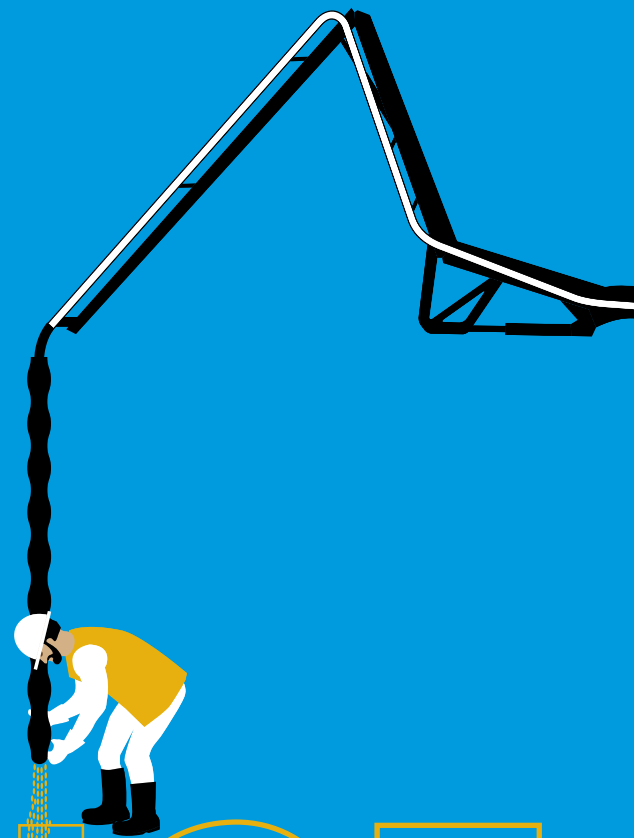
VELOCITY OF CHANGE



P.U.D.
CHELAN COUNTY

CHELAN COUNTY PUD ANNUAL REPORT

2022

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 50,000 retail customers in the county. Chelan PUD also provides water, sewer and wholesale telecommunications services.

ABOUT THIS REPORT

The financial report is designed to provide a general overview of Chelan PUD's finances and to demonstrate the PUD's accountability for the money it receives. Questions concerning any of the information provided in this report should be directed to Chelan PUD at P.O. Box 1231, Wenatchee, WA 98807 or via email to *ContactUs@chelanpud.org*.

Note: *The statements and information on pages 1-15 of the 2022 Annual Report are provided for general information only. They are not intended, and should not be relied upon, for making investment decisions by current or prospective investors. Official statements can be found at* **chelanpud.org**.

Mission

To enhance the quality of life in Chelan County by providing sustainable, reliable utility services.

Vision | Challenge

In a rapidly changing utility environment, we will provide: The best value for the most people for the longest time.

Our Values

Safety
Protect public and employee health and safety

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

Trustworthiness
Competence, integrity, respect, collaboration

Operational Excellence
High-quality, innovative work execution through support of personal accountability

Table of Contents

In the face of change, we're ready

Kirk Hudson
GENERAL MANAGER

The energy sector is in metamorphosis, from a traditional industry with some degree of predictability, to a critical pivot in the race against climate change. The volume and velocity of change is increasing exponentially. Guided by our vision and strategic plan, Chelan PUD is well-positioned to thrive.

For nearly 70 years, our three hydroelectric projects — Rock Island, Rocky Reach and Chelan — have been the silent and steady workhorses that produce more than enough energy to serve Chelan County. It's one of the largest nonfederal, consumer-owned hydroelectric generation systems in the nation.

About 80 percent of the energy generated here is sold as surplus on the wholesale market in a mix of short-term, market-rate contracts and long-term, cost-based contracts. As a public utility, that business model lets us reinvest in the community and carry out our mission to improve the quality of life through a world-class parks system, wholesale fiber internet and one of the lowest residential electricity rates in the nation.

The abundance of power produced by the dams is also essential to stabilize the regional energy grid and provide the critical capacity needed to meet clean energy mandates. These new laws recognize hydropower as a carbon-free source of energy. Looking ahead, hydropower will be an important partner with other renewables to maintain reliability and capacity when the sun doesn't shine and the wind doesn't blow.

We're beginning to see the ripple effects of this change in the energy market, as the value and demand for hydropower increases. Chelan PUD finished 2022 $135 million better than budget, including $106 million from retained proceeds on a cost-based contract. Also, Chelan PUD amended an existing cost-based contract to recognize the value of hydropower's environmental attributes.

During my first 100 days as general manager, it was important to me to listen and connect with community leaders, the agencies we work with and everyday customer-owners during this era of transformation. Those listening sessions gave me a fresh perspective on how we might continue to improve service and build trust.

The volume and velocity of change is increasing exponentially

Customer expectations are changing; they want new ways of using technology to do business with us. That work is already underway with a new outage map, and advanced meters that will lay the foundation for innovations in customer service. We'll discuss more of those initiatives in the following pages.

The core of Chelan PUD's vision still centers on customer-owners and serving the public interest: In a rapidly changing utility environment, we will provide the best value for the most people for the longest time.

CREATING VALUE FOR THE PEOPLE OF CHELAN COUNTY

From left: Dennis Bolz, Randy Smith, Garry Arseneault, Ann Congdon, and Steve McKenna

As Chelan County PUD commissioners, every decision we make on behalf of our customer-owners is guided by our vision of providing the best value for the most people for the longest time. We're elected by our customers and are keenly focused on serving them by protecting the public resources entrusted to us. In 2022, we continued to collaborate with other local leaders to ensure our decisions reflect community values. We welcome ideas and comments from customer-owners and participation at board meetings, held the first and third Mondays of each month. Customers can email us at **contactus@chelanpud.org**.

Farewell to commissioners Congdon and Bolz

Commissioners Ann Congdon and Dennis Bolz retired from the PUD Commission in December after a combined 34 years of service to the utility's customer-owners.

During their tenures, they worked with staff to reduce debt by nearly $800 million and position the PUD as one of the most financially stable utilities in the nation. They helped expand high-speed internet access across the county and welcomed more visitors than ever to the PUD parks system. Both of these efforts were bolstered under the Public Power Benefit program that they helped to create. In addition, Bolz and Congdon supported critical modernization efforts at hydropower projects and new facilities such as the Central Maintenance buildings, the Rock Island campus and the new Service Center opening in 2023.

Throughout their terms, they embodied public power values and local control, consistent with principles that PUDs are created by the people to serve the people.

Thank you, commissioners Congdon and Bolz, for your service and your countless contributions to Chelan County.

Kelly Allen

Carnan Bergren

Welcome to new commissioners Allen and Bergren

In November 2022, PUD customer-owners elected Kelly Allen and Carnan Bergren to terms on the PUD Board of Commissioners.

Allen, a Chelan business owner, will serve a four-year term in an at-large position on the board.

Bergren previously served eight years (2008-2016) as a PUD commissioner. A retired fruit grower, he recently relocated from Peshastin to Chelan Falls. He will serve a six-year term representing District 3 (North Wenatchee, Entiat and Chelan Valley).

At a Glance

Strong financial position continues in 2022

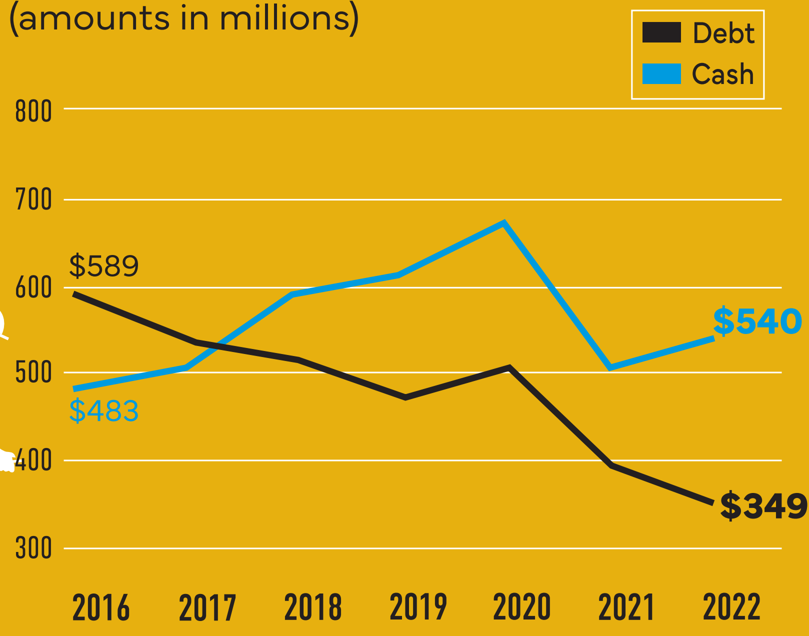
Chelan PUD continues to demonstrate strong financial performance on behalf of its customer-owners. In 2022, the PUD realized a positive bottom line of $198 million, about $135 million more than budgeted.

The year-end results were driven by higher revenue, primarily from strong prices for surplus energy sales. Spending on operational, maintenance and capital projects was lower than budget due to slower supply chains and project deferrals to future years.

Because of its strong financial position, Chelan PUD continues to pay for its capital projects in cash, without taking on new debt. We expect to draw down cash reserves in the next few years to meet our strategic objective to invest in assets.

CASH & DEBT BALANCES

(amounts in millions)



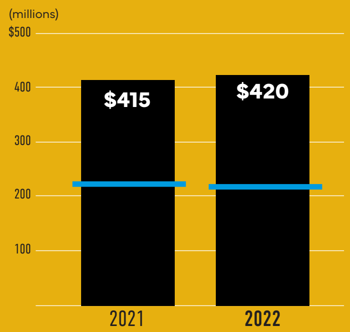
Exceeding Targets

The PUD's key financial targets were met for 2022 and are on track for the five-year forecast.

Financial liquidity

TARGET:
Greater of computed or $175 million

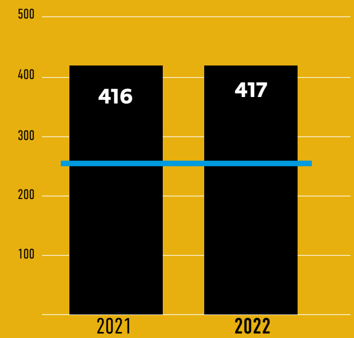
Represents cash reserves to cover risks and provide additional financial stability



Days cash on hand

TARGET:
Greater than 250 days

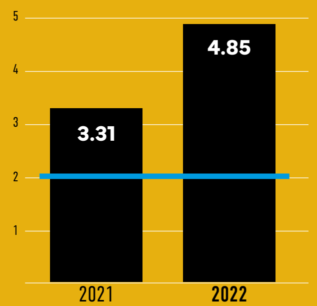
Reflects the days of unrestricted cash relative to expenses and demonstrates financial flexibility



Debt service coverage

TARGET:
Greater than 2.0

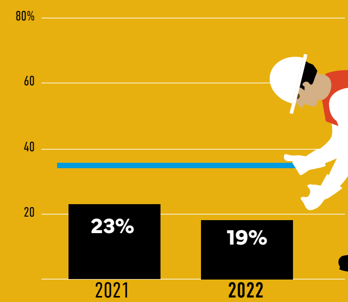
Demonstrates the ability to meet debt obligations even under unusual conditions

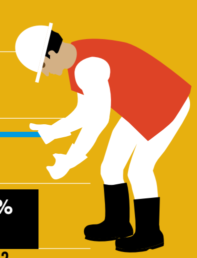


Debt ratio

TARGET:
Less than 35 percent

Reflects the percentage of utility assets financed by debt





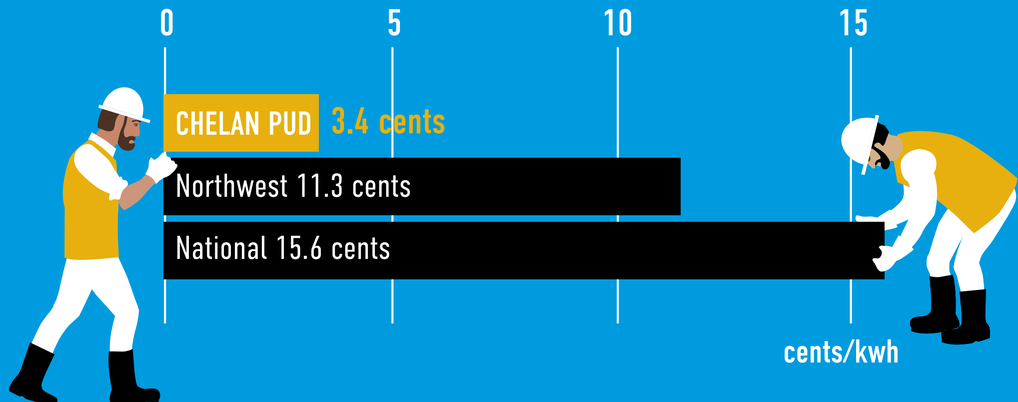
BOND RATINGS

Fitch Ratings............... **AA+**
S&P Global Ratings. **AA+**
Moody's Investors Service............................ **Aa2**

As of Dec. 31, 2022

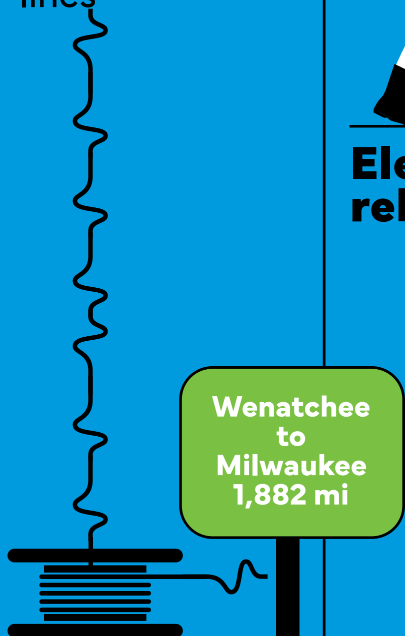
3.4¢

Chelan PUD average residential rate per kilowatt hour in 2022

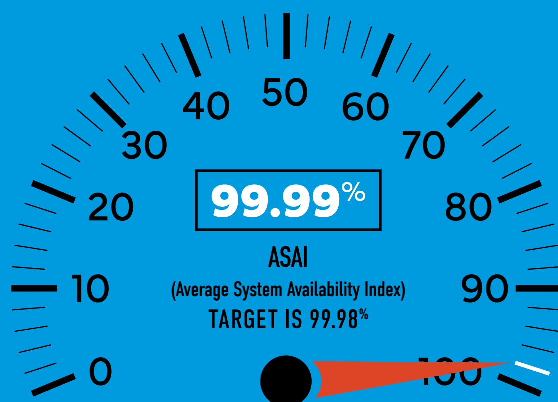


1,888

Miles of distribution lines



Electric system reliability



Our Parks

17 parks

more than **700** acres

3 million visitors annually

21,090
Number of fiber end-user connections

50,729
Number of retail electric customers

7,065
Number of water/ wastewater customers

79.6%
of the county has access to fiber internet

Highlights

Environmental Social Governance

An increasing percentage of investors are considering environmental, social and governance (ESG) factors when evaluating, selecting, and monitoring their municipal bond investments. In the next few pages, look for these symbols (ESG) to learn more about ESG issues at the PUD.

G

PUD's debt rating upgraded to Aa2

Moody's Investors Service upgraded Chelan PUD's debt ratings to Aa2. Moody's report noted new long-term contracts, conservative risk management, low retail rates and major progress on capital projects. The PUD also continues to maintain AA+ ratings from both S&P and Fitch, which places the PUD among the few AA+ rated utilities in the nation.

PUD joins Northwest resource adequacy group

Chelan PUD commissioners unanimously voted to join the Western Resource Adequacy Program. WRAP is expected to increase the value of hydropower, promote self-sufficiency among member utilities, and ensure that the region has the capacity to weather potential energy shortfalls in the future.

In the works since 2019, WRAP is the first reliability planning and compliance program in the Northwest. More than 20 utilities from Canada to northern California are participating.

ROCKY REACH DAM

6.5 million megawatt hours generated

11 generators

1,349 megawatt capacity

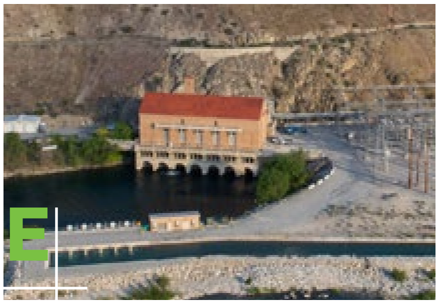
ROCK ISLAND DAM

2.6 million megawatt hours generated

2 powerhouses

18 generators
(plus 1,000 kW house unit)

629 megawatt capacity

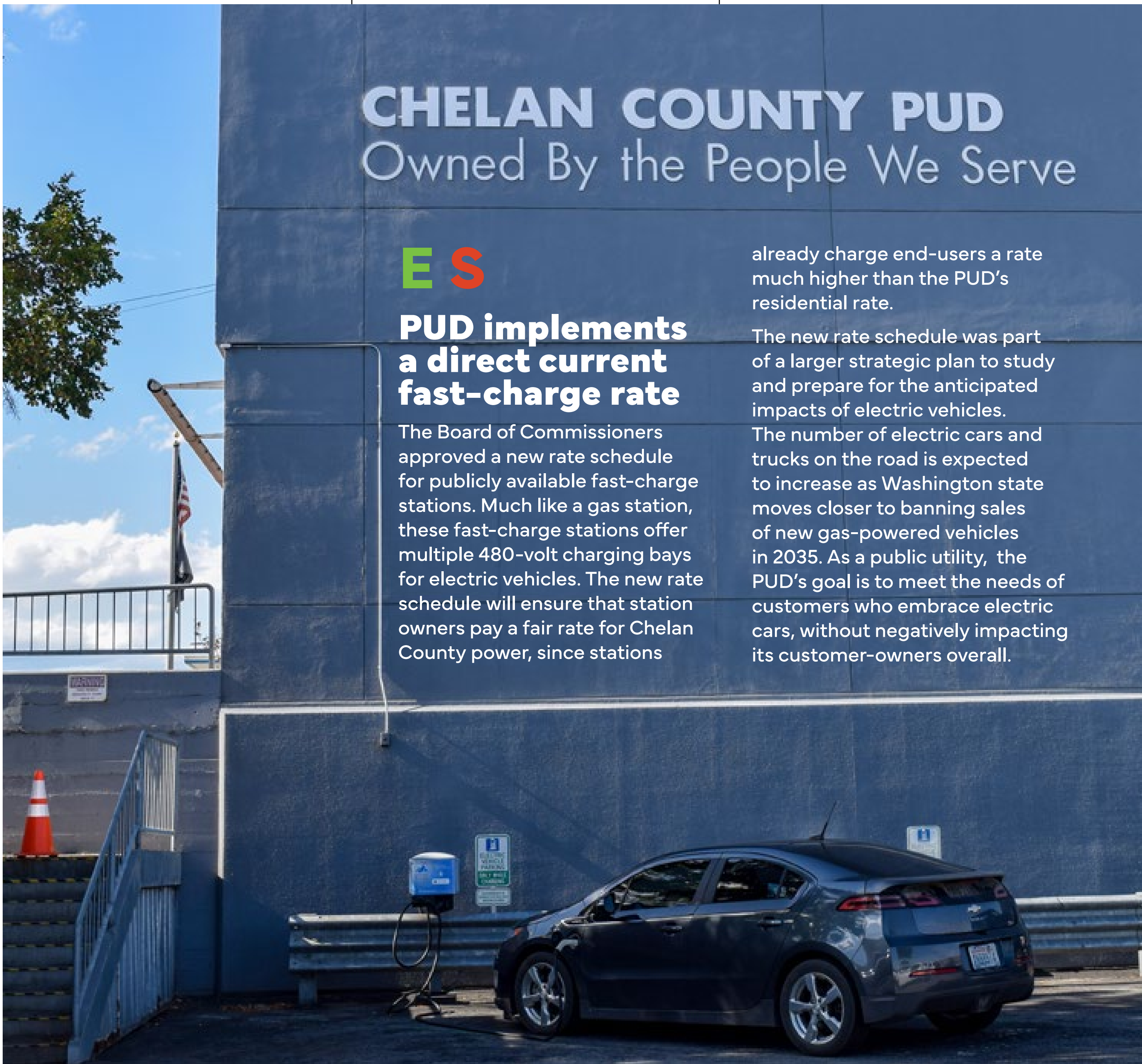


LAKE CHELAN DAM

0.4 million megawatt hours generated

2 generators

59 megawatt capacity



E S

PUD implements a direct current fast-charge rate

The Board of Commissioners approved a new rate schedule for publicly available fast-charge stations. Much like a gas station, these fast-charge stations offer multiple 480-volt charging bays for electric vehicles. The new rate schedule will ensure that station owners pay a fair rate for Chelan County power, since stations already charge end-users a rate much higher than the PUD's residential rate.

