



\$133,825,000
PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON
CONSOLIDATED SYSTEM REVENUE BONDS
\$109,630,000 REVENUE AND REFUNDING SERIES 2020A (NON-AMT/GOVERNMENTAL)
\$10,965,000 REFUNDING SERIES 2020B (NON-AMT/PRIVATE ACTIVITY)
\$13,230,000 REFUNDING SERIES 2020C (AMT)

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

The Consolidated System Revenue Bonds, Revenue and Refunding Series 2020A (Non-AMT/Governmental) (the “**2020A Bonds**”), Refunding Series 2020B (Non-AMT/Private Activity) (the “**2020B Bonds**”) and Refunding Series 2020C (AMT) (the “**2020C Bonds**”) and together with the 2020A Bonds and 2020B Bonds, the “**2020 Bonds**”) of Public Utility District No. 1 of Chelan County, Washington (the “**District**”) are to be issued as fixed rate bonds maturing in the amounts and bearing interest at the rates set forth on the inside front cover of this Official Statement, payable January 1 and July 1 of each year, commencing January 1, 2021.

When issued, the 2020 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 2020 Bonds. Individual purchases will be made in book-entry form in authorized denominations, and purchasers of the 2020 Bonds will not receive certificates representing their interests in the 2020 Bonds. Payments of principal of and premium, if any, and interest on the 2020 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 2020 Bonds.

The principal of and premium, if any, and interest on the 2020 Bonds are payable solely from and secured by the applicable accounts within the 2020A Bond Fund, the 2020B Bond Fund and the 2020C Bond Fund, the 2020A Reserve Account, the 2020B Reserve Account and the 2020C Reserve Account, as applicable, and Revenues of the Consolidated System pledged to such funds and from amounts on deposit in any sinking funds established for the 2020 Bonds, all as provided in the Twelfth Supplemental Resolution authorizing the 2020 Bonds. The 2020 Bonds are being issued subject to the parity lien on Revenues of the Bonds (as defined in the Resolution) heretofore and hereafter issued pursuant to the Resolution (defined herein) and of any Payment Agreement Payments in respect of any Payment Agreements heretofore or hereafter entered into with respect to a Series of Bonds on a parity basis. See “**SECURITY FOR THE 2020 BONDS**.”

The 2020 Bonds are subject to optional and mandatory redemption prior to maturity, as described herein.

The 2020 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 2020 Bonds.

MATURITY SCHEDULE — See Inside Front Cover

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, 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 2020 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 2020B Bond for any period that such 2020B Bond is held by a “substantial user” of the facilities financed or refinanced by the 2020B 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 2020A Bonds and the 2020B Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel observes that interest on the 2020C Bonds is a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the 2020 Bonds. See “**TAX MATTERS**” herein. A copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX C.

This cover page is not intended to be a summary of the terms of, or the security for, the 2020 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 2020 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, Kutak Rock LLP. It is expected that the 2020 Bonds in book-entry form will be delivered through the facilities of DTC in New York, New York on or about May 1, 2020.



MATURITY SCHEDULES

\$109,630,000

**PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON
CONSOLIDATED SYSTEM REVENUE BONDS
REVENUE AND REFUNDING SERIES 2020A (NON-AMT/GOVERNMENTAL)**

Maturity Date	Principal	Interest		CUSIP No.
<u>July 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>163103*</u>
2022	\$20,000,000	5.00%	1.00%	UR3
2023	7,230,000	5.00	1.04	US1
2024	7,275,000	5.00	1.08	UT9
2025	7,340,000	5.00	1.12	UU6
2026	3,315,000	5.00	1.18	UV4
2027	3,355,000	5.00	1.22	UW2
2028	3,400,000	5.00	1.29	UX0
2029	1,050,000	5.00	1.33	UY8
2030	15,980,000	5.00	1.40	UZ5
2031	13,630,000	5.00	1.50 [†]	VA9
2032	1,205,000	5.00	1.61 [†]	VB7
2033	3,515,000	5.00	1.70 [†]	VC5
2034	3,575,000	5.00	1.73 [†]	VD3
2035	3,645,000	4.00	2.02 [†]	VE1
2036	3,690,000	4.00	2.08 [†]	VF8
2037	3,750,000	4.00	2.15 [†]	VG6
2038	3,805,000	4.00	2.19 [†]	VH4
2039	3,870,000	4.00	2.22 [†]	VJ0

\$10,965,000

**PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON
CONSOLIDATED SYSTEM REVENUE BONDS
REFUNDING SERIES 2020B (NON-AMT/PRIVATE ACTIVITY)**

Maturity Date	Principal	Interest		CUSIP No.
<u>July 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>163103*</u>
2023	\$ 960,000	5.00%	1.04%	VK7
2024	1,005,000	5.00	1.08	VL5
2025	1,045,000	5.00	1.12	VM3
2026	1,080,000	5.00	1.18	VN1
2027	1,100,000	5.00	1.22	VP6
2028	1,145,000	5.00	1.29	VQ4
2029	1,105,000	5.00	1.33	VR2
2030	635,000	5.00	1.40	VS0
2031	670,000	5.00	1.50 [†]	VT8
2032	700,000	5.00	1.61 [†]	VU5
2033	740,000	5.00	1.71 [†]	VV3
2034	780,000	5.00	1.75 [†]	VW1

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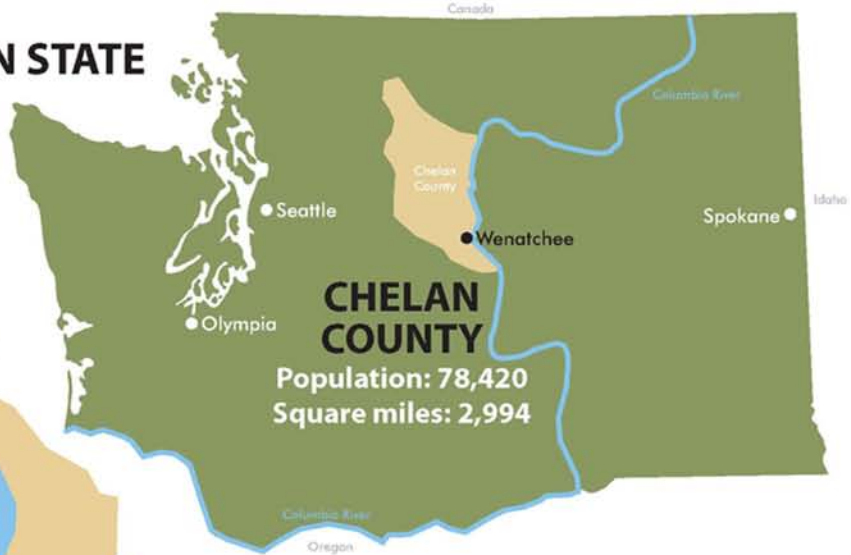
† Priced to July 1, 2030, the first optional redemption date.

\$13,230,000
PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON
CONSOLIDATED SYSTEM REVENUE BONDS
REFUNDING SERIES 2020C (AMT)

Maturity Date	Principal	Interest		CUSIP No.
<u>July 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>163103*</u>
2023	\$1,990,000	5.00%	1.34%	VX9
2024	2,155,000	5.00	1.37	VY7
2025	2,345,000	5.00	1.41	VZ4
2026	1,785,000	5.00	1.45	WA8
2027	755,000	5.00	1.49	WB6
2028	1,610,000	5.00	1.54	WC4
2032	2,590,000	5.00	1.85	WD2

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WASHINGTON STATE



**PUBLIC UTILITY DISTRICT NO. 1 OF
CHELAN COUNTY, WASHINGTON**

327 North Wenatchee Avenue
Wenatchee, Washington 98801
Telephone: (509) 663-8121
Website: www.chelanpud.org*

COMMISSION

Term Expires

Garry Arseneault, President.....	December 31, 2020
Steve McKenna, Vice President	December 31, 2020
Ann Congdon, Secretary.....	December 31, 2022
Randy Smith, Commissioner.....	December 31, 2024
Dennis Bolz, Commissioner	December 31, 2022

MANAGEMENT

Steve Wright.....	General Manager
Kelly Boyd.....	Chief Financial/Risk Officer
Gregg Carrington.....	Energy Resources Managing Director
Mike Coleman	Fiber & Telecommunications Managing Director
Justin Erickson.....	District Services Managing Director
Kirk Hudson	Generation & Transmission Managing Director
Lorna Klemanski	Human Resources Managing Director
John Stoll	Customer Utilities Managing Director
Erik Wahlquist.....	General Counsel / Chief Compliance Officer
Diane Syria	Director – Accounting / Controller
Stacey Jagla	Internal Auditor
Debra Litchfield.....	Director – Treasury / Treasurer

BOND COUNSEL AND DISTRICT DISCLOSURE COUNSEL

Orrick, Herrington & Sutcliffe LLP
Seattle, Washington

MUNICIPAL ADVISOR

PFM Financial Advisors LLC
Seattle, Washington

* Information about the District or other matters on the District's website is **not** incorporated herein by this reference. Such information should **not** be relied upon in making any investment decision with respect to the 2020 Bonds. The 2020 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 2020 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 2020 Bonds, nor shall there be any sale of the 2020 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 2020 Bonds.

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT DO NOT REFLECT HISTORICAL FACTS BUT ARE FORECASTS AND "FORWARD-LOOKING STATEMENTS." THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. NO ASSURANCE CAN BE GIVEN THAT THE FUTURE RESULTS DISCUSSED HEREIN WILL BE ACHIEVED, AND ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE FORECASTS DESCRIBED HEREIN. IN THIS RESPECT, WORDS SUCH AS "ESTIMATE," "FORECAST," "ANTICIPATE," "EXPECT," "INTEND," "PLAN," "BELIEVE," "PROJECT" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD LOOKING STATEMENTS. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

The CUSIP numbers provided in this Official Statement are included for convenience of the holders and potential holders of the 2020 Bonds. No assurance can be given that the CUSIP numbers for the 2020 Bonds will remain the same after the date of issuance and delivery of the 2020 Bonds.

Information on website addresses set forth in this Official Statement is not incorporated into this Official Statement and cannot be relied upon to be accurate as of the date of this Official Statement, nor can it be relied upon in making investment decisions regarding the 2020 Bonds.

In connection with this offering, the Underwriter may over allot or effect transactions that stabilize or maintain the market price of the 2020 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The 2020 Bonds may be reoffered and sold to certain dealers (including dealers depositing the 2020 Bonds into investment accounts) and to others at prices lower than the public offering prices set forth on the inside cover page of this Official Statement.

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 2020 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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PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON

OFFICIAL STATEMENT

RELATING TO

\$133,825,000

PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON

CONSOLIDATED SYSTEM REVENUE BONDS

\$109,630,000 REVENUE AND REFUNDING SERIES 2020A (NON-AMT/GOVERNMENTAL)

\$10,965,000 REFUNDING SERIES 2020B (NON-AMT/PRIVATE ACTIVITY)

\$13,230,000 REFUNDING SERIES 2020C (AMT)

INTRODUCTION

The purpose of this Official Statement, including the cover, inside front cover, and appendices hereto, is to provide information regarding Public Utility District No. 1 of Chelan County, Washington (the “**District**”) and its Consolidated System mentioned below and the issuance of the District’s Consolidated System Revenue Bonds, Revenue and Refunding Series 2020A (Non-AMT/Governmental) in the aggregate principal amount of \$109,630,000 (the “**2020A Bonds**”), Refunding Series 2020B (Non-AMT/Private Activity) in the aggregate principal amount of \$10,965,000 (the “**2020B Bonds**”) and Refunding Series 2020C (AMT) in the aggregate principal amount of \$13,230,000 (the “**2020C Bonds**” and together with the 2020A Bonds and 2020B Bonds, the “**2020 Bonds**”).

The 2020 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, 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, as amended and supplemented, constituting Chapter 39.53 of the Revised Code of Washington (collectively, the “**Enabling Act**”), and Resolution No. 07-13067, adopted by the Commission on March 12, 2007 (the “**Master Resolution**”), as amended and supplemented, including as amended by Resolution No. 07-13099, adopted by the Commission on April 30, 2007 (the “**First Supplemental Resolution**”), and as supplemented by Resolution No. 20-14440, adopted by the Commission on March 30, 2020 (the “**Twelfth Supplemental Resolution**”), and by the Certificate of the District to be delivered at the time of issuance of the 2020 Bonds setting forth certain terms with respect to the 2020 Bonds (the “**2020 Delivery Certificate**”). The Master Resolution, as amended and supplemented, including as amended by the First Supplemental Resolution, and as supplemented by the Twelfth Supplemental Resolution and by the 2020 Delivery Certificate, is referred to herein collectively as the “**Resolution**.” The outstanding 2020 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 collectively referred to herein as the “**Bonds**.”

The District has consolidated its Lake Chelan System, Water System, Fiber and Telecommunications System, Wastewater System and Distribution Division into a single system known as the “**Consolidated System**.” All of these systems have been consolidated into a single system for financing purposes. For accounting purposes, however, only the four utility business operations have been consolidated into a single system, and the Lake Chelan System is accounted for separately. The Rocky Reach System and the Rock Island System are not part of the Consolidated System. The revenues of the Rock Island System and the Rocky Reach System are not pledged or otherwise available to pay or secure the Bonds of the Consolidated System, including the 2020 Bonds. Rather, the revenues of the Rock Island System and the Rocky Reach System are pledged to the payment of bonds issued pursuant to separate master resolutions of the District to finance costs of those respective systems. The currently outstanding bonds of the Rock Island System (the “**Rock Island Bonds**”) have a final stated maturity in 2029, and the currently outstanding bonds of the Rocky Reach System (the “**Rocky Reach Bonds**”) have a final stated maturity in 2034. If all of the outstanding Rock Island 2009A Bonds and the Rocky Reach 2009A Bonds are refunded by the 2020B Bonds, the Columbia River-Rock Island Hydro-Electric System Revenue Refunding Bonds, Series 1997A will be the only series of the District’s bonds secured by the Rock Island System or the Rocky Reach System. See “FINANCIAL INFORMATION—Outstanding Debt” for information about the outstanding indebtedness of the Rock Island System and Rocky Reach System. Upon compliance with certain terms and conditions, the District may issue additional Rock Island Bonds and Rocky Reach Bonds. See “SECURITY FOR THE 2020 BONDS—Additional Indebtedness.”

In addition, the District has preserved substantial flexibility concerning the use of revenues derived from the Water System and Wastewater System, which revenues are part of the Revenues of the Consolidated System, and may pledge such revenues to secure debt of the Water System and Wastewater System. The Water System and the Wastewater System are both very small utilities serving a limited number of customers.

Since the 1970s, the District has financed and refinanced capital improvements to the Rocky Reach System and Rock Island System (together the “Large Hydro Systems”) in part through bonds issued by the Consolidated System, the proceeds of which were loaned to such Large Hydro Systems. The Large Hydro Systems make payments to the Consolidated System on such loans. These payments constitute Revenues of the Consolidated System and are available to pay and secure the Bonds. Unrestricted funds of the Consolidated System, including principal components of the loan payments, are available to make additional loans to the Large Hydro Systems. The obligations of the Rock Island System and Rocky Reach System to make loan payments to the Consolidated System are subordinate to the obligations of such Large Hydro Systems to pay operation and maintenance expenses and debt service on the revenue bonds issued by such Large Hydro Systems. See “FINANCIAL INFORMATION—Interfund and 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. These variances could be substantial and could materially and adversely impair the District’s ability to make timely payment of the principal of and interest on all of its obligations, including the 2020 Bonds.

This Official Statement includes summaries of the terms of the Outstanding Bonds, the 2020 Bonds, the Master Resolution, the Twelfth Supplemental Resolution, the Power Sales Contracts, 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 B, D, E, F and G or in the respective documents.

PLAN OF FINANCE

2020A Bonds

Proceeds of the 2020A Bonds, together with other available moneys of the District and funds released from reserves securing the Consolidated System 2009D Bonds defined below, are to be applied (i) to finance various additions, betterments, extensions and improvements to the Consolidated System, (ii) to refund all of the District’s outstanding Consolidated System Revenue Bonds, Series 2009D Taxable Build America Bonds (the “**Consolidated System 2009D Bonds**”), (iii) to fund reserve account deposits for the 2020A Bonds and (iv) to pay costs of issuing the 2020A Bonds.

2020B Bonds

Proceeds of the 2020B Bonds, together with other available moneys of the District and funds released from reserves securing the Rock Island System 2009A Bonds and the Rocky Reach System 2009A Bonds defined below, are to be applied (i) to refund all of the District’s outstanding Rock Island System Bonds, Series 2009A (the “**Rock Island System 2009A Bonds**”) and Rocky Reach System Bonds, Series 2009A (the “**Rocky Reach System 2009A Bonds**”), (ii) to fund reserve account deposits for the 2020B Bonds and (iii) to pay costs of issuing the 2020B Bonds.

2020C Bonds

Proceeds of the 2020C Bonds, together with other available moneys of the District, are to be applied (i) to refund a portion of the District’s outstanding Consolidated System Revenue Bonds, Refunding Series 2008B (the

“**Consolidated System 2008B Bonds**” and together with the Rock Island System 2009A Bonds, the Rocky Reach System 2009A Bonds and the Consolidated System 2009D Bonds, the “**Refunded Bonds**”) listed in “—Refunded Bonds” below, (ii) to fund reserve account deposits for the 2020C Bonds and (iii) to pay costs of issuing the 2020C Bonds.

Refunded Bonds

The Refunded Bonds to be refunded as described above are shown in the table below.

Refunded Bonds (Series and System)	Refunded Maturity	Principal Amount Refunded (\$)	Redemption Date	Redemption Price (% of Principal)	CUSIP Number ⁽¹⁾
2008B Consolidated	2032	\$21,040,000 ⁽²⁾	May 1, 2020	100%	163103UP7
2009D Consolidated	2024	4,595,000	May 1, 2020	100	163103RX4
2009D Consolidated	2029	5,930,000	May 1, 2020	100	163103RV8
2009D Consolidated	2039	16,490,000	May 1, 2020	100	163103RW6
2009A Rock Island	2020	485,000	May 6, 2020	100	163155AT1
2009A Rock Island	2021	505,000	May 6, 2020	100	163155AU8
2009A Rock Island	2022	525,000	May 6, 2020	100	163155AV6
2009A Rock Island	2023	545,000	May 6, 2020	100	163155AW4
2009A Rock Island	2024	565,000	May 6, 2020	100	163155AX2
2009A Rock Island	2029	3,265,000	May 6, 2020	100	163155AZ7
2009A Rocky Reach	2020	540,000	May 6, 2020	100	163159AZ9
2009A Rocky Reach	2021	570,000	May 6, 2020	100	163159BA3
2009A Rocky Reach	2022	600,000	May 6, 2020	100	163159BB1
2009A Rocky Reach	2023	630,000	May 6, 2020	100	163159BC9
2009A Rocky Reach	2024	660,000	May 6, 2020	100	163159BD7
2009A Rocky Reach	2029	3,820,000	May 6, 2020	100	163159BF2
2009A Rocky Reach	2034	4,890,000	May 6, 2020	100	163159BE5

⁽¹⁾ CUSIP numbers have been assigned by an organization unaffiliated with the District. The District is not responsible for the selection of the CUSIP numbers and makes no representation as to the accuracy thereof as set forth above.

⁽²⁾ The Consolidated System 2008B Bonds are currently outstanding in the aggregate principal amount of \$61,195,000, of which the District is refunding \$21,040,000.

On the date of the issuance of the 2020 Bonds, a portion of the net proceeds from the sale of the 2020 Bonds will be applied to redeem the refunded Consolidated System 2008B Bonds and the Consolidated System 2009D Bonds.

The District will provide for the defeasance and redemption of the refunded Rock Island System 2009A Bonds and the Rocky Reach System 2009A Bonds by irrevocably depositing a portion of the net proceeds from the sale of the 2020B Bonds, together with available moneys of the District, into escrow funds held by U.S. Bank National Association, as escrow agent, in amounts sufficient to make full and timely payment of the applicable redemption price of the Rock Island System 2009A Bonds and the Rocky Reach System 2009A Bonds on the date fixed for redemption and the interest due on the Rock Island System 2009A Bonds and the Rocky Reach System 2009A on and prior to such date.

ESTIMATED APPLICATION OF THE PROCEEDS OF THE 2020 BONDS AND DISTRICT FUNDS

The proceeds of the 2020 Bonds and other funds of the District are estimated to be applied as follows:

	2020A Bonds	2020B Bonds	2020C Bonds
SOURCES:			
Par Amount of 2020 Bonds	\$109,630,000.00	\$10,965,000.00	\$13,230,000.00
Net Original Issue Premium	23,755,314.85	2,806,761.50	2,821,726.95
Refunded Bonds Reserve Accounts	1,626,762.91	1,576,158.90	-
Other District Funds	-	-	879,757.29
Total Sources	\$135,012,077.76	\$15,347,920.40	\$16,931,484.24
USES:			
Deposit to 2020A Construction Fund	\$103,000,000.00	-	-
Deposit to 2020A Redemption Fund	24,964,363.38	-	-
Deposit to 2020B Redemption Fund	-	\$14,620,957.03	-
Deposit to 2020C Redemption Fund	-	-	\$16,055,000.00
Costs of Issuance*	871,497.72	87,338.37	104,734.24
2020A Reserve Account	6,176,216.68	-	-
2020B Reserve Account	-	639,625.00	-
2020C Reserve Account	-	-	771,750.00
Total Uses	\$135,012,077.76	\$15,347,920.40	\$16,931,484.24

* Includes printing costs, Underwriter's discount, rating agency, refunding fees, if any, municipal advisor and legal fees.

DESCRIPTION OF THE 2020 BONDS

General

The 2020 Bonds will be issued pursuant to the Twelfth Supplemental Resolution in the form of fully registered bonds without coupons in authorized denominations and dated their date of delivery. Upon initial issuance, the 2020 Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Purchases of beneficial interests in the 2020 Bonds will be made in book-entry form, without certificates. See APPENDIX D—"Book-Entry Only System."

If the book-entry only system for the 2020 Bonds is discontinued, the principal of and premium, if any, on each 2020 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 2020 Bond to the Trustee.

If the book-entry only system for the 2020 Bonds is discontinued, interest on the 2020 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 2020 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 2020 Bonds, the 2020 Bonds will be exchangeable for other fully registered certificated 2020 Bonds of the same maturity and interest rate in any authorized denominations. See APPENDIX D—"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 2020 Bond.

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

2020 Bonds

General

The 2020 Bonds will be issued in the aggregate principal amount of \$133,825,000 as fixed rate bonds maturing in the amounts and bearing interest at the rates set forth on the inside front cover of this Official Statement. Interest on the 2020 Bonds, calculated based upon a 360-day year consisting of twelve 30-day months, is payable on each January 1 and July 1, commencing January 1, 2021, until maturity or prior redemption. The authorized denominations of the 2020 Bonds will be \$5,000 and any integral multiple of \$5,000.

Redemption

Optional Redemption of 2020A Bonds. The 2020A Bonds maturing on or after July 1, 2031 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, 2030, at a redemption price equal to 100 percent of the principal amount thereof, plus accrued but unpaid interest, if any, to the date fixed for redemption.

Optional Redemption of 2020B Bonds. The 2020B Bonds maturing on or after July 1, 2031 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, 2030, at a redemption price equal to 100 percent of the principal amount thereof, plus accrued but unpaid interest, if any, to the date fixed for redemption.

Optional Redemption of 2020C Bonds. The 2020C Bonds are not subject to redemption prior to maturity.

Selection. Within any Series of the 2020 Bonds, 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 2020 Bonds of that Series that shall be subject to redemption.

Notice and Effect of Redemption. Notice of redemption of any 2020 Bonds to be redeemed shall be given by first class mail to the owners of the 2020 Bonds designated for redemption at least 20 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 2020 Bonds designated for redemption shall become due and payable on the date fixed for redemption and interest on such 2020 Bonds so called for redemption shall cease to accrue as of the date fixed for redemption. If notice of redemption is given as provided in the Master Resolution, failure of any Owner to receive such notice, or any defect in the notice, will not affect the redemption or the validity of the proceedings for the redemption of the 2020 Bonds.

Notice of optional redemption of the 2020 Bonds may state that such optional redemption is conditioned upon the deposit of money, in an amount equal to the amount necessary to effect the optional redemption, with the Trustee no later than the redemption date, notice of which the District may rescind on or prior to the scheduled redemption date (a “**Conditional Redemption**”). Such notice and optional redemption shall be of no effect if such money is not so deposited or if the notice is rescinded. If an optional redemption is a Conditional Redemption, the notice is required to state that it is a Conditional Redemption. Any Conditional Redemption may be rescinded in whole or in part at any time prior to the redemption date if the District delivers a certificate of the District to the Trustee instructing the Trustee to rescind the redemption notice. Any 2020 Bonds subject to Conditional Redemption where redemption has been rescinded shall remain Outstanding, and the rescission shall not constitute an Event of Default. In the case of a Conditional Redemption, the failure of the District to make funds available in part or in whole on or before the redemption date shall not constitute an Event of Default, and the Trustee shall give prompt notice to the affected Owners that the redemption did not occur and that the 2020 Bonds called for redemption and not so paid remain Outstanding.

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 B—“Summary of Certain Provisions of the Master Resolution and the Twelfth Supplemental Resolution—The Master Resolution—Discharge and Defeasance.”

Open Market Purchases

The District has reserved the right pursuant to the Master Resolution to use available funds at any time to purchase any of the Bonds in the open market.

Trustee

U.S. Bank National Association (the “**Trustee**”) has been appointed Trustee for the 2020 Bonds. The Trustee may be removed or replaced as Trustee by the District as provided in the Resolution.

Book-Entry System

The 2020 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 acts as securities depository for the 2020 Bonds. Ownership interests in the 2020 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 2020 Bonds, neither the District nor the Trustee shall have any responsibility or obligation with respect to (1) the accuracy of the records of DTC, Cede & Co. or any Participant with respect to any beneficial ownership interest in the 2020 Bonds, (2) 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 2020 Bonds, or (3) 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 of, premium, if any, or interest on the 2020 Bonds. The District and the Trustee may treat and consider the person in whose name each 2020 Bond is registered in the Bond Register as the holder and absolute owner of such 2020 Bond for the purpose of payment of principal of and interest on such 2020 Bond, for the purpose of giving notices with respect to such 2020 Bond, and for all other purposes whatsoever. See APPENDIX D—“Book-Entry Only System.”

SECURITY FOR THE 2020 BONDS

Pledge of Revenues

The 2020 Bonds are special limited obligations of the District, and the principal of and premium, if any, and interest on the 2020 Bonds are payable from and secured by (1) amounts on deposit in the applicable accounts in the bond funds established under the Twelfth Supplemental Resolution for the 2020 Bonds (the “**2020A Bond Fund**,” the “**2020B Bond Fund**” and the “**2020C Bond Fund**,” respectively), the applicable accounts in the Reserve Fund established under the Twelfth Supplemental Resolution for the 2020 Bonds (the “**2020A Reserve Account**,” the “**2020B Reserve Account**” and the “**2020C Reserve Account**,” respectively) and any sinking fund that may be established for such 2020 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 2020A Bond Fund, the 2020B Bond Fund and the 2020C Bond Fund, as applicable, a fixed amount 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 2020 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 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, water, wastewater, fiber and telecommunications and other services, facilities and commodities sold, furnished or supplied by the Consolidated System, together with income, earnings and profits therefrom, all as determined in accordance with generally accepted accounting principles (“**GAAP**”) as applied to governmental entities. The revenues of the Water System and the Wastewater System do not constitute a part of Revenues to the extent such revenues are pledged to the payment of bonds or other obligations for borrowed money of either of those respective systems. Revenues include all amounts received or accrued by the Consolidated System, including principal and interest payments to the Consolidated System on or with respect to loans made by the Consolidated System to any separate system of the District that is not part of the Consolidated System. Revenues do not include proceeds from the issuance of any obligations for borrowed money, amounts loaned to the Consolidated 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 allocated 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 Consolidated System.

Once all of the Bonds Outstanding under the Resolution as of August 11, 2009 (excluding the Public Utility District No. 1 of Chelan County, Washington, Consolidated System Revenue Bonds, Series 2009D), are no longer Outstanding, the definition of “**Revenues**” will include the following sentence: “Federal and state grant moneys received by the District that do not constitute Contributions-in Aid-of Construction within the meaning of GAAP shall constitute Revenues if designated as such by the District.”

“**Operation and Maintenance Expenses**” means the costs paid or accrued for the proper operation, maintenance and repair of the Consolidated System and taxes, assessments or other governmental charges lawfully imposed on the Consolidated System or the Revenues, or payments in lieu thereof, all as determined in accordance with GAAP as applied to governmental entities. The operation and maintenance expenses of the Rock Island System or the Rocky Reach System shall not constitute a part of Operation and Maintenance Expenses unless and until the Rock Island System or the Rocky Reach System, respectively, is consolidated into the Consolidated System. 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. See APPENDIX B—“Summary of Certain Provisions of the Master Resolution and the Twelfth Supplemental Resolution—Definitions” for the definitions of other capitalized terms used above.

Generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (“**GASB**”) and the Financial Accounting Standards Board (“**FASB**”) allow for the deferral of various types of revenues and expenses for the intended purpose of providing a more accurate assessment of the financial position of governmental and other entities, as well as financial reporting that better matches the rate-setting process for rate-regulated entities. Accordingly, certain expenses and credits, which are normally reflected in the change of net position as incurred, may be recognized when included in rates and recovered from or refunded to customers. These deferrals include swap termination payments, the deferral of the recognition of revenues from prepayments (such as those made by Puget Sound Energy and Alcoa under the Power Sales Contracts), the deferral of significant contributions in aid of construction and other items. The net effect of these changes is such that “Revenues” and “Operation and Maintenance Expenses,” as defined under the Master Resolution, may differ materially from actual

cash receipts and cash expenditures for a given Fiscal Year of the District. Consequently, “Net Revenues” as defined under the Master Resolution, may be materially greater or less than the amounts actually available to the District to pay debt service on the Bonds and other obligations of the District. See “FINANCIAL INFORMATION—Accounting Policies.”

Limited Obligations

The 2020 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 2020 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 2020 Bonds. The 2020 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.

Outstanding Bonds

The 2020 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 collectively referred to herein as the “**Bonds**.” As of December 31, 2019, the Bonds were outstanding in the aggregate principal amount of \$264,945,000. Upon the issuance of the 2020 Bonds, and after giving effect to mandatory sinking fund redemptions of the Bonds, retirement of Bonds maturing prior to the issuance of the 2020 Bonds, and the redemption of a portion of the Consolidated System 2008B Bonds and Consolidated System 2009D Bonds, the Bonds will be outstanding in the aggregate principal amount of approximately \$350,715,000. See “FINANCIAL INFORMATION—Outstanding Debt.”

Flow of Funds

The District, by Resolution No. 870, adopted on September 14, 1954, created a special fund known as the Revenue Fund (the “**Revenue Fund**”), which is held by the District. 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 Consolidated System, including Revenues, into the Revenue Fund, subject to the terms, limitations, restrictions, covenants, liens, charges and pledges contained in the resolutions of the District that established the Large Hydro Systems and provided for the issuance of bonds to finance those Systems. 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 of each Bond Fund created pursuant to the Resolution;
- (c) Third, for deposit in the Bond Retirement Account of each Bond Fund created pursuant to the Resolution;
- (d) Fourth, for deposit in the Reserve Fund pursuant to the Resolution;
- (e) Fifth, (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 within this paragraph (f) which may be hereafter established by the District by resolution;
- (f) Sixth, for any payment due under a Payment Agreement that does not constitute a Payment Agreement Payment;

(g) Seventh, for any payment due under a Power Purchase Agreement that does not constitute an Operation and Maintenance Expense; and

(h) Eighth, for any other lawful purpose of the Consolidated System, in any order of priority which may be hereafter established by the District by resolution.

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

The Master Resolution permits the District to enter into Payment Agreements providing for Payment Agreement Payments to be made on a parity with the Bonds. See “FINANCIAL INFORMATION—Consolidated System Payment Agreements.”

See “Contingent Payment Obligations” under this heading and APPENDIX B—“Summary of Certain Provisions of the Master Resolution and the Twelfth 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 Consolidated System and the amount or proportion previously pledged to the payment of the District’s revenue obligations, including the Bonds.

The District has covenanted in the Master Resolution not to issue or incur any additional indebtedness with a lien or charge on Revenues superior or prior to that of the Bonds, including the 2020 Bonds. The Master Resolution does not prohibit the District from issuing or incurring any indebtedness payable from, or secured by a lien on, revenues of the Water System and the Wastewater System prior to or on a parity with the lien created by the Master Resolution.

Upon compliance with certain terms and conditions contained in the Master Resolution, the District may issue additional Bonds with a lien and charge on Revenues on a parity with that of the currently Outstanding Bonds and the 2020 Bonds, for any lawful purpose, including, without limitation (1) the refunding of Outstanding Bonds, Prior Rock Island Bonds (as defined herein), Rock Island Bonds, Rocky Reach Bonds, bonds of the Water System and bonds of the Wastewater System and (2) financing or refinancing the cost of additions, betterments or improvements to, or renewals and replacements of, the Consolidated System, and for other lawful purposes of the District. See APPENDIX B—“Summary of Certain Provisions of the Master Resolution and the Twelfth Supplemental Resolution—The Master Resolution—Additional Indebtedness.” The Master 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 2020 Bonds.

The Master Resolution permits the District to issue Bonds and 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 “FINANCIAL INFORMATION—Consolidated System Payment Agreements.”

The Resolution contains no restrictions on the issuance of Rock Island Bonds or Rocky Reach Bonds. The District may issue additional Rock Island Bonds and additional Rocky Reach Bonds for purposes of refunding outstanding Rock Island Bonds and Rocky Reach Bonds, respectively, and funding new capital projects of the Rock Island System and Rocky Reach System, respectively. Such bonds, however, will be issued under separate master resolutions of the District, not under the Resolution.

Subordinate Obligations

The Master 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. 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 in the past issued subordinate obligations payable from and secured by a pledge of Revenues, subordinate to the lien thereon of the Bonds (the “**Consolidated System Subordinate Revenue Obligations**”). The Subordinate Consolidated System Resolution also provides that the District may enter into one or more interest rate swap agreements with respect to all or a portion of a Series of Subordinate Consolidated System Obligations.

As of December 31, 2019, there were no bonds, notes or other evidences of indebtedness payable from and secured by a pledge of Revenues subordinate to the lien thereon of the Bonds. The District has no current plans or expectations to issue additional Consolidated System Subordinate Revenue Obligations. See “FINANCIAL INFORMATION—Outstanding Debt.”

Power Purchase Agreements

Pursuant to the Master Resolution, “**Power Purchase Agreement**” means a resolution, contract or agreement with a term of more than five (5) years pursuant to which the Consolidated 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 Consolidated System.

The Master Resolution restricts the ability of the District to enter into any such Power Purchase Agreements, payable from Revenues, for the purchase of power from new or existing facilities. Such facilities could be owned by another entity, or could be part of a separate system of the District. Before entering into a Power Purchase Agreement, the District must deliver to the Trustee a Certificate of the District demonstrating compliance with the requirements for issuing additional Bonds set forth in the Master Resolution for the first three full Fiscal Years following the Fiscal Year in which such Power Purchase Agreement will become effective. See APPENDIX B—“Summary of Certain Provisions of the Master Resolution and the Twelfth Supplemental Resolution—The Master Resolution—Additional Bonds Certification.” Any amounts expended by the Consolidated System for the purchase of power under such a contract likely would constitute an Operation and Maintenance Expense of the Consolidated System.

The District has entered into a Power Purchase Agreement with respect to its share of the output from the Nine Canyon Wind Project. See “THE CONSOLIDATED SYSTEM—Consolidated System Energy Resources.”

Intersystem Loans

The District is permitted to fund certain of its capital costs through the use of intersystem loans. The District has historically loaned funds from the Consolidated System to the Rocky Reach System and the Rock Island System and is permitted by the Power Sales Contracts to designate such loans as Debt Obligations (as defined in the Puget Contract and the Alcoa Contract). See “FINANCIAL INFORMATION—Intersystem Loans” for a discussion of these interfund loans. Under both the Puget Contract and the Alcoa Contract, Puget Sound Energy and Alcoa, respectively will be obligated to make payments that include their proportionate shares of certain debt service-related Financing Costs (as defined in the Puget Contract and the Alcoa Contract). See “THE CONSOLIDATED SYSTEM—Puget Sound Energy Sales Contract” and “—Alcoa Power Sales Contract.” Pursuant to a long-term Power Sales Contract (the “**Douglas PUD Power Sales Contract**”) between the District and Public Utility District No. 1 of Douglas County, Washington (“**Douglas PUD**”), Douglas PUD is also obligated to make similar such payments.

The revenues of the Rocky Reach System and the Rock Island System do not constitute Revenues of the Consolidated System and are not pledged to secure the payment of the Bonds, including the 2020 Bonds. The loan repayments, however, made from those revenues to the Consolidated System do constitute Revenues of the Consolidated System and are available to pay the principal and Purchase Price of and premium, if any, and interest on the Bonds and the Subordinate Consolidated System Obligations, if issued.

Debt Service Reserve Funds

Consolidated System Bonds

The Master Resolution established the Consolidated System Revenue Bonds Reserve Fund (the “**Reserve Fund**”), and the Master Resolution authorizes the District to establish one or more reserve accounts in the Reserve Fund (each, a “**Reserve Account**”), each of which may secure one or more Series of Bonds pursuant to the Supplemental Resolutions authorizing their issuance. The Reserve Fund and the Reserve Accounts therein are held and administered by the Trustee. Each Reserve Account may be drawn upon for the sole purpose of paying the Bonds and Payment Agreement Payments, if any, relating to the Bonds secured by such Reserve Account. Each Reserve Account is to be maintained at all times at the aggregate Reserve Requirements for all Series of Bonds secured by such Reserve Account. The District may satisfy its obligations to fund the Reserve Accounts with Bond proceeds, other available funds of the District, authorized investments, one or more Reserve Account Credit Facilities, or a combination thereof, in an aggregate amount equal to the aggregate Reserve Requirement for the Bonds secured by such Reserve Account.

2020 Reserve Accounts. The Twelfth Supplemental Resolution establishes the 2020A Reserve Account to secure the 2020A Bonds, as well as any future Series of Bonds designated as a “**2020A Reserve Account Series**.” Upon the delivery of the 2020A Bonds, the 2020A Reserve Account will be funded at the 2020A Reserve Requirement for the 2020A Bonds. The 2020A Reserve Requirement is equal to the maximum annual interest determined as of the date of issuance of the 2020A Bonds. The initial 2020A Reserve Requirement for the 2020A Bonds is equal to \$6,176,216.66. To the extent any future Series of Bonds is secured by the 2020A Reserve Account, the aggregate 2020A Reserve Requirement shall be the maximum amount of interest payable in any fiscal year on such future Series and on the 2020A Bonds, determined as of the date of issuance of such future Series.

The Twelfth Supplemental Resolution also establishes the 2020B Reserve Account to secure the 2020B Bonds, as well as any future Series of Bonds designated as a “2020B Reserve Account Series.” Upon the delivery of the 2020B Bonds, the 2020B Reserve Account will be funded at the 2020B Reserve Requirement for the 2020B Bonds. The 2020B Reserve Requirement is equal to the maximum annual interest determined as of the date of issuance of the 2020B Bonds. The initial 2020B Reserve Requirement for the 2020B Bonds is equal to \$639,625.00. To the extent any future Series of Bonds is secured by the 2020B Reserve Account, the aggregate 2020B Reserve Requirement shall be the maximum amount of interest payable in any fiscal year on such future Series and on the 2020B Bonds, determined as of the date of issuance of such future Series.

The Twelfth Supplemental Resolution also establishes the 2020C Reserve Account to secure the 2020C Bonds, as well as any future Series of Bonds designated as a “2020C Reserve Account Series.” Upon the delivery of the 2020C Bonds, the 2020C Reserve Account will be funded at the 2020C Reserve Requirement for the 2020C Bonds. The 2020C Reserve Requirement is equal to the maximum annual interest determined as of the date of issuance of the 2020C Bonds. The initial 2020C Reserve Requirement for the 2020C Bonds is equal to \$771,750.00. To the extent any future Series of Bonds is secured by the 2020C Reserve Account, the aggregate 2020C Reserve Requirement shall be the maximum amount of interest payable in any fiscal year on such future Series and on the 2020C Bonds, determined as of the date of issuance of such future Series.

The District may satisfy its obligations to fund the 2020A Reserve Account, the 2020B Reserve Account and the 2020C Reserve Account with funds released from reserve funds securing the Refunded Bonds, other available funds of the District, authorized investments or Reserve Account Credit Facilities, or a combination thereof, in an aggregate amount equal to the 2020A Reserve Requirement, the 2020B Reserve Requirement or the 2020C Reserve Requirement, as applicable.

Moneys in the 2020A Reserve Account may be used solely for the purpose of paying and securing the payment of the principal of and interest on the 2020A Bonds and any other 2020A Reserve Account Series of Bonds and may not be used to pay principal of or interest on any other Series of Bonds, moneys in the 2020B Reserve Account may be used solely for the purpose of paying and securing the payment of the principal of and interest on the 2020B Bonds and any other 2020B Reserve Account Series of Bonds and may not be used to pay principal of or interest on any other Series of Bonds and moneys in the 2020C Reserve Account may be used solely for the purpose

of paying and securing the payment of the principal of and interest on the 2020C Bonds and any other 2020C Reserve Account Series of Bonds and may not be used to pay principal of or interest on any other Series of Bonds.

Reserve Account Credit Facilities. The Master Resolution defines “**Reserve Account Credit Facility**” as 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. The Master Resolution does not require the District to replace or otherwise address Reserve Account Credit Facilities upon downgrade of a Facility provider. No Bonds are currently secured by a Reserve Account Credit Facility.

Combined District Systems

As of December 31, 2019, all of the District’s aggregate reserve fund requirements for the Consolidated System, Rock Island System and Rocky Reach System are secured by reserve accounts funded with cash and investments.

Rate Covenant

The District has covenanted in the Master Resolution to fix, establish, maintain and collect rates and charges for electric power and energy, water, wastewater, fiber and telecommunications and other services, facilities and commodities sold, furnished or supplied by or through the Consolidated System, which shall be fair and nondiscriminatory and adequate to provide the District with Revenues in each Fiscal Year sufficient:

- (1) To pay, to the extent not paid from Available Funds or other moneys of the Consolidated System, (a) the Operation and Maintenance Expenses due and payable during such Fiscal Year; (b) Annual Debt Service on the Bonds due and payable in such Fiscal Year; (c) the amounts, if any, required to be deposited into the Reserve Fund during such Fiscal Year; and (d) 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;
- (2) Together with Available Funds, to provide a Bond Coverage Ratio of at least 1.25, and
- (3) Excluding Available Funds, to provide a Bond Coverage Ratio of at least 1.0.

The District has also covenanted in the Master Resolution that it will 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 Rock Island System and the Rocky Reach System, respectively, which shall be adequate, together with other available funds of the Rock Island System and the Rocky Reach System, respectively, to make all required payments due from those systems to the Consolidated System, including any payments due on account of loans or advances of funds from the Consolidated System to the Rock Island System and the Rocky Reach System, respectively.

“**Available Funds**” means, as of any date of calculation, any unencumbered funds of the Consolidated System, including cash and the book value of investments, held in the Rate Stabilization Fund and any other similar capital or operating reserve or contingency fund hereafter designated by the Commission, in each case that the District reasonably expects would be available, for all of the first full Fiscal Year following the date of calculation, to pay principal of and interest on Bonds when due. See APPENDIX B—“Summary of Certain Provisions of the Master Resolution and the Twelfth Supplemental Resolution—Definitions” for the definitions of other capitalized terms used above.

“**Bond Coverage Ratio**” for any Fiscal Year means 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 in such Fiscal Year.

“Adjusted Net Revenues” in any Fiscal Year means: (a) Net Revenues in such Fiscal Year, plus (b) Withdrawals, if any, from the Rate Stabilization Fund that have been allocated to such Fiscal Year, less (c) Deposits, if any, into the Rate Stabilization Fund that have been allocated to such Fiscal Year.

See “—Rate Stabilization Fund” below and APPENDIX B—“Summary of Certain Provisions of the Master Resolution and the Twelfth Supplemental Resolution—Definitions” for the definitions of capitalized terms used above.

Rate Stabilization Fund

The District created the Rate Stabilization Fund to be held and administered by the District pursuant to the Master Resolution for the purpose of stabilizing rates and charges for retail customers of the Distribution Division. Pursuant to the Master Resolution, the District is required to transfer from the Revenue Fund into the Rate Stabilization Fund or from the Rate Stabilization Fund into the 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 Bonds or with the District’s rate covenant. The Master Resolution further provides that 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 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.

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

On December 3, 2007, the Commission adopted Resolution No. 07-13198 establishing the District’s policies regarding the Rate Stabilization Fund. Pursuant to such resolution, if, in connection with any fiscal year, the District experiences an increase in revenues, decrease in operating expenses, or increase in net revenues of the Consolidated System, or unencumbered balances available in the Consolidated System, the Commission is required to consider whether to deposit revenues from the Revenue Fund or other moneys of the Consolidated System into the Rate Stabilization Fund in an amount or amounts to be determined by the Commission. Such resolution further provides, that if in connection with any fiscal year, the District experiences a decrease in revenues, increase in operating expenses, or decrease in net revenues of the Consolidated System, the Commission is required to consider whether to withdraw moneys from the Rate Stabilization Fund to the Revenue Fund in an amount or amounts to be determined by the Commission.

Pursuant to Resolution No. 07-13198, amounts transferred from the Rate Stabilization Fund to the Revenue Fund are required to be used for the following purposes in the following order of priority:

- (1) To pay operating and maintenance expenses of the District;
- (2) To pay for capital costs of the Consolidated System otherwise expected to be paid from revenues of the Consolidated System (other than as set forth below);
- (3) To pay any other costs of the Consolidated System otherwise expected to be paid from revenues of the Consolidated System (other than as set forth below);
- (4) To pay debt service on bonds, notes or other obligations of the Consolidated System for borrowed money the interest on which is taxable to the owners or holders thereof, or to make required deposits into any reserve funds therefor;

(5) To make required deposits into any reserve funds for bonds, notes or other obligations of the Consolidated System for borrowed money the interest on which is tax-exempt to the owners or holders thereof; and

(6) To pay debt service on bonds, notes or other obligations of the Consolidated System for borrowed money the interest on which is tax-exempt to the owners or holders thereof.

Resolution No. 07-13198 further provides that the District shall not transfer amounts from the Rate Stabilization Fund to the Revenue Fund or other funds of the Consolidated System unless the Commission reasonably determines that current rates and charges for the commodities and services provided by the Consolidated System, excluding amounts in the Rate Stabilization Fund and other available funds of the District, are projected to be sufficient to provide revenues to pay all operating expenses, debt service costs, planned capital expenditures and any other amounts to be payable from the revenues of the Consolidated System, and to replenish such withdrawal to the extent necessary or otherwise desirable from the Rate Stabilization Fund as soon as is reasonably practicable.

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, and as December 31, 2019, the District continues to maintain a balance of \$50 million in the Rate Stabilization Fund.

Pursuant to Resolution No. 07-13198, it is the District's policy to utilize the Rate Stabilization Fund as one tool along with rate increases, surcharges, power adjustment clauses and other related revenue and expense action to protect the District and its ratepayers from unexpected fluctuations in revenues and operating expenses of the Consolidated System. In accordance with RCW 54.24.080 and pursuant to the Master Resolution, the District is required to fix, establish, maintain and collect rates and charges adequate to provide sufficient revenues in each year. See "—Rate Covenant" under this heading.

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

Operating Reserve Fund

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 within the Consolidated System.

Such resolution provides that the District is required to transfer Consolidated System revenues in excess of working capital needs from the Revenue Fund into the Operating Reserve Fund, or transfer amounts from the Operating Reserve Fund into the 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 basis to maintain an adequate working capital balance. The District is authorized to transfer any funds in the Revenue Fund in excess of such needs to the Operating Reserve Fund. The resolution provides that if moneys in the Revenue Fund fall below an adequate working capital balance, the District is required to make a transfer or transfers from the Operating Reserve Fund to the 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. As of December 31, 2019, there is \$151.3 million on deposit in the Operating Reserve Fund. See "FINANCIAL INFORMATION—Consolidated System Liquidity."

Other Covenants

The District has covenanted in the Master Resolution to maintain, preserve and keep the properties of the Consolidated System in good repair, working order and condition, to make all necessary and proper repairs, renewals,

replacements, additions, extensions and betterments thereto and to operate the properties and business of the Consolidated System in an efficient manner and at a reasonable cost. In addition, the District has covenanted in the Master Resolution to use its best efforts to obtain renewals of permits or licenses for the Consolidated System or obtain new permits or licenses, unless such renewals or new permits or licenses are not, in the judgment of the District, in the best interest of the District. See APPENDIX B—“Summary of Certain Provisions of the Master Resolution and the Twelfth Supplemental Resolution—The Master Resolution—Certain Covenants.”

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 “FINANCIAL INFORMATION—Consolidated System Liquidity,” footnote 2 to Table 14 in “—Annual Debt Service” and APPENDIX B—“Summary of Certain Provisions of the Master Resolution and the Twelfth 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 Master 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 “FINANCIAL INFORMATION—Investment Policies.”

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 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 Bonds. Other such payments may be payable on a parity with debt service on the Bonds, including any Payment Agreement Payment to a Qualified Counterparty, as such term is defined in the Master Resolution. See “FINANCIAL INFORMATION—Consolidated System Payment Agreements.”

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 “THE CONSOLIDATED SYSTEM—Consolidated System Energy Resources” and “—Wholesale Power Management Activity.”

Given the strength of the District’s financial metrics and credit ratings and the terms of the District’s negotiated credit agreements for power marketing activities, the District does not currently anticipate that it would be exposed to substantial contingent payment or collateral requirements. The District cannot guarantee, however, that power purchase or power sales contracts entered into by the District in the future will not expose the District to substantial contingent payment or collateral requirements.

Addition of Separate Systems

Pursuant to the Master Resolution, the District may add to the Consolidated System at any time any other separate utility system of the District and any other facilities or systems of the District that the District is authorized by law to own and operate. The District does not currently anticipate adding any facilities or systems to the Consolidated System.

Certain Provisions of the Master Resolution Relating to Credit 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 Credit Facility Provider with respect to such Series of Bonds is not in default in respect of any of its obligations under the Credit Facility securing such Series of Bonds, then: (a) such Credit 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 Credit 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 Credit Facility Provider if its rights shall be materially and adversely affected by such amendment. See APPENDIX B—“Summary of Certain Provisions of the Master Resolution and the Twelfth Supplemental Resolution—The Master Resolution—Credit Facility Provider Rights.”

“**Credit Facility**” means a letter of credit, line of credit, or other credit or liquidity 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. See APPENDIX B—“Summary of Certain Provisions of the Master Resolution and the Twelfth 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 (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 (mentioned below), which primarily serves Chelan County (the “**County**”), the District also owns, operates and maintains three major hydroelectric power generating projects: the Lake Chelan Project, the Rocky Reach Project and the Rock Island Project (collectively, the “**Hydro-Electric Projects**”). The District obtains most of its retail power supply from its three Hydro-Electric Projects, which have a combined nameplate rating of 1,988 MW. Because the original investments in the Hydro-Electric Projects were made decades ago, in 2019 the cost of generating energy from the

Hydro-Electric Projects was below the market value of such energy. For the year ended December 31, 2019, the Hydro-Electric Projects collectively produced 7,496,000 MWh of power at an average cost of generation of \$20 per MWh. For the same period, the “average adjusted wholesale” preference rate for Bonneville customers was \$42 per MWh. The District also owns and operates the Water System, the Wastewater System and the Fiber and Telecommunications System, which serve portions of the County. The District has its administrative offices in Wenatchee, Washington.

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 Rock Island System, the Rocky Reach System, and the “Consolidated System.” The Consolidated System currently includes (i) the District’s retail electric utility business operations (referred to as the “**Distribution Division**”), (ii) the Lake Chelan System, (iii) the Fiber and Telecommunications System, (iv) the Water System, and (v) the Wastewater System. Although these systems have been consolidated into the Consolidated System for financing purposes, all of these systems are accounted for separately and only the four utility business operations have been combined for financial statement reporting purposes. The District also has two enterprise funds, the Internal Service Fund and the Financing Facilities Fund, which are used to account for administrative, financing and other costs and revenues allocable to more than one system.

Under almost all power production and hydrological conditions, the District’s shares of the output 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 periods of extremely low water conditions or unusually high peak energy demand, the reserved share of the Hydro-Electric Projects can be insufficient to meet retail load requirements for relatively limited periods. The extent and duration of these shortfalls are estimated in advance by the District’s power planners. On these occasions the District buys power on the wholesale market to meet the District’s retail load requirements. According to the Average Service Reliability Index (defined as the efficiency of the distribution system to deliver electric energy to the District’s customers), the District’s reliability in 2019 was 99.99%, in 2018 was 99.99% and in 2017 was 99.98%.

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 Rock Island System are not 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. No cities, however, currently do so, nor is the District aware of any city or utility that is considering providing such electric service in the County. 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. The District does provide retail electrical service to a limited number of customers

beyond its boundaries; however, no other public utility districts provide retail electrical service within the District's 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:

Garry Arseneault, President, is currently serving his first term as Commissioner, which expires on December 31, 2020. He previously spent 36 years in the investment and banking industry, including municipal bond trading and finance. Mr. Arseneault represents the District as a delegate to the American Public Power Association and serves as chair of the Washington Public Utility District Association ("WPUDA") telecommunications committee.

Steve McKenna, Vice President, is currently serving his first term as Commissioner, which expires on December 31, 2020. He currently serves as the District delegate to Energy Northwest, a joint operating agency that operates the Columbia Generating Station and the Nine Canyon Wind Project. Mr. McKenna's career has been serving in public education for 38 years.

Ann Congdon, Secretary, is currently serving her third term as Commissioner, which expires on December 31, 2022. Ms. Congdon is serving her second 3-year term on the Northwest Public Power Association Board of Trustees. She has also served on several boards locally and is a retired educator and a businesswoman.

Randy Smith, Commissioner, is currently serving his third term as Commissioner, which expires on December 31, 2024. Mr. Smith is the President of WPUDA and represents the District as a delegate to the American Public Power Association. Mr. Smith is a retired orchardist and has served on the boards of several community, business and national organizations.

Dennis Bolz, Commissioner, is currently serving his fourth term as Commissioner, which expires on December 31, 2022. Mr. Bolz has served on several committees, boards, and policy groups and worked in public school education for 31 years.

Senior management of the District includes the following individuals:

Steve Wright, General Manager, was appointed to his position in September 2013. Mr. Wright began his professional career at Bonneville in the energy conservation division in 1981. He held several positions within Bonneville, the last 12 years as Administrator/CEO. Bonneville provides roughly one-third of the electricity and 70% of the high voltage transmission in the Pacific Northwest. He is a member of the Boards of the American Public Power Association and the Alliance to Save Energy, the Chair of the Public Generating Pool (public power generators in Washington and Oregon), and formerly on the Steering Committee for the Large Public Power Council (25 largest public power utilities in the country). Mr. Wright graduated from the University of Oregon with a degree in public administration.

Kelly Boyd, Chief Financial/Risk Officer, was appointed to her present position in September 2010. She previously served as Director – Strategic Financial Planning Division, Accounting Manager, Internal Auditor and Business Advisor. Ms. Boyd has been employed by the District since 1993 and additionally serves as the Treasurer and a Board member of the Hydropower Research Institute. She began her career at the public accounting firm of Price Waterhouse and is a certified public accountant.

Gregg Carrington, Energy Resources Managing Director, was appointed to his current position in June 2011. He previously served as Managing Director of Environmental Resources, Director of External Affairs, Director of Hydro Services (Engineering) and Director of Licensing and Compliance. Mr. Carrington has been employed by the District since 1997. Prior to joining the District, he was the Regional Director for a consulting company, Licensing and Compliance Manager for a private utility, and began his career as an engineer for a private consulting company. Mr. Carrington holds a bachelor's and master's degree in engineering from Clarkson University.

Mike Coleman, Fiber & Telecommunications Managing Director, was appointed to his position in August 2012. Mr. Coleman began his career in the telecommunications industry with Southwestern Bell Telephone/SBC where he held increasingly responsible positions in network operations, sales and engineering at the executive level. Mr. Coleman holds a bachelor's degree in industrial engineering and an MBA.

Justin Erickson, District Services Managing Director, was appointed to his position in September 2018. Mr. Erickson began his career in land use planning and has worked in regional, county, and city governmental positions, most recently serving as a city manager prior to starting his tenure with the District. He holds a bachelor's degree in geography and a master's degree in resource management.

Kirk Hudson, Generation & Transmission Managing Director, was appointed to his current position in June 2011. He previously served as Managing Director of Operations, Managing Director of Utility Services, Director of Transmission and Distribution, Supervisor of Project Controls, and Engineering Supervisor. Mr. Hudson has been employed by the District since 1997 and additionally serves as the President and Chairman of the Board of the Hydropower Research Institute. He began his career in the Engineering and Environmental consulting industry in 1990 and is a licensed civil engineer in the State.

Lorna Klemanski, Human Resources Managing Director, was appointed to her position in September 2014. Her previous experience as a human resources professional included fourteen years with the City of Bellingham, Washington and in the medical field. She began her career in the hospitality industry. She has an MBA from the University of Washington and has earned multiple human resources related certifications.

John Stoll, Customer Utilities Managing Director, was appointed to his current position in June 2011. Mr. Stoll previously served as Director of Customer Service and Distribution, Materials Superintendent, Budget Supervisor and System Accountant. Mr. Stoll has been employed by the District since 1998. He began his career in the accounting profession in 1994 and has passed the Washington State certified public accounting exam.

Erik Wahlquist, General Counsel/Chief Compliance Officer, joined the District in March 2008 and was appointed to his current position in May 2013. Before coming to the District, Mr. Wahlquist was a partner in private practice at the Davis Arneil Law Firm in Wenatchee serving municipal clients, including the District, since 1996. Mr. Wahlquist has been a member of the Washington State Bar Association since 1996 and is admitted to practice in state and federal courts in Washington State and the Ninth Circuit. He currently sits as a Director for the Federal Defenders of Eastern Washington in Spokane, Washington and has previously served on the Chelan County Board of Adjustment, the Wenatchee Valley College Foundation Board, and the Wenatchee Valley Museum Board. He is a current member of the Chelan-Douglas Bar Association where he served as the Secretary/Treasurer for eight years. Mr. Wahlquist received his bachelor's degree from the University of Washington, and his Juris Doctorate from Gonzaga Law School in Spokane, Washington.

COVID-19 Response Measures

The financial and operating condition of the District, including the District's ability to collect Revenues, may be materially affected the outbreak of COVID-19, a respiratory illness caused by a novel strain of coronavirus, or other highly contagious or epidemic diseases (an "Outbreak"). The global Outbreak of COVID-19 has been declared a pandemic by the World Health Organization and the spread of COVID-19 across the United States has caused the federal government to declare a national state of emergency. Cases of COVID-19 have been confirmed in the State and the County, including within the service area of the District. As a result, Governor Inslee issued an order requiring (i) all residents to stay at home, unless pursuing an essential activity, (ii) banning all gatherings for social, spiritual and recreational purposes; and (iii) closing all businesses, except essential businesses. The current spread of COVID-19 and responses by local, state, national and foreign governments, as well as by companies and individuals, have had

a negative effect on global and local economic activity. Additionally, financial markets in the U.S. and globally have seen significant recent volatility due to the COVID-19 Outbreak.

