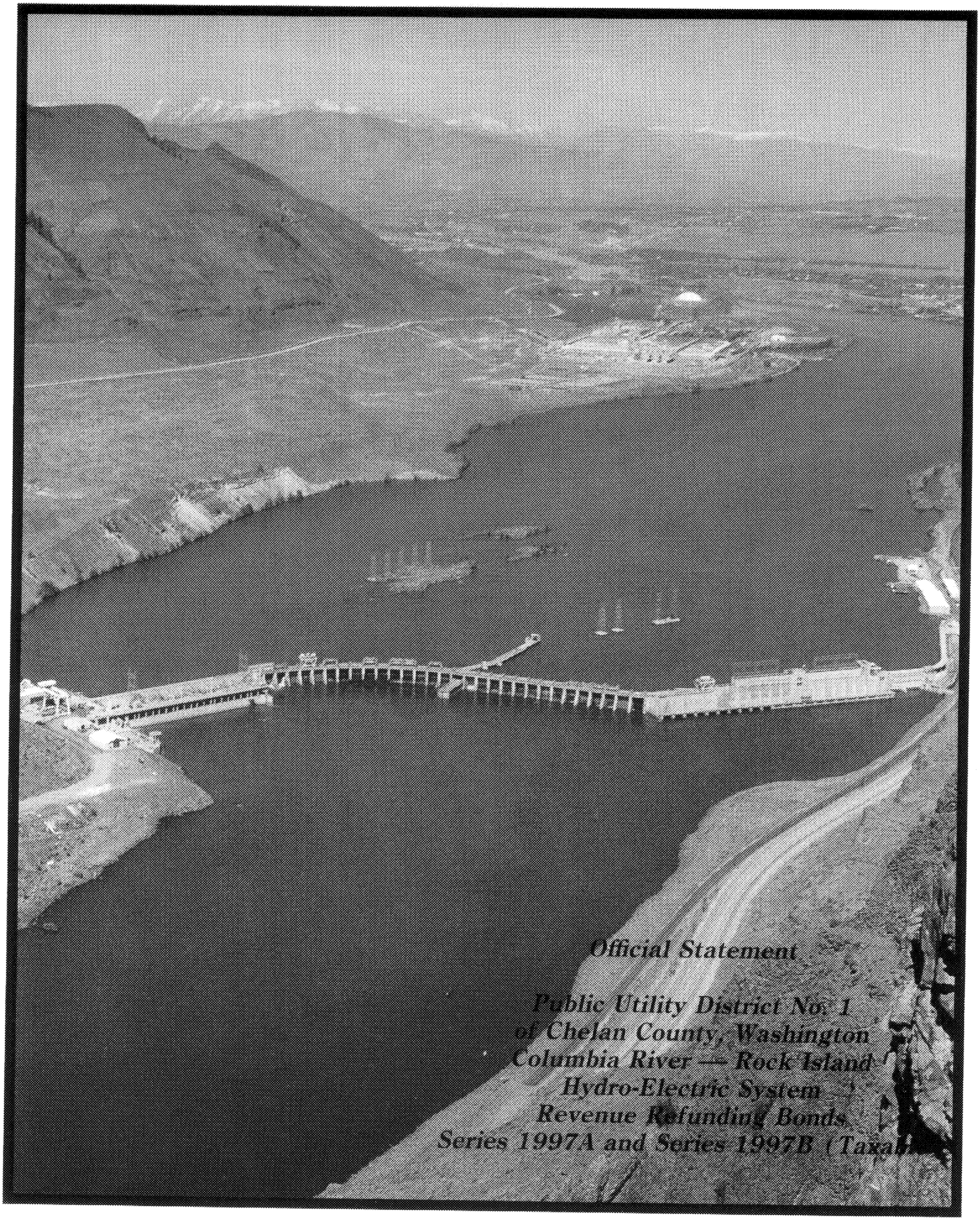
Official Statement
Public Utility District No. 1
of Chelan County, Washington
Columbia River — Rock Island
Hydro-Electric System
Revenue Refunding Bonds
Series 1997A and Series 1997B (Taxa

Cover: Columbia River-Rock Island Hydro-Electric Project

NEW ISSUES — BOOK ENTRY ONLY

PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON

P.U.D. CHELAN COUNTY HYDRO

$287,218,546.30
COLUMBIA RIVER-ROCK ISLAND HYDRO-ELECTRIC SYSTEM REVENUE REFUNDING BONDS
consisting of

$135,943,546.30 SERIES 1997A and $151,275,000 SERIES 1997B (TAXABLE)

Dated: As shown on the inside front cover **Due: June 1, as shown on the inside front cover**

Public Utility District No. 1 of Chelan County, Washington (the "District") is issuing its Columbia River-Rock Island Hydro-Electric System Revenue Refunding Bonds, Series 1997A (the "1997A Bonds") and Series 1997B (Taxable) (the "1997B Bonds," and together with 1997A Bonds, the "1997 Bonds") pursuant to Resolution No. 97-10671 of the District (the "Master Resolution") as supplemented by Resolution No. 97-10672 of the District (the "First Supplemental Resolution," and together with the Master Resolution, the "Resolution"), both adopted by the Commission on February 27, 1997. The 1997 Bonds are being issued to refund, together with other available funds, the $272,105,000 outstanding principal amount of Columbia River-Rock Island Hydro-Electric Revenue Bonds, Series of 1976 and the $9,140,000 outstanding principal amount of Columbia River-Rock Island Hydro-Electric Revenue Bonds, Series of 1978 (collectively, the "Refunded Bonds"), to fund a reserve fund for the 1997 Bonds, and to pay a portion of the costs of issuance of the 1997 Bonds. The 1997 Bonds will initially be issued in denominations (or with respect to Capital Appreciation Bonds, final compounded amounts) of $5,000 and integral multiples thereof. The 1997 Bonds will be issued under the book-entry system maintained by The Depository Trust Company. Interest on the Current Interest 1997B Bonds will be payable on each June 1 and December 1, commencing June 1, 1997. Interest on the Capital Appreciation 1997A Bonds will compound on each June 1 and December 1 but the accreted value of the Capital Appreciation 1997A Bonds is payable only at maturity. The maturity schedule is set forth on the inside front cover. Capitalized terms used herein, but not defined, have the meanings set forth in Appendix F.

This cover page including the inside front cover contains certain information for quick reference only. It is not a summary of this issue. Investors are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

THE 1997A BONDS ARE SUBJECT TO EXTRAORDINARY MANDATORY REDEMPTION PRIOR TO MATURITY AS DESCRIBED HEREIN.

The 1997 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, and neither the full faith and credit or the taxing power of the District nor any revenues of the District derived from sources other than the Rock Island System are pledged to the payment thereof. The 1997 Bonds do not constitute a debt or indebtedness of the District, the State of Washington or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction of the State of Washington.

The 1997 Bonds and the interest thereon are payable solely from the 1997 Bond Fund and are secured by a pledge of the Revenues of the Rock Island System, subject to the prior payments to be made from such Revenues for debt service and reserve and contingency fund requirements on the $29,230,000 outstanding principal amount of the Original Rock Island Bonds, and for operating and maintenance expenses in connection with the Rock Island System. At the time of issuance, the 1997 Bonds will also be subject to the prior payments to be made from the Revenues for debt service on the $24,645,000 outstanding principal amount of the Senior Rock Island Bonds. The District has entered into a forward purchase agreement to issue its Chelan Hydro Consolidated System Revenue Bonds, Refunding Series 1996D to refund and defease the Senior Rock Island Bonds on April 2, 1997. The District has covenanted not to issue any additional bonds on a parity with the Original Rock Island Bonds or the Senior Rock Island Bonds.

Payment of the Accreted Value of the 1997A Bonds and of the principal of and interest on the 1997B Bonds indicated on the inside front cover when due will be insured by separate financial guaranty insurance policies to be issued simultaneously with the delivery of the 1997 Bonds by

MBIA

The average cost of power from the Rock Island System is among the lowest of any major generating facility in the region or nationally. All of the output of the Rock Island System is currently taken by the District and Puget Sound Energy, Inc., which was formerly known as Pugent Sound Power & Light Company ("Puget") under terms set forth in the Power Sales Contract. The Power Sales Contract expires by its terms in 2012. See "Security for the Bonds — Power Sales Contract" for a description of the respective portions of the Rock Island System output allocated to Puget and the District. Under the Power Sales Contract, Puget and the District each pays an amount for its respective share of such output, which is part of the Revenues, equal to a proportionate share of the annual costs, including operation and maintenance costs and debt service, of the Rock Island System. After termination of the Power Sales Contract, the District has covenanted in the Resolution that the District will take for the account of its Chelan Hydro System any portion of the output of the Rock Island System not sold to others, and shall pay into the Revenue Fund such amount which, together with the other moneys on deposit therein, will be sufficient to make all payments required under the Resolution, including debt service on the 1997 Bonds, whether or not the Rock Island System is operable or the operation thereof is interrupted, suspended or interfered with, in whole or in part, for any cause.

In the opinion of O'Melveny & Myers LLP, Bond Counsel, assuming the accuracy of certain representations and compliance by the District with certain tax covenants described herein, interest on the 1997A Bonds is excluded from gross income for federal income tax purposes under existing statutes, regulations, rulings and court decisions. In addition, Bond Counsel is of the opinion that interest on the 1997A Bonds will not be treated as a specific item of tax preference for purposes of the federal alternative minimum tax on individuals and corporations. However, the interest on the 1997A Bonds is included in the computation of certain federal taxes on corporations. Interest on the 1997B Bonds is not excludable from gross income for federal income tax purposes. See "TAX EXEMPTION" herein.

The 1997 Bonds are offered when, as and if issued and received by the Underwriter, subject to the approval of legality by O'Melveny & Myers LLP. Certain legal matters will be passed upon for the District by Davis, Arneil, Dorsey, Kight & Parlette, and for the Underwriter by Orrick, Herrington & Sutcliffe LLP. It is expected that the 1997 Bonds in book-entry form will be ready for delivery through the facilities of The Depository Trust Company in New York, New York, on or about March 17, 1997.

Lehman Brothers

March 4, 1997

AMOUNTS, MATURITIES, INTEREST RATES AND PRICES

$135,943,546.30 Capital Appreciation 1997A Bonds†
Dated Date of Delivery

Due (June 1)	Initial Amount	Approximate Yield to Maturity	Purchase Price per $5,000 at Maturity
2009	$8,971,200.00	5.50%	$2,563.20
2010	9,475,623.00	5.60	2,411.10
2011	8,904,790.50	5.65	2,265.85
2012	8,360,092.50	5.70	2,127.25
2013	9,052,222.40	5.75	1,995.20
2014	8,482,148.35	5.80	1,869.55
2015	7,940,203.70	5.85	1,750.10
2016	7,425,707.90	5.90	1,636.70
2017	7,006,262.25	5.90	1,544.25
2018	6,542,807.70	5.95	1,442.10
2019	6,170,093.15	5.95	1,359.95
2020	$5,753,596.55	6.00%	$1,268.15
2021	5,423,302.95	6.00	1,195.35
2022	5,112,064.75	6.00	1,126.75
2023	4,818,520.85	6.00	1,062.05
2024	4,482,329.15	6.05	987.95
2025	4,223,039.60	6.05	930.80
2026	3,978,722.15	6.05	876.95
2027	3,748,469.40	6.05	826.20
2028	3,531,600.80	6.05	778.40
2029	6,540,748.65	6.05	733.35

$151,275,000 Current Interest 1997B Bonds (Taxable)
Dated March 1, 1997

Due (June 1)	Principal Amount	Interest Rate	Initial Offering Price
1997	$ 2,785,000	5.56%	100%
1998	9,455,000	6.12	100
1999	10,035,000	6.42	100
2000 †	10,675,000	6.56	100
2001 †	11,380,000	6.73	100
2002	12,145,000	6.86	100
2003 †	7,975,000	6.89	100
2003	5,000,000	6.94	100
2004 †	$ 13,875,000	6.96%	100%
2005	14,840,000	7.06	100
2006 †	10,885,000	7.05	100
2006	5,000,000	7.10	100
2007 †	17,010,000	7.07	100
2008 †	18,210,000	7.10	100
2009 †	2,005,000	7.14	100

† Insured by MBIA.

PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON
327 North Wenatchee Avenue
Wenatchee, Washington 98801
Telephone (509) 663-8121

COMMISSION

James R. Wall	President
Don R. Kay	Vice President
Dale R. Boyd	Secretary
Barbara B. Tilly	Assistant Secretary
David Pflugrath	Immediate Past President

MANAGEMENT

Roger A. Braden	Chief Executive Officer-General Manager
Tim J. Olson	Managing Director - Power Resources
Charles J. Hosken	Treasurer/Managing Director of Finance
Roger L. Purdom	Managing Director - Distribution & Admin. Services
Michael J. Babst	Director of Retail Electrical Operations
Edward H. Beilstein	Director of Production System Oper. & Maintenance
Joseph W. Blackmore	Controller/Auditor
Richard D. Coon	Deputy Treasurer
Willard D. Fields	Director of Power Operations
Darrell J. Gouldin	Director of Human Resources
Joe O. Jarvis	Director of System Planning & Design
D. Jeannie King	Director of Purchasing & Stores
Gregory K. Larsen	Director of Management Information Systems
Dennis A. McMahon	Director of Safety & Training
Robert H. Salter	Licensing & Land Management Administrator
C. Brian Wengreen	Director of Water/Wastewater Engineering & Operations
Randall T. Whitaker	Director of Retail Electrical Engineering
Wayne W. Wright, Jr.	Community Services Administrator

GENERAL COUNSEL FOR THE DISTRICT

Davis, Arneil, Dorsey, Kight & Parlette
Wenatchee, Washington

BOND COUNSEL

O'Melveny & Myers LLP
San Francisco, California

FINANCIAL ADVISOR

Seagraves & Hein Capital Advisors, LLC
Seattle, Washington

No dealer, broker, salesperson or any other person has been authorized by the District or by 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 1997 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 solicitation of an offer to buy any of the 1997 Bonds, nor shall there be any sale of the 1997 Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The information set forth herein has been obtained from the District and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter. The information herein is 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.

IN CONNECTION WITH THE OFFERING OF THE 1997 BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 1997 BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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SUMMARY STATEMENT

This Summary Statement contains certain information for quick reference only and is subject in all respects to the more complete information contained in this Official Statement. Investors are advised to read the entire Official Statement to obtain information essential to making an informed investment decision. Capitalized terms used in this Summary Statement have the meanings specified elsewhere in this Official Statement.

The District

The District is a municipal corporation of the State of Washington. The District was established in 1936, and began electric utility operations in 1947. The District operates and maintains three major hydro-electric power generating systems, the Rock Island System, the Rocky Reach System and the Lake Chelan System, as well as a distribution system. The combined nameplate generating capacity of the District's three hydro-electric generating systems is 2,003,000 kilowatts. The hydro-electric systems provide power to the District and its customers at a very low average cost relative to most other major generating facilities in the region and nationally. The District also operates a water system and wastewater system which serve portions of Chelan County, both of which are comparatively small.

The Rock Island System

The Rock Island System consists of the Rock Island Hydro-Electric Generating Plant located on the Columbia River approximately 12 miles downstream from Wenatchee, Washington, together with associated substation and transmission facilities which connect the generating plant to other facilities of the District and Puget Sound Energy, Inc., formerly Puget Sound Power & Light Company ("Puget"), and to the transmission grid of the Pacific Northwest. A long term license for the generating plant, expiring January 1, 2029, was issued by FERC. A dam with an effective head of approximately 39 feet, provides water to 18 generating units, housed in two powerhouses, with a maximum net capacity of approximately 660,000 kilowatts, and 1996 total generation of 3,685,000 megawatt-hours.

The Rock Island System provided power to the District and Puget at an average cost over the last five calendar years of approximately 1.6 cents/kWh. This is substantially below the cost during that period of firm power for Bonneville Power Administration's premiere customers (2.5 cents/kWh) and the cost of long-term firm power from other resources in the region and nationally. In the event that any firm power from the Rock Island System becomes available to the District to market, the District expects a ready market for such power at average prices at least equal to the average cost of producing such power.

Purpose of the 1997 Bonds

The 1997 Bonds are being issued for the purpose of, together with other funds, refunding certain of the District's outstanding bonds issued for the second powerhouse of the Rock Island System, funding a reserve fund for the 1997 Bonds, and financing costs of issuance related to the 1997 Bonds. The District is undertaking such refunding to provide increased flexibility to the District regarding the use of the output of the Rock Island System. See "Competitive Strategies."

Power Sales Contract

Except for output taken or reserved by the District as described herein, the output of the Rock Island System is sold to Puget pursuant to the Power Sales Contract, which expires by its terms on the later of June 7, 2012 or when the Original Rock Island Bonds are paid or provision is made for the retirement thereof. Puget is obligated under the Power Sales Contract to pay for its share of the cost of such output, including, without limitation, its share of the operating expenses of the Rock Island System and its share of debt service on the Original Rock Island Bonds and the 1997 Bonds (and the Senior Rock Island Bonds until such bonds are defeased on April 2, 1997, as described herein), whether or not the Rock Island System is operable or the operation thereof is interrupted, suspended or interfered with, in whole or in part, for any cause.

The District has covenanted in the Resolution that, upon the expiration or earlier termination of the Power Sales Contract, the District will take for the account of its Chelan Hydro System any portion of the output of the Rock Island System not sold to others and will pay into the Revenue Fund amounts which will be sufficient, with other moneys on deposit therein, to make all payments required under the Resolution, including debt service on the 1997 Bonds, whether or not the Rock Island System is operable or the operation thereof is interrupted, suspended or interfered with, in whole or in part, for any cause.

Comparison of Northwest Power Costs

The average cost of power from the Rock Island System is among the lowest in the United States. The following table compares the average cost of power from the Rock Island System to Bonneville's priority firm rate available to municipal utilities. These data should be read in conjunction with the charts located in "Competitive Strategies."

Rock Island System
Cost of Power Comparison
(Mills per KWH)

	Actual				
	1992	1993	1994	1995	1996
Rock Island System	15	17	18	15	13
Bonneville Power (1)	23	23	27	27	24

(1) The Bonneville rate includes transmission charges. For 1996 it is the rate effective October 1, 1996.

Additional Power Available to the District

The District's share of average energy capability from the original powerhouse of the Rock Island System will increase from the current 90 average MW to a total 102 average MW in 2000. The District's share of average energy capability from the second powerhouse of the Rock Island System will increase 14 average MW for every 10% withdrawn for an anticipated total of 70 average MW in 2006. See "The Rock Island System - Disposition of Output."

Puget

Puget Sound Energy, Inc., formerly Puget Sound Power & Light Company, a Washington corporation, is an investor-owned utility providing electric service to approximately 1,100,000 customers within 11 counties primarily in the western portion of the State of Washington.

District's Service Area

The District's distribution system has a retail market throughout an area coextensive with Chelan County, Washington, located in central Washington approximately 138 miles east of the City of Seattle and 165 miles west of the City of Spokane. Chelan County has a population of approximately 60,000.

Selected Financial Data

The average cost of power from the Rock Island System is among the lowest of any major generating facility in the region or nationally. See "The Rock Island System" and "Operating Results." The District and Puget currently take all of the output of the Rock Island System pursuant to the terms of the Power Sales Contract. Pursuant to the Power Sales Contract, Puget and the District are each required to pay to the Rock Island System amounts sufficient to cover its respective share of the costs of operating and maintaining the Rock Island System and costs of debt service (in each case as such costs are defined in the Power Sales Contract) plus a small debt service coverage factor. Such defined costs do not include depreciation.

The Selected Financial Data below should be read in conjunction with the Audited Financial Statements for the year ended December 31, 1995 contained in Appendix D and the accompanying notes, and the Unaudited Financial Statements for the year ended December 31, 1996 contained in Appendix E, and, in particular, in conjunction with "Operating Results," "Management's Discussion and Analysis," and "Projections."

Rock Island System
Selected Financial Data
($000)

	Actual					Projected				
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Operating Revenues	$41,702	$43,209	$47,370	$46,752	$47,404	$47,523	$48,410	$49,234	$50,396	$51,398
Operating Expenses (1)	19,341	19,868	24,247	23,844	26,334	26,102	27,233	28,547	29,942	31,420
Other (Expense) Income	(24,456)	(23,640)	(25,954)	(25,368)	(24,449)	(23,497)	(23,228)	(22,784)	(22,530)	(22,113)
Net Revenues (Expenses)(2)	$(2,095)	$ (299)	$(2,831)	$(2,460)	$(3,379)	$(2,076)	$(2,051)	$(2,097)	$(2,076)	$(2,135)
Cash Available for Debt Service	$30,943	$30,588	$31,212	$31,456	$29,941	$30,230	$30,468	$30,543	$30,887	$30,955
Debt Service on the Bonds	$26,530	$26,211	$26,395	$25,504	$23,729	$23,335	$23,324	$23,320	$23,311	$23,303
Coverage of Debt Service on the Rock Island Bonds	1.17	1.17	1.18	1.23	1.26	1.30	1.31	1.31	1.32	1.33
Cost in Mills/kWh (3)	15	17	18	15	13	13	16	16	17	17

(1) Includes depreciation expense.
(2) Reflects that the annual charge for depreciation exceeds the annual cost of amortizing Rock Island Bonds. See "Operating Results-Cash Available for Debt Service."
(3) 10 Mills/kWh equals 1 cent/kWh. For example, 13 Mills/kWh equals 1.3 cents/kWh.

Industry Restructuring

The electric utility industry in general has been, and in the future will continue to be, undergoing significant restructuring which could affect the operations and finances of electric utilities, such as the District. The District has implemented a number of strategic initiatives, including the refunding accomplished by the 1997 Bonds, that it believes will increase its flexibility to operate effectively in the emerging electric utility industry. The District believes that it is one of the best situated electric utilities in the region and nationally to compete in a deregulated environment, primarily because of its low cost hydro-electric power and capacity. In addition, District management and staff are active participants in federal, state and regional legislative, regulatory, environmental and industry matters which affect the District and its electric utility operations. See "Competitive Strategies" and "Recent Changes in the Electric Utility Industry."

Other Factors

Several species of migratory fish and wildlife on the Columbia River and Snake River Systems have been listed, or proposed for listing, as threatened or endangered species under the Endangered Species Act ("ESA") and corresponding state statutes. Such listings could have an adverse impact on the amount and/or cost of power available from the Rock Island System. See "Agreements and Proceedings Potentially Affecting Power Generation -

Endangered Species Act." However, the District, together with the two other mid-Columbia public utility districts, have submitted proposals for prelisting conservation agreements (the "Habitat Conservation Plan") to the National Marine Fisheries Service and the United States Fish and Wildlife Service for certain steelhead and salmon species. The District expects that agreements resulting from the Habitat Conservation Plan will allow for the continued economic operation of the District's hydro-electric projects in the event of any ESA listing of mid-Columbia species.

Security for the 1997 Bonds

The 1997 Bonds are special limited obligations of the District and are only payable, as to principal thereof and interest thereon, from the 1997 Bond Fund and the Revenues of the Rock Island System pledged to such fund. The pledge of Revenues is junior and subordinate to that of $29,230,000 outstanding principal amount of Original Rock Island Bonds. The District has entered into a forward purchase agreement to issue its Chelan Hydro Consolidated System Revenue Bonds, Refunding Series 1996D to refund and defease the outstanding Senior Rock Island Bonds on April 2, 1997, which bonds until such date will also be senior to the 1997 Bonds.

The Resolution defines "Revenues" as the income, revenues, receipts and profits derived by the District through the ownership and operation of the Rock Island System, and all other moneys required to be deposited in the Revenue Fund pursuant to the Original Resolution and the Resolution (and the Senior Rock Island Resolution until the Senior Rock Island Bonds are defeased) other than amounts expressly required or permitted by the such resolutions to be deposited in any other fund or to be used for any other purpose. See "Security for the 1997 Bonds - Flow of Funds."

Until expiration of the Power Sales Contract, the primary source of Revenues are payments made by Puget and the District for the cost of the output of the Rock Island System. Thereafter, the primary source of Revenues will be the District's purchase or sale of the output of the Rock Island System. For a description of Puget and the District, see Appendix B - "Puget Sound Energy, Inc." and Appendix C - "Chelan Hydro Consolidated System."

Reserve Fund

The First Supplemental Resolution establishes a reserve fund for the 1997 Bonds. The Reserve Requirement for the 1997 Bonds is $18,820,179.

Bond Insurance

In addition to the pledge of Revenues, the payment of the Accreted Value of the 1997A Bonds and of the principal of and interest on the 1997B Bonds indicated on the inside front cover of this Official Statement will be insured by separate financial guaranty insurance policies to be issued by MBIA Insurance Corporation concurrently with the issuance of the 1997 Bonds. Such financial guaranty insurance policies, when issued, are noncancellable and extend for the term of the respective 1997 Bonds.

Limited Obligation

The 1997 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 or, the taxing power of the District nor any revenues of the District derived from sources other than the Rock Island System are pledged to the payment of principal of, premium, if any, or interest on the 1997 Bonds.

Additional Indebtedness

The District has covenanted in the Resolution not to issue additional indebtedness payable from Revenues on a parity with the Original Rock Island Bonds or the Senior Rock Island Bonds.

Additional bonds on a parity with the 1997 Bonds (together with the 1997 Bonds, the "Bonds") may be issued only: (1) to comply with any order or decision of any federal, state or local governmental agency or authority with authority to issue or make and enforce an order or decision, requiring the installation of additional facilities or modifications at or in the Rock Island System; (2) to pay for renewals, repairs, replacements, capital additions and betterments necessary to maintain good and efficient operation of the Rock Island System; and (3) to refund at any time any or all of the Original Rock Island Bonds and Bonds then outstanding. So long as the Power Sales Contract is in effect, any future Bonds issued for the purposes specified in (1) and (2) above must be issued in accordance with the terms of the Power Sales Contract.

Outstanding Bonds

Outstanding Bonds
($000)

Columbia River-Rock Island Hydro-Electric System

	Outstanding 12/31/96	Chelan Hydro Consolidated System Revenue Bonds, Series 1996B & D Refundings	1997 Bonds Refundings	Outstanding 4/30/97
Original Rock Island Bonds	$29,230	--	--	$29,230
Senior Rock Island Bonds	305,890	($24,645)	($281,245)	0
1997 Bonds	0	--	287,219	287,219
Total	$335,120			$316,449

Chelan Hydro Consolidated System

	Outstanding 12/31/96	Chelan Hydro Consolidated System Revenue Bonds, Series 1996B & D Refundings	1997 Bonds Refundings	Outstanding 4/30/97
Senior Lien Bonds	$207,853	--	--	$207,853
Subordinate Lien Bonds	34,245	41,795	--	76,040
Total	$242,098			$283,893

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Public Utility District No. 1 of Chelan County
Washington

OFFICIAL STATEMENT

Relating to

$287,218,546.30

Columbia River-Rock Island Hydro-Electric System

Revenue Refunding Bonds

consisting of

$135,943,546.30 Series 1997A and $151,275,000 Series 1997B (Taxable)

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, is furnished by Public Utility District No. 1 of Chelan County, Washington (the "District") to set forth information concerning the District's Columbia River-Rock Island Hydro-Electric System (the "Rock Island System"), the purchaser of a portion of the output of the Rock Island System, the District's electric distribution system, its Chelan Hydro Consolidated System, and the District's $287,218,546.30 Columbia River-Rock Island Hydro-Electric System Revenue Refunding Bonds, consisting of $135,943,546.30 initial principal amount of Series 1997A (the "1997A Bonds") and $151,275,000 principal amount of Series 1997B (Taxable) (the "1997B Bonds," and together with the 1997A Bonds, the "1997 Bonds"). Capitalized terms used and not defined herein shall have the meanings set forth in Appendix F hereof.

The 1997 Bonds are to be 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, 1983 as amended and supplemented, constituting Chapter 39.53 of the Revised Code of Washington (together, the "Enabling Act"), Resolution No. 97-10671 of the District adopted on February 27 (the "Master Resolution"), as supplemented by Resolution No. 97-10672, adopted on February 27, 1997 authorizing the issuance of the 1997 Bonds (the "First Supplemental Resolution," and together with the Master Resolution, the "Resolution").

Previously, the District has issued $41,425,000 principal amount of, Columbia River-Rock Island Hydro-Electric System Revenue Bonds Issue of 1955, Second Series (the "Original Rock Island Bonds") pursuant to Resolution No. 1137, adopted December 20, 1955 (the "Original Resolution"), and Resolution No. 3443, adopted May 24, 1962. As of December 31, 1996, $29,230,000 principal amount of Original Rock Island Bonds were outstanding. The Original Rock Island Bonds have a final maturity date of June 1, 2012. In addition, pursuant to Resolution No. 4950, as amended and supplemented (the "Senior Rock Island Resolution"), the District has issued $288,600,000 and $10,000,000 principal amount, respectively, of Columbia River-Rock Island Hydro-Electric System Revenue Bonds, Series of 1976 (the "1976 Bonds") and Columbia River-Rock Island Hydro-Electric System Revenue Bonds, Series of 1978, respectively, (the "1978 Bonds," and together with the 1976 Bonds, the "Refunded Bonds") of which $272,105,000 and $9,140,000, respectively, are presently outstanding. The District also issued, pursuant to the Senior Rock Island Resolution, $25,800,000 principal amount of Columbia River - Rock Island Hydro-Electric System Revenue Bonds, Series of 1986 (the "Senior Rock Island Bonds") of which $24,645,000 is presently outstanding. The Senior Rock Island Bonds and the Original Rock Island Bonds are collectively referred to as the "Prior Rock Island Bonds." The Prior Rock Island Bonds and the Bonds (as hereinafter defined) are collectively referred to as the "Rock Island Bonds." The 1997 Bonds are payable from revenues of the Rock Island System on a subordinate basis junior and subordinate to the Prior Rock Island Bonds.

The District has entered into a forward purchase contract to issue its Chelan Hydro Consolidated System Revenue Bonds, Refunding Series 1996D to refund and defease the Senior Rock Island Bonds on April 2, 1997. Upon such defeasance, provisions described herein with respect solely to the Senior Rock Island Bonds shall no longer be applicable.

The 1997 Bonds are being issued for the purpose of refunding the $281,245,000 currently outstanding principal amount of Refunded Bonds.

The principal amount of the Prior Rock Island Bonds and Bonds outstanding after issuance of the 1997 Bonds and after giving effect to the April 2, 1997 defeasance of the Senior Rock Island Bonds will be approximately $316,448,546. Under the Resolution, the District has covenanted not to issue any additional bonds on a parity with the Original Rock Island Bonds or the Senior Rock Island Bonds. The District may issue additional bonds on a parity with the 1997 Bonds pursuant to the Master Resolution. See "Security for the 1997 Bonds-Additional Bonds." The 1997 Bonds and any future parity bonds are hereinafter collectively referred to as the "Bonds."

The District is a municipal corporation of the State of Washington. The District was established in 1936 and began electric utility operations in 1947. The District's electric utility operations consist of three separate hydro-electric generating systems (each, a "Hydro-Electric System") and its electric distribution system (the "Distribution System"), each of which is accounted for separately. The Hydro-Electric Systems are (1) the Rock Island System; (2) the Rocky Reach Hydro-Electric System (the "Rocky Reach System"); and (3) the Lake Chelan Hydro-Electric Production System (the "Lake Chelan System"). In 1976, the District consolidated the Hydro Electric Systems and the Distribution System into a single system known as the "Chelan Hydro Consolidated System (the "Chelan Hydro System"). Such consolidation, however, is subject to all the terms, limitations, restrictions, covenants, liens, charges and pledges made under the respective resolutions of the District which established each separate Hydro-Electric System and provided for the issuance of bonds to finance each respective Hydro-Electric System. Income, revenues, receipts and profits derived by the District through the ownership and operation of each separate Hydro-Electric System are pledged to the payment of bonds issued for each respective Hydro-Electric System and are not, while any such bonds are outstanding, available for payment of bonds of other systems of the District, including the Chelan Hydro System. The District also operates a water system and a wastewater system which have been consolidated into the Chelan Hydro System, both of which are comparatively small.

The 1997 Bonds and the interest thereon are payable solely from the Columbia River-Rock Island Hydro-Electric System Revenue Refunding Bonds, Series 1997A and 1997B Bond Fund (the "1997 Bond Fund") created by the First Supplemental Resolution. The District has pledged to pay into the 1997 Bond Fund a fixed amount, without regard to any fixed proportion, of the Revenues of the Rock Island System payable from the revenue fund originally established by the Original Rock Island Resolution and continued by the Resolution (the "Revenue Fund"). So long as the Original Rock Island Bonds and the Senior Rock Island Bonds are outstanding and unpaid, the payments required to be made into the 1997 Bond Fund are subject to the prior payments required to be made (i) into the bond fund for the payment of the principal of, premium, if any, and interest on the Original Rock Island Bonds, (ii) for the costs of operation and maintenance of the Rock Island System, (iii) into a reserve and contingency fund established in connection with the Original Rock Island Bonds (the "Original Reserve and Contingency Fund") and (iv) until such bonds are defeased on April 2, 1997, into the bond fund for the payment of the principal of, premium, if any, and interest on the Senior Rock Island Bonds. See Appendix F - "Summary of Certain Provisions of the Resolution." After the retirement of all the Prior Rock Island Bonds, the 1997 Bonds shall have a first lien on the revenues of the Rock Island System.

The 1997 Bonds shall 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 1997 Bonds are not a charge upon any 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 revenue of the Rock Island System pledged to the 1997 Bond Fund. 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 principal of, premium, if any, or interest on the 1997 Bonds. The 1997 Bonds shall not constitute an indebtedness of the District, or of the State of Washington, or of any political subdivision of the State of Washington, within the meaning of the constitutional and statutory debt limitations or restrictions of the State of Washington.

The average cost of power from the Rock Island System is among the lowest of any major generating facility in the region or nationally. See "The Rock Island System" and "Operating Results." The average cost of power generated by the Rock Island System for the five years ending December 31, 1996 was approximately 1.6 cents per kilowatt hour ("kWh"). This is substantially below the cost during that period of firm power for Bonneville Power Administration's preference customers (2.5 cents/kWh) and the cost of long-term firm power from other resources in the region and nationally.

The District and Puget Sound Energy, Inc., formerly known as Puget Sound Power & Light Company ("Puget"), currently take all of the output of the Rock Island System pursuant to the terms of the Power Sales Contract. Pursuant to the Power Sales Contract, Puget and the District each are required to pay to the Rock Island System amounts sufficient to cover their respective costs of operating and maintaining the Rock Island System and costs of debt service (in each case as such costs are defined in the Power Sales Contract) plus a small debt service coverage factor.

The Rock Island System has borrowed amounts from the Chelan Hydro Consolidated System for capital purposes. Repayment of such amounts is subject to cost reimbursement under the terms of the Power Sales Contract. Such intersystem loan payments are subject to prior payment of the amounts due on the Rock Island Bonds. Accordingly, cash available for debt service on the Rock Island Bonds has been and is contractually required in the future to be greater than cash required for total debt service.

The Rock Island System consists of an original powerhouse containing ten generating units, completed in 1933 and 1953, and a second powerhouse containing eight generating units, completed in 1979, together with transmission and related facilities. A portion of the output of the original powerhouse of the Rock Island System, together with the output of the second powerhouse, has been sold to Puget pursuant to a power sales contract (the "Power Sales Contract") dated June 19, 1974, which expires by its terms the later of June 7, 2012 or when the Original Rock Island Bonds are paid or provision has been made for the retirement thereof. With respect to the output of the original powerhouse, the District is currently taking for its own use 42.9% of such output, and will have available additional percentages for each year through 1998, inclusive, with its share increasing to 50% of such output for each of the years beginning July 1, 1999 until the expiration of the Power Sales Contract. Currently, the District is not entitled to take any of the output attributable to the second powerhouse. In each 12 month period beginning July 1, 2000 the District, upon five year's prior notice, has the right to withdraw up to an additional 10% of the second powerhouse output, up to a maximum of 50%. The District has given Puget notice of its intention to commence withdrawing 5% of the second powerhouse output commencing in 2000 and intends to exercise its right to withdraw an additional 10% in each such 12 month period from 2002 through 2005 and the last 5% in 2006. During its term, the Power Sales Contract requires the District to pay, as consideration for its share of the second powerhouse output, its share of the annual costs of the Rock Island System. See Appendix B - "Puget Sound Energy, Inc." and Appendix A - "Summary of Certain Provisions of the Power Sales Contract." See also "Security for the 1997 Bonds - Obligation of the District" and "Rock Island System - Disposition of Output."

During the term of the Power Sales Contract, Puget and the District are each obligated to make payments for their respective shares of the cost of the power and energy from the Rock Island System whether or not the operation of the Rock Island System is interrupted, suspended or interfered with in whole or in part for any cause. After the expiration or earlier termination of the Power Sales Contract, the District has covenanted in the Resolution that the District will take for the account of the Chelan Hydro System any portion of the output of the Rock Island System not sold to others and shall pay into the Revenue Fund an amount which, with the other moneys on deposit therein, will be sufficient to make all payments required under the Resolution, including debt service on the 1997 Bonds, whether or not the operation of the Rock Island System is interrupted, suspended or interfered with, in whole or in part, for any cause. Pursuant to the Resolution, the District is obligated to dispose of power and energy from the Rock Island System at rates and charges sufficient to pay the costs of the proper operation, maintenance and repair of the Rock Island System, and of all costs, expenses and charges specified by the Resolution, including debt service on the 1997 Bonds. See Appendix C - "Chelan Hydro System" for a description of the Chelan Hydro System. Puget has no contractual rights to the output of the Rock Island System after expiration of the Power Sales Contract.

The District has covenanted under the Resolution that it will enforce its rights and discharge its obligations under the Power Sales Contract, and will not voluntarily consent to or permit any rescission of, nor will it consent to any amendment to nor otherwise take any action under or in connection with, the Power Sales Contract which will reduce the payments or extend the time of payments provided therein or which will materially impair or materially adversely affect the rights of the owners from time to time of the Bonds; except that the District may, in accordance with the provisions of the Power Sales Contract, terminate the Power Sales Contract in the event that Puget should default in its obligations thereunder.

Payment of the Accreted Value of the 1997A Bonds and of principal of and interest on the 1997B Bonds indicated on the inside front cover of this Official Statement (collectively, the "Insured 1997 Bonds") will be insured by separate financial guaranty insurance policies to be issued by MBIA Insurance Corporation (the "Insurer" or "MBIA") concurrently with the issuance of the 1997 Bonds. Such financial guaranty insurance policies, when issued, are noncancellable and extend for the term of the respective 1997 Bonds. See "Bond Insurance" and Appendix I -- "Form of Financial Guaranty Insurance Policy."

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. 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. See "Projections."

This Official Statement includes summaries of the terms of the 1997 Bonds, the Resolution and the Power Sales Contract. The summaries of and references to all documents, statutes, 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 document, statute, report or instrument.

USE OF PROCEEDS; REFUNDING PLAN

The proceeds of the 1997 Bonds will be used, together with other available funds, to redeem the Refunded Bonds on April 17, 1997, to fund a reserve fund for the 1997 Bonds and to pay the costs of issuance of the 1997 Bonds.

The proceeds of the 1997A Bonds are estimated to be applied as follows:

Deposit to Escrow Fund	$133,899,225.07
Underwriter's Discount and Costs of Issuance (1)	2,044,321.23
Total	$135,943,546.30

The proceeds of the 1997B Bonds (excluding accrued interest) are estimated to be applied as follows:

Deposit to Escrow Fund	$149,824,824.14
Underwriter's Discount and Costs of Issuance (1)	1,450,175.86
Total	$151,275,000.00

(1) Includes bond insurance premium.

Pursuant to an Escrow Agreement, between the District and the bond fund trustee for the Refunded Bonds, the District will irrevocably deposit direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by, the United States of America (the "Government Obligations") into an Escrow Fund (the "Escrow Fund") created thereunder. The Government Obligations will bear interest at such rates and will be scheduled to mature at such times and in such amounts so that, when paid in accordance with their terms, sufficient monies will be available, together with an initial cash deposit, to make full and timely payment of the redemption price of the Refunded Bonds to be redeemed on the redemption date as well as the interest due on such Refunded Bonds on and prior to such redemption date.

The mathematical calculations of the adequacy of the deposits to provide for the payment of the Refunded Bonds will be verified by Causey, Demgen & Moore Inc., independent certified public accountants, at the time of delivery of the 1997 Bonds. See "Verification of Mathematical Computations." All monies and Government Obligations deposited into the Escrow Fund for the payment of the Refunded Bonds, including interest thereon, will be pledged solely and irrevocably for the benefit of the holders of the Refunded Bonds.

DESCRIPTION OF THE 1997 BONDS

General Terms

The 1997 Bonds will be registered in the name of Cede & Co. as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). Beneficial ownership interest in the 1997 Bonds will be available in book-entry form only. Purchasers of beneficial ownership interest in the 1997 Bonds will not receive certificates representing their ownership interests in the 1997 Bonds purchased. See Appendix G - "Book-Entry System." The Treasurer of the District will serve as Fiscal Agent for the 1997 Bonds.

1997A Bonds

The 1997A Bonds will be Capital Appreciation Bonds. The 1997A Bonds will be issued in the aggregate initial amount of $135,943,546.30 (which represents the principal amount thereof), will be dated the date of their original delivery, and will mature on June 1 in the years and in the amounts shown on the inside cover page of this Official Statement. Except as described under the caption "Extraordinary Mandatory Redemption" below, no payments of principal or interest will be made with respect to the Capital Appreciation 1997A Bonds prior to their maturity. Interest with respect to the Capital Appreciation 1997A Bonds will be compounded on June 1 and December 1 of each year until payable, commencing June 1, 1997, at the approximate yield to maturity shown on the inside cover page hereof. The 1997A Bonds will be available in book-entry form and with final compounded amounts in denominations of $5,000 or any integral multiple thereof. The Accreted Value of the 1997A Bonds as of each June 1 and December 1 is presented in Appendix K of this Official Statement.

1997B Bonds

The 1997B Bonds will be Current Interest Bonds and will be issued in the aggregate principal amount of $151,275,000, will be dated March 1, 1997, and will bear interest (computed on the basis of a 360-day year of twelve 30-day months) at the rates per annum shown on the inside cover page hereof, payable June 1, 1997, and semiannually thereafter on each June 1 and December 1, and will mature on June 1 in the years and amounts as set forth on the inside cover page hereof. The 1997B Bonds will be issuable in book-entry form, in denominations of $5,000 or any integral multiple thereof. ***Interest on the 1997B Bonds will <u>not</u> be excludable from gross income for federal income tax purposes.***

No Optional Redemption

The 1997 Bonds are not subject to optional redemption.

Extraordinary Mandatory Redemption

The 1997A Bonds are subject to extraordinary mandatory redemption prior to maturity, in whole or in part, on any date on or after September 15, 2007, at a redemption price of 100% of the Accreted Value thereof, if and to the extent necessary, in the opinion of Bond Counsel, to preserve the tax-exempt status of the 1997A Bonds.

Under current federal income tax law, such a redemption could be necessitated by the currently unanticipated future use or disposition by the District of the output of the Rock Island System. The District does not currently expect that the output of the Rock Island System will be used in a manner that would require the redemption of the 1997A Bonds.

Selection of Bonds for Redemption

If less than all of the 1997A Bonds are called for redemption, the District will choose the maturities to be redeemed. So long as Cede & Co. is the registered owner of the 1997A Bonds, the letter of representation between the District and The Depository Trust Company ("DTC") will govern the method of selecting 1997A Bonds to be redeemed within a maturity if less than the whole of such maturity is called for redemption. If the 1997A Bonds are no longer held in book-entry only form and if less than all of a maturity is called for redemption, the Fiscal Agent will choose by lot the 1997A Bonds within such maturity to be redeemed.

