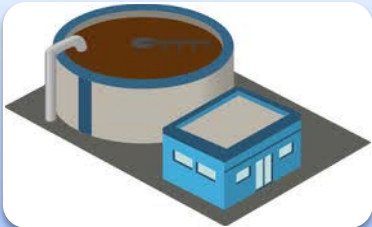


## Water cost per 1,000 gallons higher than budget

YTD - 2017 result - \$6.88 vs. \$6.56 (actual vs. budget)

YTD - 2017 operating expense 103% of budget

\*operational costs associated w/ unplanned pump repair



## Wastewater annual cost per ERU higher than budget

Rolling 12 month result - \$1,265 vs. \$1,053 (actual vs. budget)

YTD - 2017 operating expense 152% of budget

\*Reclassification of Dryden pipeline from deferred to O&M ~200K due to change in plans



## Fiber annual cost per active premise higher than budget

Rolling 12 month result - \$427 vs. \$420 (actual vs. budget)

YTD - 2017 operating expense 110% of budget

\*Maintenance support contract timing



# Financial Highlights – Balance Sheet

## Capital expenditures below budget

- 2017 YTD \$26.1 million vs. budget of \$49.6 million
- 2017 Forecast results above 2017 budget (\$98M vs. \$96M)  
(monitoring for now, as still early in year)
- Individual project adjustments:
  - ↓ RR Generator Fire Protect System (~\$1.6M shifted from 2017 to 2019)
  - ↑ RI B5 Modernization (\$2.3M shifted from future years to 2017)
  - ↓ RI B7 Modernization (\$2.7M shifted from 2017 to future years)
  - ↑ RI B8 Modernization (\$2.3M shifted from future years to 2017)
  - ↓ Distribution and Shared Fleet (\$1.2M shifted to 2018)
  - ↓ BPON to GPON Completed (\$0.5M below Forecast at Q1)

## Cash remains strong / Debt reduction strategy on track

- Cash balance forecasted to decrease ~\$18 million in 2017
- Debt balance to decrease ~\$52 million in 2017

# 2017 Bottom-Line Results

(in 000s)	2017 Current Forecast	2017 Budget	% of budget
Service Revenue	66,791	63,373	105%
Energy Resources Net Wholesale	115,530	114,138	101%
Hydro LT Contract Rev/Other PP	123,153	123,252	100%
Other Operating Revenue	23,745	20,886	114%
Other Operating Expense	(160,321)	(162,208)	99%
Depreciation & Tax Expense	(55,723)	(56,344)	99%
<b>Operating Income/(Loss)</b>	<b>113,176</b>	<b>103,097</b>	<b>110%</b>
Non-Operating Activity	(18,036)	(17,740)	102%
<b>"Bottom Line"</b>	<b>95,139</b>	<b>85,356</b>	<b>111%</b>

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



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# Business Line “Bottom-Line” Results

(in 000s)	2017 Current Forecast	2017 Budget	% of budget
Cost-Based Activity	41,684	38,859	107%
Market-Based Activity	56,934	53,985	105%
Retail Activity	(18,222)	(20,333)	90%
Other Activity	10,271	10,131	101%
<b>Integrated Electric</b>	<b>90,667</b>	<b>82,641</b>	<b>110%</b>
Fiber & Telecom	4,372	2,274	192%
Water	511	620	82%
Wastewater	(411)	(179)	230%
<b>Combined "Bottom-Line"</b>	<b>95,139</b>	<b>85,356</b>	<b>111%</b>

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



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# Capital Expenditures

(in 000s)	2017 YTD Current	2017 YTD Budget	% of budget	2017 Current Forecast	2017 Budget	% of budget
Electric Distribution	4,802	5,131	94%	12,080	12,595	96%
Network Transmission	818	1,986	41%	3,338	3,886	86%
Rocky Reach	3,975	8,631	46%	12,563	13,179	95%
Rock Island	12,740	25,443	50%	50,476	45,542	111%
Lake Chelan	14	165	9%	805	1,099	73%
Internal Services	2,069	5,933	35%	13,359	14,427	93%
Fiber & Telecom	1,616	1,960	82%	3,576	3,970	90%
Water	117	278	42%	1,087	1,116	97%
Wastewater	(32)	64	-51%	355	418	85%
<b>Total Expenditures</b>	<b>26,119</b>	<b>49,591</b>	<b>53%</b>	<b>97,640</b>	<b>96,232</b>	<b>101%</b>
Contributions	(3,621)	(2,588)	140%	(4,676)	(5,177)	90%
<b>Capital net of CIAC</b>	<b>22,498</b>	<b>47,003</b>	<b>48%</b>	<b>92,963</b>	<b>91,055</b>	<b>102%</b>

# Overview of YTD - 2017 Cash Flow

	\$ Million
Bottom-line result (YTD - 2017)	\$57
Add back non-cash related items (depreciation)	\$ 23
<b>Estimated earned funds from operations</b>	<b>\$ 80</b>
Capital Project Expenditures, net of contributions	\$23
Net Debt Reductions	\$22
Alcoa deferral payment (~\$7M less ~\$3M recognized)	\$4
Other Misc. Impacts (A/R, A/P, Inventory, Etc.)	\$7
Added to cash reserves	\$ 24
<b>Estimated use of funds</b>	<b>\$ 80</b>
Cash and investments, beginning of year	\$ 483
Added to cash reserves	\$ 24
<b>Cash and investments, end of Q2</b>	<b>\$ 507</b>



