



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 2016, they produced 9.3 million megawatt hours of affordable, emission-free electricity.

FITCH AFFIRMS DISTRICT'S AA+ RATING

Fitch Ratings affirmed the District's AA+ rating and stable outlook. Key strengths included the District's valuable hydro generation, risk management of the District's cost-based and market-based wholesale sales, rapid debt reduction and strong financial performance.

DISTRICT CONTINUES TO PAY DOWN DEBT AS PART OF STRATEGY TO KEEP FINANCES STRONG

In July, the District's net debt was reduced by another \$52 million as planned. Principal payments made July 1 put the District's ratio of debt to equity at 38 percent and keeps the PUD on track to achieve the target of less than 35 percent by 2019. In addition, the District continued to pay for capital improvements with cash while keeping the District in a strong financial position.

Reducing District debt was identified by customers and confirmed by Commissioners as a strategic priority. By the end of 2017, debt is forecast to be about \$537 million, a significant reduction from its peak in 2010 when it topped \$1 billion.

TWO NEW POWER CONTRACTS WILL ADD \$40 MILLION TO FORECASTED BOTTOM-LINE

Two new power sales contracts will boost forecasted District revenue by \$40 million for 2019-2030. Each sale is for a 5-percent "slice" of power generated at Rocky Reach and Rock Island dams.

The sales for five years to Avangrid Renewables LLC of Portland, Oregon, starting in 2019 and for ten years to Avista Corporation based in Spokane, Washington, starting in 2021 extend the District's successful hedging strategy that returns value to customer-owners by locking in revenue, reducing risk from price swings in the wholesale market, variable stream-flow and from operations, which help keep electric rates stable.

DISTRICT BUYING LAND FOR NEW SUBSTATION TO SERVE OLDS STATION

Commissioners approved purchase of a 1-acre parcel in Wenatchee's Olds Station industrial area for a new substation that is close to the load center and saves the District on development costs.

Stemilt Growers agreed to provide the site for a substation in exchange for future capacity of up to 5 megawatts from the planned 28-megawatt facility. The fruit growing and packing operation will continue to pay for the power it uses per District rates. The family-owned fruit business is expanding operations in Olds Station and had level land available that's well-located for a new substation near the area's growing load center.

The new substation will replace the Olds Station Substation, built in 1979. That station is at 90-percent capacity with aging equipment and not enough room to increase capacity at the current location. Plans are to build the new substation in 2018-19.

LAKE CHELAN WATER RIGHTS AGREEMENTS APPROVED

Commissioners approved two agreements related to the Lake Chelan water rights reserve between the Chelan PUD and the Washington State Department of Ecology. The agreements are an important step to move the process forward and to ensure an annual accounting for the Lake Chelan Water Reserve.

This action allows Ecology to begin assessing and processing long-standing water permit applications for the Lake Chelan Water Basin. The agreements protect Chelan PUD's hydropower water right for the Lake Chelan Hydro Project and establish an estimated number for the remaining amount available for water rights. In addition, it establishes an annual accounting by Ecology of remaining water, based on the agreed-to methodology to update the amount available.

FIVE-YEAR BUSINESS PLANS AND FINANCIAL FORECASTS REVIEWED

Commissioners reviewed detailed business plans and projected financial results for the next five years. The result is a forecast showing the District meeting its financial targets through 2022.

Goals for 2018-2022 will guide staff planning, including key initiatives:

- Refurbishment of hydro turbines at Rocky Reach and Rock Island dams
- New systems to provide customers better information
- Investments to serve new and existing customer electric load growth

FINANCIAL HIGHLIGHTS

For the nine months ended September 30, 2017, Chelan County PUD recorded a change in net position of \$83.4 million, an increase in earnings of \$12.1 million from the same period in 2016. The increase in earnings is primarily due to increases in retail sales and other operating revenues, partially offset by increased operating expenses. Retail sales are higher due to increased consumption as a result of colder winter weather with average degree days being 6 percent lower than the prior year combined with a new rate class for high density load sales which was effective January 1, 2017. Other operating revenues are up due to receipt of a one-time long-term power sales contract payment that was recorded during the second quarter of 2017. Primary drivers of increased operating expenses are higher average market prices for purchased power and higher tax expense resulting from increased retail revenues.

