



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.

GENERATOR REPAIRS CONTINUE ON ROCKY REACH DAM UNITS

Long-term repairs continued on the four largest units at Rocky Reach dam to restore their moveable turbine blade capability. In addition, progress was made on rewinding all four of the generators for the same large units to extend the life of the equipment at least another 30 years. The District expects to complete the work on the first of the four units returning to full moveable blade operation by the end of 2017 rather than 2018, and then proceed to the next unit for turbine repair. Rewind of the other three units is occurring prior to the scheduled turbine repair to optimize generation capability and reduce the outage duration. Based on the current schedule, all work on the four units is expected to be complete by 2021.

The District has confirmed insurance coverage for lost revenue and eligible repair expenditures on the turbines for two of the four units due to cracked servo rods; however, the extent of the coverage for the remaining two units will not be known until damage is confirmed following full disassembly. The repairs and the lost production time for these repairs are not expected to have an effect on District retail electric rates as the District has effective risk management plans in place. The hedging program, long-term contracts, insurance program and strong financial policies have significantly reduced the overall impact from these types of events.

MODERNIZATION OF FOUR ORIGINAL GENERATING UNITS AT ROCK ISLAND DAM

Efforts continued on modernizing the four original generating units, B1-B4, at Rock Island Dam, which were all taken out of service in early 2016, due to corrosion fatigue on the blades following 80-plus years of service. The benefits of modernization include reliable operation of the units expected for another 50 years, more flexibility in hydro operations and environmental and fish protection benefits.

The current project schedule returns all four units to service by 2019, well in advance of the Habitat Conservation Plan (HCP) check-in starting in the spring of 2020. Additionally, work continued on the Rock Island B5-B10 modernization project with an expected return

to service date of the third unit in 2017. That will be followed by the fourth unit to be completed before the B1-B4 construction begins in 2018. The remaining two units for the B5-B10 project are scheduled for modernization beginning in the fall of 2020 after the HCP check-in.

ABOVE-AVERAGE WATER SUPPLY FORECASTS

The Northwest River Forecast Center forecasts January-July water supply on the Columbia River to be 124 percent of average. Due to capacity constraints and the stabilization of revenues resulting from the District's risk management plans and hedging strategies, the District expects slightly above average generation under the forecasted water conditions.

The 2017 water supply forecast for the Lake Chelan drainage basin is 106 percent of average from April 1 through July 31. Based on snow-pack, the forecast would result in an estimated 1.1 million acre-feet of water between April 1 and July 31. Lake Chelan Hydro Project operations will 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 116 percent of average.

PUD BOARD REVIEWS PLAN FOR BUILDINGS THAT COULD ENHANCE CUSTOMER EXPERIENCE, SAVE MONEY AND IMPROVE SAFETY

In March, Commissioners reviewed a draft strategic facilities plan that covers most of the buildings the PUD owns. The plan suggests that investments in new facilities could enhance the customer experience while producing long-term benefits for PUD customer-owners through increased PUD employee productivity and reduced operation and maintenance costs.

The study of PUD buildings that was launched during strategic planning follows the District's strategic priority of investing in its assets and people. Analysis included evaluation based on the PUD creating the best value for the most people for the longest period of time.

The analysis was performed in the same manner the PUD treats investments in its hydropower projects. The analysis recommends building a new, combined headquarters and operations center at a location north of the Wenatchee River and selling existing, duplicative PUD properties and providing a combination of new construction and renovated structures at Rock Island and Rocky Reach dams. The capital investments are estimated at just under \$115 million for the combined headquarters and operations center and at approximately \$35 million each for Rock Island and Rocky Reach Dams.

BOARD AGREES TO AMEND ALCOA CONTRACT TO PRESERVE OPPORTUNITY FOR WENATCHEE WORKS RESTART

Commissioners approved a contract amendment that would give Alcoa Corporation more time to decide whether to restart the Wenatchee Works aluminum smelter in return for a payment that would keep District customer-owners financially neutral. The amendment allows a one-year deferral and restructuring of Alcoa's existing Power Sales Agreement. Under the current agreement, should the Wenatchee Works plant remain curtailed through June 2017, a \$67 million

deferred capacity reservation charge would have become due. That deferred charge was specifically designed to encourage Alcoa to operate the plant.

Alcoa advised that, while improving, the current aluminum market does not support restart and that they wanted to work together on a plan that would preserve the restart option. Under the contract amendment, a large portion of the deferred charge will be delayed until June 2018, and in return, Alcoa will pay the District \$7.3 million in June 2017. The \$7.3 million represents one-year of the deferred power contract charge of \$4.5 million and \$2.8 million payment in exchange for the value to the District of a one-year deferral of the remaining balance of \$62 million. Other existing contract terms remain in place.

