P.U.D.
CHELAN COUNTY

Annual Report 2012

Public Utility District No. 1 of Chelan County

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Average Residential Rate

(Cents/kWh)	**3.2¢**

Number of retail customers*

Electric	**48,463**
Water/Sewer	**6,076**
Fiber end-user connections	**12,240**

** As of Dec. 31, 2012*

Power generation (MWh)

Rocky Reach	**7.02 million**
Rock Island	**2.95 million**
Lake Chelan	**406,535**

Generating units

Rocky Reach	**11**
Rock Island	**19**
Lake Chelan	**2**

Capacity (MW)

Rocky Reach	**1,300**
Rock Island	**629**
Lake Chelan	**59**

History

PUD created	**1936**
First service	**1947**

Operating revenue

Utility Services	**$277.5 million**
Rocky Reach	**$87.5 million**
Rock Island	**$87.3 million**
Lake Chelan	**$12.6 million**

Bond ratings

Moody's Inv. Service	**Aa3***
Standard and Poor's	**AA**
Fitch Ratings	**AA+**

** As of Feb. 15, 2013*

Peak demand and date

402 MW	**Jan. 19**

Number of employees

As of Dec. 31, 2012	**656**

Service lines

Miles	**2,059**

Strategies for a sustainable Chelan County PUD

Objective 1: Ensure lasting financial stability

Objective 2: Establish and enhance lasting customer, employee and stakeholder relationships

Objective 3: Provide valued public utility services

Objective 4: Operate responsibly

**See the full plan on www.chelanpud.org, under "Strategic Planning"*

CHELAN COUNTY
www.chelanpud.org

CHELAN COUNTY

About us: Public Utility District No. 1 of Chelan County was created by a vote of the people in 1936 and delivered its first power in 1947. The PUD is governed by a locally elected five-member Board of Commissioners. The general manager uses the policies and guiding principles set by the commission to generate and deliver electricity from our three dams to utilities that serve customers across the Pacific Northwest as well as more than 48,000 retail customers in the county and to provide water, sewer and wholesale telecommunications services.

Note: The statements and information on pages 1-15 of the Annual Report are provided for general information only. They are not intended for, and should not be relied upon, for making investment decisions by current or prospective investors.

The 2012 Annual Report is posted on the District website at www.chelanpud.org under "Your PUD > Finance." As part of operating in a sustainable manner, we are printing copies of this report by request only. See details on the Web.

Table of contents

Flying in structures for the new Entiat Transmission Line.

Generating clean, renewable hydropower for decades

1,300

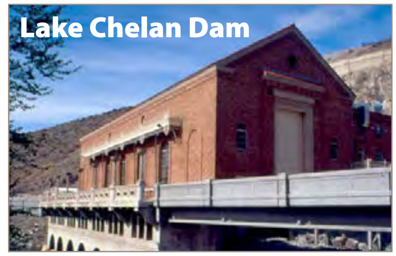
megawatts capacity*, 11 generators, 7 million megawatt hours generated, $10 per MWh

Modernizing generating units in the early 2000s and continuing maintenance ensure reliable operation for generations to come. A 43-year federal license to operate the dam was issued in 2009.

629

megawatts capacity*, 2 powerhouses, 19 generators, 2.9 million megawatt hours generated, $23 per MWh

With the upgrade of two generating units in the first powerhouse complete, a focus on maintenance ensures continued reliable operations. The dam's federal license runs through 2028.

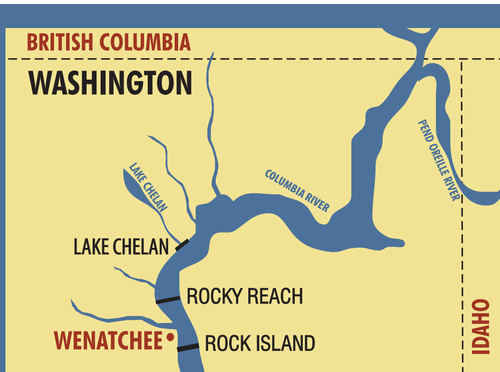


59

megawatts capacity*, 2 generators, 406,535 megawatt hours generated, $25 per MWh

The units modernized in a five-year project that increased output from 48 to 59 megawatts continue to provide additional electricity. The Lake Chelan Project is licensed through 2056.

**generator nameplate capacity*



Chelan County PUD's three hydroelectric dams produce clean, renewable energy to serve local customers and for delivery to utilities that serve customers across the Pacific Northwest.

For decades, Chelan PUD's three dams have demonstrated what's best about public power and local control.

Together the dams can generate nearly **2,000** megawatts of power at their peak. In 2012, they produced 10.4 million megawatt hours of affordable, emission-free electricity.

Hydro timeline

Rock Island Dam starts producing power
1931

Four units added to Rock Island Dam
1953

Lake Chelan Hydro Project acquired from Washington Water Power
1955

Rock Island Dam acquired from Puget Sound Power and Light and Rocky Reach construction begins
1956

Rocky Reach Dam in operation
1961

Four units added to Rocky Reach Dam
1971

Second Powerhouse added to Rock Island Dam
1979

Chelan PUD at a glance

Delivering on our commitment

3.2¢

Average residential rate per kilowatt hour

Chelan PUD's residential rate is among the lowest in the nation

	2011	2012
Chelan PUD	3.4¢	3.2¢
Northwest	8.7¢	8.9¢
National	12.1¢	11.6¢

Bond ratings

Moody's Investor Service	Aa3
Standard and Poor's	AA
Fitch Ratings	AA+

Moody's changed from Aa2 with a negative outlook to Aa3 with a stable outlook in Feb. 2013; S&P affirmed with a stable outlook. Fitch affirmed with a negative outlook. The 2009AB Notes are rated A1 by Moody's.

$7.4 million

Funds returned to the community in taxes

	2011	2012
State and local tax expense	$7,402,744	$7,377,931

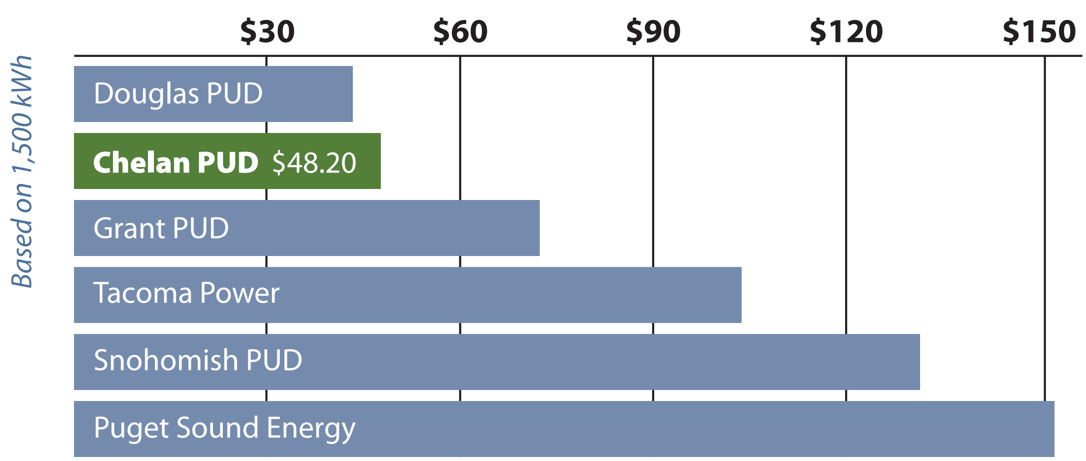
48,463

Number of retail electric customers

	2011	2012
District Peak Demand (MW)	416	402
Peak Demand (date)	Jan. 3	Jan. 19
No. of employees*	661	656
No. of retail customers*		
Electric	48,173	48,463
Water/Sewer	5,984	6,076
Fiber end-user connections	11,800	12,240

**As of Dec. 31*

Northwest residential monthly bill comparison



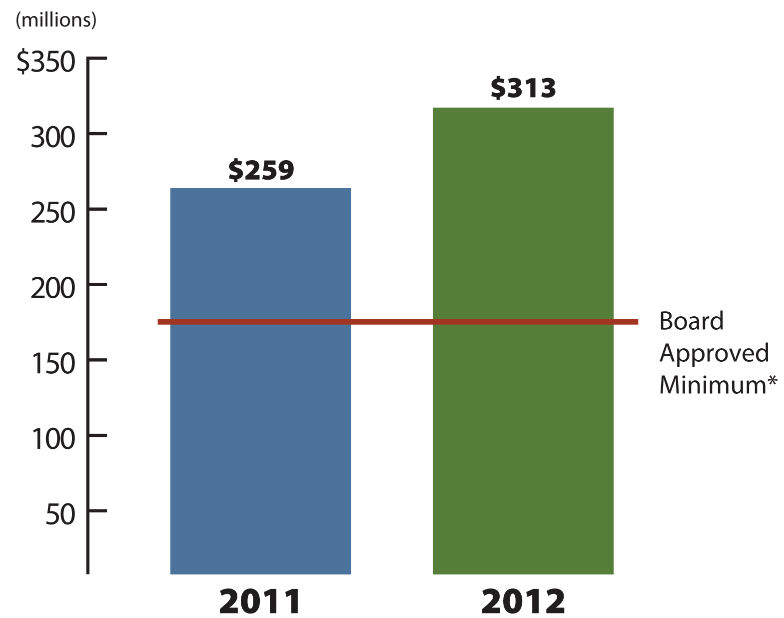
Source: Calculated from posted rates

On track for a sustainable financial future

Meeting our customers' expectations

Financial liquidity

Using a variety of methods—from one-on-one meetings to in-depth surveys—we have asked our customer-owners about their priorities for the District. By following the financial principles in our Strategic Plan, we are focused on responding to their expectations in four key areas by stabilizing revenue and therefore rates; increasing reserves; reducing debt; and maintaining our dams, power grid, network and equipment to ensure reliable utility service.



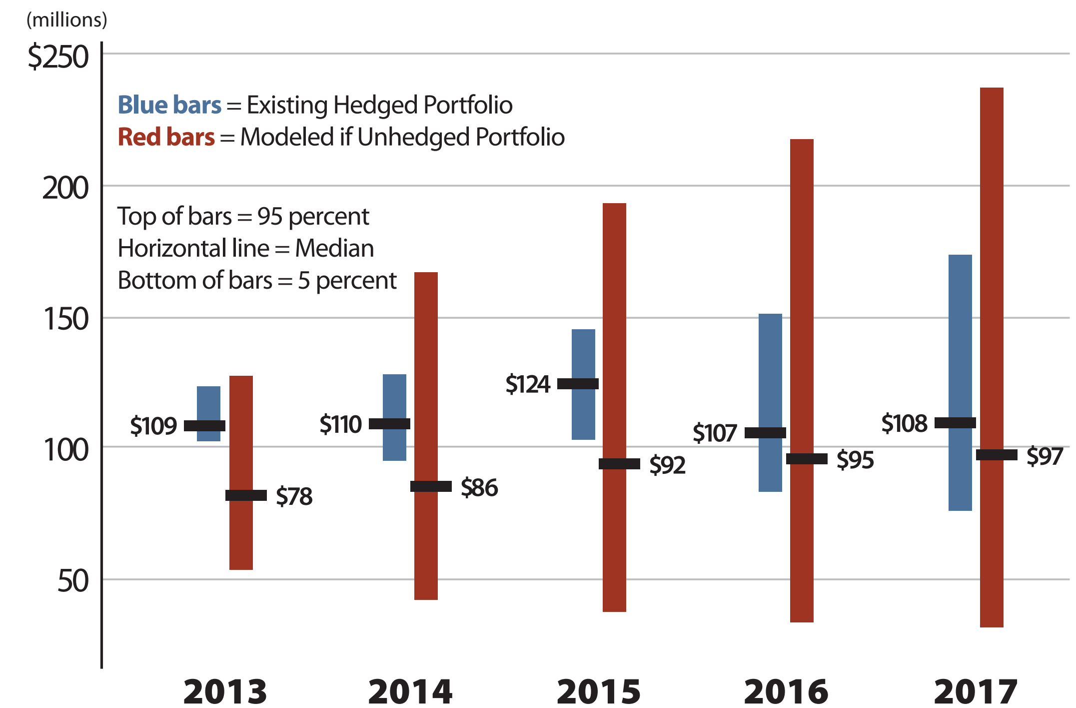
With stronger revenues, we used cash to reduce debt while maintaining healthy reserves.

Total financial liquidity includes a $50 million line of credit.

**Resolution No. 11-13616*

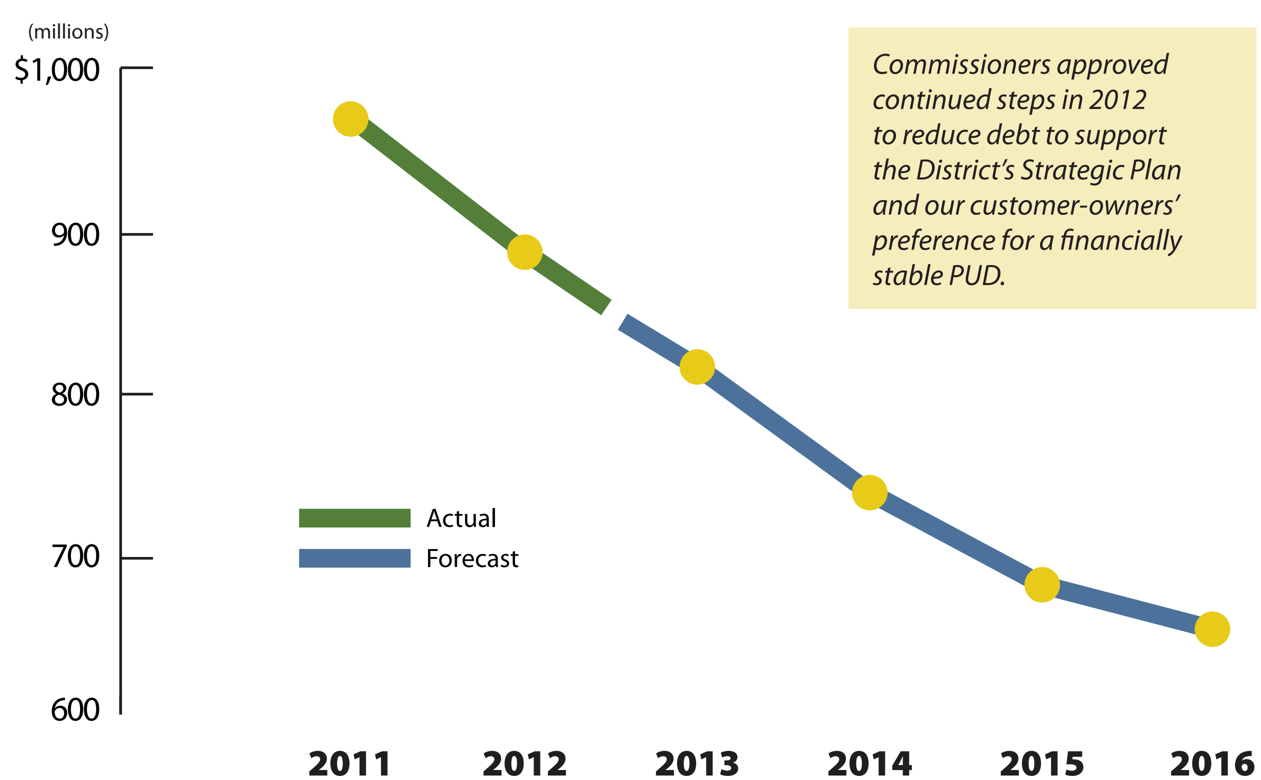
Net wholesale revenue projections

Existing hedged portfolio vs. modeled unhedged portfolio (as of Feb. 15, 2013)



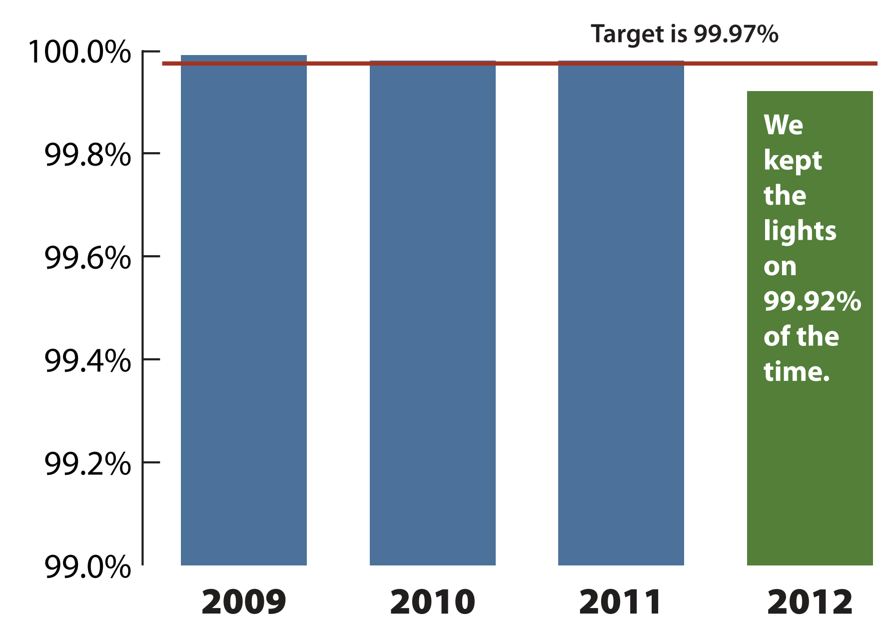
Our hedging program has significantly increased revenue certainty for the District, while reducing risks related to water supply (for hydro generation) and price. While this approach reduces downside risk, it may also reduce upside gains should wholesale prices rise from current levels. However, locking in predictable revenue is proving successful in meeting financial principles in our Strategic Plan. This should benefit customer-owners by providing rate stability.

Total debt outstanding



Commissioners approved continued steps in 2012 to reduce debt to support the District's Strategic Plan and our customer-owners' preference for a financially stable PUD.

Electric system reliability



Outages caused by severe December snow storms are included in 2012's result.

Source: ASAI (efficiency of the distribution system to deliver electric energy to our customers.)

2012

January

- Second-term Commissioner Norm Gutzwiler elected PUD board president

Norm Gutzwiler

February

- Another successful slice auction locks in additional predictable power sales revenue of **$83.2 million** from Jan. 1, 2013, through the end of 2017 for 5 percent of the combined output of Rocky Reach and Rock Island dams

March

- Three-year collective bargaining agreement through 2015 is ratified by IBEW Local 77 members and approved by PUD commissioners

IBEW LOCAL UNION 77
WASHINGTON
N. IDAHO
N.W. MONTANA

April

- PUD commissioners endorse recommendation to keep restructured fiber system
- Construction starts on new Entiat transmission line, switchyard and Crum Canyon Substation

May

- 4,800 customers are enrolled in Powerpay paperless billing, topping the one-year goal in six months
- D3 Geocache Challenge debuts at Rocky Reach, Chief Joseph and Grand Coulee dams

June

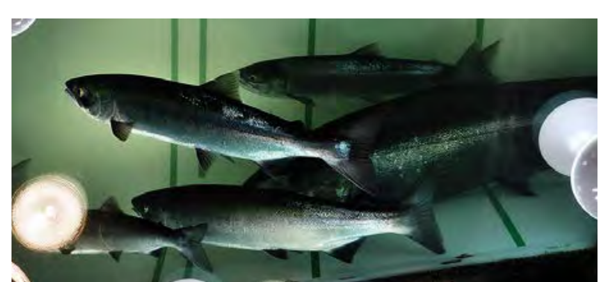
- Next step in strategic planning sets financial targets for each PUD utility service
- Agreements with Douglas and Grant PUDs and Bonneville Power Administration approved to build the North Mid-Columbia Joint Transmission Project
- Construction starts on new Okanogan Avenue Substation in Wenatchee

July

- 10-year Integrated Resource Plan is approved outlining PUD energy sources for the next decade
- Jeff Smith moves up to oversee the District Services area following the retirement of longtime PUD leader Wayne Wright

Jeff Smith

- Sockeye and Chinook salmon migration provide peak fish-viewing at Rocky Reach Dam



August

- PUD and American Whitewater agree to reduced obligation for Chelan River kayaking
- Telecom executive Mike Coleman joins PUD to lead PUD fiber-optic and telecom system

Mike Coleman

September

- Lineman protect poles and equipment as multiple wildfires threaten PUD lines

October

- "Darkness to Dawn: The incredible stories of building our Northwest hydro system" program highlights Public Power Week
- Rocky Reach Visitor Center wraps up 51st season after welcoming **50,000+** people for tours, programs, family picnics and fish viewing

November

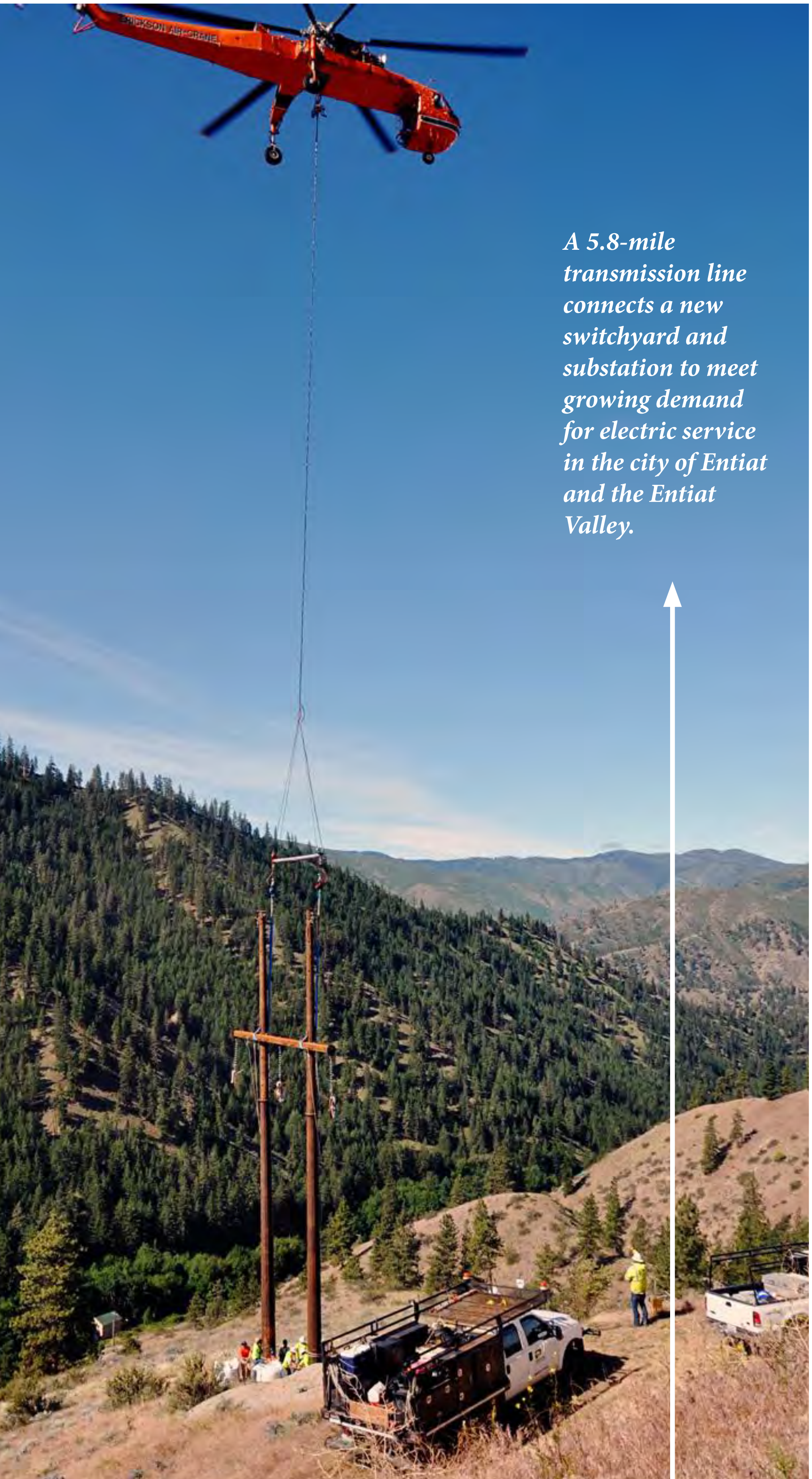
- Auction of surplus computers, furniture and office equipment moves online to eBay

December

- With improved finances, PUD commissioners approve 2013 budget with no change in electric rates
- Chelan PUD crews, with help from coworkers across the District and crews from neighbor PUDs, work through the holidays to restore electric service to 3,800 customers after heavy, wet snow repeatedly topples trees into Lake Wenatchee area power and fiber lines

Project update

Helicopter and hand work help build transmission line across remote ridge top



A 5.8-mile transmission line connects a new switchyard and substation to meet growing demand for electric service in the city of Entiat and the Entiat Valley.

Construction of a switchyard, a substation and a 5.8-mile transmission line to connect them capped a 10-year effort to meet growing demand for electric service in the city of Entiat and in the Entiat Valley.

In addition to adding capacity to meet growth, the project also provided an alternate route for power that, under certain circumstances, can help PUD crews restore service sooner if there are outages. The PUD has about 940 customers in the city of Entiat and up the Entiat Valley.

It cost about $9 million, including planning, design, permitting, land acquisitions, materials and construction.

The construction work was performed in phases with work on the switchyard started in early spring 2012, followed by construction of the 115-kilovolt transmission line and the electrical equipment for the substation. Power was transferred to the new system, the final step in the project, in April 2013.

The new line was built in the same corridor as transmission lines that carry power from Grand Coulee Dam to the Everett area and from Chief Joseph Dam to Monroe. The route followed a remote ridge top from the switchyard on Highway 97A just north of Entiat to the new substation about seven miles up Entiat River Road at the mouth of Crum Canyon.

Before and during construction, the District worked with state and federal agencies to protect plants and trees and prevent erosion.

Some of the structures were built in areas not accessible by backcountry roads. Helicopters were used to ferry equipment to those sites, and crews from contractor Potelco had to hike in and dig holes by hand. A specialized "flying crane" helicopter was used to place some of the steel poles for the transmission structures, including those on a cliff top above the switchyard.

Sharing the benefits of public power

Saving energy: Good for business, good for the community

Energy conservation is helping Chelan PUD customers—from homeowners to major fruit packing and storage operations—save electricity and save money while staying more comfortable year round.

The energy saved is a resource, providing more clean, renewable hydropower that can be sold to others.

From incentives to install energy-efficient windows at home to Resourse$mart, which helps companies find and fund ways to save electricity, the programs saved enough energy in 2012 to power about 875 Northwest homes.

The majority of those savings came from local fruit processors who used District incentives to offset costs of installing energy-efficiency improvements. The area's largest processor, Stemilt Growers, received the Washington Governor's Award for Leadership in Energy Performance; Chelan PUD helped Stemilt reduce energy consumption at its largest fruit packing facility, Olds Station, by 30 percent.

Energy use at the facility is dominated by industrial refrigeration and controlled atmosphere equipment used to keep fruit fresh until it can be processed and shipped.

PUD engineer Jim White, left, and James Hursh of Stemilt Growers, check the control panel of a CO_2 scrubber at the fruit company's Wenatchee facility. Energy-saving scrubbers installed with help from the PUD use 95 percent less energy than equipment previously used at the warehouse to keep fruit fresh for long periods of time.

