OFFICIAL STATEMENT DATED SEPTEMBER 22, 2020

NEW ISSUE **See "RATINGS"**
BOOK-ENTRY ONLY

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2020A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the 2020A Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the 2020A Bonds. See "TAX MATTERS" herein.

$19,725,000
PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON
GENERATION SYSTEM REVENUE REFUNDING BONDS, SERIES 2020A

Dated: Date of Delivery **Due: December 1, as shown on the inside cover**

The Generation System Revenue Refunding Bonds, Series 2020A (the "2020A Bonds") of Public Utility District No. 1 of Snohomish County, Washington (the "District") will be issued as fixed rate bonds maturing in the amounts and bearing interest at the rates set forth on the inside front cover of this Official Statement, payable June 1 and December 1 of each year, commencing December 1, 2020.

When issued, the 2020A Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the 2020A Bonds. Individual purchases will be made in book-entry form in authorized denominations, and purchasers of the 2020A Bonds will not receive certificates representing their interests in the 2020A Bonds. Payments of principal of and interest on the 2020A Bonds are to be paid to purchasers by DTC through DTC Participants, as described in Appendix E—"BOOK-ENTRY SYSTEM." The District has appointed U.S. Bank National Association to act as Trustee, Bond Registrar and Paying Agent for the 2020A Bonds.

The 2020A Bonds are not subject to redemption prior to maturity.

The 2020A Bonds are being issued to provide funds to refund for savings certain of the District's Generation System Revenue Bonds, Series 2010A and to pay costs of issuance of the 2020A Bonds. See "PURPOSE AND APPLICATION OF 2020A BOND PROCEEDS."

The 2020A Bonds are special limited obligations of the District payable from and secured solely by the Generation System Revenues, subject to the prior payment of Operating Expenses. The 2020A Bonds are secured by a pledge of and lien and charge on Generation System Revenues equal to the pledge of and lien and charge on Generation System Revenues that secure (i) the Generation System Bonds heretofore and hereafter issued pursuant to the Generation System Bond Resolution (as defined herein) and (ii) the District Payments made in connection with Derivative Products (consisting of interest rate swap agreements and other similar agreements). Generation System Revenues consist almost exclusively of revenues derived from the following payments made by the District's Electric System, all as more fully described under "SECURITY FOR THE 2020A BONDS." The District has covenanted in the Generation System Bond Resolution to cause the Generation System to sell and the Electric System to purchase in each month all of the electric power and energy of the Generation System available in such month for use in the Electric System. Payment for such electric power and energy must be made at the times and in the amounts sufficient for the timely payment of all costs of the Generation System (as further defined herein, the "Generation System Power Costs"), including debt service on the Generation System Bonds, as the same shall become due. The District is obligated to pay Generation System Power Costs (i) as an operation and maintenance expense of the Electric System for any month in which any power and energy from the Generation System was made available to the Electric System (regardless of whether or not the Electric System actually scheduled or received any such power or energy) and (ii) at all other times on a parity with the Electric System Bonds outstanding from time to time.

MATURITY SCHEDULE — See Inside Front Cover

The 2020A 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, or a charge upon any general fund or upon any money or other property of the District or of the State of Washington, or of any political subdivision of the State of Washington, not specifically pledged thereto by the Generation System Bond Resolution, nor shall the full faith and credit of the District or of the State of Washington, or of any political subdivision of the State of Washington, be pledged to the payment of principal, premium, if any, or interest on the 2020A Bonds.

This cover page is not intended to be a summary of all of the terms of, or security for, the 2020A Bonds. Investors are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

The 2020A Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Seattle, Washington, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the District by its General Counsel, Anne Spangler, Esq. Certain legal matters will be passed upon for the Underwriters by their counsel, Foster Garvey, P.C. Certain legal matters will be passed upon by Orrick, Herrington & Sutcliffe LLP, Seattle, Washington, as Disclosure Counsel to the District. It is expected that delivery of the 2020A Bonds will be made through the facilities of DTC in New York, New York, by Fast Automated Securities Transfer (FAST), on or about October 6, 2020.

CITIGROUP **BARCLAYS**

MATURITY SCHEDULE

$19,725,000
PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON
GENERATION SYSTEM REVENUE REFUNDING BONDS, SERIES 2020A

Maturity Year (December 1)	Principal Amount	Interest Rate	Yield	CUSIP Number*
2020	$ 760,000	4.00%	0.16%	833116CL8
2021	4,415,000	5.00	0.17	833116CM6
2022	4,625,000	5.00	0.20	833116CN4
2023	4,845,000	5.00	0.24	833116CP9
2024	5,080,000	5.00	0.30	833116CQ7

* CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. Copyright© 2020 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the District, the Underwriters or their agents or counsel assume responsibility for the accuracy of such numbers.

No dealer, broker, salesperson or other person has been authorized by the District or the Underwriters to give any information or to make any representations other than those contained in this Official Statement in connection with the offering of the 2020A Bonds and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2020A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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

The Underwriters have provided the following paragraph for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

In connection with the offering of the 2020A Bonds, the Underwriters may over allot or effect transactions that stabilize or maintain the market price of the 2020A Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

This Official Statement is not to be construed as a contract with the purchasers of the 2020A Bonds.

Certain statements contained in this Official Statement do not reflect historical facts but are forecasts, projections and "forward-looking statements." The achievement of certain results or other expectations contained in forward-looking statements in this Official Statement involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that any future results discussed herein will be achieved, and actual results may differ materially from any forecasts or projections described herein. In this respect, the words such as "estimate," "project," "forecast," "anticipate," "expect," "intend," "plan," "believe" and similar expressions identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinion and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. The District does not plan to issue any updates or revisions to those forward-looking statements if or when their expectations or events, conditions or circumstances on which such statements are based occur.

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

The 2020A Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon a specific exemption contained in such act, nor have they been registered under the securities laws of any state.

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

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

PUBLIC UTILITY DISTRICT NO. 1
OF SNOHOMISH COUNTY, WASHINGTON
2320 California Street
Everett, Washington 98201
(425) 783-1000

www.snopud.com[1]

BOARD OF COMMISSIONERS

PRESIDENT	VICE PRESIDENT	SECRETARY
Sidney "Sid" Logan	**Rebecca Wolfe**	**Tanya "Toni" Olson**

ADMINISTRATIVE MANAGEMENT

John Haarlow, Chief Executive Officer/General Manager

Anne Spangler, General Counsel

Scott Jones, Chief Financial Officer

James Herrling, Treasurer

Jason Zyskowski, Assistant General Manager—Facilities, Generation, Power, Rates and Transmission Management

Guy Payne, Assistant General Manager—Distribution and Engineering Services

Dean Galvez, Chief Information Officer—Information Technology Services

Pam Baley, Assistant General Manager—Customer & Energy Services

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CONSULTANTS

Bond Counsel and Disclosure Counsel.....Orrick, Herrington & Sutcliffe LLP
Municipal Advisor .....PFM Financial Advisors LLC
Trustee, Bond Registrar and Paying Agent ..... U.S. Bank National Association

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[1] Neither the information on the District's website, nor any links from that website, is part of this Official Statement, and such information cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information be relied upon to make investment decisions regarding the 2020A Bonds.

PUBLIC UTILITY DISTRICT NO. 1 OF
SNOHOMISH COUNTY, WASHINGTON

THE DISTRICT'S SERVICE AREA

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OFFICIAL STATEMENT

$19,725,000
PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON
GENERATION SYSTEM REVENUE REFUNDING BONDS, SERIES 2020A

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, inside cover page and appendices, is to provide information concerning Public Utility District No. 1 of Snohomish County, Washington (the "District"), its Generation System, its Electric System and its proposed $19,725,000 Generation System Revenue Refunding Bonds, Series 2020A (the "2020A Bonds").

The 2020A 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 (collectively, the "Enabling Act") and Resolution No. 2994, adopted by the Commission of the District (the "Commission") on September 26, 1986, as amended, as revised and restated by Resolution No. 3902 adopted by the Commission on January 28, 1993 (the "Master Generation System Resolution"), as supplemented and amended, including as supplemented by Resolution No. 5974, adopted by the Commission on September 15, 2020 (the "Tenth Supplemental Resolution"). The Master Generation System Resolution, as amended and supplemented, including as supplemented by the Tenth Supplemental Resolution, is hereinafter collectively referred to as the "Generation System Bond Resolution."

The District previously issued its Generation System Revenue Refunding Bonds, Series 2010A (the "2010A Bonds"), of which $26,465,000 remains Outstanding and $26,465,000 is to be refunded by the 2020A Bonds, its Generation System Revenue Bonds, Series 2010B Taxable Build America Bonds (Direct Pay) (the "2010B Bonds"), of which $14,050,000 remains outstanding, and its Generation System Revenue Bonds, Series 2015 (the "2015 Bonds") of which $39,985,000 remains outstanding. The 2010A Bonds, the 2010B Bonds and the 2015 Bonds are collectively referred to herein as the "Outstanding Bonds," of which, collectively, $80,500,000 remains outstanding. The Outstanding Bonds, the 2020A Bonds and any future bonds issued under the Generation System Bond Resolution, are collectively referred to herein as the "Generation System Bonds." The 2020A Bonds are special limited obligations of the District payable solely from and secured by the income, revenues and receipts derived by the District from the ownership and operation of the Generation System. See "SECURITY FOR THE 2020A BONDS."

The capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings given in the Generation System Bond Resolution or the Electric System Bond Resolution, as applicable. Definitions of certain terms are set forth in APPENDIX B—"SUMMARY OF CERTAIN PROVISIONS OF THE GENERATION SYSTEM BOND RESOLUTION—Definitions" and APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE ELECTRIC SYSTEM BOND RESOLUTION—Definitions."

Under Washington State law, the District has the authority to establish separate enterprise funds with respect to its various municipal utility business operations, each of which enterprise funds is accounted for separately. In addition, these utility business operations (referred to as "systems") can be separately financed through the issuance of debt by the District payable from revenues of that particular system. The District currently has three systems that are separately accounted for and through which it issues debt: the Generation System, the Electric System, and the Water System. See "THE DISTRICT."

This Official Statement includes summaries and descriptions of the terms of the 2020A Bonds, the Generation System Bond Resolution and the Electric System Bond Resolution. The summaries of and references to any 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.

In the preparation of the forecasts and projections in this Official Statement, the District has made various assumptions with respect to conditions that may occur in the future. While the District believes these assumptions are reasonable for the purpose of the forecasts and projections, they depend upon future events, and actual conditions likely will differ from those assumed. The District does not represent or guarantee that actual results will replicate the forecasts and projections in this Official Statement. Potential purchasers of the 2020A Bonds should not rely on the forecasts and projections in this Official Statement as statements of fact, as they are subject to change, and will change, from time to time. The District has not committed itself to provide investors with updated forecasts or projections.

The novel coronavirus ("COVID-19") pandemic currently is affecting many parts of the world, including the State, the District and the local economy served by the District. The District's audited financial statements for fiscal years ending December 31, 2019 and 2018 set forth in Appendix A hereto, as well as certain projections, budgets or forecasts described herein, do not take into account the potential effects of the COVID-19 pandemic or the related economic disruption. The District is unable to determine if COVID-19 and the related economic disruption will have a material effect on its future results of operations or financial position. For information related to the regional impact of the COVID-19 pandemic and the District's response, see "ELECTRIC SYSTEM FINANCIAL INFORMATION—Impacts from the COVID-19 Pandemic." Any information related to the impacts of the COVID-19 pandemic is subject to change.

PURPOSE AND APPLICATION OF 2020A BOND PROCEEDS

General

The proceeds of the 2020A Bonds will be used to refund all of the Outstanding maturities of the 2010A Bonds and to pay costs of issuing the 2020A Bonds. See "Refunding Plan" below.

Estimated Sources and Uses of Funds

The table below sets forth the estimated sources and uses of proceeds of the 2020A Bonds and other funds in connection with the issuance of the 2020A Bonds and the plan of refunding.

Sources of Funds	
Principal Amount of the 2020A Bonds	$19,725,000.00
Original Issue Premium	2,434,986.75
Available Funds of the District[1]	5,023,244.79
Total Sources:	$27,183,231.54
Uses of Funds	
Deposit to Redemption Account	$26,907,621.53
Costs of Issuance[2]	275,610.01
Total Uses:	$27,183,231.54

(1) Includes funds released from the Debt Service Reserve Account and funds held in the Bond Fund for the payment of the principal of and interest on the Refunded Bonds.

(2) Includes fees of bond counsel and disclosure counsel, municipal advisor and rating agency, printing costs, underwriters' discount, refunding fees, if any, and other costs associated with issuing the 2020A Bonds and refunding the Refunded Bonds.

Refunding Plan

A portion of the net proceeds of the 2020A Bonds will be used to refund all Outstanding maturities of the 2010A Bonds, as set forth below (the "Refunded Bonds").

TABLE 1
REFUNDED BONDS

Year (December 1)	Principal Amount	Interest Rate	Redemption Date (at 100%)	CUSIP No. 833116
2020	$4,850,000	4.00%	October 6, 2020	BN5
2021	5,030,000	5.00	October 6, 2020	BP0
2022	5,270,000	5.00	October 6, 2020	BQ8
2023	5,525,000	5.00	October 6, 2020	BR6
2024	5,790,000	5.00	October 6, 2020	BS4

Source: The District.

On the date of the issuance of the 2020A Bonds, a portion of the net proceeds from the sale of the 2020A Bonds, together with available funds of the District, will be applied to redeem the Refunded Bonds.

DESCRIPTION OF THE 2020A BONDS

The following is a summary of certain provisions of the 2020A Bonds. Reference is made to the Generation System Bond Resolution for more detailed descriptions of such provisions. A summary of certain additional provisions of the Generation System Bond Resolution is set forth in APPENDIX B—"SUMMARY OF CERTAIN PROVISIONS OF THE GENERATION SYSTEM BOND RESOLUTION."

General

The 2020A Bonds will be issued pursuant to the Generation System Bond Resolution in the form of fully registered bonds of each maturity without coupons in authorized denominations and dated their date of delivery. The 2020A Bonds will be issued in the aggregate principal amount of $19,725,000 as fixed rate bonds maturing in the amounts and bearing interest at the rates set forth on the inside front cover of this Official Statement. Interest on the 2020A Bonds, calculated based upon a 360-day year consisting of twelve 30-day months, is payable on each June 1 and December 1, commencing December 1, 2020, until maturity. The authorized denominations of the 2020A Bonds will be $5,000 and any integral multiple of $5,000 for each maturity.

Upon their initial issuance, the 2020A Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Purchases of beneficial interests in the 2020A Bonds will be made in book-entry form, without certificates. See APPENDIX E—"BOOK-ENTRY SYSTEM."

If the book-entry only system for the 2020A Bonds is discontinued, (i) the principal of each 2020A Bond will be payable to the owner thereof by check or draft at maturity upon the presentation and surrender of each such 2020A Bond at the corporate office of the Registrar; (ii) interest on the 2020A Bonds will be payable by the Paying Agent on each interest payment date by check or draft mailed to each owner as of the Record Date, at the most recent address shown on the Bond Register; provided, that payment of interest to each owner who owns of record $1,000,000 or more in aggregate principal amount of 2020A Bonds may be made to such owner by wire transfer to such wire address within the United States as that owner may request in writing prior to the Record Date; and (iii) the 2020A Bonds will be exchangeable for other fully registered certificated 2020A Bonds in any authorized denominations. The Paying Agent may impose a charge sufficient to reimburse the District for any tax, fee or other governmental charge required to be paid with respect to such exchange or any transfer of a 2020A Bond.

Capitalized terms used herein not otherwise defined shall have the meanings given in APPENDIX B—"SUMMARY OF CERTAIN PROVISIONS OF THE GENERATION SYSTEM BOND RESOLUTION—Definitions."

No Redemption

The 2020A Bonds are not subject to redemption prior to their stated dates of maturity.

Defeasance

The District may refund or defease all or a portion of the then outstanding Generation System Bonds by setting aside in a special fund money and/or Government Obligations maturing as to principal and interest in such amounts and at such times as will provide for sufficient money to accomplish the refunding or defeasance. In that case all rights of the owners of the defeased or refunded Generation

System Bonds in the benefit or security of the Generation System Bond Resolution will cease, except that such owners will have the right to receive payment of the principal of, premium, if any, and interest on their Generation System Bonds. See APPENDIX B—"SUMMARY OF CERTAIN PROVISIONS OF THE GENERATION SYSTEM BOND RESOLUTION—Defeasance of Bonds."

Trustee

The District has appointed U.S. Bank National Association to serve as Trustee, Bond Registrar and Paying Agent for the 2020A Bonds. U.S. Bank National Association may be removed or replaced as Trustee, Bond Registrar and Paying Agent by the District as provided in the Generation System Bond Resolution.

SECURITY FOR THE 2020A BONDS

Pledge of Generation System Revenues

Under Washington State law, the District has the authority to establish separate enterprise funds with respect to its various municipal utility business operations, each of which enterprise funds is accounted for separately. In addition, these utility business operations (referred to as "systems") can be separately financed through the issuance of debt by the District payable from revenues of that particular system. The District currently has three systems that are separately accounted for and through which it issues debt: the Generation System, the Electric System, and the Water System. See "THE DISTRICT."

The District's Generation System currently includes all of the District's generating resources, including the Jackson Project, the Woods Creek Project, the Youngs Creek Project, the Hancock Creek Project and the Calligan Creek Project (each as defined herein). The Electric System is the District's retail electric utility. All power produced by the Generation System is purchased by the Electric System at cost for sale to the District's retail customers. See "THE GENERATION SYSTEM."

The 2020A Bonds are special limited obligations of the District payable from and secured solely by Generation System Revenues, subject to the prior payment of Operating Expenses. The 2020A Bonds are secured by a pledge of and lien and charge on Generation System Revenues equal to the pledge of and lien and charge on Generation System Revenues that secure (i) the Generation System Bonds heretofore and hereafter issued pursuant to the Generation System Bond Resolution and (ii) the District Payments made in connection with Derivative Products. Generation System Revenues consist almost exclusively of the income, revenues and receipts derived by the District through the ownership and operation of the Generation System, including revenues derived from the sale of electric power and energy from the Generation System to the District's Electric System. See "—Payment of Generation System Power Costs as an Operating Expense of the Electric System."

"Generation System Revenues" means the income, revenues, and receipts derived by the District through the ownership and operation by it of the Generation System, but, except as provided in the Generation System Bond Resolution, does not include any income derived by the District through the ownership and operation by it of the Electric System or of any other generation, transmission and distribution facilities that may be purchased, constructed or otherwise acquired by the District as a separate electric utility system, or any Reciprocal Payments. Federal and state grant moneys received by the District in any Fiscal Year to pay or reimburse all or a portion of periodic payments of principal of and/or interest or redemption premium of Generation System Bonds shall constitute Generation System Revenues if designated as such by the Commission.

"Operating Expenses" means (i) all the District's expenses for operation and maintenance of the Generation System, and ordinary repairs, replacements and reconstruction of the Generation System not constituting a unit of property (as prescribed in the Uniform System of Accounts of the Federal Energy Regulatory Commission ("FERC")), including all costs of producing and delivering electric power and energy from the Generation System and payments (other than payments out of Generation System Bond proceeds) into reasonable reserves in the Generation System Revenue Fund for items of Operating Expenses and other costs the payment of which is not immediately required, and shall include costs of transmission service, generating capacity reserve service and scheduled, emergency, economy or other interchange service, all other costs of purchased power (except costs under any purchased power contracts which secure the payment of debt issued to finance the facilities providing such power), rents, administrative and general expenses, engineering expenses, legal and financial advisory expenses, required payments to pension, retirement, health and hospitalization funds, insurance premiums and any taxes or payments in lieu of taxes, all to the extent properly allocable to the Generation System, (ii) any current expenses or obligations required to be paid by the District under the provisions of the Generation System Bond Resolution or by law, all to the extent properly allocable to the Generation System, and (iii) the fees and expenses of the Stand-by Trustee and Bond Registrar. Operating Expenses do not include District Payments, any costs or expenses for new construction or any allowance for depreciation and include only that portion of the total administrative and general expenses of the District that are properly allocable to the Generation System.

Section 54.24.040 of the Revised Code of Washington ("RCW") provides that the revenue obligations and interest thereon issued by a public utility district 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 amount of the revenues pledged to such fund or funds, and that such pledge of the revenues or other money shall be valid and binding from the time made, that the revenues or other money so pledged and thereafter received by a district shall immediately be subject to the lien of such pledge without any physical delivery or further act, and that the lien of any such pledge shall be valid and binding as against any parties having claims of any kind in tort, contract or otherwise against a district irrespective of whether such parties have notice thereof.

Payment of Generation System Power Costs as an Operating Expense of the Electric System

The District has covenanted in the Generation System Bond Resolution to cause the Generation System to sell and the Electric System to purchase in each month all of the electric power and energy of the Generation System available in such month for use in the Electric System. Payment for such electric power and energy must be made at the times and in the amounts sufficient for the timely payment of all Generation System Power Costs, including debt service on the Generation System Bonds, as the same shall become due. The District is obligated to pay Generation System Power Costs (i) as an operation and maintenance expense of the Electric System for any month in which any power and energy from the Generation System was made available to the Electric System (regardless of whether or not the Electric System actually scheduled or received any such power or energy) and (ii) at all other times on a parity with the Electric System Bonds outstanding from time to time.

"Generation System Power Costs" means with respect to each month all costs attributable to the Generation System, to the extent not paid from the proceeds of Generation System Bonds or other sources (including income from investment of such proceeds), resulting from the ownership, operation, maintenance and termination of, and repair, renewals, replacements, additions, improvements, betterments, and modifications to, the Generation System, including (i) Operating Expenses; (ii) the amount required under the Generation System Bond Resolution to be paid or deposited during such month into the Bond Fund; (iii) any amount which the District may be required during such month to pay for the prevention or correction of any unusual loss or damage or for renewals, replacements, repairs,

additions, improvements, betterments and modifications that are necessary to keep the Generation System in good operating condition, to improve the operation thereof, or to prevent a loss of revenues therefrom, but in each case only to the extent that (a) funds for such payment are not available to the District from any funds or accounts established under the Generation System Bond Resolution for such purpose, or (b) funds for such payment are not provided by the issuance of Generation System Bonds; (iv) all other charges or obligations payable by the District from Generation System Revenues of whatever nature imposed by the Generation System Bond Resolution by law or contract, excluding depreciation, amortization and other non-cash charges).

The District is required to pay into the Generation System Revenue Fund, on or prior to the last day of the month in which any power and energy were made available from the Generation System to the Electric System, an amount which, together with amounts then on deposit in the Generation System Revenue Fund and available for such purpose, is equal to the sum of (i) Generation System Power Costs for that month remaining unpaid, plus (ii) estimated Generation System Power Costs for the next month.

The Electric System is obligated to pay Generation System Power Costs as an operation and maintenance expense of the Electric System only with respect to months during which any power and energy from the Generation System were made available to the Electric System (regardless of whether or not the Electric System actually scheduled or received such energy). In any month during which power and energy were not made available to the Electric System from the Generation System, Generation System Power Costs are payable from Electric System Revenues after payment of operating expense of the Electric System as further described below under "—Payment of Generation System Power Costs on Parity of Lien with Electric System Bonds."

Payment of Generation System Power Costs on Parity of Lien with Electric System Bonds

In any month during which power and energy are ***not*** made available to the Electric System from the Generation System, the District is obligated irrevocably to set aside and pay into the Generation System Revenue Fund, out of Electric System Revenues (after payment of operating expenses of the Electric System, including the amounts, if any, required to be paid by the District in such month for power and energy that was made available from the Generation System to the Electric System), on a parity of lien with the Electric System Bonds, an amount sufficient, together with amounts then on deposit in the Generation System Revenue Fund, to pay estimated Generation System Power Costs for the next succeeding month and to pay any deficiencies in the payment of Generation System Power Costs for the then current or any prior month.

Limitation of Liability

The 2020A 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, or a charge upon any general fund or upon any money or other property of the District or of the State of Washington, or of any political subdivision of the State of Washington, not specifically pledged thereto by the Generation System Bond Resolution, nor shall the full faith and credit of the District or of the State of Washington, or of any political subdivision of the State of Washington, be pledged to the payment of principal, premium, if any, or interest on the 2020A Bonds.

Rates and Charges

The District has covenanted in the Generation System Bond Resolution to fix, establish, maintain and collect rates and charges for electric power and energy and other goods and services, facilities and commodities sold, furnished or supplied through the facilities of the Generation System which will

provide the District with Generation System Revenues sufficient to pay Generation System Power Costs. The Electric System is obligated under the Generation System Bond Resolution to purchase, in each month for use in the Electric System, all the electric power and energy of the Generation System available in such month.

The District also has covenanted in the Generation System Bond Resolution to establish, maintain and collect rates and charges for electric power and energy and other services supplied through the Electric System sufficient to pay the cost of operation and maintenance of the Electric System and certain other payments (including payments for available Generation System power and energy), to pay the amounts required to be deposited in the bond fund under the Electric System Resolution, to provide Electric System Revenues sufficient, together with amounts then on deposit in the Generation System Revenue Fund, to pay all Generation System Power Costs (including debt service on the 2020A Bonds), to pay necessary repairs, replacements and renewals to the Electric System, to pay the cost of extensions, betterments and improvements thereto and to pay all other charges and obligations against Electric System Revenues imposed by law or contract.

Flow of Funds

Pursuant to the Generation System Bond Resolution, the District continued a special fund known as the Revenue Fund (the "Generation System Revenue Fund"). See APPENDIX B—"SUMMARY OF CERTAIN PROVISIONS OF THE GENERATION SYSTEM BOND RESOLUTION—Revenues and Flow of Funds—*Revenue Fund*." All Generation System Revenues (and all Electric System Revenues required to be deposited under the Generation System Bond Resolution) are required to be deposited in the Generation System Revenue Fund to be applied in the following order of priority:

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

(b) Second, equally and ratably and without priority, (i) for the payment of the principal of and interest and redemption premium, if any, on any Generation System Bonds; (ii) in the event the District has entered into any Derivative Product that ranks on parity of lien with the Generation System Bonds, to pay any sums due to the Reciprocal Payor; and (iii) in the event the District has entered into a reimbursement agreement pursuant to the Generation System Resolution that ranks on a parity of lien with the Generation System Bonds, to make all payments required to be made pursuant to such reimbursement agreement in connection with a Qualified Letter of Credit, Qualified Insurance or other credit facility, provided if there is not sufficient money to make all payments under more than one such reimbursement agreement, the payments shall be made on a pro rata basis.

The balance of Generation System Revenues may, in the discretion of the District, be used for any of the following purposes: (i) to pay debt service on Generation System Bonds; (ii) for transfer to any other fund or account created by the Generation System Bond Resolution; (iii) for the purchase or redemption of Generation System Bonds; (iv) to pay any subordinated indebtedness of the Generation System; or (v) for any lawful corporate purpose of the District.

Pursuant to the Electric System Bond Resolution, the District created a special fund known as the Revenue Fund (the "Electric System Revenue Fund"). See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE ELECTRIC SYSTEM BOND RESOLUTION—Revenues and Flow of Funds—*Revenue Fund*." The District has covenanted in the Electric System Bond Resolution to pay into the General Account in the Electric System Revenue Fund all Electric System Revenues and all other amounts required by the Electric System Resolution to be deposited into the Electric System Revenue Fund and to pay from such Electric System Revenue Fund, prior to the payment of debt service on any

outstanding Electric System Bonds, any operating expenses of the Electric System, including Generation System Power Costs, as appropriate.

Debt Service Reserve Account

The Generation System Bond Resolution established a Debt Service Reserve Account in the Bond Fund (the "Debt Service Reserve Account") to secure the payment of principal of, premium, if any, and interest on the Generation System Bonds. The Generation System Bond Resolution provides that to the extent permitted under the Code, there shall be deposited from each Series of Generation System Bonds into the Debt Service Reserve Account an amount so that there will be on deposit therein moneys and Value of Investment Securities equal to the Debt Service Reserve Requirement calculated immediately after the issuance of such Generation System Bonds. If with respect to any Series of Generation System Bonds the amount of proceeds of such Series of Generation System Bonds permitted by the Code to be deposited into the Debt Service Reserve Account is less than the Debt Service Reserve Requirement allocable to such Series of Generation System Bonds, the Generation System Bond Resolution provides that the Supplemental Resolution providing for the issuance of such Series of Generation System Bonds shall provide for further and additional payments into the Debt Service Reserve Account from moneys in the Generation System Revenue Fund in such amounts and at such times so that by no later than five years from the date of issuance of such additional Series of Generation System Bonds or by the final maturity thereof, whichever occurs first, there will be credited to the Debt Service Reserve Account an amount equal to the Debt Service Reserve Requirement. The Debt Service Reserve Account may also be funded with any other money lawfully available therefor or with Qualified Insurance or a Qualified Letter of Credit. The rating requirement for the provider of a letter of credit or insurance is as of the date the policy is issued, and the rating does not need to be maintained. See APPENDIX B—"SUMMARY OF CERTAIN PROVISIONS OF THE GENERATION SYSTEM BOND RESOLUTION—Certain Definitions" for the definition of Qualified Insurance, Qualified Letter of Credit and Value of Investment Securities.

The Generation System Bond Resolution requires that the District make a determination as to the moneys and Value of Investment Securities in the Debt Service Reserve Account as of January 1 and July 1 of each year and immediately following any withdrawal of amounts in the Debt Service Reserve Account to pay when due debt service on the outstanding Generation System Bonds. If the moneys and Value of Investment Securities in the Debt Service Reserve Account are less than the Debt Service Reserve Requirement as of the date of any valuation, the District is required to notify any insurer of Generation System Bonds and, beginning with the last day of the month next succeeding such date, after paying Operating Expenses and making the transfers described in "second" under "—Flow of Funds," is required to make monthly transfers from the Generation System Revenue Fund to the Debt Service Reserve Account equal to one-sixth (1/6th) of the amount as originally determined by which the moneys and Value of Investment Securities in the Debt Service Reserve Account is less than the Debt Service Reserve Requirement, until there shall be on deposit in the Debt Service Reserve Account moneys and Value of Investment Securities equal to the Debt Service Reserve Requirement based upon the most recent valuation of that account; provided, however, that if a Series of Generation System Bonds is issued at any time during a period in which a deficiency exists in the Debt Service Reserve Account, to the extent permitted under the Code, the District is required to deposit proceeds of such Series into the Debt Service Reserve Account in an amount sufficient to make up any of the deficiency in the Debt Service Reserve Account at the time of such issuance, based upon the most recent valuation of that account.

The 2020A Bonds are to be secured by the Debt Service Reserve Account, which the District will fund in an amount equal to the least of (i) 10 percent of the principal amounts of all Generation System Bonds secured by the Debt Service Reserve Account, (ii) the maximum Annual Debt Service on the Generation System Bonds secured by Debt Service Reserve Account; and (iii) 125 percent of the average

Annual Debt Service on the Generation System Bonds secured by the Debt Service Reserve Account, in each case determined as of the date of issuance of the 2020A Bonds and as redetermined from time to time thereafter.

After giving effect to the issuance of the 2020A Bonds, the Debt Service Requirement for the Debt Service Reserve Account will be $5,981.900.58, which amount is equal to 125 percent of the average Annual Debt Service on the Generation System Bonds secured by the Debt Service Reserve Account, as of the date of issuance of the 2020A Bonds.

The Debt Service Reserve Account is held in trust by the District for the benefit of the Owners of the Generation System Bonds secured by the Debt Service Reserve Account. In the event of the bankruptcy or insolvency of the District, a bankruptcy court may be able to direct the application of money in the Debt Service Reserve Account to other purposes. See "LIMITATIONS ON REMEDIES; BANKRUPTCY." Money in the Debt Service Reserve Account, including any amounts drawn under a Qualified Letter of Credit or paid pursuant to Qualified Insurance, are to be used for the purpose of paying the principal of or interest on any Generation System Bonds secured thereby in the event that money in other accounts in the Bond Fund is insufficient therefor. Whenever money is withdrawn from the Debt Service Reserve Account, the amount in that account is to be restored as described in the Generation System Bond Resolution.

See Appendix B—"SUMMARY OF CERTAIN PROVISIONS OF THE GENERATION SYSTEM BOND RESOLUTION—Revenues and Flow of Funds—Bond Fund—Debt Service Reserve Account."

Additional Indebtedness

Generation System Bond Resolution

The District may issue additional Generation System Bonds in one or more series for the purposes set forth in the Generation System Bond Resolution only upon compliance with the terms set forth in the Generation System Bond Resolution as summarized in APPENDIX B—"SUMMARY OF CERTAIN PROVISIONS OF THE GENERATION SYSTEM BOND RESOLUTION—Additional Indebtedness."

As of July 1, 2020, the Generation System Bonds were outstanding in the aggregate principal amount of $80,500,000. Upon the issuance of the 2020A Bonds, the Generation System Bonds will be outstanding in the aggregate principal amount of $73,760,000. Certain covenants and other provisions of the Generation System Bond Resolution are summarized in APPENDIX B—"SUMMARY OF CERTAIN PROVISIONS OF THE GENERATION SYSTEM BOND RESOLUTION."

The Generation System Bond Resolution also permits the District to issue bonds or other evidences of indebtedness for a separate system for any lawful purpose of the District, payable on a parity with the payment of Generation System Power Costs upon compliance with the terms and conditions stated in the Generation System Bond Resolution. See "—Flow of Funds" and APPENDIX B—"SUMMARY OF CERTAIN PROVISIONS OF THE GENERATION SYSTEM BOND RESOLUTION—Additional Indebtedness—Obligations Payable from Revenues."

Electric System Bond Resolution

Under the Electric System Bond Resolution, the District is not permitted to issue bonds or other evidences of indebtedness of the Electric System secured by a pledge of or a lien on or charge upon

Electric System Revenues prior to the pledge, lien and charge of the Electric System Bonds (other than Generation System Bonds). The District may issue additional Electric System Bonds from time to time in one or more series for any lawful purpose of the District only upon compliance with the terms and conditions stated in the Electric System Bond Resolution. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE ELECTRIC SYSTEM BOND RESOLUTION—Additional Indebtedness—Additional Bonds."

The District's Electric System currently has outstanding its Electric System Revenue Bonds, Series 2010A (the "2010A Electric System Bonds"), Electric System Revenue Refunding Bonds, Series 2011 (the "2011 Electric System Bonds"), Electric System Revenue Refunding Bonds, Series 2012 (the "2012 Electric System Bonds"), and its Electric System Revenue Bonds, Series 2015 (the "2015 Electric System Bonds"), which as of July 1, 2020, were outstanding in the aggregate principal amount of $318,205,000. The 2010A Electric System Bonds, the 2011 Electric System Bonds, the 2012 Electric System Bonds and the 2015 Electric System Bonds, together with any future bonds issued under the Electric System Bond Resolution, are collectively referred to herein as the "Electric System Bonds."

Simultaneously with the issuance of the 2020A Bonds, the District will issue its Electric System Revenue Refunding Bonds, Series 2020A (the "2020A Electric System Bonds"), in the aggregate principal amount of $49,085,000 to provide the funds necessary to be used with other available funds of the District to defease and refund a portion of the 2011 Electric System Bonds and the 2012 Electric System Bonds and to pay costs of issuance of the 2020A Electric System Bonds. The 2020A Electric System Bonds are not being offered for sale by this Official Statement, and this Official Statement should not be relied on by investors when making an investment decision to purchase the 2020A Electric System Bonds.

Certain covenants and other provisions of the Electric System Bond Resolution are summarized in APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE ELECTRIC SYSTEM BOND RESOLUTION."

Junior Lien Bonds

The District may issue bonds or other evidences of indebtedness for any corporate use or purpose of the District payable from, and having a lien and charge against, Electric System Revenues junior to the Electric System Bonds. As of July 1, 2020, the District had no outstanding bonds having a lien on and charge against Electric System Revenues junior to the Electric System Bonds ("Junior Lien Bonds").

Derivative Products

The Generation System Bond Resolution permits the District to enter into "Derivative Products" secured by a pledge of and lien on Generation System Revenues on a parity with the Generation System Bonds. Derivative Products include agreements providing for an exchange of payments based on interest rates (known as interest rate swaps), or providing for ceilings or floors on such payments. Derivative Products could also include currency or commodity swap agreements. As such, they would be payable from Electric System Revenues as a part of Generation System Power Costs either prior to or on a parity with the Electric System Bonds. Execution of any Derivative Product is subject to the satisfaction of certain conditions set forth in the Generation System Bond Resolution. See "—Payment of Generation System Power Costs as an Operating Expense of the Electric System" and APPENDIX B—"SUMMARY OF CERTAIN PROVISIONS OF THE GENERATION SYSTEM BOND RESOLUTION—Additional Indebtedness—Derivative Products."

The District has previously been a party to interest rate swap agreements that constituted Derivative Products pursuant to the Generation System Bond Resolution. The District, however, is no longer a party to any such Derivative Products and does not currently expect to enter into any such agreements. The District from time to time may enter into certain hedge agreements, such as commodity or currency swaps, in the ordinary course of business. Payments made or received by the District under such agreements would be applied for purposes of the flow-of-funds provisions of the Electric System Bond Resolution consistent with applicable accounting rules.

Resource Obligations

If the District complies with certain requirements in the Electric System Bond Resolution, then the District may (1) enter into contracts for the purchase of energy, capacity, capability or reserves, or (2) acquire or construct a facility for the generation of power and energy as a separate system of the District, and in each case declare the costs of such contract or facility (including debt service on bonds) to be a "Resource Obligation" of the Electric System. Such costs would then be paid (a) as Operating Expenses of the Electric System for any month in which power and energy from such contract or facility was made available to the Electric System during such month (*regardless of whether or not the Electric System actually scheduled or received such power or energy during such month*), and (b) on a parity with the Electric System Bonds as a Parity Lien Obligation for any month in which power and energy from such contract or facility was *not* made available to the Electric System during such month. The requirements under the Electric System Bond Resolution include the delivery of a report of a Professional Utility Consultant to the effect that the District would continue to satisfy the Electric System rate covenant, described above, for the second full Fiscal Year following (i) the first delivery of energy, capacity, capability or reserves pursuant to such contract, or (ii) the date of commercial operation such facility constituting such a separate system of the District. The District has not declared costs associated with any contract or any separate system of the District to be a Resource Obligation, and the District has no current plans to do so. In practical effect, however, costs of the Generation System are paid from Electric System Revenues as if such costs were Resource Obligations of the Electric System. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE ELECTRIC SYSTEM BOND RESOLUTION—Additional Indebtedness—Separate System Bonds; Resource Obligations."

Except as described in the preceding paragraph, the District is prohibited under the Electric System Bond Resolution from entering into a contract or other similar arrangement with a third party for the purchase of energy, capacity, capability or reserves from a new or existing generating facility, payments under which contract or arrangement are payable as Operating Expenses of the Electric System, if: (a) such payments are pledged directly to secure the payment of bonds or other indebtedness issued or incurred to finance such facility, and (b) such payments are due regardless of whether the District takes delivery of any power or such facility or resource is producing or is capable of producing any power.

Other Covenants

The District has covenanted in the Generation System Bond Resolution to maintain, preserve and keep the properties of the Generation System in good repair, working order and condition, to make all necessary and proper repairs, renewals, replacements, additions, extensions and betterments thereto and to operate the properties and business of the Generation System in an efficient manner and at a reasonable cost. See APPENDIX B—"SUMMARY OF CERTAIN PROVISIONS OF THE GENERATION SYSTEM BOND RESOLUTION—Additional Covenants."

Contingent Payment Obligations

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

These agreements may include interest rate swap and other similar agreements, power purchase agreements, commodities futures contracts with respect to the delivery of electric energy or capacity, investment agreements, including for the future delivery of specified securities, electric energy and fuel price swap and similar agreements, other financial and energy hedging transactions, and other agreements.

Such contingent payments or posting of collateral may be conditioned upon the future credit ratings of the District and/or other parties to the agreement, maintenance by the District of specified financial ratios, future changes in electric energy, fuel or related prices, and other factors.

If any such payments, or portions thereof, were subject to characterization as Operating Expenses or operating expenses of the Electric System, as applicable, they would be payable from Generation System Revenues and/or Electric System Revenues, as applicable, prior to the payment of debt service on the Generation System Bonds, including the 2020A Bonds, or the Electric System Bonds. However, if they constituted "extraordinary, non-recurring expenses," as set forth in the respective definitions of Operating Expenses, they would be payable after debt service on the Generation System Bonds or the Electric System Bonds, as applicable. Other such payments also may be payable on a parity with the Generation System Bonds or the Electric System Bonds subject to the satisfaction of certain conditions precedent. See "—Derivative Products" and "THE ELECTRIC SYSTEM POWER SUPPLY—Wholesale Power Market Purchases, Sales and Trades—*Dodd-Frank Act*."

The District's Block-Slice Power Sales Agreement with the Bonneville Power Administration ("Bonneville") and power purchase agreements with Hay Canyon Wind, LLC ("Hay Canyon") and Wheat Field Wind Power Project, LLC ("Wheat Field") include requirements that the District post collateral upon the District's long-term credit rating dropping below "BBB-" in the case of Bonneville and Hay Canyon and "BBB" in the case of Wheat Field. See "ELECTRIC SYSTEM POWER SUPPLY—Bonneville Power Administration—*The Bonneville Power Purchase Agreement—Slice Product*" and "ELECTRIC SYSTEM POWER SUPPLY—Long-Term Third-Party Power Purchase Contracts," respectively.

The District's Ability to Consolidate Generation System and Electric System

The District may combine the Generation System and the Electric System into a single system for accounting and financing purposes, subject to the satisfaction of certain conditions in the Generation System Bond Resolution and in the Electric System Bond Resolution. In such event, the revenues of both Systems would be pledged and available to pay and secure debt service on the Generation System Bonds, including the 2020A Bonds, and the Electric System Bonds and the operating expenses, capital costs and other obligations of both Systems would be payable from the revenues of both Systems. Upon such consolidation of the Generation System and the Electric System, the Generation System Bonds and the Electric System Bonds would have an equal lien on revenues of the consolidated system, subject to the prior payment of the costs of operation and maintenance of the consolidated system.

As a condition to the consolidation of the Generation System and the Electric System, the District is required to provide (i) written confirmation from each Rating Agency then rating the Generation System Bonds and the Electric System Bonds that such consolidation would not cause a reduction or withdrawal of the then-current rating(s) on the Generation System Bonds and the Electric System Bonds and (ii) an opinion of Bond Counsel that such consolidation would not adversely affect the exclusion of interest on any tax-exempt Generation System Bonds or Electric System Bonds from gross income for federal income tax purposes. The District currently does not have any plans, nor does it expect, to consolidate these Systems.

Authorized Investments

All moneys in any of the funds and accounts held and established pursuant to the Generation System Bond Resolution may be invested in any obligation or investment in which the District may legally invest its funds. For a description of the District's current investment policies and practices, see "THE DISTRICT—Investment Policy."

No Acceleration Upon Default

Upon the occurrence and continuance of an Event of Default under the Generation System Bond Resolution, payment of the principal of and accrued interest on the Generation System Bonds is not subject to acceleration. The District thus is liable for principal and interest payments only as they become due. The inability to accelerate the Generation System Bonds upon an Event of Default could give rise to varying interests between holders of earlier and later maturing Generation System Bonds. The nature and extent of any such variance would depend in part upon the nature and duration of any default. In the event of multiple defaults in payment of principal or interest on the Generation System Bonds, the bondholders would be required to bring a separate action for each such payment not made. Any such action to compel payment or for money damages would be subject to the limitations on legal claims and remedies against public bodies under Washington law. The District has never defaulted in the payment of principal or interest on any of its bonds.

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Outstanding Debt of the Electric System and Generation System

The table below presents the District's outstanding Generation System and Electric System long-term indebtedness as of July 1, 2020. The table below does not reflect the issuance of the 2020A Bonds. See "SECURITY FOR THE 2020A BONDS—Additional Indebtedness—Electric System Bond Resolution."

TABLE 2
Outstanding Debt of the Electric System and the Generation System
As of July 1, 2020
($000)

Series of	Final Maturity Date	Original Principal Amount	Amount Outstanding
GENERATION SYSTEM BONDS			
2010A[1]	12/1/2024	$ 212,465	$ 26,465
2010B	12/1/2040	14,050	14,050
2015	12/1/2045	39,985	39,985
Total Generation System Bonds		$ **266,500**	$ **80,500**
ELECTRIC SYSTEM BONDS			
2010A	12/1/2035	$ 128,075	$ 120,580
2011[2]	12/1/2024	47,970	26,980
2012[3]	12/1/2028	55,610	41,495
2015	12/1/2040	140,920	129,150
Total Electric System Bonds		$ **372,575**	$ **318,205**
Total Outstanding Debt		$ **639,075**	$ **398,705**

Source: The District.
(1) $26,465,000 aggregate principal amount to be refunded with the proceeds of the 2020A Bonds.
(2) $23,700,000 aggregate principal amount to be refunded with the proceeds of the 2020A Electric System Bonds.
(3) $25,350,000 aggregate principal amount to be refunded with the proceeds of the 2020A Electric System Bonds.

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DEBT SERVICE

The following table shows the debt service requirements for the outstanding Electric System Bonds, the outstanding Generation System Bonds and the 2020A Bonds.

TABLE 3

Generation System Bonds and Electric System Bonds
Debt Service Requirements

Fiscal Year	Outstanding Generation System Bonds[1]	2020A Bonds Principal	2020A Bonds Interest	Total Generation System Bonds Debt Service[2]	Outstanding Electric System Bonds[3] Principal	Outstanding Electric System Bonds[3] Interest	Total Electric System Bonds Debt Service[2]
2020	$1,852,223	$760,000	$149,516	$2,761,739	$10,400,000	$7,102,908	$17,502,908
2021	3,235,278	4,415,000	948,250	8,598,528	11,085,000	14,024,161	25,109,161
2022	3,230,321	4,625,000	727,500	8,582,821	11,510,000	13,539,547	25,049,547
2023	3,219,314	4,845,000	496,250	8,560,564	11,985,000	13,066,003	25,051,003
2024	3,212,519	5,080,000	254,000	8,546,519	12,815,000	12,870,072	25,685,072
2025	4,064,672			4,064,672	13,365,000	12,779,086	26,144,086
2026	4,062,788			4,062,788	10,350,000	12,345,321	22,695,321
2027	4,064,946			4,064,946	10,560,000	12,045,775	22,605,775
2028	4,062,968			4,062,968	10,800,000	11,728,018	22,528,018
2029	4,066,854			4,066,854	12,680,000	11,386,553	24,066,553
2030	4,066,070			4,066,070	13,140,000	10,679,009	23,819,009
2031	4,065,616			4,065,616	13,625,000	9,939,227	23,564,227
2032	4,065,276			4,065,276	14,120,000	9,172,140	23,292,140
2033	4,064,766			4,064,766	14,640,000	8,377,184	23,017,184
2034	4,063,836			4,063,836	15,175,000	7,552,952	22,727,952
2035	4,062,202			4,062,202	15,730,000	6,698,599	22,428,599
2036	4,064,648			4,064,648	21,040,000	5,813,000	26,853,000
2037	4,065,640			4,065,640	22,095,000	4,761,000	26,856,000
2038	4,064,928			4,064,928	23,195,000	3,656,250	26,851,250
2039	4,062,262			4,062,262	24,355,000	2,496,500	26,851,500
2040	4,062,358			4,062,358	25,575,000	1,278,750	26,853,750
2041	4,064,750			4,064,750			
2042	4,065,500			4,065,500			
2043	4,063,250			4,063,250			
2044	4,062,750			4,062,750			
2045	4,063,500			4,063,500			
Total[1]	$100,099,235	$19,725,000	$2,575,516	$122,399,751	$318,240,000	$191,312,051	$509,552,051

Source: The District.
(1) Excludes the Refunded Bonds.
(2) Totals may not foot due to rounding.
(3) Excludes Electric System Revenue Bonds refunded with the proceeds of the 2020A Electric System Bonds. Includes 2020A Electric System Bonds.

THE DISTRICT

General

The District is a municipal corporation of the State of Washington established in 1936. The District began its electric utility operations in 1949 by purchasing the electric distribution facilities of Puget Sound Power & Light Company in Snohomish County and in the Camano Island portion of Island County. Its service area consists of virtually all of Snohomish County and Camano Island in Island County. The District is the second largest municipally-owned utility in the Pacific Northwest and the twelfth largest in the nation in terms of customers served and energy sold by its Electric System. The administrative offices of the District are located in the City of Everett, the county seat of Snohomish County, which is approximately 20 miles north of Seattle.

Under Washington State law, the District has the authority to establish separate enterprise funds with respect to its various municipal utility business operations, each of which enterprise funds is accounted for separately. In addition, these utility business operations (referred to as "systems") can be separately financed through the issuance of debt by the District payable from revenues of that particular system. The District currently has three systems that are separately accounted for and through which it issues debt: the Generation System, the Electric System, and the Water System. Each of these systems is separately financed, and the District maintains separate books and records for each system. The District has reserved the right to combine the Generation System and Electric System.

Pursuant to the Enabling Act, the District is empowered to (i) purchase electric energy, (ii) sell electric energy at wholesale and retail, (iii) acquire, construct and operate electric generating plants and transmission and distribution facilities, and (iv) issue revenue obligations for the purpose of financing the acquisition and construction of electric properties and for other corporate purposes. The District also has authority to provide wholesale telecommunications services through its Electric System.

The District also is empowered and required by the Enabling Act to establish, maintain and collect rates and charges for services that will be fair, nondiscriminatory and adequate to provide revenues sufficient for (i) the payment of principal of and interest on its revenue obligations for which payment has not otherwise been provided and (ii) the proper operation and maintenance of its electric facilities and (iii) renewals and replacements thereto.

Cities in the District's service area have statutory authority to provide electric service, although no city in the District's service area presently provides electric service, nor is the District aware of any city that is considering providing electric service. The District also has statutory rights of eminent domain that, subject to certain limitations, enable the District to acquire various assets and property rights, including electric distribution facilities in Snohomish County of any private utility company that may seek to serve Snohomish County and Camano Island. The District's facilities in any city and its right to provide electric service in any city are subject to the reasonable police power regulation of such city.

Administration

The District is governed by the Board of Commissioners (the "Commission"), which is comprised of three members, each elected from a separate commissioner district. The commissioners are elected at large for staggered six-year terms. The legal responsibilities and powers of the District, including the establishment of rates and charges for services rendered, are exercised through the Commission.

The present commissioners and certain administrative managers of the District are as follows:

Sidney "Sid" Logan, President

Mr. Logan worked for eight years as the Executive Director of Operations for the Arlington School District. He also has worked as an engineer and consultant in the oil and gas industry, including for Shell Oil Company. His community service experience includes serving on the Arlington-Smokey Point Chamber of Commerce and several school PTAs and advisory committees. He holds a Bachelor of Science degree in petroleum engineering from the University of Alaska. Mr. Logan's first term began on March 28, 2017 and ran through December 31, 2018. He was elected for a subsequent two-year term that began in January 2019 and will continue through December 31, 2020.

Rebecca Wolfe, Vice-President

Ms. Wolfe began her term in January 2019. She holds degrees in English (Bachelor of Arts and Master of Arts), Organizational Leadership (PhD), and Environmental Law and Policy (Masters). She worked as a career educator in K-12, college, and university settings. Ms. Wolfe has served on the City of Edmonds' Economic Development Commission, Tree Board, and Mayor's Climate Protection Committee. Previous Board positions have included community service for music, art, and library programs. Ms. Wolfe's term expires December 31, 2024.

Tanya "Toni" Olson, Secretary

Ms. Olson began her third six-year term as Commissioner on January 1, 2017. Ms. Olson held a number of management positions at the District, the last as Assistant General Manager of Corporate Services. Ms. Olson retired in October 2003 after 22 years of service. In addition, Ms. Olson has extensive experience in public education and was the co-founder of a non-profit organization that delivered performing and visual arts programs to K-12 students throughout the state of Washington. Her six-year term will end December 31, 2022.

John Haarlow, Chief Executive Officer/General Manager

The Commission appointed Mr. Haarlow to serve as CEO/General Manager beginning October 8, 2018. He joined the District in February 2017 as Assistant General Manager of Distribution & Engineering Services, bringing nearly 30 years of experience in the electric utility industry. In that role, he was responsible for construction, engineering, operations and maintenance of the utility's transmission, substation and distribution assets. He also oversaw fleet, real estate and environmental functions. Before joining the District, Mr. Haarlow worked for the Public Service Company of New Mexico, serving as both Director of Safety and Transmission and Distribution Engineering and Operations. He began his career at the Central Illinois Light Company where he was an IBEW journeyman for 10 years. Mr. Haarlow also worked as Vice President of Power Delivery for the Indianapolis Power and Light Company. He attended University of Illinois and holds a Bachelor of Arts degree in accounting.

Anne Spangler, General Counsel

Ms. Spangler joined the District in 2008 after serving four years as the Chief Assistant City Attorney for Tacoma Public Utilities. Ms. Spangler's background includes practice with the Office of the Attorney General, representing the State Department of Transportation, and with the City of Seattle as a land-use litigation attorney. Ms. Spangler has a Bachelor of Arts degree in anthropology from Reed College, a juris doctorate, cum laude, from the University of California, Hastings College of the Law, and a utility management program certificate from Willamette University's Atkinson Graduate School of

Management. She is a member of the Washington State Bar Association and the Energy Bar Association, a Washington, D.C. based organization of legal professionals in the energy industry.

Scott Jones, Chief Financial Officer

Mr. Jones joined the District as Chief Financial Officer in January 2020, leading the organization's accounting and finance functions. He spent several years in public power working for the Municipal Electric Authority of Georgia (MEAG Power), serving as its Chief Administrative Officer. Most recently, Scott was the Chief Financial and Administrative Officer for the North American Electric Reliability Corporation (NERC), responsible for various functions including finance, information technology, human resources, and stakeholder relations. His early professional career included roles at PricewaterhouseCoopers and a natural gas company before moving into the electric utility industry. Mr. Jones attended the University of Tennessee where he earned Bachelor of Arts and Master of Accountancy degrees.

James Herrling, Treasurer

Mr. Herrling was appointed by the Commission to serve as Treasurer in June 2018. He joined the District in 2000 as Senior Manager of Financing and Risk Management and was later named Senior Manager of Treasury, Risk Management and Supply Chain. Before joining the District, Mr. Herrling served as the Corporate Controller for Chelan PUD for seven years. Prior to that, Mr. Herrling worked for Arthur Andersen. Mr. Herrling holds a Bachelor of Arts Degree in Accounting from Seattle University and is a certified public accountant.

