



Chelan County PUD

For the Quarter Ended September 30, 2019



Board Presentation

Nov. 4, 2019

Quarterly Financial Review



CHELAN COUNTY

11/4/2019

What we will cover today

Financial highlights

3rd Quarter results

Five-year look ahead

Investment report

Plan of Finance Preview

Key messages

Update only, no action required

Appendix: Additional detailed information²

Q3 2019 Key Highlights

Bottom-line results better than budget

- Consistent with Q2, higher power contract revenues and lower costs more than offset impacts from low stream flows and unit outages

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 Microsoft off-system end-use sale of \$7.7M not included in the budget offset by lower than expected HDL/Cyrpto load : (+\$5.8M YTD)
- Net Wholesale Revenue below budget YTD due to off-system end-use sale (included in service revenue) and lower generation (~82% of budget YTD): (\$20.9M YTD)
- Hydro Long-Term Contract Revenue better than budget YTD due to retained surplus proceeds of ~\$20M YTD partially offset by reduction in hydro production costs due to large unit claim proceeds at Rocky Reach: (+\$6.0M YTD)
- Other Operating Revenue better than budget YTD due to insurance proceeds received in Q2 for settlement of large unit claim at Rocky Reach and variable component of real time agreement: (+\$16.7M YTD)

Total Revenues forecasted to be better than budget for the year: +\$7.1M

Q2 forecast \$12.3M better than budget

Expense

- Operating Expenses below budget YTD primarily due to less spent YTD in hydros and receipt of insurance proceeds, but expected to catch up closer to budget: (\$16.2M YTD)
- Non-Operating Net Expense better than budget YTD with higher interest earnings from the higher cash balances: (\$3.8M YTD)

Total Net Expenses forecasted to be below budget for the year: (\$19.2M)

Q2 forecast \$16.4M below budget

Bottom Line

- Combination of higher revenues and lower expenses result in a better Bottom Line: (+\$27.6M YTD)

Better bottom line-forecast for the year of \$103.4M: +\$26.2M

Q2 forecast \$105.7M: +\$28.5M

Overview

Capital

- Capital expenditures overall are lagging the planned pace and below budget YTD: (\$34.3M)
- Capital expenditures forecast reduced \$38M from Q2, expectations are to expend 68% of 2019 budget
- Primary drivers for remaining expenditures are Rock Island PH1 rehab work and RI and RR-CM facilities upgrades.

Total Capital forecast \$101.9M which is \$49M below budget for the year

Q2 forecast \$139.7M and \$11M below budget

11/4/2019

Cash

- Positive bottom line has increased cash and investments YTD by \$21.0M

Total cash balance forecasted to be better than budget at year end: \$594M

Q2 forecast for year-end \$558M

Debt

- Total debt is the same as budget YTD

Total debt forecasted \$2.3M less than budgeted with balance at year end: \$472.8M

(~\$41M planned reduction/loan for Peshastin wastewater upgrade reduced \$2M – same as Q2)

Financial Highlights

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

Electric delivered cost per avg kWh in line with budget

YTD ¢/kWh result: 6.40¢ vs. 6.40¢ (actual vs. budget)

Power production costs- 2.57¢ vs. 2.54¢ (actual vs. budget)

Power distribution costs- 3.83¢ vs. 3.86¢ (actual vs. budget)

(Power production cost calculation based on actual generation resulting in higher cost allocation to Distribution and above budget results, distribution costs in line with 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: \$15.8 vs. \$19.7 (actual vs. budget)

Actual vs. Budget

Rocky Reach \$8.8 vs. \$14.1 (production costs ~62% YTD)

Rock Island \$29.9 vs. \$30.9 (production costs ~97% YTD)

Lake Chelan \$21.8 vs. \$24.8 (production costs ~88% YTD)

Actuals normalized to budgeted generation resulting in lower cost per average

(Note: RR production costs positively impacted by large unit claim)



Financial Highlights

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



Water cost per 1,000 gallons higher than budget

YTD \$/1k gallons result: **\$5.93 vs. \$5.77** (actual vs. budget)

YTD operating expense 104% of budget due to ~\$70K of contract and overtime costs associated with leak repairs and customer response work and \$35K for unbudgeted study of fall restraint system for reservoirs



Wastewater cost per ERU higher than budget

YTD \$/ERU result: **\$1,297 vs. \$1,106** (actual vs. budget)

YTD operating expense 117% of budget
(Unplanned plant/lab equipment repair, \$30K and STEP tank pumping is \$24K over budget)



Fiber cost per active premises better than budget

YTD \$/premises result: **\$421 vs. \$456** (actual vs. budget)

YTD operating expense 92% of budget due to a lag in contract spending on the Node HVAC Replacement project

2019 Bottom Line Results

(in 000s)	2019 Current Forecast	2019 Budget	% of budget
Service Revenue	80,423	69,512	116%
Net Wholesale Revenue	77,690	102,381	76%
Sub	158,114	171,894	92%
Hydro LT Contract Rev/Other PP	137,384	132,976	103%
Other Operating Revenue	39,500	23,060	171%
Other Operating Expense	(170,728)	(186,233)	92%
Depreciation & Tax Expense	(53,339)	(53,321)	100%
Operating Income/(Loss)	110,931	88,376	126%
Non-Operating Activity	(7,549)	(11,165)	68%
Bottom Line	103,382	77,211	134%

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

Business Line Bottom Line Results

(in 000s)	2019 Current Forecast	2019 Budget	% of budget
Cost-Based Activity	66,249	45,045	147%
Market-Based Activity	45,446	40,748	112%
Retail Activity	(28,221)	(23,570)	120%
Other Activity	17,466	12,331	142%
Integrated Electric	100,940	74,554	135%
Fiber & Telecom	1,705	2,521	68%
Water	965	525	184%
Wastewater	(378)	(390)	97%
Combined Bottom Line	103,232	77,211	134%