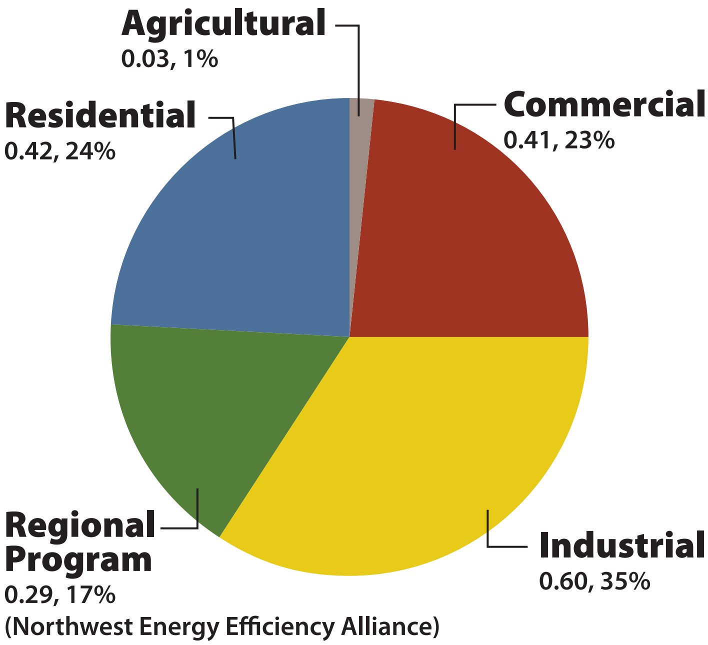
Stemilt made efficiency improvements by reducing the speed of industrial refrigeration fans and installing CO_2 scrubbers to control the atmosphere in storage rooms.

Together, these improvements helped Stemilt realize energy savings of 8,770,190 kWh per year, which equates to $167,000 in utility costs annually and is enough energy to power about 400 all-electric homes in Chelan County.

These two Stemilt projects cost a combined $1 million, of which $625,000 was paid through rebates from the PUD. Washington State University also paid $50,000 on one of the projects through its own energy dollars.

Beyond funding, Chelan County PUD's expertise in energy conservation has enabled Stemilt to see these and other projects to fruition over the past 12 years.

2012 Conservation Achievement
(approximately 1.75 aMW)



Action Academy sparks student interest in math and science

A program aimed at local middle school students is testing an approach that may help Chelan PUD in its continuing effort to recruit and retain applicants for the highly skilled jobs that retiring baby boomers will be leaving behind.

PUD Recruiting Manager Ruth Erwert proposed the idea for the District to "grow its own" employees. Instead of looking outside the area to fill jobs at the PUD, she could spread the message that careers in math, science, technology and engineering are available within the Wenatchee Valley and encourage local students to specialize in those areas.

The PUD was already involved in local elementary schools teaching about safety, power and electricity. Erwert realized she could expand those efforts to the middle schools and create a program to interest students in technical careers. She received support from PUD senior managers to send PUD employees into classrooms to help with projects that would spark an interest in math, science, technology and engineering while explaining that jobs are available locally with those skill sets. Erwert saw "an opportunity to build a pipeline of future employees."

Students at Cashmere Middle School built a solar-powered model car with the knowledge and assistance of senior Conservation engineer Jim White and technician Eric Sydenstricker.

At Entiat Middle School, PUD engineers John Sagerser and Paul Resler and foreman substation wireman Cheryl Hobson helped the seventh-graders build model hovercrafts using foam meat trays and small motors and fans.

At Pioneer Middle School in Wenatchee students learned about underwater welding and mechanics. PUD divers Donnie Lane and Brent Thrapp set up a station where the students were able to simulate a dive wearing a helmet.

And, at Wenatchee's Orchard Middle School a class learned about generators and hydraulics. With the help of Dan Martyn, Tim Halliday, Andy Lolos and Eric Ostrom, hydro mechanics and wiremen, students built a model hydro turbine generator that produced 100 watts of electricity.

Then Erwert devised a final event where all four classes came together to share their experience. With the success of the Action Academy pilot, Erwert plans to keep the program going on a smaller scale.

Entiat Middle School teacher Kevin Jones thought the project was exactly what his students needed. "I want to continue this project every year, whether or not the PUD can help. I've never seen my students so involved and able to apply concepts we learn about."

Ruth Erwert helps a student with his model hovercraft.

Collaborative approach protects Mid-Columbia River salmon and steelhead

Goals achieved: 10-year check-in confirms

Spill is the most effective way to move young fish past Rock Island Dam.

A decade of working together with state and federal fish agencies and two Northwest tribes under innovative Habitat Conservation Plans (HCPs) for Rocky Reach and Rock Island dams has achieved the goal that these dams have no net impact on the salmon and steelhead migrating past them.

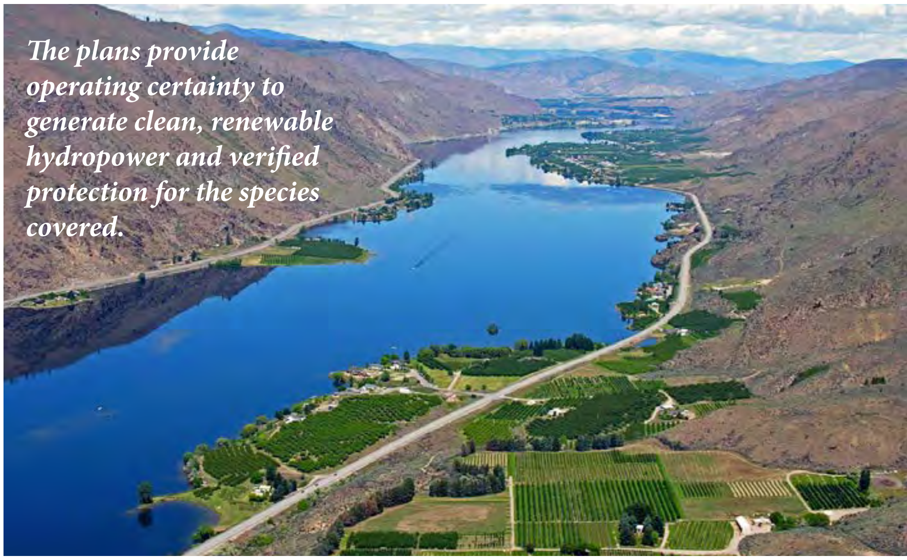
The goals of the HCPs were met using an outcome-based approach combining the expertise of the parties with Chelan PUD's knowledge of the unique characteristics of each dam. The result is a balanced effort using spill, fish passage, tributary habitat improvement and hatchery programs to reach the no-net-impact standard.

And, the work will continue for the 50-year life of the plans, through 2052.

There are two components of the no-net-impact responsibility:

- 91 percent combined adult and juvenile fish survival achieved through improvements and operations at the hydroelectric projects and predator control programs in the reservoirs.
- Up to 9 percent compensation for unavoidable dam passage losses by investing in hatchery and tributary programs (7 percent for hatcheries and 2 percent for tributary habitat enhancement and protection).

Since 2002, Chelan PUD has worked with representatives from National Marine Fisheries Service, U.S. Fish and Wildlife Service, Washington Department of Fish and Wildlife, the Confederated Tribes of the Colville Reservation and the Confederated Tribes and Bands of the Yakama Indian Nation on three operating committees to put the programs and practices in place.



The plans provide operating certainty to generate clean, renewable hydropower and verified protection for the species covered.

Species covered in HCPs

Steelhead

Coho

Sockeye

Spring and summer/fall Chinook

Illustrations by Joseph Tomelleri

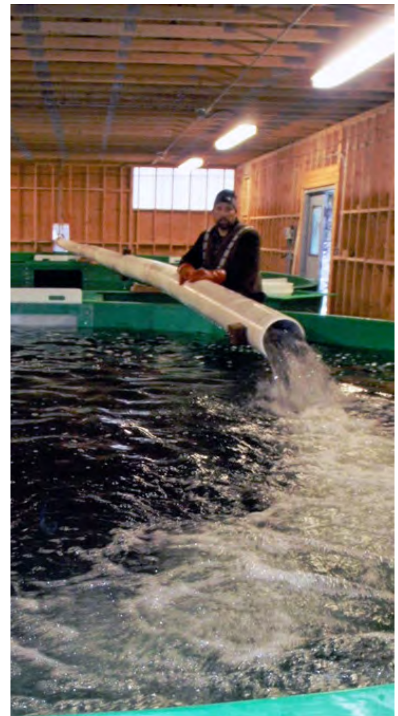
This outcome-based HCP approach offered greater opportunity for success by recognizing each dam is unique, requiring solutions based on the best available science, tailored to each hydro project. Spill was found to be the most effective way to safely move young fish past Rock Island Dam. At Rocky Reach Dam, a $107 million juvenile fish bypass along with summer spill provides safe, effective fish passage.

The HCPs for Rocky Reach and Rock Island dams are providing operating certainty for Chelan PUD and verified protection for the species covered by the 50-year plans. That means the benefits of cost-effective, renewable electricity for local customer-owners, support for local industry and a clean, non-carbon power source for customers of utilities across the Northwest are assured.

We are not done.

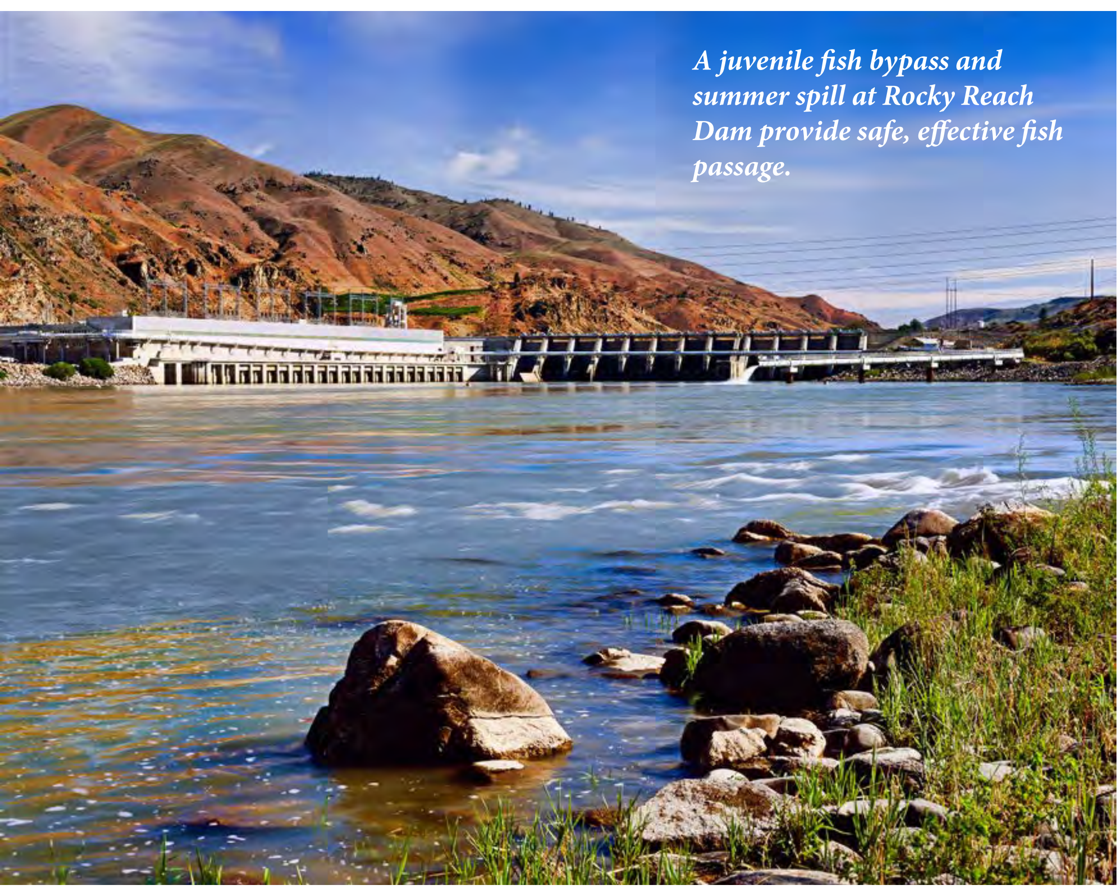
The HCPs are living documents, spelling out our long-term commitment. The gains made in fish protection in the last 10 years will be maintained with programs and measures to provide a consistent level of protection. The agreements allow for incorporating future technology and efficiency advances and there are more check-in points in the years to come.

Working together in this innovative, cost-effective manner protects fish and ensures affordable, clean, renewable power for people.



Testing found circular tanks are raising healthier fish.

We've made a 50-year commitment to ensure our hydro projects have no net impact on Mid-Columbia River salmon and steelhead.



A juvenile fish bypass and summer spill at Rocky Reach Dam provide safe, effective fish passage.

Commissioners' Message

Working together gets the job done

It is amazing the progress that can be achieved when people focus on a common goal and then apply their collective energy on getting it done.

In 2012, we saw results from that commitment expressed in many ways at Chelan County PUD, including strong financial results, improvements in the utility services and in reaching a new level of protection for the salmon and steelhead that migrate past our two Columbia River dams.

Those results support the adage that you don't get where you want to go without a plan. As we move forward we will continue to rely on the District's Strategic Plan. There is satisfaction in reaching the targets that mark Chelan PUD's continuing progress toward financial stability and meeting the priorities of our customer-owners.

We ended the year with bottom line results better than budget by more than $5 million and with these positive results were able to continue doing what our customers told us is important: keep rates affordable with modest and predictable adjustments over time; save for a rainy day; continue to pay down debt; and maintain reliable service.

The Strategic Plan also provides steady guidance for tough decisions that come before us, such as setting the future direction of the District's wholesale fiber-optic network. The framework for extensive public outreach used for strategic planning helped us understand that most of our customer-owners saw value in maintaining the fiber network under local control, but had concern over raising electric rates to pay for network expansion. Those sentiments, along with thoughtful analysis, led to the recommendation and adoption to keep operating the fiber network while taking steps to put it on more stable financial footing and make it self-sustaining.

Commitment and focus has also paid off in reaching the goal for Rocky Reach and Rocky Island dams to have no net impact on the salmon and steelhead migrating past them.

This result was based on a balanced effort using effective spill, fish passage improvements, tributary habitat work and hatchery programs to reach the no-net-impact standard. The milestone provides operating certainty for Chelan PUD and verified protection for the species covered by the 50-year plans. The 10 years of work that was put into action under innovative Habitat Conservation Plans for each hydro project was confirmed in early 2013 by the parties to the agreements.

We are thankful for the determination and commitment shown by PUD employees as they worked through the Christmas and New Year's holidays to restore power to some 3,800 of our customers in the Cascade foothills after storms carrying wet, heavy snow brought hundreds of trees down into power and fiber lines.

Vision To be valued as an innovative, trusted and highly respected public utility for generations to come

Mission To provide sustainable, reliable utility services that enhance the quality of life in Chelan County

Values Service, Respect, Innovation, Ethics and Fairness, Teamwork, Operational Excellence and Safety

In addition, we have been actively engaged in the politics of the utility industry through our involvement in the Washington Public Utility Districts Association – carrying messages on behalf of our collective customers to the Washington Legislature and to Congress.

Even as we celebrate 2012's accomplishments, we're looking ahead.

We've started work to update the Strategic Plan that will keep us on a successful, sustainable path from 2015 forward. And, we're tackling one of the most important duties entrusted to an elected Board of Commissioners, hiring a new general manager. We respect John Janney's personal decision to step down, and we are grateful for his inspired leadership through one of the most difficult economic periods in Chelan PUD's history.

While it is not easy to say goodbye to John, we are confident in the District's skilled employees and senior managers who continually do the work of serving our customer-owners, upholding the values of public power and making sure Chelan County PUD remains on firm financial footing for future generations.

2012 Board of Commissioners, from left: Dennis Bolz, Carnan Bergren, Norm Gutzwiler, Ann Congdon and Randy Smith

Anticipate and respond:
Strategies for a sustainable Chelan County PUD
Strategic Plan 2010-2014*

Objective 1: Ensure lasting financial stability

Objective 2: Establish and enhance lasting customer, employee and stakeholder relationships

Objective 3: Provide valued public utility services

Objective 4: Operate responsibly

**See the full plan on www.chelanpud.org, under "Strategic Planning"*

Manager's Message

Financial strength grows from strategic focus

In 2012, Chelan County PUD saw the continuing financial benefit of staying focused on priorities laid out in our Strategic Plan.

The utility's overall financial condition is excellent, and we ended the year with combined positive net results that were $5.3 million ahead of expectations. That kept us on track to meet our financial targets and deliver on the priorities of our customers as outlined in our Strategic Plan.

Columbia River flows were nearly 130 percent of average in 2012, leading to increased hydropower production. However, this increase in production was more than offset by declining wholesale electricity prices, which continued a multi-year decline to levels not seen in more than a decade. In light of falling prices, the District's hedging program was primarily responsible for mitigating the effect of declining power prices and for stabilizing wholesale revenue.

The hedging program will continue to reduce the risk to revenue from swings in the volatile wholesale energy market and water supply. The successful five-year hedging strategy developed by our Energy Resources Group has stabilized revenue forecasts and reduced the possibility of significant financial fluctuations (and customer rates) from year-to-year.

John Janney
General Manager

Other factors contributing to a gain in combined net position of $77.9 million include: net wholesale revenue of $5.6 million more than budget; and continued focus on cost control that kept expenses below budget even with transmission and distribution system and fiber network damage from a severe December snowstorm.

Year-end cash reserves are strong, and debt was reduced by $82 million.

I am pleased to report that we are well on our way to meeting virtually all of the objectives and key targets established in our 2010 Strategic Plan. A culmination of nearly 18 months of engagement with our customer-owners and other key stakeholders, this plan captures the priorities and preferences of our customers and defines what success looks like in the eyes of our customer-owners.

In particular, our plan focuses on developing and implementing a comprehensive, sustainable business model to manage costs and risks, optimize revenue, improve efficiency and set and implement priority programs and projects. The PUD accomplishes this by controlling costs, continuing to improve the way we do business and prioritizing the most important projects that contribute to our overall well-being. The PUD assesses and anticipates internal and external influences that may impact our ability to succeed and develops comprehensive risk-management programs to respond to such influences. Finally, the PUD established and implemented a comprehensive plan (the hedging program) to provide more certainty regarding our retail and wholesale revenues.

Having succeeded in carrying out the 2010 plan, it's time to look to the future and update our Strategic Plan. We'll start in the time-honored tradition of public power by talking with customer-owners to confirm their priorities and preferences for the PUD. The plan will incorporate appropriate financial, environmental and social responsibilities to ensure a sustainable Chelan PUD for the next 10 to 15 years and beyond. The goal is to put an updated plan in place by mid-2014.

Key to meeting customer expectations and our strategic objectives is a skilled and dedicated workforce. Customers are asking that we manage the utility as efficiently as possible. Labor and benefit costs are one measure of efficiency. A Workforce Development Plan will look to our Strategic Plan to gauge the work ahead and help ensure that we have the right people in the right places, trained and equipped to do the right things, now and into the future to meet the expectations of our customers for reliability, service and efficiency.

The PUD continues to pay close attention to opportunities to shape state and national initiatives promoting renewable energy to make sure our customer-owners continue to benefit from our 100-percent carbon-free hydropower. At the same time, we are committed to being effective stewards of the lands and waters in our care and to conservation and education programs that benefit our community now and for generations to come.

Another milestone is achieving certainty for continued hydroelectric operations by meeting fish protection goals outlined in innovative Habitat Conservation Plans for Rock Island and Rocky Reach dams. A collaborative approach over 10 years has resulted in findings that our Columbia River dams have no net impact on salmon and steelhead migrating past them. That is being achieved with improved fish passage at the dams, habitat improvements and hatchery programs to reach the no-net-impact standard. The plans are outcome-based, bringing together state and federal natural resource agencies and Northwest tribes to agree on goals and then using the expertise of District staff to achieve those goals, based on understanding the unique characteristics of each dam.

Spill levels at the hydro projects should be predictable for the foreseeable future, and operations should be able to continue as they have been the past several years. The next check-in on targets for the HCPs will be in another 10 years.

Reliable service is a customer priority. In 2012, we continued with upgrades at Rock Island Dam, constructed a new transmission line, switchyard and substation to serve the Entiat Valley, added another substation in Wenatchee and built the final two water reservoirs needed to meet system demand for the next 20 years.

Planning, discipline and hard work have Chelan PUD well prepared for the future, and I have decided the time is right in 2013 for me to step down. The decision is personal, to allow more time and energy for faith and family.

It has been an honor and a pleasure to serve as general manager and I am exceedingly thankful for the opportunity to serve in this capacity for a premier public utility. I am confident that an experienced and dedicated Board of Commissioners, a strong senior management team, our talented workforce, a transparent Strategic Planning framework focused on the priorities of our customer-owners and a proven ability to accomplish those priorities will help to ensure continuity.

The next general manager will benefit, as have I, from the leadership of our locally elected Board of Commissioners and the skill and dedication of our senior managers and employees.

Kelly Boyd
Chief Financial/
Risk Officer

Gregg Carrington
Managing
Director
Energy Resources

Mike Coleman
Managing
Director
Fiber and Telecom

LaDawn Ostmann
Managing
Director
Human Resources
and Labor
Relations

Kirk Hudson
Managing
Director
Generation and
Transmission

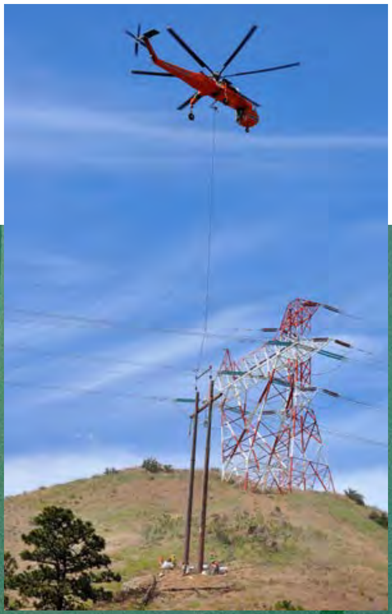
Jeff Smith
Managing
Director
District Services

John Stoll
Managing
Director
Customer Utilities

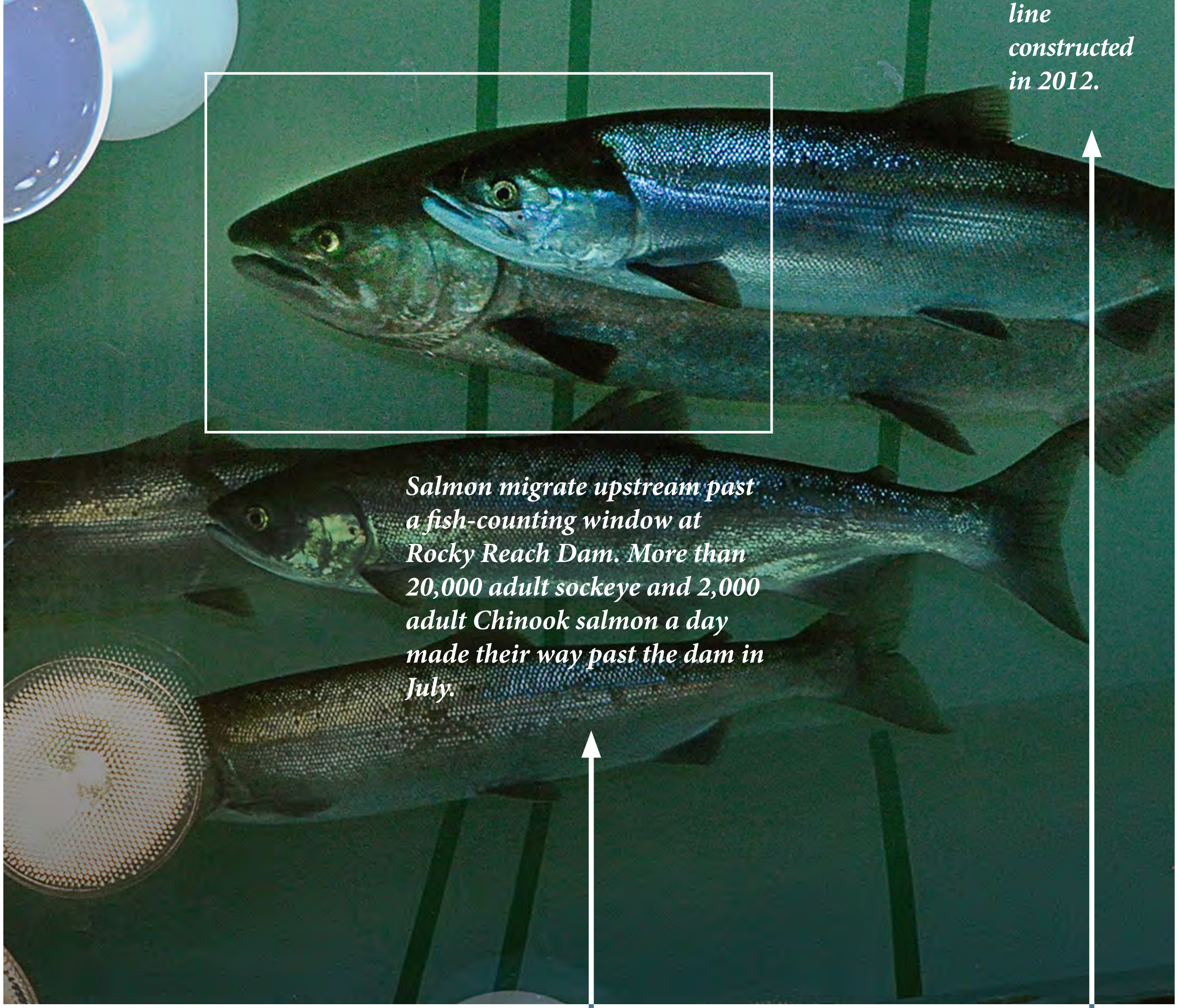
Carol Wardell
General Counsel/
Chief Compliance
Officer

Connecting in the community

Construction of the Okanogan Avenue Substation, planned since 2004, will serve growing demand for electricity in Wenatchee's southeast neighborhoods.



Specialized "flying crane" helicopter ferries in one of the structures for the 5.8-mile Entiat Transmission line constructed in 2012.



Salmon migrate upstream past a fish-counting window at Rocky Reach Dam. More than 20,000 adult sockeye and 2,000 adult Chinook salmon a day made their way past the dam in July.

Right: PUD wildlife biologists install a water station for deer in the hills west of Wenatchee.

PUD crews join the firefighting effort in September to protect power lines as lightning-caused wildfires threaten thousands of acres across Chelan County and fill the Wenatchee Valley with thick smoke for more than two weeks.

Action Academy, a pilot program for middle school students, brought PUD employees to the classroom with engineering and science projects to show the connection to future public power careers.

