



**Mission:** To provide sustainable, reliable utility services that enhance the quality of life in Chelan County.

**PUD PROFILE**

Chelan County PUD owns and operates one of the nation's largest nonfederal, customer-owned hydroelectric generating systems.

Chelan PUD's highest priority is keeping our core assets in top shape. Investing in our hydropower projects, distribution systems, facilities and people ensures we continue to produce clean, renewable, carbon-free energy and create value for our customer-owners.

Chelan PUD's three dams have demonstrated for decades the value of public power and local control. Together the dams can generate nearly 2,000 megawatts of power at their peak. In 2015, they produced 9.2 million megawatt hours of affordable, emission-free electricity.

**CUSTOMER-OWNERS GIVE CHELAN PUD HIGH RATINGS FOR ITS LOW RATES, GOOD CUSTOMER SERVICE, GREAT COMMUNICATIONS AND FEW OR QUICKLY FIXED OUTAGES**

A satisfaction survey conducted in late February and early March showed Chelan PUD enjoys "an enviable relationship with its customers". In particular, customers reported reliable service, quick outage restoration, the new website and communication with customers as exemplary. The phone survey was done in English and Spanish gathering answers from 406 customers, a statistically valid and randomly-selected group. Customers were asked questions on topics from customer service and power outages, to advanced metering and energy efficiency.

Overall, more than 90 percent of customers rated Chelan PUD a 4 or a 5 on a five-point scale. Customers also rated the District communications highly, with 94 percent giving communication efforts a 4 or 5. The PUD's response to the outages caused by the extraordinary wildfires of 2015 made a very favorable impression on customers, even more than six months later.

**ALCOA CURTAILMENT CONTINUES PAST 90-DAY SHUTDOWN THRESHOLD**

In December 2015, Alcoa curtailed its Wenatchee Works smelting facility. When the current contract with Alcoa was crafted in 2007, several provisions were included as incentives for Alcoa to remain in Wenatchee and keep operating, with increased financial benefits for more production and full employment for plant workers. Keeping well-paid industrial jobs in the community was a high priority for the District commission.

Under terms of the power sales agreement, Alcoa must continue to pay its 26 percent share of the costs and charges regardless of the actual amount of energy produced or the amount of power used to operate Wenatchee Works. In accordance with contract provisions addressing a shutdown, the District is selling unused power in the wholesale market on Alcoa's behalf. Since the 90-day shutdown threshold was met in March 2016, proceeds from the sale of any unused power are being applied to Alcoa's monthly contractual costs.

Any surplus proceeds in excess of Alcoa's costs are being retained by the District and any shortfalls are paid by Alcoa.

To incent Alcoa to return to operations, there are additional contractual charges that will apply during shutdown, depending on how long the plant remains idle. The Alcoa shutdown is not expected to adversely impact the District's 2016 finances.

**DISTRICT CONTINUES TO REINVEST IN CORE, VALUE-CREATING ASSETS SUPPORTING STRATEGIC PLANS**

The District continues to move forward under an existing contract with the turbine repairs for the large units at Rocky Reach and restoring variable pitch blades. Currently, there is one unit under turbine repair with others scheduled to follow one unit at a time. Additionally, the District is addressing end-of-life plans for the windings of the same large units at Rocky Reach to permanently repair them either in advance of or during the turbine outage.

In February, PUD commissioners directed staff to accelerate repair of the main hoist drums in two powerhouse cranes at Rocky Reach Dam. Reports of cracks in similar cranes at other dams triggered inspection of the Rocky Reach bridge crane drums with the discovery of cracks. Safe operation of the cranes is critical for hydro operations and for staying on schedule with ongoing turbine and winding repairs or replacements on the large units. Both cranes were back in service by early April.

The rehabilitation of four units at Rock Island continues to progress on schedule one unit at a time. There are currently two of the four units under contract for rehabilitation out of service at this time, with one currently under repair and the other remaining idle until schedule allows. There are four additional smaller Rock Island units that are out of service due to concerns with blade cracking. The final engineering analysis is pending, however the District is currently evaluating alternatives regarding the future state of those units should they be at end of life.