Jason Zyskowski, Assistant General Manager – Facilities, Generation, Power, Rates and Transmission Management

Mr. Zyskowski started at the District in 2004 as an Electrical Engineer in the Distribution and Engineering Services Division. He worked on several renewable generation projects, substation upgrades, numerous automation projects, and was the Project Manager for the District's first Energy Storage System. He became the Manager of Substation Engineering in 2013 and the Senior Manager of Planning, Engineering and Technical Services in 2017. In 2019, he also became Senior Manager over Transmission and Distribution System Operations. In March 2020, Mr. Zyskowski was selected as the AGM of Facilities, Generation, Power, Rates and Transmission Management. In this role, he is responsible for the District's office facilities, generation (including the Jackson Hydro Project), setting of the District's electric rates and purchasing power and transmission service to provide the utility with the resources it needs to keep the lights on. He has a Bachelor of Science in electrical engineering from the University of Washington and is a registered Professional Engineer in the State of Washington.

Guy Payne, Assistant General Manager – Distribution and Engineering Services

Mr. Payne joined the District in March 2019 as Assistant General Manager of Distribution & Engineering Services. He holds an associate degree in business from New Mexico State University and has 25 years of safety, operational, and leadership experience in the electrical utility industry. Most recently he served as Area Manager of Southern New Mexico Operations for Public Service Company of New Mexico, overseeing operational and engineering employees in four service centers that distributed power to six separate towns across southern New Mexico. As Assistant General Manager of Distribution & Engineering Services, Mr. Payne oversees more than 500 employees across several District offices.

Dean Galvez, Chief Information Officer – Information Technology Services

Mr. Galvez joined the District in February 2006 as the Senior Manager for Applications, bringing 30 years of information technology experience. In October 2017, he was appointed Chief Information Officer, responsible for leading the Information Technology Services division. In this role, he is responsible for the utility's enterprise application systems, program management, cyber security, IT infrastructure, network operations, data management, business intelligence, software development/integration, and IT solution consulting. Before joining the District, Dean worked for the City of Lynnwood as the IT Director. Prior to that, he managed Washington's Department of Health statewide infrastructure technology department. He began his career with Thurston County as a software developer. He worked his way up through expanded and progressive roles there until becoming the Information Services Manager for Thurston County being responsible for leading and managing all IT services and technology delivery. Dean attended Western Washington University in Bellingham where he graduated with a Bachelor of Science degree in computer science.

Pam Baley, Assistant General Manager – Customer and Energy Services

Ms. Baley was appointed Interim Assistant General Manager for Customer and Energy Services in May 2019 and accepted the permanent position in July 2019. She leads the District's efforts to develop and operate solar energy, electrification of transportation, and demand response programs. She is also responsible for the District's customer service operations, including call center, frontline, account management, collections and low-income programs for commercial and residential customers. Ms. Baley joined the utility in 2013 as a Senior Manager of Customer Experience with more than 20 years of executive and operational leadership experience, working in London and the United States for the banking and telecommunication industries, where she oversaw approximately 3,000 employees and was responsible for a $235 million budget.

The Generation System

In 1986 pursuant to the Generation System Bond Resolution, the District established the Generation System, which is financed and accounted for as a system separate from the Electric System. The Generation System currently consists of the Henry M. Jackson Hydroelectric Project (the "Jackson Project"), the Youngs Creek Hydroelectric Project (the "Youngs Creek Project"), the Calligan Creek Hydroelectric Project (the "Calligan Creek Project"), the Hancock Creek Hydroelectric Project (the "Hancock Creek Project") and the Woods Creek Hydroelectric Project (the "Woods Creek Project"). The Generation System could include any other electric generating, transmission and/or conservation facilities undertaken by the District in the future. See "THE GENERATION SYSTEM—Small Hydroelectric Generation Projects" and "THE ELECTRIC SYSTEM POWER SUPPLY—The District's Future Power Supply Strategy."

The Jackson Project is an operating hydroelectric generating facility with a nameplate capacity of 111.8 megawatts ("MW"). The Youngs Creek Project is a hydroelectric generating facility with a nameplate capacity of 7.5 MW. The Calligan Creek Project is a hydroelectric generating facility with a nameplate capacity of 6 MW. The Hancock Creek Project is a hydroelectric generating facility with a nameplate capacity of 6 MW. The Woods Creek Project is a small hydroelectric project with a nameplate capacity of 0.65 MW. See "THE GENERATION SYSTEM—The Jackson Project" and "—Small Hydroelectric Generation Projects."

As of December 31, 2019, the total assets of the Generation System were $255,291,000 and its total long-term debt, net of unamortized premiums and discounts and prior to the issuance of the

2020A Bonds, was $86,796,000. See "THE GENERATION SYSTEM" and see "SECURITY FOR THE 2020A Bonds" for a discussion of the obligations of the Electric System to the Generation System.

The Electric System

The District began its electric utility operations in 1949 and currently serves most of Snohomish County and the Camano Island portion of Island County. The properties of the Electric System include the District's transmission lines, substations, distribution lines, transformers, meters and general plant. For the year ended December 31, 2019, the Electric System served an average of approximately 355,000 customers and had energy sales of 7,933,000 megawatt hours ("MWh") and operating revenues of $671,584,000. In 2019, the District purchased approximately 83% of its power from the Bonneville, approximately 5% from long-term power contracts, approximately 4% combined from the Jackson Project, the Youngs Creek Project, the Calligan Creek Project, the Hancock Creek Project and the Woods Creek Project and 8% from the wholesale power market to balance resources with loads. The Electric System is primarily a distributor of power at retail rates. As of December 31, 2019, the total assets of the Electric System were $1,874,169,000 and its total long-term debt, net of unamortized premiums and discounts, was $330,005,000. See "THE ELECTRIC SYSTEM," "ELECTRIC SYSTEM POWER SUPPLY" and "ELECTRIC SYSTEM FINANCIAL INFORMATION."

The Water System

The District's Water System was formed through the merger of the District's former Lake Stevens Water System and its former Sunnyside Water System and became operational in 1946. As of December 31, 2019, the Water System served approximately 21,800 customers. The revenues of the Electric System and the Generation System are not pledged to the payment of operating expenses or debt of the Water System, and the revenues of the Water System are not pledged to the payment of the expenses and obligations of the Electric System or the Generation System. As of December 31, 2019, the total assets of the Water System were $148,586,000 and its total long-term debt was $13,027,000, net of unamortized premiums and discounts.

Labor Relations

The District had the full-time equivalent of approximately 1,099 employees as of December 31, 2019. Of those, 609 employees are covered by a three-year collective bargaining agreement with the International Brotherhood of Electrical Workers, Local 77 (IBEW), which expires on March 31, 2024. The District strives to promote sound labor relations policies that are beneficial to the District and its employees. The District has not experienced any work stoppages in the past 38 years.

Insurance

The District maintains a comprehensive insurance program. Property insurance coverage and retention levels under the District's insurance program are customary in the industry. The District's property insurance coverage has a $400 million per occurrence limit with a $250,000 deductible. Included in this coverage is $100 million in earth movement coverage with a deductible of $250,000 or 2% of the total insured value of the damaged facility. The District's general liability coverage has a $50 million per occurrence limit, in excess of a $2 million self-insured retention. The District's self-insured retention fund balance at December 31, 2019, was approximately $10 million. The District's general liability coverage of $50 million includes acts of terrorism.

The District also has an insurance policy covering cyber events.

Accounting

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor's Office, under the authority of Chapter 43.09 RCW. The District currently uses the Federal Energy Regulatory Commission ("FERC") uniform system of accounts for class A electric systems. The District utilizes a financial accounting system that features a standard chart of accounts, but the system also allows the District to continue to report on a FERC system of accounts basis as well. The District's financial statements include the financial position and results of operations for all enterprise operations which the District manages. See APPENDIX A—"INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018."

The District's combined financial statements and individual statements for the Electric System, Generation System and Water System as of December 31, 2019 and 2018, and for the years ended December 31, 2019 and 2018, respectively, included herein as Appendix A, have been audited by Moss Adams LLP, independent auditors, as stated in its report appearing herein. The audited financial statements of the District are public documents. The District has not requested that Moss Adams LLP provide consent for inclusion of its audited financial statements in this Official Statement, and Moss Adams LLP has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Further, Moss Adams LLP has not participated in any way in the preparation or review of this Official Statement.

The District requests proposals from national and large regional accounting and auditing firms every five years and selects its financial statement auditors based on industry expertise, reputation and cost. Following such a request for proposals, the District selected Moss Adams LLP as its independent auditors for the fiscal years ended December 31, 2017 through 2021.

Pension Plans and Other Post-Employment Benefits

Pension Plans

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

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

PERS Plans 1, 2 and 3. PERS is a multiple-employer, cost-sharing public employee retirement system operated by the State. PERS is comprised of three separate plans for membership and benefit purposes ("PERS 1," "PERS 2" and "PERS 3"). See APPENDIX A—"FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 AND INDEPENDENT AUDITOR'S REPORT, Note 7" for a description of PERS benefits and eligibility requirements for these plans.

PERS 1 is closed to employees hired after September 30, 1977. Eligible employees hired after that date are members of either PERS 2 or PERS 3. Eligible employees hired after August 31, 2002, are

members of PERS 2 unless they irrevocably elect to join PERS 3. The District is one of 1,357 governmental employers that participate in PERS as of June 30, 2019. As of June 30, 2019, 193,984 retirees and beneficiaries were receiving benefits under PERS, 64,377 terminated plan members were entitled to, but not yet receiving, benefits, and there were 193,501 vested active plan members and 136,901 non-vested active plan members.

Benefits for active members in PERS 1 or PERS 2 vest after five years of service, and in PERS 3 members are vested in the defined benefit portion of their plan after 10 years unless they qualify for early vesting after five years.

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

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

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

Actuarial Valuation, Funding Policy and Assumptions

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

In August 2020, the OSA released an actuarial valuation for June 30, 2019 (the "2019 Valuation Report"). The primary purposes of the 2019 Valuation Report are to determine contribution rates for the State's retirement plans, including PERS, for the 2021-2023 biennium that would be sufficient to fund the State's retirement plans, including PERS, under the funding policy established by the Legislature and to provide information on the funding progress and developments in the plans over the State fiscal year ended June 30, 2019. Washington statutes require that valuation reports that are used in determining

contribution rates be audited by independent actuaries selected by the PFC. The 2019 Valuation Report does not take into effect the COVID-19 outbreak.

Funding Policy. The State's funding policy and methods for determining the contribution rates are set forth in RCW Chapters 41.40 and 41.45 RCW (collectively, the "Pension Act"). In 2009, the Pension Act was amended to provide for the amortizing in full the unfunded accrued actuarial liability (the "UAAL") of PERS 1 over a rolling-10-year period, using methods and assumptions that balance the needs for increased benefit security, decreased contribution rate volatility and affordability of contribution rates. The Pension Act also requires that to the extent feasible all benefits for PERS 2 and PERS 3 members be funded over the working lives of those members. In preparing valuations and making recommendations regarding contribution rates, the OSA uses valuation methods, economic and demographic assumptions, including rates of retirement, rates at which members become disabled, turnover rates and mortality rates, and other assumptions, including assumptions about plan benefits.

Assumptions. As required by State law, OSA periodically prepares experience studies to assess the reasonableness of their assumptions and inform potential changes to those assumptions. Economic experience studies are prepared every two years. In August 2019, OSA released its 2019 Report on Financial Condition and Economic Experience Study. Every five to six years, OSA performs a demographic experience study, which compares demographic assumptions with actual experience to determine if any adjustments are necessary. The most recent Demographic Experience Study report was prepared in June 2020, using data from the 2013-2018 period, and was not updated to reflect any effects to demographic assumptions related to COVID-19. Demographic assumptions incorporating experience regarding mortality, retirement, disability, termination rates, salary increases and other assumptions are included in the determination of contribution rates for a biennium. Economic assumptions are adopted by the PFC and/or prescribed by the Legislature. The Legislature used the following economic assumptions for the 2019-2021 biennium contribution rates: a rate of inflation of 2.75%; an assumed annual investment return of 7.5%; and annual growth in membership of 0.95%.

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

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

The funded status for PERS 1, for all of Washington State is set forth below.

TABLE 4
Washington State PERS Actuarial Liability and Funded Ratio on an Actuarial Basis

	June 30, 2017		June 30, 2018		June 30, 2019	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Actuarial Liability	$12,341	$37,166	$11,942	$40,024	$11,535	$42,600
Valuation Assets	7,042	33,191	7,193	36,601	7,461	40,766
Unfunded Liability	$ 5,299	$3,975	$ 4,749	$ 3,423	$ 4,074	$ 1,833
Funded Ratio	57%	89%	60%	91%	65%	96%

Source: Office of the State Actuary; 2019 Valuation Report; amount in millions.

Contribution Rates. Employer contribution rates are set for a biennium (the State's two-year period ending on June 30 of an odd-numbered year). Contribution rates for a biennium are adopted during even-numbered years according to a statutory rate-setting process. The process begins with the OSA performing an actuarial evaluation of each plan and determining recommended contribution rates. As discussed above in "Actuarial Valuation, Funding Policy and Assumptions," in even-numbered years, the OSA provides its preliminary results and recommended contribution rates to the SCPP and to the PFC. The PFC, based on the recommendations of the OSA and the SCPP, adopts contribution rates. The rates adopted by the PFC are subject to revision by the Legislature each year when the Legislature is in session. All employers are required to contribute at the levels established by the Legislature.

The current biennium began July 1, 2019 and ends June 30, 2021. The employee contribution rate for PERS 1 is established by statute at 6% of covered payroll for local government unit employees. The employee contribution rate for PERS 2, which is determined by the PFC, is 7.90% of covered payroll. The range of permissible employee contribution rates for the defined contribution component of PERS 3 are determined by the Director of WDRS and range from a minimum of 5.0% of covered salary to a maximum of 15.0% of covered salary. Employees are not required to contribute to the defined benefit component of PERS 3. As of July 1, 2019, the employer contribution rate for all PERS plans is 12.86% of covered payroll. The current rates are subject to change by the Legislature during the 2021 legislative session and future legislative sessions. Based upon the statutory funding policy, the same contribution rate is charged to employers regardless of the plan in which employees hold membership. The adopted employee contribution rates for the 2021-2023 biennium are 6% for PERS 1 and 6.36% for PERS 2. The adopted employer contribution rate for all PERS plans for the 2021-2023 biennium is 10.07%.

OSA has cautioned that the economic and fiscal impacts of the COVID-19 pandemic will most likely impact pension plan funding by (1) reducing investment returns below expectations and (2) reducing the amount of revenue available for participating employers to meet contribution requirements. If the Legislature deems actuarial contributions to be unaffordable for participating employers, then it may decide to adopt contribution rates that are lower than those recommended by OSA; however, as of the date of this Official Statement the Legislature has not taken such an action. See "ELECTRIC SYSTEM FINANCIAL INFORMATION—Impacts from the COVID-19 Pandemic."

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

District Contributions. For the year ended December 31, 2019, the District's total payroll for employees was $122 million, and virtually all of that was covered by PERS. Both the District and its

employees made their required contributions to PERS in 2019, with the District contributing $15.9 million consisting of $6.2 million to PERS 1 and $9.7 million total to PERS 2 and PERS 3.

Other Post-Employment Benefits

The District provides post-employment health care and life insurance benefits to eligible retirees hired before July 1, 2009 and their dependents. The District implemented GASB No. 75 to recognize net liability related to other post-employment benefits ("OPEB"). Based on an actuarial study completed as part of the disclosure requirements, the unfunded actuarial accrued liability for these benefits as of December 31, 2019 was $46.1 million. The District's annual post-employment healthcare benefit cost is calculated based on the annual required contribution (the "ARC") of the District. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal costs each year and amortize any unfunded liabilities (or funding excess) over a 30-year period. The District has established a separate fund to supplement the costs for the net post-employment obligation. That fund has a balance of $30.8 million as of December 31, 2019. In addition, the Commission approved an additional $2.0 million in contributions to the net post-employment obligation satisfied in January 2020. The post-employment healthcare program was changed for any employee hired by the District after July 1, 2009. Employees hired after July 1, 2009 receive post-employment health benefits under a defined contribution program that is funded on a pay-as-you-go basis. For a description of the post-employment related disclosures, see APPENDIX A—"FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 AND INDEPENDENT AUDITOR'S REPORT, Note 7."

Deferred Compensation Plan

In addition, the District offers its employees deferred compensation plans under Internal Revenue Code Sections 401(k), 457 and 401(a) (for employees that were previously employed by a first-class city), which permit employees to defer a portion of their compensation until future years.

Investment Policy

The District invests public funds in a manner that conforms with state and local statutes governing the investment of public funds providing for the preservation of principal, liquidity and market rate returns consistent with financial market indices. Eligible investments include: (i) obligations of the U.S. government including U.S. Treasury bonds, notes, and bills, (ii) obligations of U.S. government agencies wholly-owned by the government or any government sponsored enterprises, (iii) banker's acceptances purchased on the secondary market, (iv) commercial paper, (v) certificates of deposit, (vi) liquid overnight funds held at a national financial institution that is under the Washington State Public Depository Protection Commission and (vii) State of Washington Local Government Investment Pool (the "LGIP").

The District's investment policy also establishes issuer constraints and other guidelines of various types for these investments. As of June 30, 2020, the District's major investment portfolio holdings include the Washington State Local Government Investment Pool (14.2%), Federal Home Loan Bank Notes (18.0%), Federal Home Loan Mortgage Corporation ("Freddie Mac") Notes (2.5%), Federal National Mortgage Association ("Fannie Mae") Notes (7.0%), Federal Farm Credit Bank Notes (7.7%), and U.S. Treasury Notes (49.7%) Freddie Mac and Fannie Mae remain under the conservatorship of the U.S. government and continue to maintain the implied guarantee and support from the U.S. government on outstanding debt. The Generation System Bond Resolution provides that money in the Bond Fund be invested in any obligations or investments in which the District may legally invest its funds. The investment policy of the District may be amended at any time. See APPENDIX A—"FINANCIAL STATEMENTS FOR THE

YEARS ENDED DECEMBER 31, 2019 AND 2018 AND INDEPENDENT AUDITOR'S REPORT," Note 2, and Table 2 for a summary of the District's investments.

Local Government Investment Pool

The funds of the District that are invested in the LGIP are administered by the State Treasurer's Office. The LGIP is a pool with over 530 local government participants since its inception in 1986. The LGIP had approximately a $22.7 billion average balance under investment as of June 30, 2020. In its management of the LGIP, the State Treasurer is required to adhere, at all times, to the principles appropriate for the prudent investment of public funds. These are, in priority order, (i) the safety of principal, (ii) the assurance of sufficient liquidity to meet cash flow demands and (iii) to provide a competitive interest rate relative to other comparable investment alternatives.

The LGIP, authorized by chapter 43.250 RCW, is a voluntary investment vehicle that provides its participants the opportunity to safely benefit from the economies of scale available from a pooled fund investment portfolio of $10 billion to $16 billion. It is also intended to offer participants increased safety of principal, access to liquidity, and the ability to achieve a competitive investment yield. The LGIP is restricted to investments with maximum maturities of 397 days, and the weighted average life is not permitted to exceed 120 days. Investments permitted under the LGIP's investment policy include: 1) obligations of the U.S. government, 2) obligations of U.S. government agencies, or of corporations wholly owned by the U.S. government, 3) obligations of supranational institutions provided that, at the time of investment, the institution has the United States government as its largest shareholder, 4) obligations of government-sponsored corporations which are, or may become, eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve and 5) certificates of deposit or demand deposits with financial institutions made in accordance with the provisions of chapter 39.58 RCW.

General Obligation Bonds and Taxing Power

The District by state law is authorized to issue nonvoter-approved general obligation bonds for any corporate purpose of the District in an amount up to 3/4 of 1% of the total assessed value of the taxable property within the District. In addition, the District is authorized to levy an annual tax on all taxable property within the District up to 45¢ per $1,000 of assessed value in any one year, exclusive of interest and redemption for general obligation bonds. The District has no outstanding general obligation bonds and does not levy a tax. The proceeds of any such tax would not be available to pay or secure the Bonds.

THE GENERATION SYSTEM

General

Pursuant to the Generation System Bond Resolution, the District has established the Generation System, which is financed and accounted for as a system separate from the District's Electric System. The Generation System is currently composed of the Jackson Project, the Youngs Creek Project, the Calligan Creek Project, the Hancock Creek Project and the Woods Creek Project. In the future the District may construct, develop or acquire additional facilities and resources for the generation, transmission or conservation of power and energy as a part of the Generation System or another separate system. The District expects that any new generating resources developed or acquired by the District would become part of the Generation System. See "ELECTRIC SYSTEM POWER SUPPLY—The District's Future Power Supply Strategy." Pursuant to the Generation System Bond Resolution, the Electric System pays for all Generation System Power Costs to the extent not paid from other sources.

The Jackson Project

The Jackson Project, located on the Sultan River approximately 24 miles east of the City of Everett (the "City") in south central Snohomish County, is a hydroelectric project that provides water supply to the City and power for the District. The Jackson Project's generating facilities comprise two large generating units rated at 47.5 MW each and two small generating units rated at 8.4 MW each, for a total nameplate capacity of 111.8 MW. The power output of the Jackson Project is delivered to the Electric System at a switchyard adjacent to the powerhouse.

The District operates the Jackson Project to produce the optimum amount of electrical energy, subject to specified releases of water into the Sultan River for maintenance of the fishery and diversion of water as necessary into the City's water system reservoir. An agreement in 1961 and subsequent amendments in 1981, 2007, 2008, 2009, and 2017 set out the rights and duties of the City and District to use water at the Jackson Project. Jackson Project storage is used to capture water during high runoff periods and to provide water during low precipitation periods for stream flows, City water demands and power production. Actual energy production varies substantially throughout the year and from year to year.

The following table shows Jackson Project production for the last 10 years.

TABLE 5
Jackson Project Energy Production

Year	MWh	Annual Precipitation (Inches)	Cost of Energy Produced (cents/kWh)
2019	306,344	119	6.7
2018	459,517	154	4.5
2017	453,152	155	4.0
2016	483,805	187	4.8
2015	375,376	135	5.2
2014	519,531	192	3.7
2013	452,063	142	4.6
2012	520,255	169	5.0
2011	485,784	170	7.5
2010	382,612	140	8.7

Source: The District.

The electrical generation output of the Jackson Project varies annually with the amount and timing of the precipitation received, and their impact on the stream flows feeding the project. Power production is highest in the late fall through late spring periods due to precipitation and snowmelt. This output shape roughly matches the District's seasonal load pattern. However, requirements to maintain minimum instream flows and technical restrictions limit the Jackson Project's ability to follow the District's load within a day. Under critical water conditions based on the lowest water year on record, output for the project is planned at 29.5 aMW or 258,420 MWh. Under normal precipitation and stream flow conditions, the Jackson Project can generate approximately 50 aMW or 434,528 MWh.

FERC License

The District operates the Jackson Project under a 45-year license issued on September 2, 2011 by the FERC. The license generally conforms to the terms of a Settlement Agreement approved by federal, state and local agencies, the cities of Everett and Sultan, the Tulalip Tribes and American Whitewater that was filed with FERC on October 14, 2009. The District also negotiated a separate settlement agreement

with the Tulalip Tribes that covers the proposed license term. The license does not contain conditions that substantially alter the physical characteristics of the Jackson Project or substantially increase the capital costs thereof. The license and settlement agreements require the District to complete certain capital improvement projects, fund habitat preservation and monitor certain functions, the aggregate costs of which are expected to total approximately $85 million over the 45-year term of the license.

Endangered Species Issues

Fish listings that may affect Jackson Project operations include Puget Sound Chinook salmon, steelhead, and bull trout. Listed Chinook salmon and steelhead trout spawn and rear in the lower Sultan River below the City's diversion dam. Bull trout have a wide geographic range in the Pacific Northwest, with sub-populations using the lower Sultan River to forage for food. Studies are undertaken regularly to determine the status of the populations and any potential impacts of the Jackson Project. While it is unclear how these listings might affect operations, the District already has in place extensive measures to protect fish, including complex flow controls, a minimum flow regime and non-flow measures such as habitat restoration, research, monitoring and evaluation. The Settlement Agreement does not substantially modify the fisheries conditions for the Jackson Project.

The U.S. Fish and Wildlife Service (the "USFWS") Western Washington field office website indicates that five federally listed wildlife species may occur in Snohomish County. These species are the northern spotted owl, marbled murrelet, gray wolf, grizzly bear and Canada lynx. Designated critical habitat for two of these species, the northern spotted owl and marbled murrelet, is also present in Snohomish County. USFWS also identified four candidate species for listing, the fisher, North American wolverine, yellow-billed cuckoo and Oregon spotted frog, as possibly occurring in Snohomish County. Only the marbled murrelet (federal threatened species) is known to occur within the Jackson Project area. The Jackson Project Terrestrial Resources Management Plan protects and enhances habitat used by this species. Jackson Project operations that might affect this species such as road maintenance and repairs follow State Forest Practice guidelines and the Jackson Project Marbled Murrelet Habitat Protection Plan ("MMHPP") to protect these species as appropriate. As part of the "ORDER ISSUING NEW LICENSE, September 2, 2011," FERC approved the MMHPP with a requirement to update it every ten years in consultation with USFWS and the Washington State Department of Fish and Wildlife. The approved MMHPP has resulted in minimal changes to project operations over the subsequent nine years, and consultation with agencies in coming years are not expected to force significant operational costs or changes.

Dam Safety Assessments

The Jackson Project is required by FERC to hire an independent consultant every five years to review all aspects of the project facilities for safe and reliable continued operation. In 2016, an additional FERC-required exercise assessing the potential failure modes of Culmback Dam was conducted by the District and independent consultants. As part of these studies, previous analysis for a maximum credible earthquake was reviewed for consistency with FERC engineering guidelines. The maximum credible earthquake is the highest credible earthquake loading to which the dam would be subject, based on FERC standards. Such previous analysis includes a detailed review of both local crustal faults and larger regional or subduction events. Culmback Dam is estimated to be able to withstand all of the earthquake loads analyzed. The District hired an independent consultant for the 5-year 2016 inspections, and their final report did not indicate any major issues or concerns about Culmback Dam or the Jackson Project.

Small Hydroelectric Generation Projects

The District is currently operating and/or evaluating additional renewable and non-greenhouse gas emitting resources, including small hydroelectric generating resources in the surrounding area, to meet future load. The District's investigation of small hydroelectric projects has focused on projects that the District anticipates will have minimal negative environmental impacts and will be cost effective. See "ELECTRIC SYSTEM POWER SUPPLY—The District's Future Power Supply Strategy—*District's 2019 Integrated Resource Plan*."

Woods Creek Project

The Woods Creek Project is located in Snohomish County, north of the city of Monroe, Washington, and has a nameplate capacity of 0.65 MW. This project is adjacent to Woods Creek, a tributary of the Skykomish River, with the powerhouse located at a natural impassible barrier to anadromous fish. Prior to acquiring this resource, the District had been purchasing the output from this small hydroelectric project since its construction in 1982. The Project received an exemption from FERC licensing in 1982, although the exemption places certain restrictions on the operation of the Woods Creek Project. The District purchased the powerhouse, two residences and 150 acres of land for $1,600,000 in February 2008 and the appraised value of the land alone exceeded the purchase cost. The annual operation and maintenance costs for this facility are approximately $250,000.

Youngs Creek Project

The Youngs Creek Project is a FERC-licensed project located on an approximately 23-acre site just south of the city of Sultan, Washington. The District commissioned the Youngs Creek Project and began generating power on October 17, 2011. With a nameplate capacity of 7.5 MW, the powerhouse is located above a natural impassible barrier to anadromous fish on Youngs Creek, a tributary of Elwell Creek. The FERC license expires in April 2042.

Hancock and Calligan Creek Projects

In December 2010, the District acquired the project lands for the Calligan Creek and Hancock Creek Projects, and both filed and received preliminary permits for the projects from FERC in 2011. Both of these Projects are "run-of-the-river" projects located in King County above Snoqualmie Falls, a natural impassible barrier to anadromous fish, and were originally licensed with FERC in 1993. The design and layout of these Projects is similar to that of the Youngs Creek Project. A 401 Water Quality certification was granted by the Washington State Department of Ecology ("WDOE"), and FERC issued its Environmental Assessment for both projects in December 2014. The District received the 50-year FERC licenses to develop and construct the Calligan Creek Project and the Hancock Creek Project in late June 2015, and the District completed construction and commissioning for the two projects in 2018.

The Hancock Creek Project is located on Hancock Creek, a tributary of the North Fork Snoqualmie River in King County downstream from Lake Hancock. The Hancock Creek Project has a nameplate capacity of 6.0 MW, with expected output of approximately 2.5 aMW during average water year conditions.

The Calligan Creek Project is located on Calligan Creek, a tributary of the North Fork Snoqualmie River in King County downstream from Calligan Lake. The Calligan Creek Project has a nameplate capacity of 6.0 MW, with expected output of approximately 2.4 aMW during average water year conditions.

Other Projects

The District's review of other generating projects such as pumped storage hydroelectric capacity and biogas thermal energy are more fully described in "ELECTRIC SYSTEM POWER SUPPLY—The District's Future Power Supply Strategy." The District expects that these projects, to the extent they come to fruition, will be included as a part of the Generation System. See "ELECTRIC SYSTEM POWER SUPPLY—Long-Term Third-Party Power Purchase Contracts—Qualco Energy Agreement."

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Generation System Net Project and Annual Costs

The Generation System Bond Resolution requires the District to account for the revenues and expenses of the Generation System separately from the Electric System. The District has covenanted to purchase for use in the Electric System all power and energy available from the Generation System. The following table sets forth the annual costs of the Generation System from fiscal year 2015 through June 30, 2020.

TABLE 6
Public Utility District No. 1 of Snohomish County, Washington
Generation System Annual Costs
($000s)

	Year Ended December 31,					6 Months Ended June 30,	
	2015	2016	2017	2018	2019	2019	2020
Jackson Project[1]	$ 19,466	$ 22,877	$ 17,993	$ 20,585	$ 20,418	$ 10,229	$ 3,483
Cogeneration Project[2]	14,990	15,012	-	-	-	-	-
Small Hydroelectric Generation Projects[3]	2,412	2,274	2,199	6,222	6,570	3,130	3,293
Net Project Costs[4]	36,868	40,163	20,192	26,807	26,988	13,359	6,776
Other Costs[5]	19,040	19,748	19,702	15,127	9,462	8,188	3,567
Net Annual Costs[6]	$ 55,908	$ 59,911	$ 39,894	$ 41,934	$ 36,450	$21,547	$ 10,343
Jackson Project Energy Output (MWh)[7]	375,376	483,805	453,152	459,517	306,344	155,429	270,390
Cogeneration Project Energy Output (MWh)	-	-	-	-	-	-	-
Small Hydroelectric Generation Projects (MWh)[8]	13,762	20,313	18,154	31,052	36,191	24,764	40,400
Total Energy Output	389,138	504,118	471,306	490,569	342,535	180,193	310,790
Net Project Costs ($/MWh)[9]	$ 95	$ 80	$ 43	$ 55	$ 79	$ 74	$ 22
Net Annual Costs ($/MWh)	$ 144	$ 119	$ 850	$ 85	$ 106	$ 120	$ 33

Source: District Records.

(1) Intercompany loans were fully repaid by the Jackson Project in November 2019, significantly reducing total operating costs for the project in 2020.

(2) On August 22, 2011, the District and Kimberly-Clark terminated an agreement for operation of the Cogeneration Project as a renewable resource. Kimberly-Clark paid the District $26.5 million (representing the net present value of the reasonably-expected net benefits the District would have received under the agreements through December 31, 2016), assumed title to the Cogeneration Project assets and suspended operation of the Cogeneration Project on October 1, 2011. Costs incurred after termination of the Cogeneration Project represent intersystem debt service costs related to the Cogeneration Project, which were satisfied in 2016.

(3) Small Hydroelectric Generation Projects costs include costs that are charged to the Electric System from the Woods Creek Project, the Youngs Creek Project, the Hancock Creek Project, and the Calligan Creek Project. See "—Small Hydroelectric Generation Projects."

(4) Net Project Costs include operating and maintenance, capital, tax and debt service expenditures associated with the project, net of interest and other income, which are charged to the Electric System.

(5) Other Costs represents debt service expenditures on Generation System Bonds that are not directly related to current Generation System projects.
(6) Excludes costs incurred by the Generation System for the research of potential renewable resources which were funded by the District's resource reinvestment reserve through 2017.
(7) Jackson Project energy output varies annually based on the timing of precipitation received in the Sultan River basin.
(8) Small Hydroelectric Generation Projects output includes output from the Woods Creek Project, the Youngs Creek Project, the Hancock Creek Project, and the Calligan Creek Project.
(9) Excludes Other Costs (see Note 4 above). Variations in unit costs per MWh are primarily due to the effects of annual precipitation on generation output.

The Hancock Creek Project and the Calligan Creek Project, as more fully described in "in "—Hancock Creek and Calligan Creek Projects," were completed and began operations in 2018, adding approximately $5 million in combined costs annually. Other than as noted in footnote 1 in Table 6 above, projected annual costs of the Jackson Project are not expected to vary materially from historical results; costs are expected to increase modestly as a result of inflationary pressures on the costs of labor and materials. Energy output for the Jackson Project is expected to vary annually based on the timing of the precipitation in the Sultan River Basin.

Future Generation System Expenditures

Generation System expenditures related to the operations of the Jackson Project, the Youngs Creek Project, the Woods Creek Project, the Hancock Creek Project and the Calligan Creek Project consist of operating and maintenance, capital, taxes and debt service costs. These costs are expected to remain near historical levels, approximately $25 million annually, for the period 2020 through 2021. Capital expenditures are expected to average $2 to $4 million per year, with no significant capital projects expected for 2020 through 2024.

The need for new resources and the associated capital requirements are assessed during the IRP planning process.

THE ELECTRIC SYSTEM

The properties of the Electric System presently include transmission lines, substations, distribution lines, transformers, meters and general plant. As of December 31, 2019, the District had approximately 326.98 miles of 55/115 kV transmission lines. It is anticipated that future transmission lines will be at least 115 kV. The District's distribution facilities generally consist of 12,470-volt overhead lines, supported by wood poles, 12,470-volt underground lines, 87 substations with a combined capacity of 2,899,475 kVA, distribution transformers, meters, and secondary lines and services, both overhead and underground. As of December 31, 2019, these facilities included 3,297 miles of overhead lines and 2,923 miles of underground lines. In addition, the District has three mobile transformer units with a combined capacity of 75,000 kVA. The District has continually increased the substation and distribution line capacity to meet the needs of its customers and further increases are planned. See "ELECTRIC SYSTEM FINANCIAL INFORMATION—Financial Condition and Liquidity—*Capital Expenditures*."

The District and Frontier Communication were parties to a Joint Pole Ownership Agreement covering approximately 60% of the District's existing distribution pole plant. The Joint Pole Ownership Agreement became effective October 1, 2009 and had an initial term of five years. The term was extended for an additional five year term ending on September 30, 2019, and was then extended for an additional one year term ending on September 30, 2020; however, if the Agreement is not extended beyond such date, it will remain in full force and effect with respect to all poles jointly owned at the time of termination. Frontier filed for Chapter 11 bankruptcy on or about April 14, 2020. Frontier's interests in the Joint Pole Ownership Agreement have been acquired in the bankruptcy process by Northwest Fiber, LLC, d/b/a Ziply.

As used in this Official Statement, consistent with its ordinary use in electrical engineering, the term "transmission" denotes the District's 115kV system and Beverly Park 230-115kV transformer which, after voltage is stepped down in Bonneville's substations, moves power delivered by Bonneville to lower voltage feeders which exclusively serve the District's retail electric customers. However, the District is neither a "Transmitting Utility" within the meaning of Section 3(23) of the Federal Power Act nor subject to FERC "reciprocity" requirements because the District's Electric System neither moves electricity in interstate commerce nor serves wholesale customers, except with respect to certain obligations related to Bonneville, which do not implicate reciprocity requirements. Accordingly, nothing in this Official Statement is intended to imply that the District has acceded either to FERC jurisdiction over its electric system or to the reciprocity requirements of FERC Orders No. 888 and 890.

Electric Rates

The District is required and empowered under Washington State law to establish, maintain and collect rates or charges for electric energy that 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 the proper operation and maintenance of the Electric System and all necessary repairs, replacements and renewals thereof.

Retail rates and charges of the District are fixed by the Commission. The Commission holds public meetings to consider the District's proposed budget, construction and resource plans, load forecast and effects on the District's revenue requirements. Based on these planning documents, the District's staff estimates revenue requirements and prepares various rate proposals designed to produce this revenue based on cost of service studies. Although the Commission typically holds multiple public meetings in order to introduce and explain its rate proposals to the public and to receive public comments, there is no particular statutory process that must be followed in order to enact a rate increase.

During the western power market crisis resulting from the unprecedented increase in the market price of power in 2001, the District was able to raise rates by 35% within two days and by an additional 18% within the following 10 months. At that time, the District was buying approximately 21% of its overall power supply from the short-term market (terms of one year or less). The sharp increases in price for that power had a significant impact on the District's total costs.

During the last ten years, the Commission has approved several rate adjustments. The District enacted general rate increases of 2.9%, effective April 1, 2012; 2.3%, effective April 1, 2013; 1.9%, effective April 1, 2015; and 2.9%, effective April 1, 2017. Because the District contracts for a majority of its power supply from Bonneville, changes Bonneville makes to its power and transmission rates could potentially have a significant effect on the District's overall power supply costs. In July 2009, the Commission adopted a policy providing for a review and pass-through of any adjustments to the costs of wholesale energy or transmission services charged by Bonneville, subject to the discretion of the Commission. In the last ten years, the District has enacted rate increases of: 0.9%, effective October 1, 2011; 2.7%, effective October 1, 2013; 4.6%, effective October 1, 2015; and 1.6%, effective October 1, 2017 with each such increase consisting solely of a pass-through of the increased costs of power and transmission purchased from Bonneville.

Electric rates and charges of the District are not subject to the jurisdiction or control of the Washington Utilities and Transportation Commission (the "WUTC") or any other state or federal regulatory body. FERC could potentially assert that it has jurisdiction over rates of licensees of hydroelectric projects and customers of such licensees under the Federal Power Act, although to date it has not exercised or sought to exercise such jurisdiction. The Public Utility Regulatory Policies Act of 1978 (the "PURPA") directs state regulatory authorities and non-FERC jurisdictional utilities (including

the District) to consider certain standards for rate design and other utility procedures. The District believes that it is operating in compliance with these PURPA ratemaking requirements.

Electric Rates and Monthly Bills

The following table sets forth average rates in cents per kWh and monthly bills for selected levels for typical residential, commercial and industrial customers of the date of this Official Statement.

TABLE 7
Electric System
Typical Rates and Monthly Bills

	Average Rate (¢/kWh)	Monthly Bill
Residential[1]		
1,000 kWh per month	**10.341**	**$103**
2,000 kWh per month	**10.341**	**$207**
Commercial[1]		
1,500 kWh per month (12 kW demand)	**9.790**	**$147**
9,000 kWh per month (30 kW demand)	**9.165**	**$825**
Industrial		
150,000 kWh per month (400 kW demand)	**8.424**	**$12,636**
400,000 kWh per month (1,000 kW demand)	**8.289**	**$33,156**
Large Industrial		
1,800,000 kWh per month (5,000 kW demand)	**6.962**	**$125,316**

Source: The District.
(1) The District's rates for residential and certain commercial customers do not include a customer or base charge.

The District's accounts receivable write-offs in 2019 were approximately 0.26% of energy sales revenue. Subject to statutory prohibitions against disconnecting customers in winter months, the District's collection policy provides for disconnection of power for nonpayment of amounts due the District. See "ELECTRIC SYSTEM FINANCIAL INFORMATION—Impacts from the COVID-19 Pandemic—*Financial Impact*."

Comparative Electric Rates

The following table compares the District's average monthly electric bills with those of several other public and investor-owned Pacific Northwest utilities. The electric bills shown are based on specific rate schedules for each utility; the use of other schedules applicable to particular customers will yield different results.

TABLE 8
Public District No. 1 of Snohomish County, Washington
Electric System
Comparable Monthly Electric Bills as of August 15, 2019[1]

	Residential	Commercial	Industrial
	1,000 kWh	30 kW & 9,000 kWh Use	400 kW & 150,000 kWh Use
The District	$ 103	$ 825	$ 12,636
Washington Cities			
City of Seattle[2]	119	889	12,830
City of Tacoma	97	739	10,548
Investor-Owned Utilities			
AVISTA	87	945	14,059
Pacific Power	91	782	11,476
Portland General Electric Co.	123	835	11,583
Puget Sound Energy	99	812	12,653
Western Washington Public Utility Districts			
PUD No.1 of Cowlitz County	92	804	11,394
PUD No.1 of Clark County	94	718	9,800

Source: The District and individual utilities.
[1] Computed from the published rate schedules of the utilities listed. There may be some variations in rate schedules and/or rate classifications among the utilities.
[2] The City of Seattle rate structure includes seasonal differences in its summer and winter block rates, which affect monthly bills. For purposes of this table, the District has used an average of these block rates.

Largest Customers

The Electric System's ten largest customers in terms of revenues accounted for approximately 11% of total retail kWh energy sales and 9% of retail energy sales revenue in 2019. For 2019, the District's ten largest customers (in alphabetical order) are: The Boeing Company, City of Everett, Fred Meyer Inc. (QFC/Kroger), King County, Providence Medical Center, Safeway Stores, Snohomish County, State of Washington, Tulalip Tribes and U.S. Navy.

Customers, Energy Sales and Peak Demand

The following table presents the Electric System's customers, energy sales and peak demand during the period of fiscal year 2015 through June 30, 2020.

TABLE 9
Public Utility District No. 1 of Snohomish County, Washington
Electric System
Customers, Energy Sales, and Peak Demand

	Year Ended December 31,					6 Months Ended June 30,	
	2015	2016	2017	2018	2019	2019	2020
Average Number of Customers							
Residential	305,916	309,761	314,323	318,421	322,225	321,109	326,236
Commercial	30,793	31,046	31,357	31,712	32,443	32,106	33,150
Industrial	74	77	81	80	81	80	84
Other	228	225	221	205	204	204	202
Total Customers	337,011	341,109	345,982	350,418	354,953	353,499	359,672
Retail Energy Sales (MWh)							
Residential	3,491,910	3,368,728	3,642,117	3,566,731	3,603,089	2,016,158	2,028,638
Commercial	2,387,839	2,335,126	2,371,339	2,363,415	2,373,169	1,201,791	1,132,217
Industrial	567,017	555,919	553,544	528,244	527,237	266,037	237,714
Other	28,217	25,971	27,137	29,000	27,728	12,378	14,183
Total Retail Energy Sales (MWh)	6,474,983	6,285,744	6,594,137	6,487,390	6,531,223	3,496,364	3,412,752
Energy Losses and Electric System Usage (MWh)[1] [2] [3]	70,539	299,577	266,940	187,173	207,481	(32,481)	(17,253)
Wholesale Power Sales (MWh)	1,765,021	2,220,976	2,227,442	2,016,038	1,401,511	931,082	1,204,230
Total System Energy Requirements	8,310,543	8,806,297	9,088,519	8,690,601	8,140,215	4,394,965	4,599,729
Peak Demand (MW)	1,289	1,365	1,448	1,317	1,410	1,410	1,364

Source: District records.

(1) Includes non-revenue MWh used internally by the Electric System, line losses and energy unbilled at the end of the period.

(2) Beginning in September 2015, the District switched from a bi-monthly to a monthly billing process for all customers. Prior to this, the District billed half of its residential and commercial customers every month. As a result, there were additional MWh billed in September 2015 that resulted in an increase in billed MWh. Since this did not increase the amount of electric purchases needed for customer load, the change decreases the difference between billed retail energy sales (MWh) and total system requirements and results in a reduction in Energy Losses and Electric System Usage.

(3) Negative energy losses are attributable to timing differences between when power is purchased to meet the current month's load and when usage is read/billed to customers. The negative values in June for 2019 and 2020 are related to seasonality in that as temperatures rise less power is needed to meet current month's demand while current month's usage billed is related to prior, colder, month's usage.

The District's average number of customers increased by 16,309 from 2015 to 2019 reflecting a compound annual rate of 1.3%. During this period, average residential customers increased at a compound annual rate of 1.3%, average commercial customers increased at a compound annual rate of 1.3%, and average industrial customers increased by a compound annual rate of 2.3%.

Residential energy sales between 2015 and 2019 increased from 3,491,910 MWh to 3,603,089 MWh, a compound annual rate of 0.8%. Commercial sales decreased from 2,387,839 MWh in 2015 to 2,373,169 MWh in 2019, a compound annual rate of 0.2%. Industrial sales declined at a compound annual rate of 1.8% from 2015 to 2019.

The amount of wholesale power sales typically varies year-to-year due to changes in annual hydrological conditions, retail customer demand and the initiation and expiration of power supply contracts. Wholesale power sales were higher in 2016, 2017 and 2018 due to weather conditions leading to strong hydroelectric generation in the Pacific Northwest.

ELECTRIC SYSTEM POWER SUPPLY

Overview

In 2019, over 83% of the District's long-term energy resources came from Bonneville, over 4% from the District's owned hydro resources (Jackson Project, Youngs Creek Project, Woods Creek Project, Hancock Creek Project, and Calligan Creek Project), 5% from the long-term Renewable Energy Contracts, and approximately 8% from short-term market purchases. The District purchases and sells power in the short-term wholesale energy markets to balance the seasonal and daily variations in customer loads and the District's owned and contracted resources. The following table presents the Electric System's energy resources for fiscal year 2015 through June 30, 2020.

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TABLE 10
Public Utility District No. 1 of Snohomish County, Washington
Electric System
Energy Resources
(Megawatt Hours)

	Year Ended December 31,					6 Months Ended June 30,	
	2015	2016	2017	2018	2019	2019	2020
Long-Term Energy Purchases							
Bonneville	7,125,483	7,510,740	7,813,671	7,430,870	6,727,200	3,616,900	3,701,890
Jackson Project	375,376	483,805	453,152	459,517	306,344	155,430	270,390
Cogeneration Project[1]	-	-	-	-	-	-	-
Renewable Energy Contracts[2]	459,732	479,531	433,872	487,573	431,576	209,481	306,110
Small Hydro Electric Generation Projects[3]	13,972	20,587	18,397	31,335	36,393	24,892	40,404
Other[4]	13,631	18,694	21,285	17,317	11,468	7,535	11,862
Total Long-Term Energy Purchases	7,988,194	8,513,357	8,740,377	8,426,612	7,512,981	4,014,238	4,330,656
Short-Term Energy Purchases[5]	322,349	292,940	348,142	263,989	627,233	380,728	269,073
Total Energy Resources	8,310,543	8,806,297	9,088,519	8,690,601	8,140,214	4,394,966	4,599,729
Wholesale Power Sales[6]	(1,765,021)	(2,220,976)	(2,227,442)	(2,016,038)	(1,401,511)	(931,082)	(1,204,230)
Total Net Energy Resources	6,545,522	6,585,321	6,861,077	6,674,563	6,738,703	3,463,884	3,395,499

Source: District records.

(1) Pursuant to an operating agreement between Kimberly-Clark and the District, Kimberly-Clark was required to operate and produce output from the Cogeneration Project through December 31, 2016. Pursuant to a termination agreement, the operating agreement was terminated, and Kimberly-Clark ceased producing energy effective September 30, 2011, however, the District has amortized costs related to the terminated project through 2016.

(2) Renewable Energy Contracts include (i) a landfill gas contract with Public Utility District No. 1 of Klickitat County, Washington ("Klickitat County PUD") that began in November 2008 (the "Klickitat County PUD Landfill Gas Agreement") and ended in October 2015, (ii) a power purchase contract for 10% of the output from the White Creek Wind Project, which became effective in January 2008 (the "White Creek Wind Agreement"), (iii) two power purchase contracts, each for 50% of the output from the Hay Canyon Wind Project, which became effective in March 2009 (together, the "Hay Canyon Wind Agreements"), (iv) a power purchase contract for 100% of the output from the Wheat Field Wind Project, which became effective in April 2009 (the "Wheat Field Wind Agreement"), (v) a power purchase contract for output from the Hampton Lumber Mill Co-Generation Project, which became effective August 2006, and was amended in December 2011 (collectively, the "Hampton Lumber Mill Agreement"), and (vi) a power purchase contract for output from the Qualco Energy Bio-digester Project, which became effective in January 2014 (the "Qualco Energy Agreement").

(3) Small Hydroelectric Generation Projects include the District-owned and operated Youngs Creek Project, Woods Creek Project, Hancock Creek Project, Calligan Creek Project, and the customer-owned 97 kilowatt Ebey Hill project from which the District purchases power under a small power production rate schedule. In 2018, the District brought online the Calligan Creek Project and Hancock Creek Project.

(4) Other includes a power sales agreement for 20% of the output from the Packwood Hydroelectric Project, which was amended and restated in October 2011 (the "2011 Packwood Agreement"), and output from the District's Arlington Microgrid, Community Solar Array Project which began generating in 2019.

(5) Short-Term Energy Purchases represent energy purchases made daily to balance customer demand with power resource availability. The increase in 2019 was due to colder than expected conditions coupled with record high wholesale market prices.

(6) Wholesale Power Sales include energy sales made daily to balance customer demand with power resource availability.

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Table 11 presents purchased power costs for the Electric System for fiscal year 2015 through June 30, 2020:

TABLE 11
Public Utility District No. 1 of Snohomish County, Washington
Electric System
Purchased Power Costs
($000's)

	Year Ended December 31,					6 Months Ended June 30,	
	2015	2016	2017	2018	2019	2019	2020
Long-Term Energy Purchases:							
Bonneville(1)(2)	$ 219,434	$ 241,253	$ 241,874	$ 237,861	$ 239,477	$ 122,698	$ 119,920
Jackson Project	19,466	22,877	17,993	20,585	20,418	10,229	3,482
Cogeneration Project(3)	7,194	8,975	-	-	-	-	-
Small Hydroelectric Generation Projects(4)	2,470	2,491	2,289	7,164	6,766	3,232	3,431
Other Generation System Costs(5)	18,967	19,531	19,612	14,185	9,265	8,086	3,429
Renewable Energy Contracts(6)	34,192	36,203	32,275	37,341	33,548	16,135	23,444
Other(7)	3,877	3,890	3,907	2,799	568	282	289
Total Long-Term Energy Purchases	305,600	335,220	317,950	319,935	310,042	160,662	153,995
Short-Term Energy Purchases:							
Market Purchases(8)	10,587	7,810	10,646	9,314	35,127	24,662	6,477
Other Short-Term Purchases	4,328	4,464	4,742	4,456	4,740	2,258	2,251
Total Short-Term Energy Purchases	14,915	12,274	15,388	13,770	39,867	26,920	8,728
Total Purchased Power Costs(9)	320,515	347,494	333,338	333,705	349,909	187,582	162,723
Wholesale Power Sales	(36,770)	(37,076)	(34,947)	(34,985)	(29,317)	(17,065)	(18,523)
Net Cost of Energy Purchased	$ 283,745	$ 310,418	$ 298,391	$ 298,720	$ 320,592	$ 170,517	$ 144,200
Total Energy Purchases (MWh)	8,310,543	8,806,297	9,088,519	8,690,601	8,140,206	4,394,965	4,599,729
Less: Wholesale Power Sales (MWh)	(1,765,021)	(2,220,976)	(2,227,442)	(2,016,038)	(1,401,511)	(931,082)	(1,204,230)
Net Energy Purchase (MWh)	6,545,522	6,585,321	6,861,077	6,674,563	6,738,695	3,463,883	3,395,499
Total Purchased Power (cents/kWh)(9)	3.9¢	3.9¢	3.7¢	3.8¢	4.3¢	4.3¢	3.5¢
Net Purchased Power (cents/kWh)(9)	4.3¢	4.7¢	4.3¢	4.5¢	4.8¢	5.4¢	4.8¢

Source: District records.

(1) On October 1, 2011, the District began purchasing power from Bonneville under a new 17-year contract (the "Power Purchase Agreement"), pursuant to which the District could purchase up to 811 average annual megawatts ("aMW") at cost, or the "Tier 1 Rate." The operating capability of the Bonneville federal hydro or Tier 1 system has declined over the past 10 years by about 4%, reducing the District's maximum allowable purchase amount at cost to approximately 775 aMW. During the five-year period presented, expenditures for

Bonneville power purchases were reduced by a credit related to Bonneville's readjustment of the level of Residential Exchange benefits provided to investor-owned utilities as a result of a legal challenge and subsequent court decision regarding those benefits. This credit was $8.7 million in 2015, $8.7 million in 2016, $8.7 million in 2017, $8.8 million in 2018 and $6.6 million in 2019.

(2) Purchased Power and Generation increased in 2016 largely as a result of a full year of a 4.60% Bonneville wholesale power price increase effective October 2015.

(3) Operations at the Cogeneration Project were terminated effective September 30, 2011. Costs incurred after the project termination represent intersystem debt service costs related to the project which were satisfied in 2016.

(4) Includes costs that are charged to the Electric System from the Woods Creek Project, the Youngs Creek Project which began production in 2012, and non-capitalized costs related to other low impact hydroelectric projects. In 2018, the Calligan Creek Project and Hancock Creek Project came online which added about $4 million of combined costs.

(5) Represents debt service on Generation System Bonds that is not directly related to current Generation System projects and other renewable generation costs.

(6) Includes the White Creek Wind Agreement, the Hay Canyon Wind Agreements, the Wheat Field Wind Agreement, the Klickitat PUD Landfill Gas Agreement (from November 2008 through October 2015), the Hampton Lumber Mill Agreement, and the Qualco Energy Agreement.

(7) Includes the 2011 Packwood Agreements, and other gas and small power production charges. Change between 2018 and 2019 reflects the retirement of gas capacity contract which was approximately $2.2 Million annually. Costs from operating the Arlington Microgrid are not calculated by the District as purchased power and are thus not included in other costs. The Arlington Microgrid serves as a source of energy for the District and the output is included in the total energy purchase MWh. The total output from the Arlington Microgrid as of June 30, 2020 is 176 MWh.

(8) Market Sales in 2019 increased primarily from a cold first quarter increasing load demand while market prices were high.