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

Capital Expenditures

(in 000s)	2019 YTD Actuals	2019 YTD Budget	% of budget	2019 Current Forecast	2019 Current Budget	% of budget
Electric Distribution	9,507	15,378	62%	18,377	22,094	83%*
Network Transmission	1,177	2,688	44%	3,541	3,987	89%
Rocky Reach	1,608	3,176	51%	3,941	6,011	66%
Rock Island	16,220	42,105	39%	36,307	71,590	51%
Lake Chelan	81	62	131%	63	111	57%
Internal Services	18,772	15,735	119%	30,090	34,745	87%
Fiber & Telecom	3,183	5,337	60%	4,554	7,273	63%*
Water	1,062	869	122%	1,250	1,098	114%
Wastewater	2,155	2,760	78%	3,764	3,764	100%
Total Expenditures	53,766	88,110	61%	101,886	150,673	68%
Contributions	(4,114)	(3,396)	121%	(4,622)	(4,518)	102%
Capital net of CIAC	49,652	84,714	59%	97,264	146,155	67%

* Note: Distribution and Fiber forecasts include additional capital planning for NESC compliance work.

Overview of YTD - 2019 Cash Flow

	\$ Million
Bottom-line result (YTD - 2019)	\$ 87
Add back non-cash related items (depreciation)	\$ 33
Estimated earned funds from operations	\$ 120
Capital Project Expenditures	\$ 54
Net Debt Reductions	\$ 28
Other Misc. Impacts (change in A/R, A/P, Inventory, Etc.)	(\$ 11)
Added to cash reserves	\$ 21
Estimated use of funds	\$92

Cash and investments, beginning of year	\$ 591
Added to cash reserves	\$21
Cash and investments, end of Q3	\$ 612

Cash & Investments Balance

(\$ Millions)	<u>9/30/19</u>	<u>12/31/18</u>
Unrestricted funds	\$369	\$407
Board Designated*:		
Headquarters/Service Center Strategic Facilities Fund	<u>50</u>	<u>50</u>
Total Unrestricted Funds	\$419	\$457
Restricted funds for hydro capital/debt	<u>114</u>	<u>50</u>
Total Liquidity (policy minimum \$175M)	\$533	\$507
Restricted - bond reserve funds	47	53
Restricted - power contract deposits	19	19
Restricted - self insurance and other funds	<u>13</u>	<u>12</u>
Total Cash and Investments	<u>\$612</u>	<u>\$591</u>

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

Quarterly Reporting Requirement - Financial Policies

District Combined	2019	2020	2021	2022	2023
Liquidity (Greater calculated min \$190M-\$200M, Expected)	\$509M	\$411M	\$249M	\$191M*	\$189M*
Liquidity (Greater calculated min \$190M-\$200M, Unusual)		\$402M	\$233M	\$190M*	\$188M*
Debt Ratio (Expected case <35% by 2019)	30.0%	27.2%	24.6%	23.7%	22.5%
Debt Ratio (Unusual case <35% by 2019)		27.4%	24.9%	25.2%	25.3%
Days Cash on Hand (Expected case >250)	627	484	326	259*	254*
Days Cash on Hand (Unusual case > 250)		472	306	258*	253*
Combined Debt Cover (Expected case > 2.00x)	3.37	2.49	2.25	2.36	2.48
Combined Debt Cover (Unusual case >1.25x)		2.35	2.11	2.11	2.00
Rate of Return (Expected case > 4% thru 2019)	8.6%	Sunset			
Rate of Return (Unusual case > 2% thru 2019)					
<i>Bottom Line Results (Expected case)</i>	<i>\$103M</i>	<i>\$56M</i>	<i>\$41M</i>	<i>\$45M</i>	<i>\$53M</i>
<i>Bottom Line Results (Unusual case)</i>		<i>\$49M</i>	<i>\$34M</i>	<i>\$35M</i>	<i>\$32M</i>
<i>Debt Outstanding (Expected case)</i>	<i>\$473M</i>	<i>\$434M</i>	<i>\$392M</i>	<i>\$387M*</i>	<i>\$377M*</i>
<i>Debt Outstanding (Unusual case)</i>		<i>\$434M</i>	<i>\$392M</i>	<i>\$412M*</i>	<i>\$423M*</i>

* - Financial Policy Metrics within 10% of target which requires Board communication per resolution. Action plan assumes issuance of debt in 2022 and 2023 to maintain liquidity and meet 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.

Updated Q3 forecast improved compared to the August forecast in the Draft Five-Year Business Plans

Description	August Forecast Compared to Last Year's Forecast 2019-2024	September Forecast Compared to Last Year's Forecast 2019-2024
Bottom line	\$8M	\$29M
Net wholesale revenue	(\$94M)	(\$84M)
Service revenues (local load)	\$9M	\$18M
Off-system end use sale	\$102M	\$102M
Cost-plus long-term contract revenue	\$21M	\$27M
Other Revenues	\$13M	\$15M
Operating expenses	\$54M	\$58M
Non-op expenses (net interest exp)	(\$11M)	(\$9M)
Capital expenditures	\$2M	\$27M
Total liquidity	\$19M	\$19M
Debt outstanding	\$3M	\$1M
Heavy load market prices (est. for 2024)	\$37.12 v. \$34.14	\$37.56 v. \$34.14
Light load market prices (est. for 2024)	\$28.04 v. \$26.02	\$27.22 v. \$26.02

Last year's forecast used from the 2019 Budget process

Quarterly Reporting Requirement Individual Business Line Financial Policies

Business Lines	2019	2020	2021	2022	2023
WATER Business Line					
Operating Expense Coverage (target >120%)	135%	118%	128%	133%	134%
Cash Reserves – unrestricted (target > \$1.25 million)	\$3.6M	\$3.4M	\$(0.5M)	(\$1.1M)	(\$1.9M)
Debt Ratio (target <35%)	7%	5%	-%	-%	-%
WASTEWATER Business Line					
Operating Expense Coverage (target >100% by 2019)	78%	82%	89%	90%	91%
Cash Reserves – unrestricted (target > \$200K)	\$0.1M	\$0.4M	\$0.3M	\$0.1M	\$0.3M
Debt Ratio (target <35%)	1%	---	-%	-%	-%
FIBER Business Line					
Operating Expense Coverage (target >120%)	130%	102%	107%	119%	124%
Cash Reserves - unrestricted (target > \$2.0 million)	\$15.2M	\$13.0M	\$8.2M	\$5.0M	\$4.7M
Debt Ratio (target <35%)	---	---	---	---	---

Financial Policy not met. Action plan is to implement actions recently adopted in the 2020-2024 Strategic Plan.

