



Mission: To enhance the quality of life in Chelan County by providing sustainable, reliable utility services

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 2018, they produced 9.4 million megawatt hours of affordable, emission-free electricity.

CHELAN PUD EARNS AA+ BOND RATING

S&P Global continues to award the Chelan County PUD an AA+ stable bond rating and continues to rate the District among the top customer-owned utilities in the nation.

The financial rating firm called out several “extremely strong” financial positions including a debt ratio of 34 percent and electric rates that are among the lowest in the nation.

High bond ratings ultimately keep rates lower for customer-owners. They also could bring lower interest rates if the PUD moves ahead on borrowing money to invest in its valuable hydropower and grid assets.

Chelan County PUD also has high bond ratings of AA+ stable from Fitch Ratings and Aa3 stable from Moody’s Investor Service.

SETTING THE COURSE TO SERVE CUSTOMERS WELL

Chelan County PUD board members affirmed updates to the PUD’s mission and vision. The new Mission Statement puts “enhance the quality of life in Chelan County” front and center. The vision is now a “Vision/Challenge” Statement: “In a rapidly changing utility environment, we will provide: The best value for the most people for the longest time.”

A recent strategic planning survey came in from nearly 2,700 customer-owners. Early trends show customer preference for more frequent, smaller electric rate increases (if needed) to balance the risk of unpredictable wholesale market returns; support for early environmental and recreation investments at Rock Island Dam before relicensing to secure a longer license; and for water, wastewater and fiber services to be more self-sustainable.

Looking ahead, “best value” includes maintaining high marks for customer satisfaction, finances, the fiber network and compliance. Given the current strong financial position, staff is assessing what it would take to move the PUD’s hydro capability, retail service reliability and safety into top-tier rankings, plus higher ranking for PUD technology use.

LAKE CHELAN DAM & POWERHOUSE EARNS LOW IMPACT CERTIFICATION AND QUALIFIES AS RENEWABLE BY THE STATE

Once again, the Lake Chelan Hydro Project has earned recognition for sustainable operations from the Low Impact Hydropower Institute. The project earned the Low Impact Certification for carbon-free power and unique salmon habitat. The project first earned the Low Impact Certification in 2007. The recertification is good through September 2022.

The designation takes into account all of the environmental work done at the 59-megawatt project at the base of Lake Chelan. That includes restoring year-round flow in the Chelan River after 80 years and creating an award-winning habitat that attracts healthy numbers of salmon and steelhead, and offers paddling and fishing for people.

In addition to the certification, the state of Washington now recognizes efficiency gains from turbine upgrades as renewable energy under state I-937 requirements.

PUD BOARD APPROVES AGREEMENTS TO MEET DIAMOND FOUNDRY POWER NEEDS

Chelan County PUD commissioners approved three agreements with Stemilt Growers to accommodate power needs for Diamond Foundry, a gemstone manufacturer setting up new operations with a mission of growing diamonds with net zero carbon footprint. Stemilt is leasing space to Diamond Foundry in Wenatchee.

Under one agreement, a new substation will be constructed to provide up to 19 megawatts of power to Diamond Foundry by a target date of March 2020. Current substation capacity would not meet the increased energy demand. This prompted Stemilt to propose that it build the substation – with design and engineering review by the PUD. While typically, 18 months is required to energize a new substation once transformers are ordered, this project is slated for completion in less than a year.

Two other agreements set up leases to allow for the substation construction. The PUD will lease land to Stemilt to build the substation and Stemilt will lease land to the PUD for storage of utility materials and equipment.

The public-private partnership will create economic development benefits for Chelan County including the creation of 35-50 jobs in Wenatchee supporting customer-owner priorities and strategic planning objectives.

BELOW-AVERAGE WATER SUPPLY

The Northwest River Forecast Center forecasted January-July water supply on the Columbia River to be 81 percent of average at Grand Coulee Dam. Flows for the balance of the year are expected to be below average. Due to the District’s risk management plans, hedging strategies and financial policies, the District expects to meet or exceed financial targets despite the stream flow volatility.

The 2019 water supply forecast for the Lake Chelan drainage basin was 70 percent of average from April 1 through July 31. Lake Chelan Hydro Project operations will continue to follow the dry-to-average year lake level range, which puts the District in a good position to meet all lake level targets for the year. Last year’s actual water supply from April 1 through July 31 was 115 percent of average.

FINANCIAL HIGHLIGHTS

For the six months ended June 30, 2019, Chelan County PUD recorded a change in net position of \$69.9 million, an increase in earnings of \$23.4 million from the same period in 2018. The improvement in earnings is due to increased operating revenues resulting primarily from additional proceeds from a long-term power sales agreement, insurance proceeds from a settlement for large unit repair work at Rocky Reach and higher average market prices received on surplus sales of electricity offset by impacts from low stream flow conditions and unit outages. Retail sales were also higher due to colder winter temperatures compared to the prior year, combined with revenue associated with a new off-system load. Higher operating revenues were partially offset by increased operating expenses, which were up primarily due to increased purchased power costs. Purchased power costs increased because of higher average market prices compared to the prior year.