The District has a longstanding policy in place to address an Outbreak, including protocols to maintain essential staffing and services and to coordinate the District's response with other agencies. In response to the COVID-19 Outbreak, the District is proactively implementing measures to mitigate operational and financial impacts to the District and its customers, including closing lobbies, requiring employees not required to be on site for essential services to work from home, implementing "social distancing" measures for the District's on-site essential staff and curtailing projects and maintenance to essential projects that can be completed with minimal contact between employees. As further described herein, the District is continuing to evaluate the effect of the COVID-19 Outbreak on the District's operations and has taken and may continue to take actions, including, without limitation, postponing adopted rate increases, imposing a moratorium on utility service shut-offs for non-payment, suspending late fees, and deferring non-essential discretionary spending and limiting construction and maintenance projects. See "—Pension Plans and Other-Post Employment Benefits," "THE CONSOLIDATED SYSTEM—Other Properties and Facilities of the District," "THE CONSOLIDATED SYSTEM—Electric Rates; Other Rates" and "FINANCIAL INFORMATION—Strategic Planning and Financial Policies."

See "DEVELOPMENTS AFFECTING THE ELECTRIC UTILITY INDUSTRY—Infectious Disease Outbreak" for further discussion of the considerations related to an Outbreak

Employees

As of December 31, 2019, the total number of District employees was 762, including some seasonal employees. Of these employees, 353 hold management, administrative and professional positions and 409 are part of a bargaining unit represented by Local 77 of the International Brotherhood of Electrical Workers. On April 2, 2018, the Commission approved a three-year collective bargaining agreement with Local 77, which was ratified by the bargaining unit employees on March 22, 2018. The agreement between the District and Local 77 includes general wage increases for bargaining unit employees of 3.00% effective April 1, 2018, 3.00% effective April 1, 2019, and 3.00% effective April 1, 2020. The District has never experienced any work stoppages or slowdowns. The District considers its overall employee relations to be good.

Pension Plans and Other Post-Employment Benefits

Pension Plans

General. Substantially all of the District's full-time and qualifying part-time employees participate in the Washington State Public Employees Retirement System ("PERS"), administered by the State. The Legislature, rather than participating local government employers, determines pension benefits for participants in PERS.

The following information regarding PERS was derived from the 2018 Valuation Report, the 2017 Valuation Report, the 2016 Valuation Report, the Comprehensive Annual Financial Report for the Washington State Department of Retirement System Funds of the State (the "WDRS") for the fiscal year ended June 30, 2019 (the "2019 Retirement Fund Audit") prepared by the WDRS and the WDRS' Contribution Rate Tables Index. The District has obtained certain information in this section from the State. The District believes such information to be reliable, but the District does not guarantee the accuracy or completeness of such information.

PERS Plans 1, 2 and 3. PERS is a multiple-employer, cost-sharing public employee retirement system operated by the State. PERS is comprised of three separate plans for membership and benefit purposes ("PERS 1," "PERS 2" and "PERS 3"). See Note 8 in the District's audited financial statements in APPENDIX A for a description of PERS benefits and eligibility requirements for these plans.

PERS 1 is closed to employees hired after September 30, 1977. Eligible employees hired after that date are members of either PERS 2 or PERS 3. Eligible employees hired after August 31, 2002, are members of PERS 2 unless they irrevocably elect to join PERS 3. The District is one of 1,357 governmental employers that participate in PERS as of June 30, 2019. As of June 30, 2019, 193,984 retirees and beneficiaries were receiving benefits under PERS,

64,377 terminated plan members were entitled to, but not yet receiving, benefits, and there were 193,501 vested active plan members and 136,901 non-vested active plan members. Benefits for active members in PERS 1 or PERS 2 vest after five years of service and in PERS 3 members are vested in the defined benefit portion of their plan after 10 years unless they qualify for early vesting after five years.

PERS 1 and PERS 2 are defined benefit plans, and PERS 3 is a hybrid plan that includes defined benefits and a defined contribution component. PERS 1 and PERS 2 and the defined benefit portion of PERS 3 are defined benefit plans in which member benefits are specified in advance and are payable from assets of the respective plans. Unlike in a defined contribution plan, where the employer's liability is limited to making its specified contribution and the employee takes the risk that the contributions and investment income thereon will generate sufficient retirement income, in a defined benefit plan the employer takes the risk that contributions and investment income will be sufficient in the future to pay the promised benefits. PERS 1 and PERS 2 are funded by a combination of investment earnings and employer and employee contributions, and the defined benefit component of PERS 3 is funded by employer contributions and investment earnings. Employee contributions and investment earnings finance the defined contribution component of the PERS 3 plan, and the defined contribution retirement benefits depend solely upon the results of investment earnings.

Employers are not liable directly for and do not guarantee the obligations of PERS, but as described below employer contribution rates for defined benefit plans may increase if assets are, or are projected to be, insufficient to pay promised benefits.

The Washington State Investment Board directs the investment of retirement system assets and invests all retirement funds in a single pool, referred to as the Commingled Trust Fund (the "CTF"). Although in general assets from one plan may not be used to fund benefits from another plan, the defined benefit portions of PERS 2 and PERS 3 are accounted for in the same fund and all assets of the combined PERS 2/3 defined benefit plan may be used to pay defined benefits of PERS 2 or PERS 3 members.

Actuarial Valuation, Funding Policy and Assumptions

Actuarial Valuation. Actuarial valuations are prepared on a plan-wide basis and not for individual employers. The Office of the State Actuary (the "OSA") is required to provide an actuarial valuation of each retirement system, including PERS, every two years. In practice, however, the OSA provides valuations annually, although only the valuations for odd-numbered years (which are released during the following even-numbered year) are used to calculate contribution rates. In those even-numbered years, the OSA provides its preliminary results and recommended contribution rates to the Select Committee on Pension Policy, a committee of the Legislature (the "SCPP"), and to the Pension Funding Council ("PFC"). See "--Contribution Rates" below.

In September 2019, the OSA released an actuarial valuation for June 30, 2018 (the "**2018 Valuation Report**"). The primary purposes of the 2018 Valuation Report are to determine contribution rates that would be sufficient to fund the State's retirement plans, including PERS, under the funding policy established by the Legislature and to provide information on the funding progress and developments in the plans over the State fiscal year ended June 30, 2019. Washington statutes require that valuation reports that are used in determining contribution rates be audited by independent actuaries selected by the PFC.

Funding Policy. The State's funding policy and methods for determining the contribution rates are set forth in RCW Chapters 41.40 and 41.45 RCW (collectively, the "**Pension Act**"). In 2009, the Pension Act was amended to provide for the amortizing in full the unfunded accrued actuarial liability (the "**UAAL**") of PERS 1 over a rolling-10-year period, using methods and assumptions that balance the needs for increased benefit security, decreased contribution rate volatility and affordability of contribution rates. The Pension Act also requires that to the extent feasible all benefits for PERS 2 and PERS members be funded over the working lives of those members. In preparing valuations and making recommendations regarding contribution rates, the OSA uses valuation methods, economic and demographic assumptions, including rates of retirement, rates at which members become disabled, turnover rates and mortality rates, and other assumptions, including assumptions about plan benefits.

Assumptions. As required by State law, OSA periodically prepares experience studies to assess the reasonableness of their assumptions and inform potential changes to those assumptions. Economic experience studies

are prepared every two years. In August 2019, OSA released its 2019 Report on Financial Condition and Economic Experience Study. Every five to six years, OSA performs a demographic experience study, which compares demographic assumptions with actual experience to determine if any adjustments are necessary. The most recent Demographic Experience Study report was prepared in November 2014, using data from the 2007-2012 period. Updated demographic assumptions incorporating experience regarding mortality, retirement, disability, termination rates and other assumptions are included in the determination of contribution rates for a biennium. Economic assumptions are adopted by the PFC and/or prescribed by the Legislature. The Legislature used the following economic assumptions for the 2019-2021 biennium contribution rates: a rate of inflation of 2.75%; an assumed annual investment return of 7.5%; annual growth in membership of 0.95%; and interest on member contributions of 5.50% (annual rate, compounded quarterly).

Actuarial Funding Rate. For purposes of determining the plans' funded status on an actuarial basis (but not to determine contribution requirements), the OSA determines the ratio of the actuarial value of assets (the "AVA") to the cost of plan benefits, calculated using the Entry Age Normal ("EAN") cost method. The annual cost of benefits is comprised of (i) the "normal cost" of benefits that will accrue in the subsequent year for current plan members, and (ii) the amount required to amortize the unfunded accrued actuarial liability (the "UAAL") over a specified period. The "normal cost" is the estimated present value of projected benefits current plan members will earn in the year following the valuation date, and the "normal cost rate" is the level percentage of salary contribution required each year per employee to accumulate, over the projected working lifetime of each employee, the reserves needed to meet the cost of the projected benefits, assuming the UAAL is paid off and that the plan's actual experience conforms to the actuarial assumptions used by the OSA in calculating the plan's actuarial liabilities. The UAAL is the difference between a plan's actuarial accrued liability ("AAL") and the actuarial value of the plan's assets or the present value of benefits earned at the valuation date not covered by current actuarial assets. The AAL represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

To determine a plan's AVA, the OSA determines the current Market Value of Assets (the "MVA"), taking into account the prior year's contributions, disbursements and investment returns. To limit fluctuations in contribution rates and plan funded status that would otherwise arise from short-term changes in the MVA, the OSA "smoothes" the inherent volatility in the MVA by deferring a portion of annual investment gains or losses over a period of not to exceed eight years. To help ensure that the AVA maintains a reasonable relationship to the MVA, any valuation of the AVA may not exceed 130% of, nor drop below 70% of, the MVA.

The funded status for PERS, for all of Washington State, is set forth below.

Table 1
Washington State PERS Actuarial Liability and Funded Ratio on an Actuarial Basis

	<u>June 30, 2016</u>		<u>June 30, 2017</u>		<u>June 30, 2018</u>	
	<u>PERS 1</u>	<u>PERS 2/3</u>	<u>PERS 1</u>	<u>PERS 2/3</u>	<u>PERS 1</u>	<u>PERS 2/3</u>
Actuarial Liability	\$12,323	\$34,759	\$12,341	\$37,166	\$11,942	\$40,024
Valuation Assets	<u>6,958</u>	<u>30,262</u>	<u>7,042</u>	<u>33,191</u>	<u>7,193</u>	<u>36,601</u>
Unfunded Liability	<u>\$ 5,365</u>	<u>\$4,497</u>	<u>\$ 5,299</u>	<u>\$3,975</u>	<u>\$ 4,749</u>	<u>\$ 3,423</u>
Funded Ratio	56%	87%	57%	89%	60%	91%

Source: Office of the State Actuary; 2018 Valuation Report; amount in millions.

Contribution Rates. The employee contribution rate for PERS 1 is established by statute at 6% of covered payroll for local government unit employees. The employee contribution rate for PERS 2, which is determined by the PFC, increased to 7.90% of covered payroll, effective as of July 1, 2019. The range of permissible employee contribution rates for the defined contribution component of PERS 3 are determined by the Director of WDRS and range from a minimum of 5.0% of covered salary to a maximum of 15.0% of covered salary. Employees are not required to contribute to the defined benefit component of PERS 3. Some PERS employers pay their employees' contributions to PERS, but the District does not.

Employer contribution rates for the upcoming biennium (the State's two-year period ending on June 30 of an odd-numbered year) are adopted during even-numbered years according to a statutory rate-setting process. The current biennium began July 1, 2019 and ends June 30, 2021. Based upon the statutory funding policy, the same

contribution rate is charged to employers regardless of the plan in which employees hold membership. The process begins with the OSA performing an actuarial evaluation of each plan and determining recommended contribution rates. As discussed above in “Actuarial Valuation, Funding Policy and Assumptions,” in even-numbered years, the OSA provides its preliminary results and recommended contribution rates to the SCPP and to the PFC. The PFC, based on the recommendations of the OSA and the SCPP, adopts contribution rates. The rates adopted by the PFC are subject to revision by the Legislature each year when the Legislature is in session. All employers are required to contribute at the levels established by the Legislature.

As of July 1, 2019, the employer contribution rate for all PERS plans is 12.86% of covered payroll. The current employer rate is subject to change by the Legislature during the 2021 legislative session and future legislative sessions. The District cannot predict whether the Legislature will act to revise the employer contribute rate in response to the COVID-19 Outbreak. See “—COVID-19 Response Measures” and “DEVELOPMENTS AFFECTING THE ELECTRIC UTILITY INDUSTRY—Infectious Disease Outbreak.”

The District does not have any control over the determination of the employer contribution rates or the process for setting such rates. Employee and employer contribution rates are expected to increase over the next several years, and those increases may be significant.

District Contributions. For the year ended December 31, 2019, the District’s total payroll was approximately \$82.0 million, and the District’s total payroll for employees covered by PERS was approximately \$81.7 million. Both the District and its employees made the required contributions to PERS in 2019, with the District contributing \$30,500 to PERS 1 and \$10.1 million to PERS 2/3 combined, and the District’s employees contributing \$5.9 million.

Deferred Compensation Plans

The District also offers its employees deferred compensation plans under Internal Revenue Code Sections 457 and 401(a).

The District’s 457 plan is available to District employees and permits District 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. The assets of the 457 plan are in a separate trust for the exclusive benefit of plan participants and beneficiaries, and plan assets and the corresponding liabilities are not included on the District’s financial statements.

The District also offers its employees a 401(a) employer matching plan. The 401(a) is a qualified, tax deferred plan that allows the District to match employee contributions made to the 457 Plan. Under the 401(a) plan, the District will match each employee’s contribution to the 457 plan at a rate of 50% with a cap of 5% of an employee’s annual base salary up to a maximum of \$9,500 or up to a maximum of \$12,500 for employees age 50 years and over. The District’s 401(a) plan matching contributions for the years ending December 31, 2019 and 2018 were \$2.4 million and \$2.3 million, respectively. Matching contribution rates are at the District’s discretion within the requirements of the current bargaining unit agreement.

Other Post-Employment Benefits

The District pays for a portion of its employees’ and retired employees’ post-employment health care insurance and other non-pension benefits (“**OPEB**”). The District pays part of the premiums costs for health insurance made available to retired District employees, and such subsidies are treated as OPEBs. Unless OPEB plan assets are held in an irrevocable trust with a third-party fiduciary, the plan assets and the corresponding liabilities must be included in a government’s financial statements. The District has funded an irrevocable trust (the “**OPEB Trust**”) with U.S. Bank National Association.

The healthcare insurance plan administered by the District for its retired employees is a single-employer defined benefit healthcare insurance plan (the “**Plan**”) provided through a group health insurance plan with Premier Blue Cross. The Plan provides healthcare and vision insurance to eligible retirees, spouses and surviving spouses until the age of 65 and to eligible children and surviving children until the age of 26. To be eligible for the Plan, the retiree

must retire directly from active service with the District and be eligible to receive retirement benefits under PERS. As of December 31, 2019, there were 773 active participants and 13 retired and surviving participants drawing benefits under the Plan.

Premiums for Plan members are funded with a combination of contributions from the District and contributions from the retirees receiving benefits. For the years ended December 31, 2019 and 2018, the District contributed 20% and 21% of the cost of premiums for eligible retired Plan members and their spouses, or \$65,000 and \$54,000, respectively. The District's contributions are paid through the OPEB Trust. For accounting purposes, the Plan is a "substantive plan," based upon the District's and the employees' and retirees' understanding of its terms. Based upon the current terms of the Plan and the results of the biannual actuarial valuations described below, the District expects that its future contributions will be calculated at the level established by the actuary in 2007, adjusted for inflation, with Plan members contributing the remaining premium amounts. Contribution rates may be adjusted and the Plan may be revised at the District's discretion. The District may also elect to terminate the Plan once there are no more participants.

The SilverStone Group ("SilverStone") released its most recent Postretirement Health Benefits Program Actuarial Valuation Report as of October 31, 2019 (the "2019 OPEB Valuation"). Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. As noted in more detail in Note 9 in Appendix A, in valuing the Plan, SilverStone made various assumptions, based in part upon the terms of the Plan and in part upon the demographic assumptions, including mortality, disability, withdrawal and retirement rates, used by the Washington Office of the State Actuary as of June 30, 2018 to value PERS pension plans. In the 2019 OPEB Valuation, the actuary also assumed an inflation rate of 3.0%; salary increases of 3.75%; and an investment return of 5.0% (based upon the historical returns of the investment currently held in the OPEB Trust).

The District is required to disclose in its financial statements the components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability as a percentage of covered-employee payroll, which are summarized below. As of December 31, 2019 the retiree medical plan was fully funded.

The information summarized in Table 2 below for fiscal year 2019 is based upon the 2019 OPEB Valuation. See Note 9 and the Required Supplementary Information in APPENDIX A—"AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018."

Table 2
Schedule of Changes in the Net OPEB Asset and Related Ratios

Fiscal Year End Date	Fiduciary Net Position (a)	Total OPEB Liability (b)	Net OPEB (Assets) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	Net OPEB Asset as a Percentage of Covered Payroll ((b - a) / c))
12/31/2017	\$1,371,296	\$820,150	(\$551,146)	167%	\$61,162,139	(0.90)%
12/31/2018	\$1,265,976	\$862,908	(\$403,068)	147%	\$63,455,719	(0.64)%
12/31/2019	\$1,493,009	\$979,400	(\$513,609)	152%	\$74,917,044	(0.69)%

Source: 2019 OPEB Valuation and the District.

Insurance

The District seeks to maintain insurance with responsible insurers to the extent available at reasonable cost. Insurance limits and retentions are established utilizing standard risk management practices and under the advice of an experienced insurance brokerage firm.

The District currently maintains insurance with retentions plus coverage as follows: general liability and auto liability from \$2 million to \$150 million; public officials' liability from \$2 million to \$125 million; property from \$1 million to \$350 million; boiler and machinery from \$500,000 to \$350 million; crime from \$100,000 to \$25 million; and cyber risk insurance from \$50,000 to \$5 million. The District also carries non-owned aircraft liability, business travel accident, and excess workers' compensation insurance.

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, 2019, the self-insurance restricted cash reserve and claim funds had a combined balance of \$8.4 million.

THE CONSOLIDATED SYSTEM

General

The Consolidated System currently includes (i) the Distribution Division, (ii) the Lake Chelan System, (iii) the Fiber and Telecommunications System, (iv) the Water System and (v) the Wastewater System. The Rocky Reach System and the Rock Island System are not part of the Consolidated System.

The Large Hydro Systems produce power and energy in part for use in the Distribution Division and in part for sale to others. The revenues of the Rock Island System and the Rocky Reach System 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, including the 2020 Bonds, or the Subordinate Consolidated System Obligations, if issued.

For the year ended December 31, 2019, the Distribution Division served approximately 52,000 retail customers and had energy sales of 9,997,000 MWh and operating revenues of \$313,768,000. Historically, the Distribution Division has obtained most of its power supply from the District's 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. Power available to the Distribution Division in excess of the amounts required to serve its customer load may be sold on the wholesale market. For a discussion of the District's wholesale energy sales, see "THE CONSOLIDATED SYSTEM—Energy Sales; Load/Resource Balancing; Hedging Strategy" and "—Wholesale Power Management Activity." For a description of the Hydro-Electric Projects, see "THE CONSOLIDATED SYSTEM—Properties and Facilities of the Consolidated System—Hydro-Electric Projects" and "—Other Properties and Facilities of the District."

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 Bonds, including the 2020 Bonds. For the year ended December 31, 2019, the Water System served approximately 6,300 customers and the Wastewater System served approximately 500 customers. As of December 31, 2019, the Water System had outstanding long-term debt in the principal amount of \$5.7 million. As of December 31, 2019, the Wastewater System had outstanding long-term debt in the principal amount of \$601,000. The District's current policy is to pay operating expenses and debts of the Water System and Wastewater System from the respective revenues of such Systems. All of the direct debt of the Water System and the Wastewater System is low interest loans received from various State and federal programs and a portion of the direct debt of the Water System is assessment-backed local utility district debt secured by liens on the property benefited by the Water System.

The District's "Carbon Footprint"

As the District's energy resources consist almost entirely of hydro-electric power and to a much lesser extent 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 wholesale market purchases of fossil fuel generated power. In 2018, the most recent year for which information is available, the District's calculated fuel mix included approximately 4% of resources serving load coming from "unspecified" resources. Washington State's aggregate fuel mix no longer identifies energy sources as of the 2018 data reporting. The District does sell a portion of its hydro-electric and wind energy in resource specific transactions; however, this is accounted for in the District's required fuel mix disclosure. For information regarding potential impacts to the District's utility operations as a result of future legislative or other measures seeking to remedy carbon dioxide loads imposed upon the environment, see, "DEVELOPMENTS AFFECTING THE ELECTRIC UTILITY INDUSTRY—State Energy Legislation."

Properties and Facilities of the Consolidated System

Distribution Division

The Distribution Division serves at retail the entire territory within the County. As of December 31, 2019, the Distribution Division included 34 substations with a total capacity of 796,000 kVA (kilovolt-ampere), 877 miles of overhead and 932 miles of underground distribution lines and other buildings, equipment, stores and related facilities. As of December 31, 2019, the gross utility plant of the Distribution Division, including construction work in progress, was \$414.2 million, with net utility plant of \$226.7 million. See "THE DISTRICT—General."

Hydro-Electric Projects

General. As of December 31, 2019, the combined gross utility plant of the Hydro-Electric Projects, including construction work in progress, was \$1,490.6 million, with net utility plant of \$787.4 million. The Rock Island System and the Rocky Reach System are not part of the Consolidated System. See "—Other Properties and Facilities of the District—The Rock Island System" and "—The Rocky Reach System" below.

The Lake Chelan System. The Lake Chelan System consists of (i) the Lake Chelan Hydro-Electric Generating Plant (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 (ii) associated substation and transmission facilities to connect the generating plant with other facilities of the District and Avista Corporation ("**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. Modernization of the two units was completed in 2010, resulting in an increase in total nameplate capacity for the Lake Chelan Project from 48 MW to 59 MW. The efficiency of the units was also improved by approximately 6%. Net energy delivered from the generating plant averaged approximately 396,000 MWh annually during the three years from 2017 through 2019. For the year ended December 31, 2019, the generating plant delivered 355,000 MWh, at an average cost of \$22 per MWh. As of December 31, 2019, the gross utility plant of the Lake Chelan Project, including construction work in progress, was \$120.7 million, with net utility plant of \$86.9 million.

Fiber and Telecommunications System

The Fiber and Telecommunications System has been consolidated into the Consolidated System. See "THE CONSOLIDATED SYSTEM—The Fiber and Telecommunications System" for information regarding the Fiber and Telecommunications System.

Water System and Wastewater System

The Water System and Wastewater System 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 “THE CONSOLIDATED SYSTEM—General.”

Other Properties and Facilities of the District

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 Resolution**”), the District established the Rocky Reach System, and pursuant to Resolution No. 08-13390, adopted by the Commission on October 20, 2008 (the “**Rocky Reach Master Resolution**”), the District continued the Rocky Reach System. The Rocky Reach System consists of (i) 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 (ii) 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 combined nameplate capacity of 1,300 MW. Net energy delivered from the generating plant averaged 5,548,000 MWh annually during the three years from 2017 through 2019. For the year ended December 31, 2019, the generating plant delivered 4,795,000 MWh, at an average cost of \$12 per MWh. As of December 31, 2019, the gross utility plant of the Rocky Reach System, including construction work in progress, was \$649.1 million, with net utility plant of \$286.5 million.

Pursuant to the Rocky Reach Master Resolution, the District has issued its Rocky Reach Hydro-Electric System Revenue Bonds (the “**Rocky Reach Bonds**”) payable from and secured by a pledge of the revenues of the Rocky Reach System. As of December 31, 2019, the Rocky Reach Bonds were outstanding in the aggregate principal amount of \$11.7 million. If all of the outstanding Rocky Reach 2009A Bonds are refunded by the 2020B Bonds, there will be no bonds of the District secured by the Rocky Reach System outstanding. In addition, as of December 31, 2019, intersystem loans payable from the revenues of the Rocky Reach System were \$105.3 million. In addition, as of December 31, 2019, intersystem loans payable from the revenues of the Rocky Reach System were \$105.3 million. See “FINANCIAL INFORMATION—Outstanding Debt” and “—Interfund and Intersystem Loans.”

The District previously issued bonds payable by the Rocky Reach System for the purpose of financing relicensing costs of the Rocky Reach System. Such bonds were purchased by the Distribution Division and as of December 31, 2019 were outstanding in the principal amount of \$8.8 million.

Work on the four largest Rocky Reach units (C8-C11) is continuing to restore their Kaplan moveable turbine blade capability after fixed blade interim repairs were made on all four units in late 2013 and early 2014 due to a cracked servo rod discovered in one of the units in the fall of 2013. The crack was due to design flaw and systemic to those four units. The repairs and lost revenue were covered by the District’s mechanical breakdown and business interruption insurance. The first of the four large units (C8) was returned to Kaplan service in December 2017 and the second (C9) was returned to commercial service with Kaplan blades in January 2020. The other two units (C10 and C11) will continue to run in fixed blade mode while the District replaces trunnion bushings on the seven small Rocky Reach units (C1-C7) over the next few years. The large unit Kaplan restoration will then be resumed starting in December 2021 with an expectation to complete and return both to Kaplan operation by the spring 2023. The District settled the large unit claims with its insurance company in June 2019 in the amount of \$18.0 million for lost revenue and eligible repair expenditures needed on the turbines due to cracked servo rods as confirmed in 3 of the 4 units. The settlement covers all current and future repairs for the large units as it relates to restoring to Kaplan operation. The entire settlement was recognized in 2019 in accordance with appropriate accounting treatment.

The condition described above is unique to the four large generating units and does not include the seven smaller Rocky Reach units. However, two of the smaller Kaplan units are currently out of service undergoing investigation, repair or replacement of worn trunnion bushings on the turbine hubs. The first unit (C1) was out of service beginning in January 2018 for trunnion bushing replacement and returned to service in March 2020. During that period, units two (C2) and three (C3) failed similarly in 2019 with evidence of small oil release, and after investigation, it appears the trunnion bushings are at their end of useful life for the small units. The District attempted new trunnion seals, but that proved to be unsuccessful as an interim fix until trunnion bushings could be scheduled for

replacement. To address the risk of future oil release from the small units, the District decided to continue fixed blade operation for the two remaining large units and focus efforts on expedited replacement of the trunnion seals during 2020 and 2021. The second unit (C2) will be repaired next as the first returned to service in March 2020 and the third unit (C3) is undergoing hydraulic blade blocking that mitigates oil risk and is expected to return to service in the spring 2020 until trunnion bushings can be replaced. Units four, five and six (C4, C5, C6) are currently running without issue, however unit seven (C7) is out of service for an unrelated issue regarding Kaplan head oil leakage and is expected to remain out of service until scheduled trunnion bushing replacements are completed in late 2020.

The Rock Island System. Pursuant to Resolution No. 1137, adopted by the District on December 20, 1955, as amended and supplemented, and Resolution No. 97-10671, adopted by the District on February 27, 1997 (collectively, the “**Prior Rock Island Resolution**”), the District established and continued 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 combined nameplate capacity of approximately 629 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 first powerhouse were originally constructed by Puget Sound Energy, which later sold the dam and generating units to the District. The remaining units in the first powerhouse were constructed by the District. Net energy delivered from the generating plant averaged 2,649,000 MWh annually during the three years from 2017 through 2019. For the year ended December 31, 2019, the generating plant delivered 2,346,000 MWh, at an average cost of \$36 per MWh. As of December 31, 2019, the gross utility plant of the Rock Island System, including construction work in progress, was \$720.8 million, with net utility plant of \$414.0 million.

Pursuant to the Prior Rock Island Resolution, the District has issued its Columbia River-Rock Island Hydro-Electric System Revenue Refunding Bonds, Series 1997A (the “**Prior Rock Island Bonds**”) payable from and secured by a pledge of revenues of the Rock Island System. As of December 31, 2019, the Prior Rock Island Bonds were outstanding in the aggregate principal amount of \$184.3 million. 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 to that of the Prior Rock Island Bonds. As of December 31, 2019, the Rock Island Bonds were outstanding in the aggregate principal amount of \$5.9 million. If all of the outstanding Rock Island 2009A are refunded by the 2020B Bonds, the Columbia River-Rock Island Hydro-Electric System Revenue Refunding Bonds, Series 1997A will be the only series of the District’s bonds secured by the Rock Island System. In addition, as of December 31, 2019, intersystem loans payable from revenues of the Rock Island System were \$178.6 million. See “FINANCIAL INFORMATION—Outstanding Debt” and “—Interfund and Intersystem Loans.”

Work is continuing on modernization of units in Rock Island Powerhouse 1. Units five through eight (B5, B6, B7, B8) are under contract for modernization with the first one (B6) returned to service in 2018. Units ten and nine (B10, B9) were modernized in 2008 and 2012, respectively. During the modernization effort of units B5-B8, the ninth unit (B9) had a Kaplan pipe failure in June 2017 that kept it out of service until repair was completed in October 2018. In June 2019, the tenth unit (B10) was removed from service for overhaul and inspections that resulted in identifying turbine components at or near failure. Subsequent inspections on B9 and the recently modernized B6 yielded similar observations, however it was determined that the units were safe to run and continue to be in service until other modernization priorities are completed. B10 is expected to be back in service in June 2020, followed by a newly modernized B7 in October 2020. Rehabilitation of B5 has started and it is expected to return to service in the first quarter 2021. B8 is in service and modernization is expected to occur in 2022. The corrective repairs made on B10 will also be implemented during 2021-2022 for B6 under warranty and for B9. Additionally, the four original generating units (B1-B4) at Rock Island were all taken out of service in early 2016 due to corrosion fatigue on the blades following 80-plus years of service. Manufacturing of new turbine runners is complete. Fieldwork on the first unit (B4) is 75% complete with an expected completion in July 2020. Work on the remaining three units (B3, B2, B1) is planned in sequence with overlap to expedite with expected return to service dates of spring 2021, year-end

2021 and spring 2022. Benefits of the turbine replacements will include reliable operation of the units expected for another 50 years, more flexibility in hydro operations and environmental and fish protection benefits.

In late 2017 as part of the District’s long-term asset management plans, the Board provided their concurrence to rehabilitate all eight horizontal bulb units in Rock Island Powerhouse 2 that have been in service since the late-1970s. Comprehensive condition assessments and staff analysis concluded that many of the components have an additional 40 years of life, which will be reused, while parts that are not predicted to last 40 years will be replaced. Work for 2020 includes project bidding and execution of a Design–Build contract, expected to occur mid-year 2020. Fieldwork is proposed to start in 2021, with completion of all eight units by 2029. Related plant work is underway and includes refurbishment, replacement, and additions of cranes and utility systems to support the work and ongoing operations and maintenance.

During routine inspections of the dam structure, a crack was observed on the downstream side of Pier 1 at the Rock Island Spillway. The crack is not a dam safety concern as it is not related to the structural integrity of the spillway. Measurements in May 2019 identified the crack to be 7mm at the maximum point. A third-party consultant has indicated that the crack did not appear to be recent, however it is unknown how long or how quickly it has progressed to current state. The consultant surmised the crack was most likely caused by concrete growth of the structures over time, which has used up the designed movement in the existing expansion joints and overstressed the concrete. The investigation concluded that if expansion joint function is restored, the stress can be relieved and the structural capacity restored to its original state. In the meantime, the District has implemented crack gauges to monitor progression, engineers are monitoring bi-weekly, limiting use of heavy loads on the spillway deck and have initiated a project for 2020 to remediate the issue through saw-cutting of expansion joints and installation of post tension anchors at the crack location. The approximately \$6 million project is included in the District’s Operations and Maintenance budgets, project is expected to be complete by in 2021 and is not expected to interfere with operations or the schedule of modernization projects.

The unit repairs and modernization projects along with any lost production at Rocky Reach and Rock Island are mitigated by effective risk management plans in place, including the hedging program, long-term cost-plus slice contracts, market slice contracts, insurance program and strong financial policies. All have significantly reduced the overall financial impact from these types of events. In addition, excess capacity at both dams helps create operational flexibility when there are outages, still allowing the District to utilize a high percentage of available streamflow for generation with minimal reduction in MWh delivered due to these outages. Costs associated with the projects are included in the District’s financial forecasts.

The District is evaluating the effect of the COVID-19 outbreak on the District’s operations, including the District’s ability to complete the projects described in this “—Other Properties and Facilities of the District” in the time and scope described herein. See “THE DISTRICT—COVID-19 Response Measures” and “DEVELOPMENTS AFFECTING THE ELECTRIC UTILITY INDUSTRY—Infectious Disease Outbreak.”

Federal Energy Regulatory Commission License Status

General

The District operates the Hydro-Electric Projects under long-term licenses issued by the Federal Energy Regulatory Commission (“FERC”) pursuant to the Federal Power Act of 1920, as amended (“FPA”). No competing licensing applications have ever been submitted.

Table 3
FERC Licenses

<u>Hydro-Electric Project</u>	<u>Issuance Date</u>	<u>Expiration Date</u>
Lake Chelan Project	November 6, 2006	October 31, 2056
Rocky Reach Project	February 19, 2009	January 31, 2052
Rock Island Project	January 18, 1989	December 31, 2028

Lake Chelan Project

On November 6, 2006, FERC issued a 50-year license for the Lake Chelan Project. The license reflects the terms of a comprehensive settlement agreement developed by the District with various stakeholders and submitted to FERC in October 2003, with several changes. The license requires detailed management plans for operations, fish, wildlife and recreation resources, which were approved by FERC in November 2007 and in April 2008. In accordance with the settlement agreement, the FERC-approved fish management plans and the required water quality certification, the District constructed three significant capital projects: a low-level outlet structure at the dam, a pump station adjacent to the Lake Chelan Project tailrace and four acres of fish spawning habitat in the lower Chelan River and Lake Chelan Project tailrace. These projects were completed in October 2009.

The settlement agreement and license include measures that are to be carried out by various agencies using funds provided by the District. The costs of these measures are recorded as a liability in the District's financial statements. The District has set aside funds specifically to pay for these obligations in current and future periods. As of December 31, 2019, the District has internally reserved \$6.3 million for these measures.

Rocky Reach Project

On February 19, 2009, FERC issued a 43-year license for the Rocky Reach Project. The license, for the most part, is based on a comprehensive settlement agreement developed between the District and stakeholders, including local communities, state and federal agencies, Native American Tribes and environmental groups, and submitted to FERC in March 2006. The Rocky Reach Project license requires implementation of various operational requirements and environmental protections. Primary measures include continuation of the Habitat Conservation Plans ("HCP") for salmon and steelhead, measures to protect and enhance white sturgeon, bull trout, resident fish and pacific lamprey, and operation and maintenance of eight parks. As also required in the license, the District finalized detailed management plans for operations, shoreline erosion, water quality, recreational, cultural and wildlife resources. These plans are now being implemented.

Rock Island Project

In 1989, FERC issued a 40-year license for the Rock Island Project. In June 2004, FERC approved incorporation of the terms of the HCP into the Rock Island license. See also "AGREEMENTS, PROCEEDINGS AND LAWS AFFECTING THE HYDRO-ELECTRIC PROJECTS—Endangered Species Act." The Rock Island Project license expires Dec 31, 2028 and the District will begin the relicensing process in 2023.

Relicensing Procedure and FERC Options

On October 23, 2018, the America's Water Infrastructure Act of 2018 was enacted. Among other things, the Act added section 36 to the FPA, requiring the Commission to consider, and give equal weight to, project-related investments by the licensee under the new license and project-related investments by the licensee over the term of the existing license. On August 9, 2019, FERC determined that Chelan PUD's investments of approximately \$670 million to rehabilitate the two Rock Island powerhouses, improve the project spillway, and implement its HCP appear to meet the criteria set forth in the newly added section 36 of the FPA. This means the District will be able to account for these significant investments within the 2026 license application for the Rock Island Project for FERC consideration of a longer license term.

The District has covenanted in the Master 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 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.

Consolidated System Energy Resources

The District's principal sources of power supply are its Hydro-Electric Projects. See “—Properties and Facilities of the Consolidated System—Hydro-Electric Projects—The Lake Chelan System” and “—Other Properties and Facilities of the District--The Rocky Reach System” and “--The Rock Island System” under this heading. For the year ended December 31, 2019, the Hydro-Electric Projects provided substantially more than 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 4 presents the Distribution Division's energy resources and purchased power costs for the years 2015 through 2019. See “FINANCIAL INFORMATION—General and APPENDIX A—“AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018.”

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Table 4
Consolidated System
Distribution Division
Energy Requirements, Resources and Power Costs
(Fiscal Years Ended December 31, 2015 through 2019)

	2015	2016	2017	2018	2019
Requirements (000 MWh) ⁽¹⁾					
Retail	1,554	1,571	1,748	1,657	1,979
Other	7,467	8,288	8,348	9,423	8,355
	<u>9,021</u>	<u>9,859</u>	<u>10,096</u>	<u>11,080</u>	<u>10,334</u>
Resources (000 MWh)					
Rocky Reach System	2,824	2,839	2,872	2,931	2,363
Rock Island System	1,450	1,407	1,401	1,378	1,155
Lake Chelan System	440	471	461	371	355
Other purchases ⁽²⁾	4,307	5,142	5,362	6,400	6,461
	<u>9,021</u>	<u>9,859</u>	<u>10,096</u>	<u>11,080</u>	<u>10,334</u>
Purchased Power Costs (\$000)					
Rocky Reach System	\$ 47,926	\$ 53,812	\$ 48,955	\$ 47,297	\$ 34,990
Rock Island System	50,443	50,679	51,601	52,370	59,065
Lake Chelan System	8,185	8,649	7,909	12,826	10,768
Other purchases ⁽²⁾	57,475	68,465	85,488	103,645	97,342
	<u>\$ 164,029</u>	<u>\$ 181,605</u>	<u>\$ 193,953</u>	<u>\$ 216,138</u>	<u>\$ 202,165</u>
Average cost (\$/MWh) ⁽³⁾	\$ 18	\$ 18	\$ 19	\$ 20	\$ 20

⁽¹⁾ Net of timing differences and losses. See Table 5, "Customers, Energy Sales and Revenues."

⁽²⁾ Other purchases include firm and non-firm power purchased to meet local requirements and certain contractual obligations, hedge price movements and minimize the District's overall risk exposure to changes in power prices.

⁽³⁾ Includes actual costs of power of the Distribution Division plus allocable administrative and other expenses of the Distribution Division. Fluctuations in average cost may be due to fluctuations in water conditions on the Columbia River, which may significantly affect market prices. Source: *The District*.

The Hydro-Electric Projects

For the year ended December 31, 2019, the Distribution Division purchased approximately 49% of Net Power Delivered from the Rocky Reach Project and the Rock Island Project. See "—The Puget Sound Energy Power Sales Contract" and "—The Alcoa Power Sales Contract" under this heading. The entire output of the Lake Chelan Project is taken by the Distribution Division. The Lake Chelan Project output constituted approximately 18% of the Distribution Division's total retail energy requirements for the year ended December 31, 2019.

Nine Canyon Wind Project

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. Upon project startup in 2001, the District joined the Nine Canyon Wind Project as a purchaser, interested in a long-term power supply portfolio that was diversified, adequate for projected load obligations and cost-effective and that included an appropriate level of alternative and renewable power supply resources. In addition, the Washington State legislature had recently required utilities to provide customers with the ability to purchase qualified alternative energy resources, which included facilities fueled by wind.

Phase 1 of the Nine Canyon Wind Project, from which the District purchased a 12.5% share of the output, consists of 37 1.3 MW wind turbines. Phase 1 was certified for commercial operation in September 2002. The capacity of Phase 1 is 48.1 MW. Under the Phase 1 contract of purchase, the District agreed to pay its 12.5% 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. As of June 30, 2019, \$22.3 million principal amount of Phase 1 Bonds are outstanding.

Energy Northwest expanded the project with Phase 2, which added 12 turbines, with a combined capacity of 15.6 MW. The District purchased 12.5% of this additional capacity. Under the amended contract, the District agreed to pay its 12.5% share of the debt service on the Phase 2 project bonds whether or not the project is operating or capable of operating. As of June 30, 2019, \$7.1 million principal amount of Phase 2 Bonds are outstanding. The District also agreed to pay 12.5% of the combined Phase 1 and Phase 2 annual budgeted operation and maintenance expenses. The District has also agreed to pay up to an additional 3.125% of such expenses in the event one or more other participants fail to make their payments. 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 2017 through 2019, the average capacity factor of Phases 1 and 2 combined energy delivered to the District was 24.9%.

Phase 3 of the project (the final phase) is a 14 turbine, 32.2 MW expansion that was placed into commercial operation in May 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% to approximately 8.3% 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%. 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, averaging 27.4% from 2017 through 2019. The District's debt obligations related to Phases 1 and 2 remain the same at 12.5% share of each as previously described. The District has no obligation to pay bond debt of Phase 3.

Puget Sound Energy Power Sales Contract

In February 2006, the District executed a new long-term power sales contract (the "**Puget Contract**") with Puget Sound Energy. Deliveries under the Puget Contract commenced on November 1, 2011 and July 1, 2012 for the Rocky Reach and Rock Island Projects, respectively. The Puget Contract is scheduled to terminate on October 31, 2031. Under the Puget Contract, Puget Sound Energy purchases 25% of the combined energy and capacity from both the Rocky Reach and Rock Island Projects. In exchange, Puget Sound Energy is obligated to pay, among other things, its percentage share of (i) the operation and maintenance expenses of the Rocky Reach and Rock Island Projects; (ii) certain debt service-related Financing Costs with respect to the Rocky Reach and Rock Island Projects; (iii) a Coverage Amount; (iv) an annual Capital Recovery Charge (as defined in the Puget Contract); and (v) an annual Debt Reduction Charge (as defined in the Puget 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's Consolidated System is recognizing the \$89 million payment as revenue in equal annual amounts over the term of the Puget Contract, commencing on November 1, 2011. FERC approved the Puget Contract in March 2006.

The Coverage Amount is an amount approximately equal to 15% of the maximum annual debt service-related costs with respect to the Rocky Reach and Rock Island 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 3.0%, multiplied by the outstanding principal amount of the Debt Obligations related to the Rocky Reach and Rock Island Projects. The Capital Recovery Charge is an amount approximately equal to a percentage determined by the District of up to 50%, 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 determined based upon a number of factors, including when such debt was incurred (before or after the execution of the Puget Contract), the structure of such debt (serial or term obligations) and whether such debt is for refunding purposes, as more fully described in APPENDIX F—"Summary of Power Sales Contract with Puget Sound Energy, Inc."

In December 2010, the Commission set the annual Debt Reduction Charge and the Capital Recovery Charge at the maximum rates authorized under the Puget Contract, effective January 1, 2012. The rates may be adjusted by the Commission by giving one year's prior notice. The annual value of these charges collected from Puget Sound

Energy was \$7.6 million in 2019 and \$7.8 million in 2018, which amounts the District expects to continue to use to pay capital expenditures of the Rocky Reach and Rock Island Projects and/or to retire outstanding indebtedness.

The payment obligations of Puget Sound Energy are expected to exceed its 25% share of the actual costs incurred by the District in each fiscal year for operation and maintenance expenses and debt service costs related to the Rocky Reach and Rock Island Projects. The District is free to structure its actual debt service with respect to the Rocky Reach and Rock Island Projects so that debt service-related payments by Puget Sound Energy for its portion of the output of the Projects may be greater than, equal to or less than the District's actual debt service.

The payment obligations of Puget Sound Energy under the Puget 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 Rocky Reach or Rock Island Projects 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 Puget 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 or Rock Island Projects. In no event will Puget Sound Energy's total share exceed 40% without its written permission due to this provision.

See APPENDIX F—"Summary of Power Sales Contract with Puget Sound Energy, Inc."

For a description of Puget Sound Energy, see APPENDIX E—"DESCRIPTION OF MAJOR POWER PURCHASERS."

Alcoa Power Sales Contract

In July 2008, the District executed a new long-term power sales contract with Alcoa, Inc. (as amended, the "**Alcoa Contract**" and together with the Puget Contract, the "**Power Sales Contracts**"). In November 2016, the District consented to the assignment of the Alcoa Contract to Alcoa Corporation (together with Alcoa, Inc., "**Alcoa**"). Deliveries under the Alcoa Contract commenced on November 1, 2011 and July 1, 2012 for the Rocky Reach and Rock Island Projects, respectively. The Alcoa Contract is scheduled to terminate on October 31, 2028. Under the Alcoa Contract, Alcoa purchased energy equivalent to 27.5% of the output of the Rocky Reach Project from November 1, 2011 to June 30, 2012, and thereafter Alcoa is required to purchase energy equivalent to 26% of the combined Output of both the Rock Island and Rocky Reach Projects. "**Output**" is defined in the 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 and Rock Island Projects 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 is obligated to pay, among other things, its percentage share of (i) the operation and maintenance expenses of the Rocky Reach and Rock Island Projects; (ii) certain debt service-related Financing Costs with respect to the Rocky Reach and Rock Island Projects; and (iii) a Coverage Amount (as defined in the Alcoa Contract). Alcoa is also obligated to pay an annual Capital Recovery Charge (as defined in the Alcoa Contract); and (v) an annual Debt Reduction Charge (as defined in the 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 in August 2008 as an advance payment for a portion of a total \$89.0 million capacity reservation charge, which the District may use for any lawful purposes. The balance of the capacity reservation charge was to be deferred as long as the plant continued to operate and waived if the plant continued to operate under the terms of the contract for the entire contract term. The District's Consolidated System is recognizing the \$22.9 million payment as revenue in equal annual amounts over the term of the Alcoa Contract, commencing on November 1, 2011. FERC approved the Alcoa Contract in September 2008.

In November 2015, Alcoa announced that it would curtail operations at its Wenatchee Works plant as part of a company-wide response to low aluminum prices. In December 2016, per contract provisions, Alcoa paid \$8.6 million due to the initial shutdown event. In May 2017, Alcoa paid an additional \$7.3 million related to the deferred capacity amount. In 2018, Alcoa announced that it had no plans to restart the facility, but would continue to monitor market conditions. Alcoa paid \$62.4 million in June 2018, the balance of the capacity reservation charge, which the

District may use for any lawful purposes. The District's Consolidated System is recognizing the \$62.4 million payment as revenue in equal annual amounts over the remaining term of the Alcoa Contract. In recent corporate filings, Alcoa indicated that it is undertaking a comprehensive review of its portfolio of assets, which may include the permanent closure or other divestment of certain assets. The Alcoa Contract provisions continue, regardless of any decision by Alcoa to remain curtailed, restart operations or divest itself of the Wenatchee facility, and the District has the unilateral right to terminate the Alcoa Contract. See APPENDIX E—"DESCRIPTION OF MAJOR POWER PURCHASERS."

The payment provisions of the Alcoa Contract are similar to those of the Puget Contract, including the Coverage Amount, the Debt Reduction Charge, the Capital Recovery Charge and the Financing Costs provisions summarized above. In December 2010, the Commission set the annual Debt Reduction Charge and the Capital Recovery Charge at the maximum rates authorized under the Alcoa Contract, effective January 1, 2012. The rates may be adjusted by the Commission by giving one year's prior notice. The annual value of these charges collected from Alcoa were \$7.9 million in 2019 and \$8.1 million in 2018, which amounts the District expects to continue to use to pay capital expenditures of the Rocky Reach and Rock Island Projects and/or to retire outstanding indebtedness.

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

The payment obligations of Alcoa under the 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 Rocky Reach or Rock Island 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 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 or Rock Island Projects.

The Alcoa Contract also provides that:

(i) The Output provided pursuant to the 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 Alcoa Contract. Since Alcoa ceased operations at its Wenatchee Works smelter in December 2015, the District has continued to sell unused Alcoa power in the wholesale market and then applies the proceeds against outstanding contract obligations per contract terms. Any shortfalls are paid by Alcoa and any surplus is retained by the District. In 2019, \$20 million of surplus proceeds were retained and \$15 million of surplus proceeds were retained in 2018.

(ii) A deferred capacity reservation charge of up to \$83.7 million was to be paid by Alcoa if the Wenatchee Works project was shut down under certain circumstances. The deferred capacity reservation charge declined as time passed during the contract term. If Alcoa shut down the Wenatchee Works project for 90 days, Alcoa would be obligated to pay to the District an initial shut down amount (the annual initial shutdown amount of \$8.6 million was paid in December 2016). If the initial shutdown continued for 18 months or if there was a second shutdown of 90 days' duration, whichever occurred first, Alcoa would owe the District the entire balance of the deferred capacity reservation charge. Such balance of \$62.4 million was paid to the District in June 2018.

(iii) The District has the option to terminate the Alcoa Contract if Alcoa operates less than a minimum load of 175 average megawatts ("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 Alcoa Contract, Alcoa will remain liable for all remaining payments under the Alcoa Contract. The District has not exercised its option to terminate the Alcoa Contract as of April 10, 2020.

(iv) Alcoa may not assign the 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% 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 Alcoa Contract. The District's consent to either situation is within the District's sole discretion. The District consented to the assignment to the Alcoa Corporation from Alcoa, Inc. in November 2016.

(v) The District may request performance assurance or collateral upon the occurrence of a downgrade event for Alcoa or if the District has reasonable grounds to believe that Alcoa's creditworthiness or performance under the Alcoa Contract has become unsatisfactory. The District has held performance assurance since June 2013. The District may request such performance assurance to cover the sum of three months of periodic payments and \$40 million (all as defined in the Alcoa Contract). As of December 31, 2019, the District holds \$49 million in collateral, covered by letters of credit for protection against default.

See APPENDIX G—"Summary of Power Sales Contract with Alcoa."

For a description of Alcoa, see APPENDIX E—"DESCRIPTION OF MAJOR POWER PURCHASERS."

Douglas PUD Power Sales Contract

Pursuant to the Douglas PUD Power Sales Contract, the District agreed to sell to Douglas PUD, from the District's share of Rocky Reach Project energy, an amount of energy equal to 2.77% of the output of the Rocky Reach Project, upon payment by Douglas PUD of an amount equal to the District's cost of such energy. This contract provides that Douglas PUD has the right to take an additional 2.77%, for a total of 5.54%, under the same terms and pay the same costs as other "slice purchasers" beginning November 1, 2011 and subject to extensions 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 exercised its first contract extension right and has provided notice for the second 10-year extension until October 31, 2031 for 5.54% of output of the Rocky Reach Project.

Microsoft Power Sales Contract

On April 12, 2019, the District and Microsoft Corporation ("**Microsoft**") announced a five-year power agreement that provides up to 50 aMW of 100% carbon-free hydropower to Microsoft's Puget Sound campuses. Actual deliveries are based on Microsoft's actual load forecasts. The pricing of the sale is market-based and includes the value of environmental attributes and transmission costs, among other things. The contract contains an extension option for an additional five-year period if Microsoft exercises notice at least 12 months prior to the contract expiration. Such extension is subject to the availability of sufficient applicable carbon-free energy and transmission capacity, a mutually acceptable price, and approval by the District's Board.

Energy Sales; Load/Resource Balancing; Hedging Strategy

To balance the District's anticipated power resources and demand for those power resources on an ongoing basis, the District, as do most other retail electric utilities, enters into short-term forward physical power sales agreements when resources are expected to exceed demand, and enters into short-term forward physical power purchase agreements when demand is expected to exceed the resources estimated to be available. Because approximately 99% 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. To mitigate potential wholesale sales and price volatility, to help keep future rates stable and affordable and to maintain financial stability, the District has implemented a comprehensive forward hedging strategy. In addition to the Power Sales Contracts, a key component of the strategy includes executing medium-term power sales contracts for (i) fixed percentages of future output from the Rock Island and Rocky Reach Projects and (ii) fixed amounts of such output, in each case at fixed prices and for staggered terms from within the then-current year plus up to an additional 60 months. This strategy is expected to mitigate the District's exposure to changes in wholesale power prices and Columbia River flows (the latter of which affects generation at the Hydro-Electric Projects) and to secure a revenue stream for the duration of those contracts. As of December 31, 2019, the District has locked in revenues

under these medium-term contracts of \$423 million for the period from January 2020 through the beginning of 2025. The District has also executed a longer-term power sales contract for a fixed percentage of future output from the Rock Island and Rocky Reach Projects as a component of the overall hedging strategy. As of December 31, 2019, the District has locked in revenue of \$172 million under the longer-term contract for the period January 2021 through the end of 2031.

The Consolidated System derives a substantial portion of its annual revenues from wholesale sales of the Distribution Division's share of surplus power generated by the Hydro-Electric Projects. These wholesale sales provided 61% of annual Distribution Division revenues in fiscal year 2019 and 69% of annual Distribution Division revenues in fiscal year 2018.

The amount of such power available for sale in any given year, and the prices at which such power can be sold, however, are highly variable, and depend to a large extent on factors outside of the control of the District. In particular, the amount of such power available for sale is dependent upon relative flows down the Columbia River past the Rocky Reach and Rock Island Projects and the timing of such flows, both of which are largely dependent upon weather conditions in and upstream of the Mid-Columbia River and weather conditions in the District's service area, which affects the District's relative load from season to season. The price of such power also is dependent, among other things, on weather conditions inside and outside the Pacific Northwest, the relative demand for power at any given time across the Western United States, general economic conditions, the cost and the availability of alternative sources of power, including in particular energy generated by facilities fueled by natural gas, wind and numerous other factors. The District seeks to moderate the variability in its revenues arising from these factors through a variety of means, including the implementation of its energy hedging strategy, the maintenance of significant liquidity, including the maintenance of the Rate Stabilization Fund, and its ability to impose rate increases or temporary rate surcharges on relatively short notice.

In 2012, the District entered into a five-year agreement with Powerex Corp. ("**Powerex**"), a real-time scheduling service provider, to balance the District's resources with its daily load requirements and other contractual obligations on a real-time basis. In addition to the real-time scheduling services it provides to the District, Powerex also has rights to access the District's balancing authority and scheduling services at the Mid-Columbia energy hub and to access the District's residual system capability. The District has secured additional revenues from the Powerex agreement. FERC approved the agreement with Powerex in November 2012.

In 2017, the District entered into an agreement to extend the original real-time agreement with Powerex for an additional five years. Certain additional terms were added to the original agreement to reflect the current market environment. FERC approved the extension of the agreement with Powerex in August 2017.

Table 5 presents the District's customers and energy sales of its Distribution Division for the years 2015 through 2019. See "FINANCIAL INFORMATION—General" and APPENDIX A—"AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018."

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Table 5
Distribution Division - Customers, Energy Sales and Revenues
(Fiscal Years Ended December 31, 2015 through 2019)

	2015	2016	2017	2018	2019
Customers					
Retail:					
Residential	37,222	37,708	38,161	38,783	39,453
Commercial	6,290	6,296	6,316	6,383	6,446
Industrial	30	31	29	30	30
High density load	-	-	19	20	13
Irrigation, frost, lighting	5,617	5,616	5,600	5,602	5,592
Interdepartmental	543	556	555	563	612
Total retail customers	49,702	50,207	50,680	51,381	52,146
Resale:	87	86	86	88	88
Total customers	49,789	50,293	50,766	51,469	52,234
Energy Sales (000 MWh)					
Retail:					
Residential	742	756	881	810	879
Commercial	482	491	499	465	478
Industrial	256	265	239	243	247
High density load	-	-	68	77	81
Irrigation, frost, lighting	48	43	40	40	36
Interdepartmental	26	16	21	22	20
Total retail sales	1,554	1,571	1,748	1,657	1,741
Other end use					
Off system sales ⁽¹⁾	-	-	-	-	238
Resale:					
Alcoa Corp ⁽²⁾	88	-	-	-	-
Douglas PUD	325	331	324	329	265
Other – firm/slice	2,155	2,147	2,165	2,443	1,745
Other – non-firm/block/ preschedule/real time	4,714	6,088	6,046	6,585	6,008
Total sales for resale	7,282	8,566	8,535	9,357	8,018
Total energy sales	8,836	10,137	10,283	11,014	9,997
Revenue (\$000)					
Retail:					
Residential	\$ 24,021	\$ 24,424	\$ 27,944	\$ 26,019	\$ 27,985
Commercial	16,348	16,666	17,004	15,976	16,438
Industrial	5,185	5,366	4,896	5,001	5,072
High density load	-	-	1,504	1,781	1,845
Irrigation, frost, lighting	1,722	1,529	1,499	1,492	1,465
Interdepartmental	738	463	621	800	600
Total retail revenue	\$ 48,014	\$ 48,448	\$ 53,468	\$ 51,069	\$ 53,405
Other end use:					
Off system sales ⁽¹⁾	-	-	-	-	12,953
Resale:					
Alcoa Corp ⁽³⁾	\$ 2,207	\$ 6,197	\$ 6,694	\$ 9,914	\$ 12,934
Douglas PUD	5,204	5,510	5,353	5,013	4,031
Other – firm/slice	84,262	75,431	78,934	81,287	70,241
Other – non-firm/block/ preschedule/real time	96,763	113,995	118,431	142,731	120,525
Total resale revenue	\$ 188,436	\$ 201,133	\$ 209,412	\$ 238,945	\$ 207,731
Other revenues ⁽⁴⁾	25,744	27,380	37,513	34,433	39,679
Total revenue	\$ 262,194	\$ 276,961	\$ 300,393	\$ 324,447	\$ 313,768

⁽¹⁾ In 2019, the District began providing power under a five-year agreement to Microsoft's Puget Sound campuses. Microsoft is the only off system customer. See "—Microsoft Power Sales Contract" under this heading.

⁽²⁾ In December 2015, Alcoa Corp. curtailed its Wenatchee Works smelting facility. Proceeds from the sale of any unused power, in excess of Alcoa Corp's monthly contractual costs, are retained by the District. See "—The Alcoa Power Sales Contract" under this heading.

⁽³⁾ Includes amortization of capacity reservation charge. See "—The Alcoa Power Sales Contract" under this heading.

⁽⁴⁾ Includes transmission, real-time agreement and environmental attribute revenues.

Source: The District.

Electric Rates; Other Rates

The District is empowered and required pursuant to State statutes 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 Washington Utilities and Transportation Commission ("WUTC"). 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 believes that it 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 February 2020, the District's Board unanimously approved a five-year plan of moderate electric rate increases to help reduce the risk of larger rate increases in the future. The rate plan includes annual increases of 3%, beginning June 1, 2020 for residential customers and December 1, 2020 for commercial and industrial customers. In response to the outbreak of COVID-19, on March 30, 2020, the Board directed District staff to prepare a resolution for consideration that would delay the implementation date of residential rate increase from June 1, 2020 to December 1, 2020. After 2020, annual 3% rate increases will be effective on each June 1 from 2021 – 2024. Prior to the 2020 rate increase, the District's last increase of electric rates for the majority of rate classes was in January 2012. The District is continuing to evaluate the effect of the COVID-19 outbreak on the District's operations. See "THE DISTRICT—COVID-19 Response Measures" and "DEVELOPMENTS AFFECTING THE ELECTRIC UTILITY INDUSTRY—Infectious Disease Outbreak."

