

2020-2024 Strategic Plan



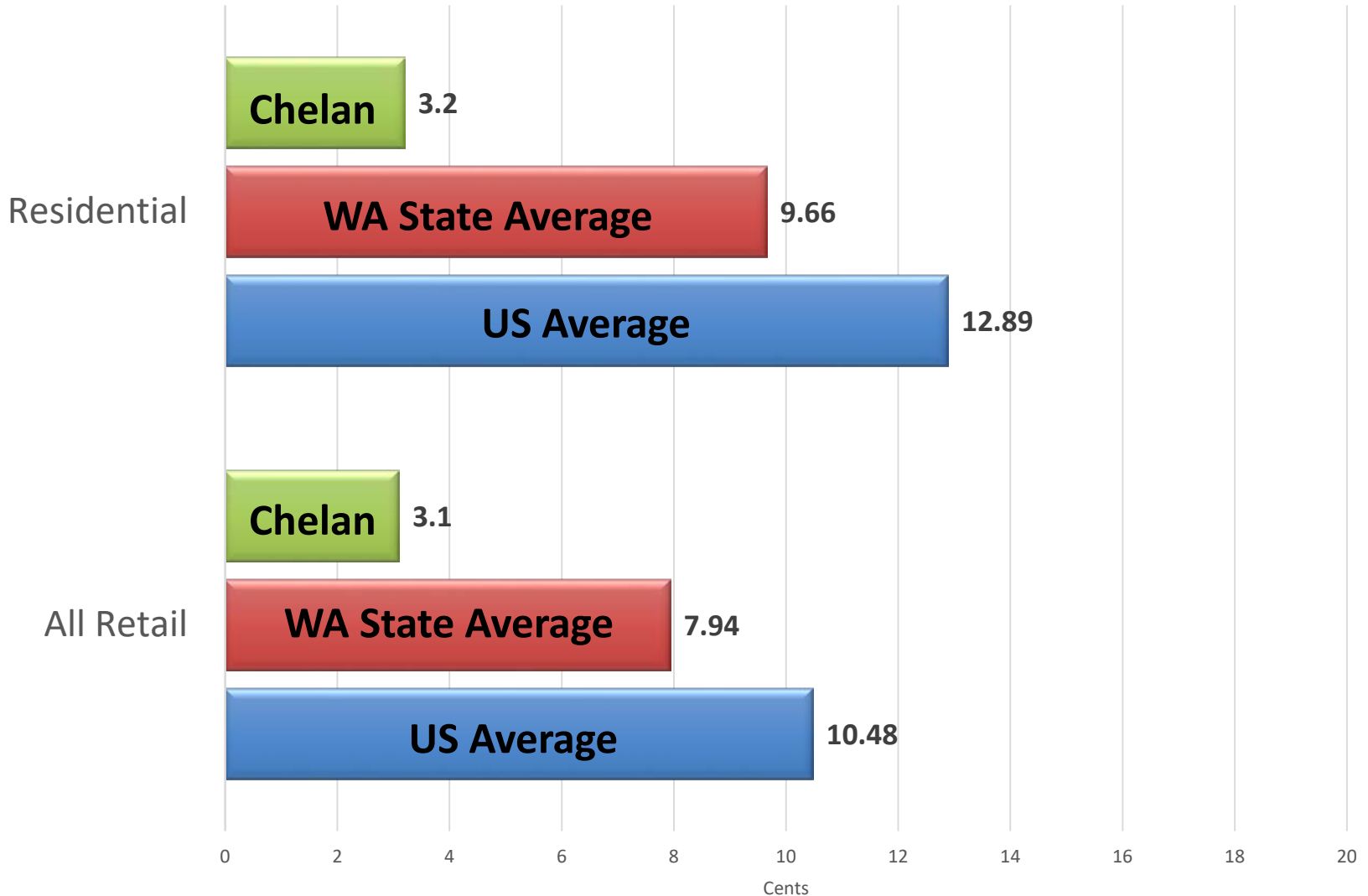
Balancing Near and Long-Term

- History of long-term thinking created rates advantage
- Current PUD philosophy of “the best value for the most people for the longest period of time”
- Committed to having among the lowest rates in the country and strong financial resiliency

