NEW ISSUE – BOOK ENTRY ONLY | Ratings: Moody's—Aa2; S&P—AA; Fitch—AA+ (See "RATINGS")

$15,895,000
PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON
ROCKY REACH HYDRO-ELECTRIC SYSTEM REVENUE BONDS
SERIES 2009A (NON-AMT)

Dated: Date of Delivery | **Due:** As shown on the inside front cover.

Public Utility District No. 1 of Chelan County, Washington (the "District") will issue its Rocky Reach Hydro-Electric System Revenue Bonds, Series 2009A (Non-AMT) (the "2009A Bonds") as fixed rated bonds maturing in the amounts and bearing interest at the rates set forth on the inside front cover page of this Official Statement, payable January 1 and July 1 in each year, commencing January 1, 2010.

When issued, the 2009A Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). DTC will act as securities depository for the 2009A Bonds. Individual purchases will be made in book-entry form in authorized denominations, and purchasers of the 2009A Bonds will not receive certificates representing their interests in the 2009A Bonds. Payments of principal of and premium, if any, and interest on the 2009A Bonds are to be paid to purchasers by DTC through DTC Participants (defined herein). U.S. Bank National Association (the "Trustee") will serve as Trustee for the 2009A Bonds.

The principal of and, premium, if any, and interest on the 2009A Bonds are payable solely from and secured by the applicable accounts within the 2009A Bond Fund, the applicable accounts within the 2009A Reserve Account and Revenues of the Rocky Reach System pledged to such funds, and from amounts on deposit in any sinking fund established for the 2009A Bonds, all as provided in the Second Supplemental Resolution authorizing the 2009A Bonds. The 2009A Bonds are being issued subject to (1) the parity lien on Revenues of the Bonds heretofore and hereafter issued pursuant to the Master Resolution (defined herein) and (2) the parity lien on Revenues of Payment Agreement Payments in respect of any Payment Agreement hereafter entered into with respect to a Series of Bonds on a parity basis. See "SECURITY FOR THE 2009A BONDS."

The 2009A Bonds are subject to optional or mandatory redemption prior to maturity, as described herein.

The 2009A Bonds are special limited obligations of the District and are not obligations of the State of Washington or any political subdivision thereof, other than the District. Neither the full faith and credit nor the taxing power of the District, the State of Washington or any political subdivision thereof, are pledged to the payment of principal of or premium, if any, or interest on the 2009A Bonds. The 2009A Bonds are *not* payable from or secured by revenues of the Consolidated System or the Rock Island System.

MATURITY SCHEDULE — See Inside Front Cover

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2009A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), except that no opinion is expressed as to the status of interest on any 2009A Bond for any period that such 2009A Bond is held by a "substantial user" of the facilities financed or refinanced by the 2009A Bonds or by a "related person" within the meaning of Section 147(a) of the Code. In the further opinion of Bond Counsel, interest on the 2009A Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2009A Bonds. See "TAX MATTERS." A copy of the proposed form of opinion of Bond Counsel is set forth in Appendix J.

This cover page is not intended to be a summary of the terms of, or the security for, the 2009A Bonds. Investors are advised to read the Official Statement in its entirety to obtain information essential to the making of an informed investment decision.

The 2009A Bonds are offered when, as and if issued and received by the Underwriter, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Seattle, Washington, Bond Counsel and Disclosure Counsel to the District, and to certain other conditions. Certain legal matters will be passed upon for the Underwriter by its counsel, Hawkins Delafield & Wood LLP, New York, New York. It is expected that the 2009A Bonds in book-entry form will be delivered through the facilities of DTC in New York, New York on or about August 11, 2009.

BARCLAYS CAPITAL

July 29, 2009.

$15,895,000
PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON
ROCKY REACH HYDRO-ELECTRIC SYSTEM REVENUE BONDS
SERIES 2009A (NON-AMT)

$7,185,000 Serial Bonds

Maturity Date July 1	Principal Amount	Interest Rate	Yield	CUSIP No. 163159**	Maturity Date July 1	Principal Amount	Interest Rate	Yield	CUSIP No. 163159**
2010	$310,000	4.00%	0.72%	AP1	2018	490,000	5.00%	3.43%	AX4
2011	365,000	3.00	1.10	AQ9	2019	515,000	5.00	3.63	AY2
2012	375,000	3.00	1.44	AR7	2020	540,000	5.00	3.80 C	AZ9
2013	385,000	5.00	1.88	AS5	2021	570,000	5.00	3.96 C	BA3
2014	405,000	5.00	2.37	AT3	2022	600,000	5.00	4.10 C	BB1
2015	425,000	5.00	2.65	AU0	2023	630,000	5.00	4.21 C	BC9
2016	445,000	5.00	2.92	AV8	2024	660,000	5.00	4.31 C	BD7
2017	470,000	5.00	3.19	AW6					

$8,710,000 Term Bonds

$3,820,000 5.00% 2009A Term Bonds due July 1, 2029, Priced at 101.791 to Yield 4.77% C CUSIP No. 163159BF2**

$4,890,000 5.00% 2009A Term Bonds due July 1, 2034, Priced at 98.178 to Yield 5.13% CUSIP No. 163159BE5**

C – Priced to the first par call date. All others priced to maturity.

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Washington State
Chelan County
Population 72,100
2,994 Square Miles
LAKE
CHELAN
Manson
Chelan
Chelan Falls
Rocky Reach Hydro Project
LAKE WENATCHEE
Coles Corner
Plain
Ardenvoir
Leavenworth
Entiat
COLUMBIA RIVER
Lake Chelan Hydro Project
Dryden
Cashmere
Rock Island Hydro Project
Monitor
Rocky Reach Dam
Wenatchee
Malaga
Rock Island Dam

PUBLIC UTILITY DISTRICT NO. 1 OF
CHELAN COUNTY, WASHINGTON
327 North Wenatchee Avenue
Wenatchee, Washington 98801
Telephone (509) 663-8121
Web Site: www.chelanpud.org*

COMMISSION

	Term Expires
Ann Congdon, President	December 31, 2010
Dennis Bolz, Vice President	December 31, 2010
Randy Smith, Secretary	December 31, 2012
Carnan Bergren, Commissioner	December 31, 2012
Norman Gutzwiler, Immediate Past President	December 31, 2014

MANAGEMENT

Richard Riazzi	General Manager
Joe O. Jarvis	Executive Manager – Operations Group
John Janney	Executive Manager – Finance-Risk Group / CFO-CRO
Carol A. Wardell	Executive Manager – Legal Group / General Counsel / CCO
Wayne W. Wright	Executive Manager – District Services Group
Randy Stedman	Executive Manager – Human Resources Group
Diane L. Cooper	Director – Accounting Division / Controller
Stacey G. Jagla	Internal Auditor
Debra D. Litchfield	Director – Finance Division / Treasurer

BOND COUNSEL AND DISTRICT DISCLOSURE COUNSEL

Orrick, Herrington & Sutcliffe LLP
Seattle, Washington

FINANCIAL ADVISOR

Public Financial Management, Inc.
Seattle, Washington

* Information about the District or other matters on the District's web site is **not** incorporated herein by this reference. Such information should **not** be relied upon in making any investment decision with respect to the 2009A Bonds. The 2009A Bonds are offered only by means of this Official Statement.

No dealer, broker, salesperson or any other person has been authorized by the District or the Underwriter to give any information or to make any representations, other than the information and representations contained herein, in connection with the offering of the 2009A Bonds, and if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any of the 2009A Bonds, nor shall there be any sale of the 2009A Bonds by any person, in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The information set forth herein has been furnished by the District, DTC, the Underwriter and certain other sources that are believed by the District to be reliable but is not guaranteed as to accuracy or completeness by the Underwriter, and this Official Statement is not to be construed as a representation by the Underwriter. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. Any statements made herein involving matters of opinion, estimates or forecasts, whether or not so expressly described herein, are intended solely as such and not as representations of fact or representations that such matters, estimates or forecasts will be realized. This Official Statement is not to be construed as a contract with the purchasers of the 2009A Bonds.

In connection with this offering, the Underwriter may over allot or effect transactions that stabilize or maintain the market price of the 2009A Bonds at levels above that which might otherwise prevail in the open market. Such stabilization, if commenced, may be discontinued at any time.

The District has undertaken to provide continuing disclosure on certain matters, including annual financial information and certain events, if material, as more fully described herein. See "CONTINUING DISCLOSURE UNDERTAKING."

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

THE 2009A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON A SPECIFIC EXEMPTION CONTAINED IN SUCH ACT, NOR HAVE THEY BEEN REGISTERED UNDER THE SECURITIES LAWS OF ANY STATE.

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$15,895,000
PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON
ROCKY REACH HYDRO-ELECTRIC SYSTEM REVENUE BONDS
SERIES 2009A (NON-AMT)

SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained in this Official Statement. Investors are advised to read the entire Official Statement to obtain information essential to making an informed investment decision. Certain capitalized terms used in this Summary Statement have the meanings specified elsewhere in this Official Statement.

The District

The District is a municipal corporation of the State of Washington (the "State") located in central Washington approximately 138 miles east of Seattle and 165 miles west of Spokane. The District was established in 1936, and began electric utility operations in 1947. In addition to its Distribution Division, which primarily serves Chelan County (the "County"), the District also owns, operates and maintains three major hydroelectric power generating projects: the Rock Island Project, the Rocky Reach Project and the Lake Chelan Project (each as further defined herein and collectively, the "Hydro-Electric Projects"). The Hydro-Electric Projects typically supply energy in excess of the amount necessary to serve the District's retail loads. See "THE DISTRICT—General." In an effort to assist in developing energy resources with low environmental impacts, the District also purchases power from a wind generation project. The District also owns and operates a Water System, a Wastewater System and a Fiber Optics System, which serve portions of the County. See "INTRODUCTION," "THE DISTRICT—General" and "THE CONSOLIDATED SYSTEM AND OTHER PROPERTIES AND FACILITIES OF THE DISTRICT—General" and "—Properties and Facilities of the District."

Under Washington law, the District has the authority to establish separate enterprise funds with respect to its various municipal utility business operations, each of which enterprise funds is accounted for separately. In addition, those utility business operations that generate revenues (known as "systems") can be separately financed through the issuance of debt by the District payable solely from revenues of that particular system. The District currently has three systems through which it issues debt: the Rocky Reach System, the Rock Island System and the "Consolidated System." The Rocky Reach Hydro-Electric System (the "Rocky Reach System") consists of the Rocky Reach Project, together with associated substation and transmission facilities to connect the output of the generating plant to the other facilities of the District and to the transmission grid of the Pacific Northwest. The Columbia River-Rock Island Hydro-Electric System (the "Rock Island System") consists of the Rock Island Project, together with associated substation and transmission facilities to connect the generating plant to the other facilities of the District and Puget Sound Energy, Inc. ("Puget Sound Energy") and to the transmission grid of the Pacific Northwest. The Consolidated System currently includes (i) the District's retail electric utility business operations (referred to as the "Distribution Division"), (ii) the Lake Chelan Project, (iii) the Fiber Optics System, (iv) the Water System, and (v) the Wastewater System. All five of these utility business operations have been consolidated into a single system for both accounting and financing purposes. The District also has two enterprise funds, the Internal Service Fund and the Treasury Service Fund, which are used to account for administrative, financing and other costs allocable to more than one system. See "INTRODUCTION," "THE DISTRICT—General," and "THE CONSOLIDATED SYSTEM AND OTHER PROPERTIES AND FACILITIES OF THE DISTRICT—General" and "—Properties and Facilities of the District."

The Consolidated System purchases power from the Rocky Reach System and the Rock Island System (as an operating expense of the Consolidated System) for sale to its retail customers through the Distribution Division. The power from the Rocky Reach and the Rock Island Systems not needed for the District's own retail load is sold (i) currently on a cost-of-service basis pursuant to existing long-term contracts to a number of investor-owned utilities and a large industrial purchaser, (ii) under new long-term contracts commencing in 2011 and 2012, on a cost of service "plus" basis to an investor-owned utility and a large industrial customer, and (iii) as surplus power at market prices in the wholesale market. These surplus sales are a substantial source of revenues to the District's Consolidated System. See "THE CONSOLIDATED SYSTEM AND OTHER PROPERTIES AND FACILITIES OF THE DISTRICT – Energy Resources."

The Rocky Reach System

Pursuant to Resolution No. 1412, adopted by the District on November 20, 1956, as amended and supplemented (the "Prior Rocky Reach Resolutions"), the District established the Rocky Reach System, and pursuant to Resolution No. 08-13390, adopted by the Commission on October 20, 2008 (the "Master Resolution"), the District continued the Rocky Reach System. As described above, the Rocky Reach System consists of the Rocky Reach Hydro-Electric Generating Plant (the "Rocky Reach Project"), which was placed in commercial operation in 1961, and is located on the Columbia River about seven miles upstream from Wenatchee, Washington, together with associated substation and transmission facilities to connect the output of the generating plant to the other facilities of the District and to the transmission grid of the Pacific Northwest. A dam with an effective head of approximately 89 feet provides water to 11 turbine generators with a nameplate capacity of 1,300,000 kW. Net energy delivered from the generating plant averaged 5,919,424 MWh annually during the three years from 2006 through 2008. See "THE ROCKY REACH SYSTEM."

The Rocky Reach System provides power to the District on a cost-of-service basis at prices substantially below the current market value of such power. The value of such power, together with the power sold to the long-term power purchasers from the Rocky Reach System, is substantially greater than the cost of producing such power, including debt service-related costs. For the year ended December 31, 2008, the annual market average cost per MWh based on the Mid-Columbia Electricity Price Index was approximately $59, while the average cost per MWh delivered by the Rocky Reach System was only $14.

Purposes of the 2009A Bonds

The District intends to apply the proceeds of the 2009A Bonds, together with other available moneys of the District (i) to finance various additions, betterments, extensions and improvements to the Rocky Reach System, (ii) to fund a reserve account for the 2009A Bonds and (iii) to pay costs of issuing the 2009A Bonds.

Security for the 2009A Bonds

The 2009A Bonds are being issued pursuant to Resolution No. 08-13390, adopted by the Commission on October 20, 2008 (the "Master Resolution"), as it may be from time to time amended and supplemented, including as supplemented by Resolution No. 09-13479, adopted by the Commission on July 13, 2009 (the "Second Supplemental Resolution"), and by a Certificate of the District setting forth certain terms of the 2009A Bonds to be delivered at the time of issuance of the 2009A Bonds (the "Delivery Certificate"). The Master Resolution, as amended and supplemented, including supplemented by the Second Supplemental Resolution and by the Delivery Certificate, is referred to collectively as the "Resolution."

The 2009A Bonds are special limited obligations of the District, and the principal of and premium, if any, and interest on the 2009A Bonds are payable from and secured by (1) amounts on deposit in the applicable accounts in the bond fund established under the Second Supplemental Resolution (the "2009A Bond Fund"), the applicable account in the Reserve Fund established under the Second Supplemental Resolution (the "2009A Reserve Account") and any sinking fund that may be established for such 2009A Bonds and (2) Revenues pledged to such funds and the payment of the Bonds. The District pledges, obligates and binds itself in the Resolution to pay into the applicable accounts in the 2009A Bond Fund fixed amounts of Revenues, after payment of Operation and Maintenance Expenses without regard to any fixed proportion of Revenues, sufficient in time and amount to pay the principal of and premium, if any, and interest on the applicable Series of 2009A Bonds from time to time Outstanding, as the same respectively become due and payable, either at maturity, or upon purchase, redemption or acceleration thereof pursuant to the terms of the Resolution. See "SECURITY FOR THE 2009A BONDS—Pledge of Revenues."

The Master Resolution was drafted in contemplation of new power sales contracts with respect to the output from the Rocky Reach System and the Rock Island System, including the New PSE Contract and the New Alcoa Contract described below. See "THE ROCKY REACH SYSTEM—The New Power Sales Contracts." The Resolution has been revised from the forms of the Prior Rocky Reach Resolutions with the primary intent of improving the covenants and provisions for the benefit of owners of the Bonds. The changes include flow-of-funds provisions that provide for the payment of operation and maintenance expenses prior to the deposit of Revenues into the applicable principal, interest and reserve fund accounts, modification of the rate covenant and additional bonds test, the elimination of the consulting engineer requirements and provisions redefining the role of a third-party bond trustee.

The 2009A Bonds, together with any other bonds, notes or other evidences of indebtedness heretofore or hereafter issued under the Master Resolution on a parity therewith are referred to collectively herein as the "Bonds." As of December 31, 2008, the Bonds were outstanding in the aggregate principal amount of $7,415,000. Upon the issuance and delivery of the 2009A Bonds, and after giving effect to mandatory sinking fund redemptions of the Bonds and retirement of Bonds maturing prior to the issuance of the 2009A Bonds, the Bonds will be outstanding in the aggregate principal amount of $22,595,000.

Pursuant to the Master Resolution, the District may enter into one or more interest rate swap payment agreements with respect to all or a portion of a Series of Bonds. The Master Resolution provides that, if and to the extent provided in any Supplemental Resolution authorizing the issuance of a Series of Bonds, regularly scheduled payments due under interest rate swap agreements may be paid directly out of the account or accounts in the Bond Fund established with respect to such Series of Bonds, and thus on a parity with debt service on the Bonds. See "SECURITY FOR THE 2009A BONDS—Flow of Funds" and "THE ROCKY REACH SYSTEM—Financial Information of the Rocky Reach System—*Interest Rate Swaps*." The District has not entered into any interest rate swap payment agreements with respect to a Series of Bonds.

New Power Sales Contracts

In February 2006, the District executed a new long-term power sales contract (the "New PSE Contract") with Puget Sound Energy. Deliveries under the New PSE Contract are scheduled to commence upon the expiration of the existing power sales contracts for the Rocky Reach Project and the Rock Island Project on November 1, 2011 and July 1, 2012, respectively. The New PSE Contract is scheduled to terminate on October 31, 2031. Under the New PSE Contract, Puget Sound Energy will purchase an amount equal to 25 percent of the combined energy and capacity from both the Rocky Reach Project and the Rock Island Project in exchange for payment by Puget Sound Energy of its proportionate share of operation and maintenance, debt service and other costs, which payments are to be allocated among costs of the Rocky Reach Project, the Rock Island Project and the Consolidated System. In addition, Puget Sound Energy made a one-time payment of $89 million to the District as a capacity reservation charge, which the District may use for any lawful purposes. The District will recognize the $89 million payment as revenue of the Consolidated System for accounting purposes in equal annual amounts over the term of the New PSE Contract, commencing on November 1, 2011. The Federal Energy Regulatory Commission ("FERC") approved the New PSE Contract in March 2006. See "THE ROCKY REACH SYSTEM—The New Power Sales Contracts—New Puget Sound Energy Power Sales Contract" and APPENDIX F—"Summary of New Power Sales Contract with Puget Sound Energy, Inc."

In July 2008, the District executed a new long-term power sales contract (the "New Alcoa Contract") with Alcoa, Inc. ("Alcoa"). Deliveries under the New Alcoa Contract are scheduled to commence upon the expiration of the existing power sales contracts for the Rocky Reach Project and the Rock Island Project on November 1, 2011 and July 1, 2012, respectively. The New Alcoa Contract is scheduled to terminate on October 31, 2028. Under the New Alcoa Contract, Alcoa will purchase an amount equal to 26 percent of the combined output of both the Rock Island and Rocky Reach Projects in exchange for payment by Alcoa of its proportionate share of operation and maintenance, debt service and other costs, which payments are to be allocated among costs of the Rocky Reach Project, the Rock Island Project and the Consolidated System. The District retained all capacity rights and environmental attributes and has the right to source the energy from other sources. Payment provisions of the New Alcoa Contract are similar to those of the New PSE Contract. In addition, Alcoa made a one-time payment of $22.9 million to the District for the account of the Consolidated System in August 2008 as a capacity reservation charge, which the District may use for any lawful purposes. The District will recognize the $22.9 million payment as revenue of the Consolidated System for accounting purposes in equal annual amounts over the term of the New Alcoa Contract, commencing on November 1, 2011. FERC approved the New Alcoa Contract in September 2008. See "THE ROCKY REACH SYSTEM—The New Power Sales Contracts—Alcoa" and APPENDIX G—"Summary of New Power Sales Contract with Alcoa, Inc."

Limited Obligation

The 2009A Bonds are special limited obligations of the District and are not obligations of the State or any political subdivision thereof, other than the District. Neither the full faith and credit nor the taxing power of the District, the State or any political subdivision thereof, are pledged to the payment of the principal of or premium, if any, or interest on the 2009A Bonds. The 2009A Bonds are ***not*** payable from or secured by revenues of the Consolidated System or the Rock Island System.

Reserve Account

The Second Supplemental Resolution establishes a reserve account in the Reserve Fund to secure the 2009A Bonds (the "2009A Reserve Account").

The 2009A Reserve Account will be funded at the reserve requirement for the 2009A Bonds, which amount will be equal to the maximum amount of interest payable in any fiscal year on the 2009A Bonds, determined as of the date of issuance of the 2009A Bonds (the "2009A Reserve Requirement"). The 2009A Reserve Requirement is equal to $764,450. The 2009A Reserve Account may also secure additional Series of Bonds that have been designated by the District as "2009A Reserve Account Series."

The District may fund the 2009A Reserve Requirement with proceeds from the 2009A Bonds or with other available funds of the District or a surety purchased sometime in the future. See "SECURITY FOR THE 2009A BONDS – Reserve Account."

Rates and Near-Term Financial Outlook

The District's retail rates and charges for electric power are fixed by the Commission, free from the jurisdiction and control of the Washington Utilities and Transportation Commission and, in the opinion of the District, free from the jurisdiction and control of FERC. The Hydro-Electric Projects are, however, owned and operated by the District under separate long-term licenses from FERC. The District has covenanted in the Resolution 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 sufficient to pay the operation and maintenance expenses and all debts and obligations of the Rocky Reach System.

In June 2007, the District concluded a series of strategic planning sessions with the Commission, customer-owners and employees. This series of public meetings was designed to discuss important challenges the District is facing today and will be facing in the future. The objectives of these meetings were to review the current business model, project how the current business model is expected to function in the future and provide the Commission with a series of tactical operating plans to address future challenges. After 10 months of deliberations and analysis, the Commission adopted a set of governing policies and guiding principles that will allow management to execute the agreed upon operating plan. The strategic package set a new financial direction that included an electric rate increase of 5 percent for 2008, as well as a renewed focus on cost control and efficiency. In addition, the strategic package included 2008 rate increases for the District's Water, Wastewater and Fiber Optics Systems. The 2008 rate increases went into effect on January 1, 2008. The rate increases are intended to move the District away from reliance on wholesale power sales over time. Even with this electric rate increase, the average residential electric rate in the District for 2008 was 3.1 cents per kWh, which is among the lowest in the country. Prior to the 2008 rate increase, the District had not increased electric rates since January 2000 when a 2.5 percent increase was implemented primarily as a result of rising power costs due to drought and greater volatility in hydro-electric generation due to changing conditions on the Columbia River. On April 1, 2009, the District increased water and wastewater rates an average of 6.9 percent and 6.5 percent, respectively. See "THE CONSOLIDATED SYSTEM AND OTHER PROPERTIES AND FACILITIES OF THE DISTRICT—Electric Rates."

The District recognized in the 2007 strategic planning discussions that a surcharge may be needed occasionally in years when water supplies are low or the price of power sold on the wholesale market drops. In 2009, an unusual combination of low wholesale energy prices, below average snowpack and a declining interest rate environment has resulted in a significant decline in revenues to the District from sales of surplus power and interest income earned on investments. For fiscal year 2009, given current snowpack and wholesale electricity prices, the District is projecting surplus power sales revenues of roughly $29 million, or $22 million below budget. In response to these developments, the District has implemented contingency plans developed last fall during the budgeting process, including an initial reduction of $27.4 million in planned expenditures in 2009 and 2010. See "ADDITIONAL FINANCIAL INFORMATION OF THE DISTRICT—District Near-Term Financial Outlook" and "THE DISTRICT—Employees."

On April 27, 2009, the District also implemented a temporary 9 percent electric rate surcharge, the mechanisms for which were established more than a year ago. The surcharge went into effect on May 1, 2009, and will remain in place for up to 12 months. The District had anticipated implementing an electric rate design change on April 1, 2009; however, the effective date of such change has been postponed for a period of up to 12 months pending the expiration of the surcharge. If the conditions adversely affecting the District's revenues (including below-average river flows, depressed wholesale energy prices and/or reduced interest income on investments) persist or return in fiscal years 2010 through 2011, the District may extend, increase and/or re-impose an electric rate surcharge or take other rate action to maintain the health of the District's finances. Conversely, if the current adverse conditions improve, the surcharge may be reduced, suspended or terminated. See "ADDITIONAL FINANCIAL INFORMATION OF THE DISTRICT—District Near-Term Financial Outlook" and "THE CONSOLIDATED SYSTEM AND OTHER PROPERTIES AND FACILITIES OF THE DISTRICT—Electric Rates."

Climate Change

The District is attentive to the developing scientific knowledge and information regarding climate change which may result from greenhouse gas emissions and accumulations and from other factors. Currently available information suggests that an over-all decrease in precipitation in Canada and in Washington State upstream from the District's Hydro-Electric Projects as a result of projected climate changes is relatively unlikely. To the extent, however, that regional warming increases the average temperature in the watershed that feeds the Columbia River, such warming could result in earlier run-off into the Columbia River, and thus affect the timing and/or amount of power generation at the District's Hydro-Electric Projects. The District is unable to predict whether any such climate changes will occur, the nature or extent thereof, or the effects they might have on the District's business operations and financial condition.

Additional Indebtedness

The District has covenanted in the Resolution that it will not issue or incur any additional indebtedness with a lien or charge on Revenues superior or prior to that of the Bonds. The Resolution does not prevent the District from issuing or incurring any additional indebtedness with a lien or charge on Revenues junior and subordinate to the lien or charge of the Bonds.

Upon compliance with certain terms and conditions contained in the Master Resolution, the District may issue additional bonds, notes and other evidences of indebtedness with a lien and charge on Revenues on a parity with that of Outstanding Bonds, including the 2009A Bonds, for any lawful purpose, including without limitation, (1) the refunding of Outstanding Bonds, Subordinate Obligations and Senior Consolidated System Bonds and Consolidated System Bonds, the proceeds of which were loaned to the Rocky Reach System, and (2) financing or refinancing the cost of additions, betterments or improvements to, and repairs, renewals and replacements of, the Rocky Reach System. The Resolution allows the District substantial flexibility as to the terms and conditions of any additional Bonds hereafter issued with a lien and charge on Revenues on a parity with that of the 2009A Bonds.

Upon compliance with certain terms and conditions contained in the Master Resolution, the District may in the future enter into Payment Agreements providing for Payment Agreement Payments to be made on a parity with the Bonds. Subsequent Payment Agreements may also provide for Payment Agreement Payments that are subordinate to the Bonds. See "SECURITY FOR THE 2009A BONDS—Flow of Funds" and "THE ROCKY REACH SYSTEM—Financial Information of the Rocky Reach System—*Interest Rate Swaps*."

The Resolution contains no restrictions on the issuance of bonds of either the Consolidated System or the Rock Island System. Simultaneously with the issuance of the 2009A Bonds, the District expects to issue

$33,560,000 of its Consolidated System Bonds (as defined herein) and $14,000,000 of its Rock Island Bonds (as defined herein). Such bonds, however, will be issued under separate master resolutions of the District, not under the Resolution.

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PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON
OFFICIAL STATEMENT

Relating to

$15,895,000
PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON
ROCKY REACH HYDRO-ELECTRIC SYSTEM REVENUE BONDS
SERIES 2009A (NON-AMT)

INTRODUCTION

The purpose of this Official Statement, including the cover, inside front cover page, summary statement and appendices hereto, which is being provided in connection with the delivery of the Rocky Reach Hydro-Electric System Revenue Bonds, Series 2009A (Non-AMT) in the aggregate principal amount of $15,895,000 (the "2009A Bonds"), is to provide information concerning Public Utility District No. 1 of Chelan County, Washington (the "District"), its Rocky Reach Hydro-Electric System (the "Rocky Reach System") and its issuance of the 2009A Bonds.

The 2009A Bonds are being issued pursuant to Chapter 1 of the Laws of Washington, 1931, as amended and supplemented, constituting Title 54 of the Revised Code of Washington, and Chapter 167 of the Laws of Washington, 1983, as amended and supplemented, constituting Chapter 39.46 of the Revised Code of Washington (collectively, the "Enabling Act"), and Resolution No. 08-13390, adopted by the Commission on October 20, 2008 (the "Master Resolution"), as it may be from time to time amended and supplemented, including as supplemented by Resolution No. 09-13479, adopted by the Commission on July 13, 2009 (the "Second Supplemental Resolution"), and by the Certificate of the District setting forth certain terms of the 2009A Bonds to be delivered at the time of issuance of the 2009A Bonds (the "Delivery Certificate"). The Master Resolution, as amended and supplemented, including as supplemented by the Second Supplemental Resolution and the Delivery Certificate, is referred to collectively herein as the "Resolution."

Under Washington law, the District has the authority to establish separate enterprise funds with respect to its various municipal utility business operations, each of which enterprise funds is accounted for separately. In addition, those utility business operations that generate revenues (known as "systems") can be separately financed through the issuance of debt by the District payable solely from revenues of that particular system. The District currently has three systems through which it issues debt: the Rocky Reach System, the Rock Island System, and the "Consolidated System." The Rocky Reach System consists of the Rocky Reach Hydro-Electric Generating Plant (the "Rocky Reach Project"), which was placed in commercial operation in 1961, and is located on the Columbia River about seven miles upstream from Wenatchee, Washington, together with associated substation and transmission facilities to connect the output of the generating plant to the other facilities of the District and to the transmission grid of the Pacific Northwest. The Columbia River-Rock Island Hydro-Electric System (the "Rock Island System") consists of the Rock Island Hydro-Electric Generating Plant (the "Rock Island Project") located on the Columbia River approximately 12 miles downstream from Wenatchee, Washington, together with associated substation and transmission facilities to connect the generating plant to the other facilities of the District and Puget Sound Energy, Inc. ("Puget Sound Energy") and to the transmission grid of the Pacific Northwest. The Consolidated System currently includes (i) the District's retail electric utility business operations (referred to as the "Distribution Division"), (ii) the Lake Chelan Hydro-Electric Project (the "Lake Chelan Project"), (iii) the Fiber Optics System, (iv) the Water System, and (v) the Wastewater System. All five of these utility business operations have been consolidated into a single system for both accounting and financing purposes. The District also has two enterprise funds, the Internal Service Fund and the Treasury Service Fund, which are used to account for administrative, financing and other costs allocable to more than one system. See "INTRODUCTION," "THE DISTRICT—General," and "THE CONSOLIDATED SYSTEM AND OTHER PROPERTIES AND FACILITIES OF THE DISTRICT—General" and "—Properties and Facilities of the District."

The Consolidated System purchases power from the Rocky Reach System and the Rock Island System (as an operating expense of the Consolidated System) for sale to its retail customers through the Distribution

Division. The power from the Rock Island System and the Rocky Reach System not needed for the District's own retail load is sold (i) currently on a cost-of-service basis pursuant to existing long-term contracts to a number of investor-owned utilities and a large industrial purchaser, (ii) under new long-term contracts commencing in 2011 and 2012, on a cost-of-service "plus" basis to an investor-owned utility and a large industrial customer and (iii) as surplus power at market prices in the wholesale market. These surplus sales are a substantial source of revenues to the District's Consolidated System. See "INTRODUCTION," "THE DISTRICT—General," "THE ROCKY REACH SYSTEM—The New Power Sales Contracts" and "THE CONSOLIDATED SYSTEM AND OTHER PROPERTIES AND FACILITIES OF THE DISTRICT—General" and "—Properties and Facilities of the District."

The Rocky Reach System and the Rock Island System are not part of the Consolidated System. The revenues of the Consolidated System and the Rock Island System are not pledged or otherwise available to pay or secure the Bonds of the Rocky Reach System, including the 2009A Bonds. Rather, the revenues of Consolidated System and the Rock Island System are pledged to the payment of bonds issued pursuant to separate master resolutions of the District to finance costs of those respective Systems. Operating expenses of the Consolidated System, including payments to the Rocky Reach System for power delivered to the Consolidated System, are paid prior to the payment of debt service on bonds of the Consolidated System. See "ADDITIONAL FINANCIAL INFORMATION OF THE DISTRICT—Outstanding Debt" for information about the outstanding indebtedness of the Consolidated System and the Rock Island System. Upon compliance with certain terms and conditions, the District may issue additional bonds of the Consolidated System and the Rock Island System. Such bonds, however, will be issued under separate master resolutions of the District, not under the Resolution. See "SECURITY FOR THE 2009A BONDS—Additional Indebtedness."

For approximately the past 20 years, the District has financed and refinanced capital improvements to the respective Hydro-Electric Systems in part through bonds issued by the Consolidated System, the proceeds of which were loaned to the Hydro-Electric Systems. The Hydro-Electric Systems make payments to the Consolidated System on such loans. These payments constitute revenues of the Consolidated System. The principal components of the loan payments are available to make additional loans to the Hydro-Electric Systems. The obligations of the Rocky Reach System and the Rock Island System to make loan payments to the Consolidated System are subordinate to the obligations of such Systems to pay operation and maintenance expenses and debt service on the revenue bonds issued by such Systems. See "THE ROCKY REACH SYSTEM—Financial Information of the Rocky Reach System—*Intersystem Loans*" and "ADDITIONAL FINANCIAL INFORMATION OF THE DISTRICT—Intersystem Loans."

This Official Statement 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.

This Official Statement includes summaries of the terms of the Senior Consolidated System Bonds, the Consolidated System Bonds, the Bonds, including the 2009A Bonds, the Senior Consolidated System Resolution, the Consolidated System Resolution, the Master Resolution, the Second Supplemental Resolution, the Original Rocky Reach Power Sales Contracts (as defined herein), the New Power Sales Contracts (as defined herein), the Loan Resolutions (as defined herein), financing agreements and certain contracts and arrangements for the purchase and sale of power and energy. The summaries of and references to all agreements, documents, statutes, resolutions, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each such agreement, document, statute, report or instrument. Capitalized terms not defined herein shall have the meanings as set forth in Appendices C, D, E, F and G or in the respective documents.

PURPOSES OF THE 2009A BONDS

The District intends to apply the proceeds of the 2009A Bonds, together with other available moneys of the District, (i) to finance various additions, betterments, extensions and improvements to the Rocky Reach System, (ii) to fund a reserve account for the 2009A Bonds and (iii) to pay costs of issuing the 2009A Bonds.

ESTIMATED APPLICATION OF THE PROCEEDS OF THE 2009A BONDS AND DISTRICT FUNDS

The proceeds of the 2009A Bonds, together with other available moneys of the District, are estimated to be applied as follows:

SOURCES:	
Par Amount of 2009A Bonds	$15,895,000
Net Original Issue Premium	619,255
District Contribution	19,519
Total Sources	$16,533,774
USES:	
2009A Construction Fund	$15,419,519
Costs of Issuance**	349,805
2009A Reserve Account	764,450
Total Uses	$16,533,774

**Includes printing costs, underwriter's discount and rating agency, financial advisor and legal fees.

DESCRIPTION OF THE 2009A BONDS

General

The 2009A Bonds will be issued in the aggregate principal amount of $15,895,000, pursuant to the Second Supplemental Resolution as fixed rate bonds maturing in the amounts and bearing interest at the rates set forth on the inside front cover page of this Official Statement. Interest on the 2009A Bonds, calculated based upon a 360-day year consisting of twelve 30-day months, is payable on January 1 and July 1 of each year, commencing January 1, 2010, until maturity or prior redemption as described below.

The 2009A Bonds will be issued in the form of fully registered bonds without coupons in authorized denominations of $5,000 or any integral multiple of $5,000 and dated their date of delivery. Upon initial issuance, the 2009A Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Purchases of beneficial interests in the 2009A Bonds will be made in book-entry form, without certificates. While the book-entry system is in effect, payments of principal of and premium, if any, and interest on the 2009A Bonds are to be paid to purchasers by DTC through DTC Participants. See APPENDIX K—"Book-Entry Only System."

If the book-entry only system for the 2009A Bonds is discontinued, the principal of and premium, if any, on each 2009A Bond will be payable to the owner thereof by check or draft at maturity, upon acceleration or on the date fixed for redemption, as the case may be, upon the presentation and surrender of each such 2009A Bond to the Trustee.

If the book-entry only system for the 2009A Bonds is discontinued, interest on the 2009A Bonds will be payable by the Trustee on each Interest Payment Date by check or draft mailed to each owner as of the Record Date, at the most recent address shown on the Bond Register; provided, that payment of interest to each owner who owns of record $1,000,000 or more in aggregate principal amount of 2009A Bonds may be made to such owner by wire transfer to such wire address within the United States as that owner may request in writing prior to the Record Date. Payments of defaulted interest shall be made as of a special record date to be fixed by the Trustee, notice of which special record date shall be given to the owners by the Trustee not less than ten days prior thereto.

If at any time the book-entry only system is discontinued for the 2009A Bonds, the 2009A Bonds will be exchangeable for other fully registered certificated 2009A Bonds of the same maturity and interest rate in any authorized denominations. See APPENDIX K—"Book-Entry Only System." The Trustee may impose a charge sufficient to reimburse the District for any tax, fee or other governmental charge required to be paid with respect to such exchange or any transfer of a 2009A Bond.

Capitalized terms used herein not otherwise defined shall have the meanings given in APPENDIX C—"Summary of Certain Provisions of the Master Resolution and the Second Supplemental Resolution—Definitions."

Redemption

Optional Redemption. The 2009A Bonds maturing on or after July 1, 2020 are subject to redemption prior to maturity at the option of the District, in whole or in part, at any time on or after July 1, 2019, at a redemption price equal to 100 percent of the principal amount thereof, plus accrued but unpaid interest, if any, to the date of redemption.

Mandatory Sinking Fund Redemption. The 2009A Bonds maturing on July 1, 2029 are Term Bonds subject to mandatory sinking fund redemption prior to their stated maturity date in part determined by lot on July 1, 2025, and each July 1 thereafter to and including July 1, 2029, at a redemption price equal to the principal amount thereof and accrued interest thereon, if any, to the date fixed for redemption, but without premium, as set forth in the following table.

Mandatory Redemption Dates (July 1)	Mandatory Redemption Payments
2025	$690,000
2026	725,000
2027	765,000
2028	800,000
2029*	840,000

* Maturity

The 2009A Bonds maturing on July 1, 2034 are Term Bonds subject to mandatory sinking fund redemption prior to their stated maturity date in part determined by lot on July 1, 2030, and each July 1 thereafter to and including July 1, 2034, at a redemption price equal to the principal amount thereof and accrued interest thereon, if any, to the date fixed for redemption, but without premium, as set forth in the following table.

Mandatory Redemption Dates (July 1)	Mandatory Redemption Payments
2030	$ 885,000
2031	930,000
2032	975,000
2033	1,025,000
2034*	1,075,000

* Maturity

In the event of a partial optional redemption of Term Bonds within a maturity, the amount of future mandatory sinking fund payments with respect thereto will be reduced, as directed by the District, to take into account such partial redemption.

Selection. The Trustee shall, at the written direction of the District (or in the absence of such written direction, by random drawing conducted by the Trustee), select the 2009A Bonds that shall be subject to redemption.

Notice and Effect of Redemption. Notice of redemption of any 2009A Bonds to be redeemed shall be given by first class mail to the owners of the 2009A Bonds designated for redemption at least 30 but not more than 60 days prior to the redemption date, and to certain specified securities depositories and information services. When notice of redemption has been given as provided in the Resolution, the 2009A Bonds designated for redemption shall become due and payable on the redemption date and interest on such 2009A Bonds so called for redemption shall cease to accrue as of that redemption date.

Defeasance

Under the Master Resolution, upon the deposit with the Trustee, at or before maturity, of money or noncallable Government Securities which, together with the earnings thereon, are sufficient to pay the Principal, Purchase Price or Redemption Price of any particular Bond or Bonds, or portions thereof, becoming due, together with all interest accruing thereon to the due date or redemption date, and pays or makes provision for payment of all fees, costs and expenses of the Trustee due or to become due with respect to such Bonds, all liability of the District with respect to such Bond or Bonds (or portions thereof) will cease and such Bond or Bonds (or portions thereof) will be deemed not to be Outstanding under the Master Resolution. The Owner or Owners of such Bond or Bonds (or portions thereof) will be restricted exclusively to the money or Government Securities so deposited, together with any earnings thereon, for any claim, subject to the provisions of the Master Resolution, and such Bond or Bonds will no longer be secured by or entitled to the benefits of the Master Resolution, except as provided in the Master Resolution. If such Bond is to be redeemed prior to maturity, irrevocable notice of such redemption must have been given as provided in the Master Resolution. See APPENDIX C—"Summary of Certain Provisions of the Master Resolution and the Second Supplemental Resolution—The Master Resolution—Discharge and Defeasance."

Trustee

U.S. Bank National Association (the "Trustee") has been appointed Trustee for the 2009A Bonds. The Trustee may be removed or replaced as Trustee by the District as provided in the Resolution.

Book-Entry System

The 2009A Bonds will be delivered in fully registered form only, and when delivered, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository for the 2009A Bonds. Ownership interests in the 2009A Bonds may be purchased in book-entry only form, in the denominations set forth above. So long as DTC acts as securities depository for the 2009A Bonds, the District and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any Participant with respect to any beneficial ownership interest in the 2009A Bonds, (ii) the delivery to any Participant or any other person, other than an owner as shown in the Bond Register, of any notice with respect to the 2009A Bonds, or (iii) the payment to any Participant or any other person, other than an owner as shown in the Bond Register, of any amount with respect to principal or purchase price of, premium, if any, or interest on the 2009A Bonds. The District and the Trustee may treat and consider the person in whose name each 2009A Bond is registered in the Bond Register as the holder and absolute owner of such 2009A Bond for the purpose of payment of principal, purchase price and interest on such 2009A Bond, for the purpose of giving notices with respect to such 2009A Bond, and for all other purposes whatsoever. See APPENDIX K—"Book-Entry Only System."

SECURITY FOR THE 2009A BONDS

Pledge of Revenues

The 2009A Bonds are special limited obligations of the District, and the principal of and premium, if any, and interest on the 2009A Bonds are payable from and secured by (1) amounts on deposit in the applicable accounts in the bond fund established under the Second Supplemental Resolution (the "2009A Bond Fund"), the applicable account in the Reserve Fund established under the Second Supplemental Resolution (the "2009A Reserve Account") and any sinking fund that may be established for such 2009A Bonds and (2) Revenues pledged to such funds and the payment of the Bonds. The District pledges, obligates and binds itself in the Resolution to pay into the applicable accounts in the 2009A Bond Fund fixed amounts of Revenues, after payment of Operation and Maintenance Expenses without regard to any fixed proportion of Revenues, sufficient in time and amount to pay the principal of and premium, if any, and interest on the applicable Series of 2009A Bonds from time to time

Outstanding, as the same respectively become due and payable, either at maturity, or upon purchase, redemption or acceleration thereof pursuant to the terms of the Resolution.

The 2009A Bonds are ***not*** payable from or secured by revenues of the Consolidated System or the Rock Island System.

The Enabling Act provides that the revenue obligations and interest thereon issued by a public utility district thereunder shall be a valid claim of the owner thereof only as against the special fund or funds provided for the payment of such obligations and the proportion or amount of the revenues pledged to such fund or funds, and that such pledge of the revenues or other moneys or obligations shall be valid and binding from the time made, that the revenues or other moneys or obligations so pledged and thereafter received by the public utility district shall immediately be subject to the lien of such pledge without any physical delivery or further act, and that the lien of any such pledge shall be valid and binding as against any parties having claims of any kind in tort, contract or otherwise against the public utility district irrespective of whether such parties have notice thereof.

The Resolution defines "Revenues" generally as all revenues, rates and charges received or accrued by the District for electric power and energy and other services, facilities and commodities sold, furnished or supplied by the Rocky Reach System, together with income, earnings and profits therefrom (including interest earnings on the proceeds of any Bonds pending application thereof), all as determined in accordance with GAAP as applied to governmental entities. Revenues include principal and interest payments to the Rocky Reach System on or with respect to loans made by the Rocky Reach System to any other separate system of the District that is not part of the Rocky Reach System. Revenues do not include proceeds from the issuance of any obligations for borrowed money, amounts loaned to the Rocky Reach System, Payment Agreement Receipts, proceeds from taxes, customer deposits while retained as such, contributions in aid of construction, gifts, grants, insurance or condemnation proceeds that are properly allocable to a capital account, unrealized mark-to-market gains with respect to any property, investment or financial or other agreement, or money received by the District as the proceeds of the sale of any portion of the properties of the Rocky Reach System. See "SECURITY FOR THE 2009A BONDS—Loan Resolutions and Financing Agreements" and APPENDIX D—"Summary of Certain Provisions of the Loan Resolutions and Financing Agreements."

Pursuant to the Master Resolution, the District may sell output from the Rocky Reach System on a commingled basis with output from other electric utility systems of the District, including the Lake Chelan System and the Rock Island System, and the revenues from such sales are to be allocated to the Rocky Reach System and such other systems *pro rata* on a cost-of-service basis, as reasonably determined by the District, or such greater amount or ratio as the District determines in its sole and absolute discretion.

"Operation and Maintenance Expenses" means the costs paid or accrued for the proper operation, maintenance and repair of the Rocky Reach System and taxes, assessments or other governmental charges lawfully imposed on the Rocky Reach System or the Revenues, or payments in lieu thereof, all as determined in accordance with GAAP as applied to governmental entities. Operation and Maintenance Expenses do not include depreciation or amortization expense or unrealized mark-to-market losses with respect to any property, investment, or financial or other agreement.

See APPENDIX C—"Summary of Certain Provisions of the Master Resolution and the Second Supplemental Resolution—Definitions" for the definitions of other capitalized terms used above.

Limited Obligations

The 2009A Bonds shall not in any manner or to any extent constitute general obligations of the District or of the State, or of any political subdivision of the State. The 2009A Bonds are not a charge upon any general fund or upon any moneys or other property of the District, or of the State, or of any political subdivision of the State, other than Revenues and other funds, assets and security pledged therefor pursuant to the Resolution. Neither the full faith and credit nor the taxing power of the District, of the State or of any political subdivision of the State, are pledged to the payment of the 2009A Bonds. The 2009A Bonds shall not constitute indebtedness of the District, or of the State or any political subdivision of the State, within the meaning of the constitutional and statutory provisions and limitations of the State. The 2009A Bonds are ***not*** payable from or secured by revenues of the Consolidated System or the Rock Island System.

Flow of Funds

The District, by Resolution No. 1412, adopted on November 20, 1956, created a special fund held by the District known as the Rocky Reach Hydro-Electric System Revenue Fund (the "Revenue Fund"), which is continued by the Master Resolution so long as any Bonds remain Outstanding. The District has covenanted and agreed to pay all income, revenues, receipts and profits and other moneys derived by the District through the ownership and operation of the Rocky Reach System, including Revenues, into the Revenue Fund. The Master Resolution provides for the disbursement of Revenues deposited in the Revenue Fund in the following order of priority:

(a) First, for the payment of Operation and Maintenance Expenses;

(b) Second, for deposit in the Interest Account, including without limitation for any Payment Agreement Payments, and the Bond Retirement Account of each Bond Fund created pursuant to the Resolution;

(c) Third, for deposit in the Reserve Fund pursuant to the Resolution;

(d) Fourth, (i) for the payment of the principal of and interest and redemption premium, if any, on any Subordinate Obligations; (ii) for deposit into a reserve fund securing any Subordinate Obligations; (iii) for Payment Agreement Payments pursuant to Payment Agreements entered into by the District with respect to any Subordinate Obligations; and (iv) for payment to any financial institution or insurance company providing any letter of credit, line of credit, or other credit or liquidity facility, including municipal bond insurance and guarantees, that secures the payment of principal of or interest on any Subordinate Obligations; in each case in any order of priority as described within this paragraph (f) that may be hereafter established by the District by resolution;

(e) Fifth, for any payment due under a Payment Agreement that does not constitute a Payment Agreement Payment;

(f) Sixth, for any payments due on account of loans or advances of funds from the Consolidated System or any other separate utility system of the District to the Rocky Reach System; and

(g) Seventh, for any other lawful purpose of the Rocky Reach System, in any order of priority that may be hereafter established by the District by resolution.

As the Consolidated System must pay the Rocky Reach System for power delivered to it by the Rocky Reach System as an operating expense of the Consolidated System (that is, as a purchased power expense), the Consolidated System's share of debt service on the outstanding bonds of the Rocky Reach System is payable by the Consolidated System on a basis prior to the Consolidated System's outstanding bonds.

The District may not withdraw moneys from the Revenue Fund for the purposes described in clauses (d) through (g) above unless the District first determines that the amounts to be withdrawn are not expected to be required for the purposes described in clauses (a) through (c).

See APPENDIX C—"Summary of Certain Provisions of the Master Resolution and the Second Supplemental Resolution—Definitions" for the definitions of capitalized terms used above.

Additional Indebtedness

The Enabling Act prohibits the District from creating or incurring indebtedness payable from Revenues that would require the District to set aside for the payment thereof an amount or proportion of Revenues which, in the judgment of the Commission of the District, is greater than that which will be available over and above the amount or proportion required to pay the costs of operation and maintenance of the Rocky Reach System and the amount or proportion previously pledged to the payment of the District's revenue obligations, including the Bonds and the Prior Rocky Reach Bonds.

The District has covenanted in the Resolution that it will not issue or incur any additional indebtedness with a lien or charge on Revenues superior or prior to the lien or charge on Revenues of the Bonds, including the 2009A Bonds.

Upon compliance with certain terms and conditions contained in the Master Resolution, the District may issue additional bonds, notes and other evidences of indebtedness with a lien and charge on Revenues on a parity with that of Outstanding Bonds, including the 2009A Bonds, for any lawful purpose, including without limitation, (1) the refunding of Outstanding Bonds, Subordinate Obligations and Senior Consolidated System Bonds and Consolidated System Bond, the proceeds of which have been loaned to the Rocky Reach System and (2) financing or refinancing the cost of additions, betterments or improvements to, and repairs, renewals and replacements of, the Rocky Reach System. The Resolution allows the District substantial flexibility as to the terms and conditions of any additional Bonds hereafter issued with a lien and charge on Revenues on a parity with that of the 2009A Bonds and does not restrict the District's ability to create or incur indebtedness having a lien or charge on Revenues junior and subordinate to that of the Bonds.

Upon compliance with certain terms and conditions contained in the Master Resolution, the District may in the future enter into Payment Agreements providing for Payment Agreement Payments to be made on a parity with the Bonds and secured by an equal pledge of and charge and liens on such Revenues. See "SECURITY FOR THE 2009A BONDS—Flow of Funds" and "THE ROCKY REACH SYSTEM—Financial Information of the Rocky Reach System—*Interest Rate Swaps*." The District has not entered into any Payment Agreements with respect to a Series of Bonds.

The District may issue additional bonds, notes or other evidences of indebtedness of the Consolidated System and the Rock Island System.

Simultaneously with the issuance of the 2009A Bonds, the District expects to issue $33,560,000 of its Consolidated System Bonds (as defined herein) and $14,000,000 of its Rock Island Bonds (as defined herein). Such bonds, however, will be issued under separate master resolutions of the District, not under the Resolution. See "ADDITIONAL FINANCIAL INFORMATION OF THE DISTRICT—Outstanding Debt."

Power Purchase Agreements

The Master Resolution permits the District to enter into Power Purchase Agreements (as defined below) payable from Revenues for the purchase of power by the Rocky Reach System, provided that that such Power Purchase Agreements are payable from and secured by a pledge of and lien and charge on Revenues junior and inferior to the Bonds, the payments required to be made into the Bond Funds and the Reserve Fund and to any payments due on account of loans or advances of funds from the Consolidated System or any other separate utility system of the District to the Rocky Reach System.

The Master Resolution defines "Power Purchase Agreement" as a resolution, contract or agreement with a term of more than five (5) years pursuant to which the Rocky Reach System is obligated to purchase capacity or energy, including from a separate system of the District, and is obligated to pay for such capacity or energy regardless of whether or not such capacity or energy is taken by or made available or delivered to the Rocky Reach System.

Loan Resolutions and Financing Agreements

The District has adopted certain resolutions providing for lending a portion of the proceeds of the Senior Consolidated System Bonds and the Consolidated System Bonds, to the Rock Island System and Rocky Reach System and the repayment of those interfund loans by such Systems to the Consolidated System (the "Loan Resolutions"). Pursuant to certain financing agreements with the power purchasers with respect to the Rock Island System and the Rocky Reach System, the power purchasers have agreed that the obligation of the Rock Island

System and the Rocky Reach System, as appropriate, to repay such loans to the Consolidated System shall constitute a "cost" of such System, as that term is defined and used in the applicable power sales contracts. Pursuant to such financing agreements, the power purchasers have agreed to make payments to the District for credit to the Rock Island System and Rocky Reach System, as appropriate, sufficient to provide for the repayment of the loan obligations to the Consolidated System as part of the cost of power purchased. See "THE ROCKY REACH SYSTEM—Financial Information of the Rocky Reach System—*Intersystem Loans*," "ADDITIONAL FINANCIAL INFORMATION OF THE DISTRICT—Intersystem Loans" and APPENDIX D—"Summary of Certain Provisions of the Loan Resolutions and Financing Agreements" for a discussion of the interfund loans and the payments by the power purchasers. Such payments include payment of principal of and interest with respect to the loan, plus payments necessary to maintain a cover component equal to 15 percent of one year's interest on the loan. The financing agreements with the power purchasers will expire simultaneously with the existing power sales contracts with such power purchasers. See "THE ROCKY REACH SYSTEM—The Original Rocky Reach Power Sales Contracts."

The obligations of the Rocky Reach System to make loan payments to the Consolidated System are subordinate to the obligation of the Rocky Reach System to pay Operation and Maintenance Expenses and debt service on the Bonds, including the 2009A Bonds.

Reserve Account

The Second Supplemental Resolution establishes the 2009A Reserve Account to secure the 2009A Bonds, as well as any future Series of Bonds designated as a "2009A Reserve Account Series." The 2009A Reserve Account will be funded at the 2009A Reserve Requirement for the 2009A Bonds, which is equal to the maximum amount of interest payable in any fiscal year on the 2009A Bonds, determined as of the date of issuance of the 2009A Bonds. The 2009A Reserve Requirement for the 2009A Bonds is equal to $764,450. To the extent any future Series of Bonds is secured by the 2009A Reserve Account, the aggregate 2009A Reserve Requirement shall be maximum amount of interest payable in any fiscal year on such future Series and on the 2009A Bonds, determined as of the date of issuance of such future Series.

The District may satisfy its obligation to fund the 2009A Reserve Account through cash, a letter of credit, insurance policy and/or surety bond meeting the requirements set forth in the Resolution, or a combination thereof, in an aggregate amount equal to the 2009A Reserve Requirement. The District may fund the 2009A Reserve Requirement with proceeds from the 2009A Bonds or with other available funds of the District.

Moneys in the 2009A Reserve Account may be used solely for the purpose of paying and securing the payment of the principal of and interest on the 2009A Bonds and any other 2009A Reserve Account Series of Bonds and may not be used to pay principal of or interest on any other Series of Bonds.

The 2009A Reserve Account will be held by the Trustee. In the event of the bankruptcy or insolvency of the District, a bankruptcy court may be able to direct the application of moneys in the 2009A Reserve Account to other purposes. The Resolution does not require that any additional Series of Bonds be secured by the 2009A Reserve Account.

Rate Covenant

The District has covenanted in the Master Resolution 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, which shall be fair and nondiscriminatory and adequate to provide the District with Revenues in each Fiscal Year sufficient to pay, to the extent not paid from other available moneys of the Rocky Reach System, (i) the Operation and Maintenance Expenses due and payable during such Fiscal Year, (ii) Annual Debt Service on the Bonds due and payable in such Fiscal Year, (iii) the amounts, if any, required to be deposited into the Reserve Fund during such Fiscal Year, (iv) any and all other amounts the District is obligated to pay or set aside from the Revenues by law or contract in such Fiscal Year, and (v) to provide a Bond Coverage Ratio of at least 1.0.

"Bond Coverage Ratio" for any Fiscal Year means the ratio of (a) Net Revenues in such Fiscal Year, to (b) Annual Debt Service on the Outstanding Bonds and Prior Rocky Reach Bonds in such Fiscal Year.

"Net Revenues" for any Fiscal Year (or other designated twelve-month period) means Revenues in such Fiscal Year (or other designated twelve-month period) less Operation and Maintenance Expenses for such Fiscal Year (or other designated twelve-month period).

See APPENDIX C—"Summary of Certain Provisions of the Master Resolution and the Second Supplemental Resolution—Definitions" for the definitions of other capitalized terms used above.

The Rocky Reach System provides power to the District on a cost-of-service basis at prices substantially below the market value of such power. The value of such power, together with the power sold to the long-term power purchasers from the Rocky Reach System, is substantially greater than the cost of producing such power, including debt service-related costs. For the year ended December 31, 2008, the annual market cost per MWh based on the Mid-Columbia Electricity Price Index was approximately $59, while the average cost per MWh delivered by the Rocky Reach System was only $14.

Sinking Funds for Balloon Bonds

The District has covenanted in the Master Resolution to establish and maintain a Balloon Sinking Fund, to be held by the District, with respect to each Balloon Bond at least three (3) years prior to the maturity date, mandatory redemption date, or date of mandatory tender for purchase of such Bonds in order to secure the payment of the maturing Principal, including Accreted Value, Purchase Price or Redemption Price of such Bonds. The Master Resolution requires the District to fund each such Balloon Sinking Fund in four equal annual installments of one-fourth of such maturing Principal, Purchase Price or Redemption Price commencing not less than three (3) years prior to such payment date, either (i) by deposits from Revenues or other available funds, or (ii) by obtaining one or more Credit Facilities that provide for the payment of such maturing Principal, Purchase Price or Redemption Price. Amounts in each such Balloon Sinking Fund are pledged to the payment of such Bonds on their maturity date, mandatory redemption date, or date of mandatory tender for purchase, and are subject to the lien and charge of the Master Resolution for the benefit of such Bonds. Any amounts in any such Balloon Sinking Fund not required on the maturity date, mandatory redemption date, or date of mandatory tender for purchase may be used for any other lawful purpose of the District. See APPENDIX C—"Summary of Certain Provisions of the Master Resolution and the Second Supplemental Resolution—Definitions" for definitions of capitalized terms.

Authorized Investments

All moneys in any of the funds and accounts held by the Trustee, Treasurer or any Fiscal Agent and established pursuant to the Resolution may be invested in any obligation or investment in which the District may legally invest its funds. For a description of the District's current investment policies and practices, see "ADDITIONAL FINANCIAL INFORMATION OF THE DISTRICT—Investment Policies."

Continuation of the Rocky Reach System

Pursuant to the Master Resolution, the Rocky Reach System is to be maintained as a separate utility system of the District so long as any Bonds remain Outstanding under the Resolution.

Certain Provisions of the Master Resolution Relating to Facility Provider Rights

Pursuant to the Master Resolution, except as otherwise provided in the Supplemental Resolution authorizing the issuance of a Series of Bonds, if the Facility Provider with respect to such Series of Bonds is not in default in respect of any of its obligations under the Facility securing such Series of Bonds, then: (a) such Facility Provider shall be deemed to be the Owner of such Series of Bonds at all times for the purposes of (i) giving any approval or consent to the effectiveness of any Supplemental Resolution other than a Supplemental Resolution providing for (A) a change in the terms of redemption, purchase or maturity of the principal of any Outstanding Bond of such Series or any interest thereon or a reduction the Principal amount, Purchase Price or Redemption Price thereof or in the rate of interest thereon, or (B) a reduction in the percentage of Owners required to approve or consent to the effectiveness of any Supplemental Resolution, and (ii) giving any approval or consent or exercising any remedies in connection with the occurrence of an Event of Default; (b) any amendment to the Master Resolution requiring the consent of Owners of such Series of Bonds shall also require the prior written consent of such Facility Provider; and (c) any amendment to the Master Resolution not requiring the consent of Owners of such Series of Bonds shall require the prior written consent of such Facility Provider if its rights shall be materially and adversely affected by such amendment. See APPENDIX C—"Summary of Certain Provisions of the Master Resolution and the Second Supplemental Resolution—The Master Resolution—Facility Provider Rights."

"Credit Facility" means a letter of credit, line of credit, or other credit facility provided by a financial institution or insurance company, including municipal bond insurance and guarantees, delivered to the Trustee for a Series of Bonds or portion thereof, which provides for payment, in accordance with the terms thereof, of the Principal, Purchase Price and/or Redemption Price of and/or interest on such Series of Bonds or portion thereof.

"Credit Facility Provider" means the financial institution or insurance company that is providing a Credit Facility.

"Facility" means a Credit Facility or a Liquidity Facility.

"Facility Provider" means a Credit Facility Provider or a Liquidity Facility Provider.

"Liquidity Facility" means a letter of credit, line of credit, or other credit or liquidity facility provided by a financial institution delivered to the Trustee for a Series of Bonds or portion thereof, which provides for payment, in accordance with the terms thereof, of the Principal, Purchase Price and/or interest on such Series of Bonds or portion thereof.

"Liquidity Facility Provider" means the financial institution or insurance company that is providing a Liquidity Facility.

See APPENDIX C—"Summary of Certain Provisions of the Master Resolution and the Second Supplemental Resolution—Definitions" for definitions of other capitalized terms used above.

THE DISTRICT

General

The District is a municipal corporation of the State of Washington, located in central Washington approximately 138 miles east of Seattle and 165 miles west of Spokane. The District was established in 1936 and began electric utility operations in 1947. The District also owns and operates the Water System, the Wastewater System and the Fiber Optics System, which serve portions of Chelan County (the "County"). The District has its administrative offices in Wenatchee, Washington.

The District has three Hydro-Electric Projects: the Rocky Reach Project, the Rock Island Project and the Lake Chelan Project. The District obtains most of its retail power supply from its three Hydro-Electric Projects, which have a combined nameplate rating of 1,972 MW. For the year ended December 31, 2008, the Hydro-Electric Projects collectively produced 8,690,000 megawatt hours ("MWh") of power at an average cost of $18 per MWh. By comparison, for the same period, the "average adjusted wholesale" preference rate for Bonneville Power Administration ("Bonneville") customers was $31 per MWh and the Mid-Columbia Electricity Price Index average was $59 per MWh.

Under almost all power production or hydrological conditions, the District's reserved shares of the three Hydro-Electric Projects are sufficient to meet the District's retail load requirements. The District has never failed to meet its retail load requirements, and generally the Distribution Division is a net seller of power. During some periods of extremely low water conditions, or during periods of peak energy demand, the reserved share of the

Hydro-Electric Projects can be insufficient to meet retail load requirements. The extent and duration of these shortfalls are estimated in advance by the District's power planners, and on these occasions the District buys power from other suppliers to cover the shortfalls in generation. According to the Average Service Reliability Index (defined as the year-to-date efficiency of the distribution system to deliver electric energy to the District's customers), the District's reliability in 2006 was 99.89340 percent, in 2007 was 99.98167 percent and in 2008 was 99.98420 percent.

The Consolidated System's Distribution Division consists of the District's properties and assets used in distributing electric energy throughout the County. The Consolidated System also includes the Lake Chelan System, but neither the Rocky Reach System nor the Rock Island System is part of the Consolidated System. The Revenues of the Rocky Reach System and the revenues of the Rock Island System are not part of the revenues of the Consolidated System. Effective June 1, 1993, the revenues of the Lake Chelan System became part of the revenues of the Consolidated System. In 1992, the District consolidated its Water System and Wastewater System into what is now called the Consolidated System, preserving, however, substantial flexibility as to the future use of the revenues of such Systems. The District also owns a small hydroelectric project in Stehekin to serve electric customers in a remote portion of the District. This generating project is included in the Distribution Division but not as part of the District's Hydro-Electric Projects.

Pursuant to the Enabling Act, the District is empowered, among other things, to (1) purchase electric energy, (2) sell electric energy at wholesale and retail, (3) acquire, construct and operate electric generating plants and transmission and distribution facilities, and (4) issue revenue obligations for the purpose of financing the acquisition and construction of electric properties and for other corporate purposes. The Enabling Act also requires the District to establish, maintain and collect rates and charges for service which will be fair and nondiscriminatory and adequate to provide revenues sufficient to pay its revenue obligations and the maintenance and operating costs of its electric facilities and renewals and replacements thereto. In addition, the Enabling Act authorizes the District to issue general obligation bonds and to levy a limited property tax.

Cities in the District's service area have statutory authority to provide electric service. In 2008, the District completed the purchase of the only city-owned electric utility in the County from the City of Cashmere ("Cashmere") (population 2,980). The District paid $2,619,198 of the total adjusted purchase price of $3,086,778 at closing on October 30, 2008. The District remitted the balance of the adjusted purchase price, $467,850, on April 30, 2009. The Cashmere electric system has become part of the District's Distribution Division. The District is not aware of any other city or utility that is considering providing electric service. The District also has statutory rights of eminent domain that, subject to certain limitations, enable the District to acquire various assets and property rights, including electric distribution facilities in the County of any investor-owned utility company that may seek to serve the County.

Under Washington law, public utility districts (such as the District) are authorized to provide retail electrical service beyond their boundaries.

Management and Administration

Pursuant to Washington statutes, the District is administered by a Commission of five elected members serving staggered four- and six-year terms. Three of the commissioners are elected from districts (six-year terms) and two are elected at-large (four-year terms). A Commissioner holds office until his or her successor has been elected and has qualified for office. The legal responsibilities and powers of the District, including the establishment of rates and charges for services rendered, are exercised through the Commission. The Commission also acts as a board of directors and establishes policy, approves plans, budgets and expenditures, and reviews the District's operations, including hiring the General Manager.

The present Commissioners of the District are as follows:

Ann Congdon, President, is currently serving her first term as Commissioner, which expires on December 31, 2010. Ms. Congdon serves on the member board of Energy Northwest, a joint operating agency that operates the Columbia Generating Station and the Nine Canyon Wind Project. She has served on several boards locally and is a retired educator and a businesswoman.

Dennis Bolz, Vice President, is currently serving his first term as Commissioner, which expires on December 31, 2010. Mr. Bolz has served on several committees, boards, and policy groups and worked in public school education for 31 years.

Randy Smith, Secretary, is currently serving his first term as Commissioner, which expires on December 31, 2012. Mr. Smith represents the District as a delegate to the Northwest Public Power Association. Mr. Smith is an orchardist and has served on the boards of several community, business and national organizations.

Carnan Bergren, Commissioner, is currently serving his first term as Commissioner, which expires on December 31, 2012. Mr. Bergren is a life-long Wenatchee Valley resident who spent his career in tree fruit production and marketing. Mr. Bergren was involved in rural community growth issues before running for election to the Commission.

Norman Gutzwiler, Immediate Past President, is currently serving his second term as Commissioner, which expires on December 31, 2014. Mr. Gutzwiler serves as the District's delegate to the Washington Public Utility Districts Association and serves on numerous advisory boards and commissions at the local, state and national level. Mr. Gutzwiler's background is in horticultural consulting and orcharding.

Executive management of the District includes the following individuals:

Richard Riazzi, General Manager, was appointed to the position of General Manager in May 2006. He has over 25 years of experience in the utility industry and previously served as President and CEO of IDACORP Energy, L.P. and Senior Vice President of IDACORP, INC., which is the parent company of Idaho Power.

Joe O. Jarvis, Executive Manager – Operations Group, was appointed to his present position in September 2008. He previously served as Executive Manager – Finance Group / CFO, Executive Director of Retail Systems, Director of System Planning and Design, Director of Distribution Engineering and Operations, Director of Distribution Maintenance and Construction, Head Distribution Engineer and Distribution Engineer. Mr. Jarvis has been employed by the District since May 1979.

John Janney, Executive Manager – Finance-Risk Group / CFO-CRO, was appointed to his present position in December 2008. He previously served as Executive Manager – Risk Management Group / CRO. Mr. Janney began his career in the banking industry, including five years at the Federal Reserve Bank of Boston and the Federal Reserve System Board of Governors. Over the last 10 years, he has held senior Risk Management positions at integrated utility companies in the upper Midwest and Western US and at privately held energy firms.

Carol A. Wardell, Executive Manager – Legal Group / General Counsel / CCO, was appointed to her position in March 1998. Ms. Wardell has practiced law for over 25 years. Prior to joining the District, Ms. Wardell served as a State of Washington Superior Court Judge (general jurisdiction court). Before assuming the bench, Ms. Wardell represented the District. In 2007, she was appointed Chief Compliance Officer responsible for the District's compliance programs.

Wayne W. Wright, Executive Manager – District Services Group, was appointed to his present position in October 2001. He previously served as Director of Corporate Communications, Community Services Administrator and Public Information Officer. Mr. Wright has been employed by the District since July 1979.

Randy Stedman, Executive Manager – Human Resources Group, was appointed to his present position in April 2004. Mr. Stedman has 28 years' experience as VP Human Resource for three large organizations and VP HR & Legal Affairs for another. His early career focused on corporate relations and executive search. Mr. Stedman also practiced employment law in Oregon and owned Workplace Practices Group, a consulting practice.

Employees

As of December 31, 2008, the total number of District employees was 760. Of these employees, 298 hold management, administrative and professional positions and 462 are part of a bargaining unit represented by Local 77 of the International Brotherhood of Electrical Workers. On August 7, 2006, the Commission approved a three-year collective bargaining agreement with Local 77, which was ratified by the bargaining unit employees on August 2, 2006. The agreement between the District and Local 77 included pay increases for bargaining unit employees totaling 3.69 percent in 2006, 3.43 percent in 2007 and 3.38 percent in 2008. The agreement extends through July 31, 2009. The negotiating teams for the District and Local 77 have reached tentative agreement on all negotiating proposals for a new collective bargaining agreement. Contracts must be ratified by both the Local 77 membership and the Commission. The District has never experienced any work stoppages or slowdowns. The District considers its overall employee relations to be good.

In 2009, an unusual combination of low wholesale energy prices, below average snowpack and a declining interest rate environment has resulted in a significant decline in revenues to the District from sales of surplus power and interest income earned on investments. For fiscal year 2009, given current snowpack and wholesale electricity prices, the District is projecting surplus power sales revenues of roughly $29 million, or $22 million below budget. In response to these developments, the District has implemented contingency plans developed last fall during the budgeting process, including reductions in labor costs. Programs to reduce labor costs include mandatory unpaid leave for employees and executives, implementation of a voluntary employee reduction program and voluntary changes to part-time employment status. See "ADDITIONAL FINANCIAL INFORMATION OF THE DISTRICT—District Near-Term Financial Outlook" and "THE CONSOLIDATED SYSTEM AND OTHER PROPERTIES AND FACILITIES OF THE DISTRICT—Electric Rates."

Pension Plan and Other Post-Employment Benefits

All of the District's full-time and qualifying part-time employees participate in the Washington Public Employees Retirement System ("PERS"), a multiple employer cost sharing public employee retirement system operated by the State. The District's total payroll for the year ended December 31, 2008 was $55,514,979. Payroll for District employees covered by PERS was $55,114,181. Total amounts contributed for the year ended December 31, 2008 by employees and the District were $2,711,241 and $3,809,129, respectively.

In June 2004, the Governmental Accounting Standards Board ("GASB") issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" ("GASB 45"). GASB 45 establishes accounting and financial reporting standards for how state and local governments should account for and report their costs and obligations related to post-employment health care and other non-pension benefits ("OPEB"). For 2008, the covered payroll (annual payroll of active employees covered by the plan) was $48,046,000. The District's annual OPEB cost is calculated based on the annual required contribution of the employer ("ARC"). The District's ARC and related information is based upon an actuarial valuation as required by GASB 45. As of December 31, 2008, the District's net OPEB obligation was $50,000. The District has fully funded its OPEB obligation by placing funds sufficient to satisfy the District's obligation into an irrevocable trust. OPEB costs and obligations are reflected in the District's financial statements in accordance with the requirements of GASB Statement No. 45. The District's annual OPEB liability going forward is estimated to be approximately $50,000.

Insurance

The District seeks to maintain insurance with responsible insurers to the extent available at reasonable cost and to the extent similar insurance is carried by other electric utilities operating like properties.

As of December 31, 2008, the District purchased insurance in effect with retentions plus coverage as follows: general liability, auto and public officials liability from $2 million to $75 million; property from $1 million to $350 million; boiler and machinery from $350,000 to $200 million; crime from $100,000 to $35 million; and blackout-brownout liability from $2,500 to $10 million. The District also carries non-owned aircraft liability, business travel accident, excess workers' compensation insurance, and some underlying coverage for the Water and Wastewater Systems.

The District utilizes self-insurance programs to pay covered claims up to the deductibles or the self-insured retentions of the policies described above. These programs pay claims which fall within the definitions of coverage in the policies layered above the self-insurance programs. The District also self-insures for its workers' compensation and its employee medical insurance program. Claims not covered by insurance and the self-insurance programs are paid by the appropriate System. The District's self-insurance program funds are maintained in the District's Internal Service Fund. The Internal Service Fund is used to account for administrative and other costs which must be allocated among more than one System. As of December 31, 2008, the self-insurance restricted cash reserve and claim funds had a combined balance of $4,368,830.

Seismic Risks

The area in Eastern Washington in which the District is located has experienced large earthquakes in the past, although the most recent was more than 135 years ago. That earthquake was centered near Lake Chelan and occurred at a time when the area was very sparsely populated. It was apparently felt throughout the Pacific Northwest.

The District's Hydro-Electric Projects were designed to conform to all existing Federal Energy Regulatory Commission ("FERC") seismic safety regulations. In addition, the Hydro-Electric Projects are "run of the river" dams, meaning they have very limited reservoir capacity, and are also "low-head," meaning that the reservoir behind the dam is not that much higher than the river immediately below the dam. Thus the potential damage that may arise from dam failure is much less than with "high-head" dams with large reservoirs. Nonetheless, it is possible that a major seismic event could cause significant damage to one or all of the Hydro-Electric Projects, including flooding of the powerhouse or even dam failure. The resulting damage, including in particular to areas immediately downstream of the Hydro-Electric Projects, could be significant.

FERC is currently considering the adoption of new Seismic Design Standards for all hydroelectric facilities around the country that are within its jurisdiction, including the Hydro-Electric Projects. New standards may require modifications or improvements to the Hydro-Electric Projects. The nature and extent of any such modifications or improvements and the costs thereof are unknown at this time, but could be significant. Currently, the District, Public Utility District No. 2 of Grant County, Washington ("Grant PUD"), Public Utility District No. 1 of Douglas County, Washington ("Douglas PUD"), and other stakeholders are working collaboratively with the FERC on a study intended to update the regional seismic hazard potential. This study is expected to be completed during 2010.

THE ROCKY REACH SYSTEM

General

Pursuant to the Rocky Reach Resolution No. 1412, as amended and supplemented by various resolutions (collectively, the "Prior Rocky Reach Resolutions"), the District established the Rocky Reach System and pursuant to the Master Resolution, the District continued the Rocky Reach System.

The Rocky Reach System consists of the Rocky Reach Project, which was placed in commercial operation in 1961, and is located on the Columbia River about seven miles upstream from Wenatchee, Washington, together with associated substation and transmission facilities to connect the output of the generating plant to the other facilities of the District and to the transmission grid of the Pacific Northwest. A dam with an effective head of approximately 89 feet provides water to 11 turbine generators with a nameplate capacity of 1,300,000 kW. Net energy delivered from the generating plant averaged 5,919,424 MWh annually during the three years from 2006 though 2008. For the year ended December 31, 2008, the generating plan delivered 5,564,233 MWh at an average cost of $14 per MWh. As of December 31, 2008, the gross utility plant, including construction work in progress, of the Rocky Reach System was $585,476,000, with net utility plant of $384,127,000. As of December 31, 2008, the District's outstanding long term debt payable from the revenues of the Rocky Reach System was $7,415,000, and intersystem loans payable was $291,096,000. See "ADDITIONAL FINANCIAL INFORMATION OF THE DISTRICT—Outstanding Debt" and "—Intersystem Loans." Since 1999, the District has issued bonds payable from the Rocky Reach System in the amount of approximately $10,493,440 as capital appreciation bonds and current interest bonds for the purpose of financing relicensing costs of the Rocky Reach System. Such bonds were purchased by the Distribution Division and are recorded as intersystem loans. Payment of the principal on these bonds began in 2007, and as of December 31, 2008, these bonds were outstanding in the amount of $11,590,000.

In 2007, the District completed a modernization program at the Rocky Reach Project at a cost approximately $180 million. Excessive cracking and wear of the turbine blades required replacement of the original seven turbines. The remaining four newer units were upgraded to "Kaplan"-type turbines with adjustable blades. The District also replaced main transformers, generator breakers, excitation, and governors. The seven original generators were replaced and the stators of the four newer units were replaced with the rotors being refurbished during the modernization program. The first installation was completed in 1996 and the final unit was completed in 2006. The results of the modernization program have increased the efficiency of the plant by 4.5 percent to 5.5 percent. This efficiency gain is expected to pay for a significant portion of the costs of the program. The turbine design also incorporates current technology intended to improve survival of juvenile salmon migrating downstream to the Pacific Ocean.

See "—The Rocky Reach Power Sales Contracts" for information regarding the sale of the output of the Rocky Reach System.

Federal Energy Regulatory Commission License Status; Relicensing

The District operates the Rock Island Project, the Rocky Reach Project and the Lake Chelan Project under long-term licenses issued by FERC. The District received a new 43-year license for the Rocky Reach Project in February 2009. The District is implementing new license measures for both the Lake Chelan and the Rocky Reach Projects.

The District estimates licensing-related costs over 43 years for the Rocky Reach Project to be $424 million. License-related costs are risk adjusted estimated in 2008 dollars, using a seven percent discount rate over the length of the applicable license term and may vary significantly.

The District covenants in the Master Resolution at all times to comply with the terms and conditions of any permits or licenses for the Rocky Reach System, or any property or facilities constituting a part thereof, issued by any federal or state governmental agency or body having jurisdiction thereof and with the power to issue orders with respect thereto and enforce the same, and with any federal or state law or regulation applicable to the construction, operation, maintenance and repair of the Rocky Reach System. The District also covenants in the Master Resolution to use its best efforts to obtain renewals of such permits or licenses or obtain new permits or licenses unless such renewals or new permits or licenses are not, in the judgment of the Commission, in the best interests of the District.

The District further covenants in the Master Resolution, prior to the expiration of the Rocky Reach License issued by FERC and any succeeding license or licenses, to apply for, and use and continue to use its commercially reasonable best efforts to obtain, a new license or annual license authorizing it to maintain and operate the Rocky Reach System.

On June 29, 2004, the District submitted a license application and preliminary draft environmental assessment ("PDEA") for the Rocky Reach Project to FERC. The PDEA was the result of the "alternative licensing process," during which the District held approximately 98 public meetings with stakeholder groups to discuss the Rocky Reach Project impacts, determine appropriate studies, and initiate development of protection, mitigation, and enhancement measures. After submission of the application and PDEA, the District proceeded to enter settlement negotiations with stakeholders in order to resolve outstanding issues.

The District worked with stakeholders to develop a Comprehensive Settlement Agreement for the Rocky Reach Project. FERC issued its draft environmental impact statement ("DEIS") for the Rocky Reach Project on August 31, 2005. The settlement parties reached a comprehensive settlement agreement that includes input from the DEIS and submitted a Comprehensive Settlement Agreement to FERC on March 17, 2006. WDOE also issued its final water quality certification for the Rocky Reach Project on March 17, 2006. The issuance of this water quality certification was not appealed.

On August 4, 2006, FERC issued a final environmental impact statement ("FEIS") for the Rocky Reach Project. In the FEIS, FERC recommended modifications to only a small percentage of the proposed measures that were submitted as part of the Comprehensive Settlement Agreement. Significantly, FERC recommended that the Anadromous Fish Agreement and Habitat Conservation Plan ("HCP") that was signed in 2002 under the current license be incorporated into the new license. On July 9, 2007, the National Oceanic and Atmospheric Administration ("NOAA") issued its Biological Opinion for the Rocky Reach Project evaluating how the new license may affect listed species in the area - specifically, salmon and steelhead and endorsed continuation of the HCP.

On December 8, 2008, the U.S. Fish and Wildlife Service (the "USFWS") filed its Biological Opinion for the Rocky Reach Project, concluding that the Rocky Reach Project is not likely to jeopardize the continued existence of bull trout or destroy or adversely modify designated critical habitat. The USFWS Biological Opinion provided conditions through an incidental take statement and requires five reasonable and prudent measures to be implemented to minimize the incidental take of bull trout.

On February 19, 2009, FERC issued a new 43-year license for the Rocky Reach Project. The new license, for the most part, reflects the terms of the Settlement Agreement, with the exception of the license term.

For additional discussion regarding FERC relicensing procedures and options and for discussion regarding relicensing of the Rock Island Project and the Lake Chelan Project, see "THE CONSOLIDATED SYSTEM AND OTHER PROPERTIES AND FACILITIES OF THE DISTRICT—Federal Energy Regulatory Commission License Statues; Relicensing."

Water Quality Relicensing Issues

Outstanding water quality issues pertaining to the relicensing process are few. The Rocky Reach 401 Water Quality Certification identifies the District's requirements to comply with narrative and numeric criteria. Narrative criteria include consideration of fish spawning, rearing, migration, and harvest (flow is related to these), recreation, wildlife, and aesthetics. Water quality parameters identified under the numeric criteria include total dissolved gas ("TDG"), temperature, turbidity, toxics, and oil spills.

As they relate to fish, compliance with narrative standards can be complex. The aforementioned Habitat Conservation Plan is being implemented to cover any considerations for anadromous salmonids, including those listed as threatened and endangered salmonids in the mainstem Columbia River. An adaptive management process was developed in the relicensing process to protect other species of concern, including white sturgeon, pacific lamprey, and bull trout fish. Under adaptive management, the District will work over the next ten years to identify, implement, monitor and adjust protection, mitigation, and enhancement measures for these species. There is uncertainty associated with this effort, as critical information is not available at this time.

The two areas of interest associated with compliance with numeric criteria at the Rocky Reach Project are temperature and total dissolved gas. The District has successfully substantiated that the Rocky Reach Project does not incrementally exceed allowable water temperature increases; however, a long term effort is underway to evaluate temperature increases collectively in the mainstem Mid-Columbia River. This is a difficult and complex process that has been addressed in a draft Columbia and Snake River Mainstem Temperature Total Maximum Daily Loads ("TMDL"). Release of the TMDL has been delayed to allow for necessary discussions and information exchange. A TMDL is a calculation of the maximum amount of a "pollutant" that a waterbody can receive and still meet water quality standards, and an allocation of that amount to the pollutant's sources. If a TMDL is developed for the Columbia River, the incremental temperature increase allowed to the Rocky Reach Project may change from existing standards, which may impose new requirements on the District. The timing, probability, and potential impact of this occurring are unknown at this time. The process is currently on hold.

The District's only other area of concern with regard to meeting numeric criteria at the Rocky Reach Project is TDG. During certain periods of fish migration, the District passes a portion of the river flow through its spill gates without using it to generate power. The water is spilled to facilitate downstream passage of juvenile fish. While fish spill is recognized as a passage method and often required by federal fish managers, spilling water can increase gas levels in the water. Too much gas in the water can have negative impacts on fish, which is why the WDOE regulates permissible gas levels. Regulatory agencies attempt to strike the right balance between the need for spill and water quality protection. The District routinely files TDG abatement plans with WDOE in order to provide fish spill consistent with requirements in the water quality standards. Based on studies conducted during the relicensing process, the District believes it is able, with slight alterations to operations, to meet the TDG requirements at the Rocky Reach Project. WDOE allows the District a ten-year window to demonstrate this, and can require the District to conduct further studies, implement further operation changes, or even, in a worst case event, provide structural changes to meet requirements.

The Original Rocky Reach Power Sales Contracts

General

The energy available to the District from its ownership and operation of the Rocky Reach System is governed by the Power Sales Contracts between the District and various power purchasers (the "Original Rocky Reach Power Sales Contracts"). A major portion (59.1 percent) of the power output of the Rocky Reach System is sold to four investor-owned utility companies (collectively, the "Rocky Reach Power Purchasers") on a take-or-pay and cost-of-service basis, with the balance (40.9 percent) taken by the District. Each party pays its percentage share of the total annual cost of the Rocky Reach System. The Rocky Reach Power Purchasers and their current respective shares of the output of the Rocky Reach System are Puget Sound Energy (38.9 percent), Portland General Electric Company (12 percent), PacifiCorp (5.3 percent) and Avista (2.9 percent). The Original Rocky Reach Power Sales Contracts with the Rocky Reach Power Purchasers extend through October 31, 2011. The Rocky Reach System output purchased by the District constituted approximately 47 percent of the Consolidated Systems' Distribution Division's total energy requirements for the year ended December 31, 2008. In the event of a default by a Rocky Reach Power Purchaser, such purchaser's share would be allocated pro-rata to the other Rocky Reach Power Purchasers for the remainder of the contract, up to a maximum of 25 percent of their original share. For these purposes, the District is considered a Rocky Reach Power Purchaser. The Original Rocky Reach Power Sales Contracts do not give the power purchaser a right of first refusal to enter into a new agreement with the District with respect to output from the Rocky Reach Project upon expiration of such contracts. Thus, the District is free to enter into new power sales contracts with either or both the existing and/or new power purchasers. The District has executed the New PSE Contract and the New Alcoa Contract for both the Rocky Reach Project and the Rock Island Project, beginning November 1, 2011, with respect to the Rocky Reach Project. See "—The New Power Sales Contracts."

Pursuant to a long-term Power Sales Contract between the District and Douglas PUD, the District agreed to make available to Douglas PUD, from the District's share of Rocky Reach System energy, an amount of energy equal to 2.77 percent of the output of the Rocky Reach System, upon payment by Douglas PUD of an amount equal to the District's cost of making such energy available from the Rocky Reach System. This contract provides that Douglas PUD has the right to take an additional 2.77 percent under the same terms and pay the same costs as other "slice purchasers" beginning November 1, 2011. The original term of the Douglas PUD contract ends on October 31, 2011, but the contract can be extended in ten-year increments at the option of Douglas PUD five times, for a final potential term (including extensions) of October 31, 2061. Douglas PUD has provided notice for the first 10-year extension until October 31, 2021, and may give notices of other 10-year extensions in the future.

Alcoa

In 1992, Alcoa Power Generating, Inc. ("Alcoa Power"), a wholly owned subsidiary of Alcoa Inc. ("Alcoa"), assigned and transferred to the District Alcoa Power's right to receive 23 percent of the District's share of energy from the Rocky Reach System. The District and Alcoa Power subsequently entered into a new industrial service contract (the "1992 Alcoa Power Contract") providing for the sale of an approximately equal amount of power, which increased over time, to Alcoa Power through the facilities of the Distribution Division. Energy sales to Alcoa Power under the 1992 Alcoa Power Contract representing energy classified by the District as "Rocky Reach Replacement Power." Such sales were made to Alcoa Power on substantially the same terms as under Alcoa Power's previous Power Sales Contract for the Rocky Reach System. That is, energy from the Rocky Reach System was sold to Alcoa Power based on a *pro rata* portion of the costs of generation, rather than pursuant to the District's general rate schedules. Additional energy sales of up to 42 MW to Alcoa Power under the 1992 Alcoa Power Contract (classified by the District as "Resale") were made at a price equal to the District's then average industrial rate. Alcoa Power remains liable for its obligations under its Power Sales Contract with respect to the Rocky Reach System.

In July 2001, Alcoa curtailed operations at the Wenatchee Works Smelter and entered into a new agreement with the District. Pursuant to this agreement, Alcoa agreed to maintain employment of at least 390 employees at the Wenatchee Works Smelter for the duration of the curtailment in exchange for the District marketing Alcoa's share of power. Alcoa received the net proceeds from those sales.

In October 2004, the District and Alcoa Power entered into a Restated and Amended Industrial Power Sales Contract (the "Restated Alcoa Power Contract") in anticipation of Alcoa ending the curtailment and restarting operations at the Wenatchee Works Smelter. Similar to the 1992 Alcoa Power Contract, energy sales to Alcoa Power under the Restated Alcoa Power Contract are Rocky Reach Replacement Power and cost of energy is based on a pro-rata portion of the costs of generation, rather than pursuant to the District's general rate schedules, with Alcoa Power liable for such obligations on a take-or-pay basis. Energy sales representing additional energy sales of up to 42 megawatts are made at a price equal to the District's average industrial rate. All sales to Alcoa Power under the Restated Alcoa Power Contract continue to be classified by the District as Resale. Alcoa restarted the first potline of the Wenatchee Works Smelter in December 2004 and proceeded to full operations at two potlines in January 2005. The Restated Alcoa Power Contract terminates on October 31, 2011.

In July 2008, the District executed a separate amendment to the Restated Alcoa Power Sales Contract. Pursuant to this amendment, if Alcoa Power uses power from the 42 MW energy sales noted in the prior paragraph to run a third potline at Wenatchee Works prior to October 2011, Alcoa will pay market rates for that electricity, instead of the District's average industrial rate.

The District has executed the New Alcoa Contract for both the Rocky Reach Project and the Rock Island Project, beginning November 1, 2011, with respect to the Rocky Reach Project. See "The New Power Sales Contracts—Alcoa."

The New Power Sales Contracts

New Puget Sound Energy Power Sales Contract

In February 2006, the District executed a new long-term power sales contract (the "New PSE Contract") with Puget Sound Energy. Deliveries under the New PSE Contract will commence upon the expiration of the existing power sales contracts for the Rocky Reach Project and the Rock Island Project on November 1, 2011 and July 1, 2012, respectively. The New PSE Contract is scheduled to terminate on October 31, 2031 with respect to power from both the Rock Island and Rocky Reach Projects. Under the New PSE Contract, Puget Sound Energy will purchase an amount equal to 25 percent of the combined energy and capacity from both the Rock Island and Rocky Reach Projects. In exchange, Puget Sound Energy will be obligated to pay, among other things, 25 percent of (i) the operation and maintenance expenses of the Rock Island and Rocky Reach Projects; (ii) certain debt service-related Financing Costs (as defined in the New PSE Contract) with respect to the Rock Island and Rocky Reach Projects; (iii) a Coverage Amount (as defined in the New PSE Contract); (iv) an annual Capital Recovery Charge (as defined in the New PSE Contract); and (v) an annual Debt Reduction Charge (as defined in the New PSE Contract). In addition, Puget Sound Energy made a one-time payment of $89 million to the District in April 2006 as a capacity reservation charge, which the District may use for any lawful purposes. The District will recognize the $89 million payment as revenue of the Consolidated System for accounting purposes in equal annual amounts over the term of the New PSE Contract, commencing on November 1, 2011. The New PSE Contract was approved by FERC in March 2006.

The Coverage Amount is an amount approximately equal to 15 percent of the annual debt service related costs with respect to the Rock Island and Rocky Reach Projects, as that amount may increase in connection with the issuance of additional debt. The Debt Reduction Charge will be an amount each year approximately equal to a percentage determined by the District of up to three percent, multiplied by the outstanding principal amount of the debt obligations related to the Rock Island and Rocky Reach Projects. The Capital Recovery Charge is an amount approximately equal to a percentage determined by the District of up to 50 percent, multiplied by $25 million in 2004 dollars (as adjusted for inflation) and as adjusted by the District based upon updated capital improvement projects. The annual debt service-related Financing Costs are based upon an assumed amortization, on a level debt service basis at an assumed taxable interest rate approximately equal to then-current market rates, of the outstanding debt of the Rock Island and Rocky Reach Projects over periods equal to the estimated average economic useful life of the respective facilities and improvements to be financed from the proceeds of such debt.

The payment obligations of Puget Sound Energy are expected to exceed the actual costs incurred by the District in each fiscal year for operation and maintenance expenses and debt service costs related to the Rock Island and Rocky Reach Projects. The District, however, is free to structure its actual debt service with respect to the Rock Island and Rocky Reach Projects so that debt service related payments by Puget Sound Energy for its portion of the output of the Rock Island and Rocky Reach Projects may be either greater than, equal to or less than the District's actual debt service.

The payment obligations of Puget Sound Energy under the New PSE Contract are absolute and unconditional, regardless of whether it can receive, accept, take delivery of or use all or any portion of such output, and regardless of whether either of the Rock Island Project or Rocky Reach Project is operable or operating, or the operation thereof is interrupted, suspended, interfered with, reduced or curtailed, in whole or in part, at any time for any reason. In addition, the payment obligations of Puget Sound Energy under the New PSE Contract are subject to a mandatory step-up of its *pro rata* share of the defaulting participant's share in the event of a default by any other long-term power purchaser of the output of the Rock Island or Rocky Reach Projects. In no event will Puget Sound Energy's total share exceed 40 percent without its written permission due to this provision. See APPENDIX F—"Summary of New Power Sales Contract With Puget Sound Energy, Inc."

New Alcoa Power Sales Contract

In July 2008, the District executed a new long-term power sales contract (the "New Alcoa Contract" and together with the New PSE Contract, the "New Power Sales Contracts") with Alcoa, Inc. ("Alcoa"). Deliveries under the New Alcoa Contract are scheduled to commence upon the expiration of the existing power sales contracts for the Rocky Reach Project and the Rock Island Project on November 1, 2011 and July 1, 2012, respectively. The New Alcoa Contract is scheduled to terminate on October 31, 2028 with respect to power from both the Rock Island and Rocky Reach Projects. Under the New Alcoa Contract, Alcoa will purchase an amount equal to 26 percent of the combined Output of both the Rock Island and Rocky Reach Projects. "Output" is defined in the New Alcoa Contract as an amount of energy determined in relation to the energy production of the Rock Island Project and the Rocky Reach Project. Energy may be supplied by the District from any source. The District retains for its own benefit and use all capacity, pondage, environmental attributes and other products related to the output of the Rocky Reach Project and the Rock Island Project except for certain ancillary services necessary to supply the output that will be used at Alcoa's Wenatchee Works aluminum smelting plant. In exchange, Alcoa will be obligated to pay, among other things, 26 percent of (i) the operation and maintenance expenses of the Rock Island and Rocky Reach Projects; (ii) certain debt service-related Financing Costs (as defined in the New Alcoa Contract) with respect to the Rock Island and Rocky Reach Projects; (iii) a Coverage Amount (as defined in the New Alcoa Contract); (iv) an annual Capital Recovery Charge (as defined in the New Alcoa Contract); and (v) an annual Debt Reduction Charge (as defined in the New Alcoa Contract). Alcoa will also pay a credit rating premium based upon the differential between Alcoa's long-term senior unsecured credit ratings and the District's credit ratings. In addition, Alcoa made a one-time payment of $22.9 million to the District in August 2008 as a capacity reservation charge, which the District may use for any lawful purposes. The District will recognize the $22.9 million payment as revenue of the Consolidated System for accounting purposes in equal annual amounts over the term of the New Alcoa Contract, commencing on November 1, 2011. FERC approved the New Alcoa Contract on September 18, 2008.

The payment provisions of the New Alcoa Contract, including the Coverage Amount, the Debt Reduction Charge and the Capital Recovery Charge, are similar to those of the New PSE Contract, including the provisions summarized above. Alcoa will pay a Coverage Amount, which is an amount approximately equal to 15 percent of the annual debt service related costs with respect to the Rocky Reach Project and the Rock Island Project, as that amount may increase in connection with the issuance of additional debt. The Debt Reduction Charge will be an amount each year approximately equal to a percentage determined by the District of up to three percent, multiplied by the outstanding principal amount of the debt obligations related to the Projects. The Capital Recovery Charge is an amount approximately equal to a percentage determined by the District of up to 50 percent, multiplied by $25 million in 2004 dollars (as adjusted for inflation) and as adjusted by the District based upon updated capital improvement plans. The annual debt service-related Financing Costs are based upon an assumed amortization, on a level debt service basis at an assumed taxable interest rate approximately equal to then-current market rates, of the outstanding debt of the Rocky Reach Project and the Rock Island Project over periods equal to the estimated average economic useful life of the respective facilities and improvements to be financed from the proceeds of such debt.

The payment obligations of Alcoa under the New Alcoa Contract are expected to exceed the actual costs incurred by the District in each fiscal year for operation and maintenance expenses and debt service costs related to the Rock Island and Rocky Reach Projects. The District, however, is free to structure its actual debt service with respect to the Rock Island and Rocky Reach Projects so that debt service related payments by Alcoa for its portion of the output of the Rock Island and Rocky Reach Projects may be either greater than, equal to or less than the District's actual debt service.

The payment obligations of Alcoa under the New Alcoa Contract are absolute and unconditional, regardless of whether it can receive, accept, take delivery of or use all or any portion of such output, and regardless of whether either of the Rock Island Project or Rocky Reach Project is operable or operating, or the operation thereof is interrupted, suspended, interfered with, reduced or curtailed, in whole or in part, at any time for any reason. In addition, the payment obligations of Alcoa under the New Alcoa Contract are subject to a mandatory step-up of its pro rata share of the defaulting participant's share in the event of a default by any other long-term power purchaser of the output of the Rocky Reach Project and the Rock Island Project.

The New Alcoa Contract also provides that:

(i) The Output provided pursuant to the New Alcoa Contract is to be used to run the Wenatchee Works project, Alcoa cannot use the energy at any other plant or location and can only resell the energy under certain circumstances described in the New Alcoa Contract.

(ii) A deferred capacity reservation charge of up to $87 million is to be paid by Alcoa if the Wenatchee Works project is shut down under certain circumstances. If Alcoa shuts down the Wenatchee Works project for 90 days, Alcoa would be obligated to pay to the District an initial shut down amount (prorated for the period shut down to the annual initial shutdown amount of $8.6 million). If the initial shutdown continues for 18 months or if there is a second shutdown of 90 days' duration, whichever occurs first, Alcoa would owe the District the entire balance of the deferred capacity reservation charge. Such payments may not be required, however, if the shut down is the result of an Uncontrollable Circumstance (as defined in the New Alcoa Contract).

(iii) The District will have the option to terminate the New Alcoa Contract if Alcoa operates less than a minimum load of 175 aMW for 18 months, announces permanent shutdown, formally announces it has elected to abandon the Wenatchee Works plant or has sold the plant to a third party without the District's express written consent; however, if the District decides not to terminate the New Alcoa Contract, Alcoa will remain liable for all remaining payments under the New Alcoa Contract.

(iv) Alcoa may not assign the New Alcoa Contract to any other entity without the express written consent of the District. Further, if there is a Change of Control (a person or group acquiring more than 50 percent of the combined voting power or outstanding Equity Interests in Alcoa), the District must expressly consent to that event, and if the District does not consent to a change in control, the District has the right to terminate the New Alcoa Contract. The District's consent to either situation is within the District's sole discretion.

See APPENDIX G—"Summary of New Power Sales Contract With Alcoa, Inc."

Pacific Northwest Transmission System

The Rocky Reach System and the Rock Island System are connected into the Bonneville transmission grid at several points. See "THE CONSOLIDATED SYSTEM AND OTHER PROPERTIES AND FACILITIES OF THE DISTRICT—Pacific Northwest Transmission System."

Financial Information of the Rocky Reach System

General

As the District's share of output of the Rock Island System has increased from 25 percent in 2004 to the maximum level of 50 percent in 2006, revenues from the District's wholesale sales of the surplus portion of its share of the energy produced by the District's three Hydro-Electric Projects have constituted a significant percentage of the Distribution Division's total revenues. These wholesale sales provided 54 percent of annual Distribution Division revenues in 2007 and 46 percent of annual Distribution Division revenues in 2008. See "ADDITIONAL FINANCIAL INFORMATION OF THE DISTRICT – General."

Appendix A of this Official Statement contains the audited financial statements and accompanying notes of the District for the year ended December 31, 2008. Appendix B of this Official Statement contains the unaudited financial data of the District for the three months ended March 31, 2009. The District's financial statements have been prepared in conformity with generally accepted accounting principles applicable to governmental entities applied on a consistent basis.

Management's Discussion of the Rocky Reach System Financial Results

New Power Sales Contracts. In February 2006 and July 2008, the District executed the New PSE Contract and the New Alcoa Contract, respectively. Deliveries under the New Power Sales Contracts will commence upon the expiration of the existing power sales contracts for the Rocky Reach Project and the Rock Island Project on November 1, 2011 and July 1, 2012, respectively. For a description of the New Power Sales Contracts, see "THE ROCKY REACH SYSTEM—The New Power Sales Contracts," APPENDIX F—"Summary of New Power Sales Contract with Puget Sound Energy, Inc." and APPENDIX G—"Summary of New Power Sales Contract with Alcoa, Inc."

