CREATING VALUE

2014 ANNUAL REPORT • PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY

History

PUD created	1936
First service	1947

Average residential electric rate

(Cents/kWh)	3.2¢

Number of retail customers*

Electric	49,557
Water/sewer	6,268
Fiber end-users	12,859

Peak demand and date

464 MW	Feb. 6

Service lines

Miles	2,081

Number of employees

Dec. 31, 2014	671

Power generation (MWh)

Rocky Reach	6.35 million
Rock Island	2.81 million
Lake Chelan	0.4 million

Generating units

Rocky Reach	11
Rock Island	18
Lake Chelan	2

Generator nameplate capacity (MW)

Rocky Reach	1,300
Rock Island	629
Lake Chelan	59

District revenue

Total	$400.4 million

Returned to community

State & local taxes	$7.7 million

Bond ratings*

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

**Dec. 31, 2014*

CHELAN COUNTY
www.chelanpud.org

Vision

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

Mission

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

Our Values

SAFETY

Protect public and employee health and safety

- Safety ethic owned by all employees/ proactive in preventing injuries

STEWARDSHIP

Act on behalf of customer-owners and protecting public resources entrusted to us

- Align work with customer-owner interests
- Actions support local control, enhancing long-term value, appropriate transparency, diversity reflecting the community
- Protect and enhance natural resources affected by District activities
- Effective communication helps the Board accomplish its policy guidance function

TRUSTWORTHINESS

Show competence, integrity and respect

- Demonstrate competence in required job skills and knowledge
- Assure the District acts in accordance with applicable policies, laws and regulations
- Action that promotes community respect for the PUD
- Build long-term, collaborative relationships with customer-owners, stakeholders and employees through respectful treatment

OPERATIONAL EXCELLENCE

Deliver high-quality, innovative work

- Demonstrate proactive commitment to continuous improvement
- Instill clear accountability that leads to efficiency and high performance

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 49,000 retail customers in the county and to provide water, sewer and wholesale telecommunications services.

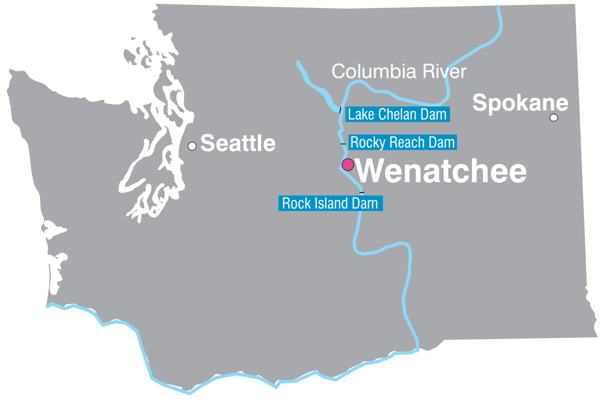
Note: The statements and information on pages 1-17 of the 2014 Annual Report are provided for general information only. They are not intended for, and should not be relied upon, for making investment decisions by current or prospective investors.

The 2014 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.

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

Chelan PUD's highest priority is keeping its core assets in top shape. Investing in our hydropower projects, distribution systems, facilities and people ensures we continue to produce clean, renewawble, carbon-free energy and create value for our customer-owners.

Chelan PUD's three dams have demonstrated for decades the value of public power and local control.



Rocky Reach Dam

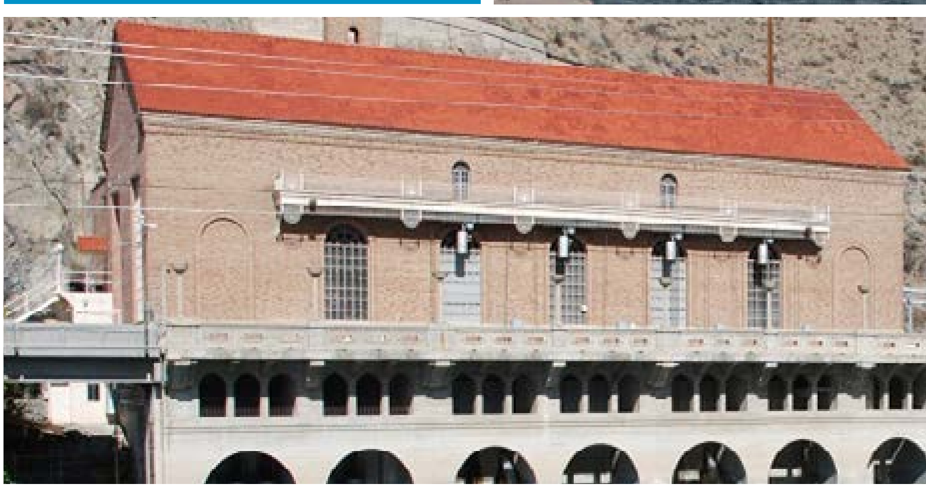
1,300 megawatt capacity*
11 generators
6.4 million megawatt hours generated

A deep look at the overall condition of the dam's four largest turbines continues before permanent repairs of a design flaw begin. The goal is that each turbine will be ready to run for another 30 years when work is complete by 2020 to return the adjustable turbine blade units to full function. Interim repairs brought the units back into service in April 2014. The dam's federal license runs through 2052.

Rock Island Dam

629 megawatt capacity*
2 powerhouses
18 generators (plus a 1,000 kW plant unit)
2.8 million megawatt hours generated

Tremendous teamwork and great thinking met the challenges to power generation and fish passage when water level downstream suddenly dropped in February 2014 due to a spillway fracture in a neighboring dam. Generation was restored in one week and rapid work to extend fishways ensured safe passage upstream for salmon and steelhead, including a record sockeye run. The dam's federal license runs through 2028.



Lake Chelan Dam

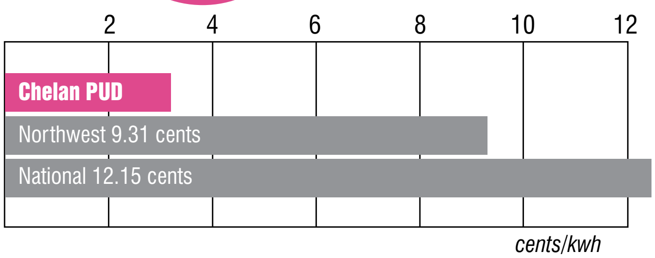
59 megawatt capacity*
2 generators
0.4 million megawatt hours generated

Chelan PUD's retail distribution system buys all the electricity produced at the Chelan Falls powerhouse. The Lake Chelan Hydro Project is licensed through 2056.

*Generator nameplate capacity

3.2¢

Average residential rate per kilowatt hour in 2014
Chelan PUD's residential rate is among the lowest in the nation

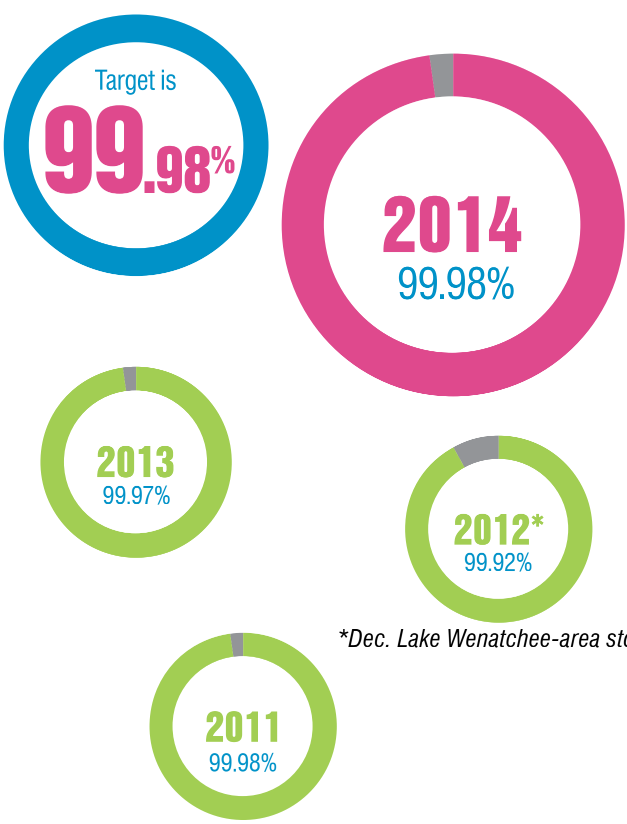


Bond ratings

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

As of Dec. 31, 2014

Electric system reliability



*Dec. Lake Wenatchee-area storm

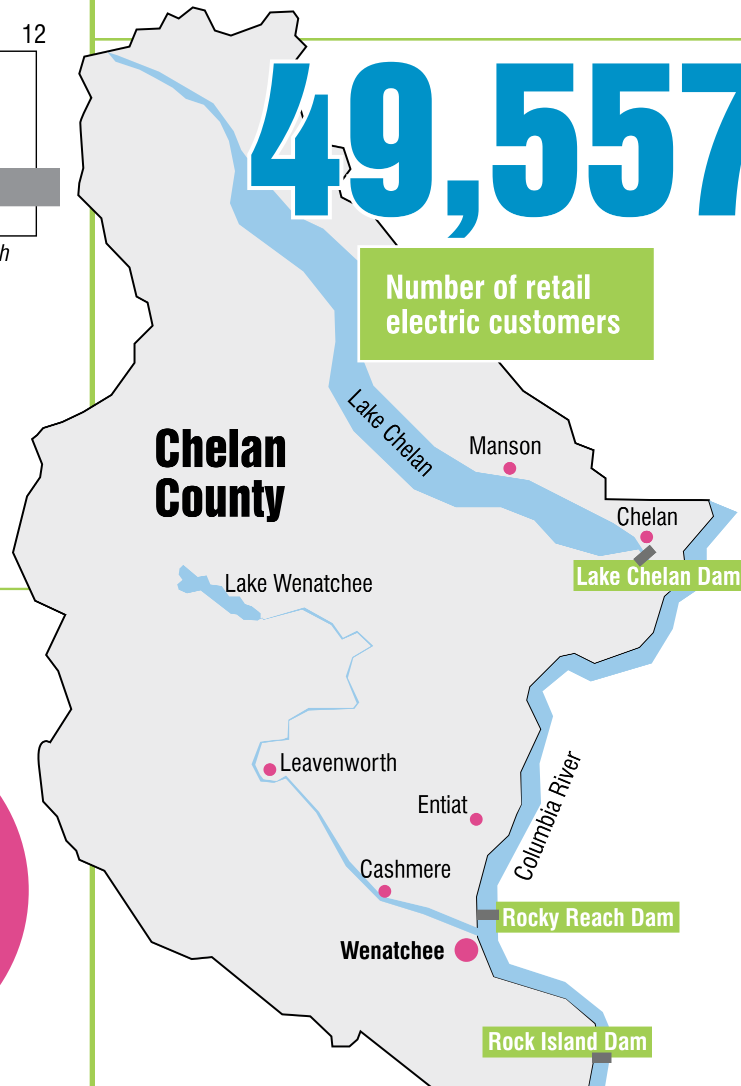
$7.7 million

Funds returned to the community in taxes

	2013	2014
State and local tax expense	$ 7,699,874	**$ 7,652,724**

49,557

Number of retail electric customers



	2013	2014
District Peak Demand (MW)	433	**464**
Peak Demand (date)	Dec. 9	**Feb. 6**
No. of employees*	657	**671**
No. of retail customers*		
Electric	48,854	**49,557**
Water/Sewer	6,184	**6,268**
Fiber end-user connections	12,434	**12,859**

As of Dec. 31, 2014

Four measurements of financial stability were developed as part of 2010 strategic planning and updated in May 2014 for the District's long-term sustainability. We achieved or exceeded all four in 2014.

Target line

Financial liquidity represents cash reserves to cover risks and provide additional financial stability

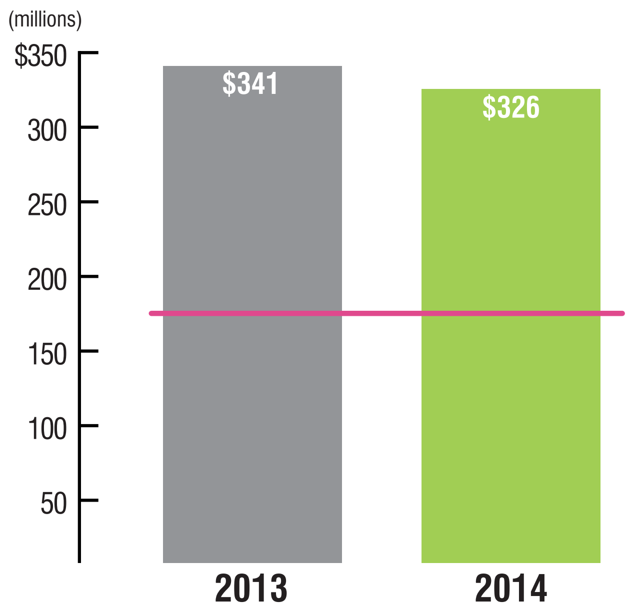
Debt ratio reflects the percentage of utility assets financed by debt