# Cash & Investments Balance

(\$ Millions)	<u>6/30/17</u>	<u>12/31/16</u>
<b>Unrestricted funds (policy minimum \$150M)</b>	<b>\$353</b>	<b>\$306</b>
Restricted – DRC & CRC funds for Hydro capital/debt	<u>76</u>	<u>90</u>
<b>Total Liquidity (policy minimum \$175M)</b>	<b>\$429</b>	<b>\$396</b>
Restricted - bond reserve funds	44	55
Restricted - power contract deposits	23	20
Self insurance and other restricted funds	<u>11</u>	<u>12</u>
<b>Total Cash and Investments</b>	<b><u>\$507</u></b>	<b><u>\$483</u></b>

# Quarterly Reporting Requirement - Financial Policies




District Combined	2017	2018	2019	2020	2021
Liquidity - \$175M Min (Expected)	\$377M	\$279M	\$216M	\$209M	\$199M
Liquidity - \$175M Min (Unusual)	\$375M	\$272M	\$203M	\$190M	\$179M*
Debt Ratio (Expected <35% by 2019)	37.8%	32.3%	26.8%	24.0%	21.8%
Debt Ratio (Unusual <35% by 2019)	37.9%	32.5%	27.0%	24.3%	22.8%
Days Cash on Hand (Expected >250)	582	453	349	337	329
Days Cash on Hand (Unusual > 250)	580	441	328	304	296
Combined Debt Cover (Expected > 2.00x)	3.21	2.73	2.71	2.80	2.72
Combined Debt Cover (Unusual >1.25x)	3.18	2.62	2.59	2.65	2.46
Rate of Return (Expected > 4% thru 2019)	8.4%	5.4%	4.6%	Sunset	
Rate of Return (Unusual > 2% thru 2019)	8.3%	4.9%	4.1%		
Bottom Line Results (Expected)	\$95M	\$65M	\$57M	\$48M	\$43M
Bottom Line Results (Unusual)	\$94M	\$59M	\$51M	\$41M	\$33M
Outstanding Debt (Expected)	\$537M	\$452M	\$368M	\$331M	\$306M
Outstanding Debt (Unusual)	\$537M	\$452M	\$368M	\$331M	\$315M*

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.

\* Assumes external debt financing to maintain liquidity targets

# Quarterly Reporting Requirement Individual Business Line Financial Policies

*\*Future quarterly updates to include new retail electric metrics being developed in 2018-2022 business planning process.*

Business Lines	2017	2018	2019	2020	2021
<b>WATER Business Line</b> 					
Operating Expense Coverage (target >120%)	134%	133%	130%	133%	130%
Cash Reserves (target > \$1.25 million)	\$3.4M	\$3.1M	\$3.1M	\$2.2M	\$1.0M
Debt Ratio (target <35%)	13%	11%	10%	9%	7%
<b>WASTEWATER Business Line</b> 					
Operating Expense Coverage (target >100% by 2019)	75%	97%	108%	107%	107%
Cash Reserves (target > \$200K)	\$2.2M	\$2.5M	\$2.6M	\$3.0M	\$2.9M
Debt Ratio (target <35%)	---	---	9%	9%	16%
<b>FIBER Business Line</b> 					
Operating Expense Coverage (target >120%)	186%	160%	148%	160%	159%
Cash Reserves (target > \$2.0 million)	\$12.2M	\$10.4M	\$10.6M	\$11.8M	\$13.9M
Debt Ratio (target <35%)	---	---	---	---	---

Financial Policy not met. Action plan is to address this through current 2018-2022 business planning process.



# Quarterly Investment Report

In compliance with District Banking and Investment Policy #16-14094

	Q3 2016	Q4 2016	Q1 2017	Q2 2017	YTD 2017	WAM
Average Invested Book Value (\$M)	\$440	\$464	\$485	\$499	\$492	
District Yield	1.69%	1.61%	1.67%	1.66%	1.67%	711
Benchmarks:						
3 Month T-Bill	0.31%	0.44%	0.60%	0.92%	0.76%	91
Barclays Gov. 1-3 Year Index	0.75%	1.02%	1.24%	1.31%	1.27%	664

- Q2 2017 yield fell slightly to 1.66% due to holding higher cash balances for debt service
- June 17, 2017 Federal Open Market Committee meeting report:
  - Economic activity continued to strengthen at a moderate pace
  - Continuing to monitor inflation indicators and global developments, the near term outlook appears stable
  - Federal funds rate target range raised from 1.00% to 1.25%
  - Gradually increasing, although continued relatively low rates, are anticipated through 2017
- Uncertainty around changes in the political climate can influence financial markets, which may impact the District
- Laddered investment structure continues to be our strategy to support safety of principal and liquidity and mitigate interest rate volatility

## Policy Objectives & Compliance

- Safety
- Liquidity
- Return on Investment
- Diversification
- Maturity Length

\* Full report is in the Appendix.