(9) Total Purchased Power (cents/kWh) represents the Total Purchased Power Costs divided by the Total Energy Purchases expressed in kWh. Net Purchased Power (cents/kWh) represents Net Cost of Energy Purchased divided by Net Energy Purchases expressed in kWh. The total and net purchased power costs per kWh vary annually as a result of changes in the District's resource portfolio, the impact of annual precipitation levels on hydroelectric power generation, and the additional power provided by Bonneville under the Power Purchase Agreement.

Bonneville Power Administration

Background

Bonneville was created by federal law in 1937, and is a revenue-financed federal agency under the United States Department of Energy (the "DOE"), that markets wholesale electricity generated at 31 federal hydroelectric projects in the Columbia River basin, one nonfederal nuclear plant and several other small nonfederal power plants. The federal hydroelectric projects are built and operated by the United States Bureau of Reclamation and the United States Army Corps of Engineers. Bonneville markets power from resources having an expected aggregate output of approximately 10,030 average annual megawatts[±] ("aMW") under average water conditions and approximately 7,636 aMW under low water conditions. The federal hydroelectric projects and the related electrical system are known collectively as the Federal Columbia River Power System (the "Federal System"), and currently produce approximately 27% of the region's electric energy supply. Bonneville sells electric power at wholesale rates to approximately 143 utility, industrial, tribal and governmental customers in the Pacific Northwest. Its service area covers over 300,000 square miles in Idaho, Oregon, Washington and parts of Montana, Nevada, Utah and Wyoming, with a population of about 14 million. It also owns and operates a high voltage transmission system comprising approximately 75% of the bulk transmission capacity in the Pacific Northwest.

Bonneville is required by law to meet certain energy requirements in the region and is authorized to acquire power resources and take other actions to enable it to carry out these purposes. This includes the requirement for Bonneville to provide power to preference customers, like the District, so the utility can meet its total customer load and load growth, less its owned or purchased resources from non-federal generators. In doing so, Bonneville must give preference and priority to public body and cooperative utilities before offering to serve non-preference entities. Since 1937, Bonneville has always met its power marketing obligations to supply federal power to serve the firm power needs of its regional power customers.

[±] An average megawatt is the amount of electricity produced by the continuous production of one megawatt over a period of one year. The term average megawatt (or "aMW") is also referred to as average annual megawatt, which defines power production in megawatt increments over time. There are 8,760 hours in a year, so an average megawatt (aMW) is equal to 8,760 megawatt-hours.

On October 1, 2011, Bonneville's customers began purchasing power from the agency under a new 17-year power contract under a tiered rate construct. Under this rate construct, a utility is eligible to purchase energy from Bonneville at a "Tier 1 Rate," up to a pre-defined amount, or "High Water Mark." The Tier 1 Rate is cost based and reflects the investment and operating costs of resources in the Federal System on October 1, 2011, the date the new 17-year contract went into effect.

Bonneville has agreed by contract to review and set the Tier 1 Rate every two years. The ratemaking process incorporates inputs from a number of public processes which include (i) the Integrated Program Review, which establishes Bonneville's operating budgets and costs, (ii) the Capital Investment Review, which establishes the agency's long-range capital plan, and (iii) the Rate Period High Water Mark process, through which the size of the Federal System and the total preference customer load is determined for the purpose of allocating costs under the tiered rates construct. At the conclusion of the ratemaking process, Bonneville submits its rates to FERC for approval. This review is to confirm Bonneville's rates are sufficient to recover the agency's costs.

Under the Power Purchase Agreement with Bonneville, the District's High Water Mark for the maximum amount of power it can purchase at the Tier 1 Rate during the contract term is 811 aMW, which is 105 aMW higher than the District's prior Bonneville contract amount of 706 aMW. In fiscal year 2019, the District purchased 730 aMW at the cost-based, Tier 1 Rate.

A utility may elect to purchase power from Bonneville for its customer loads that exceeds its High Water Mark at a rate reflecting Bonneville's incremental costs for additional resources ("Tier 2 Power" priced at a Tier 2 Rate). Alternatively, a utility may acquire power from other sources to serve loads above its High Water Mark. The District is required to provide notice to Bonneville of whether it intends to purchase Tier 2 Power from Bonneville for fiscal years 2020 through 2024, or that it will rely on its own resources. To date, the District has not exceeded its High Water Mark and has elected to use its own resources to serve its loads above the High Water Mark for fiscal years 2020 through 2024.

The Power Purchase Agreement

On December 1, 2008, the District executed a long-term power sales agreement with Bonneville (the "Power Purchase Agreement"), purchasing the "Block" and "Slice" energy products for the period October 1, 2011 through September 30, 2028. The Block product provides a set amount of energy delivered in flat monthly blocks; the Slice product represents a "slice" or percentage of the actual output of the Federal System, which is predominantly hydrogeneration based.

Block Product. The Block product provides the District with power in flat monthly amounts that are determined based on the District's historical average monthly load. In January 2019, for example, the Block product provided 441 aMW, while in June 2019, the amount was 308 aMW. In 2019, the District received 3,083,066 MWh from the Block product, at a total annual cost of $110,664,635. For the period October 2018 through September 2019, the District received 3,123,087 MWh or 357 aMW of Block energy, at an average cost of $36.07/MWh.

Slice Product. The Slice product provides the District with variable amounts of power that reflect the actual output of Bonneville's resource portfolio. It provides the District with the ability to follow its customer loads by storing and dispatching energy within the contractual constraints and physical limits of the Federal System. Under the Slice product, the District takes responsibility for managing its portion of Bonneville's resources, and assumes the inherent risks. The majority of the District's short-term wholesale market sales are from surplus Slice energy, which varies with the seasonal and daily variations in the Slice product's output. If snowpack and water conditions that feed the Federal System are above

average, the energy output from the Slice product will be above average. If snowpack and water conditions are low, then the output from the Slice product will be reduced.

The output of the Federal System can vary annually with changes in hydrological conditions. Regional weather patterns create the snowpack and precipitation levels that provide fuel for this expansive hydroelectric system.

As a purchaser of the Slice product, the District has an obligation to pay its *pro rata* share of Bonneville's actual operating costs for its Slice percentage. The District's Slice percentage is 5.454%, which is equivalent to 3,300,000 MWh or 375 aMW, under critical water conditions.

After the end of each fiscal year, Bonneville "trues up" the difference between its actual costs and its rate forecast for the year through the Slice True-Up Adjustment charge or credit. The District's share of the Bonneville's fiscal year 2019 Slice True-Up Adjustment was a credit of $790,056. Based on Bonneville's second quarter financial results for fiscal year 2020, the District's share of the Slice True-Up Adjustment is estimated as of May 2020 to be a credit of approximately $2 million.

The Slice portion of the Power Purchase Agreement includes a separate Creditworthiness Agreement to secure the District's payment obligations. Under the provisions of the Creditworthiness Agreement, the District would be required to provide credit support though a letter of credit if the District's long-term credit rating were to drop below "BBB-." The maximum amount of credit support or collateral is based on a factor of 0.12 multiplied by the District's total annual cost for Slice, or $14 million. To date, the District has maintained ratings sufficient that it has not been required to provide collateral for this purpose.

Bonneville Residential Exchange Program

The Northwest Power Act of 1981 (the "Northwest Power Act") provides that a municipal or investor-owned utility may offer power to Bonneville, and Bonneville must purchase power from the utility, at the utility's average system cost. In exchange, Bonneville sells an equivalent amount of power to the utility for purchase by its residential and small farm customers at Bonneville's established Priority Firm ("PF") Exchange Rate. This is referred to as the "Residential Exchange Program." The PF Exchange Rate is established periodically by Bonneville as part of its rate case and is the lower rate Bonneville is required to provide to its municipal and electric cooperative utility customers. Benefits are settled financially with no energy exchanged.

Over the years there have been numerous legal challenges. In 2011, the parties reached a settlement agreement (the "2011 Settlement Agreement"), which provides an agreed basis and certainty for how the Residential Exchange Program is treated in Bonneville's power rates through 2028.

The District has subsequently executed a Residential Purchase and Sale Agreement ("RPSA") with Bonneville for the period of October 1, 2011 through September 30, 2028. In accordance with the 2011 Settlement Agreement, the RPSA provides that the District may remain in or opt out of the Residential Exchange Program for future rate periods, depending upon its eligibility for participation. The District's residential customers were determined to be eligible to receive benefits in the form of rate credits as follows:

Fiscal years 2012-2013: $4.97 million and $4.6 million respectively

Fiscal years 2014-2015: District not eligible to receive program rate credits

Fiscal years 2016-2017: $2.1 million and $2.2 million, respectively

Fiscal years 2018-2019: $3.2 million and $3.2 million, respectively

Fiscal years 2019-2020: $3.2 million and $2 million, respectively

By July 2020, the District will submit its financial information to Bonneville to determine its eligibility to participate in the Residential Exchange Program for fiscal years 2022 and 2023 for distribution to the District's residential customers in the form of a monthly rate credit.

Bonneville's Transmission Service Contracts

The District contracts with Bonneville for its firm transmission needs. The District currently contracts for 1,918 MW of transmission capacity on Bonneville's transmission network. Of this amount, 1,457 MW are designated for delivery to the District's service area. When the District requires more than 1,457 MW delivered to its service area, the staff formally requests Bonneville, through its Open Access Same-Time Information System (the "OASIS"), to "redirect" contracted transmission capacity from other transmission network delivery points to the District's service area. The District also has rights to 97 MW of transmission associated with the long-term Wheat Field Wind Project power purchase agreement, and 101 MW of transmission associated with the Hay Canyon Wind Project power purchase agreement. The District can redirect this transmission capacity on a short-term basis, to the extent it is not needed to deliver wind output from the project.

The District also has contractual scheduling rights on the Pacific Northwest AC Intertie (the "Third AC"), the 500 kV transmission line constructed by Bonneville between John Day, Oregon, and the California-Oregon border in 1993. The line added 1,600 MW of capacity to Bonneville's Intertie network, and as a result of Congress' requirement for nonfederal participation, Bonneville offered capacity ownership and scheduling rights to nonfederal customers. In 1994, the District executed a Pacific Northwest Intertie Capacity Ownership Agreement with Bonneville for a 1.217% share of the Third AC capacity or 42 MW.

The Pacific Northwest Intertie Capacity Ownership Agreement allows the District bi-directional use of the Third AC capacity for numerous business transactions and requires the District to pay a portion of the annual operating costs. Bonneville operates and maintains the north end of the Third AC.

In accordance with the provisions of the Pacific Northwest Intertie Capacity Ownership Agreement, the District can assign its Third AC capacity scheduling rights to another party, subject to Bonneville approval. In February 2009, the District executed a 15 year agreement assigning 100% of its Third AC scheduling rights to Avangrid Renewables, LLC ("Avangrid"). Bonneville approved the assignment of the District's Third AC capacity and scheduling rights to Avangrid in March 2009. During this assignment period, Avangrid has assumed responsibility for the District's share of the annual operating costs and any capital expenditures that may arise during the term of the assignment. At the end of the 15 year assignment term, or in early 2024, the Third AC capacity and scheduling rights will revert to the District. See "—Long Term Third-Party Power Purchase Contracts—*Hay Canyon Wind Agreements*."

Bonneville and Energy Northwest

Energy Northwest is a municipal corporation and a joint operating agency organized and existing under the laws of the State of Washington. It has the authority to acquire, construct and operate works, plants and facilities for the generation and transmission of electric power and energy. The membership of

Energy Northwest includes 27 member utilities, all located in Washington State. The District is a member of Energy Northwest and previously held a seat on the Executive Board. Currently the District has one seat on the Participant Review Board ("PRB"). The PRB represents the 92 utilities participating in the Columbia Generating Station. This nine-member board reviews all Columbia Generating Station plant purchases of more than $500,000, construction and annual budgets, fuel management plans and plans for refinancing.

Energy Northwest's Columbia Generating Station nuclear plant is included with Bonneville's federal facilities for purposes of integrated resource planning and operation. Bonneville markets power from and is responsible for paying the capital costs of certain Energy Northwest nuclear projects and other non-federal projects.

The District, Energy Northwest and Bonneville have entered into separate Net Billing Agreements with respect to approximately $5.04 billion in outstanding bonds (as of June 13, 2019) for Energy Northwest's Project No. 1, Project No. 2 (Columbia Generating Station), and 70% ownership share of Project No. 3 (collectively, the "Net Billed Projects") under which the District has purchased from Energy Northwest and, in turn, assigned to Bonneville a maximum of 19.584%, 15.363%, and 19.334% of the capability of Projects Nos. 1 and 2, and Energy Northwest's ownership share of Project No. 3, respectively. Under the agreements, the District is unconditionally obligated to pay Energy Northwest its *pro rata* share of the total costs of the projects, including debt service, whether or not construction is terminated (Project Nos. 1 and 3 were terminated). Under the Net Billing Agreements, Bonneville is responsible for the District's percentage share of the total annual cost of each project, including debt service on revenue bonds issued to finance and refinance the costs of construction. The District's electric revenue requirements are not directly affected by the cost of the Net Billed Projects. The revenue requirements are affected only to the extent that the costs of the projects result in increases in Bonneville's wholesale power rates or if Bonneville failed to pay Energy Northwest. Bonneville and Energy Northwest executed an agreement with respect to each Net Billed Project ("Direct Pay Agreements") pursuant to which, beginning May 2006, Bonneville agrees to pay at least monthly all costs for each Net Billed Project, including debt service on the bonds for the Net Billed Projects, directly to Energy Northwest. In the Direct Pay Agreements, Energy Northwest agrees to promptly bill the District and other participants their share of the costs of the respective Net Billed Project under the Net Billing Agreements if Bonneville fails to make a payment when due under the Direct Pay Agreements.

The other Energy Northwest project the District participates in is the Packwood Hydroelectric Project, located in Packwood, Washington. See "—Long-Term Third-Party Power Purchase Contracts—*Packwood Agreements*."

Bonneville and Columbia River Treaty

The Columbia River Treaty (the "CRT") is an international treaty between Canada and the United States of America. Ratified in 1964, the CRT named two "entities" to implement the CRT — a "U.S. Entity" and a "Canadian Entity." The U.S. Entity, created by the President, consists of the Administrator of Bonneville (chair) and the Northwestern Division Engineer (member) of the U.S. Army Corps of Engineers. The Canadian Entity, appointed by the Canadian Federal Cabinet, is the British Columbia Hydro and Power Authority. Canada and the United States each have the option to terminate many of the CRT provisions by providing a 10-year advance written notice.

The CRT called for the construction and operation of three large dams in the upper Columbia River basin in British Columbia, Canada, and gave the U.S. an option to build a fourth dam in Montana with a reservoir that extends into Canada. The operation of CRT dams was designed to provide flood control and hydropower benefits to both countries, which made other benefits possible. These benefits

included dams that doubled the amount of Columbia River basin reservoir storage, which helped transform annual river and stream flows by storing the spring runoff for release during the fall and winter months, or even in subsequent years. This helped eliminate major flood damage for all but the most extreme events. The dams constructed in the Columbia River basin as a result of the CRT provided power generation, flood control, navigation and irrigation benefits.

The CRT flood control operations, which provide significant benefits to the United States, will expire in September 2024. Terms and conditions for ongoing flood control will need to be renegotiated, regardless of whether or not the CRT is terminated. In addition, U.S. hydro operations of the Columbia River system for fisheries management south of the U.S./Canadian border and the significant increase in new renewable resources like wind and solar that have been added to the grid have significantly reduced any benefits today to the United States and its Pacific Northwest utilities under the CRT.

The U.S. Entity engaged in a multi-year effort and collaborated and consulted with the region's sovereign states, federally recognized tribes, and a variety of stakeholders in the 2011-2013 period to evaluate the regional cost and benefits of the CRT after 2024. This culminated in the U.S. Entity's issuance of the Regional Recommendation to the United States Department of State in December 2013. This recommendation identified potential modifications and rebalancing the value of the CRT post 2024, and outlined a general set of principles. While the recommendation requested that the U.S. government make a decision by mid-2014 to proceed with a renegotiation of the CRT with Canada, it has only been since 2016 that the U.S. Interagency Policy Committee completed their review of the Regional Recommendation, and forwarded it to the U.S. State Department. Since late 2018, the U.S. State Department has been in discussions with Canada about the future of the CRT and has held numerous webinars and public stakeholder meetings. At this time the long-term resolution of the CRT post-2024 is unknown.

Bonneville's Over-Generation Conditions

Over-generation conditions can occur in the Northwest during spring runoff periods when high water flows into the Federal System from melting snowpack combine with high generation levels from wind and solar projects, resulting in energy production that exceeds the demand inside the Bonneville Balancing Authority footprint and export commitments. As early as 2011, Bonneville began to implement policies to address the unique set of over-generation conditions. These policies initially included a one-year Interim Environmental Redispatch and Negative Pricing Policies (the "ER Policy") of 2011, followed by a time-limited Oversupply Management Protocol ("OMP"). These policies were eventually incorporated into Bonneville's open access transmission tariff ("OATT") through Attachment P, and accordingly the OMP no longer has an expiration date.

Under the OMP, if the electricity supply in the Bonneville footprint exceeds demand, Bonneville will reduce the output of any non-federally owned generation that does not affect reliability and substitute hydroelectric power from the Federal System to ensure Bonneville can meet its environmental, statutory and reliability responsibilities. The intent of the OMP is to move the high-water flows through the Federal System to create energy, rather than spilling additional water from dams into the river and potentially harming fish. Bonneville then compensates the generators for certain costs related to their energy being displaced by hydrogeneration during the OMP period. These "oversupply costs" are then allocated to the generators based on their scheduled use of transmission during the oversupply condition or event.

During fiscal year 2018, the water supply volume forecast for the Federal System was 113% of the 30-year average with unprecedented high flows across the spring period. Bonneville called on OMP a

total of 24 times from April 28 through June 2, 2018, for a total OMP request of 113,604 MWh, at a displacement cost of $4.87 million.

Only a small portion of the District's contracted-for wind generation has been displaced by Bonneville with an equivalent amount of hydro power being provided from the Federal System at zero cost. Under the provisions of the District's wind contracts, the District is not required to pay for wind energy when Bonneville directs the wind projects to reduce their generation levels. During these periods, the District received replacement energy from Bonneville, but did not receive the renewable energy credits ("RECs") or the associated environmental attributes that would have been produced if the wind projects had been allowed to generate. The number of RECs the District did not receive as a result of the OMP has not adversely affected the District's ability to comply with its renewable energy portfolio requirements under Washington State law. See "—Long-Term Third-Party Power Purchase Contracts," "—Wholesale Power Market Purchases, Sales and Trades—Renewable Energy Credits" and "—Washington State Energy Initiatives and Legislation—Washington State's Renewable Energy Portfolio and Conservation Standards." Although there is a possibility that energy from the District's contracted-for wind projects could be displaced as part of the OMP, the District does not expect that such displacement or loss of RECs will adversely affect its continued compliance with renewable energy portfolio requirements under Washington State law.

District-Owned Power Supply

The District receives power from five District-owned generation projects: the Jackson Project, the Woods Creek Project, the Youngs Creek Project, the Hancock Creek Project and the Calligan Creek Project. See "THE GENERATION SYSTEM—Small Hydroelectric Generation Projects."

Jackson Project

The Jackson Project is located on the Sultan River, north of the city of Sultan, and is owned and operated by the District. The Jackson Project has a total nameplate capacity of 111.8 MW. See "THE GENERATION SYSTEM—The Jackson Project." The District receives all of the generation output from this project. The City of Everett receives its water supply from Lake Chaplain, which the Jackson Project feeds. FERC issued a new 45-year license to the District, as sole licensee, in September 2011. In 2019 the Jackson Project produced 306,344 MWh. See "THE GENERATION SYSTEM—The Jackson Project—*FERC License*."

Woods Creek Project

In 2008, the District acquired the Woods Creek Project, a small hydroelectric project in Snohomish County with a nameplate capacity of 0.65 MW. This project is adjacent to Woods Creek, a tributary of the Skykomish River, with a powerhouse located above a natural impassable barrier to anadromous fish. In 2019, the Woods Creek Project produced 1,308 MWh, of which 811 MWh qualifies as incremental hydro under Initiative 937. See "THE GENERATION SYSTEM—Small Hydroelectric Generation Projects—*Woods Creek Project*."

Youngs Creek Project

In 2008, the District acquired the lands, access rights and studies for the Youngs Creek Project located just south of the city of Sultan, Washington. An existing FERC license was successfully transferred to the District. The Youngs Creek Project was completed and commissioned in October 2011. The Youngs Creek Project has a nameplate capacity of 7.5 MW and produced 12,292 MWh in 2019. See "THE GENERATION SYSTEM—Small Hydroelectric Generation Projects—*Youngs Creek Project*."

Hancock and Calligan Creek Projects

The District received licenses in June 2015 from FERC for the development of the Calligan Creek and Hancock Creek Hydroelectric Projects. These Projects are run-of-the-river hydroelectric, renewable resource facilities, located on Calligan Creek approximately 9 miles and Hancock Creek approximately 7 miles north of the city of North Bend, Washington. The Projects started operation in February 2018. The Hancock and Calligan Creek Projects each have a 6.0 MWh nameplate capacity and produced 1,181 and 1,077 MWh in 2019 respectively. See "THE GENERATION SYSTEM—Small Hydroelectric Generation Projects—Hancock and Calligan Creek Projects."

Long-Term Third-Party Power Purchase Contracts

The District has several long-term contracts for power supply. All of these contracts are take and pay agreements and are associated with acquiring the output from specific generating projects.

Hay Canyon Wind Agreements

The District executed two power purchase agreements in February 2009 with Hay Canyon for 100% of the wind energy and RECs from the Hay Canyon Wind Project. This 100.8 MW nameplate project interconnects with the Bonneville transmission system and is located in north central Oregon along the Columbia River Gorge. The project was developed by Hay Canyon LLC, a subsidiary of Avangrid, which is part of the Iberdrola Group. Iberdrola S.A. has one of the largest renewable asset bases of any company in the world, with more than 32,000 MW of renewable energy spread across a dozen countries. Avangrid is headquartered in Portland, Oregon, and has more than 7,300 MW of owned and controlled wind and solar generation in more than 20 states.

The District began receiving energy output under the agreements on March 1, 2009. The project has an estimated annual output of approximately 210,000 MWh. The District receives 50% of the project's output under a 15-year power purchase agreement and 50% under an 18-year power purchase agreement. For the year ended December 31, 2019, the District purchased output totaling 188,528 MWh. As part of the 15-year power purchase agreement, the District assigned its transmission capacity and scheduling rights for its share on the Third AC transmission line to Iberdrola. See "— Bonneville Power Administration—*Bonneville Transmission Service Contracts*." The Hay Canyon Wind Project qualifies as an eligible renewable resource under Initiative 937. See "—Washington State Energy Initiatives and Legislation."

Wheat Field Wind Agreement

The District executed a 20-year power purchase agreement with Wheat Field for 100% of the project's output and RECs from the 97 MW nameplate wind project known as the Wheat Field Wind Project. This project interconnects with the Bonneville transmission system and is located near the City of Arlington in north central Oregon. The project was developed by Wheat Field, in conjunction with Horizon Wind Energy, LLC, which was rebranded in 2011 to EDP Renewables North America LLC. The project is owned and operated by Wheat Field. The District began receiving energy output under the agreement on April 1, 2009. The Wheat Field Wind Project has an estimated annual output of over 210,000 MWh, and qualifies as an eligible renewable resource under Initiative 937. For the year ended December 31, 2019, the District purchased output totaling 178,829 MWh. See "—Washington State Energy Initiatives and Legislation."

White Creek Wind Agreement

In January 2007, the District executed a 20-year power purchase contract with LL&P Wind, L.L.C., a wholly owned subsidiary of Lakeview Light & Power, Tacoma, Washington, for the output of approximately 10% of the White Creek Wind Project. The project is located in south-central Washington along the Columbia River Gorge. The District's share of the White Creek Wind Project output is equivalent to 20 MW of wind capacity, with an average annual output of approximately 52,000 MWh. The project achieved commercial operation in November 2007, and the District began taking output under its contract in January 2008. For the year ended December 31, 2019, the District purchased output totaling 47,268 MWh. This wind project qualifies as an eligible renewable resource under Initiative 937. See "—Washington State Energy Initiatives and Legislation."

Packwood Agreements

Energy Northwest owns and operates the Packwood Hydroelectric Project, located 20 miles south of Mount Rainier in Packwood, Washington. The Packwood Hydroelectric Project began operating in 1964 and has a nameplate capacity of 27.5 MW. The District currently contracts for a 20% share, or approximately 17,000 MWh of annual energy from the project. For the year ended December 31, 2019, the District's share was 25,143 MWh.

Hampton Lumber Mill Agreement

In 2006, the District executed a 10-year power purchase agreement with Hampton Lumber Mills-Washington, Inc. for 100% of the electrical output of a cogeneration project located at the Hampton Lumber Mill in Darrington, Washington. In December 2011, the District amended its existing contract to include the purchase of the energy and the RECs associated with the full electrical output of the project and the option to extend the contract term in five year increments, by mutual agreement. The agreement was extended in 2017 through December 31, 2021. The project utilizes wood waste (biomass) and has a nameplate capacity of 4.5 MW and is recognized as an eligible renewable resource under Initiative 937. For the year ended December 31, 2019, the District purchased output totaling 16,787 MWh.

Qualco Energy Agreement

The District executed a five-year power purchase agreement with the Qualco Energy Corporation for 100% of the output and RECs from its 450 kilowatt bio-digester facility located in Monroe, Washington. Fuel for the project is provided through anaerobic digestion, which uses waste from local dairy operations and other bio-waste products such as restaurant trap grease and expired alcohol and beverages. This generator qualifies as an eligible renewable resource under Initiative 937. The project is owned and operated by Qualco Energy Corporation, a nonprofit partnership between Northwest Chinook Recovery, the Tulalip Tribes and the Sno/Sky Agricultural Alliance. The power purchase agreement began January 2014, and includes an option to extend the term in five year increments, by mutual agreement. The current agreement has been extended through December 31, 2020. Parties extended the current agreement through December 31, 2020 to allow time for Qualco Energy and District staff to explore how they might work together to continue producing renewable energy from the waste from local dairy operations and other bio-waste products and also secure the ongoing environmental benefit to local streams and rivers. During 2019, Qualco performed a major overhaul to its 10-year-old digester, which significantly reduced the project's annual energy production; the District's 2019 total annual purchase was 164 MWh.

Conservation

The District has offered energy efficiency programs to its customers for over thirty years. These programs provide energy savings opportunities over a broad range of electric uses, from installing LED lighting to analyzing process improvements for industrial operation. In 2019, District programs enabled customers to reduce their annual energy consumption by approximately 71,000 MWh.

Residential Programs

Programs currently available to residential customers promote energy efficiency improvements for space heating, water heating, lighting, appliances and consumer electronics. Customers can take advantage of rebates for floor, wall, ceiling and duct insulation, high-efficiency heat pumps, ductless heat pumps, and insulated windows. The District also offers rebates for efficient appliances, in addition to manufacturer buy-downs and rebates for LED bulbs and fixtures. Because the District works with others in the Pacific Northwest region, District customers benefit from regionally coordinated buy-downs for products including consumer electronics.

Commercial and Industrial Programs

Commercial and industrial customers receive technical assistance, incentives and rebates for energy efficiency measures, including lighting controls and fixtures, heating, ventilating, and air conditioning equipment, compressed air systems, motors, pumps and fans, refrigeration, heat recovery systems, and variable frequency drives. The District's executive account managers and energy engineers work closely together to identify custom efficiency solutions for large customers. For smaller businesses, the District has established standardized rebate amounts for lighting and commercial cooking equipment.

The District offers incentives for residential and commercial new construction projects. These incentives enable staff to influence design decisions and encourage owners, builders and architects to incorporate efficiency technologies in new homes and buildings.

Customer Renewables Programs

The District's Solar Express program, which provided incentives for residential and commercial customers to install solar photovoltaic systems, ran from 2009 through 2017 and resulted in almost 1,200 customers installing 9,000 KW of renewable capacity. Since 2017, through District education and public awareness, nearly 600 customers have installed approximately 6,000 KW in solar photovoltaic system capacity.

Hopeworks Station Energy Net Zero Project

Hopeworks Station is an affiliate of Snohomish County's Housing Hope that assists individuals who have barriers to both housing and employment. Hopeworks Station is a new construction project that incorporates both residential living space for individuals experiencing homelessness and commercial kitchen space that is used for both training individuals and a public cafe. The District provided technical assistance, energy management software, and financial support through incentives for a solar array to help Hopeworks Station become a net zero energy building. Net zero energy means the building generates the same amount of energy as it consumes. Net zero energy helps Housing Hope in reducing both its carbon footprint and energy bills.

Wholesale Power Market Purchases, Sales and Trades

Power Scheduling Operations

The District's Power Scheduling Operations sell power in the wholesale energy market when the District's contracted resources and surpluses associated with the Bonneville Slice product exceed its load and make purchases from the wholesale power market when required to meet the District's loads. In 2019, the District sold 1,401,511 MWh and purchased 627,233 MWh in the short-term market. The short-term market purchases were made to serve customer loads during the winter months when peak demands (driven by space heating loads) exceed the capabilities of the District's owned and contracted resources. Short-term wholesale market purchases and sales fluctuate throughout the year, reflecting seasonal variations in customer loads, weather and market conditions.

Energy Risk Management

Models and tests for managing a variety of risks are outlined in the District's Energy Risk Management Policy and Procedures Manual, adopted in 2002 and last revised in 2018. All employees involved in the District's energy supply, energy risk management and accounting functions have the obligation to see that proper procedures are followed and where necessary, intervene to mitigate risks.

The District manages its physical and financial positions and exposures through a variety of transactions over various time horizons including real-time, day ahead, monthly, quarterly and annually. Within the time limits and guidelines established in the District's Energy Risk Management Policies and Procedures Manual, the District seeks to optimize the use of its physical and contractual power, including transmission resources, purchased to meet its native load. This includes utilizing the flexibility inherent in some resources to reduce overall costs to the District through low risk transactions.

Physical Energy

In order to meet the monthly, daily and hourly energy demands of the District's customers and contractual obligations, District staff purchase and sell power in the wholesale energy market, primarily at the Mid-Columbia market hub. Contracts for short-term energy are made in accordance with the District's Energy Risk Management Policies and Procedures Manual on a rolling 18 to 30 month planning horizon.

Risk Management Tools

In addition to buying and selling physical energy, the Commission has authorized the use of call and put options as additional tools to manage price and supply certainty. These instruments allow the District to avoid buying large amounts of energy to cover a small number of peak load days. Options are purchased from approved and creditworthy counterparties.

In 2008, the Commission adopted a resolution authorizing the use of financial hedges to mitigate the District's exposure to energy price risk. This authorization allows the District to enter into financial hedging contracts wherein the District would pay to or receive from the counterparty a fixed sum of money calculated based on a fixed price multiplied by a number representing MWh of power over a period specified in the contract. The counterparty would receive or pay the District a sum of money based upon a market index rate multiplied by the MWh. These transactions would, in essence, allow the District to lock in a known expense or revenue for a future short-term power market purchase or sale in advance. The payment received from the counterparty would be used to purchase power in the future period. The District has not entered into any such hedges.

Renewable Energy Credits

Renewable Energy Credits, or RECs, are the environmental attributes associated with one MWh of electrical output from a qualifying renewable energy resource. Markets for RECs support both voluntary green power programs and mandated Washington State renewable portfolio standards. Initiative 937 (Chapter 19.285 of the Revised Code of Washington), applies to utilities with over 25,000 customers, and establishes a minimum target for the amount of renewable resources it must include in its power supply portfolio to serve its customers. The legislation provides three different methods by which a utility can demonstrate it is compliant for the target year. See "—Washington State Energy Initiatives and Legislation—*Washington State's Renewable Portfolio and Conservation Standard*."

As a matter of policy, the Commission approved the sale of up to 100% of RECs that are surplus to the District's Initiative 937 needs. The proceeds from such sales have been earmarked to both reduce the cost of renewable energy resources the District invests in, and to fund research and development of new renewable resources and technologies. The market price for RECs fluctuates according to supply and demand, resource fuel type, year generated and timing of the renewable portfolio standards established in nearby states. The District has strategically bought and sold RECs while rolling over a "bank" of surplus RECs for consumption in the following year. In 2019, the District spent $36,000 on purchasing RECs for this purpose and as of June 2020, District revenues from the sale of surplus RECs have been $40,000.

The District's Future Power Supply Strategy

For purposes of long-term resource planning, the District has projected its customer loads – after accounting for rooftop solar and its forecast new conservation acquisitions – to grow at an average of 0.22% per year from 2020 through 2039. A combination of energy efficiency acquisition, improved energy codes and standards for buildings and products, fuel switching to natural gas, changes in consumer behavior and some loss of industrial load have all contributed to expectations of static to slightly declining future load growth. Real load growth opportunities have surfaced in the range of load forecasts considered in the long-term integrated resource planning process and analyses. Such opportunities include higher adoption levels of electric vehicles within Snohomish County, the siting of data servers and changes related to indoor cannabis cultivation. The District utilizes more conservative assumptions for load growth in the financial plan, which assumes no projected residential load growth. See "Financial Plan—*Load Forecast.*"

District's 2019 Integrated Resource Plan. Washington State law requires utilities with more than 25,000 customers in the State to develop and adopt an updated Integrated Resource Plan ("IRP") at least every four years and provide a progress report at least every two years. The District's 2019 Integrated Resource Plan (the "2019 IRP") was formally adopted by the Commission in May 2019. See "—Washington State Energy Initiatives and Legislation—*Washington State Integrated Resource Planning Requirements*."

The IRP process helps evaluate and determine the timing and quantity of new resources and new cumulative conservation, in combination with the District's existing and committed resources, that would be required to meet the possible range of future customer needs over a 15 to 20-year study period. The District's adopted 2019 IRP Long Term Resource Strategy identified that it could meet increased District demand for annual energy with existing resources and new conservation across the entire 20-year study period (2020 through 2039). The District also identified the need to acquire up to 25 MW of short-term winter capacity to hedge peak winter demand in the 2020 through 2024 period. Future resource additions include a total of 94 aMW of new conservation through 2039, a small 5 MW utility scale solar project,

and a capacity resource that could help meet the winter and a forecast emerging summer need in the late 2020's.

The 2019 IRP established the following short-term policy and actions to begin implementing the long-term resource strategy: implement all cost-effective energy conservation measures; conduct a utility-specific study to understand the opportunities of existing and emerging summer conservation technologies and technically achievable potential; continue to explore low cost, low emissions alternatives in the Northwest for capacity resources such as batteries, pumped storage hydro and future peaking or capacity products Bonneville may offer; align and integrate the District's Distributed Energy Planning efforts to help manage future technology and customer preference changes and leverage new opportunities to provide better service at a lower cost to customers; enhance short and long-term resource portfolio modeling capabilities to provide more precise analyses of portfolio challenges and potential solutions; monitor and actively participate in regional forums, legislative policy discussions and rulemaking initiatives, and Bonneville power and transmission planning initiatives in support of board policies and the District's mission and strategic priorities; and evaluate available load-shifting technologies and resources as a potential emission-free resource to mitigate future capacity needs and long-term summer on-peak energy needs.

The 2019 IRP helped inform the District's two-year conservation target for 2020 and 2021, and the 10-year conservation potential estimate for the 2020-2029 period. The District is scheduled to develop its next comprehensive IRP and conservation targets in 2021. The District's Bonneville power contract is set to expire September 30, 2028. The District will assess the District's post-2028 needs in the 2021 IRP analysis and will engage Bonneville both through regional discussions and directly as Bonneville begins to initiate post-2028 discussions on future product offerings in the mid to late-2021 period. See "—Washington State Energy Initiatives and Legislation—*Washington State's Renewable Portfolio and Conservation Standard.*"

Energy Storage – MESA 1 and MESA 2

The District installed two battery energy storage systems as part of a multi-year program aimed at transforming the marketplace and how utilities manage grid operations. The first set of lithium batteries was installed in 2015 and located at a utility substation near the District's operations center. A second system, a set of vanadium flow batteries, was installed in early 2017. The installations are designed to improve reliability and the integration of renewable energy sources, which are rapidly growing in the Pacific Northwest. A third energy storage system is being designed in 2020 for the new Arlington Microgrid and Clean Energy Center. These battery storage systems were the first to be built using the cutting-edge Modular Energy Storage Architecture ("MESA"). MESA is a set of nonproprietary design and connectivity standards that provide a scalable approach for energy storage control system integration and optimization. The District teamed up with Doosan GridTech, Alstom Grid, the University of Washington, Pacific Northwest National Labs and other private- and public-sector partners in order to develop and demonstrate the MESA standards. As changes to the electrical grid are anticipated to accommodate more renewable power, the District has identified MESA's standards-based energy storage systems and software as a valuable contributor to the change. MESA provides standard interfaces between equipment components such as the power conversion system, batteries, and control system. It brings more choices for utilities, reduces projects' complexity and is expected to lower costs.

Arlington Microgrid (MESA 3) and the Clean Energy Center

The Arlington Microgrid and Clean Energy Center project represents a new technology and approach that offers grid resiliency and renewable energy integration. The project will include a 500-kilowatt solar array with smart inverters, a 1,000 kW/1,400 kWh lithium-ion battery storage system and

several vehicle-to-grid charging stations for use with the District's electric fleet vehicles. This Microgrid will demonstrate how various clean energy technologies, such as solar, battery storage and electric vehicles, can work together to help with renewable energy integration and grid resiliency. The system will provide electricity to critical District facilities that can be used in the event of a disaster such as a large-scale earthquake. The District is anticipating the growth of electric vehicles, especially fleet vehicles, and the District considers it important to learn about the effect of electric vehicles on electric grids. By including vehicle-to-grid technology, the District will test how these mini batteries can be another source of electric storage to benefit the overall grid and the Microgrid. This project is currently under construction with an anticipated completion date of December 1, 2020.

Small Hydroelectric Generation. The District considers small hydroelectric generation an attractive power supply option because it is free of greenhouse gas emissions, is a long-lived asset (up to 50 years or more), has low operation and maintenance costs and can produce relatively predictable output. The District is currently operating four such projects, the Woods Creek, the Youngs Creek, the Hancock Creek and the Calligan Creek projects. See "THE GENERATION SYSTEM—Small Hydroelectric Generation Projects."

District Climate Change Policy, Principles and Strategies

The District was one of the first utilities in the region to adopt an official climate change policy, including supporting principles and strategies. In the policy, the District, among other things, (i) commits that it will provide electric, water and associated services to its customers in an environmentally responsible way while increasing economic value, financial stability and operational safety and security for its ratepayers; (ii) recognizes that climate change is a serious global problem that should be addressed through the development of thoughtful and forward-looking legislation that actually results in the reduction of greenhouse gas emissions in a workable and cost-effective manner; (iii) recognizes that the Pacific Northwest's investments in energy efficiency and renewable hydroelectricity have yielded substantial environmental benefits and this legacy should be continued by meeting customer growth through conservation and a diverse mix of renewable technologies including, but not limited to, wind, tidal, solar, biomass and geothermal; and (iv) recognizes that using natural resources more efficiently and wisely makes good environmental and economic sense. Since adoption of its initial climate change policy, the District has developed several "strategic priorities" guidance documents, beginning in 2015, that prominently feature environmental stewardship and environmental sustainability as fundamental principles in carrying out the District's business.

Washington State Energy Initiatives and Legislation

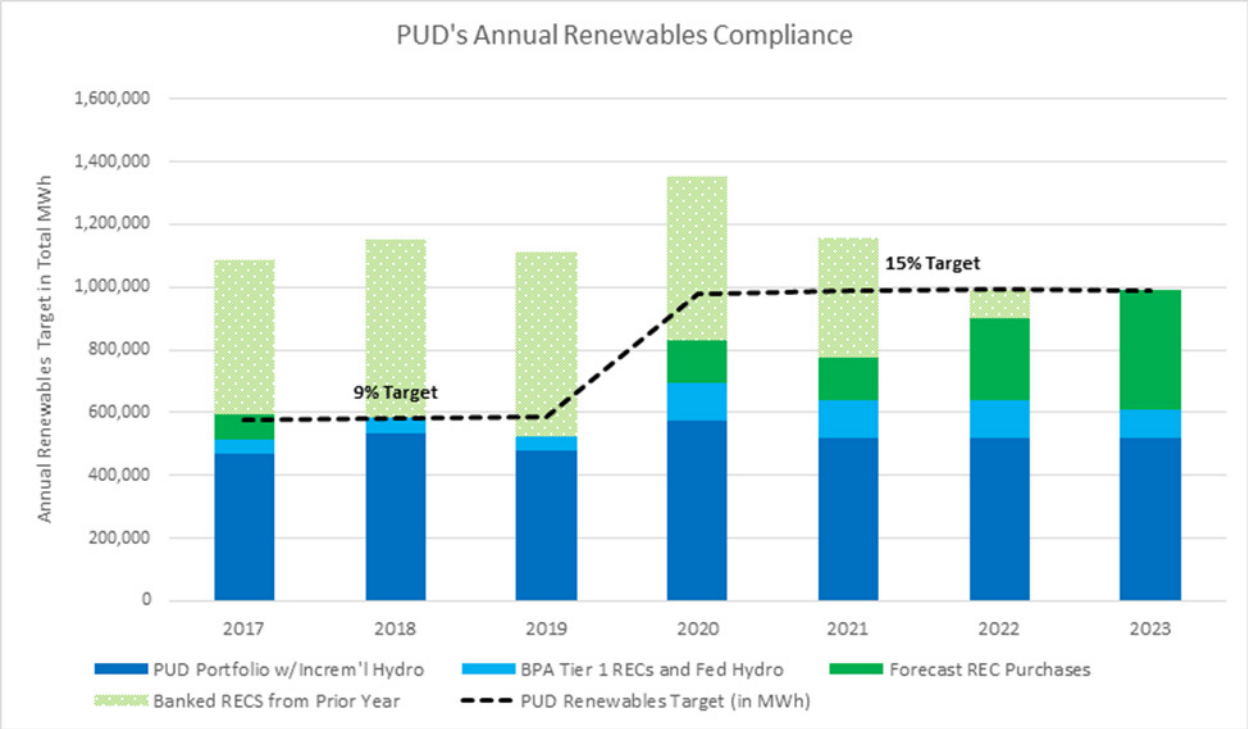
Washington State's Renewable Portfolio and Conservation Standard

In the fall of 2006, voters of Washington State approved Initiative Measure 937 ("Initiative 937"), codified as the Energy Independence Act, Chapter 19.285 RCW, requiring electric utilities with over 25,000 customers in the State to accomplish all cost-effective conservation and, by 2020, use certain eligible renewable resources to serve at least 15% of their retail loads. Specifically, Initiative 937 requires such utilities to: (i) estimate the cost-effectiveness of conservation programs using methodologies consistent with the approach of the Northwest Power and Conservation Council ("NWPCC"); (ii) every two years, calculate and document 10-year conservation potential; (iii) produce detailed analyses of how energy will be conserved through end-user programs, production and distribution efficiencies, co-generation and/or distributed generation; (iv) use eligible renewable resources to serve 3%, 9% and 15% of the utility's retail loads by 2012, 2016 and 2020, respectively; and (v) beginning January 1, 2012, report annual compliance with the law's requirements. Eligible renewable resource types include wind, solar energy, geothermal energy, landfill gas, wave, ocean or tidal power,

gas from sewage treatment facilities, specific biodiesel fuels, biomass energy and incremental hydroelectric power (power produced as a result of efficiency improvements at existing hydroelectric facilities). Incremental hydropower is the only form of hydro-related energy designated as an approved renewable. The legislation imposes significant penalties for non-compliance—$50 for every MWh the utility falls short of its conservation or renewable resource targets.

To satisfy the renewables target for a given compliance year, a qualifying utility may elect to serve an increasing percentage of its load with certain eligible renewable generation or RECs ("target method"). These targets are 3% of load served by renewables by 2012, 9% by 2016 and 15% by 2020. A utility may also "bank" or "carryover" the RECs generated by the renewable resources in its portfolio the year prior to, the year of, and the year after, the compliance target year. For example, a utility can apply the RECs generated in 2018 by its renewable resource to the utility's 2019 compliance requirement.

The District has met its annual renewables requirement each year from 2012 through 2016 with RECs from its existing portfolio, including RECs the District is eligible to receive under its Block-Slice Power Purchase Agreement. For the 2017 through 2020 compliance years (as shown in chart below), the District used a combination of its existing renewable resources and a small quantity of unbundled REC purchases to leverage its REC bank in anticipation of the annual target increase from 9% in 2019 to 15% in 2020. Ongoing compliance is explored and addressed in the District's IRP process every two years.



As of January 1, 2020, the District's 15% renewable target equates to 976,396 MWh which the District will serve from a combination of its 2019 REC bank (525,161 MWh) and from the contributions of its 2020 eligible renewable resources and unbundled REC purchases (451,235 MWh).

In May 2019, the Commission adopted conservation targets under Resolution 5905 for the years 2020-2021 of 12.24 aMW, or 6.12 aMW per year, and set its 10-year conservation potential estimate at 70.37 aMW for the 2020-2029 period. The District subsequently filed the two-year target and 10-year potential estimate with the Washington State Department of Commerce in December 2019.

In accordance with Initiative 937 reporting requirements, the District submits its annual filings with the Washington State Department of Commerce by June 1 each year. This report consists of: (i) total owned and acquired renewable resources as of January 1 of the target year; and (ii) the actual conservation achievements for the two-year period, compared to the adopted target.

Washington State Integrated Resource Planning Requirements

In 2006, the Washington State Legislature passed a law requiring electric utilities with more than 25,000 customers in the State (that are not full requirements customers of Bonneville) to develop an IRP. Each utility must report on its progress every two years and update its plan every four years. At a minimum, the IRP must include: (i) a range of forecasts, for at least the next 10 years, of forecasted customer demand that takes into account econometric data and customer usage; (ii) an assessment of commercially available conservation and efficiency resources; (iii) an assessment of commercially available utility scale renewable and nonrenewable generating technologies; (iv) a comparative evaluation of renewable and nonrenewable generating resources, including transmission and distribution delivery costs, and conservation and efficiency resources using "lowest reasonable cost" as a criterion; (v) the integration of the demand forecasts and resource evaluations into a long-range assessment describing the mix of supply-side generating resources and conservation and efficiency resources that will meet current and forecasted needs at the lowest reasonable cost and risk to the utility and its ratepayers; and (vi) a short-term plan identifying the specific actions to be taken by the utility consistent with its long-range IRP.

In May 2019, Washington State Governor Jay Inslee signed the Clean Energy Transformation Act into law. This law eliminates coal as a resource that is permitted to be used to serve retail electric customers by January 1, 2026, requires all retail electric sales of electricity to retail customers in Washington to be greenhouse gas neutral by Jan 1, 2030 and requires that 100% of electricity sales to retail customers in Washington must be supplied by non-emitting electric generation and from renewable resources by January 1, 2045.

CETA also added several new requirements to the RCW 19.280 regarding development of IRPs. These new requirements include the following: completing an assessment and 10-year forecast of generation and transmission availability; determining resource adequacy metrics; forecasting distributed energy resources; assessing equity issues and how customers are benefitting from the transition to clean energy; including the social cost of carbon as a cost adder to the IRP's analytical methodology; and replacing the previous short term action plan in the IRP with a 10 year clean energy action plan for implementing the CETA standards.

Washington State Emissions Performance Standards

In 2008, legislation was adopted in Washington requiring reductions in greenhouse gas ("GHG") emissions, initiating GHG reporting requirements, and requiring the Washington State Department of WDOE to make recommendations for the development of a market-based cap and trade system. Under the legislation, the State must reduce overall GHG emissions to 1990 levels by 2020; to 25% below 1990 levels by 2035; and to 50% below 1990 levels by 2050. The legislation also required the WDOE to adopt rules requiring the reporting of GHG emissions. Subsequent legislation adopted in 2010 aligned the Washington State GHG reporting protocols with federal regulations promulgated by the Environmental Protection Agency. The WDOE rules for the reporting of GHG emissions became effective on January 1, 2011. Mandatory reporting for facilities with annual GHG emissions of 10,000 metric tons CO_2 equivalent or greater began with 2012 emissions reported in 2013.

Related legislation provides that generation sources underlying power supply contracts of five years or more that are entered into after July 2008 must comply with a permissible ceiling of 1,100 pounds of GHG emissions per MWh (or the average available GHG emissions output as derived by the Washington State Department of Commerce analysis of appropriate combined cycle combustion turbines). Some emissions are allowable if sequestered or mitigated under a plan approved by the Energy Facilities and Site Evaluation Council (the "EFSEC"). In June 2008, the WDOE, EFSEC, Washington State Department of Commerce and Bonneville coordinated and adopted rules to implement and enforce these standards. In addition to compliance with such ceiling, owners of generation facilities were required to comply with certain mandatory reporting requirements beginning in 2013 (based on 2012 emission levels).

In 2016, the WDOE adopted the Clean Air Rule (WAC 173-442), which addressed the major sources of GHG, including certain electric generators and fuel suppliers in the State, and required businesses that are responsible for large amounts of GHG emissions to cap and reduce their carbon emissions. Implementation of the law affects the electric sector and potential demand for clean electricity in the State. In March 2018, Thurston County Superior Court ruled that parts of the Clean Air Rule were invalid. The Superior Court's ruling prevented the WDOE from implementing the Clean Air Rule regulations. On January 16, 2020, the Washington State Supreme Court ruled that the portions of the rule that applied to stationary sources were upheld, but that the portions that applied to indirect sources, such as natural gas distributors and fuel suppliers (representing the majority of emissions), were invalid. The Supreme Court remanded the case to Thurston County Superior Court to determine how to separate the rule. As the court deliberates, the WDOE is considering whether and how to implement the much narrower rule. The District is monitoring all legislative and rulemaking activities related to GHG reductions and clean energy requirements for potential effects on the District.

Voluntary Green Power Program Legislation

Since 2002, Washington State law has required that larger electric utilities in Washington State offer retail customers an option to purchase qualified alternative energy resources—often referred to as green power. Utilities have two options for providing customers with qualified green power: actual power from qualified green resources, or RECs. The law also requires electric utilities to maintain and make available upon request certain information and details regarding their green power programs. As a consumer-owned utility, the District provides this information annually to the Washington State Department of Commerce. See "—Wholesale Power Market Purchases, Sales and Trades—*Renewable Energy Credits*."

The District's business customers can support green power through a second voluntary program option, Carbon Solutions. Customers can participate for as little as one unit at $4.50 per month which is applied directly to their consumption accounts. At least 50% of the RECs purchased through Carbon Solutions come from generators in the Pacific Northwest. The remaining RECs, up to 50%, are limited to the Western Electricity Coordinating Council ("WECC") region. The Pacific Northwest portion comes primarily from the White Creek Wind, Grand View Solar, and Fossil Gulch Wind projects, although the vendor has the discretion to provide RECs from mutually agreeable similar facilities. All RECs through Carbon Solutions are certified by Green-e, a provider of clean energy certifications.

Transportation Electrification

The District actively supports the adoption of transportation electrification. The District partners with customers to technically support the buildout of Electric Vehicle Supply Equipment ("EVSE") infrastructure and electrification of school buses, public transit buses and ferries. The District has recently applied for grant funding to further support its customers' electrification goals and the

development of EVSE infrastructure. The District is pursuing funding in 2020 for multiple location DC fast chargers for public charging and on route induction charging for public transit buses. Additionally, program development is underway in 2020 to provide financial incentives to residential and commercial customers for EVSE.

Community Solar Project

In April 2019, the District launched its first Community Solar project at the site of the District's Arlington Microgrid. The District sold 76-watt solar energy units at $120 each to cover the cost of the solar array. Each solar panel consists of five solar energy units and customers were limited to purchasing a maximum of 26 panels, or 130 units. The 500-kilowatt solar array consists of 1,620 panels, or 8,100 solar energy units. See "—The District's Future Power Supply Strategy—*Arlington Microgrid (MESA 3) and the Clean Energy Center*."

Participants will receive a $0.06/kilowatt-hour credit on their bill based on the energy production of the solar energy units they purchase. Participants also receive annual incentive checks of $.16/kWh through the Washington State Renewable Energy System Incentive Program for approximately eight years, or until total incentives paid reaches 50% of project cost. Based on the price of the solar energy units, participant payback is estimated to occur at approximately eight years. 10% of the available units were granted to two income-qualified service agencies to support the clients they serve: HopeWorks Station in Everett and the Stanwood-Camano Community Resource Center.

Regional Transmission Planning

Regional Transmission Planning

Bonneville owns and operates a high voltage transmission system comprising approximately 75% of the bulk transmission capacity in the Pacific Northwest. The District depends on Bonneville for the vast majority of its regional transmission needs and does not provide transmission services to others. While the District is not FERC jurisdictional and is not required to participate in joint regional planning, it is nonetheless interested in the development of a robust transmission network throughout the Pacific Northwest. In 2019, the District joined NorthernGrid, a new transmission planning region that facilitates regional transmission planning across the Pacific Northwest and Intermountain West. Other private and public utilities are members of NorthernGrid, including Bonneville, Avista Corporation, Puget Sound Energy, Seattle City Light, Idaho Power Company, BHE Canada, Public Utility District No. 2 of Grant County, Washington, Public Utility District No. 1. of Chelan County, Washington, Northwestern Corporation, Pacificorp, Portland General Electric, and Tacoma Power. NorthernGrid began its planning operations in 2020. Prior to the formation of NorthernGrid, the District engaged in regional planning through membership in ColumbiaGrid, a non-profit corporation formed in 2006 to conduct single-utility based transmission planning for its members. ColumbiaGrid staff along with member utilities carry out transmission planning studies, coordinate and facilitate transmission expansion projects and develop new tools and processes for increasing the efficiency and utilization of the regional network. All members of ColumbiaGrid have joined NorthernGrid. Following the issuance in 2020 of ColumbiaGrid's final transmission plan, ColumbiaGrid is expected to dissolve.

Puget Sound Area Transmission Initiatives

Changing generation patterns and loads within the metropolitan Puget Sound area, regional transmission outages, and Bonneville's obligation to return energy to Canada under the Columbia River Treaty, have occasionally created transmission congestion which has impacted the District. Coordinated actions to re-dispatch local generation and a memorandum of understanding citing investment and cost-

sharing responsibilities was signed by Bonneville, Seattle City Light and Puget Sound Energy in December 2011. These actions have averted the need to drop customer load in the Puget Sound area. The District is not a party to this agreement.

The District is also currently engaged in discussions with Bonneville and other Puget Sound region utilities on whether changes may be warranted to Bonneville's Regional Outage Coordination Policy.