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pwc

Independent Auditor's Report

To the Board of Commissioners of Public Utility District No. 1 of
Chelan County, Washington

We have audited the accompanying financial statements of Public Utility District No. 1 of Chelan County, Washington (the "District"), which comprise the statements of net position as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in fund net position and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District at December 31, 2012 and December 31, 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 19 through 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the basic financial statements. The combining schedules of assets, liabilities, deferred inflows of resources and net position, revenues, expenses and changes in fund net position, and of cash flows, as well as supplemental disclosures of telecommunication activities in Note 13 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

April 19, 2013

Management's Discussion and Analysis

December 31, 2012 and 2011

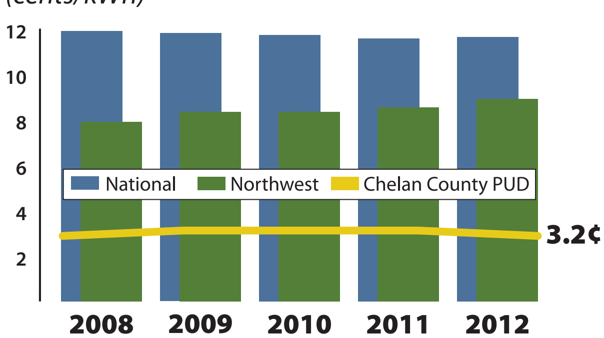
The following discussion provides an overview and analysis of the financial activities of Public Utility District No. 1 of Chelan County (the District) for the years ended December 31, 2012 and 2011. This discussion and analysis is designed to be used in conjunction with the financial statements, notes and other supplementary information, which follow this section.

FINANCIAL HIGHLIGHTS

- Effective January 2012, District customers saw a new kind of electric bill. Instead of being billed on a three-tier scale that charges more as power consumption goes up, residential customers are now charged a flat 2.7 cents per kilowatt-hour for all the energy they use. The change resulted in a revenue increase to the District of approximately 2.5%. The move to a flat rate was intended to make it easier for customers to understand their bill and calculate the impact of adding new appliances or reducing energy use. In addition to the rate redesign, the temporary 9% rate surcharge that had been in effect since May 2009 expired at the end of 2011. The net impact of the rate redesign and the expiration of the surcharge was a reduction in rates of approximately 6.5%. The average residential rate was approximately 3.2 cents per kilowatt hour, still among the lowest in the nation and a decrease from the previous year's average of 3.4 cents per kwh.

Average Residential Rates

(cents/kWh)



- In February 2012, the District locked in additional predictable revenue of $83.2 million from January 2013 through the end of 2017 in exchange for a share of the future power produced by Rock Island and Rocky Reach dams that is surplus to local needs. Locking in predictable revenue by selling "slices" of the future output of Rock Island and Rocky Reach dams in up to five-year increments is proving to be successful in helping the District meet financial goals called for in its Strategic Plan. The power is auctioned under a power sales strategy approved by the Board of Commissioners that allows the District to sell slices of clean, renewable hydropower output in advance in up to five-year blocks. Fixed monthly payments begin as soon as the power is delivered. A slice means that purchasers are not guaranteed a specific number of megawatts, but, in exchange for fixed payments to the District, they will receive a percentage of output under whatever generating conditions exist at the time. The District will still have adequate energy supplies to meet local load during this period, and, for most weather and water supply conditions, the District expects to have additional power to sell on the surplus market beyond what was auctioned. This should benefit customers by providing more rate stability and more certainty for District programs. The 2012 sale was the fourth of its kind. The previous three auctions raised $216.2 million for output from December 2010 through 2015.
- In July 2012, new power sales contracts with Puget Sound Energy (PSE) and Alcoa for the output of power from Rock Island Dam went into effect. New Rocky Reach power sales contracts were effective November 2011. The new contracts benefit all parties and extend power sales to PSE and Alcoa thru 2031 and 2028, respectively. Under the new contracts, PSE receives 25 percent and Alcoa receives 26 percent of the equivalent combined output from Rock Island and

Management's Discussion and Analysis (cont.)

December 31, 2012 and 2011

Rocky Reach projects in exchange for PSE and Alcoa paying 25 percent and 26 percent, respectively, of all costs associated with the projects, including capital, operation and maintenance and debt service costs. The "cost-plus" contracts allow the District to pay down additional debt and to pay for future capital improvements at the hydro projects without borrowing. Under the new contracts, the District also retained a larger share of the energy generated at the dams, which will provide additional surplus power sales to benefit the District's ratepayers. In addition, PSE made an $89 million payment and Alcoa made a $22.9 million payment to the District in 2006 and 2008, respectively. The payments represented deferred wholesale power sales revenue, which will be recognized as earnings over the life of the new power sales contracts.

- Commissioners approved agreements in 2012 with Douglas and Grant County Public Utility Districts (PUD) and the Bonneville Power Administration (BPA) to build a new transmission line and install other equipment expected to make the area's transmission system more flexible and reliable. The collaborative approach for the North Mid-Columbia Joint Transmission Project offers a cost-effective plan for building a nine-mile, high-voltage line from Douglas PUD's Rapids Switchyard near Rock Island to BPA's Columbia Switchyard in Douglas County, south of Rock Island Dam. The District's share of the project is estimated at $3.3 million, and it will also cover about 41 percent of future operation and maintenance costs, reflecting the share of capacity rights it expects to receive.
- Commissioners approved the updated Integrated Resource Plan (IRP) in 2012 that shows where District energy supply will come from over the next ten years. The District is required to update its IRP regularly and demonstrate how the District will meet its anticipated electrical load for the next decade. The District gets most of its electricity from three hydropower dams: Lake Chelan, Rock Island and Rocky Reach. The District also has a share of the Nine Canyon wind project and has an alternative power program called SNAP that promotes wind, solar and small hydro installations. The District is also meeting targets for increased energy conservation and renewable resources that are in line with requirements of Initiative 937 passed by voters several years ago. The IRP also includes a required short-term plan that is consistent with the District's ten-year plan.
- In December 2012, the District legally defeased the 2008A Notes through an irrevocable escrow. The $53.7 million notes were due to mature July 1, 2013. The District used cash from unspent notes proceeds and other available funds to pay off the notes six months earlier than scheduled in order to reduce fixed costs and promote financial and rate stability. The defeasance of the notes was a continuation of the District's debt reduction plans. Total debt outstanding was reduced by a total of $81.6 million in 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

This section of the Annual Report consists of the Independent Auditor's Report, Management's Discussion and Analysis (MD&A), Basic Financial Statements with accompanying notes, and Supplementary Information. The financial statements of the District are designed to provide readers with a broad overview of the District's finances similar to a private-sector business. They are prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred, regardless of the timing of related cash flows. These statements offer short- and long-term financial information about District activities.

The Statements of Net Position present information on all of the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities).

The Statements of Revenues, Expenses and Changes in Fund Net Position provide the operating results broken into categories of operating revenues and expenses, non-operating revenues and expenses, as well as capital contributions.

The Statements of Cash Flows provide relevant information about the District's cash receipts and cash payments from operations as well as funds provided by and used in capital and related financing and investment activities.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

One of the most important questions asked about the District's finances is, "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Fund Net Position report information about the District's activities in a way that helps answer this question. These two statements report the net position of the District and the changes in them. The District's Net Position – the differences between assets and liabilities – is one way to measure financial health. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, customer growth and legislative mandates should also be considered.

In 2012, the overall financial position of the District improved. The District's total net position increased by $77.9 million. The increase is due primarily to a combination of additional surplus energy available for sale and locked in prices on surplus energy through slice contracts and forward block sales. Effective with the implementation of new long-term power sales contracts for the output of power from Rocky Reach Dam and Rock Island Dam in November 2011 and July 2012, respectively, the District retained a larger share of the hydro generation. The additional power was sold primarily under slice agreements. Along with this increase in share of power came an increase in share of operating expenses. However, the increase in revenue outpaced higher costs to net an operating income of $118.7 million compared to $61.5 million last year.

The District's total net position increased by $16.7 million in 2011. The increase was due primarily to improved snowpack and stream flows, which resulted in a significant increase in generation at the District's hydro projects compared to 2010, reducing the need for purchases of energy and resulting in increased revenues as energy in excess of the District's load requirements was sold on the wholesale market. The increase in sales volume was partially offset by lower average sales prices compared to 2010. Lower market prices were buffered by the sale of slices of the District's hydro production at fixed prices. Continued cost containment efforts by the District contributed to the improvement in earnings, as well.

Management's Discussion and Analysis (cont.)

December 31, 2012 and 2011

The following analysis provides a three-year comparison of key financial information:

CONDENSED COMPARATIVE FINANCIAL INFORMATION

(amounts in thousands)	2012	2011*	2010*	Increase (Decrease) 2012–2011
Current assets	$ 195,919	$ 196,741	$ 194,736	$ (822)
Net utility plant	1,092,234	1,090,933	1,095,308	1,301
Other non-current assets	302,317	286,970	316,382	15,347
Total assets	1,590,470	1,574,644	1,606,426	15,826
Current liabilities	96,040	99,978	84,703	(3,938)
Long-term debt	834,948	912,037	992,219	(77,089)
Other liabilities	185,436	167,186	154,216	18,250
Total liabilities	1,116,424	1,179,201	1,231,138	(62,777)
Deferred inflows of resources	8,054	7,375	3,948	679
Invested in capital assets, net of related debt	237,421	220,126	208,355	17,295
Restricted	116,048	110,692	106,766	5,356
Unrestricted	112,523	57,250	56,219	55,273
Total net position	$ 465,992	$ 388,068	$ 371,340	$ 77,924

*The District's 2011 and 2010 Statements of Net Position were updated for the impacts of the required retroactive implementation of GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," which became effective for the District in 2012. Implementation of the statement had no impact on the District's operating results or net cash flows for any year presented.

(amounts in thousands)	2012	2011	2010	Increase (Decrease) 2012–2011
Operating revenues	$ 321,733	$ 238,543	$ 216,355	$ 83,190
Less				
Operating expenses	203,028	177,092	183,487	25,936
Other income and expenses	43,808	46,608	49,379	(2,800)
Net income (loss) before capital contributions	74,897	14,843	(16,511)	60,054
Capital contributions	3,027	1,885	3,456	1,142
Change in net position	77,924	16,728	(13,055)	61,196
Total net position – beginning of year	388,068	371,340	384,395	16,728
Total net position – end of year	$ 465,992	$ 388,068	$ 371,340	$ 77,924

ASSETS

Current assets decreased by $0.8 million in 2012, primarily due to a $4.0 million decrease in accounts receivable offset somewhat by a $2.8 million net increase in cash and cash equivalents and investments. The lower accounts receivable balance was primarily the result of a change in the timing of billings under the new long-term power sales contracts which resulted in a shorter lag time in the payment of costs compared to the previous power sales contracts that expired in October 2011 and June 2012. This decrease in accounts receivable was offset by a net increase of $2.8 million in the District's cash and investment balances resulting from the District's positive 2012 operating results.

On the other hand, current assets increased by $2.0 million in 2011, primarily due to an increase in accounts receivable as a result of the implementation of the new power sales contracts and the current portion of deferred regulatory charges. These increases were offset by a net decrease in the District's cash and investment balances primarily as a result of payments made related to the termination of three interest rate swaps.

As of December 31, 2012, the District had approximately $1.1 billion invested in a variety of capital assets (see Note 3). Net utility plant increased $1.3 million in 2012, reflecting additional investments in utility plant assets, including significant additions related to hatchery projects, hydro modernization projects at Rock Island and water reservoir projects, which were partially offset by the cumulative effect of 12 months' worth of depreciation. As of December 31, 2011, the District had approximately $1.1 billion invested in a variety of capital assets (see Note 3). Net utility plant decreased $4.4 million in 2011, reflecting additional investments in utility plant assets, including significant additions related to the hydro fisheries and hatchery projects, transmission corridor upgrades and hydro modernization projects at Rock Island, which were more than offset by the cumulative effect of 12 months' worth of depreciation.

Other noncurrent assets increased $15.3 million in 2012 primarily as a result of an increase in long-term investments offset somewhat by a decrease in restricted assets. Long-term investments increased due to a combination of higher cash balances resulting from positive operating results and changes in investment strategies. The decrease in restricted assets was due primarily to the use of restricted construction funds to retire existing debt prior to maturity in support of the District's debt reduction strategy. Other non-current assets decreased $29.4 million in 2011 primarily as a result of a net decrease in restricted assets and long-term investments offset somewhat by an increase in deferred regulatory charges. Restricted assets and long-term investments decreased primarily as a result of a reduction in balances used to fund capital expenditures combined with the early retirement of existing debt. Deferred regulatory charges increased primarily as a result of the termination of the 2008B and 2011 swaps in 2011. The 2008B and 2011 series swaps were terminated in March and May 2011, respectively, and the termination payments were recognized as regulatory assets.

LIABILITIES

Current liabilities decreased $3.9 million in 2012, primarily as a result of a decrease in the current portion of long-term obligations. The decrease in the current portion of long-term obligations is due primarily to changes in regularly scheduled repayments of bond principal on existing debt compared to the prior year.

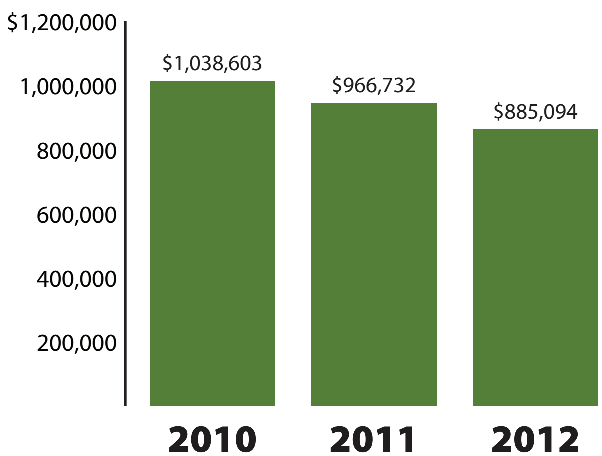
Current liabilities increased $15.3 million in 2011, primarily as a result of increases in the current portion of long-term obligations and deferred wholesale power sales, offset somewhat by a

Management's Discussion and Analysis (cont.)

December 31, 2012 and 2011

reduction in accrued interest. The increase in the current portion of long-term obligations is due primarily to refunding existing debt as the average life of the debt was shortened in order to secure more favorable repayment terms. With the implementation of the new power sales contracts, unearned revenue previously received from the power purchasers will now be recognized over the life of the contracts. The change in current portion represents a full year's unearned revenue. The decrease in accrued interest is due primarily to refunding of existing debt at lower interest rates combined with the retirement of existing debt. Balances on which interest is calculated are lower and interest rates are down as well.

Total District Debt Outstanding
(amounts in thousands)



Total debt outstanding decreased by $81.6 million in 2012 due to scheduled maturities and the defeasance of the 2008A Notes prior to maturity. This contributed to the $77.1 million reduction in long-term debt, which is net of premiums, discounts, deferred refunding losses and the current portion of the obligations. The District did not refinance or issue additional bonds in 2012.

During 2011, the District successfully marketed $344.1 million in Consolidated System Revenue Bonds, refunding existing debt at lower interest rates and securing more favorable repayment terms, shortening the average life of the debt. In addition to the refunding, the District was able to make advance repayment of several bond issues during 2011, contributing to the $80.2 million decrease in the long-term debt balance compared to the prior year.

For more information regarding the long-term debt activity see Note 6.

Other liabilities increased $18.3 million in 2012 primarily as a result of an increase in regulatory liabilities related to the receipt of contributions in aid of construction for shared hatcheries projects and the Alcoa Valhalla substation project. The contributions in aid of construction were deferred as regulatory liabilities when received and will be amortized over the life of related projects to match the revenue recognition with the treatment of the contributions for rate-making purposes.

Other liabilities increased $13.0 million in 2011 primarily as a result of the implementation of the new long-term power sales contracts and the accrual of various initial charges which are deferred and will be recognized in wholesale revenue systematically over the periods in which the charges are earned. This was offset somewhat by a decrease in derivative instrument liability as a result of the termination of the 2008B and 2011 swaps combined with changes in the fair market value on the District's remaining interest rate swaps.

NET POSITION

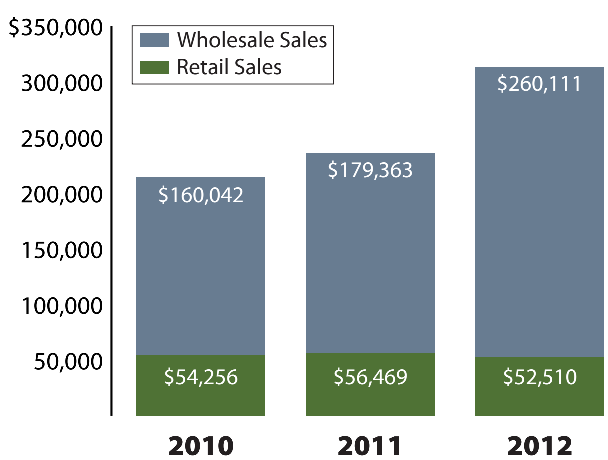
Invested in capital assets, net of related debt, increased $17.3 million and $11.8 million in 2012 and 2011, respectively. The increase in 2012 reflects a reduction in debt primarily as a result of the early defeasance of the 2008A Notes offset somewhat by lower restricted construction funds as compared to the prior year. The increase in 2011 reflects a reduction in debt primarily as a result of early retirements and downsizing offset somewhat by lower restricted construction funds as compared to the prior year. Restricted net position represents resources that are subject to external restrictions, such as bond covenants or third-party contractual agreements. Restricted net position increased $5.4 million in 2012 primarily due to the implementation of the new power sales contracts that became effective July 1, 2012 and November 1, 2011, and the related restriction of funds for construction and debt reduction purposes. Restricted net position increased $3.9 million in 2011 due to funds that are restricted by the new Rocky Reach power sales contracts that became effective November 1, 2011. Unrestricted net position is not restricted for the purpose of debt covenants or other legal requirements and can be used to finance the day-to-day operations of the District. In 2012 and 2011, unrestricted net position increased approximately $55.3 million and $1.0 million, respectively, due primarily to increased earnings in 2012 and 2011.

STATEMENT OF REVENUES AND EXPENSES

In 2012, retail sales decreased $4.0 million compared to 2011 as a result of the expiration at the end of December 2011 of the temporary electric rate surcharge of 9 percent that was put in place in May 2009 due to record-low river flows and low wholesale power prices. The reduction in revenue due to the expiration of the surcharge was partially offset by a small increase in revenue due to a 2.5% rate increase and redesign. Wholesale sales increased $80.7 million in 2012 compared to 2011 due to the District retaining a larger percentage of the hydro generation under the new power contracts resulting in more power available for sale on the wholesale market. The bulk of the additional energy was sold through slice agreements and block transactions. Purchased power costs increased $18.0 million in 2012 compared to 2011 primarily corresponding to a combination of the implementation of the new power contracts, and the corresponding increase in surplus energy and slice agreements requiring increased volume of market activity to balance the District's load and demand. Operating expenses came in $25.9 million higher in 2012 than in 2011, but within budget, primarily as a result of the increase in purchased power costs combined with an increase in utility services and other operation and maintenance expenses. The increase in utility operation and maintenance expenses was due partially to repairs related to the December 2012 storm that caused significant damage to part of the District's electric distribution, transmission and fiber systems. Other expenses, which included net interest expense and income, decreased $2.8 million primarily as a result of decreased interest on long-term debt due to a combination of reduced debt balances and lower interest rates offset by reduced investment income due to significantly reduced interest rates. Net income before capital contributions improved by $60.1 million compared to 2011 due primarily to increased operating revenues as a result of retaining a larger share of energy generated at the dams upon expiration of prior power sales contracts. Capital contributions improved by $1.1 million compared to 2011 due primarily to an increase in line extension activity.

In 2011, retail sales increased $2.2 million compared to 2010 as a result of an increase to more "normal" usage levels during the winter. Retail sales in 2010 were lower than average due to mild weather conditions. Wholesale sales increased $19.3 million in 2011 compared to 2010. Significantly increased generation at the District's hydros combined with retaining a higher percentage of generation at Rocky Reach upon expiration of the prior power sales contracts resulted in a higher volume of surplus energy available for sale into the wholesale market. The increase in volume was partially offset by lower average market prices. Purchased power costs decreased $8.5 million in 2011 compared to 2010 primarily corresponding to a combination of reduced purchase volume and lower average purchase prices. Operating expenses came in $6.4 million lower in 2011 than in 2010 primarily as a result of decreased purchased power costs and cost containment efforts. Other expenses, which include net interest expense and income, decreased $2.8 million primarily as a result of decreased interest on long-term debt due to a combination of reduced debt balances as a result of some early retirements during 2011 and the issuance of refunding bonds at lower interest rates. The decrease in interest expense was offset somewhat by amortization of swap termination payments made in 2011 and losses on early retirements of debt. Capital contributions decreased $1.6 million compared to 2010 due primarily to a couple of large projects recognized in the prior year. There were no similar projects in 2011. Net income before capital contributions improved by $29.8 million compared to 2010 due primarily to increased operating revenues combined with decreased purchased power costs as a result of increased generation and the expiration of prior power sales contracts.

Wholesale/Retail Revenues
(amounts in thousands)



OTHER SIGNIFICANT MATTERS

A Strategic Plan developed over several years and adopted by Commissioners in 2010 is the District's roadmap for achieving financial stability and continuing to provide cost-effective and efficient services that our customer-owners have told us they expect. The Strategic Plan provides the framework for making sure the District is financially sound and can weather the ups and downs of the economy, variations in snowpack and wholesale electricity prices and continue to provide affordable utility services for generations to come.

Financial Policy targets were established as part of the Strategic Plan to build a solid foundation for reliable, sustainable services for the long term. The targets, based upon what the District heard from customers, are intended to: provide a sufficient rate of return for the District so assets can be replaced over time and there will be sufficient income to meet District obligations, even under unusual (low water/low price) conditions; maintain an adequate debt-service coverage ratio to demonstrate that the District clearly has the resources to meet debt obligations, even under unusual conditions; reduce the debt ratio (percentage of utility assets financed by debt) over time; and provide financial liquidity (cash reserves and other sources) to cover risks and provide additional financial stability. The Strategic Plan is working and the District is meeting the financial targets.

In 2012, Commissioners also took the next steps needed in a plan to stabilize fiber network finances. After extensive public outreach and analysis, the Commission decided to continue operating the fiber-optic network and to take a broad range of steps to put it on more stable financial footing. In exchange for writing-off $99 million in intersystem loans, the Commissioners approved new financial policies to ensure the fiber system is operated as a self-sustaining business with no new cash or loans from other District sources. The financial policies include a target to build reserves to a minimum of $1 million before there is any consideration of system-funded expansion of the network beyond the area served now and then continue to build reserves to $4 million over five years. The reserves are recommended to ensure adequate funding for normal business needs, unexpected events and planned capital projects.

With broad financial principles outlined in the District's Strategic Plan and financial policy targets established at the overall District level and for the fiber network, Commissioners established financial targets in 2012 for each of the District's remaining primary services: integrated electric, water and wastewater. The goal is to keep each utility service moving toward covering the cost of providing service. Targets are now established for cash reserves, rate of return, debt ratio and debt service coverage for the District's main business lines. The targets reflect overall financial goals and priorities of customer-owners that were gathered during extensive outreach and were used to help develop five-year business plans.

The District was able to exceed budgeted expectations in 2012 by $5.3 million, keeping it on track to meet financial policies. Combined improvement in net position for the District was $77.9 million, compared to a budgeted amount of $72.7 million.

Several factors combined for the better-than-budgeted results:

- The District's hedging program that locked in prices for "slices" and "blocks" of its power which offset lower-than-forecast market prices
- Increased hydro production from Columbia River flows that were 128 percent of average
- Increased revenue from a new real-time power sales agreement
- Continued focus on cost control that kept expenses below budget

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report should be directed to the District at P.O. Box 1231, Wenatchee, WA 98807.

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Statements of Net Position

December 31, 2012 and 2011

ASSETS *(amounts in thousands)*	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	$ 87,732	$ 55,968
Investments	56,464	76,192
Accounts receivable, net	21,890	25,843
Accrued interest receivable	1,435	1,535
Materials and supplies	10,909	10,595
Prepayments and other	828	747
Current portion of deferred regulatory charges	3,508	3,508
	182,766	174,388
RESTRICTED ASSETS - CURRENT		
Cash and cash equivalents	8,002	9,978
Investments	5,151	12,375
	13,153	22,353
TOTAL CURRENT ASSETS	195,919	196,741
UTILITY PLANT		
In service, at original cost	1,866,280	1,804,366
Construction work in progress	18,641	34,645
Less-accumulated depreciation	(792,687)	(748,078)
	1,092,234	1,090,933
RESTRICTED ASSETS - NONCURRENT		
Cash and cash equivalents	23,213	36,847
Investments	99,362	131,770
	122,575	168,617
DEFERRED CHARGES AND OTHER ASSETS		
Deferred financing costs	6,280	7,391
Fish protection costs	277	856
Long-term receivables, net	1,411	1,772
Long-term investments	118,772	53,691
Deferred regulatory charges, net	39,220	40,978
Derivative instrument asset	8,054	7,375
Other	5,728	6,290
	179,742	118,353
TOTAL ASSETS	$ 1,590,470	$ 1,574,644

The accompanying notes are an integral part of these financial statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION *(amounts in thousands)*	2012	2011
CURRENT LIABILITIES		
Current portion of long-term obligations	$ 42,606	$ 46,778
Current portion of deferred wholesale power sales	7,679	6,703
Accounts payable	17,306	18,322
Accrued taxes	4,370	4,385
Accrued interest	12,253	11,935
Accrued vacation and other	11,826	11,855
	96,040	99,978
LONG-TERM DEBT		
Revenue bonds and notes payable, less current portion	834,948	912,037
OTHER LIABILITIES		
Deferred wholesale power sales revenue, less current portion	115,003	113,061
Long-term contract customer deposit	18,500	18,500
Derivative instrument liability	21,163	21,012
Licensing obligation, less current portion	8,141	8,046
Regulatory liabilities	22,336	5,886
Other liabilities	293	681
	185,436	167,186
TOTAL LIABILITIES	1,116,424	1,179,201
DEFERRED INFLOWS OF RESOURCES		
Derivatives	8,054	7,375
COMMITMENTS AND CONTINGENCIES (see Note 12)		
TOTAL NET POSITION		
Invested in capital assets, net of related debt	237,421	220,126
Restricted	116,048	110,692
Unrestricted	112,523	57,250
	465,992	388,068
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 1,590,470	$ 1,574,644

Statements of Revenues, Expenses and Changes in Fund Net Position

For the years ended December 31, 2012 and 2011

(amounts in thousands)	2012	2011
OPERATING REVENUES		
Retail sales	$ 52,510	$ 56,469
Wholesale sales	260,111	179,363
Other operating revenues	9,112	2,711
	321,733	238,543
OPERATING EXPENSES		
Purchased power and water	32,720	14,731
Generation	65,855	67,542
Utility services	36,334	30,050
Taxes	7,379	7,403
Depreciation and amortization	48,361	48,468
Other operation and maintenance	12,379	8,898
	203,028	177,092
OPERATING INCOME	118,705	61,451
OTHER INCOME (EXPENSE)		
Interest on long-term debt	(42,787)	(50,140)
Amortization of deferred debt costs	(1,140)	(1,186)
Investment income	4,743	9,461
Federal subsidy income	630	630
Other	(5,254)	(5,373)
	(43,808)	(46,608)
INCOME BEFORE CAPITAL CONTRIBUTIONS	74,897	14,843
CAPITAL CONTRIBUTIONS	3,027	1,885
CHANGE IN NET POSITION	77,924	16,728
TOTAL NET POSITION		
Beginning of year	388,068	371,340
TOTAL NET POSITION		
End of period	$ 465,992	$ 388,068

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows
For the years ended December 31, 2012 and 2011

(amounts in thousands)	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 333,750	$ 261,406
Payments to suppliers	(86,129)	(60,925)
Payments to employees	(68,776)	(66,003)
Net cash provided by operating activities	178,845	134,478
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to plant	(34,076)	(44,463)
Proceeds from sale of plant	756	463
Proceeds of new debt	2,453	362,660
Principal paid on debt	(99,184)	(444,415)
Interest paid on debt	(27,639)	(39,736)
Capital contributions	2,613	5,322
Other	241	(27,108)
Net cash used in capital and related financing activities	(154,836)	(187,277)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(184,079)	(203,014)
Proceeds from sales and maturities of investments	177,842	194,078
Interest on investments	5,362	6,527
Long-term receivables	361	1,551
Other, net	(7,342)	(807)
Net cash used in investing activities	(7,856)	(1,665)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	16,153	(54,464)
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	102,793	157,257
CASH & CASH EQUIVALENTS, END OF YEAR	$ 118,946	$ 102,793
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 118,705	$ 61,451
Depreciation and amortization	48,361	48,468
Decrease (increase) in operating assets:		
Accounts receivable, net	3,953	(4,367)
Materials and supplies	(314)	(233)
Prepayments	(81)	513
Other	(1,601)	(1,112)
Increase (decrease) in operating liabilities:		
Accounts payable	1,353	1,105
Accrued taxes	(15)	996
Accrued vacation and other	(29)	426
Deferred wholesale revenue	8,513	8,774
Long-term contract customer deposits	–	18,457
Net cash provided by operating activities	$ 178,845	$ 134,478
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Construction costs included in accounts payable	$ (2,369)	$ (683)
Capital contributions	17,398	116

The accompanying notes are an integral part of these statements.