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

Quarterly Reporting Requirement Individual Business Line Financial Policies

Monitoring during test period

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

Business Lines	2019	2020	2021	2022	2023
Integrated Electric Business Line					
Retail Total Cost Ratio (target)	>65%	>65%	>65%	>65%	>65%
Retail Total Cost Ratio	73%	69%	69%	71%	69
Retail O&M&T Cost Ratio (target)	> 90%	> 90%	> 90%	> 90%	> 90%
Retail O&M&T Cost Ratio	113%	109%	109%	109%	114%
Retail Rate Support Limit (target)	\$26.3M	\$25.0M	\$27.6M	\$28.3M	\$29.0M
Retail Rate Support	\$25.4M	\$28.0M	\$36.0M	\$35.7M	\$38.8M
Market Based Margin Limit (target)	\$25.0M	\$25.0M	\$25.0M	\$25.0M	\$25.0M
Market Based Margin	\$46.5M	\$28.0M	\$24.8M	\$31.7M	\$42.8M

Test metrics are under re-evaluation as the District studies the off-system retail sales impacts to current metric methodologies. Updated metrics will be proposed in 2020.

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

Test metrics may be changed in the future as we continue to learn more by using them.

Quarterly Investment Report

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

	Q4 2018	Q1 2019	Q2 2019	Q3 2019	YTD 2019	WAM
Average Invested Book Value (\$M)	\$584	\$589	\$604	\$598	\$597	
District Yield	2.34%	2.52%	2.67%	2.65%	2.61%	907
Benchmarks:						
3 Month T-Bill	2.34%	2.43%	2.35%	2.03%	2.27%	92
S&P US Treasury 1-3 Year Index	1.96%	2.12%	2.23%	2.28%	2.21%	687

- Q3 2019 yield decreased slightly to 2.65% due to the timing of interest earnings on a long-term Forward Purchase and Sale Agreement (FPSA) (2019 budgeted rate is 2.41%)
- September 18, 2019 Federal Open Market Committee meeting report:
 - Labor market has remained strong and that economic activity is rising at a moderate rate
 - Inflation is running below the 2% longer-run objective
 - Federal funds target rate range was lowered to 1.75% to 2.00% (2.25% to 2.50% for Q2)
 - District anticipates relatively flat rates through 2019
- Global and national events 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

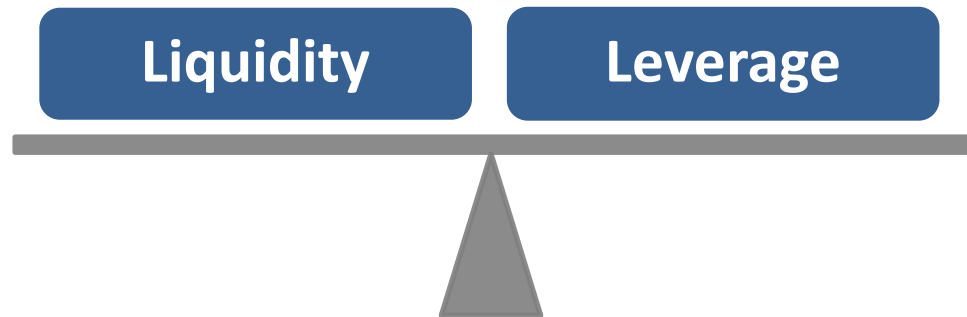
Full report is in the Appendix.

2020 Plan of Finance Preview

Debt Philosophy

Manage debt to create financial flexibility that supports low and stable electric rates even if lower than expected financial results are experienced

**Balancing
Financial
Health...**



**...Drives
Portfolio
Optimization**



2020 Plan of Finance Preview

What might a balanced approach in the future look like?

- Scheduled debt payments each year
- Mix of cash funded and debt funded capital
- Debt leverage that floats up and down, under 35%

2020 Debt Portfolio Optimization

- Low market interest rates
- Proactive opportunity to maintain debt leverage at approximately the same level, but at a lower cost
- Combination of actions:
 - Traditional refinancing
 - Some early retirements
 - Some new debt to finance long-lived assets

Q3 Key Messages

Forecasts continue to be better than budget

- Higher contract revenues and lower costs offset impacts from low stream flows and unit outages

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

A scenic view of a dam and bridge over a river in a mountainous area. The dam is a concrete structure with multiple spillways, and the bridge is a simple beam bridge. The river is flowing through a valley with mountains in the background and houses on the hillsides.

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 \$20.9 million below budget (\$58.0M vs. \$78.9M)

Annual forecast lower than budget (\$77.7M vs \$102.4)

Drivers:

- Generation 82% of budget YTD
- Forecast impact: new retail off-system end-use sale shifts revenues from wholesale to retail service revenue.

Hydro Long-Term Contract Revenue:

YTD result \$6.0 million above budget (\$105.1M vs. \$99.1M)

Annual forecast better than budget (\$137.4M vs \$133.0M)

Drivers:

- Combined hydro “cost based” operating expenses below budget (82% YTD)
- Insurance proceeds for settlement of Rocky Reach large unit claim offset against hydro production costs
- + “Plus” contract charges above budget (171% YTD): retained surplus proceeds \$20.0M YTD

Financial Highlights - Revenue

Service Revenue:

YTD result \$5.9 million above budget
(\$56.6M vs. \$50.7M)

Forecast results better than budget
(\$80.4M vs \$69.5M)

Drivers:

- + New retail-off system sale shifts forecasted revenue to retail service revenue from wholesale revenue ~\$7.7M YTD
- HDL and Cryptocurrency loads 49% of budget YTD

Other Operating Revenue:

YTD result \$16.7 million above budget
(\$34.0M vs. \$17.3M)

Forecast results better than budget
(\$39.5M vs \$23.1M)

Drivers:

- + Insurance proceeds received for settlement of large unit claim at Rocky Reach
- + Variable component of real-time agreement ~\$1.6M YTD

Financial Highlights - Expenses

Operating Expense:

YTD result \$15.7 million below budget (\$122.8M vs. \$138.5M)

Forecast results below budget (\$170.7M vs \$186.2M)

Drivers:

- Hydro operations and maintenance at 75% of budget (influenced by Rocky Reach claim settlement)
- Electric transmission at 85% of budget
- Hydro Fish & Wildlife at 87% of budget (expected to catch up by year end)

Non-Operating Net Expense:

YTD result \$3.8M better than budget (\$4.6M vs. \$8.4M)

Forecast results better than budget (\$7.5M vs \$11.2M)

Drivers:

- + Increased forecasted interest earnings on higher cash reserves

Financial Highlights – Balance Sheet

Capital expenditures below budget

- YTD - 2019 \$53.8 million vs. budget of \$88.1 million
- 2019 Forecast results below 2019 Budget (\$101.9M vs \$150.7M)

Individual project adjustments:

- ↓ RI Facilities Upgrade (~\$17M shifted to 2020)
- ↓ RI PH2 U1-U8 Rehab (~\$9M shifted to 2021)
- ↓ RI B3 Modernization (~\$7M shifted to 2020)
- ↓ RI B5 Modernization (~\$3M shifted to 2023)
- ↓ RR CM Facilities Upgrade (~\$3M shifted to 2020)
- ↑ RI B4 Modernization (~\$4M shifted to 2019)

Cash remains strong / Debt reduction strategy on track

- Cash balance forecasted to increase ~\$3 million in 2019
- Debt balance to decrease ~\$41 million in 2019

Service Revenue

(in 000s)	2019 Actuals YTD	2019 Budget YTD	% of budget	Variance
Residential Electric	19,950	19,561	102%	Cold February and March: increased load
Commercial Electric	12,003	12,662	95%	In line with budget
Industrial Electric	3,664	3,652	100%	In line with budget
HDL/Cryptocurrency	1,297	2,636	49%	Lower than expected load growth
Off-System End-Use Sales	7,729	-	---	Not included in budget
Other Electric	1,397	1,477	95%	Small dollar variance
Electric Service	46,040	39,988	115%	
Water Service	4,612	4,816	96%	In line with budget
Wastewater Service	568	535	106%	In line with budget
Fiber & Telecom	5,331	5,393	99%	In line with budget
Service Revenue	56,551	50,731	111%	

Note: Excludes internal intersystem revenues

Net Surplus Energy Revenue

(in 000s)	Actuals YTD 2019	Budget YTD 2019	% of budget	Variance
Slice Contracts	52,681	52,681	100%	In line with budget
Net Block Trades & Other	5,321	26,190	20%	Lower generation
Net Wholesale Revenue	58,002	78,871	74%	
LT Hydro Contracts	106,092	100,106	106%	Retained surplus procees / RR settlement
Less: Other Purchased Power	(992)	(990)	100%	In line with budget
Hydro LT Contract Rev/Other PP	105,100	99,116	106%	
Surplus Energy Revenue	163,101	177,987	92%	

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

Operating Expense

(in 000s)	2019 Actuals YTD	2019 Budget YTD	% of budget	Variance
Hydro Operations & Maintenance	36,489	48,531	75%	Large unit repairs / Impacts of RR Settlement
Hydro Fish & Wildlife	10,421	11,941	87%	Fishway Operations
Hydro Parks & Recreation	5,446	5,723	95%	Small dollar variance
Electric Distribution	12,463	12,151	103%	Small dollar variance
Electric Transmission	9,315	10,998	85%	Peak RC dues / other contractual support
Misc. Power Supply Expenses	3,240	3,693	88%	Small dollar variance
Water & Wastewater	2,546	2,381	107%	Leak repairs and customer response work
Fiber Network	3,439	4,029	85%	Node HVAC replacement behind schedule
Customer Accounts & Service	2,910	2,761	105%	Small dollar variance
Conservation & Customer Assist	2,401	3,328	72%	Amortization of regulatory asset/contractual support
Insurance & FERC Fees	5,687	6,265	91%	FERC Fees - prior year true-up & lower admin fees
Other Admin & General	28,459	26,683	107%	Holiday and Floating Holiday Exp Adjustments
Total	122,816	138,484	89%	

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

Non-Operating Activity

(in 000s)	2019 Actuals YTD	2019 Budget YTD	% of budget	Variance
Interest Earnings	11,500	10,284	112%	Higher cash balances / higher interest rates
Capital Contributions	4,409	3,823	115%	Electric Line Extensions / Water SDC's
Interest Expense	(18,106)	(18,742)	97%	In line with budget
Other Inc/(Exp)	(2,415)	(3,730)	65%	Public power benefit placeholder
Non Operating Activity	(4,612)	(8,366)	55%	

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

Integrated Electric

(in 000s)	2019 Actuals YTD	2019 Budget YTD	% of budget	Variance
Service Revenue	46,104	40,051	115%	Off-system sales not budgeted
Net Wholesale Revenue	58,002	78,871	74%	Lower generation / Off-system sales
Hydro LT Contact Rev/Other PP	105,100	99,116	106%	Surplus proceeds / Large unit claims
Other Operating Revenue	35,420	18,265	194%	Large unit claim / RTA - Variable
Other Operating Expense	(117,813)	(132,831)	89%	Hydro O&M / Transmission lagging YTD
Depreciation & Taxes	(34,966)	(35,489)	99%	Depreciation exp. assumption at budget
Operating Income/(Loss)	91,846	67,983	135%	
Non-Operating Activity	(8,047)	(11,416)	70%	Higher interest earnings
Bottom Line	83,799	56,567	148%	