Notice of Redemption

The 1997A Bonds called for redemption will be due and payable on the redemption date designated in the redemption notice and, on such date, interest will cease to accrue if cash sufficient for the redemption of such 1997A Bonds is on deposit with the Fiscal Agent. Except as described in Appendix G - "Book-Entry System," the District shall mail or cause to be mailed the notice, postage prepaid, not less than 30 days nor more than 60 days before the redemption date to the registered owners of 1997A Bonds which are to be redeemed. Any defect in such mailed notice, or any failure to receive such notice by any bondowner, shall not invalidate the redemption of that or any other 1997A Bonds.

SECURITY FOR THE 1997 BONDS

Pledge of Revenues

The 1997 Bonds and the interest thereon are payable solely from the 1997 Bond Fund and the Revenues pledged to such fund. "Revenues" are defined by the Resolution as the income, revenues, receipts and profits derived by the District through the ownership and operation of the Rock Island System, and all other money required to be deposited in the Revenue Fund pursuant to the Original Resolution, the Senior Rock Island Resolution and the Resolution (other than the amounts expressly required or permitted by the Original Resolution, the Senior Rock Island Resolution or the Resolution to be deposited in any other fund or to be used for any other purpose).

So long as the Prior Rock Island Bonds remain outstanding, the payments to be made into the 1997 Bond Fund from the Revenue Fund are subject to (i) the prior payments to be made into the Original Bond Fund for the payment of principal of, premium, if any, and interest on the Original Rock Island Bonds, (ii) the costs of operation and maintenance of the Rock Island System, (iii) the payments required to be made into the Original Reserve and Contingency Fund and (iv) the prior payments to be made into the bond fund relating to the Senior Rock Island Bonds for the payment of principal, premium, if any, and interest on the Senior Rock Island Bonds. After all of the Prior Rock Island Bonds have been paid in accordance with their terms, the payments required to be made into the 1997 Bond Fund shall have a first lien on the Revenues of the Rock Island System. The District has entered into a forward purchase agreement to issue its Chelan Hydro Consolidated System Revenue Bonds, Refunding Series 1996D to refund and defease the Senior Rock Island Bonds on April 2, 1997.

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 a public utility district thereunder 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 a public utility district thereunder irrespective of whether such parties have notice thereof.

Flow of Funds

The District has covenanted under the Resolution to pay all Revenues of the Rock Island System into the Revenue Fund. Moneys in the Revenue Fund shall be applied at the times, in the amounts and for the purposes as provided or permitted by the Original Resolution, the Senior Rock Island Resolution and the Resolution, and in the following order of priority:

First, so long as the Original Rock Island Bonds are outstanding, there shall be deposited in each month into the Original Bond Fund, the amounts required by the Original Resolution, to be used for the purposes specified therein;

Second, provision shall be made in each month for the payment of the ordinary cost of operating and maintaining the Rock Island System;

Third, so long as the Original Rock Island Bonds are outstanding, there shall be deposited in each month into the Original Reserve and Contingency Fund, the amount required by the Original Resolution, to be used for the purposes specified therein;

Fourth, so long as the Senior Rock Island Bonds are outstanding, there shall be deposited in each month into the Expansion Bond Fund and the accounts therein, the amounts required by the Senior Rock Island Resolution, to be used for the purposes specified therein, and into the bond funds established for bonds issued pursuant the Senior Rock Island Resolution and the accounts therein, the amounts required by the supplemental resolution or supplemental resolutions authorizing the issuance thereof, to be used for the purposes specified therein;

Fifth, there shall be deposited in each month into the bond funds and accounts created by any Supplemental Resolution (including the 1997 Bond Fund), the amounts required by such Supplemental Resolution, to be used for the purposes specified therein;

Sixth, there shall be deposited in each month into the Expansion Reserve and Contingency Fund the amount required by the Senior Rock Island Resolution, to be used for the purposes specified therein; and

Seventh, for any other lawful purpose.

Additional Bonds

Under the Resolution, the District has covenanted not to issue additional bonds on a parity with the Original Rock Island Bonds or the Senior Rock Island Bonds.

Additional bonds on a parity with the 1997 Bonds may be issued only: (1) to comply with any order or decision of any federal, state or local governmental agency or authority with authority to issue or make and enforce an order or decision, requiring the installation of additional facilities or modifications at or in the Rock Island System; (2) to pay for renewals, repairs, replacements, capital additions and betterments necessary to maintain good and efficient operation of the Rock Island System; and (3) to refund at any time any or all of the Prior Rock Island Bonds, and Bonds then outstanding. So long as the Power Sales Contract is in effect, any future Bonds issued for the purposes specified in (1) and (2) above must be issued in accordance with applicable terms of the Power Sales Contract.

Limited Obligations

The 1997 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, and neither the full faith and credit or the taxing power of the District nor any revenues derived from sources other than the Rock Island System are pledged to the payment thereof. The 1997 Bonds do not constitute an indebtedness of the District, the State of Washington or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction of the State of Washington. See "- Obligation of the District."

1997 Reserve Fund

The District has created a reserve fund (the "1997 Reserve Fund") for the 1997 Bonds which shall be maintained, so long as the 1997 Bonds are Outstanding, in an amount at least equal to the Reserve Requirement. The term "Reserve Requirement" is defined as an amount equal to $18,820,179. Moneys in the 1997 Reserve Fund shall be used solely for the purpose of paying and securing the payment of the principal of and interest on the 1997 Bonds. Moneys in the 1997 Reserve Fund may not be used to pay principal of and interest on any other Series of the Bonds. The Resolution does not require that any additional Series of Bonds be secured by a reserve fund. The 1997 Reserve Fund will be held by the Treasurer of the District as Fiscal Agent with respect to the 1997 Bonds.

The 1997 Reserve Fund may be funded by a qualified letter of credit, qualified insurance or other equivalent credit enhancement device meeting the requirements of the Resolution. See Appendix F - "Summary of Certain Provisions of the Resolution."

If at any time the money and value of the investments credited to the 1997 Reserve Fund are less than the Reserve Requirement, the District shall pay from the Revenue Fund to the Fiscal Agent for deposit in the 1997 Reserve Fund amounts as may be necessary to restore the amount on deposit in the 1997 Reserve Fund to the Reserve Requirement.

Rate Covenant

The District has covenanted in the Resolution to fix, establish, maintain and collect rates and charges for electric power and energy and other services, facilities and commodities, sold, furnished or supplied through the facilities of the Rock Island System, including to or for the account of the District, which shall be adequate, whether or not the generation or transmission of power and energy by the Rock Island System is suspended, interrupted or reduced for any reason whatever, to provide the District with Revenue, which together with other available money, will be sufficient to pay the costs of the proper operation, maintenance and repair of the Rock Island System, and for the payment of all costs, expenses and charges required by the Resolution.

Power Sales Contract

Except for amounts retained or withdrawn by the District as described below, the output of the original powerhouse of the Rock Island System, together with the output of the second powerhouse, have been sold to Puget pursuant to the Power Sales Contract. Puget is obligated under the Power Sales Contract to make payments for its share of the cost of such output, including without limitation its share of the operating expenses of the Rock Island System and debt service on the Original Rock Island Bonds and the Bonds (and the Senior Rock Island Bonds until defeased on April 2, 1997) whether or not the Rock Island System is operable or the operation thereof is interrupted, suspended or interfered with, in whole or in part, for any cause. See Appendix A - "Summary of Certain Provisions of the Power Sales Contract" and Appendix B - "Puget Sound Energy, Inc."

With respect to the output of the original powerhouse, the District currently is taking for its own use 42.9% of such output in accordance with the terms of the Power Sales Contract. The District's share of the output of the original powerhouse will increase each year to a maximum of 50% beginning July 1, 1999. Puget, however, remains obligated under the Power Sales Contract for the term thereof to pay all costs allocable to the original powerhouse (including without limitation debt service on the Original Rock Island Bonds), subject to a right to reimbursement from the District for a contractually defined portion of such costs to the extent of the portion of such output withdrawn by the District for its own use.

Currently, the District is not entitled to take any of the output attributable to the eight generating units in the second powerhouse. In each 12 month period beginning July 1, 2000 the District, upon five year's prior notice, has the right to withdraw up to an additional 10% of the second powerhouse output, up to a maximum of 50%. The District has given Puget notice of its intention to commence withdrawing 5% of the second powerhouse output commencing in 2000 and intends to exercise its right to withdraw an additional 10% in each such 12 month period from 2002 through 2005 and the last 5% in 2006. During its term, the Power Sales Contract requires the District to pay, as consideration for its share of the second powerhouse output, its share of the annual costs of the Rock Island System.

The District's share of average energy capability from the original powerhouse will increase from the current 90 average to a total 102 average MW in 2000. The District's share of average energy capability from the second powerhouse of the Rock Island System, will increase 14 average MW for every 10% withdrawn for an anticipated total of 70 average MW in 2006.

The District has covenanted under the Resolution that it will enforce its rights and discharge its obligations under the Power Sales Contract, and will not voluntarily consent to or permit any rescission of, nor will it consent to any amendment to nor otherwise take any action under or in connection with, the Power Sales Contract which will reduce the payments or extend the time of payments provided therein or which will materially impair or materially adversely affect the rights of the owners from time to time of the Bonds; except that the District may, in accordance with the provisions of the Power Sales Contract, terminate the Power Sales Contract in the event that Puget should default in its obligations thereunder.

Obligation of the District

During the term of the Power Sales Contract, the District is obligated to make payments for its share of power and energy from the Rock Island System whether or not the operation of the Rock Island System is interrupted, suspended or interfered with in whole or in part for any cause. Under the Resolution, the District is obligated to dispose of power and energy from the Rock Island System at rates and charges sufficient to pay the costs of the proper operation, maintenance and repair of the Rock Island System, and of all costs, expenses and charges specified by the Resolution, including debt service on the 1997 Bonds. The District has covenanted in the Resolution that, upon the expiration or earlier termination of the Power Sales Contract, the District will take for the account of its Chelan Hydro System any portion of the output of the Rock Island System not sold to others and will pay into the Revenue Fund amounts which will be sufficient, with other moneys on deposit therein, to make all payments required under the Resolution, including debt service on the 1997 Bonds. The District is obligated to make such payments whether or not the operation of the Rock Island System is interrupted, suspended or interfered with, in whole or in part, for any cause. See Appendix C - "Chelan Hydro System" for a detailed description of the Chelan Hydro System.

BOND INSURANCE

The following information has been furnished by MBIA Insurance Corporation for use in this Official Statement. The District assumes no responsibility for the accuracy or completeness thereof. Reference is made to Appendix I for a specimen of the Insurer's policy.

The Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the District to the Fiscal Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Insured 1997 Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Insured 1997 Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Insured 1997 Bond. The Insurer's policy does not under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Insured 1997 Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal of or interest on the Insured 1997 Bonds resulting from the insolvency, negligence or any other act or omission of the Fiscal Agent or any other paying agent for the Insured 1997 Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Fiscal Agent or any owner of an Insured 1997 Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Insured 1997 Bonds or presentment of such other proof of ownership of the Insured 1997 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Insured 1997 Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Insured 1997 Bonds in any legal proceeding related to payment of insured amounts on the Insured 1997 Bonds, such instrument being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Fiscal Agent payment of the insured amounts due on such Insured 1997 Bonds, less any amount held by the Fiscal Agent for the payment of such insured amounts and legally available therefor.

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Island of the United States and the Territory of Guam. The Insurer has two European branches, one in the Republic of France and the other in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

As of December 31, 1995 the Insurer had admitted assets of $3.8 billion (audited), total liabilities of $2.5 billion (audited), and total capital and surplus of $1.3 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 1996, the Insurer had admitted assets of $4.3 billion (unaudited), total liabilities of $2.9 billion (unaudited), and total capital and surplus of $1.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Furthermore, copies of the Insurer's year end financial statements prepared in accordance with statutory accounting practices are available without charge from the Insurer. A copy of the Annual Report on Form 10-K of MBIA Inc. is available from the Insurer or the Securities and Exchange Commission. The address of the Insurer is 113 King Street, Armonk, New York 10504. The telephone number of the Insurer is (914) 273-4545.

Moody's Investors Service rates the claims paying ability of the Insurer "Aaa".

Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc., rates the claims paying ability of the Insurer "AAA".

Fitch Investors Service, L.P., rates the claims paying ability of the Insurer "AAA".

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Insured 1997 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Insured 1997 Bonds. The Insurer does not guaranty the market price of the Insured 1997 Bonds nor does it guaranty that the ratings on the Insured 1997 Bonds will not be revised or withdrawn.

THE DISTRICT

General

The District is a municipal corporation of the State of Washington and was established in 1936. It maintains and operates an electric utility, a water utility and a wastewater utility. The District has its administrative offices in Wenatchee, Washington.

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.

The District's electric generating utility is currently comprised of three Hydro-Electric Systems, the Lake Chelan System, the Rocky Reach System and the Rock Island System. The Rocky Reach System consists of the Rocky Reach Hydro-Electric Generating Plant with a maximum net capability of 1,287,000 kilowatts ("Kw"). The Rock Island System consists of the Rock Island Hydro-Electric Generating Plant with a maximum net capability of 660,000 Kw. The Lake Chelan System consists of the Lake Chelan Hydro-Electric Generating Plant with a maximum net capability of 56,000 Kw. Each of the Hydro-Electric Systems includes substation and transmission facilities connecting the generating plant to other facilities of the District and to the transmission grid of the Pacific Northwest. The Rocky Reach System and the Rock Island System are located on the Columbia River, the fourth largest river in North America. The Lake Chelan System is located near Lake Chelan. For the twelve (12) months ended December 31, 1996, the Hydro-Electric Systems collectively delivered 11,442,000 megawatt hours ("MWh") of power at an average cost of 0.8 cents per kilowatt hour.

The Chelan Hydro Consolidated System's Distribution System consists of the District's properties and assets used in distributing electric energy throughout Chelan County. The Chelan Hydro Consolidated System also includes the Hydro-Electric Systems, subject to the terms and conditions of the resolutions establishing the Hydro-Electric Systems and authorizing the issuance of bonds to finance them. Upon retirement of the bonds issued to finance a Hydro-Electric System, such Hydro-Electric System will become consolidated into the Chelan Hydro Consolidated System. Effective June 1, 1993, the Lake Chelan System became fully consolidated into the Chelan Hydro Consolidated System. In 1992, the District consolidated its water system and wastewater system into the Chelan Hydro Consolidated System, preserving, however, substantial flexibility as to the use of the revenues of such systems.

Employees

As of December 31, 1996, the total number of District employees was 466. Of theses employees, 125 hold management, administrative and professional positions and 341 are part of a bargaining unit represented by Local 77 of the International Brotherhood of Electrical Workers. The District and Local 77 reached agreement for a new three-year contract that runs through March 31, 1999. The District considers its overall employee relations to be good.

Pension Plan

All District full-time employees participate in the Washington Public Employees Retirement System ("PERS"), a multiple-employer cost-sharing public employee retirement system operated by the State of Washington. The District's total payroll for the twelve (12) months ended December 31, 1996 was $28,705,000. Payroll for District employees covered by PERS was $27,348,000. Total amounts contributed for the twelve (12) months ended December 31, 1996 by employees and the District were $1,471,000 and $2,085,000, respectively.

Insurance

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

As of December 31, 1996, the District had purchased insurance in effect with self-insured retentions plus coverage as follows: general liability, auto and public officials liability from $2 million to $60 million; property from $250,000 to $350 million; boiler and machinery from $250,000 to $100 million; crime from $50,000 to $35 million; executive protection up to $5 million; and blackout-brownout liability from $2,500 to $10 million. The District also carries non-owned aircraft liability and business travel accident insurance, and has purchased underlying policies for the water and wastewater systems.

The District utilizes a self-insurance fund to pay claims up to the self-insured retentions of the policies described above. This fund pays claims which fall within the definitions of coverage in the policies layered above the self insurance fund. Claims not covered by insurance and the self insurance fund are paid by the appropriate System.

The District's self-insurance program fund is maintained in the District's Internal Service System. As of December 31, 1996, the self-insurance fund had cash reserves of $1,500,000.

General Obligation Bonds and Taxing Power

In addition to its power to issue revenue obligations, the Enabling Act authorizes the District to issue general obligation bonds without voter approval for any corporate purpose of the District. The total amount of such indebtedness, however, may not exceed 3/4 of 1% of the total value of the taxable property within the District, or approximately $25 million. The District currently has no outstanding general obligation indebtedness and does not currently intend to issue any such indebtedness.

In addition to its ability to issue general obligation indebtedness, the District is authorized to raise revenues by levying an annual tax on all taxable property within the District in an amount not to exceed 45¢ per $1,000 of assessed value in any one year, exclusive of interest and redemption on general obligation indebtedness. The District does not currently levy such a tax.

The District has not covenanted nor is the District otherwise obligated to levy any tax or to issue any general obligation bonds to provide for the payment of the 1997 Bonds. The proceeds of any such tax, if levied, would not constitute Revenues pledged to the payment of the 1997 Bonds.

DISTRICT MANAGEMENT AND ADMINISTRATION

Pursuant to Washington statutes, the District is administered by a Commission of five elected members. 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.

The present Commissioners of the District are as follows:

James R. Wall, President, was first elected to the Commission in 1983, and is currently serving his third term which expires on December 31, 1998. He represents the District as a delegate to the American Public Power Association. He also serves on the Board of Directors of the Washington Public Utility District Association. Mr. Wall is an orchardist and has served on the board of directors of several community and business organizations. Mr. Wall is also a delegate to the Washington Department of Health Water Supply Advisory Committee.

Don R. Kay, Vice President, was first elected to the Commission in 1991, and is currently serving his second term which expires on December 31, 1998. Mr. Kay represents the District as a delegate to the Endangered Species Coalition. Mr. Kay was an owner and manager of clothing stores in the state of Washington for 40 years.

Dale R. Boyd, Secretary, was first elected to the Commission in 1995, and is currently serving his first term which expires on December 31, 2000. Mr. Boyd represents the District as a delegate in the Washington Public Utility Districts Association. Mr. Boyd is an orchardist and has served on the boards of several community and business organizations.

Barbara B. Tilly, Assistant Secretary, was first elected to the Commission in 1991 and is currently serving her second term which expires on December 31, 2002. Mrs. Tilly represents the District as Secretary-Treasurer of the Washington Public Utility District Association. She also serves as a member of the Board of Directors of the Northwest Public Power Association. Mrs. Tilly, a former educator and school counselor, has had leadership roles in many community activities.

David Pflugrath, Immediate Past President, was first elected to the Commission in 1993 and is currently serving his second term which expires on December 31, 2000. Mr. Pflugrath represents the District as a delegate to the Northwest Hydro-Electric Association. Mr. Pflugrath is an orchardist and is currently serving on the board of directors of several community and business organizations.

Executive management of the District includes the following individuals:

Roger A. Braden, Chief Executive Officer - General Manager, was appointed to his present position effective March 1, 1997. Prior to such date, Mr. Braden was a partner in the law firm of Davis, Arneil, Dorsey, Kight & Parlette and held the position of lead counsel for the District. Over the past 15 years, Mr. Braden has worked almost exclusively representing the District on a wide variety of general business matters and specific issues associated with electric power system operations, marketing and environmental work. He has been involved with the development of conservation plans for the mid-Columbia River and its tributaries and various issues concerning the decline in salmon populations and the impact of the regional hydro-electric system on those species.

Tim J. Olson, Managing Director - Power Resources, was appointed to his present position in August 1996. He previously served as Managing Director of Engineering and Operations, Director of Distribution and as Director of Distribution, Maintenance and Construction. Mr. Olson has been employed by the District in various capacities since April 1973.

Charles J. Hosken, Treasurer/Managing Director of Finance, was appointed by the Commission to his current position in July, 1993. He previously served as Auditor/Financial Analyst for the District. Prior to the District, Mr. Hosken worked as a Senior Manager for Deloitte & Touche for eight years.

Roger L. Purdom, Managing Director - Distribution and Administrative Services, was appointed to his present position in August 1996. He previously served as Managing Director of Power Management and Administrative Services and as Head of Licensing and Environmental Affairs. Mr. Purdom has been employed by the District in various capacities since May 1980.

THE ROCK ISLAND SYSTEM

General

The District established the Rock Island System pursuant to the Original Resolution. The Rock Island System consists of the Rock Island Hydro-Electric Generating Plant located on the Columbia River approximately 12 miles downstream from Wenatchee, Washington, together with associated substation and transmission facilities to connect the generating plant to the other facilities of the District and Puget and to the transmission grid of the Pacific Northwest. A dam, with an effective head of approximately 39 feet, provides water to 18 generating units with a maximum net capability of approximately 660,000 kilowatts ("kW"). The generating units are housed in two powerhouses.

The average cost of power generated by the Rock Island System for the five years ending December 31, 1996 was approximately 1.6 cents/kWh. This is substantially below the cost during that period of firm power for Bonneville Power Administration's preference customers (2.5 cents/kWh) and the cost of long-term firm power from other resources in the region and nationally.

Of the ten units in the first powerhouse, four were placed in commercial operation in 1933 and six in 1952 and 1953. The eight units in the second powerhouse were put in commercial operation in 1978 and 1979. The first four units were originally constructed by Puget which later sold the dam and generating units to the District. The remaining units were constructed by the District. Energy generated and interchanged at the generating plant averaged 3,129,000 megawatt hours ("MWh") annually during the three years from 1994 through 1996. For the twelve (12) months ended December 31, 1996, the generating plant generated and interchanged 3,685,000 MWh for which the average sales price was 1.3 cents kWh. As of December 31, 1996, the District's gross utility plant for its Rock Island System, including construction work in progress, was $422,748,000 with net utility plant of $353,076,000. As of December 31, 1996 the District's outstanding long-term debt payable from the revenues of the Rock Island System was consisted of $335,120,000 of outstanding revenue bonds and intersystem loans payable of $66,561,000.

FERC License

A long-term license for the Rock Island Hydro-Electric Generating Plant expiring January 1, 2029 was issued by the Federal Energy Regulatory Commission ("FERC") on January 18, 1989.

The District has covenanted in the Resolution to use its best efforts to obtain a new license when the current FERC license for Rock Island System expires. Upon the expiration of a hydro-electric license, if project decommissioning is not an 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 nonpower license to the District or a different licensee (if FERC could find pursuant to the Federal Power Act that the project should no longer be used for power purposes). The Federal Power Act requires FERC, upon expiration of a license, to issue annual licenses to the District on the same terms and conditions as the existing license until such time as a new license is issued.

Under current law, 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. Neither the District nor its FERC Counsel is aware of any instance in which a new license has been issued to a competing applicant rather than the licensee in a relicensing proceeding. If FERC were to issue a new license or nonpower license to a different licensee, under current law the new license would be issued on condition that the new licensee pay to the District compensation at least equal to the District's net investment in the project (not to exceed fair value) plus severance damages. The District believes that it would be entitled to receive fair market value as compensation for the Rock Island System. The District cannot predict with certainty what the "net investment" or "fair market value" of the Rock Island System would be upon expiration of its license, but the District believes that it would be at least equal to the amount of the outstanding indebtedness with respect to the Rock Island System.

Rock Island System Output

The actual output of the Rock Island System is affected by a variety of factors, including (i) natural stream flows, (ii) the regulation of upstream storage reservoirs pursuant to the Pacific Northwest Coordination Agreement and a treaty between the United States and Canada, (iii) the release of water from upstream power projects to meet changing load requirements, (iv) operation of the Rocky Reach System upstream, (v) operation of the Wanapum Project by Public Utility District No. 1 of Grant County, Washington ("Grant PUD") downstream from the Rock Island System, and (vi) FERC requirements, including management of water releases for fishery requirements. See "Agreements and Proceedings Affecting Power Generation."

A summary of the historical and projected output of the Rock Island System is set forth in the following table.

Rock Island System
Average Annual Energy Output
(000 MWh)

	Actual					Projected(5)(6)(7)				
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Original System:										
Generation	391	305	336	465	966	964	484	484	484	484
Plus:										
Wanapum Encroachment	513	501	557	566	512	522	522	522	522	522
Less:										
Canadian Treaty Power(1)	26	20	18	17	18	15	66	90	90	90
Net Power Delivered	878	786	875	1,014	1,460	1,471	940	916	916	916
Second Powerhouse:										
Generation	2,000	1,829	1,894	2,155	2,116	2,115	2,156	2,156	2,156	2,156
Plus:										
Wanapum Encroachment	113	90	89	119	170	125	125	126	126	126
Net Interchange	0	0	0	0	105	2	2	2	2	2
System Losses by Contract	8	5	3	4	3	0	0	0	0	0
Less:										
Canadian Treaty Power	0	0	0	0	0	0	22	30	30	30
Rocky Reach Encroachment(2)	146	157	166	182	169	172	172	172	172	172
Net Power Delivered	1,975	1,767	1,820	2,096	2,225	2,070	2,089	2,082	2,082	2,082
Total Net Power Delivered	2,853	2,553	2,695	3,110	3,685	3,541	3,029	2,998	2,998	2,998
Net Peaking Capability	660	660	660	660	660	660	660	660	660	660
Availability Factor(3)	90%	90%	89%	93%	83%	-	-	-	-	-
Plant Factor(4)	49%	44%	47%	54%	64%	61%	52%	52%	52%	52%

(1) Energy to be made available for the account of Canada in accordance with arrangements made as a result of the Canadian Treaty.
(2) Energy transferred from Rock Island to Rocky Reach System to account for effects of one project on the output of the other.
(3) The availability factor is the ratio of the actual hours that the generating units of the second powerhouse of the Rock Island System are available for servicing during the period indicated to the total hours in the period.
(4) The plant factor is the net power delivered as a percentage of rated capacity for the year.
(5) Projections for 1997 are based on above-normal water conditions. Projections for 1998 through 2001 are based on normal water conditions. See "Projections - Water Flow." Water forecasts are based on anticipated seasonal flow changes due to the 1995 Biological Opinion. See "Agreements and Proceedings Affecting Power Generation - Endangered Species Act."
(6) Availability Factor figures are not available for projected years.
(7) See "Projections."

Disposition of Output

On June 19, 1974, the District entered into the Power Sales Contract with Puget that superseded the June 8, 1962, prior contract between Puget and the District. The Power Sales Contract will expire on the later of June 7, 2012 or when the Original Rock Island Bonds are paid or provision has been made for the retirement thereof. The Power Sales Contract provides for the sale to Puget of the entire output of the Rock Island System except for certain amounts reserved or withdrawn by the District. See Appendix A - "Summary of Certain Provisions of the Power Sales Contract."

With respect to the output attributable to the original powerhouse, the District is currently taking under the Power Sales Contract for its own use 42.9% of such output with its share increasing to 50% of such output for each of the years beginning July 1, 1999, and thereafter, to the expiration date of the Power Sales Contract.

Currently, the District is not entitled to take any of the output attributable to the additional eight generating units in the second powerhouse. In each 12 month period beginning July 1, 2000, the District, upon five year's prior notice, has the right to withdraw up to an additional 10% of the second powerhouse output, up to a maximum of 50%. The District has given Puget notice of its intention to commence withdrawing 5% of the second powerhouse output commencing in 2000 and intends to exercise its right to withdraw an additional 10% in each such 12 month period from 2002 through 2005 and the last 5% in 2006. During its term, the Power Sales Contract requires the District to pay, as consideration for its share of the second powerhouse output, its share of the annual costs of the Rock Island System. Any of the output of the Rock Island System attributable to the second powerhouse that is withdrawn by the District and not used by the District must be offered first to Puget.

The District's share of average energy capability from the original powerhouse will increase from the current 90 average MW to a total 102 average MW in 2000. The District's share of average energy capability from the second powerhouse will increase 14 average MW for every 10% withdrawn for an anticipated total of 70 MW in 2006.

The percentage share of the Rock Island System output and the actual and projected amount of such output allocable to Puget and the District are shown below.

Rock Island System
Disposition of Output
(000 MWh)

	Actual					Projected(2)				
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Net Power Delivered(1)	2,853	2,553	2,695	3,110	3,685	3,541	3,029	2,998	2,998	2,998
Percentage Allocation:										
Original Powerhouse										
Puget	66.75%	64.60%	62.45%	60.30%	58.15%	56.00%	53.85%	51.40%	50.00%	50.00%
District	33.25%	35.40%	37.55%	39.70%	41.85%	44.00%	46.15%	48.60%	50.00%	50.00%
Second Powerhouse										
Puget	100%	100%	100%	100%	100%	100%	100%	100%	97.50%	95.00%
District	0%	0%	0%	0%	0%	0%	0%	0%	2.50%	5.00%
Sales:										
Puget	2,284	1,964	2,027	2,388	2,971	2,828	2,306	2,275	2,223	2,171
District	569	589	668	722	714	713	723	723	775	827
Total Sales	2,853	2,553	2,695	3,110	3,685	3,541	3,029	2,998	2,998	2,998

(1) After minor sales to operators' cottages and adjustments for encroachment and Canadian Treaty deliveries.
(2) See "Projections."

The District has covenanted in the Resolution that, after the expiration or earlier termination of the Power Sales Contract, the District will take for the account of its Chelan Hydro System any portion of the output of the Rock Island System not sold to others, and shall pay into the Revenue Fund amounts which will be sufficient to make all payments required under the Resolution, including debt service. The District is obligated to make such payments whether or not the operation of the Rock Island System is interrupted, suspended or interfered with, in whole or in part, for any cause.

The average cost of power generated by the Rock Island System for the five years ending December 31, 1996 was approximately 1.6 cents/kWh. This is substantially below the cost during that period of firm power for Bonneville Power Administration's preference customers (2.5 cents/kWh) and the cost of long-term firm power from other resources in the region and nationally.

Comparison of Northwest Power Costs

The average cost of power from the Rock Island System is among the lowest in the United States. The following table compares the average cost of power from the Rock Island System to Bonneville Power Administration's priority firm rate available to municipal utilities. These data should be read in conjunction with the charts located in "Competitive Strategies."

Rock Island System
Cost of Power Comparison
(Mills per KWH)

	Actual				
	1992	1993	1994	1995	1996
Rock Island System	15	17	18	15	13
Bonneville Power (1)	23	23	27	27	24

(1) The Bonneville rate includes transmission charges. The 1996 rate is the rate effective October 1, 1996.

Pacific Northwest Transmission System

The Rock Island System is connected into the Bonneville Power Administration ("Bonneville") transmission grid at several points. A 115-Kv line owned by the District extends north to the Lake Chelan area where it connects to the 115-Kv facilities of The Washington Water Power Company. A 115-Kv line owned by the District extends to the West where it connects to the 115-Kv facilities of Puget. A 230-Kv line owned by the District extends from Rocky Reach to the Wenatchee works of the Aluminum Company of America ("Alcoa") to provide direct service to Colockum Transmission Company, Inc. ("Colockum"). This line also extends to an interconnection with Grant PUD at the Columbia switching station. The District has a direct connection at Rocky Reach with a 230-Kv line owned by Puget. This line is directly connected into Puget's system in its service area. The District also is interconnected at Rocky Reach into two 230-Kv lines owned by Public Utility District No. 1 of Douglas County, Washington ("Douglas PUD"). Additional transmission is provided through the Bonneville transmission grid with the following major lines:

(1) one 500-kV line north to the Chief Joseph switching station which, in turn, is interconnected with major lines extending both east and west;

(2) one 500-Kv and one 375-Kv line west to the Puget Sound area where they connect with Bonneville's facilities serving the major power suppliers in that area, including Puget; and

(3) one 230-Kv line south to the Columbia switching station where it connects to 230-and 287-Kv lines running east, south and west.

Bonneville's transmission facilities interconnect with the British Columbia Hydro and Power Authority in the Canadian province of British Columbia and with utilities in the Pacific Southwest. Bonneville's transmission system includes 360 substations, approximately 15,000 circuit miles of high voltage transmission lines, and other related facilities. This transmission system provides about 75 percent of the Pacific Northwest's high-voltage bulk transmission capacity and serves as the main power grid for the Pacific Northwest. In addition to federal power, the major portion of the power produced at several nonfederal projects, including those of the District, is transmitted over Bonneville's transmission facilities to various investor-owned and municipally-owned utilities in the Pacific Northwest. Bonneville routinely provides both long and short-term transmission access to Northwest utilities for the purpose of wheeling power with the Pacific Northwest. See "Bonneville Power Administration and the Supply System-Bonneville Power Administration" for a more detailed description of Bonneville.

The Pacific Northwest-Pacific Southwest Intertie (the "Intertie") provides the primary bulk transmission link between the Pacific Northwest and the Pacific Southwest. Bonneville owns approximately 80% of the portion of the Intertie located north of California and Nevada. The Intertie consists of three high-voltage transmission lines and associated facilities, and has a combined capacity of about 7,900 MW. Bonneville has developed a long-term Intertie access policy and conditions under which it allows nonfederal use of its portion of the Intertie.

In addition to owning and operating the major portions of the Pacific Northwest's transmission system, Bonneville would assist the District in marketing power in the remote possibility that this power would become available from any purchaser, including the District. Under the Federal Columbia River Transmission System Act of 1974, the Bonneville Administrator "shall make available to all utilities on a fair and nondiscriminatory basis, any capacity in the federal transmission system which [the Bonneville Administrator] determines to be in excess of the capacity required to transmit power generated or acquired by the United States." The Pacific Northwest Electric Power Planning and Conservation Act of 1980 states that "The Administrator shall furnish services including transmission, storage, and load factoring unless [the Administrator] determines such services cannot be furnished without substantial interference with [the Administrator's] power marketing program, applicable operating limitations, or existing contractual obligations."

The District, together with other Northwest utilities, has signed a memorandum of understanding regarding the formation of an independent grid operator. See "Management's Discussion and Analysis - Competitive Strategies."

ROCK ISLAND SYSTEM CAPITALIZATION

Previous Financings

The District has previously issued the Original Rock Island Bonds which as of December 31, 1996 were outstanding in the principal amount of $29,230,000. The Original Rock Island Bonds were issued to finance the acquisition and construction of the original powerhouse. The Original Rock Island Bonds have a first lien on the Revenue of the entire Rock Island System. The District does not anticipate issuing bonds to refund the Original Rock Island Bonds.

The District also issued $207,500,000 principal amount of Columbia River-Rock Island Hydro-Electric System Revenue Bonds, Issue of 1974 (the "1974 Bonds") to finance a portion of the construction costs of the second powerhouse. The District issued $288,600,000 principal amount of 1976 Bonds pursuant to the Senior Rock Island Resolution and Resolution No. 5448 of the District adopted December 1, 1976, the proceeds of which were used to advance refund the 1974 Bonds and to finance a portion of the construction costs of the second powerhouse. The 1974 Bonds were redeemed on June 1, 1984. In addition, $10,000,000 principal amount of 1978 Bonds were issued pursuant to the Senior Rock Island Resolution and Resolution No. 5848 of the District adopted May 31, 1978, to finance a portion of the construction costs of the second powerhouse. The District also issued $21,345,000 principal amount of its Columbia River-Rock Island Hydro-Electric System Revenue Bonds, Series 1985 (the "1985 Bonds") pursuant to the Senior Rock Island Resolution and Resolution No. 85-7405 of the District adopted October 3, 1985, to finance the construction and acquisition of recreational facilities for the Rock Island System. The 1985 Bonds were refunded and redeemed from proceeds of the District's Chelan Hydro Consolidated Revenue Bonds, Series 1995A. Pursuant to the Senior Rock Island Resolution and Resolution No. 86-7690 adopted December 15, 1986, the District issued $25,800,000 principal amount of the Senior Rock Island Bonds to finance a portion of the costs of certain capital improvements to the Rock Island System. The District expects to refund and defease the Senior Rock Island Bonds on April 2, 1997 from the proceeds of its Chelan Hydro Consolidated Revenue Bonds, Refunding Series 1996D. As of December 31, 1996, $24,645,000 principal amount of the Senior Rock Island Bonds were outstanding. See "Rock Island System - Outstanding Debt." The 1997 Bonds have a pledge of and lien on the Revenues of the Rock Island System junior to that of the Original Rock Island Bonds and the Senior Rock Island Bonds.

Outstanding Debt

The outstanding long-term debt of the Rock Island System consists of bonds and intersystem obligations. The District has never been in default as to principal or interest or in any other material respect on any outstanding long-term indebtedness.

Outstanding Bonds

The following table presents a summary of the outstanding bonds of the Rock Island System as of December 31, 1996 and projected as of April 30, 1997. See Appendix C — "Chelan Hydro Consolidated System - Outstanding Indebtedness" for further discussion of the outstanding bonds of the Chelan Hydro System and the Rock Island System.

Rock Island System
Outstanding Long-Term Bonds
($000)

	Outstanding 12/31/96	Chelan Hydro Consolidated System Revenue Bonds, Refunding Series 1996D	1997 Bonds Refundings	Outstanding 4/30/97
Original Bonds	$29,230	--	--	$29,230
Senior Rock Island Bonds	305,890	($24,645)	($281,245)	0
1997 Bonds	0	--	287,219	287,219
Total	$335,120			$316,449

Intersystem Obligations

General. Chelan Hydro System Bonds have been issued for the purpose of providing funds to the District's Distribution System and lending funds to the separate Hydro-Electric Systems (including the Rock Island System) for capital purposes. The loans to the Hydro-Electric Systems are established by resolutions of the District, which resolutions establish the terms of repayment for the loans. As of December 31, 1996, $66,561,000 of the proceeds of the Chelan Hydro System Bonds have been lent to the Rock Island System.

Each loan to the Rock Island System will be repaid pursuant to loan payments to be made by such System. Such loan payments will be composed of an interest component and a principal component. The interest component of each loan is an amount sufficient to pay an amount of interest on the related Chelan Hydro System Bonds proportionate to the amount of the loan. The principal component will be an amount sufficient in time and amount to pay the principal of the related Chelan Hydro System Bonds, when due. In addition to principal and interest components, in connection with each loan the Rock Island System is obligated to make replacement payments. Such replacement payments are required to be in an amount and made at the times sufficient to amortize the amount of the related loan on a level debt service basis over the service life of the assets acquired with the proceeds of the loan. Such replacement payments will be deposited into special funds of the District and will be available to be reloaned to the Hydro-Electric Systems for financing a portion of such Systems' construction programs. Beginning January 1, 1997, the District has changed its accounting treatment for replacement payments to reflect such payments as contra-liabilities and to report them as an offset to intersystem loan balances payable. Prior to this change, replacement payments were treated as expenses of the Rock Island System.

The obligation of the District to pay loan payments from Revenues of the Rock Island System is subordinate to the obligation of the District to pay principal of and interest on the Prior Rock Island Bonds and the 1997 Bonds.

Payments by Puget. With respect to the proceeds of the Chelan Hydro System Bonds loaned to the Rock Island System, Puget has agreed to make payments to the Rock Island System sufficient to repay the loan of the Chelan Hydro System Bond proceeds as part of the "cost" of the power purchased by such purchasers. Puget's payments are in proportion to Puget's allocated portion of the output from the Rock Island System. Such payments by Puget are to be made through financing agreements by and between the District and Puget whereby Puget expressly agrees that the loan payments required to be made by the Rock Island System constitute a "cost" of the Rock Island System.

The Revenues of the Rock Island System are not pledged to secure payment of the Chelan Hydro System Bonds, and do not constitute revenues of the Chelan Hydro System. Loan payments made to the Chelan Hydro System by the Rock Island System do, however, constitute revenues of the Chelan Hydro System.

Debt Service Requirements

Set forth below is the estimated debt service requirements for the Original Rock Island Bonds, the 1997 Bonds and intersystem loans payable by the Rock Island System to the Chelan Hydro System.

Debt Service Requirements for the Rock Island System

Year Ending Debt December 31	Original Bonds Second Series	1997A Bonds Principal	1997A Bonds Interest	1997A Bonds Subtotal	1997B Bonds Principal	1997B Bonds Interest	1997B Bonds Subtotal	Intersystem Loans Principal(1)	Intersystem Loans Interest	Intersystem Loans Subtotal	Total Debt Service
1997 ...	$1,649,685	$ ---	$ ---	$ ---	$2,785,000.00	$7,683,568.00	$10,468,568.00	$1,496,335.00	$5,109,187.27	$6,605,522.27	$18,723,775.27
1998	1,639,851	---	---	---	9,455,000.00	9,903,819.00	19,358,819.00	1,593,984.00	5,082,367.62	6,676,351.62	27,675,021.62
1999	1,639,423	---	---	---	10,035,000.00	9,292,372.50	19,327,372.50	1,701,753.00	5,054,107.25	6,755,860.25	27,722,655.75
2000	1,633,073	---	---	---	10,675,000.00	8,620,109.00	19,295,109.00	1,810,022.00	5,024,406.15	6,834,428.15	27,762,610.15
2001	1,631,791	---	---	---	11,380,000.00	7,887,032.00	19,267,032.00	1,934,229.00	4,993,153.49	6,927,382.49	27,826,205.49
2002	2,062,644	---	---	---	12,145,000.00	7,087,521.50	19,232,521.50	2,059,815.00	4,960,238.47	7,020,053.47	28,315,218.97
2003	2,994,429	---	---	---	12,975,000.00	6,222,709.25	19,197,709.25	2,197,278.00	4,925,661.08	7,122,939.08	29,315,077.33
2004	2,991,454	---	---	---	13,875,000.00	5,291,620.50	19,166,620.50	2,342,139.00	4,889,310.48	7,231,449.48	29,389,523.98
2005	2,985,479	---	---	---	14,840,000.00	4,284,918.50	19,124,918.50	2,499,966.00	4,851,075.85	7,351,041.85	29,461,439.35
2006	2,982,322	---	---	---	15,885,000.00	3,199,870.25	19,084,870.25	2,671,376.00	4,810,735.54	7,482,111.54	29,549,303.79
2007	2,980,034	---	---	---	17,010,000.00	2,037,370.50	19,047,370.50	2,847,017.00	4,768,289.57	7,615,306.57	29,642,711.07
2008	2,975,205	---	---	---	18,210,000.00	789,612.00	18,999,612.00	2,962,605.00	4,723,627.10	7,686,232.10	29,661,049.10
2009	2,970,225	8,971,200.00	8,528,800.00	17,500,000.00	2,005,000.00	71,578.50	2,076,578.50	3,027,523.00	4,676,526.47	7,704,049.47	30,250,852.97
2010	2,964,276	9,475,623.00	10,174,377.00	19,650,000.00	---	---	---	3,194,432.00	4,626,987.70	7,821,419.70	30,435,695.70
2011	2,726,197	8,904,790.50	10,745,209.50	19,650,000.00	---	---	---	3,391,031.00	4,574,899.95	7,965,930.95	30,342,127.95
2012	92,786	8,360,092.50	11,289,907.50	19,650,000.00	---	---	---	3,596,333.00	4,520,041.57	8,116,374.57	27,859,160.57
2013	---	9,052,222.40	13,632,777.60	22,685,000.00	---	---	---	3,841,745.00	4,462,301.75	8,304,046.75	30,989,046.75
2014	---	8,482,148.35	14,202,851.65	22,685,000.00	---	---	---	4,106,244.00	4,401,569.65	8,507,813.65	31,192,813.65
2015	---	7,940,203.70	14,744,796.30	22,685,000.00	---	---	---	4,138,629.25	4,324,546.27	8,463,175.52	31,148,175.52
2016	---	7,425,707.90	15,259,292.10	22,685,000.00	---	---	---	1,500,551.00	4,278,664.72	5,779,215.72	28,464,215.72
2017	---	7,006,262.25	15,678,737.75	22,685,000.00	---	---	---	1,523,787.00	4,102,718.95	5,626,505.95	28,311,505.95
2018	---	6,542,807.70	16,142,192.30	22,685,000.00	---	---	---	1,638,032.00	4,102,718.95	5,740,750.95	28,425,750.95
2019	---	6,170,093.15	16,514,906.85	22,685,000.00	---	---	---	1,760,954.00	3,720,658.01	5,481,612.01	28,166,612.01
2020	---	5,753,596.55	16,931,403.45	22,685,000.00	---	---	---	1,677,825.00	3,720,658.01	5,398,483.01	28,083,483.01
2021	---	5,423,302.95	17,261,697.05	22,685,000.00	---	---	---	1,173,427.00	3,720,658.01	4,894,085.01	27,579,085.01
2022	---	5,112,064.75	17,572,935.25	22,685,000.00	---	---	---	917,881.00	3,447,233.64	4,365,114.64	27,050,114.64
2023	---	4,818,520.85	17,866,479.15	22,685,000.00	---	---	---	981,058.00	3,447,233.64	4,428,291.64	27,113,291.64
2024	---	4,482,329.15	18,202,670.85	22,685,000.00	---	---	---	1,048,670.00	3,447,233.64	4,495,903.64	27,180,903.64
2025	---	4,223,039.60	18,461,960.40	22,685,000.00	---	---	---	1,121,031.00	3,447,233.64	4,568,264.64	27,253,264.64
2026	---	3,978,722.15	18,706,277.85	22,685,000.00	---	---	---	1,198,486.00	2,656,370.00	3,854,856.00	26,539,856.00
2027	---	3,748,469.40	18,936,530.60	22,685,000.00	---	---	---	1,281,393.00	2,656,370.00	3,937,763.00	26,622,763.00
2028	---	3,531,600.80	19,153,399.20	22,685,000.00	---	---	---	1,365,802.00	2,656,370.00	4,022,172.00	26,707,172.00
2029	---	6,540,748.65	38,054,251.35	44,595,000.00	---	---	---	1,315,542.00	2,656,370.00	3,971,912.00	48,566,912.00

(1) Includes replacement recovery payments on loans made from 1987 through 1993 and actual principal on loans made in 1995. See "Rock Island System Capitalization – Outstanding Debt – Intersystem Obligations."