Notes to Basic Financial Statements

Years ended December 31, 2012 and 2011

NOTE 1: SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity and Operations of the District

Public Utility District No. 1 of Chelan County, Washington (the District) is a municipal corporation of the State of Washington established in 1936. The District owns and operates electric generation, electric transmission, electric and water distribution, wastewater properties and a wholesale telecommunication system. The District is governed by an elected five-member Board of Commissioners (Commissioners). The Commissioners' responsibilities are to appoint the General Manager, approve budgets for the District's Systems, adopt regulations and set policies and guiding financial and operating principles for the operations included in these financial statements. The District has no component units. The District's operations consist of the Rocky Reach Hydroelectric System, the Rock Island Hydroelectric System, the Lake Chelan Hydroelectric System (the Hydro Systems); a retail electric distribution and transmission system, a water system, a wastewater system, a fiber-optic telecommunication system (Utility Services); and two internal service systems.

Accounting Policies

The accompanying financial statements of the District conform to accounting principles generally accepted in the United States of America (GAAP) applicable to a municipal utility. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has applied all applicable GASB pronouncements including GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."

GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements," GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements," and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB 53," were all effective for the District beginning in fiscal year 2012. Implementation of these statements did not have a material impact to the District's financial results.

In June 2011, GASB issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position." Statement No. 63 amends the current net assets reporting requirements by incorporating deferred inflows of resources and deferred outflows of resources into the definitions of required financial statement components and renames "Net Assets" as "Net Position." Statement No. 63 is effective for the District beginning in fiscal year 2012. The District's financial statements have been modified to conform to the requirements of this statement. Implementation did not have a material impact on the District's financial results.

In March 2012, GASB issued Statement No. 65, "Items, Previously Reported as Assets and Liabilities." Statement No. 65 establishes accounting and financial reporting standards that reclassify certain items previously reported as assets and liabilities as deferred outflows or deferred inflows of resources, or as outflows or inflows of resources. This statement also limits the use of the term deferred in financial statement presentations. This statement is effective for the District beginning in fiscal year 2013. The District is currently assessing the financial statement impact of adopting this statement, but does not believe that its impact will be material.

In June 2012, GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27." The primary objective of Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. This statement establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources and expenses. For defined benefit pension plans, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosure and required supplementary information about pensions are also addressed. Statement No. 68 is effective for the District beginning in fiscal year 2015. The District is currently evaluating the financial statement impact of adopting this statement.

Notes to Basic Financial Statements (cont.)

Years ended December 31, 2012 and 2011

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The District has used significant estimates in the determination of fair value of derivatives, regulatory assets and liabilities, depreciable lives of utility plant, license obligations, unbilled revenues, self-insurance reserves, incurred but not reported self-insurance liabilities, allowance for uncollectible accounts receivable and payroll related liabilities.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits at commercial banks and investments with maturities of ninety days or less when purchased.

Revenues and Expenses from Operations

Revenues of the District are recognized when earned and are comprised of sales of wholesale power, sales of electric, water, wastewater and wholesale telecommunication services and sales of environmental attributes. The accompanying financial statements include estimated unbilled revenues for energy and wholesale telecommunication services delivered to customers between the last billing date and the end of the year. Estimated unbilled revenues amounted to $2.2 million in 2012 and $2.5 million in 2011. The amounts are included in accounts receivable.

Revenues from the Rocky Reach and Rock Island hydroelectric production facilities represent sales of power generated under firm "take-and-pay" power sales contracts or sales directly to the retail electric distribution system. Revenues under these contracts are cost-based, including debt service costs. The long-term contract under which the Rocky Reach System had sold its output for the last 50 years expired in October 2011, and the Rock Island System's contract expired in June 2012.

In January 2006, the District entered into a 20-year power sales contract with Puget Sound Energy (PSE) for 25% of the output of the Rocky Reach and Rock Island projects, starting in 2011 and 2012, respectively, when the prior power sales contracts expired. PSE is generally responsible to pay 25% of all costs associated with the projects, including capital, operation and maintenance and debt service costs, in addition to charges for capital recovery, debt reduction and various fees. Under the terms of the contract, the District received an advance payment of $89.0 million during 2006, which has been deferred and will be recognized as revenue over the term of the new contract.

In July 2008, the District entered into a 17-year power sales contract with Alcoa for output equivalent to 26% of the Rocky Reach and Rock Island projects, starting in 2011 and 2012, respectively, when the prior power sales contracts expired. Alcoa is generally responsible to pay 26% of all costs associated with the projects, including capital, operation and maintenance and debt service costs. Under the terms of the contract, the District received an advance payment of $22.9 million of an $89.0 million capacity reservation charge during 2008, which has been deferred and will be recognized as revenue over the term of the new contract. The balance of the capacity reservation charge will be deferred as long as the plant continues to operate and waived if the plant continues to operate under the terms of the contract for the entire contract term.

Revenues from the sale of environmental attributes associated with a portion of the District's hydroelectric and wind generation are recorded as delivered and earned.

The District's share of power produced by the Rocky Reach, Lake Chelan and Rock Island Systems is sold to the electric distribution system on a cost-of-service basis. As of December 31, 2012, the Rocky Reach, Lake Chelan and Rock Island Systems sell 49%, 100% and 49%, respectively, of their output to the retail electric distribution system, which is in turn sold to retail customers or sold on the wholesale market if in excess of the District's retail load.

Electric, water and wastewater customers and telecommunication service providers are billed on a cyclical basis under rates established by the District's Commission. Revenues from the sale of electric, water, wastewater and telecommunication services are recorded as delivered and earned.

For the year ended December 31, 2012, the District had three significant customers (greater than 10% of operating revenues), collectively comprising total revenue of $158 million. The District had two significant customers for the year ended December 31, 2011, collectively comprising total revenue of $123 million.

The District accounts for expenses on an accrual basis. Expenses for the costs of production from the Rocky Reach, Rock Island and Lake Chelan hydroelectric production facilities are recovered under firm power sales contracts or sales directly to the retail electric distribution system.

Under the American Recovery and Reinvestment Act of 2009, the District issued taxable Build America Bonds (BABs) to finance capital projects that otherwise could be financed with tax-exempt bonds. The District receives periodic subsidy payments from the federal government equal to 35 percent of the interest paid on the BABs. In 2012 and 2011 the District recognized non-operating revenues of $630,000 and $630,000, respectively.

Intradistrict revenues and expenses are eliminated in the Statement of Revenues, Expenses and Changes in Fund Net Position.

Regulatory Deferrals

The Commissioners have the authority to establish the level of rates charged for all District services. As a regulated entity, the District's financial statements are prepared in accordance with "Regulated Operations," which require that the effects of the rate-making process be recorded in the financial statements. Accordingly, certain expenses and credits, normally reflected in the Statement of Revenues, Expenses and Changes in Fund Net Position as incurred, are recognized when included in rates and recovered from, or refunded to, customers. The District records various regulatory assets and credits to reflect rate-making actions of the Commissioners. See Note 5.

Power Marketing

To balance the District's anticipated power resources and demand for those power resources, the District enters into forward physical power sales agreements when resources exceed expected demand and forward physical power purchase agreements when expected demand exceeds the resources estimated to be available.

To help manage risk and keep future rates stable and affordable, the District has implemented a comprehensive power hedging strategy. A key component of this strategy includes the execution of market-based products such as physical block transactions and layered slice output contracts over a rolling forward horizon of 60 months beyond the current year. The execution of this strategy helps to mitigate the risks the District faces related to wholesale power marketing while securing stable revenue for the future. Forward physical block transactions are used to mitigate market price risk the District faces related to its long or short positions. The execution of slice output contracts, which provide a counterparty a percentage share of hydropower production for a fixed payment, also help mitigate price risk, as well as volumetric risk related to river flows and production risk related to the District's ability to generate power.

All power risk management activities are subject to the Power Risk Management Policy requirements and oversight by the District's Power Risk Management Committee, which monitors the District's exposure to various power related risks using a series of industry standard methodologies. The power hedging strategy is included as part of the Power Risk Management Policy and defines the specific hedging objectives and targets that are measured, monitored and communicated to the Committee.

The Power Risk Management Policy includes credit management provisions under which individual limits are assigned to counterparties based upon specific predetermined criteria utilizing an industry standard credit-scoring model. Active counterparties are reviewed on a regular basis to evaluate whether the assigned limits need to be adjusted. In addition, daily monitoring of financial and market information is performed to identify any developing counterparty credit risk. Transactions are limited accordingly when deemed necessary.

The District requires that a one-way collateral annex be executed in conjunction with its slice output contracts, whereas the District is not required to post any collateral. Currently, the District is requiring that all posting requirements be met with a Letter of Credit. For higher rated counterparties, the District may accept Performance Assurance in the form of cash.

Notes to Basic Financial Statements (cont.)

Years ended December 31, 2012 and 2011

All of the District's forward power contracts are derivative instruments. All forward power contracts in place during 2011 and 2012 are classified as normal purchases and sales under GASB Statement No. 53 and as such, are excluded from fair value reporting requirements. All forward power contracts are recognized over the duration of the contracts as a component of Operating Revenues and Purchased Power Operating Expenses in the Statement of Revenues, Expenses and Changes in Fund Net Position.

Deferred Financing Costs
Costs associated with the issuance of bonds are amortized to expense over the term of the related debt. Amortization expense is calculated under the straight-line method or effective interest method, depending on the maturity schedule of the related bonds.

Allowance for Uncollectible Accounts Receivable
A reserve is established for uncollectible accounts receivable based upon actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. The allowance for uncollectible accounts was $305,000 and $144,000 at December 31, 2012 and 2011, respectively.

Capital Contributions
A portion of the District's utility plant has been financed through contributions from federal and state agencies and from assessments of local property owners. The District also records contributions from customers and developers, primarily relating to the District's Utility Services System, in accordance with the District's line extension policy. In-kind contributions are recognized based on the donor's actual costs. Capital contributions are recorded as Non-Operating Revenues in the Statements of Revenues, Expenses and Changes in Fund Net Position. For rate-making purposes, individual contributions in excess of $1 million are deferred when received and included in revenues to match the estimated useful lives and amortized costs of the related facilities. See Note 5.

Materials and Supplies Inventory
Materials and supplies consist of hydroelectric generation, transmission, distribution, water and wastewater assets, and fiber-optic cable and fiber-related supplies, and are valued at average cost.

Compensated Absences
Employees of the District accrue a personal leave benefit based upon a years of service schedule. Personal leave may be used for vacation and sick leave purposes. The District records personal leave as an expense and a liability as earned. Unused personal leave may be accumulated up to a maximum of 1,350 hours for non-bargaining unit personnel and 1,200 hours for bargaining unit employees. Effective April 1, 2012, any newly hired employee may only accrue 800 hours of personal leave. Upon resignation, retirement or death, 90% of accumulated personal leave is deposited into a personal Voluntary Employees' Beneficiary Association (VEBA) account. The remaining 10% of accumulated personal leave is cashed out.

Utility Plant
Utility plant is stated at original cost, which includes both direct and indirect costs of construction or acquisition, including an allowance for funds used during construction (AFUDC) for major non-hydro system projects. The District charges the cost of repairs and minor renewals to maintenance expense and the cost of renewals and replacement of property units that meet the District's capitalization threshold to utility plant. The cost, less net salvage, of property units retired is charged to accumulated depreciation. The District's capitalization threshold is $5,000. As the District constructs various major projects, costs accumulate in construction work in progress and are capitalized to utility plant after the projects have been completed and placed into service.

Provision for depreciation is computed using the straight-line method by applying rates based upon the estimated service lives of the related plant, ranging from 5 to 90 years.

Subsequent Events
The District has evaluated all subsequent events through April 19, 2013, the issue date of this report, to ensure that these financial statements include appropriate disclosure of events both recognized in the financial statements as of December 31, 2012 and events which occurred subsequent to December 31, 2012 but were not recognized in the financial statements.

NOTE 2: CASH AND INVESTMENTS

Investments of the District are held by banks or trust companies as the District's agent and in the District's name. The remainder of the District's funds consists of uninvested cash that is protected against loss by a combination of federal depository insurance and being on deposit with qualified public depositories of the Washington Public Deposit Protection Commission (WPDPC).

Cash and investments are recorded in accounts as required by the District's bond indentures. Restricted assets represent accounts that are restricted by bond covenants or third party contractual agreements. Accounts that are allocated by resolution of the Commissioners are considered to be board designated accounts. Board designated accounts are a component of unrestricted assets as their use may be redirected at any time by approval of the Commissioners. Generally, when both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first as appropriate, then unrestricted resources as they are needed.

As of December 31, the District's unrestricted, board designated and restricted assets included on the Statements of Net Position as cash and cash equivalents, investments and long-term investments, consisted of the following:

(amounts in thousands)	2012	2011
Unrestricted assets		
Unrestricted	$ 79,367	$ 51,570
Board designated	183,601	134,281
Total unrestricted assets	262,968	185,851
Restricted assets	135,728	190,970
	$ 398,696	$ 376,821

As of December 31, 2012 and 2011, the District had the following cash and investments:

(amounts in thousands) Investment Type	Fair Value 2012	Investment Maturities (in Years) Less than 1	1-2	3-4	More than 4
U.S. Treasuries	$ 95,719	$ 27,489	$ 32,370	$ 19,528	$ 16,332
U.S. Agency Notes	92,886	48,662	39,224	5,000	–
Municipal Bonds	75,721	21,130	16,432	15,183	22,976
State Investment Pool	34,124	34,124	–	–	–
Financial Institution Deposits	22,367	9,867	12,500	–	–
Cash	77,879	77,879	–	–	–
	$ 398,696	$ 219,151	$ 100,526	$ 39,711	$ 39,308

(amounts in thousands) Investment Type	Fair Value 2011	Investment Maturities (in Years) Less than 1	1-2	3-4	More than 4
U.S. Treasuries	$ 45,056	$ 5,352	$ 13,561	$ 6,795	$ 19,348
U.S. Agency Notes	69,791	35,626	28,249	5,916	–
U.S. Agency Bills	19,033	19,033	–	–	–
Municipal Bonds	56,827	17,672	21,255	9,813	8,087
TLGP Bank Bonds	36,820	36,820	–	–	–
State Investment Pool	26,537	26,537	–	–	–
Financial Institution Deposits	51,978	43,978	4,000	4,000	–
Cash	70,779	70,779	–	–	–
	$ 376,821	$ 255,797	$ 67,065	$ 26,524	$ 27,435

Notes to Basic Financial Statements (cont.)

Years ended December 31, 2012 and 2011

U.S. Treasury bills, notes or bonds, U.S. Government agency securities, municipal bonds, TLGP bank bonds and bankers' acceptances that had a remaining maturity at the time of purchase of greater than one year are recorded at fair value. U.S. Treasury bills, notes or bonds, U.S. Government agency securities, municipal bonds, TLGP bank bonds and bankers' acceptances that had a remaining maturity at the time of purchase of one year or less are recorded at amortized cost, which approximates fair value. Non-negotiable certificates of deposit are recorded at amortized cost.

The fair value of investments is based on quoted market prices for those investments. It is generally the District's policy to hold investments to maturity.

Interest rate risk. The District's investment policy limits direct investments in securities to those with maturities of five years or less, or as designated in specific bond resolutions, with the exception of reserve funds which may be invested in securities exceeding five years if the maturity of such investments is made to coincide with the expected use of the funds. The District may collateralize its repurchase agreements using longer dated investments. The District may also invest in variable rate securities with final maturities beyond five years, as long as the time period between rate changes is less than five years.

Credit risk. The District's Treasurer directs the investment of any temporary cash surplus in accordance with the District's investment policy and guided by State of Washington statute. The Treasurer may invest such surplus, depending on individual fund restrictions, in one or more of the following investments in accordance with the current District investment policy: 1) U.S. Treasury bills, notes or bonds; 2) U.S. Government agency securities, limited to 30% of the qualifying portfolio and no more than 10% of the total assets invested with a single issuer; 3) repurchase agreements, which must be collateralized with a third party at 102%, limited to $10 million with any financial institution; 4) savings or time deposits, including insured or collateralized certificates of deposit, with institutions approved as qualified public depositories by the WPDPC, amount held by each issuer limited to 15% for certificates of deposit and 20% for savings and other deposit accounts, of the District's investment portfolio; 5) bankers' acceptances with the highest short-term credit rating of any two nationally recognized statistical ratings organizations at the time of purchase, limited to no more than 30% of the qualifying portfolio and no more than $5 million invested in a single banker's acceptance; 6) commercial paper having received the highest short-term credit ratings of any two nationally recognized statistical ratings organizations at the time of purchase, limited to no more than 25% of the qualifying portfolio and no more than 5% of the total assets invested with a single issuer; 7) bonds of the State of Washington or any local government in the State of Washington, which bonds have, at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency, limited to no more than 30% of the qualifying portfolio and no more than 5% of the total assets invested with a single issuer; 8) the State Investment Pool, limited to no more than 15% of the qualifying portfolio; 9) general obligation bonds of a state other than the State of Washington and general obligation bonds of a local government of a state other than the State of Washington, which bonds have, at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency; 10) mutual funds having received one of the four highest credit ratings of a nationally recognized rating agency, and money market funds as authorized under the laws of the State of Washington, limited to 10% of the qualifying portfolio; 11) notes, bonds or debentures that are insured or guaranteed by an agency of the federal government limited to no more than 30% of the qualifying portfolio and no more than 10% of the total assets invested with a single issuer; 12) and any other investment permitted under the laws of the State of Washington.

As of December 31, 2012 and 2011, investments in debt securities, other than U.S. Treasuries and U.S. Government agency securities, had credit quality ratings as follows:

(amounts in thousands)

Investment Rating (S&P)	**2012**	**2011**
Long Term		
AAA	$ 15,656	$ 18,582
AA+	32,707	53,211
AA	18,254	327
AA-	9,104	16,715
A+	–	4,812
	$ 75,721	$ 93,647

Custodial credit risk. The District's investment policy requires that securities purchased are held by a master custodian or other entity legally allowed to act as an independent third party on behalf of the District within that entity's trust department.

Concentration of credit risk. The District's investment policy requires that investments are diversified by security type and institution. Investments in an individual issuer of commercial paper or bankers' acceptances are limited to no more than 5% of the District's total investment portfolio. The aggregate amount of savings, demand deposits and certificates of deposit are limited to 75% of portfolio and 20% per institution.

As of December 31, 2012 and 2011, 5% or more of the District's total investment portfolio was invested with each of the following issuers:

Issuer	S&P Credit Rating	Percentage of Portfolio 2012	Percentage of Portfolio 2011
Federal National Mortgage Association	AA+	0%	8%
Federal Home Loan Bank	AA+	9%	7%
Federal Home Loan Mortgage Corporation	AA+	5%	0%
Federal Farm Credit Bank	AA+	9%	6%

Derivative Instruments – Forward Purchase Agreements

Objective and terms. As a tool to achieve a fixed rate of return on certain District bond reserves, the District has entered into a forward purchase agreement for the purchase of investment securities. Under the terms of the agreement, the provider must tender qualified securities with maturities of six months or less to the District on the semi-annual debt service dates at a price that produces at least the guaranteed rate of return under the agreement.

As of December 31, 2012 and 2011, the agreement is considered a hedging derivative instrument and the fair value is recorded on the Statement of Net Position as a derivative asset and a Deferred Inflow of Resources in the same amount.

Fair value. Due to declining interest rates, the forward purchase agreement had a positive fair value to the District as of December 31, 2012 and 2011. The fair value takes into consideration the prevailing investment rate environment and the specific terms and conditions of the transaction. The fair value was estimated using the par value method.

Credit risk. The District is exposed to credit risk in the amount of the positive fair value of the forward purchase agreement. The credit ratings of the counterparty are noted in the table above.

Interest rate risk. The District is exposed to interest rate risk if the counterparty to the forward purchase agreement defaults or if the agreement is terminated.

Termination risk. The District or the counterparty may terminate a forward purchase agreement if the other party fails to perform under the terms of the respective contracts. If at the time of termination the agreement has a negative fair value, the District would be liable to the counterparty for a payment equal to the agreement's fair value.

The terms, including the counterparty credit ratings of the outstanding forward purchase agreement, as of December 31, 2012, are provided below.

Counterparty	Credit Rating by Moody's/S&P/Fitch	Guaranteed Yield	Notional Amount	Effective Date	Maturity	12/31/12 Fair Value	12/31/11 Fair Value
Wells Fargo Bank, N.A.	Aa3/AA-/AA-	6.630%	$ 18,820,179	12/21/1999	6/1/2029	$ 8,053,737	$ 7,374,771

Notes to Basic Financial Statements (cont.)

Years ended December 31, 2012 and 2011

NOTE 3: UTILITY PLANT

A summary of utility plant in service for the years ended December 31, 2012 and 2011 is as follows:

(amounts in thousands)	January 1, 2012	Additions	Reductions and Transfers	December 31, 2012
Hydroelectric generation	$ 1,167,550	$ 28,488	$ (1,854)	$ 1,194,184
Transmission	117,792	21,674	(29)	139,437
Distribution	208,341	6,483	(1,109)	213,715
General plant	120,258	2,065	(311)	122,012
Intangible	33,491	510	-	34,001
Telecommunications	86,115	1,652	-	87,767
Water/ Wastewater	70,819	4,543	(198)	75,164
	1,804,366	65,415	(3,501)	1,866,280
Construction work in progress	34,645	31,783	(47,787)	18,641
Accumulated depreciation	(748,078)	(47,779)	3,170	(792,687)
	$ 1,090,933	$ 49,419	$ (48,118)	$ 1,092,234

(amounts in thousands)	January 1, 2011	Additions	Reductions and Transfers	December 31, 2011
Hydroelectric generation	$ 1,149,509	$ 20,904	$ (2,863)	$ 1,167,550
Transmission	111,961	5,978	(147)	117,792
Distribution	204,625	4,251	(535)	208,341
General plant	117,963	2,600	(305)	120,258
Intangible	32,805	686	-	33,491
Telecommunications	82,486	3,629	-	86,115
Water/ Wastewater	70,447	372	-	70,819
	1,769,796	38,420	(3,850)	1,804,366
Construction work in progress	28,533	42,917	(36,805)	34,645
Accumulated depreciation	(703,021)	(47,551)	2,494	(748,078)
	$ 1,095,308	$ 33,786	$ (38,161)	$ 1,090,933

Plant assets include land of $71.3 million and $71.4 million as of December 31, 2012 and 2011, respectively.

NOTE 4: LICENSING

The District's hydroelectric projects are licensed under the Federal Power Act of 1920 and subsequent amendments. The District received a 50-year license for the Lake Chelan Project in November 2006 and a 43-year license for the Rocky Reach Project in February 2009 and is implementing license measures for both projects. The Rock Island Project license was issued in January 1989 and expires in December 2028. The costs associated with licensing the projects have been included in the District's Utility Plant balance as Intangible Assets and are being amortized over the lives of the associated licenses.

The Rock Island Project license contains various operational requirements and environmental protections. Primary measures include continuation of the HCP for salmon and steelhead, measures to protect bull trout, continuation of maintenance and operation of the Wenatchee Confluence, Kirby Billingsley Hydro, Wenatchee Riverfront and Walla Walla parks. As also required in the license, the District manages cultural, shoreline, recreation and wildlife resources. All costs associated with the ongoing fulfillment of these Rock Island license measures are recognized in the year incurred.

The license for the Lake Chelan Project was issued by the Federal Energy Regulatory Commission (FERC) and expires in 2056. The license is based on a settlement agreement submitted to FERC in October 2003, between the District and stakeholders, including local communities, state and federal agencies, Tribes and environmental groups. The license requires detailed management plans for fish, operations, wildlife, shoreline erosion, water quality, cultural and recreation resources. In accordance with the FERC approved fish plan, the District constructed three major capital projects, a low-level outlet structure at the dam, a pump station adjacent to the Lake Chelan Project tailrace and four acres of fish spawning habitat for salmon and steelhead trout in the lower Chelan River and Project tailrace. These projects were successfully completed in October 2009 and spawning and rearing evaluation surveys are completed annually to monitor the habitat use. In accordance with the approved Recreation Plan, the District completed construction of a trail link between the newly constructed Reach 1 Trail and Riverwalk Loop Trail located in Chelan. Additionally, flows of not more than 400 cfs are provided for whitewater boating the third week in September. The Lake Chelan Project settlement agreement and license contains some measures that will be carried out by various agencies using funds provided by the District. The present value of these accrued funding obligations was $9.9 million and $9.6 million as of December 31, 2012 and 2011, respectively.

A summary of accrued licensing obligations, accounted for as intangible assets, for the years ended December 31, 2012 and 2011 are as follows:

(amounts in thousands)	2012	2011
Licensing obligation - beginning of year	$ 9,604	$ 9,287
Additions	510	686
Reductions	(212)	(369)
Licensing obligation - end of year	$ 9,902	$ 9,604

The District's Rocky Reach Project license was issued by FERC and expires in 2052. The license is based on a settlement agreement submitted to FERC in March 2006, between the District and stakeholders, including local communities, state and federal agencies, Tribes and environmental groups. The Rocky Reach Project license contains various operational requirements and environmental protections. Primary measures include continuation of the HCP for salmon and steelhead, measures to protect and enhance white sturgeon, bull trout, resident fish and pacific lamprey, upgrades to Entiat, Daroga and Lincoln Rock parks and new trails. As also required in the license, the District finalized detailed management plans for operations, shoreline erosion, water quality, recreation, cultural and wildlife resources. These plans are now being implemented. Future costs of implementing the license requirements cannot be reasonably estimated, therefore, no obligation has been recorded and all related costs are recognized in the year incurred.

NOTE 5: REGULATORY DEFERRALS

The Commission has taken various regulatory actions that result in differences between recognition of revenues and expenses for rate-making purposes and their treatment under generally accepted accounting principles for non-regulated entities. These actions result in regulatory assets and liabilities, which are summarized below.

