

2019 Budget Presentation

Our plan for delivering value to our customers



Powering our way of life.

Topics covered

1. Budget Process
2. Summary of Results – Base
3. Scenarios





Key Takeaways:

- Dedicated to increasing value for Grant PUD customers.
- Improved financial health provides the opportunity to reduce future rate trajectory.
- Preserving and improving financial health increases value for current and future customers:
 - Investment in assets to maintain low-cost, reliable power.
 - Investment in technology is key to future delivering efficiencies.
 - Continued focus on containing controllable costs.

01

**2019 Budget Process & Major
Budget Initiatives**



2019 Budget aligned with customers' top priorities:

- Providing reliable electric power with few outages.
- Keeping electric prices as low as possible.
- Providing real-time information on energy use and outages.

Source: 2017 Customer Satisfaction Survey





Major budget initiatives undertaken in 2018:

1. Financial Position:
 - District Leverage – Intergenerational Fairness Study
 - Reserve Requirements – Liquidity Study
2. Detailed 10-year Budget View
3. Technology Roadmap

Intergenerational Fairness

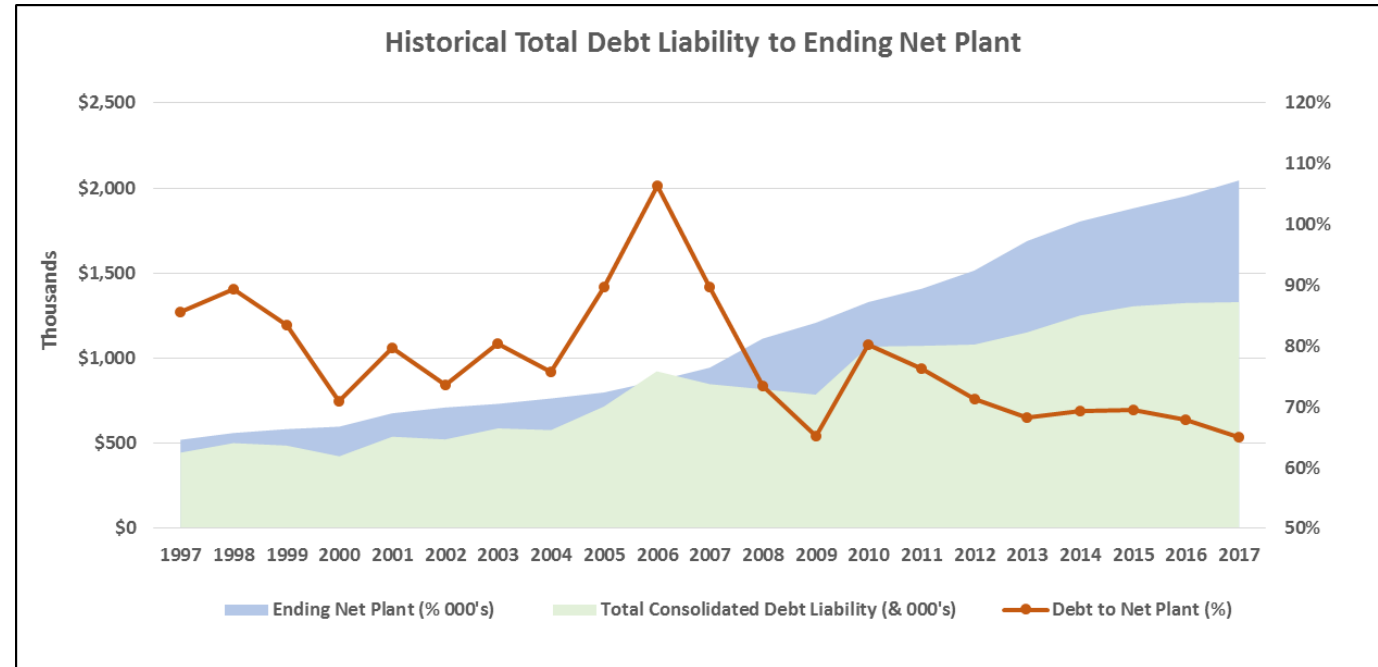
What: Intergenerational fairness in rates is the desire to have fair and equitable rates between generations.

How: This is achieved by having customers pay for the cost to serve them. In the utility world with large, long-lived capital investments, this means that assets are typically paid for over an extended period of time so that the customer pays for the asset while the asset is providing the service that is being consumed.

Outcome: Financing our capital portfolio is a tool that achieves the following outcomes:

- Spreads costs over time
- Avoids rate shock and volatility
- Ensures equity for between current and future rate payers