The District, due in part to exceptionally low power rates, experienced growing requests for power to serve cryptocurrency mining operations. In order to ensure adequate policies were in place to mitigate potential risks that could come with the increased demand including infrastructure availability, potential stranded assets due to the transient nature of cryptocurrency operations, cost recovery, safety and reliability, new "high density load" ("HDL") rates were established in January 2017 for customers up to 5 aMW. The objective was to protect the District from the risks and uncertainties of cryptocurrency loads and keep other customers financially neutral. In December 2018, the Board approved a new rate schedule for cryptocurrency, blockchain and similar operations effective April 1, 2019. Concurrently, the District also increased upfront capital fees for both HDL and cryptocurrency customers. The District intends for the rates, plus fees and charges, to allow the District to serve cryptocurrency and similar operators while they carry the operational and financial costs and risks of providing power. In addition to upfront fees and charges, operations in commercial and industrial areas with available capacity paid approximately 6 cents/kWh from April 2019 to March 2020. The energy portion of the rate is updated annually to reflect the anticipated market prices for the following year.

In addition to the electric rate increases described above, the District's February 2020 Board-adopted rate plan also includes rate increases for some of its other systems. The District will increase rates for its Water System and Wastewater System by 4% each June 1 from 2020 – 2024. Water and Wastewater System rates were most recently increased on April 1, 2019. The District also will increase wholesale rates charged to service providers for its Fiber

and Telecommunications System by 3% each June 1 from 2020 – 2024. Wholesale Fiber rates were most recently increased on January 1, 2019. In response to the outbreak of COVID-19, on March 30, 2020, the Board directed District staff to prepare a resolution for consideration that would delay the implementation date of the residential electric rate and Water, Wastewater, and Fiber rate increase from June 1 to December 1 for 2020 only. The District is continuing to evaluate the effect of the COVID-19 outbreak on the District’s operations. See “THE DISTRICT—COVID-19 Response Measures” and “DEVELOPMENTS AFFECTING THE ELECTRIC UTILITY INDUSTRY—Infectious Disease Outbreak.”

Table 6 below presents the District’s average monthly electric bills and those of several other major public and private Pacific Northwest utilities. The rates shown are those in effect as of December 31, 2019.

Table 6
Comparative Monthly Electric Bills⁽¹⁾
As of December 31, 2019

	Residential (1,500 kWh)	Commercial⁽²⁾ (30 kW, 9,000 kWh)	Industrial⁽²⁾ (400 kW, 150,000 kWh)
The District	\$48	\$260	\$3,442
Selected municipalities:			
Tacoma Power	83	739	10,548
City of Seattle	188	799	12,921
Selected public utilities:			
Douglas PUD	48	223	4,436
Grant County PUD No. 2	85	403	6,389
Snohomish County PUD No. 1	156	825	13,571
Investor owned utilities:			
Avista	135	1,030	14,757
Puget Sound Energy	151	861	13,185

⁽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 single-phase. Delivery voltage varies.

Source: The District.

The Distribution Division rates are among the lowest in the country. Chart 1 compares the retail rates of the District with the retail rates of the Pacific Northwest and national averages. District residential rates averaged 3.2 cents per kWh in 2019 compared to 10.1 cents per kWh for the Pacific Northwest average and 13.0 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 compares the District’s combined hydro production cost with the Bonneville priority firm rate available to public utilities. For 2019, the District’s combined Hydro-Electric Projects’ production cost was \$20 per MWh (2.02 cents per kWh) compared to Bonneville’s firm priority rate of \$42 per MWh (4.21 cents per kWh).

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CHART 1

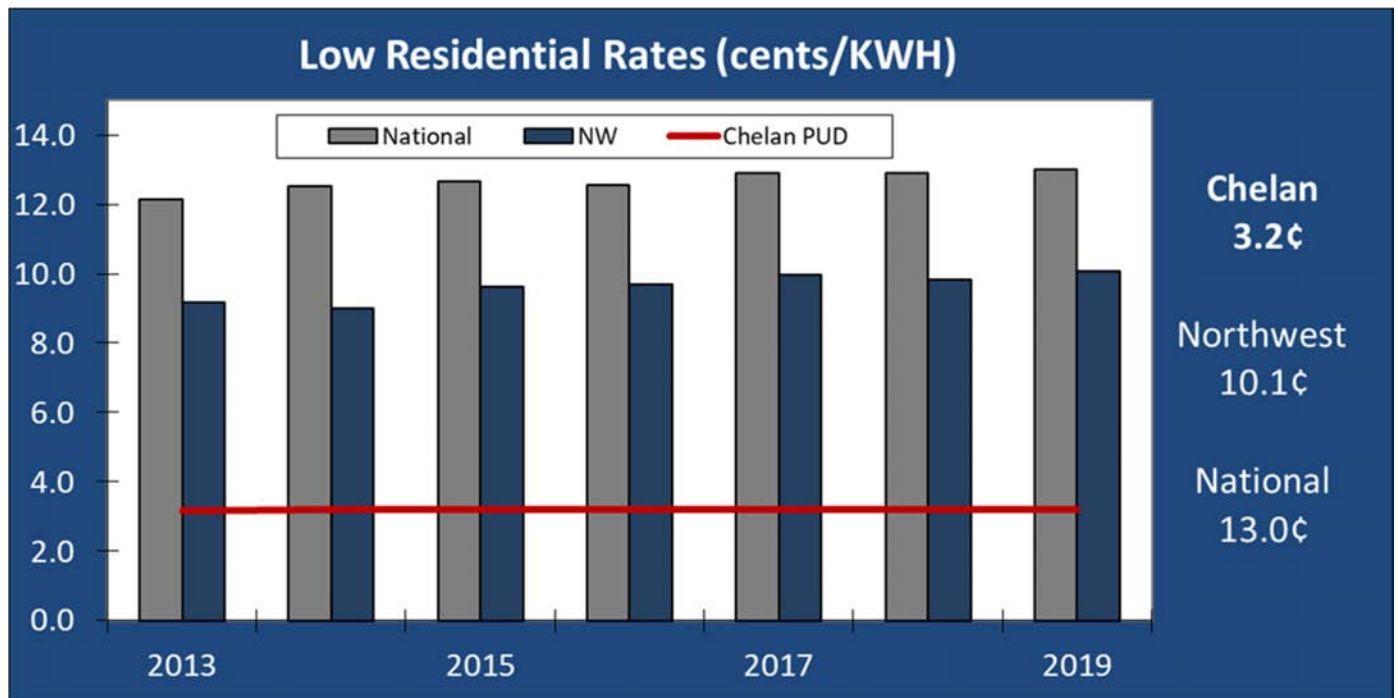
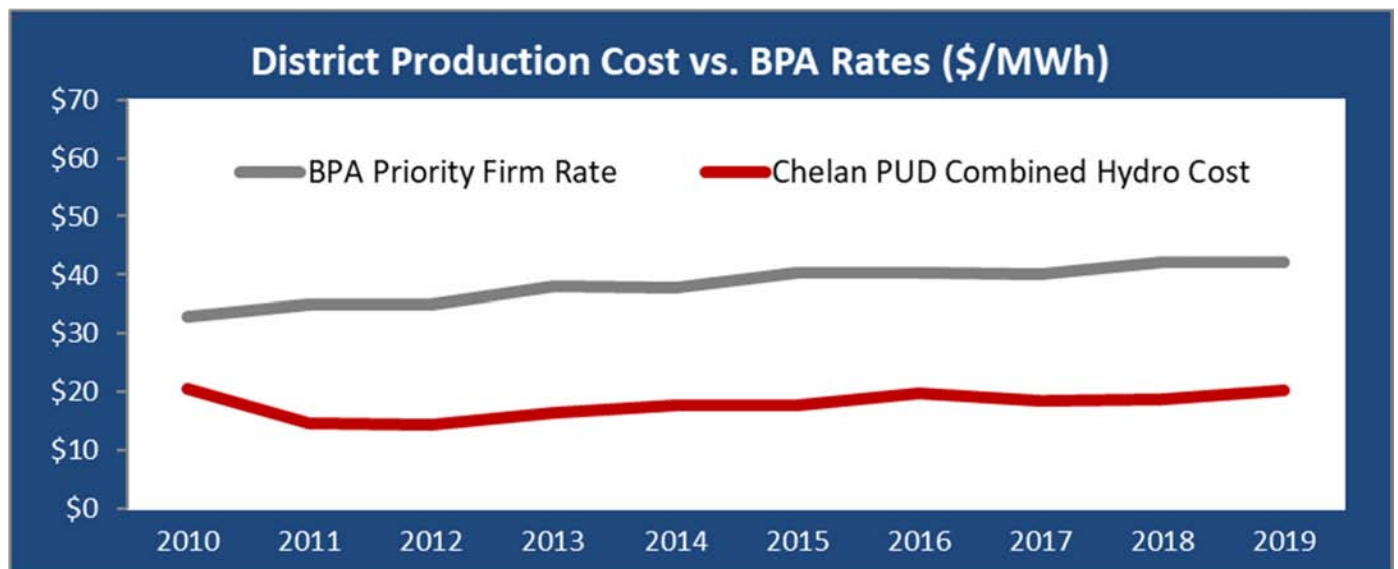


CHART 2



Largest Customers

The largest wholesale customers of the Rock Island System and Rocky Reach System are the power purchasers of those Systems (collectively, the “**Power Purchasers**”). See “—The Puget Sound Power Sales Contract,” and “—The Alcoa Power Sales Contract” under this heading. For the year ended December 31, 2019, the Power Purchasers, which excludes Douglas PUD, contractually had approximately 51% of the output of the Rock Island System and Rocky Reach System. The revenues of the Rock Island System and Rocky Reach System do not constitute Revenues pledged to the payment of the Bonds, including the 2020 Bonds, or the Subordinate Consolidated System Obligations, if issued.

Table 7 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, 2019. Douglas PUD, the Distribution Division’s largest local wholesale purchaser, accounted for 1% of the revenues of the Distribution Division.

Table 7
Consolidated System
Distribution Division
Five Largest Local Wholesale Purchasers and Major Retail Customers⁽¹⁾
2019

Customer	Business	Energy Sales (000 MWh)	Revenue from Energy Sales (\$000)	Percent of Distribution’s Total Revenue
Douglas PUD	Electric Utility	265	\$ 4,031	1.3%
Stemilt Growers Inc.	Agriculture	62	1,216	0.4
Salcido Enterprises LLC	High Density Load	39	714	0.2
Confluence Health	Medical	30	626	0.2
Chelan Fruit Cooperative	Agriculture	29	586	0.2
		<u>425</u>	<u>\$7,173</u>	<u>2.3%</u>

⁽¹⁾ Excludes non-firm sales for resale and off-system sales.
Source: *The District*.

Wholesale Power Management Activity

The District has the opportunity to purchase and sell power from and to a number of power marketing firms, banks, 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. In 1998, the District developed a Power Risk Management Policy, which establishes 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 the Managing Directors. Other staff members, as defined by resolution, may serve on the committee during any vacancies of those positions. The District’s General Manager reviews proposed actions 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 Power Risk Management Committee recently reviewed and adopted an updated version of the Power Risk Management Policy. In addition, the Board also approved an updated wholesale energy trading Resolution in March 2020. The updates address the evolution of the wholesale energy markets and provide for more conservative limits. Also, included in the Power Risk Management Policy noted above is 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 credit policies and procedures is to maintain customer and counterparty default risk at acceptable levels. See Table 5 – “Distribution Division Customers, Energy Sales and Revenues.”

The Fiber and Telecommunications System

General

The District built, maintains and operates the Fiber and Telecommunications System that runs throughout the County to provide various communication services necessary for the District to conduct its business. The Fiber and Telecommunications System is strategically placed to provide for the interconnection of many of the District’s facilities, including office buildings, distribution substations, transmission switchyards, and the Hydro-Electric Projects. Through the Fiber and Telecommunications System, the District also provides telecommunications infrastructure access to 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 providers set their own end user pricing and are directly responsible for billing each end user. The District bills the service providers for the wholesale services provided by the District through the Fiber and Telecommunications System. A significant portion of end users receive services from one large private retail service provider.

As of the December 31, 2019, the District has made fiber-optic services available pursuant to its applicable policies to approximately 34,800 premises through lit distribution hubs. The District intends to continue connecting premises to existing fiber optic distribution hubs upon end user request, as the budget for each year allows. The estimated number of end users of the Fiber and Telecommunications System was approximately 17,500 as of December 31, 2019. Of these end users, approximately 96% use the network to subscribe for data services, approximately 24% subscribe to telephone services and approximately 36% subscribe to video services, with certain users accessing the network for multiple services, all through the retail service providers.

Beginning in 2015, the District’s strategic planning efforts identified and initiated expansion of the Fiber and Telecommunications System to more areas of the County through a Public Power Benefit program. Under the District’s current 2020 – 2024 Strategic Plan, the Public Power Benefit program is planned to continue as long as it is financially feasible, which may include additional funding for expansion of the Fiber and Telecommunications System. See “FINANCIAL INFORMATION—Strategic Planning and Financial Policies.” The 2020 – 2024 Strategic Plan also identified that the fiber business line should strive to be financially self-sufficient in the long-term. As part of this initiative, 3% annual revenue increases have been proposed and approved. See “THE CONSOLIDATED SYSTEM—Electric Rates; Other Rates.”

Regulatory Environment and Government Regulation

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

The Washington State Legislature passed Senate Bill 6675 effective June 8, 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 WUTC 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 WUTC.

At the federal level, the Federal Communications Commission (the “FCC”) regulates a number of telecommunications activities, which directly or indirectly impact the District and the service providers using the Fiber and Telecommunications System. The District has reviewed FCC requirements with outside counsel and believes that all registrations and filings required by Federal regulations in 2019 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. Other business opportunities being explored by the District through separate service provider agreements relate to extension and construction of District fiber optics for purposes of serving cell tower sites.

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. Frontier is the incumbent telephone provider in the County and provides traditional telephone service throughout the County, digital subscriber lines (“**DSL**”) in some areas of the County and satellite television service through DirecTV. Satellite television services are also available from Dish Network and DirecTV. The District’s Fiber and Telecommunications System currently provides the service providers in many areas with faster download speeds than those available from Charter or Frontier. Current broadband internet and television offerings from the service providers are priced competitively with Charter and Frontier.

Historical Results

Table 8 below sets forth a summary of financial results of operation of the Fiber and Telecommunications System for fiscal years 2015 through 2019.

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Table 8
Consolidated System
Fiber and Telecommunications System
Summary of Operating Results
(\$000)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Operating revenues					
Wholesale fiber services	\$ 6,267	\$ 6,267	\$ 6,395	\$ 6,601	\$ 6,311
Fiber leasing	539	598	683	755	858
Intra-district revenues	2,442	2,452	3,311	3,315	3,339
Total operating revenues	<u>9,248</u>	<u>9,317</u>	<u>10,389</u>	<u>10,671</u>	<u>10,508</u>
Operating expenses					
Administrative and general	1,568	1,542	1,613	1,175	1,519
Repairs and maintenance	1,725	1,059	1,165	1,429	1,706
Other operating	2,927	3,233	3,234	3,246	3,927
Depreciation expense	3,853	2,573	2,609	3,052	3,347
Total operating expenses	<u>10,073</u>	<u>8,407</u>	<u>8,621</u>	<u>8,902</u>	<u>10,499</u>
Operating income (loss)	<u>(825)</u>	<u>910</u>	<u>1,768</u>	<u>1,769</u>	<u>9</u>
Other income (expenses)	246	(12)	192	300	419
Net income (loss) before capital contributions	<u>(579)</u>	<u>898</u>	<u>1,960</u>	<u>2,069</u>	<u>428</u>
Capital contributions	60	23	129	169	113
Interfund equity transfers ⁽¹⁾	8,200	-	2,100	2,500	1,892
Changes in net position	<u>\$ 7,681</u>	<u>\$ 921</u>	<u>\$ 4,189</u>	<u>\$ 4,738</u>	<u>\$ 2,433</u>

⁽¹⁾ Represents equity transfers from the Distribution Division to support expansion of the Fiber and Telecommunications System.
Source: The District.

Technology and Related Risk

The District has elected to “light” the fiber network with what is referred to as a Passive (unpowered) Optical Network (“**PON**”), using Fiber to the Premises (“**FTTP**”) equipment. The District’s PON network configuration can serve up to 32 Customer Premises Devices delivering service to homes or businesses from a single strand of fiber. The network can service up to 48,192 premises from a single chassis. This structure greatly reduces the cost of the outside plant deployment by reducing the number of fiber optic strands required and the number of active (powered) nodes, the maintenance required to maintain them, and the associated costs. The FTTP platform deployed is the Nokia Gigabit Passive Optical Network (“**GPON**”).

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 lighting 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.

System Integrity

In the District’s opinion, its reserve funds and insurance coverage are adequate to cover loss or damage associated with the Fiber and Telecommunications System. In addition, the network is designed to have some level of resiliency and redundancy where possible, with ongoing efforts to improve reliability. For example, all of the core equipment is either 48VDC powered with battery backup capability or powered through an uninterruptable power

supply and is located within environmentally controlled facilities. In addition, the District's core fiber equipment, failure of which could result in a temporary loss of network function, is maintained in a secure building protected by an advanced fire suppression system and an uninterruptable power system to minimize these risks. This core equipment defines the District's transport systems and includes the following platforms: Synchronous Optical Network, Asynchronous Transfer Mode and 10 Gigabit Ethernet over Multiprotocol Label Switching. Similarly, where possible path diversity is maintained between core network devices either over redundant fiber paths, various transport systems or through multiple network interfaces to improve reliability. Lastly, the District maintains a daily backup copy of all critical network provisioning.

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 31 federal hydro-electric and thermal projects, with an installed peak generating capacity of over 23,500 MW and a firm generating capability of over 7,800 average MW and has the largest transmission system in the Pacific Northwest.

Two 115-kV lines owned by the District extend north to the Lake Chelan area where they connect 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. This line also extends to an interconnection with Public Utility District No. 2 of Grant County ("**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 System switchyard;
- (2) one 230-kV Bonneville line connected to the Rocky Reach System switchyard;
- (3) one 230-kV District-owned line connected to multiple Bonneville transmission lines at the Bonneville Columbia switching station;
- (4) two 115-kV District lines connected to the Bonneville transmission system at the Bonneville Valhalla substation;
- (5) two 115-kV District transformers connected to the Bonneville transmission system at the Bonneville Valhalla substation to provide direct service to Alcoa; and
- (6) one future 230-kV jointly-funded line starting from the Douglas's Rapids Switchyard, then connecting to the Bonneville transmission system at Columbia substation. The line from Rapids to Columbia is jointly funded by the District, Bonneville, Douglas PUD and Grant PUD. Construction is anticipated to be complete by 2023. The new facility essentially establishes a new connection via Douglas facilities between Rocky Reach and Columbia (Bonneville); and

Bonneville's transmission facilities interconnect with the British Columbia Hydro and Power Authority ("**BC Hydro**") in the Canadian province of British Columbia and with utilities in the Pacific Southwest of the United States. Bonneville's transmission system includes 261 substations, approximately 15,000 circuit miles of high voltage transmission lines and other related facilities. This transmission system provides about 75% 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% 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. 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 “THE CONSOLIDATED SYSTEM—Consolidated System Energy Resources—Nine Canyon Wind Project.”

Energy Northwest also owns and operates a nuclear electric generating project, Project No. 2 (“**Project No. 2**” or the “**Columbia Generation Station**”), with a current net design electrical rating of 1,174 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, 2019, Energy Northwest had outstanding approximately \$5.04 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% and 0.433% 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, 2019, revenue bonds outstanding for Projects Nos. 1 and 3 totaled approximately \$795.6 million and \$914.1 million, 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.

FINANCIAL INFORMATION

General

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 on the wholesale market have generated substantial revenues for the Consolidated System, providing 61% of annual Distribution Division revenues in 2019 and 69% of annual Distribution Division revenues in 2018. 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-electric 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 is volatility in streamflow that is available to use for generation as well as the wholesale 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. Variable energy generation, such as wind and solar, is also affecting the market prices for electricity. For example, *negative* prices, in fact, result when wind and solar are over-producing and other types of generation are required to satisfy "must run" requirements. Given the changes in the electric utility industry and power markets generally, and that hydro-electric energy is becoming a smaller portion of the over-all power supply in the Pacific Northwest, the historical inverse correlation between hydro-electric power supply and wholesale power prices is not as strong as in the past.

The District also has implemented an energy hedging strategy to help stabilize wholesale revenue in volatile markets under all streamflow scenarios. 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 strong cash reserve position in accordance with financial policies, by retaining future periodic increases in revenues from retail sales as an additional component of its cash reserves and, if necessary, by rate adjustments. See "THE CONSOLIDATED SYSTEM—Energy Sales; Load/Resource Balancing; Hedging Strategy" and "—Electric Rates; Other Rates."

The District's audited financial statements and accompanying notes for the fiscal years ended December 31, 2019, and December 31, 2018 are included as APPENDIX A herein. 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 Distribution Division Financial Results

General

Power Sales Contracts. In February 2006 and July 2008, the District executed the Puget Contract and the Alcoa Contract, respectively. Deliveries under the Power Sales Contracts commenced on November 1, 2011 for the Rocky Reach Project and July 1, 2012 for the Rock Island Project. For a description of the Puget Contract, see "THE CONSOLIDATED SYSTEM—Puget Sound Energy Sales Contract" and APPENDIX F—"Summary of Power Sales Contract with Puget Sound Energy, Inc." For a description of the Alcoa Contract, see "THE CONSOLIDATED SYSTEM—Alcoa Power Sales Contract" and APPENDIX G—"Summary of Power Sales Contract with Alcoa."

Master Resolution. On March 12, 2007, the Commission adopted the Master Resolution. The Master Resolution was drafted in contemplation of the Power Sales Contracts with respect to the output from the Rock Island and Rocky Reach Projects. The Master Resolution includes covenants and provisions for the benefit of owners of the Bonds such as flow-of-funds provisions, rate covenant and additional bonds test, 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 Bonds, and a third-party bond trustee. For a more detailed description of the Master Resolution, see “SECURITY FOR THE 2020 BONDS—and APPENDIX B—“Summary of Certain Provisions of the Master Resolution and the Twelfth Supplemental Resolution.”

Financial Policies. The District’s current Board-adopted financial policies were most recently revised in 2017 and extend indefinitely. The financial policies are reviewed annually with the objective to ensure the District’s finances stay on a long-term, sustainable path, even under unusual water flow or power price conditions. The financial targets are intended to permit the District to maintain acceptable debt leverage and service coverage ratios on the District’s outstanding indebtedness, and maintain adequate financial liquidity reserves and days cash on hand targets to support avoidance of large, sudden rate adjustments. The Board has also recently adopted revised financial policies for the Water, Wastewater, and Fiber and Telecommunications Systems. See “FINANCIAL INFORMATION—Strategic Planning and Financial Policies” and “—Consolidated System Liquidity.”

General. For the year ended December 31, 2019, the Distribution Division realized a net gain of \$44.4 million compared to a net gain of \$43.4 million for the same period in 2018. The 2019 and 2018 gains were primarily due to significant wholesale sales revenues.

Operating Revenues. For the year ended December 31, 2019, Distribution Division operating revenues decreased 3.0% compared to the same period in 2018. The decrease is due primarily to lower wholesale non-firm power sales, due to a decrease in MWs sold. In 2018, operating revenues increased 8.0% from 2017. Operating revenues in 2017 increased 8.5% from operating revenues in 2016. During 2016, operating revenues increased by 5.6% from 2015. All of the annual increases were a result of both increasing MWs sold combined with increasing prices per MWh.

Operating Expenses. For the year ended December 31, 2019, Distribution Division operating expenses decreased 2.7% compared to the same period in 2018 primarily from a decrease in purchased power costs due to a decrease in MWs purchased. Operating expenses in 2018 increased 9.3% compared to the same period in 2017. In 2017, operating expenses increased 7.5% from 2016. Operating expenses in 2016 increased 9.3% from 2015. All of the annual increases were primarily the result of an increase in purchased power costs, due to an increase in MWs purchased.

Table 9 below presents the actual statement of revenues and expenses of the Distribution Division for the years ended December 31, 2015 through 2019. The Distribution Division is part of the Consolidated System but is accounted for separately. Table 10 presents the actual power production cost and power delivered from the Hydro-Electric Projects for the years ended December 31, 2015 through 2019. See “FINANCIAL INFORMATION—General” and APPENDIX A—“AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018.”

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Table 9
Consolidated System
Distribution Division
Statement of Revenues and Expenses
(\$000)

	2015	2016	2017	2018	2019
Operating revenues					
Retail	\$ 48,014	\$ 48,447	\$ 53,468	\$ 51,069	\$ 66,358
Resale ⁽¹⁾	188,436	201,134	209,412	238,946	207,731
Other ⁽²⁾	25,744	27,380	37,513	34,433	39,679
Total	262,194	276,961	300,393	324,448	313,768
Operating expenses	225,526	246,547	265,007	289,623	281,002
Net operating revenue	36,668	30,414	35,386	34,825	32,766
Other income	969	5,262	6,013	8,566	11,642
Net revenue ⁽³⁾	\$ 37,637	\$ 35,676	\$ 41,399	\$ 43,391	\$ 44,408

⁽¹⁾ Includes contractual purchases and non-firm purchases for resale.

⁽²⁾ The Distribution Division includes transmission revenue under transmission agreements.

⁽³⁾ Prior to changes in accounting principles, capital contributions and interfund equity transfers.

Source: *The District*.

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Table 10
Hydro-Electric Systems
Power Cost and Net Power Delivered
(\$000 other than for Cost in \$/MWh)

	2015	2016	2017	2018	2019
Rocky Reach System					
Operating expenses	\$ 49,728	\$ 65,363	\$ 56,801	\$ 58,643	\$ 53,765
Depreciation and amortization	16,634	16,951	17,299	12,313	9,988
Interest expense	13,336	12,434	11,377	10,144	9,134
Other (revenue) expense ⁽¹⁾	(440)	(665)	(1,344)	(585)	(13,569)
Total power cost ⁽²⁾	<u>\$ 79,258</u>	<u>\$ 94,083</u>	<u>\$ 84,133</u>	<u>\$ 80,515</u>	<u>\$ 59,318</u>
Net power delivered (000 MWh)	5,748	5,833	5,862	5,986	4,795
Cost in \$/MWh	\$ 14	\$ 16	\$ 14	\$ 13	\$ 12
Plant factor ⁽³⁾	50%	51%	51%	53%	42%
Availability factor	79%	73%	79%	78%	68%
Average river flow (000 CFS) ⁽⁴⁾	103	107	131	125	87
Rock Island System					
Operating expenses	\$ 39,057	\$ 42,909	\$ 44,426	\$ 47,089	\$ 51,306
Depreciation and amortization	10,975	11,297	10,322	10,790	11,292
Interest expense	24,457	23,520	22,610	21,485	23,055
Other (revenue) expense ⁽¹⁾	(772)	(426)	(815)	(316)	(1,729)
Total power cost ⁽²⁾	<u>\$ 73,717</u>	<u>\$ 77,300</u>	<u>\$ 76,543</u>	<u>\$ 79,048</u>	<u>\$ 83,924</u>
Net power delivered (000 MWh) ⁽⁵⁾	2,932	2,853	2,820	2,782	2,347
Cost in \$/MWh	\$ 25	\$ 27	\$ 27	\$ 28	\$ 36
Plant factor ⁽³⁾	53%	52%	51%	50%	43%
Availability factor	81%	62%	59%	59%	55%
Lake Chelan System					
Operating expenses	\$ 5,134	\$ 6,018	\$ 5,587	\$ 10,364	\$ 5,558
Depreciation and amortization	1,889	1,887	1,902	1,902	1,940
Interest expense	836	770	700	626	545
Other (revenue) expense ⁽¹⁾	(3)	(35)	(48)	(77)	(95)
Total power cost ⁽²⁾	<u>\$ 7,856</u>	<u>\$ 8,640</u>	<u>\$ 8,141</u>	<u>\$ 12,815</u>	<u>\$ 7,948</u>
Net power delivered (000 MWh)	440	471	461	371	355
Cost in \$/MWh	\$ 18	\$ 18	\$ 18	\$ 35	\$ 22
Plant factor ⁽³⁾	85%	91%	89%	72%	69%
Availability factor	89%	92%	97%	75%	96%
Combined Hydro Cost in \$/MWh	\$ 18	\$ 20	\$ 18	\$ 19	\$ 20

⁽¹⁾ Includes other income and expenses that impact power cost.

⁽²⁾ Non-GAAP, may not be comparable with similarly titled other District metrics.

⁽³⁾ Net power delivered as a percentage of rated capacity for the year.

⁽⁴⁾ Annual average Columbia River flow measured at Rocky Reach System in thousands of cubic feet per second (000 CFS).

⁽⁵⁾ After minor sales to operators' cottages and adjustments for encroachment and Canadian Treaty deliveries. See "AGREEMENTS; PROCEEDINGS AND LAWS AFFECTING THE DISTRICT—Coordination Agreements—*Canadian Entitlement Allocation and Extension Agreement*."

Source: *The District*.

Debt Service Coverage

Table 11 below reflects the District's Consolidated System Operating Results and debt service coverage requirement under the Master Resolution for the fiscal years 2015 through 2019.

Table 11
Consolidated System
Operating Results and Debt Service Coverage
(\$000)

	2015	2016	2017	2018	2019
Operating revenues ⁽¹⁾					
Retail	\$ 54,009	\$ 54,653	\$ 60,088	\$ 57,993	\$ 73,333
Resale	219,650	228,371	236,087	269,808	237,669
Other	44,009	45,728	58,020	56,466	64,266
Total	317,668	328,752	354,195	384,267	375,268
Less: Operating expenses					
Purchased power and water	(164,338)	(181,905)	(194,261)	(216,487)	(202,726)
Other operation & maintenance	(74,866)	(79,770)	(85,434)	(95,010)	(97,809)
Taxes	(5,388)	(5,802)	(7,011)	(6,645)	(8,192)
Depreciation & amortization	(19,700)	(19,048)	(19,912)	(21,083)	(22,294)
Operating income	53,376	42,227	47,577	45,042	44,247
Adjustments					
Add back depreciation & amortization	19,700	19,048	19,912	21,083	22,294
Add investment income	3,051	3,651	4,746	7,892	10,066
Add principal and interest payments from Rocky Reach & Rock Island	48,520	46,650	45,196	37,233	38,665
Total adjustments	71,271	69,349	69,854	66,208	71,025
Net revenues	124,647	111,576	117,431	111,250	115,272
Plus withdrawals (deposits) to Rate Stabilization Fund	-	-	-	-	-
Adjusted net revenues	\$ 124,647	\$ 111,576	\$ 117,431	\$ 111,250	\$ 115,272
Available funds ⁽²⁾	\$202,221	\$272,163	\$313,579	\$423,839	\$372,232
Annual debt service	\$ 42,751	\$ 28,280	\$ 28,236	\$ 26,493	\$ 25,983
Debt service coverage					
With available funds (min. 1.25x)	7.65	13.57	15.26	20.20	18.76
Without available funds (min. 1.00x)	2.92	3.95	4.16	4.20	4.44

⁽¹⁾ Includes revenues of the District's Distribution Division; Financing Facilities, Treasury Services and Internal Service Funds; and Lake Chelan, Fiber and Telecommunications, Water and Wastewater Systems; all of which are part of the Consolidated System. Also certain revenues which were deferred and are being recognized over the terms of the applicable contracts.

⁽²⁾ Includes all unencumbered funds of the District that the District reasonably expects to be available to pay debt service on the Bonds.

Source: The District.

Power Sales Revenues and District Near-Term Financial Outlook

The Consolidated System purchases power from the Rock Island and Rocky Reach Projects (as an operating expense of the Consolidated System) for sale to its retail customers through the Distribution Division. The power from the Hydro-Electric Projects, including the Lake Chelan Project, not allocated for the District's own retail load, is sold:

- (a) on a cost-of-service “plus” basis under long-term contracts with an investor-owned utility and a large industrial purchaser;
- (b) on a cost-of-service basis under a long-term contract with another public utility district;
- (c) under a negotiated forward starting fixed-price wholesale market-based slice contract, for a fixed percentage of output, with a term of ten years, as a component of the District's hedging strategy;
- (d) under fixed-price wholesale market-based slice contracts, each for a fixed percentage of output, with purchasers selected through periodic negotiated or competitive auction processes and with staggered terms of up to five years, consistent with the District's hedging strategy;
- (e) under fixed-price wholesale market-based block contracts, each for a fixed amount of output, with purchasers selected based on market price and credit and liquidity profiles and with varied terms from within the current year plus up to an additional 60 months, consistent with the District's hedging strategy; and
- (f) as short-term surplus power at wholesale market prices to meet the District's “day-ahead” forecast.

The power from the Rock Island and Rocky Reach Projects delivered under the Puget Contract and the Alcoa Contract is sold on a cost-of-service “plus” basis to Puget Sound Energy and Alcoa. The balance of the power from the Rock Island and Rocky Reach Projects and not allocated for the District's own retail load may be sold as surplus power in the wholesale market as described in (c) through (e) above. See “THE CONSOLIDATED SYSTEM—Puget Sound Energy Sales Contract” and “—Alcoa Power Sales Contract” and APPENDIX F—“Summary of Power Sales Contract with Puget Sound Energy, Inc.” and APPENDIX G—“Summary of Power Sales Contract with Alcoa.”

In 2019 and 2018, the sales of surplus power generated substantial revenues for the District's Consolidated System, providing 61% and 69% of annual Distribution Division revenues, respectively. Future actual results will depend upon a variety of factors, many of which are beyond the control of the District, including energy prices in the wholesale markets, general economic conditions, precipitation and snowpack in the Columbia River watershed, regional weather conditions and the price of natural gas for other generating facilities in the region. See “THE CONSOLIDATED SYSTEM—Energy Sales; Load/Resource Balancing; Hedging Strategy.” See also APPENDIX A—“AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018.”

Strategic Planning and Financial Policies

In October 2019, after several months of research and planning sessions, including customer surveys, focus group meetings and public meetings, the Commission approved a revised strategic plan (the “**2020-2024 Strategic Plan**”). The 2020-2024 Strategic Plan defines the District's priorities and vision to provide the best value for the most people for the longest time. Specifically, four priorities lead the District's strategic roadmap for the next five years: investing in assets and people and seeking industry top-quartile performance for hydro generation, retail reliability and safety while improving customer service technology; sustaining excellent financial resiliency while mitigating the risk of large rate increases; enhancing the quality of life in the County through programs that distribute the benefits of public power; and engaging in countywide growth planning and job creation while ensuring the District's rates and policies are stable and predictable.

The 2020–2024 Strategic Plan also includes inflation level annual rate increases for electric, fiber, water and wastewater. The public rate adoption process was finalized in February 2020. In response to the outbreak of COVID-19, on March 30, 2020, the Board directed District staff to prepare a resolution for consideration that would delay the implementation date of the residential electric rate and the Water, Wastewater, and Fiber rate increase from June 1 to December 1 for 2020 only. See “THE CONSOLIDATED SYSTEM—Electric Rates; Other Rates.” The District is continuing to evaluate the effect of the COVID-19 outbreak on the District’s operations. See “DEVELOPMENTS AFFECTING THE ELECTRIC UTILITY INDUSTRY—Infectious Disease Outbreak.”

The District’s current Board-adopted financial policies were most recently revised in 2017 and extend indefinitely. The financial policies are reviewed annually with the objective to ensure the District’s finances stay on a long-term, sustainable path, even under unusual water flow or power price conditions. The financial targets are intended to permit the District to maintain acceptable debt leverage and debt service coverage ratios on the District’s outstanding indebtedness, and maintain adequate financial liquidity reserves and days cash on hand targets to support avoidance of large, sudden rate adjustments.

The District determines its debt leverage ratio based on (i) total debt, divided by (ii) total debt plus net position (on a combined basis). The District currently has a debt leverage ratio target of under 35%. The District debt leverage ratio was 29.8% in 2019 and 34.0% in 2018. The District anticipates continuing to meet this target by making regularly scheduled payments on its existing Consolidated System, Rock Island System and Rocky Reach System indebtedness, including on the 2020 Bonds, issuing new Consolidated System indebtedness to finance a portion of capital requirements of the Consolidated System or the Large Hydro Systems, and funding a portion of such capital requirements with available funds of the District. See “FINANCIAL INFORMATION—Capital Requirements. The District intends to continue monitoring its outstanding Consolidated System debt for refunding opportunities.

The District’s financial policy defined combined debt service coverage target (the “**Combined Debt Service Coverage Target**”) is determined taking into account all of the District’s outstanding indebtedness and the individual coverage requirements set forth in the various resolutions of the District pursuant to which it issues debt. The District’s current Combined Debt Service Coverage Target is 2.00x under expected conditions and a minimum of at least 1.25x under unusual conditions. The District’s Combined Debt Service Coverage was 3.54x in 2019 and 3.42x in 2018. For a discussion of the required Bond Coverage Ratio for the Bonds, see “SECURITY FOR THE 2020 BONDS—Rate Covenant.”

The District determines its days cash on hand based on unrestricted cash divided by operating expenses excluding depreciation, multiplied by 365 days. The District currently has a days cash on hand target of greater than 250 days cash. The District’s days cash on hand was 679 days cash in 2019 and 741 days cash in 2018.

In addition, the District has established targets for “Financial Liquidity” based on a detailed liquidity requirements methodology that takes into account the District’s current policy to have in place readily available operating reserves, contingency reserves and planning reserves to address certain costs or events, including, among other things, operating and maintenance expenses for a specified period, potential collateral requirements associated with its electricity hedging policies and capital requirements. The financial policy specifies the Financial Liquidity target each year will be the greater of \$175 million or the amount calculated by the detailed liquidity requirements methodology. The District’s Financial Liquidity was \$530 million in 2019 and \$507 million in 2018.

The Board also adopted revised long-range financial policies and targets for the Water, Wastewater, and Fiber and Telecommunications Systems on March 16, 2020 to support the 2020-2024 Strategic Plan direction for these systems to work towards being financially self-sustainable over the long-term. These policies establish minimum Liquidity targets of \$1.25 million, \$200,000, and \$2 million for the Water, Wastewater, and Fiber and Telecommunications Systems, respectively. Operating Coverage Percentage targets, calculated as Operating Revenues divided by Operating Expense, were established at 104%, 62%, and 80% by the end of 2024 for the Water, Wastewater, and Fiber and Telecommunications Systems, respectively. In addition, Debt Service as a Percentage of Revenue targets, calculated as debt service divided by Operating Revenue, were also adopted at less than or equal to 12%, 2%, and 10% by the end of 2024 for the Water, Wastewater, and Fiber and Telecommunications Systems, respectively.

Outstanding Debt

Table 12 presents long-term debt of the District's Consolidated System, Rock Island System and the Rocky Reach System payable from Revenues of the Consolidated System, revenues of the Rock Island System and revenues of the Rocky Reach System, respectively, outstanding as of December 31, 2019.

Table 12
Consolidated System and
Hydroelectric-Systems
Outstanding Long-Term Debt as of December 31, 2019
(\$000)

Date of Bonds	Final Maturity Date	Series of Bonds	Original Principal Amount	Scheduled Retirement ⁽¹⁾	Actual Retirement ⁽²⁾	Principal Amount Outstanding	Accumulated for Retirement ⁽³⁾
CONSOLIDATED SYSTEM							
6/3/2009	7/1/2032	2008B ⁽⁴⁾	\$ 92,880	\$ 30,915	\$ 31,685	\$ 61,195	\$ 972
8/11/2009	7/1/2039	2009D ⁽⁵⁾	27,015			27,015	1,800
6/1/2011	7/1/2026	2011A	107,500	49,275	49,275	58,225	5,244
6/1/2011	7/1/2026	2011B	72,220	33,105	33,105	39,115	3,377
11/9/2011	7/1/2026	2011C	164,425	69,360	85,030	79,395	5,351
Total Consolidated System			<u>464,040</u>	<u>182,655</u>	<u>199,095</u>	<u>264,945</u>	<u>16,744</u>
ROCK ISLAND SYSTEM							
3/17/1997	6/1/2029	1997A ⁽⁶⁾	135,944	235,245	235,245	184,303	32,054
8/11/2009	7/1/2029	2009A ⁽⁷⁾	14,000	3,945	8,110	5,890	608
Total Rock Island System			<u>149,944</u>	<u>239,190</u>	<u>243,355</u>	<u>190,193</u>	<u>32,662</u>
ROCKY REACH SYSTEM							
8/11/2009	7/1/2034	2009A ⁽⁷⁾	15,895	4,185	4,185	11,710	764
Total Rocky Reach System			<u>15,895</u>	<u>4,185</u>	<u>4,185</u>	<u>11,710</u>	<u>764</u>
Grand Total			<u>\$ 629,879</u>	<u>\$ 426,030</u>	<u>\$ 446,635</u>	<u>\$ 466,848</u>	<u>\$ 50,170</u>

⁽¹⁾ Amount of serial bonds matured as of December 31, 2019 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, 2019 plus actual retirement of term bonds retired from mandatory sinking funds, reserve accounts and optional purchases.

⁽³⁾ Amounts accumulated as cash and investments in various principal accounts, sinking funds and reserve accounts available for the future retirement of bonds. Investments are represented at book value.

⁽⁴⁾ The District expects to refund the Consolidated System 2008B Bonds in whole or in part with a portion of the proceeds of the 2020C Bonds. See "PLAN OF FINANCE."

⁽⁵⁾ The District expects to refund the Consolidated System 2009D Bonds in whole or in part with a portion of the proceeds of the 2020A Bonds. See "PLAN OF FINANCE."

⁽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."

⁽⁷⁾ The District expects to refund the Rock Island System 2009A Bonds and the Rocky Reach System 2009A Bonds in whole or in part with a portion of the proceeds of the 2020B Bonds. See "PLAN OF FINANCE."

Source: The District.

Interfund and Intersystem Loans

Interfund Loans

The District established an Internal Service Fund and Financing Facilities Fund to account for and allocate the cost of facilities and services that are used jointly by separate systems and divisions of the District. The Distribution Division, the Lake Chelan System, the Water System, the Wastewater System and the Fiber and Telecommunications System are all accounted for separately, although they are all part of the Consolidated System. Proceeds of the Bonds and the Subordinate Consolidated System Obligations have in the past been advanced to these

separate systems and divisions through interfund loans. As all of these interfund loans are within the Consolidated System, however, they have no effect on the Revenues of the Consolidated System and are for internal accounting purposes only.

Intersystem Loans to the Rock Island System and Rocky Reach System

The District is permitted to fund certain of its capital costs through the use of intersystem loans and is permitted to lend the proceeds of bonds or other available funds of the District. Intersystem loans from the Consolidated System to the Rock Island System or the Rocky Reach System are governed by the Power Sales Contracts and may be designated as Debt Obligations under the Power Sales Contracts by the District. The District has historically loaned funds from the Consolidated System to the Rocky Reach System and the Rock Island System. Each loan to the Large Hydro Systems is repaid through periodic principal and interest payments made from the respective Large Hydro System to the Consolidated System.

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

The revenues of the Rocky Reach System and the Rock Island System do not constitute Revenues of the Consolidated System and are not pledged to secure the payment of the Bonds, including the 2020 Bonds; however, the loan repayments made from those revenues to the Consolidated System do constitute Revenues of the Consolidated System and are available to pay the principal and purchase price of and premium, if any, and interest on the Bonds or the Subordinate Consolidated System Obligations, if issued.

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.

Table 13 presents a summary of the outstanding intersystem loans as of December 31, 2019 to the Rocky Reach and Rock Island Systems and the interfund loans to funds and components of the Consolidated System.

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Table 13
Consolidated System Loans
as of December 31, 2019
(\$000)

	Net Loans Outstanding⁽¹⁾
Rocky Reach System	\$ 105,267
Rock Island System	178,633
Consolidated System ⁽²⁾	39,921
Total	<u>\$ 323,821</u>

⁽¹⁾ Represents aggregate principal amounts of the Bonds and other available District funds allocated to intersystem and interfund loans, net of prior loan repayments, adjustments for unamortized original issue discounts, issuance costs and amounts payable to and receivable from other systems.

⁽²⁾ Includes bond proceeds advanced to various funds and components of the Consolidated System for capital purposes.

Source: *The District*.

Annual Debt Service

Table 14 shows aggregate annual debt service on all outstanding Bonds as of December 31, 2019. There are currently no outstanding Subordinate Consolidated System Obligations.

Table 14 also shows the aggregate annual loan payments from the Rock Island System and Rocky Reach System to the Consolidated System with respect to outstanding intersystem loans to those Large Hydro Systems from the Consolidated System as of December 31, 2019. See “—Interfund and Intersystem Loans” under this heading. The total amount of such loan payments through 2044 is equal to 167% of aggregate annual debt service on the Bonds over the same period. The loan payments to the Consolidated System will be made by the respective Large Hydro Systems from payments received from the respective purchasers of power from those Systems, including the District’s Distribution Division. The Power Sales Contracts contain payment obligation provisions that are expected to be included in any future such contracts with other parties. See “THE CONSOLIDATED SYSTEM—Puget Sound Energy Sales Contract” and “—Alcoa Power Sales Contract.”

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Table 14
Consolidated System Debt Service and Hydroelectric System Loan Payments
as of December 31, 2019

Year	Consolidated Bonds			Loan Payments ⁽¹⁾		
	Aggregate Annual Debt Service			Rocky Reach	Rock Island	Total Loan Payments
	Principal ⁽²⁾	Interest ⁽³⁾	Total			
2020	\$ 13,735,000	\$ 11,452,143	\$ 25,187,143	\$ 18,682,912	\$ 20,613,413	\$ 39,296,325
2021	26,650,000	10,447,954	37,097,954	16,995,034	19,875,295	36,870,329
2022	27,820,000	9,327,717	37,147,717	16,995,986	19,693,725	36,689,711
2023	29,085,000	8,114,495	37,199,495	16,928,190	19,687,391	36,615,581
2024	30,470,000	6,786,253	37,256,253	16,872,091	19,215,015	36,087,106
2025	33,965,000	5,374,401	39,339,401	14,732,661	18,761,232	33,493,893
2026	21,613,353	3,807,711	25,421,064	13,050,225	18,701,620	31,751,845
2027	1,970,000	2,135,182	4,105,182	11,627,056	18,700,824	30,327,880
2028	2,865,000	2,051,435	4,916,435	10,208,263	19,318,353	29,526,616
2029	1,290,000	1,975,550	3,265,550	8,878,935	15,112,245	23,991,180
2030	1,345,000	1,918,164	3,263,164	7,463,981	16,564,170	24,028,151
2031	1,405,000	1,856,082	3,261,082	6,054,618	16,049,049	22,103,667
2032	45,512,775	1,212,721	46,725,496	4,803,146	14,911,880	19,715,026
2033	1,530,000	566,592	2,096,592	4,220,632	14,859,165	19,079,797
2034	1,600,000	495,970	2,095,970	3,961,897	14,398,918	18,360,815
2035	1,675,000	422,117	2,097,117	2,638,751	13,427,904	16,066,655
2036	1,745,000	344,802	2,089,802	1,388,256	13,268,747	14,657,003
2037	1,825,000	264,256	2,089,256	289,191	13,004,724	13,293,915
2038	1,905,000	180,017	2,085,017	289,191	12,189,329	12,478,520
2039	194,940	92,086	287,026	146,202	8,792,291	8,938,493
2040	-	-	-	-	6,734,004	6,734,004
2041	-	-	-	-	6,629,707	6,629,707
2042	-	-	-	-	6,350,711	6,350,711
2043	-	-	-	-	6,079,457	6,079,457
2044	-	-	-	-	1,429,016	1,429,016
Total	\$ 248,201,068	\$ 68,825,648	\$ 317,026,716	\$ 176,227,218	\$ 354,368,185	\$ 530,595,403

⁽¹⁾ Represents loan payment obligations of the Large Hydro Systems to the Consolidated System with respect to intersystem loans from the Consolidated System. Pursuant to the Power Sales Contracts the District is permitted to designate such obligations as Debt Obligations.

⁽²⁾ Estimated principal retirements are based on the assumption that all bonds mature or are purchased at par. Includes serial and balloon payments reduced by funds held in Debt Service Reserve Accounts at the time of final maturity. The District may elect to utilize the Debt Service Reserve Accounts other than as assumed depending on market conditions and limitations contained in the governing resolutions. The District anticipates that most balloon payments will be made as scheduled on or prior to the dates they become due; however the District may elect to refinance balloon payments.

⁽³⁾ Interest is net of Build America Bond direct payment federal subsidy for certain Bonds.

Source: The District.

Table 15 below shows the annual debt service requirements for the Consolidated System Revenue Bonds.

Table 15
Consolidated System Debt Service Schedule

Fiscal Year	Outstanding Consolidated System Revenue Bonds⁽¹⁾⁽²⁾⁽³⁾	2020 Bonds		Total ⁽⁴⁾
		Principal	Interest	
2020	\$ 21,436,691	\$ -	\$ -	\$ 21,436,691
2021	32,827,441	-	7,587,592	40,415,033
2022	32,787,780	20,000,000	6,503,650	59,291,430
2023	32,744,447	10,180,000	5,503,650	48,428,097
2024	32,711,587	10,435,000	4,994,650	48,141,237
2025	34,680,934	10,730,000	4,472,900	49,883,834
2026	35,392,830	6,180,000	3,936,400	45,509,230
2027	1,204,650	5,210,000	3,627,400	10,042,050
2028	1,204,650	6,155,000	3,366,900	10,726,550
2029	1,204,650	2,155,000	3,059,150	6,418,800
2030	1,204,650	16,615,000	2,951,400	20,771,050
2031	1,204,650	14,300,000	2,120,650	17,625,300
2032	40,856,067	4,495,000	1,405,650	46,756,717
2033	-	4,255,000	1,180,900	5,435,900
2034	-	4,355,000	968,150	5,323,150
2035	-	3,645,000	750,400	4,395,400
2036	-	3,690,000	604,600	4,294,600
2037	-	3,750,000	457,000	4,207,000
2038	-	3,805,000	307,000	4,112,000
2039	-	3,870,000	154,800	4,024,800
Total ⁽³⁾	\$269,461,025	\$133,825,000	\$53,952,842	\$457,238,867

⁽¹⁾ Estimated principal retirements are based on the assumption that all bonds mature or are purchased at par. The District anticipates that most balloon payments will be made as scheduled on or prior to the dates they become due; however the District may elect to refinance balloon payments.

⁽²⁾ Excludes debt service related to the 2020 Bonds and the Refunded Bonds.

⁽³⁾ \$40,155,000 of the Consolidated System 2008B Bonds is assumed to bear interest at 3.00% per annum.

⁽⁴⁾ Totals may not foot due to rounding.

Source: The District.

Capital Requirements

The District has prepared projections of the capital requirements for the five-year period 2020 through 2024. These projections are in accordance with the District's best estimates and long-range planning. 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
Consolidated System and Hydroelectric Systems
Projected Capital Requirements
(\$000)

	2020	2021	2022	2023	2024
Distribution Division	\$ 34,994	\$ 37,907	\$ 25,675	\$ 25,310	\$ 28,021
Fiber and Telecommunications System	5,418	7,370	6,818	3,921	3,761
Water/Wastewater Systems	898	5,520	3,299	3,635	2,871
Internal Service System	36,561	79,785	42,844	2,967	4,068
Rocky Reach System	11,373	9,276	11,811	9,264	2,125
Rock Island System	80,539	67,189	56,863	40,209	40,074
Lake Chelan System	994	1,185	1,421	615	559
Total Capital Requirements	\$ 170,777	\$ 208,232	\$ 148,731	\$ 85,921	\$ 81,479

Source: The District.

The District focus for Distribution Division capital improvements continues to be on replacement programs such as underground cable replacements and line improvements. Major planned capital improvements for the Distribution Division also include transmission reliability and compliance upgrades and new substation additions, upgrades and replacements, and advanced metering infrastructure. Internal Service System projects include a new consolidated Service and Operations Center, upgrades and replacements of shared central hydro maintenance facilities, information technology services and hardware and vehicles/equipment purchases. Both Rock Island System and Rocky Reach System capital projects include upgrading and maintaining parks, hatcheries, and fish passage facilities associated with the project licenses and HCPs. The majority of Rock Island System capital projects related to unit modernization and rehabilitation. In addition, a spillway modernization project at the Rock Island Project will improve spillway response times in the event of unusual upriver water flow conditions.

Table 17 below presents the projected amounts and sources of funds for the Consolidated System, the Rocky Reach System and the Rock Island System based on the capital requirements set forth in Table 16 above.

Table 17
Consolidated System and Large Hydro Systems
Projected Sources of Funds
(\$000)

	2020	2021	2022	2023	2024
Proceeds of New Bond Issues	\$ 103,000	\$ -	\$ 38,101	\$ 53,803	\$ 46,514
Other Available Funds ⁽¹⁾	67,777	208,232	110,630	32,118	34,965
Total	\$ 170,777	\$ 208,232	\$ 148,731	\$ 85,921	\$ 81,479

⁽¹⁾ Includes other internal funds such as revenue fund cash, contributions in aid of construction, and intersystem loan obligations. Also includes additional amounts available under the Power Sales Contracts, including Debt Reduction Charges and Capital Recovery Charges paid by the Power Purchasers and the District's Distribution Division and available for subsequent use by the Rock Island System and Rocky Reach System.

Source: The District.

Financing Capital Improvements

The District intends to fund the majority of its renewals, replacements, improvements and additions to plant from non-debt related sources for the next five-year period. Projected sources of funds include net revenues, contributions in aid of construction, grants, additional amounts available under the Power Sales Contracts and other accumulated cash held by the District.

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, 2019.

Table 18
Consolidated System
Unrestricted and Restricted Fund Balances⁽¹⁾
as of December 31, 2019
(\$000)

	Utility Services⁽²⁾	Lake Chelan Project	Financing Facilities⁽³⁾	Internal Service Fund	Total
Unrestricted funds					
Revenue fund ⁽⁴⁾	\$ 54,369	\$ 838	\$ 5,767	\$ 12,876	\$ 73,850
Available funds:					
Rate stabilization fund	50,000	-	-	-	50,000
Operating reserve fund	151,294	-	-	-	151,294
Other unrestricted funds: ⁽⁵⁾	63,388	6,554	33,656	11,640	115,238
Total unrestricted funds	<u>319,051</u>	<u>7,392</u>	<u>39,423</u>	<u>24,516</u>	<u>390,382</u>
Restricted funds ⁽⁶⁾	<u>678</u>	<u>1</u>	<u>18,767</u>	<u>8,428</u>	<u>27,874</u>
Total fund balances	<u>\$ 319,729</u>	<u>\$ 7,393</u>	<u>\$ 58,190</u>	<u>\$ 32,944</u>	<u>\$ 418,256</u>

⁽¹⁾ Amounts reflect both cash and book value of investments.

⁽²⁾ Includes Distribution Division, Fiber and Telecommunications, Water and Wastewater Systems.

⁽³⁾ Financing Facilities is an internal service fund of the District's Consolidated System used to account for various financing related activities, including holding Consolidated System debt service reserve funds.

⁽⁴⁾ Unencumbered funds of the District held in the Revenue Fund.

⁽⁵⁾ Includes all other Unrestricted Funds such as Board Designated Construction Funds and Reserves.

⁽⁶⁾ Includes all Restricted Funds such as Consolidated System Bond Proceeds, Bond Reserves and other Reserves.

Source: The District.

The "Rate Stabilization Fund" was established by the District for the purpose of stabilizing rates and charges for retail customers of the Distribution Division. See "SECURITY FOR THE 2020 BONDS—Rate Stabilization Fund."

The "Operating Reserve Fund" was established for the purpose of mitigating unexpected fluctuations in revenues and operating expenses of the Consolidated System. See "SECURITY FOR THE 2020 BONDS—Operating Reserve Fund."

The District has established a governing financial policy to maintain a minimum of 250 days of cash on hand from unrestricted reserves and a minimum of \$175 million of total financial liquidity, in accordance with Resolution No. 17-14124, adopted by the Commission on March 20, 2017. See "FINANCIAL INFORMATION—Strategic Planning and Financial Policies." As part of its quarterly reporting of compliance with such financial policies, the District reports total liquidity targets through 2024.

Investment Policies

All cash and investments are managed by the Treasurer according to the District's currently adopted investment policies, most recently amended on November 21, 2016. 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%; (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 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 (S&P Global Ratings (“**S&P**”)), F-1 (Fitch Ratings, Inc. (“**Fitch**”))); (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, A-1 S&P, F-1 Fitch); (7) bonds of the State and any local government of the State, 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 and general obligation bonds of a local government of a state other than the State, which at the time of investment have one of the three highest credit ratings of a nationally recognized rating agency; (9) the State Local Government Investment Pool; and (10) any other investment permitted under the laws of the State.

In accordance with GASB Statement No. 31, U.S. Treasury bills, notes or bonds, U.S. Government agency securities, and municipal bonds that had a remaining maturity at the time of purchase of greater than one year are recorded at fair value. U.S. Treasury bills, notes or bonds, U.S. Government agency securities, and municipal bonds that had a remaining maturity at the time of purchase of one year or less are recorded at amortized cost. Repurchase agreements, bankers’ acceptances, commercial paper, and certificates of deposit are also recorded at amortized cost. The District also reported its investment in the State Local Government Investment Pool at amortized cost. The State Local Government Investment Pool is an unrated external investment pool which reports its investments at amortized costs and transacts with its participants at a stable net asset value per share of \$1.00.

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.

Accounting Policies

Regulatory Deferrals

The Commission has the authority to establish the level of rates charged for all District services. As a regulated entity, the District is subject to the general standards of accounting for the effects of regulation as defined by GASB 62, which requires that the effects of the District’s rate-making process be recorded in the District’s financial statements. Accordingly, certain expenses and credits, normally reflected in changes in net assets as incurred, are recognized when included in rates and recovered from, or refunded to, customers. The District records various regulatory assets and credits to reflect rate-making actions of the Commission.

The Commission has taken various regulatory actions that result in differences between recognition of revenues and expenses for rate-making purposes and their treatment under generally accepted accounting principles for non-regulated entities. These actions result in regulatory assets and regulatory liabilities, which are described below. Changes to the balances, and their inclusion in rates, occur only at the direction of the Commission.

Fair Value of Investments. The District holds various long-term investments that are carried at fair value in accordance with GASB Statement No. 31, “Accounting and Financial Reporting for Certain Investments and for External Investment Pools.” Under Statement No. 31, both realized and unrealized changes in fair value are to be reflected in Net Increase/(Decrease) in Net Position for the period. The Commission has approved resolutions that allow the change in fair value during the period to be deferred and recorded as regulatory assets and/or regulatory liabilities, which have no impact on operating results, in recognition that any unrealized amounts will not be included in the District’s ratemaking process due to the fact that they do not have an impact on cash flows as long as they are held to maturity. Any realized gains or losses will be amortized and included in rates over the remaining life of the investments at the time of sale. Regulatory asset deferrals amounted to \$1.5 million and \$4.9 million as of December 31, 2019 and 2018, respectively. Regulatory liability deferrals amounted to \$6.2 million and \$0.2 million as of December 31, 2019 and 2018, respectively.

Swap Termination Payments. The District terminated three interest rate swap agreements during 2013 and three interest rate swaps during 2011, incurring swap termination fees in the amount of \$15.9 million and \$24.6 million, respectively. The termination fees would normally be reflected as a non-operating expense in the years incurred; however, the Commission has approved a resolution allowing for the deferral of the termination fees as regulatory assets to be amortized over a periods of up to 15 years to match the expense with the period in which the payments will be recovered through rates. The remaining unamortized regulatory asset balance was \$14.6 million as of December 31, 2019 and \$17.2 million as of December 31, 2018.