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

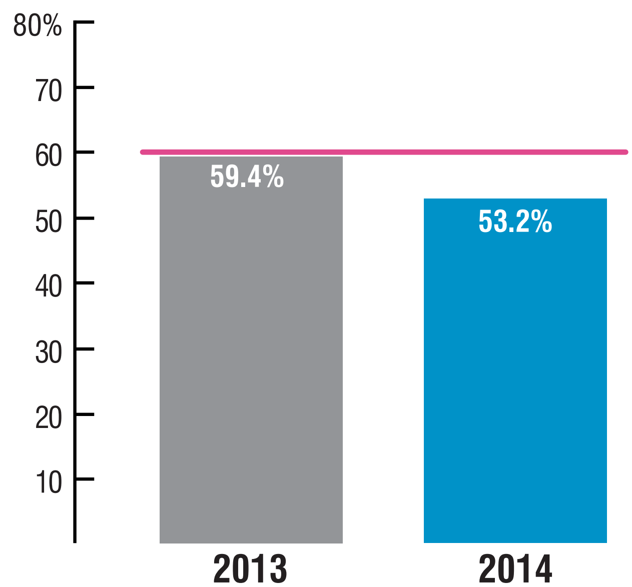
Financial liquidity

Target: Minimum of $175 million



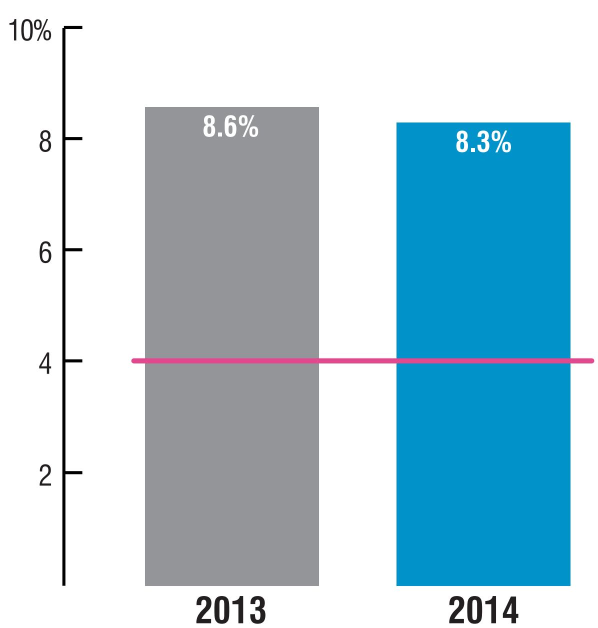
Debt ratio

Target: **Less** than 60 percent for 2014



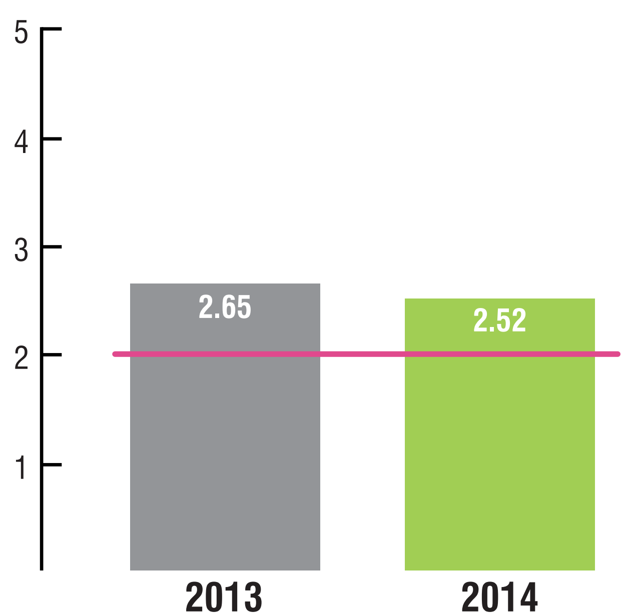
Rate of return

Target: Greater than 4 percent



Debt service coverage

Target: Greater than 2.0 (ability to repay debt)



Community shares its vision

New strategic plan focuses on investing in District's valuable dams and keeping electric rates steady

Chelan PUD asked a great deal of our customer-owners in 2014. We invited them to join us in a journey for a new, "big idea" strategic plan that would create the *best value, for the most people for the longest period of time.*

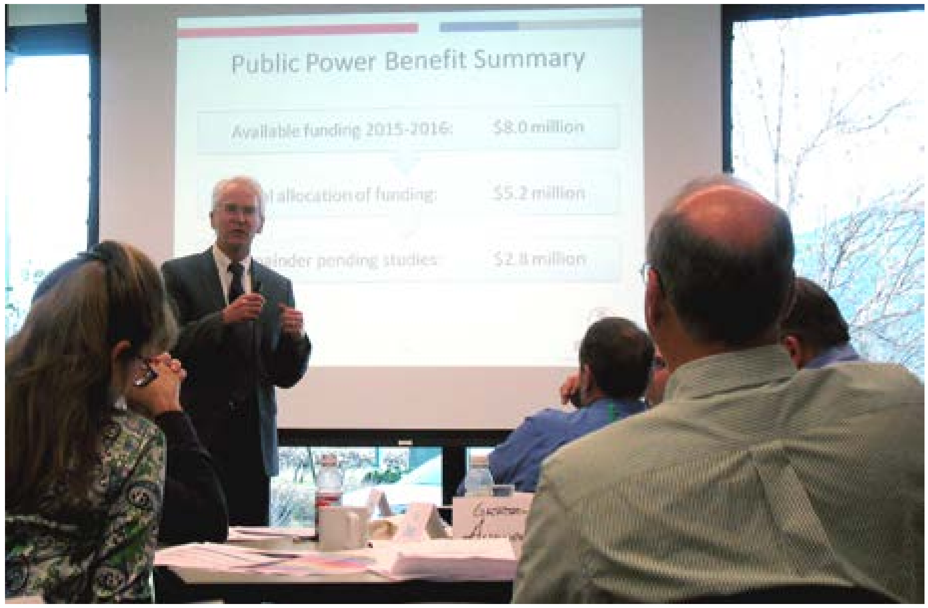
It started in June 2014 when we asked customers for recommendations on what we might do with any potential public power benefit that may result from careful management of our power sales. We turned those comments over to six Topic Teams: Fiber and Telecommunications; Water and Wastewater; Economic Development; Electrification; Parks & Recreation; and Reinvestment in the PUD.

From their hours and hours of work came 20 priority recommendations that we included in an "Owners Guide." Then we asked customers to vote on the priorities.

Although we were almost overwhelmed – some 6,000 responses – we were delighted with the participation.

The rankings indicated preferences for:

- Piloting parks and recreation spending including possible waiver of day use fees for Chelan County residents at PUD-built state parks; and study of a splash-pad feature in a District park;
- Expanding the fiber system to reach 85 percent to 90 percent of current PUD electric customers over 11 years;
- Providing capital funds for water and wastewater systems to make them more financially sustainable;
- Installing electric vehicle charging stations at PUD facilities;
- Creating an economic analysis tool to evaluate the impact of new electric loads due to new or expanding business.



General Manager Steve Wright meets with community leaders who agreed to serve as "Strategy Partners" during development of the new strategic plan.

The responses confirmed we already are blessed with a tremendous public power benefit – our very low electric utility rates. We plan to approach our current good fortune slowly – crawl before we walk, walk before we run.

And, we heard this loudly and clearly: "Before you spend a dime on any extras, take care of the basics." In our case, that means: keeping rates low; paying down debt; investing in our critical assets to catch up on deferred or delayed maintenance; and making sure we have a sufficient "rainy day" fund for the "what if" situations.

The strategic plan also lays out seven objectives for serving customer-owners and managing the core businesses. They are:

- Commit to the highest level of customer-owner satisfaction
- Invest to create long-term value for customer-owners
- Protect and enhance natural resources impacted by operations
- Ensure financial stability
- Make continuous improvement in efficient, effective, compliant and risk-assessed operations
- Enhance the capability of Chelan PUD staff
- Focus on our values in relationships with customers, stakeholders and each other.

We heard you loudly and clearly:

“Before you spend a dime on any extras, take care of the basics.”

Safety: Protecting public and employee health and safety

- Safety ethic owned by all employees/ proactive in preventing injuries

Ensuring employee and public safety was the highest priority of the District's response to the unusual river conditions that arose in late February 2014 due to discovery of a spillway fracture at a dam downstream on the Columbia River.

Line crews use fun and dramatic flair to show customers how to stay safe around electricity with this display on wheels that is always a popular attraction at community events.

There was an early start to the devastating wildfires that struck the region in 2014. Time and again employees from across the District responded by working around the clock to rebuild damaged poles and lines and restore power. And, when the firestorm of the Carlton Complex descended on our neighbors to the north, employees responded again. They collected donations for the Red Cross and crews headed out to help rebuild lines to restore electric service critical to recovery.

Public Power Week in October offers the opportunity to talk about preparing for winter storms and possible power outages. In 2014, Chelan PUD partnered with the local Red Cross chapter on workshops and an “information” treasure hunt with a family emergency backpack as the prize.

Stewardship: Acting on behalf of customer-owners and protecting public resources entrusted to us

- Align work with customer-owner interests
- Actions support local control, enhancing long-term value, appropriate transparency and reflecting the diversity of our community
- Protect and enhance the diversity of natural resources affected by District activities
- Effective communication helps the Board accomplish its policy guidance function

Chelan County PUD owns 14 parks along the Columbia River and Lake Chelan, operating seven and working with others to operate the rest. Major upgrades in 2014 included the continued renovation of Entiat Park, new playgrounds at parks in Wenatchee and the Chelan area and new docks at Lincoln Rock and Daroga state parks.

Working together with state and federal fish agencies and two Northwest tribes under innovative Habitat Conservation Plans for Rocky Reach and Rock Island dams, Chelan PUD has achieved the goal that these dams have **no net impact** on the salmon and steelhead migrating past.

Mule deer find critical winter and early spring range in Chelan PUD's 960-acre wildlife preserve in the foothills west of Wenatchee. The area also is popular with hikers and mountain bicyclists. Chelan PUD collaborates with neighboring landowner, the Chelan-Douglas Land Trust, on an annual winter closure (Dec. 1 - March 31) of the trail that crosses the preserve to protect deer and other wildlife.

Customers taking advantage of energy-efficiency programs saved more than 13 million kilowatt hours of electricity in 2014 – enough to serve about 504 Chelan County homes. The savings helped Chelan County PUD surpass its mandated 2014 conservation target by 40 percent.

Trustworthiness: Working with skill, integrity and respect

- Demonstrate competence in required job skills and knowledge
- Assure the District acts in accordance with applicable policies, laws and regulations
- Promote actions that result in community respect for the PUD
- Build long-term, collaborative relationships with customer-owners, stakeholders and employees through respectful treatment

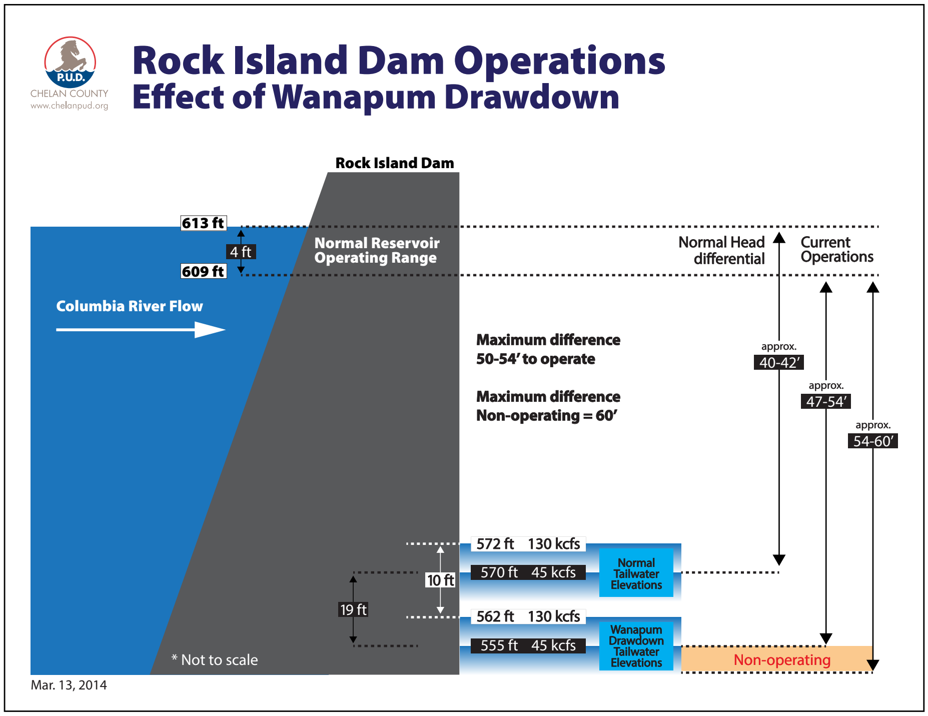
Jeff Osborn and Irene Godfrey celebrate Public Power Week in October 2014 at Wenatchee's popular Pybus Public Market, by getting to know customers and sharing information about the utility's programs including fish protection.

Helping people understand Chelan PUD's role in permits for development along the Columbia River shore is just one of the goals of new land management plans for the Rock Island and Rocky Reach reservoirs. An open house offered customers and interested people the opportunity to get questions answered one-on-one, by PUD employees including Michelle Smith, license and compliance manager, at left.

Operational Excellence: Using innovative and high-quality methods

- Demonstrate proactive commitment to continuous improvement
- Instill clear accountability that leads to efficiency and high performance

Customers enthusiastically responded to the convenience of getting their bill by email with the Powerpay service. Roxanne Cates of Wenatchee pushed the District past the 10,000-mark by signing up in early November 2014. Powerpay helps customers save time and money by using email billing. Chelan PUD also saves money on billing costs. Each 1,000 customers enrolled in email billing saves the District about $6,480 a year on printing, handling and mailing bills. It also saves paper and supports operating in a sustainable manner.



A deep look at the overall condition of the turbines in the large units at Rocky Reach Dam is underway before permanent repairs start to assure that each of the four turbines will be ready to run for another 30 years following work to restore the moveable turbine blade capability. PUD employees are leading the holistic design review. Based on initial results, the Board of Commissioners in September 2014 agreed to permanent repairs that are expected to increase value for PUD customer-owners. Interim repairs returned the units to service after a crack was discovered in the stainless steel servomotor shaft of unit C10 in 2013. The four units are of similar design. Permanent repairs are set to start in summer 2015.

With skill, innovative thinking and dedication Chelan PUD employees developed a safe and effective response to the unusual Columbia River conditions that arose in late February 2014 at Rock Island Dam due to discovery of a spillway fracture in Wanapum Dam downstream on the Columbia River.

Working under the Incident Command System, employees from across the District managed impacts on power generation, irrigation, recreation and fish passage when the Wanapum reservoir was lowered 26 feet to ease pressure on that dam's spillway.

Chelan PUD employees worked around the clock until conditions at Rock Island Dam stabilized and power generation was restarted within a week.

