



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 2017, they produced 9.3 million megawatt hours of affordable, emission-free electricity.

CHELAN PUD CELEBRATES REACHING KEY FINANCIAL MARK

Chelan County PUD, rated as one of the financially strongest public utilities in the country, has achieved another of its goals: a debt ratio below 35 percent.

The goal was achieved a year ahead of schedule. The target was set to reduce the debt ratio to less than 35 percent by 2019. It is one of four key measures established as indicators of the PUD's financial strength. The PUD's consistently strong financial results already exceed the other targets.

Chelan PUD has cut its debt nearly in half since 2010 when it had over \$1 billion in debt outstanding. The PUD has followed an aggressive debt reduction plan by accelerating debt repayments and paying for capital expenditures out of cash reserves, while maintaining its strong financial position. Reducing debt is a strategic priority, and responds to our customer-owners' request that it be paid down.

Meeting this goal benefits our customer-owners by keeping utility rates low. A lower debt balance also gives the District flexibility to meet financial challenges such as paying for repairs of aging dam turbines and generators and managing for lower wholesale market prices. Credit rating agencies have responded by raising the District's credit rating to reflect our solid financial position.

CRYPTOCURRENCY RATES GET NOVEMBER HEARING

Chelan County PUD commissioners set a November hearing to consider proposed cryptocurrency rates that reflect the cost of buying variable-priced market power and assures cost recovery for any new infrastructure investments. Rates must be decided before a moratorium on new cryptocurrency hookups can be lifted.

If the commission approves rates and ends the moratorium, PUD staff could begin reviewing applications in December.

Considerations for the November hearing include:

- How much to charge cryptocurrency and blockchain customers for power and access to power.
- When the new rates will be implemented. PUD staff recommends a two-step phase-in of the rates — in April 2019 and April 2020 — timed to coincide with an upgrade of the District's billing system now underway.
- When to start processing current applications, including those idled since the moratorium was called in March.

PUD staff recommended a rate structure for residential and non-residential cryptocurrency users that includes an upfront charge covering distribution and transmission infrastructure costs, as well as a three-part monthly rate that includes:

- A tiered basic charge.
- A demand charge.
- An energy rate based on market value.

The effective monthly rate would result in miners in residential areas paying about 8 cents per kilowatt hour in April 2019 and 10.5 cents per kilowatt hour by April 2020, up from about 5 cents now. Miners in commercial or industrial areas would pay about 6.5 cents per kilowatt hour rather than 4 cents.

In addition to setting the rate and implementation date, the commissioners will likely decide how and when to lift the moratorium.

CHELAN PUD APPROVES FUNDING TO CONTINUE COHO REINTRODUCTION EFFORT

Chelan County PUD entered into a 15-year contract with the Yakama Nation to continue coho recovery efforts. Chelan PUD and the Yakama Nation have had an agreement for the past ten years to conduct a pilot program for the reintroduction of coho salmon into the Rock Island and Rocky Reach reservoirs. This agreement fully implements that program and gives the PUD Habitat Conservation Plans (HCP) long-term certainty for protecting coho salmon.

Under the agreement, the Yakama Nation will continue its work to reestablish naturally spawning coho populations in the mid-Columbia tributaries to biologically sustainable levels and to provide significant harvest in most years. Chelan PUD will provide nearly \$10 million in funding over the life of the agreement.

The proposed contract provides for the PUD to join the Bonneville Power Administration (BPA), along with Grant and Douglas PUDs to provide for the reintroduction of coho. All of the signatories to the PUD's HCP have endorsed this proposal.

The HCPs are an obligation Chelan PUD has to satisfy salmon and steelhead protection under its Federal Energy Regulatory Commission (FERC) licenses for Rocky Reach and Rock Island Dams.

FINANCIAL HIGHLIGHTS

For the nine months ended September 30, 2018, Chelan County PUD recorded a change in net position of \$77.4 million, a decrease in earnings of \$6.0 million from the same period in 2017. Wholesale sales are up, contributing to an increase in overall operating revenues compared to the prior year. However, increased wholesale revenue is offset by an increase in purchased power expense, resulting in net wholesale activity that is comparable to the prior year. The reduced change in net position is primarily driven by lower retail sales and higher operating expenses compared to last year. Retail sales are lower due to reduced consumption resulting from milder winter temperatures compared to the prior year. Higher operating expenses are primarily driven by increased regulatory, technology and evolving business needs, as well as, increased maintenance at the District's Rock Island hydroelectric project.

