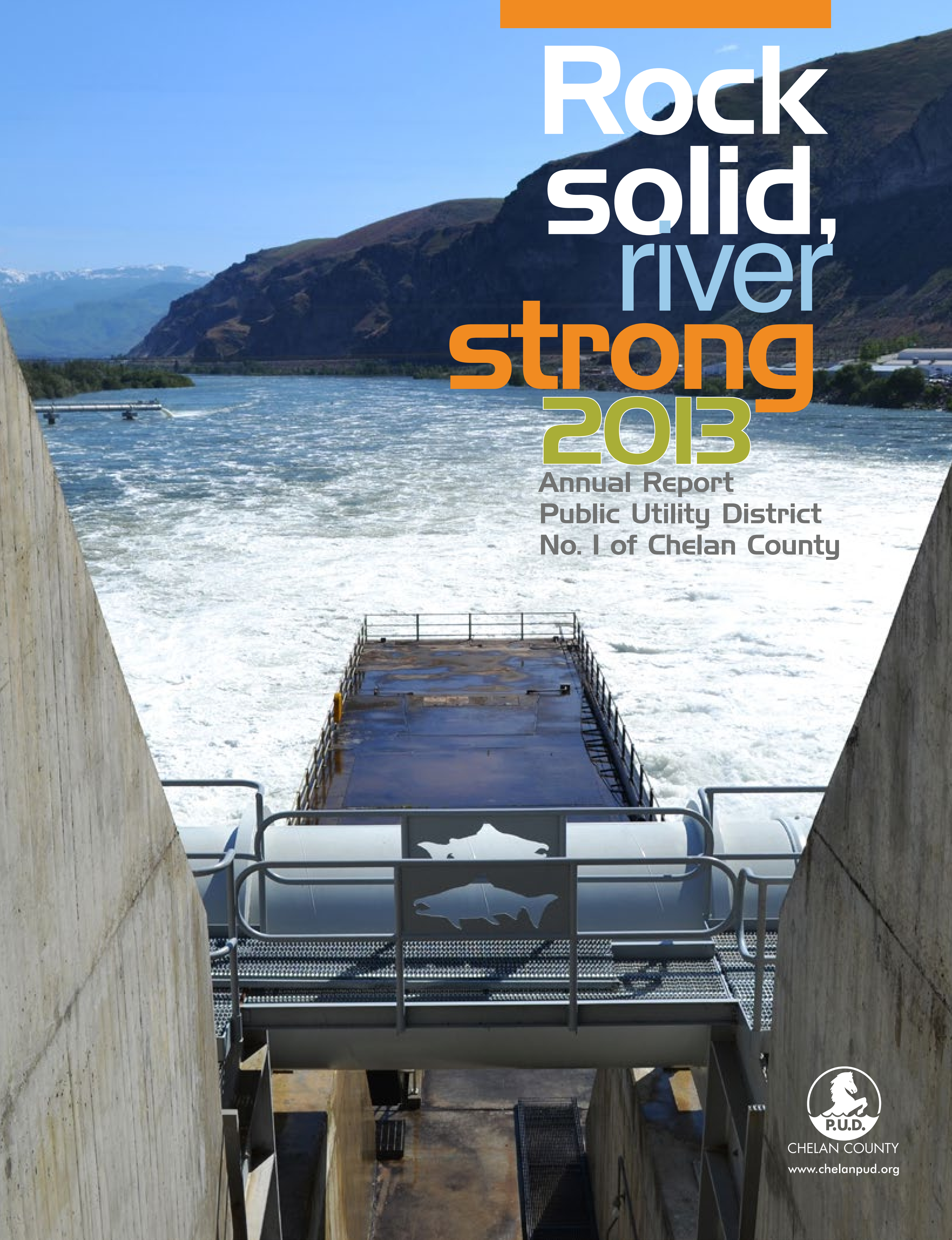
Rock solid, river strong 2013

Annual Report
Public Utility District No. 1 of Chelan County



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

Average Residential Rate
(Cents/kWh) ....3.2¢

Number of retail customers*
Electric 48,854
Water/Sewer 6,184
Fiber end-user connections 12,434
** As of Dec. 31, 2013*

Power generation (MWh)
Rocky Reach .... 6.42 million
Rock Island..................... 2.70 million
Lake Chelan 425,331

Generating units
Rocky Reach 11
Rock Island.................................. 18
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............. $273.4 million
Rocky Reach .... $91.4 million
Rock Island.................... $98.6 million
Lake Chelan .... $11.9 million

Bond ratings*
Fitch Ratings...............................AA+
Standard and Poor's .... AA
Moody's Inv. Service....................Aa3
** As of Dec. 31, 2013*

Peak demand and date
433 MW ....Dec. 9

Number of employees
As of Dec. 31, 2013 657

Service lines
Miles 2,050

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"*

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

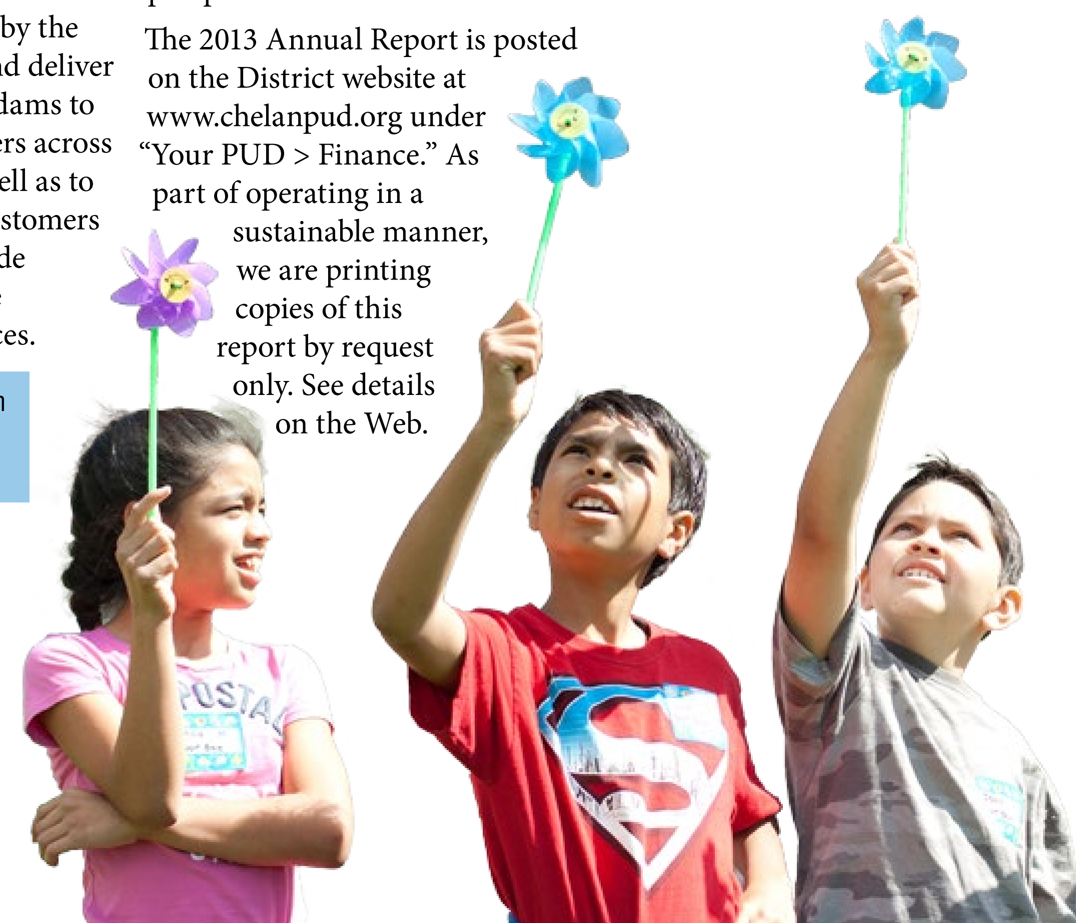
Table of contents

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 to 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 1-14 of the 2013 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 2013 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.

About the cover: Water cascades through spillways at Chelan PUD's Rocky Reach Dam on the Columbia River.



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

Generating clean, renewable, carbon-free hydropower

1,300
megawatt capacity*
11 generators
6.4 million megawatt hours generated***

Prudent financial management including the District's power hedging program has moderated the impact of taking the dam's four largest generators out of service for interim repairs of a design flaw. The interim work was finished in April 2014. Permanent repairs to return the Kaplan (adjustable turbine blade) units to full function are planned for 2015 through 2019. The dam's federal license runs through 2052.

629
megawatt capacity*
2 powerhouses
18 generators**
2.7 million megawatt hours generated ***

Regular maintenance ensures continued reliable operations at the first dam built on the Columbia River. The dam's current federal license runs through 2028.

59
megawatt capacity*
2 generators
425,331 megawatt hours generated ***

All of the power produced at the Chelan Falls powerhouse is sold to the District's retail distribution system. The Lake Chelan Hydro Project is licensed through 2056.

**generator nameplate capacity*

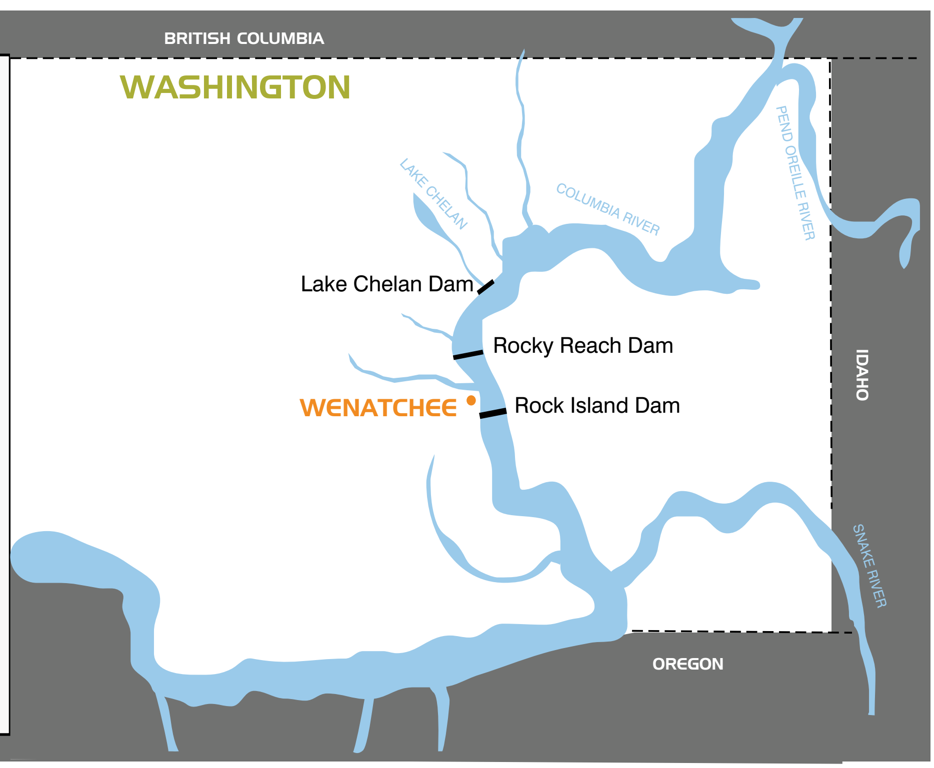
***There is also a 1,000 kW station service unit*

****In 2013*

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 2013, they produced about 9.5 million megawatt hours of affordable, emission-free electricity.



Rock solid, river strong

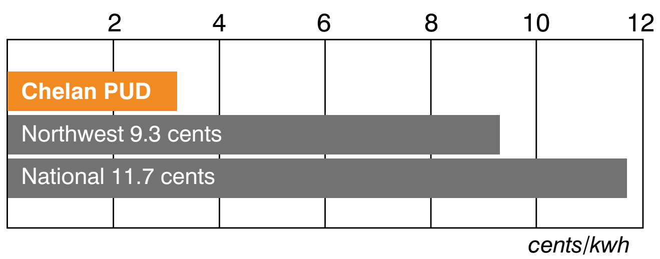
Rock solid commitment

Chelan PUD at a glance

3.2¢

Average residential rate per kilowatt hour in 2013

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

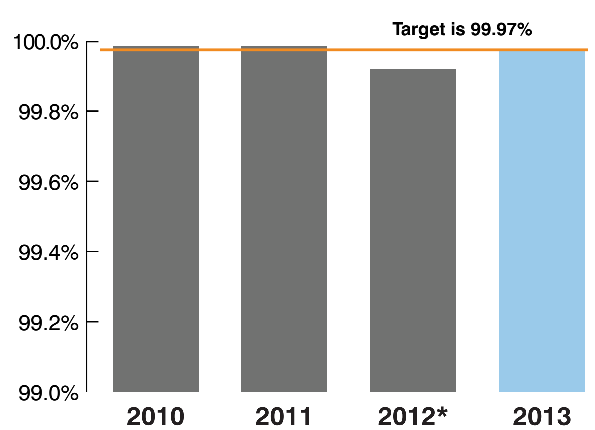


Bond ratings

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

As of Dec. 31, 2013

Electric system reliability



**Dec. Lake Wenatchee-area storm*

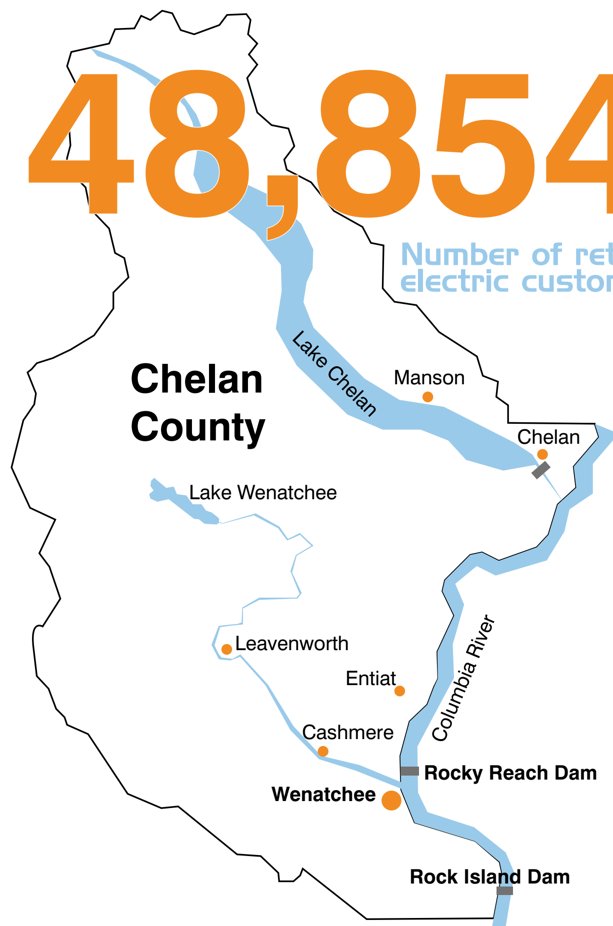
$7.7 million

Funds returned to the community in taxes

	2012	2013
State and local tax expense	$ 7,377,931	$ 7,699,874

48,854

Number of retail electric customers



	2012	2013
District Peak Demand (MW)	402	433
Peak Demand (date)	Jan. 19	Dec. 9
No. of employees*	656	657
No. of retail customers*		
Electric	48,463	48,854
Water/Sewer	6,076	6,184
Fiber end-user connections	12,240	12,434

*As of Dec. 31, 2013

Rock solid performance

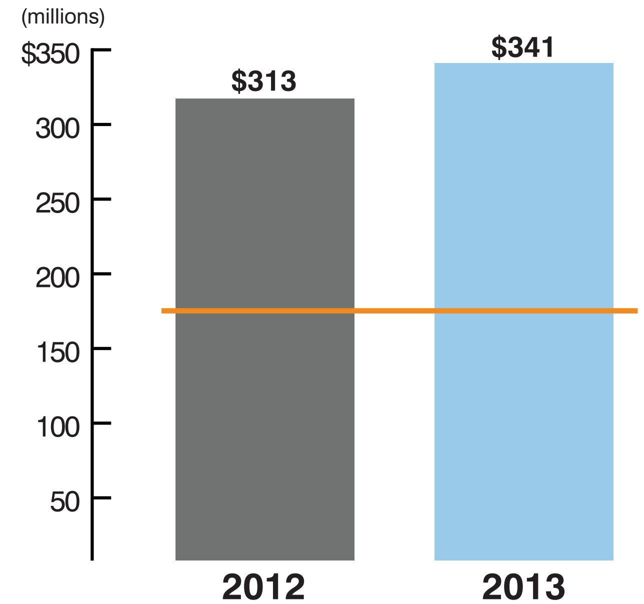
Meeting and exceeding our goals

Four measurements of financial stability were developed as part of 2010 strategic planning for the District's long-term sustainability. We achieved all four in 2013; even reaching a debt ratio of less than 60 percent two years ahead of schedule.

