

**NEW ISSUE  
BOOK-ENTRY ONLY  
NOT BANK QUALIFIED**

**S&P Global Ratings: AA+  
Fitch Rating: AA  
See “RATINGS” herein.**

*In the opinion of Nixon Peabody LLP, Special Tax Counsel to the District, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the District described herein, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). Special Tax Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code. See “TAX MATTERS” herein regarding certain other tax considerations.*



**\$44,845,000**

**PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON  
ELECTRIC SYSTEM REVENUE REFUNDING BONDS, SERIES 2023-V**

**Bonds Dated: Date of Delivery**

**Due: January 1, as shown on the inside cover page**

The Public Utility District No. 2 of Grant County, Washington (the “District”), Electric System Revenue Refunding Bonds, Series 2023-V (the “Bonds”) are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository of the Bonds. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers of the Bonds (the “Beneficial Owners”) will not receive certificates representing their beneficial ownership interests in the Bonds.

Interest on the Bonds is payable on July 1 and January 1, commencing January 1, 2024, until maturity or prior redemption, whichever occurs first, by the Washington State fiscal agent (currently U.S. Bank Trust Company, National Association) (the “Registrar”). As long as DTC or its nominee is the Registered Owner of the Bonds, payments of principal and interest will be made by the Registrar to DTC, which will in turn remit such principal and interest to its broker-dealer participants, which will in turn remit such payments to the Beneficial Owners of the Bonds as described in APPENDIX D—“DTC AND BOOK-ENTRY SYSTEM.”

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**Maturity Schedule Located on Inside Cover**

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The Bonds are being issued by the District to be used, with other available funds of the District, to refund on a current basis the District’s outstanding Electric System Revenue Refunding Bonds, Series 2020-S (Mandatory Put Bonds) (the “2020-S Bonds”), and to pay costs of issuance of the Bonds. See “PURPOSE AND APPLICATION OF BOND PROCEEDS.” The principal of and interest on the Bonds are payable solely from and secured by Gross Revenue of the Electric System and other funds pledged therefor by the Bond Resolution, subject to prior application for payment of Operating Expenses (each as defined herein). The Bonds are issued on a parity of lien on such Gross Revenue of the Electric System with the Outstanding Parity Bonds (as defined herein), currently outstanding in the principal amount of \$224,680,000 (excluding the 2020-S Bonds expected to be refunded with proceeds of the Bonds) and any Future Parity Bonds. The District has covenanted in the Bond Resolution not to issue any obligations with a lien or charge on the Gross Revenue of the Electric System superior to the lien and charge of the Bonds, but may issue Future Parity Bonds and Parity Lien Obligations on a parity of lien with the Outstanding Parity Bonds and the Bonds subject to certain conditions. See “SECURITY FOR THE PARITY BONDS.”

The Bonds are subject to redemption prior to maturity as described herein under “DESCRIPTION OF THE BONDS—Redemption.”

**THE BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE DISTRICT AND ARE NOT OBLIGATIONS OF THE STATE OF WASHINGTON OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE DISTRICT, AND NEITHER THE FULL FAITH AND CREDIT OF THE DISTRICT NOR THE TAXING POWER OF THE DISTRICT IS PLEDGED TO THE PAYMENT THEREOF.**

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

*The Bonds are offered when, as and if issued and received by the Underwriter, subject to the approval of legality by Pacifica Law Group LLP, Seattle, Washington, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the District by Nixon Peabody LLP, Washington, D.C., Special Tax Counsel. Forms of the proposed opinions of Bond Counsel and Special Tax Counsel are attached as Appendices C and D, respectively. Certain matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Seattle, Washington. The Bonds are expected to be delivered on or about November 30, 2023, through the facilities of DTC in New York, New York, by Fast Automated Securities Transfer.*

**KeyBanc Capital Markets**

Official Statement Dated: November 15, 2023

**PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON**

**\$44,845,000**

**ELECTRIC SYSTEM REVENUE REFUNDING BONDS, SERIES 2023-V**

**MATURITY SCHEDULE, INTEREST RATES, YIELDS, PRICES AND CUSIP NUMBERS**

| <b>Maturity<br/>(January 1)</b> | <b>Amount</b> | <b>Interest<br/>Rate</b> | <b>Yield</b> | <b>Price</b> | <b>CUSIP**<br/>No. (387874)</b> |
|---------------------------------|---------------|--------------------------|--------------|--------------|---------------------------------|
| 2024                            | \$ 1,300,000  | 5.00%                    | 3.44%        | 100.127      | YY0                             |
| 2025                            | 1,315,000     | 5.00                     | 3.29         | 101.806      | YZ7                             |
| 2026                            | 1,385,000     | 5.00                     | 3.24         | 103.519      | ZA1                             |
| 2027                            | 1,450,000     | 5.00                     | 3.18         | 105.307      | ZB9                             |
| 2028                            | 1,525,000     | 5.00                     | 3.16         | 106.998      | ZC7                             |
| 2029                            | 1,600,000     | 5.00                     | 3.19         | 108.433      | ZD5                             |
| 2030                            | 1,680,000     | 5.00                     | 3.22         | 109.764      | ZE3                             |
| 2031                            | 1,765,000     | 5.00                     | 3.27         | 110.860      | ZF0                             |
| 2032                            | 1,855,000     | 5.00                     | 3.28         | 112.126      | ZG8                             |
| 2033                            | 1,945,000     | 5.00                     | 3.31         | 113.165      | ZH6                             |
| 2034                            | 2,045,000     | 5.00                     | 3.35*        | 112.830      | ZJ2                             |
| 2035                            | 2,145,000     | 5.00                     | 3.45*        | 111.998      | ZK9                             |
| 2036                            | 2,250,000     | 5.00                     | 3.58*        | 110.928      | ZL7                             |
| 2037                            | 2,365,000     | 5.00                     | 3.74*        | 109.627      | ZM5                             |
| 2038                            | 2,485,000     | 5.00                     | 3.87*        | 108.583      | ZN3                             |
| 2039                            | 2,605,000     | 5.00                     | 3.97*        | 107.789      | ZP8                             |
| 2040                            | 2,735,000     | 5.00                     | 4.04*        | 107.236      | ZQ6                             |
| 2041                            | 2,875,000     | 5.00                     | 4.09*        | 106.844      | ZR4                             |
| 2042                            | 3,020,000     | 5.00                     | 4.14*        | 106.454      | ZS2                             |
| 2043                            | 3,170,000     | 5.00                     | 4.18*        | 106.142      | ZT0                             |
| 2044                            | 3,330,000     | 5.00                     | 4.21*        | 105.910      | ZU7                             |

\* Calculated to the par call date of January 1, 2033.

\*\* CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by FactSet Research Systems Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP service. CUSIP numbers are provided for convenience of reference only. CUSIP numbers are subject to change. The District takes no responsibility for the accuracy of such CUSIP numbers.

No dealer, broker, salesperson or any other person has been authorized by the District or the Underwriter to give any information or to make any representation, other than the information and representations contained herein, in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

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

The Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities laws in reliance upon exemptions contained in such laws. The Bonds will not have been recommended by the Securities and Exchange Commission (“SEC”) or any other federal, state or foreign securities commission or regulatory authority, and no such commissions and regulatory authorities will have reviewed or passed upon the accuracy or adequacy of this Official Statement. Any representation to the contrary may be a criminal offense.

The information within this Official Statement has been compiled from official and other sources considered reliable and, while not guaranteed as to accuracy, is believed by the District to be correct and complete as of its date. The District makes no representation regarding the accuracy or completeness of the information in Appendix D—“DTC AND BOOK-ENTRY SYSTEM,” which has been obtained from DTC’s website, or regarding the Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made by use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof.

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 any such information be relied upon in making investment decisions regarding the Bonds.

The presentation of certain information, including tables of receipts from revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the District. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

Certain statements contained in this Official Statement do not reflect historical facts, but rather are forecasts and “forward-looking statements.” No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words “estimate,” “forecast,” “project,” “anticipate,” “expect,” “intend,” “believe” and other similar expressions are intended to identify forward-looking statements. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements. All estimates, projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. These forward-looking statements speak only as of the date they were prepared. The District specifically disclaims any obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of this Official Statement.

The order and placement of materials in this Official Statement, including the Appendices, are not to be deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the Appendices, must be considered in its entirety. The offering of the Bonds is made only by means of this entire Official Statement.

The District maintains a website and certain social media accounts. However, the information presented thereon is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the Bonds. The references to internet websites in this Official Statement are shown for reference and convenience only; unless explicitly stated to the contrary, the information contained within the websites is not incorporated herein by reference and does not constitute part of this Official Statement.

**PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON**  
**30 “C” Street S.W.**  
**Ephrata, Washington 98823**  
**(509) 754-0500**  
**www.grantpud.org\***

**Commissioners**

Nelson Cox ..... President  
Tom Flint ..... Vice President  
Terry Pyle ..... Secretary  
Larry Schaapman ..... Commissioner  
Judy Wilson ..... Commissioner

**Executive Leadership Team**

Rich Wallen ..... General Manager and Chief Executive Officer  
Mitch Delabarre ..... General Counsel and Chief Legal Officer  
Bonnie Overfield ..... Chief Financial Officer and Treasurer  
Ty Ehrman, P.E. .... Chief Customer Officer  
Jeff Grizzel ..... Chief Operating Officer  
Julie Pyper ..... Chief Administrative Officer  
Dmitriy Turchik ..... Senior Manager of Internal Audit  
Charles Meyer ..... Managing Director of Enterprise Technology  
Tod Ayers ..... Managing Director of Human Resources  
John Mertlich ..... Managing Director of Intentional Power Demand  
Fallon Long ..... Managing Director of Integrated Operational Services

**Bond Counsel and Disclosure Counsel to the District**

Pacifica Law Group LLP  
Seattle, Washington

**Special Tax Counsel to the District**

Nixon Peabody LLP  
Washington, D.C.

**Municipal Advisor**

PFM Financial Advisors LLC  
Los Angeles, California

**Registrar**

Fiscal Agent of the State of Washington, currently  
U.S. Bank Trust Company, National Association  
Seattle, Washington

\* The District’s website is not part of this Official Statement and investors should not rely on information presented in the District’s website in determining whether to purchase the Bonds. This inactive textual reference to the District’s website is not a hyperlink and does not incorporate the District’s website by reference.

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**PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON**

**OFFICIAL STATEMENT**

**RELATING TO**

**\$44,845,000**

**ELECTRIC SYSTEM REVENUE REFUNDING BONDS, SERIES 2023-V**

**INTRODUCTION**

The purpose of this Official Statement, which includes the cover page, inside cover page and appendices, is to set forth information concerning Public Utility District No. 2 of Grant County, Washington (the “District”), the District’s electric transmission, distribution and telecommunications system (as more specifically defined in the hereinafter defined Bond Resolution, the “Electric System”), the District’s Priest Rapids Hydroelectric Project (as more specifically defined in the Bond Resolution, the “Priest Rapids Project”), which consists of the Priest Rapids Development and the Wanapum Development, and the District’s \$44,845,000 principal amount of Electric System Revenue Refunding Bonds, Series 2023-V (the “Bonds”).

The Bonds are to be issued pursuant to Title 54 of the Revised Code of Washington (“RCW”) (the “Enabling Act”) and chapters 39.46 and 39.53 RCW. The Bonds are authorized by Resolution No. 9031 of the District, adopted by the Board of Commissioners (the “Commission”) of the District on October 24, 2023 (the “Bond Resolution”). Certain capitalized words and phrases used in this Official Statement are defined in the Bond Resolution, a copy of which is attached hereto as Appendix A.

Proceeds of the Bonds will be used, with other available funds of the District, to refund on a current basis the District’s Outstanding Electric System Revenue Refunding Bonds, Series 2020-S (Mandatory Put Bonds) (the “2020-S Bonds”), and to pay costs of issuance of the Bonds. See “PURPOSE AND APPLICATION OF BOND PROCEEDS.” The District has Outstanding the following Electric System senior parity lien obligations:

- Electric System Revenue Refunding Bonds, Series 2017-O (the “2017-O Bonds”), in the aggregate principal amount of \$55,865,000,
- Electric System Revenue Refunding Bonds, Series 2020-Q (Taxable) (the “2020-Q Bonds”), in the aggregate principal amount of \$72,360,000,
- Electric System Revenue Refunding Bonds, Series 2020-R (Mandatory Put Bonds) (“2020-R Bonds”), in the aggregate principal amount of \$47,190,000,
- 2020-S Bonds, in the aggregate principal amount of \$48,045,000, all of which will be refunded with proceeds of the Bonds and other available funds of the District, and
- Electric System Revenue Refunding Bonds, Series 2023-U (the “2023-U Bonds”), in the aggregate principal amount of \$49,265,000.

The 2017-O Bonds, the 2020-Q Bonds, the 2020-R Bonds, the 2020-S Bonds (so long as any are Outstanding), and the 2023-U Bonds are referred to herein as the “Outstanding Parity Bonds.” In accordance with the resolutions authorizing the Outstanding Parity Bonds, the Bonds are issued on a parity of lien with the Outstanding Parity Bonds. The District has reserved the right in the Bond Resolution to issue additional bonds (“Future Parity Bonds”) and certain Parity Lien Obligations on a parity of lien with the Bonds and the Outstanding Parity Bonds. The Outstanding Parity Bonds, the Bonds and any Future Parity Bonds are referred to herein as the “Parity Bonds.” See “SECURITY FOR THE PARITY BONDS—Additional Bonds” and “DEBT SERVICE REQUIREMENTS.”

The District has reserved the right to issue indebtedness secured by a lien on Gross Revenue of the Electric System that is subordinate to the lien thereon of the Parity Bonds. See “DEBT SERVICE REQUIREMENTS—Subordinate Lien Obligations.”

The principal of and interest on the Bonds are payable solely from and secured by a pledge of Gross Revenue of the Electric System, subject to prior application for payment of Operating Expenses, and other funds pledged therefor by the Bond Resolution. Payments made by the Electric System for its share of the output of the Priest Rapids Project and other costs of purchased power and energy from the Priest Rapids Project (including debt service payments on obligations of the Priest Rapids Project) are Operating Expenses of the Electric System, and, therefore, are payable prior to debt service on the Parity Bonds (as long as power or energy is produced or capable of being produced). The obligation of the Electric System to pay for all other costs associated with the Priest Rapids Project (including debt service on Priest Rapids Project bonds if power or energy is not produced or capable of being produced) is subordinate in rank to all other obligations of the Electric System. See “SECURITY FOR THE PARITY BONDS” and “THE PRIEST RAPIDS PROJECT.”

The District currently has Priest Rapids Project bonds outstanding in the aggregate principal amount of \$834,385,000 (the “Outstanding Priest Rapids Project Bonds”). The District has reserved the right in the Priest Rapids Project bond resolutions to issue additional bonds on a parity of lien on Priest Rapids Project revenues with the Outstanding Priest Rapids Project Bonds (the “Future Priest Rapids Project Bonds”). The Outstanding Priest Rapids Project Bonds and any Future Priest Rapids Project Bonds are referred to herein as the “Priest Rapids Project Bonds.” See “DEBT SERVICE REQUIREMENTS” and “THE PRIEST RAPIDS PROJECT.”

The District also has outstanding subordinate lien revenue bonds of the Priest Rapids Project in the aggregate principal amount of \$577,355,000 (together with any additional subordinate lien obligations, the “Priest Rapids Project Subordinate Bonds”), which have been purchased by the District’s Electric System as an investment and are payable from and secured by a lien on revenue of the Priest Rapids Project subordinate to the payment of the Priest Rapids Project Bonds. The District has reserved the right to issue additional Priest Rapids Project Subordinate Bonds in the future.

Brief descriptions of the Bonds, the Bond Resolution and certain statutes and agreements are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to such instruments, documents and statutes and to any other documents, statutes, agreements or other instruments described herein are qualified in their entirety by reference to each such document, statute, or other instrument.

The Bonds are special limited obligations of the District and are not obligations of the State of Washington (the “State”) or of any political subdivision of the State other than the District, and neither the full faith and credit nor the taxing power of the District or the State, or any political subdivision thereof, is pledged to the payment of the Bonds. No revenues of any utility systems of the District other than the Gross Revenue of the Electric System are pledged to the payment of the Bonds.

## **PURPOSE AND APPLICATION OF BOND PROCEEDS**

### **Purpose of the Bonds**

Proceeds of the Bonds will be used to refund on a current basis all of the 2020-S Bonds and to pay costs of issuance of the Bonds as described below under “Refunding Plan.”



## Application of the Bond Proceeds

The proceeds of the Bonds will be applied as follows:

**TABLE 1**  
**ESTIMATED SOURCES AND USES OF FUNDS<sup>(1)</sup>**

| <b>Sources of Funds</b>              |               |
|--------------------------------------|---------------|
| Principal Amount of the Bonds        | \$ 44,845,000 |
| Plus Original Issue Premium/Discount | 3,620,013     |
| District Contribution                | 400,375       |
| Total Sources of Funds               | \$ 48,865,388 |
| <b>Uses of Funds</b>                 |               |
| Deposit to Refunding Account         | \$ 48,445,375 |
| Issuance Costs <sup>(2)</sup>        | 420,013       |
| Total Uses of Funds                  | \$ 48,865,388 |

<sup>(1)</sup> Figures have been rounded to the nearest dollar and may not foot due to rounding.

<sup>(2)</sup> Includes underwriter's discount, bond counsel fees, Municipal Advisor fees, paying agent and registrar fees, rating fees, legal fees, costs of posting and printing this Official Statement and additional proceeds.

## Refunding Plan

The following 2020-S Bonds (the "Refunded Bonds") will be refunded with proceeds of the Bonds and other available funds of the District.

**TABLE 2**  
**REFUNDED BONDS**

| <b>Series</b>               | <b>Maturity Date</b> | <b>Par Amount</b> | <b>Initial Term Interest Rate</b> | <b>Redemption Date</b> | <b>CUSIP Number</b> |
|-----------------------------|----------------------|-------------------|-----------------------------------|------------------------|---------------------|
| 2020-S Bonds <sup>(1)</sup> | January 1, 2044      | \$ 48,045,000     | 2.00%                             | 12/01/2023             | 387874YW4           |

<sup>(1)</sup> Term Bond.

A portion of the net proceeds from the sale of the Bonds, together with available funds of the District, if any, will be deposited into the bond fund or other authorized fund and used on the redemption date to redeem the Refunded Bonds pursuant to the terms of the resolution authorizing the 2020-S Bonds.

## DESCRIPTION OF THE BONDS

### General Terms

The Bonds will be issued as fully registered bonds in denominations of \$5,000 or integral multiples thereof within a maturity. The Bonds will be dated as of the date of their initial delivery and will mature on January 1 in the years and in the amounts set forth on the inside cover of this Official Statement.

The Bonds will bear interest from their date at the rates set forth on the inside cover of this Official Statement. Interest will be calculated on the basis of a 360-day year consisting of 12 30-day months, and will be payable commencing January 1, 2024, and semiannually thereafter on each January 1 and July 1 to the respective dates of maturity or prior redemption of the Bonds, whichever comes first.

The District has adopted the system of registration for the Bonds approved, from time to time, by the State Finance Committee (the "Committee"). Pursuant to chapter 43.80 RCW, the Committee designates one or more fiscal agents

for bonds issued within the State. The State's fiscal agent, currently U.S. Bank Trust Company, National Association (the "Registrar"), will authenticate the Bonds and act as the paying agent and registrar for the purpose of paying the principal of and interest on the Bonds, recording the purchase and registration, exchange or transfer, and payment of Bonds and performing the other respective obligations of the paying agent and registrar. No resignation or removal of the Registrar will become effective until a successor has been appointed by the District and has accepted the duties of Registrar.

The Bonds will be registered initially in the name of "Cede & Co.", as registered owner (the "Registered Owner") and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases may be made in book-entry form only as described under APPENDIX D—"DTC AND BOOK-ENTRY SYSTEM." Purchasers of the Bonds (the "Beneficial Owners") will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the Registered Owner of the Bonds, references herein to the "Registered Owners" shall mean DTC (or its nominee) and shall not mean the "Beneficial Owners" of the Bonds. In this Official Statement, the term "Beneficial Owner" shall mean the person for whom a DTC participant acquires an interest in the Bonds.

For so long as all Bonds are in book-entry form, payments of principal and interest thereon will be made as provided in accordance with the operational arrangements of DTC referred to in the Letter of Representations. See APPENDIX D—"DTC AND BOOK-ENTRY SYSTEM." If any Bond is duly presented for payment and funds have not been duly provided by the District on such applicable date, then interest will continue to accrue thereafter on the unpaid principal thereof at the rate stated on such Bond until it is paid.

#### **Termination of Book-Entry Transfer System**

In the event that DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained or the District determines that it is in the best interest of the Beneficial Owners of the Bonds that such owners be able to obtain such bonds in the form of Bond certificates, the ownership of such Bonds may then be transferred to any person or entity as provided in the Bond Resolution and the Bonds will no longer be held in book-entry form. New Bond certificates will be issued in the denomination of \$5,000 or any integral multiple thereof within a maturity and registered in the names of such persons as are requested in a written request of the District to the Registrar. Thereafter, interest on the Bonds will be paid by check or draft mailed to the Registered Owners at the addresses for such Registered Owners appearing on the Bond Register at the close of business for the Registrar that is 15 days preceding the interest payment date (the "Record Date"), or upon the written request of a Registered Owner of more than \$1,000,000 of Bonds (received by the Registrar at least 10 days prior to the applicable payment date), such payment will be made by the Registrar by wire transfer to the account within the United States designated by the Registered Owner. Principal of the Bonds will be payable upon presentation and surrender of such Bonds by the Registered Owners at the designated office of the Registrar.

#### **Transfer and Exchange**

In the event that the Bonds are no longer held in book-entry form, the transfer of any Bond may be registered and Bonds may be exchanged, but no transfer of any such Bond will be valid unless it is surrendered to the Registrar with the assignment form appearing on such Bond duly executed by the Registered Owner or such Registered Owner's duly authorized agent in a manner satisfactory to the Registrar. Upon such surrender, the Registrar will cancel the surrendered Bond and will authenticate and deliver, without charge to the Registered Owner or transferee therefor, a new Bond (or Bonds at the option of the new Registered Owner) of the same date, maturity and interest rate and for the same aggregate principal amount in any authorized denomination, naming as Registered Owner the person or persons listed as the assignee on the assignment form appearing on the surrendered Bond, in exchange for such surrendered and cancelled Bond. Any Bond may be surrendered to the Registrar and exchanged, without charge, for an equal aggregate principal amount of Bonds of the same date, maturity and interest rate, in any authorized denomination. The Registrar will not be obligated to register the transfer or to exchange any Bond during the period from the Record Date to the redemption or payment date.

## **Redemption of the Bonds**

*Optional Redemption.* The Bonds maturing on or after January 1, 2034, are subject to optional redemption, as a whole or in part (and if in part, with maturities to be selected by the District), on any date on or after January 1, 2033, at a price equal to the principal amount to be redeemed plus accrued interest, if any, to the date fixed for redemption.

### **Partial Redemption**

If the District redeems at any one time fewer than all of the Bonds having the same maturity date, the particular Bonds or portions of Bonds of such maturity to be redeemed shall be selected by lot (or in such manner determined by the Registrar) in increments of \$5,000. In the case of a Bond of a denomination greater than \$5,000, the District and the Registrar shall treat each Bond as representing such number of separate Bonds each of the denomination of \$5,000 as is obtained by dividing the actual principal amount of Bonds by \$5,000. In the event that only a portion of the principal sum of a Bond is redeemed, upon surrender of such Bond at the designated office of the Registrar there shall be issued to the Registered Owner, without charge therefor, for the then unredeemed balance of the principal sum thereof, at the option of the Registered Owner, a Bond or Bonds of like maturity and interest rate in any of the denominations herein authorized. Notwithstanding the foregoing, as long as the Bonds are held in book-entry only form, the selection of particular Bonds within a maturity to be redeemed shall be made in accordance with the operational arrangements then in effect at DTC.

### **Notice of Redemption; Conditional Redemption; Rescission**

Unless waived by any owner of Bonds to be redeemed, official notice of any such redemption (which redemption may be conditioned by the Registrar on receipt of sufficient funds for redemption or otherwise) will be given by the Registrar on behalf of the District by mailing a copy of an official redemption notice by first-class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Registered Owner of the Bond or Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such Registered Owner to the Registrar. Notwithstanding anything in the Bond Resolution to the contrary, so long as the Bonds are held in book-entry form, notice of redemption will be given in accordance with the operational arrangements in effect at DTC, and neither the District nor the Registrar will provide any notice of redemption to any Beneficial Owners.

On or prior to any redemption date, unless any condition to such redemption has not been satisfied or waived or notice of such redemption has been rescinded, the District will deposit with the Registrar an amount of money sufficient to pay the redemption price of all the Bonds or portions of Bonds which are to be redeemed on that date. The District retains the right to rescind any redemption notice and the related optional redemption of Bonds by giving notice of rescission to the affected Registered Owners at any time on or prior to the scheduled redemption date. Any notice of optional redemption that is so rescinded will be of no effect, and the Bonds for which the notice of optional redemption has been rescinded will remain Outstanding.

If an unconditional notice of redemption has been given and not rescinded, or if the conditions set forth in a conditional notice of redemption have been satisfied or waived, the Bonds or portions of Bonds to be redeemed will, on the redemption date, become due and payable at the redemption price therein specified, and, if the Registrar then holds sufficient funds to pay such Bonds at the redemption price, then from and after such date such Bonds will cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds will be paid by the Registrar at the redemption price. Installments of interest due on or prior to the redemption date will be payable as provided in the Bond Resolution for payment of interest. All Bonds which have been redeemed will be canceled by the Registrar and will not be reissued.

### **Open Market Purchases**

The District has reserved the right to use money in the Revenue Fund or any other funds legally available therefor at any time to purchase any of the Bonds in the open market if such purchase is found by the District to be economically advantageous and in the best interest of the District.

**Defeasance of the Bonds**

In the event that money and/or Government Obligations maturing or having guaranteed redemption prices at the option of the holder at such time or times and bearing interest to be earned thereon in amounts (together with such money, if any) sufficient to redeem and retire part or all of the Bonds in accordance with their terms, are irrevocably set aside in a special account and pledged to effect such redemption and retirement, then no further payments need be made into the Bond Fund or any account therein for the payment of the principal of and interest on the Bonds so provided for and such Bonds will then cease to be entitled to any lien, benefit or security of the Bond Resolution, except the right to receive the funds so set aside and pledged, and such Bonds shall no longer be deemed to be Outstanding under the Bond Resolution or under any resolution authorizing the issuance of bonds or other indebtedness of the District.

The term "Government Obligations" is defined in the Bond Resolution to mean those obligations now or hereafter defined as such in chapter 39.53 RCW constituting direct obligations of or obligations unconditionally guaranteed by the United States of America, as such chapter may be hereafter amended or restated.

*[Remainder of page intentionally left blank]*

## DEBT SERVICE REQUIREMENTS

### Outstanding Long-Term Debt of the District

The table below lists the outstanding long-term debt of the District for the Electric System and the Priest Rapids Project as of the date of this Official Statement, including the Refunded Bonds and excluding the Bonds.

**TABLE 3  
SUMMARY OF OUTSTANDING LONG TERM DEBT OF THE DISTRICT<sup>(1)</sup>**

| System   | Series  | Date of Final Maturity | Original Principal Amount (\$000) | Outstanding Principal Amount (\$000) |            |
|--|---|------------------------|-----------------------------------|--------------------------------------|------------|
| <b>Electric System</b>                           |   |                        |                                   |                                      |            |
| Electric System Bonds                            | 2017-O  | 1/1/2047               | \$ 64,545                         | \$ 55,865                            |            |
|  | 2020-Q  | 1/1/2041               | 74,975                            | 72,360                               |            |
|  | 2020-R  | 1/1/2044               | 47,190                            | 47,190                               |            |
|  | 2020-S <sup>(2)(3)</sup>                        | 1/1/2044               | 48,045                            | 48,045                               |            |
|  | 2023-U  | 1/1/2026               | 49,265                            | 49,265                               |            |
|  |   |                        |                                   | \$ 284,020                           | \$ 272,725 |
| Electric System Subordinate Bonds <sup>(4)</sup> | N/A   |                        |                                   |                                      |            |
| Electric System Super Subordinate Debt           | State Loan <sup>(5)</sup>                       | 10/31/2036             | \$ 810 <sup>(6)</sup>             | \$ 632                               |            |
|  |   |                        | \$ 810                            | \$ 632                               |            |
| <b>Priest Rapids Project</b>                     |   |                        |                                   |                                      |            |
| Priest Rapids Project Bonds                      | 2010-L  | 1/1/2040               | \$ 173,915                        | \$ 154,195                           |            |
|  | 2010-M  | 1/1/2027               | 90,000                            | 90,000                               |            |
|  | 2012-M  | 1/1/2032               | 42,395                            | 42,395                               |            |
|  | 2015-M  | 1/1/2040               | 90,000                            | 90,000                               |            |
|  | 2017-B  | 1/1/2031               | 7,905                             | 4,890                                |            |
|  | 2020-Z  | 1/1/2043               | 127,115                           | 117,155                              |            |
|  | 2020-Z2   | 1/1/2044               | 220,060                           | 189,215                              |            |
|  | 2023-A  | 1/1/2043               | 146,535                           | 146,535                              |            |
|  |   |                        |                                   | \$ 897,925                           | \$ 834,385 |
|  | Priest Rapids Project Sub. Bonds <sup>(6)</sup> | 2014                   | 1/1/2044                          | \$ 45,500                            | \$ 36,765  |
| 2015   |   | 1/1/2045               | 27,040                            | 27,040                               |            |
| 2015B  |   | 1/1/2045               | 7,625                             | 7,625                                |            |
| 2016   |   | 1/1/2047               | 30,860                            | 27,635                               |            |
| 2017   |   | 1/1/2047               | 25,935                            | 23,335                               |            |
| 2017B  |   | 1/1/2048               | 86,300                            | 78,865                               |            |
| 2019   |   | 1/1/2049               | 110,000                           | 100,515                              |            |
| 2020   |   | 1/1/2043               | 79,581                            | 73,920                               |            |
| 2021   |   | 1/1/2051               | 30,000                            | 28,415                               |            |
| 2021B  |   | 1/1/2051               | 50,000                            | 48,510                               |            |
| 2022   |   | 1/1/2053               | 50,000                            | 49,730                               |            |
| 2023   |   | 1/1/2053               | 75,000                            | 75,000                               |            |
|  |   |                        |                                   | \$ 617,841                           | \$ 577,355 |
| <b>Total</b>                                     |   |                        | <b>\$ 1,800,596</b>               | <b>\$ 1,685,097</b>                  |            |

Footnotes to Table 3 are on the following page.

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- (1) Outstanding aggregate principal amounts are provided as of the date of this Official Statement. Table excludes the Bonds and includes the Refunded Bonds. Amounts in table have been rounded.
- (2) The 2020-R Bonds and the 2020-S Bonds were issued as mandatory put bonds bearing interest at a fixed term interest rate of 2.0% for the initial term rate period ending on November 30, 2025, and November 30, 2023, respectively, subject to prior optional redemption or conversion to a new interest rate mode. The 2020-R Bonds are subject to mandatory tender on December 1, 2025 (the business day following the end of the initial term period), and on such date will be subject to mandatory purchase and conversion to a new term interest rate or to another interest rate mode as described in the resolution authorizing the issuance of such bonds. The 2020-S Bonds are subject to mandatory tender on December 1, 2023 (the business day following the end of the initial term period), and on such date will be subject to mandatory purchase and will be redeemed with proceeds of the Bonds. No credit facility secures the payment of the purchase price of the 2020-R Bonds or the 2020-S Bonds on such mandatory tender dates. If there are insufficient funds to pay the purchase price on such date or dates or the District rescinds its election to effect a conversion of such bonds, owners of such 2020-R Bonds and the 2020-S Bonds, as applicable, will retain their bonds, and the outstanding bonds will be in a delayed remarketing period and will bear interest at a stepped interest rate equal to 6.0% per annum for 90 days, then 8.0% per annum thereafter until remarketed, converted, or redeemed. Proceeds of the Bonds will be used to refund the 2020-S Bonds in whole. See “PURPOSE AND APPLICATION OF BOND PROCEEDS.” The District is considering issuing Future Parity Bonds to refund the Outstanding 2020-R Bonds prior to the applicable mandatory tender date. The issuance of such bonds is preliminary, subject to change.
- (3) Refunded Bonds. To be refunded in whole with proceeds of the Bonds.
- (4) The District does not have any Electric System Subordinate Bonds outstanding, however, the District has reserved the right to issue such Electric System Subordinate Bonds in the future and expects to issue up to \$20 million in Electric System Subordinate Bonds/notes in December 2023 to evidence a bank liquidity facility. See “Subordinate Lien Obligations.” Electric System Subordinate Bonds are special fund obligations of the District, payable from Gross Revenue of the Electric System subordinate to the payment of Parity Bonds but prior to any super subordinate obligations. See Footnote 5.
- (5) In 2021, the District entered into a Broadband Construction Funding Contract with the State, acting through its Public Works Board, to provide funding for the construction of broadband infrastructure, including a loan awarded in the principal amount of not to exceed \$810,000 (of which the District received \$681,000) (the “State Loan”) and a matching grant in the principal amount of \$681,000. The State Loan is a special fund obligation of the District, payable from Gross Revenue of the Electric System subordinate to the payment of Parity Bonds and any Electric System Subordinate Bonds.
- (6) These Priest Rapids Project Subordinate Bonds were purchased by the District’s Electric System as an investment.

*Source: The District.*

*[Remainder of page intentionally left blank]*

## Debt Service Requirements for the Electric System

The District's debt service requirements on the Bonds and the Outstanding Parity Bonds (excluding the Refunded Bonds) of the Electric System are shown in the following table. The District's debt service requirements for the Outstanding Priest Rapids Project Bonds are shown in Table 23. Amounts in the table have been rounded.

**TABLE 4  
ELECTRIC SYSTEM PARITY BOND DEBT SERVICE REQUIREMENTS<sup>(1)</sup>**

| Year <sup>(1)</sup>  | Outstanding Parity<br>Bonds Debt<br>Service <sup>(2)(3)</sup> | The Bonds     |               | Total Debt Service <sup>(4)</sup> |
|----------------------|---|---------------|---------------|-----------------------------------|
|                      |   | Principal     | Interest      |                                   |
| 2024                 | \$ 12,039,531   | \$ 1,300,000  | \$ 1,281,708  | \$ 14,621,239                     |
| 2025                 | 12,168,149  | 1,315,000     | 2,144,375     | 15,627,524                        |
| 2026                 | 60,441,140  | 1,385,000     | 2,076,875     | 63,903,015                        |
| 2027                 | 10,188,911  | 1,450,000     | 2,006,000     | 13,644,911                        |
| 2028                 | 10,177,646  | 1,525,000     | 1,931,625     | 13,634,271                        |
| 2029                 | 10,177,405  | 1,600,000     | 1,853,500     | 13,630,905                        |
| 2030                 | 10,174,201  | 1,680,000     | 1,771,500     | 13,625,701                        |
| 2031                 | 10,166,873  | 1,765,000     | 1,685,375     | 13,617,248                        |
| 2032                 | 10,159,022  | 1,855,000     | 1,594,875     | 13,608,897                        |
| 2033                 | 10,159,870  | 1,945,000     | 1,499,875     | 13,604,745                        |
| 2034                 | 10,150,311  | 2,045,000     | 1,400,125     | 13,595,436                        |
| 2035                 | 14,413,426  | 2,145,000     | 1,295,375     | 17,853,801                        |
| 2036                 | 14,395,408  | 2,250,000     | 1,185,500     | 17,830,908                        |
| 2037                 | 14,393,041  | 2,365,000     | 1,070,125     | 17,828,166                        |
| 2038                 | 14,388,417  | 2,485,000     | 948,875       | 17,822,292                        |
| 2039                 | 14,374,014  | 2,605,000     | 821,625       | 17,800,639                        |
| 2040                 | 14,364,268  | 2,735,000     | 688,125       | 17,787,393                        |
| 2041                 | 14,365,493  | 2,875,000     | 547,875       | 17,788,368                        |
| 2042                 | 9,175,000   | 3,020,000     | 400,500       | 12,595,500                        |
| 2043                 | 9,170,250   | 3,170,000     | 245,750       | 12,586,000                        |
| 2044                 | 9,165,750   | 3,330,000     | 83,250        | 12,579,000                        |
| 2045                 | 3,958,625   | -             | -             | 3,958,625                         |
| 2046                 | 3,954,500   | -             | -             | 3,954,500                         |
| 2047                 | 3,951,375   | -             | -             | 3,951,375                         |
| Total <sup>(4)</sup> | \$ 306,072,626  | \$ 44,845,000 | \$ 26,532,833 | \$ 377,450,459                    |

<sup>(1)</sup> Based on a calendar year, including January 1 and July 1 payments made in that year.

<sup>(2)</sup> Table excludes the Refunded Bonds and the State Loan. See "—Subordinate Lien Obligations" below.

<sup>(3)</sup> Assumes a fixed interest rate of 2.0% until final maturity for the 2020-R Bonds. See Table 3.

<sup>(4)</sup> Totals may not add due to rounding.

### Future District Borrowings

The District is considering issuing Future Parity Bonds to refund the Outstanding 2020-R Bonds prior to the applicable mandatory tender date. See Footnote 2 in Table 3. The issuance of such refunding Future Parity Bonds is preliminary, subject to change, and dependent on Board approval. Further, if market conditions allow for the refunding of Outstanding Parity Bonds for savings, the District will consider such refunding.

### Subordinate Lien Obligations

The District does not have any Electric System Subordinate Bonds outstanding, however, the District has reserved the right to issue subordinate lien obligations in the future. In December 2023, the District expects to issue up to \$20 million in Electric System Subordinate Bonds/notes to evidence the District's obligations under a bank liquidity facility to be established primarily to provide letter of credit collateral if and when required under the District's

energy hedge agreements. See “THE ELECTRIC SYSTEM—Power Supply Management and Power Marketing.” The liquidity facility may also serve as a line of credit permitting District draws from time to time, although the District does not expect to draw on the line. Electric System Subordinate Bonds are special fund obligations of the District, payable from Gross Revenue of the Electric System subordinate to the payment of Parity Bonds but prior to any super subordinate obligations. See information regarding an outstanding super subordinate obligation below. The resolutions authorizing the Electric System Subordinate Bonds bar acceleration of such subordinate indebtedness as a remedy for an event of default and establish a coverage requirement of at least 1.10 times annual debt service on the Electric System Subordinate Bonds.

Further, the District is considering applying for federal and/or State subordinate lien loans for the Electric System and/or the Priest Rapids Project to finance capital projects if the terms of such loans are advantageous to the District.

In 2021, the District entered into a Broadband Construction Funding Contract with the State, acting through its Public Works Board, to provide funding for the construction of broadband infrastructure, including a State Loan awarded in the principal amount of not to exceed \$810,000 (of which the District received \$681,000) and a matching grant in the principal amount of \$681,000. The State Loan is a special fund obligation of the District, payable from Gross Revenue of the Electric System subordinate to the payment of Electric System Bonds and any Electric System Subordinate Bonds. See Table 3.

## **SECURITY FOR THE PARITY BONDS**

### **Pledge of Revenues**

The Bonds and the interest thereon are payable from the Electric System Revenue Bond Fund (the “Bond Fund”) held by the District. The District has covenanted: (i) to pay into the Revenue Fund created by Resolution No. 75 all Gross Revenue, except for certain investment income (see “Flow of Funds Under the Bond Resolution” below), and (ii) to pay into the Bond Fund out of the Gross Revenue certain fixed amounts sufficient (together with other available funds on hand and paid into the Bond Fund) to pay the principal of, premium, if any, and interest on the Parity Bonds from time to time Outstanding as the same become due and payable.

The pledge of the Gross Revenue is subject to its prior application for payment of Operating Expenses and costs associated with Resource Obligations for any month in which any power and energy or other goods and services from such resources were made available to the Electric System.

“Gross Revenue” is defined in the Bond Resolution to mean all income and revenues received by the District from the sale of electric energy through the ownership or operation of the Electric System and all other commodities, services and facilities sold, furnished or supplied by the District through the ownership or 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, and federal credit payments for interest on bonds, in connection with the ownership and operation of the Electric System (but exclusive of income derived from investments irrevocably pledged to the payment of any specific revenue bonds of the District, such as bonds that have been or will be refunded, or any Bonds defeased pursuant to the Bond Resolution or other bonds defeased, or the payment of which is provided for, under any similar provision of any other bond resolution of the District, exclusive of investment income earned on money in any arbitrage rebate account, grants for capital purposes, assessments in any local utility district, any Reciprocal Payments, and any ad valorem tax revenues).

“Operating Expenses” are defined in the Bond Resolution to mean the District’s expenses for operation and maintenance of the Electric System and include ordinary repairs, renewals, replacements, and reconstruction of the Electric System, all costs of delivering electric power and energy and payments into reasonable reserves in the Revenue Fund for items of Operating Expenses the payment of which is not immediately required, and include, without limiting the generality of the foregoing, costs of purchased power (including costs of power and energy required by any resolution or contract of the District to be taken by the District from the Priest Rapids Project for the account of the Electric System); costs of transmission and distribution operation and maintenance expenses; 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, assessments, payments in lieu of taxes or other lawful governmental charges, all to the extent properly allocable to the Electric System; and the fees and expenses of the Registrar. Operating Expenses do not include any costs or expenses for new construction, interest, amortization, any allowance for depreciation, and District Payments.

“Net Revenue” means, for any period, the excess of Gross Revenue over Operating Expenses for such period, excluding from the computation of Gross Revenue (a) any profit or loss derived from the sale or other disposition, not in the ordinary course of business, of properties, rights, or facilities of the Electric System, or resulting from the early extinguishment of debt, and (b) insurance proceeds other than proceeds to replace lost revenue.

The rights of the owners of the Bonds under the Bonds and the Bond Resolution, and the enforceability thereof, may be subject to judicial discretion and valid exercise of sovereign police powers of the State, and of the constitutional powers of the United States of America, and valid bankruptcy, insolvency, receivership, reorganization, moratorium, and other laws affecting creditors’ rights.

### **Limited Obligations**

The Bonds are special limited obligations of the District and are not obligations of the State or any political subdivision thereof other than the District, and neither the full faith and credit nor the taxing power of the District nor the revenues of any utility systems of the District other than the Gross Revenue of the Electric System are pledged to the payment of the Bonds.

State law provides that the revenue obligations issued by a public utility district and interest thereon are a valid claim of the owner thereof only as against the special fund or funds provided for the payment of such obligations and the proportion or amount of the revenues pledged to such fund or funds, and that (1) such pledge of the revenues or other money or obligations is valid and binding from the time made, (2) the revenues or other money or obligations so pledged and thereafter received by a public utility district are immediately subject to the lien of such pledge without any physical delivery or further act, and (3) the lien of any such pledge will 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. The Bonds are not secured by a mortgage, deed of trust, or security interest in the Electric System or any of the physical plant and facilities thereof.

### **Flow of Funds under the Bond Resolution**

The District has covenanted that so long as any of the Parity Bonds are Outstanding and unpaid it will continue to pay into the Revenue Fund all Gross Revenue, exclusive of earnings on money in any arbitrage rebate account or any bond fund (including the Bond Fund), the Reserve and Contingency Fund (“R&C Fund”) or the Parity Bond Reserve Accounts, which may be retained in such funds and account or transferred to other funds as required by the Bond Resolution or other bond resolution.

The Gross Revenue of the District will be used only for the following purposes and in the following order of priority:

- (1) to pay Operating Expenses and Resource Obligations (to the extent payable as Operating Expenses);
- (2) to make all payments required to be made into the Bond Fund for the payment of accrued interest on Parity Bonds on the next interest payment date and to make any District Payments;
- (3) to make all payments required to be made into the Bond Fund for the payment of the principal amount of Serial Bonds next coming due, and for the optional or mandatory redemption of Term Bonds;

- (4) to make all payments required to be made into the Parity Bond Reserve Accounts, or to meet a reimbursement obligation with respect to any Qualified Insurance or Qualified Letter of Credit or other credit enhancement device, if so required by resolution of the Commission; and
- (5) to make all payments required to be made into any special fund or account created to pay or secure the payment of the principal of and interest on any Electric System Subordinate Bonds and any other revenue bonds, warrants, or other revenue obligations of the District having a lien upon Gross Revenue and money in the Revenue Fund and Bond Fund and accounts therein subordinate to the lien thereon for the payment of the principal of and interest on the Bonds.

Resource Obligations not payable as Operating Expenses shall be paid on a parity with Outstanding Parity Bonds as provided in Sections (2) and (3) above.

After all of the above payments and credits have been made, amounts remaining in the Revenue Fund may be used for any other lawful purpose of the District.

### **Rate Covenant**

The District has covenanted to establish, maintain, and collect rates or charges for electric energy sold through the ownership or operation of the Electric System, and all other commodities, services and facilities sold, furnished, or supplied by the District in connection with the ownership or operation of the Electric System that shall be fair and nondiscriminatory and adequate to provide Gross Revenue, together with other available money (including without limitation transfers from the R&C Fund) sufficient for the payment of the principal of and interest on all Outstanding Parity Bonds and all payments which the District is obligated to set aside in the Bond Fund, and for the proper operation and maintenance of the Electric System, and all necessary repairs, replacements, and renewals thereof, the working capital necessary for the operation thereof, and for the payment of all amounts that the District may now or hereafter become obligated to pay from Gross Revenue. Such rates or charges must be sufficient to provide Net Revenue, taking into account any transfers to or from the R&C Fund, in any Fiscal Year in an amount equal to at least 1.25 times the Annual Debt Service in such Fiscal Year, excluding any capitalized interest thereon in such Fiscal Year (the "Coverage Requirement"). For purposes of calculating the Coverage Requirement, there must be added to the Net Revenue in any year any amount withdrawn from the Rate Stabilization Account in such calendar year and deposited in the Revenue Fund, and there must be subtracted from Net Revenue in any year any amount withdrawn from the Revenue Fund and deposited in the Rate Stabilization Account.

The balance in the Rate Stabilization Account was approximately \$102 million as of September 30, 2023. See the Bond Resolution in Appendix A for information on the Rate Stabilization Account. See "Reserve and Contingency Fund" below.

Failure to maintain the rate covenant in any Fiscal Year will not constitute an Event of Default under the Bond Resolution if the District takes remedial action within 90 days as further described in the Bond Resolution. See Appendix A.

### **Reserve and Contingency Fund**

The District has established the R&C Fund for the purpose of paying the costs of extraordinary, unexpected, or catastrophic expenses not otherwise provided for, additional power and energy purchases, and defeasing outstanding debt. The Commission determines the amount, if any, to deposit in such fund as part of the annual budget. The R&C Fund is pledged to the payment of the Outstanding Parity Bonds and the Bonds to the extent, if any, of money in the fund. The Rate Stabilization Account is an account within the R&C Fund.

Other than the amount on deposit in the Rate Stabilization Account, there were no other funds held in the R&C Fund as of September 30, 2023. See "Rate Covenant" above. Continued maintenance of the R&C Fund is within the discretion of the Commission.

## **Additional Bonds**

The District has covenanted in the Bond Resolution not to issue any obligations subsequent to the issuance of the Bonds with a lien and charge on the Gross Revenue and funds of the Electric System prior to the lien and charge of the Parity Bonds.

The District has covenanted in the Bond Resolution that it will not issue any bonds or other obligations on a parity of lien with the Outstanding Parity Bonds and the Bonds, except the District has reserved the right to issue Future Parity Bonds and to incur Resource Obligations, obligations under reimbursement agreements, and under Derivative Products as provided in the Bond Resolution, subject to the limitations set forth in the Bond Resolution.

*Future Parity Bonds.* Future Parity Bonds may be issued for any lawful purpose of the District and only upon compliance with the following conditions:

- (1) At the times of issuance of such Future Parity Bonds there is no deficiency in the Bond Fund or in any of the accounts therein and no Event of Default has occurred and is continuing;
- (2) Net Revenue of the Electric System for any 12 consecutive months of the months next preceding the issuance of the Future Parity Bonds (not including any transfer from the R&C Fund) will equal at least 1.25 times the Annual Debt Service required to be paid in any fiscal year thereafter;
- (3) At or prior to the time of the issuance of such Future Parity Bonds the District must obtain and have on file a certificate from the Treasurer which shall certify full compliance with conditions (1) and (2) set forth above, or in the alternative the District must obtain a certificate from a Professional Utility Consultant stating that the projected annual Net Revenue for the Fiscal Years in which the Parity Bonds, including the Future Parity Bonds being issued, are expected to at least equal 1.25 times the Annual Debt Service required to be paid in any Fiscal Year thereafter; and
- (4) The resolution authorizing the issuance of the Future Parity Bonds shall contain covenants and provisions substantially the same as covenants and provisions in the Bond Resolution with respect to the Revenue Fund, the Bond Fund and Reserve Account, the Rate Stabilization Account, Security for Parity Bonds, General Covenants, Future Parity Bonds and Resource Obligations, Restrictions on the Contracting of Obligations Secured by Revenue, Derivative Products, Defaults and Remedies, and Amendments to such resolution. See Appendix A.

For the purpose of such conditions, Net Revenue of the Electric System may be adjusted to include (i) a full 12 months of Net Revenue from any customers added during the 12-month period being considered; (ii) the annual estimated Net Revenue to be received as a result of any additions, betterments, and improvements to and extensions of the Electric System to be acquired, constructed, or installed by the District from the proceeds of the Future Parity Bonds to be issued or under construction at the time of such certificate; and (iii) the additional Net Revenue which would have been received by the District if any rate change adopted prior to the delivery of the Future Parity Bonds, but subsequent to the beginning of the 12-month period being considered, had been in force during the full 12-month period.

In the event that any Future Parity Bonds are issued for the sole purpose of exchanging with or providing funds to purchase or refund or redeem and retire at or prior to their maturity any or all Outstanding Parity Bonds and the issuance of such refunding Future Parity Bonds and retirement of outstanding bonds and such refunding Future Parity Bonds will not require a greater amount (except as necessary to round maturities to the nearest \$5,000) to be paid in any Fiscal Year thereafter as Annual Debt Service than would have been required to be paid in the same Fiscal Year for Annual Debt Service on the bonds being refunded, then the conditions numbered (2) and (3) above need not be complied with to permit such refunding Future Parity Bonds to be issued.

The District may issue bonds, notes, warrants, or other obligations having a lien and charge against the Gross Revenue of the Electric System subordinate to the Parity Bonds upon the terms and conditions stated in the Bond Resolution. Any such subordinate lien obligations will not be subject to acceleration.

*Resource Obligations.* The District may enter into or incur a Resource Obligation pursuant to a resolution of the Commission (see “Resource Obligations; Take or Pay Contracts” below) provided that the following requirements shall be met at the time of adoption of such resolution:

- (1) No Event of Default with respect to any Parity Bonds or Resource Obligations has occurred and is continuing;
- (2) There must have been filed with the Secretary of the Commission a certificate of a Professional Utility Consultant stating that the additional source of power and energy or conservation from such Resource Obligation is consistent with sound utility power supply planning;
- (3) There must have been filed with the Secretary of the Commission a report of the Professional Utility Consultant stating that estimated annual Net Revenue for the second full Fiscal Year after the date of initial operation of the facilities, costs of which are to be financed as a Resource Obligation, or after the date of first delivery of energy, capacity, reserves or services pursuant to a contract, costs of which are declared to be a Resource Obligation, as the case may be, is at least equal to 1.25 times the maximum Annual Debt Service in any future Fiscal Year;
- (4) In the event that the Resource Obligation is a contract to purchase energy, capacity, reserves, or services, there must have been filed with the Secretary of the Commission opinions of counsel to all other parties to the contract which opinions state that each such party to such contract has all requisite right, power, and authority to execute and deliver such contract and to perform its obligations thereunder and that such contract constitutes a legally valid and binding obligation of such party thereto; and
- (5) The Resource Obligations must not be subject to acceleration if an event of default has occurred.

#### **Electric System Obligations for the Priest Rapids Project Bonds**

The District’s Outstanding Priest Rapids Project Bonds are currently outstanding in the aggregate principal amount of \$834,385,000. See Table 3. The District has reserved the right to issue Future Priest Rapids Project Bonds on a parity of lien with the Outstanding Priest Rapids Project Bonds.

The Priest Rapids Project Subordinate Bonds of the District are currently outstanding in the aggregate principal amount of \$577,355,000, which have been purchased by the Electric System as an investment. The District has reserved the right to additional subordinate Priest Rapids Project bonds in the future.

The District has covenanted (1) to pay to the Priest Rapids Project from the Electric System that portion of the annual costs of the Priest Rapids Project for each Fiscal Year, including without limitation for operating expenses and debt service on the Priest Rapids Project Bonds, that is not otherwise paid or provided for from payments received by the Priest Rapids Project from the sale of power and energy and related products from the Priest Rapids Project to purchasers other than the District and (2) to establish, maintain, and collect rates and charges for electric power and energy and related products sold through the Electric System sufficient to make any such payments to the Priest Rapids Project.

Payments made by the Electric System for its share of the output of the Priest Rapids Project and other costs of purchased power and energy from the Priest Rapids Project are Operating Expenses of the Electric System, and, therefore, are payable prior to debt service on the Parity Bonds (as long as power or energy is produced or capable of being produced). The obligation of the Electric System to pay for all other costs associated with the Priest Rapids Project (including debt service if power or energy is not produced or capable of being produced) is subordinate in rank to all other obligations of the Electric System. See “THE PRIEST RAPIDS PROJECT.”

#### **No Reserve Account for the Bonds**

There will be no reserve account established for the Bonds. There was no reserve account established for the 2020-R Bonds or the 2023-U Bonds.

## **2020-Q Reserve Fund**

As provided in Resolution No. 8933, the resolution authorizing the issuance of the 2020-Q Bonds, the reserve fund requirement with respect to the 2020-Q Bonds and any Future Parity Bonds secured by the 2020-Q Reserve Fund (the “2020-Q Reserve Fund Requirement”) was an amount equal to the least of (A) 1.25x average Annual Debt Service, (B) maximum Annual Debt Service or (C) 10% of the initial principal amount of the 2020-Q Bonds or any Future Parity Bonds secured by such reserve fund. Such 2020-Q Reserve Fund Requirement may be recalculated and determined from time to time. The 2020-Q Reserve Fund is held by the District. As of May 31, 2023, the 2020-Q Reserve Fund had a balance of approximately \$5.5 million. The 2020-Q Reserve Fund is not available to pay the Bonds.

## **2017-O Reserve Fund**

As provided in Resolution No. 8866, the resolution authorizing the issuance of the 2017-O Bonds, the reserve fund requirement with respect to the 2017-O Bonds and any Future Parity Bonds secured by the 2017-O Reserve Fund (the “2017-O Reserve Fund Requirement”) was an amount equal to the least of (A) 1.25x of average Annual Debt Service, (B) maximum Annual Debt Service or (C) 10% of the initial principal amount of the 2017-O Bonds or any Future Parity Bonds secured by such reserve fund. Such 2017-O Reserve Fund Requirement may be recalculated and determined from time to time. The 2017-O Reserve Fund is held by the District. As of May 31, 2023, the 2017-O Reserve Fund had a balance of approximately \$5.4 million. The 2017-O Reserve Fund is not available to pay the Bonds.

## **Resource Obligations; Take or Pay Contracts**

Upon compliance with certain requirements in the Bond Resolution, the District may (1) enter into contracts for the purchase of energy, capacity, capability, reserves, conservation, or services or (2) construct or acquire as a separate system, facilities or resources for the generation of power and energy or for the conservation, transformation, transmission, or distribution of power and energy and may declare costs associated with such contract or separate system (including debt service on bonds) to be a resource obligation (“Resource Obligation”) of the Electric System to be paid as an Operating Expense of the Electric System for any month in which power and energy or other goods and services from such resource were made available to the Electric System during such month (regardless of whether or not the Electric System actually scheduled or received energy from such resource during such month). At all other times, a Resource Obligation is an indebtedness of the Electric System payable from Gross Revenue on a parity of lien with the Bonds. The District has not entered into Resource Obligations. The District’s share of the Priest Rapids Project is not a Resource Obligation, but the District’s costs associated with the Priest Rapids Project are Operating Expenses as long as power or energy is provided or capable of being provided.

The District has covenanted in the Bond Resolution not to enter into any agreement which obligates the District to pay from Gross Revenue for (a) generating or transmission capacity or the use or lease of generating or transmission facilities (under which agreement payment is not conditioned on the availability of such capacity or facility) or (b) the installment purchase or lease of property which otherwise transfers to the District the burdens and benefits of ownership of such property, unless such agreement specifically provides that the payment obligation of the District thereunder is subordinate to the obligation of the District to make payments from the Revenue Fund into the Bond Fund. This restriction does not apply to Resource Obligations or any agreement relating to the Priest Rapids Project or to any other hydroelectric facility owned and operated by the District.

## **Other Covenants; Other Terms of the Bond Resolution**

The District has, among other covenants, made covenants in the Bond Resolution with respect to maintenance of District properties, sale or disposition of the Electric System, insurance, and the keeping of proper books of account of the Electric System. See Appendix A.

The Bond Resolution defines certain Events of Default with respect to the Bonds, including but not limited to, failure to make bond payments punctually, failure to observe or perform any of the covenants included in the Bond Resolution, and actions related to bankruptcy or insolvency. The Bond Resolution provides for the opportunity to

cure certain defaults and the appointment of a trustee (a “Bondowners’ Trustee”) to take such steps and institute such suits, actions, or other proceedings, all as it may deem appropriate for the protection and enforcement of the rights of the owners of Parity Bonds. The Bond Resolution also sets forth provisions related to amending the Bond Resolution, with and without the consent of owners of Parity Bonds, and other terms important to the Bonds. See Appendix A.

### **Derivative Products**

To the extent permitted by State law, the District may enter into Derivative Products secured by a pledge and lien on Gross Revenue on a parity with the Bonds and the Outstanding Parity Bonds subject to the satisfaction of certain conditions precedent. A “Derivative Product” is a written contract between the District and a third party (a “Reciprocal Payor”) obligating the District to make District Payments (subject to certain conditions) on one or more scheduled and specified payment dates in exchange for a Reciprocal Payor’s obligation to pay or cause to be paid Reciprocal Payments to the District on scheduled and specified payment dates. 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. The District has not entered into any Derivative Products. For a definition of terms used in this paragraph and a summary of the conditions precedent to the District’s entering into a Derivative Product, see Appendix A.

### **No Acceleration upon Default**

Upon the occurrence and continuance of an Event of Default under the Bond Resolution, payment of the principal of and interest on the Bonds is not subject to acceleration. The District thus would be liable only for principal and interest payments as they became due, and the Bondowners’ Trustee would be required to seek a separate judgment for each payment, if any, not made. Any such action for money damages would be subject to any limitations on legal claims and remedies against public bodies under Washington law. Amounts recovered would be applied to unpaid installments of interest prior to being applied to unpaid principal and premium, if any, which had become due. The bonds issued for the Priest Rapids Project also are not subject to acceleration.

The District has never defaulted in the payment of principal of or interest on any of its bonds.

## **THE DISTRICT**

### **General**

The District is a Washington municipal corporation. It was organized in 1938 pursuant to a general election in accordance with the Enabling Act and commenced operations in 1942. The District has its administrative offices in Ephrata, Washington, the county seat of Grant County (the “County”), which is located in central Washington. The District’s Electric System serves all of the County.

Pursuant to State statutes, the District is administered by a Commission of five elected members. The legal responsibilities and powers of the District, including the establishment of rates and charges for services rendered, are exercised through the Commission. The Commission establishes policy, approves plans, budgets and expenditures, and reviews the District’s operations.

The District’s electric utility properties and operations consist of two operating systems, each of which is accounted for and financed separately. The systems are the Electric System and the Priest Rapids Project, which consists of the Priest Rapids Development and the Wanapum Development. The Priest Rapids Development consists of a dam and hydroelectric generating station with a nameplate rating of 950 megawatts (“MW”) and the Wanapum Development consists of a dam and hydroelectric generating station with a nameplate rating of 1,222 MW. The revenues of the Priest Rapids Project are not pledged to or available for the payment of the bonds of the Electric System. See “THE ELECTRIC SYSTEM” and “THE PRIEST RAPIDS PROJECT.”

Although cities in the District’s service area have statutory authority to provide electric service, only the town of Coulee Dam, which is located partially in the County, has its own electric distribution system. The District is not

aware of any other city that is considering providing electric service. The District also has statutory rights of eminent domain which, subject to certain limitations, enable the District to acquire various assets and property rights, including electric distribution facilities in the County of any investor-owned utility company that may seek to serve the County. The District's facilities in any city and its right to provide electric service in any city are subject to the reasonable police power of such city.

Under Washington law, public utility districts (such as the District) are authorized to provide retail electrical service beyond their boundaries. Further, investor-owned utilities are not prohibited from providing retail electrical service beyond their current service area.

The following map shows the District's service area and location of the Priest Rapids and Wanapum Developments.

**FIGURE 1: PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON**



## Management and Administration

The Commissioners of the District, their titles, and the expiration of their respective terms of office are listed below.

**TABLE 5  
BOARD OF COMMISSIONERS**

| <u>Name</u>     | <u>Title</u>   | <u>Expiration of<br/>Term of Office (December 31)</u> |
|-----------------|----------------|---|
| Nelson Cox      | President      | 2026  |
| Thomas Flint    | Vice President | 2024  |
| Terry Pyle      | Secretary      | 2028  |
| Larry Schaapman | Commissioner   | 2026  |
| Judy Wilson     | Commissioner   | 2024  |

*Nelson Cox, President*, was elected to the Commission in 2018. He is a lifetime resident of Warden, Washington, and has actively operated his family farm for more than 45 years. Commissioner Cox has been a part of various local community groups and boards. He also represented the agriculture industry through his service within state and national organizations.

*Thomas Flint, Vice President*, was elected to the Commission in 2000. He is a fifth generation farmer actively farming in the County. Commissioner Flint serves as a director on the Blacksands Irrigation District. He is a past president of the Washington Public Utility Districts Association. Commissioner Flint is a graduate of Central Washington University and holds a degree in industrial technology.

*Terry Pyle, Secretary*, was appointed by the Commission in October 2021 to fill the open District 2 position and was subsequently elected by the voters to retain such position. Commissioner Pyle comes to the District with a financial and business background from a career in farm credit and agribusiness in the Columbia Basin. He currently teaches business and economics courses, full-time, at Big Bend Community College. He holds a Masters of Business Administration with emphasis on Finance from Pacific Lutheran University.

*Larry Schaapman, Commissioner*, was appointed to the Commission in 2012. He has been a resident of the County for 40 years and has operated several businesses in the area during that time. He currently owns and manages a family farm in the Quincy area, and has served on numerous agricultural boards in the region including the Washington State Farm Bureau. Commissioner Schaapman currently sits on the Potato Growers of Washington Board.

*Judy Wilson, Commissioner*, was elected to the Commission in 2018. From a long-time cattle-ranching family, Mrs. Wilson managed a farm-and-construction machinery dealership for 21 years in Central Washington and Oregon before retiring in 2017. She was director of a publicly owned water utility in the Spokane Valley from 1982 to 1996.

The executive leadership team of the District is as follows:

*Richard Wallen, General Manager and Chief Executive Officer*, joined the District in June 2017. Prior to his appointment as General Manager of the District, he served as the Chief Operations Officer. His professional background includes 30 years of energy industry experience within nuclear, coal, gas, and hydro. He earned his Bachelor's Degree from West Virginia University and received a Master's Degree in Business Management from Clayton State University. Rich is a veteran of the U.S. Navy where he served onboard the USS Enterprise as a nuclear power plant operator. He holds a project management professional certification.

*Mitch Delabarre, General Counsel and Chief Legal Officer*, joined the District in 2009. He has more than 28 years of legal experience, including 22 years working with municipal organizations in the County. Mr. Delabarre holds a



Bachelor of Science degree from San Diego State University and obtained his law degree from Willamette University College of Law.

*Bonnie Overfield, Treasurer and Chief Financial Officer*, has been with the District since 2004, and has since held a number of senior financial positions, including Senior Manager of Treasury. During her tenure at the District she has also managed other areas of finance including financial planning/budget, debt, rates, risk, and accounting. Ms. Overfield holds a Bachelor of Arts degree from Eastern Washington University and a Master of Business Administration degree.