New Master Resolution. On October 20, 2008, the Commission adopted the Master Resolution. The Master Resolution was drafted in contemplation of new power sales contracts with respect to the output from the Rocky Reach Project and the Rock Island Project, including the New Contract Power Sales Contracts. The Master Resolution has been revised from the forms of the Prior Rocky Reach Resolutions with the primary intent of improving the covenants and provisions for the benefit of owners of the Bonds. The changes include flow-of-funds provisions that provide for the payment of operation and maintenance expenses prior to depositing Revenues into the applicable principal, interest and reserve fund accounts, modification of the rate covenant and additional bonds test, the elimination of the consulting engineer requirements and provisions redefining the role of a third-party bond trustee. For a more detailed description of the Master Resolution, see "SECURITY FOR THE 2009A BONDS" and APPENDIX C—"Summary of Certain Provisions of the Master Resolution and the Second Supplemental Resolution—Master Resolution."

Rocky Reach System Recent Results

For the year ended December 31, 2008, the Rocky Reach System had a change in net assets of $(1.6) million compared to $(2.5) million during the same period in 2007. The increase of $0.9 million was due to revenue from the Chicago Climate Exchange ("CCX"). For the year ended December 31, 2007, the Rocky Reach System had a change in net assets of $(2.5) million compared to $(2.4) million for the same period in 2006, a decrease of $0.1 million, or four percent. This decrease was due primarily to an increase in operating expenses.

Operating Revenues. For the year ended December 31, 2008, Rocky Reach System operating revenues increased six percent from the same period in 2007 due to sales of CCX credits. There was no CCX revenue in 2007. In 2007, operating revenues increased one percent from 2006. Operating revenues in 2006 increased six percent from 2005. The 2006 increase was primarily due to the increase in operating expenses which are passed on as billings to the power purchasers. During 2005, operating revenues increased by four percent from 2004.

Operating Expenses. For the year ended December 31, 2008, operating expenses for the Rocky Reach System increased four percent from the same period in 2007 primarily due to an increase in fish costs. In 2007, operating expenses increased four percent from 2006. Operating expenses in 2006 increased 14 percent from 2005. The 2006 increase is due to an increase in operating, maintenance and depreciation expense. Operating expenses in 2005 increased by four percent from 2004.

Table 1 on the following page presents the actual power cost and power delivered for the Rocky Reach System for the years 2004 through 2008. See Table 11 in "ADDITIONAL FINANCIAL INFORMATION OF THE DISTRICT" for the actual power costs and net power delivered for the Rock Island System and the Lake Chelan System.

Table 1
Rocky Reach System
Power Cost and Net Power Delivered
($ in 000)

	2004	2005	2006	2007	2008
Rocky Reach System					
Operating & Maintenance Expenses [1]	$ 33,102	$ 35,835	$ 40,359	$ 41,938	$ 44,201
Debt Service: [2]					
Hydro Issues	1,579	1,574	1,570	1,564	1,553
Consolidated System Loans	32,551	32,508	33,277	33,814	34,680
Other Revenues[3]	(2,495)	(2,570)	(3,399)	(4,498)	(4,795)
Total Power Cost[4]	$ 64,737	$ 67,347	$ 71,807	$ 72,818	$ 75,639
Net Power Delivered (000 MWh)	5,165	5,530	5,947	6,247	5,564
Cost in $/MWh	$ 13	$ 12	$ 12	$ 12	$ 14
Plant Factor [5]	46%	49%	52%	55%	49%
Availability Factor	98%	97%	96%	98%	98%
Average River Flow (000 CFS) [6]	94	101	111	111	103

(1) Does not include depreciation expense.
(2) Based on accrual debt schedules.
(3) Primarily interest income that reduces power costs.
(4) Non-GAAP, may not be comparable with similarly titled other District metrics.
(5) Net power delivered as a percentage of rated capacity for the year.
(6) Annual average Columbia River flow measured at Rocky Reach System in thousands of cubic feet per second (000 CFS).

Debt Service Coverage

For the definition of "Bond Coverage Ratio," see "SECURITY FOR THE 2009A BONDS—Rate Covenant."

Table 2 on the following page reflects the Rocky Reach System's operating results and debt service coverage as if the Bond Coverage Ratio requirement under the Master Resolution had been in effect for the fiscal years 2004 through 2007.

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Table 2
Rocky Reach System
Operating Results and Debt Service Coverage
($000)

	2004 (1)	2005 (1)	2006 (1)	2007 (1)	2008 (1)
Operating Revenues:					
Power Purchaser OMT sales (2)	$ 33,103	$ 35,995	$ 40,359	$ 41,835	$ 43,994
Power Purchaser non-operating sales (3)	(2,496)	(2,729)	(3,398)	(4,396)	(4,588)
Power Purchaser debt sales (4)	34,130	34,081	34,756	35,379	36,233
Other operating revenues	195	247	268	209	1,777
Total	64,932	67,594	71,985	73,027	77,416
Less: Operating Expenses					
Operations & Maintenance	(31,859)	(34,638)	(39,074)	(40,600)	(42,945)
Taxes	(1,243)	(1,197)	(1,285)	(1,338)	(1,256)
Depreciation and Amortization	(14,604)	(13,675)	(16,049)	(16,775)	(16,810)
Total Operating Expenses	(47,706)	(49,510)	(56,408)	(58,713)	(61,011)
Operating Income	17,226	18,084	15,577	14,314	16,405
Adjustments (5)					
Subtract Power Purchaser CS debt sales (6)	(31,784)	(31,744)	(32,426)	(33,057)	(33,937)
Add back depreciation & amortization	14,604	13,675	16,049	16,775	16,810
Add investment income (7)	476	393	715	630	83
Add CS invest income credited Power Purchasers (8)	1,370	2,081	2,583	3,377	2,809
Total Adjustments	(15,334)	(15,596)	(13,079)	(12,275)	(14,235)
Net Revenues (9)	1,892	2,488	2,498	2,039	2,170
Annual Debt Service					
Prior Bonds	1,579	1,574	1,570	1,564	1,426
Bonds	-	-	-	-	-
Total Debt Service	1,579	1,574	1,570	1,564	1,426
Debt Service Coverage (required 1.0x)	1.2	1.6	1.6	1.3	1.5

(1) Years 2004 through 2008 are in some cases revised to reflect clarification to the definitions under the Master Resolution.
(2) Power Purchaser payments for operations, maintenance and tax expenses.
(3) Primarily includes interest earnings from cash and investments in the Rocky Reach System as well as interest earnings from reserve, cover and replacement recovery balances in the Consolidated System from associated loans from Consolidated System Bond proceeds loaned to the Rocky Reach System.
(4) Includes payment from the Power Purchasers for debt service related to Rocky Reach Project debt as well as loans of the proceeds of Consolidated System Bonds.
(5) As determined pursuant to the definition of Revenues in the Master Resolution.
(6) Adjustment made to subtract Power Purchaser debt service revenues associated with Consolidated System Bonds.
(7) Investment income includes earnings from cash and investments in the Rocky Reach System.
(8) Add back of Consolidated System interest earnings credited the Power Purchasers, which was deducted from Non Operating sales.
(9) As defined in the Master Resolution; not comparable with other similarly titled District metrics.

Outstanding Debt

Table 3 below presents the District's Rocky Reach System outstanding long-term debt as of December 31, 2008.

Table 3
Rocky Reach System
Outstanding Long-Term Debt
as of December 31, 2008
($000)

Date of Bonds	Final Maturity Date	Series of	Original Principal Amount	Scheduled Retirement (1)	Actual Retirement (2)	Amount Outstanding	Accumulated for Retirement (3)
12/4/2008	7/1/2014	2008A	$ 7,415	$ -	$ -	$ 7,415	$ 268
Total Rocky Reach System			$ 7,415	$ -	$ -	$ 7,415	$ 268

(1) Amount of serial bonds matured as of December 31, 2008 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, 2008 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.

Intersystem Loans

Proceeds of the Senior Consolidated System Bonds and the Consolidated System Bonds have been loaned to the separate Rocky Reach and Rock Island Systems. These intersystem loans from the Consolidated System to the Rocky Reach System and the Rock Island System are made pursuant to resolutions of the District, which resolutions establish the terms of payment for the loans. The obligation of the Rocky Reach System to make loan payments to the Consolidated System is subordinate to the obligation of the Rocky Reach System to pay Operation and Maintenance expenses and debt service on revenue bonds issued by the Rocky Reach System.

With respect to the proceeds of the Senior Consolidated System Bonds and Consolidated System Bonds loaned to the Rocky Reach System and the Rock Island System, the respective power purchasers have agreed to make payments to the District for the credit of the respective Hydro-Electric Systems sufficient to repay their allocable portion of the loans of the Senior Consolidated System Bonds and Consolidated System Bond proceeds, all as part of the cost of the power purchased by such power purchasers. Each power purchaser's payments are in proportion to such power purchaser's allocated portion of the output from the respective Hydro-Electric System.

See "SECURITY FOR THE 2009A BONDS—Loan Resolutions and Financing Agreements," "ADDITIONAL FINANCIAL INFORMATION OF THE DISTRICT—Intersystem Loans" and APPENDIX D—"Summary of Certain Provisions of the Loan Resolutions and Financing Agreements" for a description of the loan resolutions.

Annual Debt Service

Table 4 on the following page shows aggregate annual debt service on all outstanding Bonds as of December 31, 2008. The table also shows the aggregate annual loan payments from the Rocky Reach System to the Consolidated System with respect to currently outstanding intersystem loans to the Rocky Reach System from the Consolidated System. See "—Intersystem Loans" and "ADDITIONAL FINANCIAL INFORMATION OF THE DISTRICT—Intersystem Loans." The total amount of such loan payments through 2039 is equal to 99 percent of aggregate annual debt service on the Prior Rocky Reach Bonds and the intersystem loans over the same period. The loan payments to the Consolidated System will be made by the Rocky Reach System from payments received from the respective purchasers of power from the Rocky Reach System, including the District's Distribution Division. The Original Rocky Reach Power Sales Contracts pursuant to which such loan payments currently are made by the

Power Purchasers with respect to the Rocky Reach System expire in 2011, however, similar payment obligations continue under the New Power Sales Contracts and are expected to be included in any future such contracts with other parties. See "—The New Power Sales Contracts."

Table 4
Rocky Reach System Debt Service and Rocky Reach System Loan Payments
as of December 31, 2008

	Bonds		Intersystem Loans		
Twelve Months Ending Dec. 31	Estimated Debt Service	Estimated Principal Retirements	Estimated Debt Service	Estimated Principal Retirements [1]	Total Estimated Debt Service
2009	885,545	715,000	32,506,020	14,470,917	33,391,565
2010	1,503,000	1,235,000	31,930,184	15,339,955	33,433,184
2011	1,508,600	1,290,000	32,680,121	16,178,485	34,188,721
2012	1,512,000	1,345,000	33,471,543	17,063,360	34,983,543
2013	1,513,200	1,400,000	33,083,016	16,772,965	34,596,216
2014	1,487,200	1,430,000	34,029,576	17,756,547	35,516,776
2015	-	-	34,970,965	18,734,186	34,970,965
2016	-	-	35,484,352	19,286,010	35,484,352
2017	-	-	35,308,674	19,151,270	35,308,674
2018	-	-	26,787,187	10,822,561	26,787,187
2019	-	-	24,346,624	8,806,918	24,346,624
2020	-	-	24,788,795	9,298,936	24,788,795
2021	-	-	25,252,214	9,815,378	25,252,214
2022	-	-	25,748,257	10,367,618	25,748,257
2023	-	-	26,267,707	10,947,076	26,267,707
2024	-	-	26,806,895	11,550,081	26,806,895
2025	-	-	25,833,411	10,644,225	25,833,411
2026	-	-	24,294,752	9,177,638	24,294,752
2027	-	-	23,287,592	8,180,536	23,287,592
2028	-	-	22,015,523	6,908,467	22,015,523
2029	-	-	21,098,441	5,991,385	21,098,441
2030	-	-	20,065,832	4,958,776	20,065,832
2031	-	-	19,496,156	4,389,100	19,496,156
2032	-	-	17,843,239	2,736,183	17,843,239
2033	-	-	14,882,671	2,503,174	14,882,671
2034	-	-	13,052,624	2,212,700	13,052,624
2035	-	-	10,735,369	1,382,520	10,735,369
2036	-	-	7,230,346	642,508	7,230,346
2037	-	-	4,015,498	192,672	4,015,498
2038	-	-	1,470,988	202,550	1,470,988
2039	-	-	738,316	104,097	738,316

[1] Includes replacement recovery payments on loans made from 1996 through 2008 and actual principal on loans made in 1996, 2001, 2004, 2005, 2007 and 2008.

[2] The final estimated debt service is reduced by the principal retirements assumed to be retired with the application of the appropriate Reserve amounts as follows: $268,000 from the Bonds, 2008A Reserve Account. It should be recognized the District may elect to utilize the various Reserve Accounts in a manner other than as reflected, depending upon market conditions and the limitations contained in the governing resolutions.

Capital Requirements

The District has prepared projections of the capital requirements for the five-year period 2009 through 2013. These projections are in accordance with the District's best estimates and long-range planning by the District staff. As such, some anticipated projects are still undergoing feasibility studies. The District periodically reviews its capital improvement program and modifies it as appropriate to reflect changing conditions. As a result, amounts currently forecasted for the future are subject to modification as the Commission directs. For a more detailed discussion regarding the District's projected capital requirements, see "ADDITIONAL FINANCIAL INFORMATION OF THE DISTRICT—Capital Requirements."

Interest Rate Swaps

Pursuant to the Master Resolution, the District may enter into one or more Payment Agreements with respect to all or a portion of a Series of Bonds. A Payment Agreement is defined in the Master Resolution as any financial instrument that (i) is entered into by the District with a party that is a Qualified Counterparty (as defined in the Master Resolution) at the time the instrument is entered into; (ii) is entered into with respect to all or a portion of a Series of Bonds; (iii) is for a term not extending beyond the final maturity of the Series of Bonds or portion thereof to which it relates; (iv) provides that the District shall pay to such Qualified Counterparty an amount accruing at either a fixed rate or a variable rate, as the case may be, on a notional amount equal to or less than the principal amount of the Series of Bonds or portion thereof to which it relates, and that such Qualified Counterparty shall pay to the District an amount accruing at either a variable rate or fixed rate, as appropriate, on such notional amount; (v) provides that one party shall pay to the other party any net amounts due under such instrument; and (vi) which has been designated by the District as a Payment Agreement with respect to such Bonds. The Qualified Counterparty must be rated in one of the three top rating categories by at least two rating agencies. The Master Resolution provides that, if and to the extent provided in any Supplemental Resolution authorizing the issuance of a Series of Bonds, Payment Agreement Payments may be paid directly out of the account or accounts in the Bond Fund established with respect to such Series of Bonds, and thus on a parity with debt service on the Bonds. The District has not entered into any Payment Agreements with respect to any Series of Bonds.

THE CONSOLIDATED SYSTEM AND OTHER PROPERTIES AND FACILITIES OF THE DISTRICT

General

In 1976, the District consolidated all of its electric utility operations into the Chelan Hydro Consolidated System, consisting of the Distribution Division and the Hydro-Electric Projects. Such consolidation, however, was subject to the terms, limitations, restrictions, covenants, liens, charges and pledges contained in the resolutions of the District which established the Rock Island System and the Rocky Reach System and which provided for the issuance of bonds to finance those Systems. Accordingly, the revenues of the Rock Island System and the Rocky Reach System were not a part of the revenues of the Consolidated System. Effective June 1, 1993, the revenues of the Lake Chelan Project became part of the revenues of the Chelan Hydro Consolidated System. In 2007, the District elected to rescind the consolidation of the Rock Island System and the Rocky Reach System into the Consolidated System.

The Hydro-Electric Systems produce power and energy in part for use in the Distribution Division and in part for sale to others on a cost-of-service basis under the Original Rocky Reach Power Sales Contracts and the Rock Island Power Sales Contract (together, the "Power Sales Contracts"). The Power Sales Contracts provide for sale of power directly to certain investor-owned utility companies and Alcoa Power Generating, Inc., ("Alcoa Power"), a wholly owned subsidiary of Alcoa. Under the Power Sales Contracts, the revenues of the Rock Island System and the Rocky Reach System generally are equal to the cost of service, including debt service, of such Systems. Such revenues are required to be used to pay the costs of operating, maintaining and providing for certain capital improvements for those Systems and are pledged to payment of the bonds issued by those Systems, and therefore are not available to pay or secure the bonds of the Consolidated System. Such revenues are available to make interfund loan payments to the Consolidated System on a basis that is subordinate to the payment of operating and maintenance expenses of the Rocky Reach System and the Rock Island System and the payment of debt service on the outstanding bonds of the Rocky Reach System and the Rock Island System, as applicable. See "SECURITY FOR THE 2009A BONDS—Loan Resolutions and Financing Agreements."

For information about the outstanding indebtedness of the Rocky Reach System, see "THE ROCKY REACH SYSTEM—Financial Information of the Rocky Reach System—*Outstanding Debt*" and for information about the outstanding indebtedness of the Consolidated System and the Rock Island System, see "ADDITIONAL FINANCIAL INFORMATION OF THE DISTRICT—Outstanding Debt." The Original Rocky Reach Power Sales Contracts extend through October 31, 2011. See "THE ROCKY REACH SYSTEM—The Original Rocky Reach Power Sales Contracts" and "—The Rock Island Power Sales Contract" for information regarding the respective Power Sales Contracts. See APPENDIX H—"Description of Major Power Purchasers" for a brief description of the major power purchasers. See also APPENDIX D—"Summary of Certain Provisions of the Loan Resolutions and Financing Agreements."

Pursuant to Resolution No. 95-10188, adopted by the Commission on June 19, 1995, as supplemented and amended, including as amended and restated by Resolution No. 99-11303, adopted by the Commission on November 1, 1999, as amended and supplemented (as so amended and supplemented, the "Senior Consolidated System Resolution"), the District has issued Chelan Hydro Consolidated System Revenue Bonds (the "Senior Consolidated System Bonds") payable from and secured by a pledge of revenues derived by the District from its ownership and operation of the Consolidated System.

Pursuant to Resolution No. 07-13067, adopted by the Commission on March 12, 2007, as amended and supplemented (as so amended and supplemented, the "Consolidated System Resolution"), the District has issued Consolidated System Revenue Bonds (the "Consolidated System Bonds") payable from and secured by a pledge of Consolidated System revenues subordinate to the lien thereon of the Senior Consolidated System Bonds.

The District has covenanted in the Consolidated System Resolution not to issue any additional Senior Consolidated System Bonds under the Senior Consolidated System Resolution and not to issue or incur any additional indebtedness with a lien or charge on Consolidated System revenues superior or prior to that of the Consolidated System Bonds. Pursuant to Resolution No. 08-13378, adopted by the Commission on October 14, 2008 (as amended and supplemented from time to time, the "Subordinate Consolidated System Resolution") the District has issued Consolidated System Subordinate Revenue Bonds (the "Subordinate Consolidated System Obligations") payable from and secured by a pledge of Consolidated System revenues subordinate to the lien thereon of the Consolidated System Bonds.

The District lent a portion of the proceeds of the Senior Consolidated System Bonds and the Consolidated System Bonds to the Rock Island System and the Rocky Reach System, which Systems are obligated to repay such interfund loans from their respective revenues, subordinate to their obligations to pay operation and maintenance expenses and debt service on bonds issued by the Rock Island System and the Rocky Reach System, respectively. Such loan payments to the Consolidated System constitute revenues of the Consolidated System. See "ADDITIONAL FINANCIAL INFORMATION OF THE DISTRICT—Intersystem Loans."

The District lent a portion of the proceeds of the Senior Consolidated System Bonds and the Consolidated System Bonds to the Rock Island System and the Rocky Reach System, which Systems are obligated to repay such interfund loans from their respective revenues, subordinate to their obligations to pay operation and maintenance expenses and debt service on bonds issued by the Rock Island System and the Rocky Reach System, respectively. Such loan payments to the Consolidated System constitute revenues of the Consolidated System. See "ADDITIONAL FINANCIAL INFORMATION OF THE DISTRICT—Intersystem Loans."

For the year ended December 31, 2008, the Distribution Division served an average of 47,693 customers and had energy sales of 4,416,000 MWh and operating revenues of $142,936,000. Historically, the Distribution Division has obtained most of its power supply from its own Hydro-Electric Projects and relatively small amounts from other sources. The Hydro-Electric Projects provide power to the Distribution Division at a comparatively low cost, enabling the District to provide electric service to its customers at rates substantially below those charged by most other utilities in the Pacific Northwest. For a description of the Hydro-Electric Projects, see "—Properties and Facilities of the District—Hydro-Electric Projects" and "THE ROCKY REACH SYSTEM—General."

In 1992, the Water System and Wastewater System were consolidated into what is now called the Consolidated System. The District has retained substantial flexibility with respect to the use of the revenues of the Water System and Wastewater System, including the ability to pledge such revenues to other obligations on a basis senior to that of the Consolidated System Bonds. The revenues of the Consolidated System are not pledged to the debt of the Water System or Wastewater System existing or incurred prior to the consolidation of such systems into the Consolidated System. For the year ended December 31, 2008, the Water System served 5,278 customers and the Wastewater System served 467 customers. As of December 31, 2008, the Water System had no outstanding long-term debt and the Consolidated System intersystem loans payable was $1,536,534. As of December 31, 2008, the Wastewater System had no outstanding long-term debt or Consolidated System intersystem loans payable. It is the current policy of the District to pay operating expenses and debts of the Water System and Wastewater System from the respective revenues of such systems. A significant portion of the direct debt of the Water and Wastewater Systems is assessment-backed local utility district debt secured by liens on the property benefited by such systems.

The District's "Carbon Footprint"

As the District's energy resources consist almost entirely of hydro-electric power and wind power, the District's utility operations are responsible for very little carbon dioxide emitted through the combustion of fossil fuels, other than carbon associated with market purchases that represented approximately 11 percent of the District's portfolio in 2007. The District does sell a portion of the environmental attributes associated with some of its hydro-electric power and wind power; however, this is accounted for in the District's required fuel mix disclosure. The District currently does not foresee any significant additional costs to its utility operations as a result of future legislative or other measures seeking to remedy carbon dioxide loads imposed upon the environment. See, however, "DEVELOPMENTS AFFECTING THE ELECTRIC UTILITY INDUSTRY—State Energy Legislation."

Properties and Facilities of the District

The District's electric utility currently includes the Distribution Division and the Hydro-Electric Projects described below. Only the Distribution Division and the Lake Chelan System, however, are part of the Consolidated System.

Distribution Division

The Distribution Division of the Consolidated System serves at retail the entire territory within the County. As of December 31, 2008, the Distribution Division included 35 substations with a total capacity of 1,194,637 kVA, 860 miles of overhead and 808 miles of underground distribution lines and other buildings, equipment, stores and related facilities. As of December 31, 2008, the gross utility plant of the Distribution Division, including construction work in progress, was $351,530,000, with net utility plant of $227,814,000. The Distribution Division also includes the Cashmere system. See "THE DISTRICT—General."

Hydro-Electric Projects

General. As of December 31, 2008, the combined gross utility plant of the Hydro-Electric Projects, including construction work in progress, was $1,194,352,000, with net utility plant of $760,665,000. The Rock Island System and the Rocky Reach System are not part of the Consolidated System. The revenues derived from the ownership and operation of the Rocky Reach System and the Rock Island System are pledged to pay the operating, maintenance and certain capital costs of the Rocky Reach Project and the Rock Island Project and to pay the principal of and interest on bonds issued to finance the Rocky Reach Project and the Rock Island Project and are not available to pay or secure the payment of the Senior Consolidated System Bonds, the Consolidated System Bonds or the Subordinate Consolidated System Obligations.

The Lake Chelan System. The Lake Chelan Hydro-Electric System (the "Lake Chelan System") consists of (1) the Lake Chelan Project, which was placed in commercial operation in the 1920s and which is located at the east end of Lake Chelan in Chelan County, Washington, approximately 38 miles north of the City of Wenatchee, Washington, together with (2) associated substation and transmission facilities to connect the generating plant with other facilities of the District and Avista Corporation (formerly The Washington Water Power Company)

("Avista"). A dam approximately 40 feet high and 490 feet long allows the regulation of Lake Chelan between elevations of 1,079 feet and 1,100 feet, thereby providing usable storage of approximately 676,000 acre-feet of water. A tunnel approximately two miles in length leads to the powerhouse, which contains two generating units with a nameplate capacity totaling approximately 48 MW. Net energy delivered from the generating plant averaged approximately 439,416 MWh annually during the three years from 2006 through 2008. For the year ended December 31, 2008, the generating plant delivered 404,810 MWh, at an average cost of $15 per MWh. As of December 31, 2008, the gross utility plant, including construction work in progress, of the Lake Chelan Project was $87,640,000, with net utility plant of $66,606,000.

The District is in the middle of a modernization program with respect to the Lake Chelan Project to renew generators, turbines, governors and unit control systems to ensure reliable production and realize an efficiency gain of approximately four percent to six percent. The modernization program is scheduled for completion in 2011. Activities associated with the 50-year operating license received on November 6, 2006 include enhancements for fish habitat and management of the Lake Chelan reservoir.

See "—Energy Resources" for information regarding the sale of the output of the Lake Chelan Project.

The Rock Island System. Pursuant to Resolution No. 1137, adopted by the District on December 20, 1955, as amended and supplemented by various resolutions (collectively, the "Senior Rock Island Resolutions"), and Resolution No. 97-10671, adopted by the District on February 27, 1997 (the "Prior Rock Island Master Resolution"), the District established the Rock Island System, and pursuant to Resolution No. 08-13391, adopted by the Commission on October 20, 2008 (the "Rock Island Master Resolution"), the District continued the Rock Island System.

The Rock Island System consists of (i) the Rock Island Hydro-Electric Generating Plant (the "Rock Island Project") located on the Columbia River approximately 12 miles downstream from Wenatchee, Washington, together with (ii) associated substation and transmission facilities to connect the generating plant to the other facilities of the District and Puget Sound Energy and to the transmission grid of the Pacific Northwest. A dam with an effective head of approximately 39 feet provides water to 19 generating units with a nameplate capacity of approximately 624 MW. The generating units are housed in two powerhouses. Of the eleven units in the first powerhouse, five, including the station service unit, were placed in commercial operation in 1933 and six in 1952 and 1953. The eight units in the second powerhouse were placed in commercial operation in 1978 and 1979. The first four units in the second powerhouse were originally constructed by Puget Sound Energy, which later sold the dam and generating units to the District. The remaining units in the second powerhouse were constructed by the District. Net energy delivered from the generating plant averaged 2,790,091 MWh annually during the three years from 2006 through 2008. For the year ended December 31, 2008, the generating plant delivered 2,721,177 MWh, at an average cost of $27 per MWh. As of December 31, 2008, the gross utility plant of the Rock Island System, including construction work in progress, was $521,236,000, with net utility plant of $309,932,000.

Pursuant to the Prior Rock Island Resolution, the District has issued its Prior Rock Island Bonds payable from and secured by a pledge of the revenues of the Rock Island System. As of December 31, 2008, the Prior Rock Island Bonds were outstanding in the principal amount of $270,515,251. Pursuant to the Rock Island Master Resolution, the District has issued its Rock Island Hydro-Electric System Revenue Bonds (the "Rock Island Bonds") payable from and secured by a pledge of the revenues of the Rock Island System junior and subordinate to the lien of the Prior Rock Island Bonds. As of December 31, 2008, the Rock Island Bonds were outstanding in the principal amount of $8,290,000. Simultaneously with the issuance of the 2009A Bonds, the District intends to issue approximately $14,000,000 of its Rock Island Hydro-Electric System Revenue Bonds, Series 2009A (the "2009A Rock Island Bonds"). Upon the issuance of the 2009A Rock Island Bonds, the Rock Island Bonds will be outstanding in the aggregate principal amount of $20,980,000. In addition, as of December 31, 2008, intersystem loans payable from the revenues of the Rock Island System were $174,969,000. See "THE ROCKY REACH SYSTEM—Financial Information of the Rocky Reach System—*Outstanding Debt*" and "—*Intersystem Loans*" and "ADDITIONAL FINANCIAL INFORMATION OF THE DISTRICT—Outstanding Debt" and "—Intersystem Loans."

In 2003, the District began a multi-year process to modernize Rock Island Powerhouse No. 1. The aged power plant support systems were the first to be updated or replaced prior to the rehabilitation of the generating units. The first unit rehabilitated was completed in May 2008. The unit received a new turbine, generator, exciter and controls. The modernization program is estimated to cost approximately $200 million and is estimated to provide 40 more years of operation and produce more than 10 percent additional energy beyond prior capabilities.

Powerhouse No. 2 began operation in the late 1970s and has recently received new generator step-up transformers. Installation of new generator breakers was completed in 2008. Other operational improvements include replacement of the generation unit intake trashracks and installation of a trashrack cleaning system to reduce intake head losses. These projects are maintaining reliability and when completed are expected to increase energy production by approximately 2.5 percent.

See "—The Rock Island Power Sales Contract" for information regarding the sale of output from the Rock Island System.

The Rocky Reach System. For a discussion of the Rocky Reach System, see "THE ROCKY REACH SYSTEM."

Fiber Optics System

The Fiber Optics System has been consolidated into the Consolidated System, See "—The Fiber Optics System" for information regarding the Fiber Optics System.

Water and Wastewater Systems

The Water and Wastewater Systems were consolidated into what is now the Consolidated System in 1992; however, the District has preserved substantial flexibility regarding the use of the revenues of such Systems. See "—General."

Federal Energy Regulatory Commission License Status; Relicensing

General

The District operates the Rock Island Project, the Rocky Reach Project and the Lake Chelan Project under long-term licenses issued by FERC.

For a discussion regarding relicensing of the Rocky Reach Project, see "THE ROCKY REACH SYSTEM—Federal Energy Regulatory Commission License Status; Relicensing."

Rock Island Project

The Rock Island Project license was issued on January 18, 1989, and will expire in December 2028.

Lake Chelan Project

On November 6, 2006, FERC issued a new 50-year license for the Lake Chelan Project. The new license reflects the terms of the Comprehensive Settlement Agreement developed by the District with various stakeholders and submitted by the District to FERC in October 2003, with several changes. The new license required detailed management plans for fish, wildlife and recreation resources. These plans were submitted to FERC on November 6, 2007. In addition, the District is constructing three major capital projects associated with the new license, a low-level outlet structure at the dam, a pump station adjacent to the Lake Chelan Project tailrace and two acres of fish spawning habitat in the lower Chelan river and Project tailrace. These projects are scheduled to be completed in late fall 2009.

For the Lake Chelan Project, the estimated licensing-related costs are $72 million over 50 years. License-related costs are risk adjusted estimates in 2008 dollars, using a seven percent discount rate over 50 years and may vary significantly.

Relicensing Procedure and FERC Options

The District has covenanted in the Master Resolution, the Rock Island Master Resolution and the Consolidated System Resolution to use its best efforts to secure new licenses when the current FERC licenses for the Hydro-Electric Projects expire. Upon expiration of the District's licenses, and assuming that project decommissioning is not at issue in the relicensing proceeding, FERC has three options under existing law: to issue a new license to the District; to issue a new license to a different licensee; or to issue a non-power license to the District or a different licensee (if FERC found that the project should no longer be used for power purposes). The Federal Power Act ("FPA") requires FERC, upon expiration of a license, to issue annual licenses until such time as a new license or non-power license is issued.

Under current law, assuming that project decommissioning is not at issue in the relicensing proceeding, if there is competition for the issuance of a new license, the new license must be issued to the applicant having the final proposal best adapted to serve the public interest, except that insignificant differences between competing applications are not to result in the transfer of a project to a different licensee. There were no competing license applications for the Lake Chelan or Rocky Reach Projects.

Water Quality Relicensing Issues

Outstanding water quality issues pertaining to the relicensing process are few. The Lake Chelan 401 Water Quality Certification includes: restoring a native ecosystem to the Chelan River Bypass reach; creating additional spawning and rearing habitat; providing additional spawning flows in the base of the river; developing and implementing pertinent plans to protect the water during construction; monitoring and ensuring compliance with water quality parameters consisting of temperature, turbidity, pH, dissolved oxygen, flow, deleterious materials; and controlling river ramping rates to two inches per hour. At this juncture, the District anticipates no issues fulfilling the requirements of the Lake Chelan 401 Water Quality Certification.

Energy Resources

The District's major sources of power supply are its Hydro-Electric Projects. See "THE ROCKY REACH SYSTEM—The Original Rocky Reach Power Sales Contracts" and "—The New Power Sales Contracts" and "The Rock Island Power Sales Contract" and "*The Lake Chelan Project*" under this heading. For the year ended December 31, 2008, the Hydro-Electric Projects provided most of the Distribution Division's retail energy requirements. In addition, during most periods the Hydro-Electric Projects provided surplus generation, which was sold in the wholesale power market. During certain hourly peak loads and some periods of exceptionally cold or dry weather, the Distribution Division must purchase additional energy from other sources, including the spot market, to meet its retail load requirements. Table 5 on the following page presents the Distribution Division's energy resources and purchased power costs for the years 2004 through 2008.

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Table 5
Consolidated System
Distribution Division
Energy Requirements, Resources and Power Costs [1]
As of December 31, 2008

	2004	2005	2006	2007	2008
Requirements (000 MWh)					
Total Sales [2]	4,334	4,577	4,874	4,845	4,416
Timing Differences & Losses [3]	246	(14)	(255)	(64)	(10)
Total Requirements	4,580	4,563	4,619	4,781	4,406
Resources (000 MWh)					
Rocky Reach System	727	1,909	2,241	2,341	2,091
Rock Island System [4]	1,297	1,279	1,473	1,516	1,393
Lake Chelan Project	445	342	452	459	405
Nonfirm Purchases [5]	373	432	378	368	460
Contractual Repurchases [6]	1,738	601	75	97	57
Total Resources	4,580	4,563	4,619	4,781	4,406
Purchased Power Costs ($000)					
Rocky Reach System	$ 26,477	$ 27,545	$ 29,370	$ 29,782	$ 31,449
Rock Island System [4]	24,159	28,535	32,289	33,540	37,309
Lake Chelan Project	5,862	5,449	4,972	5,171	6,152
Nonfirm Purchases [5]	14,558	21,827	15,733	18,543	27,901
Contractual Repurchases [6]	45,699	9,447	1,591	2,584	1,584
Total Purchased Power Costs	$ 116,755	$ 92,803	$ 83,955	$ 89,620	$ 104,395
Average Cost ($/MWh) [7]	$ 25	$ 20	$ 18	$ 19	$ 24

(1) Years 2004 and 2005 had been previously revised to reflect energy exchange agreements that were previously excluded. Year 2006 had been previously revised to reflect an immaterial misstatement of contractual repurchases.
(2) See Table 6, "Distribution Division Customers, Energy Sales and Revenues."
(3) Includes timing differences between actual calendar year energy requirements and monthly billing cycles, and system losses.
(4) The District's share of power produced by the first powerhouse of the Rock Island System is delivered to the Distribution Division as a contractually specified percentage of total cost, which is equal to the cost of service. The District received 25 percent of the power produced by the second powerhouse of the Rock Island System during 2004 and the first month of 2005, 35 percent commencing February 1, 2005, 45 percent commencing July 1, 2005, and 50 percent (the maximum permitted) commencing November 1, 2006 and continuing forward until June 7, 2012.
(5) Nonfirm purchases include power purchased to: meet local requirements, hedge price movements and minimize the District's overall risk exposure to changes in power prices.
(6) Contractual obligation to purchase power for resale, during limited time periods, or as required under contractual arrangements with Alcoa and Alcoa Power. Includes capacity to energy exchange agreements. See "—The Rocky Reach Power Sales Contracts—Alcoa" under this heading.
(7) Includes actual costs of power plus allocable administrative and other expenses of the Distribution Division. Fluctuations in average cost are due primarily to fluctuations in water conditions on the Columbia River, changes in market prices, and fluctuations in power repurchases from Alcoa Power. See "THE ROCKY REACH SYSTEM—The Original Rocky Reach Power Sales Contracts—Alcoa" and "—The New Power Sales Contracts—New Alcoa Power Sales Contract."

The Rock Island and Rocky Reach Projects

The Distribution Division obtains more than half of its power from the Rock Island Project and the Rocky Reach Project. See "THE ROCKY REACH SYSTEM—The Original Rocky Reach Power Sales Contracts" and "—The New Power Sales Contracts" and "—The Rock Island Power Sales Contract" under this heading.

The Lake Chelan Project

The Lake Chelan Project became fully consolidated into what is now called the Consolidated System on June 1, 1993. The entire output of the Lake Chelan Project is taken by the Distribution Division. The Lake Chelan Project output constituted approximately nine percent of the Distribution Division's total energy requirements for the year ended December 31, 2008.

Nine Canyon

The District also is a purchaser of power from the Nine Canyon Wind Project, located in Benton County, Washington. The project is owned and operated by Energy Northwest. There are ten purchasers of power output from the Nine Canyon Wind Project. All are public utility districts in the State of Washington.

Phase 1 of the Nine Canyon Wind Project, from which the District has purchased a 12.5 percent share of the output, consists of thirty-seven 1.3 MW wind turbines. Phase 1 was certified for commercial operation in September 2002. The capacity of Phase 1 is 48 MW. Under the Phase 1 contract of purchase, the District agreed to pay its 12.5 percent share of the project's annual budgeted expenses, including debt service on project bonds whether or not the project is operating or capable of operating. Phase 1 of the project was financed by Energy Northwest through the issuance of Series 2001 Bonds in the aggregate principal amount of $70,675,000. In January 2005, Energy Northwest refunded $59,410,000 of the Series 2001 Bonds through the issuance of $62,325,000 of Series 2005 Bonds maturing through 2023.

Energy Northwest expanded the project with Phase 2, which added 12 turbines, with a combined capacity of 15.6 MW. The District has purchased 12.5 percent of this additional capacity. Under the amended contract, the District has agreed to pay its 12.5 percent share of the debt service on the Phase 2 project bonds (issued by Energy Northwest in the aggregate principal amount of $21,720,000 and maturing through July 1, 2023) whether or not the project is operating or capable of operating. The District also agreed to pay 12.5 percent of the combined Phase 1 and Phase 2 annual budgeted operation and maintenance expenses. The first units of Phase 2 were certified for commercial operation in September 2003, with all units certified for commercial operation by December 2003. From 2004 through 2008, the average capacity factor of Phases 1 and 2 combined energy delivered to the District was just over 28 percent, during a period of less than average wind speeds. The District has also agreed to pay up to an additional 3.125 percent of such expenses in the event one or more other participants fail to make their payments.

Phase 3 of the project (the final phase) is a 14 turbine, 32 MW expansion that was placed into commercial operation on May 8, 2008. The District declined to participate in Phase 3. In October 2006, the District signed a second amended power purchase agreement, reducing the District's share in the combined project from 12.5 percent to approximately 8.3 percent upon the commencement of commercial operation of Phase 3. This reduced the District's share in the combined generation output and combined maintenance and operation costs to 8.3 percent. Although the District's combined project share percentage is now lower, the District's megawatt capacity remains the same at approximately 7.96 megawatts because the expanded project has a larger megawatt capacity. Phase 3 is consistently showing a higher capacity factor than Phase 1 and Phase 2 as was anticipated. The District's debt obligations related to Phases 1 and 2 remain the same at 12.5 percent share of each as previously described. The District has no obligation to pay bond debt of Phase 3.

In April of 2007, Energy Northwest reached a warranty settlement agreement with Siemens Wind Power A/S ("Siemens") regarding gearboxes and main shaft bearings. The project has experienced numerous gearbox failures in both Phases 1 and 2. The gearbox warranties were originally established for five-year periods. Phase 1 ended August 2007, and Phase 2 ended December 2008. The failure of main bearings has all been post warranty with the first being in September 2005. The standard three-year warranty for Phase 1 ended in August 2005, and Phase 2 ended in December 2006.

Negotiations to reach this settlement were ongoing for over three years. The settlement includes a five-year extension for gearbox coverage, including augmented spares for covered components. In regards to main bearings, Siemens is also to provide augmented spares for covered components. In addition, Siemens, at its sole cost and expense, is obligated to perform a root cause analysis of the main bearing problems for the purpose of developing a corrective action plan. Energy Northwest also contracted an independent contractor to perform a main bearing failure analysis. This report differed from Siemens's conclusions. In June 2008, Energy Northwest initiated a tolling agreement with Renewable Energy Systems Americas Inc., the engineering and construction contractor, as the statute of limitations was to expire in August 2008. Siemens was also a signatory to this agreement under the settlement agreement. Energy Northwest is working to reach a commercial settlement under the terms of the tolling agreement to avoid litigation. Starting in fiscal year 2008, all of the estimated costs of dealing with these component failures are included in the next three annual budgets and are reviewed each year. Consequently, the billing rates to purchasers for Phase 1 and Phase 2 have been increased to deal with such expenditures.

Although the District is not a participant in Phase 3, the District does receive power from Phase 3 turbines and pays a portion of the combined maintenance and operation costs as described earlier. For these reasons, the District has an interest in the equipment warranties associated with Phase 3. The Phase 3 wind turbines have a five-year warranty on all components, effective through April 2013. In addition, this warranty includes an extensive component failure clause, which will require remedial action as determined necessary from a root cause analysis if three or more wind turbines experience a major component defect.

The Rocky Reach Power Sales Contracts

The energy available to the District from its ownership and operation of the Rocky Reach System is governed by the Original Rocky Reach Power Sales Contracts. See "THE ROCKY REACH SYSTEM – The Original Rocky Reach Power Sales Contracts." In addition, the District has executed the New PSE Contract and the New Alcoa Contract for both the Rocky Reach Project and the Rock Island Project, beginning November 1, 2011, with respect to the Rocky Reach Project. See "THE ROCKY REACH SYSTEM—The New Power Sales Contracts."

The Rock Island Power Sales Contract

The energy available to the District from its ownership and operation of the Rock Island System is governed by a Power Sales Contract, dated as of June 19, 1974 (the "Rock Island Power Sales Contract"), between the District and Puget Sound Energy, Inc. (formerly known as Puget Sound Power & Light Company) ("Puget Sound Energy"). The Rock Island Power Sales Contract extends to the later of June 7, 2012 (its stated expiration date), or until the Second Series 1955 Bonds of the Rock Island System are paid or provision is made for their retirement. In December 2008, the District issued its Rock Island Hydro-Electric System Revenue Bonds, Refunding Series 2008A to refund all of the outstanding Second Series 1955 Bonds.

The Rock Island Power Sales Contract provides that the output of the Rock Island System is sold on a take-or-pay and cost-of-service basis to Puget Sound Energy, subject to the right of the District to take certain portions of the output for its own use. For 2008, 50 percent of the power output of the Rock Island System was sold to Puget Sound Energy. The District's share of the output of the first powerhouse is currently 50 percent. Prior to 2000, the District was not entitled to take any of the output attributable to the additional eight generating units in the second powerhouse. Beginning July 1, 2000, the District, upon five years' prior notice, had the right to withdraw, in up to 10 percent increments, additional output from the second powerhouse, up to a maximum of 50 percent. The District gave Puget Sound Energy notice and began withdrawing 5 percent of the second powerhouse's output on July 1, 2000. Since November 1, 2006, the District has been withdrawing output at the 50 percent maximum. During its term, the Rock Island Power Sales Contract requires the District to pay, as consideration for its share of the second powerhouse's output, its share of the annual costs of the Rock Island System. The Rock Island Power Sales Contract does not give the power purchaser a right of first refusal to enter into a new agreement with the District with respect to output from the Rock Island Project upon expiration of such contract. Thus, the District is free to enter into new power sales agreements with either or both the existing and/or new power purchasers.

The District has executed the New PSE Contract and the New Alcoa Contract for both the Rocky Island and the Rocky Reach Projects, beginning July 1, 2012 with respect to the Rock Island Project. See "THE ROCKY REACH SYSTEM—The New Power Sales Contracts," APPENDIX F—"Summary of New Power Sales Contract with Puget Sound Energy, Inc." and APPENDIX G—"Summary of New Power Sales Contract with Alcoa, Inc."

Energy Sales

Table 6 on the following page presents the District's customers and energy sales of its Distribution Division for the years 2004 through 2008. Because approximately 73 percent of the District's residential customers and a portion of the District's commercial and industrial customers use electricity as a source of energy for space heating, the District's energy sales are significantly affected by the weather.

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Table 6
Distribution Division
Customers, Energy Sales and Revenues
As of December 31, 2008

	2004	2005	2006	2007	2008
Customers					
Retail:					
Residential	32,145	32,769	33,442	34,129	35,357
General Service	5,430	5,496	5,563	5,666	5,968
Industrial	28	29	30	30	32
Interdepartmental	477	482	491	501	523
Other (1)	4,939	4,929	4,905	4,985	5,745
Total Retail Customers	43,019	43,705	44,431	45,311	47,625
Resale	45	50	55	60	68
Total Customers	43,064	43,755	44,486	45,371	47,693
Energy Sales (000 MWh)					
Retail:					
Residential	629	665	707	723	744
General Service	396	406	418	434	447
Industrial	268	285	300	297	297
Interdepartmental	19	18	20	18	19
Other (1)	48	49	43	45	47
Total Retail Sales	1,360	1,423	1,488	1,517	1,554
Resale:					
Alcoa Power (2)	14	1,465	1,630	1,464	1,380
Douglas PUD	158	172	176	176	159
City of Cashmere	57	60	60	61	49
Other Nonfirm	2,745	1,457	1,520	1,627	1,274
Total Sales for Resale	2,974	3,154	3,386	3,328	2,862
Total Energy Sales	4,334	4,577	4,874	4,845	4,416
Revenue ($000)					
Retail:					
Residential	$ 18,707	$ 19,788	$ 20,988	$ 21,515	$ 23,197
General Service	12,874	12,950	13,480	13,970	15,154
Industrial	5,077	5,326	5,601	5,542	5,757
Interdepartmental	525	475	554	506	559
Other (1)	1,551	1,596	1,490	1,536	1,650
Total Retail Revenue	$ 38,734	$ 40,135	$ 42,113	$ 43,069	$ 46,317
Resale:					
Alcoa Power (3)	$ 151	$ 16,171	$ 20,451	$ 21,427	$ 25,025
Douglas PUD	1,756	1,920	1,939	2,073	2,004
City of Cashmere	795	800	814	830	721
Other – Nonfirm	112,683	78,788	70,629	79,377	66,250
Total Resale Revenue	$ 115,385	$ 97,679	$ 93,833	$ 103,707	$ 94,000
Other Revenues	2,542	1,837	2,108	1,256	2,619
Total Revenue	$ 156,661	$ 139,651	$ 138,054	$ 148,032	$ 142,936

(1) Includes irrigation, frost protection and street/yard lighting.
(2) Fluctuations are due to Alcoa idling plant effective during most of 2004 and restarting plant effective December 2004.

Electric Rates

The District is empowered and required under the Enabling Act to establish, maintain and collect rates or charges for electric service which are fair and nondiscriminatory and adequate to provide revenues sufficient for the payment of the principal of and interest on its revenue obligations and for all payments which the District is obligated to set aside in any special fund or funds for such purpose and for the proper operation and maintenance of the Consolidated System and all necessary repairs, replacements and renewals thereof.

The District has maintained rates for retail electric service which have been sufficient to provide for operation and maintenance costs and expenses, debt service, repairs, replacements and renewals and to provide for a major portion of the capital additions to the Consolidated System. Rates and charges of the District are fixed by its Commission. The Commission holds public hearings annually to consider the District's proposed budget. In addition, the Commission holds open meetings to consider the District's construction plan and load forecast and effects on the District's revenue requirements. Based on these planning documents, the District's staff estimates the District's revenue requirements and prepares various rate proposals designed to produce this revenue. The Commission holds public meetings to introduce and explain the proposals to the public and to receive public input. The input is then considered in a public meeting and the Commission makes a final decision as to rates.

The District, pursuant to State statutes, has the full and exclusive authority to regulate and control rates and charges for retail electric service free from the jurisdiction and control of the State Utilities and Transportation Commission. The District is, however, subject to certain rate-making provisions of the federal Public Utility Regulatory Policies Act of 1978, as amended ("PURPA"), governing rate-making policies. The District believes that it is operating in compliance with PURPA.

The District is exempt under the FPA from any regulation by FERC of its retail electric rates, and neither FERC nor its predecessor agency has ever attempted to assert such regulatory authority over the District.

In June 2007, the District concluded a series of strategic planning sessions with the Commission, customer-owners and employees. This series of public meetings was designed to discuss important challenges the District is facing today and will be facing in the future. The objectives of these meetings were to review the current business model, project how the current business model is expected to function in the future and provide the Commission with a series of tactical operating plans to address future challenges. After 10 months of deliberations and analysis, the Commission adopted a set of governing policies and guiding principles that will allow management to execute the agreed upon operating plan. The strategic package set a new financial direction that included an electric rate increase of 5 percent for 2008, as well as a renewed focus on cost control and efficiency. In addition, the strategic package included 2008 rate increases for the District's Water, Wastewater and Fiber Optics Systems. The 2008 rate increases went into effect on January 1, 2008. The rate increases are intended to move the District away from reliance on wholesale power sales over time. Even with this electric rate increase, the average residential electric rate in the District for 2008 was 3.1 cents per kWh, which is among the lowest in the country.

On April 1, 2009, the District increased water and wastewater rates an average of 6.9 percent and 6.5 percent, respectively.

Prior to the 2008 rate increase, the District had not increased electric rates since January 2000 when a 2.5 percent increase was implemented primarily as a result of rising power costs due to drought and greater volatility in hydro-electric generation due to changing conditions on the Columbia River. A number of other utilities in the State had increased their rates substantially in response to extraordinary increases in the price of power available on the market in 2000 and 2001.

The District recognized in the 2007 strategic planning discussions that a surcharge may be needed occasionally in years when water supplies are low or the price of power sold on the wholesale market drops. In 2009, an unusual combination of low wholesale energy prices, below-average snowpack and a declining interest rate environment has resulted in a significant decline in revenues to the District from sales of surplus power and interest income earned on investments. See "ADDITIONAL FINANCIAL INFORMATION OF THE DISTRICT—District Near-Term Financial Outlook." In response to these developments, the District has implemented contingency plans developed last fall during the budgeting process, including an initial reduction of $27.4 million in planned expenditures in 2009 and 2010. In addition, on April 27, 2009, the District also implemented a temporary 9 percent electric rate surcharge, the mechanisms for which were established more than a year ago. The surcharge went into effect on May 1, 2009, and will remain in place for up to 12 months. If the conditions adversely affecting the District's revenues (including below-average river flows, depressed wholesale energy prices and/or reduced interest income on investments) persist or return in fiscal years 2010 through 2011, the District may extend, increase and/or re-impose an electric rate surcharge or take other rate action to maintain the health of the District's finances. Conversely, if the current adverse conditions improve, the surcharge may be reduced, suspended or terminated.

The District had anticipated implementing an electric rate design change on April 1, 2009; however, the effective date of such change has been postponed for a period of up to 12 months pending the expiration of the surcharge. The new rate design is expected to increase rates for higher volume users with the intent of encouraging conservation. If enacted, these rate increases would vary from 0.0 percent to 3.3 percent for electricity, depending on the customer class, and have a blended overall effect of a 2.5 percent increase.

Table 7 on the following page presents the District's average monthly electric bills and those of several other major public and private Pacific Northwest utilities. Except as otherwise noted, the rates shown are those in effect as of October 1, 2008.

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Table 7
Comparative Monthly Electric Bills[1]
As of October 1, 2008

	Residential		Commercial[2]		Industrial[2]	
	(1,000 kWh)	(2,000 kWh)	(30 kW, 9,000 kWh)		(400 kW, 150,000 kWh)	
	Summer Season	Winter Season	Summer Season	Winter Season	Summer Season	Winter Season
Chelan County PUD No. 1	$30	$59	$249	$249	$4,599	$4,599
Selected Municipalities:						
Tacoma Power	68	130	577	577	7,297	7,297
City of Seattle	70	142	503	503	8,919	8,919
Selected Public Utilities:						
Benton County PUD No. 1	67	124	472	472	6,600	7,549
Grant County PUD No. 2	46	80	354	354	3,708	3,708
Snohomish County PUD No. 1	81	167	631	704	9,630	10,953
Investor Owned Utilities:						
Avista	68	146	891	891	11,145	11,145
Puget Sound Energy	93	190	737	762	11,399	12,403

(1) Computed from the rate schedules provided by the utilities listed. There are some variations in rate schedules and rate classification of the various utilities.
(2) Assumes power delivered is three-phase where available. Delivery voltage varies.

The Distribution Division rates are among the lowest in the country. Chart 1 on the following page compares the District with Pacific Northwest and national averages. District residential rates averaged 3.1 cents per kWh in 2008 compared to 11.9 cents per kWh for the national average. This is due, in part, to the low-cost hydro generation provided by the District's three Hydro-Electric Projects. Chart 2 on the following page compares the District's combined hydro cost with the Bonneville priority firm rate available to public utilities and the annual market average based on the Mid-Columbia Electricity Price Index. For 2008, the District's combined Hydro-Electric System cost was $18 per MWh (1.80 cents per kWh) compared to Bonneville's firm priority rate of $31 per MWh (3.06 cents per kWh) and the Mid-Columbia market average of $59 per MWh (5.89 cents per kWh).

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CHART 1

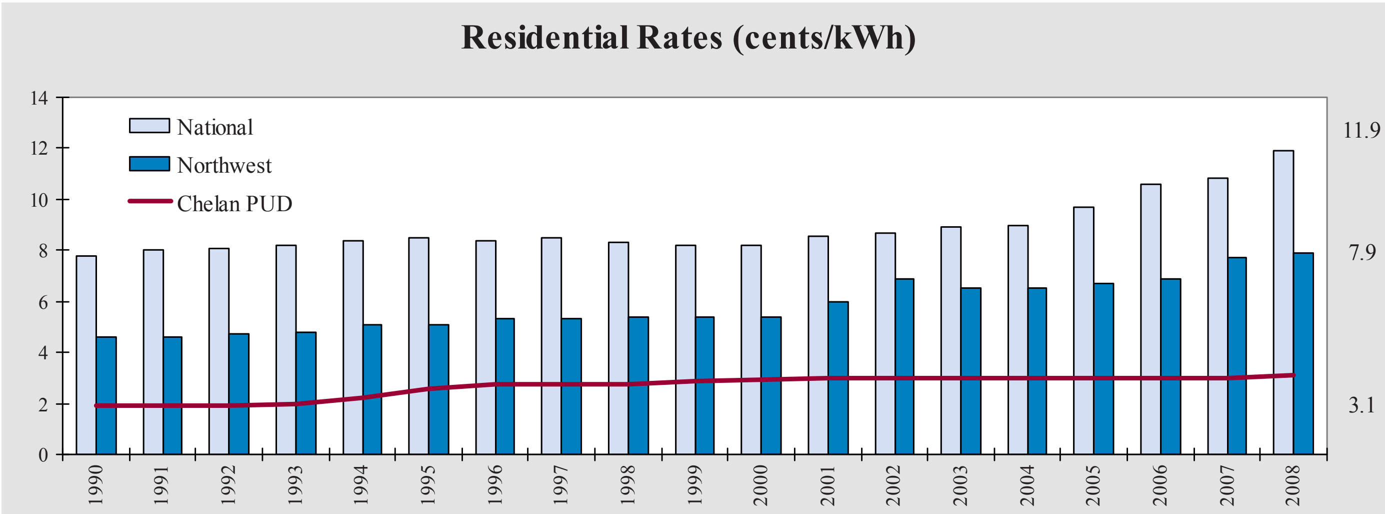
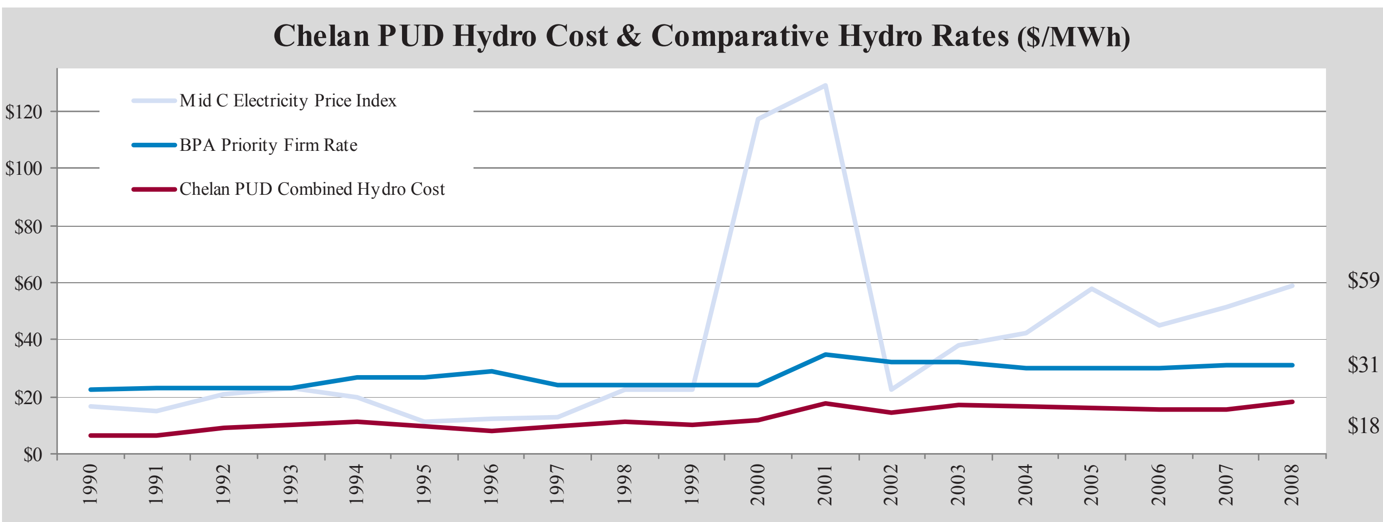


CHART 2



Largest Customers

The largest wholesale customers of the Rock Island System and the Rocky Reach System are the power purchasers of those Systems (collectively, the "Power Purchasers"). See "THE ROCKY REACH SYSTEM—The Original Rocky Reach Power Sales Contracts" and "—The New Power Sales Contracts" and "—The Rock Island Power Sales Contract" under this heading. For the year ended December 31, 2008, the Power Purchasers collectively purchased approximately 57.7 percent of the output of the Rock Island and Rocky Reach Systems.

Table 8 below presents the five largest local customers, including both local wholesale purchasers and major retail customers, of the Distribution Division in terms of MWh sales for the year ended December 31, 2008. Alcoa Power, the Distribution Division's largest local wholesale purchaser, accounted for 17.5 percent of the revenues of the Distribution Division from the sale of energy.

Table 8
Consolidated System
Distribution Division
Largest Local Wholesale Purchasers and Major Retail Customers (1)
2008

Customer	Business	Energy Sales (000 MWh)	Revenue from Energy Sales ($000)	% of Distribution Division's Total Revenue from Energy Sales
Alcoa Power (2)	Aluminum Mfg.	1,380	$ 25,025	17.5%
Douglas PUD	Electric Utility	159	2,004	1.4
Stemilt Growers Inc.	Agriculture	64	1,253	0.9
City of Cashmere	Electric Utility	49	721	0.5
Keyes Fibre Inc.	Paper Products	41	742	0.5
		1,693	$ 29,745	20.8%

(1) Excludes nonfirm sales for resale.
(2) In 2004, the Distribution Division and Alcoa Power entered into a revised long-term contract extending through 2011 that continued the assignment made in 1992 of Alcoa Power's 23 percent share of the output of the Rocky Reach System to the Distribution Division. In return, the Distribution Division will provide 23 percent of the Rocky Reach System output to Alcoa at cost and procure any additional power needed or sell any surplus power to Alcoa Power at contractual rates, which approximate market rates.

Wholesale Power Management Activity

The District in most years has a surplus supply of its own low-cost hydroelectric power available to sell. With the advent of deregulation, the District also has the opportunity to purchase and sell power from and to a number of power marketing firms, independent power producers and other electric utilities and to enter into future delivery contracts for the forward purchase and sale of electricity. While this creates new opportunities, it also creates risks. The District recognizes these risks and has committed significant resources to mitigate them. The District developed a Power Risk Management Policy, which established guidelines for monitoring and controlling exposure to market, counterparty/credit, tax and other risks associated with wholesale power transactions. The policy is reviewed and revised at least annually to ensure that the policy remains adequate in the changing energy market. The District maintains a Power Risk Management Committee, comprised of Executive Managers and the Managing Director of Energy Trading. Other staff members, as defined by resolution, may serve on the committee during any vacancies of those positions. The District's General Manager reviews actions proposed and is the final authority on all decisions made by the committee. The committee is responsible for approving the Power Risk Management Policy, approving strategies, monitoring performance, communicating with the Commission, establishing trading and position limits, approving new product offerings, ensuring that strategies are consistent with the District's business objectives and reviewing financial results. The committee also established a credit policy, which requires that trades be made only with pre-approved counterparties. The objective of the credit policy is to preserve the capital and liquidity of the District. This is done in part by establishing procedures for granting open lines of credit and for monitoring and managing customer and counterparty credit exposures related to power marketing activities. The intent of these policies and procedures is to maintain customer and counterparty default risk at acceptable levels.

During the year ended December 31, 2008, the District received approximately $66.2 million in revenues for the sale of approximately 1.3 million MWh on the secondary market, including contractual sales to Alcoa Power. To meet these sales, the District paid approximately $27.9 million to purchase approximately 460,000 MWh of energy. The remainder of the energy needed was supplied through surplus generation provided by the District's own generating resources.

Contingent Payment Obligations

The District has entered into, and may in the future enter into, contracts and agreements in the course of its business that include an obligation on the part of the District to make payments or post collateral contingent upon the occurrence or nonoccurrence of certain future events, including events that are beyond the direct control of the District. The amount of any such contingent payments or collateral requirements may be substantial. To the extent that the District did not have sufficient funds on hand to make any such payment, it is likely that the District would seek to borrow such amounts through the issuance of additional Consolidated System Bonds or otherwise.

These contracts and agreements may include interest rate swap and other similar agreements, power purchase agreements, including those with "mark-to-market" collateral requirements, commodities futures contracts with respect to the delivery of electric energy or capacity, investment agreements, including for the future delivery of specified securities, energy price swap and similar agreements, other financial and energy hedging transactions, and other such contracts and agreements. Any such payments, or portions thereof, which are subject to characterization as operation and maintenance expenses, would be payable from revenues prior to the payment of debt service on the Consolidated System Bonds. Other such payments may be payable on a parity with debt service on the Consolidated System Bonds, including any Payment Agreement Payment to a Qualified Counterparty, as such term is defined in the Consolidated System Resolution. See "THE ROCKY REACH SYSTEM—Financial Information of the Rocky Reach System—*Interest Rate Swaps.*"

The purposes for such contracts and agreements may include management of the District's exposure to future changes in interest rates and energy prices, management of the District's load/resource balance, and other purposes. Such contingent payments or the required posting of collateral may be conditioned upon the future credit ratings of the District and/or other parties to the agreements, maintenance by the District of specified financial ratios, future changes in electric energy or related prices, and other factors. See "—Energy Resources" and "—Wholesale Power Management Activity."

Given the nature of the District's power supply and power marketing activities, however, the District does not anticipate that it would enter into power purchase or sale contracts for the foreseeable future that would expose it to substantial contingent payment or collateral requirements.

The Fiber Optics System

General

Through the Fiber Optics System, the District provides telecommunications infrastructure access to approximately 15 private retail service providers, all of which have "open access" to the network at rates reviewed and established annually by the Commission. These service providers, in turn, deliver services which may include telephone, television and high-speed Internet access to retail end users. Private retail service firms set their own end user pricing and are directly responsible for billing each end user. The District bills the service provider for the wholesale services provided by the District through the Fiber Optics System.

As of the end of 2008, the District has made fiber-optic services available to approximately 75 percent of the County (as measured by the estimated total number of premises that could be served). The District had planned to construct fiber and have service available to 95 percent of the County by 2012 (estimated to be 37,110 premises). Due to lower net wholesale electric revenue projections, the District is planning to delay the remainder of the new fiber build-out; however, the District intends to continue to in-fill those areas where the fiber infrastructure has been constructed. The estimated number of end users of the fiber network increased to 8,117 by the end of 2008. Of these end users, an estimated 89 percent use the network to access the Internet, 60 percent use it for telephone service and 45 percent for television, with certain users accessing the network for multiple services.

Regulatory Environment and Government Regulation

The Washington State Legislature passed Senate Bill 6675 in April of 2000 (codified as RCW 54.16.330), which authorized public utility districts to provide wholesale telecommunications services. RCW 54.16.340 subjects the District's telecommunications services to the limited jurisdiction of the State's Utilities and Transportation Commission ("UTC") with respect to whether the rates, terms, and conditions for wholesale telecommunications services are unduly or unreasonably discriminatory or preferential. Any such proceeding may only be initiated by petition of a third-party, and not by the UTC.

At the federal level, the Federal Communications Commission (the "FCC") regulates a number of telecommunications activities, which directly or indirectly impacts the District and the service providers using the Fiber Optics System. The District has reviewed FCC requirements with outside counsel and believes that all registration and filings required by Federal regulations have been made.

Agreements with Retail Service Providers

The District offers wholesale telecommunications facilities (dark fiber) and services to retail service providers authorized to provide telecommunications services to the general public. Service providers requesting dark fiber enter into a Telecommunications Facilities License Agreement with the District. Service providers requesting other telecommunications services offered by the District are required to enter into a Non-Exclusive Telecommunications Access and Transport Services License Agreement with the District.

Competition

Charter Communications ("Charter") is the incumbent cable company in most of the County and offers broadband internet, cable television service, and "Voice over Internet Protocol" or VoIP telephone service via coaxial cable. Charter maintains a direct retail relationship with its customers and does not allow other providers to access its network. Verizon is the incumbent telephone provider in the County and provides traditional telephone service throughout the county as well as digital subscriber lines ("DSL") in some areas of the County. Satellite television services are also available from Dish Network and DirecTV. Clearwire began offering WiMax wireless broadband and VoIP service in the Wenatchee area during 2007. The District's fiber network currently provides the service providers with faster download speeds than those available from Charter or Verizon and the service providers on the District network currently offer more high definition channels in the digital tier than are currently available from Charter. Current broadband internet and television offerings from the service providers are priced competitively with Charter while Verizon's DSL service is typically priced lower than broadband offerings from the service providers.

Historical Results

Table 9 on the following page sets forth a summary of financial results of operation of the Fiber Optics System for the past five fiscal years.

Table 9
Consolidated System
Fiber-Optics System
Summary of Operating Results
($000)

	2004	2005	2006	2007	2008
Operating revenues					
Wholesale fiber services	$ 519	$ 965	$ 1,639	$ 2,563	$ 3,088
Fiber leasing	112	99	173	378	422
Intra-district revenues	990	1,236	1,239	1,509	1,695
Total operating revenues	1,621	2,300	3,051	4,450	5,205
Operating expenses [1]					
Administrative and general	2,365	2,175	1,840	1,647	1,601
Repairs and maintenance	110	120	195	865	806
Other operating	404	889	1,448	1,466	1,582
Depreciation expense	1,375	2,144	3,125	3,385	4,072
Total operating expense	4,254	5,328	6,608	7,363	8,061
Operating loss	(2,633)	(3,028)	(3,557)	(2,913)	(2,856)
Other income/(expense)	(3,037)	(1,999)	(3,237)	(3,617)	(4,091)
Net loss before capital contributions	(5,670)	(5,027)	(6,794)	(6,530)	(6,947)
Capital contributions	-	454	-	6	309
Interfund equity transfers[2]	-	-	-	18,000	-
Changes in Net Assets	$(5,670)	$(4,573)	$(6,794)	$11,476	$(6,638)

(1) Includes NoaNet assessments.
(2) Represents the portion of the one-time payment of $89 million from Puget Sound Energy as a capacity reservation charge that was allocated to the Fiber Optics System. See "SUMMARY STATEMENT—The New Power Sales Contracts."

Technology and Related Risk

The District has elected to "light" the fiber network with what is referred to as a Passive (un-powered) Optical Network ("PON"), using "Fiber To The Premises" or FTTP equipment. A PON network can serve up to 32 homes or businesses from a single strand of fiber and up to 4,608 homes or businesses from a single node. It also uses passive components in the field installations. This structure greatly reduces the number of active (powered) nodes, the maintenance required to maintain them, and the associated costs.

Telecommunications is a rapidly evolving industry subject to a high degree of technical obsolescence. While fiber optics is the clear current technological leader in terms of data transfer rates and reliability, broadband data transfer capabilities are increasing with subsequent applications making the prior capacity insufficient. Unlike certain other technologies, the data transfer capacity of the fiber itself is nearly infinite, currently limited only by the capability of commercially available equipment lighting the fiber. District staff anticipates that the electronic equipment powering the fiber network will need to be periodically upgraded to meet the increasing bandwidth needs of the District and the community, but that the fiber itself will be capable of meeting the broadband needs for the foreseeable future.

Telecommunication is subject to significant regulatory oversight at the federal, state and local level, which may affect future results.

System Integrity

In the District's opinion, its reserve funds and insurance coverage are adequate to cover loss or damage associated with the fiber optic network. In addition, the District has designed its system to reroute traffic in the event of a cut in the fiber. Lastly, the District's core equipment, failure of which could result in a temporary loss of network function, is maintained in a secure building protected by an automatic fire extinguishing system to minimize these risks. The District maintains a daily backup copy of all critical network provisioning at an offsite location.

NoaNet

The District is a member of Northwest Open Access Network ("NoaNet"), a Washington nonprofit mutual corporation formed for the purpose of developing a regional telecommunications network for its governmental members. NoaNet's original members included 16 Washington municipal electric utilities and Energy Northwest and it has licensed fiber optic cable capacity from Bonneville and other sources to create a network for its participating utility members and rural communities in the Pacific Northwest that became commercially available in 2001. NoaNet benefits the District by providing (1) high-speed data transmission for such utility purposes as coordination of the five major Mid Columbia PUD dams, and communication services required for power marketing, and (2) regional connectivity for the District's commercial wholesale telecommunications network.

Pursuant to a Repayment Agreement, the District is obligated to make payments to NoaNet in amounts sufficient, to the extent not otherwise paid from NoaNet's net revenue, to pay debt service on NoaNet's bonds. The District has guaranteed the payment of 10.12 percent of NoaNet's original long term bonds, \$18,360,000 of which remain outstanding at the end of 2008. In addition, the District's guarantees 11.71 percent for future liabilities. As with each NoaNet member, the District is also obligated to pay up to an additional 25 percent of its percentage interest to cover any deficiency caused by any other member's failure to pay. The payment obligation of each member, including the District, under the Repayment Agreement is subordinate to the payment of (1) the operating and maintenance expenses of the member's utility system, (2) the principal and interest on any existing or future bonds or other obligations of the member's utility system, and (3) required reserves for such obligations and the bond and note covenants of the member.

In addition to their obligations under the Repayment Agreement, the members of NoaNet are also obligated under NoaNet's organizational documents, upon a vote of two thirds of the Board of NoaNet, to pay membership assessments to provide funds to NoaNet to pay its operation and maintenance expenses and other obligations.

Pacific Northwest Transmission System

The Rocky Reach System and the Rock Island System are connected into the Bonneville transmission grid at several points. Bonneville markets power from 29 federal hydro-electric and thermal projects, with an installed peak generating capacity of over 23,500 MW and a firm generating capability of over 8,500 average MW and has the largest transmission system in the Pacific Northwest.

A 115-kV line owned by the District extends north to the Lake Chelan area where it connects to the 115-kV facilities of Avista. A 115-kV line owned by the District extends to the west where it connects to the 115-kV facilities of Puget Sound Energy. A 230-kV line owned by the District extends from the Rocky Reach Project switchyard to Alcoa's Wenatchee Works Smelter to provide direct service to Alcoa Power. This line also extends to an interconnection with Grant PUD at the Bonneville Columbia switching station. A 230-kV line owned by Puget Sound Energy has a direct connection to the Rocky Reach Project switchyard and extends west where it is connected into Puget Sound Energy's system in its service area. The District also is interconnected at the Rocky Reach Project switchyard with Douglas PUD by a 230-kV line owned by Douglas PUD. The District's interconnections with Bonneville transmission are:

(1) one 345-kV Bonneville line connected to the Rocky Reach project switchyard;

(2) one 230-kV Bonneville line connected to the Rocky Reach project switchyard;

(3) one 230-kV District-owned line connected to multiple Bonneville transmission lines at the Bonneville Columbia switching station; and

(4) two 115-kV District lines connected to the Bonneville transmission system at the Bonneville Valhalla substation.

Bonneville's transmission facilities interconnect with the British Columbia Hydro and Power Authority in the Canadian province of British Columbia and with utilities in the Pacific Southwest of Canada. Bonneville's transmission system includes 360 substations, approximately 15,000 circuit miles of high voltage transmission lines and other related facilities. This transmission system provides about 75 percent of the Pacific

Northwest's high-voltage bulk transmission capacity and serves as the main power grid for the Pacific Northwest. In addition to federal power, the major portion of the power produced from several nonfederal projects, including those of the District, is transmitted over Bonneville's transmission facilities to various investor-owned and publicly-owned utilities in the Pacific Northwest. Bonneville routinely provides both long- and short-term transmission access to Pacific Northwest utilities for the purpose of wheeling power within the Pacific Northwest.

The Pacific Northwest-Pacific Southwest Intertie (the "Intertie"), which consists of a combination of AC and DC power-lines, provides the primary bulk transmission link between the Pacific Northwest and the Pacific Southwest of the United States. Bonneville owns approximately 80 percent of the portions of the Intertie located north of California and Nevada. The Intertie consists of three high-voltage AC transmission lines with a combined capacity of about 4,800 MW and one high-voltage DC transmission line with a capacity of about 3,100 MW. Bonneville has developed a long-term Intertie access policy and conditions under which it allows nonfederal use of its portion of the Intertie.

Energy Northwest

Energy Northwest is a municipal corporation and joint operating agency in the State of Washington. The membership of Energy Northwest consists of Washington public utility districts and cities. The District withdrew as a member of Energy Northwest in 1995 and subsequently rejoined as a member in 2003. The District is a purchaser of power from the Nine Canyon Wind Project, which is owned and operated by Energy Northwest. See "—Energy Resources—*Nine Canyon*" under this heading.

Energy Northwest also owns and operates a nuclear electric generating project, Project No. 2 ("Project No. 2" or the "Columbia Generation Station"), with a net design electrical rating of 1,153 MW, which was placed in commercial operation in 1984. Energy Northwest also owns all or a portion of four other nuclear electric generating projects: Project No. 1 ("Project No. 1") and Project No. 3 ("Project No. 3"), which were terminated by Energy Northwest in 1994; and Projects Nos. 4 and 5 ("Projects Nos. 4 and 5"), which also were terminated in 1982. Project Nos. 1, 2 and 3 are collectively referred to as the "Net Billed Projects." Each of the foregoing projects (collectively, the "Energy Northwest Projects") is financed and accounted for as a separate utility system, except for Projects Nos. 4 and 5, which were financed and accounted for as a single utility system separate and apart from all other Energy Northwest Projects. As of June 30, 2008, Energy Northwest had outstanding approximately \$6.19 billion aggregate principal amount of bonds issued for the Net Billed Projects. Energy Northwest (then known as the Washington Public Power Supply System) defaulted in 1983 on the approximately \$2.25 billion principal amount of bonds it issued in connection with Projects Nos. 4 and 5.

Bonneville acquired the capability of the Net Billed Projects pursuant to net billing agreements (the "Net Billing Agreements") and, in the case of Project No. 1, exchange agreements with five investor-owned utilities. Bonneville was not a party to any of the agreements entered into in connection with the construction or financing of Projects Nos. 4 and 5. Under the Net Billing Agreements, the District purchased from Energy Northwest and, in turn, assigned to Bonneville the District's 0.501 percent and 0.433 percent share of the capability of Project No. 1 and Energy Northwest's ownership share of Project No. 3, respectively. The District is not a participant in Project No. 2.

Under the Net Billing Agreements, Bonneville is responsible for the District's percentage share of the total annual cost of Projects Nos. 1 and 3, including debt service on revenue bonds issued to finance the cost of construction of such Net Billed Projects, whether or not such Net Billing Projects are completed, operable or operating and notwithstanding the suspension, reduction or curtailment of Net Billing Project output. As of June 30, 2008, revenue bonds outstanding for Projects Nos. 1 and 3 totaled approximately \$1.92 billion and \$1.91 billion, respectively. Notwithstanding the assignment of the District's share of the capability of each Net Billed Project to Bonneville, the District remains unconditionally obligated to pay to Energy Northwest its share of the total annual cost of each Net Billed Project to the extent payments or credits relating to such annual cost are not received by Energy Northwest from Bonneville.

Under the Net Billing Agreements, payment by Bonneville to Energy Northwest of the District's percentage share of the total annual cost of each Net Billed Project is made by a crediting arrangement whereby Bonneville credits, against amounts which the District owes Bonneville for the purchase of electric power and energy, operation and maintenance of facilities, use of transmission facilities and emerging and standby power, the District's share of the total annual cost of each Net Billed Project. To the extent the District's share of such annual cost exceeds amounts owed by the District to Bonneville, Bonneville is obligated, after certain assignment procedures, to pay the amount of such excess directly to the District or to Energy Northwest from funds legally available therefor. The District is obligated under its Net Billing Agreements to pay Energy Northwest (as a purchased power cost of the Distribution Division) the amounts credited or paid to the District by Bonneville.

ADDITIONAL FINANCIAL INFORMATION OF THE DISTRICT

General

As the District's share of output of the Rock Island System has increased from 25 percent in 2004 to the maximum level of 50 percent in 2006, revenues from the District's sales of the surplus portion of its share of the energy produced by the District's three Hydro-Electric Projects (Rock Island, Rocky Reach and Lake Chelan) on the wholesale market have generated substantial revenues for the Consolidated System, providing 54 percent of annual Distribution Division revenues in 2007 and 46 percent of annual Distribution Division revenues in 2008. These surplus revenues have allowed the District to keep rates to Distribution Division customers among the lowest in the nation. Historically, given the traditional reliance of the Pacific Northwest on hydro-generated energy, there has been an inverse relationship between the level of water flows on the Columbia River and wholesale power prices. That is, when flows were comparatively high and hydro-generated energy comparatively plentiful, prices declined. When flows and therefore hydro-generated energy supply were comparatively low, wholesale prices increased. The net result has been that the District's revenues from sales of surplus energy on the wholesale market have remained relatively constant. However, there has been a significant increase in the volatility of the volume of water and its monthly shape that is available to use for generation as well as the price at the Mid-Columbia trading hub. Increasingly, market prices have shown a correlation with natural gas prices, which may or may not follow water volume. Given the changes in the electric utility industry and power markets generally, and the fact that hydro-generated energy is becoming a smaller portion of the over-all power supply in the Pacific Northwest, there is no assurance that the historical relationship between hydro-generated power supply and power prices will continue. The District, as part of its ongoing strategic financial planning, expects to offset any material reduction in revenues from surplus power sales in any given year by maintaining its current strong cash reserve position, by retaining future periodic increases in revenues from surplus energy sales as an additional component of its cash reserves and, if necessary, by rate adjustments or surcharges. See "THE CONSOLIDATED SYSTEM AND OTHER PROPERTIES AND FACILITIES OF THE DISTRICT—Electric Rates."

Table 10 on the following page presents the actual statement of revenues and expenses of the Distribution Division for the years 2004 through 2008. The Distribution Division is part of the Consolidated System, but is accounted for separately. Appendix A of this Official Statement contains the audited financial statements and accompanying notes of the District for the year ended December 31, 2008. Appendix B of this Official Statement contains the unaudited financial data of the District for the three months ended March 31, 2009. The District's financial statements have been prepared in conformity with generally accepted accounting principles applicable to governmental entities applied on a consistent basis.

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Table 10
Consolidated System
Distribution Division (1)
Statement of Revenues and Expenses
($000)

	2004	2005	2006	2007	2008
Operating Revenues					
Retail	$ 38,734	$ 40,135	$ 42,113	$ 43,069	$ 46,317
Resale (2)	115,385	97,679	93,833	103,708	94,000
Other	2,542	1,837	2,108	1,255	2,619
Total	156,661	139,651	138,054	148,032	142,936
Operating Expenses (2)	149,331	126,511	121,407	126,582	143,040
Net Operating Revenues	7,330	13,140	16,647	21,450	(104)
Other (Expense) Income	2,459	2,975	6,095	10,746	11,000
Net Revenues (3)	$ 9,789	$ 16,115	$ 22,742	$ 32,196	$ 10,896

(1) Excludes Fiber Optics System.
(2) Includes contractual purchases and nonfirm purchases for resale.
(3) Prior to changes in accounting principles, capital contributions and interfund equity transfers.

Management's Discussion of Distribution Division Financial Results

General

New Power Sales Contracts. In February 2006 and July 2008, the District executed the New PSE Contract and the New Alcoa Contract, respectively. Deliveries under the New Power Sales Contracts will commence upon the expiration of the existing power sales contracts for the Rocky Reach Project and the Rock Island Project on November 1, 2011 and July 1, 2012, respectively. For descriptions of the New PSE Contract and the New Alcoa Contract, see "THE ROCKY REACH SYSTEM—The New Power Sales Contracts," APPENDIX F—"Summary of New Power Sales Contract With Puget Sound Energy, Inc." and APPENDIX G—"Summary of New Power Sales Contract With Alcoa, Inc."

New Consolidated System Resolution. On March 12, 2007, the Commission adopted the Consolidated System Resolution. The Consolidated System Resolution was drafted in contemplation of new power sales contracts with respect to the output from the Rock Island and Rocky Reach Projects, including the New PSE Contract and the New Alcoa Contract. The Consolidated System Resolution has been revised from the form of the Senior Consolidated System Resolution with the primary intent of improving the covenants and provisions for the benefit of owners of the Consolidated System Bonds. The changes include the addition of flow-of-funds provisions, modification of the rate covenant and additional bonds test, the addition of a Rate Stabilization Fund, restrictions on the ability of the District to enter into take-or-pay power purchase agreements on a basis which is superior to the lien of the Consolidated System Bonds, and the addition of a third-party bond trustee.

Relicensing of Lake Chelan and Rocky Reach Projects. The District received new licenses for the Lake Chelan Project and the Rocky Reach Project in November 2006 and February 2009, respectively, and is implementing the measures required by the new licenses. The District estimates licensing-related costs over 43 years for the Rocky Reach Project to be $424 million. For the Lake Chelan Project, the estimated licensing-related costs are $72 million over 50 years. Licensing-related costs are risk adjusted estimates in 2008 dollars, using a seven percent discount rate over the term of the applicable license and may vary significantly. For a more detailed description of the relicensing activities of the District, see "THE ROCKY REACH SYSTEM – Federal Energy Regulatory Commission License Status; Relicensing." "THE CONSOLIDATED SYSTEM AND OTHER PROPERTIES AND FACILITIES OF THE DISTRICT—Federal Energy Regulatory Commission License Status; Relicensing."

Strategic Planning. In June 2007, the District concluded a series of strategic planning sessions with the Commission, customer-owners and employees. This series of public meetings was designed to discuss important challenges the District is facing today and will be facing in the future. The objectives of these meetings were to review the current business model, project how the current business model is expected to function in the future and provide the Commission with a series of tactical operating plans to address future challenges. After 10 months of deliberations and analysis, the Commission adopted a set of governing policies and guiding principles that allow management to execute the agreed upon operating plan. See "THE CONSOLIDATED SYSTEM AND OTHER PROPERTIES AND FACILITIES OF THE DISTRICT—Electric Rates."

Distribution Division Recent Results

General. For the year ended December 31, 2008, the Distribution Division achieved net revenues of $10.9 million compared to $32.2 million for the same period in 2007, a decrease of $21.3 million, or 66 percent. This decrease was due primarily to lower wholesale power sales resulting from decreased generation at the District's Hydro Electric Projects as a result of lower-than-average river flows.

Operating Revenues. For the year ended December 31, 2008, Distribution Division operating revenues decreased 3.4 percent compared to the same period in 2007. The decrease is due primarily to lower wholesale power sales resulting from decreased generation at the District's Hydro-Electric Projects, partially offset by increased retail revenue resulting from normal customer growth and a five percent rate increase. Generation at the District's Hydro-Electric Projects is down as a result of lower than average river flows. In 2007, operating revenues increased seven percent from 2006. The 2007 increase was primarily due to an increase in nonfirm sales for resale. Operating revenues in 2006 decreased slightly (one percent) from 2005. During 2005 operating revenues decreased by 11 percent from 2004. The 2005 decrease was primarily due to a decrease in wholesale power sales.

Operating Expenses. For the year ended December 31, 2008, Distribution Division operating expenses increased 13 percent compared to the same period in 2007. Operating expenses are higher due primarily to increased purchased power costs resulting from reduced generation and delayed runoff at the District's Hydro-Electric Projects discussed above. In 2007, operating expenses increased four percent from 2006. The increase in 2007 was primarily the result of increased purchased power costs. Operating expenses in 2006 decreased four percent from 2005. The 2006 decrease is primarily the result of a decrease in purchased power costs. Operating expenses in 2005 decreased by 15 percent from 2004.

Balance Available for Distribution Division Debt Service. The funds available from the Distribution Division's operations decreased $24.4 million during 2008, due to lower operating results. The funds available from the Distribution Division's operations increased $9.2 million in 2007 from 2006 as the result of increased nonfirm sales for resale. Funds available in 2006 increased by $6.1 million from 2005 as the result of decreased purchased power costs. Funds available in 2005 increased by $8.1 million in 2005 from 2004 as result of decreased purchase power costs.

Table 11 on the following page presents the actual power cost and power delivered for the Rock Island System and the Lake Chelan Project for the years 2004 though 2008. For the actual power cost and power delivered for the Rocky Reach System, see Table 1 under "THE ROCKY REACH SYSTEM—Financial Information of the Rocky Reach System—*Rocky Reach System Recent Results*."

Table 11
Lake Chelan and Rock Island Projects
Power Cost and Net Power Delivered
($ in 000)
As of December 31, 2008

	2004	2005	2006	2007	2008
Rock Island System (6)					
Operating Expenses (1)	$ 34,296	$ 33,285	$ 36,074	$ 35,430	$ 38,715
Debt Service: (2)					
Hydro Issues	22,636	22,594	22,581	22,577	22,594
Consolidated System Loans	12,442	12,401	12,965	12,435	16,335
Other Revenues(3)	(3,498)	(3,451)	(4,055)	(3,198)	(3,026)
Total Power Cost(4)	$ 65,876	$ 64,829	$ 67,565	$ 67,244	$ 74,618
Net Power Delivered (000 MWh) (7)	2,586	2,686	2,854	2,796	2,721
Cost in $/MWh	$ 25	$ 24	$ 24	$ 24	$ 27
Plant Factor (5)	47%	49%	52%	51%	50%
Availability Factor	96%	98%	98%	93%	94%
Lake Chelan Project (8)					
Operating Expenses (1)	$ 4,136	$ 3,422	$ 3,378	$ 3,498	$ 3,426
Debt Service: (2)					
Hydro Issues	-	-	-	-	-
Consolidated System Loans	2,108	2,501	1,892	2,336	3,816
Other Revenues(3)	(382)	(468)	(298)	(663)	(1,090)
Total Power Cost(4)	$ 5,862	$ 5,455	$ 4,972	$ 5,171	$ 6,152
Net Power Delivered (000 MWh)	448	359	454	459	405
Cost in $/MWh	$ 13	$ 15	$ 11	$ 11	$ 15
Plant Factor (5)	107%	85%	108%	109%	96%
Availability Factor	95%	94%	100%	99%	100%
Combined Hydro Cost in $/MWh(9)	$ 17	$ 16	$ 16	$ 15	$ 18

(1) Does not include depreciation expense.
(2) Based on accrual debt schedules.
(3) Primarily interest income that reduces power costs.
(4) Non-GAAP, may not be comparable with similarly titled other District metrics.
(5) Net power delivered as a percentage of rated capacity for the year.
(6) Years 2004 and 2005 had been previously revised to include coordination exchange and pond transfers.
(7) After minor sales to operators' cottages and adjustments for encroachment and Canadian Treaty deliveries.
(8) Years 2004 and 2005 had been previously adjusted to reflect an understatement of net power delivered.
(9) Includes Total Power Cost and Net Power Delivered for the Rocky Reach System, the Rock Island System and the Lake Chelan Project.

Debt Service Coverage

"Bond Coverage Ratio" is defined in the Consolidated System Resolution to mean for any Fiscal Year the ratio of (a) Adjusted Net Revenues in such Fiscal Year (plus Available Funds, to the extent provided herein), to (b) Annual Debt Service on the Outstanding Bonds and Senior Consolidated System Bonds in such Fiscal Year.

The District has deposited into an irrevocable escrow account $10,598,537 to make debt service payments in 2009 and 2010 on certain of its outstanding Senior Consolidated System Bonds. By escrowing such funds, the District was able to avoid having to impose an additional rate increase in 2009, despite the District's very strong liquidity position, in order to comply with its rate covenant with respect to the Senior Consolidated System Bonds.

Table 12 on the following page reflects the District's Consolidated System Operating Results and debt service coverage as if the Bond Coverage Ratio requirement under the Consolidated System Resolution had been in effect for the fiscal years 2004 through 2008.

Table 12
Consolidated System
Operating Results and Debt Service Coverage
($000)

	2004[1]	2005[1]	2006[1]	2007[1]	2008
Operating Revenues [2]					
Retail [3]	$ 42,747	$ 43,973	$ 46,025	$ 47,146	$ 50,671
Resale	121,233	103,128	98,805	108,878	100,152
Other	15,956	17,135	19,950	22,565	25,367
Total	179,936	164,236	164,780	178,589	176,190
Less: Operating Expenses					
Purchased power and water	(117,022)	(93,123)	(84,278)	(89,941)	(104,720)
Other operation & maintenance	(38,369)	(40,883)	(45,917)	(45,331)	(48,154)
Taxes	(3,987)	(3,885)	(4,099)	(4,260)	(4,497)
Depreciation & amortization	(13,134)	(14,884)	(17,372)	(17,714)	(17,685)
Operating Income	7,424	11,461	13,114	21,343	1,134
Adjustments [4]					
Add back depreciation & amortization	13,134	14,884	17,372	17,714	17,658
Add investment income	4,100	7,087	14,107	17,915	14,659
Add principal and interest payments from Rocky Reach & Rock Island	43,957	43,495	44,526	44,734	48,870
Less investment earning from Rocky Reach & Rock Island	(1,807)	(2,824)	(3,498)	(4,120)	(3,438)
Total Adjustments	59,384	62,642	72,507	76,243	77,776
Net Revenues [5]	66,808	74,103	85,621	97,586	78,910
Plus withdrawals (deposits) to Rate Stabilization Fund	-	-	-	-	-
Adjusted Net Revenues	66,808	74,103	85,621	97,586	78,910
Available Funds [6]	76,513	88,629	190,430	128,467	172,832
Annual Debt Service					
Senior Consolidated System Bonds	44,920	48,428	47,785	45,836	39,451
Bonds	-	-	-	915	7,893
Total Debt Service	$ 44,920	$ 48,428	$ 47,785	$ 46,751	$ 47,344
Debt Service Coverage					
With available funds (required 1.25x)	3.2	3.4	5.8	4.8	5.3
Without available funds (required 1.00x)	1.5	1.5	1.8	2.1	1.7

(1) Years 2004 through 2007 are in some cases revised to reflect clarification to the definitions under the Consolidated System Resolution adopted on March 12, 2007.
(2) Includes revenues of the District's Distribution Division, Internal Service Fund, and Lake Chelan, Fiber Optics, Water and Wastewater Systems, all of which are part of the Consolidated System.
(3) Includes retail sales from the District's Distribution Division, Water and Wastewater Systems.
(4) As determined pursuant to the definition of Revenues in the Consolidated System Resolution.
(5) As defined in the Consolidated System Resolution; not comparable with other similarly titled District metrics.
(6) As defined in the Consolidated System Resolution. Includes all unencumbered funds of the District that the District reasonably expected to be available to pay debt service on the Senior Consolidated System Bonds and the Consolidated System Bonds. The definition has been revised in the Consolidated System Resolution to be more restrictive.

District Near-Term Financial Outlook

Power from the Rock Island System and the Rocky Reach System not needed for the District's own retail load currently is sold (i) on a cost-of-service basis pursuant to existing long-term contracts to a number of investor-owned utilities and a large industrial purchaser and (ii) as surplus power in the wholesale market. The sales of surplus power generate substantial revenues for the District's Consolidated System, providing 54 percent of annual Distribution Division revenues in 2007 and 46 percent of annual Distribution Division revenues in 2008. Over the period from 2009 through 2012, revenues from the sale of surplus power (net of periodic purchases by the Consolidated System) currently are estimated to constitute between 35 percent and 70 percent of Distribution Division revenues. Actual results will depend upon a variety of factors, including energy prices in the wholesale markets, precipitation and snowpack in the Columbia River watershed, regional weather conditions and the price of natural gas to other generating facilities in the region.

In 2009, an unusual combination of low wholesale energy prices, below average snowpack and a declining interest rate environment has resulted in a significant decline in revenues to the District from sales of surplus power and interest income earned on investments. For fiscal year 2009, given current snowpack and wholesale electricity prices, the District is projecting surplus power sales revenues of roughly $29 million, or $22 million below budget. In response to these developments, the District has implemented contingency plans developed last Fall during the budgeting process. These measures include an initial reduction of $27.4 million in planned expenditures in 2009 and 2010, which consists of the deferral of some capital projects and the reduction of planned operation and maintenance expenses by $8.6 million, including reductions in labor costs. See "THE DISTRICT—Employees." In addition, on April 27, 2009, the District implemented a temporary 9 percent electric rate surcharge, the mechanisms for which were established more than a year ago. The surcharge went into effect on May 1, 2009, and will remain in place for up to 12 months. See "THE CONSOLIDATED SYSTEM AND OTHER PROPERTIES AND FACILITIES OF THE DISTRICT—Electric Rates."

Based on current market conditions, the District anticipates declines in various Consolidated System financial metrics over the next three years, including reduced revenues from surplus power sales, primarily as a result of anticipated decreases in wholesale energy prices, lower investment returns and upward pressure on costs. The District's current financial model anticipates annual net wholesale revenues ranging from $25.4 million to $89.7 million during 2009 to 2011 and annual changes in net assets ranging from a decrease of $36.3 million to an increase of $19.3 million during the same period.

If the conditions adversely affecting the District's revenues (including below-average river flows, depressed wholesale energy prices and/or reduced interest income on investments) persist or return in fiscal years 2010 through 2011, the District may extend, increase and/or re-impose an electric rate surcharge or take other rate action to maintain the health of the District's finances. Conversely, if the current adverse conditions improve, the surcharge may be reduced, suspended or terminated.

The District currently anticipates significantly improved wholesale power sales revenues beginning in 2012 after the existing Power Sales Contracts have expired and the New PSE Contract and the New Alcoa Contract have gone into effect. See "THE ROCKY REACH SYSTEM—New Power Sales Contract" and APPENDIX F—"Summary of New Power Sales Contract with Puget Sound Energy, Inc." and APPENDIX G—"Summary of New Power Sales Contract with Alcoa, Inc." The power from the Rock Island and Rocky Reach Systems not needed for the District's own retail load delivered under the New PSE Contract and the New Alcoa Contract will be sold on a cost-of-service "plus" basis to Puget Sound Energy and Alcoa, and the balance of the power from the Rock Island System and the Rocky Reach System not needed for the District's own retail load may be sold as surplus power in the wholesale market. Upon the expiration of the existing Power Sales Contracts, a larger portion of the energy generated by the Rock Island System and the Rocky Reach System will be available to the District for sale as surplus power in the wholesale market. The District's current financial model estimates net revenues from sales of surplus power in 2012 of approximately between $61.8 million and $190.9 million, resulting in a range in change of net assets from a decrease of $25.1 million to an increase of $104.0 million in 2012. The District currently estimates similar results in the fiscal years thereafter.

Outstanding Debt

Table 13 on the following page presents the District's Consolidated System, Rock Island System and Rocky Reach System outstanding long-term debt as of December 31, 2008.

Table 13 does not include $21,855,000 of the District's Consolidated System Revenue Bonds, Refunding Series 2009A (the "2009A Consolidated System Bonds") and $8,500,000 of the District's Consolidated System Revenue Bonds, Refunding Series 2009B (the "2009B Consolidated System Bonds" and together with the 2009A Consolidated System Bonds, the "2009A/B Consolidated System Bonds") that the District issued in July 2009, and does not include $20,630,000 of the District's Consolidated System Subordinate Revenue Notes, Series 2009A (the "2009A Subordinate Notes") and $8,340,000 of the District's Consolidated System Subordinate Revenue Notes, Series 2009B (the "2009B Subordinate Notes" and together with the 2009A Subordinate Notes, the "2009A/B Subordinate Notes") that the District issued in July 2009. The District applied the proceeds of the 2009A/B Consolidated System Bonds to refund certain of its outstanding Senior Consolidated System Bonds, and Table 13 does not reflect the redemption and defeasance of the refunded Senior Consolidated System Bonds. The District applied the proceeds of the 2009A/B Subordinate Notes to purchase and place in trust the 2009A/B Consolidated System Bonds, which are not considered outstanding for financial reporting purposes while held in trust.

Table 13 also does not include $33,560,000 of the District's Consolidated System Revenue Bonds, Series 2009C and Series 2009D and $14,000,000 of the District's Rock Island Hydro-Electric System Revenue Bonds, Series 2009A expected to be issued concurrently with the 2009A Bonds.

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Table 13

Consolidated System and Hydro-Electric Systems Outstanding Long-Term Debt
December 31, 2008
($000)

Date of Bonds	Final Maturity Date [(1)]	Series of	Original Principal Amount	Scheduled Retirement [(2)]	Actual Retirement [(3)]	Amount Outstanding	Accumulated for Retirement [(4)]
SENIOR CONSOLIDATED SYSTEM							
9/1/1998	7/1/2033	1998A	$ 28,050	$ -	$ -	$ 28,050	$ 1,473
9/1/1998	7/1/2033	1998B	6,500	-	-	6,500	325
9/1/1998	7/1/2018	1998C	1,230	760	760	470	53
11/1/1999	7/1/2034	1999A	21,855	-	-	21,855	1,355
11/1/1999	7/1/2034	1999B	8,500	-	-	8,500	527
3/1/2001	1/1/2036	2001A	65,620	-	-	65,620	3,675
3/1/2001	1/1/2036	2001B	78,375	-	-	78,375	4,298
5/1/2001	7/1/2032	2001C	28,655	-	-	28,655	644
5/1/2001	6/1/2015	2001D	15,755	6,235	6,235	9,520	694
12/12/2002	7/1/2037	2002A	44,905	-	-	44,905	2,447
12/12/2002	7/1/2037	2002B	35,000	-	-	35,000	1,837
12/12/2002	7/1/2033	2002C	30,000	2,935	2,935	27,065	1,436
4/2/2003	7/1/2032	2003A	29,440	-	-	29,440	620
4/29/2004	1/1/2039	2004A	5,510	-	-	5,510	-
4/29/2004	7/1/2027	2004B	42,510	10,930	10,930	31,580	-
4/29/2004	7/1/2024	2004C	15,000	-	-	15,000	-
4/29/2004	7/1/2020	2004E	20,120	-	-	20,120	-
4/5/2005	1/1/2039	2005A	25,430	-	-	25,430	-
4/5/2005	7/1/2012	2005B	8,590	3,930	3,930	4,660	-
Total Senior Consolidated System			$ 511,045	$ 24,790	$ 24,790	$ 486,255	$ 19,384
CONSOLIDATED SYSTEM							
5/31/2007	7/1/2042	2007B	$ 8,370	$ -	$ -	$ 8,370	$ 418
5/31/2007	7/1/2037	2007C	25,590	340	340	25,250	1,239
2/28/2008	7/1/2024	2008A	47,075	295	295	46,780	2,432
3/7/2008	7/1/2032	2008B	92,880	-	-	92,880	3,491
Total Consolidated System			$ 173,915	$ 635	$ 635	$ 173,280	$ 7,580
SUBORDINATE CONSOLIDATED SYSTEM							
11/13/2008	7/1/2013	2008A Note[(5)]	$ 53,695	$ -	$ -	$ 53,695	$ -
Total Subordinate Consolidated System			$ 53,695	$	$	$ 53,695	$ -
PRIOR ROCK ISLAND BONDS							
3/17/1997	6/1/2029	1997A[(6)]	$ 135,944	$ -	$ -	$ 268,510	$ 28,966
3/1/1997	6/1/2009	1997B	151,275	149,270	149,270	2,005	1,170
Total Prior Rock Island Bonds			$ 287,219	$ 149,270	$ 149,270	$ 270,515	$ 30,136
ROCK ISLAND SYSTEM							
12/4/2008	12/1/2011	2008A	$ 8,290	-	-	$ 8,290	$ 308
Total Rock Island System			$ 8,290	-	-	$ 8,290	$ 308
ROCKY REACH SYSTEM							
12/4/2008	7/1/2014	2008A	$ 7,415	$ -	$ -	$ 7,415	$ 268
Total Rocky Reach System			$ 7,415	$ -	$ -	$ 7,415	$ 268
Grand Total			$ 1,041,579	$ 174,695	$ 174,695	$ 999,450	$ 57,676

(1) Portions of the Senior Consolidated System Bonds of some series are subject to mandatory tender for purchase at various intervals upon the expiration of their respective current Fixed-Term Interest Rate Periods, which vary from less than four years to more than 20 years. The District currently intends to remarket most of such Senior Consolidated System Bonds in new Interest Rate Periods at that time. The aggregate principal amount of Senior Consolidated System Bonds subject to such mandatory tender in any year currently ranges from approximately $6 million up to $25 million.

