THE BEST FOR THE MOST FOR THE LONGEST

2015 – 2019 STRATEGIC PLAN

P.U.D.
CHELAN COUNTY

Strategy Partners Annual Report

April 12, 2018

2015-2019 Strategic Plan Progress Update

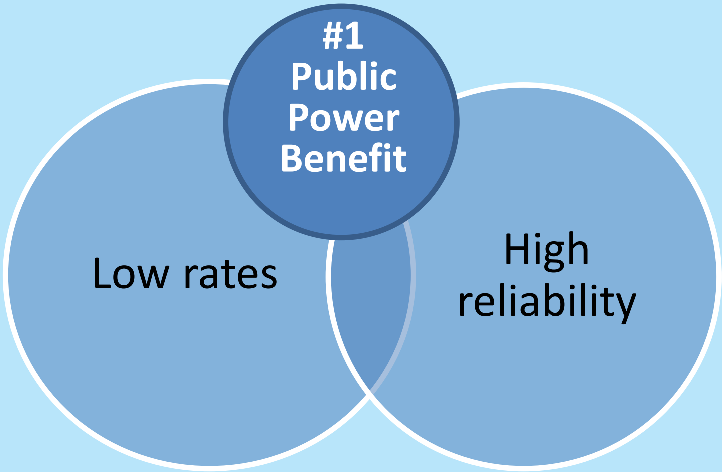
- Strategic Goals
- 2017 Highlights
- 2018 Initiatives
- Key Issues
- Known Unknowns
- Summary

Strategic Goals

#1 Reinvest in value-creating core assets and people

#2 Reduce debt

#3 Continue Public Power Benefit program



Goal #1:
Reinvest in value-creating assets and people

Our highest priority
is reinvesting in our assets and people

Goal #1:

Reinvest in value-creating core assets and people

Hydros

- Hydro availability target = 66.5%
- Rocky Reach large unit repairs
- Rock Island modernization
- Expand asset management program

Hydro Work

- 77% capability in 2017; targeting approx. 89% by the end of 2021
- 9 of the 31 units are not operating as a result of a forced outage
- Current plans have each of the 9 units returning to service within the next 3 years, however, we are re-visiting the schedule for RI Powerhouse 1
- Finishing major crane replacement/rehabilitation work at RR
- Finished one large unit repair at RR with 3 more scheduled over next 3 years

Hydro Work

Actions taken by Chelan PUD:

- Engaging vendor community on extended warranties
  - Promotes more certainty on quality, reliability
  - Innovative contracting mechanisms

- Establishing Hydro Research Institute
  - Supports Asset Management and being a data driven organization
  - Expect to start aggregating data in late 2018

Goal #1:
Reinvest in value-creating core assets and people

Distribution

- Distribution reliability target > 99.98%
- Advance asset management program
- Complete planned substation land acquisitions
- Advance Intelligent Grid

Goal #1:
Reinvest in value-creating core assets and people

Facilities

- Develop long-range facilities plans

People

- Develop Human Performance Improvement (HPI)
- Employee skill development program

Strategic Facilities Plans

- Analysis identified that the best value (cost and service) over long-term includes new buildings versus status quo

- Moving forward at Rock Island (2021) and Rocky Reach (2023) at cost estimated at $75M

- Pursuing Olds Station land acquisition
  - Community outreach for new administrative and operations facility

