

THE BEST FOR THE MOST FOR THE LONGEST

2015 – 2019 STRATEGIC PLAN



Strategy Partners Year One Report

April 21, 2016

Progress in Implementing the Plan



Strategic goals

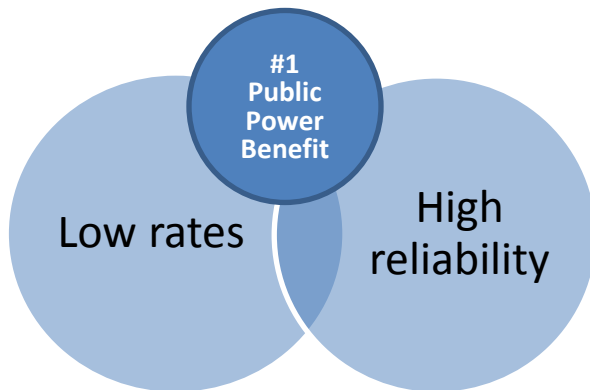
Long-term outlook

Policy impacts on the horizon

Summary

Strategic Goals


- 1 Reinvest in value-creating core assets and people
- 2 Reduce debt
- 3 Initiate Public Power Benefit program





Significant changes from April 2015

- Wholesale power market price decline
- Hydrosystem equipment degradation
- High-density loads
- Alcoa curtailment
- Safety near-misses



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

The Board priority
is reinvesting in our assets and people



Starting in 2016
approve reinvestment projects
after business case analysis

Goal #1:

Reinvest in value-creating core assets and people

Hydros

Hydro availability target = 88.7%



Rocky Reach generator repairs



Rock Island modernization



Expand asset management program



Goal #1: More Work Than Initially Planned

Potential Capability Impacts 2016	Capacity (MW)	Total Hydro Capability (%)
• With maintenance and planned projects	1848	93.0%
• With additional planned repairs	1385	76.7%

Goal #1:

Reinvest in value-creating core assets and people

Distribution

Distribution reliability target > 99.98%



Complete operational technology plan



Complete planned substation land acquisitions



Hardening assets against weather and fire



Goal #1:

Reinvest in value-creating core assets and people

Facilities

Develop long-range facilities plans



People

Complete Phase I of Safety Strategic Plan



Employee skill development program



Goal #2: Reduce Debt

District-wide

Retire \$122 million of debt in 2015

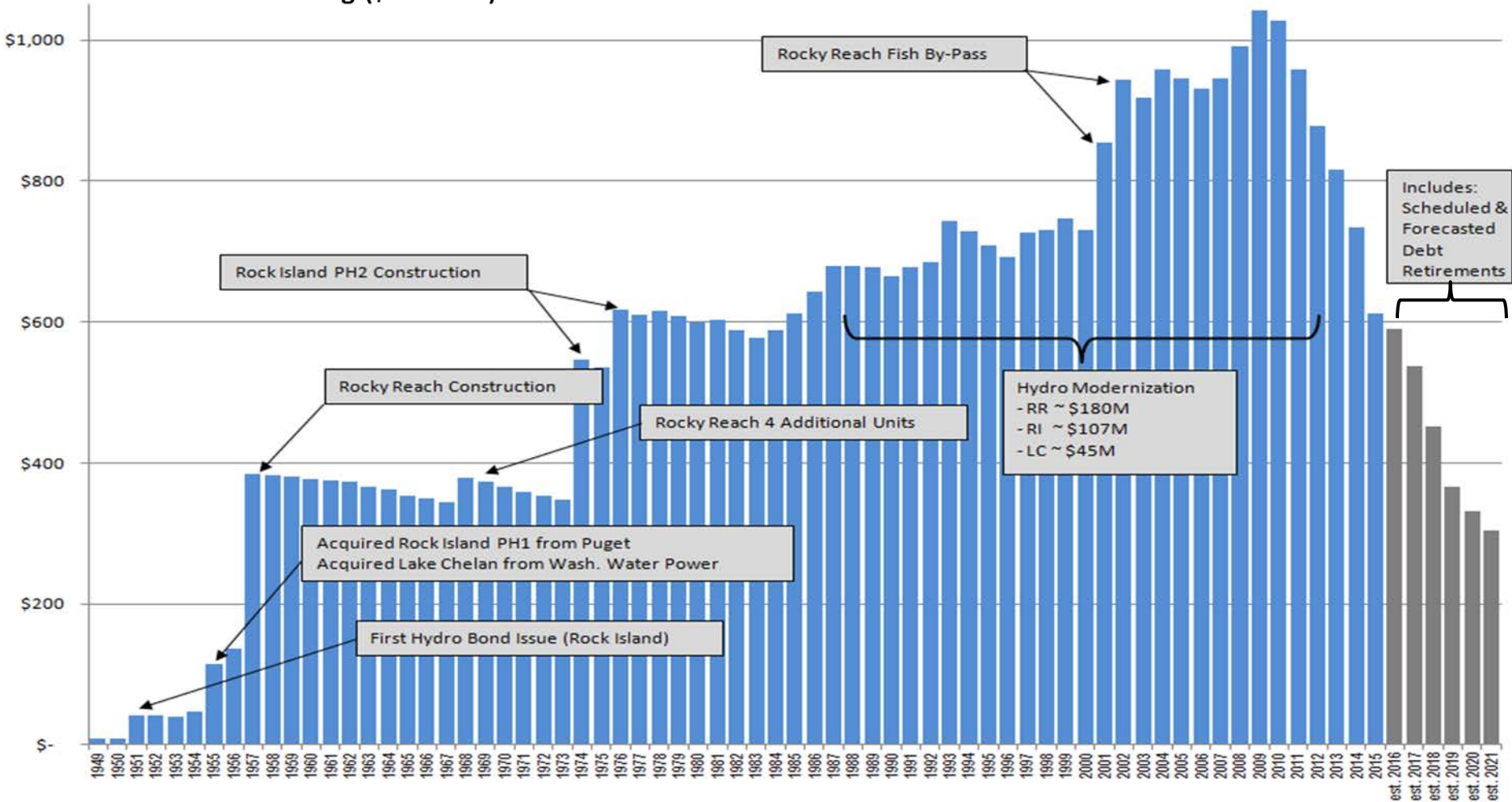


Achieve debt ratio below 35% by 2019



Goal #2 Reduce Debt


Debt Outstanding (\$Millions)






Goal #3: Initiate Public Power Benefit Program

To be financially sound,
benefit only from revenue
already earned and available



First, look back to net earned
in prior year



Then look forward for
adequate reserve balances

Initial Public Power Benefit Funding

Available funding 2015-2016: \$8.0 million

Spent in 2015 \$1.1 million

Allocated for 2016: \$3.1 million

Remainder pending studies: \$3.8 million

2015-2016 Initial Allocation of Funding

Fiber Expansion

- Expansion to 85-90% of county residents
- Annual decision (estimated \$25M, 11 year project)



Parks and Recreation

- Pilot Study to waive park day use fees for residents
- Feasibility study of splash-pad in a PUD park
- Feasibility study of water source for Horan natural area



Electrification

- Install electric charging stations at PUD facilities



Economic Development

- Develop electric economic analysis tool
- Study electric economic development infrastructure
- Develop utility-focused education and mentoring programs