(2) Amount of serial bonds matured as of December 31, 2008 plus scheduled minimum redemption of term bonds to have been retired from mandatory sinking funds.

(3) Amount of serial bonds matured as of December 31, 2008 plus actual retirement of term bonds retired from mandatory sinking funds, reserve accounts and optional purchases.

(4) 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.

(5) The 2008A Subordinate Notes mature in whole on July 1, 2013 with semi-annual interest payments, and are not subject to redemption prior to maturity.

(6) Represents Capital Appreciation Bonds on which interest is compounded. Thus, the accreted value reported as Amount Outstanding may exceed Original Principal Amount less Actual Retirements.

The District may issue additional Consolidated System Bonds for the purpose of lending the proceeds thereof to its Hydro-Electric Systems, including the Rocky Reach System. To do so, the District is required to have signed agreements with its respective Power Purchasers that will provide that principal of and interest on the Consolidated System Bonds are paid when the same shall come due. Such agreements are to be secured prior to loaning any related Consolidated System Bond proceeds to the Hydro-Electric Systems.

The financing agreements with respect to Hydro-Electric System loans must include a 15 percent cover component with respect to the interest coming due on such loans in any fiscal year. The initial 15 percent cover component payment is retained by the District and carried forward from year to year on a "rolling" basis, rather than being paid in every year. The cover component is to remain in the Consolidated System as long as the related Consolidated System bonds are outstanding. In addition, the loan payments must include a "replacement payment" calculated to equal the amounts that would be required to amortize the total principal amount of such loans over the estimated weighted average useful life of the repairs, replacements, additions and improvements financed from the proceeds of the loan. See "SECURITY FOR THE 2009A BONDS—Loan Resolutions and Financing Agreements" and APPENDIX D—"Summary of Certain Provisions of the Loan Resolutions and Financing Agreements."

Intersystem Loans

General

Proceeds of the Senior Consolidated System Bonds, the Consolidated System Bonds and the Subordinate Consolidated System Obligations have been applied to finance and refinance the cost of capital improvements to the Consolidated System, which includes the Distribution Division, as well as the Lake Chelan Project, the Water System, the Wastewater System and the Fiber Optics System. The District established the Internal Service Fund to account for and allocate the cost of facilities and services which are used jointly by separate systems and divisions of the District. The Distribution Division, the Lake Chelan Project, the Water System, the Wastewater System and the Fiber Optics System are all separately accounted for. Proceeds of the Senior Consolidated System Bonds, the Consolidated System Bonds and the Subordinate Consolidated System Obligations therefore have been advanced by the Consolidated System to such separate funds through interfund loans. However, as all of these interfund loans are within the Consolidated System, they have no effect on the revenues of the Consolidated System and are for internal accounting purposes only.

In addition, proceeds of the Senior Consolidated System Bonds and the Consolidated System Bonds have been loaned to the separate the Rock Island System and the Rocky Reach System. These intersystem loans from the Consolidated System to the respective Hydro-Electric Systems are made pursuant to resolutions of the District, which resolutions establish the terms of payment for the loans. See "SECURITY FOR THE 2009A BONDS—Loan Resolutions and Financing Agreements" and APPENDIX D—"Summary of Certain Provisions of the Loan Resolutions and Financing Agreements."

Table 14 on the following page presents a summary of the outstanding intersystem loans to the Rocky Reach and Rock Island Systems and the interfund loans to funds and components of the Consolidated System as of December 31, 2008.

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Table 14
Consolidated System
Loans
as of December 31, 2008
($000)

	Allocated Principal Amount of Bonds Outstanding (1)	Adjustments to Loans Outstanding (2)	Net Loans Outstanding
Rocky Reach System	$ 301,731	$ (10,635)	$ 291,096
Rock Island System	196,996	(22,027)	174,969
Consolidated System(3)	214,503	(18,085)	196,418
Total	$ 713,230	$ (50,747)	$ 662,483

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

Each loan to the Rock Island System or Rocky Reach System is repaid through periodic payments made from such Systems to the Consolidated System. These loan payments consist of an interest component and a principal component. If the loan is made from bond proceeds, the interest component of each loan payment is an amount sufficient to pay actual interest coming due on the corresponding portion of the related Senior Consolidated System Bonds or Consolidated System Bonds from the proceeds of which such loan was made. The timing and amount of the principal component of each such loan payment, however, do not coincide with the principal coming due from time to time on the related series of Senior Consolidated System Bonds or Consolidated System Bonds. This is because the principal payments on each loan are made assuming level debt service (amortized over the life of the assets being financed) on the related series of Senior Consolidated System Bonds or Consolidated System Bonds. Actual debt service on such bonds, however, can and does vary significantly from that assumption. The principal component of each loan payment is deposited into a special fund of the District with respect to the respective Hydro-Electric System to which such loan was made. These amounts are available to be re-loaned to such Hydro-Electric System to finance such System's capital programs. Such subsequent re-loans are made on an interest-free basis, as payments on the original loans are sufficient to pay interest on that portion of the related Senior Consolidated System Bonds or Consolidated System Bonds corresponding to such original loans and subsequent re-loans. See APPENDIX D—"Summary of Certain Provisions of the Loan Resolutions and Financing Agreements" for a description of the loan resolutions.

The obligations of the Rock Island System and the Rocky Reach System to make loan payments to the Consolidated System are subordinate to the obligation of such Systems to pay operation and maintenance expenses and debt service on revenue bonds issued by such Systems. The loan payments made by the Hydro-Electric Systems to the Consolidated System are part of the total costs of those Systems payable by the respective power purchasers of the Hydro-Electric Systems, including the District's Distribution Division. The payments made by the Consolidated System's Distribution Division to the respective Hydro-Electric Systems for such power constitute a purchased power cost, and thus an operating expense, of the Distribution Division. As such, under the Consolidated System Resolution and the Subordinate Consolidated System Resolution, these purchased power costs are payable prior to debt service on the Senior Consolidated System Bonds, the Consolidated System Bonds and the Subordinate Consolidated System Obligations.

Payments by Power Purchasers with Respect to the Intersystem Loan of Senior Consolidated System Bond and Consolidated System Bond Proceeds

With respect to the proceeds of the Senior Consolidated System Bonds and Consolidated System Bonds loaned to the Rock Island System and the Rocky Reach System, the respective Power Purchasers have agreed to make payments to the District for the credit of the respective Hydro-Electric Systems sufficient to repay their allocable portion of the loans of the Senior Consolidated System Bonds and Consolidated System Bond proceeds, all as part of the cost of the power purchased by such Power Purchasers. Each Power Purchaser's payments are in proportion to such Power Purchaser's allocated portion of the output from the respective Hydro-Electric System. Such payments by the Power Purchasers are to be made through financing agreements by and between the District and such Power Purchasers whereby the Power Purchasers expressly agree that the loan payments required to be made by each Hydro-Electric System to the Consolidated System, as appropriate, constitute a "cost" of each such System. See APPENDIX D—"Summary of Certain Provisions of the Loan Resolutions and Financing Agreements" for a description of such agreements.

Other Intersystem Obligations

The District currently has a number of other intersystem obligations, accounts receivable, accounts payable and rental arrangements in place. The Rock Island System, Rocky Reach System and Consolidated System (including its Internal Service Fund) pay for the use of equipment and facilities of the other Systems.

Annual Debt Service

Table 15 on the following page shows aggregate annual debt service on all outstanding Senior Consolidated System Bonds, Consolidated System Bonds and Subordinate Consolidated System Obligations as of December 31, 2008. The table also shows the aggregate annual loan payments from the Rock Island System and the Rocky Reach System to the Consolidated System with respect to currently outstanding intersystem loans to those Hydro-Electric Systems from the Consolidated System. See "—Intersystem Loans." For a description of aggregate annual loan payments from the Rocky Reach System to the Consolidated System with respect to currently outstanding intersystem loans to the Rocky Reach System from the Consolidated System, see Table 4 in "THE ROCKY REACH SYSTEM—Financial Information of the Rocky Reach System—*Annual Debt Service*." The total amount of such loan payments through 2042 is equal to 76 percent of aggregate annual debt service on the Senior Consolidated System Bonds, the Consolidated System Bonds and the Subordinate Consolidated System Obligations over the same period. The loan payments to the Consolidated System will be made by the respective Hydro-Electric Systems from payments received from the respective purchasers of power from those Systems, including the District's Distribution Division. The power sales contracts pursuant to which such loan payments currently are made by the power purchasers expire in 2011 and 2012, respectively; however, a similar payment obligation continues under both the New PSE Contract and the New Alcoa Contract, and is expected to be included in any future such contracts with other parties. See "THE ROCKY REACH SYSTEM—The New Power Sales Contracts."

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Table 15
Consolidated System Debt Service and Hydro-Electric System Loan Payments as of December 31, 2008

	Senior Consolidated System Bonds, Consolidated System Bonds and Subordinate Consolidated System Obligations			Hydro-Electric System Annual Loan Payments [2]		
	Aggregate Annual Debt Service					
Year	Principal [1]	Interest	Total	Rocky Reach	Rock Island	Total Loan Payments
2009	7,420,000	36,484,676	43,904,676	32,506,020	16,068,779	48,574,799
2010	7,760,000	36,151,109	43,911,109	31,930,184	17,168,643	49,098,827
2011	8,100,000	35,769,548	43,869,548	32,680,121	17,368,459	50,048,580
2012	6,605,000	35,379,354	41,984,354	33,471,543	17,581,242	51,052,785
2013	59,320,000	35,079,823	94,399,823	33,083,016	18,206,554	51,289,570
2014	31,530,000	32,152,671	63,682,671	34,029,576	18,849,855	52,879,431
2015	6,205,000	30,590,794	36,795,794	34,970,965	19,473,566	54,444,531
2016	4,335,000	30,338,582	34,673,582	35,484,352	16,812,646	52,296,998
2017	21,485,000	29,811,574	51,296,574	35,308,674	16,784,945	52,093,619
2018	22,090,000	29,274,434	51,364,434	26,787,187	14,941,606	41,728,793
2019	5,060,000	28,142,635	33,202,635	24,346,624	14,843,253	39,189,877
2020	25,465,000	27,903,075	53,368,075	24,788,795	15,164,753	39,953,548
2021	5,645,000	26,641,837	32,286,837	25,252,214	14,628,433	39,880,647
2022	5,960,000	26,372,275	32,332,275	25,748,257	14,608,185	40,356,442
2023	6,305,000	26,087,859	32,392,859	26,267,707	14,842,462	41,110,169
2024	21,645,000	25,782,149	47,427,149	26,806,895	15,084,478	41,891,373
2025	5,005,000	24,688,701	29,693,701	25,833,411	14,692,623	40,526,034
2026	4,535,000	24,481,126	29,016,126	24,294,752	14,858,602	39,153,354
2027	3,600,000	24,298,145	27,898,145	23,287,592	15,033,371	38,320,963
2028	4,075,000	24,112,808	28,187,808	22,015,523	14,720,832	36,736,355
2029	2,565,000	23,960,726	26,525,726	21,098,441	13,370,416	34,468,857
2030	2,690,000	23,833,226	26,523,226	20,065,832	13,341,962	33,407,794
2031	2,830,000	23,699,508	26,529,508	19,496,156	13,325,998	32,822,154
2032	106,085,000	22,855,383	128,940,383	17,843,239	13,140,162	30,983,401
2033	37,665,000	18,322,786	55,987,786	14,882,671	9,952,308	24,834,979
2034	31,685,000	16,370,280	48,055,280	13,052,624	7,559,793	20,612,417
2035	1,390,000	14,429,750	15,819,750	10,735,369	7,220,588	17,955,957
2036	145,445,000	10,382,105	155,827,105	7,230,346	4,912,641	12,142,987
2037	81,420,000	6,331,820	87,751,820	4,015,498	3,292,691	7,308,189
2038	-	1,980,338	1,980,338	1,470,988	1,677,865	3,148,853
2039	30,940,000	1,182,679	32,122,679	738,316	1,015,038	1,753,354
2040	-	385,020	385,020	-	476,270	476,270
2041	-	385,020	385,020	-	434,839	434,839
2042	8,370,000	385,020	8,755,020	-	385,020	385,020
	713,230,000	754,046,836	1,467,276,836	709,522,888	411,838,878	1,121,361,766

(1) Includes balloon payments in 2013 ($53.7 million), 2014 ($25.8 million), 2017 ($18.4 million), 2018 ($17.6 million), 2020 ($20.1 million), 2024 ($15.0 million), 2032 ($103.2 million), 2033 ($34.6 million), 2034 ($30.4 million), 2036 ($144.0 million), 2037 ($79.9 million), 2039 ($30.9 million) and 2042 ($8.4 million). The District anticipates that these payments will be refinanced on or prior to the dates they become due. See "—District Market Access" and "—Consolidated System Liquidity."

(2) Represents loan payment obligations of the Rocky Reach System and the Rock Island System to the Consolidated System with respect to intersystem loans from the Consolidated System.

Column totals may not foot due to rounding.

Capital Requirements

The District has prepared projections of the capital requirements for the five-year period 2009 through 2013. These projections are in accordance with the District's best estimates and long-range planning by the District staff. As such, some anticipated projects are still undergoing feasibility studies. The District periodically reviews its capital improvement program and modifies it as appropriate to reflect changing conditions. As a result, amounts currently forecasted for the future are subject to modification as the Commission directs. Table 16 below presents the District's projected capital requirements, based on expenditure levels relative to budget which are consistent with prior experience.

Table 16
Projected Capital Requirements (1)
($000)

	2009	2010	2011	2012	2013
Distribution Division	$ 6,406	$16,489	$12,243	$23,946	$26,505
Fiber Optic System	5,900	5,500	5,500	8,835	8,086
Rocky Reach System (2)	4,131	11,202	14,430	5,956	21,808
Rock Island System (3)	21,509	33,431	36,921	12,437	8,897
Lake Chelan Project (2) (3)	24,304	10,805	1,462	1,155	1,025
Total Capital Requirements	$62,250	$77,427	$70,556	$52,329	$66,321

(1) Excludes capital requirements for Internal Service Fund, Water and Wastewater, which are not material and will be funded by cash.
(2) Includes capital requirements for relicensing related expenses, which may vary significantly.
(3) Includes estimates for modernization.

A major portion of the projected capital requirements for the Rock Island System relates to a multi-year modernization project (2003 to 2014) at Powerhouse 1. Completed projects include: remediation of powerhouse civil works, rehabilitation of headgates, new stoplogs, two new bridge cranes, new draft tube gantry crane, new transfer crane, four new generator step-up transformers, new generator breaks, new lube and governor oil handling systems, upgraded fire protection system, and upgraded domestic and raw water handling systems. It is anticipated that six of the plant's ten hydro-electric generating units will receive new turbines, generators, governors and controls. The first of the six new units was completed in May of 2008. The new units are expected to have improved efficiencies of about 10 percent and the turbines are of a fish-friendly design. The remaining four units will receive new stators and the rotors will be repaired on site as necessary. Efficiency improvement of the new stators is expected to be 1.5 percent. The turbines are expected to last another 20 years with minor repairs and typical maintenance.

Due to the uncertainty of future fish and wildlife capital expenditures, the District has not included estimates of those expenditures, other than the fish bypass system at the Rocky Reach System. The capital cost of future fish and wildlife programs may be substantial. The District has reached agreement with various federal and state agencies and others regarding implementation of an HCP focusing on salmon and steelhead that inhabit the mid-Columbia River. It is anticipated that the HCP will better quantify future fish and wildlife costs. See "AGREEMENTS AND PROCEEDINGS AFFECTING THE HYDRO-ELECTRIC PROJECTS" for additional information.

The District has issued tax-exempt bonds to finance capital costs related to the Hydro-Electric Projects due in part to a special authorization in the Tax Reform Act of 1986. The limit on tax-exempt issuances under that authorization was reached upon the issuance of the District's Consolidated System Revenue Bonds, Series 2007B. In the future, a substantial portion of the bonds issued by the District with respect to the Hydro-Electric Projects may have to be issued on a taxable basis. This may increase the District's cost of borrowing.

Table 17 on the following page presents the projected amounts of future financing for the Rock Island, Rocky Reach and Consolidated Systems, based on the capital requirements set forth in Table 16 above. Such amounts exclude previous District financings. Future planned refundings of District debt are also excluded.

Table 17
Projected Future Financings/Intersystem Loans [1]
($000)

	2009	2010	2011	2012	2013
Loans from Proceeds of Bond Issues[4]					
Distribution Division	$ –	$ –	$ –	$ –	$ –
Fiber-Optics System	–	–	–	–	–
Lake Chelan Project [2][3]	32,000	–	–	–	–
Rocky Reach System [2]	16,991	–	–	–	–
Rock Island System [3]	13,409	–	18,205	8,307	4,559
Total	$ 62,400	$ –	$ 18,205	$ 8,307	$ 4,559
Loans from Replacement Recovery and Other Internal Funds [5][6]					
Distribution Division	$ –	$ –	$ –	$ 9,733	$ 26,505
Fiber-Optics System	2,270	5,500	5,500	8,835	8,086
Lake Chelan Project [2][3]	–	–	–	–	410
Rocky Reach System [2]	–	2,716	5,935	1,865	21,184
Rock Island System [3]	–	1,641	9,145	3,753	3,596
Total	$ 2,270	$ 9,857	$ 20,580	$ 24,186	$ 59,781

(1) Excludes capital requirements for Internal Service Fund, Water and Wastewater, which are not material and will be funded by cash.
(2) Includes capital requirements for relicensing related expenses, which may vary significantly.
(3) Includes estimates for modernization.
(4) Excludes cost of issuance and bond funded reserves.
(5) Replacement Recovery funds reflect additional loan amounts paid by the Power Purchasers and available for subsequent reloan to the Hydro-Electric Systems.
(6) Other Internal funds include cash and intersystem loan obligations.

Financing Capital Improvements

The District has funded a significant portion of its renewals, improvements and additions for the Distribution Division from non-debt related sources. During the five-year period ended December 31, 2008, the District financed a total of $28,066,000 for renewals, replacements, improvements and additions to plant directly from net revenues and contributions in aid of construction. This amount was 38 percent of the total requirements for those purposes.

District Market Access

The outstanding 2009A/B Subordinate Notes and the 2008A Subordinate Notes constitute "Balloon Bonds" under the Subordinate Consolidated System Resolution. Pursuant to the Subordinate Consolidated System Resolution, "Balloon Bonds" means the aggregate principal of Subordinate Consolidated System Obligations of a series (including capital appreciation bonds) that becomes due and payable, either at scheduled maturity, by mandatory sinking fund payment or by mandatory tender for purchase, in any fiscal year constitutes 25 percent or more of the initial aggregate principal of such series of Subordinate Consolidated System Obligations. Unlike the District's obligations under the Senior Consolidated System Resolution to establish a Sinking Fund prior to maturity with respect to Excluded Principal Payments (each as defined in the Senior Consolidated System Resolution) or under the Consolidated System Resolution to establish a Balloon Bond Sinking Fund prior to maturity with respect to a series of Balloon Bonds (each as defined in the Consolidated System Resolution), the District is not obligated under the Subordinate Consolidated System Resolution to set aside funds prior to maturity of a Series of Balloon Bonds.

The 2009A/B Subordinate Notes will mature in the aggregate principal amount of $28,970,000 on July 1, 2014, and the 2008A Subordinate Notes will mature in the principal amount of $53,695,000 on July 1, 2013. **There are no credit or liquidity facilities in place to pay the maturing principal amount of the 2009A/B Subordinate Notes or the 2008A Subordinate Notes, and the District currently does not intend to set aside funds in a "sinking fund" prior the maturity of the 2009A/B Subordinate Notes or the 2008A Subordinate Notes to secure such Subordinate Consolidated System Obligations.** The District anticipates refunding the 2009A/B Subordinate Notes and the 2008A Subordinate Notes on or prior to their respective stated maturity dates. If for any reason the District is unable to issue refunding bonds or notes, including in particular as a result of a lack of market access, the District can provide no assurance that it will have sufficient moneys available to pay such maturing principal. The District, for at least the past 40 years, has always had market access to sell its revenue bonds at such times and in such amounts as it has chosen to issue. Given the extraordinary recent events in the financial markets, however, the District cannot provide any assurance that it will have such market access to refund the 2009A/B Subordinate Notes and the 2008A Subordinate Notes upon their respective maturities. This could result from then-existing market conditions or from an unanticipated and substantial deterioration in the financial condition of the District's Consolidated System. The funds available to the District to pay the maturing principal of the 2009A/B Subordinate Notes and the 2008A Subordinate Notes would include any amounts in the District's Rate Stabilization Fund, in other capital or operating reserve funds, and/or any other unencumbered funds of the District, which likely would consist primarily of working capital in the Consolidated System Revenue Fund. Any failure of the District to pay the 2009A/B Subordinate Notes and the 2008A Subordinate Notes upon their respective maturities would constitute an Event of Default under the Subordinate Consolidated System Resolution.

On October 6, 2008, the Commission adopted Resolution 08-13377 to establish a financial policy to maintain a minimum of $130,000,000 of reserves. The minimum reserve may consist of amounts held in the Rate Stabilization Fund, the Operating Reserve Fund, the Contingency Reserve Fund, the Consolidated System Revenue Fund as well as other unrestricted operating funds, utility services construction funds and internal service system operating and construction funds. See "ADDITIONAL FINANCIAL INFORMATION OF THE DISTRICT—Consolidated System Liquidity."

The District has issued, and there are outstanding, under the Senior Consolidated System Resolution several series of Senior Consolidated System Bonds the full principal amounts of which come due at maturity. The Senior Consolidated System Resolution defines "Excluded Principal Amounts" to include (i) the Final Compounded Amount of any Capital Appreciation Bond (each as defined in the Senior Consolidated System Resolution) designated as an "Excluded Principal Amount" in a supplemental resolution, (ii) the principal amount of any Tender Obligations (as defined in the Senior Consolidated System Resolution), and (iii) as of the date of calculation, that portion of the principal amount of any series of Senior Consolidated System Bonds which is not required to be amortized by purchase or redemption prior to maturity, and which is designated as an Excluded Principal Payment Amount in a supplemental resolution. However, the District has covenanted in the Senior Consolidated System Resolution to establish with respect to each Excluded Principal Payment, at least three years prior to the maturity date or date of mandatory tender for purchase for such Senior Consolidated System Bonds, a sinking fund for the payment of the maturing principal amount, accreted value or purchase price of the such series of Senior Consolidated System Bonds. The Senior Consolidated System Resolution provides that the District shall fund each such sinking fund either by depositing, from revenues of the Consolidated System or other available funds, in four equal annual installments of one-fourth of such maturating principal amount, accreted value or purchase price commencing not less three years prior to such payment date, or by obtaining a credit facility that provides for the payment of such maturing principal, accreted value or purchase price.

The District has issued, and there are outstanding, under the Consolidated System Resolution a series of Consolidated System Bonds constituting Balloon Bonds under the Consolidated System Resolution. Pursuant to the Consolidated System Resolution, "Balloon Bonds" means the aggregate principal of Consolidated System Bonds of a series (including capital appreciation bonds) that becomes due and payable, either at scheduled maturity, by Mandatory Sinking Fund Payment (as defined in the Consolidated System Resolution) or by mandatory tender for purchase, in any fiscal year constitutes 25% or more of the initial aggregate principal of such series of Consolidated System Bonds. However, the District has covenanted in the Consolidated System Resolution to establish and maintain a Balloon Sinking Fund (as defined in the Consolidated System Resolution), to be held by the District, with respect to each Consolidated System Balloon Bond at least three years prior to the maturity date, mandatory redemption date, or date of mandatory tender for purchase of such Consolidated System Bonds in order to secure the payment of the maturing principal, including accreted value, purchase price or redemption price of such Consolidated System Bonds. Pursuant to the Consolidated System Resolution, the District shall fund each such Balloon Sinking Fund in four equal annual installments of one-fourth of such maturing principal, purchase price or redemption price commencing not less than three (3) years prior to such payment date, either (i) by deposits from revenues of the Consolidated System or other available funds, or (ii) by obtaining one or more credit facilities that provide for the payment of such maturing principal, purchase price or redemption price. In the Consolidated System Resolution, the District pledges the amounts in each such Balloon Sinking Fund to the payment of such Consolidated System Bonds on their maturity date, mandatory redemption date, or date of mandatory tender for purchase, such amounts to be subject to the lien and charge of the Consolidated System Resolution for the benefit of such Consolidated System Bonds. Any amounts in any such Sinking Fund not required on the maturity date, mandatory redemption date, or date of mandatory tender for purchase may be used for any other lawful purpose of the District.

See "—Consolidated System Liquidity" and footnote 1 to Table 15 in "—Annual Debt Service."

Consolidated System Liquidity

The District currently maintains a high level of liquidity, including the amounts held in the funds of the District set forth in Table 18 below, which presents various fund balances for the Consolidated System as of December 31, 2008.

Table 18
Consolidated System
Fund Balances
($000)

	Utility Services[2]	Lake Chelan Project	Financing Facilities	Internal Service Fund	Total
December 31, 2008 Balances: [1]					
Unrestricted Funds					
Revenue Fund[3]	$ 33,376	$ 1,687	$ -	$ 10,690	$ 45,753
Available Funds:					
Rate Stabilization Fund	50,000	-	-	-	50,000
Operating Reserve Fund	67,814	-	-	-	67,814
Contingency Reserve Fund	9,970	-	-	-	9,970
Other Unrestricted Funds: [4]	24,352	-	-	7,849	32,201
Total Unrestricted Funds	185,512	1,687	-	18,539	205,738
Restricted Funds[5]	50,927	33,690	47,874	9,728	142,219
Total Fund Balances	$ 236,439	$ 35,377	$ 47,874	$ 28,267	$ 347,957

(1) Amounts reflect both cash and book value of investments.
(2) Includes Distribution Division, Fiber-Optics, Water and Wastewater System and Treasury Services Fund.
(3) Unencumbered funds of the District held in the Revenue Fund.
(4) Includes all other Unrestricted Funds such as Board Designated Construction Funds and Reserves.
(5) Includes all Restricted Funds such as Bond Proceeds and Reserves.

The aggregate amount of unencumbered funds available to the Consolidated System equals approximately 379 days of the costs of the Consolidated System, including debt service on the Senior Consolidated System Bonds, the Consolidated System Bonds and on the Subordinate Consolidated System Obligations.

The District established the Rate Stabilization Fund pursuant to the Consolidated System Resolution for the purpose of stabilizing rates and charges for retail customers of the Distribution Division. Pursuant to the Consolidated System Resolution, the District shall transfer from the Consolidated System revenue fund into the Rate Stabilization Fund or from the Rate Stabilization Fund into the Consolidated System revenue fund such amounts, if any, as the District determines from time to time. If such transfer is made within 90 days after the end of a Fiscal Year, the District may allocate such transfer to the prior Fiscal Year rather than to the current Fiscal Year for purposes of complying with certification requirements for the issuance of additional Consolidated System Bonds or with the District's Consolidated System rate covenant. The Consolidated System Resolution further provides that any deposits into the Rate Stabilization Fund made prior to January 1, 2008, shall not be taken into account for purposes of determining Adjusted Net Revenues (as defined in the Consolidated System Resolution) for the current or preceding Fiscal Years.

The District may withdraw amounts from the Rate Stabilization Fund for any lawful purpose of the District in the event the Commission determines that it is necessary or desirable to do so for purposes of stabilizing rates and charges for retail customers of the Distribution Division. On December 31, 2007, the District made an initial deposit of $50 million from available funds of the Consolidated System into the Rate Stabilization Fund.

For purposes of determining whether the District is in compliance with its Consolidated System rate covenant or with the required test for the issuance of additional Consolidated System Bonds, deposits made into the Rate Stabilization Fund (excluding the initial deposits made to the fund prior to January 1, 2008) will be treated as an offset against Net Revenues (as defined in the Consolidated System Resolution) and withdrawals from the Rate Stabilization Fund will be added to Net Revenues (as defined in the Consolidated System Resolution).

Pursuant to Resolution No. 07-13198, the District established a fund designated as the "Public Utility District No. 1 of Chelan County, Washington, Operating Reserve Fund" (the "Operating Reserve Fund") for the purpose of mitigating unexpected fluctuations in revenues and operating expenses of the Consolidated System. The resolution provides that the District shall transfer Consolidated System revenues in excess of working capital needs from the Consolidated System revenue fund into the Operating Reserve Fund, or transfer amounts from the Operating Reserve Fund into the Consolidated System revenue fund to cover working capital needs, as the District determines from time to time, in order to maintain an adequate reserve for working capital purposes.

Pursuant to Resolution No. 07-13198, the District's policy is to manage fluctuations in the unencumbered balance in the Consolidated System revenue fund on a periodic basic to maintain an adequate working capital balance. The District is authorized to transfer any funds in the Consolidated System revenue fund in excess of such needs to the Operating Reserve Fund. The resolution provides that if monies in the Consolidated System revenue fund fall below an adequate working capital balance, the District shall make a transfer or transfers from the Operating Reserve Fund to the Consolidated System revenue fund sufficient to provide for such working capital needs. On December 31, 2007, the District made an initial deposit of $52 million from available funds of the Consolidated System into the Operating Reserve Fund.

The District established the Contingency Reserve Fund to provide a special reserve account for emergency operating conditions and liquidity for the District's Consolidated System Bonds. The District's current goal is to maintain this fund at $10 million.

The District established the Capital Reserve Fund to make future capital purchases for the Distribution Division and the Internal Service Fund and to retire debt that has no annual scheduled debt retirement. Annual additions are primarily based on principal payments to the Consolidated System on outstanding interfund loans to the Distribution Division and the Internal Service Fund.

The District has established a governing financial policy to maintain a minimum of $130 million of reserves, in accordance with Resolution No. 08-13377, adopted by the Commission on October 6, 2008.

Investment Policies

All cash and investments are managed by the Treasurer according to the District's currently adopted investment policies, most recently amended on March 23, 2009. Investments can be made specific to a particular fund, or to take advantage of economies, the District may pool cash and invest the resultant pool. Under the District's current investment policies, the Treasurer may invest cash, depending on individual fund restrictions and diversification limits specified by policy, in one or more of the following investments: (1) U.S. Treasury bills, notes or bonds; (2) U.S. Government agency securities; (3) repurchase agreements, which must be collateralized with a third party at a minimum of 102 percent; (4) savings or time deposits, including insured or collateralized certificates of deposit, with institutions approved as qualified public depositories by the State of Washington Public Deposit Protection Commission ("PDPC"); (5) banker's acceptances issued by banks approved by the Washington State Treasurer; (6) commercial paper having received the highest rating of any two nationally recognized statistical ratings organizations at the time of purchase (P-1 (Moody's Investors Service ("Moody's")), A-1 (Standard & Poor's Ratings Inc. ("S&P")), F-1 (Fitch Ratings, Inc. ("Fitch"))) or better; (7) bonds of the State of Washington and any local government of the State of Washington, which at the time of investment have one of the three highest credit ratings of a nationally recognized rating agency; (8) 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 at the time of investment have one of the three highest credit ratings of a nationally recognized rating agency; (9) the State Investment Pool; (10) bonds of US domiciled banks, savings and loan associations, mutual savings banks, savings and loan service corporations operating with approval of the federal home loan bank, and corporate mortgage companies, which bonds are insured or guaranteed by an agency of the federal government; (11) mutual fund and money market funds only for District funds that are subject to the arbitrage provisions of Section 148 of the federal international revenue code; and (12) any other investment permitted under the laws of the State of Washington.

The District has entered into various forward purchase agreements for the purchase of U.S. Treasury and agency obligations with respect to various District bond proceeds.

In accordance with GASB Statement No. 31, U.S. Treasury bills, notes or bonds, U.S. Government agency securities, bankers' acceptances, commercial paper, and municipal bonds that had a remaining maturity at the time of purchase of greater than one year are recorded at fair value. U.S. Treasury bills, notes or bonds, U.S. Government agency securities, bankers' acceptances, commercial paper, and municipal bonds that had a remaining maturity at the time of purchase of one year or less are recorded at amortized cost. Repurchase agreements and certificates of deposit are also recorded at amortized cost.

Investments of the District are held in the District's name by banks or trust companies as the District's agent. The remainder of the District's funds consists of cash on deposit that is insured by a combination of federal depository insurance or depositories qualified by the PDPC. Cash and investments are considered risk category one under the guidelines of GASB Statement No. 3.

Interest Rate Swaps

Rocky Reach System Payment Agreements

For a discussion regarding Payment Agreements payable from the Revenues of the Rocky Reach System, see "THE ROCKY REACH SYSTEM—Financial Information of the Rocky Reach System—*Interest Rate Swaps*.

Subordinate Consolidated System Payment Agreements

The District may also enter into one or more Payment Agreements (as defined in the Subordinate Consolidated System Resolution) with respect to all or a portion of a series of Subordinate Consolidated System Obligations. The District has not entered into any Payment Agreements with respect to a series of Subordinate Consolidated System Obligations.

Consolidated System Payment Agreements

The District may also enter into one or more Payment Agreements (as defined in the Consolidated System Resolution) with respect to all or a portion of a series of Consolidated System Bonds.

2008B Payment Agreements. On August 3, 2005, the District competitively bid and executed two interest rate swap agreements (the "2008B Payment Agreements") pursuant to which the District receives payments from the respective counterparties at a variable rate with respect to a portion of its Consolidated System Revenue Bonds, Refunding Series 2008B (the "Swapped 2008B Bonds"), and the District pays to the counterparties a fixed rate. The variable rate the District receives under the 2008B Payment Agreements was intended to approximate the variable rate the District expected to pay on the Swapped 2008B Bonds. The aggregate notional amount of the 2008B Payment Agreements initially was equal to $93,750,000 and will decline in accordance with the original amortization schedule for the Swapped 2008B Bonds. On October 17, 2008, the District terminated the 2008B Payment Agreement with Lehman Brothers Special Financing Inc. and entered into a replacement 2008B Payment Agreement with The Bank of New York Mellon Corporation. The 2008B Payment Agreements are scheduled to terminate on July 1, 2032. The regularly scheduled payments by the District under the 2008B Payment Agreement with Bear Stearns Capital Markets Inc. are additionally secured by a financial guaranty insurance policy issued by Syncora Guarantee Inc. (formerly XL Capital Assurance Inc.). As of July 6, 2009, Syncora Guarantee Inc. was rated Ca by Moody's and R by S&P.

2009 Payment Agreement. On April 13, 2006, the District competitively bid and executed an interest rate swap payment agreement (the "2009 Payment Agreement") pursuant to which the District receives payments from the counterparty at a variable rate with respect to its 2009A/B Consolidated System Bonds (the "Swapped 2009 Bonds") and the District pays to the counterparty a fixed rate. The variable rate the District receives under the 2009 Payment Agreement was intended to approximate the variable rate the District expected to pay on the Swapped 2009 Bonds. The aggregate notional amount of the 2009 Payment Agreement is equal to $30,355,000. The 2009 Payment Agreement is scheduled to terminate on July 1, 2034. The regularly scheduled payments of the District under the 2009 Payment Agreement are additionally secured by a financial guaranty insurance policy issued by Financial Security Assured Inc. ("FSA"). As of July 6, 2009, FSA was rated Aa3, AAA and AA+ by Moody's, S&P and Fitch, respectively.

Due to uncertainty in the financial markets, however, the District purchased and is holding in trust the Swapped 2009 Bonds for a period of approximately five years. In connection with the issuance of the 2009 Swapped Bonds, the District bid out and executed an interest rate swap payment agreement (the "2009 Reversal Payment Agreement") pursuant to which the District will receive payments from the counterparty at a fixed rate with respect to the notional amount of the 2009 Payment Agreement and the District will pay to the counterparty a variable rate.

Forward Starting Payment Agreements. The District competitively bid and executed two forward starting payment agreements (the "Forward Starting Payment Agreements" and together with the 2008B Payment Agreements and the 2009 Payment Agreement, the "Consolidated System Payment Agreements") in connection with its refunding Consolidated System Bonds expected to be issued in 2011 and 2013. Payment Agreement Payments to be made by the District to the respective counterparties pursuant to the Forward Starting Payment Agreements are to be payable on a parity with the Consolidated System Bonds. The regularly scheduled payments of the District under the Forward Starting Payment Agreements are expected to be secured by financial guaranty insurance policies to be issued by FSA.

Additional Terms. The Payment Agreement Payments with respect to the Consolidated System Payment Agreements other than any payments due upon the early termination of any such Payment Agreements, are payable on a parity with the Consolidated System Bonds. The Consolidated System Payment Agreements each include a unilateral option on the part of the District to terminate the agreement at any time at its then-current market value. The Consolidated System Payment Agreements require the counterparties to post collateral in the event their credit ratings fall below the two highest long-term ratings categories. The District is not required to post collateral under the Consolidated System Payment Agreements; however, if the District's Credit Support Provider under a Consolidated System Payment Agreement did not maintain a credit rating of "A-" or above from S&P and "A3" or above from Moody's and if the District's credit ratings were reduced below "BBB+" by S&P and below "Baa1" by Moody's, to avoid termination of the Consolidated System Payment Agreements, the District would have the option to post collateral under such Consolidated System Payment Agreements, except under the 2008B Payment Agreement with The Bank of New York Mellon Corporation. In addition, each of the 2008B Payment Agreements include a unilateral option on the part of the District to terminate the agreement on and after 10 years from the effective date thereof at par, without payment or receipt of any termination value.

Table 19 below summarizes the Consolidated System Payment Agreements entered into by the District.

Table 19
Chelan County Public Utility District No. 1
Consolidated System Payment Agreements of the District

Associated Bonds	Effective Date	Initial Notional Amount	Counterparty/Guarantor	Counterparty Credit Ratings (Moody's/ S&P)[(1)]	Variable Interest Rate Payable to the District	Fixed Rate Payable by District	Mark to Market Value[(2)]	Expiration Date
2008B Bonds	May 31, 2007	$65,625,000	Bear Stearns Capital Markets Inc./The Bear Stearns Companies Inc.	Aa3/A+	70% of BBA LIBOR	3.752%	($4,425,813)	July 1, 2032
2008B Bonds	October 17, 2008	$27,864,000	The Bank of New York Mellon Corporation	Aaa/AA	70% of BBA LIBOR	3.752%	($1,896,775)	July 1, 2032
2009 Bonds	June 1, 2009[(3)]	$30,355,000	JPMorgan Chase Bank, N.A.	Aa1/AA-	70% of BBA LIBOR	4.031%	($5,705,652)	July 1, 2034
2011 Bonds	June 1, 2011	$78,375,000	Goldman Sachs Mitsui Marine Derivative Products, L.P./The Goldman Sachs Group Inc.	Aa1/AAA	70% of BBA LIBOR	4.058%	($10,592,196)	January 1, 2036
2013 Bonds	May 30, 2013	$28,815,000	Goldman Sachs Mitsui Marine Derivative Products, L.P./The Goldman Sachs Group Inc.	Aa1/AAA	70% of BBA LIBOR	4.085%	($2,749,061)	July 1, 2032
	TOTAL	$231,034,000						

(1) As of July 6, 2009.
(2) As of July 6, 2009.
(3) Due to uncertainty in the financial markets, the District purchased and is holding in trust the Swapped 2009 Bonds for a period of up to five years. In connection with the issuance of the Swapped 2009 Bonds, the District bid out and executed the 2009 Reversal Payment Agreement with The Bank of New York Mellon Corporation pursuant to which the District will receive monthly payments from the counterparty at a fixed rate of 1.76% with respect to the notional amount of the 2009 Payment Agreement and the District will make monthly payments to the counterparty a variable rate of 70% of BBA LIBOR. The 2009 Reversal Swap will terminate on July 1, 2014.

AGREEMENTS AND PROCEEDINGS AFFECTING THE HYDRO-ELECTRIC PROJECTS

Coordination Agreements

Canadian Entitlement Allocation and Extension Agreement

On January 17, 1961, the United States and Canada signed a treaty relating to cooperative development of the water resources of the Columbia River Basin (the "Canadian Treaty"). Under the terms of the Canadian Treaty, Canada is entitled to receive from the United States one-half of the annual average usable energy and one-half of the dependable capacity that can be realized in the United States each year for the duration of the Canadian Treaty as a result of the coordinated use of the improved streamflow in the Columbia River created by storage projects constructed in Canada pursuant to the terms of the Canadian Treaty (the "Canadian Entitlement"). See "THE CONSOLIDATED SYSTEM AND OTHER PROPERTIES AND FACILITIES OF THE DISTRICT—Energy Resources."

A portion of the Canadian Entitlement may be disposed of within the United States, subject to authorization by Canada and the United States. By an exchange of notes dated September 16, 1964, Canada and the United States authorized the sale of the Canadian Entitlement within the United States pursuant to the Canadian Treaty; such sale (the "Entitlement Sale") was accomplished by the Canadian Entitlement Purchase Agreement, which expired in stages on March 31, 1998, March 31, 1999, and March 31, 2003. Under the Canadian Entitlement Allocation Agreements, which expired March 31, 2003, the District agreed to make available to Bonneville the share of the Entitlement Sale that had been allocated to the Rocky Reach System and the Rock Island System. An Extension Agreement, signed in 1997, established the parameters for determining the District's obligations to return energy to Canada, via Bonneville, beginning with the expiration dates set forth above and continuing until September 15, 2024. BC Hydro, the U.S. Army Corps of Engineers and Bonneville are in the process of considering options available for after 2024. The District cannot predict what requirements may be agreed to for the period after 2024. The District's current obligations are 31 MW for the Rock Island Project and 65 MW for the Rocky Reach Project, in each case delivered over high load hours, Monday through Saturday.

1997 Pacific Northwest Coordination Agreement

The Canadian Treaty assumes coordination among the producers of power in the Pacific Northwest and the Canadian facilities subject to the Canadian Treaty. On September 15, 1964, the Pacific Northwest Coordination Agreement (the "1964 PNCA") was executed by those entities, including the District, that operate major electric plants and systems which serve the Pacific Northwest. The 1964 PNCA coordinated the operations of the parties' facilities to achieve economies and additional firm power resources for the Pacific Northwest while taking into account non-power uses for water resources so that the water resources are managed for maximum sustained benefit for the public good.

The 1964 PNCA became effective on January 4, 1965, and expired on July 31, 2003. A renewed PNCA (the "1997 PNCA") became effective August 1, 2003 and continues until July 31, 2024. All regulatory approvals have been received. The 1997 PNCA serves as a settlement agreement for upstream benefit payments due the federal government under the FPA. It also serves as a settlement for payments to and from non-federal parties due to operation of upstream and downstream projects.

Mid-Columbia Hourly Coordination Agreement

In 1973, the District entered into the Mid-Columbia Hourly Coordination Agreement to provide for moment by moment coordination of the seven federal and non-federal hydroelectric projects on the mid-Columbia River, including the Rock Island and Rocky Reach Projects. This coordination reduces the fluctuation of reservoir levels at each dam and allows operation of the reservoirs at a higher average level and with more total power production. The agreement has existed as a series of one-, five-, ten- and 20-year agreements, with the latest 20-year agreement terminating on June 30, 2017. Other signatories to the agreement include Bonneville; U.S. Army Corps of Engineers; U.S. Bureau of Reclamation; U.S. Department of the Interior; City of Seattle, Washington; City of Tacoma, Washington; City of Eugene, Oregon; City of McMinnville, Oregon; Grant PUD; Douglas PUD; Public

Utility District No. 1 of Cowlitz County, Washington; Puget Sound Energy; Portland General Electric Company; PacifiCorp; Avista; and Colockum Transmission Company, Inc.

Fisheries Proceedings Before FERC

The District operates each of its Hydro-Electric Projects under separate long-term licenses from FERC. The District received a 50-year license for the Lake Chelan Project in November 2006 and a new 43-year license for the Rocky Reach Project in February 2009 and is implementing new license measures for both Projects. A long-term license for the Rock Island Project was issued by FERC in January 1989 and expires in December 2028. See "THE ROCKY REACH SYSTEM—Federal Energy Regulatory Commission License Status; Relicensing" and "THE CONSOLIDATED SYSTEM AND OTHER PROPERTIES AND FACILITIES OF THE DISTRICT—Federal Energy Regulatory Commission License Status; Relicensing."

In 1979, FERC initiated an omnibus administrative proceeding before a FERC administrative law judge concerning the five Mid-Columbia River dams owned by the District, Douglas PUD and Grant PUD (collectively the "Mid-Columbia PUDs") (including the Rocky Reach Project and the Rock Island Project). The purpose of this proceeding, known as the Mid-Columbia proceeding, was to develop a system-wide approach to protecting the fisheries resources in the mid-Columbia River. The Rocky Reach and Rock Island portions of the Mid-Columbia proceeding were resolved in June 2004 when FERC issued the order incorporating the HCP into the FERC licenses.

In 2004, the Hanford Reach Fall Chinook Protection Program was signed by the District, Grant PUD, Douglas PUD, Bonneville, the National Marine Fisheries Service ("NMFS"), the Washington Department of Fish and Wildlife ("WDFW") and the Confederated Tribes of the Colville Indian Reservation and was signed at a later date by the US Fish & Wildlife Service and the Yakama Nation. This agreement established the obligations of the signatories with respect to the protection of fall Chinook in the Hanford Reach of the Columbia River, including the obligations of the Mid-Columbia PUDs under any new licenses issued by FERC. No signatories to the agreement may petition FERC directly or through WDOE, to modify any provisions of this agreement or request operations inconsistent with this agreement until ten years after the effective date of the agreement.

Endangered Species

General

The Endangered Species Act (the "ESA") makes it unlawful for any person subject to the jurisdiction of the United States to "take" a listed species. The term "take" means "to harass, harm, pursue, hunt, shoot, wound, kill, trap, capture, or collect, or to attempt to engage in any such conduct." Violations of the ESA can be enforced by governmental and citizen suits. There are both civil and criminal penalties. Civil penalties include imposing requirements to prevent the takings.

However, a "take" in compliance with an "incidental take permit" is not an ESA violation. In 1982, Congress amended the ESA to allow for the incidental take of listed species. An "incidental take" is a take that "is incidental to, and not the purpose of, the carrying out of any otherwise lawful activity." The U.S. Secretary of Commerce and the U.S. Secretary of Interior, as appropriate (the "Secretary"), have the authority to permit nonfederal applicants to incidentally take listed species under such terms and conditions as the Secretary prescribes in an incidental take permit.

The Secretary may issue an incidental take permit if the applicant submits to the Secretary a conservation plan that specifies: (1) the impact which will likely result from such taking; (2) what steps the applicant will take to minimize and mitigate the impacts, and the funding that will be available to implement the steps; (3) the alternatives to the taking that the applicant considered and why those alternatives were rejected; and (4) other measures that the Secretary may require as being necessary or appropriate for purposes of the plan.

The Secretary is required to issue the permit if, after opportunity for public comment, the Secretary finds that: (1) the taking will be incidental; (2) the applicant will, to the maximum extent practicable, minimize and mitigate the impacts of such taking; (3) the applicant will ensure that adequate funding will be provided for the plan; (4) the taking will not appreciably reduce the likelihood of the survival and recovery of the species in the wild; (5) the other necessary and appropriate measures required by the Secretary will be met; and (6) the Secretary has received such other assurances as the Secretary may require that the plan will be implemented.

Upon the listing of a species, the ESA requires the listing agency to define the species' "critical habitat." Critical habitat is defined in the ESA as "(i) the specific areas within the geographic area occupied by the species . . . on which are found those physical or biological features (I) essential to the conservation of the species and (II) specific areas outside the geographical area occupied by the species . . . upon a determination by the Secretary . . . that such areas are essential for the conservation of the species." Critical habitat designations require federal agencies to ensure that any action they authorize, fund or carry out is not likely to destroy or adversely modify designated critical habitat. Operation of the Rocky Reach Project and the Rock Island Project has resulted and may, based on new listings or information, result in federal agencies taking action that triggers a duty to consult under the ESA. These consultations must address the effects of the proposed action on the listed species and on its critical habitat. An incidental take statement typically is issued at the end of the consultation. Actions taken in accordance with the incidental take statement do not result in a violation of the ESA.

Listings

There are several fish, wildlife and plant species that have been listed or are proposed for listing that exist in the area of the Rocky Reach Project and the Rock Island Project. Some species have been listed for many years, but the listing has had no material effect on the operation of the Rocky Reach Project and the Rock Island Project. Listed anadromous fish within the vicinity of the Rocky Reach Project and the Rock Island Project are discussed below.

Steelhead—Upper Columbia ESU. On August 18, 1997, NMFS published notice listing the Upper Columbia River Steelhead Evolutionarily Significant Unit ("ESU") as endangered under the ESA. In the original decision on listing in August 1997, NMFS noted uncertainty about the relationship between resident and anadromous forms of *O. mykiss*, yet concluded that the resident forms should be considered part of the ESU. The USFWS disagreed, and consequently, NMFS only listed the anadromous form.

In June 2004, NMFS proposed including the resident form in the ESU because where they occurred in the same stream, they are not "substantially reproductively isolated" from anadromous forms. NMFS received numerous comments during the extended comment periods criticizing their consideration of resident forms in their population risk analysis.

The USFWS requested that NMFS consider departing from use of the ESU policy and evaluate *O. mykiss* population risk status through the Distinct Population Segment ("DPS") policy. The major difference between the two policies is that under the ESU policy, one delineation of whether a population is distinct is that they are "reproductively isolated" from other population segments. Within the DPS policy, there only needs to be "marked separation" to satisfy population distinctiveness.

In January 2006, NMFS upgraded the listing of steelhead in the Upper Columbia from "endangered" status to a "threatened" status based on consideration of hatchery steelhead that were considered part of the ESU. However, this down-listing and NMFS's 2005 hatchery policy which allowed it were set aside by a federal court on June 13, 2007, and the Upper Columbia River Steelhead are again considered endangered under the ESA. Steelhead are now managed as a DPS for reasons described above.

The District's Rocky Reach and Rock Island Projects lie within the Upper Columbia River ESU. On September 2, 2005, NMFS designated critical habitat for the whole Upper Columbia, including the Columbia River mainstem and tributaries. The District's Rocky Reach and Rock Island Projects lie within Columbia River mainstem reaches proposed for designation.

Steelhead—Mid-Columbia ESU. On March 25, 1999, NMFS published notice listing the Middle Columbia River Steelhead ESU as threatened under the ESA. The District's Rocky Reach and Rock Island Projects lie upstream of the Middle Columbia River Steelhead ESU.

Spring Chinook—Upper Columbia ESU. On March 24, 1999, NMFS published notice listing the Upper Columbia River Spring Run Chinook Salmon ESU as an endangered species under the ESA. The 1999 rule notice listed only naturally spawning populations of this ESU. On June 28, 2005, NMFS published the final rule to include certain artificially propagated fish (i.e., hatchery origin fish) in the listed ESU pursuant to its 2005 hatchery policy, which was later set aside as described above. It is not yet clear whether NMFS will redefine the ESU in the aftermath of that judicial decision and, if so, how hatchery stocks will be treated. The Rock Island and Rocky Reach Projects lie within the Upper Columbia Spring-Run Chinook Salmon ESU. On September 2, 2005, NMFS designated critical habitat for the whole Upper Columbia, including the Columbia River mainstem and tributaries.

Bull Trout—Columbia Basin DPS. The USFWS issued a final rule listing the bull trout in all DPSs as threatened on November 1, 1999. The USFWS considers the Columbia River population as one of five DPS (i.e., they meet the joint policy of the USFWS and NOAA Fisheries regarding the recognition of distinct vertebrate populations). The Upper Columbia segment of the Columbia Basin DPS is defined as encompassing the basin upstream of the confluence of the Yakima River to Chief Joseph Dam, including the mainstem Columbia River and all of its associated tributaries. This geographic area is referred to as the Upper Columbia Recovery Unit in the Bull Trout Draft Recovery Plan. Bull trout in the Upper Columbia constitute one portion of the total Columbia River population. On September 26, 2005, the USFWS declined to designate critical habitat in the Upper Columbia Basin.

Other Species. The NMFS and the USFWS (collectively, the "Services") considered and found that listing was not warranted in the region for several other fish species. These include the Upper Columbia Summer and Fall Run chinook salmon ESU, the Okanogan River and Wenatchee River sockeye salmon ESUs, the Columbia River chum salmon ESU, and Coastal and Westslope cutthroat trout.

The District cannot predict the outcome of consideration by the Services of new listings, delistings or critical habitat designations for listed species. For instance, on May 26, 2004, several environmental organizations filed suit in the U.S. District Court of Oregon against the USFWS seeking action on their petition to list four separate species of lamprey under the ESA. Some lamprey species do pass Rock Island and Rocky Reach hydro projects. On December 22, 2004, the USFWS announced that a petition to list four species of lamprey did not contain sufficient information to warrant further review at that time.

Ramifications of Listings to Rocky Reach and Rock Island Projects

As a result of the listings under the ESA, minimization and mitigation measures may be required by the Services to address potential effects of the Hydro-Electric Projects' operations on the listed species or their habitat. These mitigation measures could alter the operations of the Rock Island and the Rocky Reach Projects and could result in further and possibly substantial reductions in power generation at the Hydro-Electric Projects, and thereby increase the unit cost of power from the Hydro-Electric Projects. The steps being taken by the District to minimize the effects of the listings are discussed below in "Rocky Reach and Rock Island Anadromous Fish Agreements and Habitat Conservation Plans" and "Bull Trout."

Rocky Reach and Rock Island Anadromous Fish Agreements and Habitat Conservation Plans

In late 1994, the Mid-Columbia PUDs initiated discussions with the Services and WDFW to develop a Mid-Columbia Habitat Conservation Plan ("MCHCP") to manage the aquatic species (fish, plants and animals) that inhabit the Mid-Columbia River Basin. The Mid-Columbia PUDs sponsored extensive studies and submitted the first draft of the MCHCP to the parties in May 1996.

The District, along with Douglas PUD, the Services, WDFW, the Colville, Umatilla and Yakama tribes and American Rivers, Inc., developed proposed Anadromous Fish Agreements and Habitat Conservation

Plans ("HCPs") for the Rocky Reach, Rock Island and Wells Projects, although to date the Umatilla tribe and American Rivers, Inc. have not signed the HCPs. The HCPs apply to spring, summer and fall Chinook salmon, sockeye salmon, coho salmon and steelhead (collectively, the "Plan Species"). The HCPs provide that "No Net Impact" will be achieved on a specified schedule and maintained for the duration of the agreements for each Plan Species affected by the projects. No Net Impact has two components: (1) 91 percent combined adult and juvenile project survival achieved within the geographic area of each project by project improvement measures for juveniles and adults; and (2) 9 percent compensation for unavoidable project mortality provided through hatchery and tributary programs, with 7 percent compensation provided through hatchery programs and 2 percent compensation provided through tributary programs.

The District agreed to be responsible for achieving 91 percent combined adult and juvenile project survival through project improvement measures. The District is also responsible for (1) funding the 2 percent tributary conservation plan, (2) providing capacity and funding for the 7 percent hatchery compensation plan and (3) making capacity and funding adjustments necessary to reflect and compensate future hatchery program modifications.

On June 21, 2004, FERC issued an Order approving the District's HCP applications and amended the operating licenses for Rocky Reach and Rock Island Projects to incorporate the terms of the HCPs. On November 23, 2004, FERC issued a final Order, which addressed the corrections and clarifications requested by the District.

The District is currently engaged in full implementation of the programs outlined in the HCPs. Committees specific to the terms of the HCPs have been established, including the Coordinating, Hatchery and Tributary Committees.

The Coordinating Committees are the primary means of consultation and coordination between the District and the other signatories in connection with the conduct of in-season operations, studies and implementation of the measures set forth in the HCPs to benefit the fishery. They have the authority to oversee all aspects of study standards and methodologies, and implementation of measures intended to benefit the fisheries resources. They are also responsible for preparing annual progress reports, ensuring timely circulation of studies and reports prepared pursuant to the agreements, and approval and implementation of the survival standards established in the Passage Survival Plans for each project

The Hatchery Committees are responsible for overseeing development of recommendations for implementing the hatchery elements of the HCPs, including improvements, monitoring, and evaluation, as identified in the Hatchery Compensation Plans.

The Tributary Committees are charged with implementing the Tributary Conservation Plans of the HCPs by selecting tributary habitat improvement projects and approving project budgets.

HCP Phase I Implementation

The District began early implementation by performing survival studies as required on one species under the Rock Island HCP in 2002 and 2003. From 2004 to 2007, survival studies on all four species were performed for both Rocky Reach and Rock Island HCPs. For all three spring migrants (sockeye, steelhead and spring Chinook) at Rock Island, the District has met the 3-year study requirements with survival exceeding HCP levels of 93 percent juvenile survival. Since the three-year average survival exceeded 93 percent for these spring migrants, they are now in Phase III Standard Achieved. Under Phase III, the District has satisfied a major component of the No Net Impact aspect of the HCPs. No further studies are required by the HCP for another ten years when check-in survival studies would be performed.

The District has the option to adjust operations (i.e., reduce spill levels) and retest to ensure the 93 percent standard can still be achieved. The District began testing new operations in 2007 at Rock Island to determine if survival levels can still be met under reduced spill levels. The reduced spill level tests in 2007 and 2008 have resulted in a two-year average of 93.5 percent, slightly exceeding the 93 percent survival standard for spring Chinook. Additionally, 2008 was the first year reduced spill level tests were conducted on steelhead and sockeye, and survival results from those tests also exceeded the 93 percent level. The District will repeat the study design in 2009 during the spring outmigration to further test survival levels under reduced spill conditions at the Rock Island Project. The 2009 study results for yearling Chinook will provide the necessary 3-year average calculation to determine if survival levels have been met with reduced spill. If the 93 percent survival level is met or exceeded, then one additional year of survival testing for steelhead and sockeye will provide the 3-year requirement for those species. If the 93 percent survival standard cannot be met under reduced spill conditions for any one of the spring migrant species (Chinook, sockeye and steelhead), then the District will resume spill operations during their migrations at the level previously tested and shown to achieve the 93 percent survival standard.

The District also completed survival studies for steelhead at Rocky Reach and exceeded the 93 percent survival standard as well, and Rocky Reach steelhead are in Phase III—Standards Achieved. The other two spring migrants (sockeye and spring Chinook) are the subject of further studies to determine the optimum means of achieving the survival standard and are designated as Phase II – Additional Tools and Phase III – Provisional Review, respectively. Indications based on previous studies suggest that additional studies and research are needed to determine the best set of survival tools to use for the species that had lower than desired survival levels. Yearling spring Chinook testing at Rocky Reach must be completed by 2011, thus completing the third and final year Phase I survival testing for that particular plan species. The District has until March 2013 to meet the no net impact standards of the HCPs.

Currently the summer migrants (summer/fall subyearling Chinook) cannot be studied to assess projected survival using existing technologies. The committees will continue to monitor technological advances to address future survival study needs for subyearling Chinook. If the District does not meet the survival standards by 2013, additional tools may need to be considered. While the HCP requires the District to meet No Net Impact by 2013, it also states that the inability to determine a survival standard because of technological limitations should not be seen as a failure to meet No Net Impact. Therefore, the District is working to identify means to study and test survival levels for summer/fall Chinook. If the District is unable to show that survival standards of at least 93 percent are being met at Rocky Reach by 2013, the District will need to reach agreement with the HCP parties and study additional tools for satisfying the survival requirement. The HCP provides for adaptive management pursuant to which all parties could agree to an alternative scheme that would still meet the goals of the HCP and thus continue to support the grounds on which NOAA Fisheries issued its incidental take permit. The HCP states that if the District is unable to achieve survival standards, the parties will work through the Coordinating Committees to jointly seek a solution. The joint solution approach is consistent with the intent of the HCP for parties to work together to fix problems that may arise so long as the District is working with the Coordinating Committee to address meeting survival standards. The solutions (i.e., structural modifications to bypass system or operations) would be tested and approved by Committee action.

Bull Trout

On January 10, 2000, the USFWS requested FERC to enter into consultation with respect to the effects of the Rocky Reach and Rock Island HCPs on listed bull trout. In May, 2004, the USFWS provided FERC biological and conference opinions ("Opinions") on the proposed license amendments to include the District's Habitat Conservation Plans into the current Rocky Reach and Rock Island licenses. The Opinions required the development of bull trout management plans, which were to be developed in collaboration with various federal and state agencies and relevant tribes. The District worked closely with USFWS to include measures for bull trout that USFWS deemed necessary to protect the continued existence of bull trout from adverse effects of continued operation of the Rocky Reach Project in the Settlement Agreement. The bull trout management plans were completed in February 2005, and implementation began in May 2005. The management plan has been successfully implemented since approval by FERC in April 2005. Implementation of the bull trout management plans (monitoring & evaluation component) have shown no adverse effects to bull trout from the operation of Rocky Reach Project. On December 8, 2008, the USFWS filed its Biological Opinion for the Rocky Reach Project, concluding that the Project is not likely to jeopardize the continued existence of bull trout or destroy or adversely modify designated critical habitat.

Federal Columbia River Hydropower System

The federal hydropower system is comprised of federally owned dams and those federal agencies that operate, or market power from, the Federal Columbia River Hydropower System (the "FCRPS"), namely, Bonneville Power Administration, the U.S. Army Corps of Engineers and the U.S. Bureau of Reclamation. The FCRPS includes projects upstream and downstream from the Rocky Reach Project and the Rock Island Project on the Columbia River, as well as projects on the Snake River.

On March 2, 1995, NMFS issued a biological opinion to the FCRPS under the ESA concerning the effects of the FCRPS on listed Snake River salmon. On May 14, 1998, NMFS issued a supplemental biological opinion to the FCRPS concerning the effects of the FCRPS on listed Snake and Columbia River steelhead, as well as the effects of the juvenile transportation program and smolt monitoring program on listed Snake and Columbia River salmon and steelhead. On December 21, 2000, NMFS issued a biological opinion on the reinitiation of consultation on operations of the FCRPS, including the juvenile fish transportation program and 19 Bureau of Reclamation Projects in the Columbia Basin. Also on December 21, 2000, the USFWS issued a biological opinion on the effects of the FCRPS on bull trout, a threatened species, and Kootenai River white sturgeon. In June 2003, the federal district court for Oregon remanded the 2000 biological opinion to NMFS to resolve certain deficiencies. In a subsequent "minute order," the Judge denied plaintiffs' motion to vacate the biological opinion. On November 30, 2004, NMFS issued a new, 10-year biological opinion for FCRPS operations. Environmental groups challenged the November 30, 2004 biological opinion in the federal district court for Oregon. On April 9, 2007, the Ninth Circuit Court of Appeals affirmed the lower federal court's May 26, 2005 decision invalidating the 2004 biological opinion. The district court did not vacate the 2004 biological opinion but remanded the 2004 biological opinion to NMFS. That decision was again upheld on rehearing by the Ninth Circuit on April 24, 2008. NMFS subsequently issued a new 10-year biological opinion on May 5, 2008. Environmental groups filed a (fifth) amended complaint challenging the new biological opinion on September 12, 2008. The fifth amended complaint added challenges under Section 9 of the ESA and Section 401 of the Clean Water Act. Briefing on the case has been completed and oral arguments were held on March 6, 2009. Also pending is a motion for preliminary injunction seeking additional spill and flow. While the case is fully submitted, a decision is not expected in the immediate future, as the judge has indicated a preference to allow the new presidential administration adequate time to review the substance of the biological opinion.

Two of the most significant features of the 2000 and 2008 biological opinions are the requirement for substantial Columbia River storage and flow pattern changes to assist migration of juvenile salmon and steelhead and the effect of water quality issues associated with water spilled for fish passage at the projects upstream. Due to the location of the Rocky Reach Project and the Rock Island Project in relation to the FCRPS, these conditions may reduce the power output at the Rocky Reach Project and the Rock Island Project and will potentially change the seasonal timing of a significant amount of such generation. A reduction in output or changes in the timing of storage releases and resulting energy generation could affect the amount of water the Rocky Reach Project and the Rock Island Project may spill to aid fish passage, increase the unit cost of power from these projects, require the Hydro-Electric Systems to replace the lost power from other higher-cost sources, and reduce Hydro-Electric System revenues from non-firm energy sales.

Pacific Northwest Power Planning and Conservation Act

In 1980, Congress enacted the Pacific Northwest Power Planning and Conservation Act (the "Regional Power Act"). The Regional Power Act provides for the establishment and operation of the Pacific Northwest Electric Power and Conservation Planning Council (the "Regional Council"), which is required to prepare and adopt a regional conservation and electric power plan and a program to protect, mitigate and enhance fish and wildlife, including related spawning grounds and habitat, of the Columbia River and its tributaries. The fish and wildlife plan is implemented by Bonneville and other federal agencies responsible for managing, operating or regulating the federal or non-federal hydroelectric facilities located on the Columbia River or its tributaries, and is generally complied with by hydro-system operators, including the District.

A report commissioned by the Regional Council concerning restoration of salmon to the Columbia River was released in draft form in September 1996. The report is still in draft form. Among other things, the report recommends that consideration be given to permanent draw-downs of the John Day Dam reservoirs to spillway crest as a means of restoring natural habitat and spawning areas. The John Day Dam is a federally-owned dam on the Columbia River downstream from the Rocky Reach Project and the Rock Island Project. The John Day Dam has the largest reservoir on the Columbia River downstream from Grand Coulee Dam. The report also recommends, for one or more other selected reservoirs, consideration of a return to the status of a natural river, which would require breaching or bypassing existing dams. An open forum on such recommendations is suggested at which their biological, social and cultural benefits and costs could be discussed. Neither the Rocky Reach Project nor the Rock Island Project has significant reservoir capacity.

Similar to the FCRPS biological opinions referred to above, one of the most significant features of the fish and wildlife plans is the requirement for substantial Columbia River storage and flow pattern changes to assist migration of juvenile salmon and steelhead, which could have the same effects upon the Hydro-Electric Systems as described above in relation to the biological opinions. See "Federal Columbia River Hydropower System" above. The HCPs discussed above seek to address these issues as they affect the parties to such agreements.

Possible Effects

The outcome of these actions and other current and possible suits and proceedings arising from threatened and endangered species listings and critical habitat designations is likely to have some direct or indirect effect on operation of the Columbia River hydroelectric system including the operation of individual Hydro-Electric Projects. It is possible under the ESA that operations of the Hydro-Electric Projects could be significantly constrained, although the District believes that this is unlikely given the progress to date on the HCPs. Further, additional protective and mitigation measures could be imposed for species other than salmon or steelhead, resulting in a substantial increase in the District's unit cost of production. The District believes the imposition of such additional mitigation measures to be unlikely. The nature and extent of such actions and their impact on the District is uncertain at this time, but could be significant.

DEVELOPMENTS AFFECTING THE ELECTRIC UTILITY INDUSTRY

General

The electric utility industry in the United States is in a period of significant change, resulting in part from actions taken by legislative and regulatory bodies at the national, regional and state level. Legislative and regulatory actions have fostered, among other things, increased wholesale competition and, in some states, competition at a retail level, as well as "open access" for certain transmission facilities. The industry also is being affected by a variety of other factors that can have an impact on the financial condition of electric utilities, including without limitation the following: (1) the effects of increased competition in certain sectors of the industry, including in the wholesale power markets; (2) changes in the availability and cost of fuels, including natural gas; (3) changes in the availability of and demand for power generally, as a result of economic, demographic, regulatory, weather and other factors; (4) climate change; (5) reliability standards; and (6) the costs and operational impacts of endangered species, environmental, safety, licensing and other federal, state and local laws and regulations.

Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures that regulate the environmental impact of electric utilities are subject to change. Consequently, there is no assurance that the facilities operated by the District will remain subject to the regulations currently in effect, will always be in compliance with future regulations or will always be able to obtain all required operating permits. An inability to comply with environmental or regulatory standards could result in reduced operating levels or the shutdown of facilities not in compliance.

The District cannot predict whether additional legislation or rules will be enacted which will affect the operations of the District, and if such laws or rules are enacted, what the costs to the District might be in the future because of such action.

The electric utility industry is also subject to changes in technologies. Recent and continuing advances in electrical generation may render electrical generation on a smaller scale more feasible or make alternative forms of generation more or less economic. Such technology would provide certain purchasers of the power generated by the District's facilities with the ability to generate increased portions of their own electrical power needs and reduce the market price for power provided by the District. The District cannot predict the timing of the development or availability of such technologies and the ultimate impact they would have on the Revenues of the Consolidated System.

The District cannot predict what effects such factors will have on its operations and financial condition, but the effects could be significant. Extensive information on the electric utility industry is available from the various regulatory bodies and other sources in the public domain. See "AGREEMENTS AND PROCEEDINGS AFFECTING THE HYDRO-ELECTRIC PROJECTS."

Recent Market Conditions

The price of electricity in wholesale markets throughout the Western United States declined in the last half of 2008. Annual growth in electricity sales in 2007 was 2.8 percent, showing a sharp increase over the .02 percent increase from the prior year according to the EIA Electric Power Annual report. In 2007, for the first time, renewable energy sources, other than conventional hydroelectric capacity, accounted for the largest portion of capacity additions. Total net summer capacity increased 8,673 MW in 2007. Wind capacity accounted for 5,186 MW for this new capacity. Many of these new wind generation projects have come on line in the Pacific Northwest adding to the supply side. The recent economic downturn has reduced the demand for electricity, and pricing has continued to fall into 2009. The District cannot predict future price movements.

With below normal flows on the Columbia River during 2008, the District was able to meet all of its retail load requirements during that time from its own resources and a few purchases during low flow periods. In addition, the District was able to sell power that exceeded its own needs in most months.

Based on snow pack levels and run off forecasts as of April 7, 2009, the District currently expects that Columbia River flows at Grand Coulee for 2009 to be approximately 84 to 94 percent of normal.

Energy Policy Act of 2005

The Energy Policy Act of 2005 ("EPAct 2005") made fundamental changes in the federal regulation of the electric utility industry, particularly with regard to transmission access, market behavior and mandatory reliable standards.

Open Access by Unregulated Transmitting Utilities

In 1996, FERC issued Order 888, which had ordered pro forma, open-access mandatory transmission tariffs to be put into effect for all jurisdictional utilities. Order 888 did not apply to municipal utilities. However, FERC adopted a "reciprocity" provision in Order 888 that required non-jurisdictional utilities to offer "comparable" transmission services in return for using a jurisdictional utility's open access transmission services. A non-jurisdictional utility could satisfy reciprocity by filing a safe-harbor tariff with FERC and receiving approval; entering into a bilateral agreement with the jurisdictional utility; or receiving a waiver from FERC.

In EPAct 2005, Congress added section 211A to the FPA. The section authorized FERC to, by rule or order, require a non-jurisdictional utility to provide transmission services at rates that are comparable to those it charges itself and under terms and conditions (unrelated to rates) that are comparable to those it applies to itself, and that are not unduly discriminatory or preferential. In other words, EPAct 2005 authorized FERC to require non-jurisdictional utilities to provide non-discriminatory open access for all transmission customers - even for transmission customers from whom the non-jurisdictional utility did not take service. This authority is subject to certain exemptions and to the limitation that it may not require a violation of a private activity bond rule for tax purposes.

After a lengthy rulemaking process, FERC issued a final Order 890 on February 15, 2007. In Order 890, FERC declined to adopt a generic rule to implement the new FPA section 211A. However, FERC stated it will apply the provisions of 211A on a case-by-case basis. For example, if a jurisdictional utility wants service from a non-jurisdictional utility, FERC could compel the non-jurisdictional utility to provide service "comparable" to what it provides itself and that is not unduly discriminatory or preferential.

FERC Order 890 also cited eight principles for increasing transparency in regional transmission planning. The principles included coordination, openness, transparency, information exchange, comparability, dispute resolution, regional participation, and congestion studies. While the specific requirements with regard to transmission planning are not formally applied to non-jurisdictional utilities, FERC clearly stated that it expects non-regulated transmission providers will participate in open and transparent regional planning processes.

Furthermore, FERC's Order 890 requires jurisdictional utilities, working through the North American Electric Reliability Council ("NERC"), to develop consistent methodologies for available transmission capacity calculations and to publish those methodologies to increase transparency. The District is currently evaluating the extent to which Order 890 will affect its relationships with jurisdictional utilities with which it does business.

On December 28, 2007, FERC issued Order 890-A, largely confirming Order 890. On June 19, 2008, FERC issued Order 890-B, largely reaffirming its rule on open access (Order 890) and its later rehearing order (Order 890-A). Order 890-B provided clarification and guidance on the rule. In these Orders, FERC reiterated its expectation that non-jurisdictional utilities participate in regional transmission planning.

The District is a member of ColumbiaGrid, a non-profit corporation formed in March 2006 to improve the operational efficiency, reliability, and planned expansion of the Northwest transmission grid. Members of ColumbiaGrid include Bonneville, public power utilities and investor-owned utilities. ColumbiaGrid is focusing on issues that are also being impacted by federal level activity through Order 890 and mandatory reliability standards. In particular, ColumbiaGrid intends to address: (1) transmission planning and expansion, (2) independent market monitoring, (3) common OASIS, (4) coordinated reliability and security initiatives, and (5) further development of a flow-based available transmission capacity methodology. On February 7, 2007, the District signed ColumbiaGrid's Planning and Expansion Functional Agreement (PEFA). For the District, the PEFA is an integral part of meeting FERC's expectations for participating in regional transmission planning as a non-jurisdictional utility. On March 24, 2008, the District signed ColumbiaGrid's Open Access Same Time Information System (OASIS) agreement. OASIS is an Internet-based tool for posting standard rates and terms for providing transmission services. The goal of the OASIS agreement is to provide the PEFA parties a common set of protocols and practices for their OASIS and a common queue for transmission service requests across multiple transmission service providers.

Mandatory Reliability Standards

EPAct 2005 authorized FERC to certify and oversee an Electric Reliability Organization ("ERO") for the purpose of establishing and enforcing mandatory reliability standards in North America. Under EPAct 2005, the ERO can delegate enforcement authority to qualified regional reliability organizations ("RROs"). On July 20, 2006, FERC certified NERC as the ERO. In April 2007, the Western Electricity Coordinating Council ("WECC") became the RRO for the western interconnect. The western interconnect extends from Canada to Mexico and includes the provinces of Alberta and British Columbia, the northern portion of Baja California, Mexico and all or portions of the 14 western states in between.

On March 15, 2007, FERC approved 83 of 107 proposed reliability standards; the remaining 24 have not been approved or remanded and are awaiting additional information before FERC makes a determination. While approving the 83 mandatory reliability standards, FERC also found that some modifications of the approved standards are appropriate, and directed NERC to use its standards development process to revise 56 of the approved standards on a standard-by-standard basis. Compliance with the approved standards was made mandatory and enforceable on June 18, 2007. In addition to these standards, another eight regional standards were approved in June of 2007, and eight "cyber security standards" were approved by FERC on January 18, 2008. Compliance with cyber security standards is being implemented in phases. The deadline for compliance with 13 of the requirements was June 30, 2008, and the deadline for compliance for the remaining 28 requirements will be in June 2009.

The District filed 11 self-reports with WECC, as the RRO, in 2007 for compliance concerns. Two of the self-reports were retracted in 2008 and determined not to be violations. The District has completed all mitigation plans associated with those self-reported violations.

The District is implementing a full reliability internal compliance program. The program and staff are in operations, but the work is independently reviewed and monitored by the District's Compliance Department. The District underwent a compliance audit by WECC in August 2007. The audit results are still pending; however, possible violations were noted. The District cannot estimate the penalties related to any violations at this time.

Prohibition on Market Manipulation

EPAct 2005 prohibits entities, including municipalities such as public utility districts, from using any manipulative or deceptive device or contrivance, in connection with the purchase or sale of electric energy or the purchase or sale of transmission. On January 19, 2006, FERC issued a final rule implementing this section. The regulation specifically makes it unlawful for any entity, directly or indirectly, in connection with transactions subject to FERC jurisdiction: (1) to defraud using any device, scheme or artifice; (2) to make any untrue statement of material fact or omit a material fact; or (3) to engage in any act, practice or course of business that operates or would operate as a fraud or deceit. This regulation applies to the District to the extent it engages in conduct "in connection with" matters over which FERC has jurisdiction. The District has taken steps to demonstrate a culture of compliance, including compliance with anti-manipulation requirements. A compliance plan and training program have been developed.

Compliance and Risk Management

The District is subject to various legal, regulatory and contractual compliance requirements. The District has established a comprehensive ethics and compliance program that is designed to foster a culture of compliance. The culture of compliance means that all District employees are expected to learn, understand and follow the laws and regulations that affect their job responsibilities and that the District enforces this expectation in policies and procedures. In 2007, the District established a Chief Compliance Office consisting of the General Counsel/Chief Compliance Officer and a Compliance Manager. This office is responsible for leading and coordinating the development, implementation and ongoing monitoring of the District's compliance programs. The Chief Compliance Office is independent from the compliance operational areas. In 2007, the District established a Chief Risk Officer position, the holder of which was to be an executive member of the District leadership team. After a realignment and reorganization of the District's management in 2008, the position of Chief Risk Officer was combined with that of the Chief Financial Officer. See "THE DISTRICT—Management and Administration." The Chief Risk Officer is responsible for the District's enterprise risk management program and chairs the District's Power Risk Management Committee.

Amendments to the Public Utility Regulatory Policies Act

PURPA was enacted in 1978. Among other things, PURPA was intended to encourage (1) the conservation of energy supplied by electric utilities; (2) optimal efficiency of electric utility facilities and resources, and (3) equitable rates for electric consumers. The law has been amended several times, notably by the Energy Policy Act of 1992 and most recently by EPAct 2005. EPAct 2005 amended Section 111(d) of PURPA to require utilities to consider, and make a determination about whether it is appropriate to implement, five new federal standards relating to electric generation and efficiency. These federal standards are (1) net metering (EPAct Section 1251); (2) fuel diversity (EPAct Section 1251); (3) fossil fuel generation efficiency (EPAct Section 1251); (4) time-based metering and communications (EPAct Section 1252); and (5) interconnection (EPAct Section 1254).

EPAct 2005 sets various deadlines for commencing and completing consideration of these standards. The Commission began consideration of three of these standards (net metering, time-based metering/communications and interconnection) on August 8, 2006. A public hearing was held on November 13, 2006, to consider adopting proposed standards for net metering service to electric consumers served by the electric utility delivery system, time-based metering and communications, and interconnection of third-party generation facilities to the electric utility delivery system.

The Commission determined that it is not in the best interest of the District to adopt the federal net metering standard based on staff's recommendations. Rather, the Commission decided that the District's Rate Schedule 20 should be updated to reflect recent state legislation and presented to the Commission at a future date. With regard to interconnection service, the Commission determined it is not in the best interest of the District to adopt the federal standard, based on staff's recommendations. Rather, the District should continue to provide interconnection service to customer generators of up to 10MW and adopt the specific interconnection services developed by the Washington PUD Association Public Power Ad-hoc Interconnection Standards Committee for customer generators of 25kW or less after a presentation to the Commission at a future date.

The Commission also declined to adopt federal standards for time-based rates and communications. Instead, District staff will continue to study and evaluate the benefits, technology and costs of time-based rates and communications (or smart metering) in conjunction with automated meter reading and report back to the Commission at a future date.

EPAct 2005 required that the Commission complete a determination of the last two standards (fuel diversity and fossil fuel efficiency) by August 8, 2008. The Commission began consideration in July 2007. A public hearing was held on November 19, 2007 to consider adoption. On December 3, 2007, the Commission made a determination not adopt the fuel source diversity standard, but determined that it may be in the best interests of the District to adopt a fuel source diversity standard before 2011, if appropriate. Commissioners also declined to adopt the fossil fuel efficiency standard, finding it not applicable to the District.

The Energy Independence and Security Act of 2007 also added several new PURPA standards which the District must consider and determine whether to adopt. The standards are related to integrated resource planning; rate design to promote energy efficiency; and smart grid information. The District initiated consideration of these standards on August 11, 2008 in a public hearing. On November 3, 2008 the Commission held a public hearing to consider adopting proposed standards for two of the four standards, specifically smart grid investments and smart grid information. After considering the standards, the Commission elected not to adopt them, but directed staff to continue to evaluate possibilities for the future. The Commission expects to hold a public hearing on the final two standards required by EISA 2007 before December 12, 2009.

Climate Change and Renewables

General

The District is attentive to the developing scientific knowledge and information regarding climate change which may result from greenhouse gas emissions and accumulations and from other factors. Currently available information suggests that an over-all decrease in precipitation in Canada and in Washington State upstream from the District's Hydro-Electric Projects as a result of projected climate changes is relatively unlikely. To the extent, however, that regional warming increases the average temperature in the watershed that feeds the Columbia River, such warming could result in earlier run-off into the Columbia River, and thus affect the timing and/or amount of power generation at the District's Hydro-Electric Projects. The District is unable to predict whether any such climate changes will occur, the nature or extent thereof, or the effects they might have on the District's business operations and financial condition.

State and national policymakers are debating how to manage and mitigate for greenhouse gas emissions from many sectors of the economy, including electric generation. The District's three hydroelectric generating projects provide low-cost, clean, renewable power that does not generate greenhouse gas emissions. As an electric generator that relies on emission-free hydropower to serve its retail load plus provide energy to thousands of other Northwest customers, the District has a significant interest in the role that hydropower plays in climate-change policy. District management and staff have taken an active role by commenting on state and regional policy proposals. For example, the District's general manager serves by invitation on the Washington State governor's climate advisory team. District staff continues to monitor federal policy development.

Chicago Climate Exchange

The District has taken steps seeking to have hydropower generation recognized as part of the solution in the climate change debate. In December 2007, the Chicago Climate Exchange approved a portion of the hydropower generated at Rocky Reach Dam to be traded to offset greenhouse gas emissions from other sources. Approximately 1.75 million additional megawatt hours generated at the dam as a result of operational and equipment efficiency improvements from 2003 through 2006 have been registered as carbon offset credits (0.4 conversion factor) on the exchange. Nearly half of these offsets were sold in 2008.

Renewable Energy Markets

The District has actively participated in the voluntary renewable energy markets. Renewable Energy Credits ("RECs") are the environmental attributes associated with one MWh of a qualifying renewable energy resource. Markets for RECs support both voluntary greenhouse gas reduction programs and mandated state renewable portfolio standards. The District has sold a portion of the RECs associated with its hydro-electric power and wind power. As of March 31, 2009, over 100,000 of the District's RECs have been sold.

Low Impact Hydropower Institute

On January 24, 2008, the District's Lake Chelan Hydro Project was certified as "low impact" by the Low Impact Hydropower Institute ("LIHI"). Receiving certification as low-impact hydro means the dam and powerhouse are recognized for meeting criteria related to river flows, water quality, fish passage and protection, watersheds, threatened and endangered species, cultural resources, and public access and recreation. If any of the electricity generated at the Lake Chelan Project is ultimately certified as "green power," the energy or environmental values could potentially be sold in environmental markets. LIHI certification has been considered an important first step toward green certification, but the environmental markets are still evolving.

LIHI is a national independent nonprofit organization established in 1999 and headquartered in Portland, Maine. LIHI's mission is to reduce the impacts of hydropower dams through market incentives. To earn certification as low-impact hydro, the District submitted an application to LIHI detailing the Lake Chelan Project's environmental record and explaining the new license provisions. The District may choose to renew the certification after the initial five-year period expires.

State Energy Legislation

Renewable Portfolio Standard

A ballot initiative known as I-937 was passed by the voters of the State of Washington in November 2006. Under the initiative, utilities with a retail load of more than 25,000 customers are required to use eligible renewable resources (excluding existing hydro-electric power) or acquire equivalent renewable energy credits, or a combination of both, to serve 3 percent of load by January 1, 2012; 9 percent by January 1, 2016; and 15 percent by January 1, 2020. The initiative also requires utilities to pursue all available conservation that is cost-effective, reliable, and feasible and impose deadlines for meeting conservation targets. Initiative 937 has been codified in the Washington RCW as The Energy Independence Act of 2006 (RCW 19.285).

The new law is specific about what types of renewable generation is eligible as to meet the renewable portfolio standard ("RPS"). Existing hydropower is not eligible, but incremental hydropower is included as a renewable if it is produced as a result of efficiency improvements completed after March 30, 1999 to hydroelectric projects owned by a qualifying utility or to hydroelectric generation in irrigation pipes and canals located in the Pacific Northwest, where the additional generation does not result in new water diversions or impoundments. Under the initiative, therefore, the District could count efficiency gains at its existing hydropower projects toward meeting the RPS. All of the District's share of the Nine Canyon Wind Project would qualify for the RPS.

The District is evaluating the impacts of I-937 and other proposed changes to I-937, specifically to what extent the District's current portfolio meets the RPS and how much additional renewable energy generation it may need to acquire at a future date to ensure compliance. In addition, the District is evaluating the potential for cost effective, reliable and feasible conservation measures that could be derived from more efficient energy use, production and distribution within its system. In the meantime, the Washington State Department of Community, Trade and Economic Development ("CTED") has issued a rule for implementing the requirements of the Energy Independence Act of 2006 as it pertains to consumer owned utilities.

In addition, the District closely followed efforts by the Washington State Legislature to revise the new law in 2009, when the legislature was allowed to amend the citizen's initiative by a simple majority vote, although no action was taken. Amendments to the Energy Independence Act of 2006 could result in increased RPS targets for the District.

Integrated Resource Planning

In 2006, the Washington State Legislature (the "Legislature") passed HB 1010 (RCW 19.280), which requires investor-owned and consumer-owned electric utilities with more than 25,000 customers to develop integrated resource plans ("IRPs") and submit them to CTED.

IRPs must include demand forecasts; assessment of commercially-available conservation and efficiency resources; assessments of commercially-available, utility scale renewable and nonrenewable generating technologies; a comparative evaluation of renewable and nonrenewable generating resources and conservation and efficiency resources, using "lowest reasonable cost" as a criterion; integration of demand forecasts and resource evaluations to identify how to meet current and projected needs at the lowest reasonable cost and risk; and a short-term plan identifying specific actions to take consistent with the long-range IRP.

Consumer-owned utilities must seek public input in development of its IRPs and progress reports and provide public notice and hearing. The first IRP must be submitted by September 1, 2008, with progress reports due at least every two years thereafter. An updated IRP must be developed at least every four years subsequent to the 2008 IRP. The District has completed its 2008 IRP and related public process pursuant to RCW 19.280, and it was adopted by the Commission on August 11, 2008. The District submitted the IRP to CTED on August 22, 2008.

Cleaner Energy

In 2007, the Legislature passed HB1303, which would in part require all state agencies and local government subdivisions of the state to satisfy 100 percent of their fuel needs for operating publicly-owned vessels, vehicles and construction equipment with electricity or biofuels by 2015 (subsequently codified as RCW 43.19.648). CTED is to adopt rules for implementation of this requirement "to the extent practicable." If CTED finds it not practicable, the requirement can be suspended, delayed or modified until it is deemed practicable.

Climate Change

In 2008, the Legislature passed E2SHB 2815, which requires reductions in greenhouse gas ("GHG") emissions, initiates GHG reporting requirements, and requires the Department of Ecology to make recommendations for the development of a market-based cap and trade system. Under the bill, the state must reduce overall greenhouse gas emissions to 1990 levels by 2020; to 25 percent below 1990 levels by 2035; and to 50 percent below 1990 levels by 2050.

The bill required the Department of Ecology to adopt rules requiring the reporting of GHG emissions. Owners or operators of a fleet of on-road motor vehicles that emit at least 2,500 metric tons of direct GHG emissions annually in the state, or a source or combination of sources that emit at least 10,000 metric tons of direct GHG emissions annually in the state, must report their total annual GHG emissions beginning in 2010 for their 2009 emissions. The District contracted with Ryerson, Master & Associates, a consulting firm ("RMA"), in 2007 to conduct analyses related to the District's carbon footprint. In May 2009, the District received RMA's preliminary draft inventory for calendar year 2007. The inventory was created using methods and procedures specified in The Climate Registry General Reporting Protocols, Version 1.1 (May 2008). The preliminary findings for 2007 conclude that the District's carbon footprint is below the reporting requirements (10,000 metric tons CO2 equivalent); therefore, no additional action is necessary.

The Department of Ecology was also directed to design a regional multisector market-based system to limit and reduce greenhouse gas emissions in coordination with the regional Western Climate Initiative. In December 2008, the Department of Ecology provided recommendations to the Legislature. The Department of Ecology is currently in the rulemaking process, and the District is closely following this process.

ECONOMIC AND DEMOGRAPHIC INFORMATION

The Distribution Division markets approximately 40.9 percent of the power output of the Hydro-Electric Projects throughout an area coextensive with Chelan County, Washington, located in central Washington approximately 138 road miles east of Seattle and 165 road miles west of Spokane. Wenatchee, the county seat of the County, is located on east-west U.S. Highway 2 and within five miles of north-south U.S. Highway 97, and is on the Columbia River.

Agriculture is the mainstay of Chelan County. Due to the Wenatchee area's soil and climate conditions, the area produces substantial crops of apples, pears and cherries. The three-county region of Chelan, Okanogan to the north and Douglas to the east produces a significant portion of the apple crop of the State.

Although Wenatchee's economy is based primarily on agriculture, it is supported by the aluminum industry, with Alcoa being the major employer in the area. See "THE CONSOLIDATED SYSTEM—The Rocky Reach Power Sales Contracts—Alcoa." In addition to Alcoa, local industries include steel and machinery fabricating firms, food processors and garment manufacturing.

Over 1,000 businesses provide goods and services required by a four-county trade area of 120,000 people. The abundant outdoor recreation opportunities and close proximity of Wenatchee to the urban Puget Sound region have made Wenatchee a major year-round convention and recreation site within the State. The Greater Wenatchee Regional Events Center (the Town Toyota Center), a premier multi-purpose sports and entertainment venue, opened October 6, 2008. The facility is being financed through a partnership of the Greater Wenatchee Regional Facility District and the City of Wenatchee.

Wenatchee and East Wenatchee residents enjoy a wide range of educational, cultural and civic institutions. The Wenatchee and Eastmont school districts together provide three high schools, a junior high school, five middle schools and 12 elementary schools to the community's young people. Also available are parochial school systems and the campus facilities of Wenatchee Valley College, a 5,000-student (including part-time students) two-year institution. Central Washington University in Ellensburg, Western Washington University in Bellingham, and Washington State University in Pullman maintain extension centers for students seeking four-year degrees as well as master's certificate programs.

Tables 20 through 25 on the following two pages present data regarding population, employment, income, retail sales, major employers and building permit activity.

Table 20
Population[(1)]

Year	Wenatchee	Chelan County	State of Washington
2004	28,760	68,400	6,167,800
2005	29,320	69,200	6,256,400
2006	29,920	70,100	6,375,600
2007	30,270	71,200	6,488,000
2008	30,810	72,100	6,587,600

(1) Figures are estimates. Estimates in this series are not revised based on information that becomes available after the estimate date.
Source: Washington Office of Financial Management.

Table 21
Average Annual Employment [(1)]

Chelan County	2004	2005	2006	2007	2008
Total Civilian Resident Labor Force	38,610	39,560	39,550	40,380	41,980
Employment	35,940	37,230	37,520	38,420	38,710
Unemployment	2,670	2,330	2,030	1,960	2,270
Unemployment Rate	6.9%	5.9%	5.1%	4.8%	5.5%
State of Washington					
Unemployment Rate	6.2%	5.5%	4.9%	4.5%	5.3%

(1) Prepared in cooperation with The Bureau of Labor Statistics.
Source: Washington State Employment Security Department.

Table 22
Per Capita Personal Income

Year	Chelan County	State of Washington
2004	$28,871	$35,347
2005	29,937	36,227
2006	31,349	38,639
2007	32,714	41,203

Source: US Census Bureau.

Table 23
Chelan County
Taxable Retail Sales

2004	2005	2006	2007	2008
$1,136,930,505	$1,223,125,472	$1,385,598,578	$1,494,671,178	$1,532,758,491

Source: Washington State Employment Security Department.

Table 24
Chelan County and Douglas County
Major Employers

Employer	Project or Service	No. of Employees
Stemilt Growers, Inc.	Agriculture	2,334
Wenatchee Valley Medical Center	Healthcare	1,554
Central Washington Hospital	Healthcare	1,450
Wenatchee School District	Education	972
Dovex Fruit Company	Agriculture	725
Eastmont School District	Education	675
Chelan County PUD #1	Utilities	665(1)
Chelan Fruit, Inc.	Agriculture	550
Chelan County Auditor's Office	County	539
McDougall & Sons, Inc.	Agriculture	531
Blue Star Growers	Agriculture	452
C & O Nursery	Agriculture	450
ALCOA	Manufacturing	420
North Central ESD	Education	402
Wenatchee Valley College	Education	374
Custom Fruit Packers	Agriculture	356
Blue Bird, Inc.	Agriculture	300
Campbell's Resort	Resort	275
Mission Ridge Ski Area	Recreation & Fitness	275
Douglas County Auditor's Office	County	254

(1) As stated in "THE DISTRICT—Employees," as of December 31, 2008 the total number of District employees was 760.
Source: Port of Chelan County, September 2008.

Table 25
Chelan County
Building Permits

	Permits Issued	Valuation
2004	731	$72,573,548
2005	782	49,814,050
2006	940	64,124,525
2007	940	69,217,386
2008	791	67,735,362

Source: Port of Chelan County and Chelan County Building, Fire Safety and Planning, Building Division.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2009A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), except that no opinion is expressed as to the status of interest on any 2009A Bond for any period that such 2009A Bond is held by a "substantial user" or the facilities financed or refinanced by the 2009A Bonds or by a "related person" within the meaning of Section 147(a) of the Code. In the further opinion of Bond Counsel, interest on the 2009A Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. A copy of the proposed form of opinion of Bond Counsel is set forth in Appendix J.

To the extent the issue price of any maturity of the 2009A Bonds is less than the amount to be paid at maturity of such 2009A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2009A Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the 2009A Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the 2009A Bonds is the first price at which a substantial amount of such maturity of the 2009A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2009A Bonds accrues daily over the term to maturity of such 2009A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2009A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2009A Bonds. Beneficial Owners of the 2009A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2009A Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2009A Bonds in the original offering to the public at the first price at which a substantial amount of such 2009A Bonds is sold to the public.

2009A Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Section 103 of the Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2009A Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2009A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2009A Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the 2009A Bonds. The opinion of Bond Counsel with respect to the 2009A Bonds assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 2009A Bonds may adversely affect the value of, or the tax status of interest on, the 2009A Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 2009A Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the 2009A Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial

Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2009A Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the 2009A Bonds. Prospective purchasers of the 2009A Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, regulation or litigation as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel as to the 2009A Bonds is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2009A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2009A Bonds ends with the issuance of the 2009A Bonds, and unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax exempt status of the 2009A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the 2009A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2009A Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

CONTINUING DISCLOSURE UNDERTAKING

Pursuant to a certificate to be executed by the District prior to the issuance and delivery of the 2009A Bonds (a "Continuing Disclosure Certificate"), the District will covenant for the benefit of the Owners and the "Beneficial Owners" (as defined in the Continuing Disclosure Certificate) of the 2009A Bonds to provide certain financial information and operating data relating to the District by not later than six months after the end of each of the District's fiscal years (presently, December 31), commencing with the report for the fiscal year ended December 31, 2009 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events with respect to the 2009A Bonds, if material. The Annual Report will be filed by or on behalf of the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report and the notices of material events are set forth in the proposed form of the Continuing Disclosure Certificate, which is included in its entirety in Appendix I. The District's covenant will be made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12. The District has complied in all material aspects with all prior written undertakings under the Rule.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters relating to the offering of the 2009A Bonds are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Seattle, Washington, Bond Counsel and Disclosure Counsel to the District. The proposed form of opinion of Bond Counsel with respect to the 2009A Bonds is attached hereto as Appendix J. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed on for the Underwriter by its counsel, Hawkins Delafield & Wood LLP, New York, New York.

LIMITATIONS ON REMEDIES

The ability of the District to comply with its covenants under the Resolution and to generate Revenues sufficient to pay the principal and Redemption Price of and interest on the 2009A Bonds may be adversely affected by actions and events outside the control of the District, including without limitation by actions taken (or not taken) by voters or ratepayers. Furthermore, any remedies available to the owners of the 2009A Bonds upon the occurrence of an event of default under the Resolution are in many respects dependent upon judicial actions which are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain.

In addition to the limitations on remedies contained in the Resolution, the rights and obligations under the Bonds and the Resolution may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to limitations on legal remedies against public utility districts in the State. The opinions to be delivered by Orrick, Herrington & Sutcliffe LLP, as Bond Counsel, concurrently with the delivery of the 2009A Bonds, to the effect that the 2009A Bonds constitute valid and binding limited obligations of the District and that the Resolution constitutes a valid and binding obligation of the District, will be subject to such limitations, and the various other legal opinions to be delivered concurrently with the delivery of the 2009A Bonds will be similarly qualified. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix J. In the event the District fails to comply with its covenants under the Resolution or to pay principal or Redemption Price of or interest on the 2009A Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the owners of the 2009A Bonds.

INITIATIVE AND REFERENDUM

Under the State Constitution, the voters of the State have the ability to initiate legislation and require a public vote on legislation passed by the State Legislature through the powers of initiative and referendum, respectively. Neither power may be used to amend the State Constitution. Initiatives and referenda are submitted to the voters upon certification of a petition signed by at least eight percent (initiative) and four percent (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of the voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws.

It is possible that future initiatives could be approved by the voters from time to time, including without limitation initiatives that revise or restrict the powers of the District to increase rates and charges. The District is unable to predict whether any such initiatives might be submitted to or approved by the voters, the nature of such initiatives, or their potential impact on the District.

LITIGATION

The District is not aware of any litigation pending or threatened in any court (either state or federal) to restrain or enjoin the issuance or delivery of the 2009A Bonds, or questioning the creation, organization or existence of the District or the title to office of the members of the Commission or officers of the District or the proceedings for the authorization, execution, sale and delivery of the 2009A Bonds, or in any manner questioning the power and authority of the District to impose, prescribe or collect rates and charges for the services of the Rocky Reach System. The District is a party to other lawsuits arising out of its normal course of business, but other than as described elsewhere in this Official Statement, the District does not believe that any of such other lawsuits will have a material adverse effect upon the District or its ability to pay the 2009A Bonds.

INDEPENDENT ACCOUNTANTS

The District's financial statements as of December 31, 2008 and December 31, 2007 and for the two years then ended, included as Appendix A in this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein.

RATINGS

Moody's, S&P and Fitch have assigned their ratings of "Aa2," "AA" and "AA+," respectively, to the 2009A Bonds. Such ratings reflect only the views of the rating agencies, and any explanation of the significance of each such rating should be obtained from the rating agency furnishing the same. Such ratings are not a recommendation to buy, sell or hold the 2009A Bonds. There is no assurance that any such ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by the rating agency furnishing the same, if, in its judgment, circumstances so warrant. The District and the Underwriter undertake no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the 2009A Bonds.

UNDERWRITING

Barclays Capital Inc. (the "Underwriter") has agreed, subject to certain conditions, to purchase the 2009A Bonds from the District at a purchase price of $16,414,751.85, which is equal to the aggregate principal amount of the 2009A Bonds, plus net original issue premium of $619,254.55 and less an Underwriter's discount of $99,502.70.

The Underwriter's obligations are subject to certain conditions precedent, and the Underwriter will be obligated to purchase all the 2009A Bonds, if any such 2009A Bonds are purchased. The 2009A Bonds may be offered and sold to certain dealers at prices lower than the public offering prices of the 2009A Bonds, and such public offering prices may be changed, from time to time, by the Underwriter. The Underwriter may offer and sell the 2009A Bonds into unit investment trusts or money market funds, certain of which may be managed or sponsored by the Underwriter, at prices lower than the public offering prices of the 2009A Bonds.

FINANCIAL ADVISOR

Public Financial Management, Inc. has acted as financial advisor to the District in connection with the issuance of the 2009A Bonds.

MISCELLANEOUS

The references, excerpts and summaries contained herein and in the appendices hereto of the Enabling Act, the Master Resolution, the Second Supplemental Resolution, the Senior Consolidated System Resolution and the Consolidated System Resolutions, and certain other statutes, licenses, permits, resolutions, agreements and contracts are brief outlines of certain provisions thereof. Such outlines do not purport to be complete statements of the provisions of such documents and reference should be made to such documents for full and complete statements thereof. Copies of such documents are available for inspection at the general office of the District.

Neither this Official Statement nor any advertisement of the 2009A Bonds is to be construed as a contract with the owners of the 2009A Bonds. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not expressly so identified, are intended merely as such and not as representations of fact.