Capital Requirements

Actual annual expenditures for the five years ending December 31, 1996 and estimated annual expenditures for the five years ending December 31, 2001 for capital improvements to the Rock Island System are set forth below.

Beginning in 1986 the District adopted a policy of financing the capital requirements for the Hydro-Electric Systems, to the extent possible, with loans obtained from the proceeds of Chelan Hydro System Bonds issued by the Chelan Hydro System. See "Outstanding Debt - Intersystem Obligations" above. The issuance of the 1997 Bonds does not indicate a change in that policy and has been done only for the purpose of refunding the Refunded Bonds.

Historical and Projected Annual Capital Requirements
January 1, 1992 - December 31, 2001
(000s)

Historical					Projected (1)(2)(3)				
1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
$6,040	$8,903	$6,938	$3,698	$1,707	$1,526	$1,595	$1,334	$2,243	$1,881

(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. Such projections exclude amounts relating to fish-related measures.

(2) Projections exclude Reserve and Contingency Amounts of $139, $214, $222, $230 and $238 for years 1997 through 2001, respectively.

(3) See "Projections."

OPERATING RESULTS

General

Set forth below for the years ended December 31, 1992 through 2001, inclusive, are the Rock Island System's actual and projected Statement of Revenues, Expenses and Changes in Accumulated Net Revenues (Expenses) and Cash Available for Debt Service. The data presented is based on the District's audited financial statements for years ended December 31, 1992 through 1995, its unaudited financial statements for the year ended December 31, 1996 and its projected financial results for the years ended December 31, 1997 through 2001. The projections contained in the tables below are dependent on a number of assumptions, some of which are discussed herein under the heading "Projections." The tables below should be read in conjunction with the audited financial statements of the District for the year ended December 31, 1995 and the accompanying notes, and with the unaudited financial statements of the District for the year ended December 31, 1996, contained in Appendix D and Appendix E, respectively, to this Official Statement. A discussion by management of the District of the actual results of the Rock Island System for the years ended December 31, 1992 through 1996 is contained under the heading "Management's Discussion and Analysis."

Statement of Revenues, Expenses and Changes in Accumulated Net Revenues (Expenses)

The following table presents actual and projected revenues, expenses and changes in accumulated net revenues (expenses) for the Rock Island System for the years ended December 31, 1992 through 2001, inclusive.

Rock Island System
Statement of Revenues, Expenses
and Changes in Accumulated Net Revenues (Expenses)
($000)

	Actual					Projected(6)(7)				
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Operating Revenues	$41,702	$43,209	$47,370	$46,752	$47,404	$47,523	$48,410	$49,234	$50,396	$51,398
Operating Expenses										
Operations(1)	10,257	10,905	14,429	13,817	15,683	19,415	20,358	21,366	22,432	23,564
Maintenance(1)	3,567	3,315	3,851	3,613	3,826	-	-	-	-	-
Operating taxes	973	902	945	1,055	1,222	804	698	695	700	705
Depreciation	4,544	4,746	5,022	5,359	5,603	5,883	6,177	6,486	6,810	7,151
	19,341	19,868	24,247	23,844	26,334	26,102	27,233	28,547	29,942	31,420
Net Operating Revenues	22,361	23,341	23,123	22,908	21,070	21,421	21,177	20,687	20,454	19,978
Other (Expense) Income										
Interest on long-term debt (2)	(23,426)	(23,160)	(23,292)	(21,903)	(20,970)	(20,744)	(20,598)	(20,444)	(20,280)	(20,107))
Interest on intersystem loans (2)	(3,743)	(3,721)	(3,782)	(4,762)	(5,102)	(5,107)	(5,175)	(5,145)	(5,313)	(5,278)
Amortization of deferred debt costs (2)	(488)	(476)	(492)	(481)	(572)	(572)	(568)	(564)	(560)	(555)
Interest income	3,367	2,278	2,297	2,665	2,808	2,926	3,113	3,369	3,623	3,827
Gain on reacquired bonds	127	27	31	92	83	-	-	-	-	-
Other (3)	(293)	1,412	(716)	(979)	(696)	-	-	-	-	-
	(24,456)	(23,640)	(25,954)	(25,368)	(24,449)	(23,497)	(23,228)	(22,784)	(22,530)	(22,113)
Net Revenue (Expenses)	(2,095)	(299)	(2,831)	(2,460)	(3,379)	(2,076)	(2,051)	(2,097)	(2,076)	(2,135)
Accumulated Net Revenues (Expenses) (4)										
Beginning of year	11,723	10,031	10,230	7,911	4,026	1,922	(154)	(2,205)	(4,302)	(6,378)
Intersystem Transfers (5)	403	498	512	(1,425)	1,275	-	-	-	-	-
Accumulated Net Revenues (Expenses)										
End of year	$10,031	$10,230	$ 7,911	$ 4,026	$ 1,922	$(154)	$(2,205)	$(4,302)	$(6,378)	$(8,513)

(1) For purposes of projected results for 1997 through 2001, operations and maintenance expenses are combined. In addition, such projected operations and maintenance expenses include certain payroll related taxes which were included in operating taxes for 1992 through 1996.
(2) Projected debt service is based on existing Rock Island Bonds, including the Refunded Bonds, and does not reflect the effect of the 1997 Bonds refundings. The District does not currently anticipate issuing additional Rock Island Bonds. Future capital needs are expected to be met by intersystem loans by the Chelan Hydro Consolidated System which will issue additional bonds to the extent necessary to fund such intersystem loans.
(3) Includes payment of replacement payments and 15% coverage component on intersystem loans and "Management's Discussion and Analysis - Intersystem Transfers."
(4) See "Management's Discussion and Analysis—Accumulated Net Revenues (Expenses)."
(5) Consists primarily of return of coverage payments on intersystem loans from the Chelan Hydro Consolidated System. See "Management's Discussion and Analysis - Intersystem Transfers."
(6) Projections based on budgeted figures for 1997 and on trended historical increases of operating expenses adjusted for projected inflation and on corresponding cost-based increases for operating revenues for 1998 through 2001.
(7) See "Projections."

Cash Available For Debt Service

The following table presents actual and projected cash available for debt service for the Rock Island System for the years 1992 through 2001, inclusive.

Rock Island System
Cash Available for Debt Service
($000)

	Actual					Projected(3)(4)				
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Operating Revenues										
Puget	$39,814	$40,701	$43,351	$41,802	$41,038	$40,512	$40,380	$40,094	$39,601	$39,492
District	1,703	2,302	3,835	4,774	6,189	7,011	8,030	9,140	10,795	11,906
Total Revenue from Sales	41,517	43,003	47,186	46,576	47,227	47,523	48,410	49,234	50,396	51,398
Other	185	206	184	176	177	-	-	-	-	-
Total Operating Revenues	41,702	43,209	47,370	46,752	47,404	47,523	48,410	49,234	50,396	51,398
Total Operating Expenses	19,341	19,868	24,247	23,844	26,334	26,102	27,233	28,547	29,942	31,420
Net Operating Revenues	22,361	23,341	23,123	22,908	21,070	21,421	21,177	20,687	20,454	19,978
Other (Expense) Income	(24,456)	(23,640)	(25,954)	(25,368)	(24,449)	(23,497)	(23,228)	(22,784)	(22,530)	(22,113)
Net Revenues (Expenses)	$ (2,095)	$ (299)	$ (2,831)	$ (2,460)	$ (3,379)	$ (2,076)	$ (2,051)	$ (2,097)	$ (2,076)	$ (2,135)
Add Back:										
Depreciation	4,544	4,746	5,022	5,359	5,603	5,883	6,177	6,486	6,810	7,151
Interest Expense (1)	27,169	26,881	27,074	26,665	26,072	25,851	25,774	25,590	25,593	25,384
Amortization of deferred debt costs	488	476	492	481	572	572	568	564	560	555
Other (2)	964	(1,189)	1,486	1,503	1,156	-	-	-	-	-
Deduct:										
Gain on reacquired bonds	(127)	(27)	(31)	(92)	(83)	-	-	-	-	-
Cash available for debt service	$30,943	$30,588	$31,212	$31,456	$29,941	$30,230	$30,468	$30,543	$30,887	$30,955
Annual debt service										
Rock Island Bonds										
Debt Service (1)	$26,530	$26,211	$26,395	$25,504	$23,729	$23,335	$23,324	$23,320	$23,311	$23,303
Coverage of Rock Island Bonds	1.17	1.17	1.18	1.23	1.26	1.30	1.31	1.31	1.32	1.33
Intersystem loans										
Debt Service	$4,104	$4,212	$4,366	$5,687	$6,172	$6,634	$6,819	$6,901	$7,215	$7,311
Total debt service requirement	$30,635	$30,424	$30,762	$31,192	$29,902	$29,970	$30,144	$30,222	$30,527	$30,615
Coverage of total debt service	1.01	1.01	1.01	1.01	1.00	1.01	1.01	1.01	1.01	1.01
Cash available after payment of total debt service	$308	$164	$450	$264	$39	$260	$324	$321	$360	$340

(1) Projected debt service is based on existing Rock Island Bonds, including the Refunded Bonds, and does not reflect the effect of the 1997 Bonds refundings. The District does not currently anticipate issuing additional Rock Island Bonds. Future capital needs are expected to be met by intersystem loans by the Chelan Hydro Consolidated System which will issue additional bonds to the extent necessary to fund such intersystem loans.

(2) Includes payment of replacement payments and 15% coverage component on intersystem loans. Projections for 1997 through 2001 do not reflect payment of this coverage component as such cover is credited back to the Rock Island System in the next succeeding year. See "Management's Discussion and Analysis - Intersystem Transfers."

(3) Projections based on budgeted figures for 1997 and on trended historical increases of operating expenses adjusted for projected inflation and on corresponding cost-based increases for operating revenues for 1998 through 2001.

(4) See "Projections."

During the last five years and the five years for which projections are provided in the Statement of Revenues, Expenses and Changes in Accumulated Net Revenues (Expenses), the annual charge for depreciation of the Rock Island System has exceeded, and is projected to exceed, the annual cost of amortization of the Rock Island Bonds. This occurs because the method used by the District to calculate depreciation differs from that utilized in the Power Sales Contract to determine the principal component of debt service. Accordingly, for those years and for a number of subsequent years, the Net Revenues (Expenses) of the Rock Island System have been and will be negative. Nevertheless, because of the cost reimbursement contractually imposed upon the District and Puget under the Power Sales Contract, cash available for debt service of the Rock Island Bonds has been, and in the future is, contractually required to be, positive. The District is considering the advisability of changing its method of depreciation calculation which change, if adopted, would reduce the differences to negligible amounts.

The Rock Island System has borrowed amounts from the Chelan Hydro Consolidated System for capital purposes. Repayment of these amounts is also a cost factor which must be reimbursed under the terms of the Power Sales Contract. Such repayments are subject to prior payment of the amounts due on the Rock Island Bonds. Accordingly, cash available for debt service on the Rock Island Bonds has been and in the future is contractually required to be greater than cash required for total debt service.

Cash available from the Rock Island System's operations for debt service in 1993 decreased $335,000 from 1992. Cash available for debt service increased $624,000 and $244,000 in 1994 and 1995, respectively. In 1996, cash available for debt service decreased $1,500,000, which principally reflects a decrease of $1,200,000 in required debt service payments during the year. See "Management's Discussion and Analysis - Interest on Long-Term Debt; Intersystem Loans."

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with "Operating Results - Statement of Changes in Net Revenues, Expenses and Changes in Accumulated Net Revenues (Expenses)." Reference should also be made to the audited financial statements of the District for the year ended December 31, 1995 and the accompanying notes, and to the unaudited financial statements of the District for the year ended December 31, 1996, contained in Appendix D and Appendix E, respectively, to this Official Statement.

Overview

The Rock Island System consists of two powerhouses with a total of 18 generating units. Except for amounts taken by the District, the entire output of both powerhouses is sold on a cost of service basis to Puget pursuant to the Power Sales Contract. The Power Sales Contract has provisions entitling the District to receive a percentage of the output of both powerhouses. For the years ended December 31, 1992 through 1996, the District received 33.25%, 35.4%, 37.55%, 39.75 and 42.9%, respectively, of the output of the original powerhouse and none of the output of the second powerhouse.

Pursuant to the Power Sales Contract, Puget and the District are each required to pay to the Rock Island System amounts sufficient to cover their respective share of the costs of operating and maintaining the Rock Island System and costs of debt service (in each case as such costs are defined in the Power Sales Contract), plus a small debt service coverage factor. The aggregate cost of power is driven by the amount of energy production of the Rock Island System, by operation and maintenance expenses, by annual debt service requirements on the bonds and on intersystem loans paid from revenues of the Rock Island System, and by various reserve requirements imposed by the Original Resolution, the Resolution and the Power Sales Contract (and until the Senior Rock Island Bonds are defeased on April 2, 1997, the Senior Rock Island Resolution). See Appendix A - "Summary of Certain Provisions of the Power Sales Contract" and Appendix F - "Summary of Certain Provisions of the Resolution."

Operating Revenues

1993 operating revenues for the Rock Island System increased 3.6% over 1992. 1994 operating revenues increased 9.6%, primarily to cover increased costs associated with anadromous fish protection measures. These costs were then passed on to the District and Puget pursuant to the Power Sales Contract resulting in an increase in operating revenues. Operating revenues decreased 1.3% in 1995. In 1996, operating revenues only increased 1.4% despite a 10.4% increase in operating expenses. This inconsistency was, in principal part, due to timing differences associated with a $1,200,000 decrease in scheduled debt service payments (see "Interest on Long-Term Debt; Intersystem Loans" below) which reduced other expense (income) and thus operating revenues, and a $660,000 credit for the return of excess insurance reserves. Over prior years, excess insurance reserves allocable to the Rock Island System had built up. The reserve charges associated with this build up were recorded as ordinary expenses under the Power Sale Contract. In 1996, this $660,000 amount was credited against amounts otherwise payable by Puget and the District. Although the excess insurance reserves were accumulated over a number of years, the District chose to reflect the offsetting return in 1996 rather than reflecting the credit of this excess as prior period adjustments.

Operating Expenses

During 1993, Rock Island System operating expenses increased 2.7% over 1992. In 1994, such expenses increased 22.0% primarily as a result of increased operations expenses associated with anadromous fish protection measures. Operating expenses for 1995 decreased 1.7%. In 1996, operating expenses increased 10.4% primarily due to higher operations expenses associated with anadromous fish protection measures. Maintenance expenses remained relatively constant during the period 1992 through 1996. Operating taxes are based on generation which varies with available waterflow. 1996 waterflow was approximately 134% of normal. (See "Projections - Water Flow") Depreciation increases were generally in line with the methodology used by the District and increased plant investment values.

Interest on Long-Term Debt; Intersystem Loans

Interest on long-term debt and intersystem loans remained relatively constant from 1992 through 1994. In 1995, interest on long-term debt decreased 5.9% and interest on intersystem loans increased 26%, reflecting the mid-year refunding of the Rock Island System Series 1985 Bonds with Chelan Hydro Consolidated Systems bonds, the proceeds of which were loaned to the Rock Island System. In 1996, interest on long-term debt decreased 4.30% and interest on intersystem loans increased 7.1% over 1995 levels reflecting the full year effect of the refunding of the Rock Island System Series 1985 Bonds.

Intersystem Transfers

Intersystem transfers consist primarily of the return of debt service coverage payments made by the Rock Island System from the previous year. Bond covenants for Chelan Hydro Consolidated System bonds, which are bonds issued by the District and used to fund intersystem loans, require an additional 15% of the amount of interest owed on borrowed proceeds be paid by the Rock Island System to facilitate debt service coverage on outstanding Chelan Hydro Consolidated System bonds. These coverage payments are billed to the District and Puget pursuant to the Power Sales Contract and are included in operating revenues during the current period. The payments to the Chelan Hydro Consolidated System are included in Other Expenses. The amounts are held by the Chelan Hydro Consolidated System for the year and are then returned as an intersystem transfer. The amounts returned to the Rock Island System were $446,000, $540,000, $558,000, $567,000 and $660,000 for 1992 through 1996, respectively. In 1995, $1.9 million derived from the sale of surplus land was transferred to the District's Distribution System. During 1996, $660,000 in excess insurance reserves were transferred to the Rock Island System as a credit against amounts otherwise due from the District and Puget. See "Operating Revenues" above.

Accumulated Net Revenues (Expenses)

Accumulated Net Revenues increased 2% in 1993 due to a $2 million gain from the sale of surplus land. From 1994 through 1996, Accumulated Net Revenues showed a steady decline due primarily to timing differences associated with revenue recognition associated with principal amortization on bonds and intersystem loans and expenses associated with depreciation and replacement payments on intersystem loans (see "Rock Island System Capitalization - Outstanding Debt - Intersystem Obligations") that are treated as period expenses. Management has adopted new accounting procedures regarding the treatment of replacement payments on intersystem loans and is currently investigating various options available under generally accepted accounting principles to change current accounting practices and methodologies for depreciation to more closely match revenues and expenses.

COMPETITIVE STRATEGIES

The District has taken steps to insure it will be competitive in the deregulated environment. By increasing the District's ability to market power by pursuing contractual rights to withdraw power from its low cost hydro-electric plants, and through cost containment efforts, the District believes it will be well positioned in the future.

The District has recognized the changing environment in which electric utilities operate. Management has started strategic planning analysis to determine how and where the District will compete in the new deregulated industry. The District has also begun a power marketing program. By maximizing the District's ability to obtain low cost generation from its Hydro-Electric Systems and developing networks in which to market this power, the District intends to take full advantage of its ability to produce low cost power.

Last summer, the District began a formal strategic planning process with the guidance and assistance of several consultants and industry experts. The District anticipates a competitive utility market and wants to ensure it will be a strong, low cost utility and be able to compete. Eight strategic initiatives were developed to support the new mission and vision statements.

The District has funded its capital requirements principally by issuing low cost tax exempt bonds. However, a strategic initiative effort analyzed the technical and operational restrictions imposed by the use of tax exempt debt and determined it was in the best long term interest of the District to refund a portion of the Rock Island System's tax exempt debt with taxable debt so as to free a portion of the Rock Island System's output from the marketing constraints which the Internal Revenue Code imposes on output financed with the proceeds of tax-exempt bonds. The refunding of the Refunded Bonds with the proceeds of the 1997 Bonds will allow the District to continue to obtain low cost power from the Rock Island System, while allowing the District to market it to a broader range of consumers regardless of location.

Because of the broad range of impacts potential legislative changes associated with deregulation could produce, the District has hired a lobbyist to work with representatives from the Washington State House of Representatives and Senate to maintain its position as low cost provider of electricity. The District also has strengthened its affiliations on the Federal level. By closely monitoring legislative efforts and maintaining contact with lawmakers at the Federal and State level, the District believes it can stay active in the development of future legislation.

The District has also taken action to insure uninterrupted production at its hydro-electric facilities (including the Rock Island System) due to the listing of fish under the Endangered Species Act. The District, together with other mid-Columbia public utility districts, have submitted to National Marine Fisheries Service, United States Fish and Wildlife Service, Washington State Department of Fish and Wildlife and several Indian Nations, a "Habitat Conservation Plan" that provides a framework for long term resolution of certain fish issues among the parties. This plan focuses on performance based criteria rather than level of expenditures. The District expects that the plan will be substantially complete by mid 1997 and will cover a 50 year plan period. The District believes that this plan will provide substantial certainty for continued operation of the District's hydro-electric projects (including the Rock Island System) with regard to threatened or endangered fish listings. See "Agreements and Proceedings Affecting Power Generation - Endangered Species Act - Habitat Conservation Plan."

In 1995, the District formed "Process Improvement Teams" to examine and reduce construction, operation and maintenance expenditures at the District's hydro-electric systems (including the Rock Island System) without reducing reliability, safety and customer satisfaction. During 1995 and 1996, the District made arrangements to refund over $95 million in bonds with gross savings exceeding $45 million over the next 30 years. The District also continues to maintain a hiring freeze which began in 1993.

In order to ensure the District has a highly motivated and skilled workforce, the District implemented an incentive pay for performance plan in 1997. This plan allows management employees to earn a bonus if goals relating to financial objectives, customer satisfaction and safety are met. In addition, the District has implemented a separate pay for performance program for the District's Power Marketing Division based on specific financial criteria related to power sales. The District has also implemented a training program to provide employees with the skills needed to succeed in the new competitive environment.

The District recently signed a Memorandum of Understanding (the "MOU") to explore the formation of an independent grid operator for the Pacific Northwest called IndeGO. There are currently fourteen (14) utilities (all of the seven Northwest investor owned utilities, Bonneville, and six publicly owned utilities) that have signed the MOU. IndeGO would be a non-profit organization whose purpose was to schedule and set rates for transmission service for anyone needing to transfer energy from one point to another in the Northwest. The District believes that its participation in IndeGO will benefit the District.

The District's Distribution System rates are among the lowest in the country. Chart 1 below compares the District with the Pacific Northwest and national averages. District rates averaged 2.8 cents/kWh in 1996 compared to 5.5 cents/kWh for the Pacific Northwest and over 8.5 cents/kWh for the national average. This is due, in part, to the low cost hydro-generation provided by the District's three Hydro-Electric Systems. Chart 2 below compares The Rock Island System's combined hydro rate with the Bonneville priority firm rate available to public utilities. For 1996, the Rock Island System's combined hydro cost was 13 Mills/kWh compared to Bonneville's 24 Mills/kWh.

[See following page for Charts 1 and 2]

Chart 1

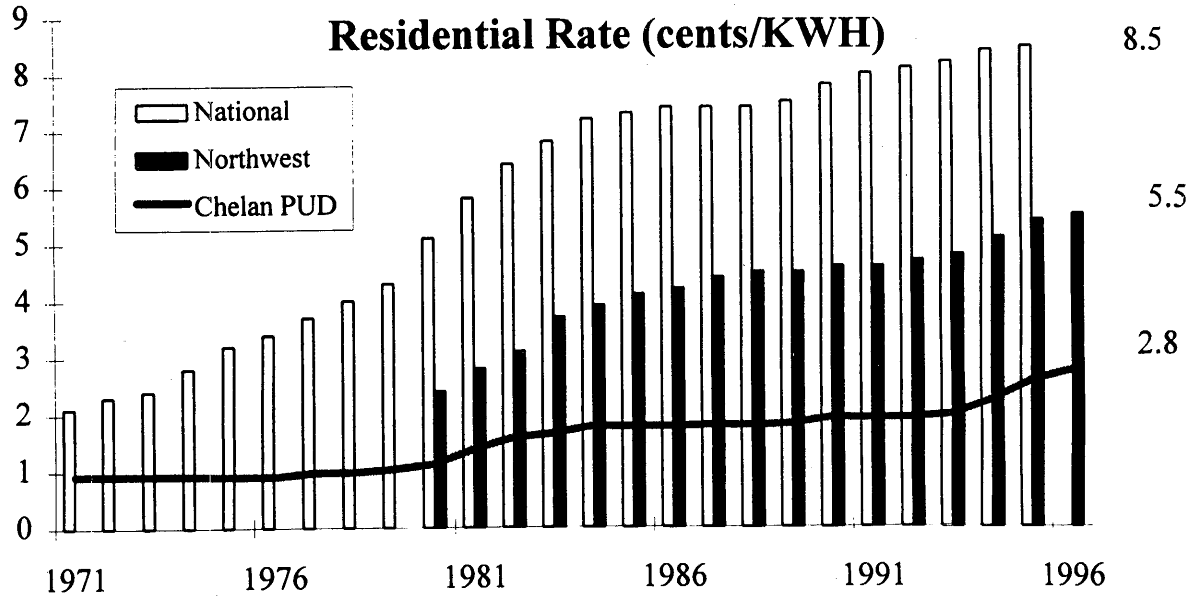
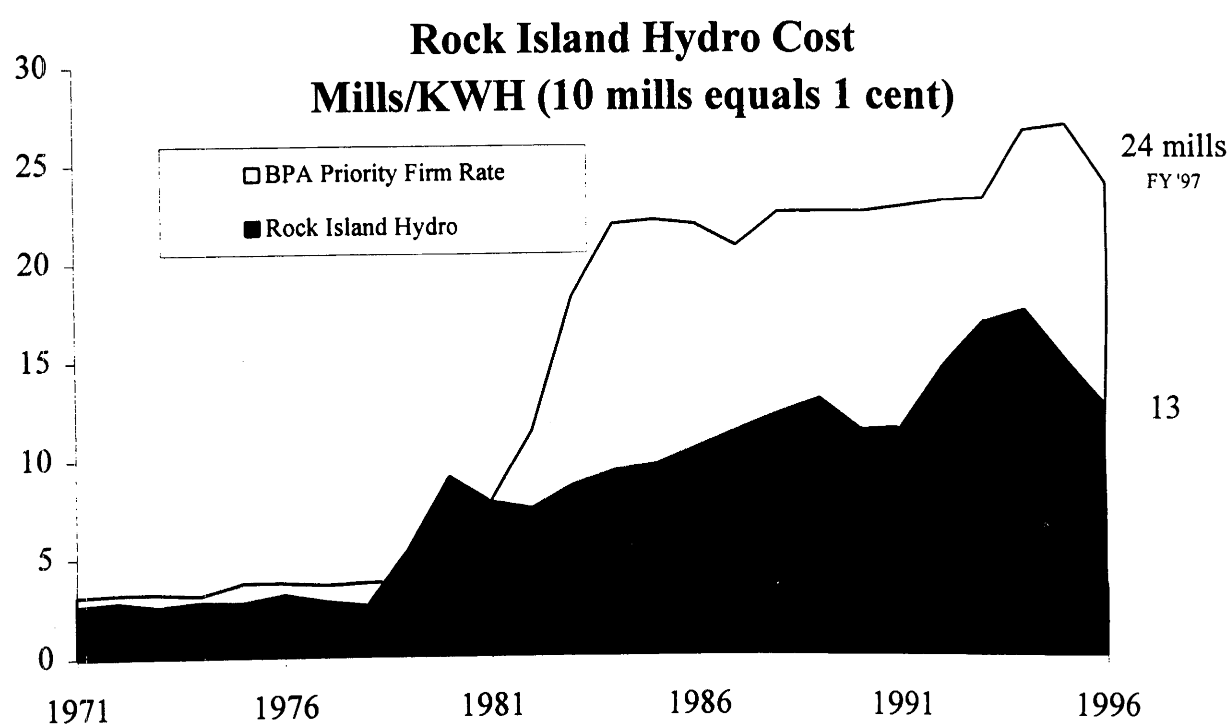


Chart 2



PROJECTIONS

General

This Official Statement contains certain information which constitute forward-looking statements. Such forward-looking statements appear throughout this Official Statement, including the Appendices, and in a number of tables which contain projected information, as well as discussions of such projected information and all discussions relating to events and situations which may occur at any date after the date of this Official Statement. Such statements and projections are necessarily subject to various risks and uncertainties. Actual results could, and likely will, differ materially from those projected, in part as a result of differences between assumptions utilized in making such forward-looking statements and actual outcomes and certain other risks described in this Official Statement. In particular, the financial results of the Rock Island System may be adversely affected by, among other things, lower than expected water flows of the Columbia River, changes in the electric utility industry and government regulation, particularly statutes and regulations dealing with anadromous fish species, and possible issues regarding a new FERC license to replace the current license which expires January 1, 2029.

Assumptions

In developing such projections, the District has made a number of assumptions discussed below.

Water Flow

The District assumed, based upon current levels of precipitation and snow levels, that 1997 will have above-normal water conditions. Normal water conditions have been projected to prevail for the years 1998 through 2001. The standard for normal water conditions has been derived by averaging the 50 years of flow records, by month, as it would be reconfigured based on reservoir capabilities, fish flow conditions and other current flow conditions. The key factors going into water flow are the amount, timing and nature of precipitation, the extent of the snow pack at the end of the winter season, the timing of the runoff from the snow pack and other meteorological conditions. In addition, water flows through the District's dams, including the Rock Island System, are affected by releases from various water storage reservoirs on the Columbia River located in the United States and Canada.

A second component that affects generation is the timing of the release of water, other than through the power turbines of the Rock Island System. Spills designed to assist anadromous species during migration are required by certain agreements and regulatory pronouncements. The amount of spill is variable during the April through July period.

Inflation

The District estimated that inflation for the projected five years would be 3.3% 1997, 3.5% 1998, 3.6% 1999, 3.6% 2000 and 3.7% 2001. These inflation estimates were then applied to the Rock Island System operating costs and result in proportionate increases in revenues from Puget and the District as a result of the cost-sharing provisions of the Power Sales Contract. Operating revenues from energy sales do not increase by the same percentage because a substantial percentage of such revenues are cost reimbursement for debt service which does not increase with inflation.

Canadian Entitlement

The District is currently in negotiation with the Bonneville Power Administration, acting as the U.S. Entity under the Treaty over the allocation of the U.S. obligation applying to the Rock Island System. The values listed on the tables are the expected outcome of those negotiations.

Allocation Between the District and Puget

It is assumed that the District's 42.9% share of the output of the original powerhouse will increase to 50% for each of the years beginning 1999 through the expiration of the Power Sales Contract. The District's share of the output of the Second Powerhouse is expected to commence at 5% in 2000 and increase to 50% from 2006 through the expiration of the Power Sales Contract.

The District's share of average energy capability from the original powerhouse of the Rock Island System will increase from the current 90 average MW to a total 102 average MW in 2000. The District's share of average energy capability from the second powerhouse of the Rock Island System will increase 14 average MW for every 10% withdrawn for an anticipated total of 70 average MW in 2006.

Encroachments

The Average Energy Output table, set forth under the caption "Rock Island System - Rock Island System Output," sets out the historical and projected effect upon the output of the original powerhouse and the second powerhouse of the Wanapum Encroachment upon the Rock Island System. Actual deliveries depend upon actual river flows and project operation.

Capital Requirements

Actual and projected capital expenditures by the Rock Island System are set forth under the caption "Rock Island System Capitalization - Capital Requirements." These expenditures proceed upon the basis that no major retrofit will be required in order to comply with government regulations, particularly those dealing with anadromous fish species.

Debt Service

Projections for debt service are based on the existing Rock Island Bonds, including the Refunded Bonds, and do not reflect the effect of the 1997 Bonds refundings. In addition, it is assumed that the District will complete the defeasance of the remaining Senior Rock Island Bonds on April 2, 1997.

CHANGES IN THE ELECTRIC UTILITY INDUSTRY

General

The electric utility industry in general has been, or in the future may be, affected by a number of factors which could impact upon the financial condition of an electric utility and the level of utilization of generating facilities such as the Rock Island System. Such factors include, among others, (a) effects of competition from other suppliers of electricity, (b) changes in actual versus projected future load requirements, (c) shifts in the availability and relative costs of different fuels, (d) effects of compliance with rapidly changing environmental, safety, licensing and regulatory requirements, (e) changes resulting from conservation and demand-side management programs on the timing and use of electric energy and (f) challenges to the ability to issue tax exempt obligations. Any of these factors could have an effect on the financial condition of any given electric utility and likely would affect individual utilities in different ways.

The District cannot predict what effects such factors will have on its operations and financial condition. The following is a brief discussion of certain of these factors. However, this discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is, and will be, available from the regulatory bodies and other sources in the public domain.

Regional Review

The governors of the states of Washington, Oregon, Idaho, and Montana convened a panel of regional utility, industry, government, and environmental representatives to discuss the potential restructuring of the Northwest energy industry. This process is referred to as the Regional Review. Participants in the Regional Review were charged with reaching consensus on comprehensive recommendations for structural changes to Bonneville and the utility environment in the Pacific Northwest in order to meet the challenges of increased wholesale power market competition, while maintaining the region's commitment to fish, wildlife, conservation and other public purposes. Discussions focused on transmission access issues, retail wheeling, stranded investments, and the most appropriate ownership and operating structure for the region's transmission facilities (both federal and nonfederal). The Regional Review concluded its deliberations in late 1996 with a report and recommendations for state and federal legislation required to implement the report's conclusions. The report includes the following recommendations: (1) the use of a subscription-based system for purchasing power produced by the Federal System at a cost which, among other things, will ensure repayment of Bonneville's debt to the U.S. Treasury and will retain the long-term benefits of the Federal System for the region; (2) the formation of a FERC-regulated Independent Grid Operator that includes the transmission assets of Bonneville and the other owners of major transmission assets in the region; (3) the establishment of an improved system of river governance that pursues fish restoration as a high priority; (4) the continuation of cost-effective conservation, renewable resource development and low-income weatherization; and (5) beginning no later than July 1, 1999, the provision by all retail distribution utilities of open retail market access for those customers that desire direct market access. The Northwest Energy Review Transmission Board has been organized to follow up on the Review's recommendations, with specific direction to implement the subscription process and provide liaison with legislators and affected constituencies. It is difficult to predict which of these recommendations, if any, will be implemented or their specific effects on the District. The District cannot predict the impact of this report on its operations.

Washington Utilities and Transportation Commission

The Washington Utilities and Transportation Commission ("WUTC") has taken initial steps regarding industry restructuring by issuing on December 16, 1994, a Notice of Inquiry ("NOI"). Interested parties filed comments to this NOI in February 1995, with second round comments filed in April 1995. On August 14, 1995, the WUTC published a Status of the Notice of Inquiry and Policy Statement Establishing Interim Principles for Regulation of Electric Utilities. In this notice, WUTC highlighted a set of draft policy statements consisting of a set of principles and objectives to help guide the transition to a more competitive electric industry. The WUTC is currently seeking additional input from interested parties. This proceeding has been suspended pending the Regional Review process.

Washington State Legislation

Legislation has been introduced in the Washington Legislature designed, among other things, to allow all retail electric customers to select their electricity supplier of choice no later than July 1, 1999, to require electric utilities to provide nondiscriminatory and nonpreferential service in operating electric distribution facilities, and to provide electric utilities with a reasonable opportunity to recover a portion of the uneconomic utility investments during a five year period. The District cannot predict whether this legislation will be adopted.

Environmental

Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes arise from continuing legislative, regulatory and judicial action regarding such standards and procedures.

Energy Policy Act of 1992

The Energy Policy Act of 1992 (the "Energy Policy Act") made fundamental changes in the Federal regulation of the electric utility industry, particularly in the area of transmission access. These changes are expected to increase competition in the electric utility industry. The District cannot predict what effect such increased competition will have on its business and affairs, the need for the District's generating capacity or the utilization of the District's transmission resources.

Transmission Access

The Energy Policy Act amended, among other sections, sections 211 and 212 of the Federal Power Act. Under amended section 211, any electric utility, Federal power marketing agency or any other person or entity generating electric energy for sale or resale may apply to FERC for an order under section 211 requiring a transmitting utility to provide transmission services (including any enlargement of transmission capacity necessary to provide such services) to the applicant. FERC may issue an order requiring such transmission service to be provided if it finds such order meets the requirements of section 212 and would otherwise be in the public interest. Under the Energy Policy Act, municipally-owned electric utilities are "transmitting utilities" subject to the requirements of sections 211 and 212.

Retail Wheeling

The authority for regulation of retail wheeling, which allows a retail customer located in one utility's service area to obtain power from another utility or from non-utility sources, is specifically excluded from the enhanced authority granted to FERC under the Energy Policy Act. Many believe that this leaves authority for regulation of retail wheeling with state legislative and regulatory bodies which, in several states, are now receiving and acting on requests for this service. One potential effect of this is that utilities with low-cost power, such as the District, may be better able to compete for new and existing loads.

Changes in Federal Regulation of Electric Utilities

On April 24, 1996, FERC issued a Final Rule ("Order No. 888") significantly changing the regulation of transmission service provided by electric utilities subject to FERC's jurisdiction. Among other things, FERC ordered pro forma, open-access, mandatory transmission tariffs be placed into effect for all jurisdictional utilities on or before July 9, 1996. The goal of Order No. 888, according to FERC, is to deny to an owner of transmission facilities any unfair advantage over its competitors that exists by virtue of such owner's control of its transmission system.

Although consumer-owned utilities, including the District, are not subject to FERC's jurisdiction, Order No. 888 will likely have a significant effect on those utilities. The overall objective of Order No. 888 is to ensure that all participants in wholesale electricity markets have non-discriminatory open access to transmission service, including network transmission service and ancillary services, and thereby to facilitate competition in the industry. FERC also intends to apply the principles set forth in Order No. 888 to the maximum extent to municipal and other non-jurisdictional utilities, both in deciding cases brought under sections 211 and 212 of the Federal Power Act (see "Energy Policy Act of 1992 - *Transmission Access*" above) and by requiring such utilities to agree to provide open access transmission service as a condition to securing transmission service from jurisdictional investor-owned utilities under open access tariffs.

BONNEVILLE POWER ADMINISTRATION AND THE SUPPLY SYSTEM

Bonneville Power Administration

General

Bonneville was established as a federal power marketing agency by the Bonneville Project Act of 1937. Under the Bonneville Project Act, the Federal Columbia River Transmission System Act enacted in 1974, and the Regional Power Act enacted in 1980, each as amended, Bonneville acquires conservation and generating resources needed to serve its contract obligations; markets at wholesale the electric energy from federal hydro-electric projects in the Pacific Northwest, nuclear projects and such additional resources as it may require; constructs, operates, and maintains transmission lines and substations; interconnects the federal hydro-electric projects and nonfederally owned power systems and projects; and establishes rates to recover its costs.

Bonneville markets power from 29 federal hydro-electric projects in the Pacific Northwest, from several non-federally owned hydro-electric and thermal projects, including Washington Public Power Supply System (the "Supply System") Project No. 2, with installed peak generating capacity of 23,541 megawatts and a firm energy capability of approximately 8,600 average megawatts (the "Federal System"). The federal hydro-electric projects, built and operated by the United States Bureau of Reclamation and the United States Army Corps of Engineers, are located primarily in the Columbia River basin and represent the largest hydro-electric development of any single river basin in the United States. Hydro-electric projects of the Federal System currently represent approximately 80% of the firm energy resources available to Bonneville.

Bonneville sells electric power at wholesale to utility, industrial and government customers in the Pacific Northwest, thereby serving an area of over 300,000 square miles with a population of about 10,000,000. Bonneville markets the majority of its power to over 100 utilities in the region for resale, and sells power directly to about fifteen industrial customers in the region. Recently, a number of Bonneville's customers have decreased their loads placed on Bonneville, and numerous customers are exploring or developing other power sources and supplies. Electric power marketed by Bonneville accounts for approximately 40 percent of the electric power consumed within the region. In addition, Bonneville sells surplus power under contract to utility customers outside the Pacific Northwest, primarily utilities serving California.

In addition to the capacity of the Federal System, Bonneville markets, or will market, all or portions of the capability or capacity of certain other resources which it has acquired under long-term contracts.

Bonneville's transmission system includes approximately 15,000 circuit miles of transmission lines, 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 12 nonfederal projects, including the Rocky Reach System and Rock Island System, is transmitted over Bonneville's transmission facilities to various investor-owned and municipally-owned utilities in the Pacific Northwest. Bonneville's transmission facilities interconnect with utilities in the Canadian province of British Columbia and with utilities in the Pacific Southwest.

Regional Power Act

The Regional Power Act requires Bonneville to offer to sell power to each requesting Pacific Northwest publicly-owned and consumer-owned (rural electric cooperative) utility customer, including the District, to meet its firm power loads in the region in excess of the utility's own resources; requires Bonneville to meet its obligations to provide power through conservation to the extent that conservation is cost effective; and requires Bonneville to meet such obligations, to the extent that conservation measures are insufficient, by acquisition of cost effective electric power first from renewable resources. In the event that competing requests for available Bonneville power cannot all be met, a statutory preference and priority is granted to certain municipalities, qualifying utility districts, and consumer-owned (rural electric cooperatives) utility customers in the Pacific

Northwest, including the District ("Preference Customers"). Pursuant to the Regional Power Act, Bonneville offered 20-year firm power sales contracts to various utilities, including the District, federal agencies, and direct service industries. The contracts, entered into in 1981, expire in 2001. The District has notified Bonneville that it does not expect to purchase power from Bonneville through the expiration of the current contract, although it has the right to do so. The price of firm power from Bonneville for Preference Customers currently is 2.4 cents per kilowatt hour.

The Washington Public Power Supply System

The Washington Public Power Supply System (the "Supply System") is a municipal corporation and joint operating agency of the State of Washington. The membership of the Supply System consists of ten public utility districts and three cities. The District has withdrawn as a member of the Supply System.

The Supply System owns and operates a nuclear electric generating project, Project No. 2 ("Project No. 2"), with a net design electrical rating of 1,190 MW, which was placed in commercial operation in 1984. The Supply System 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"), were terminated by the Supply System on May 13, 1994; and Projects Nos. 4 and 5 ("Projects Nos. 4 and 5"), have also been terminated. Project Nos. 1, 2, and 3 are collectively referred to herein as the "Net Billed Projects." Each of the foregoing projects (collectively, the "Projects" and individually, a "Project") 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 Supply System Projects.

As of December 31, 1996, the Supply System had outstanding approximately $6.78 billion aggregate principal amount of bonds issued for the Net Billed Projects. In 1983, the Supply System defaulted on the approximately $2.25 billion principal amount of bonds issued by the Supply System 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 the Supply System and, in turn, assigned to Bonneville the District's 0.501% and 0.433% share of the capability of Project No. 1 and the Supply System'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 Project Nos. 1 and 3, including debt service on revenue bonds issued to finance or refinance the cost of construction of such Net Billed Project. As of October 1, 1996, revenue bonds outstanding for Project Nos. 1 and 3 totaled approximately $2.29 billion and $2.2 billion respectively. *Notwithstanding the assignment of the District's share of the capability of each Net Billed Project to Bonneville, the District remains unconditionally obligated to pay to the Supply System its share of the total annual cost of the Net Billed Project to the extent payments or credits relating to such annual cost are not received by the Supply System from Bonneville.*

Under the Net Billing Agreements, payment by Bonneville to the Supply System of the District's percentage share of the total annual cost of a Net Billed Project is made by a crediting arrangement whereby Bonneville credits, against amounts which the District owes Bonneville for the purchase of wholesale power, the District's share of the total annual cost of such 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 the Supply System from funds legally available therefor. The District is obligated under its Net Billing Agreements to pay the Supply System the amounts credited or paid to the District by Bonneville.