Water & Wastewater

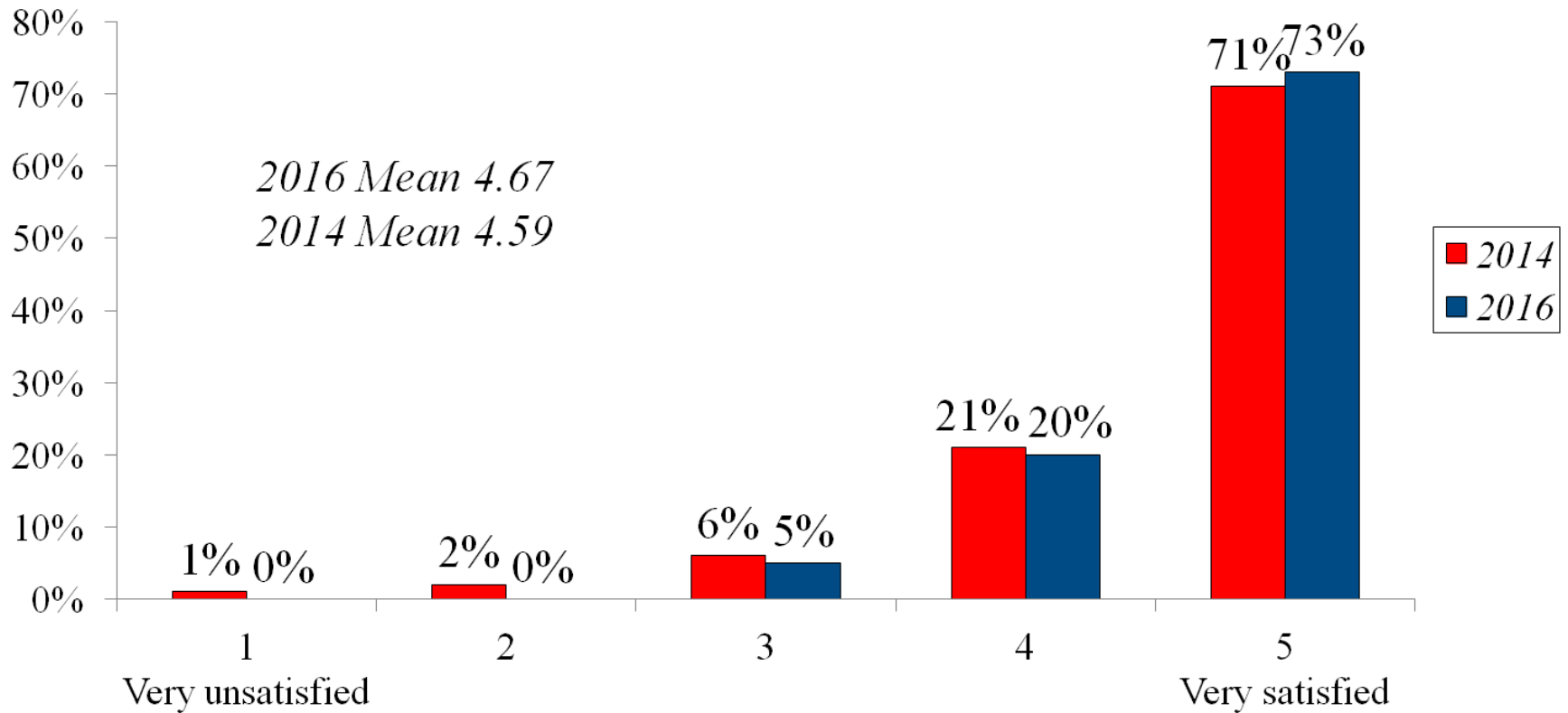
- Study operational efficiencies between entities
- Legal analyses of expansion and funding water quality