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

Fiber & Telecom

(in 000s)	2019 Actuals YTD	2019 Budget YTD	% of budget	Variance
Service Revenue	7,837	7,884	99%	In line with budget
Other Operating Revenue	1	1	92%	In line with budget
Other Operating Expense	(5,301)	(5,732)	92%	In line with budget
Depreciation and Taxes	(2,520)	(2,449)	103%	In line with budget
Operating Income/(Loss)	17	(296)	---	
Non Operating Activity	2,657	2,579	103%	In line with budget
Bottom Line	2,675	2,283	117%	

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

Water

(in 000s)	2019 Actuals YTD	2019 Budget YTD	% of budget	Variance
Service Revenue	4,789	4,998	96%	Small dollar variance
Other Operating Revenue	61	47	131%	Small dollar variance
Other Operating Expense	(3,147)	(3,040)	104%	Small dollar variance
Depreciation and Taxes	(1,833)	(1,871)	98%	Small dollar variance
Operating Income/(Loss)	(130)	133	---	
Non Operating Activity	676	452	150%	Capital Contributions - System Dev
Bottom Line	545	585	93%	

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

Wastewater

(in 000s)	2019 Actuals YTD	2019 Budget YTD	% of budget	Variance
Service Revenue	568	535	106%	Small dollar variance
Other Operating Revenue	2	1	112%	In line with budget
Other Operating Expense	(734)	(626)	117%	Unplanned Plant/lab equipment repair
Depreciation and Taxes	(213)	(223)	95%	Small dollar variance
Operating Income/(Loss)	(378)	(313)	121%	
Non Operating Activity	102	20	521%	Capital Contributions - System Dev
Bottom Line	(276)	(294)	94%	

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

Actual Cash Balance Comparison to Budget

(millions)	2019
Total Cash – Budgeted year-end balance	\$ 502
Key changes in cash forecast:	
Decrease in capital projects	\$49
Improvement in operating activity	\$ 26
Other changes in A/R, A/P, inventory, etc.	\$17
Total Cash – Current forecast year-end balance	\$ 594
Prior quarter – 2019 year-end forecasted balance	\$ 558

Five-year outlook

Key modeling assumptions:

- Past water history and current forward price curve
- Annual rate increases Electric – 3%, Fiber – 3%, Water & Wastewater 4% (Effective 1/1/2021)
- 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
 - (2019-23: 2.56%, 2.61%, 2.71%, 2.89%, 2.91%)

Cash and Debt Funding Capacity

	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Cash Funding Capacity	\$334M	\$236M	\$74M	\$16M	\$14M
“liquidity in excess of minimum \$175M target”					
Debt Funding Capacity	\$121M	\$190M	\$254M	\$283M	\$322M
“financing capability up to maximum debt ratio target of 35%”					
Total Funding Capacity	\$455M	\$426M	\$328M	\$299M	\$336M

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 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Service Revenue	80,423	89,923	96,992	104,803	108,281
Net Wholesale Revenue	77,690	74,645	70,109	69,258	77,534
Sub	158,114	164,568	167,101	174,061	185,815
Hydro LT Contract Rev/Other PP	137,384	141,841	141,803	137,133	139,577
Other Operating Revenue	39,500	23,643	20,939	21,327	22,006
Other Operating Expense	(170,728)	(207,003)	(214,250)	(203,531)	(206,308)
Depreciation & Tax Expense	(53,339)	(58,606)	(63,717)	(70,972)	(75,440)
Operating Income/(Loss)	110,931	64,443	51,877	58,018	65,651
Non-Operating Activity	(7,549)	(8,080)	(10,727)	(12,647)	(12,796)
Bottom Line	103,382	56,363	41,149	45,370	52,855

Prior Quarter Reported Forecast	105,693	51,633	42,549	49,406	55,998
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Forecast at 2019 Budget	77,064	54,176	51,226	49,957	46,702
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Service Revenue

(in 000s)	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Residential Electric	27,027	27,384	28,419	29,421	30,452
Commercial Electric	16,845	17,114	17,954	18,680	19,437
Industrial Electric	5,237	5,309	5,468	5,680	5,848
High Density Load	2,942	5,426	7,779	11,554	11,908
Off-System End-Use Sales	12,709	18,796	20,744	22,110	22,391
Other Electric	1,600	1,607	1,670	1,710	1,763
Electric Service	66,361	75,637	82,034	89,155	91,800
Water Service	6,178	6,302	6,685	7,091	7,522
Wastewater Service	737	744	782	821	863
Fiber & Telecom	7,147	7,241	7,491	7,735	8,096
Service Revenue	80,423	89,923	96,992	104,803	108,281

<i>Prior Quarter Reported Forecast</i>	<i>83,921</i>	<i>92,685</i>	<i>99,342</i>	<i>104,460</i>	<i>105,873</i>
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<i>Forecast at 2019 Budget</i>	<i>69,512</i>	<i>72,667</i>	<i>75,404</i>	<i>76,489</i>	<i>79,065</i>
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Net Surplus Energy Revenue

(in 000s)	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Slice Contracts	70,241	70,523	73,602	60,443	48,619
Net Block Trades & Other	7,449	4,122	(3,492)	8,815	28,915
Net Wholesale Revenue	77,690	74,645	70,109	69,258	77,534
LT Hydro Contracts	138,704	143,161	143,123	138,453	140,237
Less: Other Purchased Power	(1,320)	(1,320)	(1,320)	(1,320)	(660)
Hydro LT Contract Rev/Other PP	137,384	141,841	141,803	137,133	139,577
Surplus Energy Revenue	215,074	216,486	211,912	206,391	217,111

<i>Prior Quarter Reported Forecast</i>	217,139	211,523	208,460	208,319	222,361
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<i>Forecast at 2019 Budget</i>	234,328	226,967	214,971	221,813	229,351
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Operating Expense