Contributions in Aid of Construction. Individual contributions exceeding \$1 million are deferred as regulatory liabilities and amortized over the life of the related contributed depreciable plant assets. The Commission has approved resolutions that require this treatment to offset the earnings effect of these large non-exchange transactions and align the District's recognition of these credits with the periods in which the amounts will be reflected for rate-making purposes. In 2019, the District recorded deferrals of contributed capital in the amount of \$2.2 million. The District did not record any deferrals of contributed capital exceeding \$1 million in 2018. As of December 31, 2019, deferred contributions in aid of construction amounted to \$21.0 million.

Conservation Program Expenditures. With conservation investments, the District is considered to be buying an energy resource from its customers. The District's conservation program also supports compliance with the EIAAct 2006. The Commission has approved resolutions that require these program costs to be deferred and recorded as regulatory assets, to be amortized and included in rates over the benefit period. In 2019 and 2018, the District recorded regulatory deferrals of conservation program expenditures in the amount of \$3.7 million and \$4.6 million, respectively. As of December 31, 2019, deferred conservation program expenditures amounted to \$17.8 million.

Debt Issuance Costs. In order to match the costs incurred in conjunction with the issuance of debt with the periods in which the benefit is received and will be reflected in rates, the Commission has approved a resolution that requires these costs to be deferred and amortized over the life of the related bonds. Amortization expense is calculated under the straight-line method or effective interest method, depending on the maturity schedule of the related bonds. As of December 31, 2019, deferred debt issuance costs amounted to \$4.4 million.

Investments in Assets Owned by Others. The District makes various contributions toward the cost of constructing assets that will be owned and maintained by another entity. These investments are made under agreements by which the District either directly or indirectly receives a benefit from construction of the asset. The Commission has approved a resolution that requires investments exceeding \$1 million be deferred and amortized over the estimated benefit period in order to match the expense with the period the investment will be recovered through rates. As of December 31, 2019, deferred investments in assets owned by others amounted to \$2.6 million.

Consolidated System Payment Agreements

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. As of December 31, 2019, the District does not have any active Payment Agreements.

AGREEMENTS, PROCEEDINGS AND LAWS AFFECTING THE DISTRICT

Coordination Agreements

Canadian Entitlement Allocation and Extension Agreement

In 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**”). The Canadian Treaty required Canada to build storage facilities in Canada and outlined the manner in which these Canadian Storage Projects are to be operated, with the goals of optimizing flood control and power benefits downstream of the projects. Power benefits that result from the operation of the Canadian Storage Projects are shared between the United States and Canada. 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 as a result of the coordinated use of the Canadian storage projects (the “**Canadian Entitlement**”). See “THE CONSOLIDATED SYSTEM—Consolidated System Energy Resources.”

The most recent agreement between the United States and Canada regarding the Canadian Entitlement, signed in 1997, established the parameters for determining the District’s obligations to return energy to Canada generated by the Rock Island and Rocky Reach Projects attributable to the Canadian storage projects, via Bonneville, continuing at least until September 15, 2024. The District’s current obligations are approximately 32 MW for the Rock Island Project and 68 MW for the Rocky Reach Project, in each case delivered over high load hours, Monday through Saturday.

Beginning in 2014, either country may terminate the Canadian Treaty by providing ten years’ prior notice to the other country. As of December 31, 2019, no such notice has been given. BC Hydro, the U.S. Army Corps of Engineers, Bonneville and other entities within the United States, including the District, are in the process of considering options available for power operations and flood control in the future. The District cannot predict what requirements may be agreed to for the period after 2030, which is the first opportunity for modification due to the Canadian Treaty’s ten years’ notice provision.

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. In 1964, the Pacific Northwest Coordination Agreement (the “**1964 PNCA**”) was executed by those entities, including the District, that operate major electric plants and systems that serve the Pacific Northwest. The 1964 PNCA coordinated the operations of the parties’ facilities, among other things, to achieve economies and additional firm power resources for the Pacific Northwest.

The 1964 PNCA expired in 2003. A new PNCA (the “**1997 PNCA**”) became effective August 1, 2003 and continues until September 15, 2024.

Endangered Species Act

General

The Endangered Species Act of 1973 (16 U.S.C. 1531 *et seq.*), as amended (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 and are subject to both civil and criminal penalties, which may include, among other things, the imposition of monetary fines. Civil penalties may include the imposition of requirements to prevent the takings.

The ESA, however, provides mechanisms to permit “takes” that would otherwise violate the ESA. An “incidental take” in compliance with an “incidental take permit” or an “incidental take statement” authorized by the National Marine Fisheries Service (“**NMFS**”), which for purposes of this section of the Official Statement includes

the National Oceanic and Atmospheric Administration Fisheries Service (the “**NOAA Fisheries**”) or the U.S. Fish and Wildlife Services (“**USFWS**”), is not an ESA violation. An “incidental take” is a take that “is incidental to, and not the purpose of, the carrying out of any otherwise lawful activity.” NMFS may also authorize direct take “for scientific purposes or to enhance the propagation or survival of the affected species.”

The U.S. Secretary of Commerce and the U.S. Secretary of Interior, as appropriate (either, 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 that 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 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 and Rock Island Projects has resulted and may result in the future, based on new listings or information, in federal agencies taking actions that could trigger new or additional critical habitat consultation under the ESA. These consultations must address the effects of the proposed action on the listed species and on its critical habitat and typically result in the issuance of an incidental take statement.

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 and Rock Island Projects. Some listings have had no material effect on the operation of the Rocky Reach and Rock Island Projects, while other listings, such as anadromous fish listings, have had implications for operation of the Rocky Reach and Rock Island Projects. Listed anadromous fish and other selected species within the vicinity of the Rocky Reach and Rock Island Projects are discussed below. The listings include naturally occurring fish, as well as fish produced in artificial propagation programs to support mitigations and recovery efforts for that particular species.

Steelhead—Upper Columbia DPS. In 1997, NMFS listed the Upper Columbia River Steelhead distinct population segment (“**DPS**”) as endangered under the ESA. The Upper Columbia Steelhead DPS was reclassified as threatened on January 5, 2006, and then reinstated as endangered in June 2007. In June 2009, the Upper Columbia Steelhead DPS was again reclassified as threatened. On May 27, 2016, NMFS issued its 5-year status review findings and concluded that the Upper Columbia River steelhead DPS should remain listed as threatened. The DPS includes all naturally-spawned anadromous steelhead populations below natural and man-made impassable barriers in streams in the Columbia River Basin upstream from the Yakima River, Washington, to the U.S.-Canada border, as well as six artificial propagation programs.

In 2005, NMFS designated portions of the Columbia River mainstem and tributaries as critical habitat of the Upper Columbia River Steelhead DPS. The District’s Rocky Reach and Rock Island Projects lie within Columbia River mainstem reaches designated as critical habitat.

Spring Chinook—Upper Columbia ESU. In 1999, NMFS listed the Upper Columbia River Spring Run Chinook Salmon Evolutionarily Significant Unit (“**ESU**”) as an endangered species under the ESA. In 2005, NMFS published the final rule reaffirming the ESU’s endangered status. The ESU includes naturally-spawned populations of spring Chinook salmon in all river reaches accessible to spring Chinook salmon in Columbia River tributaries upstream of Rock Island Dam and downstream of Chief Joseph Dam in Washington as well as six artificial propagation programs.

On May 27, 2016, NMFS issued a 5-year status review findings and concluded that the Upper Columbia River Spring-Run Chinook salmon should remain listed as endangered. In 2005, NMFS designated critical habitat for the Upper Columbia Spring Chinook ESU.

Upper Columbia River Salmon and Steelhead Recovery Plan. The NOAA Fisheries adopted the Upper Columbia River Salmon and Steelhead Recovery Plan in 2007 (the “**2007 Plan**”). Recovery plans describe actions beneficial to the conservation and recovery of species listed under the ESA. The ESA generally requires the development of recovery plans for listed species. The 2007 Plan is a guide to be used by federal and state agencies charged with species recovery. In and of itself, the 2007 Plan is not a regulatory document. That is, the District is not obligated to adhere to the 2007 Plan but works closely with other agencies and Native American tribes on its implementation.

Bull Trout—Columbia Basin DPS. The USFWS listed the bull trout in all DPSs as threatened in 1999. The USFWS considers the Columbia River population as one of five DPSs. The USFWS developed the Bull Trout Draft Recovery Plan covering five western states in 2002. The USFWS is currently drafting a new recovery plan based on distinct recovery units. Under the biological opinions issued to the District by the USFWS, the District is required to participate in the regional recovery planning efforts. Bull trout in the Middle Columbia constitute one portion of the total Columbia River population. Following litigation, the USFWS issued a final rule designating revised critical habitat on October 17, 2010. The revised critical habitat designation includes the mainstem Columbia River including the Rocky Reach and Rock Island reservoirs. It also includes the Chelan River in the natural river channel up to the first natural passage barrier, which includes the Lake Chelan powerhouse tailrace.

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 Lake Wenatchee sockeye salmon ESUs, Pacific Lamprey and coastal and westslope cutthroat trout.

The District cannot predict the outcome of consideration by the Services of new listings, de-listings or critical habitat designations for listed species and related litigation. For example, the USFWS currently considers the Pacific lamprey as a “species of concern.” The USFWS also currently considers the Washington/lower Columbia River DPS of coastal cutthroat trout a “species of concern.”

Effects of Listings and Critical Habitat Designations on Rocky Reach and Rock Island Projects

As a result of the listings under the ESA, the Services may require minimization and mitigation measures to address potential effects of the Hydro-Electric Projects’ operations on the listed species or their habitats. The District could be required to alter operations at the Rock Island and the Rocky Reach Projects, which could result in substantial reductions in power generation at the Hydro-Electric Projects, thereby increasing 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.

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

In late 1994, the District, Grant PUD and Douglas PUD (collectively, “**Mid-Columbia PUDs**”) initiated discussions with the Services and Washington Department of Fish and Wildlife (“**WDFW**”) to develop a Mid-Columbia Habitat Conservation Plan 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 plan to the parties in May 1996.

The District, along with Douglas PUD, the Services, WDFW, the Colville Tribes and the Yakama Nation, thereafter developed and signed the Anadromous Fish Agreements and HCPs for the Rocky Reach, Rock Island and Wells Projects. 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” (“**NNI**”) will be achieved on a specified schedule and maintained for the duration of the agreements for each Plan Species affected by the Rocky Reach, Rock Island and Wells Projects. NNI has two components: (1) 91% 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% compensation for unavoidable project mortality provided through hatchery and tributary programs, with 7% compensation provided through hatchery programs and 2% compensation provided through tributary programs. With the HCPs in place, NMFS issued incidental take permits to the District for listed Upper Columbia River Spring-run Chinook salmon and Upper Columbia River steelhead, as well as the unlisted Upper Columbia River sockeye and summer/fall Chinook salmon. These permits ensure that the District can continue to operate the Rock Island and Rocky Reach Projects even though listed species are present and ensure continued operations of the Rock Island and Rocky Reach Projects if additional ESA listings occur for any species covered by the HCPs. The incidental take permits assure certainty in operations for the Projects until June 2054.

The District agreed to be responsible for achieving 91% combined adult and juvenile project survival through improvements to the Rock Island and Rocky Reach Projects. The District is also responsible for (1) funding the 2% tributary conservation plan, (2) providing capacity and funding for up to 7% hatchery compensation plan and (3) making capacity and funding adjustments necessary to reflect and compensate future hatchery program modifications.

In 2004, FERC issued orders amending the operating licenses for the Rocky Reach and Rock Island Projects to incorporate the terms of the HCPs. The District is currently engaged in full implementation of the programs outlined in the HCPs.

Site-Specific ESA Section 10 Permits

In 2003, NMFS issued separate biological opinions evaluating the issuance of permits under ESA section 10 for the Upper Columbia River spring Chinook hatchery program and the Upper Columbia River steelhead hatchery program, and in 2004, re-consulted regarding the Upper Columbia River spring Chinook program to evaluate proposed permit amendments. Based on these consultations, NMFS concluded that the specific hatchery activities authorized by the permits, which also included programs administered by Douglas PUD and WDFW, were not likely to jeopardize listed salmon and steelhead species.

In 2007, NMFS consulted on HCP-related hatchery activities in the context of evaluating FERC's relicensing of the Rocky Reach Project, including continued implementation of the HCP and a comprehensive settlement agreement executed by the District, NMFS and USFWS, among others. NMFS's biological opinion validated its prior programmatic analysis of the HCP hatchery mitigation actions related to the Rocky Reach Project and concluded that such actions would not destroy or adversely modify Upper Columbia River spring Chinook or Upper Columbia River steelhead critical habitat. As in NMFS's 2003 biological opinions, the 2007 biological opinion noted that specific HCP hatchery mitigation actions would undergo separate ESA consultations in which NMFS would consider potential effects at a site-specific level. In their 2004 biological opinion, USFWS was clear that future HCP-related hatchery actions would require additional ESA consultation at a site-specific level.

In September 2008, NMFS announced its intent to conduct a series of ESA consultations that included a review of all federal and non-federal hatchery programs in the UCR affecting ESA-listed salmon and steelhead concurrently and agreed to provide the framework for such analysis. The District formally submitted the final Hatchery Genetics and Management Plans ("HGMPs") for NMFS' review in October 2009. In March 2010, NMFS issued a public notice in the Federal Register pursuant to ESA Section 10(c) indicating that NMFS would evaluate the HGMPs as applications for new ESA Section 10 permits, review the associated documents and any comments received, and determine whether the HGMPs meet the applicable requirements of ESA Section 10. NMFS issued new and distinct permits for the District's hatchery propagation and research programs including the following: Chiwawa River Spring Chinook Program Permit issued July 3, 2013 and amended in May 29, 2015; Methow River Spring Chinook Program Permit issued December 31, 2017; Wenatchee River Steelhead Permit issued December 26, 2017; and unlisted UCR Chinook Programs (to cover incidental take of listed species) on September 20, 2019. NMFS also initiated consultation with USFWS regarding the effects, if any, of the issuance of new HGMP permits on bull trout. USFWS issued an accompanying Biological Opinion for incidental take of bull trout on November 27, 2017.

HCP Implementation

From 2002 to 2006, the District conducted survival studies on all four Plan Species as part of the first phase of the Rock Island HCPs. In 2006, the District satisfied the 3-year study requirements under the Plan. Juvenile survival for all three spring migrants (sockeye, steelhead and spring Chinook) exceeded the 93% juvenile survival standard. The District thus has satisfied a major component of the NNI requirement under the HCPs for the Rock Island Project.

From 2007 to 2010, the District conducted tests at the Rock Island Project to determine if survival levels could still be met under reduced spill levels. At the end of the testing cycle, all three spring migrant species exceeded the 93% juvenile survival standard.

The District completed survival studies at the Rocky Reach Project for steelhead in 2006, for sockeye in 2009 and for spring Chinook in 2011. Juvenile steelhead and sockeye exceeded the 93% survival standard and spring Chinook exceeded the 91% combined adult and juvenile survival standard. The District thus has satisfied a major component of the NNI requirement under the HCP for the Rocky Reach Project.

In 2012, the District analyzed the adult passage data at the Rock Island and Rocky Reach Projects for years 2010 through 2012 and determined that adult survival rates for spring Chinook, steelhead, and sockeye all exceeded 98%, and when combined with the previously documented juvenile survival rates for the same species, resulted in meeting or exceeding the HCP Combined Adult-Juvenile Survival rate of 91%. This result fully satisfies both adult and juvenile survival rates for spring Chinook, steelhead, and sockeye at the Rock Island and Rocky Reach Projects.

In 2021 the District will reevaluate survival of representative species (either Chinook, sockeye, coho, or steelhead) to be determined by the HCP Coordinating Committee which serves as the governing body responsible for implementation of the HCP. The confirmation study will occur over one year and it is anticipated that survival standards will continue to be met and that additional survival studies won't be required at Rocky Reach or Rock Island until 2031.

The survival of summer migrants (summer/fall sub-yearling Chinook) currently cannot be studied due to the limitations of existing technologies because of their small size and because some fish do not migrate to the ocean in their first year, but instead remain in the project reservoirs. The District has committed to continue monitoring technological advances to determine whether survival studies can be undertaken for sub-yearling Chinook. While the HCP required the District to meet NNI for all Plan Species by 2013, it also states that the inability to determine whether a survival standard has been satisfied because of technological limitations does not constitute a failure to meet the NNI requirement. The District will continue to monitor technological advances until such time as effective survival studies for this Plan Species can be undertaken.

Bull Trout

In May 2004, the USFWS issued biological and conference opinions (“**Opinions**”) and incidental take statements regarding the anticipated effect to bull trout from FERC’s proposed amendments incorporating the District’s HCPs into the Rocky Reach and Rock Island Project licenses. The Opinions required the development of bull trout management plans in collaboration with various federal and state agencies and relevant Native American tribes. The District worked closely with USFWS to include measures that USFWS deemed necessary to protect the bull trout from adverse effects of continued operation of the Rock Island and Rocky Reach Projects in the licensing settlement agreement.

The bull trout management plans were completed in February 2005, and implementation began in May 2005. The management plan was approved by FERC in April 2005. Implementation of the bull trout management plan has shown no adverse effects to bull trout from the operation of Rocky Reach and Rock Island Projects. In December 2008, the USFWS issued its Biological Opinion and Incidental Take Statement in connection with the District’s new Rocky Reach Project license, concluding that the Project is not likely to jeopardize the continued existence of bull trout. That biological opinion included a detailed analysis of site-specific hatchery activities and provided incidental take coverage for effects to bull trout associated with hatchery operations and maintenance,

broodstock collection, and release of juvenile salmon and steelhead at the Rocky Reach, Turtle Rock Island, Eastbank, Chelan, Tumwater and Dryden hatchery facilities.

Possible Effects

The above-described regulatory actions and litigation and other current and potential future lawsuits and regulatory proceedings relating to threatened and endangered species listings and critical habitat designations under the ESA have had and are likely to continue to have both direct and indirect effects on the operations of hydro-electric projects in and near the Columbia River including the Hydro-Electric Projects. It is possible 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 and implementation of the Rocky Reach Project license. Further, additional minimization 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 of power at the three Hydro-Electric Projects. The District believes the imposition of such additional measures is unlikely.

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 levels. 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

Power prices in the Pacific Northwest change over time depending on demand, weather conditions, fuel prices, supply availability, neighboring regional markets and other market drivers, many of which are beyond the control of the District. Recent decreases in natural gas prices and increasing amounts of variable energy generation have led to lower wholesale electricity prices. The District cannot predict future price movements.

With below normal annual flows on the Columbia River during 2019 of 77% of normal runoff, the District was able to meet all of its retail load requirements during that time from its own resources on an annual basis. In addition, the District was able to sell power that exceeded its own needs in most months.

Due to higher than normal annual Columbia River flows in 2018, the District was able to sell more surplus generation than in a typical run off year. According to the District's historical records of flows at Rocky Reach since 1962, the 2018 average annual streamflow was 111% 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 such as the District. 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 the 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 the 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 Corporation (“**NERC**”), to develop consistent methodologies for available transmission capacity calculations and to publish those methodologies to increase transparency. The District continues to evaluate 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 complies with FERC's expectation by participating in and being a member of a regional planning organization. In 2019, the District joined NorthernGrid, a new transmission planning region, designed to perform coordinated regional transmission planning among members of the region, including: (i) coordination of system and economic assessments; (ii) coordination of system plans and data; (iii) facilitation of stakeholder involvement in the planning process; and (iv) facilitation of compliance with FERC Order Nos. 890 and 1000 for those members that are required (or elect) to comply with such requirements. Members of NorthernGrid include Avista, Bonneville, Seattle City Light, Idaho Power Company, MATL LLP, Northwestern Corporation, PacifiCorp, Portland General Electric, the District, Grant PUD, Public Utility District No. 1 of Snohomish County, and Puget Sound Energy.

While NorthernGrid is newly formed and in the process of obtaining FERC approval for Attachment K, ColumbiaGrid will continue to perform regional transmission planning through 2020, as NorthernGrid obtains FERC approval for their transmission planning process, Attachment K. ColumbiaGrid is 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. As to transmission planning and expansion, ColumbiaGrid provides a single-utility based transmission planning forum for the combined network of its participating utilities. The goal of the program is to resolve issues regarding determining whether transmission infrastructure should be expanded, what entities should be responsible for undertaking such expansion and what entities should be responsible for paying for such expansion. On February 7, 2007, the District signed ColumbiaGrid's Planning and Expansion Functional Agreement ("PEFA"). The investor-owned utilities filed the PEFA with FERC as part of their compliance to FERC Order 890 planning requirements. 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. The District is currently engaged with Douglas PUD, Grant PUD and Bonneville in a PEFA transmission expansion project that effects the District's transmission network. On July 2, 2012, the parties entered into a cost-sharing agreement. Two of three phases of the project have been completed, with the third phase expected to be completed in 2021.

On July 1, 2011, FERC issued Order 1000 on transmission planning and cost allocation. The new rule requires FERC regulated transmission providers to participate in regional planning processes that meet certain transmission planning and cost allocation requirements, including considering transmission planning processes that consider public policy requirements established by state or federal laws that may affect transmission needs (such as renewable portfolio standards). With respect to transmission cost allocation, Order 1000 requires, among other things, that regulated transmission providers establish principles for allocating the costs of new transmission in a manner "roughly commensurate with the distribution of benefits." Order 1000 impacts some non-jurisdictional transmission-owning public power utilities. While the District does not have a tariff on file with FERC, as a member of ColumbiaGrid and the newly formed NorthernGrid it engages in consensus-based interregional planning processes. The District continues to work with jurisdictional transmission operators on compliance with the inter-regional portion of Order 1000 while maintaining the District's status as a non-jurisdictional entity.

Compliance and Risk Management

The District is subject to various legal, regulatory and contractual compliance requirements. The District has 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. The District has established a 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 addition, the Chief Financial/Risk Officer is responsible for the District's enterprise risk management program and chairs the District's Power Risk Management Committee. See "THE DISTRICT—Management and Administration."

Infectious Disease Outbreak

The financial and operating condition of the District, including the District's ability to collect Revenues, may be materially affected by a national or localized outbreak of an infectious disease, such as the outbreak of COVID-19, a respiratory illness caused by a novel strain of coronavirus, or other highly contagious or epidemic diseases (an "Outbreak").

As described above in "THE DISTRICT—COVID-19 Response Measures" in connection with the COVID-19 Outbreak, the District has a longstanding policy in place to address an Outbreak, including protocols to maintain essential staffing and services and to coordinate the District's response with other agencies.

Despite the policies of the District and the existence of governmental aid programs, there can be no assurances that an Outbreak, including the COVID-19 Outbreak, will not materially affect the regional economy of the District or the national or global economies and, accordingly, materially adversely affect the financial or operating condition of the District, including the District's collection of Revenues.

The District cannot predict (i) the duration or extent of the COVID-19 Outbreak or of other Outbreaks; (ii) the scope, duration or effect on the District of government restrictions related to commercial or other activity by businesses and individuals; (iii) whether and to what extent the COVID-19 Outbreak or other Outbreaks may disrupt the local or global economy or financial markets, or whether any such disruption may adversely affect the District's activities; or (iv) whether any of the foregoing may have a material adverse effect on the finances and operations of the District, including, without limitation, the ability to collect Revenues and meet its debt service obligations, changes to pension contribution rates and other budgetary considerations.

Natural Disaster

The District's ability to generate revenues to meet its debt service obligations is at risk from various events of force majeure, such as extreme weather events and other natural occurrences.

The area in Eastern Washington in which the District is located has experienced large earthquakes in the past, although the most recent was approximately 150 years ago. That earthquake was centered near Lake Chelan and was reportedly felt throughout the Pacific Northwest.

The District's Hydro-Electric Projects were designed to conform to all Federal Power Commission, now known as the Federal Energy Regulatory Commission ("FERC"), dam and 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.

The District, in collaboration with Public Utility District No. 1 of Grant County, Washington ("Grant PUD"), Douglas PUD, and other stakeholders, recently completed a study designed to update the regional seismic hazard potential within the area that could affect the Hydro-Electric Projects. The study was completed in 2012 on a schedule and in a manner approved by FERC and was subsequently accepted by FERC.

The results of the study indicate that both the potential seismic activity and the damage that seismic activity could create to Hydro-Electric Project infrastructure are more significant than was understood when the Hydro-Electric Projects were originally constructed. The District is working with FERC to address how the updated seismic potential is to be applied to the Hydro-Electric Projects, including engineering analysis of how the structures will be expected to perform during earthquake events and potential modifications to the Hydro-Electric Projects to ensure they meet or exceed current regulatory standards.

Wildfires also present a risk to the District's operations. The District proactively manages wildfire risks to protect against infrastructure damage and causation. Specifically, the District employs mitigating measures through formal ongoing programs to increase pole survivability via pole painting and grubbing and consideration of steel poles for certain projects. Additionally, the District also has formal programs for vegetation management, pole replacement, and conducting physical and aerial inspections. In 2017, the District engaged with a third-party consultant who utilized fire intensity and mapping technology coupled with a methodology to identify and weight risk certain impact criteria to help the District identify and prioritize future capital and operations/maintenance projects to further protect and mitigate higher risk areas. The first projects resulting from that effort will be constructed in 2020 and 2021, and entail replacing existing wood pole structures with steel.

The region near the District has experienced various other natural disasters, including mudslides, floods, droughts, windstorms and volcanic eruptions that may pose a risk to the operation of the District's facilities.

Physical Security

Certain physical security concerns present a risk to the District's facilities, such as sabotage, terrorist attacks and other crime. The District relies on comprehensive security systems and measures to ensure critical assets are protected. Many of these security measures are required by federal law due to the nature of the District's facilities, specifically the Hydro-Electric Projects. The District has carefully implemented a number of integrated security measures, including but not limited to, strategically placed security cameras, electronic access control, security lighting, restricted access areas, perimeter intrusion alarms, 24/7 monitoring, fencing, signage, policies, procedures and employee training programs.

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. To the extent 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. In 2016, the District assessed the impacts of possible climate change on District operations. Impacts with a medium to high likelihood of occurring within the next 10 years have been integrated into the District's risk management program. Among the risks evaluated were ambient air temperature implications for electric load, possible implications for fish associated with changing temperatures, precipitation and snowpack effects on generation, potential extreme weather and wildfire events, and water availability. Potential risks are continually updated. The District is unable to predict whether any such climate changes will occur, the nature or extent thereof, and beyond those risks identified, 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 Hydro-Electric 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 monitor the latest regional policy proposals. District staff also continues to monitor federal policy development.

Renewable Energy Markets

The District has actively participated in the voluntary and compliance 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 renewable energy programs and mandated state renewable portfolio standards. The District sells a portion of the RECs associated with its hydro-electric power and wind power.

Hazardous Waste Issues

A substantial number of federal, state and local laws and regulations regarding waste management have been enacted. Several of these laws and regulations impose strict liability on generators, transporters, storers, and disposers of hazardous wastes. Many normal activities in connection with the generation and transmission of electricity and maintenance of associated facilities generate both non-hazardous and hazardous wastes. The District has established systems to ensure compliance and control activities that fall under the purview of these environmental laws and regulations.

Cyber Security

Cyberattacks continue to become more sophisticated and are increasingly capable of impacting control systems and components. To mitigate this threat, the District maintains layered cyber defenses consisting of policies, procedures, training, and technical controls to protect the reliability of systems, mitigate intrusions, and plan for business continuity and data recovery. The District is required by federal law to comply with a series of regulations and standards due to the nature of the District's facilities. Specifically, the Hydro-Electric Projects, transmission infrastructure and Distribution System are a part of the District's Critical Infrastructure Protection Reliability Standards mandated by the North American Electric Reliability Corporation ("NERC"). The District has carefully implemented a number of integrated cybersecurity measures, including but not limited to, security controls that protect electronic access to the Bulk Electric System ("BES"), controlled access to BES Cyber Assets ("BCA"), annual cybersecurity training for all employees with additional requirements for those with access to BCA, cyber-incident response and recovery plans, information protection, periodic vulnerability assessments, a cybersecurity insurance policy and system security management. These cybersecurity measures are reviewed annually pursuant to District policy and audited by the Western Electricity Coordinating Council every three years. The District performs internal audits for the NERC Critical Infrastructure Protection Standards.

In addition, the District continues to monitor federal regulatory developments for potential effects on BES stability and new compliance and documentation requirements, including the updates to the Critical Infrastructure Protection ("CIP") Reliability Standards contained in standards CIP-012 and CIP-013. These standards will provide additional security controls and improve the District's security posture by addressing supply chain risks associated with procurement and protect data integrity by encrypting all data between the District's primary and backup control centers.

While the threat of a cyberattack can never be eliminated, the District maintains a strong cybersecurity program to enhance cyber defense and resilience, protecting critical infrastructure, information networks, and the data the District possesses and transmits. Notwithstanding these and other cybersecurity measures, a cybersecurity breach could damage the District's systems and cause material disruption to operations and services. The cost to remedy such damage or protect against future attacks could be substantial. Security breaches could expose the District to litigation and other legal risks, which could cause the District to incur costs related to the claims.

State Energy Legislation

Renewable Portfolio Standard

A ballot initiative known as I-937 was passed by the voters of the State 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% of load by January 1, 2012; 9% by January 1, 2016; and 15% 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 RCW as The Energy Independence Act of 2006 (RCW 19.285) ("EIAAct 2006"). The Washington State Department of Commerce ("DOC") adopted rules for implementing the requirements of the EIAAct 2006 as it pertains to consumer owned utilities on March 14, 2008.

The EIAAct 2006 is specific about what types of renewable generation is eligible 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 generation projects owned by a qualifying utility and located in the Pacific Northwest or to hydroelectric generation in irrigation pipes and canals located in the Pacific Northwest, where the additional generation in either case 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. In August 2012, the District received a favorable opinion from DOC that rehabilitation of Rocky Reach Project turbines, generators and transformers, plus spill avoided due to the juvenile fish bypass system, qualifies as incremental hydropower efficiency improvements under the EIAAct 2006. All of the District's share of the Nine Canyon Wind Project would qualify for the RPS.

The District continues to evaluate the impacts of EIAAct 2006 and other proposed changes to EIAAct 2006, 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. The Commission has adopted a 10-year conservation plan and two-year conservation targets in compliance with the EIAAct 2006. Future proposals to amend EIAAct 2006 could expand eligible resources or could result in increased RPS targets for the District.

Integrated Resource Planning

In 2006, 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 the Washington State Department of Commerce.

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, including transmission and distribution delivery costs and conservation and efficiency resources, using "lowest reasonable cost" as a criterion; an assessment of methods, commercially available technologies, or facilities for integrating renewable resources, including but not limited to battery storage and pumped storage, and addressing overgeneration events, if applicable, to the utility's resource portfolio; an assessment and ten-year forecast of the availability of regional generation and transmission capacity on which the utility may rely to provide and deliver electricity to its customers; a determination of resource adequacy metrics for the resource plan consistent with the forecasts; a forecast of distributed energy resources that may be installed by the utility's customers and an assessment of their effect on the utilities' load and operations; an identification of an appropriate resource adequacy requirement and measurement metric consistent with prudent utility practice implementing RCW 19.405.030 through 19.405.050; integration of demand forecasts, resource evaluations, and resource adequacy requirement into a long-range assessment describing the mix of supply side generating resources and conservation and efficiency resources that will meet current and projected needs, including mitigating overgeneration events and implementing RCW 19.405.030 through 19.405.050 at the lowest possible cost and risk to the utility and its customers, while maintaining and protecting the safety, reliable operation and balancing of its electric system; an assessment, informed by the cumulative impact analysis conducted under RCW 19.405.140 of: energy and nonenergy benefits and reductions of burdens to vulnerable populations and highly impacted communities, long-term and short-term public health and environmental benefits, costs, and risk; and energy security and risk; and a ten-year clean energy action plan implementing RCW 19.405.030 through 19.405.050 at the lowest reasonable cost, and at an acceptable resource adequacy standard, that identifies the specific actions to be taken by the utility consistent with the long-range IRP. Consumer-owned utilities must seek public input in development of their IRPs and progress reports and provide public notice and hearing. The initial IRPs were required to 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.

The District completed its most recent IRP in 2016, with a progress report in 2018 as required by State law. The District's 2016 IRP was approved by the Commission on June 20, 2016 and the 2018 IRP Progress Report was approved on July 23, 2018. The 2018 IRP Progress Report outlines the source of power needed to supply District customers through 2028. The District determined that it should retain its current mix of generating resources as well as continue to evaluate and implement conservation programs based on the work performed in a 2017 conservation potential assessment and carry on the evaluation and implementation of strategies for additional power sales contracts and ancillary services contracts consistent with District financial policies and the hedging strategy.

Clean Energy Standard

On May 7, 2019, Washington’s Governor signed into law the Clean Energy Transformation Act (“CETA”) (E2SSB 5116 or RCW 19.405), which commits Washington to 100% greenhouse gas (“GHG”) free electricity supply by 2045. In 2022, each utility must publish a clean energy implementation plan with targets for energy efficiency and renewable energy. By 2025, utilities must eliminate coal-fired electricity from their state portfolios. In 2030, electric generation must be GHG neutral. To meet this goal, utilities can use a combination of non-emitting resources, renewable resources, and alternative compliance options. Existing hydropower and incremental hydropower eligible for the state RPS are both considered a form of renewable resource under CETA. CETA also amends the state RPS to allow incremental efficiency increases at federal hydropower projects to count as an eligible renewable resource. Under CETA, by 2045, utilities must supply Washington customers with 100% renewable or non-emitting electricity. There are some cost-cap provisions and regulatory relief related to electric reliability standards and transmission availability.

The District must comply with CETA. While there will be compliance and reporting requirements, the District is well-positioned to achieve CETA’s requirements due to its non-emitting portfolio of hydropower generation. In addition, CETA has the potential to improve the market value of the District’s hydropower portfolio as demand increases for non-emitting and renewable resources to serve load. In particular, the District expects hydropower will be attractive as a reliable, non-emitting resource for grid reliability.

The Washington State Department of Commerce, the Washington Utilities and Transportation Commission, and the Washington Department of Ecology (“WDOE”) have begun developing rules to implement CETA. Moderate risk is inherent in the rulemaking process which may affect the extent to which CETA fully accommodates hydropower in compliance accounting. The District is actively participating in the rulemaking process to ensure that implementing rules appropriately accommodate hydropower.

Greenhouse Gas Reductions

In 2008, the Washington State Legislature passed, and the Governor signed, legislation requiring reductions in GHG, initiating GHG reporting requirements, and requiring the WDOE to make recommendations for the development of a market-based cap and trade system (RCW 70.235). In 2016, the WDOE adopted the Clean Air Rule (WAC 173-442), which addressed the major sources of GHG, including certain electric generators and fuel suppliers in the State, and required businesses that are responsible for large amounts of GHG emissions to cap and reduce their carbon emissions. The District is not a covered entity under the rule. However, implementation of the law affects the electric sector and potential demand for clean electricity in the State. In March 2018, Thurston County Superior Court ruled that parts of the Clean Air Rule were invalid. The Superior Court’s ruling prevented the WDOE from implementing the Clean Air Rule regulations. On January 16, 2020, the Washington State Supreme Court ruled that the portions of the rule that applied to stationary sources were upheld, but that the portions that applied to indirect sources, such as natural gas distributors and fuel suppliers (representing the majority of emissions), were invalid. The Supreme Court remanded the case to Thurston County Superior Court to determine how to separate the rule. As the court deliberates, the WDOE is considering whether and how to implement the much narrower rule. The Court’s ruling has also spurred legislative activity to address the Court’s ruling. Two bills to address the ruling were introduced but neither passed. There were other bills introduced in the 2020 state legislative session intended to support the State’s GHG reduction strategies including a carbon cap and investment bill, a community solar bill, a low carbon fuel standards and a building electrification bill. Of these only the community solar bill was passed by the legislature. The District is monitoring all legislative and rulemaking activities related to GHG reductions and clean energy requirements for potential effects on operations and market position.

ECONOMIC AND DEMOGRAPHIC INFORMATION

This portion of the Official Statement contains general information concerning the economic and demographic conditions in the County and in Douglas County, Washington. This information is intended only to provide prospective investors with general information regarding the community. The information is historic in nature; it is not possible to predict whether the trends shown will continue in the future. The information presented was obtained from the sources indicated, and the District and the Underwriter make no representation as to the accuracy or completeness of the data obtained from parties other than the District.

In the years 2017 through 2019, the Distribution Division sold approximately 20% of the power output of the Hydro-Electric Projects throughout an area coextensive with the County, 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 the County. Due to the Wenatchee area's soil, climate conditions and supply of water for irrigation, 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. The County also hosts a large number of fruit-packing, storage and processing facilities.

Wenatchee's economy is based primarily on agriculture. In the past, the economy was also supported by the aluminum industry, with Alcoa being a major employer in the area. In November 2015, Alcoa announced that it would curtail operations at its Wenatchee plant as part of a company-wide response to low aluminum prices. In 2018, Alcoa announced that it had no plans to restart the facility, but would continue to monitor market conditions. In recent corporate filings, Alcoa indicated that it is undertaking a comprehensive review of its portfolio of assets, which may include the improvement, permanent closure, or other divestment of certain assets. See "THE CONSOLIDATED SYSTEM—The Alcoa Sales Contract" and APPENDIX E—"DESCRIPTION OF MAJOR POWER PURCHASERS." In addition to Alcoa, local industries include steel and machinery fabricating firms, food processors and garment manufacturing.

Over 6,418 businesses provide goods and services required by a four-county trade area of approximately 260,000 people, made up of the County, Douglas County, Okanogan County and Grant County. 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 in October 2008.

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 13 elementary schools to the community's young people. Also available are parochial school systems and the campus facilities of Wenatchee Valley College, an 8,000-student (including part-time students) two-year institution. Central Washington University in Ellensburg and Washington State University in Pullman maintain extension centers for students seeking four-year degrees as well as master's certificate programs.

Tables 19 through 24 present data regarding population, employment, income, retail sales, major employers and building permit activity.

Table 19
Population⁽¹⁾

<u>Year</u>	<u>Wenatchee</u>	<u>Chelan County</u>	<u>State of Washington</u>
2015	33,230	75,030	7,061,410
2016	33,510	75,910	7,183,700
2017	34,070	76,830	7,310,300
2018	34,530	77,800	7,427,570
2019	34,650	78,420	7,546,410

⁽¹⁾ Figures are estimates as of April 1, 2019.
Source: *Washington Office of Financial Management.*

Table 20
Average Annual Employment⁽¹⁾

<u>Chelan County</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Total Civilian Resident Labor Force	42,636	43,289	44,518	45,580	44,954
Employment	40,246	40,840	42,349	43,517	42,611
Unemployment	2,390	2,449	2,169	2,063	2,343
Unemployment Rate	5.6%	5.7%	4.9%	4.5%	5.2%
<u>State of Washington</u>					
Unemployment Rate	5.7%	5.3%	4.8%	4.5%	3.9%

⁽¹⁾ Annual averages, not seasonally adjusted.

Source: Washington State Employment Security Department.

Table 21
Per Capita Personal Income

<u>Year</u>	<u>Chelan County</u>	<u>State of Washington</u>
2014	\$45,101	\$51,518
2015	47,723	53,840
2016	50,079	55,884
2017	52,454	58,550
2018	54,763	62,026
2019	Not yet available	Not yet available

Source: U.S. Bureau of Economic Analysis.

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Table 22
Chelan County
Taxable Retail Sales

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019⁽¹⁾</u>
\$1,598,469,846	\$1,783,536,928	\$2,018,134,291	\$2,025,062,380	\$2,159,601,649	\$568,977,674

⁽¹⁾ Taxable retail sales as of second quarter 2019. Taxable retail sales as of second quarter 2018 were \$539,580,829.
Source: Washington State Department of Revenue.

Table 23
Chelan County and Douglas County
Major Employers (2019)

Chelan County		
Employer	Project or Service	Estimated No. of Employees
Wenatchee Valley Medical Center	Healthcare	1,679
Central Washington Hospital	Healthcare	1,204
The District ⁽¹⁾	Utilities	762
McDougall & Sons Inc.	Agriculture	679
Cascade Medical Center	Healthcare	673
Columbia Fruit Packers Inc.	Agriculture	600
Blue Bird Inc.	Agriculture	600
Stemilt Growers LLC	Agriculture	554
Chelan Fruit Co-Op	Agriculture	500
Kyle Matheson Orchards	Agriculture	500
Douglas County		
Employer	Project or Service	Estimated No. of Employees
Conagra Foods-Spec Potato Products	Agriculture	410
Van Well Nursery	Agriculture	350
Auvil Fruit Company Inc.	Agriculture	300
Costco Gas	Gasoline	250
Douglas PUD	Utilities	200
Localtel Communications	Telecommunications	150
Northern Fruit Company Inc.	Agriculture	150
Eastmont High School	Education	140
Olive Garden Italian Kitchen	Restaurant	120
Bridgeport School District 75	Education	120

⁽¹⁾ Source: The District
Source for employers except the District: The Employment Security Division of Washington State.

Table 24
Chelan County
Residential Building Permits

Year	New Single-Family Units		New Multi-Family Units		Total Value
	Number	Value	Number	Value	
2014	286	\$55,584,259	18	\$ 1,250,086	\$ 56,834,345
2015	358	73,480,263	14	2,499,909	75,980,172
2016	385	78,767,697	8	1,640,000	80,407,697
2017	414	81,491,439	28	3,572,371	85,063,810
2018	420	87,473,933	170	16,202,858	103,676,791

Source: U.S. Bureau of the Census.

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 2020 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 2020B Bond for any period that such 2020B Bond is held by a “substantial user” of the facilities financed or refinanced by the 2020B Bonds or by a “related person” within the meaning of Section 147(a) of the Code. Bond Counsel is of the further opinion that interest on the 2020A Bonds and the 2020B Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel observes that interest on the 2020C Bonds is a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX C.

To the extent the issue price of any maturity of the 2020 Bonds is less than the amount to be paid at maturity of such 2020 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2020 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 2020 Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the 2020 Bonds is the first price at which a substantial amount of such maturity of the 2020 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 2020 Bonds accrues daily over the term to maturity of such 2020 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 2020 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2020 Bonds. Beneficial Owners of the 2020 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2020 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2020 Bonds in the original offering to the public at the first price at which a substantial amount of such 2020 Bonds is sold to the public.

2020 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 2020 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 2020 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 2020 Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium 2020 Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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 2020 Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to

ensure that interest on the 2020 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 2020 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2020 Bonds. The opinion of Bond Counsel 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) or any other matters coming to Bond Counsel's attention after the date of issuance of the 2020 Bonds may adversely affect the value of, or the tax status of interest on, the 2020 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 2020 Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the 2020 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.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2020 Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state 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 legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2020 Bonds. Prospective purchasers of the 2020 Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel 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 2020 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 2020 Bonds ends with the issuance of the 2020 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 2020 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 2020 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 2020 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 2020 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 2020 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, 2020 (the "**Annual Report**"), and to provide notices of the occurrence of certain enumerated events with respect to the 2020 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 H. The District's covenant will be made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters relating to the offering of the 2020 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 2020 Bonds is attached hereto as APPENDIX C. 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, Kutak Rock LLP.

LIMITATIONS ON REMEDIES; BANKRUPTCY

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 of and interest on the 2020 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 2020 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 limited by and are 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 opinion to be delivered by Orrick, Herrington & Sutcliffe LLP, as Bond Counsel, concurrently with the delivery of the 2020 Bonds, to the effect that the 2020 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 2020 Bonds will be similarly qualified. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX C. 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 2020 Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the owners of the 2020 Bonds.

Bankruptcy

A municipality such as the District must be specifically authorized under state law in order to seek relief under Chapter 9 of the U.S. Bankruptcy Code (the "**Bankruptcy Code**"). While an involuntary bankruptcy petition cannot be filed against the District, the District may be authorized to file for bankruptcy under certain circumstances. Should the District file for bankruptcy, there could be adverse effects on the holders of the 2020 Bonds.

To the extent that the Revenues are "special revenues" under the Bankruptcy Code, then Revenues collected after the date of the bankruptcy filing should secure the District's obligations under the Resolution and the 2020 Bonds. "Special revenues" are defined to include receipts derived from the ownership or operation of projects or systems that are primarily used to provide utility services. No assurance can be given that a court would hold that any or all Revenues are special revenues. In a case arising from the insolvency proceedings of Puerto Rico, the United States Court of Appeals for the First Circuit concluded that while a debtor has the right to voluntarily apply special revenues to the payment of debt service during the pendency of a bankruptcy case, the debtor is not obligated to do so, even though the special revenues are subject to the lien of the bond documents.

If any of the Revenues are determined not to be special revenues, then any such amounts collected after the commencement of the bankruptcy case will likely not secure the District's obligations under the Resolution or the 2020 Bonds. The holders of the 2020 Bonds may not be able to assert a claim against any property of the District other than the Revenues, and if any or all of the Revenues no longer secure the Resolution and 2020 Bonds, then there may be limited, if any, funds from which the holders of the 2020 Bonds are entitled to be paid.

The Bankruptcy Code provides that “special revenues” can be applied to necessary operating expenses of the project or system, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. It is not clear precisely which expenses would constitute necessary operating expenses and the definition of “Operation and Maintenance Expenses” in the Resolution may not be controlling.

If the District is in bankruptcy, the parties (including the holders of the 2020 Bonds) may be prohibited from taking any action to collect any amount from the District or to enforce any obligation of the District, unless the permission of the bankruptcy court is obtained. These restrictions may also prevent the Trustee from making payments to the holders of the 2020 Bonds from funds in the Trustee’s possession. The rate covenants (see “SECURITY FOR THE 2020 BONDS—Rate Covenant”) may not be enforceable in bankruptcy by the holders of the 2020 Bonds.

If the District has possession of Revenues (whether collected before or after commencement of the bankruptcy) and if the District does not voluntarily turn over such Revenues, it is not entirely clear what procedures the holders of the 2020 Bonds would have to follow to attempt to obtain possession of such Revenues, how much time it would take for such procedures to be completed, or whether such procedures would ultimately be successful. The United States Court of Appeals for the First Circuit, in another case involving the insolvency proceedings of Puerto Rico, concluded that a bankruptcy court does not have the power order a debtor to comply with state law.

The District may be able to borrow additional money that is secured by a lien on any of its property (including the Revenues), which lien could have priority over the lien of the Resolution, or to cause some of the Revenues to be released to it, free and clear of lien of the Resolution, in each case as long as the bankruptcy court determines that the rights of the Trustee and the holders of the 2020 Bonds will be adequately protected.

If the District is in bankruptcy it may be able, without the consent and over the objection of the holders of the 2020 Bonds, to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Resolution and the 2020 Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable.

There may be delays in payments on the 2020 Bonds while the court considers any of these issues. There may be other possible effects of a bankruptcy of the District that could result in delays or reductions in payments on the 2020 Bonds, or result in losses to the holders of the 2020 Bonds. Regardless of any specific adverse determinations in a District bankruptcy proceeding, the fact of a District bankruptcy proceeding could have an adverse effect on the liquidity and value of the 2020 Bonds.

The District may invest the Revenues in the State Local Government Investment Pool. Should those investments suffer any losses, the District may have insufficient funds to make payments on the 2020 Bonds.

INITIATIVE AND REFERENDUM

Under the State Constitution, the voters of the State have the ability to initiate legislation and require a public vote to modify, approve, or reject all or a part of 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 2020 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 2020 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 Consolidated 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 2020 Bonds.

INDEPENDENT ACCOUNTANTS

The financial statements as of December 31, 2019 and 2018 and for each of the two years in the periods ended December 31, 2019, included in this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein.

RATINGS

S&P and Fitch have assigned their ratings of “AA+” and “AA+,” respectively, to the 2020 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 2020 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 2020 Bonds.

UNDERWRITING

Barclays Capital Inc. (the “**Underwriter**”) has agreed, subject to certain conditions, to purchase the 2020A Bonds from the District at a purchase price of \$132,987,865.74, which is equal to the aggregate principal amount of the 2020A Bonds, plus original issue premium of \$23,755,314.85 and less an underwriter’s discount of \$397,449.11, to purchase the 2020B Bonds from the District at a purchase price of \$13,732,009.34, which is equal to the aggregate principal amount of the 2020B Bonds, plus original issue premium of \$2,806,761.50 and less an underwriter’s discount of \$39,752.16, and to purchase the 2020C Bonds from the District at a purchase price of \$16,003,763.35, which is equal to the aggregate principal amount of the 2020C Bonds, plus original issue premium of \$2,821,726.95 and less an underwriter’s discount of \$47,963.60.

The Underwriter’s obligations are subject to certain conditions precedent, and the Underwriter will be obligated to purchase all the 2020 Bonds, if any such 2020 Bonds are purchased. The 2020 Bonds may be offered and sold to certain dealers at prices lower than the public offering prices of the 2020 Bonds, and such public offering prices may be changed, from time to time, by the Underwriter. The Underwriter may offer and sell the 2020 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 2020 Bonds.

MUNICIPAL ADVISOR

PFM Financial Advisors LLC has acted as municipal advisor to the District in connection with the issuance of the 2020 Bonds.

VERIFICATION AGENT

As part of the refunding plan for the Rock Island System 2009A Bonds and the Rocky Reach System 2009A Bonds a firm of nationally recognized independent certified public accountants (the “**Verification Agent**”), will verify

from the information provided to it the accuracy as of the date of the delivery of the 2020 Bonds of the mathematical computations relating to the sufficiency of amounts deposited in the escrow fund to redeem the Rock Island System 2009A Bonds and the Rocky Reach System 2009A Bonds. The Verification Agent will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of interest on the 2020 Bonds.

MISCELLANEOUS

The references, excerpts and summaries contained herein and in the appendices hereto of the Enabling Act, the Master Resolution and the Twelfth Supplemental Resolution 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 2020 Bonds is to be construed as a contract with the owners of the 2020 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.

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For additional information regarding the District or the 2020 Bonds, contact the Treasurer, Public Utility District No. 1 of Chelan County, 327 North Wenatchee Avenue, Wenatchee, Washington 98801, (509) 663-8121.

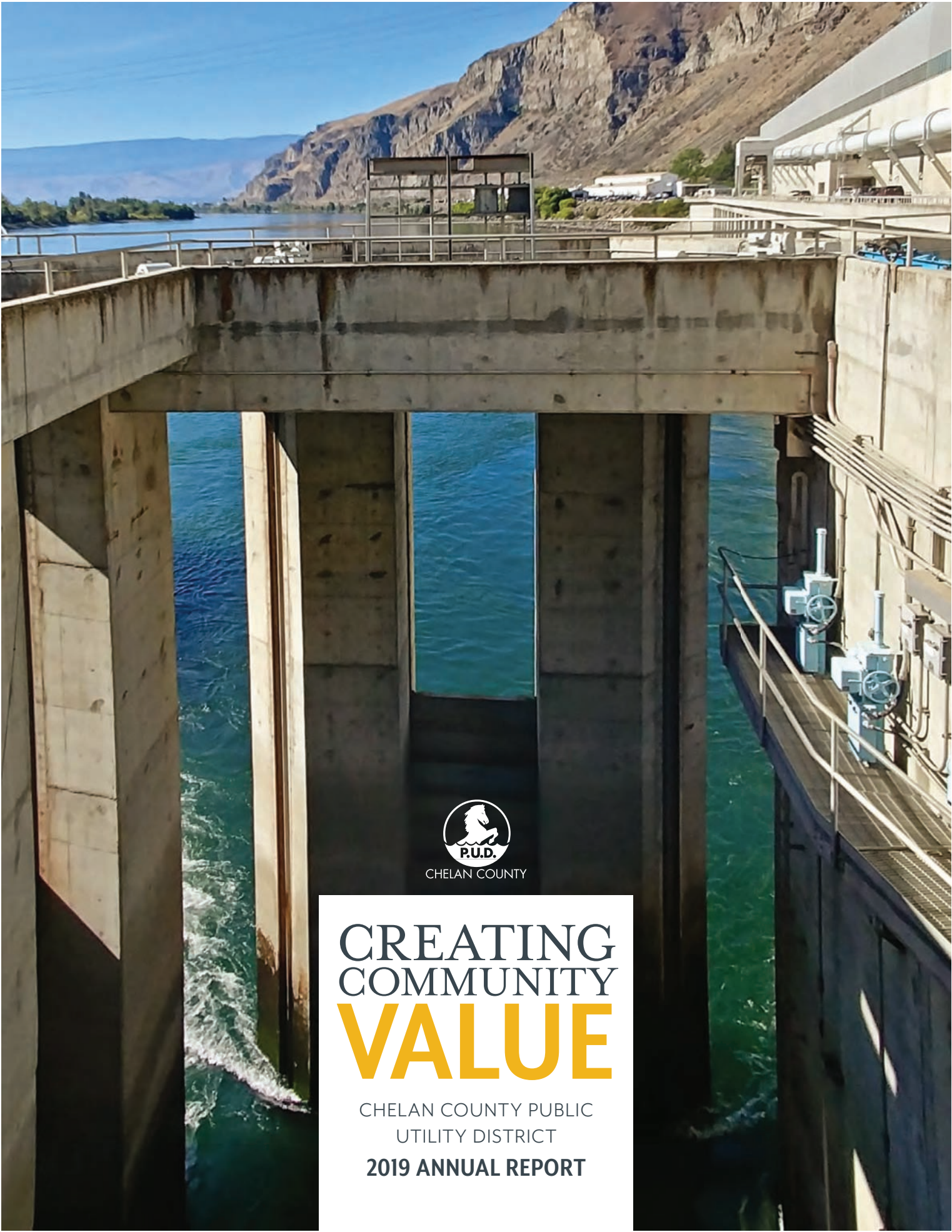
The execution and delivery of this Official Statement has been duly authorized by the District.

PUBLIC UTILITY DISTRICT NO. 1
OF CHELAN COUNTY, WASHINGTON

/s/ Garry Arseneault
President, Board of Commissioners

**APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEARS ENDED
DECEMBER 31, 2019 AND 2018**

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CHELAN COUNTY

CREATING COMMUNITY **VALUE**

CHELAN COUNTY PUBLIC
UTILITY DISTRICT
2019 ANNUAL REPORT



ABOUT US

Public Utility District No. 1 of Chelan County was created by a vote of the people in 1936 and delivered its first power in 1947. The PUD is governed by a locally elected five-member Board of Commissioners. The general manager uses the policies and guiding principles set by the commission to generate and deliver electricity from our three dams to more than 50,000 retail customers in the county and to provide water, sewer and wholesale telecommunications services while selling surplus electric power that serves customers across the West.

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.

Note: The statements and information on pages 4-14 of the 2019 Annual Report are provided for general information only. They are not intended for, and should not be relied upon, for making investment decisions by current or prospective investors. Official statements can be found at the District's website: chelanpud.org

MISSION

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

VISION/CHALLENGE

In a rapidly changing utility environment, we will provide: *The Best Value for the Most People for the Longest Time.*

OUR VALUES

SAFETY

Protect public and employee health and safety

STEWARDSHIP

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

TRUSTWORTHINESS

Competence, integrity, respect, collaboration

OPERATIONAL EXCELLENCE

High-quality, innovative work execution through supporting personal accountability

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**DANIEL BUCHANAN, JOURNEYMAN
PLANT MECHANIC, CHECKS THE RIGHT
BANK FISHWAY AT ROCK ISLAND DAM.**

VALUING OUR COMMUNITY



General Manager
Steve Wright

At Chelan County PUD, we're committed to bringing the best value to the most people for the longest time.

This vision guides us as we work to enhance the quality of life in our community.

In 2019, we experienced another strong financial year, and ended the year with **more cash than debt**. As an indicator of our prudent decision-making, Fitch Ratings and Standard & Poor's **reaffirmed our AA+ bond rating**. We remain among the most highly-rated utilities in the U.S. — by both rating agencies.

Last year, we also completed one of our most significant efforts as we engaged the community in an extensive strategic planning process. Through numerous public meetings, topic team committees, special events and surveys, we received ideas from thousands of our customer-owners that will guide us in the coming years.

During our outreach, our customers told us that while our finances are strong, they prefer we protect against wholesale energy market uncertainty through smaller, annual rate adjustments rather than deferring them with a risk of higher increases in the future. Even with these annual increases — starting with a 3% increase for residential electric service in 2020 —

our rates will remain among the lowest in the country.

"... our rates will remain among the lowest in the country."

The PUD continues to support regional growth needs. Last year, we

connected nearly 1,000 new electric service customers,

one of the highest numbers of connections in our utility's history. We also worked with new businesses to ensure our electrical system meets their energy needs. One of our newest and largest customers, the Diamond Foundry, a gemstone manufacturer with high density power needs, will support our local economy with more family wage jobs.

In the spring, we entered into a five-year contract with Microsoft to **bring 100% carbon-free hydropower to its Puget Sound campuses**. It also created a partnership to study ways of extending broadband to the most remote and challenging areas of our county. We have set a goal of providing access to 85% of the county and potentially more.

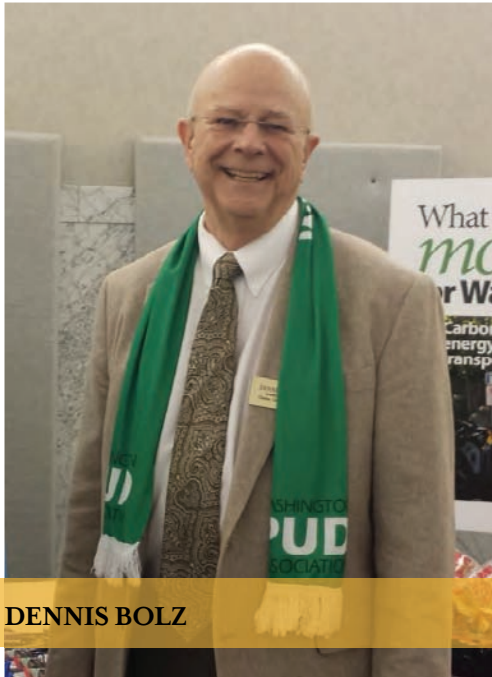
"... we'll aggressively pursue modernization efforts that will protect these assets."

During 2019, we also made progress on a multi-year program to upgrade our hydropower dams and our network of substations. Over the next several years, we'll aggressively pursue modernization efforts that will protect these assets over the long term for our customers.

We're keenly **focused on safety and human performance improvement**

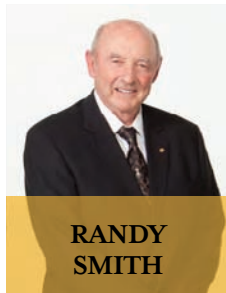
throughout our organization. We've made great progress to create an environment in which **learning is a priority** to build defenses that reduce or eliminate hazards, injuries and at-risk behaviors. We've seen a very positive **downward trend in safety incidents** as a result of our efforts.

On behalf of Chelan PUD, I'm proud to share the many accomplishments of this past year, and I look forward to sharing more successes with you in the coming years.



DENNIS BOLZ

Commissioners also **support public power by serving** on regional and national organizations that **advocate for consumer-owned utilities and sustainable energy**. In 2019, Commissioner Randy Smith was elected president of the Washington PUD Association and Commissioner Dennis Bolz received the group's highest honor, the Lifetime Achievement Award, recognizing his **commitment to the philosophy and purpose of public power and water** and his fellow PUD commissioners.



RANDY SMITH

Leadership guided by values

Chelan County residents elect our Board of Commissioners to govern the District. Ideas and comments from customer-owners and the community are welcome at board meetings on the first and third Monday of the month and anytime at contactus@chelanpud.org.



FROM LEFT: DENNIS BOLZ, RANDY SMITH, GARRY ARSENEAULT, ANN CONGDON AND STEVE MCKENNA

2019 AT A GLANCE

Strong finances – more value

Chelan PUD's strong financial performance continues to create value for customer-owners.

