

Chelan County PUD

# 2022 Financial Review

*(Results are preliminary pending annual audit)*



## Board Presentation

February 21, 2023

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# What We Will Cover Today

- **Financial highlights**
- **Year-end results**
- **Look back**
- **Look ahead**
- **Investment report**
- **Key take-aways**

**Update only, no action required**

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

# 2022 Key Highlights

## **Bottom-line results better than budget**

- Ongoing operations were better than budget - both higher revenues and lower operating costs led to strong results
- Strong wholesale market prices added significant retained surplus proceeds from LT contract
- Environmental attribute sales from cost-based contract contributed to strong results

## **Capital spending lower than budget with good progress**

- Accomplished significant level of investment in core assets even with slowed supply chains and some project schedules shifted to future periods

## **Financial targets on-track**

- Finance metrics were met for 2022 and on track for the 5-year forecast

# 2022 Overview

## Revenue

### Service Revenue \$3M above budget

- ↑ Impacts of higher market price component of Off-system sales exceeding lower usage volume
- ↓ High density load revenues lagged from slower paced transitions

### Net Wholesale Revenue \$9M below budget

- ↓ Higher than expected market-based purchases in December to meet retail load due to weather and lower streamflows
- ↑ Higher market prices for sales

### Hydro Contract Revenue \$105M above budget

- ↑ Retained surplus proceeds on cost-based contract
- ↑ New environmental attribute sales on LT contract
- ↓ Hydro O&M costs lower for cost-based revenues

### Other Operating Revenue \$11M above budget

- ↑ Variable portion of real-time agreement
- ↑ Cost based contract admin fees
- ↑ Renewable energy credits revenue

**Total Revenues \$110M above budget**

## Expense

### Operating Expenses \$22M below budget

- ↓ Lower O&M primarily at the hydros due to project schedules

### Non-Operating Net Expense \$3M better than budget

- ↑ Higher customer line extension contributions
- ↑ Higher interest earnings (higher balances & rates)

### Total Net Expenses \$25M below budget

## Bottom Line

- ↑ Higher revenues, lower expenses

### Bottom Line \$198M for the year

- ↑ Ongoing operations \$92M
- Ongoing operations \$29M better than budget**

**Total is \$135M better including non-budgeted items**

*Q3 Bottom-Line forecast \$151M for the year*

# 2022 Overview

## Capital

**Capital expenditures of \$141M**

↓ \$60M below budget

**Capital forecast adjustments**

- ↓ Operations and Service Center
- ↓ RI PH2 Rehab
- ↓ RI PH1 Modernizations
- ↓ Bavarian Substation
- ↓ N. Shore Chelan Substation
- ↓ RR-CM Facilities Upgrade

***Capital expenditures of \$421M  
over the last three years***

*Compares to Q3 forecast of \$150M*

## Cash

**Cash and investments balance of \$540M**

- ↑ Increased by \$32M from year-end
- ↑ Strong bottom line
- ↑ Deposit from Microsoft
- ↓ Lower Capital spending
- ↔ Debt service payments and retirements

**Cash increased beyond planned capital spending  
and scheduled debt reductions**

↑ \$183M higher than forecast at budget

*Compares to Q3 forecast of \$517M*

## Debt

**Debt balance of \$349M**

**2022 Debt reduction of \$47M**

- ↓ \$35M of net scheduled payments
- ↓ \$12M of 6-month accelerated payments

# 2022 Bottom Line Results

(in 000s)	2022 Actuals	2022 Budget	% of budget
Service Revenue	119,745	116,585	103%
Net Wholesale Revenue	55,270	63,988	86%
Hydro LT Contract Rev/Other PP	253,437	148,278	171%
Other Operating Revenue	35,674	24,978	143%
Operating Expense	(200,907)	(225,577)	89%
Depreciation & Tax Expense	(66,840)	(63,787)	105%
<b>Operating Income/(Loss)</b>	<b>196,378</b>	<b>64,463</b>	<b>305%</b>
Non-Operating Activity	1,786	(1,630)	---
<b>Bottom Line</b>	<b>198,164</b>	<b>62,833</b>	<b>315%</b>

Bottom Line Forecast for Q3 2022 was \$151M, 244% of budget

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

# 2022 Business Line Bottom Line Forecast

(in 000s)	2022 Actuals	2022 Budget	% of budget
Integrated Electric	195,557	60,333	324%
Fiber & Telecom	1,964	(263)	---
Water	777	885	88%
Wastewater	(380)	(305)	124%
Intra-system eliminations	246	2,184	11%
<b>Combined Bottom Line</b>	<b>198,164</b>	<b>62,833</b>	<b>315%</b>

Intra-system elimination is Fiber/Distribution make ready work, variance is due to revised work schedules and work priority

**Bottom line:** >100% better than budget / <100% less than budget

# Capital Expenditures

(in 000s)	2022 Actuals	2022 Budget	% of budget
Electric Distribution	26,503	33,973	78%
Network Transmission	1,791	6,336	28%
Rocky Reach	3,347	7,642	44%
Rock Island	43,816	54,777	80%
Lake Chelan	410	3,384	12%
Internal Services	58,194	85,439	68%
Fiber & Telecom	4,684	7,123	66%
Water	1,678	2,100	80%
Wastewater	303	461	66%
<b>Total Expenditures</b>	<b>140,727</b>	<b>201,233</b>	<b>70%</b>
Contributions	(7,587)	(6,762)	112%
<b>Capital net of CIAC</b>	<b>133,140</b>	<b>194,471</b>	<b>68%</b>

*Accomplishing strategic goal to invest in assets with \$421M in capital investment over the past three years*



# Overview - 2022 Cash Flow

	\$ Million
Bottom line result (2022)	\$ 198
Add back non-cash expense items (deprec./amort.)	\$ 52
Subtract non-cash revenue items	(\$ 14)
<b>Estimated earned funds from operations</b>	<b>\$ 236</b>
Capital project expenditures	(\$ 141)
Net debt activity (principal payments net of capitalized int.)	(\$ 47)
Customer deposit-Substation to serve Microsoft	\$ 42
Other misc. impacts (change in A/R, A/P, inventory, debt, etc.)	(\$ 58)
<b>Estimated use of funds</b>	<b>(\$ 204)</b>
<b>Added to (Use of) cash reserves</b>	<b>\$ 32</b>
Cash and investments, beginning of year	\$ 508
Added to (Use of) cash reserves	\$ 32
<b>Cash and investments 2022</b>	<b>\$ 540</b>



