



2021 Preliminary Budget November 2, 2020

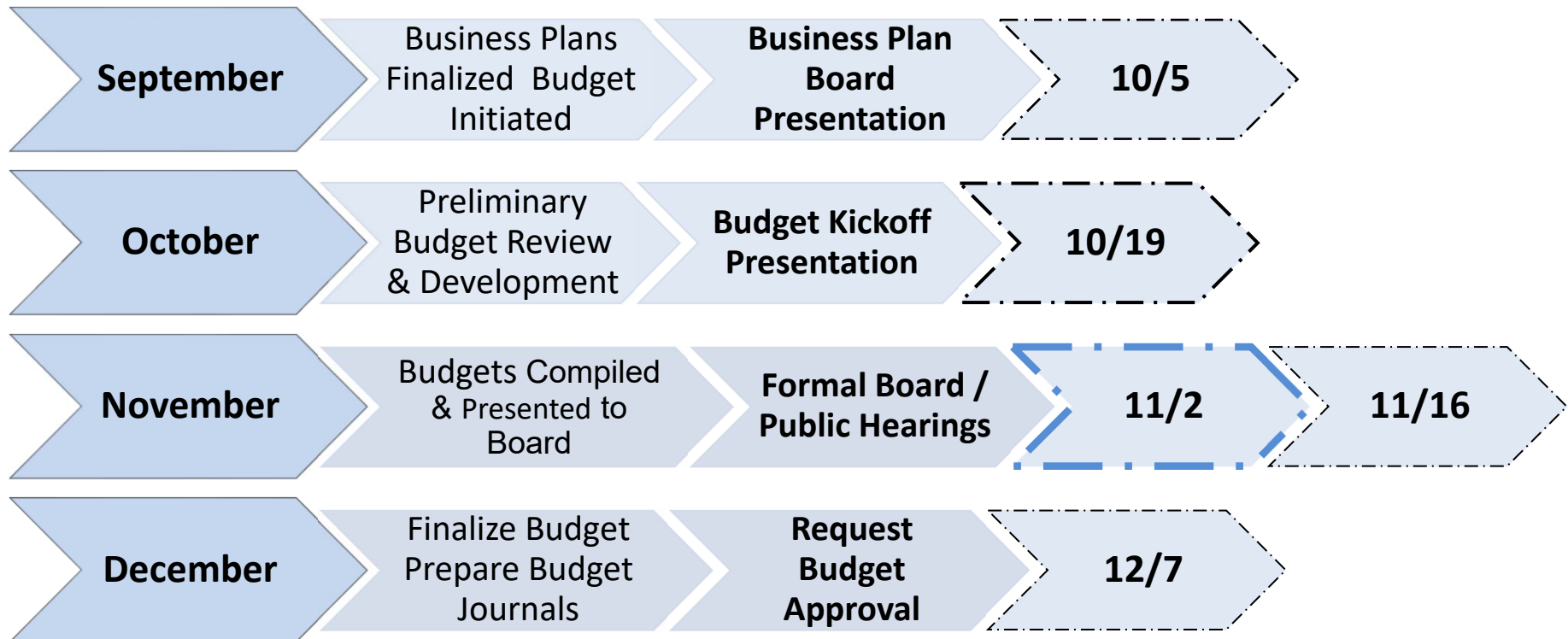
11/2/2020

What we will cover today



No Board Action Required

Budget Timeline



Indicates Board Meetings

Strategic Focus

The 2021 Budget will be built around strategic initiatives and business plans presented on October 5

The foundation of our strategic initiatives and budget is at the top of our balanced scorecard: Customer-Owner Satisfaction

District initiatives identified to accomplish the four strategic plan goals

Board resolution requires budget cycle to include both an annual budget and five-year financial plan compliant with District financial policies