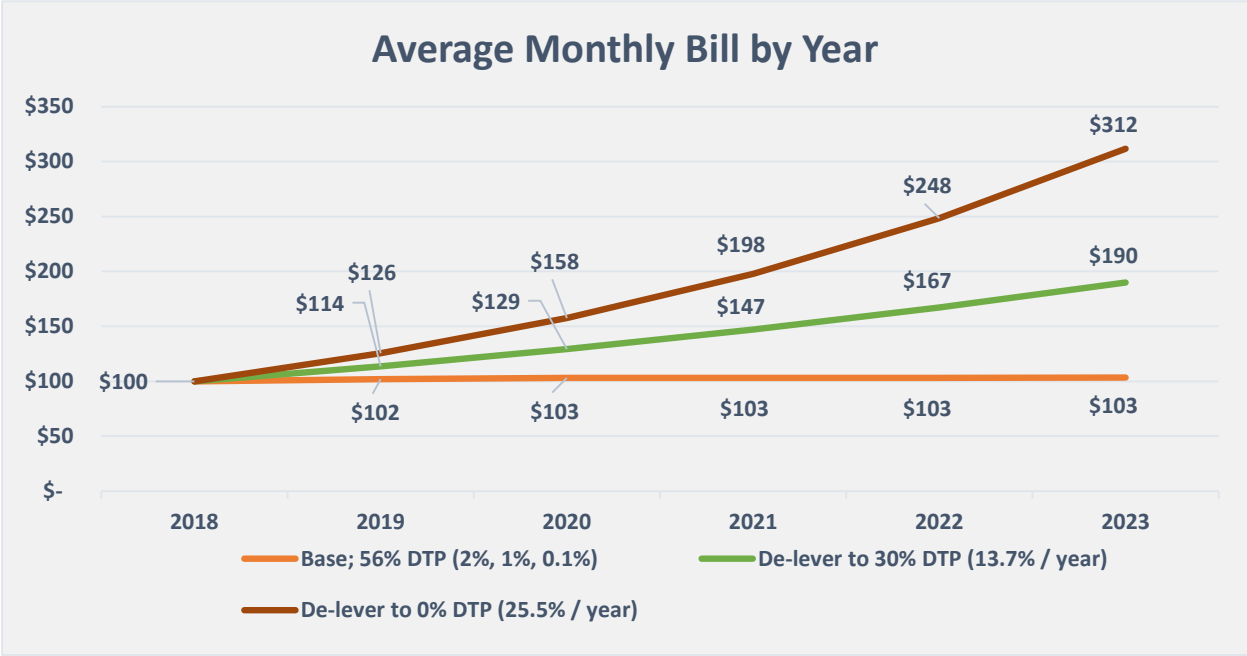
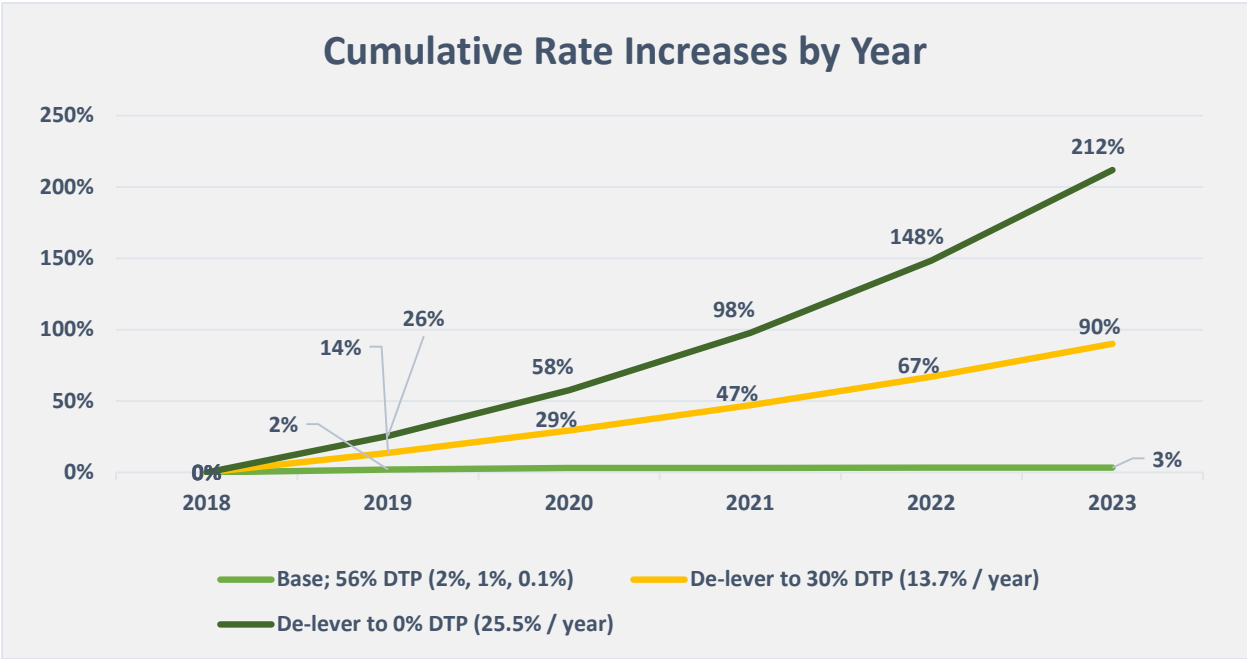
Personal Example: Home Mortgage



Utility Example: A 50-year life turbine. This asset could be paid for immediately for cash from rate increases or can be spread out via debt over a prolonged time such as 30 or 50 years. Opting for the former places a rate burden on current customers since it will need to be paid for all at once with cash and reduces rates for future customers. This could be deemed a gift from a generational perspective.

Intergenerational Fairness

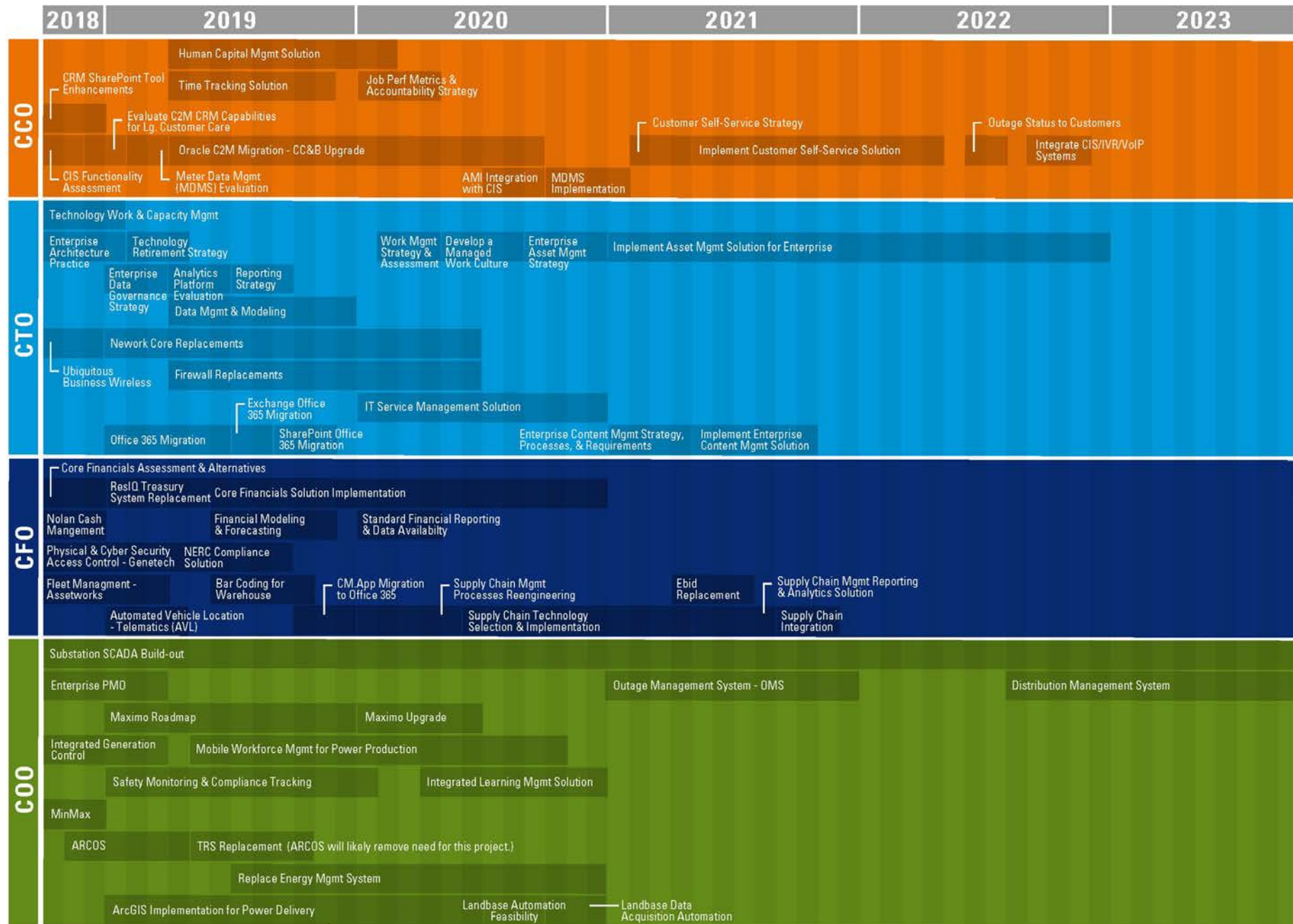
- Study results recommend a leverage target of 56-58%
- Other leverage levels could be pursued.
 - Decreasing the leverage levels to 30% over a 5 year period requires an annual rate increase of 13.7%/year, with a total cumulative rate impact of 90%
 - Decreasing leverage levels to 0% over a 5 year period requires an annual rate increase of 25.5%/year, with a total cumulative rate impact of 212%
- Illustrative impacts on an average monthly bill that is \$100 in 2018 are reflected in the chart
- All projections based on current load growth forecast



Technology Roadmap Project

- Five-year technology investment roadmap.
- Achieve commission and business goals while considering financial and personnel constraints.
- Prioritize projects to address needs within an efficient and cost-effective technology architecture.
- Total of 68 projects and initiatives
 - Strategic – Significant improvement in capability
 - Risk Mitigating – Add/improve controls
 - Operating – Life-cycle maintenance/updates

TECHNOLOGY ROADMAP BY FUNCTIONAL AREA



Technology Roadmap

Sample Projects / Expected Benefits

ARCOS

- Payback in less than 6 months.
- Significant “windshield time” reduction resulting in reduced fuel use, faster response times, material increase in available work time.
- Eliminates end of life trouble reporting solution.