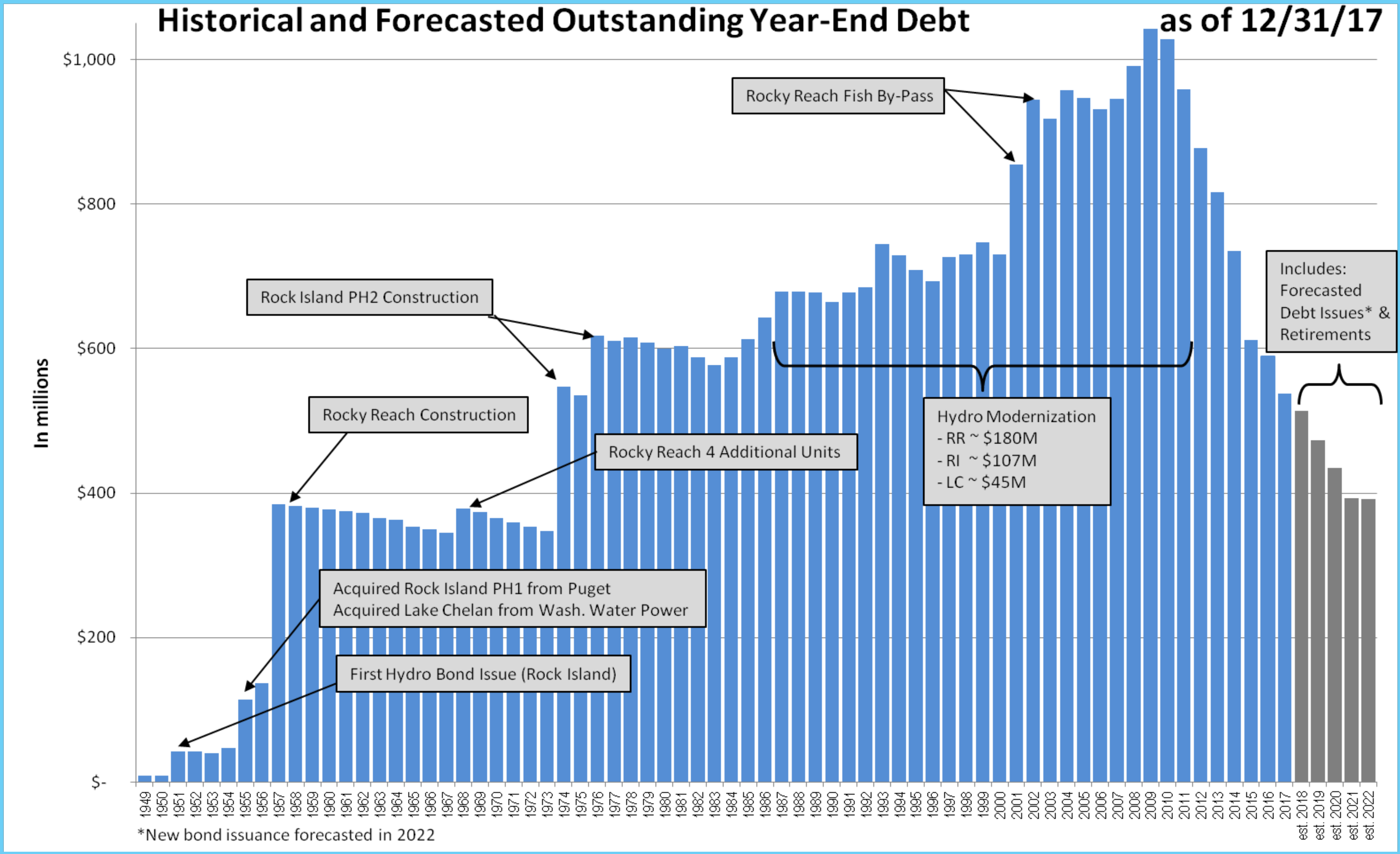
- Innovative contracting methods being pursued (General Contractor/Construction Manager)

Goal #2:
Reduce Debt

District-wide

- Retire $52 million of debt
- Achieve debt ratio below 35% by 2019

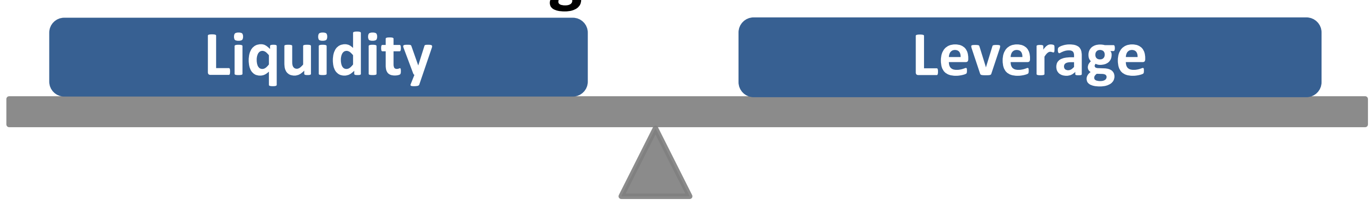
Goal #2 – Reduce Debt



Long Term 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



Best supports doing the best, for the most, for the longest

Goal #3:

Continue Public Power Benefit Program

Available funding 2015-2016: $8.0 million

Allocated for spending 2015-2016 $5.2 million

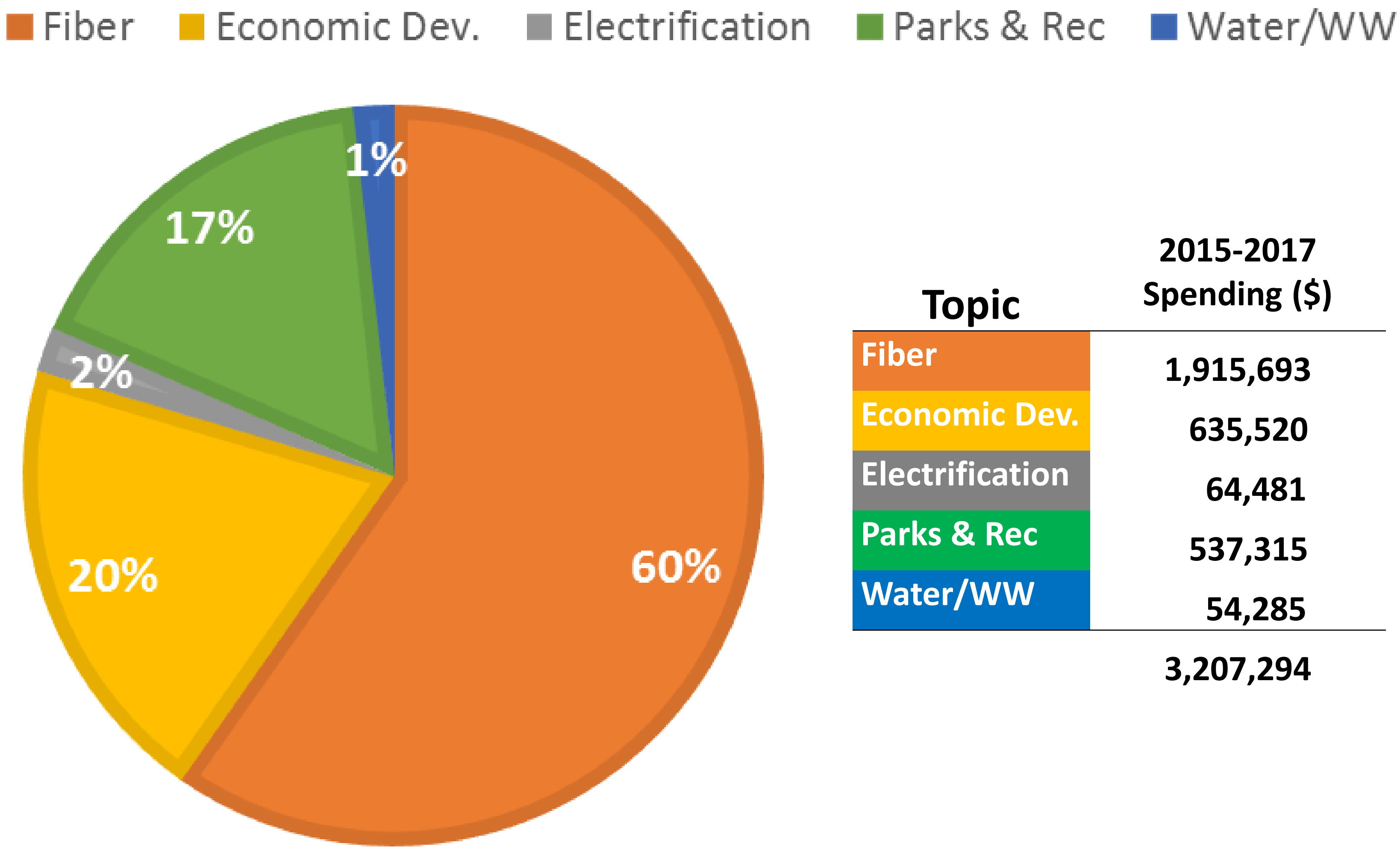
Available funding for 2017: $4.0 million

Allocated for spending 2017: $3.5 million

Available funding for 2018: $4.0 million

Allocated for spending 2018, to date: $2.8 million

PUBLIC POWER BENEFIT PROJECTS: 2015-2017



Topic	2015-2017 Spending ($)
Fiber	1,915,693
Economic Dev.	635,520
Electrification	64,481
Parks & Rec	537,315
Water/WW	54,285
	3,207,294

Additional Accomplishments for 2017

- Exceeded all financial policy metrics, clean audit opinion
- Exceeded energy efficiency compliance requirements and achieved our stretch goal
- Successfully met Habitat Conservation Plan milestones
- Successfully negotiated a 10-year 5% long term slice for 2021-2030 wholesale revenue stability ($172 million revenue)
  - Successfully auctioned/negotiated two (2) 5-year 5% and a (1) 1-year 3% slice sales ($137 million revenue)
- Advanced work on a new Customer Information System
- Negotiated a one-year delay for Alcoa to support restarting Wenatchee Works

