



Chelan County PUD

# Quarterly Financial Review

For the Quarter Ended June 30, 2018

Board Presentation  
August 6, 2018



# What we will cover today

**Financial highlights**

**Second quarter results**

**Five-year look ahead**

**Key messages**

**Update only, no action required**

**Appendix: Additional detailed information not covered today**

# Q2 2018 Key Highlights

Bottom-line results better than budget

Financial metrics meeting targets

Stay the course with our strategic goals

- Reinvest in assets and people

- Reduce debt

- Continue public power benefit program

# Overview

## Revenue

- Service Revenue better than budget year-to-date (YTD) due to more usage from the colder than average temperatures in Feb and Mar: +\$900,000
- Net Wholesale Revenue better than budget YTD as more surplus to sell from above average generation: + \$1.5M
- Hydro Long-Term Contract Revenue below budget YTD with lower hydro costs for the cost-based contracts: (\$3.7M)
- Other Operating Revenue better than budget YTD from FEMA proceeds and hydro contract charges: + \$1.4M

**Total Revenues forecasted to be better than budget for the year: +\$6M**

## Expense

- Operating Expenses below budget YTD but expected to catch up: (\$8.6M)
- Non-Operating Net Expense better than budget YTD with higher customer contributions for construction and more interest earnings from the higher cash balances: (\$1.4M)

**Total Net Expenses forecasted to be below budget for the year: (\$6.3M)**

## Bottom Line

- Combination of higher revenues and lower expenses results in a better Bottom Line YTD: + \$10.0M

**Better bottom line forecast for the year of \$83.9M: +\$12M  
(Compares to Q1 forecast of +\$6M)**



# Overview

## Capital

- Capital expenditures overall are lagging the planned pace and below budget YTD: (\$15.9M)
- Although capital expenditures are lagging YTD, current expectations are to expend 91% of 2018 budget.
- The Rock Island modernization timeline is under review with some projects likely to shift to 2019 partially offset by accelerations to 2018

**Total Capital forecasted to hit \$127.9M which is below budget for the year: (\$12M)**

## Cash

- Positive bottom line, lower capital spending and Alcoa shutdown settlement payment has increased cash and investments YTD by \$60.3M

**Total cash balance forecasted to be better than budget at year end: \$535.8M**

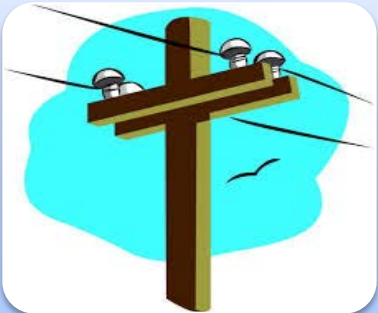
## Debt

- Total debt is the same as budget YTD

**Total debt forecasted to equal budgeted \$24M reduction with balance at year end: \$513.5M**

# Financial Highlights

## Focus on Year-to-Date (YTD) cost per unit



### Electric delivered cost per avg kWh better than budget

**YTD ¢/kWh result: 5.59¢ vs. 6.07¢** (actual vs. budget)

Power production costs- 2.03¢ vs. 2.27¢ (actual vs. budget)

Power distribution costs- 3.56¢ vs. 3.80¢ (actual vs. budget)

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



### Hydro production cost per avg MWh better than budget

**YTD \$/MWh result: \$16.9 vs. \$17.8** (actual vs. budget)

#### Actual vs. Budget

Rocky Reach \$12.1 vs. \$13.1 (operating expense ~86% YTD)

Rock Island \$25.7 vs. \$27.3 (operating expense ~90% YTD)

Lake Chelan \$20.0 vs. \$22.2 (operating expense ~88% YTD)

# Financial Highlights

## Focus on Year-to-Date (YTD) cost per unit



**Water cost per 1,000 gallons slightly higher than budget**

**YTD \$/1k gallons result: \$7.23 vs. \$7.22** (actual vs. budget)

YTD operating expense 101% of budget  
(Pump repairs)



**Wastewater cost per ERU better than budget**

**YTD \$/ERU result: \$915 vs. \$1,033** (actual vs. budget)

YTD operating expense 84% of budget



**Fiber cost per active premise better than budget**

**YTD \$/premise result: \$395 vs. \$440** (actual vs. budget)

YTD operating expense 102% of budget  
(maintenance O&M work in lieu of capital projects: PPB)

# 2018 Bottom-Line Results

<b>(in 000s)</b>	<b>2018 Current Forecast</b>	<b>2018 Budget</b>	<b>% of budget</b>
Service Revenue	66,559	64,693	103%
Net Wholesale Revenue	107,234	108,001	99%
Hydro LT Contract Rev/Other PP	122,202	119,795	102%
Other Operating Revenue	23,397	21,129	111%
Other Operating Expense	(170,874)	(173,861)	98%
Depreciation & Tax Expense	(51,702)	(52,016)	99%
<b>Operating Income/(Loss)</b>	<b>96,817</b>	<b>87,740</b>	<b>110%</b>
Non-Operating Activity	(12,876)	(15,898)	81%
<b>"Bottom Line"</b>	<b>83,941</b>	<b>71,842</b>	<b>117%</b>

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



# Business Line “Bottom-Line” Results

(in 000s)	2018 Current Forecast	2018 Budget	% of budget
Cost-Based Activity	40,914	35,569	115%
Market-Based Activity	48,501	47,081	103%
Retail Activity	(22,760)	(25,986)	88%
Other Activity	12,636	11,014	115%
<b>Integrated Electric</b>	<b>79,291</b>	<b>67,679</b>	<b>117%</b>
Fiber & Telecom	4,053	3,839	106%
Water	823	696	118%
Wastewater	(227)	(372)	61%
<b>Combined "Bottom-Line"</b>	<b>83,941</b>	<b>71,842</b>	<b>117%</b>