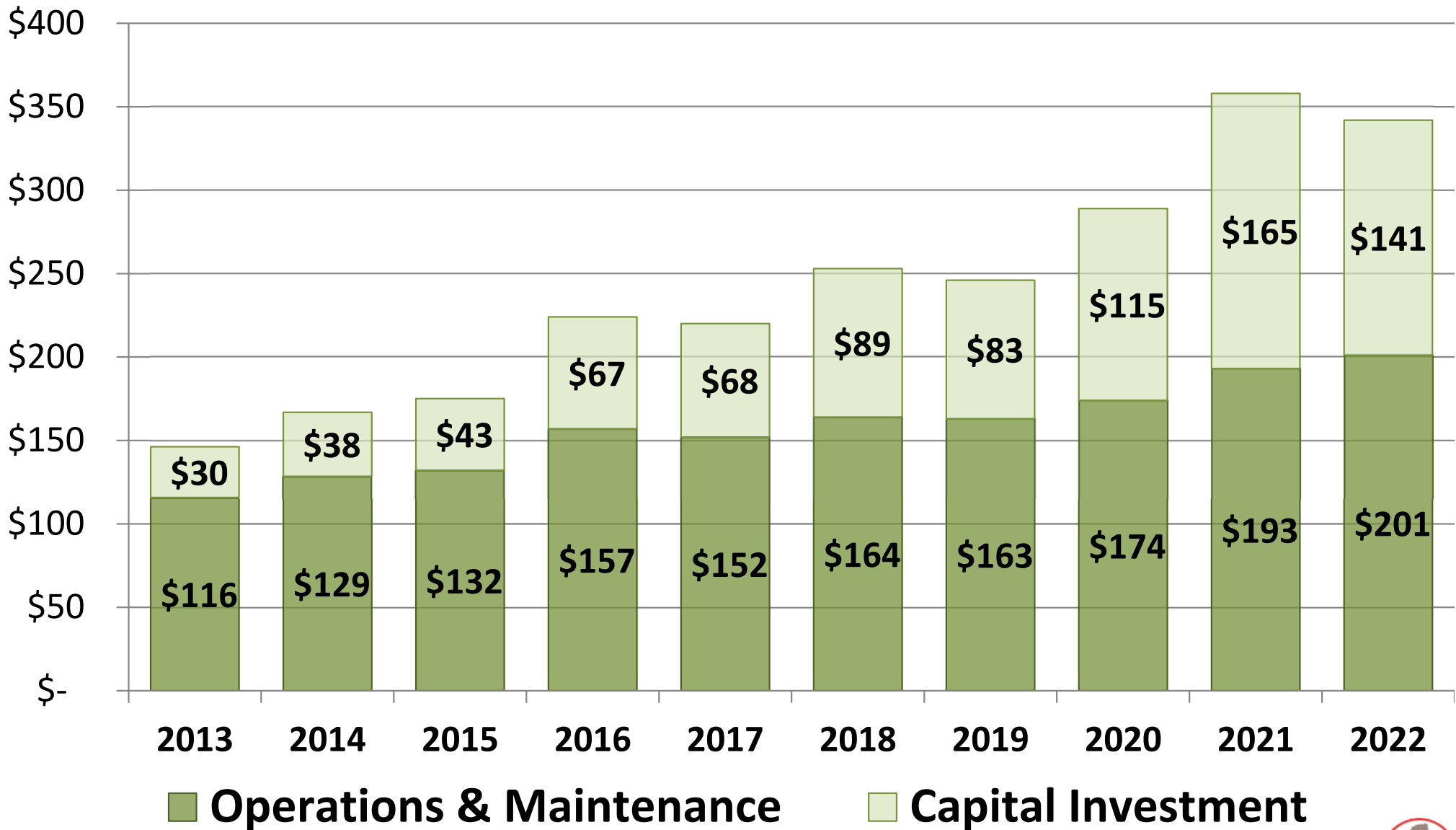
# Cash & Investments Balance

(\$ Millions)	<u>12/31/22</u>	<u>12/31/21</u>
Unrestricted funds	\$340	\$270
Board Designated*:		
Electric Rate Support Fund	7	2
Headquarters/Service Center Strategic Facilities Fund	<u>42</u>	<u>50</u>
<b>Total Unrestricted Funds</b>	<b>\$389</b>	<b>\$322</b>
Restricted funds for hydro capital/debt	<u>31</u>	<u>93</u>
<b>Total Liquidity (policy minimum \$175M)</b>	<b>\$420</b>	<b>\$415</b>
Restricted – bond reserve funds	46	47
Restricted – construction funds (2020 bonds)	0	14
Restricted – customer deposit substation - Microsoft	42	0
Restricted – power contract deposits	17	19
Restricted – self insurance and other funds	<u>15</u>	<u>13</u>
<b>Total Cash and Investments</b>	<b><u>\$540</u></b>	<b><u>\$508</u></b>