The new rate schedule was part of a larger strategic plan to study and prepare for the anticipated impacts of electric vehicles. The number of electric cars and trucks on the road is expected to increase as Washington state moves closer to banning sales of new gas-powered vehicles in 2035. As a public utility, the PUD's goal is to meet the needs of customers who embrace electric cars, without negatively impacting its customer-owners overall.

Investing in Assets

E = Environmental S= Social G = Governance

S

First 500 customers receive new advanced meters

Chelan PUD replaced 500 meters in the first phase of a multi-year effort to adopt more efficient metering technology. These two-way digital meters offer multiple benefits, including:

- Faster outage notification and restoration
- More accurate billing and fewer estimated bills
- Lays a foundation for expanded services in the future, such as account pre-payments, high-use alerts and web-based tools for energy savings

The county-wide rollout of advanced meters will continue in 2023.

S

Chelan PUD close to completion of new Service & Operation Center

Chelan PUD is beginning the countdown for a phased move-in to the new Service Center in 2023. Crews made substantial progress on construction of the six buildings, starting with the main service building.

The 24-acre campus will result in many benefits to customers, including a better customer service experience, faster outage response, energy efficiency 40 percent better than energy code, and significant cost-savings over time by consolidating all non-hydro services at one central location.

Chelan PUD, City of Wenatchee, Chelan County and the Washington State Department of Transportation (WSDOT) worked together to design and complete the first phase of a comprehensive traffic improvement plan in the Olds Station area ahead of the Service Center's grand opening.

E G

Chelan PUD begins the long road to relicensing Rock Island Hydroelectric Project

Chelan PUD is getting a head start on a multi-year process to relicense Rock Island Hydroelectric Project. The existing 40-year license expires at the end of 2028.

The formal licensing process begins in late 2023. Voluntary early engagement gives more time to study and discuss resources with stakeholders.

The license is a 30-50 year permit from the Federal Energy Regulatory Commission (FERC) that authorizes Chelan PUD to continue generating power. The relicensing process requires Chelan PUD and FERC to look at an array of public resources related to the Rock Island Dam, including: fish and wildlife, power generation, flood control, cultural resources, recreation, and other aspects of environmental quality.

S

Chelan PUD trains record-sized class of apprentices

Developing a local workforce is part of an overall recruitment strategy at the Chelan PUD, which has offered apprenticeships for 66 years. In 2022, 33 apprentices studied and worked through the programs – the largest class in recent memory.

> Developing a local workforce is part of an overall recruitment strategy at the Chelan PUD

Apprenticeship programs can last three to four years and include a mix of classroom instruction and on-the-job training — 6,000 hours total in most cases. Spots in the program are opened as needed, based on retirements and upcoming projects.

The application process is competitive. The PUD offers eight state-approved programs — lineman, power systems wireman, meterman, generation mechanic, hydro operator, generation wireman, electric utility technician and water/wastewater technician.

STATE-APPROVED PROGRAMS OFFERED

LINEMAN
POWER SYSTEMS WIREMAN
METERMAN
GENERATION MECHANIC
HYDRO OPERATOR
GENERATION WIREMAN
ELECTRIC UTILITY TECHNICIAN
WATER/WASTEWATER TECHNICIAN

E G

Work begins on innovative new hub designs, dam modernization

Chelan PUD embarked on a historic journey to rebuild the horizontal bulb units at Rock Island Powerhouse 2. Over the next decade, each unit will be disassembled one at a time. Every part will be inspected, refurbished or replaced, and in some cases, completely redesigned.

The benefits of the work are many, including less downtime, less maintenance, better safety and new environmentally friendly technology.

GE and PUD engineers began the product development and testing for the nation's largest air-filled hub in 2021. The goal is to prevent an accidental release of mineral oil-based lubricant. The innovative hub design is scheduled to be installed in late 2023 and start commercial operation in 2024.

Chelan PUD is also currently working with Voith Hydro to develop a water-filled hub design for Kaplan turbines at Rocky Reach Dam. Installation is planned in 2023 and 2024.

Stewardship

E = Environmental S= Social G = Governance

E S G

MORE THAN 1,000 PEOPLE SHARE THEIR THOUGHTS ON CONFLUENCE PARKWAY PLAN

Through surveys, open houses and trail walks, more than 1,000 people weighed in on potential impacts of the Confluence Parkway plan proposed by the City of Wenatchee.

Confluence Parkway is a 2.5-mile road and bridge across the Wenatchee River designed to alleviate congestion on North Wenatchee Avenue. If built, the parkway would run along the edge of Horan Natural Area and Confluence State Park, which are owned by the PUD.

The Board of Commissioners asked for public input about the proposed alignment of the parkway and potential enhancement and protection measures, designed to reduce impacts to parks and natural habitat.

S

Customers weigh in on Phase I of Riverfront Park improvements

About 80 people commented on the design of a new splash pad, pavilion and other improvements planned for Riverfront Park. The City of Wenatchee and Chelan PUD worked collaboratively on a 15-year master plan for the park that envisions 14 projects in three phases. The two agencies will split the cost of Phase I. Construction is slated to begin in 2024.

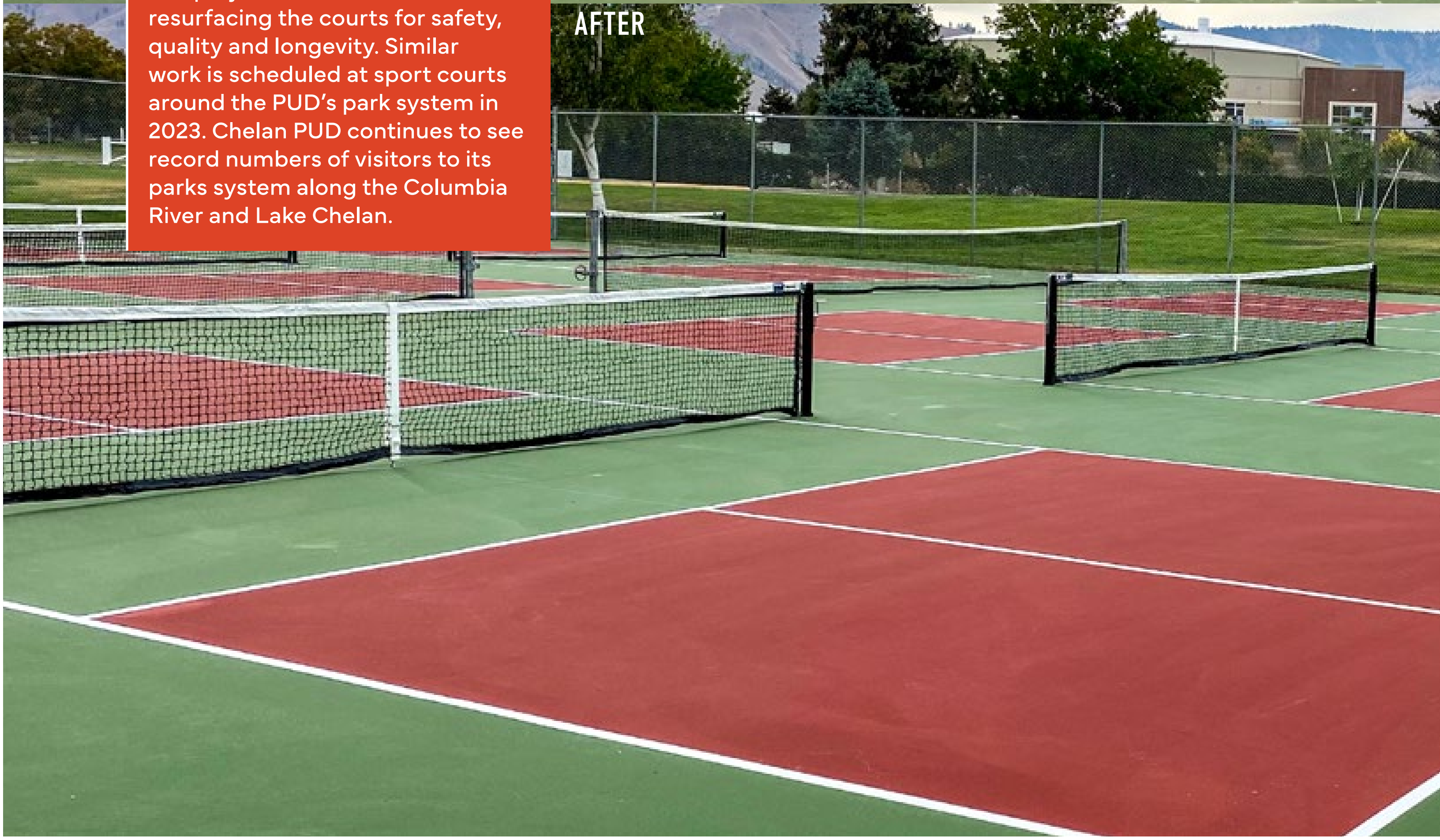
BEFORE

S

Six pickleball courts open at Walla Walla Point Park

Chelan PUD and local pickleball enthusiasts celebrated the opening of six pickleball courts at Walla Walla Point Park. In response to customer requests, Chelan PUD converted two of its four tennis courts to create a dedicated space for the fast-growing sport.

The project also included resurfacing the courts for safety, quality and longevity. Similar work is scheduled at sport courts around the PUD's park system in 2023. Chelan PUD continues to see record numbers of visitors to its parks system along the Columbia River and Lake Chelan.



AFTER

Trustworthiness & Operational Excellence

E = Environmental **S**= Social **G** = Governance

E S

Customer-owners saved big on energy in 2022

In 2022, customer-owners saved 0.36 average annual megawatts (aMW) with energy efficiency improvements to residential homes, and 1.52 aMW in commercial and industrial improvements.

That's …

- **Enough to power about 775 local homes for a year**
- **As much as 12 football fields of solar panels would generate in a year (the best way to "generate" power in Chelan County is to reduce wasting power)**

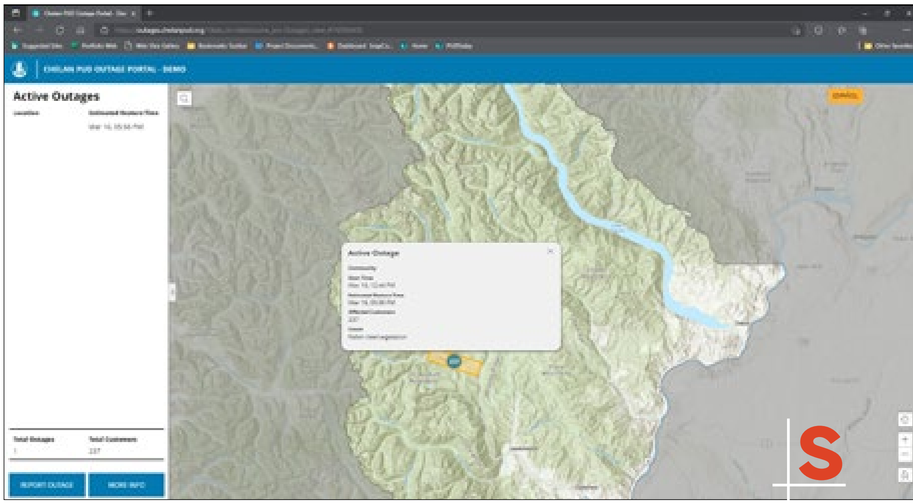
The Customer Energy Solutions team also conducted 90 home energy audits to help customer-owners identify and plan energy efficient improvements.

S

Customer-owners give Chelan PUD high marks for reliability, customer service

Customer-owners remain steadfast in their satisfaction with service and communication from Chelan PUD. About 89 percent of survey participants said they were satisfied to very satisfied with Chelan PUD overall. That's an increase from 86 percent in 2020.

The survey, performed every two years, helps the PUD assess customer sentiment and areas of community interest as it develops its programs and services for customer-owners. More than 600 people participated in the survey. The respondents represented a cross-section of customer-owners that spanned different generations, ethnicities, and communities throughout Chelan County.



S

New outage map keeps customers informed

When the lights go out, customer-owners have a new tool to monitor outages. Introducing Chelan PUD's new outage map — outages.chelanpud.org — an interactive online map that allows customers to check outages with information that's updated every five minutes.

If there's an outage with 10 or more customers in Chelan County, the outage map will show:

- **the impacted area**
- **the number of customers affected**
- **if known, the cause and the estimated time of restoration**

Banner year for visitation at new Rocky Reach Discovery Center

A community treasure, the newly remodeled Discovery Center, served 65,625 people in 2022, including more than 7,000 students. The popular destination hosted several family- and school-focused events, an informational cruise on Lake Chelan, summer science adventure camps and a Hydro STEM career academy for high school students in partnership with the Foundation for Water and Energy Education.

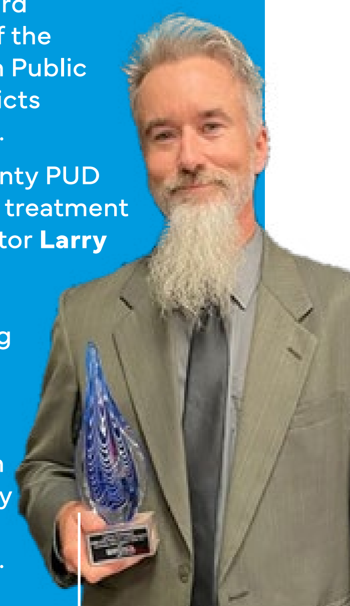
WILDFIRE MITIGATION SETTINGS KEEP FIRE-PRONE COMMUNITIES SAFE

In 2021, as part of the wildfire mitigation program, the PUD began implementing an operational change in fire-prone areas to reduce risk of electrical equipment causing sparks during wildfire season. The utility expanded these operational changes into other fire-prone areas in 2022, including Antoine Creek near Chelan, upper Blewett Pass and Colockum. These changes are consistent with industry best practices and strive to balance electrical reliability and the safety of workers, the public, and the communities the PUD serves.

Awards & Accolades:

Chelan PUD Commissioner **Garry Arseneault** was appointed to the Policy Makers Council, a group that advocates before Congress on behalf of more than 2,000 public power utilities nationwide. Arseneault will serve a three-year term.

Also in 2022, Arseneault was appointed to a one-year term as board president of the Washington Public Utility Districts Association.



Chelan County PUD wastewater treatment plant operator **Larry Peterson** was named Outstanding Employee of the Year by the Washington Public Utility Districts Association.

PUD staff received several communications awards for social media, photography and video from the Western Energy Institute, Northwest Public Power Association and American Public Power Association.

This page intentionally left blank

Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinions

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 for the years ended December 31, 2022 and December 31, 2021, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, including the related notes, which collectively comprise the District's basic financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the Public Utility District No. 1 of Chelan County, Washington as of December 31, 2022 and December 31, 2021, and the respective 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and

PricewaterhouseCoopers LLP, 488 Almaden Boulevard, Suite 1800, San Jose, California 95110
T: (408) 817-3700

therefore is not a guarantee that an audit conducted in accordance with US GAAS and Government Auditing Standards, will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 21 through 29 and the required supplementary information on 64 through 66 be presented to supplement the basic financial statements. Such information is the responsibility of management, 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP, 488 Almaden Boulevard, Suite 1800, San Jose, California 95110
T: (408) 817-3700

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining schedule of revenues, expenses and changes in net position, of assets and deferred outflows of resources and liabilities, deferred inflows of resources and net position, and of cash flows on page 67 through 71 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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 audit 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 supplemental information referred to above is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises Community Report, Bondholder-Fiduciaries, Continuing Disclosure, and Description of Major Power Purchasers, but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 11, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

April 11, 2023

PricewaterhouseCoopers LLP, 488 Almaden Boulevard, Suite 1800, San Jose, California 95110
T: (408) 817-3700

This page intentionally left blank

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, 2022 and 2021. 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

- The District produced a positive change in net position of $198 million during 2022, $135 million more than budget for the year and $61 million higher than the prior year's results of $137 million. The District continued to achieve strong operating results while meeting strategic priorities to invest in utility assets and employees, sustain excellent financial resiliency and continue Public Power Benefit projects. The District's better than anticipated bottom-line was the result of strong wholesale market prices that contributed to both long-term contract proceeds in excess of budgeted amounts and higher wholesale revenues on surplus sales of electricity, combined with an increase in environmental attribute revenue associated with a long-term power sales contract amendment that became effective in 2022. Higher revenues from selling renewable, carbon-free hydropower and local services were partially offset by increased operational costs, primarily purchased power, due to higher wholesale market prices on purchases of power needed to balance the District's resources and demand. The District invested $141 million in capital projects in 2022. Investments include the modernization of Rock Island Powerhouse 1, the new Service Center, facilities upgrades, advanced meter infrastructure and fiber network expansion. Overall, the District's financial standing remains strong, and its debt ratio remained below the 35% target consistent with the District's 2020-2024 Strategic Plan.

- **Investing in utility assets:**

  New Service Center:
  Building construction continued in 2022 on the future home of the District's comprehensive Service Center. The 24-acre campus located in the geographic center of Chelan County will combine most of the District's non-hydro services, which will help reduce response times and operational costs. Construction continued through 2022 after challenges with supply-chain issues, a labor shortage and the discovery of cultural artifacts, which paused groundwork for nine months. A gradual move-in is planned for mid-year 2023. A large portion of the first-phase work was awarded to local contractors. Sales tax payments associated with the nearly $164 million project also provided a local economic boost. The new Service Center will replace several aging District facilities, including its downtown headquarters built in 1955.

  Modernization of Rock Island Dam Powerhouse 1 - Large Units:
  Work continued on the modernization project of six large generating units in the first powerhouse at Rock Island Dam. After modernization work was completed on several units in prior years, the units suffered various turbine issues. The contractor completed a root cause analysis of the failures, and remedies and costs were negotiated for additional repairs. As of December 31, 2022, modernization and repairs have been completed on three of the six units. Two remaining units are currently operating but will need to be taken out of service for approximately six months each for additional repairs to be completed by 2024. Modernization of one remaining unit is anticipated to be completed in 2026.

  Modernization of Rock Island Dam Powerhouse 1 - Small Units:
  The original four small generating units in the first powerhouse at Rock Island Dam were taken out of service in early 2016 due

to corrosion fatigue on the blades following 50-plus years of service. Repair work and modernization of the units began in 2018. The first small unit was returned to service in 2021, and a second small unit is scheduled for completion in 2024. Repairs, re-work and modernization of the remaining two units are anticipated to be complete in late 2026.

Rehabilitation of Rock Island Dam Powerhouse 2:
Extensive analysis reviewed by the Board of Commissioners in 2017 showed it was cost-effective to also rehabilitate major components, such as turbines, generators and related equipment, of the eight 1970s-era units in the second powerhouse at Rock Island Dam. This work should provide at least 40 years of additional use. The District and GE Renewable Energy reached an agreement in 2021 for the modernization at Rock Island Powerhouse 2. The 40-plus-year-old turbines will be rebuilt one by one beginning in 2023, with expected completion of all eight in 2031 at an estimated cost of $456 million.

Rocky Reach Dam Large Unit Repairs:
The remaining two large units to be repaired at Rocky Reach Dam are in service with fixed blade operation. Repairs on the remaining two units are scheduled to begin in 2023. Both units are expected to return to service by late 2024. Repairs were previously completed on two other units. The seven additional generating units at Rocky Reach do not have a similar design and were not impacted by this repair.