AGREEMENTS AND PROCEEDINGS AFFECTING POWER GENERATION

Coordination Agreements

A number of publicly and privately owned utilities in the Pacific Northwest, including the District, have joined with Bonneville, the U.S. Army Corps of Engineers and the United States Bureau of Reclamation in a long-term Pacific Northwest Coordination Agreement (the "PNCA"). The PNCA became effective on January 4, 1965, and continues until June 30, 2003. It provides for the coordinated operation of all major electric powerplants and transmission systems in the Pacific Northwest. Negotiations are currently being conducted on modification and extension of this agreement until approximately 2024.

In 1973, the District entered into the Mid-Columbia Hourly Coordination Agreement to provide for moment-by-moment coordination of the seven federal and non-federal hydro-electric projects on the mid-Columbia River, including the Rock Island and Rocky Reach hydro-electric generating plants. This coordination reduces the fluctuation of reservoir levels at each dam and allows operation of the reservoirs at a higher average level and with more total power production. This agreement was renewed for an additional 10 years ending June 30, 1997. Negotiations are currently in progress for a replacement agreement to be effective until 2007.

Fisheries Proceedings Before FERC

The District operates the Rock Island System hydro-electric generating plant under a long-term license from FERC which expires in 2029.

In 1979, FERC initiated an omnibus proceeding concerning the five mid-Columbia River dams owned by the District, Douglas PUD and Grant PUD in the State of Washington (including the Rocky Reach and Rock Island Systems). This proceeding, known as the Mid-Columbia proceeding, was initiated to develop a system-wide approach to protecting the fisheries resource in the Columbia River. The proceeding was initiated pursuant to requests by the Washington Department of Fisheries and Wildlife, the Oregon Department of Fish and Wildlife, and the National Marine Fisheries Service and the Yakima, Colville and Umatilla Indian tribes. The proceeding is an administrative proceeding held before a FERC administrative law judge.

In 1987, the District and all of the involved fishery agencies and Indian tribes submitted to FERC a comprehensive settlement agreement which was intended to provide a basis for resolving all anadromous fish issues in both the Rock Island System relicensing proceedings and the Mid-Columbia proceeding as it pertains to the Rock Island System. In 1989, FERC issued an order approving the settlement agreement and issued a new license for the Rock Island System. The settlement agreement approved by FERC provides for the implementation of the fish protection measures described in the settlement agreement, including a fish hatchery, wildlife habitat, and, if prototypes prove successful, certain fish protection devices. The initial term of the settlement agreement expires in 2000, after which time the parties to the agreement may choose to continue, modify or discontinue the agreement.

The Rocky Reach System is currently operating under the most recent of a series of interim agreements with certain interested parties whereby the District has stipulated that it will continue (i) to develop fish protection measures (which could include guidance and bypass systems) to facilitate downstream fish migration, (ii) to provide fish hatchery production and (iii) to work with interested parties concerning long-term compensation options. The current interim agreement was approved by the Administrative Law Judge May 23, 1996 and expires on December 31, 1997.

Grant PUD operates two hydro-electric systems on the Columbia River below the Rocky Reach System and the Rock Island System. On March 23, 1992, the administrative law judge in the Mid-Columbia proceedings issued an initial decision ordering Grant PUD to (1) design and construct mechanical fish bypass systems at both its hydro-electric systems to mitigate losses of fish in downstream migration, and (2) until the bypass system becomes fully operational at each project, provide spill at that project to ensure passage of 70 percent of spring migrants and 50 percent of summer migrants over 80 percent of the migration period. In 1994, FERC issued an interim order in which it approved the judge's spill recommendations but deferred a final decision in the case pending the preparation of an Environmental Impact Statement ("EIS"). In the interim, FERC required Grant PUD to spill additional amounts of water at its projects to facilitate migration. The EIS has been finalized and apparently favors surface collection and spill alternatives rather than mechanical fish bypass screens. Grant PUD has appealed the decision and the outcome of the appeal is pending at the present time.

The District cannot predict what effect, if any, a final adverse decision with respect to Grant PUD might have on the Rock Island System. The Rock Island System differs in material respects from the Grant PUD projects. However, it is possible that the District ultimately may be required by FERC to install structures to facilitate downstream fish migration and/or to modify project operations in a manner that reduces power generation. Recent developments in fish guidance through use of surface collection systems, however, are encouraging and may lead to a more efficient and less costly alternative to existing fish passage methods.

Endangered Species

Petitions and Listings

In April 1990, a petition was filed with the National Marine Fisheries Services (the "NMFS") by an Indian tribe asking that the Snake River sockeye salmon be listed as an endangered or threatened species under the Endangered Species Act ("ESA"). The Snake River flows into the Columbia River below the Rock Island and Rocky Reach generating plants. In June 1990, four similar petitions were filed requesting the same designation for spring, summer and fall Snake River chinook salmon and the lower Columbia River coho salmon.

Subsequently, the Pacific Northwest Electric Power and Conservation Planning Council (the "Regional Council"), an entity formed by interstate compact pursuant to the Pacific Northwest Power Planning and Conservation Act of 1980 ("Regional Power Act"), amended its Columbia River Basin Fish and Wildlife Program ("Program") to incorporate measures to aid potentially endangered anadromous fish species in the Columbia and Snake Rivers. The Program is primarily advisory but has generally been complied with by hydro system operators, including the District. The Regional Council's Program calls for significant modifications in the flows of the Columbia and Snake Rivers to aid in the out-migration of juvenile salmon. These increased flows are to be accomplished by storing water in reservoirs between January and March for release from mid-April to August.

As of the present date, Snake River sockeye and Snake River fall chinook and spring/summer chinook have been listed by NMFS as threatened or endangered. Additional listings are likely. Moreover, there are a number of species which are candidates for listing as threatened or endangered.

Federal agencies, including Bonneville, are consulting with NMFS to avoid any actions that may harm the listed species. As a result of those consultations NMFS has issued an ESA mandated document, referred to as a biological opinion, that specifies measures to be taken by the federal hydro system through 1998 to avoid jeopardizing the existence of the listed species. One of the most significant features of the biological opinion is its requirement for substantial Columbia River storage and flow pattern changes to help with migration of juvenile salmon. These conditions may reduce the power output at the Rocky Reach and Rock Island Systems and will change the timing of a significant amount of such generation. A reduction in output or changes in the timing of storage releases and resulting energy generation will increase the unit cost of power, may require the District's Distribution System and other purchasers to replace the lost power from other higher-cost sources, and will probably reduce Distribution System revenues from nonfirm energy sales.

On August 9, 1996, the NMFS published notice in the Federal Register that it completed a comprehensive status review of West Coast steelhead populations in Washington, Oregon, Idaho and California. NMFS identified 15 Evolutionarily Significant Units ("ESU") within this range. An ESU is a population that is reproductively isolated from other population units and represents an important component of that species.

NMFS proposed listing five of these ESUs as endangered and another five ESUs as threatened under the ESA. NMFS is required by law to issue a final listing rule within one year. The steelhead ESU occupying the Upper Columbia River Basin was proposed listed as endangered under the ESA. The Upper Columbia River Basin occupies the Columbia River Basin upstream from the Yakima River, Washington, to the United States/Canada border. The District's Rocky Reach and Rock Island Systems lie within the Upper Columbia River Basin ESU.

The ESA prohibits certain activities that directly or indirectly affect endangered or threatened species. In the event steelhead are listed as endangered under the ESA, the operation of the Rock Island and Rocky Reach Systems likely would result in a prohibited taking of steelhead. The ESA defines taking as to harass, harm, pursue, hunt, shoot, wound, kill, trap, capture, or collect, or to attempt to engage in any such conduct.

The ESA grants the NMFS the authority to institute proceedings to prevent unlawful takings and to impose civil and criminal penalties. As such, the NMFS is required by the ESA to order implementation of measures that mitigate effects of the projects' operations on endangered and threatened species. The NMFS has the authority to impose measures that could alter operations of the Rock Island and Rocky Reach Systems to protect a listed species.

Pending Agreements Relating to Habitat Conservation

The ESA grants the NMFS authority to exempt the Rock Island and Rocky Reach Systems from taking prohibitions by issuing a permit for the incidental taking of steelhead or other species. On May 29, 1996, pursuant to the ESA and in anticipation of the possibility that the NMFS or the USFWS would list steelhead or other aquatic species as threatened or endangered under the ESA, the District, in conjunction with the Douglas PUD and Grant PUD (collectively, the "PUDs"), submitted to the NMFS and USFWS proposals for prelisting conservation agreements (the "Habitat Conservation Plan" or "HCP") for steelhead and certain salmon species on the mid-Columbia River. The HCP, however, does not address species which currently are only candidates for future consideration as threatened or endangered. Negotiations are ongoing among NMFS, USFWS, the PUDs and other interested parties.

The goals of the negotiations are to reach an agreement that provides the greatest certainty possible for continued operations of the PUDs' hydro-electric projects with regard to threatened and endangered species under the ESA, Title 75 and 77 RCW of the Fish and Wildlife Codes of the State of Washington, and as to fisheries issues under the Federal Power Act and other relevant statutes. Accordingly, the prelisting conservation agreements are being negotiated not only with the NMFS and USFWS, but also with the Washington State Department of Fish and Wildlife, the Confederated Tribes and Bands of the Colville Indian Reservation, the Confederated Tribes and Bands of the Yakima Indian Nation, the Confederated Tribes of the Umatilla Indian Reservation and American Rivers, Inc. FERC is currently participating in a limited advisory capacity. The Washington State Department of Ecology is currently considering participation. The District anticipates that substantial agreement will be reached by mid 1997. The District expects that the resulting agreements and permits will provide a framework for long-term resolution among the parties of most significant fishery issues at the Rocky Reach and Rock Island Systems.

The District expects that the HCP will allow the District to obtain an "incidental take" permit (discussed below) so the District can continue hydro operations at the Hydro-Electric Systems.

The ESA makes it unlawful for any person subject to the jurisdiction of the United States to "take" any endangered species which, under the ESA, includes an intentional or negligent act or omission which creates the likelihood of injury to wildlife by significantly disrupting normal behavior patterns. Violations of the ESA can be enforced by governmental and citizen suits. There are both civil and criminal penalties.

Notwithstanding the foregoing, a "taking" in compliance with an "incidental take" permit is not an ESA violation. In 1982, Congress amended the ESA to allow for the incidental take of endangered species. Federal *regulations* defined an "incidental take" as "any taking otherwise prohibited, if such taking is incidental to, and not the purpose of, the carrying out of an otherwise lawful activity." The Secretary of Commerce has authority to permit nonfederal applicants to engage in these takings under such terms and conditions as the Secretary prescribes.

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

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

In the event of a listing of species within the reach of the Columbia River affected by the Rocky Reach or Rock Island Systems, under the ESA or Title 77 RCW continued operation of the Rock Island and Rocky Reach Systems could be jeopardized. The District expects to obtain an incidental take permit as a result of the agreements reached under the Habitat Conservation Plan. However, the District cannot guarantee that it will be able to obtain an incidental take permit, or what conditions might be imposed in connection with such a permit. If there is an additional ESA listing of any fish species in the area of, or impacted by, the Rock Island or Rocky Reach Systems, it could result in further and possibly substantial reductions in power generation at the Hydro-Electric Systems, and thereby increase the unit cost of power from the Hydro-Electric Systems. To the extent the unit cost of power from the Rock Island System increased to the point where it was not competitive with other firm power resources in the region, this could have a material adverse effect on the security for the 1997 Bonds.

Regional Council Report

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

ESA Litigation

Several environmental entities and Indian tribes filed suit against Bonneville in the United States Ninth Circuit Court of Appeals in February 1995, Idaho Rivers United, et al. v. Bonneville Power Administration (No. 95-70155), challenging the execution of new contracts such as the PNCA and the Canadian Entitlement Allocation Agreement ("CEAA") and certain provisions under the Canadian Treaty. The plaintiffs assert that Bonneville failed to follow procedural steps for the acquisition of a major resource under the Regional Power Act. The plaintiffs also allege that Bonneville ignored the effect of the contracts on fish and wildlife.

Environmental implications under the National Environmental Policy Act and the Administrative Procedure Act were also not addressed in the proper manner according to the Plaintiffs. The District is party to both the PNCA and CEAA. The District has elected not to intervene but will closely monitor this suit. If the plaintiffs prevail, negotiation and implementation of replacement or extension agreements will be delayed or abandoned, however, the original contracts will remain in place for the balance of their terms. Failure to extend the contracts may cause some uncertainty in the operation of the Columbia River System but the degree of that uncertainty is impossible to ascertain at this time.

Possible Effects

The outcome of current and anticipated suits and proceedings arising from threatened and endangered species listings is likely to have some direct or indirect effect on operation of the Columbia River hydro-electric system. The nature and extent of such effect and its impact on the District is too speculative to assess at this time, but could be significant.

REGIONAL AND COUNTY FACTORS

Chelan County

The District's Distribution System markets approximately 35% of the power output of the Hydro-Electric Systems (including the Rock Island System) throughout an area coextensive with Chelan County, Washington, located in central Washington approximately 138 miles east of the City of Seattle and 165 miles west of the City of Spokane. Wenatchee, the county seat of Chelan County, is located on east-west U.S. Highway 2 and within 5 miles of north-south U.S. Highway 97, and is on the Columbia River.

Agriculture is the mainstay of Chelan County. Due to the Wenatchee area's soil and climate conditions, the area produces substantial crops of apples, pears and cherries. The three-county region of Chelan, Okanogan to the north, and Douglas to the east, produces approximately 50% of the apple crop of the State of Washington.

Although Wenatchee's economy is based primarily on agriculture, it is supported by the aluminum industry, with Alcoa being the major employer in the area. In addition to Alcoa, local industries include steel and machinery fabricating firms, food processors and two garment manufacturers.

Over 1,000 business firms provide goods and services required by a four-county trade area of 120,000 people. The abundant outdoor recreation opportunities and close proximity of Wenatchee to the urban Puget Sound region have made Wenatchee a major year-round convention and recreation site within Washington State.

Central Washington Hospital and the Wenatchee Valley Clinic are located in Wenatchee, the latter with a staff of approximately eighty board-certified or board-eligible physicians and surgeons. Further expansion of the city's medical facilities is underway.

Wenatchee and East Wenatchee residents enjoy a wide range of educational, cultural and civic institutions. The Wenatchee and Eastmont school districts together provide two high schools, three junior high schools and thirteen elementary schools to the community's young people. Also available are two parochial school systems and the campus facilities of Wenatchee Valley College, a 2,000 student, two-year institution.

The following tables set forth comparative population, employment, income, retail sales data and building permit activity for the city of Wenatchee, Chelan County and the State of Washington.

Population

Year	Wenatchee	Chelan County	State of Washington
1992	22,700	54,600	5,116,671
1993	23,000	56,000	5,240,900
1994	23,460	58,000	5,334,400
1995	24,180	60,000	5,429,900
1996	24,690	61,300	5,516,800

Source: Washington State Office of Financial Management

Employment

Chelan County	1992	1993	1994	1995	1996
Total Labor Force	32,490	33,230	33,400	34,410	35,050
Employment	28,820	29,680	30,610	31,050	31,630
Unemployment	3,670	3,550	2,790	3,360	3,420
Unemployment Rate	11.3%	10.7%	8.4%	9.8%	9.8%
State of Washington					
Unemployment Rate	7.6%	7.6%	6.4%	6.4%	6.0%

Source: Washington State Employment Security Department

Per Capita Income

Year	Chelan County	State of Washington
1990	$ 17,368	$ 19,265
1991	18,564	20,168
1992	19,834	21,333
1993	20,404	21,774
1994	21,176	22,542

Source: Washington State Employment Security Department; latest available information.

CHELAN COUNTY
Taxable Retail Sales

1991	1992	1993	1994	1995	1996[1]
$619,848,605	$684,849,063	$737,514,873	$766,453,812	$785,816,978	$591,864,626

Source: Washington State Department of Revenue
(1) Through September 30, 1996.

CHELAN COUNTY
Major Employers 1995
(Includes Full-Time and Part-Time Employees)

Company	Type of Company	Total Number of Employees
State of Washington	Government	1,018
Central Washington Hospital	Health Care	878
Wenatchee Valley Clinic	Health Care	795
Wenatchee Public Schools	Education	790
U.S. Government	Government	711
Stemlit Growers	Fruit Warehouse	630
ALCOA	Manufacturer	616
Auvil Fruit	Fruit Warehouse	600
Chelan County PUD	Utilities	478
Chelan County	Government	436
Wenatchee Valley College	Education	325
Chief Wenatchee	Fruit Warehouse	275
Wells & Wade Fruit	Fruit Warehouse	255
Safeway	Retail	248
Triple C Convalescent Centers	Health Care	240

Source: Wenatchee Chamber of Commerce

CHELAN COUNTY
Residential and Commercial Building Permits

	Permits Issued	Valuation
1992	935	$37,131,050
1993	910	$44,201,150
1994	922	$41,530,579
1995	843	$41,019,437
1996	814	$47,653,662

Source: Chelan County Building Department

LITIGATION

General

There is no litigation pending or threatened in any court (either state or Federal) to restrain or enjoin the issuance or delivery of the 1997 Bonds, or questioning the creation, organization, existence, or 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 1997 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 Rock Island System or the Chelan Hydro System. The District is a party to other lawsuits arising out of its normal course of business, but 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 1997 Bonds.

TAX EXEMPTION

In the opinion of O'Melveny & Myers LLP, Bond Counsel, under existing statutes, regulations, rulings and court decisions, the excess of the Accreted Value of any 1997A Bond over the original principal amount thereof, to the extent that such excess represents interest properly allocated to the owners of such 1997A Bond, is excluded from gross income for federal income tax purposes pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"). In addition, Bond Counsel is of the opinion that the 1997A Bonds are not "private activity bonds" within the meaning of Section 141(a) of the Code and, therefore, increases in Accreted Value on the 1997A Bonds are not a specific item of tax preference for purposes of the Code's alternative minimum tax provisions. However, increases in Accreted Value on the 1997A Bonds received by or allocated to a corporation will be included in adjusted current earnings for purposes of computing such corporation's alternative minimum tax liability.

The increases in Accreted Value on the 1997A Bonds are includable in adjusted current earnings as they accrue semiannually rather than at the time such Accreted Value is actually paid to and received by the owners of 1997A Bonds. The increase in Accreted Value for each semiannual period is equal to the amount of interest which accrues semiannually during such period on the Accreted Value of the 1997A Bonds as of the beginning of such period. An owner's adjusted basis in 1997A Bonds, used to determine the amount of gain or loss on disposition of such 1997A Bonds, will be equal to the Accreted Value as of the date of calculation.

In rendering these opinions, Bond Counsel has relied upon representations and covenants of the District in the Resolution and in the District's Tax and Nonarbitrage Certificate concerning the investment and use of 1997A Bond proceeds, the rebate to the federal government of certain earnings thereon, and the use of the facilities refinanced with the proceeds of the 1997A Bonds. In addition, Bond Counsel has assumed that all such representations are true and correct and that the District will comply with such covenants. Bond Counsel has expressed no opinion with respect to the exclusion of interest on the 1997A Bonds from gross income under

Section 103(a) of the Code in the event that any such representations are untrue or the District fails to comply with such covenants, unless such failure is based on the advice or opinion of Bond Counsel. Bond Counsel has expressed no opinion regarding the effect, if any, of legislation enacted after the date hereof on the exclusion of interest on the 1997A Bonds from gross income for federal income tax purposes. In addition, no assurance can be given that such legislation could not directly or indirectly reduce the benefit of the receipt of interest which is otherwise excluded from gross income for federal income tax purposes.

Bond Counsel has expressed no opinion regarding any impact of the ownership of, receipt of interest on, or disposition of the 1997A Bonds other than as expressly described above. Prospective purchasers of the 1997A Bonds should be aware that, in addition to other possible tax consequences, ownership of, receipt of interest on, or disposition of the 1997A Bonds may be affected by the following federal income tax provisions: (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the 1997A Bonds, or in the case of a financial institution, that portion of an owner's interest expense allocable to interest on the 1997A Bonds, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) of the Code reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the 1997A Bonds, (iii) interest on the 1997A Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iv) passive investment income, including interest on the 1997A Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income and (v) Section 86 of the Code requires recipients of certain social security and certain railroad retirement benefits to take into account in determining the taxability of such benefits, receipts or accruals of interest on the 1997A Bonds. The presence of any such effect, as well as the magnitude thereof, depends on the specific factual situation with respect to each particular owner.

Interest on the 1997B Bonds is <u>not</u> excludable from gross income for federal income tax purposes and is fully taxable.

CONTINUING DISCLOSURE UNDERTAKING

Pursuant to a certificate to be executed by the District prior to the issuance and delivery of the 1997 Bonds (the "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 1997 Bonds to provide certain financial information and operating data relating to the District and Puget by not later than nine months after the end of each of the District's fiscal years (presently, by each December 31), commencing with the report for the 1996 fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events with respect to the 1997 Bonds, if material. The Annual Report will be filed by or on behalf of the District with each Nationally Recognized Municipal Securities Information Repository (and with the State Information Depository, if any, established by the State Rulemaking Board (and with such State Information Depository, if any). 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 J hereto. The District's covenant will be made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12.

RATINGS

Moody's Investor Service and Standard & Poor's Ratings Group have rated the Insured 1997 Bonds "Aaa" and "AAA" respectively, with the understanding that separate municipal bond insurance policies will be issued by the Insurer with respect to each Series of the Insured 1997 Bonds. Moody's Investor Service and Standard & Poor's Ratings Group have rated the 1997 Bonds (other than Insured 1997 Bonds) "Aa3" and "A+," respectively. Certain information was supplied by the District and the Insurer to the rating agencies to be considered in evaluating the 1997 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 1997 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 1997 Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey, Demgen & Moore Inc., independent certified public accountants, will verify the mathematical accuracy of certain computations provided by the Underwriter regarding (a) the adequacy of the maturing principal amount of and interest on the Government Obligations to pay the principal or redemption price of and interest on each series of the Refunded Bonds and (b) the actuarial yields on each Series of the 1997 Bonds and the Government Obligations. Such verifications will be relied upon by Bond Counsel to support their conclusion that the 1997A Bonds are not "arbitrage bonds" under Section 148 of the Code.

APPROVAL OF LEGAL PROCEEDINGS

Upon delivery of each Series of the 1997 Bonds, O'Melveny & Myers LLP, Bond Counsel, will render an opinion as to the validity of such Series of the 1997 Bonds, including tax exemption of the interest on the 1997A Bonds, in substantially the form of the opinions included in Appendix C of this Official Statement. Certain legal matters are subject to the approval of Davis, Arneil, Dorsey, Kight & Parlette, General Counsel to the District, and of Orrick, Herrington & Sutcliffe LLP, Counsel to the Underwriter.

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the 1997 Bonds from the District at a purchase price of $285,432,046.94, plus accrued interest. The Underwriter's obligations are subject to certain conditions precedent, and they will be obligated to purchase all 1997 Bonds if any such 1997 Bonds are purchased. The 1997 Bonds may be offered and sold to certain dealers at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriter. The Underwriter may offer and sell the 1997 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 1997 Bonds.

MISCELLANEOUS

The references, excerpts and summaries contained herein of the resolutions relating to the Bonds, the Resolution and the Power Sales Contract do not purport to be complete statements of the provisions of such documents and reference should be made to such documents for a full and complete statement of all matters relating to the 1997 Bonds and the rights and obligation of the owners thereof. Copies of such documents are available for inspection at the principal office of the District.

The authorizations, agreements and covenants of the District are set forth in the Original Resolution, the Senior Rock Island Resolution and the Resolution, and neither this Official Statement nor any advertisement of the 1997 Bonds is to be construed as a contract with the owners of the 1997 Bonds. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not expressly so identified, are intended merely as such and not as representations of fact.

For additional information regarding the District or the 1997 Bonds, contact the Treasurer/Managing Director of Finance, 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/ James R. Wall
President, Board of Commissioners

/s/ Roger A. Braden
Chief Executive Officer - General Manager

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE POWER SALES CONTRACT

A summary of certain provisions of the Power Sales Contract is set forth below. Reference is made to the complete text of the Power Sales Contract for all of the provisions thereof.

The Power Sales Contract superseded the power contract dated June 8, 1962, as amended (the "1962 Contract"), which contract superseded the power contract dated January 6, 1956, as amended. Pursuant to the Power Sales Contract, the District and Puget expressly agree that no provision of the Power Sales Contract constitutes an amendment to or other action in connection with the 1962 Contract which in any manner adversely affects the security of the Original Rock Island Bonds.

Term of Contract

The Power Sales Contract became effective June 27, 1974, and shall continue in full force and effect through June 7, 2012, or until all Original Rock Island Bonds are paid or provision is made for their retirement, whichever date is later. In addition, if the Rock Island System is licensed by FERC to a licensee other than the District and such licensee is not required to perform under the Power Sales Contract, the Power Sales Contract shall terminate on the date when the District ceases to operate the Rock Island System and to make output available to Puget (see discussion in text of this Official Statement entitled "Rock Island System - License Status"). Finally, the District is entitled to terminate the Power Sales Contract in the event Puget defaults in its payments or is otherwise in violation of its covenants thereunder and does not cure such default.

Availability of Power and Energy

The District agrees to use its best efforts to operate the Rock Island System in a manner consistent with good industry practice, and the District and Puget agree to cooperate on matters relating to operation, maintenance and repair of the Rock Island System so as to ensure optimum availability of usable Rock Island System output coordinated to the load requirements of the District and Puget. The District will make available to Puget power and energy from the Rock Island System, measured in terms of varying percentages of the output of the original powerhouse and the second powerhouse.

With respect to the output of the original powerhouse, the District shall make available to Puget at specified points of delivery in each year beginning July 1 varying percentage amounts of such output as specified in the Power Sales Contract. The amount to be made available to Puget for each of the years July 1, 1974 to 1982, inclusive, was 87.1% of such output, then varying declining amounts for the years beginning July 1, 1983 to 1998, inclusive, and 50% of such output beginning July 1, 1999, to the termination of the Power Sales Contract, inclusive. Currently, the District is making available to Puget 57.1% of the output of the original powerhouse. The System I output is defined substantially as the amount of electric energy and reactive power that would have been available from the Rock Island System if the second powerhouse had not been constructed.

With respect to the second powerhouse, the District shall make available to Puget at specified points of delivery in each year 100% of the available output of the second powerhouse until the year beginning July 1, 2000, when the District may begin withdrawing power (see "Withdrawal of Power by the District").

The terms "make available" or "made available", when used in this summary in regard to output, generally refer to the amount of electric energy and reactive power to which the District or Puget is entitled from the respective powerhouse under the Power Sales Contract, regardless of whether or not such energy or power is actually produced.

Payments by Puget to the District

Payments are made monthly by Puget to the District for Puget's share of the output of the Rock Island System, which payments are measured by Puget's allocable share of the costs of the original powerhouse and the second powerhouse, respectively. Puget is unconditionally obligated to pay all costs of the original powerhouse, but is entitled to partial reimbursement by the District to the extent of the original powerhouse output made available to the District. With respect to the second powerhouse, Puget is only responsible for its allocable portion of the costs of such system, including but not limited to the debt service on the Prior Rock Island Bonds and the 1997 Bonds.

Payments for Output of Original Powerhouse

With respect to System I output, Puget agrees to pay the District, in monthly installments during each year for which the output of the original powerhouse is made available to Puget, an amount equal to all of the District's costs incurred or paid in connection with the original powerhouse, whether or not the operation of the original powerhouse is interrupted, suspended or interfered with in whole or in part for any cause whatsoever during the term of the Power Sales Contract or any portion thereof.

The costs that are properly allocable to the original powerhouse include, but are not limited to, the following:

(1) operating expenses (excluding depreciation), as properly allocated between the original powerhouse and the second powerhouse;

(2) taxes, or payments in lieu thereof, including any amounts paid to any governmental agency for fire protection, as properly allocated;

(3) an amount equal to 111.675% of the amount annually required to pay principal of and interest and premiums, if any, on the Original Bonds;

(4) the amounts required, if any, for necessary renewals and replacements to System I which are in excess of the aggregate of money available in or from the Original Reserve and Contingency Fund, applicable insurance proceeds, and proceeds from the sale of additional Original Bonds which may be issued or proceeds of other financings, or both;

(5) $31,250 annually for the period ending January 5, 2004; and

(6) all other costs properly associated with the ownership, operation and maintenance of the original powerhouse, including delivery costs, as well as such additional amounts, if any, as shall be agreed upon between the District and Puget.

Payments for Output of Second Powerhouse

Puget irrevocably agrees to pay to the District, in monthly installments for the output of the second powerhouse made available to Puget in each contract year (Puget, pursuant to the Power Sales Contract, is scheduled to receive 100% of the output of the second powerhouse in each contract year until July 1, 2000, when the District may exercise its first right of withdrawal), amounts related to the second powerhouse equal to the sum of the amounts described below multiplied by Puget's percentage share of the output of the second powerhouse, whether or not the operation of the second powerhouse is interrupted, suspended or interfered with in whole or in part for any cause whatsoever during such contract year.

The costs related to the second powerhouse include, but are not limited to, the following:

(1) operating expenses, as properly allocated between the original powerhouse and the second powerhouse;

(2) taxes, or payments in lieu thereof, including any amounts paid to any governmental agency for fire protection, as properly allocated;

(3) an amount equal to 110% of Contract Debt Service on each series of Senior Rock Island Bonds and the 1997 Bonds outstanding. Contract Debt Service for any series of Senior Rock Island Bonds and the 1997 Bonds is an amount equal to the annual debt service requirements that would have been payable on such bonds during such year computed on the assumptions that: (a) an amount of principal equal to the deposits in the reserve accounts for Senior Rock Island Bonds and the 1997 Bonds, Expansion Reserve and Contingency Fund and System II Working Capital Account (as defined in the Power Sales Contract) would mature on the date of final maturity of such bonds, with such principal amount not amortized but bearing interest only prior to the date of final maturity, (b) the remaining amount of principal is assumed to be amortized on an essentially level annual debt service basis, with an amortization period as specified in the Power Sales Contract, and (c) the coupon rates used to determine Contract Debt Service shall be, as nearly as practicable, the actual coupon rates on the bonds issued. The computation of Contract Debt Service excludes debt service on Senior Rock Island Bonds and 1997 Bonds attributable to the funding of reserve accounts for Senior Rock Island and 1997 Bonds, the Expansion Reserve and Contingency Fund and the System II Working Capital Account, as the amounts in those funds likely will be available to the District upon final payment of the Senior Rock Island Bonds and 1997 Bonds. In each contract year, the payments by Puget to the District related to this requirement will not be less than the product obtained by multiplying Puget's percentage share of the output of the second powerhouse by the actual debt service for such bonds and, in such event, Puget agrees to pay the difference but will be repaid such amount by the District from other revenues of the District, including without limitation revenues from the Chelan Hydro System, but excluding revenues from the Rock Island System.

(4) the amounts required, if any, for necessary renewals and replacements to the second powerhouse which are in excess of the aggregate of money available in or from the Expansion Reserve and Contingency Fund, applicable insurance proceeds, and the proceeds from the sale of additional Future Parity Bonds or of other financings, or both; and

(5) all other costs, less credits, properly associated with the ownership, operation and maintenance of and renewals and replacements to the second powerhouse, including delivery costs, as well as such additional amounts, if any, as are mutually agreed upon between the District and Puget.

In addition to the foregoing costs, if the District advance refunds any of the Senior Rock Island Bonds and 1997 Bonds, Puget's payments beginning July 1, 2000 shall be increased by an amount designed to offset the increased amount of the Original Bonds and Bonds outstanding as shown in the computation of Contract Debt Service ("Contract Bonds") at the time of expiration of the Power Sales Contract as compared to the amount of the Senior Rock Island Bonds and 1997 Bonds that would have been outstanding at such time without advance refunding.

An amount equal to the excess, if any, over $3,000,000 in the Expansion Reserve and Contingency Fund at the end of any month, after taking into account any obligations or commitments of the District chargeable to the Expansion Reserve and Contingency Fund and which are expected to become due and payable within 90 days after the end of such month multiplied by Puget's percentage share of the output of the second powerhouse for such month shall be credited against payments to be made by Puget during the following month.

Withdrawal of Power by the District

With respect to the output of the first powerhouse, the District is currently taking for its own use, 42.9% of such output, and will have available varying increasing percentages for each year through 1998, with the share increasing to 50% of such output for each of the years beginning July 1, 1999, and thereafter to the termination date of the Power Sales Contract.

With respect to the output of the second powerhouse, the District may not withdraw for its own use any such output until the year beginning July 1, 2000. If five years' advance written notice has been given to Puget, the District may withdraw up to 10% of such output in the year beginning July 1, 2000. On similar advance notices, the District may withdraw in each succeeding year, additional amounts of output if (1) each such additional amount withdrawn is not in excess of 10% of the output of the second powerhouse withdrawn by the District in the prior year and (2) the amount withdrawn by the District, for any year, shall not exceed 50% of total output of the second powerhouse. The District has given Puget notice of its intention to commence withdrawing 5% of the second powerhouse output commencing in 2000 and intends to exercise its right to withdraw an additional 10% in each such 12-month period from 2002 through 2005 and the last 5% in 2006.

Withdrawals of output by the District from the second powerhouse must be for the purpose of furnishing the inhabitants of Chelan County, including public and private corporations, with electric current for all uses, and for supplying electric current for ultimate use in certain portions of the immediately adjacent Counties of Douglas, King, Kittitas and Okanogan.

Any portion of the output of the second powerhouse withdrawn by the District and determined to be surplus to its requirements must first be offered for sale to Puget at the same cost as Puget would have been required to pay for such output if it had not been withdrawn by the District in the first instance and, if not so purchased by Puget, may be disposed of as the District shall determine.

Payments by the District to Puget for Output of Original Powerhouse

For output made available of the first powerhouse available to the District, the District agrees to pay in monthly installments to Puget annual amounts equal to specified proportions, as set forth in the Power Sales Contract, of costs associated with the ownership, operation and maintenance of and renewals and replacements to the Rock Island System, including delivery costs. Such payments by the District represent a reimbursement to Puget for payments made by Puget with respect to the costs of the first powerhouse allocable to the District's share.

Payments by the District for Output of Second Powerhouse

For the second powerhouse, the District agrees to pay into the Revenue Fund in monthly installments annual amounts equal to the balance of all costs not required to be paid by Puget and associated with the ownership, operation and maintenance of and renewals and replacements to the second powerhouse, including delivery costs, whether or not the operation of the second powerhouse is interrupted, suspended or interfered with in whole or in part for any cause whatsoever during the term of the Power Sales Contract or any portion thereof. Unlike with the first powerhouse, with the second powerhouse Puget and the District are each obligated to pay directly their allocable shares of the cost of the second powerhouse.

Issuance of Future Bonds

In the event the cost to the District in connection with (i) any major loss or damage, (ii) major renewals of or replacements, or (iii) any major additions, improvements and betterments or modifications to the first powerhouse or the second powerhouse required by any governmental agency having jurisdiction to the first powerhouse or the second powerhouse, respectively, is in excess of monies then in the applicable reserve and contingency fund plus proceeds of insurance policies, if any, covering such loss or damage, the District is obligated, unless an alternative method of financing is mutually agreed upon, to issue and sell additional bonds to pay that portion of such costs which exceed the applicable proceeds, if any, of insurance policies, and the monies then in the applicable reserve and contingency fund, provided that the District can then legally issue such bonds and that such bonds can be marketed.

Establishment and Use of Funds

The District has agreed that it will maintain during the term of the Power Sales Contract the various funds created under the provisions of the Original Resolution and the Resolution for the benefit of all bonds issued and to be issued pursuant to both resolutions, and of the parties to the Power Sales Contract.

The Power Sales Contract contains certain provisions that in general set forth the agreement of the District to (a) cause proper books of account to be kept, such procedure to show separately the accounts of the first powerhouse and the second powerhouse, and the auditing thereof, (b) use its best efforts in operating and maintaining the Rock Island System at all times in an efficient, economical and workmanlike manner consistent with good industry practice, and (c) obtain and maintain, to the extent available at reasonable cost, with responsible insurers, insurance coverage for the benefit of the Rock Island System with policies payable to the District and Puget as their interests may appear, against various risks of loss at least to the extent that similar insurance is customarily carried by electric utilities operating like properties.

In addition, the Power Sales Contract provides that (a) the District and Puget shall cooperate on matters, relating to operation, maintenance and repair of the Rock Island System, (b) the Power Sales Contract shall be binding upon and inure to the benefit of the parties thereto, and shall not confer upon any third party any rights or benefits thereunder, (c) the District or Puget will not amend, modify or otherwise alter the contract in any manner that would adversely affect the security for all bonds of the Rock Island System, and (d) Puget will not sell, dispose of, or otherwise utilize the output from the Rock Island System so as to jeopardize the federal tax-exempt status of the interest on the bonds issued in accordance with the ruling of the Internal Revenue Service dated July 7, 1972.

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APPENDIX B

THE INFORMATION SET FORTH BELOW RELATING TO PUGET HAS BEEN OBTAINED FROM DOCUMENTS FILED BY PUGET WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC") PURSUANT TO THE INFORMATIONAL REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934 (THE "EXCHANGE ACT"). THE DISTRICT MAKES NO REPRESENTATION AS TO, NOR HAS IT ATTEMPTED TO VERIFY, THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

PUGET SOUND ENERGY, INC.

Puget Sound Energy, Inc., formerly Puget Sound Power & Light Company, a Washington corporation ("Puget"), is an investor-owned electric utility providing electric and gas services to approximately 1,100,000 customers within 11 counties, primarily in western Washington State. Puget's executive office is located in the Puget Building 411 - 108th Avenue N.E., Bellevue, Washington 98004. Its telephone number is (206) 454-6363.

On February 10, 1997, Puget Sound Energy, Inc. was formed by the merger of Washington Energy Company ("WECO") and Washington Natural Gas Company ("WNG"), a wholly owned subsidiary of WECO, into Puget Sound Power & Light Company, pursuant to the October 1995 Agreement and Plan of Merger. The merger was approved by the shareholders of both companies in March 1996. On February 5, 1997, The Washington Utilities and Transportation Commission gave final regulatory approval to the merger. The Boards of Directors of both companies gave final approval to the merger on February 7, 1997.

Available Information

Puget is subject to the informational requirements of the Exchange Act and in accordance therewith files reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information on file can be inspected and copies at the offices of the SEC at Room 1028, 450 Fifth Street, N.W., Washington, D.C. 20549; Room 204, 219 South Dearborn Street, Chicago, Illinois 60604; and 75 Park Place, New York, New York 10007. Copies of this material can also be obtained at prescribed rates from the Public Reference Section of the SEC, Washington, D.C. 20549. Certain securities of Puget are listed on the New York and American Stock Exchanges. Reports, proxy statements and other information concerning Puget can be inspected at the respective offices of these exchanges at Room 401, 20 Broad Street, New York, New York and 86 Trinity Place, New York, New York 10006.

Incorporation of Certain Documents by Reference

The following documents, filed with the SEC by Puget, are incorporated in this Official Statement:

1. Puget's Annual Report on Form 10-K for the year ended December 31, 1995.

2. Puget's Quarterly Reports on Form 10-Q for the quarters ending March 31, 1996, June 30, 1996, and September 30, 1996.

3. Puget's Current Reports on Form 8-K, filed on February 10, 1997.

All reports and definitive proxy or information statements filed subsequent to the date of this Official Statement and prior to the termination of the offering of the shares to which this Official Statement relates pursuant to Sections 13(a) and (c), 14 or 15(d) of the Exchange Act shall be deemed incorporated by reference into this Official Statement and shall be deemed a part hereof from the date of filing of such documents.

Puget will provide to each person to whom a copy of this Official Statement has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Official Statement by reference, other than exhibits to such documents. Requests for such copies should be directed to Vice President, Finance, and Treasurer, Puget Sound Energy, Inc., 411 - 108th Avenue N.E., Bellevue, Washington 98004; telephone (206) 454-6363.

APPENDIX C

CHELAN HYDRO CONSOLIDATED SYSTEM

In 1976, the District consolidated all of its electric utility operations into the Consolidated System, now called the Chelan Hydro Consolidated System, consisting of the Distribution System and the Hydro-Electric Systems. Such consolidation, however, was and continues to be subject to the terms, limitations, restrictions, covenants, liens, charges and pledges contained in the resolutions of the District which established the Rock Island System and the Rocky Reach System and provided for the issuance of bonds to finance those Systems. Upon retirement of all of the Rock Island Bonds or the Rocky Reach Bonds, such Hydro-Electric System will become consolidated into the Chelan Hydro Consolidated System. Effective June 1, 1993, the Lake Chelan System became fully consolidated into the Chelan Hydro Consolidated System. The Rock Island System and the Rocky Reach System continue to be maintained and accounted for as separate systems of the District.

The Hydro-Electric Systems produce power and energy sold in part to the District for use in the Distribution System of its Chelan Hydro Consolidated System and in part to others on a cost-of-service basis under long-term power sales contracts (each, a "Power Sales Contract" and, collectively, the "Power Sales Contracts"). Such Power Sales Contracts provide for sale of power directly to certain private utility companies and the Colockum Transmission Company, Inc. ("Colockum") (a subsidiary of the Aluminum Company of America ("Alcoa")). Under the Power Sales Contracts, the revenues of the Rock Island System and the Rocky Reach System are equal to the cost of service of such System. Such revenues are required to be used to pay the costs of operating, maintaining and providing for certain capital improvements for those Systems and are pledged to payment of the bonds issued to finance those Systems, and therefore are not available to pay or secure the Bonds. Such revenues are available to make loan payments to the Chelan Hydro Consolidated System. Bonds and the Power Sales Contracts relating to the Rock Island System and the Rocky Reach System extend well into the next century. See "Outstanding Debt" regarding the outstanding indebtedness of the Rock Island System and the Rocky Reach System, and "Chelan Hydro Consolidated System Properties" for information regarding the respective Power Sales Contracts.

In 1992, Colockum assigned and transferred to the District its right to receive power from the Rocky Reach System. Colockum and the District subsequently entered into a new industrial service contract (the "New Colockum Contract") which provides for the sale of an approximately equal amount (which will increase over time) of power to Colockum through the facilities of the District's Distribution System. However, Alcoa remains obligated for Colockum's obligation under its Power Sales Contract with respect to the Rocky Reach System.

For the twelve (12) months ended December 31, 1996, the Distribution System served an average of 36,278 customers and had energy sales of 4,557,000 MWh and operating revenues of $67,862,000. Historically, the Chelan Hydro Consolidated System has purchased substantially all of its power supply from its own Hydro-Electric Systems and relatively small amounts from the U.S. Department of Energy, Bonneville Power Administration ("Bonneville") and other entities. The Hydro-Electric Systems provide power to the Chelan Hydro Consolidated System at a comparatively low cost, enabling the District to provide electric service to its customers at rates substantially below those charged by most other utilities in the Pacific Northwest. For a description of the Hydro-Electric Systems, see "Chelan Hydro Consolidated System Properties."

In 1992, the water system and the wastewater system were consolidated into the Chelan Hydro Consolidated System. The District has retained substantial flexibility with respect to the use of the revenues of the water system and the wastewater system, including the ability to pledge such revenues to other obligations on a basis senior to that of the Bonds. The revenues of the Chelan Hydro Consolidated System are not pledged to the debt of the water system or wastewater system existing or incurred prior to the consolidation of such systems into the Chelan Hydro Consolidated System. For the twelve (12) months ended December 31, 1996, the water system serviced 3,658 customers and the wastewater system serviced 271 customers. As of December 31, 1996, the District's gross investment in utility plant of the water system was $14,747,000 with a net investment of $10,042,000 and the water system's outstanding long-term debt was $2,086,000 and intersystem loans payable of $3,018,000. As of December 31, 1996, the District's gross investment in utility plant of the wastewater system was $9,543,000 with a net investment of $8,227,000, and the wastewater system's outstanding long-term debt was $2,710,000, and intersystem loans payable was $1,729,000. It is the current policy of the District to pay operating expenses and debts of the water system and wastewater system from the respective revenues of such systems. The District is presently reviewing its water system and wastewater system revenue requirements. Most of the debt of the water and wastewater systems is secured by liens on the property benefited by such system.