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

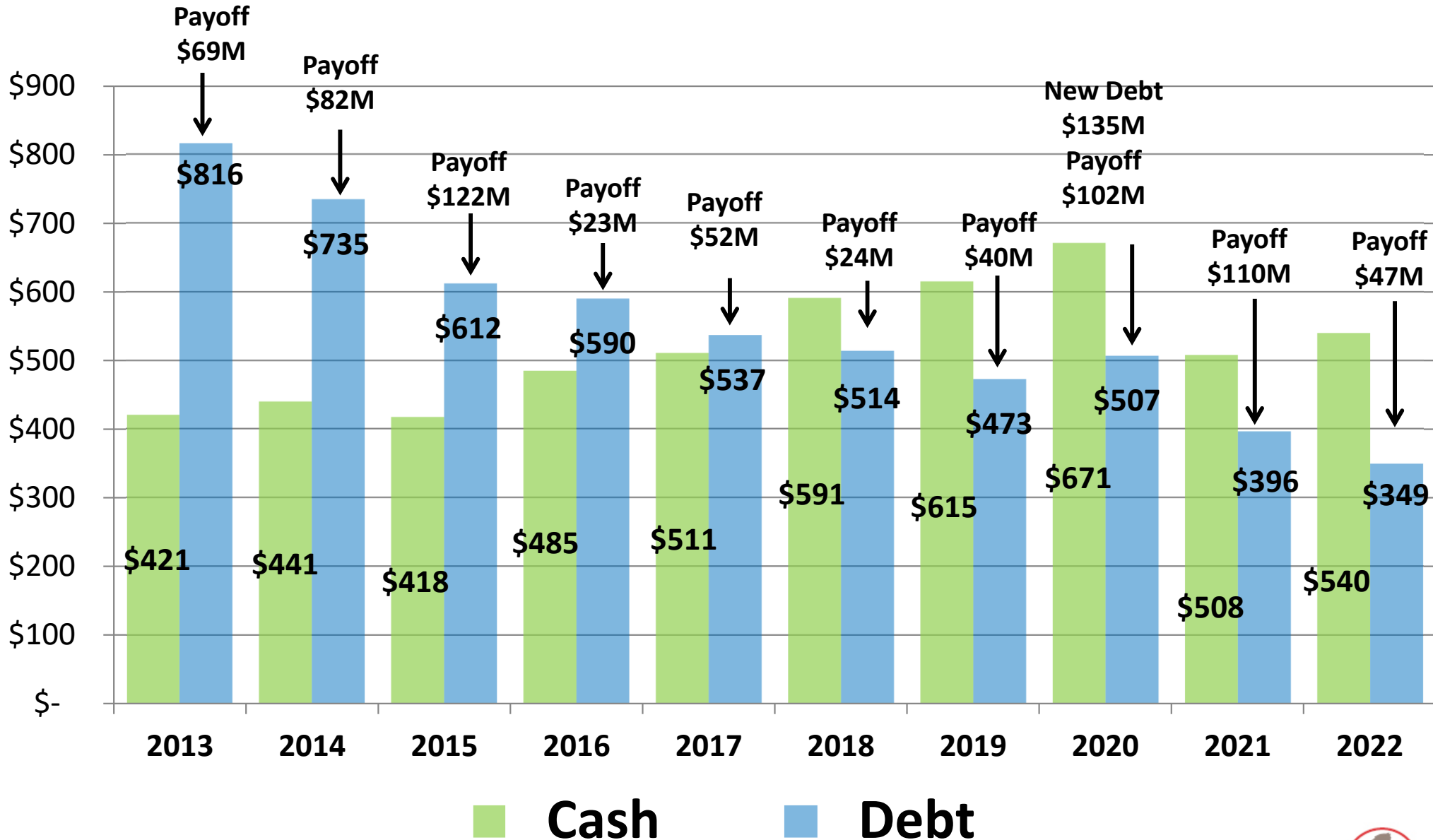
# Historical Review of the District's Financial Results

(amounts in millions)



# Historical Review of the District's Financial Results

(amounts in millions)



# Quarterly Reporting Requirement - Financial Policies

District Combined	2022	2023	2024	2025	2026
Liquidity (Greater calculated min \$175M-\$253M, Expected)	\$420M	\$341M	\$306M	\$297M	\$346M
Liquidity (Greater calculated min \$175M-\$253M, Unusual)		\$320M	\$267M	\$259M	\$272M
Debt Ratio (Expected case <35% by 2019)	18.6%	16.3%	13.6%	10.8%	9.2%
Debt Ratio (Unusual case <35% by 2019)		16.5%	14.3%	13.5%	11.9%
Days Cash on Hand (Expected case >250)	416	273*	287	287	340
Days Cash on Hand (Unusual case > 250)		254*	251*	251*	269*
Combined Debt Cover (Expected case > 2.00x)	4.85	3.51	4.56	5.62	6.02
Combined Debt Cover (Unusual case >1.25x)		3.01	3.86	4.19	4.56
Bottom Line Results (Expected case)	\$198M	\$77M	\$112M	\$148M	\$130M
Bottom Line Results (Unusual case)		\$57M	\$85M	\$106M	\$97M
Debt Outstanding (Expected case)	\$349M	\$312M	\$270M	\$226M	\$201M
Debt Outstanding (Unusual case)		\$312M*	\$279M*	\$277M*	\$252M*

\* - Financial Policy Metrics within 10% of target which requires Board communication per resolution. Action plan assumes issuance of debt in the unusual case to fund a portion of the capital spending program and balance maintaining our financial targets.

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	Water	Waste water	Fiber
	<b>Forecast for 2024</b>		
Operating Cover Percentage (target by 2024)	>104.0%	>62.0%	>80.0%
Operating Cover Percentage (forecast Q4)	<b>101.7%</b>	<b>56.7%</b>	<b>79.8%</b>
Cash Reserves – Unrestricted (target by 2024)	>\$1.25M	>\$200K	>\$2.0M
Cash Reserves – Unrestricted (forecast Q4)	<b>\$0.73M</b>	<b>\$1.1M</b>	<b>\$18.0M</b>
Debt Service as a % of Rev (target by 2024)	<12.0%	<2.0%	<10.0%
Debt Service as a % of Rev (forecast Q4)	<b>8.4%</b>	<b>18.4%</b>	---

NOTE: Board resolution for business line financial targets are defined as “by 2024” and “by 2029” with 2024 is shown here as the first target date to meet.

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.

# Quarterly Investment Report

In compliance with District Banking and Investment Policy #22-14648

	Q1 2022	Q2 2022	Q3 2022	Q4 2022	YTD 2022	WAM
Average Invested Book Value (\$M)	\$504	\$509	\$526	\$554	\$523	
District Yield	2.07%	2.21%	2.16%	2.42%	2.22%	904
Benchmarks:						
3 Month T-Bill	0.33%	1.13%	2.71%	4.12%	2.07%	92
S&P US Treasury 1-3 Year Index	0.38%	0.69%	1.09%	1.63%	0.95%	692

- Q4 2022 yield increased to 2.42% (2022 budgeted rate was 2.22%);
- Due to the District’s longer duration portfolio, return on investment is lagging rapidly rising 3 month T-Bill rates (policy performance standard)
- December 14, 2022 Federal Open Market Committee meeting report:
  - Committee anticipates ongoing increases in targeted fed funds rate
  - Committee will continue to monitor information related to the economic outlook, public health, labor market conditions, global developments and inflation pressures and expectations
  - Federal funds target rate range was increased to 4.25% to 4.50% (3.00% to 3.25% at end of Q3 2022)
- Laddered investment structure continues to be our strategy to support safety of principal and liquidity and mitigate interest rate volatility

## Policy Objectives

- + Safety
- + Liquidity
- + Maturity
- Return on Investment

## Compliance

- + Diversification
- + Duration
- + Internal Controls

Full report in Appendix

# Key Take-Aways

- 2022 results are better than budget from both ongoing operations and net surplus proceeds
- Accomplished significant level of investment in core assets on strategic path to ensure long-term value
- Results support long-term plans for significant capital investments that are expected to draw down cash reserves in next few years
- District long-term financial metrics on track with no new external debt issuance in the next five-year planning horizon
- Inflation and supply chain issues are impacting projects, but are manageable and continue to be evaluated for future forecasts
- Recommend staying the course with 2020-2024 Strategic Plan



# 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:

↓ 2022 result \$9 million below budget (\$55M vs. \$64M)