*Ty Ehrman, P.E., Chief Customer Officer*, joined the District in January 2010 and assumed his new role of Chief Customer Officer on March 31, 2023. He moved into the utility industry after 10 years as a design engineer and engineering manager for heavy equipment manufacturers in the sawmill and mobile-equipment industries. At the District, he has held positions in engineering and power plant management and most recently served as the head of Power Production. Mr. Ehrman oversees teams that have direct contact with District customers, the media and industry partners, plus the wholesale-marketing and rates-and-pricing teams. He has a Bachelor of Science degree in Mechanical Engineering from Washington State University and is a registered professional engineer in Washington.

*Jeff Grizzel, Chief Operating Officer*, joined the District in 2010 as Natural Resources Director, in 2018 was promoted to Managing Director of Power Delivery, overseeing the District's Electric System, and in 2022 was promoted to Chief Operating Officer. In his current role as Chief Operating Officer, he oversees both Power Delivery and Power Production. Mr. Grizzel holds a Master's Degree in Forest Hydrology from the Oregon State University and a Bachelor's in Natural Resources Management from Virginia Tech.

*Julie Pyper, Chief Administrative Officer*, began her career at the District in September 2009, bringing with her more than two decades of experience from positions at Okanogan County and Chelan County Public Utility Districts. Ms. Pyper has held several positions at the District. In her current position, she oversees the teams who manage capital projects and provide support services in change management, project management, project analysis, safety, industrial training, and employee enrichment. She has a Bachelor of Science degree in Animal Science from Washington State University and has certifications in asset and change management through the Asset Management Institute and Prosci, Inc. Ms. Pyper is a Project Management Professional.

*Dmitriy Turchik, Senior Manager of Internal Audit*, has been with the District since 2018. He came to the District after five years with the Washington State Auditor's Office, where he ultimately supervised performance and quality assurance of financial, federal, and legal compliance audits of state and local governments.

*Charles Meyer, Managing Director of Enterprise Technology*, joined the District in 2020. Prior to his appointment as Senior Manager of Enterprise Technology, he served as the Manager of Software Engineering. Mr. Meyer brings more than two decades of enterprise technology experience from positions at Verizon and General Atomics Aeronautical Systems. In his current position, he oversees the teams that manage cybersecurity, platform operations, application support, quality assurance, and software engineering. Mr. Meyer has a Bachelor's Degree in Computer Science from the University of Phoenix.

*John Mertlich, Managing Director of Intentional Power Demand*, joined the District in 2019 and is leading the evolution of the District's Intentional Power Demand group, leveraging his past role as Senior Manager of Financial Planning and Analysis at the District. Previous to working at the District, Mr. Mertlich worked at PacifiCorp for 15 years. His experience and skillset include Business/Energy Economics, Finance, Statistics and Forecasting. His expertise extends to renewable energy, risk management, commodity markets, and valuation. Mr. Mertlich holds Bachelors' Degrees in Philosophy and Economics and a Master's Degree in Economics from Portland State University. He also served in the U.S. Marine Corps.

*Tod Ayers, Managing Director of Human Resources*, joined the District in 2022, assuming the role of Human Resources Manager. Mr. Ayers' background in human resources spans across federal, military, and state government contexts. Mr. Ayers served two tours in Iraq and one in Afghanistan in the US Army. In these environments, Mr. Ayers led combat operational stress-control teams. Mr. Ayers has Bachelors' Degrees in Sociology and Psychology from Central Washington University, a Masters of Business Administration from

Marylhurst University, and a Master's of Science in Human Resources Management from the University of Southern California.

*Fallon Long, Managing Director of Integrated Operational Services*, joined the District in 2018 and leads the Integrated Operational Services area, which includes Safety, Emergency Preparedness, Security, Facilities, Procurement, Warehouse, Office Services and Transportation. She previously served as Senior Manager of Internal Services prior to appointment into her current position. Before joining the District, Ms. Long worked in security and transportation management at the Fred Hutch Cancer Center. She also led in positions spanning security and human resources at Star Protection Agency and served in the US Army. Ms. Long has a Bachelor's Degree in Security Management from the American Military University and a Master's of Business Administration from Western Governors University.

### **Accounting and Financial Statements**

The accounting and reporting policies of the District conform to generally accepted accounting principles ("GAAP") as applicable to proprietary funds of governments using the full accrual basis of accounting. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Accounting records are maintained in accordance with methods prescribed by the State Auditor under the authority of chapter 43.09 RCW, the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission ("FERC") for the Electric System. The State Auditor's Office has the responsibility to audit the District's financial operations.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds. The District's financial statements include the financial position and results of operations for all enterprise operations which the District manages. The financial statements also include the assets and liabilities for which the District has a custodial or trust responsibility.

The District's financial statements are audited by an independent accounting firm. The District's financial statements for fiscal years ending December 31, 2021, and December 31, 2022, have been audited by Moss Adams LLP, independent public accountants and are attached as Appendix B.

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 has not been engaged to perform and 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 performed any procedures relating to this Official Statement or participated in any way in the preparation or review of this Official Statement.

### **District Employees**

As of October 9, 2023, the District had 746 full-time regular employees and 63 part-time and temporary employees. In addition to its regular staff, the District employs a number of employees by contract for transmission and distribution line construction work, pole-testing and tree-trimming, turbine and generator rehabilitation, and environmental and other projects.

Of the 746 regular employees, as of October 9, 2023, 46% are bargaining unit employees under a Collective Bargaining Agreement ("CBA") with the International Brotherhood of Electric Workers (the "IBEW"). The current contract covers the period April 1, 2023, to March 31, 2026. There has not been a significant labor stoppage at the District since 1978.

### **Pensions**

All of the District's full-time and qualified part-time employees are enrolled in the State Public Employees Retirement System ("PERS"). PERS Plans 1 and 2 are defined benefit plans and PERS Plan 3 is both a defined benefit plan (employer share) and defined contribution plan (employee share). These plans are administered by the

State. Contributions by both employees and employers are based on gross wages. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those PERS participants who joined on or after October 1, 1977, are Plan 2 members, unless they exercise an option to transfer to Plan 3. PERS participants joining on or after September 1, 2002, have the irrevocable option of choosing membership in PERS Plan 2 or PERS Plan 3. Each January, eligible members of Plan 2 can choose to make a permanent transfer to Plan 3.

The District’s PERS Plan 1 contributions were \$3.1 million and \$3.5 million for the years ended December 31, 2022, and 2021, respectively. The District’s PERS Plan 2/3 contributions were \$5.3 million and \$5.8 million for the years ended December 31, 2022, and 2021, respectively. Contributions were based on contribution rates in effect during such time. See Table 6.

Benefits provided by each plan are based on a percentage of the member’s average final compensation (“AFC”), multiplied by years of service. The percentages and methods for calculating AFC vary among the plans, as do vesting and retirement eligibility (age and years of service) requirements. Additional information about each Plan is available in the DRS Annual Comprehensive Financial Report and in Note 10 to the District’s financial statements, attached as Appendix B.

*Contribution Rates and Amounts.* Under State statute, contribution rates are adopted by the Pension Funding Council (“PFC”), in even-numbered years for the next ensuing State biennium, which runs for a two-year period beginning on July 1 and ending on June 30. The rate-setting process begins with an actuarial valuation by the State Actuary, who makes non-binding recommendations to the State Legislature’s Select Committee on Pension Policy, which then recommends contribution rates to the PFC. No later than the end of July in even-numbered years, the PFC Board adopt contribution rates, which are subject to revision by the State Legislature.

The following table outlines the current contribution rates of employees and employers for the current State biennium, as approved by the PFC. Rates are subject to change by the Legislature.

**TABLE 6  
CONTRIBUTION RATES EXPRESSED AS A PERCENTAGE OF COVERED PAYROLL**

| <b>PERS</b>             | <b>2023-2025 Biennium</b> |                               |
|-------------------------|---------------------------|-------------------------------|
|                         | <b>Employee</b>           | <b>Employer<sup>(1)</sup></b> |
| Plan 1                  | 6.00%                     | 9.53%                         |
| Plan 2/3 <sup>(2)</sup> | 6.36                      | 9.53                          |

<sup>(1)</sup> Includes 0.20% DRS administrative expense rate. Employer rates fluctuate throughout the year. Employer contributions were changed from 10.21% to 9.53% as of September 1, 2023 for all PERS plans.

<sup>(2)</sup> Employee contributions to PERS Plan 3, which may range between 5% and 15% of employees’ compensation, are paid into a defined contribution plan rather than funding a defined retirement benefit.

*Source: DRS.*

The State Legislature has established certain minimum contribution rates (the “UAAL Rate”) that became effective in 2015 and remain in effect until the actuarial value of assets in PERS Plan 1 equals 100% of the actuarial accrued liability of PERS Plan 1. The UAAL Rate for all PERS Plans is 3.85% as of September 1, 2022, and is included in the employer contribution rates shown above. These rates are subject to change by future legislation enacted by the State Legislature to address future changes in actuarial and economic assumptions and investment performance.

*Actuarial Valuation Methods and Assumptions.* State law requires systematic actuarial funding to finance the ongoing cost of the State retirement systems. Actuarial calculations to determine the sufficiency of employer and employee contributions are prepared by the State Actuary. To calculate employer and employee contribution rates necessary to prefund the plans’ benefits, the State Actuary uses actuarial cost and asset valuation methods selected by the State Legislature as well as economic and demographic assumptions. The State Actuary uses the Entry Age Normal (“EAN”) cost method to report each Plan’s funded status. The annual cost of benefits under EAN is comprised of two components: normal cost, plus amortization of the unfunded liability. The normal cost is most commonly determined on an individual basis, from a member’s age at plan entry, and is designed to be a level

percentage of pay throughout a member’s career. Comparing the EAN liabilities to the actuarial value of assets (“AVA”) on the valuation date provides an appropriate measure of a plan’s funded status and is acceptable according to current Governmental Accounting Standards Board (“GASB”) Statements 67 and 68. For purposes of determining the actuarial accrued liability of each plan and the unfunded portion thereof, the State Actuary uses actuarial cost and asset valuation methods determined by the State Legislature, which requirements differ from plan to plan. The State Actuary further assumes (for the purposes of the August 2023 actuarial valuation, as of June 30, 2022) a salary growth rate of 3.25% per year, an inflation rate of 2.75% per year, and an investment rate of return of 7.0%, and, for purposes of amortizing the PERS 1 plan’s unfunded actuarial accrued liability, an annual plan membership growth rate of 1.00%.

*Plan Funding Status and Unfunded Actuarial Liability.* All DRS administered retirement plans are funded by a combination of funding sources: (i) contributions from the State; (ii) contributions from employers (including the State as employer and the District and other governmental employers); (iii) contributions from employees; and (iv) investment returns. The retirement funds (the “Commingled Trust Fund” or “CTF”) are invested by the Washington State Investment Board, a 15-member board created by the State Legislature in 1981. For the fiscal year ended June 30, 2023, the CTF investments provided a 5.2% one-year, time-weighted rate of return, with a five-year annualized rate of return of 9.9%.

PERS Plans 2 and 3 are accounted for in the same pension trust fund and may legally be used to pay the defined benefits of any PERS Plan 2 or 3 participant. Otherwise, assets for one plan may not be used to fund benefits for another plan.

The State’s Actuary August 2023 actuarial valuation, as of June 30, 2022, was as follows:

**TABLE 7  
FUNDED STATUS ON AN ACTUARIAL VALUATION BASIS  
(DOLLARS IN MILLIONS)**

|                    | PERS             |           |
|--------------------|------------------|-----------|
|                    | Plan 1           | Plan 2/3  |
| Accrued Liability  | \$ 11,047        | \$ 55,247 |
| Valuation Assets   | 8,294            | 53,863    |
| Unfunded Liability | \$ 2,753         | \$ 1,384  |
|                    | Funded Ratio (%) |           |
| 2022               | 75               | 97        |
| 2021               | 71               | 95        |
| 2020               | 69               | 98        |
| 2019               | 65               | 96        |
| 2018               | 60               | 91        |

*Source: OSA 2022 Actuarial Valuation, August 2023.*

*[Remainder of page intentionally left blank]*

The following table represents the aggregate pension amounts for all plans in which the District participates and that are subject to the requirements of GASB 68 for the years ended December 31, 2021, and December 31, 2022.

**TABLE 8**  
**DISTRICT AGGREGATE PENSION AMOUNTS – STATE SPONSORED PLANS**  
**(000s)**

|                                | <b>2022</b> | <b>2021</b> |
|--------------------------------|-------------|-------------|
| Pension Liabilities            | \$ 13,893   | \$ 6,298    |
| Pension Assets                 | 23,978      | 65,195      |
| Deferred Outflows of Resources | 24,192      | 7,898       |
| Deferred Inflows of Resources  | 24,539      | 67,372      |
| Pension Expense/Expenditures   | 8,413       | 9,253       |

*Sources: The District's audited financial statements for 2021 and 2022.*

District employees also participate in the federal Social Security program.

#### **Deferred Compensation Plans**

The District offers its employees a deferred compensation plan created under Internal Revenue Code Section 457(b), which permits employees to defer a portion of their compensation until future years. The plan is available to all active employees. The District has no liability for losses under the plan; it is completely funded with employee contributions.

The District also administers a 401(a) governmental profit sharing plan and trust. Eligible employees may participate in the 401(a) defined contribution plan. The election to participate in the 401(a) defined contribution plan must be made at the time the employee becomes eligible to participate and cannot be changed during the time of their employment. Effective January 1, 2020, the District contributes 3% without regard to employee contributions. The District contributed approximately \$2.1 million and \$2.0 million as of December 31, 2022 and 2021, respectively. Eligible employees can elect to contribute to both the 401(a) and 457(b) plans.

#### **Other Post-Employment Benefits**

The District administers a single-employer defined benefit premium program (the "OPEB Plan"). District employees who end public employment are eligible to continue subsidized health insurance coverage as a retiree (between ages 59½ and 65) if they retire under PERS and are vested in that system and eligible for COBRA. The plan may be amended through collective bargaining (for bargaining unit employees) and ratified by the District's Commission or changed without bargaining for non-bargaining unit employees. The OPEB Plan does not issue a publicly available financial report.

The OPEB Plan is funded on a pay-as-you-go basis, and there are no assets accumulating in a qualifying trust. For the years ended December 31, 2022, and 2021, the District paid approximately \$0.2 million and \$0.3 million, respectively, for OPEB Plan benefits.

For more information, see Note 11 to the financial statements attached hereto as Appendix B.

#### **Insurance**

The District carries excess liability coverage with an annual aggregate limit of \$60.0 million with a self-insured retention of \$2.0 million per occurrence. It carries underlying liability policies for specific loss types such as foreign travel and non-owned aviation liability to protect the District from losses associated with these risks. The District also maintains property insurance coverage with an aggregate limit of \$200.0 million, protecting against significant losses at the Priest Rapids Project, the Electric System, and all of the various District real properties, with

deductibles up to \$2.5 million per loss, and subject to policy terms and conditions. The District maintains a stand-alone cybersecurity insurance policy.

### **Strategic Planning and Financial Policies**

The District operates under a strategic plan approved by the Commission in August 2022. The strategic plan is reviewed annually and modified as necessary by staff and the Commission. This strategic plan addresses key District issues associated with complying with the license requirements for the Priest Rapids Project, resource management, operations and maintenance, capital improvements, power supply, customer service, reliability, and institutional matters such as employee development and succession planning, and legislative and external affairs.

The District's financial strategy includes stable retail rates and continued assurance of meeting the District's financial obligations and goals. For the Electric System and Priest Rapids Project, the District targets consolidated debt service coverage greater than or equal to 1.80 times and consolidated ratio of debt to net plant less than or equal to 60%. Financial parameters for the Electric System include a retail operating ratio of less than or equal to 100% (internal ratio designed to target retail rates to fully recoup operational costs absent wholesale revenues), Electric System liquidity cash reserves of at or above \$100.0 million, and days cash on hand greater than 250 days. Financial parameters for the Priest Rapids Project include a debt service coverage no less than 1.15 times.

The District is also targeting reducing the senior lien debt of the Priest Rapids Project by issuing subordinate lien Priest Rapids Project bonds, which are purchased with available funds of the Electric System (beyond the Revenue Fund and the R&C Fund goals) as an investment, as well as retiring debt in the Electric System or the Priest Rapids Project. See "CONSOLIDATED FINANCIAL RESULTS."

### **Investments**

The District's cash deposits at December 31, 2022, and 2021, were either covered by federal depository insurance or protected against loss by being on deposit with financial institutions recognized as qualified public depositories of the State under the Title 39 RCW. The District invests its available funds in a manner that emphasizes preserving principal, maintaining necessary liquidity, matching investment maturities to estimated cash flow requirements, and achieving maximum yield consistent with the foregoing criteria. Eligible investments include United States Treasury bonds, notes, bills, or other obligations of the United States government or agencies of the United States government; interest bearing demand or time deposits issued by certain banks, trust companies or savings and loan associations; fully-secured repurchase agreements; banker's acceptances having a term of 180 days or less; taxable money market portfolios restricted to obligations of one year or less and issued and guaranteed by the full faith and credit of the United States government; and any other investments permitted to a municipality under the laws of the State. Investments generally are made so that securities can be held to maturity. The Bond Resolution provides that money in the Bond Fund, Reserve Funds, Revenue Fund, and R&C Fund be invested in any investments permitted under State law.

At year-end 2022, the market value of the District's total cash and investment assets was approximately \$446 million. For additional information relating to the District's investments, see Note 2 to the District's financial statements attached hereto as Appendix B.

### **Hazardous Waste Issues**

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

The District has completed a program to remove or control polychlorinated biphenyl (“PCB”) equipment according to the guidelines in the United States Environmental Protection Agency (“EPA”) regulations and to dispose of the PCBs and contaminated equipment in a timely manner at EPA approved facilities.

### **Physical Security Efforts at the District**

Protection of personnel and assets is an integral part of District operations. The District has risk-based controls to ensure the protection of its employees, assets, and facilities. A dedicated, centralized security department is in place, and the District has implemented an Enterprise Security Risk Management framework to manage security risk. The Security Department performs investigations of suspicious activities on and around the premises, develops and oversees implementation of protection measures, and maintains active communication with local, State, and federal law enforcement. The Security Department has documented and implemented a complete identity and access management program to ensure employees and contractors have been screened and are granted the minimum level of access needed to complete their duties.

The Security Department actively participates on the U.S. Department of Homeland Security Dams Sector Coordinating Council, the Western Electricity Coordinating Council Physical Security Work Group, the ASIS International Utilities Security Council, and the Electricity Information Sharing and Analysis Center. The Security Department conducts annual security inspections at CIP-protected locations and the dams as part of the FERC security program. The District participates in training exercises with local law enforcement, federal, state, and local emergency management, and the Moses Lake Regional Tactical Response Team.

### **Technology Reliability and Cybersecurity**

The District currently sustains compliance with all regulatory requirements for its information technology (“IT”) and Industrial Control System (“ICS”) resources. The District employs a risk based methodology to evaluate and respond to the ever changing threat landscape, mitigating threats related to both IT and ICS. The architecture of its IT and ICS systems provides for both high availability and redundancy while mitigating both current threats and future threats.

The District seeks to comply with the North American Energy Reliability Corporation Critical Infrastructure Protection (“NERC CIP”) regulations, which outline the compliance requirements for the District’s ICS systems. The operations and cybersecurity staff dedicated to the reliability of the District’s IT and ICS systems are certified and trained, and maintain their skills and awareness through involvement in cybersecurity and electric industry organizations such as: the International Information Systems Security Certification Consortium, ISACA, the Northwest Public Power Association, the Large Public Power Council, the Western Interconnection Compliance Forum, and the Western Energy Coordination Council where participants share information and collaborate to strengthen not only the District’s cybersecurity posture but also the western grid.

In addition, the District staff consult cybersecurity and reliability guidelines such as the Information Technology Infrastructure Library (“ITIL”), the Control Objectives for Information and Related Technology (“COBIT”), the National Institute of Standards and Technology (“NIST”), and the International Organization of Standardization 27002 for best business practices.

The District has incorporated cyber risk reviews into its technology service and product acquisition processes, employs continuous monitoring of its partners and environment, and performs an annual vulnerability assessment to identify any outstanding issues and gaps that can be mitigated in an effort to improve and maintain its reliability and security posture.

### **District Commitment to Sustainability**

The District is committed to safely, efficiently, and reliably providing electric power and fiber optic broadband services through its service and leadership. The District highlights social, economic, and environmental sustainability through dedicated values of safety, innovation, service, teamwork, respect, integrity, and heritage.

No Net Impact (“NNI”) is a standard the District achieves to counter the losses of salmon, steelhead, and Pacific lamprey that migrate through the Priest Rapids Project. NNI mitigation is overseen and approved by committees with representatives from National Oceanic and Atmospheric Administration, United States Fish and Wildlife Service, Washington Department of Fish and Wildlife, The Confederated Tribes and Bands of the Yakama Nation, The Confederated Tribes of the Colville Reservation, and The Confederated Tribes of the Umatilla Indian Reservation. Total NNI Fund and Habitat Fund contributions by the District from 2006-2022 were in excess of \$47.8 million to fund projects ranging from predator removal, adult fish passage, habitat restoration, instream flow enhancements, avian predator evaluations, land acquisitions, fish screen monitoring, and diversion assessment. See “THE PRIEST RAPIDS PROJECT—FERC License” and “—Regulatory Proceedings Affecting the Developments.”

For more than 60 years, the Wanapum Indians, a tribe enrolled in The Confederated Tribes and Bands of the Yakama Nation, and the District have worked together to protect, preserve, and perpetuate the natural and cultural resources of the area where the District and its facilities are located. The Wanapum Heritage Center was constructed next to the Wanapum’s ancestral village and Priest Rapids Dam to perpetuate the importance of culture, traditions, and beliefs of the Wanapum. See “THE PRIEST RAPIDS PROJECT—FERC License-*Wanapum Agreement*” and “—*Yakama Nation Agreement*.”

The District is required to assist the Washington Department of Fish and Wildlife in fire suppression by contributing \$40,000 annually into separate restricted funds (“Habitat funds”) designated for: revegetating burned areas; revegetating areas known to burn frequently with species carrying lesser fuel loads; creating fire breaks in appropriate locations; and paying for firefighting activities.

The District confirmed its relationship with the IBEW Local 77 by formalizing its commitment to the IBEW’s Code of Excellence in 2021. The code calls for a shared commitment between IBEW members and employers of high standards and mutual respect. The words in the values of the District’s commitment to the Code of Excellence empower the District workers to embrace its culture, work with purpose, live its values, deliver on strategies, and make an impact in the community. See “District Employees” above.

The District provides some of the lowest power prices in the nation. The District’s residential average electricity rates in December 2022 was 5.64¢ per kWh compared to 10.03¢ per kWh for Washington and 14.96¢ per kWh for the United States (per U.S. Energy Information Administration December 2022 report). See “THE ELECTRIC SYSTEM—Rates.” The District also provides qualified seniors, low-income, and other individuals discounted rates for service, among other programs to assist its customers.

Planned power enhancements to be achieved through the turbine and generator rehabilitation project ensure that customers continue to have a clean and renewable energy source into the future. Additional variable energy sources such as wind and solar fill the role of providing on-demand energy for a growing customer region. See “THE ELECTRIC SYSTEM—The Electric System’s Power Supply.”

Additional information about the District’s sustainability efforts may be found on the District’s website and on its investor information pages, available at [www.grantpud.org/investors](http://www.grantpud.org/investors) (which is not incorporated herein by this reference).

### **Response and Impacts from COVID-19 Pandemic**

At the outset of the 2019 novel coronavirus (“COVID-19”) pandemic, the District modified certain of its operations in response to the public health emergency, including but not limited to closing many District facilities/buildings to the general public, instituting telework for certain employees, providing personal protective equipment, and taking other safety measures. In March 2020, the State issued a moratorium on disconnecting electric, water, and other utility services due to nonpayment, and charging fees for late payment or reconnection for certain utilities, including the District. The District provided related customer support services, such as providing information on payment assistance programs, providing payment arrangement options for past due accounts, suspending shut-offs, and waiving late fees.



The state-wide moratorium on disconnections for nonpayment ended on September 30, 2021, and the prohibition on late fees ended October 27, 2021. The District has since resumed disconnections for nonpayment, and collecting late fees. The District reopened its facilities to the public in April 2022.

The public health measures imposed by the State Governor did not materially impact the financial results of the District for 2020, 2021, or 2022, and are not currently expected to have a material financial impact on the District's finances in 2023.

While the full impact of the COVID-19 pandemic on the regional economy is currently uncertain, the District believes that the measures it has taken have helped mitigate any material revenue shortfall. The District cannot quantify the magnitude of the impact of the pandemic on the regional economy, and the District will continue to monitor the evolving situation and respond if and as needed.

## **THE ELECTRIC SYSTEM**

The Electric System consists of substations, transmission and distribution lines, telecommunication facilities, and associated general plant, together with a contract interest in the Potholes East Canal ("P.E.C.") Headworks Powerplant Project, a contract interest in the Quincy Chute Project, a contract interest in the Wapato Project and a purchased power agreement from the Nine Canyon Wind Project. The Electric System is owned and operated by the District and serves the entire County. For the year ending December 31, 2022, the Electric System operated approximately 4,427 miles of transmission and distribution lines and other related infrastructure to serve approximately 54,041 active meters. As of December 31, 2022, the District's gross investment in the Electric System was approximately \$1.5 billion and its net investment was approximately \$733.9 million. The hydroelectric generation facilities of the District's Priest Rapids Project are the primary source of power for the Electric System.

### **Retail Energy Sales and Customers**

The Electric System's combined retail and wholesale revenues, excluding fiber, for 2022 totaled approximately \$365 million. Of this total, approximately \$266 million (73%) was derived from retail energy sales to an average of 54,041 customers. Wholesale revenues, net provided approximately \$99 million of revenues (27% of the total). See "Power Supply Management and Power Marketing." Of the retail customers, approximately 76% were residential customers, consuming 15.6% of all retail energy. The Electric System has experienced a stable residential customer base over the past five years. It is estimated that 99% of all homes in the District's service area are electrically heated. Only the cities of Moses Lake, Quincy, and Warden have natural gas service available, which is primarily used for industrial and commercial use. The most important variable in power sales to residential accounts from year to year is weather as it relates to heating and cooling requirements. Retail sales are a significant portion of revenue as stated above; however, the Electric System also receives significant surplus revenue from wholesale sales related to excess generation from the Priest Rapids Project above its load. Retail sales are projected to remain the primary revenue source as load and rates increase.

*[Remainder of page intentionally left blank]*

The 10 largest customers, based on retail revenue of the Electric System for the 12 months ended December 31, 2022, are shown in the following table.

**TABLE 9**  
**2022 ELECTRIC SYSTEM LARGEST CUSTOMERS (based on kWh)**  
**(Listed alphabetically)**

| <b>Customer</b>                  | <b>Location</b> | <b>Product</b>                                   |
|----------------------------------|-----------------|--|
| Backbone Mining Solutions LLC    | Moses Lake      | Crypto Mining                                    |
| Chemi-Con Materials Corp         | Moses Lake      | Process aluminum foil for capacitors             |
| Intergate Quincy, LLC            | Quincy          | Data center                                      |
| Lamb-Weston, Inc. <sup>(1)</sup> | Quincy/Warden   | French fried potatoes                            |
| Microsoft, Corp                  | Quincy          | Data center                                      |
| Nouryon Pulp & Performance       | Moses Lake      | Global paints, coatings, and specialty chemicals |
| SGL Composite LLC                | Moses Lake      | Manufacture carbon-based products                |
| Vantage Data Centers Mgmt Co LLC | Quincy          | Data center                                      |
| Viterra USA LLC                  | Warden          | Canola oil and associated byproducts             |
| Yahoo                            | Quincy          | Data center                                      |

<sup>(1)</sup> Lamb-Weston has facilities at two locations in the County.

*Source: The District.*

The Electric System’s 10 largest customers used approximately 48.5% of total retail energy sold and provided approximately 46.4% of retail revenues in 2022. The two largest customers used approximately 28.6% of total retail energy sold and provided nearly 31.1% of retail revenues in 2022. The District’s rate structure for industrial customers is designed to include the marginal cost of additional power purchases. The Priest Rapids Project Power Sales Contracts (as defined under “THE PRIEST RAPIDS PROJECT—Priest Rapids Project Power Sales Contracts”) contain provisions that, when coupled with the low production cost of the Priest Rapids Project, are currently expected to mitigate some or all of the impacts to the District from loss of significant quantities of retail load.

The County continues to be an attractive location for large industrial, IT, and manufacturing customers to locate or enlarge their operations. The five-year compound annual growth rate (“CAGR”) for the retail system has been strong with an increase in energy sales of 3.0% for years 2018-2022. The prior five-year energy sales CAGR was 4.3% in years 2013-2017. The industrial sector has accounted for a significant portion of the system growth, with CAGR of 6.0% over 2018 to 2022. The residential base has remained stable with some growth over this timeframe.

The District has two active large requests for over 400 MW each of electric service at both existing and new locations in various stages of implementation with deliveries starting between 2020 and 2025. The active queue currently has 64 applications for a total of 2,400 MW, 13 applications for a total of 210 MW in various stages of construction and final design, 14 applications for 980 MW being actively studied, and 37 applications for 1,210 MW waiting to be studied. There are other requests for electric service not included in the above that will be processed independently of the traditional queue but at a lower priority.

The District expects a CAGR in Electric System load of 3.6% over the next five years (2024 to 2028). This growth is driven primarily by load growth within the large industrial and manufacturing sector that is projected to have a CAGR of 5.7% over the next five years (2024 to 2028). The industrial and manufacturing growth projection is based on the current queue of requests for new large electric service, customer load projections for existing signed agreements for new or expanded facilities along with customer load projections of existing load growth within the District’s customer base. The District manages requests for service in the order received and has historically experienced a high volume of inquiries, many of which do not materialize for a variety of reasons, which is why load forecasts are weighted to signed agreements. The District believes that this growth is manageable based on the availability of resources and the structure of the District’s Power Sales Contracts for the Priest Rapids Project.

COVID-19 had intermittent or persistent impacts on retail energy demand. For example, agricultural processors serving wholesale supply to restaurants, and chemical plants supplying inputs to finished goods manufacturing may

have had periodic or chronic load reduction. Conversely, some loads may have increased due to COVID-19, for example, data centers supporting remote work web applications. See “THE DISTRICT—Response and Impact from COVID-19 Pandemic.”

The following table sets forth the customers, energy sales and revenues of the Electric System as derived from the financial statements of the Electric System for the fiscal years indicated.

**TABLE 10  
ELECTRIC SYSTEM  
RETAIL CUSTOMERS, ENERGY SALES, AND REVENUES**

|  | <u>2018</u>       | <u>2019</u>       | <u>2020</u>       | <u>2021</u>       | <u>2022</u>       |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Number of Customers<br>(Average) <sup>(1)</sup>      |                   |                   |                   |                   |                   |
| Residential  | 38,368            | 39,101            | 39,638            | 40,385            | 41,052            |
| Commercial   | 7,063             | 7,247             | 7,351             | 7,523             | 7,660             |
| Irrigation <sup>(2)</sup>                            | 4,951             | 4,978             | 4,966             | 5,010             | 5,020             |
| Industrial   | 232               | 244               | 228               | 250               | 264               |
| Other <sup>(3)</sup>                                 | 74                | 65                | 45                | 45                | 45                |
| Total Customers                                      | <u>50,688</u>     | <u>51,635</u>     | <u>52,228</u>     | <u>53,213</u>     | <u>54,041</u>     |
| Energy Sales (MWh) <sup>(1)</sup>                    |                   |                   |                   |                   |                   |
| Residential  | 765,978           | 838,420           | 796,738           | 818,046           | 917,714           |
| Commercial   | 486,901           | 847,917           | 835,138           | 982,444           | 1,139,220         |
| Irrigation <sup>(2)</sup>                            | 567,409           | 533,931           | 616,100           | 655,124           | 592,252           |
| Industrial   | 3,084,417         | 2,812,656         | 2,733,395         | 2,921,661         | 3,205,030         |
| Other <sup>(3)</sup>                                 | 6,050             | 5,378             | 5,068             | 5,091             | 5,101             |
| Total Energy Sales                                   | <u>4,910,755</u>  | <u>5,038,302</u>  | <u>4,986,438</u>  | <u>5,382,366</u>  | <u>5,859,317</u>  |
| System Peak (MW)                                     |                   |                   |                   |                   |                   |
| Winter   | 723               | 795               | 787               | 834               | 971               |
| Summer   | 812               | 813               | 825               | 929               | 953               |
| Revenues from Energy<br>Sales (\$000) <sup>(1)</sup> |                   |                   |                   |                   |                   |
| Residential  | \$ 43,160         | \$ 46,844         | \$ 45,094         | \$ 46,211         | \$ 51,018         |
| Commercial   | 24,296            | 35,828            | 35,164            | 39,672            | 44,139            |
| Irrigation <sup>(2)</sup>                            | 25,785            | 24,927            | 27,453            | 28,756            | 27,011            |
| Industrial   | 106,094           | 99,604            | 98,682            | 113,704           | 138,146           |
| Other <sup>(3)</sup>                                 | 2,056             | 2,693             | 3,384             | 3,595             | 5,408             |
| Total Revenues                                       | <u>\$ 201,391</u> | <u>\$ 209,896</u> | <u>\$ 209,777</u> | <u>\$ 231,937</u> | <u>\$ 265,721</u> |

<sup>(1)</sup> Statistics classified by service type. Customers are reported in accordance with U.S. Energy Information Administration definition of a customer, which is an active meter. This is to ensure consistency in customer data published externally and align with industry standards.

<sup>(2)</sup> Irrigation fluctuates year over year based on weather conditions and rainfall.

<sup>(3)</sup> “Other” includes street lighting, public authorities, specified source energy, and non-firm retail energy sales.

Source: The District.

### **Power Supply Management and Power Marketing**

The power generated at the Priest Rapids Project is a low-cost resource for the Electric System. However, the amount of generation that is available to deliver over any given time period is highly variable. Minimal storage is available in the reservoirs of the Priest Rapids Development and Wanapum Development, and the Developments are considered “run of the river” operations. The amount of energy generated at the Priest Rapids Project depends on the amount of water released from upstream reservoirs. See “THE PRIEST RAPIDS PROJECT.” Regional weather conditions also influence the amount of flow available for generation, varying from high water conditions to drought conditions. This variation in flow generates energy that is surplus to District load needs in some periods and less

than load in other periods creating a need for the Electric System to purchase energy in those periods. The Electric System's retail load is also variable. Some industrial loads served by the Electric System have an elastic demand curve for electricity. To manage these variable resource and system requirements, the District enters into wholesale energy transactions. In 2015, the District entered into a five-year pooling transaction with Shell Energy North America ("SENA") that terminated on September 29, 2020. In October 1, 2020, the District entered into a five-year transaction ("Pooling Agreement") with Morgan Stanley Capital Group Inc. ("MSCG") for 33.31% of the Priest Rapids Project power that terminates on September 29, 2025. The Pooling Agreement is intended to shift hydro variability to MSCG and create stable revenues for the District. The District also is routinely a party to a number of short term power and capacity contracts ("Slice Contracts") and utilizes market purchases and sales as needed to manage smaller positions. In addition to the Pooling Agreement for the 33.31% share, the District entered into two Slice Contracts with different counterparties, for a total share of the Priest Rapids Project power of 30% through December 31, 2023, to 10% in 2024, and to 0% in 2025. On October 31, 2023, the District executed a Slice Contract with Portland General Electric for a 20% slice of the Priest Rapids Project beginning January 1, 2024, and terminating on December 31, 2026.

The District's power marketing activities are confined to balancing District loads and resources and optimizing the value of the Priest Rapids Project with the intent of maximizing the benefit for Electric System retail customers. Power is purchased only to meet Electric System projected loads. Power surplus to the Electric System's needs is resold in a manner that seeks to average market prices.

In recognition of the increasing number of power transactions, price volatility, and changing power supply contracts, the Commission established a Risk Oversight Committee in 2001 to review and update the energy risk management policies of the District and to provide greater ongoing monitoring and review of power transactions. The Risk Oversight Committee is comprised of senior management in the areas of power management and financial risk and meets regularly to monitor activities and risk. The Risk Oversight Committee has developed and maintains an Energy Risk Management and Reporting Policy which has been adopted by the Commission.

The District intends to utilize hedging agreements in the form of the International Swaps and Derivatives Association ("ISDA") or other financially settled energy hedge agreements. These agreements will be used by the District to manage market price risk associated with power positions. In all cases, trades will be executed to hedge the risk of an underlying physical position. Any termination payment obligation is subordinated to payment of debt service on the Bonds.

Credit exposures are monitored routinely on notional and mark-to-market values of forward purchase and sales agreements and ISDA or other financially settled energy hedge agreements. In the event that credit exposure approaches a predetermined threshold, the District would determine the most appropriate course of action including, but not limited to, trading out of the given transactions. If no other action was deemed to be in the best interest of the District, the District would proceed to provide a letter of credit or collateral depending on the triggering event. The collateral provisions are reciprocal, meaning that the District has the right to ask its counterparties to post collateral if the exposure of the forward transactions moves in the District's favor and the predetermined thresholds are met. See "DEBT SERVICE REQUIREMENTS—Subordinate Lien Obligations," noting the District's expectation to enter into a bank liquidity facility for the provision of letters of credit relating to its energy hedging agreements to address the District's collateral posting requirements under these energy hedging agreements.

### **Sale of All of the District's Share of Priest Rapids Project Output**

As described under "THE PRIEST RAPIDS PROJECT—Priest Rapids Project Power Sales Contracts," the District receives 63.31% of the capacity and physical output of the Priest Rapids Project.

In August 2021, the District entered into a contract with Avangrid Renewables, Inc. ("Avangrid") for a 10% slice of the output of the Priest Rapids Project for the term January 1, 2022, through December 31, 2024. In December 2020, the District entered into a contract with Shell Energy North America US L.P ("SENA") for a 20% slice of the output of the Priest Rapids Project for the term of January 1, 2021, through December 31, 2023. The purpose of these sales and an associated schedules of firm, fixed-price power purchases by the District was to lower water volume, operational and market risks. These contracts with Avangrid and SENA are paid in monthly installments over the life of the agreement regardless of water conditions, thereby contributing to the stabilization of District net

revenue by improving the predictability of wholesale revenues. Slice sales also provide at least partial protection against reduction in operational generation unit availability. The District enters into short term fixed price power purchases and sales to manage net monthly position price risk consisting of other purchases, sales, generation and forecasted District retail load. The District has the right to curtail delivery in the event of non-payment and maintains strong credit provisions with all slice counterparties. The District is currently in the process of negotiating a slice agreement to replace the SENA agreement which ends on December 31, 2023.

The District entered into the Pooling Agreement with MSCG in September 2020. Under the Pooling Agreement, the District will provide MSCG with a portion of the District's 63.3% share of the capacity in the Priest Rapids Project, and MSCG will provide to the District firm power sufficient to meet the Electric System's retail load forecast, adjusted for the portion of Electric System load that is expected to be met with other District resources ("District's Load Forecast"). In addition, MSCG will provide certain scheduling services for the District, including managing power schedules, and the District will provide certain flexibility to MSCG within the District's control area. The term of the Pooling Agreement expires September 29, 2025.

The MSCG Pooling Agreement provides for the delivery by the District to MSCG of 53.31% of the capacity and associated energy of the Priest Rapids Project from September 30, 2020, through December 31, 2020, and 33.31% of the capacity and associated energy of the Priest Rapids Project from January 1, 2021, through September 29, 2025. The delivery of capacity and associated energy under the Pooling Agreement and under existing slice contracts will be solely from the Electric System's 63.3% share of the Priest Rapids Project and will not impact the Power Sales Contracts. The District will remain the owner and operator of the Priest Rapids Project and the Electric System.

The primary purposes for the District and MSCG to enter into the Pooling Agreement are to enable them to satisfy different peak load demands, accommodate temporary outages, diversify supply, or enhance reliability in accordance with prudent reliability standards. In addition, the Pooling Agreement reduces the effect of variable water conditions at the Priest Rapids Project on revenues associated with the District's wholesale sales and purchases. Under the Pooling Agreement, MSCG will have rights to the actual output of a portion of the Priest Rapids Project, which will vary with water conditions, and will provide firm power to meet the District's Load Forecast regardless of the actual output of the Priest Rapids Project.

The estimated value of MSCG's rights to Priest Rapids Project capacity and associated energy, which is based on the assumption of average water conditions, is approximately equal to the estimated value of the firm power requirements that MSCG will provide to the District. Under the Pooling Agreement, these values will be offsetting and exchanged; there will, however, be monthly payments owed by either MSCG or the District if certain performance metrics occur and based on differences in generation and load due to seasonal differences. The District has not experienced any significant monthly payments to date. The amount of monthly payments over the term could vary based upon actual performance versus the estimates at the time the Pooling Agreement was executed. The performance metrics are: (i) a load deviation adjustment, which provides for payments at index prices for the load served by MSCG that are above or below the District's Load Forecast, (ii) an availability adjustment that accounts for planned outages at the Priest Rapids Project, (iii) a spill adjustment to account for the cost of the lost power generation as a result of spill required at the Priest Rapids Project to facilitate fish passage or bypass, (iv) an adjustment related to the District's existing requirements related to encroachment power for Chelan Public Utility District, (v) an adjustment related to provide the Canadian Entitlement to Bonneville Power Administration ("Bonneville") for delivery to Canada, and (vi) Priest Rapids Project upgrades that increase capacity. Hydrological changes away from average water conditions do not trigger any adjustments or payments under the Pooling Agreement.

The Pooling Agreement provides that a party must post cash or a letter of credit to secure its "Credit Exposure" based on certain rating criteria. In the event of a default by MSCG, as described below, the District would regain the capacity and energy of the Priest Rapids Project.

The Pooling Agreement defines "Events of Default" to include (1) payment defaults, (2) representations or warranties that are false or misleading, (3) failure to perform any material covenant or obligation (unless due to Uncontrollable Force or the District's failure to deliver Priest Rapids power or other attributes), (4) bankruptcy, or (5) failure to post collateral. Upon an Event of Default, the non-defaulting party may terminate the Pooling

Agreement and calculate a termination payment based on (a) the net economic loss to it (on a present value basis) resulting from the termination plus (b) any costs incurred by the party to terminate the Pooling Agreement, including any costs paid to third parties to terminate a power sales contract. No payment is allowed to a defaulting party.

## **Rates**

The District is empowered and required under the Enabling Act and by the covenants of the Bond Resolution to establish, maintain, and collect rates and charges for electric power and energy and other services sold through the Electric System adequate to provide revenues sufficient for the punctual payment of the principal of, premium, if any, and interest on all outstanding indebtedness, to pay for the proper operation and maintenance expenses of the Electric System and to make all necessary repairs, replacements and renewals thereof. The District has the exclusive authority to set retail rates and charges for retail electric energy and services and is by law free from the rate-making jurisdiction and control of the Washington Utilities and Transportation Commission or any other state or local agency having the authority to set rates and charges for retail electric energy and services. Under the Enabling Act, the District is required to establish, maintain, and collect rates or charges that are fair and nondiscriminatory and adequate to provide revenues sufficient for the payment of the principal of and the interest on revenue obligations for which the payment has not otherwise been provided and for other purposes set forth in the Enabling Act.

A person or entity that has requested wholesale telecommunications services from a public utility district may petition the Washington Utilities and Transportation Commission if it believes that the District's rates, terms and conditions are unduly or unreasonably discriminatory or preferential. The commission may issue an order finding non-compliance. The District charges wholesale providers of telecommunications services based on a published rate schedule.

The Public Utility Regulatory Policies Act of 1978 ("PURPA") requires certain utilities, including the District, to consider and make determinations after public hearings regarding a set of federal standards that have three statutory purposes: end-use conservation, utility efficiency and equitable rates. The District has adopted certain standards relating to, among other things, rates, metering and advertising.

The District charges its customers pursuant to published rate schedules based on customer class. Most charges include a monthly base charge and a demand charge. The District's electrical rates are among the lowest in the nation.

*[Remainder of page intentionally left blank]*

The following table shows the current rates for residential, commercial (large general service), and industrial customers. These rates initially became effective for meter readings after April 1, 2023. The Board is currently considering a potential rate increase for 2024.

**TABLE 11  
ELECTRIC SYSTEM  
MONTHLY ELECTRIC RESIDENTIAL, COMMERCIAL AND INDUSTRIAL RATES**

|  | <u>Basic<br/>Charge</u> | <u>Energy Charge<br/>(per kWh)</u>  | <u>Demand<br/>Charge (per<br/>KW of billing<br/>demand)</u> | <u>Minimum<br/>Monthly Charge</u>   |
|--|-------------------------|---|---|---|
| Residential Rate   | \$0.57/day              | \$0.04702   | N/A   | \$20.00   |
| Commercial Rate (large general service rate)   | \$153.36/month          | \$0.02171 (for the first 50,000 kWh)<br>\$0.01920 (for all additional kWh)    | \$5.13  | \$153.36  |
| Industrial Rate  | \$651.14/month          | \$0.02103 (for the first 7,300,000 kWh)<br>\$0.03391 (for all additional kWh) | \$5.34  | Computed as the demand charge times 75% of the customer's maximum billing demand during the most recent 12-month period |
| Evolving Industry Service (those who would otherwise qualify as residential and retail with service less than 200 KW billing demand) | \$1.04/day              | \$0.08535   | N/A   | \$1.04/day  |
| Evolving Industry Service (for retail customers with service of 200 KW or greater billing demand)                                    | \$1,000/month           | \$0.00389   | \$28.18   | Demand Charge times 75% of the customer's maximum billing demand during the most recent 12-month period                 |

*Source: The District.*

*[Remainder of page intentionally left blank]*

The following table shows retail rate increases since 2013.

**TABLE 12  
ELECTRIC SYSTEM  
RECENT RETAIL RATE INCREASES**

| <b>Date</b>     | <b>Percentage Increase</b> |
|-----------------|----------------------------|
| January 1, 2013 | 6.0%                       |
| January 1, 2014 | 2.5                        |
| January 1, 2015 | 2.4                        |
| January 1, 2016 | 1.6                        |
| April 1, 2017   | 1.5                        |
| April 1, 2018   | 2.0                        |
| April 1, 2019   | 0.0                        |
| April 1, 2020   | 0.0                        |
| April 1, 2021   | 0.0                        |
| April 1, 2022   | 0.0                        |
| April 1, 2023   | 3.0                        |

*Source: The District.*

The District’s financial strategy helped it avoid retail rate increases from 2019-2022. Effective February 1, 2023, the Evolving Industry rate class includes crypto-mining and its related activities, as shown on the District’s Rate Schedule 17 (RS17) and its Customer Service Policy Section 9.0, Evolving Industry, which applies to all Evolving Industry customers. If any part of a load is classified as Evolving Industry, all loads measured by that meter are subject to the Evolving Industry rate class. To fall within the Evolving Industry rate class an industry must have concentration risk (discussed below) and at least one of the two other criteria below:

- Regulatory Risk - Risk of detrimental changes to regulation with the potential to render the industry inviable within a foreseeable time horizon.
- Business Risk - Potential for cessation or significant reduction of service due to a concentration of business risk, in an evolving or unproven industry, in the value of the customer’s primary output.
- Concentration Risk - Potential for significant load concentration within the District’s service territory resulting in a meaningful aggregate impact and corresponding future risk to the District’s revenue stream. Evaluation would begin to occur when industry concentration of existing and service request queue customer loads exceeds 5% of the District’s total load.

**The Electric System’s Power Supply**

Since the District began entering into pooling agreements and Slice Agreements, the Electric System has obtained the vast majority of its annual resources from counterparties under these agreements. See “—Sale of All of the District’s Share of Priest Rapids Project Output.” Also contributing to serve District load are the Quincy Chute Hydroelectric Project, P.E.C. Headworks Powerplant Project, Nine Canyon Wind Project, the Bonneville contract, and market purchases. Since 2005, the Power Sales Contracts for the Priest Rapids Project have permitted the District to increase its share of power from the Priest Rapids Project, which has significantly reduced the District’s reliance on power from Bonneville. Effective October 1, 2011, the District purchases approximately 1% of its power from Bonneville to serve loads in the Grand Coulee area that are not easily served from District resources.

***Bonneville Power Administration Contract***

Bonneville was established by the Bonneville Project Act of 1937. Bonneville markets power from 31 federal hydroelectric projects, several non-federally owned hydroelectric and thermal projects in the Pacific Northwest, and various contractual rights (the “Federal System”). The hydroelectric projects, built and operated by the United States



Bureau of Reclamation and the United States Army Corps of Engineers, are located in the Columbia River basin. Electric power sold by Bonneville accounts for approximately 28% of electric power consumed in the region. Bonneville's transmission system includes over 15,000 circuit miles of transmission lines, provides about 75% of the Pacific Northwest's high-voltage bulk transmission capacity, and serves as the main power grid for the Pacific Northwest. Bonneville sells electric power to more than 148 utility, industrial and governmental customers in the Pacific Northwest. Its service area covers over 300,000 square miles and has a population of about 15 million.

The District's Priority Firm power contract with Bonneville, effective October 1, 2011, and terminating October 1, 2028, provides that Bonneville serves only the District's loads in the Grand Coulee area, which is a small area not easily served by the Priest Rapids Project (six MW or roughly 1% of the total District load). The District does not have a contract with Bonneville to serve any other District loads. The District has been engaged in discussions with Bonneville regarding the status of its contract after 2028. The District cannot predict the outcome of such discussions.

Bonneville is required by federal law to recover all of its costs through the rates it charges its customers. Under Bonneville's adopted rate methodology, which is in effect for the term of the current customer contracts, Bonneville's rates enable Bonneville to recover its actual costs of service. Under the Bonneville contracts, Bonneville will conduct a rate case every two or three years.

### ***Nine Canyon Wind Project***

The District is a member of Energy Northwest and a participant in Energy Northwest's Nuclear Projects Nos. 1 and 3, which have been terminated. The District, Energy Northwest, and Bonneville have entered into separate Net Billing Agreements with respect to approximately \$1.707 billion in outstanding bonds for Energy Northwest's Project No. 1 and 70% ownership share of Project No. 3 (collectively, the "Net Billed Projects"). 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. The District's assignment of these project costs has been assumed by Bonneville at the levels of 0.486% and 0.420% of the capability of Project No. 1 and Energy Northwest's ownership share of Project No. 3, respectively. 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 the costs of construction. The District's revenue requirements are affected only to the extent that the costs of the projects result in increases in Bonneville's wholesale power rates. Notwithstanding the assignment of the District's share of the capability of a Net Billed Project to Bonneville, the District remains unconditionally obligated to pay to Energy Northwest its share of the total annual cost of the Net Billed Project to the extent payments or credits relating to such annual cost are not received by Energy Northwest from Bonneville.

The District entered into a power purchase agreement with Energy Northwest for the purchase of 25% of the generating capacity (up to a maximum of 12 MW) of Phase I of the 48.1 MW Nine Canyon Wind Project. The power purchase agreement will terminate on July 1, 2030. The Nine Canyon Wind Project is a wind energy generation project located approximately eight miles southeast of Kennewick, Washington, in the Horse Heaven Hills.

Phase I of the project became commercially operable in 2002. Costs of constructing the project were financed, and subsequently refinanced, through the issuance of revenue bonds by Energy Northwest, which were no longer outstanding as of July 1, 2023. Annual costs, including repayment of debt service, are paid by the purchasers. The District could be required to pay up to an additional 25% of the District's share of Phase I in the event of a default by another purchaser or purchasers. The actual net cost of power for the 12 months ended December 31, 2021 and 2022 was \$63 per MWh and \$71 per MWh, respectively. Transmission costs vary depending on the variation of the wind resource.

Phase II of the Nine Canyon Wind Project went into commercial operation on December 31, 2003, with an additional 15.6 MW. Phase III of the Nine Canyon Wind Project became commercially operable in May 2008 and consists of an additional 14 wind turbines. While the District did not elect to participate in Phase II or Phase III, it did change the costs to the District. The District is responsible for 25% of the debt service costs of Phase I and 12.54% of the annual operating costs of the combined Phase I, Phase II and Phase III Nine Canyon Wind Project.

The District received 30,824 MWh and 25,622 MWh of wind generation output from the project in 2021 and 2022, respectively.

### ***Quincy Chute Project***

Under an agreement with three irrigation districts, the District purchases the entire capability and output of and operates the Quincy Chute Project, a 9.4 MW hydroelectric generating facility operating seasonally during the irrigation season (March through October). The District financed, designed and constructed the project and is responsible for operation and maintenance during the period of the agreement, which expires in 2025. The Quincy Chute Project began commercial operation on October 1, 1985, and its net energy generation was 31,575 MWh and 11,457 MWh in 2022 and 2021, respectively.

### ***P.E.C. Headworks Powerplant Project***

Under an agreement with three irrigation districts, the District purchased the entire capability and output of and operates a 6.5 MW generating facility at the P.E.C. Headworks at the O’Sullivan Dam, which operates during the irrigation season (March through October). The District financed, designed and constructed the project and is responsible for operation and maintenance during the period of the agreement, which expires in 2030. The P.E.C. Headworks Project began commercial operation on September 1, 1990, and its net energy generation was 16,535 MWh and 17,296 MWh in 2022 and 2021, respectively.

## **Transmission**

The District has a standard point-to-point (“PTP”) transmission contract with Bonneville that was originally acquired for the purpose of transmitting Priest Rapids Project power to District load. The District currently has 12 MW of PTP transmission under the contract to transmit power from the Nine Canyon Wind Project to the District. This contract expires on October 1, 2030. This 12 MW reservation runs for the term of the power purchase from Nine Canyon. The District also has a Network Integration Transmission Service (“NT”) contract with Bonneville for delivery to a full requirements District load in the Grand Coulee area. This load averages about five MW.

Bonneville’s transmission facilities interconnect with the British Columbia Hydro and Power Authority (“B.C. Hydro”) in the Canadian province of British Columbia and with utilities in California and throughout the Northwest. Bonneville’s transmission system includes approximately 360 substations, 15,000 circuit miles of high voltage transmission lines, and other related facilities. This transmission system provides about 75% of the Pacific Northwest’s high-voltage bulk transmission capacity and serves as the main power grid for the Pacific Northwest. In addition to federal power, a substantial portion of the power produced from several nonfederal projects, including the Priest Rapids Project, is transmitted over Bonneville’s transmission facilities to various investor-owned and municipally-owned utilities in the Pacific Northwest. Bonneville routinely provides both long and short-term transmission access to utilities for the purpose of wheeling power within the Pacific Northwest.

## **Legislation and Initiatives**

### ***Initiative 937 – Renewable Portfolio Standards and Energy Conservation***

State Initiative 937, the Energy Independence Act (“EIA” or “I-937”), approved by the State’s voters in 2006, requires electric utilities that serve more than 25,000 customers to obtain at least (a) 3% of their electricity from eligible renewable resources by January 1, 2012, and each year thereafter through December 31, 2015; (b) 9% of their electricity from eligible renewable resources by January 1, 2016, and each year thereafter through December 31, 2019; and (c) 15% of their electricity from eligible renewable resources by January 1, 2020, and each year thereafter. I-937 also requires qualifying electric utilities to undertake various cost-effective energy conservation efforts. The Commission approved the District’s 10-year conservation plan and two-year conservation target, pursuant to the provisions of I-937.

Beginning in 2010, qualifying utilities are required to, biennially, make public a target for conservation consistent with its identification of achievable opportunities. Qualifying utilities are required to meet their targets during the

subsequent two-year period. Opportunities for conservation are identified using methodologies consistent with those used by the Pacific Northwest Electric Power and Conservation Planning Council.

In compliance with EIA, the District has completed its 2021 conservation potential assessment, covering the time period 2022 – 2041. By adoption of Resolution No. 8974 in November of 2021, the Commission has established a ten-year conservation potential of 161,272 MWh and a two-year conservation target of 40,033 MWh. A conservation potential assessment, and adoption of targets will be completed every two years, and the District will work to meet adopted targets during the subsequent two-year periods. The EIA also established a renewable portfolio standard (“RPS”) such that by January 1, 2020, and every year thereafter, qualifying utilities must use eligible renewable resources or acquire RECs to serve at least 15% of the amount of electricity delivered to their retail customers. For purposes of calculating the annual targets, retail sales are calculated as the average of the utility’s load for the previous two years.

The EIA definition of eligible resources does not include the District’s total share of hydro assets, but only the incremental electricity produced as a result of efficiency improvements completed after March 31, 1999. EIA also dictates that other renewable resources must be located in the Pacific Northwest or delivered to the state on a real-time basis to count toward the RPS. The District has met and expects to continue to meet the RPS standards with its interest in the Nine Canyon Wind Project and the incremental hydroelectric generation resulting from the Wanapum Development fish bypass, the Priest Rapids Development fish bypass, and the turbine and generator upgrades at the Priest Rapids Project.

### ***Energy Conservation Target***

The District offers a variety of conservation programs in an effort to meet the needs of its residential, commercial, agricultural, and industrial customers. These programs are designed primarily to provide customers with cost-effective assistance to reduce their energy costs and to acquire cost-effective supplemental power resources to meet the District’s loads.

Conservation cost-effectiveness will be measured against the avoided cost of the next new resource available to the District (e.g., market power), as defined by the Washington Constitution and State law. Pursuant to requirements in the EIA, the District has set a 10-year conservation potential (MWh) that is updated every two years along with a biennial target. The potential is being met by conservation from existing programs and any new conservation programs created during the target period. See “Legislation and Initiatives.”

The District set a two-year conservation target (2022-2023 biennial target) of 40,033 MWh, and as of October 2023 has obtained 40,999 MWh (102%) of the target. The conservation obtained has been achieved through rebates to the District’s customer at a cost of \$614,562.

### ***Clean Energy Transformation Act***

On May 7, 2019, Washington Governor Jay Inslee signed into law the Clean Energy Transformation Act (“CETA”) (codified at chapter 19.405 RCW), which commits the State to 100% carbon-free electricity supply by 2045. By the end of 2025, utilities must eliminate coal-fired electricity from their state portfolios. In 2030, electric generation must be carbon-neutral. To meet this goal, utilities can use a combination of non-emitting resources and renewable resources to meet 80% of their retail load over a four-year compliance period beginning in 2030 and, alternative compliance options, such as renewable energy credits (“RECS”) or energy transformation projects for the remaining 20%.

Existing hydropower and incremental hydropower eligible for the state renewable portfolio standard (“RPS” or the “Energy Independence Act”) are both considered a form of renewable resource under CETA. Under the State RPS, beginning in 2020, 15% of the utility’s retail load must be served with renewable energy resources and actions taken under the state RPS count toward the obligations under CETA. By 2045, CETA requires utilities to supply State customers with 100% renewable or non-emitting electricity. Currently, there are no penalty provisions in the event a utility does not meet the 100% clean energy obligation. There are some cost-cap provisions and regulatory relief related to electric reliability standards and transmission availability.

CETA also expands the integrated resource planning (“IRP”) process to include a social cost of carbon emissions as a cost adder and a 10-year Clean Energy Action Plan (“CEAP”) for implementing CETA’s clean energy goals at the lowest reasonable cost and at an acceptable resource adequacy standard. In 2022, each utility must also publish a clean energy implementation plan with targets for energy efficiency and renewable energy. There are also obligations to provide energy assistance to low-income customers and obligations to provide an equitable distribution of energy and non-energy benefits under CETA. Each of the plans are to be approved by the District’s Commission, instead of an agency.

In December 2021, the District submitted to the Department of Commerce its first Commission-approved CEIP covering the period 2022–2025. Its next CEIP, for the period 2026 – 2029 will be available by the end of 2025. The current CEIP establishes a target of 28% of retail load to be served by renewable sources in each year of the four-year period. The District’s plan for meeting these interim targets includes a combination of incremental hydropower, other renewable resources, and voluntary clean energy rate schedule options for customers. The realization of meeting the interim targets is dependent on retail customer participation in the clean energy rate schedule. While there will be compliance costs and reporting requirements going forward, due to its current renewable portfolio, the District believes that it is well-positioned to meet the carbon-neutral standard beginning in 2030.

The District’s current CEIP includes the development of targeted energy assistance and energy conservation programs aimed to assist its customers in the most need of assistance. These efforts will focus on energy-burdened customers, as well as customers who reside in highly impacted communities and include outreach for in-home energy audits and related actions, assistance programs including our internal Share the Warmth program and third-party programs. Per the CETA requirement for pursuit of cost-effective conservation and efficiency measures, it is the District’s intent to perform, biennially, a Conservation Potential Assessment and Demand Response Potential Assessment to aid in compliance.

The District has established a two-year conservation target of 40,033 MWh. RCW 19.280.030 requires submittal of a 10-year Clean Energy Action Plan (“CEAP”) for implementing CETA’s clean energy goals at the lowest reasonable cost and at an acceptable resource adequacy standard.

The Washington State Department of Commerce, the Washington Utilities and Transportation Commission, and the Washington State Department of Ecology (the “Department of Ecology”) are finalizing the rules to implement CETA. Moderate risk is inherent in the implementation phase as utilities manage regulatory and reporting requirements. The District has and expects to continue to actively participate in the rulemaking and implementation process.

### ***Climate Commitment Act***

On May 17, 2021, Washington Governor Jay Inslee signed into law the Climate Commitment Act (“CCA”) (RCW 70A.65), which establishes a comprehensive, market-based, cap-and-invest program to reduce carbon emissions and achieve the greenhouse gas reduction targets adopted by the Washington Legislature (RCW 70A.45.020). The greenhouse gas emissions reduction limits are as follows: (1) reduce emissions to 1990 levels by 2020; (2) reduce emissions to 45% below 1990 levels by 2030; (3) reduce emissions to 70% below 1990 levels by 2040; and (4) by 2050, reduce emissions to 95% below 1990 levels.

Beginning in 2023, the CCA establishes emission allowance budgets with the total number of allowances decreasing over time to align with statutory limits. The program covers industrial facilities, certain fuel suppliers, in-state electricity generators, electricity importers, and natural gas distributors with annual carbon dioxide equivalent emissions above 25,000 metric tons. Other facilities and entities will be phased into the program beginning in 2027 and 2031.

Covered entities must either reduce their emissions or obtain allowances to cover any remaining emissions. No-cost allowances will be allocated to utilities, in alignment with the CETA requirements, to cover the “cost burden” associated with the CCA. Utilities that receive no cost allowances can either use those allowances to satisfy direct CCA compliance obligations or consign the allowances to auction and use the proceeds to offset costs incurred due to the CCA. Any allowances not freely allocated will be auctioned with the proceeds going to the State to support

clean energy transition and assistance, clean transportation, and climate resiliency projects that promote climate justice.

The District does not own any emitting generation and is not an electricity importer as defined by CCA, however it does have a direct compliance obligation under the program due to Bonneville's decision to not be a covered entity under the program. The compliance obligation associated with unspecified Bonneville electricity imports transfers to downstream entities and becomes a compliance obligation for electricity imported into the District Balancing Area. The CCA has also impacted wholesale energy prices as they have increased to reflect the cost of allowances needed to cover the emissions associated with fossil-fuel generation. As a result of the District's market participation and compliance obligation associated with Bonneville imports, the District was allocated no-cost allowances to cover its cost burden under the CCA.

The Department of Ecology has developed rules for the CCA, but moderate risk is still inherent in understanding how the Department of Ecology will implement these rules. The District is actively participating in various industry forums to ensure that implemented rules appropriately address the cost burden and are supportive of regional wholesale markets, and will continue to monitor the impacts of the CCA and evaluate potential changes to the District's hedging strategy.

### ***Climate Change***

The District is aware of scientific information regarding climate change, which may result from GHG emissions and accumulations and from other factors. To the extent that regional warming increases the average temperature in the watershed that feeds the Columbia River, such warming could result in earlier run-off into the Columbia River and/or more winter precipitation and less snowpack in the mountains in the winter months. These changes could affect the timing and/or amount of power generation at the District's hydro-electric projects. The District continues to monitor and assess the impacts of possible climate change on its operations. Impacts with a medium to high likelihood of occurring within the next 10 years have been integrated into the District's risk management program. Among the risks evaluated were increased ambient air temperature implications for electric load, possible implications for fish associated with changing river temperatures, precipitation and snowpack effects on generation, potential extreme weather and wildfire events, and water availability. The District continues to review and update these risks. However, the District is unable to predict whether any such climate changes will occur, the nature or extent thereof, and beyond those risks identified, the effects they might have on the District's business operations and financial condition.