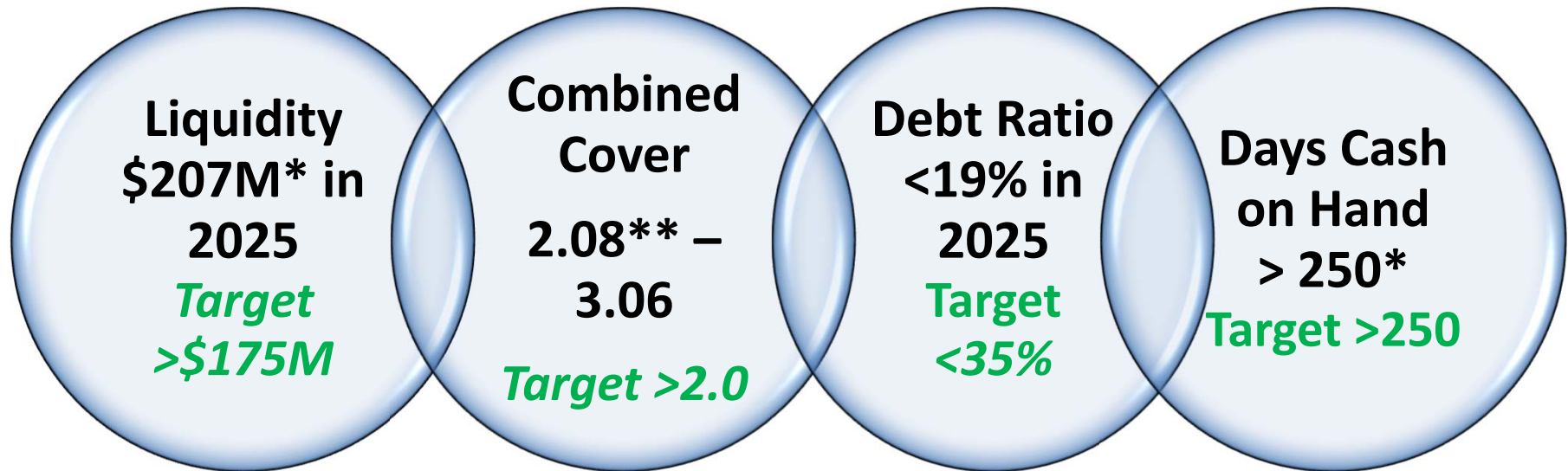
Five-Year Financial Plan 2021-2025

| (in 000's) | Prelim Budget 2021 | Forecast 2022* | Forecast 2023* | Forecast 2024* | Forecast 2025* |
|------------------------------------|--------------------------|-------------------|-------------------|-------------------|-------------------|
| Service Revenue | 96,556 | 103,667 | 106,644 | 93,476 | 90,405 |
| Net Surplus Energy Revenue | 210,651 | 216,361 | 217,173 | 236,580 | 238,069 |
| Other Operating Revenue | 23,849 | 21,808 | 22,410 | 23,026 | 23,593 |
| Operating Expense | (213,773) | (227,931) | (212,090) | (212,387) | (219,110) |
| Depreciation & Tax Exp | (58,428) | (65,237) | (69,989) | (71,280) | (72,333) |
| Net Operating Income | 58,854 | 48,669 | 64,148 | 69,415 | 60,625 |
| Non-Operating Activity | (3,877) | (7,960) | (10,560) | (10,472) | (12,588) |
| Combined "Bottom-Line" | 54,977 | 40,709 | 53,589 | 58,942 | 48,037 |
| | | | | | |
| 2021-2025 Business Plan | 54,579 | 40,709 | 53,589 | 58,942 | 48,037 |
| Last Year's Budget Adoption | 41,513 | 46,056 | 56,588 | 64,433 | 59,877 |

- **5-Year results are slightly better than 2021-2025 Business Plan but lower for the years 2022-2025 when compared to last year's forecast for the 2020 Budget**

* Forecast as of Q3 2020

2021-2025 Plans Meet District Financial Policies



Results based on expected conditions (based on Q3 2020 forecast)

*We have a Board reporting requirement to provide an action plan when metrics come within 10% of the target. Both of these metrics are within that 10% threshold and our recommended action plan is to issue external debt in 2023 to begin financing portions of our capital program

*Liquidity target is the greater of \$175M or methodology calculation – ranges from approx. \$180M to \$210M over 5-year period.