Core Network and Firewall Replacements

- Greatly improves network and information security capabilities.
- Improves network reliability and resilient business and power operations.
- Expands management automation of devices.
- Eliminates end of life equipment.

Assetworks Fleet Management

- Reduced fuel use and reduced low value “windshield time” via improved route planning.
- Fleet right-sizing, improved availability and extended usable life through faster fault identification, repair and improved maintenance.

Maximo / Time Tracking Solution

- Elimination of paper timesheets and the need for multiple FTRs to process and re-key payroll.
- Substantial improvement in the availability and access to work order details, cost and effort.
- Enable historical analysis of prior work to improve planning and budgeting for future work.
- Improved record accuracy and research access.

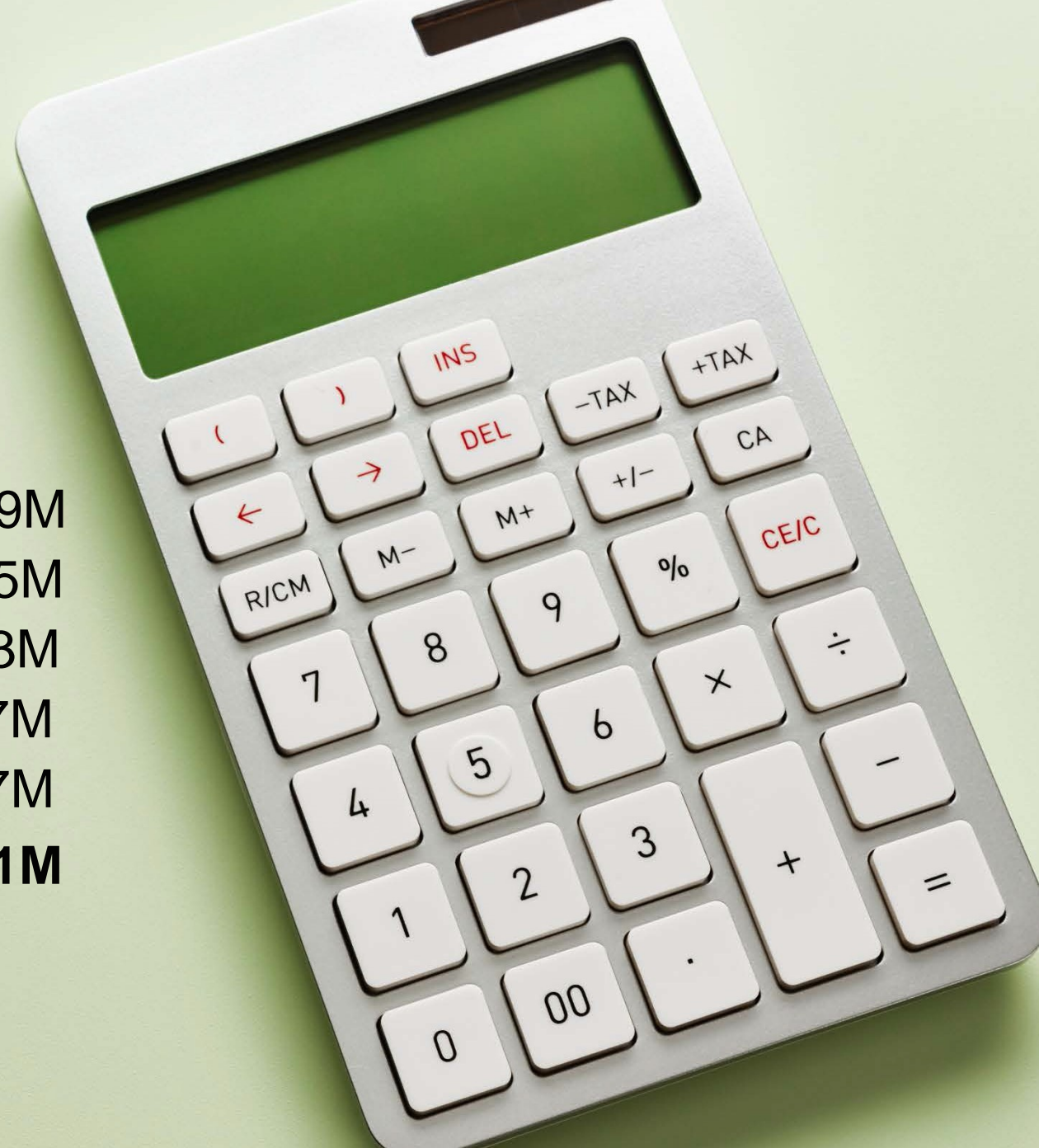
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Summary of Results

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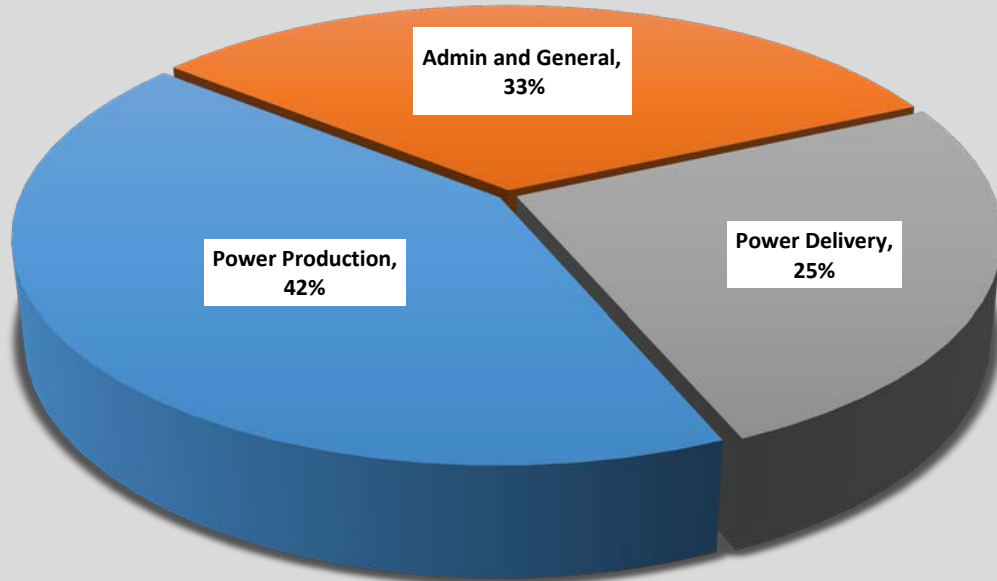
Total expenses for 2019 (before offsets)