State, regional, and national policymakers are debating how to manage and mitigate for greenhouse gas emissions from many sectors of the economy, including electric generation. The District's two primary hydroelectric generating facilities provide low-cost, clean, renewable power that does not generate greenhouse gas emissions. As an electric generator that relies on emission-free hydropower to serve its retail load plus provide energy to thousands of other Northwest customers, the District has a significant interest in the role that hydropower plays in climate change policy. District management and staff will continue to monitor the latest regional and federal policy proposals.

### ***Columbia River Temperature TMDL***

On May 18, 2020, the U.S. Environmental Protection Agency ("EPA") issued for public review and comment the Total Maximum Daily Load ("TMDL") for temperature on the Columbia and Lower Snake Rivers. The TMDL addresses portions of the Columbia and Lower Snake Rivers that have been identified by the states of Washington and Oregon as impaired due to temperatures that exceed those states' water quality standards. After considering comments received, the EPA may make modifications, as appropriate, and transmit the TMDL to the states of Oregon and Washington for incorporation into their current water quality management plans. Once the TMDL becomes final, the Department of Ecology will develop an implementation plan.

A TMDL specifies the maximum amount of a pollutant, including heat, that a waterbody can receive and still meet applicable water quality standards ("WQS"). In the proposed TMDL however, EPA does not believe the WQS can be attained even if the temperature reductions can be achieved. This is because sources outside the allocation structure of the TMDL contribute to warmer water temperatures. These sources include water from Canada, which is

already warmer than State WQS allow, and EPA recognition that the temperature of the Columbia River is largely driven by air temperature, which is warming in the region. While the TMDL cites water temperature increase, it does not adjust the TMDL for rising ambient air temperatures, which poses compliance challenges.

Within the Priest Rapids Project, the District currently provides a high level of protection and mitigation for salmon and steelhead and takes into consideration temperature impacts in its 401 Water Quality Certification. The District meets a NNI standard that includes survival of migrating fish species through the dams and also survival through project reservoirs, where the negative effects of temperature are experienced. Also, the unavoidable and natural mortality that occurs within the project area is compensated for with in-kind hatchery programs and the funding of habitat enhancement and restoration projects. To date, the District is meeting its survival standards for all species studied and its mitigation programs are fulfilling their obligations. Under the NNI standard, the interaction between survival and mitigation is continually revisited and adjusted. District staff plan to work with the Department of Ecology on an implementation strategy for the TMDL.

### **Telecommunications - The Wholesale Fiber Optic Network**

The District began developing an internal fiber optic telecommunications system in the 1980s. That system now links the Priest Rapids and Wanapum Developments, most of the District's substations, all local offices and the District's headquarters building. This system created a fiber optics "backbone" which had significant excess capacity. The District began installing a Wholesale Fiber Optic Network in its service area starting in 2000. The Wholesale Fiber Optic Network was established to provide wholesale telecommunications services to retail and transport service providers that provide services for end use subscribers within the County.

The District has strung fiber on its existing electric utility poles and has installed community "hubs" at various locations around the District. Commercial and residential customers are connected to the Wholesale Fiber Optic Network's fiber run by the District directly to their homes and businesses from the hubs. Wholesale Fiber Optic Network users thus receive various telecommunications services at rates as high as 1.0 gigabit per second.

The District continued to expand its Wholesale Fiber Optic Network in 2023, 2022, 2021, and 2020. The Wholesale Fiber Optic Network expansion resulted in total plant additions of \$23.7 million, \$29.4 million, and \$27.5 million for years ended December 31, 2022, 2021, and 2020, respectively. The District continues to experience high demand for new connections to its open-access fiber to the premises network. Currently, approximately 72% of potential subscribers are using the network. The District will continue expanding access to the network and has budgeted \$21.8 million for design, materials, and construction in 2023.

Currently 28,136 users subscribe to services from 15 retail and seven transport service providers. These providers include small local or regional companies as well as regional/national carriers. The retail service providers are charged for use of the Wholesale Fiber Optic Network system pursuant to a generally applicable rate schedule approved by the Commission. These wholesale rates are generally set by the Commission to allow the retail services to be competitive from a cost standpoint with other available options.

### **Electric System Operating Results**

The following table shows the Electric System's historical operating results for fiscal years 2018 through 2022. This table is designed to show compliance with the debt service coverage requirements in the Bond Resolution. As a result, it differs from the financial statements in Appendix B, which are required to follow generally accepted accounting principles.

**TABLE 13**  
**ELECTRIC SYSTEM HISTORICAL OPERATING RESULTS**  
**(\$000)**

| Revenues   | <b>2018</b>       | <b>2019</b>       | <b>2020</b>       | <b>2021</b>       | <b>2022</b>       |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Retail Energy Sales  | \$ 201,391        | \$ 209,896        | \$ 209,777        | \$ 231,937        | \$ 265,721        |
| Miscellaneous Electrical Revenues <sup>(1)</sup>   | 23,568            | 20,475            | 26,341            | 27,914            | 26,946            |
| Wholesale revenues, net <sup>(2)</sup>   | 39,717            | 41,039            | 48,153            | 57,474            | 99,238            |
| <b>Total Revenues</b>  | <b>\$ 264,676</b> | <b>\$ 271,410</b> | <b>\$ 284,271</b> | <b>\$ 317,325</b> | <b>\$ 391,906</b> |
| <b>Expenses</b>  |                   |                   |                   |                   |                   |
| Power Supply Costs <sup>(2)</sup>  | \$ 112,249        | \$ 114,613        | \$ 114,809        | \$ 131,054        | \$ 166,975        |
| Operation and Maintenance <sup>(3)</sup>   | 37,187            | 50,463            | 56,507            | 67,579            | 68,506            |
| Taxes  | 14,835            | 15,943            | 15,630            | 18,090            | 18,888            |
| <b>Total Expenses</b>  | <b>\$ 164,271</b> | <b>\$ 181,019</b> | <b>\$ 186,946</b> | <b>\$ 216,723</b> | <b>\$ 254,369</b> |
| <b>Net Revenues</b>  | <b>\$ 100,405</b> | <b>\$ 90,391</b>  | <b>\$ 97,325</b>  | <b>\$ 100,603</b> | <b>\$ 137,537</b> |
| <b>Interest and Other Income</b>   | <b>\$ 14,003</b>  | <b>\$ 20,001</b>  | <b>\$ 22,860</b>  | <b>\$ 15,026</b>  | <b>\$ 8,374</b>   |
| <b>Transfer from the Rate Stabilization Account</b>  | <b>--</b>         | <b>--</b>         | <b>7,593</b>      | <b>--</b>         | <b>--</b>         |
| <b>Revenues Available for Debt Service</b>   | <b>114,408</b>    | <b>110,392</b>    | <b>127,778</b>    | <b>115,628</b>    | <b>145,911</b>    |
| <b>Debt Service</b>  |                   |                   |                   |                   |                   |
| Parity Bonds   | (5,681)           | (7,606)           | (6,959)           | (7,874)           | (13,231)          |
| Subordinate Electric System Bonds  | (1,725)           | (2,070)           | (908)             | (227)             | (800)             |
| <b>Less Debt Service</b>   | <b>(7,406)</b>    | <b>(9,676)</b>    | <b>(7,867)</b>    | <b>(8,100)</b>    | <b>(14,031)</b>   |
| <b>Uncommitted Revenues</b>  | <b>\$ 107,002</b> | <b>\$ 100,716</b> | <b>\$ 119,911</b> | <b>\$ 107,528</b> | <b>\$ 131,879</b> |
| <b>Beginning Working Capital</b>   | <b>\$ 106,386</b> | <b>\$ 169,251</b> | <b>\$ 89,637</b>  | <b>\$ 78,005</b>  | <b>\$ 90,209</b>  |
| <b>Funds Available for Construction</b>  | <b>\$ 213,388</b> | <b>\$ 269,967</b> | <b>\$ 209,548</b> | <b>\$ 185,533</b> | <b>\$ 222,088</b> |
| <b>Less Capital Construction<sup>(7)</sup></b>   | <b>(45,552)</b>   | <b>(50,224)</b>   | <b>(69,966)</b>   | <b>(95,233)</b>   | <b>(88,182)</b>   |
| <b>Change in Other Balance Sheet Accounts</b>  | <b>1,415</b>      | <b>(130,106)</b>  | <b>(61,577)</b>   | <b>(91)</b>       | <b>(47,498)</b>   |
| <b>Ending Working Capital<sup>(4)</sup></b>  | <b>\$ 169,251</b> | <b>\$ 89,637</b>  | <b>\$ 78,005</b>  | <b>\$ 90,209</b>  | <b>\$ 86,408</b>  |
| <b>R&amp;C Fund<sup>(5)</sup></b>  | <b>\$ 124,201</b> | <b>\$ 128,837</b> | <b>\$ 106,586</b> | <b>\$ 106,739</b> | <b>\$ 98,182</b>  |
| <b>Parity Bond Debt Service Coverage</b>   | <b>20.14x</b>     | <b>14.51x</b>     | <b>18.36x</b>     | <b>14.69x</b>     | <b>11.03x</b>     |
| <b>Parity Bond and Subordinate Obligation Consolidated Debt Service Coverage<sup>(6)</sup></b> | <b>15.45x</b>     | <b>11.41x</b>     | <b>16.24x</b>     | <b>14.27x</b>     | <b>10.40x</b>     |
| <b>Retail Energy Sales (MWh)</b>   | <b>4,910,755</b>  | <b>5,038,302</b>  | <b>4,986,438</b>  | <b>5,382,366</b>  | <b>5,859,317</b>  |
| <b>Average Retail Energy Rate Increase</b>   | <b>2.0%</b>       | <b>0%</b>         | <b>0%</b>         | <b>0%</b>         | <b>0%</b>         |
| <b>Average Retail Revenue Requirement (cents/kWh)</b>  | <b>4.10¢</b>      | <b>4.17¢</b>      | <b>4.21¢</b>      | <b>4.31¢</b>      | <b>4.54¢</b>      |

<sup>(1)</sup> The District recognized earned contributions in aid of construction of \$10.8 million, \$14.1 million, \$14.0 million, \$8.5 million, and \$12.5 million in 2022, 2021, 2020, 2019, and 2018 respectively.

<sup>(2)</sup> In 2020, the District implemented a new wholesale power policy, which reports wholesale power purchase agreements with simultaneous purchase and sale transactions on a net basis.

<sup>(3)</sup> Excludes depreciation, amortization and other non-cash items.

<sup>(4)</sup> Includes amounts in the construction fund in years prior to 2020. There were no funds in the construction fund in 2020, 2021 or 2022.

<sup>(5)</sup> \$109.6 million of this balance was designated as available for rate stabilization for debt service coverage purposes in 2018 and 2019. \$102.0 million of this balance was designated as available for rate stabilization for debt service coverage purposes in 2020, 2021, and 2022.

<sup>(6)</sup> Previously reported as Electric System subordinate debt service coverage. In 2022, subordinate debt service coverage was replaced with Electric System consolidated debt service coverage and all prior years were updated to reflect the change. See Table 3.

<sup>(7)</sup> 2019 previously reported consolidated capital construction for the Electric System and the Priest Rapids Project. Table has been corrected to reflect Electric System capital construction.

Source: *The District*.

The following table shows the Electric System’s historical energy requirements, resources, and power costs for fiscal years 2018 through 2022.

**TABLE 14**  
**HISTORICAL ENERGY REQUIREMENTS, RESOURCES AND POWER COSTS**

|  | 2018      | 2019      | 2020      | 2021      | 2022       |
|--|-----------|-----------|-----------|-----------|------------|
| Annual Energy Requirements (MWh)               |           |           |           |           |            |
| Retail Sales <sup>(1)</sup>                    | 4,910,755 | 5,038,302 | 4,986,438 | 5,382,366 | 5,859,317  |
| Electrical System Usage                        | 17,125    | 18,071    | 16,874    | 17,321    | 17,860     |
| Wholesale revenues, net <sup>(2)</sup>         | 832,671   | 1,304,516 | 2,070,460 | 3,094,927 | 4,167,270  |
| Distribution/Transmission Line Losses          | 510,563   | 484,011   | 193,637   | 84,692    | 213,772    |
| Total Energy Requirements                      | 6,271,114 | 6,844,900 | 7,267,409 | 8,579,305 | 10,258,218 |
| Annual Resources (MWh)                         |           |           |           |           |            |
| Priest Rapids Project <sup>(2)</sup>           | 5,782,372 | 4,629,869 | 5,547,804 | 5,574,937 | 6,036,568  |
| Quincy Chute Project                           | 32,071    | 27,854    | 33,638    | 11,458    | 31,575     |
| P.E.C. Headworks Project                       | 19,982    | 19,799    | 19,374    | 17,296    | 16,536     |
| Bonneville Power Administration                | 77,391    | 72,062    | 80,561    | 82,506    | 84,853     |
| Other <sup>(3)</sup>                           | 359,298   | 2,095,316 | 1,586,032 | 2,893,108 | 4,088,686  |
| Total Energy Resources                         | 6,271,114 | 6,844,900 | 7,267,409 | 8,579,305 | 10,258,218 |
| Average Power Cost by Resource (cents/kWh)     |           |           |           |           |            |
| Priest Rapids Project                          | 1.66¢     | 1.76¢     | 1.42¢     | 1.41¢     | 0.26¢      |
| Quincy Chute Project                           | 4.45      | 3.53      | 2.21      | 7.92      | 2.63       |
| P.E.C. Headworks Project                       | 4.02      | 3.37      | 3.34      | 4.81      | 5.58       |
| Bonneville Power Administration                | 3.14      | 4.18      | 4.52      | 4.73      | 4.60       |
| Other <sup>(3)</sup>                           | 2.80      | 1.21      | 1.93      | 1.61      | 3.54       |
| Annual Power Cost by Resource (\$000)          |           |           |           |           |            |
| Priest Rapids Project <sup>(4)</sup>           | \$95,847  | \$81,604  | \$78,558  | \$78,367  | \$15,438   |
| Quincy Chute Project                           | 1,428     | 982       | 745       | 908       | 832        |
| P.E.C. Headworks Project                       | 804       | 668       | 648       | 832       | 923        |
| Bonneville Power Administration <sup>(5)</sup> | 2,429     | 3,010     | 3,643     | 3,902     | 3,904      |
| Other <sup>(3)</sup>                           | 10,043    | 25,406    | 30,533    | 46,460    | 144,678    |
| Wheeling                                       | 2,801     | 3,430     | 1,291     | 1,399     | 2,126      |
| Total Power Cost (\$000)                       | \$113,352 | \$115,100 | \$115,418 | \$131,867 | \$167,900  |
| Average Power Cost (cents/kWh)                 | 1.81¢     | 1.68¢     | 1.59¢     | 1.54¢     | 1.64¢      |

<sup>(1)</sup> Reflects total retail energy requirements.

<sup>(2)</sup> The District enters into Pooling and Slice agreements to stabilize wholesale revenues, diversify its supply and hedge water risk. Under these agreements, the District sells capacity and energy from its retained 63.3% share of the Priest Rapids Project output in exchange for sufficient power to meet the District’s net system load requirements.

<sup>(3)</sup> Other resources are comprised of other firm market purchases, offset by proceeds from the sale of the Reasonable Portion of the Priest Rapids Project.

<sup>(4)</sup> Priest Rapids Project power cost is reduced by proceeds from the Estimated Unmet District Load (“EUDL”). EUDL proceeds are dependent on market pricing, which were significantly higher in 2023 compared to prior years.

<sup>(5)</sup> Due to the nature of the Bonneville and Energy Northwest relationship the District’s share of Nine Canyon generation is presented with other Bonneville purchases.

Source: The District.



## Management’s Discussion of Results

The Electric System has historically demonstrated consistent financial results with high debt service coverage ratios and substantial cash reserves. The operating results for 2020 to 2022 reflect the benefits of the low-cost production of the Priest Rapids Project, increased Electric System retail load, and effective risk management. The District produced positive changes in net financial position of \$90.4 million, \$75.2 million and \$93.6 million, during 2022, 2021 and 2020, respectively. Despite the regional challenges of low wholesale power prices, the District was able to add to the financial well-being of the utility. A large component to this success are the wholesale hedging contracts of the Electric System to mitigate the effect of fluctuations in wholesale power prices and water variability for generation from the Priest Rapids Project. During 2021 through 2022, the District was able to maintain a balance in the R&C Fund ranging from \$106.73 million to \$98.18 million. The District has always met its debt service coverage covenants, and from 2020 to 2022 the Electric System’s debt service coverage ranged from 18.36x to 11.03x, in excess of the 1.25x required by the bond resolutions authorizing the Outstanding Parity Bonds.

In response to the COVID-19 pandemic, the District proactively implemented measures to mitigate operational and financial impacts to the District and its customers, including closing lobbies and parts of recreation sites, requiring employees not required to be on site for essential services to work from home, and implementing “social distancing” measures for the District’s on-site essential staff. See “THE DISTRICT—Response and Impact from COVID-19 Pandemic.”

## Estimated Capital Requirements

The District has contractual commitments relating to several Electric System capital improvement projects including the fiber buildout, electrical system upgrades, transformer purchases, power cable purchases, and substation and distribution line construction projects. As of December 31, 2022, the District has spent \$169.1 million for these Electric System major capital contracts. The remaining commitment for these contracts as of December 31, 2022, was \$132.7 million.

As part of its planning process, the District has prepared its annual estimate of the capital requirements for the Electric System. As shown in the table below, the capital requirements include provisions for major projects involving transmission and electrical distribution lines and substations as well as normal equipment purchases, system additions, customer extensions, and general plant purchases. The District is undertaking capital improvements to serve expected load growth. The District has customer contribution (contributions in aid of construction) policies that require customers to pay a portion of the cost of the facilities the District installs on their behalf. The capital improvements described below are expected to be paid from available Electric System revenue deposited into the District’s Construction Fund and Finance Plan Fund and contributions in aid of construction.

The table below summarizes the 2023-2027 Electric System capital improvements program.

**TABLE 15**  
**ELECTRIC SYSTEM PROJECTED**  
**CAPITAL IMPROVEMENTS PROGRAM 2023-2027 (\$000)**

|  |            |
|--|------------|
| Transmission/Distribution              | \$ 224,000 |
| Fiber/Broadband                        | 44,000     |
| Labor                                  | 60,000     |
| Technology                             | 5,000      |
| Facilities, Transportation and General | 151,000    |
| Total                                  | \$ 484,000 |

*Source: The District.*

The District is in the early stages of due diligence on a 230 kV transmission expansion project which is expected to significantly increase overall system reliability and the District’s ability to serve additional load in the Quincy area. The current timeline calls for the transmission expansion project to be completed in 2026 with an estimated cost

including internal labor and overheads of \$163.5 million, all of which is expected to be paid from available revenue of the Electric System.

### **Various Factors Affecting the Electric Utility Industry**

The electric utility industry in general has been, or in the future may be, affected by a number of factors which could impact the financial condition and competitiveness of many electric utilities and the level of utilization of generating and transmission facilities. Such factors include, among others: (i) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, (ii) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (iii) changes resulting from a national energy policy, (iv) effects of competition from other electric utilities and new methods of, and new facilities for, producing low-cost electricity, (v) federal laws and regulations, tariffs and congressional inaction; (vi) increased competition; (vii) issues integrating wind generation; (viii) cybersecurity and other security breaches; (ix) “self-generation” or “distributed generation” by industrial and commercial customers and others; (x) issues relating to the ability to issue tax-exempt obligations, including severe restrictions on the ability to sell to nongovernmental entities electricity from generation projects and transmission service from transmission line projects financed with outstanding tax-exempt obligations; (xi) effects of inflation on operating and maintenance costs; (xii) changes from projected future load requirements; (xiii) increases in costs and uncertain availability of capital; (xiv) shifts in the availability and relative costs of different fuels (including the cost of natural gas); (xv) sudden and dramatic increases in the price of energy purchased on the open market that may occur in times of high peak demand in an area of the country experiencing such high peak demand; (xvi) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity; (xvii) other legislative changes, voter initiatives, referenda and statewide propositions; (xviii) effects of the changes in the economy; (xix) epidemics or pandemics, including but not limited to the potential impacts of the COVID-19 pandemic, (xx) issues related to the management and disposal of hazardous waste, and (xxi) climate change, disasters, or other physical calamities.

The District, like many other large public and private entities, relies on a complex technology environment to conduct its operations and support the community it serves. The District has invested in cybersecurity protections in recent years to safeguard personal and institutional data by monitoring, analyzing, and forecasting threats to information assets, advising on risk management and on contracts related to data security, providing in-person and online education, consulting on incident management, and developing and managing District policies related to information security. 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 costs related to claims.

Washington State has experienced various natural disasters, including wildfires, mudslides, floods, droughts, windstorms, volcanic eruptions (Mt. St. Helens in 1980), and earthquakes (in Western Washington). Climate change may intensify and increase the frequency of extreme weather events, such as drought, wildfires, floods, and heat waves. There are multiple factors that reduce the risk for wildfires in the County, such as little vegetation to fuel such fires and low population density in the County, reducing third party liability risk. The District has also developed a wildfire mitigation plan. Further, the District’s insurable assets are spread widely across the County, reducing the risk of significant damage to District assets in the event of a local wildfire. Under Washington law, any person, firm, or corporation may be liable if it creates or allows extreme fire hazards to exist and which hazards contribute to the spread of fires.

The District is unable to predict what impact these and other potential factors will have on its business operations and financial condition. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change after to the date hereof. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the Bonds should obtain and review such information.

## CONSOLIDATED FINANCIAL RESULTS

The District's financial statements are reported on a consolidated basis. Intercompany transactions between the Priest Rapids Project and the Electric System are eliminated in accordance with generally accepted accounting principles. See Appendix B. The following is a brief summary of some of the consolidated operating results of the District.

**TABLE 16**  
**ELECTRIC SYSTEM AND PRIEST RAPIDS PROJECT CONSOLIDATED**  
**HISTORICAL OPERATING RESULTS**  
**(\$000)**

|   | <b>2018</b>       | <b>2019</b>       | <b>2020</b>       | <b>2021</b>       | <b>2022</b>       |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Revenues  |                   |                   |                   |                   |                   |
| Sales to Power Purchasers at Cost                               | \$ 31,610         | \$ 29,934         | \$ 27,908         | \$ 23,584         | \$ 28,654         |
| Retail Energy Sales   | 201,391           | 209,896           | 209,777           | 231,938           | 265,722           |
| Miscellaneous Electrical Revenues <sup>(1)</sup>                | 23,568            | 20,475            | 26,342            | 27,913            | 26,946            |
| Wholesale Revenues, net <sup>(2)</sup>                          | 67,186            | 69,381            | 81,974            | 90,411            | 99,238            |
| Total Revenues  | <u>\$ 323,755</u> | <u>\$ 329,686</u> | <u>\$ 346,001</u> | <u>\$ 373,847</u> | <u>\$ 420,561</u> |
| Total Expenses <sup>(3)</sup>                                   | <u>\$ 135,940</u> | <u>\$ 150,438</u> | <u>\$ 158,713</u> | <u>\$ 185,770</u> | <u>\$ 201,124</u> |
| Net Revenues  | <u>\$ 187,815</u> | <u>\$ 179,248</u> | <u>\$ 187,288</u> | <u>\$ 188,077</u> | <u>\$ 219,437</u> |
| Interest and Other Income                                       | \$ 11,391         | \$ 22,324         | \$ 19,567         | \$ 2,786          | \$ (13,381)       |
| Federal Rebates on Revenue Bonds                                | 10,552            | 10,545            | 10,616            | 10,484            | 10,427            |
| Extraordinary Expense   | --                | --                | --                | --                | --                |
| Transfer from (to) Rate Stabilization Account                   | --                | --                | 7,593             | --                | --                |
| Revenues Available for Debt Service                             | <u>\$ 209,758</u> | <u>\$ 212,117</u> | <u>\$ 225,063</u> | <u>\$ 201,347</u> | <u>\$ 216,484</u> |
| Less Debt Service   | \$ 98,575         | \$ 97,717         | \$ 90,234         | \$ 83,742         | \$ 84,144         |
| Debt Service Coverage   | 2.13x             | 2.17x             | 2.49x             | 2.40x             | 2.57x             |
| Debt Service Coverage before Rate Stabilization Transfers       | --                | --                | 2.41x             | --                | --                |
| Utility Plant, Net of Accumulated Depreciation and Amortization | \$2,097,261       | \$ 2,171,380      | \$ 2,195,405      | \$ 2,285,569      | \$ 2,361,634      |
| Outstanding Long-Term Debt                                      | \$1,298,635       | \$ 1,269,395      | \$ 1,200,725      | \$ 1,171,430      | \$ 1,142,316      |
| Debt to Plant Ratio   | 62%               | 58%               | 55%               | 51%               | 48%               |
| Unrestricted Cash <sup>(4)</sup>                                | \$ 156,036        | \$ 116,630        | \$ 90,215         | \$ 51,851         | \$ 56,862         |

<sup>(1)</sup> The District recognized earned contributions in aid of construction of \$10.8 million, \$14.1 million, \$14.0 million, \$8.5 million, and \$12.5 million in 2022, 2021, 2020, 2019, and 2018, respectively.

<sup>(2)</sup> Under the Pooling and Slice agreement, counterparties have rights to the actual output of a portion of the Priest Rapids Project, which will vary with water conditions, in exchange for providing firm power sufficient to meet the District's net system load requirements. The values exchanged between the District and counterparties pursuant to the individual agreement are offsetting and netted in the District's financial statements.

<sup>(3)</sup> Excludes noncash items of depreciation and amortization.

<sup>(4)</sup> See Note 2 in the audited financial statements attached as Appendix B.

Source: The District.

## **THE PRIEST RAPIDS PROJECT**

### **Description**

The Priest Rapids Project consists of the Priest Rapids Development and the Wanapum Development (the “Developments”). In 2010, the District combined the two Developments into one system, the Priest Rapids Project. The Priest Rapids Development consists of a dam and hydroelectric generating station that has been in commercial operation since 1961. The Wanapum Development consists of a dam and hydroelectric generating station that has been in commercial operation since 1963. The two developments are on the Columbia River approximately 18 miles apart.

The Priest Rapids Project is operated under a single license from FERC. The original license for the two Developments expired on October 31, 2005, and the District operated with annual licenses from 2005-2008. In 2008, the District was granted a new 44-year FERC license for the consolidated Priest Rapids Project. See “FERC License.”

### **The Priest Rapids Development**

The Priest Rapids Development consists of a dam and hydroelectric generating station having a nameplate rating of 950 MW. Located on the Columbia River in Grant and Yakima Counties about 150 air miles northeast of Portland, Oregon, 130 air miles southeast of Seattle, Washington, and 18 miles downstream of the Wanapum Development, the Priest Rapids Development includes certain switching, transmission and other facilities necessary to deliver the electric output to the transmission networks of the District, Bonneville and certain other power purchasers.

### **The Wanapum Development**

The Wanapum Development consists of a dam and hydroelectric generating station having a nameplate rating of 1,222 MW. Located on the Columbia River in Grant and Kittitas Counties about 160 air miles northeast of Portland, Oregon, 129 air miles southeast of Seattle, Washington, and 18 miles upstream of the Priest Rapids Development, the Wanapum Development includes certain switching, transmission and other facilities necessary to deliver the electric output to the transmission networks of the District, Bonneville and certain other power purchasers.

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## Energy Production and Cost

The following table shows the energy production for the Priest Rapids Project for the years ended December 31, 2018 to 2022. The major factors affecting Average Cost are annual variations in Columbia River water flows, and operating costs which include debt service.

**TABLE 17**  
**PRIEST RAPIDS PROJECT HISTORICAL ENERGY PRODUCTION**

|  | 2018    | 2019    | 2020    | 2021    | 2022    |
|--|---------|---------|---------|---------|---------|
| Priest Rapids Project                            |         |         |         |         |         |
| Net Peaking Production (MW)                      | 1,816   | 1,764   | 1,750   | 1,863   | 1,791   |
| Net Energy Production (000's MWh) <sup>(1)</sup> | 9,259   | 7,399   | 9,464   | 8,585   | 9,258   |
| Annual Availability Factor <sup>(2)</sup>        | 86%     | 84%     | 85%     | 87%     | 90%     |
| Plant Factor <sup>(3)</sup>                      | 64%     | 54%     | 65%     | 59%     | 66%     |
| Average Cost (\$/MWh)                            | \$18.13 | \$22.80 | \$18.48 | \$21.61 | \$19.44 |
| Bonneville Power PF Rate (\$/MWh) <sup>(4)</sup> | \$35.57 | \$35.57 | \$35.62 | \$34.93 | \$34.93 |

<sup>(1)</sup> Run-off was 113% of average in 2018, 84% of average in 2019, 104% of average in 2020, 87% of average in 2021 and 111% of average in 2022 and is based on Rock Island Dam water supply compared to a 30-year average.

<sup>(2)</sup> The ratio of the actual hours that the generating units of the Priest Rapids Project are available for service during the period indicated to the total hours in the period.

<sup>(3)</sup> The average energy output of a generating facility to the net peaking capability of that facility. It reflects the facility's availability, the actual need for the power production by the facility and the availability of water. Plant factor is calculated by dividing gross generation divided by 8,760 (the hours in one year) by the maximum one-hour production.

<sup>(4)</sup> Bonneville's published Priority Firm power rates.

Source: *The District*.

Columbia River run-off for April through September of 2023 is expected to be approximately 90% of average. Average cost (\$/MWh) is expected to be \$21.11. Due to the elimination of water risk through the District's slice contracts, water volume in 2023 does not impact the District's financial performance due to fixed price sales.

### Priest Rapids Project Power Sales Contracts

The District's current contracts for the purchase and sale of output from the Priest Rapids Project became effective on November 1, 2005, for the Priest Rapids Development and on November 1, 2009, for the Wanapum Development (the "Power Sales Contracts"). The Power Sales Contracts extend until the expiration of the license for the Priest Rapids Project (April 1, 2052). The Power Sales Contracts allow the District to meet the Electric System's retail load requirements at the cost of Priest Rapids Project production into the near future and under most water conditions and provide excess power above load in many months that can be sold into the wholesale market.

The Power Sales Contracts consist of the "Product Sales Contract," the "Reasonable Portion Contract" and the "Exchange Contract." The District's Electric System can use up to 63.3% (Adjusted District Reserved Share) of the output of the Priest Rapids Project to serve its retail load. In accordance with the FERC order in the Public Law 83-544 proceeding, the District is required to dedicate 30% of the output of the Priest Rapids Project (the "Reasonable Portion") for sales within the region based on market principles. The sales proceeds, net of Priest Rapids Project costs of production, are allocated to the various parties to the Reasonable Portion Contract. The purchasers of the output of the Priest Rapids Project (the "Power Purchasers") are responsible for paying their proportionate share of all costs of the Priest Rapids Project associated with the Reasonable Portion regardless of the revenues allocated by the Reasonable Portion Contract. The District has the first right to use the "Reasonable Portion" proceeds to fund power purchases needed to serve its firm retail load in excess of the District's 70% (District Reserved Share) share of the Priest Rapids Project. The District, therefore, has the right to take or benefit from up to 93.3% of the generating capacity of the Priest Rapids Project and pay its proportional share of the cost of production. The

remaining 6.7% is sold to the other Power Purchasers. See “Regulatory Proceedings Affecting the Developments — Allocation of Output.”

**TABLE 18**  
**PRIEST RAPIDS PROJECT**  
**PARTICIPATION OF POWER COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

| <b>Power Purchaser</b>                          | <b>Percent Share<sup>(1)</sup></b> | <b>Priest Rapids Project Nameplate Rating<sup>(2)</sup> (MW)</b> |
|---|------------------------------------|--|
| PacifiCorp Electric Operations                  | 3.34%                              | 72.54  |
| Portland General Electric                       | 3.34                               | 72.54  |
| Puget Sound Energy, Inc.                        | 1.93                               | 41.82  |
| Tacoma Power                                    | 0.77                               | 16.62  |
| Seattle City Light                              | 0.75                               | 16.19  |
| Avista Corporation                              | 1.47                               | 31.91  |
| Public Utility District No. 1 of Cowlitz County | 0.44                               | 9.55   |
| Eugene Water and Electric Board                 | 0.38                               | 8.22   |
| Other Power Purchasers <sup>(3)</sup>           | 2.56                               | 55.58  |
| The District's Electric System                  | 85.04                              | 1,847.02   |
| Total   | 100.00%                            | 2,172.00   |

<sup>(1)</sup> Percent share represents each Power Purchaser’s annual share of power costs for the given year.

<sup>(2)</sup> Total in table has been rounded. Based on installed nameplate rating of 2,172 MW. The nameplate rating allocation is based on the percentage of power costs attributable to each Power Purchaser divided by the total nameplate rating. The allocation changes annually since each Power Purchaser’s percentage of the total power costs will change under the New Power Sales Contracts. The total annual nameplate rating may change depending on the upgrades to the Priest Rapids Project.

<sup>(3)</sup> Cities of Forest Grove, McMinnville, and Milton-Freewater; Kittitas County Public Utility District, Snake River Power, Clearwater Power, Idaho County Light, Kootenai Electric Cooperative, and Northern Lights.

*Source: The District.*

The Power Sales Contracts provide that each Power Purchaser is obligated to make payments equal to annual power costs, which include all operating expenses and debt service on the Parity Bonds and debt service coverage for the life of the Power Sales Contracts, multiplied by the percentage of output or revenue, as applicable, that the purchaser is entitled to that year. The Power Sales Contracts provide that the Power Purchasers shall pay their portion of the estimated costs of the Priest Rapids Project irrespective of the condition of the Priest Rapids Project and whether or not the Priest Rapids Project is capable of producing power or revenues. If the Priest Rapids Project is unable to operate, estimated costs will be based on output in the last full year of operation. See “SECURITY FOR THE PARITY BONDS—Electric System Obligations for the Priest Rapids Project Bonds” for a description of the Electric System covenant to take power and pay costs associated with its share of power received from the Priest Rapids Project.

As described under “THE ELECTRIC SYSTEM—Sale of All of the District’s Share of Priest Rapids Project Output,” the District entered into a three-year slice contract with each of Avangrid and SENA for the sale of a portion of the District’s share of the Priest Rapids Project Output and has entered into a five-year contract with MSCG for the delivery of the Electric System’s remaining share of output of the Priest Rapids Project to MSCG in exchange for MSCG serving the retail load of the Electric System.

## Sale of Reasonable Portion

Pursuant to federal legislation and a FERC order, the District is required to sell 30% of the Priest Rapids Project power pursuant to market-based principles. The District sells at auction a minimum of 3% of the Priest Rapids Project output. The District also sells at auction the amount of power that the Power Purchasers elect not to take. The auction sets the price Power Purchasers must pay for their share of the Reasonable Portion power they elect to take. Power Purchases may assign their right to power at the auction price to another party. The District has seen active participation in the auctions of the Reasonable Portion. The following table summarizes the auction winners for the period shown. The auction for the period ending December 31, 2024, occurred on November 7, 2023, and is reflected below.

**TABLE 19**  
**REASONABLE PORTION AUCTION WINNERS (\$000)**

| <b>Period Covered<br/>(12 Months Ending)</b> | <b>Auction Winner</b> | <b>Slice of<br/>Priest<br/>Rapids<br/>Project</b> | <b>Auction Price<br/>Priest Rapids<br/>Project</b> | <b>Total<br/>Reasonable<br/>Portion<br/>Revenues<br/>Generated<sup>(1)</sup></b> | <b>Amount of<br/>Estimated Unmet<br/>District Load<br/>Used by the<br/>Electric System</b> |
|--|-----------------------|---|--|--|--|
| December 2016                                | Powerex               | 6.38%   | \$13,261   | --   | --   |
| December 2016                                | TransAlta Energy      | 6.38  | 13,052   | \$61,864   | 22,331   |
| December 2017                                | Powerex               | 6.38  | 14,590   | --   | --   |
| December 2017                                | Morgan Stanley        | 6.38  | 13,745   | 66,618   | 27,158   |
| December 2018                                | Exelon                | 6.38  | 13,661   | --   | --   |
| December 2018                                | TransAlta Energy      | 6.38  | 13,444   | 63,728   | 39,014   |
| December 2019                                | Morgan Stanley        | 6.45  | 18,464   | --   | --   |
| December 2019                                | Exelon                | 6.45  | 17,730   | 84,172   | 55,575   |
| December 2020                                | Exelon                | 5.81  | 18,541   | 95,736   | 66,818   |
| December 2021                                | Exelon                | 5.81  | 19,819   | 102,335  | 82,483   |
| December 2022                                | PacifiCorp            | 4.22  | 25,396   | 180,543  | 133,285  |
| December 2023                                | PacifiCorp            | 4.22  | 54,541   | 387,732  | 302,694  |
| December 2024                                | PacifiCorp            | 4.22  | 54,755   | 389,257  | 305,271  |

<sup>(1)</sup> Total Reasonable Portion Revenues Generated represent the auction proceeds plus the remaining portion of the 30% sold to other Power Purchasers based on the auction price.

Source: *The District*.

Reasonable Portion Revenues are available to the Electric System for the purchase of energy to meet its estimated load requirements in excess of the District's contractual share of the firm generation from the Priest Rapids Project in any given year, which are referred to as the Estimated Unmet District Load ("EUDL"). The Electric System can then use these revenues to purchase power in the open market. The District's Electric System is then responsible to pay the costs associated with the power production of the Priest Rapids Project in proportion to the Reasonable Portion revenues taken. Total Reasonable Portion revenues used by the Electric System to meet EUDL requirements are shown in Table 19 above. While the EUDL proceeds have been sufficient to meet system load requirements in the past, it is anticipated that, at forecasted load growth rates, the cost of unmet load requirements will exceed the funds available through the EUDL mechanism by 2025.

## Priest Rapids Project Output

The actual amounts of energy sold to the Power Purchasers for the fiscal years 2018 through 2022 are shown in the following table. During the years 2018 through 2022, the Priest Rapids Project delivered to the Power Purchasers and the District an average of 8,793,148 MWh of net energy annually. See “Coordination Agreement” and “FERC License” for a description of certain of the factors that result in the net energy figures.

**TABLE 20**  
**PRIEST RAPIDS PROJECT HISTORICAL ENERGY SALES**  
**(MWh)**

|   | <u>2018</u>      | <u>2019</u>      | <u>2020</u>      | <u>2021</u>      | <u>2022</u>      |
|---|------------------|------------------|------------------|------------------|------------------|
| Gross Generation <sup>(1)</sup>               | 10,121,806       | 8,277,669        | 9,958,776        | 9,549,586        | 10,278,982       |
| Less: Rock Island Encroachment <sup>(2)</sup> | --               | --               | --               | (471,506)        | (527,850)        |
| Coordination Exchange <sup>(3)</sup>          | (359,848)        | (383,405)        | --               | --               | --               |
| Less: Canadian Entitlements <sup>(4)</sup>    | (503,031)        | (495,262)        | (494,887)        | (492,646)        | (492,646)        |
| Net Energy to Purchasers                      | <u>9,258,927</u> | <u>7,399,002</u> | <u>9,463,889</u> | <u>8,585,434</u> | <u>9,258,486</u> |
| <br>  |                  |                  |                  |                  |                  |
| Max. One-Hour Production (MW)                 | 1,816            | 1,764            | 1,750            | 1,863            | 1,791            |
| Plant Factor <sup>(5)</sup>                   | 64%              | 54%              | 65%              | 59%              | 66%              |
| Annual Availability Factor <sup>(6)</sup>     | 86%              | 84%              | 85%              | 87%              | 90%              |
| <br>  |                  |                  |                  |                  |                  |
| Disposition of Net Energy                     |                  |                  |                  |                  |                  |
| District’s Electric System                    | 5,782,372        | 4,629,869        | 5,547,805        | 5,574,938        | 6,036,568        |
| PacifiCorp Electric Operations                | 98,118           | 79,477           | 864,749          | 799,406          | 1,382,690        |
| Portland General Electric Co.                 | 806,041          | 633,248          | 794,916          | 754,780          | 815,100          |
| Puget Sound Energy, Inc.                      | 47,197           | 39,597           | 453,108          | 431,728          | 464,666          |
| City of Seattle                               | 25,732           | 19,866           | 25,596           | 23,601           | 26,770           |
| City of Tacoma (Tacoma Public Utilities)      | 26,971           | 21,172           | 26,681           | 24,753           | 27,040           |
| Avista Corporation                            | 343,487          | 278,552          | 351,771          | 332,486          | 354,714          |
| Cowlitz County PUD                            | 14,113           | 11,705           | 14,830           | 13,098           | 14,506           |
| Eugene Water & Electric Board                 | 13,818           | --               | --               | --               | --               |
| Other Power Purchasers <sup>(7)</sup>         | 2,101,078        | 1,685,516        | 1,384,433        | 630,644          | 136,432          |
| Total   | <u>9,258,927</u> | <u>7,399,002</u> | <u>9,463,889</u> | <u>8,585,434</u> | <u>9,258,486</u> |

<sup>(1)</sup> Excludes station service energy requirements. Variations from year to year are a result of changing fish spill requirements and Columbia River flows.

<sup>(2)</sup> Energy credited to the Rock Island Project of Chelan County PUD equivalent to a portion of the energy that would have been produced at the Rock Island Project if the Wanapum Development’s reservoir had not encroached on the Rock Island Project’s tailrace. The energy provided is not required to be sourced from the Priest Rapids Project. Amounts prior to 2021 were included in coordinated exchange.

<sup>(3)</sup> Priest Rapids Project energy exchanged by the District with parties to the Mid-Columbia Hourly Coordination Agreement. Pond Transfer, Dissolved Gas Spill Return and Rock Island Encroachment are individual provisions of the Mid-Columbia Hourly Coordination Agreement. Mid-Columbia Hourly Coordination Agreement provisions are consolidated and presented in the Coordination Exchange line. As of 2020, the District no longer had coordinated exchange.

<sup>(4)</sup> Computed power benefits produced at the Priest Rapids Development as a result of upstream Canadian storage.

<sup>(5)</sup> Gross generation divided by the maximum one-hour production divided by 8,760 (the hours in one year).

<sup>(6)</sup> Actual hours that the generating units of the Priest Rapids Project are available for service during the period divided by the total hours in the period.

<sup>(7)</sup> Cities of Forest Grove, McMinnville, and Milton-Freewater, Kittitas County PUD, Snake River Power, Clearwater Power, Idaho County Light, Kootenai Electric Cooperative, and Northern Lights, and the power auction winners. 2022 decreased, due to PacifiCorp winning the auction, as shown above in Table 19.

Source: *The District*.



## **Transmission of Power from Priest Rapids Project**

The Priest Rapids Project's 230-kV transmission lines interconnect transmission systems of the District, Bonneville and certain Power Purchasers. These transmission lines currently have sufficient capacity to integrate fully the Priest Rapids Project's output into the Pacific Northwest's high-voltage transmission system. A portion of the Priest Rapids Project's power is delivered directly to the District and certain Power Purchasers via lines owned by the respective parties, with the remainder delivered to the Power Purchasers through the Bonneville transmission system. The District has sufficient transmission facilities and interconnection agreements to deliver the District's entire load from the Priest Rapids Project.

## **Canadian Treaty**

The Columbia River Treaty (the "Treaty"), a 60-year treaty between the United States and Canada relating to cooperative development of the water resources of the Columbia River basin, was placed in effect by an exchange of notes and ratifications on September 16, 1964. Pursuant to the Treaty, Canada has constructed three water storage facilities in Canada and is entitled, among other things, to receive one-half of the downstream power benefits defined in the Treaty. Also under the terms of the Treaty, the United States was allowed to construct Libby Dam in western Montana.

The United States and Canada have designated entities that are necessary to implement the Treaty. The United States entity is composed of the Administrator of Bonneville and the Division Engineer, North Pacific Division, United States Army Corps of Engineers; the Administrator is chairman. The Canadian entity is B.C. Hydro.

Operation of the Priest Rapids Project is affected by the Treaty. In general, the Treaty and its implementing agreements are implemented via the Pacific Northwest Coordination Agreement described above, which provides a means to coordinate the operation of all major power plants and transmission systems in the Pacific Northwest for the mutual benefit of the participants and a method to obtain and distribute the increased power benefits resulting from construction of the Canadian water storage facilities. As shown above, the Canadian Entitlement, an obligation created by the Treaty to return certain downstream power benefits to Canada, creates an energy obligation for the project participants, effectively reducing the net energy available for the Priest Rapids Project participants; however, the obligation does not require sourcing from the Priest Rapids Project. The Canadian Entitlement is a result of the Canadian improvements to the upstream storage.

In 2024, the Treaty's current provisions regarding flood risk management will change to a less-defined approach. In addition, the Treaty can be terminated beginning as of 2014, provided that either Canada or the United States gives 10 years' written notice. Although such notice has not been given, Canada and the United States are currently engaged in negotiations to revise the Treaty, and the District cannot predict the outcome of such negotiations.

## **FERC License**

On November 4, 1955, the Federal Power Commission (now FERC) issued a 50-year license to the District authorizing the construction, operation, and maintenance of the Priest Rapids and Wanapum Developments. Upon expiration of the original license on October 31, 2005, the District operated the Priest Rapids Project under annual licenses. On April 17, 2008, FERC issued a new 44-year license for the Priest Rapids Project (the "License"), subject to the terms and conditions of the Section 401 Water Quality Certification issued by the Department of Ecology, the Section 18 Fishway Prescriptions and incidental take statements submitted by National Oceanic and Atmospheric Administration ("NOAA") Fisheries and United States Fish and Wildlife Service, and the Salmon and Steelhead and Hanford Reach settlement agreements described below.

Costs associated with the relicensing efforts, totaling \$57.1 million, were recorded as an intangible asset included in Utility plant and are being amortized over the term of the License. Accumulated amortization related to the relicensing efforts totaled \$31.3 million and \$29.4 million as of December 31, 2022, and 2021, respectively.

Under the License, the District is committed to numerous obligations related to fish and habitat protection that require payments to other organizations using funds provided by the District. The present value of these obligations

totaled \$68.9 million as of December 31, 2022, of which approximately \$2.7 million is expected to be paid within one year. The present value of the obligations for December 31, 2021, was \$71.0 million. These amounts are the FERC Licensing Obligations reflected as liabilities in the Statement of Net Position.

### ***Fish, Wildlife and Water Quality***

The License requires mitigation and enhancement measures including: operation of the Wanapum and Priest Rapids fish bypasses and spill to improve downstream passage of juvenile salmon and steelhead; improvements to upstream fish passage facilities; sluiceway spills for fish passage; and implementation of numerous facilities, management plans and monitoring to protect and enhance wildlife and associated habitat.

### ***Section 401 Water Quality Certification***

As a condition to obtaining the License, the District obtained a certification from the Department of Ecology under Section 401(a)(1) of the Clean Water Act. The conditions in the certification are incorporated into the License and require that the Priest Rapids Project be operated pursuant to the Salmon and Steelhead Agreement (as described under “Regulatory Proceedings Affecting the Developments”) and native resident fish management plans. The certification requires the establishment of groups for coordination and implementation of the requirements under the Salmon Agreement, as well as implementation of measures to determine attainment of specified biological objectives. These measures include the requirement to provide funds (not to exceed \$1.5 million) to renovate the existing Columbia Basin Hatchery to ensure stable operations at current capacity for the term of the License.

### ***Recreation Resources***

The Priest Rapids Project is an important regional recreation resource. The District supports the development of public recreation facilities when implemented in the broader public interest that do not interfere with operations of the Priest Rapids Project or conservation objectives. The District developed a Recreation Resource Management Plan (“RRMP”) as part of the relicensing application, which was approved when the License was issued in 2008. An update to the RRMP was submitted to FERC in 2017, which was approved in February of 2019. At the Wanapum Development, there are 17 developed and undeveloped recreation sites, including boat launches, campgrounds, picnic areas, and the Wanapum Dam Visitor’s Center and Turbine Park, located at the dam. At the Priest Rapids Development, there are eight developed and undeveloped recreation sites, including boat launches, campgrounds, and picnic areas.

In addition, the License required the District to implement a shoreline management plan to protect the scenic quality of the mid-Columbia River. Implementation of the plan, which was approved by FERC in 2013, primarily included issuing and monitoring non-project uses of Priest Rapids Project lands, including the leasing of 38 acres of property for private residential use within the Crescent Bar Recreation Area to enhance public access and recreation opportunities. A 55-site RV campground, marina, fuel float, boat launch, parking area, walking trail, and day use area including playground equipment and sports courts, were completed in spring of 2017. A second boat launch and parking area were completed in spring of 2018 and upgrades to the water and wastewater systems were completed in 2019. In 2020, an office building and golf course were completed. The total project costs were \$41.5 million as of December 31, 2020.

### ***Cultural Resources***

During relicensing of the Priest Rapids Project, the District initiated the cultural resource identification survey, which identified more than 350 new archaeological sites and several hundred isolated artifacts, bringing the total number of identified cultural resources within the Priest Rapids Project boundary to 1,297. The Programmatic Agreement for Cultural Resources (“PA”) was executed in 2007, and outlined specific actions related to cultural resources preservation and management, each with target dates. The focus of the PA is evaluation of all cultural resources to determine if they are eligible for the National Register of Historic Places, identify effects to significant resources, and develop comprehensive treatment plans to mitigate adverse effects. A Historic Properties Management Plan (“HPMP”) was developed that provides guidelines for long-term management of the District’s cultural resources. Fieldwork to meet requirements of the PA has determined that approximately 457 sites are

eligible, 602 are not eligible, and 219 are considered eligible pending permission from the State land manager to conduct test excavations. The National Register-eligible sites are undergoing further analysis. Thirteen sites received major structural remediation of eroding shoreline for permanent protection.

### ***Wanapum Agreement***

The License required the District to develop a new agreement with the Wanapum Indians committing to the “identification, protection and management of cultural resources, gravesites, and relics at the Priest Rapids Project which are significant to the Wanapum Indians.” The New Wanapum Heritage Center (“NWHC”) is complete and dedicated to the protection, preservation, interpretation and perpetuation of the Wanapum culture and the cultural resources. The NWHC houses the Museum, Repository, and Living Culture Program on a site near Priest Rapids Dam. The total construction cost of this project was \$20.5 million. A grand opening of the facility took place in the fourth quarter of 2015.

### **Yakama Nation Agreement**

In 2007, the District entered into an agreement with the Confederated Tribes and Bands of the Yakama Nation (the “Yakama Nation”) to settle several issues including previous lawsuits, claims, allegations, filings, and other actions by the Yakama Nation against the District. The agreement expires at the end of the License. The benefit to the Yakama Nation is the financial equivalent of 20 aMW for 2007-2009, 15 aMW for 2010-2015 and 10 aMW throughout the term of the agreement. After 2015, the Yakama Nation can request to have actual physical power delivered. The District must receive written notice at least one year before physical delivery can occur. In addition, the Yakama Nation must satisfy three contingencies listed in the settlement agreement to receive physical delivery. To date, the contingencies have not been met and the District has not received any written notice requesting physical delivery. The Yakama Nation is responsible to pay the Priest Rapids Project costs associated with producing the benefit received (either financial or physical delivery).

Considerations to be provided by the Yakama Nation to the District include providing the District with the right of first refusal to participate in the development of new generation resources, cooperatively developing Pacific lamprey and white sturgeon management plans with the District, and representing itself on committees, subcommittees and groups involved with implementation of the various agreements associated with the Priest Rapids Project and the License requirements.

The agreement went into effect on July 1, 2007. The net payments to the Yakama Nation totaled \$5.5 million and \$2.7 million during 2022 and 2021, respectively. These costs are included in Annual Power Costs for the Priest Rapids Project. From 2010 to date, the District valued the power allocation on behalf of the Yakama Nation and paid the monthly net revenues by multiplying the power allocation by the Intercontinental Exchange (“ICE”) Daily Power Indices for the Mid-Columbia at peak and off-peak for the month less the average annual melded power costs for the Priest Rapids Project for the prior calendar year and any costs associated with the marketing and administration of the power allocation. The projected annual cost for this agreement for 2023 is \$8.4 million and for 2024 to 2027 is forecasted between \$6.5 million to \$5.0 million.

### **Regulatory Proceedings Affecting the Developments**

*Allocation of Output.* Federal legislation adopted in 1954, Public Law 83-544 (“PL 83-544”), requires the District, among other things, to offer a “reasonable portion” of the output of the Priest Rapids Project for sale in neighboring states. In 1998, in response to a complaint filed by several electric cooperatives seeking an allocation of power under a new license, FERC issued an order regarding distribution of the Priest Rapids Development power post-2005 and the Wanapum Development power post-2009. FERC ruled that the licensee can retain 70% of the Priest Rapids Project’s firm and non-firm power. The remaining 30% is designated as the “reasonable portion,” and, pursuant to the order, must be sold in a fair, equitable and nondiscriminatory manner, pursuant to market based principles and procedures with a preference in the marketing of such power being given to the utilities and the Power Purchasers that participated in the PL 83-544 proceeding. See “Power Sales Contracts.”

*Endangered or Threatened Species of Fish.* In 1997 and 1999, the Upper Columbia River (“UCR”) Steelhead and Spring Chinook, respectively, were listed as endangered. In 1998, the UCR bull trout was listed as threatened. Bull trout occurrences in the Priest Rapids Project area consist of extremely small numbers frequenting the upper reaches of the Wanapum reservoir. The Endangered Species Act (“ESA”) makes it unlawful for any person subject to the jurisdiction of the United States to “take” any endangered species which, under the ESA, includes an intentional or negligent act that will harm or harass, or that creates the likelihood of injury to a species by significantly disrupting normal behavior patterns. Violations of the ESA can be enforced by governmental and citizen suits. There are both civil and criminal penalties. NOAA Fisheries, under certain circumstances, has the power to approve any “incidental taking” of a listed species. NOAA Fisheries can only approve the action if it determines, after required consultation, that the action is not likely to jeopardize the continued existence of any listed species or result in the destruction or adverse modification of its critical habitat.

During its environmental and administrative review of the District’s relicensing application, FERC initiated ESA consultation with NOAA Fisheries for spring Chinook and steelhead and with the United States Fish and Wildlife Service for bull trout. These reviews resulted in issuance of Biological Opinions and Incidental Take Statements for these ESA listed species affected by the Priest Rapids Project and incorporated protection, mitigation and enhancement measures as requirements of the License. The District continues to interact with these regulatory agencies for the implementation of these measures.

*Federal Project ESA Litigation.* With several salmon species listed under the ESA, Bonneville, the United States Bureau of Reclamation, and the United States Army Corps of Engineers have undertaken and are implementing certain measures to protect salmon. These measures are required by the ESA in order for these federal agencies to avoid actions that would jeopardize the listed species. Some of these required measures affect river operations on the Snake and Columbia Rivers. Even though the Priest Rapids Project is located upstream from the confluence of the Snake and Columbia Rivers, some measures, such as substantial seasonal flow augmentations, do affect that portion of the Columbia River where the Priest Rapids Project is located. In particular, the flow augmentations cause over-generation in the spring and early summer when there is an abundance of hydroelectric generation and the value of such energy therefore is low, and a reduction of generation in the winter when the energy is needed and the price of replacement energy therefore is high.

*Hanford Reach Fall Chinook Protection Agreement.* The largest Chinook spawning aggregate in the world is located downstream of the Priest Rapids Project, in a section of the river known as Vernita Bar on the Hanford Reach of the Columbia River. Flow fluctuations caused by upstream dams can, if not managed appropriately, have an impact on the survival of fall Chinook salmon living in the Hanford Reach. In 1988, the upstream dam operators including the District, all signed an operational agreement to minimize impacts on these fish. This agreement is often referred to as the Vernita Bar Agreement.

As part of the relicensing of the Priest Rapids Project, the District entered into negotiations to modernize the Vernita Bar Agreement. In 2004, the Hanford Reach Fall Chinook Protection Agreement was signed by Grant, Chelan, and Douglas County PUDs, Bonneville, the Washington Department of Fish and Wildlife, NOAA Fisheries, the Yakama Nation, United States Fish and Wildlife Service and the Confederated Tribes of the Colville Reservation. The agreement replaced the Vernita Bar Agreement by combining the spawning period flow regime with the flow re-shaping program developed from 1999-2003 to reduce stranding and entrapment of fall Chinook fry. The agreement involves close coordination among the District, Bonneville, and Chelan and Douglas County PUDs to provide a flow regime that protects fall Chinook from spawning through emergence and early rearing. The term of the Hanford Reach Agreement is tied to the term of the license for the Priest Rapids Project (2052).

*Salmon and Steelhead Agreement.* In 2006, the District entered into an agreement (the “Salmon and Steelhead Agreement”) with the United States Department of Interior, United States Fish and Wildlife Service, NOAA Fisheries, the Washington Department of Fish and Wildlife, the Yakama Nation, and the Confederated Tribes of the Colville Reservation, for the purpose of resolving all issues between the District and the other signatories related to anadromous salmonid fish species in connection with the License. The Salmon and Steelhead Agreement constitutes a comprehensive and long-term adaptive management program for the protection, mitigation, and enhancement of fish species which pass or may be affected by the Priest Rapids Project.

The District is obligated to establish separate restricted funds (the “Habitat funds”) into which the District will deposit payments for further distribution in accordance with the requirements of the Salmon and Steelhead Agreement and the Biological Opinion. The Priest Rapids Coordinating Committee (“PRCC”) oversees the distribution of the Habitat funds created through the Salmon and Steelhead Agreement. The voting members of the PRCC include the District, the United States Fish and Wildlife Service, NOAA Fisheries, Washington Department of Fish and Wildlife, the Confederated Tribes of the Colville Reservation, and the Yakama Nation. The Habitat funds cannot be spent without the unanimous consent of all voting members. All interest earned by the Habitat funds increase the balance of these funds and is not recognized as income by the District. The funds are used for the protection and restoration of habitats along the mainstem and tributaries within the Upper Columbia River watershed and are intended to compensate for 2% of the unavoidable mortality to salmonids due to the operation of the Priest Rapids Project. The District anticipates funding the Habitat funds through the License term. The District’s required contributions to the Habitat funds are comprised of a fixed portion and a portion which is variable based on annual salmonid mortality within the Priest Rapids Project.

The District has contributed over \$47.8 million into a NNI fund and Habitat fund, which is based on annual salmonid mortality within the Priest Rapids Project for years 2006-2022. The District uses NNI funds to fund a variety of projects ranging from predator removal, adult fish passage, habitat restoration, instream flow enhancements, avian predator evaluations, and other projects. The District’s total contributions to these Habitat funds for the years ended December 31, 2022, and 2021 were \$2.5 and \$2.4 million each year, respectively.

*Draw-Down and Dam Removal Proposals.* Removal or drawdown of dams has not been a significant issue in the case of the mid-Columbia River. The District believes that it is highly unlikely that any federal or state regulatory agency would order dam removal or draw-down of the Priest Rapids or Wanapum Developments in connection with any pending or future ESA listings.

*Potential Effects on District of ESA Proceedings.* The District has committed substantial resources to mitigate the impacts of the Priest Rapids Project on anadromous fish, including species listed as threatened or endangered. Nonetheless, it is possible under the ESA that the continued operation of the Priest Rapids Project, at least during certain periods each year, could be jeopardized. The Biological Opinion contained numerous measures including interim spill and bypass system requirements, which have a direct effect on power generation at the Priest Rapids Project. While ESA litigation has been avoided, there is some future risk of adverse court rulings.

### **Estimated Capital Requirements**

The District’s improvement programs for the Priest Rapids Project include restoration or replacement of generators, turbine upgrades, unit controls, the station service and substation circuit breakers, and replacing trunnion bearings and coating systems for spillway gates. The District also is committed to ongoing dam safety initiatives, which currently include Priest Rapids Dam’s right embankment upgrade, assessment of Wanapum Dam’s left embankment, and a seismic evaluation of concrete structures at both dams. The District intends to, or has committed by contract or regulatory requirement to, fulfill these programs, which are projected to be substantially complete by 2029. As of December 31, 2022, the expenditures to date for these Priest Rapids Project major capital contracts totaled \$243.0 million. The remaining commitments for these contracts as of December 31, 2022, were \$173.9 million. These capital projects are expected to be paid from proceeds of Priest Rapids Project Bonds issued in 2023, available Priest Rapids Project revenue and proceeds of subordinate lien obligations of the Priest Rapids Project purchased by the Electric System (as an investment and funded with available Electric System revenues) deposited into the District’s Construction Fund and Finance Plan Fund. Improvements at the Priest Rapids Project are designed to ensure optimal performance of these large, long-lived assets and to comply with the License.

**TABLE 21**  
**PRIEST RAPIDS SYSTEM PROJECTED**  
**CAPITAL IMPROVEMENT PROGRAM, 2023-2027 (\$000)**

|                                |            |
|--------------------------------|------------|
| Turbine/Generator              | \$ 168,000 |
| Embankment/Powerhouse/Spillway | 93,000     |
| Technology                     | 6,000      |
| Labor                          | 60,000     |
| Total                          | \$ 327,000 |

*Source: The District.*

*Rehabilitation Program – Priest Rapids Project.* In 1996, the District began working on designs for replacing the turbines at the Wanapum Development. The District received approval from FERC in 2004 for license amendments to install and operate new advanced turbines. New turbines have been successfully installed for all 10 Wanapum units with the final turbine placed in service in October 2013. The new turbines have increased power output and efficiency, and include features intended to improve the survival of fish. The advanced turbines are an important measure projected to improve conditions for fish and water quality within the Wanapum Development’s project area.

To get full use of the new turbines and increase the reliability of the plant, the District has also replaced and upgraded 10 generators at the Wanapum Development. The project was completed in October 2020 at a total cost of \$257.2 million.

In addition to the Wanapum Development turbine and generator replacement project, the District is implementing turbine life extension/replacement and generator rewinds for the Priest Rapids Development. On-site work began in August 2016 and is scheduled to be completed in 2028. The District is currently working on the fifth unit in this project, scheduled for completion by December 2023. Total actual costs as of December 31, 2023 is \$316.7 million.

In the 1990s, the main generating unit circuit breakers were replaced at the Wanapum and Priest Rapids Developments with SF6 gas breakers. From 2005-2009, the five main step-up transformers were replaced at the Priest Rapids Development. The fifth and final main step-up transformer replacement was completed at the Wanapum Development in 2015. The hydraulic governors at both the Wanapum Development and the Priest Rapids Development are being upgraded to digital hydraulic models. This work is being conducted in conjunction with the generator upgrade projects at both plants and also includes upgraded generator protection and unit control systems. All major plant cranes have been rebuilt, and the Wanapum Development spillway gates have been rehabilitated. A fiber optic data/communications cable has been installed between the Wanapum and Priest Rapids Developments to replace the existing microwave path as the primary link. The District continues to work on rehabilitation of station service (air, water, oil and electric) systems for both plants. Further, the District is continuing to determine if any additional modifications to the spillway gates are necessary to address the recently updated seismic and structural requirements.

*Priest Rapids Project Seismicity Study.* The District is currently in the process of developing procedures for and updating seismic stability analyses for the Priest Rapids Project water retaining structures. A Probabilistic Seismic Hazards Analysis (“PSHA”) Report was completed for the three mid-Columbia River PUDs in 2012. The PSHA Report has been reviewed and approved by the FERC. The PSHA provides the seismic input used to complete site specific stability calculations for the Priest Rapids Project water retaining structures. At the FERC’s request, a Deterministic Seismic Hazard Analysis (“DSHA”) of ground motions was included as an appendix to the PSHA Report. The seismic ground motions were updated in 2018 to account for hanging wall effects. Currently, the District is applying the results of these analyses to several project features (for instance, embankments, gates, and concrete structures) to determine if they meet currently accepted seismic criteria.

The District is reviewing whether a section of the left (east) embankment at Wanapum Dam may also need seismic remediation. The scope of the remediation has not been determined; therefore this project is not currently in the budget. A detailed engineering analysis is under way to determine the seismic fragility of the embankment and its

anticipated performance during and following an earthquake. This analysis is currently scheduled to be complete in late 2024 to mid-2025.

The District is also reviewing the seismic performance of other water retaining structures (concrete, earth embankments, and spillway gates) at both Developments. The concrete structure seismic analyses are complete. The embankment analyses are ongoing, with the exception of the Priest Rapids right embankment, for which the analysis is complete. Mitigation efforts for this embankment will be complete by the end of 2023. At this time, the only significant modification planned will be to the Priest Rapids spillway, where anchoring of the spillway monoliths will be required to meet FERC stability requirements under the normal loading case. The budget for these changes is estimated at \$60 million. This project has approved funding for the planning phase which is scheduled to continue through 2025.

