



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.

STRATEGIC PRIORITIES AFFIRMED

District commissioners reviewed business plans in September for the utility's operations and financial forecasts for the next five years and beyond. This broad overview, based on commissioner input, will be used as starting points for developing the 2017 budget and business plans.

While the PUD is still on track to achieve its financial objectives, there have been changes in the overall net revenue picture since the Strategic Plan was approved 18 months ago. The biggest change is due to the declining wholesale energy market impact on District revenues. Most of this impact occurs beyond five years into the future due to the District's power marketing hedging program that reduces revenue volatility. Newly planned investments due to the strategic plan and costs to repair unplanned outages have caused costs to modestly rise from when the Strategic Plan was adopted. Still, the PUD projects positive net revenues for each of the next five years.

To respond to the declining net revenue, the PUD set priorities within its three highest priorities. Reinvesting in assets and people is the highest priority, followed by debt reduction, followed by the Public Power Benefit program. The PUD expects to achieve its goal of being below 35 percent debt ratio by 2019 and is considering maintaining, but not growing, the Public Power Benefit program. Commissioners heard that a return to borrowing for capital projects in the future is consistent with the board's direction on a long-term debt philosophy that focuses on managing liquidity to keep rates low and stable.

HIGH DENSITY LOAD MORATORIUM

In August, PUD commissioners were updated on work being done to put the new high density load (HDL) policy and rate into effect by January 1, 2017. Staff performed extensive outreach to customer groups, local agencies and employees. Staff also recommended at that time to continue the moratorium on HDL connections through December 31, 2016, to coincide with the effective date of the new rate. During the hearing on the moratorium in October, Commissioners extended the moratorium on applications for high

density loads until January 3, 2017, when the moratorium will lift without further board action.

FIBER UPGRADE PROJECT COMPLETED AHEAD OF SCHEDULE

The conversion to support all gigabit speed across the PUD's fiber network finished in September, about nine months ahead of schedule, while keeping disruption of service to a minimum when equipment was changed out.

The replacement project moved the network to speeds 40 times faster than the original equipment installed about 14 years ago. PUD fiber crews replaced over 5,200 connection devices at Chelan County homes and businesses during the approximately \$4 million project that started in August 2014.

In addition to the faster broadband service, the network supports future bandwidth needs as new applications grow and also relieves or eliminates congestion. Plus the new equipment is more reliable, fully supported by the manufacturer and offers advanced diagnostic and monitoring tools.

COMMISSIONERS AMEND CONTRACTS WITH ALCOA, INC.

In late September, Alcoa, Inc. set the date for its separation into two companies, Arconic and Alcoa Corporation (Alcoa Corp.) for November 1, 2016. In October, PUD commissioners agreed to move ahead with signing agreements to reassign the current power contracts with Alcoa Inc. for its Wenatchee smelter to the new entity Alcoa Corp.

When the Alcoa split was first announced nearly a year ago, the District established an internal working group and established the goal that the impact from Alcoa choosing to split would have a neutral to positive impact on PUD customer-owners. The District was particularly concerned with the prospect that the new company holding the smelting assets, Alcoa Corp., would be smaller and less credit-worthy than Alcoa, Inc.

The new agreement provides increased financial protection that goes beyond what was in the original agreement and includes Alcoa Corp. as part of the letter of credit that provides \$86 million of protection against non-payment through July 2017, when the company may owe the District \$67 million if the plant remains curtailed. Beyond that date, the company is providing an additional \$40 million of credit assurance than what was in the original agreement. While no agreement is without risk, the District believes these actions provide fair protection against the increased risk of potential non-payment or bankruptcy as a result of Alcoa's decision to split.

The agreement with Alcoa Corp. still requires that power can only be used at the Wenatchee plant. The financial incentives designed to encourage restart are also retained.

DISTRICT'S BOND RATING REMAINS STRONG

In September, Moody's affirmed the Aa3 rating on the District's outstanding revenue bonds with a stable outlook. The rating agency reported the rating is supported by the District's strong liquidity position at more than 450 days cash on hand, robust risk

management including ongoing hedging program and 40 percent debt reduction since 2009. The rating also reflects the District's considerable long-term exposure to wholesale power prices and hydrology risk, the District's reliance on non-retail revenue to subsidize its retail business, mixed history of its willingness to raise rates and counterparty concentration with a below investment grade entity.

The stable outlook considers the District's forecast of high liquidity, expected debt service ratio around 2.0 or higher on average, significant deleveraging over time and the continuation of its risk management policies including hedging.