Summary

- PUD is using financial strength to reduce debt and invest in assets
- There are some potential storm clouds on the horizon
- Plan proposes to take modest rate actions now that protects against downside risks

Electric Rates per Kilowatt Hour (2017)



Current Financial Status of PUD is Very Healthy

- 2017 and 2018 best years ever financially
 - Alcoa \$62 million payment received
 - 2019 also on track to also be a very good year
- PUD cash at highest level ever
- PUD debt target (35% debt to equity) achieved
 - Debt reduced more than \$500 million since 2010
(where money is going)

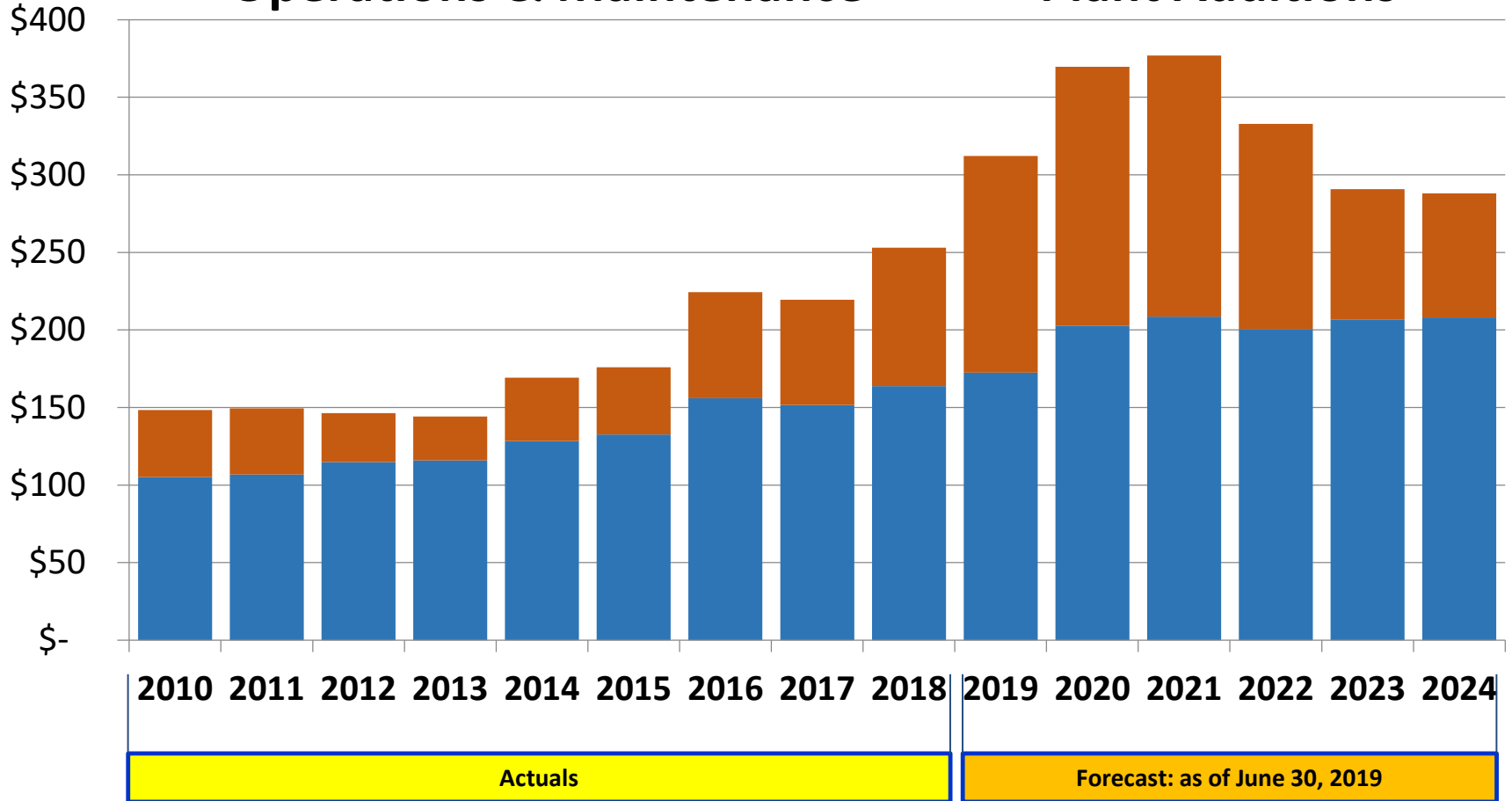
PUD Aggressively Investing in Maintaining and Upgrading Assets