Chelan Hydro Consolidated System Properties

Distribution System

The Distribution System of the Chelan Hydro Consolidated System serves at retail the entire territory within Chelan County except the City of Cashmere which purchases its power and energy requirements from the District at wholesale.

As of December 31, 1996, the Distribution System included 31 substations with a total capacity of 924,000 kVA, 870 miles of overhead and 375 miles of underground distribution lines and other buildings, equipment, stores and related facilities. As of December 31, 1996, the District's gross utility plant of the Distribution System, including construction work in progress was $155,433,000 with net utility plant of $110,524,000.

Hydro-Electric Systems

General. The District's electric utility currently includes the Distribution System, and the Hydro-Electric Systems of the Chelan Hydro Consolidated System. As of December 31, 1996, the District's combined gross utility plant at its Hydro-Electric Systems, including construction work in progress, was $795,835,000, with net utility plant of $658,802,000. The Hydro-Electric Systems are currently accounted for separately. The revenues derived by the District from the ownership and operation of the Rock Island System and Rocky Reach System are pledged to pay the operating, maintenance and certain capital costs of that Hydro-Electric System and to pay the principal of and interest on bonds issued to finance that Hydro-Electric System.

The Rocky Reach System. Pursuant to Resolution No. 1412, adopted by the District on November 20, 1956, as amended and supplemented (the "Rocky Reach Resolution"), the District established the Rocky Reach System. The Rocky Reach System consists of the Rocky Reach Hydro-Electric Generating Plant, which was placed in commercial operation in 1961, located on the Columbia River about seven miles upstream from Wenatchee, Washington, together with associated substation and transmission facilities to connect the output of the generating plant to the other facilities of the District and to the transmission grid of the Pacific Northwest. A dam with an effective head of approximately 89 feet provides water to 11 turbine generators with a maximum net capability of 1,287,000 kW. Net energy delivered from the generating plant averaged 5,988,000 MWh annually during the three years from 1994 through 1996. For the twelve (12) months ended December 31, 1996 the generating plant delivered 7,297,000 MWh for which the average sales price was 0.6 cents per kWh. As of December 31, 1996, the District's gross utility plant, including construction work in progress, for its Rocky Reach System was $337,652,000, with net utility plant of $282,131,000. As of December 31, 1996, the District's outstanding long-term debt payable of the Rocky Reach System was $115,747,000, and intersystem loans payable of $81,558,000. See "Outstanding Debt."

The District operates the Rocky Reach Hydro-Electric Generating Plant under a long term license from the Federal Energy Regulatory Commission ("FERC"). The term of the license extends to July 2006. The District has agreed under its Power Sales Contracts with respect to the Rocky Reach System to make timely application for a new license. See "The Chelan Hydro Consolidated System - Chelan Hydro Consolidated System Energy Resources - The Rocky Reach System" for information regarding the sale of the output of the Rocky Reach System.

The Rock Island System. Pursuant to Resolution No. 1137, adopted by the District on December 20, 1955, as supplemented and amended (collectively, the "Original Resolution"), the District established the Rock Island System. The Rock Island System consists of the Rock Island Hydro-Electric Generating Plant located on the Columbia River approximately 12 miles downstream from Wenatchee, Washington, together with associated substation and transmission facilities to connect the generating plant to the other facilities of the District and Puget Sound Energy, Inc., formerly Puget Sound Power & Light Company ("Puget"), and to the transmission grid of the Pacific Northwest. The dam has an effective head of approximately 39 feet and provides water to 18 generating units with a maximum net capability of approximately 660,000 kW. The generating units are housed in two powerhouses.

Of the ten units in the first powerhouse, four 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 were originally constructed by Puget which later sold the dam and generating units to the District. The remaining units were constructed by the District. Net energy delivered from the generating plant averaged 3,129,000 MWh annually during the three years from 1994 through 1996. For the twelve (12) months ended December 31, 1996, the generating plant delivered 3,685,000 MWh for which the average sales price was 1.3 cents per kWh. As of December 31, 1996, the District's gross utility plant for its Rock Island System, including construction work in progress, was $422,748,000 with net utility plant of $353,076,000. As of December 31, 1996, the District's outstanding long-term debt payable from the revenues of the Rock Island System was $335,120,000 and intersystem loans payable of $66,561,000. See "Outstanding Debt."

A new long-term license for the Rock Island Hydro-Electric Generating Plant expiring January 1, 2029 was issued by FERC on January 18, 1989. See "Chelan Hydro Consolidated System Energy Resources - The Rock Island System" for information regarding the sale of output from the Rock Island System.

Lake Chelan System. The Lake Chelan System consists of the Lake Chelan Hydro-Electric Generating Plant, which was placed in commercial operation in the 1930s, located at the east end of Lake Chelan in Chelan County, Washington, approximately 38 miles from the City of Wenatchee, Washington, together with associated substation and transmission facilities to connect the generating plant with other facilities of the District and The Washington Water Power Company ("WWP"). A dam approximately 40 feet high and 490 feet long allows the regulation of Lake Chelan between elevations of 1,079 feet and 1,100 feet, thereby providing usable storage of approximately 676,000 acre-feet of water. A tunnel approximately two miles in length leads to the powerhouse which contains two generating units with a maximum net capability totaling approximately 56,000 kW. Net energy delivered from the generating plant averaged approximately 412,000 MWh annually during the three years from 1994 through 1996. For the twelve (12) months ended December 31, 1996, the generating plant delivered 467,000 MWh, for which the average sales price was 0.6 cents per kWh. As of December 31, 1996, the District's gross utility plant, including construction work in progress, for its Lake Chelan System was $35,434,000, with net utility plant of $23,595,000. See "Outstanding Debt."

The District owns and operates the Lake Chelan Generating Plant under a long-term license from FERC. This license expires March 31, 2004. See "Chelan Hydro Consolidated System Energy Resources - The Lake Chelan System" for information regarding the sale of the output of the Lake Chelan System.

Water and Wastewater Systems

The water and wastewater systems were consolidated into the Chelan Hydro Consolidated System in 1992. However, the District has preserved substantial flexibility regarding the use of the revenues of such systems.

FERC License Status; Relicensing

The District has covenanted to use its best efforts to secure new licenses when the current FERC licenses for the Hydro-Electric Systems 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 nonpower license to the District or a different licensee (if FERC could find that the project should no longer be used for power purposes). The Federal Power Act requires FERC, upon expiration of a license, to issue annual licenses to the District until such time as a new license or nonpower 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. Neither the District nor its FERC counsel is aware of any instance in which a new license has been issued to a competing applicant rather than the licensee in a relicensing proceeding. If FERC were to issue a new license or nonpower license to a different licensee, under current law the new license would be issued on condition that the new licensee pay to the District compensation at least equal to the District's net investment in the project (not to exceed fair market value) plus severance damages. The District believes that it would be entitled to receive fair market value as compensation for the projects. The District cannot predict with certainty what "fair market value" of its hydro-electric systems would be upon expiration of the respective licenses.

FERC Project Decommissioning Authority

On December 14, 1994, FERC issued a Policy Statement on Project Decommissioning at Relicensing. After examining the legislative history and the relevant statutory provisions, as well as comments filed by the District and other interested persons in response to FERC's Notice of Inquiry, FERC concluded that it has the legal authority to deny a new license at the time of relicensing if it determines that no license can be fashioned that will comport with the statutory standard under the Federal Power Act and other applicable law. FERC also concluded that when an application for a new license is denied, the project must be decommissioned, and that it has the power to take steps necessary to assure that the public interest is suitably protected, including requiring removal of the project dam. Although FERC declined to impose decommissioning funding requirements on its licensees, FERC stated that it would normally expect the licensee to be responsible for paying the reasonable costs of the steps needed to decommission a project.

On February 9, 1995, FERC issued an order dismissing requests for rehearing and denying requests for reconsideration of the foregoing policy statement. FERC stated that the foregoing policy statement provides notices of FERC's general views and intentions with respect to a broad range of potential issues that may come before it in future cases. However, FERC dismissed the requests for rehearing on the ground that the policy statement does not apply those views to any particular case and does not impose an obligation, deny a right, or fix some legal relationship as a consummation of the administrative process.

The District believes that FERC lacks the authority under current law to require project decommissioning as an alternative to relicensing, including the power to require a licensee to remove project works or to pay for such removal. Rather, the District believes that if FERC determines that it is not in the public interest for a project to continue to be used for power purposes, FERC's authority is limited to issuing a nonpower license for the project or to recommending federal takeover of the project (if it is not then owned by a municipality). However, the District cannot predict whether project decommissioning will become an issue in any of the relicensing proceedings for its projects or what the ultimate outcome of such proceedings would be if such issues were joined.

Fish Related Proceedings

There is currently a proceeding pending before FERC with respect to the Rocky Reach System for the purpose of determining what, if any, changes in operations or facilities should be made to minimize damages to migrating fish.

Section 22 Proceedings

Section 22 of the Federal Power Act provides that whenever the public interest justifies the execution by a licensee of contracts for the sale and delivery of power for periods extending beyond the date of termination of the license, such contracts may be entered into upon the joint approval of FERC and (to the extent applicable) the public service commission or other similar authority in the State in which the sale or delivery of power is made.

Thereafter, in the event FERC does not issue a new license to the original licensee at the termination of the license, the new licensee is obligated to assume and fulfill all such contracts.

On September 14, 1995, in response to a complaint filed by a group of Idaho cooperatives, FERC held that Section 22 of the Federal Power Act required that Public Utility District No. 2 of Grant County, Washington ("Grant PUD") obtain FERC approval of the four-year period that the power purchase contracts for the Wanapum Development extend beyond the term of the license for the Priest Rapids Project. On October 16, 1995, Grant PUD filed an application for FERC approval of the Wanapum contracts, which was granted by order issued May 20, 1996. In granting such approval, FERC held that the appropriate standard is whether, at the time they were signed, these contracts permitted project financing in the public interest. In addition, FERC stated that Grant PUD's failure to seek approval in 1959, when the contracts were executed, did not justify denial of the final four years of the contracts. On June 26, 1996, FERC denied the requests for rehearing which were filed by the Idaho cooperatives.

On August 5, 1996, Public Utility District No. 1 of Douglas County, Washington ("Douglas PUD") filed an application for FERC approval of the final six years of its Wells Project power sales contracts pursuant to Section 22 of the Federal Power Act.

The termination date of the Rocky Reach Power Sales Contracts is November, 2011, which is five years and four months after the expiration of the current license for the Rocky Reach System. Based upon the FERC decision in the Grant PUD proceeding, the District is required to obtain FERC approval under Section 22 for the final five years and four months of the Rocky Reach Power Sales Contracts. The District believes that it will be able to satisfy the standard established by FERC in the Grant PUD proceeding and obtain such approval. The District has filed an application for approval and expects a favorable decision from FERC shortly.

Electric Rates

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

The District has maintained rates for electric service which have been sufficient to provide for all operating and maintenance costs and expenses, debt service, repairs, replacements and renewals and to provide for a major portion of the capital additions to the Chelan Hydro 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 five-year 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 accept 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 of Washington statutes, has the full and exclusive authority to regulate and control rates and charges free from the jurisdiction and control of the State of Washington Utilities and Transportation Commission. The District is, however, subject to certain ratemaking provisions of the federal Public Utility Regulatory Policies Act of 1978 ("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 Federal Power Act from any regulation by FERC of its rates, and neither FERC nor its predecessor agency has ever attempted to assert such regulatory authority over the District. Although the exemption for entities such as the District is generally accepted, it has occasionally been questioned, and there has not been a definitive ruling on the subject. Given the way FERC and the District set rates, the District does not believe that there would have to be any significant change in its rates even if such rates were subject to FERC regulation.

The District's third general rate increase in as many years was implemented April 1, 1995, at an average of 13.8%. Rates were raised an average of 8.9% in 1994, and 9.5% in 1993. The rate increases recently experienced by the District's Distribution System are primarily the result of rising power costs due to drought and greater volatility in hydro generation due to changing river conditions. Even with these increases, the average residential rate is 2.8 cents per kWh, and is among the lowest in the country. The District's long-term financial forecasting model estimates no increase will be required in 1997 or 1998, and 3% per year in 1999 through 2001. See "Management Discussion of the Chelan Hydro Consolidated System Financial Results - Competitive Strategies."

Largest Customers

The largest customers of the Hydro-Electric Systems are the power purchasers of the Hydro-Electric Systems (collectively, the "Power Purchasers"). For the twelve (12) months ended December 31, 1996, the Power Purchasers collectively purchased approximately 65% of the output of the Hydro-Electric Systems.

The five largest retail customers of the Distribution System in terms of MWh sales, for the twelve (12) months ended December 31, 1996 are shown below. Alcoa (acting through Colockum), the Distribution System's largest customer, accounted for 39.2% of kWh sales and 27.1% of the revenues of the Distribution System from the sale of energy.

Table 1
Chelan Hydro Consolidated System
Distribution System
Five Largest Customers (1)
1996

Customer	Business	Energy Sales (000) MWh	Revenue ($000)	Percent of Total Revenue From Energy Sales
Colockum Transmission Co., Inc. (2)	Aluminum Mfg.	1,785	$18,085	27.1%
Douglas County PUD	Electric Utility	218	1,271	1.9%
City of Cashmere	Electric Utility	61	802	1.2%
Chinet Co.	Paper Products	13	617	0.9%
Stemilt Growers, Inc.	Agriculture	22	400	0.6%
Total		2,099	$21,175	31.7%

(1) Excludes non-firm sales for resale.

(2) In July 1993, the Distribution System and Colockum entered into a long-term contract which assigned Colockum's 23% share of the Rocky Reach System to the Distribution System. In return, the Distribution System will provide 23% of the Rocky Reach System output to Colockum at cost and procure any additional power needed or sell any surplus power to Colockum at contractual rates, which approximate market.

Energy Sales

The District regularly prepares projections of customers and energy sales for its Distribution System, Hydro-Electric Systems, and other operating entities for the current year and a five year forecast using an end-use financial model. The projections for residential sales are based in part on customer surveys, correlation studies, and five year historical data through the financial model. Population projections for Chelan County are derived from analysis of State of Washington data. The commercial and industrial users' loads are projected from a historical base with modifications to reflect anticipated load changes. The remaining user classes have shown a stable growth pattern which the District has assumed will continue.

Table 2, based on the District's load projection prepared in August, 1996, shows the District's actual and projected customers and energy sales of its Distribution System. Because approximately 86% 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 substantially affected by the weather. Projections of energy sales in the future assume average weather. To the extent that actual weather differs from average, actual District energy sales will reflect this difference.

Table 2
Distribution System
Customers, Energy Sales and Revenues

	Actual					Projected				
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Customers (Average)(2)										
Retail:										
Residential	25,214	25,829	26,557	28,166	28,610	30,298	30,945	31,606	32,282	32,844
General Service	4,066	4,119	4,176	4,356	4,416	5,482	5,599	5,718	5,841	5,942
Industrial	27	26	23	20	21	33	33	33	33	33
Interdepartmental	114	152	288	314	319	140	144	148	152	156
Other (1)	1,398	1,437	1,451	2,890	2,873	2,857	2,873	2,889	2,905	2,921
	30,819	31,563	32,495	35,746	36,239	38,810	39,594	40,394	41,213	41,896
Resale:	6	7	7	25	39	25	25	25	25	25
	30,825	31,570	32,502	35,771	36,278	38,835	39,619	40,419	41,238	41,921
Energy Sales (000 MWh)										
Retail:										
Residential	489	582	549	577	612	619	634	650	665	678
General Service	337	371	376	389	450	403	414	423	433	442
Industrial	268	250	274	251	184	292	299	306	313	320
Interdepartmental	18	22	23	23	24	25	25	26	27	27
Other (1)	46	39	48	42	45	44	44	44	44	45
	1,158	1,264	1,270	1,282	1,315	1,383	1,416	1,449	1,482	1,512
Resale:										
Colockum	176	805	1,517	1,715	1,785	1,993	1,717	1,711	1,733	1,776
Douglas Co. PUD	157	142	143	166	218	200	157	155	155	155
City of Cashmere	51	58	55	58	61	59	60	61	62	63
Other-Nonfirm	113	108	183	359	1,179	638	255	226	217	203
	497	1,113	1,898	2,298	3,243	2,890	2,189	2,153	2,167	2,197
	1,655	2,377	3,168	3,580	4,558	4,273	3,605	3,602	3,649	3,709
Revenue ($000)										
Retail:										
Residential	$ 9,415	$11,535	$12,236	$14,855	$16,878	$16,653	$17,060	$17,869	$18,828	$19,792
General Service	7,594	8,743	9,534	11,039	12,825	11,743	12,031	12,597	13,271	13,952
Industrial	3,866	3,898	4,496	4,544	3,456	5,170	5,289	5,536	5,833	6,138
Interdepartmental	91	172	406	561	621	194	200	209	221	231
Other (1)	1,235	1,161	1,493	1,554	1,688	2,216	2,216	2,272	2,389	2,471
	$22,201	$25,509	$28,165	$32,553	35,468	$35,976	$36,796	$38,483	$40,542	$42,584
Resale:										
Colockum	$1,709	$6,390	$13,982	$14,922	$18,085	$16,162	$19,404	$20,766	$23,024	$25,571
Douglas Co. PUD	928	984	1,054	1,108	1,271	1,253	1,445	1,546	1,727	1,895
City of Cashmere	513	588	607	719	802	691	704	735	770	805
Other - Nonfirm	2,025	1,951	3,385	3,154	11,229	12,815	7,107	7,008	7,105	7,204
	$5,175	$9,913	$19,028	$19,903	31,387	$30,921	$28,660	$30,055	$32,626	$35,475
	$27,376	$35,422	$47,193	$52,456	66,855	$66,897	$65,456	$68,538	$73,168	$78,059

(1) Includes irrigation, frost protection and street/yard lighting.
(2) Customer averages based on active accounts starting in 1995.

Beginning in 1993, energy sales to Colockum under the New Colockum Contract representing energy from the Rocky Reach System are included above under "Resale." Such sales are made to Colockum on substantially the same terms as under Colockum's previous Power Sales Contract for the Rocky Reach System. That is, energy from the Rocky Reach System is sold to Colockum based on a pro-rata portion of the costs of generation, rather than pursuant to the District's general rate schedules. Additional energy sales to Colockum under the New Colockum Contract are included above under "Resale" and, pursuant to the New Colockum Contract, are made at a price equal to the District's then average industrial rate. Sales to Colockum pursuant to the New Colockum Contract represented approximately 43% of total Resale sales in 1996.

Chelan Hydro Consolidated System Energy Resources

General

The District's major sources of power supply are the Hydro-Electric Systems. For the twelve (12) months ended December 31, 1996, the Hydro-Electric Systems provided approximately 83% of the Distribution System's energy requirements. The District purchases the balance of its energy from other sources, including Bonneville and the spot market.

The District also owns and operates a small hydro-electric plant and diesel plant to serve an isolated portion of its system at the west end of Lake Chelan.

Table 3 below presents the District's Distribution System's actual and projected energy resources for the years 1992 through 2001. In addition, Table 3 presents actual and projected purchased power costs of the Hydro-Electric Systems for the years 1992 through 2001.

Table 3
Chelan Hydro Consolidated System
Distribution System
Energy Requirements, Resources, and Power Costs

	Actual					*Projected(1)*				
	1992	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*
Requirements (000 MWh):										
Total Sales (2)	1,655	2,377	3,168	3,580	4,558	4,273	3,605	3,602	3,649	3,709
Timing Differences (3)	139	(138)	(190)	(169)	(5)	34	34	36	36	37
	1,794	2,239	2,978	3,411	4,553	4,307	3,640	3,638	3,685	3,746
Resources (000 MWh)										
Rocky Reach System	995	1,370	2,015	2,167	2,679	2,953	2,328	2,296	2,296	2,296
Rock Island System	569	589	668	722	714	713	723	723	775	827
Lake Chelan System	168	168	161	304	460	463	424	424	424	424
Other (4)	62	112	134	218	700	178	165	195	190	199
	1,794	2,239	2,978	3,411	4,553	4,307	3,640	3,638	3,685	3,746
Purchase Power Costs ($000)										
Rocky Reach System	$5,910	$10,334	$15,585	$16,354	$18,497	$18,502	$21,331	$22,831	$25,502	$27,987
Rock Island System (5)	1,703	2,302	3,835	4,774	6,189	7,011	8,030	9,140	10,795	11,906
Lake Chelan System	1,251	1,398	957	2,851	2,976	4,009	4,581	4,714	5,347	5,564
Other (4)	884	3,820	4,001	2,726	8,340	5,165	4,786	5,976	6,208	6,994
	$9,748	$17,854	$24,378	$26,705	$36,002	$34,687	$38,728	$42,661	$47,852	$52,451
Average Cost in Mills/kWh	5	8	8	8	8	8	11	12	13	14

(1) Projections for 1997 power costs are based on above normal water conditions. Projections for 1998 forward are based on normal water conditions. Water forecasts are based on anticipated seasonal flow changes due to 1995 Biological Opinion. See "Agreements and Proceedings Affecting Power Generation - Endangered Species" in the Official Statement.
(2) See Table 2.
(3) Includes timing differences between actual calendar year energy requirements and bi-monthly billing cycles.
(4) Non-firm purchases.
(5) In accordance with a contract dated 1974 between the District and Puget which provides for increases in the District's payments for the output of the Original System from 36.5% (July 1, 1996 - June 30, 1997) to 50.0% by July 1, 1999.

The Rocky Reach System

The energy available to the District from its ownership and operation of the Rocky Reach System is governed by the Power Sales Contracts between the District and various power purchasers. A major portion (59.1%) of the power output of the Rocky Reach System is sold to four investor owned utility companies (collectively, the "Rocky Reach Power Purchasers") on a take-or-pay and cost-of-service basis, with the balance (40.9%) taken by the District. Each party pays its percentage share of the total annual cost of the Rocky Reach System. The four power purchasers and their current respective shares of the output of the Rocky Reach System are Puget (38.9%), Portland General Electric Company (12%), PacifiCorp (5.3%) and WWP (2.9%). The Power Sales Contracts with the Rocky Reach Power Purchasers extend to November, 2011, or until final payment of the Series of 1957 Bonds, whichever is later. The final stated maturity date of the 1957 Bonds is 2013. Retirement of the 1957 Bonds is ahead of schedule and, as presently scheduled, final retirement of these bonds will occur prior to November 2011. The Rocky Reach System output purchased by the District constituted approximately 58% of the Chelan Hydro Consolidated Systems' Distribution System's total energy requirements for the twelve (12) months ended December 31, 1996.

In 1992, Colockum assigned and transferred to the District Colockum's right to receive 23% of the power from the Rocky Reach System. The District and Colockum subsequently entered into the New Colockum Contract providing for the sale of an approximately equal amount of power to Colockum through the facilities of the Distribution System. However, Alcoa remains liable for Colockum's obligations under its Power Sales Contract with respect to the Rocky Reach System.

Pursuant to a long-term power sales contract between the District and Douglas PUD, the District agrees to make available to Douglas PUD, from the District's share of Rocky Reach System energy, an amount of energy equal to 2.77% of the output of the Rocky Reach System, upon payment by Douglas PUD of an amount equal to the District's cost of making such energy available from the Rocky Reach System. This contract provides that Douglas PUD has the right to take an additional 2.77% under the same terms beginning November 1, 2011.

The Rock Island System

The energy available to the District from its ownership and operation of the Rock Island System is governed by a Power Sales Contract between the District and Puget. The contract with Puget extends to the later of June, 2012, or until the Rock Island Issue of 1955, First and Second Series Bonds are paid or provision is made for their retirement. These bonds have a final stated maturity of 2012, but retirement is currently ahead of schedule.

Currently, the District is not entitled to take any of the output attributable to the additional eight generating units in the second powerhouse. In each 12 month period beginning July 1, 2000 the District, upon five year's prior notice, has the right to withdraw up to an additional 10% of the second powerhouse output, up to a maximum of 50%. The District has given Puget notice of its intention to commence withdrawing 5% of the second powerhouse output commencing in 2000 and intends to withdraw an additional 10% in each such 12 month period from 2002 through 2005 and the last 5% in 2006. During its term, the Power Sales Contract requires the District to pay, as consideration for its share of the second powerhouse output, its share of the annual costs of the Rock Island System. See Appendix B - "Puget Sound Energy, Inc." and Appendix A - "Summary of Certain Provisions of the Power Sales Contract." See "Security for the 1997 Bonds - Obligation of the District," and "Rock Island System - Disposition of Output."

The Lake Chelan System

The Lake Chelan System became fully consolidated into the Chelan Hydro Consolidated System on June 1, 1993. The entire output of the Lake Chelan System had been sold on a take-or-pay and cost-of-service basis to WWP under a 40-year Power Sales Contract which expired June 21, 1995. The District does not anticipate selling the output of the Lake Chelan System through future long-term power sales contracts. The Lake Chelan System output constituted approximately 10% of the Chelan Hydro Consolidated System's Distribution System's total energy requirements for the twelve (12) months ended December 31, 1996.

Columbia Storage Power Exchange

The District is one of 41 public and private utilities which, with Bonneville, entered into exchange agreements with Columbia Storage Power Exchange ("CSPE") a non-profit corporation organized under the laws of the State of Washington for the purpose of purchasing and marketing Canada's share of the downstream power benefits ("Canadian Entitlement") resulting from the development of certain water storage projects in Canada pursuant to a treaty entered into in 1961 between the United States and Canada (the "Canadian Treaty"). The CSPE exchange agreement provides for the transfer and assignment of 1.0% of the Canadian Entitlement to the District and the transfer and assignment thereof, in turn, by the District to Bonneville. In return, the District is entitled to, and is receiving, specified amounts of power and energy from Bonneville. This energy is currently available to the Chelan Hydro Consolidated System at cost.

The Canadian Treaty, signed in 1961, required three storage dams to be constructed on the Columbia River system in Canada (Duncan, Keenleyside, and Mica Dams), and allowed for one additional dam in the United States (Libby Dam). The dams helped control floods in both countries, and the regulated stream flow provided by the three Canadian Treaty reservoirs in Canada enables dams downstream in the United States to produce additional power (the "downstream power benefits"). Under the Canadian Treaty, Canada and the United States share the downstream power benefits equally.

In subsequent agreements based on the Canadian Treaty, Canada sold its half of the downstream power benefits of each of the Canadian Treaty dams to CSPE for 30-year periods. The 30-year sale begins to expire in 1998 and will completely expire in 2003, at which time the Canadian Entitlement -- Canada's share of the downstream power benefits -- must be delivered to Canada. The Canadian Entitlement is currently estimated to be approximately 1,400 megawatts capacity and 550 average megawatts energy. The Canadian Treaty specifies that the Canadian Entitlement must be delivered to Canada at a point on the border near Oliver, British Columbia, unless other arrangements are agreed to. An interim agreement, signed in 1992, allows the Entitlement to be delivered over existing transmission facilities between 1998 and 2003, unless terminated by either party on seven years' notice.

Pursuant to the Canadian Treaty, Bonneville and the U.S. Army Corps of Engineers were designated as the "U.S. Entity," which is responsible for representing U.S. interests pursuant to the Canadian Treaty. British Columbia Hydro and Power Authority, a Crown corporation, is the "Canadian Entity."

The Rocky Reach and Rock Island Systems benefit from the Canadian storage dams by virtue of their location downstream. As operator of these Systems, the District is required under contracts with the U.S. government to participate in the return of downstream power benefits to Canada.

Under the existing CSPE arrangement, the capacity thus made available to the Chelan Hydro Consolidated System decreases from a maximum of 7,550 kW in the year beginning April 1, 1993 to 1,670 kW in the last year, which begins April 1, 2002. The District pays directly to CSPE amounts equal to its participant's percentage of the costs incurred by CSPE in purchasing the Canadian Entitlement. The energy received by the District in respect of its CSPE exchange agreement constituted less than 1% of the Chelan Hydro Consolidated System's Distribution System's total energy requirements for the twelve (12) months ended December 31, 1996.

Other

The District also purchases small amounts of power from Bonneville and other sources.

Financial Results

General

Table 4 below presents the actual and projected statement of revenues and expenses of the Distribution System for the years 1992 through 2001. Appendix D of this Official Statement contains the audited financial statements for the District for the year ended December 31, 1995 and Appendix E contains the unaudited financial statements for the year ended December 31, 1996. The District's financial statements have been prepared in conformity with generally accepted accounting principles applicable to governmental entities applied on a consistent basis.

Table 4
Distribution System
Statement of Revenues and Expenses
($000)

	Actual					*Projected*				
	1992	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*
Operating Revenues [1]										
Retail	$22,201	$25,509	$28,165	$32,553	$35,468	$35,976	$36,796	$38,483	$40,542	$42,584
Resale [2]	5,175	9,913	19,028	19,903	31,387	30,921	28,660	30,055	32,626	35,475
Other	1,130	1,227	1,886	699	1,007	600	621	643	666	691
	$28,506	$36,649	$49,079	$ 53,155	$ 67,862	$ 67,497	$ 66,077	$ 69,181	$ 73,834	$ 78,750
Operating Expenses [3]	$26,149	$ 35,842	$ 43,334	$ 45,232	$ 55,479	$ 54,504	$ 59,288	$ 64,014	$ 70,122	$ 75,742
Net Operating Revenues	$ 2,357	$ 807	$ 5,745	$ 7,923	$ 12,383	$ 12,993	$ 6,789	$ 5,167	$ 3,712	$ 3,008
Other (Expense) Income	$(1,675)	$(1,939)	$(1,898)	$ (854)	$ (222)	$ (313)	$ 257	$ 709	$ 1,093	$ 1,517
Net Revenues [4]	$ 682	$(1,132)	$ 3,847	$ 7,069	$ 12,161	$ 12,680	$ 7,046	$ 5,876	$ 4,805	$ 4,525

(1) Includes general rate increase of 0% in 1996, 1997 and 1998 and 3% for each subsequent year.
(2) Includes sales to Colockum on 20MW Interruptible Contract and the New Colockum Contract.
(3) Projections based on trended historical increases adjusted for projected inflation for costs other than purchased power and taxes. Projections for 1997 power costs assume above normal water conditions. Projections for 1998 forward are based on normal water conditions. Water forecasts are based on anticipated seasonal flow changes due to 1995 Biological Opinion. See "Agreements and Proceedings Affecting Power Generation - Endangered Species" in the Official Statement..
(4) Prior to extraordinary items and changes in accounting principles.

Table 5 below presents the Distribution System debt service coverage for the years 1992 through 2001, using the methodology set forth in the Master Resolution.

Table 5
Distribution System
Debt Service Coverage[1]
($000)

	Actual					*Projected*				
	1992	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*
Net Revenues	$682	$(1,132)	$ 3,847	$7,069	$12,161	$12,680	$7,046	$5,876	$4,805	$4,525
Add back:										
Depreciation	3,725	3,869	4,050	4,118	4,235	4,443	4,529	4,546	4,619	4,757
Interest expense [6]	3,324	2,894	3,010	3,002	3,108	2,015	1,926	1,885	1,817	1,692
Amortization of deferred debt costs	94	142	154	172	211	218	246	278	313	353
Net Funds from Operations	7,825	5,773	11,061	14,361	19,715	19,356	13,747	12,585	11,554	11,327
Net Funds from Other Systems [2]	943	2,387	2,760	2,936	2,412	1,491	1,591	1,692	1,795	1,897
Other Available Funds [3] [6]	7,898	6,323	11,287	16,497	17,039	26,473	29,988	33,728	33,141	34,378
Net Receipts	$16,666	$14,483	$25,108	$33,794	$39,166	$47,320	$45,326	$48,005	$46,490	$47,602
Bonds Outstanding [4] [7]	$52,061	$83,486	$81,751	$69,065	$65,017	$61,707	$58,436	$55,116	$53,051	$50,129
Computed Debt Service [5] [7]	$ 5,780	$ 8,087	$ 8,270	$ 7,725	$ 7,639	$ 7,420	$ 7,275	$ 5,869	$ 5,816	$4,418
Debt Service Coverages										
With Other Available Funds	288%	179%	304%	437%	513%	638%	623%	818%	799%	1077%
Without Other Available Funds	152%	101%	167%	224%	290%	281%	211%	243%	230%	299%

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(1) Test for additional Distribution System Bonds using methodology defined in Master Resolution.
(2) Net Receipts from Internal Service, Water, Wastewater, and Consolidated Systems.
(3) See definition under "Other District Funds - Other Available Funds."
(4) Distribution System Bonds represent Chelan Hydro Consolidated System Bonds, the proceeds of which are loaned, and are to be repaid by, all systems which are not Hydro Systems.
(5) Computed debt service calculation uses actual interest rates and serial payments. Bullet bonds are calculated using level debt service.
(6) Assumes excess reserves of $10.0 million in 1996 and $6 million in 1997 will be used to retire Distribution System Bonds.
(7) No reduction for assumed debt retirement in footnote (6) has been recognized for purpose of coverage calculation.

The District may incur additional parity debt for the purpose of loaning the proceeds to its Hydro-Electric Systems. The District is required to have signed agreements with its respective Power Purchasers which insure that interest and principal on the Bonds shall be paid when the same shall come due. Such agreements shall be secured prior to loaning any related Bond proceeds to the Hydro-Electric Systems.

The loan agreements require a 15% cover charge on the interest costs coming due in any fiscal period. The cover charge shall remain in the Chelan Hydro Consolidated System as long as the related Bonds are Outstanding. In addition, the loan payments shall include a replacement payment calculated to equal the amounts which would be required to amortize the total principal amount of such loans over the estimated weighted average useful life of the repairs, replacements, additions, and improvements financed from the proceeds of the loan.

The District has covenanted under the Resolution to pay from Revenues and other available funds its share, including any amounts not provided by a Power Purchaser, of a Hydro-Electric System loan.

Table 6 below presents the power cost and power delivered for the Hydro-Electric Systems for the years 1992-2001.

Table 6
Hydro-Electric System
Power Cost & Net Power Delivered
($000)

	Actual					Projected				
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Rocky Reach System										
Operating Expenses (1)	$14,368	$14,723	$18,902	$19,028	$23,953	$24,167	$26,965	$30,850	$35,736	$41,896
Debt Service										
Hydro Issues	17,388	17,266	17,421	16,342	15,373	13,538	13,523	13,505	13,487	13,472
Consolidated System Loans										
Existing	2,563	2,680	2,939	7,076	7,079	7,698	7,986	8,156	8,270	8,385
Future	-	-	-	-	-	-	3,670	3,670	5,242	5,242
Other (revenues) expenses(6)	(1,304)	(76)	(1,157)	(2,404)	(2,504)	(155)	9	(358)	(383)	(568)
Total Power Cost	$33,015	$34,593	$38,105	$40,042	$43,901	$ 45,239	$ 52,153	$ 55,823	$ 62,352	$ 68,427
Net Power Delivered (000 MWh)(2)	5,467	4,817	4,957	5,710	7,297	7,221	5,692	5,613	5,613	5,613
Cost in Mills/kWh (3)	6	7	8	7	6	6	9	10	11	12
Plant Factor(4)	48%	43%	44%	51%	65%	64%	50%	50%	50%	50%
Average River Flow (000 CFS)(5)	97	88	92	106	153	136	107	106	106	106
Rock Island System										
Operating Expenses (1)	$14,103	$14,905	$18,521	$18,247	$20,621	$20,219	$21,056	$22,061	$23,132	$24,269
Debt Service										
Hydro Issues	26,530	26,211	26,395	25,504	23,729	23,335	23,324	23,320	23,311	23,303
Consolidated System Loans										
Existing	4,104	4,212	4,366	5,687	6,172	6,634	6,707	6,789	6,870	6,966
Future	-	-	-	-	-	-	112	112	345	345
Other (revenues) expenses(6)	(3,220)	(2,325)	(2,097)	(2,862)	(3,622)	(2,665)	(2,789)	(3,048)	(3,262)	(3,485)
Total Power Cost	$41,517	$43,003	$47,185	$46,576	$46,900	$47,523	$48,410	$49,234	$50,396	$ 51,398
Net Power Delivered (000 MWh)(2)	2,853	2,553	2,695	3,110	3,685	3,541	3,029	2,998	2,998	2,998
Cost in Mills/kWh (3)	15	17	18	15	13	13	16	16	17	17
Plant Factor(4)	49%	44%	47%	54%	64%	61%	52%	52%	52%	52%
Lake Chelan Hydro										
Operating Expenses (1)	$2,252	$2,386	$2,411	$3,128	$2,091	$2,883	$3,018	$3,172	$3,334	$3,507
Debt Service										
Hydro Issues	493	1	-	-	-	-	-	-	-	-
Consolidated System Loans										
Existing	306	295	358	965	1,238	1,336	1,341	1,346	1,838	1,928
Future	-	-	-	-	-	-	426	426	426	426
Other (revenues) expenses(6)	(222)	(176)	(179)	(411)	(353)	(210)	(204)	(230)	(251)	(297)
Total Power Cost	$2,829	$2,506	$2,590	$3,682	$2,976	$4,009	$4,581	$4,714	$5,347	$5,564
Net Power Delivered (000 MWh)	387	319	348	422	460	463	424	424	424	424
Cost in Mills/kWh (3)	7	8	7	9	6	9	11	11	13	13
Plant Factor(4)	79%	65%	71%	86%	94%	94%	86%	86%	86%	86%

(1) Does not include amounts payable from reserve and contingency funds and bond funds. Also does not include depreciation expense.
(2) Significant capacity is associated with the energy deliveries at the Rocky Reach and Rock Island Systems.
(3) 10 Mills/kWh equals 1 cent/kWh. For example, the Rocky Reach System's 1995 cost was 7 Mills/kWh, or 0.7 cents/kWh.
(4) Net power delivered as a percentage of rated capacity for the year.
(5) Annual average Columbia River flow measured at Rocky Reach System in thousands of cubic feet per second (000CFS).
(6) Primarily interest income that reduces power costs.

Year Ended December 31, 1996

General. For the year ended December 31, 1996, the Hydro-Electric Systems collectively delivered 11,449,000 MWh of power at an average cost of .82 cents per kilowatt hour compared to 9,242,000 MWh of power delivered at an average cost of 1.0 cent per kWh for the year ended December 31, 1995. As of December 31, 1996, the District's combined gross utility plant at its Hydro-Electric Systems, including construction work in progress, was $795,835,000 with a net utility plant of $658,802,000.

The Rocky Reach System. For the year ended December 31, 1996, the generating plant delivered 7,297,000 MWh of power for which the average sales price was .6 cents per kWh compared to 5,710,000 MWh of power delivered at an average sales price of .7 cents per kWh for the year ended December 31, 1995. As of December 31, 1996, the District's gross utility plant for its Rocky Reach System, including construction work in progress, was $337,652,000 with a net utility plant of $282,131,000. As of December 31, 1996, the District's outstanding long-term debt payable of the Rocky Reach System was $115,747,000 and intersystem loans payable of $81,558,000. See "Outstanding Debt."

The Rock Island System. For the year ended December 31, 1996, the generating plant delivered 3,685,000 MWh of power for which the average sales price was 1.3 cents per kWh compared to 3,110,000 MWh of power delivered at an average sales price of 1.5 cents per kWh for the year ended December 31, 1995. As of December 31, 1996, the District's gross utility plant for its Rock Island System, including construction work in progress, was $422,748,000 with a net utility plant of $353,076,000. As of December 31, 1996, the District's outstanding long-term debt payable from the revenues of the Rock Island System was $335,120,000 and intersystem loans payable of $66,561,000. See "Outstanding Debt."

The Lake Chelan System. For the year ended December 31, 1996, the generating plant delivered 467,000 MWh of power for which the average sales price was .6 cents per kWh compared to 422,000 MWh of power delivered at an average sales price of .9 cents per kWh for the year ended December 31, 1995. As of December 31, 1996, the District's gross utility plant for its Lake Chelan System, including construction work in progress, was $35,434,000 with a net utility plant of $23,595,000. As of December 31, 1996, the District's intersystem loans payable of the Lake Chelan System was $12,568,000. See "Outstanding Debt."

Management Discussion of the Chelan Hydro Consolidated Distribution System's Financial Results

The following discussion should be read in conjunction with Tables 4 and 5.

Operating Revenues

1992 operating revenues decreased 9.1% due to a 56% decrease in secondary sales. For 1993 operating revenues increased 28.6% over 1992, due to the implementation of a 9.5% rate increase and the commencement of the New Colockum Contract in July. 1994 operating revenues increased 33.9% due to the implementation of an 8.9% average rate increase and one full year of revenues associated with the New Colockum Contract. Operating revenues increased 6.6% in 1995. This increase was primarily a result of a 13.8% average rate increase for retail electric sales implement in April 1995 and through increased sales to Colockum. During 1996, operating revenues increased 29.7%. This increase was primarily a result of enhanced power marketing efforts.

Operating Expenses

For 1992 these expenses increased 3.5%. Operating expenses increased 37.1% in 1993. This was due in part, to an $8.1 million dollar increase in purchased power costs, of which $5.5 million was related to six months activity associated with the New Colockum Contract. In 1994, operating expenses increased 20.9% over 1993. This was due primarily to a $6.5 million dollar increase in purchased power costs, of which $5 million was related to 12 months activity associated with the New Colockum Contract. Operating Expenses for 1995 increased 2.4% over 1994. This increase was a result of higher purchased power costs associated with the expiration of the long term power sales contract between the WWP and the Lake Chelan System. The Distribution System began purchasing

100% of the output in July 1995. For 1996, operating expenses increased 24.8%. This increase was primarily a result of increased purchase power to satisfy increased power marketing demands.

Balance Available for Distribution System Debt Service

In 1992 the funds available from the Distributions System's operations decreased $4.4 million. The funds available from the Distribution System's operations decreased $2.1 million in 1993. Due to improved operating results, the amount of funds available from the Distribution System's operations that were available for debt service increased $5.3 million and $3.3 million in 1994 and 1995, respectively.

In 1992 Other Available Funds totaled $7.9 million. In 1993, the Distribution System had Other Available Funds of $6.3 million and 1994 Other Available Funds totaled $11.3 million. As of December 31, 1995, the Distribution System had $16.5 million total Other Available Funds. See "Other District Funds" for the details on Other Available Funds.

Competitive Strategies

The Distribution System rates are among the lowest in the Country. Chart 1 on the following page compares the District with Pacific Northwest and national averages. District rates averaged 2.8 cents/kWh in 1996 compared to 5.5 cents/kWh for the Pacific Northwest and over 8.5 cents/kWh for the national average. This is due, in part, to the low cost hydro generation provided by the District's three Hydro Electric Systems. Chart 2 on the following page compares the District's combined hydro rate with the Bonneville priority firm rate available to public utilities. For 1996 the District's combined Hydro-Electric System cost was 8 mills/kWh compared to Bonneville's 24 mills/kWh effective October 1, 1996.

Distribution System Recent Results

For the year ended December 31, 1996, the Distribution System achieved total net revenues of $12.2 million compared to $7.1 million for the year ended December 31, 1995, an increase of $5.1 million or 72%. This increase was primarily due to a $11.5 million increase in wholesale power sales and $2.9 million increase in retail power sales. The wholesale increase of $11.5 million or 58% was primarily obtained with improved hydro-electric production and the availability of additional hydro-electric resources. These additional resources included retaining an additional portion of the Rock Island System and assuming 100% of the Lake Chelan System. The retail increase of $2.9 million or 9% was primarily due to the last rate increase effective in April 1995.

Total operating costs and expenses increased 25% from $44.4 million for the year ended December 31, 1995 to $55.4 million for the year ended December 31, 1996. This increase was primarily due to the additional purchased power costs associated with the assumption of additional hydro-electric project resources.

Operating taxes increased $.3 million from $3.1 million for the year ended December 31, 1995 to $3.4 million for the year ended December 31, 1996. The increase relates directly to the increase in retail power sales of $2.9 million during the year ended December 31, 1996.