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

# Capital Expenditures

(in 000s)	2018 YTD Current	2018 YTD Budget	% of budget	2018 Current Forecast	2018 Budget	% of Budget
Electric Distribution	5,461	5,880	93%	14,088	14,293	99%
Network Transmission	807	1,517	53%	2,394	2,929	82%
Rocky Reach	2,301	4,232	54%	7,603	8,111	94%
Rock Island	16,621	23,017	72%	77,151	83,778	92%
Lake Chelan	205	859	24%	1,744	1,404	124%
Internal Services	2,922	7,232	40%	17,727	21,047	84%
Fiber & Telecom	1,541	3,120	49%	5,277	5,837	90%
Water	261	206	126%	1,046	1,236	85%
Wastewater	199	140	143%	878	1,339	66%
<b>Total Expenditures</b>	<b>30,318</b>	<b>46,203</b>	<b>66%</b>	<b>127,909</b>	<b>139,975</b>	<b>91%</b>
Contributions	(3,079)	(1,814)	170%	(4,137)	(3,797)	109%
<b>Capital net of CIAC</b>	<b>27,239</b>	<b>44,389</b>	<b>61%</b>	<b>123,772</b>	<b>136,177</b>	<b>91%</b>

# Overview of YTD - 2018 Cash Flow

	\$ Million
Bottom-line result (YTD - 2018)	\$ 47
Add back non-cash related items (depreciation)	\$ 23
<b>Estimated earned funds from operations</b>	<b>\$ 70</b>
Capital Project Expenditures	\$ 30
Net Debt Reductions	\$ 17
Other Misc. Impacts (change in A/R, A/P, Inventory, Etc.)	\$ 24
Receipt from Alcoa (Shut down settlement)	(\$62)
Added to cash reserves	\$ 61
<b>Estimated use of funds</b>	<b>\$70</b>
Cash and investments, beginning of year	\$ 511
Added to cash reserves	\$61
<b>Cash and investments, end of Q2</b>	<b>\$ 572</b>



# Cash & Investments Balance

(\$ Millions)	<u>6/30/18</u>	<u>12/31/17</u>
Unrestricted funds	\$390	\$327
Board Designated:		
Headquarters/Service Center Strategic Facilities Fund	<u>50</u>	<u>20</u>
<b>Total Unrestricted Funds*</b>	440	347
Restricted – DRC & CRC funds for Hydro capital/debt	<u>57</u>	<u>78</u>
<b>Total Liquidity (policy minimum \$175M)</b>	<b>\$497</b>	<b>\$425</b>
Restricted - bond reserve funds	41	53
Restricted - power contract deposits	22	21
Restricted - self insurance and other funds	<u>12</u>	<u>12</u>
<b>Total Cash and Investments</b>	<b><u>\$572</u></b>	<b><u>\$511</u></b>

\* Board Designated Funds qualify as unrestricted for liquidity and external reporting purposes

# Quarterly Reporting Requirement - Financial Policies






District Combined	2018	2019	2020	2021	2022
Liquidity - \$175M Min (Expected)	\$449M	\$384M	\$321M	\$259M	\$206M
Liquidity - \$175M Min (Unusual)		\$377M	\$309M	\$239M	\$180M*
Debt Ratio (Expected <35% by 2019)	34.5%	31.1%	28.2%	25.3%	22.3%
Debt Ratio (Unusual <35% by 2019)		31.3%	28.4%	25.6%	23.0%
Days Cash on Hand (Expected >250)	715	587	487	403	317
Days Cash on Hand (Unusual > 250)		577	468	370	276
Combined Debt Cover (Expected > 2.00x)	3.01	2.84	2.61	2.51	2.55
Combined Debt Cover (Unusual >1.25x)		2.74	2.49	2.35	2.33
Rate of Return (Expected > 4% thru 2019)	7.1%	5.7%	Sunset		
Rate of Return (Unusual > 2% thru 2019)		5.3%			
Bottom Line Results (Expected)	\$84M	\$73M	\$60M	\$55M	\$54M
Bottom Line Results (Unusual)		\$67M	\$54M	\$47M	\$44M
Outstanding Debt (Expected)	\$514M	\$474M	\$435M	\$394M	\$350M
Outstanding Debt (Unusual)		\$474M	\$435M	\$394M	\$355M*

\* Assumed issuance of debt to maintain liquidity

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.



# Quarterly Reporting Requirement Individual Business Line Financial Policies





Business Lines	2018	2019	2020	2021	2022
<b>WATER Business Line</b> 					
Operating Expense Coverage (target >120%)	133%	131%	135%	131%	132%
Cash Reserves (target > \$1.25 million)	\$4.1M	\$3.7M	\$2.9M	\$1.6M	\$1.6M
Debt Ratio (target <35%)	11%	9%	7%	5%	4%
<b>WASTEWATER Business Line</b> 					
Operating Expense Coverage (target >100% by 2019)	95%	86%	100%	100%	98%
Cash Reserves (target > \$200K)	\$3.2M	\$3.2M	\$3.0M	\$2.8M	\$2.8M
Debt Ratio (target <35%)	---	18%	17%	23%	23%
<b>FIBER Business Line</b> 					
Operating Expense Coverage (target >120%)	170%	147%	158%	145%	142%
Cash Reserves (target > \$2.0 million)	\$12.9M	\$11.4M	\$12.8M	\$14.4M	\$15.4M
Debt Ratio (target <35%)	---	---	---	---	---

Financial Policy not met: action plan is to address this through current business planning process.