Financial liquidity is cash reserves to cover risks and provide additional financial stability
Debt ratio reflects the percentage of utility assets financed by debt
Rate of return provides income to replace assets over time and meet obligations in unusual conditions
Debt service coverage demonstrates the ability to meet debt obligations even under unusual conditions

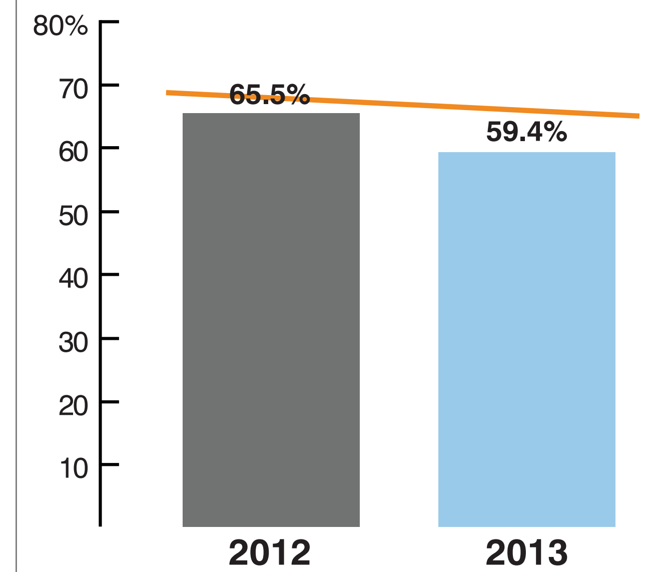
Financial liquidity

Target: $175 million



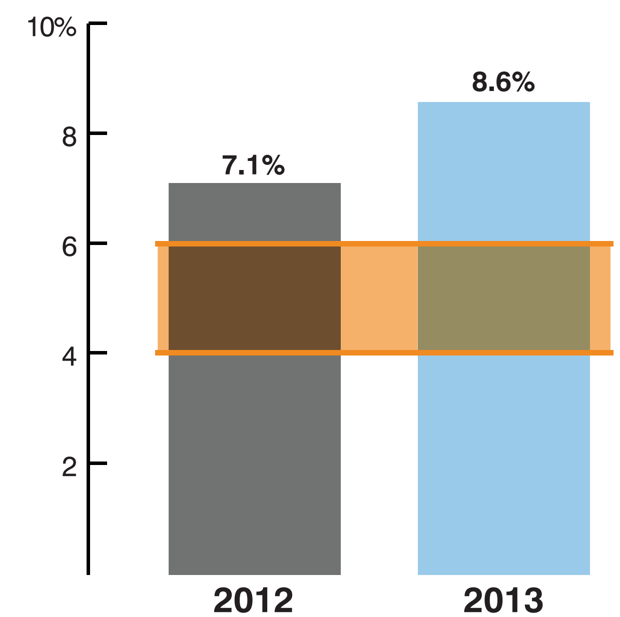
Debt ratio

2015 Target: Less than 60 percent



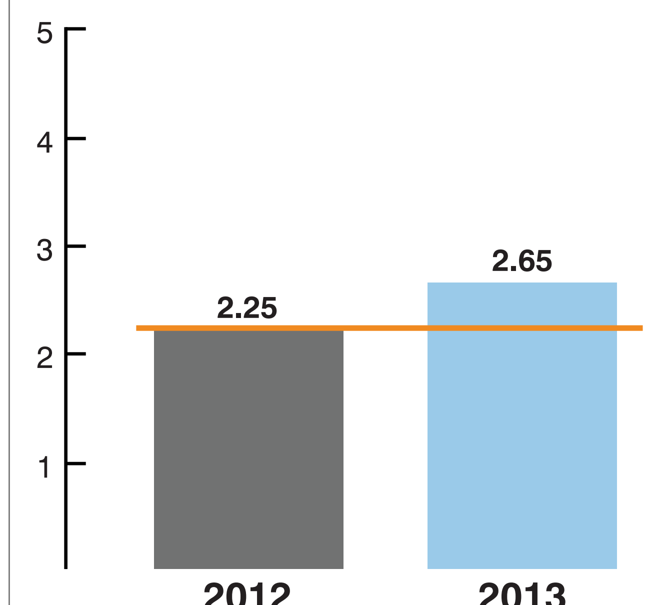
Rate of return

Target: 4-6 percent



Debt service coverage

Target: More than 2.25 (times revenue)



Timeline 2013

River strong tradition

January 7
Commissioner Carnan Bergren is elected 2013 board president


Carnan Bergren

February 12
General Manager John Janney gives notice he'll leave Chelan PUD

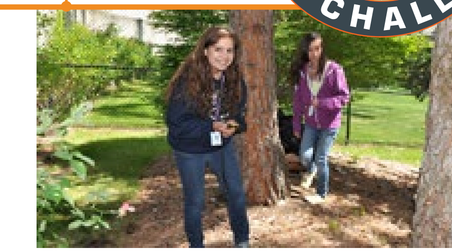
March 4
PUD announces it has achieved goal of no net impact on salmon and steelhead passing Rock Island and Rocky Reach dams

April 2
New Crum Canyon Substation powers up in final step of upgrades for Entiat area electric service

April 15
Chelan PUD named a Reliable Public Power Provider (RP3®) by the American Public Power Association. One of 184 out of 2,200 public utilities to earn this certification.

RP3 Reliable Public Power Provider

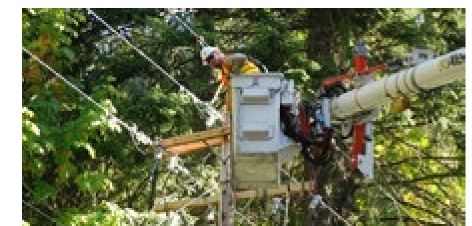
April 24
High-tech treasure hunt – the D3 Geocache Challenge – earns national award



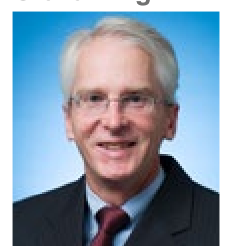
May 1
Erik Wahlquist becomes general counsel and chief compliance officer


Erik Wahlquist

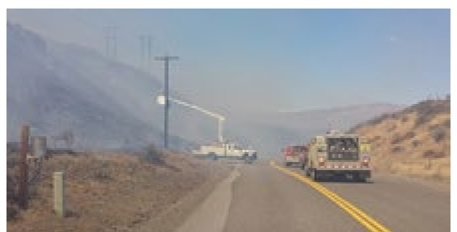
June 14
Repairs to Lake Wenatchee-area electric and fiber systems complete following devastating winter storm damage



July 24
Steve Wright named general manager

Steve Wright


August 1
Line crews replace 15 poles; restore power after Colockum Tarps Fire burns through southern Chelan County



September 10
Community celebrates start of Entiat Park renovations

September 19-21
Wenatchee River Salmon Festival showcases Northwest fish and culture

October 6-12
Public Power Week honors customer-owned utilities

November 10
Strategic planning kicks off for 2015-2019 and beyond

December 18
Manson couple wins Powerpay contest; in two years 25 percent of customers elect to get bills by email

Powerpay

Fish illustrations by Joseph Tomelleri

Serving customers and our community in 2013

Energy savings are adding up

Customers taking advantage of energy-efficiency programs saved more than 17.5 million kilowatt hours of energy last year – enough to power about 1,000 homes in Chelan County.

The savings helped Chelan County PUD surpass its 2013 conservation goal by about 40 percent.

Some 1,890 homeowners took advantage of programs to save energy and money including rebates on appliances, windows, insulation and ductless heat pumps; duct sealing for manufactured homes; and refrigerator/freezer recycling. Thirty-five businesses installed energy-efficiency improvements with help from the PUD. And 94 low-income households received weatherization help using PUD funding through the Chelan-Douglas Community Action Council.

Saving energy is a winning proposition for everyone. Customers save money with lower electric bills, reduce energy waste and in many cases, improve the comfort of their homes. When customers save energy, more power is available to sell at wholesale rates on the open market; those revenues help keep local retail rates low. Customers also help the PUD meet state-mandated targets under the Energy Independence Act.

Surveys of customers who participated in programs last year showed high satisfaction with their products and PUD customer service.

Local retailers help spread the word on conservation rebates.

Upgrades ensure continued reliable electric service

Substantial work was finished in 2013 to make sure Chelan PUD continues to provide reliable electric service for its customers.

A nearly seven-year project to upgrade two aging substations improved the power supply for three aluminum pot lines at Alcoa's Wenatchee Works and wrapped up early in 2013. Chelan PUD, Alcoa, Bonneville Power Administration and several private firms worked closely together on the $20 million project that started with planning in 2006. Improved reliability supports the family-wage jobs at this local employer.

Powering up the new Crum Canyon Substation in April 2013 was the final step in upgrades for Entiat Valley electric service. The $9-million project included construction of a new substation, a new switchyard and a 5.8-mile transmission line to connect them.

Also, work finished on the $2 million Okanogan Substation and transmission connections in Wenatchee to serve growing neighborhoods in the southwest part of the city.

And, PUD line crews continued voltage upgrades for the antiquated Cashmere electric system that was acquired by the District in 2008. The conversion to match the PUD system will increase load capacity and make service more reliable.

Tom Kelly, senior substation engineer, checks equipment at the new Okanogan Substation in Wenatchee before it was energized in July 2013.

Life-size sculpture of Chief Chilcosahaskt will honor Native American history.

Collaboration is key for Entiat Park renovations

More than a decade of consultation and planning with Entiat community members culminated with the launch in September of long-awaited renovations for Entiat Park on the Columbia River above Rocky Reach Dam.

The work includes rebuilding picnic areas and adding facilities for year-round overnight camping. In addition, it will honor local Native American history with construction of a life-size statue of Chief Chilcosahaskt of the Entiat Tribe.

The statue will be one of six interpretive sites throughout the park. Entiat Park, built in 1978, combined the existing Silico Saska and Will Risk Memorial parks and was the first park built by the PUD on the Rocky Reach reservoir.

Funding for the improvements was finalized in 2010 as part of the renewed federal license for Rocky Reach Dam. The license settlement agreement calls for Chelan PUD to provide $6 million (about $7.3 million in 2013 dollars) for the improvements. Discussions with the Entiat community began in 2002.

Dedicated to protecting fish and the environment

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.

Reaching the no-net-impact goal was confirmed by the parties to the agreements in February 2013 at the 10-year check-in on the plans.

The goals of the plans 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 fish passage improvements, tributary habitat work, hatchery programs and effective spill 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. This secures 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.

Fish illustrations by Joseph Tomelleri

Financial strength benefits our customers

We are proud of what the dedicated men and women of Chelan County PUD accomplished in 2013.

Delivering on our promise of providing excellent service to our customer-owners is foremost. Whatever the task at hand – from keeping utility finances strong to rebuilding storm-damaged power and fiber lines – the innovative thinking and hard work by the team at Chelan County PUD produced remarkable results.

From finances to fish to turbine repair, there is good news to share. We start with the close attention paid to the actions called for in our strategic plan. It has put the utility's finances on firm ground now and into the foreseeable future.

Financial Stability

We've met or exceeded the four financial stability measurements developed for the current strategic plan. Those targets addressed:

- Financial liquidity
- Rate of return
- Debt ratio
- Debt service coverage

The fact that we reached the target for a debt ratio below 60 percent two years ahead of schedule demonstrates the commitment of staff throughout the organization along with commissioners to restore the utility's long-term financial strength.

"Collaboration with the community is a hallmark of public power."

2013 Board of Commissioners, from left: Dennis Bolz, Carnan Bergren, Norm Gutzwiler, Ann Congdon and Randy Smith

Financial stability is the foundation for meeting the priorities of our customer-owners.

And, the events at Rocky Reach Dam at the end of 2013 with the four large turbines being taken out of service, and then the impact to the PUD from the events at Grant County PUD's Wanapum Dam, show how critical sound financial planning is for our customer-owners.

Despite these two significant events, we do not anticipate a rate impact.

In addition, the increase to our bottom line in 2013 was $9 million more than budget. Those positive results are important in meeting the priorities of our customer-owners. In addition to paying down debt, they have told us to focus on keeping rates affordable; maintaining our dams and utility systems for reliable service; and saving for a rainy day.

Strategic Planning Delivers Results

When it was determined that repairs were needed to our four largest hydro turbines following discovery that a stainless shaft in one of them was cracked, the financial and human resources were there to get the work done. Interim repairs have returned all four units to service and the plan for long-term repairs starting in 2015 is in place.

The innovative thinking and skills of our employees who got the work done were supported by risk management practices, insurance and a hedging program that secures predictable wholesale revenues. The result is that we expect the repairs will have no impact on electric rates.

Strong Leadership

One of the most important responsibilities of an elected Board of Commissioners is hiring a general manager and working together to carry out the policies set by the board.

In 2013, we devoted significant time and effort to hiring a general manager after John Janney announced his decision to step down. John's leadership in stabilizing Chelan PUD's finances and his commitment to serving customers set a high bar for the person who would follow him.

We found that person in Steve Wright. Steve joined us in September, bringing his decades of utility experience at Bonneville Power Administration, including 12 years as the agency's leader, and his passion for public power and the Columbia River.

Community Partnerships

Collaboration with the community is a hallmark of public power. That's true of the collaboration with the city of Entiat to redevelop Entiat Park on the reservoir behind Rocky Reach Dam. More than a decade of consultation and planning with Entiat community members has gone into plans for the $7 million renovation to enhance day use and to encourage year-round camping.

Stewardship

Care for the natural resources entrusted to us is another hallmark of public power. Our unique Habitat Conservation Plans (HCPs) for Rock Island and Rocky Reach dams address our commitment to protecting Columbia River fish.

It was deeply satisfying to affirm with our agency and tribal HCP partners that our dams have no net impact on the salmon and steelhead moving past them. With that comes certainty for dam operations and continued protection for fish under the 50-year plans.

"Public power works best when we work together."

Collaboration, communication and strong connections with our customers and community members all contributed to Chelan PUD's success in 2013. We also rely on those attributes as we move into the next round of strategic planning for 2015-2019 and beyond.

Public power works best when we work together. The proof of that is in what was accomplished in 2013 under our mission to provide affordable, sustainable, reliable utility services that enhance the quality of life in Chelan County.

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"

Great results come from focusing on customer priorities

Steve Wright
General Manager

Chelan County PUD had a really good year in 2013.

Part of the reason for our strong performance is the success of plans put into place with our 2010 strategic plan. A major focus of that plan was to achieve financial stability. The strategic thinking that took place in 2010 contributed to our strong financial finish in 2013 and our ability to continue to pay down long-term debt.

We also reached a milestone in our fish protection programs as natural resource agencies and tribes agreed that our Columbia River dams have no net impact on the salmon and steelhead swimming past them.

Employees kept their focus on safety as they repaired devastating winter storm damage to power and fiber lines at Lake Wenatchee and tackled major repairs to our four big generating units at Rocky Reach Dam. An important measure of working safely, the PUD's "incident rate," was one of the lowest ever in 2013.

Focus on financial stability

Four key measurements of financial health were laid out in the strategic plan that will carry us through 2014. Those measurements are:

- Financial liquidity
- Rate of return
- Debt ratio
- Debt service coverage

Chelan PUD has met the targets for all four. And, for debt ratio, we made our target two years sooner than forecast.

We also made significant strides in paying down long-term debt. The goal in 2013 was to pay off $42 million. By the end of the year we surpassed the goal by $27 million.

At the same time, the positive change in our bottom line was the highest in our history. These positive financial results are helping us pay down debt earlier than anticipated; keep electric rates affordable; maintain our dams and utility systems for reliable service; and save for a raining day.

Responding to challenges

None of that came easily.

In 2013, we faced a potentially significant financial blow when our four largest generating units at Rocky Reach Dam had to be taken out of service at the same time. The impact on our finances was reduced because of our risk management practices, insurance, strong wholesale revenues and by the engineering and technical expertise of our employees.

Interim repairs have all four units back online and generating clean, renewable, low-cost hydropower. Longer-term repairs to address the design issue and return the units to more efficient variable blade pitch (Kaplan) operation are planned for 2015-2019.

> "We continue to exceed our goals for energy savings even as our customers enjoy low rates..."