While structural modifications to the spillway gates are expected at both Wanapum and Priest Rapids, these modifications are not scoped or budgeted. Any decisions regarding the spillway gates will take place following the completion of the seismic analysis, and completion of a Risk Informed Decision Making (“RIDM”) Process to appropriately scope the work. The District anticipates that any other seismic remediation work will be minor (such as anchoring equipment and other small enhancements) and will be incorporated in the capital budget when the scope of such work is determined.

### **Operating Results**

The following table shows actual operating results for the Priest Rapids Project for the fiscal years 2018 through 2022. Revenues from the Power Purchasers and the District’s Electric System are currently equal to the cost of power from the Priest Rapids Project. Such cost of power is a function of operating expenses, annual debt service and coverage requirements on the Priest Rapids Project parity bonds and reserve requirements imposed by the Priest Rapids Project bond resolutions and the Power Sales Contracts. The Power Sales Contracts established the costs to be included in the cost of power from the Priest Rapids Project. This table differs from the financial statements in Appendix B and is designed to show compliance with the debt service coverage requirements in the bond resolutions for the Priest Rapids Project bonds.

*[Remainder of page intentionally left blank]*

**TABLE 22**  
**PRIEST RAPIDS PROJECT HISTORICAL OPERATING RESULTS**  
**(\$000)**

|   | <u>2018</u>       | <u>2019</u>       | <u>2020</u>       | <u>2021</u>       | <u>2022</u>       |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Operating Revenues                                |                   |                   |                   |                   |                   |
| Sales of Power <sup>(1)</sup>                     | \$ 167,845        | \$ 168,704        | \$ 174,892        | \$ 185,538        | \$ 180,005        |
| Interest and Other Income <sup>(2)</sup>          | 13,724            | 14,790            | 13,885            | 13,379            | 14,773            |
| Total Revenues and Other Income                   | <u>\$ 181,569</u> | <u>\$ 183,494</u> | <u>\$ 188,777</u> | <u>\$ 198,917</u> | <u>\$ 194,778</u> |
| Operating Expenses                                |                   |                   |                   |                   |                   |
| Generation  | \$ 30,390         | \$ 41,617         | \$ 37,347         | \$ 46,580         | \$ 44,798         |
| Transmission                                      | 3,878             | 3,034             | 1,372             | 1,474             | 1,279             |
| Administrative and General                        | 24,166            | 23,174            | 25,675            | 34,219            | 34,937            |
| License Compliance and Related Agreements         | 19,653            | 12,181            | 20,375            | 15,639            | 16,880            |
| Taxes   | 1,966             | 1,943             | 2,106             | 1,990             | 2,263             |
| Total Operating Expenses                          | <u>\$ 80,053</u>  | <u>\$ 81,949</u>  | <u>\$ 86,875</u>  | <u>\$ 99,903</u>  | <u>\$ 100,157</u> |
| Net Revenues                                      | <u>\$ 101,516</u> | <u>\$ 101,545</u> | <u>\$ 101,902</u> | <u>\$ 99,014</u>  | <u>\$ 94,621</u>  |
| Excess Available in Supplemental RR&C Fund        | <u>\$ 14,692</u>  | <u>\$ 15,044</u>  | <u>\$ 15,241</u>  | <u>\$ 15,280</u>  | <u>\$ 14,908</u>  |
| Remaining Net Revenues Available for Debt Service | <u>\$ 116,208</u> | <u>\$ 116,589</u> | <u>\$ 117,143</u> | <u>\$ 114,294</u> | <u>\$ 109,529</u> |
| Debt Service                                      |                   |                   |                   |                   |                   |
| Priest Rapids Project Bonds                       | 91,169            | 88,041            | 82,368            | 75,642            | 70,113            |
| Priest Raids Project Subordinate Bonds            | 9,988             | 13,436            | 19,496            | 23,744            | 25,197            |
| Total Debt Service                                | <u>\$ 101,158</u> | <u>\$ 101,477</u> | <u>\$ 101,864</u> | <u>\$ 99,386</u>  | <u>\$ 95,309</u>  |
| Debt Service Coverage on Parity                   |                   |                   |                   |                   |                   |
| Bonds of the Priest Rapids Project                | 1.27x             | 1.32x             | 1.42x             | 1.51x             | 1.56x             |
| Total Debt Service Coverage <sup>(3)</sup>        | 1.15x             | 1.15x             | 1.15x             | 1.15x             | 1.15x             |
| Net Energy Output (MWh) <sup>(4)</sup>            | 9,258,927         | 7,399,002         | 9,463,889         | 8,585,434         | 9,258,486         |
| Average Cost (\$/MWh) <sup>(5)</sup>              | \$18.13           | \$22.80           | \$18.48           | \$21.61           | \$19.44           |

(1) Revenues from all Power Purchasers including the Electric System (Annual Power Costs).

(2) Interest and other nonoperating income on various funds of the Priest Rapids Project.

(3) Annual charges for sales of power are set at levels sufficient to produce revenues to result in 1.15x coverage on all outstanding Priest Rapids Project bonds.

(4) Run-off was 113% of average in 2018, 84% of average in 2019, 104% of average in 2020, 87% of average in 2021 and 111% of average in 2022 and is based on Rock Island Dam water supply compared to a 30-year average.

(5) Revenues from sales of power divided by net energy output.

Source: The District.

Monthly payment by the Power Purchasers and the Electric System of their respective shares of Annual Power Costs is required by the Power Sales Contracts, even if no power is actually delivered. Annual Power Costs are estimated one year in advance and are payable in equal monthly portions of such estimate. Payments are adjusted annually to reflect actual costs.

The District expects that the average cost of power from the Priest Rapids Project will increase over the next five years, primarily as a result of increased debt service, rising to approximately \$20.90 per MWh under average water conditions.

#### **Debt Service Requirements for the Priest Rapids Project**

The District has Outstanding Priest Rapids Project Bonds and Priest Rapids Project Subordinate Bonds in the aggregate principal amount of \$834,385,000 and \$577,355,000, respectively. See "INTRODUCTION."



The following table shows the debt service requirements for the District's Outstanding Priest Rapids Project Bonds. Amounts in the table have been rounded. A portion of the federal credit payments the District should receive for a portion of the 2010 Priest Rapids Project Bonds, the 2012 Priest Rapids Project Bonds and the 2015 Priest Rapids Project Bonds has been reduced since 2013 as a result of the federal sequestration.

**TABLE 23**  
**PRIEST RAPIDS PROJECT PARITY BOND DEBT SERVICE REQUIREMENTS<sup>(1) (2)</sup>**

| Year <sup>(1)</sup>  | Principal      | Interest       | Total <sup>(3)</sup>       |
|----------------------|----------------|----------------|----------------------------|
| 2024                 | \$ 24,185,000  | \$ 34,311,262  | \$ 58,496,262              |
| 2025                 | 24,790,000     | 34,051,416     | 58,841,416                 |
| 2026                 | 25,515,000     | 33,259,375     | 58,774,375                 |
| 2027                 | 116,255,000    | 29,884,163     | 146,139,163 <sup>(4)</sup> |
| 2028                 | 32,285,000     | 26,310,389     | 58,595,389                 |
| 2029                 | 33,315,000     | 25,067,050     | 58,382,050                 |
| 2030                 | 33,870,000     | 23,772,623     | 57,642,623                 |
| 2031                 | 34,180,000     | 22,429,126     | 56,609,126                 |
| 2032                 | 74,610,000     | 20,243,075     | 94,853,075 <sup>(5)</sup>  |
| 2033                 | 33,400,000     | 18,041,859     | 51,441,859                 |
| 2034                 | 32,790,000     | 16,643,282     | 49,433,282                 |
| 2035                 | 33,955,000     | 15,219,300     | 49,174,300                 |
| 2036                 | 34,850,000     | 13,718,561     | 48,568,561                 |
| 2037                 | 32,490,000     | 12,217,041     | 44,707,041                 |
| 2038                 | 33,705,000     | 10,733,950     | 44,438,950                 |
| 2039                 | 35,545,000     | 9,180,603      | 44,725,603                 |
| 2040                 | 126,885,000    | 5,491,314      | 132,376,314 <sup>(6)</sup> |
| 2041                 | 21,445,000     | 2,207,294      | 23,652,294                 |
| 2042                 | 22,220,000     | 1,407,541      | 23,627,541                 |
| 2043                 | 23,040,000     | 577,148        | 23,617,148                 |
| 2044                 | 5,055,000      | 77,038         | 5,132,038                  |
| Total <sup>(3)</sup> | \$ 834,385,000 | \$ 354,843,410 | \$1,189,228,410            |

(1) Based on a calendar year, including January 1 and July 1 payments made in that year.

(2) Table excludes the Priest Rapids Project Subordinate Bonds. See Table 3.

(3) Totals may not add due to rounding.

(4) A portion of this represents the \$90,000,000 of New Clean Renewable Energy Bonds issued by the District in 2010, and the District has covenanted to deposit approximately equal sinking fund installments into a subaccount in the Principal and Bond Retirement Account no later than January 1 in the years 2011 through 2027 sufficient to pay such bonds on January 1, 2027.

(5) A portion of this represents the \$42,395,000 of New Clean Renewable Energy Bonds issued by the District in 2012, and the District has covenanted to deposit approximately equal sinking fund installments into a subaccount in the Principal and Bond Retirement Account no later than January 1 in the years 2013 through 2032 sufficient to pay such bonds on January 1, 2032.

(6) A portion of this represents the \$90,000,000 of New Clean Renewable Energy Bonds issued by the District in 2015, and the District has covenanted to deposit approximately equal sinking fund installments into a subaccount in the Principal and Bond Retirement Account no later than January 1 in the years 2016 through 2040 sufficient to pay such bonds on January 1, 2040.

## LITIGATION

There is no litigation pending or threatened in any court (either state or federal) concerning the issuance or the validity of any Parity Bonds, or questioning the creation, organization, existence or title to office of the members of the Commission or officers of the District or the proceedings for the authorization, execution, sale and delivery of the Bonds, or in any manner questioning the power and authority of the District to impose, prescribe or collect rates and charges for the services of the Priest Rapids Project or the Electric System.

The District is a party to lawsuits arising out of its normal course of business, but the District does not believe any of such litigation will have a significant adverse impact upon the District's ability to pay the Bonds.

## **INITIATIVE AND REFERENDUM**

Under the State Constitution, the voters of the State have the ability to initiate legislation and modify existing legislation through the powers of initiative and referendum, respectively. The initiative power in the State may not be used to amend the State Constitution. Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least 8% (initiative) and 4% (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of the voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws.

It is possible that future initiative petitions may be filed from time to time, including without limitation initiatives that revise or restrict the ability of the District to increase rates and charges. The District cannot predict whether any such initiatives affecting the District will qualify and be submitted to or approved by the voters, the nature of such initiatives, or their potential impact on the District.

## **LIMITATIONS ON REMEDIES; BANKRUPTCY**

Any remedies available to the owners of the Bonds upon the occurrence of an Event of Default under the Bond Resolution may be dependent upon judicial actions, which 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 Bond Resolution or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the owners of the Bonds.

In addition to the limitations on remedies contained in the Bond Resolution, the rights and obligations under the Bonds and the 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 in connection with the issuance of the Bonds, including the opinion of Bond Counsel, will be subject to limitations regarding bankruptcy, insolvency and other laws relating to or affecting creditors' rights. See Appendix C. The various other legal opinions to be delivered concurrently with the issuance of the Bonds will be similarly qualified.

Under current Washington law, local governments, such as the District, may be able to file for bankruptcy under Chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code"). A creditor cannot bring an involuntary bankruptcy proceeding against a municipality, including the District. The federal bankruptcy courts have broad discretionary powers under the Bankruptcy Code. Taxing districts, including the District, in the State are expressly authorized to carry out a plan of readjustment if approved by the appropriate court. Should the District become a debtor in a federal bankruptcy proceeding, the owners of the Parity Bonds would continue to have a statutory lien on Gross Revenue after the commencement of the bankruptcy case so long as the Gross Revenue constitutes "special revenues" within the meaning of the Bankruptcy Code. "Special revenues" are defined under the Bankruptcy Code to include, among other things, receipts by local governments from the ownership, operation or disposition of projects or systems that are primarily used to provide utility services. 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, such as the Bond Resolution. It is not clear precisely which expenses would constitute necessary operating expenses and any definition in the Bond Resolution may not be applicable.

Furthermore, if the District were to become a debtor in a federal bankruptcy case, the parties (including the Registrar, the holders of the Bonds and any Bondowners' Trustee) may be prohibited from taking any action to collect any amount from the District, to enforce any obligations of the District, or to exercise any remedies unless the permission of the bankruptcy court is obtained. The rate covenant may not be enforceable in bankruptcy by the holders of the Bonds. Legal proceedings to resolve issues could be time-consuming and expensive, and substantial delays and reductions in payments could result.

## TAX MATTERS

### Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the “Code”), imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Bonds. Pursuant to the Indenture and the Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986 executed by the District in connection with the issuance of the Bonds (the “Tax Certificate”), the District has covenanted not to take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code. In addition, the District has made certain representations and certifications in the Indenture and Tax Certificate. Special Tax Counsel will not independently verify the accuracy of those representations and certifications.

In the opinion of Nixon Peabody LLP, Special Tax Counsel, under existing law and assuming compliance with the aforementioned covenant, and the accuracy of certain representations and certifications made by the District described above, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Special Tax Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code. For taxable years beginning after December 31, 2022, interest on the Bonds will be taken into account in computing the alternative minimum tax imposed on certain corporations under the Code to the extent that such interest is included in the “adjusted financial statement income” of such corporations.

### Original Issue Discount

Special Tax Counsel is further of the opinion that the excess of the principal amount of a maturity of the Bonds over its issue price (i.e., the first price at which price a substantial amount of such maturity of the Bonds was sold to the public, excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) (each, a “Discount Bond” and collectively the “Discount Bonds”) constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such issue price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment. Owners of the Discount Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Discount Bonds.

### Original Issue Premium

Bonds sold at prices in excess of their principal amounts are “Premium Bonds.” An initial purchaser with an initial adjusted basis in a Premium Bond in excess of its principal amount will have amortizable bond premium which offsets the amount of tax-exempt interest and is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Bond based on the purchaser’s yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, over the period to the call date, based on the purchaser’s yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser’s adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Premium Bonds. Owners of the Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Bonds.

## **Ancillary Tax Matters**

Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, and individuals seeking to claim the earned income credit, and taxpayers (including banks, thrift institutions, and other financial institutions) who may be deemed to have incurred or continued indebtedness to purchase or to carry the Bonds. Prospective investors are advised to consult their own tax advisors regarding these rules.

Interest paid on tax-exempt obligations such as the Bonds is subject to information reporting to the Internal Revenue Service (“IRS”) in a manner similar to interest paid on taxable obligations. In addition, interest on the Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner’s taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Special Tax Counsel is not rendering any opinions as to any federal tax matters other than those described in the opinion attached in Appendix D. Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

## **Changes in Law and Post Issuance Events**

Legislative or administrative actions and court decisions, at either the federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest on the Bonds for federal or state income tax purposes, and thus on the value or marketability of the Bonds. This could result from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest on the Bonds from gross income for federal or state income tax purposes, or otherwise. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the federal or state income tax treatment of holders of the Bonds may occur. Prospective purchasers of the Bonds should consult their own tax advisors regarding the impact of any change in law on the Bonds.

Special Tax Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Bonds may affect the tax status of interest on the Bonds. Special Tax Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other counsel.

## **CERTAIN LEGAL MATTERS**

Legal matters incident to the authorization, issuance and sale of the Bonds by the District are subject to the approving legal opinion of Pacifica Law Group LLP, Seattle, Washington, Bond Counsel. A form of the proposed opinion of Bond Counsel is attached as Appendix C. Pacifica Law Group LLP is also serving as Disclosure Counsel to the District in connection with the issuance of the Bonds. Certain legal matters will be passed upon for the District by Nixon Peabody LLP, Washington, D.C., Special Tax Counsel. A form of the proposed opinion of Special Tax Counsel is attached as Appendix D.

The opinions of Bond Counsel and Special Tax Counsel are given based on factual representations made to Bond Counsel and Special Tax Counsel, respectively, and under existing law, as of the date of initial delivery of the Bonds, and neither Bond Counsel or Special Tax Counsel assume any obligation to revise or supplement its opinion to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. Each opinion of such counsel is an expression of its professional judgment on the matters expressly addressed in its opinion and does not constitute a guarantee of result.

Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Seattle, Washington, Counsel to the Underwriter. Any opinion of such counsel will be limited in scope, addressed solely to the Underwriter, and cannot be relied upon by investors.

### **CONFLICTS OF INTEREST**

Some or all of the fees of the Underwriter, Underwriter's Counsel, the Municipal Advisor, the Registrar, Special Tax Counsel, Disclosure Counsel, and Bond Counsel are contingent on the issuance and sale of the Bonds. None of the members of the Commission or other officers of the District have interests in the issuance of the Bonds that are prohibited by applicable law. Bond Counsel and Special Tax Counsel currently and periodically serve as underwriter's counsel to the Underwriter on non-District related issues.

### **CONTINUING DISCLOSURE**

*Undertaking of the District.* Pursuant to a certificate to be executed by the District in connection with the issuance and delivery of the Bonds ("Continuing Disclosure Certificate"), the District will covenant for the benefit of the owners and the "Beneficial Owners" (as defined in the Continuing Disclosure Certificate) of the Bonds to provide certain financial information and operating data relating to the District not later than nine months after the end of each of the District's fiscal years (presently, December 31), commencing in 2024 with the report for the fiscal year ended December 31, 2023 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events with respect to the Bonds. The Annual Report will be filed by or on behalf of the District with the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") system. The specific nature of the information to be contained in the Annual Report and the notices of events are set forth in the proposed form of the Continuing Disclosure Certificate in Appendix G. The District's covenant will be made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12 (the "Rule").

*Prior Continuing Disclosure Undertakings of the District.* The District has previously entered into continuing disclosure undertakings under the Rule. The District filed its 2018 and 2019 annual financial statements and operating information (in a timely manner) in September 2019 and September 2020, respectively, but did not link these filings to the CUSIPs for certain of the District's then-outstanding bonds. The linkage oversights were corrected in December 2019 and June 2023, respectively. In addition, the District failed to file timely notice of a June 2019 rating upgrade from S&P Global Ratings with respect to the then-outstanding Electric System revenue bonds. Notice of such rating increase was filed in December 2019.

### **RATINGS**

As noted on the cover page of this Official Statement, S&P Global Ratings and Fitch Ratings Inc. have assigned their ratings of "AA+" and "AA" respectively, to the Bonds. An explanation of the significance of such ratings may be obtained from the rating agencies. The District has furnished to each rating agency certain information and materials with respect to the 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 assigned to the Bonds will continue for any given period of time or that the ratings 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 Bonds.

### **UNDERWRITING**

KeyBanc Capital Markets Inc., the underwriter of the Bonds (the "Underwriter"), has agreed, subject to certain conditions, to purchase the Bonds from the District at the price of \$48,267,074.96, representing the aggregate principal amount of the Bonds, plus original issue premium in the amount of \$3,620,012.75, less an underwriter's discount of \$197,937.79. The Underwriter's obligations are subject to certain conditions precedent outlined in the Bond Purchase Contract between the Underwriter and the District, and the Underwriter will be obligated to purchase all Bonds, if any Bonds are purchased.

The Bonds may be offered and sold to certain dealers at prices higher or lower than the public offering prices, and the public offering prices may be changed, from time to time, by the Underwriter. The Underwriter may offer and

sell the Bonds into unit investment trusts or money market funds, certain of which may be managed or sponsored by the Underwriter, at prices higher or lower than the public offering prices.

The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices higher or lower than the initial offering prices set forth on the inside cover page hereof, and such initial offering prices may be changed from time to time by the Underwriter. After the initial public offering, the public offering prices may be varied from time to time.

#### **MUNICIPAL ADVISOR**

PFM Financial Advisors LLC is acting as Municipal Advisor to the District in connection with the issuance of the Bonds. The Municipal Advisor has not audited, authenticated, or otherwise verified the information set forth in this Official Statement or the other information available from the District with respect to the appropriateness, accuracy, and completeness of the disclosure of such information, and the Municipal Advisor makes no guarantee, warranty, or other representation on any matter related to such information. PFM Financial Advisors LLC is an independent municipal advisory and consulting organization and is not engaged in the business of underwriting, marketing, or trading of municipal securities or any other negotiable instruments.

#### **MISCELLANEOUS**

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

The authorizations, agreements and covenants of the District are set forth in the Bond Resolution, and neither this Official Statement nor any advertisement of the Bonds is to be construed as a contract with the owners of the Bonds. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not expressly so identified, are intended merely as such and not as representations of fact. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of any of the Bonds. The execution and delivery of this Official Statement has been duly authorized by the District.

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT  
COUNTY, WASHINGTON

By /s/ Angelina Johnson  
Senior Manager of Treasury and Financial  
Planning/Deputy Treasurer,  
as Designated Representative

**APPENDIX A**

**COPY OF THE BOND RESOLUTION**

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ELECTRIC SYSTEM REVENUE REFUNDING BONDS, SERIES 2023-V  
BOND RESOLUTION

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON  
RESOLUTION NO. 9031

A RESOLUTION OF THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON, PROVIDING FOR THE ISSUANCE OF ELECTRIC SYSTEM REVENUE REFUNDING BONDS OF THE DISTRICT IN THE AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$55,000,000 FOR THE PURPOSE OF REFUNDING CERTAIN OUTSTANDING ELECTRIC SYSTEM BONDS; AND DELEGATING AUTHORITY TO APPROVE THE FINAL TERMS OF THE BONDS.

PASSED OCTOBER 24, 2023

PREPARED BY:

PACIFICA LAW GROUP LLP  
Seattle, Washington

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RESOLUTION NO. 9031

A RESOLUTION OF THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON, PROVIDING FOR THE ISSUANCE OF ELECTRIC SYSTEM REVENUE REFUNDING BONDS OF THE DISTRICT IN THE AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$55,000,000 FOR THE PURPOSE OF REFUNDING CERTAIN OUTSTANDING ELECTRIC SYSTEM BONDS; AND DELEGATING AUTHORITY TO APPROVE THE FINAL TERMS OF THE BONDS.

WHEREAS, Public Utility District No. 2 of Grant County, Washington (the "District"), owns and operates an electric utility system (as further defined herein, the "Electric System") for the transmission and distribution of electric energy; and

WHEREAS, the District has issued and has outstanding certain senior parity lien obligations of the Electric System described herein (as defined herein, the "Outstanding Parity Bonds"); and

WHEREAS, the resolutions authorizing the Outstanding Parity Bonds authorize the District to issue Future Parity Bonds (as defined herein) for the purpose of refunding outstanding Electric System obligations if certain conditions are met; and

WHEREAS, the District finds that the obligations of the Electric System listed in Appendix A attached hereto (the "Refunding Candidates") may be refunded with proceeds of a new series of Future Parity Bonds; and

WHEREAS, the Commission of the District (the "Commission") deems it in the best interest of the District to issue Electric System revenue refunding bonds in the aggregate principal amount not to exceed \$55,000,000 (the "Bonds") to be used, with available funds of the District, if any, to redeem the Refunding Candidates (as described herein, the "Refunded Bonds") and to pay costs of issuing the Bonds; and

WHEREAS, the Commission wishes to delegate authority to the General Manager/Chief Executive Officer, the Chief Financial Officer/Treasurer, and the Senior Manager of Treasury and Financial Planning/Deputy Treasurer of the District (each, a "Designated Representative") for a limited time, to approve the interest rates, maturity dates, redemption terms, principal maturities and other terms for the Bonds within the parameters set by this resolution; and

WHEREAS, the Bonds shall be sold by negotiated sale as set forth herein;

NOW, THEREFORE, BE IT RESOLVED by the Commission of Public Utility District No. 2 of Grant County, Washington:

ARTICLE I  
DEFINITIONS

Section 1.1 Definitions. As used in this resolution, the following terms shall have the following meanings:

**“Annual Debt Service”** for any Fiscal Year means the sum of the amounts required to be paid into the Bond Fund, in such Fiscal Year, to pay:

- (a) the interest due in such Fiscal Year on all Outstanding Parity Bonds, excluding interest to be paid from the proceeds of the sale of Parity 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; and
- (d) any regularly scheduled District Payments, adjusted by any regularly scheduled Reciprocal Payments, during such Fiscal Year.

For purposes of computing Annual Debt Service on any Parity Bonds which constitute Balloon Indebtedness, it shall be assumed that the principal of such Balloon Indebtedness, together with interest thereon at the rate applicable to such Balloon Indebtedness, shall be amortized in equal annual installments over a term equal to the least of (1) 25 years or (2) the average weighted useful life (expressed in years and rounded to the next highest integer) of the properties and assets constituting the project (if any) financed out of the proceeds of such Balloon Indebtedness.

In calculating the Annual Debt Service, the District may exclude the direct payment the District is expected to receive in respect of any Future Parity Bonds for which the federal government will provide the District with a direct payment of a portion of the interest from the interest portion of Annual Debt Service.

**“Balloon Indebtedness”** means any series or maturity of Parity Bonds that are specifically designated by the District as “Balloon Indebtedness.” The principal amount maturing on any date shall be the amount of bonds scheduled to be amortized by prepayment or redemption prior to their stated maturity date.

**“Beneficial Owner”** means any person that has or shares the power, directly or indirectly to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

**“Bond Counsel”** means Pacifica Law Group LLP or an attorney at law or firm of attorneys, selected by the District, of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions.

**“Bond Fund”** means the Electric System Revenue Bond Fund created by Resolution No. 4744 of the District.

**“Bond Purchase Contract”** means the contract for the purchase of the Bonds between the Underwriter and District.

**“Bond Register”** means the records kept by the Registrar on behalf of the District containing the name and mailing address of each Registered Owner of the Bonds or nominee of such Registered Owner, and such other information as the Registrar shall determine.

**“Bondowners’ Trustee”** means a trustee appointed pursuant to this resolution.

**“Bonds”** mean the Electric System Revenue Refunding Bonds, Series 2023-V of the District issued pursuant to this resolution.

**“Call Date”** means the date specified by a Designated Representative for the refunding of the Refunded Bonds.

**“Closing Memorandum”** means the closing memorandum prepared by the Underwriter or the District’s municipal advisor and delivered on the date of issuance of the Bonds.

**“Code”** means the Internal Revenue Code of 1986, as amended, and shall include all applicable regulations and rulings relating thereto.

**“Commission”** means the general legislative authority of the District, as duly constituted from time to time.

**“Continuing Disclosure Certificate”** means a written undertaking for the benefit of the Registered Owners and Beneficial Owners of the Bonds as required by Section (b)(5) of the Rule.

**“Coverage Requirement”** means rates or charges sufficient to provide Net Revenue, taking into account any transfers to or from the R&C Fund pursuant to this resolution, in any Fiscal Year hereafter in an amount equal to at least 1.25 times the Annual Debt Service in such Fiscal Year, excluding any capitalized interest thereon in said Fiscal Year.

**“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.

**“Derivative Payment Date”** means any date specified in the Derivative Product on which a District Payment is due and payable under the Derivative Product.

**“Derivative Product”** means a written contract or agreement between the District and the Reciprocal Payor 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, 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 Gross Revenue on an equal and ratable basis with the Parity Bonds then Outstanding;

(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.

**"Designated Representative"** means the General Manager/Chief Executive Officer, the Chief Financial Officer/Treasurer, and the Senior Manager of Treasury and Financial Planning/Deputy Treasurer and any successor to the functions of such offices. The signature of one Designated Representative shall be sufficient to bind the District.

**"District"** means Public Utility District No. 2 of Grant County, Washington, a municipal corporation duly organized and existing under the laws of the State.

**"District Payment"** means any regularly scheduled payment designated as such by resolution and 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.

**"DTC"** means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, as depository for the Bonds pursuant to this resolution.

**"Electric System"** means the electric utility and telecommunications 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 and sale of electric energy, telecommunication services, and the business incidental thereto, 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 and telecommunications properties, rights and assets, including, but not limited to, the contract interest of the District in the P.E.C. Headworks Powerplant Project and in the Quincy Chute Project, but shall not include the Priest Rapids Project or any additions thereto, or any other generating, conservation, transmission, or distribution facilities which have been or hereafter may be acquired or constructed by the District as a utility system that is declared by the Commission, at the time of financing thereof, 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 utility system or are otherwise pledged to the payment of the bonds of another such separate utility

system of the District other than the Electric System. The Electric System does not include any interest of the District in contracts for the sale to other parties of power and energy from the Priest Rapids Project, but does include the right of the District to receive power and energy from the Priest Rapids Project. The Commission may, by resolution, elect to combine with and include as a part of the Electric System any other separate utility system of the District, provided that full provision for the payment of any Outstanding indebtedness of such separate system shall first be made in the manner set forth herein or such indebtedness shall be refunded with bonds issued in accordance with this resolution.

**"Event or Events of Default"** means those events described as Events of Default in this resolution.

**"Fiscal Year"** means the Fiscal Year used by the District at any time. At the time of the adoption of this resolution, the Fiscal Year is the 12-month period beginning January 1 of each year.

**"Future Parity Bonds"** means any note, bonds, or other obligations for borrowed money of the District issued after the date of issuance of the Bonds which will have a lien upon the Gross Revenue of the Electric System for the payment of the principal thereof and interest thereon equal to the lien upon the Gross Revenue of the Electric System for the payment of the principal of and interest on the Bonds and the Outstanding Parity Bonds.

**"Government Obligations"** mean those obligations now or hereafter defined as such in chapter 39.53 RCW constituting direct obligations of the United States or obligations unconditionally guaranteed by the United States, as such chapter may be hereafter amended or restated.

**"Gross Revenue"** means all income and revenues received by the District from the sale of electric energy through the ownership or operation of the Electric System and all other commodities, services and facilities sold, furnished or supplied by the District through the ownership or 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, and federal credit payments for interest on bonds, in connection with the ownership and operation of the Electric System (but exclusive of income derived from investments irrevocably pledged to the payment of any specific revenue bonds of the District, such as bonds previously or hereafter refunded, or any Bonds defeased pursuant to this resolution or other bonds defeased, or the payment of which is provided for, under any similar provision of any other bond resolution of the District, exclusive of investment income earned on money in any arbitrage rebate account, grants for capital purposes, assessments in any local utility district, any Reciprocal Payments, and any ad valorem tax revenues).

**"Letter of Representation"** means a blanket issuer letter of representations from the District to DTC, as amended from time to time.

“**Maximum Interest Rate**” means, with respect to any particular Variable Rate Bond, a numerical rate of interest, which shall be set forth in any Parity Bond resolution authorizing such bond, that shall be the maximum rate of interest such bond, including any bond registered in the name of the liquidity provider, may at any time bear.

“**Minimum Interest Rate**” means, with respect to any particular Variable Rate Bond, a numerical rate of interest, which shall be set forth in any Parity Bond resolution authorizing such bond, that shall be the minimum rate of interest such bond may at any time bear.

“**MSRB**” means the Municipal Securities Rulemaking Board or any successors to its functions.

“**Net Revenue**” means, for any period, the excess of Gross Revenue over Operating Expenses for such period, excluding from the computation of Gross Revenue (a) any profit or loss derived from the sale or other disposition, not in the ordinary course of business, of properties, rights or facilities of the Electric System, or resulting from the early extinguishment of debt and (b) insurance proceeds other than proceeds to replace lost revenue.

“**Official Statement**” means the final official statement delivered in connection with the sale of the Bonds.

“**Operating Expenses**” means the District’s expenses for operation and maintenance of the Electric System and shall include ordinary repairs, renewals, replacements, and reconstruction of the Electric System, all costs of delivering electric power and energy and payments into reasonable reserves in the Revenue Fund for items of Operating Expenses the payment of which is not immediately required, and shall include, without limiting the generality of the foregoing, costs of purchased power (including costs of power and energy required by any resolution or contract of the District to be taken by the District from the Priest Rapids Project for the account of the Electric System); costs of transmission and distribution operation and maintenance expenses; 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, assessments, payments in lieu of taxes or other lawful governmental charges, all to the extent properly allocable to the Electric System; and the fees and expenses of the Registrar. Operating Expenses shall not include any costs or expenses for new construction, interest, amortization, or any allowance for depreciation and District Payments.

“**Outstanding**” when used with respect to the Parity Bonds means, as of any date, any Parity Bonds issued pursuant to a resolution of the Commission except (a) any Parity Bonds cancelled by the Registrar or paid at or prior to such date, (b) Parity Bonds in lieu of or in substitution for which other Parity Bonds have been delivered, and (c) Parity Bonds deemed no longer outstanding under the resolution authorizing their issuance.

“**Outstanding Parity Bond Resolutions**” mean the resolutions authorizing the Outstanding Parity Bonds, as applicable.

“**Outstanding Parity Bonds**” mean the Outstanding 2017-O Bonds, the 2020-Q Bonds, the 2020-R Bonds, the 2020-S Bonds, and the 2023-U Bonds.

“**Parity Bond Reserve Accounts**” mean the reserve accounts and/or funds created by the District to secure the payment of principal of and interest on one or more series of Parity Bonds. As of the date of this resolution, the District maintains separate Parity Bond Reserve Accounts for the 2017-O Bonds and the 2020-Q Bonds, respectively. There are no Parity Bond Reserve Accounts established for the 2020-R Bonds, the 2020-S Bonds, or the 2023-U Bonds.

“**Parity Bonds**” mean the Outstanding Parity Bonds, the Bonds, and any Future Parity Bonds.

“**Parity Lien Obligations**” means all charges and obligations against Gross Revenue ranking on a parity of lien with the Parity Bonds, including but not limited to reimbursement agreement obligations so designated, any regularly scheduled District Payments, adjusted by any regularly scheduled Reciprocal Payments, and Resource Obligations for any month such Obligations are not eligible for payment as Operating Expenses. Parity Lien Obligations do not include Parity Bonds.

“**Permitted Investments**” mean any investments or investment agreements permitted under the laws of the State as amended from time to time.

“**Preliminary Official Statement**” means the preliminary official statement prepared and delivered in connection with the negotiated sale, issuance, and delivery of the Bonds.

“**Priest Rapids Development**” means the utility system of the District acquired and constructed pursuant to the provisions of Resolution No. 313, adopted by the Commission on June 19, 1956, including a dam at the Priest Rapids Development, all generating and transmission facilities associated therewith, and all additions, betterments, and improvements to and extensions of such system, but shall not include any additional generation, transmission, and distribution facilities hereafter constructed or acquired by the District as a part of the Electric System, or any other utility properties of the District acquired as a separate utility system, the revenues of which may be pledged to the payment of bonds issued to purchase, construct or otherwise acquire such separate utility system.

“**Priest Rapids Project**” means the Priest Rapids Development and the Wanapum Development, which were consolidated pursuant to Resolution No. 8475.

“**Professional Utility Consultant**” means the independent person(s) or firm(s) selected by the District having a favorable reputation for skill and experience with electric systems of comparable size and character to the Electric System in such of the following as are relevant to the purposes for which they are retained: (a) engineering and operations and (b) the design of rates.

“**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 rated in one of the two highest rating categories by Moody’s Investors Service or S&P Global Ratings 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 any Parity 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 rated in one of the two highest rating categories by Moody’s Investors Service or S&P Global Ratings or their comparably recognized business successors.

“**R&C Fund**” means the Reserve and Contingency Fund of the District created by Resolution No. 4112.

“**Rate Stabilization Account**” means the account within the R&C Fund.

“**Rebate Amount**” means the amount, if any, determined to be payable with respect to the Tax-Exempt Bonds by the District to the United States of America in accordance with Section 148(f) of the Code.

“**Reciprocal Payment**” means any payment, designated as such by resolution, to be made to, or for the benefit of, the District under a Derivative Product by the Reciprocal Payor.

“**Reciprocal Payor**” means a party to a Derivative Product that is obligated to make one or more Reciprocal Payments thereunder.

“**Record Date**” means the close of business for the Registrar that is 15 days preceding any interest and/or principal payment or redemption date.

“**Refunded Bonds**” mean the Refunding Candidates designated by a Designated Representative for refunding pursuant to this resolution and set forth in the Bond Purchase Contract.

“**Refunding Agent**” means the escrow agent or paying agent, if any, selected by a Designated Representative to perform the duties described herein and under the applicable Refunding Agreement.

“**Refunding Agreement**” means the agreement, if any, between the District and the Refunding Agent and executed pursuant to this resolution to facilitate the refunding of the Refunded Bonds.

“**Refunding Candidates**” mean the obligations of the Electric System listed in Appendix A attached hereto.

“**Registered Owner**” means the person named as the registered owner of a Bond in the Bond Register. For so long as the Bonds are held in book-entry only form, DTC (or its nominee) shall be deemed to be the sole Registered Owner.

“**Registrar**” means the registrar, authenticating agent, paying agent, and transfer agent appointed pursuant to Section 4.1 hereof, its successor or successors and any other entity which may at any time be substituted in its place pursuant to this resolution.

“**Reserve Account**” means the Reserve Account contained in the Bond Fund as provided in this resolution.

“**Reserve Account Requirement**” means, initially with respect to the Bonds, zero (\$0.00).

“**Resource Obligation**” means an obligation of the District to pay the following costs associated with a resource from Gross Revenue as:

(a) Operating Expenses for any month in which any power and energy or other goods and services from such resource were made available to the Electric System during such month (regardless of whether or not the Electric System actually scheduled or received energy from such resource during such month) and

(b) at all other times as an indebtedness of the Electric System payable from Gross Revenue on a parity of lien with Parity Bonds and any Parity Lien Obligation:

(i) costs associated with facilities or resources for the generation of power and energy or for the conservation, transformation, transmission, or distribution of power and energy (including any common undivided interest therein) hereafter acquired, purchased, or constructed by the District and declared by the Commission to be a separate system, which such costs shall include but are not limited to costs of normal operation and maintenance, renewals and replacements, additions and betterments, and debt service on the bonds or other obligations of such separate system but shall exclude costs paid or to be paid from the proceeds of the sale of bonds or other obligations of such separate system, or

(ii) costs associated with the purchase of energy, capacity, capability, reserves, conservation, or services under a contract.

“**Revenue Fund**” means the Electric System Revenue Fund of the District created by Section 6 of Resolution No. 75 of the District.

“**Rule**” means the SEC’s Rule 15c2-12 under the Securities and Exchange Act of 1934, as the same may be amended from time to time.

“**SEC**” means the Securities and Exchange Commission.

“**Serial Bonds**” mean Parity Bonds other than Term Bonds.

“**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 in such Fiscal Year as established by the resolution of the District authorizing the issuance of such Term Bonds.

“**Special Tax Counsel**” means Nixon Peabody LLP, or an attorney at law or firm of attorneys, selected by the District, of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions.

“**State**” means the State of Washington.

“**Supplemental Resolution**” means any resolution amending, modifying, or supplementing the provisions of this resolution.

“**Tax Certificate**” means the tax certificate executed by a Designated Representative pertaining to the Tax-Exempt Bonds, as supplemented and amended.

“**Taxable Bonds**” means any Bonds determined to be issued on a taxable basis pursuant to Section 11.1 of this resolution.

“**Tax-Exempt Bonds**” means any Bonds determined to be issued on a tax-exempt basis under the Code pursuant to Section 11.1 of this resolution.

“**Term Bonds**” means Parity Bonds of any principal maturity which are subject to mandatory distribution or redemption or for which mandatory sinking fund payments are required.

“**Treasurer**” means the duly appointed and acting Treasurer of the District or any successor in function.

“**Underwriter**” means KeyBanc Capital Markets Inc. and its successors.

“**Variable Rate**” means a variable interest rate or rates to be borne by a series of Parity Bonds or any one or more maturities within a series of Parity Bonds. The method of computing such variable interest rate shall be specified in the bond resolution authorizing such series of Parity Bonds; provided that such variable interest rate shall be subject to a Maximum Interest Rate and may be subject to a Minimum Interest Rate and that there may be an initial rate specified, in each case as provided in such resolution. Such resolution shall also specify either (a) the particular period or periods of time or manner of determining such period or periods of time for which each value of such variable interest rate shall remain in effect or (b) the time or times upon which any change in such variable interest rate shall become effective.

“**Variable Rate Bonds**” means, for any period of time, Parity Bonds that during such period bear a Variable Rate, provided that Parity Bonds the interest rate on which shall have been fixed for the remainder of the term to the maturity thereof shall no longer be Variable Rate Bonds.

“**Wanapum Development**” means the second stage of the Priest Rapids Hydroelectric Project (F.P.C. (or FERC) Project No. 2114), as more fully described in Section 2.2 of Resolution No. 474 adopted by the Commission on June 30, 1959, or as the same may be modified in accordance with Section 2.3 of Resolution No. 474, but shall not include any generation, transmission and distribution facilities hereafter constructed or acquired by the District as a part of the Electric System, or any other utility properties of the District acquired as a separate utility system, the revenues of which may be pledged to the payment of bonds issued to purchase, construct or otherwise acquire such separate utility system.

“**2017-O Bonds**” means the District’s Electric System Revenue Refunding Bonds, Series 2017-0 authorized by Resolution No. 8866.

“**2020-Q Bonds**” means the District’s Electric System Revenue Refunding Bonds, Series 2020-Q (Taxable) authorized by Resolution No. 8933.

“**2020-R Bonds**” means the District’s Electric System Revenue Refunding Bonds, Series 2020-R (Mandatory Put Bonds) authorized by Resolution No. 8947.

“**2020-S Bonds**” means the District’s Electric System Revenue Refunding Bonds, Series 2020-S (Mandatory Put Bonds) authorized by Resolution No. 8947.

“**2023-U Bonds**” mean the District’s Electric System Revenue Refunding Bonds, 2023-U authorized by Resolution No. 9019.

**Rules of Interpretation.** In this resolution, unless the context otherwise requires:

(a) The terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder,” and any similar terms, as used in this resolution, refer to this resolution as a whole and not to any particular article, section, subdivision, or clause hereof, and the term “hereafter” shall mean after, and the term “heretofore” shall mean before, the date of this resolution; and

(b) Words of any gender shall mean and include correlative words of any other genders and words importing the singular number shall mean and include the plural number and vice versa; and

(c) Words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations, and other legal entities, including public bodies, as well as natural persons; and

(d) Any headings preceding the text of the several articles and Sections of this resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this resolution, nor shall they affect its meaning, construction or effect; and

(e) All references herein to “articles,” “sections,” and other subdivisions or clauses are to the corresponding articles, sections, subdivisions, or clauses hereof; and

(f) Words importing the singular number include the plural number and vice versa.

ARTICLE II  
FINDINGS

Section 2.1 Compliance with Parity Conditions. In accordance with the Outstanding Parity Bond Resolutions, which permit the issuance of Future Parity Bonds upon compliance with the conditions set forth therein, the District hereby finds and determines, as follows:

(a) The Bonds are being issued for the purpose of providing funds to refund and restructure certain outstanding obligations of the Electric System;

(b) There is not now and there will not be, at the time of the issuance of the Bonds, any deficiency in the Bond Fund or in any of the accounts therein, and no Event of Default has occurred and is continuing;

(c) This resolution contains the covenants and representations required by the Outstanding Parity Bond Resolutions; and

(d) Prior to the delivery of a series of Bonds, the District shall have on file a certificate meeting the requirements of the Outstanding Parity Bond Resolutions.

As set forth above, the applicable parity conditions required by the Outstanding Parity Bond Resolutions have been or will be satisfied, and the Bonds shall be issued on a parity of lien with the Outstanding Parity Bonds.

The District hereby covenants and agrees that the Bonds will not be issued and delivered to the purchasers thereof as bonds on a parity with the Outstanding Parity Bonds until the certificate required herein, in form, and contents satisfactory to the District and its counsel, has been filed with the District.

Section 2.2 Best Interests of the District. The Commission hereby finds and determines that it is in the best interests of the District and its customers that the District issue the bonds authorized herein for the purpose of refunding the Refunded Bonds.

Section 2.3 Gross Revenue Sufficient. The Commission hereby finds and determines that the Gross Revenue will be sufficient in the judgment of the Commission to meet all Operating Expenses, to make all payments required to pay the Bonds, to make all necessary repairs, replacements and renewals thereof, and to permit the setting aside out of such Gross Revenue and money in the Revenue Fund into the Bond Fund of such amounts as may be required to pay the principal of and interest on the Bonds and the Outstanding Parity Bonds as the same become due and payable.

Section 2.4 Due Regard. The Commission hereby finds and determines that due regard has been given to the Operating Expenses of the Electric System and that it has not obligated the District to set aside into the Bond Fund for the account of the Parity Bonds a greater amount of the revenues and proceeds of the Electric System than in its judgment will be available over and above such Operating Expenses.

### ARTICLE III AUTHORIZATION, ISSUANCE AND REDEMPTION OF BONDS

Section 3.1 Authorization of Issuance and Sale of the Bonds. For the purposes of refunding the Refunded Bonds and paying costs of issuance of the Bonds, the District is hereby authorized to issue and sell its Electric System revenue refunding bonds in the aggregate principal amount not to exceed \$55,000,000 (the "Bonds").

The Bonds shall be designated as the "Electric System Revenue Refunding Bonds, Series 2023-V," with additional series designation, designation regarding tax status, or other designation as set forth in the Bond Purchase Contract and approved by a Designated Representative.

The Bonds shall be dated as of the date of initial delivery, shall be fully registered as to both principal and interest, shall be in the denomination of \$5,000 each or any integral multiple thereof within a maturity, shall be numbered separately in the manner and with any additional

designation as the Registrar deems necessary for purposes of identification and control, and shall bear interest payable on the dates set forth in the Bond Purchase Contract. The Bonds shall bear interest at the rates set forth in the Bond Purchase Contract and shall mature on the dates and in the principal amounts set forth in the Bond Purchase Contract and as approved by a Designated Representative pursuant to Section 11.1 of this resolution.

The Bonds shall be special obligations of the District payable only from the Bond Fund and shall be payable and secured as provided herein. The Bonds shall not be general obligations of the District, the State, or any political subdivision thereof.

Section 3.2 Reservation of Right to Purchase. The District reserves the right to use money in the Revenue Fund or any other funds legally available therefor at any time to purchase any of the Bonds in the open market if such purchase shall be found by the District to be economically advantageous and in the best interest of the District. Any purchases of Bonds may be made with or without tenders of Bonds and at either public or private sale in such amount and at such price as the District shall, in its discretion, deem to be in its best interest. Any money which is to be applied to the purchase or redemption of Bonds shall, prior to such purchase or redemption, be transferred to and deposited in the Bond Fund to the credit of the appropriate account therein. Purchases of Term Bonds may be credited against the Sinking Fund Requirement for such Term Bonds. Bonds purchased pursuant to this Section 3.2 shall be cancelled.

#### Section 3.3 Redemption of Bonds.

(a) *Mandatory Redemption of Term Bonds and Optional Redemption, if any.* The Bonds shall be subject to optional redemption on the dates, at the prices and under the terms set forth in the Bond Purchase Contract approved by a Designated Representative pursuant to Section 11.1. The Bonds shall be subject to mandatory redemption to the extent, if any, set forth in the Bond Purchase Contract approved by a Designated Representative pursuant to Section 11.1 of this resolution.

(b) *Selection of Bonds for Redemption.* If the District redeems at any one time fewer than all of the Bonds having the same maturity date, the particular Bonds or portions of Bonds and maturity to be redeemed shall be selected by lot (or in such manner determined by the Registrar or as set forth in the Bond Purchase Contract) in increments of \$5,000. In the case of a Bond of a denomination greater than \$5,000, the District and the Registrar shall treat each Bond as representing such number of separate Bonds each of the denomination of \$5,000 as is obtained by dividing the actual principal amount of Bonds by \$5,000. In the event that only a portion of the principal sum of a Bond is redeemed, upon surrender of such Bond at the designated office of the Registrar there shall be issued to the Registered Owner, without charge therefor, for the then unredeemed balance of the principal sum thereof, at the option of the Registered Owner, a Bond or Bonds of like series, maturity and interest rate in any of the denominations herein authorized. Notwithstanding the foregoing, as long as the Bonds are held in book-entry only form, the selection of particular Bonds within a series and maturity to be redeemed shall be made in accordance with the operational arrangements then in effect at DTC.



(c) *Notice of Redemption.*

(1) *Official Notice.* Unless waived by owners of any Outstanding Bonds to be redeemed, official notice of any such redemption (which redemption may be conditioned by the Registrar on the receipt of sufficient funds for redemption or otherwise) shall be given by the Registrar on behalf of the District by mailing a copy of an official redemption notice by first-class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Registered Owner of the Bond or Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such Registered Owner to the Registrar. Notwithstanding anything herein to the contrary, so long as the Bonds are held in book-entry form, notice of redemption will be given in accordance with the operational arrangements in effect at DTC, and neither the District nor the Registrar will provide any notice of redemption to any Beneficial Owners.

All official notices of redemption shall be dated and shall state:

- (i) the redemption date,
- (ii) the redemption price,
- (iii) if fewer than all Outstanding Bonds are to be redeemed, the identification by series and maturity (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed,
- (iv) that unless conditional notice of redemption has been given and such conditions have not been satisfied or waived or such notice has been rescinded, on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and if the Registrar then holds sufficient funds to pay such Bonds at the redemption price, interest thereon shall cease to accrue from and after said date,
- (v) any conditions to redemption, and
- (vi) the place where such Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the designated office of the Registrar.

On or prior to any redemption date, unless any condition to such redemption has not been satisfied or waived or notice of such redemption has been rescinded, the District shall deposit with the Registrar an amount of money sufficient to pay the redemption price of all the Bonds or portions of Bonds which are to be redeemed on that date. The District retains the right to rescind any redemption notice and the related optional redemption of Bonds by giving notice of rescission to the affected Registered Owners at any time on or prior to the scheduled redemption date. Any notice of optional redemption that is so rescinded shall be of no effect, and the Bonds for which the notice of optional redemption has been rescinded shall remain Outstanding.

(2) *Effect of Notice; Bonds Due.* If an unconditional notice of redemption has been given and not rescinded, or if the conditions set forth in a conditional notice of redemption have been satisfied or waived, the Bonds or portions of Bonds to be redeemed shall, on the

redemption date, become due and payable at the redemption price therein specified, and, if the Registrar then holds sufficient funds to pay such Bonds at the redemption price, then from and after such date such Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Registrar at the redemption price. Installments of interest due on or prior to the redemption date shall be payable as herein provided for payment of interest. All Bonds which have been redeemed shall be canceled by the Registrar and shall not be reissued.

(3) *Additional Notice.* In addition to the foregoing notice, further notice shall be given by the District as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed. Each further notice of redemption given hereunder shall contain the information required above for an official notice of redemption plus (i) the CUSIP numbers of all Bonds being redeemed; (ii) the date of issue of the Bonds as originally issued; (iii) the rate of interest borne by each Bond being redeemed; (iv) the maturity date of each Bond being redeemed; and (v) any other descriptive information needed to identify accurately the Bonds being redeemed. Each further notice of redemption may be sent at least 20 days before the redemption date to each party entitled to receive notice pursuant to a Continuing Disclosure Certificate and with such additional information as the District shall deem appropriate, but such mailings shall not be a condition precedent to the redemption of such Bonds.

(d) *Amendment of Notice Provisions.* The foregoing notice provisions of this Section 3.3, including, but not limited to, the information to be included in redemption notices and the persons designated to receive notices, may be amended by additions, deletions, and changes in order to maintain compliance with duly promulgated regulations and recommendations regarding notices of redemption of municipal securities.

#### ARTICLE IV REGISTRATION, FORM AND GENERAL TERMS

##### Section 4.1 Registrar, Exchanges and Transfers.

(a) *Registrar/Bond Register.* The District hereby specifies and adopts the system of registration approved by the Washington State Finance Committee from time to time through the appointment of a State fiscal agent, and appoints the fiscal agent of the State, U.S. Bank Trust Company, National Association, as the Registrar. The District shall cause a Bond Register to be maintained by the Registrar. So long as any Bonds remain Outstanding, the Registrar shall make all necessary provisions to permit the exchange or registration or transfer of Bonds at its principal office. The Registrar may be removed at any time at the option of the District upon prior notice to the Registrar and a successor Registrar appointed by the District. No resignation or removal of the Registrar shall be effective until a successor shall have been appointed and until the successor Registrar shall have accepted the duties of the Registrar hereunder.

(b) *Registered Ownership.* The District and the Registrar, each in its discretion, may deem and treat the Registered Owner of each Bond as the absolute owner thereof for all purposes (except as otherwise provided in this resolution or in the Continuing Disclosure Certificate of the District), and neither the District nor the Registrar shall be affected by any notice to the contrary.

Payment of any such Bond shall be made only as described in subsection (h) below, but such Bond may be transferred as herein provided. All such payments made as described in herein shall be valid and shall satisfy and discharge the liability of the District upon such Bond to the extent of the amount or amounts so paid.

(c) *DTC Acceptance/Letters of Representations.* The Bonds initially shall be held in book-entry form by DTC acting as depository. To induce DTC to accept the Bonds as eligible for deposit at DTC, the District has executed and delivered to DTC a Blanket Issuer Letter of Representations. Neither the District nor the Registrar will have any responsibility or obligation to DTC participants or the persons for whom they act as nominees (or any successor depository) with respect to the Bonds in respect of the accuracy of any records maintained by DTC (or any successor depository) or any DTC participant, the payment by DTC (or any successor depository) or any DTC participant of any amount in respect of the principal of or interest on the Bonds, any notice which is permitted or required to be given to Registered Owners under this resolution (except such notices as shall be required to be given by the District to the Registrar or to DTC (or any successor depository)), or any consent given or other action taken by DTC (or any successor depository) as the Registered Owner. For so long as any Bonds are held in book-entry form, DTC or its successor depository shall be deemed to be the Registered Owner for all purposes hereunder, and all references herein to the Registered Owners shall mean DTC (or any successor depository) or its nominee and shall not mean the owners of any beneficial interest in such Bonds.

(d) *Use of Depository.*

(1) The Bonds shall be registered initially in the name of "Cede & Co.", as nominee of DTC, with one Bond maturing on each of the maturity dates for the Bonds of each series in a denomination corresponding to the total principal therein within a series to mature on such date. Registered ownership of such Bonds, or any portions thereof, may not thereafter be transferred except (i) to any successor of DTC or its nominee, provided that any such successor shall be qualified under any applicable laws to provide the service proposed to be provided by it; (ii) to any substitute depository appointed by the District pursuant to subsection (2) below or such substitute depository's successor; or (iii) to any person as provided in subsection (4) below.

(2) Upon the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository or a determination by the District to discontinue the system of book-entry transfers through DTC or its successor (or any substitute depository or its successor), the District may hereafter appoint a substitute depository. Any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it.

(3) In the case of any transfer pursuant to clause (i) or (ii) of subsection (1) above, the Registrar shall, upon receipt of all Outstanding Bonds of a series, issue a single new Bond for each series and maturity then Outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such written request of the District.

(4) In the event that (i) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained,

or (ii) the District determines that it is in the best interest of the Beneficial Owners of the Bonds that such owners be able to obtain such bonds in the form of Bond certificates, the ownership of such Bonds may then be transferred to any person or entity as herein provided, and shall no longer be held in book-entry form. The District shall deliver a written request to the Registrar, together with a supply of definitive Bonds, to issue Bonds as herein provided in any authorized denomination. Upon receipt by the Registrar of all then Outstanding Bonds together with a written request of the District to the Registrar, new Bonds shall be issued in the appropriate denominations and registered in the names of such persons as are requested in such written request.

(e) *Registration of Transfer of Ownership or Exchange; Change in Denominations.* The Registrar is authorized, on behalf of the District, to authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of the Bonds and this resolution, to serve as the District's paying agent for the Bonds and to carry out all of the Registrar's powers and duties under this resolution and resolutions of the District establishing a system of registration for the District's bonds and obligations. The transfer of any Bond may be registered and Bonds may be exchanged, but no transfer of any such Bond shall be valid unless it is surrendered to the Registrar with the assignment form appearing on such Bond duly executed by the Registered Owner or such Registered Owner's duly authorized agent in a manner satisfactory to the Registrar. Upon such surrender, the Registrar shall cancel the surrendered Bond and shall authenticate and deliver, without charge to the Registered Owner or transferee therefor, a new Bond (or Bonds at the option of the new Registered Owner) of the same date, series, maturity, and interest rate and for the same aggregate principal amount in any authorized denomination, naming as Registered Owner the person or persons listed as the assignee on the assignment form appearing on the surrendered Bond, in exchange for such surrendered and cancelled Bond. Any Bond may be surrendered to the Registrar and exchanged, without charge, for an equal aggregate principal amount of Bonds of the same date, series, maturity, and interest rate, in any authorized denomination. The Registrar shall not be obligated to register the transfer or to exchange any Bond during the period from the Record Date to the redemption or payment date.

(f) *Registrar's Ownership of Bonds.* The Registrar may become the Registered Owner of any Bond with the same rights it would have if it were not the Registrar, and to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as member of, or in any other capacity with respect to, any committee formed to protect the right of the Registered Owners of Bonds.

(g) *Registration Covenant.* The District covenants that, until all Bonds have been surrendered and canceled, it will maintain a system for recording the ownership of each Bond that complies with the provisions of Section 149 of the Code.

(h) *Place and Medium of Payment.* Both principal of and interest on the Bonds shall be payable in lawful money of the United States of America. Interest on the Bonds shall be calculated on the basis of a year of 360 days and 12 30-day months. For so long as all Bonds are in book-entry form, payments of principal and interest thereon shall be made as provided in accordance with the operational arrangements of DTC referred to in the Letter of Representations. In the event that the Bonds are no longer held in book-entry form, interest on the Bonds shall be paid by check or draft mailed to the Registered Owners at the addresses for such Registered Owners appearing on the Bond Register on the Record Date, or upon the written request of a Registered Owner of

more than \$1,000,000 of Bonds (received by the Registrar at least 10 days prior to the applicable payment date), such payment shall be made by the Registrar by wire transfer to the account within the United States designated by the Registered Owner. Principal of the Bonds shall be payable upon presentation and surrender of such Bonds by the Registered Owners at the designated office of the Registrar.

If any Bond shall be duly presented for payment and funds have not been duly provided by the District on such applicable date, then interest shall continue to accrue thereafter on the unpaid principal thereof at the rate stated on such Bond until it is paid.

Section 4.2 Form of Bonds. The Bonds shall be in substantially the form set forth in Appendix B, which is incorporated herein by this reference.

Section 4.3 Execution and Authentication of Bonds. The Bonds shall be executed on behalf of the District with the manual or facsimile signature of the President or Vice President of the Commission and attested with the manual or facsimile signature of the Secretary of the Commission and the seal of the District shall be imprinted or impressed on each of the Bonds. The Bonds shall bear thereon a certificate of authentication, executed manually by the Registrar. Only such Bonds as shall bear thereon such certificate of authentication shall be entitled to any right or benefit under this resolution and no Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Registrar. Such certificate of the Registrar upon any Bond executed on behalf of the District shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered under this resolution and that the Registered Owner thereof is entitled to the benefits of this resolution.

In case any of the officers who shall have signed, attested, or sealed any of the Bonds shall cease to be such officers before the Bonds so signed, attested, authenticated, registered, or sealed shall have been actually issued and delivered, such Bonds shall be valid nevertheless and may be issued by the District with the same effect as though the persons who had signed, attested, authenticated, registered, or sealed such Bonds had not ceased to be such officers.

#### ARTICLE V SPECIAL FUNDS AND DEFEASANCE

Section 5.1 Revenue Fund. The District covenants and agrees that so long as any of the Parity Bonds are Outstanding and unpaid it will continue to pay into the Revenue Fund all Gross Revenue, exclusive of earnings on money on hand in any arbitrage rebate account or any bond fund (including the Bond Fund), the R&C Fund, or the Parity Bond Reserve Accounts, which may be retained in such funds and account or transferred to other funds as required by this resolution or other bond resolution.

(a) The Gross Revenue of the District shall be used only for the following purposes and in the following order of priority:

(1) to pay Operating Expenses and Resource Obligations (to the extent payable as Operating Expenses);

(2) to make all payments required to be made into the Bond Fund for the payment of accrued interest on Parity Bonds on the next interest payment date and to make any District Payments;

(3) to make all payments required to be made into the Bond Fund for the payment of the principal amount of Serial Bonds next coming due, and for the optional or mandatory redemption of Term Bonds;

(4) to make all payments required to be made into the Parity Bond Reserve Accounts, or to meet a reimbursement obligation with respect to any Qualified Insurance or Qualified Letter of Credit or other credit enhancement device, if so required by resolution of the Commission; and

(5) to make all payments required to be made into any special fund or account created to pay or secure the payment of the principal of and interest on any Subordinate Lien Bonds and any other revenue bonds, warrants or other revenue obligations of the District having a lien upon Gross Revenue and money in the Revenue Fund and Bond Fund and accounts therein subordinate to the lien thereon for the payment of the principal of and interest on the Parity Bonds.

(b) Resource Obligations, not payable as Operating Expenses, shall be paid on a parity with Outstanding Parity Bonds as provided in subsections (2) and (3) above.

(c) After all of the above payments and credits have been made, amounts remaining in the Revenue Fund may be used for any other lawful purpose of the District.

#### Section 5.2 Bond Fund; Reserve Account.

(a) *Bond Fund.* A special fund of the District known as the "Electric System Revenue Bond Fund" (herein referred to as the "Bond Fund"), was created by Resolution No. 4744 of the District, and shall be continued and used for the purpose of paying the principal of, premium, if any, and interest on the Parity Bonds, and for the purpose of retiring such bonds prior to maturity. At the option of the District, separate accounts may be created in the Bond Fund for the purpose of paying or securing the payment of the principal of, premium, if any, and interest on the Bonds and any Future Parity Bonds.

District Payments shall be made from, and Reciprocal Payments shall be made into, the Bond Fund. The District hereby obligates and binds itself irrevocably to set aside and pay into the Bond Fund out of the Gross Revenue certain fixed amounts, without regard to any fixed proportion of such Gross Revenue, sufficient (together with other available funds on hand and paid into the Bond Fund) to pay the principal of, premium, if any, and interest on the Parity Bonds from time to time Outstanding as the same become due and payable. Such fixed amounts shall be as follows:

(1) In the case of all Parity Bonds other than Variable Rate Bonds, on or prior to the date upon which an installment of interest falls due, the District will pay into the Bond Fund an amount (together with such other money as is on hand and available in such Fund) equal to the installment of interest then falling due on all Outstanding Parity Bonds. In the case of Variable Rate Bonds, the District shall make transfers to the Bond Fund at such time and in such amount as shall be specified in the resolution authorizing the issuance of such Variable Rate Bonds.

(2) On or prior to the date upon which an installment of principal of the Parity Bonds falls due, the District shall pay into the Bond Fund an amount (together with such other money as is on hand and available in such account) equal to the installment of principal then falling due on all Parity Bonds then Outstanding.

(3) The Bond Fund shall be used for the purpose of redeeming Term Bonds pursuant to the Sinking Fund Requirement pertaining to such Term Bonds and to otherwise retire the Bonds prior to maturity. On or prior to the due date of each Sinking Fund Requirement, the District shall pay from the Revenue Fund into the Bond Fund an amount (together with such other money as is on hand and available in such account) equal to the Sinking Fund Requirement for such date.

The District shall apply the money paid into the Bond Fund to the redemption of Term Bonds on the next ensuing Sinking Fund Requirement due date (or may so apply such money prior to such Sinking Fund Requirement due date), pursuant to the terms of this resolution or of the resolution authorizing the issuance thereof. The District may also apply the money paid into the Bond Fund for the purpose of retiring Term Bonds by the purchase of such Bonds at a purchase price (including any brokerage charge) not in excess of the principal amount thereof, in which event the principal amount of such Bonds so purchased shall be credited against the next ensuing Sinking Fund Requirement. If as of any January 1 the principal amount of Term Bonds retired by purchase or redemption exceeds the cumulative amount required to have been redeemed by sinking fund installments on or before such January 1, then such excess may be credited against the Sinking Fund Requirement for Term Bonds for the following Fiscal Year, or, if determined by resolution of the Commission, may be credited against the Sinking Fund Requirement for any succeeding Fiscal Year. Any such purchase of Bonds by the District may be made with or without tenders of Bonds in such manner as the District shall, in its discretion, deem to be in its best interest.