** Combined Cover is 2.08 in 2022, which is within 10% of the Financial Policy Target. The metric is 2.93 and 3.06 in 2023 and 2024, respectively. The recommended course of action is to monitor.

Combined Financials 2021

| (in 000's) | Prelim Budget 2021 | Adopted Budget 2020 | \$ Change | % Change |
|------------------------------|--------------------------|---------------------------|----------------|----------------|
| Service Revenue | 96,556 | 90,561 | 5,995 | 6.6% |
| Net Surplus Energy Revenue | 210,651 | 216,907 | (6,257) | (2.9)% |
| Other Operating Revenue | 23,849 | 23,977 | (128) | (0.5)% |
| Operating Expense | (213,773) | (207,945) | (5,828) | 2.8% |
| Depreciation & Tax Expense | (58,428) | (57,152) | (1,276) | 2.2% |
| Net Operating Income | 58,854 | 66,348 | (7,494) | (11.3)% |
| Non-Operating Activity | (3,877) | (8,260) | 4,383 | (53.1)% |
| "Bottom-Line" | 54,977 | 58,088 | (3,111) | (5.4)% |
| 2021-25 Business Plan | 54,579 | | | |

Service Revenue

| (in 000's) | Prelim Budget 2021 | Adopted Budget 2020 | Variance |
|------------------------------|--------------------------|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Residential Electric | 29,293 | 27,384 | <i>Growth from current 2020 forecasted usage offsetting impacts from energy conservation efforts</i> <i>Off-system end use sale shifts revenue from wholesale to service revenue</i> <i>Some growth impacts from High Density Loads</i> <i>3% rate increase included in 2021</i> |
| Commercial Electric | 17,569 | 17,114 | |
| Industrial Electric | 5,501 | 5,309 | |
| Off-System end use | 21,499 | 19,434 | |
| HDL Electric / Crypto | 5,570 | 5,426 | |
| Other Electric | 1,504 | 1,607 | |
| Electric Service | 80,935 | 76,274 | |
| Water Service | 6,787 | 6,302 | ~2% growth / 4% rate increase 2021 |
| Wastewater Service | 808 | 744 | ~1.5% growth / 4% rate increase 2021 |
| Fiber & Telecom | 8,026 | 7,241 | ~6% growth / 3% rate increase 2021 |
| Service Revenue | 96,556 | 90,561 | |
| 2021-25 Business Plan | 96,532 | | |

Net Surplus Energy Revenue

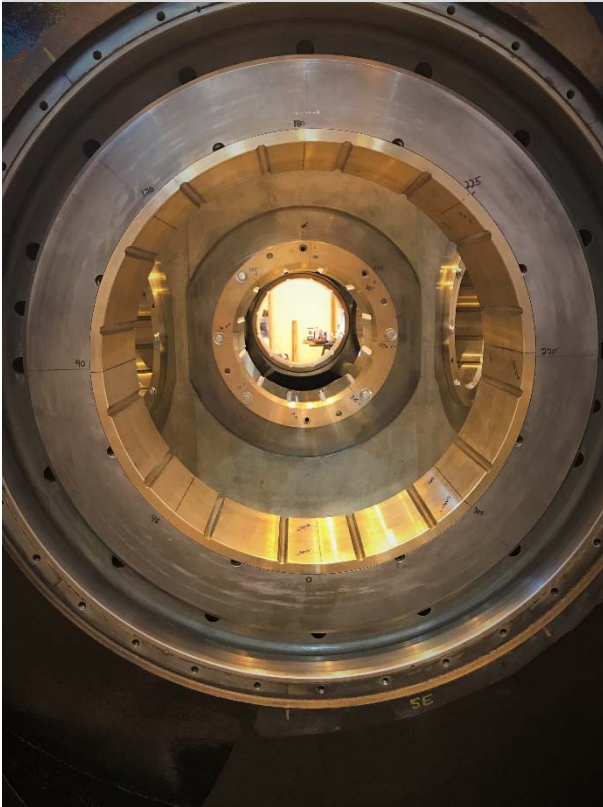
| (in 000's) | Prelim Budget 2021 | Adopted Budget 2020 | Variance |
|-----------------------------------|--------------------------|---------------------------|--------------------------------------------------------|
| Slice Contracts | 73,602 | 70,523 | <i>Higher priced slice starting in 2021</i> |
| Block/Pre Sched/Real Time | (5,067) | 3,590 | <i>Offset included in off- system end use sale</i> |
| EP&T Net Wholesale | 68,535 | 74,113 | |
| LT Hydro Contracts | 143,436 | 144,115 | <i>Cost-based + : Consistent with 2020</i> |
| Less: Nine Cyns & Other PP | (1,320) | (1,320) | <i>Consistent with 2020</i> |
| Net Surplus Energy Revenue | 210,651 | 216,907 | |
| 2021-25 Business Plan | 211,064 | | |