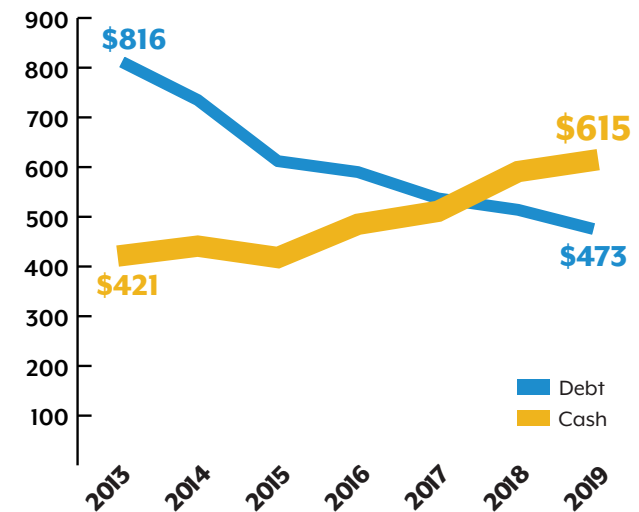
All key financial **targets were met** in 2019, and positive bottom line results continue to be used for **significant investments in the PUD's dams and utility systems**.

Unique factors included an insurance settlement for the large units at Rocky Reach Dam and surplus proceeds from a long-term power contract.

Both contributed to a **positive bottom line of \$114 million**, about \$36 million better than budget.

Cash & Debt Balances

(amounts in millions)



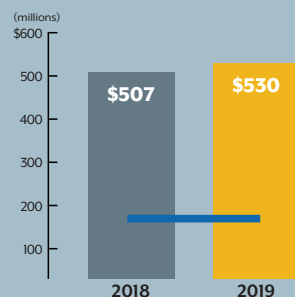
Chelan PUD continues to hold more cash than debt and is among the highest-rated customer-owned utilities in the nation.

We measure the District's financial stability in four ways.
Chelan PUD EXCEEDED targets for all four in 2019.

Financial liquidity

Target: Minimum of \$175 million

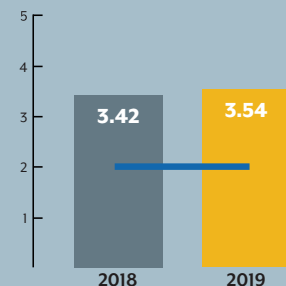
Represents cash reserves to cover risks and provide additional financial stability



Debt service coverage

Target: Greater than 2.0

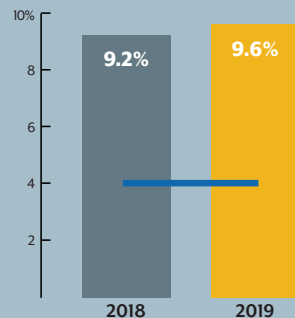
Demonstrates the ability to meet debt obligations even under unusual conditions



Rate of return

Target: Greater than 4 percent

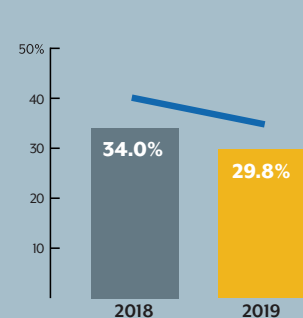
Provides income to replace assets over time and meet obligations in unusual conditions



Debt ratio

Target: Less than 35 percent for 2019

Reflects the percentage of utility assets financed by debt



— Target line

BOND RATINGS

Fitch RatingsAA+
 Standard & Poor's.....AA+
 Moody's Investors ServiceAa3

As of Dec. 31, 2019

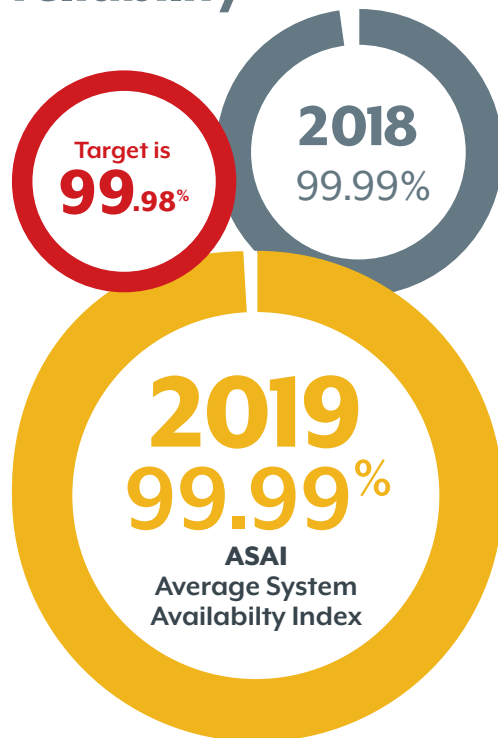
1,872

Miles of
distribution
lines

323

Miles of
transmission
lines

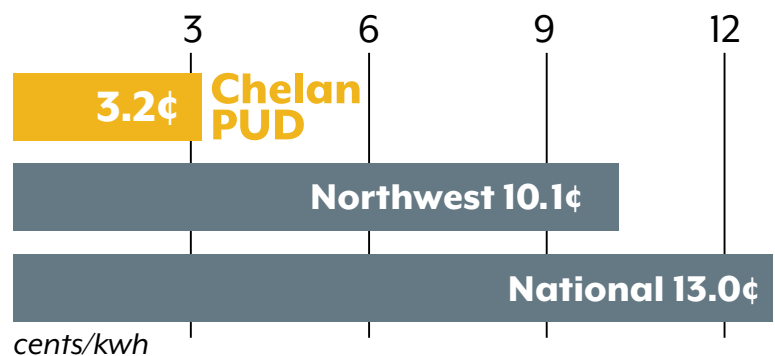
Electric system reliability



3.2¢

Average residential rate per
kilowatt hour in 2019:

No electric rate increase for 8 years



Number of retail electric customers

17,493

52,146

Number of fiber end-user connections

Number of water/wastewater customers

6,797

\$9.7

million paid in
operating tax expense

HIGHLIGHTS

Providing the best value for the most people for the longest time

In October 2019, Chelan PUD commissioners unanimously approved the utility's new strategic plan, based on customer-owner response to six key topics. Priorities for the next five years are:

- **Invest in assets and people** and seek industry top-quartile performance for hydro generation, retail reliability and safety while **improving customer service technology**
- Sustain excellent **financial resiliency** while mitigating the risk of large rate increases
- Enhance the quality of life in Chelan County through programs that **distribute the benefits of public power**
- Engage in countywide **growth planning and job creation** while ensuring the District's rates and policies are stable and predictable

Chelan PUD will continue the Public Power Benefit program, including the broadband network expansion.



CHELAN COUNTY



April 12, 2019

Microsoft expands clean energy, connectivity investments in Washington state with Chelan County PUD

Microsoft Corp. today announced new agreements to **boost clean energy and connectivity** in Washington state. The two agreements with Chelan County Public Utility District (PUD) will see Microsoft receive carbon-free electricity to power its Puget Sound campuses and partner with the PUD on broadband connectivity in Chelan County.

Through the five-year power supply agreement, Microsoft will receive hydropower from Chelan PUD that meets the high bar for carbon-free and clean energy.

The two organizations also signed a memorandum of understanding to collaborate on efforts to **expand broadband service** in the most challenging, most rural parts of Chelan County.

June 6, 2019

Sustainable hydropower and strategic planning bring new jobs

Diamond Foundry executives and Chelan County leaders gathered to **celebrate the 35-50 jobs** that the gemstone manufacturer's new operation will bring to the area.

The diamond manufacturer is leasing space from Stemilt in Wenatchee for its new plant. Chelan County PUD is **supplying up to 19 megawatts of carbon-free power** for the operation under the District's new high density load rate.

The new jobs are another **benefit of public power for the local economy**. "This contract is the fruit of our last strategic planning process where our community prioritized a balanced approach to economic development and minimizing impacts to existing customers," said PUD General Manager Steve Wright.



(FROM LEFT TO RIGHT)
CHELAN PUD GENERAL
MANAGER STEVE WRIGHT,
DIAMOND FOUNDRY
PRODUCTION PRESIDENT
KYLE GAZAY AND STEMILT
GROWERS PRESIDENT
WEST MATHISON ANSWER
QUESTIONS BEFORE
SIGNING THE PUD POWER
SUPPLY CONTRACT.

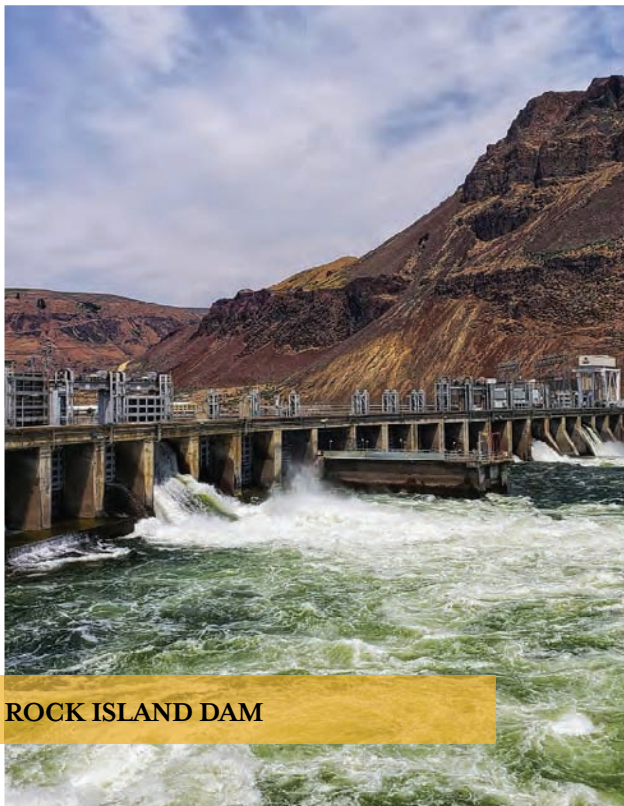
Aug. 23, 2019

New FERC approach for setting license terms to maximize value of Rock Island Dam investments

Chelan PUD's leadership role to advocate for new legislation, engage with regulators and move to improve its hydropower operations has produced tangible **benefits for its customers** and other U.S. power producers.

Federal dam regulators have indicated that Chelan PUD's significant investments in powerhouse upgrades and spillway safety at Rock Island Dam qualify for **"early action credit"** toward its next operating license.

The positive ruling is expected to help Chelan PUD take actions earlier that bring value for its customers and ensures the Federal Energy Regulatory Commission (FERC) will consider these significant investments toward a maximum, 50-year term for Rock Island's new license starting in 2029.



ROCK ISLAND DAM

GM STEVE WRIGHT AND RON AUGER, NETWORK OPERATIONS SUPERVISOR, RIGHT, CELEBRATE WITH THE CREW.



Oct. 31, 2019

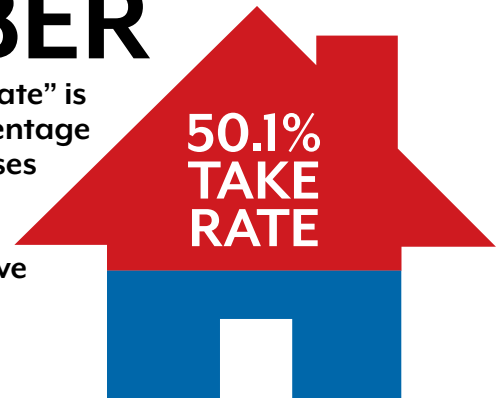
Half of homes & businesses with PUD fiber access are connected

Chelan County PUD's world-class broadband has reached a **50-percent "take rate"** of locations with access taking service from retail providers — an industry milestone.

76 percent of the county now has access to super-fast internet, phone and TV services. Chelan PUD is building access to 85-90 percent of county homes and businesses under the **Public Power Benefit** program.

FIBER

A "take rate" is the percentage of premises served by fiber with active service.



POWER ON



Creating carbon-free value

Strategic priority No. 1 is investing in Chelan PUD's hydropower assets to generate lasting value.

Our three dams create carbon-free power and environmental, economic and recreational benefits for customer-owners, Chelan County and the Pacific Northwest.

Rock Island Dam

2.3 MILLION MEGAWATT HOURS GENERATED
2 POWERHOUSES, 18 GENERATORS
(PLUS 1,000 KW HOUSE UNIT)
629 MEGAWATT CAPACITY*

Work continued in Powerhouse 1 rehab, due to finish in 2022, and on preparations to rehab the bulb turbines in Powerhouse 2 starting in 2021.

Our federal license to operate the dam runs through 2028.



Lake Chelan Dam

.3 MILLION MEGAWATT HOURS GENERATED
2 GENERATORS, 59 MEGAWATT CAPACITY*

The historic powerhouse ran well following several plant upgrades finished in 2018.

Our federal license to operate the dam runs through 2026.



Rocky Reach Dam

5.1 MILLION MEGAWATT HOURS GENERATED
11 GENERATORS
1,300 MEGAWATT CAPACITY*

Work continued to repair a design flaw and restore adjustable turbine blade operation on the second of four large units. Restoring the ability to adjust turbine blades (Kaplan blades) protects fish better and makes power more efficiently. The units have been running with fixed blades in the interim.

Crews also started installing turbine hub bushings on the seven original units with work planned to finish by 2022.

Our federal license to operate the dam runs through 2052.

**Generator nameplate capacity*

CREATING
COMMUNITY
VALUE

SUSTAINABILITY

As good stewards of the resources in our care, we support sustainable actions in relationships and operations.

Strategic Plan Outreach

The strategic plan for 2020-2024 reflects commissioners' vision to provide *the best value for the most people for the longest time*. Customer-owners were involved at every step, including:

- **70 community stakeholders and 30 district staff** and commissioners at kickoff event in February
- From November 2018 to June 2019, we presented at **7** City/Community meetings and **11** Service Club meetings.
- 35,000 surveys mailed to customers and employees, with **3,700+ customer comments**
- **36,000** Facebook and other social media impressions



PUD staff shared concepts and sought feedback on the proposal to build a combined, more efficient **Service Center** at five open houses in March. Staff also visited with community members at service clubs and board/council meetings and other gatherings points.

Downtown lights up

14 N. Wenatchee Ave has been transformed from an outdated retail building to an inviting (and successful) co-working space, now named The Mercantile. The project's local owners used Chelan PUD rebates to help pay for the energy-saving lighting, lighting controls, windows and thermostats.

66%

Energy efficiency programs offered by Chelan PUD increase comfort and help customers save money. In 2019, we saved **66% more than the state mandate**, allowing us to sell more wholesale energy and increase revenue to keep our dams, power grid and technology.

75%

The PUD will pay for up to 75% of an efficiency project's cost, based on projected energy savings.



Valued leaders in energy efficiency

Chelan PUD's Josh Mitchell was one of several utility advocates to receive the Northwest Energy Efficiency Alliance's Leadership in Energy Efficiency Award for Collaboration in 2019. Mitchell, a residential energy adviser, helps customers save energy in their homes by troubleshooting problems and identifying cost-cutting rebates. He even makes house calls.



JOSH MITCHELL

VALUE IN RELATIONSHIPS

Each year, we are proud to host education and community events that bring value to our vibrant community. In 2019, the PUD supported more than 30 events that **connected us with more than 17,000** of our customer-owners.

17,000



Fiber network Outreach

110

customers attended meetings in Leavenworth, Entiat and Manson to help guide future construction.

Chelan PUD is committed to **reaching more of our customer-owners directly**.

In 2019 we had:



Social media impressions on PUD videos in Spanish:

60% 74,000

PUD materials produced in both English and Spanish. Up 10% since 2016.

Social media impressions on Spanish messages and outage alerts:

36,000

PAPERLESS IS POPULAR

Powerpay

PowerPay gives customers the convenience of getting their **bill by email** and **saves paper**.

PUD customers enrolled

16,928

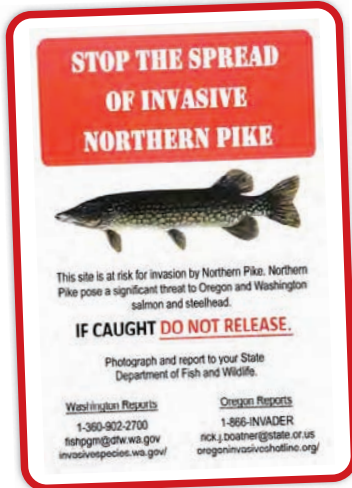
Collaborating on conservation

4,000

Working alongside our cities and Chelan County, the PUD helped to **replace over 4,000 streetlights with new LED** lamps in 2019. Switching to LEDs is estimated to save 0.4 average megawatts of electricity a year — enough to light 150 homes.

CREATING
COMMUNITY
VALUE

WE VALUE OUR ENVIRONMENT

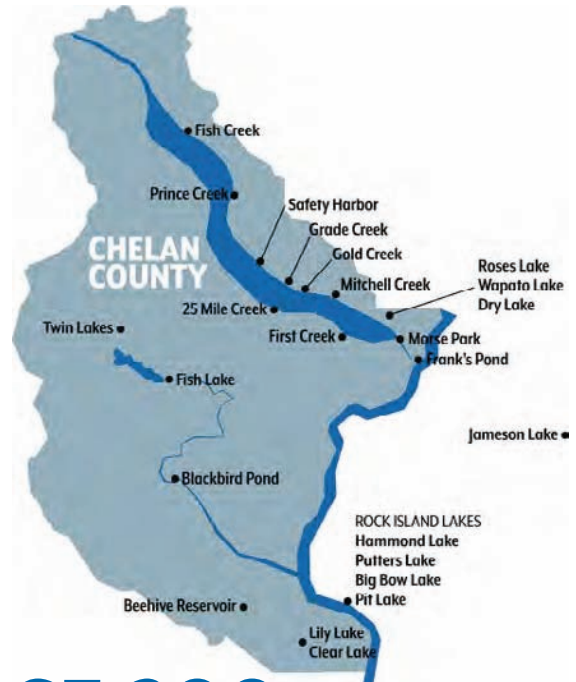


Chelan PUD is a dedicated steward of the resources touched by our hydropower operations

Chelan PUD joined a coalition of agencies to fight the spread of salmon and steelhead's newest adversary in the Columbia River: the voracious Northern Pike. The PUD has partnered with Colville Confederated Tribes, the Spokane Tribe, Washington

Department of Fish and Wildlife, and others to develop best practices aimed at reducing the threat from these "ambush predators."

Last year, the PUD's resident fish program brought more than 200,000 fish to 20-plus lakes in Chelan and Douglas Counties. These fish are raised at the Chelan and Eastbank hatcheries. The program is a responsibility of our federal licenses to operate Lake Chelan and Rocky Reach dams.



65,200 KOKANEE
99,380 RAINBOW TROUT
49,430 CUTTHROAT



JANE ROHMAN AND
DEBBIE GALLAHER AT
THE 2019 INNOVATOR AWARDS.

EDUCATION INNOVATORS

Rocky Reach's dynamic duo of Debbie Gallaher and Bob Bauer were honored as STEM Champions at Greater Wenatchee Area Technology Alliance's 2019 Innovator awards. For over 15 years, Debbie and Bob have built

high-quality STEM (Science Technology Engineering and Math) programs like Summer Science and the Hydropower and STEM Career Academy through partnerships with public power peers, community groups and school districts.

2,000 students
a year

LOOKING AHEAD

NEW SERVICE CENTER TO BRING EFFICIENCY & BETTER CUSTOMER SERVICE



In a unanimous decision, PUD commissioners decided in April that combining Wenatchee-area customer and utility operations at a **new location in Olds Station** offered **the best value and customer service**

for the most people over the next 50 to 100 years.

The decision comes after four years of study that grew out of strategic planning.

Groundbreaking is set for late summer 2020.

Journey to new Discovery Center

More than 500 people bid farewell to the Museum of the Columbia and helped Rocky Reach **Discovery Center launch the first renovations** since the center opened in the early 1960s.



Here's what's ahead:

- Year-round programs
- Expanded and updated exhibits in the Discovery Center
- Big new windows in fish viewing
- Hands-on displays and exciting new ways to experience the Columbia River

A grand “re-opening” is planned for summer 2021.



DATA-DRIVEN BENEFITS

Developing and putting new **“technology roadmaps”** in place are among the key elements to implement the five-year business plans that support the 2020-2024 strategic priorities.

Plans are taking shape to add technology needed to **improve customers' experience**, monitor and supply data crucial for **good decision-making**, strengthen Information Technology systems and provide employees access in the field.



Report of Independent Auditors

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

We have audited the accompanying financial statements of Public Utility District No. 1 of Chelan County, Washington (the “District”), which comprise the statements of net Position as of December 31, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Public Utility District No. 1 of Chelan County, Washington as of December 31, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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



Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis on pages 17 through 23 and the required supplementary information on pages 53 through 55, are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining schedules of revenues, expenses and changes in net position, of assets and deferred outflows of resources and liabilities, deferred inflows of resources and net Position, and of cash Flows on pages 57 through 61 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information referred to above is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The supplementary information presented as continuing disclosure on pages 64 through 80 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

PricewaterhouseCoopers LLP

April 10, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

December 31, 2019 and 2018

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, 2019 and 2018. This discussion and analysis is designed to be used in conjunction with the financial statements, notes and other supplementary information, which follow this section.

FINANCIAL HIGHLIGHTS

- The District produced a positive change in net position of \$114 million during 2019, \$36 million more than budget for the year and \$9 million higher than the prior year's results of \$105 million. The District continued to achieve strong operating results while meeting strategic priorities to invest in utility assets and employees, pay down debt and continue Public Power Benefit projects. The renewable, carbon-free benefits of the hydropower the District generates and sells on the wholesale market helped support revenue. Long-term contract proceeds in excess of budgeted amounts were a primary driver of the \$114 million bottom-line results. Lower-than-expected operating expenses and increased interest earnings made additional contributions.
- Standard & Poor's Global Ratings (S&P) affirmed the District's Consolidated System debt AA+/Stable Ratings and continued to rate the District among the top customer-owned utilities in the nation. S&P called out several "extremely strong" financial positions including a debt ratio of 34 percent and electric rates that are among the lowest in the nation. High bond ratings ultimately keep rates lower for customer-owners. They also could bring lower interest rates if the District moves ahead on borrowing money to invest in its valuable hydropower and grid assets.
- Fitch Ratings affirmed the District's consolidated system debt rating of AA+ with a stable outlook. The District continued to be one of the handful of AA+ rated utilities in the nation. Highlighted strengths included a sizable portfolio of valuable hydro generating resources; production of exceptionally low-cost power; solid revenue defensibility due to strategies to hedge price, hydro and counterparty risk; very strong retail rate flexibility with the independent ability to adjust rates that are among the most competitive and affordable in the nation; very robust financial flexibility through prudently using margin from wholesale sales to reduce debt leverage and accumulation of cash reserves near historical highs in preparation for increased capital spending.
- In 2019, the District entered into two agreements with Microsoft. The first agreement is a five-year contract providing Microsoft with electricity from its hydropower resources to power its Puget Sound campuses. The District began supplying power to Microsoft in April. Under the agreement, Microsoft receives power from the District that meets the high bar for carbon-free and clean energy. It also keeps carbon-free power generated in Washington State within the state, delivering economic and environmental benefits for Chelan County, the greater Seattle area and the state. No additional infrastructure is required in the District's service area to send power from the District to Microsoft. The two organizations also signed a memorandum of understanding to collaborate on efforts to expand broadband service in the most challenging, most rural parts of Chelan County. Microsoft will bring technical assistance to this effort, supporting the District's desire to expand technology access to remote parts of Chelan County.
- District commissioners approved three agreements with Stemilt Growers to accommodate power needs for Diamond Foundry, a gemstone manufacturer setting up new operations with a mission of growing diamonds with net zero carbon footprint. Stemilt is leasing space to Diamond Foundry in Wenatchee. Under one agreement, a new substation will be constructed to provide up to 19 megawatts of power to Diamond Foundry. Current substation capacity would not meet the increased energy demand. This prompted Stemilt to propose that it build the substation with design and engineering review by the District. While typically 18 months is required to energize a new substation once transformers are ordered, this project is slated for completion in less than a year. Two other agreements set up leases to allow for the substation construction. The District will lease land to Stemilt to build the substation, and Stemilt will lease land to the District for storage of utility materials and

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

December 31, 2019 and 2018

equipment. The public-private partnership will create economic development benefits for Chelan County including the creation of 35 to 50 jobs in Wenatchee supporting customer-owner priorities and strategic planning objectives.

- In 2019, repairs continued on the second of four large units at Rocky Reach Dam. The discovery of a crack in a servo-rod of one of the large units in 2013 launched the project. Long-term repairs on the first unit, C-8, now back in service, started in June 2015. The second unit, C-9, has undergone similar long-term repairs and was returned to service in January 2020. The repairs on the remaining units are scheduled to begin in 2021 and are estimated to take 12 months each. C-8 and C-9 are expected to run reliably for their 30-year design life. The District maintains insurance coverage for both lost revenue and eligible repair expenditures. The District's insurance company made partial payments for both mechanical breakdown and business interruption claims in previous years. During 2019, the District received \$16.3 million and \$1.7 million as final settlement of the claims under the mechanical breakdown and business interruption policies, respectively. The insurance claims have been fully settled, and no additional proceeds will be received.
- Work continued on the B5-B10 modernization project in the first powerhouse at Rock Island Dam. The fourth unit, B7, is scheduled to be completed in late 2020. Modernization work on units B6, B9 and B10 was completed in prior years, but these units suffered various turbine failures over the last year. The contractor completed a root cause analysis of the failures, and remedies and costs were negotiated. Repairs, re-work and modernization for all of the B5-B10 units are anticipated to be complete prior to the end of 2022. The original four generating units in the first powerhouse at Rock Island Dam were taken out of service in early 2016 due to corrosion fatigue on the blades following 80-plus years of service. Work began in 2018 and currently is scheduled to be completed by the end of 2021, with the first unit, B4, expected back in service mid-2020. Extensive analysis reviewed by the Board of Commissioners in 2017 showed it was cost-effective to also rehabilitate major components, such as turbines, generators and

related equipment, of the eight 1970s-era units in the second powerhouse at Rock Island Dam. This work should provide at least 40 years of additional use. The overall project is estimated at \$324 million and will be reevaluated at regular intervals to confirm the plan. Plans include purchasing one new generator and certain major components to prevent delays in the project. Work is expected to start in 2021 and finish in 2029.

- District Commissioners approved a new rate for cryptocurrency, blockchain and similar operations effective April 1, 2019. The District lifted the moratorium and began to accept new cryptocurrency service applications on that date. In March 2018, Commissioners imposed an application moratorium for electric service for cryptocurrency mining. The decision came after reviewing impacts on utility operations from existing loads and applications for service. Impacts from cryptocurrency mining applications were hampering responses to the District's overall planned work and threatening the county's electric grid capacity to meet planned growth. The new rate, plus fees and charges, strives to have operators carry the cost and risks – operational and financial – of providing the power. The rate will allow the District to serve cryptocurrency operations while protecting other customers from the uncertainty and volatility of the cryptocurrency industry.
- The first Coronavirus case in the United States was confirmed in January 2020 and the first virus-related death occurred in February 2020, both in Washington State. In March, Governor Jay Inslee instituted initial restrictions to close schools, restaurants and entertainment venues and then proclaimed a "Stay Home-Stay Healthy" statewide stay-at-home order that closes business and other public places through May 4, 2020, with the intention of slowing the spread of the virus. Essential services will stay open. President Trump also declared a national emergency as a result of the outbreak. In response to this crisis, the District established an incident command structure and set the priorities of protecting employee health, community health and maintaining essential utility services. Proactive measures have been implemented to protect

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

December 31, 2019 and 2018

the District and its customers, including closing lobbies, requiring employees not required to be on site for essential services to work from home, implementing “social distancing” measures for the District’s on-site essential staff and curtailing projects and maintenance to essential projects that can be completed with minimal contact between employees. The District has also declared that it will not disconnect utility service from customers for failure to pay or charge late fees during the Outbreak of COVID-19. The District is also considering other actions to assist with Community impacts including the potential to delay certain of the above-mentioned rate increases by 6 months. These collective actions may impact operational and financial results for the District in 2020, but did not impact financial results for 2019. The extent to which the coronavirus impacts our business and results of operations will depend on future developments, which are highly uncertain and cannot be predicted at this time. As a result of this coronavirus outbreak, demand is expected to decline. If the coronavirus outbreak continues and efforts to contain the virus, whether governmental or otherwise, further limit usage for an extended period of time or impacts our ability to operate, our results could be adversely impacted.

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 Statements of Net Position present information on all of the District’s assets, deferred outflows

of resources, liabilities and deferred inflows of resources and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities).

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

The District’s total net position increased by \$114 million in 2019 and \$105 million in 2018, despite low streamflow conditions in 2019 and the continuing operating challenges of generating unit repairs at Rocky Reach and Rock Island, demonstrating the effectiveness of risk management plans and strong financial policies. The increases are primarily due to continued strong operating results stemming

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

December 31, 2019 and 2018

from the District's hedging program, real-time agreement and long-term power sales contracts. The hedging program requires locking in predictable revenue through the sale of excess energy under both forward block transactions and slice contracts and is proving to be successful at providing rate stability and meeting financial goals. Other factors that contributed to the favorable results included additional proceeds from a long-term power sales agreement, insurance proceeds from a settlement for large unit repair work at Rocky Reach, continued debt reduction that lowered interest expense and increased interest earnings on higher cash and investment balances.

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

CONDENSED COMPARATIVE FINANCIAL INFORMATION

				Increase (Decrease)
(amounts in millions)	2019	2018	2017	2019 – 2018
Current assets	\$ 190	\$ 177	\$ 168	\$ 13
Net utility plant	1,184	1,146	1,101	38
Other non-current assets	520	518	439	2
Total assets	1,894	1,841	1,708	53
Deferred outflows of resources	12	12	14	-
Current liabilities	126	133	117	(7)
Long-term debt	438	481	507	(43)
Other liabilities	180	202	170	(22)
Total liabilities	744	816	794	(72)
Deferred inflows of resources	50	39	35	11
Net Investment in capital assets	703	625	560	78
Restricted	186	118	146	68
Unrestricted	223	255	187	(32)
Total net position	\$ 1,112	\$ 998	\$ 893	\$ 114

				Increase (Decrease)
(amounts in millions)	2019	2018	2017	2019 – 2018
Operating revenues	\$ 385	\$ 386	\$ 373	\$ (1)
Less				
Operating expenses	265	269	251	(4)
Other and expenses	12	18	22	(6)
Net income before capital contributions	108	99	100	9
Capital contributions	6	6	5	-
Change in net position	114	105	105	9
Total net position — beginning of year	998	893	788	105
Total net position — end of year	\$ 1,112	\$ 998	\$ 893	\$ 114

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

December 31, 2019 and 2018

ASSETS

Current assets increased by \$13 million in 2019 as a result of the District's positive 2019 operating results. Cash generated by operations exceeded payments for debt reduction and capital expenditures, resulting in higher cash and investment balances.

Current assets increased by \$9 million in 2018 primarily due to an increase in accounts receivable. The higher accounts receivable balance was primarily the result of higher average wholesale power prices during 2018 compared to 2017.

As of December 31, 2019, the District had approximately \$1.2 billion invested in a variety of capital assets. Net utility plant increased \$38 million in 2019, reflecting additional investments in utility plant assets. Additions included a variety of electric transmission and distribution system services and improvements, ongoing modernization and construction of a storage building at the Rock Island hydroelectric project, purchase of property for the future construction of a District new service facility and the upgrade of the Peshastin wastewater treatment facility. The 2019 additions were partially offset by annual depreciation of plant in service.

As of December 31, 2018, the District had approximately \$1.1 billion invested in a variety of capital assets. Net utility plant increased \$45 million in 2018, reflecting additional investments in utility plant assets. Additional investments in plant, the largest being the ongoing modernization at the Rock Island hydroelectric project, were offset somewhat by annual depreciation.

Other noncurrent assets, which includes noncurrent restricted assets and other assets, increased \$2 million in 2019 due primarily to higher investment balances as a result of the District's positive operating results. Other noncurrent assets increased \$79 million in 2018. The increase was primarily attributable to higher investment balances resulting from receipt of a \$62 million long-term power sales agreement payment, combined with cash generated by the District's positive operating results after paying for debt reduction and capital expenditures out of cash reserves.

Deferred outflows of resources remained the same and decreased \$2 million in 2019 and 2018, respectively. The decrease in 2018 was due to changes

in the actuarial valuation of the Public Employees' Retirement System (PERS) collective net pension liability for PERS plans 1, 2 and 3 in which the District participates combined with the monthly amortization of losses on refunding debt.

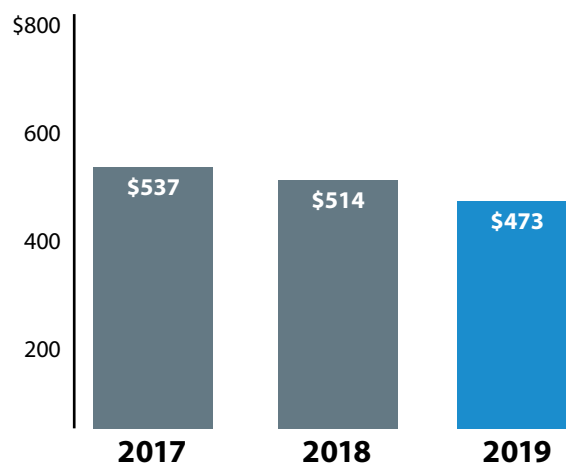
LIABILITIES

Current liabilities decreased \$7 million in 2019 primarily due to a decrease in accounts payable. Accounts payable decreased as a result of lower average wholesale power prices during December 2019 compared to the same period in 2018, combined with lower year-end accruals due to the timing of payments related to some large construction contracts.

Current liabilities increased \$16 million in 2018, primarily due to an increase in accounts payable combined with an increase in the current portion of unearned wholesale power sales. Accounts payable increased as a result of higher accruals near the end of the year. Higher accruals were due to normal fluctuations in the amount and timing of billings. The increase in the current portion of unearned wholesale power sales represents the change in the amount that was previously deferred and was recognized as revenue in 2019.

Total Debt Outstanding

(amounts in millions)



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

December 31, 2019 and 2018

During 2019 and 2018, scheduled maturities of debt were partially offset by accretion of interest on capital appreciation bonds resulting in a decrease in total debt outstanding of \$40 million and \$24 million, respectively. These reductions in total debt contributed to the \$43 million and \$26 million reduction in long-term debt in 2019 and 2018, respectively, which is net of premiums, discounts and the current portion of the obligations. The District did not refinance or issue additional bonds in 2019 or 2018.

Other liabilities decreased by \$22 million in 2019, primarily due to the normal amortization of unearned wholesale power sales revenue combined with a decrease in net pension liability. Unearned wholesale power sales revenue was received previously from power purchasers and is being recognized as revenue over the life of the agreements. Net pension liability fluctuates due to changes in the actuarial valuation of the PERS collective net pension liability for PERS plans administered by the Washington State Department of Retirement Systems in which the District participates.

Other liabilities increased by \$32 million in 2018, primarily due to receipt of the \$62 million long-term power sales agreement payment that was deferred as unearned revenue and will be recognized in wholesale sales over the remaining term of the agreement. This increase was partially offset by the normal amortization of unearned revenue related to the District's long-term power sales agreements and a decrease in net pension liability.

Deferred inflows of resources increased \$11 million and \$4 million in 2019 and 2018, respectively. The increase in 2019 was primarily due to a combination of increases in the fair value of investments and increases in the District's proportionate share of collective deferred inflows for the PERS plans as provided by the Department of Retirement Systems. The increase in 2018 was primarily due to the District recording its proportionate share of the increase in collective deferred inflows for the PERS plans as provided by the Department of Retirement Systems.

NET POSITION

Net investment in capital assets increased \$78 million and \$65 million in 2019 and 2018, respectively. The increases in 2019 and 2018 both reflect additions to plant combined with reductions in debt primarily as a result of regularly scheduled repayments of bond principal on existing debt, combined with the acceleration of a 2020 principal payment to December 2019.

Restricted net position represents resources that are subject to external restrictions, such as bond covenants or third-party contractual agreements. Restricted net position increased \$68 million and decreased \$28 million in 2019 and 2018, respectively. The increase in 2019 was primarily due to an \$87 million internal loan from Financing Facilities to Rock Island Hydroelectric System to fund capital spending including ongoing modernization work. These funds were previously unrestricted, but are now restricted by the District's long-term power sales contracts. The increase was partially offset by the use of restricted cash and investments to fund capital construction at the District's hydroelectric projects. The decrease in 2018 was primarily due to the use of cash restricted for construction of capital assets.

Unrestricted net position is not restricted for the purpose of debt covenants or other legal requirements and can be used to finance the day-to-day operations of the District. In 2019, unrestricted net position decreased \$32 million due to the transfer of \$87 million of cash reserves to a restricted fund to finance capital spending at Rock Island Hydroelectric System. The decrease was partially offset by cash generated from positive operating results. In 2018, unrestricted net position increased \$68 million due primarily to the retention of a portion of the District's positive earnings as unrestricted assets. The remaining earnings were deployed primarily for debt reduction and investment in capital assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

December 31, 2019 and 2018

REVENUES AND EXPENSES

Retail sales increased \$16 million compared to 2018 due to a combination of colder winter temperatures resulting in higher retail usage and a new off-system retail load.

In 2019, wholesale sales decreased \$33 million compared to 2018 due to a combination of an increase in wholesale energy transactions being booked-out for scheduling purposes and recorded at net, and a new off-system retail load that reduced surplus energy available for sale in the wholesale market, with a corresponding increase in retail sales.

Purchased power costs decreased \$4 million in 2019 compared to 2018 primarily due to an increase in wholesale energy transactions being booked-out for scheduling purposes and recorded at net.

Other income and expenses, which included net interest expense and income, decreased by \$6 million in 2019, primarily as a result of higher investment income due to increased cash and investment balances resulting from the District's positive operating results combined with lower interest on long-term debt due to declining debt balance.

In 2019, net income before capital contributions increased \$9 million compared to 2018 due primarily to additional proceeds from a long-term power sales agreement and insurance proceeds from a settlement for large unit repair work at Rocky Reach. Higher investment income also contributed to the increase. Capital contributions remained relatively flat from 2018 to 2019.

2018 retail sales were down \$2.7 million compared to 2017 due to reduced usage resulting from milder weather conditions.

In 2018, wholesale sales increased \$20 million compared to 2017 primarily due to an increase in volume of energy sold combined with higher average wholesale prices on the District's sale of surplus energy. In addition, energy book-outs decreased due to a lower volume of energy booked out for scheduling purposes. Book-outs reduce overall revenues, so a reduction in book-outs increases revenue.

Purchased power costs increased \$10 million in 2018 compared to 2017 primarily due to a \$9 million decrease in energy book-outs. Purchased energy book-outs reduce overall purchased power costs,

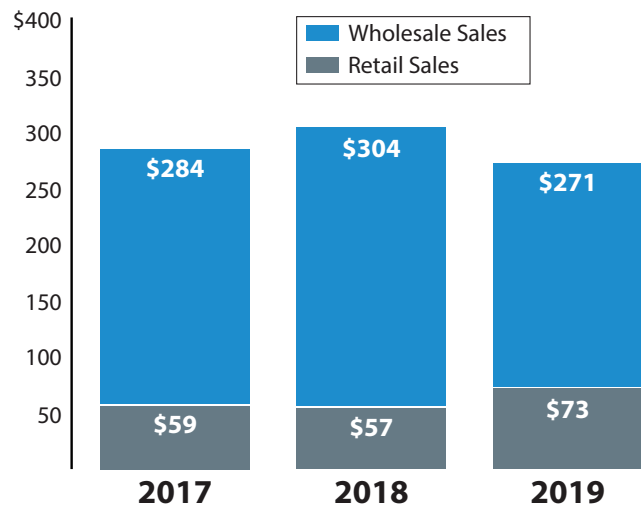
so a reduction in book-outs increased costs. The remaining increase is due mainly to higher average wholesale power prices.

Other income and expenses, which included net interest expense and income, decreased by \$4 million in 2018 primarily as a result of higher investment income due to increased cash and investment balances resulting from the District's positive operating results, the long-term power sales contract one-time payment and continued higher interest rates combined with lower interest on long-term debt due to declining debt balance.

In 2018, net income before capital contributions decreased \$1 million compared to 2017 due primarily to an increase in hydro operation and maintenance expense, which was mostly offset by receiving higher average prices on the District's wholesale sales of its surplus energy combined with higher investment income. Capital contributions remained relatively flat from 2017 to 2018.

Wholesale/Retail Revenues

(amounts in millions)



CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

STATEMENTS OF NET POSITION

December 31, 2019 and 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

(amounts in thousands)	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 31,464	\$ 23,306
Investments	94,639	86,154
Accounts receivable, net	29,745	37,484
Accrued interest receivable	1,336	1,680
Materials and supplies	13,402	13,212
Prepayments and other	2,022	1,154
Current portion of regulatory assets	2,978	2,978
	<u>175,586</u>	<u>165,968</u>
RESTRICTED ASSETS – CURRENT		
Cash and cash equivalents	3,521	2,309
Investments	10,582	8,527
	<u>14,103</u>	<u>10,836</u>
TOTAL CURRENT ASSETS	<u>189,689</u>	<u>176,804</u>
UTILITY PLANT		
In service, at original cost	2,105,605	2,069,130
Construction work in progress	126,622	100,838
Less accumulated depreciation	<u>(1,048,308)</u>	<u>(1,023,960)</u>
	<u>1,183,919</u>	<u>1,146,008</u>
RESTRICTED ASSETS — NONCURRENT		
Cash and cash equivalents	28,651	2,863
Investments	160,078	120,320
	<u>188,729</u>	<u>123,183</u>
OTHER ASSETS		
Long-term receivables, net	326	406
Long-term investments	286,362	347,803
Regulatory assets, net	37,881	40,712
Derivative instrument asset	6,594	5,294
Other	875	755
	<u>332,038</u>	<u>394,970</u>
TOTAL ASSETS	<u>1,894,375</u>	<u>1,840,965</u>
DEFERRED OUTFLOWS OF RESOURCES		
Losses on refunding debt	4,185	5,109
Pensions	7,934	6,554
Other post-employment benefits	170	101
	<u>12,289</u>	<u>11,764</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 1,906,664</u>	<u>\$ 1,852,729</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

(amounts in thousands)	2019	2018
CURRENT LIABILITIES		
Current portion of long-term obligations	\$ 38,502	\$ 36,937
Current portion of unearned wholesale power sales	15,028	14,942
Accounts payable	46,829	55,343
Accrued taxes	4,172	4,034
Accrued interest	5,577	6,185
Accrued vacation and other	16,319	15,347
	<u>126,427</u>	<u>132,788</u>
LONG-TERM DEBT		
Revenue bonds and notes payable, less current portion	437,840	480,799
OTHER LIABILITIES		
Unearned wholesale power sales revenue, less current portion	123,922	137,899
Net pension liability	27,855	36,180
Long-term contract customer deposit	18,500	18,500
Licensing obligation, less current portion	9,172	8,940
Other liabilities	785	594
	<u>180,234</u>	<u>202,113</u>
TOTAL LIABILITIES	<u>744,501</u>	<u>815,700</u>
DEFERRED INFLOWS OF RESOURCES		
Derivatives	6,594	5,294
Pensions	15,638	13,611
Regulatory liabilities	27,269	19,578
Other postemployment benefits	250	71
	<u>49,751</u>	<u>38,554</u>
COMMITMENTS AND CONTINGENCIES (see Note 12)		
NET POSITION		
Net Investment in capital assets	702,942	625,343
Restricted	185,881	117,531
Unrestricted	223,589	255,601
	<u>1,112,412</u>	<u>998,475</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 1,906,664</u>	<u>\$ 1,852,729</u>

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITIONS

For the years ended December 31, 2019 and 2018

(amounts in thousands)	2019	2018
OPERATING REVENUES		
Retail sales	\$ 72,541	\$ 57,000
Wholesale sales	270,550	303,823
Other operating revenues	42,095	25,698
	<u>385,186</u>	<u>386,521</u>
OPERATING EXPENSES		
Purchased power and water	49,453	53,201
Generation	92,181	98,924
Utility services	53,653	49,678
Taxes	9,742	8,541
Depreciation and amortization	43,575	44,186
Other operation and maintenance	16,506	14,823
	<u>265,110</u>	<u>269,353</u>
OPERATING INCOME	<u>120,076</u>	<u>117,168</u>
OTHER INCOME (EXPENSE)		
Interest on long-term debt	(23,942)	(25,202)
Amortization of deferred debt costs	(673)	(700)
Investment income	15,148	11,435
Federal subsidy income	592	590
Other	(3,082)	(3,957)
	<u>(11,957)</u>	<u>(17,834)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>108,119</u>	<u>99,334</u>
CAPITAL CONTRIBUTIONS	5,818	5,934
CHANGE IN NET POSITION	<u>113,937</u>	<u>105,268</u>
TOTAL NET POSITION		
Beginning of year	998,475	893,207
TOTAL NET POSITION		
End of period	<u>\$ 1,112,412</u>	<u>\$ 998,475</u>

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

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2019 and 2018

(amounts in thousands)	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 363,786	\$ 425,742
Payments to suppliers	(134,591)	(121,525)
Payments to employees	(101,394)	(95,735)
Insurance proceeds	17,971	-
Net cash provided by operating activities	145,772	208,482
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to plant	(85,551)	(91,032)
Proceeds from sale of plant	1,646	260
Proceeds of new debt	601	-
Principal paid on debt	(52,188)	(35,462)
Interest paid on debt	(13,373)	(13,662)
Capital contributions	7,330	4,511
Other	(5,400)	(4,184)
Net cash used in capital and related financing activities	(146,935)	(139,569)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(153,292)	(279,864)
Proceeds from sales and maturities of investments	173,683	197,862
Interest on investments	15,773	11,780
Long-term receivables	80	100
Other, net	77	366
Net cash provided by (used in) investing activities	36,321	(69,756)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	35,158	(843)
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	28,478	29,321
CASH & CASH EQUIVALENTS, END OF YEAR	<u>\$ 63,636</u>	<u>\$ 28,478</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 120,076	\$ 117,168
Depreciation and amortization	43,575	44,186
(Increase) decrease in operating assets:		
Accounts receivable, net	7,739	(9,748)
Materials and supplies	(190)	(381)
Prepayments	(868)	334
Net OPEB asset	(111)	148
Other	3,250	2,643
Deferred outflows of resources	(1,449)	778
Increase (decrease) in operating liabilities:		
Current portion unearned wholesale power sales	86	6,040
Accounts payable	(7,394)	11,072
Accrued taxes	138	(105)
Accrued vacation and other	972	348
Unearned wholesale revenue	(14,783)	45,007
Customer deposits	17	(1,802)
Net pension liability	(8,325)	(13,508)
Deferred inflows of resources	3,039	6,302
Net cash provided by operating activities	<u>\$ 145,772</u>	<u>\$ 208,482</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Construction costs included in accounts payable	\$ (1,137)	\$ (507)
Capital contributions	93	853

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

NOTES TO BASIC FINANCIAL STATEMENTS

Years ended December 31, 2019 and 2018

NOTE 1: SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY AND OPERATIONS OF THE DISTRICT

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

ACCOUNTING POLICIES

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

In November 2016, GASB issued Statement No. 83, "Certain Asset Retirement Obligations." An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. GASB Statement 83 establishes guidance for determining the timing and pattern of recognition of a liability and a corresponding

deferred outflow of resources for AROs. Statement 83 was effective for fiscal year 2019. Implementation of this statement did not have a material impact to the District's financial statements.

In January 2017, GASB issued Statement No. 84, "Fiduciary Activities." This statement establishes criteria for identifying fiduciary activities of all state and local governments, including separate criteria for postemployment benefit arrangements that are fiduciary activities. Statement No. 84 is effective for fiscal year 2019. Implementation of this statement did not have a material impact to the District's financial statements.

In March 2018, GASB issued Statement No. 88, "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements." This statement clarifies which liabilities governments should include when disclosing information related to debt and requires additional essential information related to debt be disclosed in notes to the financial statements. Statement No. 88 was effective for fiscal year 2019. Implementation of this statement did not have a material impact to the District's financial statements.

In August 2018, GASB issued Statement No. 90, "Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61." This statement defines a majority equity interest and specifies that a majority equity interest in a legally separate organization be reported as an investment if a government's holding meets the definition of an investment. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit. This statement was effective for fiscal year 2019. Implementation of this statement did not have a material impact to the District's 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

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

significant estimates in the determination of fair value of derivatives, regulatory assets and liabilities, depreciable lives of utility plant, license obligations, unbilled revenues, self-insurance reserves, incurred but not reported self-insurance liabilities, allowance for uncollectible accounts receivable and payroll related liabilities.

CASH AND CASH EQUIVALENTS

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

REVENUES AND EXPENSES FROM OPERATIONS

Revenues of the District are recognized when services are delivered and are comprised of sales of wholesale power, sales of electric, water, wastewater and wholesale telecommunication services and sales of environmental attributes. The accompanying financial statements include estimated unbilled revenues for energy and wholesale telecommunication services delivered to customers between the last billing date and the end of the year. Estimated unbilled revenues amounted to \$2.9 million and \$2.4 million in 2019 and 2018, respectively. The amounts are included in accounts receivable.

Revenues from the Rocky Reach and Rock Island hydroelectric production facilities represent sales of power generated under firm “take-or-pay” power sales contracts or sales directly to the retail electric distribution system. Revenues under these contracts are cost-plus based, including debt service costs.

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

In July 2008, the District entered into a 17-year power sales contract with Alcoa, Inc., now Alcoa Corporation, for output equivalent to 26% of the

Rocky Reach and Rock Island projects, effective in 2011 and 2012, respectively. Alcoa, Inc. is generally responsible to pay 26% of all costs associated with the projects, including capital, operation and maintenance and debt service costs. Under the terms of the contract, the District received an advance payment of \$22.9 million of an \$89.0 million capacity reservation charge during 2008, which was deferred and is being recognized as revenue over the term of the contract. The balance of the capacity reservation charge was to be deferred as long as the plant continued to operate and waived if the plant continued to operate under the terms of the contract for the entire contract term. In the event of a shutdown lasting longer than 90 days, the deferred charges would become due depending on the length of the shutdown.

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

Additional contract provisions apply for the initially deferred capacity charges due to the shutdown event. The first charge, the “Initial Shutdown Amount,” of \$8.6 million, became due and was paid in December 2016, upon the plant being idle for one year. The “Initial Shutdown Amount” was deferred and will be recognized in revenue over the remaining term of the agreement. A second charge, the “Shutdown Settlement Amount,” which is the \$67.1 million deferred balance of the capacity reservation charge was scheduled to become due in the event the Wenatchee Works facility remained shutdown for longer than 18 months measured from the December 2015 curtailment.

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

In June 2018, the Wenatchee Works smelting facility remained curtailed, and the \$62.4 million balance of the Shutdown Settlement Amount became due and was paid by Alcoa Corporation. The \$62.4 million contract charge was deferred and will be recognized in revenue over the remaining term of the agreement. The contract and original terms remain in place until 2028.

The District’s share of power produced by the Rocky Reach and Rock Island Systems is sold to the retail electric distribution system on a cost-plus basis. Power produced by the Lake Chelan System is sold to the retail electric distribution system at cost. As of December 31, 2019, the Rocky Reach, Lake Chelan and Rock Island Systems sell 49%, 100% and 49%, respectively, of their output to the retail electric distribution system, which is in turn sold to retail customers, firm power purchasers or sold on the wholesale market if in excess of the District’s local load.

Revenues and purchased power expenses related to “booked-out” wholesale energy sales and purchases (agreement with counterparty to net settle before scheduling for delivery) are reported net in the Statement of Revenues, Expenses and Changes in Net Position as a component of Wholesale Sales. For the years ended December 31, 2019 and December 31, 2018, booked-out energy transactions amounted to \$56.6 million and \$44.0 million, respectively.

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.

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, 2019, the District had three significant customers (greater than 10% of operating revenues), collectively comprising total revenue of \$177.5 million. The District had three significant customers for the year ended December 31, 2018, collectively comprising total revenue of \$199.8 million.

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

Under the American Recovery and Reinvestment Act of 2009, the District issued taxable Build America Bonds (BABs) to finance capital projects that otherwise could be financed with tax-exempt bonds. The District receives periodic subsidy payments from the federal government which were equal to 35% of the interest paid on the BABs through 2012. During 2013, the United States Congress made changes to the subsidy program which resulted in a reduction of the total annual subsidy to approximately 33% of the interest paid. In both 2019 and 2018, the District recognized non-operating revenues of \$0.6 million.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

REGULATORY DEFERRALS

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

POWER MARKETING

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

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

In addition to the forward trading horizon of 60 months beyond the current year, the District's Board of Commissioners approved a resolution on February 8, 2014, authorizing the General Manager or designee to enter into one or more transactions for

the forward sale of energy and capacity and associated environmental attributes, not to exceed 10% of the output of Rocky Reach and Rock Island for a term up to fifteen years in duration, with the delivery to begin within six years of execution. In 2017, the District entered into an agreement under this resolution for a 10-year slice sale of 5% of Rocky Reach and Rock Island output for the years 2021-2030 that further hedges against downside risk and helps reduce wholesale revenue volatility.

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

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

The District requires that a one-way collateral annex be executed in conjunction with its slice output contracts, including the 10-year contract, or when deemed necessary to facilitate trading. The District is not required to post any collateral under these one-way margin agreements. Currently, the District requires that all posting requirements be met with a Letter of Credit unless the counterparty holds a senior unsecured credit rating of A+ from at least one of the nationally recognized rating agencies. For the higher rated counterparties, the District accepts Performance Assurance in the form of cash.

All of the District's forward power contracts are derivative instruments. All forward power contracts in place during 2018 and 2019 are classified as normal

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

purchases and sales under GASB Statement No. 53, and thus, excluded from fair value reporting requirements. All forward power contracts are recognized over the duration of the contracts as a component of Operating Revenues and Purchased Power Operating Expenses in the Statement of Revenues, Expenses and Changes in Net Position.

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS RECEIVABLE

A reserve is established for uncollectible accounts receivable based upon actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. The allowance for uncollectible accounts was \$170,000 and \$181,000 at December 31, 2019 and 2018, respectively.

CAPITAL CONTRIBUTIONS

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

MATERIALS AND SUPPLIES INVENTORY

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

COMPENSATED ABSENCES

Employees of the District accrue a personal leave benefit based upon a years of service schedule. Personal leave may be used for vacation and sick leave purposes. The District records personal leave as an expense and a liability as earned. Unused personal leave may be accumulated up to a maximum

of 1,350 hours for non-bargaining unit personnel and 1,200 hours for bargaining unit employees. Effective April 1, 2012, any newly hired employee may only accrue 800 hours of personal leave. Upon resignation, retirement or death, 90% of accumulated personal leave is deposited into a personal Voluntary Employees' Beneficiary Association (VEBA) account. The remaining 10% of accumulated personal leave is cashed out.

UTILITY PLANT

Utility plant is stated at original cost, which includes both direct and indirect costs of construction or acquisition. The District charges the cost of repairs and minor renewals to maintenance expense and the cost of renewals and replacement of property units that meet the District's capitalization threshold to utility plant. The District's capitalization threshold is \$5,000. As the District constructs various major projects, costs accumulate in construction work in progress and are capitalized to utility plant after the projects have been completed and placed into service.

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

PENSIONS

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

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Chelan County Public Utility District Retirees' Benefit

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

ASSET RETIREMENT OBLIGATIONS

An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. The District identified AROs for certain assets that are expected to operate in perpetuity. As the District cannot estimate a settlement date or extent of the obligation, a reasonable estimate of the obligation cannot be made. As such, ARO liabilities are not recorded for retirement activities associated with certain transmission, distribution and wastewater facilities and hydro-electric projects. The District does not have any recorded AROs as of December 31, 2019 or 2018.

SUBSEQUENT EVENTS

The first COVID-19 case caused by the novel coronavirus in the United States was confirmed on January 21, 2020, and the first virus-related death occurred on February 29, 2020, both in Washington State. Governor Jay Inslee has subsequently restricted public gatherings, limited operation of restaurants and bars, and canceled public schools through the remainder of the current school year. In addition, President Trump declared a national emergency on March 13, 2020, as a result of the outbreak. The situation continues to change as new facts become available and new circumstances arise.

In response to this crisis, the District has proactively implemented measures to mitigate operational and financial impacts to the District and its customers, including closing lobbies, requiring employees not required to be on site for essential services to work from home, implementing "social distancing" measures for the District's on-site essential staff and curtailing projects and maintenance to essential projects that can be completed with minimal contact between employees. The District also has declared that it will not disconnect utility service from customers for failure to pay or charge late fees during the outbreak of COVID-19. The District also may delay future rate increases. This may impact financial results for the District in 2020, but did not impact financial results for 2019.

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

NOTE 2: CASH AND INVESTMENTS

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

Cash and investments are recorded in accounts as required by the District's bond indentures. Restricted assets represent accounts that are restricted by bond covenants or third party contractual agreements. Accounts that are allocated by resolution of the Commissioners are considered to be board designated accounts. Board designated accounts are a component of unrestricted assets as their use may be redirected at any time by approval of the

Commissioners. Generally, when both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first as appropriate, then unrestricted resources as they are needed.