(in 000s)	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Hydro Operations & Maintenance	53,825	72,418	73,033	62,084	60,768
Hydro Fish & Wildlife	16,535	19,347	24,966	21,083	21,292
Hydro Parks & Recreation	7,472	9,786	7,678	7,687	7,945
Electric Distribution	16,945	18,214	18,915	20,161	20,759
Electric Transmission	12,949	14,744	14,498	14,956	15,447
Misc. Power Supply Expenses	4,716	5,496	5,481	5,672	5,871
Water & Wastewater	3,137	3,651	3,336	3,368	3,559
Fiber Network	5,806	5,139	5,401	5,423	5,395
Customer Accounts & Service	4,231	4,785	5,061	5,090	5,254
Conservation & Customer Assist	3,708	4,812	4,915	5,139	5,469
Insurance & FERC Fees	8,413	9,419	9,730	10,128	10,454
Other Admin & General	32,991	39,191	41,236	42,740	44,094
Total	170,728	207,003	214,250	203,531	206,308

<i>Prior Quarter Reported Forecast</i>	172,491	202,767	208,603	200,566	206,768
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<i>Forecast at 2019 Budget</i>	186,233	195,204	184,160	189,762	199,233
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Capital Projects

(in 000s)	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022	Forecast 2023
Electric Distribution	18,377	33,244	31,070	20,798	23,202
Network Transmission	3,541	8,524	7,252	1,206	1,626
Rocky Reach	3,941	10,829	4,857	11,998	9,076
Rock Island	36,307	58,220	63,680	56,964	51,542
Lake Chelan	63	962	1,500	1,421	615
Internal Services	30,090	33,551	79,785	42,844	2,969
Fiber & Telecom	4,554	5,352	7,370	6,818	3,921
Water	1,250	791	4,998	1,967	2,302
Wastewater	3,764	161	522	1,332	1,334
Total Expenditures	101,886	151,633	201,034	145,348	96,587

<i>Prior Quarter Reported Forecast</i>	139,695	166,855	168,255	132,216	84,000
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<i>Forecast at 2019 Budget</i>	150,132	149,458	143,516	135,016	77,088
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Financial Policy – Financial Liquidity & Days Cash on Hand

Methodology Per Resolution #17-14124

COMBINED	2019	2020	2021	2022	2023
District Total Liquidity Targets	\$175	\$198	\$198	\$187	\$185
Base Case – expected (50% probability)	\$509	\$411	\$249	\$191*	\$189*
Base Case – unusual (10% prob. / cumulative)	\$508	\$402	\$233	\$190*	\$188*
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		\$391	\$209	\$188*	\$187*
Days Cash on Hand Target	>250	>250	>250	>250	>250
Base Case – expected (50% probability)	627	484	326	259	254
Base Case – unusual (10% prob. / cumulative)	625	472	306	258	253
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		444	262	245	241

* Assumes external debt financing to maintain liquidity targets

Financial Policy – Debt Ratio

(Debt/(Debt + Equity))

COMBINED	2019	2020	2021	2022	2023
District Targets	<35%	<35%	<35%	<35%	<35%
Outstanding Debt Balance - YE(million)	\$473	\$434	\$392	\$387	\$377
Scheduled Debt Retirements (million)	\$25	\$28	\$30	\$32	\$33
Planned Debt Accelerations (million)	\$16	\$11	\$12	\$12	\$13
Forecasted Debt Issuance - expected (million)	\$.3**	\$-	\$-	\$40*	\$38*
Base Case – expected	30.0%	27.2%	24.6%	23.7%*	22.5%*
Base Case – unusual	30.0%	27.4%	24.9%	25.2%*	25.2%*
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		27.4%	25.0%*	26.9%*	27.4%*

** Assumed small public works trust fund debt related to Peshastin/Dryden Wastewater work

* Assumed debt issuance to maintain adequate liquidity levels

Financial Policy – Debt Service Coverage

(Net Funds from Operations/Computed Debt Service)

COMBINED	2019	2020	2021	2022	2023
District Targets (expected)	2.00	2.00	2.00	2.00	2.00
District Targets (unusual)	1.25	1.25	1.25	1.25	1.25
Base Case – expected	3.37	2.49	2.25	2.36	2.48
Base Case – unusual	3.35	2.35	2.11	2.11	2.00
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs		2.26	2.05	2.01	1.90

Financial Policy – Rate of Return

(Change in Net Position/Net Plant)

COMBINED	2019	2020	2021	2022	2023
District Targets (expected)	>4%	Sunset			
District Targets (unusual)	>2%				
Base Case – expected <i>Bottom-line expectation</i>	8.6% \$103M	- \$56M	- \$41M	- \$45M	- \$53M
Base Case – unusual <i>Bottom-line expectation</i>	8.5% \$102M	- \$49M	- \$34M	- \$35M	- \$32M
“What-If” – \$20 flat market, 82% water (1 in 5 water year), and increased costs <i>Bottom-line expectation</i>		- \$45M	- \$31M	- \$31M	- \$27M



Quarterly Investment Report for the quarter ending September 30, 2019

All \$ values are shown in '000s

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

Portfolio Summary

	Q4 2018	Q1 2019	Q2 2019	Q3 2019	YTD 2019	WAM	
Average Invested Book Value	\$584 M	\$589 M	\$604 M	\$598 M	\$597 M		<u>Policy Objectives & Compliance</u> + Safety + Liquidity + Maturity Length + Return on Investment + Diversification
Interest Earned	\$3.4 M	\$3.7 M	\$4.0 M	\$4.0 M	\$11.7 M		
District Yield	2.34%	2.52%	2.67%	2.65%	2.61%	907	
Benchmarks:							
3 Month T-Bill	2.34%	2.43%	2.35%	2.03%	2.27%	92	
S&P US Treasury 1-3 Year Index	1.96%	2.12%	2.23%	2.28%	2.21%	687	
LGIP (State Pool)	2.30%	2.50%	2.51%	2.32%	2.44%	48	
Fed Funds Effective	2.22%	2.40%	2.40%	2.19%	2.33%	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 Q3 2019, the District's yield decreased slightly to 2.65% (2019 budgeted rate is 2.41%) on an average invested book value of \$598 million due to the timing of interest earnings from a long-term Forward Purchase and Sale Agreement (FPSA). Interest on FPSA supplied securities may not be earned evenly over the reporting period, but will average out to the appropriate contract rate over time. The Weighted Average Maturity (WAM) increased slightly in Q3 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.