# Key Messages

## 2017 early results better than budget

- YTD 2017 Bottom-Line (*better than budget and forecast to be ~\$10M better for the year*)
- Combination of higher revenues from colder weather and lower costs

## Long-term financial policies on track

- Bottom-line forecasts ~\$95M declining to ~\$43M (2017-21): reflecting a decline in forecasted electric wholesale prices over our planning horizon
- Total cash reserves forecasted to decline for planned beneficial uses to reduce debt and reinvest in core assets - lower balances still strong (2017-21)
- Further analysis on long term spending plans and debt strategies will continue as part of the ongoing business planning cycle

## Stay the course with strategic goals

- Reinvest in core assets and people
- Reduce debt by about ~\$52M in 2017 and achieve <35% debt ratio by 2019
- Continue public power benefit program

# Appendix

*The information in the appendix 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.*

# Service Revenue

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Residential Electric	15,804	13,403	118%	Cold winter / high usage
Commercial Electric	8,831	8,217	107%	Partially weather driven usage
Industrial Electric	2,273	2,084	109%	Industrial & HDL in aggregate at 102% of budget.
High Density Load	706	843	84%	
Other Electric	594	823	72%	Weather driven variance
<b>Electric Service</b>	<b>28,208</b>	<b>25,370</b>	<b>111%</b>	
<b>Water Service</b>	<b>2,601</b>	<b>2,524</b>	<b>103%</b>	In line with budget
<b>Wastewater Service</b>	<b>311</b>	<b>316</b>	<b>98%</b>	In line with budget
<b>Fiber &amp; Telecom</b>	<b>3,523</b>	<b>3,336</b>	<b>106%</b>	In line with budget
<b>Service Revenue</b>	<b>34,643</b>	<b>31,546</b>	<b>110%</b>	

Note: Excludes internal intersystem revenues

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

# Net Surplus Energy Revenue

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Slice Contracts	39,630	39,533	100%	In line with budget
Net Block Trades	17,695	16,986	104%	Retail usage offset by increased production due to high flows
Other Net Wholesale	2,931	2,823	104%	
<b>Energy Resources Net Wholesale</b>	<b>60,255</b>	<b>59,342</b>	<b>102%</b>	
LT Hydro Contracts	59,558	60,894	98%	In line with budget
Less Other Purchased Power	(662)	(660)	100%	In line with budget
<b>Hydro LT Contract Rev/Other PP</b>	<b>58,896</b>	<b>60,234</b>	<b>98%</b>	
<b>Surplus Energy Revenue</b>	<b>119,151</b>	<b>119,576</b>	<b>100%</b>	

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

# Operating Expense

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Hydro Operations & Maintenance	23,318	26,964	86%	Timing of large unit repairs
Hydro Fish & Wildlife	6,229	7,378	84%	Hatchery contract timing
Hydro Parks & Recreation	3,082	3,138	98%	In line with budget
Electric Distribution	6,589	6,021	109%	Substation and OH line O&M
Electric Transmission	5,291	6,471	82%	Peak RC/Peak RCTA dues
Misc. Power Supply Expenses	2,207	2,537	87%	OATI web trader timing
Water & Wastewater	1,608	1,395	115%	WW deferred costs to O&M
Fiber Network	2,160	1,922	112%	Crew maintenance labor
Customer Accounts & Service	1,815	1,803	101%	In line with budget
Conservation & Customer Assist	1,191	1,447	82%	Amortization of reg asset
Insurance & FERC Fees	3,772	4,058	93%	Security related materials
Other Admin & General	16,612	15,018	111%	Budget (payroll accrual timing)
<b>Total</b>	<b>73,874</b>	<b>78,151</b>	<b>95%</b>	

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

# Non-Operating Activity

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Interest Earnings	3,887	4,007	97%	In line with budget
Capital Contributions	3,614	2,587	140%	Line extensions
Interest Expense	(13,961)	(13,985)	100%	In line with budget
Other Inc/(Exp)	(1,720)	(1,962)	88%	Small dollar variance
<b>Non Operating Activity</b>	<b>(8,180)</b>	<b>(9,354)</b>	<b>87%</b>	

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

# Integrated Electric

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Service Revenue	28,249	25,413	111%	Cold winter / higher usage
Energy Resources Net Wholesale	60,255	59,342	102%	Additional surplus/offset by high usage
Hydro LT Contract Rev/Other PP	58,896	60,234	98%	Cost based portion below budget
Other Operating Revenue	14,452	10,777	134%	Alcoa contract deferral
Other Operating Expense	(70,698)	(74,869)	94%	Hydro O&M/Trans. Exp below budget
Depreciation & Tax Expense	(25,870)	(25,556)	101%	In line with budget
<b>Operating Income/(Loss)</b>	<b>65,284</b>	<b>55,342</b>	<b>118%</b>	
Non-Operating Activity	(10,734)	(11,842)	91%	Line extension contributions
<b>"Bottom Line"</b>	<b>54,550</b>	<b>43,499</b>		

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



# Fiber & Telecom

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Service Revenue	5,080	4,557	111%	Internal dark fiber connections
Other Operating Revenue	1	1	n/a	In line with budget
Other Operating Expense	(3,237)	(2,941)	110%	Contracts paid early/in line by year end
Depreciation & Tax Expense	(1,176)	(1,558)	75%	Depreciation estimate refinement
<b>Operating Income/(Loss)</b>	<b>668</b>	<b>59</b>	<b>1140%</b>	
Non-Operating Activity	2,240	2,201	102%	In line with budget
<b>"Bottom Line"</b>	<b>2,908</b>	<b>2,260</b>		