Changes to the balances, and their inclusion in rates, occur only at the direction of the Commission.

Investment derivative instruments. The District has entered into various derivative instrument contracts (interest rate swaps and forward purchase agreements) that are subject to the fair value reporting requirements of GASB Statement No. 53. The fair value of these contracts is recorded on the Statement of Net Position. A number of these are considered investment derivative instruments, and as such any change in fair value would normally be reflected in Net Increase (Decrease) in Net Position for the period. Derivative instruments are reflected in rates as cash settlements occur in accordance with the terms of the contracts; therefore, the Commission has approved resolutions that specify that the changes in fair value during the period are to be deferred and recorded as regulatory assets and/or liabilities, which have no impact on operating results.

Swap termination payments. The District terminated three interest rate swaps during 2011, incurring swap termination fees in the amount of $24.6 million. The termination fees, along with $0.2 million of unamortized

Notes to Basic Financial Statements (cont.)

Years ended December 31, 2012 and 2011

costs related to the swap transactions, would normally have been reflected as a non-operating expense in 2011; however, the Commission approved a resolution providing for deferral of the termination fees and related swap costs as a regulatory asset to be amortized over a period of up to 15 years to match the expense with the period in which the payments will be recovered through rates.

Conservation costs. The District's conservation plans include program expenditures to support compliance with the Energy Independence Act. The District defers conservation expenditures as incurred and amortizes them over the estimated benefit period. The Commission has approved resolutions that require this treatment in order to match the expense with the periods in which the benefit is received and will be reflected in rates.

Contributed capital. Individual contributions exceeding $1 million are deferred as regulatory liabilities and amortized over the life of the related contributed depreciable plant assets. The Commission has approved resolutions that require this treatment in order to offset the earnings effect of these large non-exchange transactions and align the District's recognition of these credits with the periods in which the amounts will be reflected for rate-making purposes.

The following regulatory balances are as of December 31, 2012 and 2011:

(amounts in thousands)	2012	2011
Regulatory Assets:		
Investment derivative instruments	$ 21,163	$ 21,012
Swap termination payments	18,850	22,358
Conservation Expenses	2,715	1,115
	$ 42,728	$ 44,485
Regulatory Liabilities:		
Contributed Capital	$ 22,336	$ 5,886

NOTE 6: LONG-TERM DEBT

Revenue Bonds and Notes Payable

(amounts in thousands)	January 1, 2012	Additions	Reductions	December 31, 2012	Due Within One Year
Rocky Reach Revenue Bonds, 4% to 5%, due July 1, 2013, to July 1, 2034 (net unamortized premiums of $440)	$ 19,891	$ 6	$ (1,786)	$ 18,111	$ 1,785
Rock Island Revenue Bonds, 3% to 6.05%, due June 1, 2013, to July 1, 2034 (net unamortized premiums of $95)	264,632	15,186	(20,026)	259,792	23,060
Notes Payable, 0.5% to 5.25%, due June 1, 2013, to June 1, 2031 (net unamortized premiums of $523)	93,166	2,597	(55,331)	40,432	799
Chelan Hydro Consolidated System Revenue Bonds, 5.125% to 5.14%, due July 1, 2014, to July 1, 2015 (net unamortized premiums of $1)	41,242	200	(1,253)	40,189	–
Consolidated System Revenue Bonds, 0.982% to 6.897%, due July 1, 2013, to July 1, 2042 (net unamortized premiums of $12,914)	538,327	3,493	(24,553)	517,267	15,200
	$ 957,258	$ 21,482	$ (102,949)	$ 875,791	$ 40,844

(amounts in thousands)	January 1, 2011	Additions	Reductions	December 31, 2011	Due Within One Year
Rocky Reach Revenue Bonds, 3% to 5%, due July 1, 2012, to July 1, 2034 (net unamortized premiums of $505)	$ 21,620	$ 9	$ (1,738)	$ 19,891	$ 1,720
Rock Island Revenue Bonds, 3% to 6.05%, due June 1, 2012, to July 1, 2034 (net unamortized premiums of $106)	272,156	15,416	(22,940)	264,632	20,015
Notes Payable, 0.5% to 5.25%, due July 1, 2012, to October 1, 2027 (net unamortized premiums of $1,483)	93,537	1,180	(1,551)	93,166	676
Chelan Hydro Consolidated System Revenue Bonds, 5% to 5.14%, due July 1, 2012, to January 1, 2015 (net unamortized premiums of $3)	441,789	4,463	(405,010)	41,242	1,250
Consolidated System Revenue Bonds, 0.52% to 6.897%, due July 1, 2012, to July 1, 2042 (net unamortized premiums of $15,578)	197,090	363,357	(22,120)	538,327	21,560
	$ 1,026,192	$ 384,425	$ (453,359)	$ 957,258	$ 45,221

In June 2011, the District issued $179.7 million of subordinate Consolidated System Revenue Bonds, Refunding Series 2011AB (AMT). The 2011A and 2011B bonds in the amount of $107.5 million and $72.2 million, respectively, were issued as fixed rate bonds with interest rates ranging from 2% to 5.5% and annual maturities between July 1, 2012, and July 1, 2026. The proceeds, together with other available funds, were used to refund various debt issues to obtain an economic gain (the difference between the present values of the old and new debt service payments) in excess of $54 million, excluding related swap termination payments. In conjunction with the refinancing, a forward starting swap entered into in 2006 with an effective start date of June 1, 2011, was terminated.

In November 2011, the District issued $164.4 million of subordinate Consolidated System Revenue Bonds, Refunding Series 2011C. The 2011C bonds were issued as fixed-rate, taxable bonds with interest rates ranging from 0.52% to 4.253% and annual maturities between July 1, 2012, and July 1, 2026. The proceeds, together with other available funds, were used to refund various debt issues to obtain an economic gain in excess of $31 million.

The difference between the reacquisition price and the net carrying amount of the old debt is reported in the accompanying financial statements as a deduction from bonds payable and is being amortized over the shorter of the remaining life of the old debt or the life of the new debt.

A summary of scheduled debt service requirements to maturity is as follows:

Principal and Interest

(amounts in thousands)	Principal	Interest	Estimated Debt Service
2013	$ 40,851	$ 24,142	$ 64,993
2014	112,326	23,591	135,917
2015	72,136	19,438	91,574
2016	42,206	17,368	59,574
2017	68,138	16,607	84,745
2018-2022	275,775	65,432	341,207
2023-2027	262,128	30,213	292,341
2028-2032	134,941	10,889	145,830
2033-2037	19,220	5,202	24,422
2038-2042	12,270	2,189	14,459
Total	$ 1,039,991	$ 215,071	$ 1,255,062

Notes to Basic Financial Statements (cont.)

Years ended December 31, 2012 and 2011

Estimated principal retirements are based on the assumption that all bonds are called or purchased at par. Principal retirements of $1.0 billion also include $154.9 million of future appreciation on Capital Appreciation Bonds (CABs).

The subordinate Consolidated System Revenue Bonds, Series 2008B, in the outstanding amount of $88.8 million at December 31, 2012, were issued as variable rate bonds and have a reset of interest rates every seven days. In conjunction with the 2008B bonds, the District entered into a standby bond purchase agreement (the "Credit Facility") with US Bank National Association (the "Bank"). The Credit Facility requires the Bank to provide funds, subject to the satisfaction of certain conditions precedent, for the purchase of the 2008B bonds that have been tendered or deemed tendered and not remarketed. As of December 31, 2012, the Bank did not hold any un-remarketed 2008B bonds. The District pays the Bank a commitment fee of 15 basis points as prescribed in the Credit Facility. If any 2008B bonds are purchased and held by the Bank, the bonds will bear interest at a fluctuating annual rate equal to LIBOR plus 200 basis points multiplied by factor as specified by the Credit Facility. In addition, any 2008B bonds purchased and held under the Credit Facility are subject to special mandatory redemption over a five-year period in ten equal semi-annual principal installments. The Credit Facility expires on March 7, 2013. Subsequent to the Statement of Net Position date, a replacement standby bond purchase agreement was entered into with Union Bank, N.A. ("Union Bank") and dated as of March 1, 2013 (the "Replacement Credit Facility"). The Replacement Credit Facility will be in effect through March 2, 2016. The District pays Union Bank a commitment fee of 40 basis points as prescribed in the Replacement Credit Facility. If any 2008B bonds are purchased and held by Union Bank, the bonds will bear interest at a fluctuating annual rate as specified by the Replacement Credit Facility, which would be at least 600 basis points. In addition, any 2008B bonds purchased and held under the Replacement Credit Facility are subject to special mandatory redemption over a four-year period in eight equal semi-annual principal installments.

The District has covenanted in bond resolutions that it will establish, maintain and collect rates and charges for electric power and energy and other services, facilities and commodities sold, furnished or supplied through the facilities of the Chelan Hydro Consolidated System, which shall provide Distribution Division and other non-hydro systems net receipts, less the Distribution Division Senior Debt Service Requirement, in each fiscal year equal to at least (a) 100% of annual debt service in such fiscal year on the Distribution Division bonds then outstanding and (b) together with available funds with respect to the Distribution Division bonds, 115% of annual debt service in such fiscal year on the Distribution Division bonds then outstanding and net receipts, together with available funds, less the Senior Debt Service Requirement, in each fiscal year equal to at least (i) 100% of Annual Debt Service in such fiscal year on all bonds then outstanding, plus (ii) 15% of the interest coming due in such fiscal year on all bonds then outstanding. The senior Chelan Hydro Consolidated System lien is now closed and no additional bonds will be issued.

The District has covenanted in a subordinate Consolidated System resolution that it will establish, maintain and collect rates and charges for electrical power and energy, water, wastewater, fiber-optic networks and other services, facilities and commodities sold, furnished or supplied by or through the Consolidated System adequate net revenues sufficient to pay at least (a) 100% of annual debt service in such fiscal year and (b) together with available funds, 125% of annual debt service in such fiscal year on both the senior Chelan Hydro Consolidated System Bonds and the subordinate Consolidated System Bonds.

The District also adopted a resolution subordinate to the Consolidated System resolution, with the primary intent of creating a third lien to allow for short-term notes to be issued with a lien status subordinate to both the Senior Chelan Hydro Consolidated System Bonds and the subordinate Consolidated System Bonds. The District has covenanted in this resolution to fix, establish, maintain and collect rates and charges for electric power and energy, water, wastewater, fiber-optic networks and other services, facilities and commodities sold, furnished or supplied by or through the Consolidated System, adequate net revenues together with available funds sufficient to pay 100% of total Consolidated System annual debt service in such fiscal year.

The District has adopted two additional resolutions confirming and continuing both the Rocky Reach

Hydroelectric System and the Rock Island Hydroelectric System. The District has covenanted in these resolutions to fix, establish, maintain and collect rates and charges for electric power and energy, and other services, facilities and commodities sold, furnished or supplied by or through the Rocky Reach System and the Rock Island System, adequate net revenues in each system sufficient to pay 100% of annual debt service in such fiscal year.

As of December 31, 2012 and 2011, the District was in compliance with all debt covenants.

Derivative Instruments – Interest Rate Swaps

Related Bonds	Counterparty	Credit Rating by Moody's/S&P/Fitch	The District Pays	The District Receives	12/31/12 Notional Amount	Effective Date	Maturity	12/31/12 Fair Value	12/31/11 Fair Value
Series 2009AB	The Bank of New York Mellon	Aa1/AA-/AA-	70% of LIBOR	1.76%	$ 30,355,000	7/22/2009	7/1/2014	$ 755,263	$ 1,046,779
Series 2009AB	JP Morgan Chase Bank, NA	Aa3/A+/A+	4.031%	70% of LIBOR	30,355,000	6/1/2009	7/1/2034	(11,700,618)	(12,343,888)
Series 2013	Goldman Sachs Mitsui Marine Derivative Products, LP	Aa2/AAA/NR*	4.085%	70% of LIBOR	28,815,000	5/30/2013	7/1/2032	(10,217,293)	(9,715,030)
Total					$ 89,525,000			$ (21,162,648)	$ (21,012,139)

**not rated*

Objective of the swaps. In order to protect against the potential of rising interest rates associated with the issuance of variable rate bonds, the District entered into forward starting pay-fixed, receive-variable interest rate swaps. The District has also entered into a pay-variable, receive-fixed interest rate swap for the purpose of offsetting the JP Morgan swap that became effective in June 2009, as the District determined it was not financially attractive to issue the variable rate bonds that the JP Morgan swap was intended to hedge.

Terms. The terms and descriptions of the nature and intent of the swaps are included below. None of the swaps include put or call provisions.

During 2012 and 2011, the net cash outflows related to the swaps were $0.7 million and $1.6 million, respectively and are included as a component of interest expense in the District's Statement of Revenues, Expenses and Changes in Net Position.

In April 2006, the District entered into forward starting 70% of LIBOR floating-to-fixed interest rate swaps to hedge the anticipated issuance of $30.4 million of variable rate bonds in 2009 and $28.8 million of variable rate bonds in 2013. The swap transactions were structured to create synthetic fixed rates on the Bonds in advance of issuance, protecting the District against potential increases in long-term interest rates.

In June 2009, the JP Morgan swap became effective. The District had originally intended to issue variable rate bonds in relation to the JP Morgan swap at the time it was entered into in 2006. However, due to turmoil in the financial markets and other related risks, issuing variable rate bonds was financially unattractive. In July 2009, the District issued its Series 2009AB Notes on a fixed rate basis which resulted in the related swap transaction becoming ineffective from a hedge perspective. Rather than terminating the JP Morgan swap, an offsetting five-year fixed-to-floating rate 2009 swap payment agreement was entered into with the Bank of New York Mellon. Additionally, the District determined it was unlikely that it would issue variable rate debt in 2013 to correspond to its 2013 forward starting swap and therefore that swap is no longer classified as a hedging instrument. As such, all swaps are considered investment derivative instruments. The changes in fair value of the swaps are to be recognized in the Statement of Revenues, Expenses and Changes in Fund Net Position as Investment

Notes to Basic Financial Statements (cont.)

Years ended December 31, 2012 and 2011

Income, however, the transaction is subject to regulatory accounting requirements, therefore, any changes in fair value are reported on the Statement of Net Position as Regulatory Assets or Regulatory Liabilities. See Note 5.

Fair values. Because interest rates have declined since the execution dates, the swaps' net fair values were negative to the District as of both December 31, 2012 and 2011. The fair values as of December 31, 2012 and 2011 are included in the table on the previous page. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of a given transaction. The fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swaps, assuming the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

Credit risk. The District is exposed to credit risk in the amount of any net positive swap fair values. The District nets termination values for swaps with the same counterparty when determining credit risk exposure. As of December 31, 2012, the District had net credit risk of $755,263 related to the Bank of New York Mellon on the Series 2009AB swap. The credit ratings of the counterparties are noted in the table on the previous page.

The swap agreements contain collateral agreements with the counterparties. The swaps require collateralization of the positive fair value of the swap, inclusive of any call option, in excess of the notional amount by $250,000 for The Bank of New York Mellon swap and $100,000 for all others. For the District's swap counterparties, this requirement only applies to those that do not have a credit rating within the two highest long-term investment grade rating categories from at least two nationally recognized rating agencies. As of December 31, 2012, no swap counterparties were required to post collateral. For the District, no collateralization is required as long as the District's Credit Support Providers (Swap Insurers) maintain a financial strength rating from S&P that is at or above "A-" and a claims paying ability rating from Moody's that is at or above "A3." In the event a Swap Insurer's rating drops below these levels and the District does not find a substitute Credit Support Provider acceptable to the counterparty, the District may be required to post collateral if the District's long-term senior unsecured debt rating from S&P's and Moody's drops below BBB+ or Baa1, respectively. As of December 31, 2012, the District's ratings were Aa2/AA/AA+ from Moody's, S&P, and Fitch Ratings, respectively.

The District's Swap Insurers' ratings as of December 31, 2012 were as follows:

Swap Insurers

Related Bonds	Credit Support Provider	Credit Rating by Moody's/S&P/Fitch	Notional Amount
Series 2009	Assured Guaranty Municipal Corp.	Aa3/AA-/NR*	$ 30,355,000
Series 2013	Assured Guaranty Municipal Corp.	Aa3/AA-/NR*	28,815,000
		Total	$ 59,170,000

** Not rated*

Interest rate risk. The District is exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

Basis risk. Basis risk is the risk that the interest rate paid by the District on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The District bears basis risk on its swaps. The swaps have basis risk since the District receives a percentage of LIBOR to offset the actual variable bond rate the District pays on its bonds. The District is exposed to basis risk if the floating rate that it receives on a swap is less than the actual variable rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

Tax risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the District's underlying variable rate bonds and the rate received on the swaps caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The District is receiving 70% of LIBOR (a taxable index) on the swaps and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination risk. The District or the counterparty may terminate a swap if the other party fails to perform under the terms of the respective contracts. If a swap is terminated, the associated variable rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value.

Other material terms. The District has the right to cancel any outstanding swap at the prevailing market price for swaps.

Subsequent to the Statement of Net Position date, the District terminated the Series 2013 swap, effective March 14, 2013. The District incurred a termination fee in the amount of $9.4 million that will be deferred as a regulatory asset in 2013 and amortized over future periods in accordance with a resolution approved by the Board of Commissioners.

NOTE 7: PURCHASED POWER SUPPLY

Historically, a significant portion of the retail electric distribution system power has been purchased from the Hydro projects on a cost-of-service basis, including debt service costs. However, during 2012, the power purchased from the Rocky Reach project and a portion of the power purchased from the Rock Island project was on a cost-plus basis under new power sales contract terms effective November 2011 and July 2012, respectively. Of the total kilowatt-hours purchased by the retail electric distribution system during 2012, approximately 59% was provided by the Rocky Reach project, 25% by the Rock Island project, 5% by the Lake Chelan project and 11% from other sources.

A power sales contract with Alcoa for a 23% share of Rocky Reach output was effective through October 2011. Under a provision of the contract, during the operating period, the District remarketed the Surplus Rocky Reach Replacement Power (23% share of Rocky Reach output) that exceeded the load requirement at the Wenatchee Works aluminum plant. When Alcoa's load exceeded the Rocky Reach Replacement Power, the District made available up to 42 MW of additional firm energy, to the extent needed for use at Wenatchee Works. Alcoa paid average industrial rates for this power unless the average monthly load at Wenatchee Works exceeded a threshold of 189.15 aMW. Any portion of the additional 42 MW that was required to meet loads in excess of the threshold was sold to Alcoa at market price. The District purchased power at market prices daily as required to meet any shortfalls in energy supply to Wenatchee Works not met by the Rocky Reach Replacement Power and the 42 MW of firm energy. Alcoa was responsible for all costs and counterparty risks associated with these market purchases.

NOTE 8: EMPLOYEE BENEFIT PLANS

Pension Plan

Substantially all of the District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, Accounting for Pensions by State and Local Government Employers and No. 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

All Information on the website is the responsibility of the State of Washington. The District's independent auditor has not audited or examined such information, and does not express an opinion or any other form of assurance with respect thereto.

Public Employees' Retirement System (PERS) Plans 1, 2 and 3

Plan Description
The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes. Plans 1 and 2 are defined benefit plans, and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service or at the age of 55 with 25 years of service. The monthly benefit is two percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is two percent of the AFC for each year of service reduced by two percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is two percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age of older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is one percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003.

Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by three percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for

Notes to Basic Financial Statements (cont.)

Years ended December 31, 2012 and 2011

continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,320 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Nonvested	46,839
Total	261,705

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

** The employer rates include the employer administrative expense fee currently set at 0.16%.*

*** The employer rate for state elected officials is 10.54% for Plan 1 and 7.08% for Plan 2 and Plan 3.*

****Plan 3 defined benefit portion only.*

***** The employee rate for state elected officials is 7.5% for Plan 1 and 4.64% for Plan 2.*

****** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.*

Both the District and the employees made the required contributions. The District's required contributions for the years ending December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	$ 75,356	$ 3,274,334	$ 668,408
2011	$ 77,606	$ 2,734,289	$ 549,967
2010	$ 69,075	$ 2,345,456	$ 449,180

Deferred Compensation Plans

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 (457 Plan). The 457 Plan, available to District employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In accordance with the 457 Plan, the District has placed the 457 Plan assets into a separate trust for the exclusive benefit of plan participants and beneficiaries. Accordingly, plan assets and the corresponding liability are not included on the District's financial statements.

The District also offers its employees a 401(a) employer matching plan. The 401(a) plan is a qualified, tax-deferred plan that allows the District to match employee contributions made to the 457 Plan. Under the 401(a) Plan, the District will match each employee's contribution to the 457 Plan at a rate of 50% with a cap of 5% of an employee's annual base salary up to a maximum of $8,500 or up to a maximum of $11,250 for employees age 50 years and over. The District's 401(a) Plan matching contributions for the years ending December 31, 2012 and 2011, were $1.5 million and $1.5 million, respectively. Matching contribution rates are at the District's discretion within the requirements of the current bargaining unit agreement.

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The District administers a single-employer defined benefit healthcare plan ("the retiree medical plan"). The plan provides healthcare insurance until the age of 65 for retirees and their spouses through the District's group health insurance plan, which covers both active and retired members. The retiree medical plan does not issue a publicly available financial report.

Funding Policy

The District's subsidy of the cost of 2012 and 2011 premiums for eligible retired plan members and their spouses amounted to $121,000 and $129,000, respectively. Plan members receiving benefits contributed 73% and 72% of the premium costs for years 2012 and 2011, respectively. For the years ended December 31, 2012 and 2011, total member contributions were $321,000 and $330,000, respectively. Future subsidies will be provided by the District at the 2007 level adjusted for inflation, with plan members contributing the remaining premium. Contribution rates may be adjusted at the District's discretion.

Annual Other Postemployment Benefit Cost and Net Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year. The District's OPEB plan was fully funded as of both December 31, 2012 and December 31, 2011. As a result, the District's annual OPEB cost and net OPEB obligation were zero as of both December 31, 2012 and December 31, 2011.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2008 through 2012 were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/12	$ –	0%	$ –
12/31/11	–	0%	–
12/31/10	–	0%	–
12/31/09	(50,000)	0%	–
12/31/08	50,000	0%	50,000

Funded Status and Funding Progress

As of December 31, 2012 and 2011, the plan was fully funded. The covered payroll (annual wages of active employees covered by the plan) was $49.9 million and $48.6 million for 2012 and 2011, respectively. The ratio of the current ARC to the covered payroll was 0.0%.

Plan assets are held in an irrevocable trust by a third party fiduciary. Accordingly, plan assets and the corresponding liability are not included in the financial statements of the District.

Notes to Basic Financial Statements (cont.)

Years ended December 31, 2012 and 2011

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Actuarial valuations are as of the last actuarial report dated January 1, 2011.

Methods and Assumption

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of the valuation and the sharing of benefit costs between the employer and plan members in effect at the time of the valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following assumptions are integral to the actuarial calculations:

Retirement age for active employees – Based on assumptions used by Washington Public Employees' Retirement System (PERS).

Mortality – Life expectancies were based on the RP 2000 combined active/retiree healthy mortality table for males and females, projected using 50% of Scale AA.

Inflation rate – An inflation rate of 2.3% was used for 2011 and thereafter. Inflation rates are based upon the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

Discount rate – The actuarial assumptions included a 7.0% investment rate of return based upon the investment allocation policy of the trust.

NOTE 10: SEGMENT DISCLOSURE

The District has outstanding revenue bonds used to finance the Rocky Reach and Rock Island hydroelectric production facilities. Each project has an external requirement to be accounted for separately, and investors in the revenue bonds rely solely on the revenue generated by the individual projects for repayment.

Summary financial information as of and for the years ended December 31, 2012 and 2011, for both projects is presented below. Included in operating revenues and expenses are intradistrict sales and rents which are eliminated in the Statements of Revenues, Expenses and Changes in Fund Net Position.

Condensed Statements of Net Position

(amounts in thousands)	Rocky Reach 2012	Rock Island 2012	Rocky Reach 2011	Rock Island 2011
Assets				
Current assets	$ 10,353	$ 8,310	$ 12,256	$ 6,582
Restricted assets – current	207	9,875	609	16,910
Total Current Assets	10,560	18,185	12,865	23,492
Utility plant, net	342,536	332,982	355,655	326,937
Restricted assets – noncurrent	23,715	44,064	16,305	36,473
Deferred charges and other assets	6,392	20,316	5,158	15,002
Total assets	$ 383,203	$ 415,547	$ 389,983	$ 401,904

(amounts in thousands)	Rocky Reach 2012	Rock Island 2012	Rocky Reach 2011	Rock Island 2011
Liabilities, Deferred Inflows of Resources and Net Position				
Current liabilities	$ 19,944	$ 36,157	$ 23,007	$ 37,337
Long-term debt	237,415	377,554	255,636	411,404
Other liabilities	10,555	32,378	11,178	5,131
Total liabilities	267,914	446,089	289,821	453,872
Deferred inflows of resources – derivatives	–	8,054	–	7,375
Net Position:				
Invested in capital assets, net of related debt	334,291	83,300	349,231	75,049
Restricted	14,510	47,574	4,275	49,519
Unrestricted	(233,512)	(169,470)	(253,344)	(183,911)
Total net position	115,289	(38,596)	100,162	(59,343)
Total liabilities, deferred inflows of resources and net position	$ 383,203	$ 415,547	$ 389,983	$ 401,904

Condensed Statements of Revenues, Expenses and Changes in Fund Net Position

(amounts in thousands)	Rocky Reach 2012	Rock Island 2012	Rocky Reach 2011	Rock Island 2011
Operating revenues	$ 87,460	$ 87,281	$ 77,541	$ 77,217
Less:				
Operating expenses	37,467	38,041	40,558	36,675
Depreciation and amortization	16,942	10,518	16,968	10,577
Operating income	33,051	38,722	20,015	29,965
Other expense	15,424	26,803	16,869	27,128
Income before capital contributions and interfund equity transfers	17,627	11,919	3,146	2,837
Capital contributions	–	125	–	17
Interfund equity transfers	(2,500)	8,703	(16,347)	–
Change in net position	15,127	20,747	(13,201)	2,854
Total net position – beginning of year	100,162	(59,343)	113,363	(62,197)
Total net position - end of year	$ 115,289	$ (38,596)	$ 100,162	$ (59,343)

Condensed Statements of Cash Flows

(amounts in thousands)	Rocky Reach 2012	Rock Island 2012	Rocky Reach 2011	Rock Island 2011
Net cash provided (used) by:				
Operating activities	$ 48,353	$ 67,576	$ 52,939	$ 39,963
Capital and related financing activities	(39,369)	(51,991)	(53,701)	(60,364)
Investing activities	(6,082)	(10,352)	1,194	(8,094)
Net increase	2,902	5,233	432	(28,495)
Beginning cash and cash equivalents	9,082	10,872	8,650	39,367
Ending cash and cash equivalents	$ 11,984	$ 16,105	$ 9,082	$ 10,872

Notes to Basic Financial Statements (cont.)

Years ended December 31, 2012 and 2011

NOTE 11: SELF-INSURANCE

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; workers compensation; and health care of its employees. The District has elected to cover these risks primarily through self-insurance programs.

Secondarily, the District has purchased commercial excess liability insurance for claims beyond the deductible amounts.