General Commentary:

The Federal Open Market Committee's September 18, 2019 meeting reported that the labor market remains strong and that economic activity is rising at a moderate rate. Job gains have been solid, on average, and the unemployment rate has remained low. Although household spending has been rising at a strong pace, business fixed investment and exports have weakened. Overall inflation is running below the Committee's 2 percent objective. In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate at 1.75 to 2.00 percent (the target range for the federal funds rate was also lowered 0.25 percent at the Committee's July 2019 meeting). As the Committee contemplates the future path of the target range for the federal funds rate, it will continue to monitor the implications of incoming information for the economic outlook and will act as appropriate relative to its dual maximum employment and 2 percent inflation objectives. The District anticipates gradually declining rates through 2019. Global and national events can influence financial markets, which may impact the District.



Quarterly Investment Report for the quarter ending September 30, 2019

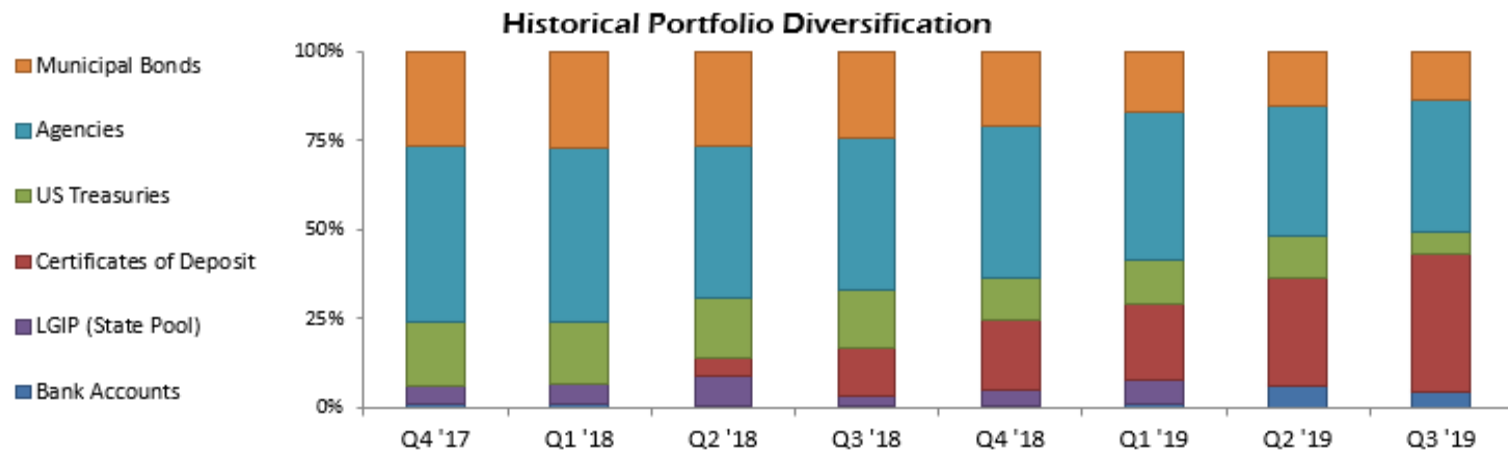
All \$ values are shown in '000s

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

Investments by Type - as of September 30, 2019

	Par Value	GASB 31 Reported Value	Book Value	Book Value as % of Portfolio	Policy % Limit	WAM
Bank Accounts	\$ 26,541	\$ 26,541	\$ 26,541	4.4%	75%	1
Certificates of Deposit	\$ 234,450	\$ 234,450	\$ 234,450	38.7%	40%	927
US Treasuries	\$ 38,765	\$ 40,931	\$ 38,632	6.4%	100%	1,408
LGIP (State Pool)	\$ 21	\$ 21	\$ 21	0.0%	25%	1
US Agencies	\$ 222,279	\$ 225,594	\$ 222,362	36.7%	75%	823
Municipal Bonds	\$ 82,920	\$ 84,951	\$ 83,597	13.8%	30%	1,131
Total:	\$ 604,976	\$ 612,489	\$ 605,604			907

Numbers may not foot due to rounding





Quarterly Investment Report for the quarter ending September 30, 2019

All \$ values are shown in '000s

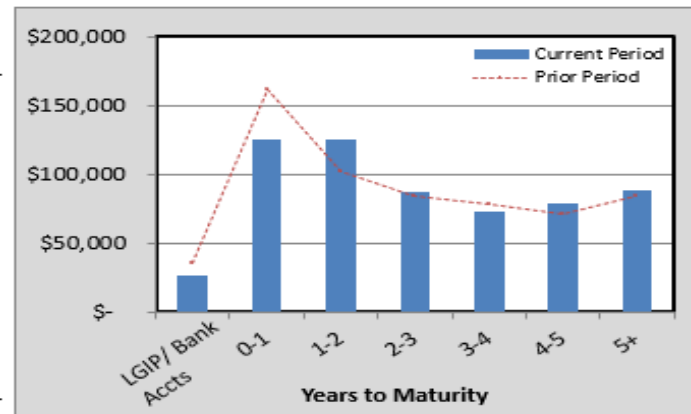
Prepared in accordance with District Banking and Investment Policy #16-14094