Other Operating Revenue

| (in 000's) | Prelim Budget 2021 | Adopted Budget 2020 | Variance |
|--------------------------------------|--------------------------|---------------------------|--------------------------------------------------------------------------|
| Transmission/Wheeling | 11,778 | 11,277 | <i>Cost based: Increase investments in operations/compliance</i> |
| Real Time Contract – <i>Fixed</i> | 4,000 | 4,000 | <i>Consistent with 2020 budget</i> |
| Real Time Contract – <i>Variable</i> | 3,000 | 3,000 | <i>Consistent with 2020 budget</i> |
| Service/Late Charges | 286 | 319 | <i>Consistent with 2020 budget</i> |
| Misc Other Items | 4,736 | 5,295 | <i>Frequency response revenue</i> |
| Other Operating Revenue | 23,849 | 23,977 | |
| 2021-25 Business Plan | 23,865 | | |

Major O&M Activities

RR Turbine Repairs \$5.6M



Hatcheries \$6.0M



Tree Trimming \$3.5M



RI Spillway Pier Repair \$2.6M



RI HCP Fish Passage Studies \$1.5M



Operating Expense

| (in 000's) | Prelim Budget 2021 | Adopted Budget 2020 | Variance |
|--------------------------|--------------------------|---------------------------|-----------------------------------------------------------------------------|
| Hydro O&M | 71,743 | 73,707 | <i>Lower large unit repair costs</i> |
| Hydro Fish & Wildlife | 21,033 | 18,722 | <i>HCP 10-year RI Fish Passage Study Hatchery operational contracts</i> |
| Hydro Parks & Recreation | 8,884 | 10,410 | <i>Discovery Center maintenance upgrades higher in 2020</i> |
| Electric Distribution | 19,273 | 18,201 | <i>Expanded tree trimming contracts</i> |
| Electric Transmission | 14,355 | 14,261 | <i>Consistent with 2020 Budget</i> |
| Power Supply Mgmt | 5,108 | 5,054 | <i>Consistent with 2020 Budget</i> |
| Water/Wastewater O&M | 3,325 | 3,607 | <i>Water safety fall restraint regulation budgeted in 2020</i> |
| Fiber Network O&M | 6,249 | 5,204 | <i>PPB acceleration pole analysis/ portal replacement</i> |

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Operating Expense

| (in 000's) | Prelim Budget 2021 | Adopted Budget 2020 | Variance |
|------------------------------|--------------------------|---------------------------|--------------------------------------------------------------------------------------------|
| Customer Accts & Svc | 4,415 | 4,781 | <i>Customer relations/CIS support in 2020</i> |
| Conservation | 5,837 | 4,890 | <i>Labor shift capital to O&M / recognition of investments</i> |
| Insurance | 9,192 | 8,386 | <i>Anticipated insurance premium increases</i> |
| FERC Fees | 1,398 | 1,462 | <i>Consistent with 2020 Budget</i> |
| Other Admin & General | 42,961 | 39,260 | <i>Information technology support/licensing/maint. Labor vacancy rate decrease</i> |
| Total | 213,773 | 207,945 | |
| | | | |
| 2021-25 Business Plan | 214,622 | | |