As of September 30, 2017, combined unrestricted cash and investments totaled \$328.8 million compared to \$284.2 million from the same period in 2016. The increase in unrestricted reserves is primarily attributable to cash generated by the District's positive operating results after paying for debt reduction and capital expenditures out of cash reserves. The \$20.9 million decrease in Other Assets was due primarily to a decrease in long-term investments as a result of holding more short-term investments to meet anticipated future cash flow needs.

Long-term debt decreased by \$52.9 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

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, 2017

(in thousands)

	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	9 Months Ended 09/30/17	9 Months Ended 09/30/16
OPERATING REVENUES	\$ 74,616	\$ 74,890	\$ 6,324	\$ 235,266	\$ 6,284	\$ 14,263	\$ (135,062)	\$ 276,581	\$ 262,654
OPERATING EXPENSES	55,288	39,346	5,464	201,888	-	14,330	(135,062)	181,254	176,426
NET OPERATING INCOME	19,328	35,544	860	33,378	6,284	(67)	-	95,327	86,228
OTHER INCOME (EXPENSE) (2)	(8,182)	(17,201)	(1,332)	4,579	4,898	266	-	(16,972)	(18,720)
CAPITAL CONTRIBUTIONS	-	916	-	4,112	-	-	-	5,028	3,763
CHANGE IN NET POSITION	\$ 11,146	\$ 19,259	\$ (472)	\$ 42,069	\$ 11,182	\$ 199	\$ -	\$ 83,383	\$ 71,271

CONDENSED COMBINING STATEMENTS OF NET POSITION (Unaudited)

September 30, 2017

(in thousands)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	09/30/17	09/30/16
TOTAL CURRENT ASSETS	\$ 11,437	\$ 12,445	\$ 2,834	\$ 105,963	\$ 28,151	\$ 9,366	\$ -	\$ 170,196	\$ 107,152
NET UTILITY PLANT	300,236	346,528	89,040	316,281	-	31,209	-	1,083,294	1,059,616
RESTRICTED ASSETS - NONCURRENT	51,719	66,498	-	2,714	19,111	5,259	-	145,301	170,974
OTHER ASSETS	6,541	17,771	5,480	165,016	73,580	13,389	(13,283)	268,494	289,381
DEFERRED OUTFLOWS OF RESOURCES	3,127	5,664	403	4,594	3,809	-	-	17,597	13,882
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 373,060	\$ 448,906	\$ 97,757	\$ 594,568	\$ 124,651	\$ 59,223	\$ (13,283)	\$ 1,684,882	\$ 1,641,005
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION									
CURRENT LIABILITIES	\$ 20,809	\$ 34,273	\$ 2,654	\$ 22,010	\$ (6,086)	\$ 21,188	\$ -	\$ 94,848	\$ 100,018
INTERSYSTEM PAYABLE (RECEIVABLE) - CURRENT	(1,614)	(882)	259	7,776	-	(5,539)	-	-	-
LONG-TERM DEBT	140,447	292,755	6,708	(5,711)	34,848	34,868	-	503,915	556,766
UNEARNED REVENUES	8,197	8,616	-	82,869	7,853	-	(13,283)	94,252	96,248
OTHER LIABILITIES	26,832	27,405	10,966	25,830	-	-	-	91,033	79,667
TOTAL LIABILITIES	194,671	362,167	20,587	132,774	36,615	50,517	(13,283)	784,048	832,699
DEFERRED INFLOWS OF RESOURCES	391	25,932	49	1,973	1,301	25	-	29,671	44,940
TOTAL NET POSITION	177,998	60,807	77,121	459,821	86,735	8,681	-	871,163	763,366
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & NET POSITION	\$ 373,060	\$ 448,906	\$ 97,757	\$ 594,568	\$ 124,651	\$ 59,223	\$ (13,283)	\$ 1,684,882	\$ 1,641,005

ELECTRIC

As of September 30	2017	2016
Number of Customers	50,566	50,134
Number of Residential Customers	38,045	37,634
YTD Average Residential Rate (Cents/kWh)	3.18	3.26

POWER GENERATION (MWh) (000)

9 months ended September 30	2017	2016
Lake Chelan	323	331
Rocky Reach	4,765	4,430
Rock Island	2,253	2,126

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

9 months ended September 30	2017	2016
Lake Chelan	\$ 18	\$ 18
Rocky Reach	13	15
Rock Island	25	27

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, 2016. 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.