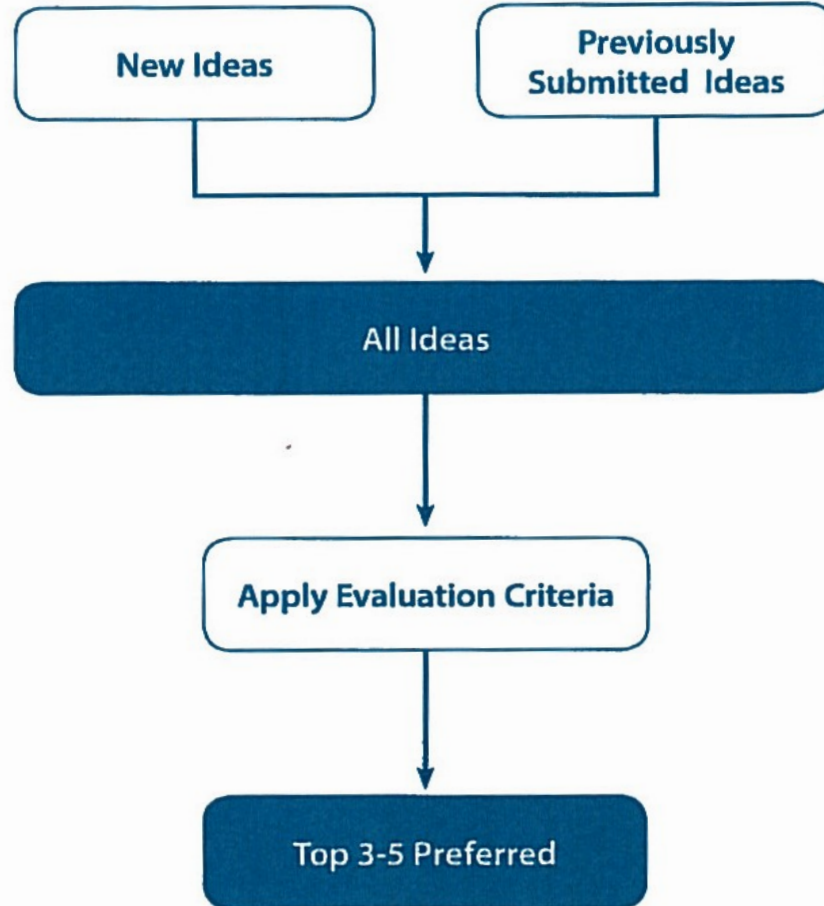
Other Key Actions Completed

- Allocated capacity reservation funds to Water, Wastewater and Fiber to cover past internal obligations and 2015-2019 capital needs
- Retained capacity reservation fund in electric system to temper variability of annual PPB
- Adopted multi-year rate increases for Water and Wastewater
- Established five-year business plans