Non-Operating Expense

| (in 000's) | Prelim Budget 2021 | Adopted Budget 2020 | Variance |
|------------------------------|--------------------------|---------------------------|----------------------------------------------|
| Investment Earnings | 12,919 | 14,740 | <i>Lower cash balances and interest rate</i> |
| Contribution Income | 4,164 | 4,208 | <i>Consistent with 2020 Budget</i> |
| Interest Expense | (22,337) | (22,849) | <i>Lower interest on variable rate debt</i> |
| Other Inc/(Exp) | 1,377 | (4,359) | <i>Amortization of the debt premium</i> |
| Net expense | (3,877) | (8,260) | |
| | | | |
| 2021-25 Business Plan | (3,863) | | |

2021 Major Capital Projects

Rock Island – Major Driver



RI Modernization

- B1-B4 \$16 million
(Total Project \$75M)
- B5, B7 & B8 \$12 million
(Total Project \$97M)
- PH2 U1-U8 \$18 million
(Current Project Budget of \$26M designated for prelim work, i.e. design, mobilization)



RI Cranes

- PH2 Bridge \$7 million
(Total Project \$13M)
- PH2 Gantry \$5 million
(Total Project \$9M)
- PH1 Gantry \$3 million
(Total Project \$6M)

2021 Major Capital Projects

Facilities – Major Driver

RI Facilities

\$6 million (*Total Project \$38M*)



RR / Central Maintenance

\$22 million (*Total Project \$42M*)



Operations and Service Center

\$64 million
(*Total Project \$139M*)



2021 Major Capital Projects

Rock Island Spillway Hoist 17,25

- \$2.5 million (*Total Project \$3.6M*)

Rocky Reach Tailrace Gantry Crane

- \$3 million (*Total Project \$6M*)

Rocky Reach Governor Controls

- \$1.8 million (*Total Project \$7.6M*)



2021 Major Capital Projects

Substations

- \$8 million (*Total Projects \$17M*)
- Ohme \$1.5M, Bavarian \$1.5M, Chelan \$1.6M, Wenatchee \$3M



Advanced Metering Infrastructure

- \$5 million (*Total Project \$15M*)



Chelan-Manson Transmission Line

- \$5 million (*Total Project \$5M*)

Fiber Expansion (Public Power Benefit - PPB)

- \$2.3 million

Capital Expenditures

| (in 000's) | Prelim Budget 2021 | Adopted Budget 2020 | \$ Change | Major Project Focus |
|----------------------------|--------------------------|---------------------------|---------------|-------------------------------------------------------------------------------------------------------------------|
| Electric Distribution | 33,571 | 29,343 | 4,228 | Substations, Advanced Metering Infrastructure, ADMS, Chelan-Manson T-Line |
| Electric Transmission | 1,325 | 8,565 | (7,240) | Breaker & Relay replacements (2 major 2020 projects reclassified to regulatory assets) |
| Rocky Reach Hydro | 11,331 | 11,345 | (14) | Tailrace Gantry Crane, Governor Controls |
| Rock Island Hydro | 59,998 | 78,780 | (18,782) | PH1 and PH2 Modernizations, PH2 Bridge and Gantry Cranes, PH1 Gantry Crane, Spillway Hoist 17 & 25, RI Facilities |
| Lake Chelan Hydro | 1,571 | 994 | 577 | LC Auto Closure Gate |
| Corporate/Shared Assets | 75,248 | 33,621 | 41,627 | Operations & Service Center, RR-CM Facilities, Back-up Control Center |
| Integrated Electric | 183,045 | 162,647 | 20,398 | |

Capital Expenditures

| (in 000's) | Prelim Budget 2021 | Adopted Budget 2020 | \$ Change | Major Project Focus |
|--------------------------------------|--------------------------|---------------------------|---------------|--------------------------------------------------------------------------------|
| Fiber | 3,564 | 5,418 | (1,854) | PPB expansion/acceleration & upgrades |
| Water | 1,265 | 704 | 561 | Tacoma St. phase 2 |
| Wastewater | 401 | 176 | 225 | Dryden WW upgrade start |
| Total Capital | 188,274 | 168,946 | 19,328 | |
| Less: Contributions | (3,594) | (3,847) | (253) | Capital paid by others |
| Fiber Make Ready Offset | (900) | (1,130) | 230 | Make ready costs: intersystem |
| Regulatory Assets & Other | 11,703 | 5,998 | 5,705 | Conservation, license obligations, Greater McNeil Canyon, N Mid C transmission |
| Net Capital & Reg. Assets | 195,483 | 169,967 | | |
| 2021-25 Business Plan | 195,483 | | | |