↓ Annual result \$17M lower than Q3 forecast (\$55M vs. \$72M)

### Drivers:

↓ December: Higher market prices on purchases to meet local load due to weather and lower streamflows

↑ Generation 104% of budget

↓ Higher market-based price component for off-system sale

↑ Higher market prices on sales

## Hydro Long-Term Contract Revenue:

↑ 2022 result \$105 million above budget (\$253M vs. \$148M)

↑ Annual results \$52M higher than Q3 forecast (\$253M vs. \$201M)

### Drivers:

↑ Retained surplus proceeds

↑ Environmental Attribute Sales

↓ YTD Combined hydro operating expenses below budget

# Financial Highlights - Revenue

## Service Revenue:

↑ 2022 result \$3 million above budget (\$120M vs. \$117M)

↑ Annual result \$6M above Q3 forecast (\$120M vs. \$114M)

### Drivers:

↑ Higher retail off-system sale due to higher prices despite lower usage ~\$6M

↓ Lower HDL/Crypto sales due to lagging ramping plans and differential in market price component ~\$3M

↑ Residential and commercial ~\$1.0M

## Other Operating Revenue:

↑ 2022 results \$11 million above budget (\$36M vs. \$25M)

↑ Annual results \$6M above Q3 forecast

### Drivers:

↑ Real-Time Agreement variable portion better than budget ~\$7.8M

↑ Cost based contract admin fees better than budget ~\$2M

↑ Renewable energy credit sales better than budget ~\$0.5M

# Financial Highlights - Expenses

## Operating Expense:

↓ 2022 result \$22M million below budget (\$268M vs. \$289M)

↓ Annual result \$1M below Q3 forecast (\$268M vs. \$269M)

### Drivers:

- ↓ Hydro operations and maintenance at 75% of budget
- ↓ Electric Distribution at 89% of budget
- ↓ Self insurance claims expense eliminations, Insurance at 88% of budget
- ↑ Admin & General at 105% of budget

## Non-Operating Net Expense:

↓ 2022 result \$3.3M better than budget (\$1.7M vs. -\$1.6M)

↑ Annual results \$1.6M worse than Q3 forecast (\$1.7M vs. \$3.3M)

### Drivers:

- ↑ Customer line extension contributions exceeding budget
- ↑ Higher interest income from higher cash balances and higher interest rates

# Financial Highlights – Balance Sheet

## Capital Expenditures below budget

- 2022 \$141 million vs. budget of \$201 million (Orig. \$196M)
- 2022 Annual result \$9M below Q3 forecast of \$150M

## Selected individual project adjustments:

↓ Operations and Service Center	\$29.5M shifted to 2023
RI PH2 Rehab	\$14.2M shifted to 2023-27
RI PH1 Moderization	\$8.5M Shifted to 2024-26
Bavarian Substation	\$4.6M shifted to 2023-24
N Shore Chelan Substation	\$3.5M shifted to 2023-24
RR-CM Facilities Upgrade	\$3.2M shifted to 2023
RI PH1 Intake Gantry Crane	\$2.7M shifted to 2023-24

## Cash remains strong, with continued debt reduction

- Cash balance increased \$32 million in 2022 due to positive bottom line result and large customer deposit while funding capital expenditures, and remains strong at \$540M
- Debt balance decreased \$47 million in 2022 to \$349M

# Service Revenue

(in 000s)	2022 Actuals	2022 Budget	% of budget	Variance
Residential Electric	33,073	32,225	103%	In line with budget
Commercial Electric	17,514	17,045	103%	In line with budget (Net of EV)
Industrial Electric	5,077	5,388	94%	Lower load than expected
High Density Load	7,673	10,529	73%	Lower than expected load growth
Off-System End-Use Sales	38,854	33,086	117%	Higher market price rate component offset by lower usage
EV Charging Stations	47	-		New rate class
Other Electric	1,544	1,707	90%	Small \$ variance
<b>Electric Service</b>	<b>103,782</b>	<b>99,980</b>	<b>104%</b>	
<b>Water Service</b>	<b>7,088</b>	<b>7,222</b>	<b>98%</b>	In line with budget
<b>Wastewater Service</b>	<b>840</b>	<b>852</b>	<b>99%</b>	In line with budget
<b>Fiber &amp; Telecom</b>	<b>8,034</b>	<b>8,532</b>	<b>94%</b>	In line with budget
<b>Service Revenue</b>	<b>119,745</b>	<b>116,585</b>	<b>103%</b>	

Note: Excludes internal intersystem revenues

# Net Surplus Energy Revenue

(in 000s)	2022 Actuals	2022 Budget	% of budget	Variance
Slice Contracts	77,762	77,762	100%	In line with budget
Net Block Trades & Other	(22,493)	(13,775)	163%	Higher market prices on purchases (especially Dec.) and lower streamflow in Dec. offset by lower volume of purchases for Off-System sales
<b>Net Wholesale Revenue</b>	<b>55,270</b>	<b>63,988</b>	<b>86%</b>	
LT Hydro Contracts	254,625	149,268	171%	Retained surplus revenues, environmental attribute sales, offset by lower hydro operating expenses
Other Purchased Power	(1,188)	(990)	120%	Small dollar variance
<b>Hydro LT Contract Rev/ Other PP</b>	<b>253,437</b>	<b>148,278</b>	<b>171%</b>	
<b>Surplus Energy Revenue</b>	<b>308,707</b>	<b>212,265</b>	<b>145%</b>	

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

# Operating Expense

(in 000s)	2022 Actuals	2022 Budget	% of budget	Variance
Hydro Operations & Maintenance	58,727	78,664	75%	Project delays, shift in labor to capital projects
Hydro Fish & Wildlife	18,095	20,365	89%	Project expense shift to 2024
Hydro Parks & Recreation	8,796	8,303	106%	Added maintenance projects
Electric Distribution	17,907	20,020	89%	Open positions, technology-related contract spending
Electric Transmission	15,423	15,977	97%	Tree Trimming, contract spending
Misc. Power Supply Expenses	5,222	5,741	91%	Lower Energy Resources contracts
Water & Wastewater	3,791	3,709	102%	In line with budget
Fiber Network	5,611	5,625	100%	In line with budget
Customer Accounts & Service	5,069	4,795	106%	Less labor charged to capital
Conservation & Customer Assist	4,530	5,186	87%	Amortization of reg. assets/ Customer Energy Programs
Insurance & FERC Fees	10,022	11,826	85%	Lower self insurance claims and stop loss expenses
Admin & General	47,712	45,366	105%	Labor and benefits adjustment
<b>Total</b>	<b>200,907</b>	<b>225,577</b>	<b>89%</b>	