FINANCIAL HIGHLIGHTS

For the nine months ended September 30, 2016, the District recorded a change in net position of \$71.3 million, a decrease in earnings of \$7.1 million from the same period in 2015. The decrease in earnings is primarily due to a decrease in wholesale sales. Operation and maintenance expenses increased over the prior year, but were more than offset by a decrease in purchased power costs and reduced long-term debt related costs. Wholesale sales continue to be lower as a result of lower average market prices as compared to the prior year. Operation and maintenance expenses have increased primarily due to long-term repair and rewinding of large unit generators at Rocky Reach. Purchased power costs also are 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. Other expense also decreased as a result of the losses recorded in the prior year as a result of the early retirements of various bond series.

As of September 30, 2016, combined unrestricted cash and investments totaled \$284.2 million compared to \$223.3 million from the same period in 2015. The \$60.9 million increase is attributable to cash generated by the District's positive operating results after paying for debt reduction and capital expenditures. The \$40.2 million increase in Other Assets was due primarily to an increase in long-term investments as a result of the lengthening of investment strategies.

Long-term debt decreased by \$24.3 million from the prior year due to regularly scheduled repayments of bond principal on existing debt.



Kelly Boyd
 Chief Financial Officer/
 Chief Risk Officer



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

Nine months ended September 30, 2016

(in thousands)

	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	9 Months Ended 09/30/16	9 Months Ended 09/30/15
OPERATING REVENUES	\$ 78,214	\$ 74,439	\$ 6,513	\$ 217,172	\$ 7,023	\$ 12,839	\$ (133,546)	\$ 262,654	\$ 281,282
OPERATING EXPENSES	57,171	39,093	5,495	195,442	-	12,771	(133,546)	176,426	175,954
NET OPERATING INCOME	21,043	35,346	1,018	21,730	7,023	68	-	86,228	105,328
OTHER INCOME (EXPENSE) (2)	(8,797)	(17,927)	(935)	3,602	5,086	251	-	(18,720)	(30,234)
CAPITAL CONTRIBUTIONS	-	466	-	3,297	-	-	-	3,763	3,260
CHANGE IN NET POSITION	\$ 12,246	\$ 17,885	\$ 83	\$ 28,629	\$ 12,109	\$ 319	\$ -	\$ 71,271	\$ 78,354

CONDENSED COMBINING STATEMENTS OF NET POSITION (Unaudited)

September 30, 2016

(in thousands)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	09/30/16	09/30/15
TOTAL CURRENT ASSETS	\$ 9,322	\$ 8,390	\$ 1,471	\$ 67,510	\$ 15,585	\$ 4,874	\$ -	\$ 107,152	\$ 72,333
NET UTILITY PLANT	308,104	319,136	90,719	312,458	-	29,199	-	1,059,616	1,053,996
RESTRICTED ASSETS - NONCURRENT	51,111	89,353	-	2,271	22,146	6,093	-	170,974	172,208
OTHER ASSETS	7,358	25,143	6,537	163,701	85,394	15,241	(13,993)	289,381	249,189
DEFERRED OUTFLOWS OF RESOURCES	1,701	4,433	215	2,729	4,804	-	-	13,882	11,558
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 377,596	\$ 446,455	\$ 98,942	\$ 548,669	\$ 127,929	\$ 55,407	\$ (13,993)	\$ 1,641,005	\$ 1,559,284
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION									
CURRENT LIABILITIES	\$ 23,815	\$ 36,799	\$ 2,980	\$ 27,402	\$ (10,309)	\$ 19,331	\$ -	\$ 100,018	\$ 93,094
INTERSYSTEM PAYABLE (RECEIVABLE) - CURRENT	(799)	(87)	(502)	6,012	-	(4,624)	-	-	-
LONG-TERM DEBT	156,280	309,468	8,190	(3,806)	54,546	32,088	-	556,766	581,104
UNEARNED REVENUES	8,669	9,085	-	84,009	8,478	-	(13,993)	96,248	96,643
OTHER LIABILITIES	23,094	24,101	10,262	22,210	-	-	-	79,667	68,089
TOTAL LIABILITIES	211,059	379,366	20,930	135,827	52,715	46,795	(13,993)	832,699	838,930
DEFERRED INFLOWS OF RESOURCES	2,966	31,205	345	6,408	3,771	245	-	44,940	51,927
TOTAL NET POSITION	163,571	35,884	77,667	406,434	71,443	8,367	-	763,366	668,427
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & NET POSITION	\$ 377,596	\$ 446,455	\$ 98,942	\$ 548,669	\$ 127,929	\$ 55,407	\$ (13,993)	\$ 1,641,005	\$ 1,559,284

ELECTRIC

As of September 30	2016	2015
Number of Customers	50,134	49,559
Number of Residential Customers	37,634	37,108
YTD Average Residential Rate (Cents/kWh)	3.26	3.27

POWER GENERATION (MWh) (000)

9 months ended September 30	2016	2015
Lake Chelan	331	307
Rocky Reach	4,430	4,590
Rock Island	2,126	2,300

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

9 months ended September 30	2016	2015
Lake Chelan	\$ 18	\$ 19
Rocky Reach	15	12
Rock Island	27	24

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.