Key “Total Capital Project” Revisions* (Existing Projects)

| (in 000's) | Current | Revised | Change | Major Driver |
|----------------------------------|---------|---------|--------|-----------------------------------------------------------------------------|
| RI PH2 U1-U8 Rehab | 11,982 | 25,862 | 13,882 | <i>Adding 2021 project scope for prelim work, i.e. design, mobilization</i> |
| Advanced Metering Infrastructure | 1,500 | 15,000 | 13,500 | <i>Adding remaining project budget</i> |
| Operations and Service Center | 135,038 | 139,536 | 4,498 | <i>Updated project estimate</i> |
| RR C1-C11 Unit Ctrls Governor * | 5,184 | 7,600 | 2,416 | <i>Updated project estimate</i> |
| RI PH1 Intake Gantry Repl | 4,373 | 6,020 | 1,647 | <i>Updated project estimate</i> |

* Revised project estimate of \$7.6M is increased by \$.5M based on latest information. The new estimate is not reflected in the capital totals in this presentation and will be reflected on 11/16.

Includes revisions >\$1M, excludes public power benefit and recurring annual capital project activity

Key “Total Capital Project” Revisions* (New Projects)

| (in 000's) | Current | Revised | Change | Major Driver |
|---------------------------------------|---------|---------|--------|----------------------|
| RR Tailrace Gantry Crane | 0 | 6,000 | 6,000 | Replacement |
| LC Seismic Study-Auto Closure Gate | 0 | 3,850 | 3,850 | Dam safety |
| RIFW Rt Bank Fish Ladder Mod | 0 | 1,465 | 1,465 | Safety |
| RI PH1 Station Drainage Mod | 0 | 1,100 | 1,100 | Upgrade replacement |
| River Rd Plain Feeder Conduit Install | 0 | 1,000 | 1,000 | Fire risk mitigation |

Includes revisions >\$1M, excludes public power benefit and recurring annual capital project activity

New Positions

(consistent with Business Plan)

Technology / AMI

(5 positions)

- AMI Technical Analyst
- Meterman*
- Customer Accounts Specialist*
- System Support Administrator*
- Customer Systems Program Manager*

Technology / Innovation

(5 positions)

- Chief Technology Officer*
- Network System Administrator
- Control System Engineer
- Data Analyst I or II
- Sr. Business Analyst (Limited Assignment-2 yr)

* Note: 4 new positions in Customer Utilities to support AMI are offset by 4 previously approved positions in Line Operations and the Chief Technology Officer position is offset by the vacant IT Director position that is being converted to the CTO position

New Positions

(consistent with Business Plan)

Relicensing / Compliance

(3 positions)

- Relicensing Project Managers (2)
- Environmental Tech Coordinator

Project Support/Engineering

(1 position)

- PS Wiremen

Natural Resources

(3 position)

- Fisheries Operations (3 Seasonal @ 400 hours each)

Total new positions = 17

New positions net of offset positions = 12

Combined District Expenditures

| (in 000's) | Preliminary 2021 Budget | Adopted 2020 Budget | % |
|----------------------------------------------------------------|----------------------------|------------------------|--------------|
| Operating Expense | 213,773 | 207,945 | 2.8% |
| Tax Expense | 11,235 | 10,683 | 5.2% |
| Non-Operating Exp/(Inc) - excludes CIAC | 8,041 | 12,468 | (35.5%) |
| Net Capital & Reg Assets | 195,483 | 169,967 | 15.0% |
| Total Expenditures | 428,532 | 401,063 | 6.8% |
| Net Debt Principal Payments (includes \$73M refinance paydown) | 110,951 | 39,062 | 184.0% |
| Total Expenditures & Net Debt Reduction | 539,483 | 440,125 | 22.6% |

Primary Drivers of Increase: Significant volume of work at the Hydros and Facilities, and Debt Retirements