Open Access

FERC Order 890, first issued in 2006 and revised in 2007, affects the way transmission is planned by the electric utility industry. Its goal is to prevent discrimination by owners of transmission facilities against utilities and power producers desiring transmission service. Order 890 strengthens the open access transmission tariff ("OATT") standards, reduces opportunities for the exercise of market power, makes it easier to detect abuses, facilitates enforcement efforts and increases transparency in the areas of planning and transmission system use.

While the OATT modifications have little direct impact on the District, since the District does not provide transmission services to others, the nine planning principles adopted in the order are beneficial. These include coordination, openness, transparency, information exchange, comparability, dispute resolution, regional participation, economic planning studies and cost allocation for new projects.

FERC Order 1000

In 2011, FERC issued Order 1000, which amended the transmission planning and cost allocation requirements established in Order 890. With respect to transmission planning, Order 1000 (i) requires that each jurisdictional utility transmission provider participate in a regional transmission planning process that produces a regional transmission plan; (ii) requires that each jurisdictional utility transmission provider amend its OATT to describe procedures that provide for the consideration of transmission needs driven by public policy requirements in the local and regional transmission planning process; (iii) removes from FERC-approved tariffs and agreements a federal right of first refusal for certain new transmission facilities; and (iv) improves coordination between neighboring transmission planning regions for new interregional transmission facilities.

Order 1000 also requires each jurisdictional utility transmission provider to participate in a regional transmission planning process that has (i) a regional cost allocation method for the cost of new transmission facilities selected in a regional transmission plan for purposes of cost allocation; and (ii) an interregional cost allocation method for the cost of certain new transmission facilities that are located in two or more neighboring transmission planning regions and are jointly evaluated by the regions in the interregional transmission coordination procedures required by Order 1000. Each cost allocation method must satisfy six cost allocation principles specified by FERC.

Participation in regional transmission planning efforts is voluntary for non-jurisdictional utility transmission providers. The District is not a jurisdictional utility nor is it a "transmission provider" for purposes of Order 890 or Order 1000. A potential impact to the District could occur if ColumbiaGrid or the newly formed NorthernGrid adopted cost allocation principles for a regional transmission project under which a share of the project's costs were made attributable to the District. The District has negotiated in the relevant ColumbiaGrid and NorthernGrid agreement provisions to protect the District from costs it has not agreed to pay, and the District could further protect itself from an unacceptable cost allocation by terminating its memberships in ColumbiaGrid or NorthernGrid.

Transmission Reliability

In March 2007, FERC issued Order No. 693, which addresses mandatory reliability standards for utilities. The North American Electric Reliability Corporation ("NERC") was tasked with developing reliability standards for the electric industry and for ensuring those standards are met. All users, owners and operators of the bulk power system are required to identify functions they perform and register the information with the NERC or their regional reliability organization. In the District's case, this is the WECC.

The District has developed an internal compliance program to manage reporting requirements and ensure implementation of new WECC and NERC required procedures. The program defines a process by which applicable NERC standards are identified and staff is assigned to review and document compliance, or, if necessary, prepare mitigation plans. In 2012, 2015, WECC conducted a comprehensive audit of the District's compliance with the applicable NERC reliability requirements and found no violations.

Executive Order on Bulk Power System

On May 1, 2020, President Trump signed an Executive Order declaring a national emergency and imposing new restrictions on the purchase and use of foreign-made equipment and technology used in the U.S. bulk-power system. This Executive Order may change how the District plans and procures components for the limited portion of the District's electric system that may be found as part of the bulk power system. The Department of Energy is charged with issuing implementation rules within 150 days of the order. The District is following this matter closely and intends to engage with the Department of Energy through the Large Public Power Council and American Public Power Association.

Public Utility Regulatory Policies Act

FERC Rulemaking

On July 16, 2020, FERC adopted substantial revisions to its PURPA regulations. The package of revisions allows, among other things, states and self-regulated entities like the District more flexibility to incorporate competitive forces when setting avoided cost rates for certain qualifying generating facilities.

Energy Imbalance Market

In July 2019, Bonneville issued a letter to the region seeking public comment on their potentially joining the Western Energy Imbalance Market ("EIM"). This letter included a package with Bonneville's policy proposal document, a report of Bonneville's EIM cost-benefit analysis and a draft of the California Independent System Operation ("CAISO") EIM implementation agreement. Bonneville addressed comments received on this package in its record of decision published in September 2019. On September 26, 2019, Bonneville signed an implementation agreement with the CAISO and a record of decision in a move toward joining the Western EIM in March 2022.

With the implementation agreement in place, Bonneville has been working on Western EIM-specific projects identified in the grid modernization roadmap and developing a detailed project plan with CAISO to ensure the necessary systems, processes and training are in place before a proposed go-live date in 2022. This agreement also allowed Bonneville to start participating in Western EIM entity meetings and other market development opportunities such as the Extended Day Ahead Market.

An EIM is a voluntary market that provides a sub-hourly economic dispatch of participating resources for balancing supply and demand every five minutes. This market is security-constrained, meaning transmission and reliability constraints would be honored. The Western EIM is operated by CAISO.

Bonneville's decision about whether to join the Western EIM incorporates a five-part process. With the signing of the implementation agreement and the record of decision, Bonneville concluded Phase II of the EIM decision process. The final decision on whether to join the EIM will follow a close-out letter to the region in the fall of 2021 and a corresponding public comment period.

The third phase of this process began in October 2019, when Bonneville and customers like the District engaged through a series of public workshops as part of the TC-22 and BP-22 rate proceedings. Phase III is expected to result in formal policy decisions by Bonneville as outlined in the record of decision. Phase IV will be the formal TC and BP-22 rate proceedings that consider cost causation and allocation of costs and benefits associated with Bonneville's participation in the EIM should they elect to do so.

For Bonneville, joining the EIM under the right conditions may result in increased value for the flexibility obtained from the federal hydropower system, and other Northwest generators and utilities within Bonneville's balancing authority area would also have opportunity to participate through Bonneville in the Western EIM. The EIM could also help manage congestion of the Bonneville transmission network. Bonneville is currently determining how and under what conditions it could join the EIM, with a potential implementation date of March 2022. District staff continue to support Bonneville's efforts to engage in new markets and has actively participated with the region's utilities in the series of workshops ahead of the upcoming rate case. The District will be performing its own due diligence once more is known about Bonneville's policy decisions and cost/benefit allocations in the coming months, so the District can assess the risks/rewards of its participation in the EIM through Bonneville as the EIM Entity.

Washington Initiative 502/Revised Code of Washington 69.50

Washington voters approved Initiative 502 ("I-502") on marijuana reform in the November 2012 election. I-502 was codified under RCW 69.50 and legalizes the recreational use of marijuana and marijuana-related products by adults, taxes those products, and designates the revenue for health-care and substance-abuse prevention and education. Possession by anyone younger than 21, possession of larger amounts, and the unlicensed or unregulated growing of marijuana remain illegal under State law. In addition, marijuana is still classified as a Schedule I controlled substance under federal law. Thus, the growing, possession and sale of marijuana are subject to federal prosecution, and could subject violators to confiscation of their assets.

I-502/RCW 69.50 has presented Washington local governments with numerous issues, including the conflict between State and federal law. There is limited guidance from the federal government available to date on how state and local governments can or should address this conflict. The following is a brief summary of certain of the issues presented. The District does not believe that any of these issues will have a material adverse effect on the District.

A January 4, 2018 memorandum from then U.S. Attorney General Jeff Sessions rescinded prior Department of Justice ("DOJ") memorandums that had indicated that the DOJ would not interfere with marijuana-related businesses that were operating in accordance with State laws provided that the respective state implemented a strong and effective regulatory system that respected drug law enforcement priorities identified by DOJ. In place of the prior guidance, the Sessions' memorandum

appears to leave it to the discretion of federal prosecutors to "weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community." To date, it appears that local federal prosecutors have not pursued enforcement actions against marijuana-related businesses that are operating in accordance with state law and regulations.

The District purchases a substantial portion of its power supply from Bonneville and is also the recipient of various federal grants and subsidies, including from Bonneville. The grant agreements typically include a requirement that the District comply with all applicable federal laws during the term of the grant agreement. A November 12, 2014 U.S. Department of Energy ("DOE") memorandum on this topic provided to federal power marketing agencies ("PMAs"), including Bonneville, notes that the cultivation and distribution of marijuana is illegal under federal law and that "federally owned, controlled or administered resources may not be purposely provided to facilitate the commission of a federal offense." However, the memorandum also states that wholesale power sales by PMAs to their utility customers "do not purposely facilitate the commission of a federal offense." The memorandum provides that "[t]he federal statutes that govern PMAs address the relationship between the PMAs and their wholesale power customers. State law governs the relationship between the PMAs wholesale power customers and their retail customers." Should the DOE's guidance on this topic change in the future, the District has enough owned or contracted for nonfederal resources to serve the existing and anticipated load associated with marijuana production within its service territory over the next 5 to 10 years, as more fully described below.

Additionally, Bonneville issued a clarification document on December 2, 2015 in which it also recognized that the cultivation and distribution of marijuana is illegal under federal law and that federal resources may not be "purposely provided to facilitate the commission of a federal offense." The document states that Bonneville will not knowingly pay incentives/reimbursements or provide support to customers for energy efficiency projects involving marijuana related businesses. However, the document also provides that Bonneville will "allow customers to report self-funded [energy efficiency] activities that meet the rules and requirements of [Bonneville's] Implementation Manual" and will "count those savings towards the region's savings goals." The document further notes that Bonneville "may conduct oversight and impact evaluation on self-funded savings involving marijuana business load (including site visits) to ensure the savings reported to Bonneville comply with IM requirements and are reliable."

Increased Loads. Marijuana, which is grown primarily indoors in the Pacific Northwest, requires significant amounts of power to produce. Energy uses include for high-intensity lights, dehumidification, space heating and cooling during certain periods, pre-heating of irrigation water, and ventilation and air-conditioning to remove waste heat. A recent report by the Northwest Power and Conservation Council estimated marijuana operations could increase electricity demand in the State between 60 MW and 160 MW over the next 20 years. According to the report, regional demand – from producers in Idaho, Montana, Oregon and Washington – could increase by almost 250 MW by 2035. Legal marijuana production was identified as one of three major categories of load growth in the region, along with data centers and electric vehicles. The State has issued licenses for approximately 10 million square feet of marijuana production "canopy." Based on the number of existing and pending permits applied for to date, the District's estimates for marijuana production-associated load growth within its service territory during the next 5 to 10 years range from approximately 25 MW to as much as 80 MW.

Energy Conservation Efforts. There are significant opportunities for energy conservation with marijuana producers, including in particular through the use of more energy-efficient lighting, such as LEDs. LED lighting, however, is significantly more expensive than traditional lighting methods which rely on high-pressure sodium and other high-intensity fixtures. Marijuana producers are thus unlikely to switch to LED lighting in the absence of financial incentives to do so from utilities. New technology has

become available to producers that utilizes heat generated from LED lighting to warm HVAC air to help offset additional energy consumed to keep the ambient air used for growing at the ideal temperature. The District currently offers incentives for both lighting and HVAC improvements that lead to energy efficiency upon the express condition that the that the participant fully comply with all applicable state and local laws and regulations and federal guidelines. Since 2017, marijuana producers in the District's territory have saved over 2,000,000 kWh per year.

ELECTRIC SYSTEM FINANCIAL INFORMATION

Financial Results

The following table presents income statements of the Electric System from fiscal year 2015 through June 30, 2020. Appendix A contains the audited financial statements for the District for fiscal years 2019 and 2018. See "—Financial Condition and Liquidity" for a description of the District's cash balances and liquidity reserves.

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TABLE 12
Public Utility District No. 1 of Snohomish County, Washington
Electric System
Operating Results
($000's)

	Year Ended December 31,					6 Months Ended June 30,	
Operating Revenues	2015	2016	2017	2018	2019	2019	2020
Sales of Electric Energy							
Residential	$ 326,772	$ 324,675	$ 360,906	$ 362,924	$ 366,804	$ 204,925	$ 206,573
Commercial	198,569	199,982	205,653	208,405	209,058	105,923	100,150
Industrial	37,125	37,521	37,762	36,729	36,611	18,480	16,640
Other	3,677	3,557	3,853	4,185	4,043	1,846	1,971
Sales for Resale	36,770	37,076	34,947	34,985	29,317	17,065	18,523
Unbilled Revenue[1]	(16,800)	8,720	1,500	(1,921)	(2,700)	(10,000)	(16,100)
Total Sales of Electric Energy	586,113	611,531	644,621	645,307	643,133	338,239	327,757
Other Operating Revenues[2]	21,186	28,100	28,685	36,878	28,451	13,009	15,224
Total Operating Revenues	607,299	639,631	673,306	682,185	671,584	351,248	342,981
Operating Expenses							
Purchased Power and Generation[3]	320,515	347,494	333,338	333,705	349,909	187,583	162,266
Operations[4]	173,631	185,700	197,709	190,239	188,550	97,494	112,746
Maintenance[5]	34,045	22,995	21,817	30,986	23,021	15,369	14,007
Depreciation	49,042	51,460	53,191	53,624	55,493	27,812	28,465
Taxes	35,417	35,448	37,994	38,668	38,710	20,708	20,505
Total Operating Expenses	612,650	643,097	644,049	647,222	655,683	348,966	337,989
Net Operating Income (Loss)	(5,351)	(3,466)	29,257	34,963	15,901	2,282	4,992
Interest and Other Income[6]	17,833	12,825	9,279	3,591	20,704	9,712	10,643
Interest Charges							
Interest	18,609	18,506	18,069	17,639	17,194	8,623	8,294
Other, Net of Capitalized Interest	(5,056)	(4,352)	(4,110)	(3,184)	(1,228)	(616)	(616)
Total Interest Charges	13,553	14,154	13,959	14,455	15,966	8,007	7,678
Capital Contributions[7]	16,512	20,094	22,348	24,651	33,743	14,643	10,765
Net Income	$ 15,441	$ 15,299	$ 46,925	$ 48,750	$ 54,382	$ 18,630	$ 18,722
Net Income Adjustments:							
Non-cash Contributions	$ (3,162)	$ (4,601)	$ (5,010)	$ (6,598)	$ (9,098)	$ (4,854)	$ (2,410)
Interest Charges	13,553	14,154	13,959	14,455	15,966	8,007	7,678
Depreciation	49,042	51,460	53,191	53,624	55,493	27,812	28,465
Pension and OPEB Liability Actuarial Adjustment[8][9]	(2,769)	171	(6,889)	(12,964)	(13,747)	6,482	6,873
Net (Increase) Decrease in the Fair Value of Investments[10]	434	(156)	456	(1,002)	(2,078)	(2,269)	(4,887)

	Year Ended December 31,					6 Months Ended June 30,	
Operating Revenues	2015	2016	2017	2018	2019	2019	2020
Hydroelectric Project Termination Charge[11]	-	-	-	9,637	-	-	-
Balance available for debt service coverage	$ 72,539	$ 76,327	$ 102,632	$ 105,902	$ 100,918	$ 53,808	$ 54,441
Electric System Bonds Debt Service	$ 29,550	$ 26,855	$ 26,854	$ 26,853	$ 26,855	$ 13,428	$ 13,427
Electric System Bonds Debt Service Coverage	2.5x	2.8x	3.8x	3.9x	3.8x	4.0x	4.1x

Source: District records. See APPENDIX A—"INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS" for the years ended December 31, 2010 and 2018.

(1) Beginning in September 2015, the District switched from a bi-monthly to a monthly billing process for residential and commercial customers. Prior to this, the District billed half of its residential and commercial customers every month. Reductions of unbilled revenue are common in the first half of a calendar year due to rising temperatures and lower energy consumption. An updated model of calculating unbilled revenue was implemented in 2020, a corresponding true-up of the account caused the increase in unbilled revenue from 2019 to 2020.

(2) The District was able to sell $11 million of excess transmission capacity in 2018, which led to the increase from previous years.

(3) Purchased Power and Generation increased in 2016 largely as a result of a full year of a 4.60% Bonneville wholesale power price increase effective October 2015. The decrease in 2017 was primarily due to lower costs from the Generation System, primarily the expiration of intersystem debt service costs related to the Cogeneration Project in 2016. Unfavorable weather conditions reduced the power supplied by the District's hydroelectric and wind contracts in the first quarter of 2019, requiring the District to purchase considerably more power from the wholesale market than usual. Because wholesale market power rates were much higher than normal, purchased power expense was $16.2 million higher in 2019 than 2018.

(4) Operations increased in 2017 primarily due to an increase in the cost of transmission and ancillary costs from Bonneville, an increased volume of distribution system projects, a change to monthly meter reading and an increase in information system costs following the District's enterprise resource planning system implementation.

(5) Maintenance increased in 2015 due to two major windstorm events that resulted in a combined $11 million in storm restoration costs. The increase in 2018 was primarily caused by two wind events in December which resulted in combined costs of $5 million.

(6) The District experienced two significant wind events in 2015. Both storms were declared major disasters and were eligible for FEMA reimbursement. As a result, the District recorded approximately $8 million in Interest and Other Income. The increase in 2019 is largely due to $5 million in grant income and additional interest income resulting from favorable market interest rates.

(7) Capital contributions are collected from property developers when they request to connect to the District's electric or water distribution systems or request engineering or construction services. The capital contribution increases in 2019 and 2018 reflect increased property development in the District's service area.

(8) GASB Statement No. 68, Accounting and Financial Reporting for Pensions, requires governments providing defined benefit pensions to their employees to recognize the net pension liability for pension benefits in their operating results. The District participates in a multiple-employer plan, known as Washington State Public Employees Retirement System (PERS) and implemented this Statement for the year ended December 31, 2015. These amounts are determined through an actuarial analysis by the State of Washington. The corresponding increase (gain) or decrease (loss) from year to year is reflected in the operating results. The effect of recording the pension adjustment has no impact on District cash flows, so the impact has been removed from the debt service coverage calculation.

(9) In 2018, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions, required governments to recognize net liability related to OPEB. The corresponding increase or decrease from year to year is reflected in the operating results. The effect of recording the OPEB adjustment has no impact on District cash flows, so the impact has been removed from the debt service coverage calculation.

(10) The District typically holds investments to maturity. Generally Accepted Accounting Principles, however, require certain unrealized gains and losses be recorded as a component of net income. Because the effect of recording the mark-to-market value of these investments has no impact on District cash flows, the impact is removed from the debt service coverage calculation.

(11) In April 2018, the District's Commissioners decided not to pursue a final application with FERC for the Sunset Falls Hydropower Project. As a result of the project termination, the Electric system recorded a $9 million charge in Interest and Other Income. The effect of recording the adjustment has no impact on District cash flows, so the impact has been removed from the debt service coverage.

Management's Discussion of the Electric System's Financial Results

Revenues from the District's annual sales of electric energy increased from $586.1 million in 2015 to $643.1 million in 2019, an increase of $57 million over the period. Excluding sales for resale, sales of electric energy increased from $549.3 million in 2015 to $613.8 million in 2019, an increase of $64.5 million, or 10.5%, over the period. The increase in retail energy sales revenue during this period reflects modest rate increases combined with a growing residential customer base over the past five years.

The District enacted general rate increases of 1.7% and 2.9% effective April 1, 2015 and 2017, respectively. In addition, the District enacted rate increases of 4.6% and 1.6% effective October 1, 2015 and 2017, respectively, to recover the cost of wholesale power increases from Bonneville.

The total average number of customers of the District's Electric System increased from 337,011 in 2015 to 354,953 in 2019, an increase of 5.3%. The growth in customers reflects the population growth rate in Snohomish County.

The District is not dependent on its large corporate customers for its retail sales revenue. In 2019, industrial customers represented only about 6% of the District's retail sales revenue, while residential and commercial customers made up 60% and 34% of retail sales, respectively. The District's two largest customers in terms of power consumption accounted for 4.6% of retail energy sales revenues in 2019. See "THE ELECTRIC SYSTEM—Customers, Energy Sales and Peak Demand."

Power received from the District's own generating resources and power purchase contracts, in particular its Bonneville Slice product, can exceed the District's retail power requirements during certain periods of the year, resulting in sales for resale (wholesale market sales). Annual fluctuations in resale revenues have resulted from changes in retail load, variations in annual hydrological conditions, changes in District resources and variations in wholesale power prices. Resale revenues of $29.3 million in 2019 were $5.7 million lower than in 2018 due to a decrease in the volume of excess power available to be sold in the wholesale market of 30% in 2019.

Other operating revenues include proceeds from the sales of the District's transmission capacity, proceeds from the sale of RECs, reimbursements from Bonneville to fund conservation programs, lease revenue for use of District facilities and customer fees. These revenues decreased from $36.9 million in 2018 to $28.5 million in 2019 primarily due to a lower level of energy efficiency reimbursement from Bonneville. Purchased power and generation expenses increased from $320.5 million in 2015 to $349.9 million in 2019, an increase of 9%. From 2015 to 2016, purchased power and generation costs increased from $320.5 million to $347.5 million, an increase of $27 million. This increase resulted from a significant Bonneville wholesale power price increase effective October 2015, as well as an increase in the level of wholesale market purchases made in 2016. Purchased power and generation expenses increased from $333.7 million in 2018 to $349.9 million in 2019 due to considerably greater market purchases in the first quarter of 2019 resulting from unfavorable weather conditions as well as record high wholesale power market prices in the first quarter of 2019.

Operations expense increased from $173.6 million in 2015 to $188.6 million in 2019. From 2015 to 2016, operations expense increased by $12.1 million due to varying factors including higher meter reading and billing costs related to conversion from bi-monthly to monthly billing, consulting costs incurred to implement a new enterprise resource planning system, and increased energy efficiency program costs. Operating expenses increased an additional $12 million from 2016 to 2017 due to factors including higher Bonneville transmission and ancillary costs, an increase in distribution system projects, a change to monthly meter reading, higher information system maintenance costs, a greater number of claims in 2017, and additional facility expansion and maintenance projects. Operations expense subsequently declined in 2018 and 2019 due to a reduction of the District's share of State pension liability.

Maintenance expenses decreased from $34 million in 2015 to $23 million in 2019, a decrease of $11 million, or 32%. Maintenance expenses are subject to annual fluctuations based on the level of restoration efforts necessary following periodic storms that impact the Pacific Northwest. Accordingly, the District experienced two major windstorms in each of the years 2015 and 2018 resulting in heightened maintenance expense in those years. In addition to storm restoration, maintenance expenses represent the

costs to repair, refurbish and preserve the Electric System's transmission and distribution assets to appropriate operating levels, including regular maintenance of lines and stations. Maintenance expenses also include programs such as tree and vegetation trimming around overhead lines, as well as upkeep of Electric System facilities, vehicles and equipment.

Depreciation expense increased from $49 million in 2015 to $55.5 million in 2019, an increase of $6.5 million, or 13.3%. Higher depreciation expense over the five-year period reflects continued investments in electric system infrastructure, facilities and systems as the District continues to grow and expand to serve a growing customer base.

The District pays an excise and privilege tax (in lieu of property tax) levied by the State of Washington. These taxes are assessed as a percentage of the District's revenue from retail electric sales. Privilege tax is also assessed based on energy generated from power plants. The District has pursued renewable resource tax deductions, capital construction exemptions and other tax deductions and exemptions available under Washington State law.

Interest and other income was $17.8 million in 2015 and increased $2.9 million to $20.7 million in 2019, with greater fluctuations within the years between. These fluctuations are related to varying factors including higher Federal Emergency Management Agency ("FEMA") grant income recorded in years 2015 and 2016, costs recognized in 2018 related to the termination of the Sunset Falls project, and favorable market conditions in 2019 resulting in greater levels of interest income recognized.

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Financial Condition and Liquidity

Cash and Temporary Investments

As of December 31, 2019, the Electric System's cash, temporary investments, and long-term investments totaled $231.8 million, and special funds totaled $180 million. Cash and temporary investments represent bank deposits and highly liquid, short-term investments that are available for use in District operations. Long-term investments consist of unrestricted funds invested with maturities exceeding one year. Special funds are limited-use funds established by the Commission and are restricted for specific purposes such as debt service, bond reserves, rate stabilization, qualifying capital expenditures, post-employment benefits, and other reserve requirements. Cash, temporary investments, long-term investments, and special funds for each of the years 2015 through 2019 as well as through June 30, 2020 are summarized in the following table.

TABLE 13
Electric System
Cash and Temporary Investments and Special Funds
($000s)

Year	Cash, Temporary Investments, and Long-term Investments	Special Funds[1]
2015	$216,425	$288,456
2016	203,347	253,843
2017	219,969	208,276
2018[2]	266,324	174,963
2019	231,768	180,015
2020[3]	237,486	190,544

Source: The District.
[1] Balance includes construction funds from 2015 bond issuance, funds exhausted in 2018.
[2] Reserve resolutions were adopted in 2018 and restructured the reserve categories and balances within those reserves. Some existing funds considered special in 2015, 2016, and 2017 including the Tax Fund and Retiree Life Insurance Fund were considered obsolete and were absorbed into non-special funds.
[3] As of June 30, 2020.

Reserve Policy

The District has several special funds. These funds, which consist of cash, cash equivalents and investments, are restricted for specific purposes, including debt service, debt service reserves, rate stabilization, qualifying capital expenditures, post-employment benefits, FERC license commitments, and other reserve requirements. In June 2018, the District adopted a revised financial reserve policy which made modest changes in the allocation of reserves between special funds and other cash and investments. It is the District's policy to use unrestricted funds prior to using restricted funds except for bond proceeds used for qualifying capital expenditures and funds set aside for debt service payments.

The District adheres to the following policies with respect to the various reserve funds:

- Reserve funds have been structured to enable the District to prudently and consistently meet its financial obligations while allowing for flexible planning in the development and implementation of its capital plan and operations and maintenance budget.

- Reserve funds allow the District to mitigate risks from unforeseen financial variability, thereby minimizing the need for temporary rate surcharges.

- Areas that may warrant reserves include, but are not limited to, power cost variability, capital infrastructure investment, insurance policy retentions or deductibles, legal claims, operating cash flow needs, bond reserve covenant compliance, bond payment sinking requirements, future financial obligations, contingencies for significant known or estimated liabilities, and other areas as determined by the Commission from time to time.

- Levels for cash reserves will be established based on the nature of the risk or situation being managed.

As of December 31, 2019, the Electric System's cash and temporary investments totaled $231.8 million. Table 13 above shows the Electric System's cash and unrestricted investments in the cash reserve funds, as of December 31 for years 2015 through 2019, and as of June 30 for 2020. The District has established the following cash reserves for the Electric System:

- Operating Reserve: funds set aside to provide adequate working capital for operational liquidity, seasonal revenue and expenditure fluctuations and unforeseen events not addressed by the other reserve funds.

- Sinking Reserve: funds set aside on a calculated schedule in order to meet known, significant, periodic payments.

- Project Reserves: funds that may be utilized to fund projects as approved by the Commission through the adopted District budget, as directed by the Commission or as required to comply with applicable requirements set forth in any resolution related to a series of the District's bonds.

- Contingency Reserve: funds set aside to mitigate the exposure of the Electric System to risk, including natural disasters and water quality issues.

- Bond Debt Service Reserve: funds set aside to fulfill the District's obligation to establish debt service reserve funds to secure series of the District's bonds, to the extent required by a resolution authorizing such bonds.

- Benefit Reserve: funds set aside to meet current and future employee benefit obligations.

Electric System Debt

As of July 1, 2020, the Electric System Bonds were outstanding in the aggregate principal amount of $318,205,000. See "OUTSTANDING DEBT OF THE ELECTRIC SYSTEM AND GENERATION SYSTEM."

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Capital Expenditures

Capital expenditures for the fiscal year 2015 through June 30, 2020 are presented in the following table.

TABLE 14
Electric System
Capital Expenditures
($000s)

Year	Historical Amount
2015	$125,318
2016	114,770
2017	123,714
2018	96,012
2019	113,708
2019[1]	45,217
2020[2]	42,560

Source: The District.
[1] As of June 30, 2019.
[2] As of June 30, 2020.

The capital expenditures above include costs incurred in connection with construction of new electrical transmission and distribution lines and substations to serve new customer loads, construction of electrical connections to new customers, and general facilities of the District.

Intersystem Loans

The Electric System and the Generation System periodically enter into loan transactions between the systems for various purposes. As of December 31, 2019, the aggregate outstanding principal amount of Electric System loans to the Generation System was $41.4 million. See APPENDIX A—"INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018," Note 6.

In December 2008, the Commission adopted a resolution authorizing the Electric System to loan funds to the Water System from time to time in the maximum aggregate amount of $10,000,000 at a market rate of interest, to be repaid from either (i) Water System revenue bond proceeds or (ii) revenues of the Water System, on a basis which is junior and subordinate to payment of debt service on Water System bonds, notes or other obligations for borrowed money. No such loans have been made or are currently anticipated by the District.

Financial Plan

As part of its continuing planning efforts, the District prepares a five-year financial plan including projected operating results. Projected operating results are based on forecasts of retail loads, market prices for wholesale energy, District energy resources and energy contracts, and capital and operating expenditures. The District believes the underlying assumptions in the projected operating results are reasonable; however, there will be differences between the actual and forecasted results because events and circumstances frequently do not occur as expected, and these differences may be material. The District tests the sensitivity of its projected operating results to certain factors which it believes could

significantly affect its operating results, such as variations in load forecasts, the impact of annual precipitation levels on hydroelectric power generation and the cost of purchased power on the wholesale market.

The District has established financial guidelines developed for the Electric System in connection with a comprehensive financial study. The District has concluded that a minimum debt service coverage ratio of 1.75x on the Electric System Bonds, no more than 40% debt financing of capital improvements, and a minimum of 120 days of non-power operating cash reserve provide a capital structure which will minimize rates and maintain the financial stability of the District.

Load Forecast

The District uses end-use, trend and econometric analysis to prepare its load forecast. The end-use analysis focuses on space heating characteristics and the effects of the District's conservation program. The District's load forecasts include several scenarios of load growth. Trend and econometric analysis are used to predict new customer connections by type (such as single family with electric heating and new apartment complexes with gas heating), with key model inputs including various measures of national and regional economic and demographic data. See "ELECTRIC SYSTEM FINANCIAL INFORMATION—Impacts from the COVID-19 Pandemic—*Load Impact*."

Resource Forecast

The District's resources must meet its expected loads and satisfy regulatory requirements. Resource planning is an ongoing process and documented in the District's adopted IRPs, which are updated every two years. The District currently has resources available and planned to meet its forecasted loads through 2028 after utilizing cost-effective conservation within the service territory. See "ELECTRIC SYSTEM POWER SUPPLY—The District's Future Power Supply Strategy—*District's 2019 Integrated Resource Plan*."

To the extent that such resources are in excess of actual loads, the District will sell its surplus power in the wholesale power market. These sales can produce significant additional revenues to the District. Conversely, to the extent that such resources are not sufficient to meet actual loads, the District will purchase additional power in the wholesale power market. These wholesale market purchases can result in significant additional costs to the Electric System for purchased power. A variety of factors will influence whether the District incurs additional costs or produces additional revenue. Among these factors are: retail load variances as compared to forecast, relative precipitation levels and hydroelectric power generation in the Federal System and at the Jackson Project, seasonal variations in temperature and variations from average temperatures, wind energy variability, population changes, the addition or loss of large single loads of commercial or industrial customers, the price of power in the forward wholesale power market, fuel switching between natural gas and electricity or other sources, interruptions in power deliveries on the regional transmission system and local, regional and national economic conditions.

Because the District receives the majority of its long-term power resource requirements from Bonneville, changes to Bonneville's wholesale power rates can significantly affect the District's purchased power costs. The District's projected financial results include Bonneville's most recent forecast for wholesale power costs. The Power Purchase Agreement with Bonneville provides the ability for Bonneville to adjust their power prices to the District for a variety of reasons, including changes in Bonneville's power production costs and financial results. The Slice product provides the District a variable amount of power generated by Bonneville's resource portfolio and obligates the District to pay a percentage of Bonneville's costs. See "THE ELECTRIC SYSTEM POWER SUPPLY—Bonneville Power Administration—The Bonneville Power Purchase Agreement."

Projected Capital Expenditures

Projected capital expenditures for the years 2021 through 2023 are presented in the following table.

TABLE 15
Electric System
Capital Expenditures
($000s)

Year	Projected Amount
2021	$ 100,567
2022	119,536
2023	145,267

Source: The District.

The District does not commit funds to capital construction projects or future growth until it is clear that forecast loads and new customer connections are likely to develop. The District pays for its capital construction program from four sources: cash reserves, line extension fees, general rates, and bond proceeds. The District does not currently expect to issue additional Electric System Bonds for purposes of financing improvements to the Electric System prior to 2022. Simultaneously with the issuance of the 2020A Bonds the District will issue its 2020A Electric System Bonds to refund certain outstanding Electric System Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2020A BONDS—Additional Indebtedness—*Electric System Bond Resolution*."

Projected Financial Results

The District does not, as a matter of course, make public projections as to future sales, earnings, or other results. However, the management of the District has prepared the prospective financial information set forth below to present the forecasted financial results of the Electric System. The accompanying prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the District's management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of the District. The prospective financial information included herein, and the assumptions, forecasts and projections related thereto are not necessarily indicative of future performance of the Electric System or the District, and the District cannot be responsible if actual results differ from those forecasts. Certain assumptions related to the prospective financial information may be subject to change. No representation is made or intended, nor should any representation be inferred, with respect to the likely existence of any particular set of facts or circumstances, and prospective purchasers of the 2020A Bonds are cautioned not to place undue reliance upon the prospective financial information, or any assumptions, forecasts or projections related thereto. If actual results are less favorable than the results forecast or projected or if the assumptions used in preparing such forecasts or projections prove to be incorrect, the District's ability to make timely payment of the principal of and interest on all of its obligations, including the 2020A Bonds, may be materially and adversely impaired. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and prospective investors should not place undue reliance on the forecasted information.

The District's independent auditors have not been engaged to compile, examine, or perform any procedures with respect to the District's forecasted financial information, nor have they expressed any opinion or any other form of assurance on such information or its achievability and assume no responsibility for, and disclaim any association with, the forecasted financial information.

In projecting the financial results for the Electric System, the District has made certain assumptions regarding various factors that affect financial performance. Changes in these assumptions can have material effects on the projected financial performance. While numerous factors (or combinations of factors) could affect the District's financial performance, the factors most likely to affect the projections are the impact of annual precipitation levels on hydroelectric power generation in the Federal System, Bonneville power price adjustments, the effect of the distributed generation, conservation response or temperature variations on load forecasts, the cost of purchased power on the wholesale market, the COVID-19 outbreak and a reallocation of District priorities. Changes to the assumptions regarding these factors could have material effects on the outcome of the District's financial projections. See "ELECTRIC SYSTEM FINANCIAL INFORMATION—Impacts from the COVID-19 Pandemic."

Pacific Northwest temperatures have been slightly lower in 2020, which led to stable residential heating loads during the winter months. Through June 2020, residential customer loads have been lower than the corresponding period in 2019, which has been reflected in the projected financial results. The impact of the slightly colder weather has decreased during the remainder of 2020 as the impact of heating loads on residential consumption decreases during warmer weather months. The impacts of the pandemic have caused loads to decrease as larger customers have closed, partially offset by the residential load increase created by the quarantine order. These weather and social conditions have also led to a decrease in purchases from the wholesale power market as the number of purchases to balance District resources with retail sales levels has been lower than expected.

The projected financial results for 2020 were prepared based primarily on the District's 2020 approved budget as modified by the results for January through July 2020 and reflect (i) a lower level of customer loads as a result of the impacts of COVID-19 (ii) higher purchased power costs from wind contracts as a result of production; and (iii) a higher volume of wholesale power sales to offset purchased power costs. The 2020 budget was prepared based on lower than average precipitation levels, which resulted in lower wholesale sales, a decreased amount of power available from the Bonneville's Slice product, and higher wholesale market purchases than if average precipitation levels were planned. See "ELECTRIC SYSTEM FINANCIAL INFORMATION—Impacts from the COVID-19 Pandemic—*Load Impact*."

The 2021 and 2022 projected financial results were prepared based on the following assumptions: (i) less than 1% annual increase in retail loads, reflecting modest growth in customers and recent lower per capita residential consumption, and modest decreases in commercial consumption due to an economic recession; (ii) a projected 4.1% rate increase to offset a forecasted Bonneville wholesale power price increase expected to be effective October 1, 2021 and a 2.5% general retail rate increase projected for April 1;; (iii) increased power purchase costs due to expected October 1, 2021 wholesale price increases from Bonneville; and (iv) increased operating and maintenance costs, reflecting higher transmission and ancillary services costs, increased labor, materials, medical and pension costs, and upgrade and maintenance costs for certain District software systems.

The District's financial projections for 2021 and 2022 assume average water conditions at hydroelectric facilities. The projected financial results can be significantly impacted by wide-ranging actual water conditions.

The following table presents the projected Electric System financial results for the years ending December 31, 2020, 2021, and 2022.

TABLE 16
Electric System
Projected Financial Results
(Average Water Results)
($000s)

	2020[1]	2021	2022
Operating Revenues			
Retail Sales of Electric Energy[2]	$ 590,290	$ 594,940	$ 622,157
Wholesale Sales of Electric Energy	33,776	38,475	38,153
Other Operating Revenues	30,128	27,537	25,361
Total Operating Revenues	654,194	660,952	685,671
Operating Expenses			
Purchased Power and Generation[3]	318,123	324,382	337,022
Operations and Maintenance	249,831	253,367	257,539
Depreciation	56,500	57,721	58,875
Taxes	36,009	36,236	37,875
Total Operating Expenses	660,463	671,705	691,312
Net Operating Income	(6,269)	(10,753)	(5,640)
Other Income	16,610	9,934	7,996
Contributions	23,233	24,247	24,420
Interest Charges	(15,287)	(16,263)	(18,474)
Net Income	18,287	7,166	8,302
Interest Charges	15,287	16,263	18,474
Depreciation	56,500	57,721	58,875
Other	(2,900)	(4,000)	(4,000)
Balance Available for Debt Service	$ 87,174	$ 77,150	$ 81,652
Electric System Bonds Debt Service	$ 26,855	$ 28,316	$ 31,017
Electric System Bonds Debt Service Coverage:	3.2x	2.7x	2.6x

Source: The District.

(1) The 2020 financial projection includes January through July performance and assumptions regarding COVID-19 impacts, weather, and project schedules.

(2) Retail Sales of Electric Energy reflect a 4.1% rate increase effective October 1, 2021 and a 2.5% projected rate increase effective April 1, 2022.

(3) Purchased Power and Generation Costs reflect a 4.9% decrease in the cost of wholesale power from Bonneville effective October 1, 2019, partially offset by a Financial Reserve Policy Surcharge and expiration of Residential Exchange Program, and a projected 5.4% increase in the cost of wholesale power from Bonneville expected to be effective October 1, 2021.

Sensitivity Analysis

The District tests the sensitivity of the projected numbers by analyzing the impacts of varying hydrological conditions. The projected financial results above are based on average water conditions, which represent hydroelectric production calculated based on historical average water. The District also calculates projected financial results, for planning purposes, on hydrological conditions at the midpoint between critical and average water conditions at hydroelectric facilities. In this scenario of water conditions, the District's operating results could be weaker, as seen in the following table.

TABLE 17
Electric System
Projected Financial Results
(Lower than Average Water Conditions)
($000s)

	2020[1]	2021	2022
Total Operating Revenues	$ 654,194	$ 658,312	$ 683,020
Total Operating Expenses	660,462	671,705	691,312
Net Operating Income (Loss)	(6,268)	(13,392)	(8,292)
Other Income, Interest Charges and Contributions	24,556	17,918	13,942
Net Income	$ 18,288	$ 4,526	$ 5,651
Electric System Bonds Debt Service Coverage	3.2x	2.6x	2.5x

Source: The District.

(1) The District utilizes the assumption of hydrological conditions at the midpoint between critical and average water conditions at hydroelectric facilities for annual budgeting purposes. The 2020 Results are based on the approved budget.

Impacts from the COVID-19 Pandemic

The first known case of COVID-19 in the United States was identified on January 21, 2020 in the District's service territory of Snohomish County. The rapid spread of the virus across the United States caused the Federal Government to declare a national emergency beginning March 1, 2020, while the global outbreak of COVID-19 was later declared a pandemic (the "Pandemic") by the World Health Organization on March 11, 2020. Since that time, state governments across the country have imposed varying degrees of restrictions on their economies in an attempt to slow the spread of the virus and its health impacts on the population.

The Governor the State of Washington (the "Governor") began imposing restrictions on social gatherings beginning in early March, increasing the State's response with a Stay Home, Stay Healthy executive order (the "Stay Home" order) imposed on March 23, 2020. The Stay Home order required all residents to stay home unless pursuing essential activities, closed all businesses except those determined essential, and banned all gatherings for social, recreational, and spiritual purposes. The Governor has since implemented a four-phased Safe-Start plan to re-open Washington State's economy by county. As of September 2020, Snohomish County remains in phase two of the Safe-Start plan requiring residents to continue to stay home except for essential activities, allowing outdoor recreation and group gatherings of up to five people outside of a household, and re-opening several businesses at limited capacity including barbershops and salons, restaurants, pet services, professional services, and retail with restrictions. The number of COVID-19 cases within the District's service area, the State, the United States and globally continues to fluctuate, which may affect the reopening of local, state, national and the global economy.

District Operations Response

The District was recognized by the American Public Power Association for its rapid response to the Pandemic. By March 13, the District had implemented its Pandemic Response Plan, cancelled the use of facilities for public meetings, closed all offices to the public, and begun transitioning the office-based workforce to indefinite telecommuting. As of July 2020, the District continues to mandate telecommuting for all employees capable of doing so, with over half of the workforce working remotely some or all of the time. The District has also implemented several safety measures including self-screening check in stations at all locations, contact tracing, increased cleaning crews, required face coverings on all District premises, six foot social distancing measures, stop work authority for all employees, a re-entry roadmap to guide the resumption of near normal operations which coincides with the County's phased in approach, and a COVID-19 internal dashboard to maintain communications across the District. As of July 24, 2020, District employees have had four positive COVID-19 tests, three of which were employees working from home having no contact with District employees or premises.

In an effort to further protect the health and safety of employees and customers, and to abide by the Governor's Stay Home order, the District paused meter reading from late March until May 31, 2020. As a result, customers received estimated bills for cycles occurring during that period which were primarily determined by the customer's previous usage. As meter reading restarted operations in a phased in approach on June 1, 2020, estimated bills were trued up to the actual usage from customer's meters. Upon true-up, some residential customers experienced a 5-10% increase in their bill due to increased energy usage at home during the Pandemic.

Community Support Program

In March 2020, the District introduced the Community Support Plan (the "Plan") to provide needed relief to residential and small business customers impacted by the Pandemic. The Plan includes an indefinite pause on disconnects and late fees, a one-time credit available to qualifying customers of up to $200 for residential customers and up to $500 for small business customers, as well as expansion of existing rate discount and payment plan programs. As of July 24, 2020, the District had provided one-time credits to 10,324 residential customers and 947 small business customers for a total of $2.1 million. Shortly after the District paused late fees and disconnects for customers, the Governor introduced Proclamation 20-23 prohibiting utilities from disconnecting service or charging late fees for non-payment through at least September 1, 2020. At this time, the District does not have an anticipated date for when the pause on disconnects and late fees will be lifted. The District intends to coordinate its activities based on the Governor's Proclamation while monitoring customer payment activity and the status of the County's economy to evaluate how best to serve the District's customers during unprecedented times.

Load Impact

The Stay Home order required temporary closure of several businesses in Snohomish County. Accordingly, the District has seen a slight decrease in commercial and industrial customer usage. Additionally, due to the closure of schools, closure of businesses, and a significant increase in telecommuting, more residential customers within the District's service area have remained home over the last several months since the Pandemic began. As such, the District has seen an increase in residential usage partially offsetting the decrease in commercial and industrial usage.

The District's largest customer, The Boeing Company ("Boeing"), accounting for 4% of the District's retail revenue in 2019, shut down its facilities in Everett, Washington for approximately three weeks spanning March and April in accordance with the Stay Home order. Boeing has since resumed operations without a noticeable decline in consumption through July 2020. However, due to expected

future changes in Boeing's production at its Everett facility, the District anticipates reduced consumption in the future. In the spring of 2020, Boeing announced layoffs of thousand employees at the Everett facility and in the Puget Sound region, with several more layoffs expected. Production of new lines of the 777x aircraft initially projected for 2020-2023 are now forecast to reach initial production levels in 2023-2026. In July 2020, Boeing announced an end to the production of its 747 jumbo jet as well as an option under consideration to move production of the 787 aircraft from the Everett facility to its South Carolina plant. In light of the above announcements, the District has reduced Boeing's forecasted consumption from pre-COVID-19 levels by as much as 10%, or $2 million in annual gross revenue, through 2025.

Financial Impact

The District does not expect significant impacts to revenue from the Pandemic. While commercial and industrial usage in 2020 is down from pre-COVID-19 levels, residential usage has increased due to the Stay Home order combined with cooler spring 2020 temperatures. Approximately 91% of the District's retail customers are residential, accounting for over 60% of retail revenue in 2019. Due to the high proportion of residential customers in the District territory combined with higher residential rates than commercial and industrial rates, the revenues lost from commercial and industrial customers has been largely offset by the increase in residential revenues. The shift in loads due to the Pandemic is expected produce a total decrease in retail revenue in 2020 of approximately 1-2%.

As a result of economic impacts from the Pandemic, the District has seen a significant increase in the aging of its accounts receivable. As of June 30, 2020, the total active customer accounts with receivables over 90 days past due was approximately $4.6 million, or 8% of total accounts receivable, an increase of 471% from June 30, 2019 at $0.8 million. The District's Community Support Plan, and Governor's Proclamation 20-23, have paused late fees and disconnects for customer accounts with past due balances. However, these aged balances are owed to the District and have not been deemed forgiven or uncollectible. Under normal circumstances, the total number of accounts that would be eligible for disconnect due to late payment is 18,500. The District plans to increase the provision made for doubtful accounts in July to appropriately account for the estimated realizable value of its receivables.

Operations and Maintenance expenditures have increased due to the Pandemic. Construction and other projects scheduled in 2020 have been paused for a significant duration of the year, shifting the expenditure burden primarily to operating and maintenance activities. While District offices remain closed, and capital project work has been delayed, several employees have been unable to perform their normal tasks. The District has implemented a Pandemic Leave Policy to pay employees their regular rate of pay for absences related to COVID-19 illnesses of an employee or their close family members, exposure to COVID-19 requiring quarantine, or inability to work due to work being unavailable or unsuitable. To date, approximately 164 thousand hours have been recorded under the Pandemic Leave Program, for a total cost of $7.6 million.

On May 22, 2020, FEMA announced that federal emergency aid has been made available for the State to supplement State, tribal and local recovery efforts in the areas affected by COVID-19. Federal funding is also available to State, tribal, and eligible local governments and certain private non-profit organizations on a cost-sharing basis for emergency protective measures, including direct federal assistance for all areas impacted by COVID-19 in the State. The District believes it is eligible for reimbursement of certain costs related to its COVID-19 response and is currently working with State and federal agencies to pursue reimbursement. The federal cost share is 75 percent.

Despite the economic disruption globally and regionally, the District has remained resilient, continuing efforts of cost containment and shifting project priorities to adapt to the unprecedented times brought on from the Pandemic. The District's capital plan has been shifted into outer years given the

limit on construction activities and available resources to complete 2020 planned projects. As a result, the District expects its 2020 capital plan will end well below planned budget consumption.

The District has provided the information contained in this Official Statement to describe certain of the impacts that the COVID-19 Pandemic and related orders have had on the District's finances and operations, and to describe some of the actions that the District is taking in response. The District cannot predict the duration and extent of the COVID-19 public health emergency or quantify the magnitude of the impact on the global, national, State and regional economy or on the other revenues and expenses of the District. The outbreak of COVID-19 within the District is ongoing, and its dynamic nature leads to many uncertainties, including (i) the geographic spread of the virus; (ii) the severity of the disease; (iii) the duration of the outbreak; (iv) actions that may be taken by governmental authorities to contain or mitigate the outbreak; (v) the development of medical therapeutics or vaccinations; (vi) travel restrictions; (vii) the impact of the outbreak on the local or global economy; (viii) whether and to what extent the Governor may order additional public health measures; and (ix) the impact of the outbreak and actions taken in response to the outbreak on District revenues, expenses, and financial condition. Prospective investors may consider assuming that the restrictions and limitations instituted related to COVID-19 will continue, and the current upheaval to the national and global economies will continue and/or be exacerbated, at least over the near term, and the recovery may be prolonged.

ECONOMIC AND DEMOGRAPHIC INFORMATION

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

Snohomish County (the "County") encompasses a land area of approximately 2,100 square miles in northwestern Washington. The County extends from Puget Sound to the crest of the Cascade Mountain range 70 miles to the east. The County includes a significant portion of the Puget Sound metropolitan area and is the third most populated county in Washington State, after King and Pierce Counties. As shown in the following table, since 2015, the County's population has grown 9.6% and the City of Everett's population has grown 6.5%.

TABLE 18
POPULATION ESTIMATES

Year	Snohomish County	City of Everett
2020	830,500	112,700
2019	818,700	111,800
2018	805,120	111,200
2017	789,400	109,800
2016	772,860	108,300
2015	757,600	105,800

Source: Washington State Office of Financial Management, as of April 1, 2020.

Industry, Real Property and Employment. The County's economy is an urban-rural mix. Agriculture and logging predominate in the northern and eastern regions of the County while a high technology, urban job market predominates in the City of Everett and the southern part of the County.

While forestry and wood products manufacturing are important industries locally, the economic base of the County has expanded due to diversification into major industries, including aircraft production, high technology, biotechnology, electronics and electrical equipment manufacturing.

The County has recently experienced an increase in housing prices but a decrease in closed sales. According to Northwest Multiple Listing Services, closed sales for houses and condos in the County increased from 1,447 closed sales in June 2019 to 1,344 in June 2020 and the median selling price for houses increased by approximately 5.22% from $515,000 to $541,875 for the same period.

The Boeing Company remains the County's largest employer, with an estimated 35,000 workers in the County as of 2018. Boeing established an airplane manufacturing plant at the south end of the City of Everett in 1966. The plant was built to assemble wide-bodied 747 aircraft. In 1980 the plant was expanded for production of the new-generation 767 wide-body twin jet, and in the early 1990s Boeing completed a $1.5 billion expansion project to accommodate 777 aircraft production. Located adjacent to the Snohomish County Airport ("Paine Field"), the complex presently includes the world's largest volume building with 472 million cubic feet together with nine office buildings and one 500,000 square foot supply building. As of 2018, Boeing employed approximately 69,813 in Washington State. On March 13, 2019, the Federal Aviation Administration ordered the grounding of Boeing's 737 MAX aircraft operated by U.S. airlines or in U.S. territory. The 737 MAX is manufactured in Boeing's Renton, Washington manufacturing facility. The District does not expect the grounding of the 737 MAX to have a material adverse effect on Revenues or the District.

Due to the Pandemic, Boeing shut down its Everett, Washington facilities on March 23, 2020 and resumed operations on April 20, 2020. Boeing announced it had cut approximately 10,500 jobs in the State, with more reductions likely and concentrated at the Everett facilities, due to the Pandemic and the associated decrease in air travel and demand. See "ELECTRIC SYSTEM FINANCIAL INFORMATION—Impacts from the COVID-19 Pandemic."

In March 2019, a new two-gate commercial passenger terminal opened at Paine Field, which is located near the City of Everett. Alaska Air Group and United Airlines were operating approximately 24 commercial passenger service flights per day at Paine Field before the Pandemic began. Due to the Pandemic, Paine Field announced a temporary pause of flights on May 22, 2020 for 10 weeks. Flights resumed on August 1, 2020 with a reduced schedule of three daily departures, down from 24 daily departures. See "ELECTRIC SYSTEM FINANCIAL INFORMATION—Impacts from the COVID-19 Pandemic."

The U.S. Navy operates a homeport for several naval vessels in the City of Everett. Naval Station Everett is home to five destroyers and two Coast Guard cutters. Naval Station Everett employed approximately 2,139 military personnel and 761 civilian employees as of November 2018.

Economic Indicators. Following are economic indicators for Snohomish County and the City of Everett. The major employers in the County are shown on the following table:

TABLE 19
MAJOR EMPLOYERS IN SNOHOMISH COUNTY (2018)

Employer	Product/Business	2018 Estimated Employment[1]
The Boeing Company	Aircraft manufacturing	35,000
Providence Regional Medical Center	Medical services	4,906
Edmonds School District	School district	3,616
The Tulalip Tribes	Gaming, real estate, government services	3,500
State of Washington	State government	3,000
Naval Station Everett	U.S. Navy Base	2,900
The Everett Clinic	Health care	2,871
Snohomish County Government	County government	2,759
Everett School District	School district	2,443
Premera Blue Cross	Health insurer	2,200
Albertsons / Safeway (25 locations)	Retail - grocery	2,177
U.S. Federal Government	Government, federal	2,100
Mukilteo School District	School district	2,020
Philips	Ultrasound technology	2,000
Swedish Medical Center | Edmonds campus	Health care	1,850
Edmonds Community College	Higher education	1,635
Fred Meyer / QFC (19 locations)	Retail - grocery	1,351
Walmart (8 locations)	Retail	1,342
Marysville School District	School district	1,341
City of Everett	City government	1,225

Sources: Economic Alliance Snohomish County.
(1) Most recent data available.

TABLE 20
SNOHOMISH COUNTY AND CITY OF EVERETT
TAXABLE RETAIL SALES

Year	Snohomish County	City of Everett
2019	$ 16,861,829,385	$ 3,177,978,369
2018	15,673,269,688	3,011,204,938
2017	14,509,899,633	2,934,305,078
2016	13,618,314,632	2,803,484,518
2015	12,641,937,656	2,704,459,177
2014	11,699,234,128	2,441,363,133

Source: Washington State Department of Revenue.

TABLE 21
ASSESSED VALUATION OF SNOHOMISH COUNTY

Collection Year	Valuation
2020	$ 145,174,737,279
2019	132,827,352,255
2018	118,417,725,917
2017	105,036,086,924
2016	96,080,092,915
2015	88,260,207,637

Source: Snohomish County Assessor's Office.

TABLE 22
SNOHOMISH COUNTY PERSONAL AND PER CAPITA INCOME

Year	Personal Income ($000s)	Per Capita Income
2018[1]	$ 45,542,887	$ 55,888
2017	42,121,895	52,453
2016	39,655,404	50,344
2015	37,387,051	48,522
2014	35,519,915	46,896
2013	33,255,217	44,684

Source: U.S. Bureau of Economic Analysis.
[1] Most recent data available.