For additional information regarding the District or the 2009A Bonds, contact the Treasurer, Public Utility District No. 1 of Chelan County, 327 North Wenatchee Avenue, Wenatchee, Washington 98801, (509) 663-8121.

The execution and delivery of this Official Statement has been duly authorized by the District.

PUBLIC UTILITY DISTRICT NO. 1
OF CHELAN COUNTY, WASHINGTON

/s/ Ann Congdon
President, Board of Commissioners

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APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEAR ENDED DECEMBER 31, 2008

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PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1300 SW Fifth Avenue
Suite 3100
Portland OR 97201-5638
Telephone (971) 544-4000
Facsimile (971) 544-4100

Report of Independent Auditors

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

In our opinion, the accompanying balance sheets and the related statements of revenue, expenses and changes in net assets and statements of cash flows of the Public Utility District No. 1 of Chelan County, Washington (the "District"), present fairly, in all material respects, the financial position of the District at December 31, 2008 and December 31, 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

The management's discussion and analysis for the year ended December 31, 2008 on pages 12 through 17 is not a required part of the basic financial statements as of and for the year then ended but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Combining Schedules of Assets and Liabilities and Net Assets, of Revenues, Expenses and Changes in Net Assets, and of Cash Flows, as well as Note 10: Supplemental Disclosure of Telecommunication Services, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

March 30, 2009

Management's Discussion and Analysis

December 31, 2008 and 2007

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, 2008 and 2007. This discussion and analysis is designed to be used in conjunction with the financial statements, notes and other supplementary information, which follow this section.

FINANCIAL HIGHLIGHTS

- In July 2008, following several years of discussion, District commissioners unanimously approved a new power sales contract with the Alcoa Wenatchee smelter to start in 2011. The new agreement will replace an existing agreement that expires in 2011 and extends power sales to Alcoa through October 2028, continuing the historic 52-year power purchase relationship. The contract will provide Alcoa with electricity equal to 26% of the output of Rocky Reach and Rock Island dams in exchange for Alcoa paying 26% of the cost of producing and delivering the power, plus other costs and charges. With an average water supply, Alcoa officials have said that 26% of the dams' output would supply approximately enough electricity to run three pot lines at the Wenatchee aluminum smelter. The contract will allow the District to pay down debt and to pay for some future capital improvements at the hydro projects without borrowing. In addition, Alcoa made a $22.9 million payment to the District for general use. The payment represents deferred wholesale power sales revenue, which will be recognized as earnings over the life of the new power sales contract starting in 2011.
- The District has been involved in obtaining a new 50-year license for the Rocky Reach Project since 1999. The final license application was submitted to FERC in June 2004. The original license for the Rocky Reach Project expired on June 30, 2006. FERC regulations require it to issue annual licenses under the terms and conditions of the prior license until a new license is issued. In February 2009, FERC announced that they have issued a new 43-year license for the Rocky Reach Project. The new license is based on a settlement agreement submitted to FERC on March 17, 2006, between the District and stakeholders, including the local communities, state and federal agencies and environmental groups. The new license provides a continued low-cost power supply for District customers, along with environmental protections for the community.
- In August 2005, a contract was awarded for $28.4 million to rehabilitate one generating unit at Powerhouse 1 as part of the Rock Island Dam modernization project. Replacing the unit's turbine and generator is expected to result in efficiency gains of approximately 10%. It took approximately 16 months to design and manufacture the new components for the first unit. Field work started in January 2007, and the construction was completed in May 2008. The first unit is undergoing one year of trial operation to prove and optimize the design. Decisions on modernizing up to five additional generating units installed in the 1950s at the first powerhouse will follow, depending on the test results of the first unit.
- During 2008, the District began work on five construction projects at the Lake Chelan Hydro Project. The work will ensure the long-term reliability of its two generating units and improve habitat for steelhead and Chinook salmon as called for in the dam's 50-year federal license issued in 2006. The cost of the projects is estimated at $60 million to $65 million through 2010.
- In January 2008, the District's 48-megawatt Lake Chelan Project was certified by the Low Impact Hydropower Institute, an important first step toward its participation in renewable energy credit markets. In December 2007, the Chicago Climate Exchange approved a portion of the hydropower generated at Rocky Reach Dam to be traded to offset greenhouse gas emissions from other sources. The District began transacting on the exchange in early 2008. In addition, the District sells the renewable energy credits associated with the District's share of energy from the Nine Canyon Wind Project and certain hydro project efficiency gains. Proceeds from the sales of environmental attributes will be used for environmental, conservation and system-efficiency programs. Net proceeds received by the District during 2008 totaled $905,000.
- During 2008, the District purchased the 1,200-customer Cashmere electric system. Cashmere approached the District about buying the city's electric system in 2004. The District had provided the city power through a wholesale

contract for years and more recently had helped with emergency maintenance and repairs under a separate contract. Under the final sale agreement, the District acquired the system for about $3.1 million. Included in the sale are three electric substations and 368 easements for power lines and equipment, including about 14 miles of poles, wires, transformers and vaults. The District does not anticipate the acquisition of the system to have a material impact on the District's financial position.

- After years of seeking a way to provide a long-term supply of safe drinking water to the community of Monitor, construction to extend service from the District's system started in January and was finished in November 2008. Some 41,000 feet of pipe was installed by a contractor to connect the District's pipes in Sunnyslope to the community west of Wenatchee at a contract cost of $3.4 million. The project was financed by grants, low-interest loans and a Local Utility District.
- In 1999, the District started a countywide build-out of a wholesale fiber-optic network. Local retail service providers provide telephone, broadband Internet services and video to end users via the District's network. During 2008, the District invested an additional $12.6 million in the capital infrastructure. The District's fiber-optic network is the largest open-access, fiber-to-the-premises network in Washington state. By the end of 2008, the network had been built out to provide access to more than 28,000 homes, businesses, schools, hospitals and government offices, representing approximately 75% of Chelan County premises.

OVERVIEW OF THE FINANCIAL STATEMENTS

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.

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

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

In 2008, the overall financial position of the District improved. The District's total net assets increased by approximately $15.1 million. The following analysis provides a three-year comparison of key financial information:

CONDENSED COMPARATIVE FINANCIAL INFORMATION

(amounts in thousands)	2008	2007	2006	Increase (Decrease) 2008 – 2007
Current assets	$ 273,879	$ 261,100	$ 373,958	$ 12,779
Net utility plant	1,069,571	1,015,392	989,468	54,179
Other non-current assets	219,530	201,075	72,315	18,455
Total assets	1,562,980	1,477,567	1,435,741	85,413
Current liabilities	64,223	76,432	77,451	(12,209)
Long-term debt	976,958	917,645	904,566	59,313
Other liabilities	120,588	97,360	97,952	23,228
Total liabilities	1,161,769	1,091,437	1,079,969	70,332
Invested in capital assets, net of related debt	208,136	194,513	125,415	13,623
Restricted	100,263	97,603	106,185	2,660
Unrestricted	92,812	94,014	124,172	(1,202)
Total net assets	$ 401,211	$ 386,130	$ 355,772	$ 15,081

(amounts in thousands)	2008	2007	2006	Increase (Decrease) 2008 – 2007
Operating revenues	$ 233,812	$ 231,391	$ 221,552	$ 2,421
Less				
Operating expenses	190,294	173,455	170,602	16,839
Other expenses	36,871	31,912	36,168	4,959
Income before capital contributions	6,647	26,024	14,782	(19,377)
Capital contributions	8,434	4,334	4,257	4,100
Change in net assets	15,081	30,358	19,039	(15,277)
Total net assets – beginning of year	386,130	355,772	456,538	30,358
Cumulative effect of change in accounting principle	—	—	(119,805)	—
Beginning of year, as adjusted	386,130	355,772	336,733	30,358
Total net assets – end of year	$ 401,211	$ 386,130	$ 355,772	$ 15,081

ASSETS

Current assets increased by $12.8 million in 2008 primarily as a result of a shift in investment strategy as a result of financial market turmoil. During 2008, the District reduced investments in mortgage agencies Freddie Mac and Fannie Mae from approximately 67% to 29% of its total investment portfolio. The funds were reinvested in US Treasuries and financial institution deposits. Overall, cash and investment balances are higher than in the prior year due to proceeds from new debt issued during 2008 and receipt of the $22.9 million capacity reservation charge payment from Alcoa in conjunction with the future long-term power sales agreement that was entered into during 2008 (see Financial Highlights section above for further details on the Alcoa Agreement).

During 2008, the District's Board of Commissioners established a long-range governing financial policy raising the minimum reserve level for Utility Services to $130 million. Previously the minimum reserve level had been $50 million; although the balance maintained had been at least $75 million. The increased reserve level was recommended by District management after reviewing guiding principles and financial best practices. The reserves provide funding to keep the District operational in the event of volatility in financial or energy markets.

Current assets decreased by $112.9 million in 2007 as a result of holding longer term investments compared to the prior year. This shift in investment strategy is also the primary contributor to the $128.8 million increase in other non-current assets. Overall, cash and investment balances are higher than in the prior year as a result of strong 2007 operating results.

As of December 31, 2008, the District had approximately $1.1 billion invested in a variety of capital assets (see Note 3). Net utility plant increased $54.2 million in 2008 reflecting additional investments in utility plant assets, including significant additions related to the hydro modernization projects at Rock Island and Lake Chelan and the continued build-out of the fiber-optic network. In 2007, net utility plant increased $25.9 million reflecting investments in hydroelectric plant, the wholesale fiber-optic network, the distribution and transmission system and the water and wastewater systems.

LIABILITIES

Current liabilities decreased $12.2 million in 2008, due primarily to a decrease in current portion of long-term obligations as a result of reduced scheduled repayments of bond principal on existing debt compared to the prior year. Current liabilities decreased $1.0 million in 2007 primarily as a result of funding the 2006 accrued liability for post-employment benefits other than pensions.

As a result of turmoil in the financial markets in 2008, the District opted to refinance its auction rate bonds into other interest rate modes to mitigate interest rate risk. In February 2008, the District issued $47.1 million of Consolidated System Revenue Bonds, Refunding Series 2008A (Taxable). The 2008A bonds fully refunded the series 2004D auction rate bonds. In March 2008, the District issued $92.9 million of variable rate Consolidated System Revenue Bonds, Refunding Series 2008B. The 2008B bonds were used for the purpose of purchasing and holding in trust the series 2007A bonds. The District did not experience any failed auctions on its bonds.

In November 2008, the District successfully marketed $53.7 million in Consolidated System tax-exempt notes. The five-year 2008A notes will be used to pay for Distribution System improvements.

In December 2008, the District issued $7.4 million of Rocky Reach Hydroelectric Revenue Bonds, Refunding Series 2008A and $8.3 million of Rock Island Hydroelectric Revenue Bonds, Refunding Series 2008A. The proceeds of both issues were used to refund outstanding Rocky Reach 1968 Bonds and Rock Island 1955 Bonds at an economic gain of approximately $426,000.

As part of the series 2008A notes sale, Fitch Ratings increased its bond rating for the District to AA+ from AA. The report from Fitch said the upgrade "reflects steady strengthening of financial metrics over the past five years, very low cost hydroelectric power resources, among the lowest retail electric rates both regionally and nationally, and ample cash reserves." They also noted strategic planning and establishing solid liquidity targets as positive developments. Moody's Investor Service and Standard & Poor's Rating Services also reaffirmed the District's Aa2 and AA bond ratings, respectively.

Also in 2008, in response to increasing turmoil on Wall Street, District officials devised a financial contingency plan to help ensure access to funds amid current market uncertainty. The plan includes postponing major construction projects, if necessary, to reduce costs if market conditions don't favor longer-term bonds, as well as utilizing internally available funds to finance construction projects in lieu of external financing.

In May 2007, the District issued $34 million in Consolidated System Revenue Bonds Series 2007B and 2007C to finance various capital improvements. In addition, the District refinanced $93.8 million of existing debt at lower interest rates. The lower interest rates resulted in present value savings of approximately $16.9 million. The new debt was partially offset by scheduled repayments of bond principal on existing debt, resulting in a net increase in the District's long-term debt of $13 million.

For more information regarding the long-term debt activity see Note 5 of the financial statements.

Other liabilities increased $23.2 million in 2008 as a result of receiving the $22.9 million capacity reservation charge payment in conjunction with entering into the future long-term power sales contract with Alcoa. The payment represents deferred wholesale power sales revenue and will be recognized as earnings over the life of the new power sales contract beginning in 2011.

NET ASSETS

Invested in capital assets, net of related debt, increased $13.6 million in 2008 and $69.1 million in 2007. The 2008 and 2007 increases reflect continued growth in net utility plant. The increase was somewhat less in 2008 as a result of increased debt proceeds. Restricted net assets represent resources that are subject to external restrictions, such as bond covenants or third-party contractual agreements. Restricted net assets increased $2.7 million and decreased $8.6 million in 2008 and 2007, respectively. Unrestricted net assets are 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 2008, unrestricted net assets decreased approximately $1.2 million due primarily to decreased earnings as compared to the prior year. The 2006 decrease in net assets was driven by a change in accounting principle from sinking fund depreciation to straight line depreciation resulting in an adjustment to beginning net assets of $119.8 million.

STATEMENT OF REVENUES AND EXPENSES

The District experienced an increase in retail energy sales of $3.2 million compared to 2007 due to continued customer growth and a 5% rate increase that was effective January 1, 2008. Wholesale power sales decreased $9.7 million in 2008, compared to 2007, due to decreased hydro generation as a result of lower-than-average river flows. Purchased power costs increased $8.4 million in 2008, compared to 2007, due to later-than-normal runoff necessitating the purchase of previously hedged power in order to meet spring 2008 load requirements. Other expenses increased in 2008 by $5.0 million, primarily due to reduced investment earnings as a result of declining market investment yields. Capital contributions totaled $8.4 million in 2008 as additional retail water and electric customers connected to the systems. Capital contributions increased $4.1 million, compared to 2007, due to completion of the Monitor water system (see Financial Highlights section above for further details on the Monitor water system). The District's overall operating results were down $19.4 million, compared to 2007, due primarily to the reduction in wholesale power sales, the increase in purchased power costs and reduced investment earnings as described above.

In 2007, retail energy sales increased $1.0 million, compared to 2006, as a result of continued customer growth and increased energy usage. Wholesale power sales increased $9.9 million in 2007, compared to 2006, due to a combination of increased surplus energy and higher average market prices; however, the increase was partially offset by an increase in purchased power costs of $3.6 million for the same time period. Other expenses decreased in 2007 by $4.3 million, primarily due to improved investment earnings. Capital contributions totaled $4.3 million in 2007 as additional retail water and energy customers connected to the systems. The District's overall operating results improved by $11.3 million, compared to 2006.

ECONOMIC FACTORS

We are proud of the District's many accomplishments in 2008. At the same time, the District is preparing for and responding to challenges anticipated due to recessionary pressures. District financial forecasts reflect declines in wholesale power sales revenues and other key metrics in the next few years as a result of falling energy prices in the wholesale market and lower yields earned on investments.

In addition to these market pressures, weather has added to the strain on the District's 2009 budget. An unusual combination of low wholesale energy prices and below-average snowpack has negatively impacted the 2009 wholesale revenue projections. In response to the worsening financial conditions, the District has implemented contingency plans and cut $27.4 million from planned 2009 spending. Cuts include the deferral of several capital projects, including an electric automated metering system and fiber-optic build-out, as well as reducing planned operation and maintenance expenses by $8.6 million.

Additional cost-saving measures are being implemented to reduce labor costs, including mandatory unpaid leave for employees, a voluntary employee reduction program and volunteer changes to part-time status. The District continues to monitor the situation and examine the budget to see where additional cuts can be made, as well as considering the possibility of an electric rate surcharge to bolster our revenues. Consideration of an electric rate surcharge is a last resort if the District faces continued financial pressures from below-average runoff forecasts, declining wholesale energy prices and lower interest income on investments. If conditions were to deteriorate over multiple years, the surcharge may be increased or repeated in those years to solidify District finances. The District intends to do whatever is necessary to maintain the financial health of the utility.

The District has also set aside funds in an escrow account to cover obligated debt-service payments for the Senior Consolidated System debt related to the non-Hydro Systems for 2009 and 2010. Setting aside the funds in escrow assures bondholders in these tough financial times that the District will be financially able to make its debt-service payments on schedule and effectively eliminates the District's Senior Debt Coverage requirement for the years in which principal and interest payments will be made from the escrow account.

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.

Balance Sheets

December 31, 2008 and 2007

(Amounts in thousands)

Assets	2008	2007
CURRENT ASSETS		
Cash and cash equivalents	$ 31,978	$ 12,237
Investments	61,823	86,666
Accounts receivable, net	19,088	14,634
Accrued interest receivable	2,600	3,162
Materials and supplies	10,353	10,073
Prepayments and other	1,374	1,644
	127,216	128,416
RESTRICTED ASSETS - CURRENT		
Cash and cash equivalents	48,984	37,034
Investments	97,679	95,650
	146,663	132,684
TOTAL CURRENT ASSETS	273,879	261,100
UTILITY PLANT		
In service, at original cost	1,636,613	1,536,942
Construction work in progress	52,156	60,218
Less-accumulated depreciation	(619,198)	(581,768)
	1,069,571	1,015,392
RESTRICTED ASSETS - NONCURRENT		
Investments	74,571	88,642
DEFERRED CHARGES AND OTHER ASSETS		
Deferred financing costs	11,518	12,459
Deferred relicensing costs	11,987	11,917
Fish protection costs	4,485	5,704
Long-term receivables, net	3,117	1,794
Long-term investments	111,938	78,764
Other	1,914	1,795
	144,959	112,433
TOTAL ASSETS	$ 1,562,980	$ 1,477,567

The accompanying notes are an integral part of these statements.

(Amounts in thousands) **Liabilities and Net Assets**	**2008**	**2007**
CURRENT LIABILITIES		
Current portion of long-term obligations	$ 14,392	$ 29,432
Warrants and accounts payable	18,719	17,469
Accrued taxes	3,722	3,971
Accrued interest	15,506	14,593
Accrued vacation and other	11,884	10,967
	64,223	76,432
LONG-TERM DEBT		
Revenue bonds and notes payable, less current portion	976,958	917,645
OTHER LIABILITIES		
Deferred wholesale power sales revenue	111,941	89,000
Licensing obligation, less current portion	8,452	8,322
Other liabilities	195	38
	120,588	97,360
TOTAL LIABILITIES	1,161,769	1,091,437
COMMITMENTS AND CONTINGENCIES (see Note 12)		
NET ASSETS		
Invested in capital assets, net of related debt	208,136	194,513
Restricted for debt service	74,545	71,071
Restricted for other	25,718	26,532
Unrestricted	92,812	94,014
	401,211	386,130
TOTAL LIABILITIES AND NET ASSETS	$ 1,562,980	$ 1,477,567

The accompanying notes are an integral part of these statements.

Statements of Revenues, Expenses and Changes in Net Assets

For the years ended December 31, 2008 and 2007

(Amounts in thousands)	2008	2007
OPERATING REVENUES		
Retail sales	$ 49,966	$ 46,380
Wholesale sales	179,000	183,272
Other operating revenues	4,846	1,739
	233,812	231,391
OPERATING EXPENSES		
Purchased power	29,485	21,045
Purchased water	325	321
Generation	72,520	66,982
Utility services	29,392	27,400
Taxes	6,347	6,215
Depreciation and amortization	44,514	44,115
Other operation and maintenance	7,711	7,377
	190,294	173,455
OPERATING INCOME	43,518	57,936
OTHER INCOME (EXPENSE)		
Interest on long-term debt	(51,583)	(51,407)
Amortization of deferred debt costs	(775)	(682)
Investment income	17,115	21,071
Other	(1,628)	(894)
	(36,871)	(31,912)
INCOME BEFORE CAPITAL CONTRIBUTIONS	6,647	26,024
CAPITAL CONTRIBUTIONS	8,434	4,334
CHANGE IN NET ASSETS	15,081	30,358
TOTAL NET ASSETS		
Beginning of year	386,130	355,772
TOTAL NET ASSETS		
End of year	$ 401,211	$ 386,130

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

For the years ended December 31, 2008 and 2007

(Amounts in thousands)	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 252,300	$ 233,446
Payments to suppliers	(79,977)	(71,691)
Payments to employees	(65,974)	(62,300)
Net cash provided by operating activities	106,349	99,455
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to plant	(95,671)	(66,798)
Proceeds from sale of plant	443	362
Proceeds of new third-party debt	212,290	129,193
Principal paid on debt	(185,253)	(130,393)
Interest paid on debt	(35,598)	(39,565)
Capital contributions	8,270	3,887
Other	502	807
Net cash used in capital and related financing activities	(95,017)	(102,507)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(382,542)	(657,702)
Proceeds from sales and maturities of investments	387,485	588,275
Interest on investments	16,444	19,134
Long-term receivables	(1,325)	186
Other, net	297	(129)
Net cash provided by (used in) investing activities	20,359	(50,236)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	31,691	(53,288)
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	49,271	102,559
CASH & CASH EQUIVALENTS, END OF YEAR	$ 80,962	$ 49,271
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 43,518	$ 57,936
Depreciation and amortization	44,514	44,115
(Increase) decrease in operating assets:		
Accounts receivable, net	(4,454)	2,058
Materials and supplies	(280)	(2,000)
Prepayments and other	270	(8)
Increase (decrease) in operating liabilities:		
Warrants and accounts payable	(826)	(2,027)
Accrued taxes	(249)	448
Accrued vacation and other	915	(1,067)
Deferred wholesale power sales	22,941	—
Net cash provided by operating activities	$ 106,349	$ 99,455

The accompanying notes are an integral part of these statements.

NOTE 1: SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity and Operations of the District

Public Utility District No. 1 of Chelan County, Washington (the District) is a municipal corporation of the State of Washington established in 1936. The District owns and operates electric generation, electric and water distribution, wastewater properties and a wholesale telecommunication system. The District is governed by an elected five-member Board of Commissioners (Commissioners). For financial reporting purposes the District includes activities over which the District exercises oversight responsibility. The Commissioners' responsibilities are to appoint the General Manager, approve budgets for the District's Systems and oversee operations included in these financial statements. The District has no component units. The District's operations consist of the Rocky Reach Hydroelectric System, the Columbia River-Rock Island Hydroelectric System, the Lake Chelan Hydroelectric System (the Hydro Systems); a retail electric distribution system, a water system, a wastewater system, a fiber-optic telecommunication system (Utility Services); and an internal service system.

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.

GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," requires that governments' proprietary activities apply all GASB pronouncements as well as the pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As allowed by GASB Statement No. 20, the District has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

In June 2004, GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)." Statement No. 45 establishes accounting and financial reporting standards for benefits that are earned during an employee's active service, but will not be paid until after the employee retires. The District elected to early implement GASB Statement No. 45 in 2006. OPEB costs and obligations are included in the District's financial statements in accordance with the requirements of GASB Statement No. 45. Additional disclosure as required by GASB Statement No. 45 is included as Note 8 to the financial statements.

In November 2006, GASB issued Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." Statement No. 49 establishes financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution. If any of five specified obligation events occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability. GASB Statement No. 49 became effective for the District as of January 1, 2008. The District had no accrued pollution remediation obligations as of December 31, 2008.

In May 2007, GASB issued Statement No. 50, "Pension Disclosures," an amendment of GASB Statements No. 25 and No. 27. Statement No. 50 more closely aligns current pension disclosure requirements for governments with those requirements that governments are beginning to implement for retiree health insurance and other post-employment benefits. GASB Statement No. 50 became effective for the District as of January 1, 2008. The disclosures required by GASB Statement No. 50 are included in Note 7 to the financial statements.

Accounting Estimates

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

Cash and Cash Equivalents

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

Revenues and Expenses from Operations

Revenues of the District are recognized when earned and are comprised of sales of power, sales of environmental attributes and sales of electric, water, wastewater and wholesale telecommunication services. The accompanying financial statements include estimated unbilled revenues for energy and wholesale telecommunication services delivered to customers between the last billing date and the end of the year. Estimated unbilled revenues amounted to $2.3 million in 2008 and $2.2 million in 2007. The amounts are included in accounts receivable.

Revenues from the Rocky Reach and Columbia River-Rock Island hydroelectric production facilities represent sales of power generated under firm power sales contracts or sales directly to the retail electric distribution system. Revenues under these contracts are determined on a cost-of-service basis including debt service costs. These firm power sales contracts extend into the future with varying expiration dates. The Rocky Reach System's contracts expire in October 2011, and the Rock Island System's contract expires in June 2012. In addition, other operating revenues of the Rocky Reach project include sales of environmental attributes associated with a portion of the District's hydroelectric generation.

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 Columbia River-Rock Island projects, starting in 2011-2012, when the current power sales contracts expire. PSE will generally be responsible to pay 25% 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 $89 million during 2006, which has been deferred and will be recognized as revenue over the term of the new contract.

In July 2008, the District entered into a 17-year power sales contract with Alcoa for output equivalent to 26% of the Rocky Reach and Columbia River-Rock Island projects, starting in 2011, when the current power sales contract expires. Alcoa will generally be 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 million capacity reservation charge during 2008, which has been deferred and will be recognized as revenue over the term of the new contract. The balance of the capacity reservation charge will be deferred as long as the Alcoa plant continues to operate and waived if the plant continues to operate under the terms of the contract for the entire contract term.

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

Currently, the District's share of power produced by the Rocky Reach, Lake Chelan and Rock Island Systems is sold to the retail electric distribution system on a cost- of-service basis. The Rocky Reach, Lake Chelan and Rock Island Systems sell 15.13%, 100% and 50%, respectively, of their output to the retail electric distribution system, which is in turn sold to retail customers or sold on the wholesale market if in excess of the District's retail load.

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

For the year ended December 31, 2008, the District had two significant customers (greater than 10% of revenues), Puget Sound Energy and Alcoa. For the year ended December 31, 2007, the District had one significant customer, Puget Sound Energy. Sales to Puget Sound Energy and Alcoa in 2008 amounted to $70.3 million and $25.0 million, respectively. Sales to Puget Sound Energy in 2007 amounted to $65.6 million.

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

The District recognizes capital contributions from external sources as nonoperating revenue in the current year.

Intradistrict revenues and expenses are eliminated in the Statements of Revenues, Expenses and Changes in Net Assets.

Power Marketing

To balance the District's anticipated power resources and demand for those power resources, the District enters into forward physical power sales agreements when resources exceed demand and forward physical power purchase agreements when expected demand exceeds the resources estimated to be available. Forward contracts are principally used to mitigate the impact of market price risk the District faces from its inherent physical long (surplus) or short (deficit) positions over the year, as well as to manage volatility in resource and demand forecasts.

All risk management activities are subject to oversight by the District's Power Risk Management Committee, which monitors the District's exposure to price risk using a series of industry standard methodologies.

The Power Risk Management Committee has an established credit policy under which individual limits are assigned for each counterparty based upon specific predetermined criteria utilizing an industry standard credit-scoring model. The counterparties are reviewed annually 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. Credit exposure reports are reviewed by the Power Risk Management Committee on a weekly basis.

Forward physical power contracts are recognized over the duration of the contracts as a component of Operating Revenues and Purchased Power Operating Expenses in the Statements of Revenues, Expenses and Changes in Net Assets.

Fish Protection Costs

Costs associated with projects for research and development of fish protection measures are expensed in the period in which they are incurred. When successful fish protection systems are developed and permanently installed at a hydro project, all appropriate costs are capitalized to utility plant and depreciated over their estimated useful lives. In accordance with power sales contracts, certain fish protection costs incurred prior to 1995 have been deferred and are being amortized over a period of 5 to 20 years to match the contractual revenues received.

Deferred Relicensing Costs

Costs associated with the Rocky Reach project's relicensing efforts are being treated as deferred charges. The deferred charges are expected to be amortized over the life of the license to be acquired. At December 31, 2008 and 2007, deferred relicensing charges totaled $12.0 million and $11.9 million, respectively.

Deferred Financing Costs

Costs associated with the issuance of bonds are amortized to expense over the term of the related debt. Refundings that result in a difference between the reacquisition price and the net carrying amount of the old debt are amortized to expense over the shorter of the remaining life of the old bonds or the life of the new issuance. Amortization expense is calculated under the straight-line method or effective interest method, depending on the maturity schedule of the related bonds. At December 31, 2008 and 2007, deferred financing costs totaled $11.5 million and $12.5 million, respectively.

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 $529,000 and $505,000 for 2008 and 2007, respectively.

Capital Contributions

A portion of the District's utility plant has been financed through contributions from Federal and State agencies and from assessments of local property owners. The District also records capital contributions from customers and developers, primarily relating to the District's Distribution System, in accordance with the District line extension policy. In-kind capital contributions are recognized based on the donor's actual costs. Capital contributions in the amount of $8.4 million and $4.3 million are reported for 2008 and 2007, respectively, on the Statements of Revenues, Expenses and Changes in Net Assets. Additions to the District's utility plant include non-cash contributions of plant assets of $164,000 and $447,000 in 2008 and 2007, respectively.

Materials and Supplies Inventory

Materials and supplies consist of hydroelectric generation, transmission, distribution, water and wastewater assets, and fiber-optic cable and fiber-related supplies. Inventories 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. 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.

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 balance sheets as cash and cash equivalents, investments and long-term investments, consisted of the following:

(amounts in thousands)	2008	2007
Unrestricted assets		
Unrestricted	$ 45,530	$ 18,384
Board designated	160,209	159,283
Total unrestricted assets	205,739	177,667
Restricted assets	221,234	221,326
	$ 426,973	$ 398,993

As of December 31, 2008 and 2007, the District had the following cash and investments:

(amounts in thousands)		Investment Maturities (in Years)			
Investment Type	**Fair Value 2008**	**Less than 1**	**1 - 2**	**3 – 4**	**More than 4**
U.S. Treasuries	$ 18,411	$ 16,036	$ —	$ —	$ 2,375
U.S. Agency Notes	104,596	26,739	3,203	40,994	33,660
U.S. Agency Bills	27,008	27,008	—	—	—
Commercial Paper	6,895	6,895	—	—	—
Municipal Bonds	29,217	—	312	154	28,751
State Investment Pool	16,264	16,264	—	—	—
Financial Institution Deposits	221,686	144,626	33,060	10,000	34,000
Cash	2,896	2,896	—	—	—
	$ 426,973	$ 240,464	$ 36,575	$ 51,148	$ 98,786

(amounts in thousands)		Investment Maturities (in Years)			
Investment Type	**Fair Value 2007**	**Less than 1**	**1 - 2**	**3 – 4**	**More than 4**
U.S. Treasuries	$ 10,963	$ 9,187	$ —	$ —	$ 1,776
U.S. Agency Notes	236,275	86,646	92,975	27,661	28,993
U.S. Agency Bills	35,741	35,741	—	—	—
Commercial Paper	43,801	43,801	—	—	—
State Investment Pool	200	200	—	—	—
Financial Institution Deposits	69,339	69,339	—	—	—
Cash	2,674	2,674	—	—	—
	$ 398,993	$ 247,588	$ 92,975	$ 27,661	$ 30,769

U.S. Treasury bills, notes or bonds, U.S. Government agency securities, municipal bonds, bankers' acceptances and commercial paper that had a remaining maturity at the time of purchase of greater than one year are recorded at fair value. U.S. Treasury bills, notes or bonds, U.S. Government agency securities, municipal bonds, bankers' acceptances and commercial paper that had a remaining maturity at the time of purchase of one year or less are recorded at amortized cost. Nonnegotiable certificates of deposit are recorded at amortized cost. The fair value of investments recorded at amortized cost does not differ materially from the recorded value.

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

Interest Rate Risk. The District's investment policy limits direct investments in securities to those with maturities of five years or less, or as designated in specific bond resolutions, with the exception of reserve funds which may be invested in securities exceeding five years if the maturity of such investments is made to coincide with the expected use of the funds. The District may collateralize its repurchase agreements using longer dated investments.

Credit Risk. The District pools a portion of each of the Systems' cash and investments. The District's Treasurer directs the investment of any temporary cash surplus in accordance with the District's investment policy. The Treasurer may invest such surplus, depending on individual fund restrictions, in one or more of the following investments per state statutes: 1) U.S. Treasury bills, notes or bonds; 2) U.S. Government agency securities; 3) repurchase agreements, which must be collateralized with a third party at 102%, limited to $10,000,000 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 10% 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 $5,000,000 invested in a single banker's acceptance; 6) commercial paper having received the highest short-term credit ratings of any two nationally recognized statistical ratings organizations at the time of purchase, limited to no more than 25% of the qualifying portfolio and no more than 5% of the total assets invested with a single issuer; 7) bonds of the State of Washington or any local government in the State of Washington, which bonds have, at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency; 8) the State Investment Pool; 9) mutual funds having received one of the four highest credit ratings of a nationally recognized rating agency, and money market funds as authorized under the laws of the State of Washington, limited to 10% of the qualifying portfolio; 10) and any other investment permitted under the laws of the State of Washington.

As of December 31, 2008 and 2007, investments in debt securities had credit quality ratings as follows:

(amounts in thousands)

Investment Rating (S&P)	2008	2007
Long Term		
AAA	$ 18,312	$ —
AA+	4,106	—
AA	155	—
AA-	6,644	—
Short Term		
A-1+	2,481	22,090
A-1	4,414	5,472
Unrated	—	16,239
	$ 36,112	$ 43,801

Concentration of Credit Risk. The District's investment policy requires that, with the exception of U.S. Treasury Securities, no more than 50% of the District's total investment portfolio will be invested in a single security type or with a single financial institution. Investments in an individual issuer of commercial paper or bankers' acceptances are limited to no more than 5% of the District's total investment portfolio.

As of December 31, 2008 and 2007, more than 5% of the District's total investment portfolio was invested with each of the following issuers:

Issuer	Credit Rating	Percentage of Portfolio 2008	2007
Federal National Mortgage Association	AAA	16%	21%
Federal Home Loan Mortgage Corporation	AAA	3%	16%
Federal Home Loan Bank	AAA	10%	30%

Derivative Instruments – Forward Purchase Agreements

Objective. As a tool to achieve a fixed rate of return on certain District bond reserves, the District has entered into various forward purchase agreements for the purchase of U.S. Treasury and agency obligations. Under the terms of the agreements, the provider must tender qualified securities with maturities of 6 months or less to the District on the semi-annual debt service dates at a price that produces at least the guaranteed rates of return under the agreements.

Terms. The terms, including the counterparty credit ratings of the outstanding forward purchase agreements, as of December 31, 2008, are provided below.

Forward Purchase Agreements

Counterparty	Credit Rating by Moody's/S&P/Fitch	Guaranteed Yield	Notional Amount	Effective Date	Maturity
Wachovia Bank, N.A.	A1/A+/A+	6.630%	$ 18,820,179	12/21/1999	6/1/2029
Wachovia Bank, N.A.	A1/A+/A+	5.445%	7,972,970	3/1/2001	7/1/2011
			$ 26,793,149		

Fair values. Because interest rates have declined, the forward purchase agreements had a combined positive fair value as of December 31, 2008 of $6,668,771. The fair values take into consideration the prevailing investment rate environment and the specific terms and conditions of the given transactions. The fair values were estimated using the par value method.

Credit risk. The District is exposed to credit risk in the amount of the positive fair values of the forward purchase agreements. The credit ratings of the counterparties are noted in the table above.

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

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

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

A summary of utility plant in service for the years ended December 31, 2008 and 2007 are as follows:

(amounts in thousands)	January 1, 2008	Additions	Reductions	December 31, 2008
Hydroelectric generation	$ 1,027,711	$ 50,681	$ (2,425)	$ 1,075,967
Transmission	89,496	18,629	(1,043)	107,082
Distribution	179,158	11,145	(500)	189,803
General plant	107,007	1,531	(2,202)	106,336
Diesel	3,084	315	—	3,399
Intangible	18,889	339	—	19,228
Telecommunications	55,591	17,026	—	72,617
Water/Wastewater	56,006	6,205	(30)	62,181
	1,536,942	105,871	(6,200)	1,636,613
Construction work in progress	60,218	97,227	(105,289)	52,156
Accumulated depreciation	(581,768)	(43,293)	5,863	(619,198)
	$ 1,015,392	$ 159,805	$ (105,626)	$ 1,069,571

(amounts in thousands)	January 1, 2007	Additions	Reductions	December 31, 2007
Hydroelectric generation	$ 1,017,419	$ 13,259	$ (2,967)	$ 1,027,711
Transmission	87,726	2,027	(257)	89,496
Distribution	168,301	11,758	(901)	179,158
General plant	101,301	5,706	—	107,007
Diesel	3,084	—	—	3,084
Intangible	18,669	220	—	18,889
Telecommunications	42,865	12,731	(5)	55,591
Water/Wastewater	53,574	2,740	(308)	56,006
	1,492,939	48,441	(4,438)	1,536,942
Construction work in progress	39,403	68,278	(47,463)	60,218
Accumulated depreciation	(542,874)	(42,979)	4,085	(581,768)
	$ 989,468	$ 73,740	$ (47,816)	$ 1,015,392

Plant assets include land of $70.7 million and $71.8 million as of December 31, 2008 and 2007, respectively.

NOTE 4: LICENSING

The Lake Chelan, Rocky Reach and Rock Island hydroelectric projects are licensed under the Federal Power Act of 1920 and subsequent amendments. The District received a new license for the Lake Chelan Project (FERC No. 637) in 2006 and is implementing the new license measures. The Rocky Reach Project (FERC No. 2145) license expired June 2006. Since that time, the Project has been operating under an annual license issued by the Federal Energy Regulatory Commission (FERC). Pursuant to FERC regulations, the Project is operating under the terms and conditions of the original license until the new license is issued. The Rock Island Project (FERC No. 943) is licensed through 2028.

On November 6, 2006, FERC issued a new 50-year license for the Lake Chelan Project. The new license incorporates the terms of a settlement agreement that was the culmination of five years of collaborative negotiations with federal, state, tribal and local stakeholders. Each settlement agreement article of the new license is based on an agreement between the District and a stakeholder. Some settlement agreement measures are projects that will be engineered and constructed by the District. Other measures are projects that will be carried out by various organizations using funds provided by the District. The present value of the obligations for which the District will provide funding total $9.5 million as of December 31, 2008, of which approximately $1.1 million is expected to be paid within one year. The present value of the obligations was $9.4 million as of December 31, 2007.

The new license requires detailed management plans for fish, wildlife and recreation resources. These plans were submitted to FERC on November 6, 2007. In addition, the District is constructing three major capital projects associated with the new license, a low-level outlet structure at the dam, a pump station adjacent to the project tailrace and two acres of fish spawning habitat in the lower Chelan river and project tailrace.

The final license application for the Rocky Reach Project was submitted to FERC in June 2004. As in the Lake Chelan relicensing process, the District worked with stakeholders to develop a settlement agreement for the Rocky Reach Project. On August 4, 2006, FERC issued a final environmental impact statement (FEIS) for the Project. In the FEIS, FERC recommended modifications to only a fraction of the proposed measures that were submitted as part of the settlement agreement. FERC recommended that the Anadromous Fish Agreement and Habitat Conservation Plan (HCP) that was signed in 2002 under the current license be incorporated into the new license. See further discussion of the HCP in Note 12. On December 5, 2008, the U.S. Fish and Wildlife Service completed its Biological Opinion. The District has proposed a 50-year term for the new license. In the meantime, the Project is operating on an annual license, which extends the terms and conditions of the existing license. The annual license will be automatically renewed by FERC as required by the Federal Power Act until a new license is issued (see Note 13: Subsequent Event - New License).

A summary of licensing obligation for the years ended December 31, 2008 and 2007 are as follows:

(amounts in thousands)	2008	2007
Licensing obligation - beginning of year	$ 9,399	$ 9,203
Additions	339	220
Reductions	(200)	(24)
Licensing obligation - end of year	$ 9,538	$ 9,399

NOTE 5: LONG-TERM DEBT

Revenue Bonds and Notes Payable

(amounts in thousands)	January 1, 2008	Additions	Reductions	December 31, 2008	Due Within One Year
Rocky Reach Revenue Bonds, 4%, due July 1, 2009, to July 1, 2014 (net unamortized premiums of $178)	$ 10,737	$ 7,602	$ (10,798)	$ 7,541	$ 715
Rock Island Revenue Bonds, 4% to 7.14%, due June 1, 2009, to June 1, 2029 (net unamortized premiums of $195)	278,261	23,934	(30,617)	271,578	4,645
Notes Payable, 0.5% to 5%, due July 1, 2009 to July 1, 2027 (net unamortized premiums of $1,835)	6,200	56,236	(540)	61,896	527
Wastewater Revenue bonds, 4.5%, due serially to September 1, 2028	1,088	—	(1,088)	—	—
Senior Chelan Hydro Consolidated System Revenue Bonds, 3% to 6.2%, due June 1, 2009, to January 1, 2039 (net unamortized discounts of $1,352, unamortized premiums of $2,126)	526,028	1,000	(45,383)	481,645	5,155
Subordinate Chelan Consolidated System Revenue Bonds, 3.752% to 5.87%, due July 1, 2009, to July 1, 2042 (net unamortized discounts of $387, unamortized premiums of $345)	123,686	144,547	(100,628)	167,605	2,265
	$ 946,000	$ 233,319	$ (189,054)	$ 990,265	$ 13,307

(amounts in thousands)	January 1, 2007	Additions	Reductions	December 31, 2007	Due Within One Year
Rocky Reach Revenue Bonds, 5.125%, due through sinking fund to July 1, 2023	$ 11,812	$ —	$ (1,075)	$ 10,737	$ 1,025
Rock Island Revenue Bonds, 3.75% to 7.14%, due serially and through sinking fund to June 1, 2029	283,200	14,586	(19,525)	278,261	20,725
Notes Payable, 0.5% to 2%, due annually to July 1, 2027	5,108	1,507	(415)	6,200	438
Wastewater Revenue bonds, 4.5%, due serially to September 1, 2028	1,119	—	(31)	1,088	32
Senior Chelan Hydro Consolidated System Revenue Bonds, 3% to 6.6%, due June 1, 2008, to January 1, 2039 (net unamortized discounts of $1,402, unamortized premiums of $2,584)	629,852	2,477	(106,301)	526,028	4,925
Subordinate Chelan Consolidated System Revenue Bonds, 3.752% to 4.75%, due July 1, 2008, to July 1, 2042 (net unamortized discounts of $409, unamortized premiums of $379)	—	128,371	(4,685)	123,686	1,210
	$ 931,091	$ 146,941	$ (132,032)	$ 946,000	$ 28,355

In February 2008, the District issued $47.1 million of Chelan Consolidated System Revenue Bonds, Refunding Series 2008A (Taxable). The 2008A bonds were issued as fixed rate bonds with interest rates ranging from 4.5% to 5.87% and maturities between July 1, 2013 and July 1, 2024. The 2008A bonds fully refunded the series 2004D auction rate bonds. The District opted to refinance, as a result of turmoil in the markets due in part to bond insurer downgrades, out of auction rate securities and into other interest rate modes to mitigate interest rate risk.

In March 2008, the District issued $92.9 million of Chelan Consolidated System Revenue Bonds, Refunding Series 2008B (Tax-Exempt). The 2008B bonds were issued as variable rate bonds with a reset of interest rates every seven days. The 2008B bonds, together with other available funds in the amount of $870,000, were used for the purpose of purchasing and holding in trust the series 2007A bonds. The District opted to refinance, as a result of turmoil in the markets due in part to bond insurer downgrades, out of auction rate securities and into other interest rate modes to mitigate interest rate risk. The interest rate on the 2008B variable rate bonds averaged 2.402% during 2008.

In November 2008, the District issued $53.7 million of Chelan Consolidated System Revenue Notes, Series 2008A. The 2008A notes were issued as fixed rate notes with interest rate of 5% and mature July 1, 2013. The series 2008A notes were issued for the purpose of providing new money for specified capital projects.

In December 2008, the District issued $7.4 million of Rocky Reach Hydroelectric Revenue Bonds, Refunding Series 2008A. The 2008A bonds were issued as fixed rate bonds with an interest rate of 4% and annual maturities between July 1, 2009, and July 1, 2014. The proceeds, together with other available funds in the amount of $2.7 million, were placed into irrevocable escrow and will be used to retire the Rocky Reach 1968 Bonds to obtain an economic gain. The difference between the present values of the old and new debt service payments is approximately $440,000. Outstanding Rocky Reach 1968 Bonds in the amount of $9.6 million are considered defeased as of December 31, 2008.

In December 2008, the District issued $8.3 million of Rock Island Hydroelectric Revenue Bonds, Refunding Series 2008A. The 2008A bonds were issued as fixed rate bonds with interest rates ranging from 4% to 5% and semi-annual maturities between June 1, 2009, and December 1, 2011. The proceeds, together with other available funds in the amount of $1.8 million, were placed into irrevocable escrow and will be used to retire the Rock Island 1955 Bonds. The difference between the present values of the old and new debt service payments is approximately ($14,000). Outstanding Rock Island

1955 Bonds in the amount of $9.8 million are considered defeased as of December 31, 2008.

In May 2007, the District issued $127.7 million of Chelan Consolidated System Revenue Bonds, Refunding Series 2007A and Series 2007B and 2007C. The $93.8 million 2007A bonds were issued as part of an interest rate swap and mature July 1, 2032. The proceeds, together with other available funds, in the amount of $13.6 million, were used to refund several higher interest debt issues to obtain an economic gain (the difference between the present values of the old and new debt service payments) of approximately $16.9 million. The difference between the reacquisition price and the net carrying amount of the old debt is reported in the accompanying financial statements as a deduction from bonds payable. The $8.4 million 2007B bonds have a fixed-term interest rate of 4.6% and mature July 1, 2042. The $25.6 million 2007C bonds were issued as a combination of term and serial bonds with interest rates from 4.0% to 5.0% and maturities between July 1, 2008, and July 1, 2037. The series 2007B and 2007C bonds were issued for the purpose of providing new money for specified capital projects.

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

Principal and Interest

(amounts in thousands)

	Principal	Interest	Estimated Debt Service
2009	$ 30,280	$ 37,034	$ 67,314
2010	31,390	36,623	68,013
2011	31,945	36,079	68,024
2012	27,600	35,546	63,146
2013	83,405	35,193	118,598
2014-2018	200,500	152,225	352,725
2019-2023	161,860	135,148	297,008
2024-2028	152,285	123,363	275,648
2029-2033	196,430	112,672	309,102
2034-2038	259,940	49,494	309,434
2039-2043	39,310	2,338	41,648
Total	$ 1,214,945	$ 755,715	$ 1,970,660

Estimated principal retirements are based on the assumption that all bonds are called or purchased at par. Principal retirements of $1.2 billion also include $215.5 million of future appreciation on Capital Appreciation Bonds (CABs).

The District has covenanted in bond resolutions that it will establish, maintain and collect rates and charges for electric power and energy and other services, facilities and commodities sold, furnished or supplied through the facilities of the Senior Chelan Hydro Consolidated System, which shall provide Distribution Division and other non-hydro systems net receipts, less the Distribution Division Senior Debt Service Requirement, in each fiscal year equal to at least (a) 100% of annual debt service in such fiscal year on the Distribution Division bonds then outstanding and (b) together with available funds with respect to the Distribution Division bonds, 115% of annual debt service in such fiscal year on the Distribution Division bonds then outstanding and net receipts, together with available funds, less the Senior Debt Service Requirement, in each fiscal year equal to at least (i) 100% of Annual Debt Service in such fiscal year on all bonds then outstanding, plus (ii) 15% of the interest coming due in such fiscal year on all bonds then outstanding.

On March 12, 2007, the District adopted a resolution confirming and continuing the consolidation of the Distribution Division, the Lake Chelan System, the Water System, the Wastewater System and the Fiber-Optics System; thereafter known as the Consolidated System. The resolution has been revised from the form of the senior Chelan Hydro Consolidated System resolution with the primary intent of improving the provisions for the benefit of owners of the bonds. The changes include the addition of a rate stabilization fund, restrictions on the ability of the District to enter into take-or-pay power purchaser agreements on a basis which is superior to the lien of the Bonds, and the addition of a third-party bond trustee. The District has covenanted in this subordinate resolution that it will establish, maintain and collect rates and charges for electrical power and energy, water, wastewater, fiber-optics networks and other services, facilities and commodities sold, furnished or supplied by or through the Consolidated System adequate net revenues sufficient to pay at least (a) 100% of annual debt service in such fiscal year and (b) together with available funds, 125% of annual debt service in such fiscal year on both the senior Chelan Hydro Consolidated System Bonds and the subordinate Chelan Consolidated System Bonds.

On October 14, 2008, the District adopted a resolution subordinate to the Consolidated System resolution dated March 12, 2007, with the primary intent of creating this new third lien to allow for short-term notes to be issued with a lien status subordinate to both the senior Consolidated System bonds and the subordinate Consolidated System bonds. The provisions in this resolution are similar to the subordinate Consolidated

System bonds. The District has covenanted in this resolution to fix, establish, maintain and collect rates and charges for electric power and energy, water, wastewater, fiber optics networks and other services, facilities and commodities sold, furnished or supplied by or through the Consolidated System, adequate net revenues together with available funds sufficient to pay 100% of annual debt service in such fiscal year.

On October 20, 2008, the District adopted two additional resolutions confirming and continuing both the Rocky Reach Hydroelectric System and the Rock Island Hydroelectric System. The resolutions have been revised from the form of the senior Rocky Reach and Rock Island resolutions with the primary intent of strengthening the covenants provided to the investors, conform to industry standards and redefining the role of a third-party bond trustee. The District has covenanted in this resolution 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, 2008 and 2007, the District was in compliance with all debt covenants.

Derivative Instruments – Interest Rate Swaps

Objective of the swaps. In order to protect against the potential of rising interest rates associated with the issuance of variable rate bonds, the District entered into forward starting pay-fixed, receive-variable interest rate swaps.

Terms. The terms, including the counterparty credit ratings of the outstanding swaps, as of December 31, 2008, are included below. The District's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled principal reductions in the associated bonds.

Swap Portfolio

Related Bonds	Counterparty	Credit Rating by Moody's/ S&P/Fitch	The District Pays	The District Receives	Notional Amount	Call Option	Effective Date	Maturity
Series 2008B	Bear Stearns Capital Markets, Inc.	Aa2/AA-/AA-	3.752%	70% of LIBOR	$ 65,625,000	YES	5/31/2007	7/1/2032
Series 2008B	The Bank of New York Mellon	Aaa/AA/AA-	3.752%	70% of LIBOR	27,864,000	YES	10/17/2008	7/1/2032
Series 2009	JP Morgan Chase Bank, NA	Aaa/AA-/AA-	4.031%	70% of LIBOR	30,355,000	NO	6/1/2009	7/1/2034
Series 2011	Goldman Sachs Mitsui Marine Derivative Products, LP	Aaa/AAA/NR	4.058%	70% of LIBOR	78,375,000	NO	6/1/2011	1/1/2036
Series 2013	Goldman Sachs Mitsui Marine Derivative Products, LP	Aaa/AAA/NR	4.085%	70% of LIBOR	28,815,000	NO	5/30/2013	7/1/2032
Total					$ 231,034,000			

During 2008 and 2007, the net cash outflows related to the swaps were $1,382,000 and $9,100, respectively.

On August 3, 2005, the District elected to enter into a 70% of London Inter-bank Offered Rate (LIBOR) floating-to-fixed interest rate swap to hedge the anticipated issuance of $93,750,000 of variable rate Series 2007 Bonds in May of 2007. On May 31, 2007, the 2007 swap became effective with the issuance of the 2007A Bonds. On April 13, 2006, the District elected to enter into three additional 70% of LIBOR floating-to-fixed interest rate swaps to hedge the anticipated issuance of $30,355,000 of variable rate bonds in 2009, $78,375,000 of variable rate bonds in 2011 and $28,815,000 of variable rate bonds in 2013. The combination of variable rate bonds and floating-to-fixed rate swaps creates synthetic fixed-rate debt for the District. The transactions allowed the District to create synthetic fixed rates on the Bonds in advance of issuance, protecting the District against potential increases in long-term interest rates.

On March 7, 2008, the District issued the 2008B Bonds, which together with District cash, were used to fully refund the 2007A Bonds. With the issuance of the 2008B Bonds, the 2007 swaps became the 2008 swaps.

On October 17, 2008, the District terminated the 2008 swap with Lehman Brothers Special Financing, Inc. and entered into a replacement 2008 swap with The Bank of New York Mellon. The terms of the replacement 2008 swap are materially similar to the terms of the original 2008 swap. The difference between the early termination payment made to Lehman Brothers Special Financing, Inc. and the proceeds received from The Bank of New York Mellon for replacing the swap under the existing terms, resulted in a net benefit to the District of $95,000.

Fair values. Because interest rates have declined, the 2008 swap had a negative fair value as of December 31, 2008, of $13,144,015. The 2009, 2011 and 2013 swaps also had negative fair values as of December 31, 2008, of $11,262,438, $26,110,095 and $7,437,888, respectively. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of a given transaction. The fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swaps, assuming the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. For the call option component of the 2008 swap, the Black-Derman-Toy (BDT) model is used including market volatility inputs that are regularly calibrated against market prices.

Credit risk. As of December 31, 2008, the District was not exposed to credit risk on any of the outstanding swaps because the swaps had negative fair values. However, if interest rates change and the fair value of the swaps become positive, the District would be exposed to credit risk in the amount of the swaps' fair value. The credit ratings of the counterparties are noted in the table prior.

The swap agreements contain collateral agreements with the counterparties. The swaps require collateralization of the positive fair value of the swap, inclusive of any call option, in excess of the notional by $100,000. For the District's swap counterparties, this requirement only applies to those that do not have a credit rating within the two highest long-term investment grade rating categories from at least two nationally recognized rating agencies. As of December 31, 2008, no swap counterparties were required to post collateral. For the District, no collateralization is required as long as the District's Credit Support Providers (Swap Insurers) maintain a financial strength rating from S&P that is at or above "A-" and claims paying ability rating from Moody's that is at or above "A3". In the event a Swap Insurer's rating drops below these levels and the District does not find a substitute Credit Support Provider acceptable to the counterparty, the District may be required to post collateral if the District's long-term senior unsecured debt rating from Standard and Poor's and Moody's drops below BBB+ or Baa1, respectively. As of December 31, 2008, the District's ratings were Aa2/AA/AA+ from Moody's, Standard and Poor's and Fitch Ratings respectively. The District's Swap Insurers' ratings as of December 31, 2008 were as follows:

Swap Insurers

Related Bonds	Credit Support Provider	Credit Rating by Moody's/S&P/Fitch	Notional Amount
Series 2008B	Syncora Guarantee Inc.	Caa1/B/NR	$ 65,625,000
Series 2009	Financial Security Assurance, Inc.	Aa3/AAA/AAA	30,355,000
Series 2011	Financial Security Assurance, Inc.	Aa3/AAA/AAA	78,375,000
Series 2013	Financial Security Assurance, Inc.	Aa3/AAA/AAA	28,815,000
	Total		$ 203,170,000

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

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

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

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

Other Material Terms. The 2008 swap is cancelable at no cost to the District, at the District's option, with the bond and swap insurer's approval in a minimum exercise amount of $1,000,000 on any date after July 1, 2017. The District also has the right to cancel any outstanding swap at the prevailing market price for swaps.

NOTE 6: PURCHASED POWER SUPPLY

A significant portion of the retail electric distribution system power is purchased from the Hydro projects on a cost-of-service basis, including debt service costs. Of the total kilowatt-hours purchased by the retail electric distribution system during 2008, approximately 49% was provided by the Rocky Reach project, 32% by the Columbia River-Rock Island project, 9% by the Lake Chelan project and 10% from other sources.

Alcoa and the District entered into a Rocky Reach Power Sales Contract dated November 15, 1957, as supplemented and amended, for 23% of the output of the Rocky Reach project. Alcoa's interest in the 1957 contract was subsequently conditionally assigned to Colockum by an instrument entitled "Assignment" dated August 10, 1964, and thereafter conditionally assigned to the District by an Assignment dated August 28, 1992. Also on August 28, 1992, Colockum and the District entered into an Industrial Power Sales Contract under which Colockum acquired certain rights to power from certain portions of the District's system for use by Alcoa at its Wenatchee Works facilities. Effective October 1, 2004, a Restated and Amended Industrial Power Sales Contract was entered into by Alcoa and Colockum and the District which supersedes all prior contracts. This current contract is effective through October 31, 2011.

Under a provision of the current contract, during the operating period, the District remarkets the Surplus Rocky Reach Replacement Power (23% share of Rocky Reach output) that exceeds the load requirement at the Wenatchee Works aluminum plant. The remarketing net proceeds less cost of generation and administrative expenses are held by the District, but can be used by Colockum as a credit that can be applied to current and future purchases of energy from the District.

When Alcoa's load exceeds the Rocky Reach Replacement Power, the District shall make available an additional 42 aMWh of firm energy, to the extent needed for use at Wenatchee Works. Alcoa pays average industrial rates for this power unless the average monthly load at Wenatchee Works exceeds a threshold of 189.15 aMWhs. Any portion of the additional 42 aMWh that is required to meet loads in excess of the threshold is sold to Alcoa at market price. The District shall purchase power at market prices daily as required to meet any shortfalls in energy supply to Wenatchee Works not met by the Rocky Reach Replacement Power and the 42 aMWh of firm energy. Alcoa is responsible for all costs and counterparty risks associated with these market purchases.

NOTE 7: EMPLOYEE BENEFIT PLANS

Pension Plan

Substantially all of the District's full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS). This is a statewide local government retirement system administered by the Department of Retirement Systems, under a cost-sharing, multiple-employer defined benefit or contribution public employee retirement plan.

Plan Description

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

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

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

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service or at the age of 55 with 25 years of service. The annual benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months. Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of 2 percent of the AFC per year of service. The AFC is based upon the greatest compensation during any eligible consecutive 60-month period. Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise, an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the AFC per year of service. The AFC is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,190 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2007:

Retirees and Beneficiaries Receiving Benefits	71,244
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	26,583
Active Plan Members Vested	105,447
Active Plan Members Non-vested	52,575
Total	255,849

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees and 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 percent to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2008, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	8.31%	8.31%	8.31%**
Employee	6.00%	5.45%	***

** The employer rates include the employer administrative expense fee currently set at 0.16%.*
*** Plan 3 defined benefit portion only.*
**** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.*

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2008	$ 160,468	$ 3,057,708	$ 590,953
2007	$ 179,131	$ 2,351,209	$ 451,697
2006	$ 115,566	$ 1,194,708	$ 236,634

For a copy of the State of Washington's Comprehensive Annual Financial Report, go to www.drs.wa.gov.

All information on the website is the responsibility of the State of Washington. PricewaterhouseCoopers LLP (PwC), independent accountant for the District, has not audited or examined any information on that website, accordingly, PwC does not express an opinion or any other form of assurance with respect thereto.

Deferred Compensation Plans

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

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

The District also offers its employees a 401(a) employer matching plan. The 401(a) is a qualified, tax deferred plan that allows the District to match employee contributions made to the 457 Plan. Under the 401(a) Plan, the District will match each employee's contribution to the 457 Plan at a rate of 50% with a cap of 5.00% of an employee's annual base salary up to a maximum of $10,250. The District's 401(a) Plan matching contributions for the years ending December 31, 2008 and 2007, were $1,445,000 and $1,384,000, respectively. Matching contribution rates are at the District's discretion within the requirements of the current bargaining unit agreement.

NOTE 8: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

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

Funding Policy

The District contributed 27% and 29% of the cost of 2008 and 2007 premiums, respectively, for eligible retired plan members and their spouses. For the years ended December 31, 2008 and 2007, the District contributed $162,000 and $255,000, respectively, to the plan. Plan members receiving benefits contributed 73% and 71% of the premium costs for years 2008 and 2007, respectively. For the years ended December 31, 2008 and 2007, total member contributions were $439,000 and $638,000, respectively. Future contributions will be made by the District at the 2007 level adjusted for inflation, with plan members contributing the remaining premium. Contribution rates may be adjusted at the District's discretion.

Annual Other Postemployment Benefit Cost and Net Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year. The following table shows the components of the District's annual OPEB cost for the years 2008 and 2007, the amount actually contributed to the plan and the changes in the District's net OPEB obligation:

	2008	2007
Annual required contribution/ Annual OPEB cost	$ 50,000	$ 264,640
Contributions made	(—)	(2,240,164)
Increase/(decrease) in net OPEB obligation	50,000	(1,975,524)
Net OPEB obligation – beginning of year	—	1,975,524
Net OPEB obligation – end of year	$ 50,000	$ —

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2008 and 2007 were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/08	$ 50,000	0%	$ 50,000
12/31/07	$ 264,640	100%	$ —

Funded Status and Funding Progress

As of December 31, 2008, the plan's unfunded net OPEB obligation was $50,000. As of December 31, 2007, the plan was fully funded. The covered payroll (annual wages of active employees covered by the plan) was $48,047,000 and $46,311,000 for 2008 and 2007, respectively. The ratio of the current ARC to the covered payroll was 0.10%.

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

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. All acturarial valuations are as of the last actuarial report dated January 1, 2007.

Methods and Assumptions

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

The following simplifying assumptions were made:

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

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

Inflation rate – Inflation rates of 2.6% and 2.3% were used for 2007 and 2008 and thereafter, respectively. Inflation rates are based upon the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

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

NOTE 9: SEGMENT DISCLOSURE

The District has outstanding revenue bonds used to finance the Rocky Reach and Columbia River-Rock Island hydroelectric production facilities. Each project has an external requirement to be accounted for separately, and investors in the revenue bonds rely solely on the revenue generated by the individual projects for repayment. Summary financial information as of and for the years ending December 31, 2008 and 2007, for both projects is presented below.

CONDENSED BALANCE SHEETS

(amounts in thousands)	Rocky Reach 2008	Columbia River-Rock Island 2008	Rocky Reach 2007	Columbia River-Rock Island 2007
ASSETS				
Current assets	$ 6,717	$ 4,759	$ 5,371	$ 2,485
Restricted assets – current	10,258	46,036	12,424	41,184
Total current assets	16,975	50,795	17,795	43,669
Utility plant, net	384,127	309,932	392,644	296,918
Restricted assets – noncurrent	5,410	17,313	6,222	24,336
Deferred charges and other assets	19,777	7,330	21,865	7,919
Total assets	$ 426,289	$ 385,370	$ 438,526	$ 372,842
LIABILITIES AND NET ASSETS				
Current liabilities	$ 10,774	$ 11,805	$ 12,318	$ 30,816
Long-term debt	296,208	439,662	305,272	410,513
Other liabilities	—	195	—	38
Total liabilities	306,982	451,662	317,590	441,367
Net Assets:				
Invested in capital assets, net of related debt	381,567	61,154	381,368	39,658
Restricted for debt service	2,751	35,948	7,419	36,442
Restricted for other	14,417	6,455	15,242	7,301
Unrestricted	(279,428)	(169,849)	(283,093)	(151,926)
Total net assets (deficit)	119,307	(66,292)	120,936	(68,525)
Total liabilities and net assets	$ 426,289	$ 385,370	$ 438,526	$ 372,842

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

(amounts in thousands)	Rocky Reach 2008	Columbia River-Rock Island 2008	Rocky Reach 2007	Columbia River-Rock Island 2007
Operating revenues	$ 77,416	$ 74,712	$ 73,027	$ 67,335
Less:				
Operating expenses	44,201	38,715	41,938	35,430
Depreciation and amortization	16,810	10,019	16,775	9,625
Operating income	16,405	25,978	14,314	22,280
Other expense	18,034	23,745	16,830	22,101
Change in net assets (deficit)	(1,629)	2,233	(2,516)	179
Total net assets (deficit) – beginning of year	120,936	(68,525)	123,452	(68,704)
Total net assets (deficit) - end of year	$ 119,307	$ (66,292)	$ 120,936	$ (68,525)

CONDENSED STATEMENTS OF CASH FLOWS

(amounts in thousands)	Rocky Reach 2008	Columbia River-Rock Island 2008	Rocky Reach 2007	Columbia River-Rock Island 2007
Net cash provided (used) by:				
Operating activities	$ 30,657	$ 31,399	$ 30,608	$ 30,848
Capital and related financing activities	(33,909)	(36,155)	(31,163)	(13,799)
Investing activities	4,235	9,276	(1,475)	(18,277)
Net increase (decrease)	983	4,520	(2,030)	(1,228)
Beginning cash and cash equivalents	2,473	6,326	4,503	7,554
Ending cash and cash equivalents	$ 3,456	$ 10,846	$ 2,473	$ 6,326

NOTE 10: SUPPLEMENTAL DISCLOSURE OF TELECOMMUNICATION SERVICES

The District began installation of fiber-optic communications for utility use in 1999 after examining the various types of infrastructure that could be utilized to deliver advanced telecommunications services. The resulting research showed that fiber-optic cable provided the most robust and cost-effective solution for delivering telecommunications services. Fiber has an extremely long life cycle and almost unlimited bandwidth capacity which should allow the District to migrate to new technologies without having to replace an expensive outside plant infrastructure.

In 2000, a change in state law granted PUDs wholesale telecommunications authority. The District is building out the fiber-optic network to share the benefit of the technology investment. The fiber-optic network now provides a backbone for the District's utility communication use, as well as infrastructure over which private service providers can deliver services, 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 Assets.

(amounts in thousands)	2008	2007
Operating revenues		
Wholesale fiber services	$ 3,088	$ 2,563
Fiber leasing	422	378
Intradistrict revenues	1,695	1,509
Total operating revenues	5,205	4,450
Operating expenses		
Administrative and general	1,601	1,647
Repairs and maintenance	806	865
Other operating	1,582	1,466
Depreciation expense	4,072	3,385
Total operating expense	8,061	7,363
Operating loss	(2,856)	(2,913)
Other expenses	4,091	3,617
Net loss before capital contributions	(6,947)	(6,530)
Capital contributions	309	6
Interfund equity transfers	—	18,000
Change in net assets	$ (6,638)	$ 11,476

During 2007, the District allocated a portion of the $89 million advance payment received from PSE (see Note 1) to the fiber-optics system. The allocation is reflected as an interfund equity transfer in the above summary of fiber-optic activities.

The District's capital investment in telecommunications plant and equipment for 2008 and 2007 was $12.6 million and $12.2 million, respectively. The District's cumulative capital investment in telecommunications plant and equipment as of December 31, 2008, was $75.5 million.

NOTE 11: SELF-INSURANCE

The District operates a self-insurance program for building, property, liability and casualty for losses that are below insurance deductibles and maintains a loss reserve fund of $1.5 million in accordance with the self-insurance program policy. The District purchases several different types of property and liability insurance policies that have deductibles up to $2.0 million depending on the line of coverage. The Hydro Systems and Utility Services participate in the program and make payments to the self-insurance fund based on monthly premiums established for the plan. These monies are invested in the Internal Service System to maintain a balance for the payment of future claims of $1.5 million. Interest earnings on the reserve fund, net of claims and interest paid, are returned to the Hydro Systems and Utility Services annually in the form of an interest rebate. As of December 31, 2008 and 2007, there were no claims incurred.

The District is exposed to various risks of loss related to injuries to employees and has elected self-insurance for workers compensation claims up to $500,000 per incident. The District purchases excess workers compensation liability insurance to cover large claims in excess of the deductible. The District has a cumulative self-insurance reserve fund of $92,000, as required by law, and a claims fund of $1.0 million, in accordance with the program policy. The Hydro Systems and Utility Services participate in the program and make payments to the self-insurance fund based on monthly premiums established for the plan. These monies are invested in the Internal Service System, and earnings on these investments, net of claims paid, accumulate in the fund to maintain a target balance of $1.0 million for the payment of future claims.

The District determined an accrual for workers compensation claims based upon an estimate of actual claims incurred minus stop loss insurance coverage plus a reserve for claims incurred but not yet reported of $199,000 and $174,000 at December 31, 2008 and 2007, respectively.

The District has elected self-insurance for medical health benefits. Monies have been advanced from the retail distribution system to the Internal Service System, establishing the medical self-insurance reserve fund of $2.0 million, as required by law. The Hydro Systems and Utility Services participate in the program and make payments to the self-insurance fund based on monthly health insurance premiums associated with benefit plans for employees. These monies are invested in the Internal Service System, and earnings on these investments, net of claims paid, accumulate to be used for the payment of future claims.

The District determined an accrual for medical and health benefit claims based upon an estimate of actual claims incurred plus a reserve for claims incurred but not yet reported of $1,232,000 and $1,209,000 at December 31, 2008 and 2007, respectively.

The District has elected self-insurance for dental benefits. Monies from the "Stabilization Reserve" held by the third party plan administrator, Washington Dental Service, were used to establish the dental self-insurance reserve fund of $75,000. The Hydro Systems and Utility Services participate in the program and make payments to the self-insurance fund based on monthly dental insurance premiums associated with benefit plans for employees. These monies are invested in the Internal Service System and earnings on these investments, net of claims paid, accumulate to be used for the payment of future claims.

The District determined an accrual for dental benefit claims based upon an estimate of actual claims incurred plus a reserve for claims incurred but not yet reported of $74,000 and $77,000 at December 31, 2008 and 2007, respectively.

NOTE 12: COMMITMENTS AND CONTINGENCIES

Environmental Matters

In June 2004, the Federal Energy Regulatory Commission (FERC) ordered the incorporation of the Anadromous Fish Agreements and Habitat Conservation Plan Agreements (HCPs) into the current licenses for the Rocky Reach and Rock Island projects. The 50-year HCPs provide a framework for long-term resolution of certain fish issues at the projects. The 50-year plans had been signed by the District, the U.S. Fish and Wildlife Service (USFWS), NOAA Fisheries, the Washington State Department of Fish and Wildlife (WDFW) and the Confederated Tribes of the Colville Reservation in March 2005. The Yakama Nation subsequently signed the HCPs in April 2005. NOAA Fisheries completed biological opinions for the HCPs and issued Incidental Take Permits (ITPs) under Section 10 of the Endangered Species Act (ESA) in 2003. The incorporation of the HCPs and ITPs into the current FERC licenses provides greater certainty for continued operation of the District's hydroelectric systems while meeting requirements to prevent jeopardy to certain listed and unlisted species of salmon and steelhead. The District's commitments under the HCPs include expenditures to improve fish passage, to provide capacity for and fund hatchery operations and to rehabilitate habitat through conservation projects. The ultimate costs under the HCPs are currently not estimable.

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

In 1998, the Columbia River Distinct Population Segment of bull trout was listed by the USFWS as a threatened species under the ESA, and a Bull Trout Recovery Team was established. A draft Upper Columbia River Bull Trout Recovery Plan has been developed which contains recommendations for recovering bull trout in the Columbia River Basin. The District is an active member of the Bull Trout Recovery Team and has developed comprehensive Bull Trout Management Plans for the Rocky Reach and Rock Island projects that will be coordinated with regional efforts. These plans were developed in response to the USFWS's biological opinion on potential effects of the HCPs on bull trout, which are not covered by the HCPs. Implementation of the plans began in May 2005. For the Rocky Reach project, a Comprehensive Bull Trout Management Plan was developed as part of the Rocky Reach Comprehensive Settlement Agreement that represents the District's proposal for bull trout protection, mitigation and enhancement measures under a new federal operating license as discussed in Note 4. In 2008, the USFWS consulted on the Rocky Reach Settlement Agreement and issued its Biological Opinion in December 2008. FERC will include the Settlement Agreement Bull Trout Management Plan in the License Order when it issues a new license for the Rocky Reach Project in 2009 (see Note 13: Subsequent Event - New License).

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

Capital Improvement Program

During 2005, the District entered into a contract to rehabilitate the first of up to six generating units at Powerhouse 1 at Rock Island. A $22.9 million contract was executed for the design, manufacture, installation and testing of one generating unit. Construction was completed in May 2008. The first unit is undergoing one year of trial operation to prove and optimize the design. The original contract was amended to purchase two turbines for future units for a cost of $5.5 million. As of December 31, 2008, the remaining construction commitment totaled $3.8 million.

The District will also be rehabilitating, upgrading and/or replacing other ancillary assets as part of the modernization project for Powerhouse 1 at Rock Island. In 2007, the District also entered into a $12.1 million contract to replace stators for generating units at Rock Island. The stators will be delivered as they are produced in 2009 with final installation expected by the end of 2014. As of December 31, 2008, the remaining construction commitment totaled $4.8 million.

In 2007, the District also entered into a contract to modernize the Lake Chelan powerhouse. The $32.4 million contract covers design, fabrication and installation of two new turbines, generators, governors and unit controls. The project will replace equipment that has been in operation since 1927. A model test of a new unit was performed in September 2008, evaluating improvements in efficiency. Installation of the first unit is scheduled to start in March 2009, and is expected to take six months to complete. As of December 31, 2008, the remaining construction commitment totaled $21.9 million.

In 2008, the District entered into a contract to develop new spawning and rearing habitat for fish near the Chelan Powerhouse. The $8.7 million contract includes the cost to construct a low level outlet water supply facility at the Chelan Dam, a pump station water supply near the Chelan Powerhouse and a canal to deliver pumped tailrace water to the head of the new habitat. Field work began in May 2008. As of December 31, 2008, the remaining construction commitment totaled $2.8 million.

Power Marketing

During 2008, the District entered into various power marketing transactions. As of December 31, 2008, the District had signed contracts obligating it to deliver approximately 297,200 MWh of energy at various times during 2009 and 2010. The District expects to receive approximately $20.1 million from the purchasers of this power. The District has committed to purchase approximately 30,800 MWh of energy at a cost of approximately $2.4 million to fulfill these obligations, meet District load requirements and mitigate credit risk. The District believes it has sufficient internal resources, or has acquired sufficient external resources to complete these transactions.

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

The District, along with 12 other Washington State public entities, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone over Public Benefit Fibers leased from Bonneville Power Administration throughout the State of Washington. The network began commercial operation in January 2001.

In July 2001, NoaNet issued $27 million in Telecommunications Network Revenue Bonds (taxable) to finance the repayment of the founding members and the costs of initial construction, operations and maintenance. The bonds became due beginning in December 2003 through December 2016, with interest due semi-annually at rates ranging from 5.05% to 7.09%. Each member of NoaNet has entered into a repayment agreement to guarantee the debt of NoaNet. The District's guarantee is limited to a maximum of 12.65%.

In January 2003, NoaNet opened a $5 million line of credit with Bank of America to fund capital expenditures. In accordance with the terms of the 2003 line of credit, additional draws were no longer available after December 31, 2005. In June 2006, NoaNet opened a second $5 million line of credit to fund additional capital renewals and replacements. In August 2008, NoaNet opened an additional $1.5 million non-revolving line of credit to fund upgrades and expansions of capital facilities. Draws against the three lines of credit totaled $4.2 million and $4.1 million as of December 31, 2008 and 2007, respectively. NoaNet may assess its members for their percentage share of principal and interest on the notes to the extent that NoaNet does not have sufficient funds to pay the notes.

The management of NoaNet anticipates meeting debt obligations through profitable operations, but it will be necessary for NoaNet to assess members to cover operating deficits during the initial years of operation. Member assessments totaled $2.6 million and $3.1 million for 2008 and 2007, respectively. The District's membership percentage in NoaNet is currently 11.71%. During 2008 and 2007, the District expensed $260,000 and $311,000, respectively, related to member assessments. NoaNet recorded changes in net assets of $839,000 and ($1,205,000) during 2008 and 2007, respectively, based on the preliminary 2008 financial report. The District's share of the changes in net assets is $98,000 and ($141,000) for the years ended December 31, 2008 and 2007, respectively. NoaNet had a negative net equity position for 2008 and 2007 of $8.5 million and $11.9 million, respectively.

For the NoaNet final 2008 financial report, please write: NoaNet, 111 Devereese Road, Chehalis, Washington, 98532-9017, or go to www.noanet.net.

All information on the website is the responsibility of NoaNet. PwC has not audited or examined any information on that website, accordingly, PwC does not express an opinion or any other form of assurance with respect thereto.

Energy Northwest

In August 2001, District Commissioners voted to join seven other utilities in 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 (formerly known as the Washington Public Power Supply System), was also a purchaser under the Power Purchase Agreement. Energy Northwest has since assigned its share of the Project to two additional utilities.

The Project was constructed in phases. The District is a participant in phases I and II of the Project, which have a combined generating capacity of 64 MW. Phase I is 37 wind turbines that went into commercial operation in September 2002. Phase II is a 12-turbine expansion that was completed and placed into commercial operation on December 31, 2003. In exchange for paying certain project costs after phase I and II commenced commercial operation, including debt service on the Wind Project Revenue Bonds issued by Energy Northwest to finance the construction of the Project, the District receives a 12.5% share of the total project output up to a maximum of 7.96 MW. As of December 31, 2008, the District's share of bond principal was $9.9 million and was not to exceed $12.3 million with the step-up provision. The power purchased under this contract is reported as a component of Purchased Power Operating Expenses.

Phase III of the Project (the final phase) is a 14 turbine, 32 MW expansion and was placed into commercial operation in May of 2008. The District declined to participate in phase III of the Project. In October 2006, the District signed a second amended power purchase agreement, reducing the District's share in the combined project to approximately 8.3% once phase III began commercial operation. The District's debt obligations related to phases I and II remain the same, but its share of the combined project output and combined operation and maintenance costs were reduced as a result of not participating in phase III.

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

The PwC report included with these financial statements relates solely to historical financial information of the District.

Mandatory Reliability Standards

EPAct 2005 authorized FERC to certify and oversee an Electric Reliability Organization (ERO) for the purpose of establishing and enforcing mandatory reliability standards in North America. Under EPAct 2005, the ERO can delegate enforcement authority to qualified regional reliability organizations (RROs). On July 20, 2006, FERC certified the North American Electric Reliability Council (NERC) as the ERO. In April 2007, the Western Electricity Coordinating Council (WECC) became the RRO for the western interconnection. The WECC Region extends from Canada to Mexico and includes the provinces of Alberta and British Columbia, the northern portion of Baja California, Mexico and all or portions of the 14 western states in between.

The District has implemented a reliability internal compliance program. The program and staff are in operations, but the work will be independently reviewed and monitored by the District's Compliance Division. The District underwent a compliance audit by WECC in August 2007; possible violations were noted but the results are still pending. Any potential penalties related to the violations cannot be estimated at this time. No accrual has been made for this contingency.

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: Subsequent Events

On February 19, 2009, the District received a new FERC license to continue operating the Rocky Reach Hydroelectric Project. The new license is based on a settlement agreement submitted to FERC on March 17, 2006, between the District and stakeholders, including the local communities, state and federal agencies, Tribes and environmental groups. The license was issued for a term of 43 years and outlines operational requirements and environmental protections that are estimated to cost approximately $424 million over the life of the license. The costs are in line with expectations and will not significantly impact the overall financial condition of the District.

On March 16, 2009, the District's Board of Commissioners accepted the license and requested a rehearing of the license term and clarification of several additional items. The District had applied for a 50 year license. The terms of the license, as issued, will be in effect during the period in which FERC is preparing its response to the District's requests.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for Postretirement Health Benefits Program

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c))
1/1/2008	$ 2,177,526	$ 2,227,526	$ 50,000	97.00%	$ 48,046,983	0.10%
1/1/2007	$ 2,177,526	$ 2,177,526	$ —	100.00%	$ 46,311,261	0.00%

Combining Schedule of Assets and Liabilities and Net Assets

For the year ended December 31, 2008, with comparative totals for December 31, 2007

(Amounts in thousands)	Rocky Reach	Columbia River-Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	2008	2007
CURRENT ASSETS								
Cash and cash equivalents	$ —	$ —	$ 432	$ 26,801	$ —	$ 4,745	$ 31,978	$ 12,237
Investments	—	—	578	54,891	—	6,354	61,823	86,666
Accounts receivable, net	4,377	4,332	9	10,359	—	11	19,088	14,634
Accrued interest receivable	422	193	85	1,681	69	150	2,600	3,162
Materials and supplies	1,631	—	—	8,420	—	302	10,353	10,073
Prepayments and other	287	234	32	811	—	10	1,374	1,644
	6,717	4,759	1,136	102,963	69	11,572	127,216	128,416
RESTRICTED ASSETS - CURRENT								
Cash and cash equivalents	3,456	10,846	8,623	13,034	10,535	2,490	48,984	37,034
Investments	6,802	35,190	11,547	17,455	23,351	3,334	97,679	95,650
	10,258	46,036	20,170	30,489	33,886	5,824	146,663	132,684
TOTAL CURRENT ASSETS	16,975	50,795	21,306	133,452	33,955	17,396	273,879	261,100
UTILITY PLANT								
In service, at original cost	585,102	510,941	62,563	405,142	—	72,865	1,636,613	1,536,942
Construction work in progress	374	12,969	25,077	11,119	—	2,617	52,156	60,218
Less-accumulated depreciation	(201,349)	(213,978)	(21,034)	(141,215)	—	(41,622)	(619,198)	(581,768)
	384,127	309,932	66,606	275,046	—	33,860	1,069,571	1,015,392
RESTRICTED ASSETS - NONCURRENT								
Investments	5,410	17,313	13,520	20,437	13,987	3,904	74,571	88,642
DEFERRED CHARGES AND OTHER ASSETS								
Deferred financing costs	3,955	5,008	906	1,181	372	96	11,518	12,459
Deferred relicensing costs	11,987	—	—	—	—	—	11,987	11,917
Fish protection costs	3,049	1,436	—	—	—	—	4,485	5,704
Long-term receivables, net	—	—	—	3,117	—	—	3,117	1,794
Long-term investments	—	—	677	103,821	—	7,440	111,938	78,764
Other	786	886	—	137	—	105	1,914	1,795
	19,777	7,330	1,583	108,256	372	7,641	144,959	112,433
TOTAL ASSETS	$ 426,289	$ 385,370	$ 103,015	$ 537,191	$ 48,314	$ 62,801	$1,562,980	$ 1,477,567

Combining Schedule of Assets and Liabilities and Net Assets (Cont.)

For the year ended December 31, 2008, with comparative totals for December 31, 2007

(Amounts in thousands)	Rocky Reach	Columbia River-Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	2008	2007
CURRENT LIABILITIES								
Current portion of long-term obligations	$ 2,428	$ 6,885	$ 2,212	$ 2,607	$ (75)	$ 335	$ 14,392	$ 29,432
Warrants and accounts payable	1,684	4,882	1,623	5,009	90	5,431	18,719	17,469
Accrued taxes	1,241	713	97	1,447	—	224	3,722	3,971
Accrued interest	24	40	—	21	15,421	—	15,506	14,593
Intersystem payables (receivables)	5,374	(740)	726	8,133	(14,848)	1,355	—	—
Accrued vacation and other	23	25	5	31	—	11,800	11,884	10,967
	10,774	11,805	4,663	17,248	588	19,145	64,223	76,432
LONG-TERM DEBT								
Revenue bonds and notes payable, less current portion	5,112	264,693	(1,126)	3,759	704,855	(335)	976,958	917,645
Intersystem loans payable (receivable)	291,096	174,969	78,108	80,390	(662,483)	37,920	—	—
	296,208	439,662	76,982	84,149	42,372	37,585	976,958	917,645
OTHER LIABILITIES								
Deferred wholesale power sales revenue	—	—	—	111,941	—	—	111,941	89,000
Licensing obligation, less current portion	—	—	8,452	—	—	—	8,452	8,322
Other liabilities	—	195	—	—	—	—	195	38
	—	195	8,452	111,941	—	—	120,588	97,360
TOTAL LIABILITIES	306,982	451,662	90,097	213,338	42,960	56,730	1,161,769	1,091,437
TOTAL NET ASSETS	119,307	(66,292)	12,918	323,853	5,354	6,071	401,211	386,130
TOTAL LIABILITIES AND NET ASSETS	$ 426,289	$ 385,370	$ 103,015	$ 537,191	$ 48,314	$ 62,801	$1,562,980	$1,477,567

Combining Schedule of Revenues, Expenses and Changes in Net Assets

For the year ended December 31, 2008, with comparative totals for the year ended December 31, 2007

(Amounts in thousands)	Rocky Reach	Columbia River-Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Trans-actions(1)	2008	2007
OPERATING REVENUES									
Retail sales	$ —	$ —	$ —	$ 50,671	$ —	$ —	$ (705)	$ 49,966	$ 46,380
Wholesale sales	75,639	74,618	6,152	99,195	—	—	(76,604)	179,000	183,272
Other operating revenues	1,777	94	449	2,878	—	16,845	(17,197)	4,846	1,739
	77,416	74,712	6,601	152,744	—	16,845	(94,506)	233,812	231,391
OPERATING EXPENSES									
Purchased power and water	—	—	—	104,720	—	—	(74,910)	29,810	21,366
Generation	42,945	38,121	3,337	—	—	—	(11,883)	72,520	66,982
Utility services	—	—	—	35,564	—	—	(6,172)	29,392	27,400
Other operation and maintenance	—	—	—	—	—	9,252	(1,541)	7,711	7,377
Taxes	1,256	594	89	4,408	—	—	—	6,347	6,215
Depreciation and amortization	16,810	10,019	845	11,795	—	5,045	—	44,514	44,115
OPERATING INCOME (LOSS)	16,405	25,978	2,330	(3,743)	—	2,548	—	43,518	57,936
OTHER INCOME (EXPENSE)									
Interest on long-term debt	(490)	(16,181)	—	(95)	(34,980)	—	163	(51,583)	(51,407)
Interest on intersystem loans	(19,981)	(9,354)	(2,982)	(830)	34,980	(1,670)	(163)	—	—
Amortization of deferred debt costs	(269)	(268)	(75)	(150)	—	(13)	—	(775)	(682)
Investment income	83	2,374	988	8,528	4,229	913	—	17,115	21,071
Other	2,623	(316)	(2)	(14)	(3,219)	(700)	—	(1,628)	(894)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(1,629)	2,233	259	3,696	1,010	1,078	—	6,647	26,024
CAPITAL CONTRIBUTIONS	—	—	—	8,434	—	—	—	8,434	4,334
CHANGE IN NET ASSETS	(1,629)	2,233	259	12,130	1,010	1,078	—	15,081	30,358
TOTAL NET ASSETS Beginning of year	120,936	(68,525)	12,659	311,723	4,344	4,993	—	386,130	355,772
TOTAL NET ASSETS End of year	$ 119,307	$ (66,292)	$ 12,918	$ 323,853	$ 5,354	$ 6,071	$ —	$ 401,211	$ 386,130

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

Combining Schedule of Cash Flows

For the year ended December 31, 2008, with comparative totals for the year ended December 31, 2007

(Amounts in thousands)	Rocky Reach	Columbia River-Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Trans-actions(1)	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers	$ 75,987	$ 72,363	$ 6,597	$ 174,946	$ —	$ 16,913	$ (94,506)	$ 252,300	$233,446
Payments to suppliers	(21,880)	(20,423)	(1,912)	(121,931)	—	(8,337)	94,506	(79,977)	(71,691)
Payments to employees	(23,450)	(20,541)	(1,737)	(19,650)	—	(596)	—	(65,974)	(62,300)
Net cash provided by (used in) operating activities	30,657	31,399	2,948	33,365	—	7,980	—	106,349	99,455
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Additions to plant	(7,116)	(23,681)	(23,697)	(37,909)	—	(3,268)	—	(95,671)	(66,798)
Additions to pooled assets	(379)	(283)	(39)	—	—	701	—	—	—
Proceeds from sale of plant	47	26	1	246	—	123	—	443	362
Proceeds of new intersystem loans	64,353	71,043	60,523	60,009	(259,280)	3,352	—	—	—
Proceeds of new third party debt	7,600	8,499	—	638	195,553	—		212,290	129,193
Principal paid on debt and intersystem loans	(82,169)	(82,431)	(34,045)	(13,259)	31,277	(4,626)	—	(185,253)	(130,393)
Interest (paid) received on debt and intersystem loans	(20,789)	(9,957)	(1,894)	(1,505)	557	(2,010)	—	(35,598)	(39,565)
Capital contributions	—	—	—	8,270	—	—	—	8,270	3,887
Other	4,544	629	(180)	(623)	(3,134)	(734)	—	502	807
Net cash provided by (used in) capital and related financing activities	(33,909)	(36,155)	669	15,867	(35,027)	(6,462)	—	(95,017)	(102,507)
CASH FLOWS FROM INVESTING ACTIVITIES									
Investments, net	4,003	6,761	(1,595)	(30,830)	25,582	1,022	—	4,943	(69,427)
Interest on investments	232	2,358	882	8,439	3,632	901	—	16,444	19,134
Long-term receivables	—	—	—	(1,325)	—	—	—	(1,325)	186
Other, net	—	157	140	—	—	—	—	297	(129)
Net cash provided by (used in) investing activities	4,235	9,276	(573)	(23,716)	29,214	1,923	—	20,359	(50,236)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	983	4,520	3,044	25,516	(5,813)	3,441	—	31,691	(53,288)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,473	6,326	6,011	14,319	16,348	3,794	—	49,271	102,559
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,456	$ 10,846	$ 9,055	$ 39,835	$ 10,535	$ 7,235	$ —	$ 80,962	$ 49,271

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

(Amounts in thousands)	Rocky Reach	Columbia River-Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Trans-actions(1)	2008	2007
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES									
Operating income (loss)	$ 16,405	$ 25,978	$ 2,330	$ (3,743)	$ —	$ 2,548	$ —	$ 43,518	57,936
Depreciation and amortization	16,810	10,019	845	11,795	—	5,045	—	44,514	44,115
(Increase) decrease in operating assets:									
Accounts receivable, net	(1,429)	(2,349)	(4)	(739)	—	67	—	(4,454)	2,058
Materials and supplies	(140)	—	—	(56)	—	(84)	—	(280)	(2,000)
Prepayments and other	31	24	4	221	—	(10)	—	270	(8)
Increase (decrease) in operating liabilities:									
Warrants and accounts payable	48	6	(200)	(160)	-—	(520)	—	(826)	(2,027)
Accrued taxes	(129)	(14)	(12)	(132)	—	38	—	(249)	448
Accrued vacation and other	(939)	(2,265)	(15)	3,238	—	896	—	915	(1,067)
Deferred wholesale power sales	—	—	—	22,941	—	—	—	22,941	—
Net cash provided by (used in) operating activities	$ 30,657	$ 31,399	$ 2,948	$ 33,365	$ —	$ 7,980	$ —	$ 106,349	$ 99,455

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

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APPENDIX B—UNAUDITED FINANCIAL DATA OF THE DISTRICT FOR THE THREE MONTHS ENDED MARCH 31, 2009

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

Three months ended March 31, 2009
(in thousands)

	Rocky Reach	Columbia River-Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	3 Months Ended 03/31/09	3 Months Ended 03/31/08
OPERATING REVENUES	$ 18,315	$ 18,653	$ 2,419	$ 31,316	$ -	$ 3,815	$ (23,678)	$ 50,840	$ 55,766
OPERATING EXPENSES	14,479	12,614	955	36,517	-	3,899	(23,678)	44,786	45,934
NET OPERATING INCOME	3,836	6,039	1,464	(5,201)	-	(84)	-	6,054	9,832
OTHER INCOME (EXPENSE)	(4,392)	(6,291)	(1,159)	1,590	(401)	(241)	-	(10,894)	(7,416)
CAPITAL CONTRIBUTIONS	-	-	-	346	-	-	-	346	657
CHANGE IN NET ASSETS	$ (556)	$ (252)	$ 305	$ (3,265)	$ (401)	$ (325)	$ -	$ (4,494)	$ 3,073

CONDENSED COMBINING BALANCE SHEETS (Unaudited)

March 31, 2009
(in thousands)

ASSETS	Rocky Reach	Columbia River-Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	03/31/09	03/31/08
CURRENT ASSETS	$ 9,485	$ 5,964	$ 982	$ 104,412	$ 109	$ 9,468	$ -	$ 130,420	$ 132,404
RESTRICTED ASSETS - CURRENT	4,812	38,157	11,976	21,909	24,233	2,884	-	103,971	128,566
TOTAL CURRENT ASSETS	14,297	44,121	12,958	126,321	24,342	12,352	-	234,391	260,970
NET UTILITY PLANT	392,485	309,898	73,546	275,388	-	33,436	-	1,084,753	1,015,297
RESTRICTED ASSETS - NONCURRENT	3,254	22,934	16,001	29,275	26,656	3,853	-	101,973	82,799
DEFERRED CHARGES & OTHER ASSETS	7,482	7,099	1,827	101,344	372	11,156	-	129,280	117,311
TOTAL ASSETS	$ 417,518	$ 384,052	$104,332	$ 532,328	$ 51,370	$ 60,797	$ -	$1,550,397	$1,476,377
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES	$ 5,320	$ 7,563	$ 5,912	$ 16,186	$ (69)	$ 18,094	$ -	$ 53,006	$ 64,111
LONG-TERM DEBT	293,447	442,837	76,771	83,613	46,486	36,957	-	980,111	925,703
DEFERRED REVENUES	-	-	-	111,941	-	-	-	111,941	89,000
OTHER LIABILITIES	-	196	8,426	-	-	-	-	8,622	8,360
TOTAL LIABILITIES	298,767	450,596	91,109	211,740	46,417	55,051	-	1,153,680	1,087,174
TOTAL NET ASSETS	118,751	(66,544)	13,223	320,588	4,953	5,746	-	396,717	389,203
TOTAL LIABILITIES & NET ASSETS	$ 417,518	$ 384,052	$104,332	$ 532,328	$ 51,370	$ 60,797	$ -	$1,550,397	$1,476,377

ELECTRIC

As of March 31	2009	2008
Number of Customers*	47,594	45,312
Number of Residential Customers*	35,319	34,130
Average Rate per Residential Customer (Cents/kWh)	3.06	3.06

*Increase includes addition of Cashmere electric system.

POWER GENERATION (MWh)

12 months ended March 31	2009	2008
Lake Chelan	403,612	437,530
Rocky Reach	5,496,941	6,039,640
Rock Island	2,702,730	2,707,213

HYDROELECTRIC SALES OF ENERGY

Sales for Resale (000's)

12 months ended March 31	2009	2008
Lake Chelan	$ 7,012	$ 5,536
Rocky Reach	$ 75,957	$ 72,335
Rock Island	$ 75,732	$ 67,607

AVERAGE PRICE/KWH SOLD (Cents/kWh)

12 months ended March 31	2009	2008
Lake Chelan	1.74	1.27
Rocky Reach	1.38	1.20
Rock Island	2.80	2.50

NOTES TO CONDENSED STATEMENTS

(1) Intra-District transactions are eliminated.

Chelan County Public Utility District No.1 (Chelan County PUD) has prepared condensed financial statements in accordance with generally accepted accounting principles. Condensed financial statements should be read in conjunction with the notes to the financial statements included in the Chelan County PUD's Annual Report as of December 31, 2008. This information is provided for general information. Not all the information is intended for nor should it be relied upon for making investment decisions by current or prospective investors.

APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE MASTER RESOLUTION AND THE SECOND SUPPLEMENTAL RESOLUTION

The following is a summary of certain provisions of the Master Resolution and the Second Supplemental Resolution. This summary does not purport to be complete and is qualified in its entirety by reference to the foregoing documents for a complete statement of the provisions of such documents.

DEFINITIONS

"Accreted Value" means, with respect to any Capital Appreciation Bond, the principal amount thereof plus the interest accrued thereon from its delivery date, compounded at the accretion rate thereof on each date specified therein, to the date of calculation.

"Annual Debt Service" means:

(a) With respect to the Bonds, as of any date of calculation, for any Fiscal Year (or other designated consecutive twelve-month period) the amount of Principal and interest becoming due and payable on all Outstanding Bonds in such Fiscal Year (or other designated consecutive twelve-month period); provided, that for the purposes of computing Annual Debt Service:

(i) the future interest rate on Variable Rate Bonds shall be assumed to be 80% of the 30-year Revenue Bond Index published in *The Bond Buyer* on such date of calculation (or, if *The Bond Buyer* ceases to be published or ceases to publish such index, any comparable successor nationally recognized financial publication or index designated by the District);

(ii) notwithstanding clause (i), if a Payment Agreement is in effect pursuant to which the District is obligated to pay a fixed rate with respect to any Variable Rate Bonds, the interest rate on such Variable Rate Bonds during the period such Payment Agreement is scheduled to be in effect shall be assumed to be the fixed rate specified in such Payment Agreement;

(iii) if a Payment Agreement is in effect with respect to any Bonds pursuant to which the District receives a fixed rate in exchange for paying a variable rate, the interest rate on such Bonds during the period such Payment Agreement is scheduled to be in effect shall be assumed to be the sum of (A) the interest rate on such Bonds determined as if such Bonds were Variable Rate Bonds, and (B) the difference, if any, between the fixed rate of interest borne by such Bonds and the fixed rate the District receives pursuant to such Payment Agreement;

(iv) notwithstanding clause (i), the interest rate on Paired Bonds shall be assumed to be the aggregate fixed interest rate to be paid by the District with respect to such Paired Bonds;

(v) the Principal of any Balloon Bonds shall be assumed to become due and payable in each future Fiscal Year in an amount that would be sufficient to fully amortize such Principal, together with interest thereon at the rate such Bonds are otherwise assumed to bear for purposes of this definition (using semi-annual compounding and a year of 360 days), on a level debt service basis over a period commencing on the first day of the Fiscal Year next preceding the date of calculation and ending 30 years thereafter; and

(vi) the Principal and interest payments on Bonds shall be excluded to the extent such payments are to be made from amounts on deposit, as of the date of calculation, with the Trustee in an escrow or other account irrevocably dedicated therefor, including interest payments that are to be paid from the proceeds of Bonds held by the Trustee;

(b) With respect to the Prior Rocky Reach Bonds, the same as for the Bonds, substituting the term "Prior Rocky Reach Bonds" for the term "Bonds" in every defined term contained therein and definitions thereof.

"Authorized Investments" means any obligations or investments in which the District may legally invest its funds.

"Balloon Bonds" means the aggregate Principal of Bonds of a Series (including Capital Appreciation Bonds) that becomes due and payable, either at scheduled maturity, by Mandatory Sinking Fund Payment or by mandatory tender for purchase, in any Fiscal Year that constitutes 25% or more of the initial aggregate Principal of such Series of Bonds.

"Balloon Sinking Fund" means a sinking fund established and maintained by the District with respect to each Balloon Bond, in accordance with the Resolution.

"Beneficial Owner" means, for any Bond held by a nominee, the owner of the beneficial interest in such Bond.

"Beneficial Owner Register" means the books maintained for the identification of Beneficial Owners.

"Bonds" means the Public Utility District No. 1 of Chelan County, Washington Rocky Reach System Revenue Bonds issued pursuant to, under authority of and for the purposes provided in the Resolution.

"Bond Counsel" means a firm of attorneys appointed by the District with substantial experience and expertise in the field of municipal finance law and the federal and state tax laws related thereto whose legal opinions are widely recognized and accepted by the municipal finance markets.

"Bond Fund" means each fund of that name established pursuant to the Resolution.

"Bond Register" means the books maintained for the registration and transfer of Bonds.

"Bond Retirement Account" means each account of that name established pursuant to the Resolution.

"Bond Year" means, with respect to a Series of Bonds, the Bond Year set forth in the Supplemental Resolution authorizing the issuance of such Series of Bonds or in the Tax Certificate relating to such Series of Bonds.

"Book-Entry Bonds" means Bonds for which a Securities Depository or its nominee is the Owner.

"Capital Appreciation Bonds" means any Bonds the interest on which is not scheduled to be paid until the maturity or prior redemption thereof, or the conversion thereof to Current Interest Bonds.

"Certificate" of the District means a written certificate signed by a duly authorized officer or employee of the District.

"Code" means the Internal Revenue Code of 1986, as amended and supplemented, and any successor legislation thereto, and all regulations promulgated from time to time by the United States Department of the Treasury with respect thereto.

"Commission" means the Commission of the District.

"Consolidated System" means the Consolidated System of the District existing and continued under the Consolidated System Resolution.

"Consolidated System Bonds" means all bonds issued and at any time Outstanding under the Consolidated System Resolution.

"Consolidated System Resolution" means Resolution No. 07-13067 of the District adopted by the Commission on March 12, 2007, as amended and supplemented.

"Construction Fund" means each fund of that name established pursuant to the Resolution.

"Consulting Engineer" means an independent consulting engineering firm appointed by the District with substantial experience and expertise in the area of electric utility engineering consulting whose opinions and views are widely recognized and accepted in the municipal finance markets.

"Credit Facility" means a letter of credit, line of credit, or other credit facility provided by a financial institution or insurance company, including municipal bond insurance and guarantees, delivered to the Trustee for a Series of Bonds or portion thereof, which provides for payment, in accordance with the terms thereof, of the Principal, Purchase Price and/or Redemption Price of and/or interest on such Series of Bonds or portion thereof.

"Credit Facility Provider" means the financial institution or insurance company that is providing a Credit Facility.

"Current Interest Bonds" means any Bonds, other than Capital Appreciation Bonds, which pay interest at least annually to the Owners thereof commencing within 18 months from the date of issuance thereof.

"District" means Public Utility District No. 1 of Chelan County, a municipal corporation of the State of Washington.

"DTC" means The Depository Trust Company, New York, New York, or its successor.

"Event of Default" means each event defined as such in "—Events of Default" below.