# Quarterly Reporting Requirement Individual Business Line Financial Policies

Monitoring during  
test period

*\*These are “test” metrics, developed during 2018-2022 business planning*

Business Lines	2018	2019	2020	2021	2022
<b>Integrated Electric Business Line</b>					
<b>Retail Total Cost Ratio (target)</b>	>65%	>65%	>65%	>65%	>65%
Retail Total Cost Ratio 	69%	68%	69%	69%	68%
<b>Retail OM&amp;T Cost Ratio (target)</b>					
<b>Retail OM&amp;T Cost Ratio (target)</b>	> 90%	> 90%	> 90%	> 90%	> 90%
Retail OM&T Cost Ratio 	91%	88%	91%	93%	94%
<b>Retail Rate Support Limit (target)</b>					
<b>Retail Rate Support Limit (target)</b>	\$25.6M	\$26.3M	\$26.9M	\$27.6M	\$28.3M
Retail Rate Support 	\$22.8M	\$25.5M	\$26.1M	\$26.7M	\$28.4M
<b>Market Based Margin Limit (target)</b>					
<b>Market Based Margin Limit (target)</b>	\$25.0M	\$25.0M	\$25.0M	\$25.0M	\$25.0M
Market Based Margin 	\$48.5M	\$40.7M	\$29.2M	\$26.0M	\$26.3M

Metrics indicating that our electric revenues may not be keeping up with our costs as we continue to make significant investments in our assets

# Quarterly Investment Report

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

	Q3 2017	Q4 2017	Q1 2018	Q2 2018	YTD 2018	WAM
Average Invested Book Value (\$M)	\$471	\$498	\$517	\$534	\$525	
District Yield	1.74%	1.76%	1.88%	1.98%	1.93%	910
Benchmarks:						
3 Month T-Bill	1.06%	1.23%	1.58%	1.87%	1.73%	91
S&P US Treasury 1-3 Year Index*	1.38%	1.13%	1.29%	1.50%	1.40%	686

\*Prior Barclays index replaced Q4 2017 with S&P index and rolling 2 year average to align duration and improve comparability

- Q2 2018 yield increased to 1.98% due to improving market interest rates
- June 13, 2018 Federal Open Market Committee meeting report:
  - Labor market has continued to strengthen and economic activity has been rising at solid rate
  - Inflation has moved close to the Committee’s 2 percent objective
  - Federal funds rate target changed from 1.75% to 2.00%
  - Gradually increasing, although continued relatively low rates, are anticipated through 2018
- 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.*

# Q2 Key Messages

Mid-year forecasts are better than budget

Long-term financial metrics policies on track

Stay the course with our strategic goals

- Reinvest in assets and people

- Reduce debt

- 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.*



# Financial Highlights - Revenue

## Net Wholesale Revenue:

YTD result \$1.5 million above budget  
(\$56.5M vs. \$55.0M)

Annual forecast slightly lower than  
budget (\$107.2M vs \$108.0)

### Drivers:

- + Generation 107% of budget YTD
- Retail energy use 104% of budget YTD
- Hedging program minimizes impact of 2018 flat price \$21.0 vs \$22.8 budget

## Hydro Long-Term Contract Revenue:

YTD result \$3.7 million below budget  
(\$57.7M vs. \$61.4M)

Annual forecast slightly higher than  
Budget (\$123.5M vs \$121.1M)

### Drivers:

- Combined hydro “cost based” operating expenses below budget (88% YTD): forecasted to be 98% at year end.
- “Plus” contract charges slightly less than budgeted levels (96% YTD) : forecasted to be 106% at year end.

# Financial Highlights - Revenue

## Service Revenue:

YTD result \$0.9 million above budget  
(\$32.9M vs. \$32.0M)

Forecast results better than budget  
(\$66.6M vs \$64.7M)

### Drivers:

- + Retail energy use at 104% of budget:  
(Residential ~108%, Industrial ~114%,  
Commercial ~98%)
- + Updated retail energy load forecast  
implemented for Q2 reporting

## Other Operating Revenue:

YTD result \$1.4 million above budget  
(\$11.9M vs. \$10.5M)

Forecast results better than budget  
(\$23.4M vs \$21.1M)

### Drivers:

- + FEMA proceeds ~\$0.5M YTD (Fire-2015)
- + Hydro Contract Revenue ~\$1.2M YTD

# Financial Highlights - Expenses

## Operating Expense:

YTD result \$8.6 million below budget  
(\$78.2. vs. \$86.8M)

Forecast results below budget  
(\$170.9M vs \$173.9M)

### Drivers:

- Hydro operations and maintenance at 80% of budget (expected to catch up by year end)
- Fish and Wildlife at 83% of budget (expected to catch up by year end)

## Non-Operating Net Expense:

YTD result \$1.4M better than budget  
(\$6.5M vs. \$7.9M)

Forecast results better than budget  
(\$12.9M vs \$15.9M)

### Drivers:

- + Higher contributions in aid of construction YTD (\$3.4M vs \$2.2M)
- + Increased forecasted interest earnings on higher cash reserves

# Financial Highlights – Balance Sheet

## Capital expenditures below budget

- YTD - 2018 \$30.3 million vs. budget of \$46.2 million
- 2018 Forecast results below 2018 Budget (\$127.9M vs \$140.0M)

## Individual project adjustments:

- ↓ Bavarian Substation (~\$1M shifted to 2019 / 2020)
- ↓ LMR Network Replacement (~\$2M shifted to 2019)
- ↓ RI B7 Modernization (~\$4M shifted to 2019)
- ↓ RI B1 Modernization (~\$2M shifted to 2019)
- ↑ RI B8 Modernization (~\$1M accelerated to 2018)

## Cash remains strong / Debt reduction strategy on track

- Cash balance forecasted to increase ~\$24 million in 2018
- Debt balance to decrease ~\$24 million in 2018