TABLE 23
SNOHOMISH COUNTY EMPLOYMENT DATA

	Annual Averages					
	2020[1]	2019	2018	2017	2016	2015
Civilian Labor Force	444,774	439,464	430,814	423,819	415,507	403,721
Employed	402,575	426,100	415,930	407,363	397,933	385,403
Unemployed	42,199	13,364	14,884	16,456	17,574	18,318
County Unemployment Rate	9.5%	3.0%	3.5%	3.9%	4.2%	4.5%

Source: Washington State Employment Security Department, Labor Market and Economic Analysis Branch.
[1] Preliminary, as of June 2020.

TABLE 24
SNOHOMISH COUNTY NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT

	Annual Averages					
NAICS Industry Title	2020[1]	2019	2018	2017	2016	2015
Goods Producing						
Mining, Logging, and Construction	18,600	24,400	24,200	22,700	21,500	19,600
Manufacturing	57,700	60,600	58,500	58,700	63,000	63,700
Total[2]	76,300	84,900	82,700	81,400	84,500	83,200
Services Providing						
Trade, Transportation and Utilities	48,300	48,900	48,400	48,200	47,700	47,400
Information	4,200	4,600	5,200	5,700	6,000	5,800
Financial Activities	13,200	13,100	13,000	12,800	12,600	12,300
Professional and Business Services	26,800	29,300	28,500	27,900	26,800	24,900
Education and Health Services	33,800	36,500	35,600	34,700	33,700	33,300
Leisure and Hospitality	19,500	27,000	26,500	26,100	26,000	24,900
Other Services	10,100	10,800	10,300	10,300	10,100	10,100
Government	36,600	40,400	40,000	40,000	39,600	38,800
Total[2]	192,500	210,600	207,400	205,600	202,500	197,400
Total Nonfarm[2]	268,800	295,600	290,100	287,100	287,000	280,600

Source: Washington State Employment Security Department, Labor Market and Economic Analysis Branch.
(1) Preliminary, as of June 2020.
(2) Totals may not add due to rounding.

TABLE 25
SNOHOMISH COUNTY NUMBER OF HOUSING UNITS BY STRUCTURE TYPE

	Total Housing Units		One Unit Structures		Two or More Unit Structures		Mobile Homes, Trailers, Special Units	
	2019	2020	2019	2020	2019	2020	2019	2020
City of Everett	46,884	47,198	22,036	22,103	23,686	23,933	1,162	1,162
Other Incorporated	181,328	184,333	111,135	112,816	64,241	65,588	5,952	5,929
Unincorporated	135,620	137,094	98,144	98,915	23,823	24,482	13,653	13,697
Snohomish County	316,948	321,427	209,279	211,731	88,064	90,070	19,605	19,626

Source: Washington State Office of Financial Management.
Note: Numbers are shown as of April 1, 2019 and April 1, 2020.

DEVELOPMENTS AFFECTING THE ELECTRIC UTILITY INDUSTRY

General

The electric utility industry in the United States is in a period of significant change, resulting in part from actions taken by legislative and regulatory bodies at the national, regional and state levels. Legislative and regulatory actions have fostered, among other things, increased wholesale competition and, in some states, competition at a retail level, as well as "open access" for certain transmission facilities. The industry also is being affected by a variety of other factors that can have an impact on the financial condition of electric utilities, including without limitation the following: (1) the effects of increased competition in certain sectors of the industry, including in the wholesale power markets;

(2) changes in the availability and cost of fuels, including natural gas; (3) changes in the availability of and demand for power generally, as a result of economic, demographic, regulatory, weather and other factors; (4) climate change; (5) reliability standards; and (6) the costs and operational impacts of endangered species, environmental, safety, licensing and other federal, state and local laws and regulations.

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

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

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

The District cannot predict what effects such factors will have on its operations and financial condition, but the effects could be significant. Extensive information on the electric utility industry is available from the various regulatory bodies and other sources in the public domain.

Infectious Disease Outbreak

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

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

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

The District cannot predict (i) the duration or extent of the COVID-19 Pandemic or of other Outbreaks; (ii) the scope, duration or effect on the District of government restrictions related to commercial or other activity by businesses and individuals; (iii) whether and to what extent the COVID-19 Pandemic or other Outbreaks may disrupt the local or global economy or financial markets, or whether any such disruption may adversely affect the District's activities; or (iv) whether any of the foregoing may have a material adverse effect on the finances and operations of the District, including, without

limitation, the ability to collect Revenues and meet its debt service obligations, changes to pension contribution rates and other budgetary considerations.

Cybersecurity

Cyberattacks continue to become more sophisticated and are increasingly capable of impacting control systems and components. To mitigate this threat, the District maintains layered cyber defenses consisting of policies, procedures, training, and technical controls to protect the reliability of systems, mitigate intrusions, and plan for business continuity and data recovery. The District also has insurance covering cyber events, see "THE DISTRICT—Insurance." These defenses conform to North American Electric Reliability Corporation Critical Infrastructure Protection Standards and best practices. While the threat of a cyberattack can never be completely eliminated, the District maintains a strong cybersecurity program to enhance cyberdefense and resilience, protecting critical infrastructure, information networks, and the data the District possesses and transmits. Notwithstanding these and other cybersecurity measures, a cybersecurity breach could damage District systems and cause material disruption to operations and services. The cost to remedy such damage or protect against future attacks could be substantial. Security breaches could expose the District to litigation and other legal risks, which could cause the District to incur significant costs related to the claims.

Natural Disaster and Climate Change

The District is located in a seismically active region. The Puget Sound region has experienced a number of major earthquakes. There have been four major earthquakes in the last 50 years, the most recent in 2001. The 2001 earthquake reportedly caused more than $2 billion in damage in the region but caused minimal damage within the District's service area and to District facilities. The largest known earthquake in the region reportedly occurred in approximately 1700 and is estimated to have been of a magnitude 9.0 or greater. Such an earthquake could cause areas of liquefaction and landslide and could cause extensive and even catastrophic damage within the District's service area, including District facilities. Earthquakes of that magnitude are reportedly estimated to occur in the region every 400 to 600 years, according to the Pacific Northwest Seismic Network. Such an earthquake along the Washington coast or elsewhere in the Pacific rim could result in a major tsunami, which in turn could cause additional and extensive damage to areas within the District's service area adjacent to Puget Sound. The District has insurance covering earthquakes, see "THE DISTRICT—Insurance." The State has experienced various other natural disasters, including wildfires, mudslides, floods, droughts, windstorms and volcanic eruptions (Mt. St. Helens in 1980).

Climate change may intensify and increase the frequency of extreme weather events, such as drought, wildfires, floods and heat waves. The District cannot predict the timing, extent, or severity of climate change impacts or their effect on the District's operations and finances, and there can be no assurances that such effects will not be material or adverse. Under Washington law, any person, firm, or corporation may be liable if it negligently creates or allows extreme fire hazards to exist and which hazards contribute to the spread of fires.

Physical Security

Certain physical security concerns present a risk to the District's facilities, such as sabotage, terrorist attacks and other crime. The District relies on comprehensive security systems and measures to ensure critical assets are protected. Many of these security measures are required by federal law due to the nature of the District's facilities, specifically it's hydroelectric facilities. The District has carefully implemented a number of integrated security measures, including but not limited to, strategically placed

security cameras, electronic access control, security lighting, restricted access areas, perimeter intrusion alarms, 24/7 monitoring, fencing, signage, policies, procedures and employee training programs.

LIMITATIONS ON REMEDIES; BANKRUPTCY

Limitations on Remedies

Any remedies available to the owners of the 2020A Bonds upon the occurrence of an event of default under the Generation System Bond Resolution are in many respects dependent upon judicial actions that are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain. If the District fails to comply with its covenants under the Generation System Bond Resolution or to pay principal of or interest on the 2020A Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the owners of the 2020A Bonds.

In addition to the limitations on remedies contained in the Generation System Bond Resolution, the rights and obligations under the 2020A Bonds and the Generation System Bond Resolution may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases. The opinion to be delivered by Orrick, Herrington & Sutcliffe LLP, as Bond Counsel ("Bond Counsel") to the District, concurrently with the issuance of the 2020A Bonds, will be subject to limitations regarding bankruptcy, insolvency and other laws relating to or affecting creditors' rights. The various other legal opinions to be delivered concurrently with the issuance of the 2020A Bonds will be similarly qualified. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D.

Bankruptcy

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

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

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

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

If the District is in bankruptcy, the parties (including the Trustee and the holders of the 2020A Bonds) may be prohibited from taking any action to collect any amount from the District or to enforce any obligation of the District, unless the permission of the bankruptcy court is obtained. These restrictions may also prevent the Trustee from making payments to the holders of the 2020A Bonds from funds in the Trustee's possession. The rate covenant (see "SECURITY FOR THE 2020A Bonds—Rates and Charges") may not be enforceable in bankruptcy by the holders of the 2020A Bonds.

The District is permitted to commingle the Revenues with its own funds for certain periods of time before turning over the Revenues to the Trustee. See "SECURITY FOR THE 2020A Bonds—Flow of Funds." If the District goes into bankruptcy, the District may not be required to turn over to the Trustee any Revenues that are in its possession at the time of the bankruptcy filing and have been commingled with other moneys. If the District has possession of Revenues (whether collected before or after commencement of the bankruptcy) and if the District does not voluntarily turn over such Revenues to the Trustee, it is not entirely clear what procedures the holders of the 2020A Bonds would have to follow to attempt to obtain possession of such Revenues, how much time it would take for such procedures to be completed, or whether such procedures would ultimately be successful. The United States Court of Appeals for the First Circuit, in another case involving the insolvency proceedings of Puerto Rico, concluded that a bankruptcy court does not have the power order a debtor to comply with state law.

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

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

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

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

INITIATIVE AND REFERENDUM

Under the State Constitution, the voters of Washington State, the voters of the State have the ability to propose referenda to modify, approve, or reject all or a part of recently enacted legislation or propose ballot initiatives to initiate legislation directly. Referenda can be required on recently-enacted legislation through a petition of the voters, or a referendum on new legislation may be required by the Legislature itself. Initiatives are new legislation proposed to the Legislature or for voter approval by petition of the voters. Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least eight percent (initiative) and four percent (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. The State Constitution may not be amended by initiative or referendum. Any initiative or referendum approved by a majority of the voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the relevant statute is subject to amendment or repeal by the Legislature by a simple majority vote.

Tax and fee initiative measures may be filed in the future, but it cannot be predicted whether any such initiative might gain sufficient signatures to qualify for submission to the Legislature and/or the voters or, if submitted, would ultimately be approved.

SECONDARY MARKET AND PRICES

It has been the practice of the Underwriters to maintain a secondary market in municipal securities that it sells. The Underwriters presently intend to engage in secondary market trading of the 2020A Bonds, subject to applicable securities laws. However, the Underwriters are not obligated to engage in secondary trading or to repurchase any of the 2020A Bonds at the request of the Registered Owners thereof. No assurance can be given that a secondary market for the 2020A Bonds will be available and no assurance can be given that the initial offering prices for the 2020A Bonds will continue for any period of time.

LITIGATION

No Litigation Affecting the 2020A Bonds

There is no litigation now pending or threatened restraining or enjoining the issuance and delivery of the 2020A Bonds or the power and authority of the District to impose, prescribe or collect rates or charges for the services of the Electric System or the Generation System, or in any manner questioning the power and the authority of the District to impose, prescribe or collect such rates or charges or issue and deliver the 2020A Bonds or affecting the validity of the 2020A Bonds.

Other Litigation

The District is a party to a number of lawsuits and claims arising out of its normal course of business, but the District does not believe any of such litigation will have a material adverse effect upon the District.

TAX MATTERS

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2020A Bonds is excluded from gross income for

federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the 2020A Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth as APPENDIX D hereto.

To the extent the issue price of any maturity of the 2020A Bonds is less than the amount to be paid at maturity of such 2020A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2020A Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the 2020A Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the 2020A Bonds is the first price at which a substantial amount of such maturity of the 2020A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2020A Bonds accrues daily over the term to maturity of such 2020A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2020A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2020A Bonds. Beneficial Owners of the 2020A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2020A Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2020A Bonds in the original offering to the public at the first price at which a substantial amount of such 2020A Bonds is sold to the public.

2020A Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2020A Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2020A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2020A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2020A Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the 2020A Bonds may adversely affect the value of, or the tax status of interest on, the 2020A Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 2020A Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the 2020A Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular

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

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

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2020A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2020A Bonds ends with the issuance of the 2020A Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the 2020A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2020A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2020A Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

CONTINUING DISCLOSURE

The District will covenant for the benefit of Owners and Beneficial Owners of the 2020A Bonds to provide certain financial information and operating data relating to the Generation System (the "Annual Report") by not later than nine months following the end of the District's fiscal year (which fiscal year currently ends on December 31), commencing with the Annual Report for the fiscal year ended December 31, 2020, and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report and the notices of listed events is set forth in APPENDIX—"FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants will be made in order to assist the Underwriters for the 2020A Bonds in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission, promulgated under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12").

RATINGS

Moody's Investors Service, Inc. ("Moody's) and Fitch Ratings, Inc. ("Fitch") have assigned their ratings of "Aa2," and "AA-," respectively, to the 2020A Bonds. Such ratings reflect only the views of the

respective rating agency and are not a recommendation to buy, sell or hold the 2020A Bonds. An explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. The District has furnished to each rating agency certain information and materials with respect to the 2020A Bonds. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions made by the rating agencies. There is no assurance that the ratings that have been assigned to the 2020A Bonds will continue for any given period of time or that they will not be revised or withdrawn entirely by such rating agencies if, in the judgment of the rating agencies, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the 2020A Bonds.

UNDERWRITING

Citigroup Global Markets Inc. and Barclays Capital Inc. (together, the "Underwriters"), have agreed, subject to certain conditions, to purchase the 2020A Bonds from the District at an aggregate purchase price of $22,093,330.32, representing the aggregate principal amount of the 2020A Bonds, plus original issue premium of $2,434,986.75 and less Underwriters' discount of $66,656.43. The Underwriters' obligations are subject to certain conditions precedent, and the Underwriters will be obligated to purchase all 2020A Bonds if any such 2020A Bonds are purchased.

Citigroup Global Markets Inc., as one of the Underwriters of the 2020A Bonds, has provided the information in the following two paragraphs for inclusion in this Official Statement. The District cannot and does not make any representation as to its accuracy or completeness.

The 2020A Bonds may be offered and sold to certain dealers at prices lower than such public offering prices, and such public offering may be changed, from time to time, by the Underwriters. The Underwriters may offer and sell the 2020A Bonds into unit investment trusts or money market funds, certain of which may be managed or sponsored by the Underwriters, at prices lower than the public offering prices. In connection with the offering of the 2020A Bonds, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the 2020A Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

Citigroup Global Markets Inc., as an Underwriter of the 2020A Bonds, has entered into a retail distribution agreement Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts with respect to the 2020A Bonds.

MISCELLANEOUS

Any statements made in this Official Statement involving matters of opinion, estimates or projections, whether or not so expressly stated, are set forth as such and not as representations of fact. No representation is made that any of such estimates will be realized. The descriptions contained in this Official Statement of the 2020A Bonds, the Generation System Bond Resolution, and certain legislation do not purport to be complete and are qualified in their entirety by reference to the respective documents and laws. Copies of the Generation System Bond Resolution are available at the offices of the District. The execution and delivery of this Official Statement by its Treasurer has been duly authorized by the District.

Conflicts. Certain of the fees of the Underwriters, Bond Counsel and Underwriters' Counsel are contingent upon the sale of the 2020A Bonds. From time to time Bond Counsel may serve as counsel to the Underwriters with respect to transactions other than the issuance of the 2020A Bonds.

MUNICIPAL ADVISOR

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

CERTAIN LEGAL MATTERS

The validity of the 2020A Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix D. Bond Counsel takes no responsibility for the accuracy, completeness or fairness of this Official Statement. Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel, will provide certain legal services for the District. Certain legal matters in connection with the issuance of the 2020A Bonds will be passed upon for the District by Anne Spangler, General Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Foster Garvey, P.C. Any opinion of Foster Garvey, P.C. will be addressed solely to the Underwriters and may not be relied upon by owners of the 2020A Bonds.

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This Official Statement is not to be construed as a contract with the owners of any of the 2020A Bonds.

PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON

/s/ James Herrling
Treasurer

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APPENDIX A

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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Independent Auditors' Report

Report of Independent Auditors

The Board of Commissioners
Public Utility District No. 1 of Snohomish County
Everett, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Public Utility District No. 1 of Snohomish County, Washington (the District), which comprise the District's combined and individual statements of net position of the Electric, Generation, and Water Systems as of December 31, 2019, the related District's combined and the individual statements of revenues, expenses and changes in net position and cash flows for the Electric, Generation, and Water Systems for the year ended December 31, 2019, the District's combined statements as of and for the year ended December 31, 2018, the combined statements of fiduciary net position – pension funds as of December 31, 2019 and 2018, and the combined statements of changes in fiduciary net position – pension funds for the years ended December 31, 2019 and 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the District as of December 31, 2019 and 2018, and the individual financial positions of the Electric, Generation, and Water Systems as of December 31, 2019, and the changes in their financial positions and their cash flows for the years then ended, and combined fiduciary net position – pension funds as of December 31, 2019 and 2018, and changes in combined fiduciary net position – pension funds for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis, schedule of proportionate share of the net pension liability – PERS, schedule of employer contributions – PERS, and schedule of changes in total other post-employment benefits (OPEB) liability and related ratios, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the combined financial statements. The accompanying schedules of Electric System – statements of revenues, expenses, and debt service coverage, Electric System – revenue and statistical data, and Water System – statements of revenues, expenses, debt service coverage, and statistical data are presented for purposes of additional analysis, and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the combined financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss Adams LLP

Everett, Washington
April 3, 2020

Management's Discussion and Analysis (Unaudited)

The following discussion provides an overview of Public Utility District No. 1 of Snohomish County (the PUD) financial activities for the years ended December 31, 2019 and 2018. This unaudited discussion is designed to be used in conjunction with the financial statements and notes, which follow this section.

FINANCIAL HIGHLIGHTS

Combined Operating Results

Snohomish County PUD's operating results for 2019 increased slightly from 2018 as combined net income increased from $80 million in 2018 to $82 million in 2019. This was a 2.5% increase compared to a 5% increase in 2018. This net income increase was primarily due to higher interest and investment income, and higher capital contributions in 2019. The increased capital contributions reflected strong real estate development activity in Snohomish County. These increases were offset by lower net operating income.

The PUD continued to exhibit increases in its customer base and retail sales in 2019. The average number of Electric System customers increased 1.3% from 350,418 in 2018 to 354,953 in 2019, the same percentage increase in 2018. New electric service connections were 4,339 in 2019, compared to 4,341 in 2018. New connections in 2017 were 5,132, the highest recorded at the PUD since 2007. Similarly, the average number of Water System customers increased 4.0% from 20,808 in 2018 to 21,635 in 2019, following a 2.5% increase in 2018. The transfer of the Warm Beach water system to the PUD in 2018 added approximately 600 customers to the Water Utility.

Along with the increases in customers, retail MWh sales increased 0.7% from 6,487,390 MWh in 2018 to 6,531,223 MWh in 2019, compared to a 1.6% decrease in 2018. Weather in the Puget Sound area was colder than usual in the winter of 2019, primarily due to the snowstorms in February. The weather was closer to average in 2018. As a result, retail energy consumption was increased from 2018 levels.

Combined retail sales were $627 million in 2019, higher than the $623 million in 2018 and $622 million in 2017. This was the result of a moderate increase in residential energy consumption in 2019, following a decrease in 2018. There were no Electric rate increases in either 2019 or 2018. The Water System residential rate increased 1.8% effective January 2018.

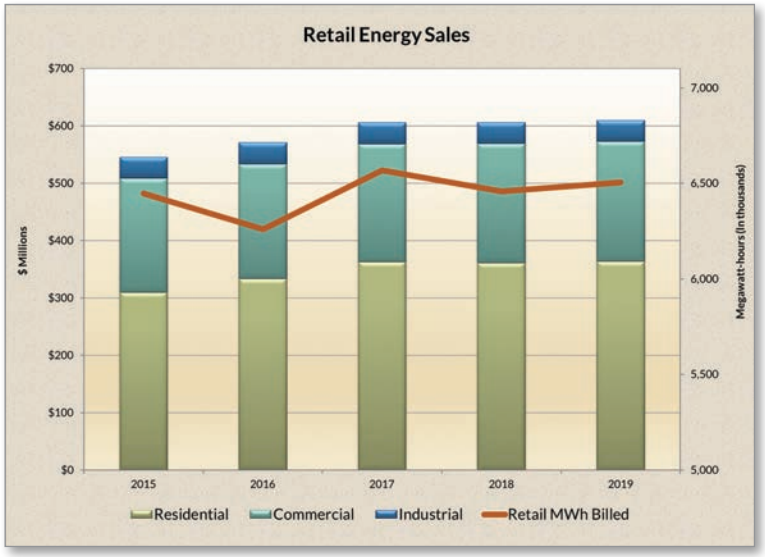

Figure 1

The PUD sells surplus power into the wholesale power markets to balance resources with customer loads. Combined wholesale sales revenue was $29 million 2019 compared to $35 million in both 2018 and 2017. The volume of excess power available to be sold in the wholesale market decreased 30% in 2019. The Electric system sold $11 million of excess transmission capacity in both 2019 and 2018. Combined other operating revenue was $29 million in 2019, $8 million lower than the $37 million in 2018. This was primarily due to a lower level of energy efficiency reimbursement from Bonneville Power Administration (BPA).

Combined operating expenditures were $643 million in 2019, $15 million higher than the $628 million spent in 2018, a 2.4% increase following a 1.0% increase in 2018. The primary drivers of the operating expenditure increase in 2019 were a $21 million increase in purchased power partially offset by an $8 million decrease in operation and maintenance costs. The higher 2018 maintenance cost was primarily due to two windstorms in December of 2018.

Combined operations expenses slightly declined to $197 million in 2019 from $198 million in 2018. Combined maintenance costs decreased $8 million, from $34 million in 2018 to $27 million in 2019. There were two powerful wind storms in mid-December 2018. The wind storms caused trees and branches to fall, resulting in outages throughout Snohomish County and Camano Island. PUD crews, along with contract and mutual-aid crews, spent several days repairing transmission and distribution lines throughout the county to restore power. The PUD recorded $5 million in maintenance costs as a result of the storms.

During 2019, the PUD's income from investing activities increased to $12 million as compared to $10 million in 2018, consistent with the financial market indices. This was a 23% increase compared to a 64% increase in 2018. The cash reserve portfolio is invested in securities and deposits authorized by Washington state statute. The portfolio is managed to reflect the PUD's current risk profile and other cash reserve policies and regulatory requirements.

Capital contributions increased $12 million in 2019 from $30 million in 2018 to $42 million in 2019. This was a 40% increase in 2019 compared to a 15% increase in 2018.

Fiduciary Activities Reporting Requirements

In 2019, the PUD implemented the Governmental Accounting Standards Board Statement 84 that requires governmental entities to identify fiduciary component units and report the activities on separate financial statements. Three retirement funds – 401(a), 401(k) and Retirement Health Savings (RHS) plans – were identified as fiduciary activities in accordance with the requirements of the standard. Two new financial reports – Combined Statements of Fiduciary Net Position, Pension Funds and Combined Statements of Changes in Fiduciary Net Position, Pension Funds – were included in the 2019 financial statements. The three trust funds have combined assets of $214 million and $173 million as of December 31, 2019 and 2018, respectively.

Bond Rating Upgrade

In June, 2019, the bond ratings of the PUD's Electric and Generation system revenue bonds were upgraded to Aa2 by Moody's Investors Services. The agency cited several key factors contributing to the upgraded bond rating: the PUD's strong financial performance and liquidity, a strong service area, decline in outstanding debt and healthy debt service coverage levels, a long-term supply agreement with BPA, and continued emphasis on cost management and fiscal responsibility.

The bond upgrade by Moody's, together with the PUD's already strong AA- ratings with Standard & Poor's and Fitch ratings, will help the PUD secure lower interest rates when it issues bonds to raise capital for future projects.

ELECTRIC SYSTEM

Electric System Rates

General Rates

The PUD Board of Commissioners approved a 2.9% general electric rate increase, effective April 1, 2017. The 2018 financial results reflect a full-year impact of the rate change. The PUD's 2019 operating budget included a modest 1.3% rate increase, down from the original 2.9% rate increase that had been planned. Because of strong financial results and reserve levels, the Board of Commissioners decided to forgo a rate increase in 2019. There have been no general rate increases since April 2017.

Bonneville Power Administration (BPA) Rates

BPA markets wholesale electricity generated from the federally owned hydroelectric projects in the Columbia River basin and one non-federal nuclear power plant. BPA provides approximately 83% of the energy resources used by the PUD to serve its customers. Power purchases from BPA were $239 million and $238 million in 2019 and 2018, respectively.

BPA passes its costs of power, transmission, and ancillary services to customers through its wholesale rates. These wholesale rates are reviewed biannually and adjusted on October 1. Subject to approval by the Board of Commissioners, the PUD adjusts retail electric rates to reflect BPA rate adjustments. As a result of the increased cost of power and transmission purchases from BPA, the PUD's Board of Commissioners increased retail power rates 1.6% to match the higher costs effective October 1, 2017. There was no BPA power or transmission rate increase in October 2018 or 2019.

Capital Investments – Customer Growth

The PUD makes significant investments in capital programs each year to maintain, expand, and enhance its electric distribution system. The number of customers continues to grow in the PUD's service area. The need for electric distribution infrastructure and facilities to serve customers and assure reliability is expected to continue. Electric System capital expenditures were $113 million in 2019 and $100 million in 2018.

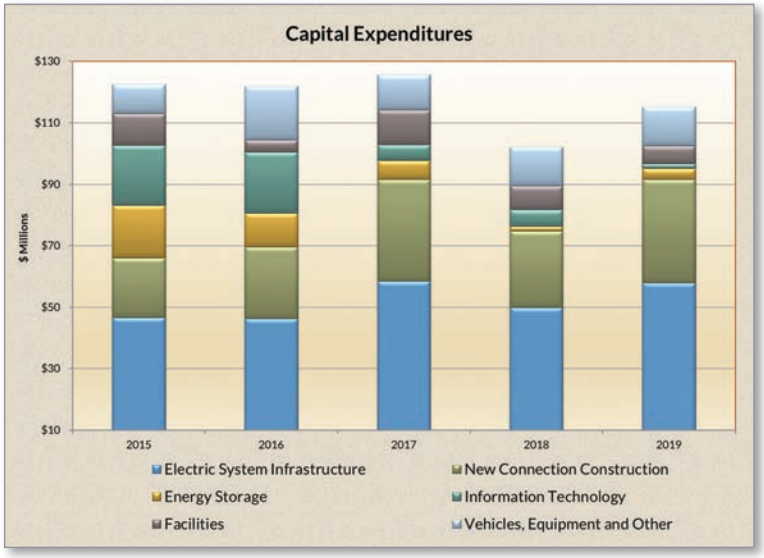

Figure 2

Key projects in 2019 included the construction of two new substations: Cedar Valley in Lynnwood and Port Gardner in Everett. The new construction will serve new or growing customer loads in these areas. Other significant work included a complete rebuilding of Oso substation, 115 kV six-breaker ring bus construction at the East Arlington substation, circuit switchers replaced at three stations, and system reliability upgrades at ten substations. Transmission projects included pole relocations for several municipalities. The PUD continued its ongoing replacement of aging poles. In 2019, approximately 450 distribution poles, 19 transmission poles, and 25.7 miles of underground distribution cables were replaced.

Capital Funding and Lower Debt Levels

The PUD utilizes a combination of revenues, cash reserves, and revenue bonds to fund investments in the electric distribution and transmission system infrastructure. In addition, the PUD receives capital contributions from developers to fund infrastructure construction directly related to growth.

Revenue bonds to fund capital expenditures were last issued in 2015, with a final maturity in 2040. The proceeds of the bond sale were used to fund qualifying additions, replacements, and improvements to the Electric System, including construction and upgrades relating to the electric distribution system, smart grid infrastructure, replacement and consolidation of the PUD's community offices, and utility pole replacements. The PUD fully allocated all proceeds of the Series 2015 revenue bonds in 2018.

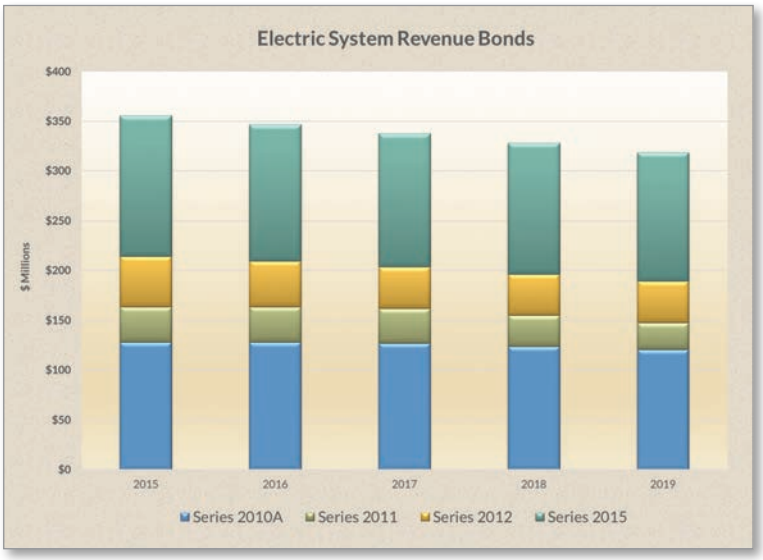

Figure 3

Growth in capital infrastructure provides additional debt capacity and flexibility for future financing activity. Strong operating results over the past several years have provided adequate cash for the funding of capital projects in the short-term. No new debt issuance, along with the continued payment of outstanding debt have enabled the PUD to reduce Electric System debt levels. Long-

term debt for the Electric System, including current maturities, totaled $318 million as of December 31, 2019, compared to $328 million in 2018.

Solar Panel Community Project

In 2019, the PUD completed construction of a 500-kilowatt solar array installation at the site of the PUD's Microgrid & Clean Energy Technology Center in Arlington. The first Community Solar program was launched in the spring of 2019. Generation to the electric grid began on May 1, 2019. At peak output, the solar array can power about 50 homes annually.

The Community Solar program has over 500 PUD customer-participants. Each participant subscribed to a portion of the solar panels, which offset approximately $1.0 million of the solar project construction costs. These participants receive credits on their electric bills for electricity produced and are eligible for an annual state-funded cost recovery incentive for their participation. The final cost of the solar array construction project is $1.2 million. The solar array is part of a larger Arlington Microgrid project, which includes a 1 megawatt battery storage system, vehicle-to-grid system, and grid management and control systems.

GENERATION SYSTEM

Calligan and Hancock Creek Hydroelectric Projects

The PUD completed construction of two Federal Energy Regulatory Commission (FERC) licensed, low-impact hydropower projects in 2018, the Calligan Creek and Hancock Creek projects. Both projects were in full operation in 2019. Calligan and Hancock creeks are tributaries to the Snoqualmie River near North Bend in King County, Washington, south of the PUD's Henry M. Jackson hydroelectric project. Each project has a capacity of 6 megawatts, enough power to serve about 5,000 homes each at peak output. Calligan and Hancock are both environmentally responsible, run-of-the-river projects.

Lower Generation System Debt Levels

Revenue bonds to fund capital expenditures were last issued in 2015, with a final maturity in 2045. The proceeds of the bond sale were used to fund a portion of the design and construction of the Calligan Creek and Hancock Creek hydroelectric projects. The PUD fully allocated all proceeds of the Series 2015 revenue bonds in 2018.

Debt levels in the Generation System have been declining in recent years. Long-term debt for the Generation System, including current maturities, totaled $81 million as of December 31, 2019, compared to $108 million in 2018.

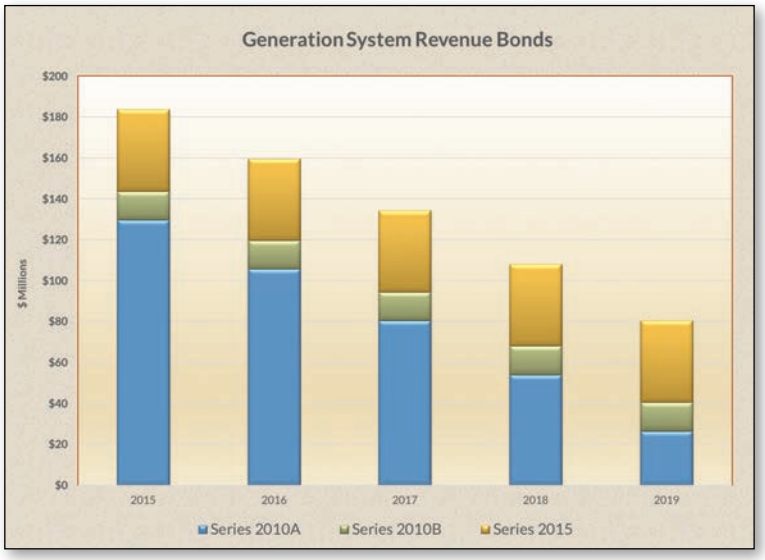

Figure 4

Sunset Falls Project Disposition

In April 2018, the Board of Commissioners decided not to pursue a final application with FERC for the Sunset Falls Hydropower Project. The plan was for a proposed 30-megawatt hydroelectric project above an existing fish passage barrier, Sunset Falls, located on the south fork of the Skykomish River. The PUD studied and assessed the viability and potential for a hydroelectric project beginning in July 2010. After a thorough review of the new Integrated Resource Plan (IRP), the Board of Commissioners concluded that additional energy generated by the project would not be required.

As a result of the project termination, the Electric System recorded a $9 million charge to other income and expense in 2018. Generation System utility plant includes land and easement assets purchased in connection with the Sunset Falls project, valued at $0.7 million.

WATER SYSTEM

Water System Operating Results

Retail sales revenue for the Water System increased slightly from $12.6 million in 2018 to $12.7 million in 2019 following a $0.4 million increase in 2018. The revenue increase in 2019 was due to an increased customer base, while the 2018 increase was the result of an overall retail rate increase of 2.0% effective January 2018.

Operating expenses increased from $11.1 million in 2018 to $11.6 million in 2019, following a decrease of $0.2 million in 2018. The 2017 increase was the result of higher water purchases due to the shutdown of the PUD's Lake Stevens water treatment plant for four months of 2017 and higher meter reading costs due to the impact of monthly reading and billing. The 2019 increase was primarily due to higher purchased water of $0.2 million, and higher maintenance costs of $0.2 million.

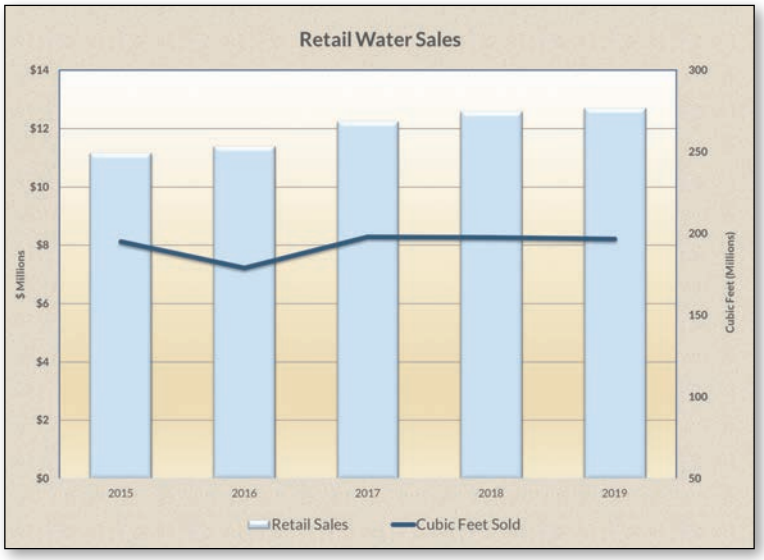

Figure 5

Water System capital contributions were $8.4 million in 2019, $2.7 million higher than the $5.7 million in 2018 reflecting strong developer activity in the central Snohomish County area the Water System serves.

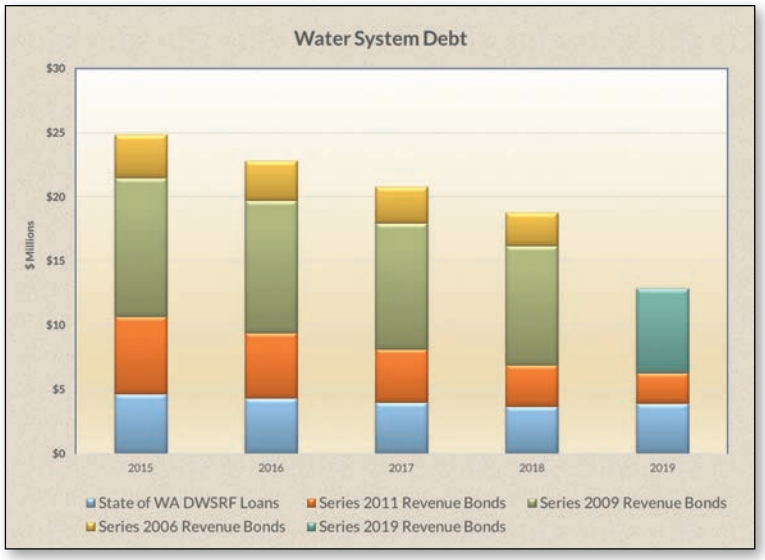

Figure 6

Capital Funding and Lower Debt Levels

The PUD utilizes State of Washington grants and loans, revenue bonds, revenues and cash reserves to fund capital infrastructure improvements. In addition, the Water System receives capital contribution fees from developers to address growth in the Water System service area.

Growth in capital infrastructure provides additional debt capacity and flexibility for future financing activity. Strong operating results over the past several years have enabled the PUD to reduce Water System debt levels. The PUD used $2.3 million from the Operating Reserve to redeem the outstanding balance of the Series 2006 Water System Revenue and Refunding bonds in 2019.

Historically low interest rate markets for tax-exempt bonds continued in 2019. The PUD issued $6.6 million of Series 2019 Water System Revenue Refunding Bonds to refinance the Series 2009 Water System Revenue Bonds at lower long-term interest rates. This transaction resulted in a $1.3 million net present value savings, and it will lower annual debt service costs by an average of $200,000 from 2020 to 2031.

Long-term debt for the Water System, including current maturities, totaled $12.9 million as of December 31, 2019, compared to $18.8 million in 2018.

Water System Rate Change

In December 2017, the Board of Commissioners approved revisions to the Water System's service rate schedule including a January 2018 overall retail rate increase of 2.0%. Several factors led to the rate increase, including a 3.5% increase in wholesale water purchase prices, increased operations and maintenance costs, and other necessary system infrastructure improvements to replace the aging water mains.

Warm Beach Water Association Transfer

In September 2018, ownership of the Warm Beach Water Association's (the Association) water distribution system was transferred to the PUD at the request of the Association's membership after a multi-year process of study and public outreach. The transfer added approximately 600 new customers to the PUD's Water System.

Improvements to the Association's system will be funded by a combination of $6.3 million of federal and state grants and loans through the Drinking Water State Revolving Fund, $0.8 million contributed by the Association, and approximately $1.2 million from the PUD's Water System operating reserve. Customers of the PUD's Warm Beach water system will pay a capital improvement surcharge to reimburse the operating reserve. The PUD initiated a drawdown of $0.5 million from the Drinking Water State Revolving Fund in 2019.

An estimated $4.6 million for improvement projects is currently planned. These projects are necessary to increase the reliability of the transferred water system.

OVERVIEW OF THE FINANCIAL STATEMENTS

Basic Financial Statements

The Combined Statements of Net Position present the PUD's net position as the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. The Combined Statements of Net Position provide information about the nature and amount of investments in resources (assets), the consumption of net assets in one period that are applicable to future periods (deferred outflows of resources), the obligations to creditors (liabilities), and the acquisition of net assets that are applicable to future periods (deferred inflows of resources).

The Combined Statements of Revenues, Expenses, and Changes in Net Position report the revenues and expenses during the periods indicated and identify operating activity separately from non-operating activity.

The Combined Statements of Cash Flows provide information about the PUD's cash flows from operating activities, capital and related financing activities, investing activities, and non-capital financing activities, and presents a reconciliation of net operating income to net cash provided by operating activities.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the figures provided in the basic financial statements.

Financial Analysis

Analysis of the comparative financial information is provided in the following table.

Condensed Combined Financial Information

(In millions)

	2019	2018	2017
Current Assets, Investments, and Special Funds	$ 589	$ 621	$ 618
Net Utility Plant	1,608	1,552	1,505
Other Assets	19	19	30
Total Assets	2,216	2,192	2,153
Deferred Outflows of Resources	20	22	26
Current Liabilities	117	142	133
Long-Term Debt	430	453	496
Other Liabilities	124	142	135
Total Liabilities	671	737	764
Deferred Inflows of Resources	38	31	24
Net Investment in Capital Assets	1,168	1,069	1,019
Restricted	173	152	183
Unrestricted	186	224	189
Net Position	**$ 1,527**	**$ 1,445**	**$ 1,391**
Operating Revenues	$ 685	$ 695	$ 687
Operating Expenses	643	628	624
Net Operating Income	42	67	63
Interest Charges	(23)	(22)	(23)
Other Income and Expense	21	5	10
Net Income before Capital Contributions	40	50	50
Capital Contributions	42	30	26
Net Income	82	80	76
Net Position – beginning of year	1,445	1,391	1,315
Adjustment for OPEB expense	–	(26)	–
Net Position	**$ 1,527**	**$ 1,445**	**$ 1,391**

Assets

Current assets, investments, and special funds decreased $32 million in 2019. High demand for energy resources due to a prolonged cold weather event combined with a decrease in power provided by the PUD's long-term contracts necessitated the purchase of significant resources at historically high rates in the wholesale market in the first quarter of 2019. The PUD utilized operating reserves to meet this demand without rate increases. Current assets, investments, and special funds increased $3 million in 2018 as strong operating results led to slightly higher operating reserves.

The PUD had $1.6, $1.6, and $1.5 billion invested in a broad range of net utility capital assets as of December 31, 2019, 2018, and 2017, respectively. Utility capital assets include five operating hydroelectric power generation plants, electric transmission and distribution lines and substations, water transmission and distribution pipes, storage and pump station facilities, buildings, and equipment. Utility plant additions were $123 million in 2019 and $117 million in 2018, reflecting the construction of the new hydroelectric projects, investments in the distribution and transmission systems, including construction associated with growth and general facilities of the PUD. The increase in utility plant was offset by $11 million and $25 million in routine retirements in 2019 and 2018, respectively. Accumulated depreciation increased $56 million and $45 million related to routine plant asset activity in 2019 and 2018, respectively.

Other assets increased $1 million in 2019 reflecting a grant receivable from the Federal Emergency Management Administration (FEMA) related to restoration work associated with a declared major storm event in December 2018. Other assets decreased $11 million in 2018 reflecting the collection of long-term receivables and the termination of the Sunset Falls project in 2018.

Deferred Outflows of Resources

Deferred outflows of resources decreased $2 million in 2019 and $4 million in 2018. Amortization of the book loss on defeasance of debt and changes to the Net Pension Liability impacted deferred outflows of resources by $3 million in 2019 and $4 million in 2018.

Liabilities

Current liabilities decreased $25 million in 2019 due to a decrease in the current portion of the PUD's long-term debt. Current liabilities increased $9 million in 2018 reflecting somewhat higher vendor payable balances and a slightly higher level of long-term debt principal payments due in 2019.

Long-term debt decreased $23 million in 2019 and $43 million in 2018 as a result of scheduled principal repayments and bond refunding in 2019.

Other liabilities decreased $18 million in 2019 and increased $7 million in 2018 primarily due to actuarial valuation changes in the post retirement liabilities.

Deferred Inflows of Resources

Deferred inflows increased $7 million in 2019 and $8 million in 2018 as the result of an increase in the net pension plan deferrals.

Net Position

Net investment in capital assets increased $98 and $50 million in 2019 and 2018, respectively, reflecting the growth in net utility plant. The PUD added 4,339 and 4,341 Electric System customer connections in 2019 and 2018, respectively. The Water System added 470 and 961 customer connections in 2019 and 2018, respectively.

Restricted net position represents resources that are subject to external restrictions, such as bond covenants or third-party contractual agreements, and resources restricted by the Board of Commissioners' resolution. Restricted net position increased $21 million in 2019 and decreased $31 million in 2018 due to the required changes in recognition of postemployment liabilities.

Unrestricted net position is available to finance day-to-day operations without constraints established by covenants, legal requirements, or board resolutions. Unrestricted net position decreased $38 million in 2019 due to lower cash reserves and recognition of postemployment liability. Unrestricted net position increased $35 million in 2018 due to strong operating results leading to higher cash reserves.

Operating Revenues

Operating revenues decreased $11 million in 2019, from $696 million in 2018 to $685 million in 2019. Retail revenues increased $4 million in 2019, while other operating revenue decreased $8 million due to a lower level of BPA energy conservation program reimbursements. Wholesale revenues decreased $6 million due to an overall decrease in power available for sale in the wholesale market.

Operating revenues increased $9 million in 2018, from $687 million in 2017 to $696 million in 2018. Retail revenues increased $1 million in 2018, while other operating revenue increased $8 million in 2018 related to increased revenue earned from the sale of transmission capacity and a higher level of BPA energy conservation program reimbursements.

Operating Expenses

Operating expenses increased $15 million in 2019, from $628 million in 2018 to $643 million in 2019. Unfavorable weather conditions reduced the power supplied by the PUD's hydroelectric and wind contracts in the first quarter, requiring the PUD to purchase considerably more power from the wholesale market than usual. Because wholesale market power rates were much higher than normal, purchased power expense was $22 million higher than 2018.

Operating expenses increased $4 million in 2018, from $624 million in 2017 to $628 million in 2018, primarily due to higher maintenance expenses related to two strong wind events in 2018.

Interest Charges

Total interest charges increased $1 million from 2018 to 2019 due to the PUD's implementation of GASB Statement No. 89 effective January 2019. Prior to this implementation interest costs incurred before the end of a construction period were capitalized as part of the historical cost of the asset.

Interest charges decreased $1 million from 2017 to 2018 as a result of declining debt levels since 2015.

Other Income and Expense

Other income and expense increased $16 million in 2019 and decreased $5 million in 2018.

The $16 million increase is partially due to a $5 million increase in grant income and a $3 million increase in interest income.

The $5 million decrease in 2018 was due to the recognition of $9 million in costs related to the termination of the Sunset Falls project, partially offset by a $5 million increase in interest income reflecting favorable market conditions.

Capital Contributions

Capital contributions increased $12 million in 2019 and $4 million in 2018. Capital contributions are collected from property developers when they request to connect to the PUD's electric or water distribution systems or request engineering or construction services. The capital contributions increases in 2019 and 2018 reflect increased property development in the PUD's service area.

Adjustment for OPEB Expense

The Governmental Accounting Standards Board required changes to recognition of postemployment benefits other than pensions (OPEB) as of January 1, 2018. A $26 million adjustment was recorded in Net Position to reflect the impact of the required change on the PUD's net position as of the first day of 2018.

Requests for Information

The basic financial statements, notes, and management's discussion and analysis are designed to provide a general overview of the PUD's finances. Questions concerning any of the information provided in this report should be directed to the PUD at 2320 California Street, Everett, WA 98201.