- The District approved an amendment to a 20-year, cost-plus based power sales contract with Puget Sound Energy (PSE) to incorporate hydropower's environmental attributes as part of its value. In 2006, the District and PSE entered into a firm "take or pay" power sales contract for a 25% share of the output of Rocky Reach and Rock Island hydroelectric dams from 2011/2012 until 2031. The long-term power sales contract preceded the enactment of various statutes and regulations, which, among other things, incentivize or require utilities to procure and use renewable resources, including hydroelectric generation. The Clean Energy Transformation Act, effective 2022, and the Climate Commitment Act, effective 2023, have led to higher value for environmental attributes. The District and PSE agreed to amend the power sales contract to reflect an allocation of the environmental attributes that result from the renewable, carbon-free energy generated from the District's hydroelectric dams, through the remainder of the contract term. PSE will pay the District an amount for environmental attributes that is based on the volume of renewable energy credits generated and transferred to them, in addition to the other costs already being paid under the current long-term power sales contract.
- District commissioners approved a deal with Microsoft to let the company connect a planned Malaga data center project with District power lines. District commissioners approved the Interconnection Agreement for the large data center planned to occupy 102.5 acres along the Malaga-Alcoa Highway. The agreement is the first step toward Microsoft buying and using power for its proposed six data center buildings. It does not specify the source of the power or how much will be provided, just that connection will come through District lines. Microsoft may choose any combination of District and/or third-party power. The agreement includes construction of $86.5 million of interconnection facilities by 2025. All infrastructure will be paid for by Microsoft. Microsoft will pay in two installments, the first of which was received in 2022, so that the District can start construction on infrastructure without having to use its own money. The agreement also has "not to exceed" amounts and check ins to make sure money is not being spent ahead of schedule.
- The District began the long, multi-year process to relicense Rock Island Hydroelectric Project, the second largest power producer of the

District's three dams. The existing 40-year license expires at the end of 2028. The formal license process begins in late 2023. Conducting voluntary early engagement prior to that provides more time to study and discuss resources with District stakeholders. The license is a 30 to 50 year permit from the Federal Energy Regulatory Commission (FERC) that authorizes the District to continue generating power. The next license will be Rock Island's third. The District must file a pre-application document and notice of intent to relicense between July 1, 2023 and December 31, 2023. The final license application is due December 31, 2026. A new license may be issued as soon as January 2029.

- Fitch Ratings affirmed ratings for Chelan County Public Utility District Consolidated System revenue bonds and Rock Island Hydroelectric project revenue bonds at a 'AA+' rating with a stable outlook. The Fitch report noted the 'AA+' rating reflected the District's sizable portfolio of very inexpensive hydro-generating resources, as well as solid revenue stemming from the District's independent ability to adjust retail and wholesale rates that are among the lowest in the nation. Additionally, the District's very low leverage profile is supported by strong cash reserves and the continued accelerated amortization of debt, that together result in a healthy financial profile that Fitch anticipates will remain very strong.
- Moody's Investors Service upgraded ratings for the District Consolidated System revenue bonds and Rock Island Hydroelectric project revenue bonds to Aa2 from Aa3 with a stable outlook. Moody's report noted the upgraded rating reflects new long-term contracts entered into in 2021, which substantially increase the duration of the District's hedging program that transfers both hydrology and market price risk to creditworthy third parties while ensuring greater predictability of cash flow over the long term. Additional key strengths noted by Moody's included demonstrated conservative risk management, extensive deleveraging since 2009, low retail rates, major progress on capital programs for key hydro dams and strong financial metrics. Moody's also noted the District's demonstrated ability to manage market and hydrology risk through maintenance of strong liquidity, strong financial metrics and execution of a medium to long-term hedging program.
- S&P Global Ratings (S&P) affirmed its 'AA+' long-term rating on the District's Consolidated System revenue bonds outstanding with a stable outlook. S&P also affirmed its 'AA' long-term rating and underlying rating on the District's Rock Island hydroelectric system revenue bonds with a stable outlook. S&P's report noted the District's very strong enterprise risk profile given its extremely low rates and extremely low-cost, non-carbon-emitting hydroelectric resources, and its extremely strong financial risk profile given exceptional financial metrics.
- In February 2023, the District and Puget Sound Energy (PSE) entered into a contract for renewable hydropower from the District's two hydro projects on the Columbia River. Under the terms of the 20-year contract, the District is selling PSE 25% of the hydropower output from both Rocky Reach and Rock Island dams from 2031 through 2051. PSE's current contracts with the District, expiring in 2026 and 2031, provide a portion of the output from the projects.

  The competitively priced contract helps cover future costs of producing power at Rocky Reach and Rock Island dams and recognizes the increasing value of hydropower as a carbon-free renewable source of energy. The pricing under the cost-plus agreement includes fixed price components for the additional value provided from the output, including from environmental attributes and capacity.

  With this new contract, the District continued implementation of its energy marketing strategy through a long-term sales contract designed to ensure that the District's customer-owners benefit. Under the District's long-term marketing strategy, the District offers a mix of shorter-term market based and longer-term cost-based products. Both types of contracts are based on selling a "slice" of Chelan's hydropower output, which reduces risk of variable output from hydropower production. Overall, the goal of the long-term marketing strategy is to strike the right balance of contracts to reduce risk, create value and provide financial stability for decades to come.

- In March 2023, the District entered into a land exchange agreement with the City of Wenatchee (the City). The agreement includes a range of measures intended to reduce the anticipated impact of the City's proposed Confluence Parkway project, which is a 2.5-mile bypass to alleviate traffic congestion along North Wenatchee Avenue.

  The land exchange agreement trades a parcel of land along the western edges of Horan Natural Area and Confluence State Park for property roughly equivalent in size from the City. The land swap provides value to the District's customer-owners by securing and preserving undeveloped land.

  The land exchange agreement also includes provisions requiring that the City implement noise abatement in areas where road noise is expected to have the greatest impact, and make certain improvements to the Apple Capital Recreation Loop Trail for better safety and user experience.

- In late March 2023, the District entered into a mitigation water supply agreement with Oroville-Tonasket Irrigation District (OTID) for access to 4,000 acre-feet of water annually for irrigation from an Okanogan County water bank source. The District will pay $1 million annually in exchange for the water resource. The term of the agreement is "indefinite," but after the first two years, the District can terminate with a year's notice. OTID can only terminate due to breach of the agreement by the District or if a government agency prevents its performance.

  Through the agreement, the District gains access to water resources to meet future water supply needs. Future needs include possible use for hatcheries, parks, water systems and power generation. In the near term, the water will be used to maintain in-stream flows until the water is needed for other uses.

  The agreement provides value to the District's customer-owners by providing protection for District assets that enhance the quality of life in Chelan County.

USING THIS FINANCIAL REPORT

This section of the Annual Report consists of the Independent Auditors' 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.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis of the financial performance of the District provides an overview of the financial activities for the years ended December 31, 2022 and 2021. This discussion and analysis should be read in conjunction with the financial statements and accompanying notes, which follow this section.

The Statements of Net Position provide information about the nature and amount of resources and obligations at a specific point in time.

The Statements of Revenues, Expenses and Changes in Net Position report all the District's revenues and expenses for the periods shown.

These statements measure the success of operations over the year and can be used to determine whether the District has successfully recovered its costs.

The Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources, such as investment income and debt financing, and other uses such as payments for debt service and capital additions.

The Notes to the Financial Statements provide detailed information to support the financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's total net position increased by $198 million in 2022 and $137 million in 2021, despite an increase in operational costs in 2022 and 2021. Strong financial results, despite the continuing operating challenges of generating unit repairs at Rocky Reach and Rock Island, demonstrate the effectiveness of risk management plans and strong financial policies. The increases are 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. The change in net position for 2022 is higher when compared to 2021 due primarily to additional proceeds received from a long-term power sales agreement and higher average market prices received on surplus sales of electricity.

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

CONDENSED COMPARATIVE FINANCIAL INFORMATION

(amounts in millions)	2022	2021*	2020	Increase (Decrease) 2022 – 2021
Current assets	$ 268	$ 161	$ 204	$ 107
Net utility plant	1,471	1,383	1,254	88
Other noncurrent assets	480	530	564	(50)
Total assets	2,219	2,074	2,022	145
Deferred outflows of resources	29	11	12	18
Current liabilities	152	143	132	9
Long-term debt	331	372	498	(41)
Other liabilities	171	134	166	37
Total liabilities	654	649	796	5
Deferred inflows of resources	70	110	49	(40)
Net investment in capital assets	1,104	976	791	128
Restricted	103	165	143	(62)
Unrestricted	317	185	255	132
Total net position	$ 1,524	$ 1,326	$ 1,189	$ 198

(amounts in millions)	2022	2021*	2020	Increase (Decrease) 2022 – 2021
Operating revenues	$ 590	$ 443	$ 354	$ 147
Less				
Operating expenses	393	331	271	62
Other expenses	7	8	11	(1)
Net income before capital contributions and special item	190	104	72	86
Capital contributions	8	7	5	1
Special item – pensions	-	26	-	(26)
Change in net position	198	137	77	61
Total net position – beginning of year	1,326	1,189	1,112	137
Total net position – end of year	$ 1,524	$ 1,326	$ 1,189	$ 198

*The District's 2021 Statement of Net Position was updated for the impacts of the required retroactive implementation of GASB Statement No. 87.

ASSETS

Current assets increased by $107 million in 2022 primarily due to higher investment balances combined with an increase in accounts receivable. The higher investment balances were primarily the result of cash generated by the District's positive operating results exceeding reserves used to fund capital and make debt service payments. Accounts receivable increased as a result of significantly higher wholesale power prices received on surplus sales of energy in December 2022 compared to December 2021.

Current assets decreased by $43 million in 2021 primarily due to a decrease in investment balances. The lower investment balances were primarily the result of funding a portion of both debt repayments and capital spending from unrestricted operating reserves.

As of December 31, 2022, the District had approximately $1.5 billion invested in a variety of capital assets. Net utility plant increased $88 million in 2022, reflecting additional investments in utility plant assets. Additional investments in plant, the largest being the District's new operations and service center, were offset somewhat by annual depreciation. Other large additions included continued modernization at the Rock Island hydroelectric project, spending for facility upgrades at Rocky Reach and Rock Island, and advanced meter infrastructure.

As of December 31, 2021, the District had approximately $1.4 billion invested in a variety of capital assets. Net utility plant increased $129 million in 2021, reflecting additional investments in utility plant assets. Additions included continued spending for the ongoing modernization at the Rock Island hydroelectric project, progress toward the District's new Service Center, facility upgrades at Rocky Reach and Rock Island, and distribution system services, substation construction and improvements. The 2021 additions were partially offset by annual depreciation of plant in service.

Other noncurrent assets, which includes noncurrent restricted assets and other assets, decreased $50 million in 2022 due primarily to lower restricted cash and investment balances resulting from spending of funds restricted for capital additions at the District's hydroelectric projects, combined with a decrease in net pension asset. Net pension asset is down due to a decline in the funded status of the Washington State Department of Retirement Systems' PERS Plans 2 and 3 as a result of the 2022 actuarial valuation. While the plans are still overfunded, the valuation was negatively impacted by changes of assumptions and differences between projected and actual investment earnings.

Other noncurrent assets decreased $34 million in 2021 due primarily to lower investment balances resulting from debt repayments and capital spending from reserves exceeding cash generated by the District's positive operating results. Lower investment balances were partially offset by the recognition of a net pension asset for the first time in 2021. The Washington State Department of Retirement Systems' PERS Plans 2 and 3 pension plans were estimated to be overfunded as a result of the 2021 actuarial valuation. The District's proportionate share of the net pension asset was $68.1 million as of December 31, 2021.

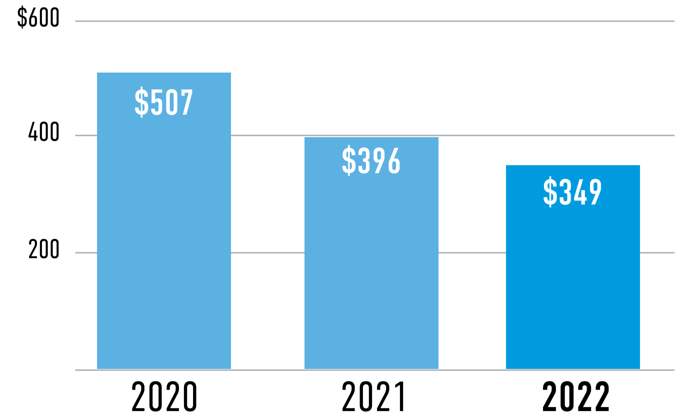
Deferred outflows of resources remained comparable for all three years.

LIABILITIES

Current liabilities increased $9 million in 2022 due to an increase in accounts payable offset by a decrease in current portion of long-term obligations. Accounts payable increased primarily as a result of higher balances owed for purchased power due to significantly higher wholesale market prices in December 2022 compared to December 2021. Current portion of long-term obligations is lower than the prior year due to a decrease in scheduled maturities of debt principal.

Current liabilities increased $11 million in 2021 due to increases in current portion of long-term obligations and accounts payable. Current portion of long-term obligations is higher than the prior year due to an increase in scheduled maturities of debt principal. Accounts payable increased due to higher accruals over the prior year resulting from fluctuations in the amount and timing of billings related to construction contracts.

Total Debt Outstanding
(amounts in millions)



During 2022, reductions in debt balances due to scheduled maturities of debt and early retirement of a portion of the 2011C bonds, were partially offset by accretion of interest on capital appreciation bonds, resulting in a net decrease in total debt outstanding of $47 million. This reduction in total debt contributed to the $41 million reduction in long-term debt in 2022, which is net of premiums and the current portion of the obligations. The District did not refinance or issue additional bonds in 2022.

During 2021, reductions in debt balances due to scheduled maturities of debt and early retirements on the 2011ABC bonds, were partially offset by accretion of interest on capital appreciation bonds, resulting in a net decrease in total debt outstanding of $111 million. This reduction in total debt contributed to the $126 million reduction in long-term debt in 2021, which is net of premiums and the current portion of the obligations. The District did not refinance or issue additional bonds in 2021.

Other liabilities increased $37 million in 2022, primarily due to an increase in unearned revenue. The District received a large cash deposit from a customer as prepayment for a portion of the cost of building the needed infrastructure to connect their planned data center to the District's electric system. The deposit was recorded as unearned revenue and will be recognized as contributions in aid of construction as the deposit is spent to fund construction of the infrastructure project.

Other liabilities decreased by $32 million in 2021, primarily due to the continued amortization of unearned wholesale power sales revenue combined with a decrease in pension liability. Unearned wholesale power sales revenue was received previously from power purchasers and is being recognized as revenue over the life of the agreements. Net pension liability fluctuates due to changes in the actuarial valuation of the collective net pension liability of PERS plans administered by the Washington State Department of Retirement Systems in which the District participates. As a result of the 2021 actuarial valuation, PERS Plans 2 and 3 were over-funded, resulting in a significant decrease in the District's net pension liability.

Deferred inflows of resources decreased $40 million and increased $61 million in 2022 and 2021, respectively. The decrease in 2022 was primarily due to a decline in the funded status of the Washington State Department of Retirement Systems' PERS Plans 2 and 3 as a result of the 2022 actuarial valuation. While the plans are still overfunded, the valuation was negatively impacted by changes of assumptions and differences between projected and actual investment earnings. The increase in 2021 was primarily due to the Department of Retirement Systems' annual actuarial valuation showing improved funding status of the PERS pension plans in which the District participates. The primary driver of the improvement was better-than-projected investment performance, resulting in an increase in the District's proportionate share of deferred inflows of resources.

NET POSITION

Net investment in capital assets increased $128 million and $185 million in 2022 and 2021, respectively. The increase in 2022 reflects additions to plant combined with reductions in debt as a result of both scheduled repayments and early retirements of existing debt. The increase in 2021 reflects additions to plant combined with reductions in debt as a result of both scheduled repayments and early retirements of existing debt.

Restricted net position represents resources that are subject to external restrictions, such as bond covenants or third-party contractual agreements. Restricted net position decreased $62 million in 2022 and increased $22 million in 2021, respectively. The decrease in 2022 was primarily due to lower balances restricted for capital spending and debt service payments, partially offset by the receipt of a large, restricted cash deposit from a customer as prepayment for a portion of the cost of building the needed infrastructure to connect their planned data center to the District's electric system. The increase in 2021 was primarily due to an increased balance of funding under long-term power sales agreements that are restricted for capital spending and debt service. The increase in these restricted funds was offset somewhat by a decrease in required bond reserves resulting from lower debt balances compared to the prior year.

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 2022, unrestricted net position increased $132 million due to the District's strong operating results. In 2021, unrestricted net position decreased $70 million due to the use of unrestricted cash reserves for debt repayment and capital spending. These outflows of cash exceeded the positive cash flow from operations.

REVENUES AND EXPENSES

Retail sales increased $24 million compared to 2021. Sales were higher due to a combination of increased usage as a result of weather conditions, increased revenue from an off-system retail load, local customer growth and a rate increase.

In 2021, retail sales increased $15 million compared to 2020. Sales were higher due to a combination of increased customer numbers, higher usage, a rate increase and increased revenue associated with an off-system retail load.

Wholesale sales increased $118 million compared to 2021 due to higher average market prices received on surplus sales of energy, additional proceeds from a long-term power sales agreement and an increase in environmental attribute revenue associated with a long-term power sales contract amendment.

In 2021, wholesale sales increased $70 million compared to 2020 due to higher average market prices received on surplus sales of energy and additional proceeds from a long-term power sales agreement.

Purchased power costs also increased $47 million in 2022 compared to 2021. The higher costs are primarily due to much higher average market prices compared to 2021.

Purchased power costs were $38 million higher in 2021 compared to 2020. The increase in costs was primarily due to higher average market prices on energy purchased to balance the District's resource and load.

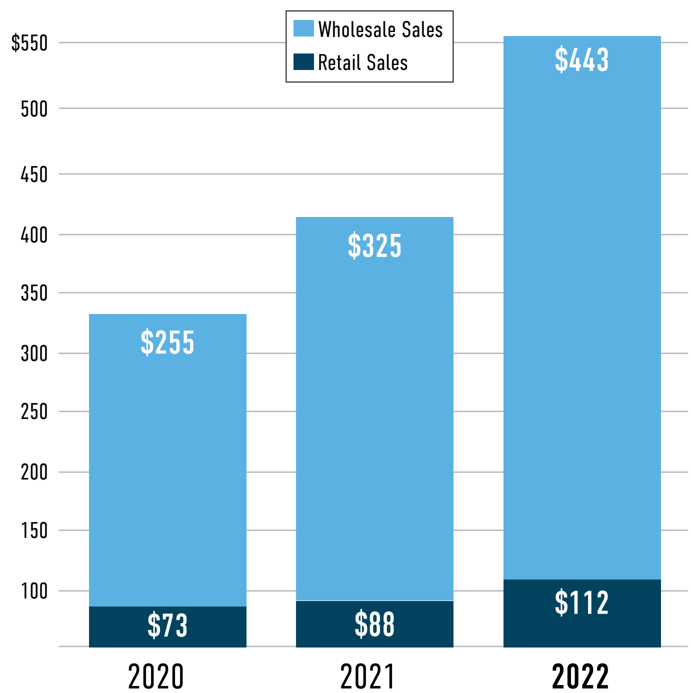
Other income and expenses, which included net interest expense and income, decreased by $1 million in 2022 primarily due to reduced interest on long-term debt resulting from lower debt balances.

Other income and expenses, which included net interest expense and income, decreased by $3 million in 2021 primarily due to reduced interest on long-term debt resulting from lower debt balances, partially offset by decreased investment income earned as a result of declining interest rates and lower cash and investment balances.

Net income before capital contributions increased $86 million compared to 2021. The increase in earnings is due to increased operating revenues resulting primarily from higher average market prices received on surplus sales of electricity and additional proceeds associated with a long-term power sales agreement, combined with an increase in revenue associated with a long-term power sales contract amendment that monetizes the environmental attributes attributable to the contractual share of energy output. Capital contributions remained relatively flat from 2022 to 2021. Special items – pensions decreased $26 million. This was a one-time accounting adjustment in the prior year.

In 2021, net income before capital contributions increased $32 million compared to 2020. The improvement in earnings is due to increased operating revenues resulting primarily from additional proceeds associated with a long-term power sales agreement and higher average market prices received on surplus sales of electricity. Capital contributions remained relatively flat from 2021 to 2020. Special items – pensions added $26 million as a result of the board action that resulted in a one-time accounting adjustment for transition to regulatory accounting for actuarial changes in pension expense.