1. Operations & Maintenance.....	\$121.9M
2. Debt Service (net of rebates).....	\$87.5M
3. Priest Rapids Project Capital.....	\$81.3M
4. Electric System Capital.....	\$50.7M
5. Taxes.....	\$17.7M
Total.....	\$359.1M

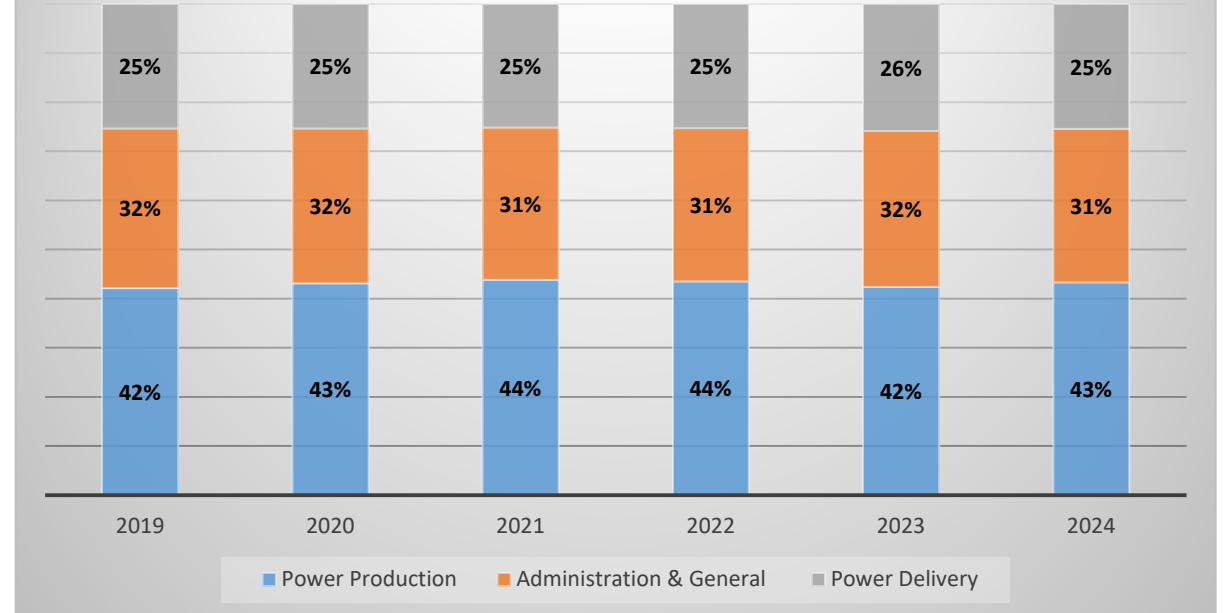


Operations and Maintenance Expense

2019 O&M Splits by Org



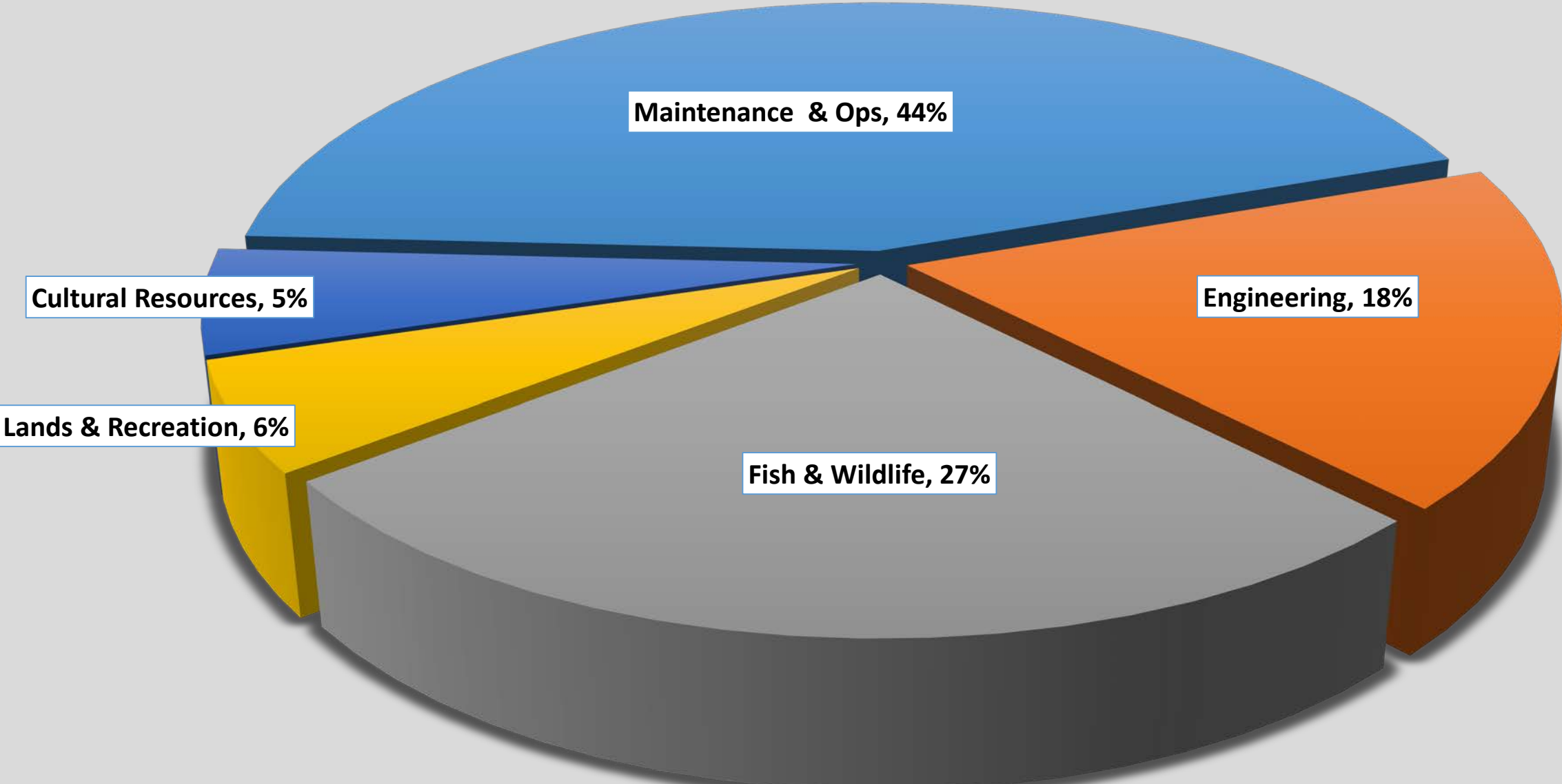
5 Year O&M Splits by Program



- Operations and maintenance (O&M) expense includes both labor and operating expenses, net of labor to capital.
- Total 2019 O&M of \$121.9M can be reviewed programmatically in three categories.
- Split by program over a five-year period remains largely unchanged.