Customer Satisfaction Survey



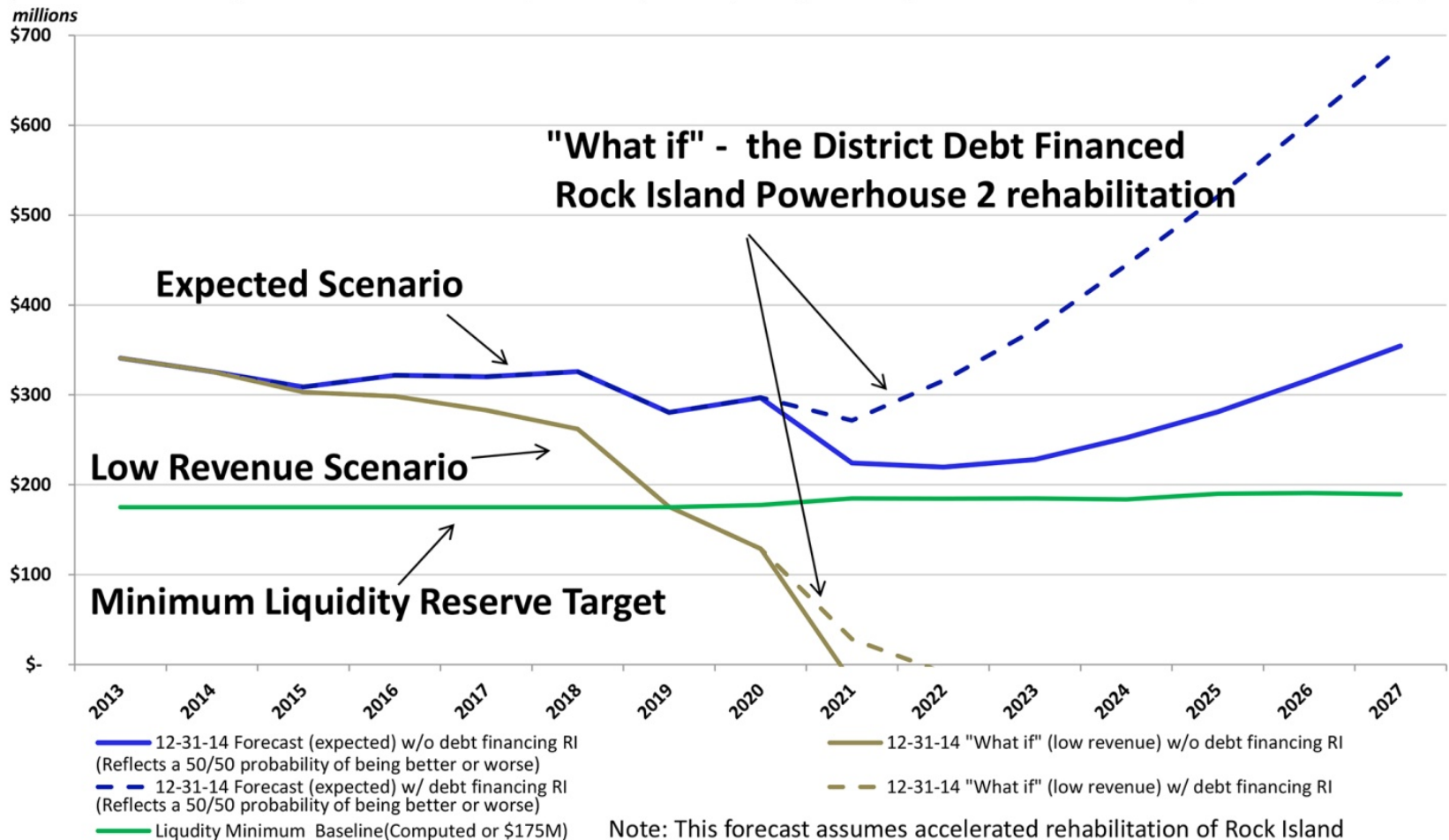
2017 PPB Selection Flowchart



Long-Term Outlook – Then (2014)