- 2015 strategic plan identified asset investment as priority
- 2020-2024 plan identifies focus on hydro system capability and distribution system reliability
 - Both are roughly in second quartile performance nationally
- All PUD assets are analyzed to ensure they create the best value for the long-term, including facilities and customer service technology

District Expenditures

(amounts in millions)

■ Operations & Maintenance **■ Plant Additions**



Capital and Large O&M Investments

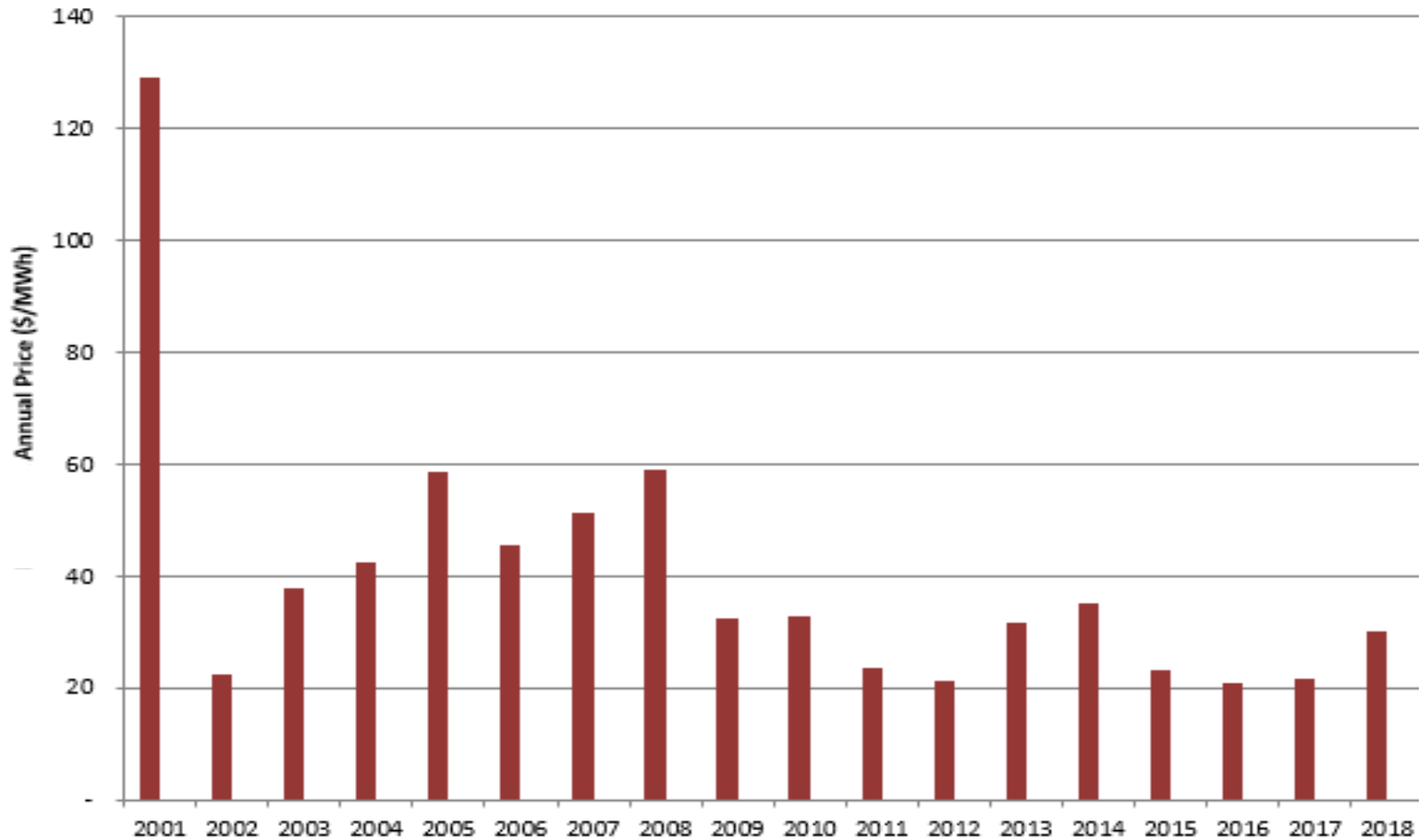
\$107 million (~\$18 million annually)	2010 – 2015
\$557 million (~\$62 million annually)	2016 - 2024