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



# Non-Operating Activity

(in 000s)	2022 Actuals	2022 Budget	% of budget	Variance
Interest Earnings	11,585	10,319	112%	Higher cash balances and rates
Capital Contributions	8,416	7,389	114%	Electric line extensions
Interest Expense	(17,779)	(17,934)	99%	In line with budget
Other Inc/(Exp)	(436)	(1,404)	31%	Unallocated PPB not spent
<b>Non-Operating Activity</b>	<b>1,786</b>	<b>(1,630)</b>	<b>---</b>	

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

# Integrated Electric

(in 000s)	2022 Actuals	2022 Budget	% of budget	Variance
Service Revenue	103,876	100,074	104%	Impacts of Higher market price component of Off-system sales exceeds lower usage volume; offset by lower HDL load
Net Wholesale Revenue	55,270	63,988	86%	Higher December District load due to weather and lower streamflows requiring high market price purchases ; offset by overall higher generation and higher market prices
Hydro LT Contact Rev/Other PP	253,437	148,278	171%	Retained surplus proceeds
Other Operating Revenue	37,609	26,466	142%	Variable portion of real-time agreement
Operating Expense	(191,978)	(215,798)	89%	Lower Hydro O&M
Depreciation & Taxes	(59,604)	(56,533)	105%	In line with budget
<b>Operating Income/(Loss)</b>	<b>198,609</b>	<b>66,475</b>	<b>299%</b>	
Non-Operating Activity	(3,052)	(6,142)	50%	Higher capital contributions that offset debt expenses
<b>Bottom Line</b>	<b>195,557</b>	<b>60,333</b>	<b>324%</b>	

# Fiber & Telecom

(in 000s)	2022 Actuals	2022 Budget	% of budget	Variance
Service Revenue	11,229	11,657	96%	In line with budget
Other Operating Revenue	6	-	---	Small dollar variance
Operating Expense	(8,645)	(11,052)	78%	Open positions, lower make-ready work
Depreciation and Taxes	(4,185)	(4,207)	99%	In line with budget
<b>Operating Income/(Loss)</b>	<b>(1,596)</b>	<b>(3,603)</b>	<b>44%</b>	-
Non-Operating Activity	3,560	3,339	107%	In line with budget
<b>Bottom Line</b>	<b>1,964</b>	<b>(263)</b>	<b>---</b>	

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

# Water

(in 000s)	2022 Actuals	2022 Budget	% of budget	Variance
Service Revenue	7,278	7,453	98%	In line with budget
Other Operating Revenue	64	61	106%	Small \$ variance
Operating Expense	(5,091)	(5,051)	101%	In line with budget
Depreciation and Taxes	(2,604)	(2,600)	100%	In line with budget
<b>Operating Income/(Loss)</b>	<b>(353)</b>	<b>(138)</b>	<b>256%</b>	
Non-Operating Activity	1,130	1,023	110%	Higher system connections
<b>Bottom Line</b>	<b>777</b>	<b>885</b>	<b>88%</b>	

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

# Wastewater

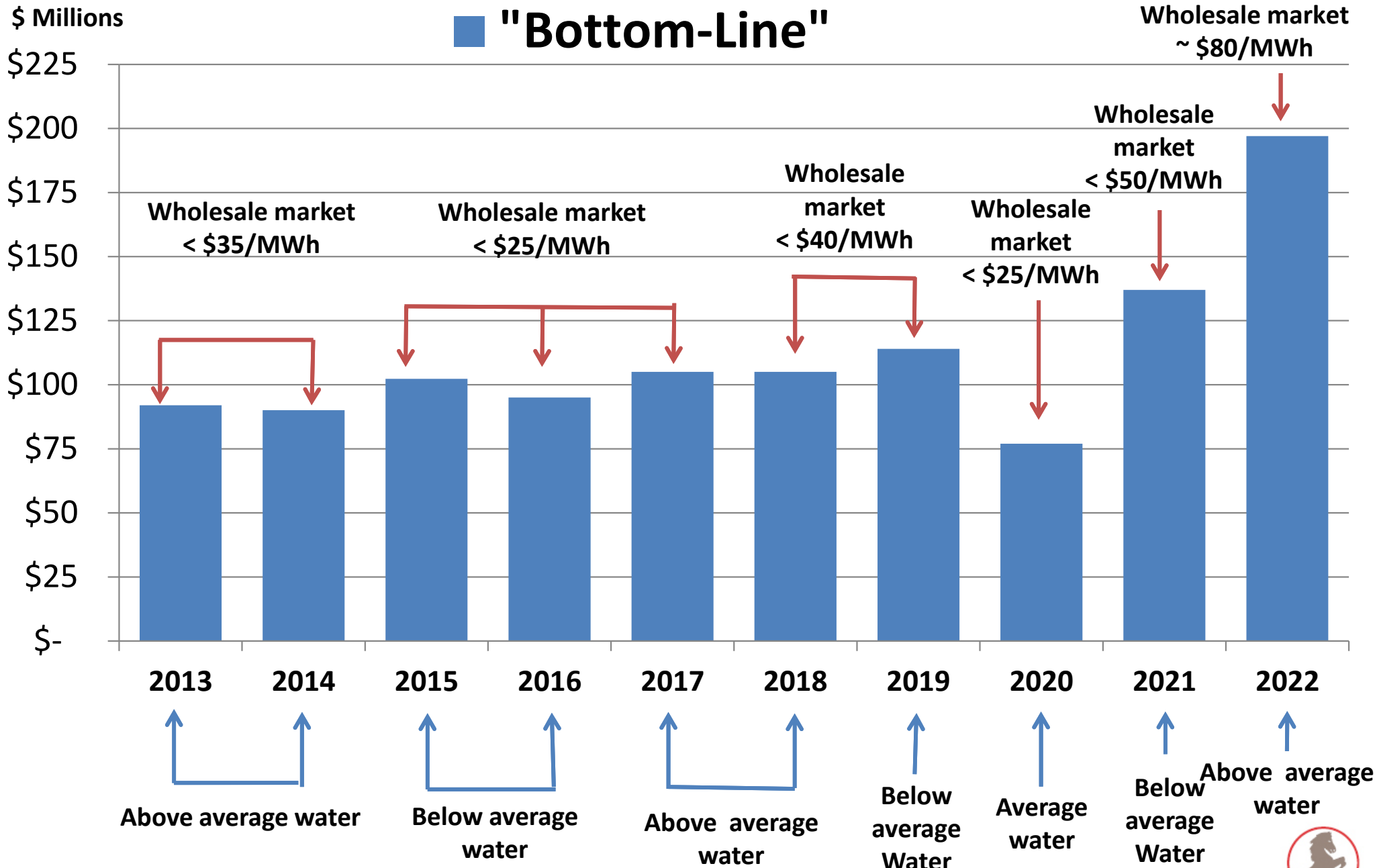
(in 000s)	2022 Actuals	2022 Budget	% of budget	Variance
Service Revenue	840	852	99%	In line with budget
Other Operating Revenue	2	1	146%	Small \$ variance
Operating Expense	(922)	(861)	107%	Peshastin railing safety and paving projects
Depreciation and Taxes	(447)	(447)	100%	In line with budget
<b>Operating Income/(Loss)</b>	<b>(527)</b>	<b>(455)</b>	<b>116%</b>	
Non-Operating Activity	147	149	98%	Lower interest earnings offset by higher connections
<b>Bottom Line</b>	<b>(380)</b>	<b>(305)</b>	<b>124%</b>	