The accrual and payment of claims for the years ended December 31, 2012 and 2011 is summarized in the following table for each insurance program:

	Property and Liability	Workers Compensation	Medical and Health	Dental
Claims Liability as of January 1, 2012	$ -	$ 209,000	$ 1,270,000	$ 142,458
Claims accrued	1,917,788	568,666	9,791,307	945,278
Claims paid	(1,615,465)	(671,666)	(9,586,307)	(1,039,736)
Claims Liability as of December 31, 2012	$ 302,323	$ 106,000	$ 1,475,000	$ 48,000
Commercial Insurance Deductible	Up to $2,000,000 depending on line of coverage	$500,000 per incident	N/A	N/A

	Property and Liability	Workers Compensation	Medical and Health	Dental
Claims Liability as of January 1, 2011	$ –	$ 151,000	$ 1,050,000	$ 132,426
Claims accrued	318,366	729,109	8,470,539	946,825
Claims paid	(318,366)	(671,109)	(8,250,539)	(936,793)
Claims Liability as of December 31, 2011	$ –	$ 209,000	$ 1,270,000	$ 142,458
Commercial Insurance Deductible	Up to $2,000,000 depending on line of coverage	$500,000 per incident	N/A	N/A

NOTE 12: COMMITMENTS AND CONTINGENCIES

Environmental Matters

In June 2004, the Federal Energy Regulatory Commission (FERC) ordered the incorporation of the Anadromous Fish Agreements and Habitat Conservation Plan Agreements (HCPs) into the licenses for the Rocky Reach and Rock Island projects. The Rocky Reach project HCP was included in the new FERC license issued in February 2009. The 50-year HCPs provide a framework for long-term resolution of certain fish issues at the projects. The 50-year plans had been signed by the District, the U.S. Fish and Wildlife Service (USFWS), NOAA Fisheries, the Washington State Department of Fish and Wildlife (WDFW), the Confederated Tribes of the Colville Reservation and the Yakama Nation. NOAA Fisheries completed biological opinions for the HCPs and issued Incidental Take Permits (ITPs) under Section 10 of the Endangered Species Act (ESA) in 2003. The incorporation of the HCPs and ITPs into the current FERC licenses provides greater certainty for continued operation of the District's hydroelectric systems while meeting requirements to prevent jeopardy to certain listed and unlisted species of salmon and steelhead. The District's commitments under the HCPs include expenditures to improve fish passage, to provide capacity for and fund hatchery operations and to rehabilitate and protect habitat through conservation projects.

The Upper Columbia River spring Chinook are listed as endangered and Upper Columbia River steelhead are listed as threatened under the ESA. The HCPs cover the District's obligations under the ESA for these species and in addition, protect other anadromous salmon including sockeye salmon, summer/fall Chinook, and coho salmon. Collectively, these five species are known as the "Plan Species." In addition to the ESA, the HCPs are also intended to satisfy the projects' obligations for all Plan Species under the Federal Power Act, the Fish and Wildlife Coordination Act, the Essential Fish Habitat provisions of the Magnuson-Stevens Fishery Conservation and Management Act, the Pacific Northwest Electric Power Planning and Conservation Act and Title 77 RCW of the State of Washington. The HCPs also satisfy the projects' licensing requirements for the five species covered by the HCPs.

The Columbia River Distinct Population Segment of bull trout is listed by the USFWS as a threatened species under the ESA, and a Bull Trout Recovery Team has been established, of which the District is an active member. A draft Upper Columbia River Bull Trout Recovery Plan has been developed which contains recommendations for recovering bull trout in the Columbia River Basin. The District developed comprehensive Bull Trout Management Plans for the Rocky Reach and Rock Island projects in response to the USFWS's biological opinion on potential effects of the 2004 HCPs on bull trout, which are not covered by the HCPs. Implementation of the plans began in May 2005, but as part of the Rocky Reach Project relicensing, a Comprehensive Bull Trout Management Plan was developed as part of Comprehensive Settlement Agreement that replaced the earlier management plan. The Bull Trout Management Plan was approved in the new license and provides for protection, mitigation and enhancement measures. Additionally, the USFWS filed its Biological Opinion for the Rocky Reach Project in December 2008 concluding that the Project is not likely to jeopardize the continued existence of bull trout or destroy or adversely modify critical habitat. The USFWS Biological Opinion provided terms and conditions of an incidental take permit and required five reasonable and prudent measures be implemented to minimize the incidental take of bull trout. In September of 2010, the USFWS formally designated critical habitat for bull trout in the upper mid-Columbia river, including the project areas for Rock Island and Rocky Reach hydro's.

Revised Department of Ecology (DOE) water quality standards (WQS) became effective in December 2006. These standards are applicable to the Columbia River basin and address dissolved gas and temperature for the Columbia and Snake Rivers. As part of the relicensing process for the Rocky Reach and Lake Chelan projects, the District obtained Water Quality Certifications issued by the DOE that are consistent with the revised WQS. The DOE allows the District a ten-year window to demonstrate compliance with the new WQS and can require the District to conduct further studies, implement further operational changes or even, in a worst case event, provide structural changes to meet requirements. The District currently is meeting the revised WQS, but the Water Quality Certifications require that further studies be conducted to document continued compliance during the ten-year window. Based on current evaluations and testing results, the District believes that it can meet the revised WQS without the need for operational or structural changes. Actions to address water quality parameters would not affect generation levels.

Capital Improvement Program

During 2012, the District entered into a contract for the programming and supply of digital turbine governors and unit controllers at Rocky Reach and Rock Island. The District entered into a $4.9 million contract to replace the electronic portion of the governors, associated interface devices to the hydraulic portion and the unit controls with the new programmable logic controller based systems. As of December 31, 2012, the remaining construction commitment totaled approximately $4.8 million.

All 2011 construction commitments were completed during 2012.

Power Marketing

As of December 31, 2012, the District had entered into forward block contracts obligating it to deliver approximately 5,795,600 MWh of energy at various times during 2013, 2014, 2015, 2016 and 2017. The District expects to receive approximately $252 million from the purchasers of this power. In addition, as part of the comprehensive forward energy hedging strategy implemented during 2010, the District has entered into several slice output contracts, which provide a counterparty a percentage share of hydropower production for a fixed payment. Under the slice output contracts the District has committed to delivering varying percentages of the hydropower production of its Rocky

Notes to Basic Financial Statements (cont.)

Years ended December 31, 2012 and 2011

Reach and Rock Island projects during 2013, 2014, 2015, 2016 and 2017, in exchange for approximately $214.3 million.

The District has committed to purchase approximately 488,200 MWh of energy at a cost of approximately $15 million to fulfill these power marketing obligations, meet District load requirements and mitigate credit risk. The District believes it has sufficient internal resources, or has acquired sufficient external resources to complete these transactions.

Line of Credit

In April 2011, the District and Bank of America, N.A. ("Bank of America") entered into a Line of Credit and Reimbursement Agreement (the "Credit Agreement") with an available commitment of $50 million. The District may either draw on the Credit Agreement directly or request that Bank of America issue a letter of credit. The District may use the proceeds of any draws on the Credit Agreement or on any letters of credit issued under the Credit Agreement to (i) to satisfy any collateral requirements of the District in connection with any electricity hedges, (ii) to make swap termination payments, or (iii) upon receipt of the prior written consent of Bank of America (which consent may not be unreasonably withheld), for other general purposes of the District. The initial term of the Credit Agreement expires on April 1, 2014, but the term may be extended for up to an additional three years. As of December 31, 2012, the District has not drawn on the Credit Agreement or requested the issuance of any letters of credit.

Participation in Northwest Open Access Network, Inc. d.b.a. NoaNet

The District was a member of Northwest Open Access Network ("NoaNet"), a Washington non-profit mutual corporation from its inception in 2000 until the District withdrew from membership on September 3, 2012. NoaNet was incorporated in February 2000 to provide a broadband communications backbone over Public Benefit Fibers leased from Bonneville Power Administration throughout the State of Washington. The network began commercial operation in January 2001.

Withdrawing members remain potentially subject to liabilities to NoaNet and any third parties incurred prior to withdrawal as set forth in Repayment Agreements. Accordingly, the District is contingently obligated under three separate agreements entered into with NoaNet and debt providers prior to the District's withdrawal from membership. The District's total contingent obligation under these agreements is $1.2 million as of December 31, 2012, most of which is associated with its guarantee of 10.12% of network revenue bonds issued by NoaNet in 2001 and subsequently refunded in 2011. The District would be ultimately liable under this guarantee arrangement only in the event of NoaNet's default on the debt. As such, the District has not recorded a liability for this contingent liability.

Energy Northwest

In August 2001, the District executed a 20-year contract to purchase power from Energy Northwest's Nine Canyon Wind Project (the Project). Energy Northwest, a municipal corporation and a joint operating agency of the State of Washington, was also a purchaser under the Power Purchase Agreement. Energy Northwest has since assigned its share of the Project to two additional utilities.

The Project was constructed in phases. The District is a participant in phases I and II of the Project, which have a combined generating capacity of 64 MW. In exchange for paying certain project costs after phase I and II commenced commercial operation, including debt service on the Wind Project Revenue Bonds issued by Energy Northwest to finance the construction of the Project; the District receives a 12.5% share of the total project output up to a maximum of 7.96 MW. As of December 31, 2012, the District's share of bond principal was $7.8 million and was not to exceed $9.7 million with the step-up provision. The power purchased under this contract is reported as a component of Purchased Power Operating Expenses.

The District declined to participate in phase III of the Project. In October 2006, the District signed a second amended power purchase agreement, reducing the District's share in the combined project to approximately 8.3% once phase III began commercial operation. The District's debt obligations related to phases I and II remain the same, but its share of the combined project output and combined operation and maintenance costs were reduced as a result of not participating in phase III.

For complete financial statements for Energy Northwest including the Nine Canyon Project, please write: Energy Northwest, P.O. Box 968, Richland, Washington, 99352-0968.

The Report of Independent Auditors included with these financial statements relates solely to historical financial information of the District and does not relate to Energy Northwest or any other entity.

Claims and Litigation

The District is involved in various claims arising in the normal course of business. The District does not believe that the ultimate outcome of these matters will have a material impact on its financial position, results of operations or cash flows.

NOTE 13: SUPPLEMENTAL DISCLOSURE OF TELECOMMUNICATION SERVICES

The District has developed a fiber-optic network to provide a backbone for the District's utility communication use, as well as infrastructure over which to provide wholesale telecommunications services in accordance with the authority granted to PUDs by state law. Private service providers deliver services over the District's infrastructure, including high-speed internet access, telephone and television to end-users. These private firms set final end-user pricing and are directly responsible for billing each end-user. The District bills the service providers for wholesale telecommunications services.

Following is a summary of the results of operations of the District's fiber-optic activities, included in the accompanying financial statements. Included in operating revenues and expenses are intradistrict sales and rents which are eliminated in the Statements of Revenues, Expenses and Changes in Fund Net Position.

(amounts in thousands)	2012	2011
Operating revenues		
Wholesale fiber services	$ 5,047	$ 4,541
Fiber leasing	526	505
Intradistrict revenues	2,165	1,937
Total operating revenues	7,738	6,983
Operating expenses		
Administrative and general	1,524	1,637
Repairs and maintenance	1,530	1,115
Other operating	1,513	2,613
Depreciation expense	5,769	5,545
Total operating expense	10,336	10,910
Operating loss	(2,598)	(3,927)
Other expenses	9	4,882
Net loss before capital contributions	(2,607)	(8,809)
Capital contributions	350	21
Interfund equity transfers*	98,978	337
Change in net position	$ 96,721	$ (8,451)

Following is a summary of the District's fiber-optic Statements of Net Position as of December 31, 2012 and 2011.

(amounts in thousands)	2012	2011
ASSETS		
Current assets	$ 4,748	$ 3,350
Utility plant, net and other assets	53,419	57,365
Total assets	$ 58,167	$ 60,715
LIABILITIES AND NET POSITION		
Current liabilities	$ 232	$ 523
Intersystem loans*	–	98,978
Total liabilities	232	99,501
Net position	57,935	(38,786)
Total liabilities and net position	$ 58,167	$ 60,715

**Interfund equity transfers were recorded during 2012 for the purpose of forgiving all intersystem loan balances owed by the fiber-optic division.*

Notes to Basic Financial Statements (cont.)

Years ended December 31, 2012 and 2011

The District's capital investment in telecommunications plant and equipment for 2012 and 2011 was $1.8 million and $2.1 million, respectively. The District's cumulative capital investment in telecommunications plant and equipment as of December 31, 2012, was $89.7 million. In prior years, the capital investment, as well as cumulative net losses, was funded by a combination of intersystem loans and interfund equity transfers. In 2012, the Board of Commissioners approved the write-off of the $99 million of intersystem loans, which were replaced with an interfund equity transfer, as part of a broader plan to stabilize the District's fiber system finances.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for Postretirement Health Benefits Program

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c))
1/1/2011	$ 2,186,952	$ 1,417,889	$ (769,063)	154%	$ 48,550,921	(1.58)%
1/1/2009	$ 1,791,487	$ 1,573,100	$ (218,387)	114%	$ 49,003,415	(0.45)%
1/1/2007	$ 2,177,526	$ 2,177,526	$ –	100%	$ 46,311,261	0.00%

Combining Schedule of Revenues, Expenses and Changes in Fund Net Position

For the year ended December 31, 2012, with comparative totals for December 31, 2011

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions [1]	2012	2011
OPERATING REVENUES									
Retail sales	$ –	$ –	$ –	$ 53,331	$ –	$ –	$ (821)	$ 52,510	$ 56,469
Wholesale sales	87,284	87,124	11,640	211,073	7,150	–	(144,160)	260,111	179,363
Other operating revenues	176	157	967	13,113	–	14,988	(20,289)	9,112	2,711
	87,460	87,281	12,607	277,517	7,150	14,988	(165,270)	321,733	238,543
OPERATING EXPENSES									
Purchased power and water	–	–	–	174,715	–	–	(141,995)	32,720	14,731
Generation	35,945	37,279	4,515	–	–	–	(11,884)	65,855	67,542
Utility services	–	–	–	46,881	–	–	(10,547)	36,334	30,050
Other operation and maintenance	–	–	–	–	–	13,223	(844)	12,379	8,898
Taxes	1,522	762	93	5,002	–	–	–	7,379	7,403
Depreciation and amortization	16,942	10,518	1,847	15,282	–	3,772	–	48,361	48,468
	54,409	48,559	6,455	241,880	–	16,995	(165,270)	203,028	177,092
OPERATING INCOME (LOSS)	33,051	38,722	6,152	35,637	7,150	(2,007)	–	118,705	61,451
OTHER INCOME (EXPENSE)									
Interest on long–term debt	(888)	(15,417)	–	(45)	(26,663)	–	226	(42,787)	(50,140)
Interest on intersystem loans	(15,245)	(11,624)	(4,052)	(2,623)	35,216	(1,446)	(226)	–	–
Amortization of deferred debt costs	(46)	(130)	–	–	(964)	–	–	(1,140)	(1,186)
Investment income	271	1,430	60	1,547	1,249	186	–	4,743	9,461
Federal subsidy income	–	–	–	–	630	–	–	630	630
Other	484	(1,062)	(272)	(515)	(4,250)	361	–	(5,254)	(5,373)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS & INTERFUND EQUITY TRANSFERS	17,627	11,919	1,888	34,001	12,368	(2,906)	–	74,897	14,843
CAPITAL CONTRIBUTIONS	–	125	–	2,902	–	–	–	3,027	1,885
INTERFUND EQUITY TRANSFERS	(2,500)	8,703	–	4,847	(11,050)	–	–	–	–
CHANGE IN NET POSITION	15,127	20,747	1,888	41,750	1,318	(2,906)	–	77,924	16,728
TOTAL NET POSITION									
Beginning of year	100,162	(59,343)	15,171	302,117	23,450	6,511	–	388,068	371,340
TOTAL NET POSITION									
End of year	$115,289	$ (38,596)	$ 17,059	$ 343,867	$ 24,768	$ 3,605	$ –	$ 465,992	$388,068

(1) Eliminating entries reduce operating revenue and expense to account for intradistrict transactions.

Combining Schedule of Assets and Liabilities, Deferred Inflows of Resources and Net Position

As of December 31, 2012, with comparative totals for December 31, 2011

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions [1]	2012	2011
CURRENT ASSETS									
Cash and cash equivalents	$ 3,976	$ 4,277	$ 2,993	$ 44,483	$ 23,116	$ 8,887	$ –	$ 87,732	$ 55,968
Investments	2,559	2,752	1,926	28,630	14,877	5,720	–	56,464	76,192
Accounts receivable, net	1,025	850	18	19,978	–	19	–	21,890	25,843
Accrued interest receivable	97	182	23	632	444	57	–	1,435	1,535
Materials and supplies	2,308	–	–	8,293	–	308	–	10,909	10,595
Prepayments and other	388	249	40	146	–	5	–	828	747
Current portion of deferred regulatory charges	–	–	–	–	3,508	–	–	3,508	3,508
	10,353	8,310	5,000	102,162	41,945	14,996	–	182,766	174,388
RESTRICTED ASSETS – CURRENT									
Cash and cash equivalents	126	6,008	1	72	–	1,795	–	8,002	9,978
Investments	81	3,867	–	47	–	1,156	–	5,151	12,375
	207	9,875	1	119	–	2,951	–	13,153	22,353
TOTAL CURRENT ASSETS	10,560	18,185	5,001	102,281	41,945	17,947	–	195,919	196,741
UTILITY PLANT									
In service, at original cost	602,614	570,753	120,555	488,807	–	83,551	–	1,866,280	1,804,366
Construction work in progress	2,106	4,438	–	11,685	–	412	–	18,641	34,645
Less–accumulated depreciation	(262,184)	(242,209)	(24,582)	(202,892)	–	(60,820)	–	(792,687)	(748,078)
	342,536	332,982	95,973	297,600	–	23,143	–	1,092,234	1,090,933
RESTRICTED ASSETS – NONCURRENT									
Cash and cash equivalents	7,882	5,820	106	6,347	3,058	–	–	23,213	36,847
Investments	15,833	38,244	203	12,197	30,617	2,268	–	99,362	131,770
	23,715	44,064	309	18,544	33,675	2,268	–	122,575	168,617
DEFERRED CHARGES AND OTHER ASSETS									
Deferred financing costs	329	1,983	–	–	3,968	–	–	6,280	7,391
Fish protection costs	224	53	–	–	–	–	–	277	856
Long–term receivables, net	–	–	–	1,411	–	–	–	1,411	1,772
Long–term investments	5,023	5,404	3,781	64,127	29,207	11,230	–	118,772	53,691
Deferred regulatory charges, net	–	–	–	2,715	36,505	–	–	39,220	40,978
Derivative instrument asset	–	8,054	–	–	–	–	–	8,054	7,375
Other	816	4,822	5	16,966	–	10	(16,891)	5,728	6,290
	6,392	20,316	3,786	85,219	69,680	11,240	(16,891)	179,742	118,353
TOTAL ASSETS	$383,203	$ 415,547	$ 105,069	$ 503,644	$ 145,300	$ 54,598	$ (16,891)	$1,590,470	$1,574,644

(1) Eliminating entries reduce assets and liabilities to account for intradistrict transactions.

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions [1]	2012	2011
CURRENT LIABILITIES									
Current portion of long–term obligations	$ 17,896	$ 30,090	$ 5,027	$ 3,848	$ (15,034)	$ 779	$ –	$ 42,606	$ 46,778
Current portion of deferred wholesale power sales	623	632	–	5,799	625	–	–	7,679	6,703
Accounts payable	2,890	3,254	331	5,791	157	4,883	–	17,306	18,322
Accrued taxes	1,590	780	98	1,570	–	332	–	4,370	4,385
Accrued interest	428	293	–	25	11,507	–	–	12,253	11,935
Intersystem payables (receivables)	(3,534)	1,056	(410)	7,090	(17)	(4,185)	–	–	–
Accrued vacation and other	51	52	5	77	–	11,641	–	11,826	11,855
	19,944	36,157	5,051	24,200	(2,762)	13,450	–	96,040	99,978
LONG–TERM DEBT									
Revenue bonds and notes payable	18,111	259,794	–	11,155	586,732	–	–	875,792	957,257
Intersystem loans payable (receivable)	237,200	147,850	78,083	9,000	(510,455)	38,322	–	–	–
Less current maturities	(17,896)	(30,090)	(3,265)	(3,848)	15,034	(779)	–	(40,844)	(45,220)
	237,415	377,554	74,818	16,307	91,311	37,543	–	834,948	912,037
OTHER LIABILITIES									
Deferred wholesale power sales revenue, less current portion	10,555	11,143	–	99,376	10,820	–	(16,891)	115,003	113,061
Long–term contract customer deposit	–	–	–	18,500	–	–	–	18,500	18,500
Derivative instrument liability	–	–	–	–	21,163	–	–	21,163	21,012
Licensing obligation, less current portion	–	–	8,141	–	–	–	–	8,141	8,046
Regulatory liabilities	–	20,942	–	1,394	–	–	–	22,336	5,886
Other liabilities	–	293	–	–	–	–	–	293	681
	10,555	32,378	8,141	119,270	31,983	–	(16,891)	185,436	167,186
TOTAL LIABILITIES	267,914	446,089	88,010	159,777	120,532	50,993	(16,891)	1,116,424	1,179,201
DEFERRED INFLOWS OF RESOURCES									
Derivatives	–	8,054	–	–	–	–	–	8,054	7,375
TOTAL NET POSITION	115,289	(38,596)	17,059	343,867	24,768	3,605	–	465,992	388,068
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$383,203	$ 415,547	$ 105,069	$ 503,644	$ 145,300	$ 54,598	$ (16,891)	$1,590,470	$1,574,644

(1) Eliminating entries reduce assets and liabilities to account for intradistrict transactions.

Combining Schedule of Cash Flows

For the year ended December 31, 2012, with comparative totals for December 31, 2011

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions [1]	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers	$ 87,073	$ 104,387	$ 12,595	$ 285,145	$ 13,297	$ 14,999	$(183,746)	$ 333,750	$261,406
Payments to suppliers	(18,964)	(15,535)	(1,662)	(222,477)	519	(11,756)	183,746	(86,129)	(60,925)
Payments to employees	(19,756)	(21,276)	(2,421)	(24,629)	–	(694)	–	(68,776)	(66,003)
Net cash provided by operating activities	48,353	67,576	8,512	38,039	13,816	2,549	–	178,845	134,478
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Additions to plant	(3,367)	(9,125)	(209)	(19,147)	–	(2,228)	–	(34,076)	(44,463)
Additions to pooled assets	(200)	(173)	(18)	–	–	391	–	–	–
Proceeds from sale of plant	427	219	–	34	–	76	–	756	463
Proceeds of new intersystem loans	–	–	–	17,379	(26,379)	9,000	–	–	–
Proceeds of new third party debt	–	–	–	2,453	–	–	–	2,453	–
Principal (paid) received on debt & intersystem loans	(17,762)	(26,623)	(2,909)	(80,565)	30,318	(1,643)	–	(99,184)	(444,415)
Interest (paid) on debt & intersystem loans	(18,544)	(16,419)	(4,131)	(2,554)	14,661	(652)	–	(27,639)	(39,736)
Capital contributions	–	148	–	2,465	–	–	–	2,613	5,322
Other	77	(18)	(269)	164	7	280	–	241	(27,108)
Net cash provided by (used in) capital & related financing activities	(39,369)	(51,991)	(7,536)	(79,771)	18,607	5,224	–	(154,836)	(187,277)
CASH FLOWS FROM INVESTING ACTIVITIES									
Investments, net	(3,886)	(7,793)	(529)	32,220	(21,467)	(4,781)	–	(6,236)	(8,936)
Interest on investments	304	1,455	79	2,354	934	236	–	5,362	6,527
Long–term receivables	–	–	–	361	–	–	–	361	1,551
Other, net	(2,500)	(4,014)	–	(2,050)	1,222	–	–	(7,342)	(807)
Net cash provided by (used in) investing activities	(6,082)	(10,352)	(450)	32,885	(19,311)	(4,545)	–	(7,855)	(1,665)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	2,902	5,233	526	(8,847)	13,112	3,228	–	16,154	(54,464)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,082	10,872	2,574	59,749	13,062	7,454	–	102,793	157,257
CASH & CASH EQUIVALENTS, END OF YEAR	$ 11,984	$ 16,105	$ 3,100	$ 50,902	$ 26,174	$ 10,682	$ –	$ 118,947	$102,793

(1) Eliminating entries reduce receipts and payments to account for intradistrict transactions.

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions [1]	2012	2011
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES									
Operating income (loss)	$ 33,051	$ 38,722	$ 6,152	$ 35,637	$ 7,150	$ (2,007)	$ –	$ 118,705	$ 61,451
Depreciation and amortization	16,942	10,518	1,847	15,282	–	3,772	–	48,361	48,468
(Increase) decrease in operating assets:									
Accounts receivable, net	234	5,330	(10)	(1,612)	–	11	–	3,953	(4,367)
Materials and supplies	(261)	–	–	(44)	–	(9)	–	(314)	(233)
Prepayments	(96)	(19)	(3)	37	–	–	–	(81)	513
Other	–	–	–	(10,839)	–	–	9,238	(1,601)	(1,112)
Increase (decrease) in operating liabilities:									
Accounts payable	(1,167)	(76)	78	1,684	67	767	–	1,353	1,105
Accrued taxes	(13)	(14)	(11)	(49)	–	72	–	(15)	996
Accrued vacation and other	286	1,340	459	(2,057)	–	(57)	–	(29)	426
Deferred wholesale revenue	(623)	11,775	–	–	6,599	–	(9,238)	8,513	8,774
Customer deposits	–	–	–	–	–	–	–	18,457	–
Net cash provided by operating activities	$ 48,353	$ 67,576	$ 8,512	$ 38,039	$ 13,816	$ 2,549	$ –	$ 178,845	$134,478
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES									
Construction costs included in accounts payable	$ (156)	$ (2,120)	$ –	$ 93	$ –	$ (186)	$ –	$ (2,369)	$ (683)
Capital contributions	–	17,045	–	353	–	–	–	17,398	116

(1) Eliminating entries reduce receipts and payments to account for intradistrict transactions.

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Bondholder-Fiduciaries

Bond Series	Trustee/Registar/Paying Agent
Consolidated System:	
2004C	PUD No. 1 of Chelan County
2005A & B	PUD No. 1 of Chelan County
2007B & C	U.S. Bank N.A.
2008A & B	U.S. Bank N.A.
2008A Notes	U.S. Bank N.A.
2009A & B Notes	U.S. Bank N.A.
2009C & D	U.S. Bank N.A.
2011A, B & C	U.S. Bank N.A.
Rocky Reach Hydroelectric System:	
2008A	U.S. Bank N.A.
2009A	U.S. Bank N.A.
Columbia River-Rock Island Hydroelectric System:	
1997A	PUD No. 1 of Chelan County
2009A	U.S. Bank N.A.

Addresses:

Public Utility District No. 1 of Chelan County
PO Box 1231
Wenatchee, WA 98807
(509) 663-8121

U.S. Bank N.A.
PD-WA-T7CT
1420 Fifth Ave., 7th Floor
Seattle, WA 98101
(206) 344-4616

U.S. Bank Corporate Trust Services
60 Livingston Ave.
St. Paul, MN 55107
Mail Station: EP-MN-WS2N
(651) 466-7115
(800) 934-6802

Continuing Disclosure Information

The following information is based on unaudited financial information and should be used in conjunction with the District's financial statements as a whole, including the footnotes and other supplementary information contained in this document.