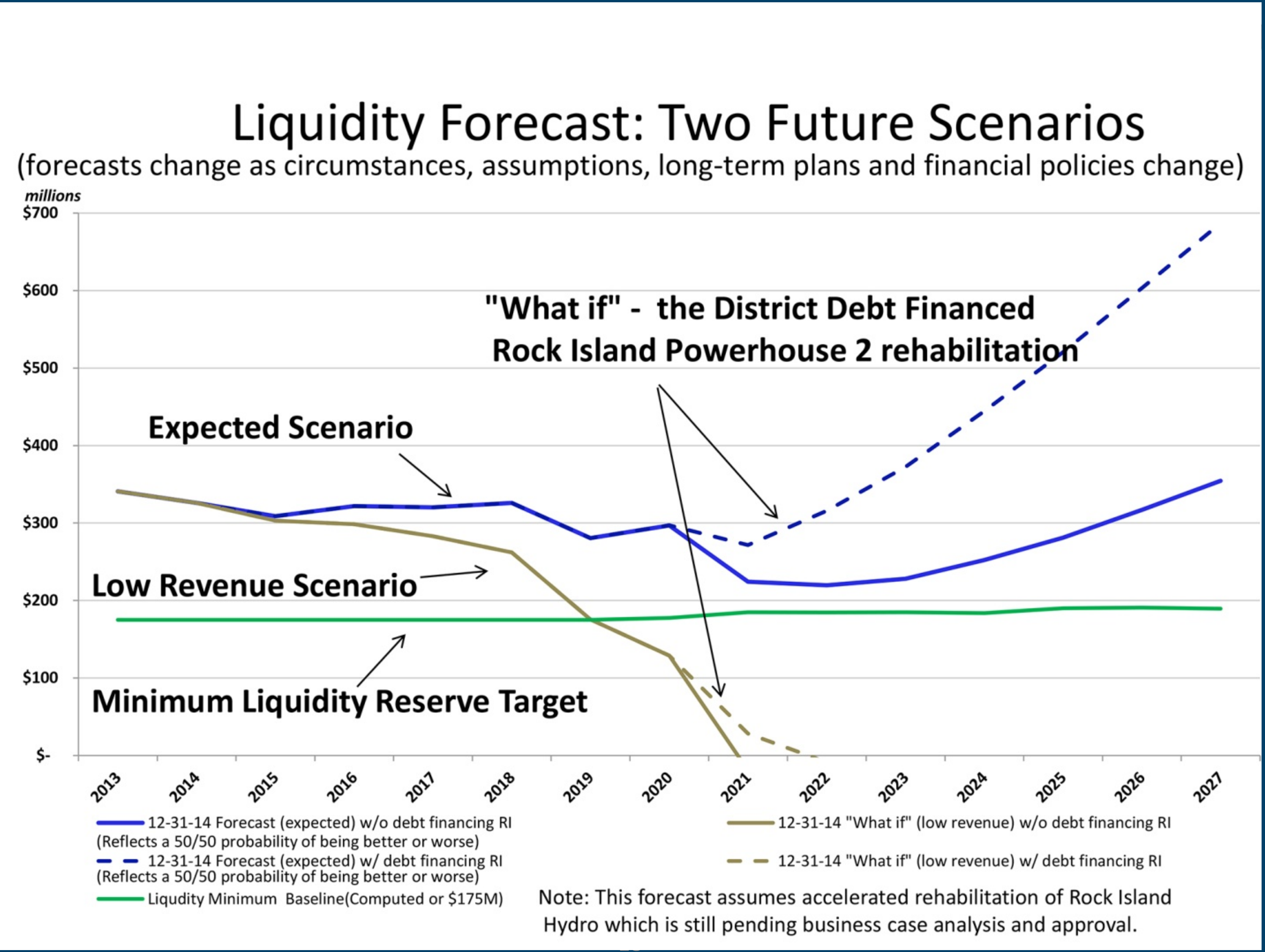
5-Year Outlook Q4 2017

Financial Policies	2017	2018	2019	2020	2021	2022
Liquidity - $175M Min (Expected) *	●	●	●	●	●	● *
Liquidity - $175M Min (Unusual) *		●	●	●	●	● *
Debt Ratio <35% by 2019 (Expected)	●	●	●	●	●	●
Debt Ratio <35% by 2019 (Unusual)		●	●	●	●	●
Days Cash on Hand (Expected >250)	●	●	●	●	●	●
Days Cash on Hand (Unusual > 250)		●	●	●	●	●
Combined Debt Cover (Expected > 2.00x)	●	●	●	●	●	●
Combined Debt Cover (Unusual >1.25x)		●	●	●	●	●
Rate of Return (Expected > 4%)	●	●	●	Sunset		
Rate of Return (Unusual > 2%)		●	●			
Bottom Line Results (Expected)	*$105M*	*$71M*	*$63M*	*$50M*	*$48M*	*$43M*
Bottom Line Results (Unusual)		*$68M*	*$58M*	*$44M*	*$40M*	*$31M*
*Outstanding Debt (Expected)**	*$537M*	*$514M*	*$473M*	*$434M*	*$393M*	*$391**
*Outstanding Debt (Unusual)**		*$514M*	*$473M*	*$434M*	*$393M*	*$425**