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

# Water

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Service Revenue	2,653	2,620	101%	In line with budget
Other Operating Revenue	30	30	99%	In line with budget
Other Operating Expense	(1,858)	(1,809)	103%	In line with budget
Depreciation & Tax Expense	(1,131)	(1,128)	100%	In line with budget
<b>Operating Income/(Loss)</b>	<b>(306)</b>	<b>(287)</b>	<b>106%</b>	
Non-Operating Activity	264	244	108%	Small dollar variance
<b>"Bottom Line"</b>	<b>(41)</b>	<b>(43)</b>		

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

# Wastewater

(in 000s)	Actuals YTD 2017	Budget YTD 2017	%	Variance
Service Revenue	311	316	98%	In line with budget
Other Operating Revenue	1	1	116%	Small dollar variance
Other Operating Expense	(507)	(334)	152%	Dryden pipeline: Deferral to O&M
Depreciation & Tax Expense	(136)	(125)	108%	Small dollar variance
<b>Operating Income/(Loss)</b>	<b>(331)</b>	<b>(142)</b>	<b>232%</b>	
Non-Operating Activity	49	43	114%	Small dollar variance
<b>"Bottom Line"</b>	<b>(281)</b>	<b>(99)</b>		

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

# Actual Cash Balance Comparison to Budget

(millions)	2017
<b>Total Cash – Budgeted year-end balance</b>	<b>\$ 439</b>
Key changes in cash forecast:	
Increase in capital projects	(\$ 1)
Improvement in operating activity	\$ 8
Alcoa contract deferral (\$7M less \$3M recognized in income)	\$ 4
Other changes in A/R, A/P, inventory, etc.	\$ 15
<b>Total Cash – Current forecast year-end balance</b>	<b>\$ 465</b>
Prior quarter – 2017 year-end forecasted balance	\$ 449

# Five-year outlook

## Key modeling assumptions:

- Past water history and current forward price curve
- Water & Wastewater rate increase placeholders
- Planned expenditures from 5-year business plans
- Debt reduction plan based on 5-year business plans
- Hydro contract terms set at maximum rates
  - Debt Reduction Charge (DRC) - 3% (2017-21)
  - Capital Recovery Charge (CRC) - 50% (2017-21)
- Investment earning rate
  - (2017-21: 1.65%, 1.83%, 2.11%, 2.34%, 2.63%)

# Cash and Debt Funding Capacity

	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021
<b>Cash Funding Capacity</b>	<b>\$202M</b>	<b>\$104M</b>	<b>\$41M</b>	<b>\$34M</b>	<b>\$24M</b>
“liquidity in excess of minimum \$175M target”					
<b>Debt Funding Capacity</b>	<b>NA</b>	<b>\$58M</b>	<b>\$173M</b>	<b>\$235M</b>	<b>\$284M</b>
“financing capability up to maximum debt ratio target”					
<b>Total Funding Capacity</b>	<b>\$202M</b>	<b>\$162M</b>	<b>\$214M</b>	<b>\$269M</b>	<b>\$308M</b>

Purpose of Slide: To show District’s ability to handle increased expenditures or decreases in revenues, while achieving established financial targets (liquidity and debt ratio). This is a newly developed report and we will continue to refine our methodology.

# Combined Five-Year Forecast

(in 000s)	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021
Service Revenue	66,791	64,471	65,933	68,652	71,119
Energy Resources Net Wholesale	115,530	106,991	99,843	87,214	82,562
Hydro LT Contract Rev/Other PP	123,153	118,240	119,064	115,704	112,173
Other Operating Revenue	23,745	21,929	24,688	26,457	27,608
Other Operating Expense	(160,321)	(174,399)	(178,738)	(176,865)	(176,921)
Depreciation & Tax Expense	(55,723)	(55,039)	(57,927)	(61,523)	(63,678)
<b>Operating Income/(Loss)</b>	<b>113,176</b>	<b>82,193</b>	<b>72,863</b>	<b>59,640</b>	<b>52,863</b>
Non-Operating Activity	(18,036)	(17,451)	(15,704)	(12,051)	(9,846)
<b>"Bottom Line"</b>	<b>95,139</b>	<b>64,742</b>	<b>57,159</b>	<b>47,589</b>	<b>43,018</b>
<b><i>Prior Quarter Reported Forecast</i></b>	<b>93,476</b>	<b>68,488</b>	<b>56,745</b>	<b>49,110</b>	<b>43,616</b>
<b><i>Forecast at 2017 Budget</i></b>	<b>84,773</b>	<b>66,205</b>	<b>56,580</b>	<b>48,768</b>	<b>46,217</b>

# Service Revenue

(in 000s)	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021
Residential Electric	28,386	25,586	25,825	26,048	26,262
Commercial Electric	17,144	16,611	16,735	16,853	16,959
Industrial Electric	4,574	4,392	4,400	4,434	4,497
High Density Load	1,493	2,332	2,922	4,250	5,774
<b>Other Electric</b>	<b>1,481</b>	<b>1,814</b>	<b>1,818</b>	<b>1,821</b>	<b>1,823</b>
<b>Electric Service</b>	<b>53,078</b>	<b>50,735</b>	<b>51,700</b>	<b>53,407</b>	<b>55,314</b>
<b>Water Service</b>	<b>5,804</b>	<b>6,038</b>	<b>6,282</b>	<b>6,536</b>	<b>6,800</b>
<b>Wastewater Service</b>	<b>661</b>	<b>701</b>	<b>743</b>	<b>765</b>	<b>788</b>
<b>Fiber &amp; Telecom</b>	<b>7,248</b>	<b>6,997</b>	<b>7,207</b>	<b>7,944</b>	<b>8,217</b>
<b>Service Revenue</b>	<b>66,791</b>	<b>64,471</b>	<b>65,933</b>	<b>68,652</b>	<b>71,119</b>
<i>Prior Quarter Reported Forecast</i>	<i>66,731</i>	<i>64,401</i>	<i>65,905</i>	<i>68,657</i>	<i>71,145</i>
<i>Forecast at 2017 Budget</i>	<i>63,168</i>	<i>64,555</i>	<i>66,019</i>	<i>68,254</i>	<i>70,725</i>