Combined Financial Policies

2021 Preliminary Budget

| | Financial Liquidity | Combined Cover | Debt Ratio | Days Cash on Hand |
|---------------------------------------|------------------------------|---------------------------|--------------------------|------------------------|
| Base Case – expected <i>Target</i> | \$352M <i>> \$210M</i> | 2.27 <i>> 2.0x</i> | 24.3% <i>< 35%</i> | 468 <i>> 250</i> |
| Base Case – unusual <i>Target</i> | \$344M <i>> \$210M</i> | 2.14 <i>> 1.25x</i> | 24.4% <i>< 35%</i> | 457 <i>> 250</i> |



On track

Combined Financial Policies

2021 Preliminary Budget

| | Operating Coverage % | Cash Reserves (unrestricted) | Debt Service as % of Revenue |
|----------------------------------|----------------------|------------------------------|------------------------------|
| Fiber & Telecom <i>Target</i> | 78.3% >74.9% | \$21.8 M \$2 M | ---% < 0% |
| Water <i>Target</i> | 99.4% >98.3% | \$4.4 M \$1.25 M | 10.1% < 11.9% |
| Wastewater <i>Target</i> | 62.4% > 61.8% | \$2.0 M \$200 K | 14.1% < 2.1% |

NOTE: Board resolution for business line financial targets are defined as “by 2024” and “by 2029”. Annual targets are based on the forecast at the 2020 budget set to support the 2020-2024 strategic plan. Annual actuals are provided to show progress and to inform if action is needed to meet the 5-year target.

Financial Policy not met. Action plan is to implement actions recently adopted in the 2020-2024 Strategic Plan and consider internal loaning to improve cash position to help meet capital needs.

Financial Policy Metric within 10% of target which requires Board communication per resolution. Action plan is to monitor ongoing forecasts

Budget Next Steps

Review

- Continued review and adjustments in Nov.

Discuss

- 2nd Budget Hearing Nov. 16

Approve

- Requesting Board approval on Dec. 7



Appendix

Additional information from prior presentation

Strategic Plan Goals

1

Invest in assets and people and seek industry top-quartile performance for hydro generation, retail reliability, and safety while improving our customer service technology

2

Sustain excellent financial resiliency while mitigating the risk of large rate increases

3

Enhance the quality of life in Chelan County through programs that distribute the benefits of public power

4

Engage in countywide growth planning and job creation efforts while ensuring the District's rates and policies remain stable and predictable

Key 2021 Budget Assumptions

Wholesale Revenue

- Average water, current forward energy and carbon price curves
- Hedge program fully implemented and continuing
- Includes planned unit outage impacts
- Consistent hydro fish spill in accordance with requirements

System Load Growth

- 3.8% Electric (~7.8 aMW total net of conservation, ~6.0 aMW HDL)
- 0.8% Retail Electric organic growth
- 2.0% Water, 1.5% Wastewater
- 1,480 new Fiber connections (1,130 current service territory, 350 PPB)

Business Line Service Revenues

- Business line rate increases included consistent with approved long-term rate plan
- Annual rate increases effective 6/1/2021 and each June 1 thereafter
 - 3% Electric, 4% Water, 4% Wastewater and 3% Fiber

Key Budget Assumptions

Labor Bargaining Unit

- Bargaining unit increases are to be negotiated with the collective bargaining unit for 2021

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) – continues at 3.0%
- Capital Recovery Charge (CRC) – continues at 50%

Key Budget Assumptions

Capital & Operating Expenditures

- Driven by 2021-2025 business plans
- 2021 expenditures include continuance of RI modernization, RR large unit repairs, RR small units, distribution infrastructure/vegetation management, and long-term facilities (Service Center, RR, RI) as key drivers

Debt & Interest Income

- Net scheduled principal payments of \$111 million (scheduled principal plus pay down with funds held for COVID liquidity from 2020 refinancing activity)
- Interest earnings estimated at 2.17%

Public Power Benefit Program

- Includes \$6M annually; continuation and acceleration of fiber expansion, Board selected projects & designated funding level
- Budget revisions will be processed as new projects are designated