Celebrating fish protection

Along with hard work came the opportunity to celebrate a tremendous achievement in protecting the salmon and steelhead that move past our two Columbia River dams. Under our unique hydropower Habitat Conservation Plans (HCPs) for Rock Island and Rocky Reach dams, 10 years of work is returning the desired results of no net impact on the fish migrating past our projects.

To have the agencies and tribes agree that we had reached no net impact is an amazing accomplishment. That standard was achieved with a combination of fish passage, as well as collaboration on hatchery and habitat work with state and federal agency and tribal representatives. We'll keep working to uphold that standard through the 50-year life of the HCPs.

Our resource stewardship doesn't end with the HCPs. Energy-saving programs also exceeded expectations. Customers responded to our expanded program offerings by saving enough energy in 2013 to power about 1,000 Chelan County homes. We continue to exceed our goals for energy savings even as our customers enjoy low rates that might not be an incentive to save.

Providing value

Making sure our customer-owners are satisfied with their utility service, and that they find it a good value, is extremely important.

We took part in a rigorous industry review of our electric distribution system and customer service operations and are now recognized as a Reliable Public Power Provider (RP3©) by the American Public Power Association. Major electrical upgrades in 2013 included finishing and powering up two new substations and continued work on the aging Cashmere system we acquired in 2008.

Our three dams generate affordable, clean, renewable hydropower. PUD-built parks along the Columbia River and Lake Chelan are enjoyed by 3 million people a year. We are able to keep money in the local economy through low rates so residents and businesses spend less of their income on electricity – and we are even more fortunate to have money coming into the Chelan County economy as a result of a smart power marketing and hedging strategy.

Looking ahead, we are laying the groundwork for a strategic plan that looks to 2015-2019 and beyond. We are turning to our customer-owners to help guide us in our future vision. I'm looking forward to the conversations that will help us understand the community's priorities for its PUD in the coming years.

Kelly Boyd
Chief Financial/Risk Officer

Gregg Carrington
Managing Director Energy Resources

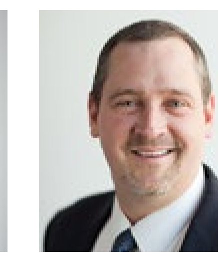
Mike Coleman
Managing Director Fiber and Telecom

Allison Brodine
Interim Managing Director Human Resources and Safety

Kirk Hudson
Managing Director Generation and Transmission

Jeff Smith
Managing Director District Services

John Stoll
Managing Director Customer Utilities



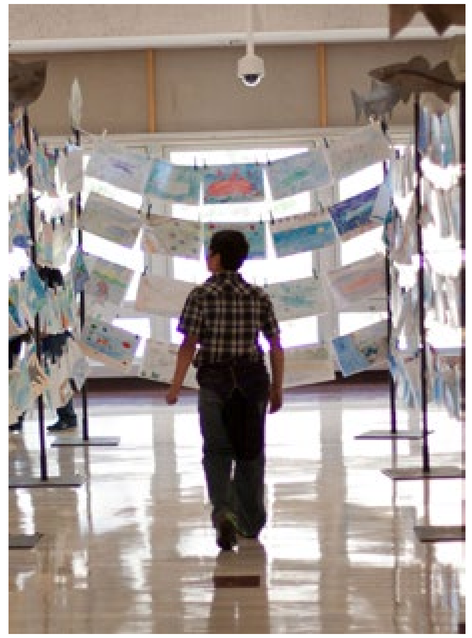
Erik Wahlquist
General Counsel/Chief Compliance Officer

Ready to respond

As we head into 2014, we once again are facing challenges for Columbia River users. The discovery of a spillway pier fracture in Grant County PUD's Wanapum Dam, just a short 36 river miles downstream of Rock Island Dam, has created a number of obstacles for irrigators, recreationists, power generation and especially for fish. As in the past, our employees have shown they are up to the task. Through collaborative efforts with our neighbor utilities, elected officials, tribal leaders, and agency staff at all levels, we have seen how working together results in a successful response to unprecedented river conditions.

I've found that there are two very important elements that create value for customers; quality assets and innovative people. Since joining the utility last September, it's been wonderful to see that we're blessed to have both at Chelan PUD.

Connecting in the community



At far left: Central Maintenance mechanics move the C1 rotor back into place following warranty repairs on the Rocky Reach unit.

Near left: Entries in the annual Wenatchee River Salmon Festival poster contest catch the eye of a visitor to the gallery in the Rocky Reach powerhouse.

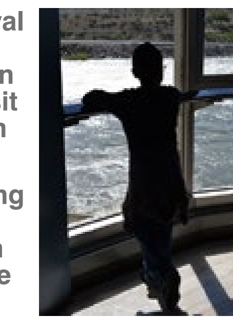
Above left: Visitor Services Manager Debbie Gallaher welcomes home Rock Island Dam's original donkey engine bell. Frank Prentice, left, returned the bell that was a retirement gift to his dad, Art, who was Rock Island Dam superintendent from 1959-77.

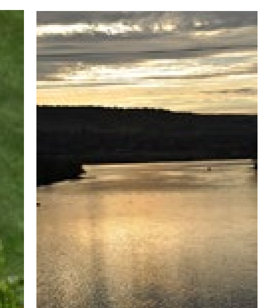
Above: Power linemen from around the Northwest raise the flag at the ninth annual Andrew York Lineman Rodeo on June 15 in Walla Walla Point Park.

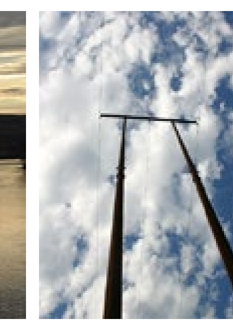
Left: Journeyman hydro mechanic and diver Brent Thrap, left, and diver in training Mike Ledbetter, right, help journeyman Matt Treat with his dive gear.

At left: Apple Blossom Festival royalty and junior royalty on their annual visit to Rocky Reach Visitor Center.

At right: Enjoying the Columbia River view from the powerhouse lookout.







Above left: Sunrise lights the Wenatchee River. Above right: Transmission poles rise against the sky near Kirby Billingsley Hydro Park.

At left: Joe Davis from the Methow Valley helps set up poles for competition at the 2013 Andrew York Lineman Rodeo.

Left: Community members roast marshmallows for s'mores at the September groundbreaking of the $7 million renovation of Entiat Park.

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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, 2013 and December 31, 2012, and the related statements of revenues, expenses and changes in 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, 2013 and December 31, 2012 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.

PricewaterhouseCoopers LLP, 805 SW Broadway, Suite 800, Portland, OR 97205-3344
T: (971) 544 4000, F: (971) 544 4100, www.pwc.com

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective January 1, 2013. The financial statements as of and for the year ended December 31, 2012 have been restated for this change. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 25 and the Schedule of Funding Progress for Postretirement Health Benefits Program on page 56 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 schedule of revenues, expenses and changes in net position, of assets and deferred outflows of resources and liabilities, deferred inflows of resources and 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 21, 2014

Management's Discussion and Analysis

December 31, 2013 and 2012

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, 2013 and 2012. 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

- In February 2013, the District locked in additional predictable revenue of $91.8 million from January 2014 through the end of 2018 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 increments. 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.

- In February 2013, a no-net-impact goal on the salmon and steelhead migrating past Rocky Reach and Rock Island dams was achieved. Reaching the no-net-impact goal was confirmed by the parties to the agreements at a 10-year check-in on the innovative Habitat Conservation Plans (HCPs) for Rocky Reach and Rock Island dams. The HCPs are living documents, spelling out Chelan PUD's 50-year commitment through 2054. The milestone provides operating certainty for Chelan PUD and verified protection for the species covered by the 50-year plans.

- A nearly seven-year project to upgrade two aging substations will result in a more reliable power supply for three aluminum pot lines at Alcoa's Wenatchee Works and support the local jobs that came with securing the new power contract between the plant and the District. The District, Alcoa, Bonneville Power Administration (BPA) and several private firms worked closely together on the $20 million project that started with planning in 2006. Construction began in 2010 and finished during 2013. Alcoa covered the cost of all the work, which involved its contractors, plus District wiremen and technicians working at the site and support from various District departments. The work was done while electricity continued to flow through Chelan PUD's 1960s-era McKenzie Substation and BPA's adjacent Valhalla Substation, built in the 1950s. The work continued through a decision to restart the third aluminum pot line at the plant, which came a year ahead of schedule.

- Chelan County PUD officials took four of the 11 generating units at Rocky Reach Dam out of service during 2013 after discovering one of the turbines had a deep crack in a stainless steel rod that delivers oil to a servo motor. The motor adjusts the angle of the turbine blades. District officials were concerned about the integrity of all four units, which have the same design elements and were put into service between 1998 and 2003. Temporary repairs were made to all four units, with the last of the four large units returning to service in April 2014. The next step is to take one unit at a time out of service to make more permanent repairs with the goal of having all four units with long-term repairs completed by spring of 2019.

- Chelan PUD's revenue bond rating was reaffirmed in 2013 by Fitch Ratings at AA+, and the outlook was upgraded to stable from negative. According to Fitch, the improved outlook reflects management's proactive approach to stabilizing financial metrics and minimizing hydrological risk through new long-term power sales agreements and updated physical hedging plans. The rating agency identified several other factors that contributed to the strong rating recommendation including low-cost power resource assets projected to remain below the regional average, robust cash reserves and liquidity, implementation of debt reduction measures, and a strong management team with extensive depth and breadth of industry knowledge and a proven ability to achieve or outperform financial targets.
- The District ended the final three outstanding interest rate swaps with net payments of $15.9 million. The termination payments will be amortized over future periods to match how they will be recovered through rates. The move was part of the overall management of District debt for long-term financial stability. While in place, the swaps helped reduce the risk of higher variable interest rates. The interest rate swaps are no longer needed as the District intends to pay off the related debt rather than re-issue it as variable rate bonds. Benefits of the termination include reducing exposure to higher costs, reducing counter-party credit risk and reducing the liquidity requirements for swaps.

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, deferred outflows of resources, liabilities and deferred inflows of resources 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 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 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 difference between the total of assets and deferred outflows of resources and the total of liabilities and deferred inflows of resources – 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.

The District's total net position increased by $92.0 million in 2013. The increase is due primarily to a combination of the first full year of the new long-term "cost-plus" power sales contracts for the output of power from Rock Island Dam and a new real-time scheduling service agreement effective July 2012 and November 2012, respectively. The "cost-plus" power sales contracts allow the District to pay for some future capital improvements at the hydro projects without borrowing and to pay down additional debt. Under the new real-time scheduling services agreement, the District receives a fixed amount per year and a variable payment based on market conditions. The additional revenue is used to save for the future, consistent with what Chelan PUD has heard from its customers regarding long-term priorities for the District. Other factors that contributed to the favorable results included expenses below budget combined with continued debt reduction that lowered interest expense.

In 2012, the overall financial position of the District improved. The District's total net position increased by $77.9 million. The increase was 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 the previous year.

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

CONDENSED COMPARATIVE FINANCIAL INFORMATION

(amounts in thousands)	2013	2012*	2011**	Increase (Decrease) 2013 – 2012
Current assets	$ 198,946	$ 195,919	$ 196,741	$ 3,027
Net utility plant	1,073,262	1,092,234	1,090,933	(18,972)
Other non-current assets	316,676	308,737	294,500	7,939
Deferred outflows of resources	13,638	16,543	19,620	(2,905)
Total assets and deferred outflows	1,602,522	1,613,433	1,601,794	(10,911)
Current liabilities	150,745	96,040	99,978	54,705
Long-term debt	731,650	857,911	939,187	(126,261)
Other liabilities	135,341	163,100	161,299	(27,759)
Total liabilities	1,017,736	1,117,051	1,200,464	(99,315)
Deferred inflows of resources	26,796	30,390	13,262	(3,594)
Invested in capital assets, net of related debt	285,025	237,421	220,126	47,604
Restricted	142,196	116,048	110,692	26,148
Unrestricted	130,769	112,523	57,250	18,246
Total net position	$ 557,990	$ 465,992	$ 388,068	$ 91,998

*The District's 2012 and 2011 Statements of Net Position were updated for the impacts of the required retroactive implementation of GASB Statement No. 65, "Items Previously Reported as Assets and Liabilites," which became effective for the District in 2013. Implementation of the statement had no impact on the District's operating results or net cash flows for any year presented.

**The District's 2011 Statement of Net Position was 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)	2013	2012	2011	Increase (Decrease) 2013 – 2012
Operating revenues	$ 362,107	$ 321,733	$ 238,543	$ 40,374
Less				
Operating expenses	228,748	203,028	177,092	25,720
Other income and expenses	44,842	43,808	46,608	1,034
Net income before capital contributions	88,517	74,897	14,843	13,620
Capital contributions	3,481	3,027	1,885	454
Change in net position	91,998	77,924	16,728	14,074
Total net position – beginning of year	465,992	388,068	371,340	77,924
Total net position – end of year	$ 557,990	$ 465,992	$ 388,068	$ 91,998

ASSETS

Current assets increased by $3.0 million in 2013, primarily due to the District holding larger balances in investments with a maturity of less than 12 months.

On the other hand, 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.

As of December 31, 2013, the District had approximately $1.1 billion invested in a variety of capital assets (see Note 3.) Net utility plant decreased $19.0 million in 2013, reflecting additional investments in utility plant assets, including significant additions related to hydro modernization projects at Rock Island, water reservoir projects, transmission corridor upgrades and substation projects, which were more than offset by the cumulative effect of 12 months' worth of depreciation. 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.

Other noncurrent assets increased $7.9 million in 2013 primarily as a result of an increase in restricted cash and investment balances due to the accumulation of capital recovery and debt repayment funds under the new long-term power sales contracts that became effective during 2011 and 2012. Other noncurrent assets increased $14.2 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.

Deferred outflows of resources decreased $2.9 million and $3.1 million in 2013 and 2012, respectively, primarily due to monthly amortization of losses on refunding debt.

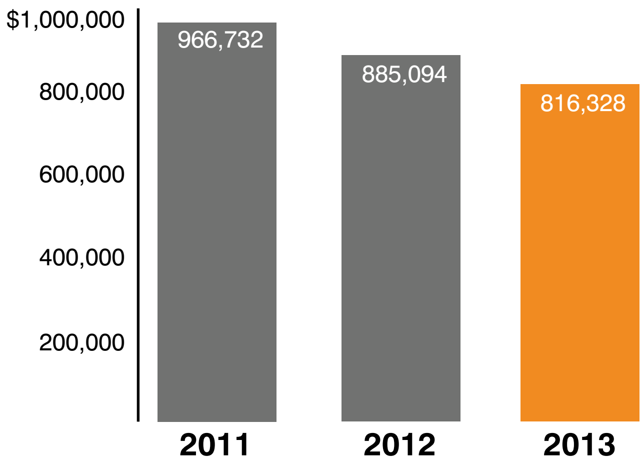
LIABILITIES

Current liabilities increased $54.7 million in 2013, primarily as the result of an increase in the current portions of long-term obligations. The increase 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, combined with a scheduled $29.0 million maturity of 5-year notes during 2014.

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

Total District Debt Outstanding

(amounts in thousands)



Total debt outstanding decreased by $68.8 million in 2013 due to scheduled maturities, the partial defeasance of the Rock Island Environmental Enhancement 2009A bonds and downsizing of the 2008B bonds combined with early retirement of the 2004C bonds. This contributed to the $126.3 million reduction in long-term debt, which is net of premiums, discounts and the current portion of the obligations. The District did not refinance or issue additional bonds in 2013.

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 $81.3 million reduction in long-term debt, which is net of premiums, discounts and the current portion of the obligations. The District did not refinance or issue additional bonds in 2012.

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

Other liabilities decreased by $27.8 million in 2013 primarily as a result of the amortization of unearned revenue related to the District's long-term power sales agreements. Amounts were previously received from power purchasers and are being recognized as revenue over the life of the agreements.

Deferred inflows of resources decreased $3.6 million in 2013 due to a reduction in the fair value of derivative instruments compared to the prior year.

Deferred inflows of resources increased $17.1 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.

NET POSITION

Invested in capital assets, net of related debt, increased $47.6 million and $17.3 million in 2013 and 2012, respectively. The increase in 2013 reflects a reduction in debt primarily as a result of the partial defeasance of the Rock Island Environmental Enhancement 2009A bonds and downsizing of the 2008B bonds combined with the early retirement of the 2004C bonds. 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. Restricted net position represents resources that are subject to external restrictions, such as bond covenants or third-party contractual agreements. Restricted net position increased $26.1 million and $5.4 million in 2013 and 2012, respectively, 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. 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 2013 and 2012, unrestricted net position increased approximately $18.2 million and $55.3 million, respectively, due primarily to the retention of a portion of the District's positive earnings as unrestricted assets. The remaining earnings were deployed primarily for debt reduction and investment in capital assets.