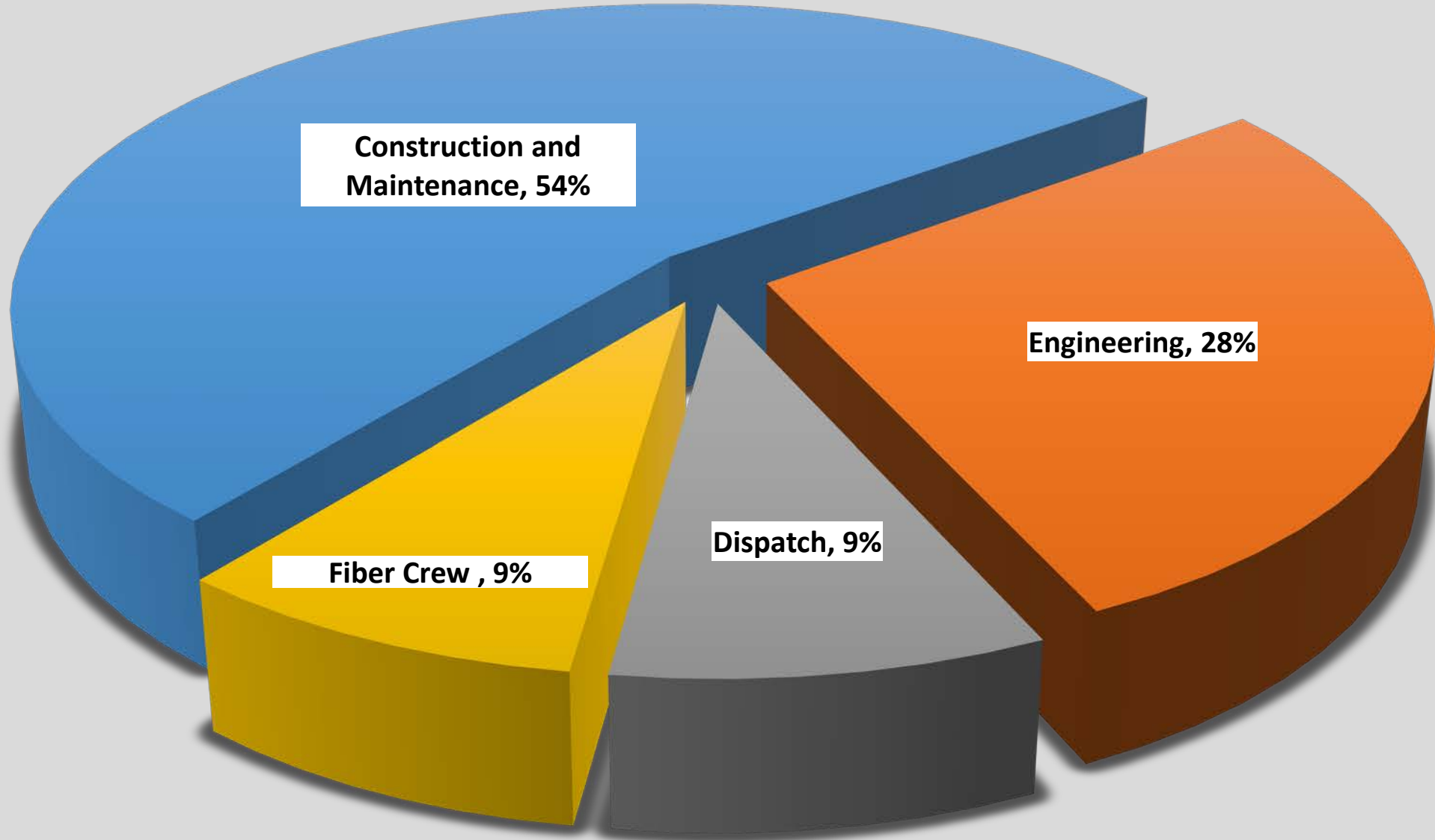
2019 Power Production - O&M Program Splits

\$51.2 million or 42% of budget



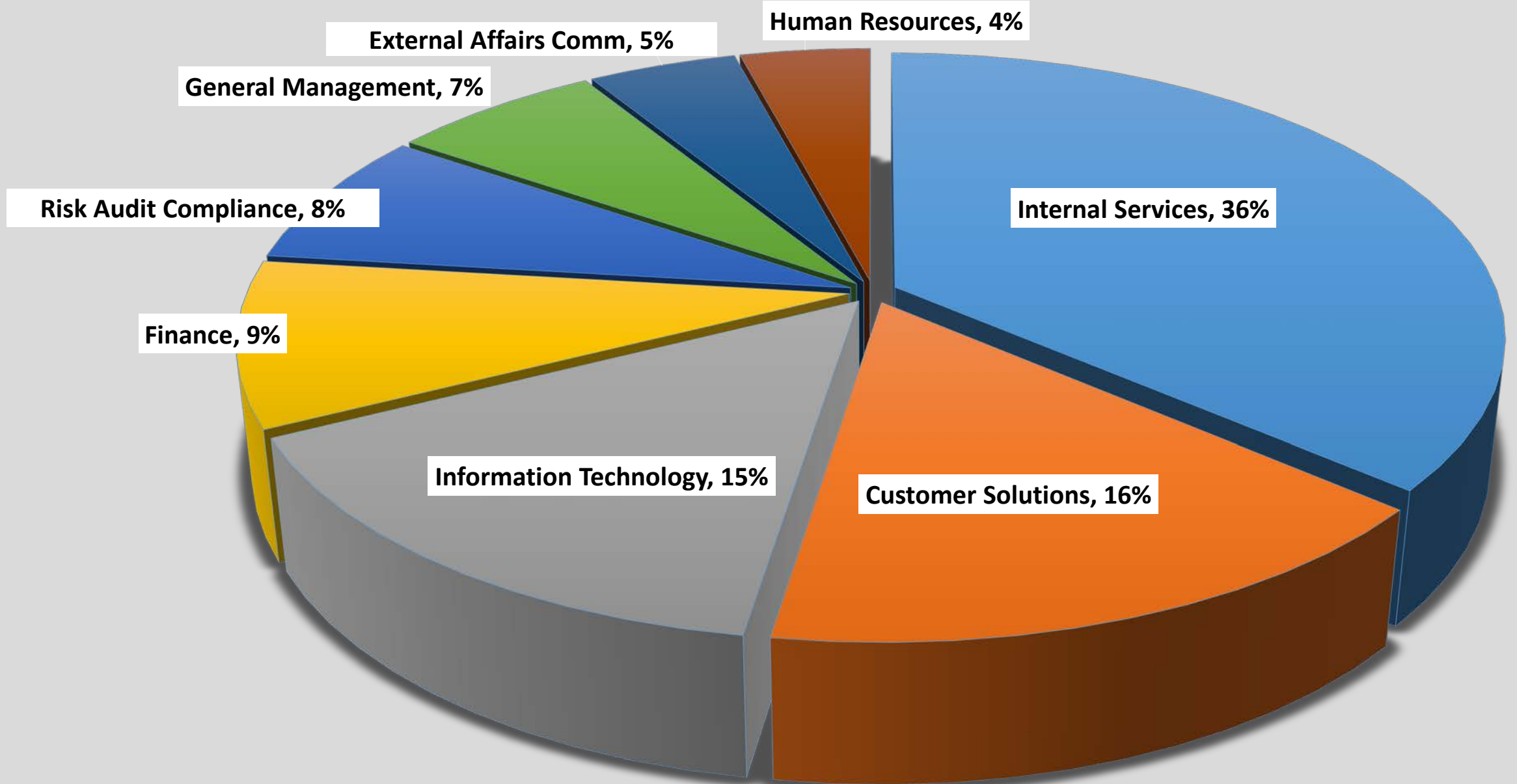
2019 Power Delivery - O&M Program Splits