Even with the unit outages, hydro generation for the three months ended March 31, 2016, was 91 percent and 98 percent of average for Rocky Reach and Rock Island, respectively. The District is evaluating potential schedule options to accelerate repairs, while ensuring any schedule modifications create value for our customer-owners. The District is well-positioned financially and operationally to respond to the repairs, outages and costs.

**COMMISSIONERS CONTINUE HIGH DENSITY LOAD RATE MORATORIUM**

After more than a year of study PUD commissioners are considering a new electric rate class for customers with intense energy use of 250 kilowatt hours (kWh) per square-foot or more per year, such as data servers, block-chain and bitcoin operations. In February, PUD commissioners started formal consideration of a proposed rate for high density loads (HDL) and voted to continue the moratorium on applications for electric service from energy intense users until October. The moratorium does not affect normal load growth, such as requests to serve new subdivisions, stores, schools, medium-size fruit warehouses or manufacturing firms. All of those typically use less than 1 average megawatts (aMW). The District load growth for all types of electric customers

in the past has been 1 to 3 aMWs a year.

In March, PUD commissioners reviewed the proposed rate class definition of HDL for technology operations with average electrical load up to and including 5-average megawatts at a single meter. Businesses that would be subject to the proposed rate would likely have an energy use intensity of 250 kWh per square foot per year. PUD staff proposed a rate aimed at recovering the full costs of serving the high density loads over time by charging them the production cost of the power plus customer and delivery costs. In addition, an upfront capital charge would reduce risk to the District from the costs of accelerating construction to serve HDL loads and protect against losses if those customers were to leave before costs to serve them are recovered through rates. Commissioners have targeted June for considering a decision on the proposed HDL rate to provide time through the summer for implementation.

**FINANCIAL HIGHLIGHTS**

For the three months ended March 31, 2016, Chelan County PUD recorded a change in net position of \$25.2 million, a decrease in earnings of \$5.0 million from the same period in 2015. The decrease in earnings is primarily due to a decrease in wholesale sales offset somewhat with a decrease in purchased power costs and reduced interest on long-term debt. Wholesale sales are lower as a result of lower average market prices. Purchased power costs are also down compared to the prior year due to lower average market prices. The District continues to purchase power to balance system loads and resources and to support its power hedging strategy. Interest on long-term debt is reduced primarily as a result of the significant retirement of debt in 2015 lowering balances on which interest is calculated.

As of March 31, 2016, combined unrestricted cash and investments totaled \$263.2 million compared to \$282.6 million from the same period in 2015. The decrease in unrestricted reserves compared to the same period in 2015 is primarily attributable to a combination of the District's aggressive debt repayment program and the funding of capital assets out of cash reserves. The \$40.8 million increase in Other Assets was due primarily to an increase in long-term investments as a result of higher overall cash and investment balances and in the lengthening of investment strategies.

Current liabilities decreased \$21.3 million from the prior year due primarily to a decrease in the current portion of long-term obligations as a result of changes in regularly scheduled repayments of bond principal on existing debt combined with early debt repayments.

Long-term debt decreased by \$89.0 million due to continued implementation of the District's aggressive debt reduction plan. The reduced debt leverage supports the District's financial policies, customer-owner priorities, strong credit rating and long-term financial sustainability.



Kelly Boyd  
 Chief Financial Officer/  
 Chief Risk Officer



**CONDENSED COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (Unaudited)**

Three months ended March 31, 2016

(in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	3 Months Ended 03/31/16	3 Months Ended 03/31/15
<b>OPERATING REVENUES</b>	\$ 23,292	\$ 25,025	\$ 2,022	\$ 69,724	\$ 2,341	\$ 3,946	\$ (41,749)	\$ 84,601	\$ 93,118
<b>OPERATING EXPENSES</b>	16,319	13,133	1,759	61,362	-	3,733	(41,749)	54,557	55,532
<b>NET OPERATING INCOME</b>	6,973	11,892	263	8,362	2,341	213	-	30,044	37,586
<b>OTHER INCOME (EXPENSE) (2)</b>	(2,860)	(5,842)	(432)	1,545	1,607	85	-	(5,897)	(8,038)
<b>CAPITAL CONTRIBUTIONS</b>	-	191	-	838	-	-	-	1,029	639
<b>CHANGE IN NET POSITION</b>	\$ 4,113	\$ 6,241	\$ (169)	\$ 10,745	\$ 3,948	\$ 298	\$ -	\$ 25,176	\$ 30,187