* Issuance of external debt assumed to occur in 2022 to maintain liquidity

● - Meets financial policies

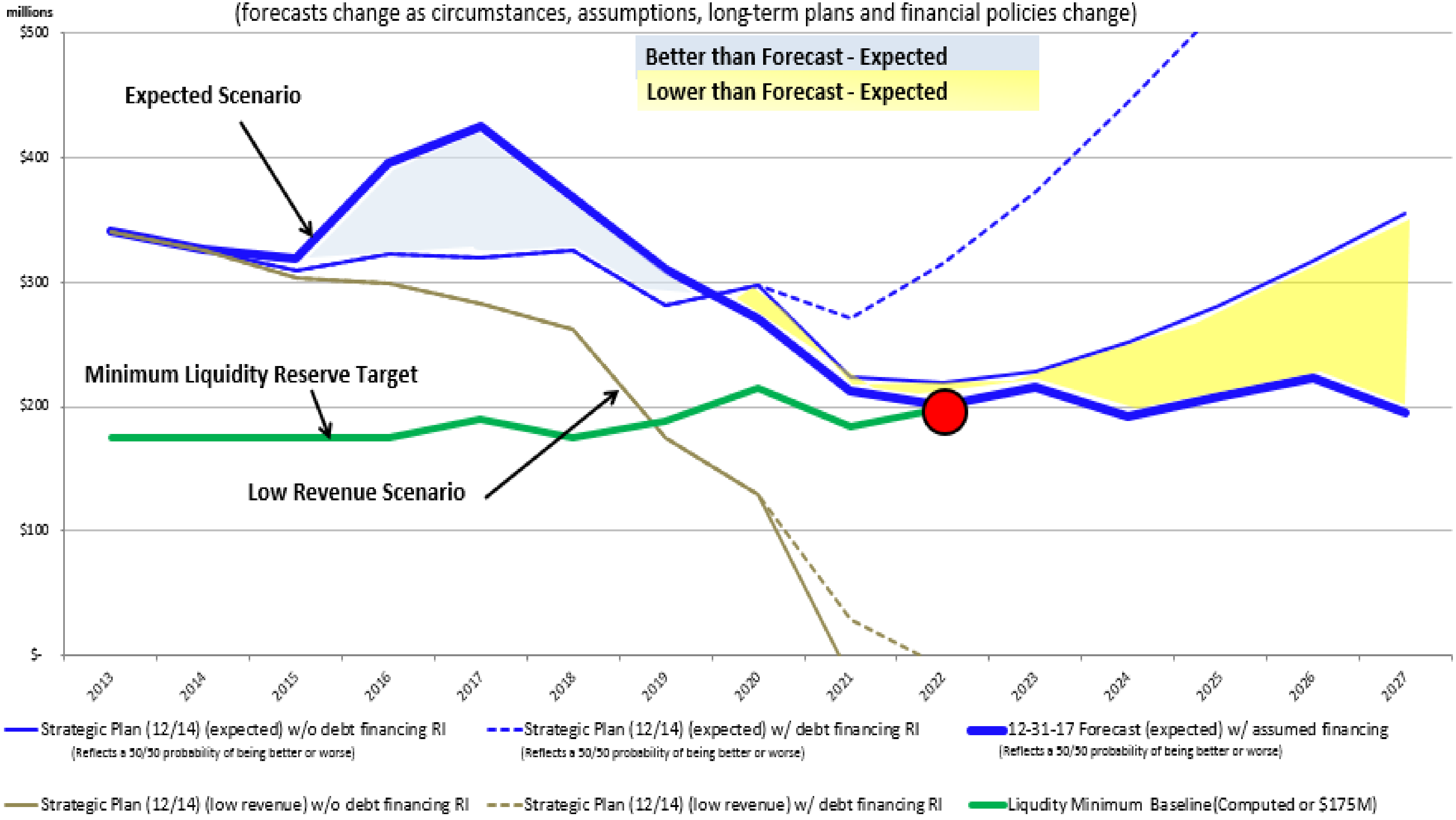
Long-Term Outlook – End of Strategic Planning