(b) *Parity Bond Reserve Accounts.* The District has previously established separate debt service reserve accounts and Reserve Account Requirements in connection with the issuance of certain of its Outstanding Parity Bonds. The District may determine to establish new reserve accounts and new reserve account requirements in connection with the issuance of the Bonds and any Future Parity Bonds. Reserve accounts securing the payment of principal of and interest on one or more series of Parity Bonds are referred to herein as "Parity Bond Reserve Accounts."

Each Designated Representative is authorized to determine if the Bonds are to be secured by a Parity Bond Reserve Account and the corresponding Reserve Account Requirement, which may be zero. Any such designation and Reserve Account Requirement shall be set forth in the Bond Purchase Contract. The District hereby covenants and agrees that it will establish and fund any such Parity Bond Reserve Account, to the extent such reserve account is required to be funded, to the Reserve Account Requirement as set forth herein and in the applicable Bond Purchase Contract.

The Reserve Account Requirement may, at the District's option, be recalculated as of the date of the defeasance of any Parity Bonds. Notwithstanding the provisions of this subsection, any resolution providing for the issuance of Parity Bonds may provide (or the Commission may provide by resolution at any other time) for the District to obtain Qualified Insurance or a Qualified Letter of Credit for specific amounts required pursuant to this section to be paid out of the reserve

account. The face amount of any such Qualified Insurance or Qualified Letter of Credit shall be credited against the amounts required to be maintained in the reserve account by this section 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 five years notice. In the event of any cancellation, the reserve account shall be funded in accordance with the provisions of this section providing for payment to the reserve account in the event of a deficiency therein.

Money in the Bond Fund and any Parity Bond Reserve Account securing the Bonds may, at the option of the District, be invested and reinvested as permitted by law in Permitted Investments maturing, or which are retireable at the option of the Registered Owner, prior to the maturity date of the final installment of principal of the Parity Bonds. For the purpose of determining the amount credited to any Parity Bond Reserve Account securing the Bonds, obligations in which money in such Parity Bond Reserve Account shall have been invested shall be valued at the market value thereof, plus accrued interest to the date of calculation. The term "market value" shall mean, in the case of securities which are not then currently redeemable at the option of the Outstanding, the current bid quotation for such securities, as reported in any nationally circulated financial journal, and the current redemption value in the case of securities that are then redeemable at the option of the Outstanding. For obligations that mature within six months, the market value shall be the par value thereof. The valuation of the amount in the Parity Bond Reserve Account shall be made by the District as of the close of business on each December 31 (or on the next preceding business day if December 31 does not fall on a business day) and may be made on each June 30 (or on the next preceding business day if June 30 does not fall on a business day).

If the valuation of the amount in the Parity Bond Reserve Account shall be less than the Reserve Account Requirement in effect on the date of valuation, the District shall credit to such Parity Bond Reserve Account on or before the 25th day of each of the six succeeding calendar months one-sixth of the amount necessary to make the valuation of the amount in the Parity Bond Reserve Account equal to 100% of the Reserve Account Requirement. If the valuation of the amount in the Parity Bond Reserve Account is greater than 100% of the Reserve Account Requirement, then and only then may the District withdraw at any time prior to the next date of valuation from the Parity Bond Reserve Account (i) the interest earned on the amounts credited to the Parity Bond Reserve Account, and (ii) the difference, if any, between the amount in the Parity Bond Reserve Account and the Reserve Account Requirement.

In calculating the amount required to be on hand in the Parity Bond Reserve Account at any time, the election by the District to make payments therein pursuant to this resolution may be taken into account.

Money in the Bond Fund shall be transmitted to the Registrar for the Parity Bonds in amounts sufficient to meet the next maturing installments of principal, interest, and premiums, if any, at or prior to the time upon which any interest, principal or premium, if any, is to become due. If there is a deficiency in the Bond Fund for such purpose, the District shall make up any such deficiency from the Parity Bond Reserve Account established or maintained for such series of Parity Bonds, by the withdrawal of cash therefrom for that purpose, and, if necessary, by sale or

redemption of any authorized investments in such amount as will provide cash in the respective Parity Bond Reserve Account sufficient to make up any such deficiency.

Any reduction in the Parity Bond Reserve Account by reason of any such withdrawal shall be made up from money in the Revenue Fund first available after making the current specified payments into the Bond Fund and after paying and making necessary provision for the payment of Operating Expenses. 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 credit enhancement instrument. Such draw shall be made at such times and under such conditions as the agreement for such Qualified Letter of Credit or such Qualified Insurance shall provide. The District shall pay any reimbursement obligation as a result of a draw under a Qualified Letter of Credit or Qualified Insurance from the Revenue Fund. The District shall deposit Gross Revenue into the Revenue Fund sufficient to meet such reimbursement obligation and all other obligations of the Revenue Fund.

Whenever and so long as the assets of the Bond Fund, the Parity Bond Reserve Account are sufficient to provide money to pay the Parity Bonds then Outstanding, including such interest as may thereafter become due thereon and any premiums upon redemption, no payments need be made into the Bond Fund pursuant to this resolution during any period in which such excess continues.

Money set aside from time to time with the Registrar for the Parity Bonds and the interest thereon shall be held in trust for the owners of such Parity Bonds. Until so set aside for the retirement of principal, payment of sinking fund installments, payment of interest and premium, if any, as aforesaid, money in the Bond Fund shall be held in trust for the benefit of the owners of the Parity Bonds then Outstanding and payable equally and ratably and without preference or distinction as between different installments or maturities.

Section 5.3 Defeasance. In the event that money and/or Government Obligations maturing or having guaranteed redemption prices at the option of the holder at such time or times and bearing interest to be earned thereon in amounts (together with such money, if any) sufficient to redeem and retire part or all of the Bonds in accordance with their terms, are hereafter irrevocably set aside in a special account and pledged to effect such redemption and retirement, then no further payments need be made into the Bond Fund or any account therein for the payment of the principal of and interest on the certain Bonds so provided for and such Bonds shall then cease to be entitled to any lien, benefit or security of this resolution, except the right to receive the funds so set aside and pledged, and such Bonds shall no longer be deemed to be Outstanding hereunder, or under any resolution authorizing the issuance of bonds or other indebtedness of the District.

Within 10 business days of defeasance of any Bonds, the Registrar shall provide notice of defeasance of Bonds to Registered Owners of the Bonds being defeased in accordance with a Continuing Disclosure Certificate.

Section 5.4 Rate Stabilization Account. In accordance with the priorities set forth in Section 5.1, the District may from time to time deposit Net Revenue into the Rate Stabilization Account in the R&C Fund and may from time to time withdraw amounts therefrom to enhance

rate stability or for other lawful purposes of the District related to the Electric System. Solely for purposes of calculating the Coverage Requirement set forth in Section 7.2, there shall be added to the Net Revenue in any year any amount withdrawn from the Rate Stabilization Account in such calendar year and deposited in the Revenue Fund, and there shall be subtracted from Net Revenue in any year any amount withdrawn from the Revenue Fund and deposited in the Rate Stabilization Account. Money in the R&C Fund may, at the option of the District, be invested and reinvested as permitted by law.

ARTICLE VI  
APPLICATION OF BOND PROCEEDS; PLAN OF REFUNDING

Section 6.1 Application of Bond Proceeds; Plan of Refunding.

(a) *Parity Bond Reserve Account.* If and to the extent a Parity Bond Reserve Account is established to secure payment of the principal of and interest on the Bonds as provided in Section 5.2(b) of this resolution, the District is hereby authorized to deposit available funds of the District and/or a portion of the proceeds of the Bonds, and/or purchase Qualified Insurance or a Qualified Letter of Credit and pay the associated policy premium, to satisfy the Reserve Account Requirement at the time of issuance of the Bonds.

(b) *Refunding Plan.* For the purpose of restructuring the debt service obligation for the Refunded Bonds, the District proposes to refund the Refunded Bonds as set forth herein. If a Designated Representative determines that it is in the best interest of the District to proceed with the refunding authorized herein, a Designated Representative shall designate the Refunding Candidates as Refunded Bonds and such designation shall be set forth in the Bond Purchase Contract.

The District shall deposit a portion of the Bonds, together with other available funds of the District, if any, into the Bond Fund or other authorized fund and use such funds to refund the Refunded Bonds pursuant to the terms of the applicable authorizing bond resolution. Alternatively, the District may direct that the proceeds of the Bonds be deposited with a Refunding Agent pursuant to a Refunding Agreement to be used immediately to refund the Refunded Bonds pursuant to the terms of their authorizing bond resolution. Each Designated Representative is hereby authorized to designate the Refunding Candidates as Refunded Bonds, to establish the Call Date for the Refunded Bonds, to provide or cause to be provided the notices of redemption of the Refunded Bonds in accordance with the provisions of the bond resolution authorizing the Refunded Bonds, to select a Refunding Agent (if any), to execute a Refunding Agreement (if any), and to take any action as determined to be necessary and in the best interest of the District to refund the Refunded Bonds. The District hereby calls the Refunded Bonds for redemption on the Call Date in accordance with the provisions of the bond resolution authorizing the Refunded Bonds.

(c) *Costs of Issuance.* The District may allocate a portion of proceeds of the Bonds, net of any Underwriter's discount, and/or available funds of the District to the payment of costs of issuance of the Bonds, including any costs associated with the refunding of the Refunded Bonds, in the manner as set forth in the Closing Memorandum for the Bonds. The District may pay such costs of issuance directly or contract with the Refunding Agent to pay costs of issuance of the Bonds on its behalf.

ARTICLE VII  
COVENANTS TO SECURE BONDS

Section 7.1 Security for Parity Bonds. All Parity Bonds and Parity Lien Obligations are special limited obligations of the District payable from and secured solely by Gross Revenue, subject to the payment of Operating Expenses and Resource Obligations qualifying for payment as Operating Expenses, and by other money and assets specifically pledged hereunder for the payment thereof. There are hereby pledged as security for the payment of the principal of, premium, if any, and interest on all Parity Bonds and Parity Lien Obligations in accordance with the provisions of this resolution, subject only to the provisions of this resolution restricting or permitting the application thereof for the purposes and on the terms and conditions set forth in this resolution: (a) the Gross Revenue (exclusive of any money credited to a fund or account for the purpose of paying arbitrage rebate to the federal government), and (b) the money and investments, if any, credited to the Revenue Fund, the Bond Fund, and the R&C Fund and the income therefrom. The Gross Revenue and other money and securities hereby pledged shall immediately be subject to the lien of this pledge without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the District regardless of whether such parties have notice thereof.

All Parity Bonds and Parity Lien Obligations now or hereafter Outstanding shall be equally and ratably payable and secured hereunder without priority by reason of date of adoption of the resolution providing for their issuance or by reason of their series, number or date of sale, issuance, execution, or delivery, or by the liens, pledges, charges, trusts, assignments, and covenants made herein, except as otherwise expressly provided or permitted in this 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.

The pledge of the Gross Revenue and of the amounts to be paid into and maintained in the funds and accounts described above in this section to pay and secure the payment of Parity Bonds and Parity Lien Obligations is hereby declared to be a prior lien and charge on the Gross Revenue and the money and investments in such funds and accounts superior to all other liens and charges of any kind or nature, subject to prior application for the payment of Operating Expenses and payments associated with Resource Obligations in any month in which any power and energy or other goods and services from such resources were made available to the Electric System during such month (regardless of whether or not the Electric System actually scheduled or received energy from such resource during such month). At all other times such Resource Obligation shall be an obligation payable from Gross Revenue on a parity of lien with any Parity Bonds or Parity Lien Obligations.

Parity Bonds shall not in any manner or to any extent constitute general obligations of the District or of the State, or any political subdivision of the State, or a charge upon any general fund or upon any money or other property of the District or of the State, or of any political subdivision of the State, not specifically pledged thereto by this resolution.

Section 7.2 General Covenants. The District covenants with the Registered Owners of the Parity Bonds as follows:

(a) *Rate Covenant.* The District shall establish, maintain, and collect rates or charges for electric energy sold through the ownership or operation of the Electric System, and all other commodities, services and facilities sold, furnished, or supplied by the District in connection with the ownership or operation of the Electric System that shall be fair and nondiscriminatory and adequate to provide Gross Revenue, together with other available money, including without limitation transfers from the R&C Fund, sufficient for the payment of the principal of and interest on all Parity Bonds then Outstanding and all payments which the District is obligated to set aside in the Bond Fund, and for the proper operation and maintenance of the Electric System, and all necessary repairs, replacements, and renewals thereof, the working capital necessary for the operation thereof, and for the payment of all amounts that the District may now or hereafter become obligated to pay from Gross Revenue. In the resolutions authorizing the bonds for the Priest Rapids Project, the District has covenanted to pay to the Priest Rapids Project from the Electric System that portion of the annual costs of the Priest Rapids Project for such Fiscal Year, including without limitation for operating expenses and annual debt service, that is not otherwise paid or provided for from payments received by the Priest Rapids Project from the sale of power and energy and related products from the Priest Rapids Project to purchasers other than the District and to establish, maintain and collect rates or charges for electric power and energy and related products sold through the Electric System sufficient to make any such payments to the Priest Rapids Project. Except as provided in the following sentence, the obligation to pay such amounts shall rank as a lien and charge against the revenues of the Electric System subordinate in rank to all other obligations of the Electric System. Payments made by the Electric System for the costs of purchased power and energy shall be an Operating Expense of the Electric System.

(b) Such rates or charges shall be sufficient to provide Net Revenue, taking into account any transfers to or from the R&C Fund pursuant to this resolution, in any Fiscal Year hereafter in an amount equal to at least the Coverage Requirement.

The failure to collect Gross Revenue in any Fiscal Year sufficient to comply with the covenants contained in this section shall not constitute an Event of Default if the District, before the 90th day of the following Fiscal Year, both:

(1) Employs a Professional Utility Consultant to recommend changes in the District's rates which are estimated to produce Gross Revenue sufficient (once the rates recommended by the Professional Utility Consultant have been imposed by the District) to meet the requirements of this section; and

(2) Imposes rates at least as high as those recommended by such Professional Utility Consultant at the time or times so recommended.

The calculation of the Coverage Requirement set forth above, and the calculations set forth in Section 7.3 hereof, and the District's compliance therewith, shall be made solely with reference to this resolution without regard to future changes in generally accepted accounting principles. If the District has changed one or more of the accounting principles used in the preparation of its financial statements, because of a change in generally accepted accounting principles or otherwise,

then an event of default relating to these calculations shall not be considered an Event of Default if the ratios would have been complied with had the District continued to use those accounting principles employed at the date of the most recent audited financial statements prior to the date of this resolution.

(c) *Maintenance and Repair.* The District will maintain, preserve, and keep the Electric System and all additions and betterments thereto and extensions thereof and every part and parcel thereof in good repair, working order and condition, and will from time to time make all necessary and proper repairs, renewals, replacements, extensions and betterments thereto so that at all times the business carried on in connection therewith shall be properly and advantageously conducted, and the District will at all times operate such properties and the business in connection therewith in an efficient manner and at reasonable cost.

(d) *Disposal of Electric System.* The District will not sell, mortgage, lease, or otherwise dispose of or encumber all or any portion of the Electric System properties, or permit the sale, mortgage, lease, or other disposition thereof, except as provided in this subsection (d):

(1) The District may sell, lease, or otherwise dispose of all or substantially all of the Electric 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 in the last paragraph of this subsection (2), the District will not sell, mortgage, lease, or otherwise dispose of any part of the Electric System in excess of 5% of the value of the net utility plant of the Electric System in service unless prior to such sale, mortgage, lease, or other disposition:

(i) there shall have been filed with the Secretary of the Commission a certificate of a Professional Utility Consultant stating that such sale, mortgage, lease, or other disposition will not impair the ability of the District to comply with the covenants set forth in Section 7.2(a) and 7.2(b) of this resolution; or

(ii) the proceeds of such disposition are used to acquire new operating properties of the Electric System or provision is made for the payment, redemption, or other retirement of a principal amount of Parity Bonds equal to the greater of the following amounts:

(A) an amount which will be in the same proportion of the net principal amount of Parity Bonds then Outstanding (defined as the total principal amount of such bonds then Outstanding less the amount of cash and investments in the Bond Fund) that the Revenue attributable to the part of the Electric System sold or disposed of for the 12 preceding months bear to the total Revenue for such period; or

(B) an amount which will be in the same proportion to the net principal amount of Parity 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.

The District may sell or otherwise dispose of any part of the Electric System which shall have become unserviceable, inadequate, obsolete, or unfit to be used in the operation of the Electric

System, or no longer necessary, material to or useful in such operation. The proceeds of any such sale or disposition pursuant to this paragraph shall be paid into the Bond Fund for credit to the Parity Bond Reserve Accounts on a pro rata basis to the extent of any deficiency in such reserve accounts, and the balance of such proceeds, if any, shall be deposited in the Revenue Fund.

(e) *Insurance.* The District will keep the works, plants, properties, and facilities comprising the Electric System insured, and will carry such other insurance, with responsible insurers, with policies payable to the District, 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 necessary and advisable by the Commission, institute or continue a self-insurance program with respect to any or all of the aforementioned risks.

(f) *Books and Records.* The District shall keep proper books of account in accordance with generally accepted accounting principles as applied to governmental entities and with the rules and regulations prescribed by the State Auditor's Office, and if no such rules or regulations are prescribed as aforesaid, then in substantial accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission or other federal agency having jurisdiction over electric public utility companies owning and operating properties similar to the properties of the District, whether or not the District is at the time required by law to use such system of accounts. The District shall cause its books of account to be audited annually by the State Auditor's Office or other State department or agency as may be authorized and directed by law to make such audits, or if such an audit shall not be made for 12 months after the close of any Fiscal Year of the District, by independent certified public accountants. In keeping said books of account, the District shall accrue depreciation monthly thereon on its depreciable properties in accordance with the accounting practice prescribed by the public departments or agencies above mentioned. Any Registered Owner of any Bond may obtain at the office of the District, copies of the balance sheet and statement of revenues, expenses, and changes in net assets showing in reasonable detail the financial condition of the Electric System as of the close of each Fiscal Year, and the income and expenses of such year, including the amounts paid into the Revenue Fund, the Bond Fund, and in any and all special funds created pursuant to the provisions of this resolution, and the amounts expended for maintenance, renewals, replacements, and gross capital additions to the Electric System. All calculations, classifications, and other financial determinations required by this resolution shall be made in accordance with the accounting practices then being observed by the District.

(g) *No Free Service.* Except as required by law or in an amount per year not exceeding 1/10 of 1% of annual Operating Expenses, the District will not furnish or supply or permit the furnishing or supplying of electric energy or any other commodity, service or facility furnished by or in connection with the operation of the Electric System, free of charge to any person, firm, or corporation, public or private, so long as any Bonds are Outstanding and unpaid, and the District will promptly enforce the payment of any and all accounts owing to the District and delinquent, by discontinuing service to the extent then permitted by law, or by legal suits, actions and proceedings, or both; provided, that, to the extent permitted by law, the District may lend money and may provide commodities, services, or facilities free of charge or at a reduced charge in connection with a plan of conservation of electric energy adopted by the Commission.

(h) *Dissolution or Termination.* The District shall not dissolve or terminate its existence without paying or providing for the payment of all Parity Bonds then Outstanding.

(i) *FERC License.* The District will use its best efforts to retain the FERC License for the Priest Rapids Project and to renew the FERC License when it expires.

Section 7.3 Future Parity Bonds and Resource Obligations. The District hereby covenants and agrees that for as long as any Bonds remain Outstanding:

(a) It will not issue any bonds or other obligations on a parity of lien with the Outstanding Parity Bonds and the Bonds, except, upon the conditions provided herein, the District reserves the right to issue Future Parity Bonds and to incur Resource Obligations, obligations under reimbursement agreements and under Derivative Products as provided this resolution. Future Parity Bonds may be issued for any lawful purpose of the District, including but not limited to, acquiring, constructing and installing additions, betterments, and improvements to and extensions of, acquiring necessary equipment for, or making necessary renewals, replacements or repairs, and capital improvements to the Electric System.

The District covenants that Future Parity Bonds shall be issued only upon compliance with the following conditions:

(1) That at the times of the issuance of such Future Parity Bonds there is no deficiency in the Bond Fund or in any of the accounts therein and no Event of Default has occurred and is continuing.

(2) That Net Revenue of the Electric System for any 12 consecutive months out of the months next preceding the issuance of the Future Parity Bonds (not including any transfer from the R&C Fund), will equal at least 1.25 times the Annual Debt Service required to be paid in any Fiscal Year thereafter. In calculating Annual Debt Service for the purpose of this subparagraph (2), if the interest rate on any Parity Bonds is other than a fixed rate, the rate used shall be any rate published as the Bond Buyer Revenue Bond Index for municipal revenue bonds within the 30-day period prior to the date of such calculation. If such index is no longer published, a comparable index designated by the District shall be utilized in lieu thereof.

If on the date of such calculation the interest rate on any Variable Rate Bonds is then fixed for a specified period, including pursuant to a Derivative Product, the interest rate used for such specified period for the purpose of such calculation shall be such actual interest rate.

For the purposes of this subparagraph (2), the “Net Revenue of the Electric System” may be adjusted as follows:

(i) To include a full 12 months of Net Revenue from any customers added during the 12-month period being considered.

(ii) To include the annual estimated net revenue to be received as a result of any additions, betterments, and improvements to and extensions of the Electric System to be acquired, constructed, or installed by the District from the proceeds of the Future Parity Bonds to be issued or under construction at the time of such certificate.

(iii) To include the additional Net Revenue which would have been received by the District if any rate change adopted prior to the delivery of the Future Parity Bonds, but subsequent to the beginning of the 12-month period being considered, had been in force during the full 12-month period.

(3) That at or prior to the time of the issuance of such Future Parity Bonds the District shall obtain and have on file a certificate from the Treasurer which shall certify full compliance with conditions (1) and (2) of this subsection (a), or in the alternative the District obtains a certificate from a Professional Utility Consultant stating that the projected annual Net Revenue for the Fiscal Years in which the Parity Bonds, including the Future Parity Bonds being issued, are expected to at least equal 1.25 times the Annual Debt Service required to be paid in any Fiscal Year thereafter. Such certificate shall have attached thereto financial statements of the District for the period upon which the same is based and audits by the Division of Municipal Corporations of the State Auditor’s Office or from an independent certified public accountant for as many fiscal years within such period as such audits have been made and completed.

(4) That the resolution authorizing the issuance of the Future Parity Bonds shall contain covenants and provisions substantially the same as Sections 5.1, 5.2 and 5.4, 7.1 through 7.5, 8.1 through 8.8, and 9.1 through 9.7 hereof.

(b) *Refunding Bonds.* In the event that any Future Parity Bonds provided for in this Section 7.3 are issued for the sole purpose of exchanging with or providing funds to purchase or refund or redeem and retire at or prior to their maturity any or all Parity Bonds then Outstanding and the issuance of such refunding Future Parity Bonds and retirement of Outstanding bonds and such refunding Future Parity Bonds will not require a greater amount (except as necessary to round maturities to the nearest \$5,000) to be paid in any Fiscal Year thereafter as Annual Debt Service than would have been required to be paid in the same Fiscal Year for Annual Debt Service on the bonds being refunded, then subsections (2) and (3) of subsection (a) of this Section 7.3 need not be complied with to permit such refunding Future Parity Bonds to be issued, although the provisions of subsections (1) and (4) of subsection (a) of this Section 7.3 must still be complied with.

(c) *Resource Obligations.* The District may enter into or incur a Resource Obligation pursuant to a resolution of the Commission provided that the following requirements shall be met at the time of adoption of such resolution:

(1) No Event of Default with respect to any Parity Bonds or Resource Obligations has occurred and is continuing.

(2) There shall have been filed with the Secretary of the Commission a certificate of the Professional Utility Consultant stating that the additional source of power and energy or conservation from such Resource Obligation is consistent with sound utility power supply planning.

(3) There shall have been filed with the Secretary of the Commission a report of the Professional Utility Consultant stating that estimated annual Net Revenue for the second full Fiscal Year after the date of initial operation of the facilities, costs of which are to be financed



as a Resource Obligation, or after the date of first delivery of energy, capacity, reserves, or services pursuant to a contract, costs of which are declared to be a Resource Obligation, as the case may be, shall be at least equal to 125% of maximum Annual Debt Service in any future Fiscal Year. In estimating Net Revenue, the Professional Utility Consultant shall base such an estimate on factors the Professional Utility Consultant deems to be reasonable and shall treat the costs of the Resource Obligation as Operating Expenses.

(4) In the event that the Resource Obligation is a contract to purchase energy, capacity, reserves, or services, there shall have been filed with the Secretary of the Commission opinions of counsel to all other parties to the contract which opinions state that each such party to such contract has all requisite right, power, and authority to execute and deliver such contract and to perform its obligations thereunder and that such contract constitutes a legally valid and binding obligation of such party thereto.

(5) The Resource Obligations shall not be subject to acceleration if an event of default has occurred.

(d) *Separate System.* Nothing in this resolution shall prevent the District from entering into contracts to purchase energy, capacity, capability, reserves, conservation, or services or from authorizing and issuing bonds, notes, certificates, or other obligations or 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, and any incidental properties to be constructed or acquired in connection therewith, which facilities or resources shall be a separate system, provided that such contractual obligations, bonds or other obligations or evidences of indebtedness shall be payable solely from the revenues or other income derived from the ownership or operation of such separate system.

(e) *Reimbursement Obligations.*

(1) In the event that the District elects to meet the requirements with respect to a Parity Bond Reserve Account through the use of a Qualified Letter of Credit, Qualified Insurance or other credit enhancement device, the District may contract with the person providing such Qualified Letter of Credit, Qualified Insurance, or other credit enhancement device that the District's reimbursement obligation, if any, to such entity ranks on a parity of lien with payments into the Reserve Account to secure the Bonds.

(2) In the event that the District elects additionally to secure any issue of Variable Rate Bonds through the use of a letter of credit, insurance, or other credit enhancement device, the District may contract with the entity providing such letter of credit, insurance, or other 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 Future Parity Bonds and assuming that such credit enhancement device were to be drawn upon for the full amount available, such Future Parity Bonds could be issued in compliance with the provisions of Section 7.3(a)(2) excluding Annual Debt Service on the Variable Rate Bonds.

Section 7.4 Restrictions on Contracting of Obligations Secured by Revenue.

(a) The District will not hereafter issue any bonds, warrants, or other obligations or create any additional indebtedness which will have a lien and charge on the Gross Revenue and funds of the Electric System prior to the lien and charge thereon established by this resolution. The District will not issue any Future Parity Bonds except as provided under Section 7.3.

(b) The District may issue bonds, notes, warrants, or other obligations payable from and secured by a lien on the Gross Revenue and funds of the Electric System that is subordinate to the lien on such Gross Revenue of the Parity Bonds and may create a special fund or funds for payment of such subordinate obligations (provided, however, that such bonds, notes, warrants, or other obligations and the resolutions authorizing the same shall expressly state that the right to receive payment thereon is subordinated to the rights of the Registered Owners of the Parity Bonds to receive payment at the times and in the amounts provided in this resolution and the resolutions authorizing Parity Bonds and that any money received by the owners of such subordinate lien bonds, notes, warrants, or other obligations which should have been paid to the Registered Owners of the Parity Bonds by reason of such subordination provision shall be held in trust for the Registered Owners of such Parity Bonds and shall be forthwith turned over to the Registrar for payment to the Registered Owners of such Parity Bonds). Subordinate lien bonds, notes, warrants, or other obligations shall not be subject to acceleration upon the occurrence of an event of default.

(c) The District shall not hereafter enter into any agreement, other than a Resource Obligation, obligating the District to pay to another person or corporate entity, from Gross Revenue, for (1) generating or transmission capacity or the use or lease of generating or transmission facilities, which agreement is not conditioned on the availability of such capacity or facility, or (2) the installment purchase or lease of property which, whether or not subject to annual appropriations, otherwise transfers to the District the burdens and benefits of ownership of such property, unless such agreement specifically states that the obligation of the District thereunder is subordinate to the obligation of the District to make payments from the Revenue Fund into the Bond Fund. This paragraph shall not be applicable to, and shall not restrict the District in entering into, any agreement relating to the Priest Rapids Project or any other hydroelectric facility owned and operated by the District.

Section 7.5 Derivative Products. To the extent permitted by State law, the District may enter into Derivative Products on a parity with the Parity Bonds subject to the conditions provided in this section. The following shall be conditions precedent to the use of any Derivative Product on a parity with any Bonds under this resolution:

(a) *General Parity Tests.* The Derivative Product (and the obligations to which it relates) must satisfy the requirements for Future Parity Bonds described in Section 7.3 of this resolution taking into consideration District Payments and Reciprocal Payments under the Derivative Product. Termination payments owed pursuant to a Derivative Product shall not be on a parity with the Parity Bonds.

(b) *Opinion of Bond Counsel.* The District shall obtain an opinion of Bond Counsel and/or Special Tax 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 this resolution and will not adversely affect the excludability for federal income tax purposes of the interest on any Outstanding tax-exempt Parity Bonds, as applicable.

(c) *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.

(d) *Supplemental Resolutions to Govern Derivative Products.* Prior to entering into a Derivative Product, the District shall adopt a Supplemental Resolution, which shall:

(i) establish general provisions for the rights of providers of Derivative Products or Derivative Facilities; and

(ii) 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 this resolution.

Section 7.6 Tax Covenants.

(a) The District hereby covenants to comply with all applicable requirements set forth in the Code and the Tax Certificate to the extent that such compliance shall be necessary to maintain the exclusion from gross income for federal income taxes of the interest on the Tax-Exempt Bonds. The District hereby further covenants to observe all applicable requirements in any future federal tax legislation to the extent that such compliance is determined by the District to be legal and practicable and required for such exemption.

(b) The District will pay the Rebate Amount, if any, to the United States of America at the times and in the amounts necessary to meet the requirements of the Code to maintain the exclusion from gross income for federal income tax purposes of interest payments on the Tax-Exempt Bonds, in accordance with the Tax Certificate.

The covenants of this section will survive payment in full or defeasance of the Tax-Exempt Bonds.

ARTICLE VIII  
DEFAULTS AND REMEDIES

Section 8.1 Events of Default. The Commission hereby finds that the continuous operation of the Electric System and the collection, deposit, and disbursement of the Gross Revenue in the manner provided in this resolution are essential to the payment and security of the Bonds, and the failure or refusal of the District to perform the covenants and obligations contained in this resolution will endanger the necessary continuous operation of the Electric System and the application of the Gross Revenue to the purposes set forth in this resolution.

The District hereby covenants and agrees with the Registered Owners from time to time of the Bonds, in order to protect and safeguard the covenants and obligations undertaken by the District securing the Bonds, that the following shall constitute "Events of Default":

(a) If default shall be made in the due and punctual payment of the principal of and premium, if any, on any of the Parity Bonds when the same shall become due and payable, either at maturity or by proceedings for mandatory distribution or otherwise;

(b) If default shall be made in the due and punctual payment of interest on any Parity Bond when the same shall be due and payable;

(c) If the District shall fail to purchase or redeem Term Bonds in an aggregate principal amount at least equal to the Sinking Fund Requirement for the applicable Fiscal Year;

(d) If the District shall default in the observance and performance of any other of the covenants, conditions, and agreements on the part of the District contained in this resolution and such default or defaults shall have continued for a period of 90 days after the District shall have received from the Bondowners' Trustee or from the Registered Owners of not less than 20% in principal amount of Parity Bonds then Outstanding, a written notice specifying and demanding the cure of such default;

(e) If the District shall (except as herein permitted) sell, transfer, assign, or convey any properties constituting the Electric System or interests therein, or any part or parts thereof, or shall make any agreement for such sale or transfer (except as expressly authorized by Section 7.2(d) hereof);

(f) If an order, judgment or decree shall be entered by any court of competent jurisdiction: (1) appointing a receiver, trustee, or liquidator for the District or the whole or any substantial part of the Electric System; (2) approving a petition filed against the District seeking the bankruptcy, arrangement, or reorganization of the District under any applicable law of the United States or the State; or (3) assuming custody or control of the District or of the whole or any substantial part of the Electric System under the provisions of any other law for the relief or aid of debtors and such order, judgment or decree shall not be vacated or set aside or stayed (or, in case custody or control is assumed by said order, such custody or control shall not be otherwise terminated) within 60 days from the date of the entry of such order, judgment or decree; or

(g) If the District shall: (1) admit in writing its inability to pay its debts generally as they become due; (2) file a petition in bankruptcy or seeking a composition of indebtedness under any state or federal bankruptcy or insolvency law; (3) make an assignment for the benefit of its creditors; (4) consent to the appointment of a receiver of the whole or any substantial part of the Electric System; or (5) consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of debtors of custody or control of the District or of the whole or any substantial part of the Electric System.

Section 8.2 Bondowners' Trustee. If an Event of Default has occurred, is continuing, and has not been remedied, the owners of 25% in principal amount of Parity Bonds then Outstanding may appoint a bondowners' trustee (the "Bondowners' Trustee") by an instrument or concurrent instruments in writing signed and acknowledged by such registered owners of the Parity

Bonds or by their attorneys-in-fact duly authorized and delivered to such Bondowners' Trustee, notification thereof being given to the District. That appointment shall become effective immediately upon acceptance thereof by the Bondowners' Trustee. Any Bondowners' Trustee appointed under the provisions of this section shall be a bank or trust company organized under the laws of the State or the State of New York or a national banking association. The bank or trust company acting as Bondowners' Trustee may be removed at any time, and a successor Bondowners' Trustee may be appointed, by the Registered Owners of a majority in principal amount of the Parity Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such Registered Owners of the Parity Bonds or by their attorneys-in-fact duly authorized. The Bondowners' Trustee may require such security and indemnity as may be reasonable against the costs, expenses, and liabilities that may be incurred in the performance of its duties.

The Bondowners' Trustee may resign upon 60 days' notice and a new Bondowners' Trustee appointed by the owners of at least 25% in principal amount of Parity Bonds; provided, however, that no such resignation or removal shall be effective until a successor Bondowners' Trustee shall have been appointed and shall have delivered a written instrument of acceptance of the duties and responsibilities of the Bondowners' Trustee under this resolution to the District and the owners of the Parity Bonds then Outstanding.

In the event that any Event of Default in the sole judgment of the Bondowners' Trustee is cured and the Bondowners' Trustee furnishes to the District a certificate so stating, that Event of Default shall be conclusively deemed to be cured, and the District, the Bondowners' Trustee and the Registered Owners of the Parity Bonds then Outstanding shall be restored to the same rights and position which they would have held if no Event of Default had occurred.

The Bondowners' Trustee appointed in the manner herein provided, and each successor thereto, is declared to be a trustee for the Registered Owners of all the Parity Bonds then Outstanding and is empowered to exercise all the rights and powers herein conferred on the Bondowners' Trustee.

Section 8.3 Suits at Law or in Equity. Upon the happening of an Event of Default and during the continuance thereof, the Bondowners' Trustee may, and upon the written request of the Registered Owners of not less than 25% in principal amount of the Parity Bonds then Outstanding shall, take such steps and institute such suits, actions, or other proceedings, all as it may deem appropriate for the protection and enforcement of the rights of the Registered Owners of the Parity Bonds, to collect any amounts due and owing to or from the District, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement, or condition contained in this resolution or in any of the Parity Bonds.

Nothing contained in this resolution shall, in any event or under any circumstance, be deemed to authorize the acceleration of maturity of principal on the Parity Bonds, and the remedy of acceleration is expressly denied to the Registered Owners of the Parity Bonds under any circumstances including, without limitation, upon the occurrence and continuance of an Event of Default.

Any action, suit, or other proceedings instituted by the Bondowners' Trustee hereunder shall be brought in its name as trustee for the Bondowners and all such rights of action upon or under any of the Parity Bonds or the provisions of this resolution may be enforced by the Bondowners' Trustee without the possession of any of those Parity Bonds and without the production of the same at any trial or proceedings relative thereto except where otherwise required by law. Any such suit, action, or proceeding instituted by the Bondowners' Trustee shall be brought for the ratable benefit of all the Registered Owners of those Parity Bonds, subject to the provisions of this resolution. The respective Registered Owners of the Parity Bonds, by taking and holding the same, shall be conclusively deemed irrevocably to appoint the Bondowners' Trustee the true and lawful trustee of the respective Registered Owners of those Parity Bonds, with authority to institute any such action, suit, or proceeding; to receive as trustee and deposit in trust any sums becoming distributable on account of those Parity Bonds; to execute any paper or documents for the receipt of money; and to do all acts with respect thereto that the Registered Owner himself or herself might have done in person. Nothing herein shall be deemed to authorize or empower the Bondowners' Trustee to consent to accept or adopt, on behalf of any Registered Owner of the Parity Bonds, any plan of reorganization or adjustment affecting the Parity Bonds or any right of any Registered Owner thereof, or to authorize or empower the Bondowners' Trustee to vote the claims of the Registered Owners thereof in any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the District is a party.

Section 8.4 Application of Money Collected by Bondowners' Trustee. Any money collected by the Bondowners' Trustee at any time pursuant to this Article shall be applied in the following order of priority:

- (a) first, to the payment of the charges, expenses, advances, and compensation of the Bondowners' Trustee and the charges, expenses, counsel fees, disbursements, and compensation of its agents and attorneys; and
- (b) second, to the payment to the persons entitled thereto first of required interest and then of unpaid principal amounts on any Parity Bonds which shall have become due (other than Parity Bonds previously called for redemption for the payment of which money is held pursuant to the provisions hereto), whether at maturity or by proceedings for redemption or otherwise, in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal amounts due on the same date, then to the payment thereof ratably, according to the principal amounts due thereon to the persons entitled thereto, without any discrimination or preference.

When the Bondowners' Trustee incurs expenses or renders services after the occurrence of an Event of Default, such expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization, or other debtor relief.

Section 8.5 Duties and Obligation of Bondowners' Trustee. The Bondowners' Trustee shall not be liable except for the performance of such duties as are specifically set forth herein. During an Event of Default, the Bondowners' Trustee shall exercise such of the rights and powers vested in it hereby, and shall use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. The

Bondowners' Trustee shall have no liability for any act or omission to act hereunder except for the Bondowners' Trustee's own negligent action, its own negligent failure to act or its own willful misconduct. The duties and obligations of the Bondowners' Trustee shall be determined solely by the express provisions of this resolution, and no implied powers, duties, or obligations of the Bondowners' Trustee shall be read into this resolution.

The Bondowners' Trustee shall not be required to expend or risk its own funds or otherwise incur individual liability in the performance of any of its duties or in the exercise of any of its rights or powers as the Bondowners' Trustee, except as may result from its own negligent action, its own negligent failure to act or its own willful misconduct.

The Bondowners' Trustee shall not be bound to recognize any person as a Registered Owner of any Bond until his or her title thereto, if disputed, has been established to its reasonable satisfaction.

The Bondowners' Trustee may consult with counsel and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such counsel. The Bondowners' Trustee shall not be answerable for any neglect or default of any person, firm or corporation employed and selected by it with reasonable care.

Section 8.6 Suits by Individual Bondowners Restricted. Neither the Registered Owner nor the Beneficial Owner of any one or more of Parity Bonds shall have any right to institute any action, suit or proceeding at law or in equity for the enforcement of the same unless:

- (a) an Event of Default has happened and is continuing; and
- (b) a Bondowners' Trustee has been appointed; and
- (c) such Outstanding previously shall have given to the Bondowners' Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted; and
- (d) the Registered Owners of 25% in principal amount of the Parity Bonds, after the occurrence of such Event of Default, has made written request of the Bondowners' Trustee and have afforded the Bondowners' Trustee a reasonable opportunity to institute such suit, action, or proceeding; and
- (e) there have been offered to the Bondowners' Trustee security and indemnity satisfactory to it against the costs, expenses, and liabilities to be incurred therein or thereby; and
- (f) the Bondowners' Trustee has refused or neglected to comply with such request within a reasonable time.

No Registered Owner or Beneficial Owner of any Parity Bond shall have any right in any manner whatever by his or her action to affect or impair the obligation of the District to pay from the Net Revenue the principal of and interest on such Parity Bonds to the respective Registered Owner thereof when due.

Section 8.7 Waivers of Default. No delay or omission of the Bondowners' Trustee or of any Outstanding of Parity Bonds to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or to be an acquiescence therein; and every power and remedy given by this Article to the Bondowners' Trustee or to the Registered Owners of Parity Bonds may be exercised from time to time and as often as may be deemed expedient by the Bondowners' Trustee or by such Registered Owners.

The Bondowners' Trustee or the owners of not less than 50% in principal amount of the Parity Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the owners of all of the Parity Bonds waive any past default under this resolution and any resolution authorizing the issuance of other Parity Bonds and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any of the Parity Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereto:

Section 8.8 Remedies Granted in Resolution Not Exclusive. No remedy conferred by this resolution upon or reserved to the Bondowners' Trustee or the owners of the Parity Bonds is intended to be exclusive of any other remedy, but each remedy shall be cumulative and shall be in addition to every other remedy given under this resolution or existing at law or in equity or by statute on or after the date of adoption of this resolution.

ARTICLE IX  
AMENDMENTS

Section 9.1 Execution of Instruments by Bondowners. Any request, direction, consent, or other instrument in writing required or permitted by this resolution to be signed or executed by Registered Owners may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such Owners in person or by agent appointed by an instrument in writing. Proof of the execution of any such instrument shall be sufficient for any purpose of this resolution if made in the following manner: (1) the fact and date of the execution by any person of any such instrument may be proved by either (a) an acknowledgment executed by a notary public or other officer empowered to take acknowledgments of deeds to be recorded in the particular jurisdiction, or (b) an affidavit of a witness to such execution sworn to before such a notary public or other officer. Where such execution is by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association, or partnership, such acknowledgment or affidavit shall also constitute sufficient proof of his authority.

The foregoing shall not be construed as limiting the District to such proof, it being intended that the District may accept any other evidence of the matters herein stated which it may deem sufficient. Any request or consent of the Registered Owner of any Parity Bond shall bind every future Outstanding of the same Parity Bond in respect of anything done by the District in pursuance of such request, direction or consent.

Section 9.2 Vote Required to Amend Resolution. Any amendment to the provisions of this resolution, may be made by a Supplemental Resolution of the District and with written consent, as provided in Section 9.3, of the Registered Owners of not less than 66-2/3% in principal amount of the Parity Bonds then Outstanding; provided, however, that no such amendment shall

(a) extend the date of payment of the principal of any Parity Bond or of any installment of interest thereon or reduce the principal or redemption price thereof or the rate of interest thereon or advance the date upon which any Parity Bond may first be called for redemption prior to its fixed maturity date; (b) give to any Parity Bond or Bonds any preference over any other Parity Bond or Bonds secured equally and ratably therewith; (c) reduce the aforesaid percentage of Parity Bonds, the Registered Owners of which are required to consent to any such resolution amending the provisions of this resolution; or (d) authorize the creation of any pledge prior to or, except as provided in this resolution for the issuance of Future Parity Bonds, on a parity with the pledge afforded by this resolution, without the consent of the Registered Owner of each such Parity Bond affected thereby.

Section 9.3 Alternate Method of Obtaining Approval of Amendments. The District may at any time adopt a resolution amending the provisions of this resolution, or of any Parity Bonds, to the extent that such amendment is permitted by the provisions of this Article, to take effect when and as provided in this section. Upon adoption of such resolution, the District shall mail a form of consent to the Registered Owners. Such resolution shall not be effective unless and until there shall have been filed with the District the written consents of the percentages of Registered Owners of Parity Bonds then Outstanding specified in Section 9.2 hereof and a notice shall have been published in The Bond Buyer. Each such consent shall be effective only if accompanied by proof of ownership of the Parity Bonds for which such consent is given. A certificate or certificates of the Secretary of the Commission that he or she has examined such proof and that such proof is sufficient shall be conclusive that the consents have been given by the Registered Owners of the Parity Bonds described in such certificate or certificates. Any such consent shall be binding upon the Registered Owner of the Parity Bonds giving such consent and on every subsequent Registered Owner of such Parity Bonds (whether or not such subsequent Registered Owner has notice thereof). A notice stating that the resolution has been consented to by the Registered Owners of the required percentages of Parity Bonds and will be effective as provided in this section, may be given to the Registered Owners by mailing such notice to the Registered Owners by first-class mail, and shall be given by publishing the same at least once in The Bond Buyer. A record, consisting of the papers required by this section to be filed with the District, shall be proof of the matters therein stated, and the resolution shall be deemed conclusively to be binding upon the District and the Registered Owners of all Parity Bonds at the expiration of 30 days after the notice last provided for in this section, except in the event of a final decree of a court of competent jurisdiction setting aside such consent or annulling the action taken thereby in a legal action or equitable proceeding for such purpose commenced within such period.

Section 9.4 Amendment of Resolution In Any Respect by Approval of All Bondowners. Notwithstanding anything contained in the foregoing provisions of this Article, the rights and obligations of the District and of the Registered Owners of the Parity Bonds and the terms and provisions of the Parity Bonds and of this resolution may be amended in any respect with the consent of the District, by the affirmative vote of the Registered Owners of all said Parity Bonds then Outstanding, such consent to be given as provided in Section 9.3, except that no notice to Registered Owners either by mailing or publication shall be required, and the amendment shall be effective immediately upon such unanimous vote or written consent of all of the Registered Owners.

Section 9.5 Parity Bonds Owned by District. Parity Bonds owned or held by or for the account of the District shall not be deemed Outstanding for the purpose of any vote or consent or other action or any calculation of Parity Bonds then Outstanding in this resolution provided for, and shall not be entitled to vote or consent or take any other action in this resolution provided for.

Section 9.6 Endorsement of Amendment on Parity Bonds. Parity Bonds delivered after the effective date of any action amending this resolution taken as hereinabove provided may bear a notation by endorsement or otherwise as to such action, and in that case, upon demand of the Registered Owner of any Parity Bond then Outstanding at such effective date and presentation of his or her Parity Bond for the purpose at the designated office of the Registrar, suitable notation shall be made on such Parity Bond by the Registrar as to any such action. If the District shall so determine, new Parity Bonds so modified as in the opinion of the District and its counsel to conform to such action shall be prepared, delivered and, upon demand of the Registered Owner of any Parity Bond then Outstanding, shall be exchanged without cost to such Outstanding for Parity Bonds then Outstanding hereunder, upon surrender of such Parity Bonds.

Section 9.7 Amendments by District.

(a) Notwithstanding the preceding provisions of this Article IX, or the provisions of Section 7.3(a)(4), the District from time to time and at any time may adopt a Supplemental Resolution or resolutions, which resolution or resolutions thereafter shall become a part of this resolution, for any one or more or all of the following purposes:

(1) To add to the covenants and agreements of the District contained in this resolution, other covenants and agreements thereafter to be observed, which shall not adversely affect the interest of the Registered Owners of any Parity Bonds or Future Parity Bonds in any material way, or to surrender any right or power herein reserved to or conferred upon the District.

(2) To make such provisions for the purpose of curing any ambiguities or of curing, correcting, or supplementing any defective provisions contained in this resolution or any resolution authorizing Future Parity Bonds in regard to matters or questions arising under such resolutions as the District may deem necessary or desirable and which shall not adversely affect the interest of the owners of such bonds in any material respect.

(3) To modify any of the provisions of this resolution in any other respect, if such modification does not adversely affect any Registered Owner in any material respect.

Any such Supplemental Resolution of the District may be adopted without the consent of the Registered Owners of any Parity Bonds or Parity Lien Obligations at any time Outstanding.

(b) Upon the adoption of any Supplemental Resolution pursuant to the provisions of this section, this resolution shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties, and obligations of the District under this resolution and all Registered Owners of Parity Bonds Outstanding hereunder shall thereafter be determined, exercised, and enforced thereunder, subject in all respects to such modification and amendments, and all the terms and conditions of any such Supplemental Resolution shall be deemed to be part of the terms and conditions of this resolution for any and all purposes.

ARTICLE X  
ONGOING DISCLOSURE

Section 10.1 Undertaking to Provide Ongoing Disclosure. The District covenants to execute and deliver on the date of issuance of the Bonds a Continuing Disclosure Certificate, and hereby covenants and agrees that it will comply with and carry out all of the provisions of such Continuing Disclosure Certificate. The Designated Representatives are each hereby authorized and directed to execute and deliver a Continuing Disclosure Certificate upon the issuance, delivery, and sale of the Bonds with such terms and provisions as such officer shall deem appropriate and in the best interests of the District, upon consultation with counsel to the District. Notwithstanding any other provision of this resolution, failure of the District to comply with a Continuing Disclosure Certificate shall not be considered an Event of Default as to the Bonds and shall not be deemed to create any monetary liability on the part of the District to any other persons, including the Registered Owners of the Bonds, or result in acceleration of the Bonds.

ARTICLE XI  
SALE OF THE BONDS

Section 11.1 Sale of the Bonds. The Bonds shall be sold at negotiated sale to the Underwriter pursuant to the terms of the Bond Purchase Contract. The Commission has determined that it would be in the best interest of the District to delegate to the Designated Representatives for a limited time the authority to determine whether to issue the Bonds as Taxable Bonds or Tax-Exempt Bonds, to designate the Refunding Candidates as Refunded Bonds, to establish the Reserve Account Requirement (if any) for the Bonds, and to approve the final interest rates, aggregate principal amount, principal amounts of each maturity, and redemption rights for the Bonds. The final determination of the terms for the Bonds shall be set forth in a Bond Purchase Contract to be signed by a Designated Representative.

The Designated Representatives are each hereby authorized to make such determinations with respect to the Bonds so long as:

- (a) the aggregate principal amount of the Bonds issued under this resolution does not exceed \$55,000,000;
- (b) the final maturity date for the Bonds is no later than January 1, 2044;
- (c) the Bonds are sold (in the aggregate) at a price not less than 90%;
- (d) the true interest cost for the Bonds (in the aggregate) does not exceed 6.0%; and
- (e) the Bonds conform to all other terms of this resolution.

The Bonds shall be sold by negotiated sale to the Underwriter. Subject to the terms and conditions set forth in this Section 11.1, the Designated Representatives are each hereby authorized to execute the Bond Purchase Contract.

Following the sale of the Bonds and the execution of a Bond Purchase Contract, a Designated Representative shall provide a report to the Commission describing the final terms of

the Bonds approved pursuant to the authority delegated in this section. The authority granted to the Designated Representatives by this Section 11.1 shall expire September 1, 2024. If the Bonds authorized herein have not been sold by September 1, 2024, and a Bond Purchase Contract has not been executed by such date, the Bonds shall not be issued nor their sale approved unless such Bonds shall have been re-authorized by resolution of the Commission. The resolution re-authorizing the issuance and sale of such Bonds may be in the form of a new resolution repealing this resolution in whole or in part or may be in the form of an amendatory resolution approving a bond purchase contract or establishing terms and conditions for the authority delegated under this Section 11.1.

Section 11.2 Preliminary and Final Official Statements.

(a) *Preliminary Official Statement.* The District hereby approves and authorizes the use and distribution of a Preliminary Official Statement by the Underwriter in connection with the offer and sale of the Bonds, including any amendments or supplements thereto. Prior to the distribution of the Preliminary Official Statement, the Designated Representatives are each hereby authorized, empowered, and directed to deem such Preliminary Official Statement final as of its date for purposes of the Rule (except for the omission of certain information as provided in and pursuant to Rule), such action to be conclusively evidenced by delivery of the Preliminary Official Statement to the Underwriter for distribution thereof.

(b) *Official Statement.* The Designated Representatives are each hereby authorized, empowered, and directed to execute and deliver a final Official Statement, including any amendments or supplements thereto, with such changes therein from the Preliminary Official Statement as such officer shall deem appropriate and in the best interests of the District, as conclusively evidenced by execution thereof. The Underwriter for the Bonds is hereby authorized to distribute the Official Statement in connection with the offer and sale of such Bonds.

ARTICLE XII  
MISCELLANEOUS

Section 12.1 Resolution a Contract. This resolution and the provisions of Title 54 RCW shall constitute a contract with the Registered Owners of each of the Bonds, enforceable by any Registered Owner of any Bond by mandamus or any other appropriate suit or action in any court of competent jurisdiction subject to the provisions of limitations on remedies contained in this resolution.

Section 12.2 Benefits of Resolution Limited to District, Bondowners, Registrar, and Bondowners' Trustee. Nothing in this resolution, expressed or implied, is intended or shall be construed to confer upon or give to any person or corporation other than the District, the Registrar, the Bondowners' Trustee, and the Registered Owners from time to time of the Bonds any rights, remedies, or claims under or by reason of this resolution or any covenant, condition, or stipulation thereof; and all the covenants, stipulations, promises, and agreements in this resolution contained by or on behalf of the District shall be for the sole and exclusive benefit of the District, the Registrar, the Bondowners' Trustee and the Registered Owners from time to time of the Bonds.

Section 12.3 Severability. If any one or more of the covenants or agreements provided in this resolution on the part of the District to be performed shall be declared by any court of competent jurisdiction to be contrary to law, then such covenant or covenants, agreement, or agreements shall be null and void and shall be deemed separable from the remaining covenants and agreements, and shall in no way affect the validity of the other provisions of this resolution or of the Bonds issued hereunder.

Section 12.4 General Authorization. The General Manager/Chief Executive Officer, the Chief Financial Officer/Treasurer, and the Senior Manager of Treasury and Financial Planning/Deputy Treasurer, and the President, Vice President and Secretary of the Commission and each of the other appropriate officers of the District are each hereby authorized and directed to take such steps, to do such other acts and things, and to execute such letters, certificates, agreements, papers, financing statements, assignments, or instruments as in their judgment may be necessary, appropriate, or desirable in order to carry out the terms and provisions of, and complete the transactions contemplated by, this resolution. Such documents may include, but are not limited to, documents related to Qualified Insurance and/or a municipal bond insurance policy delivered by an insurer to insure the payment when due of the principal of and interest on all or a portion of the Bonds as provided therein, if such insurance is determined by a Designated Representative to be in the best interest of the District.

Section 12.5 Prior Acts. All acts taken pursuant to the authority of this resolution but prior to its effective date are hereby ratified and confirmed.

Section 12.6 Effective Date. This resolution shall take effect immediately upon its adoption.

PASSED AND ADOPTED this 24th day of October, 2023.

PUBLIC UTILITY DISTRICT NO. 2 OF  
GRANT COUNTY, WASHINGTON

By \_\_\_\_\_  
President and Commissioner

\_\_\_\_\_  
Commissioner

\_\_\_\_\_  
Commissioner

\_\_\_\_\_  
Commissioner

\_\_\_\_\_  
Commissioner

\_\_\_\_\_  
Secretary of the Commission

**APPENDIX A:  
Refunding Candidates**

| Series   | Final Maturity Date | Outstanding Principal Amount |
|--|---------------------|------------------------------|
| Electric System Revenue Refunding Bonds, Series 2020-S (Mandatory Put Bonds) | 1/1/2044            | \$48,045,000                 |

**APPENDIX B:  
Bond Form**

The Bonds shall be in substantially the following form, with additions and deletions as permitted by the Resolution.

NO. \_\_\_\_\_ \$ \_\_\_\_\_

UNITED STATES OF AMERICA  
STATE OF WASHINGTON

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON  
ELECTRIC SYSTEM REVENUE REFUNDING BOND, SERIES 2023-V

INTEREST RATE: %                      MATURITY DATE:                      CUSIP NO.:

REGISTERED OWNER:

PRINCIPAL AMOUNT:

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, a municipal corporation of the state of Washington (the "District"), hereby acknowledges itself to owe and for value received promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, the Principal Amount indicated above and to pay interest from the date of delivery, or the most recent date to which interest has been paid or duly provided for, until payment of this bond at the Interest Rate set forth above, payable on \_\_\_\_\_, and semiannually thereafter on the first days of each succeeding \_\_\_\_\_ and \_\_\_\_\_. Both principal of and interest on this bond are payable in lawful money of the United States of America. For so long as the bonds of this issue are held in book-entry form, payments of principal and interest thereon shall be made as provided in accordance with the operational arrangements of The Depository Trust Company ("DTC") referred to in the Blanket Issuer Letter of Representations from the District to DTC.

Principal of and interest and premium, if any, on this bond are payable solely out of the special fund of the District known as the "Electric System Revenue Bond Fund" (the "Bond Fund"). This bond is not a general obligation of the District.

This bond is one of a duly authorized series of bonds aggregating \$ \_\_\_\_\_ in principal amount and designated as "Electric System Revenue Refunding Bonds, Series 2023-V." This bond and the bonds of the series of which it is a part (the "Bonds") are issued under and pursuant to Resolution No. 9031 of the District adopted on October 24, 2023 (the "Bond Resolution"), and under the authority of and in full compliance with the Constitution and laws of the state of Washington, including Title 54 of the Revised Code of Washington. The Bonds are issued for the purpose of refunding certain outstanding revenue bonds of the District, and paying costs of issuance for the Bonds. Terms not otherwise defined herein shall have the meanings set forth in the Bond Resolution.

The Bonds are being issued on a parity of lien on Gross Revenue of the Electric System with the District's Outstanding Parity Bonds, subject only to the prior payment of Operating Expenses. The District has reserved the right in the Bond Resolution to issue additional bonds ("Future Parity Bonds") and certain Parity Lien Obligations on a parity with the Bonds and the Outstanding Parity Bonds. The Outstanding Parity Bonds, the Bonds and any Future Parity Bonds are referred to herein as the "Parity Bonds."

Under the Bond Resolution, the District is obligated to set aside and pay into the Bond Fund out of the Gross Revenue of the Electric System, certain fixed amounts sufficient to pay the principal of and interest and premium, if any, on all Parity Bonds as the same become due and payable, all as is more fully provided in the Bond Resolution.

Copies of the Bond Resolution are on file at the office of the District, and reference thereto, and to any and all modifications and amendments thereof, is hereby made for a more complete description of the Gross Revenue available for the payment of the principal of, premium, if any, and interest on the Bonds and the rights and remedies of the Registered Owners of the Bonds with respect thereto, the terms and conditions upon which the Bonds have been issued, and the terms and conditions upon which this bond shall no longer be secured by the Bond Resolution or deemed to be Outstanding thereunder if money or certain specified securities sufficient for the payment of this bond shall have been set aside in a special account and held in trust for the payment thereof.

In and by the Bond Resolution, the District covenants to establish, maintain, and collect rates or charges for electric energy sold through the ownership or operation of the Electric System and all other services, facilities and commodities sold, furnished or supplied by the District in connection with the ownership or operation of the Electric System that shall be fair and nondiscriminatory and reasonably anticipated to provide Gross Revenue sufficient for the payment of the Parity Bonds, and any other indebtedness of the Electric System, and all payments that the District is obligated to set aside in the Bond Fund and for the proper operation and maintenance of the Electric System, all necessary repairs thereto and replacements and renewals thereof and all other costs of the Electric System.

This bond is subject to redemption prior to maturity as provided in the Bond Resolution and Bond Purchase Contract.

This bond shall be transferable by the Registered Owner at the designated office of the Registrar upon surrender and cancellation of this bond, and thereupon a new registered Bond of the same principal amount and interest rate and maturity will be issued to the transferee as provided in the Bond Resolution. The District, the Registrar, and any other person may treat the person in whose name this bond is registered as the absolute owner hereof for the purpose of receiving payment hereof and for all purposes.

This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Resolution until the Certificate of Authentication hereon shall have been manually signed by the Registrar.



It is hereby certified, recited and declared that all acts, conditions and things essential to the validity of this bond and the Bonds of this series, required by the Constitution and statutes of the state of Washington do exist, have happened and have been performed.

IN WITNESS WHEREOF, Public Utility District No. 2 of Grant County, Washington, by its Commission, has caused this bond to be executed in its name with the manual or facsimile signature of the President of its Commission, and attested by the manual or facsimile signature of the Secretary of the Commission and the seal of said District to be impressed or imprinted hereon, all as of the \_\_\_\_ day of \_\_\_\_\_, 2023.

PUBLIC UTILITY DISTRICT NO. 2 OF  
GRANT COUNTY, WASHINGTON

\_\_\_\_\_  
President of the Commission

(SEAL)

Attest:

\_\_\_\_\_  
Secretary of the Commission

CERTIFICATE OF AUTHENTICATION

Date of Authentication: \_\_\_\_\_

This bond is one of the revenue bonds described in the within mentioned Bond Resolution and is one of the Electric System Revenue Refunding Bonds, Series 2023-V, of Public Utility District No. 2 of Grant County, Washington.

WASHINGTON STATE FISCAL  
AGENCY, Registrar

By \_\_\_\_\_  
Authorized Signer

CERTIFICATE

I, the undersigned, Secretary of the Board of Commissioners of Public Utility District No. 2 of Grant County, Washington, and keeper of the records of said Commission (herein called the "Commission"), DO HEREBY CERTIFY:

1. That the attached is a true and correct copy of Resolution No. 9031 (herein called the "Resolution") of the Commission, duly passed at a regular meeting thereof held on the 24th day of October, 2023.

2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that a legal quorum was present throughout the meeting and a legally sufficient number of members of the Commission voted in the proper manner for the passage of said Resolution; that all other requirements and proceedings incident to the proper passage of said Resolution have been duly fulfilled, carried out and otherwise observed; and that I am authorized to execute this certificate.

DATED this 24th day of October, 2023.

\_\_\_\_\_  
Secretary, Board of Commissioners

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## **APPENDIX B**

### **FINANCIAL STATEMENTS OF THE DISTRICT**

*The District's audited financial statements for fiscal years ending December 31, 2021 and 2022 have been included in its 2022 Annual Report (the "Report"). The audited financial statements set forth in this Appendix B have been extracted from such Report for inclusion in this Official Statement. The entire Report, which is not incorporated herein by this reference, is available at <https://emma.msrb.org/P11677111-P11290856-P11720712.pdf>.*

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## Report of Independent Auditors

The Board of Commissioners  
Public Utility District No. 2 of Grant County, Washington

### Report on the Audit of the Financial Statements

#### **Opinion**

We have audited the financial statements of Public Utility District No. 2 of Grant County, Washington (the District) as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of December 31, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

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

#### **Emphasis of Matter**

As discussed in Note 1 of the financial statements, the District adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, effective January 1, 2021. The financial statements have been retroactively restated in accordance with the requirements of the new accounting standard. Our opinion is not modified with respect to this matter.

#### **Responsibilities of Management for the Financial Statements**

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

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the District's proportionate share of the net pension liability, schedule of the District's contributions, and the schedule of changes in the total OPEB liability and related ratios (collectively, "required supplementary information") be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

**Other Information**

Management is responsible for the other information included in the annual report. The other information comprises the commissioners' report, manager's report, and other information, such as the introductory and statistical information, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.



Seattle, Washington  
April 21, 2023

**Management's Discussion and Analysis (Unaudited)**  
**Years ended December 31, 2022 and 2021**

## **OVERVIEW OF GRANT PUD'S FINANCIAL STATEMENTS**

As of December 31, 2022, Public Utility District No. 2 of Grant County, Washington ("Grant PUD", "the utility" or "the District") is comprised of two operating systems: the Electric System and the Priest Rapids Project. The Electric System maintains 4,427 transmission and distribution line miles and other related infrastructure to serve retail load in Grant County. The Priest Rapids Project is operated under Federal Energy Regulatory Commission ("FERC") License, Project No. 2114 authorizing both the Priest Rapids Hydroelectric Production Development ("Priest Rapids") and Wanapum Hydroelectric Production Development ("Wanapum") to operate through April of 2052 as long as license requirements continue to be met. Priest Rapids consists of a dam and hydroelectric generating station with a nameplate rating of 950 Megawatts ("MW") and Wanapum consists of a dam and hydroelectric generating station with a nameplate rating of 1,222 MW. Priest Rapids is located on the Columbia River in Grant and Yakima Counties about 150 air miles northeast of the City of Portland, 130 air miles southeast of the City of Seattle, and 18 miles downstream of Wanapum, which spans Grant and Kittitas Counties.

This annual financial report consists of a series of financial statements and reflects the self-supporting, proprietary activities of Grant PUD funded primarily by the sale of electrical power. Grant PUD reports business-type activities in a manner similar to private business enterprises. Grant PUD's financial statements presented in this report consist of the Statements of Net Position, Statements of Revenues and Expenses and Changes in Net Position, Statements of Cash Flows, and the Notes to the Financial Statements.

The Statements of Net Position include all of Grant PUD's assets, liabilities, deferred outflows and inflows, and net position and provide information about the nature and amounts of investments in assets and the obligations of Grant PUD.

All the revenues and expenses of Grant PUD are accounted for in the Statements of Revenues and Expenses and Changes in Net Position. These statements measure the success of operations over the year and can be used to determine whether Grant PUD has successfully recovered all its costs through retail revenues and other charges.