Wholesale/Retail Revenues
(amounts in millions)



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, 2022 and 2021

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

(amounts in thousands)	2022	2021
CURRENT ASSETS		
Cash and cash equivalents	$ 32,072	$ 20,022
Investments	93,066	62,982
Accounts receivable, net	87,538	41,235
Accrued interest receivable	1,286	1,285
Materials and supplies	20,349	17,700
Prepayments and other	3,902	3,143
Current portion of regulatory assets	2,407	2,978
	240,620	149,345
RESTRICTED ASSETS - CURRENT		
Cash and cash equivalents	7,165	2,835
Investments	20,786	8,915
	27,951	11,750
TOTAL CURRENT ASSETS	268,571	161,095
UTILITY PLANT		
In service, at original cost	2,404,121	2,251,147
Construction work in progress	229,829	257,084
Less-accumulated depreciation	(1,162,731)	(1,124,714)
	1,471,219	1,383,517
RESTRICTED ASSETS - NONCURRENT		
Cash and cash equivalents	3,083	7,038
Investments	119,878	166,967
	122,961	174,005
OTHER ASSETS		
Deferred relicensing costs	6,540	3,099
Net pension asset	27,105	68,087
Long-term receivables, net	169	205
Long-term investments	264,157	239,059
Regulatory assets, net	53,381	35,418
Derivative instrument asset	1,944	6,032
Other	3,744	3,818
	357,040	355,718
TOTAL ASSETS	2,219,791	2,074,335
DEFERRED OUTFLOWS OF RESOURCES		
Losses on refunding debt	1,840	2,334
Pensions	26,734	8,465
Other post-employment benefits	459	259
	29,033	11,058
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 2,248,824	$ 2,085,393

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

(amounts in thousands)	2022	2021
CURRENT LIABILITIES		
Current portion of long-term obligations	$ 34,565	$ 44,706
Current portion of unearned revenue	15,321	15,110
Accounts payable	74,806	55,848
Accrued taxes	6,288	4,853
Accrued interest	3,777	4,427
Accrued vacation and other	17,672	18,036
	152,429	142,980
LONG-TERM DEBT		
Revenue bonds and notes payable, less current portion	331,169	372,444
OTHER LIABILITIES		
Unearned revenue, less current portion	124,549	96,108
Net pension liability	15,717	6,552
Long-term contract customer deposit	18,500	18,500
Licensing obligation, less current portion	9,366	8,976
Other liabilities	2,680	3,715
	170,812	133,851
TOTAL LIABILITIES	654,410	649,275
DEFERRED INFLOWS OF RESOURCES		
Derivatives	1,944	6,032
Pensions	27,518	70,220
Regulatory liabilities	40,438	33,427
Other post-employment benefits	246	336
	70,146	110,015
NET POSITION		
Net investment in capital assets	1,104,212	975,700
Restricted	102,967	165,291
Unrestricted	317,089	185,112
	1,524,268	1,326,103
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 2,248,824	$ 2,085,393

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, 2022 and 2021

(amounts in thousands)	2022	2021
OPERATING REVENUES		
Retail sales	$ 111,711	$ 88,028
Wholesale sales	442,509	324,623
Other operating revenues	35,674	30,193
	589,894	442,844
OPERATING EXPENSES		
Purchased power and water	126,275	79,122
Generation	113,998	114,083
Utility services	67,200	60,688
Other operating expenses	19,202	17,425
Taxes	14,469	11,552
Depreciation and amortization	52,371	48,185
	393,515	331,055
OPERATING INCOME	196,379	111,789
OTHER INCOME (EXPENSE)		
Interest on long-term debt	(17,779)	(21,330)
Amortization of deferred debt costs	(520)	(632)
Investment income	11,396	11,294
Other	273	2,750
	(6,630)	(7,918)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND SPECIAL ITEM	189,749	103,871
CAPITAL CONTRIBUTIONS	8,416	6,827
SPECIAL ITEM		
Regulatory accounting - pensions	-	26,427
CHANGE IN NET POSITION	198,165	137,125
TOTAL NET POSITION		
Beginning of year	1,326,103	1,188,978
TOTAL NET POSITION		
End of year	$ 1,524,268	$ 1,326,103

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

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2022 and 2021

(amounts in thousands)	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 530,393	$ 416,310
Payments to suppliers	(205,661)	(169,989)
Payments to employees	(116,203)	(108,271)
Net cash provided by operating activities	208,529	138,050
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to plant	(141,961)	(165,195)
Proceeds from sale of plant	411	430
Principal paid on debt	(55,627)	(120,692)
Interest paid on debt	(9,475)	(15,193)
Capital contributions	8,393	5,822
Other	30,013	(10,214)
Net cash used in capital and related financing activities	(168,246)	(305,042)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(190,093)	(113,736)
Proceeds from sales and maturities of investments	151,451	283,047
Interest on investments	11,585	11,835
Long-term receivables	35	42
Other, net	(836)	645
Net cash provided by (used in) investing activities	(27,858)	181,833
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,425	14,841
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	29,895	15,054
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 42,320	$ 29,895
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 196,379	$ 111,789
Depreciation and amortization	52,371	48,185
(Increase) decrease in operating assets:		
Accounts receivable, net	(46,303)	(11,655)
Materials and supplies	(2,649)	(2,951)
Prepayments	(759)	(970)
Net OPEB asset	356	33
Other	3,653	4,179
Deferred outflows of resources	(200)	(124)
Increase (decrease) in operating liabilities:		
Current portion unearned wholesale power sales	211	32
Accounts payable	17,897	3,322
Accrued taxes	1,435	282
Accrued vacation and other	(363)	638
Unearned wholesale revenue	(13,474)	(14,824)
Customer deposits	65	70
Deferred inflows of resources	(90)	44
Net cash provided by operating activities	$ 208,529	$ 138,050
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Construction costs included in accounts payable	$ 996	$ 2,139
Capital contributions	64	9,288
Amortization of regulatory assets	3,653	3,202

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

NOTE 1: SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity and Operations of the District

Public Utility District No. 1 of Chelan County (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 material 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."

In May 2019, GASB issued Statement No. 91, "Conduit Debt Obligations." This statement clarifies the existing definition of a conduit debt obligation, establishes that a conduit debt obligation is not a liability of the issuer and establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations. This statement is effective for fiscal year 2022. Implementation did not impact the District's financial statements.

In January 2020, GASB issued Statement No. 92, "Omnibus 2020." This statement addresses practice issues that have been identified during implementation of certain GASB issues and provides additional requirements for specific issues. The District adopted all elements of this statement for 2022. Adoption of the statement did not have a material impact on the Districts' financial statements.

In March 2020, GASB issued Statement No. 93, "Replacement of Interbank Offered rates." The objective of this statement is to remove payment agreements that depend on LIBOR (London Interbank Offered Rate). The statement also provides more guidance on hedges and lease provisions. This statement is effective for fiscal year 2022. Implementation did not impact the District's financial statements.

In March 2020, GASB issued Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements." This statement provides guidance for reporting relationships where nonfinancial exchanges are made and how they should be reported. This statement is effective for the District for fiscal year 2023. The District is currently evaluating the financial statement impact of adopting this statement.

In May 2020, GASB issued Statement No. 96, "Subscription Based Information Technology Arrangements." This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end-users. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended; including the establishment of an intangible asset and a corresponding subscription liability for qualified SBITAs. This statement is effective for the District for fiscal year 2023. The District is currently evaluating the financial statement impact of adopting this statement.

In April 2022, GASB Issued Statement No. 99, "Omnibus 2022." This statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing (a) practice issues that have been identified during implementation and application of certain GASB Statements and (b) accounting and financial reporting for financial guarantees. The statement is effective for fiscal year 2022. Adoption of the statement did not materially impact the District's financial statements.

In June 2022, GASB issued Statement No. 100, "Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62." The statement amends GASB Statement No. 62 and establishes accounting and financial reporting for (a) accounting changes and (b) the correction of an error in previously issued financial statements. The statement is effective for fiscal year 2024. The District elected to early implement this statement in 2022. Adoption of the statement did not impact the District's financial statements.

In June 2022, GASB issued Statement No. 101, "Compensated Absences." This statement requires that liabilities for compensated absences be recognized for (a) leave that has not been used and (b) leave that has been used but not yet paid in cash or settled through noncash means. The statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This statement is effective for the District for fiscal year 2024. The District is currently evaluating the financial statement impact of adopting this statement.

Change in Accounting Principle – Leases

In June 2017, GASB issued Statement No. 87, "Leases." The primary objective of Statement No. 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Note disclosures are also addressed. This statement was effective for the District beginning in fiscal year 2022.

The District's 2021 Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position were restated for the impacts of the required retroactive implementation of GASB Statement No. 87. Prior to implementation of this statement, certain lessee agreements were accounted for as operating leases and outflows of resources were recognized based on payment provisions of the contract. Upon the adoption of GASB Statement No. 87, the District is required to recognize a lease liability and intangible right-to-use assets for those lessee agreements.

The impacts of restating the District's 2021 financial statements are presented in the following tables:

Impacts to the District's Statement of Net Position

(amounts in thousands)	Restated 2021 Balance	2021 Balance as Previously Reported
UTILITY PLANT		
In service, at original cost	$ 2,251,147	$ 2,246,722
Less-accumulated depreciation	(1,124,714)	(1,124,002)
Net utility plant	1,383,517	1,379,804
TOTAL ASSETS	2,074,335	2,070,622
CURRENT LIABILITIES		
Current portion of long-term obligations	44,706	43,912
Total current liabilities	142,980	142,186
LIABILITIES		
Other	3,715	1,135
TOTAL LIABILITIES	649,275	645,901
NET POSITION	1,326,103	1,325,764

Impacts to the District's Statement of Revenues, Expenses and Changes in Net Position

(amounts in thousands)	Restated 2021 Results	2021 Results as Previously Reported
OPERATING EXPENSES		
Generation	$ 114,083	$ 114,928
Utility services	60,688	60,923
Depreciation and amortization	48,185	47,473
Total operating expenses	331,055	331,423
OTHER INCOME (EXPENSE)		
Other	2,750	2,779
Total other expense	(7,918)	(7,889)
CHANGE IN NET POSITION	137,125	136,786

Impacts to the District's Statement of Cash Flows

(amounts in thousands)	Restated 2021 Results	2021 Results as Previously Reported
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers	$ (169,989)	$ (171,069)
Net cash provided by operating activities	138,050	136,970
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES		
Additions to plant	(165,195)	(164,144)
Other	(10,214)	(10,185)
Net cash used in capital and related financing activities	(305,042)	(303,962)

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, lease liabilities, license obligations, unbilled revenues, 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 90 days or less when purchased.

Revenues and Expenses from Operations

Revenues of the District are recognized when services are delivered 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 $3.7 million and $3.0 million in 2022 and 2021, respectively. 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-or-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, effective in 2011 and 2012, respectively. 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 was deferred and is being recognized as revenue over the term of the contract.

Effective January 2022, the 20-year power sales contract with PSE for 25% of the output of the Rocky Reach and Rock Island projects was amended to reflect an allocation of the environmental attributes that result from the renewable, carbon-free energy generated from the District's hydroelectric dams. Through the remainder of the contract term, Puget will pay the District an amount for environmental attributes that is based on the volume of renewable energy credits generated and transferred to them, in addition to the other costs already being paid under the current long-term power sales contract.

In July 2008, the District entered into a 17-year power sales contract with Alcoa, Inc., now Alcoa Corporation, for output equivalent to 26% of the Rocky Reach and Rock Island projects, effective in 2011 and 2012, respectively. Alcoa, Inc. 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 was deferred and is being recognized as revenue over the term of the contract. The balance of the capacity reservation charge was to be deferred as long as the plant continued to operate and waived if the plant continued to operate under the terms of the contract for the entire contract term. In the event of a shutdown lasting longer than 90 days, the deferred charges would become due depending on the length of the shutdown.

In September 2015, Alcoa, Inc. announced its intention to split Alcoa, Inc. into two stand-alone corporations, Alcoa Corporation and Arconic, Inc. Alcoa, Inc. requested and the District consented to the assignment of the power sales agreement to the new entity known as Alcoa Corporation. The legal separation was effective November 1, 2016, and Alcoa, Inc. conveyed its worldwide aluminum operations, including its Wenatchee Works smelting facility, to Alcoa Corporation, and Alcoa Corporation assumed all of the rights and obligations under the power sales contract and related agreements.

In December 2015, Alcoa curtailed its Wenatchee Works smelting facility. Under terms of the power sales agreement, Alcoa Corporation must continue to pay its 26% share of the costs and charges regardless of the actual amount of energy produced or the amount of power used to operate Wenatchee Works.

In accordance with contract provisions addressing a shutdown event, the District is selling unused power in the wholesale market on Alcoa Corporation's behalf. After the 90-day threshold of being curtailed was reached, the proceeds from the sale of any unused power are first applied to Alcoa Corporation's monthly contractual costs. Any surplus proceeds in excess of Alcoa Corporation's costs are retained by the District, and any shortfalls are paid by Alcoa Corporation. Alcoa Corporation continues to have contractual rights to the 26% share of project output even while Wenatchee Works is idle.

Additional contract provisions apply for the initially deferred capacity charges due to the shutdown event. The first charge, the "Initial Shutdown Amount," of $8.6 million, became due and was paid in December 2016, upon the plant being idle for one year. The "Initial Shutdown Amount" was deferred and will be recognized in revenue over the remaining term of the agreement. A second charge, the "Shutdown

Settlement Amount," which is the $67.1 million deferred balance of the capacity reservation charge was scheduled to become due in the event the Wenatchee Works facility remained shut down for longer than 18 months measured from the December 2015 curtailment.

In May 2017, the District entered into an amendment to the power sales agreement that allowed a one year deferral of a large portion of the "Shutdown Settlement Amount" to June 2018. In exchange for the deferral, Alcoa paid the District one year of the deferred capacity charge amounting to $4.5 million and an additional $2.8 million to compensate the District for the value of the one-year deferral of the remaining balance of $62.4 million, as well as extending contract collateral requirements. The $4.5 million contract charge was deferred and will be recognized in revenue over the remaining term of the agreement. The $2.8 million deferral charge was included as a component of other operating revenues on the Statement of Revenues, Expenses and Changes in Net Position.

In June 2018, the Wenatchee Works smelting facility remained curtailed, and the $62.4 million balance of the Shutdown Settlement Amount became due and was paid by Alcoa Corporation. The $62.4 million contract charge was deferred and will be recognized in revenue over the remaining term of the agreement. The contract and original terms remain in place throughout the contract term.

In December 2021, Alcoa Corporation announced that the Wenatchee Works smelting facility will be permanently decommissioned. Closure of the plant does not impact the contract terms of the power sales agreement, which remains in effect until expiration in 2028.

In December 2021, the District entered into a 20-year power sales contract with Avista Corporation for 5% of the output of the Rocky Reach and Rock Island projects for the years 2026 thru 2030, and 10% of the output for the years 2031 thru 2045. Avista Corporation is generally responsible to pay 5% for the first 5 years and 10% for the remainder of the agreement, of all costs associated with the projects, including capital, operation and maintenance and debt service costs, in addition to charges for capital recovery, debt and various fees plus price adders that include a fixed portion for the additional value provided from the output, including from environmental attributes and capacity.

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, 2022, the Rocky Reach, Rock Island and Lake Chelan Systems sell 49%, 49% and 100%, 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 local load.

Revenues and purchased power expenses related to "booked-out" wholesale energy sales and purchases (agreement with counterparty to net settle before scheduling for delivery) are reported net in the Statement of Revenues, Expenses and Changes in Net Position as a component of Wholesale Sales. For the years ended December 31, 2022 and December 31, 2021, booked-out energy transactions amounted to $80.3 million and $55.7 million, respectively.

Revenues from the sale of environmental attributes associated with a portion of the District's hydroelectric and wind generation are recorded as generated when bundled with the associated energy, or as delivered, when unbundled from the energy and sold as a stand-alone financial instrument.

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, 2022, the District had two significant customers (greater than 10% of operating revenues), collectively comprising total revenue of $230.4 million. The District had two significant customers for the year ended December 31, 2021, collectively comprising total revenue of $140.1 million.

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

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

The District enters into forward physical power sales and purchase agreements to hedge expected forward surplus power and balance the District's anticipated power resources and demand for those power resources.

The District has implemented a multi-layered approach to power resource sales, including retail load, cost-plus contracts and a comprehensive market-based power hedging strategy to help manage risk and keep future rates stable and affordable. A key component of this strategy includes the execution of market-based wholesale products such as fixed price slice output contracts using a laddered approach over a rolling forward horizon of 60 months beyond the current year. The execution of this strategy helps mitigate the risks the District faces related to the wholesale power markets while securing stable revenue for the future. Forward physical block transactions are used to mitigate wholesale market price risk the District faces related to its long or short positions as defined by the hedging strategy. The execution of fixed price slice output contracts, which provide a counterparty with a percentage share of hydropower production for a fixed payment, help mitigate price risk, as well as mitigating volumetric risk related to river flows and production risk related to the District's ability to generate power due to generating unit outages.

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 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. In 2017, the District entered into an agreement under this resolution for a 10-year slice sale of 5% of Rocky Reach and Rock Island output for the years 2021-2030. Additionally, in March of 2021, the District entered into another agreement under the resolution for a 10-year slice of 5% of Rocky Reach and Rock Island output for the years 2024-2033, with an option to extend an additional five years. Both agreements further hedge against downside risk and help reduce wholesale revenue volatility.

On December 30, 2021, the District entered into an extended duration Power Sales Agreement that supports the long-term marketing strategy. This agreement has a delivery term of 20 years with deliveries occurring January 1, 2026 through December 31, 2045. The total amount of output sold is 5% of the output of Rocky Reach and Rock Island hydroelectric projects through December 31, 2030, increasing to 10% for the remainder of the term. The agreement pricing is based on the District's cost of production, where the counterparty pays their proportionate share, plus price adders that includes a fixed price portion for the additional value provided from the output, including from environmental attributes and capacity. Like the fixed price slice output contracts, this agreement hedges downside risk against low streamflow and outages and helps reduce wholesale volatility. In addition, it provides protection from rising costs.

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, and any exceptions to the assigned limits are reported to the Power Risk Management Committee.

The District requires that a one-way collateral annex be executed in conjunction with its slice output contracts, including the two 10-year market-based contracts, or when deemed necessary to mitigate the District's credit risk. The District is not required to post any collateral under these one-way margin agreements. Currently, the District requires 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 accepts 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 2021 and 2022 are classified as normal purchases and sales under GASB Statement No. 53, and 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 $101,000 at December 31, 2022 and 2021.

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, 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. 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 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.

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the Chelan County Public Utility District Retirees' Benefit Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Asset Retirement Obligations

An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. The District identified AROs for certain assets that are expected to operate in perpetuity. As the District cannot estimate a settlement date or extent of the obligation, a reasonable estimate of the obligation cannot be made. As such, ARO liabilities are not recorded for retirement activities associated with certain transmission, distribution and wastewater facilities and hydro-electric projects. The District does not have any recorded AROs as of December 31, 2022 or 2021.

Leases

The District is a lessee for noncancelable leases. The District recognizes a lease liability and an intangible right-to-use lease asset for lease liabilities with an initial, individual value of $1 million or more, or estimated annual payments of $250,000 or more. As of December 31, 2022 and 2021, the District's lease liability amounted to $2.6 million and $3.4 million, respectively.

At the commencement of the lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date. Subsequently, the lease asset is amortized using the straight-line method over its useful life.

Key estimates and judgements related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value and (2) lease term.

- None of the leases recorded by the District provide an interest rate charged by the lessor. In the absence of a provided interest rate, the District uses its incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease.

The District monitors changes in circumstances that would require a remeasurement of its leases, and will remeasure lease assets and liabilities if certain changes occur that are expected to significantly affect the amount of the lease liabilities.

The District is not currently a lessor for any material, noncancelable leases. The District would recognize a lease receivable and deferred inflows of resources for lease receivables with an initial, individual value of $1 million or more, or estimated annual payments of $250,000 or more. The District monitors changes in circumstances that would require it to recognize a lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly increase the materiality of the lessor agreements.

Subsequent Event

On February 7, 2023, 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 hydroelectric projects for the period November 1, 2031 through October 31, 2051. Under the terms of the agreement, 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 and various fees, plus price adders that include a fixed price portion for the additional value provided from the output, including from environmental attributes and capacity.