Net operating factors included a increase in interest income of $.9 million from $2.2 million for the year ended December 31, 1995 to $3.1 million for the year ended December 31, 1996. This increase was obtained from the additional investment funds obtained from the increase in net revenues.

Chart 1 below shows for the years 1971 through 1996 the residential rates nationally, in the Northwest and those of the District. For 1996, those figures were respectively 8.5, 5.5 and 2.8 cents. Chart 2 compares the District's combined hydro rate with the Bonneville priority firm rate available to public utilities.

[SEE NEXT PAGE FOR CHARTS 1 AND 2]

Chart 1

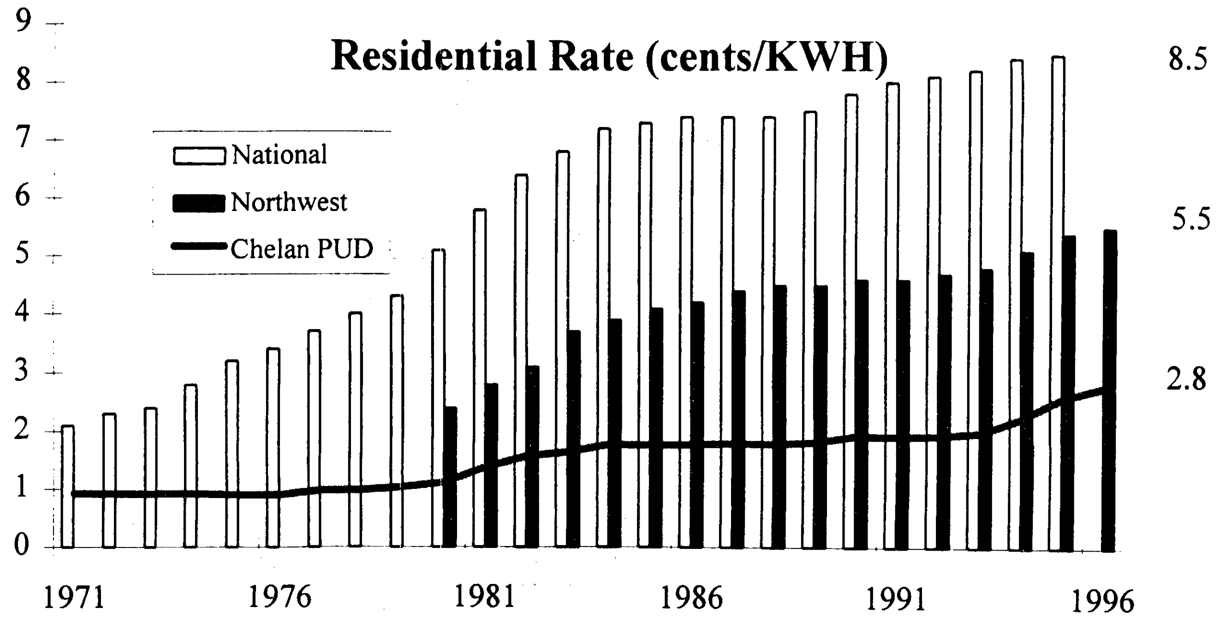
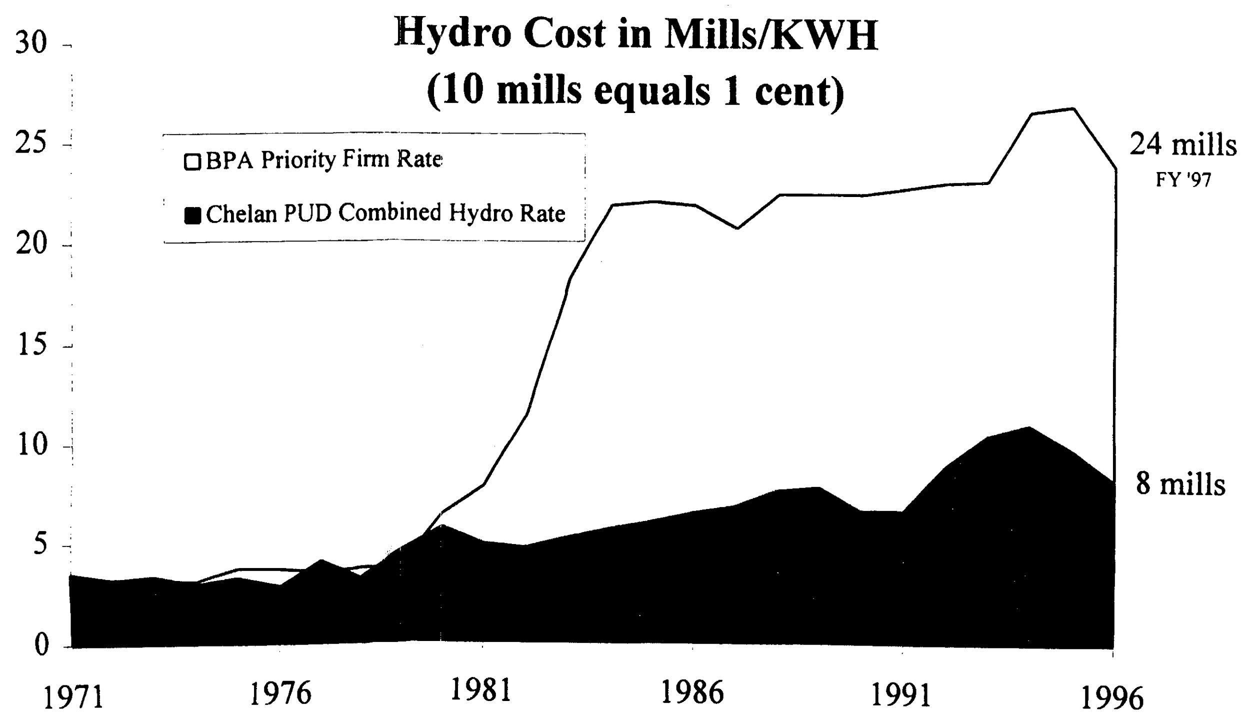


Chart 2



Outstanding Debt

The District has never been in default as to principal or interest or in any other material respect on any outstanding long-term indebtedness.

The following Table 7 presents a summary of the outstanding long-term debt of the Chelan Hydro Consolidated System and each of the Hydro-Electric Systems as of December 31, 1996.

[SEE NEXT PAGE FOR TABLE 7]

Table 7
Chelan Hydro Consolidated System and Hydro-Electric Systems
Outstanding Long-Term Debt
December 31, 1996
($000)

Date of Bonds	Final Maturity Date[1]	Series of	Original Principal Amount	Scheduled Retirements[2]	Actual Retirements[3]	Amount Outstanding	Accumulated for Retirement[4]
CHELAN HYDRO CONSOLIDATED SYSTEM							
Senior Lien							
12/01/87	07/01/62	1987A[5]	$ 12,750	$0	$0	$ 12,750	$ 1,275
12/01/87	07/01/62	1987B[6]	32,855	0	0	32,855	3,705
06/01/88	07/01/62	1988A	10,835	0	4,000	6,835	0
11/01/89	07/01/21	1989A	12,000	0	0	12,000	0
04/01/91	07/01/25	1991A	24,435	0	0	24,435	0
08/01/91	06/01/06	1991B[7]	2,086	826	830	1,257	0
08/01/91	06/01/06	1991C[7]	1,186	485	498	1,177	0
10/10/91	12/01/11	1991D[7]	285	0	0	285	0
10/10/91	12/01/11	1991E[7]	49	0	20	63	0
03/01/92	06/01/27	1992A[8]	20,000	0	17,750	2,250	0
06/01/92	06/01/12	1992B[7]	133	0	0	133	0
06/01/92	06/01/12	1992C[7]	39	0	0	53	0
08/15/92	07/01/12	1992D	18,020	1,605	1,605	16,415	0
07/01/93	07/01/00	1992E	13,639	6,905	6,905	7,661	0
12/01/92	12/01/12	1992F[7]	186	0	0	186	0
12/01/92	12/01/12	1992G[7]	73	0	0	98	0
02/01/93	07/01/68	1993A	25,680	0	0	25,680	0
02/01/93	07/01/16	1993B	12,000	0	0	12,000	0
06/01/93	06/10/13	1993C[7]	141	0	0	141	0
06/01/93	06/01/13	1993D[7]	7	0	0	9	0
06/01/93	07/01/68	1993E	31,000	0	0	31,000	0
10/01/93	08/01/18	1993G	20,570	0	0	20,570	0
Total Senior Lien			$ 237,969	$ 9,821	$31,608	$ 207,853	$ 4,980
Subordinate Lien							
06/01/95	05/01/15	1995A	$19,590	$560	$560	$19,030	$1,179
06/29/95	07/01/12	1995B	15,835	620	620	15,215	828
Total Subordinate Lien[9]			$ 35,425	$ 1,180	$ 1,180	$ 34,245	$ 2,007
Total Chelan Hydro Consolidated System			$ 273,394	$11,001	$32,788	$ 242,098	$ 6,987
ROCK ISLAND SYSTEM							
05/01/62	12/01/12	1955-2nd	$ 41,425	$10,795	$12,195	$29,230	$1,857
12/01/76	06/01/29	1976[10]	288,600	16,495	16,495	272,105	19,276
06/01/78	06/01/29	1978[10]	10,000	860	860	9,140	675
12/01/86	06/01/28	1986[11]	25,800	1,155	1,155	24,645	1,973
			$ 365,825	$29,305	$30,705	$335,120	$23,781
ROCKY REACH SYSTEM							
12/15/57	07/01/13	1957	$ 250,000	$56,242	$171,963	$78,037	$13,594
07/01/68	07/01/23	1968	40,000	4,185	19,440	20,560	2,144
11/15/86	07/01/26	1986[12]	18,000	850	850	17,150	1,430
			$ 308,000	$61,277	$192,253	$ 115,747	$ 17,168
Total			$ 947,219	$101,583	$255,746	$692,965	$47,936

(1) Portions of the bonds of each series are subject to mandatory tender for purchase at various intervals upon the expiration of the initial fixed-term interest rate periods, which vary from less than one year to more than twenty years. The District currently intends to remarket such bonds in new interest rate periods at that time. The amount of bonds so subject to mandatory tender for purchase in any year ranges from approximately $2 million to up to $20 million.
(2) Amount of serial bonds matured as of December 31, 1996 plus scheduled minimum redemption of term bonds to have been retired from mandatory sinking funds.
(3) Amount of serial bonds matured as of December 31, 1996 plus actual retirement of term bonds retired from mandatory sinking funds, reserve accounts and optional purchases.
(4) Amounts accumulated as cash and investment(s) in various principal accounts, sinking funds and reserve accounts available for the future retirement of bonds. Investments are represented at book value.
(5) 1987A Bonds Division II to be redeemed January 1, 1998 with the proceeds of the Chelan Hydro Consolidated System Revenue Bonds, Refunding Series 1996A.
(6) 1987B Bonds Division II to be redeemed January 1, 1998 with the proceeds of the Chelan Hydro Consolidated System Revenue Bonds, Refunding Series 1996C.
(7) Represents mini-bonds issued pursuant to the District's established employee and public mini-bond programs.
(8) 1992A Bonds Division II and III were defeased October 1, 1991.
(9) The District has entered into forward purchase agreements for the issuance and delivery of $59,865,000 aggregate principal amount of 1996 Bonds at various times in 1997.
(10) To be refunded with the proceeds of the 1997 Bonds.
(11) To be defeased on April 2, 1997 and redeemed June 1, 1997 with the proceeds of the Chelan Hydro Consolidated System Revenue Bonds, Refunding Series 1996D.
(12) To be defeased on April 2, 1997 and redeemed July 1, 1997 with the proceeds of the Chelan Hydro Consolidated System Revenue Bonds, Refunding Series 1996B.

Intersystem Obligations

General

Bonds have been issued for the purpose of providing funds to the Distribution System and loaning funds to the separate Hydro-Electric Systems, the water system, the wastewater system and the District's internal service system (the "Internal Service System"). The Internal Service System is used to account for administrative and other costs which must be allocated among more than one System. The loans to the Hydro-Electric Systems are established by resolutions of the District, which resolutions establish the terms of payment for the loans. A summary of the outstanding loans to the Distribution System, the Hydro-Electric Systems and the water and wastewater systems is shown in Table 8 below.

Table 8
Chelan Hydro Consolidated System
Bonds Outstanding and Related Intersystem Loan Balances
as of December 31, 1996
($000)

	Gross Bonds Outstanding	Adjustments to Loans Outstanding[1]	Net Loans Outstanding
Distribution System	$41,981	$(4,266)	$37,715
Rocky Reach	85,756	(4,198)	81,558
Rock Island	71,326	(4,765)	66,561
Lake Chelan	13,332	(764)	12,568
Water System	2,534	484	3,018
Wastewater System	1,642	87	1,729
Internal Service	1,505	6,763	8,268
Unloaned Proceeds	17,356	(17,356)	-
87A&B Reserve Fund	2,830	(2,830)	-
87A&B Repayments	3,835	(3,835)	-
Total	$242,097	($30,680)	$211,417

(1) Includes unamortized debt discounts and issuance costs, amounts payable and (receivable) from other systems and miscellaneous reconciling items.

Each loan to the Hydro-Electric Systems will be repaid pursuant to loan payments to be made by such Systems. Such loan payments will be composed of an interest component and a principal component. The interest component of each loan is an amount sufficient to pay an amount of interest on the related bonds and bonds proportionate to the amount of the loan. The principal component of each loan payment will be deposited into special funds of the District and will be available to be reloaned to the Hydro-Electric Systems for financing a portion of such Systems' construction programs. The timing and amount of each principal component payment does not necessarily coincide with the payment of principal on the related series of bonds. The Distribution, Water, Wastewater and Internal Service Systems annually transfer similar principal components into special funds established by District resolution and such transfers are considered in the rates charged by those systems.

The Obligation of the Rock Island System and the Rocky Reach System to make loan payments from their respective revenues is subordinate to the obligation to make debt service on bonds issued for such Systems.

Payments by Power Purchasers with Respect to the Loan of Bond Proceeds

With respect to the proceeds of the bonds lent to the Hydro-Electric Systems, the respective Power Purchasers have agreed to make payments sufficient to repay the loan of the bond proceeds as part of the "cost" of the power purchased by such purchasers. Each Power Purchaser's payments is in proportion to such purchaser's allocated portion of the output from the respective Hydro-Electric System. Such payments by the Power Purchasers are to be made through financing agreements by and between the District and such purchasers whereby the Power Purchasers expressly agree that the loan payments required to be made by each Hydro-Electric System, as appropriate, constitute a "cost" of each such System.

Other 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 Chelan Hydro Consolidated System (including the Internal Service System) rent equipment and facilities to and from each other.

Financing Capital Improvements

The District has funded a portion of its renewals, improvements and additions for the Distribution System from non-debt related sources. During the five-year period ended December 31, 1996, the District financed a total of $14,988,000 for renewals, replacements, improvements and additions to plant directly from net revenues and contributions in aid of construction. This amount was 34% of the total requirements for those purposes.

Other District Funds

The following Table 9 presents various unrestricted fund balances for the Chelan Hydro System as of December 31, 1996.

Table 9
Unrestricted Fund Balances (1)
($000)

	Distribution System	Lake Chelan System	Financing Facilities	Water/ Wastewater Systems	Internal Service System	Total
December 31, 1996 balances:						
Revenue Fund	$ 2,635	$ 1,555	$ -	$ 753	$ 3,769	$ 8,712
Contingency Reserve Fund	10,000	-	-	-	-	10,000
Rate Stabilization Fund	15,128	-	-	-	-	15,128
Capital Reserve Fund	1,911	-	-	199	117	2,227
Loan Repayment Fund	-	-	10,000	-	-	10,000
	$ 29,674	$ 1,555	$ 10,000	$ 952	$ 3,886	$ 46,067

(1) For the purposes of this table, the District has defined unrestricted funds to mean those funds which the District's Board of Commissioners have full discretion over their use.

"Other Available Funds" as utilized in the additional bonds test under the Resolution includes the year end balance of the Rate Stabilization Fund and the Capital Reserve Fund.

The "Revenue Fund" is an operating fund used to handle day-to-day activities of the Distribution System. The District expects to reestablish this fund balance to $2,000,000 at year-end for working capital requirements.

The "Contingency Reserve Fund" was established by the District to provide a special reserve account for emergency operating conditions and liquidity for the District's Chelan Hydro Consolidated System bonds. The District's goal is to maintain this fund at $10,000,000.

The "Rate Stabilization Fund" maintains the year-end balance of cash in excess of requirements of the Revenue Fund, the Contingency Reserve Fund, and the Capital Reserve Fund. Funds in the Rate Stabilization Fund are available for future operations including any unexpected liquidity requirements that may be needed for Chelan Hydro Consolidated System bonds.

The "Capital Reserve Fund" was established by the District to make future capital purchases for the Distribution System and to pay off debt which has no annual scheduled debt retirement. Annual additions are based on principal equivalent payments on Consolidated System loans outstanding to the Distribution System.

The "Loan Repayment Fund" was established in the Consolidated System by the District to hold funds transferred from the Distribution, Water, Wastewater, Lake Chelan, and Internal Service Systems for the repayment of intersystem loans. Funds in the Loan Repayment Fund may be utilized for any District purpose as approved by the Commission.

The District has established a financial goal to accumulate $29 million in unrestricted operating reserves by the end of 1999. The fund balances above reflect existing District policy and are subject to change.

Capital Requirements

The District has prepared projections of the capital requirements for the five-year period 1997 through 2001. The projections for 1997 were derived from the budget adopted by the District's Commission in November, 1996. The balance of the projections are in accordance with the long-range planning by the District staff. The District periodically reviews its capital improvement program and modifies it as appropriate to changing conditions. As a result, amounts currently forecast for the future are subject to modification as the District's Commission directs. The table below presents the District's projected capital requirements, based on expenditure levels relative to budget which are consistent with prior experience.

Table 10
Chelan Hydro Consolidated System
Projected Capital Requirements
($000)

	1997	1998	1999	2000	2001
Distribution System	$ 5,948	$ 4,222	$ 3,017	$ 7,601	$ 3,836
Rocky Reach System (1)	26,455	16,461	13,387	6,908	11,116
Rock Island System (1)(2)	1,526	1,595	1,334	2,243	1,881
Lake Chelan System	3,480	1,786	291	138	119
Total Capital Requirements	$37,409	$24,064	$18,029	$16,890	$16,952

(1) Excludes existing capital requirements for fish related expenses.
(2) Excludes Reserve and Contingency Amounts of $139, $214, $222, $230 and $238 for the years 1997 through 2001.

A major portion of the projected capital requirements for the Rocky Reach System relates to turbine replacement (discussed below). Due to the uncertainty of future fish and wildlife capital expenditures the District has not included estimates of those expenditures for its Rocky Reach and Rock Island Systems. Negotiations are presently underway to reach an agreement with the United States Fish and Wildlife Service, the National Marine Fisheries Services and other interested entities. It is anticipated that the results of these negotiations will better quantify future fish and wildlife costs. However, these costs could be substantial. The District is presently studying a juvenile surface collection device at the Rocky Reach System. The capital cost of future fish and wildlife programs may be substantial. See "Agreements and Proceedings Potentially Affecting Power Generation" for additional information.

The Rocky Reach System turbine replacement project cost estimate is $77 million. Excessive cracking and wear of the blades necessitated replacement instead of repair of the eleven turbines. Four of the units will also be changed to "Kaplan" type with adjustable blades, so all eleven turbines will have adjustable blades. The first installation was completed in 1996 and the final unit will be completed in 2001. Model studies indicate the new turbines should have an efficiency gain in excess of three percent, and the design incorporates current technology to improve survival of juvenile salmon migrating downstream to the Pacific Ocean.

Based on the capital requirements as given in Table 10 above, the projected amounts of future financing involved for the Chelan Hydro Consolidated System, are summarized in Table 11 below. Such amounts exclude existing available funds from revenues and previous District financings.

Table 11
Chelan Hydro Consolidated System
Projected Future Financings
Inter-System Loans
($000)

	1997	*1998*	*1999*	*2000*	*2001*
Loans from Proceeds of Bond Issues[1]:					
Distribution System	$ -	$ -	$ -	$ -	$ -
Rocky Reach System	47,900	-	20,500	-	10,600
Rock Island System	1,500	-	3,000	-	1,500
Lake Chelan System[2]	5,600	-	-	-	-
Total	$55,000	$ -	$23,500	$ -	$12,100
Loans from Capital Recovery Fund and Replacement Recovery Fund[2]:					
Rocky Reach System	$1,875	$2,201	$2,402	$2,550	$2,700
Rock Island System	1,014	995	917	975	1,040
Lake Chelan System	98	526	291	138	119
Total	$2,987	$3,722	$3,610	$3,663	$3,859

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(1) Including cost of issuance.
(2) These funds reflect additional loan amounts paid by the Power Purchasers and available for subsequent reloan to the Hydro-Electric Systems.

Investment Policies

All investments of the District are recorded at cost. The District pools a portion of each of the Systems' cash and investments. The District Treasurer invests any temporary cash surpluses. The Treasurer may invest such surpluses, depending on individual fund restrictions, 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 102%; 4) certificates of deposit issued by institutions approved as qualified public depositories by the Washington State Public Deposit Protection Commission ("WSPDPC"), 5) banker's acceptances issued by banks approved by the Washington State Treasurer and (6) commercial paper having a rating of A-2 (Standard & Poor's) and P-2 (Moody's) or better.

Investments of the District are held by banks or trust companies as the District's agent and in the District's name. It is the District's policy to hold investments to maturity. The remainder of the District's funds consists of uninvested cash that is insured by a combination of Federal depository insurance or by being on deposit with qualified depositories of the WSPDPC. Cash and investments are considered risk category one under the guidelines of Governmental Accounting Standards Board Statement No. 3.

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APPENDIX D

AUDITED FINANCIAL STATEMENTS OF THE DISTRICT
FOR THE YEAR ENDED DECEMBER 31, 1995

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ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying combining balance sheet of Public Utility District No. 1 of Chelan County, Washington, (the District) as of December 31, 1995, and the related combining statements of revenues, expenses and changes in accumulated net revenues (expenses) and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the District and the individual financial positions of its systems as of December 31, 1995, and the combined and individual results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Seattle, Washington
February 16, 1996

PUBLIC UTILITY DISTRICT NO. 1 of CHELAN COUNTY, WASHINGTON

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN ACCUMULATED NET REVENUES (EXPENSES)
For the year ended December 31, 1995 (amounts in thousands)

	Rocky Reach Hydro	Columbia River-Rock Island Hydro	Lake Chelan Hydro	Distribution System
OPERATING REVENUES	$40,234	$46,752	$3,857	$52,317
OPERATING EXPENSES				
Operations-				
Purchased power	-	-	-	25,867
Purchased water	-	-	-	-
Other	13,931	13,817	2,328	8,582
Maintenance	3,709	3,613	634	2,706
Operating taxes	1,713	1,055	165	3,121
Depreciation	4,860	5,359	709	4,118
	24,213	23,844	3,836	44,394
NET OPERATING REVENUES (EXPENSES)	16,021	22,908	21	7,923
OTHER (EXPENSE) INCOME				
Interest on long-term debt	(7,675)	(21,903)	-	-
Interest on intersystem loans	(5,457)	(4,762)	(666)	(3,002)
Amortization of deferred debt costs	(940)	(481)	(18)	(172)
Interest income	3,178	2,665	165	2,249
Gain on reacquired bonds	58	92	52	-
Other	(1,852)	(979)	(160)	71
	(12,688)	(25,368)	(627)	(854)
NET REVENUES (EXPENSES) BEFORE THE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	3,333	(2,460)	(606)	7,069
ADJUSTMENT FOR THE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (N	-	-	-	-
NET REVENUES (EXPENSES)	3,333	(2,460)	(606)	7,069
DEPRECIATION ON CONTRIBUTED CAPITAL	-	-	-	-
ACCUMULATED NET REVENUES (EXPENSES),				
Beginning of year, as previously reported	126,909	7,911	14,244	67,551
Adjustments for implementation of GASB 16 (Not	-	-	-	-
Adjusted beginning balance	126,909	7,911	14,244	67,551
INTERSYSTEM TRANSFERS	393	(1,425)	45	1,992
ACCUMULATED NET REVENUES (EXPENSES), End of year	$130,635	$4,026	$13,683	$76,612

The accompanying notes are an integral part of this statement.

Water System	Wastewater System	Financing Facilities	Internal Service	Intra-District Transactions	1995 Total	1994 Total (Note 1)
$1,827	$307	$ -	$1,306	($23,985)	$122,615	$121,227
-	-	-	-	(23,409)	2,458	4,958
203	-	-	-	-	203	221
671	244	-	390	(576)	39,387	39,591
227	114	-	-	-	11,003	11,146
181	18	-	-	-	6,253	5,528
342	238	-	836	-	16,462	15,489
1,624	614	-	1,226	(23,985)	75,766	76,933
203	(307)	-	80	-	46,849	44,294
(89)	(20)	(15,275)	-	-	(44,962)	(46,985)
(97)	(130)	14,755	(641)	-	-	-
(14)	(2)	(11)	(1)	-	(1,639)	(1,291)
101	187	1,245	403	-	10,193	9,233
-	-	-	-	-	202	45
1	2	1,774	(27)	-	(1,170)	2,098
(98)	37	2,488	(266)	-	(37,376)	(36,900)
105	(270)	2,488	(186)	-	9,473	7,394
-	-	-	-	-	-	513
105	(270)	2,488	(186)	-	9,473	7,907
227	233	-	-	-	460	433
1,150	(52)	1,300	3,735	-	222,748	214,651
-	-	-	-	-	-	(243)
1,150	(52)	1,300	3,735	-	222,748	214,408
-	-	(1,005)	-	-	-	-
$1,482	($89)	$2,783	$3,549	$ -	$232,681	$222,748

PUBLIC UTILITY DISTRICT NO. 1 of CHELAN COUNTY, WASHINGTON

COMBINING STATEMENT OF CASH FLOWS

For the year ended December 31, 1995 (amounts in thousands)

	Rocky Reach Hydro	Columbia River-Rock Island Hydro	Lake Chelan Hydro	Distribution System
CASH FLOWS FROM OPERATING ACTIVITIES				
Net operating revenues (expenses)	$16,021	$22,908	$21	$7,923
Depreciation	4,860	5,359	709	4,118
(Increase) decrease in operating assets:				
Accounts receivable, net	(77)	1,649	329	(907)
Materials and supplies	23	-	-	(384)
Power storage inventory	-	-	-	175
Prepayments and other	10	(62)	1	(10)
Increase (decrease) in operating liabilities:				
Warrants and accounts payable	4,000	(715)	972	(380)
Accrued taxes	170	82	13	167
Intersystem payables and other	1,548	641	(1,067)	1,065
Net cash provided by (used in) operating activities	26,555	29,862	978	11,767
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES				
Intersystem transfers	393	(1,425)	45	1,992
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Additions to plant	(17,919)	(2,487)	(791)	(8,113)
Additions to pooled assets	141	27	35	-
Proceeds from debt and intersystem loans	15,724	19,509	-	5,840
Principal paid on debt & intersystem loans	(24,533)	(27,075)	79	(6,175)
Interest paid on debt & intersystem loans	(13,137)	(26,836)	(666)	(2,996)
Contributions in aid of construction	80	-	-	2,164
Fish protection costs	(5,636)	(783)	-	-
Other	(1,731)	(1,043)	(166)	(278)
Net cash (used in) capital and related financing activities	(47,011)	(38,688)	(1,509)	(9,558)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investments, net	8,037	7,580	40	(7,089)
Interest on investments	2,824	2,746	164	2,229
Long-term receivables	2	182	-	213
Other, net	-	-	-	-
Net cash provided by (used in) investing activities	10,863	10,508	204	(4,647)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,200)	257	(282)	(446)
CASH & CASH EQUIVALENTS, beginning of year	11,368	4,104	867	7,911
CASH & CASH EQUIVALENTS, end of year	$2,168	$4,361	$585	$7,465

The accompanying notes are an integral part of this statement.

Water System	Wastewater System	Financing Facilities	Internal Service	1995 Total	1994 Total (Note 1)
$203	($307)	$ -	$80	$46,849	$44,294
342	238	-	836	16,462	15,489
(18)	3	-	3	982	(2,015)
(24)	-	-	-	(385)	(378)
-	-	-	-	175	(600)
-	(1)	-	-	(62)	1,471
43	99	-	92	4,111	379
6	(1)	-	(13)	424	71
21	(31)	(2.186)	659	650	(473)
573	-	(2,186)	1,657	69,206	58,238
-	-	(1,005)	-	-	-
(1,561)	(247)	-	(753)	(31,871)	(27,757)
-	-	-	(203)	-	-
474	-	(6,314)	-	35,233	-
(78)	(281)	2,223	(98)	(55,938)	(14,652)
(189)	(151)	(222)	(641)	(44,838)	(46,977)
334	32	-	-	2,610	2,110
-	-	-	-	(6,419)	-
(82)	113	1,841	181	(1,165)	(1,266)
(1,102)	(534)	(2,472)	(1,514)	(102,388)	(88,542)
(132)	(17)	6,836	(695)	14,560	34,856
101	188	1,284	399	9,935	9,552
474	385	-	-	1,256	915
-	(25)	-	(27)	(52)	(138)
443	531	8,120	(323)	25,699	45,185
(86)	(3)	2,457	(180)	(7,483)	14,881
412	98	680	1,849	27,289	12,408
$326	$95	$3,137	$1,669	$19,806	$27,289

PUBLIC UTILITY DISTRICT NO. 1 of CHELAN COUNTY, WASHINGTON

COMBINING BALANCE SHEET —— ASSETS
December 31, 1995 (amounts in thousands)

	Rocky Reach Hydro	Columbia River-Rock Island Hydro	Lake Chelan Hydro	Distribution System
UTILITY PLANT:				
In service, at original cost	$316,820	$421,250	$34,179	$136,344
Construction work in progress	19,105	419	484	3,958
Less-accumulated depreciation	(67,497)	(64,358)	(11,007)	(40,950)
	268,428	357,311	23,656	99,352
SPECIAL FUNDS:				
Bond funds (reserve accounts)	16,032	23,095	-	-
Reserve and contingency funds	3,494	5,726	-	-
Construction funds	21,040	4,760	1,405	1,443
	40,566	33,581	1,405	1,443
CURRENT ASSETS:				
Revenue and other funds	4,973	5,745	1,222	32,140
Bond funds	1,095	2,586	-	-
Accounts receivable, net	1,790	240	10	3,684
Accrued interest receivable	848	250	12	140
Materials and supplies	791	-	-	3,214
Power storage inventory	-	-	-	938
Prepayments and other	233	288	21	72
	9,730	9,109	1,265	40,188
DEFERRED CHARGES AND OTHER ASSETS:				
Deferred financing costs	10,710	12,784	447	1,317
Fish protection costs	16,246	5,935	-	-
Pooled assets, net	1,798	535	236	-
Long term receivables, net	15	1,027	-	1,907
Designated for deferred compensation benefits	-	-	-	-
Other	1,754	58	12	99
	30,523	20,339	695	3,323
Total assets	$349,247	$420,340	$27,021	$144,306

The accompanying notes are an integral part of this balance sheet.

Water System	Wastewater System	Financing Facilities	Internal Service	1995 Total	1994 Total (Note 1)
$12,047	$6,823	$ -	$18,456	$945,919	$922,230
502	154	-	343	24,965	17,062
(4,333)	(1,073)	-	(5,836)	(195,054)	(178,869)
8,216	5,904	-	12,963	775,830	760,423
152	-	7,687	-	46,966	48,331
-	-	-	-	9,220	8,961
4	5	18,737	649	48,043	80,071
156	5	26,424	649	104,229	137,363
1,077	70	-	6,852	52,079	39,681
337	210	-	-	4,228	5,530
163	251	-	-	6,138	7,129
5	76	320	38	1,689	1,429
227	-	-	-	4,232	3,846
-	-	-	-	938	1,113
17	2	-	-	633	576
1,826	609	320	6,890	69,937	59,304
70	62	222	79	25,691	27,177
-	-	-	-	22,181	15,762
-	-	-	-	2,569	2,772
73	3,286	-	-	6,308	6,823
-	-	-	6,383	6,383	5,561
405	-	-	41	2,369	2,499
548	3,348	222	6,503	65,501	60,594
$10,746	$9,866	$26,966	$27,005	$1,015,497	$1,017,684

PUBLIC UTILITY DISTRICT NO. 1 of CHELAN COUNTY, WASHINGTON

COMBINING BALANCE SHEET —— CAPITALIZATION AND LIABILITIES
December 31, 1995 (amounts in thousands)

	Rocky Reach Hydro	Columbia River-Rock Island Hydro	Lake Chelan Hydro	Distribution System
LONG-TERM DEBT				
Revenue bonds and notes payable	$124,736	$337,670	$ -	$ -
Intersystem loans payable (receivable)	82,102	67,482	12,936	43,092
Less current maturities	(8,460)	(3,426)	-	(4,369)
	198,378	401,726	12,936	38,723
CONTRIBUTIONS IN AID OF CONSTRUCTION	341	4,517	-	16,962
ACCUMULATED NET REVENUES (EXPENSES)	130,635	4,026	13,683	76,612
Total capitalization	329,354	410,269	26,619	132,297
CURRENT LIABILITIES				
Current maturities of long-term debt	8,460	3,426	-	4,369
Warrants and accounts payable	6,520	1,329	1,040	2,546
Accrued taxes	1,235	560	93	870
Accrued interest	698	1,754	-	15
Intersystem payables (receivables)	2,980	3,002	(731)	4,196
Accrued vacation and other	-	-	-	13
	19,893	10,071	402	12,009
OTHER LIABILITIES				
Deferred compensation payable	-	-	-	-
Other	-	-	-	-
	-	-	-	-
Total capitalization and liabilities	$349,247	$420,340	$27,021	$144,306

The accompanying notes are an integral part of this balance sheet.

Water System	Wastewater System	Financing Facilities	Internal Service	1995 Total	1994 Total (Note 1)
$1,620	$1,891	$242,745	$ -	$708,662	$729,570
1,962	1,979	(217,925)	8,372	-	-
(102)	(124)	-	(105)	(16,586)	(17,045)
3,480	3,746	24,820	8,267	692,076	712,525
5,336	5,772	-	-	32,928	30,048
1,482	(89)	2,783	3,549	232,681	222,748
10,298	9,429	27,603	11,816	957,685	965,321
102	124	-	105	16,586	17,045
169	156	-	2,680	14,440	10,327
14	2	-	4	2,778	2,352
19	10	6,865	-	9,361	9,235
144	73	(7,502)	(2,162)	-	-
-	-	-	5,610	5,623	4,897
448	365	(637)	6,237	48,788	43,856
-	-	-	6,383	6,383	5,561
-	72	-	2,569	2,641	2,946
-	72	-	8,952	9,024	8,507
$10,746	$9,866	$26,966	$27,005	$1,015,497	$1,017,684

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 in conformity with Chapter 54.08 R.C.W., to own and operate electric generation and distribution properties. The District is administered by a five-person Board of Commissioners (Commissioners), separate from the Chelan County Commissioners, elected by the voters of Chelan County. The District operates the Rocky Reach Hydro-Electric System, the Columbia River-Rock Island Hydro-Electric System, the Lake Chelan Hydro-Electric Production System (the Hydro Systems), a retail electric distribution system (the Distribution System), a Water System, a Wastewater System and an Internal Service System.

In 1976, the District consolidated the Rocky Reach System, the Columbia River-Rock Island System, the Lake Chelan System and its Distribution System into a single system, the Consolidated System, now known as the Chelan Hydro Consolidated System. In 1992, the Commissioners adopted a resolution to include the Water and Wastewater Systems in the Chelan Hydro Consolidated System. Such consolidation is subject to the terms, limitations, restrictions, covenants, liens, charges and pledges contained in the resolutions of the District which established the Systems and provided for the issuance of bonds to finance those Systems. The Systems continue to be accounted for separately. The revenues derived by the District from the ownership and operation of the Systems are pledged to the payment of the bonds issued to finance those Systems, and are not available to pay or secure the Consolidated System and Chelan Hydro Consolidated System revenue bonds. Activities of the Chelan Hydro Consolidated System are reported in the Financing Facilities' financial statements.

In 1989, the District joined with Chelan Falls Water District in forming the Chelan Utility Association (the Association) under Washington State law, which authorizes local governmental entities to join together in an organization for the joint purchase of insurance and for risk management services. The Association provided the District with liability, property, and boiler/machinery insurance and the joint purchase of insurance for Chelan Falls Water District and the Water and Wastewater Systems. In 1994, the District and Chelan Falls Water District dissolved the Association. At that time the Association returned the portion of reserves, amounting to $2,400, contributed by the Chelan Falls Water District to that entity. All remaining assets, liabilities and equity were transferred to the District's Internal Service System. Any subsequent claims that are identified as having occurred while the Association existed will be the responsibility of the District and the Chelan Falls Water District. Such claims will be based upon the percentage of participation and limited to the Association's coverage in place at the time the claim occurred.

Accounting Policies The accounting policies of the District conform to generally accepted accounting principles applicable to a municipal utility. The following is a summary of the significant policies.

Reporting Entity For financial reporting purposes the District includes activities over which the District exercises oversight responsibility. The Commissioners' responsibility is to appoint management, set budgets for the District's Systems and oversee operations included in these financial statements.

Basis of Presentation-Fund Accounting The accounts of the District are organized on the basis of funds (called "Systems" in these financial statements), each of which is considered a separate accounting entity. The operations of each System are accounted for in a separate fund with a separate set of self-balancing accounts that comprise its assets, capitalization and liabilities, accumulated net revenues, revenues, expenses and other financing sources and uses. The financial operations of each System are restricted under specific bond resolutions.

The combining financial statements include enterprise and internal service funds. Enterprise funds include the Hydro, Distribution, Water and Wastewater Systems. Internal service funds include the Internal Service System and the Financing Facilities.

Significant intra-District transactions are eliminated in the combining financial statements. The 1994 total columns shown in the accompanying Financial Statements were derived from the audited Financial Statements as of and for the year ended December 31, 1994 and are presented for informational purposes only. Reclassifications and eliminations have been made to conform the 1994 total columns to the format used in the current year.

Funds-Cash and Investments Cash and investments are combined for balance sheet presentation and are recorded in funds as required by the District's bond indentures. All investments of the District are recorded at cost. The District pools a portion of each of the Systems' cash and investments. The District Treasurer invests any temporary cash surpluses. The Treasurer may invest such surpluses, depending on individual fund restrictions, 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 102%; 4) certificates of deposit issued by institutions approved as qualified public depositories by the Washington State Public Deposit Protection Commission (WSPDPC) and 5) banker's acceptances issued by banks having been approved by the Washington State Treasurer's approved list of domestic and foreign banks.

As of December 31, 1995, the District's investment portfolio, consisted of investments in the following:

(amounts in thousands)

	Carrying Amount	Market Value
U.S. Government securities	$ 141,720	$ 143,986
Repurchase agreements	16,913	16,913
	$ 158,633	$ 160,899

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

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 insured by a combination of Federal depository insurance and protected against loss by being on deposit with qualified public depositories of the WSPDPC. Cash and investments are considered risk category one under the guidelines of Governmental Accounting Standards Board (GASB) Statement No. 3.

For the purpose of the statement of cash flows, cash and cash equivalents consist of demand deposits at commercial banks and investments with maturities of ninety days or less when purchased. Cash and cash equivalents balances at December 31, 1995 were included on the balance sheet as follows:

(amounts in thousands)

	Rocky Reach	Col. River Rock Island	Lake Chelan	Distr. System	Water System	Wastewater System	Financing Facilities	Internal Service
Special Funds:								
Bond Funds	$ 23	$ -	$ -	$ -	$ -	$ -	$ 438	$ -
Reserve and Contingency Funds	-	642	-	-	-	-	-	-
Construction Funds	312	2,492	313	321	-	-	2,699	129
Current Assets:								
Revenue and Other Funds	1,833	1,227	272	7,144	253	35	-	1,540
Bond Funds	-	-	-	-	73	60	-	-
	$2,168	$4,361	$ 585	$7,465	$ 326	$ 95	$3,137	$1,669

Revenues from Operations Revenues from the Hydro Systems represent sales of power generated by the related hydroelectric production facilities under firm power sales contracts or sales directly to the Distribution System. Revenues under these contracts are determined on a cost of service basis including debt service costs. These firm power sales contracts extend into the future with varying expiration dates. The Lake Chelan System's contract expired on June 21, 1995, the Rocky Reach System's contract expires in November 2011, and the Columbia River-Rock Island System's contract expires in June 2012.

Power produced by the Rocky Reach System is sold to the Distribution System on a cost of service basis. Power produced by the Columbia River-Rock Island System is sold to the Distribution System at a contractually specified percentage of total cost. During 1995, such revenues received by the Rocky Reach and Columbia River-Rock Island Systems from the Distribution System for the sale of power amounted to $16,354,000 and $4,774,000, respectively.

Until June 21, 1995, the entire output of the Lake Chelan System was sold to the Washington Water Power Company, which in turn sold a portion of the output to the Distribution System. Revenues received by the Lake Chelan System from the Washington Water Power Company amounted to $1,401,000 for 1995. The entire output of the Lake Chelan System is now being sold directly to the Distribution System on a cost of service basis. During 1995, such revenues received by the Lake Chelan System from the Distribution System amounted to $2,281,000.

Retail customers of the Distribution, Water, and Wastewater Systems are billed on a cycle basis under rates established by the District's Commissioners. Revenues from the sale of electric, water and wastewater services are recorded as earned. The Wastewater System bills certain large customers based on contractual agreements. Revenues related to these contracts are deferred and recognized on a straight-line basis over the contractual payment term.

Revenues of the Internal Service System represent billings to the other Systems for computer services and shared utility assets.

In 1995, $15,592,000 of Rocky Reach, $41,802,000 of Columbia River-Rock Island and $271,000 of Distribution System operating revenues were derived from power sales to Puget Sound Power & Light Company. The Rocky Reach System also had $4,810,000 of operating revenues derived from power sales to Portland General Electric. In addition, $14,921,000 of Distribution System operating revenues were derived from power sales to Colockum Transmission Company, Inc., a wholly owned subsidiary of Aluminum Company of American (Alcoa).

Power Brokering During 1995, the District entered into certain power brokering transactions. The District intends to increase its activity in thisarea in 1996 (see Note 7). The District's policy is to report the net revenues of these transactions over the duration of the contracts as a component of Operating Revenues in the Statement of Revenues, Expenses and Changes in Accumulated Net Revenues (Expenses).

Utility Plant Utility plant is stated at original cost which includes both direct and indirect costs of construction or acquisition, including an allowance for funds used during construction for major projects. The District charges the cost of repairs and minor renewals to maintenance expense and the cost of renewals and replacement of property units to utility plant. The cost, less net salvage, of property units retired is charged to accumulated depreciation.

Provision for depreciation of electric utility plant of the Hydro Systems (other than transportation equipment, recreation and certain fish hatchery facilities) is computed using the sinking fund method and is based upon the estimated service lives of the various classes of property. Service lives range from 10 to 100 years. Concurrent with the expiration of its power sales contract in June 1995, the Lake Chelan System prospectively modified its provision for depreciation computation to utilize the straight-line method based on the estimated remaining service lives of the related plant.

Provision for depreciation of transportation equipment, recreation and certain fish hatchery facilities of the Hydro Systems and property, including contributed property, of the Distribution, Water, Wastewater, and Internal Service Systems is computed using straight-line rates based upon the estimated service lives of the related plant ranging from 5 to 40 years.