The primary purpose of the Statements of Cash Flows is to provide information about Grant PUD's cash receipts and cash disbursements during the year. These statements report cash receipts, cash payments, and net changes in cash resulting from operating, financing, and investing activities.

The Notes to the Financial Statements provide additional information that is essential for a full understanding of the information provided in the three statements described above.

## **FINANCIAL HIGHLIGHTS**

The following discussion provides an overview of the financial activities for Grant PUD for the years ended December 31, 2022, 2021, and 2020. The discussion and analysis is designed to be used in conjunction with the financial statements, notes and other supplementary information, which follow this section.

Grant PUD produced a positive change in net financial position of \$90.4 million, \$75.2 million, as restated due to adoption of GASB Statement No. 87, Leases, and \$93.6 million during 2022, 2021, and 2020, respectively. Grant PUD continued to make the necessary investments in infrastructure, technology, and employees to ensure customers will continue to receive reliable power at long-term low prices. Additionally, the Commission approved the continued build out of the wholesale fiber network, which will provide connectivity to residents and businesses throughout the county that is critical to remaining competitive and keeping pace with the Information Age.

In-line with the District's key objective to provide long-term low rates, there were no retail rate increases in 2022, 2021, or 2020.

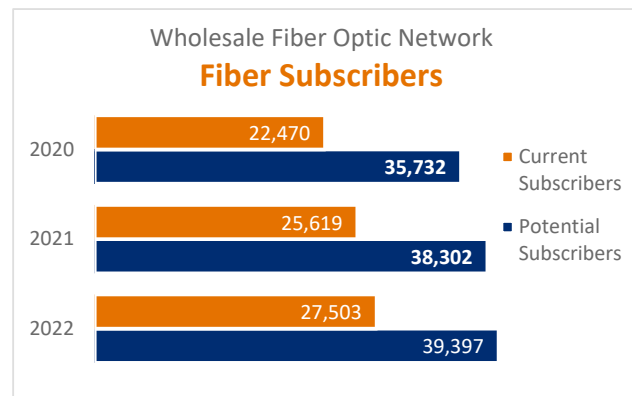
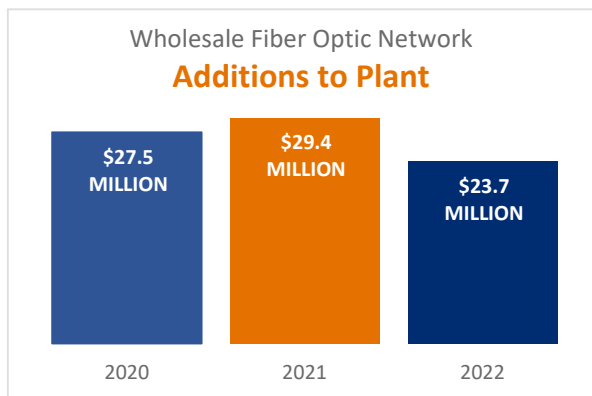


**Management’s Discussion and Analysis (Unaudited)**  
**Years ended December 31, 2022 and 2021**

**Electric System Significant Capital Projects:** Grant PUD is undertaking capital improvements to improve electric system reliability and serve expected load growth primarily in the large commercial and industrial customer classes. These improvements include upgrading and expanding substation, transmission, and distribution infrastructure. The Design Build 2 (DB2) Load Growth Project started in December 2019 with an estimated completion date of late 2024. In mid-2021, the first substation upgrade was completed with two additional substation upgrades completed in 2022. One new and one upgraded substation are scheduled for completion in 2023 with the final four new substations and an associated transmission line scheduled to be completed in 2024. Total costs as of December 31, 2022, for the project are \$79.5 million.

Grant PUD has completed the initiation phase of the Quincy Transmission Expansion Plan (QTEP) and is now in the planning phase. The project will include six transmission line segments one mile to 30 miles in length, one new switchyard with a high voltage capacitor bank (Monument Hill), expansion of the existing Mountain View switchyard, and expansion of existing Wanapum switchyard. This plan will increase the load limit in Quincy from approximately 300MW to 600MW, provide redundant transmission sources into the Quincy area, and provide a system configuration that allows the District to perform maintenance without requiring customer outages. Total budget for this project is estimated at \$163 million and total costs as of December 31, 2022, are \$8.9 million. Completion of this project is estimated to be in Q4 2028.

Grant PUD continued to expand its Wholesale Fiber Optic Network in 2022, 2021, and 2020. The Wholesale Fiber Optic Network expansion resulted in total additions of \$23.7 million, \$29.4 million, and \$27.5 million for years ended December 31, 2022, 2021, and 2020, respectively. Grant PUD continued to experience very high demand for new connections to our open-access fiber to the premises network. Currently, 70% of potential subscribers are using the network. Grant PUD will continue expanding access to the network and has budgeted \$21.8 million for design, materials, and construction in 2023.



**The Priest Rapids Project Significant Capital Projects:** In August of 2016, on-site construction began for the turbine life extension and generator rewind work at the Priest Rapids Dam Development. The first of ten turbines and generators were placed in service in January 2018, followed by the second unit in April 2019, the third unit in November 2020, with the most recent, fourth unit, in September 2022. Work is underway on the fifth unit (turbine and generator) and is scheduled to return to service in December 2023. An outage is expected to take approximately 14 months from the date the unit is removed from service to the time the unit is returned to service. Total costs to date of \$316.7 million includes control system upgrade costs, the turbine modeling and hydraulic design work and other preliminary costs for all units, completion of the first four units and costs for the fifth unit upgrade currently in progress.

**Management's Discussion and Analysis (Unaudited)**  
**Years ended December 31, 2022 and 2021**

**Financial Ratings:** Grant PUD maintains very high credit ratings, which are issued separately for the Electric System and the Priest Rapids Project and are as follows (Electric System/Priest Rapids Project): Fitch Rating Services AA/AA, Standard and Poor's Rating Services AA+/AA, and Moody's Investor Services Aa3/Aa3. The Electric System Ratings were published in July of 2021 (Fitch), August of 2020 (S&P), and December 2021 (Moody's), and the Priest Rapids Project ratings were published in July of 2021 (Fitch) and March of 2020 (S&P and Moody's) (refer to Note 6).

| <b>FINANCIAL RATINGS</b> |                        |                   |                           |
|--------------------------|------------------------|-------------------|---------------------------|
| Credit grade             | MOODY'S                | FITCH             | S&P                       |
| <b>HIGHEST</b>           | Aaa                    | AAA               | AAA                       |
| <b>VERY HIGH</b>         | Aa1, Aa2, Aa3          | AA+, AA, AA-      | AA+, AA, AA-              |
| <b>HIGH</b>              | A1, A2, A3             | A+, A, A-         | A+, A, A-                 |
| <b>GOOD</b>              | Baa1, Baa2, Baa3, Baa4 | BBB+, BBB, BB-    | BBB+, BBB, BB-            |
| <b>SPECULATIVE</b>       | Ba1, Ba2, Ba3          | BB+, BB, BB-      | BB+, BB, BB-              |
| <b>VERY SPECULATIVE</b>  | B1, B2, B3             | B+, B, B-         | B+, B, B-                 |
| <b>SUBSTANTIAL RISK</b>  | Caa1, Caa2, Caa3, Ca   | CCC, CC, C, RD, D | CCC+, CCC, CCC-, CC, C, D |

These high-grade credit ratings allow Grant PUD to acquire funding for capital investments at competitive interest rates. This reduces pressure on production costs at the Priest Rapids Project, which remains a very low-cost carbon free resource, and ultimately helps keep the Electric System's retail prices among the lowest in the nation.

During 2021, Grant PUD issued a \$50.0 million direct placement refunding bond, which resulted in no incremental increase in outstanding debt.

During 2020, Grant PUD issued \$517.4 million of refunding revenue bonds to defease and refinance outstanding debt. The result of the refundings was a reduction in the average coupon rate from 4.79% to 4.42% and a net present value savings of \$29.2 million.

In October 2021, Grant PUD was awarded a \$1.6 million broadband loan and grant contract. Distribution of funds occurred in 2022 which resulted in a \$0.7 million increase in outstanding debt.

**Priest Rapids Project Generation:** During the years ended December 31, 2022, 2021, and 2020, the Priest Rapids Project provided the following net megawatt hours ("MWh") of electric energy at an average cost as follows:

|                            | <b>2022</b> | <b>2021</b> | <b>2020</b> |
|----------------------------|-------------|-------------|-------------|
| Net Megawatt hours ("MWh") | 9,258,486   | 9,056,940   | 9,463,889   |
| Average Cost (per "MWh")   | \$ 20.74    | \$ 20.00    | \$ 18.02    |
| Average Water Supply*      | 111%        | 87%         | 104%        |

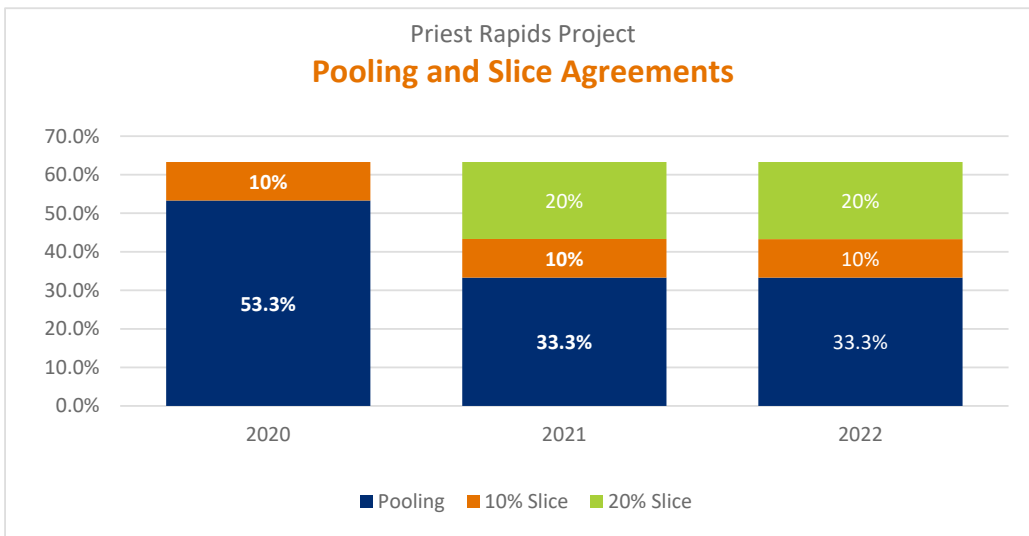
\*Average water supply is based on Rock Island Dam water supply compared to a 30-year average (October through September). The timing of runoff and spill requirements factor into the water available for generation from year to year.

**Management’s Discussion and Analysis (Unaudited)**  
**Years ended December 31, 2022 and 2021**

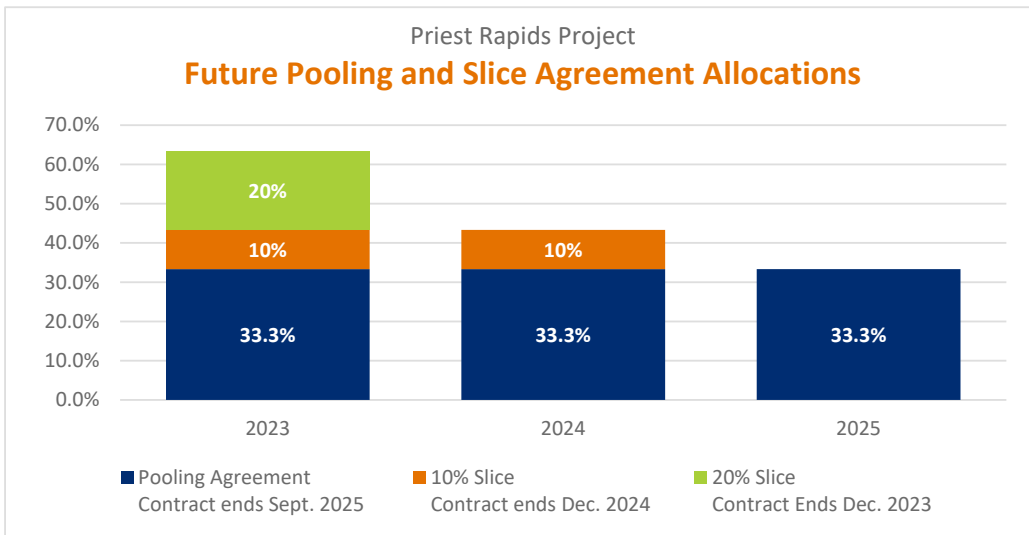
The Electric System’s energy risk management strategy capitalizes on the low cost of production of the Priest Rapids Project (PRP), without retaining an imprudent amount of water or price volatility risks as defined by our risk policies. Grant PUD enters wholesale contracts that aim to increase the predictability of net wholesale revenues by mitigating the effect of fluctuation of wholesale power prices and water variability for generation, which directly contributes to Grant PUD’s objective to maintain a strong financial position and have predictable retail prices well into the future.

**Priest Rapids Project Output:** As a strategy to hedge against water risks, Grant PUD has entered into various wholesale “slice” and pooling agreements to sell capacity and energy from its retained 63.3% share of the Priest Rapids Project output, resulting in predictable revenue and rate stability.

For the years ended December 31, 2022, 2021 and 2020, Grant PUD’s 63.3% retained share of the Priest Rapids Project output was allocated to pooling and slice agreements as follows:



Future pooling and slice agreement allocations are in place as follows:



**Management's Discussion and Analysis (Unaudited)**  
**Years ended December 31, 2022 and 2021**

**Slice Agreements:** The slice agreements sell capacity and energy to buyers who assume the associated water and wholesale price risks. Grant PUD obtains stable revenue from these sales. The slice agreements are paid in equal monthly installments over the term of each agreement and include firm energy purchases from each entity to help meet Grant's load. Grant PUD regularly monitors its exposure and retains the right to call for additional assurances at any time. Grant PUD has the right to curtail delivery in the event of nonpayment or non-delivery of firm energy.

**Pooling Agreements:** As noted above, pooling agreements greatly reduce the effect of variable water conditions at the Priest Rapids Project and fluctuations in wholesale power prices on revenues associated with Grant PUD's wholesale sales and purchases. Grant PUD's first pooling agreement expired September 30, 2020, and a new pooling agreement was entered into with a five year term beginning October 1, 2020 and ending September 29, 2025. Under a pooling agreement, the counterparty receives rights to the actual output of a portion of the Priest Rapids Project, which will vary with water conditions. In return, the counterparty provides firm power to meet Grant PUD's load, regardless of the actual output of the Priest Rapids Project, and certain scheduling services. Over the life of the agreement, the majority of these values will be offsetting and exchanged without cash payment; there will, however, be monthly payments owed by either the counterparty or Grant PUD due to the seasonal differences between capacity and energy amounts and loads. These payments are presented as a net sale or purchase. In addition, certain non-hydrological performance metrics are assumed at the beginning of the contract and monthly differences in these metrics are trued up and payment made by either the counterparty or Grant PUD. The amount of monthly payments over the term varies based upon actual performance versus the estimates at the time the pooling agreement was executed.

**Management's Discussion and Analysis (Unaudited)**  
**Years ended December 31, 2022 and 2021**

**CONDENSED COMPARATIVE FINANCIAL INFORMATION**  
(amounts in thousands)

| Condensed Statements of Net Position  | 2022                       | *As Restated               |                            |
|---|----------------------------|----------------------------|----------------------------|
|   |                            | 2021                       | 2020                       |
| <b>Assets</b>   |                            |                            |                            |
| Current   | \$ 239,255                 | \$ 220,470                 | \$ 233,689                 |
| Utility plant, net  | 2,361,634                  | 2,285,569                  | 2,195,405                  |
| Noncurrent  | 329,899                    | 402,945                    | 299,095                    |
| Total assets  | <u>2,930,788</u>           | <u>2,908,984</u>           | <u>2,728,189</u>           |
| Total deferred outflows of resources  | <u>52,409</u>              | <u>39,768</u>              | <u>44,517</u>              |
| <b>Total assets and deferred outflows of resources</b>                          | <b><u>2,983,197</u></b>    | <b><u>2,948,752</u></b>    | <b><u>2,772,706</u></b>    |
| <b>Liabilities</b>  |                            |                            |                            |
| Current   | 182,362                    | 162,220                    | 192,997                    |
| Noncurrent  | 1,216,257                  | 1,260,147                  | 1,232,352                  |
| Total liabilities   | <u>1,398,619</u>           | <u>1,422,367</u>           | <u>1,425,349</u>           |
| Total deferred inflows of resources   | <u>79,399</u>              | <u>111,621</u>             | <u>7,752</u>               |
| <b>Total liabilities and deferred inflows of resources</b>                      | <b><u>1,478,018</u></b>    | <b><u>1,533,988</u></b>    | <b><u>1,433,101</u></b>    |
| <b>Net position</b>   |                            |                            |                            |
| Net investment in capital assets  | 1,195,885                  | 1,105,074                  | 981,009                    |
| Restricted  | 311,545                    | 315,976                    | 307,194                    |
| Unrestricted  | (2,251)                    | (6,286)                    | 51,402                     |
| <b>Total net position</b>   | <b><u>1,505,179</u></b>    | <b><u>1,414,764</u></b>    | <b><u>1,339,605</u></b>    |
| <b>Total liabilities, deferred inflows of resources and net position</b>        | <b><u>\$ 2,983,197</u></b> | <b><u>\$ 2,948,752</u></b> | <b><u>\$ 2,772,706</u></b> |
| <b>Condensed Statement of Revenues and Expenses and Changes in Net Position</b> |                            |                            |                            |
| <b>Operating revenues</b>   |                            |                            |                            |
| Retail energy sales   | \$ 265,722                 | \$ 231,938                 | \$ 209,777                 |
| Wholesale revenues, net   | 99,238                     | 90,411                     | 81,974                     |
| Sales to power purchasers at cost   | 28,654                     | 23,584                     | 27,908                     |
| Other   | 16,165                     | 13,804                     | 12,385                     |
| <b>Total operating revenues</b>   | <b><u>409,779</u></b>      | <b><u>359,737</u></b>      | <b><u>332,044</u></b>      |
| <b>Operating Expenses</b>   |                            |                            |                            |
| Depreciation and amortization   | 80,307                     | 79,549                     | 78,677                     |
| Other operating expenses  | 201,123                    | 185,770                    | 152,392                    |
| <b>Total operating expenses</b>   | <b><u>281,430</u></b>      | <b><u>265,319</u></b>      | <b><u>231,069</u></b>      |
| Net Operating Income  | <u>128,349</u>             | <u>94,418</u>              | <u>100,975</u>             |
| Other revenues (expenses)   | (48,715)                   | (33,369)                   | (21,325)                   |
| Contributions in aid of construction  | 10,781                     | 14,110                     | 13,957                     |
| <b>Change in net position</b>   | <b><u>90,415</u></b>       | <b><u>75,159</u></b>       | <b><u>93,607</u></b>       |
| <b>Total net position - beginning of year</b>                                   | <b><u>1,414,764</u></b>    | <b><u>1,339,605</u></b>    | <b><u>1,245,998</u></b>    |
| <b>Total net position - end of year</b>   | <b><u>\$ 1,505,179</u></b> | <b><u>\$ 1,414,764</u></b> | <b><u>\$ 1,339,605</u></b> |

\* The District's 2021 Financial Statements were restated for the impacts of the required retroactive implementation of GASB Statement No. 87, Leases, which became effective for the District in 2022.

**Management's Discussion and Analysis (Unaudited)**  
**Years ended December 31, 2022 and 2021**

## **FINANCIAL ANALYSIS**

The following discussion provides comparative financial information for the years ended December 31, 2022, 2021, and 2020.

### **ASSETS AND DEFERRED OUTFLOWS**

Total assets and deferred outflows increased by \$34.4 million (1.2%) from 2021 to 2022. As a result of the adoption of GASB Statement No. 87, Leases, in fiscal year 2022, total assets and deferred outflows were restated from an increase of \$158.0 million (5.7%) to \$176.0 million (6.3%) from 2020 to 2021. The increase from 2021 to 2022 was primarily driven by continued investment in Utility plant, offset by a decrease in the PERS 2/3 net pension asset. The increase from 2020 to 2021 was primarily driven by continued investment in Utility plant, the PERS 2/3 pension plan becoming fully funded, which resulted in a \$65.2 million net pension asset, and the adoption of GASB Statement No. 87, Leases, which established current and non-current lease receivables of \$18.1 million. The continued capital investments in 2022 and 2021 align with Grant PUD's Strategic Plan objectives, which include reliably delivering power at long term low prices to customers.

Deferred outflows of resources related to losses on refundings were \$26.4 million, \$29.8 million, and \$33.9 million as of December 31, 2022, 2021, and 2020 respectively. The decrease of \$3.4 million from 2022 to 2021 and \$4.1 million from 2020 to 2021, respectively, is in-line with the annual amortization. Losses on refundings are being amortized over an average of 25 years. Deferred outflows of resources related to pensions were \$24.2 million, \$7.9 million, and \$8.3 million as of December 31, 2022, 2021, and 2020, respectively. Deferred outflows of resources related to pensions fluctuate due to Grant PUD recording its proportionate share of the increase or decrease in collective deferred outflows each year for the PERS plans as provided by the Department of Retirement Systems, partially offset by associated amortization.

### **LIABILITIES AND DEFERRED INFLOWS**

Total liabilities and deferred inflows decreased by \$56.0 million (3.6%) from 2021 to 2022. As a result of the adoption of GASB Statement No. 87, Leases, in fiscal year 2022, total liabilities and deferred inflows were restated from an increase of \$83.0 million (5.8%) to \$100.9 million (7.0%) from 2020 to 2021. The decrease from 2021 to 2022 is primarily due to decreases in long-term debt from regularly scheduled payments of \$31.7 million and fluctuations in pension obligations and related deferred inflows, resulting in a net decrease of \$24.9 million. The increase from 2020 to 2021 is primarily due to significant fluctuations in pension obligations and related deferred inflows, reinstating the no-net-impact liability, increases in unearned revenue, and an increase in lease deferred inflows accompanying the adoption of GASB Statement No. 87, Leases. For the year ended December 31, 2021, the pension plan experienced significant fluctuations, which prompted Grant PUD to invoke regulatory accounting for pensions (See Note 1 & Note 9). The net pension liability, deferred inflows, and regulatory liability resulted in a net increase of \$64.8 million. Unearned revenue increased \$26.6 million due to growth from large customers. During 2020, Grant PUD defeased and refinanced several bonds to reduce interest rates on outstanding debt. Grant PUD had approximately \$1.2 billion in bonded debt outstanding as of the year ended December 31, 2022, 2021, and 2020. During 2020, Grant PUD made the assertion that all no-net-impact requirements related to the Licensing Obligations had been satisfied, resulting in a decrease of \$20.6 million in Licensing Obligations. In 2021, a consensus was reached that no-net-impact requirements were not achieved, and the liability was reinstated, resulting in a net increase in Licensing Obligations of \$16.2 million. Grant PUD's annual Licensing Obligation payments for 2022, 2021, and 2020 were approximately \$2.7 million, \$2.4 million, and \$2.3 million, respectively.

Deferred inflows of resources related to pensions, including the regulatory liability were \$59.5 million, \$92.0 million, and \$7.8 million as of December 31, 2022, 2021, and 2020, respectively. Fluctuations occur from year to year due to the District's proportionate share of changes in pension plan actuarial assumptions. The decrease of \$32.5 million (35.3%) from 2021 to 2022 is attributed to changes in the pension plans projected and actual investment earnings

**Management's Discussion and Analysis (Unaudited)**  
**Years ended December 31, 2022 and 2021**

and changes in assumptions. The increase of \$84.2 million (1079.5%) from 2020 to 2021 is attributed to changes in the pension plans projected and actual investment earnings and changes of actuarial assumptions, which resulted in the PERS 2/3 plans becoming fully funded. Additional increases were from establishing a regulatory liability stemming from invoking regulatory accounting. Remaining amounts are amortized over future periods to the regulatory liability.

## NET POSITION

Total net position was \$1.5 billion, \$1.4 billion, and \$1.3 billion, as of December 31, 2022, 2021, and 2020, respectively. These increases have been driven by the positive changes in net position resulting from increased retail energy sales and net wholesale revenues, partially offset by increasing operating expenses. Refer to 'Statement of Revenues and Expenses and Changes in Net Position' section below for further analysis.

## STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION

**Operating Revenues:** Total operating revenues increased by \$50.0 million (13.9%) from 2021 to 2022 and increased by \$27.7 million (8.3%) from 2020 to 2021, which was the net result of several items discussed below:

Retail energy sales were \$265.7 million, \$231.9 million, and \$209.8 million in 2022, 2021, and 2020, respectively. Retail energy sales increased \$33.8 million (14.6%) from 2021 to 2022, and \$22.1 million (10.5%) from 2020 to 2021, primarily driven by continued load growth of residential, commercial, and industrial customers.

Wholesale revenues were \$99.2 million, \$90.4 million, and \$82.0 million in 2022, 2021, and 2020, respectively. These revenues are reflective of the individual ebbs and flows of power consumption, market forces on wholesale power prices and the timing and terms of various agreements the utility has in place. Grant PUD receives proceeds on an annual basis in accordance with long-term power sales contracts for Grant PUD load that is above the reserve 63.3% physical share of the Priest Rapids Project. These proceeds are then offset with the other wholesale transactions, including the pooling and slice agreements. Grant PUD experienced an increase in proceeds from long-term power sales contracts of \$52.3 million from 2021 to 2022 and \$15.2 million from 2020 to 2021, offset by decreases in all other wholesale transactions, including the pooling and slice agreements, of \$14.1 million from 2021 to 2022 and \$6.7 million from 2020 to 2021. Total net payments received by Grant PUD under the pooling agreements were \$10.0 million, \$5.9 million, and \$21.6 million in 2022, 2021, and 2020, respectively. The \$4.1 million increase from 2021 to 2022 was primarily driven by load and other true-up metrics. The \$15.7 million decrease from 2020 to 2021 was primarily driven by the new pooling agreement which changed from a 53.3% to 33.3% share of the Priest Rapids project. This decrease was offset by a \$19.5 million increase in revenue from the slice agreements, as shares increased from 10.0% to 30.0%.

Sales to power purchasers at cost were \$28.7 million, \$23.6 million, and \$27.9 million in 2022, 2021, and 2020, respectively. These revenues are directly tied to power costs as defined in the long-term power sales contracts and the proportion of the power costs that the power purchasers are responsible for per the contracts. Total contractual power costs were \$191.2 million, \$187.3 million, and \$170.5 million in 2022, 2021, and 2020, respectively. The percentage of these costs covered by power purchasers was (14.4%, 12.5%, and 16.4% in 2022, 2021, and 2020, respectively) which drove the relative increase and decrease in revenues versus total power costs in 2022 and 2021, respectively.

Other revenues were \$16.2 million, \$13.8 million, and \$12.4 million in 2022, 2021, and 2020, respectively. The largest driver of other revenues are Wholesale fiber optic network sales, which were \$12.8 million, \$12.0 million, and \$10.7 million, in 2022, 2021, and 2020, respectively. The increase of \$0.8 million (6.7%) from 2021 to 2022 and \$1.3 million (12.1%) from 2020 to 2021 are driven by the substantially improved take rates (percentage of system subscribed versus unsubscribed) and continued build out of the network.

**Management's Discussion and Analysis (Unaudited)**  
**Years ended December 31, 2022 and 2021**

**Operating Expenses:** Total operating expenses increased by \$16.1 million (6.1%) from 2021 to 2022 and \$34.3 million (14.8%) from 2020 to 2021, which were the net result of items discussed below:

Depreciation and amortization expenses were \$80.3 million, \$79.5 million, and \$78.7 million, in 2022, 2021, and 2020, respectively. These increases are consistent with the investment in utility plant and are affected by the timing of major units at the Priest Rapids Project being placed in service (two units were commissioned over a three-year period in November 2020 and September 2022).

Other operating expenses were \$201.1 million, \$185.8 million, and \$152.4 million, in 2022, 2021, and 2020, respectively. The increase of \$15.3 million (8.2%) from 2021 to 2022 is primarily attributed to an increase in purchased power of \$12.9 million. The increase of \$33.4 million (21.9%) from 2020 to 2021, was primarily attributed to an increase in labor and benefits of \$8.6 million, purchased services of \$5.7 million, IT equipment and software of \$3.0 million, and operating materials of \$2.7 million. The increase in labor and benefits was driven by budgeted wage increases and less labor supporting capital projects than anticipated.

**Other Revenues and Expenses:**

Total other revenue and expenses were \$(48.7) million, \$(33.4) million as restated from \$(33.6) due to adoption of GASB Statement No. 87, Leases, and \$(21.3) million in 2022, 2021, and 2020, respectively. The \$15.3 million (45.8%) net change from 2021 to 2022 is primarily from a decrease in interest and other income of \$16.2 million due to premium losses on investments, market volatility, and increased unrealized losses. The \$12.1 million (56.8%) net change as restated from 2020 to 2021 is primarily from a decrease in interest and other income of \$17.0 million due to premium losses on investments and market volatility creating significant swings in mark to market adjustments, resulting in a shift from net unrealized gains in 2020 to net unrealized losses in 2021. Decreases in amortization of debt related costs and debt issuance costs of \$5.6M partially offset the decrease in interest and other income.

Contributions in aid of construction ("CIACs") revenues were \$10.8 million, \$14.1 million, and \$14.0 million in 2022, 2021, and 2020, respectively. These revenues are earned as Grant PUD completes infrastructure requests funded by customers. Variability in numbers correlate with ongoing capital projects and customer requests.

**CONTACTING GRANT PUD'S FINANCIAL MANAGEMENT**

This report is designed to provide Grant PUD's customers, bondholders, creditors, and other interested parties with a general overview of Grant PUD's finances. For questions regarding this report or additional information, please contact Grant PUD's Chief Financial Officer, Bonnie Overfield, at [Boverfi@gcpud.org](mailto:Boverfi@gcpud.org), or at the Public Utility District No. 2 of Grant County, P.O. Box 878, Ephrata, Washington 98823.



## Statements of Net Position

December 31, 2022 and 2021  
(amounts in thousands)

|  | 2022                | 2021<br>(As Restated) |
|--|---------------------|-----------------------|
| <b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>       |                     |                       |
| <b>CURRENT ASSETS</b>                                  |                     |                       |
| Cash   | \$ 8,995            | \$ 2,837              |
| Investments  | 46,838              | 46,607                |
| Restricted funds                                       |                     |                       |
| Cash   | 1,138               | 941                   |
| Investments  | 104,237             | 99,055                |
| Customer accounts receivable, net                      | 45,597              | 46,377                |
| Materials and supplies                                 | 26,996              | 20,861                |
| Due from power purchasers                              | 1,595               | 535                   |
| Current lease receivable                               | 482                 | 390                   |
| Other current assets                                   | 3,377               | 2,867                 |
| <b>Total current assets</b>                            | <b>239,255</b>      | <b>220,470</b>        |
| <b>NONCURRENT ASSETS</b>                               |                     |                       |
| Utility plant, net                                     | 2,361,634           | 2,285,569             |
| Other noncurrent assets:                               |                     |                       |
| Investments  | 1,029               | 2,407                 |
| Restricted funds                                       |                     |                       |
| Cash   | 1,583               | 1,895                 |
| Investments  | 282,157             | 311,733               |
| Net pension assets                                     | 23,978              | 65,195                |
| Long-term lease receivable                             | 17,251              | 17,733                |
| Conservation loans                                     | 175                 | 254                   |
| Preliminary survey costs                               | 3,726               | 3,728                 |
| <b>Total other noncurrent assets</b>                   | <b>329,899</b>      | <b>402,945</b>        |
| <b>Total noncurrent assets</b>                         | <b>2,691,533</b>    | <b>2,688,514</b>      |
| <b>TOTAL ASSETS</b>                                    | <b>2,930,788</b>    | <b>2,908,984</b>      |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                  |                     |                       |
| Deferred outflows of resources - pensions              | 24,192              | 7,898                 |
| Deferred outflows of resources - OPEB                  | 1,785               | 2,077                 |
| Deferred outflows of resources - losses on refundings  | 26,432              | 29,793                |
| <b>Total deferred outflows</b>                         | <b>52,409</b>       | <b>39,768</b>         |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b> | <b>\$ 2,983,197</b> | <b>\$ 2,948,752</b>   |

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

## Statements of Net Position

December 31, 2022 and 2021  
(amounts in thousands)

|   | 2022                | 2021<br>(As Restated) |
|---|---------------------|-----------------------|
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>        |                     |                       |
| <b>CURRENT LIABILITIES</b>  |                     |                       |
| Accounts payable  |                     |                       |
| Trade   | \$ 40,591           | \$ 36,854             |
| Wages payable   | 16,667              | 16,110                |
| Accrued taxes   | 9,705               | 8,495                 |
| Customer deposits   | 8,656               | 7,411                 |
| Accrued bond interest   | 21,929              | 22,331                |
| Unearned revenue  | 32,355              | 21,072                |
| Habitat liability   | 17,804              | 17,662                |
| Current portion of licensing obligations                                  | 2,686               | 2,490                 |
| Current portion of long-term debt   | 31,969              | 29,795                |
|   | <u>182,362</u>      | <u>162,220</u>        |
| <b>NONCURRENT LIABILITIES</b>   |                     |                       |
| Long-term debt, less current portion                                      | 1,118,429           | 1,152,344             |
| Licensing obligations, less current portion                               | 66,221              | 68,505                |
| Net pension liability   | 13,893              | 6,298                 |
| Other post-employment benefits liability                                  | 8,101               | 8,956                 |
| Long-term unearned revenue  | 8,981               | 24,044                |
| Other long-term debt, less current portion                                | 632                 | -                     |
|   | <u>1,216,257</u>    | <u>1,260,147</u>      |
|   | <u>1,398,619</u>    | <u>1,422,367</u>      |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                      |                     |                       |
| Deferred inflows of resources - pension                                   | 24,539              | 67,372                |
| Regulatory liability - pension  | 34,949              | 24,634                |
| Deferred inflows of resources - OPEB                                      | 2,679               | 1,712                 |
| Deferred inflows of resources - Leases                                    | 17,232              | 17,903                |
|   | <u>79,399</u>       | <u>111,621</u>        |
|   | <u>1,478,018</u>    | <u>1,533,988</u>      |
| <b>NET POSITION</b>   |                     |                       |
| Net investment in capital assets  | 1,195,885           | 1,105,074             |
| Restricted  | 311,545             | 315,976               |
| Unrestricted  | (2,251)             | (6,286)               |
|   | <u>1,505,179</u>    | <u>1,414,764</u>      |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b> | <u>\$ 2,983,197</u> | <u>\$ 2,948,752</u>   |

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

## Statements of Revenues and Expenses and Changes in Net Position

Years Ended December 31, 2022 and 2021  
(amounts in thousands)

|   | 2022         | 2021<br>(As Restated) |
|---|--------------|-----------------------|
| OPERATING REVENUES                        |              |                       |
| Sales to power purchasers at cost         | \$ 28,654    | \$ 23,584             |
| Retail energy sales                       |              |                       |
| Residential                               | 51,018       | 46,211                |
| Irrigation                                | 27,011       | 28,756                |
| Commercial and industrial                 | 182,285      | 153,376               |
| Governmental and others                   | 5,408        | 3,595                 |
| Wholesale revenues, net                   | 99,238       | 90,411                |
| Fiber optic network sales                 | 12,775       | 12,046                |
| Other                                     | 3,390        | 1,758                 |
|   | <hr/>        | <hr/>                 |
| Total operating revenues                  | 409,779      | 359,737               |
| OPERATING EXPENSES                        |              |                       |
| Purchased power                           | 12,898       | -                     |
| Generation                                | 45,398       | 47,218                |
| Transmission                              | 3,446        | 2,975                 |
| Distribution                              | 36,169       | 36,459                |
| Customer and information services         | 5,023        | 4,056                 |
| Fiber optic network operations            | 2,767        | 2,772                 |
| Administrative and general                | 59,478       | 58,722                |
| License compliance and related agreements | 14,793       | 13,488                |
| Depreciation and amortization             | 80,307       | 79,549                |
| Taxes                                     | 21,151       | 20,080                |
|   | <hr/>        | <hr/>                 |
| Total operating expenses                  | 281,430      | 265,319               |
| NET OPERATING INCOME                      | <hr/>        | <hr/>                 |
|   | 128,349      | 94,418                |
| OTHER REVENUES (EXPENSES)                 |              |                       |
| Interest and other income (expense)       | (13,380)     | 2,786                 |
| Interest on revenue bonds and other, net  | (44,396)     | (44,857)              |
| Federal rebates on revenue bonds          | 10,427       | 10,484                |
| Amortization of debt related costs        | (1,366)      | (1,652)               |
| Cost of debt issuance                     | -            | (130)                 |
|   | <hr/>        | <hr/>                 |
| Total other revenue (expenses)            | (48,715)     | (33,369)              |
| CONTRIBUTIONS IN AID OF CONSTRUCTION      | <hr/>        | <hr/>                 |
|   | 10,781       | 14,110                |
| CHANGE IN NET POSITION                    | <hr/>        | <hr/>                 |
|   | 90,415       | 75,159                |
| NET POSITION                              |              |                       |
| Beginning of year                         | <hr/>        | <hr/>                 |
|   | 1,414,764    | 1,339,605             |
|   | <hr/>        | <hr/>                 |
| Total net position - end of year          | \$ 1,505,179 | \$ 1,414,764          |

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

## Statements of Cash Flows

Years Ended December 31, 2022 and 2021  
(amounts in thousands)

|  | 2022             | 2021<br>(As restated) |
|--|------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES                     |                  |                       |
| Cash received from retail energy sales                   | \$ 253,045       | \$ 230,446            |
| Cash received from sales to power purchasers at cost     | 27,594           | 23,082                |
| Cash received from wholesale revenues                    | 232,809          | 143,035               |
| Other cash receipts                                      | 18,505           | 15,500                |
| Cash received (paid) from customer deposits              | 1,245            | 1,853                 |
| Cash received (paid) for purchase of power               | (144,394)        | (50,650)              |
| Cash paid to contractors, suppliers, and employees       | (171,016)        | (163,503)             |
| Taxes paid   | (19,941)         | (19,407)              |
|  | <u>197,847</u>   | <u>180,356</u>        |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES |                  |                       |
| Principal paid on revenue bonds                          | (29,795)         | (29,295)              |
| Interest paid on revenue bonds                           | (44,798)         | (45,014)              |
| Federal interest rebates                                 | 10,427           | 15,769                |
| Bond proceeds  | -                | 50,000                |
| Other debt proceeds                                      | 681              | -                     |
| Payment on refunded debt                                 | -                | (50,000)              |
| Bond issuance cost                                       | -                | (130)                 |
| Principal received on leases                             | 391              | 369                   |
| Interest received on leases                              | 482              | 491                   |
| Cash received from contributions in aid of construction  | 22,787           | 25,849                |
| Licensing obligation payments                            | (2,490)          | (2,384)               |
| Acquisition and construction of plant assets             | (157,947)        | (151,002)             |
| Proceeds on sale of plant assets                         | 305              | 1,020                 |
|  | <u>(199,957)</u> | <u>(184,327)</u>      |
| CASH FLOWS FROM INVESTING ACTIVITIES                     |                  |                       |
| Purchase of investment securities                        | (782,792)        | (558,226)             |
| Sale of investment securities                            | 783,913          | 554,844               |
| Investment income proceeds                               | 7,032            | 4,593                 |
|  | <u>8,153</u>     | <u>1,211</u>          |
| <b>NET INCREASE (DECREASE) IN CASH</b>                   | <b>\$ 6,043</b>  | <b>\$ (2,760)</b>     |
| CASH AT BEGINNING OF YEAR                                | <u>5,673</u>     | <u>8,433</u>          |
| <b>CASH AT END OF YEAR</b>                               | <b>\$ 11,716</b> | <b>\$ 5,673</b>       |

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

## Statements of Cash Flows

Years Ended December 31, 2022 and 2021  
(amounts in thousands)

|   | 2022              | 2021<br>(As Restated) |
|---|-------------------|-----------------------|
| <b>Reconciliation of operating gain to net cash used for operating activities:</b>                    |                   |                       |
| Net operating income  | \$ 128,349        | \$ 94,418             |
| Adjustments to reconcile net operating income to net cash provided by (used in) operating activities: |                   |                       |
| Depreciation and amortization   | 80,307            | 79,549                |
| OPEB Expense - non cash portion   | 403               | 595                   |
| Leases  | (96)              | (12)                  |
| Accretion expense   | 403               | 232                   |
| Miscellaneous income  | 2,796             | 2,164                 |
| Provision for uncollectible accounts  | 26                | 129                   |
| Cash provided by (used in) changes in operating assets:   |                   |                       |
| Customer accounts receivable  | (14,674)          | 345                   |
| Materials and supplies  | (6,135)           | (1,770)               |
| Conservation loan   | 79                | 49                    |
| Receivable from (Payable to) power purchasers, net  | (1,060)           | (502)                 |
| Other current assets  | (501)             | (682)                 |
| Cash provided by (used in) changes in operating liabilities:  |                   |                       |
| Habitat funds   | 287               | 1,489                 |
| Trade and wages payables  | 5,565             | 2,381                 |
| Customer deposits   | 1,245             | 1,853                 |
| Accrued taxes   | 1,210             | 673                   |
| Unearned revenue on long-term contracts   | (357)             | (555)                 |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>  | <b>\$ 197,847</b> | <b>\$ 180,356</b>     |
| <b>Non-cash Investing, Capital and Related Financing Activities</b>                                   |                   |                       |
| Changes in construction costs included in accounts payable  | \$ (1,271)        | \$ 690                |
| Amortization of debt related costs, net   | (1,366)           | (1,652)               |
| Changes in unrealized gain(loss) on investments   | (24,418)          | (5,227)               |
| Gain(loss) on retirements, net  | -                 | 307                   |
| Change in licensing obligation  | -                 | 18,346                |

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

## 1. SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

### REPORTING ENTITY AND OPERATIONS OF GRANT PUD

Public Utility District No. 2 of Grant County, Washington (“Grant PUD” or “the utility”) is a municipal corporation of the state of Washington established in 1938 to serve the people of Grant County. Grant PUD comprises two operating systems: the Electric System and the Priest Rapids Project. Grant PUD is governed by an elected five-member Board of Commissioners (“Commissioners” or “the Commission”). The Commissioners’ responsibilities are to appoint the General Manager/Chief Executive Officer (CEO), approve budgets for Grant PUD’s systems, and adopt regulations. In addition, the Commission sets policies guiding financial and operating principles for the activities reported in these financial statements.

The Electric System is made up of Grant PUD’s electric transmission and distributions system in addition to a fiber-optic telecommunication system. The Priest Rapids Project is composed of Grant PUD’s Wanapum Dam and the Priest Rapids Dam. The Priest Rapids Project is operated under Federal Energy Regulatory Commission (“FERC”) License, Project No. 2114. Grant PUD also maintains a Service System to provide administrative services to the operating systems. Internal transactions, which consist of intersystem loans and intercompany transactions between Grant PUD’s reporting segments and the Service System, have been eliminated in the accompanying financial statements in accordance with accounting principles generally accepted in the United States of America. Grant PUD is required by its financing arrangements to maintain separate accounts and to report separately on each operating system (see Note 14).

### SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation and Accounting Standards** – Grant PUD maintains its accounts in accordance with accounting principles generally accepted in the United States of America for proprietary funds as prescribed by the Governmental Accounting Standards Board (“GASB”). Grant PUD’s accounting records generally follow the Uniform System of Accounts for public utilities and licensees prescribed by FERC. Grant PUD’s accounting records are further maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09.

Grant PUD’s financial statements are reported using the economic resources measurement focus and 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, transmission, distribution, and purchases of electricity or fiber are reported as operating revenue and expenses. All other revenues and expenses are reported as non-operating revenues and expenses.

The accompanying financial statements are those of Grant PUD, which generates, transmits, and distributes electric energy and wholesale fiber optic network services within Grant County, Washington.

The significant accounting and financial policies followed by Grant PUD are outlined below.

**Sales to power purchasers at costs** – Sales to power purchasers at cost are revenues associated with power sales from the Priest Rapids Project under the long-term Power Sales Contracts described in Note 7 and are recorded on a cost-based formula specified in the contracts which include operation and maintenance costs, 115% of debt service, and adjustments related to other factors. Depreciation, amortization, charges paid by the Renewal, Replacement and Contingency Fund, and Construction Funds are not considered costs of producing and delivering power for this purpose.

## Notes to the Financial Statements

**Retail Sales** – Grant PUD recognizes revenues associated with its retail customers when the power is delivered, which includes an estimate of revenue earned but not billed to customers as of year-end.

**Wholesale Sales and Purchases** – Grant PUD enters into various wholesale power purchase and sale agreements, for the purpose of securing a supply source that satisfies various peak load demand, to accommodate temporary outages, diversify supply and enhance reliability in accordance with prudent reliability standards, and to mitigate commercial risks arising from the potential change in values of owned assets due to hydrology fluctuations. Wholesale revenues, net is recognized when contractual obligations are met or ratably over the contract term (capacity payments) and presented net with simultaneously contracted energy purchases. Wholesale revenues, net includes slice agreements, pooling agreements, financial proceeds received for Grant PUD’s Estimated Unmet District Load “EUDL” as defined by the long-term Power Sales Contracts and booked-out transactions. When power purchases exceed the proceeds from the EUDL, the net difference is reported as Purchased power under operating expenses.

**Cash** – Grant PUD only classifies amounts held in demand deposit accounts as cash.

**Deposits and Investments** – Deposits and Investments of Grant PUD are stated at fair value (refer to Note 2 for additional details), except for investments in the Washington State Local Government Investment Pool (LGIP) which are reported at amortized cost.

Realized and unrealized gains and losses on investments are included in interest and other income on the Statements of Revenues and Expenses and Change in Net Position.

Short-term investments are defined as investments with a maturity of less than one year. The purchase and maturity of investment instruments are reported on a gross basis in the Statements of Cash Flows, with the exception of repurchase agreements, which are reported on a net basis.

Investments are made in accordance with allowable investments established by state statutes. Authorized investments include: 1) Bonds of the state of Washington and any local government in the state of Washington; 2) General obligation bonds of a state or local government of a state, of which bonds have at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency; 3) Registered warrants of a local government in the same county as the government making the investment (subject to compliance requirements); 4) Obligations of the U.S. Government and its agencies; 5) Federal home loan and federal land bank bonds and federal national mortgage association obligations whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve system; 6) Banker acceptances purchased on the secondary market; 7) Commercial paper and Corporate notes purchased in the secondary market, provided that the investments are to adhere to the investment policies and procedures adopted by the state investment board; and 8) the WA State LGIP Pool ( State Investment Pool).

**Materials and Supplies** – Materials and supplies consist of hydroelectric generation, transmission, and distribution assets as well as fiber optic cable and fiber-related supplies. All inventory amounts are recorded at average cost and include overhead charges.

**Customer accounts receivable, net** – Customer accounts receivable, net includes balances for uncollectible accounts and some credit customer balances. Management reviews accounts receivable on a regular basis to determine if any receivables will potentially be uncollectible. The allowance for uncollectible accounts includes amounts due from specific customers for which collection is in question. Such estimates are developed based on

## Notes to the Financial Statements

historical experience. As of December 31, 2022, and 2021, the allowance for uncollectible accounts was approximately \$0.8 million, and is included in Customer accounts receivable, net.

Additional credit balances exist for customers set up on budget pay plans and customers with prepayments on account for credit purposes. As of December 31, 2022, and 2021, total credit balances were approximately \$3.7 million and \$4.2 million, respectively.

**Contributions in Aid of Construction** – A portion of Grant PUD’s utility plant is financed through contributions from customers in accordance with the Customer Service and Interconnection policies. Additionally, a portion of utility plant may be financed through contributions from other sources, such as other governmental organizations or Fiber Optic Network Customers. Grant PUD recognizes capital contributions from these sources as non-operating revenue at the point at which it becomes nonrefundable. Grant PUD recognized \$10.8 and \$14.1 million of Contributions in Aid of Construction for the each of the years ended December 31, 2022, and 2021, respectively.

**Utility Plant** – Utility plant assets are recorded at cost including an allocation of internal payroll and other administrative and general costs associated with construction of the assets. Depreciation is determined by the straight-line method over the estimated life of the asset. Meters and transformers begin depreciating when received regardless of in-service date. Grant PUD’s asset lives used for computing depreciation range from five to 100 years, with an average rate of 2.52 percent and 2.33 percent for 2022 and 2021, respectively. Depreciation is calculated using the following estimated useful lives:

|                               |          |
|-------------------------------|----------|
| Generation                    | 5 to 100 |
| Transmission and Distribution | 5 to 65  |
| General                       | 5 to 55  |
| Fiber                         | 10 to 50 |

When Grant PUD retires portions of its Utility Plant, retirements are recorded against Accumulated Depreciation and the retired portion of Utility Plant is removed from the Plant in Service. When utility plant assets are retired, their original cost, together with removal costs, less salvage, are charged to accumulated depreciation. The costs of maintenance and repairs are charged to operations as incurred. Renewals, replacements, and betterments are capitalized per Grant PUD’s Asset Capitalization Policy. The Policy requires assets to have a minimum useful life of five years and minimum cost of \$10,000, except for permanent additions to transmission and distribution or wholesale fiber plant, which only require a useful life greater than one year. Grant PUD assesses its assets for obsolescence and possible impairment on a periodic basis. Once an asset has been identified as impaired due to a significant and unexpected decline in usable capacity, it is written down to reflect its current service utility and the associated impairment loss is charged either to operations or an extraordinary item depending on its nature.

**Preliminary Survey Costs** – Certain preliminary costs are capitalized in accordance with FERC accounting guidance, which allows the capitalization of preliminary surveys, plans, designs, investigations, etc., incurred for the purpose of determining the feasibility of utility projects under contemplation. If construction results, these costs are transferred to construction work in progress. A project that is unfeasible or abandoned is expensed in the current period.

**Due from/to Power Purchasers** – This balance represents the difference between estimated power costs collected by the Priest Rapids Project from power purchasers versus actual power costs, which will be settled with power purchasers the following year.



## Notes to the Financial Statements

**Debt Discounts, Premiums, and Issuance Costs** – Debt discounts and premiums relating to the sale of bonds are amortized over the lives of the related bonds using the constant yield method. Debt issuance costs are recognized in the period incurred. Debt issuance costs incurred prior to 2013 are being amortized over the life of the related debt.

**Refunding of Debt** – The gain or loss on refunding of debt is recognized as a deferred inflow or outflow of resources and amortized over the remaining life of the refunded or newly issued bond(s), whichever is shorter. If debt is extinguished using Grant PUD's existing resources, any resulting gain or loss is recognized during the current period.

**Incremental Borrowing Rate (IBR)** – The incremental borrowing rate used in determining the present value of lease payments is based on US Treasury rates, corresponding to the same term of lease contracts plus basis points (BSP), determined by GCPUD's historical borrowing spread and similar entities in the utility industry.

**Leases** – Grant PUD, as a lessee, recognizes a lease liability and an intangible right-to-use asset at the commencement of a lease, unless the lease is considered a short-term or transfers ownership of the underlying assets. Right-to-use lease assets are measured based on the net present value of the payments to be made over the term of the agreement, using Grant PUD's incremental borrowing rate. Remeasurement of the lease liability occurs when there is a change in the lease term and/or other changes that are likely to have a significant impact on the lease liability.

Amortization of the discount on the lease liability is reported as an outflow of resources. Payments are allocated first to the accrued interest liability and then to the lease liability. Variable lease payments based on the usage of the underlying assets are not included in the lease liability calculations and are recognized as outflows of resources in the periods in which the obligation for the payments is incurred.

Grant PUD, as a lessor, recognizes a lease receivable and deferred inflows of resources at the commencement of the lease term. The lease receivable is measured using the present value of the lease payments expected to be received for the lease term, based on Grant PUD's incremental borrowing rate, which approximates the discount rate Grant PUD charges the lessee. Leases with provisions for rent changes based on the consumer price index (CPI) or other market indexes, result in additional variable lease revenues that are not included in the measurement of the lease receivables. Deferred inflows of resources are measured at the value of the lease receivable in addition to any payments received at or before the commencement of the lease term related to future periods.

Amortization of the discount on the lease receivable is reported as interest revenue for that period. Deferred inflows of resources are recognized as lease revenue on a straight-line basis over the term of the lease. Any initial direct costs are reported as an outflow of resources for that period. Remeasurement of lease receivable occurs when there are modifications, including but not limited to changes in the lease charges, lease term, and adding or removing an underlying asset to the lease agreements. In the case of partial or full lease termination, Grant PUD will reduce the carrying value of the lease receivable and the related deferred inflow of resources and include a gain or loss for the difference.

Short-term leases are certain leases that, at the commencement of the lease term, have a maximum possible term under the lease contract of 12 months or less, including any options to extend, regardless of their probability of being exercised. Leases assessed by management as short-term, perpetual, or insignificant are recognized as outflows of resources (expenses) or inflows of resources (revenue) based on the payment provisions of the lease agreement.

**Unearned Revenue** – Contributions in aid of construction that are recorded as short-term or long-term unearned revenue depending on when construction associated with the contribution(s) is expected to take place. Additionally,

## Notes to the Financial Statements

Grant PUD has two long-term exchange contracts under which Grant PUD received collective prepayments of \$2.0 million that are being amortized into revenue on a straight-line basis over the life of these agreements.

**Revenue Taxes** – Utility revenue-based taxes assessed by governmental entities are accounted for as a separate cost collected from customers for remittance to those governmental entities. Therefore, revenue taxes paid to the taxing authorities are accounted for as an operating expense on the Statements of Revenues and Expenses and Changes in Net Position. Taxes collected from customers on behalf of other governmental entities are included in Retail energy sales in the Statements of Revenues and Expenses and Changes in Net Position.

**Net Position** – Grant PUD classifies net position into three components: Net investment in capital assets, Restricted, and Unrestricted. These classifications are defined as follows:

- *Net investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation reduced by the outstanding debt balances, net of unamortized debt expenses, and related unspent project and debt service funds.
- *Restricted* – This component of net position consists of assets with constraints placed on their use. Constraints include those imposed by debt trust indentures, grants or laws and regulations of other governments, or by law through constitutional provisions or enabling legislation.
- *Unrestricted* – This component of net position consists of net assets and liabilities that do not meet the definition of “restricted” or “net investment in capital assets.”

When Grant PUD restricts or designates funds for a specific purpose, and both restricted or designated and unrestricted resources are available for use, it is Grant PUD’s policy to use restricted and designated first, then unrestricted resources as they are needed.

**Restricted Bond Funds** – Grant PUD has established separate reserve fund accounts in accordance with certain bond issuances and related agreements. The assets in these funds are restricted for specific uses, including debt service and other reserve requirements.

**Significant Risk and Uncertainties** – Grant PUD is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include weather and natural-disaster-related disruptions, collective bargaining labor disputes, fish and other Endangered Species Act (“ESA”) issues, Environmental Protection Agency regulations, federal government regulations or orders concerning the operation, maintenance and/or licensing of hydroelectric facilities, and the changes to the regulatory environment of the electrical utility industry.

Grant PUD carries excess liability coverage with an annual aggregate limit of \$60 million with a self-insured retention of \$2 million per occurrence. It carries underlying liability policies for specific loss types such as foreign travel and non-owned aviation liability to protect Grant PUD from losses associated with these risks. Grant PUD also maintains property insurance coverage with an aggregate limit of \$200 million, protecting against significant losses at the Priest Rapids Project, the Electric System, and all of the various Grant PUD real properties, with deductibles up to \$2.5 million per loss, and subject to policy terms and conditions.

**Enterprise Risk Management** – Grant PUD’s Enterprise Risk Management activities are governed by its Enterprise Risk Management Policy. This policy directs how Grant PUD’s risks are to be considered in terms of their effects on the uncertainty and predictability of its key objectives. The Enterprise Risk Management policy at Grant PUD focuses on strategy and planning, management of uncertainty, reporting processes, policies/procedures, as well as corporate values and culture. Grant PUD’s governance structure and processes are centered on the management

## Notes to the Financial Statements

of risk. Effective risk management is regarded by employees as essential for the achievement of the organization's objectives. The Enterprise Risk Management Committee consists of senior management and the manager of Enterprise Risk Management. This body assists the Commission and CEO in fulfilling their corporate governance responsibilities regarding risk management for Grant PUD and its related entities.

**Energy Risk Management** – Grant PUD's power marketing activities are confined to balancing Grant PUD loads and resources and optimizing the value of the Priest Rapids Project for Electric System retail customers. The primary purpose of trading at the District is to meet the Electric System's project loads, mitigate power portfolio risk and stabilize power portfolio cost and revenue. The Energy Risk Oversight Committee consists of senior management in the areas of wholesale energy marketing, financial management, and risk management, and meets regularly to monitor marketing activities, corporate position, policies, and risk. The Energy Risk Oversight Committee has developed and maintains an Energy Risk Management Policy which has been adopted by Grant PUD. The policy outlines the parameters for transactions, trader and counterparty exposure, and establishes review protocols and reporting frequency for all power supply management activities. Grant PUD believes that its adherence to a periodic review of these policies and its controls assuring that they are pertinent and are being followed effectively limits the risk of substantial financial loss resulting from Grant PUD's power supply management activities.

**Personal Leave Benefit** – Employees of Grant PUD accrue personal leave benefit at rates dependent on year of service. Personal leave may be used for vacation, sick leave, or other employee absences. Unused personal leave may be accumulated up to a maximum of 1,200 hours for employees who began service prior to April 1, 2011. For employees hired on or after April 1, 2011, the maximum amount of accrued personal leave is 700 hours. Accrued liability for personal leave was \$13.0 million and \$12.8 million as of December 31, 2022 and 2021, respectively. These liabilities are presented as part of Wages payable. Additions to and deductions from accrued personal leave were \$8.5 million and \$8.3 million for 2022, and \$8.2 million and \$7.0 million for 2021.

**Use of Estimates** – The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Grant PUD has used significant estimates in determination of unbilled revenue, licensing obligations, allowance for uncollectible accounts, net pension and other postemployment benefits/liabilities, regulatory assets/liabilities, lease assets/liabilities and depreciable lives of utility plant.

**Pensions** – For purposes of measuring the net pension liability/(asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. Accordingly, the balances are generally reported as of June 30 instead of December 31 because the DRS' fiscal year ends on June 30 of each year. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value at the state pension plan level.

**Deferred Outflows/Inflows of Resources** – Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist of losses on refunding of debt, the effects of economic/demographic gains or losses and assumption changes or inputs related to the OPEB liability, contributions to pension plans subsequent to the June 30 measurement date, Grant PUD's proportionate share of deferred outflows related to

## Notes to the Financial Statements

those plans, and effects of economic/demographic gains or losses and assumption changes or inputs. Pension plan contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the following year. Deferred outflows of resources for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred outflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of Grant PUD's proportionate share of deferred inflows related to pension plans, regulatory liabilities, and deferred inflows related to leases. Pension deferred inflows of resources for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred inflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan. Deferred inflow of resources for leases are amortized over the term of the lease. Regulatory liabilities related to pensions are adjusted annually for changes in pension expense.

**Regulated Operations** – The board of commissioners establishes rates to be charged for Grant PUD services, which recover the costs of providing services to customers. Grant PUD follows industry accounting and capitalization principles for regulated operations. Accordingly, certain expenses and credits, normally reflected in the Statement of Revenues, Expenses and Changes in Net Position as incurred, are recognized when included in rates and recovered from, or refunded to, customers. Regulatory assets or liabilities are recorded to reflect rate-making actions of the Commissioners.

GASB 62 outlines the concept of regulatory accounting for entities or operations that are rate regulated, allowing certain expenses and revenues normally reflected in the Change in Net Position as incurred to be recognized when they are included in rates and recovered from, or refunded to, customers. As of the year ended December 31, 2021, Grant PUD elected to invoke regulatory accounting for the annual GASB 68 pension adjustment. This election was implemented on a prospective basis and resulted in establishing a regulatory liability account, where the annual actuarially determined pension expense is deferred on the balance sheet, rather than recognized as incurred on the income statement. The annual pension expense reported in the Change in Net Position is equivalent to actual contributions made by Grant PUD to the pension plan, which is consistent with rate calculations.

**Reclassifications** – Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 presentation.

## Notes to the Financial Statements

### ACCOUNTING STANDARD CHANGES

In March 2020, GASB issued Statement No. 93, “*Replacement of Interbank Offered Rates.*” The primary objective of this Statement is to establish accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivatives instruments. As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form after December 31, 2021. The requirements of Statement 93 are effective for reporting periods ending after June 15, 2020, and December 31, 2021. Grant PUD redeemed its only LIBOR based debt product on July 1, 2021, and adoption of this statement resulted in no impact to the financial statements.

In May 2019, GASB issued Statement No. 91, “*Conduit Debt Obligations*”. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangement associated with conduit debt obligations, and (3) related note disclosures. The requirements of Statement No. 91 are effective for reporting periods beginning after December 15, 2021. Grant PUD has evaluated and determined the District does not hold conduit debt, resulting in GASB Statement No. 91 having no impact to the financial statements.

In January 2020, GASB issued Statement No. 92, “*Omnibus 2020*”. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues for eight recent pronouncements, including GASB 87, “*Leases*”, GASB 84, “*Fiduciary Activities*”, and GASB 83, “*Asset Retirement Obligations*”. The requirements of Statement 92 are effective for reporting periods beginning after June 15, 2021. Grant PUD adopted GASB Statement No. 92 in conjunction with GASB Statement No. 87 for fiscal yearend 2022, with no additional impact other than those recognized with the original implementation of the referenced standards.

In October 2021, GASB issued Statement No. 98, “*The Annual Comprehensive Financial Report.*” The primary objective of this statement is to establish the term *annual comprehensive financial report* and its acronym *ACFR*. That new term and acronym replace instances of *comprehensive annual financial report* and its acronym in generally accepted accounting principles for state and local governments. The requirements of Statement 98 are effective for reporting periods ending after December 15, 2021. Grant PUD adopted GASB Statement No. 92 for fiscal year 2022, with no impact to the financial statements.

### Change in Accounting Principle - Leases

In June 2017, GASB issued Statement No. 87, “*Leases.*” The primary objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. For governmental organizations, the requirements of this statement are effective for reporting periods beginning after June 15, 2021. Grant PUD adopted GASB Statement No. 87 effective January 1, 2021. Refer to additional disclosure information found in Notes 1 and 4.

## Notes to the Financial Statements

There were no material cumulative effect adjustments recorded to net position upon adoption. The 2021 financial statements have been restated as follows:

### Impacts to the District's Statement of Net Position

| (amounts in thousands)   | Restated 2021<br>Balance   | 2021 Balance as<br>Previously reported |
|--|----------------------------|--|
| <b>CURRENT ASSETS</b>  |                            |  |
| Customer accounts receivable, net  | \$ 46,377                  | \$ 46,389                              |
| Current lease receivable   | 390                        | -                                      |
| Other current assets   | 2,867                      | 2,867                                  |
| Total current assets   | <u>220,470</u>             | <u>220,092</u>                         |
| <b>NONCURRENT ASSETS</b>   |                            |  |
| Long-term lease receivable   | 17,733                     | -                                      |
| Total other noncurrent assets  | <u>402,945</u>             | <u>385,212</u>                         |
| Total noncurrent assets  | <u>2,688,514</u>           | <u>2,670,781</u>                       |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>                   | <u><u>2,948,752</u></u>    | <u><u>2,930,641</u></u>                |
| <b>DEFERRED INFLOWS</b>  |                            |  |
| Leases, deferred inflow  | 17,903                     | -                                      |
| Total deferred inflows   | <u>111,621</u>             | <u>93,719</u>                          |
| Total liabilities and deferred inflows of resources                      | <u>1,533,988</u>           | <u>1,516,085</u>                       |
| <b>NET POSITION</b>  |                            |  |
| Unrestricted   | (6,286)                    | (6,494)                                |
| Total net position   | <u>1,414,764</u>           | <u>1,414,556</u>                       |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b> | <u><u>\$ 2,948,752</u></u> | <u><u>\$ 2,930,641</u></u>             |

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

| (amounts in thousands)           | Restated 2021<br>Balance | 2021 Balance as<br>Previously reported |
|----------------------------------|--------------------------|--|
| <b>OPERATING REVENUES</b>        |                          |  |
| Other                            | \$ 1,758                 | \$ 1,758                               |
| Total operating revenues         | <u>359,737</u>           | <u>359,737</u>                         |
| <b>NET OPERATING INCOME</b>      | <u>94,418</u>            | <u>94,418</u>                          |
| <b>OTHER REVENUES (EXPENSES)</b> |                          |  |
| Interest and other income        | 2,786                    | 2,578                                  |
| Total other revenue (expenses)   | <u>(33,369)</u>          | <u>(33,577)</u>                        |
| <b>CHANGE IN NET POSITION</b>    | <u><u>\$ 75,159</u></u>  | <u><u>\$ 74,951</u></u>                |

## Notes to the Financial Statements

### ACCOUNTING STANDARDS IMPACTING THE FUTURE

Grant PUD is currently evaluating the financial statement impact of adopting the following Statements:

In March 2020 GASB issued Statement No. 94, *“Public-Private and Public-Public Partnerships and Availability Payment Arrangements.”* The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPP). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset for a period of time in an exchange or exchange-like transaction. The Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs), which are arrangements in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of Statement No. 94 are effective for reporting periods beginning after June 15, 2022.