# Service Revenue

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Residential Electric	14,229	13,407	106%	Colder than average Feb and Mar
Commercial Electric	8,140	8,222	99%	In line with budget
Industrial Electric	2,370	2,055	115%	Industrial & HDL in aggregate at 104% of budget.
High Density Load	895	1,060	84%	
Other Electric	622	881	71%	Small dollar variance
<b>Electric Service</b>	<b>26,256</b>	<b>25,626</b>	<b>102%</b>	
<b>Water Service</b>	<b>2,705</b>	<b>2,395</b>	<b>113%</b>	Retail water usage 105% of budget
<b>Wastewater Service</b>	<b>339</b>	<b>337</b>	<b>101%</b>	In line with budget
<b>Fiber &amp; Telecom</b>	<b>3,585</b>	<b>3,608</b>	<b>99%</b>	In line with budget
<b>Service Revenue</b>	<b>32,884</b>	<b>31,965</b>	<b>103%</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 2018	Budget YTD 2018	%	Variance
Slice Contracts	40,674	37,575	108%	Additional 3% slice executed post budget
Net Block Trades	15,123	13,714	110%	High retail usage (104% of budget YTD) - (Aggregate 91% of Budget YTD)
Other Net Wholesale	730	3,730	20%	
<b>Net Wholesale Revenue</b>	<b>56,527</b>	<b>55,019</b>	<b>103%</b>	
LT Hydro Contracts	57,742	61,442	94%	Operating costs 88% YTD /adders 96% YTD
Less Other Purchased Power	(662)	(660)	100%	In line with budget
<b>Hydro LT Contract Rev/Other PP</b>	<b>57,080</b>	<b>60,782</b>	<b>94%</b>	
<b>Surplus Energy Revenue</b>	<b>113,607</b>	<b>115,800</b>	<b>98%</b>	

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

# Operating Expense

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Hydro Operations & Maintenance	23,863	29,934	80%	RR C9 Turbine Repairs
Hydro Fish & Wildlife	6,294	7,616	83%	Predator control / Fishway Ops
Hydro Parks & Recreation	3,498	3,689	95%	Various maintenance projects timing
Electric Distribution	6,918	7,497	92%	Small dollar variance
Electric Transmission	6,112	6,728	91%	Legal & consulting support OATT
Misc. Power Supply Expenses	1,913	2,701	71%	Legal & consulting support EP&T
Water & Wastewater	1,419	1,529	93%	Small dollar variance
Fiber Network	2,265	2,098	108%	Core system support contract payment
Customer Accounts & Service	1,883	1,901	99%	Small dollar variance
Conservation & Customer Assist	1,317	1,719	77%	Regulatory asset Amortization
Insurance & FERC Fees	3,997	4,315	93%	Increased claims experience
Other Admin & General	18,732	17,117	109%	Vacancy rate adjustment
<b>Total</b>	<b>78,208</b>	<b>86,844</b>	<b>90%</b>	

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

# Non-Operating Activity

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Interest Earnings	4,989	4,625	108%	Higher interest rates / cash balances
Capital Contributions	3,398	2,182	156%	High volume of line extensions
Interest Expense	(12,855)	(12,702)	101%	In line with budget
Other Inc/(Exp)	(1,998)	(2,037)	98%	In line with budget
<b>Non Operating Activity</b>	<b>(6,465)</b>	<b>(7,932)</b>	<b>82%</b>	

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

# Integrated Electric

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Service Revenue	26,297	25,668	102%	Higher retail load usage
Net Wholesale Revenue	56,527	55,019	103%	Executed additional 3% slice post budget
Hydro LT Contract Rev/Other PP	57,080	60,782	94%	Lower operating costs & contract adders
Other Operating Revenue	12,682	11,090	114%	EMA proceeds (fire 2015) / Alcoa admin fee
Other Operating Expense	(75,259)	(83,826)	90%	Hydro Ops and Maint (80% of budget YTD)
Depreciation & Tax Expense	(24,450)	(24,162)	101%	In line with budget
<b>Operating Income/(Loss)</b>	<b>52,878</b>	<b>44,570</b>	<b>119%</b>	
Non-Operating Activity	(9,986)	(10,878)	92%	Higher contributions in aid of construction
<b>"Bottom Line"</b>	<b>42,892</b>	<b>33,692</b>		

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

# Fiber & Telecom

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Service Revenue	5,255	5,413	97%	Small dollar variance
Other Operating Revenue	9	1	1461%	Small dollar variance
Other Operating Expense	(3,288)	(3,232)	102%	In line with budget
Depreciation & Tax Expense	(1,529)	(1,567)	98%	In line with budget
<b>Operating Income/(Loss)</b>	<b>447</b>	<b>614</b>	<b>73%</b>	
Non-Operating Activity	2,695	2,653	102%	In line with budget
<b>"Bottom Line"</b>	<b>3,143</b>	<b>3,267</b>		

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



# Water

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Service Revenue	2,771	2,476	112%	Higher retail usage
Other Operating Revenue	36	31	115%	Small dollar variance
Other Operating Expense	(1,907)	(1,889)	101%	In line with budget
Depreciation & Tax Expense	(1,122)	(1,153)	97%	Small dollar variance
<b>Operating Income/(Loss)</b>	<b>(222)</b>	<b>(536)</b>	<b>41%</b>	
Non-Operating Activity	708	254	279%	Customer contributions
<b>"Bottom Line"</b>	<b>486</b>	<b>(282)</b>		

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

# Wastewater

(in 000s)	Actuals YTD 2018	Budget YTD 2018	%	Variance
Service Revenue	174	172	101%	In line with budget
Other Operating Revenue	0	0	83%	Small dollar variance
Other Operating Expense	(162)	(189)	86%	Small dollar variance
Depreciation & Tax Expense	(70)	(72)	98%	In line with budget
<b>Operating Income/(Loss)</b>	<b>(58)</b>	<b>(88)</b>	<b>66%</b>	
Non-Operating Activity	17	20	89%	Small dollar variance
<b>"Bottom Line"</b>	<b>(41)</b>	<b>(69)</b>		

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

# Actual Cash Balance Comparison to Budget

(millions)	2018
<b>Total Cash – Budgeted year-end balance</b>	<b>\$ 436</b>
Key changes in cash forecast:	
Decrease in capital projects	\$12
Improvement in operating activity	\$ 12
Other changes in A/R, A/P, inventory, etc.	\$14
Alcoa shutdown settlement payment	\$62
<b>Total Cash – Current forecast year-end balance</b>	<b>\$ 536</b>
Prior quarter – 2018 year-end forecasted balance	\$ 466

# 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% (2018-22)
  - Capital Recovery Charge (CRC) - 50% (2018-22)
- Investment earning rate
  - (2018-22: 2.06%, 2.30%, 2.50%, 2.73%, 2.99%)

# Cash and Debt Funding Capacity

	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
<b>Cash Funding Capacity</b>	<b>\$274M</b>	<b>\$209M</b>	<b>\$146M</b>	<b>\$84M</b>	<b>\$31M</b>
“liquidity in excess of minimum \$175M target”					
<b>Debt Funding Capacity</b>	<b>\$13M</b>	<b>\$90M</b>	<b>\$163M</b>	<b>\$233M</b>	<b>\$306M</b>
“financing capability up to maximum debt ratio target of 35%”					
<b>Total Funding Capacity</b>	<b>\$287M</b>	<b>\$299M</b>	<b>\$309M</b>	<b>\$317M</b>	<b>\$337M</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). We will continue to refine our methodology, including incorporating the potential impact on Debt Service Coverage.