Strong Financial position Due Primarily to Wholesale Marketing of Surplus Electricity

Sales of Power

- 20% - Retail in Chelan County lowest rate, below cost of production
 - 3.2 cent residential rate is just over half the cost of providing electric service
- 80% Wholesale
 - 50% - Long term cost based contracts (Alcoa, Puget) at rate higher than retail rate
 - 30% - Market-based sales: various contracts, including Microsoft, at market value which has been our highest rate
 - Future revenues are difficult to predict

Historical Wholesale Prices

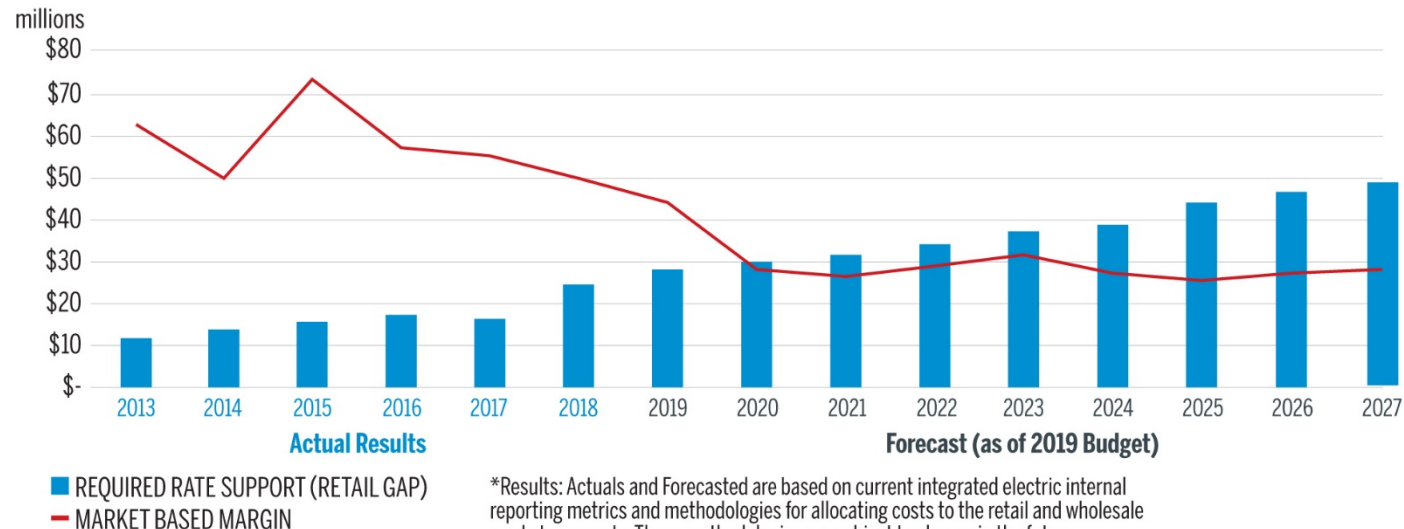


Retail Subsidies vs. Wholesale Margin

- Chelan retail rates are subsidized by wholesale revenues
- Wholesale margins have been falling while retail subsidies are increasing