"Facility" means a Credit Facility or a Liquidity Facility.

"Facility Provider" means a Credit Facility Provider or a Liquidity Facility Provider.

"Fiscal Year" means the twelve-month period selected from time to time by the District as the official fiscal year of the District.

"Fitch" means Fitch Ratings and its successors and assigns, except that if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities credit rating agency, then the term "Fitch" shall be deemed to refer to any other nationally recognized securities credit rating agency selected by the District.

"Fund" means any fund or account established under the Resolution.

"GAAP" means generally accepted accounting principles from time to time applicable to governmental entities such as the District.

"Government Securities" means direct obligations of, or obligations the timely payment of principal of and interest on which are unconditionally guaranteed by, the United States of America.

"Interest Account" means each account of that name established pursuant to the Resolution.

"Interest Payment Date" means, with respect to the 2009A Bonds, January 1 and July 1 of each year, commencing January 1, 2009.

"Letter of Representations" means the blanket letter of representations executed by the District and delivered to DTC and any amendments thereto or successor blanket agreements between the District and any successor Securities Depository, relating to a system of Book-Entry Bonds to be maintained by the Securities Depository with respect to any bonds, notes or other obligations issued by the District.

"Liquidity Facility" means a letter of credit, line of credit, or other credit or liquidity facility provided by a financial institution delivered to the Trustee for a Series of Bonds or portion thereof, which provides for payment, in accordance with the terms thereof, of the Principal, Purchase Price and/or interest on such Series of Bonds or portion thereof.

"Liquidity Facility Provider" means the financial institution or insurance company that is providing a Liquidity Facility.

"Mandatory Sinking Fund Payment" means, with respect to any Term Bond, an amount required by the Supplemental Resolution authorizing the issuance of the Series of Bonds of which such Term Bond is a part to be deposited in the Bond Retirement Account created for such Series of Bonds for the mandatory purchase or redemption of such Term Bond or portion thereof prior to the final maturity thereof.

*"**Master Bond Resolution**"* means the Resolution No. 08-13390, adopted by the District's Commission on October 20, 2008, and as amended and supplemented, including by the Second Supplement.

"Moody's" means Moody's Investors Service, Inc. and its successors and assigns, except that if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities credit rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities credit rating agency selected by the District.

"Net Revenues" for any Fiscal Year (or other designated twelve-month period) means Revenues in such Fiscal Year (or other designated twelve-month period) less Operation and Maintenance Expenses for such Fiscal Year (or other designated twelve-month period).

"New Alcoa Power Sales Agreement" means the Power Sales Agreement, dated as of July 14, 2008, between the District and Alcoa Power Generating Inc. and Alcoa, Inc., as supplemented and amended pursuant thereto, pursuant to which the District will sell an amount of energy to Alcoa equal to a portion of the combined power and energy produced by the Rocky Reach Project and by the Rock Island Project, with deliveries commencing on November 1, 2011 with respect to the Rocky Reach System and July 1, 2012 with respect to the Rock Island System.

"New Power Purchasers" means, collectively, Puget Sound Energy, Inc., Alcoa Power Generating, Inc. and Alcoa Inc., and any other power purchasers entering into a New Power Sales Agreement with the District subsequent to the date of the Master Bond Resolution, and their respective successor and assigns.

"New Power Sales Agreements" means, collectively, the New Alcoa Power Sales Agreement, the New PSE Power Sales Agreement and any additional Power Sales Agreements entered into by the District subsequent to the date of the Master Bond Resolution with respect to the Rocky Reach System.

"New PSE Power Sales Agreement" means the Power Sales Agreement, dated as of February 1, 2006, between the District and Puget Sound Energy, Inc., as supplemented and amended pursuant thereto, pursuant to which the District will sell a portion of the power and energy produced by the Rocky Reach System and by the Rock Island System, with deliveries commencing on November 1, 2011 with respect to the Rocky Reach System and July 1, 2012 with respect to the Rock Island System.

*"**Second Supplement**"* or ***"Second Supplemental Resolution"*** means Resolution No. 09-[_____], adopted by the District's Commission on July 13, 2009, and any amendments, modifications or supplements hereto.

"1956 Bonds" means the Rocky Reach Hydro-Electric System Revenue Bonds, Series of 1956, issued in the original principal amount of $23,100,000 pursuant to, under the authority of and for the purposes provided in the 1956 Resolution.

"1956 Resolution" means Resolution No. 1412, duly adopted by the Commission of the District on November 20, 1956.

"1957 Bonds" means the Rocky Reach Hydro-Electric System Revenue Bonds, Series of 1957, issued in the original principal amount of $250,000,000 pursuant to, under the authority of and for the purposes provided in the 1957 Resolution.

"1957 Resolution" means Resolution No. 1860, duly adopted by the Commission of the District on December 23, 1957.

"1968 Bonds" means the Rocky Reach Hydro-Electric System Revenue Bonds, Series of 1968, issued in the original principal amount of $40,000,000 pursuant to, under the authority of and for the purposes provided in the 1968 Resolution.

"1968 Resolution" means Resolution No. 4198, duly adopted by the Commission of the District on June 27, 1968.

"Operation and Maintenance Expenses" means the costs paid or accrued for the proper operation, maintenance and repair of the Rocky Reach System and taxes, assessments or other governmental charges lawfully imposed on the Rocky Reach System or the Revenues, or payments in lieu thereof, all as determined in accordance with GAAP as applied to governmental entities. Operation and Maintenance Expenses shall not include depreciation or amortization expense or unrealized mark-to-market losses with respect to any property, investment, or financial or other agreement.

"Order" means a written order of the District signed by a duly authorized officer or employee of the District.

"Original Power Purchasers" means, collectively, Puget Sound Energy, Inc. (as successor to Puget Sound Power & Light Company), Alcoa Power Generating, Inc. (as successor to Aluminum Company of America), Portland General Electric Company, PacifiCorp (as successor to Pacific Power & Light Company), and Avista Corporation (as successor to The Washington Water Power Company), as the five private power purchasers that executed the Original Power Sales Contracts, and their respective successor and assigns.

"Original Power Sales Contracts" means, collectively, those Power Sales Contracts dated as of November 14, 1957, between the District and the Original Power Purchasers for the sale of a portion of the power and energy of the Rocky Reach Project, as supplemented and amended pursuant thereto.

"Outstanding" means, as of any date, when used with respect to the Bonds, all Bonds authenticated and delivered under the Resolution, except (i) Bonds theretofore cancelled or delivered to the Trustee for cancellation under the Resolution, (ii) Bonds in substitution for which other Bonds have been authenticated and delivered pursuant to the Resolution, (iii) Bonds that are deemed to be no longer outstanding in accordance with the provisions of the Resolution described in "—Discharge and Defeasance" below and, (iv) Bonds that are deemed to be no longer outstanding in accordance with the Supplemental Resolution pursuant to which such Bonds were issued and (v) Bonds that are held by or on behalf of the District.

"Owner," with respect to a Bond, means the Person in whose name such Bond is registered.

"Paired Bonds" means Bonds (a) that are issued simultaneously, (b) that are designated as Paired Bonds in the Supplemental Resolution authorizing the issuance thereof or in a Certificate of the District delivered at the time of issuance thereof, (c) the principal amount of each portion of which is equal and which matures and is subject to mandatory sinking fund redemption on the same date and in the same amount, and (d) the interest rates on which, taken together, result in an irrevocable fixed interest rate obligation of the District on the aggregate principal amount of such Bonds until the maturity or prior redemption of such Bonds.

"Payment Agreement" means any financial instrument that (a) is entered into by the District with a party that is a Qualified Counterparty at the time the instrument is entered into; (b) is entered into with respect to all or a portion of a Series of Bonds; (c) is for a term not extending beyond the final maturity of the Series of Bonds or portion thereof to which it relates; (d) provides that the District shall pay to such Qualified Counterparty an amount accruing at either a fixed rate or a variable rate, as the case may be, on a notional amount equal to or less than the principal amount of the Series of Bonds or portion thereof to which it relates, and that such Qualified Counterparty shall pay to the District an amount accruing at either a variable rate or fixed rate, as appropriate, on such notional amount; (e) provides that one party shall pay to the other party any net amounts due under such instrument; and (f) which has been designated by the District as a Payment Agreement with respect to such Bonds.

"Payment Agreement Payments" means the regularly scheduled net amounts required to be paid by the District to the Qualified Counterparty pursuant to a Payment Agreement.

"Payment Agreement Receipts" means the regularly scheduled net amounts required to be paid by a Qualified Counterparty to the District pursuant to a Payment Agreement.

"Person" means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Power Purchase Agreement" means a resolution, contract or agreement with a term of more than five (5) years pursuant to which the Rocky Reach System is obligated to purchase capacity or energy, including from a separate system of the District, and is obligated to pay for such capacity or energy regardless of whether or not such capacity or energy is taken by or made available or delivered to the Rocky Reach System.

"Principal" means, as of any date of calculation, (a) with respect to any Current Interest Bond, the principal amount thereof, and (b) with respect to any Capital Appreciation Bond, the Accreted Value thereof as of the date on which interest on such Capital Appreciation Bond is compounded next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case, as of such date).

"Prior Rocky Reach Bonds" means, collectively, the 1956 Bonds, the 1957 Bonds and the 1968 Bonds issued and Outstanding under the Prior Rocky Reach Resolutions and any bonds or other obligations for borrowed money issued and Outstanding under any of the Prior Rocky Reach Resolutions.

"Prior Rocky Reach Resolutions" means, collectively, the 1956 Resolution, the 1957 Resolution and the 1968 Resolution, each as supplemented and amended pursuant thereto.

"Purchase Price" means, with respect to any Bond, the price payable upon the optional or mandatory tender for purchase of such Bond or portion thereof as set forth in the Supplemental Resolution authorizing the issuance of the Series of Bonds of which such Bond is a part.

"Qualified Counterparty" means a party other than the District which is the party to a Payment Agreement and, at the time of execution and delivery of the Payment Agreement, (a)(i) whose senior debt obligations are or claims-paying ability is rated in one of the three highest rating categories of each of at least two Rating Agencies (without regard to any gradations within a rating category) or (ii) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by a Person whose senior debt obligations are or claims-paying ability is rated in one of the three highest rating categories of each of at least two Rating Agencies (without regard to any gradations within a rating category) and (b) which is otherwise qualified to act as the party to a Payment Agreement with the District under any applicable law.

"Rating Agencies" means Fitch, Moody's and/or Standard & Poor's or any other nationally recognized securities credit rating agency selected by the District.

"Record Date" means the fifteenth day of the calendar month before each Interest Payment Date.

"Redemption Price" means, (a) with respect to any Bond or portion thereof, the Principal of such Bond or portion thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Supplemental Resolution authorizing the issuance of the Series of Bonds of which such Bond is a part, and (b) with respect to any other obligation for borrowed money or portion thereof, the principal or accreted value of such obligation or portion thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such obligation and the resolution or resolutions authorizing the issuance or incurrence of such obligation.

"Refunding Bonds" means all Bonds issued pursuant to the provisions of the Master Bond Resolution described in "THE MASTER RESOLUTION—Conditions for Issuance of Refunding Bonds" below.

"Registrar" means the Person responsible for maintaining the Bond Register, which initially shall be the Trustee.

"Reserve Account" means each account of that name established pursuant to the Resolution.

"Reserve Account Credit Facility" means a letter of credit, insurance policy, surety bond, or other credit facility provided to the Trustee by a bank, insurance company or other financial institution whose senior unsecured debt obligations are, or whose claims-paying ability is, rated in the highest rating category by each of at least two Rating Agencies, which provides for payment when due, in accordance with the terms thereof, of the Principal or Redemption Price of and/or interest on one or more Series of Bonds or portion thereof.

"Reserve Fund" means the fund of that name established pursuant to the Master Bond Resolution.

"Reserve and Contingency Fund" means the "Rocky Reach Hydro-Electric System Reserve and Contingency Fund" created and established by the District pursuant to the 1956 Resolution.

"Reserve Requirement" means, with respect to any Series of Bonds or portion thereof, unless otherwise specified in the Supplemental Resolution authorizing the issuance of such Series of Bonds, the least of (a) ten percent (10%) of the stated Principal amount of such Series of Bonds or portion thereof, (b) the maximum Annual Debt Service on such Series of Bonds or portion thereof, and (c) 125 percent of the average Annual Debt Service on such Series of Bonds or portion thereof.

"Resolution" means the Master Bond Resolution, as supplemented or amended pursuant thereto, together with any Supplemental Resolutions.

"Revenues" means all revenues, rates and charges received or accrued by the District for electric power and energy and other services, facilities and commodities sold, furnished or supplied by the Rocky Reach System, together with income, earnings and profits therefrom (including interest earnings on the proceeds of any Bonds pending application thereof), all as determined in accordance with GAAP as applied to governmental entities. Revenues shall include principal and interest payments to the Rocky Reach System on or with respect to loans made by the Rocky Reach System to any other separate system of the District that is not part of the Rocky Reach System. Revenues shall not include (a) proceeds from the issuance of any obligations for borrowed money, (b) amounts loaned to the Rocky Reach System, (c) Payment Agreement Receipts, (d) proceeds from taxes, (e) customer deposits while retained as such, (f) contributions in aid of construction, (g) gifts, (h) grants, (i) insurance or condemnation proceeds that are properly allocable to a capital account, (j) unrealized mark-to-market gains with respect to any property, investment or financial or other agreement, or (k) money received by the District as the proceeds of the sale of any portion of the properties of the Rocky Reach System.

"Rock Island System" means the Columbia River-Rock Island Hydro-Electric System and all additions and improvements to and extensions and betterments thereof constructed or acquired by the District subsequent to the date of the Master Bond Resolution, but shall not include any generating, transmission and distribution facilities theretofore or thereafter constructed or acquired by the District as a separate utility system, the revenues of which have been or may be pledged to the payment of bonds issued to purchase, construct or otherwise acquire such separate utility system.

"Rocky Reach License" means License No. 2145 issued by the Federal Power Commission, as the predecessor agency to the Federal Energy Regulatory Commission, with respect to the Rocky Reach Project, as supplemented and amended, and any succeeding such license or licenses.

“Rocky Reach Project” means the Rocky Reach Hydro-Electric Power Project, and any additions, betterments and improvements to and repairs, renewals and replacements of such Project.

“Rocky Reach System” means the Rocky Reach Hydro-Electric System created, established and continued by the Prior Rocky Reach Resolutions and by the Resolution, and all additions and improvements to and extensions and betterments of the Rocky Reach System constructed or acquired by the District subsequent to the date of the Master Bond Resolution, but shall not include any generating, transmission and distribution facilities theretofore or thereafter constructed or acquired by the District as a separate utility system, the revenues of which have been or may be pledged to the payment of bonds issued to purchase, construct or otherwise acquire such separate utility system.

“Securities Depository” means a Person registered as a clearing agency under Section 17A of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or any successor legislation, or whose business is confined to the performance of the functions of a clearing agency with respect to exempted securities, as defined in Section 3(a)(12) of such Act, or any successor legislation, for the purposes of Section 17A thereof.

“Senior Consolidated System Bonds” means all bonds issued and at any time Outstanding under the Senior Consolidated System Resolution.

“Senior Consolidated System Resolution” means Resolution No. 95-10188 of the District, adopted by the Commission on June 19, 1995, as supplemented and amended, including as amended and restated by Resolution No. 9911303 of the District, adopted by the Commission on November 1, 1999.

“Series” means all of the Bonds issued and delivered on the same date that all are (a) payable from and secured by the same source of funds, and (b) bear interest at either a variable rate or fixed-rate, regardless of individual variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Master Bond Resolution.

“Standard & Poor’s” means Standard & Poor’s Ratings Services and its successors and assigns, except that if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities credit rating agency, then the term “Standard & Poor’s” shall be deemed to refer to any other nationally recognized securities credit rating agency selected by the District.

“State” means the State of Washington.

“Subordinate Obligations” means, collectively, bonds, notes or other obligations of the District for borrowed money payable from and secured by a pledge of and lien and charge on Revenues junior and inferior to the Bonds and the payments required to be made into the Bond Funds and the Reserve Fund.

“Supplemental Resolution” means any resolution duly adopted by the Commission after the adoption of the Master Bond Resolution, supplementing, modifying or amending the Resolution in accordance therewith.

“Take-or-Pay Contract” means a contract with a term of at least five (5) years between the District and a purchaser of capacity or energy from the Rocky Reach System, whereby such purchaser is obligated to make fixed payments or payments based on a percentage of cost for such capacity or energy whether or not such capacity or energy is taken by or made available or delivered to such purchaser.

“Tax Certificate” means a certificate delivered by the District regarding compliance with applicable provisions of the Code in connection with the issuance of a Series of Bonds.

“Tax-Exempt Bonds” means Bonds, the interest on which in the opinion of Bond Counsel as of the date of issuance thereof is not includable in gross income for federal income tax purposes under Section 103(a) of the Code.

"Term Bonds" means Bonds that are subject to mandatory purchase or redemption prior to their scheduled maturity date or dates from Mandatory Sinking Fund Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

"Treasurer" means the District, acting by and through its Treasurer or Chief Financial Officer.

"Trustee" means the trustee with respect to the Bonds appointed pursuant to the provisions of the Resolution.

*"**2009A Bonds**"* means the District's Rocky Reach Hydro-Electric System Revenue Bonds, Series 2009A (Non-AMT) authorized pursuant to the Second Supplemental Resolution.

*"**2009A Bond Fund**"* means the "Rocky Reach Hydro-Electric System Revenue Bonds, Series 2009A Bond Fund" established pursuant to Second Supplement.

*"**2009A Construction Fund**"* means the "Rocky Reach Hydro-Electric System Revenue Bonds, Series 2009A Construction Fund" established pursuant to the Second Supplement.

*"**2009A Delivery Certificate**"* means a Certificate or Order of the District delivered at the time of issuance of the 2009A Bonds setting forth certain terms with respect to the 2009A Bonds as provided in the Second Supplemental Resolution.

*"**2009A Rebate Fund**"* means the "Rocky Reach Hydro-Electric System Revenue Bonds, Series 2009A Rebate fund" established pursuant to the Second Supplement.

"**2009A Reserve Account**" means the "Rocky Reach Hydro-Electric System Revenue Bonds, Series 2009A Reserve Account" established pursuant to Second Supplement.

"**2009A Reserve Requirement**" means the maximum amount of interest payable in any Fiscal Year on the 2009A Bonds and on any Series of Bonds designated as a 2009A Reserve Account Series (as defined in the Second Supplemental Resolution), determined as of the dates of issuance thereof, unless otherwise specified in the 2009A Delivery Certificate.

"Variable Rate Bonds" means any Bonds the interest rate on which is not fixed to the scheduled maturity date or prior mandatory tender date or date fixed for redemption, as of the date of calculation, at a single numerical rate for the entire remaining term to maturity or mandatory tender or redemption thereof.

THE MASTER RESOLUTION

General

The Master Resolution authorizes the issuance of "Public Utility District No. 1 of Chelan County, Washington Rocky Reach System Revenue Bonds," which Bonds may be issued in multiple Series pursuant to Supplemental Resolutions adopted as provided in the Master Resolution.

Series of Bonds; Terms of Supplemental Resolutions

The Commission may from time to time by Supplemental Resolution authorize one or more Series of the Bonds, and the District may issue and the Trustee will authenticate and deliver to the purchasers thereof any Bonds so authorized, in such principal amount as will be determined by the Commission, but only upon compliance by the District with the provisions of the Resolution and any additional requirements set forth in such Supplemental Resolution.

A Supplemental Resolution authorizing a Series of Bonds will specify (or provide the method for specifying) for such Series of Bonds, among other things: (i) the authorized principal amount and distinguishing designation; (ii) the general purpose or purposes for which such Series of Bonds are being issued, and the deposit, disbursement and application of the sale proceeds; (iii) the dated date or dates and the maturity date or dates, the principal amount maturing on each maturity date, any Mandatory Sinking Fund Payments and the interest payment date or dates; (iv) which of such Series of Bonds are Capital Appreciation Bonds, Current Interest Bonds and Term Bonds; (v) the interest rate or rates (which may be a rate of zero); (vi) the authorized denominations of and the manner of dating and numbering such Series of Bonds; (vii) the method and place or places of payment of the Principal, Purchase Price and Redemption Price of and interest on, such Series of Bonds; (viii) any permitted or required variations, legends, omissions and insertions in the form or forms of such Series of Bonds; (ix) the terms and conditions, if any, for the redemption of such Series of Bonds prior to maturity, including the date or dates fixed for redemption, the Redemption Price or Prices, whether such redemption is subject to rescission and other applicable redemption terms; (x) the terms and conditions, if any, for the optional or mandatory tender for purchase of such Series of Bonds prior to maturity, including the purchase date or dates, the Purchase Price or Prices and other applicable terms; (xi) the authorization of and any terms and conditions with respect to any Reserve Account Credit Facility or Reserve Account Credit Facilities for such Series of Bonds; (xii) the authorization of and any terms and conditions with respect to any Facility or Facilities for such Series of Bonds; (xiii) the pledge or provision of money, assets or security other than Revenues to or for the payment of such Series of Bonds or any portion thereof; (xiv) the creation and maintenance of one or more special funds or accounts, if any, to provide for the payment or purchase of such Series of Bonds and the application of money therein; (xv) the tender agents, remarketing agents, auction agents and broker-dealers, if any, and the duties and obligations thereof; and (xvi) any other provisions which the Commission deems necessary or desirable in connection with such Series of Bonds and not inconsistent with the terms of the Resolution.

Conditions for the Issuance of Bonds

Pursuant to the Master Bond Resolution, each Series of Bonds will be executed by the District and delivered to the Trustee and authenticated by the Trustee and delivered to the District or upon its order, but only (except with respect to Refunding Bonds) upon receipt by the Trustee of the following: (a) a copy of the Resolution, including the Supplemental Resolution authorizing the issuance of such Series of Bonds, certified by the Secretary of the Commission; (b) a written opinion of Bond Counsel to the effect that (i) such Series of Bonds are valid and binding limited obligations of the District enforceable against the District in accordance with their terms and (ii) the Resolution, including the Supplemental Resolution authorizing the issuance of such Series of Bonds, is a valid and binding obligation of the District enforceable in accordance with its terms; provided, that such opinions may be qualified to the extent that the enforceability of the Bonds and the Resolution, including the Supplemental Resolution authorizing the issuance of such Series of Bonds, may be limited by bankruptcy, insolvency, reorganization or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles; (c) an Order of the District as to the delivery of such Series of Bonds; (d) a Certificate of the District stating that (i) no Event of Default, nor any event or condition which with notice and/or the passage of time would constitute an Event of Default, has occurred and is continuing under the Resolution as of the date of issuance of such Series of Bonds and (ii) the issuance of such Series of Bonds, in and of itself, will not cause an Event of Default under the Resolution; (e) the deposit into the Reserve Account for such Series of Bonds of money, Authorized Investments, a Reserve Account Credit Facility or Facilities or any combination of the foregoing in an aggregate amount equal to the Reserve Requirement, if any, for such Series of Bonds; and (f) the additional bonds certification described below in "—Additional Bonds Certification."

Additional Bonds Certification

In connection with the issuance of a Series of Bonds, the requirements of the Resolution may be fulfilled by either: (i) a Certificate of the District stating that, in each of the first three (3) full Fiscal Years following the last Fiscal Year during which any proceeds of the Bonds are scheduled to be used for the purpose of paying interest on such Series of Bonds, Net Revenues as projected will be at least 1.00 times the projected Annual Debt Service on the Outstanding Bonds and Prior Rocky Reach Bonds, plus required deposits, if any, into the Reserve Fund, after giving effect to the issuance of such Series of Bonds; or (ii) a Certificate of the District stating that Net Revenues for any twelve (12) consecutive months of the 24 months prior to the date of calculation were at least 1.00 times the projected Annual Debt Service on the Outstanding Bonds and Prior Rocky Reach Bonds, plus required deposits, if any, into the Reserve Fund, after giving effect to the issuance of such Series of Bonds.

For purposes of provisions of the Resolution described in this Section, the following adjustments may be made to Net Revenues for the latest Fiscal Year for which audited financial statements of the District are available, if so stated in the Certificate of the District: (i) an allowance for additional Revenues anticipated from any additions, extensions and improvements to the Rocky Reach System to be acquired or constructed from proceeds of such or a prior Series of Bonds, and for any changes in Operation and Maintenance Expenses resulting therefrom, that are not reflected in Net Revenues for such Fiscal Year, but only if such additional Revenues and changes in Operation and Maintenance Expenses represent a full twelve (12) months' change in Net Revenues attributable to such additions, extensions and improvements; and (ii) an allowance for additional Revenues attributable to any increase in the rates and charges imposed by the District that (A) was in effect prior to the issuance of such Series of Bonds but which, during all or part of such Fiscal Year, was not in effect, or (B) was adopted by the Commission prior to the issuance of such Series of Bonds and will be in effect within 90 days after such issuance, but in either case only if such additional Revenues represent a full twelve (12) months' change in Net Revenues attributable to such increase in rates and charges.

The District will include in any Certificate delivered pursuant to the provisions of the Resolution described in this Section a description of the assumptions, analyses, methodologies, and statistical and other information from the District or third persons used in producing its projections of Net Revenues.

Conditions for Issuance of Refunding Bonds

(a) A Series of Refunding Bonds may be issued by the District to provide funds sufficient for the payment of any or all of the following:

(i) The Principal, Purchase Price or Redemption Price of the Senior Consolidated System Bonds or the Consolidated System Bonds, in each case the proceeds of which were loaned to the Rocky Reach System, the Prior Rocky Reach Bonds, the Bonds or any Subordinate Obligations to be refunded;

(ii) All expenses incident to the purchase, call, redemption, retirement or payment of the Senior Consolidated System Bonds, the Consolidated System Bonds, the Prior Rocky Reach Bonds, the Bonds or any Subordinate Obligations to be refunded;

(iii) The costs of issuance of such Series of Refunding Bonds;

(iv) Interest on the Senior Consolidated System Bonds, the Consolidated System Bonds, the Prior Rocky Reach Bonds, the Bonds or any Subordinate Obligations to be refunded to the date such Senior Consolidated System Bonds, Consolidated System Bonds, Prior Rocky Reach Bonds, Bonds or any Subordinate Obligations will be purchased, retired or paid or to the date fixed for redemption of such Senior Consolidated System Bonds, Consolidated System Bonds, Prior Rocky Reach Bonds, Bonds or Subordinate Obligations;

(v) Interest on such Series of Refunding Bonds from the date thereof to the date of purchase, retirement or payment or to the date fixed for redemption of the Senior Consolidated System Bonds, the Consolidated System Bonds, the Prior Rocky Reach Bonds, the Bonds or any Subordinate Obligations to be refunded; and

(vi) Any other lawful payment obligations, costs or expenses in connection with the issuance of the Refunding Bonds and the purchase, redemption, retirement or payment of the Senior Consolidated System Bonds, the Consolidated System Bonds, the Prior Rocky Reach Bonds, the Bonds or any Subordinate Obligations to be refunded.

(b) A Series of Refunding Bonds may be issued by the District only upon receipt by the Trustee of the following:

(i) The documents specified in subsections (a), (b) and (c) under "—Conditions for the Issuance of Bonds";

(ii) The deposit into the Reserve Account for such Series of Refunding Bonds of money, Authorized Investments, a Reserve Account Credit Facility or Reserve Account Credit Facilities or any combination of the foregoing in an aggregate amount equal to the Reserve Requirement, if any, for such Series of Refunding Bonds;

(iii) Either (A) the additional bonds certification described above in "—Additional Bonds Certification", or (B) a Certificate of the District stating that the issuance of such Series of Refunding Bonds (1) will not result in an increase in Annual Debt Service on the Bonds and the Prior Rocky Reach Bonds (excluding for purposes of this subsection paragraph (a)(v) of such definition) greater than $1,000,000 in any Fiscal Year that such Series of Refunding Bonds is scheduled to be Outstanding, and (2) is reasonably expected to result in net present value savings to the District calculated using a discount rate equal to the yield to maturity on the Refunding Bonds;

(iv) If any Senior Consolidated System Bonds, Consolidated System Bonds, Prior Rocky Reach Bonds or Bonds to be refunded are to be purchased or redeemed prior to their stated maturity dates, irrevocable instructions to the Trustee to give the applicable notice of purchase or redemption of such Senior Consolidated System Bonds, Consolidated System Bonds, Prior Rocky Reach Bonds or Bonds; and

(v) An opinion of Bond Counsel that all liability of the District in respect of such Senior Consolidated System Bonds, Consolidated System Bonds, Prior Rocky Reach Bonds or Bonds to be refunded has ceased, terminated and been discharged, pursuant to the terms of the Senior Consolidated System Resolution, the Consolidated System Resolution, the Prior Rocky Reach Resolutions or the Resolution and the Supplemental Resolution pursuant to which such Senior Consolidated System Bonds, Consolidated System Bonds, Prior Rocky Reach Bonds or Bonds were issued, and the Owners of such Senior Consolidated System Bonds, Consolidated System Bonds, Prior Rocky Reach Bonds or Bonds are entitled to payment of the Principal, Purchase Price or Redemption Price of and interest on such Senior Consolidated System Bonds, Consolidated System Bonds, Prior Rocky Reach Bonds or Bonds only out of the money or securities deposited with the Trustee for the payment of such Senior Consolidated System Bonds, Consolidated System Bonds, Prior Rocky Reach Bonds or Bonds.

Intersystem Loans

Any payments due on account of loans or advances of funds from the Consolidated System or any other separate utility system of the District to the Rocky Reach System shall be payable from and secured by a pledge of and lien and charge on Revenues junior and inferior to the Bonds and the payments required to be made into the Bond Funds and the Reserve Fund.

Pledge of Revenues

The Bonds are special limited obligations of the District payable from and secured by the Revenues, after payment of Operation and Maintenance Expenses. The Bonds will not in any manner or to any extent constitute general obligations of the District or of the State of Washington, or of any political subdivision of the State of Washington. The Bonds are not a charge upon the general fund or upon any moneys or other property of the District or of the State of Washington, or of any political subdivision of the State of Washington, other than the Net Revenues. Neither the full faith and credit nor the taxing power of the District, of the State of Washington, or of any political subdivision of the State of Washington, are pledged to the payment of the Bonds. The Bonds will not constitute indebtedness of the District within the meaning of the constitutional and statutory provisions and limitations of the State of Washington. In the Master Bond Resolution, the District pledges and places a lien and charge upon the Revenues, after payment of Operation and Maintenance Expenses, in the order of priority set forth in the Resolution as described in "SECURITY FOR THE 2009A BONDS—Flow of Funds" in the front portion of the Official Statement, to secure the payment of the Bonds and Payment Agreement Payments and other payments due under the Payment Agreements, in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of the Resolution permitting the application of such Revenues for the purposes and on the terms and conditions set forth therein and in the Master Bond Resolution, and the Revenues, after payment of Operation and Maintenance Expenses, will constitute a trust for the security and payment of the Bonds and Payment Agreement Payments and other payments due under Payment Agreements. The pledge of and lien and charge on the Revenues in the Master Bond Resolution made will be irrevocable until there are no Bonds Outstanding and until all Payment Agreement Payments and other payments due in accordance with the provisions of the Payment Agreements and the Resolution have been made. The pledge of and lien and charge on the Revenues and other money and obligations will be valid and binding from the time made, and the Revenues so pledged and thereafter received by the District will immediately be subject to the pledge, lien and charge of the Resolution without any physical delivery or further act, and such pledge, lien and charge will be valid and binding as against any parties having claims of any kind in tort, contract, or otherwise against the District irrespective of whether such parties have notice thereof.

Notwithstanding the foregoing, the pledge, lien and charge of the Prior Rocky Reach Bonds on Revenues and the obligation of the District to deposit Revenues into the bond funds established under the Prior Rocky Reach Resolutions shall have priority over the pledge, lien and charge of the Bonds and Payment Agreement Payments and other payments due under the Payment Agreements on Revenues established under the Resolution.

Equality of Security

In consideration of the acceptance of the Bonds by the Owners thereof from time to time, the Resolution will be deemed to be and will constitute a contract between the District and the Owners from time to time of the Bonds, and the covenants and agreements set forth in the Resolution to be performed by or on behalf of the District will be for the equal and proportionate benefit, security and protection of all Owners, without preference, priority or distinction as to security or otherwise of any Bond over any other Bond by reason of the Series, time of issue, sale or negotiation thereof or for any cause whatsoever, except as expressly provided therein or in the Master Bond Resolution. Notwithstanding the foregoing, nothing in the Master Bond Resolution will prevent additional security being provided for a particular Series of Bonds under any Supplemental Resolution.

Investment or Deposit of Funds

Pursuant to the Master Bond Resolution, all money on deposit in the Funds will be invested and reinvested by the Trustee or the District, as the case may be, in Authorized Investments that mature, or are subject to repurchase, withdrawal without penalty or optional redemption on or before the dates on which the amounts invested are reasonably expected to be needed for the purposes of the Resolution.

All purchases or sales of Authorized Investments made by the Trustee will be made at the direction of the District (given in writing or orally, confirmed in writing). In the absence of such direction, the Trustee will invest all money on deposit in the Funds held by the Trustee in Government Securities.

Any Authorized Investments held by the Trustee may be transferred by the Trustee, if required in writing by the District, from any of the Funds to any other Fund at the then current market value thereof without having to be sold and purchased or repurchased; provided, that after any such transfer or transfers, the Authorized Investments in each such Fund will be in accordance with the provisions of the Resolution, and whenever any other transfer or payment is required to be made from any particular Fund, such transfer or payment will be made from such combination of maturing principal, redemption premiums, liquidation proceeds and withdrawals of principal as the Trustee deems appropriate for such purpose.

The Trustee will not be accountable for any depreciation in the value of Authorized Investments or for any losses incurred upon any authorized disposition thereof.

Subject to the provisions of the Resolution described in the foregoing paragraphs, the Trustee is expressly authorized to invest money in two or more Funds in a single investment; provided, that the portion of the investment allocable to each such Fund, and all payments received with respect to such allocable portion, will be applied in accordance with the applicable provisions governing such Fund under the Resolution.

Covenants

In addition to the rate covenant described in the Official Statement under the caption "SECURITY FOR THE 2009A BONDS—Rate Covenant," the District makes the following covenants with the Owners (to be performed by the District or its proper officers, agents or employees) which covenants are necessary and desirable for the protection and security of the Owners. The Master Bond Resolution provides that said covenants will be in effect so long as any of the Bonds issued under the Resolution are Outstanding and unpaid, or so long as provision for the full payment and discharge thereof at maturity or upon redemption thereof prior to maturity has not been made.

Operation and Maintenance of Rocky Reach System. The District will (i) at all times operate the properties of the Rocky Reach System and the business in connection therewith in an efficient manner and at reasonable cost, (ii) maintain, preserve and keep, or cause to be maintained, preserved and kept, the properties of the Rocky Reach System, and all additions and betterments thereto and extensions thereof, and every part and parcel thereof, in good repair, working order and condition, and (iii) from time to time make, or cause to be made, all necessary and proper repairs, renewals, replacements, additions, extensions and betterments thereto, so that at all times the business carried on in connection therewith will be properly and advantageously conducted.

The District will at all times comply with the terms and conditions of any permits or licenses for the Rocky Reach System, or any property or facilities constituting a part thereof, issued by any federal or state governmental agency or body having jurisdiction thereof and with the power to issue orders with respect thereto and enforce the same, and with any federal or state law or regulation applicable to the construction, operation, maintenance and repair of the Rocky Reach System. The District will use its best efforts to obtain renewals of such permits or licenses or obtain new permits or licenses unless such renewals or new permits or licenses are not, in the judgment of the Commission, in the best interests of the District.

Prior to the expiration of the Rocky Reach License and any succeeding license or licenses, the District shall apply for and use and continue to use its commercially reasonable best efforts to obtain a new license or annual license authorizing it to maintain and operate the Rocky Reach System.

Payment of Taxes and Claims. The District will from time to time duly pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges, or required payments in lieu thereof, lawfully imposed upon the properties constituting the Rocky Reach System or the Revenues when the same will become due, and all lawful claims for labor and material and supplies which, if not paid, might become a lien or charge upon such properties, or any part thereof, or upon the Revenues, or which might in any way impair the security of the obligations issued by the District payable from the Revenues, including the taxes, assessments, charges or claims which the District will in good faith contest by proper legal proceedings.

Take-or-Pay Contracts. So long as any Take-or-Pay Contract is in effect, the District will enforce the provisions of such Take-or-Pay Contract and will not waive any default or fail to declare any default under or in connection with such Take-or-Pay Contract that would reduce the payments to the District required thereunder to an extent that would materially adversely affect the security of the Owners; provided, that the District may, in the event the purchaser under such Take-or-Pay Contract fails or refuses to take power and energy pursuant to such Take-or-Pay Contract, sell such power and energy to others at not less than the minimum rates specified in the Resolution.

Power Purchase Agreements. The District may enter into Power Purchase Agreements payable from Revenues, provided, that that such Power Purchase Agreements are payable from and secured by a pledge of and lien and charge on Revenues junior and inferior to the Bonds, the payments required to be made into the Bond Funds and the Reserve Fund and to any payments due on account of loans or advances of funds from the Consolidated System or any other separate utility system of the District to the Rocky Reach System.

Not to Dispose of System Properties. The District will not sell, lease or otherwise dispose of, or cause the sale, lease or other disposition of, or permit to be sold, leased or otherwise disposed of, any real or personal properties constituting part of the Rocky Reach System unless:

(a) Such sale, lease or disposal is of property that in the judgment of the District has become unserviceable, inadequate, obsolete, unfit or is no longer needed for the efficient and economical operation of the properties of the Rocky Reach System; or

(b) Such sale, lease or disposal is of property having an aggregate fair market value in any Fiscal Year of less than one percent (1%) of the value of all real or personal properties constituting part of the Rocky Reach System; or

(c) As determined by a certificate of a Consulting Engineer, such sale, lease or disposal will not materially impair the ability of the District to comply with the rates and charges covenant set forth in the Resolution, as described in "SECURITY FOR THE 2009A BONDS—Rate Covenant" in the front portion of this Official Statement, for a period of five (5) Fiscal Years after such sale, lease or disposal, and the District transfers the proceeds of such sale, lease or disposal to the Construction Fund to be established for the purpose of repairing or restoring the Rocky Reach System or to each Bond Retirement Account for all Series of Bonds then Outstanding in the same ratio as the initial Principal amount of each Series of Bonds then Outstanding bears to the aggregate initial Principal amount of all Series of Bonds then Outstanding.

Books of Account; Annual Audit. Pursuant to the Master Bond Resolution, the District shall cause proper books of account to be kept for the Rocky Reach System, showing as a separate utility system the accounts of the Rocky Reach System in accordance with the rules and regulations prescribed by any governmental agency authorized to prescribe such rules, including the State Auditor's Office of the State of Washington, or other State department or agency succeeding to such duties of the State Auditor's Office, and in accordance with the Uniform System of Accounts prescribed from time to time by the Federal Energy Regulatory Commission, or other federal agency succeeding to such duties of the Federal Energy Regulatory Commission, and shall cause such books of account to be audited annually by the State Auditor's Office or other State agency as may be authorized and directed by law to make such audits and also by independent certified public accountants of national reputation licensed, registered or entitled to practice and practicing as such under the laws of the State who, or each of whom, is in fact independent and does not have any interest, direct or indirect, in any contract with the District other than his or her contract of employment, and who is not connected with the District as an officer or employee of the District other than being regularly retained by the District. The Master Bond Resolution provides that the District shall prepare and make available for inspection at the principal administrative office of the District and shall provide to the Trustee and any Facility Provider and, upon the filing of a written request with such office, to any Beneficial Owner, the most recent audited annual financial statements of the District, including any supplemental schedules showing the component units constituting a part of the Rocky Reach System, and the current unaudited financial reports of the District reflecting quarterly information, accompanied by a Certificate of the Treasurer to the effect that such current quarterly reports were prepared on a basis consistent with that of the most recent audited annual financial statements, except as otherwise set forth therein. The District shall make available its audited annual financial statements within 150 days after the end of each Fiscal Year

Eminent Domain. Except as otherwise provided in the Prior Rocky Reach Resolutions, in the event of transfer of the properties of the Rocky Reach System by operation of law or under threat of condemnation, the District will transfer the proceeds received by the District of any such condemnation award or any such sale under threat of condemnation to the Construction Fund to be established for the purpose of repairing or restoring the Rocky Reach System, or to each Bond Retirement Account for all Series of Bonds then Outstanding in the same ratio as the initial Principal amount of each Series of Bonds then Outstanding bears to the aggregate initial Principal amount of all Series of Bonds then Outstanding.

Payment of Bonds. The District shall duly and punctually pay or cause to be paid, but only from the Revenues, after payment of Operation and Maintenance Expenses, and from the proceeds of the sale or other disposition (whether voluntary or involuntary) of property of the Rocky Reach System, the Bonds on the dates and at the places and in the manner provided in the Bonds, according to the true intent and meaning thereof, and shall faithfully do and perform and fully observe and keep any and all covenants, undertakings, stipulations and provisions contained in the Bonds and in the Resolution and the Supplemental Resolutions.

Payment of Taxes and Claims. The District shall from time to time duly pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges, or required payments in lieu thereof, lawfully imposed upon the properties constituting the Rocky Reach System or the Revenues when the same shall become due, and all lawful claims for labor and material and supplies which, if not paid, might become a lien or charge upon such properties, or any part thereof, or upon the Revenues, or which might in any way impair the security of the obligations issued by the District payable from the Revenues, including the taxes, assessments, charges or claims which the District shall in good faith contest by proper legal proceedings.

Prior Rocky Reach Resolutions. The Master Bond Resolution provides that, for so long as the Original Power Sales Contracts remain in effect, the District shall comply with the provisions of the 1957 Resolution relating to the Reserve and Contingency Fund and the Consulting Engineer, and such provisions and the definitions related thereto are incorporated into the Resolution for such purpose; provided, that the Reserve and Contingency Fund shall be maintained and held by the Trustee only so long as the Original Power Sales Contracts are in effect; and provided further, that the District shall comply with the provisions of the 1957 Resolution only if and to the extent required to do so under the Original Power Sales Contracts.

Appointment; Duties and Responsibilities of the Trustee

The Master Bond Resolution provides that prior to the occurrence of an Event of Default of which it has or is deemed to have notice under the Resolution, and after the curing or waiver of any Event of Default that may have occurred: (i) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Resolution, and no implied covenants or obligations will be read into the Resolution against the Trustee; and (ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee that conform to the requirements of the Resolution; but the Trustee is under a duty to examine such certificates and opinions to determine whether they conform to the requirements of the Resolution.

In case an Event of Default of which the Trustee has or is deemed to have notice under the Resolution has occurred and is continuing, the Trustee will exercise such of the rights and powers vested in it by the Resolution, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use in the conduct of such person's own affairs.

No provision of the Resolution will be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that: (i) the provisions of the Master Bond Resolution described in this subsection will not be construed to limit the effect of the provisions of the Resolution described in the second paragraph of this section; (ii) the Trustee is not liable for any error of judgment made in good faith by an authorized officer of the Trustee, unless it is proven that the Trustee was negligent in ascertaining the pertinent facts; (iii) the Trustee is not liable with respect to any action it takes or omits to be taken by it in good faith in accordance with the direction of the Owners under any provision of the Resolution relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Resolution; and (iv) no provision of the Resolution will require the Trustee to expend or risk its own funds or otherwise incur any liability in the performance of any of its duties under the Resolution, or in the exercise of any of its rights or powers, if it has reasonable grounds for believing that the repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The Trustee will maintain proper books of record and accounts in which complete and correct entries will be made of all investments and disbursements of proceeds in the Funds through the date ending six (6) years following the date on which all the Bonds have been retired, and such records will be available for inspection by the District upon reasonable notice.

Whether or not expressly so provided, every provision of the Resolution relating to the conduct or affecting the liability of or affording protection to the Trustee is subject to the provisions of the Resolution described in this section.

Certain Rights of the Trustee

The Trustee may rely and is protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

Any statement or certification of the District under the Resolution will be sufficiently evidenced by a Certificate of the District (unless other evidence thereof is specifically prescribed), any request, direction, order or demand of the District under the Resolution will be sufficiently evidenced by an Order of the District (unless other evidence thereof is specifically prescribed) and any resolution of the Commission may be sufficiently evidenced by a copy thereof certified by the Secretary of the Commission;

Whenever in the administration of the Resolution the Trustee deems it desirable that a matter be proved or established prior to taking, suffering or omitting any action under the Resolution, the Trustee (unless other evidence thereof is specifically prescribed) may, in the absence of bad faith on its part, rely upon a Certificate of the District;

The Trustee may consult with counsel and the written advice of such counsel or an opinion of counsel or of Bond Counsel will be full and complete authorization and protection for any action taken, suffered or omitted by it in good faith and in accordance with such advice or opinion;

The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Resolution at the request or direction of any of the Owners unless the Owners have offered to the Trustee security or indemnity satisfactory to the Trustee as to its terms, coverage, duration, amount and otherwise with respect to the costs, expenses and liabilities which may be incurred by it in compliance with such request or direction, and the provision of such indemnity will be mandatory for any remedy taken upon direction of the Owners of a majority in aggregate Principal amount of the Outstanding Bonds;

The Trustee is not required to make any inquiry or investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit and, if the Trustee determines to make such further inquiry or investigation, it is entitled to examine the books, records and premises of the District, in person or by agent or attorney;

The Trustee may execute any of its trusts or powers or perform any duties under the Resolution either directly or by or through agents or attorneys, and may in all cases pay, subject to reimbursement as provided in the Resolution, such reasonable compensation as it deems proper to all such agents and attorneys reasonably employed or retained by it, and the Trustee will not be responsible for any misconduct or negligence of any agent or attorney appointed with due care by it;

The Trustee is not required to take notice or deemed to have notice of any default or Event of Default under the Resolution, except an Event of Default under the Resolution described in subparagraph (a) of "—Events of Default" below, unless an officer of the Trustee has actual knowledge thereof or has received notice in writing of such default or Event of Default from the District or the Owners of at least 25% in aggregate Principal amount of the Outstanding Bonds, and in the absence of any such notice, the Trustee may conclusively assume that no such default or Event of Default exists;

The Trustee is not required to give any bond or surety with respect to the performance of its duties or the exercise of its powers under the Resolution;

In the event the Trustee receives inconsistent or conflicting requests and indemnity from two or more groups of Owners, each representing less than a majority in aggregate Principal amount of the Outstanding Bonds, pursuant to the provisions of the Resolution, the Trustee, in its sole discretion, may determine what action, if any, will be taken;

The Trustee's immunities and protections from liability and its right to indemnification in connection with the performance of its duties under the Resolution will extend to the Trustee's officers, directors, agents, attorneys and employees. Such immunities and protections and right to indemnification, together with the Trustee's right to compensation, will survive the Trustee's resignation or removal, the defeasance or discharge of the Resolution and final payment of the Bonds;

The permissive right of the Trustee to take the actions permitted by the Resolution will not be construed as an obligation or duty to do so; and

Except for information provided by the Trustee concerning the Trustee, the Trustee will have no responsibility for any information in any offering memorandum or other disclosure material distributed with respect to the Bonds, and the Trustee will have no responsibility for compliance with any state or federal securities laws in connection with the Bonds.

Qualifications of the Trustee

The Resolution requires that there at all times be a trustee thereunder which is required to be a corporation or banking association organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, which has a combined capital and surplus of at least $250,000,000, or is an affiliate of, or has a contractual relationship with, a corporation or banking association meeting such capital and surplus requirement which guarantees the obligations and liabilities of the proposed trustee, and which is subject to supervision or examination by federal or state banking authority. If such corporation or banking association publishes reports of condition at least annually, pursuant to law or the requirements of any supervising or examining authority above referred to, then for purposes of the Resolution, the combined capital and surplus of such corporation or banking association shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee ceases to be eligible in accordance with the provisions of the Resolution, it is required to resign promptly in the manner and with the effect specified in the Resolution.

Resignation or Removal of the Trustee; Appointment of Successor Trustee

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to the Resolution will become effective until the acceptance of appointment by the successor Trustee under the Resolution.

(b) The Trustee may resign at any time by giving written notice to the District. Upon receiving such notice of resignation, the District will promptly appoint a successor Trustee by an instrument in writing. If an instrument of acceptance has not been delivered to the resigning Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee or any Owner of a Bond then Outstanding may petition a court of competent jurisdiction for the appointment of a successor Trustee.

(c) Prior to the occurrence and continuance of an Event of Default under the Resolution, or after the curing or waiver of any such Event of Default, the District or the Owners of a majority in aggregate Principal amount of the Outstanding Bonds may remove the Trustee and will appoint a successor Trustee. In the event there shall have occurred and be continuing an Event of Default under the Resolution, the Owners of a majority in aggregate Principal amount of the Outstanding Bonds may remove the Trustee and will appoint a successor Trustee. In each instance such removal and appointment will be accomplished by an instrument or concurrent instruments in writing signed by the District or such Owners, as the case may be, and delivered to the Trustee, the District and Owners of the Outstanding Bonds.

(d) If at any time: (i) the Trustee ceases to be eligible and qualified under the Resolution and fails or refuse to resign after written request to do so by the District or the Owner of any Bond, or (ii) the Trustee will become incapable of acting or will be adjudged insolvent, or a receiver of the Trustee or its property will be appointed, or any public officer shall take charge or control of the Trustee, its property or affairs for the purpose of rehabilitation, conservation or liquidation, then in either such case (A) the District may remove the Trustee and appoint a successor Trustee in accordance with the provisions of the Master Bond Resolution described in subsection (c) of this Section; or (B) any Owner of a Bond then Outstanding may, on behalf of the Owners of all Outstanding Bonds, petition a court of competent jurisdiction for removal of the Trustee and appointment of a successor Trustee.

(e) The District is required to give written notice of each resignation or removal of the Trustee and each appointment of a successor Trustee to each Owner of Bonds then Outstanding as listed in the Bond Register. Each such notice is required to include the name and address of the applicable corporate trust office of the successor Trustee.

Trustee Not Responsible for Recitals

The recitals contained in the Resolution and in the Bonds (other than the certificate of authentication on the Bonds) are statements of the District, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the value, condition or sufficiency of any assets pledged or assigned as security for the Bonds, the right, title or interest of the District therein, the security provided thereby or by the Resolution or the tax status of interest on the Bonds. The Trustee is not accountable for the use or application by the District of any of the Bonds or the proceeds of the Bonds, or for the use or application of any money paid over by the Trustee in accordance with any provision of the Resolution.

Supplemental Resolutions Without Owner Consent

Pursuant to the Master Bond Resolution, the District may from time to time and at any time adopt a Supplemental Resolution, without the consent of or notice to any Owner, to effect any one or more of the following:

(i) provide for the issuance of Bonds in accordance with the provisions of the Resolution;

(ii) cure any ambiguity or defect or omission or correct or supplement any provision in the Master Bond Resolution or in any Supplemental Resolution;

(iii) grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners or the Trustee that are not contrary to or inconsistent with the Resolution as then in effect or to subject to the pledge and lien of the Resolution additional revenues, properties or collateral;

(iv) add to the covenants and agreements of the District in the Resolution other covenants and agreements thereafter to be observed by the District or to surrender any right or power reserved in the Master Bond Resolution to or conferred upon the District that are not contrary to or inconsistent with the Resolution as then in effect;

(v) permit the appointment of a co-trustee under the Resolution;

(vi) modify, alter, supplement or amend the Resolution in such manner as will permit the qualification of the Resolution, if required, under the Trust Indenture Act of 1939 or, the Securities Act of 1933, each as from time to time amended, or any similar federal statute thereafter in effect;

(vii) make any other change in the Master Bond Resolution that the Trustee determines will not be materially adverse to the interests of the Owners and which does not involve a change described in the Resolution requiring consents of specific Owners; or

(viii) amend, modify, alter or replace the Letter of Representations as provided in the Resolution or other provisions relating to Book-Entry Bonds.

Supplemental Resolutions Requiring Owner Consent

The Master Bond Resolution provides that the District, at any time and from time to time, may adopt a Supplemental Resolution for the purpose of making any modification or amendment to the Resolution, but only with the written consent, given as provided in the Resolution, of the Owners of a majority in aggregate Principal amount of the Outstanding Bonds at the time such consent is given, and in case less than all of the Bonds then Outstanding are affected by the modification or amendment, of the Owners of a majority in aggregate Principal amount of the Outstanding Bonds so affected at the time such consent is given; provided, that if such modification or amendment will, by its terms, not take effect so long as any Bonds so affected remain Outstanding, the consent of the Owners of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under the Resolution. Notwithstanding the foregoing, no modification or amendment contained in any such Supplemental Resolution will permit any of the following, without the consent of each Owner whose rights are affected thereby: (a) a change in the terms of stated maturity or redemption of any Bond or of any interest thereon; (b) a reduction in the Principal, Purchase Price or Redemption Price of any Bond or in the rate of interest thereon or a change in the currency in which such Bond is payable; (c) the creation of a lien on or a pledge of any part of the money or assets pledged under the Resolution other than as permitted by the Resolution; (d) the granting of a preference or priority of any Bond over any other Bond; (e) a reduction in the aggregate Principal amount of Bonds of which the consent of the Owners is required to effect any such modification or amendment; or (f) a change in the provisions of the Master Bond Resolution regarding waiver of defaults. Notwithstanding the foregoing, the Owner of any Bond may extend the time for payment of the Principal, Purchase Price or Redemption Price of or interest on such Bond; provided, that upon the occurrence of an Event of Default, funds available under the Resolution for the payment of the Principal, Purchase Price or Redemption Price of and interest on the Bonds will not be applied to any payment so extended until all Principal, Purchase Price, Redemption Price and interest payments that have not been extended have first been paid in full. Notice of any Supplemental Resolution executed pursuant to the Resolution will be given to the Owners promptly following the adoption thereof by the District.

Discharge and Defeasance

Discharge. If (a) the Principal of any Bonds and the interest due or to become due thereon together with any premium required by redemption of any of such Bonds prior to maturity will be paid, or is caused to be paid, or is provided for under the Resolution, at the times and in the manner to which reference is made in such Bonds, according to the true intent and meaning thereof, or such Bonds will have been paid and discharged in accordance with the Resolution; and (b) all Payment Agreement Payments and other payments due in accordance with the provisions of the Payment Agreements and the Resolution have been made and (c) all of the covenants, agreements, obligations, terms and conditions of the District under the Resolution will have been kept, performed and observed and there will have been paid to the Trustee all sums of money due or to become due to it in accordance with the terms and provisions of the Resolution, then the right, title and interest of the Trustee in all money and other property then held under the Resolution will thereupon cease and the Trustee, on request of and at the expense of the District, will release the Resolution and will execute such documents to evidence such release as may be reasonably required by the District and will turn over to the District, or to such other Person as may be entitled to receive the same, all balances remaining in any Funds except for amounts required to pay such Bonds or held pursuant to the provisions of the Resolution relating to unclaimed funds.

Defeasance. If the District deposits with the Trustee money or non-callable Government Securities which, together with the earnings thereon, are sufficient to pay the Principal, Purchase Price or Redemption Price of any particular Bond or Bonds, or portions thereof, becoming due, together with all interest accruing thereon to the due date or date fixed for redemption, and pays or makes provision for payment of all fees, costs and expenses of the Trustee due or to become due with respect to such Bonds, all liability of the District with respect to such Bond or Bonds (or portions thereof) will cease, such Bond or Bonds (or portions thereof) will be deemed not to be Outstanding under the Resolution and the Owner or Owners of such Bond or Bonds (or portions thereof) will be restricted exclusively to the money or Government Securities so deposited, together with any earnings thereon, for any claim of whatsoever nature with respect to such Bond or Bonds (or portions thereof), and the Trustee will hold such money, Government Securities and earnings in trust exclusively for such Owner or Owners and such money, Government Securities and earnings will not secure any other Bonds under the Resolution. In determining the sufficiency of the money and Government Securities deposited pursuant to the Resolution, the Trustee will receive, at the expense of the District, and may rely upon: (a) a verification report of a firm of nationally recognized independent certified public accountants or other qualified firm acceptable to the District and the Trustee; and (b) an opinion of Bond Counsel to the effect that (1) all conditions described in this section have been satisfied and (2) that defeasance of the Bonds will not cause interest on any Tax-Exempt Bonds to be includable in gross income for federal income tax purposes. Upon such defeasance all rights of the District, including its right to provide for optional redemption of Bonds on dates other than planned pursuant to such defeasance, will cease unless specifically retained by filing a written notification thereof with the Trustee on or prior to the date the Government Securities are deposited with the Trustee. When a Bond is deemed to be paid under the Resolution, as aforesaid, it will no longer be secured by or entitled to the benefits of the Resolution, except for the purposes of any such payment from such money or Government Securities and except for certain provisions of the Resolution and the District will continue to be subject to the provisions of the Resolution relating to Trustee compensation.

Events of Default

Each of the following events will be an "Event of Default" under the Master Bond Resolution:

(a) The District will default in the payment of any Principal, Purchase Price (to the extent provided by Supplemental Resolution) or Redemption Price of or interest on any Bond or Prior Rocky Reach Bond when the same becomes due and payable; or

(b) Subject to the provisions of the Resolution, default in the performance, or breach, of any covenant, warranty or representation of the District contained in the Resolution (other than a default described under subsection (a) of this section); or

(c) (i) The filing of a petition in bankruptcy (or other commencement of a bankruptcy or similar proceedings) by the District as debtor, under federal or state bankruptcy law; (ii) the filing of a petition in bankruptcy (or other commencement of a bankruptcy or similar proceedings) against the District as debtor, under federal or state bankruptcy law, which petition is not dismissed within 60 days after filing; (iii) the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or other similar official of the District or of any substantial portion of its property; or (iv) the ordering of the winding up or liquidation of the affairs of the District.

Remedies Upon Default

(a) If an Event of Default under the Master Bond Resolution occurs and is continuing, the Trustee may, and upon the written request to the Trustee by the Owners of a majority in aggregate Principal amount of the Outstanding Bonds the Trustee will, subject to the requirements of the Master Bond Resolution, by written notice to the District, declare the Principal of the Bonds and all interest accrued thereon to the date of acceleration to be immediately due and payable.

(b) At any time after such a declaration of acceleration has been made and before the entry of a judgment or decree for payment of the money due, the Trustee may, or the Owners of a majority in aggregate Principal amount of the Outstanding Bonds, may by written notice to the District and the Trustee, and subject to the requirements of the Resolution, direct the Trustee to, rescind and annul such declaration and its consequences if:

> (i) there has been paid to or deposited with the Trustee by or for the account of the District, or provision satisfactory to the Trustee has been made for the payment of a sum sufficient to pay: (A) all overdue installments of interest on the Bonds; (B) the Principal, Purchase Price, and Redemption Price of any Bonds that have become due other than by such declaration of acceleration and interest thereon; (C) to the extent lawful, interest upon overdue interest and redemption premium, if any; and (D) all sums paid or advanced by the Trustee under the Master Bond Resolution, together with the reasonable compensation, expenses, disbursements and advances of the Trustee and its agents and counsel prior to the date of notice of rescission; and
>
> (ii) all Events of Default have been cured or waived, other than the nonpayment of Principal, Purchase Price or Redemption Price of and interest on the Bonds that occasioned such acceleration.

(c) No such rescission and annulment will affect any subsequent default or impair any consequent right.

(d) The Trustee, upon the occurrence of an Event of Default may, and upon the written request of the Owners of a majority in aggregate Principal amount of the Outstanding Bonds, and subject to the requirements of the Resolution, will proceed to protect and enforce its rights and the rights of the Owners of the Bonds under the Resolution by a suit or suits in equity or at law, either for the specific performance of any covenant or agreement contained in the Resolution or in aid of the execution of any power granted in the Master Bond Resolution or therein, or for the enforcement of any other appropriate legal or equitable remedy, and the Trustee in reliance upon the advice of counsel may deem most effective to protect and enforce any of the rights or interests of the Owners of the Bonds under the Bonds or the Resolution.

(e) Without limiting the generality of the foregoing, the Trustee will at all times have the power to institute and maintain such proceedings as it may deem expedient: (i) to prevent any impairment of the money and other property then held under the Resolution by any acts that may be unlawful or in violation of the Resolution, and (ii) to protect its interests and the interests of the Owners in the money and other property then held under the Resolution and in the issues, profits, revenues and other income arising therefrom, including the power to maintain proceedings to restrain the enforcement of or compliance with any governmental enactment, rule or order that may be unconstitutional or otherwise invalid, if the enforcement of, or compliance with, such enactment, rule or order would impair the money and other property then held under the Resolution or be prejudicial to the interests of the Owners or the Trustee.

Priority of Payment Following Event of Default

(a) If at any time after the occurrence of an Event of Default the money held by the Trustee under the Resolution will not be sufficient to pay the Bonds as the same become due and payable, such money, together with any money then available or thereafter becoming available for such purpose, whether through the exercise of remedies described above or otherwise, will, subject to the provisions of the Master Bond Resolution described in subsections (b) and (c) of this section, be applied by the Trustee first, to the payment of all amounts due the Trustee under the Resolution and then to the payment of the amounts in the order of priority described in the Official Statement under the caption "SECURITY FOR THE 2009A BONDS—Flow of Funds" in the front portion of the Official Statement.

(b) If the Principal of all Bonds shall have become due and payable, subject to clause (i) of subsection (a) above regarding payment to the Trustee, all such money shall be applied to the payment of the Principal and interest then due and unpaid upon the Bonds, without preference or priority of Principal over interest or of interest over Principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for Principal and interest, without any discrimination or preference.

(c) Whenever money is to be applied pursuant to the provisions of the Master Bond Resolution described in this section, the Trustee may, in its discretion, establish and maintain a reserve for future fees and expenses, and may apply money to be distributed at such times, and from time to time, as the Trustee shall determine, having due regard for the amount of such money available for application and the likelihood of additional money becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix a date (which shall be an interest payment date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of Principal to be paid on such dates, and for which money is available, shall cease to accrue. The Trustee shall also select a record date for such payment date. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any money and of the fixing of any such record date and payment date, and shall not be required to make payment to the Owner of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Owners May Direct Proceedings

The Owners of a majority in aggregate Principal amount of the Outstanding Bonds will, subject to the requirements of the Resolution, have the right, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings by the Trustee under the Resolution, provided that such direction will not be in conflict with any rule of law or the Resolution and that the Trustee will have the right to decline to follow any such direction which in the opinion of the Trustee would be unduly prejudicial to the rights of Owners not parties to such direction or would subject the Trustee to personal liability or expense. Notwithstanding the foregoing, the Trustee will have the right to select and retain counsel of its choosing to represent it in any such proceedings. The Trustee may take any other action which is not inconsistent with any direction under the Resolution.

Limitations on Rights of Owners

(a) No Owner will have any right to pursue any other remedy under the Resolution or the Bonds unless: (i) an Event of Default will have occurred and is continuing; (ii) the Owners of a majority in aggregate Principal amount of the Outstanding Bonds have requested the Trustee, in writing, to exercise the powers granted in the Master Bond Resolution or to pursue such remedy in its or their name or names; (iii) the Trustee has been offered indemnity satisfactory to it against costs, expenses and liabilities reasonably anticipated to be incurred; (iv) the Trustee has declined to comply with such request, or has failed to do so, within 60 days after its receipt of such written request and offer of indemnity; and (v) no direction inconsistent with such request has been given to the Trustee during such 60-day period by the Owners of a majority in aggregate Principal amount of the Outstanding Bonds.

(b) The provisions of the Master Bond Resolution described in subsection (a) of this section are conditions precedent to the exercise by any Owner of any remedy under the Resolution. The exercise of such rights is further subject to the provisions of the Resolution. No one or more Owners will have any right in any manner whatever to enforce any right under the Resolution, except in the manner provided in the Master Bond Resolution. All proceedings at law or in equity with respect to an Event of Default will be instituted and maintained in the manner provided in the Master Bond Resolution for the equal and ratable benefit of the Owners of all Bonds Outstanding.

Unconditional Right of Owners To Receive Payment

Notwithstanding any other provision of the Resolution, the Owner of each Bond will have the absolute and unconditional right to receive payment of Principal and Redemption Price of and interest on such Bond on and after the due date thereof, and to institute suit for the enforcement of any such payment.

Restoration of Rights and Remedies

If the Trustee or any Owner has instituted any proceeding to enforce any right or remedy under the Resolution, and any such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or such Owner, then the District, the Trustee and the Owners will, subject to any determination in such proceeding, be restored to their former positions under the Resolution, and all rights and remedies of the Trustee and the Owners will continue as though no such proceeding had been instituted.

Rights and Remedies Cumulative

No right or remedy conferred upon or reserved to the Trustee in the Master Bond Resolution is intended to be exclusive of any other right or remedy, but each such right or remedy will, to the extent permitted by law, be cumulative of and in addition to every other right or remedy given under the Resolution or existing at law, in equity or otherwise. The assertion or employment of any right or remedy under the Resolution will not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Delay or Omission Not Waiver

No delay or omission by the Trustee or any Owner to exercise any right or remedy accruing upon any Event of Default will impair any such right or remedy or constitute a waiver of such Event of Default. Every right and remedy given by the Master Bond Resolution with respect to defaults and remedies or by law to the Trustee or the Owners may be exercised from time to time, and as often as may as deemed expedient, by the Trustee or the Owners, as the case may be.

Waiver of Defaults

(a) The Owners of a majority in aggregate Principal amount of the Outstanding Bonds may, by written notice to the Trustee and subject to the requirements of the Resolution, waive any existing default or Event of Default and its consequences, except an Event of Default described in subsection (a) of "—Events of Default" above. Upon any such waiver, the default or Event of Default will be deemed cured and will cease to exist for all purposes. No waiver of any default or Event of Default will extend to or effect any subsequent default or Event of Default or will impair any right or remedy consequent thereto.

(b) Notwithstanding any provision of the Resolution, in no event will any Person, other than all of the affected Owners, have the ability to waive any Event of Default under the Resolution if such event results or may result, in the opinion of Bond Counsel, in interest on any of the Tax-Exempt Bonds becoming includable in gross income for federal income tax purposes.

Credit Facility Provider Rights

Except as otherwise provided in the Supplemental Resolution authorizing the issuance of a Series of Bonds, if the Facility Provider with respect to such Series of Bonds is not in default in respect of any of its obligations under the Facility securing such Series of Bonds, the following will apply:

(a) Such Facility Provider, and not the actual Owners, will be deemed to be the Owner of such Series of Bonds at all times for the purposes of (i) giving any approval or consent to the effectiveness of any Supplemental Resolution other than a Supplemental Resolution providing for (A) a change in the terms of redemption, purchase or maturity of the principal of any Outstanding Bond of such Series or any interest thereon or a reduction the Principal amount, Purchase Price or Redemption Price thereof or in the rate of interest thereon, or (B) a reduction in the percentage of Owners required to approve or consent to the effectiveness of any Supplemental Resolution, and (ii) giving any approval or consent or exercising any remedies in connection with the occurrence of an Event of Default.

(b) Any amendment to the Resolution requiring the consent of Owners of such Series of Bonds will also require the prior written consent of such Facility Provider.

(c) Any amendment to the Resolution not requiring the consent of Owners of such Series of Bonds shall require the prior written consent of such Facility Provider if its rights shall be materially and adversely affected by such amendment.

(d) The prior written consent of such Facility Provider shall be a condition precedent to the substitution by the District of any reserve account credit policy for cash deposited in any Reserve Account securing such Series of Bonds.

(e) In the event the maturity of the Bonds is accelerated, such Facility Provider may elect, in its sole discretion, to pay the accelerated Principal of such Series of Bonds and interest thereon to the date of acceleration (to the extent unpaid by the District). Upon payment of such accelerated Principal and interest, the obligations of such Facility Provider under such Facility with respect to such Series of Bonds will be fully discharged.

(f) Such Facility Provider will have the right to institute any suit, action or proceeding at law or in equity under the same terms as an Owner of such Series of Bonds in accordance with the Resolution.

(g) Such Facility Provider will, to the extent it makes any payment of Principal or Purchase Price of or interest on such Series of Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of such Facility.

(h) The Principal or Purchase Price of or interest on such Series of Bonds paid by such Facility Provider under such Facility shall not be deemed paid for purposes of the Resolution, and the Bonds with respect to which such payments were made shall remain Outstanding and continue to be due and owing until paid by the District in accordance with the Resolution.

(i) In the event of any defeasance of such Series of Bonds, the District will provide such Facility Provider with copies of all documents required by the Resolution to be delivered to the Trustee.

(j) The District will not discharge the Resolution unless all amounts due or to become due to such Facility Provider have been paid in full or duly provided for.

(k) The District will send or cause to be sent to such Facility Provider copies of notices required to be sent to Owners or the Trustee under the Resolution.

(l) The District will observe any payment procedures under such Facility required by such Facility Provider as a condition to the issuance and delivery of the Facility.

THE SECOND SUPPLEMENTAL RESOLUTION

General

The Second Supplemental Resolution authorized the issuance of the 2009A Bonds. Certain terms and provisions of the 2009A Bonds are contained in the 2009A Delivery Certificate, which will be executed on the date of delivery of the 2009A Bonds.

Terms of the 2009A Bonds

General. The 2009A Bonds will be issued in the form of fully registered bonds only, will be dated the date of delivery and will mature and bear interest on the unpaid principal amount thereof as set forth in the 2009A Delivery Certificate.

Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months, and the actual number of days elapsed.

Method of Payment. The principal of and redemption premium, if any, on any 2009A Bond will be payable to the Owner thereof at the corporate office of the Trustee. Interest on the 2009A Bonds will be payable by the Trustee on each Interest Payment Date by check or draft mailed to each Owner as of the Record Date, at the most recent address shown on the Bond Register; provided, however, that payment of interest to each Owner who owns of record $1,000,000 or more in aggregate principal amount of 2009A Bonds may be made to such Owner by wire transfer to such wire address within the United States as that Owner may request in writing prior to the Record Date.

Registrar; Bond Registration Books

The Trustee shall be the initial Registrar for the 2009A Bonds. While any of the 2009A Bonds issued under the Second Supplement are Outstanding, the Registrar shall keep and maintain the Bond Register. The Registrar shall make the Bond Register available to the District for its inspection during normal business hours.

Establishment and Application of 2009A Bond Fund

The Second Supplemental Resolution establishes a special fund of the District to be known as the "Rocky Reach Hydro-Electric System Revenue Bonds, Refunding Series 2009A Bond Fund" (the "2009A Bond Fund") to be held in trust by the Trustee. From Revenues, the Treasurer shall transfer to the Trustee funds for deposit into the 2009A Bond Fund in the amounts and at the times necessary to pay the principal of, premium, if any, and interest on the 2009A Bonds as the same shall become due and payable on each Interest Payment Date, redemption date or maturity date. On each Interest Payment Date, redemption date or maturity date, the Trustee shall apply moneys in the 2009A Bond Fund to pay the principal of, premium, if any, and interest due on the 2009A Bonds on such date. The 2009A Bond Fund and the amounts on deposit therein shall be subject to the pledge of the Master Bond Resolution for the benefit of the Owners of the 2009A Bonds.

Establishment and Application of 2009A Rebate Fund

To ensure proper compliance with the tax covenants contained in the Second Supplement, the Second Supplement provides that the District shall establish and shall maintain a fund separate from any other fund or account established and maintained under the Second Supplement or under the Master Bond Resolution to be known as the "Rocky Reach System Revenue Bonds, Refunding Series 2009A Rebate Fund." All money at any time deposited in the 2009A Rebate Fund in accordance with the provisions of the Tax Certificate shall be held by the Treasurer for the account of the District in trust for payment to the federal government of the United States of America, and neither the District nor the Owner of any 2009A Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in the 2009A Rebate Fund shall be governed by the Master Bond Resolution and the Second Supplement and by the Tax Certificate. The Treasurer shall invest all amounts held in the 2009A Rebate Fund in accordance with the Master Bond Resolution and the Tax Certificate. Money shall not be transferred from the 2009A Rebate Fund except in accordance with the Master Bond Resolution and the Tax Certificate.

The 2009A Rebate Fund and the amounts on deposit therein shall not be subject to the pledge of the Master Bond Resolution for the benefit of the Owners of the 2009A Bonds.

Establishment and Application of 2009A Construction Fund

The Second Supplemental Resolution establishes a special fund of the District to be known as the "Rocky Reach Hydro-Electric System Revenue Bonds, Refunding Series 2009A Construction Fund" (the "2009A Construction Fund") to be held by the District. All amounts on deposit in the 2009A Construction Fund, if any, shall be applied, first, to pay the costs of issuance of the 2009A Bonds, and second, at the option of the Treasurer of the District, for any lawful purpose of the Rocky Reach System.

Tax Covenants

To maintain the exclusion from gross income of the interest on the 2009A Bonds for federal income tax purposes, the District covenants to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code and the District agrees to comply with the covenants contained in, and the instructions given pursuant to, the Tax Certificate.

APPENDIX D— SUMMARY OF CERTAIN PROVISIONS OF THE LOAN RESOLUTIONS AND FINANCING AGREEMENTS

The provisions of the Rock Island Loan Resolution and Rock Island Financing Agreement with Puget Sound Energy, Inc. ("Puget Sound Energy"), the sole power purchaser of the Rock Island System, are substantially the same as those in the Rocky Reach Loan Resolution and Rocky Reach Financing Agreement. However, the obligations of the District and Puget Sound Energy under the Rock Island Loan Resolution and the Rock Island Financing Agreement are divided between System I and System II, reflecting the differing percentages of output from each such system available to each of the District and Puget Sound Energy. See "THE CONSOLIDATED SYSTEM AND OTHER PROPERTIES AND FACILITIES OF THE DISTRICT—The Rock Island Power Sales Contract" in the body of the Official Statement. Because the provisions of both sets of loan resolutions and financing agreements are substantially similar, only certain definitions and operative provisions of the Rocky Reach Loan Resolution and Rocky Reach Financing Agreement have been summarized below. This summary does not purport to be complete and is qualified in its entirety by reference to the foregoing documents for a complete statement of the provisions of such documents.

Definitions

"Bonds" shall mean, collectively, (i) the Senior Bonds, (ii) the 1997A Bonds and (iii) any Additional Bonds.

"Capital Items" shall mean the capital items related to the Rocky Reach System the District determines to finance out of the Rocky Reach Construction Fund.

"Consolidated System Construction Funds" shall mean, collectively, (i) the construction funds established for the Senior Bonds pursuant to the Senior Resolution, (ii) the Chelan Hydro Consolidated System Revenue Bonds, Series 1997A, Capital Fund, established by the Third Supplemental Resolution and (iii) any additional construction fund established pursuant to a Supplemental Resolution authorizing the issuance of additional Bonds.

"Expense Payment" shall mean each expense payment required to be made by the Rocky Reach System Revenue Fund to the Chelan Hydro System Revenue Fund or if such fund is no longer maintained, to the general fund of the Chelan Hydro System as set forth in the Rocky Reach Loan Resolution.

"Interest Payment Date" shall have the meaning assigned thereto in each Supplemental Resolution.

"Loan Payment" shall mean each loan payment required to be made by the Rocky Reach System to the Chelan Hydro System Revenue Fund or if such fund is no longer maintained, to the general fund of the Chelan Hydro System as set forth in the Rocky Reach Loan Resolution.

"1997A Bonds" shall mean the District's Chelan Hydro Consolidated System Revenue Bonds, Series 1997A.

"Project Output" shall have the meaning assigned thereto in the Rocky Reach Power Sales Contracts.

"Purchaser's Allotment" shall have the meaning set forth in the Rocky Reach Power Sales Contracts.

"Rocky Reach Construction Fund" shall mean the Rocky Reach Construction Fund established and maintained by the District pursuant to the Rocky Reach Loan Resolution.

"Rocky Reach Loan Resolution" shall mean Resolution No. 97-10819 of the District, adopted by the Commission on September 15, 1997, as such resolution has been or may be amended or supplemented.

"Rocky Reach Portion" shall, at any time, mean with respect to any series of Bonds, that portion of the Outstanding Bonds of such series obtained by multiplying the aggregate principal amount of such Bonds by the fraction, the numerator of which is the then outstanding principal amount of the Loans made with the proceeds of such Bonds and the denominator of which is the aggregate principal amount of the Bonds of such series.

"Senior Bonds" shall mean bonds of the District issued pursuant to the Senior Resolution the proceeds of which were loaned to the Rocky Reach System pursuant to the 1990 Loan Resolution.

Loans

Pursuant to the Rocky Reach Loan Resolution, the Chelan Hydro System shall from time to time loan proceeds of Bonds to the Rocky Reach System (each such loan, as reduced or increased from time to time, being a "Loan" and, collectively, the "Loans") for the purpose of financing capital items for the Rocky Reach System. The proceeds of each Loan shall be used as follows: (i) a portion will constitute (x) costs of issuance (including underwriters' discount) on the Bonds allocable to the Loan and (y) interest expense on the Bonds allocable to the Loan in the event investment earnings on amounts in the applicable Consolidated System Construction Fund were less than interest due on the Bonds for the period prior to such Loan (in no event to exceed 180 days of such shortfall), both as determined by the District; (ii) to fund a Reserve Fund, if any, for the related series of Bonds; and (iii) the remainder shall be deposited in the Rocky Reach Construction Fund. The Rocky Reach Construction Fund shall be part of the Rocky Reach System.

The proceeds of a Loan deposited in the Rocky Reach Construction Fund shall be used only to finance the cost of capital items with respect to the Rocky Reach System. Notwithstanding the foregoing, proceeds of any Loan on deposit in the Rocky Reach Construction Fund may be used to redeem or to purchase (and cancel) the principal of the Bonds with respect to which such Loan was made in an amount not to exceed the Rocky Reach Portion of such Bonds and the outstanding principal amount of such Loan shall be correspondingly reduced by the principal amount of the Loan so applied.

Payments by Purchasers; Financing Agreements

Pursuant to separate financing agreements with each of the Rocky Reach Purchasers (each, a "Rocky Reach Financing Agreement") each Purchaser shall pay to the District for deposit in the Rocky Reach Revenue Fund, as additional mutually agreed-upon costs of the Project under Section 6(d)(3) of the Power Sales Contracts, an amount equal to its respective Purchaser's Allotment multiplied by the amount of the Expense Payments and the Loan Payments due from time to time.

The Purchasers and the District acknowledge in the Rocky Reach Financing Agreement that, as required by the terms of the Rocky Reach Loan Resolution, the Expense Payments will be sufficient in time and amount to pay or reimburse the Chelan Hydro System for any premium paid to the holders of the Rocky Reach Portion of the Bonds upon the redemption thereof and for all expenses incurred by it in connection with issuing and servicing the Rocky Reach Portion of the Bonds (including such costs incurred for proposed bonds not issued), including, without limitation, (i) all costs of issuance with respect to the Bonds allocable to the Rocky Reach Portion of the Bonds, less any portion of such costs paid from the proceeds of the Loans or from amounts on deposit in the Rocky Reach Construction Fund, (ii) the portion allocable to the Rocky Reach Portion of the Bonds of the fees and expenses (including legal fees) of any trustee, any tender agent, any paying agent, any remarketing agent and the other fees related to the maintenance of the Bonds, (iii) any rebate amount required to be paid to the United States of America in excess of amounts on deposit in any excess earnings fund with respect to the Rocky Reach Portion of the Bonds and (iv) any costs of issuance of refunding bonds.

The Purchasers and the District acknowledge in the Rocky Reach Financing Agreement that, pursuant to the Rocky Reach Loan Resolution, the Loan Payments will consist of an interest component ("Interest Component"), a cover component ("Cover Component") and a principal component ("Principal Component").

The Interest Component of the Loan Payments due in each year will be an amount sufficient to pay the interest due on the Outstanding Rocky Reach Portion of the Bonds during that year. Such Interest Component shall constitute all interest due and accruing on or with respect to the Loan Payments and the Interest Component of Loan Payments due in any year shall be payable in installments on or before each Interest Payment Date during that year, with each installment to be sufficient in time and amount to pay the interest on the Outstanding Rocky Reach Portion of the Bonds due and payable on that Interest Payment Date.

The Cover Component of the Loan Payments due in each year will be an amount equal to .15 times the Interest Component payable by the Rocky Reach System during that year and the Cover Component of the Loan Payments due in any year shall be payable in installments on or before each Interest Payment Date, with each installment to be sufficient in time and amount to pay .15 times the installment of the Interest Component due and payable on that date. Notwithstanding the foregoing, the Cover Component of the Loan Payments shall only be applied to pay principal and interest with respect to the Loan in the event that amounts received as the Principal Component and Interest Component are insufficient for such purpose.

Any amounts paid as the Cover Component by the Rocky Reach System shall be retained by the Chelan Hydro System and shall be deposited in a separate fund to be maintained within the Chelan Hydro System. Any interest earnings on amounts in such fund shall be retained in such fund. On the twenty-fifth day of each month any amounts in such fund (including the installment of the Cover Component due from the Purchasers and the District on such date) in excess of 0.15 times the Interest Component due in such year shall be credited against amounts due from the Purchasers.

The total amount of the Principal Components of the Loan Payments due will be an amount equal to the principal amount of the Rocky Reach Portion of the Bonds payable (a) upon the final maturity of Bonds, or (b) upon the redemption of the Bonds pursuant to any Supplemental Resolution, or (c) in the event that any Bonds cannot be remarketed on a Purchase Date and such Bonds are (x) purchased by the District and surrendered to the Registrar or (y) are purchased by a bank providing a credit facility securing such Bonds and the reimbursement agreement with respect to such credit facility requires such Bonds must be paid, redeemed or purchased by the District and surrendered to the Registrar.

The Principal Component shall be (a) reduced by the total amount of principal which would be required to be paid from the date of the Loan through the date of the Principal Component payment of the Bonds if the Rocky Reach Portion of the Bonds were amortized under a level debt service schedule using an interest rate equal to the weighted-average interest rate of the Bonds with respect to which the related Loans were made over a period of time equal to the weighted average service life of the related capital items and (b) reduced by the total amount of principal which would be required to be paid from the date of the expiration of the Power Sales Contracts through the expiration of the weighted average service life of the capital items with respect to which the related Loans were made if such Rocky Reach Portion of the Bonds were amortized under a level debt service schedule using an interest rate equal to the weighted average interest rate of the then Outstanding Bonds with respect to which the related Loans were made over a period of time equal to the weighted average service life of the related capital items, and (c) increased by an amount which reflects all payments due between the date of the Principal Component payment and the expiration of the Power Sales Contract with respect to additional loans for the purpose of funding additional capital items.

Notwithstanding the foregoing, prior to the date any Principal Component shall become due, the District will use its best efforts to issue refunding bonds (either taxable or tax-exempt) to refund the Bonds with respect to such Principal Component. If the District determines that it cannot issue refunding bonds prior to the due date of a Principal Component, the District will use its best efforts to thereafter issue such refunding bonds for the purpose of reimbursing the Purchasers for such Principal Component.

On the day prior to the expiration of the Power Sales Contracts, each Purchaser shall pay to the District an amount equal to all accrued but unpaid Expense Payments and Loan Payments up through the expiration of the Power Sales Contracts multiplied by such Purchaser's respective Purchaser's Allotment.

Refunding Bonds

The District may issue bonds for the purpose of refunding any Rocky Reach Portion of Bonds ("Refunding Bonds") providing present value savings to the Purchasers through the end of the term of the Power Sales Contracts. Such Refunding Bonds shall constitute Bonds under the Rocky Reach Loan Resolution in replacement of the Bonds so refunded. Costs of issuance of such Refunding Bonds shall be paid from the following sources in the following priority: (i) from the proceeds available thereof, if any, (ii) other available funds of the Rocky Reach System and (iii) as an Expense Payment. Upon the issuance of such Refunding Bonds, the District will issue to the Purchasers a revised Loan Certificate reflecting the new interest rate.

The District may issue Refunding Bonds which do not provide savings, provided, however, unless otherwise agreed to by the Purchasers who are purchasing two-thirds of the power purchased by the Purchasers pursuant to the Power Sales Contracts, such refunding shall not increase the Purchasers Loan Payment obligations (other than Expense Payments) under the Purchaser Financing Agreement.

Remarketing of Bonds

The District shall use its reasonable best efforts and take all reasonable steps to establish or provide for the remarketing of the Bonds on each date of mandatory or optional tender for purchase unless, in its sole discretion, it shall decide to pay or redeem such Bonds on a date of mandatory or optional tender for purchase. If, however, the District attempts to remarket any Bonds and remarketing efforts fail, the District shall use its best efforts to refund the Bonds which are the subject of the failed remarketing prior to the cancellation thereof so long as the District can legally issue such refunding obligations for that purpose and the same can be remarketed.

Disputes

The District and the Purchasers shall use their best efforts to resolve any dispute arising under the Rocky Reach Financing Agreement in a timely manner. In the event of an unresolved dispute relating to individual new capital items or modification having a total project cost of $5,000,000 or less, as an alternative to the arbitration procedure provided for in the Power Sales Contracts, the District and the Purchasers agree that such dispute shall be resolved utilizing the following method of dispute resolution:

(a) The services of an independent third party mediator shall be retained by the parties. The selection of the mediator shall be agreed upon within 30 days from the date the District receives written notice that Purchasers who are purchasing two-thirds of the power purchased by the Purchasers pursuant to the Power Sales Contracts dispute an item(s). If the District and the Purchasers cannot agree on a mediator, the District shall instruct its consulting engineer to appoint a mediator who, in their opinion, shall have no bias to either the District or the Purchasers and shall possess professional qualifications and experience with electric utility projects which qualify the mediator to preside in the matter.

(b) The District and the Purchasers agree to meet with the mediator within 15 days after selection to discuss rejection, modification or substantiation of a disputed item. Such discussion shall not exceed 5 working days in duration.

(c) The mediator shall consider all comments, written or oral, of the Purchasers and the District. At any time during discussions the mediator may offer suggestions of compromise. A compromise resolve to any dispute must be mutually agreed upon by the Purchasers and the District to resolve a dispute. If a compromise is not offered or accepted by both parties, the mediator shall decide in favor of the District or the Purchasers and both parties shall abide by the decision to the extent that they can legally do so. The mediator shall use its best effort to utilize the Power Sales Contract directives to make judgment upon a disputed item.

Where disputed item(s) have an estimated total project cost in excess of $5,000,000, the District and the Purchasers shall use their best efforts to resolve the dispute within 90 days of the District's receipt of written notice that the Purchasers who are purchasing two-thirds of the power purchased by the Purchasers pursuant to the Power Sales Contracts disputed such item(s). If such dispute is not resolved within 90 days (or such greater period as shall be agreed to by the District and the Purchasers), the Purchasers shall immediately seek arbitration of such dispute pursuant to Section 9 of the Power Sales Contracts. Failure to so act shall constitute approval by the Purchasers of the disputed capital item. Subject to the foregoing, the dispute resolution provisions of the Power Sales Contracts shall extend to all matters covered by the Rocky Reach Financing Agreement.

Power Sales Contract

The Rocky Reach Financing Agreement is subject to the terms and provisions of the Power Sales Contracts. The Rocky Reach Financing Agreement is also subject to the terms and provisions of the Rocky Reach Resolution and the FERC License. Any conflict in terms between the Rocky Reach Financing Agreement and the Rocky Reach Resolution, the Power Sales Contracts or the FERC License shall be resolved in favor of the Rocky Reach Resolution, the Power Sales Contracts and the FERC License.

District's Obligations

The District acknowledges and agrees that at all times the District is taking a percentage of the Project Output, the District shall have all the rights and obligations of a Purchaser under the Rocky Reach Financing Agreement (except for the rights of the Purchasers to consent to various actions or matters under the Rocky Reach Financing Agreement and the rights of the Purchasers arising under the Rocky Reach Financing Agreement which pertain to Sections 9, 22 and 23 of the Power Sales Contracts).

Term

The initial term of the Rocky Reach Financing Agreement expired December 31, 2001. The ability of the District to make additional Loans was automatically renewed for a subsequent period of five (5) years from the initial renewal date of December 31, 2001 and is automatically renewed for subsequent periods of five (5) years on each renewal date thereafter unless the District or any Purchaser prior to 90 days before the next applicable renewal date provides notice in writing to the other parties of its intent not to renew the ability of the District to make additional Loans. In such case, the ability of the District to make additional Loans will terminate at 2400 hours Pacific Time on the next applicable renewal date. Notwithstanding the foregoing, the obligation of the District and the Purchasers under the Rocky Reach Financing Agreement with respect to Loans made prior to termination of the ability of the District to make additional Loans shall remain unaffected by any termination of the ability of the District to make additional Loans.

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APPENDIX E – SUMMARY OF CERTAIN PROVISIONS OF THE ORIGINAL POWER SALES CONTRACTS

A summary of certain provisions of the Original Power Sales Contracts, each dated as of November 14, 1957, and the amendments thereto, each dated June 1, 1968, by and between Public Utility District No. 1 of Chelan County, Washington and Puget Sound Power & Light Company, Pacific Power & Light Company, The Washington Water Power Company and Colockum Transmission Company, Inc., as assignee of Aluminum Company of America, is set forth below. Reference is made to the complete text of the Original Power Sales Contracts for all of the provisions thereof.

DEFINITIONS

The following are definitions of certain terms used and not defined elsewhere in the Official Statement. Terms not defined herein have the meanings specified in the Original Power Sales Contracts.

"**Additional Units**" means the four (4) turbo-generating units (each having an installed nameplate rating of approximately 125,400 Kilowatts) to be installed in the Project in addition to the seven (7) turbo-generating units initially installed therein, transformation and transmission facilities necessary to connect said four (4) units to the District's Rocky Reach Switchyard, as directed by Amendment No. 5 to Federal Power Commission License No. 2145, together with other facilities reasonably associated with said four (4) units and water rights.

"**Date of Commercial Operation**," means, including any clause or phrase referring to the commencement of commercial operation of the Project, the day the District is ready to deliver power and energy from the last of the initial seven (7) generating units to be installed in the Project after each of said seven (7) units has been installed and has been placed in normal continuous operation.

"**Date of Commercial Operation of Additional Units"** means, including any clause or phrase referring to the commencement of commercial operation of the Additional Units, the day the District is ready to deliver power and energy from the last of the four additional generating units to be installed in the Project after each of said four units has been installed and has been placed or is available to be placed in normal continuous operation.

"**Generator Bus**" means the point on the low-voltage side of the Project generating station's transformer banks at which point the electric output of the Project is measured.

"**Project**" means the Rocky Reach Hydro-Electric Power Project licensed by the Federal Power Commission as Project No. 2145 Washington, and any amendments thereto, and extensions or renewals thereof, or licensed under a new or annual license upon expiration thereof, and authorized to be acquired and constructed by the District pursuant to Resolution No. 1412 adopted by the Commission of the District November 20, 1956, except as otherwise provided in the Original Power Sales Contracts. "Project" will also include the Additional Units directed to be acquired and constructed by Amendment No. 5 dated May 23, 1968, to Federal power Commission License No. 2145, and authorized to be acquired and constructed by the District pursuant to Resolution No. 4198, adopted by the Commission of the district on June 27, 1968.

"**Project's Initial Operating Period**" means, for purposes of the Alcoa contract, the period beginning on the date the first generator installed in the Project is ready, in the opinion of the District, for reliable operation, and ending on the Date of Commercial Operation.

"**Purchasers**" means Puget Sound Power & Light Company, Colockum Transmission Company, Inc. (as assignee of all the right, title and interest of Aluminum Company of America in, to and under the Original Power Sales Contracts), Portland General Electric Company, Pacific Power & Light Company, and The Washington Water Power Company and, with the consent of the District, will include additional purchasers of a percentage share of Project Output under contracts similar to the Original Power Sales Contracts.

"**Rocky Reach Hydro-Electric System Revenue Bonds**" (sometimes hereinafter referred to as the "Bonds") means the electric revenue bonds issued or partly issued and to be issued by the District and at any time outstanding for the purpose of providing funds for the payment of all costs of the District incurred in connection with the financing, acquisition and construction of the Project, including, but without limitation, amounts required to pay interest on all of said Bonds during the estimated period of construction and for such additional period or periods thereafter as will be specified in the resolution or resolutions authorizing the issuance of said Bonds, to provide working capital, to repay any advances made by the District, Puget Sound Power & Light Company or others in connection with the investigation, development and/or construction of the Project which are repayable out of the proceeds of said Bonds, and to provide the amounts required for the Reserve Account in the Bond Fund and for the Reserve and Contingency Fund as provided for in the resolution or resolutions authorizing the issuance of said Bonds, and will include the Series of 1956 Bonds, the Series of 1968 Bonds, and any Subsequent Series Bonds, defined below.

"**Series of 1956 Bonds**" means the Rocky Reach Hydro-Electric System Revenue Bonds, Series of 1956, issued by the District, in the aggregate principal amount of $23,100,000 pursuant to Resolution No. 1412 adopted November 20, 1956 for the purpose of defraying a portion of the cost of acquiring and constructing the Project.

"**Series of 1968 Bonds**" means the Rocky Reach Hydro-Electric System Revenue Bonds, Series of 1968, issued by the District, in the aggregate principal amount of $40,000,000, for the purpose of providing funds to paying the cost of acquisition, construction and installation of the Additional Units and putting into effect the plan and system specified in the resolution of the District authorizing the issuance of the Series of 1968 Bonds.

"**Subsequent Series Bonds**" means the Rocky Reach Hydro-Electric System Revenue Bonds to be issued by the District pursuant to a resolution or resolutions to be adopted as authorized under the provisions of Resolution No. 1412, to pay all of the estimated costs of the financing, acquisition and construction of the Project in the aggregate principal amount estimated to be necessary for that purpose and which have been issued prior to the Date of Commercial Operation of the Project, when supplemented by the proceeds of the Series of 1956 Bonds, including, but without limitation, amounts required to pay the costs and expenses described in the definition of "Rocky Reach Hydro-Electric System Revenue Bonds."

"Uncontrollable Forces" means any cause reasonably beyond the control of either party to this contract and which by the exercise of due diligence such party is unable to prevent or overcome, including but not limited to an act of God, fire, flood, explosion, strike, sabotage, an act of the public enemy, civil or military authority including court orders, injunctions, and order so government agencies with proper jurisdiction, insurrection or riot, an act of the elements, failure of equipment, or inability to obtain or ship materials or equipment because of the effect of similar causes on suppliers or carriers.

Term of Contracts

The Original Power Sales Contracts will be in full force and effect from the date of their execution until the Series of 1956 Bonds and the Subsequent Series Bonds are paid or provision is made for the retirement thereof in accordance with the resolutions authorizing the issuance of said bonds, or 50 years from and after the Date of Commercial Operation, whichever is later.

Coordinated Operation of the Project

Subject to the provisions of the license issued by the Federal Power Commission for the Project, the stream flow of the Columbia River, water storage and flood rights relating to the Project, and the operating and maintenance requirements of the Project consistent with good practice, the District agrees that it will during the term of the Original Power Sales Contracts maintain and operate the Project in consultation with the Purchaser as provided for in the Original Power Sales Contracts. It is the intent of the parties to the Original Power Sales Contracts that, subject to the requirements of the Original Power Sales Contracts, the District will operate and maintain the Project so as to produce the maximum power and energy, including reactive power, usable in and coordinated to the load requirements of the parties thereto and of all other purchasers of power and energy from the Project, and to the maximum feasible extent with the Northwest Power Pool, that the Project is capable of producing. The Original Power Sales Contract provide that, prior to the expiration of the license for the Project issued by the Federal Power Commission the District will apply for, and use and continue to use its best efforts to obtain, a new license or annual licenses authorizing it to maintain and operate the Project for a term which will not be less than the unexpired term of the Original Power Sales Contracts.

Power and Energy To Be Made Available To Purchasers—Scheduling

Beginning on the Date of Commercial Operation, the District agrees to make available to the Purchasers at the Point of Delivery power and energy from the Project in amounts (hereinafter referred to as "Purchaser's Share of Project Output") equal to the following percentages of the Project Output, less transmission and transformation losses between the Generator Bus and the Point of Delivery associated with such amounts for specified periods of time. For the period July 1, 1977 to the termination of the Original Power Sales Contracts, those percentages are as follows: Puget Sound Power & Light Company (56.8%, subject the provisions of the Original Power Sales Contract between Puget Sound Power and Light Company and the District); Aluminum Company of America (23.0%); Portland General Electric Company (12.0%); Pacific Power & Light Company (5.3%); and The Washington Water Power Company (2.9%). These percentages are referred to as "Purchaser's Allotment."

Pursuant to the Original Power Sales Contracts, the Purchasers will be entitled to the use of a share of the total usable pondage at the Project (hereinafter called "Purchaser's Allotment of Pondage"). Such share of the pondage will be determined by multiplying the total equivalent energy of such pondage by Purchaser's Allotment.

Replacement of Losses of Power and Energy at the Rock Island Project

The Original Power Sales Contracts provide that the Rocky Reach Project will replace to the District's Rock Island Project any losses of capacity and energy to the Rock Island Project and the Rock Island Project will deliver to the Rocky Reach Project any gains in energy to the Rock Island Project, that result from the installation and operation of the Additional Units. Losses will be deducted from and gains will be added to the Purchaser's Allotment in accordance with the manner in which the Purchaser's percentage share of the capacity resulting from the Additional Units is used.

Any losses and gains of energy at the Rock Island Project that will result from installation and operation of the Additional Units will be replaced or delivered simultaneously with their occurrence unless the parties agree to replacement or delivery at other times; provided, however, that delivery of any energy gains will not be required to be made at times or in a manner that will reduce the capability of the Rock Island Project to carry peak load.

Determination of the losses and gains will be made by the District using a method satisfactory to the District and the Purchasers. The method will be changed from time to time as changing conditions warrant, taking into account additions to or modifications of the Rock Island Project, changes in river regulation upstream of the Rocky Reach Project, operations required to meet the needs of navigation, and other relevant factors, provided that if all Purchasers and the District do not agree on any change in the method of determination, no change will be made except pursuant to arbitration as provided in the next paragraph.

The method of determining losses and gains (which includes determining whether or not changed conditions have resulted in losses or gains no longer occurring) may be reviewed at any time by the District and will be reviewed at any time by the District at the request of a Purchaser. If the District or any Purchaser is not in agreement as to the initial or any subsequent method of determination, the dispute will at the request of the District or any Purchaser be submitted to a board of arbitrators to be composed of three persons, one of whom will be appointed by the District, one of whom will be appointed by majority vote of the Purchasers, and the third person will be appointed by the two persons so appointed. In the event said two persons cannot agree to the appointment of such third person, such third person will be appointed by the Chief Justice of the Supreme Court of the State of Washington. The procedure for arbitration will be governed by the laws of the State of Washington. The decision by the Board of arbitrators will be binding on the parties and will be retroactive to the date when a request was made by the Purchaser for review of the method of determination or the date when the District initiated such review at its own election and gave written notice thereof to all Purchasers.

In the event that additions to or modifications of the Rock Island Project result in the raising of the maximum pool elevation at the Rock Island Project above elevation 608.0 feet, USGS datum, the Rock Island Project will replace any losses of power and energy to the Rocky Reach Project resulting therefrom.

Canadian Entitlement Allocation

The parties agree in the Original Power Sales Contracts that the right and obligations under the Original Power Sales Contracts are subject to the provisions of that certain instrument entitled "Canadian Entitlement Allocation Agreement" executed by the United States of America acting by and through the Bonneville Power Administrator and Public Utility District No. 1 of Chelan County, Washington (the Rocky Reach Project), as of the 13th day of August, 1964, the same being designated Contract No. 14 03-47451, and to all agreements between the District and the Purchasers with regard thereto.

Payments by Purchasers to the District

From and after the Date of Commercial Operation, each Purchaser agrees to pay to the District in annual amounts (adjusted for any changes in such Purchaser's Allotment during the year) in monthly installments for power and energy made available to the Purchasers under the Original Power Sales Contracts, which amounts will be equal to the District's costs associated with the ownership, operation and maintenance of and renewals and replacements to the Project multiplied by the Purchaser's Allotment. Such costs will include, but will not be limited to, the following items of cost incurred or paid by the District in connection with the Project, whether or not the Project is inoperable or the operation thereof is interrupted, suspended, or interfered with, in whole or in part, during the term of the Original Power Sales Contracts or during any portion of said term, to-wit:

(a) All expenses of the Project, less credits properly related thereto, chargeable to Operating Expense Accounts under the uniform System of Accounts for Public Utilities and Licensees, as the same are prescribed by the Federal Power Commission at the date of the execution of the Original Power Sales Contracts (hereinafter called the "Uniform System of Accounts"), except the expense described in subparagraph (e), below. The term "Operating Expense Accounts" will include renewals and replacements of "Minor Items of Property" as such term is used in the Uniform System of Accounts. Improvements and extensions to or any replacement of "Units of Property," as the latter term is used in the Uniform System of Accounts, will be charged to the Reserve and Contingency Fund;

(b) Governmental taxes, assessments, or other similar charges lawfully imposed upon or incurred by the District due to the District's ownership or operation of, or sale of power from, said Project, or voluntary payments in reasonable amounts in lieu of such taxes; and

(c) An amount equal to the amount required to pay:

(1) The principal of and interest on (to the extent that such interest is not paid from the Construction Fund), and premiums if any, which are required to be paid on the Rocky Reach Hydro-Electric System Revenue Bonds in accordance with the schedules of monies to be made available for bond retirement provided in the resolutions of the District authorizing the issuance of said bonds; provided, however, that the amount of principal of and interest on, and premiums, if any, required to be paid on the Series of 1968 Bonds will include only the amounts required to be paid during the term of the Original Power Sales Contracts in accordance with the resolution authorizing the Series of 1968 Bonds.