# Combined Five-Year Forecast

(in 000s)	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
Service Revenue	66,559	69,943	73,113	75,743	76,774
Net Wholesale Revenue	107,234	100,333	88,691	83,566	84,220
Hydro LT Contract Rev/Other PP	122,202	133,859	132,982	127,503	128,214
Other Operating Revenue	23,397	23,412	25,251	24,377	26,069
Other Operating Expense	(170,874)	(186,598)	(188,731)	(182,481)	(184,504)
Depreciation & Tax Expense	(51,702)	(55,336)	(59,616)	(62,768)	(66,315)
<b>Operating Income/(Loss)</b>	<b>96,817</b>	<b>85,614</b>	<b>71,690</b>	<b>65,941</b>	<b>64,457</b>
Non-Operating Activity	(12,876)	(12,783)	(11,501)	(11,143)	(10,100)
<b>"Bottom Line"</b>	<b>83,941</b>	<b>72,831</b>	<b>60,189</b>	<b>54,797</b>	<b>54,357</b>
<i>Prior Quarter Reported Forecast</i>	<i>77,849</i>	<i>66,442</i>	<i>52,234</i>	<i>50,000</i>	<i>46,178</i>
<i>Forecast at 2018 Budget</i>	<i>72,238</i>	<i>61,167</i>	<i>49,336</i>	<i>45,912</i>	<i>40,391</i>



# Service Revenue

(in 000s)	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
Residential Electric	27,209	27,785	27,854	27,921	27,995
Commercial Electric	16,910	17,322	17,413	17,516	17,615
Industrial Electric	4,984	5,101	5,101	5,101	5,102
High Density Load	1,964	3,681	6,185	8,378	8,915
Other Electric	1,535	1,547	1,547	1,556	1,555
<b>Electric Service</b>	<b>52,603</b>	<b>55,435</b>	<b>58,101</b>	<b>60,472</b>	<b>61,182</b>
<b>Water Service</b>	<b>5,922</b>	<b>6,162</b>	<b>6,410</b>	<b>6,669</b>	<b>6,939</b>
<b>Wastewater Service</b>	<b>684</b>	<b>725</b>	<b>747</b>	<b>770</b>	<b>793</b>
<b>Fiber &amp; Telecom</b>	<b>7,350</b>	<b>7,621</b>	<b>7,854</b>	<b>7,832</b>	<b>7,861</b>
<b>Service Revenue</b>	<b>66,559</b>	<b>69,943</b>	<b>73,113</b>	<b>75,743</b>	<b>76,774</b>
<b>Prior Quarter Reported Forecast</b>	<b>66,795</b>	<b>69,648</b>	<b>72,490</b>	<b>74,820</b>	<b>75,950</b>
<b>Forecast at 2018 Budget</b>	<b>64,693</b>	<b>66,840</b>	<b>69,003</b>	<b>70,957</b>	<b>72,605</b>

# Net Surplus Energy Revenue

(in 000s)	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
Slice Contracts	81,347	70,241	55,181	55,552	42,393
Net Block Trades	23,747	23,006	24,614	14,357	15,221
Other Net Wholesale	2,140	7,086	8,897	13,657	26,606
<b>Net Wholesale Revenue</b>	<b>107,234</b>	<b>100,333</b>	<b>88,691</b>	<b>83,566</b>	<b>84,220</b>
LT Hydro Contracts	123,521	135,179	134,302	128,823	129,534
Less Other Purchased Power	(1,320)	(1,320)	(1,320)	(1,320)	(1,320)
<b>Hydro LT Contract Rev/Other PP</b>	<b>122,202</b>	<b>133,859</b>	<b>132,982</b>	<b>127,503</b>	<b>128,214</b>
<b>Surplus Energy Revenue</b>	<b>229,436</b>	<b>234,192</b>	<b>221,673</b>	<b>211,069</b>	<b>212,434</b>
<i>Prior Quarter Reported Forecast</i>	<i>227,100</i>	<i>220,904</i>	<i>211,174</i>	<i>201,546</i>	<i>204,365</i>
<i>Forecast at 2018 Budget</i>	<i>228,094</i>	<i>225,395</i>	<i>214,123</i>	<i>205,621</i>	<i>207,544</i>

# Operating Expense

(in 000s)	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
Hydro Operations & Maintenance	59,260	64,414	62,569	53,025	52,385
Hydro Fish & Wildlife	16,465	18,353	19,597	20,246	18,492
Hydro Parks & Recreation	7,852	8,860	8,936	7,812	8,120
Electric Distribution	15,084	15,651	16,182	16,913	17,524
Electric Transmission	12,451	13,511	13,681	13,744	14,209
Misc. Power Supply Expenses	5,203	6,032	6,410	6,445	6,697
Water & Wastewater	2,973	3,192	3,068	3,326	3,437
Fiber Network	4,449	5,045	4,657	5,105	5,190
Customer Accounts & Service	4,245	4,548	4,691	4,847	4,988
Conservation & Customer Assist	3,177	3,746	4,024	4,511	4,791
Insurance & FERC Fees	7,890	8,055	8,538	8,841	9,122
Other Admin & General	31,824	35,191	36,378	37,665	39,548
<b>Total</b>	<b>170,874</b>	<b>186,598</b>	<b>188,731</b>	<b>182,481</b>	<b>184,504</b>
<b><i>Prior Quarter Reported Forecast</i></b>	<b><i>171,097</i></b>	<b><i>175,890</i></b>	<b><i>180,713</i></b>	<b><i>175,888</i></b>	<b><i>180,385</i></b>
<b><i>Forecast at 2018 Budget</i></b>	<b><i>173,846</i></b>	<b><i>177,987</i></b>	<b><i>179,203</i></b>	<b><i>175,644</i></b>	<b><i>180,961</i></b>