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

(amounts in thousands)	2019	2018
Unrestricted assets		
Unrestricted	\$ 95,937	\$ 90,296
Board designated	316,528	366,967
Total unrestricted assets	412,465	457,263
Restricted assets	202,832	134,019
	<u>\$ 615,297</u>	<u>\$ 591,282</u>

As of December 31, 2019 and 2018, the District had the following cash and investments:

Investment Type (amounts in thousands)	Total 2019	Investment Maturities (in Years)			
		Less than 1	1 - 2	2 - 3	More than 3
U.S. Treasuries	\$ 24,062	\$ 10,188	\$ 1,524	\$ -	\$ 12,350
U.S. Treasury Strips	16,670	-	-	16,670	-
U.S. Agency Notes	201,402	48,978	55,763	19,902	76,759
U.S. Agency Bills	24,306	19,135	1,886	-	3,285
Municipal Bonds	84,679	8,978	12,290	27,718	35,693
State Investment Pool	21	21	-	-	-
Certificates of Deposit	219,678	65,168	46,581	20,648	87,281
Cash Deposits	44,479	44,479	-	-	-
	<u>\$ 615,297</u>	<u>\$ 196,947</u>	<u>\$ 118,044</u>	<u>\$ 84,938</u>	<u>\$ 215,368</u>

Investment Type (amounts in thousands)	Total 2018	Investment Maturities (in Years)			
		Less than 1	1 - 2	2 - 3	More than 3
U.S. Treasuries	\$ 57,793	\$ 34,366	\$ 10,036	\$ 1,499	\$ 11,892
U.S. Treasury Strips	15,919	-	-	-	15,919
U.S. Agency Notes	211,438	15,284	48,321	54,483	93,350
U.S. Agency Bills	37,220	32,315	-	1,822	3,083
Municipal Bonds	124,788	41,896	8,937	12,088	61,867
State Investment Pool	25,271	25,271	-	-	-
Certificates of Deposit	115,646	-	15,132	35,267	65,247
Cash Deposits	3,207	3,207	-	-	-
	<u>\$ 591,282</u>	<u>\$ 152,339</u>	<u>\$ 82,426</u>	<u>\$ 105,159</u>	<u>\$ 251,358</u>

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

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

The District also reports its investment in the Washington State Treasurer's Local Government Investment Pool (LGIP) at amortized cost. The LGIP is an unrated external investment pool which reports its investments at amortized cost and transacts with its participants at a stable net asset value per share of \$1.00. Participants may contribute and withdraw funds on a daily basis and must inform the LGIP of any contribution or withdrawal over \$1.0 million no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for \$1.0 million or less can be requested at any time prior to 10:00 a.m. on the day of the transaction. However, participants may complete transactions greater than \$1.0 million when notification is made between 9:00 a.m. and 10:00 a.m., at the sole discretion of the LGIP. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The following schedule presents fair value measurements as of December 31, 2019 and 2018:

Fair Value Measurements Using						
Investments (amounts in thousands)	Total 2019	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Net Asset Value (NAV)	Not Leveled
U.S. Treasuries	\$ 24,062	\$ 24,062	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Strips	16,670	16,670	-	-	-	-
U.S. Agency Notes	201,402	-	201,402	-	-	-
U.S. Agency Bills	24,306	-	5,171	-	-	19,135
Municipal Bonds	84,679	-	84,679	-	-	-
State Investment Pool	21	-	-	-	-	21
Certificates of Deposit	219,678	-	-	-	-	219,678
Cash Deposits	44,479	-	-	-	-	44,479
Total Investments	<u>\$ 615,297</u>	<u>\$ 40,732</u>	<u>\$ 291,252</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 283,313</u>

Fair Value Measurements Using						
Investments (amounts in thousands)	Total 2018	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Net Asset Value (NAV)	Not Leveled
U.S. Treasuries	\$ 57,793	\$ 57,793	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Strips	15,919	15,919	-	-	-	-
U.S. Agency Notes	211,438	-	211,438	-	-	-
U.S. Agency Bills	37,220	-	18,301	-	-	18,919
Municipal Bonds	124,788	-	124,788	-	-	-
State Investment Pool	25,271	-	-	-	-	25,271
Certificates of Deposit	115,646	-	-	-	-	115,646
Cash Deposits	3,207	-	-	-	-	3,207
Total Investments	<u>\$ 591,282</u>	<u>\$ 73,712</u>	<u>\$ 354,527</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 163,043</u>

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

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

Credit risk. The District's Treasurer directs the investment of any temporary cash surplus in accordance with the District's investment policy and guided by State of Washington statute. The Treasurer may invest such surplus, depending on individual fund restrictions, in one or more of the following investments in accordance with the current District investment policy: 1) U.S. Treasury bills, notes or bonds; 2) U.S. Government agency securities, limited to 75% of the qualifying portfolio and no more than 25% of the total assets invested with a single issuer; 3) repurchase agreements, which must be collateralized with a third party at 102%, limited to \$10 million with any financial institution; 4) savings or time deposits, including insured or collateralized certificates of deposit, with institutions approved as qualified public depositories by the WPDPC, amount held by each issuer limited to 15% for certificates of deposit and 20% for savings and other deposit accounts, of the District's investment portfolio; 5) bankers' acceptances with the highest short-term credit rating of any two nationally recognized statistical ratings organizations at the time of purchase, limited to no more than 30% of the qualifying portfolio and no more than \$5 million invested in a single issuer; 6) commercial paper having received the highest short-term credit ratings of any two nationally recognized statistical ratings organizations at the time of purchase, limited to no more than 25% of the qualifying portfolio and no more than 3% of the total assets invested with a single issuer; 7) bonds of the State of Washington or any local government in the State of Washington, which bonds have, at the time of investment, one of the three highest credit ratings

of a nationally recognized rating agency, limited to no more than 30% of the qualifying portfolio and no more than 5% of the total assets invested with a single issuer; 8) the LGIP, limited to no more than 25% of the qualifying portfolio; 9) general obligation bonds of a state other than the State of Washington and general obligation bonds of a local government of a state other than the State of Washington, which bonds have, at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency, and when combined with bonds of the State of Washington or any local government in the State of Washington, limited to no more than 30% of the qualifying portfolio and no more than 5% of the total assets invested with a single issuer; 10) and any other investment permitted under the laws of the State of Washington.

As of December 31, 2019 and 2018, investments in debt securities had credit quality ratings as follows:

INVESTMENT RATING (S&P EQUIVALENT)

(amounts in thousands)	2019	2018
<u>Long Term</u>		
AAA	\$ 11,509	\$ 24,908
AA+	224,682	259,496
AA	53,149	62,638
AA-	7,381	13,071
	<u>\$ 296,721</u>	<u>\$ 360,113</u>

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

Concentration of credit risk. The District's investment policy requires that investments are diversified by security type and institution. Investments in an individual issuer of state or local government bonds are limited to no more than 5% of the District's total investment portfolio, and investments in an individual issuer of commercial paper are limited to no more than 3%; bankers' acceptances are limited to no more than \$5.0 million by institution. The aggregate amount of savings, demand deposits and certificates of deposit are limited to 75% of portfolio and 20% per institution.

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

As of December 31, 2019 and 2018, 5% or more of the District's total investment portfolio was invested with each of the following issuers:

Issuer	S & P Credit Rating	Percentage of Portfolio	
		2019	2018
Federal Farm Credit Bank	AA+	9%	9%
Federal Home Loan Bank	AA+	13%	12%
Federal Home Loan Mortgage Corporation	AA+	2%	5%
Federal National Mortgage Association	AA+	10%	11%

DERIVATIVE INSTRUMENTS — FORWARD PURCHASE AGREEMENT

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

The terms, including the counterparty credit ratings of the outstanding forward purchase agreement, as of December 31, 2019, are provided below.

FORWARD PURCHASE AGREEMENT

Counterparty	Credit Rating by Moody's/S&P/Fitch	Guaranteed Yield	Notional Amount	Effective Date	Maturity	12/31/19 Fair Value	12/31/18 Fair Value
Wells Fargo Bank, N.A.	Aa2/AA+/AA-	6.63%	\$ 18,820,179	12/22/1999	6/1/2029	\$ 6,594,000	\$ 5,294,000

As of December 31, 2019 and 2018, the agreement is considered a hedging derivative instrument, and the fair value is recorded on the Statement of Net Position as a derivative asset and a Deferred Inflow of Resources in the same amount.

Fair value. Due to interest rates which are lower than when the forward purchase agreement was entered into, the agreement had a positive fair value to the District as of December 31, 2019 and 2018. The fair value takes into consideration the prevailing investment rate environment and the specific terms and conditions of the transaction. The fair value was estimated using the income approach.

Credit risk. The District is exposed to credit risk in the amount of the positive fair value of the forward

purchase agreement. The credit ratings of the counterparty are noted in the preceding table.

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

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

NOTE 3: UTILITY PLANT

A summary of utility plant in service for the years ended December 31, 2019 and 2018 is as follows:

(amounts in thousands)	January 1, 2019	Additions	Reductions and Transfers	December 31, 2019	Depreciation Expense
Hydroelectric generation	\$ 1,283,080	\$ 9,579	\$ (4,139)	\$ 1,288,520	\$ 20,911
Transmission	159,025	1,297	(280)	160,042	3,142
Distribution	260,488	10,331	(2,807)	268,012	7,098
General plant	149,148	25,639	(11,256)	163,531	5,793
Intangible	39,670	255	-	39,925	1,526
Telecommunications	93,876	4,189	(2,266)	95,799	3,347
Water/ Wastewater	83,843	6,130	(197)	89,776	1,758
	2,069,130	57,420	(20,945)	2,105,605	\$ 43,575
Construction work in progress	100,838	82,856	(57,072)	126,622	
Accumulated depreciation	(1,023,960)	(43,573)	19,225	(1,048,308)	
	<u>\$ 1,146,008</u>	<u>\$ 96,703</u>	<u>\$ (58,792)</u>	<u>\$ 1,183,919</u>	

(amounts in thousands)	January 1, 2018	Additions	Reductions and Transfers	December 31, 2018	Depreciation Expense
Hydroelectric generation	\$ 1,237,100	\$ 49,213	\$ (3,233)	\$ 1,283,080	\$ 22,725
Transmission	156,780	2,879	(634)	159,025	3,115
Distribution	250,531	11,195	(1,238)	260,488	6,827
General plant	145,233	5,901	(1,986)	149,148	5,206
Intangible	39,858	-	(188)	39,670	1,531
Telecommunications	89,740	4,136	-	93,876	3,052
Water/ Wastewater	82,271	1,642	(70)	83,843	1,730
	2,001,513	74,966	(7,349)	2,069,130	\$ 44,186
Construction work in progress	85,677	89,274	(74,113)	100,838	
Accumulated depreciation	(985,716)	(44,187)	5,943	(1,023,960)	
	<u>\$ 1,101,474</u>	<u>\$ 120,053</u>	<u>\$ (75,519)</u>	<u>\$ 1,146,008</u>	

Plant assets include land of \$83.6 million and \$74.1 million as of December 31, 2019 and 2018, respectively.

In 2013, the four large generating units at Rocky Reach Dam were taken out of service after discovering that one of the turbines had a deep crack in a stainless steel servo-rod, which is part of the mechanism used to adjust turbine blades. District officials were concerned about the integrity of all four units, which have the same design elements. Out of concern for the health and safety of District employees, the public and the environment, it was decided to keep all four units out of service for further investigation. Temporary repairs were made to all four units by limiting the blades to a fixed operating mode, with the last of the four large units being returned to service in April 2014. The first two units have been repaired and returned to Kaplan operation with variable blade capability in December

2017 and January 2020, respectively. The remaining two units are in service with fixed blade operation with repairs scheduled to begin in December 2021. Both units are expected to be returned to service by spring 2023. The seven additional generating units at Rocky Reach do not have a similar design and were not impacted by this repair.

The District maintains mechanical breakdown and business interruption insurance policies. Each generating unit has a separate \$500,000 deductible for mechanical breakdown claims. Lost revenues related to business interruption are covered from the date of outage for the first Rocky Reach unit and after 60 days out of service for the three subsequent units. The District's insurance company made partial payments for both mechanical breakdown and business interruption claims in previous years.

During 2019, the District received \$16.3 million and \$1.7 million as final settlement of the claims under

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

the mechanical breakdown and business interruption policies, respectively. Mechanical breakdown proceeds received in the amount of \$3.8 million were recorded to operating expense under "Other operating and maintenance" to offset the covered repairs expense incurred during 2019. The remaining mechanical breakdown proceeds, which are related to repairs incurred in prior years or repairs still to be incurred, along with \$1.7 million business interruption insurance proceeds were recorded under "Other operating revenues." The insurance claims have been fully settled and no additional proceeds will be received.

Based on currently available information, the District does not anticipate the generating unit repairs and outages to have a significant impact to the District's financial condition.

NOTE 4: LICENSING

The District's hydroelectric projects are licensed under the Federal Power Act of 1920 and subsequent amendments. The District received a 50-year license for the Lake Chelan Project in November 2006 and a 43-year license for the Rocky Reach Project in February 2009 and is implementing license measures for both projects. The Rock Island Project license was issued in January 1989. The Rock Island Project license expires December 31, 2028, and the District will begin the relicensing process in 2023. The costs associated with relicensing the projects have been included in the District's Utility Plant balance as Intangible Assets and are being amortized over the lives of the associated licenses.

The Rock Island Project license contains various operational requirements and environmental protections. Primary measures include continuation of the Habitat Conservation Plan (HCP) for salmon and steelhead, measures to protect bull trout, continuation of maintenance and operation of the Wenatchee Confluence, Kirby Billingsley Hydro, Wenatchee Riverfront and Walla Walla parks. The HCP provides a framework for long-term resolution of certain fish issues at the projects. As also required in the license, the District manages cultural, shoreline, recreation and wildlife resources. All costs associated with the ongoing fulfillment of these Rock Island license measures are recognized as operating expenses in the year incurred.

The license for the Lake Chelan Project is based on a settlement agreement submitted to FERC in October

2003, between the District and stakeholders, including local communities, state and federal agencies, Tribes and environmental groups. The license requires implementation of detailed management plans for fish, operations, wildlife, shoreline erosion, water quality, cultural and recreation resources over the life of the license. In addition, the Lake Chelan Project settlement agreement and license contains some measures that will be carried out by various agencies using funds provided by the District. The present value of these accrued funding obligations was estimated to be \$9.5 million and \$9.4 million as of December 31, 2019 and 2018, respectively. The estimate for these funding obligations may increase by measures that are deferred to later years due to inflationary adjustments and may be reduced by measures that are completed.

A summary of accrued funding obligations, accounted for as intangible assets, for the years ended December 31, 2019 and 2018 are as follows:

(amounts in thousands)	2019	2018
Licensing obligation - beginning of year	\$ 9,361	\$ 9,392
Additions	256	-
Reductions	(114)	(31)
Licensing obligation - end of year	<u>\$ 9,503</u>	<u>\$ 9,361</u>

The District's Rocky Reach Project license is based on a settlement agreement submitted to FERC in March 2006, between the District and stakeholders, including local communities, state and federal agencies, Tribes and environmental groups. The Rocky Reach Project license requires implementation of various operational requirements and environmental protections. Primary measures include continuation of the HCP for salmon and steelhead, measures to protect and enhance white sturgeon, bull trout, resident fish and pacific lamprey, and operation and maintenance of Beebe Bridge, Chelan Falls, Powerhouse, Entiat, Daroga, Lincoln Rock and Rocky Reach Dam parks. As also required in the license, the District finalized detailed management plans for operations, shoreline erosion, water quality, recreation, cultural and wildlife resources. These plans are now being implemented. The Rocky Reach project license does not contain funding obligations; therefore, future costs of implementing the license requirements cannot be reasonably estimated and no obligation has been recorded. All related costs are recognized as operating expenses in the year incurred.

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

NOTE 5: REGULATORY DEFERRALS

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

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

The following regulatory balances are as of December 31, 2019 and 2018.

(amounts in thousands)	2019	2018
Regulatory Assets:		
Swap termination payments	\$ 14,632	\$ 17,201
Conservation expenses	17,799	16,545
Debt issuance costs	4,359	5,032
Investments in assets owned by others	2,597	-
Fair Value of Investments	1,472	4,912
	<u>\$ 40,859</u>	<u>\$ 43,690</u>
Regulatory Liabilities:		
Contributed Capital	\$ 21,026	\$ 19,420
Fair Value of Investments	6,243	158
	<u>\$ 27,269</u>	<u>\$ 19,578</u>

Swap Termination Payments. The District terminated three interest rate swaps during 2013 and three interest rate swaps during 2011, incurring swap termination fees in the amount of \$15.9 million and \$24.6 million, respectively. The termination fees would normally have been reflected as a non-operating expense in the years incurred; however, the Commission approved a resolution providing for deferral of the termination fees as regulatory assets to be amortized over periods of up to 15 years to match the expense with the period in which the payments will be recovered through rates.

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

Debt Issuance Costs. In order to match the costs incurred in conjunction with the issuance of debt

with the periods in which the benefit is received and will be reflected in rates, the Commission has approved a resolution that requires these costs to be deferred and amortized over the life of the related bonds. Amortization expense is calculated under the straight-line method or effective interest method, depending on the maturity schedule of the related bonds.

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

NOTE 6: LONG-TERM DEBT

(amounts in thousands)	January 1, 2019	Additions	Reductions	December 31, 2019	Due Within One Year
REVENUE BONDS					
Rocky Reach Revenue Bonds, 5%, due July 1, 2020, to July 1, 2034 (net unamortized premiums of \$188)	\$ 12,440	\$ -	\$ (542)	\$ 11,898	\$ 540
Rock Island Revenue Bonds, 4% to 6.05%, due June 1, 2020, to July 1, 2029 (net unamortized premiums of \$17)	202,188	11,176	(23,154)	190,210	23,170
Consolidated System Revenue Bonds, 3.603% to 6.897%, due July 1, 2020, to July 1, 2039 (net unamortized premiums of \$2,668)	296,260	-	(28,648)	267,612	13,735
	510,888	11,176	(52,344)	469,720	37,445

NOTES FROM DIRECT BORROWINGS

Notes, 0.25% to 1%, due June 1, 2020, to September 30, 2039	6,427	601	(737)	6,291	726
Total Long Term Debt	\$ 517,315	\$ 11,777	\$ (53,081)	\$ 476,011	\$ 38,171

(amounts in thousands)	January 1, 2018	Additions	Reductions	December 31, 2018	Due Within One Year
REVENUE BONDS					
Rocky Reach Revenue Bonds, 5%, due July 1, 2020, to July 1, 2034 (net unamortized premiums of \$188)	\$ 12,959	\$ -	\$ (519)	\$ 12,440	\$ 515
Rock Island Revenue Bonds, 4% to 6.05%, due June 1, 2020, to July 1, 2029 (net unamortized premiums of \$17)	213,057	11,820	(22,689)	202,188	23,150
Consolidated System Revenue Bonds, 3.603% to 6.897%, due July 1, 2020, to July 1, 2039 (net unamortized premiums of \$2,668)	308,820	-	(12,560)	296,260	12,114
	534,836	11,820	(35,768)	510,888	35,779

NOTES FROM DIRECT BORROWINGS

Notes, 0.25% to 2%, due June 1, 2020, to September 30, 2039	7,164	-	(737)	6,427	737
Total Long Term Debt	\$ 542,000	\$ 11,820	\$ (36,505)	\$ 517,315	\$ 36,516

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

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

PRINCIPAL AND INTEREST

(amounts in thousands)	Revenue Bonds		Direct Borrowings	
	Principal	Interest	Principal	Interest
2020	\$ 37,445	\$ 12,307	\$ 726	\$ 31
2021	50,410	11,256	723	28
2022	51,630	10,087	723	24
2023	52,945	8,823	724	21
2024	54,380	7,441	724	17
2025-2029	218,095	17,664	2,089	39
2030-2034	57,255	6,807	415	12
2035-2039	9,145	1,303	167	4
Total	<u>\$ 531,305</u>	<u>\$ 75,688</u>	<u>\$ 6,291</u>	<u>\$ 176</u>

Estimated principal retirements are based on the assumption that all bonds are called or purchased at par. Principal retirements of \$531 million also include \$64 million of future appreciation on Capital Appreciation Bonds (CABs).

The Consolidated System Revenue Bonds, Series 2008B, in the outstanding amount of \$61.2 million at December 31, 2019, were issued as variable rate bonds and have a reset of interest rates every seven days. The original standby bond purchase agreement (Credit Facility) associated with the bonds expired on March 7, 2013. A replacement standby bond purchase agreement was entered into with Union Bank, N.A. (Union Bank) and dated as of March 1, 2013 (Replacement Credit Facility). The Replacement Credit Facility was extended on April 17, 2015, and was terminated on June 22, 2018. The currently active standby bond purchase agreement was entered into with Barclays Bank PLC (Barclays) as of June 1, 2018 (Active Credit Facility), and will be in effect through July 1, 2022. The District pays Barclays a commitment fee of 35 basis points as prescribed in the Active Credit Facility. If any 2008B bonds are purchased and held by Barclays, the bonds will bear interest at a fluctuating annual rate as specified by the Active Credit Facility, which would be at least 700 basis points. In addition, any 2008B bonds purchased and held under the Active Credit Facility are subject to special mandatory redemption over a five-year period in twenty equal quarterly principal installments. As of December 31, 2019, Barclays does not hold any un-remarketed 2008B bonds.

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

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

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

As of December 31, 2019 and 2018, the District was in compliance with all debt covenants.

NOTE 7: PURCHASED POWER SUPPLY

A significant portion of the electric distribution system power is purchased from the District's hydro projects on a cost-plus basis. These intra-district purchases are eliminated in the Statements of Revenues, Expenses and Changes in Net Position. Power purchases from external sources amounted to \$49.1 million and \$52.9 million for 2019 and 2018, respectively, and is included as purchased power in the Statements of Revenues, Expenses and Changes in Net Position. This purchased power is used to meet local load requirements, meet certain contractual obligations and support the District's hedging strategy.

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

NOTE 8: EMPLOYEE BENEFIT PLANS

PENSION PLANS

Substantially all of the District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

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

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

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

PERS PLAN 1

Benefits Provided. PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's

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

Contributions. The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS PLAN 1

Actual Contribution Rates:	Employer	Employee
January through June 2019	12.83%	6.00%
July through December 2019	12.86%	6.00%

For the years ended December 31, 2019 and 2018, the District's actual contributions to the plan were \$30,500 and \$43,600, respectively.

PERS PLAN 2/3

Benefits Provided. PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions. The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 Unfunded Actuarial Accrued Liability (UAAL) and an administrative expense that is currently set at 0.18 percent. Each biennium, the state

Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS PLAN 2/3

Actual Contribution Rates:	Employer 2/3	Employee 2
January through June 2019	12.83%	7.41%
July through December 2019	12.86%	7.90%
Employee PERS Plan 3		varies

For the years ended December 31, 2019 and 2018, the District's actual contributions to the plans were \$10.1 million and \$9.5 million, respectively.

PENSION LIABILITIES, EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

At December 31, 2019 and 2018, the District reported a total pension liability of \$27.9 million and \$36.2 million, respectively, for its proportionate share of the net pension liabilities as follows:

(amounts in thousands)	2019	Liability	2018
PERS 1	\$ 21,045	\$	24,403
PERS 2/3	\$ 6,810	\$	11,777

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

	Proportionate Share 12/31/19	Proportionate Share 12/31/18	Change in Proportion
PERS 1	.547288%	.546415%	.000873%
PERS 2/3	.701021%	.689768%	.011253%

Employer contribution transmittals received and processed by DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by DRS in the *Schedules of Employer and Nonemployer Allocations*.

The collective net pension liability was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

PENSION EXPENSE

For the years ended December 31, 2019 and 2018, the District recognized pension expense as follows:

(amounts in thousands)	Pension Expense	
	2019	2018
PERS 1	\$ 1,010	\$ 2,296
PERS 2/3	1,658	95
TOTAL	<u>\$ 2,668</u>	<u>\$ 2,391</u>

DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

At December 31, 2019 and 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS PLAN 1

(amounts in thousands)	Deferred Outflows of Resources 2019	Deferred Inflows of Resources 2019	Deferred Outflows of Resources 2018	Deferred Inflows of Resources 2018
Differences between expected and actual experience	\$ -	\$ -	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	1,406	-	970
Changes of assumptions	-	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-
Contributions subsequent to the measurement date	2,081	-	1,945	-
TOTAL	<u>\$ 2,081</u>	<u>\$ 1,406</u>	<u>\$ 1,945</u>	<u>\$ 970</u>

PERS PLAN 2/3

(amounts in thousands)	Deferred Outflows of Resources 2019	Deferred Inflows of Resources 2019	Deferred Outflows of Resources 2018	Deferred Inflows of Resources 2018
Differences between expected and actual experience	\$ 1,951	\$ 1,464	\$ 1,444	\$ 2,062
Net difference between projected and actual investment earnings on pension plan investments	-	9,911	-	7,227
Changes of assumptions	174	2,857	138	3,352
Changes in proportion and differences between contributions and proportionate share of contributions	340	-	181	-
Contributions subsequent to the measurement date	3,388	-	2,846	-
TOTAL	<u>\$ 5,853</u>	<u>\$ 14,232</u>	<u>\$ 4,609</u>	<u>\$ 12,641</u>

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

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

(amounts in thousands) Year ended December 31	PERS Plan 1	PERS Plan 2/3
2020	\$ 1,771	\$ 428
2021	(735)	(5,037)
2022	(262)	(2,207)
2023	(98)	(1,158)
2024	-	(511)
Thereafter	-	106
Total	\$ 676	\$ (8,379)

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020.

ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Assumptions. The total pension liability (TPL) for each of the PERS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study and the 2017 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation;
3.5% salary inflation
- **Salary increases:** In addition to the base 3.5% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis; meaning, each

member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

Discount Rate. The discount rate used to measure the total pension liability for all PERS plans was 7.4%.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the asset sufficiency test included an assumed 7.5% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.4% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, whose rates include a component for the PERS 1, plan liability). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4% was used to determine the total liability.

Long-Term Expected Rate of Return. OSA selected a 7.4% long-term expected rate of return on pension plan investments using a building-block method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the table below. The inflation component used to create the table is 2.2% and represents WSIB's most recent long-term estimate of broad economic inflation.

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

Asset Class	Target Allocation	% Long-term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.2%
Tangible Assets	7%	5.1%
Real Estate	18%	5.8%
Global Equity	32%	6.3%
Private Equity	23%	9.3%
	100%	

SENSITIVITY OF NET PENSION LIABILITY

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.4%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4%) or 1-percentage point higher (8.4%) than the current rate.

(amounts in thousands)	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 26,355	\$ 21,045	\$ 16,438
PERS 2/3	\$ 52,225	\$ 6,809	\$ (30,457)

PENSION PLAN FIDUCIARY NET POSITION

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

DEFERRED COMPENSATION PLANS

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

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

The District also offers its employees a 401(a) employer matching plan. The 401(a) is a qualified, tax deferred plan that allows the District to match employee contributions made to the 457 Plan. Under the 401(a) Plan, the District will match each

employee's contribution to the 457 Plan at a rate of 50% with a cap of 5% of an employee's annual base salary up to a maximum of \$9,500 or up to a maximum of \$12,500 for employees age 50 years and over. The District's 401(a) Plan matching contributions for the years ending December 31, 2019 and 2018 were \$2.4 million and \$2.3 million, respectively. Matching contribution rates are at the District's discretion within the requirements of the current bargaining unit agreement.

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

PLAN DESCRIPTION

The District administers a single-employer defined benefit healthcare plan ("the retiree medical plan"). The plan provides other postemployment benefits (OPEB) for retirees and their dependents. The retiree medical plan does not issue a publicly available financial report.

BENEFITS PROVIDED

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

EMPLOYEES COVERED BY BENEFIT TERMS

At December 31, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	-
Active Employees	773
Total	<u>786</u>

CONTRIBUTIONS

The District's subsidy of the cost of 2019 and 2018 premiums for eligible retired plan members and their spouses amounted to \$65,000 and \$54,000, respectively. Plan members receiving benefits contributed 80% and 79% of the premium costs for the years 2019 and 2018, respectively. Future subsidies will be provided by the District at the 2007 level adjusted for inflation, with plan members contributing the remaining premium. Contribution rates may be adjusted at the District's discretion.

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

NET OPEB ASSET

As of December 31, 2019 and 2018, the retiree medical plan was fully funded. The District's net OPEB asset was measured as of October 31, 2019, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of that date. Actuarial update procedures were used to roll forward the service cost and the total OPEB liability to the December 31, 2019 measurement date.

ACTUARIAL ASSUMPTIONS

The total OPEB liability in the October 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation rate	3.0%
Salary increases	3.75%
Discount rate	4.15%
Healthcare cost trend rates	A healthcare trend is not used in the valuation as retiree premiums are assumed to be age-adjusted and changes in the District's subsidy are solely dependent on inflation.

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

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

Fund Type	% of Total Portfolio	Expected Long-Term Real Rate of Return
Domestic Equity	30%	3.8%
Foreign Equity	20%	6.1%
Fixed Income	42%	(0.4%)
Real Estate	5%	3.8%
3 Month Treasury Bills	3%	(1.0%)
	<u>100%</u>	

DISCOUNT RATE

The discount rate used to measure the total OPEB liability was 4.15%. Based on expected 5% long-term rate of return on the OPEB plan's assets, the fiduciary net position was only projected to be available to make projected OPEB payments for plan participants through 2045. Therefore, the expected long-term rate of return on the plans assets has been blended with the December 31, 2019 rate of 2.74% in the 20-year General Obligation Municipal Bond Index published by Bond Buyer.

CHANGES IN THE NET OPEB (ASSET)

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a)+(b)
Balances at 1/1/2019	\$ 862,908	\$ (1,265,976)	\$ (403,068)
Changes for the year:			
Service cost	37,038	-	37,038
Interest	36,108	-	36,108
Differences between expected and actual income	-	(167,415)	(167,415)
Change in assumptions	(75,047)	-	(75,047)
Experience Loss	104,075	-	104,075
Contributions — retirees	264,492	(264,492)	-
Net investment income	-	(63,209)	(63,209)
Benefit payments	(250,174)	250,174	-
Administrative expense	-	17,909	17,909
Net changes	116,492	(227,033)	110,541
Balances at 12/31/2019	<u>\$ 979,400</u>	<u>\$ (1,493,009)</u>	<u>\$ (513,609)</u>

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

SENSITIVITY OF THE NET OPEB ASSET TO CHANGES IN THE DISCOUNT RATE

The following presents the net OPEB asset of the District, as well as what the District's net OPEB asset would be if it were calculated using a discount rate that is 1-percentage-point lower (3.15%) or 1-percentage-point higher (5.15%) than the current discount rate:

	1% Decrease (3.15%)	Current Discount Rate (4.15%)	1% Increase (5.15%)
Net OPEB (asset)	\$ (444,234)	\$ (513,609)	\$ (578,915)

OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

For the years ended December 31, 2019 and 2018, the District recognized OPEB expense of \$(1,560) and \$23,308, respectively. At December 31, 2019 and 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2019	2018	2019	2018
Differences between expected and actual experience	\$ 94,526	\$ -	\$ -	\$ -
Changes of assumptions	-	-	68,161	-
Net difference between actual and projected earnings	75,710	100,947	181,576	71,467
Total	<u>\$ 170,236</u>	<u>\$ 100,947</u>	<u>\$ 249,737</u>	<u>\$ 71,467</u>

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

Year ended December 31:

2020	\$ (29,406)
2021	(29,404)
2022	(5,584)
2023	(30,820)
2024	2,663
Thereafter	13,050

NOTE 10: SEGMENT DISCLOSURE

The District has outstanding revenue bonds used to finance the Rocky Reach and Rock Island hydroelectric production facilities. The outstanding bond issues are secured by a pledge of the net revenues of each project. Each project has an external requirement to be accounted for separately, and investors in the revenue bonds rely solely on the revenue generated by the individual projects for repayment. Summary financial information as of and for the years ended December 31, 2019 and 2018, for both projects is presented below. Included in operating revenues and expenses are intradistrict sales and rents which are eliminated in the Statement of Revenues, Expenses and Changes in Net Position.

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

CONDENSED STATEMENTS OF NET POSITION

(amounts in thousands)	Rocky Reach 2019	Rock Island 2019	Rocky Reach 2018	Rock Island 2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current assets	\$ 9,954	\$ 5,897	\$ 8,792	\$ 4,691
Restricted assets – current	2,926	8,392	2,246	6,405
Total current assets	12,880	14,289	11,038	11,096
Utility plant, net	286,456	414,015	293,129	396,661
Restricted assets – noncurrent	35,003	128,637	39,008	58,481
Other assets	7,118	17,661	8,368	17,538
Deferred outflows of resources	2,218	4,235	1,761	4,091
Total assets and deferred outflows of resources	<u>\$ 343,675</u>	<u>\$ 578,837</u>	<u>\$ 353,304</u>	<u>\$ 487,867</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Current liabilities	\$ 17,164	\$ 45,580	\$ 17,096	\$ 46,375
Long-term debt	105,811	337,508	123,204	276,421
Other liabilities	24,169	25,186	26,548	28,144
Total liabilities	147,144	408,274	166,848	350,940
Deferred inflows of resources	4,910	29,836	3,664	27,462
Net Position:				
Net investment in capital assets	274,465	225,110	280,328	196,401
Restricted	28,785	127,875	32,136	55,757
Unrestricted	(111,629)	(212,258)	(129,672)	(142,693)
Total net position	191,621	140,727	182,792	109,465
Total liabilities, deferred inflows of resources and net position	<u>\$ 343,675</u>	<u>\$ 578,837</u>	<u>\$ 353,304</u>	<u>\$ 487,867</u>

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(amounts in thousands)	Rocky Reach 2019	Rock Island 2019	Rocky Reach 2018	Rock Island 2018
Operating revenues	\$ 83,894	\$ 118,024	\$ 96,512	\$ 104,449
Less:				
Operating expenses	53,765	51,306	58,643	47,089
Depreciation and amortization	9,988	11,292	12,313	10,790
Operating income	20,141	55,426	25,556	46,570
Other expense	8,247	22,079	9,757	21,939
Income before capital contributions and interfund transfers	11,894	33,347	15,799	24,631
Capital contributions	-	628	-	623
Interfund transfers	(3,065)	(2,713)	(15,700)	16,300
Change in net position	8,829	31,262	99	41,554
Total net position — beginning of year	182,792	109,465	182,693	67,911
Total net position — end of year	<u>\$ 191,621</u>	<u>\$ 140,727</u>	<u>\$ 182,792</u>	<u>\$ 109,465</u>

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

CONDENSED STATEMENTS OF CASH FLOWS

(amounts in thousands)	Rocky Reach 2019	Rock Island 2019	Rocky Reach 2018	Rock Island 2018
Net cash provided (used) by:				
Operating activities	\$ 23,821	\$ 61,506	\$ 35,917	\$ 57,618
Capital and related financing activities	(29,543)	5,478	(33,763)	(91,333)
Investing activities	6,697	(40,905)	(3,393)	32,264
Net increase /(decrease)	975	26,079	(1,239)	(1,451)
Beginning cash and cash equivalents	2,616	2,943	3,855	4,394
Ending cash and cash equivalents	\$ 3,591	\$ 29,022	\$ 2,616	\$ 2,943

NOTE 11: SELF-INSURANCE

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; workers compensation; and health care of its employees. The District has elected to cover these risks primarily through self-insurance programs. Secondly, the District has purchased commercial excess liability insurance for claims beyond the deductible amounts. The accrual and payment of claims for the years ended December 31, 2019 and 2018 is summarized in the following table for each insurance program:

(amounts in thousands)	Property & Liability	Workers Compensation	Medical & Health	Dental
Claims Liability as of January 1, 2019	\$ -	\$ 577	\$ 1,250	\$ 33
Claims accrued	-	769	17,015	1,070
Claims paid	-	(735)	(16,697)	(1,062)
Claims Liability as of December 31, 2019	\$ -	\$ 611	\$ 1,568	\$ 41

(amounts in thousands)	Property & Liability	Workers Compensation	Medical & Health	Dental
Claims Liability as of January 1, 2018	\$ -	\$ 97	\$ 911	\$ 39
Claims accrued	-	1,449	14,467	1,161
Claims paid	-	(969)	(14,128)	(1,167)
Claims Liability as of December 31, 2018	\$ -	\$ 577	\$ 1,250	\$ 33

Commercial Insurance Deductible as of December 31, 2019	Up to \$2,000,000 depending on line of coverage	\$500,000 per incident	\$250,000 per incident	N/A
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NOTE 12: COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

In June 2004, the Federal Energy Regulatory Commission (FERC) ordered the incorporation of the Anadromous Fish Agreements and Habitat Conservation Plans (HCPs) into the licenses for the Rocky Reach and Rock Island projects. The Rocky Reach Project HCP was included in the new FERC license issued in February 2009. The HCPs provide a framework for long-term resolution of certain fish issues at the projects and do not expire until June 2054. The District, the U.S. Fish and Wildlife Service (USFWS), NOAA Fisheries, the Washington State Department of Fish and Wildlife, the Confederated Tribes of the Colville Reservation and the Yakama Nation are signatories to the HCPs. NOAA Fisheries completed biological opinions for the HCPs and issued Incidental Take Permits (ITPs) under Section 10 of the Endangered Species Act (ESA) in 2003. The incorporation of the HCPs and ITPs into the current FERC licenses provides greater certainty for continued operation of the District's hydroelectric systems while meeting requirements to prevent jeopardy to certain listed and unlisted species of salmon and steelhead. The Upper Columbia River spring Chinook are listed as endangered and Upper Columbia River steelhead are listed as threatened under the ESA. The HCPs satisfy the District's obligations for hydro project operations under the ESA for these species and in addition, protect other anadromous salmon including sockeye salmon, summer/fall Chinook

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

and coho salmon. Collectively, these five species are known as the “Plan Species.” In addition to the ESA, the HCPs are also intended to satisfy the projects’ obligations for all Plan Species under the Federal Power Act, the Fish and Wildlife Coordination Act, the Essential Fish Habitat provisions of the Magnuson-Stevens Fishery Conservation and Management Act, the Pacific Northwest Electric Power Planning and Conservation Act and Title 77 RCW of the State of Washington.

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

The Columbia River Distinct Population Segment of bull trout is listed by the USFWS (the Service) as a threatened species under the ESA, and a Bull Trout Recovery Team has been established, of which the District is an active member. A draft Upper Columbia River Bull Trout Recovery Plan has been developed, which contains recommendations for recovering bull trout in the Columbia River Basin. Additionally, the Mid-Columbia Recovery Unit Implementation Plan (RUIP), in support of the Bull Trout Recovery Plan, was finalized in September 2015. The District developed comprehensive Bull Trout Management Plans for the Rocky Reach and Rock Island projects in response to the USFWS’s biological opinion on potential effects of

the 2004 HCPs on bull trout, which are not covered by the HCPs. Implementation of the plans began in May 2005. The plan for Rocky Reach was later replaced with the Comprehensive Bull Trout Management Plan as required by the Comprehensive Settlement Agreement for the Rocky Reach Project Relicensing. The Bull Trout Management Plan was approved in the new license and provides for protection, mitigation and enhancement measures. Additionally, the USFWS filed its Biological Opinion for the Rocky Reach Project in December 2008 concluding that the Project is not likely to jeopardize the continued existence of bull trout or destroy or adversely modify critical habitat. The USFWS Biological Opinion provided terms and conditions of an incidental take permit and required five reasonable and prudent measures be implemented to minimize the incidental take of bull trout. In September 2010, the USFWS formally designated critical habitat for bull trout in the upper mid-Columbia river, including the project areas for Rock Island and Rocky Reach hydros. To date, no additional consultation has been required for the projects.

Revised Washington State Department of Ecology (WDOE) water quality standards (WQS) became effective in August 2017. These standards are applicable to the Columbia River basin and address total dissolved gas and temperature for the Columbia and Snake Rivers. As part of the relicensing process for the Rocky Reach and Lake Chelan projects, the District obtained Water Quality Certifications issued by the WDOE that are consistent with the revised WQS. The WDOE allows the District a ten-year window to demonstrate compliance with the new WQS and can require the District to conduct further studies, implement further operational changes or even, in a worst case event, provide structural changes to meet requirements. Compliance with the conditions set forth in these WQS places the District on a path forward in maintaining or achieving water quality standards. Water Quality Certifications may require that further studies be conducted to document methods implemented to address compliance of the WQ standards during the ten-year window and beyond. Based on current evaluations and testing results, the determination of what, if any, additional measures are necessary to address WQS requirements and future costs of implementing those measures cannot be reasonably estimated. Therefore, currently no obligation has been recorded and all related costs are recognized in the year incurred.

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2019 and 2018

ASSET MANAGEMENT PROGRAM

The District's capital improvement programs include large projects at Rock Island Dam for replacement of generators, turbines and governor hydraulic systems and rotor refurbishment in the first powerhouse and refurbishment of bridge and gantry cranes at the second powerhouse. The District has committed by contract to fulfill these programs, which are projected to be substantially complete by 2022. The contractually committed amount on the future work to be performed on these major capital programs is approximately \$64.7 million as of December 31, 2019.

The District also has contractual commitments relating to other significant capital improvement projects including fiber expansion, Customer Information System upgrade, digital turbine governors and unit controllers, digital mobile radio system and new or upgraded building facilities over the next few years totaling approximately \$38.4 million as of December 31, 2019.

In addition, the District has contractual commitments relating to large projects at Rocky Reach Dam for turbine repairs and fabrication of new head covers. As of December 31, 2019, the remaining contractual commitments for this work totals approximately \$11.3 million.

POWER MARKETING

As of December 31, 2019, the District had entered into forward block contracts obligating it to deliver approximately 5,767,000 MWh of energy at various times during each of the years in the period 2020-2024. The District expects to receive approximately \$195.2 million from the purchasers of this power. In addition, as part of its comprehensive forward energy hedging strategy, the District has entered into several slice output contracts, which provide a counterparty a percentage share of hydropower production for a fixed payment. Under the slice output contracts, the District has committed to delivering varying percentages of the hydropower production of its Rocky Reach and Rock Island projects during each of the years in the period 2020-2030, in exchange for approximately \$400.1 million.

The District has committed to purchase approximately 3,341,000 MWh of energy at a cost of approximately \$105.1 million to fulfill these power marketing obligations, meet District load requirements and

mitigate credit risk. The District believes it has sufficient internal resources or has acquired sufficient external resources to complete these transactions.

ENERGY NORTHWEST

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

The Project was constructed in phases. The District is a participant in phases I and II of the Project, which have a combined generating capacity of 64 MW. In exchange for paying certain project costs after phase I and II commenced commercial operation, including debt service on the Wind Project Revenue Bonds issued by Energy Northwest to finance the construction of the Project, the District received a 12.5% share of the total project output up to a maximum of 7.96 MW. As of December 31, 2019, the District's share of bond principal was \$3.0 million and was not to exceed \$3.8 million with the step-up provision. The power purchased under this contract is reported as a component of Purchased Power Operating Expenses.

The District declined to participate in phase III of the Project. In October 2006, the District signed a second amended power purchase agreement, reducing the District's share in the combined project to approximately 8.3% once phase III began commercial operation and extending the expiration of the agreement to 2030. The District's debt obligations related to phases I and II remain the same, but its percentage share of the combined project output and combined operation and maintenance costs were reduced as a result of not participating in phase III.

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

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

CLAIMS AND LITIGATION

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

NOTE 13: TELECOMMUNICATION SERVICES

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

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

(amounts in thousands)	2019	2018
Operating revenues		
Wholesale fiber services	\$ 6,311	\$ 6,601
Fiber leasing	858	755
Intradistrict revenues	3,339	3,315
Total operating revenues	10,508	10,671
Operating expenses		
Administrative and general	1,519	1,175
Repairs and maintenance	1,706	1,429
Other operating	3,927	3,246
Depreciation expense	3,347	3,052
Total operating expense	10,499	8,902
Operating income	9	1,769
Other income	419	300
Net income		
before capital contributions	428	2,069
Capital contributions	113	169
Interfund transfers	1,892	2,500
Change in net position	\$ 2,433	\$ 4,738

Following is a summary of the District's fiber-optic Statements of Net Position as of December 31, 2019 and 2018:

(amounts in thousands)	2019	2018
ASSETS & DEFERRED OUTFLOWS OF RESOURCES		
Current assets	\$ 21,717	\$ 19,554
Utility plant, net and other assets	51,265	51,313
Total assets	72,982	70,867
Deferred outflows of resources	353	283
Total assets and deferred outflows of resources	\$ 73,335	\$ 71,150
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Total liabilities	\$ 2,332	\$ 2,822
Deferred inflows of resources	831	589
Net position	70,172	67,739
Total liabilities, deferred inflows of resources and net position	\$ 73,335	\$ 71,150

The District's capital investment in telecommunications plant and equipment, net of retirements, for 2019 and 2018 was \$1.9 million and \$4.3 million, respectively. The District's cumulative capital investment in telecommunications plant and equipment as of December 31, 2019, was \$98.7 million. The capital investment, as well as cumulative net losses, was funded by interfund transfers.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

PERS PLAN 1

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

(dollars in thousands)	2019	2018	2017	2016	2015
Proportion of the net pension liability	.547288%	.546415%	.543040%	.542981%	.531455%
Proportionate share of the net pension liability	\$ 21,045	\$ 24,403	\$ 25,768	\$ 29,161	\$ 27,800
Covered-employee payroll	\$ 237	\$ 342	\$ 448	\$ 447	\$ 630
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	8,879.75%	7,135.38%	5,751.79%	6,523.71%	4,412.70%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	63.22%	61.24%	57.03%	59.10%

PERS PLAN 2/3

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

(dollars in thousands)	2019	2018	2017	2016	2015
Proportion of the net pension liability	.701021%	.689768%	.688436%	.681594%	.672073%
Proportionate share of the net pension liability	\$ 6,809	\$ 11,777	\$ 23,920	\$ 34,318	\$ 24,014
Covered-employee payroll	\$ 78,421	\$ 74,348	\$ 69,866	\$ 65,077	\$ 64,259
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	8.68%	15.84%	34.24%	52.73%	37.37%
Plan fiduciary net position as a percentage of the total pension liability	97.77%	95.77%	90.97%	85.82%	89.20%

PERS PLAN 1

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS

(dollars in thousands)	2019	2018	2017	2016	2015	2014	2013	2012	2001	2010
Contractually required contribution	\$ 31	\$ 44	\$ 53	\$ 50	\$ 64	\$ 70	\$ 74	\$ 75	\$ 78	\$ 69
Contributions in relation to the contractually required contribution	(31)	(44)	(53)	(50)	(64)	(70)	(74)	(75)	(78)	(69)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 237	\$ 342	\$ 448	\$ 447	\$ 630	\$ 765	\$ 913	\$ 1,047	\$ 1,332	\$ 1,301
Contributions as a percentage of covered-employee payroll	12.66%	12.87%	11.83%	11.18%	10.21%	9.21%	8.11%	7.20%	5.82%	5.31%

PERS PLAN 2/3

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS

(dollars in thousands)	2019	2018	2017	2016	2015	2014	2013	2012	2001	2010
Contractually required contribution	\$ 10,073	\$ 9,469	\$ 8,328	\$ 7,276	\$ 6,539	\$ 5,428	\$ 4,575	\$ 3,943	\$ 3,284	\$ 2,795
Contributions in relation to the contractually required contribution	(10,073)	(9,469)	(8,328)	(7,276)	(6,539)	(5,428)	(4,575)	(3,943)	(3,284)	(2,795)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 78,421	\$ 74,348	\$ 69,866	\$ 65,077	\$ 64,259	\$ 58,959	\$ 56,186	\$ 54,778	\$ 53,085	\$ 52,632
Contributions as a percentage of covered-employee payroll	12.84%	12.74%	11.92%	11.18%	10.18%	9.21%	8.14%	7.20%	6.19%	5.31%

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) (CONT.)

SCHEDULE OF CHANGES IN NET OPEB ASSET AND RELATED RATIOS

Fiscal Year End Date	Fiduciary Net Position (a)	Total OPEB Liability (b)	Net OPEB (Asset) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Net OPEB as a Percentage of Covered Payroll ((b - a) / c)
12/31/19	\$ 1,493,009	\$ 979,400	\$ (513,609)	152%	\$ 74,917,044	(0.69)%
12/31/18	1,265,976	862,908	(403,068)	147%	63,455,719	(0.64)%
12/31/17	1,371,296	820,150	(551,146)	167%	61,162,139	(0.90)%
12/31/16	1,493,891	1,030,417	(463,474)	145%	58,951,459	(0.79)%
12/31/15	2,455,113	1,042,605	(1,412,508)	235%	55,857,915	(2.53)%
12/31/14	2,455,113	1,042,605	(1,412,508)	235%	55,857,915	(2.53)%
12/31/13	2,147,126	1,170,296	(976,830)	183%	50,234,113	(1.94)%
12/31/12	2,147,126	1,170,296	(976,830)	183%	50,234,113	(1.94)%
12/31/11	2,186,952	1,417,889	(769,063)	154%	48,550,921	(1.58)%
12/31/10	2,186,952	1,417,889	(769,063)	154%	48,550,921	(1.58)%

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COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended December 31, 2019, with comparative totals for December 31, 2018

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2019	2018
OPERATING REVENUES									
Retail sales	\$ -	\$ -	\$ -	\$ 73,333	\$ -	\$ -	\$ (792)	\$ 72,541	\$ 57,000
Wholesale sales	71,212	117,897	10,768	218,236	8,240	-	(155,803)	270,550	303,823
Other operating revenues	12,682	127	1,038	39,762	-	23,466	(34,980)	42,095	25,698
	83,894	118,024	11,806	331,331	8,240	23,466	(191,575)	385,186	386,521
OPERATING EXPENSES									
Purchased power and water	-	-	-	201,916	-	-	(152,463)	49,453	53,201
Generation	52,733	50,788	5,478	-	-	-	(16,818)	92,181	98,924
Utility services	-	-	-	73,600	-	-	(19,947)	53,653	49,678
Other operation and maintenance	-	-	-	-	-	18,853	(2,347)	16,506	14,823
Taxes	1,032	518	80	8,112	-	-	-	9,742	8,541
Depreciation and amortization	9,988	11,292	1,940	15,616	-	4,739	-	43,575	44,186
	63,753	62,598	7,498	299,244	-	23,592	(191,575)	265,110	269,353
OPERATING INCOME (LOSS)	20,141	55,426	4,308	32,087	8,240	(126)	-	120,076	117,168
OTHER INCOME (EXPENSE)									
Interest on long-term debt	(598)	(11,454)	-	(29)	(11,861)	-	-	(23,942)	(25,202)
Interest on intersystem loans	(8,536)	(11,600)	(545)	-	20,681	-	-	-	-
Amortization of regulatory assets - debt issuance costs	(18)	(263)	-	-	(392)	-	-	(673)	(700)
Investment income	1,114	3,968	173	7,407	1,668	818	-	15,148	11,435
Federal subsidy income	-	-	-	-	592	-	-	592	590
Other	(209)	(2,730)	(1,116)	4,742	(3,126)	(643)	-	(3,082)	(3,957)
	(8,247)	(22,079)	(1,488)	12,120	7,562	175	-	(11,957)	(17,834)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND INTERFUND TRANSFERS	11,894	33,347	2,820	44,207	15,802	49	-	108,119	99,334
CAPITAL CONTRIBUTIONS	-	628	-	5,190	-	-	-	5,818	5,934
INTERFUND TRANSFERS	(3,065)	(2,713)	(424)	(3,465)	-	9,667	-	-	-
CHANGE IN NET POSITION	8,829	31,262	2,396	45,932	15,802	9,716	-	113,937	105,268
TOTAL NET POSITION									
Beginning of year	182,792	109,465	77,372	514,617	104,468	9,761	-	998,475	893,207
TOTAL NET POSITION									
End of year	\$ 191,621	\$ 140,727	\$ 79,768	\$ 560,549	\$ 120,270	\$ 19,477	\$ -	\$ 1,112,412	\$ 998,475

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

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

For the years ended December 31, 2019 and 2018

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2019	2018
CURRENT ASSETS									
Cash and cash equivalents	\$ 750	\$ 934	\$ 564	\$ 24,338	\$ 3,008	\$ 1,870	\$ -	\$ 31,464	\$ 23,306
Investments	2,255	2,812	1,696	73,206	9,045	5,625	-	94,639	86,154
Accounts receivable, net	2,311	1,471	23	25,675	-	265	-	29,745	37,484
Accrued interest receivable	98	248	14	624	286	66	-	1,336	1,680
Materials and supplies	4,034	-	-	9,229	-	139	-	13,402	13,212
Prepayments and other	477	405	71	1,007	-	62	-	2,022	1,154
Current portion of regulatory assets	29	27	-	51	2,865	6	-	2,978	2,978
	9,954	5,897	2,368	134,130	15,204	8,033	-	175,586	165,968
RESTRICTED ASSETS - CURRENT									
Cash and cash equivalents	730	2,095	1	52	-	643	-	3,521	2,309
Investments	2,196	6,297	-	155	-	1,934	-	10,582	8,527
	2,926	8,392	1	207	-	2,577	-	14,103	10,836
TOTAL CURRENT ASSETS	12,880	14,289	2,369	134,337	15,204	10,610	-	189,689	176,804
UTILITY PLANT									
In service, at original cost	644,491	622,333	120,562	599,347	-	118,872	-	2,105,605	2,069,130
Construction work in progress	4,628	98,494	110	5,873	-	17,517	-	126,622	100,838
Less-accumulated depreciation	(362,663)	(306,812)	(33,815)	(271,466)	-	(73,552)	-	(1,048,308)	(1,023,960)
	286,456	414,015	86,857	333,754	-	62,837	-	1,183,919	1,146,008
RESTRICTED ASSETS - NONCURRENT									
Cash and cash equivalents	2,111	25,993	-	-	547	-	-	28,651	2,863
Investments	32,892	102,644	-	471	18,220	5,851	-	160,078	120,320
	35,003	128,637	-	471	18,767	5,851	-	188,729	123,183
OTHER ASSETS									
Long-term receivables, net	-	-	-	326	-	-	-	326	406
Long-term investments	6,825	8,508	5,132	221,506	27,370	17,021	-	286,362	347,803
Regulatory assets, net	242	2,508	-	20,529	14,586	16	-	37,881	40,712
Derivative instrument asset	-	6,594	-	-	-	-	-	6,594	5,294
Other	51	51	-	11,820	-	533	(11,580)	875	755
	7,118	17,661	5,132	254,181	41,956	17,570	(11,580)	332,038	394,970
TOTAL ASSETS	341,457	574,602	94,358	722,743	75,927	96,868	(11,580)	1,894,375	1,840,965
DEFERRED OUTFLOWS OF RESOURCES									
Losses on refunding debt	-	2,015	-	-	2,170	-	-	4,185	5,109
Pensions	2,218	2,220	251	3,245	-	-	-	7,934	6,554
Other post-employment benefits	-	-	-	-	-	170	-	170	101
	2,218	4,235	251	3,245	2,170	170	-	12,289	11,764
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 343,675	\$ 578,837	\$ 94,609	\$ 725,988	\$ 78,097	\$ 97,038	\$ (11,580)	\$ 1,906,664	\$ 1,852,729

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

COMBINING SCHEDULE OF ASSETS AND DEFERRED OUTFLOWS OF RESOURCES AND LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (CONT.)

For the years ended December 31, 2019 and 2018

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2019	2018
CURRENT LIABILITIES									
Current portion of long-term obligations	\$ 11,354	\$ 31,335	\$ 1,901	\$ 726	\$ (6,814)	\$ -	\$ -	\$ 38,502	\$ 36,937
Current portion of unearned wholesale power sales	717	740	-	12,934	637	-	-	15,028	14,942
Accounts payable	5,367	14,001	330	15,005	-	12,126	-	46,829	55,343
Accrued taxes	1,099	572	81	2,012	-	408	-	4,172	4,034
Accrued interest	293	134	-	14	5,136	-	-	5,577	6,185
Intersystem payables (receivables)	(1,706)	(1,244)	(677)	10,983	-	(7,356)	-	-	-
Accrued vacation and other	40	42	3	72	-	16,162	-	16,319	15,347
	17,164	45,580	1,638	41,746	(1,041)	21,340	-	126,427	132,788
LONG-TERM DEBT									
Revenue bonds and notes payable	11,898	190,210	-	6,290	267,613	-	-	476,011	517,315
Intersystem loans payable (receivable)	105,267	178,633	4,174	(19,981)	(323,820)	55,727	-	-	-
Less current maturities	(11,354)	(31,335)	(1,570)	(726)	6,814	-	-	(38,171)	(36,516)
	105,811	337,508	2,604	(14,417)	(49,393)	55,727	-	437,840	480,799
OTHER LIABILITIES									
Unearned wholesale power sales revenue, less current portion	7,135	7,357	-	114,668	6,342	-	(11,580)	123,922	137,899
Net pension liability	7,784	7,794	879	11,398	-	-	-	27,855	36,180
Long-term contract customer deposit	9,250	9,250	-	-	-	-	-	18,500	18,500
Licensing obligation, less current portion	-	-	9,172	-	-	-	-	9,172	8,940
Other liabilities	-	785	-	-	-	-	-	785	594
	24,169	25,186	10,051	126,066	6,342	-	(11,580)	180,234	202,113
TOTAL LIABILITIES	147,144	408,274	14,293	153,395	(44,092)	77,067	(11,580)	744,501	815,700
DEFERRED INFLOWS OF RESOURCES									
Derivatives	-	6,594	-	-	-	-	-	6,594	5,294
Pensions	4,370	4,376	493	6,399	-	-	-	15,638	13,611
Regulatory liabilities	540	18,866	55	5,645	1,919	244	-	27,269	19,578
Other postemployment benefits	-	-	-	-	-	250	-	250	71
	4,910	29,836	548	12,044	1,919	494	-	49,751	38,554
TOTAL NET POSITION	191,621	140,727	79,768	560,549	120,270	19,477	-	1,112,412	998,475
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 343,675	\$ 578,837	\$ 94,609	\$ 725,988	\$ 78,097	\$ 97,038	\$ (11,580)	\$ 1,906,664	\$ 1,852,729

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

COMBINING SCHEDULE OF CASH FLOWS

For the year ended December 31, 2019, with comparative totals for December 31, 2018

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers	\$ 70,847	\$ 117,258	\$ 11,808	\$ 324,978	\$ 7,522	\$ 23,224	\$ (191,851)	\$ 363,786	\$ 425,742
Payments to suppliers	(32,593)	(26,968)	(3,550)	(255,253)	(8)	(8,070)	191,851	(134,591)	(121,525)
Payments to employees	(30,708)	(28,784)	(3,527)	(38,779)	-	404	-	(101,394)	(95,735)
Insurance proceeds	16,275	-	-	1,696	-	-	-	17,971	-
Net cash provided by operating activities	23,821	61,506	4,731	32,642	7,514	15,558	-	145,772	208,482
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Additions to plant	(2,459)	(32,771)	(1,031)	(22,459)	-	(26,831)	-	(85,551)	(91,032)
Additions to pooled assets	101	85	12	-	-	(198)	-	-	-
Proceeds from sale of plant	114	54	-	58	-	1,420	-	1,646	260
Proceeds of new intersystem loans	-	87,000	-	-	(87,000)	-	-	-	-
Proceeds of new third party debt	-	-	-	601	-	-	-	601	-
Principal (paid) received on debt & intersystem loans	(17,889)	(34,537)	(2,000)	(3,973)	(7,273)	13,484	-	(52,188)	(35,462)
Interest (paid) received on debt & intersystem loans	(9,147)	(11,888)	(545)	(31)	8,238	-	-	(13,373)	(13,662)
Capital contributions	-	101	-	7,229	-	-	-	7,330	4,511
Other	(263)	(2,566)	(1,119)	(1,410)	(120)	78	-	(5,400)	(4,184)
Net cash (used in) provided by capital and related financing activities	(29,543)	5,478	(4,683)	(19,985)	(86,155)	(12,047)	-	(146,935)	(139,569)
CASH FLOWS FROM INVESTING ACTIVITIES									
Investments, net	5,493	(44,950)	89	(10,950)	73,973	(3,264)	-	20,391	(82,002)
Interest on investments	1,204	3,854	175	7,578	2,131	831	-	15,773	11,780
Long-term receivables	-	-	-	80	-	-	-	80	100
Other, net	-	191	(114)	-	-	-	-	77	366
Net cash (used in) provided by investing activities	6,697	(40,905)	150	(3,292)	76,104	(2,433)	-	36,321	(69,756)
NET DECREASE IN CASH & CASH EQUIVALENTS	975	26,079	198	9,365	(2,537)	1,078	-	35,158	(843)
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	2,616	2,943	367	15,025	6,092	1,435	-	28,478	29,321
CASH & CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,591</u>	<u>\$ 29,022</u>	<u>\$ 565</u>	<u>\$ 24,390</u>	<u>\$ 3,555</u>	<u>\$ 2,513</u>	<u>\$ -</u>	<u>\$ 63,636</u>	<u>\$ 28,478</u>

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

COMBINING SCHEDULE OF CASH FLOWS (CONT.)