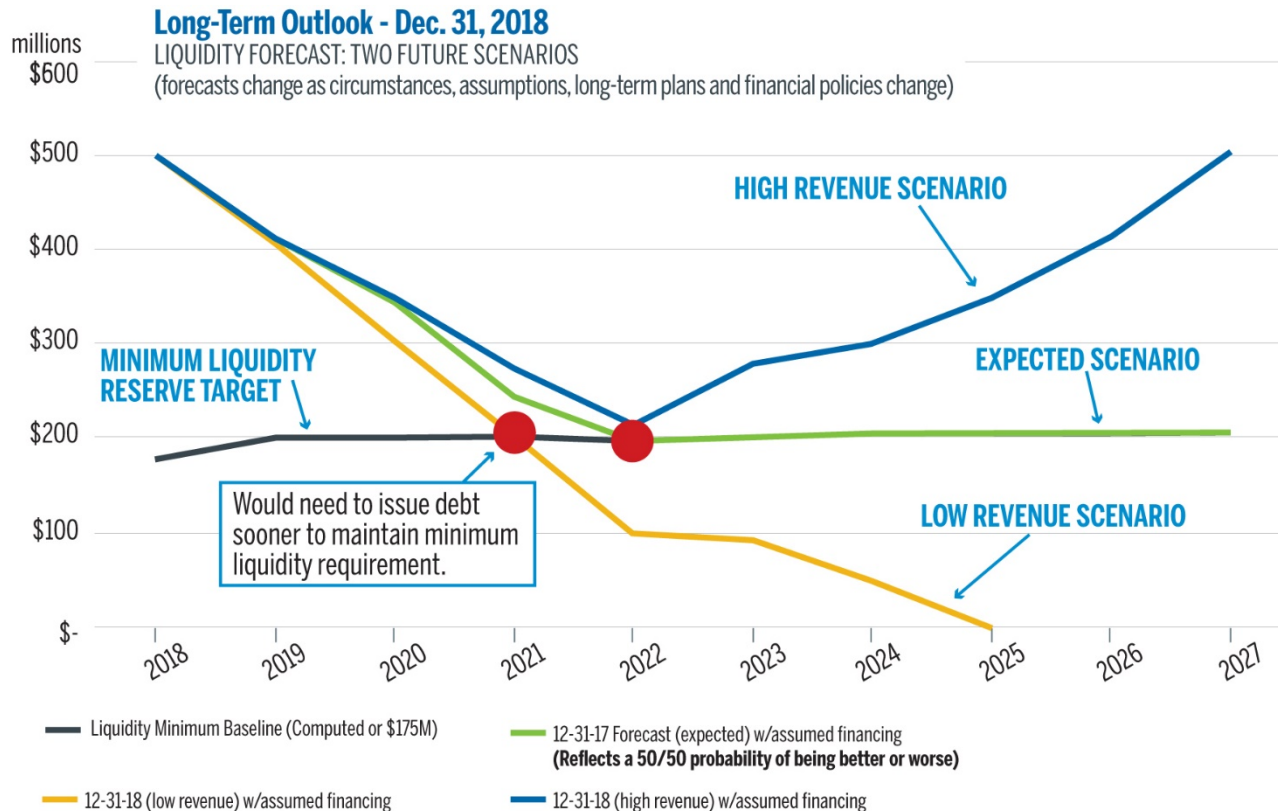
Retail Electric Support vs. Wholesale Margin

(Forecast as of 2019 Budget)



*Results: Actuals and Forecasted are based on current integrated electric internal reporting metrics and methodologies for allocating costs to the retail and wholesale market segments. These methodologies are subject to change in the future.

PUD Strategic Plan is built on being resilient to potential different futures



NOTE: Both the Q4-2018 expected and low revenue scenarios assume approximately \$200M of new debt in the periods 2022-2027 to fund long-lived capital projects. The debt ratio for Chelan PUD remains at or below 35% for the forecasted periods scenario.