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

# Actual Cash Balance Comparison to Budget

(millions)	2022
<b>Total Cash – Budgeted year-end balance</b>	<b>\$ 357</b>
Key changes in cash results:	
Decrease in capital projects (vs. original \$196M budget)	\$56
Increase in operating activity	\$134
Customer deposit-Substation to serve Microsoft	\$42
Other changes in A/R, A/P, inventory, etc.	(\$49)
<b>Total Cash – 2022 year-end balance</b>	<b>\$ 540</b>
Prior quarter – 2022 Q3 year-end forecasted balance for 2022	\$ 517

# Review of the District's Past Financial Results



# *Five-year outlook*

## Key modeling assumptions:

- Past water history and current forward price curve
- Rate increases Electric – 3%, Fiber – 3%, Water & Wastewater 4% (Effective 12/1/2020, each 6/1 through 2024; 0% Electric and Fiber, CPI for Water and Wastewater thereafter)
- Avista Long-term Power Sales Contract included in 5-year forecast beginning in 2026
- Environmental attribute sales from Puget amendment included per contract rates and forecasted generation
- Planned expenditures from 5-year business plans
- Debt reduction plan based on 2023 plan of finance
- Hydro contract terms set at maximum rates
  - Debt Reduction Charge (DRC) - 3% (2023-27)
  - Capital Recovery Charge (CRC) - 50% (2023-27)
- Investment earnings rates (2023-27: 2.60%, 2.57%, 2.65%, 2.93%, 3.13%)



# Combined Five-Year Forecast

(in 000s)	Forecast 2023	Forecast 2024	Forecast 2025	Forecast 2026	Forecast 2027
Service Revenue	139,185	100,600	89,626	90,485	91,351
Net Wholesale Revenue	64,310	139,721	182,653	134,550	153,876
Hydro LT Contract Rev/Other PP	173,648	174,848	173,768	192,773	200,478
Other Operating Revenue	26,725	22,541	22,876	24,839	25,390
<b>Total Revenue</b>	<b>403,868</b>	<b>437,710</b>	<b>468,923</b>	<b>442,647</b>	<b>471,095</b>
Operating Expense	(253,385)	(247,060)	(239,434)	(232,886)	(243,368)
Depreciation & Tax Expense	(75,444)	(77,546)	(81,207)	(86,790)	(88,595)
<b>Operating Income/(Loss)</b>	<b>75,039</b>	<b>113,105</b>	<b>148,283</b>	<b>122,971</b>	<b>139,132</b>
Non-Operating Activity	2,318	(1,063)	50	7,393	11,692
<b>Bottom Line</b>	<b>77,357</b>	<b>112,042</b>	<b>148,333</b>	<b>130,364</b>	<b>150,824</b>

<b><i>Prior Quarter Reported Forecast</i></b>	<b>87,024</b>	<b>93,798</b>	<b>112,161</b>	<b>104,151</b>	<b>121,765</b>
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<b><i>Forecast at 2022 Budget</i></b>	<b>63,058</b>	<b>68,989</b>	<b>73,683</b>	<b>74,482</b>	<b>78,242</b>
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# Capital Projects

(in 000s)	Forecast 2023	Forecast 2024	Forecast 2025	Forecast 2026	Forecast 2027
Electric Distribution	46,997	50,641	44,703	22,755	23,575
Network Transmission	22,036	30,074	25,168	1,108	3,948
Rocky Reach	11,441	14,636	12,556	8,033	20,628
Rock Island	64,087	60,671	93,326	68,721	55,088
Lake Chelan	2,675	3,362	1,351	463	470
Internal Services	65,690	6,526	5,719	4,452	6,132
Fiber & Telecom	6,251	4,943	4,793	3,912	3,103
Water	3,007	4,447	4,528	3,356	3,983
Wastewater	4,500	526	78	81	84
<b>Total Expenditures</b>	<b>226,682</b>	<b>175,827</b>	<b>192,222</b>	<b>112,880</b>	<b>117,009</b>

<b><i>Prior Quarter Reported Forecast</i></b>	<b>214,890</b>	<b>167,676</b>	<b>195,038</b>	<b>115,067</b>	<b>104,073</b>
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<b><i>Forecast at 2022 Budget</i></b>	<b>149,537</b>	<b>128,912</b>	<b>111,382</b>	<b>92,871</b>	<b>130,057</b>
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# Quarterly Investment Report for the quarter ending December 31, 2022

All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #22-14648

## Portfolio Summary

	Q1 2022	Q2 2022	Q3 2022	Q4 2022	YTD 2022	WAM	
Average Invested Book Value	\$504 M	\$509 M	\$526 M	\$554 M	\$523 M		<u>Policy Objectives &amp; Compliance</u> + Safety + Liquidity + Maturity Length - Return on Investment + Diversification
Interest Earned	\$2.6 M	\$2.8 M	\$2.9 M	\$3.4 M	\$11.6 M		
District Yield	2.07%	2.21%	2.16%	2.42%	2.22%	904	
<b>Benchmarks:</b>							
3 Month T-Bill	0.33%	1.13%	2.71%	4.12%	2.07%	92	
S&P US Treasury 1-3 Year Index	0.38%	0.69%	1.09%	1.63%	0.95%	692	
LGIP (State Pool)	0.14%	0.71%	2.17%	3.64%	1.66%	20	
Fed Funds Effective	0.12%	0.77%	1.48%	3.65%	1.51%	1	

### Policy Objectives and Compliance:

The District continues to focus on meeting investment policy objectives and compliance limits. Safety of principal is the foremost objective of the District. Diversification limits mitigate credit risk and support the preservation of capital in the overall portfolio. The laddered investment structure continues to be our strategy to support liquidity and maturity objectives and mitigate interest rate volatility over time. However, the laddered structure can result in the District's yield lagging the shorter term 3 month T-Bill benchmark in both declining and rising interest rate conditions. Bank demand deposits and US Treasuries continue to be held in addition to other investments with higher yields such as bank CDs, US Agencies, and Municipal Bonds. For Q4 2022, the District's yield increased to 2.42% (2022 budgeted rate is 2.22%) on an average invested book value of \$554 million due to securing higher yielding cash accounts and investment products in the rising interest rate environment. The multi-year laddered investment strategy continues to maintain overall average investment durations near 2 years. All investments continue to be matched to specific cash flows or mature within 5 years as specified in the investment policy.