NOTE 2: CASH AND INVESTMENTS

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

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

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

(amounts in thousands)	2022	2021
Unrestricted assets		
Unrestricted	$ 105,140	$ 104,064
Board designated	284,155	217,999
Total unrestricted assets	389,295	322,063
Restricted assets	150,912	185,755
	$ 540,207	$ 507,818

As of December 31, 2022 and 2021, the District had the following cash and investments:

		Investment Maturities (in Years)			
Investment Type (amounts in thousands)	Total 2022	Less than 1	1 - 2	2 – 3	More than 3
U.S. Treasuries	$ 80,629	$ 20,553	$ -	$ 675	$ 59,401
U.S. Treasury Strips	27,535	9,963	-	-	17,572
U.S. Agency Notes	121,597	45,507	27,331	11,645	37,114
U.S. Agency Bills	22,338	22,338	-	-	-
Municipal Bonds	54,440	16,660	14,430	9,923	13,427
State Investment Pool	40,355	40,355	-	-	-
Certificates of Deposit	191,347	25,840	39,497	80,505	45,505
Cash Deposits	1,966	1,966	-	-	-
	$ 540,207	$ 183,182	$ 81,258	$ 102,748	$ 173,019

		Investment Maturities (in Years)			
Investment Type (amounts in thousands)	Total 2021	Less than 1	1 - 2	2 – 3	More than 3
U.S. Treasuries	$ 39,642	$ 18,925	$ -	$ -	$ 20,717
U.S. Treasury Strips	36,854	17,327	-	-	19,527
U.S. Agency Notes	139,545	19,789	47,278	29,290	43,188
U.S. Agency Bills	3,482	-	3,482	-	-
Municipal Bonds	83,258	24,709	17,273	15,188	26,088
State Investment Pool	64	64	-	-	-
Certificates of Deposit	175,143	32,275	5,528	38,339	99,001
Cash Deposits	29,830	29,830	-	-	-
	$ 507,818	$ 142,919	$ 73,561	$ 82,817	$ 208,521

Valuation of investments. The District reports cash on hand and bank deposits at their carrying amount. U.S. Treasury 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. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical securities. Investments classified in Level 2 are valued using observable inputs including quoted prices for similar assets or market corroborated pricing inputs such as yield curves and indices. U.S. Treasury bills, notes or bonds, U.S. Government agency securities, municipal bonds and commercial paper that had a remaining maturity at the time of purchase of one year or less are recorded at amortized cost, which approximates fair value. It is generally the District's policy to hold investments to maturity.

The District also reports its investment in the Washington State Treasurer's Local Government Investment Pool (LGIP) at amortized cost. The LGIP is an unrated external investment pool which reports its investments at amortized cost and transacts with its participants at a stable net asset value per share of $1.00. Participants may contribute and withdraw funds on a daily basis and must inform the LGIP of any contribution or withdrawal over $1 million no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for $1 million or less can be requested at any time prior to 10:00 a.m. on the day of the transaction. However, participants may complete transactions greater than $1 million when notification is made between 9:00 a.m. and 10:00 a.m., at the sole discretion of the LGIP. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The following schedule presents fair value measurements as of December 31, 2022 and 2021:

		Fair Value Measurements Using				
Investments (amounts in thousands)	Total 2022	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Net Asset Value (NAV)	Not Leveled
U.S. Treasuries	$ 80,629	$ 60,076	$ -	$ -	$ -	$ 20,553
U.S. Treasury Strips	27,535	17,572	-	-	-	9,963
U.S. Agency Notes	121,597	-	121,597	-	-	-
U.S. Agency Bills	22,338	-	3,412	-	-	18,926
Municipal Bonds	54,440	-	54,440	-	-	-
State Investment Pool	40,355	-	-	-	-	40,355
Certificates of Deposit	191,347	-	-	-	-	191,347
Cash Deposits	1,966	-	-	-	-	1,966
Total Investments	$ 540,207	$ 77,648	$ 179,449	$ -	$ -	$ 283,110

		Fair Value Measurements Using				
Investments (amounts in thousands)	Total 2021	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Net Asset Value (NAV)	Not Leveled
U.S. Treasuries	$ 39,642	$ 20,717	$ -	$ -	$ -	$ 18,925
U.S. Treasury Strips	36,854	36,854	-	-	-	-
U.S. Agency Notes	139,545	-	139,545	-	-	-
U.S. Agency Bills	3,482	-	3,482	-	-	-
Municipal Bonds	83,258	-	83,258	-	-	-
State Investment Pool	64	-	-	-	-	64
Certificates of Deposit	175,143	-	-	-	-	175,143
Cash Deposits	29,830	-	-	-	-	29,830
Total Investments	$ 507,818	$ 57,571	$ 226,285	$ -	$ -	$ 223,962

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. Callable investments are assumed to be held to maturity.

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 75% of the qualifying portfolio and no more than 25% 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 3% 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 LGIP, limited to no more than 25% 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, and when combined with bonds of the State of Washington or any local government in the State of Washington, limited to no more than 30% of the qualifying portfolio and no more than 5% of the total assets invested with a single issuer; 10) and any other investment permitted under the laws of the State of Washington.

As of December 31, 2022 and 2021, investments in debt securities had credit quality ratings as follows:

Investment Rating (S&P Equivalent)

(amounts in thousands)	2022	2021
Long Term		
AAA	$ 13,455	$ 21,546
AA+	139,061	136,113
AA	21,356	35,856
AA-	16,760	19,310
	$ 190,632	$ 212,825

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 state or local government bonds are limited to no more than 5% of the District's total investment portfolio, and investments in an individual issuer of commercial paper are limited to no more than 3%; 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, 2022 and 2021, 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 2022	2021
Federal Farm Credit Bank	AA+	9%	9%
Federal Home Loan Bank	AA+	10%	10%

Derivative Instruments – Forward Purchase Agreement

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, 2022, are provided below.

Forward Purchase Agreement

Counterparty	Credit Rating by Moody's/S&P/ Fitch	Guaranteed Yield	Notional Amount	Effective Date	Maturity	12/31/22 Fair Value	12/31/21 Fair Value
Wells Fargo Bank, N.A.	Aa2/A+/AA-	6.63%	$ 18,820,179	12/22/1999	6/1/2029	$ 1,944,125	$ 6,031,807

As of December 31, 2022 and 2021, 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 interest rates which are lower than when the forward purchase agreement was entered into, the agreement had a positive fair value to the District as of December 31, 2022 and 2021. 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 income approach.

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 preceding table.

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, 2022 and 2021 is as follows:

(amounts in thousands)	January 1, 2022	Additions	Reductions and Transfers	December 31, 2022	Depreciation Expense
Hydroelectric generation	$ 1,365,628	$ 99,805	$ (8,615)	$ 1,456,818	$ 23,767
Transmission	165,012	4,479	(576)	168,915	3,268
Distribution	298,393	31,168	(2,104)	327,457	8,059
General plant	180,777	25,204	(4,055)	201,926	9,678
Intangible	40,666	690	-	41,356	809
Intangible right-to-use lease asset	4,425	-	-	4,425	772
Telecommunications	104,899	5,743	(229)	110,413	4,142
Water/ Wastewater	91,347	1,646	(182)	92,811	1,876
	2,251,147	168,735	(15,761)	2,404,121	$ 52,371
Construction work in progress	257,084	140,726	(167,981)	229,829	
Accumulated depreciation	(1,124,002)	(51,600)	14,355	(1,161,247)	
Accumulated depreciation intangible right-to-use lease asset	(712)	(772)	-	(1,484)	
	$ 1,383,517	$ 257,089	$ (169,387)	$ 1,471,219	

(amounts in thousands)	January 1, 2021	Additions	Reductions and Transfers	December 31, 2021	Depreciation Expense
Hydroelectric generation	$ 1,292,582	$ 78,543	$ (5,497)	$ 1,365,628	$ 21,887
Transmission	162,514	2,846	(348)	165,012	3,265
Distribution	275,483	25,237	(2,327)	298,393	7,969
General plant	172,511	10,681	(2,415)	180,777	7,900
Intangible	40,346	320	-	40,666	800
Intangible right-to-use lease asset	-	4,425	-	4,425	712
Telecommunications	100,353	4,594	(48)	104,899	3,825
Water/ Wastewater	90,350	1,422	(425)	91,347	1,827
	2,134,139	128,068	(11,060)	2,251,147	$ 48,185
Construction work in progress	206,188	164,930	(114,034)	257,084	
Accumulated depreciation	(1,086,787)	(47,473)	10,258	(1,124,002)	
Accumulated depreciation intangible right-to-use lease asset	-	(712)	-	(712)	
	$ 1,253,540	$ 244,813	$ (114,836)	$ 1,383,517	

Plant assets include land of $85.2 million and $84.9 million as of December 31, 2022 and 2021, respectively.

In 2013, the four large generating units at Rocky Reach Dam were taken out of service after discovering that one of the turbines had a deep crack in a stainless steel servo-rod, which is part of the mechanism used to adjust turbine blades. 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 by limiting the blades to a fixed operating mode, with the last of the four large units being returned to service in April 2014. The first two units have been repaired and returned to Kaplan operation with variable blade capability in December 2017 and January 2020, respectively. The remaining two units are in service with fixed blade operation with repairs scheduled to begin in early 2023, and both units are expected to return to service by late 2024. The seven additional generating units at Rocky Reach do not have a similar design and were not impacted by this repair.

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.

Leases

The District entered into a lease agreement to lease digital monitoring equipment for use at Rock Island Hydro. The lease is for a period of 234 months, beginning July 1, 2021. The lease terminates December 2040. Under the terms of the agreement, the District pays an annual fee in accordance with the payment schedule defined in the contract. The District made a lease payment of $227,400 in 2022. Lease payments step-down over the life of the agreement and range from $227,400 to $56,300.

A summary of scheduled principal and interest requirements to maturity is as follows:

(amounts in thousands)	Principal	Interest
2023	$ 444	$ 64
2024	170	57
2025	175	53
2026	179	48
2027	184	44
2028-2032	801	148
2033-2037	444	54
2038-2042	158	11

NOTE 4: LICENSING

The District's hydroelectric projects are licensed under the Federal Power Act of 1920 and subsequent amendments. The Rock Island Project license was issued in January 1989. The Rock Island Project license expires December 31, 2028. Since 2021, the District has voluntarily been meeting with stakeholders, including local communities, state and federal agencies, Tribes and non-governmental organizations, to identify and conduct necessary studies in support of the relicensing process which begins in the second half of 2023. 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 costs associated with relicensing 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 Riverfront 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 non-governmental organizations. 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 $9.8 million and $9.4 million as of December 31, 2022 and 2021, 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 funding obligations, accounted for as intangible assets, for the years ended December 31, 2022 and 2021 are as follows:

(amounts in thousands)	2022	2021
Licensing obligation - beginning of year	$ 9,415	$ 9,640
Additions	690	320
Reductions	(272)	(545)
Licensing obligation - end of year	$ 9,833	$ 9,415

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 non-governmental organizations. 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, and operation and maintenance of Beebe Bridge, Chelan Falls, Powerhouse, Entiat, Daroga, Lincoln Rock and Rocky Reach Dam parks. 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. The Rocky Reach project license does not contain funding obligations; therefore, future costs of implementing the license requirements cannot be reasonably estimated and no obligation has been recorded. 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.

The following regulatory balances are as of December 31, 2022 and 2021.

(amounts in thousands)	2022	2021
Regulatory assets:		
Swap termination payments	$ 6,922	$ 9,492
Conservation expenses	22,666	19,597
Debt issuance costs	2,659	3,188
Investments in assets owned by others	8,277	5,489
Fair value of investments	15,263	409
Pension expense	-	222
	$ 55,787	$ 38,397
Regulatory liabilities:		
Contributed capital	$ 29,139	$ 29,098
Pension expense	10,604	-
Fair value of investments	695	4,329
	$ 40,438	$ 33,427

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.

Investments in Assets Owned by Others. The District makes various contributions toward the cost of constructing assets that will be owned and maintained by another entity. These investments are made under agreements by which the District either directly or indirectly receives a benefit from construction of the asset. The Commission has approved a resolution that requires investments exceeding $1 million be deferred and amortized over the estimated benefit period in order to match the expense with the period the investment will be recovered through rates.

Pension Expense. The Commission approved a resolution to include the cash contribution for pensions, as set by the Washington State Pension Funding Council, in the District's rate-setting calculations. This board action requires the use of regulatory accounting to defer any differences between the cash contributions and pension expense calculated in accordance with GASB 68 "Accounting and Financial Reporting for Pensions" as regulatory assets and/or liabilities. This approach matches pension expense with the recovery of the contributions through rates.

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, both realized and unrealized changes in fair value are to be reflected in Net Increase/(Decrease) in Net Position for the period. The Commission, however, approved a resolution providing for the deferral of these gains and losses as regulatory assets and/or liabilities in recognition that any unrealized amounts will not be included in the District's ratemaking process due to the fact that they do not have an impact on cash flows as long as they are held to maturity; and any realized gains or losses will be amortized and included in rates over the remaining life of the investments at the time of sale.

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.

NOTE 6: LONG-TERM DEBT

(amounts in thousands)	January 1, 2022	Additions	Reductions	December 31, 2022	Due Within One Year
Revenue Bonds					
Rock Island Revenue Bonds, 6% to 6.05%, due June 1, 2023, to June 1, 2029	$ 159,151	$ 8,953	$ (22,685)	$ 145,419	$ 22,685
Consolidated System Revenue Bonds, 4% to 5%, due July 1, 2023, to July 1, 2039 (net unamortized premiums of $15,929)	250,589	-	(36,575)	214,014	10,180
	409,740	8,953	(59,260)	359,433	32,865
Notes from Direct Borrowings					
Notes, 0.25% to 1.8%, due March 30, 2023, to March 30, 2040	6,176	-	(787)	5,389	788
Total Long Term Debt	$ 415,916	$ 8,953	$ (60,047)	$ 364,822	$ 33,653

(amounts in thousands)	January 1, 2021	Additions	Reductions	December 31, 2021	Due Within One Year
Revenue Bonds					
Rock Island Revenue Bonds, 6% to 6.05%, due June 1, 2022, to June 1, 2029	$ 172,096	$ 9,740	$ (22,685)	$ 159,151	$ 22,685
Consolidated System Revenue Bonds, 3.903% to 5.0%, due July 1, 2022, to July 1, 2039 (net unamortized premiums of $20,350)	355,169	-	(104,580)	250,589	20,000
	527,265	9,740	(127,265)	409,740	42,685
Notes from Direct Borrowings					
Notes, 0.25% to 1.8%, due March 30, 2022, to March 30, 2040	6,962	-	(786)	6,176	787
Total Long Term Debt	$ 534,227	$ 9,740	$ (128,051)	$ 415,916	$ 43,472

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

Principal and Interest

(amounts in thousands)	Revenue Bonds		Direct Borrowings	
	Principal	Interest	Principal	Interest
2023	$ 32,865	$ 8,887	$ 788	$ 38
2024	45,720	8,142	789	33
2025	48,495	7,083	790	29
2026	45,290	5,920	614	24
2027	27,895	4,912	567	20
2028-2032	151,155	18,686	1,021	71
2033-2037	19,695	3,961	538	35
2038-2042	7,675	462	282	5
Total	$ 378,790	$ 58,053	$ 5,389	$ 255

Estimated principal retirements are based on the assumption that all bonds are called or purchased at par. Principal retirements of $378.8 million also include $35.3 million of future appreciation on Capital Appreciation Bonds (CABs).

The Consolidated System Revenue Bonds, Series 2008B, in the outstanding amount of $40.2 million at December 31, 2022, were issued as variable rate bonds and have a reset of interest rates every seven days. The original standby bond purchase agreement (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 (Replacement Credit Facility). The Replacement Credit Facility was extended on April 17, 2015, and was terminated on June 22, 2018. The currently active standby bond purchase agreement was entered into with Barclays Bank PLC (Barclays) as of June 1, 2018 (Active Credit Facility), and was extended on December 20, 2021. The Active Credit Facility will be in effect through July 1, 2027. The District paid Barclays a commitment fee of 35 basis points as prescribed in the Active Credit Facility through June 30, 2022 and will pay a commitment fee of 31 basis points from July 1, 2022 through July 1, 2027. If any 2008B bonds are purchased and held by Barclays, the bonds will bear interest at a fluctuating annual rate as specified by the Active Credit Facility, which would be at least 700 basis points. In addition, any 2008B bonds purchased and held under the Active Credit Facility are subject to special mandatory redemption over a five-year period in twenty equal quarterly principal installments. As of December 31, 2022, Barclays does not hold any un-remarketed 2008B bonds.

The District has covenanted in a 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 the Consolidated System Bonds.

The Consolidated System currently includes the District's retail electric utility business operations (referred to as the "Distribution Division"), the Lake Chelan Project, the Fiber and Telecommunications System, the Water System and the Wastewater System. Although these systems have been consolidated into the Consolidated System for financing purposes, all of these systems are accounted for separately.

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, 2022 and 2021, 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. These intra-district purchases are eliminated in the Statements of Revenues, Expenses and Changes in Net Position. Power purchases from external sources amounted to $125.8 million and $78.7 million for 2022 and 2021, respectively, and is included as purchased power in the Statements of Revenues, Expenses and Changes in Net Position. 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 Plans

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 nor examined such information and does not express an opinion nor any other form of assurance with respect thereto.

Public Employees' Retirement System (PERS)

PERS was established in 1947 and its retirement benefit provisions are contained in chapters 41.34 RCW and 41.40 RCW. PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1

Benefits Provided. PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions. The PERS Plan 1 member contribution rate is established by State statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 %. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

PERS Plan 1

Actual Contribution Rates:	Employer	Employee
January through August 2022	10.25%	6.00%
September through December 2022	10.39%	6.00%

For the years ended December 31, 2022 and 2021, the District's actual contributions to the plan were $6,400 and $36,500, respectively.

PERS Plan 2/3

Benefits Provided. PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and one percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 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 benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five 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 credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. 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 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5% and escalate to 15% with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions. The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 Unfunded Actuarial Accrued Liability (UAAL) and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

PERS Plan 2/3

Actual Contribution Rates:	Employer 2/3	Employee 2
January through August 2022	10.25%	6.36%
September through December 2022	10.39%	6.36%
Employee PERS Plan 3		varies

For the years ended December 31, 2022 and 2021, the District's actual contributions to the plans were $9.4 million and $9.9 million, respectively.

Pension Liabilities, Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2022 and 2021, the District reported a total net pension liability (asset) of ($11.4) million and ($61.5) million, respectively, for its proportionate share of the net pension liabilities as follows:

	Liability (Asset)	
(amounts in thousands)	2022	2021
PERS 1	$ 15,717	$ 6,552
PERS 2/3	$ (27,105)	$ (68,087)

At December 31, the District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 12/31/22	Proportionate Share 12/31/21	Change in Proportion
PERS 1	.564484%	.536512%	.027972%
PERS 2/3	.730844%	.683495%	.047349%

Employer contribution transmittals received and processed by DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by DRS in the *Schedules of Employer and Nonemployer Allocations*. The collective net pension liability was measured as of June 30, 2022, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2021, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

During 2021, the Commission took board action which resulted in the District applying regulatory accounting to recognize pension expense in the amount of the required employer contributions in order to align the recognition of expense with the recovery of contributions through rates. For the years ended December 31, 2022 and 2021, the District recognized pension expense as follows:

	Pension Expense	
(amounts in thousands)	2022	2021
PERS 1	$ 6	$ 37
PERS 2/3	9,389	9,891
TOTAL	$ 9,395	$ 9,928

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2022 and 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1

(amounts in thousands)	Deferred Outflows of Resources 2022	Deferred Inflows of Resources 2022	Deferred Outflows of Resources 2021	Deferred Inflows of Resources 2021
Differences between expected and actual experience	$ -	$ -	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	2,605	-	7,271
Changes of assumptions	-	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-
Contributions subsequent to the measurement date	1,777	-	1,806	-
TOTAL	$ 1,777	$ 2,605	$ 1,806	$ 7,271

PERS Plan 2/3

(amounts in thousands)	Deferred Outflows of Resources 2022	Deferred Inflows of Resources 2022	Deferred Outflows of Resources 2021	Deferred Inflows of Resources 2021
Differences between expected and actual experience	$ 6,716	$ 614	$ 3,307	$ 834
Net difference between projected and actual investment earnings on pension plan investments	-	20,039	-	56,905
Changes of assumptions	15,108	3,956	99	4,835
Changes in proportion and differences between contributions and proportionate share of contributions	160	303	210	375
Contributions subsequent to the measurement date	2,974	-	3,043	-
TOTAL	$ 24,958	$ 24,912	$ 6,659	$ 62,949

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

(amounts in thousands) Year ended December 31:	PERS Plan 1	PERS Plan 2/3
2023	$ 674	$ (3,223)
2024	(1,001)	(5,522)
2025	(1,256)	(6,701)
2026	755	9,115
2027	-	3,204
Thereafter	-	3,173
Total	$ (828)	$ 46

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023.

Actuarial Methods and Assumptions

Actuarial Assumptions. The total pension liability (TPL) for each of the PERS plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. The actuarial assumptions used in the valuation were based on the results of the *2013-2018 Demographic Experience Study* and the *2021 Economic Experience Study.*

Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022. Plan liabilities were rolled forward from June 30, 2021, to June 30, 2022, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.25% salary inflation
- **Salary increases:** In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.0%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status (e.g., active, retiree or survivor), as the base table. Office of the State Actuary (OSA) applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Under "generational" mortality, a member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

Discount Rate. The discount rate used to measure the total pension liability for all PERS plans was 7.0%. To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Based on the assumptions described in OSA's certification letter within the DRS ACFR, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.0% was used to determine the total liability.