In the months that followed, Chelan PUD continued to work with irrigators and boaters affected by lower reservoir levels between Rock Island and Rocky Reach dams. Adult and juvenile fish migration was successful, as extensions were added to fish ladder entrances at Rock Island Dam. The ramp was extended to reopen the boat launch at Kirby Billingsly Hydro Park. In March 2015, river levels above Wanapum Dam were raised to normal levels.

Rocky Reach large turbine

Working together to deliver great value to our customers

Public power works best when we work together. The proof of that is in what was accomplished in 2014 under our mission to provide affordable, sustainable, reliable utility services that enhance the quality of life in Chelan County.

Dedication to carrying out the financial objectives of the current strategic plan brought down long-term debt by another $82 million in 2014 and increased the bottom line by $2 million more than budget.

2014 Board of Commissioners, from left: Dennis Bolz, Carnan Bergren, Norm Gutzwiler, Ann Congdon and Randy Smith. Gutzwiler retired in December 2014 after serving 12 years.

Strong finances

The District met or exceeded the financial stability measurements developed for the current strategic plan. Those targets addressed:

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

We achieved the debt ratio target of less than 60 percent. In 2014 the Board set a target debt ratio of less than 35 percent by 2019. We are on track to meet that goal.

The decision to move ahead with permanent repairs to the four largest turbines at Rocky Reach Dam 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.

Looking ahead

As we turned to developing our plan for the next five years and beyond, we were honored and excited by the response from customer-owners when we asked how their public utility could help improve the future quality of life in our county.

We received more than 6,000 responses from customer-owners who accepted our invitation to join us on a journey for a new, "big idea" strategic plan to create the best value, for the most people for the longest period of time. We are mindful that customers want us to keep our focus on the "basics" before considering spending on those new ideas. To us that means keep rates low; pay down debt; invest in our critical assets to catch up on maintenance; and make sure we have a "rainy day" fund for "what if" situations.

As we do that, and if our bottom line stays positive, the plan outlines a new "public power benefit" for cautious spending based on customer responses to options for: parks and recreation; water and wastewater; fiber; electrification; economic development and reinvestment in the PUD.

It is important to note that the plan also recognizes the best way to provide public power benefits to all customer-owners is through low rates and high reliability.

Working together

Collaboration, communication and strong connections with our customers and community members all contributed to Chelan PUD's success in 2014. We also rely on those attributes as we start work on the objectives in our new strategic plan.

We are proud of what the dedicated men and women of Chelan County PUD accomplished in 2014.

Commissioner Garry Arseneault was elected in November 2014 to fill the seat of retiring Commissioner Norm Gutzwiler, joining the board in January 2015.

Steve Wright
General Manager

A valuable response

Challenge and Opportunity. That is a good characterization of 2014 for Chelan County Public Utility District.

We ended 2013 facing major repairs to our four large generating units at Rocky Reach Dam. An incredible team of engineers and mechanics were able to bring the units back into service in a fixed-blade configuration that would allow continued operation until a permanent fix to the existing design flaw can be completed. We anticipate all four units back at full capacity by 2020.

The bigger challenge for us in 2014 was the evolving situation at Wanapum Dam after the discovery of a spillway pier fracture in February. We spent a good part of the year responding to impacts on Rock Island Dam and the Rock Island reservoir due to a lower Wanapum reservoir. Public and employee safety was our number one concern. I am pleased to report that we had no reportable incidents and no damage to our operating units. The hard work and dedication of our workforce resulted in minimal impact on fish, recreation, cultural resources and our irrigators. In fact, we successfully managed record fish returns and a record fruit crop, and we were able to have near-normal recreational activities on the reservoir.

And the truly remarkable occurrence for the District in 2014 can only be categorized as one of tremendous opportunity – for our customer-owners and for the PUD itself. Why? It came in the form of our strategic planning process and the response of our community. It can be described in one word. Phenomenal.

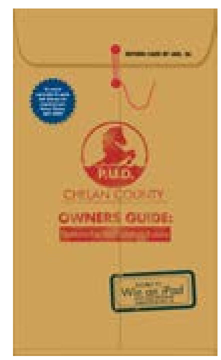
In June we invited the community to join us on a journey of discovery. How could we create the best value, for the most people, for the longest period of time? At every opportunity we asked the community for feedback on their ideas for how we, the PUD, might provide for some quality of life benefits from anticipated public power revenues. The caveat was, however, that we must:

- Reinvest in our core, value-creating assets; the hydropower projects, distribution systems, facilities and people; and
- Substantially reduce debt

By taking care of those key elements first, some potential revenues might be available for additional community investments.

We were truly overwhelmed by the response. Not only did we receive a tremendous number of comments and ideas to consider, we had dozens of customers from around the county spend countless hours with us to go through those comments and come up with a set of 20 recommendations that we took back out to the community to give us their priorities.

A whopping 6,000 responses were received to what we called an "Owners Guide."



Not only is this a caring and engaged community, it is one that has demonstrated their faith and trust in us to deliver value to them and that we will protect and preserve the assets and resources that they have entrusted to us.

So, yes, 2014 dished up many challenges for us, and we met them head on. It also was an incredibly bright and invigorating year for us to seize the potential that is ahead of us. We look forward to our new challenges and opportunities eagerly and enthusiastically.

Senior Management Team: Managing directors, from left: John Stoll, Customer Utilities; Kelly Boyd, chief financial/chief risk officer; Gregg Carrington, Energy Resources; General Manager Steve Wright; Kirk Hudson, Generation and Transmission; Lorna Klemanski, Human Resources, Labor and Safety; Erik Wahlquist, general counsel; Mike Coleman, Fiber and Telecommunications; and Jeff Smith, District Services.

Chelan PUD shares information and gets to know customer-owners (present and future) across the county (clockwise from the top): At community meetings; with the help of the AppleSox mascot; at Rocky Reach Dam and Visitor Center; and at the new playground in the PUD's Walla Walla Point Park in Wenatchee.

Caring for the natural resources touched by our utility operations includes PUD parks that connect people with nature (Lake Chelan at top) and inviting customer-owners and travelers to tour and enjoy Rocky Reach Dam and Visitor Center (left and above right).

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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, 2014 and December 31, 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

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, 2014 and December 31, 2013, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

The accompanying management's discussion and analysis on pages 21 through 28 and the Schedule of Funding Progress for Postretirement Health Benefits Program on page 55 are required by accounting principles generally accepted in the United States of America 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 an 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 audits 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 an opinion on the financial statements referred to above. 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. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information referred to above is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The supplementary information presented as continuing disclosure is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

PricewaterhouseCoopers LLP

Portland, Oregon
April 20, 2015

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, 2014 and 2013. 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 April 2014, the last of Rocky Reach Dam's four large units was returned to service as part of a long-term repair plan after discovering a design flaw in 2013. In 2013, Chelan County PUD officials took four of the 11 generating units at the dam out of service 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. The root cause investigation revealed a design flaw, and temporary repairs were made to all four units to return them to service as fixed-blade turbines. Commissioners agreed to long-term repairs to restore the moveable turbine blade capability and make other repairs expected to extend the life of the equipment for at least another 30 years. Overall cost including new design, engineering and repairs is currently forecast at $42 million to $45 million over six years. These costs address a multitude of repair and enhancement opportunities identified through extensive engineering analysis and observation. There is insurance for portions of the damage and lost revenue, and power purchasers will pay about half of the remaining costs. Costs to the District are estimated at $12 million to $15 million. The work is expected to generate $12 million to $63 million in value to PUD customer-owners as a return on the investment. 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 2020. The repairs and the lost production time are not expected to have an effect on District rates. The District has in place effective risk management plans. The hedging program, real-time agreement, long-term contracts, insurance program and strong financial policies have significantly reduced the impact to the District from events such as this.

- In February 2014, the District was notified by its neighbor, Grant County PUD, that its Wanapum Dam, located approximately 36 miles downstream from the District's Rock Island Dam, had a fracture in one of the spillway piers and that it was necessary to draw down the Wanapum reservoir to reduce the volume of water and pressure on the upriver side of the dam. This allowed engineers to inspect the dam and assess the damage. To avoid potential catastrophic damage to Rock Island Dam due to the difference between the head water and tail water at the dam, operations were shut down for several days in March until river conditions were stabilized and power generation was restarted. The work at Grant County PUD is expected to continue into the first quarter of 2015; however, enough of the installations were completed to partially raise the level of the reservoir behind the dam in the fourth quarter of 2014 which allowed near-normal operation of Rock Island.

- Fish passage was a priority for the District after realizing that the drawdown related to the fracture at Grant County PUD's Wanapum Dam would impact fish passage. Adult fish migration begins in early spring at Rock Island Dam. In an effort to ensure safe passage of the returning salmon and steelhead during the Wanapum drawdown condition, the District decided to add temporary extensions to fish ladders to ensure access for fish migrating upstream later in the season when flows were lower. Results confirmed that the modifications to Rock Island Dam's fish ladders allowed safe passage for upstream migrating adult salmon and steelhead. Normal fish counts demonstrated that the salmon were able to successfully navigate the modified ladder and migrate upstream.

- The District takes the energy-saving targets, under the state's Energy Independence Act (also known as I-937) as a minimum target, and our goal is to save even more energy. These savings are beneficial for not only program participants, but also for all customers since the energy that is saved is sold on the wholesale market, helping to support low, stable electric rates. There has been a great response by customer-owners to the rebates offered by the District on energy efficient appliances, heat pumps, windows, insulation and LED lighting. By the end of December 2014, the District had achieved 1.49 average megawatts (aMW), well above the 1.08 aMW target for 2014 and is well on the way to achieving the two-year target of 2.08 aMW.

- The District continued its aggressive debt repayment plan and repaid another $82 million in debt during 2014. Part of the payment closed out the District's lowest-rated bond lien, issued during the market turmoil of 2008-2009. The District's strong reserves offered the opportunity to pay down debt ahead of forecasts. Debt reduction is a top priority in the District's strategic planning for long-term financial stability.

- In December 2014, District commissioners placed a moratorium on accepting applications for electric service for new large loads that would require power of 1 average megawatt (aMW) or more at a single location. The number of inquiries received in 2014 about electric service for 1 aMW or more was unprecedented and would have represented possible new load of 220 aMW. One megawatt serves about 417 average homes in Chelan County. Load increases of this magnitude have substantial policy, operational and cost implications for all customer-owners. The moratorium won't affect normal load growth, such as requests to serve new subdivisions, stores, schools, medium-size fruit warehouses or manufacturing firms. All of those typically use less than 1 aMW. Putting a temporary hold on accepting new applications for electric service from customers seeking 1 aMW or more will provide time to finish strategic planning, as well as to evaluate the impacts on the District's power system.

- In February 2015, the District's revenue bond rating of Aa3 was reaffirmed by Moody's with a stable outlook. According to Moody's, the rating is supported by the District's highly competitive hydro generation, strong liquidity position, low retail rates and long-term contracts. Additionally, the outlook is supported by the District's targeted debt reduction plans, forecasted high liquidity, expected strong debt service coverage ratios and the District's continuation of strong risk management.

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 $88 million in 2014 despite the operating challenges of the Wanapum fracture and Rocky Reach large unit repairs, demonstrating the effectiveness of risk management plans and strong financial policies. The increase is primarily due to continued strong operating results stemming from the District's hedging program, real-time agreement and long-term power sales contracts. The hedging program requires locking in predictable revenue through the sale of excess energy under both forward block transactions and slice contracts and is proving to be successful at providing rate stability and meeting financial goals. Other factors that contributed to the favorable results included expenses below budget combined with continued debt reduction that lowered interest expense.

The District's total net position increased by $92 million in 2013. The increase is due primarily to a combination 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. 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.

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

CONDENSED COMPARATIVE FINANCIAL INFORMATION

(amounts in millions)	2014	2013	2012*	Increase (Decrease) 2014 – 2013
Current assets	$ 166	$ 199	$ 196	$ (33)
Net utility plant	1,067	1,073	1,092	(6)
Other non-current assets	374	317	309	57
Deferred outflows of resources	11	14	16	(3)
Total assets	1,618	1,603	1,613	15
Current liabilities	138	151	96	(13)
Long-term debt	673	732	858	(59)
Other liabilities	129	135	163	(6)
Total liabilities	940	1,018	1,117	(78)
Deferred inflows of resources	32	27	30	5
Invested in capital assets, net of related debt	336	264	237	72
Restricted	155	142	116	13
Unrestricted	155	152	113	3
Total net position	$ 646	$ 558	$ 466	$ 88

*The District's 2012 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 Liabilities," 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.

(amounts in millions)	2014	2013	2012*	Increase (Decrease) 2014 – 2013
Operating revenues	$ 400	$ 362	$ 322	$ 38
Less				
Operating expenses	283	229	203	54
Other (income) and expenses	34	44	44	(10)
Net income before capital contributions	83	89	75	(6)
Capital contributions	5	3	3	2
Change in net position	88	92	78	(4)
Total net position – beginning of year	558	466	388	92
Total net position – end of year	$ 646	$ 558	$ 466	$ 88

ASSETS

Current assets decreased by $33 million in 2014, primarily due to the District's aggressive debt repayment program partially offset by the District's positive operating results. While short-term cash and investment balances were down, contributing to the decrease in current assets, this was offset by the increase in long-term investments that is reflected in the increase in other non-current assets. The District is holding longer term investments as a result of changes in investment strategies to optimize returns.

On the other hand, current assets increased by $3 million in 2013, primarily due to the District holding larger balances in investments with a maturity of less than 12 months.

As of December 31, 2014, the District had approximately $1.1 billion invested in a variety of capital assets (see Note 3.) Net utility plant decreased $6 million in 2014. Additional investments in utility plant assets, including significant additions related to hydro fisheries and hatchery projects and hydro modernization projects at Rocky Reach and Rock Island, were more than offset by the cumulative effect of 12 months' worth of depreciation.

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 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.

Other noncurrent assets, which includes noncurrent restricted assets and other assets, increased $57 million in 2014 primarily as a result of an increase in restricted cash and investment balances resulting from positive operating results and continued accumulation of capital recovery and debt repayment funds under the Distict's long-term power sales contracts. Capital recovery and debt repayment funds will be used for future capital investment and debt repayment at the District's hydro projects.