Combined Statements of Net Position

December 31, 2019 and 2018

(In thousands)

	2019				2018
Assets	Electric System	Generation System	Water System	Combined	Combined
Current Assets:					
Cash and temporary investments:					
Cash and cash equivalents	$ 36,477	$ 7,304	$ 1,833	$ 45,614	$ 93,894
Temporary investments	84,160	5,631	3,025	92,816	81,710
Total Cash and Temporary Investments	**120,637**	**12,935**	**4,858**	**138,430**	**175,604**
Accounts and other receivables, net	86,389	194	1,477	88,060	89,567
Intersystem loans receivable	3,389	–	–	–	–
Materials and supplies	28,041	–	300	28,341	24,738
Prepayments and other	9,657	198	111	9,966	6,952
Total Current Assets	**248,113**	**13,327**	**6,746**	**264,797**	**296,861**
Long Term–Investments & Special Funds					
Long-term investments	111,131	2,005	2,508	115,644	116,099
Special funds – bond funds and other	180,015	15,019	13,286	208,320	208,276
Total Long-Term Investments & Special Funds	**291,146**	**17,024**	**15,794**	**323,964**	**324,375**
Utility Plant:					
Plant in service	1,921,416	347,450	160,961	2,429,827	2,353,840
Construction work in progress	134,504	2,670	3,481	140,655	104,436
Total utility plant	2,055,920	350,120	164,442	2,570,482	2,458,276
Accumulated depreciation	(776,851)	(145,985)	(39,306)	(962,142)	(905,985)
Net Utility Plant	**1,279,069**	**204,135**	**125,136**	**1,608,340**	**1,552,291**
Other Assets:					
Conservation loans and other receivables, net	2,700	–	415	3,115	1,559
Intersystem loans and receivables	38,053	–	–	–	–
FERC licenses	–	15,588	–	15,588	16,125
Other assets	690	15	–	705	1,027
Total Other Assets	**41,443**	**15,603**	**415**	**19,408**	**18,711**
Total Assets	**1,859,771**	**250,089**	**148,091**	**2,216,509**	**2,192,238**
Deferred Outflows of Resources					
Unamortized loss on refunding debt	1,323	4,861	164	6,348	9,741
Net pension and OPEB deferrals	13,075	341	331	13,747	11,862
Total Deferred Outflows of Resources	**14,398**	**5,202**	**495**	**20,095**	**21,603**
Total Assets and Deferred Outflows	**$ 1,874,169**	**$ 255,291**	**$ 148,586**	**$2,236,604**	**$2,213,841**

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

Combined Statements of Net Position

December 31, 2019 and 2018

(In thousands)

	2019				2018
Liabilities	Electric System	Generation System	Water System	Combined	Combined
Current Liabilities:					
Accounts payable	$ 48,886	$ 431	$ 1,188	$ 50,505	$ 53,715
Accrued taxes	17,855	72	95	18,022	17,538
Accrued interest	1,523	338	33	1,894	2,036
Other accrued liabilities	24,845	–	29	24,874	24,366
Customer deposits	4,713	–	23	4,736	4,808
Current maturities of long-term debt	10,335	5,310	1,537	17,182	39,464
Intersystem loans payable	–	3,389	–	–	–
Total Current Liabilities	**108,157**	**9,540**	**2,905**	**117,213**	**141,927**
Long-Term Debt:					
Revenue bonds	330,005	86,796	9,487	426,288	449,634
Other notes payable	–	–	3,540	3,540	3,351
Total Long-Term Debt	**330,005**	**86,796**	**13,027**	**429,828**	**452,985**
Other Liabilities:					
Intersystem loans and payables	–	38,053	–	–	–
FERC license obligations	–	15,588	–	15,588	16,125
Net pension liability	42,566	1,119	1,119	44,804	57,477
Other liabilities	59,373	2,566	1,626	63,565	68,773
Total Other Liabilities	**101,939**	**57,326**	**2,745**	**123,957**	**142,375**
Total Liabilities	**540,101**	**153,662**	**18,677**	**670,998**	**737,287**
Deferred Inflows of Resources					
Unearned FERC license contributions	–	5,500	–	5,500	6,000
Net pension deferrals	25,268	619	696	26,583	23,385
Other deferred inflows	5,860	86	139	6,085	1,908
Total Deferred Inflows of Resources	**31,128**	**6,205**	**835**	**38,168**	**31,293**
Net Position					
Net investment in capital assets	940,052	116,889	110,736	1,167,677	1,069,584
Restricted:					
Reserve funds	486	7,700	950	9,136	8,427
Rate stabilization	116,457	–	1,521	117,978	116,059
Debt service and other	30,148	5,657	10,785	46,590	27,260
Unrestricted	215,797	(34,822)	5,082	186,057	223,931
Total Net Position	**1,302,940**	**95,424**	**129,074**	**1,527,438**	**1,445,261**
Total Liabilities, Deferred Inflows and Net Position	**$ 1,874,169**	**$ 255,291**	**$ 148,586**	**$ 2,236,604**	**$ 2,213,841**

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

Combined Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2019 and 2018

(In thousands)

	2019				2018
	Electric System	Generation System	Water System	Combined	Combined
Operating Revenues:					
Retail sales	$ 613,816	$ –	$ 12,727	$ 626,543	$ 622,910
Wholesale sales	29,317	36,450	634	29,951	35,530
Other	28,451	314	403	29,168	37,359
Total Operating Revenues	**671,584**	**36,764**	**13,764**	**685,662**	**695,799**
Operating Expenses:					
Purchased power	349,909	–	–	313,459	291,771
Purchased water	–	–	2,596	2,596	2,438
Operations	188,550	4,806	3,527	196,883	197,880
Maintenance	23,021	1,975	1,712	26,708	34,940
Depreciation	55,493	5,717	3,028	64,238	61,863
Taxes	38,710	74	726	39,510	39,462
Total Operating Expenses	**655,683**	**12,572**	**11,589**	**643,394**	**628,354**
Net Operating Income	**15,901**	**24,192**	**2,175**	**42,268**	**67,445**
Interest Charges:					
Interest	17,194	6,998	666	23,033	24,785
Amortization of debt related costs	(1,232)	1,537	77	382	462
Allowance for funds used during construction	4	–	–	4	(2,949)
Total Interest Charges	**15,966**	**8,535**	**743**	**23,419**	**22,298**
Other Income and Expense:					
Interest income	13,973	1,477	665	14,290	10,854
Other income and expense, net	6,731	53	28	6,812	(6,135)
Total Other Income and Expense	**20,704**	**1,530**	**693**	**21,102**	**4,719**
Net Income Before Capital Contributions	**20,639**	**17,187**	**2,125**	**39,951**	**49,866**
Capital Contributions	**33,743**	**39**	**8,444**	**42,226**	**30,415**
Net Income	**54,382**	**17,226**	**10,569**	**82,177**	**80,281**
Net Position, Beginning of year	1,248,558	78,198	118,505	1,445,261	1,390,785
Adjustment for OPEB expense (see Note 1)	–	–	–	–	(25,805)
Net Position, End of year	**$1,302,940**	**$ 95,424**	**$ 129,074**	**$ 1,527,438**	**$ 1,445,261**

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

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Combined Statements of Cash Flows

Years ended December 31, 2019 and 2018

(In thousands)

	2019				2018
	Electric System	Generation System	Water System	Combined	Combined
Cash Flows From Operating Activities:					
Cash received from customers	$ 649,017	$ 36,651	$ 13,557	$ 661,962	$ 672,292
Cash payments to suppliers	(493,465)	(3,713)	(4,238)	(464,153)	(434,268)
Cash payments to employees	(81,529)	(3,972)	(3,518)	(89,019)	(95,497)
Cash payments for taxes	(41,102)	(110)	(691)	(41,903)	(39,242)
Other cash received (paid)	21,016	(650)	122	20,488	25,794
Net Cash Provided by Operating Activities	**53,937**	**28,206**	**5,232**	**87,375**	**129,079**
Cash Flows From Capital & Related Financing Activities:					
Capital construction	(101,546)	(1,196)	(4,288)	(107,030)	(100,205)
Proceeds from debt	–	–	8,025	8,025	–
Debt issuance costs	–	–	(97)	(97)	–
Repayment of debt	(9,880)	(27,605)	(12,462)	(49,947)	(37,804)
Interest paid on debt	(17,195)	(7,611)	(698)	(23,179)	(21,948)
Capital contributions	24,317	39	4,286	28,642	23,822
Capital grants received	1,268	–	–	1,268	631
Intercompany loan interest	2,413	(2,413)	–	–	–
Net Cash (Used for) Capital & Related Financing Activities	(100,623)	(38,786)	(5,234)	(142,318)	(135,504)
Cash Flows From Investing Activities:					
Sale of special funds and investment securities	263,208	56,923	14,985	335,116	421,337
Purchase of special funds and investment securities	(275,474)	(51,783)	(16,339)	(343,596)	(486,291)
Interest on investment securities	14,142	1,672	599	14,088	11,745
Net Cash Provided by (Used for) Investing Activities	**1,876**	**6,812**	**(755)**	**5,608**	**(53,209)**
Cash Flows From Non-Capital Financing Activities:					
Non-capital grants received	963	92	–	1,055	35
Net Cash Provided by Non-Capital Financing Activities	**963**	**92**	**–**	**1,055**	**35**
Net Increase (Decrease) in Cash & Cash Equivalents	(43,847)	(3,676)	(757)	(48,280)	(59,599)
Beginning of year	80,324	10,980	2,590	93,894	153,493
Cash & Cash Equivalents – End of year	**$ 36,477**	**$ 7,304**	**$ 1,833**	**$ 45,614**	**$ 93,894**

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

Combined Statements of Cash Flows (continued)

Years ended December 31, 2019 and 2018

(In thousands)

	2019				2018
	Electric System	Generation System	Water System	Combined	Combined
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:					
Net Operating Income	$ 15,901	$ 24,192	$ 2,175	$42,268	$ 67,445
Adjustments to net operating income:					
Depreciation	55,493	5,717	3,028	64,238	61,863
Pension and OPEB Related	(13,747)	(342)	(354)	(14,443)	(13,638)
Other cash received (paid)	(627)	(289)	28	(888)	(410)
(Increase) decrease in receivables	2,670	(113)	32	2,589	5,637
(Increase) decrease in other assets	(5,040)	(28)	31	(5,037)	(1,070)
Increase (decrease) in payables	(3,624)	(691)	268	(4,047)	4,567
Increase (decrease) in other liabilities	2,911	(240)	24	2,695	4,685
Total adjustments	**38,036**	**4,014**	**3,057**	**45,107**	**61,634**
Net Cash Provided by Operating Activities	**$ 53,937**	**$ 28,206**	**$ 5,232**	**$ 87,375**	**$ 129,079**
Non-cash Investing, Capital and Related Financing Activities:					
Non-cash contributions	$ 9,098	$ –	$ 4,158	$ 13,256	$ 8,875
Allowance for funds used during construction	(4)	–	–	(4)	2,949
Changes in valuation of financial instruments	2,078	59	55	2,192	1,024
Amortization of debt related costs	1,232	(1,537)	(77)	(382)	(462)

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

Combined Statements of Fiduciary Net Position
Pension Funds

Years ended December 31, 2019 and 2018

(In thousands)

	2019				2018
	401 (a)	401 (k)	Retirement Health Savings	Combined	Combined
Assets					
Cash and Cash Equivalents	$ –	$ –	$ –	$ –	$ –
Investments, at fair value					
Stable Value/Cash Management	160	24,299	892	25,351	24,542
Bond	20	8,407	20	8,447	7,594
Balanced/Asset Allocation	–	114,547	733	115,280	89,800
U.S. Stock	297	54,815	210	55,322	42,862
International/Global Stock	25	7,794	25	7,844	6,616
Total investments	**502**	**209,862**	**1,880**	**212,244**	**171,414**
Loans Receivable	–	2,168	–	2,168	2,028
Total Assets	**$ 502**	**$ 212,030**	**$ 1,880**	**$214,412**	**$ 173,442**
Liabilities					
Accounts payable and other liabilities	–	–	–	–	–
Total Liabilities	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**
Fiduciary Net Position					
Restricted for					
Pensions	502	212,030	–	212,532	172,035
Postemployment benefits other than pensions	–	–	1,880	1,880	1,407
Total Net Position held in Trust	**$ 502**	**$ 212,030**	**$ 1,880**	**$214,412**	**$ 173,442**

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

Combined Statements of Changes in Fiduciary Net Position
Pension Funds

Years ended December 31, 2019 and 2018

(In thousands)

	2019				2018
	401 (a)	401 (k)	Retirement Health Savings	Combined	Combined
Additions					
Contributions:					
Members	$ –	$ 8,378	$ –	$ 8,378	$ 8,152
Employer	22	1,903	340	2,265	2,136
Rollover	–	2,605	–	2,605	1,766
Forfeiture	–	11	–	11	9
Total Contributions	**22**	**12,897**	**340**	**13,259**	**12,063**
Investment earnings:					
Net increase (decrease) in fair value of investments	69	33,770	123	33,962	(11,737)
Interest, dividends and other	12	2,396	56	2,464	2,873
Total Investment Earnings (Loss)	**81**	**36,166**	**179**	**36,426**	**(8,864)**
Total Additions	**$ 103**	**$ 49,063**	**$ 519**	**$ 49,685**	**$ 3,199**
Deductions					
Benefits paid to or for participants	25	8,331	–	8,356	7,364
Medical, dental and life insurance for retirees	–	–	21	21	24
Rollover distributions	44	–	–	44	–
Administrative expenses and other plan adjustments	1	268	25	294	272
Total deductions	**$ 70**	**$ 8,599**	**$ 46**	**$ 8,715**	**$ 7,660**
Net increase (decrease) in fiduciary net position	33	40,464	473	40,970	(4,461)
Fiduciary Net Position restricted for Pensions, Beginning of year	469	171,566	1,407	173,442	177,903
Fiduciary Net Position restricted for Pensions, End of year	**$ 502**	**$212,030**	**$ 1,880**	**$214,412**	**$173,442**

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

Notes to Combined Financial Statements

December 31, 2019 and 2018

Note 1
Summary of Significant Accounting Policies

GENERAL

Public Utility District No. 1 of Snohomish County, Washington, (the PUD) is a public electric and water utility serving Snohomish County and Camano Island in Island County, Washington. The PUD's operations consist of three systems: the Electric System, the Generation System, and the Water System. The PUD is governed by a three-member Board of Commissioners (the Commission), which is elected for staggered six-year terms. The legal responsibilities and powers of the PUD, including the establishment of rates and charges for services rendered, are exercised through the Commission.

The Electric System is made up of the PUD's electric transmission and distribution system. The Generation System is composed of the PUD's Henry M. Jackson Hydroelectric Project and four smaller hydroelectric projects. The Water System is made up of the PUD's water distribution system.

The accompanying financial statements for 2019 include the individual and combined statements of net position for the Electric System, Generation System, and Water System, and the statements of revenues, expenses, and changes in net position, and cash flows for each system. System columns presented in the financial statements and notes may not add to the combined totals due to the elimination of intercompany transactions, which consist of intersystem loans and routine intercompany transactions. The PUD also has fiduciary responsibility for the following trust funds: 401(a), 401(k) and Retiree Health Savings (RHS) plans. The combined statements of fiduciary net position for these three fiduciary funds and statements of changes in fiduciary net position are included as part of the financial statements (see Note 7).

The PUD's financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when incurred. Revenues and costs that are directly related to the generation, purchase, transmission, and distribution of electricity or water are reported as operating revenues and expenses. All other revenues and expenses are reported as non-operating revenues and expenses.

The accompanying financial statements have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The PUD's other significant accounting and financial policies are described in the following sections.

Retail Sales

The PUD bills Electric and Water System customers for their consumption on a monthly basis. The accompanying financial statements include estimated unbilled revenues for electricity and water delivered to customers between the last billing date and the end of the year. Unbilled electric revenue was $37.4 million and $40.0 million as of December 31, 2019, and 2018, respectively. Unbilled water revenue was $629,000 and $644,000 as of December 31, 2019, and 2018, respectively. Power sales and purchase transactions are recognized over the duration of the contracts as a component of retail and wholesale revenue and purchased power operating expenses.

Capital Contributions

The PUD records capital contributions from customers and developers, primarily relating to expansions to the PUD's distribution facilities, as a separate category of non-operating revenue.

Cash Equivalents

The PUD considers highly liquid, short-term investments with original maturities of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded when invoices are issued and are written off when they are determined to be uncollectible. A reserve is established for uncollectible accounts receivable based upon historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. The allowance for doubtful accounts was $2.8 million and $3.1 million as of December 31, 2019 and 2018, respectively.

Material and Supplies

Material and supplies are recorded at average cost and consist primarily of materials for construction and maintenance of utility plant.

Special Funds

Special funds are restricted or limited-use funds that have been established in accordance with Commission resolutions, bond resolutions, state law or other agreements. These funds, which consist of cash, cash equivalents, and investments, are restricted for specific purposes, including debt service, bond reserves, rate stabilization, qualifying capital expenditures, postemployment benefits, FERC license commitments, and other reserve requirements. In June 2018, the PUD adopted a revised financial reserve policy which made modest changes in the allocation of reserves between special funds and other cash and investments. It is the PUD's policy to use unrestricted funds prior to using restricted funds except for bond proceeds used for qualifying capital expenditures and funds set aside for debt service payments.

Utility Plant

Utility plant is stated at cost. The PUD's capitalization threshold for utility plant is $5,000. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from 5 to 77 years. When utility plant assets are retired, the original cost together with removal costs, less salvage, is charged to accumulated depreciation. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized. See Table 1 for additional utility plant details.

The PUD periodically reviews the carrying value of its utility plant and other equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Unamortized Loss on Refunding Debt

The difference between the cost to defease outstanding debt and the carrying value of bonds defeased by refunding bonds is deferred and amortized over the shorter of the remaining term of the refunded bonds or the term of the refunding bonds, using the straight-line or effective-interest method. This difference for bonds defeased by operating funds is charged in the current period.

Net Position

Net position consists of the following components:

Net investment in capital assets – This component consists of capital assets, net of accumulated depreciation reduced by the net outstanding debt balances related to capital assets, net of unamortized debt related costs.

Restricted – This component consists of assets and liabilities with constraints placed on use. Constraints include those imposed by bond covenants or third-party contractual agreements, and resources restricted by Board resolution.

Unrestricted – This component consists of assets and liabilities that do not meet the definition of "net investment in capital assets" or "restricted."

Compensated Absences

Employees accrue paid time off (PTO) or vacation in varying amounts according to their years of service. Accrued liability for PTO and vacation was $12.3 million and $12.0 million at December 31, 2019 and 2018, respectively. These liabilities are presented as part of Other Accrued Liabilities.

Table 1
Utility Plant
(In thousands)

	2017	2018			2019		
	Ending Balance	Additions	Retirements & Transfers	Ending Balance	Additions	Retirements & Transfers	Ending Balance
Electric System							
Transmission	$ 141,528	$ 21,306	$ (974)	$ 161,860	$ 2,066	$ (511)	$ 163,415
Distribution	1,146,384	85,337	(20,233)	1,211,488	61,427	(7,930)	1,264,985
General Plant & Other	373,670	38,592	(3,121)	409,141	14,659	(2,383)	421,417
Land & Non-Depreciable Assets	67,585	2,863	(38)	70,410	1,189	–	71,599
Plant in Service	1,729,167	148,098	(24,366)	1,852,899	79,341	(10,824)	1,921,416
Construction Work in Progress	148,210	(47,944)	–	100,266	34,238	–	134,504
Utility Plant	1,877,377	100,154	(24,366)	1,953,165	113,579	(10,824)	2,055,920
Less Accumulated Depreciation	(691,929)	(44,771)	7,452	(729,248)	(51,006)	3,403	(776,851)
Net Utility Plant	**$1,185,448**	**$ 55,383**	**$ (16,914)**	**$ 1,223,917**	**$ 62,573**	**$ (7,421)**	**$1,279,069**
Generation System							
Generation/Production	$ 234,845	$ 58,973	$ 271	$ 294,089	$ 566	$ (60)	$ 294,595
Transmission	2,781	–	–	2,781	58	(28)	2,811
Distribution	5,535	862	25	6,422	–	(6)	6,416
General Plant & Other	16,887	10,600	2,158	29,645	161	–	29,806
Land & Non-Depreciable Assets	14,759	1,576	(2,508)	13,827	(5)	–	13,822
Plant in Service	274,807	72,011	(54)	346,764	780	(94)	347,450
Construction Work in Progress	62,371	(60,190)	–	2,181	489	–	2,670
Utility Plant	337,178	11,821	(54)	348,945	1,269	(94)	350,120
Less Accumulated Depreciation	(134,965)	(5,325)	1	(140,289)	(5,696)	–	(145,985)
Net Utility Plant	**$ 202,213**	**$ 6,496**	**$ (53)**	**$ 208,656**	**$ (4,427)**	**$ (94)**	**$ 204,135**
Water System							
Generation/Production	$ 9,300	$ –	$ –	$ 9,300	$ 56	$ –	$ 9,356
Transmission & Distribution	119,513	7,754	(340)	126,927	6,780	(252)	133,455
General Plant & Other	14,043	–	(125)	13,918	236	(58)	14,096
Land & Non-Depreciable Assets	4,032	–	–	4,032	22	–	4,054
Plant in Service	146,888	7,754	(465)	154,177	7,094	(310)	160,961
Construction Work in Progress	4,386	(2,397)	–	1,989	1,492	–	3,481
Utility Plant	151,274	5,357	(465)	156,166	8,586	(310)	164,442
Less Accumulated Depreciation	(33,862)	(2,691)	105	(36,448)	(2,899)	41	(39,306)
Net Utility Plant	**$ 117,412**	**$ 2,666**	**$ (360)**	**$ 119,718**	**$ 5,687**	**$ (269)**	**$ 125,136**

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The PUD has used estimates in determining reported amounts including unbilled revenue, allowance for doubtful accounts receivable, accrued liability for injuries and damages, depreciable lives of utility plant, pensions, and other contingencies. Actual results could differ from these estimates.

Accounting Changes and Reclassifications

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, requires governments providing defined Other Postemployment Benefits (OPEB) to recognize the net OPEB liability on their statements of net position. This standard identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The PUD provides retiree health and life insurance benefits and has reflected the impact of this requirement in the financial statements effective January 1, 2018.

The financial impact resulting from this implementation was the restatement of 2018 beginning net position by $25.8 million for the PUD's OPEB liability. The OPEB liability was $46.1 million and $50.7 million as of December 31, 2019 and 2018, respectively.

GASB Statement No. 83, Certain Asset Retirement Obligations, establishes criteria for governmental entities to recognize and disclose Asset Retirement Obligations (ARO) when the liability is incurred and reasonably estimable. The PUD implemented the standard, effective January 1, 2019. Certain assets and the associated obligating events were identified and reviewed by the PUD. It was determined that there have been no material obligating events for these assets. As a result, there was no impact to the financial results for the year ended December 31, 2019.

GASB Statement No. 84, Fiduciary Activities, requires governmental entities to identify fiduciary activities for accounting and financial reporting purposes. In 2019, the PUD implemented the standard and identified 401(a), 401(k) and Retirement Health Savings (RHS) plans as fiduciary activities. Two new financial reports – Combined Statements of Fiduciary Net Position, Pension Funds and Combined Statements of Changes in Fiduciary Net Position, Pension Funds – were included as part of the financial statements. The three trust funds have combined assets of $214.4 million and $173.4 million as of December 31, 2019, and 2018, respectively.

In January 2019, the PUD early adopted GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period. The statement establishes requirements for interest costs incurred before the end of a construction period to be recognized as an expense in the period in which the cost is incurred and should not be capitalized as part of the historical cost of the asset. As a result, calculation of Allowance for Funds Used During Construction (AFUDC) was discontinued effective January 1, 2019. The AFUDC reported on the 2019 financial statements is a reclassification of an open work order.

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation.

Note 2
Special Funds and Cash and Temporary Investments

The PUD's investment policy authorizes the investment of funds in U.S. Treasury, federal and state agency obligations, interest-bearing demand or time deposits, repurchase agreements, bankers' acceptances, and certain other investments. Interest-bearing demand or time deposits with a qualified public depository of the State of Washington are protected and collateralized under the Washington State Public Deposit Protection Act. In all instances, the PUD evaluates the creditworthiness of the financial institutions with which it invests.

All PUD investments are in compliance with the State of Washington statutes and PUD bond resolutions. Substantially all PUD investments are recorded at fair value based on quoted market prices. The relative type of PUD's investments at December 31, 2019 and 2018 are summarized in Table 2.

Table 2
Special Funds and Cash and Temporary Investments

	Electric System		Generation System		Water System	
	2019	2018	2019	2018	2019	2018
U.S. Treasury Securities	51%	15%	44%	11%	49%	39%
U.S. Agency Obligations						
Federal Home Loan Bank	18%	31%	–	21%	7%	27%
Federal Farm Credit Bank	5%	8%	–	–	5%	5%
Federal National Mortgage Association	6%	2%	3%	–	8%	–
Federal Home Loan Mortgage Corporation	4%	19%	3%	–	10%	5%
Tennessee Valley Authority	2%	2%	–	–	–	–
Cash and Interest-bearing Demand or Time Deposits	4%	6%	–	31%	2%	7%
Washington State Local Government Investment Pool	10%	17%	50%	37%	19%	17%

The PUD invests funds consistent with the following objectives: conform with state and local statutes, preserve principal, maintain adequate liquidity, and maximize yield. The PUD's investments are purchased with the objective of holding the security until maturity.

Investment securities owned by the PUD are registered in the PUD's name and held in trust by banks or trust companies. Repurchase agreements are fully collateralized by eligible securities registered in the PUD's name. Other PUD investments are insured by federal depository insurance or protected against loss since they are on deposit with financial institutions recognized as qualified public depositories of the State of Washington.

The Washington State Local Government Investment Pool (LGIP) is an investment vehicle operated by the Washington State Treasurer, offering governmental agency investors the economies of scale available from a multi-billion-dollar pooled fund investment portfolio. As of December 31, 2019, LGIP investments include primarily U.S. Agency Securities, U.S. Treasury Securities, Repurchase Agreements, and Interest-Bearing Bank Deposits. Assets held in LGIP are invested in a manner consistent with the U.S. Securities and Exchange Commission's rule 2a-7 of the Investment Company Act of 1940. The PUD records these investments at amortized cost.

The PUD must give notice to the LGIP if the PUD plans to withdraw over $1.0 million on the same day. The LGIP may suspend withdrawals or liquidate if the difference between the amortized cost per share and the market net asset value per share results in material dilution or other unfair results. The LGIP may suspend redemptions if the New York Stock Exchange suspends trading or closes, if the US bond markets are closed, and if the Securities and Exchange Commission declares an emergency.

In order to address custodial credit risk, all investments except cash, interest-bearing demand or time deposits, and funds held in the LGIP, which are not evidenced by securities, are held in the PUD's name by a third-party custodian. The PUD addresses concentration of credit risk by investing in a diversified portfolio.

The PUD manages its exposure to decreases in the fair value of its investments arising from increasing interest rates by setting maturity limits for its investments. While some bond reserves are invested in U.S. agency obligations that approximate the term of the related bonds, all other funds are invested in instruments with maturities of less than five years, and most are invested for terms of two years or less. The PUD's investment policy specifies that the investment portfolio be structured so maturing investments match projected cash flow needs in order to mitigate interest rate risk. Investment maturities for combined special funds and cash and temporary investments as of December 31, were as follows:

	2019		2018	
Term	Amount Invested *(in thousands)*	Percent of Invested Fund	Amount Invested *(in thousands)*	Percent of Invested Fund
Less than 30 days	$ 71,748	16%	$ 115,820	24%
30 to 90 days	19,534	4%	34,955	7%
90 days to 1 year	106,788	23%	120,613	24%
1 year to 5 years	238,552	51%	196,475	39%
Bond reserves invested to bond maturity	25,772	6%	32,116	6%
	$ 462,394	100%	$ 499,979	100%

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The PUD's investments, at fair value, can be categorized by valuation techniques into two levels. Level 1 investments are traded on a national securities exchange and are valued at the last reported sales price on the last business day of the year. Level 2 investments are valued using pricing models maximizing the use of observable inputs for similar securities.

The table below shows the fair value hierarchy for each system's investments subject to fair value measurement, as of December 31 (in thousands):

	2019						2018	
	Electric		Generation		Water		Combined	
	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2
U.S. Treasury Notes	$ 208,021	$ –	$ 13,136	$ –	$ 10,150	$ –	$ 78,099	$ –
Tennessee Valley Authority	–	10,013	–	–	–	–	–	9,966
Federal Home Loan Mortgage Corporation	–	14,468	–	867	–	2,000	–	83,262
Federal Farm Credit Bank	–	20,646	–	–	–	1,000	–	34,088
Federal Home Loan Bank	–	73,952	–	–	–	1,521	–	151,426
Federal National Mortgage Association	–	25,235	–	800	–	1,623	–	9,485
Assets Valued at Fair Value	$ 208,021	$ 144,314	$ 13,136	$ 1,667	$ 10,150	$ 6,144	$ 78,099	$ 288,227

Note 3
Long-Term Debt

Debt service (principal and interest) payments on the PUD's revenue bonds and other notes payable to maturity, excluding intersystem borrowing, are set forth in Table 3.

TABLE 3
Debt Service (Principal & Interest)
(In thousands)

	Electric System		Generation System		Water System	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	$ 10,335	$ 16,520	$ 5,310	$ 4,059	$ 1,537	$ 465
2021	10,820	16,033	5,505	3,841	1,562	424
2022	11,305	15,550	5,765	3,565	1,642	366
2023	11,850	15,002	6,035	3,275	769	296
2024	13,075	14,411	6,320	2,972	794	269
2025-2029	58,130	62,737	7,820	12,502	4,249	888
2030-2034	70,700	45,721	10,100	10,225	2,118	136
2035-2039	106,415	23,425	13,025	7,295	116	7
2040-2044	25,575	1,279	16,750	3,569	70	1
2045-2046	–	–	3,870	193	–	–
Total	**$ 318,205**	**$ 210,678**	**$ 80,500**	**$ 51,496**	**$ 12,857**	**$ 2,852**

The Electric, Generation and Water Systems' revenues, net of specified operating expenses, are pledged as security for the systems' revenue bonds until their respective bonds are defeased or repaid. Principal and interest paid for 2019 and 2018 were $60.1 million and $62.3 million, respectively. Total revenues available for debt service as defined for the same periods were $141.8 million and $151.4 million. At December 31, 2019, annual principal and interest payments are expected to require between 27% and 54% of revenues.

Tax-exempt revenue bonds make up the majority of the PUD's long-term debt and are subject to Internal Revenue Service Code (the Code) requirements for arbitrage rebate. Rebates are calculated based on earnings on gross proceeds of the bonds that are in excess of the amount prescribed by the Code. The estimated arbitrage liability as of December 31, 2019 and 2018 was $1.3 million and $1.0 million, respectively.

Electric System

A summary of principal outstanding on Electric System long-term debt follows:

	December 31, 2019	December 31, 2018
	(In thousands)	
Series 2015 Revenue bonds, 5.0%, due 2020-2040, earliest call 2025	$ 129,150	$ 131,755
Series 2012 Revenue Refunding bonds, 4.0-5.0%, due 2020-2028, earliest call 2022	41,495	41,495
Series 2011 Revenue Refunding bonds, 3.0-5.0%, due 2020-2024, earliest call 2021	26,980	31,125
Series 2010A Revenue bonds, 4.4-5.6%, due 2020-2035, currently callable	120,580	123,710
Total Principal Outstanding on Long-Term Debt	**$318,205**	**$328,085**

Changes in the Electric System long-term debt during the years ended December 31, 2019 and 2018, follow (in thousands):

	2017	2018			2019		
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance
Revenue bonds, face amount	$ 337,545	$ –	$ (9,460)	$ 328,085	$ –	$ (9,880)	$ 318,205
Unamortized bond premium	25,754	–	(1,772)	23,982	–	(1,771)	22,211
Unamortized bond discount	(86)	–	5	(81)	–	5	(76)
Total Debt	363,213	–	(11,227)	351,986	–	(11,646)	340,340
Less: Current maturities	(9,460)			(9,880)			(10,335)
Total Long-Term Debt	**$ 353,753**			**$ 342,106**			**$ 330,005**

The PUD is obligated as part of its bond resolution to purchase for use in its Electric System all power available to the Electric System from the Generation System. The PUD is also unconditionally obligated by the bond resolution to set aside revenues in amounts sufficient to pay, to the extent not otherwise paid, all the debt service on the Generation System bonds on a parity of lien with the Electric System Senior bonds.

The PUD is required to maintain a cash reserve for certain Electric System bonds. At December 31, 2019 and 2018, the PUD maintained the reserve requirement of $18.8 million in the Electric System.

The fair value of the Electric System's long-term debt was $377.5 million and $373.1 million, respectively, at December 31, 2019 and 2018. The fair value of the Electric System's long-term debt is estimated based on quoted market prices for the same or similar issues.

The PUD provided an irrevocable $1.6 million letter of credit to Bonneville Power Administration to secure transmission projects under an agreement. The letter of credit expired on October 31, 2018, and the PUD did not have any draws on this letter of credit.

Generation System

A summary of principal outstanding on Generation System long-term debt follows:

	December 31, 2019	December 31, 2018
	(In thousands)	
Series 2015 Revenue bonds, 5.0%, due 2025-2045, earliest call 2025	$ 39,985	$ 39,985
Series 2010A Revenue Refunding bonds, 4.0-5.0%, due 2020-2024, earliest call 2020	26,465	54,070
Series 2010B Revenue bonds, 5.3-5.7%, due 2020-2040, currently callable	14,050	14,050
Total Principal Outstanding on Long-Term Debt	**$ 80,500**	**$ 108,105**

Changes in the Generation System long-term debt during the years ended December 31, 2019 and 2018, follow (in thousands):

	2017	2018			2019		
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance
Revenue bonds, face amount	$ 134,420	$ –	$ (26,315)	$ 108,105	$ –	$ (27,605)	$ 80,500
Unamortized bond premiums	14,810	–	(1,598)	13,212	–	(1,597)	11,615
Unamortized bond discounts	(10)	–	1	(9)	–	–	(9)
Total Debt	149,220	–	(27,912)	121,308	–	(29,202)	92,106
Less: Current maturities	(26,315)			(27,605)			(5,310)
Total Long-Term Debt	**$ 122,905**			**$ 93,703**			**$ 86,796**

The PUD is required to maintain a cash reserve for certain Generation System bonds. At December 31, 2019 and 2018, the PUD maintained the reserve requirement of $6.5 million and $12.1 million in the Generation System.

At December 31, 2019, $3.8 million of the Series 1989 Generation System Revenue bonds and $24.3 million of the Series 1986A Generation System Revenue Refunding bonds were considered defeased. At December 31, 2018, $7.0 million of the Series 1989 Generation System Revenue bonds and $24.3 million of the Series 1986A Generation System Revenue Refunding bonds were considered defeased.

The fair value of the Generation System's long-term debt was $91.4 million and $117.2 million, respectively, at December 31, 2019 and 2018. The fair value of the Generation System's long-term debt is estimated based on quoted market prices for the same or similar issues.

Water System

A summary of principal outstanding on Water System long-term debt follows:

	December 31, 2019	December 31, 2018
	(In thousands)	
Series 2019 Revenue Refunding bonds, 5.0%, due 2020-2031, not callable	$ 6,570	$ –
Series 2011 Revenue Refunding bonds, 4.0-5.0%, due 2020-2022, earliest call 2021	2,405	3,235
Series 2009 Revenue bonds, refunded in 2019	–	9,270
Series 2006 Revenue and Refunding bonds, redeemed in 2019	–	2,575
State of Washington Drinking Water Revolving Fund loans:		
equal principal payments plus 1.0% interest due annually through 2042	531	–
equal principal payments plus 1.0% interest due annually through 2034	1,868	1,993
equal principal payments plus 1.5% interest due annually through 2029	826	909
equal principal payments plus 1.5% interest due annually through 2027	513	577
equal principal payments plus 2.5% interest due annually through 2022	144	191
Total Principal Outstanding on Long-Term Debt	**$ 12,857**	**$ 18,750**

In December 2019, the PUD issued $6.6 million of Series 2019 Water System Revenue Refunding bonds at a premium of $1.5 million. These proceeds, along with $0.8 million from the Operating Reserve, were used to refund the Series 2009 Water Revenue bonds at a net carrying value of $8.8 million. The costs of issuance of $0.1 million were paid out of the residual bond proceeds. The difference between the funds required to refund the outstanding debt, $8.72 million, and the net carrying amount of the outstanding debt, $8.77 million, is recognized as a deferred inflow of resources to be amortized over the remaining life of the debt.

The economic gain on the refunding is calculated as the difference between the present value of the outstanding debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid. The net present value savings, or economic gain, from the 2009 Water Revenue bond refunding is $1.3 million.

The PUD also used $2.3 million from the Operating Reserve to redeem the outstanding balance of the Series 2006 Water System Revenue and Refunding bonds.

Changes in the Water System long-term debt during the years ended December 31, 2019 and 2018, follow (in thousands):

	2017	2018			2019		
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance
Revenue bonds, face amount	$ 16,790	$ –	$ (1,710)	$ 15,080	$ 6,570	$ (12,675)	$ 8,975
Unamortized bond premiums	502	–	(97)	405	1,455	(153)	1,707
Unamortized bond discounts	–	–	–	–	–	–	–
Other notes payable	3,989	–	(319)	3,670	–	212	3,882
Total Debt	21,281	–	(2,126)	19,155	8,025	(12,616)	14,564
Less: Current maturities	(2,029)			(1,979)			(1,537)
Total Long-Term Debt	**$ 19,252**			**$ 17,176**			**$ 13,027**

The Water System periodically enters into low-interest loan agreements with the Washington State Public Works Trust Fund and the State of Washington Drinking Water Revolving Fund. These funds have provided various loans to the PUD for the repair, replacement, rehabilitation, and reconstruction of water facilities. In 2019, the PUD initiated a drawdown of $0.5 million to pay down a loan of the Warm Beach Water System, which was transferred to the PUD in 2018.

The PUD is required to maintain a cash reserve for certain Water System bonds. At December 31, 2019 and 2018, the PUD maintained the reserve requirement of $0.4 million and $1.2 million in the Water System.

The fair value of the Water System's long-term debt was $10.5 million and $19.1 million, respectively, at December 31, 2019 and 2018. The fair value for the Washington State Public Works Trust Fund loan and the State of Washington Drinking Water Revolving Fund loans approximate the carrying amounts since such loans are exclusive and have no market.

Note 4
BPA Power Purchase Agreement

The PUD is a preference customer of the Bonneville Power Administration (BPA), from which it acquired approximately 83% and 86% of its energy purchases in 2019 and 2018 respectively.

The PUD purchases power from BPA under power supply contracts offered pursuant to the Pacific Northwest Electric Planning and Conservation Act. These contracts provide the PUD with the ability to purchase power in excess of its declared resources on an as-needed basis. The PUD entered into contracts with BPA to purchase approximately 75-85% of its power requirements from the federal agency through 2028.

Energy Northwest Nuclear Projects Nos. 1, 2 and 3

The PUD entered into participation agreements in Energy Northwest's Nuclear Projects Nos. 1, 2 and 3. The PUD, Energy Northwest and BPA have entered into separate Net Billing Agreements with respect to Energy Northwest's Project No. 1, Project No. 2 and 70% ownership share of Project No. 3. The PUD is obligated to purchase from Energy Northwest, and BPA is obligated to purchase from the PUD, a maximum of approximately 20%, 15% and 19%, respectively, of the capacity of Project Nos. 1 and 2 and Energy Northwest's 70% ownership share of Project No. 3. BPA is unconditionally obligated to pay Energy Northwest the PUD's pro rata share of the total annual costs of the projects, including debt service on revenue bonds issued to finance the projects. The effect of these net billing agreements is that the cost of power sold by BPA to all of its customers, including the PUD, includes the cost of these projects.

Notwithstanding the assignment of the PUD's share of the capability of a net billed project to BPA, the PUD remains unconditionally obligated to pay to Energy Northwest its share of the total annual costs of the projects to the extent payment is not received by Energy Northwest from BPA. The PUD has not made payments under this contract.

Note 5
Generation System Projects

The Generation System consists of the PUD's Henry M. Jackson Hydroelectric Project (Jackson Project) and four smaller hydroelectric projects.

Henry M. Jackson Hydroelectric Project

The Jackson Project is a multipurpose hydroelectric project with a capacity of 111.8 megawatts. In 2019 and 2018, the Jackson Project supplied 4% and 5%, respectively, of the PUD's energy needs.

The project is currently operating under a 45-year license issued by the Federal Energy Regulatory Commission (FERC) that will expire in 2056. The license agreement includes requirements for fish, wildlife, and recreation enhancement in the Jackson Project area. The PUD has also negotiated settlement agreements with the cities of Everett and Sultan, Washington Department of Fish and Wildlife, United States Forest Service, and the Tulalip Tribes that call for funding commitments over the course of the 45-year license.

Small Hydroelectric Projects

The Generation System owns four small hydroelectric projects. Two of these, the Youngs Creek Hydroelectric Project (Youngs Creek) and the Woods Creek Hydroelectric Project (Woods Creek) are located near Sultan, Washington, in Snohomish County. Completed in 2011, Youngs Creek has a capacity of 7.5 megawatts, and its FERC license expires in 2042. Woods Creek was purchased by the PUD in 2008, has a capacity of 650 kilowatts, and was upgraded by the PUD to meet current operating standards.

The PUD's other two projects, Calligan Creek Hydroelectric Project (Calligan Creek) and Hancock Creek Hydroelectric Project (Hancock Creek), were completed and began operation in 2018. These 6.0-megawatt run-of-the-river hydroelectric projects are situated near North Bend, Washington, in King County. The 50-year FERC licenses for each project will expire in 2065.

The PUD has committed the Electric System to purchase the output of its Generation System projects at the cost of the power produced.

Note 6
Related Party Transactions

The Generation System sells power to the Electric System at the cost of power produced including debt service and any other cash transactions. The Generation System sold $37.3 and $42.0 million of power in 2019 and 2018, respectively, to the Electric System.

The Electric and Generation Systems periodically enter into loan transactions between the systems for various purposes including to defease bonds, to fund energy generation project construction, and to fund energy generation project studies, including the purchase and development of small hydroelectric projects. These loans are assigned terms consistent with the associated asset acquired, and interest rates are set at tax-exempt bond market rates at the time of the loan.

Electric System loans to the Generation System were $41.4 million and $43.9 million at December 31, 2019 and 2018, respectively. The Generation System recorded interest expense on these loans of $1.7 million in 2019 and $1.6 million in 2018.

In 2019, the Generation System repaid the Electric System for a loan with a balance of $2.0 million. The Electric System recorded interest expense on this loan of $122 thousand in 2019 and $193 thousand in 2018.

Note 7
Retirement and Deferred Compensation Plans

DEFINED BENEFIT PENSION PLANS

The Public Employee Retirement System (PERS) is a cost-sharing multiple-employer retirement system comprised of three separate pension plans for membership purposes. PERS Plan 1 and PERS Plan 2 are defined benefit plans and PERS Plan 3 is a defined benefit plan with a defined contribution component. PERS members include elected officials, state employees, and employees of governmental agencies in the State of Washington.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined after that date are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system

on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes. Plan 1 accounts for defined benefits of Plan 1 members; Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members; and Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portion of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

General Benefits Provided

PERS provides retirement, disability and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of the Washington State Department of Retirement Systems (DRS). Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they terminated their public service.

Substantially all full-time and qualifying part-time PUD employees participate in PERS which is administered by DRS. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

Both the PUD and the employees made the required contributions. The PUD's required contributions for the years ended December 31, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
		(In thousands)	
2019	$ 81	$ 13,105	$ 2,535
2018	81	12,667	2,572
2017	71	11,143	2,124

PERS Plan 1 Description

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

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

Actual Contribution Rates	***Employer***	***Employee***
July 2015 through June 2017	11.18%	6.00%
July 2017 through August 2018	12.70	6.00
September 2018 through December 2019	12.83	6.00

The PUD's contributions as reported by PERS to the plan were $6.2 million, and $6.0 million for the years ended December 31, 2019, and 2018, respectively.

PERS Plan 2/3 Description

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's AFC times the member's years of service for Plan 2 and one percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months, and there is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

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

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

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

Actual Contribution Rates	***Employer Plan 2/3***	***Employee Plan 2***	***Employee Plan 3***
July 2017 through August 2018	12.70%	7.38%	varies
September 2018 through June 2019	12.83%	7.41%	varies
July 2019 through December 2019	12.83%	7.90%	varies

The PUD's contributions as reported by PERS to the plan were $9.7 million, and $9.0 million for the years ended December 31, 2019, and 2018, respectively.

Pension Financial Statement Balances

At June 30, 2019 and 2018, the PUD reported a total pension liability of $44.8 million and $57.5 million for its proportionate share of the net pension liabilities. The pension liability was $33.9 million and $38.8 million for PERS Plan 1 and $10.9 million and $18.7 million for PERS Plan 2/3 at June 2019 and 2018, respectively.

The PUD's proportionate share of the net pension liabilities for PERS Plan 1 was 0.88% and 0.87% for June 30, 2019 and 2018 respectively. The PUD's proportionate share of the PERS Plan 2/3 was 1.12% and 1.10% for June 30, 2019 and 2018 respectively.

Employer contribution transmittals received and processed by DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by DRS in the Schedules of Employer and Non-employer Allocations for all plans.

The collective net pension liability was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

For the years ended December 31, 2019 and 2018, the PUD recognized pension credit of $4.1 million and $2.5 million, respectively, for PERS Plan 1 and a pension credit of $7.0 million and $9.0 million, respectively, for PERS Plan 2/3.

At December 31, the PUD reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	2019				2018			
	PERS 1		*PERS 2/3*		*PERS 1*		*PERS 2/3*	
	Deferred Outflow	*Deferred Inflow*	*Deferred Outflow*	*Deferred Inflow*	*Deferred Outflow*	*Deferred Inflow*	*Deferred Outflow*	*Deferred Inflow*
Differences between expected and actual experience	$ –	$ –	$ 3,127	$ 2,347	$ –	$ –	$ 2,293	$ 3,275
Net difference between projected and actual investment earnings on pension plan investments	–	2,264	–	15,888	–	1,541	–	11,480
Changes of assumptions	–	–	279	4,579	–	–	219	5,324
Changes in proportion and differences between contributions and proportionate share of contributions	–	–	1,142	1,505	–	–	697	1,765
Contributions subsequent to the measurement date	2,954	–	4,765	–	3,059	–	4,467	–
	$ 2,954	$ 2,264	$ 9,313	$ 24,319	$ 3,059	$ 1,541	$ 7,676	$ 21,844

Deferred outflows of resources related to pensions resulting from the PUD's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020 and 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension (income) expense as follows (in thousands):

Year ended December 31:	PERS 1	PERS 2/3
2020	$ (500)	$ (4,965)
2021	(1,184)	(8,301)
2022	(422)	(3,764)
2023	(158)	(2,083)
2024	–	(865)
2025 - 2026	–	207
Total	$ (2,264)	$ (19,771)

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the June 30, 2018, valuation were based on the results of the Washington Office of the State Actuary's (OSA) 2007-2012 Experience Study and the 2017 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments. Assumptions included:

- Inflation: 2.75% total economic inflation; 3.50% salary inflation
- Salary increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.40%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

The discount rate used to measure the total pension liability for all DRS plans was 7.4%. To determine that rate, an asset sufficiency test included an assumed 7.5% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.4% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4% was used to determine the total liability.

The long-term expected rate of return on DRS pension plan investments of 7.4% was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected annual return, standard deviation of the annual return, correlations between the annual returns of each asset class with every other asset class) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the table below.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%

The inflation component used to create the table is 2.2% and represents WSIB's most recent long-term estimate of broad economic inflation.

Sensitivity of Net Pension Liability

The table below presents the PUD's proportionate share of the net pension liability/(asset) calculated using the current discount rate, as well as the PUD's proportionate share of the net pension liability if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

($ Millions)

	2019			2018		
	1% Decrease (6.4%)	Discount Rate (7.4%)	1% Increase (8.4%)	1% Decrease (6.4%)	Discount Rate (7.4%)	1% Increase (8.4%)
PERS Plan 1	$ 42.4	$ 33.9	$ 26.5	$ 47.6	$ 38.8	$ 31.1
PERS Plan 2/3	83.7	10.9	(48.8)	85.6	18.7	(36.1)

Pension Liability Allocation

The pension liability has been allocated to the Electric, Generation and Water Systems, based on percentages of staffing levels between the systems. The PUD's proportionate share of net pension liability for each plan, as of December 31, is as follows (in thousands):

	December 31, 2019		December 31, 2018	
	PERS Plan 1	PERS Plan 2/3	PERS Plan 1	PERS Plan 2/3
Electric System	$ 32,198	$ 10,368	$ 36,843	$ 17,785
Generation System	823	296	938	481
Water System	868	251	988	442

Pension Plan Fiduciary Net Position

The pension plans' fiduciary net position has been determined on the same basis used by the pension plan accounted for in pension trust funds using the flow-of-economic-resources measurement focus and the accrual basis of accounting. Investments are reported at fair value. Unrealized gains and losses are included as investment income in the Statement of Changes in Fiduciary Net Position. The net assets of the retirement funds are valued using the publicly traded securities, limited partnerships, private equity limited partnerships and real estate limited partnerships.

Detailed information about each defined benefit pension plans' fiduciary net position is available in the separately issued DRS 2019 CAFR financial report. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia WA 98504-8380.

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

The PUD implemented GASB No. 75 to recognize net liability related to OPEB and its disclosure requirements. There are two OPEB plans, healthcare and life insurance. They are a single-employer defined benefit OPEB plan administered by the PUD. There are no stand-alone financial statements presented for either of these plans.

Plan Descriptions

Healthcare Plan

The PUD administers retiree self-insured medical and vision insurance and Health Reimbursement arrangement (HRA) benefits for eligible retirees hired before July 1, 2009, and their dependents. Retiree benefit provisions are established by Commission resolution.

In general, the PUD pays a contribution toward the retiree's PUD group health plan premiums or to a Health Reimbursement Arrangement (HRA). For retirees and their dependents under age 65 who elect a PUD group medical plan, the PUD contribution is based on 75% of the premium for the most commonly elected retiree health plan during the prior year. Retirees and their dependents under age 65 who waive PUD group medical plan coverage receive a $180 monthly contribution into their HRA. When a retiree or dependent becomes eligible for Medicare at age 65, the retiree is no longer eligible for the group medical plan; however, the PUD contributes $180 a month to the retiree's HRA. This OPEB plan is closed to employees hired after July 1, 2009. In 2019 and 2018, the PUD contributed $2.0 and $2.2 million, respectively, to the plans. Plan members receiving benefits contributed $0.6 million in both 2019 and 2018.

Retiree Life Insurance

The PUD administers life insurance benefits related to a term life insurance plan terminated in 1986 for eligible retirees. The retiree life insurance benefit provisions were established by Commission resolution.

Employees who were covered by the PUD's group term life insurance prior to November 1986 may reinstate this insurance at the time of retirement subject to a $60,000 maximum benefit. Retiree insurance premium contribution amounts are established by the Commission. The PUD entered into an insurance contract to fully insure the life insurance obligation, and contributed $308,000 and $321,000 towards the premium in 2019 and 2018, respectively.

Valuation Date, Measurement Date and Reporting Date

The Valuation Date of OPEB liability is December 31, 2018. This is the date as of which the census data is gathered and the actuarial valuation is performed. The Measurement Date is December 31, 2018. This is the date as of which the total OPEB liability is determined and rolled forward to the reporting date of December 31, 2019. The reporting date is December 31, 2019, the PUD's fiscal year-end. GASB Statement No. 75 allows a lag of up to one year between the measurement date and the reporting date. There have been no significant changes between the valuation date and fiscal year ends. No adjustment is required between the measurement date and the reporting date.

Actuarial assumptions and other inputs

The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.30% based on Actuary's capital market expectations.
Salary increases	3.05% for which the assumption above inflation is based upon the most recent pension valuation for Plan 2 of the Public Employees Retirement System (PERS), a subset of the Washington State Retirement Systems.
Discount rate	4.10%
Healthcare cost trend rates	6.4 % for 2019-2020, decreasing to an ultimate rate of 4.6 % for 2026 and later years.
Retirees' share of health benefit-related costs	25% of projected health insurance premiums for retirees.
Life insurance cost trend rates	4.5% for 2019-2027.
Retirees' share of life benefit-related costs	23% of projected life insurance premiums for retirees in 2019, 25% in 2020.

The discount rate was based on 20-Year Tax-Exempt Municipal Bond Yield, as required by GASB Statement No. 75.

Mortality rates were based on the RP-2000 Healthy Mortality Table for Males or Females, as appropriate, with 100% of Scale BB fully generational offset one year.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period ended December 31, 2018.

OPEB Liability

As of December 31, 2019, the PUD's total OPEB liability for retiree healthcare was $41.7 million, and $4.4 million for retiree life benefits, recorded in other accrued and other liabilities. The annual payroll of active employees covered by the plan was $70.3 million in 2019, compared to $71.7 million in 2018.

The following census of membership was used in the actuarial valuation:

	Healthcare	Life
Retirees (and beneficiaries for healthcare)	644	232
Active employees	554	9
	1,198	241

The following table shows the changes in the PUD's net OPEB liability (in thousands):

HEALTHCARE	2019			2018
	Electric	Generation	Water	Combined
Net OPEB liability – beginning of year	$ 43,653	$ 1,054	$ 1,099	$ 18,841
Actuarial beginning of year adjustment	–	–	–	25,838
Changes for the year:				
Service Cost	1,096	27	28	1,066
Interest on total OPEB liability	1,490	37	38	1,673
Effect of economic/demographic gains/(losses)	757	19	19	–
Effect of assumptions changes or inputs	(4,406)	(110)	(113)	1,395
Expected benefit payments	(2,812)	(70)	(72)	(3,007)
Net Changes	(3,875)	(97)	(100)	1,127
Net OPEB liability – end of year	**$ 39,778**	**$ 957**	**$ 999**	**$ 45,806**

LIFE	2019			2018
	Electric	Generation	Water	Combined
Net OPEB liability – beginning of year	$ 4,642	$ 119	$ 121	$ 4,853
Actuarial beginning of year adjustment	–	–	–	(33)
Changes for the year:				
Service Cost	7	–	–	12
Interest on total OPEB liability	155	4	4	177
Effect of economic/demographic gains/(losses)	(14)	–	–	–
Effect of assumptions changes or inputs	(297)	(7)	(8)	178
Expected benefit payments	(305)	(8)	(8)	(305)
Net Changes	(454)	(11)	(12)	62
Net OPEB liability – end of year	**$ 4,188**	**$ 108**	**$ 109**	**$ 4,882**

Changes of assumptions and other inputs reflect a change in the discount rate from 3.44 percent in 2018 to 4.10 percent in 2019. The schedule of changes in the PUD's total OPEB liability and related ratios is included in the Required Supplementary Information.

Sensitivity Analysis

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the PUD, calculated using the discount rate of 4.10%, as well as what the PUD's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.10%) or 1 percentage point higher (5.10%) than the current rate (in millions):

	2019		
	1% Decrease (3.10%)	Current Discount Rate (4.10%)	1% Increase (5.10%)
Healthcare	$ 45.7	$ 41.7	$ 38.2
Life	4.9	4.4	4.0

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate

The following presents the total OPEB liability of the PUD, calculated using the current healthcare cost trend rates as well as what the PUD's total OPEB liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates (in millions):

	2019		
	1% Decrease	Current Trend Rate	1% Increase
Healthcare	$ 40.0	$ 41.7	$ 43.8

OPEB Financial Statement Balances

For the year ended December 31, 2019 and 2018, the PUD recognized OPEB healthcare expense of $2.2 million and $3.0 million, respectively. For OPEB life insurance, the PUD recognized OPEB credit of $0.2 million and OPEB expense of $0.4 million for the year ended December 31, 2019 and 2018, respectively. At December 31, 2019, the PUD reported deferred outflows of resources and deferred inflows of resources related to OPEB healthcare from the following sources (in thousands):

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 622	$ –
Changes of assumptions or other inputs	858	(3,623)
Total	**$ 1,480**	**$ (3,623)**

There were no deferred outflows and deferred inflows of resources related to OPEB life plan.

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to other post–employment benefits will be recognized in OPEB income (expense) as follows (in thousands):

Measurement Period Ending December 31:	
2020	$ 565
2021	565
2022	566
2023	447
Thereafter	–
	$ 2,143

POSTEMPLOYMENT DEFINED CONTRIBUTION AND HEALTHCARE PLANS

Employees hired after July 1, 2009, are not eligible for the postemployment defined benefit healthcare plan but are instead eligible for a defined contribution health care plan. Under this plan, the PUD currently contributes $53.86 per month into an employee's individual HRA account, also known as the Retirement Health Savings (RHS) Plan. These funds are available to the employee for qualified health care costs upon termination of employment or retirement from the PUD.

The PUD administers a Non-PERS 401(a) Plan and Trust effective October 1, 1998. Participation in this profit-sharing plan is offered to eligible employees of the PUD as defined in the plan document. The Plan provides certain Employer Contributions to Participants equal to the employer contributions that would have been made to Plan 2 of PERS if Participants in the plan had been eligible to participate in PERS. The PUD made contributions of $22 thousand and $24 thousand in 2019 and 2018, respectively. These funds are available to the Participant following a settlement date as defined in the plan document.

DEFERRED COMPENSATION PLANS

The PUD administers an Internal Revenue Code Section 457 deferred compensation program, covering eligible employees as defined in the plan document. Participants may contribute and defer, up to defined limits, a portion of their current year's

salary. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency. All plan assets are held in trust for the exclusive benefit of participants and their beneficiaries and as such are not included on the PUD's financial statements.

The PUD administers a 401(k) Savings Plan (the Plan) effective May 1, 1985. Participation in the Plan is offered to eligible employees of the PUD as defined in the plan document. The Plan is a defined contribution plan, which provides that participants may make voluntary salary deferral contributions, on a pretax basis, up to a maximum amount as indexed for cost–of–living adjustments. The PUD makes matching contributions in an amount equal to 50% of the first 4% of a participant's compensation contributed as a salary deferral. The PUD made matching contributions of $1.9 million and $1.8 million in 2019 and 2018, respectively.

Note 8
Self-Insurance Fund

The PUD maintains a comprehensive insurance program that includes liability insurance coverage of $50 million in excess of a $2 million self–insured retention per occurrence. This coverage insures against certain losses arising from property damage or bodily injury damage claims filed by third parties against the PUD. At December 31, 2019, the PUD's $2 million self–insured retention was fully funded. Self–insurance funds are included in special funds at market value, with a balance of $10.0 million as of December 31, 2019 and 2018.

Note 9
Contingencies

The PUD is involved in various claims arising in the normal course of business. The PUD does not believe that the ultimate outcome of these matters will have a material adverse impact on its financial position or results of operations.

The PUD has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

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REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – PERS

As of June 30 *(In thousands)*

PERS 1	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.88%	0.87%	0.87%	0.91%	0.89%
Employer's proportionate share of the net pension liability	$ 33,889	$ 38,769	$ 41,111	$ 48,809	$ 46,613
Employer's covered employee payroll	$ 642	$ 608	$ 768	$ 1,059	$ 1,481
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	5,278.66%	6,376.48%	5,352.03%	4,610.37%	3,147.32%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	63.22%	61.24%	57.03%	59.10%

PERS 2/3	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	1.12%	1.10%	1.10%	1.14%	1.11%
Employer's proportionate share of the net pension liability	$ 10,915	$ 18,707	$ 38,094	$ 57,276	$ 39,776
Employer's covered employee payroll	$ 122,155	$ 114,293	$ 107,494	$ 106,886	$ 98,786
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	8.94%	16.37%	35.44%	53.59%	40.26%
Plan fiduciary net position as a percentage of the total pension liability	97.77%	95.77%	90.97%	85.82%	89.20%

Notes to Schedule:

Factors that significantly affect trends in the amounts reported in the schedule include changes in benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions such as the discount rate. DRS allocates a portion of contributions from the PERS 2/3 to PERS 1 in order to fund its unfunded actuarially accrued liability.