Long-Term Expected Rate of Return. OSA selected a 7.0% long-term expected rate of return on pension plan investments using a building-block method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMAs and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022, are summarized in the table below. The inflation component used to create the table is 2.2% and represents WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.5%
Tangible Assets	7%	4.7%
Real Estate	18%	5.4%
Global Equity	32%	5.9%
Private Equity	23%	8.9%
	100%	

Sensitivity of Net Pension Liability (Asset)

The table below presents the District's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.0%, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate.

(amounts in thousands)	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
PERS 1	$ 20,998	$ 15,717	$ 11,108
PERS 2/3	$ 31,920	$ (27,105)	$ (75,599)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

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 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 $10,250 or up to a maximum of $13,500 for employees age 50 years and over. The District's 401(a) Plan matching contributions for the years ending December 31, 2022 and 2021, were $2.9 million and $2.7 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 other postemployment benefits (OPEB) for retirees and their dependents. The retiree medical plan does not issue a publicly available financial report.

Benefits Provided

The retiree medical plan provides healthcare and vision insurance until the age of 65 for retirees and their spouses and until the age of 26 for children. Insurance coverage is provided through the District's group health insurance plan, which covers both active and retired members.

Employees Covered by Benefit Terms

At December 31, 2022, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	19
Inactive employees entitled to but not yet receiving benefits	-
Active Employees	781
Total	800

Contributions

The District's subsidy of the cost of 2022 and 2021 premiums for eligible retired plan members and their spouses amounted to $106,000 and $95,000, respectively. Plan members receiving benefits contributed 80% of the premium costs for the years 2022 and 2021. 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.

Net OPEB Asset

As of December 31, 2022 and 2021, the retiree medical plan was fully funded. The District's net OPEB asset was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of that date. Actuarial update procedures were used to roll forward the service cost and the total OPEB liability to the December 31, 2022, measurement date.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into 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 Assumptions

The total OPEB liability in the September 30, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation rate	3.0%
Salary increases	3.75%
Discount rate	4.0%
Healthcare cost trend rates	A healthcare trend is not used in the valuation as retiree premiums are assumed to be age-adjusted and changes in the District's subsidy are solely dependent on inflation.

Rates of retirement, mortality, withdrawal and disability are all based on the rates published by the Office of the State Actuary for PERS plan participants.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which estimates of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage and by adding expected inflation. The current asset allocation and estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Fund Type	% of Total Portfolio	Expected Long-Term Real Rate of Return
Domestic Equity	33%	3.8%
Foreign Equity	19%	5.4%
Fixed Income	41%	(1.9%)
Real Estate	6%	2.6%
3 Month Treasury Bills	1%	(2.3%)
	100%	

Discount Rate

The discount rate used to measure the total OPEB liability was 4.0%. Based on expected 5% long-term rate of return on the OPEB plan's assets, the fiduciary net position was only projected to be available to make projected OPEB payments for plan participants through 2048. Therefore, the expected long-term rate of return on the plans assets has been blended with the December 31, 2021, rate of 2.06% in the 20-year General Obligation Municipal Bond Index published by Bond Buyer.

Changes in the Net OPEB Liability (Asset)

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a)(b)
Balances at 1/1/2022	$ 1,095,065	$ (1,669,622)	$ (574,557)
Changes for the year:			
Service cost	39,406	-	39,406
Interest	31,660	-	31,660
Differences between expected and actual Income	-	312,796	312,796
Change in assumptions	-	-	-
Experience (Gain)/Loss	-	-	-
Contributions - retirees	423,518	(423,518)	-
Net investment income	-	(67,324)	(67,324)
Benefit payments	(607,112)	607,112	-
Administrative expense	-	39,170	39,170
Net changes	(112,528)	468,236	355,708
Balances at 12/31/2022	$ 982,537	$ (1,201,386)	$ (218,849)

Sensitivity of the net OPEB asset to changes in the discount rate.

The following presents the net OPEB asset of the District, as well as what the District's net OPEB asset would be if it were calculated using a discount rate that is 1 percentage point lower 3.0% or 1 percentage point higher 5.0% than the current discount rate:

	1% Decrease 3.0%	Current Discount Rate 4.0%	1% Increase 5.0%
Net OPEB (asset)	$ (143,040)	$ (218,849)	$ (274,840)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the years ended December 31, 2022 and 2021, the District recognized OPEB expense of $65,831 and $(46,911), respectively. At December 31, 2022 and 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2022	2021	2022	2021
Differences between expected and actual experience	$ 209,086	$ 234,034	$ -	$ -
Changes of assumptions	-	-	111,999	125,821
Net difference between actual and projected earnings	250,236	25,236	134,329	210,332
Total	$ 459,322	$ 259,270	$ 246,328	$ 336,153

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:	
2023	$ (2,317)
2024	31,166
2025	57,880
2026	73,682
2027	11,126
Thereafter	41,457

NOTE 10: SEGMENT DISCLOSURE

The District has outstanding revenue bonds used to finance the Rock Island hydroelectric production facility. The outstanding bond issues are secured by a pledge of the net revenues of the project. The 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 project for repayment. Summary financial information as of, and for the years ended, December 31, 2022 and 2021, for the Rock Island project is presented below. The financial information for 2021 was restated for the impacts of the required retroactive implementation of GASB Statement No. 87. 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)	2022	2021
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets	$ 5,346	$ 4,819
Restricted assets – current	8,396	7,132
Total current assets	13,742	11,951
Utility plant, net	530,759	501.460
Restricted assets – noncurrent	56,103	99,653
Other assets	28,445	39,677
Deferred outflows of resources	8,707	4,058
Total assets and deferred outflows of resources	$ 637,756	$ 656,799
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current liabilities	$ 49,091	$ 46,865
Long-term debt	273,379	320,947
Other liabilities	22,382	20,804
Total liabilities	344,852	388,616
Deferred inflows of resources	28,566	43,756
Net Position:		
Net investment in capital assets	388,207	342,200
Restricted	59,145	100,601
Unrestricted	(183,014)	(218,374)
Total net position	264,338	224,427
Total liabilities, deferred inflows of resources and net position	$ 637,756	$ 656,799

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(amounts in thousands)	2022	2021
Operating revenues	$ 137,366	$ 134,941
Less:		
Operating expenses	61,631	62,074
Depreciation and amortization	13,837	12,302
Operating income	61,898	60,565
Other expense	22,856	22,395
Income before capital contributions, special item and interfund transfers	39,042	38,170
Capital contributions	736	569
Special Item	-	7,270
Interfund transfers	132	117
Change in net position	39,910	46,126
Total net position – beginning of year	224,428	178,302
Total net position - end of year	$ 264,338	$ 224,428

CONDENSED STATEMENTS OF CASH FLOWS

(amounts in thousands)	2022	2021
Net cash provided (used) by:		
Operating activities	$ 78,630	$ 71,909
Capital and related financing activities	(119,378)	(74,274)
Investing activities	39,319	5,939
Net increase (decrease)	(1,429)	3,574
Beginning cash and cash equivalents	5,926	2,352
Ending cash and cash equivalents	$ 4,497	$ 5,926

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, 2022 and 2021, is summarized in the following table for each insurance program:

(amounts in thousands)	Property & Liability	Workers Compensation	Medical & Health	Dental
Claims liability as of January 1, 2022	$ -	$ 404	$ 1,065	$ 135
Claims accrued	26	835	17,114	1,142
Claims paid	(26)	(906)	(16,380)	(1,250)
Claims liability as of December 31, 2022	$ -	$ 333	$ 1,799	$ 27

(amounts in thousands)	Property & Liability	Workers Compensation	Medical & Health	Dental
Claims liability as of January 1, 2021	$ -	$ 495	$ 1,607	$ 47
Claims accrued	-	675	17,556	1,212
Claims paid	-	(766)	(18,098)	(1,124)
Claims liability as of December 31, 2021	$ -	$ 404	$ 1,065	$ 135
Commercial insurance deductible as of December 31, 2022 and 2021.	Up to $2,000,000 depending on line of coverage	$500,000 per incident	$300,000 per incident	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 and do not expire until June 2054. 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 are signatories to the HCPs. 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 HCPs to warrant approval of NNI status. The District is responsible for managing 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 confirm project survival, verifying protection levels continue to meet the HCP standards. The 10-year assessments will take place for the duration of the HCPs. In 2021, the District conducted its first 10-year confirmation survival study at the Rock Island project. The District met the combined adult and juvenile project survival standard, and the next confirmation will occur in 2031. In 2023, the District will conduct a confirmation survival study at the Rocky Reach project.

The Columbia River Distinct Population Segment of bull trout is listed by the USFWS (the Service) 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. Additionally, the Mid-Columbia Recovery Unit Implementation Plan (RUIP), in support of the Bull Trout Recovery Plan, was finalized in September 2015 and updated in 2019. 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. The plan for Rocky Reach 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. To date, no additional consultation has been required for the projects.

Revised Washington State Department of Ecology (WDOE) water quality standards (WQS) became effective in August 2017. 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 WDOE that are consistent with the revised WQS. The WDOE allows the District a ten-year window to demonstrate compliance with the new WQS and can require the District to conduct further studies, implement further operational changes or even, in a worst-case event, provide structural changes to meet requirements. Compliance with the conditions set forth in these WQS place the District on a path forward in maintaining or achieving water quality standards. Water Quality Certifications may require that further studies be conducted to document methods implemented to address compliance of the WQS during the ten-year window and beyond. In 2019, the District conducted its first 10-year evaluation of compliance with the total dissolved gas WQS at Rocky Reach. Based on the evaluation report, the WDOE determined the District had demonstrated reasonable compliance with the 401 water quality certification, and must submit a second 10-year evaluation compliance report in 2029.

Asset Management Program

The District's capital improvement programs include large projects at Rock Island Dam for replacement of generators and turbines in both the first and second powerhouses. The District has committed by contract to fulfill these programs between 2023 and 2031. The contractually committed amount on the future work to be performed on these major capital programs is approximately $93.9 million as of December 31, 2022.

The District also has contractual commitments relating to other significant capital improvement projects including an advanced meter infrastructure project and construction of a new comprehensive Service Center. As of December 31, 2022, commitments total approximately $44.2 million and will be fulfilled during 2023 and 2024.

In addition, the District has contractual commitments relating to large projects at Rocky Reach Dam for turbine repairs expected to be completed in late 2024. As of December 31, 2022, the remaining contractual commitments for this work totals approximately $11.7 million.

Power Marketing

As of December 31, 2022, the District had entered into forward block contracts obligating it to deliver approximately 3,329,000 MWh of energy at various times during 2023-2024. The District expects to receive approximately $264.9 million for of this power. In addition, 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 2023-2033, in exchange for approximately $496.9 million.

The District has committed to purchase approximately 1,438,000 MWh of energy at a cost of approximately $160.3 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.

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, also was 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, 2022, the District's share of bond principal was $0.8 million and was not to exceed $1.0 million with the step-up provision. The power purchased under this contract is reported as a component of Purchased Power Operating Expenses.

The District declined to participate in phase III of the Project. In October 2006, the District signed a second amended power purchase agreement, reducing the District's share in the combined project to approximately 8.3% once phase III began commercial operation and extending the expiration of the agreement to 2030. The District's debt obligations related to phases I and II remain the same, but its percentage 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)	2022	2021
Operating revenues		
Wholesale fiber services	$ 7,186	$ 7,208
Fiber leasing	853	870
Intradistrict revenues	3,195	3,260
Total operating revenues	11,234	11,338
Operating expenses		
Administrative and general	2,182	2,092
Repairs and maintenance	2,036	1,974
Other operating	4,470	5,165
Depreciation expense	4,142	3,825
Total operating expense	12,830	13,056
Operating loss	(1,596)	(1,718)
Other income	558	525
Net loss before capital contributions	(1,038)	(1,193)
Capital contributions	202	86
Special item - pensions	-	1,238
Interfund transfers	2,800	5,200
Change in net position	$ 1,964	$ 5,331

Following is a summary of the District's fiber-optic Statements of Net Position as of December 31, 2022 and 2021:

(Amounts in thousands)	2022	2021
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets	$ 27,848	$ 28,464
Utility plant, net and other assets	56,036	56,960
Total assets	83,884	85,424
Deferred outflows of resources	1,009	365
Total assets and deferred outflows of resources	$ 84,893	$ 85,789
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Total liabilities	$ 2,184	$ 3,329
Deferred inflows of resources	1,439	3,153
Net position	81,270	79,307
Total liabilities, deferred inflows of resources and net position	$ 84,893	$ 85,789

The District's capital investment in telecommunications plant and equipment, net of retirements, for 2022 and 2021 was $4.4 million and $5.6 million, respectively. The District's cumulative capital investment in telecommunications plant and equipment as of December 31, 2022 and 2021, respectively, was $113.9 million and $109.5 million. The capital investment, as well as cumulative net losses, was funded by interfund transfers.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

PERS PLAN 1

Schedule of the District's Proportionate Share of the Net Pension Liability

(dollars in thousands)	2022	2021	2020	2019	2018	2017	2016	2015	2014
Proportion of the net pension liability	.564484%	.536512%	.529644%	.547288%	.546415%	.543040%	.542981%	.531455%	.542102%
Proportionate share of the net pension liability	$ 15,717	$ 6,552	$ 18,699	$ 21,045	$ 24,403	$ 25,768	$ 29,161	$ 27,800	$ 27,309
Covered-employee payroll	$ 62	$ 316	$ 240	$ 237	$ 342	$ 448	$ 447	$ 630	$ 765
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	25,350%	2,073%	7,791%	8,879%	7,135%	5,751%	6,523%	4,412%	3,569%
Plan fiduciary net position as a percentage of the total pension liability	76.56%	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%

PERS PLAN 2/3

Schedule of the District's Proportionate Share of the Net Pension Liability (Asset)

(dollars in thousands)	2022	2021	2020	2019	2018	2017	2016	2015	2014
Proportion of the net pension liability	.730844%	.683495%	.682794%	.701021%	.689768%	.688436%	.681594%	.672073%	.673703%
Proportionate share of the net pension liability(asset)	$ (27,105)	$ (68,087)	$ 8,733	$ 6,809	$ 11,777	$ 23,920	$ 34,318	$ 24,014	$ 13,618
Covered-employee payroll	$ 91,233	$ 84,741	$ 80,057	$ 78,421	$ 74,348	$ 69,866	$ 65,077	$ 64,259	$ 58,959
Proportionate share of the net pension liability(asset) as a percentage of its covered-employee payroll	(29.71)%	(80.35)%	10.91%	8.68%	15.84%	34.24%	52.73%	37.37%	23.10%
Plan fiduciary net position as a percentage of the total pension liability	106.73%	120.29%	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%	93.29%

PERS PLAN 1

Schedule of the District's Contributions

(dollars in thousands)	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Contractually required contribution	$ 6	$ 37	$ 31	$ 31	$ 44	$ 53	$ 50	$ 64	$ 70	$ 74
Contributions in relation to the contractually required contribution	(6)	(37)	(31)	(31)	(44)	(53)	(50)	(64)	(70)	(74)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 62	$ 316	$ 240	$ 237	$ 342	$ 448	$ 447	$ 630	$ 765	$ 913
Contributions as a percentage of covered-employee payroll	9.68%	11.57%	12.89%	12.66%	12.87%	11.83%	11.18%	10.21%	9.21%	8.11%

PERS PLAN 2/3

Schedule of the District's Contributions

(dollars in thousands)	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Contractually required contribution	$ 9,389	$ 9,891	$ 10,322	$ 10,073	$ 9,469	$ 8,328	$ 7,276	$ 6,539	$ 5,428	$ 4,575
Contributions in relation to the contractually required contribution	(9,389)	(9,891)	(10,322)	(10,073)	(9,469)	(8,328)	(7,276)	(6,539)	(5,428)	(4,575)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 91,233	$ 84,740	$ 80,057	$ 78,421	$ 74,348	$ 69,866	$ 65,077	$ 64,259	$ 58,959	$ 56,186
Contributions as a percentage of covered-employee payroll	10.29%	11.67%	12.89%	12.84%	12.74%	11.92%	11.18%	10.18%	9.21%	8.14%

OPEB

Schedule of Changes in Net OPEB Asset and Related Ratios

Fiscal Year End Date	Fiduciary Net Position (a)	Total OPEB Liability (b)	Net OPEB (Asset) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Net OPEB (Asset) as a Percentage Covered Payroll ((b – a) / c)
12/31/22	$ 1,201,386	$ 982,537	$ (218,849)	122%	$ 83,104,941	(0.26)%
12/31/21	1,669,622	1,095,065	(574,557)	152%	80,594,132	(0.71)%
12/31/20	1,667,242	1,059,528	(607,714)	157%	77,351,848	(0.79)%
12/31/19	1,493,009	979,400	(513,609)	152%	74,917,044	(0.69)%
12/31/18	1,265,976	862,908	(403,068)	147%	63,455,719	(0.64)%
12/31/17	1,371,296	820,150	(551,146)	167%	61,162,139	(0.90)%
12/31/16	1,493,891	1,030,417	(463,474)	145%	58,951,459	(0.79)%
12/31/15	2,455,113	1,042,605	(1,412,508)	235%	55,857,915	(2.53)%
12/31/14	2,455,113	1,042,605	(1,412,508)	235%	55,857,915	(2.53)%
12/31/13	2,147,126	1,170,296	(976,830)	183%	50,234,113	(1.94)%

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended December 31, 2022, with comparative totals for December 31, 2021

(amounts in thousands)	ROCKY REACH	ROCK ISLAND	LAKE CHELAN	UTILITY SERVICES	FINANCING FACILITIES	INTERNAL SERVICES	INTRA-DISTRICT TRANSACTIONS (1)	2022	2021
OPERATING REVENUES									
Retail sales	$ -	$ -	$ -	$ 112,620	$ -	$ -	$ (909)	$ 111,711	$ 88,028
Wholesale sales	93,620	137,185	9,968	396,547	5,897	-	(200,708)	442,509	324,623
Other operating revenues	252	181	974	47,130	-	27,343	(40,206)	35,674	30,193
	93,872	137,366	10,942	556,297	5,897	27,343	(241,823)	589,894	442,844
OPERATING EXPENSES									
Purchased power and water	-	-	-	323,789	-	-	(197,514)	126,275	79,122
Generation	64,591	61,008	6,731	-	-	-	(18,332)	113,998	114,083
Utility services	-	-	-	93,177	-	-	(25,977)	67,200	60,688
Other operation and maintenance	-	-	-	-	-	19,202	-	19,202	17,425
Taxes	1,342	623	101	12,403	-	-	-	14,469	11,552
Depreciation and amortization	10,434	13,837	2,012	18,086	-	8,002	-	52,371	48,185
	76,367	75,468	8,844	447,455	-	27,204	(241,823)	393,515	331,055
OPERATING INCOME	17,505	61,898	2,098	108,842	5,897	139	-	196,379	111,789
OTHER INCOME (EXPENSE)									
Interest on long-term debt	-	(8,953)	-	(40)	(8,786)	-	-	(17,779)	(21,330)
Interest on intersystem loans	(8,283)	(13,081)	-	-	21,364	-	-	-	-
Amortization deferred debt costs	-	(255)	-	-	(265)	-	-	(520)	(632)
Investment income	547	2,509	152	6,047	610	1,531	-	11,396	11,294
Other	(475)	(3,076)	(1,045)	5,237	920	(1,288)	-	273	2,750
	(8,211)	(22,856)	(893)	11,244	13,843	243	-	(6,630)	(7,918)
INCOME BEFORE CAPITAL CONTRIBUTIONS, SPECIAL ITEM AND INTERFUND TRANSFERS	9,294	39,042	1,205	120,086	19,740	382	-	189,749	103,871
CAPITAL CONTRIBUTIONS	-	736	-	7,680	-	-	-	8,416	6,827
SPECIAL ITEM									
Pensions	-	-	-	-	-	-	-	-	26,427
INTERFUND TRANSFERS	-	132	-	(132)	-	-	-	-	-
CHANGE IN NET POSITION	9,294	39,910	1,205	127,634	19,740	382	-	198,165	137,125
TOTAL NET POSITION									
Beginning of year	220,531	224,428	90,009	609,144	159,253	22,738	-	1,326,103	1,188,978
TOTAL NET POSITION									
End of year	$ 229,825	$ 264,338	$ 91,214	$ 736,778	$ 178,993	$ 23,120	$ -	$ 1,524,268	$ 1,326,103