Other noncurrent assets increased $8 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.

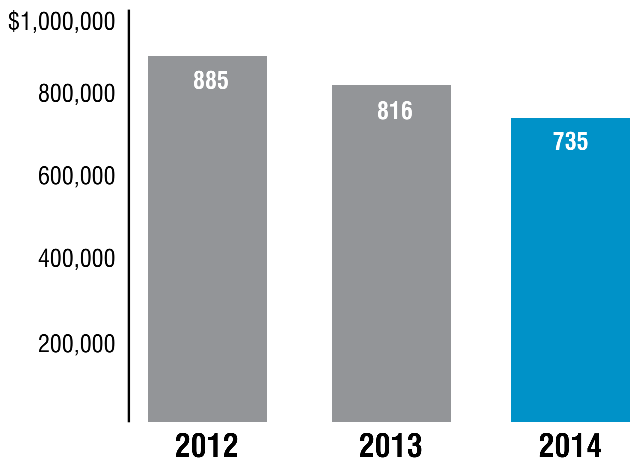
Deferred outflows of resources decreased $3 million and $3 million in 2014 and 2013, respectively, primarily due to monthly amortization of losses on refunding debt.

LIABILITIES

Current liabilities decreased $13 million in 2014, primarily as a result of a decrease in the current portion of long-term obligations offset somewhat by an increase in accounts payable. The decrease in the current portion of long-term obligations is due primarily to changes in regularly scheduled repayments of bond principal on existing debt compared to the prior year. Accounts payable increased primarily due to a combination of increased balances for secondary power purchases needed to balance load and resource positions and collateral collected and being held in relation to forward sales with various counterparties.

Current liabilities increased $55 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 million maturity of 5 year notes during 2014.

Total Debt Outstanding
(amounts in millions)



Total debt outstanding decreased by $82 million in 2014 due to scheduled maturities. This contributed to the $59 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 2014.

Total debt outstanding decreased by $69 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 $126.0 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.

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

Other liabilities decreased by $6 million and by $28 million in 2014 and 2013, respectively, 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 increased $5 million in 2014 due to a combination of increases in the fair market value of the District's forward purchase agreement and increases in the fair value of investments compared to the prior year.

Deferred inflows of resources decreased $3 million in 2013 due to a reduction in the fair value of derivative instruments compared to the prior year.

NET POSITION

Invested in capital assets, net of related debt, increased $72 million and $27 million in 2014 and 2013, respectively. The increase in 2014 reflects a reduction in debt primarily as a result of regularly scheduled repayments of bond principal on existing debt combined with a scheduled $29 million maturity of 5-year notes. 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. Restricted net position represents resources that are subject to external restrictions, such as bond covenants or third-party contractual agreements. Restricted net position increased $13 million and $26 million in 2014 and 2013, respectively, primarily due to the accumulation of funds under long-term power sales contracts that are restricted 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 2014, unrestricted net position increased approximately $3 million due primarily to the retention of a portion of the District's positive earnings as restricted assets or invested in capital assets being deployed primarily for debt reduction and investment in capital assets.

In 2013, unrestricted net position increased approximately $39 million 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

Wholesale sales increased $33 million in 2014 compared to 2013 primarily due to increased block sales resulting from further implementation of the District's power hedging strategy. The program is designed to reduce wholesale revenue uncertainty and provide more rate stability and certainty for District programs.

Purchased power costs increased $41 million in 2014 compared to 2013 primarily due to further implementation of the District's power hedging strategy and balancing system loads and resources with increased challenges due to turbine repairs and the Wanapum reservoir drawdown.

Other income and expenses, which included net interest expense and income, decreased by $10 million, primarily as a result of decreased interest on long-term debt due to reduced debt balances combined with decreased loss on disposition of property. The prior year balance was made up primarily of losses on the early retirement of debt and impairment losses on the Rocky Reach and Rock Island attraction water turbines. There were no comparable losses in 2014.

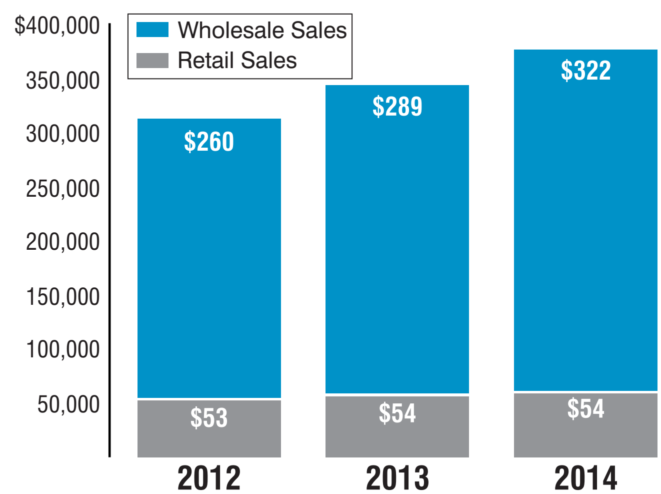
Net income before capital contributions decreased by $6 million compared to 2013 primarily due to a decrease in generation due to lower water conditions compared to 2013 and increased purchased power costs mentioned above. Capital contributions increased slightly from 2013 to 2014.

In 2013, retail sales increased $1 million compared to 2012, as a result of an increase to more "normal" usage levels. Wholesale sales increased $29 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 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 $26 million higher in 2013, but below budget, primarily as a result of the increase in purchased power costs.

Net income before capital contributions improved by $14 million in 2013 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.

Wholesale/Retail Revenues
(amounts in millions)



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.

Now that Chelan County PUD has achieved the financial targets set during strategic planning in 2010, commissioners have looked ahead to future measurements to make sure District finances remain sound through 2019 and beyond. In May 2014, commissioners updated financial targets for 2015-2019 to reflect the accomplishment of meeting the 2010 strategic plan targets.

Reducing long-term debt remains a high priority for PUD customer-owners and it improves three of the four financial measurements while maintaining strong reserves. The District's strong reserves offer the continued opportunity to pay down debt ahead of forecasts in the next five years and beyond. Benefits of this approach include helping to maintain low electric rates, while offering flexibility in paying for ongoing operating costs.

Forecasts show PUD finances are expected to meet the revised targets for liquidity, rate of return, debt leverage and debt coverage for the next five years and beyond under most circumstances. On the key measurement of debt leverage, commissioners targeted 35 percent by 2019. Looking ahead, the District's finances are expected to remain solid, providing the funds needed to meet customer priorities to:

- Keep rates affordable
- Save for a rainy day
- Continue to pay down debt
- Maintain dams, power lines and equipment to provide reliable service

As we update our strategic plan for 2015 and beyond, we intend to keep our utility on a path toward optimizing value for our customer-owners. In June 2014, the Board of Commissioners launched a community conversation called Our Public Power: the Next Generation. The conversation is meant to give as many of our county's residents as possible a chance to influence the future we all share.

Through the end of 2014, we reached out to engage our customer-owners in an in-depth conversation about the priorities of our utility. We will then create a framework for delivering value back to the county in a manner that targets the highest priorities of our customer-owners that are balanced with our long-term financial stability.

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.

Statements of Net Position
December 31, 2014 and 2013

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES (amounts in thousands)	**2014**	**2013**
Current Assets		
Cash and cash equivalents	$ 55,086	$ 30,408
Investments	56,475	117,114
Accounts receivable, net	26,112	21,535
Accrued interest receivable	1,244	1,544
Materials and supplies	11,798	10,621
Prepayments and other	1,244	1,403
Current portion of regulatory assets	2,978	3,558
	154,937	186,183
Restricted Assets - Current		
Cash and cash equivalents	5,439	2,733
Investments	5,574	10,030
	11,013	12,763
Total Current Assets	165,950	198,946
Utility Plant		
In service, at original cost	1,921,034	1,893,749
Construction work in progress	25,551	17,301
Less-accumulated depreciation	(879,984)	(837,788)
	1,066,601	1,073,262
Restricted Assets - Noncurrent		
Cash and cash equivalents	20,963	10,454
Investments	139,499	129,355
	160,462	139,809
Other Assets		
Long-term receivables, net	1,555	1,146
Long-term investments	157,503	120,926
Regulatory assets, net	43,786	46,984
Derivative instrument asset	6,861	3,850
Other	3,935	3,962
	213,640	176,868
Total Assets	1,606,653	1,588,885
Deferred Outflows of Resources		
Losses on refunding debt	11,475	13,638
Total Assets and Deferred Outflows of Resources	$ 1,618,128	$ 1,602,523

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (amounts in thousands)	**2014**	**2013**
Current Liabilities		
Current portion of long-term obligations	$ 73,195	$ 97,448
Current portion of unearned wholesale power sales	8,166	8,138
Accounts payable	30,608	16,688
Accrued taxes	4,435	4,823
Accrued interest	9,772	11,460
Accrued vacation and other	12,533	12,189
	138,709	150,746
Long-Term Debt		
Revenue bonds and notes payable, less current portion	672,798	731,650
Other Liabilities		
Unearned wholesale power sales revenue, less current portion	101,603	108,290
Long-term contract customer deposit	18,500	18,500
Licensing obligation, less current portion	8,096	8,146
Other liabilities	537	405
	128,736	135,341
Total Liabilities	940,243	1,017,737
Deferred Inflows of Resources		
Derivatives	6,861	3,850
Regulatory liabilities	24,898	22,946
	31,759	26,796
Commitments and Contingencies (see Note 12)		
Net Position		
Invested in capital assets, net of related debt	336,002	263,767
Restricted	155,012	142,196
Unrestricted	155,112	152,027
	646,126	557,990
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 1,618,128	$ 1,602,523

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, 2014 and 2013

(amounts in thousands)	2014	2013
Operating Revenues		
Retail sales	$ 53,846	$ 53,555
Wholesale sales	321,691	288,722
Other operating revenues	24,851	19,830
	400,388	362,107
Operating Expenses		
Purchased power and water	97,636	57,109
Generation	77,567	68,281
Utility services	40,055	37,628
Taxes	7,654	7,700
Depreciation and amortization	48,408	48,373
Other operation and maintenance	11,464	9,657
	282,784	228,748
Operating Income	117,604	133,359
Other Income (Expense)		
Interest on long-term debt	(35,117)	(38,775)
Amortization of losses on refunding debt	(2,162)	(3,483)
Investment income	4,545	3,696
Regulatory asset amortization - swap termination fees	(3,150)	(4,218)
Other	1,790	(2,062)
	(34,094)	(44,842)
Income before Capital Contributions	83,510	88,517
Capital Contributions	4,626	3,481
Change in Net Position	88,136	91,998
Total Net Position		
Beginning of year	557,990	465,992
Total Net Position		
End of year	$ 646,126	$ 557,990

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

Statements of Cash Flows

For the years ended December 31, 2014 and 2013

(amounts in thousands)	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 389,817	$ 354,438
Payments to suppliers	(147,926)	(109,066)
Payments to employees	(76,777)	(72,862)
Insurance proceeds	1,739	-
Net cash provided by operating activities	166,853	172,510
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to plant	(38,414)	(30,409)
Proceeds from sale of plant	1,391	162
Principal paid on debt	(95,662)	(83,481)
Interest paid on debt	(22,788)	(25,093)
Capital contributions	3,700	2,915
Other	(1,419)	(14,973)
Net cash used by capital and related financing activities	(153,192)	(150,879)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(190,723)	(229,544)
Proceeds from sales and maturities of investments	212,083	127,776
Interest on investments	5,212	3,991
Long-term receivables	191	265
Other, net	(2,531)	530
Net cash provided by (used in) investing activities	24,232	(96,982)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	37,893	(75,351)
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	43,595	118,946
CASH & CASH EQUIVALENTS, END OF YEAR	$ 81,488	$ 43,595
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 117,604	$ 133,359
Depreciation and amortization	48,408	48,373
(Increase) decrease in operating assets:		
Accounts receivable, net	(4,577)	355
Materials and supplies	(1,177)	288
Prepayments	159	(575)
Other	112	(1,319)
Increase (decrease) in operating liabilities:		
Accounts payable	10,846	(1,824)
Accrued taxes	(388)	453
Accrued vacation and other	344	363
Unearned wholesale revenue	(6,687)	(6,963)
Customer deposits	2,209	-
Net cash provided by operating activities	$ 166,853	$ 172,510
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Construction costs included in accounts payable	$ 3,074	$ 1,205
Capital contributions	570	-
Amortization of regulatory assets	(635)	(565)

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

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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. 67, "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25," GASB Statement No. 69, "Government Combinations and Disposal of Government Operations" and GASB Statement No. 70, "Accounting and Reporting for Nonexchange Financial Guarantees" were all effective for the District beginning in fiscal year 2014. 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.

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 $2.5 million in 2014 and $2.6 million in 2013. 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-plus based, including debt service costs.

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, 2014, 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, 2014, the District had four significant customers (greater than 10% of operating revenues,) collectively comprising total revenue of $218 million. The District had three significant customers for the year ended December 31, 2013, collectively comprising total revenue of $173 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 District's 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 2014 and 2013 the District recognized non-operating revenues of $585,000 and $580,000, 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 hedge expected forward surplus power and balance the District's anticipated power resources and demand for those power resources, the District enters into forward physical power sales and purchase agreements.

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 wholesale 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.

In addition to the forward trading horizon of 60 months beyond the current year, the District's Board of Commissioners approved a resolution on February 8, 2014 authorizing the General Manager or his designee to enter into one or more transactions for the forward sale of energy and capacity and associated environmental attributes not to exceed 10% of the output of Rocky Reach and Rock Island for a term up to fifteen years in duration with the delivery to begin within six years of execution. To date, the District has not executed any transactions that fall under the before-mentioned resolution.