SCHEDULE OF EMPLOYER CONTRIBUTIONS – PERS

As of December 31 *(in thousands)*

PERS 1	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contributions	$ 81	$ 81	$ 71	$ 98	$ 124	$ 155	$ 152	$ 158	$ 160	$ 148
Contributions in relation to the contractually required contributions	(81)	(81)	(71)	(98)	(124)	(155)	(152)	(158)	(160)	(148)
Contribution deficiency (excess)	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Covered employer payroll	632	632	594	879	1,221	1,611	1,854	2,196	2,574	2,780
Contributions as a percentage of covered employee payroll	12.82%	12.82%	11.95%	11.15%	10.14%	9.62%	8.20%	7.19%	6.22%	6.85%

PERS 2/3										
Contractually required contributions	$ 15,640	$ 15,239	$ 13,267	$ 11,925	$ 10,581	$ 8,989	$ 7,668	$ 6,619	$ 5,337	$ 4,393
Contributions in relation to the contractually required contributions	(15,640)	(15,239)	(13,267)	(11,925)	(10,581)	(8,989)	(7,668)	(6,619)	(5,337)	(4,393)
Contribution deficiency (excess)	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Covered employer payroll	121,760	119,564	110,945	106,716	103,383	97,703	93,277	92,171	85,198	83,012
Contributions as a percentage of covered employee payroll	12.84%	12.75%	11.96%	11.17%	10.23%	9.20%	8.22%	7.18%	6.26%	5.29%

SCHEDULE OF CHANGES IN TOTAL OTHER POST–EMPLOYMENT BENEFITS (OPEB) LIABILITY AND RELATED RATIOS

As of December 31 *(in thousands)*

	2019		2018	
Total OPEB Liability	Post retirement Health	Post retirement Life	Post retirement Health	Post retirement Life
Service cost	$ 1,151	$ 7	$ 1,066	$ 12
Interest on total OPEB liability	1,565	163	1,673	177
Effect on economic/demographic gains/(losses)	794	(14)	–	–
Effect of assumption changes or inputs	(4,629)	(312)	1,395	178
Expected benefit payments	(2,954)	(321)	(3,007)	(305)
Net change in total OPEB liability	$ (4,073)	$ (477)	$ 1,127	$ 62
Total OPEB liability, beginning	45,806	4,882	44,679	4,820
Total OPEB liability, ending	$ 41,733	$ 4,405	$ 45,806	$ 4,882
Covered employee payroll	$ 70,291	N/A	$ 71,696	N/A
Total OPEB liability as a % of covered employee payroll	59.37%	N/A	63.89%	N/A

Notes to Schedule:

There are no changes of benefit terms.

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate, election, demographic, and health assumptions each period.

The PUD has established a fund to address the unfunded portion of future postemployment benefits. The balance of this account was $32.2 million and $29.1 million as of December 31, 2019 and 2018, respectively, and is included in special funds on the statements of net position. Since these funds have not been placed in an irrevocable trust, the PUD has not reduced the unfunded actuarial liability by these funds. Effective January 1, 2015, the PUD has entered into an insurance product that is expected to fund the remaining life insurance liability.

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE GENERATION SYSTEM BOND RESOLUTION

The following summary is an outline of certain provisions of the Generation System Bond Resolution (the "Resolution"), is not to be considered a full statement thereof and is qualified by reference to the complete Resolution. Many of the capitalized words or phrases (other than those conventionally capitalized) used in this summary and elsewhere in this Official Statement are defined in the Resolution. Certain of those definitions are summarized below. For purposes of this Appendix, "Bonds" means Generation System Bonds and "Revenues" means Generation System Revenues.

Certain Definitions

"Annual Debt Service" for any Fiscal Year means the sum of the amounts required in such Fiscal Year to pay: (a) the interest due in such Fiscal Year on all Outstanding Bonds, excluding interest to be paid from the proceeds of sale of Bonds or other bonds; (b) the principal of all Outstanding Serial Bonds due in such Fiscal Year; (c) the sinking fund installment for Term Bonds, if any, for such Fiscal Year; and (d) any regularly scheduled District Payments adjusted by any regularly scheduled Reciprocal Payments during such Fiscal Year (See "Additional Indebtedness—Derivative Products" in this Appendix C). The Resolution specifies how debt service is calculated for Capital Appreciation Bonds, Deferred Income Bonds, Tender Option Bonds and Variable Interest Rate Bonds.

"Annual Debt Service of the Electric System" means "Annual Debt Service" as such term is defined in the Electric System Bond Resolution. (See Appendix C—"SUMMARY OF CERTAIN PROVISIONS OF THE ELECTRIC SYSTEM BOND RESOLUTION—Certain Definitions.")

"Code" means the Internal Revenue Code of 1986, as amended, and applicable regulations.

"Debt Service Reserve Requirement" means, for the Bonds of all Series secured by the Reserve Account, the lesser of (i) ten percent (10%) of the principal amount of such Bonds, (ii) maximum Annual Debt Service on the Bonds in any Fiscal Year, and (iii) 125% of average Annual Debt Service on the Bonds in any Fiscal Year, in each case as determined from time to time. Any future Series of Bonds may be secured by the Reserve Account if specified in the Supplemental Resolution authorizing the issuance of such Series of Bonds. In the case of Variable Interest Rate Bonds, the interest rate thereon shall be calculated on the assumption that such Bonds will bear interest at a rate equal to a rate reported within the previous 30 days by "The Bond Buyer" as the Bond Buyer's Municipal Bond or 40-Bond Index, or its successor index; provided that in no event shall such assumed Series of Variable Interest Rate exceed the Maximum Interest Rate for such series of Variable Interest Rate bonds. In the case of Capital Appreciation Bonds, the maximum amount of interest thereon shall be calculated to be the maximum annual accretion in value of such Capital Appreciation Bonds from the date of calculation until the final maturity thereof. In the case of Deferred Income Bonds, the maximum amount of interest thereon shall be calculated to be equal to the higher of (a) the maximum annual accretion in value of such Deferred Income Bonds from the date of calculation until the Interest Commencement Date, and (b) the maximum annual interest from the Interest Commencement Date to the final maturity thereof. In the case of a Derivative Product, the maximum amount of interest shall be calculated to include the amount of any regularly schedule District Payments adjusted by any regularly scheduled Reciprocal Payments.

"Generation System" means (i) the electric utility properties, rights and assets, real and personal, tangible and intangible, of the "Jackson Hydroelectric Project of Public Utility District No. 1

of Snohomish County, Washington," and additions, improvements, betterments and extensions thereof and thereto, and (ii) any facilities or resources for the generation, transmission or conservation of power and energy including any incidental properties to be constructed or acquired in connection therewith, which facilities or resources are designated by resolution of the Commission as a part of the Generation System, and addition, improvements, betterments and extensions thereof and thereto. The Generation System shall not include any properties or assets of the Electric System except as heretofore or hereafter transferred and sold to the Generation System by resolution of the Commission or of any generating, conservation, transmission or distribution facilities acquired by the District as a separate electric utility system, the revenues of which are pledged to the payment of notes, bonds or other obligations issued to purchase, construct or otherwise acquire such separate electric utility system. The District may, by resolution, consolidate the Electric System and Generation System into a single system. Prior to consolidating the Electric System and Generation System, the District must obtain confirmation from each rating agency then rating the Bonds that the consolidation will not adversely impact the then current rating(s) on the Bonds. In addition, the District must obtain an opinion of bond counsel that the consolidation will not adversely affect the tax-exempt status of any Outstanding Bonds.

"Generation System Power Costs" has the meaning set forth under "SECURITY FOR THE 2020A Bonds— Payment of Generation System Power Costs."

"Investment Securities" means the following to the extent the same are legal, from time to time, for investments of funds of the District: (a) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States, including obligations of any of the federal agencies set forth in clause (b) below to the extent unconditionally guaranteed by the United States; (b) obligations of the Export-Import Bank of the United States, the Government National Mortgage Association, the Federal National Mortgage Association to the extent guaranteed by the Government National Mortgage Association, the Federal Financing Bank, the Farmers Home Administration, the Federal Housing Administration, the Private Export Funding Corporation, the Federal Home Loan Bank, and the Federal Home Loan Mortgage Bank, or any agency or instrumentality of the Federal Government which shall be established for the purposes of acquiring the obligations of any of the foregoing or otherwise providing financing therefor; (c) new housing authority bonds issued by the public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States; or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States; (d) direct and general obligations of any State within the territorial United States, to the payment of the principal of and interest on which the full faith and credit of such State is pledged, provided, that at the time of their purchase, such obligations are rated in one of the two highest rating categories by Moody's and S&P (in the event S&P rates such obligations); (e) certificates of deposit, whether negotiable or nonnegotiable, issued by any bank, savings and loan association, or trust company, provided that such certificates of deposit shall be (i) continuously and fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or (ii) issued by a recognized qualified public depositary of the State of Washington under RCW Chapter 39.58, as amended, or (iii) continuously and fully secured by such securities as are described above in clauses (a) or (b), which shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit or (iv) certificates of deposit with domestic commercial banks which have a rating on their short-term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's; (f) any written repurchase agreement with any bank, savings institution or trust company which is insured by the Federal Deposit Insurance Corporation, or with any brokerage dealer with retail customers which falls under Securities Investors Protection Corporation protection, provided that such

repurchase agreements are fully secured by direct obligations of the United States of America, or any agency thereof and provided further that (i) such collateral is held by the District or its agent or trustee during the term of such repurchase agreement, (ii) such collateral is not subject to liens or claims of third parties, (iii) such collateral has a market value (determined at least once weekly) at least equal to 100% of the amount invested in the repurchase agreement, (iv) the District or its agent or trustee has a perfected first security interest in the collateral, (v) the failure to maintain such collateral at the level required in (iii) above will require the District or its agent or trustee to liquidate the collateral; (g) Refunded Municipals rated Aaa by Moody's; (h) banker's acceptances with commercial banks that have a rating on their short-term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P or "P-1" by Moody's, or in the event each of such rating agencies rates such obligations, by each of them, and that mature no more than 360 days after the date of purchase; and (i) notwithstanding any of the foregoing provisions any investments permitted under the laws of the State of Washington as amended from time to time.

"Net Revenues of the Electric System" means "Net Revenues" as such term is defined in the Electric System Bond Resolution. (See Appendix C—"SUMMARY OF CERTAIN PROVISIONS OF THE ELECTRIC SYSTEM BOND RESOLUTION—Certain Definitions.")

"Operating Expenses" means (i) all the District's expenses for operation and maintenance of the Generation System, and ordinary repairs, replacements and reconstruction of the Generation System not constituting a unit of property (as prescribed in the Uniform System of Accounts of FERC), including all costs of producing and delivering electric power and energy from the Generation System and payments (other than payments out of Bond proceeds) into reasonable reserves in the Revenue Fund for items of Operating Expenses and other costs without limiting the generality of the foregoing the payment of which is not immediately required, and shall include costs of transmission service, generating capacity reserve service and scheduled, emergency, economy or other interchange service, all other costs of purchased power (except costs under any purchased power contracts which secure the payment of debt issued to finance the facilities providing such power), rents, administrative and general expenses, engineering expenses, legal and financial advisory expenses, required payments to pension, retirement, health and hospitalization funds, insurance premiums and any taxes or payments in lieu of taxes, all to the extent properly allocable to the Generation System, (ii) any current expenses or obligations required to be paid by the District under the provisions of the Resolution or by law, all to the extent properly allocable to the Generation System, and (iii) the fees and expenses of the Trustee and Bond Registrar. Operating Expenses shall not include District Payments (as hereinafter defined), any costs or expenses for new construction or any allowance for depreciation and there shall be included in Operating Expenses of the Generation System only that portion of the total administrative and general expenses of the District that are properly allocable to the Generation System.

"Outstanding" when used with respect to Bonds means, as of any date, Bonds theretofore or thereupon issued pursuant to the Resolution except (i) any Bonds canceled by the Registrar or paid at or prior to such date; (ii) Bonds in lieu of or in substitution for which Bonds have been delivered; and (iii) Bonds deemed to be no longer Outstanding under the Resolution.

"Parity Lien Obligations" means such term as it is defined in the Electric System Bond Resolution. (See Appendix C—"SUMMARY OF CERTAIN PROVISIONS OF THE ELECTRIC SYSTEM BOND RESOLUTION—Certain Definitions.")

"Qualified Insurance" means any noncancelable municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies)

which insurance company or companies, as of the time of issuance of such policy or surety bond, are currently rated in one of the two highest rating categories by Moody's Investors Service and Standard & Poor's Ratings Services or their comparably recognized business successors.

"Qualified Letter of Credit" means any irrevocable letter of credit issued by a financial institution for the account of the District on behalf of the owners of the Bonds, which institution maintains an office, agency or branch in the United States and as of the time of issuance of such letter of credit, is currently rated in one of the two highest rating categories by Moody's Investors Service and Standard & Poor's Ratings Services or their comparably recognized business successors.

"Resource Obligation" means such term as defined in the Electric System Bond Resolution. (See Appendix C—"SUMMARY OF CERTAIN PROVISIONS OF THE ELECTRIC SYSTEM BOND RESOLUTION—Certain Definitions.")

"Revenues" means the income, revenues, and receipts derived by the District through the ownership and operation by it of the Generation System, but, except as provided in the Resolution, shall not include any income derived by the District through the ownership and operation by it of the Electric System or of any other generation, transmission and distribution facilities that may hereafter be purchased, constructed or otherwise acquired by the District as a separate electric utility system, or any Reciprocal Payments (as hereinafter defined). Federal and state grant moneys received by the District in any Fiscal Year to pay or reimburse all or a portion of periodic payments of principal of and/or interest or redemption premium on the Bonds shall constitute Revenues if designated as such by the District.

"Serial Bonds" means Bonds that are not Term Bonds.

"Series" or "Series of Bonds" or "Bonds of a Series" means all Bonds designated as being of the same series issued and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter delivered in lieu thereof or in substitution therefor pursuant to the Resolution.

"Term Bonds" means Bonds the retirement or the redemption of which shall be provided from money credited to the Term Bond Principal Account in the Bond Fund.

"Treasurer" means the Treasurer of the District as designated, from time to time, by resolution of the Commission.

"Value of Investment Securities" means the total market value of such Investment Securities (inclusive of any accrued interest not subject to rebate to the United States Treasury) except for securities that mature within six months from their date, which shall be valued at the par value thereof.

Authorization of Issuance of Bonds

The Resolution continues and confirms an issue of Bonds of the District to be issued in series and provides for the issuance of the initial Series of Bonds subsequent to the adoption of the Resolution. The Bonds of each Series issued under the Resolution are to be equally and ratably payable and secured under the Resolution without priority by reason of date of adoption of the Supplemental Resolution providing for their issuance or by reason of their series, number or date of sale, issuance, execution or delivery, and by the liens, pledges, charges, trusts, assignments and covenants made by the Resolution, except as otherwise expressly provided or permitted by the Resolution and except as to insurance which may be obtained by the District to insure the repayment of one or more Series or maturities within a Series.

Additional Indebtedness

Additional Bonds

The Resolution provides that additional Bonds (other than Refunding Bonds) may be issued in one or more Series to pay the Generation System Costs (as defined in the Resolution) or the costs of the reconstruction or replacement of the Generation System, or any portion thereof, to the extent any money received as a result of any transfer by operation of law or any insurance proceeds received as a result of any loss or damage thereto are insufficient for such purpose or for any other lawful purpose only if at the time of the delivery of each Series of Bonds:

(l) There shall have been adopted by the Commission a Supplemental Resolution authorizing the issuance of such Series of Bonds and providing for compliance with the requirements of the Resolution with respect to the Debt Service Reserve Account;

(2) There shall have occurred no default in the payment of debt service on any Bond nor shall the District be in default in performance of any covenants in the Resolution or if such default exists, an opinion of Bond Counsel shall be provided that any such default does not deprive any Bondowner of the security provided by the Resolution in any material respect; and

(3) There has been filed with the Secretary of the Commission either:

(a) a certificate of the Treasurer stating that Net Revenues of the Electric System in any 12 consecutive months out of the most recent 24 months preceding the delivery of the Bonds then proposed to be issued (the "Base Period"), after deducting therefrom amounts paid in the Base Period to satisfy all Parity Lien Obligations (including projected maximum Annual Debt Service on the Bonds then proposed to be issued), were not less than 125% of maximum Annual Debt Service of the Electric System in any future Fiscal Year on all Outstanding Electric System Bonds (provided that (i) in the event that any adjustment in the rates, fees and charges for the services of the Electric System shall be effective at any time on or prior to the date of delivery of the Bonds then proposed to be issued or within sixty days subsequent to the delivery of such Bonds, the Treasurer shall reflect in his or her certificate the Net Revenues of the Electric System he or she calculates would have been collected in the Base Period if such new rates, fees and charges had been in effect for the entire Base Period and (ii) with respect to any Variable Interest Rate Bonds of the Electric System or Generation System Outstanding on the date such certificate is delivered, the Treasurer shall estimate the debt service on such Bonds in accordance with the Resolution), or

(b) a certificate of a Professional Utility Consultant stating that

(i) (taking into consideration such adjustments as he or she deems appropriate) the issuance of the additional Bonds then proposed to be issued will not result in the District's inability to comply with its rate covenants in the Resolution; and

(ii) if such additional Bonds are being issued to pay Generation System Costs incurred or to be incurred for additions, improvements, betterments and extensions to the Generation System which will increase the total installed capacity thereof or the total energy output thereof, the plan for such additions, improvements, betterments and extensions is consistent with sound utility power supply planning and will not materially adversely interfere with operation of the Generation System.

The District may contract with the entity providing a Qualified Letter of Credit or Qualified Insurance or other equivalent credit enhancement device for the Reserve Account that the District's reimbursement obligation to such entity ranks on a parity of lien with the Bonds. In the event that the District elects additionally to secure any issue of Variable Interest Rate Bonds or Tender Option Bonds through the use of a letter of credit or other credit enhancement device, the District may contract with the entity providing such credit enhancement device that the District's reimbursement obligation, if any, to such entity ranks on a parity of lien with the Bonds; provided that the payments due under such reimbursement obligation are such that if such reimbursement obligation were a series of additional Bonds and assuming that such credit enhancement device were to be drawn upon for the full amount available, such Bonds could be issued in compliance with the provisions described above for issuing additional Bonds.

Obligations Payable From Electric System Revenues

The District may issue bonds or other evidences of indebtedness, other than bonds or other evidences of indebtedness issued in anticipation of permanent financing, for any lawful purpose of the District, payable from Electric System Revenues on a parity with the payment of Generation System Power Costs, if the District complies with the provisions summarized in paragraph number three in the preceding section entitled "Additional Bonds."

Refunding Bonds

The District may issue one or more Series of Bonds for the purpose of refunding any Bonds then outstanding if there is on file with the Secretary of the Commission either (1) a certificate of the chief financial officer of the District that immediately after the issuance of such Bonds the aggregate amount of principal and interest becoming due in any Fiscal Year with respect to all Series of Bonds Outstanding shall not be greater than that becoming due immediately prior to such issuance or (2) a certificate of the Professional Utility Consultant that the issuance of such Bonds will not result in a reduction of the Revenues and Electric System Revenues below the amount covenanted in the Resolution to be maintained by the District. In the event that simultaneously with the issuance of such Bonds, the District is also issuing Bonds for other purposes, the computations referred to immediately above are to be made without reference to such Bonds issued for other purposes.

Subordinate Lien Obligations Payable from Revenues

The District may incur indebtedness and issue bonds or other evidences of indebtedness for any corporate use or purpose of the District payable from Revenues subject and subordinate to the payments required to be made from the Revenue Fund for Operating Expenses and the deposits from the Revenue Fund into the Bond Fund and may secure such bonds or other evidences of indebtedness and the payment thereof by a lien and pledge on the Revenues junior and inferior to the lien and pledge on the Revenues created by the Resolution.

Subordinate Lien Obligations Payable from Electric System Revenues

The District may incur indebtedness and issue bonds or other evidences of indebtedness for any corporate use or purpose of the District payable from Electric System Revenues subject and subordinate to the deposits and payments required to be made from the Electric System Revenues into the Revenue Fund for the payment of Generation System Power Costs and may secure such bonds or other evidences of indebtedness and the payment thereof by a lien and pledge on Electric

System Revenues junior and inferior to the lien and pledge on Electric System Revenues created by the Resolution.

Separate System Bonds

Nothing in the Resolution will prevent the District from issuing bonds or other evidences of indebtedness, other than Bonds, to acquire or construct facilities or resources for the generation of power and energy, or for the conservation, transformation or transmission of power and energy, which facilities shall be a separate system and which bonds or other evidences of indebtedness shall be payable solely from the revenues or other income derived from the ownership or operation of such separate utility system.

Derivative Products

To the extent permitted by state law the District may enter into Derivative Products on a parity with the Bonds subject to the conditions set forth in the Resolution and summarized below. The following terms have the following meanings:

(1) "Derivative Facility" means a letter of credit, an insurance policy, a surety bond or other credit enhancement device, given, issued or posted as security for the District's obligations under one or more Derivative Products.

(2) "Derivative Payment Date" means any date specified in the Derivative Product on which a District Payment is due and payable under the Derivative Product.

(3) "Derivative Product" means a written contract or agreement between the District and a third party that has or whose obligations are unconditionally guaranteed by a party that has (as of the date of the Derivative Product) at least an investment grade rating from a rating agency (the "Reciprocal Payor") (who, if the District's Bonds are rated by Moody's Investors Service, must have a rating as high as that of the District), which provides that the District's obligations thereunder will be conditioned on the performance by the Reciprocal Payor of its obligations under the agreement, and

(a) under which the District is obligated to pay, on one or more scheduled and specified Derivative Payment Dates, the District Payments in exchange for the Reciprocal Payor's obligation to pay or to cause to be paid to the District, on scheduled and specified Derivative Payment Dates, the Reciprocal Payments;

(b) for which the District's obligations to make District Payments may be secured by a pledge of and lien on the Revenues on an equal and ratable basis with the Outstanding Bonds;

(c) under which Reciprocal Payments are to be made directly into the Bond Fund;

(d) for which the District Payments are either specified to be one or more fixed amounts or are determined as provided by the Derivative Product; and

(e) for which the Reciprocal Payments are either specified to be one or more fixed amounts or are determined as set forth in the Derivative Product.

(4) "District Payment" means any payment (designated as such by a Supplemental Resolution) required to be made by or on behalf of the District under a Derivative Product and which is determined according to a formula set forth in the Derivative Product.

(5) "Reciprocal Payment" means any payment (designated as such by a Supplemental Resolution) to be made to, or for the benefit of, the District under a Derivative Product by the Reciprocal Payor.

(6) "Reciprocal Payor" means a party to a Derivative Product that is obligated to make one or more Reciprocal Payments thereunder.

The following are conditions precedent to the use of any Derivative Product on a parity with any Bonds under the Resolution:

(1) General Parity Tests. The Derivative Product must satisfy the requirements for additional Bonds described in the Resolution, taking into consideration regularly scheduled District Payments and regularly scheduled Reciprocal Payments under the Derivative Product.

(2) Opinion of Bond Counsel. The District shall obtain an opinion of Bond Counsel on the due authorization and execution of such Derivative Product, the validity and enforceability thereof and opining that the action proposed to be taken is authorized or permitted by the Resolution or the applicable provisions of any Supplemental Resolution and will not adversely affect the excludability for federal income tax purposes of the interest on any Outstanding Bonds.

(3) Payments. Each Derivative Product shall set forth the manner in which the District Payments and Reciprocal Payments are to be calculated and a schedule of Derivative Payment Dates.

(4) Supplemental Resolutions to Govern Derivative Products. Prior to entering into a Derivative Product, the District shall adopt a Supplemental Resolution, which shall:

(a) establish general provisions for the rights of providers of Derivative Products or Derivative Facilities; and

(b) set forth such other matters as the District deems necessary or desirable in connection with the management of Derivative Products as are not clearly inconsistent with the provisions of the Resolution.

Application of Bond Proceeds

The proceeds derived from each Series of Bonds issued to pay Generation System Costs are required to be deposited:

(1) to the Interest Account in the Bond Fund in an amount equal to the accrued interest on such Series of Bonds paid by the initial purchasers thereof and such additional amount as the Commission determines in the Supplemental Resolution authorizing such Series of Bonds to be credited thereto to provide for the payment of interest on Bonds which is defined as a Generation System Cost;

(2) to the Debt Service Reserve Account in the Bond Fund, in an amount which, together with amounts insured by Qualified Insurance or guaranteed by a Qualified Letter of Credit, shall equal the Debt Service Reserve Requirement, as defined above;

(3) in the Revenue Fund such amount, if any, as the Commission determines in the Supplemental Resolution authorizing such Series of Bonds to be deposited thereto to provide a working capital reserve; and

(4) in the Construction Fund the balance of such Bond proceeds to be applied to the payment of Generation System Costs.

The District is authorized and directed to make disbursements from the Construction Fund to pay Generation System Costs. The District is required to prepare and keep in its files in respect of each disbursement from the Construction Fund a written requisition signed by the General Manager or by another Authorized Officer with respect to each payment made or to be made.

In the event a Series of Bonds is issued to pay the costs of additions, improvements, repairs, renewals and replacements to the Generation System which are not Operating Expenses, if the Construction Fund no longer exists, the District is required to create a new construction fund, to be held and administered by the District substantially in accordance with the Resolution.

Revenues and Flow of Funds

To secure the payment of the Bonds, the Resolution continues in existence the previously created Revenue Fund and Construction Fund to be held and administered by the District and creates the Bond Fund, which is comprised of the Interest Account, the Serial Bond Principal Account, the Term Bond Principal Account and the Debt Service Reserve Account, to be held and administered by the District.

Revenue Fund

The Resolution provides that the District will pay into the Revenue Fund all of the Revenues and other money required to be paid into the Revenue Fund (other than the Revenues and other amounts expressly required or permitted to be credited to, or deposited in, any other fund or account). The District shall make monthly payments into the Revenue Fund in an amount, together with amounts then on deposit in the Revenue Fund and available for such purpose, which is equal to Generation System Power Costs for that month then unpaid plus estimated Generation System Power Costs for the next month provided power or energy or other goods and services from the Generation System was made available to the Electric System during such month pursuant to the Resolution. In any month in which no power and energy or other goods or services of the Generation System were made available to the Electric System, the District shall pay into the Revenue Fund out of Electric System Revenues, after payment of operation and maintenance expenses of the Electric System, an amount sufficient to pay estimated Generation System Power Costs for the next succeeding month and to pay any deficiencies in the payment of Generation System Power Costs for the then current or any prior month. The District will apply money in the Revenue Fund first to the payment of Operating Expenses for such month and second to the deposit in the Bond Fund of the amounts required, if any, and, in the event that any Derivative Product exists on a parity of lien with the Bonds, to make regularly scheduled District Payments as adjusted by regularly scheduled Reciprocal Payments and to make payments required by a reimbursement agreement which is on a parity of lien with the Bonds. There will be retained in the Revenue Fund, after amounts are applied to Operating Expenses and the amounts required to be deposited in the Bond Fund have been so deposited, any balance of the Revenues. Such money may, in the discretion of the District, be used (1) to pay principal, premium, if any, and interest on the Bonds; (2) for transfer to any other fund or account created by the Resolution; (3) for the purchase or redemption of any Bonds; (4) to pay any

subordinated indebtedness of the Generation System; or (5) for any lawful corporate purpose of the District.

Bond Fund

At the times provided below, after payment of Operating Expenses the District is required under the Resolution to withdraw from the Revenue Fund and transfer to the Bond Fund, amounts as follows and in the following order of priority:

(1) Interest Account. In the case of all Bonds other than Variable Interest Rate Bonds, not later than the day prior to the date on which an installment of interest falls due on the Bonds of a Series, the District shall transfer to the Interest Account an amount equal to the installment of interest then falling due on all Bonds of such Series. In the case of Variable Interest Rate Bonds, the District shall make transfers to the Interest Account at such times and in such amounts as shall be specified in the Supplemental Resolution authorizing the Series of Variable Interest Rate Bonds. Any amounts credited to the Interest Account representing accrued interest received on the sale of Bonds, interest capitalized from the proceeds of the Bonds of a Series and any other transfers and credits otherwise made or required to be made to the Interest Account shall be taken into consideration and allowance made with respect to the full amount of such transfers and credits.

(2) Serial Bond Principal Account and Term Bond Principal Account. Not later than the day prior to the date upon which an installment of principal on Serial Bonds or Term Bonds falls due, the District shall transfer to the Serial Bond Principal Account or the Term Bond Principal Account, as appropriate, an amount equal to such installment.

Not later than the day prior to the date upon which a sinking fund installment on Term Bonds falls due, the District is to transfer to the Term Bond Principal Account an amount equal to such installment.

The District is required to apply the money credited to the Term Bond Principal Account as sinking fund installments to the retirement of the Term Bonds of such Series by redemption in accordance with the Supplemental Resolution providing for the issuance of such series of Bonds (a) on each date upon which a sinking fund installment is due with respect to a particular series of Bonds, or (b) on the first day of any month prior to such date, in respective principal amounts credited to the Term Bond Principal Account on such dates for such Term Bonds, so that the aggregate amounts so applied will equal the respective principal amounts required to be credited to the Term Bond Principal Account on such sinking fund installment dates by the Supplemental Resolution providing for their issuance; provided that if the last sinking fund installment for such Term Bonds falls due on the stated maturity date thereof, the amount of such installment shall be applied to the payment thereof at such maturity date. The District shall apply the money credited to the Term Bond Principal Account as sinking fund installments for the retirement of the Term Bonds of a particular Series to the purchase of such Bonds, at a purchase price (including accrued interest and any brokerage or other charge) not to exceed the redemption price then applicable upon the redemption of such Bonds from sinking fund installments, plus accrued interest, in which event the principal amount of such Bonds required to be redeemed on the next sinking fund installment date shall be reduced by the principal amount of the Bonds so purchased; provided, however, that no Bonds of such Series shall be purchased during the interval between the date on which notice of redemption of such Bonds from sinking fund installments is given and the date of redemption set forth in such notice, unless the Bonds so purchased are Bonds called for redemption in such notice or are purchased from money other than that credited to the Term Bond Principal Account with respect to such sinking fund installments. Money in the Term Bond Principal Account, other than money credited thereto as

sinking fund installments, may be applied to the purchase or redemption of a Series of Bonds. The price payable on any such purchase shall not exceed the highest redemption price applicable at the time or any time thereafter with respect to such Series of Bonds.

In the event of the purchase or redemption of Term Bonds of a particular Series, except from money credited to the Term Bond Principal Account as sinking fund installments, the principal amount of Term Bonds of such Series so purchased or redeemed are to be credited to future sinking fund installments for the Term Bonds of such Series in such manner as the District shall determine.

Any purchase of Bonds may be made with or without tenders of Bonds and at either public or private sale, as shall be determined by the District. The accrued interest to be paid on the purchase or redemption of such Bonds is to be paid from the Interest Account.

(3) Debt Service Reserve Account. The Resolution requires that, to the extent permitted under the Code, there shall be deposited from the proceeds of each Series of Bonds into the Bond Fund for credit to the Debt Service Reserve Account an amount so that there will be on deposit therein money and Value of Investment Securities equal to the Debt Service Reserve Requirement. If with respect to any Series of Bonds the amount of proceeds of such Series of Bonds permitted by the Code to be deposited into the Bond Fund for credit to the Debt Service Reserve Account is less than the Debt Service Reserve Requirement allocable to such Series of Bonds, the Supplemental Resolution providing for the issuance of such Series of Bonds shall provide for further and additional payments into the Bond Fund for credit to the Debt Service Reserve Account from money in the Revenue Fund in such amounts and at such times so that by no later than five years from the date of issuance of such additional Series of Bonds or by the final maturity thereof, whichever occurs first, there will be credited to the Debt Service Reserve Account an amount equal to the Debt Service Reserve Requirement. Notwithstanding the foregoing provisions, any Supplemental Resolution authorizing the issuance of Bonds may provide for the District to obtain Qualified Insurance or a Qualified Letter of Credit for specific amounts required by the Resolution to be paid out of the Debt Service Reserve Account. The face amount of any such Qualified Insurance or a Qualified Letter of Credit shall be credited against the amounts required to be maintained in the Debt Service Reserve Account to the extent that such payments and credits to be made are insured by an insurance company, or guaranteed by a letter of credit from a financial institution. Such Qualified Letter of Credit or Qualified Insurance shall not be cancelable on less than three years notice. In the event of any cancellation, the Debt Service Reserve Account shall be funded in accordance with the provisions of the Resolution providing for payments to the Debt Service Reserve Account in the event of a deficiency therein, provided that the deficiency shall be funded in equal monthly installments over the period remaining until such cancellation becomes effective.

A determination as to the money and Value of Investment Securities in the Debt Service Reserve Account is to be made by the District as of January 1 and July 1 of each year and immediately following any withdrawal of amounts in the Debt Service Reserve Account as required by the Resolution. If the money and Value of Investment Securities in the Debt Service Reserve Account shall be less than the Debt Service Reserve Requirement as of the date of any valuation thereof, the District shall so notify any insurer of Bonds and shall then, beginning with last day of the month next succeeding such date, after paying Operating Expenses and making the transfers to the Bond Fund for credit to the Interest Account, the Serial Bond Principal Account and the Term Bond Principal Account, make monthly transfers from the Revenue Fund to the Bond Fund for credit to the Debt Service Reserve Account equal to one-sixth of the amount as originally determined by which the money and Value of Investment Securities in the Debt Service Reserve Account is less than the Debt Service Reserve Requirement, until there shall be on deposit in the Debt Service Reserve Account money and Value of Investment Securities equal to the Debt Service Reserve Requirement based upon the most recent valuation of that account; provided that if a Series of Bonds is issued during a period

in which a deficiency exists in the Debt Service Reserve Account, to the extent permitted under the Code, the District shall deposit proceeds of such Series in the Bond Fund for credit to the Debt Service Reserve Account sufficient to make up any of the deficiency in the Debt Service Reserve Account at the time of such issuance, based upon the most recent valuation of that account.

If, as of the first business day of any Fiscal Year or as of a date upon which there is a withdrawal from the Debt Service Reserve Account (other than earnings on Investment Securities), the money and Value of Investment Securities as of the last date of calculation thereof, in the Debt Service Reserve Account shall exceed the Debt Service Reserve Requirement, the amount of such excess may be transferred as of such date to the Revenue Fund.

When a Series of Bonds is refunded in whole or in part, money may be withdrawn from the Debt Service Reserve Account to provide for the payment of refunded Bonds; provided that after such withdrawal there shall be on credit to the Debt Service Reserve Account money and Value of Investment Securities in an amount equal to the Debt Service Reserve Requirement.

The Resolution provides that in the event amounts in the Interest Account, the Serial Bond Principal Account or the Term Bond Principal Account shall be insufficient for the purposes of such payment, the District shall promptly make up such deficiency from the Debt Service Reserve Account by the withdrawal of cash therefrom and by the sale or redemption of Investment Securities held in the Debt Service Reserve Account, if necessary, in such amounts as will provide cash in the Debt Service Reserve Account sufficient to make up any such deficiency. If a deficiency still exists immediately prior to an interest payment date and after the withdrawal of cash, the District shall then draw from any Qualified Letter of Credit, Qualified Insurance, or other equivalent credit facility in sufficient amount to make up the deficiency. Such draw shall be made at such times and under such conditions as the Resolution and the agreement for such Qualified Letter of Credit or such Qualified Insurance shall provide. Any deficiency created in the Debt Service Reserve Account by reason of any withdrawal therefrom for payment into the Interest Account, the Serial Bond Principal Account or the Term Bond Principal Account shall be made up from money in the Revenue Fund first available after providing for the required payments into such Interest, Serial Bond Principal and Term Bond Principal Accounts and after providing for payments under a reimbursement agreement entered into by the District pursuant to the Resolution.

The Resolution provides that whenever the amount in the Debt Service Reserve Account, together with the amount in the Interest Account, the Serial Bond Principal Account and the Term Bond Principal Account, is sufficient to pay in full all Outstanding Bonds in accordance with their terms, the funds on deposit in the Debt Service Reserve Account shall be transferred to the Interest Account, the Serial Bond Principal Account and the Term Bond Principal Account as appropriate, and that prior to the transfer, investments held in the Debt Service Reserve Account shall be liquidated to the extent necessary in order to provide for the timely payment of principal or redemption price of and interest on Bonds.

Anything in the Resolution to the contrary notwithstanding, references in this subsection to "Bonds" shall refer only to the Bonds of those Series secured by the Debt Service Reserve Account.

Notwithstanding any provision of the Resolution requiring the deposit of any earnings or other money in the Bond Fund, any such earnings that are subject to any rebate or other payment requirement pursuant to applicable provisions of the Code and applicable regulations thereunder may be withdrawn from the Bond Fund for deposit into a separate fund or account created for that purpose. Any amounts required at any time to be withdrawn from the Debt Service Reserve Account or other

accounts in the Bond Fund in order to preserve the tax-exempt status of the Bonds are to be withdrawn and deposited in the Revenue Fund.

Investment of Money in Funds

Money on deposit in the Construction Fund and the Revenue Fund are required to be invested by the District, to the fullest extent reasonable and practicable, in Investment Securities (as defined in the Resolution) maturing in such amounts and at such times as is anticipated by the District that such money will be required to pay the Generation System Costs to be satisfied from the Construction Fund and to make the payments contemplated to be made from the Revenue Fund, as the case may be.

Money in the Bond Fund are required to be invested by the District to the fullest extent reasonable and practicable, in Investment Securities maturing in such amounts and at such times as the District determines so that payments required to be made from the Bond Fund may be made when due, provided that the money on credit to the Debt Service Reserve Account shall be invested in Investment Securities maturing no later than the final maturity date of all Bonds then Outstanding.

All earnings and income derived from investment of money in the funds, other than earnings and income required by the Resolution to be segregated to protect the federal tax exemption of interest in the Bonds, shall, at the option of the District, be deposited in the Construction Fund or the Revenue Fund, provided that all earnings and income derived from investment of money in the Debt Service Reserve Account shall be retained in such account to the extent necessary to satisfy the Debt Service Reserve Requirement.

Covenants To Purchase Electric Power and Energy of the Generation System

The District covenants that the Generation System will sell, and the Electric System will purchase, and by the terms of the Resolution the Generation System does thereby sell and the Electric System does thereby purchase, in each month all of the electric power and energy or other goods and services of the Generation System available in such month for use in the Electric System.

Additional Covenants

The District has covenanted as follows:

To Maintain the Generation System

The District will (1) at all times operate the properties of the Generation System and the business in connection therewith in an efficient manner and at reasonable cost, (2) maintain, preserve and keep the properties of the Generation System in good repair, working order and condition, and (3) make all necessary and proper repairs, renewals, replacements, additions, improvements and betterments thereto and extensions thereof, so that the business carried on in connection therewith shall be properly and advantageously conducted. The District will take all lawful measures required to issue and sell Bonds to the extent required to enable the District to pay Generation System Costs.

To Comply With Licenses

The District will use its best efforts to comply with the terms and conditions of any federal, state or local governmental permit or license for the Generation System and with any federal, state or local law or regulation applicable to the operation, maintenance and repair of the Generation System, including the FERC License for the Jackson Project; provided that the District may, in good faith,

contest by appropriate proceedings, duly prosecuted, the applicability or validity of any such permit, license, law, regulation or approval, if and so long as such contest or proceeding does not impair the security for or the payment of the Bonds.

Not to Render Service Free of Charge; Enforcement of Accounts Owing

Except as required or expressly permitted by statute, so long as any Bonds are Outstanding, the District will not furnish or supply electric power or energy or any other commodity, service or facility furnished by or in connection with the Generation System free of charge to any other system of the District or to any person, firm or corporation, public or private, and the District will promptly enforce the payment of any and all accounts owing to the District by reason of the Generation System.

Disposition of All or Part of the Generation System

The District will not sell, mortgage, lease or otherwise dispose of or encumber all or any portion of the Generation System except that:

(1) The District may sell, lease or otherwise dispose of all or substantially all of the Generation System, provided that simultaneously with such sale, lease or other disposition, the District shall cause all of the Bonds to be, or deemed to be, no longer Outstanding.

(2) Except as provided below, the District will not dispose any part of the Generation System in excess of 5% of the value of the net utility plant of the District in service unless prior to such disposition

(a) there has been filed with the Secretary of the Commission a certificate of a Professional Utility Consultant stating that such disposition will not impair the ability of the District to comply with the rate covenants set forth in the Resolution; or

(b) provision is made for the payment, redemption or other retirement of a principal amount of Bonds equal to the greater of the following amounts:

(i) An amount which will be in the same proportion to the net principal amount of Bonds then Outstanding (defined as the total principal amount of Bonds then Outstanding less the amount of cash and investments in the Bond Fund) that the Revenues attributable to the part of the Generation System sold or disposed of for the 12 preceding months bears to the total Revenues for such period; or

(ii) An amount which will be in the same proportion to the net principal amount of Bonds then Outstanding that the book value of the part of the Generation System sold or disposed of bears to the book value of the entire Generation System immediately prior to such sale or disposition.

(3) The District may dispose of any portion of the Generation System that has become unserviceable, inadequate, obsolete, or unfit to be used or no longer necessary for the use in the operation of the Generation System.

(4) In the event that the ownership of the properties of the Generation System, or any part thereof, shall be transferred from the District through the operation of law, the District shall proceed to reconstruct or replace the portion of the Generation System so transferred and any money received by the District as a result of such transfer shall be applied to the payment of the costs of such

reconstruction or replacement, unless the Commission shall determine by resolution that the same is not in the best interests of the District and the Bondowners. Pending the application of any money received by the District as a result of such transfer to the payment of the costs of such reconstruction or replacement, such money shall be held by the District in a special account and invested in Investment Securities maturing no later than such times as is anticipated by the District that such money will be required to pay the costs of such reconstruction or replacement. The earnings on any money held in such special account shall be credited thereto. Any money received by the District as a result of such transfer or the balance in any such special account not required to be applied to reconstructing or replacing the portion of the Generation System so transferred shall be deposited in the Revenue Fund.

The above provisions with respect to the disposition of part or all of the Generation System shall also be applicable to any disposition of part or all of the Electric System.

Insurance

The District shall either self-insure in such manner and to such extent as the District shall determine to be necessary and appropriate or, as needed, and, to the extent available at reasonable cost, shall keep the Generation System and the operation thereof insured with responsible insurers with policies payable to the District against risks of direct physical loss, damage to or destruction of such properties, and against accidents, casualties or negligence, including liability and employer's liability insurance, at least to the extent that similar insurance is usually carried by electric utilities operating like properties. In the event of any loss or damage to the properties of the Generation System covered by such insurance, the District shall reconstruct or replace the portion of the Generation System suffering such loss or damage and any such insurance proceeds received by the District as a result of such loss or damage shall be applied to pay the costs of such reconstruction or replacement unless the Commission shall determine by resolution that such reconstruction or replacement is not in the best interests of the District and the Bondowners. Any insurance proceeds received as a result of such loss or damage not required to be applied to reconstructing or replacing the portion of the Generation System suffering such loss or damage shall be deposited in the Revenue Fund for use and application to the purchase or redemption of Bonds. In the case of loss, including the loss of revenue, caused by delay in completion of, or by suspension or interruption of generation or transmission of power and energy by the Generation System, the proceeds of any insurance covering such loss shall be paid into the Revenue Fund.

Books of Account; Annual Audit

The District will keep proper books of account, which will be audited annually by a Certified Public Accountant or by the Washington State Auditor's office. Any Bondowner may obtain at the office of the District copies of the District's balance sheet and statement of income and retained earnings showing in reasonable detail the financial condition of the Electric System as of the close of each Fiscal Year.

Professional Utility Consultant

The District shall retain, as Professional Utility Consultant, independent persons or firms (which may but need not be engineering firms) having a favorable reputation for skill and experience in analyzing the operations of electric utility systems, preparing rate analyses, forecasting the loads and revenues of electric utility systems, and the marketing of power and energy therefrom who shall be available to advise the District upon request and render opinions to the District upon request on matters relating to electric power generation, transmission, power supply, electric utility operations, rates and

charges, electric utility economics and financing, and budgets, and to make such investigations and determinations as may be necessary under the Resolution.

To Make Economically Sound Improvements and Extensions

The District will not expend any Revenues or the proceeds of Bonds for any renewals, replacements, capital additions, improvements, betterments or extensions which are not economically sound or which will not properly and advantageously contribute to the conduct of the business of the Generation System in an efficient and economical manner unless required to do so by or pursuant to law so as to permit the continued operation of the Generation System.

To Pay Principal, Premium and Interest on Bonds

The District will duly and punctually pay, or cause to be paid, solely from the Revenues, Electric System Revenues and other moneys pledged in the Resolution to the payment thereof, the principal, premium, if any, and interest on each and every Bond on the date and at the places and in the manner provided in the Bonds, according to the true intent and meaning thereof, and will faithfully do and perform and fully observe and keep any and all covenants, undertakings, stipulations and provisions contained in the Bonds and in the Resolution.

Protection of Security

The District is duly authorized under all applicable laws to create and issue the Bonds and to adopt the Resolution and to pledge the Revenues, amounts of Electric System Revenues and other moneys, securities and funds purported to be pledged by the Resolution in the manner and to the extent provided in the Resolution. The Revenues, amounts of Electric System Revenues and other moneys, securities and funds so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Resolution, except as otherwise expressly provided therein, and all corporate action on the part of the District to that end has been duly and validly taken. The Bonds and the provisions of the Resolution are and will be valid and legally enforceable obligations of the District in accordance with their terms and the terms of the Resolution. The District shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues, amounts of Electric System Revenues and other moneys, securities and funds pledged under the Resolution and all the rights of the Bondowners under the Resolution against all claims and demands of all persons whomsoever.

Authority of District to Acquire and Construct the Generation System, to Provide for the Operation and Maintenance of the Generation System and to Fix and Collect Rates and Charges

The District has good, right and lawful power to acquire and construct the Generation System and to provide for the operation and maintenance of the Generation System and to fix, establish, maintain and collect rates and charges for the Generation System electric power and energy and other services, facilities and commodities sold, furnished or supplied through the facilities of the Generation System.

Payment of Taxes, Assessments and Other Governmental, Charges and Payments in Lieu Thereof; Payment of Claims

The District shall, from time to time, duly pay and discharge, or cause to be paid or discharged, all taxes, assessments or other governmental charges, or payments in lieu thereof, lawfully imposed upon the Generation System, or on the revenues, income, receipts, profits or other moneys derived by the District therefrom when the same shall become due, and all lawful claims for labor and materials and

supplies that, if not paid, might become a lien or charge upon such properties, or any part thereof, or upon the Revenues and other moneys derived by the District directly or indirectly from the Generation System, or that might in any way impair the security of the obligations issued by the District payable from the Revenues and other moneys, except those assessments, charges or claims that the District shall in good faith contest by proper legal proceedings.

Taking Any Further Action Necessary

The District shall, at any and all times, insofar as it may be authorized to do so by law, pass, adopt, make, do, execute, acknowledge, deliver, register, file and record all and every such further resolutions, acts, deeds, conveyances, assignments, recordings, filings, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and other moneys pledged or assigned to the payment of Bonds or intended so to be.

Employees' Fidelity Bonds

The District shall require of agents of the District, and shall obtain for employees of the District collecting or handling money, fidelity bonds with a responsible surety company or companies as surety in reasonable amounts usually obtained by public agencies operating like properties, to protect the District from loss.

Non-Acceleration of Certain Obligations

The District shall not enter into any contract, obligation or evidence of indebtedness requiring the payment of money, described in the provisions of the Electric System Bond Resolution regarding "Separate System Bonds; Resource Obligations" or described in the provisions of the Resolution regarding "Additional Indebtedness—Separate System Bonds" pursuant to which the obligation of the District to make payments of money may be accelerated (upon occurrence of a default) from the regularly scheduled dates of such payments.

Compliance with Electric System Bond Resolution; Amendment Thereof

Until the obligations of the District under the Electric System Bond Resolution have been discharged in accordance with the terms thereof, the District shall comply with the provisions, covenants and agreements contained in the Electric System Bond Resolution. The District will not consent to or agree to any amendment or modification of the Electric System Bond Resolution which would impair the ability of the District to comply with the covenants set forth in the Resolution.

Amendments

The District, without the consent or concurrence of any owner of any Bond, may adopt a resolution amending or supplementing the Resolution (1) to provide for the issuance of Bonds; or (2) if the provisions of such Supplemental Resolution shall not adversely affect the rights of the owners of the Bonds then Outstanding, to make any changes or corrections in the Resolution as to which the District shall have been advised by its Counsel that the same are technical wording corrections or changes or are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error contained in the Resolution, or to insert provisions clarifying matters or questions arising under the Resolution as are necessary or desirable; to add additional covenants and agreements of the District to further secure the payment of the Bonds; to surrender any right, power or privilege reserved to or conferred upon the District by the terms of the Resolution; to

confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge or charge, created or to be created by the Resolution; to grant to or confer upon the owners of the Bonds any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them, or to grant to or confer upon the Trustee for the benefit of the holders of the Bonds any additional rights, duties, remedies, power or authority; and to modify any of the provisions of the Resolution in any other respects; provided that if such modification materially adversely affects the owners of any Bonds, such modification shall not be effective until after the Bonds Outstanding at the time such Supplemental Resolution is adopted shall cease to be Outstanding, in which case any Bonds issued subsequent to any such modification shall contain a specific reference to the modifications contained in such Supplemental Resolution, or until the owners of the Bonds Outstanding at the time such Supplemental Resolution is adopted shall consent thereto.

With the consent of the owners of not less than 60% in aggregate principal amount and Accreted Value, if any, of the Bonds then Outstanding, the District may adopt a resolution amending or supplementing the Resolution to add any provisions to, or change in any manner or eliminate any of the provisions of, the Resolution, or modify or amend the rights and obligations of the District and the Trustee thereunder, or modify in any manner the rights of the owners of the Bonds and coupons then Outstanding; provided that, without the specific consent of the owner of each such Bond which would be affected thereby, no such Supplemental Resolution shall: (1) change the fixed maturity date for the payment of the principal of any Bond or the date for the payment of interest thereon or the terms of the redemption thereof, or reduce the principal amount of any Bond or the rate of interest thereon or the redemption price (or the redemption premium) payable upon the redemption or prepayment thereof, (2) reduce the aforesaid percentage of Bonds, the owners of which are required to consent to any Supplemental Resolution amending or supplementing the provisions of the Resolution; (3) give to any Bond or Bonds any preference over any other Bond or Bonds; (4) authorize the creation of any pledge of the Revenues and other money prior, superior or equal to the pledge of and lien and charge for the payment of the Bonds; or (5) deprive any owner of the Bonds of the security afforded by the Resolution.

Trustee

U.S. Bank National Association or its successor is appointed to act as Trustee (the "Trustee") for the owners of all Bonds. The Trustee may resign by notice in writing to be given to the District and mailed to each Bondowner by the Trustee or published once by the Trustee, in a daily newspaper of general circulation or a financial journal published in New York, New York, not less than 45 days before such resignation is to take effect. Such resignation shall take effect immediately upon the appointment of a new Trustee, if such new Trustee is appointed and accepts the trust before the time stated in such notice.

The Trustee may be discharged by the District at any time as long as an Event of Default has not occurred and is not continuing or at any time by the owners of a majority in aggregate principal amount of the Bonds then Outstanding.

If at any time the Trustee resigns, is discharged, or if the position of Trustee becomes vacant for any other reason, the District must appoint a Trustee to fill such vacancy. The District shall mail notice of any such appointment to each Bondowner or shall publish notice thereof once, in a daily newspaper of general circulation or a financial journal published in New York, New York, within 20 days after such appointment. At any time within one year after such appointment, the owners of a majority in aggregate principal amount of the Bonds then Outstanding may appoint a successor Trustee, which shall supersede any Trustee theretofore appointed by the District.

The Resolution provides that the recitals of fact contained in the Resolution and in the Bonds shall be taken as the statements of the District and the Trustee does not assume any responsibility for the correctness of the same. The Resolution provides further that the Trustee does not make any representations as to the validity or sufficiency of the Resolution or of any Bonds or in respect of the security afforded by the Resolution, and the Trustee shall not incur any liability in respect thereof, and that the Trustee shall not be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof, except to the extent that proceeds are paid to the Trustee, or the application of any moneys paid to the District, or for any losses incurred upon the sale or redemption of any securities purchased for or held in any Fund or Account under the Resolution.

The Resolution provides that the Trustee may exercise any powers under the Resolution and perform any duties required of it through its attorneys, agents, officers or employees, and shall be entitled to advice of counsel (which may be Bond Counsel) concerning all questions under the Resolution. The Resolution provides further that the Trustee shall not be answerable for the exercise of any discretion or power under the Resolution nor for anything whatever in connection with the trust under the Resolution, except only its own willful misconduct or negligence, which shall include but not be limited to failure to make a debt service payment when due if the Trustee has sufficient funds on hand with which to make such payment.

The Resolution provides that the duties and obligations of the Trustee appointed by or pursuant to the provisions of the Resolution prior to the occurrence of an Event of Default, and subsequent to the waiving or curing of such Event of Default, shall be determined solely by the express provisions of the Resolution, and the Trustee shall not be liable except for the performance of its duties and obligations as specifically set forth in the Resolution and to act in good faith in the performance thereof, and no implied duties or obligations shall be incurred by the Trustee other than those specified in the Resolution, and the Trustee shall be protected and shall have no liability when acting or omitting to act in good faith upon the advice of counsel, who may be counsel to the District. The Resolution provides further that in case an Event of Default has occurred which has not been waived or cured, the Trustee shall exercise such of the rights and powers vested in it by the Resolution and use the same degree of care and skill in the exercise thereof as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

The Resolution provides that none of the provisions contained in the Resolution shall require the Trustee to take any action or exercise any remedies, including but not limited to spending or risking its own funds or otherwise incurring individual financial responsibility in the performance of any of its duties or in the exercise of any of its rights or powers if in the Trustee's judgment there are reasonable grounds for believing that the prompt repayment thereof is not reasonably assured to it under the terms of the Resolution.

Events of Default and Remedies

Under the Resolution, each of the following constitutes an "Event of Default": (1) if payment of the principal and premium, if any, on any Bond is not made when due and payable, whether at maturity or by proceedings for redemption or otherwise; or (2) if payment of any installment of interest on any Bond is not made when due and payable; or (3) if the provisions of any Supplemental Resolution with respect to mandatory sinking fund installments or the retirement of Term Bonds is not complied with at the time and in the manner specified in such Supplemental Resolution; or (4) default under any agreement executed by the District with respect to a Qualified Letter of Credit or Qualified Insurance, or any letter of credit or other credit enhancement device providing additional security for any Variable Interest Rate Bonds which default results in the suspension, expiration or termination of the payment obligations of the issuer thereof, or (5) the occurrence of an Event of Default as defined in the

Electric System Bond Resolution: or (6) if the District violates or fails to perform any of its other obligations under the Resolution or any Supplemental Resolution for 60 days after written notice of default is given to the District by the Trustee or by the owners of not less than 66% in aggregate principal amount and Accreted Value, if any, of the Bonds then Outstanding, provided the violation by the District of any provision of, or the failure of the District to perform any of its obligations (other than a failure constituting an Event of Default described in clauses (1) through (3) above) under the Resolution or any Supplemental Resolution shall not constitute an Event of Default if, prior to or within such 60-day period, the District commences appropriate action in good faith to cure such violation or failure and diligently prosecutes such action to completion, notwithstanding that the period required to effect such cure shall extend beyond such 60-day period, or (7) if a court having jurisdiction enters a decree or order for relief adjudging the District a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization or arrangement of the District under any applicable bankruptcy, insolvency or other similar law, and such decree or order continues undischarged or unstayed for 40 days, or if a court having jurisdiction enters a decree or order appointing a receiver, liquidator, assignee, custodian, trustee or sequestrator of the District or any substantial part of its property, or ordering the winding-up or liquidation of the District, and such decree or order remains undischarged or unstayed for 60 days; or (8) if the District institutes voluntary proceedings to be adjudicated insolvent or bankrupt under any applicable bankruptcy, insolvency or other similar law or consents to the filing of a bankruptcy proceeding against it, or to the entry of an order for relief in an involuntary proceeding against it under any such law, or files a petition or answer or consent seeking reorganization or arrangement under any such law, or consents to the filing of any such petition, or consents to the appointment of a receiver, liquidator, trustee, assignee, custodian or sequestrator of the District or any substantial part of its property, or makes an assignment for the benefit of creditors, or admits in writing its insolvency or inability to pay its debts generally as they become due, or takes any action in furtherance of any of the foregoing.