1. Eliminating entries reduce 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

For the years ended December 31, 2022 and 2021

(amounts in thousands)	ROCKY REACH	ROCK ISLAND	LAKE CHELAN	UTILITY SERVICES	FINANCING FACILITIES	INTERNAL SERVICES	INTRA-DISTRICT TRANSACTIONS (1)	2022	2021
CURRENT ASSETS									
Cash and cash equivalents	$ 549	$ 742	$ 599	$ 24,655	$ 1,605	$ 3,922	$ -	$ 32,072	$ 20,022
Investments	1,592	2,154	1,737	71,546	4,657	11,380	-	93,066	62,982
Accounts receivable, net	1,758	1,666	22	83,745	-	347	-	87,538	41,235
Accrued interest receivable	57	118	16	761	195	139	-	1,286	1,285
Materials and supplies	6,158	-	-	14,084	-	107	-	20,349	17,700
Prepayments and other	2,472	666	120	637	-	7	-	3,902	3,143
Current portion of regulatory assets	-	-	-	-	2,407	-	-	2,407	2,978
	12,586	5,346	2,494	195,428	8,864	15,902	-	240,620	149,345
RESTRICTED ASSETS - CURRENT									
Cash and cash equivalents	757	2,152	1	3,394	-	861	-	7,165	2,835
Investments	2,196	6,244	-	9,848	-	2,498	-	20,786	8,915
	2,953	8,396	1	13,242	-	3,359	-	27,951	11,750
TOTAL CURRENT ASSETS	15,539	13,742	2,495	208,670	8,864	19,261	-	268,571	161,095
UTILITY PLANT									
In service, at original cost	658,216	780,864	122,680	691,574	-	150,787	-	2,404,121	2,251,147
Construction work in progress	6,649	84,683	433	9,158	-	128,906	-	229,829	257,084
Less-accumulated depreciation	(388,713)	(334,788)	(39,404)	(313,366)	-	(86,460)	-	(1,162,731)	(1,124,714)
	276,152	530,759	83,709	387,366	-	193,233	-	1,471,219	1,383,517
RESTRICTED ASSETS - NONCURRENT									
Cash and cash equivalents	927	1,603	-	9	544	-	-	3,083	7,038
Long-term investments	16,560	54,500	-	28,060	13,668	7,090	-	119,878	166,967
	17,487	56,103	-	28,069	14,212	7,090	-	122,961	174,005
OTHER ASSETS									
Deferred relicensing costs	-	6,540	-	-	-	-	-	6,540	3,099
Net pension asset	8,056	7,435	1,011	10,603	-	-	-	27,105	68,087
Long-term receivables, net	-	-	-	169	-	-	-	169	205
Long-term investments	4,519	6,114	4,930	203,074	13,219	32,301	-	264,157	239,059
Regulatory assets, net	773	3,194	207	40,659	6,892	1,656	-	53,381	35,418
Derivative instrument asset	-	1,944	-	-	-	-	-	1,944	6,032
Other	1	3,218	-	10,094	-	220	(9,789)	3,744	3,818
	13,349	28,445	6,148	264,599	20,111	34,177	(9,789)	357,040	355,718
TOTAL ASSETS	322,527	629,049	92,352	888,704	43,187	253,761	(9,789)	2,219,791	2,074,335
DEFERRED OUTFLOWS OF RESOURCES									
Losses on refunding debt	-	1,374	-	-	466	-	-	1,840	2,334
Pensions	7,943	7,333	996	10,462	-	-	-	26,734	8,465
Other post-employment benefits	-	-	-	-	-	459	-	459	259
	7,943	8,707	996	10,462	466	459	-	29,033	11,058
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 330,470	$ 637,756	$ 93,348	$ 899,166	$ 43,653	$ 254,220	$ (9,789)	$ 2,248,824	$ 2,085,393

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

COMBINING SCHEDULE OF ASSETS AND DEFERRED OUTFLOWS OF RESOURCES AND LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION cont.

For the years ended December 31, 2022 and 2021

(amounts in thousands)	ROCKY REACH	ROCK ISLAND	LAKE CHELAN	UTILITY SERVICES	FINANCING FACILITIES	INTERNAL SERVICES	INTRA-DISTRICT TRANSACTIONS (1)	2022	2021
CURRENT LIABILITIES									
Current portion of long-term obligations	$ 12,662	$ 33,626	$ 467	$ 787	$ (13,255)	$ 278	$ -	$ 34,565	$ 44,706
Current portion of unearned revenue	864	886	-	12,934	637	-	-	15,321	15,110
Accounts payable	4,121	16,261	416	36,990	9	17,009	-	74,806	55,848
Accrued taxes	1,456	726	103	3,339	-	664	-	6,288	4,853
Accrued interest	-	-	-	14	3,763	-	-	3,777	4,427
Intersystem payables (receivables)	(1,965)	(2,478)	(189)	12,712	-	(8,080)	-	-	-
Accrued vacation and other	59	70	4	106	-	17,433	-	17,672	18,036
	17,197	49,091	801	66,882	(8,846)	27,304	-	152,429	142,980
LONG-TERM DEBT									
Revenue bonds and notes payable	-	145,419	-	5,389	214,014	-	-	364,822	415,917
Intersystem loans payable (receivable)	64,875	161,419	(10,040)	(60,916)	(358,888)	203,550	-	-	-
Less-current maturities	(12,662)	(33,459)	-	(787)	13,255	-	-	(33,653)	(43,473)
	52,213	273,379	(10,040)	(56,314)	(131,619)	203,550	-	331,169	372,444
OTHER LIABILITIES									
Unearned revenue, less current portion	5,986	6,141	-	117,780	4,431	-	(9,789)	124,549	96,108
Net pension liability	4,671	4,311	586	6,149	-	-	-	15,717	6,552
Long-term contract customer deposit	9,250	9,250	-	-	-	-	-	18,500	18,500
Licensing obligation, less current portion	-	-	9,366	-	-	-	-	9,366	8,976
Other liabilities	-	2,680	-	-	-	-	-	2,680	3,715
	19,907	22,382	9,952	123,929	4,431	-	(9,789)	170,812	133,851
TOTAL LIABILITIES	89,317	344,852	713	134,497	(136,034)	230,854	(9,789)	654,410	649,275
DEFERRED INFLOWS OF RESOURCES									
Derivatives	-	1,944	-	-	-	-	-	1,944	6,032
Pensions	8,170	7,547	1,026	10,775	-	-	-	27,518	70,220
Regulatory liabilities	3,158	19,075	395	17,116	694	-	-	40,438	33,427
Other post-employment benefits	-	-	-	-	-	246	-	246	336
	11,328	28,566	1,421	27,891	694	246	-	70,146	110,015
TOTAL NET POSITION	229,825	264,338	91,214	736,778	178,993	23,120	-	1,524,268	1,326,103
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 330,470	$ 637,756	$ 93,348	$ 899,166	$ 43,653	$ 254,220	$ (9,789)	$ 2,248,824	$ 2,085,393

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

COMBINING SCHEDULE OF CASH FLOWS

For the year ended December 31, 2022 with comparative totals for December 31, 2021

(amounts in thousands)	ROCKY REACH	ROCK ISLAND	LAKE CHELAN	UTILITY SERVICES	FINANCING FACILITIES	INTERNAL SERVICES	INTRA-DISTRICT TRANSACTIONS(1)	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers	$ 93,889	$ 137,845	$ 10,944	$ 494,909	$ 5,265	$ 29,169	$ (241,628)	$ 530,393	$ 416,310
Payments to suppliers	(32,893)	(26,663)	(2,177)	(361,710)	(31)	(23,815)	241,628	(205,661)	(169,989)
Payments to employees	(33,867)	(32,552)	(3,712)	(45,130)	-	(942)	-	(116,203)	(108,271)
Net cash provided by operating activities	27,129	78,630	5,055	88,069	5,234	4,412	-	208,529	138,050
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Additions to plant	(3,677)	(44,954)	(613)	(35,554)	-	(57,163)	-	(141,961)	(165,195)
Additions to pooled assets	60	46	7	-	-	(113)	-	-	-
Proceeds from sale of plant	97	46	-	107	-	161	-	411	430
Principal (paid) received on debt and intersystem loans	(36,548)	(55,959)	(3,069)	(21,925)	(9,467)	71,341	-	(55,627)	(120,692)
Interest (paid) received on debt and intersystem loans	(8,283)	(13,081)	-	(42)	11,932	(1)	-	(9,475)	(15,193)
Capital contributions	-	202	-	8,191	-	-	-	8,393	5,822
Other	(49)	(5,678)	(1,045)	37,324	(645)	106	-	30,013	(10,214)
Net cash provided by (used in) capital and related financing activities	(48,400)	(119,378)	(4,720)	(11,899)	1,820	14,331	-	(168,246)	(305,042)
CASH FLOWS FROM INVESTING ACTIVITIES									
Investments, net	19,838	37,231	(71)	(70,895)	(6,834)	(17,911)	-	(38,642)	169,311
Interest on investments	634	2,651	154	5,991	671	1,484	-	11,585	11,835
Long-term receivables	-	-	-	35	-	-	-	35	42
Other, net	-	(563)	(273)	-	-	-	-	(836)	645
Net cash provided by (used in) investing activities	20,472	39,319	(190)	(64,869)	(6,163)	(16,427)	-	(27,858)	181,833
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(799)	(1,429)	145	11,301	891	2,316	-	12,425	14,841
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,032	5,926	455	16,757	1,258	2,467	-	29,895	15,054
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,233	$ 4,497	$ 600	$ 28,058	$ 2,149	$ 4,783	$ -	$ 42,320	$ 29,895

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

COMBINING SCHEDULE OF CASH FLOWS cont.

For the year ended December 31, 2022 with comparative totals for December 31, 2021

(amounts in thousands)	ROCKY REACH	ROCK ISLAND	LAKE CHELAN	UTILITY SERVICES	FINANCING FACILITIES	INTERNAL SERVICES	INTRA-DISTRICT TRANSACTIONS (1)	2022	2021
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES									
Operating income	$ 17,505	$ 61,898	$ 2,098	$ 108,842	$ 5,897	$ 139	$ -	$ 196,379	$ 111,789
Depreciation and amortization	10,434	13,837	2,012	18,086	-	8,002	-	52,371	48,185
(Increase) decrease in operating assets:									
Accounts receivable, net	(50)	435	1	(48,514)	-	1,825	-	(46,303)	(11,655)
Materials and supplies	(384)	-	-	(2,276)	-	11	-	(2,649)	(2,951)
Prepayments	(1,102)	(128)	(23)	488	-	6	-	(759)	(970)
Net OPEB asset	-	-	-	-	-	356	-	356	33
Other	-	132	-	3,717	-	-	(196)	3,653	4,179
Deferred outflows of resources	-	-	-	-	-	(200)	-	(200)	(124)
Increase (decrease) in operating liabilities:									
Current portion unearned wholesale power sales	106	105	-	-	-	-	-	211	32
Accounts payable	988	1,863	361	20,065	(26)	(5,354)	-	17,897	3,322
Accrued taxes	168	47	1	1,144	-	75	-	1,435	282
Accrued vacation and other	(498)	501	605	(613)	-	(358)	-	(363)	638
Unearned wholesale power sales revenue	(38)	(60)	-	(12,935)	(637)	-	196	(13,474)	(14,824)
Customer deposits	-	-	-	65	-	-	-	65	70
Deferred inflows of resources	-	-	-	-	-	(90)	-	(90)	44
Net cash provided by operating activities	$ 27,129	$ 78,630	$ 5,055	$ 88,069	$ 5,234	$ 4,412	$ -	$ 208,529	$ 138,050
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES									
Construction costs included in accounts payable	$ (210)	$ (856)	$ (188)	$ (594)	$ -	$ 2,844	$ -	$ 996	$ 2,139
Capital contributions	-	-	-	64	-	-	-	64	9,288
Amortization of regulatory assets	-	-	-	3,653	-	-	-	3,653	3,202

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

This page intentionally left blank

BONDHOLDER-FIDUCIARIES

BOND SERIES	TRUSTEE/REGISTRAR/PAYING AGENT
Consolidated System:	
2008B	U.S. Bank Trust Company, N.A.
2011C	U.S. Bank Trust Company, N.A.
2020A, B & C	U.S. Bank Trust Company, N.A.
Columbia River-Rock Island Hydroelectric System:	
1997A	PUD No. 1 of Chelan County

ADDRESSES:

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

U.S. Bank Trust Company, N.A.
PD-WA-T7CT
1420 Fifth Ave., 7th Floor
Seattle, WA 98101
(206) 340-4750

U.S. Bank Trust Company, N.A.
Bondholder Services
111 Fillmore Avenue East
St. Paul, MN 55107
Mail Station: EP-MN-WS2N
(800) 934-6802

CONTINUING DISCLOSURE

Continuing Disclosure Information

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

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

Contacts for Financial Information

Kelly Boyd
Chief Financial/Risk Officer
e-mail: kelly.boyd@chelanpud.org

Heather Irelan
Director-Treasury/Treasurer
e-mail: heather.irelan@chelanpud.org

Diane Syria
Director-Accounting/Controller
e-mail: diane.syria@chelanpud.org

Stacey Jagla
Internal Audit Manager
e-mail: stacey.jagla@chelanpud.org

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

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

DISTRIBUTION DIVISION

Five Largest Local Wholesale Purchasers and Major Retail Customers 2022 (1)
(Unaudited)

CUSTOMER	BUSINESS	ENERGY SALES (000 MWH)	REVENUE FROM ENERGY SALES ($000)	PERCENT OF DISTRIBUTION'S TOTAL REVENUE
Douglas County PUD	Electric Utility	343	$ 5,728	1.1%
Diamond Foundry Inc	Manufacturing	103	4,367	0.8%
Stemilt Growers Inc	Agriculture	57	1,242	0.2%
Salcido Enterprises LLC	High Density Load	38	2,124	0.4%
Confluence Health	Healthcare	31	753	0.1%
		572	$ 14,214	2.6%

1. Excludes non-firm sales for resale and off-sytem retail sales. Per MWh charges vary and are based on rate schedules specific to business type.

DISTRIBUTION DIVISION

Statement of Revenues and Expenses ($000) (Unaudited)

CALENDAR YEAR	2018	2019	2020	2021	2022
Operating revenues					
Retail	$ 51,069	$ 66,358	$ 66,966	$ 81,095	$ 104,501
Resale	238,946	207,731	175,226	263,573	385,318
Other (1)	34,433	39,679	36,062	42,811	47,059
Total	324,448	313,768	278,254	387,479	536,878
Operating expenses (2)	289,623	281,002	285,382	362,956	425,561
Net operating revenue (loss)	34,825	32,766	(7,128)	24,523	111,317
Other income	8,566	11,642	9,697	18,465	10,503
Net revenue (3)	$ 43,391	$ 44,408	$ 2,569	$ 42,988	$ 121,820

1. The Distribution Division includes transmission revenue under transmission agreements.
2. Includes contractual purchases and nonfirm purchases for resale.
3. Prior to capital contributions, special item, and interfund transfers.

DISTRIBUTION DIVISION

Energy Requirements, Resources and Power Costs
(Unaudited)

Calendar Year	2018	2019	2020	2021	2022
Requirements (000 MWh) (1)					
Retail	1,657	1,979	1,960	2,008	2,194
Other (2)	9,423	8,355	8,668	6,066	6,536
	11,080	10,334	10,628	8,074	8,730
Resources (000 MWh)					
Rocky Reach System	2,931	2,363	2,806	2,719	3,083
Rock Island System	1,378	1,155	1,287	1,255	1,391
Lake Chelan System	371	355	406	434	449
Other purchases (2)(3)	6,400	6,461	6,129	3,666	3,807
	11,080	10,334	10,628	8,074	8,730
Purchased Power Costs ($000)					
Rocky Reach System	$ 47,297	$ 34,990	$ 43,347	$ 44,567	$ 45,955
Rock Island System	52,370	59,065	62,240	67,514	68,479
Lake Chelan System	12,826	10,768	11,084	11,917	9,968
Other purchases (3)	103,645	96,728	83,655	146,776	198,880
	$ 216,138	$ 201,551	$ 200,326	$ 270,774	$ 323,282
Average cost ($/MWh) (4)	$ 20	$ 20	$ 19	$ 34	$ 37

1. Net of timing differences and losses.
2. In 2021, change in reporting methodology to exclude non-District merchant activity that flows through the District's control area.
3. 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. In 2020 and 2019, Other purchases were restated to correct an entry error.
4. Includes actual costs of power of the Distribution Division plus allocable administrative and other expenses of the Distribution Division.

DISTRIBUTION DIVISION

Customers, Energy Sales and Revenues (Unaudited)

CALENDAR YEAR	2018	2019	2020	2021	2022
Customers					
Retail:					
Residential	38,783	39,453	40,152	40,574	41,338
Commercial	6,383	6,446	6,443	6,458	6,507
Industrial	30	30	33	34	34
High density load/cryptocurrency	20	13	10	8	6
Irrigation, frost, lighting (1)	5,602	5,592	5,572	2,222	2,236
Interdepartmental	563	612	603	605	608
Total retail customers	51,381	52,146	52,813	49,901	50,729
Resale and other end-use off-system sales: (2)(3)	88	89	38	42	41
Total customers	51,469	52,235	52,851	49,943	50,770
Energy Sales (000 MWh)					
Retail:					
Residential	810	879	844	855	974
Commercial	465	478	432	451	470
Industrial	243	247	235	238	228
High density load/cryptocurrency	77	81	91	111	157
Irrigation, frost, lighting	40	36	44	44	35
Interdepartmental	22	20	21	23	22
Total retail sales	1,657	1,741	1,667	1,722	1,886
Other End-Use:					
Off-system sales (3)	-	238	293	286	308
Resale:					
Douglas County PUD	329	265	288	306	343
Other - firm/slice	2,443	1,745	2,030	1,998	2,245
Other - non-firm/block/preschedule/real time (4)	6,585	6,008	5,981	3,773	3,816
Total sales for resale	9,357	8,018	8,299	6,077	6,404
Total energy sales	11,014	9,997	10,259	8,085	8,598
Revenue ($000)					
Retail:					
Residential	$ 26,019	$ 27,985	$ 27,123	$ 28,837	$ 33,073
Commercial	15,976	16,438	15,194	16,413	17,561
Industrial	5,001	5,072	4,890	5,196	5,077
High density load/cryptocurrency	1,781	1,845	2,756	3,944	7,673
Irrigation, frost, lighting	1,492	1,465	1,577	1,658	1,544
Interdepartmental	800	600	603	722	719
Total retail revenue	51,069	53,405	52,143	56,770	65,647
Other End-Use:					
Off-system sales (3)	-	12,953	14,822	24,325	38,854
Resale:					
Douglas County PUD	5,013	4,031	5,250	6,234	5,728
Other - firm/slice	81,287	70,241	69,245	73,376	77,762
Other - non-firm/block/preschedule/real time	142,731	120,525	87,797	171,028	288,894
Amortization of Deferred Power Sales (5)	9,914	12,934	12,934	12,934	12,934
Total resale revenue	238,945	207,731	175,226	263,572	385,318
Other revenue (6)	34,433	39,679	36,062	42,811	47,059
Total revenue	$ 324,447	$ 313,768	$ 278,253	$ 387,478	$ 536,878

1. In 2021, the District changed the method of counting street light customers.
2. In 2020, change in reporting methodology to only include counterparties with purchases during the calendar year.
3. In 2019, the District began providing power under a five-year agreement to Microsoft's Puget Sound campuses. Microsoft is the only off-system customer.
4. In 2021, change in reporting methodology to exclude non-District merchant activity that flows throught the District's control area.
5. Includes power sales payments received in advance, which were deferred and are being recognized as revenue over the term of the contracts.
6. Includes transmission, real-time agreement and unbundled environmental attribute revenues.