Long-Term Outlook - Now: Q4 - 2017

Liquidity Forecast: Two Future Scenarios

(forecasts change as circumstances, assumptions, long-term plans and financial policies change)



Long-Term Outlook - Now: Q4 - 2017

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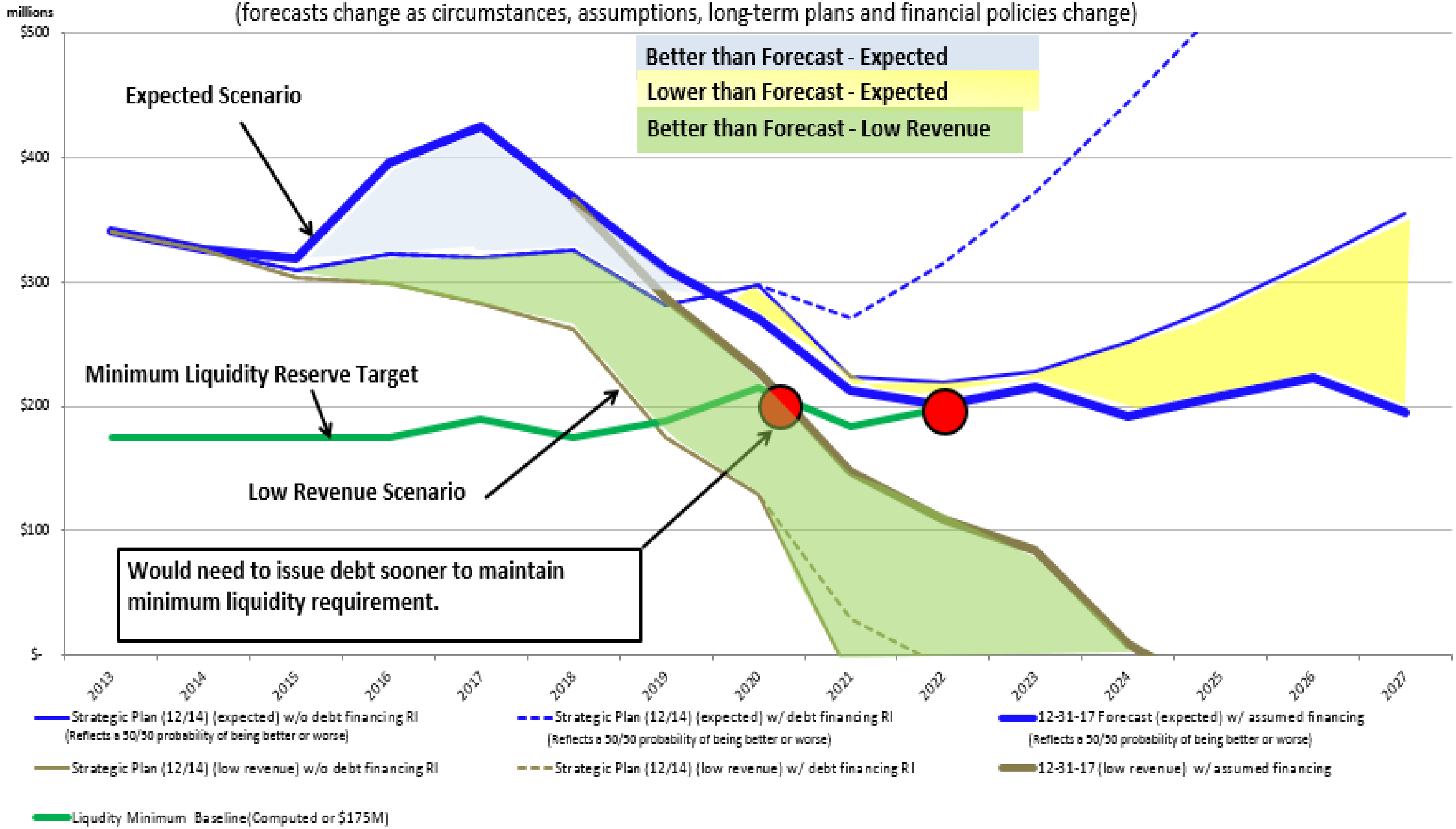


NOTE: Both the Q4-2017 expected and low revenue scenarios assume approximately $200M of new debt in the periods 2022- 2027 to fund long-lived capital projects. The debt ratio for the District remains at or below 35% for the forecasted periods for the expected scenario.

What has changed?