A summary of utility plant in service as of December 31, 1995 follows:

(amounts in thousands)

	Rocky Reach	Col. River Rock Island	Lake Chelan	Distr. System	Water System	Wastewater System	Internal Service
Hydroelectric Generation	$295,998	$400,402	$ 32,548	$ 791	$ -	$ -	$ 1,736
Transmission	15,120	17,915	1,019	18,454	-	-	20
Distribution	-	-	-	103,836	-	-	-
General	5,702	1,882	222	13,063	-	-	16,700
Intangible	-	1,051	390	200	-	-	-
Water	-	-	-	-	12,047	-	-
Wastewater	-	-	-	-	-	6,823	-
	$316,820	$421,250	$ 34,179	$136,344	$12,047	$ 6,823	$18,456

Deferred Financing Costs Costs relating to the issuance of bonds are amortized over the term of the related debt. For the Rocky Reach System bond interest during construction and after completion of the Rocky Reach System was paid from the proceeds of the sale of bonds. To match the interest costs during the initial operation period with related revenues, the applicable interest has been deferred and is being amortized over future periods as revenues are received. The unamortized balance at December 31, 1995 was $5,313,000. For the Rock Island System deferred call premiums relate to bond discounts, call premiums and financing costs of the 1974 Series Bonds which were refunded in advance in 1976. These deferred costs amounted to $3,956,000 at December 31, 1995 and are being amortized over the term of the related 1976 Series Bonds.

Pooled Assets Pooled assets represent each System's portion of centrally managed assets, primarily transportation equipment.

Fish Protection Costs Certain costs incurred by the Hydro Systems in connection with fish protection activities at the hydroelectric production facilities are deferred pending construction of a facility. When these projects are completed and tested, their costs will be assessed and all appropriate costs transferred to utility plant in service and depreciated over their estimated useful lives. All remaining costs will be expensed in the period in which it is determined that they do not qualify as proper capital costs or do not meet the criteria of preliminary survey and investigation charges. If a project is abandoned, the deferred costs related to that project are charged to expense over the period in which revenues are recovered.

Contributions in Aid of Construction A significant portion of the Water and Wastewater utility plant has been financed through contributions from Federal and State agencies and from assessments of local property owners. Such funds have been accounted for as contributions in aid of construction. Depreciation on contributed property for the Water and Wastewater systems is included in operating expenses and a like amount is added to accumulated net revenues.

Adjustment for Implementation of GASB No. 16 Effective January 1, 1994, the District implemented GASB Statement No. 16 Accounting for Compensated Absences. The statement requires that the compensated absence liability include an accrual for certain employer-related costs, such as the District's share of Social Security and Public Employees Retirement System contributions. The Statement requires that the effects of implementation be treated as an adjustment to prior periods.

Change in Accounting Principle To more closely match power costs with power sales revenue, the District began deferring costs associated with surplus power that was delivered to other Northwest utilities under contractual storage agreements in 1994. These agreements allow for the delivery of power to other utilities at no charge with the stipulation that the power will be returned at the District's request in a future period. Once the power is returned to the District, the District sells the power and recognizes both the revenue and the cost associated with the transaction. At the adoption of the change, the amount of deferred cost relating to 1993 and prior years amounted to $513,000 and is reported as an Adjustment for the Cumulative Effect of Change in Accounting Principle in the Combining Statement of Revenues, Expenses, and Changes in Accumulated Net Revenues (Expenses) for 1994.

NOTE 2: LICENSING

The Lake Chelan, Rocky Reach and Columbia River-Rock Island projects are licensed under the Federal Power Act of 1920 and subsequent amendments through the years 2004, 2006 and 2028, respectively.

Under the Columbia River-Rock Island license, the District designed, constructed and is maintaining a fish hatchery and wildlife habitat. The District is also required to design, develop and, if the prototypes are successful, construct bypass devices to improve juvenile fish passage downstream. The total estimated cost of the fish protection devices varies substantially depending upon the result of research programs; estimates range from $25,000,000 to $50,000,000.

Under agreements reached with fishery agencies and Indian tribes and approved by the Federal Energy Regulatory Commission, the Rocky Reach System will: 1) continue to investigate the feasibility of bypass alternatives to improve juvenile fish passage downstream, 2) provide fish hatchery production, and 3) work with fishery agencies and tribes concerning possible long-term compensation options. Management and legal counsel are unable to forecast with certainty the outcome of these ongoing proceedings. However, if bypass testing proves effective, the District may enter into a long-term agreement with the fishery agencies and Indian tribes to install these devices. The estimated cost of these bypass devices is $25,000,000 to $50,000,000.

NOTE 3: LONG-TERM DEBT

Revenue Bonds and Notes Payable

As of December 31, 1995 *(amounts in thousands)*

Rocky Reach Hydro:	
Revenue Bonds, 5% to 7.625%, due through sinking fund to July 1, 2026	$ 124,736
Columbia River-Rock Island Hydro:	
Revenue Bonds, 3.75% to 7.875%, due serially and through sinking fund to June 1, 2029	337,670
Water System:	
Revenue Bonds, 5% to 7.9%, due serially and through sinking fund to June 1, 2018	1,365
Notes Payable, 1%, due in annual installments to July 1, 2009	255
	1,620
Wastewater System:	
Notes Payable, 1% to 9.2%, due in annual installments to July 1, 2011	1,891
Financing Facilities:	
Chelan Hydro Consolidated System Revenue Bonds fixed rate 4.2% to 9.3%, due June 1, 1996 to July 1, 2068 (net of original issue discount of $607 and deferred loss on early retirements of debt of $4,371)	242,745
	$ 708,662

In May 1995, the District issued $19,590,000 of Chelan Hydro Consolidated System Revenue Bonds, Refunding Series 1995A. The issue was used to refund the outstanding balance of the Columbia River-Rock Island System's 1985A Revenue Bonds, which carried interest rates from 9.00% to 9.75%. The 1995A Refunding Bonds mature June 1, 2015 and carry a variable interest rate which is established on a weekly basis. In anticipation of this transaction, the District entered into an interest rate swap transaction with Merrill Lynch Capital Services, Inc, in June, 1993. This ten year swap transaction has a notional amount of $18,705,000. The District has agreed to pay a fixed term rate of 4.433% commencing June 1, 1995 through June 1, 2003. In return, the District will receive a floating rate payment as determined by the J.J. Kenny index. In effect, the District has locked in a fixed interest rate of 4.433% on the notional amount over the life of the swap agreement. The difference between the reacquisition price and the net carrying amount of the old debt is reported in the accompanying financial statements as a deduction from bonds payable, see **Refunded Debt** below.

In June 1995, the District issued $15,835,000 of Chelan Hydro Consolidated System Revenue Bonds, Refunding Series 1995B. The issue was used to refund the outstanding balance of the Rocky Reach System's 1985A Revenue Bonds. The 1995B Refunding Bonds consist of $11,945,000 serial bonds, bearing interest rates from 3.9% to 5.65% with maturities between 1996 and 2009, and $3,890,000 of term bonds, bearing interest at 5.85% and maturing in 2012. The difference between the reacquisition price and the net carrying amount of the old debt is reported in the accompanying financial statements as a deduction from bonds payable, see **Refunded Debt** below.

Summary of Estimated Debt Service Requirements to Maturity

Principal and Interest *(amounts in thousands)*

Year	Rocky Reach	Col. River Rock Island	Water System	Wastewater System	Financing Facilities
1996	$ 13,545	$ 23,333	$ 186	$ 143	$ 21,648
1997	13,534	23,331	162	136	20,319
1998	13,526	23,320	159	134	20,398
1999	13,514	23,316	154	133	20,544
2000	13,501	23,307	150	132	19,343
Thereafter	85,105	716,669	1,628	1,374	839,402
Total	$152,725	$833,276	$ 2,439	$ 2,052	$941,654

Intersystem Loans The Chelan Hydro Consolidated System, Financing Facilities, issues revenue bonds on a periodic basis and loans the proceeds, in the form of intersystem loans, to the Hydro Systems, Distribution System, Water System, Wastewater System and Internal Service System. These intersystem loans bear interest at the same rates as that paid on the respective revenue bonds. Intersystem loans are payable in installments or at maturity. The District's internal policy requires loan repayments be made to the Chelan Hydro Consolidated System, Financing Facilities, over a period not to exceed 120% of the useful life of the assets acquired.

(amounts in thousands)

Due (To) From

	Rocky Reach	Col. River Rock Island	Lake Chelan	Distr. System	Water System	Wastewater System	Financing Facilities	Internal Service
Rocky Reach	$ -	$ -	$ -	$ -	$ -	$ -	$ (83,530)	$ 1,428
Col. River-Rock Island	-	-	-	-	-	-	(69,268)	1,786
Lake Chelan	-	-	-	-	-	-	(13,231)	295
Distribution System	-	-	-	-	500	107	(47,057)	3,358
Water System	-	-	-	(500)	-	-	(1,462)	-
Wastewater System	-	-	-	(107)	-	-	(1,872)	-
Financing Facilities	83,530	69,268	13,231	47,057	1,462	1,872	-	1,505
Internal Service	(1,428)	(1,786)	(295)	(3,358)	-	-	(1,505)	-
	$82,102	$67,482	$12,936	$43,092	$1,962	$ 1,979	$(217,925)	$8,372

In 1995, the Distribution System transferred parks, with a net book value of $6,000,000, and a like amount of associated debt to the Lake Chelan System. The parks, which were constructed during the 1980's, were financed and maintained by the Distribution System for the Lake Chelan System because of restrictive covenants of the Lake Chelan System revenue bonds. These bonds have subsequently been retired and the ownership of the assets and associated liabilities have been transferred.

Defeased Debt In prior years, the District refunded a portion of the 1992A Chelan Hydro Consolidated System Revenue Bond issue. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2,664,000. The difference, reported in the accompanying financial statements as a deduction from bonds payable of $2,430,000 as of December 31, 1995, is being charged to operations through 2018 using the straight-line method.

The proceeds of the 1993G refunding issue have been placed in irrevocable escrow accounts and invested in U.S. Government securities that, together with interest earned, will provide amounts sufficient to satisfy future payment of interest and principal on the issues being refunded. Refunded bonds are not included in the District's outstanding long-term debt since the District legally satisfied its obligations through consummation of the refunding transactions. The principal amount of defeased bonds remaining outstanding at December 31, 1995, for the 1992A Chelan Hydro Consolidated System Revenue Bond issue totaled $17,750,000.

Refunded Debt On June 1, 1995, the District refunded the Columbia River-Rock Island System's 1985A Revenue Bonds. The refunding resulted in a difference between the reaquisition price and the net carrying amount of the old debt of $1,024,000. The difference, reported in the accompanying financial statements as a deduction from bonds payable of $994,000 as of December 31, 1995, is being charged to operations through 2015 using the straight-line method. The District completed the refunding to reduce its total debt service payments over the next 20 years by $12,185,000 and to obtain an economic gain (the difference between present values of the old and new debt service payments) of $6,765,000.

On July 1, 1995, the District refunded the Rocky Reach System's 1985A Revenue Bonds. The refunding resulted in a difference between the reaquisition price and the net carrying amount of the old debt of $976,000. The difference, reported in the accompanying financial statements as a deduction from bonds payable of $947,000 as of December 31, 1995, is being charged to operations through 2012 using the straight-line method. The District completed the refunding to reduce its total debt service payments over the next 17 years by $8,666,000 and to obtain an economic gain (the difference between present values of the old and new debt service payments) of $4,332,000.

NOTE 4: PURCHASED POWER SUPPLY

A significant portion of the Distribution System power is purchased from the Hydro Systems on a cost-of-service basis including debt service costs. Of the total kilowatt-hours purchased by the Distribution System during 1995, approximately 66% was provided by the Rocky Reach System, 21% by the Columbia River-Rock Island System, 9% by the Lake Chelan System, and 4% from other sources.

The District also receives power from the Columbia Storage Power Exchange. The District also has rights to purchase approximately 18 megawatts of peaking power from the Colockum Transmission Company Inc. (CTCI).

In July 1993, the Distribution System entered into a contract with CTCI which assigned the rights and obligations associated with CTCI's 23% share of generation and obligation for associated costs of the Rocky Reach Hydro-Electric System to the Distribution System. In return for this assignment the Distribution System is obligated to meet the demand for certain CTCI operations. This demand is met through the power assigned by the contract. In the event that Rocky Reach Hydro production is deficient or exceeds CTCI's demand, power is to be purchased or sold by the Distribution System based on contractual rates, which approximate market value, and CTCI is to be charged or credited for this amount. Effective June 1995, the Distribution System contracted with CTCI to provide an additional 17 megawatts of energy.

NOTE 5: WASHINGTON PUBLIC POWER SUPPLY SYSTEM LITIGATION

The Washington Public Power Supply System (Supply System) is a municipal corporation and political subdivision of the State of Washington organized in 1957 as a joint operating agency to acquire, construct and operate facilities for the generation and transmission of electric power. The District was a member of the Supply System until July 3, 1995. The Supply System initiated construction of five nuclear generating facilities. Project No. 2 began commercial operation in December of 1984. In May 1994, the Supply System board resolved to terminate construction of Project Nos. 1 and 3. Project Nos. 4 and 5 were terminated in 1982.

Nuclear Project Nos. 1 and 3 The District has entered into net billing agreements with the Supply System and BPA with respect to these projects. Under terms of these agreements, BPA is unconditionally obligated to pay the District and the District is unconditionally obligated to pay the Supply System the District's pro rata share of the total annual costs of each project, including debt service on revenue bonds issued to finance the projects, whether or not construction of these projects is completed, delayed or terminated, or operation is suspended or curtailed. The effect of these net billing agreements is that the cost of power sold by BPA to all of its customers, including the District, includes the cost of these projects.

Cost Sharing Litigation Project Nos. 1 and 4 were being planned and constructed as twin facilities at Hanford, Washington to take economic advantage of sharing certain common components. Project Nos. 3 and 5 were being developed at Satsop, Washington on a similar basis. Cost sharing litigation was instituted concerning the appropriate allocation of these common costs to the projects. On February 25, 1992 the Ninth Circuit Court of Appeals affirmed in part and reversed in part the earlier ruling of the Federal District Court on the question of equitable cost allocation to the nuclear projects. The Ninth Circuit Court of Appeals ruled that the Supply System's method of cost allocation was the method intended by the project participants, and remanded the case to the lower court for further proceedings. This matter was settled amongst all parties in 1995. The settlement did not require any additional payments from the District.

NOTE 6: EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan All District full-time employees participate in the Washington Public Employees Retirement System (PERS), a multiple-employer, cost-sharing public employee retirement system operated by the State of Washington. The payroll for employees covered by PERS for the year ended June 30, 1995, was $5,218,000,000; the District's total payroll for the year ended December 31, 1995 was $25,885,000 of which $25,494,000 was for employees covered by PERS. Total amounts contributed in 1995 by employees and the District were $1,368,000 and $1,935,000, respectively.

Under Washington state statutes all District full-time employees are eligible to participate in PERS. The statutes relating to PERS were changed for employees hired after September 30, 1977. The older and newer versions of the plan are herein referred to as Plan 1 and Plan 2, respectively. Plan 1 employees are eligible for retirement after 30 years of service, or at the age of 60 with 5 years of service, or at the age of 55 with 25 years of service. Plan 2 employees may retire at the age of 65 with 5 years of service, or at age 55 with 20 years of service.

At June 30, 1995, employees covered under Plan 1 and Plan 2 are required to contribute 6% and 5% of their salaries to PERS, respectively. The District is required to contribute a percentage of salary paid to cover Plan 1 and Plan 2 employees. Employer rates for Plan 1 are established by the Legislature on a biennium basis. Employer rates for Plan 2 are actuarially determined by the State Actuary on an annual basis. Employer rates averaged 7.41% for Plan 1 and Plan 2 employees for the year ended June 30, 1995. The District's contribution in 1995 represents its full liability under PERS.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess PERS funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons with other retirement systems. PERS does not make separate measurements of assets and the pension benefit obligation for individual participating employers. The pension benefit obligation at December 31, 1994, for PERS as a whole, determined through an actuarial valuation performed as of that date, was $11,549,000,000. PERS's net assets available for benefits on that date (valued at market) were $9,800,000,000 leaving an unfunded pension benefit obligation of $1,749,000,000. The District's 1995 actuarially determined contribution represented 0.5% of total contributions required of all participating employers.

Certain state legislation requires employers to reimburse PERS for pension costs associated with vacation in excess of 30 days paid upon retirement. The District's contribution for 1995 was approximately $186,000, due to this legislation. Information is not available to permit the District to determine its liability under this legislation related to future retirements.

Ten-year historical trend information showing PERS's progress in accumulating sufficient assets to pay benefits when due is presented in the State of Washington's June 30, 1995 annual financial report, which is available through the State.

Deferred Compensation Plan The District reflects as an asset and corresponding liability the fair market value of the funds it has designated for deferred compensation benefits. The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all District employees, permits them 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.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the District (without being restricted to the provisions of benefits under the plan), subject only to the claims of the District's general creditors. Participants' rights under the plan are equal to those of general creditors of the District in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the District's legal counsel that the District has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The District's management believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE 7: COMMITMENTS AND CONTINGENCIES

Environmental Matters The District has been notified by the Environmental Protection Agency (EPA) about investigations related to several sites where the District has disposed of transformers. The EPA has determined that the sites under investigation are contaminated with hazardous waste, including polychlorinated biphenyls (PCBs). The EPA alleges that oil in the transformers contained PCBs. The District has accrued its estimated share of the remediation costs to clean up these sites. The District has submitted claims to its prior insurance carriers for reimbursement of these costs. Any reimbursement will be recorded when received. The District believes that additional PCB investigations will not have a material adverse effect on the District's financial position or results of operations.

Capital Improvement Program The District estimates that its 1996 capital improvement program and fish protection cost requirements will be as follows:

(amounts in thousands)		
	Rocky Reach	$ 28,318
	Columbia River-Rock Island	2,758
	Lake Chelan	1,205
	Distribution	10,376
	Water	3,125
	Wastewater	4,090
	Internal Service	3,707
		$ 53,579

The District has entered into contracts to replace turbines one through eleven at Rocky Reach. The total cost of this project is approximately $77,000,000, of which, $10,823,000 is included in the Rocky Reach capital commitments disclosed above. This project will be financed through the use of bond proceeds. Installation of the turbines one through seven began in September 1995. The replacement schedule of turbines eight through eleven will be integrated with the units one through seven replacement schedule to minimize the effects of construction on the District's fish bypass programs.

The District has entered into contracts to replace governors, transformers, exciters and circuit breakers in units one through eleven, and to install new stators in units eight through eleven at Rocky Reach. The total cost of this project is approximately $27,500,000, of which, $12,250,000 is included in the Rocky Reach capital commitments disclosed above. This project will be financed through the use of bond proceeds.

Power Brokering The District has entered into multiple purchase and sale agreements of energy extending into 1996. These agreements represent brokering type transactions. As of February 16, 1996, the District has signed contracts obligating it to deliver approximately 375,000 MWH of energy at various times throughout 1996. The District expects to receive approximately $3.4 million from the purchasers of this power. The District has committed to purchase approximately 287,000 MWH of energy at a cost of approximately $2.4 million to fulfill these obligations. The remainder of the energy needed will be supplied through surplus generation provided by the District's own sources or will be purchased on the open market as needed. The District believes it has sufficient internal resources to complete these transactions. The District has acquired the right, but not the obligation to purchase power, at a predefined rate, on 34% of the open position as a hedge against rising power costs. If the open position was filled at the spot market rate as of February 16, 1996 the District would have a positive margin on these transactions. To the extent actual future prices differ, the margin could change. However, the District is not aware of any events or circumstances that have occurred subsequent to the balance sheet date that would prevent the District from realizing a positive margin on these transactions. The District is exposed to certain losses in the event of nonperformance by conterparties to these agreements, however the District does not anticipate any nonperformance.

APPENDIX E

UNAUDITED FINANCIAL STATEMENTS OF THE DISTRICT
FOR THE YEAR ENDED DECEMBER 31, 1996

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PUBLIC UTILITY DISTRICT NO. 1 of CHELAN COUNTY, WASHINGTON

COMBINING BALANCE SHEET —— ASSETS
December 31, 1996 (amounts in thousands)
Unaudited

	Rocky Reach Hydro	Columbia River-Rock Island Hydro	Lake Chelan Hydro	Distribution System	Water System	Wastewater System	Financing Facilities	Internal Service	1996 Total	1995 Total
UTILITY PLANT:										
In service, at original cost	$ 331,446	$ 422,716	$ 34,886	$ 147,671	$ 13,616	$ 6,869	$ -	$ 19,192	$ 976,396	$ 945,919
Construction work in progress	6,206	33	548	7,762	1,130	2,674	-	1,044	19,397	24,965
Less-accumulated depreciation	(57,091)	(69,673)	(11,839)	(44,909)	(4,704)	(1,315)	-	(7,197)	(196,728)	(195,054)
	280,561	353,076	23,595	110,524	10,042	8,228	-	13,039	799,065	775,830
SPECIAL FUNDS:										
Bond funds (reserve accounts)	16,003	22,726	-	-	153	-	7,846	-	46,728	46,966
Reserve and contingency funds	3,366	5,726	409	-	-	-	-	-	9,501	9,220
Construction funds	26	5,281	525	329	618	55	6,835	529	14,198	48,043
	19,395	33,733	934	329	771	55	14,681	529	70,427	104,229
CURRENT ASSETS:										
Revenue and other funds	4,619	4,743	1,145	32,782	1,001	449	-	5,407	50,146	52,079
Bond funds	1,165	2,636	-	-	478	81	9,985	-	14,345	4,228
Accounts receivable, net	2,177	556	29	5,582	285	316	-	7	8,952	6,138
Accrued interest receivable	501	219	10	341	12	72	188	43	1,386	1,689
Materials and supplies	974	-	-	3,782	279	-	-	-	5,035	4,232
Power storage inventory	-	-	-	534	-	-	-	-	534	938
Prepayments and other	99	399	24	84	24	3	-	-	633	633
	9,535	8,553	1,208	43,105	2,079	921	10,173	5,457	81,031	69,937
DEFERRED CHARGES AND OTHER ASSETS:										
Deferred financing costs	9,953	12,291	417	1,197	113	59	719	78	24,827	25,691
Fish protection costs	16,154	5,592	-	-	-	-	-	-	21,746	22,181
Pooled assets, net	1,673	505	214	-	-	-	-	-	2,392	2,569
Long term receivables, net	13	616	-	1,917	44	3,070	-	-	5,660	6,308
Designated for deferred compensation benefits	-	-	-	-	-	-	-	7,257	7,257	6,383
Other	198	293	48	80	12	-	-	25	656	2,369
	27,991	19,297	679	3,194	169	3,129	719	7,360	62,538	65,501
Total assets	$ 337,482	$ 414,659	$ 26,416	$ 157,152	$ 13,061	$ 12,333	$ 25,573	$ 26,385	$ 1,013,061	$ 1,015,497

PUBLIC UTILITY DISTRICT NO. 1 of CHELAN COUNTY, WASHINGTON

COMBINING BALANCE SHEET ----- CAPITALIZATION AND LIABILITIES
December 31, 1996 (amounts in thousands)
Unaudited

	Rocky Reach Hydro	Columbia River-Rock Island Hydro	Lake Chelan Hydro	Distribution System	Water System	Wastewater System	Financing Facilities	Internal Service	1996 Total	1995 Total
LONG-TERM DEBT										
Revenue bonds and notes payable	$ 115,747	$ 335,120	$ -	$ -	$ 2,086	$ 2,711	$ 237,379	$ -	$ 693,043	$ 708,662
Intersystem loans payable (receivable)	81,558	66,561	12,568	37,715	3,018	1,729	(211,417)	8,268	-	-
Less current maturities	(7,136)	(2,471)	(412)	(3,220)	(107)	(119)	-	(111)	(13,576)	(16,586)
	190,169	399,210	12,156	34,495	4,997	4,321	25,962	8,157	679,467	692,076
CONTRIBUTIONS IN AID OF CONSTRUCTION	351	4,517	-	19,328	5,875	6,918	-	-	36,989	32,928
ACCUMULATED NET REVENUES	131,931	1,922	13,249	89,618	1,480	52	3,637	1,500	243,389	232,681
Total capitalization	322,451	405,649	25,405	143,441	12,352	11,291	29,599	9,657	959,845	957,685
	##									
CURRENT LIABILITIES	##									
Current maturities of long-term debt	7,136	2,471	412	3,220	107	119	-	111	13,576	16,586
Warrants and accounts payable	2,161 ##	2,204	142	4,571	452	199	123	1,416	11,268	14,440
Accrued taxes	1,570	749	94	912	13	4	-	4	3,346	2,778
Accrued interest	693	1,742	-	17	19	16	6,687	-	9,174	9,361
Intersystem payables (receivables)	3,221	1,844	363	4,977	118	653	(10,836)	(340)	-	-
Accrued vacation and other	250	-	-	14	-	-	-	5,888	6,152	5,623
	15,031	9,010	1,011	13,711	709	991	(4,026)	7,079	43,516	48,788
OTHER LIABILITIES										
Deferred compensation payable	-	-	-	-	-	-	-	7,257	7,257	6,383
Other	-	-	-	-	-	51	-	2,392	2,443	2,641
	-	-	-	-	-	51	-	9,649	9,700	9,024
	##									
Total capitalization and liabilities	$ 337,482	$ 414,659	$ 26,416	$ 157,152	$ 13,061	$ 12,333	$ 25,573	$ 26,385	$ 1,013,061	$ 1,015,497

COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN ACCUMULATED NET REVENUES (EXPENSES)
For the year ended December 31, 1996 (amounts in thousands)
Unaudited

	Rocky Reach Hydro	Columbia River-Rock Island Hydro	Lake Chelan Hydro	Distribution System	Water System	Wastewater System	Financing Facilities	Internal Service	Intra-District Transactions	1996 Total	1995 Total
OPERATING REVENUES	$ 44,076	$ 47,404	$ 3,039	$ 67,862	$ 1,981	$ 353	$ -	$ 1,648	$ (27,759)	$ 138,604	$ 123,453
OPERATING EXPENSES											
Operations-											
Purchased power	-	-	-	36,002	-	-	-	-	(27,074)	8,928	3,296
Purchased water	-	-	-	-	210	-	-	-	-	210	203
Other	17,324	15,683	1,260	9,231	1,097	253	-	249	(685)	44,412	39,387
Maintenance	5,337	3,826	667	2,586	279	(26)	-	-	-	12,669	11,003
Operating taxes	2,132	1,222	163	3,425	201	20	-	-	-	7,163	6,253
Depreciation	6,336	5,603	868	4,235	386	242	-	1,008	-	18,678	16,462
	31,129	26,334	2,958	55,479	2,173	489	-	1,257	(27,759)	92,060	76,604
NET OPERATING REVENUES (EXPENSES)	12,947	21,070	81	12,383	(192)	(136)	-	391	-	46,544	46,849
OTHER (EXPENSE) INCOME											
Interest on long-term debt	(6,489)	(20,970)	-	-	(85)	(19)	(15,719)	-	-	(43,282)	(44,962)
Interest on intersystem loans	(5,840)	(5,102)	(833)	(3,108)	(116)	(111)	15,756	(646)	-	-	-
Amortization of deferred debt costs	(767)	(572)	(34)	(211)	(14)	(4)	31	(1)	-	(1,572)	(1,639)
Interest income	2,408	2,808	187	3,098	110	167	996	432	-	10,206	10,193
Gain on reacquired bonds	(4)	83	-	-	-	-	-	-	-	79	202
Other	(2,563)	(696)	-	(1)	-	3	1,288	209	-	(1,760)	(1,170)
	(13,255)	(24,449)	(680)	(222)	(105)	36	2,352	(6)	-	(36,329)	(37,376)
NET REVENUES (EXPENSES)	(308)	(3,379)	(599)	12,161	(297)	(100)	2,352	385	-	10,215	9,473
DEPRECIATION ON CONTRIBUTED CAPITAL	-	-	-	-	255	238	-	-	-	493	460
ACCUMULATED NET REVENUES (EXPENSES), Beginning of year	130,635	4,026	13,683	76,612	1,482	(89)	2,783	3,549	-	232,681	222,748
INTERSYSTEM TRANSFERS	1,604	1,275	165	845	40	3	(1,498)	(2,434)	-	-	-
ACCUMULATED NET REVENUES, End of year	$ 131,931	$ 1,922	$ 13,249	$ 89,618	$ 1,480	$ 52	$ 3,637	$ 1,500	$ -	$ 243,389	$ 232,681

Unaudited

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APPENDIX F

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

DEFINITIONS

The following are definitions of certain terms used and not defined elsewhere in the Official Statement. Terms not defined herein have the meanings specified in the Resolution.

"1997A Bonds" means the District's Columbia River-Rock Island Hydro-Electric System Revenue Refunding Bonds, Series 1997A authorized pursuant to the First Supplemental Resolution.

"1997B Bonds" means the District's Columbia River-Rock Island Hydro-Electric System Revenue Refunding Bonds, Series 1997B (Taxable) authorized pursuant to the First Supplemental Resolution

"1997 Bonds" means, collectively, the 1997A Bonds and 1997B Bonds.

"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 approximate interest rate thereof on each date specified therein to the date of calculation as shown on a schedule to the Supplemental Resolution authorizing the issuance of such Capital Appreciation Bond.

"Bond" or "Bonds" means the Public Utility District No. 1 of Chelan County, Washington Columbia River-Rock Island Hydro-Electric System Revenue Bonds authorized by the Resolution.

"Capital Appreciation Bonds" means any Bonds the interest on which is compounded and not scheduled to be paid until maturity, prior redemption or conversion thereof.

"Current Interest Bonds" means the Bonds of any Series which pay interest at least annually to the Owners thereof excluding the first payment of interest thereon.

"Expansion Bond Fund" means the Columbia River-Rock Island Hydro-Electric System Expansion Revenue Bond Fund created by the Senior Rock Island Resolution.

"Expansion Reserve and Contingency Fund" means the Columbia River-Rock Island Hydro-Electric System, Expansion Reserve and Contingency Fund created by the Senior Rock Island Resolution and continued pursuant to the Master Resolution.

"Fiscal Agent" means with respect to any Series of 1997 Bonds, the fiscal agent (which may be the Treasurer of the District) appointed pursuant to the Supplemental Resolution authorizing the issuance of such Series.

"1997 Term Bonds" means 1997 Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such 1997 Bonds on or before their specified maturity date or dates.

"Original Bond Fund" means the Columbia River-Rock Island Hydro-Electric System Revenue Bonds, Bond Fund created by the Original Resolution and all bond funds hereinafter created for the payment of the principal of and interest and premium, if any, on all Original Rock Island Bonds.

"Original Resolution" means Resolution No. 1137 of the District adopted by the Commission on December 20, 1955, as such resolution has been or may hereafter be amended or supplemented, so long as it remains in effect.

"Power Sales Contract" means that contract between Puget and the District, dated as of June 19, 1974, as it may be amended or modified from time to time, for sale of power and energy from the Rock Island System.

"Refunding Bonds" means all bonds whether issued in one or more Series, authorized pursuant to the Resolution, to the extent the proceeds thereof are used or allocated to pay or to provide for the payment of Original Bonds, Senior Rock Island Bonds or Bonds.

"Revenue Fund" means the Revenue Fund created pursuant to Section 9 of the Original Resolution and continued pursuant to Section 5.01 of the Master Resolution.

"Senior Rock Island Bonds" means any parity bonds issued and outstanding under the Senior Rock Island Resolution.

"Senior Rock Island Resolution" means Resolution No. 4950 of the District, adopted by the Commission on June 19, 1974 as such resolution has been or may hereafter be amended or supplemented, so long as it remains in effect.

"Supplemental Resolution" means any resolution hereafter adopted by the Commission, supplementing, modifying or amending the Master Resolution in accordance with Section 8.01 thereof.

"Tax and Nonarbitrage Certificate" means the Tax and Nonarbitrage Certificate of the District relating to the 1997A Bonds and delivered by the District.

"Underwriter" means, with respect to a Series of the 1997 Bonds, the original purchasers of such Bonds.

THE MASTER RESOLUTION

General

The Resolution authorizes the issuance of "Public Utility District No. 1 of Chelan County, Washington Columbia River-Rock Island Hydro-Electric System Revenue Bonds," which Bonds may be issued in Series pursuant to Supplemental Resolutions adopted under the terms and conditions provided in the Resolution.

Additional Bonds

The Commission may from time to time by Supplemental Resolution establish one or more Series of Bonds, and the District may issue, and a Fiscal Agent may authenticate and deliver to the purchasers thereof, Bonds of any Series so established, in such principal amount as shall 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 said Supplemental Resolution.

The District will not hereafter create any other special fund or funds for the payment of Bonds payable out of or secured by a pledge of the Revenues of the Rock Island System, or create any additional indebtedness which will rank on a parity with or in priority over the charge and lien on such Revenues, except that Bonds may be issued payable from the Revenues on a parity with the Bonds, and secured by an equal charge and lien on the Revenues, in such principal amount as may be required for any one or more of the following purposes:

(a) To comply with any order or decision of any federal, state or local governmental agency or authority with authority to issue or make and enforce an order or decision, requiring the installation of additional facilities or modifications at or in the Rock Island System;

(b) To pay for renewals, repairs, replacements, capital additions and betterments necessary to maintain good and efficient operation of the Rock Island System; and

(c) To refund at any time any or all of the then Outstanding Bonds issued pursuant to the Resolution, the Original Rock Island Bonds or the Senior Rock Island Bonds.

The District, so long as the Power Sales Contract is in effect, shall not issue any Bonds pursuant to the Resolution for the purposes specified in clauses (a) and (b) above, except in accordance with the provisions of the Power Sales Contract with respect to the issuance of said additional Bonds.

The lien and charge of the Original Bonds and the Senior Rock Island Bonds on Revenues and the obligations of the District to deposit Revenues into the Original Bond Fund and the Expansion Bond Fund for the payment of the Original Rock Island Bonds and the Senior Rock Island Bonds, respectively, have priority over the lien and charge of the Bonds on Revenues.

A Supplemental Resolution authorizing a Series of Bonds shall specify (or provide the method for specifying), among other things:

(i) the authorized principal amount and distinguishing designation of such Series;

(ii) the general purpose or purposes for which such Series of Bonds is being issued, and the deposit, disbursement and application of the proceeds of the sale of the Bonds of such Series;

(iii) the date or dates, and the maturity date or dates of the Bonds of such Series, and the principal amount maturing on each maturity date and any mandatory sinking account payments for the Bonds of such Series;

(iv) the interest rate or rates on the Bonds of such Series (which may be a rate of zero) and the interest payment date or dates therefor, and whether such interest rate or rates shall be fixed, variable or a combination of both and, if necessary, the manner of determining such rate or rates;

(v) the terms and conditions, if any, for the redemption of the Bonds of such Series prior to maturity, including the redemption date or dates, the redemption price or prices and other applicable redemption terms;

(vi) the terms and conditions, if any, for the purchase of the Bonds of such Series upon any optional or mandatory tender for purchase prior to maturity, including the tender date or dates, the purchase date or dates, the purchase price or prices and other applicable terms;

(vii) the creation and maintenance of one or more special funds or accounts, if any, to provide for the payment or purchase of the Bonds of such Series and, if so determined by the Commission, any other special funds or accounts, including, without limitation, a reserve fund or account, for the Bonds of such Series and the application of moneys therein; and

(viii) instructions for the application of the proceeds of the Bonds of such Series.

Nothing contained in the Resolution shall prevent the District from issuing revenue bonds, notes or warrants or other evidences of indebtedness which are a charge upon all or any portion of the Revenues junior or inferior to the payments to be made into the bond funds created for the Bonds pursuant to any Supplemental Resolution.

Funds

The special fund of the District created by Section 9 of the Original Resolution and known as the "Revenue Fund" shall be continued and maintained as provided in the Original Resolution, the Senior Resolution and the Resolution for so long as any of the Original Rock Island Bonds, the Senior Rock Island Bonds or the Bonds are Outstanding. The special fund of the District created by Section 6.4 of the Senior Rock Island Resolution and known as the "Columbia River-Rock Island Hydro-Electric System Expansion Reserve and Contingency Fund" shall be continued and maintained as provided in the Senior Rock Island Resolution and the Resolution for so long as any of the Senior Rock Island Bonds or the Bonds are Outstanding.

Revenue Fund

Moneys in the Revenue Fund shall be applied at the times, in the amounts and for the purposes as provided or permitted by the Original Resolution, the Senior Rock Island Resolution and the Resolution, and in the following order of priority:

First, so long as the Original Rock Island Bonds are Outstanding, there shall be deposited in each month into the Original Bond Fund, the amounts required by the Original Resolution, to be used for the purposes specified therein;

Second, provision shall be made in each month for the payment of the ordinary costs of operating and maintaining the Rock Island System;

Third, there shall be deposited in each month into the Original Reserve and Contingency Fund, the amount required by the Original Resolution, the Senior Rock Island Resolution and the Resolution, to be used for the purposes specified therein and herein;

Fourth, so long as the Senior Rock Island Bonds are Outstanding, there shall be deposited in each month into the Expansion Bond Fund and the accounts therein, the amounts required by the Senior Rock Island Resolution, to be used for the purposes specified herein, and into the bond funds established for bonds issued pursuant to Section 9.6 of the Senior Rock Island Resolution and the accounts therein, the amounts required by the supplemental resolution or supplemental resolutions authorizing the issuance thereof, to be used for the purposes specified therein;

Fifth, there shall be deposited in each month into the bond funds and accounts created by any Supplemental Resolution, the amounts required by such Supplemental Resolutions, to be used for the purposes specified therein, including payment of principal of, premium, if any, and interest on the Bonds;

Sixth, so long as the Senior Rock Island Bonds are Outstanding, there shall be deposited in each month into the Expansion Reserve and Contingency Fund the amount required by the Senior Rock Island Resolution, to be used for the purposes specified; and

Seventh, for any lawful purpose.

Expansion Reserve and Contingency Fund

The District has continued the Expansion Reserve and Contingency Fund created by the Senior Rock Island Resolution.

Covenants

In addition to the rate covenant set forth in the Official Statement under the caption "Security for the 1997 Bonds" certain other covenants (some of which are summarized below) are set forth in the Resolution.

The following covenants apply under the Resolution:

Maintenance of Properties. The District will (i) at all times operate the properties of the Rock Island System and the business in connection therewith in an efficient and prudent manner, (ii) maintain, preserve and keep, or cause to be maintained, preserved and kept, the properties of the Rock Island System, and all additions and betterments thereto and extensions thereof, in good repair, working order and condition, and (iii) from time to time make, or cause to be made, all necessary proper repairs, renewals, replacements, additions, betterments and extensions thereto, so that at all times the business carried on in connection therewith shall be properly and advantageously conducted.

The District will at all times comply with the terms and conditions of any permits or licenses for the Rock Island System issued by any federal or state governmental agency or body and with any federal or state law or regulation applicable to the construction, operation, maintenance and repair of the Rock Island System, or requiring a license, permit or approval therefor.

The District will use its best efforts to obtain renewals of such permits or licenses or obtain new permits or licenses for a term which shall not be less than the final maturity date of the Bonds.

Comply With Previous Resolutions. The District shall comply in all respects with each of the provisions, covenants and agreements of or contained in the Original Resolution and the Senior Rock Island Resolution.

Sufficiency of Revenues. So long as any of the Bonds are outstanding, the District agrees (i) that output of the Rock Island System and all Revenues derived therefrom will be disposed of solely for the benefit and account of the Rock Island System except as provided in the Original Resolution, the Senior Rock Island Resolution and the Resolution and (ii) that the revenues received in cash from rates and charges for such output will, in the aggregate, be sufficient (to the extent not otherwise specifically provided for in the Resolution) to pay all costs associated with the District's ownership and operation of the Rock Island System, including the amounts required during each year for the payment of principal of, interest on and premium, if any, on the Original Rock Island Bonds, the Senior Rock Island Bonds and the Bonds.

No Encumbrance or Disposal of Properties. The District shall not mortgage, sell, lease or otherwise dispose of any of the Rock Island System unless simultaneous provision is made for the continuance of payments into the Revenue Fund sufficient in amount to permit payment therefrom of the principal and Accreted Value of and interest on and the premiums, if any, due upon the call and redemption thereof, of the Original Bonds, the Senior Rock Island Bonds and the Bonds, and also to provide for such payments into any reserve fund or account and other funds and accounts as are required under the terms of the Original Resolution, the Senior Rock Island Resolution and the Resolution.

Insurance. The District shall keep the Rock Island System properly insured with responsible insurers against risks of direct physical loss, damage to or destruction of the Rock Island System, against loss of revenue to the System caused by suspension or interruption of generation or transmission of power and energy caused by such loss, damage or destruction and against accidents, casualties, or negligence, and including liability insurance and employer's liability.

If any of the Original Rock Island Bonds or Senior Rock Island Bonds are then outstanding and unpaid the proceeds received by the District of any insurance policy or policies shall be applied as provided in the Original Rock Island Resolution and the Senior Rock Island Resolution. If no Original Rock Island Bonds or Senior Rock Island Bonds are then outstanding and unpaid then any material insurance proceeds covering such loss or damage shall be deposited in a contingency fund to be created by the Fiscal Agent.

Provide Financial Reports. The District shall prepare and make available for inspection at the principal administrative office of the District and shall provide to each Fiscal Agent, Rating Agencies, remarketing agents and any bank or other financial institution providing any Credit Facility for any Series or any portion thereof, the most recent audited annual financial statements of the Chelan Hydro Consolidated System and the current unaudited financial reports of the Chelan Hydro Consolidated System.

Events of Default

Each of the following events shall be an "Event of Default" under the Resolution:

(a) Default by the District in the due and punctual payment of the principal of, premium, if any, or Accreted Value on any Bond (whether at maturity, by acceleration, call for redemption or otherwise);

(b) Default by the District in the due and punctual payment of the interest on any Bond, which is not remedied within three (3) Business Days or on any Original Rock Island Bond or Senior Rock Island Bond;

(c) Failure of the District to observe and perform any of its other covenants, conditions or agreements under the Resolution or in the Bonds for a period of 90 days after written notice from the Bondowner's Trustee (as hereinafter defined) or the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding, specifying such failure and requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 90 day period, failure of the District to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence; or

(d) Certain bankruptcy-related events.

Bondowner's Trustee

So long as such Event of Default has not been remedied, a Bondowners' trustee (the "Bondowners' Trustee") may be appointed by the Owners of not less than twenty-five percent in aggregate amount of Bond Obligation of the Bonds then Outstanding, by an instrument or concurrent instruments in writing signed and acknowledged by such Owners or by their attorneys-in-fact duly authorized and delivered to such Bondowners' Trustee, with notification thereof being given to the District. That appointment shall become effective immediately upon acceptance thereof by the Bondowners' Trustee.

Acceleration

Upon the occurrence and continuation of an Event of Default, the Bondowners' Trustee or, if there is none, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding may, by written notice to the District, declare the entire unpaid principal and Accreted Value of the Bonds due and payable and, thereupon, the entire unpaid principal and Accreted Value of the Bonds shall forthwith become due and payable. Upon any such declaration the District shall forthwith pay to the Owners of the Bonds the entire unpaid principal and Accreted Value of, premium, if any, and accrued interest on the Bonds, but only from Revenues and other moneys herein specifically pledged for such purpose. If at any time after such a declaration and before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of such default or before the completion of the enforcement of any other remedy under the Resolution, the principal and Accreted Value of all Bonds that have matured or been called for redemption pursuant to any sinking fund provision and all arrears of interest have been paid and any other Events of Default which may have occurred have been remedied, then the Bondholders' Trustee or, if there is none, the Owners of 25 percent in aggregate amount of Bond Obligation of the Bonds then Outstanding may, by written notice to the District, rescind or annul such declaration and its consequence. No such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

Other Remedies; Rights of Bondholders.

Upon the occurrence and continuation of an Event of Default the Bondowner's Trustee may, and upon the written request of not less than 25 percent in aggregate amount of Bond Obligation of Bonds then Outstanding, shall proceed to protect and enforce their rights by mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance of any agreement contained in the Resolution.

Application of Money Collected by Bondowners' Trustee.