# Net Surplus Energy Revenue

(in 000s)	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021
Slice Contracts	79,163	75,149	57,625	42,186	42,168
Net Block Trades	32,420	26,624	36,270	36,737	19,814
Other Net Wholesale	3,947	5,217	5,947	8,291	20,580
<b>Energy Resources Net Wholesale</b>	<b>115,530</b>	<b>106,991</b>	<b>99,843</b>	<b>87,214</b>	<b>82,562</b>
LT Hydro Contracts	124,474	119,560	120,384	117,024	113,493
Less Other Purchased Power	(1,320)	(1,320)	(1,320)	(1,320)	(1,320)
<b>Hydro LT Contract Rev/Other PP</b>	<b>123,153</b>	<b>118,240</b>	<b>119,064</b>	<b>115,704</b>	<b>112,173</b>
<b>Surplus Energy Revenue</b>	<b>238,684</b>	<b>225,231</b>	<b>218,907</b>	<b>202,918</b>	<b>194,735</b>
<i>Prior Quarter Reported Forecast</i>	<i>238,834</i>	<i>224,512</i>	<i>215,149</i>	<i>201,844</i>	<i>188,757</i>
<i>Forecast at 2017 Budget</i>	<i>237,388</i>	<i>226,806</i>	<i>213,319</i>	<i>203,539</i>	<i>191,518</i>

# Operating Expense

(in 000s)	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021
Hydro Operations & Maintenance	55,411	58,924	61,243	55,733	49,950
Hydro Fish & Wildlife	16,001	17,122	17,498	18,288	19,544
Hydro Parks & Recreation	7,282	8,793	7,698	7,815	7,862
Electric Distribution	13,087	14,906	15,151	15,980	17,658
Electric Transmission	11,975	12,791	13,286	13,840	14,174
Misc. Power Supply Expenses	4,898	6,175	6,396	6,300	6,310
Water & Wastewater	3,018	2,907	3,218	3,214	3,471
Fiber Network	3,788	4,578	5,166	4,976	5,131
Customer Accounts & Service	3,879	4,243	4,486	4,594	4,732
Conservation & Customer Assist	2,719	3,489	3,921	4,187	4,651
Insurance & FERC Fees	8,242	8,543	8,973	9,033	9,354
Other Admin & General	30,020	31,929	31,702	32,904	34,083
<b>Total</b>	<b>160,321</b>	<b>174,399</b>	<b>178,738</b>	<b>176,865</b>	<b>176,921</b>
<b><i>Prior Quarter Reported Forecast</i></b>	<b><i>160,194</i></b>	<b><i>169,654</i></b>	<b><i>175,788</i></b>	<b><i>173,576</i></b>	<b><i>170,796</i></b>
<b><i>Forecast at 2017 Budget</i></b>	<b><i>162,178</i></b>	<b><i>172,975</i></b>	<b><i>172,206</i></b>	<b><i>173,778</i></b>	<b><i>168,415</i></b>

# Capital Projects

(in 000s)	Forecast 2017	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021
Electric Distribution	12,080	26,110	28,385	24,317	19,326
Network Transmission	3,338	4,672	6,514	4,191	5,976
Rocky Reach	12,563	7,948	5,921	6,358	4,207
Rock Island	50,476	57,507	26,766	19,001	36,203
Lake Chelan	805	1,763	1,920	225	225
Internal Services	13,359	13,984	4,911	3,902	2,948
Fiber & Telecom	3,576	5,416	5,545	5,978	4,913
Water	1,087	1,268	1,051	2,229	2,424
Wastewater	355	1,859	991	926	927
<b>Total</b>	<b>97,640</b>	<b>120,527</b>	<b>82,003</b>	<b>67,127</b>	<b>77,147</b>
<b><i>Prior Quarter Reported Forecast</i></b>	<b>102,201</b>	<b>114,448</b>	<b>73,750</b>	<b>58,804</b>	<b>74,692</b>
<b><i>Forecast at 2017 Budget</i></b>	<b>95,088</b>	<b>99,936</b>	<b>76,286</b>	<b>65,150</b>	<b>70,919</b>

# Financial Policy – Financial Liquidity & Days Cash on Hand

Methodology Per Resolution #17-14124

COMBINED	2017	2018	2019	2020	2021
<b>District Total Liquidity Targets</b>	<b>\$184</b>	<b>\$175</b>	<b>\$175</b>	<b>\$175</b>	<b>\$175</b>
Base Case – expected (50% probability)	\$377	\$279	\$216	\$209	\$199
Base Case – unusual (10% prob. / cumulative)	\$375	\$272	\$203	\$190	\$179*
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		\$261	\$183	\$179*	\$178*
<b>Days Cash on Hand Target</b>	<b>250</b>	<b>250</b>	<b>250</b>	<b>250</b>	<b>250</b>
Base Case – expected (50% probability)	582	453	349	337	329
Base Case – unusual (10% prob. / cumulative)	580	441	328	304	296
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		410	288	282	281