Maturity Distribution - as of September 30, 2019

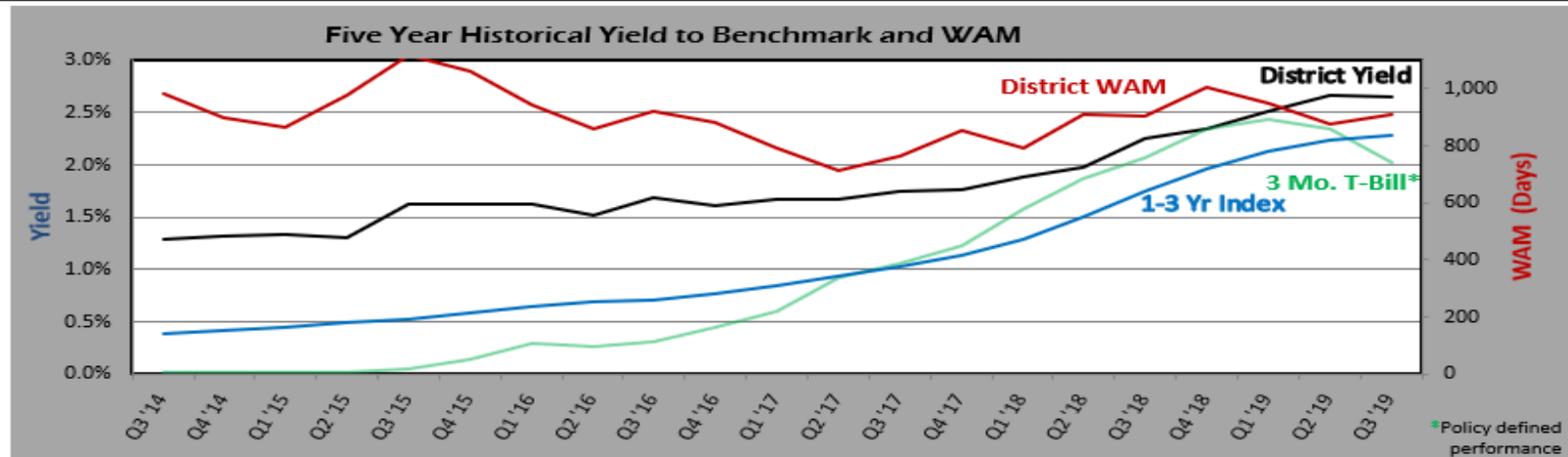
Maturity	Par Value	% of Portfolio	Cumulative % of Portfolio
LGIP	\$ 21	0.0%	0.0%
Bank Accounts	\$ 26,541	4.4%	4.4%
1-90 Days	\$ 30,289	5.0%	9.4%
91-180 Days	\$ 31,208	5.2%	14.6%
181-365 Days	\$ 63,710	10.5%	25.1%
1-2 Yrs	\$ 125,911	20.8%	45.9%
2-3 Yrs	\$ 87,117	14.4%	60.3%
3-4 Yrs	\$ 73,033	12.1%	72.4%
4-5 Yrs	\$ 78,528	13.0%	85.4%
5+ Yrs	\$ 88,619	14.6%	100.0%

Total: \$ 604,976 100%

Numbers may not foot due to rounding



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



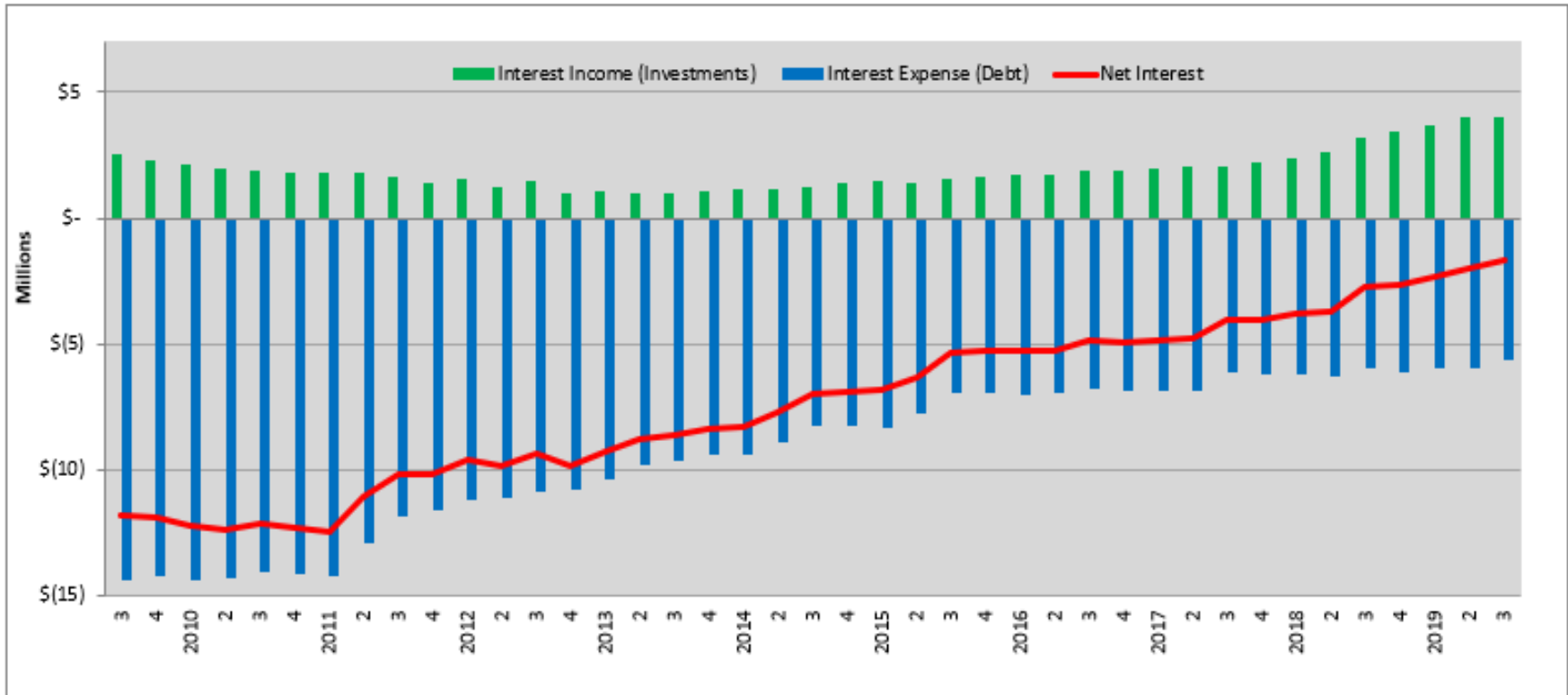


Quarterly Investment Report for the quarter ending September 30, 2019

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 September 30, 2019

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

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

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

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

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.