(2) Amortization of the indebtedness of the District to the Fiscal Agent of the District as the balance of the compensation of said Fiscal Agent for services rendered in connection with the development and financing of the Project;

(3) Amortization of the indebtedness of the District to the Attorney for the District as the balance of the compensation for legal services rendered in connection with the development and financing of the Project.

The indebtedness to be paid to the District's Fiscal Agent and Attorney, as described in subparagraphs (2) and (3) above, will not exceed thirty-five ten thousandths of the net proceeds, exclusive of accrued interest, received by the District from the sale of all revenue bonds issued by it to pay all the remaining costs incurred in connection with the financing, acquisition and construction of the Project, payable twenty-tight and three-quarters (28 3/4) ten thousandths thereof in 30 equal semi-annual installments, without interest to maturity, beginning on the tenth day of the seventh month following the month in which the Date of Commercial Operation occurs, and six and one-quarter (61/4) ten thousandths thereof in 10 equal semi-annual installments beginning six months from the maturity date of the 30th semi-annual installment above described. In the event a portion of the monies required to pay all of the estimated remaining costs of the financing, acquisition and construction of the Project is obtained by the District subsequent to the date of the Original Power Sales Contracts otherwise than as net proceeds received from the sale of revenue bonds issued by it, the monies so obtained will for the purpose of the provisions of the Original Power Sales Contracts described in this paragraph be considered the same as net proceeds received from the sale of revenue bonds issued by the District, but net proceeds received from the sale of revenue bonds thereafter issued by the District to repay the monies so obtained will not be considered as net proceeds received from the sale of revenue bonds issued by the District. The term "net proceeds" means the amount of money received by the District from such sales after deducting any amount representing accrued interest on the bonds so sold, and brokerage or placement fees payable to bankers for effecting such sales.

(d) An amount equal to:

(1) Fifteen percent (15%) of the payments described in subparagraph (1) of subparagraph (c), above, or, during periods when such 15% of such payments is insufficient to enable the District to make the payments into the Reserve and Contingency Fund pursuant to the provisions of Resolution No. 1412 and the Original Power Sales Contracts, such other sums as may be necessary to enable the District to make said payments; plus

(2) The amounts required, if any, during the term of the Original Power Sales Contracts for necessary renewals to and replacements of the Project which are in excess of the monies available in the Reserve and Contingency Fund together with any bond proceeds available for such purpose pursuant to the provisions of the Original Power Sales Contracts described below in "—Issuance of Additional Bonds" and the proceeds of any applicable insurance;

(3) Such additional amounts, if any, as will be mutually agreed upon between the parties to the Original Power Sales Contracts.

(e) Any cost of or reasonable accruals for payment of any assessments or agreed payments for benefits received by the District for the account of the Project from upstream storage or other headwater improvements on the Columbia River or its tributaries, of the nature provided for in Section 10(f) of the Federal Power Act as of the date of the Original Power Sales Contracts. Any accruals for the foregoing described purposes will be set aside into a "Contingent Operating and Maintenance Reserve Fund", and any such assessments or agreed payments will be charged against the Contingent Operating and Maintenance Reserve Fund to the extent of such accruals for the year involved; and provided, further, that the difference between the amount accrued and the amount of any such assessments for upstream benefits when actually determined by the Federal Power Commission, or its successor, or the amount of such agreed payment when made, will be accounted for, billed to and paid by or credited to the Purchasers, in the same manner and on the same basis that accounting, billing and payment would have been mailed therefor if such cost had been determined during the period in which such benefits were received.

The amounts payable by each Purchaser to the District as described in subparagraph (1) of subparagraph (c), above, will be paid in substantially equal monthly installments on or before the 20th day of each calendar month for such month as advance payments on account of the bills to be submitted by the District pursuant to the Original Purchase Agreements. Notwithstanding any provision of the Original Purchase Agreements, it is not intended that Purchasers assume any obligation or liability as guarantor, endorser, surety or otherwise, in respect to the securities issued or to be issued by the District.

Provided, that notwithstanding the provisions of the Original Power Sales Contracts described in this section, to the extent there are monies in the 1968 Construction Fund available therefore,

(1) The costs specified in described (a) and (b), above, with respect to any generating unit of the Additional Units prior to the date any such unit has been placed in or made available for normal continuous operation will be paid from such fund.

(2) Interest on the Series of 1968 Bonds to and including June 30, 1973 will be paid from such fund and no costs with respect to the Series of 1968 Bonds will be payable as described in subparagraph (d) during such period.

(3) In the event the Date of Commercial Operation of Additional Units occurs after July 1, 1973, a portion of the interest on the Series of 1968 Bonds will be paid from such fund, such portion to be determined by multiplying the total amount of such interest by a fraction the numerator of which will be the number of generating units of the Additional Units which have not been installed and placed in or made available for normal continuous operation and the denominator of which will be four. No costs with respect to the Series of 1968 Bonds will be payable under subparagraph (d) with respect to such portion of interest during the period such portion of interest is paid from said fund.

In the event there are not monies in the 1968 Construction Fund available for payment of the costs described in this paragraph, the District will issue additional bonds payable from the revenues of the Rocky Reach System to pay such costs, provided the District can then legally issue such bonds and that such bonds can be marketed. The District will take all reasonable steps to establish the legality of such bonds and to sell such bonds. Such bonds will be included in the definition of 'Rocky Reach Hydro-Electric System Revenue Bonds' for the purpose of determining the annual power costs of the District described above and the payments to be made by Purchasers to the District pursuant to the provisions of the Original Power Sales Contracts described in subparagraph (1) of subparagraph (c) and subparagraph (1) of subparagraph (d), above.

Issuance of Additional Bonds

The District agrees that, should the costs to the District in connection with any unusual loss or damage or major renewals of or replacements to the Project be in excess of the monies then in the Reserve and Contingency Fund and proceeds of insurance policies, if any, covering such loss or damage, the District will issue additional bonds payable from the revenues of the Project to pay that portion of such costs which exceeds the sum of (a) the proceeds of insurance policies, if any, and (b) the monies then in the Reserve and Contingency Fund in excess of $2,000,000; provided, the District can then legally issue such bonds and that such bonds can be marketed. The District will take all reasonable steps to establish the legality of and to sell such bonds. Any resolution authorizing the issuance of such bonds, or additional bonds for the acquisition or construction of additions and betterments to or extensions of the Project, will provide for annual payments into a special fund for the payment of the principal of, interest on, and premium if any, on said bonds over a period of time which will not be less than the estimated service life of the facilities to be acquired or constructed from the proceeds thereof, which annual payments will be as nearly equal as practicable in each year in which provision is made for the retirement of principal. Such bonds will be included in the definition of "Rocky Reach Hydro-Electric System Revenue Bonds" for the purpose of determining the annual power costs of the District described above and the payments to be made by Purchasers to the District pursuant to the Original Power Sales Contracts. See "—Payments by Purchasers to the District."

NOTE: As summarized, the Power Sales Contract with Alcoa does not contain the last sentence in the above paragraph, but does contain the following sentence:

Such bonds will be included in the definition of "Rocky Reach Hydro-Electric System Revenue Bonds" for the purpose of determining the annual power costs of the District described in "Payments by Purchasers to the District" and the payments to be made by Purchasers to the District pursuant to the Original Power Sales Contracts.

Project Revenues—Special Funds

Pursuant to the Original Power Sales Contracts, the District agrees that it will maintain the special funds created and established by Resolution No. 1412, which resolution authorized the Series of 1956 Bonds, and that like funds will be created and established by the resolution authorizing the Subsequent Series Bonds and the resolution authorizing the Series of 1968 Bonds (and any bonds issued to defray the cost of additions and betterments or major replacements to the Project that will be required to maintain it in good and efficient operating condition by reason of any unusual loss or damage to the Project for which funds are not available from the proceeds of insurance or from the Reserve and Contingency Fund), which funds and the purposes thereof are as follows:

Construction Fund

A Construction Fund for the Additional Units and a Construction Interest Account in said fund, into which fund there will be deposited all amounts received or collected on account of the Additional Units until the Date of Commercial Operation of Additional Units as proceeds of insurance or by reason of the default of any contractor, proceeds of salvage sales end, other miscellaneous income associated with the Additional Units, and the proceeds of sale of the Series of 1968 Bonds, except an amount of cash equal to the largest amount required to be paid or set aside in the Interest Account in the Bond Fund created for the payment of the Series of 1968 Bonds in any l2-month period from the date of such Series of 1968 Bonds to the final maturity date thereof.

Monies in the Construction Fund from time to time will be used only for the purpose of paying interest on the Series of 1968 Bonds to July 1, 1973 and thereafter to the extent provided in the Original Power Sales Contracts, and for paying or reimbursing payments made in connection with costs of construction of the Additional Units. Surplus monies remaining in the Construction Fund after paying or providing for the payment of the foregoing amounts will be paid into the Reserve Account in the Bond Fund for the Series of 1968 Bonds in addition to all other payments required to be paid therein;

Revenue Fund

A Revenue Fund into which will be placed initially $2,000,000 from the proceeds of sale of the Subsequent Series Bonds for working capital, and into which all income, revenues, receipts and profits derived by the District from the operation of the Project subsequent to the Date of Commercial Operation will be deposited, except as otherwise provided in the resolution authorizing the Series of 1968 Bonds.

Bond Funds

A Bond Fund for each series of said Bonds into which the District will transfer from the Construction Fund or from the Revenue Fund in substantially equal monthly installments the amounts required annually by such resolutions for the purpose of paying the principal of, interest on, and premium if any, on the Rocky Reach Hydro-Electric System Revenue Bonds in accordance with their terms, which will include:

(1) An Interest Account in each of the Bond Funds into which there will be paid in equal monthly installments the amount required to pay the interest on the Bonds semi-annually. During the period prior to the Date of Commercial Operation and for six months thereafter the interest on the Bonds will be paid out of the Construction Interest Account in the Construction Fund. Interest on the 1968 Bonds will be paid out of the Construction Interest Account in the Construction Fund for the Additional Units until July 1, 1973. In the event the Date of Commercial Operation of Additional Units occurs on or after July 1, 1973, interest on the 1968 Bonds will also be paid out of the Construction Fund for the Additional Units to the extent specified in the Original Power Sales Contracts.

(2) A Reserve Account in each of the Bond Funds for the Series of 1956 Bonds, the Subsequent Series Bonds, and each other series of bonds issued thereafter. There has been, or there will be, paid into the Reserve Account for each such series of bonds from the proceeds of sale of each such series an amount of cash equal to the largest amount of interest to be paid on such series of bonds, respectively, during any twelve-month period from the date of such series of bonds to the final maturity thereof. Such Reserve Accounts will thereafter be maintained at all times at said amounts by additional payments from the Revenue Fund as may become necessary as long as any of such Bonds or additional bonds are outstanding.

The Reserve Account in the Bond Fund for the Series of 1956 Bonds will be used for the purpose of making up any deficiencies in the Interest Account and the Bond Retirement Account in said Bond Fund, and the Reserve Account in the Bond Fund for the Subsequent Series Bonds will be used for the purpose of making up any deficiency in the Interest Account in said Bond Fund. The Reserve Account in the Bond Fund for the Series of 1968 Bonds will be used for the purpose of making up any deficiencies in the Interest Account in the said Bond Fund and the Bond Retirement Account in said Bond Fund.

Any monies in the Reserve Accounts in the Bond Funds in excess of the minimum amounts required to be maintained therein may, and when such excess monies amount to $100,000 or more will, be used at least semi-annually to retire Bonds by call for redemption, or for the purchase of Bonds at prices not exceeding the then applicable call price. During the period prior to the Date of Commercial Operation and for six months after said date, any excess monies in the Reserve Account will be transferred to the Construction Fund. During the period prior to the Date of Commercial Operation of Additional Units, any excess monies in the Reserve Account in the Bond Fund for the 1968 Bonds will be transferred to the Construction Fond for the Additional Units;

(3) Bond Retirement Accounts in the Bond Funds into which will be paid monthly the amounts specified in each of the aforesaid bond resolutions, which amounts will he used for the purpose of retiring Bonds by call for redemption or purchase as therein stated, and a Bond Retirement Account in the Bond Fund for the Series of 1968 Bonds into which will be paid monthly the amounts specified in the resolution authorizing the issuance of the Series of 1968 Bonds which amounts will be used for the purpose of retiring the Series of 1968 Bonds by call for redemption or purchase as therein stated.

Reserve and Contingency Fund

The Reserve and Contingency Fund into which there will be paid $66,666.67 per month beginning with the first month after the Date of Commercial Operation until the balance therein is equal to $8,000,000, and thereafter, and during the remainder of the term of the Original Power Sales Contracts, such amounts payable monthly as may be required to maintain said fund in that amount, such later payments, however, not to exceed the amount of the first monthly payment. After all of the Bonds are retired, any amounts in the Reserve and Contingency Fund in excess of $8,000,000 will be ratably applied to reduce the payments to be made by the Purchasers pursuant to the Original Power Sales Contracts.

The monies in the Reserve and Contingency Fund will be used for the following purposes: to make up any deficiency in the Bond Funds; to pay the cost of renewals and replacements to the Project; to pay the cost of additions to and extensions of the Project, excepting the cost of the additional facilities referred to in the Original Power Sales Contracts; and to pay extraordinary operation and maintenance costs in connection with the Project.

All monies in the Reserve and Contingency Fund in excess of $8,000,000 will be used for retiring Rocky Reach Hydro-Electric System Revenue Bonds in the manner provided in the resolutions authorizing the issuance of said Bonds, at least annually.

Should any amount remain in any of the funds established in connection with the Project, including working capital and all reserves, in excess of outstanding obligations against such funds at the expiration of the Original Power Sales Contracts, there will be refunded to the Purchasers, as excess payment for power and energy theretofore purchased based on their percentage share.

Increase of Purchaser's Allotment

In the event of a Default (as hereinafter defined) by any of the other Purchasers, the Purchaser's Allotment at that time will be automatically increased, which increase will be effective for the remaining term of the Original Power Sales Contracts, pro rata with that of the other Purchasers, but the cumulative total of all such increases on account of Defaults will never exceed 25% of the Purchaser's Allotment immediately prior to such Default (excluding from the Purchaser's Allotment for this purpose any increases made therein under this heading).

NOTE: As summarized, the Power Sales Contract with Puget contains the following special provision: "provided, however, that the Purchaser's Allotment including the cumulative total of all such increases and all increases made pursuant to any other provision of the Original Power Sales Contracts will never exceed 56.8% of the Project Output."

For the purposes of the provisions of the Original Power Sales Contracts described in this section, the District will be considered a Purchaser and its Purchase Allotment at the time of Default will be equal to that percentage of the Project Output which remains after deducting the total of the percentages representing all other Purchaser's Allotment at the time of Default, from the Project Output.

The term "Default" as used herein means the failure by any one of the Purchasers to make the payments specified in the Original Power Sales Contracts and contemporaneously with said failure to make payments there shall exist, with respect to one of the Purchasers, any one or more of the following conditions:

(a) An order, judgment or decree shall be entered by any court of competent jurisdiction

(1) Appointing a receiver, trustee or liquidator for any of the Purchasers or the whole or any substantial part of the properties of any of the Purchasers;

(2) Approving a petition filed against any of the Purchasers under the provisions of Act to Establish a Uniform System of Bankruptcy Throughout the United States, Approved July 1, 1898, as amended;

(3) Granting relief to any of the Purchasers under an amendment to said Bankruptcy Act which shall give relief similar to that afforded by said Act; or

(4) Assuming custody or control of the whole or any substantial part of any of the Purchaser's properties under the provisions of any other law for the relief or aid of debtors:

and such order, judgment or decree shall not be vacated or set aside or stayed (or, in case custody or control is assumed by said order, such custody or control shall not otherwise be terminated), within 60 days from the date of the entry of such order, judgment or decree.

(b) Any of the Purchasers shall:

(1) Admit in writing its inability to pay its debts generally as they become due;

(2) File a petition in bankruptcy;

(3) Make an assignment for the benefit of its creditors;

(4) Consent to the appointment of a receiver of the whole or any substantial part of it properties;

(5) Be adjudicated a bankrupt on the basis of a petition in bankruptcy filed against it

(6) File a petition or an answer seeking relief under any amendment to said Bankruptcy Act which shall afford relief substantially similar to that afforded by said Act; or

(7) Consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of any of the Purchasers or of the whole or any substantial part of its properties;

provided, that if prior to an imminent default by any of the Purchasers it shall demonstrate to the satisfaction of the District and the other Purchasers receiving in the aggregate at least two-thirds (2/3) of the balance of the Project Output its inability to pay for its Purchaser's Allotment and its ability to pay for a smaller Purchaser's Allotment, then it shall be allowed to thereafter take such smaller Purchaser's Allotment and shall be thereafter liable for the same in the same manner as for its Purchaser's Allotment prior thereto; and, in such event, the automatic increase in the Purchaser's Allotment as above provided shall apply only to the difference between the prior Purchaser's Allotment and such lesser Purchaser's Allotment of that one of the Purchasers threatened with default.

(c) If any of the other Purchasers defaults, and the Purchaser's Allotment is automatically increased in accordance with the provisions of the Original Power Sales Contracts described in this section, the Purchaser either individually or as a member of a group shall have a right of recovery from that one of the Purchasers in default for such amount as the Purchaser may sustain as a loss or damage by reason of such default and may commence such suit, action or proceeding as may be necessary or appropriate to recover the amount of said loss or damage.

Accounting

The District will cause proper books of account to be kept for the District showing as a separate utility system the accounts of the Project and in accordance with the rules and regulations prescribed by any governmental agency authorized to prescribe such rules, including the Division of Municipal Corporations of the State Auditor's Office of the State of Washington, or other State department or agency succeeding to such duties of the State Auditor's Office, and in accordance with the Uniform System of Accounts prescribed by the Federal Power Commission or other Federal agency having jurisdiction over electric public utility companies owning and operating properties similar to the electric properties operated by the District, whether or not the District is required by law to use such system of accounts, and all such accounting records will be available for inspection and utilization by the duly authorized representatives of the Purchasers at all reasonable times. The District will supply monthly to the Purchasers such reports of the operation and maintenance of the Project as the Purchasers may from time to time reasonably request. The District will cause such books of account to be audited by independent certified public accountants, experienced in electric utility accounting and of national reputation, to be employed by the District. The audits to be made by such certified public accountants, as above mentioned, will be made annually and will cover each calendar year during the term of the Original Power Sales Contracts, beginning with the year in which the Date of Commercial Operation occurs, and will be completed within 120 days following the end of each such calendar year. A copy of each such annual audit, including any recommendations of the accountants with respect thereto, will be made available by the District to the Purchasers.

Operation and Maintenance of the Project

Pursuant to the Original Power Sales Contracts, the District will maintain the Project in good operating condition at all times except to the extent prevented by Uncontrollable Forces and will make renewals and replacements thereof, as needed. In the event of any failure of or damage whatsoever to facilities of the Project, or any reduction in the delivery of power and energy therefrom for any cause whatsoever, the District agrees that it will, with due diligence, expedite the repair or replacement of said facilities or remedy the condition causing such reduction to the end that the delivery of power and energy as required by the Original Power Sales Contracts will be re-established as soon as reasonably possible. When requested by the Purchasers and to the extent reasonable to do so under all of the circumstances, the District will also use its best efforts to obtain the necessary replacement power and energy at the lowest possible cost for so long a period of time as any deficiency exists for the causes stated is this section. The cost of such replacement power and energy will be paid by the Purchasers in addition to all other costs to be paid by the Purchasers in accordance with the other provisions of the Original Power Sales Contracts.

The District will operate and maintain the Project in an efficient, economical and workmanlike manner and consistent with good business and operating practices followed by other electric utilities in the Pacific Northwest. The costs of operation and maintenance will at all times be reasonable and consistent with the costs of operation and maintenance of similar electric facilities by public and private agencies in the Pacific Northwest.

Authorized representatives of the Purchasers will have reasonable access to the entire Project for the purpose of inspection, and all books and records pertaining to the operation and maintenance of the Project will be made available to the Purchasers by the District at all reasonable times for inspection and utilization.

Maintenance, repairs, renewals and replacements will be scheduled and performed by the District with the intent of obtaining the optimum operation of the Project as required to meet the respective requirements of all purchasers of power and energy from the Project, and will be performed at all times in a prudent and economical manner.

The parties to the Original Power Sales Contracts agree to cooperate on matters relating to operation, maintenance and repair of the Project and the power resources of the Purchasers, as such matters relate to said operation and maintenance of the Project in coordination with the operation and maintenance of the power resources of the Purchasers and other interconnected generating systems, to assure continued maximum production of usable power and energy in the most efficient manner from the Project with the reservoir, generating and transmission facilities and water available at the generating stations of the parties.

The Original Power Sales Contracts provide that the District will not voluntarily sell or otherwise dispose of the Project or any portion thereof so as to impair the obligation of the District to make available to Purchasers Purchaser's Share of Project Output under the Original Power Sales Contracts or perform any act that would adversely affect the rights of the Purchasers under the Original Power Sales Contracts.

Insurance

The District agrees promptly to take all necessary steps to procure at the earliest practicable time and thereafter to maintain in effect at all times, insofar as reasonably possible to do so, adequate insurance with responsible insurers under policies with losses payable to the District for the benefit of the District and the Purchasers as their respective interests may appear, to protect and insure against:

(a) Employer's liability to the extent not covered by the Workmen's Compensation Act of the State of Washington. The District will comply with the provisions of the Workmen's Compensation Act of the State of Washington;

(b) Public liability of the District for bodily injury and property damage;

(c) Physical damage due to fire;

(d) All risks of physical damage to property and equipment during transportation and installation;

(e) All risks of physical damage and loss in excess of an appropriate deductible amount, arising from perils not covered by the above insurance to the extent available at reasonable cost;

(f) Other risks as deemed necessary.

To the extent not covered by the foregoing insurance, the District agrees to procure and keep in effect at all times such policies of insurance, and in such amounts, as will be required by the terms of the bond resolutions authorizing the issuance of Rocky Reach Hydro-Electric System Revenue Bonds.

District's Bond Resolution and License

The parties to the Original Power Sales Contracts recognize that the District in its operation of the Project and in the delivery of the power thereunder to the Purchasers, must comply with the requirements of the resolutions authorizing the issuance of the Rocky Reach Hydro-Electric System Revenue Bonds and with the license for the construction and operation of the Project as issued by the Federal Power Commission and amendments thereof from time to time made and the parties therefore accordingly agree in the Original Power Sales Contracts that the Original Power Sales Contracts are made subject to the terms and provisions of said resolutions and license. The District will not, without the written consent of the Purchasers, amend, modify or otherwise change said resolutions or apply for or consent to an amendment, modification or change of said license if such amendment, modification or change would be to the disadvantage of the Purchasers.

Liability of Parties

The District and the Purchasers each assume full responsibility and liability for the maintenance and operation of its respective properties and will indemnify and save harmless the other party from all liability and expense on account of any and all damages, claims or actions, including injury to or death of persons, arising from any act or accident in connection with the installation, presence, maintenance, and operation of the property and equipment of the indemnifying party; provided, that any liability which is incurred by the District through the operation and maintenance of the Project and not covered by insurance will he paid solely from the revenue of the said Project, and any payments made by the District to satisfy such liability will become part of the annual power costs as described above in "Payments by Purchasers to the District."

At all times that the District is taking a percentage of the Project Output it will have all of the rights and obligations of a Purchaser under the Original Power Sales Contracts, except those expressly excluded for the District. The percentage of the Project Output taken by the District at any time will be deemed to be that percentage of the Project Output which remains at that time after deducting the total of the percentages representing all other Purchasers' Allotments.

Waiver of Default

Any waiver at any time by either party to an Original Power Sales Contract of its rights with respect to the other party or with respect to any other matters arising in connection with the Original Power Sales Contracts will not be considered a waiver with respect to any subsequent default or matter.

Additional Provisions of the Original Power Sales Contract with Alcoa

As summarized, the Original Power Sales Contract with Alcoa contains the following provisions that differ from the provisions of other Original Power Sales Contracts:

Power and Energy To Be Made Available To Purchaser—Scheduling and Use

Beginning on the Date of Commercial Operation, the District agrees to make available to the Purchaser at the Point of Delivery designated in the Original Power Sales Contract power and energy from the Project in amounts (hereinafter referred to as "Purchaser's Share of Project Output") equal to 23% of the Project Output, less transmission and transformation losses between the Generator Bus and the Point of Delivery associated with such amounts. The foregoing percentage is referred to as "Purchaser's Allotment."

The Purchaser will be entitled to the use of a share of the total usable pondage at the Project (hereinafter called "Purchaser's Allotment of Pondage"). Such share of the pondage will be determined by multiplying the total equivalent energy of such pondage by Purchaser's Allotment. The District will establish a pondage account for the Purchaser in an initial amount equal to the Purchaser's Allotment of Pondage.

A base schedule will be prepared, determined from the probable inflow water supply to the Project for that day, not including pondage;

The amount of the Purchaser's Share of Project Output which can be advantageously utilized in the Purchaser's Wenatchee Works in Chelan County, Washington, as such Works are presently constituted, is 90,000 average kilowatts of firm power and 20,000 average kilowatts of secondary power when available. Such amounts of power are hereinafter referred to as "Purchaser's Usable Share of Project Output."

It is agreed that it is of the essence of the Original Power Sales Contract that the Purchaser's Usable Share of Project Output will be used by Purchaser in its Wenatchee Works, in Chelan County, Washington, except when the operation of said Wenatchee Works is suspended or curtailed because of Uncontrollable Forces or adverse conditions affecting the Purchaser's aluminum business. It is agreed that the Purchaser's Usable Share of Project Output will not be scheduled for use or used by Purchaser other than in Purchaser's Wenatchee Works for a period longer than three (3) years without the written consent of the District, except in the event of such suspension or curtailment because of Uncontrollable Forces.

To the extent Purchaser does not schedule for use or use in its operations the full amount of Purchaser's Share of Project Output or the full amount of Purchaser's Allotment of Pondage, all of which unused or unscheduled power, energy, or reactive capacity in Purchaser's Share of Project Output, or all of which unused or unscheduled pondage in Purchaser's Allotment of Pondage are hereinafter collectively referred to as "Purchaser's Surplus," the District will make all reasonable effort to dispose of such Purchaser's Surplus by use thereof in its own operations or by sale for the District's account to third parties, in either case on terms and conditions which will yield the maximum net income. Prior to making use or sale of such Purchaser's Surplus the District will inform Purchaser as far in advance as practicable of the terms and conditions of such proposed use or sale, and in the event Purchaser objects to any term or condition thereof, the District and Purchaser will consult with each other in an effort to reach agreement with respect to the terms and conditions of such proposed use or sale. In the event agreement between Purchaser and District as to the terms or conditions of such use or sale is not so reached and the proposed use or sale of such power and energy is for a term not more than three (3) years, the terms and conditions of such use or sale will be submitted to arbitration by a board of arbitrators in a manner provided in the Original Power Sales Contract. In the event the proposed use or sale of such power and energy is for a term of more than three (3) years, the terms and conditions of such sale or use will not become effective without approval by the Purchaser; provided, however, such approval will not be unreasonably withheld, and it is understood and agreed that insofar as such contracts yield an amount equal to the maximum net income obtainable for such power and energy, preference and priority will be accorded to contracts providing for the sale or use of such power and energy in Chelan County, Washington.

The District, at Purchaser's request, will enter into storage and/or exchange agreements to the extent it can reasonably do so, for the purpose of increasing Purchaser's Usable Share of Project Output.

Payments by Purchaser to the District

From and after the Date of Commercial Operation, the Purchaser agrees to pay to the District annual amounts in monthly installments for power and energy made available to the Purchaser under the Original Power Sales Contract equal to the aggregate of the following amounts:

A. The District's costs associated with the ownership, operation and maintenance of and renewals and replacements to the Project multiplied by the Purchaser's Allotment. Such costs will include, but will not be limited to, the following items of cost incurred or paid by the District in connection with the Project, whether or not the Project is inoperable or the operation thereof is interrupted, suspended, or interfered with, in whole or in part, during the term of the Original Power Sales Contract or during any portion of said term, to-wit:

(a) All expenses of the Project, less credits properly related thereto, chargeable to Operating Expense Accounts under the Uniform System of Accounts for Public Utilities and Licensees, as the same are prescribed by the Federal Power Commission at the date of the execution of the Original Power Sales Contract (hereinafter called the "Uniform System of Accounts"), except the expense described in subparagraph (e), below. The term "Operating Expense Accounts" will include renewals and replacements of "Minor Items of Property" as such term is used in the Uniform System of Accounts. Improvements and extensions to or any replacement of "Units of Property", as the latter term is used in the Uniform System of Accounts, will be charged to the Reserve and Contingency Fund;

(b) Governmental taxes, assessments, or other similar charges lawfully imposed upon or incurred by the District due to the District's ownership or operation of, or sale of power from, said Project, or voluntary payments in reasonable amounts in lieu of such taxes; and

(c) An amount equal to the amount required to pay:

(1) The principal of and interest on (to the extent that such interest is not paid from the Construction Fund), and premiums if any, which are required to be paid on the Rocky Reach Hydro-Electric System Revenue Bonds in accordance with the schedules of monies to be made available for bond retirement provided in the resolutions of the District authorizing the issuance of said bonds;

(2) Amortization of the indebtedness of the District to the Fiscal Agent of the District as the balance of the compensation of said Fiscal Agent for services rendered in connection with the development and financing of the Project;

(3) Amortization of the indebtedness of the District to the Attorney for the District as the balance of the compensation for legal services rendered in connection with the development and financing of the Project.

The indebtedness to be paid to the District's Fiscal Agent and Attorney, as described in subparagraphs (2) and (3) above, will not exceed thirty-five ten-thousandths of the net proceeds, exclusive of accrued interest, received by the District from the sale of all revenue bonds issued by it to pay all of the remaining costs incurred in connection with the financing, acquisition and construction of the Project, payable twenty-eight and three-quarters (283/4) ten-thousandths thereof in 30 equal semi-annual installments, without interest to maturity, beginning on the tenth day of the seventh month following the month in which the Date of Commercial Operation occurs, and six and one-quarter (6¼) ten-thousandths thereof in 10 equal semi-annual installments beginning six months from the maturity date of the 30th semi-annual installment above described. In the event a portion of the monies required to pay all of the estimated remaining costs of the financing, acquisition and construction of the Project obtained by the District subsequent to the date of the Original Power Sales Contract otherwise than as net proceeds received from the sale of revenue bonds issued by it, the monies so obtained will for the purpose of this paragraph be considered the same as net proceeds received from the sale of revenue bonds issued by the District, but net proceeds received from the sale of revenue bonds thereafter issued by the District to repay the monies so obtained will not be considered as net proceeds received from the sale of revenue bonds issued by the District.

The term "net proceeds" as used in this subparagraph (c) means the amount of money received by the District from such sales after deducting any amount representing accrued interest on the bonds so sold, and brokerage or placement fees payable to bankers for effecting such sales.

(d) An amount equal to:

(1) Fifteen percent (15%) of the payments described in subparagraph (1) of subparagraph (c), above, or, during periods when such 15% of such payments is insufficient to enable the District to make the payments into the Reserve and Contingency Fund pursuant to the provisions of Resolution No. 1412 and the provisions of the Original Power Sales Contract described in "Project Revenues—Special Funds—Reserve and Contingency Fund," such other sums as may be necessary to enable the District to make said payments; plus

(2) The amounts required, if any, during the term of the Original Power Sales Contract for necessary renewals to and replacements of the Project which are in excess of the monies available in the Reserve and Contingency Fund together with any bond proceeds available for such purpose pursuant to the provisions of the Original Power Sales Contracts described in "Issuance of Additional Bonds" and the proceeds of any applicable insurance;

(3) Such additional amounts, if any, as will be mutually agreed upon between the parties hereto.

(e) Any cost of or reasonable accruals for payment of any assessments or agreed payments for benefits received by the District for the account of the Project from upstream storage or other headwater improvements on the Columbia River or its tributaries, of the nature provided for in Section 10(f) of the Federal Power Act as of the date of the Original Power Sales Contracts. Any accruals for the foregoing purposes will be set aside into a "Contingent Operating and Maintenance Reserve Fund", and any such assessments or agreed payments will be charged against the Contingent Operating and Maintenance Reserve Fund to the extent of such accruals for the year involved; and provided, further, that the difference between the amount accrued and the amount of any such assessments for upstream benefits when actually determined by the Federal Power Commission, or its successor, or the amount of such agreed payment when made, will be accounted for, billed to and paid by or credited to the Purchaser, in the same manner and on the same basis that accounting, billing and payment would have been made therefor if such cost had been determined during the period in which such benefits were received.

From the aggregate of the foregoing amounts there will be deducted any credits (not deducted pursuant to the provisions of the Original Power Sales Contract described in subparagraph (a), above, by reason of the receipt of any revenues and other income derived from sources other than the direct sale of power from the Project, excluding from such credits revenues from investment of monies in the Reserve Account in the Bond Funds created and to be created by the resolutions of the District authorizing the Rocky Reach Hydro-Electric System Revenue Bonds and in the Reserve and Contingency Fund created by Resolution No. 1412 of the District and in the Construction Fund created by Resolution No. 1412. The revenues so derived from the investment of monies in said Funds will accrue to said respective Funds. If the amounts described in subparagraph (b), above, result in a cost to the Project exceeding that which would otherwise result if all of the Project Output were sold to public utility customers for resale, any such excess will be collected from the Purchaser and other customers of the District that purchase Project Output, the sale to which results in such excess, and the amounts so collected will constitute a credit under the Original Power Sales Contracts.

B. An amount equal to that part of the credit applicable to the District's sale of Project Output to Purchaser.

The amounts payable by the Purchaser to the District pursuant to the provisions of the Original Power Sales Contract described in subparagraph (1) of subparagraph (c), above, will not commence until the first calendar month in which the interest on the Bonds referred to in said subparagraph is not payable from the Construction Fund to be created by resolution of the District authorizing the issuance of said bonds; and will be paid in substantially equal monthly installments on or before the 20th day of each calendar month for such month as advance payments on account of the bills to be submitted by the District pursuant to the Original Power Sales Contracts. Notwithstanding any provision of the Original Power Sales Contract, it is not intended that Purchaser by the Original Power Sales Contract assumes any obligation or liability as guarantor, endorser, surety or otherwise, in respect to the securities issued or to be issued by the District.

During the Project's Initial Operating Period Purchaser will pay the District monthly for the power and energy made available under this heading hereof at the rate of $30.50 per year per kilowatt of Purchaser's Contract Demand.

In addition to the foregoing payments to be made by the Purchaser to the District with respect to the Project, the Purchaser will pay all costs and expenses incurred by the District (and not included in the payments described in paragraphs A and B under this heading) in connection with the sale or use of Purchaser's Surplus and in connection with storage or exchange agreements as provided for in the Original Power Sales Contract.

The District will credit to the amount to be paid by Purchaser to District each month under the Original Power Sales Contract the amount equal to the sum of all amounts received and collected by the District from sale of, or payable by District for use of, Purchaser's Surplus up to the full amount of payment to be made to District by Purchaser during the said month under the Original Power Sales Contract. The District will pay Purchaser an amount equal to any amounts received and collected by District from sale of, or payable by District for use of, Purchaser's Surplus in any month in excess of the full amount of payment to be made to District by Purchaser in the same month under the Original Power Sales Contract. District agrees to make all reasonable effort to make prompt collection of amounts due on account of the sale of Purchaser's Surplus.

Increase of Purchaser's Allotment

In the event of a Default by any of the other Purchasers, the Purchaser's Allotment at that time will be automatically increased, which increase will be effective for the remaining term of the Original Power Sales Contracts, pro rata with that of the other Purchasers, but the cumulative total of all such increases on account of Defaults will never exceed 25% of the Purchaser's Allotment on the Date of Commercial Operation. For the purposes of the provisions of the Original Power Sales Contract described in this paragraph and above in "Increase of Purchaser's Allotment," the District will be considered a Purchaser and its Purchaser's Allotment at the time of Default will be equal to that percentage of the Project Output which remains after deducting the total of the percentages representing all other Purchaser's Allotments, at the time of Default, from the Project Output.

Establishment of Rates for Power and Energy Sold by the District

The District agrees to establish, maintain and collect rates or charges for all power and energy sold by it which will be fair and nondiscriminatory, and it is the intent of the parties to the Original Power Sales Contract that the charges made to the Purchaser for power and energy made available by the District to the Purchaser pursuant to the Original Power Sales Contract will not be substantially higher than rates or charges made by the District subsequent to the date of the Original Power Sales Contract for any power sold to other industrial customers of the District, taking into consideration the factors and conditions specified in the Original Power Sales Contract

In order to effectuate the intent described above, the District, in contracting for the sale of a block of power in excess of 10,000 kilowatts and associated energy to an industrial customer at rates or charges less than the rates or charges reasonably estimated by the District to be paid by the Purchaser under the Original Power Sales Contract during the period such block of power and energy is to be contracted, will exchange an appropriate amount of such lower priced power and energy with the Purchaser for an equal amount of power and energy to be made available by the District to the Purchaser from the Project pursuant to the Original Power Sales Contract, and will sell such exchanged power and energy from the Project for the account of the Purchaser and at appropriate price and pay the proceeds of such sale to the Purchaser so that as a result the rates and charges as reasonably estimated by the District to be paid by the Purchaser pursuant to the Original Power Sales Contract during the same period, less the amount of such proceeds paid to the Purchaser, will not be higher than the rates and charges reasonably estimated by the District to be paid by such industrial customer for power and energy, taking into consideration the factors and conditions hereinafter specified. In so determining whether the estimated rates or charges to such industrial customer are less than the estimated rates or charges to the Purchaser pursuant to the Original Power Sale Contracts, the District will take into consideration the term of contract, grade and quality of power and energy, characteristics of load, peak demands and energy requirements, power factor, time factor affecting power and energy, and other conditions relating to the sale and delivery of such power and energy to such industrial customer and to the Purchaser, but will disregard the source and/or cost of such power and energy; provided, however, the foregoing factors and conditions will be taken into consideration only to the extent they affect rates or charges as determined by applying principles and criteria recognized or in use by public or private utilities in the Pacific Northwest.

The above will not apply to resale of power and energy purchased by the District from the Bonneville Power Administration, its successors or assigns.

It is expressly understood and agreed that notwithstanding any of the provisions of the Original Power Sales Contract described in this section to the contrary, the payments provided to be paid by the Purchaser to the District pursuant to the provisions of the Original Power Sales Contract will not be reduced.

Operation and Expansion of Wenatchee Works

Sale of power and energy to the Purchaser by the District will, along with other purchases of power and energy by the Purchaser, provide the Purchaser's aluminum smelting operations in the State of Washington with a substantially complete dependable supply of power and energy. In consideration of the foregoing, the Purchaser agrees:

(a) To utilize power and energy made available to the Purchaser by Bonneville to maintain operation of the Purchaser's Wenatchee Works at the maximum extent economically practicable, it being understood the Purchaser must conduct its operations in an economic manner.

(b) To consider its Wenatchee Works in a prior position compared to other works of the Purchaser in future plant expansion or additions taking into consideration (i) the availability on an economic basis of the power and energy required for such plant expansion or addition whether from the District, Bonneville and/or other sources, and (ii) all other economic factors relating to any such plant expansion or addition.

Accounting

The District will maintain books of account and other records in such manner, and will supply such reports to the Purchaser as the Purchaser may reasonably request, as will show the amount of power, energy and pondage from the Project to which the Purchaser would have been entitled, and as will show the payments for which the Purchaser would have been obligated, had the Purchaser not exercised the option under "Installation of Additional Units" of the Original Power Sales Contract to purchase a share of the power and energy to be available from the Additional Units.

Additional Provisions of the Original Power Sales Contract with Puget

As summarized, the Original Power Sales Contract with Puget contains the following provision that differs from the provisions of other Original Power Sales Contracts:

Power and Energy to be Made Available to Purchaser—Scheduling

Beginning on the Date of Commercial Operation and thereafter for the duration of the Original Power Sales Contract, the District agrees to make available to the Purchaser at the Point of Delivery designated in therein, power and energy from the Project in an amount equal to 50% of the Project Output, less transmission and transformation losses between the Generator Bus and the Point of Delivery associated with such amount; provided, that the District may, upon giving Purchaser at least three (3) years' prior written notice of any withdrawal, withdraw from the Purchaser percentages of the Project Output up to an aggregate of 11.1% of the Project Output for ultimate utilization in Chelan and Douglas Counties, but in no event will any notice of withdrawal be given before the Date of Commercial Operation.

The District agrees to make available to the Purchaser and the Purchaser agrees to take from the District, in addition to the power and energy made available as provided in the preceding paragraph, power and energy in amounts up to the following additional percentages of Project Output, less transmission and transformation losses between the Generator Bus and the Point of Delivery associated with such amounts, which the District does not retain for ultimate utilization in Chelan and Douglas Counties, for the periods of time set opposite each percentage, to-wit: 2.2% July 1, 1967 to the termination of the Original Power Sales Contract, plus an additional 2.4% July 1, 1972 to the termination of the Original Power Sales Contract, plus an additional 2.2% July 1, 1977 to the termination of the Original Power Sales Contract, provided, that the District, at least two (2) years prior to the beginning of each such period, will have given the Purchaser written notice as to the percentage, up to the maximum of each of the foregoing amounts, to be made available to the Purchaser. The District reserves the right to withdraw for ultimate utilization in Chelan and Douglas Counties the additional percentages of Project Output made available to the Purchaser pursuant to the provisions of this paragraph on three (3) years' advance written notice; provided, however, that no such notice for the withdrawal of any such additional percentages will be given until two (2) years after the beginning of any period in which the additional percentage applies.

The foregoing amounts of power and energy made available to the Purchaser pursuant to the provisions of the Original Power Sales Contract described in the preceding paragraphs, and the corresponding related percentages of the Project Output, are hereinafter referred to as the "Purchaser's Share of Project Output" and the "Purchaser's Allotment," respectively.

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APPENDIX F— SUMMARY OF NEW POWER SALES CONTRACT WITH PUGET SOUND ENERGY, INC.

The following is a summary of certain provisions of the New Power Sales Contract with Puget Sound Energy, Inc. This summary does not purport to be complete and is qualified in its entirety by reference to the foregoing document for a complete statement of the provisions of such document.

DEFINITIONS

"Adequate Assurance" means assurances of continued performance by the Purchaser of its obligations under the New Power Sales Contract, in each case reasonably acceptable to the District.

"Affiliate" means, with respect to any Person, any other Person (other than an individual) that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such Person. For this purpose, "control" means the direct or indirect ownership of fifty percent (50%) or more of the outstanding capital stock or other equity interests having ordinary voting power.

"Approval Date" means the date FERC approves the New Power Sales Contract.

"Assumed Debt Service" means:

(i) with respect to any Debt Obligation issued after the Signing Date and before the first Project Availability Date, the amount for each applicable Contract Year calculated as of the date of issuance or incurrence thereof, that would be sufficient to fully amortize the original stated principal amount thereof, together with interest thereon at the Index Rate (using semi-annual compounding and a year of 360 days), for such Debt Obligation, on an annual level debt service basis over an amortization period commencing on the In Service Date of the Capital Improvements expected to be financed from the proceeds of such Debt Obligation and ending on the last day of such Capital Improvements' Average Service Life.

(ii) with respect to any Debt Obligation issued on or after the first Project Availability Date, the amount for each applicable Contract Year calculated as of the issuance or incurrence thereof, that would be sufficient to fully amortize the original stated principal amount thereof, together with interest thereon at the Index Rate (using semi-annual compounding and a year of 360 days) for such Debt Obligation on an annual level debt service basis over an amortization period commencing on the date of issuance or incurrence of such Debt Obligation and ending on the Deemed Maturity thereof.

"Average Service Life" means, with respect to any Debt Obligation issued after the Signing Date, the estimated weighted average economic service life of the Capital Improvements that the District expects to finance from proceeds of such Debt Obligations issued or incurred after the Signing Date, as determined by the District on or as of the date of the issuance or incurrence thereof. For purposes of the foregoing, land will be deemed to have a weighted average economic service life of 25 years.

"Biological Opinion" means any opinion issued by a Government Authority authorized to do so under the Endangered Species Act ("ESA") that reviews and assesses whether the operating plan submitted by BPA, the U.S. Army Corps of Engineers and the Bureau of Reclamation will jeopardize the survival of any creature or creatures that have been determined to be threatened or endangered pursuant to the ESA.

"Black Start Capability" means the ability of generators to self-start without any source of off-site electric power and maintain adequate voltage and frequency while energizing isolated transmission facilities and auxiliary loads of other generators.

"Canadian Entitlement" means the amount of energy and capacity that Rocky Reach and Rock Island are obligated to return to BPA in its capacity as the US Entity for the account of the Canadian government to fulfill obligations under the US-Canadian Columbia River Treaty of 1964.

"Capacity" means the generation potential of the Chelan Power System as adjusted for limitations and obligations in accordance with the provisions described in "THE NEW POWER SALES CONTRACT—Output and Scheduling" below.

"Chelan Power System" means, collectively, Rocky Reach and Rock Island, in each case as each such Project exists as of its respective Project Availability Date. The Chelan Power System will also include any expansion of the generating capacity of the existing Projects after their respective Project Availability Dates, including efficiency improvements and upgrades that become a part of the respective Project, but will not include any other power generation, transmission or distribution assets or rights, owned by the District as of the Effective Date or acquired by the District thereafter.

"Chelan Power System Output" includes adjustments for the following:

1. Canadian Entitlement
2. MCHC
3. PNCA
4. HCP
5. Biological Opinion
6. Hanford Reach Fall Chinook Protection Program
7. Immediate Spill Replacement

"Chelan Transmission System" means the District's electric facilities, whether owned or leased, that are operated at voltages in excess of 100,000 volts, including all associated system protection and control facilities, and any other facilities, including land and access roads that may be classified as "transmission facilities" pursuant to the FERC Uniform System of Accounts. The Chelan Transmission System does not include (i) Project Transmission Facilities; (ii) any transmission facility, substation, or related equipment constructed and operated by the District for the sole use or benefit of a single customer pursuant to a written agreement between the District and that customer ("Direct Assignment Facility"); or (iii) any transmission facility or generator-interconnection facility constructed or acquired by the District after the Signing Date for the exclusive purpose of the District receiving power from a new power resource unrelated to the Chelan Power System.

"Contract Year" means the period commencing on the first Project Availability Date and ending on the next succeeding December 31, and each 12-month period thereafter, except for the 12-month period during which the expiration or termination date of the Agreement occurs, in which case the Contract Year means the period commencing on January 1 of such year and ending on such expiration or termination date.

"Coverage Amount" means the sum, as of the date of calculation, of (i) with respect to Debt Obligations outstanding on the Signing Date and identified in the New Power Sales Contract, an amount equal to fifteen percent (15%) of the maximum estimated aggregate amount of the Financing Costs described in "THE NEW POWER SALES CONTRACT—Determination of Chelan Power System Net Costs" below that will be payable in any Contract Year during the Term, as determined by the District as of the Signing Date for all Debt Obligations then outstanding, and (ii) with respect to all Debt Obligations issued after the Signing Date, an amount equal to fifteen percent (15%) of the maximum estimated aggregate amount (each amount included in such aggregate amount to be as determined by the District as of the date of issuance or incurrence of the applicable Debt Obligation) of Financing Costs with respect to such Debt Obligations as described in "THE NEW POWER SALES CONTRACT—Determination of Chelan Power System Net Costs" below, that will be payable in any Contract Year during the Term.

"Cross Default Amount" means, with respect to the Purchaser, two and one-half percent (2½%) of the Purchaser's then current market capitalization (based on its share prices as quoted in the Wall Street Journal the Business Day prior to the date of calculation) and, with respect to the District, $50,000,000, as adjusted in accordance with the Escalation Factor.

"Debt Obligation" means a bond, note (including a commercial paper note or bond anticipation note), installment purchase agreement, financing lease, inter-fund loan or any other obligation for borrowed money, or portion thereof, issued or incurred by or on behalf of the District for either or both Projects, the proceeds of which were or will be applied to finance Capital Improvements with respect to such Project or Projects and which has been or is designated by the District in its discretion as a Debt Obligation with respect to such Project or Projects. For the avoidance of doubt, the obligations listed or referred to in Schedule A-1 to the New Power Sales Contract will constitute Debt Obligations for purposes of the New Power Sales Contract. Debt Obligations will not include any Refunding Obligations, or the principal portion of any obligations issued after the Signing Date that otherwise would fall within the definition of Debt Obligations, to the extent such principal portion is or was used to pay costs of issuance or to fund debt service reserves with respect to Debt Obligations, all as determined by the District in its discretion. To avoid double counting, if the District designates inter-fund loans from the District Enterprise Units of the District to the Chelan Power System as Debt Obligations, the corresponding third party obligations of the District will not be included as Debt Obligations for purposes of the New Power Sales Contract. For purposes of the New Power Sales Contract, "Debt Obligations" will include inter-fund loans from the District Enterprise Units that otherwise qualify as Debt Obligations; however, transfers from the District to the Chelan Power System derived from payments made by the Purchaser in respect of Capital Recovery Charges or Debt Reduction Charges, as determined by the District, will not be treated as Debt Obligations for purposes of the New Power Sales Contract. For purposes of the New Power Sales Contract, the principal amount of Debt Obligations issued after the Signing Date will be deemed to amortize in accordance with the Assumed Debt Service with respect thereto, and not on the actual principal amount of the District's Debt Obligations that may be outstanding on the date of calculation.

"Deemed Maturity" means that date determined by the District as of the issuance or incurrence of a Debt Obligation, by adding to the date of issuance or incurrence of such Debt Obligation, the lesser of (a) twenty-five (25) years, or (b) the Average Service Life of the Capital Improvements expected to be financed by the District from the proceeds thereof, as determined by the District.

"District Enterprise Units" means and will include each utility, enterprise or operating system or unit of the District, exclusive of Rocky Reach and Rock Island, as the District may designate from time to time, that may make advances or inter-fund loans to the Chelan Power System as contemplated within the definition of Debt Obligations.

"District System Emergency" means a condition or situation that, in the judgment of the District and in conformance with guidelines of FERC, NERC, the WECC or other entities with regulatory jurisdiction (whether by contract or operation of Law) over the District concerning system emergencies, adversely affects or is likely to adversely affect: (i) public health, life or property; (ii) District's employees, agents or property; or (iii) District's ability to maintain safe and reliable electric service to its respective customers.

"Downgrade Event" means the Purchaser's corporate debt rating (a) from S&P is withdrawn, suspended or reduced below "BBB-" (or corresponding successor rating); or (b) from Moody's is withdrawn, suspended or reduced below "Baa3" (or corresponding successor rating); or (c) from Fitch is withdrawn, suspended or reduced below "BBB-" (or corresponding successor rating). If any Rating Agency has not assigned a rating to Purchaser as of the Signing Date, a Downgrade Event will not occur as to that Rating Agency until such a rating has been assigned and such rating is either at or below the respective level set forth above, or the initial higher rating is thereafter withdrawn, suspended or reduced below the respective level set forth above.

"Dryden Facilities" means the District's dam, spillway, irrigation flume and related facilities located on the Wenatchee River near Dryden in Chelan County, Washington.

"Effective Date" of the New Power Sales Contract means the Signing Date.

"Energy" means the energy production, expressed in megawatt hours, of the Chelan Power System as measured in megawatts integrated over an hour and adjusted for limitations and obligations in accordance with the provisions described in "THE NEW POWER SALES CONTRACT—Output and Scheduling" below.

"Entiat Facilities" means the District's diversion and irrigation facilities located in and adjacent to the Entiat River in Chelan County.

"Environmental Attributes" means any cash credits, tradable certificates or other transferable renewal energy credits made available to the District under state or Federal law that are intended to provide incentives to hydroelectric generation and are directly attributable to environmental benefits resulting from the generation and use of Output from the Chelan Power System.

"Fish Spill" means the required spill of water for the passage of fish past the Projects as required by FERC order, the District's HCP, spill for studies, or other Regulatory Authorities.

"Government Authority" means any federal, state, local, territorial or municipal government and any department, commission, board, bureau, agency, instrumentality, judicial or administrative body thereof.

"Habitat Conservation Plans (HCP)" means the plans approved as part of the Rocky Reach and Rock Island licenses to protect anadromous fish passing upstream and downstream at the projects.

"Hanford Reach Fall Chinook Protection Program (Vernita Bar)" means the agreement which defines the Mid-Columbia projects' (Grand Coulee, Chief Joseph, Wells, Rocky Reach, Rock Island, Wanapum, and Priest Rapids) operational obligations for the fresh water life cycle protection of the Hanford Reach Fall Chinook which has been signed by the District, National Oceanic and Atmospheric Administration's Department of Fisheries ("NOAA Fisheries"), Washington Department of Fish and Wildlife, PUD No. 2 of Grant County, and PUD No. 1 of Douglas County.

"Immediate Spill Replacement" means the energy received from the Federal government for the purpose of moving spill from the Federal system to reduce total dissolved gas levels downstream from Federal reservoirs.

"Independent Investment Banker" means an investment banking firm selected by the District in its discretion that is nationally recognized for its knowledge and experience in the pricing and sale of debt securities and that has, or whose parent company has, a rating from at least two of the Rating Agencies of not less than "A-" in the case of S&P and Fitch, and "A3" in the case of Moody's.

"Index Rate" means, with respect to each Debt Obligation, as of the applicable date of calculation, the fixed interest rate, as determined by the District in consultation with an Independent Investment Banker as of the date of issuance or incurrence thereof, equal to 110% of the weighted average annual interest rate that such Debt Obligation would bear (i) based on the then current underlying long term credit rating of the District; (ii) assuming that interest on such Debt Obligation would be includable in the income of the holders thereof for federal income tax purposes; and (iii) assuming that such Debt Obligation were amortized on a level debt service basis over the applicable amortization period described in the definition of "Assumed Debt Service." In determining the Index Rate of any Debt Obligation, the District may consider interest indices and other market data generally available as of the date of calculation.

"In Service Date" means the estimated weighted average date the Capital Improvements expected to be financed from proceeds of a Debt Obligation are or are expected to be placed in service, as determined by the District.

"Interconnection Agreement" means the agreement between Purchaser and the District providing for the interconnection of the Purchaser's electric transmission facilities with the Chelan Transmission System, as well as terms and conditions for the parallel operation of the Chelan Transmission System and Purchaser's transmission system.

"Law" means any statute, law, order, rule or regulation imposed by a Regulatory Authority.

"Load Following/Regulation" means the ability to adjust generation within an hour (or pursuant to dynamic scheduling) to follow variations in load. Load Following/Regulation is limited and constrained by the number of Units available, any limitations on the Units, Ramp Rate, and any other power or non-power restrictions.

"Mid-Columbia Hourly Coordination (MCHC)" means the 1997 Agreement For The Hourly Coordination Of Projects On The Mid-Columbia River (or its successor agreement) is an agreement among the principal parties that own or have rights to generation relating to the seven mid-Columbia hydro projects (Grand Coulee, Chief Joseph, Wells, Rocky Reach, Rock Island, Wanapum, and Priest Rapids).

"NERC" means the North American Electric Reliability Council or its successor responsible for insuring a reliable, adequate and secure bulk electric system.

"Non-Spinning Operating Reserves" means those reserves that may be available at any time from all Units of the Chelan Power System not then connected to the system but capable of being connected and serving demand within a specified time.

"Operational Constraints" means constraints on the Units, or a Project's operation that are needed to meet any requirement due to the HCP, regulations, Laws, court orders, authority, safety, or to minimize equipment wear, maintain equipment, or repair/replace equipment, or that are due to any other event or circumstance described in the New Power Sales Contract.

"Output" means an amount of Energy, Capacity and certain related rights available from the Chelan Power System, in each case to the extent described in and determined pursuant to the provisions described in "THE NEW POWER SALES CONTRACT—Output and Scheduling" below, and subject to the limitations set forth in the New Power Sales Contract.

"Pacific Northwest Coordination Agreement (PNCA)" means the agreement among Northwest parties for the coordinated operation of the Columbia River system on a seasonal and monthly basis. The PNCA defines the firm energy output of the Chelan Power System, as well as other rights and obligations, including provisional energy, interchange energy, in-lieu energy, and others defined in the contract. The PNCA does not allow resources above the head works of Bonneville Dam to be removed from coordination, and currently all Capacity and Energy of the Chelan Power System is included in PNCA planning. PNCA serves as a settlement of the Federal Power Act Section 10(f) obligation to reimburse upstream Federal projects for energy gains as a result of the storage provided, as well as a FERC approved settlement among all Non-Federal parties for upstream benefit payments. The Purchaser must become a signatory to PNCA or contract with another PNCA party to fulfill any and all of the obligations required by PNCA with respect to the Purchaser's Percentage of Output.

"Periodic Payments" means the sum of the payments, costs and charges described or referred to in the New Power Sales Contract.

"Permanently Retired" means with respect to a Project, that such Project or specified Units of such Project, have been shut down and notice of permanent cessation of operations with respect thereto has been given by the District to the Purchaser.

"Pond/Storage" means the volume of water, expressed in MWH, that can be stored behind a Project between its minimum and maximum headwater elevations.

"Prepayment Amount" means the cumulative amounts paid by the Purchaser to the District pursuant to the New Power Sales Contract that have not been applied to satisfy the Purchaser's payment obligations as described in clause (e) of "Payment—Payments and Charges."

"Project" means each of Rock Island and Rocky Reach.

"Project Availability Date" means for Rocky Reach, 00:00 hours on November 1, 2011, and for Rock Island, 00:00 hours on July 1, 2012.

"Project Transmission Facilities" means those Project owned transmission facilities included in the Chelan Power System and listed in the New Power Sales Contract that are utilized to transmit Capacity and Energy from the Units to the Chelan Transmission System.

"Prudent Utility Practice" means any of the practices, methods and acts engaged in, or approved by, a significant portion of the electric utility industry in the Western Interconnection for operating facilities of a size and technology similar to the Project during the relevant time period or any of the practices, methods and acts, which, in the exercise of reasonable judgment in light of the facts known, at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with applicable Laws, longevity, reliability, safety and expedition. Prudent Utility Practice is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather to be a spectrum of commonly used practices, methods and acts.

"Purchaser's Percentage" means the percentage set forth in "THE NEW POWER SALES CONTRACT—Output—Output to be Made Available" below, as such amount may be adjusted from time to time pursuant to the terms of the New Power Sales Contract.

"Purchaser's Percentage of Output" means an amount for any period equal to the product of (i) the Purchaser's Percentage, and (ii) the Output.

"Ramp Rate" means the rate of change in the level of generation for a specified period within all applicable Operational Constraints. The maximum Ramp Rate is a variable quantity based upon these limitations.

"Refinance," or ***"Refinancing"*** when used with respect to an outstanding Debt Obligation or portion thereof, means to refund, refinance or remarket such Debt Obligation.

"Refunding Obligations" means a bond, note (including a commercial paper note or bond anticipation note), installment purchase agreement, financing lease, inter-fund loan or any other obligation for borrowed money, or any portion thereof, issued or incurred by or on behalf of the District, for purposes of Refinancing a Debt Obligation or a Refunding Obligation. The term "Refunding Obligations" will not be included in the calculation of Debt Obligations.

"Regional Transmission Organization (RTO)" will mean any regional transmission organization which governs loads, generation, ancillary services and transmission of both Parties. As of the Signing Date, there is no such RTO.

"Regulatory Authority" means any Government Authority other than the District itself.

"Related Power Sales Agreement" means a power sales agreement between a Share Participant and the District for the purchase and sale of a percentage of the Output of the Chelan Power System as so designated by the District and containing terms and conditions similar to the terms and conditions set forth in the New Power Sales Contract.

"Remedial Action Schemes (RAS)" means any action implemented by the District utilizing the Chelan Power System to maintain the transfer capabilities and stability of the western electrical system.

"Reserve and Contingency Fund" means the fund or funds created under the Project bond resolutions including the Rocky Reach Resolutions 1860 and 4198, and the Rock Island Resolutions 1137, 3443, 4950 and 97-10671, 97-10672. As long as bonds remain outstanding under such resolutions, deposit requirements into the appropriate Reserve and Contingency Fund may be made from the Capital Recovery Fund and/or the Debt Reduction Fund, and from Purchaser's payments made in respect of Financing Costs allocated to that purpose under Schedule A-1. Required and authorized uses of the Reserve and Contingency Funds will be made in accordance with the appropriate Project bond resolution or, after the retirement of such bonds, for any other lawful Project purpose not inconsistent with the provisions of the New Power Sales Contract.

"Rock Island" means (i) the District's Rock Island Hydroelectric Project as currently licensed by FERC under license number 943, and any successor license, including any efficiency improvements and upgrades that increase generating capacity and any decommissioning of Units as contemplated in Section 6.03, in each case made by the District from time to time during the Term, together with (ii) the Dryden Facilities, the Entiat Facilities and the Tumwater Facilities.

"Rocky Reach" means the District's Rocky Reach Hydroelectric Project as currently licensed by FERC under license number 2145, and any successor license, including any efficiency improvements and upgrades that increase generating capacity and any decommissioning of Units as contemplated in Section 6.03, in each case, made by the District from time to time during the Term.

"Schedule" or ***"Scheduling"*** means the actions or product of the District, Purchaser and/or their designated representatives, including each Party's Transmission Providers, if applicable, of notifying, requesting and confirming to each other the quantity and type of Output to be delivered on any given day or days at a specified Transmission Point of Receipt and/or Transmission Point of Delivery.

"Share Participant" means a third party purchaser, unrelated to the District, who signs a Related Power Sales Agreement with the District for a share of Output of the Chelan Power System.

"Spinning Operating Reserves" means the difference at any time between total available Capacity of all Units of the Chelan Power System then on-line and the sum of the then current generation level of those on-line Units.

"Spill" means water that passes over a spillway without going through turbines to produce energy.

"Spill Past Unloaded Units" means Spill that occurs while Units are not all fully loaded.

"Transmission Agreement" means an agreement dated February 1, 2006 between the Purchaser and the District that provides terms and conditions for the transmission of the Purchaser's Percentage of Project Output over the Chelan Transmission System from specified Transmission Point(s) of Receipt to Transmission Point(s) of Delivery.

"Transmission Rights" means the Purchaser has transmission rights up to the Purchaser's Percentage of available Project Transmission Facilities as specified in the New Power Sales Contract.

"Tumwater Facilities" means the dam, spillway and related facilities owned and operated by the District, located on the Wenatchee River in Tumwater Canyon.

"Uniform System of Accounts" means the system of accounts for Public Utilities and Licensees as prescribed by FERC, constituting Part 101 of Title 18 of the Code of Federal Regulations, as supplemented and amended (the "Uniform System of Accounts"), used to account for the costs of generating projects, and any successor thereto and to the account designations thereunder.

"Unit" means each generating unit or collectively, the generating units at the Projects. The Units currently consist of the eleven generating Units C1 through C11 at Rocky Reach, the eleven generating Units BH (house Unit) and B1 through B10 at Rock Island Powerhouse One, and the eight generating Units U1 through U8 at Rock Island powerhouse Two. Unit may also include any other generating Units installed in the Chelan Power System (for example attraction water turbines).

"Voltage Support / MegaVars (MVARS)" means reactive power supplied or absorbed by the Chelan Power System as required to maintain voltage at adjacent switchyards.

"WECC" means the Western Electricity Coordinating Council or its successor, or such other entity or entities responsible for regional reliability as determined by the District.

THE NEW POWER SALES CONTRACT

Term and Termination

Term. The New Power Sales Contract will become effective as of the Signing Date. The Term, however, will commence as of the first Project Availability Date and will terminate as of the expiration or termination of the

New Power Sales Contract pursuant to its terms. Unless terminated or extended as provided in the New Power Sales Contract, the New Power Sales Contract will remain in effect until midnight on October 31, 2031. All obligations accruing or arising prior to the termination or expiration of the New Power Sales Contract will survive the termination or expiration of the New Power Sales Contract until satisfied in full.

Condition Precedent to Effectiveness. The Parties agree and acknowledge that the respective rights and obligations of the Parties under the New Power Sales Contract with respect to the Output from Rocky Reach and Rock Island, respectively (including the District's obligation to deliver Output attributable to such Projects and the Purchaser's obligation to pay any Periodic Payments (other than the Capacity Reservation Charge and the other Up Front Payments referred to in the New Power Sales Contract) attributable to or arising out of such Projects) are contingent, in the District's sole discretion, upon the satisfaction as of each respective Project Availability Date for each such Project (00:00 Hours on November 1, 2011 for Rocky Reach and 00:00 Hours on July 1, 2012 for Rock Island) of the following conditions precedent: (1) no default will have occurred and be continuing, as of each respective Project Availability Date, under the current contract(s) between the Parties; (2) no Event of Default or Potential Event of Default exists under the New Power Sales Contract; (3) the representations contained in the New Power Sales Contract continue to be true; (4) the Existing Rocky Reach Power Sales Contract will have terminated prior to the Rocky Reach Project Availability Date; (5) the Existing Rock Island Power Sales Contract will have terminated prior to the Rock Island Project Availability Date; (6) no termination described in the New Power Sales Contract has occurred; and (7) the Parties have entered into a Transmission Agreement, in substantially the form attached to the New Power Sales Contract, and an Interconnection Agreement, in form and substance reasonably satisfactory to the District and the Purchaser.

If the conditions precedent set forth above are not satisfied or waived by the District on or within 90 days following each respective Project Availability Date, the District may terminate the New Power Sales Contract in accordance with its terms. Any such termination will apply to the New Power Sales Contract as a whole, and not severally as to the Output from Rocky Reach or Rock Island.

Termination. The New Power Sales Contract may only be terminated (i) by mutual agreement of the Parties; (ii) by either Party if the Approval Date has not occurred by the first Project Availability Date, provided that the Party wishing to terminate the New Power Sales Contract pursuant to this clause (ii) will give the other Party written notice of such termination on or within three (3) Business Days prior to the first Project Availability Date; (iii) by the District pursuant to the provisions of the New Power Sales Contract, so long as any Event of Default is continuing and has not been cured within the applicable cure period (which termination event, at the District's discretion, may supersede a termination under the New Power Sales Contract); or (iv) by the District pursuant to the provisions of the New Power Sales Contract described above in "—Condition Precedent to Effectiveness." In the event the New Power Sales Contract is terminated pursuant to subsections (i), (ii) or (iv), neither Party will be liable to the other Party for damages due to such termination. Any termination of the New Power Sales Contract by a Party pursuant to the terms of the New Power Sales Contract will be effected by and effective only upon receipt of written notice of such termination by the other Party.

Continued Effectiveness After Termination. After termination or expiration of the Term, any provisions that may be reasonably interpreted or construed as being intended to survive the termination or expiration of the Term or the New Power Sales Contract, and all unsatisfied billing and payment obligations that arose during the Term, will survive such termination or expiration.

Forward Contract Merchant. Each Party acknowledges and agrees that the New Power Sales Contract is a "forward contract" and that each Party is either a "forward contract merchant" or "financial participant," in each case as those terms are used in the United States Bankruptcy Code.

Output

Output To Be Made Available.

(a) Beginning at 00:00 hours on the respective Project Availability Date for each Project and continuing until midnight on the date on which the New Power Sales Contract is terminated or expires, the District will during each hour sell and make available for scheduling by and delivery (or cause to be delivered) to Purchaser, at the Transmission Point(s) of Receipt, Purchaser's Percentage of Output attributable to such Project, and Purchaser will during each hour purchase and receive (or cause to be received), at the Transmission Point(s) of Receipt, the amount of Purchaser's Percentage of Output scheduled by Purchaser for every such hour. Purchaser's Percentage will at all times during the Term of the New Power Sales Contract be 25% of the Chelan Power System, as the same may be modified from time to time pursuant to the New Power Sales Contract.

(b) It is expressly acknowledged and agreed by the Parties that Output is dynamic and variable and is dependent upon a variety of factors including, without limitation, availability of water and operable generation Units of the Projects, electric system reliability requirements, federal and state laws, rules, regulations and orders affecting river flows and operation of the Projects regarding endangered species and other environmental matters, matters giving rise to curtailment described in the New Power Sales Contract and other restrictions on Output described in "—Output, Scheduling, Planning and Transmission" and set forth in Appendix B to the New Power Sales Contract, the terms of which Appendix B are incorporated in the New Power Sales Contract by reference. Output can and will vary substantially from hour-to-hour, season-to-season and year-to-year. Appendix B to the New Power Sales Contract, in conjunction with the Transmission Agreement, will also govern the delivery of the Output from the Chelan Power System to the Transmission Point(s) of Receipt, will define the scheduling procedures and scheduling requirements of the Output, will provide for the transmission of Output from the Transmission Point(s) of Receipt to the Transmission Point(s) of Delivery, will provide for management of the Purchaser's Percentage, will define the services included in Output, and will describe certain services and products offered by the District.

(c) IN THE NEW POWER SALES CONTRACT, THE PURCHASER ACKNOWLEDGES THAT, NOTWITHSTANDING ANY OTHER PROVISION OF THE NEW POWER SALES CONTRACT TO THE CONTRARY, THE DISTRICT'S OBLIGATION TO SELL AND DELIVER OUTPUT IS EXPRESSLY LIMITED TO PURCHASER'S PERCENTAGE OF ANY OUTPUT ACTUALLY PRODUCED BY THE CHELAN POWER SYSTEM AND AVAILABLE FOR DELIVERY AND THAT THE DISTRICT WILL NOT BE LIABLE TO THE PURCHASER FOR THE FAILURE TO DELIVER ANY OUTPUT THAT IS NOT OTHERWISE AVAILABLE FROM THE CHELAN POWER SYSTEM, REGARDLESS OF THE REASON FOR SUCH UNAVAILABILITY.

(d) Output will be made available to the Purchaser by the District in accordance with the provisions and limitations described in "—Output, Scheduling, Planning and Transmission," on and after each respective Project Availability Date, but with respect to each Project only from and after the respective Project Availability Date for each Project.

Right to Resell. Subject to the provisions of the New Power Sales Contract, Purchaser will have the right to resell or re-market the Output provided to Purchaser by District under the New Power Sales Contract and to retain the proceeds of such a sale.

Mandatory Step-up. If a Share Participant (a "Defaulting Participant") defaults under a Related Power Sales Agreement and the District elects to terminate that Defaulting Participant's entitlement to Output, the Purchaser will purchase from the District, commencing on a date fifteen (15) days following written notice from the District (such date, the "Step-Up Effective Date"), Purchaser's pro rata share of the Output to which the Defaulting Participant was entitled from and after the Step-Up Effective Date, on the terms and conditions set forth in the New Power Sales Contract (other than as described in clause (a) of "Payment—Payments and Charges"), for a term equal to the lesser of the Defaulting Participant's remaining contract term or the remaining term of the New Power Sales Contract; provided, that the Purchaser's Percentage as it may be increased pursuant to the New Power Sales Contract will not, without the written consent of Purchaser, exceed 40%.

For purposes of the Mandatory Step-Up provision of the New Power Sales Contract, the Purchaser's pro rata share of a Defaulted Participant's Output entitlement (referred to in the New Power Sales Contract as the "Purchaser's Step-up Percentage") will be determined based on the Purchaser's Percentage divided by the sum of Purchaser's Percentage, the percentage of Output shares held by other Share Participants excluding the Defaulting Participant, and the Output share retained by the District. For example, if the Purchaser's Percentage is 25%, the Defaulting Participant's share is 10%, the District's share is 40% and the other Share Participants' shares are 25%, the Purchaser's Step-Up Percentage under this section would be:

10% x [(25% ÷ (25% + 40% + 25%)] = 2.78%, to be added to Purchaser's Percentage

For the avoidance of doubt, Purchaser will not be liable for any amounts owed by the Defaulting Participant to the District prior to the Step-Up Effective Date (and Purchaser will have no obligation or liability to perform any of the obligations under the Related Power Sales Agreement and no liability for any default or breach thereunder), and any amounts for which the Purchaser will become liable under the Mandatory Step-Up provision of the New Power Sales Contract will be determined under the New Power Sales Contract and not under the Related Power Sales Agreement.

If as a result of a Share Participant's default under a Related Power Sales Agreement, the District imposes the mandatory step-up requirement pursuant to the terms of the Mandatory Step-Up provision of the New Power Sales Contract, a portion of the damages recovered by the District that were awarded to compensate the District for prospective losses, if any, directly attributable to the early termination of such Related Power Sales Agreement (net of costs and expenses), adjusted for the number of years remaining under the New Power Sales Contract (if less than the period for which such damages were measured), will be allocated to the Purchaser based on the Purchaser's Step-up Percentage and will be credited against all future payments due from Purchaser under the New Power Sales Contract that are attributable to Purchaser's Step-Up Percentage of such Output until such allocated recoveries have been exhausted. If the Purchaser contests its obligation to purchase the Purchaser's Step-up Percentage of the Defaulting Purchaser's share of Output, Purchaser's share of such recoveries will be held by the District until Purchaser assumes (by instrument in form and substance satisfactory to the District) its Step-Up Percentage, and will then be applied to future payment obligations in accordance with the preceding sentence.

Curtailment and Decommissioning

Curtailment. The District will have the right, in its sole discretion, to temporarily interrupt, reduce or suspend delivery (through manual operation, automatic operation or otherwise) of Output from the Projects during any one or more of the following circumstances: (i) to prevent damage to the District's system or to maintain the reliable and safe operation of the District's system; (ii) a District System Emergency; (iii) if suspension is required for relocation, repair or maintenance of facilities or to facilitate restoration of line outages; (iv) a force majeure event; (v) any Operational Constraints as further described in the New Power Sales Contract; (vi) negligent acts or intentional misconduct of Purchaser which are reasonably expected to present imminent threat of damage to property or personal injury; (vii) an Event of Default by the Purchaser, as provided in the New Power Sales Contract, or a Potential Event of Default by the Purchaser, or (viii) any other reason consistent with Prudent Utility Practice. Any available Output during each such interruption, reduction or suspension will be allocated pro rata among the District, the Purchaser and the other Share Participants, except and to the extent the District determines (or had determined at any time prior to such interruption, reduction or suspension) in its sole discretion that due to a District System Emergency such pro-rata allocation of remaining Output due to such interruption, reduction or suspension is impracticable or infeasible. The District will give advance notice, as circumstances permit, of the need for such suspension, reduction or interruption to employees of the Purchaser designated from time to time by the Purchaser to receive such notice. The District will not be responsible for payment of any penalty or cost incurred by the Purchaser during or as a result of such interruption, reduction or suspension. The provisions contained in the New Power Sales Contract will not limit or modify the scope of and limitations on the District's obligations under the New Power Sales Contract as otherwise set forth in the New Power Sales Contract.

Restoration of Service. Purchaser and District will endeavor to restore deliveries of Output as promptly as is reasonably possible in the event of an interruption, reduction or suspension under the New Power Sales Contract.

Decommissioning. Over the term of the New Power Sales Contract, the District may, in its sole discretion, cause components of the Project responsible for not more than 20% of the Output in the aggregate to be Permanently Retired. The District may also cause the Projects, or any components thereof, to be Permanently Retired if, as a result of the adoption or implementation of, or a change in, any Law, rule or regulation, or any policy, guideline or directive of, or any change in the interpretation or administration thereof by, any Regulatory Authority (in each case, having the force of Law) (collectively a "Change in Law"), the District would be required to make material modifications to such Projects or components in order to continue their operation, and the District determines in good faith that, absent such components being Permanently Retired, it would not be Commercially Reasonable, as otherwise in the New Power Sales Contract defined, to comply with such statutory or regulatory requirements. In each case, the District will give Purchaser as much advance written notice of its determination to Permanently Retire

Projects or components as reasonably possible. Decommissioning will not reduce Purchaser's payment obligations under the New Power Sales Contract.

Payment

Payments and Charges. In consideration of the District's agreement to provide Purchaser with Purchaser's Percentage of Output, the Purchaser agrees in the New Power Sales Contract to pay the District the following charges at the times and in the amounts specified below:

(a) ***Up Front Payments.*** Within 30 days following the later to occur of the Approval Date and the Effective Date, Purchaser will pay the District by wire transfer in immediately available funds a non-refundable capacity reservation charge of $89,000,000 (the "Capacity Reservation Charge").

(b) ***Working Capital Charges.*** The Purchaser will pay Working Capital Charges as follows:

(i) On the Project Availability Date of Rocky Reach, Purchaser will pay the District, by wire transfer in immediately available funds, an initial Working Capital Charge of $2,500,000 (stated in December, 2004 Dollars), as adjusted in accordance with the Escalation Factor set forth in the New Power Sales Contract to such Project Availability Date. Within fifteen (15) days following the commencement of each Contract Year thereafter, Purchaser will pay the District, by wire transfer in immediately available funds, an additional Working Capital Charge equal to the amount, if any, by which $2,500,000 (stated in December, 2004 Dollars), as adjusted in accordance with the Escalation Factor set forth in the New Power Sales Contract to the beginning of such Contract Year exceeds the sum of the Working Capital Charges previously paid pursuant to this subsection (i).

(ii) On the Project Availability Date of Rock Island, Purchaser will pay the District, by wire transfer in immediately available funds, a second Working Capital Charge of $2,500,000 (stated in December, 2004 Dollars), as adjusted in accordance with the Escalation Factor set forth in the New Power Sales Contract to such Project Availability Date. Within fifteen (15) days following the commencement of each Contract Year thereafter, Purchaser will pay the District, by wire transfer in immediately available funds, an additional Working Capital Charge equal to the amount, if any, by which $2,500,000 (stated in December, 2004 Dollars), as adjusted in accordance with the Escalation Factor set forth in the New Power Sales Contract to the beginning of such Contract Year exceeds the sum of the Working Capital Charges previously paid pursuant to this subsection (ii).

(iii) Each initial Working Capital Charge payment pursuant to subsections (i) and (ii) above constitutes the Purchaser's Percentage of the amount the District deems necessary as of the Signing Date to provide an adequate working capital balance for each respective Project.

(iv) From time to time during any Contract Year, Purchaser will pay to the District, by wire transfer in immediately available funds, upon demand by the District, an amount equal to the Purchaser's Percentage of any additional Working Capital Charge that is necessary to provide an adequate level of working capital for the Chelan Power System as determined by the District in accordance with Prudent Utility Practice.

(v) The payments described in this Section are sometimes referred to in the New Power Sales Contract as a "Working Capital Charge" or collectively as "Working Capital Charges."

(c) ***Net Costs.*** Purchaser will pay monthly to the District during each Contract Year, an amount equal to the Purchaser's Percentage of Net Costs determined in accordance with Appendix A to the New Power Sales Contract.

(d) ***Coverage Fund Charge.*** The District will continue, or establish, and maintain, one or more coverage funds or their equivalents into which will be deposited the Coverage Amount with respect to the Debt Obligations (collectively, the "Coverage Fund"). The Purchaser will pay the Purchaser's Percentage of the Coverage Amount as follows:

(i) On the Project Availability Date for Rocky Reach, Purchaser will pay the District, by wire transfer in immediately available funds, the Purchaser's Percentage of the Coverage Amount (calculated as of such Project Availability Date) attributable to Debt Obligations for Rocky Reach. On the Project Availability Date for Rock Island, Purchaser will pay the District, by wire transfer in immediately available funds, the Purchaser's Percentage of the Coverage Amount (calculated as of such Project Availability Date) attributable to Debt Obligations for Rock Island. The District will notify the Purchaser of such required amounts at least 30 days prior to each such Project Availability Date.

(ii) In addition, upon the issuance or incurrence during any Contract Year of any additional Debt Obligations attributable to Rocky Reach by the District after the Project Availability Date for Rocky Reach and of any additional Debt Obligations attributable to Rock Island by the District after the Project Availability Date for Rock Island, Purchaser will pay to the District, by wire transfer in immediately available funds, within 30 days of demand by the District, an amount equal to the positive difference, if any, between (1) the product of (a) the Purchaser's Percentage, times (b) the Coverage Amount (calculated as of the issuance or incurrence of such additional Debt Obligations), minus (2) the amounts previously paid by the Purchaser pursuant to this subsection.

All amounts paid by the Purchaser to the District pursuant to the provision described in this subsection will be used for any lawful purpose as determined by the District in its sole discretion.

(e) ***Prepayment Requirements.*** On the first Project Availability Date, the Purchaser will pay to the District as a prepayment an amount equal to the product of (i) $740,000 multiplied by (ii) Purchaser's Percentage (expressed as a decimal) multiplied by 100. If the Purchaser's Percentage increases at any time during the Term, pursuant to contractual agreement, mandatory step-up pursuant to the New Power Sales Contract, or otherwise, Purchaser will pay to the District within 30 days of the occurrence of such event an additional amount equal to the product of (i) $740,000, multiplied by (ii) such increase in Purchaser's Percentage (expressed as a decimal) multiplied by 100. The District will maintain separate accounting records of such prepayments but will not be obligated to segregate or separately account for such funds, nor will the Purchaser have any right to or claim in any such funds, but will only have claim against the District to the extent and in the manner described below.

If the Purchaser fails to make any payment due under the New Power Sales Contract as described in this subsection (e) or under the Transmission Agreement, the District will apply the Prepayment Amounts to the satisfaction of such payment obligations (which application will not constitute a cure of the payment default described therein unless and until the Prepayment Amount is replenished as described in the New Power Sales Contract). If the District applies the Prepayment Amount or any portion thereof to any payment then due, the Purchaser will replenish the amounts so credited immediately upon demand so that, after such replenishment, the unused portion of the Prepayment Amount again is thereafter equal to (i) $740,000 multiplied by (ii) Purchaser's Percentage (expressed as a decimal) multiplied by 100. The District will apply any unused portion of the Prepayment Amount to the last payment(s) due from the Purchaser under the New Power Sales Contract.

(f) ***Debt Reduction Charge.*** The Purchaser will pay to the District each month of each Contract Year as part of its Periodic Payments one twelfth (1/12th) of the Purchaser's Percentage of an annual debt reduction charge (the "Debt Reduction Charge"), which Debt Reduction Charge will be computed by multiplying the Debt Reduction Charge Percentage for the Contract Year in which such month occurs by the Debt Reduction Charge Obligations for such Contract Year. The Debt Reduction Charge collected by the District pursuant to this section will be held by the District in a separate fund or account to be known as the "Debt Reduction Charge Account" and used only to purchase, redeem or defease debt of the Chelan Power System, to fund (after the Project Availability Date for Rocky Reach) required deposits to Reserve and Contingency Funds for Rocky Reach bonds, to fund (after the Project Availability Date for Rock Island) required deposits to Reserve and Contingency Funds for Rock Island bonds, or to fund Capital Improvements related to the Chelan Power System, in each case as determined by the District.

For purposes of this section:

(i) ***"Debt Reduction Charge Percentage"*** means that percentage, designated by the District for a Contract Year not less than twelve (12) months prior to the commencement of such Contract Year, which percentage will be set between a minimum of 0% and a maximum of 3%. Each such designation will be effective for the Contract Year for which such designation is made. If the District fails to make a designation for any Contract Year by the date required above, the Debt Reduction Charge Percentage for such Contract Year will be the greater of 2-1/2% or the last effective Debt Reduction Charge Percentage designated by the District;

(ii) ***"Debt Reduction Charge Obligations"*** means, for any Contract Year, the aggregate principal amount of all Debt Obligations assumed to be outstanding as of the first day of such Contract Year, determined in accordance with Appendix A to the New Power Sales Contract, as such principal amount may have theretofore been reduced in accordance with the New Power Sales Contract, as described in "—Determination of Chelan Power System Net Costs" below. Prior to the Project Availability Date for Rock Island, the Debt Reduction Charge Obligations for purposes of the New Power Sales Contract will be computed only with reference to those Debt Obligations attributable to Rocky Reach.

(g) ***Capital Recovery Charge.*** The Purchaser will pay to the District each month of each Contract Year as part of its Periodic Payments one twelfth (1/12th) of the Purchaser's Percentage of an annual capital recovery charge (the "Capital Recovery Charge"), which Capital Recovery Charge will be computed by multiplying the Capital Recovery Charge Percentage for the Contract Year in which such month occurs by the Capital Recovery Charge Base for such Contract Year. The Capital Recovery Charge will be held by the District in a separate fund or account to be known as the "Capital Recovery Charge Account" and used only to purchase, redeem or defease debt of the Chelan Power System, to fund (after the Project Availability Date for Rocky Reach) required deposits to Reserve and Contingency Funds for Rocky Reach bonds, to fund (after the Project Availability Date for Rock Island) required deposits to Reserve and Contingency Funds for Rock Island bonds, or to fund Capital Improvements related to the Chelan Power System, in each case as determined by the District.

For purposes of this section:

(i) ***"Capital Recovery Charge Percentage"*** means that percentage, designated by the District for a Contract Year not less than twelve (12) months prior to the commencement of such Contract Year, which percentage will be set between a minimum of 0% and a maximum of 50%. Each such designation will be effective for the Contract Year for which such designation is made. If the District fails to make a designation for any Contract Year by the date required above, the Capital Recovery Charge Percentage for such Contract Year will be the greater of 25% or the last effective Capital Recovery Charge Percentage designated by the District.

(ii) ***"Capital Recovery Charge Base"*** means a base amount equal to $25,000,000 in 2004 dollars. The Capital Recovery Charge Base, as the same may be adjusted from time to time pursuant to the methodology specified in the following paragraph, will be adjusted annually as of the first day of each Contract Year by the Escalation Factor.

In addition to adjustments resulting from the Escalation Factor, the District may adjust the Capital Recovery Charge Base for a Contract Year by giving written notice to the Purchaser at least 180 days prior to the commencement of such Contract Year. Any such adjustment will not increase the Capital Recovery Charge Base to an amount greater than the District's estimate, made in good faith, of its average annual Capital Improvement requirements over the next ensuing thirty (30) Fiscal Years. Such estimate will be as computed in real dollars adjusted to be effective as of the first day of such Contract Year. The Capital Recovery Charge Base, as so adjusted, will remain in effect thereafter unless and until subsequently adjusted pursuant to this paragraph or the immediately preceding paragraph. Adjustments for future annual Capital Improvements will not result in the duplication of payments for such future Capital Improvements.

(iii) ***"Escalation Factor"*** means the percentage change in relative value of the Consumer Price Index using the non-seasonally adjusted US City Average Index for All Urban Consumers (All Items, Base Period 1982-84 = 100), as published by the U.S. Department of Labor, Bureau of Labor Statistics, computed annually in accordance with the following formula:

EF = CPI ÷ CPI-b

Where: EF = the Escalation Factor,

CPI = the most recently published consumer price index identified above, in effect as of the date of annual computation

CPI-b = 190.3, the consumer price index identified above for the base month of December, 2004 (http://data.bls.gov/cgi-bin/surveymost?bls) as shown in Attachment 1 to the New Power Sales Contract.

Should the index referred to above be discontinued or be substantially modified, then an alternate index will be chosen by the District in its discretion that reasonably tracks the methodology used to track the consumer price index identified above prior to such modification or discontinuance to maintain the purchasing power of one dollar at a constant level, considering the nature of expenses incurred in the acquisition, construction and installation of Capital Improvements of the Chelan Power System.

If the Capital Recovery Charge Base is recalculated pursuant to the second paragraph of clause (ii) above, CPI-b for the calculation of the Escalation Factor for the then current and each succeeding Contract Year (until further changed in accordance with this provision) for purposes of determining the Capital Recovery Charge Base will be changed to the CPI Index number for the December immediately preceding the commencement of the Contract Year in which such recalculation occurs.

(h) Notwithstanding the provisions of the New Power Sales Contract to the contrary, the Purchaser will not be obligated to pay the Purchaser's Percentage of the Debt Reduction Charge and the Capital Recovery Charge in any month if, and only to the extent that, the aggregate value of unspent cash and investments on deposit in the Debt Reduction Charge Fund and the Capital Recovery Charge Fund as of the 15th day of the immediately preceding month exceeds:

(i) five (5) times the Capital Recovery Charge Base for the monthly periods during the Term ending prior to November 1, 2027;

(ii) four (4) times the Capital Recovery Charge Base for the monthly periods beginning November 1, 2027 and ending prior to November 1, 2028;

(iii) three (3) times the Capital Recovery Charge Base for the monthly periods beginning November 1, 2028 and ending prior to November 1, 2029;

(iv) two (2) times the Capital Recovery Charge Base for the monthly periods beginning November 1, 2029 and ending prior to November 1, 2030; and

(v) one (1) times the Capital Recovery Charge Base for the monthly periods beginning November 1, 2030 and ending prior to November 1, 2031.

For purposes of the foregoing, funds will be deemed "spent" when (i) costs are paid or incurred for Capital Improvements, or (ii) costs are committed to be expended for qualified costs pursuant to contracts for design, engineering, acquisition and/or construction of such Capital Improvements, but only to the extent that such costs are expected by the District to be paid or incurred prior to the expiration of the Term, or (iii) funds are applied to the purchase, redemption or defeasance of Debt Obligations.

(i) ***Debt Administrative Charge.*** The Purchaser will pay the District monthly during each Contract Year, in addition to the Net Costs and other amounts described in the New Power Sales Contract, an administrative charge equal to one-twelfth of Purchaser's Percentage multiplied by one percent (1.0%) per annum of the principal balance of the Debt Obligations outstanding at the beginning of such Contract Year, as determined by the District.

Unconditional Obligations. All Periodic Payments due under the New Power Sales Contract will be payable by Purchaser, whether or not the Purchaser can receive, accept, take delivery of or use all or any portion of such Output, regardless of curtailments, shutdowns, force majeure events or other operational, regulatory or financial circumstances that may affect the Purchaser, and whether or not any of the Projects are operable or operating or the operation thereof is interrupted, suspended, interfered with, reduced or curtailed, in whole or in part, at any time for any reason during the term of the New Power Sales Contract (including, without limitation, events of force majeure); provided, however, that the foregoing will not affect the rights of Purchaser to pursue a claim against the District for damages upon the occurrence of an Event of Default by the District with respect to any of its obligations under the New Power Sales Contract. The Periodic Payments payable by Purchaser pursuant to the New Power Sales Contract for any month, will be independent of and not related to the amount of Output, if any, delivered to Purchaser under the New Power Sales Contract during such month.

Final Payment. Within ninety (90) days following the expiration or earlier termination of the New Power Sales Contract, Purchaser will pay to the District any and all Periodic Payments accrued but unpaid, net of any credits due to Purchaser as of the date of such expiration or termination. The District will provide Purchaser with a special invoice identifying any such costs and credits within sixty (60) days following the expiration or termination date.

Use of Funds by District. Except as otherwise provided in the New Power Sales Contract and in Appendix A to the New Power Sales Contract, the District may use the Periodic Payments paid to the District under the New Power Sales Contract in any manner that the District, in its sole discretion, will determine.

Disposition of Fund Balances Upon Expiration or Termination of Agreement. Upon the expiration or prior termination of the New Power Sales Contract at any time for any reason, all amounts collected pursuant to the New Power Sales Contract, including, but not limited to, amounts deposited and on hand in any debt service, reserve, capital, coverage or other fund or account maintained by or on behalf of the District, will be retained by the District (or in the case of the Prepayment Amount, will be applied pursuant to the New Power Sales Contract). Purchaser will have no right, interest or claim in or to any such amounts or any interest or earnings thereon, except as set forth in the New Power Sales Contract.

Investment of Certain Funds. The District agrees in the New Power Sales Contract, to the extent consistent with applicable Law, to invest and keep invested in a manner consistent with the District's investment policies in effect from time to time, any unexpended amounts of the Debt Reduction Charges and Capital Recovery Charges during any Contract Year.

Billing and Payment

Billing of Periodic Payments. Periodic Payments will be billed as follows:

(a) ***Monthly Invoices; Periodic Payments.*** On or prior to the tenth (10th) day of each Month, the District will submit to the Purchaser, by electronic or facsimile transmission, a monthly invoice setting forth the Periodic Payments incurred by the District in the current Contract Year, and stating the sum of the Periodic Payments actually received to date from the Purchaser with respect to such Contract Year. Costs incurred but not actually known by the date of the invoice may be estimated, subject to reconciliation the following month or months, as actual costs become known by the District.

The Purchaser will pay each month the Periodic Payments then due as shown on the District's invoice, by electronic funds transfer to the District's account as the District's Treasurer may instruct. Periodic Payments will be due and payable to the District by 5:00 p.m. (Pacific prevailing time (PPT)) on the twentieth (20th) day of each Month in which the District's monthly invoice is received, or if such day is not a Business Day, on the next succeeding Business Day (the "Due Date"). Failure of the District to submit an invoice as scheduled will not release the Purchaser from liability for payment upon future delivery of the invoice.

(b) ***Late Charges and Interest.*** If payment in full is not made on or before the District's close of business on a Due Date, a delayed payment charge of two percent (2%) of the unpaid amount of the invoice will be assessed to the Purchaser. Interest will accrue on all past due statements at a rate equal to the lesser of 1.5% per month or the maximum rate allowed by law. Should Purchaser fail to pay any invoice within two (2) Business Days after its Due Date as provided in the New Power Sales Contract, the District will send a notice of such failure to pay to the Purchaser. A monthly payment remaining unpaid three (3) Business Days after the receipt by the Purchaser of such notice of failure to pay will constitute a breach of the New Power Sales Contract for purposes of the New Power Sales Contract, and the District may, in addition to its other remedies, suspend delivery of the Purchaser's Percentage of Output until all amounts due under the New Power Sales Contract (including late charges and interest) are received by the District.

(c) ***Payments Unconditional.*** The Periodic Payments will accrue, and the Purchaser will be obligated to make such payments through the date of termination of the New Power Sales Contract, irrespective of the condition of the Projects and whether or not they are capable of producing any Output for any reason. This provision will not constitute a waiver of the Purchaser's right to seek damages for a breach by the District of its obligations under the New Power Sales Contract.

(d) ***True-Up.*** Within thirty (30) days after the finalization of financial, statutory or other required audits for each Fiscal Year, the District will compute any amounts that should have been included as charges or credits in the monthly invoices to Purchaser during such Fiscal Year and prepare and submit to Purchaser a final true-up invoice containing any such expenses and credits (the "Annual True-Up"). If such Annual True-Up invoice shows a payment due to the District from the Purchaser, the final Annual True-Up invoice will be due and payable in the same manner as the monthly payments for Periodic Payments; provided that if the New Power Sales Contract has then expired, the Purchaser will make a payment by electronic funds transfer of such amount to the District within thirty (30) days of the date of such calculation and Purchaser's receipt of such final Annual True-Up invoice. If such Annual True-Up invoice shows a credit due to the Purchaser from the District, such credit will be reflected as a deduction to the Periodic Payment due the month(s) after the final Annual True-Up invoice is issued until such credit is exhausted; provided that if the New Power Sales Contract has then expired or expires prior to such credit being exhausted, the District will make a refund by electronic funds transfer of such amount to the Purchaser within thirty (30) days of the date of such calculation.

(e) ***Corrections.*** The District may make corrections for expenses and credits discovered by either Party in invoices or Annual True-Up reports in each of the prior three (3) Fiscal Years. No adjustments for or with respect to expenses, credits or energy exchanges will be made with respect to any Fiscal Year ending earlier than the third Fiscal Year preceding the Fiscal Year to which the current audit pertains.

Accounting. The District will cause proper books and records of account to be kept for each of the Projects by the District. Such books and records of account will be kept in accordance with the rules and regulations established by any Government Authority authorized to prescribe such rules including, but not limited to, the Division of Municipal Corporations of the State Auditor's Office of the State of Washington or such other Washington State department or agency succeeding to such duties of the State Auditor's Office. The District will also maintain books and records in conformity with GAAP and in accordance with the Uniform System of Accounts prescribed by FERC or such other federal agency having jurisdiction over electric utilities owning and operating properties similar to the District's electric properties. The District will cause such books and records of account to be audited by independent certified public accountants, experienced in electric utility accounting, to be retained by the District. The audits to be made by such certified public accountants, as above mentioned, will be made annually and will cover each Fiscal Year during the term of the New Power Sales Contract. At the Purchaser's written request, the District will deliver a copy of each such annual audit, including any recommendations of the auditors with respect to the Project to Purchaser promptly after it is received by the District.

Audits by Purchaser. District will provide or cause to be provided all information that Purchaser may reasonably request to substantiate all invoices, adjustments and claims under the New Power Sales Contract related to the Projects. Purchaser will, upon notice, have the right to audit, at its sole cost and expense, upon reasonable notice and during normal business hours following the receipt of an Annual True-Up, and District will make or cause to be made available any and all books and records related to the Projects which directly relate to the determination of Net Costs as set forth in Appendix A to the New Power Sales Contract and are reasonably necessary for verification of charges and costs included in invoices or amended invoices rendered under the New Power Sales Contract or verification of Purchaser's or the District's compliance with the New Power Sales Contract; provided, however, that Purchaser will coordinate its rights under this section with the other Share Participants in order to conduct joint, rather than individual, audits pursuant to this provision. The District will also cooperate with Purchaser in its efforts to verify the charges imposed pursuant to the New Power Sales Contract. Any Annual True-Up not challenged within three (3) years following its date will be considered final. Any audit will, at the option of Purchaser and at Purchaser's expense, be performed by designated employees, consultants or agents of Purchaser that Purchaser determines in its discretion are experienced in utility practices. Upon request, District will be entitled to review the complete audit report and any supporting materials.

No Interest In System. The New Power Sales Contract is for a sale of Output as described in the New Power Sales Contract. Nothing in the New Power Sales Contract is intended to grant to Purchaser any rights to or interest in any specific District project, facility or resource.

Nothing in the New Power Sales Contract will be construed to create a partnership, association or joint venture with Purchaser, or any ownership interest or other legal right in Purchaser with respect to any existing District facility, project or resource, including but not limited to, the Chelan Power System or the Projects.

Control, Operation and Maintenance of the System

Subject to the provisions of the New Power Sales Contract, the District will operate and maintain the Chelan Power System in accordance with Prudent Utility Practices and will use Commercially Reasonable Efforts consistent with Prudent Utility Practice to keep the Chelan Power System in good operating condition at all times. The District will use Commercially Reasonable Efforts consistent with Prudent Utility Practice to perform such operations and maintenance in an efficient, economical and workmanlike manner; and the District will make such repairs, renewals, additions, improvements and replacements of Project components as the District determines in its sole discretion.

Nothing in the New Power Sales Contract will be construed to grant Purchaser any right of control over the operation or maintenance of or repairs, renewals, additions, improvements or replacements to any of the District's generation, transmission or distribution facilities or the financing for such activities. All deliveries will be subject to the District's curtailment rights set forth in the New Power Sales Contract.

Following the first Project Availability Date, at the request of Purchaser, the District will meet with representatives of Purchaser on a semi-annual basis. All such meetings will be held at the District's headquarters office, or such other location, and at a date and time as the Parties may mutually agree. The District may elect to schedule such meetings with other Share Participants, but it will not be obligated to do so. The District's representatives will attend and provide information concerning past and future expenditures, budgets, operations, maintenance, capital projects and other matters related to the Chelan Power System, as reasonably requested by Purchaser. Meetings initiated pursuant to this paragraph will not exceed eight (8) hours duration without the District's consent. At such meetings, Purchaser may make recommendations to the District concerning the operation and maintenance of, and repairs, renewals, additions, improvements and replacements to, the Chelan Power System. Nothing in the New Power Sales Contract will be construed to create any implied obligations by the District with respect to the Purchaser's recommendations.

Relicensing Support

The District will follow Prudent Utility Practice in obtaining and maintaining licenses and permits for operation during the Term of each Project after its Project Availability Date in accordance with the New Power Sales Contract. The District's current FERC license for Rocky Reach expires on June 30, 2006; and its current FERC license for Rock Island expires on December 31, 2028. The District currently intends to seek a new license for each of the Projects. In light of the fact that the Output with respect to each of the Projects is material to the New Power Sales Contract, Purchaser covenants and agrees in the New Power Sales Contract to use Commercially Reasonable Efforts, at its cost and expense, to support the District's efforts to obtain a new license for each of the Projects, at such times during the Term and in such manner as the District will reasonably request in writing. Such support may include, but will not be limited to, providing letters or other written statements of support and written or oral testimony before FERC or in other administrative or legal proceedings, and participation in and statements of support at public meetings.

Each Party covenants and agrees in the New Power Sales Contract to act reasonably in support of any request by the other Party for review or approval by any Regulatory Authority of the New Power Sales Contract (or costs incurred under the New Power Sales Contract). Such support may include, but will not be limited to, providing letters or other written statements of support and written or oral testimony before FERC or in other administrative or legal proceedings, and participation in and statements of support at public meetings, in each case as such supporting party reasonably deems prudent.