If an Event of Default shall have happened and shall not have been remedied, the District upon demand of the Trustee shall pay over, and the District covenants that upon demand of the Trustee it shall pay over, to the Trustee only to the extent necessary to cure such Event of Default (i) forthwith, all moneys, securities and funds then held by the District and pledged under the Resolution, and (ii) as promptly as practicable after receipt thereof, all Revenues.

During the continuance of an Event of Default as defined under the Resolution or of any other Event of Default resulting in an Event of Default as defined in the Resolution, the Revenues received by the Trustee shall be applied by the Trustee, first, to the payment of all necessary and proper Operating Expenses and all other proper disbursements or liabilities made or incurred by the Trustee and, second, to the then due and overdue payments into the Bond Fund, including the making up of deficiencies therein.

In the event that at any time the funds held by the Trustee pursuant to the Resolution shall be insufficient for the payment of the principal (including any mandatory sinking fund installments), premium, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds) and all Revenues shall be applied as follows: first, to the payment of all necessary and proper Operating Expenses and all other proper disbursements or liabilities made or incurred by the Trustee; second, to the payment, pro rata, to the persons entitled thereto of all installments of interest then due (including any interest on overdue principal) or any District Payments; third, to the payment, pro rata, to the persons entitled thereto of the principal (including any mandatory sinking fund installments) and premium, if any, due and unpaid upon the Bonds at the time of such payment; fourth, to the payment pro rata, to the persons entitled thereto by reason of a pledge of Revenue subordinate to the lien of the Bonds, and fifth, for any other lawful purpose as provided in the Resolution concerning the application of any balance of the Revenues in the Revenue Fund.

If an Event of Default happens and is not remedied, the Trustee, either in its own name or as trustee of an express trust, or as attorney-in-fact for the owners of the Bonds is empowered to proceed forthwith to institute such suits, actions and proceedings at law or in equity for the collection of all sums due in connection with the Bonds and to protect and enforce its rights and the rights of the owners of the Bonds under the Resolution for the specific performance of any covenant contained in the Resolution, or in aid of the execution of any power granted in the Resolution, or for an accounting against the District as trustee of any express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, deems most effectual to enforce any of its rights, or to perform any of its duties, under the Resolution. The owners of not less than 66% in aggregate principal amount and Accreted Value, if any, of the Bonds at the time Outstanding shall be authorized and empowered (1) to direct the time, method, and place of conducting any proceeding for any remedy available to the owners of the Bonds or to the Trustee therefor, or of exercising any trust or power conferred upon the Trustee under the Resolution or (2) on behalf of the owners of the Bonds then Outstanding, to consent to the waiver of any Event of Default except an Event of Default defined in clauses (1) through (3) of the definition of "Events of Default" above or its consequences, and the Trustee shall waive any Event of Default and its consequences upon the written request of the owners of such 66%; provided that the Trustee shall be provided with adequate security and indemnity. No waiver shall extend to any subsequent or other default, or impair any right consequent thereon. The Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondowners not party to such direction.

No remedy by the terms of the Resolution conferred upon or reserved to the Trustee or the owners of the Bonds is intended to be exclusive of any other remedy given thereunder to the Trustee or to the owners of the Bonds or now or thereafter existing at law or in equity or by statute.

Defeasance; Discharge of Liens and Pledges

The Resolution provides that obligations of the District and the liens, pledges, charges, trusts, assignments, covenants and agreements of the District made or provided for in the Resolution shall be fully discharged and satisfied as to any Bond and such Bond shall be deemed to be no longer Outstanding under the Resolution: (1) when such Bond shall have been cancelled, or shall have been surrendered for cancellation or is subject to cancellation or; (2) when payment of the principal of and premium, if any, on such Bond, plus interest on such principal to the due date thereof (whether such due date be by reason of maturity or upon redemption through the application of mandatory sinking fund installments or optional redemption or prepayment or otherwise), either (a) shall have been made or caused to be made in accordance with the terms thereof, or (b) shall have been provided by depositing with the Escrow Trustee, in a special trust account, and appropriating and setting aside exclusively for such payment, either (i) money sufficient to make such payment or (ii) Governmental Obligations maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient money to make such payment, or (iii) a combination of both such money and such Governmental Obligations, whichever the District deems to be in its best interest.

At such time as a Bond shall be deemed to be no longer Outstanding, such Bond, except for the purpose of any such payment from such money or Governmental Obligations, shall no longer be secured by or entitled to the benefits of the Resolution. In the case of a Bond which is to be redeemed or otherwise prepaid prior to its stated maturity, no deposit described under clause (2)(b) above shall constitute such payment, discharge and satisfaction as aforesaid until such Bond shall have been irrevocably designated for redemption or prepayment. If money or Governmental Obligations have been deposited with the Escrow Trustee for the payment of a specific Bond and such Bond shall be deemed to have been paid and be no longer Outstanding, but such Bond shall not have in fact been actually

paid in full, no amendment to the provisions summarized above shall be made without the consent of the owner of each Bond affected thereby.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE ELECTRIC SYSTEM BOND RESOLUTION

The following summary is an outline of certain provisions of the Electric System Bond Resolution, is not to be considered a full statement thereof and is qualified by reference to the complete Electric System Bond Resolution. All capitalized words or phrases (other than those conventionally capitalized) used in this summary are defined in the Electric System Bond Resolution. Certain of those definitions are summarized below. For purposes of this Appendix, "Bonds" means Electric System Bonds and "Revenues" means Electric System Revenues.

Certain Definitions

"Annual Debt Service" for any Fiscal Year means the sum of the amounts required to be paid in such Fiscal Year to pay: (a) the interest due in such Fiscal Year on all Outstanding Bonds, excluding interest to be paid from the proceeds of sale of Bonds or other bonds; and (b) the principal of all Outstanding Serial Bonds due in such Fiscal Year; and (c) the Sinking Fund Requirement, if any, for such Fiscal Year. The Electric System Bond Resolution specifies how debt service is calculated for Capital Appreciation Bonds, Deferred Income Bonds, Tender Option Bonds and Variable Interest Rate Bonds.

"Code" means the Internal Revenue Code of 1986 as amended, and applicable regulations.

"Electric System" means the electric utility properties, rights and assets, real and personal, tangible and intangible, now owned and operated by the District and used or useful in the generation, transmission, distribution or conservation of power and energy and all properties, rights and assets, real and personal, tangible and intangible, hereafter constructed or acquired by the District as additions, betterments, improvements or extensions to said electric utility properties, rights and assets and declared by the Commission to be included in the Electric System, but shall not include the Generation System or any other properties, rights or assets, real or personal, tangible or intangible that hereafter may be purchased, constructed or otherwise acquired by the District as a system that is declared by the Commission to be separate from the Electric System, the revenues of which may be pledged to the payment of bonds issued to purchase, construct or otherwise acquire or expand such separate system or otherwise may be pledged to the payment of the bonds of another such separate system of the District.

The District may, by resolution, combine the Generation System and the Electric System into a single system. Upon consolidation of the Electric System and Generation System, the Bonds shall have a lien on revenues of the consolidated System equal to the lien thereon of any then outstanding senior lien revenue bonds of the Generation System and subject to the lien thereon of the costs of operation and maintenance of the consolidated System. Prior to consolidating the Electric System and the Generation System, the District must obtain confirmation from each rating agency then rating the Bonds that the consolidation will not adversely impact the then current rating(s) on the Bonds. In addition, the District must obtain an opinion of bond counsel that the consolidation will not adversely affect the tax-exempt status of any Outstanding Bonds.

"Electric System Costs" means costs of additions, betterments, extensions, renewals, repairs, replacements and extraordinary operating expenses of the Electric System and all costs incident thereto, including but not limited to engineering, financing, or legal costs.

"Net Revenues" means, for any period, the excess of Revenues over Operating Expenses for such period excluding from the computation of Operating Expenses any expenses paid from insurance proceeds and excluding from the computation of Revenues (a) any profit or loss derived from the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets of the Electric System, or resulting from the early extinguishment of debt; and (b) any other extraordinary, nonrecurring income or donation other than the proceeds of insurance intended to replace Revenues.

"Operating Expenses" means all the District's expenses for operation and maintenance of the Electric System, including all operation and maintenance expenses as defined by generally accepted accounting principles and shall include, without limiting the generality of the foregoing, (a) all amounts required to be paid to the United States with respect to the Bonds pursuant to Section 148 of the Code; (b) Resource Obligations for any month in which any power and energy or other goods and services from such Resource Obligation were made available to the Electric System during such month (regardless of whether or not the Electric System actually scheduled or received energy from the Resource Obligation during such month); and (c) so long as any Generation System Bond is Outstanding, the amounts covenanted in the Generation System Resolution to be paid into the Generation System Revenue Fund with respect to Generation System Power Costs on or prior to the last day of any month during which any power and energy or other goods and services from the Generation System were made available to the Electric System during such month (regardless of whether or not the Electric System actually scheduled or received energy from the Generation System during such month). Operating Expenses shall not include any extraordinary, nonrecurring expenses of the Electric System, any judgments or amounts to be paid in settlement of claims against the Electric System, any costs or expenses for new construction for the Electric System, interest on bonds or other obligations of the Electric System, amortization or any allowance for depreciation.

"Outstanding" when used with respect to Bonds means, as of any date, Bonds theretofore or thereupon issued pursuant to the Electric System Bond Resolution except: (i) any Bonds cancelled by the Registrar or paid at or prior to such date; (ii) Bonds for which other Bonds have been substituted; and (iii) Bonds that have been defeased.

"Parity Lien Obligations" means all charges and obligations against Revenues ranking on a parity of lien with the Bonds, including but not limited to Generation System Power Costs or Resource Obligations for any month such Costs or such Obligations are not eligible for payment as Operating Expenses. "Parity Lien Obligations" does not include Bonds.

"Permitted Investments" means the following to the extent the same are legal for investments of funds of the District: (a) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States, including obligations of any of the federal agencies set forth in clause (b) below to the extent unconditionally guaranteed by the United States; (b) obligations of the Export-Import Bank of the United States, the Government National Mortgage Association, the Federal National Mortgage Association to the extent guaranteed by the Government National Mortgage Association, the Federal Financing Bank, the Farmers Home Administration, the Federal Housing Administration, the Private Export Funding Corporation, the Federal Home Loan Bank, and the Federal Home Loan Mortgage Bank, or any agency or instrumentality of the Federal Government which shall be established for the purposes of acquiring the obligations of any of the foregoing or otherwise providing financing therefor; (c) new housing authority bonds issued by the public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States; or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or

payment agreement with the United States; (d) direct and general obligations of any State within the territorial United States, to the payment of the principal of and interest on which the full faith and credit of such State is pledged, provided, that at the time of their purchase, such obligations are rated in one of the two highest rating categories by either Moody's Investors Service ("Moody's") or Standard & Poor's Ratings Services ("S&P") or in the event each of such rating agencies rates such obligations, by each of them; (e) certificates of deposit, whether negotiable or nonnegotiable, issued by any bank, savings and loan association, or trust company, provided that such certificates of deposit shall be (i) continuously and fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or (ii) issued by a recognized qualified public depositary of the State of Washington under RCW Chapter 39.58, as amended, or (iii) continuously and fully secured by such securities as are described above in clauses (a) or (b), which shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit or (iv) certificates of deposit with domestic commercial banks which have a rating on their short-term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's; (f) any written repurchase agreement with any bank, savings institution or trust company which is insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or with any brokerage dealer with retail customers which falls under Securities Investors Protection Corporation protection, provided that such repurchase agreements are fully secured by direct obligations of the United States of America, and provided further that (i) such collateral is held by the District or its agent or trustee during the term of such repurchase agreement, (ii) such collateral is not subject to liens or claims of third parties, (iii) such collateral has a market value (determined at least once weekly) at least equal to 100% of the amount invested in the repurchase agreement, (iv) the District or its agent or trustee has a perfected first security interest in the collateral, (v) the agreement shall be for a term not longer than 270 days and (vi) the failure to maintain such collateral at the level required in (iii) above will require the District or its agent or trustee to liquidate the collateral; (g) Refunded Municipals; (h) banker's acceptances with commercial banks that have a rating on their short-term certificates of deposit on the date of purchase of "A-1" or "A-1 +" by S&P or "P-1" by Moody's, or in the event each of such rating agencies rates such obligations, by each of them, and that mature no more than 360 days after the date of purchase; and (i) any investments or investment agreements permitted under the laws of the State of Washington as amended from time to time.

"Qualified Insurance" means any municipal bond insurance policy or surety bond issued by a licensed insurance company that at the time of issuance of the policy or surety bond is rated in one of the two highest rating categories by Moody's Investors Service or Standard & Poor's Ratings Services, of if rated by both, by each of them.

"Reserve Account Requirement" means (a) with respect to a series of Bonds, the lesser of (i) 10% of the proceeds of such series of Bonds and recalculated as of the date of issuance of any obligation of the District issued to refund any Bonds or (ii) the maximum amount of interest due in any Fiscal Year on such series of Bonds, calculated as of their date of issuance and (b) with respect to all Bonds, the sum of the Reserve Account Requirements for all series of Bonds. A Supplemental Resolution may establish a separate reserve account for Bonds or provide that Bonds be secured by a common reserve account other than the Reserve Account, in either of which case such Bonds shall not be secured by the Reserve Account created under the Electric System Bond Resolution. If the District establishes a separate reserve account for a series of Bonds, "Reserve Account Requirement" means with respect to a series of Bonds, an amount set forth in the Supplemental Resolution authorizing such Bonds. The Electric System Bond Resolution specifies how interest is calculated for Variable Interest Rate Bonds.

"Resource Obligation" has the meaning set forth in the provisions of the Electric System Bond Resolution summarized in "Additional Indebtedness—Separate System Bonds; Resource Obligation."

"Revenues" means all income, revenues, receipts and profits derived by the District through the ownership and operation of the Electric System together with the proceeds received by the District directly or indirectly from the sale, lease or other disposition of any of the properties, rights or facilities of the Electric System and together with the investment income earned on money held in any fund or account of the District, including any bond redemption funds and the accounts therein, in connection with the ownership and operation of the Electric System, exclusive of insurance proceeds compensating the District for the loss of a capital asset and income derived from investments irrevocably pledged to the payment of any Bonds defeased or other bonds defeased, or the payment of which is provided for, under any similar provision of any other bond resolution of the District, and exclusive of investment income earned on money in any fund or account created for the purpose of complying with the rebate provision of Section 148 of the Code.

"Serial Bonds" means Bonds falling due by their terms in specified years, for which no Sinking Fund Requirements are mandated.

"Sinking Fund Requirement" means, for any Fiscal Year, the principal amount and premium, if any, of Term Bonds required to be purchased, redeemed or paid at maturity or paid into any sinking fund account for such Fiscal Year as established by the Supplemental Resolution authorizing the issuance of such Term Bonds.

"Term Bonds" means Bonds of any principal maturity that are subject to mandatory redemption or for which Sinking Fund Requirements are mandated.

Funds and Accounts

Revenue Fund

The District has pledged to pay all Revenues into the Revenue Fund except as specifically provided in the Electric System Bond Resolution. The Revenue Fund consists of the General Account and the Rate Stabilization Account. All Electric System Revenues paid into the Electric System Revenue Fund are first to be credited to the General Account and applied as follows:

First, to pay Operating Expenses of the Electric System;

Second, to pay amounts as follows equally and without priority: (i) to deposit in the interest account, principal account and reserve account in the bond fund for the Electric System the amounts required by the Electric System Bond Resolution in the order of priority established by the Electric System Bond Resolution; (ii) to pay all Parity Lien Obligations (as defined in the Electric System Bond Resolution) including, so long as any Generation System Bond is outstanding, the obligation to deposit in the Revenue Fund the amounts required by the Generation System Resolution to be paid on or prior to the last day of each month with respect to Generation System Power Costs; and (iii) in the event the District has entered into a reimbursement agreement pursuant to the Electric System Bond Resolution that ranks on a parity of lien with the Bonds, to make all payments required to be made pursuant to such reimbursement agreement in connection with a qualified letter of credit, qualified insurance, or other credit facility, provided that if there is not sufficient money to make all payments under more than one reimbursement agreement, the payments shall be made on a pro rata basis;

Third, to make all payments required to be made into any junior lien fund or account in the order of priority, if any, set forth in the resolution of the Commission creating such junior lien fund or account; and

Fourth, to make additions, betterments, extensions, renewals, replacements and other capital improvements to the Electric System.

To the extent that Electric System Revenues remain after the payments required to be made out of the General Account in the Electric System Revenue Fund, the District may credit the full amount of such surplus to the Rate Stabilization Account in the Electric System Revenue Fund to be applied as set forth in the Electric System Bond Resolution.

After all the above payments and credits have been made, amounts remaining in the Electric System Revenue Fund may be used for any other lawful purpose of the District, including the purchase of outstanding Bonds for retirement only.

Bond Fund

The District has covenanted, as long as any Bonds are Outstanding, to make payments as follows:

(1) Into the Interest Account, not later than the day prior to the day on which any installment of interest falls due, an amount sufficient to pay such installment of interest falling due.

(2) Into the Principal Account, not later than the day prior to the day on which any installment of principal on Serial Bonds or any Sinking Requirement on Term Bonds falls due, an amount sufficient to pay such installment of principal or such Sinking Fund Requirement.

(3) Into the Reserve Account from money received upon the delivery of each series of Bonds (but not to exceed the amount permitted by the Code), the amount that together with other money meets the Reserve Account Requirement. The District has reserved the rights to substitute Qualified Insurance or a Qualified Letter of Credit (as defined in the Electric System Bond Resolution) to satisfy the Reserve Account Requirement for any Bonds provided that the letter of credit or insurance is not cancelable on less than five years notice. If the amount in the Reserve Account is less than the Reserve Account Requirement, the District shall have 12 months to restore the Reserve Account to the Reserve Account Requirement. Money in the Reserve Account is to be applied to make up a deficiency in the Interest Account or the Principal Account.

Money in the Bond Fund shall be invested in Permitted Investments (as defined in the Electric System Bond Resolution).

Construction Fund

The proceeds from the sale of the Bonds (other than any accrued interest received and amounts deposited into the Reserve Account) issued to pay Electric System Costs or to repay advances for Electric System Costs are to be deposited in the Construction Fund.

Additional Indebtedness

Additional Bonds

The Electric System Bond Resolution provides that additional series of Bonds may be issued for a lawful corporate purpose of the District only if at the time of the delivery of each series of Bonds to the initial purchasers:

(1) There is no deficiency in the Bond Fund or in any of the accounts therein, provision has been made to meet the Reserve Account Requirement with respect to such series of Bonds and no Event of Default has occurred and is continuing; and

(2) One of the two following certificates has been filed with the Secretary of the Commission;

(a) a certificate of the Treasurer stating that Net Revenues in any 12 consecutive months out of the most recent 24 months preceding the delivery of the Bonds then proposed to be issued (the "Base Period"), after deducting amounts paid in the Base Period to satisfy all Parity Lien Obligations and, for so long as the Reserve Policy is in effect, to pay all Policy Costs, were not less than 125% of maximum Annual Debt Service in any future Fiscal Year on all Outstanding Bonds and the Bonds then proposed to be issued (provided that (i) in the event that any adjustment in the rates, fees and charges for the services of the Electric System will be effective at any time on or prior to the date of delivery of the Bonds then proposed to be issued or within 60 days subsequent to the delivery, the Treasurer shall reflect in his or her certificate the Net Revenues he or she calculates would have been collected in the Base Period if such new rates, fees and charges had been in effect for the entire Base Period and (ii) with respect to any Variable Interest Rate Bonds Outstanding on the date such certificate is delivered, the Treasurer must estimate the debt service on such Bonds in accordance with the Electric System Bond Resolution); or

(b) a certificate of the Professional Utility Consultant setting forth:

(i) the amount of the Adjusted Net Revenues computed as provided in the Electric System Bond Resolution, after deducting amounts paid from Revenues in the Base Period to satisfy all Parity Lien Obligations; and

(ii) the amount of maximum Annual Debt Service in any Fiscal Year thereafter on account of all Bonds to be Outstanding in such Fiscal Year, including the Bonds proposed to be issued, and stating that the amount shown in (i) above is not less than 125% of the amount shown in this paragraph (ii).

The District may contract with the entity providing a Qualified Letter of Credit or Qualified Insurance for the Reserve Account that the District's reimbursement obligation to such entity ranks on a parity of lien with the Bonds. In the event that the District elects additionally to secure any issue of Variable Interest Rate Bonds or Tender Option Bonds through the use of a letter of credit or other credit enhancement device, the District may contract with the entity providing such credit enhancement device that the District's reimbursement obligation, if any, to such entity ranks on a parity of lien with the Bonds; provided that the payments due under such reimbursement obligation are such that if such reimbursement obligation were a series of additional Bonds and assuming that such credit enhancement device were to be drawn upon for the full amount available, such Bonds could be issued in compliance with the provisions described above for issuing additional Bonds.

Refunding Bonds

The District may issue Refunding Bonds if it complies with the requirements set forth in paragraph (2) above or if there is on file a certificate of the Treasurer of the District stating that immediately after the issuance of such Refunding Bonds the Annual Debt Service in any Fiscal Year that Bonds (other than such Refunding Bonds) are then Outstanding shall not be increased by more than $5,000 by the issuance of such Refunding Bonds.

Junior Lien Bonds

The District may issue bonds, notes, certificates or other evidences of indebtedness for any corporate use or purpose of the District payable from Revenues subordinate to the payments required to be made from the Revenue Fund into the Bond Fund for the Bonds.

Generation System Bonds

The District may issue Generation System Bonds in accordance with the requirements of the Generation System Resolution. See Appendix C—"SUMMARY OF CERTAIN PROVISIONS OF THE GENERATION SYSTEM BOND RESOLUTION—Additional Indebtedness."

Separate System Bonds; Resource Obligations

The Electric System Bond Resolution provides, that upon compliance with the conditions of the Electric System Bond Resolution summarized below, the District by resolution may declare that the following constitute a "Resource Obligation" of the Electric System:

(1) costs for the purchase of energy, capacity, capability, or reserves pursuant to a contract; or

(2) costs for a facility or facilities for the generation of power and energy acquired or constructed by the District as a separate system of the District, which such costs shall include but are not limited to costs of operation and maintenance, renewals and replacements, additions and betterments and debt service on bonds or other evidences of indebtedness payable from the revenues of such separate system issued or incurred by the District, but shall exclude costs paid or to be paid from the proceeds of such bonds or other evidences of indebtedness.

The Electric System Bond Resolution provides that the District may declare such costs to be a Resource Obligation of the Electric System provided that the requirements summarized below have been met at the time of such declaration:

(i) No Event of Default has occurred and is continuing.

(ii) There shall have been filed with the Secretary of the Commission a certificate of the Professional Utility Consultant to the effect that the acquisition of the power and energy from such Resource Obligation is consistent with prudent utility practice.

(iii) There shall have been filed with the Secretary of the Commission a report of the Professional Utility Consultant to the effect that estimated annual Net Revenues for the second full Fiscal Year after the date of commercial operation of such facilities, or after the date of first delivery of energy, capacity, capability or reserves pursuant to such contract, as the case may be, shall be at least equal to 125% of maximum Annual Debt Service in any future Fiscal Year. The Professional Utility Consultant

shall base such estimate on factors the Professional Utility Consultant deems to be reasonable; provided, that the Professional Utility Consultant shall for purposes of such estimate include all Generation System Power Costs and Resource Obligations in Operating Expenses.

(iv) In the event that the Resource Obligation is a contract to purchase energy, capacity, capability or reserves, there shall have been filed with the Secretary of the Commission opinions of counsel to the District and each other party to the contract, respectively, to the effect that such party has all requisite right, power and authority to execute and deliver the contract and to perform its obligations thereunder and that such contract constitutes a legally valid and binding obligation of such party thereto.

Except as permitted by the provisions of the Electric System Bond Resolution summarized under this subsection, the District is not permitted to enter into a contract or other similar arrangement with a third party for the purchase of energy, capacity, capability or reserves from a new or existing generating facility, payments under which contract or arrangement are payable as Operating Expenses of the Electric System, if: (a) such payments are pledged directly to secure the payment of bonds or other indebtedness issued or incurred to finance such facility, and (b) such payments are due regardless of whether the District takes delivery of any power or such facility or resource is producing or is capable of producing any power.

Defeasance of Bonds

The District may refund or defease all or a portion of the then Outstanding Bonds by setting aside in a special fund money, Government Obligations and/or Refunded Municipals sufficient, together with known earned income, to accomplish the refunding or defeasance. In that case all rights of the owners of the defeased or refunded Bonds in the benefit or security of the Electric System Bond Resolution will cease, except that such owners will have the right to receive payment of the principal of, premium, if any, and interest on their Bonds.

Certain Covenants

Rate Covenants

General. The District has covenanted to establish, maintain and collect rates and charges for services, facilities and commodities sold, furnished or supplied through the facilities of the Electric System that shall be adequate to provide Revenues sufficient for the proper operation and maintenance of the Electric System, including payment of all Generation System Power Costs required by the Generation System Resolution to be paid as an Operating Expense of the Electric System and all Resource Obligations required to be paid as an Operating Expense of the Electric System and all necessary repairs, replacements and renewals of the Electric System, including the payment of all taxes, assessments or other governmental charges lawfully imposed on the Electric System or the revenues therefrom, or payment in lieu thereof, for the punctual payment of the principal of, premium, if any, and interest on the Bonds for which payment has not otherwise been provided, for all other payments that the District is obligated to make into the Bond Fund, for the payment of Parity Lien Obligations, for the payment of amounts required to repay draws under the Reserve Policy and related expenses for so long as the Reserve Policy is in effect and for the payment of all other amounts that the District may now or hereafter become obligated to pay from the Revenues by law or contract.

Debt Service Coverage. The District has also covenanted to establish, maintain and collect rates and charges that shall be adequate to provide in each Fiscal Year Net Revenues (after deducting

therefrom amounts paid in such Fiscal Year to satisfy all Parity Lien Obligations and amounts transferred to the Rate Stabilization Account from the General Account and adding thereto amounts transferred to the General Account from the Rate Stabilization Account during such Fiscal Year) in an amount equal to at least 1.25 times the Annual Debt Service on the then Outstanding Bonds in such Fiscal Year.

Maintenance and Repair of Electric System

The District has covenanted in the Electric System Bond Resolution to operate the properties and business of the Electric System in an efficient manner and at reasonable cost; to maintain, preserve, and keep the properties of the Electric System in good repair, working order and condition; and to make all necessary and proper repairs, renewals, replacements, additions, improvements, betterments and extensions of and to the Electric System.

No Free Service; Enforcement of Accounts Owing

Except as permitted by statute, the District will not supply electric power or energy free of charge to any other system of the District or to any person or entity and the District will promptly enforce the payment of all accounts owing to the District by reason of the Electric System.

Disposition of All or Part of the Electric System

The District will not, nor will it permit others to, sell, mortgage, lease or otherwise dispose of or encumber all or any portion of the Electric System except:

(1) The District may dispose of all or substantially all of the Electric System, provided that simultaneously the District shall cause all of the Bonds to be, or deemed to be, no longer Outstanding.

(2) Except as provided below, the District will not dispose of any part of the Electric System in excess of 5% of the value of the net utility plant of the District in service unless prior to such disposition

(a) there has been filed with the Secretary of the Commission a certificate of the Professional Utility Consultant stating that such disposition will not impair the ability of the District to comply with the rate covenants previously set forth under this heading; or

(b) provision is made for the payment, redemption or other retirement of a principal amount of Bonds equal to the greater of the following amounts:

(i) An amount which will be in the same proportion to the net principal amount of Bonds then Outstanding (defined as the total principal amount of Bonds then Outstanding less the amount of cash and investments in the Bond Fund) that the Revenues attributable to the part of the Electric System sold or disposed of for the 12 preceding months bears to the total Revenues for such period; or

(ii) An amount which will be in the same proportion to the net principal amount of Bonds then Outstanding that the book value of the part of the Electric System sold or disposed of bears to the book value of the entire Electric System immediately prior to such sale or disposition.

(3) The District may dispose of any portion of the Electric System that has become unserviceable, inadequate, obsolete, or unfit to be used or no longer necessary for use in the operation of the Electric System.

(4) If the ownership of all or part of the Electric System is transferred from the District through the operation of law, the District shall reconstruct or replace the portion using any proceeds of the transfer unless the Commission determines that such reconstruction or replacement is not in the best interests of the District and the Bondowners, in which case any proceeds shall be used to retire Bonds prior to maturity.

Insurance

The District will either insure or self-insure the Electric System against risks, accidents or casualties, at least to the extent that insurance is usually carried by municipal corporations operating like properties; provided, however, that the District may, if deemed advisable by the Commission, institute or continue a self-insurance program with respect to any or all of the aforementioned risks.

Books of Account

The District will keep proper books of account, which will be audited annually by a Certified Public Accountant or by the Washington State Auditor's office. Any Bondowner may obtain at the office of the District copies of the District's balance sheet and statement of income and retained earnings showing in reasonable detail the financial condition of the Electric System as of the close of each Fiscal Year.

To Make Economically Sound Improvements and Extensions

The District will not expend any of the revenues derived by it from the operation of the Electric System or the proceeds of Bonds for any renewals, replacement, capital additions, improvements, betterments or extensions that are not economically sound or that will not properly and advantageously contribute to the conduct of the business of the Electric System in an efficient and economical manner unless required to do so by or pursuant to law so as to permit the continued operation of the Electric System. Nothing in this section shall prohibit or be construed to prohibit the District from transferring revenues of the Electric System to any fund or account created by the Generation System Resolution or by any resolution creating any other separate system of the District in accordance with the provisions thereof.

To Pay Principal, Premium and Interest on Bonds

The District will duly and punctually pay, or cause to be paid, solely from the Revenues and other moneys pledged in the Electric System Bond Resolution to the payment thereof, the principal, premium, if any, and interest on each and every Bond on the date and at the places and in the manner provided in the Bonds, according to the true intent and meaning thereof, and will faithfully do and perform and fully observe and keep any and all covenants, undertakings, stipulations and provisions contained in the Bonds and in the Electric System Bond Resolution.

Protection of Security

The Revenues and other moneys, securities and funds pledged by the Electric System Bond Resolution are and will be free and clear of any pledge, lien, charge or encumbrance

thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Electric System Bond Resolution, except as otherwise expressly provided in the Electric System Bond Resolution, and all corporate action on the part of the District to that end has been duly and validly taken. The Bonds and the provisions of the Electric System Bond Resolution are and will be valid and legally enforceable obligations of the District in accordance with their terms and the terms of the Electric System Bond Resolution. The District shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues, other moneys, securities and funds pledged under the Electric System Bond Resolution and all the rights of the Bondowners under the Electric System Bond Resolution against all claims and demands of all persons whomsoever.

Authority of District to Provide for the Operation and Maintenance of the Electric System and to Fix and Collect Rates and Charges

The District has good, right and lawful power to provide for the operation and maintenance of the Electric System and to fix, establish, maintain and collect rates and charges for the power and energy and other services, facilities and commodities sold, furnished or supplied through the facilities of the Electric System.

Payment of Taxes, Assessments and Other Governmental Charges and Payments in Lieu Thereof; Payment of Claims

The District shall, from time to time, duly pay and discharge, or cause to be paid or discharged, all taxes, assessments or other governmental charges, or payments in lieu thereof, lawfully imposed upon the Electric System, or on the revenues, income, receipts, profits or other moneys derived by the District therefrom when the same shall become due, and all lawful claims for labor and materials and supplies that, if not paid, might become a lien or charge upon such properties, or any part thereof, or upon the Revenues and other moneys derived by the District directly or indirectly from the Electric System, or that might in any way impair the security of the obligations issued by the District payable from the Revenues and other moneys, except those assessments, charges or claims that the District shall in good faith contest by proper legal proceedings.

Merger, Consolidation or Dissolution

The District shall use its best efforts to avoid dissolution, termination of its existence, or consolidation with another entity without paying or providing for the payment of all Outstanding Bonds.

Trustee

U.S. Bank National Association is appointed to act as Trustee for the owners of all Bonds for the purposes set forth in the Electric System Bond Resolution. The Trustee may resign upon 45 days' notice mailed to each bondowner or published once. Such resignation shall take effect upon the appointment of a new Trustee. The Trustee may be discharged by the District as long as an Event of Default has not occurred and is continuing or by the owners of a majority of the Outstanding Bonds. If the Trustee resigns or is discharged the District shall appoint a new Trustee. At any time within one year after such appointment, the owners of a majority in principal amount of the Bonds then Outstanding may appoint a successor Trustee, which shall supersede any Trustee appointed by the District.

The Electric System Bond Resolution provides that recitals of fact contained in the Electric System Bond Resolution and in the Bonds shall be taken as the statements of the District and the Trustee assumes no responsibility for the correctness of the same and that the Trustee makes no representations as to the validity or sufficiency of the Electric System Bond Resolution or of any Bonds or in respect of the security afforded by the Electric System Bond Resolution, and the Trustee shall not incur any liability in respect thereof. The Electric System Bond Resolution provides further that the Trustee shall not be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof, except to the extent that proceeds are paid to the Trustee, or the application of any moneys paid to the District, or for any losses incurred upon the sale or redemption of any securities purchased for or held in any Fund or Account under the Electric System Bond Resolution.

The Electric System Bond Resolution provides that the Trustee may exercise any powers under the Electric System Bond Resolution and perform any duties required of it through its attorneys, agents, officers or employees, and shall be entitled to advice of counsel (which may be Bond Counsel) concerning all questions under the Electric System Bond Resolution. The Electric System Bond Resolution provides further that the Trustee shall not be answerable for the exercise of any discretion or power under the Electric System Bond Resolution nor for anything whatever in connection with the trust under the Electric System Bond Resolution, except only its own willful misconduct or gross negligence, including but not be limited to failure to make a debt service payment when due if the Trustee has sufficient funds on hand with which to make such payment.

The Electric System Bond Resolution provides that the duties and obligations of the Trustee appointed by or pursuant to the provisions of the Electric System Bond Resolution prior to the occurrence of an Event of Default, and subsequent to the waiving or curing of such Event of Default, shall be determined solely by the express provisions of the Electric System Bond Resolution, and the Trustee shall not be liable except for the performance of its duties and obligations as specifically set forth in the Electric System Bond Resolution and to act in good faith in the performance thereof, and no implied duties or obligations shall be incurred by the Trustee other than those specified in the Electric System Bond Resolution, and the Trustee shall be protected and shall have no liability when acting or omitting to act in good faith upon the advice of counsel, who may be counsel to the District. The Electric System Bond Resolution provides further that in case an Event of Default has occurred which has not been waived or cured, the Trustee shall exercise such of the rights and powers vested in it by the Electric System Bond Resolution and use the same degree of care and skill in the exercise thereof as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

Subject to the provisions of the Electric System Bond Resolution, the Trustee may conclusively rely, as to the correctness of the statements, conclusions and opinions expressed therein, upon any certificate, report, opinion or other document furnished to the Trustee pursuant to any provision of the Electric System Bond Resolution. Except as otherwise expressly provided in the Electric System Bond Resolution, any request, consent, certificate, demand, notice, order, appointment or other direction made or given by the District to the Trustee are to be deemed to have been sufficiently made or given by the proper party or parties if executed on behalf of the District by an Authorized Officer.

None of the provisions contained in the Electric System Bond Resolution shall require the Trustee appointed by or pursuant to the provisions of the Electric System Bond Resolution to take any action or exercise any remedies, including but not limited to spending or risking its own funds or otherwise incurring individual financial responsibility in the performance of any

of its duties or in the exercise of any of its rights or powers if in the Trustee's judgment there are reasonable grounds for believing that the prompt repayment thereof is not reasonably assured to it under the terms of the Electric System Bond Resolution.

Events of Default and Remedies

Events of Default

The following constitute "Events of Default" under the Electric System Bond Resolution:

(1) Default in the due and punctual payment of the principal of any of the Bonds within five days when the same becomes due;

(2) Default in the due and punctual payment of interest on any of the Bonds within five days when the same becomes due;

(3) Failure to provide for any required Sinking Fund Requirements within five days when the same becomes due;

(4) Default under any agreement with respect to a Qualified Letter of Credit or Qualified Insurance or other credit enhancement device providing security for the Bonds, which results in suspension, expiration or termination of the payment obligation of the issuer of the device and the District within ten days of such suspension, expiration or termination of payment obligations fails to obtain a substitute credit enhancement device or take other measures to remedy such default;

(5) Default in the observance of any other of the covenants, conditions and agreements in the Electric System Bond Resolution and such default continues for 90 days after the District receives from the Trustee or from the owners of not less than 66% in principal amount of any series of Bonds Outstanding a written notice specifying and demanding the cure of such default; or

(6) If the District shall admit in writing its inability to pay its debts as they become due, file a petition in bankruptcy, make an assignment for the benefit of its creditors, or consent to the appointment of a receiver for the Electric System.

Payment of Funds to Trustee

If an Event of Default is not remedied, the District, upon demand of the Trustee, shall pay to the Trustee only to the extent necessary to cure the Event of Default all funds held by the District and pledged under the Electric System Bond Resolution and Revenues upon receipt. The Trustee shall apply the funds in accordance with the Electric System Bond Resolution.

Application of Funds by Trustee

During the continuance of an Event of Default the Revenues received by the Trustee pursuant to the Payment of Funds to Trustee provisions above shall be applied by the Trustee, first, to the payment of the reasonable and proper charges, expenses and liabilities paid or incurred by the Trustee (including the cost of securing the services of any engineer or firm of engineers selected for the purpose of rendering advice with respect to the operation, maintenance, repair and replacement of the necessary to prevent any loss of Revenues, and with respect to the sufficiency of the rates and charges for power and energy sold, furnished or supplied by the

Electric System), and second, in accordance with the provisions of this section concerning Application of Funds by Trustee.

In the event that at any time the funds held by the Trustee and the Paying Agent for the Bonds shall be insufficient for the payment of the principal of, premium, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and all Revenues and other moneys received or collected for the benefit or for the account of owners of the Bonds by the Trustee shall be applied as follows: First, to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, earliest maturities first, and, if the amount available shall not be sufficient to pay in full any installment or installments or interest 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 Second, to the payment to the persons entitled thereto of the unpaid principal and premium, if any, of any Bonds that shall have become due, whether at maturity or by call for redemption, in the order of their due dates, earliest maturities first, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal and premium, if any, due on such date, to the persons entitled thereto, without any discrimination or preference.

Remedies

The Trustee may, if an Event of Default is not remedied, take such steps and institute such proceedings as it deems appropriate to collect all sums owing and to protect the rights of bondowners. The owners of the Bonds shall be deemed to irrevocably appoint the Trustee as the lawful trustee of the bondowners. The owners of at least 66% of the Outstanding Bonds may, in certain circumstances, direct the time, method and place of conducting any proceedings for any remedy available to the Trustee or exercising any power conferred upon the Trustee.

No bondowner may institute any proceeding for the enforcement of the Electric System Bond Resolution unless an Event of Default is continuing and the owners of not less than 66% of the Outstanding Bonds have given the District and the Trustee written notice to institute such proceeding and the Trustee has refused to comply.

Supplemental Resolutions

Supplemental Resolutions Without Consent of Bondowners

The District may adopt a supplemental resolution authorizing the issuance of additional Bonds or a resolution amending or supplementing the Electric System Bond Resolution (1) to add to the covenants and agreements of the District in the Electric System Bond Resolution which will not adversely affect the interest of the bondowners or (2) to cure any ambiguities or correct any defective provisions in the Electric System Bond Resolution or any supplemental resolution which shall not adversely affect the bondowners' interest.

Supplemental Resolutions With Consent of Bondowners

With the consent of the owners of not less than 66% of the Outstanding Bonds, the District may adopt a resolution amending or supplementing the Electric System Bond Resolution; provided, that, without the specific consent of the owner of each Bond that would be affected, no such supplemental resolution shall: (1) change the fixed maturity date for the payment of the principal of any Bond or the date for the payment of interest or the terms of the

redemption thereof, or reduce the principal amount of any Bond or the rate of interest thereon or the redemption price (or the redemption premium) payable upon the redemption or prepayment thereof; (2) reduce the percentage of Bonds the owners of which are required to consent to any Supplemental Resolution; (3) give to any Bond any preference over any other Bond; (4) create any pledge of the Revenues superior or equal to the pledge of and lien and charge for the payment of the Bonds; or (5) deprive any owner of the Bonds of the security afforded by the Electric System Bond Resolution.

Rights of Insurer

Upon an Event of Default, the insurer for any series of Bonds shall be considered a Bondowner of all outstanding Bonds that it insures for purposes of the amendment provisions and remedies provisions of the Electric System Bond Resolution so long as the bond insurance policy is in effect and the Insurer is not in default.

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APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

October 6, 2020

Public Utility District No. 1 of
Snohomish County, Washington
Everett, Washington

$19,725,000
Public Utility District No. 1 of Snohomish County, Washington
Generation System Revenue Refunding Bonds, Series 2020A
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Public Utility District No. 1 of Snohomish County, Washington (the "District") in connection with issuance of $19,725,000 aggregate principal amount of Public Utility District No. 1 of Snohomish County, Washington Generation System Revenue Refunding Bonds, Series 2020A (the "Bonds"). The Bonds are being issued pursuant to Resolution No. 2994, adopted by the Commission of the District (the "Commission") on September 26, 1986, as amended, as revised and restated by Resolution No. 3902 adopted by the Commission of the District (the "Commission") on January 28, 1993 (the "Master Generation System Resolution"), as supplemented and amended, including as supplemented by Resolution No. 5974, adopted by the Commission on September 15, 2020 (the "Tenth Supplemental Resolution"). The Master Generation System Resolution, as amended and supplemented, including as supplemented by the Tenth Supplemental Resolution, is hereinafter collectively referred to as the "Resolution." The District has appointed U.S. Bank National Association to serve as trustee, registrar and paying agent (the "Trustee") for the Bonds. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

In such connection, we have reviewed the Resolution, the Tax Certificate of the District relating to the Bonds, dated the date hereof (the "Tax Certificate"), an opinion of counsel to the District, certificates of the District, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after original delivery of the Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after original delivery of the Bonds on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery

thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public utility districts in the State of Washington. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or having the effect of a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Resolution or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding special limited obligations of the District.

2. The Resolution has been duly adopted by, and constitutes the valid and binding obligation of, the District. The Resolution creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and certain other funds and accounts as provided by the Resolution, subject to the provisions of the Resolution permitting the application thereof for the purposes, in the order of priority, and on the terms and conditions set forth in the Resolution.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX E

BOOK-ENTRY SYSTEM

The following information (except for the final paragraph) has been provided by The Depository Trust Company, New York, New York ("DTC"). The District makes 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).

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2020A Bonds. The 2020A Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each series of the 2020A Bonds, each in the aggregate principal amount of such series, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of 2020A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2020A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2020A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2020A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2020A Bonds, except in the event that use of the book entry system for the 2020A Bonds is discontinued.

To facilitate subsequent transfers, all 2020A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2020A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2020A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2020A Bonds

are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2020A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2020A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents relating to the 2020A Bonds. For example, Beneficial Owners of 2020A Bonds may wish to ascertain that the nominee holding the 2020A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Certificate Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2020A Bonds within a Series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2020A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2020A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments represented by the 2020A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2020A Bonds at any time by giving reasonable notice to the State or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

To the extent permitted by law, the State may decide to discontinue use of the system of book entry only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

The above information concerning DTC and DTC's book entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the accuracy thereof. Neither the State nor the Fiscal Agent will have any responsibility or obligation to Participants or the persons for whom they act as nominees or Beneficial Owners with respect to DTC's record keeping, payments by DTC or Participants, notices to be delivered by DTC, or any other action taken by DTC as Registered Owner of the 2020A Bonds.

So long as Cede & Co. is the registered owner of the 2020A Bonds, as nominee for DTC, references herein to the holders or registered owners of the 2020A Bonds (other than under the caption "TAX

MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2020A Bonds. When reference is made to any action, which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given the State or the Fiscal Agent shall send them to DTC only.

For every transfer and exchange of the 2020A Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered as of October 6, 2020, by Public Utility District No. 1 of Snohomish County, Washington (the "District") for the benefit of the Owners and Beneficial Owners of the Bonds (each as defined below), in connection with the issuance of $19,725,000 aggregate principal amount of Generation System Revenue Refunding Bonds, Series 2020A (the "Bonds").

WITNESSETH:

WHEREAS, pursuant to Resolution No. 3902, adopted by the Commission of the District (the "Commission") on January 28, 1993 (the "Master Resolution"), as amended and supplemented, including as supplemented by Resolution No. 5974, adopted by the Commission on September 15, 2020 (the "Tenth Supplemental Resolution" and together with the Master Resolution, the "Resolution"), the District has provided for the issuance of the Bonds;

WHEREAS, the underwriters with respect to the Bonds (the "Underwriter") are required to comply with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934, as amended (the "1934 Act");

NOW THEREFORE, the District covenants and agrees for the benefit of the Owners and Beneficial Owners of the Bonds as follows:

SECTION 1. Definitions. The following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person that (a) has or shares the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, or otherwise make investment decisions concerning ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Bond Register" shall have the meaning provided in the Resolution.

"Business Day" shall mean a day that is not a Saturday, Sunday or legal holiday on which banking institutions in the State of Washington or the State of New York are closed.

"Dissemination Agent" shall mean the District, or any successor Dissemination Agent designated in writing by the District and that has filed with the District a written acceptance of such designation.

"Financial Obligation" shall mean, for purposes of the Listed Events set out in Section 5(a)(10) and Section (5)(b)(8), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term "Financial Obligation" shall not include municipal securities (as defined

in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

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

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Official Statement" shall mean the Official Statement with respect to the Bonds dated September 22, 2020.

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

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

"Rule" shall mean Rule 15c2 12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of Washington.

"Trustee" shall have the meaning provided in the Resolution.

SECTION 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Owners and the Beneficial Owners, and in order to assist the 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 nine months after the end of each fiscal year of the District, commencing with the fiscal year of the District ending December 31, 2020, provide to the MSRB copies of an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District's fiscal year changes, the District shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than fifteen (15) Business Days prior to the date specified in Section 3(a) for providing the Annual Report to the MSRB, the District shall provide the Annual Report to the Dissemination Agent (if the Dissemination Agent is other than the District). If by 15 Business Days prior to such date, the Dissemination Agent (if the Dissemination Agent is other than the District)

has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with Section 3(a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in Section 3(a), the Dissemination Agent shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached hereto as Exhibit A.

(d) The Dissemination Agent (if the Dissemination Agent is other than the District) shall file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference the following:

(a) (i) The audited financial statements of the Electric System and the Generation System prepared in accordance with generally accepted accounting principles applicable to government entities, with regulations prescribed by FERC and substantially in accordance with the system prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute); provided, that if the audited financial statements of the Electric System and Generation System are not yet available by the time the Annual Report is required to be provided to the Repository pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be provided to the Repository in the same manner as the Annual Report when they become available;

(ii) The outstanding indebtedness of the Electric System, the Generation System and any other system of the District that provides power or capacity to either of these systems, to the extent not already included in the audited financial statements;

(iii) Electric System retail customers, energy sales, peak demand and revenues substantially in the form of the table "Electric System Customers, Energy Sales, and Peak Demand" (excluding partial year statistics), to the extent not already included in the audited financial statements;

(iv) Electric System income statements, operating results and debt service coverage on the outstanding Electric System Bonds substantially in the form of the table "Electric System Operating Results" (excluding partial year statistics), to the extent not already included in the audited financial statements;

(v) Electric System energy requirements, resources and purchased power costs substantially in the form of the tables "Electric System Purchased Power Costs" (excluding partial year statistics) and "Electric System Energy Resources" (excluding partial year statistics), to the extent not already included in the audited financial statements;

(vi) The aggregate amount and percentage of total energy sold and of retail revenues provided by the Electric System's ten largest customers, to the extent not already included in the audited financial statements; and

(vii) Generation System annual production and costs substantially in the form of the table under the caption "Generation System Annual Costs", to the extent not already included in the audited financial statements.

(b) Any or all of the items listed in Section 4(a) may be set forth in one or a set of documents or may be incorporated by specific reference from other documents, including official statements of debt issues of the District, that have been submitted to the MSRB or the SEC and made available to the public on the MSRB's website. The District shall clearly identify each such other document so incorporated by reference.

The contents, presentation and format of the Annual Report may be modified from time to time as determined in the judgment of the District to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the District or to reflect changes in the business, structure, operations, legal form of the District or any mergers, consolidations, acquisitions or dispositions made by or affecting the District; provided, that any such modifications shall comply with the requirements of the Rule; provided further, that if the respective Annual Report is modified to conform to changes in accounting or disclosure principles, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting or disclosure principles and those prepared on the basis of the former accounting or disclosure principles.

SECTION 5. Reporting of Significant Events.

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

(i) Principal and interest payment delinquencies.

(ii) Unscheduled draws on debt service reserves reflecting financial difficulties.

(iii) Unscheduled draws on credit enhancements reflecting financial difficulties.

(iv) Substitution of credit or liquidity providers, or their failure to perform.

(v) Adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB).

(vi) Tender offers.

(vii) Defeasances.

(viii) Rating changes.

(ix) Bankruptcy, insolvency, receivership or similar event of the District.

(x) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

(i) Non-payment related defaults.

(ii) Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds.

(iii) Modifications to rights of Bond holders.

(iv) Bond calls.

(v) Release, substitution, or sale of property securing repayment of the Bonds.

(vi) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.

(vii) Appointment of a successor or additional trustee or the change of name of a trustee.

(viii) Incurrence of a Financial Obligation of the District, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders.

(c) The Dissemination Agent (if other than the District) shall, promptly upon obtaining actual knowledge at the address listed in Section 13 of this Disclosure Certificate of the occurrence of any of the Listed Events, contact the District, inform the District of the event and request that the District promptly notify the Dissemination Agent in writing whether or not to report the event (if such event is described in Section 5(b)) pursuant to subsection (g).

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

(e) If the District obtains knowledge of the occurrence of a Listed Event described in Section 5(a), or if the District determines that knowledge of the occurrence of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the District shall promptly notify the Dissemination Agent (if other than the District) in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (g).

(f) If in response to a request under subsection (c), the District determines that the Listed Event described in Section 5(b) would not be material under applicable federal securities laws, the District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to Section 5(g).

(g) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the occurrence of a Listed Event described in Section 5(a)(7) and 5(b)(3) 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.

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

SECTION 6. Format for Filings with the MSRB. Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as in prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The District's and the Dissemination Agent's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(g).

SECTION 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent. Upon such discharge, however, a new Dissemination Agent must be appointed within 60 days. The Dissemination Agent may resign by providing 60 days' written notice to the District. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the District shall be the Dissemination Agent. The initial Dissemination Agent shall be the District.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

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

(c) The amendment or waiver either (i) is approved by the Owners in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Owners (other than amendments requiring the consent of every Owner affected), or (ii) does not, in the opinion of the Dissemination Agent or nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners.

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

SECTION 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Certificate, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice in addition to that which is expressly required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

SECTION 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, the Dissemination Agent may (and, at the request of the Underwriter or the Owners of at least 25% of aggregate principal amount of the Bonds then Outstanding, shall), or any Owner or Beneficial Owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in a Washington State Court sitting in Snohomish County or in U.S. District Court for the Western District of Washington. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the

District to comply with this Disclosure Certificate shall be an action to compel performance, and no Person shall be entitled to recover monetary damages under this Disclosure Certificate.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are expressly set forth in this Disclosure Certificate, and the District agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, or the employees and agents of the Dissemination Agent, harmless against any loss, expense and liabilities which the Dissemination Agent or such employees or agents may incur arising out of or in the exercise or performance of the Dissemination Agent's powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section 11 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 13. Notices. Any notices or communications to or among any of the parties to this Disclosure Certificate may be given as follows:

To the District:

Public Utility District No. 1 of Snohomish County, Washington
ATTN: Treasurer
2320 California Street
Everett, Washington 98201

To the initial Dissemination Agent:

Public Utility District No. 1 of Snohomish County, Washington
ATTN: Treasurer
2320 California Street
Everett, Washington 98201

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

SECTION 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Underwriter and the Owners and Beneficial Owners from time to time, and shall create no rights in any other person or entity.

SECTION 15. Governing Law. This Disclosure Certificate shall be governed by the laws of the State of Washington determined without regard to the principles of conflict of law.

[SIGNATURE PAGE FOLLOWS]

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

PUBLIC UTILITY DISTRICT NO. 1
OF SNOHOMISH COUNTY, WASHINGTON

By: _____
Authorized Representative

EXHIBIT A

NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Public Utility District No. 1 of Snohomish County, Washington

Name of Bond Issue: Generation System Revenue Refunding Bonds, Series 2020A
Dated October 6, 2020.

Notice is hereby given that Public Utility District No. 1 of Snohomish County, Washington (the "District") has not provided an Annual Report with respect to the above-referenced bonds (the "Bonds") as required by Section 3 of the Continuing Disclosure Certificate, dated October 6, 2020, entered into by the District for the benefit of the Owners and Beneficial Owners of the Bonds. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

TREASURER OF PUBLIC UTILITY DISTRICT NO. 1
OF SNOHOMISH COUNTY, WASHINGTON,
as Dissemination Agent

By _____

cc: Public Utility District No. 1 of Snohomish County, Washington

PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON • GENERATION SYSTEM REVENUE REFUNDING BONDS, SERIES 2020A

SNOHOMISH COUNTY
PUD
PUBLIC UTILITY DISTRICT NO. 1

Mixed Sources
Product group from well managed forests, controlled sources and recycled wood or fiber.

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