As of June 30, 2019, combined unrestricted cash and investments totaled \$438.0 million compared to \$439.7 million from the same period in 2018. The \$39.5 million decrease in current assets is due to the maturity of short-term investments that were reinvested for a longer term. The increases of \$56.6 million in restricted assets-noncurrent and \$25.3 million in other assets reflect higher overall cash balances due to the positive operating results and the reinvestment of short-term balances into longer-term investments.

Long-term debt decreased by \$26.0 million due to continued implementation of the District’s 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

Kelly Boyd
 Chief Financial Officer/
 Chief Risk Officer

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

Six months ended June 30, 2019

(in thousands)

	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	6 Months Ended 06/30/19	6 Months Ended 06/30/18
OPERATING REVENUES	\$ 37,368	\$ 57,455	\$ 6,692	\$ 173,017	\$ 4,161	\$ 11,609	\$ (88,259)	\$ 202,043	\$ 175,098
OPERATING EXPENSES	28,009	31,215	3,849	142,086	-	11,967	(88,259)	128,867	122,143
NET OPERATING INCOME (LOSS)	9,359	26,240	2,843	30,931	4,161	(358)	-	73,176	52,955
OTHER INCOME (EXPENSE) (2)	(4,108)	(10,856)	(763)	5,684	3,283	296	-	(6,464)	(9,863)
CAPITAL CONTRIBUTIONS	-	358	-	2,800	-	-	-	3,158	3,398
CHANGE IN NET POSITION	\$ 5,251	\$ 15,742	\$ 2,080	\$ 39,415	\$ 7,444	\$ (62)	\$ -	\$ 69,870	\$ 46,490

CONDENSED COMBINING STATEMENTS OF NET POSITION (Unaudited)

June 30, 2019

(in thousands)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra- District Transactions (1)	06/30/19	06/30/18
TOTAL CURRENT ASSETS	\$ 16,255	\$ 10,100	\$ 2,594	\$ 135,286	\$ 18,802	\$ 14,354	\$ -	\$ 197,391	\$ 236,899
NET UTILITY PLANT	288,960	405,066	87,502	326,739	-	53,633	-	1,161,900	1,108,988
RESTRICTED ASSETS - NONCURRENT	31,614	116,929	-	814	19,490	5,102	-	173,949	117,348
OTHER ASSETS (4)	18,479	17,630	5,127	237,242	47,630	23,374	(12,069)	337,413	312,113
DEFERRED OUTFLOWS OF RESOURCES	1,761	3,984	269	2,662	2,518	101	-	11,295	13,011
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 357,069	\$ 553,709	\$ 95,492	\$ 702,743	\$ 88,440	\$ 96,564	\$ (12,069)	\$ 1,881,948	\$ 1,788,359
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION									
CURRENT LIABILITIES	\$ 18,073	\$ 40,585	\$ 2,277	\$ 27,678	\$ (2,071)	\$ 24,302	\$ -	\$ 110,844	\$ 103,696
INTERSYSTEM PAYABLE (RECEIVABLE) - CURRENT	12,490	(2,169)	(107)	(3,381)	-	(6,833)	-	-	-
LONG-TERM DEBT (3)	107,822	332,882	2,849	(19,859)	(29,950)	69,083	-	462,827	488,781
UNEARNED REVENUES	7,493	7,727	-	121,135	6,661	-	(12,069)	130,947	144,900
OTHER LIABILITIES	18,954	20,243	10,415	14,698	-	-	-	64,310	77,920
TOTAL LIABILITIES	164,832	399,268	15,434	140,271	(25,360)	86,552	(12,069)	768,928	815,297
DEFERRED INFLOWS OF RESOURCES (4)	4,194	29,234	606	8,440	1,888	313	-	44,675	33,365
TOTAL NET POSITION (4)	188,043	125,207	79,452	554,032	111,912	9,699	-	1,068,345	939,697
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & NET POSITION	\$ 357,069	\$ 553,709	\$ 95,492	\$ 702,743	\$ 88,440	\$ 96,564	\$ (12,069)	\$ 1,881,948	\$ 1,788,359

ELECTRIC

As of June 30	2019	2018
Number of Customers	51,816	50,986
Number of Residential Customers	39,159	38,401
YTD Average Residential Rate (Cents/kWh)	3.14	3.16

POWER GENERATION (MWh) (000)

6 months ended June 30	2019	2018
Lake Chelan	148	229
Rocky Reach	2,614	3,520
Rock Island	1,280	1,582

HYDRO PRODUCTION COST/MWH GENERATED (\$/MWh)

6 months ended June 30	2019	2018
Lake Chelan	\$ 28	\$ 19
Rocky Reach	7	11
Rock Island	33	24

NOTES TO CONDENSED STATEMENTS

(1) Intra-District transactions are eliminated.

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

(3) Utility Services receivable consists primarily of unamortized prepaid Internal Service assets.

(4) Includes prior period adjustment for the implementation of GASB 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

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, 2018. 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.