# Capital Projects

(in 000s)	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
Electric Distribution	14,088	21,758	27,495	31,448	27,981
Network Transmission	2,394	4,446	8,414	9,128	6,338
Rocky Reach	7,603	5,827	7,401	6,772	7,361
Rock Island	77,151	59,153	33,681	34,643	40,351
Lake Chelan	1,744	259	1,253	855	435
Internal Services	17,727	32,887	35,586	26,073	19,197
Fiber & Telecom	5,277	6,268	5,562	4,314	4,848
Water	1,046	1,202	2,229	2,586	1,358
Wastewater	878	2,270	1,376	927	27
<b>Total</b>	<b>127,909</b>	<b>134,070</b>	<b>122,997</b>	<b>116,746</b>	<b>107,897</b>
<b><i>Prior Quarter Reported Forecast</i></b>	<b><i>133,805</i></b>	<b><i>125,995</i></b>	<b><i>100,572</i></b>	<b><i>112,619</i></b>	<b><i>100,074</i></b>
<b><i>Forecast at 2018 Budget</i></b>	<b><i>139,685</i></b>	<b><i>121,762</i></b>	<b><i>98,011</i></b>	<b><i>111,697</i></b>	<b><i>102,456</i></b>

# Financial Policy – Financial Liquidity & Days Cash on Hand

Methodology Per Resolution #17-14124

COMBINED	2018	2019	2020	2021	2022
<b>District Total Liquidity Targets</b>	<b>\$175</b>	<b>\$175</b>	<b>\$175</b>	<b>\$175</b>	<b>\$175</b>
Base Case – expected (50% probability)	\$449	\$384	\$321	\$259	\$206
Base Case – unusual (10% prob. / cumulative)		\$377	\$309	\$239	\$180*
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		\$368	\$289	\$208	\$178*
<b>Days Cash on Hand Target</b>	<b>&gt;250</b>	<b>&gt;250</b>	<b>&gt;250</b>	<b>&gt;250</b>	<b>&gt;250</b>
Base Case – expected (50% probability)	715	587	487	403	317
Base Case – unusual (10% prob. / cumulative)		577	468	370	276
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		538	418	309	261

\* Assumes external debt financing to maintain liquidity targets

# Financial Policy – Debt Ratio

(Debt/(Debt + Equity))

COMBINED	2018	2019	2020	2021	2022
District Targets	<40%	<35%	<35%	<35%	<35%
Outstanding Debt Balance - YE(million)	\$514	\$474	\$435	\$394	\$350
Scheduled Debt Retirements (million)	\$24	\$25	\$28	\$30	\$32
Planned Debt Accelerations (million)	\$ -	\$16	\$11	\$12	\$12
Forecasted Debt Issuance - expected (million)	\$ -	\$ -	\$ -	\$ -	\$ -
Base Case – expected	34.5%	31.1%	28.2%	25.3%	22.3%
Base Case – unusual		31.3%	28.4%	25.6%	23.0%*
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		31.3%	28.5%	25.8%	25.4%*

\* Assumed debt issuance to maintain adequate liquidity levels

8/7/2018



# Financial Policy – Financial Liquidity & Days Cash on Hand

Methodology Per Resolution #17-14124

COMBINED	2018	2019	2020	2021	2022
<b>District Total Liquidity Targets</b>	<b>\$175</b>	<b>\$175</b>	<b>\$175</b>	<b>\$175</b>	<b>\$175</b>
Base Case – expected (50% probability)	\$449	\$384	\$321	\$259	\$206
Base Case – unusual (10% prob. / cumulative)		\$377	\$309	\$239	\$180*
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		\$368	\$289	\$208	\$178*
<b>Days Cash on Hand Target</b>	<b>&gt;250</b>	<b>&gt;250</b>	<b>&gt;250</b>	<b>&gt;250</b>	<b>&gt;250</b>
Base Case – expected (50% probability)	715	587	487	403	317
Base Case – unusual (10% prob. / cumulative)		577	468	370	276
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		538	418	309	261

\* Assumes external debt financing to maintain liquidity targets

8/7/2018

41

# ***Financial Policy – Debt Service Coverage***

*(Net Funds from Operations/Computed Debt Service)*

<b>COMBINED</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>District Targets (expected)</b>	<b>2.00</b>	<b>2.00</b>	<b>2.00</b>	<b>2.00</b>	<b>2.00</b>
<b>District Targets (unusual)</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>
Base Case – expected	3.01	2.84	2.61	2.51	2.55
Base Case – unusual		2.74	2.49	2.35	2.33
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		2.66	2.41	2.27	2.10

# Financial Policy – Rate of Return

(Change in Net Position/Net Plant)

COMBINED	2018	2019	2020	2021	2022
District Targets (expected)	>4%	>4%	Sunset		
District Targets (unusual)	>2%	>2%			
Base Case – expected <i>Bottom-line expectation</i>	7.1% \$84M	5.7% \$73M	- \$60M	- \$55M	- \$54M
Base Case – unusual <i>Bottom-line expectation</i>		5.3% \$67M	- \$54M	- \$47M	- \$44M
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs <i>Bottom-line expectation</i>		5.0% \$64M	- \$50M	- \$42M	- \$35M