\$30.5 million or 25% of budget



2019 Admin & General - O&M Program Splits

\$40.2 million or 33% of budget





Electric System Capital:


\$50.7 million in 2019

Largest projects:

1. Substations expansion (\$10.7M)
2. Enterprise technology (\$7.2M)
3. Fiber customers connections (\$3.1M) and 2018 rollover expansion (\$2.7M)*
4. Fleet replacement program (\$2.8M)
5. Distribution feeder lines (\$2.8M)

*Additional expansion TBD

Note: Individual project costs exclude Internal Labor



Priest Rapids Project Capital:

\$81.3 million in 2019.

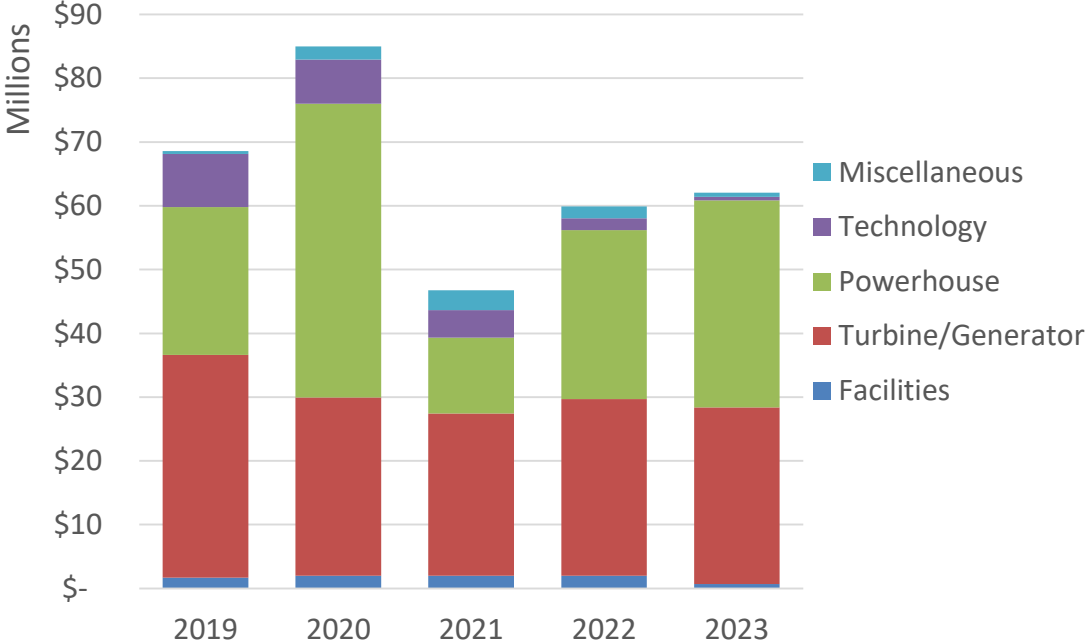
Largest projects:

1. Priest Rapids turbine upgrade (\$18.0M)
2. Wanapum & Priest Rapids generator upgrade (\$16.8M)
3. Priest Rapids embankment improvements (\$8.8M)
4. Priest Rapids spillway improvements (\$5.6M)
5. Priest Rapids Dam unit controls (\$1.7M)

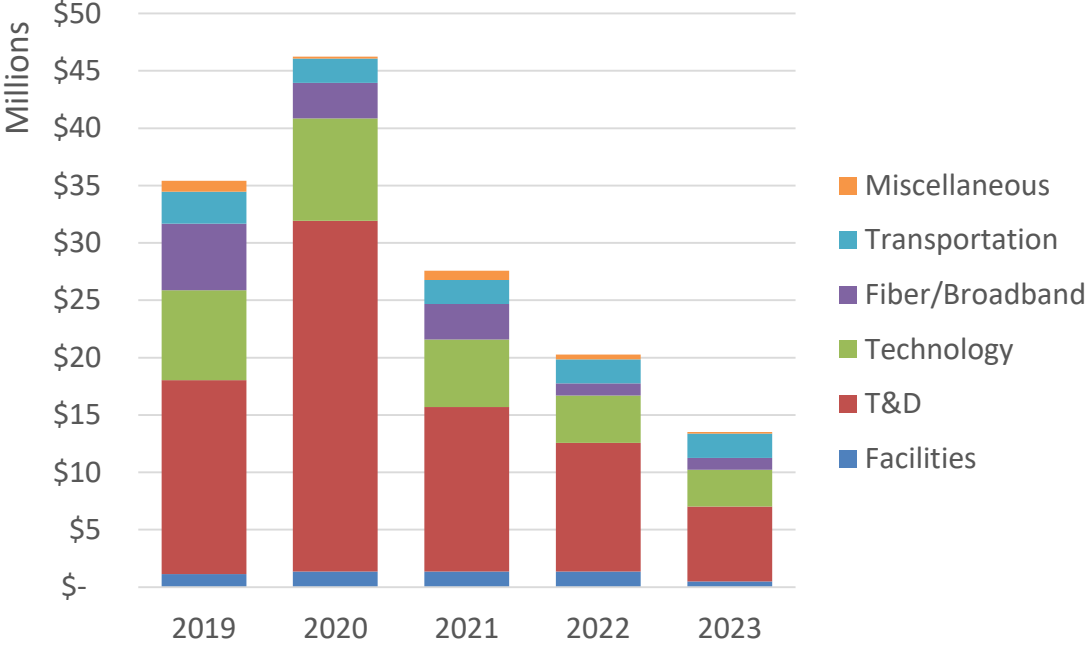
Note: Individual project costs exclude Internal Labor

5-Year Capital Plan by System

PRP



ELEC



2019-2023 Capital Expenditures (Directs in \$M)	
Uses of Funds	
Facilities (3%)	9
Turbine/Generator (45%)	152
Powerhouse/Spillway (43%)	149
Technology (7%)	23
Miscellaneous (3%)	9
Total	\$341

2019-2023 Capital Expenditures (Directs in \$M)	
Uses of Funds	
Facilities (4%)	6
Transmission & Distribution (56%)	83
Technology (21%)	31
Fiber/Broadband (10%)	15
Transportation (8%)	12
Miscellaneous (2%)	3
Total	\$150

Note: T&D Category is adjusted for estimated CIAC to reflect PUD portion of cost, \$'s reflect direct Costs excludes capitalized labor



Debt Service (net of rebates):