\* Assumes external debt financing to maintain liquidity targets

8/3/2017

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# Financial Policy – Rate of Return

(Change in Net Position/Net Plant)

COMBINED	2017	2018	2019	2020	2021
District Targets (expected)	>4%	>4%	>4%	Sunset	
District Targets (unusual)	>2%	>2%	>2%		
Base Case – expected (50% probability) <i>Bottom-line expectation</i>	8.4% <i>\$95M</i>	5.4% <i>\$65M</i>	4.6% <i>\$57M</i>		
Base Case – unusual (10% prob. / cumulative) <i>Bottom-line expectation</i>	8.3% <i>\$94M</i>	4.9% <i>\$59M</i>	4.1% <i>\$51M</i>		
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs <i>Bottom-line expectation</i>		4.5% <i>\$54M</i>	3.7% <i>\$46M</i>		

# Financial Policy – Debt Ratio

(Debt/(Debt + Equity))

COMBINED	2017	2018	2019	2020	2021
<b>District Targets</b>	<b>&lt;45%</b>	<b>&lt;40%</b>	<b>&lt;35%</b>	<b>&lt;35%</b>	<b>&lt;35%</b>
<b>Outstanding Debt Balance - YE(million)</b>	<b>\$537</b>	<b>\$452</b>	<b>\$368</b>	<b>\$331</b>	<b>\$306</b>
Scheduled Debt Retirements (million)	\$23	\$24	\$25	\$25	\$26
Planned Debt Accelerations (million)	\$29	\$61	\$61	\$11	\$ -
Base Case – expected (50% probability)	37.8%	32.3%	26.8%	24.0%	21.8%
Base Case – unusual (10% prob. / cumulative)	37.9%	32.5%	27.0%	24.3%	22.8%*
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		32.6%	27.2%	25.6%*	25.4%*

\* Assumes external debt financing to maintain liquidity targets

# Financial Policy – Debt Service Coverage

(Net Funds from Operations/Computed Debt Service)

COMBINED	2017	2018	2019	2020	2021
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
Base Case – expected (50% probability)	3.21	2.73	2.71	2.80	2.72
Base Case – unusual (10% prob. / cumulative)	3.18	2.62	2.59	2.65	2.46
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		2.53	2.49	2.46	2.19



## Quarterly Investment Report for the quarter ending June 30, 2017

All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #16-14094

### Portfolio Summary

	Q3 2016	Q4 2016	Q1 2017	Q2 2017	YTD 2017	WAM
Average Invested Book Value	\$440 M	\$464 M	\$485 M	\$499 M	\$492 M	
Interest Earned	\$1.9 M	\$1.9 M	\$2.0 M	\$2.1 M	\$4.1 M	
District Yield	1.69%	1.61%	1.67%	1.66%	1.67%	711
<b>Benchmarks:</b>						
3 Month T-Bill	0.31%	0.44%	0.60%	0.92%	0.76%	91
Barclays Gov. 1-3 Yr Index	0.75%	1.02%	1.24%	1.31%	1.27%	664
LGIP (State Pool)	0.50%	0.49%	0.66%	0.90%	0.78%	32
Fed Funds Effective	0.39%	0.45%	0.70%	0.95%	0.82%	1

#### Policy Objectives & Compliance

- Safety
- Liquidity
- Return on Investment
- Diversification
- Maturity Length

#### General Commentary:

For Q2 2017, the District's yield decreased slightly to 1.66% on an average invested book value of \$499 million due to holding higher cash balances in anticipation of debt service payments.

The Federal Open Market Committee's June 17, 2017 meeting reported that economic activity continued to expand at a moderate pace. Job gains have been solid and the unemployment rate has declined. Inflation is running below the Committee's 2 percent long-run objective, but household spending has picked up recently and business fixed investment has continued to expand. While the Committee continues to monitor inflation indicators and global developments, the near term outlook appears stable. The Committee raised its current target range for the federal funds rate from 1 to 1 1/4 percent and expects with gradual adjustments in monetary policy, economic activity will expand at a moderate pace and labor market conditions will strengthen somewhat further. The District anticipates gradually increasing, although continued relatively low, rates through 2017. There is uncertainty around changes in the political climate that can influence financial markets, which may impact the District. The laddered investment structure continues to be our strategy to support safety of principal and liquidity and mitigate interest rate volatility overtime.

#### Portfolio Objectives and Diversification:

The District continues to focus on portfolio diversification while maintaining investment objectives. A portion of US Treasuries continue to be held in addition to other investments with higher yields such as US Agencies and Municipal Bonds. These opportunities offer a more attractive yield while still maintaining policy diversification, safety of principal and liquidity.

#### Maturity Length:

The Weighted Average Maturity (WAM) declined in Q2 in anticipation of debt service and the overall average continues to remain strong as the multi-year laddered investment strategy maintains investment maturities near 2 year average durations. All investments continue to be matched to specific cash flows or mature within 5 years as specified in the investment policy.