In May 2020, GASB issued Statement No. 96 *“Subscription-Based Information Technology Arrangements.”* The primary objectives of this Statement are to better meet the information needs of financial statement users by establishing uniform accounting and financial reporting requirements for subscription-based information technology arrangements (SBITAs), to improve the comparability of financial statements among governments that have entered into SBITAs, and to enhance the understandability, reliability, relevance, and consistency of information about SBITAs. The requirements of Statement 96 are effective for reporting periods beginning after June 15, 2022.

In April 2022, GASB issued Statement No. 99, *“Omnibus 2022.”* The primary objective of this statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

In June 2022, GASB issued Statement No. 100, *“Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62.”* The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. The requirements of Statement 100 are effective for reporting periods beginning after June 15, 2023.

In June 2022, GASB issued Statement No. 101, *“Compensated Absences.”* The primary objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of Statement 101 are effective for reporting periods beginning after December 15, 2023.

## Notes to the Financial Statements

### 2. CASH AND INVESTMENTS

Grant PUD’s cash deposits at December 31, 2022 and 2021, were either covered by federal depository insurance or protected against loss by being on deposit with financial institutions recognized as qualified public depositories of the state of Washington under the Revised Code of Washington (“RCW”) Chapter 39. Subject to specific bond resolution limitations, management is permitted to invest as provided under the laws of the state of Washington.

Unspent cash, and associated investments received in connection with bond offerings are maintained in funds as required by Grant PUD’s bond indentures. Restricted assets represent funds that are restricted by bond covenants or third-party contractual agreements. Funds that are allocated by Commission resolution are considered to be restricted assets. However, their use may be redirected at any time with Commission approval. Additionally, the Electric System Reserve and Contingency Fund’s board resolution explicitly includes the ability to transfer rate stabilization resources out of the fund to be available for debt service coverage in any given year, if required. There were no transfers from rate stabilization resources in 2022 or 2021.

As of December 31, 2022, and 2021, Grant PUD’s unrestricted and restricted assets included on the Statement of Net Position as Cash and Investments, including accrued interest, consisted of the following:

| (amounts in thousands)                                  | 2022              | 2021              |
|---|-------------------|-------------------|
| Unrestricted assets:                                    |                   |                   |
| Revenue and Service System funds                        | \$ 56,862         | \$ 51,851         |
| Total unrestricted assets                               | <u>56,862</u>     | <u>51,851</u>     |
| Restricted assets:                                      |                   |                   |
| Electric System Reserve and Contingency fund            | 98,182            | 106,739           |
| Self-Insurance Reserve fund                             | 1,227             | 1,214             |
| Total board designated assets                           | <u>99,409</u>     | <u>107,953</u>    |
| Construction funds                                      | 28,367            | 45,327            |
| Bond Sinking funds                                      | 190,251           | 185,218           |
| Debt Service Reserve funds                              | 41,778            | 45,112            |
| Priest Rapids Renewal, Replacement and Contingency fund | 12,011            | 12,020            |
| Habitat funds   | 17,299            | 17,994            |
| Total restricted assets                                 | <u>289,706</u>    | <u>305,671</u>    |
| Total restricted and board designated assets            | <u>389,115</u>    | <u>413,624</u>    |
| Total cash and investments                              | <u>\$ 445,977</u> | <u>\$ 465,475</u> |



## Notes to the Financial Statements

**Interest Rate Risk** – Grant PUD’s investment policy and investment oversight committee governs and monitors investment position limitations as a means of managing its exposure to fair value losses arising from increasing interest rates and to ensure compliance with state law. To further mitigate the risk of selling investments early to meet unexpected cash flow needs, a minimum of 20% of the total portfolio will consist of investments maturing within one year. To the extent possible, Grant PUD matches its investments with anticipated cash flow requirements such as operating, construction, habitat, and current-year debt service. Other funds such as reserves, and long-term sinking funds are invested within targeted effective duration parameters as determined by the investment oversight committee. With the exception of reserve and long-term sinking funds, Grant PUD will not invest in securities with an effective duration of more than six years from the date of purchase unless authorized by the investment oversight committee for specific transactions. Callable investments are assumed to be held to final maturity.

Below are Grant PUD’s investment maturities as of December 31, 2022, and 2021:

| 2022<br>(amounts in thousands) | Investment Maturities (in Years) |                   |                   |                  |                  |
|--------------------------------|----------------------------------|-------------------|-------------------|------------------|------------------|
|                                | Total                            | Less Than 1       | 1-5               | 6-10             | More Than 10     |
| U.S. Treasuries                | \$ 94,693                        | \$ 59,244         | \$ 34,909         | \$ 540           | \$ -             |
| Municipal Bonds                | 124,119                          | 9,382             | 63,780            | 21,869           | 29,088           |
| U.S. Agencies Bonds            | 72,414                           | 16,811            | 49,106            | 6,497            | -                |
| Supranational Institutions     | 21,210                           | 5,739             | 15,471            | -                | -                |
| Corporate Notes                | 28,111                           | 6,511             | 21,600            | -                | -                |
| State Investment Pool          | 91,747                           | 91,747            | -                 | -                | -                |
| <b>Total</b>                   | <b>\$ 432,294</b>                | <b>\$ 189,434</b> | <b>\$ 184,866</b> | <b>\$ 28,906</b> | <b>\$ 29,088</b> |

| 2021<br>(amounts in thousands) | Investment Maturities (in Years) |                   |                   |                  |                  |
|--------------------------------|----------------------------------|-------------------|-------------------|------------------|------------------|
|                                | Total                            | Less Than 1       | 1-5               | 6-10             | More Than 10     |
| U.S. Treasuries                | \$ 85,444                        | \$ 46,659         | \$ 38,475         | \$ 310           | \$ -             |
| Municipal Bonds                | 136,203                          | 11,575            | 66,932            | 23,541           | 34,155           |
| U.S. Agencies Bonds            | 75,258                           | 19,873            | 50,720            | 4,665            | -                |
| Supranational Institutions     | 46,252                           | 25,231            | 21,021            | -                | -                |
| Corporate Notes                | 33,225                           | 15,137            | 18,088            | -                | -                |
| State Investment Pool          | 81,452                           | 81,452            | -                 | -                | -                |
| <b>Total</b>                   | <b>\$ 457,834</b>                | <b>\$ 199,927</b> | <b>\$ 195,236</b> | <b>\$ 28,516</b> | <b>\$ 34,155</b> |

## Notes to the Financial Statements

**Credit Risk** – Grant PUD’s investment policy complies with state law and specifies minimal credit rating acceptability criteria of potential investment issuers. Pursuant to the investment policy, the minimum credit rating requirement at the time of investment purchase is one of the three highest credit ratings of a nationally recognized rating agency. Additionally, state law limits investments in commercial paper and corporate notes to adhere to the investment policies and procedures adopted by the state investment board, which requires commercial paper to be rated with the highest short-term credit rating category of any two major Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase and corporate notes to be rated at least weak single-A or better by all of the major rating agencies that rate the note at the time of purchase. Not rated (NR) securities at the end of fiscal year 2021 are due to a prefunded security, which resulted in bond funds in escrow at December 31, 2021.

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

### Investment Rating (S&P) Equivalent

| 2022<br>(amounts in thousands) | Total<br>Fair Value | Long-term        |                  |                  |                  |                 |             |             | Short-term  |             |             |
|--------------------------------|---------------------|------------------|------------------|------------------|------------------|-----------------|-------------|-------------|-------------|-------------|-------------|
|                                |                     | AAA              | AA+              | AA               | AA-              | A+              | A           | A-          | NR          | A-1+        | A-1         |
| Municipal Bonds                | \$ 124,119          | \$ 39,804        | \$ 24,176        | \$ 46,045        | \$ 12,353        | \$ 1,741        | -           | -           | \$ -        | \$ -        | \$ -        |
| U.S. Agencies Bonds            | 72,414              | 72,414           | -                | -                | -                | -               | -           | -           | -           | -           | -           |
| Supranational Institutions     | 21,210              | 21,210           | -                | -                | -                | -               | -           | -           | -           | -           | -           |
| Corporate Notes                | 28,111              | 8,535            | -                | 11,225           | 3,239            | 5,112           | -           | -           | -           | -           | -           |
| <b>Total</b>                   | <b>\$ 245,854</b>   | <b>\$141,963</b> | <b>\$ 24,176</b> | <b>\$ 57,270</b> | <b>\$ 15,592</b> | <b>\$ 6,853</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ -</b> |

| 2021<br>(amounts in thousands) | Total<br>Fair Value | Long-term        |                  |                  |                  |                  |                 |             | Short-term   |                 |             |
|--------------------------------|---------------------|------------------|------------------|------------------|------------------|------------------|-----------------|-------------|--------------|-----------------|-------------|
|                                |                     | AAA              | AA+              | AA               | AA-              | A+               | A               | A-          | NR           | A-1+            | A-1         |
| Municipal Bonds                | \$ 136,203          | \$ 32,133        | \$ 39,733        | \$ 33,168        | \$ 24,224        | \$ 6,161         | 733             | -           | \$ 51        | \$ -            | \$ -        |
| U.S. Agencies Bonds            | 75,258              | 1,000            | 69,459           | -                | -                | -                | -               | -           | -            | 4,799           | -           |
| Supranational Institutions     | 46,252              | 46,252           | -                | -                | -                | -                | -               | -           | -            | -               | -           |
| Corporate Notes                | 33,225              | 4,089            | 10,219           | 1,046            | 6,895            | 7,346            | 3,630           | -           | -            | -               | -           |
| <b>Total</b>                   | <b>\$ 290,938</b>   | <b>\$ 83,474</b> | <b>\$119,411</b> | <b>\$ 34,214</b> | <b>\$ 31,119</b> | <b>\$ 13,507</b> | <b>\$ 4,363</b> | <b>\$ -</b> | <b>\$ 51</b> | <b>\$ 4,799</b> | <b>\$ -</b> |

## Notes to the Financial Statements

**Custodial Credit Risk** – Grant PUD’s investment policy requires that securities purchased are held by a master custodian or other entity legally allowed to act as an independent third party on behalf of Grant PUD within that entity’s trust department.

**Concentration of Credit Risk** – Grant PUD’s investment policy states that with the exception of direct U.S. Government obligations, repurchase agreements collateralized by the same, and the state investment pool, no more than 50% of the total portfolio par value will be invested in government sponsored agencies, supranational institutions, or municipal bonds, and no more than 25% of the total portfolio par value will be invested in corporate bonds and commercial paper. Credit concentration of Grant PUD’s investment portfolio is actively monitored by the investment oversight committee as required by Grant PUD’s investment policy.

The investment oversight committee actively monitors portfolio composition and seeks to ensure prudent diversification is maintained. The following are the concentrations of risk greater than 5% in either year.

The credit ratings listed are from Standard and Poor’s Rating Services as of December 31, 2022, and 2021.

| Investments by Issuer                  | Credit Rating | 2022 | 2021 |
|--|---------------|------|------|
| Federal Farm Credit Banks Funding Corp | AA+           | 9%   | 9%   |

Grant PUD’s investments at December 31, 2022, and 2021, as identified on the Statements of Net Position, are shown below by investment type. All investments are either issued or registered in the name of Grant PUD or are held by Grant PUD or by Grant PUD’s agent in Grant PUD’s name, except for funds held in the Washington State Local Government Investment Pool which are not evidenced by securities. The difference between the totals shown in the previous table and table below is accrued interest of \$2.0 million and \$2.0 million for 2022 and 2021, respectively.

During 2022 and 2021, Grant PUD recognized \$7.0 million and \$4.3 million of interest income, respectively. The net (loss)gain in the fair value of investments held at December 31, 2022, and 2021 was (\$24.3) million and (\$5.1) million, respectively.

Investments by type as of December 31, 2022, and 2021, were as follows:

| (amounts in thousands)            | 2022              |             | 2021              |             |
|-----------------------------------|-------------------|-------------|-------------------|-------------|
| U.S. Treasuries                   | \$ 94,693         | 21%         | \$ 85,444         | 19%         |
| Municipal Bonds                   | 124,119           | 28%         | 136,203           | 29%         |
| U.S. Agencies Bonds               | 72,414            | 16%         | 75,258            | 16%         |
| Supranational Institutions        | 21,210            | 5%          | 46,252            | 10%         |
| Corporate Notes                   | 28,111            | 6%          | 33,225            | 7%          |
| State Investment Pool             | 91,747            | 21%         | 81,452            | 18%         |
| <b>Total investments</b>          | <b>\$ 432,294</b> | <b>97%</b>  | <b>\$ 457,834</b> | <b>99%</b>  |
| Cash                              | 11,716            | 3%          | 5,673             | 1%          |
| <b>Total cash and investments</b> | <b>\$ 444,010</b> | <b>100%</b> | <b>\$ 463,507</b> | <b>100%</b> |

## Notes to the Financial Statements

**Investments in Local Government Investment Pool (LGIP)** – Grant PUD is a participant in the State Local Government Investment Pool authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool that transacts with its participants at a stable net asset value per share of \$1.00. The pool portfolio is invested in a manner that meets the maturity, quality, diversification, and liquidity requirements set forth by GASB Statement 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost.

Participants may contribute and withdraw funds on a daily basis and must inform the LGIP of any contribution or withdrawal over \$1.0 million no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for \$1.0 million or less can be requested at any time prior to 10:00 a.m. on the day of the transaction. However, participants may complete transactions greater than \$1.0 million when notification is made between 9:00 a.m. and 10:00 a.m., at the sole discretion of the LGIP. The LGIP is unrated and does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, and online at <http://www.tre.wa.gov>.

**Fair Value Measurements** – Grant PUD’s investments have been adjusted to reflect fair value measurements as of December 31, 2022, obtained from available financial industry valuation sources. Grant PUD categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, “Fair Value Measurement and Application.” The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Grant PUD valued its U.S. Treasuries using quoted prices in active markets. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities’ relationship to benchmark quoted prices.

Below are Grant PUD’s fair value measurements as of December 31, 2022, and 2021:

### Investments by fair value level

| (amounts in thousands)                       | Total<br>2022     | Fair Value Measurements |                   |             | Not Leveled<br>(amortized cost) |
|--|-------------------|-------------------------|-------------------|-------------|---------------------------------|
|  |                   | Level 1                 | Level 2           | Level 3     |                                 |
| Debt Securities                              |                   |                         |                   |             |                                 |
| Municipal Bonds                              | \$ 124,119        | \$ -                    | \$ 124,119        | \$ -        | \$ -                            |
| U.S. Treasuries                              | 94,693            | 69,422                  | 25,271            | -           | -                               |
| U.S. Agencies Bonds                          | 72,414            | -                       | 72,414            | -           | -                               |
| Supranational Institutions                   | 21,210            | -                       | 21,210            | -           | -                               |
| Corporate Notes                              | 28,111            | -                       | 28,111            | -           | -                               |
| State Investment Pool                        | 91,747            | -                       | -                 | -           | 91,747                          |
| <b>Total investments by fair value level</b> | <b>\$ 432,294</b> | <b>\$ 69,422</b>        | <b>\$ 271,125</b> | <b>\$ -</b> | <b>\$ 91,747</b>                |

## Notes to the Financial Statements

| (amounts in thousands)                       | Total             | Fair Value Measurements |                   |             | Not Leveled      |
|--|-------------------|-------------------------|-------------------|-------------|------------------|
|  | 2021              | Level 1                 | Level 2           | Level 3     | (amortized cost) |
| Debt Securities                              |                   |                         |                   |             |                  |
| Municipal Bonds                              | \$ 136,203        | \$ -                    | \$ 136,203        | \$ -        | \$ -             |
| U.S. Treasuries                              | 85,444            | 57,674                  | 27,770            | -           | -                |
| U.S. Agencies Bonds                          | 75,258            | -                       | 75,258            | -           | -                |
| Supranational Institutions                   | 46,252            | -                       | 46,252            | -           | -                |
| Corporate Notes                              | 33,225            | -                       | 33,225            | -           | -                |
| State Investment Pool                        | 81,452            | -                       | -                 | -           | 81,452           |
| <b>Total investments by fair value level</b> | <b>\$ 457,834</b> | <b>\$ 57,674</b>        | <b>\$ 318,708</b> | <b>\$ -</b> | <b>\$ 81,452</b> |

### 3. UTILITY PLANT

Utility plant of Grant PUD as of December 31, 2022, and 2021, is summarized as follows:

| (amounts in thousands)                       | Balance<br>2021     | Additions        | Retirements/<br>Transfers | Balance<br>2022     |
|--|---------------------|------------------|---------------------------|---------------------|
| Land and land rights                         | \$ 31,181           | \$ -             | \$ -                      | \$ 31,181           |
| Construction in progress                     | 196,412             | 155,843          | (138,902)                 | 213,353             |
| <b>Total nondepreciable assets</b>           | <b>227,593</b>      | <b>155,843</b>   | <b>(138,902)</b>          | <b>244,534</b>      |
| Distribution facilities                      | 669,213             | 920              | 38,037                    | 708,170             |
| Transmission facilities                      | 268,511             | -                | 510                       | 269,021             |
| Hydro facilities                             |                     |                  |                           |                     |
| Power plant structures                       | 147,205             | -                | -                         | 147,205             |
| Reservoirs, dams, waterways                  | 517,431             | -                | 496                       | 517,927             |
| Power plant equipment                        | 879,195             | -                | 54,181                    | 933,376             |
| General facilities                           |                     |                  |                           |                     |
| Quincy Chute (Note 7)                        | 19,799              | -                | -                         | 19,799              |
| Potholes East Canal (Note 7)                 | 16,491              | -                | -                         | 16,491              |
| Other generation                             | 30                  | -                | -                         | 30                  |
| General plant                                | 621,690             | -                | 31,284                    | 652,974             |
| FERC License                                 | 141,863             | -                | -                         | 141,863             |
| Other intangible assets                      | 51,741              | -                | 3,746                     | 55,487              |
| <b>Total depreciable assets</b>              | <b>3,333,169</b>    | <b>920</b>       | <b>128,254</b>            | <b>3,462,343</b>    |
| Accumulated depreciation<br>and amortization | (1,275,193)         | (80,483)         | 10,433                    | (1,345,243)         |
| <b>Total depreciable assets, net</b>         | <b>2,057,976</b>    | <b>(79,563)</b>  | <b>138,687</b>            | <b>2,117,100</b>    |
| <b>Total net utility plant</b>               | <b>\$ 2,285,569</b> | <b>\$ 76,280</b> | <b>\$ (215)</b>           | <b>\$ 2,361,634</b> |

## Notes to the Financial Statements

| (amounts in thousands)                    | Balance<br>2020     | Additions        | Retirements/<br>Transfers | Balance<br>2021     |
|---|---------------------|------------------|---------------------------|---------------------|
| Land and land rights                      | \$ 25,216           | \$ -             | \$ 5,965                  | \$ 31,181           |
| Construction in progress                  | 119,049             | 150,764          | (73,401)                  | 196,412             |
| <b>Total nondepreciable assets</b>        | <b>144,265</b>      | <b>150,764</b>   | <b>(67,436)</b>           | <b>227,593</b>      |
| Distribution facilities                   | 648,318             | 1,709            | 19,186                    | 669,213             |
| Transmission facilities                   | 265,526             | -                | 2,985                     | 268,511             |
| Hydro facilities                          |                     |                  |                           |                     |
| Power plant structures                    | 144,236             | -                | 2,969                     | 147,205             |
| Reservoirs, dams, waterways               | 517,761             | -                | (330)                     | 517,431             |
| Power plant equipment                     | 863,209             | 3,964            | 12,022                    | 879,195             |
| General facilities                        |                     |                  |                           |                     |
| Quincy Chute (Note 7)                     | 19,499              | -                | 300                       | 19,799              |
| Potholes East Canal (Note 7)              | 16,491              | -                | -                         | 16,491              |
| Other generation                          | 30                  | -                | -                         | 30                  |
| General plant                             | 590,454             | -                | 31,236                    | 621,690             |
| FERC License                              | 123,517             | 18,346           | -                         | 141,863             |
| Other intangible assets                   | 56,514              | 121              | (4,894)                   | 51,741              |
| <b>Total depreciable assets</b>           | <b>3,245,555</b>    | <b>24,140</b>    | <b>63,474</b>             | <b>3,333,169</b>    |
| Accumulated depreciation and amortization | (1,194,415)         | (80,008)         | (770)                     | (1,275,193)         |
| <b>Total depreciable assets, net</b>      | <b>2,051,140</b>    | <b>(55,868)</b>  | <b>62,704</b>             | <b>2,057,976</b>    |
| <b>Total net utility plant</b>            | <b>\$ 2,195,405</b> | <b>\$ 94,896</b> | <b>\$ (4,732)</b>         | <b>\$ 2,285,569</b> |

## 4. LEASES

### *Grant PUD as Lessee*

Grant PUD, as lessee, has entered into various agreements for land, buildings, equipment, vehicles and access rights for land and infrastructure. As of December 31, 2022, and 2021, these agreements were determined to be insignificant, perpetual, or short-term and not recognized as right-to-use assets under GASB Statement No. 87.

### *Grant PUD as Lessor*

Grant PUD leases land and land access rights, buildings and facilities, as well as infrastructure connection points under various agreements. A large majority of these agreements are insignificant, perpetual or short-term and were not recognized as lease receivables under GASB Statement No. 87. Contracts recognized are non-cancellable with provisions that provide fixed rental payments and expire between 2026 and 2052. Grant PUD, as lessor, recognizes a lease receivable and deferred inflow of resources at the commencement of the lease term, with certain exceptions as discussed in Note 1.

### *Land Leases*

Grant PUD leases land under various agreements. As of December 31, 2022, and 2021, the terms for land agreements are more than thirty years, expiring in 2052. The agreements allow for annual CPI increases and require an appraisal every 10 years. CPI increases result in additional variable lease revenues that are not included in the measurement of the lease receivables. Grant PUD uses an interest rate of 2.75%, based on US Treasury rates, corresponding to the same term of the lease contract plus effective basis points (BSP). During the years ended

## Notes to the Financial Statements

December 31, 2022, and 2021, Grant PUD recognized \$0.6 million in lease revenue and \$0.5 million in interest income each year.

### General Plant Leases

Grant PUD leases pole attachments under a general plant lease. The agreement held a term of five years, expiring in 2026. Grant PUD used an interest rate of 2.02%, based on US Treasury rates, corresponding to the same term of the lease contract plus BSP. During the years ended December 31, 2022, and 2021, Grant PUD recognized \$96.0 thousand and \$12.0 thousand in lease revenue and \$9.4 thousand and \$1.2 thousand in interest income, respectively.

### Remeasurement

For the fiscal years ended December 31, 2022, and 2021, remeasurement of lease liabilities and receivables were not required.

For fiscal year ended December 31, 2022, Grant PUD recognized the following activity related to the leases as lessor:

| (amounts in thousands) | Balance at        |             | Receipts        | Balance at        |  |
|------------------------|-------------------|-------------|-----------------|-------------------|--|
|                        | December 31, 2021 | Additions   |                 | December 31, 2022 |  |
| Land and land rights   | \$ 17,645         | \$ -        | \$ (379)        | \$ 17,266         |  |
| General plant          | 478               | -           | (11)            | 467               |  |
| Total                  | <u>\$ 18,123</u>  | <u>\$ -</u> | <u>\$ (390)</u> | <u>\$ 17,733</u>  |  |

For fiscal year ended December 31, 2021, Grant PUD recognized the following activity related to the leases as lessor:

| (amounts in thousands) | Balance at        |                  | Receipts        | Balance at        |  |
|------------------------|-------------------|------------------|-----------------|-------------------|--|
|                        | December 31, 2020 | Additions        |                 | December 31, 2021 |  |
| Land and land rights   | \$ -              | \$ 18,014        | \$ (369)        | \$ 17,645         |  |
| General plant          | -                 | 478              | -               | 478               |  |
| Total                  | <u>\$ -</u>       | <u>\$ 18,492</u> | <u>\$ (369)</u> | <u>\$ 18,123</u>  |  |

Future lease revenues are as follows:

| (amounts in thousands) | Land & Land Rights |                 | General Plant |                | Total            |
|------------------------|--------------------|-----------------|---------------|----------------|------------------|
|                        | Lease Revenue      | Lease Interest  | Lease Revenue | Lease Interest |                  |
| 2023                   | \$ 390             | \$ 470          | \$ 92         | \$ 9           | \$ 961           |
| 2024                   | 401                | 459             | 94            | 8              | 962              |
| 2025                   | 412                | 448             | 96            | 6              | 962              |
| 2026                   | 423                | 436             | 185           | 5              | 1,049            |
| 2027                   | 435                | 425             | -             | -              | 860              |
| 2028-2032              | 2,365              | 1,935           | -             | -              | 4,300            |
| 2033-2037              | 2,713              | 1,586           | -             | -              | 4,299            |
| 2038-2042              | 3,112              | 1,187           | -             | -              | 4,299            |
| 2043-2047              | 3,570              | 729             | -             | -              | 4,299            |
| 2048-2052              | 3,445              | 209             | -             | -              | 3,654            |
| Total                  | <u>\$ 17,266</u>   | <u>\$ 7,884</u> | <u>\$ 467</u> | <u>\$ 28</u>   | <u>\$ 25,645</u> |

## 5. LICENSING

The Priest Rapids Project is operated under a 44-year FERC license that expires in 2052. Costs associated with the relicensing efforts, totaling \$57.1 million, were recorded as an intangible asset included in Utility plant and are being amortized over the term of the license. Accumulated amortization related to the relicensing efforts totaled \$31.3 million and \$29.4 million as of December 31, 2022, and 2021, respectively.

Under the license, Grant PUD is committed to numerous obligations related to fish and habitat protection that require payments to other organizations using funds provided by Grant PUD. The present value of these obligations totaled \$68.9 million as of December 31, 2022, of which approximately \$2.7 million is expected to be paid within one year. The present value of the obligations for December 31, 2021, was \$71.0 million. These amounts are the FERC Licensing Obligations reflected as liabilities in the Statement of Net Position. The elements of these obligating payments, comprising the Salmon and Steelhead Agreement, Part A (Hatchery Renovation) and Part B (Resident Fish Monitoring and Trout Purchase), are further discussed in Note 8.

Grant PUD's FERC License also contains requirements related to recreation sites, cultural resources, and various other requirements. Grant PUD has achieved compliance with many of these license terms and is actively implementing plans to comply with remaining requirements in a cost-effective manner in consultation with various stakeholders.



**Notes to the Financial Statements**

**6. LONG-TERM DEBT**

*Long-term Debt*

Grant PUD’s total principal of outstanding debt and coupon interest rate is presented below:

(amounts in thousands)

| Issue   | Final Maturity | Interest Rate | 2022                | 2021                |
|---|----------------|---------------|---------------------|---------------------|
| <u>Electric System Revenue Bonds</u>                                  |                |               |                     |                     |
| 2017-O Bonds  | 1/1/2047       | 5.00%         | 59,170              | 64,545              |
| 2020-Q Bonds  | 1/1/2041       | 1.83%-3.34%   | 73,180              | 73,985              |
| 2020-R Bonds <sup>(1)</sup>   | 1/1/2044       | 2.00%-8.00%   | 47,190              | 47,190              |
| 2020-S Bonds <sup>(1)</sup>   | 1/1/2044       | 2.00%-8.00%   | 48,045              | 48,045              |
| <u>Priest Rapids Project Revenue Bonds</u>                            |                |               |                     |                     |
| 2005-Z-PR Bonds <sup>(2)</sup>  | 1/1/2033       | 5.40%-5.50%   | 16,240              | 18,180              |
| 2006-Z-PR Bonds <sup>(2)</sup>  | 1/1/2036       | 5.33%         | 24,165              | 25,310              |
| 2006-Z-WAN Bonds <sup>(2)</sup>                                       | 1/1/2043       | 5.33%-5.42%   | 74,625              | 76,535              |
| 2010-L Bonds  | 1/1/2040       | 4.96%-5.83%   | 157,735             | 161,165             |
| 2010-M Bonds  | 1/1/2027       | 5.63%         | 90,000              | 90,000              |
| 2010-Z Bonds  | 1/1/2040       | 5.41%-5.83%   | 30,140              | 30,520              |
| 2012-B Bonds  | 1/1/2023       | 5.00%         | 1,905               | 3,730               |
| 2012-M Bonds  | 1/1/2032       | 3.91%         | 42,395              | 42,395              |
| 2012-Z Bonds  | 1/1/2035       | 2.92%-4.16%   | 9,510               | 10,090              |
| 2015-M Bonds  | 1/1/2040       | 4.58%         | 90,000              | 90,000              |
| 2017-B Bonds  | 1/1/2031       | 2.65%         | 5,435               | 5,965               |
| 2020-Z Bonds  | 1/1/2043       | 1.79%-3.31%   | 122,700             | 124,750             |
| 2020-Z2 Bonds   | 1/1/2044       | 1.52%-3.05%   | 199,200             | 209,025             |
| <u>Direct Placement and Direct Borrowing</u>                          |                |               |                     |                     |
| 2021-T Bonds  | 6/10/2024      | SIFMA Based   | 50,000              | 50,000              |
| PWB Broadband Loan  | 10/31/2036     | 0.44%         | 681                 | -                   |
| <b>Total bonds, direct placement and direct borrowing outstanding</b> |                |               | <b>\$ 1,142,316</b> | <b>\$ 1,171,430</b> |

<sup>(1)</sup> The 2020-R and 2020-S Bonds were issued as mandatory put bonds bearing interest at a fixed term interest rate of 2% for the initial term interest rate period ending on their mandatory tender dates of December 1, 2025 and December 1, 2023 respectively. If the Purchase Price of all of the Bonds of a either series is not paid on the Mandatory Tender Date, a Delayed Remarketing Period for such Bonds will commence on such date. During the Delayed Remarketing Period, the Bonds of a series will bear interest at the "Stepped Interest Rate," which equals 6.00% per annum for 90 days, then 8.00% per annum thereafter.

<sup>(2)</sup> Bonds issued prior to 2010 were reported as separate systems.

## Notes to the Financial Statements

Scheduled debt service requirements to maturity for debt are as follows:

| (amounts in thousands) | Revenue Bonds       |                   | Direct Borrowing and Direct Placement |                 | Total               |
|------------------------|---------------------|-------------------|---------------------------------------|-----------------|---------------------|
|                        | Principal           | Interest          | Principal                             | Interest        |                     |
| 2023                   | \$ 31,920           | \$ 43,710         | \$ 48                                 | \$ 1,743        | \$ 77,421           |
| 2024                   | 29,005              | 46,913            | 50,049                                | 921             | 126,888             |
| 2025                   | 29,800              | 45,460            | 49                                    | 3               | 75,312              |
| 2026                   | 30,675              | 47,861            | 49                                    | 2               | 78,587              |
| 2027                   | 121,595             | 45,956            | 49                                    | 2               | 167,602             |
| 2028-2032              | 237,845             | 177,078           | 243                                   | 7               | 415,173             |
| 2033-2037              | 189,890             | 125,543           | 194                                   | 2               | 315,629             |
| 2038-2042              | 323,065             | 57,670            | -                                     | -               | 380,735             |
| 2043-2047              | 97,840              | 4,993             | -                                     | -               | 102,833             |
| <b>Total</b>           | <b>\$ 1,091,635</b> | <b>\$ 595,184</b> | <b>\$ 50,681</b>                      | <b>\$ 2,680</b> | <b>\$ 1,740,180</b> |

Interest on revenue bonds in the preceding tables includes interest requirements for fixed rate debt at their stated rates. Interest on variable-rate direct placement debt is computed using 100% of the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index plus a fixed fee and is estimated using the SIFMA interest rate effective as of December 31, 2021.

During the years ended December 31, 2022, and 2021, the following changes occurred in Grant PUD's long-term debt:

| (amounts in thousands)                     | Balance<br>2021     | Additions     | Reductions         | Balance<br>2022     | Due Within<br>One Year |
|--|---------------------|---------------|--------------------|---------------------|------------------------|
| Revenue bonds payable                      | \$ 1,121,430        | \$ -          | \$ (29,795)        | \$ 1,091,635        | \$ 31,920              |
| Unamortized premiums and discounts, net    | 10,709              | -             | (1,995)            | 8,714               | -                      |
| Subordinate direct placement revenue bonds | 50,000              | -             | -                  | 50,000              | -                      |
| Direct borrowing loans                     | -                   | 681           | -                  | 681                 | 49                     |
| <b>Total</b>                               | <b>\$ 1,182,139</b> | <b>\$ 681</b> | <b>\$ (31,790)</b> | <b>\$ 1,151,030</b> | <b>\$ 31,969</b>       |

| (amounts in thousands)                     | Balance<br>2020     | Additions        | Reductions         | Balance<br>2021     | Due Within<br>One Year |
|--|---------------------|------------------|--------------------|---------------------|------------------------|
| Revenue bonds payable                      | \$ 1,150,725        | \$ -             | \$ (29,295)        | \$ 1,121,430        | \$ 29,795              |
| Unamortized premiums and discounts, net    | 13,106              | -                | (2,397)            | 10,709              | -                      |
| Subordinate direct placement revenue bonds | 50,000              | 50,000           | (50,000)           | 50,000              | -                      |
| <b>Total</b>                               | <b>\$ 1,213,831</b> | <b>\$ 50,000</b> | <b>\$ (81,692)</b> | <b>\$ 1,182,139</b> | <b>\$ 29,795</b>       |

### Refunded Debt

On June 10, 2021, Grant PUD signed a subordinate direct placement bond purchase agreement with Bank of America, N.A., to issue a \$50.0 million variable rate Electric System refunding bond (2021-T). The bond refunded the \$50.0 million 2019-P issuance and has a floating interest rate of 100% of SIFMA plus 0.39% fee maturing on June 10, 2024.

## Notes to the Financial Statements

### **Broadband Loan/Grant**

This contract is a special, limited revenue-secured obligation payable from the State of Washington's Public Works Board Broadband Program. Grant PUD pledged net revenue of the Electric System to the repayment of its obligations under the contract on a subordinate basis to all payments related to Grant's parity bonds and Junior Lien Bonds (JLBs). The contract award amount received was \$680,743 congruent to the required loan amount of \$680,743. Terms of the loan were 15 years at a rate of 0.44% due with a final maturity of October 31, 2036.

### **Covenants**

Grant PUD's bond resolutions (senior lien parity bonds and subordinate lien bonds) contain various covenants that include requirements to maintain minimum annual debt service coverage ratios, stipulated minimum funding of revenue bond reserves for certain bonds, and various other requirements. These covenants require Grant PUD to establish, maintain and collect rates or charges for electric energy and all other commodities, services and facilities sold, furnished or supplied or through the Priest Rapids Project and Electric Systems to provide adequate net revenues in each system sufficient for the payment of principal and interest and all payments which the District is obligated to set aside in the bond funds in addition to operating costs. Costs of the Priest Rapids Project, including debt service and operating costs, are an obligation of the Electric System.

For the years ended December 31, 2022, and 2021, Grant PUD met the minimum debt service coverage of 1.15x and 1.25x for the Priest Rapids Project and Electric System senior bonds, respectively. The Electric System's direct placed bank products are subordinate and have a coverage requirement of 1.10x.

### **Collateral**

The principal and interest on Grant PUD's revenue bonds are payable exclusively from, and are collateralized by a pledge of, the net revenues of Grant PUD. Neither the credit nor the taxing power of Grant PUD is pledged to the payment of the bonds.

## **7. POWER PURCHASER COMMITMENTS**

### **Priest Rapids Project**

Under the Priest Rapids Power Sales Contracts, the amount of net Priest Rapids Project power costs incurred by Grant PUD in serving its load changes on an annual basis in relation to its firm power requirements. Grant PUD incurred 85.6% and 87.5% of Priest Rapids Project power costs with the long-term contract power purchasers funding the remaining 14.4% and 12.5% for 2022 and 2021, respectively. Each purchaser is obligated to pay its share of the cost (excluding depreciation and amortization) of producing and delivering power, plus 115% of its share of the amounts required for debt service payments in accordance with the power purchase agreement.

### **Bonneville Power Administration (BPA)**

Grant PUD is a statutory preference customer of BPA. Grant PUD signed a BPA preference contract during 2008 to serve its Grand Coulee load of approximately 5 average megawatts ("aMW", defined as the continuous operation of one megawatt of capacity over a period of one year) that expires September 30, 2028. In addition, Grant PUD has purchased from BPA the transmission required to deliver the power associated with this load through September 30, 2028. Grant PUD has 12 megawatts ("MW") of transmission for the delivery of power from the Nine Canyon Wind Project with a term expiring on October 1, 2030.

## Notes to the Financial Statements

Grant PUD management estimates Grant PUD’s minimum commitments to BPA for the next five years are as follows:

| Estimated BPA Contractual Payments<br>(amounts in thousands) |          |
|--|----------|
| 2023   | \$ 2,607 |
| 2024   | 2,682    |
| 2025   | 2,759    |
| 2026   | 2,838    |
| 2027   | 2,920    |

### Nine Canyon Wind Power Purchase Agreement

Grant PUD participates in a power purchase agreement with Energy Northwest for Phase I of the Nine Canyon Wind Project (the “Project”) which consists of 37 wind turbines with an aggregate generating capacity of approximately 48 MW. Energy Northwest is a municipal corporation and a joint operating agency of the State of Washington (formerly known as the Washington Public Power Supply System).

The project was constructed in phases. Grant PUD is one of nine public agencies participating in the original project power purchase agreement for Phase I of the Project. Grant PUD’s purchaser share of Phase I of the project output was 25% of output up to a maximum of 12 MW. Since Grant PUD did not participate in either Phase II or Phase III of the Project, its amended share of the combined Project is 12.54% through the expiration of the agreement in 2030. In exchange for the output, Grant PUD pays its 12.54% share of certain Project costs and its 25% share of Phase I debt service (principal and interest) issued by Energy Northwest to finance the construction of the Project, which is estimated to be a total of \$1.6 million annually. Phase I debt is schedule to be paid off July 1, 2023. Grant PUD does not participate in the two other phases of the Project. The phases are operated together as a single project under an amended power purchase agreement.

Complete financial statements for Energy Northwest, including the Nine Canyon Project, is available from the Energy Northwest, PO Box 968, Richland, Washington, 99352-0968, and online at <http://www.energy-northwest.com>.

### Yakama Nation Agreement

In 2007, Grant PUD entered into an agreement with the Yakama Nation that provides mutual benefits to both parties. In exchange for physical benefits from the Priest Rapids Project, the Yakama Nation works collaboratively with Grant PUD on environmental issues affecting the project and in the development of new generation resources. The Yakama Nation is responsible to pay the costs associated with producing the benefit received.

A primary consideration for the agreement is an allocation of the benefit from the Priest Rapids Project to the Yakama Nation. The financial equivalent of 15 aMW was paid during 2010-2015 less the associated power costs. Per the agreement, the financial benefit will be 10 aMW net of cost of production from 2017 through the remainder of the agreement. The net payments to the Yakama Nation totaled \$5.5 million and \$2.7 million during 2022 and 2021, respectively. The agreement expires at the end of the FERC license term (2052).

## Notes to the Financial Statements

The projected annual cost for this agreement is listed in the table below.

### Estimated Yakama Nation Contractual Payments (amounts in thousands)

|      |    |       |
|------|----|-------|
| 2023 | \$ | 8,448 |
| 2024 |    | 6,493 |
| 2025 |    | 6,065 |
| 2026 |    | 5,421 |
| 2027 |    | 4,959 |

### Other Sources

Pursuant to agreements with three irrigation districts, Grant PUD constructed, operates, and maintains both the Quincy Chute and Potholes East Canal hydroelectric generation facilities in return for the right to all output from the projects. The construction costs of Quincy Chute and Potholes East Canal are included in Net utility plant and are being amortized over the terms of the agreements, which expire October 1, 2025, and September 1, 2030, respectively. The irrigation districts hold title to the project facilities.

## 8. NONPOWER COMMITMENTS

### CAPITAL PROJECTS

Grant PUD has contractual commitments relating to several Electric System capital improvement projects including the fiber buildout, electrical system upgrades, transformer purchases, power cable purchases, and substation and distribution line construction projects. As of December 31, 2022, the spend to date for these Electric System major capital contracts totaled \$169.1 million. The remaining commitment for these contracts as of December 31, 2022 was \$132.7 million.

Grant PUD's improvement programs for the Priest Rapids Project include restoration or replacement of generators, turbine upgrades, unit controls, the station service and substation circuit breakers, and replacing trunnion bearings and coating systems for spillway gates. Grant PUD also is committed to ongoing dam safety initiatives, which currently include Priest Rapids Dam's right embankment upgrade, assessment of Wanapum Dam's left embankment, and seismic evaluation of concrete structures at both dams. Grant PUD intends to, or has committed by contract or regulatory requirement to, fulfill these programs, which are projected to be substantially complete by 2029. As of December 31, 2022, the expenditures to date for these Priest Rapid Project major capital contracts totaled \$243.0 million. The remaining commitments for these contracts as of December 31, 2022 were \$173.9 million.

### ASSET RETIREMENT OBLIGATIONS

An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. ARO's result from the normal operations of a tangible capital asset, whether acquired or constructed, and include legally enforceable liabilities associated with the retirement of a tangible capital asset, disposal of a replaced part that is a component of a tangible capital asset, environmental remediation associated with the retirement of a tangible capital asset that results from the normal operation of the asset.

Grant PUD has identified several assets with ARO's incurred but has determined the timing and extent of any liabilities associated with asset operations is not determinable at this time, as the assets are expected to operate in perpetuity. As of December 31, 2022 and 2021, no ARO's have been recorded. Assets identified are as follows:

## Notes to the Financial Statements

**Distribution, Transmission and Fiber Optic Lines** - Grant PUD currently maintains 3,943 miles of overhead and underground distributions lines, 484 miles of transmission lines and 2,449 miles of fiber optic cable lines. Numerous licenses, permits, easements and leases exist allowing Grant PUD to construct these lines on various parcels of land. The removal of Grant PUD assets and site restoration is required upon termination of many of the agreements. Grant PUD expects to maintain these distribution, transmission and fiber optic lines for the foreseeable future and to renew land use agreements perpetually due to the essential nature of this infrastructure. As such, an obligation has not been calculated because the time frame and extent of the obligation under this statement was considered indeterminate. As a result, an ARO was not recorded; an ARO will be recorded if future events warrant a change.

**Wanapum and Priest Rapids Barge Landings** - Grant PUD has entered into aquatic lands leases with the Washington State Department of Natural Resources to operate and maintain public access and boat launch sites on the Columbia River. The leases each have terms of 12 years. Under the leases, Grant PUD made several leasehold improvements including replacing three boat launch ramps with new ramps, which are referred to as the Wanapum and Priest Rapids Barge Landings. Grant PUD maintains these boat launch sites for the public and occasionally uses them to launch District boats to support dive inspections for the dams. The barge landings would have significant environmental and cultural considerations if the agreements expired, and removal was enforced. Grant PUD expects to maintain the barge landings for the foreseeable future and to renew the land use agreements perpetually. As such, an obligation has not been calculated because the time frame and extent of the obligation under this statement was considered indeterminate. As a result, an ARO was not recorded; an ARO will be recorded if future events warrant a change.

### ENVIRONMENTAL MATTERS

In 2006, Grant PUD entered into a Salmon and Steelhead Settlement Agreement (Agreement) with U.S. Fish and Wildlife Service (USFWS), the National Marine Fisheries Service of the National Oceanic and Atmospheric Administration (NOAA), the Washington Department of Fish and Wildlife (WDFW), Yakama Nation (YN), and the Confederated Tribes of the Colville Reservation (CCT) for the purpose of resolving all issues between Grant PUD and the other signatories related to anadromous salmonid fish species.

This agreement is intended to constitute a comprehensive and long-term adaptive management program for the protection, mitigation, and enhancement of anadromous fish (both listed and not listed species under the Endangered Species Act) that pass or may be affected by the Priest Rapids Project.

Under the Agreement, Grant PUD is obligated to establish a habitat conservation account and a no-net-impact fund (referred herein as "Habitat funds") into which Grant PUD deposits payments for further distribution in accordance with the requirements of the Salmon and Steelhead Agreement. The purpose of the Habitat funds are two-fold: (1) to establish and shepherd a habitat restoration program that promotes the rebuilding of self-sustaining and harvestable populations of anadromous species and to mitigate for a portion (2%) of unavoidable losses resulting from the Priest Rapids Project operations and (2) to provide near-term compensation for annual survivals that are less than the survival objectives in the performance standards for the Priest Rapids Project for spring Chinook, steelhead, summer Chinook, and sockeye. The parties that oversee the distribution of these funds include the signatories to the Priest Rapids Salmon and Steelhead Settlement Agreement (USFWS, NOAA Fisheries, WDFW, CCT, YN, and Grant PUD). Per the Agreement, when performance standards have been achieved on a species-by-species basis, the no-net-impact fund annual contributions for that species will be terminated.

Per Part XV of the Priest Rapids Salmon and Steelhead Settlement Agreement, Grant PUD has achieved the condition of No-Net-Impact for spring Chinook, sockeye, and steelhead. On December 16, 2022, the Parties to the Agreement identified above approved a statement of agreement (SOA-2022-04), which reflects consensus on performance

## Notes to the Financial Statements

standards being achieved for yearling Chinook salmon, juvenile sockeye salmon, and juvenile steelhead, and that NNI Fund contributions for these species had been terminated in 2005, 2017 and 2011, respectively. Grant PUD has also achieved the No-Net-Impact requirement for coho salmon by providing hatchery compensation for the Upper Columbia at a rate equivalent to 14% (7% per development).

Currently, the no-net-impact requirements have not been achieved for sub-yearling summer Chinook nor has consensus been acquired from Priest Rapids Coordinating Committee regarding other potential means to achieve the no-net-impact standard for this species.

In addition to the Habitat funds discussed above, Grant PUD is obligated to establish a habitat account into which Grant PUD deposits payments for further distribution in accordance with the requirements of the NOAA Fisheries 2008 Biological Opinion (“2008 BiOp”) for the Priest Rapids Project. Funds from this account are used for habitat actions that directly benefit Upper Columbia River (“UCR”) spring-run Chinook salmon and UCR steelhead. The previous parties identified, and the Confederated Tribes of the Umatilla Reservation have been identified in the 2008 BiOp as responsible for overseeing distribution of these funds.

The Habitat funds are restricted and cannot be spent without unanimous consent. Interest earned by the Habitat funds increases the balance of these funds and is not recognized as income by Grant PUD. Expenditures of these funds are made in accordance with the Agreement and the 2008 NOAA Fisheries BiOp for the protection and restoration of habitats along the mainstream and tributaries within the UCR watershed including the Okanogan, Methow, Entiat, and Wenatchee watersheds. Grant PUD anticipates funding these accounts up to and through the term of its FERC license.

In October 2006, Grant PUD filed a request for a 401 Water Quality Certification (401 WQC”) from the Washington State Department of Ecology (“Ecology”), pursuant to the provisions of section 401 of the Clean Water Act. A 401 WQC for the operation of the Priest Rapids Project was issued by Ecology on April 3, 2007, and amended on March 6, 2008.

In order to fulfill requirements of the 401 WQC related to native resident fish, Grant PUD is required to provide funds to track native resident fish species diversity and provide mitigation for impacts to and loss of resident fish and harvest opportunities by compliance with Parts A and B. Grant PUD has met all requirements of Part A as of December 31, 2018. Part B requirements are described in further detail below. Under Part B (“Resident Fish Monitoring and Trout Purchase”), Grant PUD is obligated to establish and administer a fund for resident fish monitoring and fish purchase. Funds from Part B are specifically directed toward the monitoring of native resident fish species within the Priest Rapids Project area. Grant PUD is required to make contributions to the fund annually on or before February 15 of each year in the amount of \$0.1 million per year, based upon 2003 dollars and annually adjusted for inflation.

In a FERC Order (issued on August 31, 2010) approving the Wildlife Habitat Management Plan (Article 409), Grant PUD is required to assist the Washington Department of Fish and Wildlife in fire suppression by contributing \$40,000 annually, for the term of the order, to an account. Funds from the account are to be designated for: 1) revegetating burned areas; 2) revegetating areas known to burn frequently with species carrying lesser fuel loads; 3) creating fire breaks in appropriate locations; and 4) paying for firefighting activities.

Grant PUD’s total contributions to these Habitat funds for the years ended December 31, 2022, and 2021 were \$2.5 and \$2.4 million each year, respectively. The following table shows Grant PUD’s estimate of the remaining fixed contributions to the Habitat funds as of December 31, 2022, representing required contributions through the FERC License term (2052).

## Notes to the Financial Statements

### Estimated Fixed Habitat Funding Commitments (amounts in thousands)

|                   |           |                |
|-------------------|-----------|----------------|
| 2023              | \$        | 2,686          |
| 2024              |           | 2,795          |
| 2025              |           | 2,908          |
| 2026              |           | 3,025          |
| 2027              |           | 3,148          |
| 2028 through 2052 |           | 137,550        |
| <b>Total</b>      | <b>\$</b> | <b>152,112</b> |

## 9. REGULATORY DEFFERALS

The Commission elected to invoke regulatory accounting for pensions for the year ended December 31, 2021, which results in differences between the recognition of pension expense for rate-making purposes and their treatment under generally accepted accounting principles of non-regulated entities. Pension expense is recognized in accordance with the required employer contributions rates set by the Washington State Pension Funding Council and the difference from the actuarially determined expense is recognized as a regulatory liability (See Note 10). The regulatory liability for pensions was \$34.9 million and \$24.6 for the years ended December 31, 2022, and 2021, respectively.

## 10. RETIREMENT AND DEFERRED COMPENSATION PLANS

The following table represents the aggregate pension amounts for all plans as of and for the years ended December 31, 2022, and 2021:

### Aggregate Pension Amounts - All Plans (amounts in thousands)

|                                |    | 2022   |    | 2021   |
|--------------------------------|----|--------|----|--------|
| Net Pension liabilities        | \$ | 13,893 | \$ | 6,298  |
| Net Pension assets             |    | 23,978 |    | 65,195 |
| Deferred outflows of resources |    | 24,192 |    | 7,898  |
| Deferred inflows of resources  |    | 24,539 |    | 67,372 |
| Pension expense/expenditures   |    | 8,413  |    | 9,253  |

Substantially all Grant PUD’s full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan.

The DRS ACFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

### **Public Employees’ Retirement System (PERS)**

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three



## Notes to the Financial Statements

separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

**PERS Plan 1** provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member’s average final compensation (AFC) times the member’s years of service. The AFC is the average of the member’s 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

### Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6%. The employer contribution rate is developed by the Office of the State Actuary (OSA) and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2022 and 2021 were as follows:

| <b>PERS Plan 1<br/>Actual Contribution Rates:</b> | <b>Employer</b> | <b>Employee</b> |
|---|-----------------|-----------------|
| <b>2022</b>                                       |                 |                 |
| <b>January - August 2022</b>                      |                 |                 |
| PERS Plan 1                                       | 6.36%           | 6.00%           |
| PERS Plan 1 UAAL                                  | 3.71%           | -               |
| Administrative Fee                                | 0.18%           | -               |
| <b>Total</b>                                      | <b>10.25%</b>   | <b>6.00%</b>    |
| <b>September - December 2022</b>                  |                 |                 |
| PERS Plan 1                                       | 6.36%           | 6.00%           |
| PERS Plan 1 UAAL                                  | 3.85%           | -               |
| Administrative Fee                                | 0.18%           | -               |
| <b>Total</b>                                      | <b>10.39%</b>   | <b>6.00%</b>    |
| <b>2021</b>                                       |                 |                 |
| <b>January - June 2021</b>                        |                 |                 |
| PERS Plan 1                                       | 7.92%           | 6.00%           |
| PERS Plan 1 UAAL                                  | 4.87%           | -               |
| Administrative Fee                                | 0.18%           | -               |
| <b>Total</b>                                      | <b>12.97%</b>   | <b>6.00%</b>    |
| <b>July - December 2021</b>                       |                 |                 |
| PERS Plan 1                                       | 6.36%           | 6.00%           |
| PERS Plan 1 UAAL                                  | 3.71%           | -               |
| Administrative Fee                                | 0.18%           | -               |
| <b>Total</b>                                      | <b>10.25%</b>   | <b>6.00%</b>    |

Grant PUD’s actual PERS plan contributions were \$3.1 million and \$3.5 million for the years ended December 31, 2022, and 2021, respectively.

## Notes to the Financial Statements

**PERS Plan 2/3** provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

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

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

### **Contributions**

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

## Notes to the Financial Statements

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2022 and 2021 were as follows:

| <b>PERS Plan 2/3<br/>Actual Contribution Rates:</b> | <b>Employer</b> | <b>Employee</b> |
|---|-----------------|-----------------|
| <b>2022</b>   |                 |                 |
| <b>January - August 2022</b>                        |                 |                 |
| PERS Plan 2/3                                       | 6.36%           | 6.36%           |
| PERS Plan 1 UAAL                                    | 3.71%           | -               |
| Administrative Fee                                  | 0.18%           | -               |
| Employee PERS Plan 3                                | -               | varies          |
| <b>Total</b>  | <b>10.25%</b>   | <b>6.36%</b>    |
| <b>September - December 2022</b>                    |                 |                 |
| PERS Plan 2/3                                       | 6.36%           | 6.36%           |
| PERS Plan 1 UAAL                                    | 3.85%           | -               |
| Administrative Fee                                  | 0.18%           | -               |
| Employee PERS Plan 3                                | -               | varies          |
| <b>Total</b>  | <b>10.39%</b>   | <b>6.36%</b>    |
| <b>2021</b>   |                 |                 |
| <b>January - June 2021</b>                          |                 |                 |
| PERS Plan 2/3                                       | 7.92%           | 7.90%           |
| PERS Plan 1 UAAL                                    | 4.87%           | -               |
| Administrative Fee                                  | 0.18%           | -               |
| Employee PERS Plan 3                                | -               | varies          |
| <b>Total</b>  | <b>12.97%</b>   | <b>7.90%</b>    |
| <b>July - December 2021</b>                         |                 |                 |
| PERS Plan 2/3                                       | 6.36%           | 6.36%           |
| PERS Plan 1 UAAL                                    | 3.71%           | -               |
| Administrative Fee                                  | 0.18%           | -               |
| Employee PERS Plan 3                                | -               | varies          |
| <b>Total</b>  | <b>10.25%</b>   | <b>6.36%</b>    |

Grant PUD's actual PERS plan contributions were \$5.3 million and \$5.8 million for the years ended December 31, 2022, and 2021, respectively.

### **Actuarial Assumptions**

The 2022 total pension liability/(asset) (TPL/A) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Demographic Experience Study* and the *2021 Economic Experience Study*.

The 2021 total pension liability/(asset) (TPL/A) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2021 with a valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Experience Study* and the *2019 Economic Experience Study*.

Additional 2022 assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report. Additional 2021 assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. The TPL/A was calculated as of the valuation date and rolled forward to the measurement date of

## Notes to the Financial Statements

June 30, 2022 and June 30, 2021. 2022 Plan liabilities/(assets) were rolled forward from June 30, 2021, to June 30, 2022, and 2021 Plan liabilities/(assets) were rolled forward from June 30, 2020, to June 30, 2021, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

**Inflation:** 2.75% total economic inflation; 3.25% salary inflation

**Salary increases:** In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

**Investment rate of return:** 7.0%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status (e.g. active, retiree, or survivor), as the base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. 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.

Methods did not change from the prior contribution rate setting June 30, 2019 Actuarial Valuation Report (AVR), however OSA introduced a temporary method change to produce asset and liability measures for the June 30, 2020 AVR. There were also the following assumption changes:

- OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in the model. Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.
- OSA updated the economic assumptions based on the 2021 action of the PFC and the LEOFF Plan 2 Retirement Board. The investment return assumption was reduced from 7.5% (7.4% for LEOFF 2) to 7.0%, and the salary growth assumption was lowered from 3.5% to 3.25%. This action is a result of recommendations from OSA's biennial economic experience study.

There were no changes in assumptions between the 2021 and 2020 valuations. There were changes in methods between the 2021 and 2020 valuations.

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability/(asset) measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.
- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

## Notes to the Financial Statements

### Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.0%.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan’s fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA’s 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 7.0% was used to determine the total liability/(asset).

### Long-Term Expected Rate of Return

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

### Estimated Rates of Return by Asset Class

The table below summarizes the best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2022. The inflation component used to create the table is 2.2% and represents the WSIB’s most recent long-term estimate of broad economic inflation.

| Asset Class     | Target Allocation | % Long-Term Expected<br>Real Rate of Return |
|-----------------|-------------------|---|
|                 |                   | Arithmetic                                  |
| <b>2022</b>     |                   |   |
| Fixed Income    | 20%               | 1.50%                                       |
| Tangible Assets | 7%                | 4.70%                                       |
| Real Estate     | 18%               | 5.40%                                       |
| Global Equity   | 32%               | 5.90%                                       |
| Private Equity  | 23%               | 8.90%                                       |
|                 | <b>100%</b>       |   |
| <b>2021</b>     |                   |   |
| 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%                                       |
|                 | <b>100%</b>       |   |

### Sensitivity of Net Pension Liability NPL/(Asset)

The tables below present Grant PUD’s proportionate share of the net pension liability/(asset) calculated using the applicable discount rate, as well as what Grant PUD’s proportionate share of the net pension liability/(asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than applicable discount rate.

## Notes to the Financial Statements

| 2022<br>(amounts in thousands) | 1% Decrease<br>(6.0%) | Current Discount Rate<br>(7.0%) | 1% Increase<br>(8.0%) |
|--------------------------------|-----------------------|---------------------------------|-----------------------|
| PERS 1                         | \$ 18,561             | \$ 13,893                       | \$ 9,819              |
| PERS 2/3                       | 28,237                | (23,978)                        | (66,876)              |

| 2021<br>(amounts in thousands) | 1% Decrease<br>(6.4%) | Current Discount Rate<br>(7.4%) | 1% Increase<br>(8.4%) |
|--------------------------------|-----------------------|---------------------------------|-----------------------|
| PERS 1                         | \$ 10,728             | \$ 6,298                        | \$ 2,434              |
| PERS 2/3                       | (18,573)              | (65,195)                        | (103,588)             |

### **Pension Plan Fiduciary Net Position**

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

### **Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At December 31, 2022 and 2021, Grant PUD reported a total pension liability (asset) for its proportionate share of the net pension liabilities/(assets) as follows (measured as of June 30, 2022 and 2021):

| Liability/(Asset)<br>(amounts in thousands) | 2022               | 2021               |
|---|--------------------|--------------------|
| PERS 1                                      | \$ 13,893          | \$ 6,298           |
| PERS 2/3                                    | (23,978)           | (65,195)           |
| <b>Total</b>                                | <b>\$ (10,085)</b> | <b>\$ (58,897)</b> |

Grant PUD's proportionate share of the collective net pension liabilities was as follows:

|          | Proportionate Share<br>6/30/2021 | Proportionate Share<br>6/30/2022 | Change in<br>Proportion |
|----------|----------------------------------|----------------------------------|-------------------------|
| PERS 1   | 0.515673%                        | 0.498965%                        | -0.016708%              |
| PERS 2/3 | 0.654458%                        | 0.646521%                        | -0.007937%              |

|          | Proportionate Share<br>6/30/2020 | Proportionate Share<br>6/30/2021 | Change in<br>Proportion |
|----------|----------------------------------|----------------------------------|-------------------------|
| PERS 1   | 0.497050%                        | 0.515673%                        | 0.018623%               |
| PERS 2/3 | 0.639436%                        | 0.654458%                        | 0.015022%               |

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2022, are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the Schedules of *Employer and Nonemployer Allocations*.

## Notes to the Financial Statements

### Pension Expense

Pension expense for the year ended December 31, 2022, and 2021 were as follows:

| Pension Expense<br>(amounts in thousands) | 2022      |              | 2021      |              |
|---|-----------|--------------|-----------|--------------|
| PERS 1                                    | \$        | 3,136        | \$        | 3,497        |
| PERS 2/3                                  |           | 5,277        |           | 5,756        |
| <b>Total</b>                              | <b>\$</b> | <b>8,413</b> | <b>\$</b> | <b>9,253</b> |

December 31, 2021, the District invoked regulatory accounting to recognize the non-cash portion of pension expense in conjunction with the actual required employer contributions (See Note 9).

### Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2022 and 2021, respectively, Grant PUD recognized deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| PERS Plan 1<br>(amounts in thousands)   | 2022                              |                                  | 2021                              |                                  |
|---|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
|   | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
| Net difference between projected and actual investment earnings on pension plan investments | \$ -                              | \$ 2,302                         | \$ -                              | \$ 6,988                         |
| Contributions subsequent to measurement date  | 1,626                             | -                                | 1,549                             | -                                |
| <b>Total</b>  | <b>\$ 1,626</b>                   | <b>\$ 2,302</b>                  | <b>\$ 1,549</b>                   | <b>\$ 6,988</b>                  |

| PERS Plan 2/3<br>(amounts in thousands)  | 2022                              |                                  | 2021                              |                                  |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
|  | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
| Differences between expected and actual experience   | \$ 5,941                          | \$ 543                           | \$ 3,166                          | \$ 799                           |
| Net difference between projected and actual investment earnings on pension plan investments          | -                                 | 17,727                           | -                                 | 54,487                           |
| Changes of assumptions   | 13,364                            | 3,499                            | 95                                | 4,630                            |
| Changes in proportion and differences between contributions and proportionate share of contributions | 557                               | 468                              | 468                               | 468                              |
| Contributions subsequent to measurement date   | 2,704                             | -                                | 2,620                             | -                                |
| <b>Total</b>   | <b>\$ 22,566</b>                  | <b>\$ 22,237</b>                 | <b>\$ 6,349</b>                   | <b>\$ 60,384</b>                 |

## Notes to the Financial Statements

Deferred outflows of resources related to pensions resulting from the District’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability or an addition to the net pension asset in the following year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as an addition/reduction of the regulatory liability as follows:

| (amounts in thousands)  |                   |                   |
|-------------------------|-------------------|-------------------|
| Year ended December 31: | PERS 1            | PERS 2/3          |
| 2023                    | \$ (974)          | \$ (5,523)        |
| 2024                    | (885)             | (4,926)           |
| 2025                    | (1,110)           | (5,926)           |
| 2026                    | 667               | 8,191             |
| 2027                    | -                 | 2,946             |
| Thereafter              | -                 | 2,863             |
| <b>Total</b>            | <b>\$ (2,302)</b> | <b>\$ (2,375)</b> |

### DEFERRED COMPENSATION PLANS

Grant PUD offers its employees a deferred compensation plan created under Internal Revenue Code Section 457(b), which permits employees to defer a portion of their compensation until future years. The plan is available to all active employees. Grant PUD has no liability for losses under the plan; it is completely funded with employee contributions.

Grant PUD also administers a 401(a) governmental money purchase plan and trust. Eligible employees are enrolled in the 401(a) defined contribution plan upon becoming eligible to receive the employer contribution. Employees may also elect to contribute to the plan and the election must be made at the time the employee becomes eligible to participate. Employee elections cannot be changed during the time of their employment. Eligible employees can also elect to contribute to the 457(b) plan as discussed above. Grant PUD contributed into employees’ 401(a) 3% of straight-time wages for the pay period and contributions by the employee were not required. Grant PUD made contributions of approximately \$2.1 million and \$2.0 million as of December 31, 2022, and 2021, respectively.