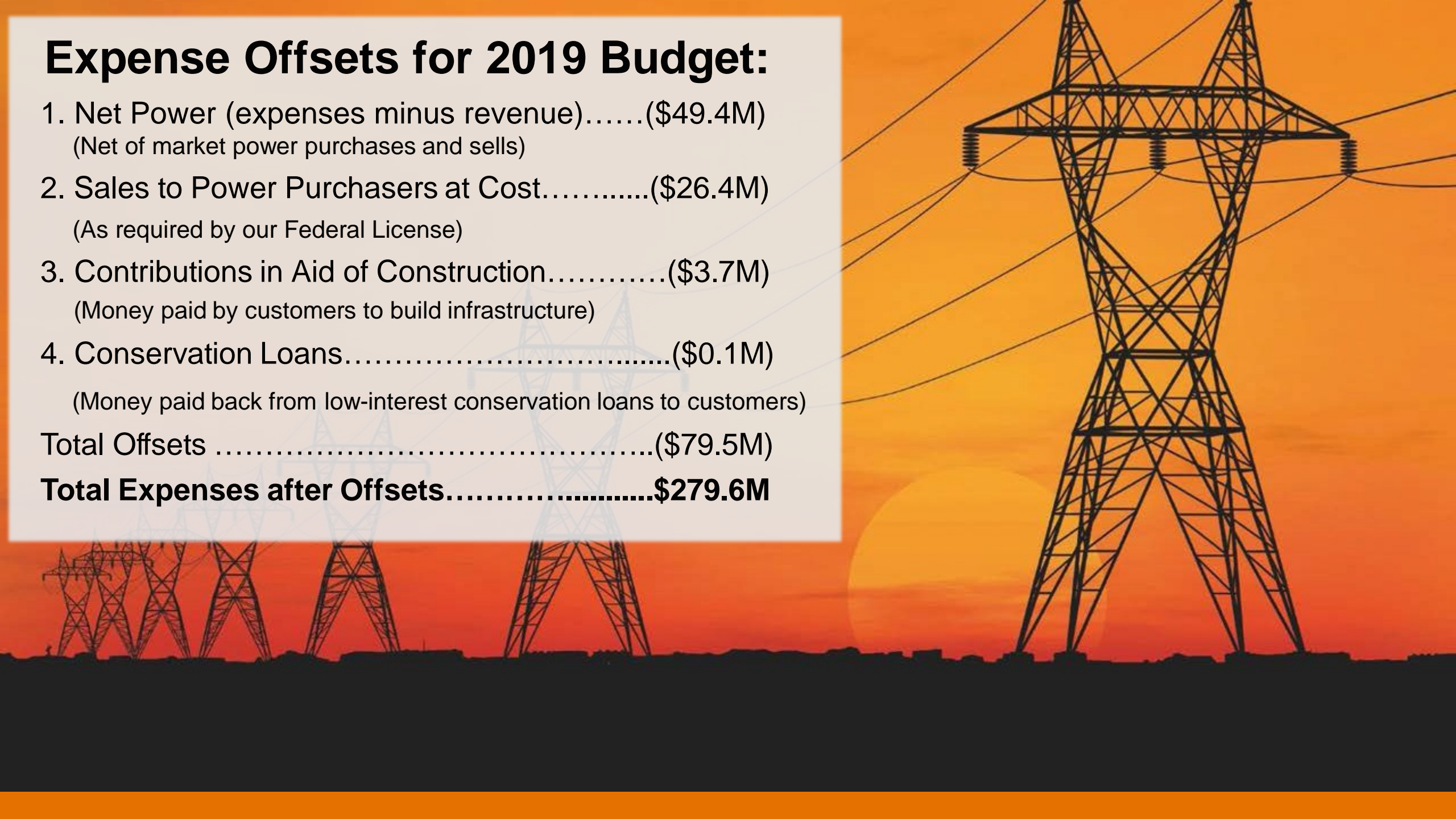
- \$87.5 million in 2019

Taxes:

- \$17.7 Million in 2019

Expense Offsets for 2019 Budget:

1. Net Power (expenses minus revenue).....	(\$49.4M)
(Net of market power purchases and sells)	
2. Sales to Power Purchasers at Cost.....	(\$26.4M)
(As required by our Federal License)	
3. Contributions in Aid of Construction.....	(\$3.7M)
(Money paid by customers to build infrastructure)	
4. Conservation Loans.....	(\$0.1M)
(Money paid back from low-interest conservation loans to customers)	
Total Offsets	(\$79.5M)
Total Expenses after Offsets.....	\$279.6M



Preliminary Budget Summary – Total Expenditures

<i>figures in thousands of \$</i>	Actuals	Forecast					
	2017	2018	2019	2020	2021	2022	2023
TOTAL O&M	116,324	114,766	121,945	127,639	131,305	134,752	136,157
TAXES	16,283	16,698	17,712	18,679	19,355	19,979	20,479
ELECTRIC CAPITAL	55,525	43,517	50,676	63,437	45,524	38,889	32,664
PRP CAPITAL	105,630	84,007	81,278	100,737	63,140	79,413	84,395
DEBT SERVICE (net of rebates)	89,328	87,266	87,533	89,223	91,977	91,678	87,379
TOTAL EXPENDITURES	383,091	346,254	359,143	399,716	351,302	364,710	361,073
Expenditure offsets for deduction							
Contributions in Aid of Construction	(10,649)	(11,104)	(3,652)	(1,202)	(1,207)	(1,212)	(1,218)
Sales to Power Purchasers at Cost	(41,790)	(24,870)	(26,379)	(22,086)	(16,479)	(15,075)	(14,820)
Net Power (+ Expense, - Revenue)	(54,753)	(58,403)	(49,383)	(47,999)	(61,536)	(58,838)	(54,000)
Conservation Loans	(47)	(125)	(125)	(125)	(125)	(125)	(125)
TOTAL EXPENDITURE OFFSETS	(107,239)	(94,502)	(79,539)	(71,411)	(79,347)	(75,251)	(70,163)
TOTAL BUDGETED EXPENDITURES	275,852	251,752	279,604	328,305	271,955	289,459	290,910

Preliminary Budget Summary – Net Position & Key Metrics

<i>figures in thousands of \$</i>	Actuals	Forecast					
	2017	2018	2019	2020	2021	2022	2023
CONSOLIDATED OPERATIONAL PERFORMANCE							
Sales to Power Purchasers at Cost	41,790	24,870	26,379	22,086	16,479	15,075	14,820
Retail Energy Sales	188,473	197,502	211,334	226,071	236,465	246,004	253,525
Net Power (Net Wholesale+Other Power Revenue)	54,753	58,403	49,383	47,999	61,536	58,838	54,000
Fiber Optic Network Sales	6,860	7,832	8,781	9,332	9,804	10,114	10,313
Other Revenues	2,034	1,793	1,809	1,825	1,841	1,857	1,873
Operating Expenses	(116,324)	(114,766)	(121,945)	(127,639)	(131,305)	(134,752)	(136,157)
Taxes	(16,283)	(16,698)	(17,712)	(18,679)	(19,355)	(19,979)	(20,479)
Net Operating Income(Loss) Before Depreciation	161,303	158,937	158,028	160,994	175,464	177,158	177,896
Depreciation and amortization	(66,206)	(69,755)	(73,352)	(75,541)	(77,530)	(78,097)	(79,097)
Net Operating Income (Loss)	95,097	89,182	84,676	85,453	97,934	99,061	98,800
Other Revenues (Expenses)							
Interest, debt and other income	(29,609)	(37,190)	(29,829)	(30,261)	(35,378)	(34,553)	(33,629)
CIAC	10,649	11,104	3,652	1,202	1,207	1,212	1,218
Change in Net Position	76,137	63,096	58,499	56,394	63,763	65,721	66,388
	Actuals	Forecast					
	2017	2018	2019	2020	2021	2022	2023
NET INCOME	76,137	63,096	58,499	56,394	63,763	65,721	66,388
LIQUIDITY (measured at year end)							
Elect System Liquidity (Rev + R&C)	157,031	158,988	111,386	114,781	117,598	120,550	123,526
Excess Liquid Cash	17,263	58,840	63,382	63,321	64,858	68,945	74,480
Days Cash On Hand	621	740	588	569	391	432	430
LEVERAGE							
Consolidated DSC	1.77	1.91	1.91	1.90	2.00	1.97	2.00
Consolidated Debt/Plant Ratio	65%	62%	60%	59%	58%	57%	56%
PROFITABILITY							
Cons. Return on Net Assets (chg. in net assets / net plant)	3.7%	3.0%	2.7%	2.5%	2.8%	2.8%	2.8%
Retail Op Ratio (assumes baseline capital)	105%	111%	107%	106%	107%	106%	102%