## Quarterly Investment Report for the quarter ending June 30, 2017

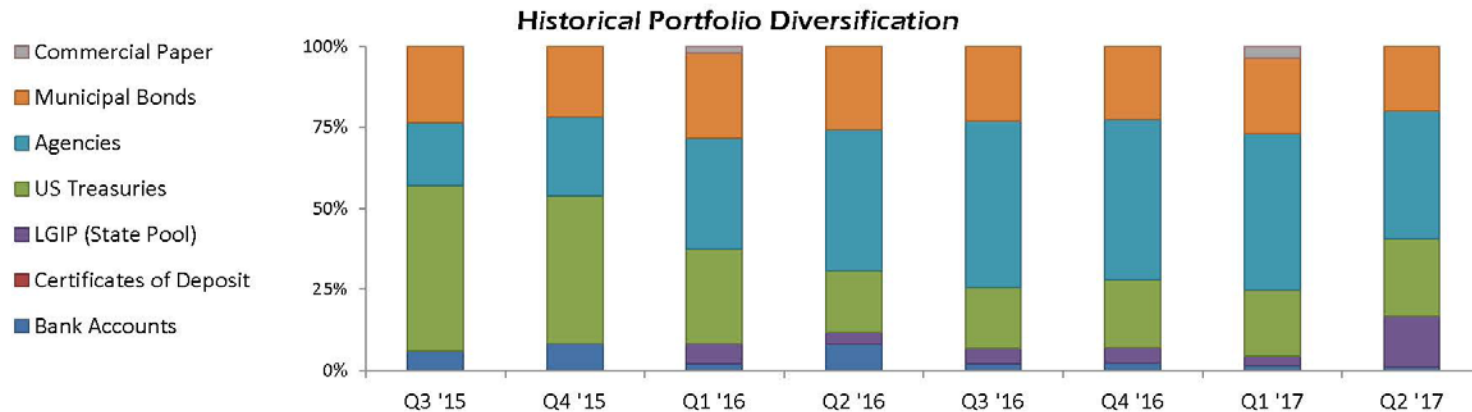
All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #16-14094

### Investments by Type - as of June 30, 2017

	Par Value	GASB 31 Reported Value	Book Value	Book Value as % of Portfolio	Policy % Limit	WAM
Bank Accounts	\$ 4,951	\$ 4,951	\$ 4,951	0.98%	75%	1
US Treasuries	\$ 121,978	\$ 123,125	\$ 120,450	23.80%	100%	1,126
LGIP (State Pool)	\$ 79,204	\$ 79,204	\$ 79,204	15.65%	25%	1
US Agencies	\$ 200,188	\$ 199,018	\$ 200,082	39.54%	75%	796
Municipal Bonds	\$ 100,300	\$ 101,287	\$ 101,319	20.02%	30%	638
Commercial Paper	\$ 0	\$ 0	\$ 0	0.00%	25%	-
<b>Total:</b>	<b>\$ 506,621</b>	<b>\$ 507,586</b>	<b>\$ 506,007</b>			<b>711</b>

Numbers may not foot due to rounding





## Quarterly Investment Report for the quarter ending June 30, 2017

All \$ values are shown in '000s

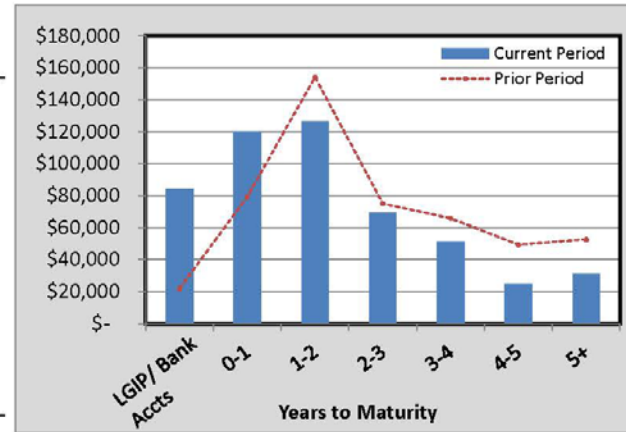
Prepared in accordance with District Banking and Investment Policy #16-14094