Liquidity Forecast: Two Future Scenarios

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

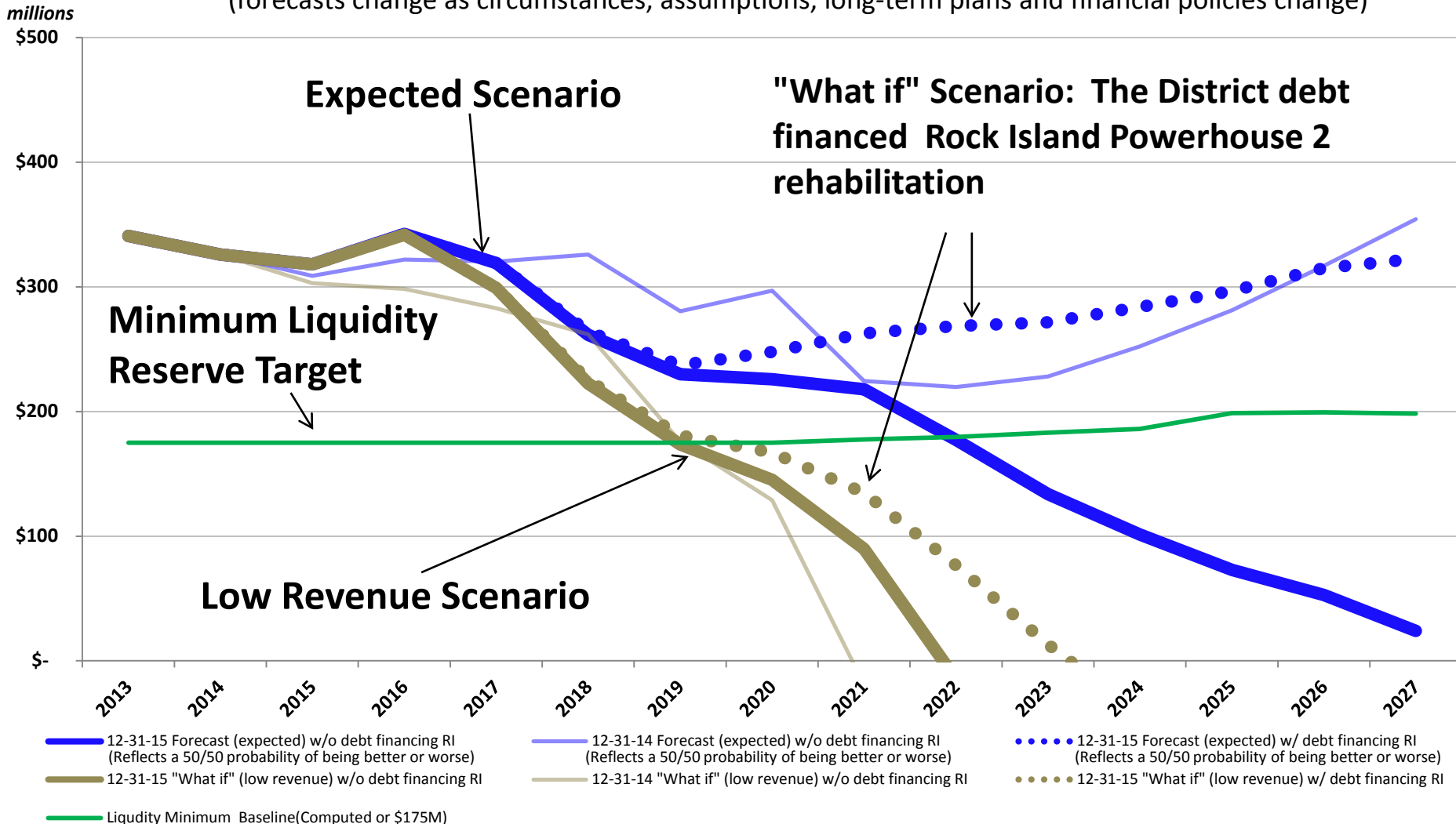


Note: This forecast assumes accelerated rehabilitation of Rock Island Hydro which is still pending business case analysis and approval.

Long-Term Outlook – Now (2015)

Liquidity Forecast: 2015 Update of Two Future Scenarios

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



Note: This Forecast assumes accelerated rehabilitation and financing of Rock Island Hydro for example purposes only. Eventual timing and financing actions will vary.



What changed?

1. Declining market prices reducing our wholesale revenue forecast
2. More capital work planned to rehabilitate hydro assets
3. O&M costs increased for additional repairs, District initiatives and compliance requirements

What are we doing to respond?

1. Updating financial analysis including debt funding philosophies
2. Evaluating hydro investments based on long-term value while seeking accelerated repair options
3. Pursuing a long-term market-based sale to capture capacity value
4. Actively participating in carbon market development and related carbon pricing
5. Supporting community efforts for Alcoa with our contract incentives that encourage restart

Long-Term Outlook 2015

Financial Policies	2015	2016	2017	2018	2019
Rate of Return (Expected > 4%)	●	●	●	●	●
Rate of Return (Unusual > 2%)		●	●	●	●
Combined Debt Cover (Expected > 2.00x)	●	●	●	●	●
Combined Debt Cover (Unusual >1.25x)		●	●	●	●
Debt Ratio <35% by 2019 (Expected)	●	●	●	●	●
Debt Ratio <35% by 2019 (Unusual)		●	●	●	●
Liquidity - \$175M Min (Expected)	●	●	●	●	●
Liquidity - \$175M Min (Unusual)		●	●	●	●
<i>Bottom Line Results (Expected)</i>	\$102M	\$78M	\$72M	\$66M	\$57M
<i>Bottom Line Results (Unusual)</i>		\$74M	\$63M	\$58M	\$48M
<i>Outstanding Debt</i>	\$612M	\$590M	\$537M	\$452M	\$382M