REVENUES AND EXPENSES

In 2013, retail sales increased $1.0 million compared to 2012, as a result of an increase to more "normal" usage levels. Wholesale sales increased $28.6 million in 2013 compared to 2012 due to 2013 being the first full year of both the new cost-plus long-term power sales agreements and the new real-time and pre-schedule agreement. Both new contracts provide for additional revenue components that did not exist under terms of the prior agreements. New contracts for slice products became effective in 2013 resulting in increased overall slice revenues.

Purchased power costs increased $24.4 million in 2013 compared to 2012 primarily as a result of the large increase in surplus energy and slice agreements requiring increased volume of market activity to balance the District's load and demand during times of peak usage. Operating expenses came in $25.7 million higher in 2013, but below budget, primarily as a result of the increase in purchased power costs.

Other income and expenses, which included net interest expense and income, increased by $1.0 million primarily as a result of losses on the early retirements of debt. Net income before capital contributions improved by $13.6 million compared to 2012 due primarily to increased operating revenues resulting from the full implementation of the new cost-plus long-term power sales agreements and the new real-time and pre-schedule agreement. Capital contributions remained flat from 2012 to 2013.

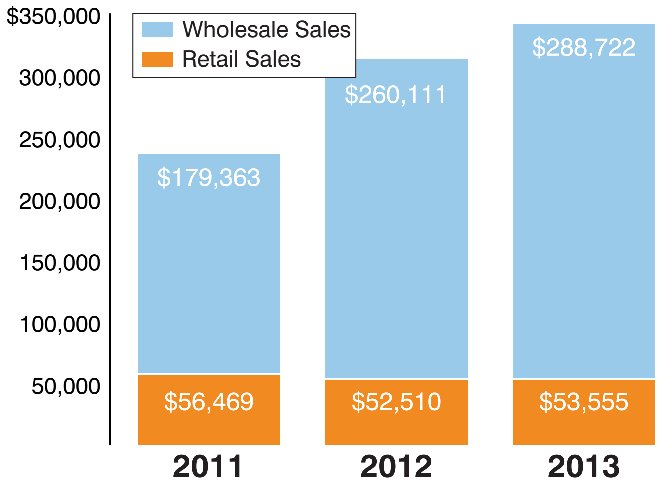
In 2012, retail sales decreased $4.0 million compared to 2011 as a result of the expiration at the end of December 2011 of the temporary electric rate surcharge of 9 percent that was put in place in May 2009 due to record-low river flows and low wholesale power prices. The reduction in revenue due to the expiration of the surcharge was partially offset by a small increase in revenues due to a 2.5 percent 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 income and expenses, which included net interest expense and income, decreased $2.8 million in 2012 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.

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.

The strategic planning is keeping District finances on track to achieve long-term stability and meet its financial targets. Bottom line results helped the District pay down additional debt lowering the balance more than budgeted and reaching the end-of-2015 target for debt ratio two years ahead of schedule.

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

- Expenses below budget even with large unit repairs at Rocky Reach and storm repairs at Lake Wenatchee
- Revenue came in ahead of budget and remained stable and predictable due to the District's hedging program
- 2013 was the first full year of new long-term "cost-plus" contracts for Rock Island and Rocky Reach power, a new real-time and pre-schedule agreement and agreements for the sale of environmental attributes
- Continued debt reduction that lowered interest expense

Recent challenges have put our financial policies to the test. We were able to manage the outages and interim repairs of the large units at Rocky Reach and are now faced with a subsequent challenge for 2014.

On February 27, 2014, engineers inspecting a section of the spillway portion of Grant PUD's Wanapum Dam discovered a 65' long by 2" wide crack on a spillway pier. Grant PUD, working with FERC, continues to inspect the impacted area to determine the cause and extent of the damage. Chelan PUD is coordinating closely with Grant PUD during this emergency event. Water levels above Wanapum Dam, which is below the District's Rock Island Project, have been lowered below normal operating levels while inspections continue. That action has affected the District's operations as well. For example, the District has made some modifications to its generation at the Rock Island Project and is engaging with stakeholders to mitigate fish migration and irrigation challenges. At this time it is unknown how long below-normal water levels will continue and therefore impacts to the District are unknown. While these may be significant, the District does not expect that its financial condition will be significantly impaired.

Prudent financial policies, achieving customer priorities, strong credit ratings and long-term financial sustainability provide the foundation for the District to weather these challenges and continue meeting its financial targets in order to provide affordable utility services for generations to come.

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, 2013 and 2012

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES (amounts in thousands)	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	$ 30,408	$ 87,732
Investments	117,114	56,464
Accounts receivable, net	21,535	21,890
Accrued interest receivable	1,544	1,435
Materials and supplies	10,621	10,909
Prepayments and other	1,403	828
Current portion of regulatory assets	3,558	3,508
	186,183	182,766
RESTRICTED ASSETS - CURRENT		
Cash and cash equivalents	2,733	8,002
Investments	10,030	5,151
	12,763	13,153
TOTAL CURRENT ASSETS	198,946	195,919
UTILITY PLANT		
In service, at original cost	1,893,749	1,866,280
Construction work in progress	17,301	18,641
Less-accumulated depreciation	(837,788)	(792,687)
	1,073,262	1,092,234
RESTRICTED ASSETS - NONCURRENT		
Cash and cash equivalents	10,454	23,213
Investments	129,355	99,362
	139,809	122,575
OTHER ASSETS		
Fish protection costs	-	277
Long-term receivables, net	1,146	1,411
Long-term investments	120,926	118,772
Regulatory assets, net	46,984	51,920
Derivative instrument asset	3,850	8,054
Other	3,962	5,728
	176,868	186,162
TOTAL ASSETS	1,588,885	1,596,890
DEFERRED OUTFLOWS OF RESOURCES		
Losses on refunding debt	13,638	16,543
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,602,523	$ 1,613,433

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (amounts in thousands)	2013	2012
CURRENT LIABILITIES		
Current portion of long-term obligations	$ 97,448	$ 42,606
Current portion of unearned wholesale power sales	8,138	7,679
Accounts payable	16,688	17,306
Accrued taxes	4,823	4,370
Accrued interest	11,460	12,253
Accrued vacation and other	12,189	11,826
	150,746	96,040
LONG-TERM DEBT		
Revenue bonds and notes payable, less current portion	731,650	857,911
OTHER LIABILITIES		
Unearned wholesale power sales revenue, less current portion	108,290	115,003
Long-term contract customer deposit	18,500	18,500
Derivative instrument liability	-	21,163
Licensing obligation, less current portion	8,146	8,141
Other liabilities	405	293
	135,341	163,100
TOTAL LIABILITIES	1,017,737	1,117,051
DEFERRED INFLOWS OF RESOURCES		
Derivatives	3,850	8,054
Regulatory liabilities	22,946	22,336
	26,796	30,390
COMMITMENTS AND CONTINGENCIES (see Note 12)		
NET POSITION		
Invested in capital assets, net of related debt	263,767	237,421
Restricted	142,196	116,048
Unrestricted	152,027	112,523
	557,990	465,992
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 1,602,523	$ 1,613,433

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

Statements of Revenues, Expenses and Changes in Net Position

For the years ended December 31, 2013 and 2012

(amounts in thousands)	2013	2012
OPERATING REVENUES		
Retail sales	$ 53,555	$ 52,510
Wholesale sales	288,722	260,111
Other operating revenues	19,830	9,112
	362,107	321,733
OPERATING EXPENSES		
Purchased power and water	57,109	32,720
Generation	68,281	65,855
Utility services	37,628	36,334
Taxes	7,700	7,379
Depreciation and amortization	48,373	48,361
Other operation and maintenance	9,657	12,379
	228,748	203,028
OPERATING INCOME	133,359	118,705
OTHER INCOME (EXPENSE)		
Interest on long-term debt	(38,775)	(42,787)
Amortization of losses on refunding debt	(3,483)	(4,187)
Investment income	3,696	4,743
Regulatory asset amortization - swap termination fees	(4,218)	(3,508)
Other	(2,062)	1,931
	(44,842)	(43,808)
INCOME BEFORE CAPITAL CONTRIBUTIONS	88,517	74,897
CAPITAL CONTRIBUTIONS	3,481	3,027
CHANGE IN NET POSITION	91,998	77,924
TOTAL NET POSITION		
Beginning of year	465,992	388,068
TOTAL NET POSITION		
End of year	$ 557,990	$ 465,992

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

Statements of Cash Flows

For the years ended December 31, 2013 and 2012

(amounts in thousands)	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 354,438	$ 333,750
Payments to suppliers	(109,066)	(86,129)
Payments to employees	(72,862)	(68,776)
Net cash provided by operating activities	172,510	178,845
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to plant	(30,409)	(34,076)
Proceeds from sale of plant	162	756
Proceeds of new debt	-	2,453
Principal paid on debt	(83,481)	(99,184)
Interest paid on debt	(25,093)	(27,639)
Capital contributions	2,915	2,613
Other	(14,973)	241
Net cash used in capital and related financing activities	(150,879)	(154,836)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(229,544)	(184,079)
Proceeds from sales and maturities of investments	127,776	177,842
Interest on investments	3,991	5,362
Long-term receivables	265	361
Other, net	530	(7,342)
Net cash used in investing activities	(96,982)	(7,856)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(75,351)	16,153
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	118,946	102,793
CASH & CASH EQUIVALENTS, END OF YEAR	$ 43,595	$ 118,946
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 133,359	$ 118,705
Depreciation and amortization	48,373	48,361
Decrease (increase) in operating assets:		
Accounts receivable, net	355	3,953
Materials and supplies	288	(314)
Prepayments	(575)	(81)
Other	(1,319)	(1,601)
Increase (decrease) in operating liabilities:		
Accounts payable	(1,824)	1,353
Accrued taxes	453	(15)
Accrued vacation and other	363	(29)
Unearned wholesale revenue	(6,963)	8,513
Net cash provided by operating activities	$ 172,510	$ 178,845
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Construction costs included in accounts payable	$ 1,205	$ (2,369)
Capital contributions	-	17,398
Amortization of regulatory assets	(565)	-

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

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. 61, "The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34" and GASB Statement No. 64, "Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62" were both effective for the District beginning in fiscal year 2013. Implementation of these statements did not have a material impact to the District's financial results.

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 and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date" are both effective for the District beginning in fiscal year 2015. The District is currently evaluating the financial statement impact of adopting these statements.

Change in Accounting Principle

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 was effective for the District beginning in fiscal year 2013.

The District's 2012 Statement of Net Position was restated for the impacts of the required retroactive implementation of GASB 65. Costs associated with the issuance of bonds have historically been recorded as an asset and amortized to expense over the term of the related debt. GASB Statement No. 65 no longer allows debt issuance costs to be classified as an asset and requires that they be expensed in the year incurred. In order to match the expense with the periods in which the benefit is received and is reflected in rates, the Commission has approved a resolution that requires these costs to be deferred as a regulatory asset and amortized over the life of the related bonds. Since this treatment is consistent with how these debt issuance costs have historically been included in rates, 2012 balances have been restated as regulatory assets accordingly. Amortization expense is calculated under the straight-line method or effective interest method, depending on the maturity schedule of the related bonds. In addition, losses on refunding debt have been reclassified as deferred outflows of resources and restated to reflect the exclusion of bond issuance costs that are now classified as regulatory deferrals. The implementation also required the reclassification of regulatory liabilities as deferred inflows of resources. Implementation of Statement No. 65 had no impact on the District's change in net position or cash flows.

As presented in the Statements of Net Position, the effect of the implementation had the following impact on 2012 balances:

	Restated 2012 Balance	2012 Balance as Previously Reported
ASSETS		
Deferred financing costs	$ -	$ 6,280
Regulatory assets, net	51,920	39,220
Total assets	1,596,890	1,590,470
DEFERRED OUTFLOWS OF RESOURCES		
Losses on refunding debt	$ 16,543	$ -
Total deferred outflows of resources	16,543	-
LIABILITIES		
Revenue bonds and notes payable, less current portion	$ 857,911	$ 834,948
Regulatory liabilities	-	22,336
Total liabilities	1,117,051	1,116,424
DEFERRED INFLOWS OF RESOURCES		
Regulatory liabilities	$ 22,336	$ -
Total deferred inflows of resources	30,390	8,054

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 $2.6 million in 2013 and $2.2 million in 2012. 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 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 and Rock Island Systems is sold to the retail electric distribution system on a cost-plus basis. Power produced by the Lake Chelan System is sold to the retail electric distribution system at cost. As of December 31, 2013, 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, firm power purchasers 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, 2013, the District had three significant customers (greater than 10% of operating revenues), collectively comprising total revenue of $173 million. The District had three significant customers for the year ended December 31, 2012, collectively comprising total revenue of $158 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 which were equal to 35% of the interest paid on the BABs through 2012. During 2013, the United States Congress made changes to the subsidy program which resulted in a reduction of the total annual subsidy to approximately 32% of the interest paid. In 2013 and 2012 the District recognized non-operating revenues of $580,000 and $630,000, respectively.

Intradistrict revenues and expenses are eliminated in the Statement of Revenues, Expenses and Changes in 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 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 a multi-layered approach to power resource sales, including retail load, cost-plus contracts, and implemented a comprehensive market-based 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 dollar and volumetric 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.

All of the District's forward power contracts are derivative instruments. All forward power contracts in place during 2012 and 2013 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 Net Position.

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 $264,000 and $305,000 at December 31, 2013 and 2012, 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 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 21, 2014, 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, 2013 and events which occurred subsequent to December 31, 2013 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)	2013	2012
Unrestricted assets		
Unrestricted	$ 82,769	$ 79,367
Board designated	185,679	183,601
Total unrestricted assets	268,448	262,968
Restricted assets	152,572	135,728
	$ 421,020	$ 398,696

As of December 31, 2013 and 2012, the District had the following cash and investments:

(amounts in thousands)		Investment Maturities (in Years)			
Investment Type	**Fair Value 2013**	**Less than 1**	**1 - 2**	**3 – 4**	**More than 4**
U.S. Treasuries	$ 218,306	$ 93,242	$ 50,088	$ 973	$ 74,003
U.S. Agency Notes	67,562	57,560	10,002	-	-
Municipal Bonds	74,055	15,919	15,996	24,675	17,465
State Investment Pool	7	7	-	-	-
Financial Institution Deposits	28,044	28,044	-	-	-
Cash	33,046	33,046	-	-	-
	$ 421,020	$ 227,818	$ 76,086	$ 25,648	$ 91,468

(amounts in thousands)		Investment Maturities (in Years)			
Investment Type	**Fair Value 2012**	**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

U.S. Treasury bills, notes or bonds, U.S. Government agency securities and municipal bonds 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 and municipal bonds 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 generally limits direct investments in securities to those with maturities of five years or less, or as designated in specific bond resolutions, or if such investments are 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, 2013 and 2012, investments in debt securities had credit quality ratings as follows:

(amounts in thousands)

Investment Rating (S&P)	2013	2012
Long Term		
AAA	$ 15,652	$ 15,656
AA+	18,199	32,707
AA	34,286	18,254
AA-	5,918	9,104
	$ 74,055	$ 75,721

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, 2013 and 2012, 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 2013	2012
Federal Home Loan Bank	AA+	7%	9%
Federal Home Loan Mortgage Corporation	AA+	-%	5%
Federal Farm Credit Bank	AA+	9%	9%

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.

The terms, including the counterparty credit ratings of the outstanding forward purchase agreement, as of December 31, 2013, are provided below.

Counterparty	Credit Rating by Moody's/S&P/Fitch	Guaranteed Yield	Notional Amount	Effective Date	Maturity	12/31/13 Fair Value	12/31/12 Fair Value
Wells Fargo Bank, N.A.	Aa3/AA-/AA-	6.630%	$ 18,820,179	12/21/1999	6/1/2029	$ 3,850,000	$ 8,053,737

As of December 31, 2013 and 2012, 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, 2013 and 2012. 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.

NOTE 3: UTILITY PLANT

A summary of utility plant in service for the years ended December 31, 2013 and 2012 is as follows:

(amounts in thousands)	January 1, 2013	Additions	Reductions and Transfers	December 31, 2013
Hydroelectric generation	$ 1,194,184	$ 7,134	$ (1,081)	$ 1,200,237
Transmission	139,437	6,295	(163)	145,569
Distribution	213,715	9,710	(922)	222,503
General plant	122,012	4,150	(1,228)	124,934
Intangible	34,001	455	-	34,456
Telecommunications	87,767	1,101	-	88,868
Water/ Wastewater	75,164	2,018	-	77,182
	1,866,280	30,863	(3,394)	1,893,749
Construction work in progress	18,641	28,422	(29,762)	17,301
Accumulated depreciation	(792,687)	(48,096)	2,995	(837,788)
	$ 1,092,234	$ 11,189	$ (30,161)	$ 1,073,262

(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

Plant assets include land of $71.5 million and $71.3 million as of December 31, 2013 and 2012, respectively.