### General Commentary:

The Federal Open Market Committee's December 14, 2022 meeting reported recent indicators pointing to modest growth in spending and production. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures. The invasion of Ukraine by Russia is causing tremendous human and economic hardship. The war and related events are contributing to upward pressure on inflation and are weighing on global economic activity. The Committee is highly attentive to inflation risks. The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 4.25 to 4.50 percent (up from 3.75 to 4.00 percent) and anticipates that ongoing increases in the target range will be appropriate. The Committee is strongly committed to returning inflation to its 2 percent objective. In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments. The District anticipates increasing rates in 2023, although at a slowing pace. Global and national events can influence financial markets, which may impact the District.



## Quarterly Investment Report for the quarter ending December 31, 2022

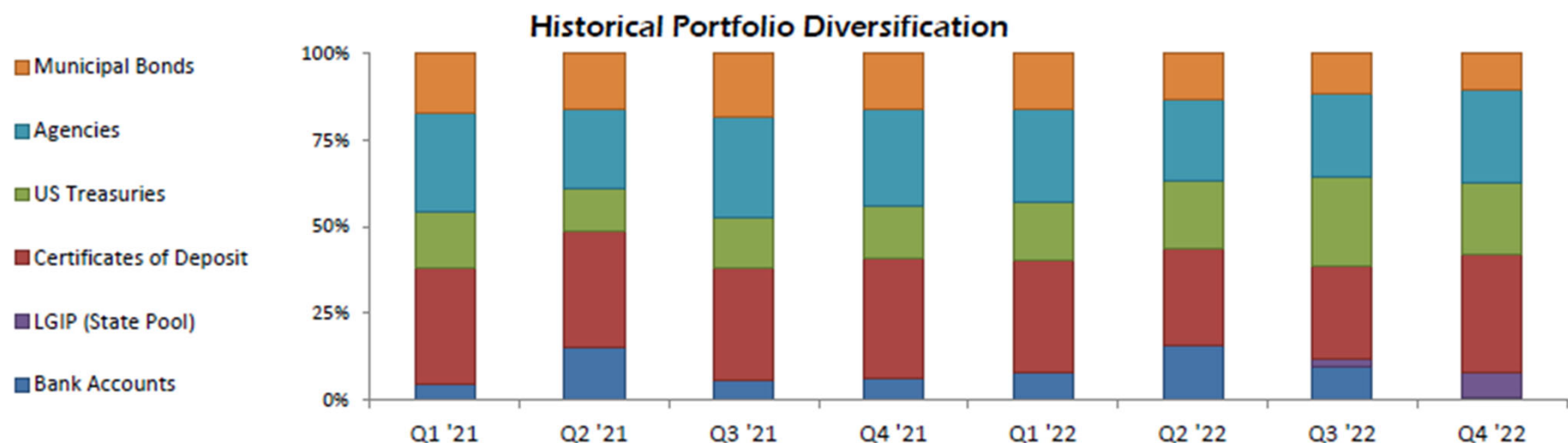
All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #22-14648

### Investments by Type - as of December 31, 2022

	Par Value	GASB 31 Reported Value	Book Value	Book Value as % of Portfolio	Policy % Limit	WAM
Bank Accounts	\$ 2,275	\$ 2,275	\$ 2,275	0.4%	75%	1
Certificates of Deposit	\$ 191,347	\$ 191,347	\$ 191,347	34.4%	40%	951
US Treasuries	\$ 117,232	\$ 108,164	\$ 114,223	20.6%	100%	1,431
LGIP (State Pool)	\$ 40,355	\$ 40,355	\$ 40,355	7.3%	25%	1
US Agencies	\$ 149,575	\$ 143,935	\$ 150,087	27.0%	75%	720
Municipal Bonds	\$ 56,220	\$ 54,440	\$ 57,492	10.3%	30%	851
<b>Total:</b>	<b>\$ 557,004</b>	<b>\$ 540,516</b>	<b>\$ 555,780</b>			<b>904</b>

Numbers may not foot due to rounding





# Quarterly Investment Report

## for the quarter ending December 31, 2022

All \$ values are shown in '000s

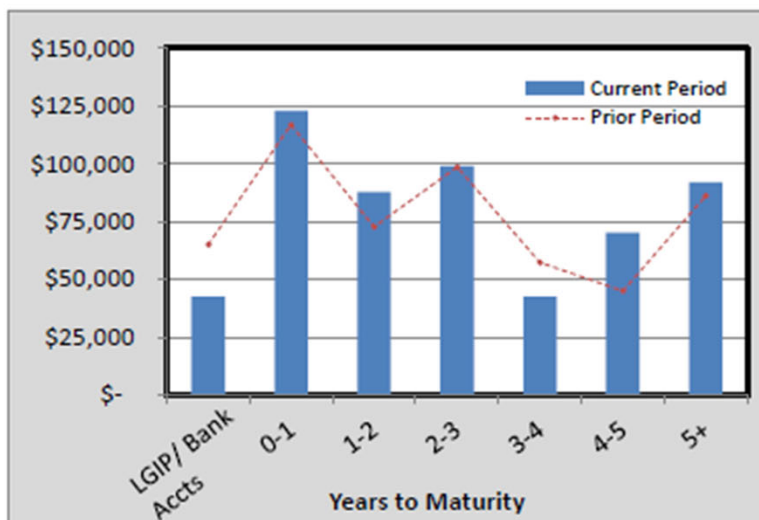
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### Maturity Distribution - as of December 31, 2022