HYDROELECTRIC SYSTEMS

Power Cost and Net Power Delivered ($000 other than cost in $/MWh) (Unaudited)

CALENDAR YEAR	2018	2019	2020	2021	2022
Rocky Reach System					
Operating expenses	$ 58,643	$ 53,765	$ 59,050	$ 64,572	$ 65,933
Depreciation and amortization	12,313	9,988	9,857	10,066	10,434
Interest expense	10,144	9,134	8,455	8,674	8,283
Other (revenue) expenses (1)	(585)	(13,569)	(627)	(420)	(324)
Total power cost (2)	$ 80,515	$ 59,318	$ 76,735	$ 82,892	$ 84,326
Net power delivered (000 MWh)	5,986	4,795	5,687	5,523	6,254
Cost in $/MWh	$ 13	$ 12	$ 13	$ 15	$13
Plant factor (3)	53%	42%	50%	49%	55%
Availability factor	78%	68%	70%	79%	78%
Average river flow (000 CFS) (4)	125	87	113	99	120
Rock Island System					
Operating expenses (5)	$ 47,089	$ 51,306	$ 53,582	$ 62,073	$ 61,631
Depreciation and amortization (5)	10,790	11,292	11,387	12,302	13,837
Interest expense	21,485	23,055	22,809	22,905	22,034
Other (revenue) expenses (1)	(316)	(1,729)	(1,273)	(1,226)	(95)
Total power cost (2)	$ 79,048	$ 83,924	$ 86,505	$ 96,054	$ 97,407
Net power delivered (000 MWh)(6)	2,782	2,347	2,649	2,552	2,826
Cost in $/MWh	$ 28	$ 36	$ 33	$ 38	$ 34
Plant factor (3)	50%	43%	48%	46%	51%
Availability factor	59%	55%	58%	62%	69%
Lake Chelan System					
Operating expenses	$ 10,364	$ 5,558	$ 6,619	$ 6,953	$ 6,832
Depreciation and amortization	1,902	1,940	1,954	1,993	2,012
Interest expense	626	545	458	153	-
Other (revenue) expenses (1)	(77)	(95)	(80)	(70)	(80)
Total power cost (2)	$ 12,815	$ 7,948	$ 8,951	$ 9,029	$ 8,764
Net power delivered (000 MWh)	371	355	406	434	425
Cost in $/MWh	$ 35	$ 22	$ 22	$ 21	$ 21
Plant factor (3)	72%	69%	79%	84%	82%
Availability factor	75%	96%	97%	90%	99%
Combined Hydro Cost in $/MWh	$ 19	$ 20	$ 20	$ 22	$ 20

1. Includes other income and expenses that impact power cost. Excludes one-time regulatory pension adjustment.
2. Non-GAAP, may not be comparable with similarly titled other District metrics.
3. Net power delivered as a percentage of rated capacity for the year.
4. Annual average Columbia River flow measured at Rocky Reach System in thousands of cubic feet per second (000 CFS).
5. 2021 restated due to implementation of GASB Statement No. 87, "Leases."
6. After minor sales to operators' cottages and adjustments for encroachment and Canadian Treaty deliveries.

CONSOLIDATED SYSTEM

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

CALENDAR YEAR	2018	2019	2020	2021	2022
Operating revenues (1)					
Retail	$ 57,993	$ 73,333	$ 74,188	$ 88,984	$ 112,620
Resale	269,808	237,669	205,048	293,951	412,413
Other	56,466	64,266	61,844	70,007	75,446
Total	384,267	375,268	341,080	452,942	600,479
Less: Operating expenses					
Purchased power and water	(216,487)	(202,726)	(200,761)	(271,270)	(323,789)
Other operation & maintenance (2)	(95,010)	(97,809)	(107,268)	(112,343)	(119,112)
Taxes	(6,645)	(8,192)	(8,244)	(9,817)	(12,504)
Depreciation & amortization	(21,083)	(22,294)	(24,698)	(25,190)	(28,099)
Operating income	45,042	44,247	109	34,322	116,975
Adjustments					
Add back depreciation & amortization	21,083	22,294	24,698	25,190	28,099
Add investment income	7,892	10,066	9,119	7,436	8,338
Add principal and interest payments from Rocky Reach & Rock Island	37,233	38,665	39,050	42,417	43,565
Total adjustments	66,208	71,025	72,867	75,043	80,002
Net revenues	111,250	115,272	72,976	109,365	196,977
Plus withdrawals (deposits) to Rate Stabilization Fund	-	-	-	-	-
Adjusted net revenues	$ 111,250	$ 115,272	$ 72,976	$ 109,365	$ 196,977
Available funds (3)	$ 423,839	$ 372,232	$ 383,264	$ 291,009	$ 366,212
Annual debt service	$ 26,493	$ 25,983	$ 25,490	$ 29,121	$ 30,916
Debt service coverage					
With available funds (required 1.25x)	20.20	18.76	17.90	13.75	18.22
Without available funds (required 1.00x)	4.20	4.44	2.86	3.76	6.37

1. Includes revenues of the District's Distribution Division; Financing Facilities and Internal Service Funds; and Lake Chelan, Fiber and Telecommunications, Water and Wastewater Systems; all of which are part of the Consolidated System. Also certain revenues which were deferred and are being recognized over the terms of the applicable contracts.
2. Non-GAAP, may not be comparable with similarly titled other District metrics.
3. Includes all unencumbered funds of the District that the District reasonably expects to be available to pay debt service on the Bonds.

CONSOLIDATED SYSTEM AND HYDROELECTRIC SYSTEMS

Outstanding Long-Term Debt as of December 31, 2022 ($000) (Unaudited)

DATE OF BONDS	FINAL MATURITY DATE	SERIES OF BONDS	ORIGINAL PRINCIPAL AMOUNT	SCHEDULED RETIREMENT (1)	ACTUAL RETIREMENT (2)	PRINCIPAL AMOUNT OUTSTANDING	ACCUMULATED FOR RETIREMENT (3)
CONSOLIDATED SYSTEM							
6/3/2009	7/1/2032	2008B	$ 92,880	$ 36,670	$ 52,725	$ 40,155	$ 972
11/9/2011	7/1/2026	2011C	164,425	108,165	120,320	44,105	5,351
5/1/2020	7/1/2039	2020A	109,630	20,000	20,000	89,630	6,176
5/1/2020	7/1/2034	2020B	10,965	-	-	10,965	640
5/1/2020	7/1/2032	2020C	13,230	-	-	13,230	772
Total Consolidated System			391,130	164,835	193,045	198,085	13,911
ROCK ISLAND SYSTEM							
3/17/1997	6/1/2029	1997A (4)	135,944	303,300	303,300	145,419	32,053
Grand Total			$ 527,074	$ 468,135	$ 496,345	$ 343,504	$ 45,964

1. Amount of serial bonds matured as of December 31, 2022 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, 2022 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. 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, 2022 ($000) (Unaudited)

	NET LOANS OUTSTANDING (1)
Rocky Reach System	$ 64,875
Rock Island System	161,419
Consolidated System (2)	132,595
	$ 358,889

1. Represents aggregate principal amounts of Consolidated System Bonds and other available funds allocated to intersystem and interfund loans, net of prior loan repayments, adjustments for unamortized original issue discounts, issuance costs and amounts payable to and (receivable) from other systems.
2. Includes bond proceeds advanced to various funds and components of the Consolidated System for capital purposes.

CONSOLIDATED SYSTEM DEBT SERVICE AND HYDROELECTRIC SYSTEM LOAN PAYMENTS

As of December 31, 2022 (Unaudited)

	CONSOLIDATED BONDS			LOAN PAYMENTS (1)		
	AGGREGATE ANNUAL DEBT SERVICE					
YEAR	PRINCIPAL (2)	INTEREST	TOTAL	ROCKY REACH	ROCK ISLAND	TOTAL LOAN PAYMENTS
2023	$ 10,180,000	$ 8,886,796	$ 19,066,796	$ 18,058,190	$ 20,440,747	$ 38,498,937
2024	23,035,000	8,141,886	31,176,886	18,000,591	19,966,571	37,967,162
2025	25,810,000	7,082,688	32,892,688	15,858,161	19,514,482	35,372,643
2026	17,254,260	5,919,915	23,174,175	14,176,225	19,455,371	33,631,596
2027	5,210,000	4,912,360	10,122,360	12,756,806	19,453,574	32,210,380
2028	6,155,000	4,651,860	10,806,860	11,334,763	20,073,603	31,408,366
2029	2,155,000	4,344,110	6,499,110	10,005,435	15,259,239	25,264,674
2030	16,615,000	4,236,360	20,851,360	8,593,481	16,564,170	25,157,651
2031	14,300,000	3,405,610	17,705,610	7,184,868	16,049,050	23,233,918
2032	42,906,025	2,048,130	44,954,155	5,931,896	14,911,881	20,843,777
2033	4,255,000	1,180,900	5,435,900	5,350,632	14,859,165	20,209,797
2034	3,715,375	968,150	4,683,525	4,326,197	14,398,919	18,725,116
2035	3,645,000	750,400	4,395,400	2,638,751	13,427,904	16,066,655
2036	3,690,000	604,600	4,294,600	1,388,256	13,268,747	14,657,003
2037	3,750,000	457,000	4,207,000	289,191	13,004,724	13,293,915
2038	1,653,583	307,000	1,960,583	289,191	12,189,329	12,478,520
2039	-	-	-	146,202	8,792,292	8,938,494
2040	-	-	-	-	6,734,004	6,734,004
2041	-	-	-	-	6,629,707	6,629,707
2042	-	-	-	-	6,350,711	6,350,711
2043	-	-	-	-	6,079,457	6,079,457
2044	-	-	-	-	1,429,015	1,429,015
Total	$ 184,329,243	$ 57,897,765	$ 242,227,008	$ 136,328,836	$ 298,852,662	$ 435,181,498

1. 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.
2. Estimated principal retirements are based on the assumption that all bonds mature or are purchased at par. Includes serial and balloon payments reduced by funds held in Reserve Accounts at the time of final maturity or as may be applied to final payments. 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.

CONSOLIDATED SYSTEM

Unrestricted and Restricted Fund Balances as of December 31, 2022 ($000)
(Unaudited)

BALANCES (1)	UTILITY SERVICES (2)	LAKE CHELAN	FINANCING FACILITIES (3)	INTERNAL SERVICES FUND	TOTAL
Unrestricted funds					
Revenue fund (4)	$ 69,608	$ 1,190	$ 3,108	$ 15,562	$ 89,468
Available funds:					
Rate stabilization fund	50,000	-	-	-	50,000
Operating reserve fund	124,774	-	-	-	124,774
Other unrestricted funds (5)	54,896	6,076	16,373	32,040	109,385
Total unrestricted funds	299,278	7,266	19,481	47,602	373,627
Restricted funds (6)	41,311	1	14,212	10,449	65,973
Total fund balances	$ 340,589	$ 7,267	$ 33,693	$ 58,051	$ 439,600

1. Amounts reflect both cash and book value of investments.
2. Includes Distribution Division, Fiber and Telecommunications, Water and Wastewater Systems.
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	2018	2019	2020	2021	2022
Original system net generation	425	334	406	440	585
Second powerhouse net generation	2,245	1,942	2,112	1,960	2,047
Total generation	2,670	2,276	2,518	2,400	2,632
Plus:					
Wanapum encroachment (1)	451	398	450	472	528
Net interchange	9	8	-	-	-
System losses by contract	(18)	(17)	(18)	(18)	(20)
Less:					
Canadian Treaty Power (2)	(156)	(156)	(155)	(154)	(155)
Rocky Reach Encroachment (3)	(174)	(162)	(146)	(148)	(159)
Total net power delivered (4)	2,782	2,347	2,649	2,552	2,826
Percentage allocations (5)					
Power Purchasers	51%	51%	51%	51%	51%
District	49%	49%	49%	49%	49%
Sales:					
Power Purchasers	1,404	1,194	1,362	1,298	1,434
District	1,378	1,153	1,287	1,254	1,392
Total sales (4)	2,782	2,347	2,649	2,552	2,826
Net peaking capability	629	629	629	629	629
Availability factor	59%	55%	58%	62%	69%
Plant factor (6)	50%	43%	48%	46%	51%

1. Energy to be made available from Grant PUD's Wanapum Project in accordance with an encroachment agreement.
2. Energy to be made available for the account of Canada in accordance with arrangements made as a result of the Canadian Treaty.
3. Energy transferred from Rock Island to Rocky Reach to account for effects of one project on the output of the other.
4. Includes coordination exchange and pond transfers.
5. As defined by the Power Sales Contracts, the District received a fixed 49% of the combined power produced by the Rock Island and Rocky Reach Systems.
6. Net Power Delivered as a percentage of rated capacity for the year.

ROCK ISLAND SYSTEM

Cost of Power Comparison ($/MWh) (Unaudited)

CALENDAR YEAR	2018	2019	2020	2021	2022
Rock Island System	$ 28	$ 36	$ 33	$ 38	$ 34
Bonneville Power (1)	$ 42	$ 42	$ 41	$ 41	$ 41

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	2018	2019	2020	2021	2022
Rock Island System	$ 46,622	$ 28,504	$ 52,982	$ 55,209	$ 43,877
PROJECTED CALENDAR YEAR (1)	**2023**	**2024**	**2025**	**2026**	**2027**
Rock Island System	$ 64,087	$ 60,671	$ 93,326	$ 68,721	$ 55,088

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) (Unaudited)

CALENDAR YEAR	2018	2019	2020	2021	2022
Operating revenues:					
Power Purchasers	$ 53,209	$ 60,152	$ 63,483	$ 68,763	$ 69,989
District	51,093	57,745	60,957	66,029	67,196
Total revenues from sales	104,302	117,897	124,440	134,792	137,185
Other operating revenues	147	127	73	148	181
Total operating revenues	104,449	118,024	124,513	134,940	137,366
Total operating expenses (1) (2)	57,879	62,598	64,969	74,375	75,468
Net operating revenues	46,570	55,426	59,544	60,565	61,898
Other expenses	(21,939)	(22,079)	(22,136)	(22,396)	(22,857)
Net revenues	24,631	33,347	37,408	38,169	39,041
Add back:					
Depreciation (2)	10,790	11,292	11,387	12,302	13,837
Interest expense	21,485	23,054	22,809	22,905	22,034
Amortization of deferred debt costs	264	263	258	255	255
Other (3) (4)	1,264	1,265	1,895	1,231	2,230
Deduct:					
Amortization of deferred power sales revenue	(690)	(892)	(765)	(781)	(886)
Cash available for debt service	57,744	68,329	72,992	74,081	76,511
Annual debt service:					
Rock Island Bonds	22,973	23,438	23,398	22,685	22,685
Intersystem loans	15,123	18,780	20,278	22,678	23,292
Total debt service requirement	38,096	42,218	43,676	45,363	45,977
Cash available after payment of all debt service	$ 19,648	$ 26,111	$ 29,315	$ 28,718	$ 30,534
Coverage of total debt service	1.52	1.62	1.67	1.63	1.66

1. Includes depreciation expense.
2. 2021 restated due to implementation of GASB Statement No. 87, "Leases."
3. Represents noncash items such as fair value adjustments and amortizations included in operating activities that are not indicative of cash available for debt service.
4. In 2021, updated presentment of 2018 – 2020 to include additional noncash items previously excluded.

ROCK ISLAND SYSTEM

Debt Service Requirements as of December 31, 2022 (Unaudited)

	BONDS		INTERSYSTEM LOANS (1)		
TWELVE MONTHS ENDING DEC. 31	ESTIMATED DEBT SERVICE	ESTIMATED PRINCIPAL RETIREMENTS (2)(3)	ESTIMATED DEBT SERVICE	ESTIMATED PRINCIPAL RETIREMENTS	TOTAL ESTIMATED DEBT SERVICE
2023	$ 22,685,000	$ 22,685,000	$ 20,440,747	$ 9,629,176	$ 43,125,747
2024	22,685,000	22,685,000	19,966,571	9,717,112	42,651,571
2025	22,685,000	22,685,000	19,514,482	9,835,451	42,199,482
2026	22,685,000	22,685,000	19,455,371	10,357,365	42,140,371
2027	22,685,000	22,685,000	19,453,574	10,968,636	42,138,574
2028	22,685,000	22,685,000	20,073,603	12,237,168	42,758,603
2029	12,542,000	12,542,000 (4)	15,259,239	8,037,240	27,801,239
2030	-	-	16,564,170	9,930,062	16,564,170
2031	-	-	16,049,050	9,991,755	16,049,050
2032	-	-	14,911,881	9,447,055	14,911,881
2033	-	-	14,859,165	9,942,364	14,859,165
2034	-	-	14,398,919	10,064,141	14,398,919
2035	-	-	13,427,904	9,670,619	13,427,904
2036	-	-	13,268,747	10,059,161	13,268,747
2037	-	-	13,004,724	10,366,454	13,004,724
2038	-	-	12,189,329	10,144,107	12,189,329
2039	-	-	8,792,292	7,312,614	8,792,292
2040	-	-	6,734,004	5,639,669	6,734,004
2041	-	-	6,629,707	5,795,530	6,629,707
2042	-	-	6,350,711	5,781,447	6,350,711
2043	-	-	6,079,457	5,768,788	6,079,457
2044	-	-	1,429,015	1,385,525	1,429,015
Total	$ 148,652,000	$ 148,652,000	$ 298,852,662	$ 192,081,439	$ 447,504,662

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 mature or are purchased at par.
3. Represents Capital Appreciation Bonds on which interest is compounded. Thus, the accreated value reported as Estimated Principal Retirements equals Estimated Debt Service.
4. 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.

This page intentionally left blank

Description of major power purchasers

The information set forth below relating to the power purchasers which are subject to the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act") has been obtained from documents filed by such power purchasers with the U.S. Securities and Exchange Commission (the "SEC"). None of the power purchasers, the District or the underwriter makes representation as to, nor have they attempted to verify, the accuracy or completeness of such information or the absence of material adverse changes in such information as of the date hereof or as of any subsequent date and assumes no responsibility therefor.

PUGET SOUND ENERGY, INC.

Puget Energy, Inc. (Puget Energy) is an energy services holding company incorporated in the State of Washington in 1999. Substantially, all of its operations are conducted through its regulated subsidiary, Puget Sound Energy, Inc. (PSE), a utility company. Puget Energy also has a wholly-owned non-regulated subsidiary, named Puget LNG, LLC (Puget LNG). Puget LNG was formed in 2016, and has the sole purpose of owning, developing and financing the non-regulated activity of a liquefied natural gas (LNG) facility at the Port of Tacoma, Washington. Puget Energy is owned through a holding company structure by Puget Holdings, LLC (Puget Holdings). Puget Holdings is owned by a consortium of long-term infrastructure investors including, the British Columbia Investment Management Corporation, the Alberta Investment Management Corporation, Ontario Municipal Employee Retirement System, PGGM Vermogensbeheer B.V., Macquarie Washington Clean Energy Investment, L.P., and Ontario Teachers' Pension Plan Board. All of Puget Energy's common stock is indirectly owned by Puget Holdings. Puget Energy and PSE are collectively referred to herein as the "Company." The Company's principal executive offices are located at 355 110th Ave NE, Bellevue, Washington 98004. Its telephone number is (425) 454-6363 and information can be found on the Company's Internet web sites at: www.pugetenergy.com and www.pse.com.

Puget Energy is the direct parent company of PSE, the oldest and the largest electric and natural gas utility headquartered in the State of Washington, primarily engaged in the business of electric transmission, distribution and 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, and be the clean energy provider of choice for its customers. Puget Energy does not have any employees and PSE had approximately 3,250 full-time employees as of December 31, 2022.

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. As of December 31, 2022, PSE had approximately 1.2 million electric customers, and nearly 900,000 natural gas customers.

Additional Information

The Company is a publicly traded company and provides periodic reports on its financial and operating condition with the SEC.

ALCOA CORPORATION

Alcoa Corporation, a Delaware corporation, became an independent, publicly traded company on November 1, 2016, following its seperation from its former parent company Alcoa Inc., which has been renamed Howmet Aerospace Inc. Alcoa Corporation has its principal office in Pittsburgh, Pennsylvania. In this report, unless the context otherwise requires, "Alcoa" or the "Company," "we," "us," and "our" means Alcoa Corporation and all subsidiaries consolidated for the purposes of its financial statements.

Alcoa is a global industry leader in bauxite, alumina, and aluminum products.

Alcoa has direct and indirect ownership of approximately 27 operating locations across nine countries. Alcoa's operations consist of three reportable segments: Bauxite, Alumina, and Aluminum. The Bauxite and Alumina segments primarily consist of a series of affiliated operating entities held in an unincorporated joint venture between Alcoa and Alumina Limited. The Aluminum segment consists of the Company's aluminum smelting and casting, along with the majority of the energy production assets.

Aluminum, as an element, is abundant in Earth's crust, but a multi-step process is required to make finished metal. Aluminum metal is produced by refining alumina oxide from bauxite into alumina, which is then smelted into aluminum and can be cast and rolled into may shapes and forms. Aluminum is a commodity traded on the London Metal Exchange ("LME") and priced daily. Alumina, an intermediary product, is subject to market pricing through the Alumina Price Index ("API"). As a result, the price of both aluminum and alumina is subject to significant volatility and, therefore, influences the operating results of Alcoa.

Additional Information

Alcoa is a publicly traded company and is obligated to provide periodic reports on its financial and operating condition with the SEC.

P.U.D.
CHELAN COUNTY