In September 2013, three additional large generating units at Rocky Reach Dam were taken out of service after discovering that a large turbine out of service since March 2013 for investigative repairs had a deep crack in a stainless steel rod. District officials were concerned about the integrity of all four units, which have the same design elements. Out of concern for the health and safety of District employees, the public and the environment, it was decided to take all four units out of service for further investigation. Temporary repairs were made to all four units, with the last of the four large units being returned to service in April 2014. Additional unit outages for permanent repairs are scheduled to occur one unit at a time through 2019. The seven additional generating units at Rocky Reach do not have a similar design and will continue to operate.

Based on currently available information, the District does not anticipate the generating unit repairs and outages to have a significant impact to the District's financial condition; although substantially more work is needed to refine estimates with respect to long-term repair alternatives and insurance recovery.

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 expires in 2028 and 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 Riverwalk 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 as of December 31, 2013 and 2012.

A summary of accrued licensing obligations, accounted for as intangible assets, for the years ended December 31, 2013 and 2012 are as follows:

(amounts in thousands)	2013	2012
Licensing obligation - beginning of year	$ 9,902	$ 9,604
Additions	455	510
Reductions	(455)	(212)
Licensing obligation - end of year	$ 9,902	$ 9,902

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 Statements of Net Position. As of December 31, 2012, a number of these were considered investment derivative instruments, and as such any change in fair value would normally have been 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. Due to the termination of several interest rate swaps during 2013, there were no investment derivative instruments outstanding as of December 31, 2013, and therefore, no related regulatory assets and/or liabilities.

Swap Termination Payments. The District terminated three interest rate swaps during 2013 and three interest rate swaps during 2011, incurring swap termination fees in the amount of $15.9 million and $24.6 million, respectively. The termination fees would normally have been reflected as a non-operating expense in the years incurred; however, the Commission approved a resolution providing for deferral of the termination fees as regulatory assets to be amortized over periods 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.

Debt Issuance Costs. In order to match the costs incurred in conjunction with the issuance of debt with the periods in which the benefit is received and will be reflected in rates, the Commission has approved a resolution that requires these costs to be deferred and amortized over the life of the related bonds. Amortization expense is calculated under the straight-line method or effective interest method, depending on the maturity schedule of the related bonds. See Change in accounting principle – NOTE 1.

Fair Value of Investments. The District holds various long-term investments that are carried at fair value in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." Under Statement No. 31, unrealized changes in fair value are to be reflected in Net Increase/(Decrease) in Net Position for the period; however, the Commission approved a resolution providing for the deferral of these unrealized gains and losses as regulatory assets and/or liabilities in recognition that these unrealized amounts will not be included in the District's ratemaking process due to the fact that it is the District's intention to hold the related investments to maturity; therefore, the changes in fair value will not have an impact on cash flows.

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, 2013 and 2012.

(amounts in thousands)	2013	2012
Regulatory Assets:		
Investment derivative instruments	$ -	$ 21,163
Swap termination payments	30,630	18,850
Conservation expenses	4,921	2,715
Debt issuance costs	10,629	12,700
Fair Value of Investments	4,362	-
	$ 50,542	$ 55,428
Regulatory Liabilities:		
Contributed Capital	$ 22,267	$ 22,336
Fair Value of Investments	679	-
	$ 22,946	$ 22,336

NOTE 6: LONG-TERM DEBT

Revenue Bonds and Notes Payable

(amounts in thousands)	January 1, 2013	Additions	Reductions	December 31, 2013	Due Within One Year
Rocky Reach Revenue Bonds, 4% to 5%, due July 1, 2014, to July 1, 2034 (net unamortized premiums of $387)	$ 18,115	$ -	$ (1,838)	$ 16,277	$ 1,835
Rock Island Revenue Bonds, 4% to 6.05%, due June 1, 2014, to June 1, 2029 (net unamortized premiums of $51)	265,729	14,475	(28,104)	252,100	22,685
Notes Payable, 0.5% to 5.25%, due June 1, 2014, to June 1, 2031 (net unamortized premiums of $174)	40,648	-	(1,155)	39,493	29,776
Chelan Hydro Consolidated System Revenue Bonds, 5.125%, due July 1, 2015 (net unamortized premiums of $1)	40,430	-	(15,000)	25,430	-
Consolidated System Revenue Bonds, 1.398% to 6.897%, due July 1, 2014, to July 1, 2042 (net unamortized premiums of $10,695)	533,833	17	(39,809)	494,041	41,395
	$ 898,755	$ 14,492	$ (85,906)	$ 827,341	$ 95,691

(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)	$ 19,901	$ -	$ (1,786)	$ 18,115	$ 1,785
Rock Island Revenue Bonds, 3% to 6.05%, due June 1, 2013, to July 1, 2034 (net unamortized premiums of $95)	270,931	14,824	(20,026)	265,729	23,060
Notes Payable, 0.5% to 5.25%, due July 1, 2013, to June 1, 2031 (net unamortized premiums of $523)	93,526	2,453	(55,331)	40,648	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)	41,683	-	(1,253)	40,430	-
Consolidated System Revenue Bonds, 0.982% to 6.897%, due July 1, 2013, to July 1, 2042 (net unamortized premiums of $12,914)	558,369	17	(24,553)	533,833	15,200
	$ 984,410	$ 17,294	$ (102,949)	$ 898,755	$ 40,844

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

Principal and Interest

(amounts in thousands)	Principal	Interest	Estimated Debt Service
2014	$ 95,691	$ 22,681	$ 118,372
2015	70,806	19,193	89,999
2016	40,796	17,127	57,923
2017	49,738	16,376	66,114
2018	52,768	15,372	68,140
2019-2023	278,807	57,988	336,795
2024-2028	234,052	22,570	256,622
2029-2033	108,217	8,956	117,173
2034-2038	15,510	4,276	19,786
2039-2043	10,365	1,630	11,995
Total	$ 956,750	$ 186,169	$ 1,142,919

Estimated principal retirements are based on the assumption that all bonds are called or purchased at par. Principal retirements of $956.8 million also include $140.4 million of future appreciation on Capital Appreciation Bonds (CABs).

The subordinate Consolidated System Revenue Bonds, Series 2008B, in the outstanding amount of $65.3 million at December 31, 2013, 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 required 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. The Credit Facility expired on March 7, 2013. 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. As of December 31, 2013, Union Bank does not hold any un-remarketed 2008B bonds.

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, 2013 and 2012, 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 Paid	The District Received	Notional Amount	Effective Date	Maturity	12/31/13 Fair Value	12/31/12 Fair Value
Series 2009AB	Aa1/AA-/AA-	70% of LIBOR	1.76%	$ 30,355,000	7/22/2009	7/1/2014	$ -	$ 755,263
Series 2009AB	Aa3/A+/A+	4.031%	70% of LIBOR	30,355,000	6/1/2009	7/1/2034	-	(11,700,618)
Series 2013	Aa2/AAA/NR*	4.085%	70% of LIBOR	28,815,000	5/30/2013	7/1/2032	-	(10,217,293)
*not rated				$ 89,525,000			$ -	$ (21,162,648)

The District terminated all three of the above interest rate swaps during 2013, incurring swap termination fees in the amount of $15.9 million. The termination fees were deferred as regulatory assets to be amortized over future periods in accordance with a resolution approved by the Board of Commissioners. (See Note 5)

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 had 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 as follows. None of the swaps included put or call provisions.

Prior to termination in 2013 and for fiscal year 2012, the net cash outflows related to the swaps were $0.5 million and $0.7 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 2009 swap became effective. The District had originally intended to issue variable rate bonds in relation to the JP Morgan 2009 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 2009 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 was no longer classified as a hedging instrument. As such, all swaps were considered investment derivative instruments prior to their termination. The changes in fair value of the swaps was recognized in the Statement of Revenues, Expenses and Changes in Net Position as Investment Income, however, the transaction was subject to regulatory accounting requirements, therefore, any changes in fair value were reported on the Statements of Net Position as Regulatory Assets or Regulatory Liabilities. See Note 5.

Fair values. Because interest rates declined since the execution dates, the swaps net fair values were negative to the District upon termination in 2013 and as of December 31, 2012. The fair values as of December 31, 2012 are included in the table above. 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.

NOTE 7: PURCHASED POWER SUPPLY

A significant portion of the retail electric distribution system power is purchased from the District's Hydro projects on a cost-plus basis under new power sales contract terms that became effective during 2011 and 2012 for Rocky Reach and Rock Island, respectively. Prior to the new contracts, the distribution system purchased power from the Hydro projects at cost, including debt service. Of the total kilowatt-hours purchased by the retail electric distribution system during 2013, approximately 53% was provided by the Rocky Reach project, 26% by the Rock Island project, 5% by the Lake Chelan project and 16% from other sources.

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. Approximately 49% of PERS salaries are accounted for by state employment. 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. Employees who fail to choose within 90 days default to PERS Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

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, in lieu of any retirement benefit, 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 from active status at any age with at least 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 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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 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.) There is no cap on the years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent.

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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by 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, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 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.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option. 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 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 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 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies 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 the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	263,347

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. 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. 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, 2013, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

***Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% 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
2013	$ 74,074	$ 3,817,918	$ 757,580
2012	$ 75,356	$ 3,274,334	$ 668,408
2011	$ 77,606	$ 2,734,289	$ 549,967

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) 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 $8,750 or up to a maximum of $11,500 for employees age 50 years and over. The District's 401(a) Plan matching contributions for the years ending December 31, 2013 and 2012, were $1.6 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 2013 and 2012 premiums for eligible retired plan members and their spouses amounted to $116,000 and $121,000, respectively. Plan members receiving benefits contributed 77% and 73% of the premium costs for years 2013 and 2012, respectively. For the years ended December 31, 2013 and 2012, total member contributions were $394,000 and $321,000, 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, 2013 and December 31, 2012. As a result, the District's annual OPEB cost and net OPEB obligation were zero as of both December 31, 2013 and December 31, 2012.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2008 through 2013 were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/13	$ -	0%	$ -
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, 2013 and 2012, the plan was fully funded. The covered payroll (annual wages of active employees covered by the plan) was $50.2 million and $49.9 million for 2013 and 2012, 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.

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, 2013.

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:

Actuarial Method – The Entry Age Normal method is used to develop an Annual Required Contribution and an Actuarial Accrued Liability in accordance with accepted actuarial methods.

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

Inflation rate – An inflation rate of 3.0% was used for 2013 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, 2013 and 2012, for both projects is presented below. Included in operating revenues and expenses are intradistrict sales and rents which are eliminated in the Statement of Revenues, Expenses and Changes in Net Position.

CONDENSED STATEMENTS OF NET POSITION

(amounts in thousands)	Rocky Reach 2013	Rock Island 2013	Rocky Reach 2012	Rock Island 2012
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current assets	$ 11,168	$ 8,805	$ 10,353	$ 8,310
Restricted assets – current	17	9,366	207	9,875
Total Current Assets	11,185	18,171	10,560	18,185
Utility plant, net	332,621	321,017	342,536	332,982
Restricted assets – noncurrent	35,120	58,617	23,715	44,064
Other Assets	5,807	17,445	6,388	16,950
Deferred outflows of resources	1	3,299	4	3,366
Total assets and deferred outflows of resources	$ 384,734	$ 418,549	$ 383,203	$ 415,547
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Current liabilities	$ 24,275	$ 35,176	$ 19,944	$ 36,157
Long-term debt	218,136	367,366	237,415	377,554
Other liabilities	10,105	10,921	10,555	11,436
Total liabilities	252,516	413,463	267,914	425,147
Deferred inflows of resources	-	24,765	-	28,996
Net Position:				
Invested in capital assets, net of related debt	320,569	86,758	334,291	83,300
Restricted	31,690	63,297	14,510	47,574
Unrestricted	(220,041)	(169,734)	(233,512)	(169,470)
Total net position	132,218	(19,679)	115,289	(38,596)
Total liabilities, deferred inflows of resources and net position	$ 384,734	$ 418,549	$ 383,203	$ 415,547

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(amounts in thousands)	Rocky Reach 2013	Rock Island 2013	Rocky Reach 2012	Rock Island 2012
Operating revenues	$ 91,592	$ 98,763	$ 87,460	$ 87,281
Less:				
Operating expenses	42,475	35,834	37,467	38,041
Depreciation and amortization	16,652	11,180	16,942	10,518
Operating income	32,465	51,749	33,051	38,722
Other expense	15,536	28,091	15,424	26,803
Income before capital contributions and interfund equity transfers	16,929	23,658	17,627	11,919
Capital contributions	-	523	-	125
Interfund equity transfers	-	(5,264)	(2,500)	8,703
Change in net position	16,929	18,917	15,127	20,747
Total net position – beginning of year	115,289	(38,596)	100,162	(59,343)
Total net position - end of year	$ 132,218	$ (19,679)	$ 115,289	$ (38,596)

CONDENSED STATEMENTS OF CASH FLOWS

(amounts in thousands)	Rocky Reach 2013	Rock Island 2013	Rocky Reach 2012	Rock Island 2012
Net cash provided (used) by:				
Operating activities	$ 47,482	$ 61,450	$ 48,353	$ 67,576
Capital and related financing activities	(36,403)	(49,527)	(39,369)	(51,991)
Investing activities	(17,764)	(20,963)	(6,082)	(10,352)
Net increase	(6,685)	(9,040)	2,902	5,233
Beginning cash and cash equivalents	11,984	16,105	9,082	10,872
Ending cash and cash equivalents	$ 5,299	$ 7,065	$ 11,984	$ 16,105

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, 2013 and 2012 is summarized in the following table for each insurance program:

	Property & Liability	Workers Compensation	Medical & Health	Dental
Claims Liability as of January 1, 2013	$ 302,323	$ 106,000	$ 1,475,000	$ 48,000
Claims accrued	-	643,935	9,919,570	1,039,938
Claims paid	(302,323)	(649,935)	(9,875,570)	(942,938)
Claims Liability as of December 31, 2013	$ -	$ 100,000	$ 1,519,000	$ 145,000
Commercial Insurance Deductible	Up to $2,000,000 depending on line of coverage	$500,000 per incident	N/A	N/A

	Property & Liability	Workers Compensation	Medical & 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

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 Plans (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 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 Upper Columbia River spring Chinook are listed as endangered and Upper Columbia River steelhead are listed as threatened under the ESA. The HCPs satisfy the District's obligations for hydro project operations 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 District's commitments under the HCPs include projects and programs to improve fish passage, to provide capacity for and fund hatchery operations and to contribute annual funding for the protection and restoration of tributary habitat; which when combined and successfully achieved culminates in obtaining the desired HCP outcome of No Net Impact (NNI). In February, 2013, the District submitted its first 10-year comprehensive progress reports for Rock Island and Rocky Reach projects documenting the progress toward meeting NNI. The successful achievement of combined adult and juvenile project survival standards for spring migrants, necessary funding and capacity improvements for hatchery operations and annual contributions to the tributary habitat fund resulted in a determination by the HCP Coordinating Committee (designated decision body) that the District had met the obligations of the HCP's to warrant approval of NNI status. The District will now be responsible during the next 10 years to manage programs and projects with a level of protection and tools equivalent to that which was used to achieve NNI status. Each 10 year cycle the District will enter into a one year testing mode to assess project survival; verifying protection levels continue to meet the HCP standards. The 10-year assessments will take place for the duration of the HCP's.

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. This plan was later replaced with the Comprehensive Bull Trout Management Plan as required by the Comprehensive Settlement Agreement for the Rocky Reach Project Relicensing. 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 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 hydros.

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 total 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. Compliance with the conditions set forth in these WQS place the District on a path forward in maintaining or achieving water quality standards. Water Quality Certifications may require that further studies be conducted to document methods implemented to address compliance of the WQS during the ten-year window and beyond. Based on current evaluations and testing results, the determination of what, if any, additional measures are necessary to address WQS requirements and future costs of implementing those measures cannot be reasonably estimated. Therefore, currently no obligation has been recorded and all related costs are recognized in the year incurred.

Capital Improvement Program

During 2012, the District entered into a $4.9 million contract for the programming and supply of digital turbine governors and unit controllers at Rocky Reach and Rock Island. The contract included replacement of 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, 2013, the remaining construction commitment totaled approximately $3.9 million.