As of September 30, 2018, combined unrestricted cash and investments totaled \$444.4 million compared to \$328.8 million from the same period in 2017. The increase in unrestricted reserves is primarily attributable to receipt of a \$62 million long-term power sales agreement payment in June 2018 plus cash generated by the District's positive operating results after paying for debt reduction and capital expenditures out of cash reserves. The \$52.0 million increase in current assets and the \$64.1 million increase in other assets are primarily due to an increase in investments resulting from higher overall cash and investment balances.

Unearned revenues increased by \$47.1 million primarily due to the above-mentioned long-term power contract payment that will be recognized over the remaining term of the agreement. Long-term debt decreased by \$25.6 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)

Nine months ended September 30, 2018

(in thousands)

	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	9 Months Ended 09/30/18	9 Months Ended 09/30/17
OPERATING REVENUES	\$ 67,783	\$ 76,973	\$ 9,165	\$ 246,424	\$ 5,533	\$ 15,346	\$ (139,924)	\$ 281,300	\$ 276,581
OPERATING EXPENSES	50,720	42,781	7,681	218,010	-	15,877	(139,924)	195,145	181,254
NET OPERATING INCOME	17,063	34,192	1,484	28,414	5,533	(531)	-	86,155	95,327
OTHER INCOME (EXPENSE) (2)	(7,279)	(16,304)	(1,231)	5,817	4,725	400	-	(13,872)	(16,972)
CAPITAL CONTRIBUTIONS	-	489	-	4,601	-	-	-	5,090	5,028
INTERFUND EQUITY TRANSFERS	(4,000)	4,000	-	-	-	-	-	-	-
CHANGE IN NET POSITION	\$ 5,784	\$ 22,377	\$ 253	\$ 38,832	\$ 10,258	\$ (131)	\$ -	\$ 77,373	\$ 83,383

CONDENSED COMBINING STATEMENTS OF NET POSITION (Unaudited)

September 30, 2018

(in thousands)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	09/30/18	09/30/17
TOTAL CURRENT ASSETS	\$ 12,312	\$ 13,886	\$ 2,771	\$ 139,682	\$ 40,790	\$ 12,738	\$ -	\$ 222,179	\$ 170,196
NET UTILITY PLANT	294,527	380,285	88,102	321,620	-	34,103	-	1,118,637	1,083,294
RESTRICTED ASSETS - NONCURRENT	47,433	44,847	-	1,051	18,031	4,890	-	116,252	145,301
OTHER ASSETS	7,580	15,844	4,618	215,657	84,097	17,433	(12,621)	332,608	268,494
DEFERRED OUTFLOWS OF RESOURCES	2,068	4,371	248	3,029	3,061	-	-	12,777	17,597
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 363,920	\$ 459,233	\$ 95,739	\$ 681,039	\$ 145,979	\$ 69,164	\$ (12,621)	\$ 1,802,453	\$ 1,684,882
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION									
CURRENT LIABILITIES	\$ 17,636	\$ 37,585	\$ 2,926	\$ 24,624	\$ (2,961)	\$ 21,601	\$ -	\$ 101,411	\$ 94,848
INTERSYSTEM PAYABLE (RECEIVABLE) - CURRENT	(1,188)	(1,023)	(963)	8,920	-	(5,746)	-	-	-
LONG-TERM DEBT (3)	125,865	274,793	5,029	(11,216)	40,695	43,125	-	478,291	503,915
UNEARNED REVENUES	7,767	8,190	-	130,836	7,228	-	(12,621)	141,400	94,252
OTHER LIABILITIES	23,082	23,752	10,860	20,245	-	-	-	77,939	91,033
TOTAL LIABILITIES	173,162	343,297	17,852	173,409	44,962	58,980	(12,621)	799,041	784,048
DEFERRED INFLOWS OF RESOURCES	2,281	25,648	273	4,509	20	102	-	32,833	29,671
TOTAL NET POSITION	188,477	90,288	77,614	503,121	100,997	10,082	-	970,579	871,163
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & NET POSITION	\$ 363,920	\$ 459,233	\$ 95,739	\$ 681,039	\$ 145,979	\$ 69,164	\$ (12,621)	\$ 1,802,453	\$ 1,684,882

ELECTRIC

As of September 30	2018	2017
Number of Customers	51,179	50,566
Number of Residential Customers	38,583	38,045
YTD Average Residential Rate (Cents/kWh)	3.22	3.18

POWER GENERATION (MWh) (000)

9 months ended September 30	2018	2017
Lake Chelan	255	323
Rocky Reach	4,817	4,765
Rock Island	2,181	2,253

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

9 months ended September 30	2018	2017
Lake Chelan	\$ 32	\$ 18
Rocky Reach	12	13
Rock Island	27	25

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.

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, 2017. 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.