PUD Strategy*

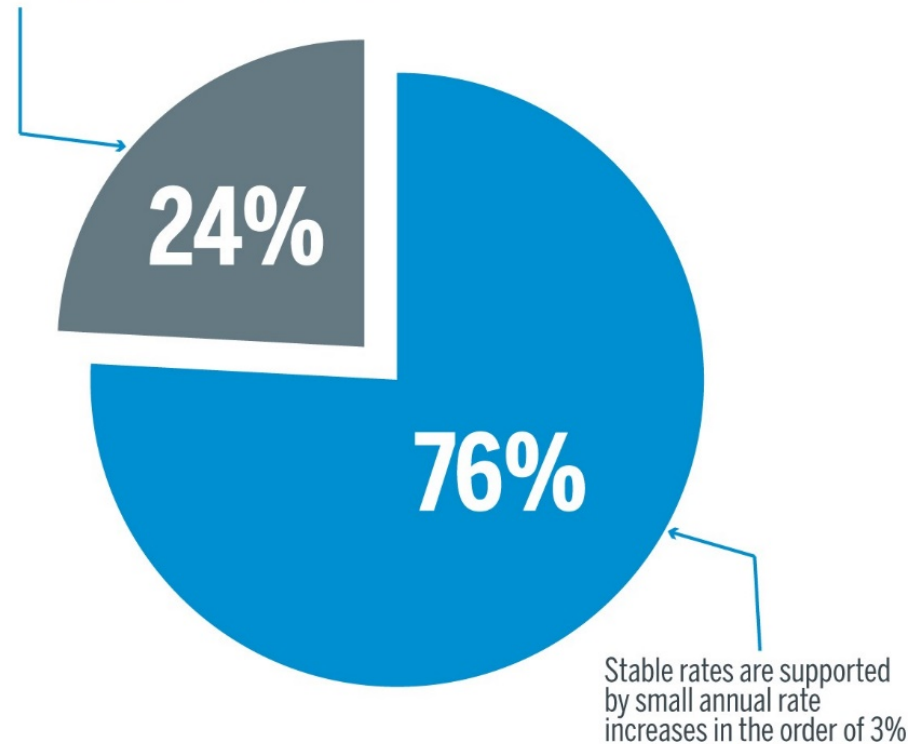
	2015 – 2019	2020 - 2024
Expected to High Revenues	<ul style="list-style-type: none"> • Reduce debt • Investing in assets • Make modest investments in public power benefit program 	<ul style="list-style-type: none"> • Invest for long-term • Continue to reduce debt • Invest modest amount of current financial gains in public power benefit for today’s customers
Low Revenues	Raise rates substantially (double digits) if necessary	<ul style="list-style-type: none"> • Build funds reserved to improve rate stability • Prepare for retail subsidies exceeding wholesale margin someday

* Strategies assume seeking productivity gains and wholesale revenue increases under all scenarios

What Happens if Wholesale Revenues Decline Quickly?

- Risk of immediate double digit rate increase(s)
- Customer survey question focused on protecting against decline in wholesale market

No rate increases in the short term, with the understanding that there is a higher potential for major (10%+) annual increases in the future



Potential Rate Impact

- 3.2 cents per kWh would increase to 3.7 in 2024
- 3% annually on average \$55 per month electric bill, for example, would translate to an additional \$9 per month in 2024
- 2019 PUD average customer pays \$1350 less annually compared against statewide average
- 2024 PUD customer pays \$1450 less annually (assuming other utility rates increase as well)

Threat to Local Control

- Historical concern that Chelan rates are lower than others leads to political risk of envy
- Statewide average rates of 8.5 cents/kWh in 2012 have increased to 9.7 in 2017 while Chelan rates have stayed at 3.2 cents/kWh



PUD approach to rates is thornier than it appears

Rufus Woods Sep 10, 2014

...“it may well be in the best interest of the utility to consider modest, incremental rate increases over time coupled with strategic investments to prove the wisdom of our stewardship of the resource.”

Conclusion

- PUD is financially healthy
- Rate increases are proposed not because there is an immediate need, but rather because they are prudent from a long-term planning perspective
- Inflation-level rate increases:
 - Provide greater predictability in low revenue forecast scenario
 - Begin to address potential looming retail subsidy/wholesale margin issue
- Also, protects against threat to local control