Any money collected by the Bondowners' Trustee at any time shall be applied in the following order of priority:

(i) first, to the payment of the charges, expenses, advances and compensation of the Bondowners' Trustee and the charges, expenses, counsel fees, disbursements and compensation of its agents and attorneys;

(ii) second, to the payment to the persons entitled thereto of all installments of interest then due on the Bonds in the order of maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference; and

(iii) third, to the payment to the persons entitled thereto of the unpaid principal amounts and Accreted Value of any Bonds which shall have become due (other than Bonds previously called for redemption for the payment of which money is held pursuant to the Resolution), whether at maturity or by proceedings for redemption or otherwise, in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal amounts or Accreted Value due on the same date, then to the payment thereof ratably, according to the principal amounts or Accreted Value due thereon to the persons entitled thereto, without any discrimination or preference.

Amendments to Resolution

The Resolution may be modified or amended with written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such amendment or modification is only applicable to a Series of Bonds, the Bonds of that Series) then Outstanding. No such modification or amendment shall (a) extend the fixed maturity of any Bond, or reduce the amount of Bond Obligation thereof, or extend the time of payment or reduce the amount of any mandatory sinking account payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium or redemption price payable upon the redemption thereof, or change the dates of redemption thereof, without the consent of the Owner of each Bond so affected, (b) reduce the aforesaid percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Resolution prior to or on a parity with the lien created by the Resolution, or deprive the Owners of the Bonds of the lien created by the Resolution on such Revenues and other assets (in each case, except as expressly provided in the

Resolution), without the consent of the Owners of all of the Bonds then Outstanding, or (c) modify any rights or duties of the Fiscal Agent without its consent.

The Resolution may also be modified or amended without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the covenants and agreements of the District in the Resolution thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the District, in each case which shall not materially and adversely affect the interests of the Owners of any of the Bonds;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Resolution, or in regard to matters or questions arising under the Resolution, as the Commission may deem necessary or desirable, and which shall not materially and adversely affect the interests of the Owners of any of the Bonds;

(iii) to modify, amend or supplement the Resolution in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially and adversely affect the interests of the Owners of any of the Bonds;

(iv) to provide for the issuance of a Series of Bonds with such interest rate, payment, maturity and other terms as the District may deem desirable; subject to the provisions of the Resolution;

(v) to provide for the issuance of Bonds in book-entry form or bearer form, provided that no such provision shall materially and adversely affect the interests of the Owners of any of the Bonds;

(vi) to allow for a consolidation of other District systems or facilities as provided in the Resolution; provided, however, that no such provision shall materially and adversely affect the interests of the Owners of any of the Bonds;

(vii) if the District has covenanted in a Supplemental Resolution to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion; and

(viii) for any other purpose that does not materially and adversely affect the interests of the Owners of any of the Bonds.

The provisions of the Resolution shall not prevent any Bondholder from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

Defeasance

Except as may be provided in any Supplemental Resolution creating a Series of Bonds, Bonds of any Series may be paid by the District in any of the following ways:

(a) by paying or causing to be paid the Bond Obligation of and interest on all Bonds Outstanding of the Series, as and when the same become due and payable;

(b) by depositing with the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary, in trust, at or before maturity, money or specified securities in the necessary amount to pay or redeem all Bonds Outstanding of the Series; or

(c) by delivering to the Fiscal Agent for such Series, for cancellation by it, all Bonds then Outstanding of the Series.

Upon the deposit with the Treasurer or the Fiscal Agent for a Series, an escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Resolution) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), then all liability of the District in respect of such Bond shall cease, terminate and be completely discharged; provided that the Owner thereof shall thereafter be entitled to the payment of the principal of and premium, if any, and interest on such Bond, and the District shall remain liable for such payment, but only out of such money or securities deposited as aforesaid for their payment, subject, however, to the provisions of the Resolution and the continuing duties of the Fiscal Agent for such Series thereunder.

FIRST SUPPLEMENTAL RESOLUTION

General

The First Supplemental Resolution authorizes the issuance of each Series of the 1997 Bonds.

1997 Bond Fund. The First Supplemental Resolution establishes the 1997 Bond Fund for the 1997 Bonds.

From Revenues, the Treasurer shall transfer to the Fiscal Agent funds for deposit into the 1997 Bond Fund in the amounts and at the times necessary to pay (i) the principal and Accreted Value of, premium, if any, and interest on all related 1997 Bonds as the same shall become due and payable on each interest payment date, redemption date or maturity date. On each interest payment date, redemption date and maturity date, the Fiscal Agent shall transfer, to the extent funds are available, from the 1997 Bond Fund to the paying agent, as appropriate, immediately available funds, sufficient to pay all principal and Accreted Value of, premium, if any, and interest due on the related 1997 Bonds on such interest payment date, redemption date or maturity date. The District covenants and agrees that all amounts on deposit in the 1997 Bond Fund and any account therein shall be pledged to the payment of the 1997 Bonds and shall be used and applied solely as provided in the First Supplemental Resolution for the purpose of paying the principal and Accreted Value of, premium, if any, and interest on all related 1997 Bonds, as and when the same shall become due and payable thereunder.

1997 Reserve Fund. The First Supplemental Resolution establishes the 1997 Reserve Fund for the 1997 Bonds.

The District shall deposit on the date of issuance of a Series of 1997 Bonds, or as otherwise set forth in the delivery certificate relating to such Series of 1997 Bonds, an amount, together with other available funds, equal to the Reserve Requirement. If on June 2 and December 2 of any year the amount on deposit in the 1997 Reserve Fund is at least 1% less than the Reserve Requirement, the District shall transfer to the 1997 Reserve Fund, from Revenues, an amount equal to the deficiency in the 1997 Reserve Fund. All investment earnings on amounts on deposit in a 1997 Reserve Fund and any amounts on deposit in the 1997 Reserve Fund in excess of the Reserve Requirement shall be transferred by the Treasurer to the Revenue Fund.

All amounts in a 1997 Reserve Fund shall be used and withdrawn by the Treasurer, solely for the purpose of (i) paying principal of and interest on the Refunding Bonds in the event moneys in the 1997 Bond Fund are insufficient, or (ii) for the payment of the final principal, Accreted Value and interest payment on the Refunding Bonds.

Excess Earnings Fund. The First Supplemental Resolution establishes the 1997A Excess Earnings Fund for the 1997A Bonds.

All money at any time deposited in the 1997A Excess Earnings Fund in order to comply with the provisions of the Tax and Nonarbitrage Certificate shall be held by the Treasurer for the account of the District in trust for payment to the federal government of the United States of America, and neither the District nor the Owner of any 1997 Bonds shall have any rights in or claim to such money. All amounts deposited into or on deposit in the 1997A Excess Earnings Fund shall be governed by the First Supplemental Resolution and by the Tax and Nonarbitrage Certificate. The Treasurer shall invest all amounts held in the 1997A Excess Earnings Fund in accordance with the Tax and Nonarbitrage Certificate. Money shall not be transferred from the 1997A Excess Earnings Fund except in accordance with the Tax and Nonarbitrage Certificate.

Tax Covenants

In order to maintain exclusion from gross income of the interest on the 1997A Bonds for federal income tax purposes, the District covenants to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code and the District agrees to comply with the covenants contained in, and the instructions given pursuant to, the Tax and Nonarbitrage Certificate, as a source of guidance for compliance with such provisions.

APPENDIX G

BOOK-ENTRY SYSTEM

The following information has been provided by DTC. The District and the Underwriter make no representation regarding the accuracy or completeness thereof. Beneficial Owners (as hereinafter defined) should therefore confirm the following with DTC or the Participants (as hereinafter defined).

DTC will act as securities depository (the "Securities Depository") for the 1997 Bonds. The ownership of one fully registered 1997 Bond certificate for each maturity of each series as set forth on the cover page, in the aggregate principal amount of each such maturity, will be registered in the name of Cede & Co., DTC's partnership nominee.

DTC is a limited-purpose trust company 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, as amended. DTC holds securities that its participants (the "Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in accounts of the Participants, thereby eliminating the need of physical movements of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants'). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchase of the 1997 Bonds, in the denomination of $5,000 or any integral multiple thereof, must be made by or through Direct Participants, which will receive a credit for the 1997 Bonds on DTC's records. The ownership interests of each actual purchaser of each 1997 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, but Beneficial Owners are 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. Transfer of ownership interests in 1997 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 1997 Bonds, except in the event that use of the book-entry system for the 1997 Bonds is discontinued.

To facilitate subsequent transfers, all 1997 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of 1997 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 1997 Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

When notices are given, they shall be sent to DTC only. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the 1997 Bonds of 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.

Principal and interest payments on the 1997 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on a payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on a payment date. 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, 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 DTC is the responsibility of the District and the Bond Fund Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its service as Securities Depository with respect to the 1997 Bonds at any time by giving reasonable notice to the District or the Bond Fund Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 1997 Bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the book-entry transfers through DTC (or a successor Securities Depository). In that event, 1997 Bond certificates will be printed and delivered.

With respect to 1997 Bonds registered in the name of Cede & Co., as nominee of DTC, the District shall have no responsibility or obligation to any Participant or to any person on behalf of whom a Participant holds an interest in the 1997 Bonds with respect to (i) the accuracy of the records of DTC, Cede & Co. or any Participant with respect to any ownership interest in the 1997 Bonds, (ii) the delivery to any Participant or any other person, other than the owner of a Bond of any notice with respect to the 1997 Bonds, including any notice of redemption, (iii) the payment to any Participant or any other person, other than the owner of a Bond of any amount with respect to principal of, premium, if any, or interest on the 1997 Bonds, (iv) the selection by DTC or any Participant or any person to receive payment in the event of a partial redemption of the 1997 Bonds, (v) any consent given or action by DTC as registered owner, or (vi) any other matter. The District may treat and consider Cede & Co., in whose name each 1997 Bond is registered as the holder and absolute owner of such 1997 Bond for the purpose of payment of principal and interest with respect to such 1997 Bond, for the purpose of giving notices of redemption and other matters with respect to such 1997 Bond, for the purpose of registering transfers with respect to such 1997 Bond, and for all other purposes whatsoever.

APPENDIX H

PROPOSED FORM OF OPINIONS OF BOND COUNSEL

[1997A Bonds]

Public Utility District No. 1
of Chelan County, Washington
327 North Wenatchee Avenue
Wenatchee, Washington 98801

Re: Public Utility District No. 1 Chelan County, Washington, Columbia River-Rock Island Hydro-Electric System Revenue Bonds, Refunding Series 1997A

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by Public Utility District No. 1 of Chelan County, Washington (the "District") of its $135,943,546.30 aggregate initial principal amount of Columbia River-Rock Island Hydro-Electric System Revenue Bonds, Refunding Series 1997A (the "1997A Bonds"), pursuant to the Constitution of the State of Washington and Chapter 1 of the Laws of Washington, 1931, as amended and supplemented, constituting Title 54 of the Revised Code of Washington, and Chapters 39.46 and 39.53 of the Revised Code of Washington, as amended (the "Act") and pursuant to Resolution No. 97-10671, adopted on February 27, 1997 as amended and supplemented, including as supplemented by Resolution No. 97-10672, adopted on February 27, 1997 (collectively, the "Resolution"). All capitalized terms used herein, unless the context requires otherwise, shall have the meaning given to such terms in the Resolution.

As bond counsel, we have examined copies, certified to us as being true and complete copies, of the proceedings of the District for the authorization and issuance of the 1997A Bonds. In this connection, we have also examined such certificates of public officials and officers of the District as we have considered necessary for the purposes of this opinion.

We have, with your approval, assumed that all items submitted to us as originals are authentic and that all items submitted as copies conform to the originals.

On the basis of such examination, our reliance upon the assumptions contained herein and our consideration of such questions of law we consider relevant, and subject to the limitations and qualifications in this opinion, we are of the opinion that:

1. The Resolution has been duly adopted by the District and constitutes a legally valid and binding obligation of the District enforceable against the District in accordance with its terms.

2. Pursuant to the Act, the Resolution creates a valid lien on the 1997 Bond Fund and the Revenues pledged by the Resolution for the payment of the 1997A Bonds.

3. The 1997A Bonds have been duly authorized, executed and delivered by the District, and constitute legally valid and binding special obligations of the District, payable solely from the sources provided therefor in the Resolution.

4. Under existing statutes, regulations and court decisions, the excess of the accreted value (the "Accreted Value") of any 1997A Bond over the original principal amount thereof, to the extent that such excess represents interest properly allocated to the owner of such 1997A Bond, is excluded from gross income for federal income tax purposes pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"). In addition, the 1997A Bonds are not "private activity bonds" and, therefore, increases in Accreted Value with respect to the 1997A Bonds will not be a specific item of tax preference for purposes of the Code's alternative minimum tax provisions.

The increases in Accreted Value with respect to the 1997A Bonds are includable in adjusted current earnings as they accrue semi-annually rather than at the time such Accreted Value is actually paid to and received by the owners of the 1997A Bonds. The increase in Accreted Value for each semi-annual period is equal to the amount of interest which accrues semi-annually during such period on the Accreted Value of the 1997A Bonds as of the beginning of such period. An owner's adjusted basis in a 1997A Bond, used to determine the amount of gain or loss on disposition of such 1997A Bond, will be equal to the Accreted Value as of the date of calculation.

In rendering the opinions expressed by Paragraph 4 above, we are relying upon representations and covenants of the District in the Resolution and the District's Tax and Nonarbitrage Certificate concerning the investment and use of 1997A Bond proceeds, the rebate to the Federal government of certain earnings thereon and the use of facilities refinanced with the proceeds of the 1997A Bonds. In addition, we have assumed that all such representations are true and correct and that the District will comply with such covenants. We express no opinion with respect to the exclusion of the interest on the 1997A Bonds from gross income under Section 103(a) of the Code in the event that any of such representations are untrue or the District fails to comply with such covenants, unless such failure to comply is based on our advice or opinion. Except as stated above, we express no opinion as to any Federal tax consequences of the receipt of interest on, or the ownership or disposition of, the 1997A Bonds.

The opinions set forth above (i) assume that the Fiscal Agent has duly authenticated the 1997A Bonds and (ii) are subject to (a) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, the fraudulent conveyance laws) and (b) the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law. In addition, we advise you that a court may not strictly enforce certain covenants or allow acceleration of the due date of the 1997A Bonds if it concludes that such enforcement or acceleration would be unreasonable under the then existing circumstances. In our opinion, however, acceleration of the due date of the 1997A Bonds would be available if an event of default occurs as a result of a material breach by the District of a material covenant contained in such documents.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the 1997A Bonds.

We call attention to the fact that the opinions expressed herein may be affected by actions taken or omitted or events occurring or failing to occur after the date hereof. We have not undertaken to determine, or inform any person, whether any such actions are taken, omitted, occurred or fail to occur.

Respectfully submitted,

[1997B Bonds]

Public Utility District No. 1
of Chelan County, Washington
327 North Wenatchee Avenue
Wenatchee, Washington 98801

Re: Public Utility District No. 1 Chelan County, Washington, Columbia River-Rock Island Hydro-Electric System Revenue Bonds, Refunding Series 1997B (Taxable)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by Public Utility District No. 1 of Chelan County, Washington (the "District") of its $151,275,000 aggregate principal amount of Columbia River-Rock Island Hydro-Electric System Revenue Bonds, Refunding Series 1997B (Taxable) (the "1997B Bonds"), pursuant to the Constitution of the State of Washington and Chapter 1 of the Laws of Washington, 1931, as amended and supplemented, constituting Title 54 of the Revised Code of Washington, and Chapters 39.46 and 39.53 of the Revised Code of Washington, as amended (the "Act") and pursuant to Resolution No. 97-10671, adopted on February 27, 1997 as amended and supplemented, including as supplemented by Resolution No. 10672, adopted on February 27, 1997 (collectively, the "Resolution"). All capitalized terms used herein, unless the context requires otherwise, shall have the meaning given to such terms in the Resolution.

As bond counsel, we have examined copies, certified to us as being true and complete copies, of the proceedings of the District for the authorization and issuance of the 1997B Bonds. In this connection, we have also examined such certificates of public officials and officers of the District as we have considered necessary for the purposes of this opinion.

We have, with your approval, assumed that all items submitted to us as originals are authentic and that all items submitted as copies conform to the originals.

On the basis of such examination, our reliance upon the assumptions contained herein and our consideration of such questions of law we consider relevant, and subject to the limitations and qualifications in this opinion, we are of the opinion that:

1. The Resolution has been duly adopted by the District and constitutes a legally valid and binding obligation of the District enforceable against the District in accordance with its terms.

2. Pursuant to the Act, the Resolution creates a valid lien on the 1997 Bond Fund and the Revenues pledged by the Resolution for the payment of the 1997B Bonds.

3. The 1997B Bonds have been duly authorized, executed and delivered by the District, and constitute legally valid and binding special obligations of the District, payable solely from the sources provided therefor in the Resolution.

The opinions set forth above (i) assume that the Fiscal Agent has duly authenticated the 1997B Bonds and (ii) are subject to (a) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, the fraudulent conveyance laws) and (b) the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law. In addition, we advise you that a court may not strictly enforce certain covenants or allow acceleration of the due date of the 1997B Bonds if it concludes that such enforcement or acceleration would be unreasonable under the then existing circumstances. In our opinion, however, acceleration of the due date of the 1997B Bonds would be available if an event of default occurs as a result of a material breach by the District of a material covenant contained in such documents.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the 1997B Bonds.

We call attention to the fact that the opinions expressed herein may be affected by actions taken or omitted or events occurring or failing to occur after the date hereof. We have not undertaken to determine, or inform any person, whether any such actions are taken, omitted, occurred or fail to occur.

Respectfully submitted,

APPENDIX I

MBIA

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

President

Attest: ______________________

Assistant Secretary

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APPENDIX J

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This **CONTINUING DISCLOSURE CERTIFICATE** (this "**Disclosure Certificate**") is entered into as of March 1, 1997, by **PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON** (the "**District**") for the benefit of the Owners and Beneficial Owners of the Bonds (as hereinafter defined) in connection with the issuance of $135,943,546.30 aggregate principal amount of Columbia River-Rock Island Hydro-Electric System Revenue Refunding Bonds, Series 1997A and $151,275,000 aggregate principal amount of Columbia River-Rock Island Hydro-Electric System Revenue Refunding Bonds, Series 1997B (Taxable) (collectively, the "**Bonds**").

WITNESSETH:

WHEREAS, pursuant to **RESOLUTION No. 97-10671**, adopted by the District on February 27, 1997, as amended and supplemented, including as supplemented by **RESOLUTION No. 97-10672**, adopted by the District on February 27, 1997 (collectively, the "**Resolution**") the District has provided for the issuance of the Bonds; and

WHEREAS, the underwriter with respect to the Bonds (the "**Underwriter**") is required to comply with the provisions of Rule 15c2-12 adopted by the **SECURITIES AND EXCHANGE COMMISSION** (the "**SEC**") under 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 which (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 which is not a Saturday, a 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 Fiscal Agent, or any successor Dissemination Agent designated in writing by the District.

"Fiscal Agent" shall have the meaning provided in the Resolution.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository set forth in Schedule I attached hereto. Such Schedule I shall be revised from time to time to reflect changes in the identity of institutions designated as nationally recognized municipal securities information repositories for purposes of the Rule.

"Official Statement" shall mean the Official Statement with respect to the Bonds dated March 4, 1997.

"Owner" or "Bond Owner," whenever used herein with respect to a Bond, shall mean the Person in whose name the ownership of such Bond is registered on the Bond Register.

"Person" shall mean an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12 adopted by the SEC under the 1934 Act, as the same may be amended from time to time.

"State" shall mean the State of Washington.

"State Repository" shall mean any public or private repository or entity established by the State as a state information depository, as set forth in Schedule I attached hereto. Such Schedule I shall be revised from time to time to reflect changes in the identity of institutions designated by the State as state repositories for purposes of the Rule.

SECTION 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Owners and the Beneficial Owners, and in order to assist the Underwriter in complying with the Rule.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than 9 months (270 days) after the end of each fiscal year of the District, commencing with the fiscal year of the District ending December 31, 1996, provide to each Repository and State Repository copies of an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by 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, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than 15 Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the District shall provide the Annual Report to the Dissemination Agent. If by 15 Business Days prior to such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository or the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) 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 and listing all the Repositories to which it was provided.

SECTION 4. <u>Content of Annual Reports</u>. 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 prepaid in accordance with generally accepted accounting principles;

(ii) updated information for the previous fiscal year for the table entitled "Rock Island System--Average Annual Energy Output" contained in the Official Statement;

(iii) updated information for the previous fiscal year for the table entitled "Rock Island System--Disposition of Output" contained in the Official Statement;

(iv) updated information for the table entitled "Rock Island System--Cost of Power Comparison" contained in the Official Statement;

(v) updated information for the previous fiscal year for the table entitled "Debt Service Requirements for the Rock Island System" contained in the Official Statement;

(vi) updated information for the previous fiscal year for the table entitled "Historical and Projected Annual Capital Requirements" contained in the Official Statement;

(vii) updated information for the previous fiscal year for the table entitled "Rock Island System--Statement of Revenues, Expenses and Changes in Accumulated Net Revenues (Expenses)" contained in the Official Statement;

(viii) updated information for the previous fiscal year for the table entitled "Rock Island System--Cash Available for Debt Service" contained in the Official Statement;

(ix) updated information for the previous fiscal year for Table 1 of Appendix C of the Official Statement;

(x) updated information for the previous fiscal year for Table 2 of Appendix C of the Official Statement;

(xi) updated information for the previous fiscal year for Table 3 of Appendix C of the Official Statement;

(xii) updated information for the previous fiscal year for Table 4 of Appendix C of the Official Statement;

(xiii) updated information for the previous fiscal year for Table 5 of Appendix C of the Official Statement;

(xiv) updated information for the previous fiscal year for Table 6 of Appendix C of the Official Statement;

(xv) updated information for the previous fiscal year for Table 7 of Appendix C of the Official Statement;

(xvi) updated information for the previous fiscal year for Table 8 of Appendix C of the Official Statement; and

(xvii) updated information for the previous fiscal year for Table 9 of Appendix C of the Official Statement.

(b) Any or all of the items listed in subsection (a) may be incorporated by specific reference from other documents, including official statements of debt issues of the District or related public entities, which have been submitted to each of the Repositories or the SEC. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. 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; and 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 should 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) Notwithstanding any provision hereof to the contract, the District's Annual Report for the fiscal year ending December 31, 1996 shall only be required to contain the item listed in (a)(i) of this Section 4.

(d) The District further agrees to use its best efforts to provide or cause to be provided to each Repository and to the State Repository information substantially in the form set forth under "Available Information" and "Incorporation of Certain Documents by Reference" in Appendix B with respect to each "Obligated Person"; provided, that such information is at the time on file with the SEC pursuant to the Securities Exchange Act of 1934 (the "Exchange Act"). To the extent that an Obligated Person is not required to file information with the SEC pursuant to the Exchange Act, the District agrees to use its best efforts to provide or cause to be provided to each Repository and to the State Repository, if any, 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.

(1) 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;

(2) Such Obligated Person's outstanding long-term indebtedness;

(3) Such Obligated Person's retail customers, energy sales, peak loads and revenues;

(4) Such Obligated Person's operating results and debt service coverage on its outstanding indebtedness;

(5) Such Obligated Person's energy requirements, resources and power costs.

Items 2 through 5, inclusive shall be required only to the extent that such information is not included in the information provided pursuant to item 1 above. "Obligated Person" means any person who, or entity which, at the time is obligated directly or indirectly, by contract, generally or through an enterprise, fund or account, to make payments in the current or any succeeding Fiscal Year to be applied to pay at least 10% of the aggregate amount of principal of and interest scheduled to become due in such year on the 1997 Bonds.

SECTION 5. Reporting of Significant Events.

(a) The occurrence of any of the following events with respect to the Bonds shall be a Listed Event:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;

(vii) modifications to rights of Bond holders;

(viii) bond calls (other than mandatory scheduled redemptions, not otherwise contingent upon the occurrence of an event, including but not limited to, sinking fund payments);

(ix) defeasances;

(x) release, substitution or sale of property securing repayment of the Bonds; or

(xi) rating changes.

(b) The Dissemination Agent shall, promptly upon obtaining actual knowledge at his or her address listed in Section 12 hereof of the occurrence of any of the Listed Events, contact the District, inform the District of the event, and request that the District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f).

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the District has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the District determines that the Listed Event would not be material under applicable federal securities laws, the District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (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 Municipal Securities Rulemaking Board and each State Repository. Notwithstanding the foregoing, notice of the occurrence of a Listed Event described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice, if any, of the underlying event is given to Owners of affected Bonds pursuant to the Resolution and notice of any other Listed Event is required only following the actual occurrence of the Listed Event.

(g) The Dissemination Agent may conclusively rely on an opinion of counsel that the District's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The District's and the Dissemination Agent's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent. Upon such discharge, however, a new Dissemination Agent must be appointed within 60 days. The Dissemination Agent may resign by providing 60 days written notice to the District. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the Fiscal Agent shall be the Dissemination Agent. The initial Dissemination Agent shall be the General Manager of the District.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that any of the following conditions is satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; or

(c) The amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Owners of the Bonds, 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 of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, the Dissemination Agent may (and, at the request of 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. 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 or entity shall be entitled to recover monetary damages under this Disclosure Certificate.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, or his or her employees and agents, harmless against any loss, expense and liabilities which he or she may incur arising out of or in the exercise or performance of his or her powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Certificate may be given as follows:

To the District:

Public Utility District No. 1 of Chelan County, Washington
327 N. Wenatchee Avenue
Wenatchee, WA 98801
Attn: Treasurer/Managing Director of Finance

To the initial Dissemination Agent:

Public Utility District No. 1 of Chelan County, Washington
327 N. Wenatchee Avenue
Wenatchee, WA 98801
Attn: Treasurer/Managing Director of Finance

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Underwriter, the Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Certificate shall be governed by the laws of the State of Washington determined without regard to the principles of conflict of law.

IN WITNESS WHEREOF, the party hereto has caused this Disclosure Certificate to be executed and attested by its proper officers thereunto duly authorized, as of the day and year first above written.

PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON

By____________________________________
Chief Executive Officer - General Manager

ACCEPTED:

TREASURER OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON,
as Fiscal Agent and Dissemination Agent

By ____________________________________
Treasurer/Managing Director of Finance

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EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of District: PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON

Name of Bond Issue: [Columbia River-Rock Island Hydro-Electric System Revenue Refunding Bonds, Refunding Series 1997A]
[Columbia River-Rock Island Hydro-Electric System Revenue Refunding Bonds, Refunding Series 1997B (Taxable)]

Date of Execution and Delivery: __________, 1997

NOTICE IS HEREBY GIVEN that the PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON (the "District") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate, dated as of _________, 1997 entered into by the District for the benefit of the 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

SCHEDULE I

List of National Repositories and State Repositories

1. Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission as of March 17, 1997:

Bloomberg Municipal Repository
P.O. Box 840
Princeton, NJ 08542-0840
Internet address: MUNIS@bloomberg.doc
(609) 279-3200
FAX (609) 279-3235 (609) 279-5963
Contact: Dave Campbell

JJ Kenny Information Services
The Repository
65 Broadway, 16th Floor
New York, NY 10006
(212) 770-4568
FAX (212) 797-7994
Contact: Joan Horai, Repository

Thomson NRMSIR
Secondary Market Disclosure
395 Hudson Street, 3rd Floor
New York, NY 10014
Internet address: Disclosure@muller.com
(212) 807-3814
FAX (212) 989-9282
Contact: Thomas Garske

Moody's NRMSIR
Public Finance Information Center
99 Church Street
New York, NY 10007-2796
(800) 339-6306
FAX (212) 553-1460
Contact: Claudette Stephenson
(212) 553-0345

Disclosure, Inc.
Document Augmentation/
Municipal Securities
5161 River Road
Bethesda, MD 20816
(301) 951-1450
FAX (301) 718-2329
Contact: Barry Sugarman (301) 215-6015

Donnelley Financial
Municipal Security Disclosure Archive
559 Main Street
Hudson, MA 01749
Internet address: http://www.municipal.com
(800) 580-3670
FAX (508) 562-1969

2. State Recognized Municipal Securities Information Repositories Designated by The State As A State Repository:

[None]

APPENDIX K

1997A BONDS ACCRETED VALUE TABLE

Pubilc Utility District No. 1 of Chelan County, Washington
Columbia River-Rock Island Hydro-Electric System Revenue Refunding Bonds, Series 1997A
Accreted Value Table

	6/1/09 5.55%	6/1/10 5.60%	6/1/11 5.65%	6/1/12 5.70%	6/1/13 5.75%	6/1/14 5.80%	6/1/15 5.85%	6/1/16 5.90%	6/1/17 5.90%	6/1/18 5.95%	6/1/19 5.95%	6/1/20 6.00%	6/1/21 6.00%	6/1/22 6.00%	6/1/23 6.00%	6/1/24 6.05%	6/1/25 6.05%	6/1/26 6.05%	6/1/27 6.05%	6/1/28 6.05%	6/1/29 6.05%
3/17/97	2,563.20	2,411.10	2,265.85	2,127.25	1,995.20	1,869.55	1,750.10	1,636.70	1,544.25	1,442.10	1,359.95	1,268.15	1,195.35	1,126.75	1,062.05	987.95	930.80	876.95	826.20	778.40	733.35
6/1/97	2,592.20	2,438.60	2,291.95	2,151.95	2,018.60	1,891.65	1,770.95	1,656.40	1,562.80	1,459.60	1,376.45	1,283.65	1,209.95	1,140.50	1,075.05	1,000.15	942.25	887.75	836.35	788.00	742.40
12/1/97	2,664.10	2,506.90	2,356.70	2,213.30	2,076.65	1,946.50	1,822.80	1,705.25	1,608.90	1,503.00	1,417.40	1,322.15	1,246.25	1,174.75	1,107.30	1,030.40	970.75	914.60	861.65	811.80	764.85
6/1/98	2,738.05	2,577.10	2,423.25	2,276.40	2,136.35	2,002.95	1,876.10	1,755.55	1,656.40	1,547.70	1,459.60	1,361.85	1,283.65	1,209.95	1,140.50	1,061.55	1,000.15	942.25	887.75	836.35	788.00
12/1/98	2,814.05	2,649.25	2,491.70	2,341.25	2,197.75	2,061.05	1,930.95	1,807.35	1,705.25	1,593.75	1,503.00	1,402.70	1,322.15	1,246.25	1,174.75	1,093.65	1,030.40	970.75	914.60	861.65	811.80
6/1/99	2,892.10	2,723.45	2,562.10	2,408.00	2,260.95	2,120.80	1,987.45	1,860.65	1,755.55	1,641.20	1,547.70	1,444.75	1,361.85	1,283.65	1,209.95	1,126.75	1,061.55	1,000.15	942.25	887.75	836.35
12/1/99	2,972.40	2,799.70	2,634.50	2,476.60	2,325.95	2,182.30	2,045.60	1,915.55	1,807.35	1,690.00	1,593.75	1,488.10	1,402.70	1,322.15	1,246.25	1,160.85	1,093.65	1,030.40	970.75	914.60	861.65
6/1/00	3,054.85	2,878.10	2,708.90	2,547.20	2,392.80	2,245.60	2,105.40	1,972.05	1,860.65	1,740.30	1,641.20	1,532.75	1,444.75	1,361.85	1,283.65	1,195.95	1,126.75	1,061.55	1,000.15	942.25	887.75
12/1/00	3,139.65	2,958.65	2,785.45	2,619.80	2,461.60	2,310.75	2,167.00	2,030.25	1,915.55	1,792.05	1,690.00	1,578.75	1,488.10	1,402.70	1,322.15	1,232.15	1,160.85	1,093.65	1,030.40	970.75	914.60
6/1/01	3,226.75	3,041.50	2,864.10	2,694.45	2,532.40	2,377.75	2,230.40	2,090.15	1,972.05	1,845.35	1,740.30	1,626.10	1,532.75	1,444.75	1,361.85	1,269.40	1,195.95	1,126.75	1,061.55	1,000.15	942.25
12/1/01	3,316.30	3,126.70	2,945.05	2,771.25	2,605.20	2,446.70	2,295.65	2,151.80	2,030.25	1,900.25	1,792.05	1,674.90	1,578.75	1,488.10	1,402.70	1,307.80	1,232.15	1,160.85	1,093.65	1,030.40	970.75
6/1/02	3,408.35	3,214.25	3,028.25	2,850.25	2,680.10	2,517.65	2,362.80	2,215.25	2,090.15	1,956.80	1,845.35	1,725.15	1,626.10	1,532.75	1,444.75	1,347.35	1,269.40	1,195.95	1,126.75	1,061.55	1,000.15
12/1/02	3,502.90	3,304.25	3,113.80	2,931.45	2,757.15	2,590.65	2,431.90	2,280.60	2,151.80	2,015.00	1,900.25	1,776.90	1,674.90	1,578.75	1,488.10	1,388.15	1,307.80	1,232.15	1,160.85	1,093.65	1,030.40
6/1/03	3,600.10	3,396.75	3,201.75	3,015.00	2,836.40	2,665.80	2,503.00	2,347.90	2,215.25	2,074.95	1,956.80	1,830.20	1,725.15	1,626.10	1,532.75	1,430.10	1,347.35	1,269.40	1,195.95	1,126.75	1,061.55
12/1/03	3,700.05	3,491.85	3,292.20	3,100.95	2,917.95	2,743.10	2,576.25	2,417.15	2,280.60	2,136.70	2,015.00	1,885.10	1,776.90	1,674.90	1,578.75	1,473.40	1,388.15	1,307.80	1,232.15	1,160.85	1,093.65
6/1/04	3,802.70	3,589.65	3,385.20	3,189.30	3,001.85	2,822.65	2,651.60	2,488.45	2,347.90	2,200.25	2,074.95	1,941.65	1,830.20	1,725.15	1,626.10	1,517.95	1,430.10	1,347.35	1,269.40	1,195.95	1,126.75
12/1/04	3,908.25	3,690.15	3,480.85	3,280.20	3,088.15	2,904.50	2,729.15	2,561.90	2,417.15	2,265.70	2,136.70	1,999.90	1,885.10	1,776.90	1,674.90	1,563.85	1,473.40	1,388.15	1,307.80	1,232.15	1,160.85
6/1/05	4,016.70	3,793.45	3,579.15	3,373.70	3,176.95	2,988.75	2,809.00	2,637.45	2,488.45	2,333.15	2,200.25	2,059.90	1,941.65	1,830.20	1,725.15	1,611.20	1,517.95	1,430.10	1,347.35	1,269.40	1,195.95
12/1/05	4,128.15	3,899.70	3,680.30	3,469.85	3,268.30	3,075.40	2,891.15	2,715.25	2,561.90	2,402.55	2,265.70	2,121.70	1,999.90	1,885.10	1,776.90	1,659.90	1,563.85	1,473.40	1,388.15	1,307.80	1,232.15
6/1/06	4,242.70	4,008.85	3,784.25	3,568.75	3,362.25	3,164.60	2,975.70	2,795.35	2,637.45	2,474.00	2,333.15	2,185.35	2,059.90	1,941.65	1,830.20	1,710.15	1,611.20	1,517.95	1,430.10	1,347.35	1,269.40
12/1/06	4,360.45	4,121.10	3,891.15	3,670.45	3,458.90	3,256.40	3,062.75	2,877.85	2,715.25	2,547.60	2,402.55	2,250.90	2,121.70	1,999.90	1,885.10	1,761.85	1,659.90	1,563.85	1,473.40	1,388.15	1,307.80
6/1/07	4,481.45	4,236.50	4,001.10	3,775.05	3,558.35	3,350.80	3,152.35	2,962.75	2,795.35	2,623.40	2,474.00	2,318.45	2,185.35	2,059.90	1,941.65	1,815.15	1,710.15	1,611.20	1,517.95	1,430.10	1,347.35
9/15/07	4,552.90	4,304.65	4,066.00	3,836.85	3,617.10	3,406.65	3,205.30	3,012.90	2,842.70	2,668.25	2,516.30	2,358.40	2,223.00	2,095.40	1,975.10	1,846.70	1,739.85	1,639.15	1,544.30	1,454.95	1,370.75
12/1/07	4,605.80	4,355.15	4,114.10	3,882.65	3,660.65	3,448.00	3,244.55	3,050.15	2,877.85	2,701.45	2,547.60	2,388.00	2,250.90	2,121.70	1,999.90	1,870.05	1,761.85	1,659.90	1,563.85	1,473.40	1,388.15
6/1/08	4,733.60	4,477.10	4,230.35	3,993.30	3,765.90	3,548.00	3,339.45	3,140.10	2,962.75	2,781.85	2,623.40	2,459.65	2,318.45	2,185.35	2,059.90	1,926.65	1,815.15	1,710.15	1,611.20	1,517.95	1,430.10
12/1/08	4,864.95	4,602.45	4,349.85	4,107.10	3,874.15	3,650.90	3,437.15	3,232.75	3,050.15	2,864.60	2,701.45	2,533.45	2,388.00	2,250.90	2,121.70	1,984.90	1,870.05	1,761.85	1,659.90	1,563.85	1,473.40
6/1/09	5,000.00	4,731.30	4,472.75	4,224.15	3,985.55	3,756.75	3,537.65	3,328.10	3,140.10	2,949.80	2,781.85	2,609.45	2,459.65	2,318.45	2,185.35	2,044.95	1,926.65	1,815.15	1,710.15	1,611.20	1,517.95
12/1/09		4,863.80	4,599.10	4,344.55	4,100.15	3,865.70	3,641.15	3,426.30	3,232.75	3,037.55	2,864.60	2,687.70	2,533.45	2,388.00	2,250.90	2,106.85	1,984.90	1,870.05	1,761.85	1,659.90	1,563.85
6/1/10		5,000.00	4,729.00	4,468.40	4,218.00	3,977.80	3,747.65	3,527.35	3,328.10	3,127.95	2,949.80	2,768.35	2,609.45	2,459.65	2,318.45	2,170.55	2,044.95	1,926.65	1,815.15	1,710.15	1,611.20
12/1/10			4,862.60	4,595.75	4,339.30	4,093.15	3,857.25	3,631.45	3,426.30	3,221.00	3,037.55	2,851.40	2,687.70	2,533.45	2,388.00	2,236.20	2,106.85	1,984.90	1,870.05	1,761.85	1,659.90
6/1/11			5,000.00	4,726.70	4,464.05	4,211.85	3,970.10	3,738.55	3,527.35	3,316.80	3,127.95	2,936.95	2,768.35	2,609.45	2,459.65	2,303.85	2,170.55	2,044.95	1,926.65	1,815.15	1,710.15
12/1/11				4,861.40	4,592.40	4,334.00	4,086.20	3,848.85	3,631.45	3,415.50	3,221.00	3,025.05	2,851.40	2,687.70	2,533.45	2,373.55	2,236.20	2,106.85	1,984.90	1,870.05	1,761.85
6/1/12				5,000.00	4,724.40	4,459.70	4,205.75	3,962.40	3,738.55	3,517.10	3,316.80	3,115.80	2,936.95	2,768.35	2,609.45	2,445.35	2,303.85	2,170.55	2,044.95	1,926.65	1,815.15
12/1/12					4,860.25	4,589.05	4,328.75	4,079.25	3,848.85	3,621.75	3,415.50	3,209.30	3,025.05	2,851.40	2,687.70	2,519.35	2,373.55	2,236.20	2,106.85	1,984.90	1,870.05
6/1/13					5,000.00	4,722.10	4,455.35	4,199.60	3,962.40	3,729.50	3,517.10	3,305.55	3,115.80	2,936.95	2,768.35	2,595.55	2,445.35	2,303.85	2,170.55	2,044.95	1,926.65
12/1/13						4,859.05	4,585.70	4,323.50	4,079.25	3,840.45	3,621.75	3,404.75	3,209.30	3,025.05	2,851.40	2,674.05	2,519.35	2,373.55	2,236.20	2,106.85	1,984.90
6/1/14						5,000.00	4,719.85	4,451.05	4,199.60	3,954.70	3,729.50	3,506.85	3,305.55	3,115.80	2,936.95	2,754.95	2,595.55	2,445.35	2,303.85	2,170.55	2,044.95
12/1/14							4,857.90	4,582.35	4,323.50	4,072.35	3,840.45	3,612.10	3,404.75	3,209.30	3,025.05	2,838.30	2,674.05	2,519.35	2,373.55	2,236.20	2,106.85
6/1/15							5,000.00	4,717.55	4,451.05	4,193.50	3,954.70	3,720.45	3,506.85	3,305.55	3,115.80	2,924.15	2,754.95	2,595.55	2,445.35	2,303.85	2,170.55
12/1/15								4,856.70	4,582.35	4,318.25	4,072.35	3,832.05	3,612.10	3,404.75	3,209.30	3,012.60	2,838.30	2,674.05	2,519.35	2,373.55	2,236.20
6/1/16								5,000.00	4,717.55	4,446.75	4,193.50	3,947.00	3,720.45	3,506.85	3,305.55	3,103.75	2,924.15	2,754.95	2,595.55	2,445.35	2,303.85
12/1/16									4,856.70	4,579.00	4,318.25	4,065.45	3,832.05	3,612.10	3,404.75	3,197.60	3,012.60	2,838.30	2,674.05	2,519.35	2,373.55
6/1/17									5,000.00	4,715.25	4,446.75	4,187.40	3,947.00	3,720.45	3,506.85	3,294.35	3,103.75	2,924.15	2,754.95	2,595.55	2,445.35
12/1/17										4,855.50	4,579.00	4,313.00	4,065.45	3,832.05	3,612.10	3,394.00	3,197.60	3,012.60	2,838.30	2,674.05	2,519.35
6/1/18										5,000.00	4,715.25	4,442.40	4,187.40	3,947.00	3,720.45	3,496.70	3,294.35	3,103.75	2,924.15	2,754.95	2,595.55
12/1/18											4,855.50	4,575.70	4,313.00	4,065.45	3,832.05	3,602.45	3,394.00	3,197.60	3,012.60	2,838.30	2,674.05
6/1/19											5,000.00	4,712.95	4,442.40	4,187.40	3,947.00	3,711.45	3,496.70	3,294.35	3,103.75	2,924.15	2,754.95
12/1/19												4,854.35	4,575.70	4,313.00	4,065.45	3,823.70	3,602.45	3,394.00	3,197.60	3,012.60	2,838.30
6/1/20												5,000.00	4,712.95	4,442.40	4,187.40	3,939.35	3,711.45	3,496.70	3,294.35	3,103.75	2,924.15
12/1/20													4,854.35	4,575.70	4,313.00	4,058.55	3,823.70	3,602.45	3,394.00	3,197.60	3,012.60
6/1/21													5,000.00	4,712.95	4,442.40	4,181.30	3,939.35	3,711.45	3,496.70	3,294.35	3,103.75
12/1/21														4,854.35	4,575.70	4,307.80	4,058.55	3,823.70	3,602.45	3,394.00	3,197.60
6/1/22														5,000.00	4,712.95	4,438.10	4,181.30	3,939.35	3,711.45	3,496.70	3,294.35
12/1/22															4,854.35	4,572.35	4,307.80	4,058.55	3,823.70	3,602.45	3,394.00
6/1/23															5,000.00	4,710.65	4,438.10	4,181.30	3,939.35	3,711.45	3,496.70
12/1/23																4,853.15	4,572.35	4,307.80	4,058.55	3,823.70	3,602.45
6/1/24																5,000.00	4,710.65	4,438.10	4,181.30	3,939.35	3,711.45
12/1/24																	4,853.15	4,572.35	4,307.80	4,058.55	3,823.70
6/1/25																	5,000.00	4,710.65	4,438.10	4,181.30	3,939.35
12/1/25																		4,853.15	4,572.35	4,307.80	4,058.55
6/1/26																		5,000.00	4,710.65	4,438.10	4,181.30
12/1/26																			4,853.15	4,572.35	4,307.80
6/1/27																			5,000.00	4,710.65	4,438.10
12/1/27																				4,853.15	4,572.35
6/1/28																				5,000.00	4,710.65
12/1/28																					4,853.15
6/1/29																					5,000.00

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