During 2013, the District entered into a contract for the revitalization of the Entiat Park. A $6.1 million contract was executed for the complete renovation and upgrade of the park, which is located on the Rocky Reach dam reservoir. As of December 31, 2013, the remaining construction commitment totaled approximately $4.5 million.

Power Marketing

As of December 31, 2013, the District had entered into forward block contracts obligating it to deliver approximately 6,368,700 MWh of energy at various times during 2014, 2015, 2016, 2017 and 2018. The District expects to receive approximately $276.1 million from the purchasers of this power. In addition, as part of its comprehensive forward energy hedging strategy, 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 Reach and Rock Island projects during 2014, 2015, 2016, 2017 and 2018, in exchange for approximately $227.6 million.

The District has committed to purchase approximately 1,170,900 MWh of energy at a cost of approximately $43.4 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 expired on April 1, 2014, and it was not extended by the District. As of December 31, 2013, the District had 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 $848,000 as of December 31, 2013, most of which is associated with its guarantee of 10.12% of network revenue bonds issued by NoaNet in 2001. 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, 2013, the District's share of bond principal was $7.2 million and was not to exceed $9.0 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 Net Position.

(amounts in thousands)	2013	2012
Operating revenues		
Wholesale fiber services	$ 5,393	$ 5,047
Fiber leasing	532	526
Intradistrict revenues	2,361	2,165
Total operating revenues	8,286	7,738
Operating expenses		
Administrative and general	1,593	1,524
Repairs and maintenance	2,140	1,530
Other operating	2,076	1,513
Depreciation expense	5,642	5,769
Total operating expense	11,451	10,336
Operating loss	(3,165)	(2,598)
Other expenses	16	9
Net loss before capital contributions	(3,181)	(2,607)
Capital contributions	299	350
Interfund equity transfers*	-	98,978
Change in net position	$ (2,882)	$ 96,721

Following is a summary of the District's fiber-optic Statements of Net Position as of December 31, 2013 and 2012.

(amounts in thousands)	2013	2012
ASSETS		
Current assets	$ 5,100	$ 4,748
Utility plant, net and other assets	50,431	53,419
Total assets	$ 55,531	$ 58,167
LIABILITIES AND NET POSITION		
Total liabilities	478	232
Net position	55,053	57,935
Total liabilities and net position*	$ 55,531	$ 58,167

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

The District's capital investment in telecommunications plant and equipment for 2013 and 2012 was $760,000 and $1.8 million, respectively. The District's cumulative capital investment in telecommunications plant and equipment as of December 31, 2013, was $90.5 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 $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))
1/1/2013	$ 2,147,126	$ 1,170,296	$ (976,830)	183%	$ 50,234,113	(1.94)%
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 Net Position

For the year ended December 31, 2013, with comparative totals for December 31, 2012

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions(1)	2013	2012
OPERATING REVENUES									
Retail sales	$ -	$ -	$ -	$ 54,447	$ -	$ -	$ (892)	$ 53,555	$ 52,510
Wholesale sales	91,361	98,629	11,931	193,641	9,801	-	(116,641)	288,722	260,111
Other operating revenues	231	134	1,165	25,275	-	16,102	(23,077)	19,830	9,112
	91,592	98,763	13,096	273,363	9,801	16,102	(140,610)	362,107	321,733
OPERATING EXPENSES									
Purchased power and water	-	-	-	171,389	-	-	(114,280)	57,109	32,720
Generation	41,139	35,156	4,639	-	-	-	(12,653)	68,281	65,855
Utility services	-	-	-	50,399	-	-	(12,771)	37,628	36,334
Other operation and maintenance	-	-	-	-	17	10,546	(906)	9,657	12,379
Taxes	1,336	678	97	5,589	-	-	-	7,700	7,379
Depreciation and amortization	16,652	11,180	1,856	15,789	-	2,896	-	48,373	48,361
	59,127	47,014	6,592	243,166	17	13,442	(140,610)	228,748	203,028
OPERATING INCOME	32,465	51,749	6,504	30,197	9,784	2,660	-	133,359	118,705
OTHER INCOME (EXPENSE)									
Interest on long-term debt	(818)	(15,043)	-	(62)	(22,996)	-	144	(38,775)	(42,787)
Interest on intersystem loans	(14,376)	(11,216)	(3,929)	30	31,444	(1,809)	(144)	-	-
Amortization of losses on refunding debt	(3)	(362)	-	-	(3,118)	-	-	(3,483)	(4,187)
Investment income	228	1,524	51	1,163	573	157	-	3,696	4,743
Regulatory asset amortization - swap termination fees	-	-	-	-	(4,218)	-	-	(4,218)	(3,508)
Other	(567)	(2,994)	(1,256)	2,581	(598)	772	-	(2,062)	1,931
	(15,536)	(28,091)	(5,134)	3,712	1,087	(880)	-	(44,842)	(43,808)
INCOME BEFORE CAPITAL CONTRIBUTIONS & INTERFUND EQUITY TRANSFERS	16,929	23,658	1,370	33,909	10,871	1,780	-	88,517	74,897
CAPITAL CONTRIBUTIONS	-	523	-	2,958	-	-	-	3,481	3,027
INTERFUND EQUITY TRANSFERS	-	(5,264)	-	5,264	-	-	-	-	-
CHANGE IN NET POSITION	16,929	18,917	1,370	42,131	10,871	1,780	-	91,998	77,924
TOTAL NET POSITION									
Beginning of year	115,289	(38,596)	17,059	343,867	24,768	3,605	-	465,992	388,068
TOTAL NET POSITION									
End of year	$ 132,218	$ (19,679)	$ 18,429	$ 385,998	$ 35,639	$ 5,385	$ -	$ 557,990	$ 465,992

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

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

As of December 31, 2013, with comparative totals for December 31, 2012

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions(1)	2013	2012
CURRENT ASSETS									
Cash and cash equivalents	$ 1,318	$ 1,411	$ 1,030	$ 18,140	$ 5,758	$ 2,751	$ -	$ 30,408	$ 87,732
Investments	4,838	5,177	3,780	72,098	21,127	10,094	-	117,114	56,464
Accounts receivable, net	2,333	1,735	21	17,446	-	-	-	21,535	21,890
Accrued interest receivable	149	198	28	722	356	91	-	1,544	1,435
Materials and supplies	2,157	-	-	8,132	-	332	-	10,621	10,909
Prepayments and other	344	257	42	175	-	585	-	1,403	828
Current portion of regulatory assets	29	27	-	51	3,445	6	-	3,558	3,508
	11,168	8,805	4,901	116,764	30,686	13,859	-	186,183	182,766
RESTRICTED ASSETS - CURRENT									
Cash and cash equivalents	3	2,006	1	26	-	697	-	2,733	8,002
Investments	14	7,360	-	97	-	2,559	-	10,030	5,151
	17	9,366	1	123	-	3,256	-	12,763	13,153
TOTAL CURRENT ASSETS	11,185	18,171	4,902	116,887	30,686	17,115	-	198,946	195,919
UTILITY PLANT									
In service, at original cost	606,238	568,689	121,010	511,694	-	86,118	-	1,893,749	1,866,280
Construction work in progress	4,760	4,633	-	5,769	-	2,139	-	17,301	18,641
Less-accumulated depreciation	(278,377)	(252,305)	(26,423)	(217,155)	-	(63,528)	-	(837,788)	(792,687)
	332,621	321,017	94,587	300,308	-	24,729	-	1,073,262	1,092,234
RESTRICTED ASSETS - NONCURRENT									
Cash and cash equivalents	3,978	3,648	35	2,159	634	-	-	10,454	23,213
Investments	31,142	54,969	271	16,466	23,781	2,726	-	129,355	99,362
	35,120	58,617	306	18,625	24,415	2,726	-	139,809	122,575
OTHER ASSETS									
Fish protection costs	-	-	-	-	-	-	-	-	277
Long-term receivables, net	-	-	-	1,146	-	-	-	1,146	1,411
Long-term investments	5,154	5,516	4,027	72,969	22,507	10,753	-	120,926	118,772
Regulatory assets, net	553	4,360	24	5,804	36,119	124	-	46,984	51,920
Derivative instrument asset	-	3,850	-	-	-	-	-	3,850	8,054
Other	100	3,719	-	16,244	-	2	(16,103)	3,962	5,728
	5,807	17,445	4,051	96,163	58,626	10,879	(16,103)	176,868	186,162
TOTAL ASSETS	384,733	415,250	103,846	531,983	113,727	55,449	(16,103)	1,588,885	1,596,890
DEFERRED OUTFLOWS OF RESOURCES									
Losses on refunding debt	1	3,299	-	-	10,338	-	-	13,638	16,543
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 384,734	$ 418,549	$ 103,846	$ 531,983	$ 124,065	$ 55,449	$ (16,103)	$1,602,523	$1,613,433

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)	2013	2012
CURRENT LIABILITIES									
Current portion of long-term obligations	$ 18,941	$ 30,638	$ 5,369	$ 806	$ 32,276	$ 9,418	$ -	$ 97,448	$ 42,606
Current portion of unearned wholesale power sales	633	633	-	6,247	625	-	-	8,138	7,679
Accounts payable	3,470	2,922	534	4,620	79	5,063	-	16,688	17,306
Accrued taxes	1,484	743	102	2,114	-	380	-	4,823	4,370
Accrued interest	390	169	-	27	10,874	-	-	11,460	12,253
Intersystem payables (receivables)	(712)	18	(162)	3,966	-	(3,110)	-	-	-
Accrued vacation and other	69	53	3	80	-	11,984	-	12,189	11,826
	24,275	35,176	5,846	17,860	43,854	23,735	-	150,746	96,040
LONG-TERM DEBT									
Revenue bonds and notes payable	16,277	252,100	-	10,349	548,615	-	-	827,341	898,755
Intersystem loans payable (receivable)	220,800	145,904	75,037	5,153	(482,641)	35,747	-	-	-
Less current maturities	(18,941)	(30,638)	(3,612)	(806)	(32,276)	(9,418)	-	(95,691)	(40,844)
	218,136	367,366	71,425	14,696	33,698	26,329	-	731,650	857,911
OTHER LIABILITIES									
Unearned wholesale power sales revenue, less current portion	10,105	10,516	-	93,577	10,195	-	(16,103)	108,290	115,003
Long-term contract customer deposit	-	-	-	18,500	-	-	-	18,500	18,500
Derivative instrument liability	-	-	-	-	-	-	-	-	21,163
Licensing obligation, less current portion	-	-	8,146	-	-	-	-	8,146	8,141
Other liabilities	-	405	-	-	-	-	-	405	293
	10,105	10,921	8,146	112,077	10,195	-	(16,103)	135,341	163,100
TOTAL LIABILITIES	252,516	413,463	85,417	144,633	87,747	50,064	(16,103)	1,017,737	1,117,051
DEFERRED INFLOWS OF RESOURCES									
Derivatives	-	3,850	-	-	-	-	-	3,850	8,054
Regulatory liabilities	-	20,915	-	1,352	679	-	-	22,946	22,336
	-	24,765	-	1,352	679	-	-	26,796	30,390
TOTAL NET POSITION	132,218	(19,679)	18,429	385,998	35,639	5,385	-	557,990	465,992
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 384,734	$ 418,549	$ 103,846	$ 531,983	$ 124,065	$ 55,449	$ (16,103)	$1,602,523	$1,613,433

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

Combining Schedule of Cash Flows

For the year ended December 31, 2013, with comparative totals for December 31, 2012

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions(1)	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers	$ 89,844	$ 97,253	$ 13,094	$ 269,559	$ 9,178	$ 16,120	$ (140,610)	$ 354,438	$ 333,750
Payments to suppliers	(19,751)	(15,765)	(1,812)	(202,405)	528	(10,471)	140,610	(109,066)	(86,129)
Payments to employees	(22,611)	(20,038)	(2,667)	(27,166)	-	(380)	-	(72,862)	(68,776)
Net cash provided by operating activities	47,482	61,450	8,615	39,988	9,706	5,269	-	172,510	178,845
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Additions to plant	(6,255)	(5,959)	(483)	(13,849)	-	(3,863)	-	(30,409)	(34,076)
Additions to pooled assets	176	157	15	-	-	(348)	-	-	-
Proceeds from sale of plant	14	20	-	88	-	40	-	162	756
Proceeds of new intersystem loans	-	5,000	-	-	(5,000)	-	-	-	-
Proceeds of new third party debt	-	-	-	-	-	-	-	-	2,453
Principal (paid) received on debt & intersystem loans	(18,221)	(35,167)	(3,047)	(4,653)	(19,818)	(2,575)	-	(83,481)	(99,184)
Interest paid on debt & intersystem loans	(12,995)	(13,686)	(3,736)	(1,770)	7,831	(737)	-	(25,093)	(27,639)
Capital contributions	-	-	-	2,915	-	-	-	2,915	2,613
Other	878	108	(1,251)	2,389	(17,844)	747	-	(14,973)	241
Net cash (used in) capital and related financing activities	(36,403)	(49,527)	(8,502)	(14,880)	(34,831)	(6,736)	-	(150,879)	(154,836)
CASH FLOWS FROM INVESTING ACTIVITIES									
Investments, net	(17,970)	(23,105)	(2,193)	(57,616)	5,012	(5,896)	-	(101,768)	(6,237)
Interest on investments	206	1,534	46	1,120	956	129	-	3,991	5,362
Long-term receivables	-	-	-	265	-	-	-	265	361
Other, net	-	608	-	547	(625)	-	-	530	(7,342)
Net cash provided by (used in) investing activities	(17,764)	(20,963)	(2,147)	(55,684)	5,343	(5,767)	-	(96,982)	(7,856)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(6,685)	(9,040)	(2,034)	(30,576)	(19,782)	(7,234)	-	(75,351)	16,153
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11,984	16,105	3,100	50,901	26,174	10,682	-	118,946	102,793
CASH & CASH EQUIVALENTS, END OF YEAR	$ 5,299	$ 7,065	$ 1,066	$ 20,325	$ 6,392	$ 3,448	$ -	$ 43,595	$ 118,946

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)	2013	2012
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES									
Operating income (loss)	$ 32,465	$ 51,749	$ 6,504	$ 30,197	$ 9,784	$ 2,660	$ -	$ 133,359	$ 118,705
Depreciation and amortization	16,652	11,180	1,856	15,789	-	2,896	-	48,373	48,361
(Increase) decrease in operating assets:									
Accounts receivable, net	(1,308)	(885)	(3)	2,532	-	19	-	355	3,953
Materials and supplies	151	-	-	161	-	(24)	-	288	(314)
Prepayments	44	(8)	(2)	(29)	-	(580)	-	(575)	(81)
Other	-	-	-	(1,319)	-	-	-	(1,319)	(1,601)
Increase (decrease) in operating liabilities:									
Accounts payable	(579)	(664)	203	(613)	(78)	(93)	-	(1,824)	1,353
Accrued taxes	(106)	(37)	4	544	-	48	-	453	(15)
Accrued vacation and other	603	741	53	(1,377)	-	343	-	363	(29)
Unearned wholesale revenue	(440)	(626)	-	(5,897)	-	-	-	(6,963)	8,513
Net cash provided by (used in) operating activities	$ 47,482	$ 61,450	$ 8,615	$ 39,988	$ 9,706	$ 5,269	$ -	$ 172,510	$ 178,845
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES									
Construction costs included in accounts payable	$ 1,159	$ 332	$ -	$ (559)	$ -	$ 273	$ -	$ 1,205	$ (2,369)
Capital contributions	-	-	-	-	-	-	-	-	17,398
Amortization of regulatory assets	-	(523)	-	(42)	-	-	-	(565)	-

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:	
2005A	PUD No. 1 of Chelan County
2007B & C	U.S. Bank N.A.
2008A & B	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 Global Corporate
Trust Services
60 Livingston Ave.
St. Paul, MN 55107
Mail Station: EP-MN-WS2N
(800) 934-6802

Continuing Disclosure

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	2009	2010	2011	2012 (1)	2013
Requirements (000 MWh)					
Total Sales (2)	4,257	4,227	5,762	9,161	8,308
Timing differences and losses (3)	(8)	(67)	(100)	(97)	64
	4,249	4,160	5,662	9,062	8,372
Resources (000 MWh)					
Rocky Reach System (4)(5)	2,041	1,883	3,086	5,280	3,080
Rock Island System (4)(5)	1,345	1,283	1,619	2,171	1,544
Lake Chelan System	338	417	480	425	444
Other purchases (6)	525	577	477	1,186	3,304
	4,249	4,160	5,662	9,062	8,372
Purchased Power Costs ($000)					
Rocky Reach System (4)(5)	$ 28,784	$ 30,668	$ 37,112	$ 69,860	$ 45,858
Rock Island System (4)(5)	38,398	40,206	38,509	60,495	49,592
Lake Chelan System	9,003	10,198	11,430	11,640	11,931
Other purchases (6)	18,672	22,880	14,429	32,417	63,698
	$ 94,857	$ 103,952	$ 101,480	$ 174,412	$ 171,079
Average cost ($/MWh)(7)	$ 22	$ 25	$ 18	$ 19	$ 20