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 or when deemed necessary to facilitate trading, 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 unless the counterparty holds a senior unsecured credit rating of A+ from at least one of the nationally recognized rating agencies. For the higher rated counterparties, the District does 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 2013 and 2014 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 $106,000 and $264,000 at December 31, 2014 and 2013, 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 20, 2015, 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, 2014, and events which occurred subsequent to December 31, 2014, 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, 2014 and 2013, 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)		2014		2013
Unrestricted assets				
Unrestricted	$	85,816	$	82,769
Board designated		183,248		185,679
Total unrestricted assets		269,064		268,448
Restricted assets		171,475		152,572
	$	440,539	$	421,020

As of December 31, 2014 and 2013, the District had the following cash and investments:

(amounts in thousands) Investment Type		Fair Value 2014	Investment Maturities (in Years) Less than 1		1 - 2		3 – 4		More than 4
U.S. Treasuries	$	209,076	$ 49,230	$	978	$	24,906	$	133,962
U.S. Agency Notes		53,034	23,919		-		-		29,115
Commercial Paper		12,986	12,986		-		-		-
Municipal Bonds		83,955	16,420		24,701		10,915		31,919
State Investment Pool		-	-		-		-		-
Certificates of Deposit		-	-		-		-		-
Cash Deposits		81,488	81,488		-		-		-
	$	440,539	$ 184,043	$	25,679	$	35,821	$	194,996

(amounts in thousands) Investment Type		Fair Value 2013	Investment Maturities (in Years) 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		-		-		-
Certificates of Deposit		17,500	17,500		-		-		-
Cash Deposits		43,590	43,590		-		-		-
	$	421,020	$ 227,818	$	76,086	$	25,648	$	91,468

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 limits direct investments in securities to those with maturities of five years or less unless matched to a specific cash flow, or as designated in specific bond resolutions 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 issuer; 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, 2014 and 2013, investments in debt securities had credit quality ratings as follows:

Investment Rating (S&P) (amounts in thousands)	**2014**	**2013**
Long Term		
AAA	$ 12,869	$ 15,652
AA+	30,406	18,199
AA	33,215	34,286
AA-	7,466	5,918
Short Term		
A-1+	12,987	-
	$ 96,943	$ 74,055

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 state or local government bonds are limited to no more than 5% of the District's total investment portfolio; bankers' acceptances are limited to no more than $5 million by institution. 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, 2014 and 2013, 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 2014**	**2013**
Federal Home Loan Bank	AA+	8%	7%
Federal Farm Credit Bank	AA+	4%	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, 2014, are provided below.

Forward Purchase Agreements

Counterparty	Credit Rating by Moody's/S&P/Fitch	Guaranteed Yield	Notional Amount	Effective Date	Maturity	12/31/14 Fair Value	12/31/13 Fair Value
Wells Fargo Bank, N.A.	Aa3/AA-/AA-	6.63%	$ 18,820,179	12/21/1999	6/1/2029	$ 6,861,000	$ 3,850,000

As of December 31, 2014 and 2013, 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, 2014 and 2013. 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, 2014 and 2013 is as follows:

(amounts in thousands)	January 1, 2014	Additions	Reductions and Transfers	December 31, 2014	Depreciation Expense
Hydroelectric generation	$ 1,200,237	$ 8,715	$ (1,707)	$ 1,207,245	$ 26,958
Transmission	145,569	2,545	(487)	147,627	2,882
Distribution	222,503	7,276	(1,412)	228,367	6,052
General plant	124,934	6,961	(2,088)	129,807	4,553
Intangible	34,456	5,253	-	39,709	769
Telecommunications	88,868	1,943	(735)	90,076	5,597
Water/ Wastewater	77,182	1,090	(69)	78,203	1,597
	1,893,749	33,783	(6,498)	1,921,034	48,408
Construction work in progress	17,301	40,678	(32,428)	25,551	
Accumulated depreciation	(837,788)	(48,398)	6,202	(879,984)	
	$ 1,073,262	$ 26,063	$ (32,724)	$ 1,066,601	

(amounts in thousands)	January 1, 2013	Additions	Reductions and Transfers	December 31, 2013	Depreciation Expense
Hydroelectric generation	$ 1,194,184	$ 7,134	$ (1,081)	$ 1,200,237	$ 26,931
Transmission	139,437	6,295	(163)	145,569	2,942
Distribution	213,715	9,710	(922)	222,503	5,835
General plant	122,012	4,150	(1,228)	124,934	4,539
Intangible	34,001	455	-	34,456	759
Telecommunications	87,767	1,101	-	88,868	5,522
Water/ Wastewater	75,164	2,018	-	77,182	1,570
	1,866,280	30,863	(3,394)	1,893,749	48,098
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	

Plant assets include land of $71.6 million and $71.5 million as of December 31, 2014 and 2013, 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 keep 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 2020. The seven additional generating units at Rocky Reach do not have a similar design and will continue to operate.

The District maintains mechanical breakdown and business interruption insurance policies. Each generating unit has a separate $500,000 deductible for mechanical breakdown claims. Lost revenues related to business interruption are covered from the date of outage for the first Rocky Reach unit and after 60 days out of service for the three subsequent units. The District's insurance company is paying both mechanical breakdown and business interruption claims for the first unit. A determination of coverage for the three additional units will be made once the units are disassembled for permanent repairs.

As of December 31, 2014, the District has received $1,139,000 and $600,000 under the mechanical breakdown and business interruption policies, respectively. Included in 2014 "Other operating revenues" is $961,000 for mechanical breakdown claims related to repairs expense incurred in 2013 and lost revenues related to business interruption as a result of outages of the first unit. Mechanical breakdown claims received in the amount of $778,000 were recorded to operating expense under "Other operation and maintenance" in order to offset the covered repairs expense incurred during 2014.

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.

NOTE 4: LICENSING

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

The Rock Island Project license contains various operational requirements and environmental protections. Primary measures include continuation of the Habitat Conservation Plan (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. The HCP provides a framework for long-term resolution of certain fish issues at the projects. 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 as operating expenses in the year incurred.

The license for the Lake Chelan Project 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 implementation of detailed management plans for fish, operations, wildlife, shoreline erosion, water quality, cultural and recreation resources over the life of the license. In addition, 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 estimated to be $10.5 million and $9.9 million as of December 31, 2014 and 2013, respectively. The estimate for these funding obligations may increase by measures that are deferred to later years due to inflationary adjustments and may be reduced by measures that are completed.

A summary of accrued licensing obligations, accounted for as intangible assets, for the years ended December 31, 2014 and 2013 are as follows:

(amounts in thousands)	2014	2013
Licensing obligation - beginning of year	$ 9,902	$ 9,902
Additions	791	455
Reductions	(208)	(455)
Licensing obligation - end of year	$ 10,485	$ 9,902

The District's Rocky Reach Project 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 requires implementation of 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 as operating expenses 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.

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.

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, 2014 and 2013.

(amounts in thousands)	2014	2013
Regulatory Assets:		
Swap termination payments	$ 27,480	$ 30,630
Conservation expenses	6,876	4,921
Debt issuance costs	9,097	10,629
Fair Value of Investments	3,311	4,362
	$ 46,764	$ 50,542
Regulatory Liabilities:		
Contributed Capital	$ 21,913	$ 22,267
Fair Value of Investments	2,985	679
	$ 24,898	$ 22,946

NOTE 6: LONG-TERM DEBT

Revenue Bonds and Notes Payable

(amounts in thousands)	January 1, 2014	Additions	Reductions	December 31, 2014	Due Within One Year
Rocky Reach Revenue Bonds, 5%, due July 1, 2015, to July 1, 2034 (net unamortized premiums of $344)	$ 16,277	$ -	$ (1,878)	$ 14,399	$ 425
Rock Island Revenue Bonds, 4% to 6.05%, due June 1, 2015, to July 1, 2029 (net unamortized premiums of $43)	252,100	14,018	(22,693)	243,425	23,085
Notes Payable, 0.5% to 2.0%, due June 1, 2015, to June 1, 2031	39,493	-	(29,950)	9,543	806
Chelan Hydro Consolidated System Revenue Bonds, 5.125%, due July 1, 2015	25,430	-	-	25,430	25,430
Consolidated System Revenue Bonds, 1.867% to 6.897%, due July 1, 2015, to July 1, 2042 (net unamortized premiums of $8,840)	494,041	16	(43,250)	450,807	21,060
	$ 827,341	$ 14,034	$ (97,771)	$ 743,604	$ 70,806

(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 July 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

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

Principal and Interest

(amounts in thousands)	Principal	Interest	Estimated Debt Service
2015	$ 70,806	$ 19,190	$ 89,996
2016	40,796	17,127	57,923
2017	49,738	16,376	66,114
2018	52,768	15,372	68,140
2019	57,478	14,236	71,714
2020-2024	279,154	51,235	330,389
2025-2029	224,856	17,268	242,124
2030-2034	63,593	7,950	71,543
2035-2039	13,500	3,580	17,080
2040-2042	8,370	1,155	9,525
Total	$ 861,059	$ 163,489	$1,024,548

Estimated principal retirements are based on the assumption that all bonds are called or purchased at par. Principal retirements of $861.1 million also include $126.4 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, 2014, were issued as variable rate bonds and have a reset of interest rates every seven days. The original standby bond purchase agreement (the "Credit Facility") associated with the bonds 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, 2014, 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 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, 2014 and 2013, the District was in compliance with all debt covenants.

NOTE 7: PURCHASED POWER SUPPLY

A significant portion of the electric distribution system power is purchased from the District's Hydro projects on a cost-plus basis. Of the total kilowatt-hours purchased by the electric distribution system during 2014, approximately 31% was provided by the Rocky Reach project, 13% by the Rock Island project, 4% by the Lake Chelan project and 52% from other sources. This purchased power is used to meet local load requirements, meet certain contractual obligations, and support the District's hedging strategy.

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.

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; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent 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 Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to 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. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. 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.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, 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 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit 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 benefit amount is 2 percent of the AFC for each year of service reduced by 2 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 amount (based on the Consumer Price Index), capped at 3 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 2 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 a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or 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 credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 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 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 2014, PERS Plan 3 employee contributions were $105.2 million, and plan refunds paid out were $81.9 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, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Nonvested	101,191
Total	368,272

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, 2014, are as follows:

Members Not Participating in JBM:

	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.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

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

**Plan 3 defined benefit portion only.

***Minimum rate.

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
2014	$ 70,471	$ 4,537,679	$ 890,660
2013	$ 74,074	$ 3,817,918	$ 757,580
2012	$ 75,356	$ 3,274,334	$ 668,408

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, 2014 and 2013, were $1.7 million and $1.6 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 2014 and 2013 premiums for eligible retired plan members and their spouses amounted to $106,000 and $116,000, respectively. Plan members receiving benefits contributed 78% and 77% of the premium costs for years 2014 and 2013, respectively. For the years ended December 31, 2014 and 2013, total member contributions were $374,000 and $394,000, 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, 2014 and December 31, 2013. As a result, the District's annual OPEB cost and net OPEB obligation were zero as of both December 31, 2014 and December 31, 2013.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2008 through 2014 were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/14	$ -	0%	$ -
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, 2014 and 2013, the plan was fully funded. The covered payroll (annual wages of active employees covered by the plan) was $53.7 million and $50.2 million for 2014 and 2013, 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, 2014 and 2013, 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 2014	Rock Island 2014	Rocky Reach 2013	Rock Island 2013
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current assets	$ 10,271	$ 7,691	$ 11,168	$ 8,805
Restricted assets – current	257	7,222	17	9,366
Total Current Assets	10,528	14,913	11,185	18,171
Utility plant, net	324,868	315,844	332,621	321,017
Restricted assets – noncurrent	39,101	73,563	35,120	58,617
Other Assets	6,433	21,005	5,807	17,445
Deferred outflows of resources	-	3,085	1	3,299
Total assets and deferred outflows of resources	$ 380,930	$ 428,410	$ 384,734	$ 418,549
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Current liabilities	$ 25,443	$ 35,324	$ 24,275	$ 35,176
Long-term debt	196,682	348,578	218,136	367,366
Other liabilities	9,594	10,554	10,105	10,921
Total liabilities	231,719	394,456	252,516	413,463
Deferred inflows of resources	228	27,444	-	24,765
Net Position:				
Invested in capital assets, net of related debt	310,388	82,805	320,569	86,758
Restricted	39,596	81,003	31,690	63,297
Unrestricted	(201,001)	(157,298)	(220,041)	(169,734)
Total net position	148,983	6,510	132,218	(19,679)
Total liabilities, deferred inflows of resources and net position	$ 380,930	$ 428,410	$ 384,734	$ 418,549

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(amounts in thousands)	Rocky Reach 2014	Rock Island 2014	Rocky Reach 2013	Rock Island 2013
Operating revenues	$ 93,115	$ 106,006	$ 91,592	$ 98,763
Less:				
Operating expenses	44,415	43,038	42,475	35,834
Depreciation and amortization	16,512	10,904	16,652	11,180
Operating income	32,188	52,064	32,465	51,749
Other expense	13,809	25,822	15,536	28,091
Income before capital contributions and interfund equity transfers	18,379	26,242	16,929	23,658
Capital contributions	-	555	-	523
Interfund equity transfers	(1,614)	(608)	-	(5,264)
Change in net position	16,765	26,189	16,929	18,917
Total net position – beginning of year	132,218	(19,679)	115,289	(38,596)
Total net position - end of year	$ 148,983	$ 6,510	$ 132,218	$ (19,679)

CONDENSED STATEMENTS OF CASH FLOWS

(amounts in thousands)	Rocky Reach 2014	Rock Island 2014	Rocky Reach 2013	Rock Island 2013
Net cash provided (used) by:				
Operating activities	$ 48,048	$ 61,173	$ 47,482	$ 61,450
Capital and related financing activities	(45,735)	(51,664)	(36,403)	(49,527)
Investing activities	2,333	(1,798)	(17,764)	(20,963)
Net increase	4,646	7,711	(6,685)	(9,040)
Beginning cash and cash equivalents	5,299	7,065	11,984	16,105
Ending cash and cash equivalents	$ 9,945	$ 14,776	$ 5,299	$ 7,065

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, 2014 and 2013 is summarized in the following table for each insurance program:

	Property & Liability	Workers Compensation	Medical & Health	Dental
Claims Liability as of January 1, 2014	$ -	$ 100,000	$ 1,519,000	$ 145,000
Claims accrued	-	682,350	11,450,893	958,769
Claims paid	-	(678,350)	(11,200,893)	(956,769)
Claims Liability as of December 31, 2014	$ -	$ 104,000	$ 1,769,000	$ 147,000

	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 as of December 31, 2013 and 2014.	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, 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 WQ standards 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.