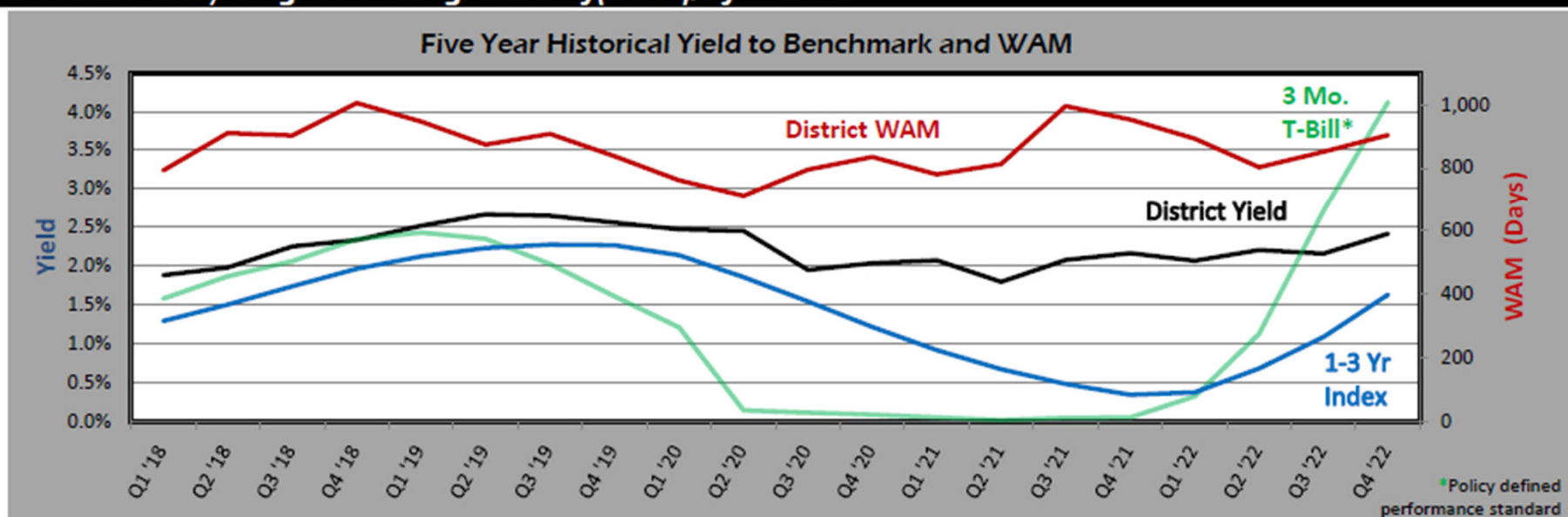
Maturity	Par Value	% of Portfolio	Cumulative % of Portfolio
LGIP	\$ 40,355	7.2%	7.2%
Bank Accounts	\$ 2,275	0.4%	7.7%
1-90 Days	\$ 54,101	9.7%	17.4%
91-180 Days	\$ 39,455	7.1%	24.4%
181-365 Days	\$ 29,241	5.2%	29.7%
1-2 Yrs	\$ 87,829	15.8%	45.5%
2-3 Yrs	\$ 99,037	17.8%	63.2%
3-4 Yrs	\$ 42,600	7.6%	70.9%
4-5 Yrs	\$ 70,247	12.6%	83.5%
5+ Yrs	\$ 91,865	16.5%	100.0%

**Total: \$ 557,004 100%**

Numbers may not foot due to rounding



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



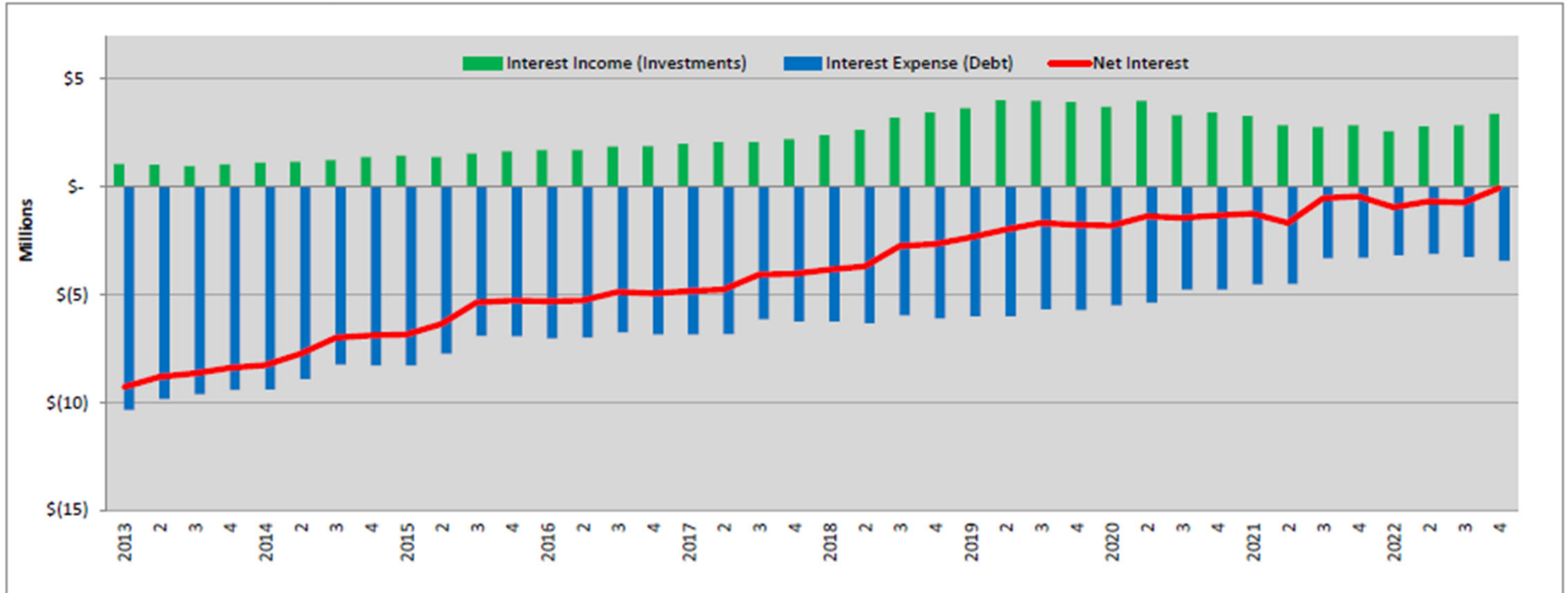


# Quarterly Investment Report for the quarter ending December 31, 2022

All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #22-14648

## Historical Net Interest, by Quarter



### Q4 2022 Administrative Updates:

In accordance with Resolution Number 22-14648, during this quarter the District's Treasurer, with concurrence of the Chief Financial Officer, has authorized the following updates:

**Signers:** None

**Initiators:** due to changes in Human Resources Staffing

**Banks:** None



## Quarterly Investment Report for the quarter ending December 31, 2022

All \$ values are shown in '000s

Prepared in accordance with District Banking and Investment Policy #22-14648

### 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.