FINANCIAL HIGHLIGHTS

For the three months ended March 31, 2017, Chelan County PUD recorded a change in net position of \$27.6 million, an increase in earnings of \$2.4 million from the same period in 2016. The increase in earnings is primarily due to increases in retail and wholesale revenue offset somewhat with an increase in purchased power costs. Retail sales are higher due to increased consumption as a result of average degree days being 23 percent lower than the prior year combined with a new rate class for high density load sales, which was effective January 1, 2017. Despite a reduction in volume of energy sold, wholesale sales increased over the prior year as a result of higher average market prices. Higher market prices translate to additional revenue on the District's sale of surplus energy and positively impact certain long-term contract provisions. Purchased power costs are also up compared to the prior year due to higher average market prices. The District continues to purchase power to balance system loads and resources and to support its power hedging strategy.

As of March 31, 2017, combined unrestricted cash and investments totaled \$321.5 million compared to \$263.2 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 \$29.9 million increase in Other Assets was due primarily to an increase in long-term investments as a result of higher overall cash and investment balances.

Long-term debt decreased by \$24.5 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
 Chief Financial Officer/
 Chief Risk Officer



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

Three months ended March 31, 2017

(in thousands)

	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	3 Months Ended 03/31/17	3 Months Ended 03/31/16
OPERATING REVENUES	\$ 22,981	\$ 23,908	\$ 1,904	\$ 78,069	\$ 2,095	\$ 4,476	\$ (43,679)	\$ 89,754	\$ 84,601
OPERATING EXPENSES	16,570	12,059	1,725	66,812	-	4,469	(43,679)	57,956	54,557
NET OPERATING INCOME	6,411	11,849	179	11,257	2,095	7	-	31,798	30,044
OTHER INCOME (EXPENSE) (2)	(2,606)	(5,666)	(333)	1,343	1,346	77	-	(5,839)	(5,897)
CAPITAL CONTRIBUTIONS	-	133	-	1,471	-	-	-	1,604	1,029
CHANGE IN NET POSITION	\$ 3,805	\$ 6,316	\$ (154)	\$ 14,071	\$ 3,441	\$ 84	\$ -	\$ 27,563	\$ 25,176

CONDENSED COMBINING STATEMENTS OF NET POSITION (Unaudited)

March 31, 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)	03/31/17	03/31/16
TOTAL CURRENT ASSETS	\$ 9,558	\$ 11,704	\$ 1,865	\$ 75,820	\$ 23,613	\$ 5,251	\$ -	\$ 127,811	\$ 104,801
NET UTILITY PLANT	305,958	338,083	89,949	313,674	-	30,514	-	1,078,178	1,056,039
RESTRICTED ASSETS - NONCURRENT	51,486	83,174	-	3,978	21,036	6,029	-	165,703	177,743
OTHER ASSETS	8,779	19,858	6,449	170,405	96,991	11,127	(13,743)	299,866	269,963
DEFERRED OUTFLOWS OF RESOURCES	3,127	5,771	403	4,594	4,267	-	-	18,162	14,537
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 378,908	\$ 458,590	\$ 98,666	\$ 568,471	\$ 145,907	\$ 52,921	\$ (13,743)	\$ 1,689,720	\$ 1,623,083
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION									
CURRENT LIABILITIES	\$ 24,489	\$ 34,864	\$ 2,779	\$ 22,094	\$ (8,810)	\$ 20,482	\$ -	\$ 95,898	\$ 102,171
INTERSYSTEM PAYABLE (RECEIVABLE) - CURRENT	(932)	(381)	(188)	8,040	-	(6,539)	-	-	-
LONG-TERM DEBT	148,882	313,263	7,590	(3,454)	65,747	30,377	-	562,405	586,920
UNEARNED REVENUES	8,532	8,951	-	82,077	8,165	-	(13,743)	93,982	93,282
OTHER LIABILITIES	26,832	27,972	10,993	25,830	-	-	-	91,627	79,624
TOTAL LIABILITIES	207,803	384,669	21,174	134,587	65,102	44,320	(13,743)	843,912	861,997
DEFERRED INFLOWS OF RESOURCES	448	26,057	53	2,061	1,811	35	-	30,465	43,815
TOTAL NET POSITION	170,657	47,864	77,439	431,823	78,994	8,566	-	815,343	717,271
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & NET POSITION	\$ 378,908	\$ 458,590	\$ 98,666	\$ 568,471	\$ 145,907	\$ 52,921	\$ (13,743)	\$ 1,689,720	\$ 1,623,083

ELECTRIC

As of March 31	2017	2016
Number of Customers	50,280	49,779
Number of Residential Customers	37,773	37,297
YTD Average Residential Rate (Cents/kWh)	3.01	3.06

POWER GENERATION (MWh) (000)

3 months ended March 31	2017	2016
Lake Chelan	114	127
Rocky Reach	1,664	1,456
Rock Island	852	747

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

3 months ended March 31	2017	2016
Lake Chelan	\$ 17	\$ 15
Rocky Reach	12	13
Rock Island	21	25

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.