Risk of Loss and Disclaimer of Warranties

Risk of Loss. The District represents and warrants in the New Power Sales Contract that it will deliver the Output sold under the New Power Sales Contract to Purchaser free and clear of all liens, claims and encumbrances arising prior to the delivery of such Output at the Transmission Point(s) of Receipt. Risk of loss associated with the Output will transfer from the District to Purchaser at the point Output reaches the Transmission Point(s) of Receipt. Purchaser will bear all risk of all occurrences of any nature (including force majeure or any other event beyond the reasonable control of either Party) affecting any interconnection facilities, substations, transmission lines and other facilities on Purchaser's side of the applicable Transmission Point(s) of Receipt. For the avoidance of doubt, the risk of loss pursuant to the foregoing will not reduce or otherwise affect the Purchaser's Periodic Payments as described in the New Power Sales Contract.

The District will not be liable to Purchaser for any damages or losses sustained by Purchaser or its customers or third parties as a result of the curtailment, reduction or interruption of Output.

Disclaimer of Warranties. Except as otherwise expressly set forth in the New Power Sales Contract, the District disclaims any and all warranties beyond the express terms of the New Power Sales Contract, including any implied warranties of merchantability or fitness for a particular purpose, and all other warranties with regard to all Energy and Capacity and other Output made available to Purchaser pursuant to the New Power Sales Contract are expressly disclaimed.

The Parties confirm in the New Power Sales Contract that the express remedies and measures of damages provided in the New Power Sales Contract against the Purchaser, and the express limitations as to remedies and damages provided in the New Power Sales Contract with respect to the District, in each case satisfy the essential purposes of the New Power Sales Contract. For breach of any provision of the New Power Sales Contract for which an express remedy or measure of damages is provided, such express remedy or measure of damages will be the sole and exclusive remedy, the obligor's liability will be limited as set forth in such provision and all remedies or damages at law or in equity are waived. Except as otherwise expressly provided in the New Power Sales Contract, the obligor's liability will be limited to direct actual damages only, such direct actual damages will be the sole and exclusive remedy and all other remedies or damages at law or in equity are waived.

THE FOREGOING IS IN LIEU OF ALL OTHER WARRANTIES, EXPRESSED OR IMPLIED, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, IN FACT OR BY LAW WITH RESPECT TO THE OUTPUT PROVIDED

UNDER THE NEW POWER SALES CONTRACT. DISTRICT DISCLAIMS ANY AND ALL OTHER WARRANTIES WHATSOEVER.

The limitations under "Risk of Loss" above will be in addition to, and not in lieu of, the other provisions of the New Power Sales Contract, however, the provisions in the New Power Sales Contract will not apply to liabilities arising under the Transmission Agreement or the Interconnection Agreement.

Assignment

Neither Party will assign the New Power Sales Contract or its rights under the New Power Sales Contract without the prior written consent of the other Party, which consent may be withheld in the exercise of its sole discretion; provided, however, that:

(a) The District may, without the consent of the Purchaser (and without relieving itself from liability under the New Power Sales Contract), pledge or encumber the New Power Sales Contract or the accounts, revenues or proceeds of the New Power Sales Contract in connection with any financing or other financial arrangements; and

(b) So long as no default or event which, following notice or the lapse of time or both, would constitute a default by such assigning Party has occurred and is continuing, and no Downgrade Event with respect to such Party has occurred and is continuing, such Party may, with the consent of the other Party, which consent will not be unreasonably withheld, conditioned or delayed (i) transfer or assign the New Power Sales Contract to an Affiliate of such assigning Party, provided such Affiliate's creditworthiness is equal to or higher than the then existing credit quality of such Party, or (ii) transfer or assign the New Power Sales Contract to any person or entity that, by merger, consolidation or otherwise, succeeds to all or substantially all of the assets of such assigning Party; provided, however, that in each such case, in the reasonable judgment of the non-assigning Party:

(i) the proposed successor has assumed and has agreed to service, and has the requisite skill and experience to service, the retail and commercial distribution system of such Party;

(ii) the proposed successor is capable of performing the obligations of the assigning Party under the New Power Sales Contract in the same manner and with the same capacity as the assignor immediately prior to such transfer;

(iii) the proposed successor's short term and long term creditworthiness is equal to or higher than the then existing credit quality of such assigning Party;

(iv) after giving effect to such assignment, the prospective assignee would not be in default under the New Power Sales Contract (determined without regard to any notices and cure periods);

(v) such prospective assignee will sign an assumption agreement in form and substance reasonably satisfactory to the non-assigning Party, agreeing to be bound by the assignor's obligations under the New Power Sales Contract; and

(vi) the non-assigning Party will have received such opinions, certificates and other assurances as the non-assigning Party may reasonably request as to the enforceability of such undertaking and to the effect that such transfer will not have a material adverse effect (tax or otherwise) on the non-assigning Party.

If more than one Party has signed the New Power Sales Contract as Purchaser under the New Power Sales Contract, this provision will apply to each entity collectively as a unit. No assignment made under this clause (b) will release the assigning Party from its obligations under the New Power Sales Contract unless the non-assigning Party expressly consents to such release, which consent may be withheld at the non-assigning Party's sole discretion; and

(c) Nothing contained in the New Power Sales Contract will preclude the District, without notice to or the consent of the Purchaser, from entering into lease/leaseback, sale/leaseback with an option to purchase, or other similar arrangements with respect to the Projects, or either of them, the economic effect of which is to transfer tax ownership of the Project or Projects for a stated period to a third party, provided that the District retains control of the management and operation of the Projects and the Output, equivalent to that of a legal owner, as determined by the District, for the Term.

Insurance

Purchaser will acquire and maintain during the Term in full force and effect, at its sole cost and expense, comprehensive general liability insurance that includes operations, products and contractual liability, explosion, collapse, and underground hazards, broad form property damage, sudden and accidental pollution and personal liability, with a minimum combined single limit of $10,000,000 per occurrence and not less than $20,000,000 in the aggregate. Each such policy will be primary to and will not contribute to any insurance that may otherwise be maintained by, or on behalf of, the District. All insurance required under the New Power Sales Contract will contain provisions waiving the insured's and the insurer's rights of subrogation or recovery of any kind against the District, its Affiliates and their respective directors, trustees, agents, employees, officers, successors and assigns. Self insurance may be substituted for all or any part of the insurance requirements under the New Power Sales Contract consistent with any generally applied self insurance program of Purchaser. Purchaser will provide the District with a summary of insurance coverages in force on an annual basis. The District acknowledges and agrees that the Purchaser's current program of insurance and self-insurance, as of the Signing Date, is consistent with and satisfies the foregoing provisions of the New Power Sales Contract.

The District will maintain an insurance and/or self-insurance program with respect to the Chelan Power System for property damage, general liability, and other risks as, consistent with Prudent Utility Practice, the District may determine and the District's Commissioners may approve. The Purchaser acknowledges and agrees in the New Power Sales Contract that the District's current program of insurance and self-insurance meets requirements of the New Power Sales Contract.

Default and Termination

Events of Default. An "Event of Default" means, with respect to a Party (a "Defaulting Party"), the occurrence of any of the following:

(a) the failure to make, when due, any payment required pursuant to the New Power Sales Contract if such failure is not remedied within three (3) Business Days after receipt of written notice, as required in the New Power Sales Contract;

(b) any representation or warranty made by such Party in the New Power Sales Contract is false or misleading in any material respect when made or when deemed made or repeated;

(c) the failure to perform any material covenant or obligation set forth in the New Power Sales Contract (except to the extent constituting a separate Event of Default) if such failure is not remedied within 30 days after receipt of written notice;

(d) the Bankruptcy of such Party;

(e) the failure of the Purchaser to make the Prepayment Amounts at the times and in the amounts required pursuant to the New Power Sales Contract;

(f) the failure of such Purchaser to provide Adequate Assurances to the District within fifteen (15) days following receipt of written notice that the District in good faith has reasonable grounds for insecurity (determined using commercially reasonable standards embodied in Section 2-609(2) of the Washington State Uniform Commercial Code) in the Purchaser's ability to perform its obligations under the New Power Sales Contract;

(g) such Party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all of its assets to, another entity and, at the time of such consolidation, amalgamation, merger or transfer, the resulting, surviving or transferee entity fails to assume all the obligations of such Party under the New Power Sales Contract to which it or its predecessor was a party by operation of law or pursuant to an agreement reasonably satisfactory to the other Party; or

(h) the occurrence and continuation of (i) a default, event of default or other similar condition or event in respect of such Party under one or more agreements or instruments, individually or collectively, relating to indebtedness for borrowed money ("Funding Agreements") in an aggregate amount of not less than the applicable Cross Default Amount which results in such indebtedness becoming immediately due and payable or (ii) a default by such Party in making on the due date therefor one or more payments, individually or collectively, under any judgment, or under any contract or other obligation not included within the definition of "Funding Agreement" above, in an aggregate amount of not less than the applicable Cross Default Amount; provided, however that such Party will not be deemed in default under this clause (ii) so long as it diligently contests such payments in good faith by appropriate proceedings and pays any amount ultimately determined to be due within 30 days of such determination.

The District's use of Prepayment Amounts to fund a payment default by the Purchaser will not relieve the Purchaser of its obligation to make such payment as and when due and such non-payment will constitute an Event of Default under the New Power Sales Contract, which will be deemed to continue until the Prepayment Amounts have been fully replenished. The decommissioning of one or both Projects pursuant to the New Power Sales Contract will not constitute a breach of the New Power Sales Contract.

Remedies upon Default. The Party as to which an Event of Default has not occurred (each a "Non-Defaulting Party") will have the right, so long as any Event of Default is continuing and has not been cured within the applicable cure periods, if any, to take any one or more of the following actions:

(a) suspend its performance under the New Power Sales Contract, other than any payment obligations that may be due or become due under the New Power Sales Contract, until such Event of Default is cured or formally waived in writing by the Non-Defaulting Party;

(b) in the case of the District only, terminate the New Power Sales Contract and sue for damages as contemplated in the New Power Sales Contract;

(c) maintain successive proceedings against the Defaulting Party for recovery of damages or for a sum equal to any and all payments required to be made pursuant to the New Power Sales Contract; or

(d) take whatever action at law or in equity as may be necessary or desirable to collect the amounts payable by the Defaulting Party under the New Power Sales Contract, as then due or to become due thereafter, or to enforce performance and observation of any obligation, agreement or covenant of the Defaulting Party under the New Power Sales Contract.

If the District suspends performance pursuant to clause (a) above, the District will act in a Commercially Reasonable manner to mitigate damages, including but not limited to using Commercially Reasonable efforts to sell the Purchaser's share of Output to third parties on a short term basis. In such case, Purchaser will pay for the full amount of the monthly Periodic Payments, and any proceeds the District receives from the sale of such Output, net of administrative fees, costs and expenses, as determined by the District, will first be applied against amounts owed by the Purchaser under the New Power Sales Contract with respect to such Output, with the balance, if any, being retained by the District.

Notwithstanding any other provision contained in the New Power Sales Contract, the Purchaser waives any right it may have to terminate the New Power Sales Contract as a result of a default by the District and agrees to limit its remedies related to any such default to claims for damages, specific performance or injunctive or equitable relief.

Except as otherwise expressly provided in the New Power Sales Contract, no right or remedy conferred upon or reserved to a Party is intended to be exclusive of any other right or remedy, and each and every right and remedy will be cumulative and in addition to any other right or remedy given under the New Power Sales Contract, or legally existing at the time of signing the New Power Sales Contract or thereafter, upon the occurrence of any Event of Default. Failure of either Party to insist at any time on the strict observance or performance by the other Party of any of the provisions of the New Power Sales Contract, or to exercise any right or remedy provided for in the New Power Sales Contract will not impair any such right or remedy nor be construed as a waiver or relinquishment thereof for the future. Receipt by the District of any payment required to be made under the New Power Sales Contract with knowledge of the breach of any provisions of the New Power Sales Contract, will not be deemed a waiver of such breach. In addition to all other remedies provided in the New Power Sales Contract, each Party will be entitled, to the extent permitted by applicable Law, to injunctive relief in case of the violation, or attempted or threatened violation, of any of the provisions of the New Power Sales Contract, or to a decree requiring performance of any of the provisions of the New Power Sales Contract or to any other remedy legally allowed to such Party.

Calculation of District's Loss upon Termination.

(a) If the District terminates the New Power Sales Contract pursuant to the New Power Sales Contract, the District will be entitled to recover from the Purchaser the full amount of its loss resulting from the early termination of the New Power Sales Contract. The Parties recognize that it will be difficult to calculate those losses with absolute precision and agree in the New Power Sales Contract that the District's good faith determination of such losses, based on the methodology set forth in the New Power Sales Contract, will be conclusive and binding on the Parties, absent manifest error.

(b) The District's losses and costs upon such termination will be determined based on its assessment of the cost of replacing the defaulting Purchaser with a new creditworthy participant who is willing to assume the obligations of the defaulting Purchaser under the New Power Sales Contract. Such costs will include, among other items, upfront incentive payments the District reasonably believes it will be required to pay to entice a substitute Purchaser to assume the defaulting Purchaser's obligations under the New Power Sales Contract, the present value (calculated at the District's tax exempt borrowing rate, or if the District no longer has tax exempt debt outstanding, at its applicable taxable borrowing rate) of pricing discounts and other concessions that the District reasonably believes will be required to entice a substitute Purchaser to assume such obligations, the legal fees and expenses anticipated to be incurred by the District in effectuating such substitution, and all other losses, costs and expenses that have been, and that the District reasonably believes will be, incurred in connection with such default, termination and substitution.

(c) All such losses and costs will be determined by the District in good faith, using Commercially Reasonable procedures, in order to arrive at a Commercially Reasonable result.

(d) Amounts due and owing by the defaulting Purchaser as of the date of termination, together with all legal fees, costs and expenses incurred by the District, arising out of or as a result of such default in connection with the enforcement of the New Power Sales Contract and the protection of its rights under the New Power Sales Contract (including all costs of collection) will be in addition to the losses calculated in accordance with clause (b) above.

(e) In determining its losses, the District may consider any relevant information, including, without limitation, one or more of the following types of information:

(i) quotations (either firm or indicative) for assumption of the Purchaser's obligations under the New Power Sales Contract, supplied by one or more third parties that take into account the status of the Chelan Power System, the District's existing and anticipated Net Costs, the creditworthiness of the District at the time the quotation is provided and any other factors then existing or anticipated that are relevant to the third party providing such quotation;

(ii) information consisting of relevant market data in the relevant market supplied by one or more third parties, including, without limitation, relevant existing and projected rates, prices, yields, yield curves, volatilities, spreads, correlations and other relevant market data, and the current and anticipated future regulatory environment; or

(iii) information of the types described in the subclauses (i) or (ii) above from internal sources if that information is of the same type used by the District in the regular course of its business for evaluating power sales contracts.

(f) The District will consider, taking into account the standards and procedures described above, quotations pursuant to clause (e)(i) above or relevant market data pursuant to clause (e)(ii) above, unless the District reasonably believes in good faith that such quotations or relevant market data are not readily available or would produce a result that would not satisfy those standards. When considering information described in clause (e)(i), (ii) or (iii) above, the District may include costs of funding, to the extent it would not be a component of the other information utilized. Third parties supplying quotations pursuant to clause (e)(i) above or market data pursuant to clause (e)(ii) above may include, without limitation, wholesale purchasers in relevant markets, end-users of electric energy, information vendors, brokers, and other sources of market information.

(g) In making the calculations under the New Power Sales Contract, the mandatory step-up provisions of the New Power Sales Contract will be ignored.

(h) If the District determines that its losses, as determined using the foregoing methodology, are negative (meaning that the District will benefit economically from such termination), no amounts will be due by either Party with respect to such losses, and the Purchaser's liability will be limited to (i) amounts due and owing and accrued as of the date of termination, plus (ii) attorneys fees and expenses and other collection costs, plus (iii) the District's reasonable costs of calculating such losses.

(i) The District will notify the Purchaser of its calculation of losses as soon as possible after termination and will supply the Purchaser with a summary analysis of the methodology used in such calculations. The Parties recognize that it will be extremely difficult to precisely determine the amount of actual damages and loss that would be suffered by the District if the Purchaser's default gives rise to a termination of the New Power Sales Contract as contemplated in the New Power Sales Contract, and agree that the District's reasonable determination of such losses, using the methodology pursuant to this section, is a fair and reasonable method of determining of the amount of actual damages that would be suffered by the District in such event. The loss methodology is intended to measure the anticipated damages actually suffered from a termination and is not intended to constitute a penalty or forfeiture.

Dispute Resolution

General. Any dispute arising out of, or relating to, the New Power Sales Contract, with the exception of those specifically excluded under the New Power Sales Contract, will be subject to the dispute resolution procedures specified in the New Power Sales Contract. Each Party retains the right, after making a good faith effort at resolving the dispute pursuant to the terms of the New Power Sales Contract, to pursue such other actions and remedies otherwise permitted or authorized by law or equity.

Good-Faith Negotiations. The Parties will first negotiate in good faith to attempt to resolve any dispute, controversy or claim arising out of, under, or relating to the New Power Sales Contract (a "Dispute"), unless otherwise mutually agreed to by the Parties. In the event that the Parties are unsuccessful in resolving a Dispute through such negotiations, either Party may proceed immediately to litigation concerning the Dispute.

The process of "good-faith negotiations" requires that each Party set out in writing to the other its reason(s) for adopting a specific conclusion or for selecting a particular course of action, together with the sequence of subordinate facts leading to the conclusion or course of action. The Parties will attempt to agree on a mutually agreeable resolution of the Dispute. A Party will not be required as part of these negotiations to provide any information which is confidential or proprietary in nature unless it is satisfied in its discretion that the other Party will maintain the confidentiality of and will not misuse such information or any information subject to attorney-client or other privilege under applicable Law regarding discovery and production of documents.

The negotiation process will include at least two (2) meetings to discuss any Dispute. Unless otherwise mutually agreed, the first meeting will take place within ten days after either Party has received written notice from the other of the desire to commence formal negotiations concerning the Dispute. Unless otherwise mutually agreed, the second meeting will take place no more than ten days later. In the event a Party refuses to attend a negotiation meeting, either Party may proceed immediately to litigation concerning the Dispute.

Confidentiality and Non-Admissibility of Statements Made in, and Evidence Specifically Prepared for, Good Faith Negotiations. Each Party agrees that, to the full extent permitted by law, all statements made in the course of good faith negotiations, as contemplated in the New Power Sales Contract, will be Confidential Information and will not be disclosed, except as provided in the New Power Sales Contract and except that such statements may be disclosed to or shared with any third person whose presence is necessary to facilitate the negotiation process). Each Party agrees and acknowledges that no statements made in or evidence specifically prepared for good faith negotiations under the New Power Sales Contract will be admissible for any purpose in any subsequent litigation.

Other Recourse. Notwithstanding any other provision of the New Power Sales Contract, either Party may, without prejudice to any negotiation or mediation, proceed in the courts of the State of Washington to obtain provisional judicial relief if, in such Party's sole discretion, such action is necessary to protect public safety, avoid imminent irreparable harm, or to preserve the status quo pending the conclusion of any dispute resolution procedures employed by the Parties or pendency of any action at law or in equity. Except for temporary injunctive relief under this section, neither Party will bring any action at law or in equity to enforce, interpret, or remedy any breach or default of the New Power Sales Contract without first complying with the dispute resolution provisions of the New Power Sales Contract.

Commitments. Unless otherwise agreed to in writing (including any express provision of the New Power Sales Contract) or prohibited by applicable Law, the Parties will continue to honor all commitments under the New Power Sales Contract during the course of any dispute resolution under the New Power Sales Contract and during the pendency of any action at law or in equity.

No Dedication of Facilities

No undertaking under any provision of the New Power Sales Contract will constitute a dedication of any portion of the electric system of either Party to the public or to the other Party.

Licenses and Ownership and Control

Purchaser acknowledges and agrees in the New Power Sales Contract that the District must comply with the terms and provisions of the (i) FERC licenses for the respective Projects and (ii) the respective Debt Obligations and the resolutions and documents authorizing or providing for the issuance or incurrence and/or the terms thereof. The New Power Sales Contract is made subject to the terms and provisions of such FERC licenses and such licenses will govern to the extent of any conflict with the terms and provisions of the New Power Sales Contract.

Financial Information

The Purchaser will deliver to the District (i) within 120 days following the end of each fiscal year of Purchaser, a copy of the Purchaser's annual report containing audited consolidated financial statements for such fiscal year, (ii) within 60 days after the end of each of its first three fiscal quarters of each fiscal year, a copy of the Purchaser's quarterly report containing unaudited consolidated financial statements for such fiscal quarter, (iii) all public announcements made by the Purchaser of a financial nature promptly following their release to the public, and (iv) any notice of any Downgrade Event, promptly upon the occurrence thereof. In all cases the statements will be for the most recent accounting period and prepared in accordance with GAAP; provided, however, that should any such statements not be available on a timely basis due to a delay in preparation or in the delivery of audited financial statements or certificates with respect thereto, such delay will not be an Event of Default so long as the Purchaser provides notice to the District and diligently pursues the preparation and delivery of the statements and required certificates.

Limitation of Liability

Except as provided in the New Power Sales Contract, and then only to the extent provided therein, neither Party (including each Party's officers, trustees, directors, agents, employees, direct and indirect parents, subsidiaries or Affiliates, and such parents', subsidiaries' or Affiliates' officers, trustees, directors, agents or employees) will be liable or responsible to the other Party (or its direct and indirect parents, subsidiaries, Affiliates, officers, trustees, directors, agents, employees, successors or assigns) or their respective insurers, for special, incidental, indirect, exemplary, punitive or consequential damages connected with or resulting from the performance or non-performance of the New Power Sales Contract, or anything done in connection therewith including, without limitation, Claims in the nature of business interruption, lost revenues, income or profits (other than payments expressly required and properly due under the New Power Sales Contract), or loss of business, reputation or opportunity, or cost of capital, and irrespective of whether such Claims are based upon downtime costs or Claims of customers, and irrespective of whether such Claims are based upon breach of warranty, tort (including negligence, whether of either District, Purchaser or others), strict liability, contract, operation of law or otherwise, but excluding acts or omissions of gross negligence or willful misconduct.

Each Party agrees that it has a duty to mitigate damages and covenants that it will use Commercially Reasonable Efforts to minimize any damages it may incur as a result of the other Party's non-performance of the New Power Sales Contract.

Miscellaneous

Entire Agreement; Modifications. Except as may be expressly provided in the New Power Sales Contract, all previous communications between the Parties hereto, either verbal or written, with reference to the subject matter of the New Power Sales Contract are abrogated. The Purchaser's entitlement to Output from Rocky Reach under the New Power Sales Contract will only become effective on the expiration of the existing Power Sales Contract between Public Utility District No. 1 of Chelan County, Washington and Purchasers, dated as of November 14, 1957, as heretofore or hereafter amended from time to time (as so amended, "Existing Rocky Reach Power Sales Contract"), and the Purchaser's entitlement to Output from Rock Island under the New Power Sales Contract will only become effective on the expiration of the existing Power Contract – Rock Island Joint System between the Parties dated June 19, 1974, as heretofore or hereafter amended from time to time (as so amended, "Existing Rock Island Power Sales Contract"), and nothing in the New Power Sales Contract will be deemed to supersede or supplement those agreements. Upon the Project Availability Date for a Project, the New Power Sales Contract will constitute the entire agreement between the Parties hereto with respect to such Project. No modifications of or amendments to the New Power Sales Contract will be binding upon the Parties or either of them unless such a modification will be in writing, hereafter duly executed by an authorized officer or employee of each Party.

Neither Party nor any Affiliate thereof may make application to FERC, or any other Government Authority having jurisdiction over the New Power Sales Contract, seeking any change in the New Power Sales Contract pursuant to the provisions of Sections 205 or 206 of the Federal Power Act or under any other statute, regulation or other provision promulgated by a Government Authority, nor support any such application by a third party. Absent the agreement of the Parties to any proposed change, the standard of review for changes to any Section of the New Power Sales Contract specifying the rate(s) or other material economic terms and conditions agreed to by the Parties in the New Power Sales Contract whether proposed by a Party, a non-Party or FERC actions sua sponte, will be the "public interest" standard of review set forth in United Gas Pipe Line Co. v. Mobile Gas Service Corp., 350 U.S. 332 (1956) and Federal Power Commission v. Sierra Pacific Power Co., 350 U.S. 348 (1956) (the "Mobile-Sierra" doctrine). The Parties, for themselves and their successors and assigns, (i) agree that this "public interest" standard will apply to any proposed changes in any other documents, instruments or other agreements executed or entered into by the Parties in connection with the New Power Sales Contract and (ii) expressly and irrevocably waive any rights they can or may have to the application of any other standard of review, including the "just and reasonable" standard.

No Guaranty; Obligations Regarding Bonds or Indebtedness. Nothing contained in the New Power Sales Contract will obligate the Purchaser, directly or indirectly, to be or become a guarantor or surety of any bonds or indebtedness of the District and the Purchaser will not directly or contingently be obligated to pay such bonds or indebtedness, nor will it be liable or responsible for the District's use, deposit, investment or application of any funds payable by the Purchaser under the New Power Sales Contract. The District may pledge payments to be made by the Purchaser under the New Power Sales Contract as security for any such bonds or indebtedness; however, such pledge will not imply any obligation of the Purchaser beyond the express terms of the New Power Sales Contract.

Environmental Attributes. If Puget notifies the District that Environmental Attributes have become available that result from or are directly attributable to Output generated from the Chelan Power System, the Parties agree to negotiate in good faith a fair and equitable allocation of such Environmental Attributes, pro rated over the remaining Term; provided, however, that nothing in the New Power Sales Contract is intended to address the Purchaser's right, if any, to any energy certificates or other credits that may otherwise be available to Purchaser under state or Federal law without the consent, approval or agreement of the District; and provided further, however, that notwithstanding any other provision of his Agreement to the contrary, the Purchaser will not be entitled to Environmental Attributes to the extent the District reasonably determines that such allocations might cause interest on any of its outstanding obligations to be includable in gross income of the holders thereof for federal income tax purposes.

Determination of Chelan Power System Net Costs

Determination of Net Costs. For purposes of the New Power Sales Contract, the District's Chelan Power System net costs ("Net Costs") for any given month will include all costs and expenses of every kind and description, both direct and indirect, paid or accrued by the District in such Month with respect to its ownership, operation, maintenance, repair and improvement of, and the production, sale and delivery of Output from, the Chelan Power System, as determined by the District, including without duplication (whether under the New Power Sales Contract, the Transmission Agreement or the Interconnection Agreement), the items of cost and expense described below, plus any cost or expenses incurred by the District in such month in administrating the New Power Sales Contract that are unique to Purchaser or Purchaser's performance (or failure to perform) under the New Power Sales Contract. Net Costs will not include any depreciation expense. Such Net Costs will include, without intending to limit the generality of the foregoing:

Operating and Maintenance Costs. All operating and maintenance costs of every kind and description, both direct and indirect ("Operating Costs"), paid or accrued by the District with respect to the operation, maintenance and repair of, or the production, sale or delivery of Output from, the Chelan Power System or any part thereof, including allocable District overhead and administrative costs, and costs of generation integration for the Chelan Power System provided by the District's distribution system, all as the District may reasonably determine consistent with GAAP, FERC regulations (including FERC's Uniform System of Accounts) and the District's accounting policies, practices and procedures. Without limiting the generality of the foregoing, Operating Costs will include those items of cost described in subsections (i) through (iv) below.

(i) ***Taxes and Assessments.*** All governmental taxes, assessments or other similar charges with respect to its ownership, operation, maintenance or repair of, or the production, sale or delivery of Output from, the Chelan Power System or any part thereof, including payments by the District in lieu of such governmental taxes, assessments or other similar charges.

(ii) ***Certification, Relicensing and Decommissioning Costs.*** All costs determined by the District to be reasonably allocable to the certification, re-licensing or decommissioning of any of the Projects or any part thereof. The District agrees that it will not accelerate payment of costs associated with measures required or agreed upon, in the District's sole discretion, for the relicensing of either Project in advance of the date(s) necessary to comply with existing and anticipated FERC and other regulatory requirements or settlement agreements related to relicensing.

(iii) ***Litigation.*** All judgments, claims, settlements, arbitration awards and other similar costs and liabilities with respect to its ownership, operation, maintenance, repair or improvement of, or the production, sale or delivery of Output from, the Chelan Power System, including attorneys' fees and costs, in each case to the extent not paid from proceeds of insurance.

(iv) ***Loss Prevention.*** All costs for the prevention of any loss or damage to the Chelan Power System, and all costs of the correction of any loss or damage to the Chelan Power System to the extent not paid from proceeds of insurance covering such loss or damage.

Anything in the Agreement to the contrary notwithstanding, Operating Costs will not include costs paid or deemed paid from the proceeds of Debt Obligations or to the extent the costs of Capital Improvements were paid from Capital Recovery Charges or Debt Reduction Charges as contemplated in the Agreement.

The Purchaser agrees in the New Power Sales Contract that the District may, in its sole discretion, determine what Operating Costs will be incurred in connection with the ownership, operation, maintenance and improvement of, and the production, sale and delivery of Output from, the Chelan Power System.

Financing Costs. Financing Costs ("Financing Costs") for each Month will consist of the monthly accrual, as determined by the District, of the following costs payable or deemed payable by the District or the Chelan Power System, as the case may be, in connection with the issuance, incurring and carrying of Debt Obligations:

(i) ***Outstanding Debt Obligations.*** With respect to Debt Obligations that are outstanding as of the Signing Date ("Outstanding Debt Obligations"), the Purchaser will pay Financing Costs based on the payment and amortization schedule attached to the New Power Sales Contract, and regardless of actual payments owed by the District and regardless of any subsequent changes in such Debt Obligations, whether as a result of prepayments, refundings, restructuring or otherwise.

(ii) ***Future Debt Obligations.*** With respect to Debt Obligations that are incurred after the Signing Date ("Future Debt Obligations"), the Purchaser will (a) pay, commencing November 1, 2011, the monthly amortization of the Assumed Debt Service on such Debt Obligations attributable to Rocky Reach, and (b) pay, commencing July 1, 2012, the monthly amortization of the Assumed Debt Service on such Debt Obligations attributable to Rock Island. Following the issuance or incurrence of any Debt Obligation, the District will make available to the Purchaser, at its request, a written schedule showing the Capital Improvements expected to be financed by the District from the proceeds thereof, the estimated Average Service Life of such Capital Improvements as determined by the District and the scheduled monthly Financing Costs associated with such Debt Obligations.

(iii) ***Refunding Obligations.*** The Purchaser's Financing Costs with respect to Debt Obligations will be determined as of the Signing Date or the date of original issuance or incurrence thereof, as the case may be, and will not be affected by any subsequent direct or synthetic refinancing of such obligations.

Except as provided below, no adjustment will be made to the Purchaser's scheduled Debt Obligations payments as calculated in accordance with this Section as a result of the payment, purchase, defeasance, tender, acceleration, redemption or other restructure or modification of Debt Obligations after the initial issuance or incurrence thereof.

Capital Recovery Charge and Debt Reduction Charge Adjustments. If the District purchases, redeems or defeases outstanding debt of the Chelan Power System from moneys on deposit in the Capital Recovery Charge Fund or Debt Reduction Charge Fund, or from proceeds of insurance received with respect to components of the Capital Improvements that the District elects not to repair, rebuild or replace, all as determined by the District, the District will provide the Purchaser with a credit against its monthly Financing Costs otherwise due from time to time under the New Power Sales Contract, spread over a 25 year period from the month following the month of calculation (which the District agrees to complete as soon as reasonably practical following such purchase, redemption or defeasance), computed on a level monthly credit basis, using the following criteria, all as determined by the District: (i) the interest component of the credit will be the actual weighted average interest rate applicable to Debt Obligations included in the Purchaser's Financing Costs (as set forth in the New Power Sales Contract and as determined in accordance with the New Power Sales Contract), and (ii) the principal component of the credit will equal the principal amount of debt of the Chelan Power System that was purchased, redeemed or defeased with such funds.

Anything in the New Power Sales Contract to the contrary notwithstanding, the District's determination of Net Costs, Operating Costs and Financing Costs will be binding and conclusive on the Purchaser absent manifest error.

Notwithstanding the foregoing, the District, in its discretion, may adjust the Financing Costs contemplated in the New Power Sales Contract as it deems necessary, from time to time, to correct any error in the computation thereof, or to reflect a material change in the District's reasonable estimate of the In Service Date or the Average Service Life with respect thereto, and will either add to or credit the amounts otherwise due in such month under the New Power Sales Contract, to reflect the cumulative effect of any such adjustment.

Anything in the New Power Sales Contract to the contrary notwithstanding, except as provided in the Agreement, no credits will be given for any income or revenues from the sale or other disposition of Output to any person.

Use of Funds; Separate Accounts.

Except as otherwise expressly set forth in the New Power Sales Contract, the District, in its sole discretion, may use payments received from the Purchaser under the New Power Sales Contract in any manner that the District will determine.

Issuance and Incurrence of Debt Obligations and Refunding Obligations.

The District in its discretion may issue and incur Debt Obligations for the purpose of financing Capital Improvements to the Chelan Power System and may issue or incur Refunding Obligations to Refinance Debt Obligations and Refunding Obligations.

Anything in the New Power Sales Contract to the contrary notwithstanding, the covenants, agreements, terms and provisions of all Debt Obligations and Refunding Obligations, including all bond resolutions, loan resolutions, trust agreements and indentures, loan agreements, reimbursement agreements, leases, bonds, notes and other similar instruments, adopted or executed by the District with respect to such Debt Obligations and Refunding Obligations will be determined by the District in its sole discretion.

Output and Scheduling

This section describes provisions governing the determination of the Output to be made available to Purchaser under the New Power Sales Contract. Such provisions, in conjunction with the Transmission Agreement and the Interconnection Agreement, will also govern the management, scheduling, delivery and transmission of the Output.

Output

Chelan Power System Output.

(a) ***Capacity and Energy Component.*** Output includes the deliverable electric Capacity and Energy from the Chelan Power System net of the following adjustments with respect thereto:

(i) adjustments for receipt and delivery of all upstream and downstream encroachments, adjustment for station service and losses to the Transmission Point(s) of Receipt;

(ii) adjustment for energy delivery or consumption obligations that are a Project responsibility under applicable Laws or agreements (including, but not limited to, fish hatcheries);

(iii) adjustment for capacity and energy receipt obligations with the Federal System associated with Immediate Spill Replacement;

(iv) capacity and energy delivery obligations under the Canadian Entitlement Allocation Extension Agreement signed by the District and the Bonneville Power Administration, acting as the U.S. Entity under the U.S. Canada Treaty of 1964;

(v) Purchaser adjustments for energy delivery rights that are a Project right under applicable laws or agreements (including, but not limited to, PNCA); and

(vi) adjustments due to limitations imposed by and rights under the FERC licenses, MCHC, HCP, Biological Opinion, Hanford Reach Fall Chinook Protection Program and Immediate Spill Replacement.

(b) ***Pond/Storage.*** Output includes access to and the ability to use 90% of the Purchaser's Percentage of Pond/Storage of the Projects of the Chelan Power System.

(c) ***Load Following and Regulation.*** Output includes Load Following/Regulation services by the Chelan Power System.

(d) ***Chelan Power System Rights and Obligations.*** Output includes the rights and obligations from Canadian Entitlement, MCHC, PNCA, HCP, Biological Opinion, Hanford Reach Fall Chinook Protection Program and Immediate Spill Replacement.

(e) ***Output Limitations.*** Output is subject to limitation or adjustments due to:

(i) planned or unplanned outages for maintenance or repair;

(ii) any reductions due to fishery programs, including but not limited to, spill for fish bypass and capability reductions for a bypass system;

(iii) any reductions or limitations due to the Hanford Reach Fall Chinook Protection Program and the Biological Opinion or any other limitations imposed by Government Authorities;

(iv) any reductions or limitations due to the HCP;

(v) reductions or interruptions reasonably necessary to promote and support national, regional and local electric system stability and reliability (including, but not limited to, MVAR support of the transmission system);

(vi) minimum generation limitations due to minimum flow requirements;

(vii) other operational limitations lawfully imposed;

(viii) force majeure events; and

(ix) Any other Operational Constraints.

(f) ***Excluded Products and Services.*** Output does not include the following:

(i) Black Start Capability;

(ii) RAS;

(iii) Voltage Support/MegaVars (MVARS); and

(iv) All other items not specifically included in clauses (a) through (e) of this section, except as otherwise described in clause (g) below. It is Purchaser's responsibility to provide any additional ancillary services required to comply with safety and reliability standards in connection with Purchaser's receipt and use of Output.

(g) ***Spinning Operating Reserves and Non-Spinning Operating Reserves.*** The Purchaser's ability to utilize Output for purposes of Spinning Operating Reserves and Non-Spinning Operating Reserves will be limited to and as provided in MCHC and its related operating protocols. The Parties agree in the New Power Sales Contract that they will negotiate in good faith with each other and with other MCHC parties to modify MCHC's operating protocols in order to provide for the availability of Spinning Operating Reserves and Non-Spinning Operating Reserves; provided, however, that under any circumstances, the District reserves the right to refuse to place unloaded Units on-line for the sole purpose of meeting Purchaser's Spinning Operating Reserve obligations.

(h) ***Implementation.*** The reduction of Chelan Power System Capacity deliveries to Purchaser will be imposed pro-rata such that reductions of Capacity for Purchaser at any time will equal Purchaser's Percentage of the total reductions of Capacity at such time. Energy reductions of the Chelan Power System will be allocated according to procedures in the MCHC. The Purchaser will have the ability to utilize its full Purchaser's Percentage of Output at any point in time, subject to the availability of Units, the amount of water available, FERC limitations, maximum Ramp Rates, and any other Operational Constraints.

Management of Rocky Reach and Rock Island Storage (MCHC). Purchaser will have access to and the ability to use its Purchaser's Percentage of Output, inflow, and 90% of the Purchaser's Percentage of Pond/Storage components of Output as it sees fit, subject to all limitations set forth in the New Power Sales Contract. The Chelan Power System has a limited amount of Pond/Storage available each day for daily shaping use. All Pond/Storage at Rocky Reach and Rock Island will be accounted for and controlled pursuant to the terms of the MCHC.

Prior to the first Project Availability Date, the Purchaser must become a signatory of the MCHC. The Purchaser will be responsible for monitoring storage levels and adjusting Energy requests as required to stay within MCHC limits. All expenses associated with acquisition, operation and maintenance of hardware and software on the Purchaser's system necessary to meet Purchaser's obligations under the New Power Sales Contract and the MCHC will be Purchaser's responsibility. In the event the District must intervene to correct an MCHC problem or contractual deficiency on behalf of Purchaser, Purchaser will reimburse the District for all resulting costs and penalties incurred by the District as a result thereof on a monthly basis as a line item on billings.

The Purchaser will manage its Energy requests, subject to the terms of the MCHC, so as not to exceed its total Capacity entitlement at each Project. All rights and duties under the MCHC as applicable to Purchaser's Percentage of Output will be discharged solely by Purchaser, except as otherwise provided in the New Power Sales Contract. Purchaser will not make any request for Energy that would cause its MCHC Pond/Storage account for either Project to go below zero MWH. An account will be kept pursuant to the MCHC for the Purchaser, based on the information provided to the District pursuant to the MCHC. Purchaser's account will reflect Purchaser's Percentage of allocated inflow being added each hour and Purchaser's previous hour's energy subtracted. Purchaser will not violate any MCHC limitation. In the event Purchaser's Pond/Storage account for either Rocky Reach or Rock Island goes below the minimum MCHC requirements, expressed in MWH, the District, as its sole remedy for such condition, may immediately reduce Capacity associated with Purchaser's Percentage of Output available from either Rocky Reach or Rock Island to an amount approximating Purchaser's Percentage of allocated inflow until the Purchaser's Pond/Storage account balance has returned to zero MWH.

Chelan Transmission Service. The District and the Purchaser entered into a Transmission Agreement on February 1, 2006 and an Interconnection Agreement on March 31, 2006.

The Purchaser agreed to pay its percentage share of all costs associated with transmission facilities. The Transmission Agreement contains all terms and conditions required to effectuate the delivery of Purchaser's Percentage of Output from the Purchaser's "Transmission Point(s) of Receipt", across the Chelan Transmission System to the Purchaser's "Transmission Point(s) of Delivery." The Parties structured the Transmission Agreement as required to support the efficient exchanges of electric capacity and energy contemplated by Canadian Entitlement, MCHC, and PNCA, and to allow Purchaser flexibility in designation of Transmission Points of Delivery and Transmission Points of Receipt, so long as such flexibility does not adversely affect the safety and reliability of the Chelan Transmission System, the District's retail electric service obligations, or other firm District transmission service obligations.

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APPENDIX G— SUMMARY OF NEW POWER SALES CONTRACT WITH ALCOA, INC.

The following is a summary of certain provisions of the Power Sales Agreement with Alcoa Power Generating Inc. and Alcoa Inc. (the "Power Sales Agreement"). This summary does not purport to be complete and is qualified in its entirety by reference to the foregoing document for a complete statement of the provisions of such document.

DEFINITIONS

"***Adequate Assurance***" means Performance Assurance or other assurances of continued performance by the Purchaser of its obligations under the Power Sales Agreement, in each case reasonably acceptable to the District. Performance Assurance may not necessarily constitute Adequate Assurance in all circumstances.

"***Approval Date***" means the date FERC approves the Power Sales Agreement.

"***Assumed Debt Service***" means:

(i) with respect to any Debt Obligation issued after January 31, 2006 and before the first Project Availability Date, the amount for each applicable Contract Year calculated as of the date of issuance or incurrence thereof, that would be sufficient to fully amortize the original stated principal amount thereof, together with interest thereon at the Index Rate (using semi-annual compounding and a year of 360 days), for such Debt Obligation, on an annual level debt service basis over an amortization period commencing on the In Service Date of the Capital Improvements expected to be financed from the proceeds of such Debt Obligation and ending on the last day of such Capital Improvements' Average Service Life.

(ii) with respect to any Debt Obligation issued on or after the first Project Availability Date, the amount for each applicable Contract Year calculated as of the issuance or incurrence thereof, that would be sufficient to fully amortize the original stated principal amount thereof, together with interest thereon at the Index Rate (using semi-annual compounding and a year of 360 days) for such Debt Obligation on an annual level debt service basis over an amortization period commencing on the date of issuance or incurrence of such Debt Obligation and ending on the Deemed Maturity thereof.

"***Average Service Life***" means, with respect to any Debt Obligation issued after January 31, 2006, the estimated weighted average economic service life of the Capital Improvements that the District expects to finance from proceeds of such Debt Obligations issued or incurred after January 31, 2006, as determined by the District on or as of the date of the issuance or incurrence thereof. For purposes of the foregoing, land will be deemed to have a weighted average economic service life of 25 years.

"***Biological Opinion***" means any opinion issued by a Government Authority authorized to do so under the Endangered Species Act (ESA) that reviews and assesses whether the operating plan submitted by BPA, the U.S. Army Corps of Engineers and the Bureau of Reclamation will jeopardize the survival of any creature or creatures that have been determined to be threatened or endangered pursuant to the ESA.

"***Black Start Capability***" means the ability of generators to self-start without any source of off-site electric power and maintain adequate voltage and frequency while energizing isolated transmission facilities and auxiliary loads of other generators.

"***Bonneville Power Administration (BPA)***" means the Federal power marketing agency responsible for the selling of the output of all Columbia River Federal project generation, and ownership, operation and maintenance of a major share of the northwest high-voltage transmission system.

"***Canadian Entitlement***" means the amount of energy and capacity that Rocky Reach and Rock Island are obligated to return to BPA in its capacity as the US Entity for the account of the Canadian government to fulfill obligations under the US-Canadian Columbia River Treaty of 1964.

"***Capacity***" means the instantaneous generation potential of the Chelan Power System as adjusted for limitations and obligations in accordance with the provisions described in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Output, Scheduling, Planning and Transmission."

"***Capacity Reservation Charge Escalation Factor***" means the percentage change in relative value of the Consumer Price Index using the non-seasonally adjusted US City Average Index for All Urban Consumers (All

Items, Base Period 1982-84 = 100), as published by the U.S. Department of Labor, Bureau of Labor Statistics, computed in accordance with the following formula:

EF = CPI ÷ CPI-b
Where: EF = the Escalation Factor,
CPI = the most recently published consumer price index identified above, in effect as of the date of signing of the Power Sales Agreement

CPI-b = 198.3, the consumer price index identified above for the base month of January 2006

"***Capital Improvements***" means such capital repairs, renewals, additions, improvements and replacements of the Projects, together with preliminary surveys, investigations, architectural, engineering, design, consulting, legal, financial and other services and items properly chargeable thereto, as the District may reasonably determine consistent with GAAP, FERC regulations (including FERC's Uniform System of Accounts) and District accounting policies, practices and procedures.

*"**Capital Recovery Charge Percentage**"* means that percentage, designated by the District for a Contract Year not less than twelve (12) months prior to the commencement of such Contract Year, which percentage will be set between a minimum of 0% and a maximum of 50%. Each such designation will be effective for the Contract Year for which such designation is made. If the District fails to make a designation for any Contract Year by the date required above, the Capital Recovery Charge Percentage for such Contract Year will be the greater of 25% or the last effective Capital Recovery Charge Percentage designated by the District.

*"**Capital Recovery Charge Base**"* means a base amount equal to $25,000,000 in 2004 dollars. The Capital Recovery Charge Base, as the same may be adjusted from time to time pursuant to the methodology specified in the following paragraph, will be adjusted annually as of the first day of each Contract Year by the Escalation Factor.

"***Change in Control***" means an event or series of events that occurred as a result of which any "person" or "group" (within the meaning of Sections 13(d) and 14(d)(2) of the Exchange Act) will have acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated by the Securities and Exchange Commission under said Act), directly or indirectly, of more than fifty percent (50%) of the combined voting power of or economic interests in the outstanding Equity Interests in Alcoa.

"***Change of Law***" means any change in federal or state statutes or regulations or any judicial or regulatory interpretations.

"***Chelan Power System***" means, collectively, Rocky Reach and Rock Island, in each case as each such Project exists as of its respective Project Availability Date. The Chelan Power System will also include an amount of Output equal to any expansion of the Output determined in relation to the existing Projects after their respective Project Availability Dates, but will not include any other power generation, transmission or distribution assets or rights, now owned or hereafter acquired by the District.

"***Chelan Power System Output***" includes adjustments for the following:

1. Canadian Entitlement
2. MCHC
3. PNCA
4. HCP
5. Biological Opinion
6. Hanford Reach Fall Chinook Protection Program
7. Immediate Spill Replacement
8. Operational Constraints

"***Claims***" means all claims (including counterclaims), demands, actions or proceedings, threatened or filed and whether groundless, false or fraudulent, that directly or indirectly relate to the subject matter of an indemnity or limitation of liability, and the resulting costs, judgments, liabilities, losses, damages, penalties, interest, expenses, attorneys fees, court costs and costs of investigation, whether incurred by settlement or otherwise, and whether such claims or actions are threatened or filed prior to or after the termination of the Power Sales Agreement.

"***Contract Year***" means the period commencing on the first Project Availability Date and ending on the next succeeding December 31, and each 12-month period thereafter, except for the 12-month period during which the expiration or termination date of the Power Sales Agreement occurs, in which case the Contract Year means the period commencing on January 1 of such year and ending on such expiration or termination date.

"***Coverage Amount***" means the sum, as of the date of calculation, of (i) with respect to Debt Obligations outstanding as of January 31, 2006 and identified in Schedule A-1, an amount equal to fifteen percent (15%) of the maximum estimated aggregate amount of the Financing Costs described in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Determination of Chelan Power System Net Costs" that will be payable in any Contract Year during the Term, as determined by the District as of January 31, 2006 for all Debt Obligations outstanding as of January 31, 2006, and (ii) with respect to all Debt Obligations issued after January 31, 2006, an amount equal to fifteen percent (15%) of the maximum estimated aggregate amount (each amount included in such aggregate amount to be as determined by the District as of the date of issuance or incurrence of the applicable Debt Obligation) of Financing Costs with respect to such Debt Obligations as described in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Determination of Chelan Power System Net Costs," that will be payable in any Contract Year during the Term.

"***Cross Default Amount***" means, with respect to the Purchaser, two and one-half percent (2 1/2%) of the Purchaser's then current market capitalization (based on its share prices as quoted in the Wall Street Journal the Business Day prior to the date of calculation) and, with respect to the District, $50,000,000, as adjusted in accordance with the Escalation Factor.

"***Debt Obligation***" means a bond, note (including a commercial paper note or bond anticipation note), installment purchase agreement, financing lease, inter-fund loan or any other obligation for borrowed money, or portion thereof, issued or incurred by or on behalf of the District for either or both Projects, the proceeds of which were or will be applied to finance Capital Improvements with respect to such Project or Projects and which has been or is designated by the District in its discretion as a Debt Obligation with respect to such Project or Projects. For the avoidance of doubt, these obligations will constitute Debt Obligations for purposes of the Power Sales Agreement. Debt Obligations will not include any Refunding Obligations, or the principal portion of any obligations issued after January 31, 2006 that otherwise would fall within the definition of Debt Obligations, to the extent such principal portion is or was used to pay costs of issuance or to fund debt service reserves with respect to Debt Obligations, all as determined by the District in its discretion. To avoid double counting, if the District designates inter-fund loans from the District Enterprise Units of the District to the Chelan Power System as Debt Obligations, the corresponding third party obligations of the District will not be included as Debt Obligations for purposes of the Power Sales Agreement. "Debt Obligations" will include inter-fund loans from the District Enterprise Units that otherwise qualify as Debt Obligations; however, transfers from the District to the Chelan Power System derived from payments made by the Purchaser in respect of Capital Recovery Charges or Debt Reduction Charges, as determined by the District, will not be treated as Debt Obligations for purposes of the Power Sales Agreement. For purposes of the Power Sales Agreement, the principal amount of Debt Obligations issued after January 31, 2006 will be deemed to amortize in accordance with the Assumed Debt Service with respect thereto, and not on the actual principal amount of the District's Debt Obligations that may be outstanding on the date of calculation.

"***Debt Reduction Charge Percentage***" means that percentage, designated by the District for a Contract Year not less than twelve (12) months prior to the commencement of such Contract Year, which percentage will be set between a minimum of 0% and a maximum of 3%. Each such designation will be effective for the Contract Year for which such designation is made. If the District fails to make a designation for any Contract Year by the date required above, the Debt Reduction Charge Percentage for such Contract Year will be the greater of 2-1/2% or the last effective Debt Reduction Charge Percentage designated by the District;

"***Debt Reduction Charge Obligations***" means, for any Contract Year, the aggregate principal amount of all Debt Obligations assumed to be outstanding as of the first day of such Contract Year, determined in accordance with the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Determination of Chelan Power System Net Costs," as such principal amount may have theretofore been reduced in accordance with the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Determination of Chelan Power System Net Costs." Prior to the Project Availability Date for Rock Island, the Debt Reduction Charge Obligations for purposes of "THE POWER SALES AGREEMENT—Payment" will be computed only with reference to those Debt Obligations attributable to Rocky Reach.

"***Deemed Maturity***" means that date determined by the District as of the issuance or incurrence of a Debt Obligation, by adding to the date of issuance or incurrence of such Debt Obligation, *the lesser of* (a) twenty-five (25) years, or (b) the Average Service Life of the Capital Improvements expected to be financed by the District from the proceeds thereof, as determined by the District.

"*District Enterprise Units*" means and includes each utility, enterprise or operating system or unit of the District, exclusive of Rocky Reach and Rock Island, as the District may designate from time to time, that may make advances or inter-fund loans to the Chelan Power System as contemplated within the definition of Debt Obligations.

"*District System Emergency*" means a condition or situation that, in the judgment of the District and in conformance with guidelines of FERC, NERC, the WECC or other entities with regulatory jurisdiction (whether by contract or operation of Law) over the District concerning system emergencies, adversely affects or is likely to adversely affect: (i) public health, life or property; (ii) District's employees, agents or property; or (iii) District's ability to maintain safe, adequate and reliable electric service to its respective customers.

"*Downgrade Event*" means the Purchaser's long-term senior unsecured debt rating (a) from S&P is withdrawn (other than at the request of Purchaser), suspended or reduced below "BBB-" (or corresponding successor rating); or (b) from Moody's is withdrawn (other than at the request of Purchaser), suspended or reduced below "Baa3" (or corresponding successor rating); or (c) from Fitch is withdrawn (other than at the request of Purchaser), suspended or reduced below "BBB-" (or corresponding successor rating). If any Rating Agency has not assigned a rating to Purchaser as of the Signing Date, a Downgrade Event will not occur as to that Rating Agency until such a rating has been assigned and such rating is either at or below the respective level set forth above, or the initial higher rating is thereafter withdrawn (other than at the request of Purchaser), suspended or reduced below the respective level set forth above. Commencing on the Signing Date, Purchaser is required to maintain ratings from at least two of the three named credit rating agencies.

"*Dryden Facilities*" means the District's dam, spillway, irrigation flume and related facilities located on the Wenatchee River near Dryden in Chelan County, Washington.

"*Effective Date*" of the Power Sales Agreement means the Signing Date.

"*Energy*" means the energy production, expressed in megawatt hours, as determined in relation to the Output of the Chelan Power System as measured in megawatts integrated over an hour and adjusted for limitations and obligations in accordance with the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Output, Scheduling, Planning and Transmission." Energy may be supplied by the District from any source and the District is not obligated to supply Energy from any particular source.

"*Entiat Facilities*" means the District's diversion and irrigation facilities located in and adjacent to the Entiat River in Chelan County.

"*Equity Interests*" means, with respect to Alcoa, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interest in (however designated) Alcoa's corporate stock.

"Escalation Factor" means the percentage change in relative value of the Consumer Price Index using the non-seasonally adjusted US City Average Index for All Urban Consumers (All Items, Base Period 1982-84 = 100), as published by the U.S. Department of Labor, Bureau of Labor Statistics, computed annually in accordance with the following formula:

EF = CPI ÷ CPI-b

Where: EF = the Escalation Factor,

CPI = the most recently published consumer price index identified above, in effect as of the date of annual computation

CPI-b = 190.3, the consumer price index identified above for the base month of December, 2004.

Should the index referred to above be discontinued or be substantially modified, then an alternate index will be chosen by the District in its discretion that reasonably tracks the methodology used to track the consumer price index identified above prior to such modification or discontinuance to maintain the purchasing power of one dollar at a constant level, considering the nature of expenses incurred in the acquisition, construction and installation of Capital Improvements of the Chelan Power System.

"***FERC***" means the Federal Energy Regulatory Commission or its successor.

"Fiscal Year" means the twelve-month period selected by the District from time to time as its fiscal year for accounting and other purposes, which currently is the twelve-month period commencing on January 1 and ending on the next succeeding December 31.

"***Fish Spill***" means the required spill of water for the passage of fish past the Projects as required by FERC order, the District's HCP, spill for studies, or other Regulatory Authorities.

"***Fitch***" means Fitch Ratings, or any successor thereto and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, "Fitch" is deemed to refer to any other nationally recognized securities rating agency designated in writing by the District.

"***Government Authority***" means any federal, state, local, territorial or municipal government and any department, commission, board, bureau, agency, instrumentality, judicial or administrative body thereof.

"***Habitat Conservation Plans (HCP)***" means the plans approved as part of the Rocky Reach and Rock Island licenses to protect anadromous fish passing upstream and downstream at the projects.

"***Hanford Reach Fall Chinook Protection Program (Vernita Bar)***" means the agreement which defines the Mid-Columbia projects' (Grand Coulee, Chief Joseph, Wells, Rocky Reach, Rock Island, Wanapum, and Priest Rapids) operational obligations for the fresh water life cycle protection of the Hanford Reach Fall Chinook which has been signed by the District, National Oceanic and Atmospheric Administration's Department of Fisheries (NOAA Fisheries), Washington Department of Fish and Wildlife, PUD No. 2 of Grant County, and PUD No. 1 of Douglas County.

"***Immediate Spill Replacement***" means the energy received from the Federal government for the purpose of moving spill from the Federal system to reduce total dissolved gas levels downstream from Federal reservoirs.

"***Independent Investment Banker***" means an investment banking firm selected by the District in its discretion that is nationally recognized for its knowledge and experience in the pricing and sale of debt securities and that has, or whose parent company has, a rating from at least two of the Rating Agencies of not less than "A-" in the case of S&P and Fitch, and "A3" in the case of Moody's.

"***Index Rate***" means, with respect to each Debt Obligation, as of the applicable date of calculation, the fixed interest rate, as determined by the District in consultation with an Independent Investment Banker as of the date of issuance or incurrence thereof, equal to 110% of the weighted average annual interest rate that such Debt Obligation would bear (i) based on the then current underlying long term credit rating of the District; (ii) assuming that interest on such Debt Obligation would be includable in the income of the holders thereof for federal income tax purposes; and (iii) assuming that such Debt Obligation were amortized on a level debt service basis over the applicable amortization period described in the definition of "Assumed Debt Service." In determining the Index Rate of any Debt Obligation, the District may consider interest indices and other market data generally available as of the date of calculation.

"***In Service Date***" means the estimated weighted average date the Capital Improvements expected to be financed from proceeds of a Debt Obligation are or are expected to be placed in service, as determined by the District.

"***Intentional Breach***" means, with respect to the District, the sale by the District of Purchaser's Share of Output to third parties, with full knowledge and intent that such action is in breach of the Power Sales Agreement and in blatant disregard for its express obligations under the Power Sales Agreement. Such term only relates to the failure to deliver Purchaser's Share of Output to the extent required under the Power Sales Agreement, and does not apply to any other obligations of the District including, without limitation, any operational aspect of the System (including curtailments and shutdowns) or transmission facilities, or any other covenant, duty or obligation that may arise under the Power Sales Agreement.

"***Interconnection Agreement***" means the agreement between Purchaser and the District providing for the interconnection of the Purchaser's electric transmission facilities with the Chelan Transmission System, as well as terms and conditions for the parallel operation of the Chelan Transmission System and Purchaser's transmission system.

"***Law***" means any statute, law, order, rule or regulation imposed by a Regulatory Authority.

"*Letter(s) of Credit*" means one or more clean, irrevocable, transferable direct pay or standby letters of credit issued by a U.S. commercial bank or a foreign bank with a U.S. branch with such bank having a credit rating at all times of at least A- from S&P or A3 from Moody's, in a form acceptable to the District. Costs of a Letter of Credit are to be borne by the Purchaser.

"*Load Following/Regulation*" means the ability to adjust generation within an hour (or pursuant to dynamic scheduling) to follow variations in load. Load Following/Regulation is limited and constrained by the number of Units available, any limitations on the Units, Ramp Rate, and any other power or non-power restrictions.

"*Mid-Columbia Hourly Coordination (MCHC)*" means the 1997 Agreement For The Hourly Coordination Of Projects On The Mid-Columbia River (or its successor agreement), an agreement among the principal parties that own or have rights to generation relating to the seven mid-Columbia hydro projects (Grand Coulee, Chief Joseph, Wells, Rocky Reach, Rock Island, Wanapum, and Priest Rapids). The Power Sales Agreement coordinates the hydraulic operation (generation, flows, and storage) among these projects.

"*Moody's*" means Moody's Investors Service, Inc., or any successor thereto and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, "Moody's" is deemed to refer to any other nationally recognized securities rating agency designated in writing by the District.

"*NERC*" means the North American Electric Reliability Council or its successor responsible for insuring a reliable, adequate and secure bulk electric system.

"*Non-Spinning Operating Reserves*" means those reserves that may be available at any time from all Units of the Chelan Power System not then connected to the system but capable of being connected and serving demand within a specified time.

"*Operational Constraints*" means any constraints on the Units, or a Project's operation that are deemed necessary by the District in its sole discretion meet any requirement due to the HCP, regulations, Laws, court orders, authority, safety, or to maintain reliability of the Chelan Power System, or to minimize equipment wear, maintain equipment, or repair/replace equipment, or that are due to any other event or circumstance described in "THE POWER SALES AGREEMENT—Curtailment and Decommissioning" or any other event beyond the control of the District.

"*Output*" means an amount of Energy determined in relation to the energy production of the Chelan Power System and other products and services, to the extent described in and determined pursuant to the provisions described in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Output, Scheduling, Planning and Transmission," subject to the limitations set forth in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Output, Scheduling, Planning and Transmission."

"*Pacific Northwest Coordination Agreement (PNCA)*" means the agreement among Northwest parties for the coordinated operation of the Columbia River system on a seasonal and monthly basis. The PNCA defines the firm energy output of the Chelan Power System, as well as other rights and obligations, including provisional energy, interchange energy, in-lieu energy, and others defined in the contract. The PNCA does not allow resources above the head works of Bonneville Dam to be removed from coordination, and currently all Capacity and Energy of the Chelan Power System is included in PNCA planning. PNCA serves as a settlement of the Federal Power Act Section 10(f) obligation to reimburse upstream Federal projects for energy gains as a result of the storage provided, as well as a FERC approved settlement among all Non-Federal parties for upstream benefit payments. The Purchaser may need to become a signatory to PNCA or contract with another PNCA party to fulfill any and all of the obligations required by PNCA with respect to the Purchaser's Percentage of Output.

"*Performance Assurance*" means collateral in the form of either cash, Letters(s) of Credit or Qualified Investments, deposited with the District, or an escrow agent selected by the District and reasonably satisfactory to the Purchaser, and held pursuant to a collateral deposit agreement in form and substance reasonably satisfactory to the District, in an amount equal to the sum of (a) *the greater of* (i) the highest three (3) months of Periodic Payments due under the Power Sales Agreement in the twelve (12) months preceding the date of calculation, *or* (ii) the amount that the District estimates will be the sum of the highest three (3) months of Periodic Payments that will become due under the Power Sales Agreement in the twelve (12) month period immediately following the month in which such calculation is made and (b) an amount equal to the Shutdown Settlement Amount for the applicable fiscal year in which the calculation is made (to be adjusted each fiscal year thereafter during which collateralization is required). The initial payments required to be made by the Purchaser on or before the initial Effective Date under "THE

POWER SALES AGREEMENT—Payment" and not permitted to be included as part of the Periodic Payments for purposes of the calculations made pursuant to this definition.

"***Periodic Payments***" means the sum of the payments, costs and charges described or referred to in the Power Sales Agreement.

"***Permanently Retired***" means with respect to a Project, that such Project or specified Units of such Project, have been shut down and notice of permanent cessation of operations with respect thereto has been given by the District to the Purchaser and as such submittal to FERC may be required by the license for such Project.

"***Pond/Storage***" means the volume of water, expressed in MWH, that can be stored behind a Project between its minimum and maximum headwater elevations.

"***Potential Event of Default***" means an event which, with notice or passage of time or both, would constitute an Event of Default.

"***Prior Agreement***" means the Recitals and Amended Power Sales Agreement dates as of October 1, 2004, as amended, by and amount the District, Alcoa and APGI.

"***Project***" means each of Rock Island and Rocky Reach.

"***Project Availability Date***" means for Rocky Reach, 00:00 hours on November 1, 2011, and for Rock Island, 00:00 hours on July 1, 2012.

"***Project Transmission Facilities***" means those Project-owned transmission facilities included in the Chelan Power System that are utilized to transmit Output to the Chelan Transmission System.

"***Prudent Utility Practice***" means any of the practices, methods and acts engaged in, or approved by, a significant portion of the electric utility industry in the Western Interconnection for operating facilities of a size and technology similar to the Project during the relevant time period or any of the practices, methods and acts, which, in the exercise of reasonable judgment in light of the facts known, at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with applicable Laws, longevity, reliability, safety and expedition. Prudent Utility Practice is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather to be a spectrum of commonly used practices, methods and acts.

"***Purchaser's Percentage***" means the percentage set forth in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits" as such amount may be adjusted from time to time pursuant to the terms of the Power Sales Agreement.

"***Purchaser's Percentage of Output***" means an amount for any period equal to the product of (i) the Purchaser's Percentage, and (ii) the Output.

"Qualified Investments" means all securities and other instruments in which the District is authorized to invest under applicable law.

"Ramp Rate" means the rate of change in the level of generation for a specified period within all applicable Operational Constraints. The maximum Ramp Rate is a variable quantity based upon these limitations.

"Rating Agencies" means, collectively, Fitch, Moody's and S&P.

"Regional Transmission Organization" (RTO) means any regional transmission organization which governs loads, generation, ancillary services and transmission of both Parties. As of the Signing Date, there is no such RTO.

"Remedial Action Schemes" (RAS) means any action implemented by the District utilizing the Chelan Power System to maintain the transfer capabilities and stability of the western electrical system.

"RCW" means the Revised Codes of Washington.

"Refunding Obligations" means a bond, note (including a commercial paper note or bond anticipation note), installment purchase agreement, financing lease, inter-fund loan or any other obligation for borrowed money, or any portion thereof, issued or incurred by or on behalf of the District, for purposes of Refinancing a Debt Obligation or a Refunding Obligation. The term "Refunding Obligations" is not permitted to be included in the calculation of Debt Obligations.

"Regulatory Authority" means any Government Authority other than the District itself.

***"Related Power Sales Agreement*"** means a power sales agreement between a Share Participant and the District for the purchase and sale of a percentage of Energy production of the Chelan Power System or Output as determined in relation to the Chelan Power System as so designated by the District and containing terms and conditions similar to the terms and conditions set forth in the Power Sales Agreement. This term will specifically include that certain Power Sales Agreement between the District and Puget Sound Energy, Inc. dated as of February 1, 2006.

"Reserve and Contingency Fund" means the fund or funds created under the Project bond resolutions including the Rocky Reach Resolutions 1860 and 4198, and the Rock Island Resolutions 1137, 3443, 4950 and 97-10671, 97-10672 and any successor resolutions adopted. As long as bonds remain outstanding under such resolutions, deposit requirements into the appropriate Reserve and Contingency Fund may be made from the Capital Recovery Fund and/or the Debt Reduction Fund and from Purchaser's payments made in respect of Financing Costs allocated to that purpose in the Power Sales Agreement. Required and authorized uses of the Reserve and Contingency Funds are to be made in accordance with the appropriate Project bond resolution or, after the retirement of such bonds, for any other lawful Project purpose not inconsistent with the provisions of the Power Sales Agreement.

"Rock Island" means (i) the District's Rock Island Hydroelectric Project as currently licensed by FERC under license number 943, and any successor license, including any efficiency improvements and upgrades that increase generating capacity and any decommissioning of Units as contemplated in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Curtailment and Decommissioning," in each case made by the District from time to time during the Term, together with (ii) the Dryden Facilities, the Entiat Facilities and the Tumwater Facilities.

"Rocky Reach" means the District's Rocky Reach Hydroelectric Project as currently licensed by FERC under license number 2145, and any successor license, including any efficiency improvements and upgrades that increase generating capacity and any decommissioning of Units as contemplated in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Curtailment and Decommissioning," in each case, made by the District from time to time during the Term.

"Sales and Administrative Charges" means the sum of (i) the amount of the District's 1.5% administrative fee with respect to such Excess Energy sales and (ii) an amount equal to $0.50 times the sum of the Excess Energy sales in MWhs during each Qualifying Day, where a "*Qualifying Day*" means any day during which Purchaser has placed daily sales of greater than 50aMW of the Excess Energy Allocation for such day.

"Schedule"* or *"Scheduling" means the actions or product of the District, Purchaser and/or their designated representatives, including each Party's Transmission Providers, if applicable, of notifying, requesting and confirming to each other the quantity and type of Output to be delivered on any given day or days at a specified Transmission Point of Receipt and/or Transmission Point of Delivery.

"*S&P*" means Standard and Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc., or any successor thereto and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, "S&P" is deemed to refer to any other nationally recognized securities rating agency designated in writing by the District.

"Share Participant" means a third party purchaser, unrelated to the District, who signs a Related Power Sales Agreement with the District for a share of Output of, or determined in relation to, the Chelan Power System.

"Signing Date" means the date the Parties sign the Power Sales Agreement, which will be deemed to be the date recited in the first paragraph of the Power Sales Agreement.

"Spinning Operating Reserves" means the difference at any time between total available Capacity of all Units of the Chelan Power System then on-line and the sum of the then current generation level of those on-line Units.

"Spill" means water that passes over a spillway without going through turbines to produce energy.

"Spill Past Unloaded Units" means a spill that occurs while Units are not all fully loaded.

"*Term*" means the period during which Output will be made available to Purchaser pursuant to the terms of the Power Sales Agreement.

***"Transmission Agreement*"** means an agreement between the Purchaser and the District that provides terms and conditions for the transmission of the Purchaser's Percentage of Project Output over the Chelan Transmission System from specified Transmission Point(s) of Receipt to Transmission Point(s) of Delivery.

"Transmission Point(s) of Delivery" means the point(s) where the Chelan Transmission System interconnects with the Purchaser's electric transmission facilities or a third party's electric transmission facilities.

"Transmission Point(s) of Receipt" means the point(s) as defined in the Transmission Agreement of interconnection with the Chelan Transmission System.

"Transmission Provider" means any entity or entities transmitting or transporting the Output on behalf of Purchaser to or from the Transmission Point(s) of Delivery; or, with respect to the District when acting as a Transmission Provider, from the Transmission Point(s) of Receipt to the Transmission Point(s) of Delivery.

"Transmission Rights" means the Purchaser has transmission rights up to the Purchaser's Percentage of available Project Transmission Facilities subject to the Transmission Agreement.

"Tumwater Facilities" means the dam, spillway and related facilities owned and operated by the District, located on the Wenatchee River in Tumwater Canyon.

"Uncontrollable Circumstance" means the occurrence of one or more of the following causes beyond the reasonable control of Purchaser, provided that, as the result thereof, at least one-half pot line is rendered inoperable: (a) Earthquake, storm, lightning, fire, explosion, or act of God; (b) war (regardless of whether declared), act of public enemy, act of civil or military authority, civil disturbance, riot, sabotage or terrorism; (c) expropriation, requisition confiscation, export or import restrictions, closing of ports, roadways, waterways, or rail lines imposed by Government Authorities; (d) catastrophic or major equipment failure at Wenatchee Works due to causes beyond Purchaser's control and not due to the negligence or lack of diligence by Purchaser or its employees; (e) sudden unforeseen interruptions in power flows affecting Output in relation to the Chelan Power System for which third party power purchases and/or transmission are not immediately available. Uncontrollable Circumstance will not include changes in law, Taxes, costs, regulatory requirements or market conditions, including, but not limited to, changes that affect the cost, transportation or availability or quality of raw materials or supplies, economic hardship, strikes, lockouts and other labor difficulties, economic factors, including prices of alumina, aluminum, labor, regulatory compliance, energy or other utilities, or any other event or circumstance not expressly listed above.

"Uniform System of Accounts" means the system of accounts for Public Utilities and Licensees as prescribed by FERC, constituting Part 101 of Title 18 of the Code of Federal Regulations, as supplemented and amended (the "Uniform System of Accounts"), used to account for the costs of generating projects, and any successor thereto and to the account designations thereunder.

"Unit" means each generating unit or collectively, the generating units at the Projects. The Units currently consist of the eleven generating Units C1 through C11 at Rocky Reach, the eleven generating Units BH (house Unit) and B1 through B10 at Rock Island Powerhouse One, and the eight generating Units U1 through U8 at Rock Island powerhouse Two. Unit may also include any other generating Units installed in the Chelan Power System.

"Voltage Support / MegaVars" (MVARS) means reactive power supplied or absorbed by the Chelan Power System as required to maintain voltage at adjacent switchyards. Under certain operating conditions, the MVARS output from the Units may cause a reduction in the Capacity of the Chelan Power System.

"WECC" means the Western Electricity Coordinating Council or its successor, or such other entity or entities responsible for regional reliability as determined by the District.

"*Wenatchee Works*" means the Purchaser's aluminum plant in Chelas County.

THE POWER SALES AGREEMENT

Term and Termination

Term. The Power Sales Agreement will become effective as of the Signing Date. The Term, however, will commence as of the first Project Availability Date and will terminate as of the expiration or termination of the Power Sales Agreement pursuant to its terms. Unless terminated or extended, the Power Sales Agreement will remain in effect until midnight on October 31, 2028. All obligations accruing or arising prior to the termination or expiration of the Power Sales Agreement will survive the termination or expiration thereof until satisfied in full.

Conditions Precedent to Effectiveness. The Parties agree and acknowledge that the respective rights and obligations of the Parties under the Power Sales Agreement with respect to the Output (including the District's obligation to deliver Output determined in relation to such Projects and the Purchaser's obligation to pay any Periodic Payments (other than the Capacity Reservation Charge referred to in "THE POWER SALES AGREEMENT—Payment" attributable to or arising out of such Projects) are contingent, in the District's sole discretion, upon the satisfaction as of each respective Project Availability Date for each such Project (00:00 Hours on November 1, 2011 for Rocky Reach and 00:00 Hours on July 1, 2012 for Rock Island) of the following conditions precedent: (1) no material default will have occurred and be continuing, as of each respective Project Availability Date, under the Prior Agreement or other current contract(s) between the Parties; (2) no Event of Default or Potential Event of Default exists under the Power Sales Agreement; (3) the representations contained in the Power Sales Agreement continue to be true; (4) no Downgrade Event with respect to the Purchaser has occurred and Purchaser's credit quality has not been placed on negative watch indicating a view to lowering the Purchaser's credit rating to below investment grade by any of the Rating Agencies; (5) any required Performance Assurance, in form acceptable to the District, has been posted by the Purchaser; (6) the Prior Agreement will not have terminated prior to the Rocky Reach Project Availability Date; (7) no termination described in the Power Sales Agreement has occurred; (8) the Parties have entered into a Transmission Agreement and an Interconnection Agreement, in form and substance reasonably satisfactory to the District and the Purchaser; and (9) Wenatchee Works has been operating at or above Level 3 (as defined in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sale; Credits—Post-Operative Review") for the twelve (12) calendar months prior to each Project Availability Date, taking into consideration adjustments to operating criteria arising from an Uncontrollable Circumstances (as contemplated in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits—Adjustments to Optimize Performance").

If the conditions precedent set forth above are not satisfied or waived by the District on or within 90 days following each respective Project Availability Date, the District may terminate the Power Sales Agreement in accordance with the provisions of the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Term and Termination—Termination." Any such termination will apply to the Power Sales Agreement as a whole, and not severally as to the Output determined in relation to Rocky Reach or Rock Island.

Termination. The Power Sales Agreement may only be terminated (i) by mutual agreement of the Parties; (ii) by either Party if the Approval Date has not occurred by the first Project Availability Date, provided that the Party wishing to terminate the Power Sales Agreement pursuant to this clause (ii) is required to give the other Party written notice of such termination on or within ninety (90) days prior to the first Project Availability Date; (iii) by the District pursuant to the provisions of the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Default and Termination—Remedies Upon Default," so long as any Event of Default is continuing and has not been cured within the applicable cure period (which termination event, at the District's discretion, may supersede a termination under "THE POWER SALES AGREEMENT—Terms and Termination—Condition Precedent to Effectiveness;" (iv) by the District pursuant to "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales, Credits;" (v) by the District pursuant to "THE POWER SALES AGREEMENT—Terms and Termination—Condition Precedent to Effectiveness." In the event the Power Sales Agreement is terminated pursuant to the provisions described in subsections (i), (ii) or (v), neither Party will be liable to the other Party for damages due to such termination. Any termination of the Power Sales Agreement by a Party pursuant to the terms thereof will be effected by and effective only upon receipt of written notice of such termination by the other Party.

Output; Surplus Energy Sales; Credits

Output To Be Made Available.

Beginning on the respective Project Availability Date for each Project and continuing until midnight on the date on which the Power Sales Agreement is terminated or expires, the District, during each hour, will sell and make available for scheduling by and delivery (or cause to be delivered) to Purchaser, at the Transmission Point(s) of Receipt, Purchaser's Percentage of Output determined in relation to such Project, and Purchaser, during each hour, will purchase and receive (or cause to be received), at the Transmission Point(s) of Receipt, the amount of Purchaser's Percentage of Output scheduled by Purchaser for every such hour. Subject to the applicable provisions of the Power Sales Agreement, including the provisions described in the following paragraphs, (i) for the period from the Project Availability Date for Rocky Reach through and including June 30, 2012 (the "Rocky Reach Initial Period"), Purchaser's Percentage will be the equivalent of 27.5% of the Output, determined in relation to Rocky Reach only; and (ii) from and after the Project Availability Date for Rock Island, Purchaser's Percentage, during the Term of the Power Sales Agreement, will be the equivalent of 26% of the Output, determined in relation to Chelan Power System, in each case as the same may be modified from time to time pursuant to the provisions described in the following paragraphs and in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits—Mandatory Step-up."

PURCHASER ACKNOWLEDGES THAT, NOTWITHSTANDING ANY OTHER PROVISION OF THE POWER SALES AGREEMENT TO THE CONTRARY, THE DISTRICT'S OBLIGATION TO SELL AND DELIVER OUTPUT IS EXPRESSLY LIMITED TO PURCHASER'S PERCENTAGE OF ANY OUTPUT MEASURED IN RELATION TO THE ENERGY ACTUALLY PRODUCED BY THE CHELAN POWER SYSTEM AND AVAILABLE FOR DELIVERY. THE DISTRICT WILL NOT BE LIABLE TO THE PURCHASER FOR THE FAILURE TO DELIVER ANY ENERGY GREATER THAN PURCHASER'S PERCENTAGE OF THE OUTPUT, IF ANY, AS MEASURED IN RELATION TO THE ENERGY ACTUALLY PRODUCED BY THE CHELAN POWER SYSTEM, REGARDLESS OF THE REASON FOR LACK OF PRODUCTION OR DIMINISHED AVAILABILITY OF SUCH OUTPUT.

The District will not be liable to Purchaser for any damage, loss or liability associated with any remarketing of Excess Energy or Supplemental Power Purchases under the Power Sales Agreement, whether or not the Excess Energy could be sold at higher prices, on better terms or to more creditworthy purchasers or the Supplemental Power could be purchased at lower prices, on better terms or to more reliable, creditworthy sellers.

Share Limitation, Operating Criteria and Resell Rights.

General Principles. The Parties recognize that the following principles support the concepts described in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits:"

Purchaser should make its own economic operating decisions knowing the consequences of those decisions in terms of the credit and operational issues.

The District is most interested in Purchaser operating at a full three (3) pot line operation (due to the jobs and other economic value provided by such operation to the community) which has been the basis for negotiation of the provisions of the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits." Thus the District is interested in providing contractual incentives for Purchaser to run at that level. Purchaser has its own reasons for running at the highest level possible to reduce the "per unit" costs of energy for its production.

Limitation on Availability and Use of Output. The Output provided pursuant to the Power Sales Agreement will be used by Purchaser solely at Wenatchee Works. Except as specifically provided in the Power Sales Agreement, Purchaser will not be entitled to receive or resell any portion of Purchaser's Percentage of Output that is not needed in connection with the Wenatchee Works for primary aluminum reduction operations. Any Output in excess of those needs will be retained by the District and sold in a manner that the District in good faith determines to be commercially reasonable. Proceeds received from the sale of such Excess Energy will be applied as set forth in the Power Sales Agreement. The operational criteria for accumulating and using credits that may become available from the sale of such Excess Energy are set forth below. The operational criteria and credit allocations described in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits" will not in any way affect Purchaser's unconditional obligations to pay Net Costs or other amounts due under the Power Sales Agreement.

No Guaranteed Output. The District does not guarantee any amount of Output to Purchaser. It is the intent of the parties that Purchaser fully utilize power available under the Power Sales Agreement to produce aluminum to the extent reasonably possible given smelter operational issues. The parties recognize that there will be variability in the amount of Output that may be available at any given time and that, consequently (i) there will be times that the Output will be insufficient to run Wenatchee Works at any given operating level, during which

Supplemental Power Purchases will be necessary to meet operational criteria and (ii) there will also be times that there is Excess Energy available based on Purchaser's selected operating levels which will be sold by the District on the market pursuant to the terms of the Power Sales Agreement.

Excess Energy Sales and Supplemental Power Purchases.

Purchaser will not have the right to remarket any Excess Energy or use Output other than as set forth in the Power Sales Agreement to meet the energy needs of the Wenatchee Works primary aluminum reduction operations.

Excess Energy not needed in the operation of Wenatchee Works will be sold by the District on a daily basis, or on a forward basis at the written request of Purchaser. The District will remarket such Excess Energy in accordance with certain criteria and limitations described in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Excess Energy Sales and Supplemental Power Purchases" and with the District's policies and procedures for marketing power, as in effect from time to time.

It may be necessary to make Excess Energy sales on a preschedule and/or real time basis. The sales will be subject to certain of the terms described in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Excess Energy Sales and Supplemental Power Purchases." Pursuant to the Power Sales Agreement, the sales prices for these sales will be determined as follows:

(i) The price for daily sales will be the Mid-Columbia Firm Peak and Off-Peak prices, for the respective hours covered by the indices for Monday through Saturday, and for the "Sunday and NERC Holiday" index for all hours on Sunday.

(ii) In the event that the Mid-Columbia Firm Peak index differs by more than 10% from the Mid-Columbia Non-Firm Peak index or the Mid-Columbia Firm Off-Peak index differs from the Non-Firm Off-Peak index by more than 10% evidencing highly volatile markets, the daily price for sales will be the actual weighted average of all sales, completed during the preschedule and the real-time trading at Mid-Columbia marketing hub, by the District for that day in the respective Peak and Off-Peak periods. Other mutually agreeable triggers may be used if the Non-Firm index does not have sufficient volume to make it relative of the actual real-time market.

At Purchaser's written request, the District will enter into third party contracts under which the District will make on Purchaser's behalf, Supplemental Power Purchases for the operation of the Wenatchee Works. Purchaser is required to notify the District in writing of the identity of all persons authorized to request such contracts on behalf of Purchaser. Purchaser will be strictly liable for all payments, costs and expenses arising under any such contracts and will hold the District free and harmless therefrom. Other terms and conditions and applicable Supplemental Power Purchases are described in "THE POWER SALES AGREEMENT—Excess Energy Sales and Supplemental Power Purchases."

It may be necessary to make Supplemental Power Purchases on a preschedule and/or real time basis. The purchases will be subject to certain of the terms described in "THE POWER SALES AGREEMENT—Excess Energy Sales and Supplemental Power Purchases." Pursuant to the Power Sales Agreement, the purchase prices for these purchases will be determined as follows:

(i) The price for daily purchases will be the Mid-Columbia firm On-Peak and Off-Peak prices, for the respective hours covered by the indices for Monday through Saturday, and for the "Sunday and NERC Holiday" index for all hours on Sunday.

(ii) In the event that the Mid-Columbia Firm Peak index differs by more than 10% from the Mid-Columbia Non-Firm Peak index or the Mid-Columbia Firm Off-Peak index differs from the Non-Firm Off-Peak index by more than 10% evidencing highly volatile markets, the daily price for purchases will be the actual weighted average of all purchases, completed during the preschedule and the real-time trading at Mid-Columbia marketing hub, by the District for that day in the respective Peak and Off-Peak periods.

Other mutually agreeable triggers may be used if the Non-Firm index does not have sufficient volume to make it relative of the actual real-time market.

The District will not be liable to Purchaser for any damage, loss or liability associated with any remarketing of Excess Energy or Supplemental Power Purchases under the Power Sales Agreement, whether or not the Excess Energy could be sold at higher prices, on better terms or to more creditworthy purchasers or the supplemental power could be purchased at lower prices, on better terms or to more reliable, creditworthy sellers.

Post-Operation Review. On or about November 15th of each year, beginning November 15, 2012, the District will generate a report setting forth the average monthly MW energy consumption of Wenatchee Works for the 12 month period ending the preceding October 31st (each such period being referred to as a "Operating Year") or, in the case of the period ending October 31, 2012, the four month period commencing July 1, 2012 (such four month period being referred to as the "Initial Operating Year"). The parties will then determine the operating level of Wenatchee Works for such Operating Year or Initial Operating Year, as the case may be (the respective "Operating Level"), based on the lowest three consecutive months of average MW usage at Wenatchee Works, using the table below.

Operating Level of Wenatchee Works	
250 aMW plus	Level 1
215 to less than 250 aMW	Level 2
175 to less than 215 aMW	Level 3
less than 175 aMW but not Shutdown	Level 4
Special Rules for Initial Operating Year Operating Level of Wenatchee Works	
215 aMW plus	Level 1
less than 215 aMW but not Shutdown	Level 4

Use of Revenues From Power Sales Within a Month to Offset the Cost of Supplemental Power Purchases Within the Same Month. If, within any one calendar month and at certain times, the District sells energy from Purchaser's Percentage of Output that is not needed in the operation of Wenatchee Works ("Excess Energy"), and, at other times, Purchaser makes arms length on-market third party power purchases (from the District or from third parties) to maintain the operating level at Wenatchee Works within such month ("Supplemental Power Purchases"), the District is required under the Power Sales Agreement to reimburse Purchaser for its documented costs (documentation will include original confirmations and other documentation satisfactory to the District) of such Supplemental Power Purchases related to such month not otherwise netted out from Excess Energy within such month, such reimbursement to be made solely from, and only to the extent of, the proceeds actually received by the District from the sale of such Excess Energy related to that month, less the District's Sales and Administrative Charges with respect thereto.

Accumulation of Surplus Proceeds.

Within each month during an Operating Year, the District will sell Excess Energy not needed for the operation of Wenatchee Works. On or about the 25th of the following Month, the District is required under the Power Sales Agreement to determine the proceeds actually received from the sale of such Excess Energy properly allocable to such month, and will deduct therefrom: (i) all costs, obligations and expenses to third parties associated with such sales including, without limitation, all broker fees, transmission costs, line loss charges, scheduling fees, rebates, losses (including losses arising from payment defaults), damages, liabilities and related expenses (including collection costs) and all other costs related thereto, (ii) the amounts distributed or otherwise made available to Purchaser pursuant to the provisions of the Power Sales Agreement described in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits" is required under the Power Sales Agreement, and (iii) the amount of the District's Sales and Administrative Charges with respect to such Excess Energy sales not paid to the District pursuant to the provisions of the Power Sales Agreement described in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits—Use of Revenues From Power Sales Within a Month to Offset the Cost of Supplemental Power Purchases Within the Same Month" (such net amounts being referred to as "Surplus Proceeds").

The District will maintain records of such Surplus Proceeds received within an Operating Year and disbursements made by the District to Purchaser within such Operating Year to reimburse it for Supplemental Power Purchases to determine the net amounts available within an Operating Year from which Purchaser can be reimbursed for further Supplemental Power Purchases. ("Purchaser's Current Year's Credit Pool"). Within each such Operating Year upon proper documentation, the District will reimburse Purchaser for its substantiated arms-length costs of Supplemental Power Purchases occurring within such Operating Year (documentation will include original confirmations or other documentation satisfactory to the District), to the extent not reimbursed pursuant to "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits—Accumulation of Surplus Proceeds," without regard to the Operating Level of Wenatchee Works, from and only to the extent of the net accumulated amounts then remaining available in Purchaser's Current Year's Credit Pool.

On or about November 15th of each year, the District will determine the applicable Operating Level of Wenatchee Works for the preceding Operating Year pursuant to the criteria described in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits—Post-Operation Review." The District will also compute the cumulative amount, if any, of Surplus Proceeds in Purchaser's Current Year's Credit Pool, if any, which were not distributed to Purchaser during such Operating Year. The cumulative Surplus Proceeds, if any, for such Operating Year remaining in Purchaser's Current Year's Credit Pool (the "Annual Cumulative Surplus Proceeds"), will be allocated for future credit to Purchaser ("Purchaser's Long Term Credit Pool"), or will be retained by the District, or both, in accordance with the following criteria:

(i) If Wenatchee Works operated at Operating Level 1 for such Operating Year, all Annual Cumulative Surplus Proceeds for such Operating Year will be allocated to Purchaser's Long Term Credit Pool.

(ii) If Wenatchee Works operated at Operating Level 2 for such Operating Year, fifty percent (50%) of the Annual Cumulative Surplus Proceeds for such Operating Year will be allocated to Purchaser's Long Term Credit Pool and the remaining 50% will be retained by the District.

(iii) If Wenatchee Works operated at Operating Level 3 for such Operating Year, thirty percent (30%) of the Annual Cumulative Surplus Proceeds for such Operating Year will be allocated to Purchaser's Long Term Credit Pool and the remaining seventy (70%) will be retained by the District.

(iv) If Wenatchee Works operated at Operating Level 4 but is not Shutdown for such Operating Year, all of the Annual Cumulative Surplus Proceeds for such Operating Year will be retained by the District.

Use of Surplus Proceeds by the Parties; No Segregation; No Interest; and Forfeiture.

If during any calendar month the Purchaser makes Supplemental Power Purchases for which Purchaser has not been reimbursed pursuant to "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits—Use of Revenues From Power Sales Within a Month to Offset the Cost of Supplemental Power Purchases Within the Same Month" and "—Accumulation of Surplus Proceeds," it will be entitled to reimbursement from the District of its substantiated costs thereof, from and to the extent of amounts available in Purchaser's Long Term Credit Pool. Purchaser will also be entitled to reimbursement from Purchaser's Long Term Credit Pool for substantiated costs incurred in connection with Supplemental Power Purchases that occurred within a period of two (2) years preceding the date reimbursement is requested. All such reimbursements will be subject to the submission by Purchaser, no more frequently than monthly, of such reasonable and appropriate documentation as the District may request to substantiate the required payment criteria, including confirmations, invoices and evidence of payment. Reimbursements will be made by the District within thirty (30) days of receipt of all required documentation in form reasonably satisfactory to the District, and the District will be liable to the Purchaser for interest thereon (calculated pursuant to the provisions described in "THE POWER SALES AGREEMENT—Billing and Payment—Billing of Periodic Payment") if payment has not been made by the due date.

The District will not be obligated to segregate or separately manage or account for any Surplus Proceeds as and when received or at any time thereafter, no interest will accrue or be deemed to accrue thereon, and any amounts allocated to the District pursuant to the provisions described in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sale; Credits" may be used for any purpose, without restriction.

Any Surplus Proceeds to which Purchaser would otherwise be entitled under the Power Sales Agreement will be subject to set off and counterclaims for any payments due from Purchaser under the Power Sales Agreement, and for any damages arising upon a default by Purchaser or other liabilities arising in the performance of any of Purchaser's obligations to the District.

Surplus Proceeds and all Purchaser credits remaining at the expiration or termination of the Power Sales Agreement will be forfeited by the Purchaser pursuant to the provisions described in "THE POWER SALES AGREEMENT—Payment—Disposition of Fund Balances Upon Expiration or Termination of Agreement" below.

Adjustments to Operating Performance. Notwithstanding the foregoing, if the operation of Wenatchee Works is adversely affected by an Uncontrollable Circumstance, Purchaser will notify the District of the occurrence thereof as set forth in the Power Sales Agreement and the Parties will agree on the extent to which such event adversely affected plant operating performance and energy usage. To the extent the Uncontrollable Circumstance occurs within any of the months used to calculate Wenatchee Works Operating Level for a Contract Year, the District, upon consultation with Purchaser, will determine the operating level Wenatchee Works would have achieved had such event not occurred for purposes of the calculations described in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits."

If Purchaser claims the existence of an Uncontrollable Circumstance, it will promptly and diligently make such Commercially Reasonable efforts as may be necessary and practical under the then-existing circumstances to remove the cause of failure and resume full operations at Wenatchee Works as soon as possible. Purchaser will not be entitled to assert an Uncontrollable Circumstance to the extent it has failed to remedy the condition and to resume the performance of such covenants or obligations with reasonable dispatch, or failed to prevent or mitigate the effects of an Uncontrollable Circumstance by following Commercially Reasonable procedures.

Purchaser may not assert the existence of an Uncontrollable Circumstance under the Power Sales Agreement unless it notifies the District orally or in writing or by facsimile of the existence of such condition as soon as reasonably possible; however, any oral notification is required to be followed by a written notice or facsimile within a reasonable time. The notice is required to specify the nature of the Uncontrollable Circumstance, the date of its commencement, the measures to be taken to alleviate such Uncontrollable Circumstance and the estimated time such corrective action is expected to take. The notice is required to include a full explanation of the events or circumstances giving rise to the Uncontrollable Circumstance.

Notwithstanding anything to the contrary contained in the Power Sales Agreement, any Uncontrollable Circumstance described in (d) of the definition of that term affecting the operation of Wenatchee Works will be deemed to terminate within one hundred eighty (180) days after the initiation of the Uncontrollable Circumstance unless the District, in its sole discretion, agrees in writing to a specific extension.

The District will have the right to inspect Wenatchee Works and related properties, along with books, records and other data in the possession of Purchaser, to make inquiries of its officers, consultants, agents and employees, and to conduct tests and analysis on or off the premises in a reasonable and not materially disruptive manner, all as necessary in the District's reasonable judgment to verify the existence of the Uncontrollable Circumstance, the remedial steps Purchaser intends to take and is taking with respect thereto, and the potential duration thereof.

Net Costs. Purchaser will remain responsible for the payment of all Net Costs associated with the Purchaser's Percentage of Output, regardless of power availability or usage of the surplus funds generated by surplus power sales.

Any Surplus Proceeds to which Purchaser would otherwise be entitled under the Power Sales Agreement will be subject to set off and counterclaims arising from a default by Purchaser in the performance of its obligations under the Power Sales Agreement.

Surplus Proceeds and all Purchaser credits at the expiration or termination of the Power Sales Agreement will be subject to forfeiture pursuant to the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Payment" below.

Special Rules During Shutdown Period*.* The parties recognize that the Capacity Reservation Charge contemplated in the Power Sales Agreement is substantially below that paid by other slice power purchasers of the

System and the District has agreed to this reduced amount in consideration of the jobs the full operation of Wenatchee Works would mean to the community, along with other factors. If Wenatchee Works becomes idle, particularly in connection with an extended plant shutdown, the benefits anticipated by the District will be lost. Consequently, the parties have agreed to certain procedures, accumulation and use of surplus proceeds, payments and other results in the event of a Shutdown of Wenatchee Works pursuant to the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Capacity, Reservation Charge Escalation Factor."

District's Right to Terminate. The District may, in its sole discretion, terminate the Power Sales Agreement, if (i) Purchaser's operations at Wenatchee Works consumes less than 175 aMW for 18 consecutive months regardless of the cause or circumstance and without any adjustment of any type including any adjustment for Uncontrollable Circumstances; or (ii) Purchaser formally announces that it has elected to abandon Wenatchee Works or to permanently shutdown its Wenatchee Works operations, or (iii) Purchaser announces that Wenatchee Works operations have been sold to a third party operator (unless the District has agreed in writing and in its sole discretion to the assignment in conformance with the provisions of the Power Sales Agreement described in "THE POWER SALES AGREEMENT—Assignment"). The District's termination of the Power Sales Agreement pursuant to the provisions described in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits" will not be deemed to be a default by either Party.

Mandatory Step-up. If a Share Participant (a "Defaulting Participant") defaults under a Related Power Sales Agreement and the District elects to terminate that Defaulting Participant's entitlement to Output, the Purchaser will purchase from the District, commencing on a date fifteen (15) days following written notice from the District (such date, the "Step-Up Effective Date"), Purchaser's pro rata share of the Output to which the Defaulting Participant was entitled from and after the Step-Up Effective Date, on the terms and conditions set forth in the Power Sales Agreement (other than the provisions described in "THE POWER SALES AGREEMENT—Payment"), for a term equal to the lesser of the Defaulting Participant's remaining contract term or the remaining term of the Power Sales Agreement.

The Purchaser's pro rata share of a Defaulted Participant's Output entitlement (the "*Purchaser's Step-up Percentage*") will be determined based on the Purchaser's Percentage divided by the sum of Purchaser's Percentage, the percentage of Output shares held by other Share Participants excluding the Defaulting Participant, and the Output share retained by the District. For example, if the Purchaser's Percentage is 26%, the Defaulting Participant's share is 10%, the District's share is 39% and the other Share Participants' shares are 25%, the Purchaser's Step-Up Percentage under this section would be:

10% x [(26% ÷ (26% + 39% + 25%)] = 2.89%, to be added to Purchaser's Percentage

For the avoidance of doubt, Purchaser will not be liable for any amounts owed by the Defaulting Participant to the District prior to the Step-Up Effective Date (and Purchaser will have no obligation or liability to perform any of the obligations under the Related Power Sales Agreement and no liability for any default or breach thereunder), and any amounts for which the Purchaser will become liable under the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits," will be determined under the Power Sales Agreement and not under the Related Power Sales Agreement.

If as a result of a Share Participant's default under a Related Power Sales Agreement, the District imposes the mandatory step-up requirement pursuant to the terms described in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits," a portion of the damages recovered by the District that were awarded to compensate the District for prospective losses, if any, directly attributable to the early termination of such Related Power Sales Agreement (net of costs and expenses), adjusted for the number of years remaining under the Power Sales Agreement (if less than the period for which such damages were measured), will be allocated to the Purchaser based on the Purchaser's Step-up Percentage and will be credited against all future payments due from Purchaser under the Power Sales Agreement that are attributable to Purchaser's Step-Up Percentage of such Output until such allocated recoveries have been exhausted. If the Purchaser contests its obligation to purchase the Purchaser's Step-up Percentage of the Defaulting Purchaser's share of Output, Purchaser's share of such recoveries will be held by the District until Purchaser assumes (by instrument in form and substance satisfactory to the District) its Step-Up Percentage, and will then be applied to future payment obligations in accordance with the preceding sentence.

If Purchaser is required to purchase increased Output pursuant to the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits," Purchaser may direct the District to sell such increased Output to third parties pursuant to the sales methodology set forth in the Power Sales

Agreement and described in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits" and "—Excess Energy Sales and Supplemental Power Purchases" and the District's policies and procedures for marketing power, as in effect from time to time. Net proceeds from the sale of such increased Output will not be included in the calculations under, nor subject to limitations or restrictions or allocation of Surplus Proceeds as set forth in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits" and will be made available to Purchaser monthly following receipt, as soon as the applicable calculations are reasonably made and the proceeds are collected. With regard to this subsection, the District agrees not to initiate any material changes to its policies and procedures, other than those required by any accounting, regulatory or legal requirements, unless (i) such changes are not projected by the District, in its reasonable judgment, to material adversely affect the net sales proceeds that otherwise could be realized by Purchaser without such changes, or (ii) Purchaser consents to such changes, which consent will not be unreasonably withheld, conditioned or delayed, or (iii) the District compensates Purchaser for any loss resulting from and directly attributable to such change, as determined by the District in its reasonable judgment.

Environmental Attributes Not Included. Although the amount of Output to which Purchaser is entitled under the Power Sales Agreement, and the cost thereof, will be determined in reference to the Chelan Power System, the District may source the Output from any source. The District retains for its own use and benefit any environmental attributes (as those terms may be defined from time to time under any applicable federal or state law, rule or regulation or by any market or otherwise) generated as part of the Output of the Chelan Power System or any other source used by the District to supply Energy to the Purchaser. It is the Parties' intent that the definition of environmental attributes as used in this section, and the District's retention of those rights, will be liberally applied and construed to be most inclusive in favor of the District.

Renewable Resources and Purchaser's Obligations. The Energy Independence Act, RCW 19.285, referenced as Initiative 937, was recently enacted into law by the voters in Washington State. Initiative 937 requires utilities to meet a certain percentage of its load to retail customers through acquisition of renewable resources or renewable energy credits. The parties agree that under RCW 19.285, or any other federal or state law, the Power Sales Agreement and the sale of Output to Purchaser will be considered a wholesale arrangement and that Purchaser is not a "retail customer" nor a "retail load" of the District. The Parties agree to cooperate to ensure that this interpretation is upheld in the context of any applicable legislation, rules or regulations and that it is clearly communicated in political and legal forums as the District may direct. However, if that interpretation fails for any reason or a Change in Law occurs requiring the acquisition of renewable resources or renewable energy credits associated with Purchaser's energy usage, Purchaser will take all steps necessary to put the District in the same economic and operational condition as it would have been in had the Change of Law or interpretation not occurred. Without limiting the foregoing, Purchaser will fund the District's acquisition of appropriate resources or credits and pay any costs of integrating such resources into the District's system necessary for the District to comply with RCW 19.285 or any other law with respect to the sales of Output to Purchaser. Prior to taking any such action, the District and Purchaser will discuss the potentials options and solutions for compliance. Purchaser will have the right to acquire a resource or credits as defined in the law to ensure the District's compliance in lieu of the District acquiring the same. If Purchaser acquires the resource, the parties will agree upon the terms for integration of the resources, including the costs to be paid to the District for such integration and on-going maintenance/operation, and Purchaser will assign its rights to the resource to the District to the extent necessary for the District to comply with the applicable law during the term of the Power Sales Agreement.