For the year ended December 31, 2019, with comparative totals for December 31, 2018

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2019	2018
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES									
Operating income	\$ 20,141	\$ 55,426	\$ 4,308	\$ 32,087	\$ 8,240	\$ (126)	\$ -	\$ 120,076	\$ 117,168
Depreciation and amortization	9,988	11,292	1,940	15,616	-	4,739	-	43,575	44,186
(Increase) decrease in operating assets:									
Accounts receivable, net	(131)	(157)	2	8,267	-	(242)	-	7,739	(9,748)
Materials and supplies	(509)	-	-	230	-	89	-	(190)	(381)
Prepayments	(46)	(40)	(7)	(731)	-	(44)	-	(868)	334
Net OPEB asset	-	-	-	-	-	(111)	-	(111)	148
Other	(3,065)	(2,713)	(424)	(215)	-	9,667	-	3,250	2,643
Deferred outflows of resources	(457)	(358)	18	(583)	-	(69)	-	(1,449)	778
Increase (decrease) in operating liabilities:									
Current portion unearned wholesale power sales	24	50	-	-	12	-	-	86	6,040
Accounts payable	(2,753)	(118)	(467)	(5,532)	(8)	1,484	-	(7,394)	11,072
Accrued taxes	(230)	(76)	(4)	327	-	121	-	138	(105)
Accrued vacation and other	2,450	451	49	(1,849)	-	(129)	-	972	348
Unearned wholesale revenue	(459)	(660)	-	(12,934)	(730)	-	-	(14,783)	45,007
Customer deposits	-	1	-	16	-	-	-	17	(1,802)
Net pension liability	(1,920)	(2,489)	(615)	(3,301)	-	-	-	(8,325)	(13,508)
Deferred inflows of resources	788	897	(69)	1,244	-	179	-	3,039	6,302
Net cash provided by operating activities	\$ 23,821	\$ 61,506	\$ 4,731	\$ 32,642	\$ 7,514	\$ 15,558	\$ -	\$ 145,772	\$ 208,482
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES									
Construction costs included in accounts payable	\$ 1,113	\$ (3,641)	\$ (899)	\$ 2,476	\$ -	\$ (186)	\$ -	\$ (1,137)	\$ (507)
Capital contributions	-	-	-	93	-	-	-	93	853

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

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BONDHOLDER-FIDUCIARIES

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

ADDRESSES:

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

U.S. Bank N.A.
PD-WA-T7CT
1420 Fifth Ave., 7th Floor
Seattle, WA 98101
(206) 344-4682

**U.S. Bank Global Corporate
Trust Services**
111 Fillmore Ave. E
St. Paul, MN 55107
Mail Station: EP-MN-WS2N
(800) 934-6802

CONTINUING DISCLOSURE

CONTINUING DISCLOSURE INFORMATION

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

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

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Internal Audit Manager

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

Bond & Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP, Seattle, WA

DISTRIBUTION DIVISION

Five Largest Local Wholesale Purchasers and Major Retail Customers 2019 (1) (Unaudited)

Customer	Business	Energy Sales (000 MWh)	Revenue from Energy Sales (\$000)	Percent of Distribution's Total Revenue
Douglas County PUD	Electric Utility	265	\$ 4,031	1.3%
Stemilt Growers Inc.	Agriculture	62	1,216	0.4%
Salcido Enterprises LLC	High Density Load	39	714	0.2%
Confluence Health	Medical	30	626	0.2%
Chelan Fruit Cooperative	Agriculture	29	586	0.2%
		425	\$ 7,173	2.3%

1. Excludes non-firm sales for resale and off-system sales.

DISTRIBUTION DIVISION

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

Calendar Year	2015	2016	2017	2018	2019
Operating revenues					
Retail	\$ 48,014	\$ 48,447	\$ 53,468	\$ 51,069	\$ 66,358
Resale (1)	188,436	201,134	209,412	238,946	207,731
Other (2)	25,744	27,380	37,513	34,433	39,679
Total	262,194	276,961	300,393	324,448	313,768
Operating expenses	225,526	246,547	265,007	289,623	281,002
Net operating revenue	36,668	30,414	35,386	34,825	32,766
Other income	969	5,262	6,013	8,566	11,642
Net revenue (3)	\$ 37,637	\$ 35,676	\$ 41,399	\$ 43,391	\$ 44,408

1. Includes contractual purchases and non-firm purchases for resale.

2. The Distribution Division includes transmission revenue under transmission agreements.

3. Prior to changes in accounting principles, capital contributions and interfund transfers.

DISTRIBUTION DIVISION

Energy Requirements, Resources and Power Costs (Unaudited)

Calendar Year	2015	2016	2017	2018	2019
Requirements (000 MWh) (1)					
Retail	1,554	1,571	1,748	1,657	1,979
Other	7,467	8,288	8,348	9,423	8,355
	<u>9,021</u>	<u>9,859</u>	<u>10,096</u>	<u>11,080</u>	<u>10,334</u>
Resources (000 MWh)					
Rocky Reach System	2,824	2,839	2,872	2,931	2,363
Rock Island System	1,450	1,407	1,401	1,378	1,155
Lake Chelan System	440	471	461	371	355
Other purchases (2)	4,307	5,142	5,362	6,400	6,461
	<u>9,021</u>	<u>9,859</u>	<u>10,096</u>	<u>11,080</u>	<u>10,334</u>
Purchased Power Costs (\$000)					
Rocky Reach System	\$ 47,926	\$ 53,812	\$ 48,955	\$ 47,297	\$ 34,990
Rock Island System	50,443	50,679	51,601	52,370	59,065
Lake Chelan System	8,185	8,649	7,909	12,826	10,768
Other purchases (2)	57,475	68,465	85,488	103,645	97,342
	<u>\$ 164,029</u>	<u>\$ 181,605</u>	<u>\$ 193,953</u>	<u>\$ 216,138</u>	<u>\$ 202,165</u>
Average cost (\$/MWh) (3)	\$ 18	\$ 18	\$ 19	\$ 20	\$ 20

1. Net of timing differences and losses.
2. Other purchases include firm and non-firm power purchased to meet local requirements and certain contractual obligations, hedge price movements and minimize the District's overall risk exposure to changes in power prices.
3. Includes actual costs of power of the Distribution Division plus allocable administrative and other expenses of the Distribution Division. Fluctuations in average cost may be due to fluctuations in water conditions on the Columbia River, which may significantly affect market prices.

DISTRIBUTION DIVISION

Customers, Energy Sales and Revenues (Unaudited)

Calendar Year	2015	2016	2017	2018	2019
Customers					
Retail:					
Residential	37,222	37,708	38,161	38,783	39,453
Commercial	6,290	6,296	6,316	6,383	6,446
Industrial	30	31	29	30	30
High density load	-	-	19	20	13
Irrigation, frost, lighting	5,617	5,616	5,600	5,602	5,592
Interdepartmental	543	556	555	563	612
Total retail customers	49,702	50,207	50,680	51,381	52,146
Resale:	87	86	86	88	88
Total customers	49,789	50,293	50,766	51,469	52,234
Energy Sales (000 MWh)					
Retail:					
Residential	742	756	881	810	879
Commercial	482	491	499	465	478
Industrial	256	265	239	243	247
High density load	-	-	68	77	81
Irrigation, frost, lighting	48	43	40	40	36
Interdepartmental	26	16	21	22	20
Total retail sales	1,554	1,571	1,748	1,657	1,741
Other End-Use:					
Off-system sales (1)	-	-	-	-	238
Resale:					
Alcoa Corp. (1)	88	-	-	-	-
Douglas County PUD	325	331	324	329	265
Other – firm/slice	2,155	2,147	2,165	2,443	1,745
Other – non firm/block/preschedule/real time (2)	4,714	6,088	6,046	6,585	6,008
Total sales for resale	7,282	8,566	8,535	9,357	8,018
Total energy sales	8,836	10,137	10,283	11,014	9,997
Revenue (\$000)					
Retail:					
Residential	\$ 24,021	\$ 24,424	\$ 27,944	\$ 26,019	\$ 27,985
Commercial	16,348	16,666	17,004	15,976	16,438
Industrial	5,185	5,366	4,896	5,001	5,072
High density load	-	-	1,504	1,781	1,845
Irrigation, frost, lighting	1,722	1,529	1,499	1,492	1,465
Interdepartmental	738	463	621	800	600
Total retail revenue	48,014	48,448	53,468	51,069	53,405
Other End-Use:					
Off-system sales (1)	-	-	-	-	12,953
Resale:					
Alcoa Corp. (2)	2,207	6,197	6,694	9,914	12,934
Douglas County PUD	5,204	5,510	5,353	5,013	4,031
Other – firm/slice	84,262	75,431	78,934	81,287	70,241
Other – non firm/block/preschedule/real time	96,763	113,995	118,431	142,731	120,525
Total resale revenue	188,436	201,133	209,412	238,945	207,731
Other revenue (3)	25,744	27,380	37,513	34,433	39,679
Total revenue	\$ 262,194	\$ 276,961	\$ 300,393	\$ 324,447	\$ 313,768

1. In 2019, the District began providing power under a five-year agreement to Microsoft's Puget Sound campuses. Microsoft is the only off-system customer.

2. In December 2015, Alcoa Corp. curtailed its Wenatchee Works smelting facility. Proceeds from the sale of any unused power, in excess of Alcoa Corp's monthly contractual costs, are retained by the District.

3. Includes amortization of capacity reservation charge.

4. Includes transmission, real-time agreement and environmental attribute revenues.

HYDROELECTRIC SYSTEMS

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

Calendar Year	2015	2016	2017	2018	2019
Rocky Reach System					
Operating expenses	\$ 49,728	\$ 65,363	\$ 56,801	\$ 58,643	\$ 53,765
Depreciation and amortization	16,634	16,951	17,299	12,313	9,988
Interest expense	13,336	12,434	11,377	10,144	9,134
Other (revenue) expense (1)	(440)	(665)	(1,344)	(585)	(13,569)
Total power cost (2)	<u>\$ 79,258</u>	<u>\$ 94,083</u>	<u>\$ 84,133</u>	<u>\$ 80,515</u>	<u>\$ 59,318</u>
Net power delivered (000 MWh)	5,748	5,833	5,862	5,986	4,795
Cost in \$/MWh	\$ 14	\$ 16	\$ 14	\$ 13	\$ 12
Plant factor (3)	50%	51%	51%	53%	42%
Availability factor	79%	73%	79%	78%	68%
Average river flow (000 CFS) (4)	103	107	131	125	87
Rock Island System					
Operating expenses	\$ 39,057	\$ 42,909	\$ 44,426	\$ 47,089	\$ 51,306
Depreciation and amortization	10,975	11,297	10,322	10,790	11,292
Interest expense	24,457	23,520	22,610	21,485	23,055
Other (revenue) expense (1)	(772)	(426)	(815)	(316)	(1,729)
Total power cost (2)	<u>\$ 73,717</u>	<u>\$ 77,300</u>	<u>\$ 76,543</u>	<u>\$ 79,048</u>	<u>\$ 83,924</u>
Net power delivered (000 MWh) (5)	2,932	2,853	2,820	2,782	2,347
Cost in \$/MWh	\$ 25	\$ 27	\$ 27	\$ 28	\$ 36
Plant factor (3)	53%	52%	51%	50%	43%
Availability factor	81%	62%	59%	59%	55%
Lake Chelan System					
Operating expenses	\$ 5,134	\$ 6,018	\$ 5,587	\$ 10,364	\$ 5,558
Depreciation and amortization	1,889	1,887	1,902	1,902	1,940
Interest expense	836	770	700	626	545
Other (revenue) expense (1)	(3)	(35)	(48)	(77)	(95)
Total power cost (2)	<u>\$ 7,856</u>	<u>\$ 8,640</u>	<u>\$ 8,141</u>	<u>\$ 12,815</u>	<u>\$ 7,948</u>
Net power delivered (000 MWh)	440	471	461	371	355
Cost in \$/MWh	\$ 18	\$ 18	\$ 18	\$ 35	\$ 22
Plant factor (3)	85%	91%	89%	72%	69%
Availability factor	89%	92%	97%	75%	96%
Combined Hydro Cost in \$/MWh	\$ 18	\$ 20	\$ 18	\$ 19	\$ 20

1. Includes other income and expenses that impact power cost.

2. Non-GAAP, may not be comparable with similarly titled other District metrics.

3. Net power delivered as a percentage of rated capacity for the year.

4. Annual average Columbia River flow measured at Rocky Reach System in thousands of cubic feet per second (000 CFS).

5. After minor sales to operators' cottages and adjustments for encroachment and Canadian Treaty deliveries.

CONSOLIDATED SYSTEM

Operating Results and Debt Service Coverage (\$000) (Unaudited)

As defined in the Master Resolution 07-13067

Calendar Year	2015	2016	2017	2018	2019
Operating revenues (1)					
Retail	\$ 54,009	\$ 54,653	\$ 60,088	\$ 57,993	\$ 73,333
Resale	219,650	228,371	236,087	269,808	237,669
Other	44,009	45,728	58,020	56,466	64,266
Total	317,668	328,752	354,195	384,267	375,268
Less: Operating expenses					
Purchased power and water	(164,338)	(181,905)	(194,261)	(216,487)	(202,726)
Other operation & maintenance	(74,866)	(79,770)	(85,434)	(95,010)	(97,809)
Taxes	(5,388)	(5,802)	(7,011)	(6,645)	(8,192)
Depreciation & amortization	(19,700)	(19,048)	(19,912)	(21,083)	(22,294)
Operating income	53,376	42,227	47,577	45,042	44,247
Adjustments					
Add back depreciation & amortization	19,700	19,048	19,912	21,083	22,294
Add investment income	3,051	3,651	4,746	7,892	10,066
Add principal and interest payments from Rocky Reach & Rock Island	48,520	46,650	45,196	37,233	38,665
Total adjustments	71,271	69,349	69,854	66,208	71,025
Net revenues	124,647	111,576	117,431	111,250	115,272
Plus withdrawals (deposits) to Rate Stabilization Fund	-	-	-	-	-
Adjusted net revenues	\$ 124,647	\$ 111,576	\$ 117,431	\$ 111,250	\$ 115,272
Available funds (2)	\$ 202,221	\$ 272,163	\$ 313,579	\$ 423,839	\$ 372,232
Annual debt service	\$ 42,751	\$ 28,280	\$ 28,236	\$ 26,493	\$ 25,983
Debt service coverage					
With available funds (min 1.25x)	7.65	13.57	15.26	20.20	18.76
Without available funds (min 1.00x)	2.92	3.95	4.16	4.20	4.44

1. Includes revenues of the District's Distribution Division; Financing Facilities, Treasury Services and Internal Service Funds; and Lake Chelan, Fiber and Telecommunications, Water and Wastewater Systems; all of which are part of the Consolidated System. Also certain revenues which were deferred and are being recognized over the terms of the applicable contracts.

2. Includes all unencumbered funds of the District that the District reasonably expects to be available to pay debt service on the Bonds.

CONSOLIDATED SYSTEM AND HYDROELECTRIC SYSTEMS

Outstanding Long-Term Debt as of December 31, 2019 (\$000) (Unaudited)

Date of Bonds	Final Maturity Date	Series of Bonds	Original Principal Amount	Scheduled Retirement (1)	Actual Retirement (2)	Principal Amount Outstanding	Accumulated for Retirement (3)
CONSOLIDATED SYSTEM							
6/3/2009	7/1/2032	2008B	\$ 92,880	\$ 30,915	\$ 31,685	\$ 61,195	\$ 972
8/11/2009	7/1/2039	2009D	27,015	-	-	27,015	1,800
6/1/2011	7/1/2026	2011A	107,500	49,275	49,275	58,225	5,244
6/1/2011	7/1/2026	2011B	72,220	33,105	33,105	39,115	3,377
11/9/2011	7/1/2026	2011C	164,425	69,360	85,030	79,395	5,351
Total Consolidated System			464,040	182,655	199,095	264,945	16,744
ROCK ISLAND SYSTEM							
3/17/1997	6/1/2029	1997A (4)	135,944	235,245	235,245	184,303	32,054
8/11/2009	7/1/2029	2009A	14,000	3,945	8,110	5,890	608
Total Rock Island System			149,944	239,190	243,355	190,193	32,662
ROCKY REACH SYSTEM							
8/11/2009	7/1/2034	2009A	15,895	4,185	4,185	11,710	764
Total Rocky Reach System			15,895	4,185	4,185	11,710	764
Grand Total			<u>\$ 629,879</u>	<u>\$ 426,030</u>	<u>\$ 446,635</u>	<u>\$ 466,848</u>	<u>\$ 50,170</u>

1. Amount of serial bonds matured as of December 31, 2019 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, 2019 plus actual retirement of term bonds retired from mandatory sinking funds, reserve accounts and optional purchases.
3. Amounts accumulated as cash and investments in various principal accounts, sinking funds and reserve accounts available for the future retirement of bonds. Investments are represented at book value.
4. Represents Capital Appreciation Bonds on which interest is compounded. Thus, the accreted value reported as Principal Amount Outstanding may exceed Original Principal Amount less Actual Retirements.

CONSOLIDATED SYSTEM

Loans as of December 31, 2019 (\$000) (Unaudited)

	Net Loans Outstanding (1)
Rocky Reach System	\$ 105,267
Rock Island System	178,633
Consolidated System (2)	39,921
	<u>\$ 323,821</u>

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

CONSOLIDATED SYSTEM DEBT SERVICE AND HYDROELECTRIC SYSTEM LOAN PAYMENTS

As of December 31, 2019 (Unaudited)

Year	Consolidated Bonds			Loan Payments (1)		
	Aggregate Annual Debt Service			Rocky Reach	Rock Island	Total Loan Payments
	Principal (2)	Interest (3)	Total			
2020	\$ 13,735,000	\$ 11,452,143	\$ 25,187,143	\$ 18,682,912	\$ 20,613,413	\$ 39,296,325
2021	26,650,000	10,447,954	37,097,954	16,995,034	19,875,295	36,870,329
2022	27,820,000	9,327,717	37,147,717	16,995,986	19,693,725	36,689,711
2023	29,085,000	8,114,495	37,199,495	16,928,190	19,687,391	36,615,581
2024	30,470,000	6,786,253	37,256,253	16,872,091	19,215,015	36,087,106
2025	33,965,000	5,374,401	39,339,401	14,732,661	18,761,232	33,493,893
2026	21,613,353	3,807,711	25,421,064	13,050,225	18,701,620	31,751,845
2027	1,970,000	2,135,182	4,105,182	11,627,056	18,700,824	30,327,880
2028	2,865,000	2,051,435	4,916,435	10,208,263	19,318,353	29,526,616
2029	1,290,000	1,975,550	3,265,550	8,878,935	15,112,245	23,991,180
2030	1,345,000	1,918,164	3,263,164	7,463,981	16,564,170	24,028,151
2031	1,405,000	1,856,082	3,261,082	6,054,618	16,049,049	22,103,667
2032	45,512,775	1,212,721	46,725,496	4,803,146	14,911,880	19,715,026
2033	1,530,000	566,592	2,096,592	4,220,632	14,859,165	19,079,797
2034	1,600,000	495,970	2,095,970	3,961,897	14,398,918	18,360,815
2035	1,675,000	422,117	2,097,117	2,638,751	13,427,904	16,066,655
2036	1,745,000	344,802	2,089,802	1,388,256	13,268,747	14,657,003
2037	1,825,000	264,256	2,089,256	289,191	13,004,724	13,293,915
2038	1,905,000	180,017	2,085,017	289,191	12,189,329	12,478,520
2039	194,940	92,086	287,026	146,202	8,792,291	8,938,493
2040	-	-	-	-	6,734,004	6,734,004
2041	-	-	-	-	6,629,707	6,629,707
2042	-	-	-	-	6,350,711	6,350,711
2043	-	-	-	-	6,079,457	6,079,457
2044	-	-	-	-	1,429,016	1,429,016
Total	\$ 248,201,068	\$ 68,825,648	\$ 317,026,716	\$ 176,227,218	\$ 354,368,185	\$ 530,595,403

1. Represents loan payment obligations of the Rocky Reach and Rock Island Hydroelectric Systems to the Consolidated System with respect to intersystem loans from the Consolidated System.
2. Estimated principal retirements are based on the assumption that all bonds mature or are purchased at par. Includes serial and balloon payments reduced by funds held in Reserve Accounts at the time of final maturity. The District may elect to utilize the Reserve Accounts other than assumed depending on market conditions and limitations contained in the governing resolutions. The District anticipates that most balloon payments will be made as scheduled on or prior to the dates they become due, however the District may elect to refinance balloon payments.
3. Interest is net of Build America Bond (BAB) direct payment Federal subsidy assumed at approximately 33 percent.

CONSOLIDATED SYSTEM

Unrestricted and Restricted Fund Balances as of December 31, 2019 (\$000) (Unaudited)

Balances (1)	Utility Services (2)	Lake Chelan	Financing Facilities (3)	Internal Services Fund	Total
Unrestricted funds					
Revenue fund (4)	\$ 54,369	\$ 838	\$ 5,767	\$ 12,876	\$ 73,850
Available funds:					
Rate stabilization fund	50,000	-	-	-	50,000
Operating reserve fund	151,294	-	-	-	151,294
Other unrestricted funds (5)	63,388	6,554	33,656	11,640	115,238
Total unrestricted funds	319,051	7,392	39,423	24,516	390,382
Restricted funds (6)	678	1	18,767	8,428	27,874
Total fund balances	\$ 319,729	\$ 7,393	\$ 58,190	\$ 32,944	\$ 418,256

1. Amounts reflect both cash and book value of investments.

2. Includes Distribution Division, Fiber and Telecommunications, Water and Wastewater Systems.

3. Financing Facilities is an internal service fund of the District's Consolidated System used to account for various financing related activities, including holding Consolidated System debt service reserve funds.

4. Unencumbered funds of the District held in the Revenue Fund.

5. Includes all other Unrestricted Funds such as Board Designated Construction Funds and Reserves.

6. Includes all Restricted Funds such as Consolidated System Bond Proceeds, Bond Reserves and other Reserves.

ROCK ISLAND SYSTEM

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

Calendar Year	2015	2016	2017	2018	2019
Original system net generation	481	491	463	425	334
Second powerhouse net generation	2,272	2,190	2,194	2,245	1,942
Total generation	2,753	2,681	2,657	2,670	2,276
Plus:					
Wanapum encroachment (1)	506	511	464	451	398
Net interchange	23	17	39	9	8
System losses by contract	(9)	(15)	(17)	(18)	(17)
Less:					
Canadian Treaty Power (2)	(160)	(159)	(158)	(156)	(156)
Rocky Reach Encroachment (3)	(181)	(183)	(165)	(174)	(162)
Total net power delivered (4)	2,932	2,852	2,820	2,782	2,347
Percentage allocations (5)					
Power Purchasers	51%	51%	51%	51%	51%
District	49%	49%	49%	49%	49%
Sales:					
Power Purchasers	1,482	1,445	1,419	1,404	1,194
District	1,450	1,407	1,401	1,378	1,153
Total sales (4)	2,932	2,852	2,820	2,782	2,347
Net peaking capability	629	629	629	629	629
Availability factor	81%	62%	59%	59%	55%
Plant factor (6)	53%	52%	51%	50%	43%

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

ROCK ISLAND SYSTEM

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

Calendar Year	2015	2016	2017	2018	2019
Rock Island System	\$ 25	\$ 27	\$ 27	\$ 28	\$ 36
Bonneville Power (1)	\$ 40	\$ 40	\$ 40	\$ 42	\$ 42

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

ROCK ISLAND SYSTEM

Historical and Projected Annual Capital Requirements (\$000)

Actual Calendar Year	2015	2016	2017	2018	2019
Rock Island System	\$ 11,320	\$ 33,708	\$ 33,001	\$ 46,622	\$ 28,504
Projected Calendar Year (1)	2020	2021	2022	2023	2024
Rock Island System	\$ 78,780	\$ 64,260	\$ 56,416	\$ 39,647	\$ 40,074

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

ROCK ISLAND SYSTEM

Cash Available for Debt Service (\$000) (Unaudited)

Calendar Year	2015	2016	2017	2018	2019
Operating revenues:					
Power Purchasers	\$ 51,201	\$ 51,448	\$ 52,391	\$ 53,209	\$ 60,152
District	49,166	49,402	50,324	51,093	57,745
Total revenues from sales	100,367	100,850	102,715	104,302	117,897
Other operating revenues	168	158	143	147	127
Total operating revenues	100,535	101,008	102,858	104,449	118,024
Total operating expenses (1)	50,032	54,207	54,748	57,879	62,598
Net operating revenues	50,503	46,801	48,110	46,570	55,426
Other expense	(24,649)	(23,930)	(23,036)	(21,939)	(22,079)
Net revenues	25,854	22,871	25,074	24,631	33,347
Add back:					
Depreciation	10,975	11,297	10,322	10,790	11,292
Interest expense	24,457	23,520	22,610	21,485	23,054
Amortization of deferred debt costs	270	290	265	264	263
Other (2)	165	337	395	191	105
Deduct:					
Amortization of deferred power sales revenue	(651)	(655)	(669)	(690)	(892)
Cash available for debt service	61,070	57,660	57,997	56,671	67,169
Annual debt service:					
Rock Island Bonds	23,422	23,421	23,420	22,973	23,438
Intersystem loans	17,668	16,246	15,981	15,123	18,780
Total debt service requirement	41,090	39,667	39,401	38,096	42,218
Cash available after payment of all debt service	\$ 19,980	\$ 17,993	\$ 18,596	\$ 18,575	\$ 24,951
Coverage of total debt service	1.49	1.45	1.47	1.49	1.59

1. Includes depreciation expense.

2. Represents noncash items such as fair value adjustments and amortizations included in operating activities that are not indicative of cash available for debt service.

ROCK ISLAND SYSTEM

Debt Service Requirements as of December 31, 2019 (Unaudited)

Twelve Months Ending Dec. 31	Bonds		Subordinate Lien Bonds		Intersystem Loans (1)		Total Estimated Debt Service
	Estimated Debt Service	Estimated Principal Retirements (2)(3)	Estimated Debt Service	Estimated Principal Retirements (2)	Estimated Debt Service	Estimated Principal Retirements	
2020	\$ 22,685,000	\$ 22,685,000	\$ 753,956	\$ 485,000	\$ 20,613,413	\$ 8,481,879	\$ 44,052,369
2021	22,685,000	22,685,000	754,556	505,000	19,875,295	8,258,173	43,314,851
2022	22,685,000	22,685,000	754,356	525,000	19,693,725	8,572,715	43,133,081
2023	22,685,000	22,685,000	753,356	545,000	19,687,391	9,084,176	43,125,747
2024	22,685,000	22,685,000	751,556	565,000	19,215,015	9,152,112	42,651,571
2025	22,685,000	22,685,000	753,250	590,000	18,761,232	9,245,451	42,199,482
2026	22,685,000	22,685,000	753,750	620,000	18,701,620	9,737,365	42,140,370
2027	22,685,000	22,685,000	752,750	650,000	18,700,824	10,318,636	42,138,574
2028	22,685,000	22,685,000	755,250	685,000	19,318,353	11,552,168	42,758,603
2029	12,541,000	12,541,000 (4)	147,994	111,994 (4)	15,112,245	7,926,246	27,801,239
2030	-	-	-	-	16,564,170	9,930,063	16,564,170
2031	-	-	-	-	16,049,049	9,991,755	16,049,049
2032	-	-	-	-	14,911,880	9,447,055	14,911,880
2033	-	-	-	-	14,859,165	9,942,364	14,859,165
2034	-	-	-	-	14,398,918	10,064,140	14,398,918
2035	-	-	-	-	13,427,904	9,670,618	13,427,904
2036	-	-	-	-	13,268,747	10,059,160	13,268,747
2037	-	-	-	-	13,004,724	10,366,454	13,004,724
2038	-	-	-	-	12,189,329	10,144,107	12,189,329
2039	-	-	-	-	8,792,291	7,312,613	8,792,291
2040	-	-	-	-	6,734,004	5,639,669	6,734,004
2041	-	-	-	-	6,629,707	5,795,530	6,629,707
2042	-	-	-	-	6,350,711	5,781,447	6,350,711
2043	-	-	-	-	6,079,457	5,768,788	6,079,457
2044	-	-	-	-	1,429,016	1,385,525	1,429,016
Total	\$ 216,706,000	\$ 216,706,000	\$ 6,930,774	\$ 5,281,994	\$ 354,368,185	\$ 213,628,209	\$ 578,004,959

1. Represents loan payment obligations of the Rock Island System to the Consolidated System with respect to the intersystem loans from the Consolidated System.
2. Estimated principal retirements are based on the assumption that all bonds mature or are purchased at par.
3. Represents Capital Appreciation Bonds on which interest is compounded. Thus, the accreted value reported as Estimated Principal Retirements equals Estimated Debt Service.
4. The final estimated debt service is reduced by the principal retirements assumed to be retired with the application of the appropriate Reserve Account, principal accounts and sinking funds. It should be recognized the District may elect to utilize the various Reserve Accounts in a manner other than as reflected, depending upon market conditions and the limitations contained in the governing resolution.

ROCK ISLAND SYSTEM

Operating Results and Debt Service Coverage (\$000) (Unaudited)

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

Calendar Year	2015	2016	2017	2018	2019
Operating revenue					
Wholesale sales (1)	\$ 100,367	\$ 100,850	\$ 102,715	\$ 104,302	\$ 117,897
Other operating revenues	168	158	143	147	127
Total operating revenues	100,535	101,008	102,858	104,449	118,024
Operating expenses					
Operations & maintenance	(38,421)	(42,273)	(43,805)	(46,479)	(50,788)
Taxes	(637)	(637)	(621)	(610)	(518)
Depreciation and amortization	(10,975)	(11,297)	(10,322)	(10,790)	(11,292)
Total operating expense	(50,033)	(54,207)	(54,748)	(57,879)	(62,598)
Operating income	50,502	46,801	48,110	46,570	55,426
Adjustments					
Subtract Power Purchaser CS debt sales (2)	(17,668)	(16,246)	(15,981)	(15,123)	(18,780)
Add back depreciation and amortization	10,975	11,297	10,322	10,790	11,292
Add investment income	2,079	2,370	2,297	2,324	3,968
Total adjustments	(4,614)	(2,579)	(3,362)	(2,009)	(3,520)
Net revenues	<u>\$ 45,888</u>	<u>\$ 44,222</u>	<u>\$ 44,748</u>	<u>\$ 44,561</u>	<u>\$ 51,906</u>
Annual debt service					
Bonds	\$ 22,685	\$ 22,685	\$ 22,685	\$ 22,685	\$ 22,685
Subordinate Bonds	737	736	735	288	753
Total debt service	<u>\$ 23,422</u>	<u>\$ 23,421</u>	<u>\$ 23,420</u>	<u>\$ 22,973</u>	<u>\$ 23,438</u>
Debt service coverage					
Without available funds (required 1.00x)	1.96	1.89	1.91	1.94	2.21

1. Payments from Power Purchaser pursuant to long-term contracts for operating expenses, debt service related to Rock Island project debt and loans of Consolidated System bond proceeds and other contractually defined amounts.

2. Adjustment made to subtract Power Purchaser payments for debt service associated with loans of Consolidate System bond proceeds.

ROCKY REACH SYSTEM

Debt Service Requirements as of December 31, 2019 (Unaudited)

Twelve Months Ending Dec. 31	Bonds		Intersystem Loans (1)		Total Estimated Debt Service
	Estimated Debt Service	Estimated Principal Retirements (2)	Estimated Debt Service	Estimated Principal Retirements	
2020	\$ 1,125,500	\$ 540,000	\$ 18,682,912	\$ 10,813,510	\$ 19,808,412
2021	1,128,500	570,000	16,995,034	9,781,536	18,123,534
2022	1,130,000	600,000	16,995,986	10,422,550	18,125,986
2023	1,130,000	630,000	16,928,190	11,032,325	18,058,190
2024	1,128,500	660,000	16,872,091	11,669,551	18,000,591
2025	1,125,500	690,000	14,732,661	10,278,871	15,858,161
2026	1,126,000	725,000	13,050,225	9,265,300	14,176,225
2027	1,129,750	765,000	11,627,056	8,437,424	12,756,806
2028	1,126,500	800,000	10,208,263	7,550,719	11,334,763
2029	1,126,500	840,000	8,878,935	6,701,646	10,005,435
2030	1,129,500	885,000	7,463,981	5,721,337	8,593,481
2031	1,130,250	930,000	6,054,618	4,687,783	7,184,868
2032	1,128,750	975,000	4,803,146	3,750,061	5,931,896
2033	1,130,000	1,025,000	4,220,632	3,448,158	5,350,632
2034	364,300	310,550 (3)	3,961,897	3,444,978	4,326,197
2035	-	-	2,638,751	2,331,708	2,638,751
2036	-	-	1,388,256	1,251,761	1,388,256
2037	-	-	289,191	239,572	289,191
2038	-	-	289,191	258,335	289,191
2039	-	-	146,202	135,641	146,202
Total	\$ 16,159,550	\$ 10,945,550	\$ 176,227,218	\$ 121,222,766	\$ 192,386,768

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

ROCKY REACH SYSTEM

Operating Results and Debt Service Coverage (\$000) (Unaudited)

As defined in the Rocky Reach Master Resolution 08-13390

Calendar Year	2015	2016	2017	2018	2019
Operating revenue					
Wholesale sales (1)	\$ 96,575	\$ 109,610	\$ 99,684	\$ 96,313	\$ 71,212
Other operating revenues	208	204	914	199	12,682
Total operating revenues	96,783	109,814	100,598	96,512	83,894
Operating expenses					
Operations & maintenance	(48,493)	(64,112)	(55,541)	(57,357)	(52,733)
Taxes	(1,235)	(1,251)	(1,260)	(1,286)	(1,032)
Depreciation and amortization	(16,634)	(16,951)	(17,299)	(12,313)	(9,988)
Total operating expenses	(66,362)	(82,314)	(74,100)	(70,956)	(63,753)
Operating income	30,421	27,500	26,498	25,556	20,141
Adjustments					
Subtract Power Purchaser CS debt sales (2)	(30,852)	(30,404)	(29,215)	(22,110)	(19,885)
Add back depreciation and amortization	16,634	16,951	17,299	12,313	9,988
Add investment income	555	782	915	1,218	1,114
Total adjustments	(13,663)	(12,671)	(11,001)	(8,579)	(8,783)
Net revenues	<u>\$ 16,758</u>	<u>\$ 14,829</u>	<u>\$ 15,497</u>	<u>\$ 16,977</u>	<u>\$ 11,358</u>
Annual debt service	\$ 1,128	\$ 1,127	\$ 1,129	\$ 1,126	\$ 1,126
Debt service coverage					
Without available funds (required 1.00x)	14.86	13.16	13.73	15.08	10.09

1. Payments from Power Purchaser pursuant to long-term contracts for operating expenses, debt service related to Rocky Reach project debt and loans of Consolidated System bond proceeds and other contractually defined amounts.
2. Adjustment made to subtract Power Purchaser payments for debt service associated with loans of Consolidate System bond proceeds.

DESCRIPTION OF MAJOR POWER PURCHASERS

THE INFORMATION SET FORTH BELOW RELATING TO THE POWER PURCHASERS WHICH ARE SUBJECT TO THE INFORMATIONAL REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934 (THE “EXCHANGE ACT”) HAS BEEN OBTAINED FROM DOCUMENTS FILED BY SUCH POWER PURCHASERS WITH THE SECURITIES AND EXCHANGE COMMISSION (THE “SEC”). NEITHER THE POWER PURCHASERS, THE DISTRICT NOR THE UNDERWRITER MAKES REPRESENTATION AS TO, NOR HAVE THEY ATTEMPTED TO VERIFY, THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

PUGET SOUND ENERGY, INC.

Puget Energy, Inc. (Puget Energy) is an energy services holding company incorporated in the State of Washington in 1999. Substantially, all of its operations are conducted through its regulated subsidiary, Puget Sound Energy, Inc. (PSE), a utility company. Puget Energy also has a wholly-owned non-regulated subsidiary, named Puget LNG, LLC (Puget LNG). Puget LNG, was formed on November 29, 2016, and has the sole purpose of owning, developing and financing the non-regulated activity of the Tacoma LNG facility. Puget Energy is owned through a holding company structure by Puget Holdings, LLC (Puget Holdings). Puget Holdings is owned by a consortium of long-term infrastructure investors including the Canada Pension Plan Investment Board, the British Columbia Investment Management Corporation, the Alberta Investment Management Corporation, Ontario Municipal Employee Retirement System and PGGM Vermogensbeheer B.V. All of Puget Energy’s common stock is indirectly owned by Puget Holdings. Puget Energy and PSE are collectively referred to herein as “the Company.” The Company’s principal executive offices are located at 10885 NE 4th Street, Suite 1200, Bellevue, Washington 98004. Its telephone number is (425) 454-6363 and information can be found on the Company’s internet web sites at: www.pugetenergy.com and www.pse.com.

Puget Energy is the direct parent company of PSE, the oldest and largest electric and natural gas utility headquartered in the state of Washington, primarily engaged in the business of electric transmission,

distribution and generation and natural gas distribution. Puget Energy’s business strategy is to generate stable earnings and cash flow by offering reliable electric and natural gas service in a cost-effective manner through PSE. Puget Energy does not have any employees and PSE had approximately 3,130 full time employees as of December 31, 2019.

PSE is a public utility incorporated in the state of Washington in 1960. PSE furnishes electric and natural gas service in a territory covering approximately 6,000 square miles, principally in the Puget Sound region. As of December 31, 2019, PSE had approximately 1,174,000 electric customers, and approximately 847,000 natural gas customers.

ADDITIONAL INFORMATION

The company is a publicly traded company and provides periodic reports on its financial and operating condition with the U.S. Securities and Exchange Commission (the “SEC”).

ALCOA CORPORATION

Alcoa Corporation, a Delaware corporation, became an independent, publicly traded company on November 1, 2016, as explained below under “Separation Transaction.” Alcoa Corporation has its principal office in Pittsburgh, Pennsylvania. In this report, unless the context otherwise requires, “Alcoa” or the “Company,” “we,” “us,” and “our” means Alcoa Corporation and all subsidiaries consolidated for the purposes of its financial statements.

Alcoa is a global industry leader in the production of bauxite, alumina, and aluminum. Alcoa is built on a foundation of strong values and operating excellence dating back nearly 130 years to the world-changing discovery that made aluminum an affordable and vital part of modern life. Since developing the aluminum industry, and throughout our history, our talented Alcoans have followed on with breakthrough innovations and best practices that have led to efficiency, safety, sustainability, and stronger communities wherever we operate.

Aluminum, as an element, is abundant in Earth’s crust, but a multi-step process is required to make aluminum metal. Aluminum metal is produced by refining alumina oxide from bauxite into alumina,

DESCRIPTION OF MAJOR POWER PURCHASERS (CONT.)

which is then smelted into aluminum and can be cast and rolled into many shapes and forms. Aluminum is a commodity traded on the London Metal Exchange (“LME”) and priced daily. Alumina, an intermediary product, is subject to market pricing against the Alumina Price Index (“API”). As a result, the price of both aluminum and alumina is subject to significant volatility and, therefore, influences the operating results of Alcoa.

Alcoa is a global company with 30 operating locations across 9 countries. Alcoa’s operations consisted of three reportable segments for 2019: Bauxite, Alumina, and Aluminum. The Bauxite and Alumina segments primarily consist of a series of affiliated operating entities held in an unincorporated joint venture between Alcoa and an Australian company. The Aluminum segment consists of the company’s aluminum smelting, casting and rolling businesses, along with the majority of the energy production business.

Separation Transaction

On September 28, 2015, Alcoa Inc. (“ParentCo”) announced its intention to separate ParentCo into two standalone, publicly-traded companies (the “Separation Transaction”). Alcoa Corporation was formed to hold ParentCo’s Bauxite, Alumina, Aluminum, Cast Products and Energy businesses, as well as ParentCo’s rolling mill operations in Warrick, Indiana, and ParentCo’s 25.1% interest in the Ma’aden Rolling Company in Saudi Arabia (the “Alcoa Corporation Business”). Following the Separation Transaction, Alcoa Corporation holds the assets and liabilities of ParentCo relating to those businesses and the direct and indirect subsidiary entities that operated the Alcoa Corporation Business, subject to certain exceptions. Upon completion of the Separation Transaction, ParentCo was renamed Arconic Inc. (“Arconic”) and now holds ParentCo’s Engineered Products and Solutions, Global Rolled

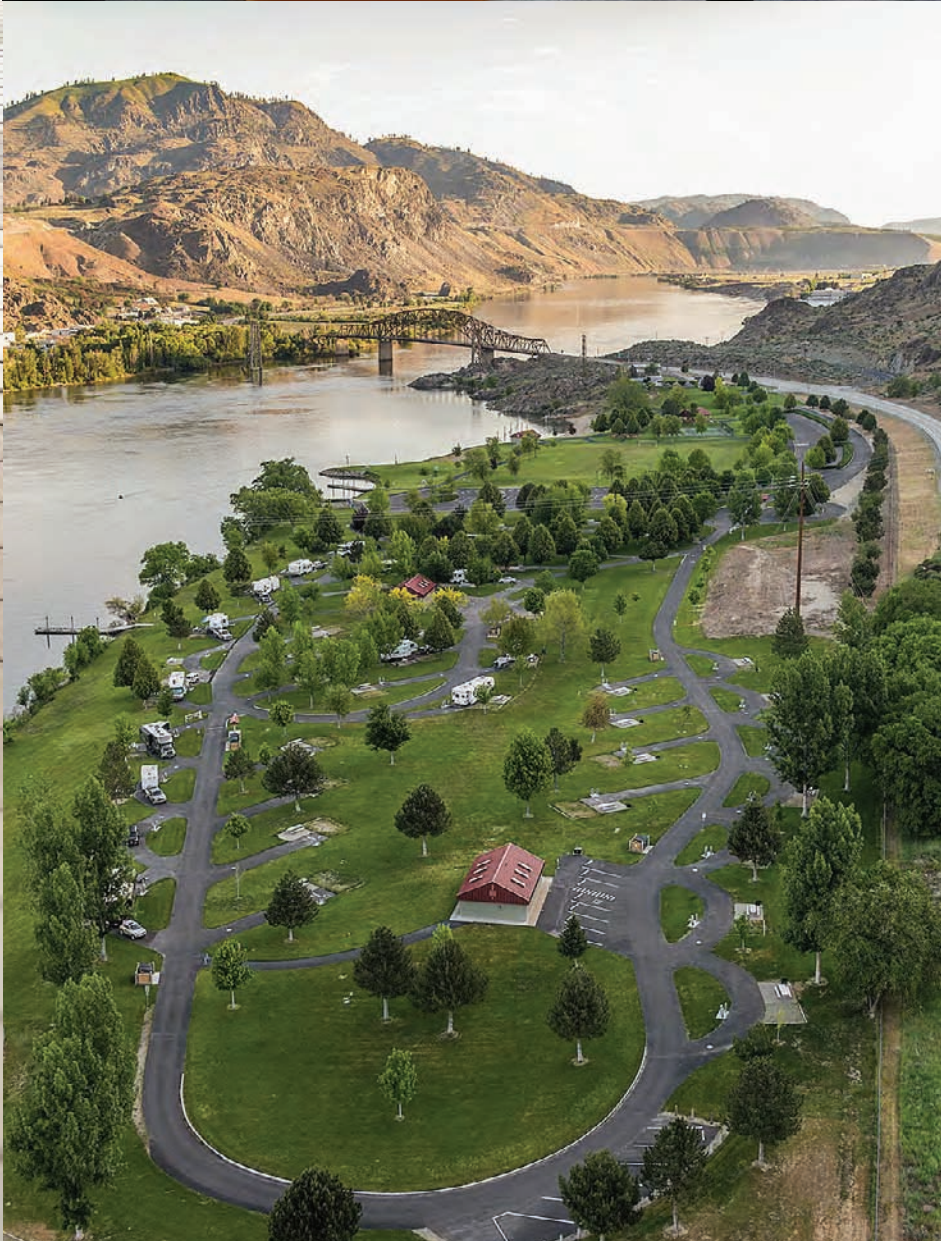
Products (other than the rolling mill operations in Warrick, Indiana, and the 25.1% interest in the Ma’aden Rolling Company in Saudi Arabia) and Transportation and Construction Solutions businesses (the “Arconic Business”), including those assets and liabilities of ParentCo and its direct and indirect subsidiary entities that operated the Arconic Business, subject to certain exceptions.

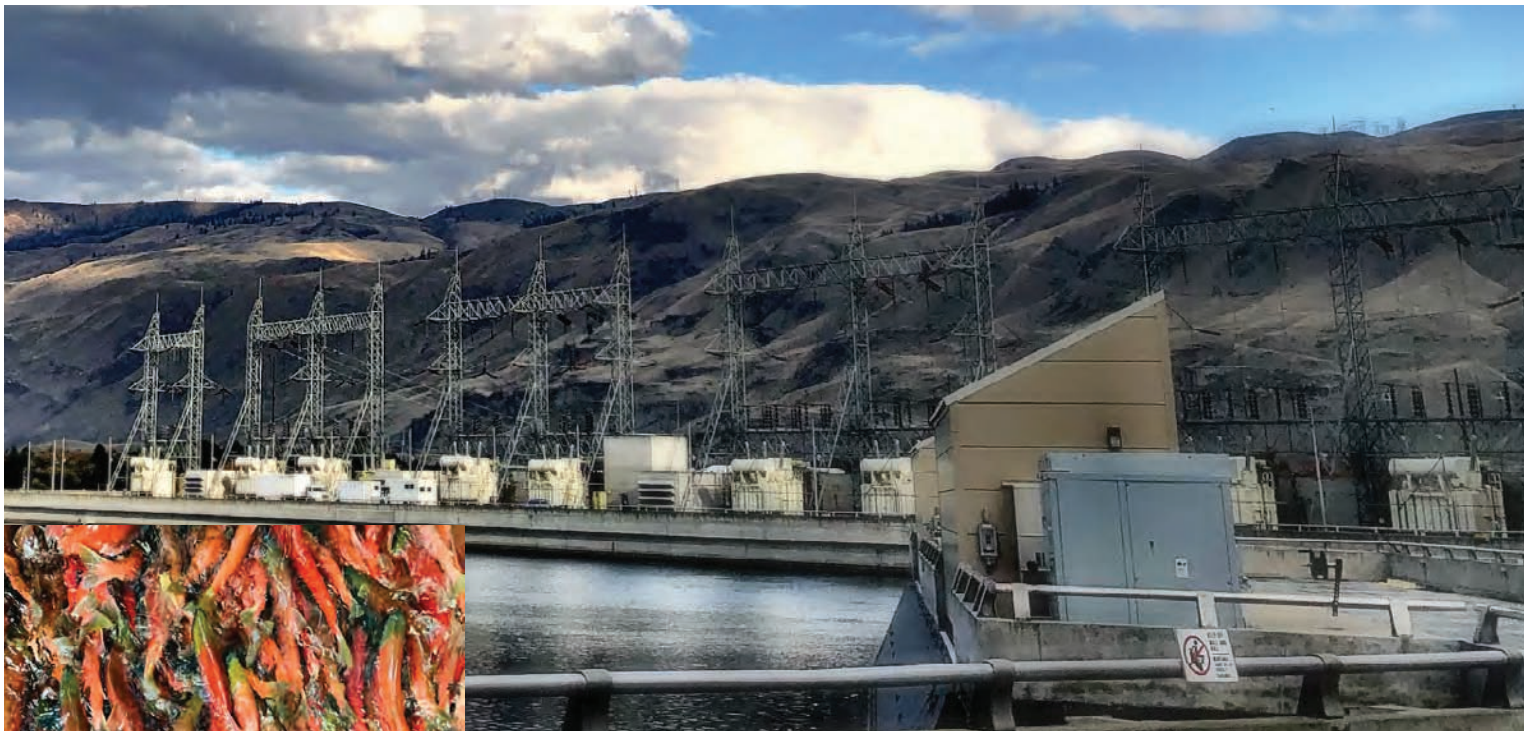
In connection with the Separation Transaction, as of October 31, 2016, Alcoa Corporation entered into certain agreements with Arconic to implement the legal and structural separation between the two companies to govern the relationship between Alcoa Corporation and Arconic after the completion of the Separation Transaction and allocate between Alcoa Corporation and Arconic various assets, liabilities and obligations, including, among other things, employee benefits, environmental liabilities, intellectual property, and tax-related assets and liabilities.

ADDITIONAL INFORMATION

Alcoa is a publicly traded company and is obligated to provide periodic reports on its financial and operating condition with the U.S. Securities and Exchange Commission (the “SEC”).

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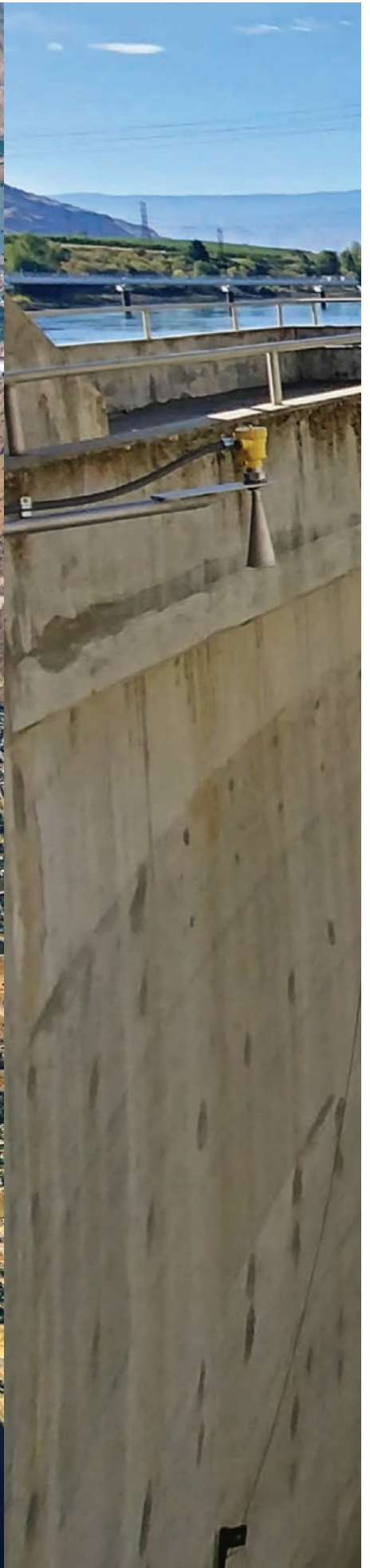


CLOCKWISE FROM FAR
LEFT: DOCK AT WALLA
WALLA POINT PARK;
FOREBAY AT ROCKY REACH
DAM ON THE COLUMBIA
RIVER; ANDREW YORK
SWITCHYARD; CHELAN
PUD'S BEEBE BRIDGE PARK
ON THE COLUMBIA RIVER
NEAR THE RESORT TOWN
OF CHELAN, WASH. INSET:
KOKANEE COLLECTED IN
COMPANY CREEK NEAR
STEHEKIN.



CHELAN COUNTY

www.chelanpud.org



2019

Fast Facts



CHELAN COUNTY

History

PUD created..... 1936
First service..... 1947

Average residential electric rate

(Cents/kWh) 3.2¢

Number of retail customers*

Electric 52,146
Water/sewer 6,797
Fiber end-users 17,493

District peak demand and date

459 MW Feb. 7

Service lines

Miles 1,872

Number of employees

Dec. 31, 2019..... 773

Power generation (MWh)

Rocky Reach 5.1 million
Rock Island..... 2.3 million
Lake Chelan..... 0.3 million

Generating units

Rocky Reach 11
Rock Island..... 18
Lake Chelan..... 2

Generator nameplate capacity (MW)

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

District revenue

Total \$385.2 million

Returned to community

State & local taxes.. \$9.7 million

Bond ratings*

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

*Dec. 31, 2019

CREATING COMMUNITY VALUE

Mission

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

Vision/ Challenge

In a rapidly changing utility environment, we will provide:

The Best Value for the Most People for the Longest Time.

Our Values

Safety

Protect public and employee health and safety

Stewardship

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

Trustworthiness

Competence, integrity, respect, collaboration

Operational Excellence

High-quality, innovative work execution through supporting personal accountability



CHELAN COUNTY
www.chelanpud.org

**APPENDIX B—SUMMARY OF CERTAIN PROVISIONS OF THE MASTER RESOLUTION AND THE
TWELFTH SUPPLEMENTAL RESOLUTION**

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APPENDIX B—SUMMARY OF CERTAIN PROVISIONS OF THE MASTER RESOLUTION AND THE TWELFTH SUPPLEMENTAL RESOLUTION

The following is a summary of certain provisions of the Master Resolution and the Twelfth 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.

“Adjusted Net Revenues” in any Fiscal Year means:

- (a) Net Revenues in such Fiscal Year, plus
- (b) Withdrawals, if any, from the Rate Stabilization Fund that have been allocated to such Fiscal Year pursuant to the Resolution, less
- (c) Deposits, if any, into the Rate Stabilization Fund that have been allocated to such Fiscal Year made pursuant to the Resolution.

“Annual Debt Service” means:

(a) With respect to the Bonds, as of any date of calculation, for any Fiscal Year (or other designated twelve-month period) the amount of Principal and interest becoming due and payable on all Outstanding Bonds in such Fiscal Year (or other designated twelve-month period); provided, that for the purposes of computing Annual Debt Service:

(i) the 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 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;

“Authorized Denominations” means \$5,000 and any integral multiple thereof.

“Authorized Investments” means any obligations or investments in which the District may legally invest its funds.

“Available Funds” means, as of any date of calculation, any unencumbered funds of the Consolidated System, including cash and the book value of investments, held in the Rate Stabilization Fund and any other similar capital or operating reserve or contingency fund designated by the Commission after the adoption of the Master Bond Resolution, in each case that the District reasonably expects would be available, for all of the first full Fiscal Year following the date of calculation, to pay Principal of and interest on Bonds when due.

“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.

“Beneficial Owner” means, for any Bond held by a nominee, the owner of the beneficial interest in such Bond.

“Bonds” means the Public Utility District No. 1 of Chelan County, Washington Consolidated 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.

“Book-Entry Bonds” means Bonds for which a Securities Depository or its nominee is the Owner.

“Business Day” means any day other than (a) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order to be closed, (b) a day upon which the principal office of the District or the Trustee is authorized or required by law to be closed, or (c) with respect to a Series of Bonds, any day so specified in the Supplemental Resolution authorizing the issuance of such Series of Bonds.

“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.

“Chelan Hydro Consolidated System” means the “Chelan Hydro Consolidated System” ratified, confirmed, approved and continued by the Senior Consolidated System Resolution.

“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” established by and existing as of the date of the Resolution, and any and all additions, improvements, betterments, renewals, replacements and repairs thereto and extensions thereof, and shall include all (a) electric generation, transmission, distribution facilities, (b) water supply, treatment and distribution facilities, (c) wastewater collection, treatment and disposal facilities; (d) fiber optics network receipt, transmission and distribution facilities, and (e) other utility facilities, property and rights, tangible and intangible, purchased, constructed or otherwise acquired by the District after the adoption of the Master Bond Resolution from the proceeds of Bonds or from Revenues, including the Distribution Division, the Lake Chelan System, the Wastewater System, the Water System and the Fiber Optics System, and the funds and accounts established by the District with respect thereto. The Consolidated System shall not include any such facilities, property and rights that may be purchased, constructed or otherwise acquired by the District after the adoption of the Master Bond Resolution as a separate utility system the revenues derived from the ownership and operation of which may be pledged to the payment of bonds issued to purchase, construct or otherwise acquire such separate utility system. The term “Consolidated System” shall also include any other separate utility system of the District and any other facilities or systems that the District is authorized by law to own and operate if (i) the District by resolution of the Commission determines to consolidate such separate utility system or other facilities or systems with and add them to the Consolidated System, (ii) immediately following the adoption of such resolution, the District shall be in compliance with the rates and charges covenant set forth in the Master Bond Resolution, after giving effect to the consolidation of such separate systems or facilities, and (iii) a Certificate of the District shall have been provided to the Trustee stating that, in each of the first three (3) full Fiscal Years following the adoption of such resolution, Adjusted Net Revenues as projected (a) plus Available Funds, will be at least 1.25 times the projected Annual Debt Service on the Outstanding Bonds, after giving effect to the consolidation of such separate systems or utilities, and (b) excluding Available Funds, will be at least 1.00 times the projected Annual Debt Service on the Outstanding Bonds, plus required deposits, if any, into the Reserve Fund, after giving effect to the consolidation of such separate systems or utilities.

“Consolidated System 2008B Bonds” means the Public Utility District No. 1 of Chelan County, Washington Consolidated System Revenue Bonds, Refunding Series 2008B, currently outstanding in the aggregate principal amount of \$61,195,000.

“Consolidated System 2009D Bonds” means the Public Utility District No. 1 of Chelan County, Washington Consolidated System Revenue Bonds, Series 2009D, currently outstanding in the aggregate principal amount of \$27,015,000.

“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.

“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.

“Distribution Division” means the facilities, properties and rights constituting the Distribution Division of the District, together with all additions, improvements and betterments thereto and extensions 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, and its successors and assigns.

“Escrow Agreement” means an Escrow Agreement between the District and U.S. Bank, National Association, as Escrow Agent, relating to one or more series of the Refunded Bonds.

“Event of Default” means each event defined as such in “THE MASTER RESOLUTION—Events of Default” below.

“Fiber Optics Resolution” means Resolution No. 04-12554, adopted on May 24, 2004.

“Fiber Optics System” means the facilities, properties and rights of the District for the operation of its fiber optics networks formally established by the Fiber Optics Resolution.

“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, 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 “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 January 1 and July 1 of each year, commencing January 1, 2021.

“Lake Chelan System” means the facilities, properties and rights constituting the Lake Chelan System of the District, together with all additions, improvements and betterments thereto and extensions thereof.

“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.

“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” or **“Master Resolution”** means Resolution No. 07-13067 adopted by the District’s Commission on March 12, 2007, as amended and supplemented, including by Resolution No. 07-13099, adopted by the Commission on April 30, 2007 (the “First Supplemental Resolution”) and by Resolution No. 09-13481, adopted by the Commission on July 13, 2009 (the “Seventh Supplemental Resolution”), and as further amended and supplemented, including as supplemented by the Twelfth Supplemental Resolution.

“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).

“Operation and Maintenance Expenses” means the costs paid or accrued for the proper operation, maintenance and repair of the Consolidated System and taxes, assessments or other governmental charges lawfully imposed on the Consolidated System or the Revenues, or payments in lieu thereof, all as determined in accordance with GAAP as applied to governmental entities. The operation and maintenance expenses of the Rock Island System or the Rocky Reach System shall not constitute a part of Operation and Maintenance Expenses unless and until the Rock Island System or the Rocky Reach System, respectively, is consolidated into the Consolidated System. 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 Bonds” means the Rock Island Bonds and the Rocky Reach Bonds.

“Original Resolutions” means the Rock Island Resolutions, the Rocky Reach Resolution, the Water System Resolutions and the Wastewater System Resolutions, so long as the same shall remain in effect.

“Outstanding” means, as of any date, (a) 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 “THE MASTER RESOLUTION—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 (b) when used with respect to Rock Island Bonds, the Rocky Reach Bonds, and bonds or other obligations for borrowed money of the Water System or the Wastewater System, all obligations issued pursuant to the Rock Island Resolutions, the Rocky Reach Resolution, and the resolution or trust agreement authorizing the issuance of such Water System or Wastewater System bonds or other obligations for borrowed money, respectively, in each case other than obligations deemed to be no longer outstanding pursuant to the terms of such resolutions or trust agreements.

“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 Consolidated 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 Consolidated 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).

“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.

“Rate Stabilization Fund” means the fund of that name established pursuant to the Resolution.

“Rating Agencies” means Fitch, Moody’s and/or S&P or any other nationally recognized securities credit rating agency selected by the District.

“Rebate Fund” means each fund of that name established pursuant to the Resolution.

“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.