1. Declining market prices reduce our wholesale revenue forecast (-$460 million). Price dropped another 10% last year.
2. More capital work planned to rehabilitate hydros and invest for load growth (+$58 million)
3. O&M costs increased for additional repairs, District initiatives and compliance requirements (+$49 million)
4. Financial results are good for 5-year horizon but challenges are forecasted in the 2020's

What are we doing to respond?

1. Balancing sales at wholesale with retail loads
2. Identifying prudent rates and charges for large retail loads to ensure cost recovery
3. Supporting actions that provide fair value for hydro power
4. Actively participating in carbon reduction policy-making
5. Renewing use of borrowing in headlights (roughly 2022) consistent with long term debt philosophy
6. Performing rates analysis as the surplus revenue declines
7. Seeking efficiency through adoption of new technology

Current Initiatives

Reinvest in core assets and people

- Hydro Projects
- Facilities
- Upgrade Customer Information System
- Advance two-way metering capabilities and meter data management
- Designing 3 substations (Olds Station, Leavenworth, North Chelan)

Current Initiatives

Reinvest in core assets and people

- Implement processes and develop tools to support independent Mid-C operations
- Reliability for all business units
- Develop regional water supply strategy seeking regional operating efficiencies
- Prepare for the future through employee skill and leadership development – focus on safety and data analytics

Current Initiatives

Pay down debt	• Achieve debt ratio of less than 35% one year ahead of 2019 target
Public Power Benefit Program	• Continue Fiber system expansion • Continue program for park passes • Stand up Hydro Research Institute • Evaluate design for Rocky Reach Discovery Center

Immediate Urgency and Focus

- New large load inquiries
  - Significant risks associated with new infrastructure, pricing, cost containment, reliability, safety
  - Board approved a moratorium on March 19 that effectively halts applications of any load requests for cryptocurrency
    - Review and modify current < 5MWs rates
    - Continue to develop > 5 MWs processes and rates
    - Review and modify fees and charges for unauthorized loads
  - Wholesale marketing program uncertainty
  - Staff resources are over allocated across the District to address these issues
    - Dedicated team established, certain District Performance Plan goals delayed

Characteristics

- High usage
- Transient capability
- Reliant on volatile commodity price
- Amoeba-like
- Community value?
- Lemons to lemonade?
- Energy pricing – comparison to market
- Transmission & distribution pricing and risk
- Diamond Foundry

Alcoa

- In spring 2017, the District successfully negotiated a customer owner neutral delay payment of $7.325M to support Wenatchee Works restarting
- Plant remains curtailed with a $62M payment due on June 18, 2018 if restart doesn’t occur

Alcoa’s intentions to restart or pay are uncertain

Known Unknowns

Cryptocurrency loads	Retail load growth
Value of hydropower in power markets	Carbon policy
Hydro asset status	Mid-C Independent Operations
Columbia River Treaty	RI Relicensing
Alcoa restart/transmission	

Starting the 2020-2024 Strategic Plan

- Developing materials in early 2018
- Establishing process outline by mid 2018
- Reaching out to customers and employees in early 2019
- Completing new strategic plan by mid 2019

Summary

- **Strategic plan is working:**
  - Achieving our financial targets
  - Continue to provide long term value
  - Adapting to changing circumstances
- **Next up: 2020-2024 Strategic Plan**