● - Meets financial policies

Expected (~50% Probability) - Unusual (~5% Probability) based on the 01/07/16 forecast

Policy Impact on the Horizon



Wholesale market development
/Distributed generation



Reliability Compliance/Cyber-security



Climate adaptation/Greenhouse gas



Columbia River Treaty



Strained Infrastructure/Intelligent Grid



Summary

- Expanding focus on preserving core assets
- Continuing to prepare for futures that includes plenty or scarcity of financial resources
- Maintaining reliable services and healthy financials
- Building for a brighter future through asset investment, debt reduction and community-driven public power benefits

A scenic view of a wooden boardwalk along a lake. A woman in a white shirt and shorts is walking a dog on the boardwalk. The boardwalk is surrounded by lush green trees and a rocky shoreline. The water is calm and reflects the surrounding greenery. The sky is bright and clear.

2015-2019 Strategic Plan

**THE BEST
FOR THE MOST
FOR THE LONGEST**



Appendix

More Details

2015-2016 Initial Allocation of Funding

Fiber Expansion	<ul style="list-style-type: none">• Expansion to 85-90% of county residents• Annual decision (estimated \$25M, 11 year project)	\$ 3,700,000
Parks and Recreation	<ul style="list-style-type: none">• Pilot Study to waive park day use fees for residents• Feasibility study of splash-pad in a PUD park• Feasibility study of water source for Horan natural area	\$ 500,000 150,000 50,000
Electrification	<ul style="list-style-type: none">• Install electric charging stations at PUD facilities	\$ 45,000
Economic Development	<ul style="list-style-type: none">• Develop electric economic analysis tool• Study electric economic development infrastructure• Develop utility-focused education and mentoring programs	\$ 250,000 200,000 200,000
Water & Wastewater	<ul style="list-style-type: none">• Study operational efficiencies between entities• Legal analyses of expansion and funding water quality	\$ 50,000 40,000

Long-Term Outlook 2015 - Details

Financial Policies	2015	2016	2017	2018	2019
Rate of Return (Expected > 4%)	9.6%	7.2%	6.3%	5.6%	4.8%
Rate of Return (Unusual > 2%)		6.8%	5.6%	5.0%	4.0%
Combined Debt Cover (Expected > 2.00x)	2.77	2.88	2.80	2.78	2.71
Combined Debt Cover (Unusual >1.25x)		2.81	2.64	2.62	2.52
Debt Ratio <35% by 2019 (Expected)	46.9%	43.3%	38.9%	33.2%	28.4%
Debt Ratio <35% by 2019 (Unusual)		43.5%	39.2%	33.4%	28.6%
Liquidity - \$175M Min (Expected)	\$318M	\$342M	\$319M	\$261M	\$230M
Liquidity - \$175M Min (Unusual)		\$338M	\$311M	\$253M	\$221M
<i>Bottom Line Results (Expected)</i>	<i>\$102M</i>	<i>\$78M</i>	<i>\$72M</i>	<i>\$66M</i>	<i>\$57M</i>
<i>Bottom Line Results (Unusual)</i>		<i>\$74M</i>	<i>\$63M</i>	<i>\$58M</i>	<i>\$48M</i>
<i>Outstanding Debt</i>	<i>\$612M</i>	<i>\$590M</i>	<i>\$537M</i>	<i>\$452M</i>	<i>\$382M</i>

Expected (~50% Probability) - Unusual (~5% Probability) based on the 01/07/16 forecast