In addition, the information contains estimates and projections prepared by the District. Such estimates and projections are based upon a number of assumptions with respect to future events and conditions, including, without limitation, water conditions, federal and state environmental and other laws and regulations, and economic conditions. While the District believes that these assumptions are reasonable, they are dependent on such future events and conditions. To the extent actual events and conditions differ from such assumptions, actual results will vary from the projections, and these variances could be substantial.

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Additional information can be found on our website at www.chelanpud.org.

Bond & Disclosure Counsel
Orrick, Herrington & Sutcliffe LLP, Seattle, WA

Distribution Division

Energy Requirements, Resources and Power Costs

Calendar Year	2008 [1]	2009	2010	2011	2012
Requirements (000 MWh)					
Total sales [2]	4,416	4,257	4,227	5,762	8,992
Timing differences & losses [3]	(10)	(8)	(67)	(100)	(101)
	4,406	4,249	4,160	5,662	8,891
Resources (000 MWh)					
Rocky Reach System [4, 5]	2,148	2,041	1,883	3,086	5,280
Rock Island System [4]	1,393	1,345	1,283	1,619	2,045
Lake Chelan Project	405	338	417	480	425
Other purchases [6]	460	525	577	477	1,141
	4,406	4,249	4,160	5,662	8,891
Purchased Power Costs ($000)					
Rocky Reach System [4]	$ 31,449	$ 28,784	$ 30,668	$ 37,112	$ 69,860
Rock Island System [4]	37,309	38,398	40,206	38,509	60,495
Lake Chelan Project	6,152	9,003	10,198	11,430	11,640
Other purchases [5, 6]	29,485	18,672	22,880	14,429	32,417
	$ 104,395	$ 94,857	$ 103,952	$ 101,480	$ 174,412
Average cost ($/MWh) [7]	$ 24	$ 22	$ 25	$ 18	$ 20

1. *In 2010, year 2008 total sales and timing differences and losses were restated to correct a data entry error.*
2. *See "Customers, Energy Sales and Revenues" Table.*
3. *Includes timing differences between actual calendar year energy requirements and monthly billing cycles, and system losses.*
4. *Effective November 1, 2011, the Distribution Division share of Rocky Reach output increased under new power sales contracts. Effective June 8, 2012, the Distribution Division share of Rock Island output increased under new power sales contracts. Contractual power sales to Alcoa are accounted for in the Distribution Division.*
5. *Presentation has been changed for years 2008 - 2011.*
6. *Other purchases include firm and non-firm power purchased to: meet local requirements and certain contractual obligations, hedge price movements and minimize the District's overall risk exposure to changes in power prices.*
7. *Includes actual costs of power of the Distribution Division plus allocable administrative and other expenses of the Distribution Division. Fluctuations in average cost may be due to fluctuations in water conditions on the Columbia River, which may significantly affect market prices, and fluctuations in power repurchases from Alcoa under the prior power sales contract.*

Distribution Division

Customers, Energy Sales and Revenues

Calendar Year	2008	2009	2010	2011	2012
Customers					
Retail:					
Residential	35,357	35,516	35,687	35,806	36,057
General service	5,968	6,027	6,074	6,092	6,133
Industrial	32	31	31	30	31
Interdepartmental	523	544	549	537	552
Other [1]	5,745	5,749	5,710	5,708	5,690
Total retail customers	47,625	47,867	48,051	48,173	48,463
Resale:	68	70	73	78	79
Total customers	47,693	47,937	48,124	48,251	48,542
Energy Sales (000 MWh)					
Retail:					
Residential	744	803	738	776	762
General service	447	469	447	470	466
Industrial	297	315	296	284	273
Interdepartmental	19	20	19	19	22
Other [1]	47	48	40	41	42
Total retail sales	1,554	1,655	1,540	1,590	1,565
Resale:					
Alcoa Power	1,380	1,313	1,341	1,622	2,138
Douglas County PUD	159	146	140	231	360
City of Cashmere [2]	49	–	–	–	–
Other - firm	–	–	19	586	2,059
Other - nonfirm	1,274	1,143	1,187	1,733	2,870
Total sales for resale	2,862	2,602	2,687	4,172	7,427
Total energy sales	4,416	4,257	4,227	5,762	8,992
Revenue ($000)					
Retail:					
Residential	$ 23,197	$ 26,203	$ 25,132	$ 26,560	$ 24,520
General Service	15,154	16,842	16,687	17,468	15,860
Industrial	5,757	6,378	6,246	6,089	5,502
Interdepartmental	559	607	583	583	664
Other [1]	1,650	1,775	1,719	1,688	1,589
Total retail revenue	46,317	51,805	50,367	52,388	48,135
Resale:					
Alcoa Power	25,025	22,448	24,740	24,340	39,394
Douglas County PUD	2,004	1,930	2,074	2,395	4,231
City of Cashmere [2]	721	–	–	–	–
Other - firm	–	–	771	19,402	65,866
Other - nonfirm	66,250	36,484	43,358	47,863	88,066
Total resale revenue	94,000	60,862	70,943	94,000	197,557
Other revenue	2,619	1,615	1,511	2,791	12,996
Total revenue	$ 142,936	$ 114,282	$ 122,821	$ 149,179	$ 258,688

1. *Includes irrigation, frost protection and street/yard lighting.*
2. *On October 30, 2008, the District acquired the City of Cashmere's distribution system which is now owned and operated as a part of the District's Distribution Division.*

Distribution Division

Five Largest Local Wholesale Purchasers and Major Retail Customers 2012 [1]

Customer	Business	Energy Sales (000 MWh)	Revenue from Energy Sales ($000)	Percent of Distribution's Total Revenue
Alcoa Power [2]	Aluminum Mfg.	2,138	$ 39,394	15.2%
Douglas County PUD	Electric Utility	360	4,231	1.6%
Stemilt Growers Inc.	Agriculture	62	1,262	0.5%
Keyes Fibre Inc.	Paper Products	41	779	0.3%
Trout Inc.	Agriculture	38	762	0.3%
		2,639	$ 46,428	17.9%

1. *Excludes nonfirm sales for resale.*
2. *Under the power sales contract between the District and Alcoa, between January 1, 2012 and June 30, 2012, the Distribution Division provided power equivalent to 27.5% of the Rocky Reach System output to Alcoa in exchange for contractually established charges. Beginning on July 1, 2012, the Distribution Division provided power equivalent to 26% of the Rocky Reach and Rock Island Systems output to Alcoa in exchange for contractually established charges.*

Distribution Division

Statement of Revenues and Expenses ($000)

Calendar Year	2008	2009	2010	2011	2012
Operating revenues					
Retail	$ 46,317	$ 51,805	$ 50,367	$ 52,388	$ 48,135
Resale [1]	94,000	60,862	70,943	94,000	197,557
Other [2]	2,619	1,615	1,511	2,791	12,996
Total	142,936	114,282	122,821	149,179	258,688
Operating expenses [1]	143,040	130,977	141,310	141,117	225,856
Net operating (loss) revenue	(104)	(16,695)	(18,489)	8,062	32,832
Other income (expense)	11,000	8,139	4,584	4,016	(2,744)
Net revenue (loss) [3]	$ 10,896	$ (8,556)	$ (13,905)	$ 12,078	$ 30,088

1. *Includes contractual purchases and nonfirm purchases for resale.*
2. *Beginning November 1, 2011, the Distribution Division includes transmission revenue under new transmission agreements.*
3. *Prior to changes in accounting principles, capital contributions and interfund equity transfers.*

Hydroelectric Projects

Power Cost and Net Power Delivered ($000)

Calendar Year	2008	2009	2010	2011	2012
Rocky Reach System					
Operating expenses [1]	$ 44,201	$ 40,023	$ 40,777	$ 40,558	$ 37,467
Debt service: [2]					
Hydro issues	1,553	1,948	2,633	2,628	–
Consolidated System loans	34,680	29,492	33,021	33,381	–
Depreciation and amortization [2]	–	–	–	–	16,942
Interest expense	–	–	–	–	16,133
Other revenue [3, 4]	(4,795)	(1,410)	(1,448)	(2,172)	(709)
Total power cost [5]	$ 75,639	$ 70,053	$ 74,983	$ 74,395	$ 69,833
Net power delivered (000 MWh)	5,564	5,169	4,862	7,125	7,082
Cost in $/MWh	$ 14	$ 14	$ 15	$ 10	$ 10
Plant factor [6]	49%	45%	43%	63%	62%
Availability factor [7]	98%	96%	95%	94%	93%
Average river flow (000 CFS) [8]	103	91	89	141	141
Rock Island System					
Operating expenses [1]	$ 38,715	$ 39,050	$ 40,321	$ 36,675	$ 38,041
Debt service: [2]					
Hydro issues	22,594	22,971	23,560	23,055	–
Consolidated System loans	16,335	17,446	19,134	19,492	–
Depreciation and amortization [2]	–	–	–	–	10,518
Interest expense	–	–	–	–	27,041
Other revenue [3]	(3,026)	(2,736)	(2,602)	(2,204)	(238)
Total power cost [5]	$ 74,618	$ 76,731	$ 80,413	$ 77,018	$ 75,362
Net power delivered (000 MWh) [9]	2,721	2,572	2,496	3,267	3,306
Cost in $/MWh	$ 27	$ 30	$ 32	$ 24	$ 23
Plant factor [6]	50%	47%	45%	59%	60%
Availability factor [7]	94%	90%	94%	92%	93%
Lake Chelan Project					
Operating expenses [1]	$ 3,426	$ 3,220	$ 3,523	$ 4,729	$ 4,608
Debt service: [2]					
Hydro issues	–	–	–	–	–
Consolidated System loans	3,816	6,552	7,402	7,138	–
Depreciation and amortization [2]	–	–	–	–	1,847
Interest expense	–	–	–	–	4,052
Other (revenue) expense [3]	(1,090)	(769)	(727)	(436)	212
Total power cost [5]	$ 6,152	$ 9,003	$ 10,198	$ 11,431	$ 10,719
Net power delivered (000 MWh)	405	338	417	480	425
Cost in $/MWh	$ 15	$ 27	$ 24	$ 24	$ 25
Plant factor [6]	96%	80%	81%	93%	82%
Availability factor [7]	100%	71%	75%	98%	99%
Combined Hydro Cost in $/MWh	$ 18	$ 19	$ 21	$ 15	$ 14

1. *Does not include depreciation expense.*
2. *Years 2008 through 2011 are based on accrual debt schedules. Before the expiration of the prior Rocky Reach and Rock Island power sales contracts on November 1, 2011 and June 7, 2012, respectively, most capital projects of those systems were financed with bond proceeds. Debt service on such bonds was approximately equal to interest expense and depreciation. Following the commencement of deliveries under new power sales contracts, the District expects to finance the majority of capital expenditures with cash.*
3. *Includes other income and expenses that impact power cost.*
4. *Year 2011 has been restated to reflect accounting changes following the effectiveness of the new power sales contracts as of November 1, 2011.*
5. *Non-GAAP, may not be comparable with similarly titled other District metrics.*
6. *Net Power delivered as a percentage of rated capacity for the year.*
7. *Years 2009 and 2010 are restated to correct a data entry error.*
8. *Annual average Columbia River flow measured at Rocky Reach Project in thousands of cubic feet per second (000 CFS).*
9. *After minor sales to operators' cottages and adjustments for encroachment and Canadian Treaty deliveries.*

Consolidated System

Distribution Division & Other Non-Hydro Systems Debt Service Coverage ($000)

As defined in the Senior Master Resolution 99-11303 [1]

	2008	2009	2010	2011	2012
Operating revenues					
Retail	$ 46,317	$ 51,805	$ 50,367	$ 52,388	$ 48,135
Resale	94,000	60,862	70,943	94,000	197,557
Other	7,825	7,654	8,091	9,774	20,735
	148,142	120,321	129,401	156,162	266,427
Operating expenses	(151,101)	(139,368)	(150,445)	(152,027)	(236,191)
Net operating revenues	(2,959)	(19,047)	(21,044)	4,135	30,236
Other income (expense)	6,909	3,406	(272)	(866)	(2,752)
Net revenues (loss) [2]	3,950	(15,641)	(21,316)	3,269	27,484
Add back:					
Depreciation	10,497	11,778	12,514	13,040	13,690
Gain on disposal of property	–	–	–	(1)	(15)
Interest expense	1,582	2,863	3,559	3,222	2,284
Amortization of deferred debt costs	139	207	216	175	–
Net funds from (used in) operations	16,168	(793)	(5,027)	19,705	43,443
Net funds from other systems [3]	6,432	6,296	8,152	6,142	14,214
Available funds [4]	167,045	150,924	147,019	140,189	204,894
Net receipts	$ 189,645	$ 156,427	$ 150,144	$ 166,036	$ 262,551
Computed debt service [5, 6]	$ 5,397	$ –	$ –	$ 5,219	$ 1,036
Debt service coverages					
With other available funds (required 1.15x)	35.14	n/a	n/a	31.82	253.36
Without other available funds (required 1.00x)	4.19	n/a	n/a	4.95	55.64

1. *Test for Distribution Division Bonds using the methodology defined in the Senior Master Resolution, 99-11303 adopted November 1, 1999. Distribution Division bonds represent Chelan Hydro Consolidated System Bonds, the proceeds of which are loaned to, and are to be repaid by, all systems which are not hydro related.*
2. *As defined in the Senior Master Resolution 99-11303; not comparable with other similarly title District metrics.*
3. *Net receipts from Financing Facilities, Internal Services and Treasury Services funds and Water and Wastewater systems.*
4. *As defined in the Senior Master Resolution 99-11303, includes unencumbered funds of the Chelan Hydro Consolidated System, which the District reasonably expects to be available.*
5. *Computed debt service calculation uses actual interest rates and serial payments. Bullet bonds are calculated using level debt service. Not comparable with other similarly titled District metrics.*
6. *The District set aside funds in an escrow account to cover obligated debt service payments for the Chelan Hydro Consolidated System Bonds related to the non-Hydro Systems for 2009 and 2010. This effectively eliminated the Debt Coverage requirement of the Senior Master Resolution 99-11303 for those years.*

Consolidated System

Operating Results and Subordinate Debt Service Coverage ($000)

As defined in Subordinate Master Resolution 07-13067

	2008	2009	2010	2011	2012
Operating revenues [1]					
Retail	$ 50,671	$ 56,572	$ 54,989	$ 57,195	$ 53,330
Resale	105,347	75,891	87,702	114,079	229,864
Other	20,172	17,555	18,088	18,792	29,069
Total	176,190	150,018	160,779	190,066	312,263
Less: Operating expenses					
Purchased power and water	(104,720)	(95,200)	(104,265)	(101,787)	(174,715)
Other operation & maintenance	(48,154)	(45,018)	(44,730)	(50,785)	(64,620)
Taxes	(4,497)	(5,021)	(4,653)	(5,100)	(5,094)
Depreciation & amortization	(17,685)	(18,449)	(20,804)	(20,923)	(20,900)
Operating income (loss)	1,134	(13,670)	(13,673)	11,471	46,934
Adjustments					
Add back depreciation & amortization	17,685	18,449	20,804	20,923	20,900
Add investment income	14,659	8,191	5,405	7,040	3,043
Add principal and interest payments from Rocky Reach & Rock Island	48,870	47,247	51,003	51,888	50,233
Subtract investment earnings credited to Rocky Reach & Rock Island	(3,438)	(1,102)	(1,171)	(892)	(132)
Total adjustments	77,776	72,785	76,041	78,959	74,044
Net revenues	78,910	59,115	62,368	90,430	120,978
Plus withdrawals (deposits) to Rate Stabilization Fund	–	–	–	–	–
Adjusted net revenues	$ 78,910	$ 59,115	$ 62,368	$ 90,430	$ 120,978
Available funds [2]	$ 172,832	$ 159,605	$ 151,781	$ 147,990	$ 225,867
Annual debt service					
Senior Bonds	$ 39,451	$ 31,048	$ 28,817	$ 34,229	$ 3,761
Subordinate Bonds	7,893	10,903	13,237	14,470	43,784
Total debt service	$ 47,344	$ 41,951	$ 42,054	$ 48,699	$ 47,545
Debt service coverage					
With available funds (required 1.25x)	5.32	5.21	5.09	4.90	7.29
Without available funds (required 1.00x)	1.67	1.41	1.48	1.86	2.54

1. *Includes revenues of the District's Distribution Division; Financing Facilities, Treasury Services and Internal Service Funds; and Lake Chelan, Fiber and Telecommunications, Water and Wastewater Systems; all of which are part of the Consolidated System.*
2. *Includes all unencumbered funds of the District that the District reasonably expects to be available to pay debt service on the Senior and Subordinate Bonds.*

Consolidated System

Operating Results and Notes Debt Service Coverage ($000)

As defined in Notes Master Resolution 08-13378

	2008	2009	2010	2011	2012
Operating revenues [1]					
Retail	$ 50,671	$ 56,572	$ 54,989	$ 57,195	$ 53,330
Resale	105,347	75,891	87,702	114,079	229,864
Other	20,172	17,555	18,088	18,792	29,069
Total	176,190	150,018	160,779	190,066	312,263
Less: Operating expenses					
Purchased power and water	(104,720)	(95,200)	(104,265)	(101,787)	(174,715)
Other operation & maintenance	(48,154)	(45,018)	(44,730)	(50,785)	(64,620)
Taxes	(4,497)	(5,021)	(4,653)	(5,100)	(5,094)
Depreciation & amortization	(17,685)	(18,449)	(20,804)	(20,923)	(20,900)
Operating income (loss)	1,134	(13,670)	(13,673)	11,471	46,934
Adjustments					
Add back depreciation & amortization	17,685	18,449	20,804	20,923	20,900
Add investment income	48,870	8,191	5,405	7,040	3,043
Add principal and interest payments from Rocky Reach & Rock Island	14,659	47,247	51,003	51,888	50,233
Subtract investment earnings credited to Rocky Reach & Rock Island	(3,438)	(1,102)	(1,171)	(892)	(132)
Total adjustments	77,776	72,785	76,041	78,959	74,044
Net revenues	78,910	59,115	62,368	90,430	120,978
Plus withdrawals (deposits) to Rate Stabilization Fund	–	–	–	–	–
Adjusted net revenues	$ 78,910	$ 59,115	$ 62,368	$ 90,430	$ 120,978
Available funds [2]	$ 172,832	$ 159,605	$ 151,781	$ 147,990	$ 225,867
Annual debt service					
Senior Bonds	$ 39,451	$ 31,048	$ 28,817	$ 34,229	$ 3,761
Subordinate Bonds	7,893	10,903	13,237	14,470	43,784
Third-Lien Notes	–	3,493	6,016	5,432	5,432
Total debt service	$ 47,344	$ 45,444	$ 48,070	$ 54,131	$ 52,977
Debt service coverage (required 1.00x)	5.32	4.81	4.45	4.40	6.55

1. *Includes revenues of the District's Distribution Division; Financing Facilities, Treasury Services and Internal Service Funds; and Lake Chelan, Fiber and Telecommunications, Water and Wastewater Systems, all of which are part of the Consolidated System.*
2. *Includes all unencumbered funds of the District that the District reasonably expects to be available to pay debt service on the Senior Bonds, Subordinate Bonds and Third-Lien Notes.*

Consolidated System and Hydroelectric Systems

Outstanding Long-Term Debt as of December 31, 2012 ($000)

Date of Bonds	Final Maturity Date	Series of	Original Principal Amount	Scheduled Retirement [1]	Actual Retirement [2]	Principal Amount Outstanding	Accumulated for Retirement [3]
CHELAN HYDRO CONSOLIDATED SYSTEM							
4/29/2004	7/1/2024	2004C [4]	$ 15,000	$ –	$ –	$ 15,000	$ 7,500
4/5/2005	1/1/2039	2005A [4]	25,430	–	–	25,430	6,358
Total Chelan Hydro Consolidated System			40,430	–	–	40,430	13,858
CONSOLIDATED SYSTEM							
5/31/2007	7/1/2042	2007B	8,370	–	–	8,370	418
5/31/2007	7/1/2037	2007C	25,590	2,265	2,265	23,325	1,239
2/28/2008	7/1/2024	2008A	47,075	4,060	4,060	43,015	15,342
6/3/2009	7/1/2032	2008B [5]	92,880	4,065	4,065	88,815	3,491
8/11/2009	7/1/2019	2009C	6,545	1,660	1,660	4,885	243
8/11/2009	7/1/2039	2009D	27,015	–	–	27,015	1,800
6/1/2011	7/1/2026	2011A	107,500	7,380	7,380	100,120	5,244
6/1/2011	7/1/2026	2011B	72,220	4,960	4,960	67,260	3,377
11/9/2011	7/1/2026	2011C	164,425	6,000	6,000	158,425	5,351
Total Consolidated System			551,620	30,390	30,390	521,230	36,505
CONSOLIDATED SYSTEM SUBORDINATE NOTES							
7/22/2009	7/1/2014	2009A [6]	20,630	–	–	20,630	1,355
7/22/2009	7/1/2014	2009B [6]	8,340	–	–	8,340	527
Total Consolidated System Subordinate Notes			28,970	–	–	28,970	1,882
ROCK ISLAND SYSTEM							
3/17/1997	6/1/2029	1997A [7]	135,944	76,450	76,450	252,659	32,026
8/11/2009	7/1/2034	2009A	14,000	1,025	1,025	12,975	608
Total Rock Island System			149,944	77,475	77,475	265,634	32,634
ROCKY REACH SYSTEM							
12/4/2008	7/1/2014	2008A	7,415	4,585	4,585	2,830	268
8/11/2009	7/1/2034	2009A	15,895	1,050	1,050	14,845	764
Total Rocky Reach System			23,310	5,635	5,635	17,675	1,032
Grand Total			$ 794,274	$ 113,500	$ 113,500	$ 873,939	$ 85,911

1. *Amount of serial bonds matured as of December 31, 2012 plus scheduled minimum redemption of term bonds to have been retired from mandatory sinking funds.*
2. *Amount of serial bonds matured as of December 31, 2012 plus actual retirement of term bonds retired from mandatory sinking funds, reserve accounts and optional purchases.*
3. *Amounts accumulated as cash and investments in various principal accounts, sinking funds and reserve accounts available for the future retirement of bonds. Investments are represented at book value.*
4. *The 2004C Bonds are subject to mandatory tender for purchase on July 1, 2014 and the 2005A Bonds are subject to mandatory tender for purchase on July 1, 2015 upon the expiration of their respective current Fixed-Term Interest Rate Periods. The District intends to retire such Bonds at that time; however, may elect to remarket some or all of such Bonds in new Interest Rate Periods.*
5. *Does not reflect the $23,565,000 principal amount of 2008B Bonds optionally redeemed on February 6, 2013.*
6. *Represents Consolidated System Subordinate Notes which mature in whole on July 1, 2014 with semi-annual interest payments. These Notes are not subject to redemption prior to maturity.*
7. *Represents Capital Appreciation Bonds on which interest is compounded. Thus, the accreted value reported as Principal Amount Outstanding may exceed Original Principal Amount less Actual Retirements.*

Consolidated System

Loans as of December 31, 2012 ($000)

	Allocated Principal Amount of Bonds Outstanding [1]	Adjustments to Loans Outstanding [2]	Net Loans Outstanding
Rocky Reach System	$ 223,151	$ 14,049	$ 237,200
Rock Island System	149,273	(1,423)	147,850
Consolidated System [3]	218,206	(92,790)	125,416
	$ 590,630	$ (80,164)	$ 510,466

1. *Represents aggregate principal amounts of Senior and Subordinate Consolidated System Bonds and Notes allocated to intersystem and interfund loans.*
2. *Consists primarily of prior loan repayments. Also includes adjustments for unamortized original issue discounts, issuance costs and amount payable to and (receivable) from other systems.*
3. *Includes bond proceeds advanced to various funds and components of the Consolidated System for capital purposes.*

Consolidated System Debt Service and Hydroelectric System

Loan Payments as of December 31, 2012

	Consolidated Bonds [1]			Loan Payments [2]		
	Aggregate Annual Debt Service					
Year	Principal [3]	Interest [4]	Total	Rocky Reach	Rock Island	Total Loan Payments
2013	$ 15,200,000 [5]	$ 22,643,695	$ 37,843,695	$ 30,449,522	$ 18,609,909	$ 49,059,431
2014	84,732,990 [5]	22,179,332	106,912,322	30,802,564	18,939,194	49,741,758
2015	47,820,000 [5]	18,120,937	65,940,937	30,852,463	17,817,875	48,670,338
2016	17,855,000 [5]	16,092,983	33,947,983	30,404,740	16,395,606	46,800,346
2017	43,790,000 [5]	15,375,679	59,165,679	29,214,359	16,131,129	45,345,488
2018	28,855,000	14,391,558	43,246,558	22,110,177	14,823,818	36,933,995
2019	32,832,400	13,302,948	46,135,348	19,884,836	14,640,997	34,525,833
2020	32,405,000	12,024,951	44,429,951	18,682,912	14,704,160	33,387,072
2021	29,000,000	10,732,500	39,732,500	16,995,034	13,966,042	30,961,076
2022	30,290,000	9,532,044	39,822,044	16,995,986	13,784,472	30,780,458
2023	31,695,000	8,234,023	39,929,023	16,928,190	13,778,138	30,706,328
2024	30,788,183	6,812,688	37,600,871	16,872,091	13,305,762	30,177,853
2025	34,840,000	5,303,174	40,143,174	14,732,661	12,851,979	27,584,640
2026	22,533,353	3,744,526	26,277,879	13,050,225	12,792,367	25,842,592
2027	2,930,000	2,059,260	4,989,260	11,627,056	12,791,571	24,418,627
2028	3,875,000	1,958,477	5,833,477	10,208,263	13,409,100	23,617,363
2029	2,345,000	1,854,454	4,199,454	8,878,935	8,566,986	17,445,921
2030	2,450,000	1,748,606	4,198,606	7,463,981	9,899,917	17,363,898
2031	2,565,000	1,635,821	4,200,821	6,054,618	9,387,546	15,442,164
2032	44,209,442	1,443,452	45,652,894	4,803,146	8,249,877	13,053,023
2033	2,800,000	1,245,779	4,045,779	4,220,632	8,193,662	12,414,294
2034	2,930,000	1,116,864	4,046,864	3,961,897	8,345,171	12,307,068
2035	3,065,000	986,615	4,051,615	2,638,751	7,726,901	10,365,652
2036	3,195,000	850,364	4,045,364	1,388,256	7,567,744	8,956,000
2037	2,101,027	708,335	2,809,362	289,191	7,303,721	7,592,912
2038	1,905,000	559,859	2,464,859	289,191	6,488,326	6,777,517
2039	194,940	474,457	669,397	146,202	3,091,288	3,237,490
2040	–	385,020	385,020	–	1,033,001	1,033,001
2041	–	385,020	385,020	–	928,704	928,704
2042	7,951,826	385,020	8,336,846	–	649,708	649,708
2043	–	–	–	–	410,126	410,126
2044	–	–	–	–	19,601	19,601
Total	$ 565,154,161	$ 196,288,441	$ 761,442,602	$ 369,945,879	$ 326,604,398	$ 696,550,277