**CONDENSED COMBINING STATEMENTS OF NET POSITION (Unaudited)**

March 31, 2016

(in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	03/31/16	03/31/15
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>									
<b>TOTAL CURRENT ASSETS</b>	\$ 9,386	\$ 11,031	\$ 1,479	\$ 63,737	\$ 14,076	\$ 5,092	\$ -	\$ 104,801	\$ 166,842
<b>NET UTILITY PLANT</b>	312,000	314,205	91,420	309,320	-	29,094	-	1,056,039	1,059,561
<b>RESTRICTED ASSETS - NONCURRENT</b>	48,423	96,300	-	4,934	22,016	6,070	-	177,743	171,525
<b>OTHER ASSETS</b>	9,312	24,583	6,480	151,720	77,229	15,085	(14,446)	269,963	229,135
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	1,701	4,540	215	2,729	5,352	-	-	14,537	13,688
<b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>	\$ 380,822	\$ 450,659	\$ 99,594	\$ 532,440	\$ 118,673	\$ 55,341	\$ (14,446)	\$ 1,623,083	\$ 1,640,751
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>									
<b>CURRENT LIABILITIES</b>	\$ 25,022	\$ 33,839	\$ 3,030	\$ 32,148	\$ (10,502)	\$ 18,634	\$ -	\$ 102,171	\$ 123,461
<b>INTERSYSTEM PAYABLE (RECEIVABLE) - CURRENT</b>	(291)	(144)	(277)	6,318	-	(5,606)	-	-	-
<b>LONG-TERM DEBT</b>	165,640	328,749	8,774	(3,610)	53,640	33,727	-	586,920	675,870
<b>UNEARNED REVENUES</b>	8,998	9,412	-	80,528	8,790	-	(14,446)	93,282	100,051
<b>OTHER LIABILITIES</b>	23,094	24,009	10,311	22,210	-	-	-	79,624	68,153
<b>TOTAL LIABILITIES</b>	222,463	395,865	21,838	137,594	51,928	46,755	(14,446)	861,997	967,535
<b>DEFERRED INFLOWS OF RESOURCES</b>	2,921	30,554	341	6,296	3,463	240	-	43,815	52,956
<b>TOTAL NET POSITION</b>	155,438	24,240	77,415	388,550	63,282	8,346	-	717,271	620,260
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES &amp; NET POSITION</b>	\$ 380,822	\$ 450,659	\$ 99,594	\$ 532,440	\$ 118,673	\$ 55,341	\$ (14,446)	\$ 1,623,083	\$ 1,640,751

<b>ELECTRIC</b>	2016	2015
As of March 31		
Number of Customers	49,779	49,609
Number of Residential Customers	37,297	37,103
YTD Average Residential Rate (Cents/kWh)	3.06	3.10

<b>POWER GENERATION (MWh) (000)</b>	2016	2015
3 months ended March 31		
Lake Chelan	127	128
Rocky Reach	1,456	1,900
Rock Island	747	977

<b>HYDRO PRODUCTION COST/MWH GENERATED (\$/MWh)</b>	2016	2015
3 months ended March 31		
Lake Chelan	\$ 15	\$ 14
Rocky Reach	13	9
Rock Island	25	18

**NOTES TO CONDENSED STATEMENTS**

(1) Intra-District transactions are eliminated.

(2) Consists primarily of investment income and interest expense on long-term debt.

Public Utility District No.1 of Chelan County (Chelan County PUD) has prepared condensed financial statements in accordance with generally accepted accounting principles. Condensed financial statements should be read in conjunction with the notes to the financial statements included in Chelan County PUD's Annual Report as of December 31, 2015. This information is provided for general information. Not all the information is intended for nor should it be relied upon for making investment decisions by current or prospective investors.