## Quarterly Investment Report for the quarter ending June 30, 2018

All \$ values are shown in '000s

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

### Portfolio Summary

	Q3 2017	Q4 2017	Q1 2018	Q2 2018	YTD 2018	WAM	
Average Invested Book Value	\$471 M	\$498 M	\$517 M	\$534 M	\$525 M		<u>Policy Objectives &amp; Compliance</u> + Safety + Liquidity + Return on Investment + Diversification + Maturity Length
Interest Earned	\$2.1 M	\$2.2 M	\$2.4 M	\$2.6 M	\$5.0 M		
District Yield	1.74%	1.76%	1.88%	1.98%	1.93%	910	
<b>Benchmarks:</b>							
3 Month T-Bill	1.06%	1.23%	1.58%	1.87%	1.73%	91	
S&P US Treasury 1-3 Year Index*	1.38%	1.13%	1.29%	1.50%	1.40%	686	
LGIP (State Pool)	1.10%	1.19%	1.50%	1.80%	1.65%	34	
Fed Funds Effective	1.15%	1.20%	1.45%	1.75%	1.58%	1	

#### General Commentary:

For Q2 2018, the District's yield increased to 1.98% on an average invested book value of \$534 million due to improving market interest rates. The Federal Open Market Committee's June 13, 2018 meeting reported that the labor market has continued to strengthen and economic activity has been rising at a solid rate. Job gains have been strong and the unemployment rate has declined. Household spending has picked up and business investment has continued to grow strongly. Inflation has moved close to the Committee's 2 percent objective and risks to the economic outlook appear roughly balanced. In view of realized and expected labor market conditions and inflation, the Committee decided to raise the target range for the federal funds rate to 1.75 to 2.00 percent. The Committee expects further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions and inflation near the 2 percent objective. The District anticipates gradually increasing, although continued relatively low, rates through 2018. Global and national events 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 over time, but can result in the District's yield lagging the shorter term 3 month T-Bill benchmark in both declining and rising interest rate conditions.

#### 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) increased slightly in Q2 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.

\*Prior Barclays index replaced Q4 2017 with S&P index and rolling 2 year average to align duration and improve comparability.



## Quarterly Investment Report for the quarter ending June 30, 2018

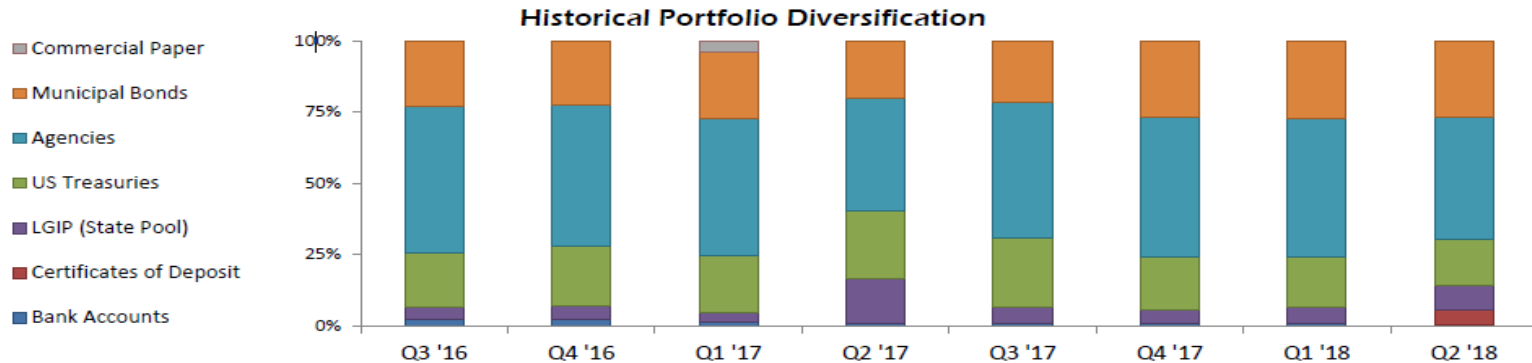
All \$ values are shown in '000s

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

### Investments by Type - as of June 30, 2018

	Par Value	GASB 31 Reported Value	Book Value	Book Value as % of Portfolio	Policy % Limit	WAM
Bank Accounts	\$ 1,528	\$ 1,528	\$ 1,528	0.3%	75%	1
Certificates of Deposit	\$ 30,000	\$ 30,000	\$ 30,000	5.2%	40%	171
US Treasuries	\$ 96,498	\$ 95,785	\$ 95,443	16.5%	100%	918
LGIP (State Pool)	\$ 49,038	\$ 49,038	\$ 49,038	8.5%	25%	1
US Agencies	\$ 246,883	\$ 242,481	\$ 246,831	42.7%	75%	1,158
Municipal Bonds	\$ 153,700	\$ 152,724	\$ 154,990	26.8%	30%	950
<b>Total:</b>	<b>\$ 577,648</b>	<b>\$ 571,556</b>	<b>\$ 577,830</b>			<b>910</b>

Numbers may not foot due to rounding





## Quarterly Investment Report for the quarter ending June 30, 2018

All \$ values are shown in '000s

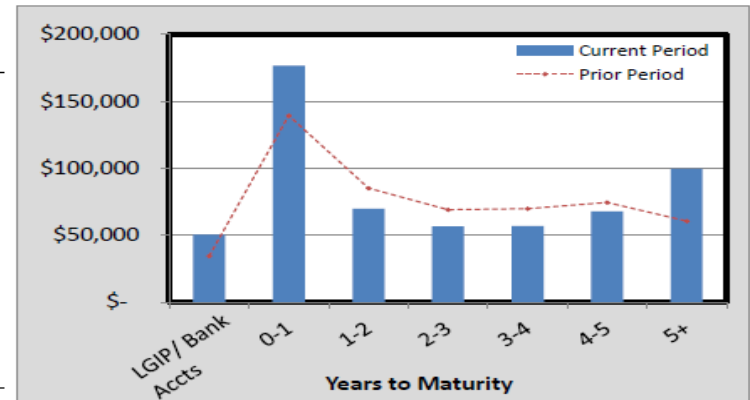
Prepared in accordance with District Banking and Investment Policy #16-14094