1. In 2013, year 2012 total sales statistics were restated for Douglas County PUD power, slice and real-time activities and to correct an 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.
5. Prior to 2013, contractual power sales to Alcoa were accounted for in the Distribution Division.
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	2009	2010	2011	2012 (1)	2013
Customers					
Retail:					
Residential	35,516	35,687	35,806	36,057	36,402
General Service	6,027	6,074	6,092	6,133	6,182
Industrial	31	31	30	31	31
Interdepartmental	544	549	537	552	556
Other (2)	5,749	5,710	5,708	5,690	5,683
Total retail customers	47,867	48,051	48,173	48,463	48,854
Resale:	70	73	78	79	84
Total customers	47,937	48,124	48,251	48,542	48,938
Energy Sales (000 MWh)					
Retail:					
Residential	803	738	776	762	788
General Service	469	447	470	466	474
Industrial	315	296	284	273	272
Interdepartmental	20	19	19	22	24
Other (2)	48	40	41	42	42
Total retail sales	1,655	1,540	1,590	1,565	1,600
Resale:					
Alcoa Power (3)	1,313	1,341	1,622	2,138	59
Douglas County PUD	146	140	231	404	345
Other - firm/slice	-	19	586	2,059	2,114
Other - non firm/block/preschedule/real time	1,143	1,187	1,733	2,995	4,190
Total sales for resale	2,602	2,687	4,172	7,596	6,708
Total energy sales	4,257	4,227	5,762	9,161	8,308
Revenue ($000)					
Retail:					
Residential	$ 26,203	$ 25,132	$ 26,560	$ 24,520	$ 25,178
General Service	16,842	16,687	17,468	15,860	16,083
Industrial	6,378	6,246	6,089	5,502	5,490
Interdepartmental	607	583	583	664	697
Other (2)	1,775	1,719	1,688	1,589	1,651
Total retail revenue	51,805	50,367	52,388	48,135	49,099
Resale:					
Alcoa Power (3)	22,448	24,740	24,340	39,394	1,899
Douglas County PUD	1,930	2,074	2,395	4,231	4,532
Other - firm/slice	-	771	19,402	65,866	78,527
Other - non firm/block/preschedule/real time	36,484	43,358	47,863	88,066	94,646
Total resale revenue	60,862	70,943	94,000	197,557	179,604
Other revenue (4)	1,615	1,511	2,791	12,996	25,064
Total revenue	$ 114,282	$ 122,821	$ 149,179	$ 258,688	$ 253,767

1. In 2013, year 2012 total sales statistics were restated.
2. Includes irrigation, frost protection and street/yard lighting.
3. Prior to 2013, contractual power sales to Alcoa were accounted for in the Distribution Division.
4. Includes transmission, real-time agreement and environmental attribute revenues.

Distribution Division

Five Largest Local Wholesale Purchasers and Major Retail Customers 2013 (1)

Customer	Business	Energy Sales (000 MWh)	Revenue from Energy Sales ($000)	Percent of Distribution's Total Revenue
Douglas County PUD	Electric Utility	345	$ 4,532	1.8%
Stemilt Growers Inc	Agriculture	63	1,275	0.5%
Alcoa Power	Aluminum Mfg.	59	1,899	0.7%
Keyes Fibre Inc.	Paper Products	43	808	0.3%
Trout Inc.	Agriculture	39	785	0.3%
		549	$ 9,299	3.6%

1. Excludes nonfirm sales for resale.

Distribution Division

Statement of Revenues and Expenses ($000)

Calendar Year	2009	2010	2011	2012	2013
Operating revenues					
Retail	$ 51,805	$ 50,367	$ 52,388	$ 48,135	$ 49,099
Resale (1)	60,862	70,943	94,000	197,557	179,604
Other (2)	1,615	1,511	2,791	12,996	25,064
Total	114,282	122,821	149,179	258,688	253,767
Operating expenses (1)	130,977	141,310	141,117	225,856	225,796
Net operating (loss) revenue	(16,695)	(18,489)	8,062	32,832	27,971
Other income (expense)	8,139	4,584	4,016	(2,744)	907
Net (loss) revenue (3)	$ (8,556)	$ (13,905)	$ 12,078	$ 30,088	$ 28,878

1. Includes contractual purchases and nonfirm purchases for resale. Prior to 2013, contractual power sales to Alcoa were accounted for in the Distribution Division.
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 Systems

Power Cost and Net Power Delivered ($000)

Calendar Year	2009	2010	2011	2012	2013
Rocky Reach System					
Operating expenses (1)	$ 40,023	$ 40,777	$ 40,558	$ 37,467	$ 42,476
Debt service: (2)					
Hydro issues	1,948	2,633	2,628	-	-
Consolidated System loans	29,492	33,021	33,381	-	-
Depreciation and amortization (2)	-	-	-	16,942	16,652
Interest expense	-	-	-	16,133	15,194
Other (revenue) expense (3)(4)(10)	(1,410)	(1,448)	(2,172)	(886)	111
Total power cost (5)	$ 70,053	$ 74,983	$ 74,395	$ 69,657	$ 74,433
Net power delivered (000 MWh)	5,169	4,862	7,125	7,082	6,219
Cost in $/MWh	$ 14	$ 15	$ 10	$ 10	$ 12
Plant factor (6)	45%	43%	63%	62%	55%
Availability factor (7)	96%	95%	94%	93%	79%
Average river flow (000 CFS) (8)	91	89	141	141	117
Rock Island System					
Operating expenses (1)	$ 39,050	$ 40,321	$ 36,675	$ 38,041	$ 35,834
Debt service: (2)					
Hydro issues	22,971	23,560	23,055	-	-
Consolidated System loans	17,446	19,134	19,492	-	-
Depreciation and amortization (2)	-	-	-	10,518	11,180
Interest expense	-	-	-	27,041	26,260
Other (revenue) expense (3)(10)	(2,736)	(2,602)	(2,204)	(521)	1,174
Total power cost (5)	$ 76,731	$ 80,413	$ 77,018	$ 75,079	$ 74,447
Net power delivered (000 MWh)(9)	2,572	2,496	3,267	3,306	3,077
Cost in $/MWh	$ 30	$ 32	$ 24	$ 23	$ 24
Plant factor (6)	47%	45%	59%	60%	56%
Availability factor (7)	90%	94%	92%	93%	90%
Lake Chelan System					
Operating expenses (1)	$ 3,220	$ 3,523	$ 4,729	$ 4,608	$ 4,737
Debt service: (2)					
Hydro issues	-	-	-	-	-
Consolidated System loans	6,552	7,402	7,138	-	-
Depreciation and amortization (2)	-	-	-	1,847	1,856
Interest expense	-	-	-	4,052	3,929
Other (revenue) expense (3)(10)	(769)	(727)	(436)	(755)	39
Total power cost (5)	$ 9,003	$ 10,198	$ 11,431	$ 9,753	$ 10,561
Net power delivered (000 MWh)	338	417	480	425	444
Cost in $/MWh	$ 27	$ 24	$ 24	$ 23	$ 24
Plant factor (6)	80%	81%	93%	82%	86%
Availability factor (7)	71%	75%	98%	99%	100%
Combined Hydro Cost in $/MWh	$ 19	$ 21	$ 15	$ 14	$ 16

1. Does not include depreciation expense.
2. Years 2009 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. In 2012, year 2011 was 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. In 2011, years 2009 and 2010 were restated to correct a data entry error.
8. Annual average Columbia River flow measured at Rocky Reach System in thousands of cubic feet per second (000 CFS).
9. After minor sales to operators' cottages and adjustments for encroachment and Canadian Treaty deliveries.
10. In 2013, year 2012 was restated to include additional revenue categories.

Consolidated System

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

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

	2009	2010	2011	2012	2013
Operating revenues					
Retail	$ 51,805	$ 50,367	$ 52,388	$ 48,135	$ 49,099
Resale	60,862	70,943	94,000	197,557	179,604
Other	7,654	8,091	9,774	20,735	33,349
	120,321	129,401	156,162	266,427	262,052
Operating expenses	(139,368)	(150,445)	(152,027)	(236,191)	(237,247)
Net operating revenues	(19,047)	(21,044)	4,135	30,236	24,805
Other income (expense)	3,406	(272)	(866)	(2,752)	891
Net (loss) revenues (2)	(15,641)	(21,316)	3,269	27,484	25,696
Add back:					
Depreciation	11,778	12,514	13,040	13,690	14,110
Gain on disposal of property	-	-	(1)	(15)	(67)
Interest expense (income)	2,863	3,559	3,222	2,284	(357)
Amortization of deferred debt costs	207	216	175	-	-
Net funds (used in) from operations	(793)	(5,027)	19,705	43,443	39,382
Net funds from other systems (3)	6,296	8,152	6,142	14,214	18,429
Available funds (4)	150,924	147,019	140,189	204,894	219,250
Net receipts	$ 156,427	$ 150,144	$ 166,036	$ 262,551	$ 277,061
Computed debt service (5)(6)	$ -	$ -	$ 5,219	$ 1,036	$ 1,036
Debt service coverages					
With other available funds (required 1.15x)	n/a	n/a	31.81	253.43	267.43
Without other available funds (required 1.00x)	n/a	n/a	4.95	55.65	55.80

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 titled 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 the Subordinate Master Resolution 07-13067

	2009	2010	2011	2012	2013
Operating revenues (1)					
Retail	$ 56,572	$ 54,989	$ 57,195	$ 53,330	$ 54,447
Resale	75,891	87,702	114,079	229,864	215,373
Other	17,555	18,088	18,792	29,069	42,542
Total	150,018	160,779	190,066	312,263	312,362
Less: Operating expenses					
Purchased power and water	(95,200)	(104,265)	(101,787)	(174,715)	(171,389)
Other operation & maintenance	(45,018)	(44,730)	(50,785)	(64,620)	(65,601)
Taxes	(5,021)	(4,653)	(5,100)	(5,094)	(5,686)
Depreciation & amortization	(18,449)	(20,804)	(20,923)	(20,900)	(20,542)
Operating (loss) income	(13,670)	(13,673)	11,471	46,934	49,144
Adjustments					
Add back depreciation & amortization	18,449	20,804	20,923	20,900	20,542
Add investment income	8,191	5,405	7,040	3,043	1,943
Add principal and interest payments from Rocky Reach & Rock Island	47,247	51,003	51,888	50,233	48,683
Subtract investment earnings credited to Rocky Reach & Rock Island	(1,102)	(1,171)	(892)	(132)	-
Total adjustments	72,785	76,041	78,959	74,044	71,168
Net revenues	59,115	62,368	90,430	120,978	120,312
Plus withdrawals (deposits) to Rate Stabilization Fund	-	-	-	-	-
Adjusted net revenues	$ 59,115	$ 62,368	$ 90,430	$ 120,978	$ 120,312
Available funds (2)	$ 159,605	$ 151,781	$ 147,990	$ 225,867	$ 233,294
Annual debt service					
Senior Bonds	$ 31,048	$ 28,817	$ 34,229	$ 3,761	$ 2,449
Subordinate Bonds	10,903	13,237	14,470	43,784	39,219
Total debt service	$ 41,951	$ 42,054	$ 48,699	$ 47,545	$ 41,668
Debt service coverage					
With available funds (required 1.25x)	5.21	5.09	4.90	7.30	8.49
Without available funds (required 1.00x)	1.41	1.48	1.86	2.54	2.89

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 the Notes Master Resolution 08-13378

	2009	2010	2011	2012	2013
Operating revenues (1)					
Retail	$ 56,572	$ 54,989	$ 57,195	$ 53,330	$ 54,447
Resale	75,891	87,702	114,079	229,864	215,373
Other	17,555	18,088	18,792	29,069	42,542
Total	150,018	160,779	190,066	312,263	312,362
Less: Operating expenses					
Purchased power and water	(95,200)	(104,265)	(101,787)	(174,715)	(171,389)
Other operation & maintenance	(45,018)	(44,730)	(50,785)	(64,620)	(65,601)
Taxes	(5,021)	(4,653)	(5,100)	(5,094)	(5,686)
Depreciation & amortization	(18,449)	(20,804)	(20,923)	(20,900)	(20,542)
Operating (loss) income	(13,670)	(13,673)	11,471	46,934	49,144
Adjustments					
Add back depreciation & amortization	18,449	20,804	20,923	20,900	20,542
Add investment income	8,191	5,405	7,040	3,043	1,943
Add principal and interest payments from Rocky Reach & Rock Island	47,247	51,003	51,888	50,233	48,683
Subtract investment earnings credited to Rocky Reach & Rock Island	(1,102)	(1,171)	(892)	(132)	-
Total adjustments	72,785	76,041	78,959	74,044	71,168
Net revenues	59,115	62,368	90,430	120,978	120,312
Plus withdrawals (deposits) to Rate Stabilization Fund	-	-	-	-	-
Adjusted net revenues	$ 59,115	$ 62,368	$ 90,430	$ 120,978	$ 120,312
Available funds (2)	$ 159,605	$ 151,781	$ 147,990	$ 225,867	$ 233,294
Annual debt service					
Senior Bonds	$ 31,048	$ 28,817	$ 34,229	$ 3,761	$ 2,449
Subordinate Bonds	10,903	13,237	14,470	43,784	39,219
Third-Lien Notes	3,493	6,016	5,432	5,432	1,939
Total debt service	$ 45,444	$ 48,070	$ 54,131	$ 52,977	$ 43,607
Debt service coverage (required 1.00x)	4.81	4.45	4.40	6.55	8.11

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 December 31, 2013 ($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							
4/5/2005	1/1/2039	2005A (4)	$ 25,430	$ -	$ -	$ 25,430	$ 12,715
Total Chelan Hydro Consolidated System			25,430	-	-	25,430	12,715
CONSOLIDATED SYSTEM							
5/31/2007	7/1/2042	2007B	8,370	-	-	8,370	418
5/31/2007	7/1/2037	2007C	25,590	2,795	2,795	22,795	1,239
2/28/2008	7/1/2024	2008A	47,075	5,110	5,110	41,965	21,797
6/3/2009	7/1/2032	2008B	92,880	5,240	27,630	65,250	972
8/11/2009	7/1/2019	2009C	6,545	2,280	2,280	4,265	243
8/11/2009	7/1/2039	2009D	27,015	-	-	27,015	1,800
6/1/2011	7/1/2026	2011A	107,500	12,705	12,705	94,795	5,244
6/1/2011	7/1/2026	2011B	72,220	8,540	8,540	63,680	3,377
11/9/2011	7/1/2026	2011C	164,425	8,920	8,920	155,505	5,351
Total Consolidated System			551,620	45,590	67,980	483,640	40,441
CONSOLIDATED SYSTEM SUBORDINATE NOTES							
7/22/2009	7/1/2014	2009A (5)	20,630	-	-	20,630	1,355
7/22/2009	7/1/2014	2009B (5)	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 (6)	135,944	99,135	99,135	244,449	32,026
8/11/2009	7/1/2029	2009A	14,000	1,400	6,400	7,600	608
Total Rock Island System			149,944	100,535	105,535	252,049	32,634
ROCKY REACH SYSTEM							
12/4/2008	7/1/2014	2008A	7,415	5,985	5,985	1,430	268
8/11/2009	7/1/2034	2009A	15,895	1,435	1,435	14,460	764
Total Rocky Reach System			23,310	7,420	7,420	15,890	1,032
Grand Total			$ 779,274	$ 153,545	$ 180,935	$ 805,979	$ 88,704

1. Amount of serial bonds matured as of December 31, 2013 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, 2013 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 2005A Bonds are subject to mandatory tender for purchase on July 1, 2015 upon the expiration of the current Fixed-Term Interest Rate Period. The District currently intends to retire such Bonds at that time, however, the District may elect to remarket some or all of such Bonds in new Interest Rate Periods.
5. 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.
6. 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, 2013 ($000)

	Allocated Principal Amount of Bonds Outstanding (1)	Adjustments to Loans Outstanding (2)	Net Loans Outstanding
Rocky Reach System	$ 216,896	$ 3,943	$ 220,839
Rock Island System	146,228	(318)	145,910
Consolidated System (3)	174,916	(58,980)	115,936
	$ 538,040	$ (55,355)	$ 482,685