2015-2019 Strategic Plan
THE BEST
FOR THE MOST
FOR THE LONGEST

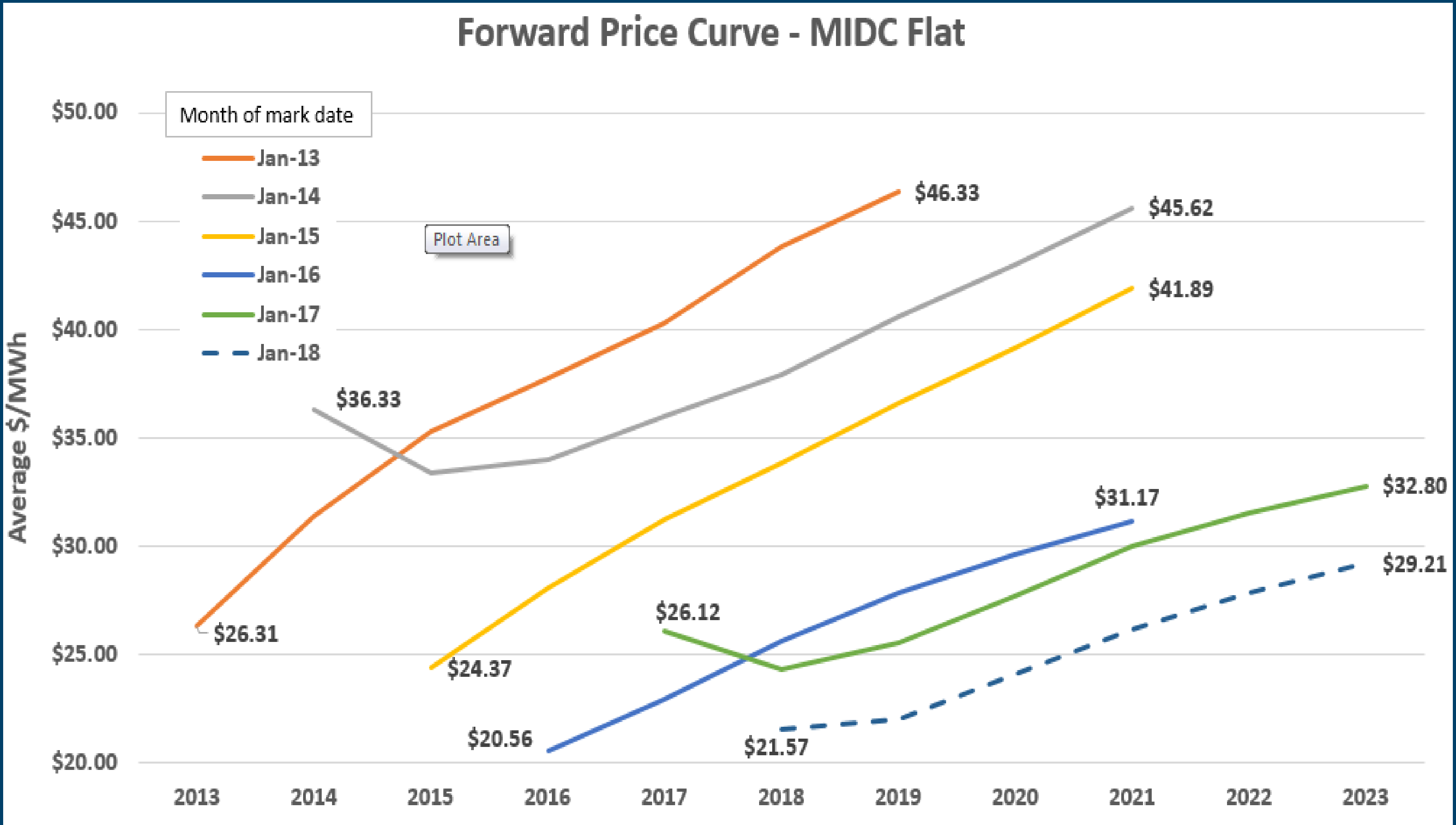
Appendix
More Details

What's different now compared to the Strategic Plan?
(December 2017 vs. December 2014)

($ millions)

Description	2015-2019	2020-2027	2015-2027
Cash flow from operations	8	(344)	(336)
Net Wholesale Revenue	13	(475)	(462)
Operating Expenses	24	25	49
Capital Expenditures	69	(11)	58
Total Liquidity	29	(161)	(161)
Debt Outstanding	91	255	255

Mid-C Price Trends



5-Year Outlook Q4 2017 - Details

District Combined	2017	2018	2019	2020	2021	2022
Liquidity - $175M Min (Expected)	$425M	$368M	$310M	$270M	$213M	*$201M
Liquidity - $175M Min (Unusual)		$365M	$301M	$255M	$190M	*$199M
Debt Ratio (Expected <35% by 2019)	37.5%	34.8%	31.5%	28.7%	25.9%	25.1%
Debt Ratio (Unusual <35% by 2019)		34.8%	31.7%	29.0%	26.3%	27.3%
Days Cash on Hand (Expected >250)	623	589	492	426	340	314
Days Cash on Hand (Unusual > 250)		584	479	403	304	312
Combined Debt Cover (Expected > 2.00x)	3.38	2.77	2.70	2.46	2.40	2.26
Combined Debt Cover (Unusual >1.25x)		2.72	2.59	2.33	2.24	1.95
Rate of Return (Expected > 4% thru 2019)	9.6%	5.9%	5.0%	Sunset		
Rate of Return (Unusual > 2% thru 2019)		5.7%	4.5%			
Bottom Line Results (Expected)	*$105M*	*$71M*	*$63M*	*$50M*	*$48M*	*$43M*
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Outstanding Debt (Unusual)		*$514M*	*$473M*	*$434M*	*$393M*	**$425M*

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