### Maturity Distribution - as of June 30, 2018

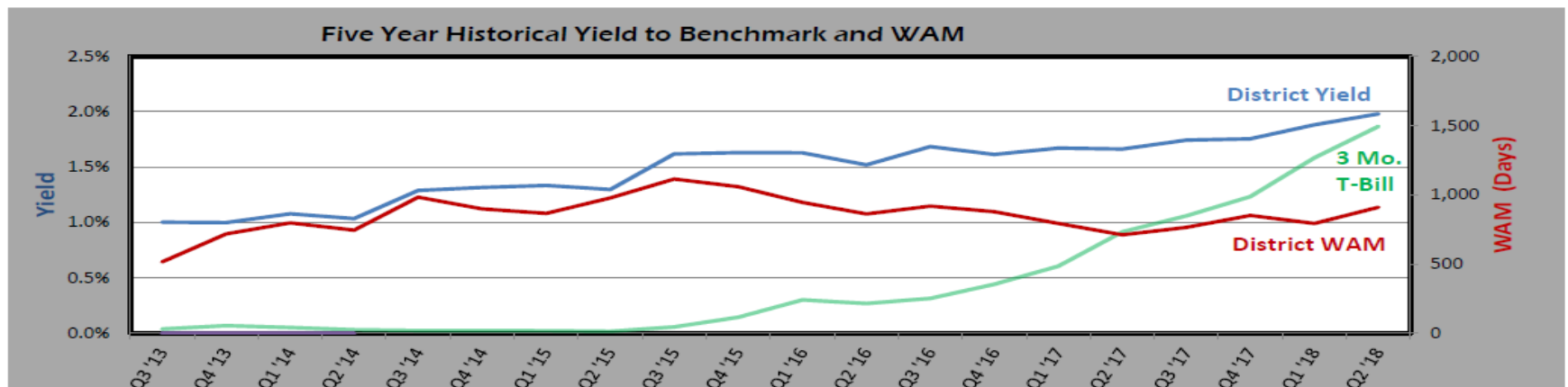
Maturity	Par Value	% of Portfolio	Cumulative % of Portfolio
LGIP	\$ 49,038	8.5%	8.5%
Bank Accounts	\$ 1,528	0.3%	8.8%
1-90 Days	\$ 11,645	2.0%	10.8%
91-180 Days	\$ 65,427	11.3%	22.1%
181-365 Days	\$ 99,586	17.2%	39.3%
1-2 Yrs	\$ 69,630	12.1%	51.4%
2-3 Yrs	\$ 56,479	9.8%	61.2%
3-4 Yrs	\$ 56,885	9.8%	71.0%
4-5 Yrs	\$ 67,730	11.7%	82.7%
5+ Yrs	\$ 99,699	17.3%	100.0%

**Total: \$ 577,648 100%**

Numbers may not foot due to rounding



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



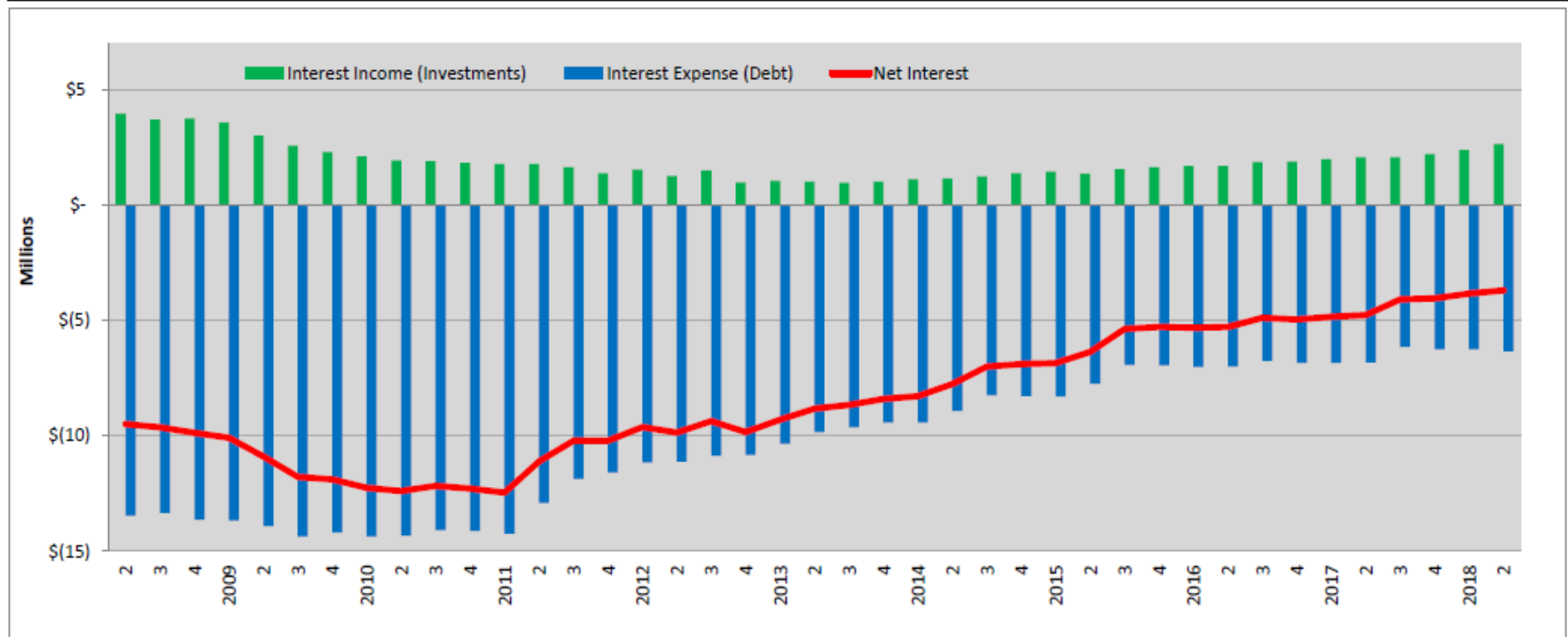


# Quarterly Investment Report for the quarter ending June 30, 2018

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, 2018

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.