“Refunded Bonds” means the Rock Island 2009A Bonds, the Rocky Reach 2009A Bonds, the Consolidated System 2008B Bonds and the Consolidated System 2009D Bonds specified as such in the 2020 Delivery Certificate.

“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 Master Bond 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 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% 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 to the Master Bond Resolution, together with any Supplemental Resolutions.

“Revenue Fund” means the “Revenue Fund” created and established by the District prior to the adoption of the Master Bond Resolution and continued pursuant to the Resolution.

“Revenues” means all revenues, rates and charges received or accrued by the District for electric power and energy, water, wastewater, fiber optics networks and other services, facilities and commodities sold, furnished or supplied by the Consolidated 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. The revenues of the Rock Island System and the Rocky Reach System shall not constitute a part of Revenues unless and until the Rock Island System or the Rocky Reach System, respectively, is consolidated into the Consolidated System. The revenues of the Water System and the Wastewater System shall not constitute a part of Revenues to the extent such revenues are pledged to the payment of bonds or other obligations for borrowed money of either of those respective Systems. Revenues shall include principal and interest payments to the Consolidated System on or with respect to loans made by the Consolidated System to any other separate system of the District that is not part of the Consolidated System. Revenues shall not include (a) proceeds from the issuance of any obligations for borrowed money, (b) amounts loaned to the Consolidated 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 Consolidated System.

Once all of the Bonds Outstanding under the Resolution as of August 11, 2009 (excluding the Consolidated System Revenue Bonds, Series 2009D), are no longer Outstanding, the definition of “Revenues” will include the following sentence: “Federal and state grant moneys received by the District that do not constitute Contributions-in-Aid-of Construction within the meaning of GAAP shall constitute Revenues if designated as such by the District.”

“Rock Island Bonds” means any bonds or other obligations for borrowed money issued and Outstanding under the Rock Island Resolutions.

“Rock Island 2009A Bonds” means the Public Utility District No. 1 of Chelan County, Washington Rock Island Hydro-Electric System Revenue Bonds, Series 2009A, currently outstanding in the aggregate principal amount of \$5,890,000.

“Rock Island Resolutions” means Resolutions Nos. 1137 and 97-10671, adopted on December 20, 1955, and February 27, 1997, respectively, as such resolutions have been or may subsequent to the adoption of the Master Bond Resolution be amended or supplemented, but in each case only for so long as any Rock Island Bonds remain Outstanding thereunder.

“Rock Island System” means the facilities, properties and rights constituting the Columbia River-Rock Island Hydro-Electric System, together with all additions, improvements and betterments thereto and extensions thereof, including the first and second powerhouses thereof.

“Rocky Reach Bonds” means any bonds or other obligations for borrowed money issued and Outstanding under the Rocky Reach Resolution.

“Rocky Reach 2009A Bonds” means the Public Utility District No. 1 of Chelan County, Washington Rocky Reach Hydro-Electric System Revenue Bonds, Series 2009A, currently outstanding in the aggregate principal amount of \$11,710,000.

“Rocky Reach Resolution” means Resolution No. 1412, adopted on November 20, 1956, as such resolution has been or may subsequent to the adoption of the Master Bond Resolution be amended or supplemented, but in each case only for so long as any Rocky Reach Bonds remain Outstanding thereunder.

“Rocky Reach System” means the facilities, properties and rights constituting the Rocky-Reach Hydro-Electric System as defined in the Rocky Reach Resolution, together with all additions, improvements and betterments thereto and extensions thereof.

“Securities Depository” means a Person registered as a clearing agency under Section 17A of the Securities Exchange Act of 1934, 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.

“Series” means all of the Bonds issued and delivered on the same date which all are (a) payable from and secured by the same source of funds, and (b) and 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.

“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.

“S&P” means S&P Global 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 “S&P” shall be deemed to refer to any other nationally recognized securities credit rating agency selected by the District.

“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 Rock Island System, the Rocky Reach System and/or the Consolidated 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 the one or more certificates of the District regarding compliance with the applicable provisions of the Code in connection with the issuance of any Tax-Exempt 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.

“Twelfth Supplement” or ***“Twelfth Supplemental Resolution”*** means the Twelfth Supplemental Resolution, adopted by the District’s Commission on March 30, 2020, and any amendments, modifications or supplements thereto.

“2020 Bonds” means the 2020A Bonds, the 2020B Bonds and/or the 2020C Bonds, as applicable.

“2020 Delivery Certificate” means a Certificate or Order of the District delivered at the time of issuance of the 2020 Bonds setting forth certain terms with respect to the 2020 Bonds as provided in the Twelfth Supplemental Resolution.

“2020A Bond Fund” means the “Public Utility District No. 1 of Chelan County Consolidated System Revenue Bonds, Revenue and Refunding Series 2020A Bond Fund” established pursuant to the Twelfth Supplemental Resolution.

“2020A Bonds” means the District’s Consolidated System Revenue Bonds, Revenue and Refunding Series 2020A (Non-AMT), authorized pursuant to the Master Bond Resolution and the Twelfth Supplemental Resolution.

“2020A Construction Fund” means the “Public Utility District No. 1 of Chelan County Consolidated System Revenue Bonds, Revenue and Refunding Series 2020A Construction Fund” established pursuant to the Twelfth Supplemental Resolution.

“2020A New Money Component” means the portion of the 2020A Bonds and the proceeds thereof other than the 2020A Refunding Component as designated in the 2020 Delivery Certificate.

“2020A Rebate Fund” means the “Public Utility District No. 1 of Chelan County Consolidated System Revenue Bonds, Revenue and Refunding Series 2020A Rebate Fund” established pursuant to the Twelfth Supplemental Resolution.

“2020A Refunding Component” means the portion of the 2020A Bonds and the proceeds thereof allocable to the refunding of the Consolidated System 2009D Bonds as designated in the 2020 Delivery Certificate.

“2020A Reserve Account” means the “Public Utility District No. 1 of Chelan County Consolidated System Revenue Bonds, Revenue and Refunding Series 2020A Reserve Account” established pursuant to the Twelfth Supplemental Resolution.

“2020A Reserve Requirement” means the maximum amount of interest payable in any Fiscal Year on the 2020A Bonds and on any Series of Bonds designated as a 2020A Reserve Account Series, determined as of the dates of issuance thereof, unless otherwise specified in the 2020 Delivery Certificate.

“2020B Bond Fund” means the “Public Utility District No. 1 of Chelan County Consolidated System Revenue Bonds, Refunding Series 2020B Bond Fund” established pursuant to the Twelfth Supplemental Resolution.

“2020B Bonds” means the District’s Consolidated System Revenue Bonds, Refunding Series 2020B (Non-AMT), authorized pursuant to the Master Bond Resolution and the Twelfth Supplemental Resolution.

“2020B Construction Fund” means the “Public Utility District No. 1 of Chelan County Consolidated System Revenue Bonds, Refunding Series 2020B Construction Fund” established pursuant to the Twelfth Supplemental Resolution.

“2020B Rebate Fund” means the “Public Utility District No. 1 of Chelan County Consolidated System Revenue Bonds, Refunding Series 2020B Rebate Fund” established pursuant to the Twelfth Supplemental Resolution.

“2020B Reserve Account” means the “Public Utility District No. 1 of Chelan County Consolidated System Revenue Bonds, Refunding Series 2020B Reserve Account” established pursuant to the Twelfth Supplemental Resolution.

“2020B Reserve Requirement” means the maximum amount of interest payable in any Fiscal Year on the 2020B Bonds and on any Series of Bonds designated as a 2020B Reserve Account Series, determined as of the dates of issuance thereof, unless otherwise specified in the 2020 Delivery Certificate.

“2020C Bond Fund” means the “Public Utility District No. 1 of Chelan County Consolidated System Revenue Bonds, Refunding Series 2020C Bond Fund” established pursuant to the Twelfth Supplemental Resolution.

“2020C Bonds” means the District’s Consolidated System Revenue Bonds, Refunding Series 2020C (Non-AMT), authorized pursuant to the Master Bond Resolution and the Twelfth Supplemental Resolution.

“2020C Construction Fund” means the “Public Utility District No. 1 of Chelan County Consolidated System Revenue Bonds, Refunding Series 2020C Construction Fund” established pursuant to the Twelfth Supplemental Resolution.

“2020C Rebate Fund” means the “Public Utility District No. 1 of Chelan County Consolidated System Revenue Bonds, Refunding Series 2020C Rebate Fund” established pursuant to the Twelfth Supplemental Resolution.

“2020C Reserve Account” means the “Public Utility District No. 1 of Chelan County Consolidated System Revenue Bonds, Refunding Series 2020C Reserve Account” established pursuant to the Twelfth Supplemental Resolution.

“2020C Reserve Requirement” means the maximum amount of interest payable in any Fiscal Year on the 2020C Bonds and on any Series of Bonds designated as a 2020C Reserve Account Series, determined as of the dates of issuance thereof, unless otherwise specified in the 2020 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 or redemption date, as of the date of calculation, at a single numerical rate for the entire remaining term to maturity or mandatory tender or redemption thereof.

“Wastewater System” means the facilities, properties and rights of the District for the collection, treatment and handling of wastewater.

“Wastewater System Resolutions” means any resolutions heretofore or hereafter adopted by the Commission pledging, or placing a lien or charge on, the revenues of the Wastewater System with respect to obligations for borrowed money payable from such revenues.

“Water System” means the facilities, properties and rights of the District for the supply, distribution, storage and handling of water.

“Water System Resolutions” means any resolutions heretofore or hereafter adopted by the Commission pledging, or placing a lien or charge on, the revenues of the Water System with respect to obligations for borrowed money payable from such revenues.

THE MASTER RESOLUTION

General

The Master Resolution authorizes the issuance of “Public Utility District No. 1 of Chelan County, Washington Consolidated 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 Facilities for such Series of Bonds; (xii) 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; (xiii) 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; (xiv) the tender agents, remarketing agents, auction agents and broker-dealers, if any, and the duties and obligations thereof; and (xv) 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.

General Provisions for the Issuance of Bonds

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 the Bonds such Series, 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, Adjusted Net Revenues as projected: (A) plus Available Funds, will be at least 1.25 times the projected Annual Debt Service on the Outstanding Bonds, after giving effect to the issuance of such Series of Bonds, and (B) excluding Available Funds, will be at least 1.00 times the projected Annual Debt Service on the Outstanding 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 Adjusted Net Revenues for any twelve (12) consecutive months of the 24 months prior to the date of calculation: (A) plus Available Funds, were at least 1.25 times the projected Annual Debt Service on the Outstanding Bonds, after giving effect to the issuance of such Series of Bonds, and (B) excluding Available Funds, were at least 1.00 times the projected Annual Debt Service on the Outstanding Bonds, plus required deposits, if any, into the Reserve Fund, after giving effect to the issuance of such Series of Bonds.

For purposes of the provisions of the Master Bond 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 Consolidated 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 Master Bond 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 Adjusted 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 Bonds or Original Bonds to be refunded;

(ii) All expenses incident to the purchase, call, redemption, retirement or payment of the Bonds or Original Bonds to be refunded;

(iii) The costs of issuance of such Series of Refunding Bonds;

(iv) Interest on the Bonds or Original Bonds to be refunded to the date such Bonds or Original Bonds will be purchase, redeemed, retired or paid;

(v) Interest on such Series of Refunding Bonds from the date thereof to the date of purchase, redemption, retirement or payment of the Bonds or Original Bonds 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 Bonds or Original Bonds 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), (c) and (e) under “—General Provisions for the Issuance of Bonds”;

(ii) 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 (excluding for purposes of the provisions of the Master Bond Resolution described in 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;

(iii) If any of the Bonds or Original Bonds to be refunded are to be purchased or redeemed prior to their stated maturity dates, irrevocable instructions (A) to the Trustee to give the applicable notice of purchase or redemption of such Bonds or (B) to the trustee for the owners of such Original Bonds to give the applicable notice of purchase or redemption of such Original Bonds; and

(iv) An opinion of Bond Counsel that (A) all liability of the District in respect of the Bonds to be refunded has ceased, terminated and been discharged, pursuant to the terms of the Resolution and the Supplemental Resolution pursuant to which such Bonds were issued, and the Owners of such Bonds are entitled to payment of the Principal, Purchase Price or Redemption Price of and interest on such Bonds only out of the money or securities deposited with the Trustee for the payment of such Bonds or (B) all liability of the District in respect of the Original Bonds to be refunded has ceased, terminated and been discharged, pursuant to the terms of the resolution or resolutions pursuant to which such Original Bonds were issued, and the owners of such Original Bonds are entitled to payment of the principal, purchase price or redemption price of and interest on such Original Bonds only out of the money or securities deposited with the trustee for the owners of such Original Bonds for the payment of such Original Bonds.

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 2020 BONDS—Flow of Funds” in the front portion of the Official Statement, to secure the payment of the Bonds and, to the extent permitted by law, Payment Agreement Payments and other payments due under 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.

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

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 foregoing, 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.

Certain Covenants

In addition to the rate covenant described in the Official Statement under the caption “SECURITY FOR THE 2020 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. 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 Consolidated System. The District will (i) at all times operate the properties of the Consolidated 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 Consolidated 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 Consolidated 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 Consolidated 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.

Original Resolutions. With respect to each of the Original Resolutions, until such time as the obligations under an Original Resolution have been discharged in accordance with the terms thereof, the District will comply in all respects with each of the provisions, covenants and agreements thereof or contained therein.

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 Consolidated 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 will not enter into any Power Purchase Agreement payable from Revenues unless the District first delivers to the Trustee a Certificate of the District demonstrating compliance with the requirements set forth in the Resolution for the first three (3) full Fiscal Years following the Fiscal Year in which such Power Purchase Agreement will become effective.

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 Consolidated 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 Consolidated 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 Consolidated 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 2020 BONDS—Rate Covenant" in the front portion of the 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 Consolidated 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.

To Provide Financial Reports. The District will prepare and make available for inspection at the principal administrative office of the District and will provide to the Trustee and any Credit Facility Provider the most recent audited annual financial statements of the District, including any supplemental schedules showing the component units constituting a part of the Consolidated 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 will make available its audited annual financial statements within 150 days after the end of each Fiscal Year.

Appointment; Duties and Responsibilities of the Trustee

The Commission will designate and appoint the initial Trustee with respect to the Bonds.

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 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 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

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, as from time to time amended, or any similar federal statute hereafter 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 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 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, 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 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 as follows: (i) First, to the payment of all amounts due the Trustee under the Resolution; (ii) Second, to the payment of Operation and Maintenance Expenses; (iii) Third, to the payment of all interest on the Bonds and Payment Agreement Payments then due and payable in the order in which the same became due and payable, and, if the amount available will not be sufficient to make any payment in full, then to the payment, ratably, according to the amounts due with respect to such payments, without discrimination or preference; (iv) Fourth, to the payment of the unpaid Principal amount of any of the Bonds that will have become due and payable, in the order of due dates (other than Bonds called for redemption or contracted to be purchased for the payment of which money is held pursuant to the provisions of the Resolution), with interest upon the Principal amount of the Bonds from the respective dates upon which they will have become due and payable, and, if the amount available will not be sufficient to pay in full the Principal of such Bonds due and payable on any particular due date, together with such interest, then to the payment first of such interest, ratably, according to the amount of Principal due on such date, without any discrimination or preference; (v) Fifth, to the payment of the Redemption Price of Bonds called for optional redemption, if any; (vi) Sixth, to the payment under all reimbursement agreements with the providers of Reserve Account Credit Facilities of all amounts due and payable thereunder (and if there is not sufficient money to make all such payments, then on a pro rata basis to each provider); (vii) Seventh: (A) for the payment of principal and premium, if any, and interest on Subordinate Obligations; (B) for deposit into a reserve fund securing any Subordinate Obligations; (C) for Payment Agreement Payments pursuant to any Payment Agreements entered into by the District with respect to any Subordinate Obligations; and (D) 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 which

may be established by the District after the adoption of the Master Bond Resolution; (xviii) Eighth, for any payment under a Payment Agreement that does not constitute a Payment Agreement Payment; (ix) Ninth, for any payment under a Power Purchase Agreement that does not constitute an Operation and Maintenance Expense; and (xi) Eleventh, to the payment of all other charges or obligations against the Revenues of whatever nature imposed thereon by law or contract as of the date of, and subsequent to, the adoption of the Master Bond Resolution, in any order of priority which may be hereafter established by the District.

(b) If the Principal of all Bonds will have become due and payable, subject to clause (i) of subsection (a) above regarding payment to the Trustee, all such money will 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 will 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 will apply such funds, it will fix a date (which will be an interest payment date unless it will 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, will cease to accrue. The Trustee will also select a record date for such payment date. The Trustee will 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 will not be required to make payment to the Owner of any Bond until such Bond will 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 Credit Facility Provider with respect to such Series of Bonds is not in default in respect of any of its obligations under the Credit Facility securing such Series of Bonds, the following will apply:

(a) Such Credit 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 Credit 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 Credit Facility Provider if its rights shall be materially and adversely affected by such amendment.

(d) The prior written consent of such Credit Facility Provider will 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 Credit 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 Credit Facility Provider under such Credit Facility with respect to such Series of Bonds will be fully discharged.

(f) Such Credit 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 Credit 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 Credit Facility.

(h) The Principal or Purchase Price of or interest on such Series of Bonds paid by such Credit Facility Provider under such Credit 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 Credit 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 Credit Facility Provider have been paid in full or duly provided for.

(k) The District will send or cause to be sent to such Credit 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 Credit Facility required by such Credit Facility Provider as a condition to the issuance and delivery of the Credit Facility.

THE TWELFTH SUPPLEMENTAL RESOLUTION

General

The Twelfth Supplemental Resolution authorized the issuance of the 2020 Bonds. Certain terms and provisions of the 2020 Bonds are contained in the 2020 Delivery Certificate, which will be executed on the date of delivery of the 2020 Bonds.

Terms of the 2020 Bonds

General. The 2020 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 2020 Delivery Certificate.

Interest will be computed on the basis of a 360-day year consisting of twelve (12) 30-day months.

Method of Payment. The principal of and redemption premium, if any, on any 2020 Bond will be payable to the Owner thereof at the corporate office of the Trustee. Interest on the 2020 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 2020 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; provided, the cost of such wire transfer shall be paid by such Owner.

Registrar; Bond Registration Books

The Trustee is to be the initial Registrar for the 2020 Bonds. While any of the 2020 Bonds issued under the Twelfth Supplemental Resolution are Outstanding, the Registrar will keep and maintain the Bond Register. The Registrar will make the Bond Register available to the District for its inspection during normal business hours.

Establishment and Application of 2020A Bond Fund

The Twelfth Supplemental Resolution establishes a special fund of the District to be known as the “Public Utility District No. 1 of Chelan County Consolidated System Revenue Bonds, Revenue and Refunding Series 2020A Bond Fund” (the “2020A Bond Fund”) to be held in trust by the Trustee. From Revenues, the Treasurer will transfer to the Trustee funds for deposit into the 2020A Bond Fund in the amounts and at the times necessary to pay the principal of, premium, if any, and interest on the 2020A Bonds as the same will 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 will apply moneys in the 2020A Bond Fund to pay the principal of, premium, if any, and interest due on the 2020A Bonds on such date. The 2020A Bond Fund and the amounts on deposit therein will be subject to the pledge of the Master Bond Resolution for the benefit of the Owners of the 2020A Bonds.

Establishment and Application of 2020B Bond Fund

The Twelfth Supplemental Resolution establishes a special fund of the District to be known as the “Public Utility District No. 1 of Chelan County Consolidated System Revenue Bonds, Refunding Series 2020B Bond Fund” (the “2020B Bond Fund”) to be held in trust by the Trustee. From Revenues, the Treasurer will transfer to the Trustee funds for deposit into the 2020B Bond Fund in the amounts and at the times necessary to pay the principal of, premium, if any, and interest on the 2020B Bonds as the same will 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 will apply moneys in the 2020B Bond Fund to pay the principal of, premium, if any, and interest due on the 2020B Bonds on such date. The 2020B Bond Fund and the amounts on deposit therein will be subject to the pledge of the Master Bond Resolution for the benefit of the Owners of the 2020B Bonds.

Establishment and Application of 2020C Bond Fund

The Twelfth Supplemental Resolution establishes a special fund of the District to be known as the “Public Utility District No. 1 of Chelan County Consolidated System Revenue Bonds, Refunding Series 2020C Bond Fund” (the “2020C Bond Fund”) to be held in trust by the Trustee. From Revenues, the Treasurer will transfer to the Trustee funds for deposit into the 2020C Bond Fund in the amounts and at the times necessary to pay the principal of, premium, if any, and interest on the 2020C Bonds as the same will 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 will apply moneys in the 2020C Bond Fund to pay the principal of, premium, if any, and interest due on

the 2020C Bonds on such date. The 2020C Bond Fund and the amounts on deposit therein will be subject to the pledge of the Master Bond Resolution for the benefit of the Owners of the 2020C Bonds.

Establishment and Application of 2020A Construction Fund

The Twelfth Supplemental Resolution establishes a special fund of the District to be known as the “Public Utility District No. 1 of Chelan County Consolidated System Revenue Bonds, Revenue and Refunding Series 2020A Construction Fund” (the “2020A Construction Fund”) to be held by the District. All amounts on deposit in the 2020A Construction Fund will be applied to pay the costs of issuance of the 2020A Bonds and the costs of acquiring and constructing the additions, betterments and improvements to, and repairs, renewals and replacements of, the Consolidated System or other lawful purpose of the District.

Establishment and Application of 2020B Construction Fund

The Twelfth Supplemental Resolution establishes a special fund of the District to be known as the “Public Utility District No. 1 of Chelan County Consolidated System Revenue Bonds, Refunding Series 2020B Construction Fund” (the “2020B Construction Fund”) to be held by the District. All amounts on deposit in the 2020B Construction Fund will be applied to pay the costs of issuance of the 2020B Bonds.

Establishment and Application of 2020C Construction Fund

The Twelfth Supplemental Resolution establishes a special fund of the District to be known as the “Public Utility District No. 1 of Chelan County Consolidated System Revenue Bonds, Refunding Series 2020C Construction Fund” (the “2020C Construction Fund”) to be held by the District. All amounts on deposit in the 2020C Construction Fund will be applied to pay the costs of issuance of the 2020C Bonds.

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APPENDIX C—PROPOSED FORM OF OPINION OF BOND COUNSEL

May 1, 2020

Public Utility District No. 1 of
Chelan County, Washington
Wenatchee, Washington

Public Utility District No. 1 of Chelan County, Washington Consolidated System Revenue Bonds

\$109,630,000	\$10,965,000	\$13,230,000
Revenue and Refunding Series 2020A (Non-AMT/Governmental)	Refunding Series 2020B (Non- AMT/Private Activity)	Refunding Series 2020C (AMT)

(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Public Utility District No. 1 of Chelan County, Washington (the “District”) in connection with the issuance of \$109,630,000 aggregate principal amount of its Consolidated System Revenue Bonds, Revenue and Refunding Series 2020A (Non-AMT/Governmental) (the “2020A Bonds”), \$10,965,000 aggregate principal amount of its Consolidated System Revenue Bonds, Refunding Series 2020B (Non-AMT/Private Activity) (the “2020B Bonds”) and \$13,230,000 aggregate principal amount of its Consolidated System Revenue Bonds, Refunding Series 2020C (AMT) (the “2020C Bonds” and together with the 2020A Bonds and 2020B Bonds, the “2020 Bonds”). The 2020 Bonds are being issued pursuant to Resolution No. 07-13067, adopted by the Commission of the District (the “Commission”) on March 12, 2007 (the “Master Resolution”), as amended and supplemented, including as amended by Resolution No. 07-13099, adopted by the Commission on April 30, 2007 (the “First Supplemental Resolution”), and by Resolution No. 09-13481, adopted by the Commission on July 13, 2009 (the “Seventh Supplemental Resolution”), and as supplemented by Resolution No. 20-14440, adopted by the Commission on March 30, 2020 (the “Twelfth Supplemental Resolution”), as supplemented by the Certificate of the District to be delivered at the time of issuance of the 2020 Bonds setting forth certain terms with respect to the 2020 Bonds (the “2020 Delivery Certificate,” and together with the Master Resolution, the First Supplemental Resolution, the Seventh Supplemental Resolution and the Twelfth Supplemental Resolution, the “Resolution”). U.S. Bank National Association (the “Trustee”) has previously been appointed to serve as Trustee for the 2020 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 original delivery of the 2020 Bonds on 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 original delivery of the 2020 Bonds on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. 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 2020 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 2020 Bonds, the Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, 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 public utility districts in the State of Washington. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or having the effect of a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, 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. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 2020 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 2020 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 2020 Bonds, of the 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 in the Resolution.
3. Interest on the 2020 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 2020B Bond for any period that such 2020B Bond is held by a "substantial user" of the facilities financed or refinanced by the 2020B Bonds or by a "related person" within the meaning of Section 147(a) of the Code. Interest on the 2020A Bonds and the 2020B Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Interest on the 2020C Bonds is a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the 2020 Bonds.

Faithfully yours,
ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX D—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 Consolidated System Revenue Bonds, Revenue and Refunding Series 2020A (Non-AMT/Governmental) (the “**2020A Bonds**”), Refunding Series 2020B (Non-AMT/Private Activity) (the “**2020B Bonds**”) and Refunding Series 2020C (AMT) (The “**2020C Bonds**” and together with the 2020A Bonds and 2020B Bonds, the “**2020 Bonds**”). The 2020 Bonds will be issued as fully registered securities 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 certificate will be issued for each series of the 2020 Bonds, each in the aggregate principal amount of such series, and will be deposited with DTC.

The following information has been provided by DTC, and none of the District or the Underwriter makes 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 securities 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 a Standard & Poor’s rating of AA+. 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.

Purchases of 2020 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2020 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2020 Bond (“**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 2020 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 the 2020 Bonds, except in the event that use of the book entry system for the 2020 Bonds is discontinued.

To facilitate subsequent transfers, all 2020 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 2020 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2020 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2020 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.

Beneficial Owners of 2020 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2020 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents relating to the 2020 Bonds. For example, Beneficial Owners of 2020 Bonds may wish to ascertain that the nominee holding the 2020 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Certificate Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2020 Bonds within a series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2020 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District 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 2020 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments represented by the 2020 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 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 DTC, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest 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 2020 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, certificates are required to be printed and delivered.

To the extent permitted by law, the District may decide to discontinue use of the system of book entry only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

The above information concerning DTC and DTC's book entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof. Neither the District nor the Trustee will have any responsibility or obligation to Participants or the persons for whom they act as nominees or Beneficial Owners with respect to DTC's record keeping, payments by DTC or Participants, notices to be delivered by DTC, or any other action taken by DTC as Registered Owner of the 2020 Bonds.

So long as Cede & Co. is the registered owner of the 2020 Bonds, as nominee for DTC, references herein to the holders or registered owners of the 2020 Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2020 Bonds. When reference is made to any action, which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given the District or the Trustee shall send them to DTC only.

For every transfer and exchange of the 2020 Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

APPENDIX E—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**”). NONE OF THE POWER PURCHASERS, THE DISTRICT OR THE UNDERWRITER MAKES REPRESENTATION AS TO, NOR HAVE THEY ATTEMPTED TO VERIFY, THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION OR THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION AS OF THE DATE HEREOF OR AS OF ANY SUBSEQUENT DATE AND ASSUMES NO RESPONSIBILITY THEREFOR.

PUGET SOUND ENERGY, INC.

Puget Energy, Inc. (“**Puget Energy**”) is an energy services holding company incorporated in the State of Washington in 1999. Substantially, all of its operations are conducted through its subsidiary, Puget Sound Energy, Inc. (“**PSE**”), a utility company. Puget Energy also has a wholly-owned non-regulated subsidiary, named Puget LNG, LLC (“**Puget LNG**”). Puget LNG was formed on November 29, 2016, and has the sole purpose of owning, developing and financing the non-regulated activity of the Tacoma LNG facility. Puget Energy is owned through a holding company structure by Puget Holdings, LLC (“**Puget Holdings**”). Puget Holdings is owned by a consortium of long-term infrastructure investors including Macquarie Infrastructure Partners, Macquarie Capital Group Limited, the Canada Pension Plan Investment Board, the British Columbia Investment Management Corporation and the Alberta Investment Management Corporation. All of Puget Energy’s common stock is indirectly owned by Puget Holdings. Puget Energy and PSE are collectively referred to herein as the “**Company**.” The Company’s principal executive offices are located at 355 110th Ave NE, Bellevue, Washington 98004. Its telephone number is (425) 454-6363 and information can be found on the Company’s Internet web sites at: www.pugetenergy.com and www.pse.com.

Puget Energy is the direct parent company of PSE, the oldest and the largest electric and natural gas utility headquartered in the State of Washington, primarily engaged in the business of electric transmission, distribution, generation and natural gas distribution. Puget Energy’s business strategy is to generate stable earnings and cash flow by offering reliable electric and natural gas service in a cost-effective manner through PSE. Puget Energy does not have any employees and PSE had approximately 3,130 full-time employees as of December 31, 2019.

PSE is a public utility incorporated in the State of Washington in 1960. PSE furnishes electric and natural gas service in a territory covering approximately 6,000 square miles, principally in the Puget Sound region. As of December 31, 2019, PSE had approximately 1,174,000 electric customers, and approximately 847,000 natural gas customers.

Additional Information

The Company is a publicly traded company and provides periodic reports on its financial and operating condition with the U.S. Securities and Exchange Commission (the “**SEC**”).

ALCOA CORPORATION

Alcoa Corporation, a Delaware corporation, became an independent, publicly traded company on November 1, 2016, as explained below under “Separation Transaction.” Alcoa Corporation has its principal office in Pittsburgh, Pennsylvania. In this report, unless the context otherwise requires, “**Alcoa**” or the “**Company**,” “**we**,” “**us**,” and “**our**” means Alcoa Corporation and all subsidiaries consolidated for the purposes of its financial statements.

Alcoa is a global industry leader in the production of bauxite, alumina, and aluminum. Alcoa is built on a foundation of strong values and operating excellence dating back 130 years to the world-changing discovery that made aluminum an affordable and vital part of modern life. Since developing the aluminum industry, and throughout our history, our talented Alcoans have followed on with breakthrough innovations and best practices that have led to efficiency, safety, sustainability, and stronger communities wherever we operate.

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

Alcoa is a global company with 30 operating locations across 9 countries. Alcoa's operations consisted of three reportable segments for 2019: Bauxite, Alumina, and Aluminum. The Bauxite and Alumina segments primarily consist of a series of affiliated operating entities held in an unincorporated joint venture between Alcoa and an Australian company. The Aluminum segment consists of the company's aluminum smelting, casting and rolling businesses, along with the majority of the energy production business.

Separation Transaction

On September 28, 2015, Alcoa Inc. ("**ParentCo**") announced its intention to separate ParentCo into two standalone, publicly-traded companies (the "**Separation Transaction**"). Alcoa Corporation was formed to hold ParentCo's Bauxite, Alumina, Aluminum, Cast Products and Energy businesses, as well as ParentCo's rolling mill operations in Warrick, Indiana, and ParentCo's 25.1% interest in the Ma'aden Rolling Company in Saudi Arabia (the "**Alcoa Corporation Business**"). Following the Separation Transaction, Alcoa Corporation holds the assets and liabilities of ParentCo relating to those businesses and the direct and indirect subsidiary entities that operated the Alcoa Corporation Business, subject to certain exceptions. Upon completion of the Separation Transaction, ParentCo was renamed Arconic Inc. ("**Arconic**") and now holds ParentCo's Engineered Products and Solutions, Global Rolled Products (other than the rolling mill operations in Warrick, Indiana, and the 25.1% interest in the Ma'aden Rolling Company in Saudi Arabia) and Transportation and Construction Solutions businesses (the "**Arconic Business**"), including those assets and liabilities of ParentCo and its direct and indirect subsidiary entities that operated the Arconic Business, subject to certain exceptions.

In connection with the Separation Transaction, as of October 31, 2016, Alcoa Corporation entered into certain agreements with Arconic to implement the legal and structural separation between the two companies to govern the relationship between Alcoa Corporation and Arconic after the completion of the Separation Transaction and allocate between Alcoa Corporation and Arconic various assets, liabilities and obligations, including, among other things, employee benefits, environmental liabilities, intellectual property, and tax-related assets and liabilities.

Additional Information

Alcoa is a publicly traded company and is obligated to provide periodic reports on its financial and operating condition with the U.S. Securities and Exchange Commission (the "**SEC**").

APPENDIX F—SUMMARY OF POWER SALES CONTRACT WITH PUGET SOUND ENERGY, INC.

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APPENDIX F - SUMMARY OF POWER SALES CONTRACT WITH PUGET SOUND ENERGY, INC.

The following is a summary of certain provisions of the current Power Sales Contract (the “**Puget 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 Puget 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 Puget 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 PUGET 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 Puget Contract, an amount equal to fifteen percent (15%) of the maximum estimated aggregate amount of the Financing Costs described in “THE PUGET 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 PUGET 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 Puget Contract will constitute Debt Obligations for purposes of the Puget 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 Puget Contract. For purposes of the Puget 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 Puget Contract. For purposes of the Puget 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 Puget 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 PUGET 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.

“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 Puget 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 PUGET CONTRACT—Output and Scheduling” below, and subject to the limitations set forth in the Puget 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 Puget 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 Puget 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 Puget 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 PUGET CONTRACT—Output—Output to be Made Available” below, as such amount may be adjusted from time to time pursuant to the terms of the Puget 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 Puget 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 Puget 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.

“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 Puget 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 PUGET CONTRACT

Term and Termination

Term. The Puget Contract became effective as of the Signing Date and the Term commenced on the first Project Availability Date and will terminate as of the expiration or termination of the Puget Contract pursuant to its terms. Unless terminated or extended as provided in the Puget Contract, the Puget Contract will remain in effect until midnight on October 31, 2031. All obligations accruing or arising prior to the termination or expiration of the Puget Contract will survive the termination or expiration of the Puget Contract until satisfied in full.

Termination. The Puget Contract may only be terminated (i) by mutual agreement of the Parties; (ii) by the District pursuant to the provisions of the Puget 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 Puget Contract). In the event the Puget Contract is terminated pursuant to subsection (i), neither Party will be liable to the other Party for damages due to such termination. Any termination of the Puget Contract by a Party pursuant to the terms of the Puget Contract will be effected by and effective only upon receipt of written notice of such termination by the other Party.

Forward Contract Merchant. Each Party acknowledges and agrees that the Puget 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 Puget 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 Puget Contract be 25% of the Chelan Power System, as the same may be modified from time to time pursuant to the Puget Contract.

(b) IN THE PUGET CONTRACT, THE PURCHASER ACKNOWLEDGES THAT, NOTWITHSTANDING ANY OTHER PROVISION OF THE PUGET 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.

Right to Resell. Subject to the provisions of the Puget Contract, Purchaser will have the right to resell or re-market the Output provided to Purchaser by District under the Puget 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 Puget 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 Puget Contract; provided, that the Purchaser’s Percentage as it may be increased pursuant to the Puget Contract will not, without the written consent of Purchaser, exceed 40%.

For purposes of the Mandatory Step-Up provision of the Puget Contract, the Purchaser’s pro rata share of a Defaulted Participant’s Output entitlement (referred to in the Puget 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:

$$10\% \times [(25\% \div (25\% + 40\% + 25\%))] = 2.78\%, \text{ to be added to Purchaser’s Percentage}$$

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 Puget Contract will be determined under the Puget 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 Puget 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 Puget 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 Puget 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 Puget 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 Puget 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 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.

Decommissioning. Over the term of the Puget 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 Puget 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 Puget 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 Puget 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 Puget 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 Puget 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 Puget 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 Puget 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 Puget 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 Puget 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 Puget 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 Puget 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 Puget 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 Puget 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 Puget Contract, as such principal amount may have theretofore been reduced in accordance with the Puget 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 Puget 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:

$$EF = CPI \div CPI-b$$

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 Puget 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 Puget 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 Puget 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 Puget 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 Puget 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 Puget Contract. The Periodic Payments payable by Purchaser pursuant to the Puget Contract for any month, will be independent of and not related to the amount of Output, if any, delivered to Purchaser under the Puget Contract during such month.

Final Payment. Within ninety (90) days following the expiration or earlier termination of the Puget 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 Puget Contract and in Appendix A to the Puget Contract, the District may use the Periodic Payments paid to the District under the Puget 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 Puget Contract at any time for any reason, all amounts collected pursuant to the Puget 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 Puget 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 Puget Contract.

Investment of Certain Funds. The District agrees in the Puget 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 Puget 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 Puget Contract for purposes of the Puget 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 Puget 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 Puget 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 Puget Contract.

Risk of Loss and Disclaimer of Warranties

Risk of Loss. The District represents and warrants in the Puget Contract that it will deliver the Output sold under the Puget 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 Puget 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.

Assignment

Neither Party will assign the Puget Contract or its rights under the Puget 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 Puget Contract), pledge or encumber the Puget Contract or the accounts, revenues or proceeds of the Puget 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 Puget 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 Puget 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 Puget 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 Puget 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 Puget 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 Puget Contract as Purchaser under the Puget 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 Puget 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 Puget 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.

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 Puget Contract if such failure is not remedied within three (3) Business Days after receipt of written notice, as required in the Puget Contract;

(b) any representation or warranty made by such Party in the Puget 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 Puget 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 Puget 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 Puget 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 Puget 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 Agreements” 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 Puget 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 Puget Contract will not constitute a breach of the Puget 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 Puget Contract, other than any payment obligations that may be due or become due under the Puget 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 Puget Contract and sue for damages as contemplated in the Puget 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 Puget 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 Puget 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 Puget 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 Puget Contract with respect to such Output, with the balance, if any, being retained by the District.

Notwithstanding any other provision contained in the Puget Contract, the Purchaser waives any right it may have to terminate the Puget 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 Puget 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 Puget Contract, or legally existing at the time of signing the Puget 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 Puget Contract, or to exercise any right or remedy provided for in the Puget 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 Puget Contract with knowledge of the breach of any provisions of the Puget Contract, will not be deemed a waiver of such breach. In addition to all other remedies provided in the Puget 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 Puget Contract, or to a decree requiring performance of any of the provisions of the Puget Contract or to any other remedy legally allowed to such Party.

Calculation of District's Loss upon Termination.

(a) If the District terminates the Puget Contract pursuant to the Puget Contract, the District will be entitled to recover from the Purchaser the full amount of its loss resulting from the early termination of the Puget Contract. The Parties recognize that it will be difficult to calculate those losses with absolute precision and agree in the Puget Contract that the District's good faith determination of such losses, based on the methodology set forth in the Puget 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 Puget 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 Puget 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 Puget Contract and the protection of its rights under the Puget 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 Puget 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 Puget Contract, the mandatory step-up provisions of the Puget 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 Puget Contract as contemplated in the Puget 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.

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.

Miscellaneous

No Guaranty; Obligations Regarding Bonds or Indebtedness. Nothing contained in the Puget 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 Puget Contract. The District may pledge payments to be made by the Purchaser under the Puget 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 Puget 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 Puget 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 Puget 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 Puget 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 administering the Puget Contract that are unique to Purchaser or Purchaser's performance (or failure to perform) under the Puget 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 Puget 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 Puget 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 Puget 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 Puget Contract and as determined in accordance with the Puget 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 Puget 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 Puget 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 Puget Contract, to reflect the cumulative effect of any such adjustment.

Anything in the Puget 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.

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 Puget 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 Puget 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 Puget 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 Puget 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 Puget 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 Puget 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. 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).

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.

APPENDIX G—SUMMARY OF POWER SALES CONTRACT WITH ALCOA

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APPENDIX G - SUMMARY OF POWER SALES CONTRACT WITH ALCOA, INC.

The following is a summary of certain provisions of the Power Sales Contract with Alcoa Power Generating Inc. and Alcoa Inc. (the “Alcoa Contract”). 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 Alcoa Contract, 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 Alcoa Contract.

“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 Alcoa Contract and described in “THE ALCOA CONTRACT—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:

$$EF = CPI \div CPI-b$$

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 Alcoa Contract

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

“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 Alcoa Contract 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 Alcoa Contract and described in

“THE ALCOA CONTRACT—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 Alcoa Contract and described in “THE ALCOA CONTRACT—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 Alcoa Contract. 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 Alcoa 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 Alcoa Contract. For purposes of the Alcoa Contract, 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 Alcoa Contract and described in “THE ALCOA CONTRACT—Determination of Chelan Power System Net Costs,” as such principal amount may have theretofore been reduced in accordance with the Alcoa Contract and described in “THE ALCOA CONTRACT—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 ALCOA CONTRACT—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 Alcoa Contract 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 Alcoa Contract and described in “THE ALCOA CONTRACT—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:

$$EF = CPI \div CPI-b$$

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 Alcoa Contract and in blatant disregard for its express obligations under the Alcoa Contract. Such term only relates to the failure to deliver Purchaser’s Share of Output to the extent required under the Alcoa Contract, 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 Alcoa Contract.

“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 Alcoa Contract 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 ALCOA CONTRACT—Curtailement 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 Alcoa Contract and described in “THE ALCOA CONTRACT—Output, Scheduling, Planning and Transmission,” subject to the limitations set forth in the Alcoa Contract and described in “THE ALCOA CONTRACT—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 Alcoa Contract 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 Alcoa Contract 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 ALCOA CONTRACT—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 Alcoa 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 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.

“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 ALCOA CONTRACT—Output; Surplus Energy Sales; Credits” as such amount may be adjusted from time to time pursuant to the terms of the Alcoa 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.

“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 Alcoa Contract. This term will specifically include that certain Alcoa Contract 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 Alcoa Contract. 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 Alcoa 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 the Alcoa Contract and described in "THE ALCOA CONTRACT—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 Alcoa Contract and described in "THE ALCOA CONTRACT—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 50 aMW 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 Alcoa Contract, which will be deemed to be the date recited in the first paragraph of the Alcoa Contract.

"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.

"Term" means the period during which Output will be made available to Purchaser pursuant to the terms of the Alcoa Contract.

"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.

"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 ALCOA CONTRACT

Term and Termination

Term. The Alcoa Contract became effective on the Signing Date. The Term, commenced as of the first Project Availability Date and will terminate as of the expiration or termination of the Alcoa Contract pursuant to its terms. Unless terminated or extended, the Alcoa Contract will remain in effect until midnight on October 31, 2028. All obligations accruing or arising prior to the termination or expiration of the Alcoa Contract will survive the termination or expiration thereof until satisfied in full.

Termination. The Alcoa 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 Alcoa Contract pursuant to this clause (ii) by the District pursuant to the provisions of the Alcoa Contract and described in “THE ALCOA CONTRACT—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 ALCOA CONTRACT—Terms and Termination—Condition Precedent to Effectiveness” and (iv) by the District pursuant to “THE ALCOA CONTRACT—Output; Surplus Energy Sales, Credits.” In the event the Alcoa Contract is terminated pursuant to the provisions described in subsections (i), neither Party will be liable to the other Party for damages due to such termination. Any termination of the Alcoa Contract 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 Alcoa Contract 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 Alcoa Contract, 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 Alcoa Contract, 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 ALCOA CONTRACT—Output; Surplus Energy Sales; Credits—Mandatory Step-up."

PURCHASER ACKNOWLEDGES THAT, NOTWITHSTANDING ANY OTHER PROVISION OF THE ALCOA CONTRACT 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 Alcoa Contract, 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.

Limitation on Availability and Use of Output. The Output provided pursuant to the Alcoa Contract will be used by Purchaser solely at Wenatchee Works. Except as specifically provided in the Alcoa Contract, 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 Alcoa Contract. 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 ALCOA CONTRACT—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 Alcoa Contract.

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 Alcoa Contract 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 Alcoa Contract.

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 Alcoa Contract 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 Alcoa Contract and described in "THE ALCOA CONTRACT—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 Alcoa Contract and described in "THE ALCOA CONTRACT—Excess Energy Sales and Supplemental Power Purchases." Pursuant to the Alcoa Contract, 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 ALCOA CONTRACT—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 ALCOA CONTRACT—Excess Energy Sales and Supplemental Power Purchases." Pursuant to the Alcoa Contract, 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 Alcoa Contract, 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 Alcoa Contract 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 Alcoa Contract 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 Alcoa Contract described in “THE ALCOA CONTRACT—Output; Surplus Energy Sales; Credits” is required under the Alcoa Contract, 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 Alcoa Contract described in “THE ALCOA CONTRACT—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 ALCOA CONTRACT—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 ALCOA CONTRACT—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 ALCOA CONTRACT—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 ALCOA CONTRACT—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 ALCOA CONTRACT—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 Alcoa Contract will be subject to set off and counterclaims for any payments due from Purchaser under the Alcoa Contract, 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 Alcoa Contract will be forfeited by the Purchaser pursuant to the provisions described in “THE ALCOA CONTRACT—Payment—Disposition of Fund Balances Upon Expiration or Termination of Alcoa Contract” 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 Alcoa Contract 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 ALCOA CONTRACT—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 Alcoa Contract 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 Alcoa Contract, 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 Alcoa Contract will be subject to set off and counterclaims arising from a default by Purchaser in the performance of its obligations under the Alcoa Contract.

Surplus Proceeds and all Purchaser credits at the expiration or termination of the Alcoa Contract will be subject to forfeiture pursuant to the Alcoa Contract and described in “THE ALCOA CONTRACT—Payment” below.

Special Rules During Shutdown Period. The parties recognize that the Capacity Reservation Charge contemplated in the Alcoa Contract 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 Alcoa Contract and described in “THE ALCOA CONTRACT—Capacity, Reservation Charge Escalation Factor.”

District’s Right to Terminate. The District may, in its sole discretion, terminate the Alcoa Contract, 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 Alcoa Contract described in “THE ALCOA CONTRACT—Assignment”). The District’s termination of the Alcoa Contract pursuant to the provisions described in “THE ALCOA CONTRACT—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 Alcoa Contract (other than the provisions described in “THE ALCOA CONTRACT—Payment”), for a term equal to the lesser of the Defaulting Participant’s remaining contract term or the remaining term of the Alcoa Contract.

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:

$$10\% \times [(26\% \div (26\% + 39\% + 25\%))] = 2.89\%, \text{ to be added to Purchaser’s Percentage}$$

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 Alcoa Contract and described in “THE ALCOA CONTRACT—Output; Surplus Energy Sales; Credits,” will be determined under the Alcoa 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 described in “THE ALCOA CONTRACT—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 Alcoa 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 Alcoa 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.

If Purchaser is required to purchase increased Output pursuant to the Alcoa Contract and described in “THE ALCOA CONTRACT—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 Alcoa Contract and described in “THE ALCOA CONTRACT—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 Alcoa Contract and described in “THE ALCOA CONTRACT—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 Alcoa Contract, 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 Alcoa Contract 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 Alcoa Contract.

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 Alcoa Contract and described in "THE ALCOA CONTRACT—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 Alcoa Contract and described in "THE ALCOA CONTRACT—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 Alcoa Contract and described in “THE ALCOA CONTRACT—Curtailment and Decommissioning” will not limit or modify the scope of and limitations on the District’s obligations under the Alcoa Contract as otherwise set forth in “THE ALCOA CONTRACT—Output; Surplus Energy Sales; Credits” and the Alcoa Contract and described in “THE ALCOA CONTRACT—Limitations of Liability.”

Decommissioning. Over the term of this Alcoa 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 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 Alcoa Contract; 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 Alcoa Contract and described in “THE ALCOA CONTRACT—Output; Surplus Energy Sales; Credits.”

Load Shedding. In addition to the foregoing and other rights of curtailment set forth in the Alcoa Contract, 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 Alcoa Contract.

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 Alcoa Contract and described in “THE ALCOA CONTRACT—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 (19th) 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 Alcoa Contract and described in "THE ALCOA CONTRACT—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 Alcoa Contract 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 Alcoa Contract or an Intentional Breach of the Alcoa Contract by the District.

"Initial Shutdown Amount" means the amount specified in the Alcoa Contract 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 Alcoa Contract for such Fiscal Year in which the first day following the end of such eighteenth (18th) month falls, and (ii) for any subsequent Shutdown, the amount specified in the Alcoa Contract for the respective Fiscal Year in which the first day of such Shutdown Period falls.

"Startup Conditions" means the use of more than 60 aMW 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 ALCOA CONTRACT—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 ALCOA CONTRACT—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 ALCOA CONTRACT—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 ALCOA CONTRACT—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 Alcoa Contract as a “Working Capital Charge” or collectively as “Working Capital Charges.”

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 “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 “THE ALCOA CONTRACT—Payments.”

(iii) All amounts paid by the Purchaser to the District pursuant to “THE ALCOA CONTRACT—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 Alcoa Contract 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 Alcoa Contract, until a different calculation is made pursuant to the Alcoa Contract.

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 (1/12th) 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.

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 Alcoa Contract, 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 Alcoa Contract and described in "THE ALCOA CONTRACT—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 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; 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 Alcoa Contract 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 Alcoa Contract (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 Alcoa Contract and described in "THE ALCOA CONTRACT—Default and Termination." The Periodic Payments payable by Purchaser pursuant to the Alcoa Contract for any month, will be independent of and not related to the amount of Output, if any, delivered to Purchaser under the Alcoa Contract during such month.

Final Payment. Within ninety (90) days following the expiration or earlier termination of the Alcoa 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 Alcoa Contract and described in "THE ALCOA CONTRACT—Payment" "—Determination of Chelan Power System Net Costs," the District may use the

Periodic Payments paid to the District under the Alcoa Contract in any manner that the District, in its sole discretion, will determine.

Disposition of Fund Balances Upon Expiration or Termination of Alcoa Contract. Upon the expiration or prior termination of the Alcoa Contract at any time for any reason, all amounts collected pursuant to the Alcoa Contract, 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 Alcoa Contract.

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 Alcoa Contract and described in "THE ALCOA CONTRACT—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 Alcoa Contract as described in "THE ALCOA CONTRACT—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 Alcoa Contract (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 Alcoa 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 Alcoa Contract.

Interconnection and Transmission

Interconnection and Transmission Agreements. Output will be made available to Purchaser at Transmission Points of Receipt as specified in the Alcoa Contract and described in "THE ALCOA CONTRACT—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 Alcoa Contract and described in "THE ALCOA CONTRACT—Output, Scheduling, Planning and Transmission" thereof.

Risk of Loss and Disclaimer of Warranties

Risk of Loss. The District represents and warrants that it will deliver the Output sold under the Alcoa 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. 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 Alcoa Contract.

The District will not be liable to Purchaser for any damages or losses sustained by Purchaser (except as provided in the Alcoa Contract and described in "THE ALCOA CONTRACT—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.

Assignment

Neither Party will assign the Alcoa Contract or its rights under the Alcoa 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:

The District may, without the consent of the Purchaser (and without relieving itself from liability under the Alcoa Contract), pledge or encumber the Alcoa Contract 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 Alcoa Contract as Purchaser under the Alcoa 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 Alcoa Contract 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 Alcoa 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 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 Alcoa Contract or the sale of Output to Purchaser.

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 Alcoa Contract if such failure is not remedied within three (3) Business Days after receipt of written notice, as required in the Alcoa Contract;

(B) any representation or warranty made by such Party in the Alcoa 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 Alcoa 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 such Party to provide Performance Assurance within the time requirements set forth in the Alcoa 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 Alcoa 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/or assigns to another entity without the express written consent of the other party pursuant to the Alcoa Contract 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 Agreements" 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 Alcoa Contract. Termination of the Alcoa Contract by the District will not constitute a breach of the Alcoa 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 Alcoa Contract, other than any payment obligations that may be due or become due under the Alcoa 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 Alcoa Contract and sue for damages as contemplated in "THE ALCOA CONTRACT—Default and Termination;"

(C) maintain successive proceedings against the Defaulting Party for recovery of damages (to the extent permitted under the Alcoa Contract) or for a sum equal to any and all payments required to be made pursuant to the Alcoa 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 Alcoa 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 Alcoa Contract.

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 *Alcoa Contract* and described in "THE ALCOA CONTRACT—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 Alcoa Contract 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 Alcoa Contract 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 Alcoa 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 Alcoa Contract, 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 Alcoa Contract, or to exercise any right or remedy provided for in the Alcoa 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 Alcoa Contract with knowledge of the breach of any provisions of the Alcoa Contract, will not be deemed a waiver of such breach. In addition to all other remedies provided in the Alcoa 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 Alcoa Contract, or to a decree requiring performance of any of the provisions of the Alcoa Contract or to any other remedy legally allowed to such Party.

Calculation of District's Loss upon Termination.

If the District terminates the Alcoa Contract pursuant to the provisions of the Alcoa Contract and described in "THE ALCOA CONTRACT—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 Alcoa Contract. 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 Alcoa Contract and described in "THE ALCOA CONTRACT—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 Alcoa 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 Alcoa 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.

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 Alcoa Contract and the protection of its rights under the Alcoa Contract (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 Alcoa 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 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 Alcoa 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 ALCOA CONTRACT—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 Alcoa Contract as described in "THE ALCOA CONTRACT—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 Alcoa Contract as a result of the District's failure to consent to a Change in Control pursuant to the Alcoa Contract and described in "THE ALCOA CONTRACT—Default and Termination."

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 Alcoa Contract, 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 Alcoa Contract will be deemed to be delivered on the date the same will be posted on the Securities and Exchange Commission website (www.sec.gov). Upon the District's written request, Purchaser will deliver to the District hard copies of the documents contemplated under the Alcoa Contract.

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 Alcoa Contract 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 Alcoa Contract and described in "THE ALCOA CONTRACT—Default and Termination" will be deemed to have occurred and the District will be entitled to the remedies set forth in the Alcoa Contract and described in "THE ALCOA CONTRACT—Default and Termination" of the Alcoa Contract.

Determination of Chelan Power System Net Costs

Determination of Net Costs. For purposes of the Alcoa 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 and delivery of Output from, the Chelan Power System, as determined by the District, including without duplication (whether under the Alcoa 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 administering the Alcoa Contract that are unique to Purchaser or Purchaser's performance (or failure to perform) under the Alcoa Contract. 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 Alcoa Contract. 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 Alcoa Contract.

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 Alcoa 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, 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 Alcoa Contract and described in "THE ALCOA CONTRACT—Default and Termination," no credits will be given for any income or revenues from the sale or other disposition of Output to any person.

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 Alcoa 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, 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 Alcoa Contract 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 ALCOA CONTRACT—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 Alcoa Contract. 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 Alcoa Contract 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 Alcoa Contract.

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 Alcoa Contract. 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 Alcoa Contract. 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 Alcoa Contract, 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

(A) ***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.

(B) ***Project Facilities***. Project Transmission Facilities may be required to transmit Purchaser's Percentage of Output from the relevant interconnection points to the Transmission Point(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.

(C) 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.

(D) ***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).

(E) 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 Alcoa Contract.
 - 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 Sales Agreement.
 - The District will not be obligated to post any collateral, margin, or other security interest to facilitate the transactions described in the Alcoa Contract. 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 Alcoa Contract.
- 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.

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APPENDIX H—FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is entered into as of May 1, 2020, 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 \$109,630,000 aggregate principal amount of Consolidated System Revenue Bonds, Revenue and Refunding Series 2020A (Non-AMT/Governmental) (the “2020A Bonds”), \$10,965,000 aggregate principal amount of Consolidated System Revenue Bonds, Refunding Series 2020B (Non-AMT/Private Activity) (the “2020B Bonds”) and \$13,230,000 aggregate principal amount of Consolidated System Revenue Bonds, Refunding Series 2020C (AMT) (the “2020C Bonds” and together with the 2020A Bonds and 2020B Bonds, the “Bonds”).

WITNESSETH:

WHEREAS, pursuant to Resolution No. 07-13067 adopted by the Commission of the District (the “Commission”) on March 12, 2007, (the “Master Resolution”), as amended and supplemented, including as amended by Resolution No. 07-13099, adopted by the Commission on April 30, 2007 (the “First Supplemental Resolution”), and by Resolution No. 09-13481, adopted by the Commission on July 13, 2009 (the “Seventh Supplemental Resolution”), and as supplemented by Resolution No. 20-14440, adopted by the Commission on March 30, 2020 (the “Twelfth Supplemental Resolution” and together with the First Supplemental Resolution, the Seventh Supplemental Resolution and the Master Resolution, the “Resolution”), the District has provided for the issuance of the Bonds; and

WHEREAS, the underwriters with respect to the Bonds (the “Underwriters”) are 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.

“Financial Obligation” shall mean, for purposes of the Listed Events set out in Section 5(a)(10) and Section (5)(b)(8), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

“Listed Events” shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, 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>.

“Official Statement” shall mean, the Official Statement with respect to the Bonds dated April 21, 2020.

“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.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, 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 Underwriters 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, 2020, provide to the MSRB copies of an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report 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 a filing with the MSRB. 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 MSRB, 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 (if other than the District) 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 MSRB by the date required in Section 3(a), the Dissemination Agent shall, in a timely manner, send or cause to be sent to the MSRB a notice 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 MSRB.

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; and
 - (ii) updated information for Tables 4 through 18 (but excluding Tables 6, 15, 16 and 17) of the Official Statement for the previous fiscal year;
- (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 MSRB or the SEC and made available to the public on the MSRB'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 MSRB information substantially in the form set forth under "Available Information" and "Additional Information" in APPENDIX E 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 MSRB 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 who is either generally or through an enterprise, fund or account of such person committed by contract or other arrangement to support payment of all, or part of the Bonds (other than providers of municipal bond insurance, letters of credit or other liquidity facilities).

SECTION 5. Reporting of Significant Events.

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes;
9. Bankruptcy, insolvency, receivership or similar event of the obligated person;
10. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. Non-payment related defaults;
2. Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bond;
3. Modifications to rights of Bond holders;
4. Bond calls;
5. Release, substitution, or sale of property securing repayment of the Bonds;
6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an

action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

7. Appointment of a successor or additional trustee or the change of name of a trustee; or
8. Incurrence of a Financial Obligation of the Issuer or an Obligated Person, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Issuer or the Obligated Person, any of which affect security holders.

(c) The Dissemination Agent (if other than the District) shall, promptly upon obtaining actual knowledge at the address listed in Section 13 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 (if such event is described in Section 5(b)) pursuant to subsection (f).

(d) If the District obtains knowledge of the occurrence of a Listed Event described in Section 5(a), or if the District determines that knowledge of the occurrence of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the District shall promptly notify the Dissemination Agent (if other than the District) 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 (c), the District determines that the Listed Event described in Section 5(b) 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 MSRB. Notwithstanding the foregoing, notice of the occurrence of a Listed Event described in Section 5(a)(7) and (b)(3) 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. Format for Filings with the MSRB. Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as in prescribed by the MSRB.

SECTION 7. 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 8. 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 9. 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) or (b), 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 a filing with the MSRB, 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 10. 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 required to be filed pursuant to this Disclosure Certificate, 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 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 or any other event required to be reported.

SECTION 11. 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 12. 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 attorney's 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 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 13. 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 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Underwriters and the Owners and Beneficial Owners from time to time, and shall create no rights in any other person or entity.

SECTION 15. 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 THE MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Public Utility District No. 1 of Chelan County, Washington

Name of Bond Issue: Consolidated System Revenue Bonds
Revenue and Refunding Series 2020A (Non-AMT/Governmental)
Refunding Series 2020B (Non-AMT/Private Activity)
Refunding Series 2020C (AMT)

Date of Delivery: May 1, 2020

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 May 1, 2020, 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

**PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON • CONSOLIDATED SYSTEM REVENUE BONDS
REVENUE AND REFUNDING SERIES 2020A (Non-AMT/Governmental), Refunding Series 2020B (Non-AMT/Private Activity) and Refunding Series 2020C (AMT)**



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