2019 Priorities:

- Dedicated to focus on long-term value for all customers.
- Investing in assets ensures access to long-term, low-cost Priest Rapids Project resource.
- Investing in technology provides access to operational and customer service improvements.
- Retail electric price increase, needed for financial stability.
 - 2019 – 2.0%
 - 2020 – 1.0%
 - 2021-forward – Lower rate increases projected
- Strong financial position ensures maintenance of favorable credit rating.



Flash Back to 2016 - 2016 Financing Long-term Assets

- \$1.8 billion net book value of assets.
- Assets are maintained and replaced to produce reliable, low cost energy.
- The amount of debt is \$1.3 billion, which is a high (debt / plant) ratio of 72%.
- Focused on decreasing debt to be no more than 60% of plant steady state.
 - Equity financing reduces future rates by decreasing debt interest costs.
- Restructured long-term debt in 2013 reduced annual price increases from 8% down to 2%.
- Maintaining a strong credit rating allows the District to borrow at low interest rates that helps keep rates low.



03 Scenarios

Items that could have a significant impact on budget

Financial Scenarios – Comparison to Base Budget

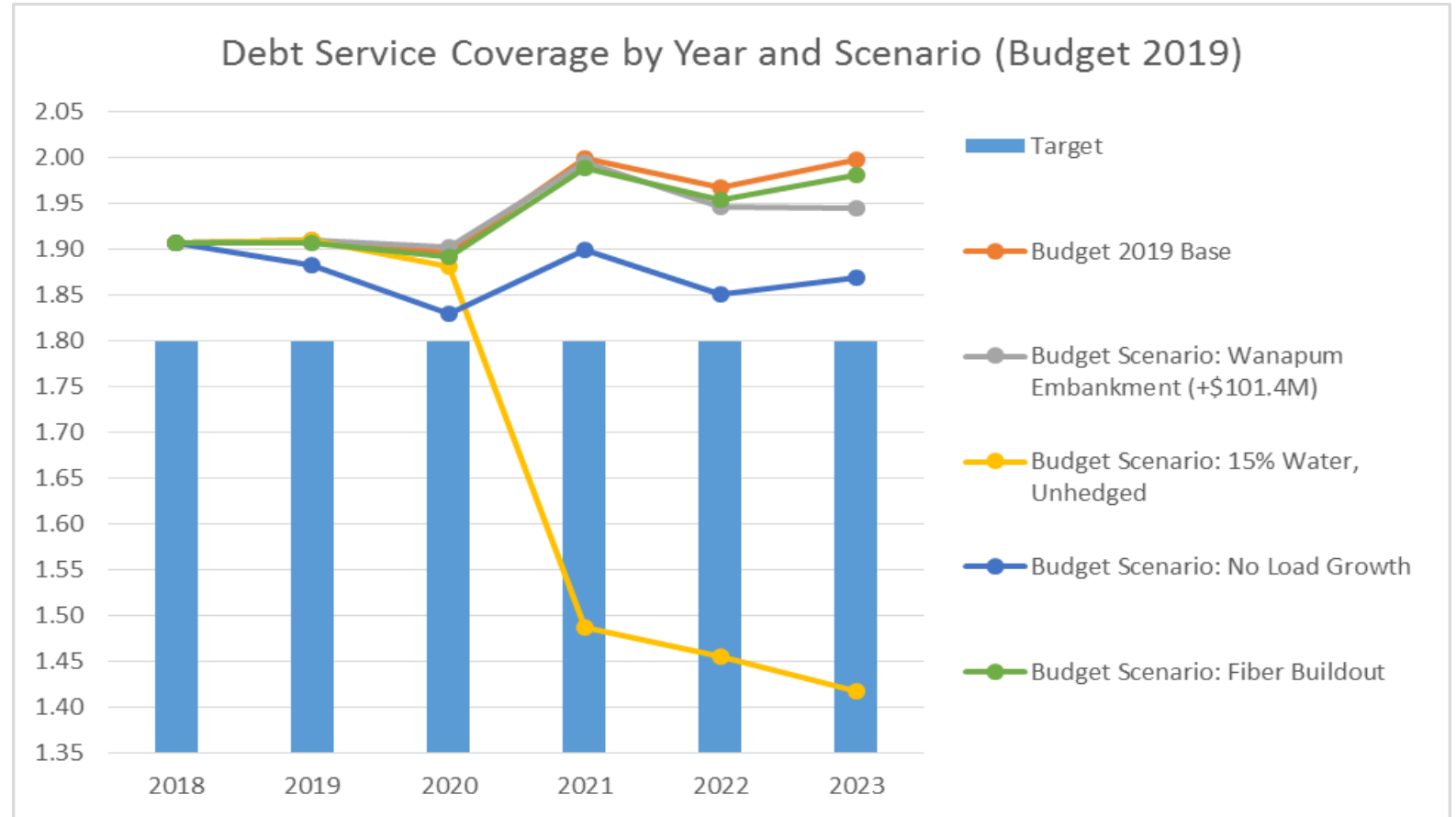
Four Scenarios

1. Wanapum Left Embankment (+\$100M)
2. No Future Load Growth
3. Fiber Buildout
4. No Slicing Contracts with critical water years

- Chart and table convey impact to Debt Service Coverage (DSC)
- Similar magnitude of metric degradation observed on Return on Net Assets and Retail Operating Ratio metrics

Assumptions

- Debt to net plant and retail rates increase held constant
- DSC and cash allowed to vary



	2018	2019	2020	2021	2022	2023
Target	1.80	1.80	1.80	1.80	1.80	1.80
Budget 2019 Base	1.91	1.91	1.90	2.00	1.97	2.00
Budget Scenario: Wanapum Embankment (+\$101.4M)	1.91	1.91	1.90	2.00	1.95	1.94
Budget Scenario: 15% Water, Unhedged	1.91	1.91	1.88	1.49	1.46	1.42
Budget Scenario: No Load Growth	1.91	1.88	1.83	1.90	1.85	1.87
Budget Scenario: Fiber Buildout	1.91	1.91	1.89	1.99	1.95	1.98