Curtailment and Decommissioning

Curtailment. The District will have the right, in its sole discretion, to temporarily interrupt, reduce or suspend delivery (through manual operation, automatic operation or otherwise) of Output from the Projects during any one or more of the following circumstances: (i) to prevent damage to the District's system or to maintain the reliable and safe operation of the District's system; (ii) a District System Emergency; (iii) if suspension is required for relocation, repair or maintenance of facilities or to facilitate restoration of line outages; (iv) a force majeure event; (v) any Operational Constraints in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Output, Scheduling, Planning and Transmission;" (vi) negligent acts or intentional misconduct of Purchaser which are reasonably expected to present imminent threat of damage to property or personal injury; (vii) an event of Default by the Purchaser, as provided in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Default and Termination"; (viii) to comply with any directive or requirement of a Governmental Authority, including but not limited to FERC, NERC or WECC, or (ix) any other reason consistent with Prudent Utility Practice. Any energy production (or in the case of Purchaser, Output) during each such interruption, reduction or suspension will be allocated pro rata among the District, the Purchaser and the other Share Participants, except and to the extent the District determines (or had determined at any time prior to such interruption, reduction or suspension) in its sole discretion that due to a District System Emergency such pro-rata allocation of remaining energy production (or in the case of Purchaser, Output) due to such interruption, reduction or suspension is impracticable or infeasible. The District will give advance notice, as circumstances permit, as determined by the District, of the need for such suspension, reduction or interruption to employees of the Purchaser designated from time to time by the Purchaser to receive such notice. The District will not be responsible for payment of any penalty or cost incurred by the Purchaser during or as a result of such interruption, reduction or suspension. The provisions contained in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Curtailment and Decommissioning" will not limit or modify the scope of and limitations on the District's obligations under the Power Sales Agreement as otherwise set forth in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits" and the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Limitations of Liability."

Restoration of Service. Purchaser and District will endeavor to restore deliveries of Output as promptly as is reasonably possible in the event of an interruption, reduction or suspension under the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Curtailment and Decommissioning."

Decommissioning. Over the term of this Power Sales Agreement, the District may, in its sole discretion, cause components of the Project responsible for not more than 20% of the Output in the aggregate to be Permanently Retired. The District may also cause the Projects, or any components thereof, to be Permanently Retired if, as a result of the adoption or implementation of, or a change in, any Law, rule or regulation, or any policy, guideline or directive of, or any change in the interpretation or administration thereof by, any Regulatory Authority (in each case, having the force of Law) (collectively a "Change in Law"), the District would be required to make material modifications to such Projects or components in order to continue their operation, and the District determines in good faith that, absent such components being Permanently Retired, it would not be Commercially Reasonable to comply with such statutory or regulatory requirements. In each case, the District will give Purchaser as much advance written notice of its determination to Permanently Retire Projects or components as reasonably practicable, as determined by the District. Decommissioning will not reduce Purchaser's payment obligations under the Power Sales Agreement; provided however, that to the extent that components are Permanently Retired and such action results in a material reduction of the amount of the Output available to the Purchaser, the Parties will negotiate in good faith a proportionate and commensurate reduction in the aMW Operating Levels as set forth in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits."

Load Shedding. In addition to the foregoing and other rights of curtailment set forth in the Power Sales Agreement, the District may curtail deliveries of Output to Purchaser when needed to meet the System's power load requirements, as determined by the District, provided that such curtailment under this section will be limited to durations of not more than 1 hour in any 24 hour period, not more than twice in any rolling twelve (12) month period and for not more than 40 MW per hour. The Parties may also negotiate and agree upon other opportunities for curtailment during the term of the Power Sales Agreement.

Payment

Payments and Charges. In consideration of the District's agreement to provide Purchaser with Purchaser's Percentage of Output, the Purchaser agrees to pay the District the following charges at the times and in the amounts specified below:

Capacity Reservation Charges. Within 30 days following the Signing Date, Purchaser is required to pay the District by wire transfer in immediately available funds, a non-refundable capacity reservation charge of $21,000,000 (stated in January, 2006 Dollars) (the "Capacity Reservation Charge") as adjusted in accordance with the Capacity Reservation Charge Escalation Factor. These amounts will not reduce amounts that may become due in the event of a Shutdown.

The parties recognize that the District has agreed to defer a significant portion of the Capacity Reservation Charge based on the expectation of continuous operation of Wenatchee Works after the Effective Date. If Shutdowns occur during the Term, additional Capacity Reservation Charges would become due, as follows:

(i) Upon the occurrence of an initial Shutdown during the Term, Purchaser would pay the District, as part of the Deferred Capacity Reservation Charge, the Initial Shutdown Amount. Such payment would be due in immediately available funds on the first anniversary of the Shutdown Date (the "Shutdown Payment Date").

(ii) Once the occurrence of a Shutdown has been determined, and during the remaining Shutdown Period, in lieu of the application of Surplus Proceeds described in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits," the District will reduce Purchaser's monthly Net Costs by the amount of Surplus Proceeds actually received from the sale of Surplus Power for that month during the Shutdown Period. The District would be entitled to retain all Surplus Proceeds above such monthly Net Costs, and Purchaser will remain liable for all Net Costs that exceed such collected Surplus Proceeds.

(iii) If the initial Shutdown Period extends for more than eighteen (18) months or if a Shutdown occurs after the first Shutdown Period, the Shutdown Settlement Amount would become due and payable by Purchaser. Such payment would be made in immediately available funds on and as of (i) the first day of the nineteenth (19^{th}) month of the initial Shutdown Period, or (ii) on the day following the determination that a second Shutdown has occurred, whichever occurs first, in each case without any annual deferral and regardless of any subsequent startup of Wenatchee Works. The payment of the Initial Shutdown Amount will not reduce any Shutdown Settlement Amount that may become due.

(iv) Once the Shutdown Settlement Amount has been paid in full, no further Deferred Capacity Reservation Charges will be due under this Capacity Reservation Charge Escalation Factor and during the remainder of the then existing Shutdown Period and for each subsequent Shutdown Period during the Term, the District will reduce Purchaser's Net Costs by the Surplus Proceeds actually received from the sale of Surplus Power during each respective Shutdown Period, and the rules described in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits," during each respective Shutdown Period will not apply. District will retain the remainder of such Surplus Proceeds during such Shutdown Period. Purchaser will remain liable for all Net Costs that exceed such collected Surplus Proceeds.

(v) For purposes of this Capacity Reservation Charge Escalation Factor, the rules of the Power Sales Agreement will apply, meaning that a Shutdown caused by an Uncontrollable Circumstance will not, in and of itself, trigger a Shutdown for purposes of these provisions. In addition, solely for the purposes of the application of this Capacity Reservation Charge Escalation Factor, a labor dispute arising in connection with the good faith negotiation of Purchaser's collective bargaining agreement at Wenatchee Works (and arising from factors or circumstances unrelated to, and made without regard to, the effect of this provision) which results in a strike or lockout determined by the National Labor Relations Board and/or court of competent jurisdiction to have been reasonable, in good faith and in compliance with applicable laws, that causes Shutdown of the Wenatchee Works, will also be considered an "Uncontrollable Circumstance."

If a Shutdown has not occurred during the Term, no Deferred Capacity Reservation Charges will become due.

"***Shutdown***" means the consumption of Output by Wenatchee Works of not more than 60 aMW for 90 consecutive days, as determined by the District that is not directly attributable to either a material reduction in the amount of Output available to Purchaser pursuant to the Power Sales Agreement or an Intentional Breach of the Power Sales Agreement by the District.

"***Initial Shutdown Amount***" means the amount specified in the Power Sales Agreement for the respective Fiscal Year in which a Shutdown has occurred, multiplied by a fraction, the numerator of which is the number of whole and partial months from the beginning of the Shutdown Period to the date that startup has occurred (but not to exceed eighteen (18) months) and the denominator of which is twelve (12).

"***Shutdown Date***" means the first day of the ninety (90) day period giving rise to a determination that a Shutdown has occurred.

"***Shutdown Period***" means the period commencing on the Shutdown Date and ending on the date the Startup Conditions have been satisfied.

"*Shutdown Settlement Amount*" means (i) if the initial Shutdown Period extends at least eighteen (18) months, the amount specified in the Power Sales Agreement for such Fiscal Year in which the first day following the end of such eighteenth (18^{th}) month falls, and (ii) for any subsequent Shutdown, the amount specified in the Power Sales Agreement for the respective Fiscal Year in which the first day of such Shutdown Period falls.

"*Startup Conditions*" means the use of more than 60aMW for more than 30 consecutive days and a plan for ramping up potline operation that can be verified by the District.

Working Capital Charges. The Purchaser will pay Working Capital Charges as follows:

(i) On the Project Availability Date of Rocky Reach, Purchaser will pay the District, by wire transfer in immediately available funds, an initial Working Capital Charge of $2,600,000 (stated in December, 2004 Dollars), as adjusted in accordance with the Escalation Factor set forth in "THE POWER SALES AGREEMENT—Payment" to such Project Availability Date. Within fifteen (15) days following the commencement of each Contract Year thereafter, Purchaser will pay the District, by wire transfer in immediately available funds, an additional Working Capital Charge equal to the amount, if any, by which $2,600,000 (stated in December, 2004 Dollars), as adjusted in accordance with the Escalation Factor set forth in "THE POWER SALES AGREEMENT—Payment" to the beginning of such Contract Year, exceeds the sum of the Working Capital Charges previously paid pursuant to this subsection (i).

(ii) On the Project Availability Date of Rock Island, Purchaser will pay the District, by wire transfer in immediately available funds, a second Working Capital Charge of $2,600,000 (stated in December, 2004 Dollars), as adjusted in accordance with the Escalation Factor set forth in "THE POWER SALES AGREEMENT—Payment" to such Project Availability Date. Within fifteen (15) days following the commencement of each Contract Year thereafter, Purchaser will pay the District, by wire transfer in immediately available funds, an additional Working Capital Charge equal to the amount, if any, by which $2,600,000 (stated in December, 2004 Dollars), as adjusted in accordance with the Escalation Factor set forth in "THE POWER SALES AGREEMENT—Payment" to the beginning of such Contract Year, exceeds the sum of the Working Capital Charges previously paid pursuant to this subsection (ii).

(iii) Each initial Working Capital Charge payment pursuant to subsections (i) and (ii) above constitutes the Purchaser's Percentage of the amount the District deems necessary as of the Signing Date to provide an adequate working capital balance for each respective Project.

(iv) From time to time during any Contract Year, Purchaser will pay to the District, by wire transfer in immediately available funds, upon demand by the District, an amount equal to the Purchaser's Percentage of any additional Working Capital Charge that is necessary to provide an adequate level of working capital for the Chelan Power System as determined by the District in accordance with Prudent Utility Practice.

(v) The payments described in this section are sometimes referred to in the Power Sales Agreement as a "<u>Working Capital Charge</u>" or collectively as "<u>Working Capital Charges</u>."

Net Costs. Purchaser will pay monthly to the District during each Contract Year, an amount equal to the Purchaser's Percentage of Net Costs.

Coverage Fund Charge. The District will continue, or establish, and maintain, one or more coverage funds or their equivalents into which will be deposited the Coverage Amount with respect to the Debt Obligations (collectively, the "<u>*Coverage Fund*</u>"). The Purchaser will pay the Purchaser's Percentage of the Coverage Amount as follows:

(i) On the Project Availability Date for Rocky Reach, Purchaser will pay the District, by wire transfer in immediately available funds, the Purchaser's Percentage of the Coverage Amount (calculated as of such Project Availability Date) attributable to Debt Obligations for Rocky Reach. On the Project Availability Date for Rock Island, Purchaser will pay the District, by wire transfer in immediately available funds, the Purchaser's Percentage of the Coverage Amount (calculated as of such Project Availability Date) attributable to Debt Obligations for Rock Island. The District will notify the Purchaser of such required amounts at least 30 days prior to each such Project Availability Date.

(ii) In addition, upon the issuance or incurrence during any Contract Year of any additional Debt Obligations attributable to Rocky Reach by the District after the Project Availability Date for Rocky Reach and of any additional Debt Obligations attributable to Rock Island by the District after the Project Availability Date for Rock Island, Purchaser will pay to the District, by wire transfer in immediately available funds, within 30 days of demand by the District, an amount equal to the positive difference, if any, between (1) the product of (a) the Purchaser's Percentage, times (b) the Coverage Amount (calculated as of the issuance or incurrence of such additional Debt Obligations), minus (2) the amounts previously paid by the Purchaser pursuant to "THE POWER SALES AGREEMENT—Payments."

(iii) All amounts paid by the Purchaser to the District pursuant to "THE POWER SALES AGREEMENT—Payment" will be used for any lawful purpose as determined by the District in its sole discretion.

Credit Rating Premium. The Purchaser will supply the District, on the first Effective Date, and during the first week of January of each year, with its current long term senior unsecured credit rating(s) by each of the Rating Agencies (each, the "Purchaser's Credit Rating") and will notify the District as soon as practicable during such year of any changes to such credit ratings or credit outlook. The District will compare Purchaser's Credit Rating by each such Rating Agency to the District's corresponding long-term senior underlying rating of the District from each respective Rating Agency then assigning a rating as of such date (the "District's Credit Rating"). If the lowest District's Credit Rating from any Rating Agency is greater than one rating category (including for this purpose, all sub-rating categories of each such Rating Agency) above the Purchaser's Credit Rating (or equivalent rating) from any Rating Agency (a "Credit Spread Condition"), the Purchaser will pay the District a Credit Rating Premium calculated using the methodology set forth below.

If the Purchaser's Credit Rating is suspended or has been withdrawn as of the date of calculation, its Credit Rating for purposes of the calculations under the Power Sales Agreement will be assumed to be "junk bond" status until a rating is restored. If the Purchaser has been rated by fewer than all three Rating Agencies, only the Rating Agencies actually providing a rating on the Purchaser will be used in the calculations contemplated under this section. If the Purchaser has never been rated by any of the Rating Agencies, the District, in consultation with the Independent Investment Banker, will utilize its best efforts to establish the Purchaser's Credit Rating using, to the extent possible, an industry standard methodology, and the District's determination of the Purchaser's Credit Rating will be binding on both Parties until an official Credit Rating from at least one of the Rating Agencies has been obtained.

If a Credit Spread Condition exists on January 1, of any year, or arises as a result of a Downgrade Event during the year, the District, in consultation with the Independent Investment Banker, will determine a current market interest rate for long term 30 year fixed rate obligations of the Purchaser and the District, as the case may be, using the District's and the Purchaser's respective Credit Ratings as determined pursuant to the foregoing criteria. The Purchaser's applicable interest rate will be calculated based on a hypothetical 30 year fixed rate obligation using comparable taxable rates, based on its then applicable Credit Rating. The District's applicable interest rate will be calculated based on a hypothetical 30 year fixed rate, taxable municipal bond obligation, based on its then applicable Credit Rating. The two interest rates will be netted, and the resulting difference in rates will be multiplied by the Purchaser's Percentage of the outstanding principal amount of the District's Debt Obligations as of December 31st of the year preceding the date of calculation. The resulting product is referred to as the "*Credit Rating Premium*." The Purchaser will pay, as part of its monthly Periodic Payments, one twelfth (1/12th) of the Credit Rating Premium as calculated pursuant to the Power Sales Agreement, until a different calculation is made pursuant to the Power Sales Agreement.

Debt Reduction Charge. The Purchaser will pay to the District each month of each Contract Year as part of its Periodic Payments one twelfth (1/12th) of the Purchaser's Percentage of an annual debt reduction charge (the "Debt Reduction Charge"), which Debt Reduction Charge will be computed by multiplying the Debt Reduction Charge Percentage for the Contract Year in which such month occurs by the Debt Reduction Charge Obligations for such Contract Year. The Debt Reduction Charge collected by the District pursuant to this section will be held by the District in a separate fund or account to be known as the "Debt Reduction Charge Account" and used only to purchase, redeem or defease debt of the Chelan Power System, to fund (after the Project Availability Date for Rocky Reach) required deposits to Reserve and Contingency Funds for Rocky Reach bonds, to fund (after the Project Availability Date for Rock Island) required deposits to Reserve and Contingency Funds for Rock Island bonds, or to fund Capital Improvements related to the Chelan Power System, in each case as determined by the District.

Capital Recovery Charge. The Purchaser will pay to the District each month of each Contract Year as part of its Periodic Payments one twelfth ($1/12^{th}$) of the Purchaser's Percentage of an annual capital recovery charge (the "Capital Recovery Charge"), which Capital Recovery Charge will be computed by multiplying the Capital Recovery Charge Percentage for the Contract Year in which such month occurs by the Capital Recovery Charge Base for such Contract Year. The Capital Recovery Charge will be held by the District in a separate fund or account to be known as the "Capital Recovery Charge Account" and used only to purchase, redeem or defease debt of the Chelan Power System, to fund (after the Project Availability Date for Rocky Reach) required deposits to Reserve and Contingency Funds for Rocky Reach bonds, to fund (after the Project Availability Date for Rock Island) required deposits to Reserve and Contingency Funds for Rock Island bonds, or to fund Capital Improvements related to the Chelan Power System, in each case as determined by the District.

In addition to adjustments resulting from the Escalation Factor, the District may adjust the Capital Recovery Charge Base for a Contract Year by giving written notice to the Purchaser at least 180 days prior to the commencement of such Contract Year. Any such adjustment will not increase the Capital Recovery Charge Base to an amount greater than the District's estimate, made in good faith, of its average annual Capital Improvement requirements over the next ensuing thirty (30) Fiscal Years. Such estimate will be as computed in real dollars adjusted to be effective as of the first day of such Contract Year. The Capital Recovery Charge Base, as so adjusted, will remain in effect thereafter unless and until subsequently adjusted pursuant to this paragraph or the immediately preceding paragraph. Adjustments for future annual Capital Improvements will not result in the duplication of payments for such future Capital Improvements.

If the Capital Recovery Charge Base is recalculated pursuant to the Power Sales Agreement, CPI-b for the calculation of the Escalation Factor for the then current and each succeeding Contract Year (until further changed in accordance with this provision) for purposes of determining the Capital Recovery Charge Base will be changed to the CPI Index number for the December immediately preceding the commencement of the Contract Year in which such recalculation occurs.

Limit on Capital Recovery Charge and Debt Reduction Charge. Notwithstanding the provisions of the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Payment" to the contrary, the Purchaser will not be obligated to pay the Purchaser's Percentage of the Debt Reduction Charge and the Capital Recovery Charge in any month if, and only to the extent that, the aggregate value of unspent cash and investments on deposit in the Debt Reduction Charge Fund and the Capital Recovery Charge Fund as of the 15^{th} day of the immediately preceding month exceeds:

(i) five (5) times the Capital Recovery Charge Base for the monthly periods during the Term ending prior to November 1, 2027; and

(ii) four (4) times the Capital Recovery Charge Base for the monthly periods beginning November 1, 2027 and ending prior to November 1, 2028.

For purposes of the foregoing, funds will be deemed "spent" when (i) costs are paid or incurred for Capital Improvements, or (ii) costs are committed to be expended for qualified costs pursuant to contracts for design, engineering, acquisition and/or construction of such Capital Improvements, but only to the extent that such costs are expected by the District to be paid or incurred prior to the expiration of the Term, or (iii) funds are applied to the purchase, redemption or defeasance of Debt Obligations.

Unconditional Obligations. All Periodic Payments due under the Power Sales Agreement will be payable by Purchaser, on an "assured payment basis," and are payable whether or not the Purchaser can receive, accept, take delivery of or use all or any portion of such Output, regardless of curtailments, shutdowns, force majeure events or other operational, regulatory or financial circumstances that may affect the Purchaser, and whether or not any of the Projects are operable or operating or the operation thereof is interrupted, suspended, interfered with, reduced or curtailed, in whole or in part, at any time for any reason during the term of the Power Sales Agreement (including, without limitation, events of force majeure); provided, however, that the foregoing will not affect the rights of Purchaser to pursue its remedies as and to the extent provided in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Default and Termination." The Periodic Payments payable by Purchaser pursuant to the Power Sales Agreement for any month, will be independent of and not related to the amount of Output, if any, delivered to Purchaser under the Power Sales Agreement during such month.

Final Payment. Within ninety (90) days following the expiration or earlier termination of the Power Sales Agreement, Purchaser will pay to the District any and all Periodic Payments accrued but unpaid, net of any credits due to Purchaser as of the date of such expiration or termination. The District will provide Purchaser with a special invoice identifying any such costs and credits within sixty (60) days following the expiration or termination date.

Use of Funds by District. Except as otherwise provided in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Payment" "—Determination of Chelan Power System Net Costs," the District may use the Periodic Payments paid to the District under the Power Sales Agreement in any manner that the District, in its sole discretion, will determine.

Disposition of Fund Balances Upon Expiration or Termination of Power Sales Agreement. Upon the expiration or prior termination of the Power Sales Agreement at any time for any reason, all amounts collected pursuant to the Power Sales Agreement, including but not limited to, amounts deposited and on hand in or credited to any debt service, reserve, capital, coverage, working capital, credit pool or other fund or account maintained by or on behalf of the District, will be retained by the District. Purchaser will have no right, interest or claim in or to any such amounts or any interest or earnings thereon, except as set forth in the Power Sales Agreement.

Investment of Certain Funds. The District agrees, to the extent consistent with applicable Law, to invest and keep invested in a manner consistent with the District's investment policies in effect from time to time, any unexpended amounts of the Debt Reduction Charges and Capital Recovery Charges during any Contract Year.

Billing and Payment

Billing of Periodic Payments. Periodic Payments will be billed as follows:

Monthly Invoices; Periodic Payments. On or prior to the tenth (10th) day of each Month, the District will submit to the Purchaser, by electronic or facsimile transmission, a monthly invoice setting forth the Periodic Payments incurred by the District in the current Contract Year, and stating the sum of the Periodic Payments actually received to date from the Purchaser with respect to such Contract Year. Costs incurred but not actually known by the date of the invoice may be estimated, subject to reconciliation the following month or months, as actual costs become known by the District.

The Purchaser is required to pay each month the Periodic Payments then due as shown on the District's invoice, by electronic funds transfer to the District's account as the District's Treasurer may instruct. Periodic Payments will be due and payable to the District by 5:00 p.m. (Pacific prevailing time (PPT)) on the twentieth (20th) day of each Month in which the District's monthly invoice is received, or if such day is not a Business Day, on the next succeeding Business Day (the "*Due Date*"). Failure of the District to submit an invoice as scheduled will not release the Purchaser from liability for payment upon future delivery of the invoice.

Late Charges and Interest. If payment in full is not made on or before the District's close of business on a Due Date, a delayed payment charge of two percent (2%) of the unpaid amount of the invoice will be assessed to the Purchaser. Interest will accrue on all past due statements at a rate equal to the lesser of 1.5% per month or the maximum rate allowed by law. Should Purchaser fail to pay any invoice within two (2) Business Days after its Due Date as provided in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Billing and Payment," the District is required to send a notice of such failure to pay to the Purchaser. A monthly payment remaining unpaid three (3) Business Days after the receipt by the Purchaser of such notice of failure to pay will constitute a breach of the Power Sales Agreement as described in "THE POWER SALES AGREEMENT—Default and Termination," and the District may, in addition to its other remedies, suspend delivery of the Purchaser's Percentage of Output until all amounts due under the Power Sales Agreement (including late charges and interest) are received by the District.

Payments Unconditional. The Periodic Payments will accrue, and the Purchaser will be obligated to make such payments through the date of termination of the Power Sales Agreement, irrespective of the condition of the Projects and whether or not they are capable of producing any Output for any reason. This provision will not constitute a waiver of the Purchaser's right to seek damages for a breach by the District of its obligations under the Power Sales Agreement.

Accounting. The District will cause proper books and records of account to be kept for each of the Projects by the District. Such books and records of account will be kept in accordance with the rules and regulations established by any Government Authority authorized to prescribe such rules including, but not limited to, the Division of Municipal Corporations of the State Auditor's Office of the State of Washington or such other Washington State department or agency succeeding to such duties of the State Auditor's Office. The District will also maintain books and records in conformity with GAAP and in accordance with the Uniform System of Accounts prescribed by FERC or such other federal agency having jurisdiction over electric utilities owning and operating properties similar to the District's electric properties. The District will cause such books and records of account to be audited by independent certified public accountants, experienced in electric utility accounting, to be retained by the District. The audits to be made by such certified public accountants, as above mentioned, will be made annually and will cover each Fiscal Year during the term of the Power Sales Agreement. At the Purchaser's written request, the District will deliver a copy of each such annual audit, including any recommendations of the auditors with respect to the Project to Purchaser promptly after it is received by the District.

Audits by Purchaser. District will provide or cause to be provided all information that Purchaser may reasonably request to substantiate all invoices, adjustments and claims under the Power Sales Agreement related to the Projects. Purchaser will, upon notice, have the right to audit, at its sole cost and expense, upon reasonable notice and during normal business hours following the receipt of an Annual True-Up, and District will make or cause to be made available any and all books and records related to the Projects which directly relate to the determination of Net Costs as set forth in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Determination of Chelan Power System—Net Costs" and are reasonably necessary for verification of charges and costs included in invoices or amended invoices rendered under the Power Sales Agreement or verification of Purchaser's or the District's compliance with the Power Sales Agreement; provided, however, that Purchaser will coordinate its rights under this section with the other Share Participants in order to conduct joint, rather than individual, audits pursuant to this provision. The District will also cooperate with Purchaser in its efforts to verify the charges imposed pursuant to the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Payments." Any Annual True-Up not challenged within three (3) years following its date will be considered final. Any audit will, at the option of Purchaser and at Purchaser's expense, be performed by designated employees, consultants or agents of Purchaser that Purchaser determines in its discretion are experienced in utility practices. Upon request, District will be entitled to review the complete audit report and any supporting materials.

No Interest In System. The Power Sales Agreement is for a sale of Output as described in "THE POWER SALES AGREEMENT—Output, Surplus Energy Sales, Credits." Nothing in the Power Sales Agreement is intended to grant to Purchaser any rights to or interest in any specific District project, facility or resource.

Interconnection and Transmission

Interconnection and Transmission Agreements. Output will be made available to Purchaser at Transmission Points of Receipt as specified in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Output, Scheduling, Planning and Transmission." The Parties will concurrently herewith or prior to the Effective Date, enter into the Transmission Agreement. The Parties will also enter into an Interconnection Agreement, to be negotiated and executed by the parties following the Signing Date and prior to January 1, 2010 (or such later date as may be agreed to by the Parties), that provides for transmission of Output from such Points of Integration, across the Chelan Power System, to specified Transmission Points of Delivery and that addresses interconnection facilities necessary to interconnect the Chelan transmission system with Purchaser's system or with a third party transmission provider, and clarifies related issues with respect to such interconnection, points of delivery, types of service, scheduling of energy deliveries and fees associated with such services. Purchaser would be responsible for Output transmission from the Transmission Points of Delivery to its own electric system or other designated electric system. Transmission charges will be based upon the District's entire transmission system and reflect the same charges as contained in the Transmission Agreement with Puget Sound Energy.

Type of Service; Scheduling. Types of service and Scheduling of Energy deliveries will be made in accordance with the provisions of the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Output, Scheduling, Planning and Transmission" thereof.

Exclusive Control of the System

The District, and not the Purchaser, will have exclusive control over the operation and maintenance of the Chelan Power System and all repairs, renewals, additions, improvements, retirements, decommissions of and replacements to either of the Projects, and all of the District's generation, transmission or distribution facilities, all units and components thereof, and the financing related to such activities. All deliveries will be subject to the District's curtailment rights set forth in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Curtailment and Decommissioning."

Following the first Project Availability Date, at the request of Purchaser, the District will meet with representatives of Purchaser on a semi-annual basis. All such meetings will be held at the District's headquarters office, or such other location, and at a date and time as the Parties may mutually agree. The District may elect to schedule such meetings with other Share Participants, but it will not be obligated to do so. The District's representatives will attend and provide information concerning past and future expenditures, budgets, operations, maintenance, capital projects and other matters related to the Chelan Power System, as reasonably requested by Purchaser. Meetings initiated pursuant to this paragraph will not exceed eight (8) hours duration without the District's consent. At such meetings, Purchaser may make recommendations to the District concerning the operation and maintenance of, and repairs, renewals, additions, improvements and replacements to, the Chelan Power System. Nothing in the Power Sales Agreement will be construed to create any implied obligations by the District with respect to the Purchaser's recommendations.

Nothing contained in the Power Sales Agreement will entitle the Purchaser to make any claim for damages arising from the failure to deliver power or from the disruption of service from or in relation to the Chelan Power System. Except as provided in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Default and Termination," for an Intentional Breach by the District, the Purchaser's sole remedy for the District's breach of its undertaking under the Power Sales Agreement will be to bring an action for mandamus to specifically enforce the District's covenants under the Power Sales Agreement.

Relicensing Support

The District's current FERC license for Rocky Reach expired on June 30, 2006 (annual licenses will be renewed until a new license is issued); and its current FERC license for Rock Island expires on December 31, 2028. The District is currently pursuing a new license for Rocky Reach and intends to seek a new license for Rock Island. In light of the fact that the Output determined in relation to each of the Projects is material to the Power Sales Agreement, Purchaser covenants and agrees to use Commercially Reasonable Efforts, at its cost and expense, to support the District's efforts to obtain a new license for each of the Projects, at such times during the Term and in such manner as the District reasonably requests in writing. Such support may include, but will not be limited to, providing letters or other written statements of support and written or oral testimony before FERC or in other administrative or legal proceedings, and participation in and statements of support at public meetings.

Risk of Loss and Disclaimer of Warranties

Risk of Loss. The District represents and warrants that it will deliver the Output sold under the Power Sales Agreement to Purchaser free and clear of all liens, claims and encumbrances arising prior to the delivery of such Output at the Transmission Point(s) of Receipt. Purchaser will bear all risk of all occurrences of any nature affecting any interconnection facilities, substations, transmission lines and other facilities serving Purchaser. For the avoidance of doubt, the risk of loss pursuant to the foregoing will not reduce or otherwise affect the Purchaser's Periodic Payments as described in the Power Sales Agreement.

The District will not be liable to Purchaser for any damages or losses sustained by Purchaser (except as provided in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Default and Termination," for an Intentional Breach by the District) or its customers or third parties as a result of the curtailment, reduction or interruption of Output or the transmission of Output to Purchaser's Transmission Point(s) of Receipt.

Disclaimer of Warranties. Except as otherwise expressly set forth in the Power Sales Agreement, the District disclaims any and all warranties beyond the express terms thereof, including any implied warranties of merchantability or fitness for a particular purpose, and all other warranties with regard to Output made available to Purchaser pursuant to the Power Sales Agreement are expressly disclaimed.

The Parties confirm that the express remedies and measures of damages provided in the Power Sales Agreement against the Purchaser, and the express limitations as to remedies and damages provided in the Power Sales Agreement with respect to the District, in each case satisfy the essential purposes thereof. For breach of any provision thereof for which an express remedy or measure of damages is provided, such express remedy or measure of damages will be the sole and exclusive remedy, the obligor's liability will be limited as set forth in such provision and all remedies or damages at law or in equity are waived. Except as otherwise expressly provided in the Power Sales Agreement, the obligor's liability will be limited to direct actual damages only, such direct actual damages will be the sole and exclusive remedy and all other remedies or damages at law or in equity are waived.

THE FOREGOING IS IN LIEU OF ALL OTHER WARRANTIES, EXPRESSED OR IMPLIED, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, IN FACT OR BY LAW WITH RESPECT TO THE OUTPUT PROVIDED UNDER THE POWER SALES AGREEMENT. DISTRICT DISCLAIMS ANY AND ALL OTHER WARRANTIES WHATSOEVER.

These limitations will be in addition to, and not in lieu of, the provisions of the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Output, Surplus Energy Sales, Credits," "—Curtailment and Decommissioning" and "—Limitation of Liability."

Assignment

Neither Party will assign the Power Sales Agreement or its rights under the Power Sales Agreement without the prior written consent of the other Party, which consent may be withheld in the exercise of its sole discretion; provided, however, that:

The District may, without the consent of the Purchaser (and without relieving itself from liability under the Power Sales Agreement), pledge or encumber the Power Sales Agreement or the accounts, revenues or proceeds thereof in connection with any financing or other financial arrangements; and

If more than one Party has signed the Power Sales Agreement as Purchaser under the Power Sales Agreement, this provision will apply to each entity collectively as a unit. No assignment made under this Clause (B) will release the assigning Party from its obligations under the Power Sales Agreement unless the non-assigning Party expressly consents to such release, which consent may be withheld at the non-assigning Party's sole discretion.

Nothing contained in the Power Sales Agreement will preclude the District, without notice to or the consent of the Purchaser, from entering into lease/leaseback, sale/leaseback with an option to purchase, or other similar arrangements with respect to the Projects, or either of them, the economic effect of which is to transfer tax ownership of the Project or Projects for a stated period to a third party, provided that the District retains control of the management and operation of the Projects and related Energy and Capacity, equivalent to that of a legal owner, as determined by the District, for the Term, and provided, that any such assignment or transfer by the District would not impair the Power Sales Agreement or the sale of Output to Purchaser.

Insurance

Purchaser will acquire and maintain during the Term in full force and effect, at its sole cost and expense, comprehensive general liability insurance that includes operations, products and contractual liability, explosion, collapse, and underground hazards, broad form property damage, sudden and accidental pollution and personal liability, with a minimum combined single limit of $10,000,000 per occurrence and not less than $20,000,000 in the aggregate. Each such policy will be primary to and will not contribute to any insurance that may otherwise be maintained by, or on behalf of, the District. All insurance required under the Power Sales Agreement will contain provisions waiving the insured's and the insurer's rights of subrogation or recovery of any kind against the District, its Affiliates and their respective directors, trustees, agents, employees, officers, successors and assigns. Self insurance may be substituted for all or any part of the insurance requirements under the Power Sales Agreement consistent with any generally applied self insurance program of Purchaser. Purchaser will provide the District with a summary of insurance coverages in force on an annual basis. The District acknowledges and agrees that the Purchaser's current program of insurance and self-insurance, as of the Signing Date, is consistent with and satisfies the foregoing provisions of the Power Sales Agreement.

The District will maintain an insurance and/or self-insurance program with respect to the Chelan Power System for property damage, general liability, and other risks as, consistent with Prudent Utility Practice, the District may determine and the District's Commissioners may approve. The Purchaser acknowledges and agrees that the District's current program of insurance and self-insurance meets requirements of the Power Sales Agreement.

Default and Termination

Events of Default. An "Event of Default" means, with respect to a Party (a "Defaulting Party"), the occurrence of any of the following:

(A) the failure to make, when due, any payment required pursuant to the Power Sales Agreement if such failure is not remedied within three (3) Business Days after receipt of written notice, as required in the Power Sales Agreement;

(B) any representation or warranty made by such Party in the Power Sales Agreement is false or misleading in any material respect when made or when deemed made or repeated;

(C) the failure to perform any material covenant or obligation set forth in the Power Sales Agreement (except to the extent constituting a separate Event of Default) if such failure is not remedied within 30 days after receipt of written notice;

(D) the Bankruptcy of such Party;

(E) the failure of such Party to provide Performance Assurance within the time requirements set forth in the Power Sales Agreement;

(F) the failure of such Purchaser to provide Adequate Assurances to the District within fifteen (15) days following receipt of written notice that the District in good faith has reasonable grounds for insecurity (determined using commercially reasonable standards embodied in Section 2-609(2) of the Washington State Uniform Commercial Code) in the Purchaser's ability to perform its obligations under the Power Sales Agreement;

(G) such Party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all of its assets to another entity and/or assigns to another entity without the express written consent of the other party pursuant to the Power Sales Agreement or, in the case of Purchaser, Purchaser suffers a Change in Control with respect to which the District has not expressly consented within 30 days following the occurrence thereof;

(H) the occurrence and continuation of (i) a default, event of default or other similar condition or event in respect of such Party under one or more agreements or instruments, individually or collectively, relating to indebtedness for borrowed money ("Funding Agreements") in an aggregate amount of not less than the applicable Cross Default Amount which results in such indebtedness becoming immediately due and payable or (ii) a default by such Party in making on the due date therefor one or more payments, individually or collectively, under any judgment, or under any contract or other obligation not included within the definition of "Funding Agreement above, in an aggregate amount of not less than the applicable Cross Default Amount; provided, however that such Party will not be deemed in default under this clause (ii) so long as it diligently contests such payments in good faith by appropriate proceedings and pays any amount ultimately determined to be due within 30 days of such determination.

The decommissioning of one or both Projects will not constitute a breach of the Power Sales Agreement. Termination of the Power Sales Agreement by the District will not constitute a breach of the Power Sales Agreement.

Remedies Upon Default. The Party as to which an Event of Default has not occurred (each a "Non-Defaulting Party") will have the right, so long as any Event of Default is continuing and has not been cured within the applicable cure periods, if any, to take any one or more of the following actions:

(A) suspend its performance under the Power Sales Agreement, other than any payment obligations that may be due or become due under the Power Sales Agreement, until such Event of Default is cured or formally waived in writing by the Non-Defaulting Party;

(B) in the case of the District only, terminate the Power Sales Agreement and sue for damages as contemplated in "THE POWER SALES AGREEMENT—Default and Termination;"

(C) maintain successive proceedings against the Defaulting Party for recovery of damages (to the extent permitted under the Power Sales Agreement) or for a sum equal to any and all payments required to be made pursuant to the Power Sales Agreement; or

(D) take whatever action at law or in equity as may be necessary or desirable to collect the amounts payable by the Defaulting Party under the Power Sales Agreement, as then due or to become due thereafter, or to enforce performance and observation of any obligation, agreement or covenant of the Defaulting Party under the Power Sales Agreement.

If, during the continuation of a default by Purchaser, Wenatchee Works is operating at or above Level 3, payments or distributions from Purchaser's Current Year's Credit Pool and Purchaser's Long Term Credit Pool to which Purchaser would otherwise be entitled under the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits" will be suspended until the default has been cured. If, during such default, Wenatchee Works is operating at Level 4, or is Shutdown, all Annual Cumulative Surplus Proceeds are required to be retained by the District. In either case, Purchaser will remain liable for and will pay Net Costs and any Initial Shutdown Amount and Shutdown Settlement Amounts that may become due.

If the District suspends performance pursuant to clause (A) above, the District will act in a Commercially Reasonable manner to mitigate damages, including but not limited to using Commercially Reasonable efforts to sell the Purchaser's Percentage of Output to third parties on a short term basis. In such case, Purchaser is required to pay for the full amount of the monthly Periodic Payments, and any proceeds the District receives from the sale of such Output, net of Sales and Administrative Charges, fees, costs and expenses, as determined by the District to be due, will first be applied against amounts owed by the Purchaser under the Power Sales Agreement with respect to such Output, with the balance, if any, being retained by the District.

The Purchaser waives any right it may have to terminate the Power Sales Agreement as a result of a default by the District. Except as set forth in the following sentence, Purchaser specifically agrees to limit its remedies related to any default by the District to claims for specific performance or injunctive or equitable relief. In the event of an Intentional Breach by the District, the Purchaser's sole remedy will be the recovery from the District of an amount equal to the gross proceeds received by the District from the sale of Purchaser's Share of Output that was the subject of the breach.

Except as otherwise expressly provided in the Power Sales Agreement, no right or remedy conferred upon or reserved to a Party is intended to be exclusive of any other right or remedy, and each and every right and remedy will be cumulative and in addition to any other right or remedy given under the Power Sales Agreement, or now or hereafter legally existing, upon the occurrence of any Event of Default. Failure of either Party to insist at any time on the strict observance or performance by the other Party of any of the provisions of the Power Sales Agreement, or to exercise any right or remedy provided for in the Power Sales Agreement will not impair any such right or remedy nor be construed as a waiver or relinquishment thereof for the future. Receipt by the District of any payment required to be made under the Power Sales Agreement with knowledge of the breach of any provisions of the Power Sales Agreement, will not be deemed a waiver of such breach. In addition to all other remedies provided in the Power Sales Agreement, each Party will be entitled, to the extent permitted by applicable Law, to injunctive relief in case of the violation, or attempted or threatened violation, of any of the provisions of the Power Sales Agreement, or to a decree requiring performance of any of the provisions of the Power Sales Agreement or to any other remedy legally allowed to such Party.

Calculation of District's Loss upon Termination.

If the District terminates the Power Sales Agreement pursuant to the provisions of the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Default and Termination," the District will be entitled to recover from the Purchaser the full amount of its loss resulting from the early termination of the Power Sales Agreement. The Parties recognize that it will be difficult to calculate those losses with absolute precision and agree that the District's good faith determination of such losses, based on the methodology set forth in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Default and Termination," will be conclusive and binding on the Parties, absent manifest error.

The District's losses and costs upon such termination will be determined based on its assessment of the cost of replacing the defaulting Purchaser with a new creditworthy participant who is willing to assume the obligations of the defaulting Purchaser under the Power Sales Agreement. Such costs will include, among other items, upfront incentive payments the District reasonably believes it will be required to pay to entice a substitute Purchaser to assume the defaulting Purchaser's obligations under the Power Sales Agreement, the present value (calculated at the District's tax exempt borrowing rate, or if the District no longer has tax exempt debt outstanding, at its applicable taxable borrowing rate) of pricing discounts and other concessions that the District reasonably believes will be required to entice a substitute Purchaser to assume such obligations, the legal fees and expenses anticipated to be incurred by the District in effectuating such substitution, and all other losses, costs and expenses that have been, and that the District reasonably believes will be, incurred in connection with such default, termination and substitution.

All such losses and costs will be determined by the District in good faith, using Commercially Reasonable procedures, in order to arrive at a Commercially Reasonable result.

Amounts due and owing by the defaulting Purchaser as of the date of termination, together with all legal fees, costs and expenses incurred by the District, arising out of or as a result of such default in connection with the enforcement of the Power Sales Agreement and the protection of its rights under the Power Sales Agreement (including all costs of collection) will be in addition to the losses calculated in accordance with Clause (B) above.

In determining its losses, the District may consider any relevant information, including, without limitation, one or more of the following types of information:

(i) quotations (either firm or indicative) for assumption of the Purchaser's obligations under the Power Sales Agreement, supplied by one or more third parties that take into account the status of the Chelan Power System, the District's existing and anticipated Net Costs, the creditworthiness of the District at the time the quotation is provided and any other factors then existing or anticipated that are relevant to the third party providing such quotation;

(ii) information consisting of relevant market data in the relevant market supplied by one or more third parties, including, without limitation, relevant existing and projected rates, prices, yields, yield curves, volatilities, spreads, correlations and other relevant market data, and the current and anticipated future regulatory environment; or

(iii) information of the types described in the clauses (i) or (ii) above from internal sources if that information is of the same type used by the District in the regular course of its business for evaluating power sales contracts.

The District will consider, taking into account the standards and procedures described above, quotations pursuant to Clause (E)(i) above or relevant market data pursuant to Clause (E)(ii) above, unless the District reasonably believes in good faith that such quotations or relevant market data are not readily available or would produce a result that would not satisfy those standards. When considering information described in Clause (E)(i), (ii) or (iii) above, the District may include costs of funding, to the extent it would not be a component of the other information utilized. Third parties supplying quotations pursuant to Clause (E)(i) above or market data pursuant to Clause (E)(ii) above may include, without limitation, wholesale purchasers in relevant markets, end-users of electric energy, information vendors, brokers, and other sources of market information.

In making these calculations, the mandatory step-up provisions described in "THE POWER SALES AGREEMENT—Output; Surplus Energy Sales; Credits" will be ignored.

If the District determines that its losses, as determined using the foregoing methodology, are negative (meaning that the District will benefit economically from such termination), no amounts will be due by either Party with respect to such losses, and the Purchaser's liability will be limited to (i) amounts due and owing and accrued as of the date of termination, plus (ii) attorneys fees and expenses and other collection costs, plus (iii) the District's reasonable costs of calculating such losses.

The District will notify the Purchaser of its calculation of losses as soon as possible after termination and will supply the Purchaser with a summary analysis of the methodology used in such calculations. The Parties recognize that it will be extremely difficult to precisely determine the amount of actual damages and loss that would be suffered by the District if the Purchaser's default gives rise to a termination of the Power Sales Agreement as described in "THE POWER SALES AGREEMENT—Default and Termination," and agree that the District's reasonable determination of such losses, using the methodology pursuant to this section, is a fair and reasonable method of determining of the amount of actual damages that would be suffered by the District in such event. The loss methodology is intended to measure the anticipated damages actually suffered from a termination and is not intended to constitute a penalty or forfeiture.

The calculation of losses for a default by Purchaser does not apply to a termination of the Power Sales Agreement as a result of the District's failure to consent to a Change in Control pursuant to the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Default and Termination."

Dispute Resolution

General. Any dispute arising out of, or relating to, the Power Sales Agreement, with the exception of those specifically excluded under the Power Sales Agreement, will be subject to the dispute resolution procedures specified in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Dispute Resolution." Each Party retains the right, after making a good faith effort at resolving the dispute pursuant to the terms of the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Dispute Resolution," to pursue such other actions and remedies otherwise permitted or authorized by law or equity.

Good-Faith Negotiation. The Parties will first negotiate in good faith to attempt to resolve any dispute, controversy or claim arising out of, under, or relating to the Power Sales Agreement (a "Dispute"), unless otherwise mutually agreed to by the Parties. In the event that the Parties are unsuccessful in resolving a Dispute through such negotiations, either Party may proceed immediately to litigation concerning the Dispute.

The process of "good-faith negotiations" requires that each Party set out in writing to the other its reason(s) for adopting a specific conclusion or for selecting a particular course of action, together with the sequence of subordinate facts leading to the conclusion or course of action. The Parties will attempt to agree on a mutually agreeable resolution of the Dispute. A Party will not be required as part of these negotiations to provide any information which is confidential or proprietary in nature unless it is satisfied in its discretion that the other Party will maintain the confidentiality of and will not misuse such information or any information subject to attorney-client or other privilege under applicable Law regarding discovery and production of documents.

Other Recourse. Notwithstanding any other provision of the Power Sales Agreement, either Party may, without prejudice to any negotiation or mediation, proceed in the courts of the State of Washington to obtain provisional judicial relief if, in such Party's sole discretion, such action is necessary to protect public safety, avoid imminent irreparable harm, to provide uninterrupted electrical and other services, or to preserve the status quo pending the conclusion of any dispute resolution procedures employed by the Parties or pendency of any action at law or in equity. Except for temporary injunctive relief under this section, neither Party will bring any action at law or in equity to enforce, interpret, or remedy any breach or default of the Power Sales Agreement without first complying with the provisions of the Power Sale Agreement.

No Dedication of Facilities

No undertaking under any provision of the Power Sales Agreement will constitute a dedication of any portion of the District's electric system or the Chelan Power System to the public or to Purchaser.

Licenses and Ownership and Control

Purchaser acknowledges and agrees that the District must comply with the terms and provisions of the (i) FERC licenses for the respective Projects and (ii) the respective Debt Obligations and the resolutions and documents authorizing or providing for the issuance or incurrence and/or the terms thereof. The Power Sales Agreement is made subject to the terms and provisions of such FERC licenses and such licenses will govern to the extent of any conflict with the terms and provisions of the Power Sales Agreement.

Credit and Collateral Requirements

Financial Information. The Purchaser will deliver to the District (i) within 120 days following the end of each fiscal year of Purchaser, a copy of the Purchaser's annual report containing audited consolidated financial statements for such fiscal year, (ii) within 60 days after the end of each of its first three fiscal quarters of each fiscal year, a copy of the Purchaser's quarterly report containing unaudited consolidated financial statements for such fiscal quarter, (iii) all public announcements made by the Purchaser of a financial nature promptly following their release to the public, (iv) any notice of any Downgrade Event, including a change in rating outlook, promptly upon the occurrence thereof and (v) a written report concerning any material changes in Purchaser's ability to perform its obligations under the Power Sales Agreement, immediately upon the occurrence thereof. In all cases the statements will be for the most recent accounting period and prepared in accordance with GAAP; provided, however, that should any such statements not be available on a timely basis due to a delay in preparation or in the delivery of audited financial statements or certificates with respect thereto, such delay will not be an Event of Default so long as the Purchaser provides notice to the District and diligently pursues the preparation and delivery of the statements and required certificates. Notwithstanding the foregoing, the reports, announcements, notices and statements to be delivered under the Power Sales Agreement will be deemed to be delivered on the date the same will be posted on the Securities and Exchange Commission Web site (www.sec.gov). Upon the District's written request, Purchaser will deliver to the District hard copies of the documents contemplated under the Power Sales Agreement.

Credit Assurances. Upon the occurrence of a Downgrade Event, or if the District otherwise has reasonable grounds to believe that the Purchaser's creditworthiness or performance under the Power Sales Agreement has become unsatisfactory, the District may provide the Purchaser with written notice requesting Performance Assurance. Upon receipt of such notice, the Purchaser will have five (5) Business Days to remedy the situation by providing such Performance Assurance to the District. In the event that the Purchaser fails to provide such Performance Assurance, or a guaranty or other credit assurance acceptable to the District within five (5) Business Days of receipt of notice, then an Event of Default under the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Default and Termination" will be deemed to have occurred and the District will be entitled to the remedies set forth in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Default and Termination" of the Power Sales Agreement.

Limitation of Liability

Limitation of Liability. Except as provided in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Default and Termination," neither Party (including each Party's officers, trustees, directors, agents, employees, direct and indirect parents, subsidiaries or Affiliates, and such parents', subsidiaries' or Affiliates' officers, trustees, directors, agents or employees) will be liable or responsible to the other Party (or its direct and indirect parents, subsidiaries, Affiliates, officers, trustees, directors, agents, employees, successors or assigns) or their respective insurers, for any direct, special, incidental, indirect, exemplary, punitive or consequential damages connected with or resulting from the performance or non-performance of the Power Sales Agreement, or anything done in connection therewith including, without limitation, Claims in the nature of business interruption, lost revenues, income or profits (other than payments expressly required and properly due under the Power Sales Agreement), or loss of business, reputation or opportunity, or cost of capital, and irrespective of whether such Claims are based upon downtime costs or Claims of customers, and irrespective of the basis of such Claims.

No Personal Liability. Neither any partner, shareholder, member, parent company or other Affiliate of either Party (or any officer or director or any employee thereof), nor any partner, shareholder, member, parent company or other Affiliate or successor-in-interest of such partner, shareholder, member, parent company or other Affiliate (or any officer or director of any employee thereof), will have any personal liability or responsibility for, relating to or in connection with said Party's failure to properly perform any term, covenant, condition or provision of the Power Sales Agreement.

Entire Agreement; Modifications

Except as may be expressly provided in the Power Sales Agreement, all previous communications between the Parties hereto, either verbal or written, with reference to the subject matter of the Power Sales Agreement are abrogated. The Purchaser's entitlement to Output under the Power Sales Agreement will only become effective on the expiration of the Prior Agreement, and nothing in the Power Sales Agreement will be deemed to supersede or supplement that agreement. Upon each respective Effective Date, the Power Sales Agreement will constitute the entire agreement between the Parties hereto with respect to the applicable Project. No modifications of or amendments to the Power Sales Agreement will be binding upon the Parties or either of them unless such a modification is in writing, duly executed by an authorized officer or employee of each Party.

Determination of Chelan Power System Net Costs

Determination of Net Costs. For purposes of the Power Sales Agreement, the District's Chelan Power System net costs ("Net Costs") for any given month will include all costs and expenses of every kind and description, both direct and indirect, paid or accrued by the District in such Month with respect to its ownership, operation, maintenance, repair and improvement of, and the production and delivery of Output from, the Chelan Power System, as determined by the District, including without duplication (whether under the Power Sales Agreement, the Transmission Agreement or the Interconnection Agreement), the items of cost and expense described below, plus any cost or expenses incurred by the District in such month in administrating the Power Sales Agreement that are unique to Purchaser or Purchaser's performance (or failure to perform) under the Power Sales Agreement. Net Costs will not include any depreciation expense or any expense incurred in the District's purchasing Energy or its use of Energy from another source other than the Chelan Power System. It is specifically understood that Purchaser's costs of Output will be determined in relation to the Net Costs and other provisions of the Power Sales Agreement. Such Net Costs will include, without intending to limit the generality of the foregoing:

Operating and Maintenance Costs. All Operating Costs paid or accrued by the District with respect to the operation, maintenance and repair of, or the production, sale or delivery of Output from, the Chelan Power System or any part thereof, including allocable District overhead and administrative costs, and costs of generation integration for the Chelan Power System provided by the District's distribution system, all as the District may reasonably determine consistent with GAAP, FERC regulations (including FERC's Uniform System of Accounts) and the District's accounting policies, practices and procedures. Without limiting the generality of the foregoing, Operating Costs will include those items of cost described in subsections (i) through (iv) below.

(i) ***Taxes and Assessments***. All governmental taxes, assessments or other similar charges with respect to its ownership, operation, maintenance or repair of, or the production, sale or delivery of Output from, the Chelan Power System or any part thereof, including payments by the District in lieu of such governmental taxes, assessments or other similar charges.

(ii) ***Certification, Relicensing and Decommissioning Costs***. All costs determined by the District to be reasonably allocable to the certification, re-licensing or decommissioning of any of the Projects or any part thereof. The District agrees that it will not accelerate payment of costs associated with measures required or agreed upon, in the District's sole discretion, for the relicensing of either Project in advance of the date(s) necessary to comply with existing and anticipated FERC and other regulatory requirements or settlement agreements related to relicensing.

(iii) ***Litigation***. All judgments, claims, settlements, arbitration awards and other similar costs and liabilities with respect to its ownership, operation, maintenance, repair or improvement of, or the production, sale or delivery of Output from, the Chelan Power System, including attorneys' fees and costs, in each case to the extent not paid from proceeds of insurance or otherwise recovered from third parties.

(iv) ***Loss Prevention***. All costs for the prevention of any loss or damage to the Chelan Power System, and all costs of the correction of any loss or damage to the Chelan Power System to the extent not paid from proceeds of insurance covering such loss or damage.

Notwithstanding anything to the contrary, Operating Costs will not include costs paid or deemed paid from the proceeds of Debt Obligations or to the extent the costs of Capital Improvements were paid from Capital Recovery Charges or Debt Reduction Charges as contemplated in the Power Sales Agreement.

The Purchaser agrees that the District may, in its sole discretion, determine what Operating Costs will be incurred in connection with the ownership, operation, maintenance and improvement of, and the production, sale and delivery of Output from, the Chelan Power System.

Notwithstanding anything to the contrary, if an item of cost or expense referred to above or any part thereof will relate to less than all of the Share Participants, or will clearly not be applicable to a Share Participant, such item will only be included as an item of Net Costs with respect to those Share Participants to which such cost or expense relates.

Financing Costs. Financing Costs ("Financing Costs") for each Month will consist of the monthly accrual, as determined by the District, of the following costs payable or deemed payable by the District or the Chelan Power System, as the case may be, in connection with the issuance, incurring and carrying of Debt Obligations:

(i) ***Outstanding Debt Obligations.*** With respect to Debt Obligations that are outstanding as of January 31, 2006 ("Outstanding Debt Obligations"), the Purchaser will pay Financing Costs based on the payment and amortization schedule attached hereto as Schedule A-1, and regardless of actual payments owed by the District and regardless of any subsequent changes in such Debt Obligations, whether as a result of prepayments, refundings, restructuring or otherwise.

(ii) ***Future Debt Obligations.*** With respect to Debt Obligations that are incurred after January 31, 2006 ("Future Debt Obligations"), the Purchaser will (a) pay, commencing November 1, 2011, the monthly amortization of the Assumed Debt Service on such Debt Obligations attributable to Rocky Reach, and (b) pay, commencing July 1, 2012, the monthly amortization of the Assumed Debt Service on such Debt Obligations attributable to Rock Island. Following the issuance or incurrence of any Debt Obligation, the District will make available to the Purchaser, at its request, a written schedule showing the Capital Improvements expected to be financed by the District from the proceeds thereof, the estimated Average Service Life of such Capital Improvements as determined by the District and the scheduled monthly Financing Costs associated with such Debt Obligations.

(iii) ***Refunding Obligations***. The Purchaser's Financing Costs with respect to Debt Obligations will be determined as of January 31, 2006 or the date of original issuance or incurrence thereof, as the case may be, and will not be affected by any subsequent direct or synthetic refinancing of such obligations.

Except as provided below, no adjustment will be made to the Purchaser's scheduled Debt Obligations payments as calculated in accordance with this section as a result of the payment, purchase, defeasance, tender, acceleration, redemption or other restructure or modification of Debt Obligations after the initial issuance or incurrence thereof.

Capital Recovery Charge and Debt Reduction Charge Adjustments. If the District purchases, redeems or defeases outstanding debt of the Chelan Power System from moneys on deposit in the Capital Recovery Charge Fund or Debt Reduction Charge Fund, or from proceeds of insurance received with respect to components of the Capital Improvements that the District elects not to repair, rebuild or replace, all as determined by the District, the District will provide the Purchaser with a credit against its monthly Financing Costs otherwise due from time to time under the Power Sales Agreement, spread over a 25 year period from the month following the month of calculation (which the District agrees to complete as soon as reasonably practical following such purchase, redemption or defeasance), computed on a level monthly credit basis, using the following criteria, all as determined by the District: (i) the interest component of the credit will be the actual weighted average interest rate applicable to Debt Obligations included in the Purchaser's Financing Costs, and (ii) the principal component of the credit will equal the principal amount of debt of the Chelan Power System that was purchased, redeemed or defeased with such funds.

Notwithstanding anything to the contrary, the District's determination of Net Costs, Operating Costs and Financing Costs will be binding and conclusive on the Purchaser absent manifest error.

Notwithstanding the foregoing, the District, in its discretion, may adjust the Financing Costs as it deems necessary, from time to time, to correct any error in the computation thereof, or to reflect a material change in the District's reasonable estimate of the In Service Date or the Average Service Life with respect thereto, and will either add to or credit the amounts otherwise due in such month, to reflect the cumulative effect of any such adjustment.

Notwithstanding anything to the contrary, except as provided in the Power Sales Agreement and described in "THE POWER SALES AGREEMENT—Default and Termination," no credits will be given for any income or revenues from the sale or other disposition of Output to any person.

Use of Funds; Separate Accounts.

A. Except as otherwise expressly set forth in the Power Sales Agreement, the District, in its sole discretion, may use payments received from the Purchaser under the Power Sales Agreement in any manner that the District will determine.

B. The moneys in any fund or account established pursuant to the Power Sales Agreement may be deposited and invested on a commingled basis by the District; provided, that the District will maintain adequate accounting records to reflect any restricted applications of the moneys on deposit therein.

C. The designation of any fund or account in the Power Sales Agreement will not be construed to require the establishment of any independent, self-balancing fund as such term is commonly defined and used in governmental accounting, but rather is intended solely to constitute an earmarking of certain funds for certain purposes and to establish certain priorities or requirements for application thereof.

Issuance and Incurrence of Debt Obligations and Refunding Obligations.

The District in its discretion may issue and incur Debt Obligations for the purpose of financing Capital Improvements to the Chelan Power System and may issue or incur Refunding Obligations to Refinance Debt Obligations and Refunding Obligations.

Anything in the Power Sales Agreement to the contrary notwithstanding, the covenants, agreements, terms and provisions of all Debt Obligations and Refunding Obligations, including all bond resolutions, loan resolutions, trust agreements and indentures, loan agreements, reimbursement agreements, leases, bonds, notes and other similar instruments, adopted or executed by the District with respect to such Debt Obligations and Refunding Obligations will be determined by the District in its sole discretion.

Output, Scheduling, Planning and Transmission

Chelan Power System Output.

Energy Component. Purchaser's Percentage of Output will be determined in reference to actual deliverable electric energy from the Chelan Power System from time to time in amounts expressed in megawatt hours ("Equivalent Energy") as determined by the following methodology, it being understood that Output may be for purposes of the Power Sales Agreement supplied by the District from any source and not necessarily from the Chelan Power System.

"Equivalent Energy" will be determined in accordance with the following methodology:

1. Determine the average total stream flow for the day for both the Rocky Reach and the Rock Island Projects in thousand cubic feet per second (kcfs).
2. Determine the average turbine flow for the day at the Rocky Reach Project in thousand cubic feet per second (kcfs). Turbine flow equals the total stream flow less spill.
3. Determine the number of generating units which were available for operation hour by hour for both the Rocky Reach and the Rock Island Projects.

The District, in consultation with the Purchaser, will develop Tables for each Rocky Reach and Rock Island Projects to correlate the amount of Equivalent Energy to be made available to the Purchaser for variable turbine flows and unit availabilities. All upstream and downstream encroachments, adjustment for station service and losses to the Transmission Point(s) of Receipt will be reflected in the Tables. Energy deliveries or consumption obligations that are a Project responsibility under applicable Laws or agreements (including, but not limited to, fish hatcheries) will be reflected in the Tables. These Tables will be revised and updated by the District to reflect the current energy correlations.

Load Following and Regulation. Output includes Load Following/Regulation services by the Chelan Power System.

Chelan Power System Rights and Obligations. Output includes the rights and obligations from Canadian Entitlement, MCHC, PNCA, HCP, Biological Opinion, Hanford Reach Fall Chinook Protection Program and Immediate Spill Replacement.

Spinning Operating Reserves and Non-Spinning Operating Reserves. The Purchaser's ability to utilize Output for purposes of Spinning Operating Reserves and Non-Spinning Operating Reserves will be limited to and as provided in MCHC and its related operating protocols. The Parties agree that they will negotiate in good faith with each other and with other MCHC parties to modify MCHC's operating protocols in order to provide for the availability of Spinning Operating Reserves and Non-Spinning Operating Reserves; provided, however, that under any circumstances, the District reserves the right to refuse to place unloaded Units on-line for the sole purpose of meeting Purchaser's Spinning Operating Reserve obligations. Purchaser will not be entitled to sell or transfer Spinning or Non-Spinning Operating Reserves. Purchaser's use of Spinning Reserves is limited to such use as necessary to meet regulatory or reliability requirements as described in "THE POWER SALES AGREEMENT—Output, Scheduling, Planning and Transmission".

Excluded Products and Services. Output does not include the following:

(i) Capacity (Output does include Capacity required for load following and reserve requirements);

(ii) Pond/Storage;

(iii) Black Start Capability;

(iv) RAS;

(v) Voltage Support/MegaVars (MVARS); and

(vi) All other items not specifically included in the Power Sales Agreement. It is Purchaser's responsibility to provide any additional ancillary services required to comply with safety and reliability standards in connection with Purchaser's receipt and use of Output.

Control Area Services and Fees

The Purchaser's load is within the District's Balancing Authority. There are certain fees (such as WECC fees) that are assessed based on load in the District's Balancing Authority. The Purchaser will be responsible for their percentage share of the total assessment. Their percentage share of the total assessment will be calculated by multiplying the total assessment by the fraction of the Wenatchee Works annual energy usage, in MWHs, divided by the sum of the Wenatchee Works annual energy usage and the District's annual energy usage, in MWHs for the applicable period. These costs will be charged as costs in addition to Net Costs.

Operating Reserves and the Northwest Power Pool Reserve Sharing Group

The Purchaser is responsible for providing an adequate amount of operating reserves per the Regulatory Authority for an amount of generation equal to the "Equivalent Energy" and for an amount of load equal to the Wenatchee Works energy usage. The Purchaser may use their percentage share of the Output to provide these operating reserves; provided, however if the amount of operating reserves from the Output is less than the minimum required amount per the Regulatory Authority, the Purchaser will procure operating reserves to meet the Regulatory Authority's minimum requirement. The Purchaser will be responsible for all costs to purchase, schedule and deliver any necessary operating reserves. The District is a member of the Northwest Power Pool Reserve Sharing Group (NWPPRSG) which allows the District to provide fewer operating reserves than if the District was not a member. Since the Wenatchee Works Load is in the District's Balancing Authority, the Purchaser also shares in the benefits and obligations of the NWPPRSG.

Scheduling of Output

Purchaser will notify the District of the Wenatchee Works energy requirements and instruct the District on managing the Purchaser's Energy usage/resource balance. The District will execute Supplemental Power Purchases and Excess Energy Sales to balance the Purchaser's resources with the Purchaser's energy usage. The Parties will each be responsible for their respective adherence to all scheduling protocols in WECC, NERC, RTO, or another Regulatory Authority's imposed protocols. The scheduling protocols established in the Power Sales Agreement are not intended to confer or grant to Purchaser any additional rights or entitlements to Output beyond that otherwise described in the body of the Power Sales Agreement.

Operating Data

Purchaser may from time to time request that the District provide Purchaser with available operating data related to the Chelan Power System, including planned outages, Fish Spill estimates and other anticipated events or circumstances that might affect Output over the ensuing 12 months. The District will use commercially reasonable efforts to comply with such requests, to the extent such information is in the District's possession; provided, however, that the District will not be liable to the Purchaser for any inaccuracies in such information or the failure of the District to deliver it in a timely manner. The Parties anticipate that the technology for the transfer of such information and the information required to operate Purchaser's Percentage of Output will change over time. The Parties agree to transfer operating information reasonably needed by Purchaser to manage its Percentage of Output by means of a technology that is both cost-effective and timely, as mutually agreed by the Parties.

Coordination Agreement

Pacific Northwest Coordination Agreement ("PNCA"). The District is currently a signatory of the PNCA and expects that the PNCA will remain in effect throughout the term of the Power Sales Agreement. The District's current FERC licenses also require that the Projects be coordinated with other generating facilities in the Pacific Northwest. It is the intention of both Parties that Purchaser's Percentage of Output remain coordinated under the PNCA. All rights and duties under the PNCA as applicable to Purchaser's Percentage of Output will be discharged solely by Purchaser, except as otherwise provided in the Power Sales Agreement. None of the means to implement this coordination, whether through the Purchaser becoming signatory to the PNCA, or by means of the District's current PNCA contract, or other mutually agreeable methods are precluded or specified by the Power Sales Agreement, and are left for later determination. If Purchaser is not a signatory to the PNCA, it is expected that another mutually acceptable agreement will be reached by the Parties prior to the delivery of any Purchaser's Percentage of Output to Purchaser. In the event that no such agreement is reached, Purchaser commits to becoming a signatory to PNCA and will assume all rights and obligations associated with coordinating its Purchaser's Percentage of Output under PNCA. The headwater benefit obligations defined by the PNCA are also a settlement of FERC Section 10(f) obligations to the upstream Federal projects, as well as non-Federal parties. As such, any costs of such headwater benefits with respect to Rock Island and Rocky Reach are considered a Project cost and will be included in Net Costs.

Transmission

(B) ***Third Party Transmission Service***. Purchaser is responsible for obtaining all necessary transmission capacity, arranging scheduling and paying associated costs to transmit all "Equivalent Energy" obtained from its Purchaser's Percentage of Output from the Transmission Point(s) of Delivery to Purchaser's system or any alternate point of receipt. The Purchaser is also responsible for obtaining all necessary transmission capacity, arranging scheduling and paying associated costs to transmit Supplemental Power Purchases.

(C) ***Project Facilities***. Project Transmission Facilities may be required to transmit Purchaser's Percentage of Output from the relevant interconnection points to the Transmission Points(s) of Receipt. Purchaser will pay a pro-rata share, equal to its Purchaser's Percentage of Output, of the costs of construction, maintenance and upkeep of Project Transmission Facilities as part of Net Costs and will be entitled to use the same share of the electric capacity. Any unused capacity on Project Transmission Facilities will be available for use by the District.

(D) It will be Purchaser's responsibility to handle its own transmission availability posting and scheduling in accordance with FERC regulations for its pro-rata share of the capacity of Project Transmission Facilities.

(E) ***Chelan Transmission Service***. Prior to the initial delivery of Purchaser's Percentage of Output, Purchaser and the District intend to enter into a Transmission Agreement (and, at the discretion of the District, a separate Interconnection Agreement).

(F) The Transmission Agreement will contain all terms and conditions required to effectuate the delivery of Purchaser's Percentage of Output from the Purchaser's "Transmission Point(s) of Receipt", across the Chelan Transmission System to the Purchaser's "Transmission Point(s) of Delivery." The Parties will structure the Transmission Agreement as required to support the efficient exchanges of electric capacity and energy contemplated by Canadian Entitlement, MCHC, and PNCA, and to allow Purchaser flexibility in designation of Transmission Points of Delivery and Transmission Points of Receipt, so long as such flexibility does not adversely affect the safety and reliability of the Chelan Transmission System, the District's retail electric service obligations, or other firm District transmission service obligations.

Excess Energy Sales and Supplemental Power Purchases

The District will use Commercially Reasonable Efforts to assist Purchaser, at its request, with the management of its power resource portfolio for Wenatchee Works.

a) At Purchaser's request, the District will make market purchases/sales (Supplemental Power Purchases and sales of Excess Energy) to balance all of the resources with Wenatchee Works plant load. The District and Purchaser will mutually agree upon the amounts and timing for forward and balance of the month sales and purchases. The District will make decisions as to preschedule and real time sales and purchases. Purchaser acknowledges that market prices for purchases/sales fluctuate rapidly and that prompt response times and sales confirmations are necessary to achieving the desired pricing structure.

- Purchaser will specify in its Forward Sales Request the proposed effective date of each such sale (the "Start Date"), the termination date thereof (which will not be earlier than the balance of the month, nor later than three (3) months (or other mutually agreeable period) from the date of the Forward Sales Request) (the "End Date"), and the amount of Excess Energy that it wishes to sell (in increments of not less than 25 MW). The period between the Start Date and the End date is the "Forward Sales Period." The date so specified will not be later than the scheduled expiration date of the Power Sales Agreement.
- Purchaser will specify in its Forward Purchase Request the proposed effective date of each such purchase (the "Start Date"), the termination date thereof (which will not be earlier than the balance of the month, nor later than three (3) months from the date of the Forward Purchase Request) (the "End Date"), and the amount of power that it wishes to purchase (in increments of not less than 25 MW). The period between the Start Date and the End date is referred to as the "Forward Purchase Period."
- Purchaser will provide the District a list of approved counterparties for these forward purchases/sales. The District makes no representation to Purchaser about the creditworthiness of any counterparties or the capacity, reliability or appropriateness of said counterparty for the transactions. Purchaser specifically agrees that it is not relying upon the District for any determination of the creditworthiness or capacity, reliability or appropriateness of the counterparties to the transactions.
- If, following a Forward Sales Request or Forward Purchase Request, the District, Purchaser reach agreement as to the advisability of such transactions, the District will use commercially reasonable efforts to effectuate such sales or purchases to one or more parties on a list of counterparties approved in advance by Purchaser, in accordance with normal energy sales procedures then in place by the District. Purchaser will bear the full risk of all such sales and purchases.
- The District will be listed as the source or sink control area on electronic tags.
- The District will maintain appropriate internal records of the forward purchases/sales of energy so that such forward and balance of the month purchases/sales may be tracked separately from other sales/purchases made by the District.
- The purchase/sales price of the forward transactions will be the price as evidenced by the confirmation documentation. Broker fees, when applicable, will be billed to Purchaser.

All transmission fees/charges associated with the energy transactions will also be charged to Purchaser. Any purchase of energy will require use of the District's transmission system and appropriate charges will be paid by the Purchaser to the District for the use of the transmission system.

- Purchaser will pay scheduling fees per the District's Electric Rate Schedule 4, except to the extent a Sales and Administrative Charge has been charged with respect to such Forward Sales pursuant to the Power ales Agreement.
- The District will not be obligated to post any collateral, margin, or other security interest to facilitate the transactions described in the Power Sales Agreement. If the District completes a purchase or sales transaction and subsequently the counterparty requires that such collateral, margin, or other security interest to secure performance under that purchase or sale transaction, it will be the responsibility of Purchaser to post any required collateral in a timely fashion and in such form that is acceptable to the counterparty. If Purchaser failure to promptly post the required collateral the District may reverse the transaction with the counterparty and charge Purchaser for any losses associated with the transaction reversal or termination, together with all unwind costs and expenses.
- In the event forward sales made by the District are greater either on the high load hours or light load hours than the energy available to Purchaser, the shortfall will be considered a Supplemental Power Purchase.

b) Purchaser may not submit Forward Sales Requests or Forward Purchase Requests when they are in default under the Power Sales Agreement.

c) Purchaser will bear all risks associated with purchases/sales including, without limitation, the non-payment risk, the risk of after the fact refunds, price caps or any other downward adjustment to the sales price. The District will, upon request of Purchaser, assign to Purchaser the contractual rights associated with such purchases/sales. Purchaser will bear the full costs associated with all sales and purchases, including, without limitation, all Losses, non-delivery risk, the non-payment risk, the risk of refunds, price caps or any other downward adjustment to the sales price and all collection and enforcement costs.

d) Purchaser, as a condition to the initiation of any sale or purchase agree to indemnify and hold the District harmless from any and all adverse consequences resulting from any sale or purchase, including, without limitation (A) non-payment, late payments, contract disputes, collection fees, costs and expenses or other difficulties with the counterparties, brokerage fees and penalties and (B) all other losses, costs and expenses associated with such sales and purchases (all such adverse consequences being collectively referred to as "Losses"). Losses will not include any actual or perceived impact on the District caused by changes in market prices as a result of any sale or purchase. Any losses may be deducted from any Surplus Proceeds as determined by the District.

e) The parties agree that the District will not be liable to Purchaser, and Purchaser waives any and all claims, for Losses or damages arising from any miscalculation of the amount of resources available to Purchaser, the failure of any counterparty to take or pay for the energy, the failure of any counterparty to deliver energy, whether or not the Power could be sold at higher prices, whether or not the Power could have been purchased at lower prices, or any other losses or damages due to sales or purchases or lack of sales or purchases of said energy by the District, in each case except to the extent such Losses arose from the District's gross negligence or willful misconduct.

In the event of a default by any purchaser of energy from the District's system for preschedule and real time sales, Purchaser's share of any revenue derived from such sales, will be reduced in proportion to their sales in relation to all sales from the District's system in the period of the default. In the event of any recovery of funds after default, Purchaser will receive a credit in proportion to their share of the original losses, net of Purchaser's share of all costs of collection. In the event of retroactive price caps, rebates, refunds, or any retroactive price reduction or increase imposed on the District, Purchaser's respective daily high load and light load sales prices will be reduced or increased to reflect the District's adjusted sales price and a billing adjustment issued.

APPENDIX H— DESCRIPTION OF MAJOR POWER PURCHASERS

THE INFORMATION SET FORTH BELOW RELATING TO THE POWER PURCHASERS WHICH ARE SUBJECT TO THE INFORMATIONAL REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934 (THE "EXCHANGE ACT") HAS BEEN OBTAINED FROM DOCUMENTS FILED BY SUCH POWER PURCHASERS WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC"). NEITHER THE POWER PURCHASERS, THE DISTRICT NOR THE UNDERWRITER MAKES REPRESENTATION AS TO, NOR HAVE THEY ATTEMPTED TO VERIFY, THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

PACIFICORP

PacifiCorp (which includes PacifiCorp and its subsidiaries) is a United States electric utility company serving approximately 1.7 million retail customers in service territories aggregating approximately 136,000 square miles in portions of the states of Utah, Oregon, Wyoming, Washington, Idaho and California. PacifiCorp generates electricity and also buys and sells electricity on the wholesale market. The subsidiaries of PacifiCorp support its electric utility operations by providing coal mining facilities and services and environmental remediation services.

On March 21, 2006, MidAmerican Energy Holdings Company ("MEHC") completed its purchase of all of PacifiCorp's outstanding common stock from PacifiCorp Holdings, Inc., a subsidiary of ScottishPower plc. PacifiCorp's common stock was directly acquired by a subsidiary of MEHC, PPW Holdings LLC. As a result of this transaction, MEHC controls substantially all of PacifiCorp's voting securities, which also include preferred stock held by unrelated third parties. MEHC, a global energy company based in Des Moines, Iowa, is a majority-owned subsidiary of Berkshire Hathaway Inc.

The principal offices of PacifiCorp are located at 825 N.E. Multnomah, Suite 2000, Portland, Oregon 97232; the telephone number is (503) 813-5000.

Available Information

PacifiCorp is subject to the informational requirements of the Exchange Act and in accordance therewith files reports and other information with the SEC. Such reports and other information may be inspected and copied at the offices of the SEC at 450 Fifth Street, N.W. Washington, D.C. 20549; 219 South Dearborn Street, Room 204, Chicago, Illinois 60604; and 75 Park Place, New York, New York 10007. Copies of this material may also be obtained at prescribed rates from the Public Reference Section of the SEC at its principal office at 450 Fifth Street, N.W., Washington, D.C. 20549. The Web site address of PacifiCorp is www.pacificorp.com. The Company makes available free of charge, on or through its Web site, its annual, quarterly and current reports, and any amendments to those reports, as soon as reasonably practicable after electronically filing such reports with the SEC. These reports are also available on the SEC's Web site at www.sec.gov.

Incorporation of Certain Documents by Reference

The following documents filed with the SEC pursuant to the Exchange Act are incorporated by reference herein:

PacifiCorp's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

In addition, all documents filed by PacifiCorp pursuant to Section 13, 14 or 15(d) of the Exchange Act after the date of this filing shall be deemed to be incorporated by reference herein and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated herein by reference shall be deemed to be modified or superseded for purposes of this filing to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated herein by reference modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this filing.

PacifiCorp will provide to each person to whom a copy of this filing has been delivered, on the request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated by reference herein, other than exhibits to such documents. Requests for copies of the documents referred to above, other than exhibits to such documents, may be directed to: PacifiCorp, 825 N.E. Multnomah, Suite 2000 Portland, Oregon 97232; the telephone number is (503) 813-7000.

PORTLAND GENERAL ELECTRIC COMPANY

Portland General Electric Company ("PGE" or when used under this heading the "Company"), incorporated in 1930, is an independent, publicly owned, vertically integrated electric utility engaged in the generation, purchase, transmission, distribution, and retail sale of electricity in the State of Oregon. PGE also sells electricity and natural gas in the wholesale market to utilities and energy marketers in the western United States. PGE operates as a cost-based, regulated electric utility, for which revenue requirements are determined based upon the forecast cost to serve customers, including an opportunity to earn a reasonable rate of return. The Company continues to operate as a single segment, with revenues and costs related to its business activities maintained and analyzed on a total electric operations basis. PGE's state-approved service area allocation of approximately 4,000 square miles is located entirely within Oregon and includes 52 incorporated cities, of which Portland and Salem are the largest. The Company estimates that at the end of 2008 its service area population was approximately 1.6 million, comprising about 43% of the state's population. As of December 31, 2008 the Company served approximately 810,000 retail customers and had 2,753 employees. PGE's common stock is listed on the New York Stock Exchange under the ticker symbol POR. The Company's principal offices are located at 121 S.W. Salmon Street, Portland, Oregon 97204; telephone number: (503) 464-8000.

Available Information

PGE is subject to the informational requirements of the Exchange Act and in accordance therewith files reports and other information with the SEC, which can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC. PGE also makes available its Form 10-K, Form 10-Q and Form 8-K and all amendments to those reports as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. These reports are available free of charge through the Company's Web site at: http://investors.portlandgeneral.com/sec.cfm.

In addition, all documents filed by PGE pursuant to Section 13, 14 or 15(d) of the Exchange Act after the date of this filing shall be deemed to be incorporated by reference herein to this Description of Major Power Purchasers and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated herein by reference shall be deemed to be modified or superseded for purposes of this filing to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated herein by reference modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this filing.

PGE will provide to each person to whom a copy of this filing has been delivered, on the written request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated by reference herein, other than exhibits to such documents. Requests for copies of the documents referred to above, other than exhibits to such documents, may be directed to: the Controller and Assistant Treasurer, Portland General Electric Company, 121 S.W. Salmon Street 1WTC 0501, Portland, Oregon 97204.

PUGET SOUND ENERGY, INC.

Puget Energy, Inc. ("Puget Energy") is an energy services holding company incorporated in the State of Washington in 1999. All of its operations are conducted through its subsidiary, Puget Sound Energy, Inc. ("PSE"), a utility company. Puget Energy has no significant assets other than the stock of its subsidiary. Puget Energy and Puget Sound Energy are collectively referred to herein as "the Company." The Company's executive office is located in the PSE Building at 10885 NE 4th St., 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 parent company of the largest electric and natural gas utility headquartered in Washington State. Puget Energy's business strategy is to generate stable earnings and cash flow by focusing primarily on the regulated utility business conducted through Puget Sound Energy. Puget Energy had 2,800 full-time equivalent employees as of December 31, 2008.

Puget Sound Energy is a public utility incorporated in the State of Washington. Puget Sound Energy furnishes electric and gas service in a territory covering approximately 6,000 square miles, principally in the Puget Sound region of Washington State. As of December 31, 2008, Puget Sound Energy had approximately 1,069,400 electric customers, and approximately 743,800 gas customers. As of December 31, 2008, Puget Sound Energy had 2,800 full-time employees.

On February 6, 2009, Puget Holdings LLC (Puget Holdings) completed its merger with Puget Energy. Puget Holdings is a consortium of long-term infrastructure investors led by Macquarie Infrastructure Partners I, Macquarie Capital Group Limited, the Canada Pension Plan Investment Board and British Columbia Investment Management Corporation, and also includes Alberta Investment Management, Macquarie-FSS Infrastructure Trust and Macquarie Infrastructure Partners II (collectively, the "Consortium"). At the time of the merger, each issued and outstanding share of common stock of Puget Energy, other than any shares in respect of which dissenter's rights are perfected and other than any shares owned by the Consortium, were cancelled and converted automatically into the right to receive $30.00 in cash, without interest. As a result of the merger, Puget Energy is a direct wholly owned subsidiary of Puget Equico LLC (Puget Equico), which is an indirect wholly owned subsidiary of Puget Holdings.

Available Information

Puget Energy is subject to the information requirements of the Exchange Act and in accordance therewith files reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such material may also be obtained by mail from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington D.C. 20549 at prescribed rates. Such information may also be accessed electronically by means of the SEC's home page on the Internet (http://www.sec.gov). In addition, such reports, proxy statements and other information concerning the Company may be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, on which certain securities of the Company are listed.

Incorporation of Certain Documents by Reference

The following documents, filed with the SEC by Puget Energy, are incorporated by reference herein:

The Company's Annual Report on Form 10-K for the year ended December 31, 2008.

In addition, all documents filed by the Company pursuant to Section 13, 14 or 15(d) of the Exchange Act after the date of this filing shall be deemed to be incorporated by reference herein and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated herein by reference shall be deemed to be modified or superseded for purposes of this filing to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated herein by reference modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this filing.

The Company will provide to each person to whom a copy of this filing has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated by reference herein, other than exhibits to such documents. Requests for copies of the documents referred to above, other than exhibits to such documents, may be directed to: Investor Services, Puget Energy, Inc., P.O. Box 97034, PSE-08S, Bellevue, Washington 98009-9734; telephone (425) 462-3898.

AVISTA CORPORATION

Avista Corporation ("Avista") incorporated in the State of Washington in 1889, is an energy company engaged in the generation, transmission and distribution of energy as well as other energy-related businesses. As of December 31, 2008, Avista employed 1,482 people in its utility operations and 645 people in its subsidiary businesses. Avista's corporate headquarters are in Spokane, Washington, the hub of the Inland Northwest. Agriculture, mining and lumber were the primary industries in the Inland Northwest for many years; today health care, education, finance, electronic and other manufacturing, tourism and the service sectors are growing in importance. The principal offices of Avista are located at 1411 East Mission Avenue, Spokane, Washington 99202-2600; the telephone number is (509) 489-0500.

Avista has two reportable business segments as follows

- Avista Utilities – generation, transmission and distribution of electric energy and distribution of natural gas to retail customers, as well as wholesale purchases and sales of energy commodities. Avista Utilities is an operating division of Avista comprising the regulated utility operations.

- Advantage IQ – facility information and cost management services for multi-site customers. The activities of this business segment are conducted by Advantage IQ, Inc., an indirect subsidiary of Avista.

In prior periods, Avista had a reportable Energy Marketing and Resource Management segment. The activities of this business segment were conducted primarily by Avista Energy Inc., an indirect subsidiary of Avista. On June 30, 2007, Avista Energy and Avista Energy Canada, Ltd. completed the sale of substantially all of their contracts and ongoing operations to Shell Energy, as well as to certain other subsidiaries of Shell Energy. Completion of this transaction effectively ended the majority of the operations of this segment. The remaining activities do not represent a reportable business segment in 2008.

Avista has other businesses including sheet metal fabrication, venture fund investments and real estate investments. These activities do not represent a reportable business segment and are conducted by various indirect subsidiaries of Avista. Avista Capital, Inc., a wholly owned subsidiary of Avista, is the parent company of all of the subsidiary companies in the non-utility businesses.

Available Information

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

Avista's Web site address is www.avistacorp.com. Avista makes annual, quarterly and current reports available at its Web site as soon as practicable after electronically filing these reports with the SEC. Information contained on Avista's Web site is not part of this report.

Incorporation of Certain Documents by Reference

The following documents which have been filed by Avista pursuant to the Exchange Act with the SEC are incorporated by reference herein:

- Avista's Annual Report on Form 10-K for the year ended December 31, 2008.

In addition, all documents filed by Avista pursuant to Section 13, 14 or 15(d) of the Exchange Act after the date of this filing shall be deemed to be incorporated by reference herein and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated herein by reference shall be deemed to be modified or superseded for purposes of this filing to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated herein by reference modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this filing.

Avista will provide to each person to whom a copy of this filing has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated by reference herein, other than exhibits to such documents. Requests for copies of the documents referred to above, other than exhibits to such documents, may be directed to: Investor Relations, Avista Corporation, Post Office Box 3727 MSC-19, Spokane, Washington 99220-3727, or by telephone at 800-222-4931.

ALCOA INC.

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

Alcoa is the world's leading producer of aluminum, fabricated aluminum and alumina and is active in all major aspects of the industry. The Company's Alumina and Chemicals segment primarily consists of a series of affiliated operating entities referred to as Alcoa World Alumina and Chemicals ("AWAC"). Total worldwide employment at year-end 2007 was 87,000 people.

Available Information

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

Incorporation of Certain Documents by Reference

The following documents, filed with the SEC by Alcoa, are incorporated by reference herein:

- Alcoa's Annual Report on Form 10-K filed on February 15, 2009 for the year ended December 31, 2008

In addition, all documents filed by Alcoa pursuant to Section 13, 14 or 15(d) of the Exchange Act after the date of this filing shall be deemed to be incorporated by reference herein and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated herein by reference shall be deemed to be modified or superseded for purposes of this filing to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated herein by reference modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this filing.

Alcoa will provide to each person to whom a copy of this filing has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated by reference herein, other than exhibits to such documents. Requests for copies of the documents referred to above, other than exhibits to such documents, may be directed to: Secretary, Alcoa Inc., 390 Park Avenue, New York, New York, 10022-4608.

APPENDIX I—FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is entered into as of August 11, 2009, by Public Utility District No. 1 of Chelan County, Washington (the "District") for the benefit of the Owners and Beneficial Owners of the Bonds (each as defined below) in connection with the issuance of $15,895,000 aggregate principal amount of Public Utility District No. 1 of Chelan County, Washington Rocky Reach Hydro-Electric System Revenue Bonds, Series 2009A (the "Bonds").

WITNESSETH:

WHEREAS, pursuant to Resolution No. 08-13390 adopted by the Commission of the District (the "Commission") on October 20, 2008, (the "Master Resolution"), as amended and supplemented, including as supplemented by Resolution No. 09-13479, adopted by the Commission on July 13, 2009 (the "Second Supplemental Resolution"), and by a Certificate of the District setting forth certain terms of the 2009A Bonds to be delivered at the time of issuance of the 2009A Bonds (the "Delivery Certificate" and together with the Master Resolution and the Second Supplemental Resolution, the "Resolution"), the District has provided for the issuance of the Bonds; and

WHEREAS, the underwriter with respect to the Bonds (the "Underwriter") is required to comply with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934, as amended (the "1934 Act");

NOW THEREFORE, the District covenants and agrees for the benefit of the Owners and Beneficial Owners of the Bonds as follows:

SECTION 1. Definitions. The following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person that (a) has or shares the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, or otherwise make investment decisions concerning ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Bond Register" shall have the meaning provided in the Resolution.

"Business Day" shall mean a day that is not a Saturday, Sunday or legal holiday on which banking institutions in the State of Washington or the State of New York are closed.

"Dissemination Agent" shall mean the District, or any successor Dissemination Agent designated in writing by the District and that has filed with the District a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"Official Statement" shall mean, the Official Statement with respect to the Bonds dated July 29, 2009.

"Owner," whenever used herein with respect to a Bond, shall mean the Person in whose name the ownership of such Bond is registered on the Bond Register.

"Person" shall mean an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Repository" or "MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Rule" shall mean Rule 15c2-12 promulgated by the SEC under the 1934 Act, as the same may be amended from time to time.

"State" shall mean the State of Washington.

"Trustee" shall have the meaning provided in the Resolution.

SECTION 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Owners and the Beneficial Owners, and in order to assist the Underwriter in complying with the Rule.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than six months after the end of each fiscal year of the District, commencing with the fiscal year of the District ended December 31, 2009, provide to the Repository copies of an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the Repository and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District's fiscal year changes, the District shall give notice of such change in the same manner as for a Listed Event under Section 5(f) of this Disclosure Certificate. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 Business Days prior to the date specified in Section 3(a) for providing the Annual Report to Repository, the District shall provide the Annual Report to the Dissemination Agent (if the Dissemination Agent is other than the District). If by 15 Business Days prior to such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with Section 3(a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repository by the date required in Section 3(a), the Dissemination Agent shall send a notice to the Repository in substantially the form attached hereto as Exhibit A.

(d) The Dissemination Agent (if the Dissemination Agent is other than the District) shall file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the Repository.

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference the following:

(a) (i) the District's annual audited financial statements for the previous fiscal year prepared in accordance with generally accepted accounting principles;

(ii) updated information for Tables 1 through 18 (but excluding Tables 7, 16 and 17) of the Official Statement for the previous fiscal year;

(iii) updated information of the type presented in Table 19 of the Official Statement, to the extent not already included in the audited financial statements; and

(iv) updated information for Appendix H of the Official Statement.

(b) Any or all of the items listed in Section 4(a) may be set forth in one or a set of documents or may be incorporated by specific reference from other documents, including official statements of debt issues of the District or related public entities, that have been submitted to the Repository or the SEC and made available to the public on the Repository's website. The District shall clearly identify each such other document so incorporated by reference.

The contents, presentation and format of the Annual Report may be modified from time to time as determined in the judgment of the District to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the District or to reflect changes in the business, structure, operations, legal form of the District or any mergers, consolidations, acquisitions or dispositions made by or affecting the District; provided, that any such modifications shall comply with the requirements of the Rule; provided further, that if the respective Annual Report is modified to conform to changes in accounting or disclosure principles, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting or disclosure principles and those prepared on the basis of the former accounting or disclosure principles.

(c) The District further agrees to use its best efforts to provide or cause to be provided to the Repository information substantially in the form set forth under "Available Information" and "Incorporation of Certain Documents by Reference" in APPENDIX H with respect to each Obligated Person (as defined below); provided, that such information is at the time on file with the SEC pursuant to the 1934 Act. To the extent that an Obligated Person is not required to file information with the SEC pursuant to the 1934 Act, the District agrees to use its best efforts to provide or cause to be provided to the Repository information with respect to such Obligated Person as set forth below, in each case only if and to the extent applicable to such Obligated Person:

(i) such Obligated Person's audited financial statements prepared in accordance with generally accepted accounting principles; provided, that if such Obligated Person's financial statements are not yet available, the District shall provide unaudited financial statements in substantially the same format, and audited financial statements when they become available;

(ii) such Obligated Person's outstanding long-term indebtedness;

(iii) such Obligated Person's retail customers, energy sales, peak loads and revenues;

(iv) such Obligated Person's operating results and debt service coverage on its outstanding indebtedness; and

(v) such Obligated Person's energy requirements, resources and power costs.

Items (ii) through (v), inclusive, shall be required only to the extent that such information is not included in the information provided pursuant to item (i). "Obligated Person" means any Person that at the time is obligated directly or indirectly, by contract, generally or through an enterprise, fund or account, to make payments in the current or any succeeding fiscal year to be applied to pay at least 10% of the aggregate amount of principal of and interest scheduled to become due in such year on the Bonds.

SECTION 5. Reporting of Significant Events.

(a) The occurrence of any of the following events with respect to the Bonds shall be a Listed Event:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax status of the Bonds;

(vii) modifications to rights of holders of the Bonds;

(viii) bond calls (other than mandatory scheduled redemptions, not otherwise contingent upon the occurrence of an event, including, but not limited to, sinking fund payments);

(ix) defeasance;

(x) release, substitution or sale of property securing repayment of the Bonds; or

(xi) rating changes.

(b) The Dissemination Agent shall, promptly upon obtaining actual knowledge at the address listed in Section 12 of this Disclosure Certificate of the occurrence of any of the Listed Events, contact the District, inform the District of the event and request that the District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f).

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the District determines that the Listed Event would not be material under applicable federal securities laws, the District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to Section 5(f).

(f) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repository in electronic format, accompanied by such identifying information as is prescribed by the Repository. Notwithstanding the foregoing, notice of the occurrence of a Listed Event described in Section 5(a)(viii) and (ix) need not be given under this Section 5(f) any earlier than the notice, if any, of the underlying event is given to Owners of affected Bonds pursuant to the Resolution, and notice of any other Listed Event is required only following the actual occurrence of the Listed Event.

(g) The Dissemination Agent may conclusively rely on an opinion of counsel that the District's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The District's and the Dissemination Agent's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent. Upon such discharge, however, a new Dissemination Agent must be appointed within 60 days. The Dissemination Agent may resign by providing 60 days' written notice to the District. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the District shall be the Dissemination Agent. The initial Dissemination Agent shall be the District.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an Obligated Person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Owners (other than amendments requiring the consent of every Owner affected), or (ii) does not, in the opinion of the Dissemination Agent or nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is expressly required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, the Dissemination Agent may (and, at the request of any Underwriter or the Owners of at least 25% of aggregate principal amount of the Bonds then Outstanding, shall), or any Owner or Beneficial Owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in a Washington State Court sitting in Chelan County or in U.S. District Court for the Eastern District of Washington. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance, and no Person shall be entitled to recover monetary damages under this Disclosure Certificate.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are expressly set forth in this Disclosure Certificate, and the District agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, or the employees and agents of the Dissemination Agent, harmless against any loss, expense and liabilities which the Dissemination Agent or such employees or agents may incur arising out of or in the exercise or performance of the Dissemination Agent's powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section 11 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Certificate may be given as follows:

To the District:

Public Utility District No. 1 of Chelan County, Washington
327 North Wenatchee Avenue
Wenatchee, Washington 98801
Attn.: Treasurer

To the initial Dissemination Agent:

Public Utility District No. 1 of Chelan County, Washington
327 North Wenatchee Avenue
Wenatchee, Washington 98801
Attn: Treasurer

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Underwriter and the Owners and Beneficial Owners from time to time, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Certificate shall be governed by the laws of the State of Washington determined without regard to the principles of conflict of law.

IN WITNESS WHEREOF, the party hereto has caused this Disclosure Certificate to be executed by its proper officer thereunto duly authorized, as of the day and year first above written.

PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON

By ____________________________________
Authorized Representative

ACCEPTED:
TREASURER OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON,
as Dissemination Agent

By ____________________________________
Treasurer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Public Utility District No. 1 of Chelan County, Washington
Name of Bond Issue:	Rocky Reach Hydro-Electric System Revenue Bonds Series 2009A
Date of Delivery:	August 11, 2009

Notice is hereby given that Public Utility District No. 1 of Chelan County, Washington (the "District") has not provided an Annual Report with respect to the above-referenced bonds (the "Bonds") as required by Section 3 of the Continuing Disclosure Certificate, dated as of August 11, 2009, entered into by the District for the benefit of the Owners and Beneficial Owners of the Bonds. [The District anticipates that the Annual Report will be filed by _____.]

Dated: _____

TREASURER OF PUBLIC UTILITY DISTRICT NO. 1
OF CHELAN COUNTY, WASHINGTON,
as Dissemination Agent

By ____

cc: Public Utility District No. 1 of Chelan County, Washington

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APPENDIX J

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Public Utility District No. 1
of Chelan County, Washington
Wenatchee, Washington

Public Utility District No. 1 of Chelan County, Washington
Rocky Reach Hydro-Electric System Revenue Bonds, Series 2009A (Non-AMT)
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to Public Utility District No. 1 of Chelan County, Washington (the "District") in connection with issuance of $15,895,000 aggregate principal amount of its Rocky Reach Hydro-Electric System Revenue Bonds, Series 2009A (Non-AMT) (the "2009A Bonds"), issued in accordance with Chapter 1 of the Laws of Washington, 1931, as amended and supplemented, constituting Title 54 of the Revised Code of Washington, Chapter 167 of the Laws of Washington, 1983, as amended and supplemented, constituting Chapter 39.46 of the Revised Code of Washington, and Chapter 138 of the Laws of Washington, 1965, extraordinary session, as amended and supplemented, constituting Chapter 39.53 of the Revised Code of Washington, and Resolution No. 08-13390, adopted by the Commission of the District (the "Commission") on October 20, 2008 (the "Master Resolution"), as amended and supplemented, including as amended and supplemented by Resolution No. 09-13479, adopted by the Commission on July 13, 2009 (the "Second Supplemental Resolution"), and by the Certificate of the District delivered at the time of issuance of the 2009A Bonds setting forth certain terms with respect to the 2009A Bonds (the "Delivery Certificate" and together with the Master Resolution and the Second Supplemental Resolution, the "Resolution"). U.S. Bank National Association (the "Trustee") will serve as Trustee for the 2009A Bonds pursuant to the Resolution. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

In such connection, we have reviewed the Resolution; the Tax Certificate of the District, dated the date hereof (the "Tax Certificate"); opinions of counsel to the District and the Trustee; certificates of the District, the Trustee and others; and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the 2009A Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the 2009A Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the 2009A Bonds, the Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against municipal corporations in the State of Washington. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Resolution or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 2009A Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The 2009A Bonds constitute the valid and binding limited obligations of the District.

2. The Resolution has been duly adopted by, and constitutes the valid and binding obligation of, the District. The Resolution creates a valid pledge, to secure the payment of the principal of and interest on the 2009A Bonds, of Revenues and certain other funds and accounts as provided by the Resolution, subject to the provisions of the Resolution permitting the application thereof for the purposes, in the order of priority, and on the terms and conditions set forth therein.

3. The 2009A Bonds are special limited obligations of the District payable from and secured by Revenues, after prior payment of Operation and Maintenance Expenses. The 2009A Bonds shall not in any manner or to any extent constitute general obligations of the District or the State of Washington, or any political subdivision of the State of Washington. The 2009A Bonds are not a charge upon the general fund or upon any moneys or other property of

the District or the State of Washington, or any political subdivision of the State of Washington, other than the Revenues. Neither the full faith and credit nor the taxing power of the District, the State of Washington, or any political subdivision of the State of Washington, are pledged to the payment of the 2009A Bonds. The 2009A Bonds shall not constitute indebtedness of the District within the meaning of the constitutional and statutory provisions and limitations of the State of Washington.

4. Interest on the 2009A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, except that no opinion is expressed as to the status of interest on any 2009A Bond for any period that such 2009A Bond is held by a "substantial user" of the facilities financed or refinanced by the 2009A Bonds or a by a "related person" within the meaning of Section 147(a) of the Code. Interest on the 2009A Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2009A Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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APPENDIX K— BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York New York, will act as Securities Depository for the Public Utility District No. 1 of Chelan County, Washington Rocky Reach Hydro-Electric System Revenue Bonds, Series 2009A (the "2009A Bonds"). The 2009A Bonds will be issued initially in fully registered form and will be registered in the name of Cede & Co., DTC's partnership nominee or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity in the aggregate principal amount of such maturity and will be deposited with DTC. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the front portion of this Official Statement or in Appendix B - "Summary of Certain Provisions of the Master Resolution and the Second Supplemental Resolution."

The following information has been provided by DTC, and neither the District nor the Underwriter make any representation as to its accuracy or completeness. For further information, beneficial owners should contact DTC in New York, New York.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. The information contained in such websites is not incorporated by reference herein.

Purchases of 2009A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2009A Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (each a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2009A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2009A Bonds, except in the event that use of the book-entry system for the 2009A Bonds is discontinued.

To facilitate subsequent transfers, all 2009A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2009A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2009A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2009A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the 2009A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2009A Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District or to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2009A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2009A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of the DTC, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2009A Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the 2009A Bonds, payment of the principal, interest and other payments on the 2009A Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such 2009A Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

The District cannot and does not give any assurances that DTC will distribute to DTC Participants, or that DTC Participants or others will distribute to the Beneficial Owners, payments of principal, interest and premium, if any, with respect to the 2009A Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The District is not responsible or liable for the failure of DTC or any DTC Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the 2009A Bonds or any error or delay relating thereto.

So long as Cede & Co. is the registered owner of the 2009A Bonds, as nominee of DTC, references herein to the Owners or registered Bondholders of the 2009A Bonds, shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2009A Bonds.

PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON • ROCKY REACH HYDRO-ELECTRIC SYSTEM REVENUE BONDS, SERIES 2009A (NON-AMT)

P.U.D.
CHELAN COUNTY
HYDRO

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