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 Systems

Loan Payments as of December 31, 2013

	Consolidated Bonds (1)			Loan Payments (2)		
	Aggregate Annual Debt Service					
Year	Principal (3)	Interest (4)	Total	Rocky Reach	Rock Island	Total Loan Payments
2014	$ 68,482,990	$ 21,385,228	$ 89,868,218	$ 30,802,564	$ 19,443,094	$ 50,245,658
2015	46,490,000	18,098,731	64,588,731	30,852,463	18,044,125	48,896,588
2016	16,445,000	16,075,298	32,520,298	30,404,740	16,621,856	47,026,596
2017	25,390,000	15,367,999	40,757,999	29,214,359	16,357,379	45,571,738
2018	28,855,000	14,391,558	43,246,558	22,110,177	15,482,068	37,592,245
2019	32,832,400	13,302,948	46,135,348	19,884,836	14,849,247	34,734,083
2020	32,405,000	12,024,951	44,429,951	18,682,912	14,912,410	33,595,322
2021	29,000,000	10,732,500	39,732,500	16,995,034	14,174,292	31,169,326
2022	30,290,000	9,532,044	39,822,044	16,995,986	13,992,722	30,988,708
2023	31,695,000	8,234,023	39,929,023	16,928,190	13,986,388	30,914,578
2024	30,788,183	6,812,688	37,600,871	16,872,091	13,514,012	30,386,103
2025	34,840,000	5,303,174	40,143,174	14,732,661	13,060,229	27,792,890
2026	22,533,353	3,744,526	26,277,879	13,050,225	13,000,617	26,050,842
2027	2,930,000	2,059,260	4,989,260	11,627,056	12,999,821	24,626,877
2028	3,875,000	1,958,477	5,833,477	10,208,263	13,617,350	23,825,613
2029	2,345,000	1,854,454	4,199,454	8,878,935	9,383,242	18,262,177
2030	2,450,000	1,748,606	4,198,606	7,463,981	10,863,167	18,327,148
2031	2,565,000	1,635,821	4,200,821	6,054,618	10,348,046	16,402,664
2032	46,727,775	1,443,452	48,171,227	4,803,146	9,210,877	14,014,023
2033	2,800,000	1,245,779	4,045,779	4,220,632	9,158,162	13,378,794
2034	2,930,000	1,116,864	4,046,864	3,961,897	8,697,915	12,659,812
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	$ 515,082,494	$ 172,803,071	$ 687,885,565	$ 339,496,357	$ 316,936,139	$ 656,432,496

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 32 percent.

Consolidated System and Hydroelectric Systems

Projected Capital Requirements and Financings

Projected Capital Requirements ($000)

Calendar Year	2014	2015	2016	2017	2018
Distribution System	$ 19,267	$ 25,699	$ 17,449	$ 19,123	$ 24,311
Fiber & Telecom System	3,302	3,920	2,408	1,523	1,406
Water/Wastewater System	605	792	2,860	2,956	1,668
Internal Services System	9,544	6,456	13,204	5,677	8,957
Rocky Reach System	11,585	16,308	10,805	4,468	10,926
Rock Island System	6,544	12,541	16,675	13,582	12,386
Lake Chelan System	687	250	2,433	2,045	2,045
Total Capital Requirements	$ 51,534	$ 65,966	$ 65,834	$ 49,374	$ 61,699

Projected Future Financing ($000)

Calendar Year	2014	2015	2016	2017	2018
Proceeds of New Bond Issues	$ -	$ -	$ -	$ -	$ -
Other Available District Funds (1)	51,534	65,966	65,834	49,374	61,699
Total	$ 51,534	$ 65,966	$ 65,834	$ 49,374	$ 61,699

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, 2013 ($000)

Balances (1)	Utility Services (2)	Lake Chelan Project	Financing Facilities (3)	Internal Services Fund	Total
Unrestricted funds					
Revenue fund (4)	$ 44,476	$ 1,383	$ 1,058	$ 12,434	$ 59,351
Available funds:					
Rate stabilization fund	50,000	-	-	-	50,000
Operating reserve fund	61,730	-	-	-	61,730
Contingency reserve fund	-	-	-	-	-
Other unrestricted funds (5)	7,001	7,454	48,334	11,164	73,953
Total unrestricted funds	163,207	8,837	49,392	23,598	245,034
Restricted funds (6)	18,748	308	24,415	5,982	49,453
Total fund balances	$ 181,955	$ 9,145	$ 73,807	$ 29,580	$ 294,487

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	2009	2010	2011	2012	2013
Original System generation	310	313	652	750	573
Second powerhouse generation	1,955	1,871	2,275	2,180	2,105
Total generation	2,265	2,184	2,927	2,930	2,678
Plus:					
Wanapum Encroachment	602	572	637	673	662
Net Interchange	43	68	54	43	80
System losses by contract	(3)	(6)	(4)	(4)	(4)
Less:					
Canadian Treaty Power (1)	(153)	(161)	(166)	(160)	(160)
Rocky Reach Encroachment (2)	(182)	(160)	(181)	(176)	(179)
Total net power delivered (3)	2,572	2,497	3,267	3,306	3,077
Percentage allocations (4)					
Power Purchasers	50%	50%	50%	51%	51%
District	50%	50%	50%	49%	49%
Sales:					
Power Purchasers	1,263	1,213	1,648	1,540	1,536
District	1,309	1,283	1,619	1,766	1,541
Total sales (3)	2,572	2,496	3,267	3,306	3,077
Net peaking capability	624	629	629	629	629
Availability factor (5)	90%	94%	92%	92%	90%
Plant factor (6)	47%	45%	59%	60%	56%

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 from 2009 through expiration of the Power Sales Contract on June 7, 2012. The District received 100 percent of the output from June 8, 2012 through June 30, 2012. Thereafter, under the new Power Sales Contract, the District received a fixed 49 percent of the combined power produced by the Rock Island and Rocky Reach Systems.
5. In 2011, years 2009 and 2010 were restated. 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	2009	2010	2011	2012	2013
Rock Island System	$ 30	$ 32	$ 24	$ 23	$ 24
Bonneville Power (1)	$ 33	$ 33	$ 35	$ 35	$ 38

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	2009	2010	2011	2012	2013
	$ 11,558	$ 14,662	$ 20,873	$ 7,335	$ 3,914

Projected Calendar Year (1)	2014	2015	2016	2017	2018
	$ 6,544	$ 12,541	$ 16,675	$ 13,582	$ 12,386

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	2009	2010	2011	2012	2013
Operating revenues					
Power Purchasers	$ 38,330	$ 40,206	$ 38,509	$ 41,610	$ 50,314
District	38,401	40,207	38,509	45,514	48,315
Total revenues from sales	76,731	80,413	77,018	87,124	98,629
Other operating revenues	171	169	199	157	134
Total operating revenues	76,902	80,582	77,217	87,281	98,763
Total operating expenses (1)	49,728	51,065	47,252	48,559	47,013
Net operating revenues	27,174	29,517	29,965	38,722	51,750
Other expense	(26,633)	(26,636)	(27,128)	(26,803)	(28,092)
Net revenues	541	2,881	2,837	11,919	23,658
Add back:					
Depreciation	10,678	10,744	10,577	10,518	11,180
Interest expense	28,123	27,960	27,477	27,041	26,260
Amortization of deferred debt costs	404	373	330	130	127
Other (2)	1,459	612	1,810	431	1,497
Deduct:					
Amortization of deferred power sales revenue	-	-	-	(316)	(633)
Cash available for debt service	41,205	42,570	43,031	49,723	62,089
Annual debt service:					
Rock Island Bonds	22,971	23,560	23,055	20,612	23,646
Intersystem loans (3)	17,845	18,606	19,492	19,242	18,234
Total debt service requirement	40,816	42,166	42,547	39,854	41,880
Cash available after payment of all debt service	$ 389	$ 404	$ 484	$ 9,869	$ 20,209
Coverage of total debt service	1.01	1.01	1.01	1.25	1.48

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. 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, 2013

Twelve Months Ending Dec. 31	Bonds: Estimated Debt Service	Bonds: Estimated Principal Retirements (2)	Subordinate Lien Bonds: Estimated Debt Service	Subordinate Lien Bonds: Estimated Principal Retirements (2)	Intersystem Loans (1): Estimated Debt Service	Intersystem Loans (1): Estimated Principal Retirements	Total Estimated Debt Service
2014	$ 22,685,000	$ 22,685,000	$ 456,256	$ -	$ 19,443,094	$ 8,381,485	$ 42,584,350
2015	22,685,000	22,685,000	737,356	400,000	18,044,125	7,316,206	41,466,481
2016	22,685,000	22,685,000	736,356	415,000	16,621,856	6,294,225	40,043,212
2017	22,685,000	22,685,000	734,756	430,000	16,357,379	6,367,269	39,777,135
2018	22,685,000	22,685,000	305,556	-	15,482,068	6,025,052	38,472,624
2019	22,685,000	22,685,000	752,556	465,000	14,849,247	5,939,072	38,286,803
2020	22,685,000	22,685,000	753,956	485,000	14,912,410	6,390,631	38,351,366
2021	22,685,000	22,685,000	754,556	505,000	14,174,292	6,078,590	37,613,848
2022	22,685,000	22,685,000	754,356	525,000	13,992,722	6,301,067	37,432,078
2023	22,685,000	22,685,000	753,356	545,000	13,986,388	6,716,574	37,424,744
2024	22,685,000	22,685,000	751,556	565,000	13,514,012	6,684,502	36,950,568
2025	22,685,000	22,685,000	753,250	590,000	13,060,229	6,673,609	36,498,479
2026	22,685,000	22,685,000	753,750	620,000	13,000,617	7,056,889	36,439,367
2027	22,685,000	22,685,000	752,750	650,000	12,999,821	7,524,936	36,437,571
2028	22,685,000	22,685,000	755,250	685,000	13,617,350	8,640,462	37,057,600
2029	12,569,000	12,569,000 (3)	147,994	111,994 (3)	9,383,242	4,863,550	22,100,236
2030	-	-	-	-	10,863,167	6,767,181	10,863,167
2031	-	-	-	-	10,348,046	6,695,273	10,348,046
2032	-	-	-	-	9,210,877	6,011,330	9,210,877
2033	-	-	-	-	9,158,162	6,361,514	9,158,162
2034	-	-	-	-	8,697,915	6,332,035	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	$352,844,000	$ 352,844,000	$ 10,653,610	$ 6,991,994	$ 316,936,139	$ 168,465,303	$ 680,433,749

1. Represents loan payment obligations of the Rock Island System to the Consolidated System with respect to the intersystem loans from the Consolidated System.
2. Estimated principal retirements are based on the assumption that all bonds are called or purchased at par.
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 resolution.

Rock Island System

Operating Results and Debt Service Coverage ($000)

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

	2009	2010	2011	2012	2013
Operating revenue					
Wholesale sales (1)	$ 76,731	$ 80,413	$ 77,018	$ 87,124	$ 98,629
Other operating revenues	171	169	199	157	134
Total operating revenues	76,902	80,582	77,217	87,281	98,763
Operating expenses					
Operations & maintenance	(38,488)	(39,738)	(35,903)	(37,279)	(35,156)
Taxes	(562)	(583)	(772)	(762)	(678)
Depreciation and amortization	(10,678)	(10,744)	(10,577)	(10,518)	(11,180)
Total operating expense	(49,728)	(51,065)	(47,252)	(48,559)	(47,014)
Operating income	27,174	29,517	29,965	38,722	51,749
Adjustments					
Subtract Power Purchaser CS debt sales (2)	(17,355)	(18,672)	(19,125)	(19,242)	(18,234)
Add back depreciation and amortization	10,678	10,744	10,577	10,518	11,180
Add investment income (3)	2,523	1,971	1,966	1,430	1,524
Add CS investment income credited Power Purchasers (4)	481	480	349	132	-
Total adjustments	(3,673)	(5,477)	(6,233)	(7,162)	(5,530)
Net revenues	$ 23,501	$ 24,040	$ 23,732	$ 31,560	$ 46,219
Annual debt service					
Bonds	$ 19,576	$ 19,650	$ 19,650	$ 19,650	$ 22,685
Subordinate Bonds	2,948	3,802	3,958	962	961
Total debt service	$ 22,524	$ 23,452	$ 23,608	$ 20,612	$ 23,646
Debt service coverage					
Without available funds (required 1.00x)	1.04	1.03	1.01	1.53	1.95

1. Payments from Power Purchaser 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 through 2013 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 Consolidated 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, 2013

Twelve Months Ending Dec. 31	Bonds: Estimated Debt Service	Bonds: Estimated Principal Retirements (2)	Intersystem Loans (1): Estimated Debt Service	Intersystem Loans (1): Estimated Principal Retirements	Total Estimated Debt Service
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	$ 24,142,250	$ 14,857,550	$ 339,496,357	$ 217,928,400	$ 363,638,607

1. Represents loan payment obligations of the Rocky Reach System to the Consolidated System with respect to the intersystem loans from the Consolidated System.
2. Estimated principal retirements are based on the assumption that all bonds are called or purchased at par.
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

	2009	2010	2011	2012	2013
Operating revenue					
Wholesale sales (1)	$ 70,053	$ 74,983	$ 77,260	$ 87,284	$ 91,361
Other operating revenues	480	295	281	176	231
Total operating revenues	70,533	75,278	77,541	87,460	91,592
Operating expenses					
Operations & maintenance	(38,905)	(39,729)	(39,027)	(35,946)	(41,140)
Taxes	(1,118)	(1,048)	(1,531)	(1,522)	(1,336)
Depreciation and amortization	(17,307)	(17,477)	(16,968)	(16,942)	(16,652)
Total operating expenses	(57,330)	(58,254)	(57,526)	54,409	(59,128)
Operating income	13,203	17,024	20,015	33,051	32,464
Adjustments					
Subtract Power Purchaser CS debt sales (2)	(29,892)	(32,331)	(32,763)	(30,991)	(30,450)
Add back depreciation and amortization	17,307	17,477	16,968	16,942	16,652
Add investment income (3)	330	316	455	271	228
Add CS investment income credited Power Purchasers (4)	621	691	543	-	-
Total adjustments	(11,634)	(13,847)	(14,797)	(13,778)	(13,570)
Net revenues	$ 1,569	$ 3,177	$ 5,218	$ 19,273	$ 18,894
Annual debt service					
Bonds	$ 886	$ 2,504	$ 2,638	$ 2,641	$ 2,640
Total debt service	$ 886	$ 2,504	$ 2,638	$ 2,641	$ 2,640
Debt service coverage					
Without available funds (required 1.00x)	1.77	1.27	1.98	7.30	7.16

1. Payments from Power Purchaser 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 Consolidated 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 2,700 full time employees as of December 31, 2013.

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, 2013, PSE had approximately 1,087,000 electric customers, and approximately 779,900 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, 2013 filed on March 13, 2014 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 a global leader in lightweight metals engineering and manufacturing. Lightweight metals used in Alcoa's products include aluminum, titanium, and nickel. Alcoa's innovative, multi-material products are used worldwide in aircraft, automobiles, commercial transportation, packaging, building and construction, oil and gas, defense, consumer electronics, and industrial applications. Alcoa is also the world leader in the production and management of primary aluminum, fabricated aluminum, and alumina combined, through its active participation in all major aspects of the industry: technology, mining, refining, smelting, fabricating, and recycling. Total worldwide employment at year end 2013 was approximately 60,000 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: Alcoa's Annual Report on Form 10-K for the year ended December 31, 2013 filed on February 13, 2014 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.

2012 Fuel Mix

Generation Type	Chelan PUD*	NWPP Net System**
Biomass	0.10%	0.61%
Coal	5.74%	35.62%
Coke	0.00%	0.28%
Cogeneration	0.00%	0.00%
Geothermal	0.00%	0.00%
Hydro	91.53%	47.48%
Landfill gases	0.02%	0.15%
Natural Gas	2.00%	12.40%
Nuclear	0.42%	2.61%
Other	0.03%	0.16%
Petroleum	0.06%	0.07%
Solar	0.00%	0.00%
Waste	0.10%	0.62%
Wind	0.00%	0.00%
Total	100%	100%

*Washington State Department of Commerce
**Northwest Power Pool
(Washington, Oregon, Idaho and Montana)
Percentages are updated mid-year for the previous year.

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.

Below: General Manager Steve Wright and Entiat Mayor Keith Vrandenburg, right, at the September 2013 community celebration launching long-awaited renovations for Entiat Park.

Below: Chelan PUD line crews reconnect transmission lines as part of maintaining high-voltage equipment near Chelan.


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