Asset Management Program

During 2005, the District entered into a contract to rehabilitate the first of up to six generating units at Powerhouse 1 at Rock Island. The first two units (B9 & B10) were completed under the contract for unit rehabilitation. In 2010, in response to economic conditions affecting the District, it was decided that the District defer the rehabilitation of several units until the units began to experience failure or were declared unavailable due to operational concerns. Since 2010, and after an in-depth economic analysis, it was recommended that it was in the best interest of the District to proceed with rehabilitation of units B5 through B8. The contract price for the third unit (B6) is $16.8 million. As of December 31, 2014, the remaining commitment totaled approximately $15.7 million.

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. The original contract was later amended for a total cost of $5.6 million. As of December 31, 2014, the remaining construction commitment totaled approximately $3.4 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. The original contract was later amended for a total cost of $6.2 million. As of December 31, 2014, the remaining construction commitment totaled approximately $358,000.

During 2014, the District entered into a $21.8 million contract for turbine repairs for the four largest units at Rocky Reach, units C-8 through C-11. Components of turbine runners have failed and need repair. Runner repair will require disassembly of the turbine and work on associated turbine parts to return the units to reliable service. Plans are to do the long-term repairs on one unit per year starting in 2015 through 2020. As of December 31, 2104, the remaining commitment totaled approximately $21.6 million.

Power Marketing

As of December 31, 2014, the District had entered into forward block contracts obligating it to deliver approximately 7,624,400 MWh of energy at various times during each of the years in the period 2015-2019. The District expects to receive approximately $309.4 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 each of the years in the period 2015-2019, in exchange for approximately $246.6 million.

The District has committed to purchase approximately 3,108,700 MWh of energy at a cost of approximately $91.8 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.

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 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 $558,000 as of December 31, 2014, all 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 received a 12.5% share of the total project output up to a maximum of 7.96 MW. As of December 31, 2014, the District's share of bond principal was $6.0 million and was not to exceed $7.5 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)	2014	2013
Operating revenues		
Wholesale fiber services	$ 5,986	$ 5,393
Fiber leasing	525	532
Intradistrict revenues	2,404	2,361
Total operating revenues	8,915	8,286
Operating expenses		
Administrative and general	1,568	1,593
Repairs and maintenance	1,850	2,140
Other operating	2,354	2,076
Depreciation expense	5,686	5,642
Total operating expense	11,458	11,451
Operating loss	(2,543)	(3,165)
Other (income)/expenses	(50)	16
Net loss before capital contributions	(2,493)	(3,181)
Capital contributions	209	299
Change in net position	$ (2,284)	$ (2,882)

Following is a summary of the District's fiber-optic Statements of Net Position as of December 31, 2014 and 2013.

(amounts in thousands)	2014	2013
ASSETS		
Current assets	$ 5,517	$ 5,100
Utility plant, net and other assets	48,221	50,431
Total assets	$ 53,738	$ 55,531
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Total liabilities	$ 967	$ 478
Deferred inflows of resources	2	-
Net position	52,769	55,053
Total liabilities, deferred inflows of resources and net position	$ 53,738	$ 55,531

The District's net capital investment in telecommunications plant and equipment for 2014 and 2013 was $1.2 million and $760,000, respectively. The District's cumulative capital investment in telecommunications plant and equipment as of December 31, 2014, was $91.7 million. The capital investment, as well as cumulative net losses, was funded by interfund equity transfers.

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%

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Combining Schedule of Revenues, Expenses and Changes in Net Position

For the year ended December 31, 2014, with comparative totals for December 31, 2013

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions(1)	2014	2013
Operating Revenues									
Retail sales	$ -	$ -	$ -	$ 54,782	$ -	$ -	$ (936)	$ 53,846	$ 53,555
Wholesale sales	92,554	105,806	13,270	225,653	8,557	-	(124,149)	321,691	288,722
Other operating revenues	561	200	721	31,129	-	17,504	(25,264)	24,851	19,830
	93,115	106,006	13,991	311,564	8,557	17,504	(150,349)	400,388	362,107
Operating Expenses									
Purchased power and water	-	-	-	219,381	-	-	(121,745)	97,636	57,109
Generation	43,080	42,462	5,648	-	-	-	(13,623)	77,567	68,281
Utility services	-	-	-	54,270	-	-	(14,215)	40,055	37,628
Other operation and maintenance	-	-	-	-	-	12,230	(766)	11,464	9,657
Taxes	1,335	576	93	5,650	-	-	-	7,654	7,700
Depreciation and amortization	16,512	10,904	1,864	16,113	-	3,015	-	48,408	48,373
	60,927	53,942	7,605	295,414	-	15,245	(150,349)	282,784	228,748
Operating Income	32,188	52,064	6,386	16,150	8,557	2,259	-	117,604	133,359
Other Income (Expense)									
Interest on long-term debt	(741)	(14,355)	-	(56)	(20,154)	-	189	(35,117)	(38,775)
Interest on intersystem loans	(13,467)	(11,033)	(3,790)	(319)	30,360	(1,562)	(189)	-	-
Amortization of losses on refunding debt	(1)	(214)	-	-	(1,947)	-	-	(2,162)	(3,483)
Investment income	395	1,767	68	1,549	568	198	-	4,545	3,696
Regulatory asset amortization - swap termination fees	-	-	-	-	(3,150)	-	-	(3,150)	(4,218)
Other	5	(1,987)	(752)	3,721	886	(83)	-	1,790	(2,062)
	(13,809)	(25,822)	(4,474)	4,895	6,563	(1,447)	-	(34,094)	(44,842)
Income before Capital Contributions & Interfund Equity Transfers	18,379	26,242	1,912	21,045	15,120	812	-	83,510	88,517
Capital Contributions	-	555	-	4,071	-	-	-	4,626	3,481
Interfund Equity Transfers	(1,614)	(608)	-	-	2,222	-	-	-	-
Change in Net Position	16,765	26,189	1,912	25,116	17,342	812	-	88,136	91,998
Total Net Position Beginning of year	132,218	(19,679)	18,429	385,998	35,639	5,385	-	557,990	465,992
Total Net Position End of year	$ 148,983	$ 6,510	$ 20,341	$ 411,114	$ 52,981	$ 6,197	$ -	$ 646,126	$ 557,990

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, 2014, with comparative totals for December 31, 2013

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions(1)	2014	2013
CURRENT ASSETS									
Cash and cash equivalents	$ 2,070	$ 2,254	$ 1,678	$ 37,809	$ 7,863	$ 3,412	$ -	$ 55,086	$ 30,408
Investments	2,119	2,314	1,721	38,761	8,062	3,498	-	56,475	117,114
Accounts receivable, net	2,998	2,524	18	20,567	-	5	-	26,112	21,535
Accrued interest receivable	131	189	20	532	301	71	-	1,244	1,544
Materials and supplies	2,407	-	-	9,063	-	328	-	11,798	10,621
Prepayments and other	517	383	70	269	-	5	-	1,244	1,403
Current portion of unearned regulatory assets	29	27	-	51	2,865	6	-	2,978	3,558
	10,271	7,691	3,507	107,052	19,091	7,325	-	154,937	186,183
RESTRICTED ASSETS - CURRENT									
Cash and cash equivalents	127	3,567	1	499	-	1,245	-	5,439	2,733
Investments	130	3,655	-	512	-	1,277	-	5,574	10,030
	257	7,222	1	1,011	-	2,522	-	11,013	12,763
TOTAL CURRENT ASSETS	10,528	14,913	3,508	108,063	19,091	9,847	-	165,950	198,946
UTILITY PLANT									
In service, at original cost	610,410	571,225	122,009	522,146	-	95,244	-	1,921,034	1,893,749
Construction work in progress	8,578	6,484	7	10,453	-	29	-	25,551	17,301
Less-accumulated depreciation	(294,120)	(261,865)	(28,228)	(229,407)	-	(66,364)	-	(879,984)	(837,788)
	324,868	315,844	93,788	303,192	-	28,909	-	1,066,601	1,073,262
RESTRICTED ASSETS - NONCURRENT									
Cash and cash equivalents	7,748	8,955	10	3,809	441	-	-	20,963	10,454
Investments	31,353	64,608	37	16,223	23,718	3,560	-	139,499	129,355
	39,101	73,563	47	20,032	24,159	3,560	-	160,462	139,809
OTHER ASSETS									
Long-term receivables, net	-	-	-	1,555	-	-	-	1,555	1,146
Long-term investments	5,907	6,453	4,799	108,105	22,484	9,755	-	157,503	120,926
Regulatory assets, net	474	3,981	-	7,238	32,050	43	-	43,786	46,984
Derivative instrument asset	-	6,861	-	-	-	-	-	6,861	3,850
Other	52	3,710	5	15,517	-	7	(15,356)	3,935	3,962
	6,433	21,005	4,804	132,415	54,534	9,805	(15,356)	213,640	176,868
TOTAL ASSETS	380,930	425,325	102,147	563,702	97,784	52,121	(15,356)	1,606,653	1,588,885
DEFERRED OUTFLOWS OF RESOURCES									
Losses on refunding debt	-	3,085	-	-	8,390	-	-	11,475	13,638
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 380,930	$428,410	$ 102,147	$ 563,702	$ 106,174	$ 52,121	$ (15,356)	$1,618,128	$1,602,523

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)	2014	2013
CURRENT LIABILITIES									
Current portion of long-term obligations	$ 18,645	$ 30,153	$ 6,183	$ 1,023	$ 15,834	$ 1,357	$ -	$ 73,195	$ 97,448
Current portion of unearned wholesale power sales	652	641	-	6,248	625	-	-	8,166	8,138
Accounts payable	4,979	3,712	316	15,330	75	6,196	-	30,608	16,688
Accrued taxes	1,415	669	99	1,783	-	469	-	4,435	4,823
Accrued interest	351	169	-	25	9,227	-	-	9,772	11,460
Intersystem payables (receivables)	(653)	(78)	(422)	7,850	-	(6,697)	-	-	-
Accrued vacation and other	54	58	5	106	-	12,310	-	12,533	12,189
	25,443	35,324	6,181	32,365	25,761	13,635	-	138,709	150,746
LONG-TERM DEBT									
Revenue bonds and notes payable	14,399	243,425	-	9,544	476,236	-	-	743,604	827,341
Intersystem loans payable (receivable)	200,928	135,306	71,320	3,820	(445,011)	33,637	-	-	-
Less-current maturities	(18,645)	(30,153)	(3,794)	(1,023)	(15,834)	(1,357)	-	(70,806)	(95,691)
	196,682	348,578	67,526	12,341	15,391	32,280	-	672,798	731,650
OTHER LIABILITIES									
Unearned wholesale power sales revenue, less current portion	9,594	10,017	-	87,777	9,571	-	(15,356)	101,603	108,290
Long-term contract customer deposit	-	-	-	18,500	-	-	-	18,500	18,500
Licensing obligation, less current portion	-	-	8,096	-	-	-	-	8,096	8,146
Other liabilities	-	537	-	-	-	-	-	537	405
	9,594	10,554	8,096	106,277	9,571	-	(15,356)	128,736	135,341
TOTAL LIABILITIES	231,719	394,456	81,803	150,983	50,723	45,915	(15,356)	940,243	1,017,737
DEFERRED INFLOWS OF RESOURCES									
Derivatives	-	6,861	-	-	-	-	-	6,861	3,850
Regulatory liabilities	228	20,583	3	1,605	2,470	9	-	24,898	22,946
	228	27,444	3	1,605	2,470	9	-	31,759	26,796
TOTAL NET POSITION	148,983	6,510	20,341	411,114	52,981	6,197	-	646,126	557,990
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 380,930	$ 428,410	$ 102,147	$ 563,702	$ 106,174	$ 52,121	$ (15,356)	$1,618,128	$1,602,523

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

Combining Schedule of Cash Flows

For the year ended December 31, 2014, with comparative totals for December 31, 2013

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions(1)	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers	$ 91,597	$ 104,725	$ 13,994	$ 304,269	$ 7,934	$ 17,500	$ (150,202)	$ 389,817	$ 354,438
Payments to suppliers	(21,954)	(21,002)	(2,986)	(243,025)	(5)	(9,903)	150,949	(147,926)	(109,066)
Payments to employees	(22,734)	(22,550)	(3,257)	(27,886)	-	(350)	-	(77,777)	(72,862)
Insurance proceeds	1,139	-	-	600	-	-	-	1,739	-
Net cash provided by operating activities	48,048	61,173	7,751	33,958	7,929	7,247	747	166,853	172,510
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Additions to plant	(9,223)	(5,614)	(495)	(16,325)	-	(6,757)	-	(38,414)	(30,409)
Additions to pooled assets	143	128	12	-	-	(283)	-	-	-
Proceeds from sale of plant	304	42	-	1,027	-	18	-	1,391	162
Principal (paid) on debt & intersystem loans	(23,303)	(33,882)	(3,717)	(2,137)	(30,513)	(2,110)	-	(95,662)	(83,481)
Interest paid on debt & intersystem loans	(13,544)	(10,654)	(3,795)	1,794	8,560	(5,149)	-	(22,788)	(25,093)
Capital contributions	-	28	-	3,672	-	-	-	3,700	2,915
Other	(112)	(1,712)	(758)	1,314	105	(109)	(147)	(1,419)	(14,973)
Net cash used in capital and related financing activities	(45,735)	(51,664)	(8,753)	(10,655)	(21,848)	(14,390)	(147)	(153,192)	(150,879)
CASH FLOWS FROM INVESTING ACTIVITIES									
Investments, net	1,893	(3,730)	1,549	(1,422)	14,942	8,128	-	21,360	(101,768)
Interest on investments	440	1,800	76	1,783	889	224	-	5,212	3,991
Long-term receivables	-	-	-	191	-	-	-	191	265
Other, net	-	132	-	(2,063)	-	-	(600)	(2,531)	530
Net cash provided by (used in) investing activities	2,333	(1,798)	1,625	(1,511)	15,831	8,352	(600)	24,232	(96,982)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	4,646	7,711	623	21,792	1,912	1,209	-	37,893	(75,351)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,299	7,065	1,066	20,325	6,392	3,448	-	43,595	118,946
CASH & CASH EQUIVALENTS, END OF YEAR	$ 9,945	$ 14,776	$ 1,689	$ 42,117	$ 8,304	$ 4,657	$ -	$ 81,488	$ 43,595