### Maturity Distribution - as of June 30, 2017

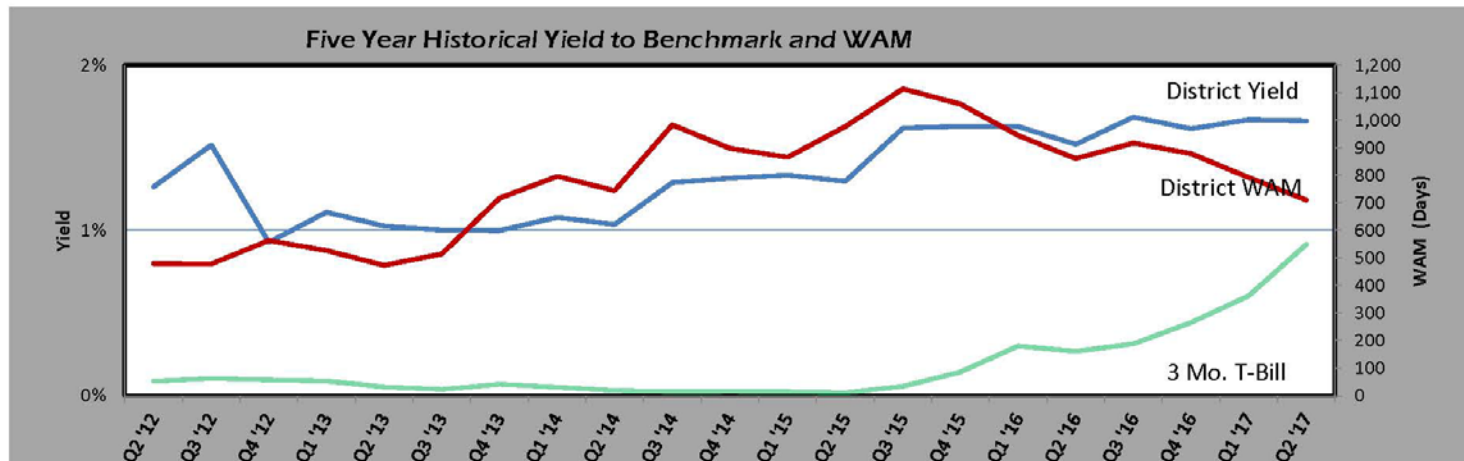
Maturity	Par Value	% of Portfolio	Cumulative % of Portfolio
LGIP \$	79,204	15.6%	15.6%
Bank Accounts \$	4,951	1.0%	16.6%
1-90 Days \$	4,350	0.9%	17.5%
91-180 Days \$	10,145	2.0%	19.5%
181-365 Days \$	105,657	20.9%	40.3%
1-2 Yrs \$	126,273	24.9%	65.3%
2-3 Yrs \$	69,630	13.7%	79.0%
3-4 Yrs \$	51,189	10.1%	89.1%
4-5 Yrs \$	24,425	4.8%	93.9%
5+ Yrs \$	30,797	6.1%	100.0%

**Total: \$ 506,621 100%**

Numbers may not foot due to rounding



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



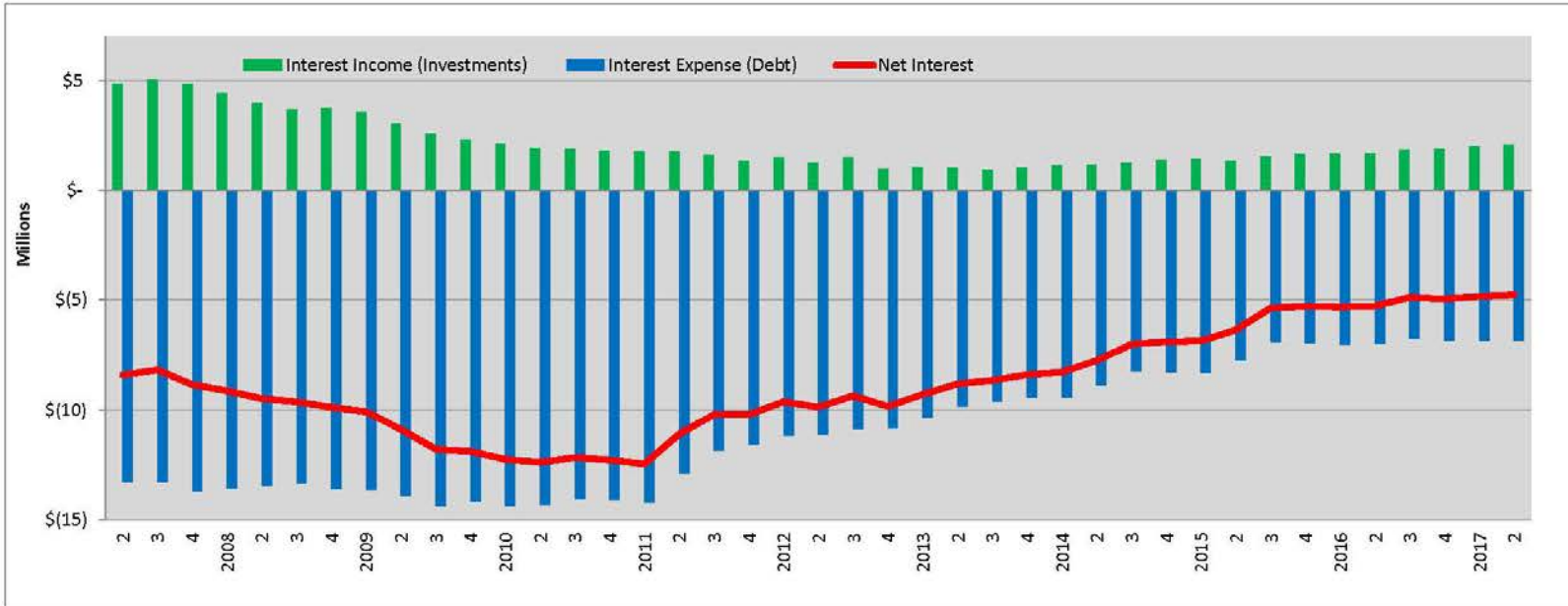


# Quarterly Investment Report for the quarter ending June 30, 2017

All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #16-14094

## Historical Net Interest, by Quarter





## Quarterly Investment Report for the quarter ending June 30, 2017

All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #16-14094

### Definitions

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

**Average Rate of Return-** the amount 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 bank accounts.

**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 obligations.

**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. (e.g.: 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.

**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 maturity date.

**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.

**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 -** remaining premium/discount on a fixed income security, equal to the difference between par and book value.

**Weighted Average Maturity (WAM)-** average amount of time for securities to mature, weighted by each security's book value.