## 11. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (“OPEB”)

### *Plan Description*

Grant PUD administers a single-employer defined benefit premium program (“the retiree subsidy plan”). The retiree subsidy plan may be amended through collective bargaining (for bargaining unit employees) and ratified by Grant PUD’s Commission or changed without bargaining for non-bargaining unit employees. The retiree subsidy plan does not issue a publicly available financial report.

### *Benefits Provided*

Grant PUD provides retirees with two different subsidies: an explicit subsidy and an implicit subsidy.

The explicit subsidy results from premium payments made for certain retirees. Grant PUD pays a portion of the medical premiums for eligible retirees and their spouses from age 59 ½ until age 65. Retirees younger than 59 ½ may continue to receive coverage on a self-pay basis. The percentage of the medical premiums paid is based upon years of full-time service of the retirees. At the age of 59 ½, the retiree is eligible for a subsidy of 3% of their premium cost for each year of service (years x 3% x retiree premium). The subsidy cannot be more than the premium amount paid for active employees and is effective until the retiree turns 65. The monthly cap for 2021 was \$539.95 for employee coverage and \$1,241.85 for employee and spouse coverage. The monthly cap for 2022 is \$546.81 for



## Notes to the Financial Statements

employee coverage and \$1,257.62 for employee and spouse coverage. The monthly cap for 2023 is \$556.15 for employee coverage and \$1,279.11 for employee and spouse coverage.

The implicit subsidy is the difference between the total cost of medical benefits and the premiums. Retirees may seek COBRA coverage (subject to all COBRA provisions) through Grant PUD’s group health insurance plan, the Central Washington Public Utilities Unified Insurance Program Trust (Trust) or find independent coverage. However, in some cases the premium itself does not represent the full cost of covering these retirees since they are older than the active population and can be expected to generate higher medical claims and therefore higher premiums than the active population.

### Employees Covered by Benefit Terms

At December 31, 2022 and 2021, the following employees were covered by the benefit terms:

|  | 2022 | 2021 |
|--|------|------|
| Inactive employees or beneficiaries currently receiving benefit payments | 28   | 32   |
| Inactive employees entitled to but not yet receiving benefit payments    | -    | -    |
| Active employees   | 728  | 734  |
| Total number of participants   | 756  | 766  |

### Funding Policy

The plan is funded on a pay-as-you-go basis and there are no assets accumulating in a qualifying trust.

### Contributions

Grant PUD paid approximately \$0.2 million and \$0.3 million in retiree subsidies for each of the years ended December 31, 2022 and 2021, respectively.

### Total OPEB Liability

Grant PUD’s total OPEB liability as of December 31, 2022 was determined by an actuarial valuation date of December 31, 2021, rolled forward to the December 31, 2022 measurement date. The OPEB liability as of December 31, 2021 was determined by an actuarial valuation dated December 31, 2021.

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB 75 for the years 2022 and 2021:

| Aggregate OPEB Amounts - All Plans<br>(amounts in thousands) | 2022     | 2021     |
|--|----------|----------|
| OPEB liabilities   | \$ 8,101 | \$ 8,956 |
| Deferred Outflows of Resources                               | 1,785    | 2,077    |
| Deferred Inflows of Resources                                | 2,679    | 1,712    |
| OPEB expense   | 743      | 983      |

### Actuarial Assumptions and Other Inputs

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

The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) 2013-2018 Demographic Experience Study and the 2019 Economic experience Study.

**Notes to the Financial Statements**

|                        |  |
|------------------------|--|
| Actuarial Cost Method: | Entry Age Normal   |
| Discount Rate:         | 3.75% and 2.00% for 2022 and 2021, respectively (based on all years discounted at Bond Buyer 20-year Bond General Obligation Index)                        |
| General Inflation:     | 2.00 % and 2.00% per year for 2022 and 2021, respectively  |
| Wage Growth:           | 2.75 % and 2.75% per year for 2022 and 2021, respectively  |
| Salary Merit Scale:    | Total payroll increase is overall payroll growth plus the merit table below. Merit rates are as developed for the valuation of benefits under PERS plan 2: |

| Service | Rate  | Service | Rate  |
|---------|-------|---------|-------|
| 1       | 6.00% | 11      | 0.50% |
| 2       | 4.50% | 12      | 0.50% |
| 3       | 3.70% | 13      | 0.50% |
| 4       | 3.00% | 14      | 0.30% |
| 5       | 2.20% | 15      | 0.30% |
| 6       | 1.70% | 16      | 0.30% |
| 7       | 1.50% | 17      | 0.30% |
| 8       | 1.00% | 18      | 0.10% |
| 9       | 1.00% | 19      | 0.10% |
| 10      | 0.70% | 20      | 0.10% |
|         |       | 21+     | 0.00% |

Annual Premium Increase Rate: The assumed increases for medical plans are:

| Year | Rate  | Year  | Rate  |
|------|-------|-------|-------|
| 2022 | 6.50% | 2032  | 5.50% |
| 2023 | 6.40% | 2033  | 5.40% |
| 2024 | 6.30% | 2034  | 5.30% |
| 2025 | 6.20% | 2035  | 5.20% |
| 2026 | 6.10% | 2036  | 5.10% |
| 2027 | 6.00% | 2037  | 5.00% |
| 2028 | 5.90% | 2038  | 4.90% |
| 2029 | 5.80% | 2039  | 4.80% |
| 2030 | 5.70% | 2040  | 4.70% |
| 2031 | 5.60% | 2041  | 4.60% |
|      |       | 2042+ | 4.50% |

The initial rates in the table above are based in part on the 2022 Segal Health Plan Cost Trend Survey. Rates are trended down in subsequent years in accordance with prevalent actuarial practice, based in part on the Society of Actuaries – Getzen Long-Term Healthcare Trends Resource Model, as updated October 2020.

**Notes to the Financial Statements**

**Mortality Rates:** General Service active employees: PUB 2010 Employee Tables for General Employees, sex distinct, projected generationally.

General Service healthy retirees: PUB 2010 Retiree Tables for General Employees, sex distinct, projected generationally.

**Beneficiaries:** For beneficiaries less than 70 years old, PUB 2010 Retiree Tables for General Employees. For beneficiaries 80 years or older, PUB 2010 Retiree Tables for Contingent Annuitants. For beneficiaries 70 – 79 years old, linear interpolation between the two above published tables. Rates for all ages are sex distinct and projected generationally.

**Improvement scale:** Long-term MP-2017 rate of improvement.

**Turnover Rates** Generally as developed for the valuation of benefits under Washington PERS. Examples of turnover rates are as follows:

| Service | Rate   |
|---------|--------|
| 0       | 26.00% |
| 5       | 6.00%  |
| 10      | 4.00%  |
| 15      | 3.00%  |
| 20      | 2.00%  |
| 25      | 1.50%  |
| 30+     | 1.00%  |

**Disability Rates** As developed for the valuation of benefits under Washington PERS. Sample rates are as follows:

| Age     | Rate  |
|---------|-------|
| 20 - 24 | 0.00% |
| 40 - 44 | 0.02% |
| 60 - 64 | 0.60% |
| 80+     | 0.00% |

**Retirement Rates** Eligible Employees are assumed to delay retirement until reaching the eligibility requirements for the Retiree Subsidy. Employees participating in PERS are assumed to delay retirement until reaching PERS eligibility, if later. Rates are as developed for the valuation of benefits under Plan 2 of PERS:

## Notes to the Financial Statements

| Age     | Years of Service         |         |                         |         |
|---------|--------------------------|---------|-------------------------|---------|
|         | Hired Before May 1, 2013 |         | Hired After May 1, 2013 |         |
|         | <30                      | 30+     | <30                     | 30+     |
| <55     | 0.00%                    | 0.00%   | 0.00%                   | 0.00%   |
| 55      | 1.00%                    | 8.00%   | 1.00%                   | 1.00%   |
| 56      | 1.00%                    | 8.00%   | 1.00%                   | 2.00%   |
| 57      | 2.00%                    | 8.00%   | 2.00%                   | 3.00%   |
| 58      | 2.00%                    | 8.00%   | 2.00%                   | 3.00%   |
| 59      | 4.00%                    | 10.00%  | 4.00%                   | 6.00%   |
| 60      | 5.00%                    | 15.00%  | 5.00%                   | 10.00%  |
| 61      | 8.00%                    | 20.00%  | 8.00%                   | 12.00%  |
| 62      | 15.00%                   | 40.00%  | 15.00%                  | 20.00%  |
| 63      | 20.00%                   | 30.00%  | 20.00%                  | 25.00%  |
| 64      | 40.00%                   | 35.00%  | 40.00%                  | 35.00%  |
| 65      | 35.00%                   | 45.00%  | 35.00%                  | 45.00%  |
| 66      | 30.00%                   | 40.00%  | 30.00%                  | 40.00%  |
| 67      | 27.00%                   | 30.00%  | 27.00%                  | 30.00%  |
| 68 - 79 | 25.00%                   | 30.00%  | 25.00%                  | 30.00%  |
| 80      | 100.00%                  | 100.00% | 100.00%                 | 100.00% |

**Participation** 100% of actives eligible for Grant PUD-paid medical benefits are assumed to be enrolled in a medical plan at retirement.

75% of retirement-eligible activities are assumed to remain on UIP medical insurance through COBRA coverage.

**Plan Enrollment** Current and future retirees are assumed to remain enrolled in the plans in which they are currently enrolled, if any.

**Marital Status** 65% of future retirees electing coverage are assumed to cover a spouse as well. Males are assumed to be three years older than their female spouses. Actual marital status and ages as of the valuation date are used for current retirees, if available.

**Coverage of Eligible Children** We have assumed no impact of dependent children on the implicit rate subsidy.

**Health Care Claims Costs** 2022 claim costs for an age 64 retiree or spouse are assumed to be \$14,470 for PPO and \$10,343 for CDHP.

**Aging Factors** Aging factors are used to adjust the age 64 per capita claims cost. Percentages shown below age 64 reduce the claim costs.

| Attained Age | Factor        |
|--------------|---------------|
| Under 40     | 4.00% per yea |
| 40-44        | 3.75% per yea |
| 45-49        | 3.50% per yea |
| 50-54        | 3.00% per yea |
| 55-64        | 3.25% per yea |

## Notes to the Financial Statements

|                                   |   |
|-----------------------------------|---|
| Dental and Vision Costs           | We have assumed no implicit subsidy due to dental or vision costs.  |
| Change in Assumptions and Methods | Actuarial results reflect the following changes in assumptions and methods since the prior valuation: <ul style="list-style-type: none"> <li>• The interest rate for discounting future liabilities was lowered to reflect current municipal bond rates, as outlined in GASB Statement 75.</li> <li>• General inflation rates were modified to better reflect general actuarial practice, and to reflect current premiums and plan enrollment.</li> <li>• Premium increases were modified to reflect anticipated experience.</li> <li>• Payroll growth, salary merit and demographic assumptions were revised to match those developed in the most recent experience study for PERS.</li> </ul> |

### Changes in Total OPEB Liability

| <b>(amounts in thousands)</b>                      | <b>2022</b><br>Increase<br>(Decrease) Total<br>OPEB Liability | <b>2021</b><br>Increase<br>(Decrease) Total<br>OPEB Liability |
|--|---|---|
| Total OPEB Liability at January 1                  | \$ 8,956  | \$ 10,364   |
| Service Cost                                       | 550   | 620   |
| Interest   | 187   | 243   |
| Differences between expected and actual experience | -   | (1,350)   |
| Changes of assumptions                             | (1,252)   | (534)   |
| Benefit payments                                   | (340)   | (387)   |
| Net change in total OPEB liability                 | (855)   | (1,408)   |
| <b>Total OPEB Liability at December 31</b>         | <b>\$ 8,101</b>   | <b>\$ 8,956</b>   |

### Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of Grant PUD calculated using the discount rate of 3.75 percent and 2.00 percent as of December 31, 2022 and 2021, respectively, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate.

| <b>2022</b><br>(amounts in thousands) | <b>1%<br/>Decrease<br/>2.75%</b> | <b>Current<br/>Discount Rate<br/>3.75%</b> | <b>1%<br/>Increase<br/>4.75%</b> |
|---------------------------------------|----------------------------------|--|----------------------------------|
| Total OPEB liability                  | \$ 8,799                         | \$ 8,101                                   | \$ 7,445                         |

| <b>2021</b><br>(amounts in thousands) | <b>1%<br/>Decrease<br/>1.00%</b> | <b>Current<br/>Discount Rate<br/>2.00%</b> | <b>1%<br/>Increase<br/>3.00%</b> |
|---------------------------------------|----------------------------------|--|----------------------------------|
| Total OPEB liability                  | \$ 9,689                         | \$ 8,956                                   | \$ 8,254                         |

## Notes to the Financial Statements

### *Sensitivity of the Total OPEB Liability to Changes in the Health Care Cost Trend Rates*

The following presents the total OPEB liability of Grant PUD calculated using the current healthcare cost trend rate of 6.5 percent as of December 31, 2022 and 2021, respectively, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate.

| 2022<br>(amounts in thousands) | 1%<br>Decrease<br>5.50% Graded<br>Down to 3.50% | Current<br>Discount Rate<br>6.50% Graded<br>Down to 4.50% | 1%<br>Increase<br>7.50% Graded<br>Down to 5.50% |
|--------------------------------|---|---|---|
| Total OPEB liability           | \$ 7,095  | \$ 8,101  | \$ 9,295  |

| 2021<br>(amounts in thousands) | 1%<br>Decrease<br>5.50% Graded<br>Down to 3.50% | Current<br>Discount Rate<br>6.50% Graded<br>Down to 4.50% | 1%<br>Increase<br>7.50% Graded<br>Down to 5.50% |
|--------------------------------|---|---|---|
| Total OPEB liability           | \$ 7,854  | \$ 8,956  | \$ 10,269                                       |

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

As of December 31, 2022 and 2021, Grant PUD reported a liability of \$8.1 million and \$9.0 million, respectively. The total OPEB liability is based on the present value of the portion of future expected benefit payments that is considered to have been already earned by the participants. In future years, changes in the total OPEB liability due to actuarial gains or losses or changes in assumptions will be amortized over the average expected future working lifetime of participants, with unamortized amounts treated as deferred outflows or inflows of resources.

### *Deferred Outflows of Resources and Deferred Inflows of Resources*

As of December 31, 2022 and 2021, Grant PUD recognized deferred outflows of resources and deferred inflows of resources related to other postemployment benefits from the following sources:

| (amounts in thousands)                             | 2022                              |                                  | 2021                              |                                  |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
|  | Deferred Outflows<br>of Resources | Deferred Inflows of<br>Resources | Deferred Outflows<br>of Resources | Deferred Inflows of<br>Resources |
| Differences between expected and actual experience | \$ 153                            | \$ 1,104                         | \$ 179                            | \$ 1,226                         |
| Change in assumptions                              | 1,632                             | 1,575                            | 1,898                             | 486                              |
| <b>Total</b>                                       | <b>\$ 1,785</b>                   | <b>\$ 2,679</b>                  | <b>\$ 2,077</b>                   | <b>\$ 1,712</b>                  |

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

| (amounts in thousands)         |                 |
|--------------------------------|-----------------|
| <b>Year ended December 31:</b> |                 |
| 2023                           | \$ 6            |
| 2024                           | 6               |
| 2025                           | 6               |
| 2026                           | 6               |
| 2027                           | 6               |
| Thereafter                     | (926)           |
| <b>Total</b>                   | <b>\$ (896)</b> |

## Notes to the Financial Statements

### OPEB Expense

Grant PUD’s annual OPEB cost (expense) is equal to the change in total OPEB liability, plus or minus changes in deferred outflows or inflows, plus employer contributions. For the years ended December 31, 2022, and 2021, Grant PUD recognized OPEB expense of \$0.7 million and \$1.0 million, respectively.

### 12. CONTINGENCIES

Grant PUD is involved in various claims arising in the normal course of business. Grant PUD does not believe that the ultimate outcome of these matters will have a material impact on its financial position, results of operations, or cash flows.

### 13. WHOLESALE FIBER OPTIC NETWORK

Grant PUD is installing a wholesale fiber optic network to the premises in its service area. This fiber optic network is interconnected with multiple regional and national telecommunications carriers. The wholesale fiber optic network is available to retail and wholesale providers of Internet, telephone, and video services. Grant PUD has also implemented a wholesale wireless network which is available to retail wireless providers.

The following is a summary of the results of operations of the wholesale fiber optic and wireless networks, and the related utility plant balances and related additions, as of and for the years ended December 31, 2022, and 2021:

| (amounts in thousands)                         | 2022             | 2021             |
|--|------------------|------------------|
| Operating revenues                             |                  |                  |
| Wholesale fiber services                       | \$ 12,154        | \$ 11,385        |
| Dark fiber revenue                             | 597              | 612              |
| Wireless fiber revenue                         | 24               | 49               |
| <b>Total operating revenues</b>                | <b>\$ 12,775</b> | <b>\$ 12,046</b> |
| Operating expenses                             |                  |                  |
| Administrative and general                     | \$ 1,081         | \$ 1,219         |
| Repairs and maintenance                        | 1,686            | 1,553            |
| Depreciation                                   | 10,951           | 10,702           |
| <b>Total operating expenses</b>                | <b>\$ 13,718</b> | <b>\$ 13,474</b> |
| Nonoperating revenues                          |                  |                  |
| Contributions in aid of construction           | \$ 4             | \$ 769           |
| Utility plant                                  |                  |                  |
| Additions to utility plant                     | \$ 23,656        | \$ 29,410        |
| Utility plant, net of accumulated depreciation | \$ 151,195       | \$ 132,371       |

## Notes to the Financial Statements

### 14. SEGMENTS

Grant PUD has outstanding revenue bonds used to finance the Electric System and the Priest Rapids Project. As described in Note 6, all the outstanding bond issues are secured by a pledge of the net revenues of Grant PUD. The Electric System has committed to cover, without limitation, any costs incurred by the Priest Rapids Project that are not covered by purchasers other than Grant PUD.

Each system is required to be accounted for separately according to external contractual requirements. The following condensed financial statements of the operating segments of Grant PUD include the Electric System and the Priest Rapids Project. Grant PUD's Service System, as well as eliminating internal transactions, is presented as "Other" in order to reconcile to the consolidated Grant PUD's results. "Other" is not considered a segment of Grant PUD.



## Notes to the Financial Statements

### CONDENSED STATEMENT OF NET POSITION

| DECEMBER 31, 2022<br>(amounts in thousands)                                  | Electric<br>System  | Priest<br>Rapids<br>Project | Other               | Total               |
|--|---------------------|-----------------------------|---------------------|---------------------|
| <b>ASSETS</b>  |                     |                             |                     |                     |
| Other current assets   | \$ 129,731          | \$ 93,931                   | \$ 15,593           | \$ 239,255          |
| Intersystem receivables  | 1,734               | 5,832                       | (7,566)             | -                   |
| Intersystem loan receivable  | 38,106              | -                           | (38,106)            | -                   |
| Utility plant, net   | 733,908             | 1,627,726                   | -                   | 2,361,634           |
| Noncurrent intersystem loan receivable                                       | 502,355             | -                           | (502,355)           | -                   |
| Other noncurrent assets  | 107,390             | 222,509                     | -                   | 329,899             |
| <b>TOTAL ASSETS</b>  | <b>1,513,224</b>    | <b>1,949,998</b>            | <b>(532,434)</b>    | <b>2,930,788</b>    |
| Deferred outflows of resources   | 33,672              | 36,853                      | (18,116)            | 52,409              |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>                       | <b>1,546,896</b>    | <b>1,986,851</b>            | <b>(550,550)</b>    | <b>2,983,197</b>    |
| <b>LIABILITIES</b>   |                     |                             |                     |                     |
| Other current liabilities  | 77,358              | 88,241                      | 16,763              | 182,362             |
| Intersystem payables   | 5,805               | 3,039                       | (8,844)             | -                   |
| Accrued interest intersystem loan payable                                    | -                   | 8,778                       | (8,778)             | -                   |
| Intersystem loan payable   | -                   | 10,990                      | (10,990)            | -                   |
| Noncurrent intersystem loan payable  | -                   | 520,692                     | (520,692)           | -                   |
| Other noncurrent liabilities   | 299,485             | 916,772                     | -                   | 1,216,257           |
| <b>TOTAL LIABILITIES</b>   | <b>382,648</b>      | <b>1,548,512</b>            | <b>(532,542)</b>    | <b>1,398,619</b>    |
| Deferred Inflows of resources  | 24,728              | 72,787                      | (18,116)            | 79,399              |
| <b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>                   | <b>407,376</b>      | <b>1,621,299</b>            | <b>(550,657)</b>    | <b>1,478,018</b>    |
| <b>NET POSITION</b>  |                     |                             |                     |                     |
| Net investment in capital assets   | 444,347             | 216,662                     | 534,876             | 1,195,885           |
| Restricted   | 113,243             | 189,108                     | 9,194               | 311,545             |
| Unrestricted   | 581,930             | (40,218)                    | (543,963)           | (2,251)             |
| <b>TOTAL NET POSITION</b>  | <b>1,139,520</b>    | <b>365,552</b>              | <b>107</b>          | <b>1,505,179</b>    |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES<br/>AND NET POSITION</b> | <b>\$ 1,546,896</b> | <b>\$ 1,986,851</b>         | <b>\$ (550,550)</b> | <b>\$ 2,983,197</b> |

*(Internal transactions are eliminated based on Generally Accepted Accounting Principles)*

## Notes to the Financial Statements

### CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

| YEAR ENDED DECEMBER 31, 2022<br>(amounts in thousands) | Electric<br>System  | Priest<br>Rapids<br>Project | Other            | Total               |
|--|---------------------|-----------------------------|------------------|---------------------|
| <b>OPERATING REVENUES</b>                              |                     |                             |                  |                     |
| Retail energy sales                                    | \$ 265,722          | \$ -                        | \$ -             | \$ 265,722          |
| Wholesale revenues, net                                | 99,238              | -                           | -                | 99,238              |
| Sales to power purchasers at cost                      | -                   | 180,005                     | (151,351)        | 28,654              |
| Other  | 16,165              | -                           | -                | 16,165              |
| <b>Total operating revenues</b>                        | <b>381,125</b>      | <b>180,005</b>              | <b>(151,351)</b> | <b>409,779</b>      |
| <b>OPERATING EXPENSES</b>                              |                     |                             |                  |                     |
| Depreciation and amortization                          | 41,989              | 38,318                      | -                | 80,307              |
| Other operating expenses                               | 254,369             | 98,105                      | (151,351)        | 201,123             |
| <b>Total operating expenses</b>                        | <b>296,358</b>      | <b>136,423</b>              | <b>(151,351)</b> | <b>281,430</b>      |
| <b>NET OPERATING INCOME</b>                            | <b>84,767</b>       | <b>43,582</b>               | <b>-</b>         | <b>128,349</b>      |
| <b>OTHER REVENUES (EXPENSES)</b>                       |                     |                             |                  |                     |
| Interest and other income (expense)                    | 8,374               | (6,133)                     | (15,621)         | (13,380)            |
| Interest on revenue bonds and other, net               | (7,710)             | (53,670)                    | 16,984           | (44,396)            |
| Federal rebates on revenue bonds                       | -                   | 10,427                      | -                | 10,427              |
| Amortization of debt related costs                     | 1,212               | (1,281)                     | (1,297)          | (1,366)             |
| <b>Total other revenue (expenses)</b>                  | <b>1,876</b>        | <b>(50,657)</b>             | <b>66</b>        | <b>(48,715)</b>     |
| <b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>            | <b>10,781</b>       | <b>-</b>                    | <b>-</b>         | <b>10,781</b>       |
| <b>CHANGE IN NET POSITION</b>                          | <b>97,424</b>       | <b>(7,075)</b>              | <b>66</b>        | <b>90,415</b>       |
| <b>NET POSITION</b>                                    |                     |                             |                  |                     |
| Beginning of year                                      | 1,042,096           | 372,627                     | 41               | 1,414,764           |
| <b>End of year</b>                                     | <b>\$ 1,139,520</b> | <b>\$ 365,552</b>           | <b>\$ 107</b>    | <b>\$ 1,505,179</b> |

*(Internal transactions are eliminated based on Generally Accepted Accounting Principles)*

## Notes to the Financial Statements

### CONDENSED STATEMENT OF CASH FLOWS

| YEAR ENDED DECEMBER 31, 2022<br>(amounts in thousands)                  | Electric<br>System | Priest<br>Rapids<br>Project | Other           | Total           |
|---|--------------------|-----------------------------|-----------------|-----------------|
| Net cash provided by (used in) operating activities                     | \$ 103,709         | \$ 85,511                   | \$ 8,627        | \$ 197,847      |
| Net cash provided by (used in) capital and related financing activities | (103,095)          | (94,607)                    | (2,255)         | (199,957)       |
| Net cash provided by (used in) investing activities                     | 1,647              | 6,134                       | 372             | 8,153           |
| <b>NET INCREASE (DECREASE) IN CASH</b>                                  | <b>\$ 2,261</b>    | <b>\$ (2,962)</b>           | <b>\$ 6,744</b> | <b>\$ 6,043</b> |
| <br>CASH AT END OF YEAR   | <br>\$ 3,199       | <br>\$ 380                  | <br>\$ 8,137    | <br>\$ 11,716   |
| CASH AT BEGINNING OF YEAR   | 938                | 3,342                       | 1,393           | 5,673           |
| <b>NET INCREASE (DECREASE) IN CASH</b>                                  | <b>\$ 2,261</b>    | <b>\$ (2,962)</b>           | <b>\$ 6,744</b> | <b>\$ 6,043</b> |

*(Internal transactions are eliminated based on Generally Accepted Accounting Principles)*

## Notes to the Financial Statements

### CONDENSED STATEMENT OF NET POSITION

| DECEMBER 31, 2021<br>(amounts in thousands)                                   | Electric<br>System  | Priest<br>Rapids<br>Project | Other               | Total<br>(As restated) |
|---|---------------------|-----------------------------|---------------------|------------------------|
| <b>ASSETS</b>   |                     |                             |                     |                        |
| Other current assets  | \$ 122,761          | \$ 88,633                   | \$ 9,076            | 220,470                |
| Intersystem receivables   | 428                 | 99                          | (527)               | -                      |
| Intersystem loan receivable   | 36,626              | -                           | (36,626)            | -                      |
| Utility plant, net  | 689,347             | 1,596,222                   | -                   | 2,285,569              |
| Noncurrent intersystem loan receivable  | 463,345             | -                           | (463,345)           | -                      |
| Other noncurrent assets   | 131,777             | 271,168                     | -                   | 402,945                |
| <b>TOTAL ASSETS</b>   | <b>1,444,283</b>    | <b>1,956,122</b>            | <b>(491,422)</b>    | <b>2,908,984</b>       |
| Deferred outflows of resources  | 21,881              | 29,714                      | (11,827)            | 39,768                 |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>                        | <b>\$ 1,466,165</b> | <b>\$ 1,985,836</b>         | <b>\$ (503,249)</b> | <b>2,948,752</b>       |
| <b>LIABILITIES</b>  |                     |                             |                     |                        |
| Other current liabilities   | 64,166              | 81,726                      | 16,328              | 162,220                |
| Intersystem payables  | 5,441               | 2,379                       | (7,820)             | -                      |
| Accrued interest intersystem loan payable                                     | -                   | 7,916                       | (7,916)             | -                      |
| Intersystem loan payable  | -                   | 9,075                       | (9,075)             | -                      |
| Noncurrent intersystem loan payable   | -                   | 482,980                     | (482,980)           | -                      |
| Other noncurrent liabilities  | 317,277             | 942,870                     | -                   | 1,260,147              |
| <b>TOTAL LIABILITIES</b>  | <b>386,884</b>      | <b>1,526,946</b>            | <b>(491,463)</b>    | <b>1,422,367</b>       |
| Deferred inflows of resources   | 37,185              | 86,263                      | (11,827)            | 111,621                |
| <b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>                    | <b>424,069</b>      | <b>1,613,209</b>            | <b>(503,290)</b>    | <b>1,533,988</b>       |
| <b>NET POSITION</b>   |                     |                             |                     |                        |
| Net investment in capital assets  | 391,657             | 220,423                     | 492,994             | 1,105,074              |
| Restricted  | 124,429             | 182,267                     | 9,280               | 315,976                |
| Unrestricted  | 526,010             | (30,063)                    | (502,233)           | (6,286)                |
| <b>TOTAL NET POSITION</b>   | <b>1,042,096</b>    | <b>372,627</b>              | <b>41</b>           | <b>1,414,764</b>       |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES,<br/>AND NET POSITION</b> | <b>\$ 1,466,165</b> | <b>\$ 1,985,836</b>         | <b>\$ (503,249)</b> | <b>\$ 2,948,752</b>    |

*(Internal transactions are eliminated based on Generally Accepted Accounting Principles)*

## Notes to the Financial Statements

### CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

| YEAR ENDED DECEMBER 31, 2021<br>(amounts in thousands) | Electric<br>System  | Priest<br>Rapids<br>Project | Other            | Total<br>(As restated) |
|--|---------------------|-----------------------------|------------------|------------------------|
| <b>OPERATING REVENUES</b>                              |                     |                             |                  |                        |
| Retail energy sales                                    | \$ 231,938          | \$ -                        | \$ -             | \$ 231,938             |
| Wholesale revenues, net                                | 57,474              | -                           | 32,937           | 90,411                 |
| Sales to power purchasers at cost                      | -                   | 185,538                     | (161,954)        | 23,584                 |
| Other  | 13,803,515          | -                           | -                | 13,804                 |
| <b>Total operating revenues</b>                        | <b>303,216</b>      | <b>185,538</b>              | <b>(129,017)</b> | <b>359,737</b>         |
| <b>OPERATING EXPENSES</b>                              |                     |                             |                  |                        |
| Depreciation and amortization                          | 43,736              | 35,813                      | -                | 79,549                 |
| Other operating expenses                               | 216,723             | 98,064                      | (129,017)        | 185,770                |
| <b>Total operating expenses</b>                        | <b>260,459</b>      | <b>133,877</b>              | <b>(129,017)</b> | <b>265,319</b>         |
| <b>NET OPERATING INCOME</b>                            | <b>42,757</b>       | <b>51,661</b>               | <b>-</b>         | <b>94,418</b>          |
| <b>OTHER REVENUES (EXPENSES)</b>                       |                     |                             |                  |                        |
| Interest and other income (expense)                    | 15,026              | 2,065                       | (14,305)         | 2,786                  |
| Interest on revenue bonds and other, net               | (7,405)             | (53,158)                    | 15,706           | (44,857)               |
| Federal rebates on revenue bonds                       | -                   | 10,484                      | -                | 10,484                 |
| Amortization of debt related costs                     | 1,373               | (1,578)                     | (1,447)          | (1,652)                |
| Cost of debt issuance                                  | (130)               | -                           | -                | (130)                  |
| <b>Total other revenue (expenses)</b>                  | <b>8,864</b>        | <b>(42,187)</b>             | <b>(46)</b>      | <b>(33,369)</b>        |
| <b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>            | <b>14,110</b>       | <b>-</b>                    | <b>-</b>         | <b>14,110</b>          |
| <b>CHANGE IN NET POSITION</b>                          | <b>65,731</b>       | <b>9,474</b>                | <b>(46)</b>      | <b>75,159</b>          |
| <b>NET POSITION</b>                                    |                     |                             |                  |                        |
| Beginning of year                                      | 976,365             | 363,153                     | 87               | 1,339,605              |
| <b>End of year</b>                                     | <b>\$ 1,042,096</b> | <b>\$ 372,627</b>           | <b>\$ 41</b>     | <b>\$ 1,414,764</b>    |

*(Internal transactions are eliminated based on Generally Accepted Accounting Principles)*

## Notes to the Financial Statements

### CONDENSED STATEMENT OF CASH FLOWS

| YEAR ENDED DECEMBER 31, 2021<br>(amounts in thousands)                  | Electric<br>System | Priest<br>Rapids<br>Project | Other             | Total<br>(As restated) |
|---|--------------------|-----------------------------|-------------------|------------------------|
| Net cash provided by (used in) operating activities                     | \$ 96,587          | \$ 83,571                   | \$ 198            | \$ 180,356             |
| Net cash provided by (used in) capital and related financing activities | (132,818)          | (52,273)                    | 764               | (184,327)              |
| Net cash provided by (used in) investing activities                     | 34,312             | (31,032)                    | (2,069)           | 1,211                  |
| NET INCREASE/(DECREASE) IN CASH   | <u>\$ (1,919)</u>  | <u>\$ 266</u>               | <u>\$ (1,107)</u> | <u>\$ (2,760)</u>      |
| CASH AT END OF YEAR   | \$ 938             | \$ 3,342                    | \$ 1,393          | \$ 5,673               |
| CASH AT BEGINNING OF YEAR   | 2,857              | 3,076                       | 2,500             | 8,433                  |
| NET INCREASE/(DECREASE) IN CASH   | <u>\$ (1,919)</u>  | <u>\$ 266</u>               | <u>\$ (1,107)</u> | <u>\$ (2,760)</u>      |

*(Internal transactions are eliminated based on Generally Accepted Accounting Principles)*

## Required Supplementary Information (Unaudited)

### Schedule of the District's Proportionate Share of the Net Pension Liability (amounts in thousands)

| Measurement Date Ended June 30   | PERS 1      |             |           |           |           |           |           |           |           |  |
|--|-------------|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|--|
|  | 2022        | 2021        | 2020      | 2019      | 2018      | 2017      | 2016      | 2015      | 2014      |  |
| Proportion of the net pension liability  | 0.498965%   | 0.515673%   | 0.497050% | 0.489144% | 0.493735% | 0.509107% | 0.524928% | 0.544648% | 0.574446% |  |
| Proportionate share of the net pension liability   | \$ 13,893   | \$ 6,298    | \$ 17,549 | \$ 18,809 | \$ 22,050 | \$ 24,158 | \$ 28,191 | \$ 28,490 | \$ 28,938 |  |
| Covered-employee payroll   | 81,590      | 78,618      | 72,226    | 68,079    | 65,002    | 63,510    | 61,646    | 56,606    | 63,970    |  |
| Proportionate share of the net pension liability as a percentage of its covered-employee payroll | 17.03%      | 8.01%       | 24.30%    | 27.63%    | 33.92%    | 38.04%    | 45.73%    | 50.33%    | 45.24%    |  |
| Plan fiduciary net position as a percentage of the total pension liability                       | 76.56%      | 88.74%      | 68.64%    | 67.12%    | 63.22%    | 61.24%    | 57.03%    | 59.10%    | 61.19%    |  |
| Measurement Date Ended June 30   | PERS 2/3    |             |           |           |           |           |           |           |           |  |
|  | 2022        | 2021        | 2020      | 2019      | 2018      | 2017      | 2016      | 2015      | 2014      |  |
| Proportion of the net pension liability  | 0.646521%   | 0.654458%   | 0.639436% | 0.620593% | 0.622917% | 0.639308% | 0.650080% | 0.679264% | 0.706321% |  |
| Proportionate share of the net pension liability(asset)  | \$ (23,978) | \$ (65,195) | \$ 8,178  | \$ 6,028  | \$ 10,636 | \$ 22,213 | \$ 32,731 | \$ 24,271 | \$ 14,277 |  |
| Covered-employee payroll   | 81,345      | 78,278      | 71,878    | 67,595    | 64,541    | 62,862    | 60,733    | 55,717    | 62,709    |  |
| Proportionate share of the net pension liability as a percentage of its covered-employee payroll | -29.48%     | -83.29%     | 11.38%    | 8.92%     | 16.48%    | 35.34%    | 53.89%    | 43.56%    | 22.77%    |  |
| Plan fiduciary net position as a percentage of the total pension liability                       | 106.73%     | 120.29%     | 97.22%    | 97.77%    | 95.77%    | 90.97%    | 85.82%    | 89.20%    | 93.29%    |  |

#### Notes to Schedule

Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, Grant PUD will present information for only those years for which information is available.

Grant PUD implemented GASB 68 effective January 1, 2014.

### Required Supplementary Information (Unaudited)

|  | PERS 1         |                |                |                |                |                |                |                |                |                |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|  | 2022           | 2021           | 2020           | 2019           | 2018           | 2017           | 2016           | 2015           | 2014           | 2013           |
| Contractually Required Contribution  | \$ 3,136       | \$ 3,497       | \$ 3,645       | \$ 3,510       | \$ 3,385       | \$ 3,222       | \$ 2,985       | \$ 2,653       | \$ 2,535       | \$ 2,043       |
| Contributions in Relation to the Contractually<br>Required Contribution Subtotal | <u>(3,136)</u> | <u>(3,497)</u> | <u>(3,645)</u> | <u>(3,510)</u> | <u>(3,385)</u> | <u>(3,222)</u> | <u>(2,985)</u> | <u>(2,653)</u> | <u>(2,535)</u> | <u>(2,043)</u> |
| Contribution Deficiency (Excess)   | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    |
| Covered-Employee Payroll   | \$ 83,158      | \$ 80,806      | \$ 75,385      | \$ 70,371      | \$ 66,174      | \$ 64,999      | \$ 61,575      | \$ 59,113      | \$ 61,536      | \$ 61,088      |
| Contributions as a Percentage of Covered<br>Employee Payroll                     | 3.77%          | 4.33%          | 4.84%          | 4.99%          | 5.12%          | 4.96%          | 4.85%          | 4.49%          | 4.12%          | 3.34%          |
|  | PERS 2/3       |                |                |                |                |                |                |                |                |                |
|  | 2022           | 2021           | 2020           | 2019           | 2018           | 2017           | 2016           | 2015           | 2014           | 2013           |
| Contractually Required Contribution  | \$ 5,277       | \$ 5,756       | \$ 5,942       | \$ 5,403       | \$ 4,927       | \$ 4,418       | \$ 3,788       | \$ 3,293       | \$ 3,022       | \$ 2,873       |
| Contributions in Relation to the Contractually<br>Required Contribution          | <u>(5,277)</u> | <u>(5,756)</u> | <u>(5,942)</u> | <u>(5,403)</u> | <u>(4,927)</u> | <u>(4,418)</u> | <u>(3,788)</u> | <u>(3,293)</u> | <u>(3,022)</u> | <u>(2,873)</u> |
| Contribution Deficiency (Excess)   | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    |
| Covered-Employee Payroll   | \$ 82,964      | \$ 80,480      | \$ 75,031      | \$ 69,956      | \$ 65,702      | \$ 64,444      | \$ 60,809      | \$ 58,216      | \$ 60,489      | \$ 59,776      |
| Contributions as a Percentage of Covered<br>Employee Payroll                     | 6.36%          | 7.15%          | 7.92%          | 7.72%          | 7.50%          | 6.86%          | 6.23%          | 5.66%          | 5.00%          | 4.81%          |



## Required Supplementary Information (Unaudited)

### Schedule of Changes in Total OPEB Liability and Related Ratios (amounts in thousands)

|  | 2022            | 2021            | 2020             | 2019            | 2018            | 2017            |
|--|-----------------|-----------------|------------------|-----------------|-----------------|-----------------|
| Total OPEB Liability - beginning                                 | \$ 8,956        | \$ 10,364       | \$ 9,705         | \$ 6,977        | \$ 6,806        | \$ 6,525        |
| Service Cost   | 550             | 620             | 550              | 372             | 362             | 351             |
| Interest   | 187             | 243             | 274              | 249             | 237             | 229             |
| Differences between expected and actual experience               | -               | (1,350)         | -                | 255             | -               | -               |
| Changes of assumptions or other input                            | (1,252)         | (534)           | 368              | 2,291           | -               | -               |
| Benefit Payments   | (340)           | (387)           | (533)            | (439)           | (428)           | (299)           |
| Net Change in Total OPEB Liability                               | (855)           | (1,408)         | 659              | 2,728           | 171             | 281             |
| Total OPEB Liability - Ending                                    | <u>\$ 8,101</u> | <u>\$ 8,956</u> | <u>\$ 10,364</u> | <u>\$ 9,705</u> | <u>\$ 6,977</u> | <u>\$ 6,806</u> |
| Estimated Covered-Employee Payroll                               | \$ 83,158       | \$ 80,806       | \$ 69,978        | \$ 67,940       | \$ 68,629       | \$ 66,630       |
| Total OPEB Liability as a Percentage of Covered-Employee Payroll | 9.74%           | 11.08%          | 14.81%           | 14.28%          | 10.17%          | 10.21%          |

#### Notes to Schedule

Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, Grant PUD will present information for only those years for which information is available.

During fiscal year 2019, assumptions pertaining specifically to the implicit medical benefit (participation, coverage of eligible children, health care claims costs, and aging factor) were introduced.

Grant PUD implemented GASB 75 effective January 1, 2017.

There are no assets accumulated in a qualified trust to provide benefits under the plan.

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**APPENDIX C**

**PROPOSED FORM OF BOND COUNSEL OPINION**

November 30, 2023

Public Utility District No. 2 of Grant County, Washington  
Ephrata, Washington

Re: Public Utility District No. 2 of Grant County, Washington  
Electric System Revenue Refunding Bonds, Series 2023-V — \$44,845,000

To the Addressee:

We have acted as bond counsel to Public Utility District No. 2 of Grant County, Washington (the “District”) and have examined a certified transcript of the proceedings taken in the matter of the issuance by the District of its Electric System Revenue Refunding Bonds, Series 2023-V in the aggregate principal amount of \$44,845,000 (the “Bonds”), dated their date of initial delivery, and issued pursuant to Resolution No. 9031 of the District, adopted on October 24, 2023 (the “Bond Resolution”). Proceeds of the Bonds will be used, together with other available funds of the District, to refund on a current basis the District’s outstanding Electric System Revenue Refunding Bonds, Series 2020-S (Mandatory Put Bonds), and to pay costs of issuance of the Bonds. Capitalized terms not otherwise defined herein shall have the meanings given such terms in the Bond Resolution.

The Bonds are subject to redemption prior to maturity as provided in the Bond Resolution and the Bond Purchase Contract.

Regarding questions of fact material to our opinion, we have relied on representations of the District in the Bond Resolution and in the certified proceedings and on other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Bonds have been legally issued and constitute valid and binding special obligations of the District, both principal thereof and interest thereon payable solely out of a special fund of the District known as the “Electric System Revenue Bond Fund” (the “Bond Fund”), except to the extent that the enforcement of the rights and remedies of the holders of the Bonds may be limited by laws relating to bankruptcy, reorganization, insolvency, moratorium or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

2. The Bond Resolution is a legal, valid and binding obligation of the District, has been duly authorized, executed and delivered and is enforceable in accordance with its terms, except to the extent that enforcement may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

3. The District has pledged and bound itself to pay into the Revenue Fund all of the Gross Revenue derived by the District from the operation of the Electric System. The District has further pledged and bound itself to set aside from the money in the Revenue Fund and to pay into the Bond Fund certain fixed amounts sufficient to pay the principal, premium, if any, and interest on the Bonds and all other Parity Bonds and any Parity Lien Obligations as the same become due. The Bond Resolution pledges as security for the payment of the principal of, premium, if any, and interest on all Parity Bonds and any Parity Lien Obligations, subject only to the provisions of the Bond Resolution restricting or permitting the application thereof for the purposes and on the terms and conditions set forth

therein: (a) the Gross Revenue (exclusive of any money credited to a fund or account for the purpose of paying arbitrage rebate to the federal government and subject to prior application to pay Operating Expenses), and (b) the money and investments, if any, credited to the Revenue Fund, the Bond Fund, and the R&C Fund and the income therefrom. The District has reserved the right to issue Future Parity Bonds and Parity Lien Obligations on the terms and conditions set forth in the Bond Resolution.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds (except to the extent, if any, stated in the official statement), and we express no opinion herein relating thereto, or relating to the undertaking by the District to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,  
PACIFICA LAW GROUP LLP

**APPENDIX D**

**PROPOSED FORM OF OPINION OF SPECIAL TAX COUNSEL**



NIXON PEABODY LLP  
ATTORNEYS AT LAW  
NIXONPEABODY.COM  
@NIXONPEABODYLLP

799 9th Street NW  
Suite 500  
Washington, DC 20001-4501  
202-585-8000

November 30, 2023

Public Utility District No. 2 of Grant County, Washington  
Ephrata, Washington

Re: Public Utility District No. 2 of Grant County, Washington  
\$44,845,000 Electric System Revenue Refunding Bonds, Series 2023-V

Ladies and Gentlemen:

We have acted as special tax counsel to Public Utility District No. 2 of Grant County, Washington (the “District”) in connection with the issuance by the District of its \$44,845,000 Electric System Revenue Refunding Bonds, Series 2023-V (the “Bonds”) issued pursuant to District Resolution No. 9019 adopted on October 24, 2023 (the “Bond Resolution”). Proceeds of the Bonds will be used, together with other available funds of the District to refund District’s outstanding Electric System Revenue Refunding Bonds, Series 2020-S (Mandatory Put Bonds) and to pay costs of issuance of the Bonds. Capitalized terms used in this opinion have the meanings given such terms in the Bond Resolution.

In our capacity as special tax counsel, we have reviewed the Bond Resolution, the Bond Purchase Contract dated November 15, 2023 (the “Purchase Agreement”) between the District and KeyBanc Capital Markets Inc. (the “Purchaser”) for the Bonds, the District’s Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986 with respect to the Bonds (the “Tax Certificate”), certifications of the District, opinions of bond counsel to the District, and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein. In rendering the opinion set forth below, we have relied upon the approving opinions of Pacifica Law Group LLP, Bond Counsel to the District, delivered on even date herewith, relating among other things to the validity of the Bonds.

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 not undertaken to verify independently, and have assumed, 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 Bond Resolution. Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

The Internal Revenue Code of 1986 (the “Code”) sets forth certain requirements which must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Bonds. Pursuant to the Bond Resolution and the Tax Certificate, the District has covenanted to comply with each applicable requirement of the Code necessary to qualify the Bonds as obligations described in section 103(a) of the Code. In

addition, the District has made certain representations and certifications in the Tax Certificate. We have not independently verified the accuracy of those certifications and representations.

Under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the District described above, interest on the Bonds (including any original issue discount properly allocable thereto) is excluded from gross income for federal income tax purposes under Section 103 of the Code. We are also of the opinion that such amounts are not treated as a preference item in calculating the alternative minimum tax imposed under the Code. For taxable years beginning after December 31, 2022, interest on the Bonds will be taken into account in computing the alternative minimum tax imposed on certain corporations under the Code to the extent that such interest is included in the “adjusted financial statement income” of such corporations.

Special Tax Counsel is further of the opinion that the excess of the principal amount of a maturity of the Bonds over its issue price (i.e., the first price at which price a substantial amount of such maturity of the Bonds was sold to the public, excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) (each, a “Discount Bond” and collectively the “Discount Bonds”) constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such issue price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment. Owners of the Discount Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Discount Bonds.

Except as stated in the preceding two paragraphs, we express no opinion as to any other federal, state or local tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other counsel.

Very truly yours,

## APPENDIX E

### DTC AND BOOK-ENTRY SYSTEM

*The following information has been provided by DTC. The District makes no representation regarding the accuracy or completeness thereof. Beneficial Owners should therefore confirm the following with DTC or the Direct Participants (as hereinafter defined). Language in [brackets] with ~~strike-through~~ has been deleted as permitted by DTC as it does not pertain to the Bonds.*

|                              |
|------------------------------|
| THE DEPOSITORY TRUST COMPANY |
|------------------------------|

#### SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY-ONLY ISSUANCE

(Prepared by DTC--bracketed material may apply only to certain issues)

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities 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 Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. 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](http://www.dtcc.com).

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

5. 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities 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 registrar and request that copies of notices be provided directly to them.]

[6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue 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.]

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities 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 Issuer or 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, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or 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.

[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.]

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.



**APPENDIX F**

**ECONOMIC AND DEMOGRAPHIC INFORMATION**

Grant County (the “County”) is the fourth largest county in the State by land area, encompassing a total of 2,680 square miles. Within the County are 15 incorporated cities and towns. Moses Lake is the largest city with an estimated 2023 population of 26,210, and Ephrata, the County seat, is the second largest with a 2023 population of 8,690.

The County’s economy is based on diversified agriculture, food processing, manufacturing, hydroelectric generation projects, and a strong service sector. The County’s prominence in agriculture is due in large part to the United States Bureau of Reclamation’s Columbia Basin Irrigation Project, which has turned raw land into high yield farmland through irrigation. In the past few years, several technology data centers have opened or expanded their operations in the County.

Following are economic indicators for the County.

**TABLE F-1  
GRANT COUNTY  
SELECTED ECONOMIC INDICATORS**

|      | <b>Population<sup>(1)</sup></b> | <b>Per Capita<br/>Personal Income<sup>(2)</sup></b> | <b>Taxable Retail<br/>Sales (\$000)<sup>(3)</sup></b> | <b>Value of Building<br/>Permits<sup>(4)</sup></b> | <b>Personal<br/>Income<br/>(\$000)<sup>(2)</sup></b> |
|------|---------------------------------|---|---|--|--|
| 2023 | 103,300                         | -   | \$777,809,453   | \$55,268,457                                       | -  |
| 2022 | 101,800                         | -   | 3,097,747,664   | 146,347,588  | -  |
| 2021 | 100,800                         | \$48,845  | 2,677,460,596   | 188,360,501  | \$4,898,957  |
| 2020 | 99,123                          | 46,331  | 2,408,821,194   | 1,111,475,452                                      | 4,603,636  |
| 2019 | 98,740                          | 40,839  | 2,822,633,532   | 994,866,645  | 4,001,273  |
| 2018 | 97,350                          | 37,700  | 2,489,444,199   | 93,756,549   | 3,638,595  |
| 2017 | 95,630                          | 38,090  | 1,877,193,497   | 3,030,000  | 3,629,073  |

<sup>(1)</sup> *Source:* Washington State Office of Financial Management.

<sup>(2)</sup> *Source:* Washington State Bureau of Economic Analysis; 2021 is most recent data available.

<sup>(3)</sup> *Source:* Washington State Department of Revenue; through first quarter is most recent data available. Taxable retail sales through first quarter 2022 was \$644,494,984.

<sup>(4)</sup> *Source:* United States Census Bureau; through July is most recent data available.

**TABLE F-2  
GRANT COUNTY  
TOP 25 PROPERTY OWNERS BY ASSESSED VALUE<sup>(1)</sup>**

| <b>Taxpayer</b>                     | <b>Business</b>           | <b>Assessed<br/>Valuation</b> | <b>% of County<br/>Assessed<br/>Valuation<sup>(2)</sup></b> |
|-------------------------------------|---------------------------|-------------------------------|---|
| Microsoft Corporation               | Data Center/Technology    | \$2,955,200,000               | 17.15%  |
| Yahoo Holdings Inc.                 | Data Center/Technology    | 274,156,395                   | 1.59  |
| Oath Holdings Inc. (fka Yahoo Inc.) | Data Center/Technology    | 205,043,605                   | 1.19  |
| Vantage Data Centers WA Midco LLC   | Data Center/Technology    | 133,667,060                   | 0.78  |
| Intergate Quincy II, LLC            | Data Center/Technology    | 132,200,000                   | 0.77  |
| Vantage Data Centers LLC            | Data Center/Technology    | 130,031,895                   | 0.75  |
| Intergate Quincy LLC                | Data Center/Technology    | 128,200,000                   | 0.74  |
| GI Tare Quincy LLC                  | Data Center/Technology    | 123,313,325                   | 0.72  |
| Intergate Quincy I, LLC             | Data Center/Technology    | 116,700,000                   | 0.68  |
| Alaska Air Group Inc.               | Aerospace                 | 111,362,967                   | 0.65  |
| BNSF Railway Company Tax Dept.      | Railroads                 | 104,839,802                   | 0.61  |
| Moses Lake Industries Inc.          | Data Center/Technology    | 101,221,585                   | 0.59  |
| Simplot US Food Group Holdings LLC  | Potato Products           | 98,502,110                    | 0.57  |
| SGL Composite LLC                   | Carbon Fiber Manufacturer | 86,879,905                    | 0.50  |
| H5 Data Centers – Quincy LLC        | Data Center/Technology    | 84,200,000                    | 0.49  |
| REC Solar Grade Silicon LLC         | Silicon Manufacturer      | 78,539,415                    | 0.46  |
| Lamb Weston Inc.                    | Potato Products           | 64,818,790                    | 0.38  |
| RS Titan, LLC                       | Real Estate               | 56,600,000                    | 0.33  |
| Lamb-Weston BSW LLC                 | Potato Products           | 53,573,340                    | 0.31  |
| Viterra USA LLC                     | Agriculture               | 51,576,605                    | 0.30  |
|                                     |                           | <b>\$5,090,626,799</b>        | <b>29.56%</b>   |

<sup>(1)</sup> Total County assessed valuation for 2023 taxes is \$17,249,973,307.

<sup>(2)</sup> May not add due to rounding.

Source: Grant County Assessor for tax collection year 2023.

**TABLE F-3  
GRANT COUNTY  
MAJOR EMPLOYERS**

| <b>Employer</b>                 | <b>Product/Service</b>                           | <b>Employees</b> |
|---------------------------------|--|------------------|
| Moses Lake School District #161 | Education  | 1,320            |
| Samaritan Healthcare            | Healthcare                                       | 720              |
| Grant County Government         | Government                                       | 695              |
| Grant County PUD <sup>(1)</sup> | Electric Utility                                 | 672              |
| Genie Industries, Inc.          | Ariel Work Platforms                             | 650              |
| Quincy School District #144     | Education  | 540              |
| Plant National Frozen Foods     | Corn & Pea Processing                            | 420              |
| Moses Lake Industries           | Industrial Chemicals                             | 375              |
| Ephrata School District #165    | Education  | 340              |
| Moses Lake Community Health     | Healthcare                                       | 321              |
| Confluence Health               | Healthcare                                       | 310              |
| J.R. Simplot Co.                | Frozen French Fries & Dehydrated Potato Products | 280              |
| Lamb Weston, Warden Plant       | Frozen French Fries                              | 230              |
| Basic American Foods            | Dehydrated Potato Processing                     | 210              |
| Big Bend Community College      | Education  | 192              |
| Columbia Basin Hospital         | Healthcare                                       | 180              |
| D & L Foundry, Inc.             | Manhole Cover Manufacturing                      | 180              |
| Lineage Logistics               | Cold Storage                                     | 160              |
| SGL Group                       | Carbon Fiber                                     | 157              |
| Joyson Safety                   | Automotive Air Bags                              | 149              |
| Microsoft                       | Data Center                                      | 135              |
| International Paper             | Corrugated Box Manufacturing                     | 124              |
| Amway/Nutriline                 | Botanical Extraction                             | 100              |
| Sabey-Integrate Quincy          | Data Center                                      | 90               |
| AeroTEC                         | Flight Testing and Modification                  | 85               |

<sup>(1)</sup> The District's employee count includes full-time equivalent employees and does not include part-time and temporary employees.

Source: Grant County Economic Development Council.

**TABLE F-4  
GRANT COUNTY  
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT<sup>(1)</sup>**

|                   | <b>Annual Averages</b> |             |             |             |             |                           |
|-------------------|------------------------|-------------|-------------|-------------|-------------|---------------------------|
|                   | <b>2018</b>            | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>2022</b> | <b>2023<sup>(2)</sup></b> |
| Total Labor Force | 46,751                 | 47,694      | 46,962      | 45,877      | 47,261      | 48,644                    |
| Employment        | 43,838                 | 44,413      | 42,794      | 42,736      | 44,301      | 45,985                    |
| Unemployment      | 2,913                  | 3,281       | 4,168       | 3,141       | 2,960       | 2,659                     |
| Unemployment Rate | 6.2%                   | 6.9%        | 8.9%        | 6.8%        | 6.3%        | 5.5%                      |

<sup>(1)</sup> Not seasonally adjusted.

<sup>(2)</sup> Average through August 2023.

Source: Washington State Employment Security Department, Labor Market and Economic Analysis Branch.

**TABLE F-5  
GRANT COUNTY  
NONAGRICULTURAL EMPLOYMENT<sup>(1)</sup>**

| NAICS Industry Title                  | Annual Averages |        |        |        |        |                     |
|---------------------------------------|-----------------|--------|--------|--------|--------|---------------------|
|                                       | 2018            | 2019   | 2020   | 2021   | 2022   | 2023 <sup>(2)</sup> |
| Total Nonfarm                         | 30,770          | 30,850 | 30,360 | 31,030 | 33,080 | 33,470              |
| Total Private                         | 22,180          | 22,190 | 22,110 | 22,650 | 24,620 | 24,640              |
| Goods Producing                       | 6,300           | 6,080  | 6,000  | 6,030  | 6,310  | 6,340               |
| Mining, Logging & Construction        | 1,510           | 1,480  | 1,720  | 1,730  | 2,000  | 1,970               |
| Manufacturing                         | 4,790           | 4,590  | 4,280  | 4,300  | 4,320  | 4,380               |
| Services Providing                    | 24,480          | 24,770 | 24,360 | 25,010 | 26,770 | 27,120              |
| Trade, Transport. & Utilities         | 6,000           | 6,080  | 6,180  | 6,440  | 6,840  | 6,730               |
| Information & Financial<br>Activities | 1,390           | 1,410  | 1,430  | 1,400  | 1,580  | 1,620               |
| Professional & Business Services      | 2,460           | 2,330  | 2,490  | 2,520  | 2,990  | 2,980               |
| Education & Health Services           | 2,880           | 2,970  | 3,020  | 3,080  | 3,300  | 3,250               |
| Leisure & Hospitality                 | 2,610           | 2,760  | 2,420  | 2,650  | 3,000  | 3,100               |
| Government                            | 8,590           | 8,660  | 8,250  | 8,380  | 8,460  | 8,820               |

<sup>(1)</sup> Not seasonally adjusted.

<sup>(2)</sup> Average through August 2023.

*Source:* Washington State Employment Security Department, Labor Market and Economic Analysis Branch.

## APPENDIX G

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (this “Disclosure Certificate”), dated November 30, 2023, is executed and delivered by PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON (the “District”) for the benefit of the Owners and Beneficial Owners of the Bonds in connection with the issuance of the Bonds (as hereinafter defined).

WHEREAS, pursuant to Resolution No. 9031 adopted by the District’s Board of Commissioners on October 24, 2023 (the “Resolution”), the District has authorized the issuance of its Electric System Revenue Refunding Bonds, Series 2023-V (the “Bonds”); and

WHEREAS, the underwriter with respect to the Bonds (the “Underwriter”) is required to comply with the provisions of Rule 15c2-12 adopted by the Securities and Exchange Commission (the “SEC”) under the Securities Exchange Act of 1934, as amended (the “1934 Act”);

NOW THEREFORE, the District covenants and agrees for the benefit of the Owners and Beneficial Owners of the Bonds as follows:

**SECTION 1. Definitions.** The following capitalized terms shall have the following meanings. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Resolution.

“Annual Report” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which (a) has or shares the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, or otherwise make investment decisions concerning ownership of, any Bonds (including persons holding bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Business Day” shall mean a day which is not a Saturday, a Sunday or legal holiday on which banking institutions in the State of Washington or the State of New York are closed.

“Electric System” shall have the meaning set forth in the Resolution.

“Financial Obligation” means 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” does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

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

“Official Statement” shall mean the Official Statement with respect to the Bonds dated November 15, 2023.

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

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

“Repository” or “MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

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

**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.** The District shall, not later than on or before the end of nine months after the end of the District’s fiscal year (commencing no later than September 30, 2024 for the fiscal year ended December 31, 2023), provide or cause to be provided to each Repository copies of an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that if any audited financial statements are not then available, the District shall provide unaudited financial statements substantially in the same format, and audited financial statements as soon as they become available. The District’s current fiscal year ends December 31. If the fiscal year changes, the District shall give notice of such change in the same manner as for a Listed Event under this Disclosure Certificate.

All notices, financial information and operating data required by this Disclosure Certificate to be provided to the Repository must be in an electronic format as prescribed by the MSRB. All documents provided to the Repository pursuant to this Disclosure Certificate must be accompanied by identifying information as prescribed by the MSRB.

**SECTION 4. Content of Annual Reports.**

- (a) The District’s Annual Report shall contain or include by reference the following:
  - (i) the audited financial statements of the Electric System prepared in accordance with generally accepted accounting principles applicable to government entities, with regulations prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute) and substantially in accordance with the system prescribed by the FERC; provided, that if the Electric System’s financial statements are not yet available, the District shall provide unaudited financial statements in substantially the same format, and audited financial statements when they become available;
  - (ii) the outstanding long term indebtedness of the Electric System, the Priest Rapids Project and any other system of the District which provides power or capacity to the Electric System;
  - (iii) Electric System retail customers, energy sales, peak loads and revenues;
  - (iv) Electric System operating results and debt service coverage on the outstanding Parity Bonds;
  - (v) Electric System energy requirements, resources and power costs;
  - (vi) the aggregate amount and percentage of total energy sold and of retail revenues provided by the Electric System’s ten largest customers; and
  - (vii) gross generation, net energy, disposition of net energy, maximum one-hour production, average production costs, plant factor and annual availability for the Priest Rapids Project.

The annual financial information may be provided in a single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC. Items (ii)-(vii) will be required only to the extent that such information is not included in the annual financial statements provided for in (i).

(b) Any or all of the items listed in subsection (a) may be incorporated by specific reference from other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the Repository or the SEC. If the document incorporated by reference is a final official statement, it must be available from the Repository. 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 should present a comparison between the financial statements or information prepared on the basis of the new accounting or disclosure principles and those prepared on the basis of the former accounting or disclosure principles.

#### **SECTION 5. Reporting of Certain Events.**

(a) The District agrees to provide or cause to be provided to the Repository, in a timely manner, not in excess of 10 Business Days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the Bonds (each, a “Listed Event”):

- Principal and interest payment delinquencies;
- Non-payment related defaults, if material;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- Modifications to the rights of Bondholders, if material;
- Bond calls, if material, and tender offers;
- Defeasances;
- Release, substitution, or sale of property securing repayment of the Bonds, if material;
- Rating changes;
- Bankruptcy, insolvency, receivership or similar event of the District;
- 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, if material;
- Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- Incurrence of a Financial Obligation of the District, if material, or agreements 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, if material; and
- 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.

(b) *Notice Upon Failure to Provide Financial Data.* The District agrees to provide or cause to be provided, in a timely manner, to the Repository, notice of its failure to provide the Annual Report described in Section 4 above on or prior to the date stated in Section 3 above.

**SECTION 6. Termination of Reporting Obligation.** The District’s obligations to provide Annual Reports and notices of Listed Events shall terminate upon the legal defeasance, prior redemption, or payment in full of all of the Bonds.

**SECTION 7. Responsible Officer; Dissemination Agent.** The District's Senior Manager of Treasury and Financial Planning/Deputy Treasurer, or successor to such position, or such individual's designee, is designated to carry out this undertaking in accordance with the Rule. 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.

**SECTION 8. Modification.** Any provision of this Disclosure Certificate shall be null and void if the District (1) obtains an opinion of nationally recognized bond counsel to the effect that the portion of the Rule that requires that provision is invalid, has been repealed retroactively or otherwise does not apply to the Bonds and (2) notifies the MSRB of such opinion and the cancellation of all or any portion of this undertaking.

Notwithstanding any other provision of this Disclosure Certificate, the District may amend this undertaking, and any provision of the undertaking may be waived, in accordance with Rule, which, as currently interpreted by the SEC, requires that (i) the amendment or waiver 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, or type of business conducted; (ii) the undertaking, as amended or waived, would have complied with the requirements of Rule at the time of the primary offering, after taking into account any amendments or interpretations of Rule, as well as any change in circumstances; and (iii) the amendment or waiver does not materially impair the interests of holders of the Bonds, as determined either by parties unaffiliated with the District (such as bond counsel) or by the approving vote of holders of the Bonds.

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

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

**SECTION 10. Default.** A Registered Owner's and the Beneficial Owners' right to enforce the provisions of this Disclosure Certificate shall be limited to a right to obtain specific enforcement of the District's obligations under this Disclosure Certificate, and any failure by the District to comply with the provisions of this Disclosure Certificate shall not be an event of default under the Bonds or the Resolution.

**SECTION 11. Beneficiaries.** This Disclosure Certificate shall inure solely to the benefit of the District, the Underwriter, the Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

**SECTION 12. Governing Law.** This Disclosure Certificate shall be governed by the laws of the State of Washington determined without regard to the principles of conflict of law.



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

**PUBLIC UTILITY DISTRICT NO. 2 OF GRANT  
COUNTY, WASHINGTON**

By: \_\_\_\_\_

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Grant County  
**PUBLIC UTILITY DISTRICT**  
*Excellence in Service and Leadership*



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