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)	2014	2013
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES									
Operating income	$ 32,188	$ 52,064	$ 6,386	$ 16,150	$ 8,557	$ 2,259	$ -	$ 117,604	$ 133,359
Depreciation and amortization	16,512	10,904	1,864	16,113	-	3,015	-	48,408	48,373
(Increase) decrease in operating assets:									
Accounts receivable, net	(665)	(789)	3	(3,121)	-	(5)	-	(4,577)	355
Materials and supplies	(250)	-	-	(931)	-	4	-	(1,177)	288
Prepayments	(173)	(126)	(28)	(94)	-	580	-	159	(575)
Other	-	-	-	112	-	-	-	112	(1,319)
Increase (decrease) in operating liabilities:									
Accounts payable	1,675	500	(218)	7,914	(4)	979	-	10,846	(1,824)
Accrued taxes	(69)	(74)	(3)	(331)	-	89	-	(388)	453
Accrued vacation and other	(659)	(807)	(253)	1,737	-	326	-	344	363
Unearned wholesale revenue	(511)	(499)	-	(5,800)	(624)	-	747	(6,687)	(6,963)
Customer deposits	-	-	-	2,209	-	-	-	2,209	-
Net cash provided by operating activities	$ 48,048	$ 61,173	$ 7,751	$ 33,958	$ 7,929	$ 7,247	$ 747	$ 166,853	$ 172,510
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES									
Construction costs included in accounts payable	(166)	290	-	2,796	-	154	-	3,074	1,205
Capital contributions	-	-	-	570	-	-	-	570	-
Amortization of regulatory assets	-	-	-	(635)	-	-	-	(635)	(565)

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

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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.
2009C & D	U.S. Bank N.A.
2011A, B & C	U.S. Bank N.A.
Rocky Reach Hydroelectric System:	
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 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

Calendar Year	2010	2011	2012	2013	2014
Requirements (000 MWh) (1)	4,160	5,662	9,062	8,372	10,155
Resources (000 MWh)					
Rocky Reach System (2)(3)	1,883	3,086	5,280	3,080	3,103
Rock Island System (3)	1,283	1,619	2,171	1,544	1,319
Lake Chelan System	417	480	425	444	426
Other purchases (4)	577	477	1,186	3,304	5,307
	4,160	5,662	9,062	8,372	10,155
Purchased Power Costs ($000)					
Rocky Reach System (2)(3)	$ 30,668	$ 37,112	$ 69,860	$ 45,858	$ 46,451
Rock Island System (2)(3)	40,206	38,509	60,495	49,592	53,109
Lake Chelan System	10,198	11,430	11,640	11,931	13,270
Other purchases (4)	22,880	14,429	32,417	63,698	106,239
	$ 103,952	$ 101,480	$ 174,412	$ 171,079	$ 219,069
Average cost ($/MWh) (5)	$ 25	$ 18	$ 19	$ 20	$ 22

1. Net of timing differences and losses. Year 2012 requirements were restated for Douglas County PUD power, slice and real-time activities and to correct an entry error.
2. 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.
3. Prior to 2013, contractual power sales to Alcoa were accounted for in the Distribution Division.
4. 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.
5. 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.

Calendar Year	2010	2011	2012(1)	2013	2014
Customers					
Retail:					
Residential	35,687	35,806	36,057	36,402	37,047
Commercial	6,074	6,092	6,133	6,182	6,246
Industrial	31	30	31	31	31
Irrigation, frost, lighting	5,710	5,708	5,690	5,683	5,673
Interdepartmental	549	537	552	556	560
Total retail customers	48,051	48,173	48,463	48,854	49,557
Resale:	73	78	79	84	85
Total customers	48,124	48,251	48,542	48,938	49,642
Energy Sales (000 MWh)					
Retail:					
Residential	738	776	762	788	782
Commercial	447	470	466	474	482
Industrial	296	284	273	272	252
Irrigation, frost, lighting	40	41	42	42	46
Interdepartmental	19	19	22	24	23
Total retail sales	1,540	1,590	1,565	1,600	1,585
Resale:					
Alcoa Power (2)	1,341	1,622	2,138	59	69
Douglas County PUD	140	231	404	345	363
Other - firm/slice	19	586	2,059	2,114	1,945
Other - non firm/block/preschedule/real time	1,187	1,733	2,995	4,190	6,224
Total sales for resale	2,687	4,172	7,596	6,708	8,601
Total energy sales	4,227	5,762	9,161	8,308	10,186
Revenue ($000)					
Retail:					
Residential	$ 25,132	$ 26,560	$ 24,520	$ 25,178	$ 25,068
Commercial	16,687	17,468	15,860	16,083	16,391
Industrial	6,246	6,089	5,502	5,490	5,154
Irrigation, frost, lighting	1,719	1,688	1,589	1,651	1,656
Interdepartmental	583	583	664	697	669
Total retail revenue	50,367	52,388	48,135	49,099	48,938
Resale:					
Alcoa Power (2)	24,740	24,340	39,394	1,899	2,808
Douglas County PUD	2,074	2,395	4,231	4,532	4,980
Other - firm/slice	771	19,402	65,866	78,527	76,136
Other - non firm/block/preschedule/real time	43,358	47,863	88,066	94,646	127,052
Total resale revenue	70,943	94,000	197,557	179,604	210,976
Other revenue (3)	1,511	2,791	12,996	25,064	30,943
Total revenue	$ 122,821	$ 149,179	$ 258,688	$ 253,767	$ 290,857

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

Distribution Division
Five Largest Local Wholesale Purchasers and Major Retail Customers 2014 (1)

Customer	Business	Energy Sales (000 MWh)	Revenue from Energy Sales ($000)	Percent of Distribution's Total Revenue
Douglas County PUD	Electric Utility	363	$ 4,980	1.7%
Alcoa Power	Aluminum Mfg.	69	2,808	1.0%
Stemilt Growers Inc	Agriculture	59	1,207	0.4%
Trout Inc.	Agriculture	37	748	0.3%
Confluence Health	Health Care	27	573	0.2%
		555	$ 10,316	3.6%

1. Excludes non firm sales for resale.

Distribution Division
Statement of Revenues and Expenses ($000)

Calendar Year	2010	2011	2012	2013	2014
Operating revenues					
Retail	$ 50,367	$ 52,388	$ 48,135	$ 49,099	$ 48,938
Resale (1)	70,943	94,000	197,557	179,604	210,976
Other (2)	1,511	2,791	12,996	25,064	30,943
Total	122,821	149,179	258,688	253,767	290,857
Operating expenses (1)	141,310	141,117	225,856	225,796	277,795
Net operating (loss) revenue	(18,489)	8,062	32,832	27,971	13,062
Other income (expense)	4,584	4,016	(2,744)	907	1,966
Net (loss) revenue (3)	$ (13,905)	$ 12,078	$ 30,088	$ 28,878	$ 15,028

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	2010	2011	2012	2013	2014
Rocky Reach System					
Operating expenses (1)	$ 40,777	$ 40,558	$ 37,467	$ 42,476	$ 44,415
Debt service: (2)					
Hydro issues	2,633	2,628	-	-	-
Consolidated System loans	33,021	33,381	-	-	-
Depreciation and amortization (2)	-	-	16,942	16,652	16,512
Interest expense	-	-	16,133	15,194	14,209
Other (revenue) expense (3)(4)(10)	(1,448)	(2,172)	(886)	111	(960)
Total power cost (5)	$ 74,983	$ 74,395	$ 69,656	$ 74,433	$ 74,176
Net power delivered (000 MWh)	4,862	7,125	7,082	6,219	6,216
Cost in $/MWh	$ 15	$ 10	$ 10	$ 12	$ 12
Plant factor (6)	43%	63%	62%	55%	55%
Availability factor (7)	95%	94%	93%	79%	89%
Average river flow (000 CFS) (8)	89	141	141	117	113
Rock Island System					
Operating expenses (1)	$ 40,321	$ 36,675	$ 38,041	$ 35,834	$ 43,038
Debt service: (2)					
Hydro issues	23,560	23,055	-	-	-
Consolidated System loans	19,134	19,492	-	-	-
Depreciation and amortization (2)	-	-	10,518	11,180	10,904
Interest expense	-	-	27,041	26,260	25,388
Other (revenue) expense (3)(10)	(2,602)	(2,204)	(521)	1,174	(320)
Total power cost (5)	$ 80,413	$ 77,018	$ 75,079	$ 74,448	$ 79,010
Net power delivered (000 MWh)(9)	2,496	3,267	3,306	3,077	2,648
Cost in $/MWh	$ 32	$ 24	$ 23	$ 24	$ 30
Plant factor (6)	45%	59%	60%	56%	48%
Availability factor (7)	94%	92%	93%	90%	82%
Lake Chelan System					
Operating expenses (1)	$ 3,523	$ 4,729	$ 4,608	$ 4,737	$ 5,741
Debt service: (2)					
Hydro issues	-	-	-	-	-
Consolidated System loans	7,402	7,138	-	-	-
Depreciation and amortization (2)	-	-	1,847	1,856	1,864
Interest expense	-	-	4,052	3,929	3,790
Other (revenue) expense (3)(10)	(727)	(436)	(755)	39	(37)
Total power cost (5)	$ 10,198	$ 11,431	$ 9,752	$ 10,561	$ 11,358
Net power delivered (000 MWh)	417	480	425	444	426
Cost in $/MWh	$ 24	$ 24	$ 23	$ 24	$ 27
Plant factor (6)	81%	93%	82%	86%	82%
Availability factor (7)	75%	98%	99%	100%	90%
Combined Hydro Cost in $/MWh	$ 21	$ 15	$ 14	$ 16	$ 18

1. Does not include depreciation expense.
2. Years 2010 and 2011 are based on accrual debt schedules. Before the expiration of the prior Rocky Reach and Rock Island power sales contracts on October 31, 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 District metrics.
6. Net Power delivered as a percentage of other rated capacity for the year.
7. In 2011, year 2010 was 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)

	2010	2011	2012	2013	2014
Operating revenues					
Retail	$ 50,367	$ 52,388	$ 48,135	$ 49,099	$ 48,938
Resale	70,943	94,000	197,557	179,604	210,976
Other	8,091	9,774	20,735	33,349	39,858
	129,401	156,162	266,427	262,052	299,772
Operating expenses	(150,445)	(152,027)	(236,191)	(237,247)	(289,252)
Net operating revenues	(21,044)	4,135	30,236	24,805	10,520
Other (expense) income	(272)	(866)	(2,752)	891	2,016
Net (loss) revenues (2)	(21,316)	3,269	27,484	25,696	12,536
Add back:					
Depreciation	12,514	13,040	13,690	14,110	14,427
Gain on disposal of property	-	(1)	(15)	(67)	(873)
Interest expense (income)	3,559	3,222	2,284	(357)	-
Amortization of deferred debt costs	216	175	-	-	-
Net funds (used in) from operations	(5,027)	19,705	43,443	39,382	26,090
Net funds from other systems (3)	8,152	6,142	14,214	18,429	20,819
Available funds (4)	147,019	140,189	204,894	219,250	223,481
Net receipts	$ 150,144	$ 166,036	$ 262,551	$ 277,061	$ 270,390
Computed debt service (5)(6)	$ -	$ 5,219	$ 1,036	$ 1,036	$ 45
Debt service coverages					
With other available funds (required 1.15x)	n/a	32	253	267	6,009
Without other available funds (required 1.00x)	n/a	5	56	56	1,042

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 Service 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 2010. This effectively eliminated the Debt Coverage requirement of the Senior Master Resolution 99-11303 for that year.