1. *Includes Senior and Subordinate Consolidated System Bonds and Third-Lien Notes.*
2. *Represents loan payment obligations of the Rocky Reach and Rock Island Hydroelectric Systems to the Consolidated System with respect to intersystem loans from the Consolidated System.*
3. *Includes serial and balloon payments reduced by funds held in Reserve Accounts at the time of final maturity. The District may elect to utilize the Reserve Accounts other than as shown depending on market conditions and limitations contained in the governing resolutions. The District anticipates that most balloon payments will be made as scheduled on or prior to the dates they become due, however the District may elect to refinance balloon payments.*
4. *Interest is net of Build America Bond (BAB) direct payment Federal subsidy assumed at 35 percent.*
5. *Includes scheduled mandatory sinking fund redemptions of the 2008B Bonds. The District applied $23,565,000 of principal amount optionally redeemed on February 6, 2013 against such mandatory sinking fund redemptions.*

Consolidated System and Hydroelectric Systems

Projected Capital Requirements and Financings

Projected Capital Requirements ($000)

Calendar Year	**2013**	**2014**	**2015**	**2016**	**2017**
Distribution Division	$ 16,891	$ 16,372	$ 17,029	$ 23,298	$ 14,303
Fiber & Telecom System	1,742	2,345	2,275	2,465	1,306
Water/Wastewater Systems	651	928	1,592	2,945	2,956
Internal Service System	8,136	9,879	1,924	5,573	3,282
Rocky Reach System	7,880	13,666	12,231	8,386	3,046
Rock Island System	4,439	7,823	8,720	13,502	14,997
Lake Chelan Project	100	357	1,928	2,467	2,079
Total Capital Requirements	$ 39,839	$ 51,370	$ 45,699	$ 58,636	$ 41,969

Projected Future Financing ($000)

Calendar Year	**2013**	**2014**	**2015**	**2016**	**2017**
Proceeds of New Bond Issues	$ –	$ –	$ –	$ –	$ –
Other Available District Funds [1]	39,839	51,370	45,699	58,636	41,969
Total	$ 39,839	$ 51,370	$ 45,699	$ 58,636	$ 41,969

1. *Includes other internal funds such as revenue fund cash, unspent proceeds of prior bond issues, contributions in aid of construction, and intersystem loan obligations. Also includes additional amounts available under the power sales contracts paid by the Power Purchasers and the District's Distribution Division and available for subsequent use by the Rock Island and Rocky Reach Systems.*

Consolidated System

Unrestricted and Restricted Fund Balances as of December 31, 2012 ($000)

Balances [1]	**Utility Services [2]**	**Lake Chelan Project**	**Financing Facilities [3]**	**Internal Services Fund**	**Total**
Unrestricted funds					
Revenue fund [4]	$ 40,945	$ 1,153	$ 3,106	$ 10,168	$ 55,372
Available funds:					
Rate stabilization fund	50,000	–	–	–	50,000
Operating reserve fund	31,215	–	–	–	31,215
Contingency reserve fund	9,947	–	–	–	9,947
Other unrestricted funds [5]	5,133	7,547	64,094	15,669	92,443
Total unrestricted funds	137,240	8,700	67,200	25,837	238,977
Restricted funds [6]	18,663	310	33,675	5,219	57,867
Total fund balances	$ 155,903	$ 9,010	$ 100,875	$ 31,056	$ 296,844

1. *Amounts reflect both cash and book value of investments.*
2. *Includes Distribution Division, Fiber and Telecommunications, Water and Wastewater Systems and Treasury Services Fund.*
3. *Financing Facilities is an internal service fund of the District's Consolidated System used to account for various financing related activities, including holding Consolidated System debt service reserve funds.*
4. *Unencumbered funds of the District held in the Revenue Fund.*
5. *Includes all other Unrestricted Funds such as Board Designated Construction Funds and Reserves.*
6. *Includes all Restricted Funds such as Consolidated System Bond Proceeds, Bond Reserves and other Reserves.*

Rock Island System

Average Annual Energy Output and Disposition of Output (000 MWh)

Calendar Year	**2008**	**2009**	**2010**	**2011**	**2012**
Original System generation	565	310	313	652	750
Second powerhouse generation	1,950	1,955	1,871	2,275	2,180
Total generation	2,515	2,265	2,184	2,927	2,930
Plus:					
Wanapum Encroachment	609	602	572	637	673
Net Interchange	58	43	68	54	43
System losses by contract	(102)	(3)	(6)	(4)	(4)
Less:					
Canadian Treaty Power [1]	(152)	(153)	(161)	(166)	(160)
Rocky Reach Encroachment [2]	(207)	(182)	(160)	(181)	(176)
Total net power delivered [3]	2,721	2,572	2,497	3,267	3,306
Percentage allocations [4]					
Power Purchasers	50%	50%	50%	50%	51%
District	50%	50%	50%	50%	49%
Sales:					
Power Purchasers	1,328	1,263	1,213	1,648	1,950
District	1,393	1,309	1,283	1,619	1,356
Total sales [3]	2,721	2,572	2,496	3,267	3,306
Net peaking capability	624	624	629	629	629
Availability factor [5]	94%	90%	94%	92%	92%
Plant factor [6]	50%	47%	45%	59%	60%

1. *Energy to be made available for the account of Canada in accordance with arrangements made as a result of the Canadian Treaty.*
2. *Energy transferred from Rock Island to Rocky Reach to account for effects of one project on the output of the other.*
3. *Includes coordination exchange and pond transfers.*
4. *As defined by the power sales contracts. The District received 50 percent of the power produced by the Rock Island System during 2008 through June 7, 2012, 100 percent of the output from June 8, 2012 through June 30, 2012 and 49 percent of the output thereafter.*
5. *Years 2009 and 2010 have been restated. The availability factor is the ratio of the actual hours that the generating units of the second powerhouse of the Rock Island System are available for servicing during the period indicated to the total hours in the period.*
6. *Net power delivered as a percentage of rated capacity for the year.*

Rock Island System

Cost of Power Comparison ($/MWh)

Calendar Year	**2008**	**2009**	**2010**	**2011**	**2012**
Rock Island System	$ 27	$ 30	$ 32	$ 24	$ 23
Bonneville Power [1]	$ 31	$ 33	$ 33	$ 35	$ 35

1. *The Bonneville rate is for preferred, flat undelivered and includes transmission and wheeling charges.*

Rock Island System

Historical and Projected Annual Capital Requirements ($000)

Actual Calendar Year	2008	2009	2010	2011	2012
	$ 22,318	$ 11,552	$ 14,662	$ 20,873	$ 7,335
Projected Calendar Year [1]	**2013**	**2014**	**2015**	**2016**	**2017**
	$ 4,439	$ 7,823	$ 8,720	$ 13,502	$ 14,997

1. *Projections are based on materials prepared in connection with the District's normal advance planning process and are revised annually. Projections are in nominal dollars.*

Rock Island System

Cash Available for Debt Service ($000)

Calendar Year	2008	2009	2010	2011	2012
Operating revenues:					
Power Purchasers	$ 37,309	$ 38,330	$ 40,206	$ 38,509	$ 41,610
District	37,309	38,401	40,207	38,509	45,514
Total revenues from sales	74,618	76,731	80,413	77,018	87,124
Other operating revenues	94	171	169	199	157
Total operating revenues	74,712	76,902	80,582	77,217	87,281
Total operating expenses [1]	48,734	49,728	51,065	47,252	48,559
Net operating revenues	25,978	27,174	29,517	29,965	38,722
Other expense	(23,745)	(26,633)	(26,636)	(27,128)	(26,803)
Net revenues	2,233	541	2,881	2,837	11,919
Add back:					
Depreciation	10,019	10,678	10,744	10,577	10,518
Interest expense	25,535	28,123	27,960	27,477	27,041
Amortization of deferred debt costs	268	404	373	330	130
Other [2, 3]	579	1,459	612	1,810	431
Deduct:					
Amortization of deferred power sales revenue	–	–	–	–	(316)
Cash available for debt service	38,634	41,205	42,570	43,031	49,723
Annual debt service:					
Rock Island Bonds	22,594	22,971	23,560	23,055	20,612
Intersystem loans [4]	14,933	17,845	18,606	19,492	19,242
Total debt service requirement	37,527	40,816	42,166	42,547	39,854
Cash available after payment of all debt service	$ 1,107	$ 389	$ 404	$ 484	$ 9,869
Coverage of total debt service	1.03	1.01	1.01	1.01	1.25

1. *Includes depreciation expense.*
2. *Represents noncash items such as fair value adjustments and amortizations included in operating activities that are not indicative of cash available for debt service.*
3. *2008 was restated to include a 2009 correction for timing difference in the recording of certain adjustments.*
4. *Since 2011, this is calculated on an accrual basis to improve consistency with other similar District metrics.*

Rock Island System

Debt Service Requirements as of December 31, 2012

Twelve Months Ending Dec. 31	Bonds		Subordinate Lien Bonds		Intersystem Loans [2]		Total Estimated Debt Service
	Estimated Debt Service	Estimated Principal Retirements [1]	Estimated Debt Service	Estimated Principal Retirements [1]	Estimated Debt Service	Estimated Principal Retirements	
2013	$ 22,685,000	$ 22,685,000	$ 961,406	$ 375,000	$ 18,609,909	$ 7,252,989	$ 42,256,315
2014	22,685,000	22,685,000	960,156	385,000	18,939,194	7,996,485	42,584,350
2015	22,685,000	22,685,000	963,606	400,000	17,817,875	7,316,206	41,466,481
2016	22,685,000	22,685,000	962,606	415,000	16,395,606	6,294,225	40,043,212
2017	22,685,000	22,685,000	961,006	430,000	16,131,129	6,367,269	39,777,135
2018	22,685,000	22,685,000	963,806	450,000	14,823,818	5,575,052	38,472,624
2019	22,685,000	22,685,000	960,806	465,000	14,640,997	5,939,072	38,286,803
2020	22,685,000	22,685,000	962,206	485,000	14,704,160	6,390,631	38,351,366
2021	22,685,000	22,685,000	962,806	505,000	13,966,042	6,078,590	37,613,848
2022	22,685,000	22,685,000	962,606	525,000	13,784,472	6,301,067	37,432,078
2023	22,685,000	22,685,000	961,606	545,000	13,778,138	6,716,574	37,424,744
2024	22,685,000	22,685,000	959,806	565,000	13,305,762	6,684,502	36,950,568
2025	22,685,000	22,685,000	961,500	590,000	12,851,979	6,673,609	36,498,479
2026	22,685,000	22,685,000	962,000	620,000	12,792,367	7,056,889	36,439,367
2027	22,685,000	22,685,000	961,000	650,000	12,791,571	7,524,936	36,437,571
2028	22,685,000	22,685,000	963,500	685,000	13,409,100	8,640,462	37,057,600
2029	12,569,000	12,569,000 [3]	964,250	720,000	8,566,986	4,255,544	22,100,236
2030	–	–	963,250	755,000	9,899,917	6,012,181	10,863,167
2031	–	–	960,500	790,000	9,387,546	5,905,273	10,348,046
2032	–	–	961,000	830,000	8,249,877	5,181,330	9,210,877
2033	–	–	964,500	875,000	8,193,662	5,486,514	9,158,162
2034	–	–	352,744	306,994 [3]	8,345,171	6,025,041	8,697,915
2035	–	–	–	–	7,726,901	5,780,869	7,726,901
2036	–	–	–	–	7,567,744	6,005,108	7,567,744
2037	–	–	–	–	7,303,721	6,141,158	7,303,721
2038	–	–	–	–	6,488,326	5,740,335	6,488,326
2039	–	–	–	–	3,091,288	2,722,826	3,091,288
2040	–	–	–	–	1,033,001	856,009	1,033,001
2041	–	–	–	–	928,704	809,808	928,704
2042	–	–	–	–	649,708	585,128	649,708
2043	–	–	–	–	410,126	383,687	410,126
2044	–	–	–	–	19,601	18,923	19,601
Total	$ 375,529,000	$ 375,529,000	$ 20,556,666	$ 12,366,994	$ 326,604,398	$ 170,718,292	$ 722,690,064

1. *Estimated principal retirements are based on the assumption that all bonds are called or purchased at par.*
2. *Represents loan payment obligations of the Rock Island System to the Consolidated System with respect to the intersystem loans from the Consolidated System.*
3. *The final estimated debt service is reduced by the principal retirements assumed to be retired with the application of the appropriate Reserve Account, principal accounts and sinking funds. It should be recognized that the District may elect to utilize the various Accounts in a manner other than as reflected, depending upon market conditions and the limitations contained in the governing resolutions.*

Rock Island System

Operating Results and Debt Service Coverage ($000)

As defined in the Subordinate Rock Island Master Resolution 08-13391

	2008	2009	2010	2011	2012
Operating revenue					
Wholesale sales [1]	$ 74,618	$ 76,731	$ 80,413	$ 77,018	$ 87,124
Other operating revenues	94	171	169	199	157
Total operating revenues	74,712	76,902	80,582	77,217	87,281
Operating expenses					
Operations & maintenance	(38,121)	(38,488)	(39,738)	(35,903)	(37,279)
Taxes	(594)	(562)	(583)	(772)	(762)
Depreciation and amortization	(10,019)	(10,678)	(10,744)	(10,577)	(10,518)
Total operating expense	(48,734)	(49,728)	(51,065)	(47,252)	(48,559)
Operating income	25,978	27,174	29,517	29,965	38,722
Adjustments					
Subtract Power Purchaser CS debt sales [2]	(14,933)	(17,355)	(18,672)	(19,125)	(19,242)
Add back depreciation and amortization	10,019	10,678	10,744	10,577	10,518
Add investment income [3]	2,374	2,523	1,971	1,966	1,430
Add CS investment income credited Power Purchasers [4]	629	481	480	349	132
Total adjustments	(1,911)	(3,673)	(5,477)	(6,233)	(7,162)
Net revenues	$ 24,067	$ 23,501	$ 24,040	$ 23,732	$ 31,560
Annual debt service					
Bonds	$ 21,698	$ 19,576	$ 19,650	$ 19,650	$ 19,650
Subordinate Bonds	–	2,948	3,802	3,958	962
Total debt service	$ 21,698	$ 22,524	$ 23,452	$ 23,608	$ 20,612
Debt service coverage					
Without available funds (required 1.00x)	1.11	1.04	1.03	1.01	1.53

1. *Payments from Power Purchasers pursuant to long-term contracts for operating expenses, debt service related to Rock Island project debt and loans of Consolidated System bond proceeds and other contractually defined amounts. Increase from 2011 to 2012 is due to new power sales contracts effective July 1, 2012.*
2. *Adjustment made to subtract Power Purchaser payments for debt service associated with loans of Consolidate System bond proceeds.*
3. *Investment income includes earnings from cash and investments in the Rock Island System.*
4. *Add back Consolidated System interest earnings credited to the Power Purchasers, which was deducted from wholesale sales.*

Rocky Reach System

Debt Service Requirements as of December 31, 2012

Twelve Months Ending Dec. 31	Bonds: Estimated Debt Service	Bonds: Estimated Principal Retirements [1]	Intersystem Loans [2]: Estimated Debt Service	Intersystem Loans [2]: Estimated Principal Retirements	Total Estimated Debt Service
2013	$ 2,640,450	$ 1,785,000	$ 30,449,522	$ 16,111,109	$ 33,089,972
2014	2,347,200	1,567,000 [3]	30,802,564	17,374,184	33,149,764
2015	1,127,750	425,000	30,852,463	18,219,523	31,980,213
2016	1,126,500	445,000	30,404,740	18,651,800	31,531,240
2017	1,129,250	470,000	29,214,359	18,496,841	30,343,609
2018	1,125,750	490,000	22,110,177	12,601,324	23,235,927
2019	1,126,250	515,000	19,884,836	11,361,962	21,011,086
2020	1,125,500	540,000	18,682,912	10,813,510	19,808,412
2021	1,128,500	570,000	16,995,034	9,781,536	18,123,534
2022	1,130,000	600,000	16,995,986	10,422,550	18,125,986
2023	1,130,000	630,000	16,928,190	11,032,325	18,058,190
2024	1,128,500	660,000	16,872,091	11,669,551	18,000,591
2025	1,125,500	690,000	14,732,661	10,278,871	15,858,161
2026	1,126,000	725,000	13,050,225	9,265,300	14,176,225
2027	1,129,750	765,000	11,627,056	8,437,424	12,756,806
2028	1,126,500	800,000	10,208,263	7,550,719	11,334,763
2029	1,126,500	840,000	8,878,935	6,701,646	10,005,435
2030	1,129,500	885,000	7,463,981	5,721,337	8,593,481
2031	1,130,250	930,000	6,054,618	4,687,783	7,184,868
2032	1,128,750	975,000	4,803,146	3,750,061	5,931,896
2033	1,130,000	1,025,000	4,220,632	3,448,158	5,350,632
2034	364,300	310,550 [3]	3,961,897	3,444,978	4,326,197
2035	–	–	2,638,751	2,331,708	2,638,751
2036	–	–	1,388,256	1,251,761	1,388,256
2037	–	–	289,191	239,572	289,191
2038	–	–	289,191	258,335	289,191
2039	–	–	146,202	135,641	146,202
Total	$ 26,782,700	$ 16,642,550	$ 369,945,879	$ 234,039,509	$ 396,728,579

1. *Estimated principal retirements are based on the assumption that all bonds are called or purchased at par.*
2. *Represents loan payment obligations of the Rocky Reach System to the Consolidated System with respect to the intersystem loans from the Consolidated System.*
3. *The final estimated debt service is reduced by the principal retirements assumed to be retired with the application of the appropriate Reserve Account. It should be recognized that the District may elect to utilize the various Reserve Accounts in a manner other than as reflected, depending upon market conditions and the limitations contained in the governing resolutions.*

Rocky Reach System

Operating Results and Debt Service Coverage ($000)

As defined in the Rocky Reach Master Resolution 08-13390

	2008	2009	2010	2011	2012
Operating revenue					
Wholesale Sales [1]	$ 75,639	$ 70,053	$ 74,983	$ 77,260	$ 87,284
Other operating revenues	1,777	480	295	281	176
Total operating revenues	77,416	70,533	75,278	77,541	87,460
Operating expenses					
Operations & maintenance	(42,945)	(38,905)	(39,729)	(39,027)	(35,945)
Taxes	(1,256)	(1,118)	(1,048)	(1,531)	(1,522)
Depreciation and amortization	(16,810)	(17,307)	(17,477)	(16,968)	(16,942)
Total operating expenses	(61,011)	(57,330)	(58,254)	(57,526)	(54,409)
Operating income	16,405	13,203	17,024	20,015	33,051
Adjustments					
Subtract Power Purchaser CS debt sales [2]	(33,937)	(29,892)	(32,331)	(32,763)	(30,991)
Add back depreciation and amortization	16,810	17,307	17,477	16,968	16,942
Add investment income [3]	83	330	316	455	271
Add CS investment income credited Power Purchasers [4]	2,809	621	691	543	–
Total adjustments	(14,235)	(11,634)	(13,847)	(14,797)	(13,778)
Net revenues	$ 2,170	$ 1,569	$ 3,177	$ 5,218	$ 19,273
Annual debt service					
Bonds	$ 1,426	$ 886	$ 2,504	$ 2,638	$ 2,641
Total debt service	$ 1,426	$ 886	$ 2,504	$ 2,638	$ 2,641
Debt service coverage					
Without available funds (required 1.00x)	1.52	1.77	1.27	1.98	7.30

1. *Payments from Power Purchasers pursuant to long-term contracts for operating expenses, debt service related to Rocky Reach project debt and loans of Consolidated System bond proceeds and other contractually defined amounts. Increase from 2011 to 2012 is due to new power sales contracts effective November 1, 2011.*
2. *Adjustment made to subtract Power Purchaser payments for debt service associated with loans of Consolidate System bond proceeds.*
3. *Investment income includes earnings from cash and investments in the Rocky Reach System.*
4. *Add back Consolidated System interest earnings credited to the Power Purchasers, which was deducted from wholesale sales.*

Description of Major Power Purchasers

The information set forth below relating to the Power Purchasers which are subject to the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act") has been obtained from documents filed by such Power Purchasers with the Securities and Exchange Commission (the "SEC"). Neither the Power Purchasers, the District nor the underwriter makes representation as to, nor have they attempted to verify, the accuracy or completeness of such information.

PUGET SOUND ENERGY, INC.

Puget Energy, Inc. (Puget Energy) is an energy services holding company incorporated in the state of Washington in 1999. All of its operations are conducted through its subsidiary, Puget Sound Energy, Inc. (PSE), a utility company. Puget Energy has no significant assets other than the stock of PSE. Puget Energy and PSE are collectively referred to herein as "the Company." The Company's executive office is located in the PSE Building at 10885 NE 4th Street, Suite 1200, Bellevue, Washington 98004. Its telephone number is (425) 454-6363 and information can be found on the Company's internet web sites at: www.pugetenergy.com and www.pse.com.

Puget Energy is the direct parent company of PSE, the oldest and largest electric and natural gas utility headquartered in the state of Washington, primarily engaged in the business of electric transmission, distribution, generation and natural gas distribution. Puget Energy's business strategy is to generate stable earnings and cash flow by offering reliable electric and natural gas service in a cost-effective manner through PSE. Puget Energy had no employees and PSE had approximately 2,800 full time employees as of December 31, 2012.

PSE is a public utility incorporated in the state of Washington in 1960. PSE furnishes electric and natural gas service in a territory covering approximately 6,000 square miles, principally in the Puget Sound region of the state of Washington. As of December 31, 2012, PSE had approximately 1,092,300 electric customers, and approximately 767,600 natural gas customers. On February 6, 2009, Puget Holdings LLC (Puget Holdings) completed its merger with Puget Energy. Puget Holdings is a consortium of long-term infrastructure investors including Macquarie Infrastructure Partners I, Macquarie Infrastructure Partners II, Macquarie Capital Group Limited, FSS Infrastructure Trust, the Canada Pension Plan Investment Board, the British Columbia Investment Management Corporation and the Alberta Investment Management Corporation. As a result of the merger, all of Puget Energy's common stock is indirectly owned by Puget Holdings.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents, filed with the SEC by Puget Energy, are incorporated by reference herein: 1. The Company's Form 10-K for the year ended December 31, 2012 filed on March 5, 2013 and any other such reports.

In addition, all documents filed by the Company pursuant to Section 13, 14 or 15(d) of the Exchange Act after the date of this filing shall be deemed to be incorporated by reference herein and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated herein by reference shall be deemed to be modified or superseded for purposes of this filing to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated herein by reference modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this filing. The Company's reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d)of the Securities Exchange Act of 1934 are available or maybe accessed free of charge at the Company's website, www.pugetenergy.com. Information may also be obtained via the SEC Internet website at www.sec.gov.

ALCOA INC. AND ALCOA POWER GENERATING INC.

Alcoa Power Generating, Inc. ("APGI") is a wholly owned subsidiary of Alcoa Inc. (formerly Aluminum Company of America)("Alcoa"). Formed in 1888 under the laws of the Commonwealth of Pennsylvania, Alcoa's principal offices are located at 390 Park Avenue, New York, New York, 10022-4608; the telephone number is (212) 836-2732.

Alcoa is the world leader in the production and management of primary aluminum, fabricated aluminum and alumina combined, through its active and growing participation in all major aspects of the industry: technology, mining, refining, smelting, fabricating and recycling. Total worldwide employment at year end 2012 was approximately 61,000 people.

AVAILABLE INFORMATION

Alcoa is subject to the informational requirements of the Exchange Act and in accordance therewith files reports and other information with the SEC. Information, as of particular dates, concerning Alcoa's directors and officers, their remuneration, the principal holders of Alcoa's securities and any material interest of such persons in transactions with Alcoa is disclosed in proxy statements distributed to shareholders of Alcoa and filed with the SEC. These reports, proxy statements and other information can be inspected and copied at the public reference facilities of the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549; 75 Park Place, New York, New York 10007; and 219 South Dearborn Street, Room 204, Chicago, Illinois 60604; and copies of such material can be obtained from the Public Reference Section of the SEC, Washington, D.C. 20549, at prescribed rates. Alcoa's Common Stock is listed on the New York Stock Exchange, and reports, proxy material and other information concerning Alcoa can be inspected at the office of such exchange located at Room 401, 20 Broad Street, New York, New York.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents, filed with the SEC by Alcoa, are incorporated by reference herein: 1. Alcoa's Annual Report on Form 10-K for the year ended December 31, 2012 filed on February 15, 2013 and any other such reports. In addition, all documents filed by Alcoa pursuant to Section 13, 14 or 15(d) of the Exchange Act after the date of this filing shall be deemed to be incorporated by reference herein and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated herein by reference shall be deemed to be modified or superseded for purposes of this filing to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated herein by reference modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this filing. Alcoa will provide to each person to whom a copy of this filing has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated by reference herein, other than exhibits to such documents. Requests for copies of the documents referred to above, other than exhibits to such documents, may be directed to: Secretary, Alcoa Inc., 390 Park Avenue, New York, New York, 10022-4608.

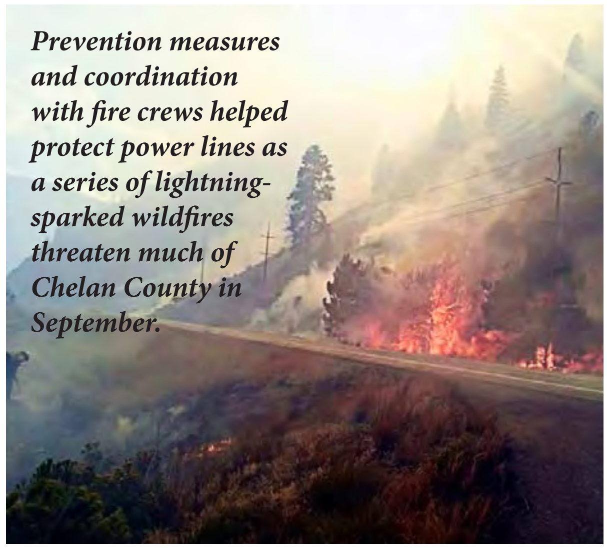
2011 Power Source

Generation Type	Chelan PUD*	NWPP Net System**
Biomass	0.06%	0.79%
Coal	2.91%	36.64%
Coke	0.00%	0.29%
Cogeneration	0.00%	0.00%
Geothermal	0.00%	0.00%
Hydro	96.03%	50.07%
Landfill gases	0.01%	0.15%
Natural Gas	0.80%	10.03%
Nuclear	0.10%	1.25%
Other	0.01%	0.12%
Petroleum	0.03%	0.08%
Solar	0.00%	0.00%
Waste	0.05%	0.59%
Wind	0.00%	0.00%
Total	100%	100%

**Washington State Department of Commerce*
***Northwest Power Pool*
(Washington, Oregon, Idaho and Montana)

Because Chelan County PUD at times buys electricity from a variety of sources throughout the Pacific Northwest, state reporting requirements obligate the PUD to include as part of its fuel mix a calculated percentage of the various sources of that purchased power. More than 96 percent of the energy supplied by the PUD is from hydroelectric generation. Electricity supplied by the PUD also comes from the fuel sources noted in the chart at left.

Percentages are updated mid-year for the previous year.



Prevention measures and coordination with fire crews helped protect power lines as a series of lightning-sparked wildfires threaten much of Chelan County in September.

Crews from neighbor PUDs joined Chelan PUD's efforts to restore power to 3,800 customers following December storms.

About the back cover: A new transformer goes into place at Okanogan Avenue Substation in Wenatchee.

P.U.D.
CHELAN COUNTY
www.chelanpud.org