Consolidated System

Operating Results and Subordinate Debt Service Coverage ($000)
As defined in Subordinate Master Resolution 07-13067

	2010	2011	2012	2013	2014
Operating revenues (1)					
Retail	$ 54,989	$ 57,195	$ 53,330	$ 54,447	$ 54,782
Resale	87,702	114,079	229,864	215,373	247,481
Other	18,088	18,792	29,069	42,542	49,355
Total	160,779	190,066	312,263	312,362	351,618
Less: Operating expenses					
Purchased power and water	(104,265)	(101,787)	(174,715)	(171,389)	(219,381)
Other operation & maintenance	(44,730)	(50,785)	(64,620)	(65,601)	(72,148)
Taxes	(4,653)	(5,100)	(5,094)	(5,686)	(5,742)
Depreciation & amortization	(20,804)	(20,923)	(20,900)	(20,542)	(20,992)
Operating (loss) income	(13,673)	11,471	46,934	49,144	33,355
Adjustments					
Add back depreciation & amortization	20,804	20,923	20,900	20,542	20,992
Add investment income	5,405	7,040	3,043	1,943	2,383
Add principal and interest payments from Rocky Reach & Rock Island	51,003	51,888	50,233	48,683	49,720
Subtract investment earnings credited to Rocky Reach & Rock Island	(1,171)	(892)	(132)	-	-
Total adjustments	76,041	78,959	74,044	71,168	73,095
Net revenues	62,368	90,430	120,978	120,312	106,450
Plus withdrawals (deposits) to Rate Stabilization Fund	-	-	-	-	-
Adjusted net revenues	$ 62,368	$ 90,430	$ 120,978	$ 120,312	$ 106,450
Available funds (2)	$ 151,781	$ 147,990	$ 225,867	$ 233,294	$ 235,492
Annual debt service					
Senior Bonds	$ 28,817	$ 34,229	$ 3,761	$ 2,449	$ 1,678
Subordinate Bonds	13,237	14,470	43,784	39,219	38,067
Total debt service	$ 42,054	$ 48,699	$ 47,545	$ 41,668	$ 39,745
Debt service coverage					
With available funds (required 1.25x)	5.09	4.90	7.30	8.49	8.60
Without available funds (required 1.00x)	1.48	1.86	2.54	2.89	2.68

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 and Hydroelectric Systems
Outstanding Long-Term Debt as of December 31, 2014 ($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	$ 19,073
Total Chelan Hydro Consolidated System			25,430	-	-	25,430	19,073
CONSOLIDATED SYSTEM							
5/31/2007	7/1/2042	2007B	8,370	-	-	8,370	418
5/31/2007	7/1/2037	2007C	25,590	3,345	3,345	22,245	1,239
2/28/2008	7/1/2024	2008A	47,075	32,025	32,025	15,050	2,432
6/3/2009	7/1/2032	2008B	92,880	6,490	27,630	65,250	972
8/11/2009	7/1/2019	2009C	6,545	2,925	2,925	3,620	243
8/11/2009	7/1/2039	2009D	27,015	-	-	27,015	1,800
6/1/2011	7/1/2026	2011A	107,500	18,245	18,245	89,255	5,244
6/1/2011	7/1/2026	2011B	72,220	12,260	12,260	59,960	3,377
11/9/2011	7/1/2026	2011C	164,425	12,945	12,945	151,480	5,351
Total Consolidated System			551,620	88,235	109,375	442,245	21,076
ROCK ISLAND SYSTEM							
3/17/1997	6/1/2029	1997A (5)	135,944	121,820	121,820	235,782	32,026
8/11/2009	7/1/2029	2009A	14,000	1,785	6,400	7,600	608
Total Rock Island System			149,944	123,605	128,220	243,382	32,634
ROCKY REACH SYSTEM							
8/11/2009	7/1/2034	2009A	15,895	1,840	1,840	14,055	764
Total Rocky Reach System			15,895	1,840	1,840	14,055	764
Grand Total			$ 742,889	$ 213,680	$ 239,435	$ 725,112	$ 73,547

1. Amount of serial bonds matured as of December 31, 2014 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, 2014 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 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, 2014 ($000)

	Allocated Principal Amount of Bonds Outstanding (1)	Adjustments to Loans Outstanding (2)	Net Loans Outstanding
Rocky Reach System	$ 200,554	$ 374	$ 200,928
Rock Island System	138,691	(3,385)	135,306
Consolidated System (3)	128,430	(19,652)	108,778
	$ 467,675	$ (22,663)	$ 445,012

1. Represents aggregate principal amounts of Senior and Subordinate Consolidated System Bonds 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 Bonds (1)			Loan Payments (2)		
	Aggregate Annual Debt Service					
Year	Principal (3)	Interest (4)	Total	Rocky Reach	Rock Island	Total Loan Payments
2015	$ 46,490,000	$ 18,098,733	$ 64,588,733	$ 30,852,463	$ 18,044,125	$ 48,896,588
2016	16,445,000	16,075,299	32,520,299	30,404,740	16,621,856	47,026,596
2017	25,390,000	15,368,001	40,758,001	29,214,359	16,357,379	45,571,738
2018	28,855,000	14,391,560	43,246,560	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	12,024,952	44,429,952	18,682,912	14,912,410	33,595,322
2021	29,000,000	10,732,501	39,732,501	16,995,034	14,174,292	31,169,326
2022	30,290,000	9,532,045	39,822,045	16,995,986	13,992,722	30,988,708
2023	31,695,000	8,234,024	39,929,024	16,928,190	13,986,388	30,914,578
2024	30,788,182	6,812,689	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	3,744,527	26,277,880	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	1,958,478	5,833,478	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	1,635,822	4,200,822	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	7,951,825	385,020	8,336,845	-	649,708	649,708
2043	-	-	-	-	410,126	410,126
2044	-	-	-	-	19,601	19,601
Total	$ 446,599,502	$ 151,417,858	$ 598,017,360	$ 308,693,793	$ 297,493,045	$ 606,186,838

1. Includes Senior and Subordinate Consolidated System Bonds.
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	2015	2016	2017	2018	2019
Distribution System	$ 23,156	$ 20,488	$ 21,129	$ 18,855	$ 20,533
Fiber & Telecom System	4,847	3,814	2,583	1,714	1,809
Water/Wastewater Systems	864	2,855	3,147	1,913	568
Internal Services System	6,116	10,993	9,498	8,003	9,692
Rocky Reach System	9,576	17,498	8,522	12,519	10,209
Rock Island System	13,822	35,181	23,373	32,913	28,750
Lake Chelan System	515	450	1,300	1,250	358
Total Capital Requirements	$ 58,896	$ 91,279	$ 69,552	$ 77,167	$ 71,919

Projected Future Financing ($000)

Calendar Year	2015	2016	2017	2018	2019
Proceeds of New Bond Issues	$ -	$ -	$ -	$ -	$ -
Other Available District Funds (1)	58,896	91,279	69,552	77,167	71,919
Total	$ 58,896	$ 91,279	$ 69,552	$ 77,167	$ 71,919

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, 2014 ($000)

Balances (1)	Utility Services (2)	Lake Chelan	Financing Facilities (3)	Internal Services Fund	Total
Unrestricted funds					
Revenue fund (4)	$ 51,012	$ 1,046	$ 2,639	$ 9,997	$ 64,694
Available funds:					
Rate stabilization fund	50,000	-	-	-	50,000
Operating reserve fund	78,335	-	-	-	78,335
Other unrestricted funds (5)	5,328	7,152	35,770	6,668	54,918
Total unrestricted funds	184,675	8,198	38,409	16,665	247,947
Restricted funds (6)	21,043	47	24,159	6,082	51,331
Total fund balances	$ 205,718	$ 8,245	$ 62,568	$ 22,747	$ 299,278

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	2010	2011	2012	2013	2014
Original system net generation	313	652	750	573	695
Second powerhouse net generation	1,871	2,275	2,180	2,105	2,095
Total generation	2,184	2,927	2,930	2,678	2,790
Plus:					
Wanapum encroachment	572	637	673	662	191
Net interchange	68	54	43	80	(27)
System losses by contract	(6)	(4)	(4)	(4)	(9)
Less:					
Canadian Treaty Power (1)	(161)	(166)	(160)	(160)	(154)
Rocky Reach encroachment (2)	(160)	(181)	(176)	(179)	(144)
Total net power delivered (3)	2,497	3,267	3,306	3,077	2,647
Percentage allocations (4)					
Power Purchasers	50%	50%	51%	51%	51%
District	50%	50%	49%	49%	49%
Sales:					
Power Purchasers	1,213	1,648	1,540	1,536	1,331
District	1,283	1,619	1,766	1,541	1,317
Total sales (3)	2,496	3,267	3,306	3,077	2,648
Net peaking capability	629	629	629	629	629
Availability factor (5)	94%	92%	93%	90%	82%
Plant factor (6)	45%	59%	60%	56%	48%

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, year 2010 was 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	2010	2011	2012	2013	2014
Rock Island System	$ 32	$ 24	$ 23	$ 24	$ 30
Bonneville Power (1)	$ 33	$ 35	$ 35	$ 38	$ 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	2010	2011	2012	2013	2014
	$ 14,662	$ 20,873	$ 7,335	$ 3,914	$ 5,663

Projected Calendar Year (1)	2015	2016	2017	2018	2019
	$ 13,822	$ 35,181	$ 23,373	$ 32,913	$ 28,750

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	2010	2011	2012	2013	2014
Operating revenues:					
Power Purchasers	$ 40,206	$ 38,509	$ 41,610	$ 50,314	$ 53,975
District	40,207	38,509	45,514	48,315	51,831
Total revenues from sales	80,413	77,018	87,124	98,629	105,806
Other operating revenues	169	199	157	134	200
Total operating revenues	80,582	77,217	87,281	98,763	106,006
Total operating expenses (1)	51,065	47,252	48,559	47,013	53,942
Net operating revenues	29,517	29,965	38,722	51,750	52,064
Other expense	(26,636)	(27,128)	(26,803)	(28,092)	(25,822)
Net revenues	2,881	2,837	11,919	23,658	26,242
Add back:					
Depreciation	10,744	10,577	10,518	11,180	10,904
Interest expense	27,960	27,477	27,041	26,260	25,388
Amortization of deferred debt costs	373	330	130	127	271
Other (2)	612	1,810	431	1,497	134
Deduct:					
Amortization of deferred power sales revenue	-	-	(316)	(633)	(641)
Cash available for debt service	42,570	43,031	49,723	62,089	62,298
Annual debt service:					
Rock Island Bonds	23,560	23,055	20,612	23,646	23,022
Intersystem loans (3)	18,606	19,492	19,242	18,234	19,186
Total debt service requirement	42,166	42,547	39,854	41,880	42,208
Cash available after payment of all debt service	$ 404	$ 484	$ 9,869	$ 20,209	$ 20,090
Coverage of total debt service	1.01	1.01	1.25	1.48	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.

Debt Service Requirements as of December 31, 2014

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
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	$330,159,000	$ 330,159,000	$10,197,354	$ 6,991,994	$297,493,045	$ 160,083,818	$ 637,849,399

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, principal accounts and sinking funds. It should be recognized 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

	2010	2011	2012	2013	2014
Operating revenue					
Wholesale sales (1)	$ 80,413	$ 77,018	$ 87,124	$ 98,629	$ 105,806
Other operating revenues	169	199	157	134	200
Total operating revenues	80,582	77,217	87,281	98,763	106,006
Operating expenses					
Operations & maintenance	(39,738)	(35,903)	(37,279)	(35,156)	(42,462)
Taxes	(583)	(772)	(762)	(678)	(576)
Depreciation and amortization	(10,744)	(10,577)	(10,518)	(11,180)	(10,904)
Total operating expense	(51,065)	(47,252)	(48,559)	(47,014)	(53,942)
Operating income	29,517	29,965	38,722	51,749	52,064
Adjustments					
Subtract Power Purchaser CS debt sales (2)	(18,672)	(19,125)	(19,242)	(18,234)	(19,186)
Add back depreciation and amortization	10,744	10,577	10,518	11,180	10,904
Add investment income (3)	1,971	1,966	1,430	1,524	1,767
Add CS investment income credited Power Purchasers (4)	480	349	132	-	-
Total adjustments	(5,477)	(6,233)	(7,162)	(5,530)	(6,515)
Net revenues	$ 24,040	$ 23,732	$ 31,560	$ 46,219	$ 45,549
Annual debt service					
Bonds	$ 19,650	$ 19,650	$ 19,650	$ 22,685	$ 22,685
Subordinate Bonds	3,802	3,958	962	961	337
Total debt service	$ 23,452	$ 23,608	$ 20,612	$ 23,646	$ 23,022
Debt service coverage					
Without available funds (required 1.00x)	1.03	1.01	1.53	1.95	1.98

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 to 2012 is due to new power sales contracts effective July 1, 2012.
2. Adjustment made to subtract Power Purchaser payments for debt service associated with loans of Consolidate System bond proceeds.
3. Investment income includes earnings from cash and investments in the Rock Island System.
4. Add back Consolidated System interest earnings credited to the Power Purchasers, which was deducted from wholesale sales.

Debt Service Requirements as of December 31, 2014

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
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	$ 21,795,050	$ 13,290,550	$ 308,693,793	$ 200,554,216	$ 330,488,843

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 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

	2010	2011	2012	2013	2014
Operating revenue					
Wholesale sales (1)	$ 74,983	$ 77,260	$ 87,284	$ 91,361	$ 92,554
Other operating revenues	295	281	176	231	561
Total operating revenues	75,278	77,541	87,460	91,592	93,115
Operating expenses					
Operations & maintenance	(39,729)	(39,027)	(35,946)	(41,140)	(43,080)
Taxes	(1,048)	(1,531)	(1,522)	(1,336)	(1,335)
Depreciation and amortization	(17,477)	(16,968)	(16,942)	(16,652)	(16,512)
Total operating expenses	(58,254)	(57,526)	54,410	(59,128)	(60,927)
Operating income	17,024	20,015	33,050	32,464	32,188
Adjustments					
Subtract Power Purchaser CS debt sales (2)	(32,331)	(32,763)	(30,991)	(30,450)	(30,535)
Add back depreciation and amortization	17,477	16,968	16,942	16,652	16,512
Add investment income (3)	316	455	271	228	395
Add CS investment income credited Power Purchasers (4)	691	543	-	-	-
Total adjustments	(13,847)	(14,797)	(13,778)	(13,570)	(13,628)
Net revenues	$ 3,177	$ 5,218	$ 19,272	$ 18,894	$ 18,560
Annual debt service					
Bonds	$ 2,504	$ 2,638	$ 2,641	$ 2,640	$ 2,615
Total debt service	$ 2,504	$ 2,638	$ 2,641	$ 2,640	$ 2,615
Debt service coverage					
Without available funds (required 1.00x)	1.27	1.98	7.30	7.16	7.10

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 Consolidate System bond proceeds.
3. Investment income includes earnings from cash and investments in the Rocky Reach System.
4. Add back Consolidated System interest earnings credited to the Power Purchasers, which was deducted from wholesale sales.

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 principal executive office is located 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 (which website is not incorporated herein by reference).

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, 2014.

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, 2014, PSE had approximately 1,097,600 electric customers, and approximately 790,800 natural gas customers. In 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, 2014 filed February 27, 2015 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 (which website is not incorporated herein by reference).

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 2014 was approximately 59,000 people.

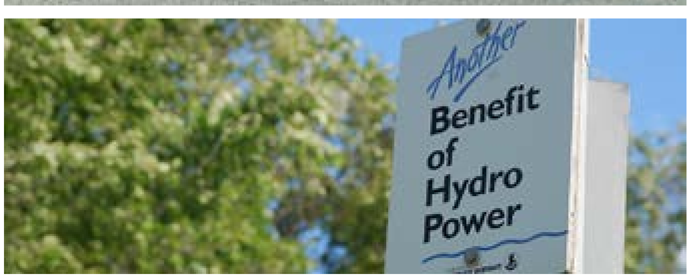
AVAILABLE INFORMATION

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, 2014 filed on February 19, 2015 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.


Another
Benefit
of
Hydro
Power

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